

How have young adults changed their consumption and savings decisions?

Consumption: less spending capacity and changes in consumption habits

Young adults (20 to 39 years of age) in Spain and Portugal have been more severely affected than other demographic groups by a more volatile economic environment and the effects of the Great Recession. In Spain, household consumption has already reached almost pre-crisis levels on average, yet this is not the case among young people.

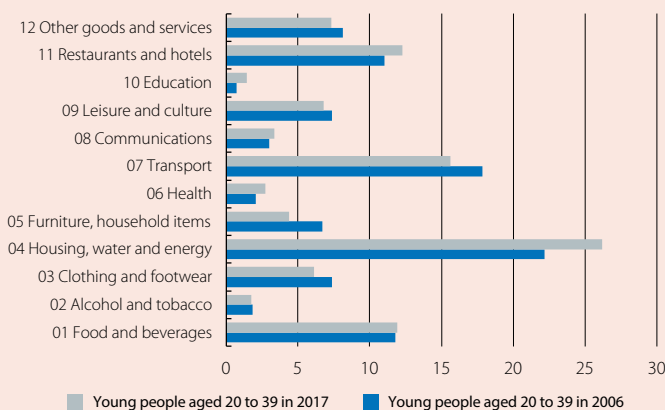
Specifically, according to the Spanish household budget survey, the population's average annual expenditure per household in 2017 stood 4% below that of 2006 (in nominal terms). On the other hand, if we focus on households headed up by young adults, their average annual expenditure was 11% lower in 2017 (30,751 euros in 2006 compared to 27,293 euros in 2017).

Consumption habits have also changed among young adults:

- **The area in which young adults have cut back their spending the most in relative terms is transport** (private and public, including expenditure on maintenance and repairs): its percentage relative to total expenditure has reduced by 2.3 pps between 2006 and 2017. The main reason for this drop is that the percentage of young adult households who had expenses related to cars they owned fell from 25% in 2006 to 13% in 2017 (in contrast, the average expenditure on cars per young adult household who had allocated money to this item remained virtually unchanged). This largely reflects a change in the preferences of young people towards more economical and sustainable modes of transport.
- **On the other hand, the area in which young adults have increased their spending the most in relative terms is housing** (+4.0 pps between 2006 and 2017). This increase can be almost entirely explained by the increase in the aggregate expenditure on rent¹ by young adults. On the one hand, the percentage of young adult households who were renting rose by 17 pps between 2006 and 2017 (from 28.4% to 45.4%). On the other hand, among young adults who rented, their average expenditure on rent increased by 19% between 2006 and 2017.
- In contrast, attributed rents² (homes under ownership) fell by 44% between 2006 and 2017 among young adults. In this case, the percentage of young households that are homeowners fell by 17 pps between 2006 and 2017 (from 71.6% to 54.6%) and, moreover, the average expenditure on this item dropped slightly (7%).

Spain: composition of annual expenditure by age group and year

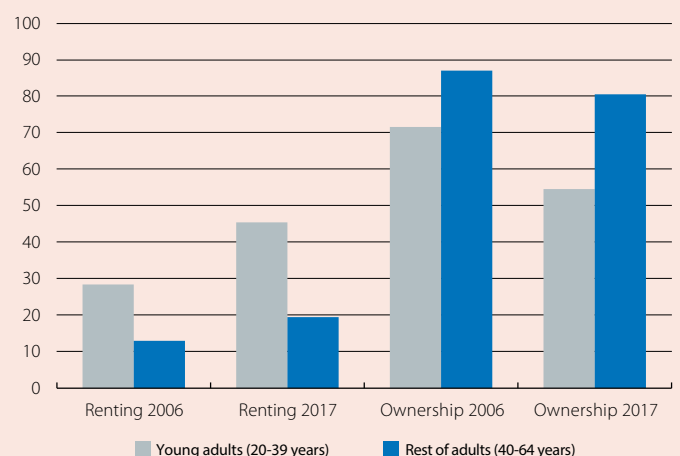
Percentage of total annual expenditure (%)



Note: Classification according to the ECOICOP (European Classification of Individual Consumption by Purpose).
Source: CaixaBank Research, based on data from the household budget survey (HBS).

Spain: home ownership versus renting

Percentage of households (%)



Source: CaixaBank Research, based on data from the household finances survey (HFS) by the National Statistics Institute.

1. To calculate this expense, we focus only on rentals at market rates. In contrast, when we look at the percentage of young people who rent, we are also including social rentals.
 2. This is the rental value of a home under ownership. It is estimated by calculating what a tenant would pay for the same accommodation, taking into consideration factors such as the location and the facilities in the area, as well as the size and quality of the property itself.

Young adults and housing in detail: from purchasing to renting

The factors that explain the drop in the proportion of home ownership in favour of renting among young adults are economic and sociological.

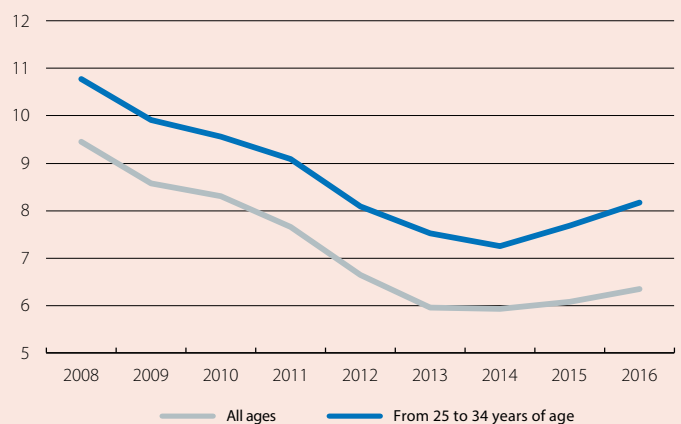
► Economic factors:

- Young adults have been the group most affected by the financial crisis. The average annual income of young people has been particularly penalised following the financial crisis, and this is in addition to the difficult labour conditions for young people, which have not been favourable for getting a foot on the housing ladder. Although the labour indicators at the aggregate level have improved since 2014, but they remain particularly weak for this group, as shown by an unemployment rate of 17% for young adults (20 to 39 years of age) in Q1 2019 or a very contained growth in wages.

- The meagre growth in wages makes buying a home difficult, in a context of a vigorous recovery in housing prices. As an example, the economic effort required from young people aged between 25 and 34 in order to get on the housing ladder has increased markedly between 2014 and 2016. Furthermore, although the effort required in 2016 was lower than before the crisis, it should be borne in mind that the conditions for accessing mortgage credit are now more demanding than they were in the previous expansionary cycle. For instance, households need to save a significant sum of money in order to get a mortgage, as demonstrated by the fact that the proportion of loans with a loan-to-value³ ratio above 80% represents just 13.1% of all mortgages granted in Q1 2019 (17% in 2006). As such, the initial deposit required currently constitutes a significant barrier to entry, amounting to 45,192 euros on average in 2016 according to Spain's Emancipation Observatory, i.e. 2.5 times the average annual income of a person aged between 25 and 34.⁴

Spain: housing accessibility ratio

Ratio between the price of an average property in Spain (93.75 m²) and the average gross earnings per worker



Source: CaixaBank Research, based on data from the annual wage structure survey by the National Statistics Institute.

- The gap in the economic effort required to access home ownership between young people aged 25 to 34 and the total for all workers has increased since 2014, since the recovery in wages has not reached the young adult group. Specifically, the average gross earnings per worker increased by 1.3% in Spain between 2014 and 2016 but decreased by 3.8% for young people aged 25 to 34.
- Taxation has also had an influence due to the tax changes introduced in 2013, which removed the personal income tax deduction for investing in a primary residence and reduced the tax bias that favoured buying over renting.

► Sociological factors:

- There has been a change of preference among young people in favour of a more flexible and footloose lifestyle (greater geographical and occupational mobility could be important underlying factors).
- In addition, the tendency to postpone key decisions, such as the age at which young people leave home or start a family, also leads them to delay the decision to buy a home.

3. This is the ratio between the mortgage amount and the value of the property acquired. The average in Spain for new mortgages stands at 65%.

4. See A.G. Muñoz Fernández (2017). «Juventud y mercado de la vivienda en España: análisis de la situación». Revista de Estudios de Juventud, nº 116.

The financial situation of young adults: fewer savings and more debt

The fraction of households with a young adult as the head of the family (aged 20 to 39) that had bought savings or investment instruments in 2014⁵ was lower than the fraction of adult households aged 40 to 60 (see the table for more details). On the other hand, a larger fraction of young adult households had debts. There are also substantial differences between young households that are homeowners and those that are not. This is due to the fact that buying a home is the most important financial decision a household makes, due both to its value and to the fact that it represents the main instrument for the accumulation of wealth by acting as a form of savings mechanism.

- **Assets:** a higher percentage of young adult households that are homeowners possessed equity instruments and pension funds in 2014, in comparison with young adult households that were not homeowners. This suggests that young households without a home of their own have less savings capacity, since it is precisely these households that tend to have lower incomes.
- **Liabilities:** the percentage of non-homeowner young adult households that had taken out some form of non-mortgage debt in 2014 was 35.6%. This is a relatively high figure (although somewhat below the 40% of 2005) and quite similar to that of non-homeowner households between 40 and 60 years of age (41.6%). Therefore, more than a third of young people who do not own a home do, in fact, have other types of financial needs that lead them into debt, through both consumer loans and business loans (as self-employed workers and entrepreneurs).

Spain: financial situation of young households in 2014

Percentage of households over the total number of households with those characteristics for each age group *

	Age	Total	Non-homeowners	Homeowners
Assets				
Equities	20-39	5.9	3.5	7.2
	40-60	11.1	9.4	11.5
Investment funds	20-39	2.7	2.7	2.7
	40-60	6.5	4.4	7
Pension funds	20-39	22.6	12.7	28.1
	40-60	38.4	22.2	41.9
Liabilities				
Any type of debt	20-39	69.0	35.6	87.6
	40-60	62.1	41.6	66.6
Mortgage debt	20-39	50.1	–	79.4
	40-60	35.5	–	43.2

Note: * For example, 3.5% of households aged between 20 and 39 that are not homeowners possessed equities, while 7.2% of households aged between 20 and 39 that are homeowners possessed equities.

Source: CaixaBank Research, based on data from the household finances survey (HFS) of 2014.

Oriol Carreras and Marc Miró i Escolà

5. Data from the household finances survey (HFS) of 2014, the latest survey available.