

COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

LMI Job Availability Worsens, Declines Slow for Other Indicators

About the Community Outlook Survey

The Federal Reserve Bank of Philadelphia's Community Outlook Survey monitors the economic factors affecting low- and moderate-income (LMI) households in the Third Federal Reserve District, which includes Delaware, southern New Jersey, and eastern Pennsylvania. To see previous reports or to register as a survey respondent, please visit <http://www.philadelphiafed.org/community-development/community-outlook-survey/>.

Overview

Fifty-nine service providers in the Third District were polled in mid-July to evaluate the quarterly changes in several key indicators affecting LMI populations in 2012. The findings conform to the pattern of decline observed in past quarters as respondents reported weakened conditions across the board. For the first time in three quarters, respondents observed an overall decrease in job availability relative to the previous quarter, although the decline was modest. The concern over declining employment opportunities for LMI individuals was also underscored in respondents' comments (see pages 7 to 9) along with concerns over funding cuts, barriers to homeownership, and increases in demand for organizations' services, among others. Still, despite the continued strain placed on LMI households and service providers, the decline in conditions slowed for six of the seven indicators, suggesting a step in the right direction.

Figure 1 and Table 1 of the report provide a breakdown of the types of services provided by the organizations surveyed and summarize their responses pertaining to changes in various indicators affecting the LMI community and their organizations. Table 2 calculates the second quarter diffusion indexes, which measure the dispersion of change in conditions relative to the first quarter of 2012, and compares the indexes with the diffusion indexes from one quarter (1Q2012) and four quarters (2Q2011) ago. The computation of the diffusion indexes is shown in the footnote on page 3. Figures 2 to 5 display changes in the indicators over time and examine how changes in the indexes observed in the second quarter of 2012 compare

with respondents' expectations contained in the previous survey. Table 3 ranks the top challenges facing LMI service providers over time. The last section contains selected comments made by respondents.

Respondent Breakdown and Observations

The service providers in the Third District that received the second quarter survey provide an extensive array of services to LMI households. Of those that responded, five are headquartered in Delaware, 12 in New Jersey, and 42 in Pennsylvania. However, many organizations' service areas include more than one state.

Respondents were asked to report their organizations' operating budget for the current fiscal year. The budget amounts for the organizations represented were wide-ranging, with the middle 50 percent of those responding indicating an operating budget between \$0.65 million and \$7.1 million. Some respondents reported budgets of less than \$0.2 million, while others indicated budgets of greater than \$25 million.

We also asked respondents to indicate the types of services they provide to LMI households. Eighty percent of the service providers we polled offer housing services, while 45 percent provide educational assistance. Only four respondents indicated that their organizations provide financial aid opportunities. The full list of responses is displayed in Figure 1.

In each survey we elicit respondents' opinions of how conditions affecting LMI households and their organizations' ability to provide services to those households have changed in the current quarter (2Q2012) relative to the previous quarter (1Q2012) as well as expectations for those same indicators in the upcoming quarter (3Q2012). More specifically, respondents are asked to answer multiple-choice questions regarding job availability, affordable housing availability, financial well-being, and access to credit for LMI populations in addition to questions about the demand for their organizations' services, their organizations' capacity to serve their clients, and the adequacy of their funding. The aggregated responses can be viewed in Table 1.

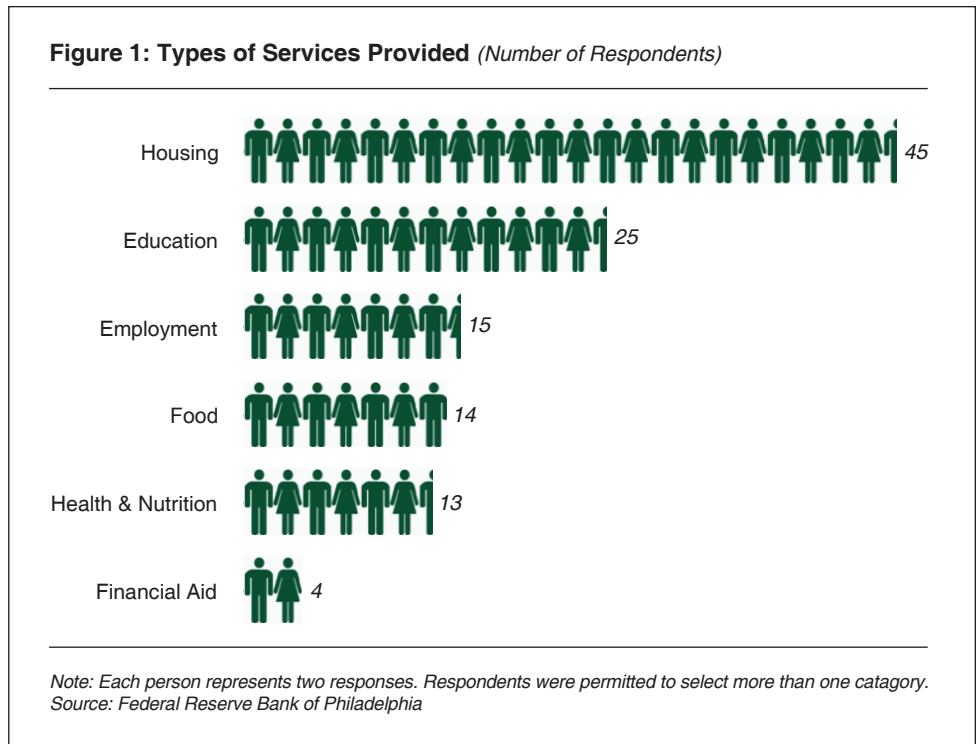


Table 1: Survey Responses (Percentages)

	2nd Qtr 2012 v. 1st Qtr 2012			Expectation for 3rd Qtr 2012		
	Increase	No Change	Decrease	Increase	No Change	Decrease
Household Indicators						
Job availability	7	78	15	15	72	13
Availability of affordable housing	11	70	19	19	62	19
Financial well-being	4	71	25	16	56	27
Access to credit	2	75	24	14	64	22
Organizational Indicators						
Demand for services	65	33	2	68	30	2
Organizational capacity	14	65	21	23	52	25
Organizational funding	5	42	53	20	39	41

Note: Percentages may not add up to 100 due to rounding
Source: Federal Reserve Bank of Philadelphia

As seen in Table 1, respondents' observations show that the vast majority (78 percent) noticed no change in relative job availability for the LMI community in the second quarter. However, twice as many reported a decline (15 percent) compared with the number reporting an improvement (7 percent). Across all household indicators, 70 percent or more of the respondents reported that conditions remained stable during the second quarter, which suggests that the overall change in each indicator was subtle. The same cannot be said for the demand for services and organizational funding categories, since less than half of those surveyed reported no change. Sixty-five percent of respondents witnessed increases in demand for their services compared with only 2 percent noticing a decrease. The 65 percent is highly indicative of worsening conditions for LMI families, since

it suggests that more families have been driven to seek help. Fifty-three percent of respondents reported that their organizations experienced funding cuts in the second quarter, which, despite its severity, is 5 percentage points fewer than the 58 percent recorded in the last quarter's survey (see Figure 2 in the First Quarter 2012 survey).

Expectations for the third quarter of 2012 are cautiously optimistic; a higher percentage of respondents expect an improvement in nearly all conditions relative to the current quarter. The exception is the demand for services indicator (68 percent) where the percentage of those anticipating an increase is 3 percentage points higher than the current observed level of 65.

Diffusion Indexes

The diffusion indexes* from the second quarter survey are shown in Column A of Table 2. As in the past, indexes above 50 signal an overall improvement, while those below 50 signal an overall decline. An index of exactly 50 indicates that conditions remained unchanged from one

quarter to the next. Only the demand for services index deviates from this rule, since an increase in the demand for an organization's services is deemed to be a sign of the declining welfare of LMI people. Consequently, a value above 50 is considered a decline in conditions for this index.

Table 2: Diffusion Indexes for Low- and Moderate-Income Indicators

	A	B	C*	D	E**
	2nd Qtr 2012	1st Qtr 2012	1 Qtr Change	2nd Qtr 2011	1 Year Change
Current conditions relative to previous quarter					
Job availability	46.3	53.3	-7.0	42.8	3.5
Availability of affordable housing	46.3	40.5	5.8	42.0	4.3
Financial well-being	39.3	34.2	5.1	31.2	8.1
Access to credit	39.2	34.3	5.0	35.2	4.0
Demand for services	81.6	86.4	-4.9	88.7	-7.1
Organizational capacity	46.5	43.3	3.2	42.6	3.9
Organizational funding	26.3	22.0	4.3	25.0	1.3
	3rd Qtr 2012	2nd Qtr 2012	1 Qtr Change	3rd Qtr 2011	1 Year Change
Expectations for conditions over the next quarter					
Job availability	50.9	64.8	-13.9	51.5	-0.5
Availability of affordable housing	50.0	45.4	4.6	47.0	3.0
Financial well-being	44.5	42.3	2.2	36.5	8.1
Access to credit	46.0	45.3	0.7	38.6	7.4
Demand for services	83.0	83.6	-0.6	79.5	3.6
Organizational capacity	49.1	50.9	-1.8	41.0	8.1
Organizational funding	39.3	33.9	5.4	31.3	8.0

Note: Numbers in bold italics indicate that the index is worse relative to one quarter or one year ago. Changes may appear off due to rounding.

**Column C is calculated by subtracting Column B from Column A*

***Column E is calculated by subtracting Column D from Column A*

Source: Federal Reserve Bank of Philadelphia

Current Conditions

The job availability index dropped 7 points, from 53.3 to 46.3 in the second quarter, marking the first time since the third quarter of 2011 that the index has fallen below 50. The index points to a minor deterioration in job availability relative to the first quarter. The other six indexes in the second quarter of 2012 are also indicative of worsening conditions. However, the indexes are higher than those of the first quarter of 2012, which suggests that the declines in these indicators are less severe than in the first quarter.

The indexes for the availability of affordable housing and financial well-being were the beneficiaries of the largest second quarter improvements for indexes measuring current conditions, rising by 5.8 and 5.1, respectively (Table

2, Column C). The demand for services index registered the largest improvement of the organizational indexes: It fell from 86.4 in the first quarter to 81.6 in the second quarter. This was the greatest one-quarter improvement in the index since the survey began.

Turning our attention to Columns D and E, we assess the changes in the various indexes from the previous year. We can see that all seven indexes have improved relative to their values of one year ago. The largest improvements came in the indexes for financial well-being and demand for services, while the index for organizational funding experienced only a nominal gain. Overall, it appears that the diffusion indexes continue to creep in the right direction.

**The diffusion indexes are computed by aggregating the percentage of respondents who indicate an increase in a specific indicator with half the percentage of respondents who indicate no change, and then multiplying by 100. See Table 1 for percentages.*

Expectations

The indexes measuring respondents' expectations for the third quarter of 2012 remain close to their corresponding values from the previous survey (Table 2, Column B). The exception is the job availability index, which dropped considerably, from 64.8 to 50.9. The significant fall in the index likely resulted from respondents accounting for the subpar performance of the observed job availability index in the second quarter. The organizational capacity index was also less optimistic than its counterpart, dipping a modest 1.8 points.

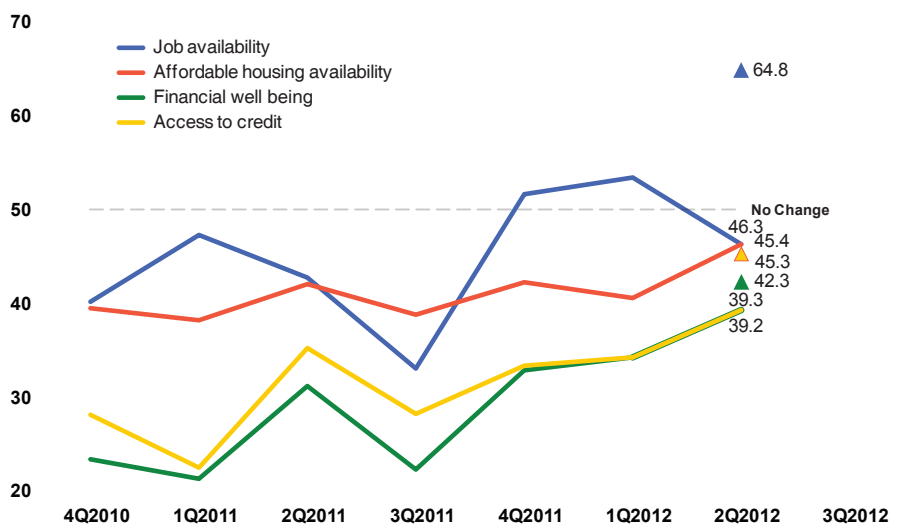
The values in Column E depict a general improvement in the expected indexes relative to the indexes one year ago. Although the indexes for job availability and demand for services are worse off in the current survey than they were in last year's second quarter survey, the indexes overall suggest that respondents are more optimistic about the third quarter of 2012 than they were about the third quarter last year.

Trends

Figure 2 illustrates the changes in the four household indexes since the advent of the survey. Points on the graph represent the diffusion indexes for each factor for the corresponding quarter. For instance, in the fourth quarter of 2010, the indexes for job availability and affordable housing availability were 40.1 and 39.4, respectively. Triangles, on the other hand, represent respondents' expectations for the second quarter contained in the first quarter survey. For example, in the first quarter of 2012, respondents predicted that the index for job availability in the second quarter would be 64.8. In actuality, the index was 46.3.

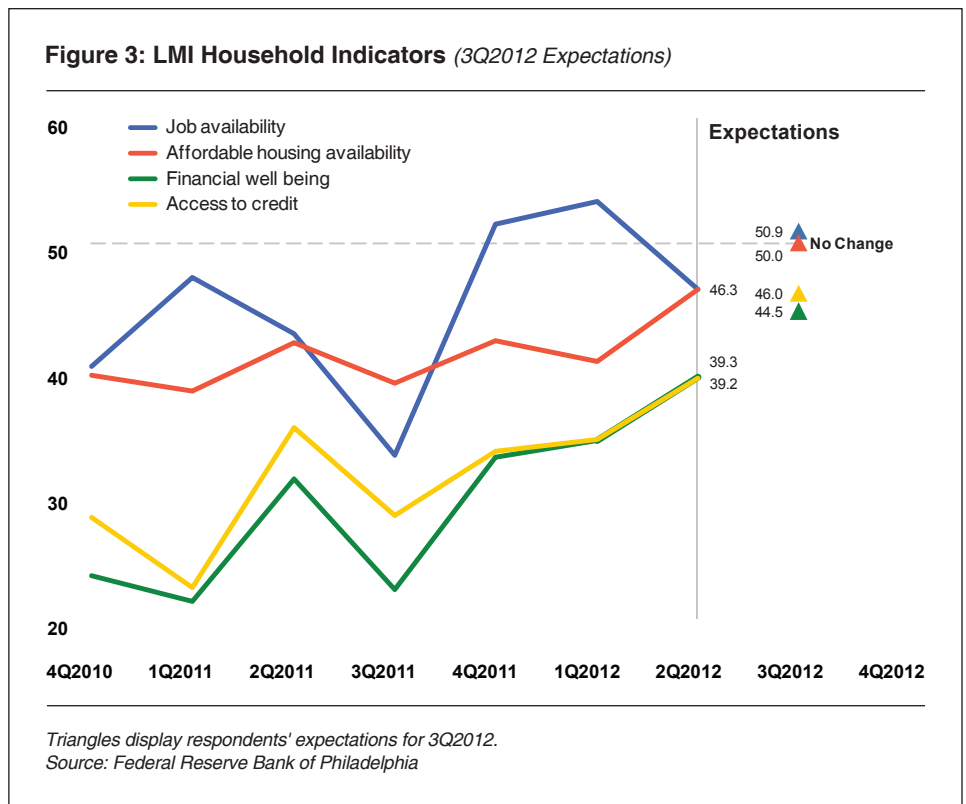
Respondents predicted the degree of change in three of the four household indicators in the second quarter fairly accurately. The exception was the job availability index. As mentioned above, there was a wide margin between the observed (46.3) and expected (64.8) values. There also appears to be more volatility in the job availability index relative to the other household indexes; it has experienced greater quarterly changes and the direction of the changes does not conform to the pattern observed in the indexes for the other three indicators. Interestingly, the observed index for the availability of affordable housing (45.4) outperformed the expected index (45.3) by a very narrow margin, which runs counter to the notion of over-optimism seen in previous surveys.

Figure 2: LMI Household Indicators (4Q2010 to 2Q2012)

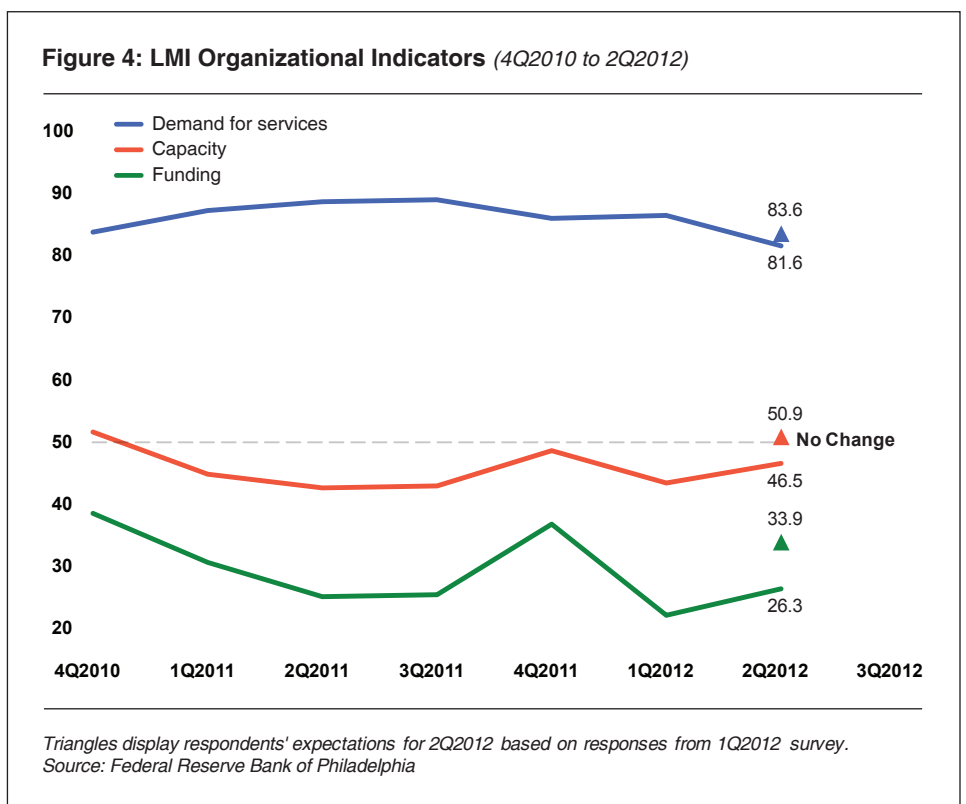


Triangles display respondents' expectations for 2Q2012 based on responses from 1Q2012 survey.
Source: Federal Reserve Bank of Philadelphia

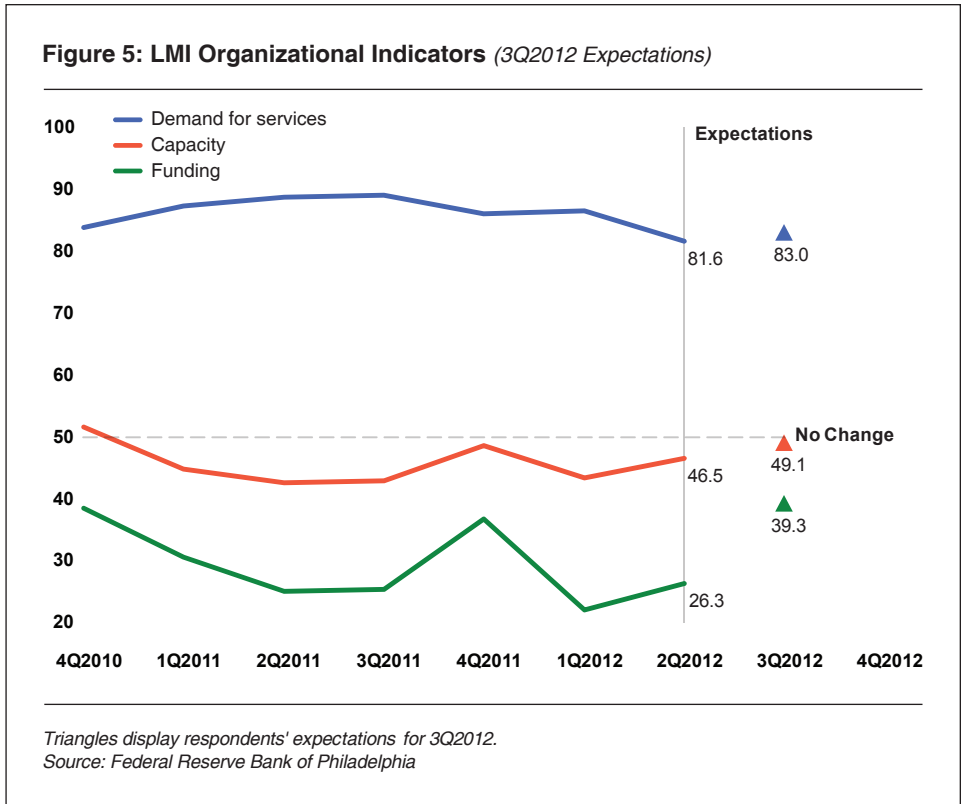
Figure 3 tracks the observed changes in the household indexes across time, but now triangles depict respondents' expectations for the third quarter of 2012. All of the expected indexes show improvement compared with the current indexes. Those who responded expect financial well-being and access to credit to decline modestly in the third quarter, while availability of affordable housing remains unchanged and job availability improves slightly.



Figures 4 and 5 display the trends for the organizational indicators. Looking first at Figure 4, it appears that respondents are fairly accurate with their predictions; for example, the expected index for the demand for services is 83.6, and the observed index is 81.6. Notice that, unlike Figure 2, which depicts a general upward trend in the household indexes over time, the organizational indicators have remained relatively stable over time.



In Figure 5, respondents anticipate that organizational capacity will decline slightly, with a considerably larger decline in organizational funding. Funding cuts are expected to be less severe than those experienced in the second quarter. Finally, the index for expected demand for services is expected to rise to 83 in the third quarter of 2012, which signals a worsening in conditions.



Challenges

Each quarter, we ask survey participants to select the challenges they believe are most detrimental to LMI households' access to credit, the availability of affordable housing, and their organizations' financial sustainability. Table 3 displays the rankings from the current survey as well as past surveys.

The top three challenges from previous surveys remain in the top three in the second quarter of 2012. Seventy-seven percent of respondents cited lack of cash flow as the greatest barrier to credit for LMI households, while 75

percent selected underwriting standards/credit ratings and 60 percent selected lack of financial knowledge. Sixty-nine percent of respondents believe that lack of capital and competition for grant/subsidy funding were the main factors affecting affordable housing, while 59 percent considered development costs to be a major hindrance. Finally, 79, 74, and 34 percent of those surveyed deemed lack of government funding, lack of grant funding, and market conditions/lack of earned income, respectively, to be impediments to their organizations' sustainability.

Table 3: Comparison of Challenges Across Time*

	Rank Q2 2012	Rank Q1 2012	Rank Q4 2011	Rank Q3 2011	Rank Q2 2011	Rank Q1 2011	Rank Q4 2010
Challenges affecting LMI households' access to credit							
Lack of cash flow	1	3	t2	t1	t1	3	3
Underwriting standards/credit ratings	2	2	t2	t1	t1	t1	1
Lack of financial knowledge	3	1	1	3	t1	t1	2
Lack of trust in banks	4	4	4	4	5	5	5
Regulatory issues	5	6	6	6	6	6	6
Interest rates and other lending costs	6	5	5	5	4	4	4
Challenges affecting the availability of affordable housing in community							
Lack of capital	t1	1	1	1	1	1	1
Competition for grant/subsidy funding	t1	3	2	2	t2	2	3
Development costs**	3	2	3	3	t2	3	2
Community opposition	t4	t4	4	5	t4	5	4
Regulatory issues	t4	6	6	6	6	6	6
Organizational capacity	6	t4	5	4	t4	4	5
Lack of demand	7	7	7	7	7	7	7
Challenges affecting organization's financial sustainability							
Lack of government funding	1	1	1	1	1	1	2
Lack of grant funding	2	2	2	2	2	2	1
Market conditions/lack of earned income	3	3	3	3	3	3	3
Lack of bank financing	4	4	4	4	4	4	4

*Ranks preceded by a t indicate ties. Respondents were permitted to select more than one category.

**Beginning in 3Q2011, the category "costs" was changed to "development costs."

Source: Federal Reserve Bank of Philadelphia

Selected Comments

In each survey, we ask respondents to share challenges that have inhibited their ability to provide services to LMI households in addition to general observations about their organization or service area. Selected comments from their responses are included below. The comments have been edited for publication.

Affordable Housing

"There is a lack of affordable for-sale products for LMI families as well as a lack of rental development opportunities."

"There is not enough affordable housing, especially rentals."

"The funding cuts in the city of Philadelphia for affordable housing have been great. [Our organization is] fine for the next 12 months, but unless we can find additional funding we will have to reduce the number of homes we build in fiscal year 2014."

Budget and Funding Cuts

"We are attempting to adjust our funding sources to private institutions and individuals. Without such a change, organizations such as ours may not survive the economic downturn. We are still hopeful."

"With a loss of government funding, some of our agency's attention is being directed to sustainability planning rather than to our services. Our biggest income-generating nonprofit programs have been or are being removed, which has resulted in shrinkage of those programs that provide a service, but cannot support themselves. It challenges our paradigm of how we pursue our mission."

"In the best of times, demand for affordable housing and access to behavioral health services often exceeds capacity. Now that fewer people are eligible for benefits and funding for services has been greatly reduced, this disparity will become more pronounced."

Increased Demand for Services

“My organization continues to be challenged by a lack of capacity to provide services to more and more individuals at an adequate level. We have addressed this challenge by trying to become more efficient in our processes as well as reducing the depth of our services to our clients.”

“All of our centers are reporting unprecedented demand for assistance and services. This demand is spreading from low- to moderate-income areas into middle-income areas as well.”

Employment

“In our experience working with clients who head LMI households, we have seen, in the main, individuals who are incredibly dedicated and diligent to doing the things necessary to make ends meet. This includes working long hours in their current positions as well as looking for opportunities to advance their careers and/or take on additional part-time positions. However, one clear issue faced by many of these clients is a lack of opportunity, either for themselves or others in their household. Many of our clients are in the position of having to support a currently unemployed spouse and/or adult dependents, thereby increasing the financial burden on the household. In order to improve on this situation, we would be very interested in the development of new training and employment programs. In particular, we think that programs that provide on-the-job training with the availability of employer subsidies would be very beneficial.”

“Among our client families, we see jobs and wages declining over the last quarter significantly. Combined with property taxes continuing to rise, this has contributed to hardships for many of our families and mortgage delinquencies have risen sharply.”

Financial Literacy

“From conversations with partners in urban neighborhoods and outlying boroughs, we have found that there is a profound lack of financial literacy and home maintenance knowledge among many LMI homeowners and renters, the combination of which has resulted in housing stock deterioration. We are working in partnership with neighborhood groups to provide training to their stakeholders to build knowledge and self sufficiency by creating home repair programs to engage and train residents to help themselves.”

“Some LMI families go from crisis to crisis and do not plan for the future or see the importance of planning for the future.”

Foreclosure Prevention

“Foreclosure counseling is key, but funding for those services is extraordinarily unpredictable and precarious.”

Homeownership

“Homeownership has become such a challenge. Negative press and media attention to the foreclosure problem really causes fear; tougher underwriting standards are negatively impacting LMI people; and there is far less bank activity in terms of mortgage programs, especially those for first-time homebuyers.”

“Emergency programs such as the Homelessness Prevention and Rapid Re-Housing Program (HPRP) helped in the short term but have had no lasting effect.”

The increased difficulty in getting starter mortgages may ultimately save LMI buyers from getting in over their heads with upkeep costs. We are seeing too many who received down payment assistance coming back for repair loans. They would be better off renting.”

“Families that want to pursue homeownership have little knowledge about financial literacy or what steps are necessary to reach their goals.”

“For potential first-time homebuyers, lack of savings and access to funds to assist with down payment and closing costs has prevented families who by income qualify for the program in concluding a purchase on a home, even with a program selling homes for 50 percent of appraised value.”

Staff

“We have lost two major funding sources and have had to scramble to make up the difference. This has forced us to lay off staff and the remaining staff has to do more with less.”

“It is becoming increasingly difficult to pay employee salaries. The funding that exists is for “stuff” and programs, but not for the employees to run the programs, provide the services, and prepare the reports. This challenge exists in all program areas.”

Miscellaneous

“Many of our clients have low credit scores due to high debts owed on student loans and medical costs. We try and direct people in these situations to credit counselors.”

“Securing small loans for small business owners has been a challenge.”

“With reductions in welfare benefits and reduced prospects for re-employment or employment, many LMI families are unable to utilize the services we offer. For example, a homeowner seeking a mortgage modification who has been unemployed for two years and is unlikely to find employment cannot request a sustainable modification or a client who seeks to rebuild his/her credit but cannot

find disposable income cannot take advantage of these opportunities.”

“We are attempting to repair homes before they become vacant, but we need funding for this to occur. There are 40,000 vacant properties in Philadelphia, and, if not addressed now, this number will only continue to increase.”

Survey Methodology

January 2011 marked the launch of the Federal Reserve Bank of Philadelphia’s Community Outlook Survey, a quarterly online poll. Respondents represent a variety of organizations providing services to LMI populations throughout the Third District, and the survey is sent to one representative per organization. The survey contains questions about the financial well-being of LMI populations, as well as service providers’ capacity to meet their clients’ needs. Respondents are asked how selected conditions compare with those in the previous quarter, as well as expectations for the next quarter. The data collected help the Philadelphia Fed further assess the general status of LMI households and assist the Bank in its efforts to encourage community and economic development and promote fair and impartial access to credit. There is some variation in respondents from quarter to quarter, and the data collected represent the opinions of those organizations that responded, not the opinions of all service providers to LMI populations in the Third Federal Reserve District.



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Any questions, concerns, or comments about the Community Outlook Survey should be addressed to Daniel Hochberg at Phil.COSurvey@phil.frb.org.