

# What Happened to Household Formations?

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Despite the drop in housing production over the past couple of years, the number of vacant units has shown little change and there has been no upward pressure from demand on prices and rents. That's largely because the rate of increase in the number of households has fallen even more sharply than construction of new housing units. For the year ending in March 1990, the number of households increased by only 517,000, down from 1,764,000 in the previous year.

Figure 1 shows the net change in the number of households in each of the last 20 years. Except for the year ending March 1983 (which coincided with the trough of the severe 1981-1982 recession) net household formations were lower in 1990 than in any year since 1963. Although the household estimates are based on a survey and subject to substantial sampling error, there is little doubt that a sharp decline in net household formations did occur. That decline occurred prior to the current recession, during a period when the unemployment rate averaged only 5.3 percent, the lowest for any year since 1973. Thus, there is no obvious economic explanation for the drop.

## Household Types and Headship Rates

A household is defined as a person or group of people who occupy a housing unit, so the number of households is equal to the number of occupied housing units. Each household is said to have one "householder" or "head," generally the primary owner or lessee. Of the 93,347,000 estimated households in March 1990, 56 percent were headed by married couples (with either the husband or wife designated as householder), 15 percent were other types of family households (mainly single parents), 25 percent were people living alone, and 5 percent were households with two or more nonrelatives.

Table 1 shows the net change in each of these four types of households over the past five years.

The total number of households in each age group depends on the population in the age group and the propensity of people in that age group to establish their own households. That propensity is measured by the headship rate—the percentage of people in that age group who are heads of households. Table 2 shows headship rates by age for selected years.

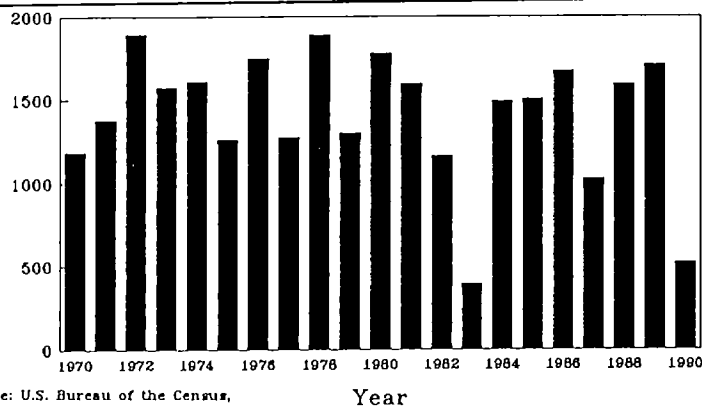
Headship rates are higher for older age groups than for younger ones, and headship rates have generally increased for older age groups during the last decade. That reflects both increased relative income of older groups and the delayed effect of the sharp rise in divorce rates in the 1960s and 1970s. Increasing shares of the middle-aged population consist of people who became divorced as young adults and who did not remarry.

Headship rates for younger age groups have not increased over the past decade, unlike in the 1970s. Divorce rates have leveled off, marriages have occurred at older ages, and adult children have remained longer in their parents' homes. Moreover, weak income growth among younger people has discouraged independent living.

Changes in the number of households will reflect changes in the age distribution within the adult population as well as changes in the overall size of the adult population and changes in headship rates. As the baby boom moves into middle age, the adult population is getting older. Since headship rates are higher for older age groups, the aging of the adult population should contribute to growth in the number of households and raise the ratio of total households to total adult population.

The percentage point changes in headship rates between 1989 and 1990 may not look very big, but even a small change in the headship rate represents a large number of households. If there had been no change in headship rates by age between March 1989 and March 1990, the changes in the population in each age group would have translated into an increase of 1,262,000 households, rather than the actual change of 517,000. The headship rate changes between 1970 and 1980 added more than four million households.

**Figure 1 Annual Change in Households (Year Ending in March—000s)**



Source: U.S. Bureau of the Census, Current Population Reports Series P20, No. 447.

**Table 1 Change in Number of Households by Type (Year Ending March 1)**

	(Numbers in Thousands)				
	1986	1987	1988	1989	1990
Married Couple	583	604	272	425	217
Single Parent/Other Family	269	329	370	208	36
Living Alone	576	-50	761	775	291
Nonfamily (2+ persons)	242	138	184	300	-28
<b>TOTAL</b>	<b>1669</b>	<b>1021</b>	<b>1587</b>	<b>1706</b>	<b>517</b>

Source: U.S. Bureau of the Census, *Current Population Reports, Household and Family Characteristics (P-20, No. 447)*.

## Gross Household Formations

The net increase in the number of households is the result of a dynamic process. New households are formed when children leave their parents' homes, roommates split up, marriages dissolve, and doubled-up families and individuals are able to obtain separate housing units. Other households disappear as people die, move into institutions, marry, or decide to live together.

The gross flows of household formation and dissolution are not measured on a regular basis, but data from the Census Bureau's *American Housing Survey* indicate that in both 1985 and 1987 about 3.5 million of the households that moved into homes and apartments did not include anyone who was the householder in their previous residence. If this measure of gross household formations is compared with the net change measured by the Census Bureau's *Current Population Survey*, it suggests that about two million households were dissolved in each year to offset the new formations.

Newly formed households are usually renters rather than home buyers. The *American Housing Survey* data indicate that only 9 percent of

newly formed households were owners.

## Nonheads

People who are not householders generally live in households headed by other people, although about 2 1/2 percent live in institutions, on military bases, or in various types of group quarters. Table 3 shows the distribution of living arrangements by age for both householders and non-householders, based on 1990 data.

Most nonhouseholders live in households headed by a spouse or parent. For the total adult population, the

number of spouses of heads of married-couple households must equal the number of heads of married-couple households, although that will not be true for each age group, because spouses are often not the same age. In 92 percent of the married couple households in 1990, the husband was designated (by the survey respondents) as the householder. Married couples have declined as a share of total households, and the proportion of people living in households headed by a spouse has therefore declined as well.

Throughout the past decade, and in the 1970s as well, the share of adult children living with their parents has been trending upward. Even among the 35 to 44 age group, the share living in a household headed by a parent was 4.4 percent in 1990, up from about 3 percent in 1980. For the 25 to 34 year olds, the share living with parents rose from about 8 percent in 1980 to 11.3 percent in 1990. Men are far more likely to live with parents than women of the same age. Increases in the share of adult children living with parents, especially among those over 30 years old, were a factor in the 1989-1990 slowdown in net household formations.

The share of people living in households headed by a sibling, child,

**Table 2 Headship Rates by Age**

Age	1970	1980	1985	1988	1989	1990
15-19	1.9%	3.1%	2.3%	2.5%	3.0%	2.7%
20-24	24.5%	27.7%	23.6%	24.5%	25.7%	24.8%
25-34	47.0%	49.9%	47.6%	47.0%	47.5%	46.6%
35-44	51.2%	54.5%	55.4%	55.0%	55.0%	54.7%
45-64	55.1%	56.6%	57.2%	57.8%	57.8%	57.8%
65+	62.3%	64.8%	63.9%	64.3%	63.9%	64.2%

Source: U.S. Bureau of the Census. Households based on data in *Current Population Reports, P-20, No. 447* and earlier reports. Population from 1970 and 1980 Decennial Censuses and *Current Population Reports, P-25, Nos. 1018 and 1057*, with July population (total, including armed forces) interpolated to create March values.

**Table 3 Living Arrangements by Age**

	15-19	20-24	25-34	35-44	45-64	65+	Total Over 15
<b>Householders:</b>							
Married Couple	0.6%	8.2%	25.9%	34.8%	37.0%	28.3%	26.7%
Single Parent/Other Family	1.0%	5.6%	7.9%	9.6%	7.8%	5.8%	7.0%
Living Alone	0.6%	5.9%	9.0%	8.3%	11.8%	29.2%	11.7%
Nonfamily (2+ persons)	0.6%	5.1%	3.7%	1.9%	1.2%	0.8%	2.2%
<b>Total Householders</b>	<b>2.7%</b>	<b>24.8%</b>	<b>46.6%</b>	<b>54.7%</b>	<b>57.8%</b>	<b>64.2%</b>	<b>47.6%</b>
<b>Others in Households:</b>							
Spouse of Householder	1.6%	13.7%	29.8%	34.5%	35.3%	22.0%	26.7%
Child of Householder--	84.4%	41.1%	11.3%	4.4%	1.6%	0.2%	15.3%
Not in Subfamily	83.0%	38.7%	9.7%	3.8%	1.5%	0.2%	14.4%
In Subfamily	1.5%	2.4%	1.7%	0.7%	0.2%	0.0%	0.9%
Other relative (not subfamily)	4.5%	4.7%	2.2%	1.3%	1.9%	5.9%	3.0%
Unrelated Individual	2.9%	9.5%	6.5%	3.2%	1.9%	0.9%	3.8%
Members of Subfamilies--	3.5%	4.5%	3.5%	1.5%	0.8%	0.7%	2.1%
Related Subfamily	2.9%	3.9%	2.8%	1.1%	0.8%	0.6%	1.8%
Unrelated Subfamily	0.6%	0.6%	0.7%	0.3%	0.1%	0.0%	0.3%
<b>Not in Households:</b>							
Group Quarters	0.3%	0.3%	0.2%	0.1%	0.2%	0.3%	0.2%
Military/Institutional	1.5%	3.9%	1.7%	1.1%	0.6%	5.9%	2.2%
<b>Total Population Over 15</b>	<b>17,537</b>	<b>18,716</b>	<b>43,976</b>	<b>37,596</b>	<b>46,825</b>	<b>31,410</b>	<b>196,058</b>

*Source: Living arrangements data from U.S. Bureau of the Census, Marital Status and Living Arrangements: March 1990 (forthcoming). Population estimates (including institutional and military) based on Current Population Reports, P-25, Nos. 1018 and 1057.*

grandparent, or other relative is greatest for the youngest and oldest age groups. But while the trend in that share has been increasing for the younger age groups, it has been declining for older groups as fewer old people move into households headed by their children.

Unrelated individuals who are not householders usually live in non-family households as partners or roommates, although many live in other family households. With the growth in nonfamily households over time, the number of unrelated non-householder individuals has grown. In

1989-1990, there was a large increase in the number of individuals living with families to which they were not related. In many cases, those were single-parent families.

Table 3 shows the number of non-heads who are members of subfamilies. A subfamily is a married couple or single-parent family living in a household headed by someone else. In 1990, there were 2.9 million subfamilies, containing 4.1 million people who were 15 years old or older and about three million children younger than 15 years old. In most cases, one

of the members of the subfamily was related to the householder.

The number of subfamilies grew sharply in the early 1980s, and more slowly since then. Single mothers have accounted for most of the increase, but the number of married-couple subfamilies has also grown. The total number of subfamilies increased by 186,000 in the 1989-1990 period, compared to a decline of 41,000 in the previous year. Most of that 1989-1990 increase in the number of subfamilies was due to growth in the number of married-couple subfamilies, which increased from 824,000 to 939,000.

## Measurement Error?

Annual and monthly estimates of the number of households are based on information from the Census Bureau's *Current Population Survey*. Although the survey involves interviews with nearly 60,000 households, sampling error is relatively large compared to the estimated annual change. The estimated standard error for the annual change in the number of households is slightly more than 300,000. That means that the estimated 1989-1990 increase of 517,000 is just barely significant at a 90 percent confidence level. In other words, there is a chance of almost one in ten that the estimated change could have been that large when the actual change was zero. There is, however, little likelihood that the estimates would have shown such a large decline from the preceding year's estimated growth of nearly 1.8 million simply due to random sampling error.

The recent slow rate of net household formations is partly attributable to the extraordinary increases in 1987-1988 and 1988-1989. In those years, net household formations were far in excess of the long-term trend, and the pent-up potential for further increases was eroded. Indeed, in the three-year period ending in March 1990 the average annual growth in the number of households was 1.27 million, slightly

above the long-term growth rate implied by the changes in population by age under constant headship rates, so the latest year's slow growth can be interpreted as merely bringing things back into line.

Another potential explanation for a slowdown in the growth of the number of households is that more people have become homeless. The methodology used to construct the household estimates, however, essentially assumes that there aren't any people who don't fall within one of the categories shown in Table 3, so if there was an increase in homelessness in 1989-1990, the statistics wouldn't measure it.

## The Future

If people weren't forming households in 1989-1990, what were they doing? Statistics on living arrangements show that they were "doubling up" in a variety of ways. While some of the changes in living arrangements, such as single young adults moving back in with parents, could possibly be attributed to changes in attitudes or tastes, other changes are less likely to have been expressions of preferences. The percentage of married couples without their own households was the highest in 25 years. There were more subfamilies and unrelated individuals living with families, fewer young people living alone, more living with

siblings or other relatives. That's the sort of behavior one would expect in response to economic adversity, rather than as a result of social changes like the bridging of the generation gap. But the level of economic adversity during the period was limited—real rents were falling in most places, and the unemployment rate was unusually low. What will they do now that the economy is in recession?

Monthly estimates of the number of households, from the monthly *Current Population Survey*, indicate that there was some recovery in the rate of net household formations during late 1990, but the growth has remained below the 1.2 million annual rate that should occur if headship rates by age were unchanged. For the 12 months ending in December 1990, the net increase was measured as 911,000. With rising unemployment, weakness in real incomes, and a lack of consumer confidence, the short-term prospects for growth are not very good.

Doubling-up now, however, creates a potential for a burst of household formations later, as the economy recovers. In 1992 and 1993, the net increase in the number of households could easily exceed 1.5 million annually, before settling down to an average of about 1.15 million for the remainder of the decade.

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