

COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES & EDUCATION DEPARTMENT

Household Indicators Suggest Stabilization as Job Availability Continues to Improve

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 encompasses Delaware, southern New Jersey, and the eastern two-thirds of Pennsylvania. To see previous reports or to register as a survey respondent, please visit www.philadelphiafed.org/community-development/community-outlook-survey/.

Second Quarter 2015 Survey Overview

The 2Q2015 Community Outlook Survey was sent to participants in July 2015. A total of 38 organizations responded, providing insight on the conditions and challenges facing LMI communities across the Third District. Additionally, organizations were asked to assess changes in the demand for their services, their capacity to serve their clients' needs, and their funding levels. Together, these indicators provide a picture of the overall balance between the needs of LMI communities and the capacity of local service providers to meet those needs.

Household indicators for 2Q suggest that the economic circumstances of LMI households have remained largely the same since 1Q. Job availability has continued to improve for the fifth consecutive quarter, though it appears that the pace of improvement is slowing. Access to credit and affordable housing availability have varied over the past few quarters without meaningfully improving, while financial well-being has largely stagnated. Aside from job availability, the other household indicators suggest modest deterioration with long-term overall trends toward stabilization, at which point conditions would no longer be deteriorating but are not necessarily improving either.

Organizational indicators for 2Q were similarly unchanged from 1Q. Growing demand for services remained a persistent

challenge, in line with expectations from 1Q. Organizational capacity has continued to improve, while funding has gradually shifted toward stabilization.

Themes from respondents' open-ended comments point to ongoing challenges that have been noted in prior surveys. Positive developments in employment-related indicators continue to be tempered by concerns about job stability and the sufficiency of workers' earnings, particularly those in part-time positions. Furthermore, the disconnection between wage growth and rent increases remains a major barrier to housing affordability. Lastly, while overall organizational funding conditions appear to be stabilizing, a handful of respondents reported severe financial distress resulting from external causes such as a delayed state budget or declining federal subsidy for their activities.

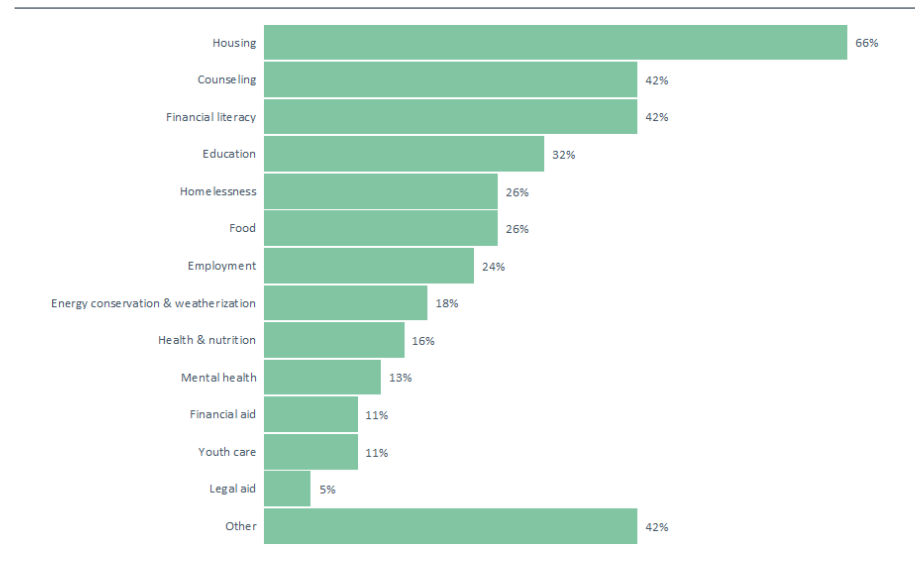
Respondent Breakdown and Observations

Community Outlook Survey participants are senior staff members of organizations that provide direct services to LMI individuals and households in the Third District. In 2Q, a little more than 76 percent of respondents were headquartered in eastern and central Pennsylvania, slightly more than 18 percent in southern New Jersey, and 5 percent in Delaware. There was a substantial variation in the size and assets of respondent organizations, with a median operating budget of \$2.6 million and the middle 50 percent falling between \$800,000 and \$7.9 million.

As displayed in Figure 1, the largest proportion of respondents provide services related to housing (66 percent), followed by those providing counseling and financial literacy services (both 42 percent). In addition to those in the listed categories, other respondents included community development lenders and economic development organizations.

The Community Outlook Survey aggregates respondents' perceptions of how conditions affecting the LMI community and their organizations have changed relative to the previous quarter. The survey also asks respondents to predict how those same indicators will change in the upcoming quarter. A summary of these responses is displayed in Figure 2.

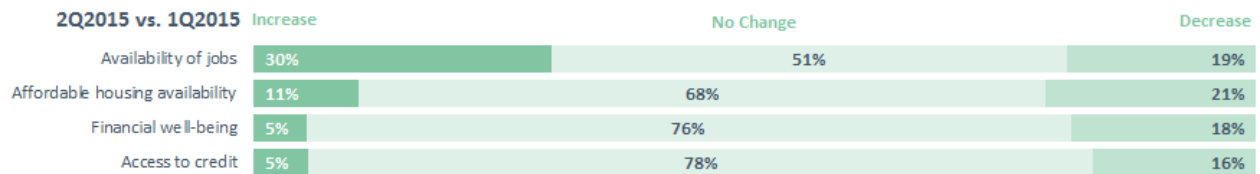
Figure 1: Types of Services Provided (Percentage of Respondents)



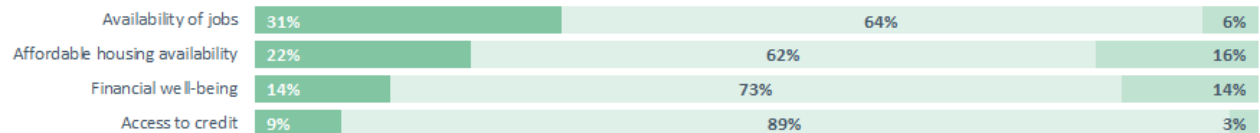
Note: Respondents were permitted to select more than one category.
Source: Federal Reserve Bank of Philadelphia

Figure 2: Survey Responses

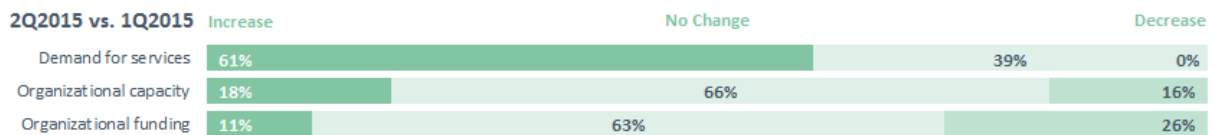
Household Indicators



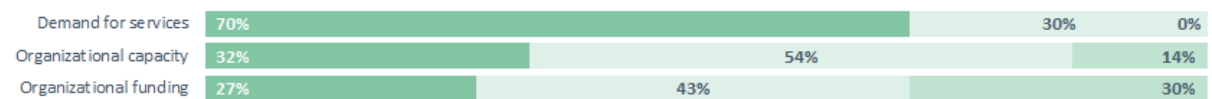
Expectations for 3Q2015



Organizational Indicators



Expectations for 3Q2015



Note: Percentages may not sum to 100 because of rounding.
Source: Federal Reserve Bank of Philadelphia

As in the 1Q survey, the majority of respondents reported no change in any of the household indicators over the past quarter. The proportion of respondents reporting increases in the availability of jobs and affordable housing grew, while the proportion of those reporting increases in financial well-being and access to credit was comparable with that of 1Q. A larger proportion also reported declines in job availability but continued to be outweighed by those reporting increases. While a slightly greater proportion reported increases in access to credit in 1Q compared with 2Q, the proportion reporting decreases was substantially larger in 2Q.

Respondents expressed moderate optimism for 3Q, with larger proportions anticipating improvements in all four household indicators than actually observed improvements during 2Q.

Respondents' assessments of the change in demand for their services and their organizational funding are largely in line with their responses from 1Q, with most observing increases in demand paired with stagnant or declining funding levels. For the third consecutive quarter, a slightly larger segment of respondents reported increases rather than decreases in organizational capacity, though the margin narrowed somewhat.

Again echoing the 1Q survey, respondents reported that they expect the observed trends of the past quarter to continue, foreseeing greater increases in the demand for their services and sustained growth in their organizational capacity. Expectations regarding organizational funding are increasingly polarized, with larger portions predicting both increases and decreases.

Diffusion Indexes

The diffusion indexes* from the 2Q survey are displayed in column A of Table 1. Indexes above 50 signal overall improvement, while those below 50 signal an overall decline. An index of 50 indicates that conditions did not change relative to the previous quarter.

* 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 that indicated a decrease with half the percentage that 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 ^a	D	E ^b
	2Q2015	1Q2015	1-Qtr Change	2Q2014	1-Yr Change
<i>Current conditions relative to previous quarter</i>					
Job availability	55.4	59.1	-3.7	57.1	-1.7
Affordable housing availability	44.7	38.6	6.1	39.1	5.6
Financial well-being	43.4	43.2	0.2	43.6	-0.2
Access to credit	44.6	51.1	-6.5	44.8	-0.2
Demand for services	19.7	18.3	1.4	17.9	1.8
Organizational capacity	51.3	54.8	-3.4	44.9	6.4
Organizational funding	42.1	41.7	0.4	34.0	8.1
	2Q2015	1Q2015	1-Qtr Change	2Q2015	1-Yr Change
<i>Expectations for conditions over the next quarter</i>					
Job availability	62.5	65.9	-3.4	63.2	-0.7
Affordable housing availability	52.7	50.0	2.7	46.7	6.0
Financial well-being	50.0	58.3	-8.3	52.6	-2.6
Access to credit	52.9	53.6	-0.7	48.7	4.2
Demand for services	14.9	20.5	-5.6	19.7	-4.8
Organizational capacity	59.5	63.8	-4.3	54.6	4.9
Organizational funding	48.6	53.8	-5.2	51.3	-2.7

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

^aColumn C is calculated by subtracting Column B from Column A.

^bColumn E is calculated by subtracting Column D from Column A.

Source: Federal Reserve Bank of Philadelphia

Current Conditions

Table 1 shows the mixture of progress and decline reported for household indicators during 2Q. As in 1Q, these results do not suggest an overall strengthening or weakening of LMI households' conditions but rather a continuation of the trends observed over the past few quarters. Though the job availability index had declined since 1Q2015 and 2Q2014, it remains above 50 and continues to indicate overall improvement. Access to credit marked the greatest decline over 2Q, backtracking to roughly the same value as in 2Q2014. As noted previously, the financial well-being index has been essentially level over the past four quarters, suggesting a gradual continued decline in this condition. Notably, the affordable housing availability index has improved substantially over its 1Q2015 and 2Q2014 values, though there was a spike in 4Q2014 that disrupts this trend (see Figure 3).

In terms of organizational indicators, Table 1 illustrates both the similarity to the 1Q findings and the overall improvements over 2Q2014 values, particularly in the organizational capacity and funding indexes. The demand for services index has remained the most stable, suggesting that the challenges of meeting LMI households' service needs have persisted.

Expectations

Respondents are optimistic about the financial stability of LMI households for 3Q, predicting index values above 50 for job availability, affordable housing availability, and access to credit, as well as continued stabilization in the financial well-being index. Compared with 2Q2014, respondents are predicting lower values for each of the household indicators aside from affordable housing availability. Anticipated improvements in affordable housing availability and access to credit contrast recent trends in these indicators, suggesting that respondents may see a turning point ahead.

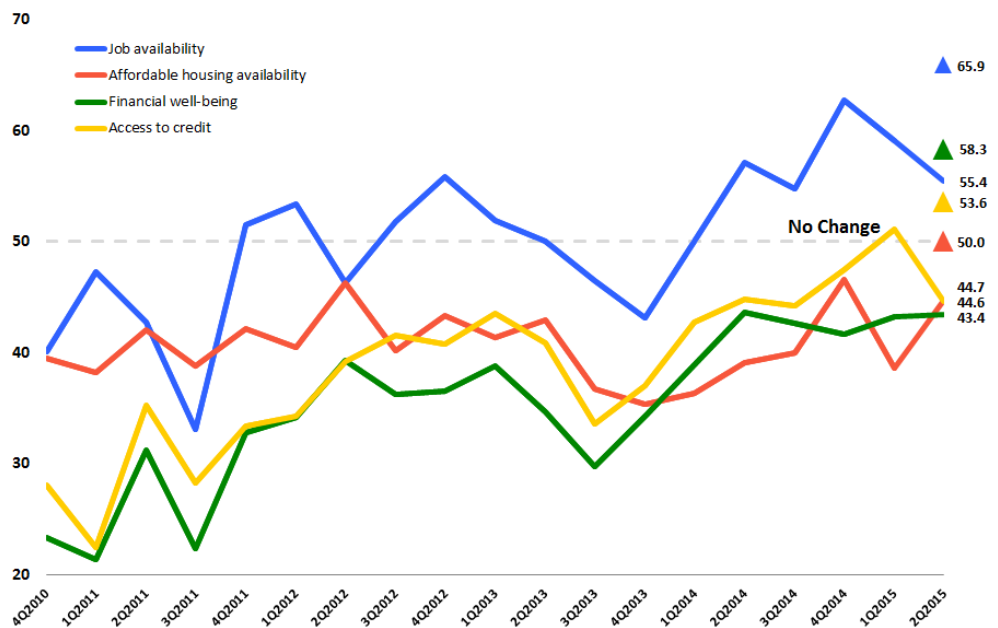
In terms of the organizational indexes, respondents predict that the upward trend in organizational capacity would continue in 3Q, though they had a less positive outlook regarding funding. Respondents continue to anticipate growth in the demand for their services, to an even greater extent than in 1Q2015 and 2Q2014.

Trends

Figures 3 and 4 display the diffusion indexes over time. Each triangle represents respondents' expectations for 2Q2015 as was forecasted in the 1Q2015 survey. For example, in the 1Q2015 survey, respondents predicted that the 2Q2015 affordable housing availability index would be 50.0, whereas the index was actually 44.7.

Continued improvement in job availability — albeit to a lesser extent than anticipated — suggests a meaningful change in the landscape of LMI employment opportunities compared with the first few years in which the survey was administered. Trends in the other three household indicators are less clear; after steady improvement in the first

Figure 3: LMI Household Indicators (4Q2010 to 2Q2015)

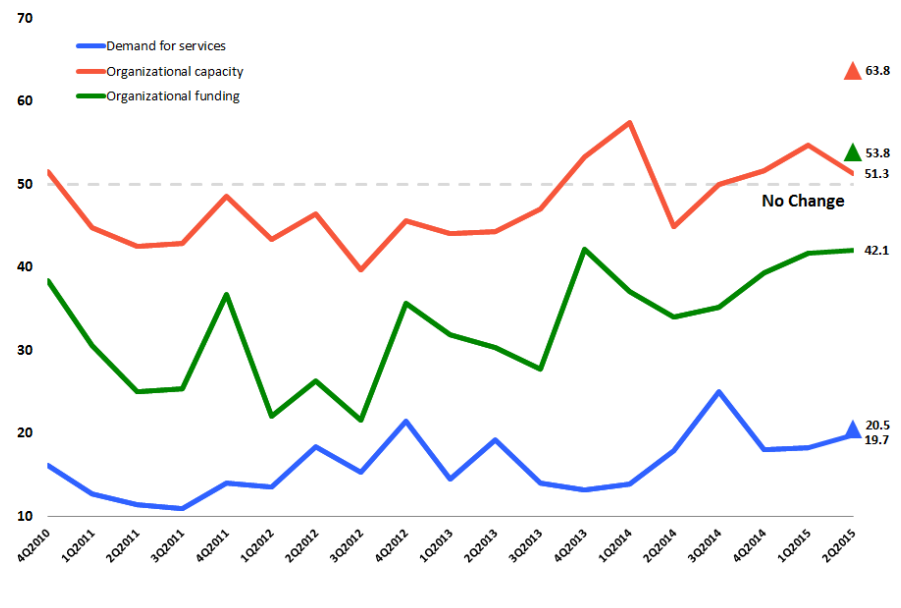


Triangles display respondents' expectations for 2Q2015 based on responses from 1Q2015 survey.
Source: Federal Reserve Bank of Philadelphia

half of 2014, there has been no consistent pattern of change in the past year.

Organizational indicators have remained relatively consistent since the beginning of the survey, though continued overall improvements in the organizational capacity index suggest meaningful, if precarious improvement. However, as demand for services continues to grow while funding deteriorates, there will likely continue to be substantial gaps in organizations' abilities to meet their communities' needs.

Figure 4: LMI Organizational Indicators (4Q2010 to 2Q2015)



Triangles display respondents' expectations for 2Q2015 based on responses from 1Q2015 survey.
Source: Federal Reserve Bank of Philadelphia

Table 2: Challenges Across Time^a

	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12
Challenges affecting LMI households' access to credit														
Lack of cash flow	68	79	77	75	76	75	80	74	77	73	70	77	77	71
Lack of financial knowledge	63	72	60	73	71	65	73	69	79	74	77	71	60	78
Underwriting standards/credit ratings	63	77	68	69	65	60	77	81	83	71	74	71	75	75
Interest rates and other lending costs	29	35	18	24	19	35	29	24	29	20	17	13	9	20
Lack of trust in banks	32	33	26	27	28	24	32	34	31	24	24	18	23	37
Regulatory issues	24	16	10	11	15	16	16	16	18	18	23	9	14	14
Challenges affecting the availability of affordable housing in community														
Development costs ^b	63	63	58	58	56	64	66	66	65	57	67	55	59	66
Lack of capital	55	51	63	64	60	62	61	61	72	73	63	68	69	74
Competition for grant/subsidy funding	74	63	61	65	54	58	61	64	62	58	64	70	69	64
Organizational capacity	26	23	15	35	26	34	31	40	33	33	29	27	22	31
Community opposition	26	14	19	31	27	28	30	24	22	20	35	28	26	31
Regulatory issues	18	16	18	20	19	17	24	27	21	24	17	20	26	21
Lack of demand	3	5	5	5	3	2	1	3	1	2	3	5	3	2
Challenges affecting organizations' financial sustainability														
Lack of government funding	63	60	60	67	78	76	74	79	76	77	75	81	79	77
Lack of grant funding	76	56	60	75	78	63	71	61	68	72	68	76	74	72
Market conditions/lack of earned income	29	21	19	29	33	19	28	21	33	41	36	20	34	28
Lack of bank financing	13	7	6	7	21	17	10	20	18	15	14	15	10	10

^aRespondents were permitted to select more than one category.

^bBeginning in 3Q2011, the category "costs" was changed to "development costs."

Source: Federal Reserve Bank of Philadelphia

Challenges

Each quarter, we ask participants to select the challenges that 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.

The top challenge affecting LMI households' access to credit was the lack of cash flow (indicated by 68 percent of the respondents). Competition for funding (74 percent) and development costs (63 percent) remained the primary challenges to the availability of affordable housing, followed by the lack of capital (55 percent). Finally, the lack of government and grant funding (63 and 76 percent, respectively) remained the top challenges to organizations' financial sustainability.

Selected Comments

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

Housing

"Philadelphia is a city full of empty homes and low-rent housing stock. We are also a city full of homeless people and abject poverty. Yes, we have many 'low-rent' units, but even they are not low enough for the income levels of many individuals and families. We need more subsidies and a long-term plan for education and employment that pays a living wage."

"There is a lack of accessible housing in Philadelphia for clients in wheelchairs and clients with large (six or more people) families."

"Due to challenges locating affordably priced for-sale housing in high-demand counties, we recently began constructing homes for sale to LMI households. Financing this project in a post-recession environment was extremely difficult, but our first six units are presold and near completion. We are unable to do this in lower-valued housing market areas of the state."

"We reopened our home repair program for LMI homeowners, and inquiries have been steadily increasing, but the applicants are slow to return applications that are sent to them and do not respond to follow-up contacts."

Organizational Capacity

"Not having an approved state budget has made it difficult to continue our education programs and to provide food through our food pantry. We have taken out a line of credit from a community bank to hopefully cover our funding needs until the budget is passed."

"We are in danger of having to close for lack of funding. We have had to let one person go."

"We were struggling to find a partner to provide financial literacy education and matched savings programs for families at 61 to 80 percent AMI [area median income]. Our longtime partner agency experienced deep cuts in state funding and federal funding so spots were less available for those under 60 percent and nonexistent for households over 60 percent. We launched an additional partnership with an agency partner that we had previously only done advocacy work with, and it now provides financial education and even greater down payment assistance for our homebuyers who don't qualify or are wait listed for the other agency's program."

"The main issue that we have in serving people is finding and hiring enough qualified staff."

Household Financial Stability

"Homeless families often lack the resources and/or role models for successful homeownership. Therefore, it is vital for organizations to build in financial literacy, budgeting, and homeownership counseling into their programs. Set them up for success from the beginning!"

"It is getting more challenging to help consumers and to combat these predatory [payday loan] products. We need more short-term dollar loans at reasonable cost for consumers."

"After a meeting with a client to assess options to stabilize the financial condition and to develop an action plan, we lose a few of them. Often, the action plan requires a major lifestyle change (manage money differently). This is true whether our clients come for credit help, foreclosure help, or tax help. We have also heard from some clients that they have a physical inability to come where services are located or do not have transportation. We have observed that some clients lack the very basic math skills needed to work a budget. In response to these factors, we are experimenting with a way to build trust, be more accessible, and take it very slowly with our clients. In July, we launched an e-communication with clients who promise to work with us for 52 weeks. Each week, the assignments will be very small — for example, check your bank statement for fees or find a friend who does hair/nails."

Employment

“In our area, \$20 per hour is needed to pay market rent. Many jobs are in production and in warehouses, and many are filled through temporary agencies with very little opportunity for permanent positions. Pay scales are not keeping up with housing costs, especially for renters.”

“Official unemployment rates continue to decline but only because LMI households have given up finding a full-time, living wage job.”

“Increased supply in the casino industry throughout the northeastern U.S. continues to put considerable strain on the Atlantic City MSA economy. The area will continue to lose jobs and population for the next several years.”

Survey Methodology

The Federal Reserve Bank of Philadelphia’s Community Outlook Survey, a quarterly online poll, was first launched in January 2011, covering 4Q2010 data. 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 this code with your smartphone.

Any questions, concerns, or comments about the Community Outlook Survey should be addressed to Eileen Divringi at phil.cosurvey@phil.frb.org.