

LMI

Survey

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

FEDERAL RESERVE BANK *of* KANSAS CITY

2013

SUMMARY

Economic conditions in the low- and moderate-income (LMI) community largely deteriorated in the fourth quarter, but for most indicators, declines were moderate. The LMI Financial Condition Index, the broadest measure of economic conditions in the LMI community, dropped sharply, and thus, the overall assessment of survey respondents was much weaker. But at the same time, the LMI Service Needs Index, another broad measure of economic conditions, increased substantially. Still, it remained well below neutral, indicating demand for services continues to increase.

The jobs index continued to perform well, advancing to just above neutral. The quarter-ahead outlook for job availability surged into positive territory, meaning the overall view of survey respondents was for more jobs in the near term. LMI labor market performance typically contributes significantly to overall assessments of economic conditions, suggesting broader indexes may improve over the next few quarters.

The affordable housing index changed little and continued to hover just below neutral, though most contacts suggested the stock of affordable housing is inadequate. The credit index fell fairly significantly and performed poorly relative to other quarters in 2013, but remained well above previous years' values.

The organization funding index was near neutral, but most contacts reported a need for more funds. Contacts indicated the need for funds generally has not kept them from providing needed services, however.

DETAILS

Many survey contacts were added to the survey pool in the fourth quarter, and the number of responses increased by 150 percent from the third quarter. Most fourth-quarter numbers were in line with the previous quarter, so the addition of new survey respondents did not seem to significantly skew existing trends.

The LMI Financial Condition Index, the broadest assessment of economic conditions in the LMI community, fell substantially in the fourth quarter from 81.1 to 69.2.¹ That reading almost matched the level in the fourth quarter of 2012, from which it had made moderate gains until recently. The Financial Condition Index also dropped in the third quarter, but not as sharply. Long-term unemployment was mentioned as an important factor affecting the overall assessment of financial conditions. Other concerns expressed by survey respondents included a lack of funds for affordable housing; meeting the borrowing needs of low-wealth households, including business credit; the need for training; low wages; and healthcare. Fewer respondents reported concerns about the federal fiscal situation than had in recent quarters.

The Service Needs Index, another broad measure of economic conditions in the LMI community, rose sharply from 44.7 to 59.7. Still, the index remained well below neutral, indicating continued increases in the demand for services for most survey respondents.

Several contacts reported the lack of “livable wages” and wage stagnation as major factors in the increased demand for services. One survey respondent noted that formal and informal support systems (such as family, neighbors and friends) were becoming “overloaded” and increasingly stressed. As noted in most past surveys, contacts associated increased demand for services with long-term unemployment. Several mentioned the loss of unemployment compensation. Utility costs associated with unusually cold weather led many LMI families to seek services from organizations responding to the survey. Providers of health services to LMI people indicated a lack of health insurance increased demand for their services. Others noted a lack of government services had increased demand, with a few referring to state and federal political systems as “broken” and significantly affecting much needed “welfare” programs. Finally, some contacts noted that some constituents just exceeded income limits for federal programs, leading them to seek necessary services elsewhere.

The LMI Job Availability Index remained near neutral in the fourth quarter, advancing moderately from 98.9 to 105.7. Still, some contacts reported job losses in their community. The forward-looking index surged into positive territory, suggesting many survey respondents expected jobs to be more available in the near term. This assessment was reflected in survey comments as well, though many also lamented the low wages associated with most of these jobs.

Several survey respondents advocated an increase in the minimum wage, with most suggesting the increase should yield a “livable wage.” A number of contacts were concerned about the hard-to-employ, in particular, ex-offenders and the long-term unemployed. An especially large number of contacts noted the need to find ways to employ ex-offenders. Several survey respondents lamented income inequality, adding that income inequality was a drag on the economy. Contacts also expressed concern about the loss of public assistance when securing employment. Several contacts noted the lack of adequate transportation and the need for and expense of childcare as impediments to employment for many LMI workers. Typical of the LMI surveys, contacts noted a significant need for education and training for LMI workers. Recent job openings have tended to be either high-skilled, high-

paying jobs or low-skilled, low-paying jobs. Without adequate education, training and experience, LMI workers generally have qualified only for low-paying jobs.

The LMI Affordable Housing Index changed little in the fourth quarter, hovering just below neutral. Affordable housing is a substantial concern among survey respondents. Indeed, most general comments in the survey focused on housing issues. Some contacts noted that increased home prices and “anticipated increases in mortgage rates” were making owner-occupied housing less affordable. (Data, however, suggest home prices have increased only modestly in most areas.) Difficulties in securing funding for homeownership were mentioned by several survey respondents. Some contacts noted funding for rehabilitation of single-family homes had declined, due largely to the expiration or elimination of dedicated programs. One contact noted that for most LMI homeowners, earnings must be used entirely to pay for basic expenses, leaving little or nothing for maintenance.

Although the affordable housing index was close to neutral, and most survey respondents reported no change in the availability of affordable housing, the stock of affordable housing was viewed by most as inadequate (the index measures changes not adequacy). Many contacts reported there has been very little recent development of affordable housing. For the subsidized housing that does exist, there are often long waiting lists. One contact reported a waiting list of over 2,000 in his community. Finally, many survey respondents reported increased homelessness and insufficient resources to address the problem.

The LMI Credit Access Index fell significantly in the fourth quarter, from 88.0 to 79.7. The index had been just below neutral over the previous three quarters, but now reflects a general assessment of deterioration in the availability of credit to LMI consumers. Contacts were concerned about insufficient credit availability for prospective homeowners, consumers and small businesses. One contact suggested that the implementation of Dodd-Frank had reduced the number of small-balance loans and loans overall, suggesting this would negatively affect the ability of LMI families to purchase a home. Other contacts also were concerned about financial reform. Credit scores and high down payment requirements were

noted as impediments to homeownership. As in most surveys, several respondents lamented the use of payday lenders and other alternative financial institutions by LMI consumers. Some noted the use of these lenders often results in the need for financial counseling. Some contacts reported a need for pilot programs to offset the tighter availability of credit for LMI households. Many survey respondents indicated there is substantial need for financial literacy training and credit counseling.

The LMI Organization Funding Index declined modestly, from 88.2 to 84.3. As reflected in the index values, a number of contacts experienced declines in funding in the previous quarter (29 percent), while a significantly larger share (40 percent) experienced a decline in funding over the past year. While a plurality of survey respondents reported no change in funding, most still felt funding for their organization was inadequate. In previous years, the survey has typically shown a spike in the fourth quarter, reflecting end-of-year giving, but that was not the case in 2013. Funding for organizations that support the

LMI population was near neutral during the depths of the recession and early recovery, and then fell sharply in 2010. The index has made little progress since then. The most commonly cited cause of reduced funding was cuts in government expenditures.

The LMI Organization Capacity Index fell, but stayed in neutral territory. A special question in the fourth quarter survey asked respondents: “If your organization has seen a decline in financing, how has that impacted the services you are able to offer, and how have you responded?” A majority of respondents reported little impact from funding difficulties. In most cases, the lack of a significant impact was due to their ability to use other funding sources. The neutral capacity index likely reflects this reality. Of those affected by funding difficulties, the most common response was a reduction in staff. Also common were reductions in services to the community. Others reported the need to “do more with less.” Many survey respondents expressed a need for additional funding.

ENDNOTES

¹The index can range from zero (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 (roughly 25.3 percent) reported that conditions had worsened than reported that they had improved (about 6.3 percent), leading to the consensus reading below neutral.

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.

DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS*

		Perception of current conditions relative to conditions in the previous quarter			
LMI Index	Quarter Surveyed	4 th Qtr 2013	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013
LMI Financial Condition Index		69.2	81.1	87.5	85.3
LMI Service Needs Index		59.7	44.7	47.3	56.6
LMI Job Availability Index		105.7	98.9	110.4	104.2
LMI Affordable Housing Index		85.7	87.9	83.3	80.2
LMI Credit Access Index		79.7	88.0	82.9	90.6
LMI Organization Capacity Index		99.2	105.3	98.1	98.0
LMI Organization Funding Index		84.3	88.2	77.6	84.0
		Perception of current conditions relative to conditions one year ago			
LMI Index	Quarter Surveyed	4 th Qtr 2013	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013
LMI Financial Condition Index		69.1	82.8	82.5	81.1
LMI Service Needs Index		48.0	46.1	41.7	54.5
LMI Job Availability Index		109.9	122.7	124.0	118.3
LMI Affordable Housing Index		81.6	81.3	90.1	68.9
LMI Credit Access Index		73.2	87.8	80.0	78.4
LMI Organization Capacity Index		98.4	96.8	100.0	94.9
LMI Organization Funding Index		76.7	74.5	72.0	71.0
		Expectation in the current quarter for conditions in the next quarter			
LMI Index	Quarter Surveyed	4 th Qtr 2013	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013
LMI Financial Condition Index		80.6	73.7	96.2	86.1
LMI Service Needs Index		53.0	57.1	46.7	61.6
LMI Job Availability Index		112.4	97.3	110.0	119.5
LMI Affordable Housing Index		88.7	103.8	85.5	95.0
LMI Credit Access Index		79.5	82.2	101.3	97.6
LMI Organization Capacity Index		107.6	92.1	103.4	88.0
LMI Organization Funding Index		97.6	76.6	92.6	76.9

255 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 higher needs translate into lower numbers for the index.

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