

THERE'S NO PLACE LIKE HOME: RACIAL DISPARITIES IN HOUSEHOLD FORMATION IN THE 2000s

Sandee Newman¹
Scott Holupka¹
Steve Ross²

¹Johns Hopkins University

²University of Connecticut

Federal Reserve Community Development
Research Conference
Washington, D.C.
May 10, 2019

Focus

1. We take advantage of the economically tumultuous 2000s to explore the decisions of black and white young adults ages 21-24 to move to independence—that is:
 - remain in their parent's home OR
 - form their own household
2. Volatility of greatest relevance to household formation is in housing and labor markets
 - paper sets the context by reviewing trends over 2000s in earnings, employment, housing market conditions, household formation by young adults, and other key indicators
 - **1 noteworthy statistic:** 18-34 year olds accounted for nearly $\frac{3}{4}$ of the shortfall in household formation between the Great Recession (GR) (2008) and 2011 (Dunne 2012).

Conceptual Framework

We examine two theories:

Life Course Perspective

Historical period in which a cohort lives affects its trajectory (e.g., Elder's work on Great Depression)

- What happened in 2001-2013?
 - Unemployment increased from <5% in 2001 to 10% in 2009 - - the largest post-WWII increase
 - Housing unaffordability exacerbated:
 - increase in real rents
 - decline in real wages for black young adults
 - decline in employment rates for black and white young adults during the Great Recession

Conceptual Framework (cont'd.)

Family Investments Perspective

Parental resources affect the young adult's household formation decision (stay v. leave)

- Effect of parental financial status (permanent income; wealth) is ambiguous:
 - affluent parents can finance their child's transition BUT
 - affluent parents' homes offer attractive housing

An Additional Conceptual Consideration

- Do blacks and whites ***react similarly*** to changes in rents, earnings or employment? OR
- Do blacks and whites ***react differently*** to changes in rents, earnings or employment?
 - If so, might this occur because, even if they live in the same MSA, they operated in different housing or labor markets (market segmentation)?

Data Requirements

1. **Longitudinal** data -- so we follow adolescents into young adulthood and study their “stay-leave” decisions
2. **Rich** data -- so we can measure everything from parental income and wealth (to test the Family Investments Theory) to family structure while growing up (past research suggests this has an effect on household formation decisions)
3. **Sufficient cases of blacks and whites** – so we can analyze each group separately
4. **Exogenous** measures of **economic climate** – because a sample member’s own employment and housing cost are endogenous

Data and Samples

1. Panel Study of Income Dynamics (**PSID**)
 - Separate samples of whites and blacks who can be tracked from adolescence (ages 13-16) to young adulthood (ages 21-24) in four outcome years:
 - 2001 = mild recession
 - 2005 = housing boom
 - 2009 = Great Recession
 - 2013 = aftermath of GR

Data and Samples (cont'd.)

2. American Community Survey Public Use Microdata Samples (**ACS PUMS**) and **2000 Census**

- Source of housing and labor market conditions in the MSAs in which the analysis sample members lived (exogenous)
- housing and labor market conditions facing young adults:
 - average rents
 - annual wage (2013\$)
 - employment rate for black and white 20-25 year olds working 30+ hours/week

Methods

1. Multivariate models predicting “stay v. leave”
 - Covariates include:
 - parental resources (income; wealth), family structure, year dummy, array of background measures (gender, age)
 - economic context (rent, employment, earnings)
 - test with different configurations of fixed effects to address the additional conceptual issue of whether blacks and whites react similarly or not, and if not, is this because they operate in different markets
2. Decomposition analysis
3. Robustness checks to test sensitivity of results to different specifications of the model

Results

Simple Descriptives

1. Black young adults were much more likely to live with their parents than white young adults *regardless* of economic climate.
 - In GR, % staying at home: blacks=50%; whites=35%
2. Blacks always worse off on all measures over 2001-2013 period:
 - rent increased twice as much
 - 25% lower employment rate in the GR
 - parental resources much lower

Results (cont'd.)

Life Course Theory, specifically economic context

	Blacks	Whites
Rent	.487*	.086
Wages	-.006	.015
% employed	.159	-1.006+

1. Blacks' household formation most significantly affected by rent. Whites' not affected by rent.
 - **\$100 rent increase → 5% decrease in leaving by blacks, <1% by whites**
2. Whites stay v. leave decision most affected by employment rates. Blacks not affected by employment rates.
 - **The 4.5% decline in the white employment rate 2001-2013 → 4.5% increase in white stayers, only .5% for blacks**

Results (cont'd.)

Q: Why do blacks and whites react differently to economic climate?

A: Because blacks and whites face different housing and labor markets even when they live in the same MSA.

- Evidence of housing market segmentation for blacks
- By contrast, whites faced unrestricted access to the labor market

Results (cont'd.)

Family Investments Theory

	Blacks	Whites
Parental income	.003	-.006
Parental wealth	-.017	-.004

- Bottom line: no evidence to support family investments theory

Conclusions

1. Economic context influenced young adult household formation in 2001-2013 period
2. Context operated differently by race
 - Blacks more sensitive to rents:
 - 10% increase in rents → 5% decline in household formation
 - Whites more sensitive to employment rates:
 - 1% decline in employment rate → 1% decline in household formation
3. Looking to the future, economic recovery may affect blacks and whites differently
 - As employment improves, household formation by white young adults may increase
 - Because rents have continued to rise, black young adult household formation may continue to be constrained