

COMMUNITY OUTLOOK SURVEY.

First Quarter 2012

FEDERAL RESERVE BANK OF BOSTON
Regional & Community Outreach

About the Survey

The New England Community Outlook Survey asks service providers to comment on changes in the financial and economic conditions of the region's low- and moderate-income (LMI) communities and the organizations that serve them.¹ To see previous reports or to register as a survey respondent, please visit <http://www.bostonfed.org/commdev/community-outlook-survey/>.

Introduction

Most of our indicators improved in the first quarter compared with the same period a year ago (Financial Well-being, Job Availability, Access to Credit, Organizational Funding, Organizational Capacity). The exceptions were the Availability of Affordable Housing Index and the Demand for Services Index, both of which declined over the period. The increase in the Job Availability Index was particularly strong, and future expectations for this index are also positive. This is in contrast to a weakening in employment growth nationally and in New England since April 2012, and weakening in consumer expectations about unemployment nationally. Respondents indicated that families' financial conditions in recent years have been most affected by job loss and unemployment, house price declines and the effects of the subprime crisis, and public-sector budget cuts.

Top Challenges Facing LMI Communities

Once again, service providers ranked job availability, state and local budget cuts, federal budget cuts, access to affordable housing, and adequate adult workforce development as the top five challenges facing LMI communities (Figure 1).

Diffusion Indexes: Tracking Changes in Conditions

Figures 2–4 feature diffusion indexes, which show changes in the conditions of LMI households and the organizations that serve them. See the sidebar for details about how the indexes are computed. Six of our seven indexes showed an improvement in the first quarter over the previous quarter. The exception was the Demand for Services Index, which became more negative over the

Respondent Quotes

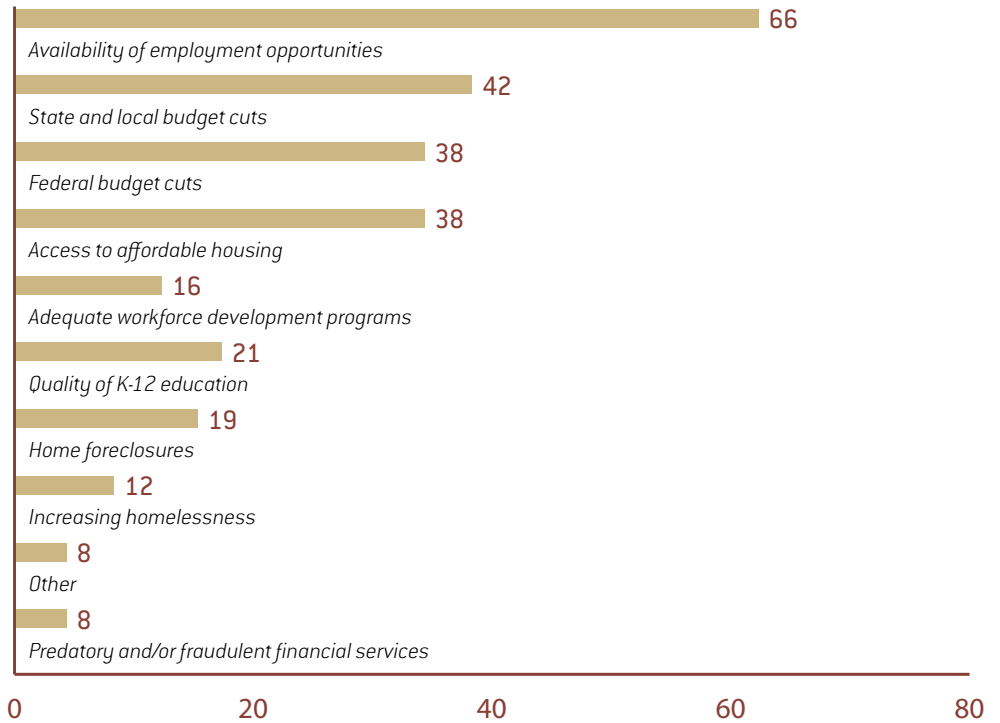
There are profound structural changes that make it difficult for individuals to gain employment and earn their way in a complex economy.

—Maine

FIGURE 1

TOP 10 CHALLENGES FACING LOW- AND MODERATE-INCOME COMMUNITIES

Percentage of respondents



Note: respondents were able to select up to 3 responses

quarter—indicating that demand for services increased (see note on the computation of Demand for Services).

The Job Availability Index has shown significant improvement since the third quarter of 2011. As in past quarters, the Financial Well-being Index and the Demand for Services Index have the most unfavorable numbers. Most of the indexes showed an improvement from one year ago (Figure 4). The exceptions were the Demand for Services Index and Availability of Affordable Housing index. Additional detail on the themes emerging from the diffusion indexes and other data are provided in the sections below.

Job Availability Improves, Future Expectations Positive

Service providers continue to cite job availability as the most important challenge facing LMI communities (Figure 1). At the same time, our Job Availability Index has increased more than 40 points over the last two quarters, and in the first quarter the index was above zero for the first time since we began collecting data in the first quarter of 2011, indicating that sentiment is positive (Figure 3). The Job Availability Index that measures expectations for the next quarter is also positive, at 27.6, indicating that respondents expect job availability to improve going forward (Figure 2).

This is in contrast to recent national employment numbers and national data on consumer expectations related to unemployment. U.S. employment growth

.....
We need to find ways to develop affordable housing and workforce training programs that align with the newer jobs that are being created.
—Rhode Island
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was strong from December to February 2012, but weakened noticeably thereafter (Figure 5). The same is true of New England payroll employment growth, although the weakening began in April rather than March. Similarly, nationally, consumer expectations regarding unemployment improved from December 2011 to March 2012, and then weakened noticeably thereafter (Figure 6).

Factors That Have Most Affected LMI Families' Financial Conditions in Recent Years

Our Financial Well-being Index measures families' ability to pay their bills, service their debts, and save and invest for the future. As such, it is a composite index reflecting the effects of trends measured in other indexes, such as job availability and access to credit. The index has remained low since we began collecting data, though it has improved significantly in the last two quarters (Figure 3); indeed, it is consistently one of the two lowest indexes (with the Demand for Services Index). In the survey covering the first quarter, we asked respondents to tell us more about the financial conditions of lower-income families.

Figure 2

DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS

	1st qtr 2012	4th qtr 2011	3rd qtr 2011	2nd qtr 2011	1st qtr 2011
Current conditions relative to previous quarter					
Financial well-being	-32.3	-52.6	-62.2	-51.9	-45.6
Job availability	6.2	-2.1	-34.3	-24.5	-12.7
Availability of affordable housing	-3.2	-10.4	-20.2	-12.5	7.1
Access to credit	-9.6	-22.9	-28.7	-34.9	-32.1
Demand for services	-63.0	-60.0	-64.3	-55.5	-52.6
Organization capacity	-3.0	-16.0	-9.8	-15.5	-11.9
Organization funding	-15.0	-18.0	-26.8	-30.0	-30.5
Current conditions relative to one year ago					
Financial well-being	-32.7	-50.5	-75.2	-67.9	-45.6
Job availability	29.9	7.3	-45.3	-23.8	-7.3
Availability of affordable housing	-2.1	-5.4	-11.8	-6.7	21.8
Access to credit	-10.8	-33.3	-46.7	-45.7	-28.3
Demand for services	-74.8	-62.0	-74.1	-58.2	-45.8
Organization capacity	-2.0	-14.0	-14.3	-18.2	6.8
Organization funding	-22.0	-27.0	-39.3	-41.8	-33.9
Expectation for conditions over the next quarter					
Financial well-being	-16.2	-31.6	-58.2	-38.1	-12.7
Job availability	27.6	10.5	-12.8	-5.6	22.2
Availability of affordable housing	3.1	2.1	-11.0	-7.5	5.6
Access to credit	1.1	-11.8	-23.8	-19.8	-13.2
Demand for services	-61.0	-69.0	-67.0	-57.3	-54.2
Organization capacity	3.0	2.0	-5.4	-10.9	-10.2
Organization funding	0.0	-22.0	-26.8	-33.6	-28.8

Interpreting the Diffusion Indexes

- For each index, we ask respondents to indicate whether conditions improved, declined, or remained unchanged. The index scores are calculated by taking the percentage of respondents that reported improvements in conditions and subtracting the percentage of respondents that reported declines.
- The exception is the Demand for Services Index, which we compute by subtracting the percentage of respondents reporting an increase in demand from the percentage reporting a decrease. We do this to show that an increase in demand for services indicates a decline in the condition of lower-income households and to allow for easier comparison of scores across indexes.
- A score above zero indicates respondents' attitudes are, on average, positive. A score below zero indicates respondents' attitudes are, on average, negative.

Quick Facts about the First Quarter Diffusion Indexes

- Six of our seven indexes showed an improvement in the first quarter. The exception was the Demand for Services Index, which declined over the quarter—indicating that demand for services increased.
- The Job Availability Index was above zero for the first time, indicating that sentiment is positive. All other indexes remained below zero.
- Most of the indexes showed an improvement from one year ago. The exceptions were Availability of Affordable Housing and Demand for Services.

FIGURE 3
COMPARISON OF DIFFUSION INDEXES

Current conditions relative to previous quarter

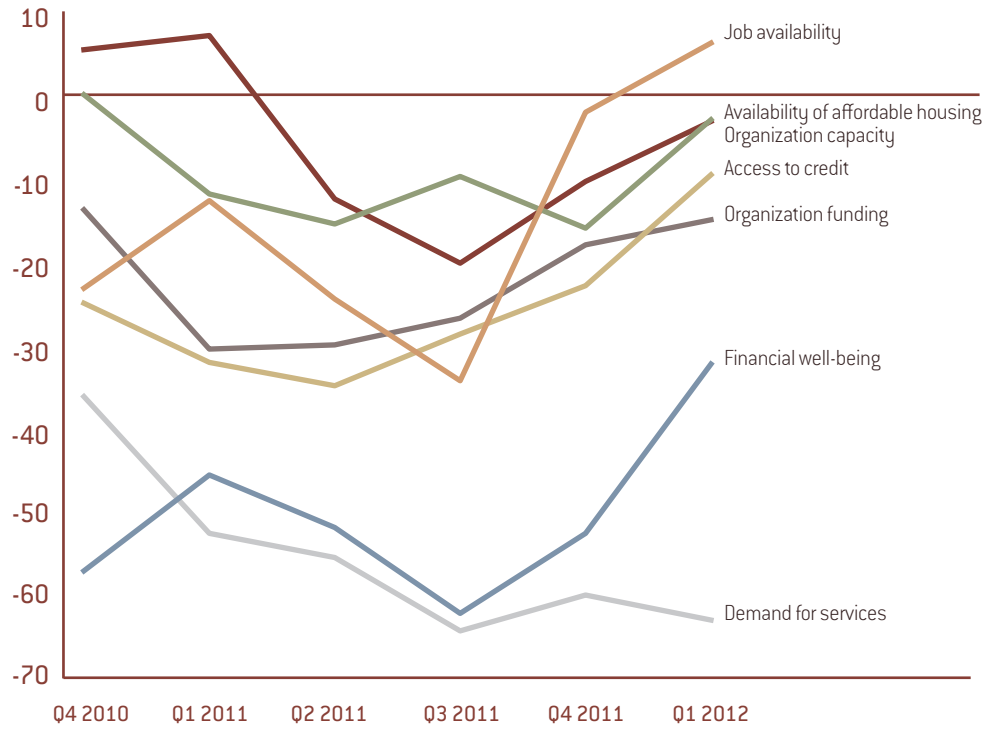


FIGURE 4
COMPARISON OF DIFFUSION INDEXES FOR Q1 2011 AND Q1 2012

Current conditions relative to the previous quarter



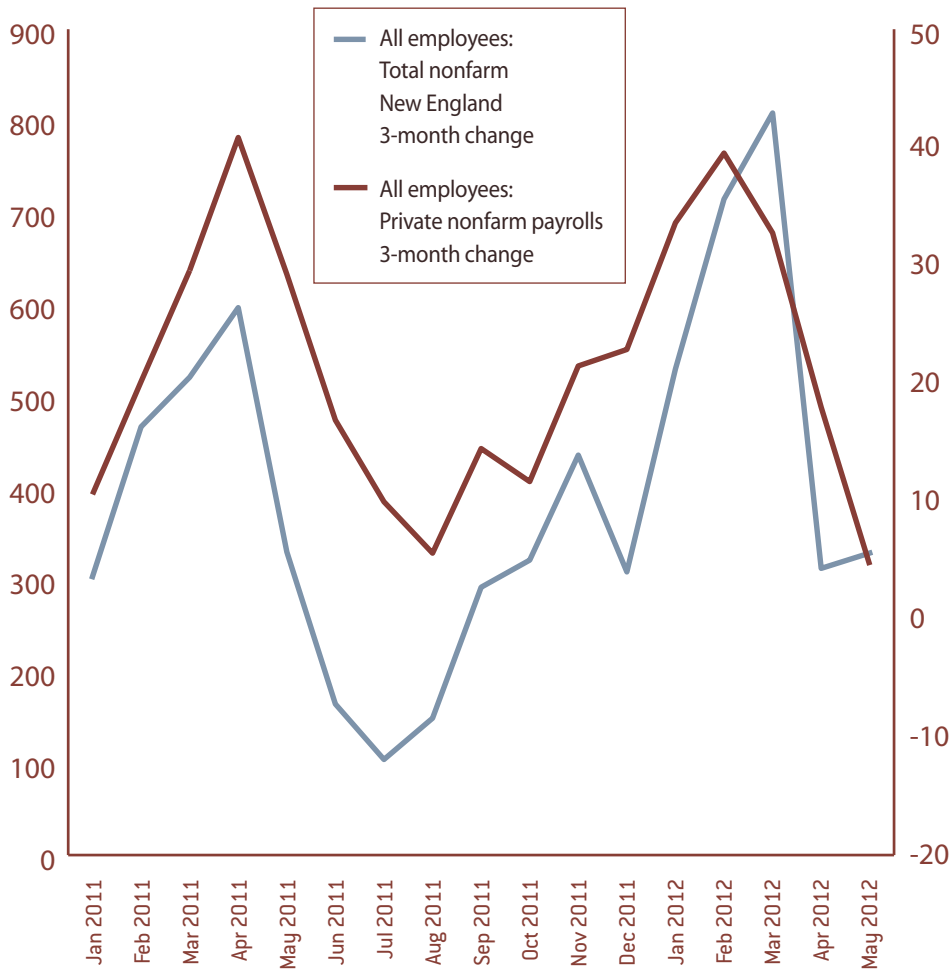
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 We need financial education
 targeted to specific populations
 and products that reinforce good
 lending and borrowing habits.
 —Vermont

Specifically, we asked for comments on the factors that have most affected LMI families' financial conditions since 2007, when the financial crisis and economic slowdown began. The most frequently cited factors were issues related to job loss, unemployment, and job training, followed by factors related to house price declines and the effects of the subprime crisis, in turn followed by public-sector budget cuts (Figure 7). Respondents cited a long list of program cuts that have affected families, including cuts to affordable housing, education, job training, community development block grants (CDBGs), Low Income Home Energy Assistance Program (LIHEAP) funds, and the Supplemental Nutrition Assistance Program (SNAP). The cost of basic necessities, such as fuel and food, were also cited frequently, though respondents often listed multiple costs, pushing up our totals for this category.

Although most responses focused on factors that have adversely affected families' financial well-being, respondents also identified several factors that have favorably affected well-being. These responses are summarized in the first text box on the following page. They include increased collaboration and capacity building among nonprofits, stimulus funding (e.g., through the American Recovery and Reinvestment Act), recovery funding (e.g., through the Neighborhood Stabilization Program), and health care reform.

Workforce training funds are being cut just when people need training for new jobs.
—Massachusetts

FIGURE 5
NEW ENGLAND EMPLOYMENT
Seasonally adjusted, thousands



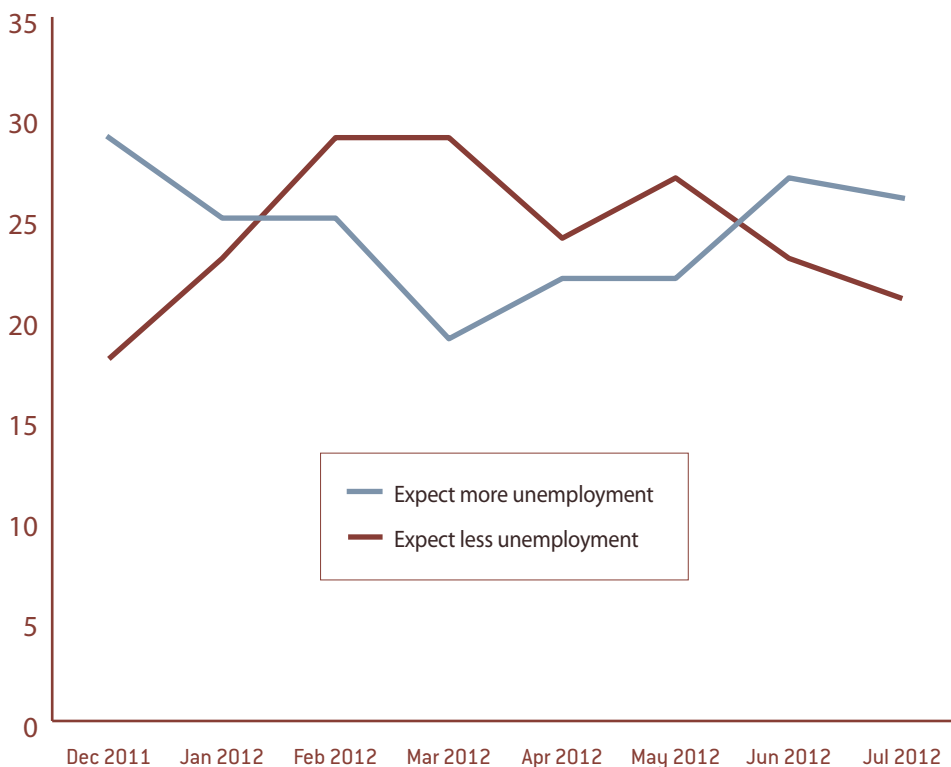
Source: BLS/Haver

The biggest issue on the horizon is the rapid increase in the price of gasoline, which is especially burdensome on those living in rural areas of Northern New England.
—New Hampshire

FIGURE 6

CONSUMER SENTIMENT: EXPECTED UNEMPLOYMENT, NEXT 12 MONTHS

Percent of respondents



Source: University of Michigan, Surveys of Consumers

Factors That Have Favorably Affected LMI Financial Conditions

- More nonprofit partnerships
- Increased attention to organizational capacity building and best practices
- American Recovery and Reinvestment Act, Neighborhood Stabilization Program, and Homelessness Prevention and Rapid Re-housing Program
- Improved housing affordability
- Deleveraging of households
- Recent drop in unemployment rates
- Health care reform
- Unemployment insurance extensions
- Earned income tax credit
- Low-income housing tax credit

We also asked respondents to suggest policy responses that could help strengthen families’ financial well-being. We received a broad range of answers, many of which are cited in the following box.

Policies That Can Help Strengthen Families' Financial Well-being

Workforce Development

- Subsidies to hire long-term unemployed
- Coordinated training, education, and job search programs
- Reinstatement of cut funds in light of greater need

Housing

- More housing vouchers
- Funding for permanent homeless housing with supports
- Funding for the National Housing Trust Fund

Employment

- Creation of more entry-level, manufacturing, and service jobs
- Targeted job creation in lower-income areas

Foreclosures

- Additional foreclosure prevention programs

Fiscal Policy

- Protection of essential programs
- Funding for health care, asset building, education
- Funding for job training, affordable housing

Education

- Investment in urban schools
- Help for lowest-performing communities
- More studies of the link between education with economic vitality

Financial Education

- Budget and credit counseling from middle school to adulthood
- Increased Housing and Urban Development counseling money

Small Business

- Tax incentives for new hires
- Loans to expand business
- Funding for new technical assistance providers

The most frequently cited policies related to employment and workforce development, housing and mortgages, and fiscal policy. Some respondents made compelling cases for specific needs, but did not offer specific policy responses. For example, several respondents said that the high cost of heating fuel will be one of the biggest factors affecting low-income families' finances in the short to medium term. Others said that cuts to job-training funds comes at a time when there are new jobs being created that lower-income workers cannot take advantage of without training. Some mentioned the widespread need for financial education. Finally, some talked about the need for affordable consumer financing as an alternative to payday loans and high-cost credit cards.

Conclusion

Expectations over the next quarter are relatively neutral for four of our indexes, but positive for our Job Availability Index and negative for our Financial Well-being Index and Demand for Services Index, which is very low at -60. All indexes have been improving since the third quarter of 2011, with the exception of the Demand for Services Index, which has remained relatively

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The higher costs of housing and fuel compared to earning capacity, coupled with the higher cost of providing services that address families' needs, create a perfect storm for service providers working with scarce resources.

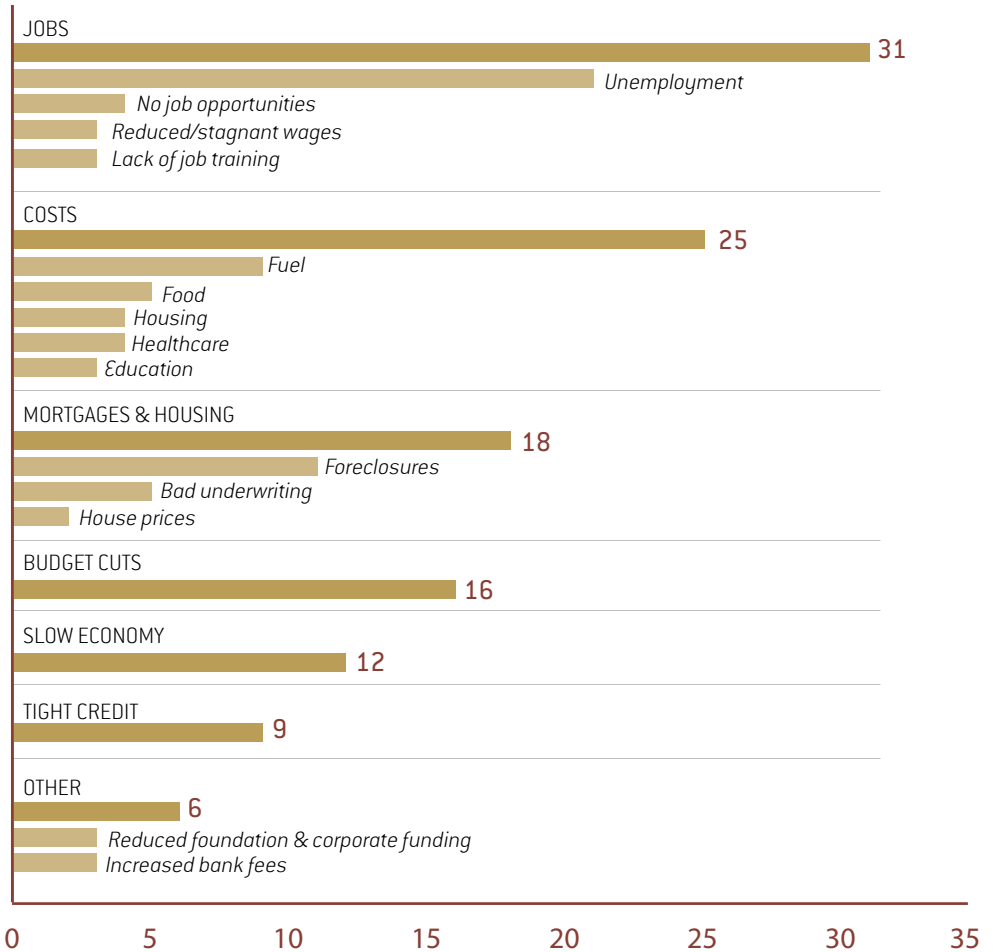
—Vermont

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FIGURE 7

FACTORS AFFECTING LMI FAMILIES' FINANCIAL CONDITION SINCE 2007

Total number of responses



unchanged over the period. The increases indicate improved sentiment among respondents about the conditions facing LMI families and communities, but we note that the composite indexes, Financial Well-being and Demand for Services—which reflect the effects of conditions measured by the other indexes—remain low at -32.3 and -63.0 , respectively. In addition, national figures on consumer expectations regarding unemployment have been more negative since April 2012.

Year-over-year, the Availability of Affordable Housing Index and Demand for Services Index have worsened. In our fourth-quarter report, we discussed factors contributing to the decline of the housing index, including cuts to affordable housing programs. In previous surveys, respondents have indicated that increased demand for services reflects increased need among lower-income families and public-sector budget cuts that have resulted in fewer services available for these households.

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More and more, people who had previously been plugging away okay are now coming to us for help because they just can't pay all their bills anymore.
—Massachusetts
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Survey Methodology

In January 2011, the Boston Fed launched the New England Community Outlook Survey, a quarterly online poll. Respondents represent organizations providing direct services to LMI households. Organizations are asked to designate one senior staff member to respond to the 10-minute survey each quarter. For this wave of the survey, 100 service providers from economic development, affordable housing, community action, human services, and workforce development organizations and representing each of the six New England states responded to 23 multiple-choice and fill-in questions. We asked respondents to comment about the period from January 1 to March 31, 2012, and respondents completed the survey between April 2 and April 13, 2012. Data collected represent the opinions of service providers who completed the survey and should not be interpreted to represent the opinions of all service providers to LMI households in New England. In addition, there is some variation in respondents from quarter to quarter.

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Report by Anna Steiger and Anthony Poore
The views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System.

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Endnotes

- 1 The survey covers the Boston Fed's New England district, comprising Connecticut (excluding Fairfield County), Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. LMI individuals have incomes below 80 percent of the area median income, which is defined for urban residents as the metropolitan (MSA/MD) median income and for rural residents as the state's non-metropolitan (MSA/MD) median income.

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Strengthening lower-income communities will help restore the overall financial strength of our communities and the region as a whole.

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—Massachusetts