

Youth Drivers: Mind the Hype

Reving below the Redline

You can only redline for so long before overheating; given past experiences, the controlled deceleration being displayed in the North American auto market should be seen as a relatively positive outcome. Combined Canadian and U.S. sales are poised to slip below a 19 million unit pace for the first time in four years, but should remain quite healthy on a cyclical basis.

In the U.S., the sugar-high from the Tax Cuts and Jobs Act is wearing off, steering sales out of the passing lane after a late cycle surge last year. Volumes are expected to fall more closely in line with the multi-year downward glide observed since 2016's cyclical peak, levelling around 16.5 million units. In Canada, the market has turned, with sales cooling after running red-hot for the past two years. The overarching factor is the broad deceleration in consumer credit growth, which is spilling into the auto segment. On this front, the about-face by both the Federal Reserve and the Bank of Canada on policy tightening reinforces our view that sales will downshift smoothly, rather than hit the hand brake. Strong demographics should be sufficient to keep Canadian sales humming above the 1.9 million unit mark.

Naturally, lower volumes entail fiercer competition. Dealerships with stronger inventory mixes and superior customer service stand to benefit, while others may experience a more difficult transition. From a macro perspective, lower production and sales volumes in North America will continue to act as a drag on growth.

Ride Bailing?

An inordinate amount of ink has been splashed on the “worrying” driving and buying trends of Millennials and generation-Z. Generally, the gist is that urbanization, “uberfication” and “mindfulness” have dramatically altered the American auto market. But, are we really entering a post-car world? Have Millennials reached a level of mindfulness that has slammed the door shut on the auto industry as we know it?

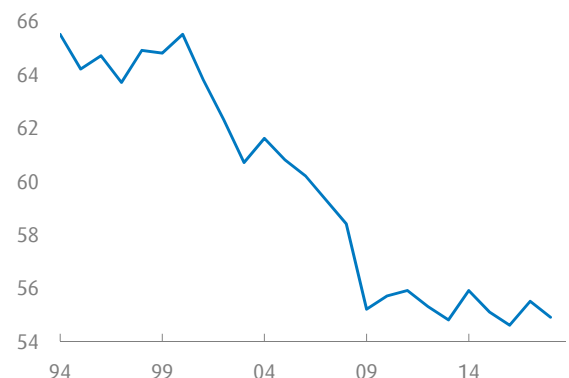
Evidence suggests that this is not the case; rather, our old friend the invisible hand seems to be playing a much larger role. The much publicized drop in the percentage of young drivers has much more to do with the structural shifts in the domestic economy and the re-alignment of incentives it has entailed, as well as more immediate cyclical factors, than any of the more marketable narratives being floated around.

On a structural basis, it is little wonder that the share of the student aged population with a driver's licence has decreased: far fewer are employed on a full-time basis. The U.S. labour force participation rate of 16-24 year olds has nosedived from 65% in the 1990s to 55% in 2017 (Chart 1). This follows the broader trend of the domestic economy's re-orientation towards incentivizing skills-based trades and higher education. Or, put differently, a greater share of the youth population is concentrating on furthering their education and



Chart 1
Participation Rate—Ages 16 to 24

United States (% of population)



Sources: BMO Economics, Haver Analytics

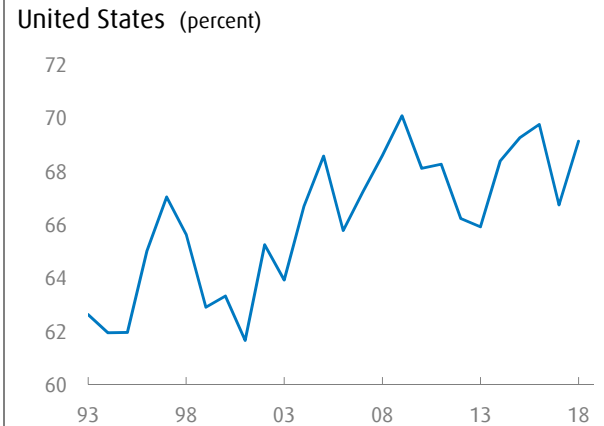
training rather than pursuing full-time employment during or immediately after high school (*Chart 2*).

In this context, the existential crisis caused by the 2013 study from the University of Michigan¹ that first socialized the decline in young drivers seems somewhat overblown, and it becomes even more questionable when examining the details. The researchers asked respondents “What is the main reason you do not currently have a driver’s licence”, to which the overwhelming response (37.9%) amongst those aged 18 to 19 was that they were “too busy or didn’t have enough time to get a driver’s licence”. This figure dropped significantly in older millennial brackets (20-29), strongly suggesting that students were rationally prioritizing studying over the driver’s exam (which has become more difficult to pass, more costly and less accessible, while providing less immediate incentive if one doesn’t need to drive to work) rather than eschewing the prospect of vehicle ownership entirely. **There also appears to be a bit of age-ism at play in the popular analysis, as the same study shows a boom of licensed drivers aged 70 and older, with the licensed share skyrocketing from 55% in 1983 to 76% in 2014!** A similar trend can be found through the 55-69 age group; a key reason why the new vehicle market has kept churning despite shifting trends in younger segments.

Cyclical economic factors have also played an important role. Over the 2011-2013 period of the study, the unemployment rate for 16-19 year olds averaged well over 20% (after hitting an eye-watering peak of 27% in 2009), by far the worst job market on record for this age segment, negating any imperative to pursue a licence (if one could even afford to). College-aged students and graduates didn’t fare much better, facing the worst job market in a generation while being saddled with record levels of student debt. As these factors subsided, **the driver’s licence uptake in the 19-24 year old bracket improved, helping to bring the share of the licenced driving-age population in line with recent historic norms** (*Chart 3*).

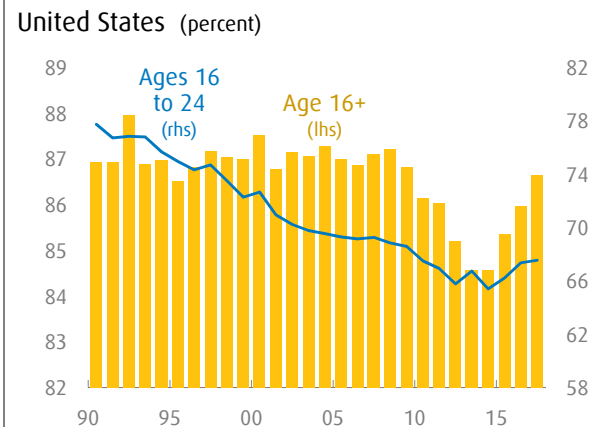
With respect to demographics, **it may surprise some that the share of the urban population has remained flat over the past sixteen years.** A Pew Research Center study of U.S. Census data² found that suburban communities were the ones to enjoy the largest population flows, growing 16% from 2000 to 2016, and seeing their share of the population rise from 53% to 55% (*Chart 4*). **While the urban**

Chart 2
High School Graduates Enrolled in College



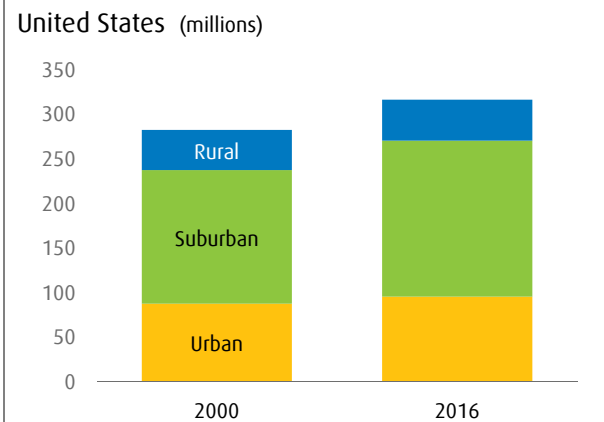
Sources: BMO Economics, Haver Analytics

Chart 3
Share of Population with a Driver’s License



Sources: BMO Economics, Haver Analytics

Chart 4
Population



Sources: BMO Economics, Haver Analytics

¹ Schoettle, B., & Sivak, M. (2013, August). The Reasons for the Recent Decline in Young Driver Licensing in the U.S. Retrieved from <https://deepblue.lib.umich.edu/bitstream/handle/2027.42/99124/102951.pdf>

² Parker, K., Horowitz, J. M., & Brown, A. (2018, May). Demographic and economic trends in urban, suburban and rural communities. Retrieved from <https://www.pewsocialtrends.org/2018/05/22/demographic-and-economic-trends-in-urban-suburban-and-rural-communities/>

population is indeed rising (+13% over the same period), its importance in the scheme of the domestic auto market has not changed materially, negating the notion that urbanization is depressing sales. It is true that suburban commuters have become more conscientious, as evidenced by an increase in public transit ridership, but this has mostly served to ebb the growth rate of vehicle miles travelled. Indeed, a car is still a necessity for many to get to a transit station or to run daily errands.

Ride-sharing presents another interesting issue. First, an important caveat: at the time of the initial University of Michigan study, ride-sharing platforms were not nearly as prevalent as they are today, so their effects during the sample period were likely limited. Insofar as the current situation is concerned, **research has shown that ride sharing has become a substitute to public transit use, rather than a replacement for vehicle ownership.** A study conducted by UC Davis³ found that 90% of ride-sharing users have not been influenced to change their vehicle ownership decision, a finding backed by trip data which showed that the majority of rides were to restaurants, bars, parties or cafes. Furthermore, the study found that the majority of these trips would have alternatively been made by transit, cycling or walking, suggesting that ride-sharing is actually adding to congestion. A more recent survey conducted by the Pew Research Center⁴ found that while adoption of ride sharing services has more than doubled in the past five years (to 36% of the population), over two thirds of users utilize the service less than once per month. In fact, only 4% of the U.S. adult population use ride-sharing apps on a weekly basis, largely unchanged from the last poll conducted in 2015. Therefore, **ride-sharing doesn't yet appear to be a significant factor in the vehicle market**, though advances in autonomous driving could drive structural change in the next decade.

Bottom Line: Structural and cyclical economic factors have altered the behaviour of young drivers, but a sea-change in vehicle ownership trends is unlikely in the near-term. Simply put, millennials and generation-Z are pushing the pursuit of a license and the purchase of a vehicle later in life based on the employment opportunities available. On the other hand, older drivers are driving for longer, keeping the aggregate driving population roughly in line with historical norms. This helps to explain the steady upward creep in luxury sales and general shift in composition towards the higher-end being witnessed across all brands. **More broadly, the focus on shifting trends between demographic brackets isn't what's most important; rather the fact that U.S. population growth is at its lowest level in modern history presents a far greater issue for industry prospects in the medium term.**

³ Clewlow, R. R., & Mishra, G. S. (2017, October). Disruptive Transportation: The Adoption, Utilization, and Impacts of Ride-Hailing in the United States. Retrieved from <https://steps.ucdavis.edu/new-research-ride-hailing-impacts-travel-behavior/>

⁴ Jiang, J. (2019, January). More Americans are using ride-hailing apps. Retrieved from <https://www.pewresearch.org/fact-tank/2019/01/04/more-americans-are-using-ride-hailing-apps>

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