

LMI

Survey

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

FEDERAL RESERVE BANK *of* KANSAS CITY

2013

SUMMARY

Indicators of economic and financial conditions in the low- and moderate-income (LMI) community were mixed in the first quarter with generally moderate movement in the indexes. A notable exception was in the broadest indicator, the LMI Financial Condition Index, which surged in the first quarter. The growth in this index is a very positive development, as it is a good indicator of the overall perception of survey respondents of the financial well-being of their constituents. Still, the demand for services from survey contacts continues to increase, suggesting that many LMI individuals and families have made little progress during the ongoing recovery.

The job availability index, which is perhaps the most salient of the narrower indicators, continued to show stability in the LMI labor market, and the future outlook was highly optimistic. Job availability is the most critical factor cited by survey respondents in assessing economic conditions. Improved labor market conditions are likely to be reflected in other indicators going forward. The LMI Credit Access Index is now nearing neutral, having performed very poorly over the history of the survey. Affordable housing remained below neutral, reflecting continued high demand and limited capacity to meet that demand.

Both the LMI Organization Funding Index and the LMI Organization Capacity Index fell in the first quarter. Although organizations struggle with funding, the capacity index suggests they are managing to maintain their capacity to serve their clients.

DETAILS

The LMI Financial Condition Index surged in the first quarter of 2013 to 85.3 after experiencing significant declines in the previous two quarters.¹ The previous quarter's value was 68.7. The index, which provides the broadest assessment of economic conditions in the LMI community, is at its highest level since the survey began in the first quarter of 2009. Although the index remains moderately below neutral, reflecting a consensus view of continued deterioration, more than three-quarters of respondents reported stable economic conditions. In recent quarters, concerns about longer-term issues have surfaced increasingly, which could be interpreted as a reduced focus on short term, cyclical economic struggles. In the first quarter, for example, several contacts expressed concerns about healthcare and general education, which has been rare during most of the survey's history.

Another broad measure of economic conditions in the LMI community is the LMI Service Needs Index, which also rose significantly in the first quarter. A rise in this index reflects survey respondents reports of improving conditions, as evidenced by fewer reports of increased demand.

Roughly half of survey respondents reported that the demand for their services had increased over the last quarter and the index remained well below neutral at 56.6. Significantly more contacts reported increased demand over the past year.

As in past surveys, contacts reported long-term unemployment is the most critical ongoing factor related to increased demand for their services as the unemployed exhaust financial resources. In addition, unemployed LMI workers increasingly are losing their unemployment compensation. Low or stagnant wages for employed workers, in conjunction with higher prices for necessities such as food and fuel, also were cited as important. Survey respondents almost uniformly reported that cuts in federal spending on programs for low-income families and “the inability of Congress to pass a sustainable budget” have increased demand for their services. Many respondents expressed concern about how the spending sequester will impact them.

The LMI Job Availability Index remained in neutral territory in the first quarter, advancing to 104.2 from 98.2. These values indicate a consensus view of stability in the LMI labor market, where there has been little movement in the index over the last several quarters. However, survey respondents’ assessments of job availability relative to one year ago were solidly in positive territory at 118.3, as was the outlook for the second quarter at 119.5. Both indexes have been increasing at a steady, but moderate pace. One contact noted that s/he expected an increase in job availability for next quarter because of seasonal demand in a resort area. To the extent that expectations for the next quarter were affected by the seasonal employment demand that often comes in spring and summer, which can occur outside of resort areas as well, the quarter-ahead index may overstate the future outlook

Survey respondents’ comments reflected ongoing polarization in the labor market. Contacts lamented the lack of skills among LMI workers needed to fill sometimes widespread openings in well-paying jobs. With the disappearance of middle-skill jobs, LMI workers are left to seek openings only in low-skill jobs for which they qualify. Many times these jobs are offered only on a part-time or temporary basis. Numerous survey respondents noted the need to acquire new skills—both soft skills and more sophisticated proficiencies—and for additional opportunities to acquire this training. An unusually large number of contacts noted deficiencies in the education system as obstacles to LMI employment.

A special question in the first-quarter survey asked respondents about the takeup of self-employment and

the establishment of small businesses as an effort to compensate for lack of other employment opportunities or reduced incomes. A significant number of respondents reported widespread takeup of self-employment. In many cases, self-employment has been a source of supplemental income and includes efforts such as house cleaning and yard work. For those who have started more substantial small businesses, lack of access to credit and insufficient training were impediments to success.

The LMI Affordable Housing Index fell moderately to 80.2 from 87.7 in the fourth quarter of 2012. The index has been steady over the history of the LMI Survey, generally holding between 70 and 90, despite increasing demand for affordable rental housing over the period. A recent article in the Kansas City Fed’s *Economic Review* offers a possible explanation for this phenomenon.²

While the affordable housing index has been fairly steady, it also largely has remained below neutral, which indicates increased tightness in the availability of affordable housing. A majority of respondents have reported a stable market, a trend that continued in the first quarter. Nevertheless, a stable market does not necessarily indicate that a sufficient stock of affordable housing is available, only that the situation is not worsening (or improving). Indeed, most contacts reported an insufficient stock of affordable housing.

In general, first quarter survey results showed concerns similar to those expressed in past surveys. Among these were increasing rents, low vacancies, and credit and income constraints on both the rental and purchase sides. In recent quarters, including in the first quarter, increasing numbers of respondents have reported a lack of affordable housing in rural or resort areas that have tight labor markets and relatively low-wage jobs.

The LMI Credit Access Index generally has been a poor performer during the economic recovery compared to other indicators of economic conditions in the LMI community. However, with a strong advance to 90.6 in the first quarter from 82.1, the index is now hovering just below neutral. Survey respondents offered little explanation for this improvement, but outside data, specifically that of the Federal Reserve Senior Loan Officers Survey, suggest that financial institutions generally have ceased their tightening of underwriting standards.³

But as noted in the context of the affordable housing index, a neutral index does not necessarily indicate sufficient credit. Indeed, survey respondents continued to lament a lack of access to traditional credit.

With respect to mortgages, survey contacts suggested that their constituents have been constrained by credit histories and down-payment requirements, or their income (while still relatively modest) is too high to take advantage of special programs. A strong push by survey participants to loosen mortgage credit standards is evident in survey comments. In terms of consumer loans, survey contacts continued to lament the use of high-cost, small-dollar loans and the lack of less costly alternatives. Some survey contacts reported large levels of consumer debt among their constituents and suggested a need for consolidation loans and other mechanisms to address issues associated with high levels of consumer debt.

The LMI Organization Funding Index fell substantially

to 84.0 from 93.9, following a surge in the fourth-quarter. As noted in last quarter's report, much of the fourth-quarter surge likely reflected strong end-of-year giving, so a decline in the index was not surprising. Still, even with the decline, the first-quarter number remains relatively strong compared to other recent quarters. Declines in access to state and federal funding were noted by many contacts as a critical factor in funding difficulties.

Despite a consensus view that funding conditions have worsened, survey respondents appear to have maintained their assistance to their clients, as measured by the LMI Organization Capacity Index, which was neutral at 98.0 in the first quarter. Organization capacity measures the ability to provide services and includes factors other than funding, such as staff and volunteer levels. Similar to the funding index, the capacity index fell sharply from the fourth quarter, but remained above index values in previous quarters.

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, more of respondents (18.9 percent) reported that conditions had worsened than reported that they had improved (4.2 percent), leading to a consensus reading below neutral.

²See Kelly D. Edmiston, 2013, "The Low- and Moderate-Income Population in Recession and Recovery: Results from a New Survey," Federal Reserve Bank of Kansas City *Economic Review*, First Quarter, 33-57.

³See the most recent report at <http://www.federalreserve.gov/boarddocs/snloansurvey/201302/fullreport.pdf>.

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	1st Qtr 2013	4th Qtr 2012	3rd Qtr 2012	2nd Qtr 2012
Quarter Surveyed				
LMI Financial Condition Index	85.3	68.7	74.6	80.6
LMI Service Needs Index	56.6	47.8	53.3	59.8
LMI Job Availability Index	104.2	98.2	103.0	104.9
LMI Affordable Housing Index	80.2	87.7	81.9	86.6
LMI Credit Access Index	90.6	82.1	77.3	73.6
LMI Organization Capacity Index	98.0	109.6	88.7	87.2
LMI Organization Funding Index	84.0	93.9	75.0	78.2
Perception of current conditions relative to conditions one year ago				
LMI Index	1st Qtr 2013	4th Qtr 2012	3rd Qtr 2012	2nd Qtr 2012
Quarter Surveyed				
LMI Financial Condition Index	81.1	71.3	69.2	70.5
LMI Service Needs Index	54.5	36.0	39.9	51.7
LMI Job Availability Index	118.3	111.9	105.5	104.1
LMI Affordable Housing Index	68.9	77.1	87.1	80.5
LMI Credit Access Index	78.4	78.6	72.2	73.0
LMI Organization Capacity Index	94.9	101.8	85.6	84.8
LMI Organization Funding Index	71.0	77.4	72.7	66.1
Expectation in the current quarter for conditions in the next quarter				
LMI Index	1st Qtr 2013	4th Qtr 2012	3rd Qtr 2012	2nd Qtr 2012
Quarter Surveyed				
LMI Financial Condition Index	86.1	76.0	86.9	86.7
LMI Service Needs Index	61.6	54.0	51.5	58.5
LMI Job Availability Index	119.5	109.4	113.0	101.0
LMI Affordable Housing Index	95.0	88.9	95.6	96.1
LMI Credit Access Index	97.6	87.1	84.1	87.1
LMI Organization Capacity Index	88.0	110.0	95.7	100.9
LMI Organization Funding Index	76.9	78.6	89.6	78.4
100 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.