

LMI

Survey

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

FEDERAL RESERVE BANK *of* KANSAS CITY

2012

SUMMARY

Economic and financial conditions in the low- and moderate-income (LMI) community remained fairly steady in the fourth quarter, with generally moderate movement in the indexes. Although steady, the indexes largely remained below neutral. Indexes reflecting funding and nonfinancial capacity surged to near or above neutral.

While most indexes reflecting economic conditions for the LMI community remained below neutral, in all cases the majority of respondents reported stability, which may portend future improvements. Most critically, the jobs indexes were all at or above neutral. Because the employment situation is critical in determining the demand for services, access to credit, and housing security, better labor market prospects could improve these conditions over time.

While organizations' funding surged in the fourth quarter, first-quarter expectations were much lower, suggesting that end-of-year giving may have played a role in the surge. The index comparing the fourth quarter to year-ago levels also was little changed, again reinforcing the notion that the surge could reflect typically stronger end-of-year giving. Nonfinancial capacity was above neutral across indexes, however.

DETAILS

The LMI Financial Condition Index declined moderately in the fourth quarter, from 74.6 to 68.7. Although the index remained well below neutral, indicating a continued assessment of worsening conditions on the part of survey respondents as a whole, over 60 percent of respondents reported stable conditions, and the index remained well above its levels during the recession and early in the recovery. The most common concern expressed by survey respondents was the uncertainty around U.S. fiscal conditions; not only recent cuts in spending, but the potential impact of a spending sequester in March or other future cuts. The uncertainty regarding potential fiscal actions on the LMI community and on the availability of funds and services also likely dampened expectations, as the index reflecting first quarter projections fell from 86.9 to 76.0. While labor market conditions are typically the most critical factor driving overall impressions of economic conditions, and they remain at or above neutral across indexes, a number of contacts lamented stagnant wages in the face of higher prices for some necessities, in particular rental housing. Contacts also continued to report concerns about the lack of affordable credit and assisted housing for many of their clients.

Another broad measure of overall economic and financial conditions in the LMI community is the LMI Service Needs Index, which fell for the second consecutive quarter to 47.8, well below its neutral value. The index reflects the demand for services provided by organizations responding to the survey. As noted in previous surveys, a significant factor explaining the continued increases in demand for services, well into the recovery, has been the exhaustion of resources by the long-term unemployed, including, for some, unemployment compensation. Another factor noted by several contacts was cuts in government agency budgets, which have reduced the availability of public services for a number of their clients. An often-cited example was Medicaid. Many people affected by cuts have turned to social service agencies. Several contacts reported increased demand for utility and food assistance, but housing assistance was the form of assistance most commonly reported to be in high demand. Increased needs for indigent health care also were noted.

The LMI Job Availability Index dipped modestly in the fourth quarter, but remained in neutral territory. The index which reports assessments of current conditions relative to one year ago reached a peak, rising into solidly positive territory at 111.9. The next-quarter outlook also was in positive territory.

A special question included in the fourth quarter survey asked respondents about the types of jobs becoming available for LMI workers and potential problems getting LMI workers into those jobs. The responses largely reflected a polarization in the labor market. On one hand, there are jobs becoming available for which LMI workers lack the necessary training and experience, and many contacts reported a substantial need for workforce training in the LMI community. On the other hand, a number of service and retail sector jobs are becoming available for which most LMI workers qualify, but these jobs generally pay low wages and provide few fringe benefits, if any. Some contacts also noted an increased availability of call center and manual labor jobs, and a small number reported some limited availability of manufacturing jobs, which often offer better pay. Respondents noted that many jobs are part-time, seasonal, or temporary, which limits the workers' ability to meet living expenses. The hospitality industry appears to be the prime source for

new jobs for LMI workers. The most commonly cited impediments to job access, outside of insufficient training and experience, were work ethic, drug testing, lack of transportation, and family concerns.

The LMI Affordable Housing Index rose moderately in the fourth quarter from 81.9 to 87.7. As with other indexes generated from the survey, the LMI Affordable Housing Index reflects changes in conditions, and thus, the index does not address the sufficiency of the current stock of affordable housing to meet current needs. Most survey respondents, indeed, suggested that the stock of affordable housing is inadequate. One respondent noted the impending opening of a 60-unit complex with a waiting list of 250 tenants. Large numbers of contacts continued to report rising costs for rental housing as well. Still, almost 80 percent of survey respondents suggested that the affordable housing situation is stable: it is not getting worse. Some contacts noted that as funds have become less available to many organizations, resources have shifted away from permanent housing solutions to emergency needs, such as shelters and other forms of temporary housing. Other organizations have shifted resources from homeownership programs to rental housing.

The LMI Credit Access Index nudged forward in the fourth quarter to 82.1 from 77.3. As typical in LMI Survey comments, contacts lamented the lack of access to traditional credit sources and the resulting use of alternative financial institutions, such as payday lenders. Survey respondents have increasingly expressed concerns about access to capital for small businesses, especially in the most recent survey, while in the past, reflections on credit access have focused almost exclusively on home buying and consumer credit. Recent reports on small business credit, while generally negative, may reflect a silver lining to the extent these concerns reflect increased small business interest and activity among the LMI and other, typically less-advantaged groups. Still, the lack of access to credit for potential homeowners and consumers remained a significant concern among survey respondents.

The LMI Organization Funding Index surged in the fourth quarter from 75.0 to a near-neutral 93.9, while the index reflecting next-quarter expectations fell from 89.6

to 78.6. This pattern suggests that end-of-year giving may have played a large role in fourth quarter results. In general, however, comments suggested that funding for organizations is tight. Among the reasons offered for tighter budgets were declines in public funds, the reduced ability to charge fees for some services because of tighter financial constraints on clients, and cuts in grant funding. Although funding is reported to be tight, nonfinancial resources appear to be more stable, with the LMI Organization Capacity Index advancing sharply into positive territory

from 88.7 to 109.6. Next-quarter expectations were also well above neutral for nonfinancial capacity.

A special question in the fourth quarter survey asked how those who have experienced decreased funding have addressed the issue. Several reported that they have sought other sources of funding, engaged in capital campaigns, or have dipped into assets and reserves. Others noted that they have cut programs. A significant number of survey respondents reported “doing more with less,” including increased use of volunteers and “stretching staff.”

ENDNOTES

¹The index can range from 0 (most deterioration in conditions) to 200 (most improvement in conditions), where a value of 100 is neutral. In this case, a larger number of respondents (34.8 percent) reported that conditions had worsened than reported that they had improved (3.5 percent), leading to the consensus reading below neutral.

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

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.

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DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS*

		Perception of current conditions relative to conditions in the previous quarter			
LMI Index	Quarter Surveyed	4th Qtr 2012	3rd Qtr 2012	2nd Qtr 2012	1st Qtr 2012
		LMI Financial Condition Index	68.7	74.6	80.6
LMI Service Needs Index	47.8	53.3	59.8	55.3	
LMI Job Availability Index	98.2	103.0	104.9	105.6	
LMI Affordable Housing Index	87.7	81.9	86.6	90.3	
LMI Credit Access Index	82.1	77.3	73.6	77.6	
LMI Organization Capacity Index	109.6	88.7	87.2	102.8	
LMI Organization Funding Index	93.9	75.0	78.2	80.5	
		Perception of current conditions relative to conditions one year ago			
LMI Index	Quarter Surveyed	4th Qtr 2012	3rd Qtr 2012	2nd Qtr 2012	1st Qtr 2012
		LMI Financial Condition Index	71.3	69.2	70.5
LMI Service Needs Index	36.0	39.9	51.7	43.4	
LMI Job Availability Index	111.9	105.5	104.1	109.3	
LMI Affordable Housing Index	77.1	87.1	80.5	90.1	
LMI Credit Access Index	78.6	72.2	73.0	68.8	
LMI Organization Capacity Index	101.8	85.6	84.8	99.3	
LMI Organization Funding Index	77.4	72.7	66.1	72.0	
		Expectation in the current quarter for conditions in the next quarter			
LMI Index	Quarter Surveyed	4th Qtr 2012	3rd Qtr 2012	2nd Qtr 2012	1st Qtr 2012
		LMI Financial Condition Index	76.0	86.9	86.7
LMI Service Needs Index	54.0	51.5	58.5	63.1	
LMI Job Availability Index	109.4	113.0	101.0	119.8	
LMI Affordable Housing Index	88.9	95.6	96.1	93.5	
LMI Credit Access Index	87.1	84.1	87.1	89.4	
LMI Organization Capacity Index	110.0	95.7	100.9	105.2	
LMI Organization Funding Index	78.6	89.6	78.4	86.2	
115 responses					

* Providers of services for the low- and moderate-income 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.

A value of 100 is neutral in the indexes. Any number below 100 indicates that the overall assessment of survey respondents is that conditions are worsening. Thus, for example, an increase in the index from 70 to 85 would indicate that conditions are still deteriorating, by overall consensus, but that fewer respondents are reporting worsening conditions. Any value above 100 indicates improving conditions, even if the index has fallen from the previous quarter.