



# The Dawn of the Millennial Consumer

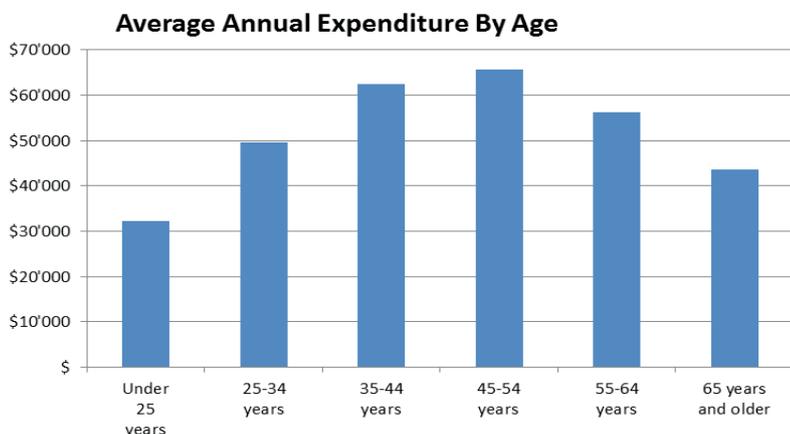
Topic of the month December 2016

With the Millennial generation passing the Baby Boomer generation in size and becoming the largest population age cohort in US history, lots of attention has been drawn to the Millennial demographic group as they are expected to have the biggest impact upon society since the Baby Boomers. This article explores the differences between the groups when it comes to sustainability and the effects this will have on consumer spending.

## Who is the Millennial?

The term ‘Millennials’, refers to the demographic cohort, born between the early 1980s and up to 2000. Millennials now between the age of 19 and 35, are estimated to number 75 million in the US. As this group of people have reached their prime working and spending years, they are expected to be the most important consumer demographic.

As seen in the next graph, peak spending occurs in the 35-54 age range and the Boomers are moving out of this group. Meanwhile, Millennials, who range in age from 19-34 years old now, will move into this most important spending cohort with a move towards an estimated 17% of total spending in 5 years. On the other hand, Boomers’ share of spending will fall to an estimated 12% of total spending.



Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, September, 2015

Looking at Millennials’ financial circumstances, values and spending priorities, one can notice that they have re-allocated expenses very differently from the Boomers.

Regarding the financial profile of Millennials, stressed labor markets have put pressure on Millennials’ income growth. Compared to previous generations, 25 to 34 year olds have gone from earning a salary that is 3% above the overall population median in 1984 to making 9% less than the combined sample population. Moreover, it is critical to notice that Millennials have a significant amount of student debt, with the mean student loan balance for a 25 year old has approximately doubled over the last decade, when adjusted for inflation. Accordingly, this is and will continue to be an additional drag on Millennials’ already diminished spending power and ability to borrow in the future.



Due to the stressed income and debt dynamics, the Millennial cohort has generally delayed household formation, with 24% of Millennials married in 2012, which is significantly lower than the 36% of Generation Xers and 48% of Boomers at the same age according to the Census Bureau. Postponing marriage and waiting more to have children have a material effect on spending patterns and, supporting the channel spending shift from 'products to experiences'.

Furthermore, having grown up with the internet, smartphones and social media have further shaped the consumer behavior of the Millennial cohort with the group continuously leveraging on its technological capabilities to compare prices and has often been characterized as seeking instant gratification.

Notably, generation shift is also at hand regarding the health and wellness habits of Millennials. They take a daily approach to being healthy, with greater emphasis on exercising and eating healthy than their predecessors. Millennials are putting greater importance upon societal and environmental responsibilities as well. For example, Millennials are seeking work that offers more than just a paycheck, but a sense of purpose according to Gallup. Instead of making one-off charitable donations in cash or in kind, they are more likely to integrate their causes into daily life by buying products that support 'fair trade' principles or by joining large movements that aim to solve social or environmental problems.

With the change in both financial circumstances and behavioral traits of Millennials, the consumer spending landscape has been changing as well. The rise of housing, healthcare and education spending within the budget of Millennials will have an impact. More importantly a shift in consumer preferences, driven by a different sustainability mindset, creates a move to healthier products and also from products to experiences. This has created a series of secular headwinds and tailwinds for a number of discretionary categories.

## Food

Millennials prefer 'healthy' food, therefore, Millennials trust the big food companies (the makers of processed food) less than other consumers, 43% vs. 18%, respectively, according to a Mintel survey. Moreover, another Mintel survey found that 57% of Millennials only shop at the fresh section of the grocery store vs. 30% for the rest of consumers. Normal demographic trends would predict a large uptick in food spending at home as the Millennial population ages from the 25-34 to 35-44 year olds (an increment in food demand due to home growth) as occurred in the 2014 Consumer Expenditure Survey by the BLS. However, Millennial's marrying and bearing children later and enjoying the 'experience' of eating at restaurants are likely to be mitigating factors that will restrain this natural uptick.

## Restaurants

Millennials care where menu items are sourced from and prefer natural/ organic products. Furthermore, this demographic is more concerned about sustainability of agriculture and ethical treatment of animals. Accordingly, restaurants are scrambling to source these types of products, but it is very difficult to do on a large scale. This creates supply chain complexity, which raises the cost to serve.

Normally, consumers shift more of their food spending to eating at home when they move into the 35-44 year old bracket as it is more difficult to eat in restaurants with young children. However, Millennials' spending at restaurants will slow less than previous generations since they are delaying marriage and child bearing and they enjoy the 'experience' eating at restaurants.



## Shopping

Our research suggests that historically spending on this category increases by c.18% due to lifecycle effects when people enter the 35-44 year age group compared to the 25-34. Due to the delay in household formation and general shift away from apparel expenditures, we expect this effect to be deferred when it comes to the Millennial cohort.

## Conclusion

Millennial consumers are going to have a dominant influence upon the consumer landscape as they move into their peak spending years. Many of the Millennial trends that will influence many consumer categories are impacted by their bigger focus on sustainability. From an investment perspective 'Experiences' and 'Health & Wellness' are among the most important themes to consider.

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*\* Figures as of 30 September 2016*



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