SummarY

Indicators of economic and financial conditions in the Tenth District’s low- and moderate-income (LMI) community continued to improve at a significant pace in the first quarter. While the broadest measure of economic conditions maintained a reading below neutral, and the demand for services continued to grow, results for the more narrow indexes and comments from survey respondents revealed a largely positive outlook. Expectations for the second quarter suggest improving economic conditions in the LMI community in the near term.

The jobs index enjoyed a substantial boost and settled above neutral for the first time in the three-year history of the survey. As the key driver in determining LMI financial status, employment gains are likely to be reflected in broader assessments of LMI economic conditions going forward. The availability of affordable housing was stable, although important concerns remain. Access to credit continued to tighten (index remains below neutral), but the index continues to make progress toward neutrality.

Although the funding situation for organizations serving the LMI community has yet to recover, the capacity to provide services has been consistent, as indicated by a neutral index.

Details

The LMI Financial Condition Index, which represents the broadest measure of the financial status of the LMI population in the Tenth District, increased substantially in the first quarter, from 57.0 to 77.8, the highest level recorded in the survey since it began in the first quarter of 2009. The job market outlook was much brighter, which is the key factor moving the index. Still, most survey respondents noted an inadequate number of employment opportunities, and the index continues to reflect some degree of deterioration in LMI financial conditions. Higher prices for necessities such as food, rental housing and gasoline, combined with flat incomes, were a major culprit keeping the index below neutral. But the significant cloud of pessimism permeating the survey has largely lifted, and expectations continue to march toward neutral.

Another broad indicator of the economic status of the LMI community is the LMI Service Needs Index, which has consistently lagged other LMI indicators over the three-year history of the survey. A substantial number of survey respondents continued to report increased demands for their services in the first quarter, yielding an index value of 55.3, still well below neutral. Public sector budget cuts steered LMI families to the nonprofit sector for needed services. Also reported to drive increased demand for services was a greater incidence of people qualifying as low-income, a requirement to receive many types of services. Increased needs were commonly reported in job training, as employment opportunities begin to
grow, and assisting LMI consumers to repair damaged
credit histories and better manage their personal finances.
A large number of contacts reported transportation issues
were hindering LMI people in maintaining employment
and meeting their daily needs. In past surveys, little
mention has been made of transportation problems.

The LMI Job Availability Index surged above neutral
in the first quarter, following substantial improvement
in the previous quarter. The indexes that compare job
availability with the previous quarter and previous year
both exceeded the neutral level for the first time since
the survey commenced in the first quarter of 2009.
Expectations, at 119.8, were solidly in the camp for near-
term growth in LMI employment.

Job openings were reported to be especially
common in the construction and retail industries. Many
survey respondents also noted increased employment
opportunities from seasonal demand. Especially critical for
the LMI population is that a significant number of these
new jobs were entry level, as many LMI workers have
limited job skills and training. Business confidence was
offered as an important factor underpinning this growth.
Several survey respondents reported an increase in business
start-ups. Some concerns were expressed at the low wages
and limited opportunities for advancement associated
with many of the new jobs, however. A lack of skills and
histories of substance abuse and criminal activity have
hindered a number of LMI workers from taking advantage
of expanded employment opportunities.

The LMI Affordable Housing Index was largely flat
in the first quarter and remains modestly below neutral.
The outlook on home buying was largely negative. District
contacts reported that many of their constituents are
saddled with (non-mortgage) debt, while stagnant incomes
in the face of higher living expenses deter others from
homeownership. These economic issues are impacting
those seeking affordable rental housing as well. Increasing
rents, along with higher scrutiny from landlords, continue
to thwart prospective LMI tenants. The break up of
previously “doubled up” households has left additional
families looking for housing in an already stressed rental
market. A significant majority of survey respondents
reported stability in the availability of affordable housing,
despite the many challenges.

The LMI Credit Access Index advanced more strongly
in the first quarter after several quarters of minimal gains.
Although the index reveals continued tightening in access
to credit, about 75 percent of survey respondents reported
little change. Tight credit conditions were reported for
would-be homeowners and consumers, but also for small
businesses, especially start-ups. As has been common
over the course of the survey's history, District contacts
expressed concerns about LMI borrowers turning to
alternative financial institutions, such as payday lenders.
Indeed, one of the few contacts who reported that access
to credit had improved noted that increased access had
largely come in the form of payday loans.

The LMI Organization Funding Index stagnated in
the first quarter following a significant turnaround in the
fourth quarter. The index suffered a substantial decline
early in the economic recovery and has yet to return to
its late 2009 high. Some of the funding problems have
been linked to extensive public sector budget cuts. Several
organizations have sought new funding sources, and
in some cases, new funding models, to alleviate budget
concerns. Others have pooled resources. Despite funding
constraints, most organizations responding to the survey
were neutral in their assessment of their capacity to
provide services, which reflects stability in nonfinancial
resources, such as volunteer support.

**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*

<table>
<thead>
<tr>
<th>LMI Index</th>
<th>Quarter Surveyed</th>
<th>Perception of current conditions relative to conditions in the previous quarter</th>
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<tr>
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<td>1st Qtr 2012</td>
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<td>LMI Job Availability Index</td>
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<td>LMI Organization Funding Index</td>
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* Providers of services for the LMI 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 LMI people and would like to participate in the survey, please contact Kelly Edmiston at Kelly.Edmiston@kc.frb.org.