

LMI

Survey

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

FEDERAL RESERVE BANK *of* KANSAS CITY

2011

SUMMARY

Indicators of economic and financial conditions in the Tenth District's low- and moderate-income (LMI) community have failed to show significant improvement since late 2010, and in some cases, have retreated moderately. In general, the indicators reveal continued economic stress. While third quarter performance was mixed, the LMI Service Needs Index reflected higher demands for services from a significantly larger share of providers. The affordable housing index also declined significantly. Other indicators showed more moderate changes.

The moderate-paced recovery in the U.S. economy that began more than two years ago slowed sharply in the first half of 2011, and that may be reflected in the perceptions of survey respondents. Job growth has remained sluggish and unemployment high, resulting in the exhaustion of personal financial resources and job prospects for many. Recent retreats in some indicators may therefore reflect the financial stresses that arise from especially long-term unemployment and income loss rather than a shift in the direction of economic activity in the LMI community.

Although organizations responding to the third quarter survey provided a neutral assessment of their capacity to serve their clients, an increasing number reported declines in funding.

DETAILS

The LMI Financial Condition Index, which represents the broadest measure of the financial status of the LMI population in the Tenth District, ticked up modestly in the third quarter to 47.3.¹ But the index remains well below the neutral value of 100, reflecting a persistent decline in the general financial condition of those in the LMI community. The index has failed to recoup losses after falling from 60.4 to 45.2 in the fourth quarter of 2010. Long-term unemployment and underemployment was cited as the chief impediment to recovery.² Among other economic pressures in the LMI community were tight rental markets, diminished credit standing and rising costs for basic needs.

Another broad measure of the economic and financial condition of the LMI community is the Service Needs Index. A large majority of respondents to the third quarter survey reported an increase in the demand for their services, resulting in a very low index value of 31.0.³ The Service Needs Index fell significantly in the latest quarter after barely budging over the previous two-year history of the survey. Numerous survey respondents noted an increase in demand arising from government budget cuts. Also driving increased demand were natural disasters and the exhaustion of unemployment benefits and personal financial resources by the unemployed. Contacts providing assistance to small businesses noted increased demands from transitions of the long-term unemployed to self-employment. As in the

previous quarter, rising costs for food, fuel and healthcare sent clients to community organizations for help with basic needs—many for the first time.

The LMI Job Availability Index dipped downward in the latest survey, but has remained fairly steady over the last several quarters. A large majority of survey respondents continued to report no change in labor market conditions. A number of contacts reported that where jobs are available, LMI workers often do not have the requisite skills, revealing needs for additional workforce development. The lack of job growth has put significant strains on household budgets. Formerly dual-income households are failing to make ends meet with one income. Others are working multiple part-time or temporary jobs as they search for full employment. High unemployment also has depressed the wages of some LMI workers.

The LMI Affordable Housing Index retreated in the third quarter and remained well off of the near-neutral value achieved in the second quarter of 2010. Still, about two-thirds of survey contacts noted stability in the affordable housing sector. The most critical factor affecting the availability of affordable housing was reported to be a tight rental market, generated largely from increased demand. The increase in demand was attributed to expiration of unemployment benefits, the availability of only very low-paying or part-time work, increases in market-rate rents, and continued foreclosure activity. Homeless shelters also saw increased demands. Survey respondents reported that potential homeowners in the LMI community were being

denied credit for only small blemishes in credit history.

The LMI Credit Access Index improved modestly in the third quarter. But at a level well below neutral, the index revealed continued restrictions in access to credit for LMI consumers. Diminished credit histories in the face of higher standards were largely to blame. When credit was available to LMI consumers, the terms were predatory in the view of many District contacts. Unemployment and mortgage delinquencies were important contributors to credit problems. As in past surveys, survey respondents lamented the lack of alternatives to high-cost credit.

Funding for organizations that provide services to the LMI community continued to shrink in the third quarter. While the index changed little, it remains well below its peak in the second quarter of 2010, when it was near neutral. The retreat in the index over the past year reflects a number of factors. Private donations held fairly steady during the recession, but have dropped over the course of the moderate-paced economic recovery. Further, cuts in government budgets, especially at the state and local level, have placed severe financial constraints on organizations that rely heavily on those sources, and alternative resources have been difficult to secure. Most of the organizations which have held reserves have depleted them. Mitigating funding difficulties to some degree, few survey respondents reported significant declines in nonfinancial resources, such as volunteer support. The LMI Organization Capacity Index gapped up to a near-neutral level of 92.0 in the third quarter.

ENDNOTES

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

²The underemployed are employed, but not to their full capacity. Examples are workers who are working part-time, but who would like to work full-time, and workers who are working at jobs that are below their skill levels.

³An 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	Quarter Surveyed	3rd Qtr 2011	2nd Qtr 2011	4th Qtr 2010
		LMI Financial Condition Index	47.3	42.4
LMI Service Needs Index		31.0	41.1	43.8
LMI Job Availability Index		76.2	82.0	80.6
LMI Affordable Housing Index		74.8	86.8	80.6
LMI Credit Access Index		63.4	60.5	55.9
LMI Organization Capacity Index		92.0	86.0	90.3
LMI Organization Funding Index		67.6	68.4	71.2
		Perception of current conditions relative to conditions one year ago†		
LMI Index	Quarter Surveyed	3rd Qtr 2011	2nd Qtr 2011	4th Qtr 2010
		LMI Financial Condition Index	34.2	38.5
LMI Service Needs Index		26.4	32.8	29.6
LMI Job Availability Index		71.2	79.4	69.0
LMI Affordable Housing Index		75.2	81.9	76.4
LMI Credit Access Index		47.7	49.3	47.1
LMI Organization Capacity Index		88.3	88.9	93.2
LMI Organization Funding Index		50.9	56.2	71.2
		Expectation in the current quarter for conditions in the next quarter†		
LMI Index	Quarter Surveyed	3rd Qtr 2011	2nd Qtr 2011	4th Qtr 2010
		LMI Financial Condition Index	60.2	68.1
LMI Service Needs Index		52.3	59.6	57.8
LMI Job Availability Index		90.5	96.6	95.4
LMI Affordable Housing Index		84.2	92.0	91.3
LMI Credit Access Index		67.0	73.8	67.2
LMI Organization Capacity Index		89.3	96.9	95.7
LMI Organization Funding Index		77.3	81.7	81.5
116 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.

† Due to a low number of responses, no report was released for the first quarter of 2011.

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