OBSERVATION

TD Economics

December 1, 2015

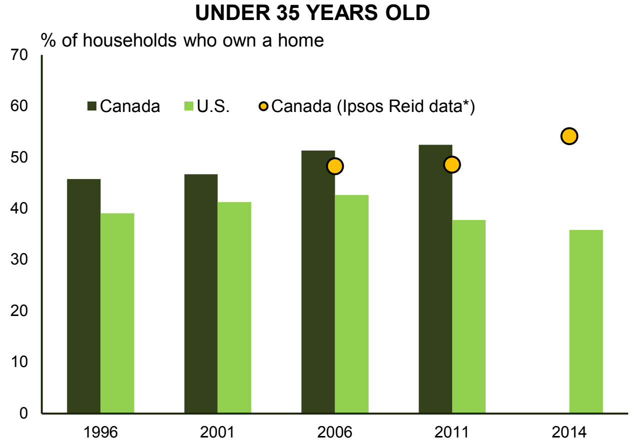
CANADIAN AND U.S. MILLENNIALS: ONE OF THESE IS NOT LIKE THE OTHER

Highlights

- Compared to their American counterparts, Canadians aged 25-34 years old exhibit better outcomes with regard to the labour market, homeownership and net wealth.
- Improved outcomes among women explain a large part of the relative economic success of millennials in Canada.
- Different stages of the housing and economic cycle also appear to be a key differentiating factor. As U.S. job creation and home prices outshine over the next few years, some degree of economic convergence is likely to take place between Canadian and U.S. millennials.

Millennials (loosely defined here as those born between 1980 and 2000) are often characterized as facing tougher labour market conditions and homeownership barriers, despite being the most highly educated generation in history. However, Canadian millennials are faring better economically than is commonly portrayed. This is especially the case when compared to their American counterparts. As of the first half of 2015, over 50% of millennials in Canada owned a home and entered into homeownership at a younger age than their parents – or any other cohort that has come before them for that matter. This contrasts sharply with the millennial generation in the United States. Only 36% owned a home in 2015, compared to a homeownership rate of between 40% to 43% for this same age cohort of prior generations. Homeownership is a big feat for most households across Canada – where the average price is almost 6 times that of income. However, millennials in Canada have faced better job conditions alongside greater availability and access to credit since the 2008/2009 recession. They also carry lower student debt loads than their American counterparts.

CHART 1: HOMEOWNERSHIP RATES FOR THOSE UNDER 35 YEARS OLD



Source: Statistics Canada, Ipsos Reid, U.S. Census Bureau. *Statistics Canada National Household Survey only provides homeownership rates up to 2011. We used the Ipsos Reid Survey to get a more recent update on homeownership rates.

Canadian labour market outcomes less impacted by the Great Recession

There's no disputing that the younger generation was disproportionately impacted during the recession on both sides of the border. In Canada, those aged 28 and younger took it harder on the chin, accounting for almost 70% of the job losses. In comparison, these individuals reflected roughly 50% of the job losses in America. While these ratios are high, it is consistent with history. The majority of job losses during economic downturns occur within the youngest generations, regardless of where you live. Even though the

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recession has long been in the rear view mirror, 15 to 20 year olds continue to face significant economic challenges with high unemployment rates on both sides of the border. However, the prospects have shifted significantly for the older millennials (aged 25 to 34), who are more likely to have completed higher education than past generations, entered the labour market full-time and transitioned into becoming a home buyer.

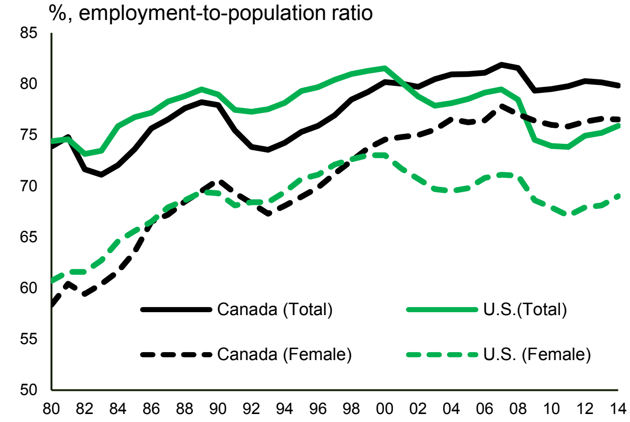
For Canada, the job recovery happened quickly. As of September data, these individuals had an unemployment rate of just 6.7%. This is almost 4 percentage points lower than the unemployment rate faced by their parents in the early 1980's, and below the current national average of 7.0%. On an individual basis, inflation-adjusted income for millennials is not substantially higher than what their parents were earning over 30 years ago. However, with higher female labour force participation rates, it has become more common to have a dual income household. On that front, even after adjusting for inflation, the median millennial household earns roughly 16% more than generation X did at their age (those born between 1965 and 1980).

These outcomes contrast sharply to that in the United States. The unemployment rate for Americans aged 25 to 34 averaged 8.6% between 2010 and 2013. And, while the unemployment rate for this age group has come down to pre-recession levels recently, they are no more likely to participate in the labour market than their parents did almost 30 years ago (Chart 2). A greater contrast appears in comparing household incomes. Stripping away the cost of living, U.S. millennial households earn less than Generation X did at their age (Chart 3).

Millennial women shine brighter in Canada

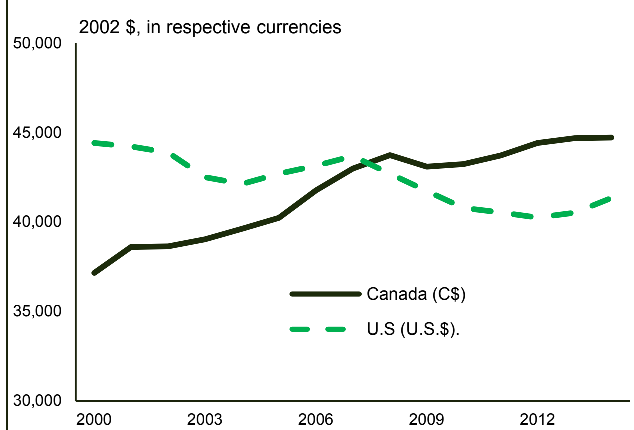
In large part, the better performance in Canadian employment rates and income among millennials has been due to higher female labour force participation. Employment rates for males between the age of 25 to 34 have stagnated across time, whereas female employment rates in Canada are at near-record high levels. More educated than their male counterparts, millennial females narrowed the male-female gap faster than any other cohort before them. By comparison, millennial females in the U.S. do not participate in the labour force as much as Canadian women, although this reflects a more recent phenomenon. Prior to 2001, females on both sides of the border exhibited similar upward trends in labour force participation. But, as Chart 2 reveals, a pronounced and persistent divergence took hold thereafter. It's likely not a coincidence that this timing overlaps with

CHART 2: EMPLOYMENT RATE FOR THOSE 25 TO 34 YEARS OLD



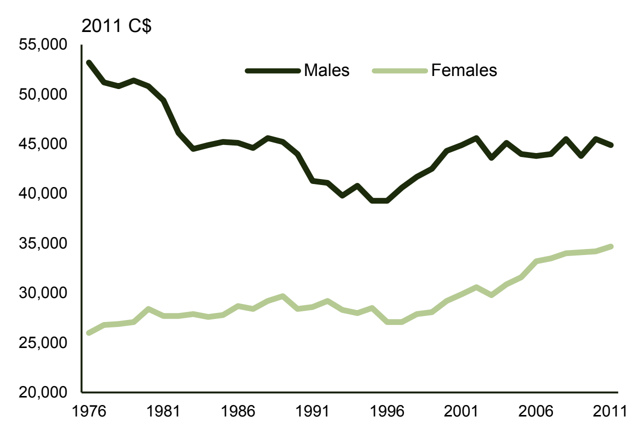
Source: Statistics Canada, Bureau of Labor Statistics.

CHART 3: INFLATION-ADJUSTED HOUSEHOLD INCOME FOR THOSE 25 TO 35 YEARS OLD



Source: Statistics Canada, U.S. Census Bureau.
Note: Est. of 2014 value for Canada done by TD Economics as of November 2015.

CHART 4: INFLATION-ADJUSTED PERSONAL INCOME FOR THOSE 25 TO 34 YEARS OLD



Source: Statistics Canada.

Table 1: Financial Snapshot of North American Households Average Household Balances Adjusted to Current Dollars (000's) (Reflects average balances of those holding given asset/debt*)												
	Those 35 Years and Younger						Those 54 to 64 Years					
	Canada (000's of C$)			US (000's of U.S. $)			Canada (000's of C$)			US (000's of U.S. $)		
	1998/ 1999	2004/ 2005	2012/ 2013	1998/ 1999	2004/ 2005	2012/ 2013	1998/ 1999	2004/ 2005	2012/ 2013	1998/ 1999	2004/ 2005	2012/ 2013
Net Worth	**80.3**	**79.1**	**155.4**	**67.8**	**75.6**	**75.5**	**475.0**	**663.0**	**850.7**	**565.9**	**872.6**	**798.4**
Principal Residence	147.0	205.3	302.5	108.2	176.9	167.9	166.6	235.0	356.8	170.5	327.7	297.2
Total Debts	**51.1**	**68.2**	**113.2**	**48.4**	**82.1**	**82.4**	**48.9**	**72.7**	**106.5**	**73.0**	**116.8**	**132.3**
Mortgages	96.7	126.9	210.0	80.0	131.1	142.1	77.5	101.2	153.9	76.8	121.5	155.3
Student Debt***	11.9	12.5	16.4		15.6**	27.0	11.1	17.0	16.6	--	--	--

Source: Statistics Canadas . * For instance, average mortgage balance is only calculated among households holding a mortgage. ** Interpolated based on information obtained for average debt-levels in 2014 and the growth rate in average balances between 2004 and 2014. ***Student debt for hosueholds with maintainer over 54 relfects average debt levels of students still living at home.

the expansion of parental leave in Canada from 10 weeks to 35 weeks. While female participation rates continued to climb in the decades that followed, that of their American counterparts stalled out.

Canadians less bogged down by student debt

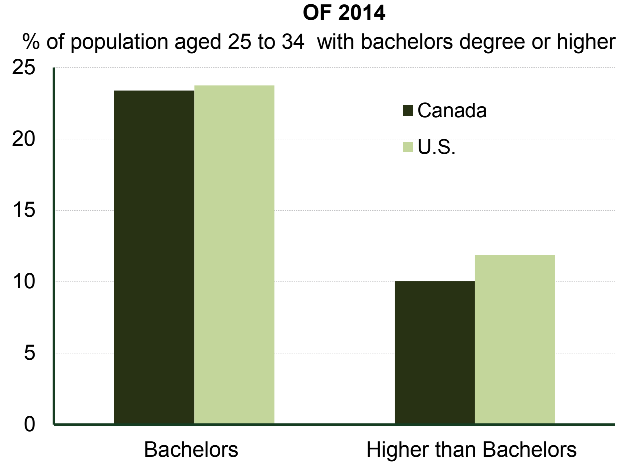
The education levels of millennials are higher than prior generations regardless of gender, and with that comes higher levels of student debt (Table 1). Millennials in Canada, however, have less student debt than their U.S. counterparts. This reflects a confluence of factors. First, Americans tend to stay in school longer and have experienced a faster climb in tuition costs. Once embarking on a bachelor's degree, students in the U.S. are more likely to pursue post-graduate and professional degrees (Chart 5). Second, this trend was likely compounded following the recession, when enrollment rates rose significantly. Pursuing higher education offered a better option than entering a weak employment market.

As a result, student debt has grown rapidly in the U.S. since 2004. The Federal Reserve of New York reported that the average student loan balance topped US$27,000 in 2013, whereas the average student loan balance in Canada was a lesser C$16,000 as of 2012. Although Canadian millennials are still holding more student debt than their parents at a similar age, a portion of this is related to higher educational attainment rates.

Higher debt = more wealth among younger Canadians

Looking beyond just student debt, millennials in Canada are holding more overall debt than generations that came before them. They even surpass their U.S. counterparts on this front. But, the larger debt balances are primarily due to mortgages. Millennials today face better mortgage conditions than their parents did over 30 years ago, with 5-year fixed mortgage rates almost 10 percentage points lower than in 1980. The required down payments for first time homebuyers who qualify for mortgage insurance is also lower. As a result, millennials in Canada have used debt to help build housing wealth. As of 2012, Canadian millennials had accumulated almost double the amount of net wealth as generation X had attained at their age. While younger U.S. households may not be holding as much overall debt as Canadians, they also have not seen the same gains in net wealth. Millennials in the U.S. had net wealth of US$76,000 in 2012, similar to the net wealth position

CHART 5: EDUCATION ATTAINMENT RATES AS OF 2014



Source: Statistics Canada. Census Bureau of Generation X, but almost half of the net wealth held by millennials in Canada.

Canadian millennials better positioned to get a helping hand

Anecdotal evidence suggests that millennials in Canada likely have an added advantage of receiving a little more of a nest egg from their parents for their first home. Parents of millennials in Canada have benefited from a near-doubling in the average home price over the last decade. No doubt, some of this wealth and resulting financial wiggle room has been passed down to children. In contrast, the U.S. housing market crash and subsequent slow recovery in home prices took a significant bite out of household net worth. This has left U.S. households aged 54 years and older with higher levels of debt than their Canadian counterparts. In fact, on average, older households in the U.S. are more indebted than their children.

Conclusion

Less collateral damage from the 2008/2009 financial crisis has meant that millennials in Canada have maintained better access to mortgage credit and stronger income gains, allowing them to enter homeownership earlier. As a result, first-time buyers have helped contribute significantly to the strength in the Canadian housing market since 2009. Over the next few years, Canada's 25-34 year olds are likely to continue to enjoy the edge in terms of most key economic and financial indicators compared to similar-aged Americans. However, some closing of the gap appears likely. Part of this recent outperformance of Canadian millennials reflects the stage of the economic and housing cycle. Canada's housing market expansion is now at a mature phase, with little scope for further gains in homeownership rates. In addition, while millennials in Canada have higher net wealth than other cohorts did at their age and compared to millennials in the U.S., they are also more indebted, leaving them more vulnerable in the event of a home price correction. In contrast, U.S. millennials appear to enjoy more upside potential from strengthening housing and job markets, alongside comparatively high education levels. During the first half of 2015, U.S. millennials accounted for about one third of total home sales. And, as the Canadian experience has shown, there is a strong inherent feedback loop between the rising wealth and spending gains of this large demographic group and the nation's overall economic performance.

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