



# Household formation over time: Evidence from two cohorts of young adults<sup>☆</sup>

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## ARTICLE INFO

### Keywords:

Household formation  
Housing costs

### JEL classification:

J11  
D10  
R20

## ABSTRACT

This paper examines how various demographic and economic factors impact household formation both within and across cohorts. The results show substantial differences in the share of young adults living with their parents over time. Differences in demographics, housing costs, and business-cycle conditions can explain as much as 70 percent of the difference in household-formation rates across cohorts, a result driven in large part by increased sensitivity of young adults' household-formation decisions to economic conditions. Changes in parenting styles and shifting social norms likely also play roles.

## 1. Introduction

The share of young adults living independently from their parents has trended down recently. Whereas some attribute this change to the effects of the Great Recession, [Bitler and Hoynes \(2015\)](#) show that the trend began before the economic downturn.<sup>1</sup> Young adults are living with their parents longer than they did in the past, and they are also returning home more often after having lived independently. The potential reasons for this behavior include: economic conditions, insufficient income and/or high levels of debt, being enrolled in school, cultural norms, and having a close relationship with one's parents. While economic conditions are cyclical and young adults today may be more likely to take unpaid or low-paying internships to begin their career, the idea that economic conditions and/or a young adult's earnings affect his/her household-formation (parental co-residence) decision is not new (see, for example [Haurin et al., 1993](#); [Ermisch, 1999](#); [Ermisch and Di Salvo, 1997](#)). A key question therefore is, what change over time has resulted in more young adults living with their parents today than in the past? Shifting housing costs, lower young-adult incomes, or other economic conditions could explain the change in the share of parental co-residence. Additionally, young adults' decisions to live at home could be more sensitive today than in the past to economic and other factors because it has become more comfortable or socially acceptable to live with one's parents. Understanding the parental co-residence behavior of young adults is important, because it has

implications for homeownership, residential investment, wealth building, and fertility—factors that matter for both the macroeconomy and the well-being of young adults.

This paper investigates changes over time in the share of individuals who are living with parents (LWP) by comparing the behavior of two cohorts of young adults (1979 and 1997) from the National Longitudinal Survey of Youth (NLSY). With two cohorts separated by roughly 20 years, as well as detailed demographic, income, employment, and other data for the members of each group, we can examine the conditions that influence whether young adults live with their parents and how these factors have changed. We also have detailed data on the location of each young adult's residence, which allow us to control for local business-cycle conditions and local housing costs. Because each cohort is followed over time, we can track when cohort members switch from LWP to living independently as well as whether they move back home after living on their own.

We find that young adults aged 23–33 were, on average, 3.9 percentage points more likely to live with (their) parents during the mid- to late 2000s than they were during the early to mid-1980s. The rate of LWP is higher at every age within this range for the 1997 cohort, and demographic factors explain little of the decline in independent living over time. Instead, differences in economic conditions—especially local housing costs relative to income—explain much of the variation. This result is consistent with the findings of [Matsudaira \(2016\)](#), who determines that economic factors can explain 70–80 percent of the

<sup>☆</sup> The views in this paper are our own and not necessarily those of the Federal Reserve Bank of Boston, the Federal Reserve System, or the Bureau of Labor Statistics. We would like to thank Giovanni Olivei, and Don Haurin for helpful suggestions as well as seminar participants at the Greater Boston Real Estate and Urban Economics Seminar and Ohio State University. We also thank Sarah Freitas, Ye Ji Kee, Chloe Lee, and Sarah Morse for research assistance, and Suzanne Lorant and Larry Bean for editorial assistance. All errors are our own.

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<sup>1</sup> For a further discussion of the recent patterns of young adults living with their parents, see, for example, [Fry, 2015](#); [Dey and Pierret, 2014](#); [Matsudaira, 2016](#).

increase between 1970 and 2011 in parental co-residence rates for young adult men, and 50–60 percent of the increase for young adult women. Paciorek (2016) also shows that economic conditions, especially housing costs, are important for explaining why household-formation rates changed over time.

We also document the effect of local economic conditions on the likelihood that a young adult will come back home after living independently—Matsudaira (2016), the study closest to ours, does not analyze return-to-home rates. Individual factors, mainly employment status and labor income, explain some of the difference in return rates between the two cohorts, and local economic conditions play a limited additional role once these individual-specific variables are included. However, a good portion of the difference in return rates remains unexplained.<sup>2</sup> Greater student debt only slightly raises the likelihood that a young adult will return home after living independently, and student debt does little to explain the remaining gap in return rates across cohorts. Student loans also have little effect on whether young adults will live with their parents.

To our knowledge, this paper is the first to examine whether the decline in the share of young adults living independently is due to changes in economic conditions themselves, or whether young adults' co-residence decisions have become more sensitive to these conditions. In particular, we produce counterfactuals where we apply the estimated sensitivity of LWP to demographics and economic conditions for one cohort to the actual conditions faced by the other cohort to determine the degree to which changing sensitivities explain differences in LWP across cohorts. We obtain a rate of LWP that is more similar across the two cohorts if we apply the estimated sensitivity of the 1997 cohort members to the economic conditions and demographics associated with the 1979 cohort. However, this is not true when we reverse the exercise and apply the estimated sensitivity of the 1979 cohort to the economic conditions and demographics of the 1997 cohort. These results show that the increase in LWP rates between cohorts is due in part to the increased sensitivity of young adults' decisions to live at home to economic conditions, and not to just higher housing costs or worse employment opportunities alone.

Many of the numerous possible explanations for the shift in the sensitivity of young adults' parental co-residence decisions to economic conditions center on the idea that it has become more comfortable for young adults to live at home. Not only are family sizes smaller and homes larger now than in the past, but parenting styles have potentially become more accommodating, leading to young adults' increased willingness to live at home. Indeed, we find that members of the 1997 cohort who have “permissive” parents are more likely to live with their parents than are respondents with “authoritarian” parents. An additional potential reason for the shift in sensitivity of parental co-residence decisions to economic conditions is a shift in social norms or attitudes toward LWP. Although changing social norms are difficult to quantify, Giuliano (2007) documents cultural change that led to increased parental co-residence rates among southern-European families. She argues that family structure, combined with a late-1970s “sexual revolution” in Europe, allowed young adults to “obtain their sexual independence at home and still take advantage of the benefits of living with their parents.” Similarly, the General Social Survey (GSS) documents more favorable views over time in the United States of “older people sharing a home with grown children.” Cultural attitudes toward LWP are potentially endogenous, and we do not have exogenous variation to sort out the direction of causality: Young adults could stay home because of changed attitudes, or attitudes could have changed because more young adults stayed at home. However, we find that when we proxy for changes in attitudes with sufficiently lagged LWP

shares by state, we can explain some of the remaining gap between the two cohorts in the share of respondents who are LWP. Taken together, these results suggest that changing attitudes and changing parenting styles over time potentially play roles in the decline in the share of young adults living independently.

The remainder of this paper proceeds as follows: Section 2 describes the data and how we determine whether an individual lives with at least one of his/her parents. Section 3 describes our main results. Section 4 considers alternative explanations for LWP, and Section 5 concludes.

## 2. Data: the changing pattern

The data used in this paper come from two cohorts of the National Longitudinal Survey of Youth (NLSY)—a survey conducted by the U.S. Bureau of Labor Statistics (BLS). The first cohort (the 1979 cohort) is a nationally representative sample of 12,686 individuals who were 14–22 years old in 1979. These individuals were born between the start of 1957 and the end of 1965, and by the early- to mid-1980s most were about 25 years old—an age when many young adults transition to living on their own. The second cohort (the 1997 cohort) is a nationally representative sample of about 9000 individuals who were 12–16 years old as of December 31, 1996. Born between 1980 and 1984, these individuals were about 25 in the years 2005–2010. Members of the 1979 cohort were surveyed annually from 1979 through 1993 and have been surveyed biennially since 1994. The most-recent available data are for 2012, when the respondents were 47–55 years old. Members of the 1997 cohort were surveyed annually from 1997 through 2011 and biennially thereafter. The most-recent available data are for 2013, when the respondents were 29–33 years old. The two cohorts are useful for studying changes in U.S. household formation over time, because the surveys cover two representative groups of youth entering adulthood roughly 20 years apart, and they contain detailed information on the respondents' living situations.

These two NLSY surveys—often referred to as the NLSY79 and the NLSY97—record information on the respondents' education, employment history, and income when they were entering adulthood, along with other demographic and financial information from that period of their lives.<sup>3</sup> In addition, both NLSY surveys contain a so-called household roster, which tracks as many as 17 individuals living in the same residence as the respondent and notes the relationship of each to the respondent. We use these data to determine whether the respondent was living with his/her parents at the time of the survey as opposed to living independently.<sup>4</sup> We define a respondent as LWP if at least one biological, adoptive, or step-parent is present in the household in a given interview round.

We focus our analysis on individuals 23–33 years old to hedge against spurious findings due to roster questions that are slightly different between the two surveys. In particular, there are differences across cohorts in how the NLSY handles respondents who are living in temporary quarters such as college dormitories. Whereas respondents in the NLSY79 cohort are asked to answer the household roster questions with regard to their *permanent* residence, respondents in the NLSY97 are asked in rounds 1–6 to report based on their permanent residence, but in later survey rounds they are asked to report on their current residence. We focus our analysis on respondents 23 years old and older to ensure that most respondents have finished school by the time we

<sup>3</sup> Tables A.1 and A.2 in the Appendix provide relevant summary statistics for the two cohorts.

<sup>4</sup> In the NLSY, the youth are the survey participants and information on their parents is limited, even in the first interview. In particular, the NLSY data do not distinguish between the head of the household and other family members, so we cannot differentiate between situations where the respondent is the head of the household and cases where the young adult's parent is the head of household. All we observe is whether parents and respondents share the same residence.

<sup>2</sup> Bleemer et al. (2015) find that economic conditions affect young adults' return rates calculated using credit bureau data, but they cannot control for individual-specific factors related to economic conditions.

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