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## From Baby Boom to Housing Bust?

*How Demographics Will Affect Housing Demand*

*“A younger and faster growing population should encourage housing investment and a growing construction industry in the Lone Star State.”*

For the remainder of the 1990s and into the next century, U.S. housing demand will reflect the maturing of the baby boom generation. During the 1970s, baby boomers—Americans born between 1946 and 1964—helped create the largest housing boom in U.S. history. As the baby boom generation ages, however, the underlying demand for housing is likely to diminish.<sup>1</sup>

Not only will overall population growth subside as the baby boomers age, but there will be a decline in the number of Americans aged 25–34, the group most likely to form new households. With fewer people in this age group, the demand

for starter homes and new apartment units may decline.

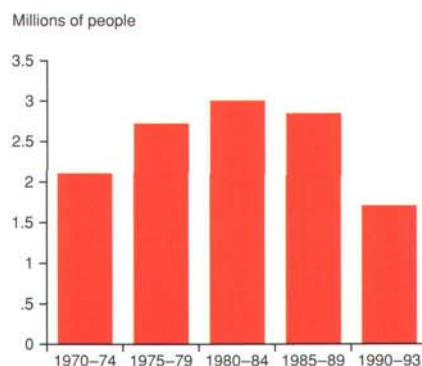
The population-induced slowdown in housing demand does not imply a loss of jobs in the homebuilding industry. Instead, job growth in the industry will likely be sluggish, and the industry will play a smaller role in the U.S. economy.

By contrast, demographic trends in Texas favor continued growth in the state’s housing industry. A younger and faster growing population should encourage housing investment and a growing construction industry in the Lone Star State.

### America’s Population: Growing More Slowly and Getting Older

As the last of the baby boomers reached adulthood in the late 1980s, the increase in the population aged 25 and over began to slow (*Chart 1*). The slowdown reflects the large decline in birth rates after 1964. As a result, the average annual increase in the adult population—those aged 25 and over—has fallen from roughly 2.6 million during the 1980s to just over 1.5 million in the early 1990s.

**Chart 1**  
Changes in U.S. Population Age 25 and Over, 1970–93  
(Annual averages)



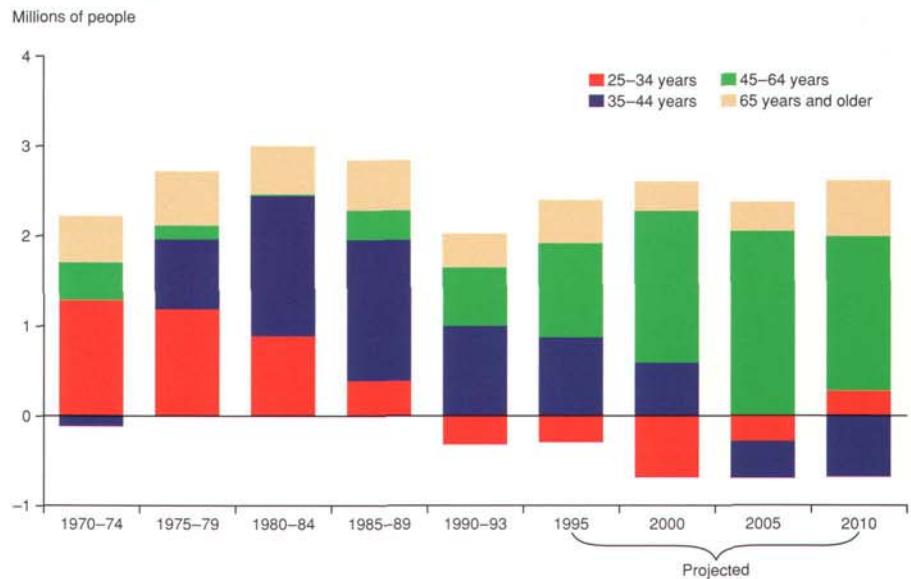
SOURCE: U.S. Census Bureau.

I N S I D E

Risky Business:  
Clearing Checks  
During Banking Crises

*“The housing industry is already feeling the effects of the changes in the size and age distribution of the population.”*

**Chart 2**  
Actual and Projected Changes in U.S. Population Age 25 and Over  
(Annual averages)



SOURCE: U.S. Census Bureau.

Chart 2 illustrates the shift in the age distribution that accompanied the maturing of the baby boom generation. The baby boomers swelled the ranks of the 25–34 age group during the 1970s. At the beginning of the 1980s, the oldest boomers began to move into the 35–44 age bracket. Now, the oldest baby boomers are in their mid- to late forties, and a surge in the 45–64 age group has begun.

Especially important for forecasts of housing demand is the drop-off in the number of Americans aged 25–34 as the baby boom generation vacates that age bracket in the early 1990s. It is in this age group that people are most likely to form new households and purchase or rent a first home. The U.S. Census Bureau projects that the number of people in the 25–34 age group will continue to decline through 2005.

### **Demographic Trends Reduce Growth in Housing Demand**

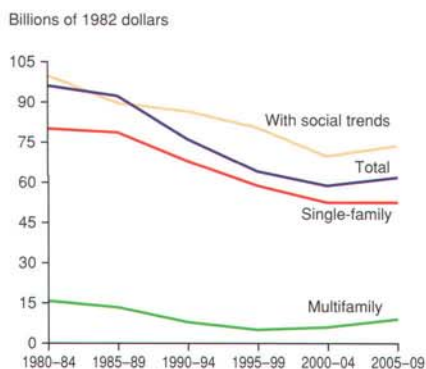
The housing industry is already feeling the effects of the changes in the size and age distribution of the population. These effects have been at work since the late 1980s, when growth in the adult popula-

tion began to slow. Analysis based on economic modeling of historical relationships suggests that the population changes will have reduced housing demand growth by 17 percent from the late 1980s through 1994.<sup>2</sup> Then the population changes will continue to reduce growth in housing demand another 22 percent through 2004 (*Chart 3*), before turning favorable.

The slowdown in population growth will have the most significant impact on multifamily—or apartment—construction. The rate of growth in apartment demand will fall by 60 percent from the late 1980s through the late 1990s. This decline reflects the drop-off in the number of younger Americans, who tend to rent rather than own. Single-family housing is not spared, however. The rate of growth in demand for single-family homes will fall by one-third from the late 1980s through 2004 as the need for starter homes plummets.

Social trends may raise the level of housing demand, but they will not be enough to offset the population effects. Over the past two decades, rising divorce rates and delayed marriages have contributed to a growing trend toward single-

**Chart 3**  
Rate of Growth in Housing Demand\*  
(Annual averages)



\* Simulated series on net housing investment based on shifts in the size and age distribution of the U.S. population.  
SOURCE: Hill and Petersen (1994).

ness. The results presented in Chart 3 indicate that if Americans continue to live as single adults in relatively high proportions, housing demand growth is boosted by 19 percent, not enough to compensate for the population-induced slowdown.<sup>3</sup>

### Slower Job Growth in the Homebuilding Industry

Despite the change in housing demand, the homebuilding industry need not contract. As Chart 4 shows, population changes will sharply reduce the rate of growth in housing demand, but a significant decline in total housing investment is unlikely. Total housing investment refers to the demand for new housing plus the amount of construction needed to maintain existing homes and apartments and replace those that are worn out.

Although the homebuilding industry will avoid a decline, job growth is likely to be relatively flat, and the industry is likely to play a smaller role in the overall economy. The top line in Chart 4 shows how much total housing investment would have to rise to maintain residential construction's current share of the U.S. economy. The gap between this line and the total investment line indicates that by 2010, demographic changes will have reduced residential construc-

tion's share of the national economy by one-third what it was in the early 1980s.

### Demographic Trends Should Boost Housing Demand in Texas

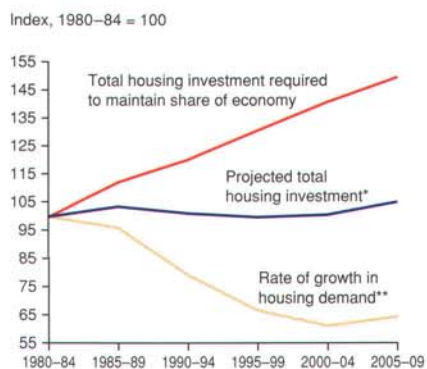
In contrast to the nation, Texas' housing industry should continue to grow. The state's unique demographic trends suggest that the population-induced slowdown in housing demand will be less evident in Texas.

Since 1850, Texas' population has grown faster than the nation's. This was especially true during the oil boom of the 1970s and early 1980s, when the state's population increased at more than twice the national rate. The rapid population growth during this period was largely a result of high net in-migration—more people moving to Texas than leaving. Although net in-migration has declined, it has still accounted for roughly 40 percent of the state's population growth in the 1990s. This compares with more than 60 percent in the late 1970s and early 1980s. Texas' relatively high net in-migration raises housing demand because people who migrate have an immediate need for housing.

As in the nation, population growth in Texas will slow as the

*“Housing demand in Texas will also be bolstered by the state's relatively young population.”*

**Chart 4**  
Total Housing Investment Needed to Maintain Housing's Share of U.S. Economy  
(Annual averages)

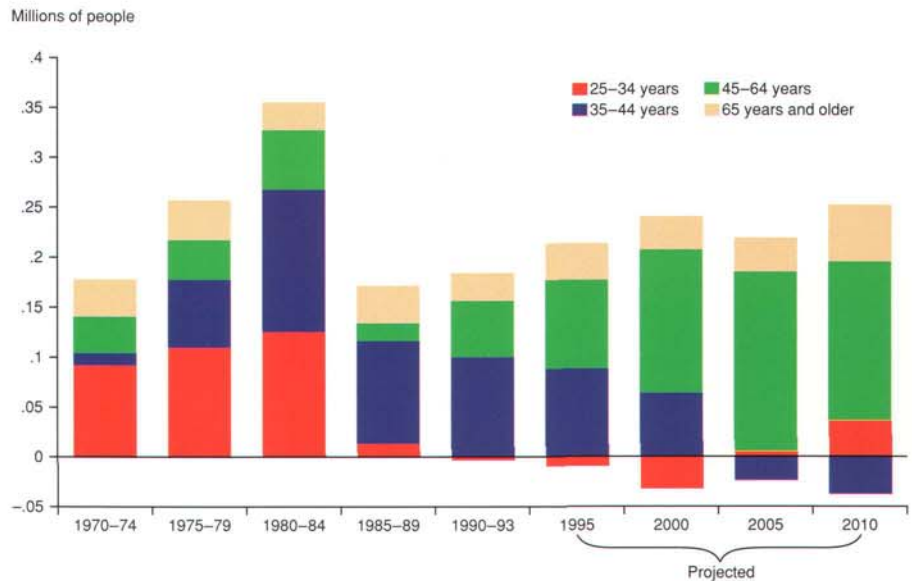


\* Simulated series on gross housing investment.  
\*\* Simulated series on net housing investment.

SOURCE: Hill and Petersen (1994).

*“Texas’ unique demographic trends may already be at work. The state has been enjoying a rebound in its residential sector since mid-1991.”*

**Chart 5**  
Actual and Projected Changes in Texas Population Age 25 and Over  
(Annual averages)



SOURCE: U.S. Census Bureau.

baby boomers mature. However, the U.S. Census Bureau predicts that the Texas population will grow at an average annual rate of about 1.6 percent during the 1994–2010 period, while the U.S. population will grow at an annual rate of about 1 percent. A faster growing population suggests less of a slowdown in housing demand in Texas than elsewhere in the nation.

Housing demand in Texas will also be bolstered by the state’s relatively young population. While the population aged 25–34 has fallen 3 percent in the nation during the 1990s, it has declined only 0.4 percent in Texas (*Chart 5*). Between 2000 and 2010, the number of people in this age group is expected to rise 7.2 percent in Texas and fall 0.2 percent in the nation. As these future young Texans set up new households, the demand for housing should accelerate.

Texas’ unique demographic trends may already be at work. The state has been enjoying a rebound in its residential sector since mid-1991. While other factors such as low interest rates and a healthy economy have contributed to the rebound in the short run, the underlying demographics are a strong

foundation for housing demand in Texas in the long run.

—D’Ann M. Petersen

### References

- Crone, Theodore M. (1990), “The Aging of America: Impacts on the Marketplace and Workplace,” Federal Reserve Bank of Philadelphia *Business Review*, May/June, 3–13.
- Hill, John K., and D’Ann M. Petersen (1994), “Demographics and the Long-Term Outlook for Housing Investment,” Federal Reserve Bank of Dallas *Economic Review*, First Quarter, 17–25.

### Notes

- <sup>1</sup> The results presented in this article are based on population factors alone. Although such factors will not be the only influence on housing demand over the next two decades, given the large decline in births following the end of the baby boom, demographics are certain to play a major role in determining future housing demand.
- <sup>2</sup> See Hill and Petersen (1994) for simulations of housing investment.
- <sup>3</sup> These results are from an economic model that assumes high economic growth and that baby boomers will continue to have a strong preference for living single as they grow older.