

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 low- and moderate-income (LMI) community of the Tenth District showed marked improvement in the fourth quarter after sluggish performance over the previous several quarters. All of the indicators trended upward, some by significant amounts. The most general measures of economic conditions remained solidly in negative territory, but many of the more narrow indicators approached neutral readings. Expectations for the first quarter revealed muted optimism and heralded the potential for near-term gains.

The jobs index enjoyed an especially robust advance in the fourth quarter. Improvements in the job market are likely to be reflected in other indexes going forward. The grim assessments of general conditions reported in the survey over its three-year history and increasing demands for support services can be attributed largely to sustained, long-term unemployment.

Organizations providing services in the LMI community conveyed a neutral evaluation of trends in funding and organizational capacity in the fourth quarter. Although declines over the past few quarters may have left many with what they feel are inadequate resources, their situation seems to have stabilized.

DETAILS

The LMI Financial Condition Index, which provides the most general assessment of economic and financial conditions in the Tenth District's LMI community, improved significantly in the fourth quarter from 47.3 to 57.0.¹ Although the advance was substantial, the value of the index remains well below neutral. The reading suggests that the financial status of the LMI community continues to deteriorate, but at a slower pace. Entrenched unemployment remains the chief impediment to financial recovery for the LMI population. Stagnant wages, combined with higher prices for basic necessities such as food and fuel, also hinder recovery.

The Service Needs Index, another broad measure of the economic status of the LMI population, rose substantially from the third quarter but continues to reveal increased demands.² Among the seasonal influences on the index were the holidays, power cut offs following an especially hot (and therefore expensive) summer and workforce housing pressures in rural areas. Longer term issues continue to impact the index as well. Economic conditions were the most cited factor, but government budget cuts also were reported to have increased the demand for services.

The LMI Job Availability Index moved sharply upward in the fourth quarter to a near-neutral reading of 93.3—its highest level since the survey began in the first quarter of 2009. Expectations of job availability for the first quarter of 2012 soared to 112.1, indicating that additional employment opportunities for LMI workers were anticipated in the coming months. The neutral

assessment of current conditions and positive outlook bode well for near-term recovery, but contacts suggested that any recovery will likely be encumbered by a lack of skills among the LMI community's unemployed. When asked about the effect of eroded credit histories on employment opportunities, most survey respondents reported little impact, although some noted isolated cases where clients had failed to secure a position after a credit check. Criminal background checks were reported to be more common and more problematic for LMI applicants than credit checks. Several contacts stated that those who find jobs often earn wages that are insufficient to provide for their basic needs. Jobs for seniors were reported to be in short supply.

The LMI Affordable Housing Index recovered from a significant retreat in the previous quarter. The index, at 87.6 in the fourth quarter, was only modestly below neutral. While few survey respondents reported a decline in the availability of affordable housing, comments suggest that the current stock of affordable housing is inadequate and that significant obstacles remain for LMI families seeking housing, even when low-cost options are available. Rental markets continue to tighten, which has put upward pressure on rents. At the same time, a lack of employment opportunities and relatively low wages have prevented many in the LMI community from securing housing. Poor credit histories continue to impede efforts to secure housing for both renters and prospective homeowners. District contacts reported that a lack of affordable housing has hindered efforts to address homelessness and that multifamily and multigeneration households are common.

While most indicators improved significantly in

the fourth quarter, the LMI Credit Access Index barely advanced. The index remained well below neutral, which suggests that access to credit continued to diminish in the Tenth District's LMI communities. Most survey respondents blamed poor credit histories, often eroded from sustained periods of unemployment. But respondents also argued that tighter lending standards have put borrowing out of reach for many LMI consumers. One District contact reported that LMI borrowers were having more success at local banks than with larger, national financial institutions. Some LMI borrowers have tapped credit from alternative financial providers such as payday lenders, but survey respondents lament their high costs.

The LMI Organization Funding Index robustly changed course in the fourth quarter following nearly two years of continuous decline. Despite this advance, the index remains moderately below neutral. Indeed, only 14 percent of survey respondents reported increases in funding, compared to nearly a third who reported decreases in funding. Few survey respondents commented on their funding experiences in the fourth quarter. Though a holiday bounce is a salient explanation for the surge in the funding index, such a phenomenon has not characterized fourth quarter survey results in the past. District contacts did note a fear that cuts in government funds would continue to erode their budgets. The LMI Organization Capacity Index, which provides an assessment of nonfinancial resources such as volunteer support, gapped up to the neutral level. Some respondents suggested that a lack of coordination and synergy among the various organizations serving similar causes and constituencies has hindered efforts to support LMI communities.

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	Quarter Surveyed	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
LMI Financial Condition Index		57.0	47.3	42.4
LMI Service Needs Index		48.3	31.0	41.1
LMI Job Availability Index		93.3	76.2	82.0
LMI Affordable Housing Index		87.6	74.8	86.8
LMI Credit Access Index		66.4	63.4	60.5
LMI Organization Capacity Index		97.2	92.0	86.0
LMI Organization Funding Index		83.3	67.6	68.4
Perception of current conditions relative to conditions one year ago				
LMI Index	Quarter Surveyed	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
LMI Financial Condition Index		49.5	34.2	38.5
LMI Service Needs Index		31.6	26.4	32.8
LMI Job Availability Index		90.0	71.2	79.4
LMI Affordable Housing Index		89.3	75.2	81.9
LMI Credit Access Index		49.0	47.7	49.3
LMI Organization Capacity Index		91.7	88.3	88.9
LMI Organization Funding Index		65.7	50.9	56.2
Expectation in the current quarter for conditions in the next quarter				
LMI Index	Quarter Surveyed	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
LMI Financial Condition Index		87.1	60.2	68.1
LMI Service Needs Index		50.4	52.3	59.6
LMI Job Availability Index		112.1	90.5	96.6
LMI Affordable Housing Index		97.7	84.2	92.0
LMI Credit Access Index		78.2	67.0	73.8
LMI Organization Capacity Index		97.8	89.3	96.9
LMI Organization Funding Index		90.8	77.3	81.7
119 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.

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.