

COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

Improvement in Job Availability Slows, Organizational Indexes Slide in First Quarter

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

Eighty-six organizations participated in the first quarter of 2013 survey and evaluated key indicators affecting the LMI community. Job availability improved for the third consecutive quarter, although at a slower rate than in the fourth quarter of 2012. LMI financial well-being and access to credit continued to worsen but at a slower rate than before. The responding organizations struggled in the first quarter, while the leveling off in the demand for organizations' services that occurred in the fourth quarter of 2012 proved to be short-lived. Still, agencies remain optimistic that improvements will be realized in the second quarter, although there is little evidence to support that claim.

Figures 1 and 2 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 its organizations. Table 1 calculates the first quarter diffusion indexes, which measure the dispersion of change in conditions relative to the fourth quarter of 2012, and compares the indexes with the diffusion indexes from the previous quarter (4Q2012) and four quarters ago (1Q2012). The computation of the diffusion indexes is shown in the footnote on page 3. Figures 3 and 4 display changes in the indicators over time and examine how changes in the indexes observed in the

first quarter of 2013 compare with respondents' expectations from the previous survey. Table 2 displays the top challenges facing the LMI community. The last section contains selected comments made by respondents.

Respondent Breakdown and Observations

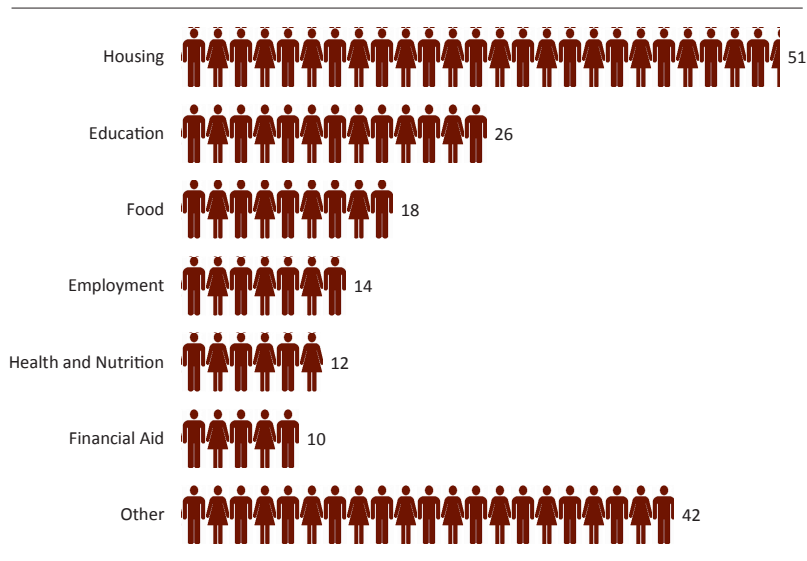
As always, the senior staff members who received the survey represent a broad cross-section of organizations, including social service agencies, community development corporations, housing counselors, food banks, government agencies, and other nonprofits that provide services to LMI populations. Of those that responded to the first quarter survey, nine are from Delaware, 15 from New Jersey, and 62 from Pennsylvania. Six of those responding serve multiple states in the Third District.

The majority (59 percent) of the agencies provide housing services, while approximately one-third (30 percent) offer education services. Forty-two (48 percent) of the organizations indicated that they offer services not listed in the survey, including counseling, homeless services, family care, legal assistance, and mental health services. Figure 1 displays the findings in more detail.

The Community Outlook Survey elicits respondents' opinions on whether conditions affecting LMI households and organizations have changed in the current quarter (1Q2013) relative to the previous quarter (4Q2012). The survey also asks for predictions for those same indicators in the upcoming quarter (2Q2013). The aggregated responses are shown in Figure 2.

The majority of respondents observed no discernible changes in the household indicators from the fourth quarter of 2012 to the first quarter of 2013. Although more respondents indicated that job availability increased in the first quarter as opposed to decreased, the number dropped 7 percentage points from last quarter, when 29 percent reported an increase. Affordable housing availability, financial well-being, and access to credit were perceived to have decreased more times than they were perceived to have increased.

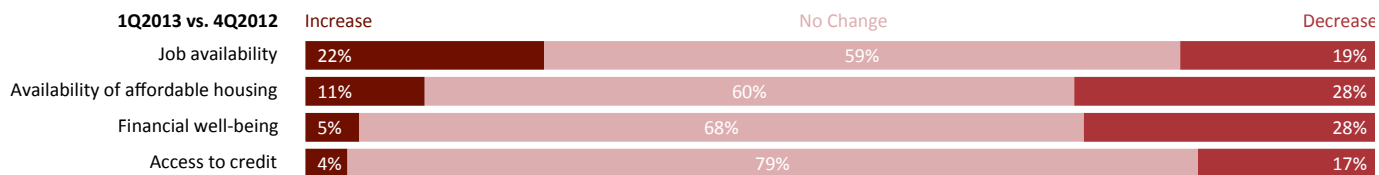
Figure 1: Types of Services Provided (Number of Respondents)



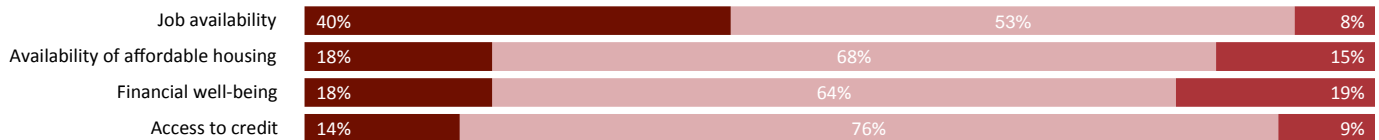
Note: Each person represents two responses. Respondents were permitted to select more than one category.
Source: Federal Reserve Bank of Philadelphia

Figure 2: Survey Responses

Household Indicators

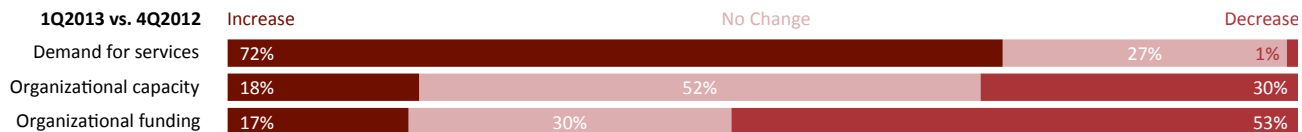


Expectation for 2Q2013

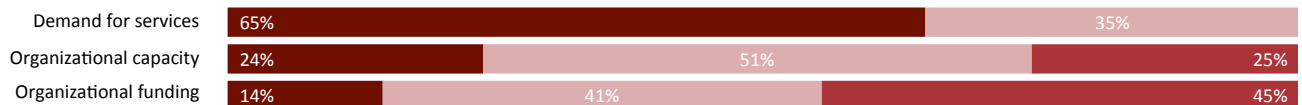


Organizational Indicators

1Q2013 vs. 4Q2012



Expectation for 2Q2013



Source: Federal Reserve Bank of Philadelphia

Seventy-two percent of participants indicated that the demand for their services increased in the first quarter, which is a 12-percentage-point increase from last quarter. The percentage of respondents who observed an increase is the highest percentage since the first quarter of 2012, when 76 percent of respondents reported a rise in demand. Only one agency reported that demand for its services had decreased in the

first quarter. For the other two organizational indexes, roughly an equal percentage of participants reported increases in capacity and funding compared with last quarter. However, the percentage of respondents who observed no change in capacity and funding fell compared with last quarter, as more noted that the indicators had decreased. More than half (53 percent) of organizations saw their funding shrink in the first quarter.

Diffusion Indexes

The diffusion indexes* from the first quarter survey are shown in Column A of Table 1. Indexes above 50 signal an overall improvement, while those below 50 signal an overall decline. An index of 50 indicates that conditions remained unchanged from one quarter to the next.

The Demand for Services Index Has Changed

Beginning with the fourth quarter 2012 report, the calculation of the demand for services index was altered to align the index with the others. Similar to the other indicators, a value greater than 50 now signals an improvement in the demand for services index. The new calculation is as follows:

$$\text{Demand for services} = [(\% \text{ Decrease}) + \frac{(\% \text{ No change})}{2}] * 100$$

* 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. The exception is the demand for services index, which is computed by aggregating the percentage who indicated a decrease with half the percentage who indicated no change. The demand for services index deviates from the other indexes because a decrease in demand is deemed to be a sign of improvement among LMI households. See Figure 2 for percentages.

Table 1: Diffusion Indexes for Low- and Moderate-Income Indicators

	A	B	C*	D	E**
	1st Qtr 2013	4th Qtr 2012	1 Qtr Change	1st Qtr 2012	1 Year Change
Current conditions relative to previous quarter					
Job availability	51.9	55.8	-3.9	53.3	-1.4
Availability of affordable housing	41.4	43.3	-1.9	40.5	0.9
Financial well-being	38.8	36.6	2.2	34.2	4.6
Access to credit	43.5	40.8	2.7	34.3	9.2
Demand for services	14.5	21.4	-6.9	13.6	0.9
Organizational capacity	44.0	45.7	-1.7	43.3	0.7
Organizational funding	31.9	35.7	-3.8	22.0	9.9
	2nd Qtr 2013	1st Qtr 2013	1 Qtr Change	2nd Qtr 2012	1 Year Change
Expectations for conditions over the next quarter					
Job availability	66.0	60.6	5.4	64.8	1.2
Availability of affordable housing	51.3	46.4	4.9	45.4	5.9
Financial well-being	49.4	42.0	7.4	42.3	7.1
Access to credit	52.6	43.9	8.7	45.3	7.3
Demand for services	17.5	20.0	-2.5	16.4	1.1
Organizational capacity	49.4	53.7	-4.3	50.9	-1.5
Organizational funding	34.9	40.0	-5.1	33.9	1.0

Note: Numbers in bold italics indicate that the index is worse relative to one quarter or one year ago.

*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

Although the job availability index dropped 3.9 points in the first quarter from 55.8 to 51.9, it surpassed a neutral grade of 50 for the fifth time in the last six quarters. LMI communities continue to benefit from slow but gradual job growth in the Third District. The availability of affordable housing index (41.4) also decreased compared with the previous quarter's index (43.3) and suggests that acquiring housing at an affordable price is more challenging than it was last quarter. The financial well-being and access to credit indexes improved by 2.2 and 2.7 points, respectively, but remain below neutral. However, the financial well-being index (38.8) registered its second highest reading since the Philadelphia Fed began conducting the survey, and the access to credit index reached an all-time high of 43.5. Turning our attention to the one-year changes, we see that although the job availability index is slightly lower than it was one year ago, the other three household indexes are higher than in the first quarter of 2012.

All three organizational indicators decreased in the first quarter of 2013, with the most significant drop in the demand for services index, which fell from 21.4 to 14.5. The 6.9-point gap

between the two indexes was the largest one-quarter change in demand in either direction. The declines in the capacity and funding indexes were less severe, but not inconsequential. Despite declining in the first quarter, the organizational indexes demonstrate improvement compared with their counterparts from one year ago, most notably the funding index (31.9), which is approximately 10 points higher than it was in the first quarter of 2012 (22.0).

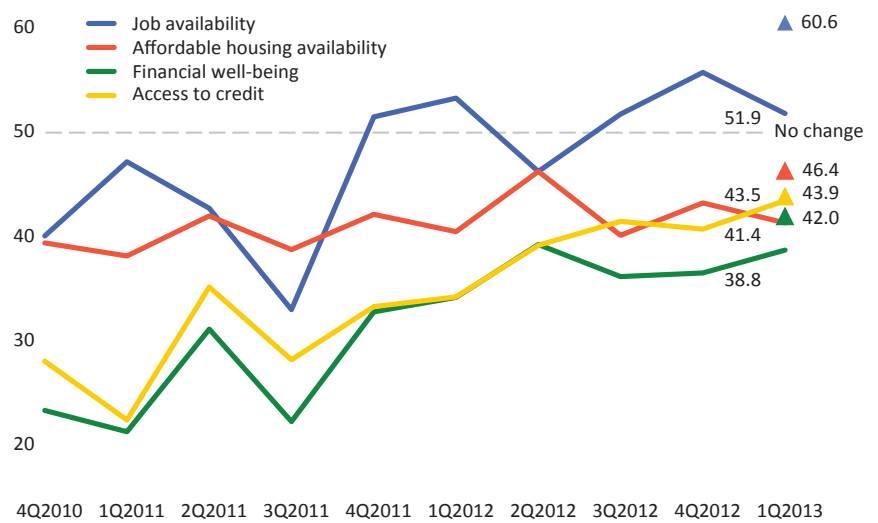
Expectations

Respondents' expectations for the household indicators in the second quarter of 2013 are more optimistic than those for the first quarter. Agencies anticipate that job availability will improve substantially next quarter, while the other three household indicators will remain relatively unchanged. Following a dismal first quarter from an organizational standpoint, organizations are relatively less optimistic about the second quarter of 2013 than they were about the first quarter of 2013.

Trends

Figures 3 and 4 illustrate the changes in the indexes since the fourth quarter of 2010. Each point on the graphs represents a diffusion index for the corresponding quarter. For instance, in Figure 3, the indexes for job availability and affordable housing availability were 40.1 and 39.4, respectively, in the fourth quarter of 2010. The triangles represent respondents' expectations for the first quarter of 2013 contained in the fourth quarter of 2012 survey. For example, in the fourth quarter of 2012, respondents predicted that the index for financial well-being in the first quarter of 2013 would be 42.0. The actual index was 38.8.

Figure 3: LMI Household Indicators (4Q2010 to 1Q2013)

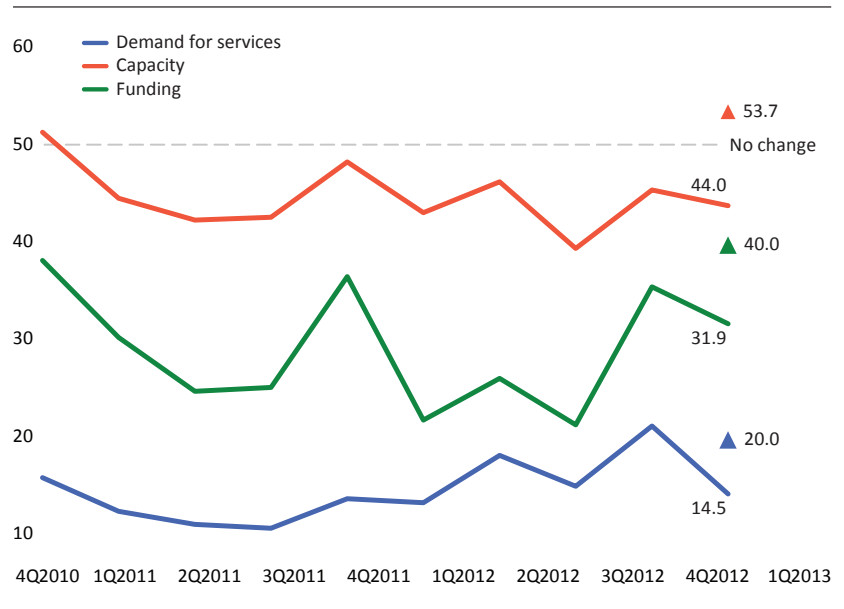


Triangles display respondents' expectations for 1Q2013 based on responses from the 4Q2012 survey.
Source: Federal Reserve Bank of Philadelphia

For the household indexes (Figure 3), expectations for the first quarter were more positive than observed levels. After reaching 55.8 in the fourth quarter, respondents expected that the job availability index would continue to improve in the first quarter (60.6), although the index ultimately dropped to 51.9 — 8.7 points less than the expected value. The expected indexes for affordable housing availability and financial well-being only moderately outperformed the actual indexes, while the observed and expected access to credit indexes were within half a point of each other.

Respondents' predictions for the organizational indexes were also more positive than the actual levels. While agencies were particularly accurate in their predictions for the fourth quarter of 2012, they have been much less accurate thus far in 2013. Interestingly, one can observe that since the third quarter of 2011, each of the organizational indexes has followed the same pattern: improvement in one month followed by decline in the next.

Figure 4: LMI Organizational Indicators (4Q2010 to 1Q2013)



Triangles display respondents' expectations for 1Q2013 based on responses from the 4Q2012 survey.
Source: Federal Reserve Bank of Philadelphia

Table 2: Comparison of Challenges Across Time*

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Challenges affecting LMI households' access to credit										
Lack of financial knowledge	74	77	71	60	78	68	65	66	72	71
Lack of cash flow	73	70	77	77	71	62	72	66	70	66
Underwriting standards/credit ratings	71	74	71	75	75	62	72	66	72	84
Lack of trust in banks	24	24	18	23	37	24	22	16	22	20
Interest rates and other lending costs	20	17	13	9	20	17	14	26	31	28
Regulatory issues	18	23	9	14	14	14	11	12	15	8
Challenges affecting the availability of affordable housing in community										
Lack of capital	73	63	68	69	74	69	75	74	77	66
Competition for grant/subsidy funding	58	64	70	69	64	63	72	56	65	61
Development costs**	57	67	55	59	66	49	62	56	55	63
Organizational capacity	33	29	27	22	31	19	31	27	25	23
Regulatory issues	24	17	20	26	21	10	18	18	18	18
Community opposition	20	35	28	26	31	22	20	27	23	29
Lack of demand	2	3	5	3	2	4	5	0	1	2
Challenges affecting organization's financial sustainability										
Lack of government funding	77	75	81	79	77	81	78	77	86	61
Lack of grant funding	72	68	76	74	72	67	72	69	67	67
Market conditions/lack of earned income	41	36	20	34	28	39	34	31	36	36
Lack of bank financing	15	14	15	10	10	13	5	14	22	18

*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

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 2 displays the percentage of respondents who selected each category over

time. For example, in the second quarter of 2012, 60 percent of respondents selected lack of financial knowledge as a major obstacle impeding LMI households' access to credit. Boxes are filled based on the percentage of respondents who selected each category.

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

"Often when our transitional housing clients are ready to move into permanent housing, there is no affordable housing available."

"Families in this county are struggling with the high cost of housing that continues to increase. The average price of a three-bedroom apartment rental is more than \$1,200 per month. For many working families in Montgomery County, this represents more than half of their income. This does not allow them to provide for other basic needs, such as food or clothing, or even to think about things like saving for a home, thus perpetuating the cycle of poverty they are trying to avoid."

"Helping low-income people find and retain decent affordable housing in very expensive areas [has been challenging]."

"A lack of safe, affordable housing is a daily challenge for the families we serve. We have formed a community development corporation to attempt to mitigate this need; however, the lack of funds, the high demand for low income housing tax credits, and the lack of soft money all converge to challenge the ability to address this need. The state and federal funds that can be used for housing and the redevelopment of neighborhoods are sadly lacking."

"The number of available, affordable rental properties has been severely decreased [as a result of Hurricane Sandy], and expectations are that costs related to rebuilding will require homeowners to increase rent expectations for those rentals that have survived."

"Lack of governmental support for new affordable housing prompted a laser-like focus on preserving our older stock. This is certainly important, but our developer fees are much smaller and this work does not add new affordable units to meet the demand."

"Mercer County is experiencing growth in the oil/gas industry [and that growth] is impacting the availability of safe and affordable housing stock."

"We need caps on rental prices; rent control is not necessarily a bad thing. The fair market value prices are inflated by the corporate sector that comes to Delaware for work and can afford the high rents. Low-income families cannot, and they need options that are readily accessible (not a four-year waiting list) and that can have desirability when it comes to their location."

Funding

"There is a continuous decline in the value and quality of services that LMI households are receiving from the state, including the Low Income Home Energy Assistance Program and crisis fuel grants. In past years, [our agency] typically served 7,000 to 10,000 households through these programs. This year, we have funds to serve only 3,000."

"During the American Recovery and Reinvestment Act period, we had at least three to four times the funding we have now. We have so little funding, especially this year, that we have prioritized using that money to help people heat their homes."

"Our agency has been lucky that it has survived these tough economic times. But to do so, we've had to be stingy with our operating budget, including personnel costs. But there is still no guarantee we won't fall on hard times and have to make deep cuts to our services to LMI households. We are not in a position to take on debt — and our board wouldn't approve that. We need more grants and donations in order to survive and continue our services to a very needy, and growing, population."

"We could not secure limited PHFA funding in 2010 for a conversion project on 60 units in Lancaster, PA. While we funded code improvements of about \$300,000, the properties reverted back to the owner on an installment sale. Now the properties (in effect a boarding house) are again deplorable."

"Due to decreases in funding of the Community Development Block Grant and HOME Investment Partnership Program, there has been a significant reduction in funds available to provide assistance."

“The downturn in the economy has had an adverse effect on the nonprofit community regarding access to funding at all levels, including corporate funding, government grants, and foundation funding. In response, our agency has focused on reducing overhead and other costs associated with delivering services to community members while being careful not to compromise quality.”

“As federal dollars become tighter, it is more difficult to get entitlements for people. We serve people with disabilities, but income is a challenge. We can house people and offer assertive community treatment supports, but they still need to eat, pay bills, and use public transportation ... all requiring money.”

Job Availability

“It is hard to find employment for [the LMI] population — they have no high school degree, they have low literacy rates, there are cumbersome and inappropriate public regulations on employment training, and there is a lack of low wage labor opportunities.”

“[We] have recently taken steps to resolve the challenge of finding LMI individuals employment by funding a Job Locator. This Job Locator pilot program is a change in our business model in that we are now funding an entity to aggressively search for jobs for LMI individuals.”

Homelessness

“Our current challenge is increasing participation of homeless prevention clients in ongoing case management to improve their budgeting and life skills to avoid future eviction/utility cutoff risks. Clients express interest in case management, but circumstances intervene to prevent/discourage ongoing participation, thereby reducing effectiveness. We are now working with a research team to survey clients and study what methods best encourage participation and how case management is most effective in improving life situations for those living in poverty.”

“One issue we have worked to resolve is how to serve chronically homeless individuals, and with a new team of peer support specialists, we are providing mobile peer support to individuals and helping them traverse between systems by continuing support after they find housing. This ongoing support has helped individuals stay connected and achieve more behavioral health and housing success.”

Organizational Capacity

“We get far more calls and requests for services than we can handle. We have a small capacity, and the need for repair services is huge. There is also a huge need for fast emergency repairs, but we do not currently have the funding or other resources to carry them out. We are looking to expand capacity to be able to do so.”

Miscellaneous

“As the economy recovers, I wonder if LMI households will be forgotten in the euphoria. It will take time to build back services that were lost. I don’t want to see the LMI population get left behind.”

“We master lease units that are subsidized with McKinney funds. We serve many clients who cannot have utilities turned on in their own names because of bad histories with the utility companies or lack of any type of credit history. We now carry the utility bills in the agency’s name and had to put a system in place to manage the utility allowance through McKinney and the payment of utilities for overages by the clients.”

“The process for LMI households to apply for public welfare lacks transparency, especially when benefits are denied.”

“There is a need for the banks to have more reasonable standards in order to get money moving to finance homeownership and get the economy jump started.”

“There is an unmet need for support services for many LMI households. The supports are key to ensuring housing maintenance and retention. It is less costly, easier, and healthier to maintain folks in housing than to have them in and out of housing, on the streets, and in the shelter system.”

“LMI families need jobs, transportation, and affordable housing in order to provide stable housing for their children. The housing situation and nutrition have a direct impact on the child’s education. Lack of a positive education and progression by the children allows history to repeat itself.”

“Economic development is the key factor that will lead to job development.”

“LMI households need to have access to resources to assist them to increase their knowledge of financial management.”

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.



To view this survey online, scan your smartphone here.

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