

LMI

Survey

LOW- AND MODERATE-INCOME POPULATIONS AND
SERVICE ORGANIZATIONS IN THE TENTH DISTRICT

FEDERAL RESERVE BANK *of* KANSAS CITY

2012

SUMMARY

Indicators of economic and financial conditions in the Tenth District's low- and moderate-income (LMI) community continued to improve at a significant pace in the first quarter. While the broadest measure of economic conditions maintained a reading below neutral, and the demand for services continued to grow, results for the more narrow indexes and comments from survey respondents revealed a largely positive outlook. Expectations for the second quarter suggest improving economic conditions in the LMI community in the near term.

The jobs index enjoyed a substantial boost and settled above neutral for the first time in the three-year history of the survey. As the key driver in determining LMI financial status, employment gains are likely to be reflected in broader assessments of LMI economic conditions going forward. The availability of affordable housing was stable, although important concerns remain. Access to credit continued to tighten (index remains below neutral), but the index continues to make progress toward neutrality.

Although the funding situation for organizations serving the LMI community has yet to recover, the capacity to provide services has been consistent, as indicated by a neutral index.

DETAILS

The LMI Financial Condition Index, which represents the broadest measure of the financial status of the LMI population in the Tenth District, increased substantially in the first quarter, from 57.0 to 77.8, the highest level recorded in the survey since it began in the first quarter of 2009.¹ The job market outlook was much brighter, which is the key factor moving the index. Still, most survey respondents noted an inadequate number of employment opportunities, and the index continues to reflect some degree of deterioration in LMI financial conditions. Higher prices for necessities such as food, rental housing and gasoline, combined with flat incomes, were a major culprit keeping the index below neutral. But the significant cloud of pessimism permeating the survey has largely lifted, and expectations continue to march toward neutral.

Another broad indicator of the economic status of the LMI community is the LMI Service Needs Index, which has consistently lagged other LMI indicators over the three-year history of the survey. A substantial number of survey respondents continued to report increased demands for their services in the first quarter, yielding an index value of 55.3, still well below neutral.² Public sector budget cuts steered LMI families to the nonprofit sector for needed services. Also reported to drive increased demand for services was a greater incidence of people qualifying as low-income, a requirement to receive many types of services. Increased needs were commonly reported in job training, as employment opportunities begin to

grow, and assisting LMI consumers to repair damaged credit histories and better manage their personal finances. A large number of contacts reported transportation issues were hindering LMI people in maintaining employment and meeting their daily needs. In past surveys, little mention has been made of transportation problems.

The LMI Job Availability Index surged above neutral in the first quarter, following substantial improvement in the previous quarter. The indexes that compare job availability with the previous quarter and previous year both exceeded the neutral level for the first time since the survey commenced in the first quarter of 2009. Expectations, at 119.8, were solidly in the camp for near-term growth in LMI employment.

Job openings were reported to be especially common in the construction and retail industries. Many survey respondents also noted increased employment opportunities from seasonal demand. Especially critical for the LMI population is that a significant number of these new jobs were entry level, as many LMI workers have limited job skills and training. Business confidence was offered as an important factor underpinning this growth. Several survey respondents reported an increase in business start-ups. Some concerns were expressed at the low wages and limited opportunities for advancement associated with many of the new jobs, however. A lack of skills and histories of substance abuse and criminal activity have hindered a number of LMI workers from taking advantage of expanded employment opportunities.

The LMI Affordable Housing Index was largely flat in the first quarter and remains modestly below neutral. The outlook on home buying was largely negative. District contacts reported that many of their constituents are saddled with (non-mortgage) debt, while stagnant incomes in the face of higher living expenses deter others from homeownership. These economic issues are impacting

those seeking affordable rental housing as well. Increasing rents, along with higher scrutiny from landlords, continue to thwart prospective LMI tenants. The break up of previously “doubled up” households has left additional families looking for housing in an already stressed rental market. A significant majority of survey respondents reported stability in the availability of affordable housing, despite the many challenges.

The LMI Credit Access Index advanced more strongly in the first quarter after several quarters of minimal gains. Although the index reveals continued tightening in access to credit, about 75 percent of survey respondents reported little change. Tight credit conditions were reported for would-be homeowners and consumers, but also for small businesses, especially start-ups. As has been common over the course of the survey’s history, District contacts expressed concerns about LMI borrowers turning to alternative financial institutions, such as payday lenders. Indeed, one of the few contacts who reported that access to credit had improved noted that increased access had largely come in the form of payday loans.

The LMI Organization Funding Index stagnated in the first quarter following a significant turnaround in the fourth quarter. The index suffered a substantial decline early in the economic recovery and has yet to return to its late 2009 high. Some of the funding problems have been linked to extensive public sector budget cuts. Several organizations have sought new funding sources, and in some cases, new funding models, to alleviate budget concerns. Others have pooled resources. Despite funding constraints, most organizations responding to the survey were neutral in their assessment of their capacity to provide services, which reflects stability in nonfinancial resources, such as volunteer support.

ENDNOTES

¹The index can range from 0 (most deterioration in conditions) to 200 (most improvement in conditions), where a value of 100 is neutral.

²An increase in the demand for services causes a decrease in the index.

About the Survey

The quarterly LMI Survey measures the economic conditions of low- and moderate-income populations in the Tenth Federal Reserve District and the organizations that serve them. LMI individuals have incomes below 80 percent of the area median income, which is defined as the metropolitan median income for urban residents and state median income for rural residents. Survey results are used to construct five indicators of economic conditions in LMI communities and two indicators of the condition of organizations that serve them. The goal is to provide service providers, policymakers and others a gauge to assess changes in the economic conditions of the District’s LMI population over time.

DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS*

Perception of current conditions relative to conditions in the previous quarter				
LMI Index	1st Qtr 2012	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
Quarter Surveyed				
LMI Financial Condition Index	77.8	57.0	47.3	42.4
LMI Service Needs Index	55.3	48.3	31.0	41.1
LMI Job Availability Index	105.6	93.3	76.2	82.0
LMI Affordable Housing Index	90.3	87.6	74.8	86.8
LMI Credit Access Index	77.6	66.4	63.4	60.5
LMI Organization Capacity Index	102.8	97.2	92.0	86.0
LMI Organization Funding Index	80.5	83.3	67.6	68.4
Perception of current conditions relative to conditions 1 year ago				
LMI Index	1st Qtr 2012	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
Quarter Surveyed				
LMI Financial Condition Index	71.7	49.5	34.2	38.5
LMI Service Needs Index	43.4	31.6	26.4	32.8
LMI Job Availability Index	109.3	90.0	71.2	79.4
LMI Affordable Housing Index	90.1	89.3	75.2	81.9
LMI Credit Access Index	68.8	49.0	47.7	49.3
LMI Organization Capacity Index	99.3	91.7	88.3	88.9
LMI Organization Funding Index	72.0	65.7	50.9	56.2
Expectation in the current quarter for conditions in the next quarter				
LMI Index	1st Qtr 2012	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
Quarter Surveyed				
LMI Financial Condition Index	88.5	87.1	60.2	68.1
LMI Service Needs Index	63.1	50.4	52.3	59.6
LMI Job Availability Index	119.8	112.1	90.5	96.6
LMI Affordable Housing Index	93.5	97.7	84.2	92.0
LMI Credit Access Index	89.4	78.2	67.0	73.8
LMI Organization Capacity Index	105.2	97.8	89.3	96.9
LMI Organization Funding Index	86.2	90.8	77.3	81.7
151 responses				

* Providers of services for the LMI population responded to each item by indicating whether conditions during the current quarter were “higher” (or “better”) than, “lower” (or “worse”) than, or the same as in the previous quarter or year. The index numbers are computed by subtracting the percent of service providers that responded “lower” (or “worse”) from the percent of service providers that responded “higher” (or “better”) and adding 100. The exception is the LMI Service Needs Index, which is computed by subtracting the percent of service providers that responded “higher” (or “better”) from the percent of service providers that responded “lower” (or “worse”) and adding 100 to show that higher needs translate into lower numbers for the index.

For questions or comments, or if you provide services to LMI people and would like to participate in the survey, please contact Kelly Edmiston at Kelly.Edmiston@kc.frb.org.