

COMMUNITY OUTLOOK SURVEY.

Second Quarter 2011

FEDERAL RESERVE BANK OF BOSTON
Regional & Community Outreach

ABOUT THE SURVEY The Boston Fed's New England Community Outlook Survey asks service providers to comment on the financial and economic conditions of the region's low- and moderate-income (LMI) communities and the organizations that serve them.^{1,2} Respondents identify changes in conditions, top challenges, and emerging concerns. This inaugural report describes the results of the survey covering the second quarter of 2011. We convey responses in narrative form as well as in a series of charts and tables, including quarterly indexes tracking changes in variables such as job availability, availability of affordable housing, and demand for services. The data may be useful for informing organizations' strategic planning, community development research, and public policy. For electronic copies of this report and accompanying materials, please visit <http://www.bostonfed.org/commdev/>.

Introduction

Service providers pointed to a continued decline in the economic and financial conditions of New England's lower-income households and communities in the second quarter. The lack of job opportunities and the impact that cuts in federal, state, and local spending have had on communities top the list of main challenges. Survey respondents reported that the financial well-being of households declined sharply in the second quarter and explained that this was the result of a combination of factors including income loss, cost-of-living increases, and fewer public and philanthropic resources for community development programs and emergency services such as food, health, and shelter assistance. Service providers identified challenges with education, including educational attainment, workforce development, and personal finance, and high costs of living as emerging concerns.

Top Challenges Facing LMI Communities

When asked to identify the most important challenges facing LMI communities, service providers chose availability of job opportunities, state and local budget cuts, and federal budget cuts as the top three (Figure 1). Access to affordable housing and home foreclosures rounded out the top five most frequently cited responses.

Respondent Quotes

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The safety net for the unemployed and low-wage earners is becoming more and more fragile...It is fine to talk about home ownership, asset development, and college education, but if a person is hungry, it's unlikely to be very successful.

—Rhode Island

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FIGURE 1

TOP 10 CHALLENGES FACING LOW- AND MODERATE-INCOME COMMUNITIES

Percentage of respondents



Note: Respondents were able to choose more than one answer.

Source: Community Outlook Survey (Q2 2011)

Diffusion Indexes: Tracking Changes in Conditions

We use the diffusion indexes in Figure 2 to track changes in conditions of LMI households and the organizations that serve them. Service providers responded to each item by indicating whether conditions during the second quarter “increased” (or “improved”), “decreased” (or “declined”), or remained unchanged. The indexes are calculated by subtracting the percentage of service providers that responded “decreased” from the percentage of service providers that responded “increased.” The exception is the Demand for Services Index, which is calculated by subtracting the percentage of service providers that responded “increased” from the percentage of service providers that responded “decreased.” An index above zero indicates that the attitudes of the service providers are positive. An index below zero indicates that the attitudes of the service providers are negative.

Most of the indexes have been below zero since we began collecting data in the fourth quarter of 2010, and all but the Organization Funding Index showed a decline from the first quarter to the second quarter. The lowest indexes for the second quarter are the Financial Well-being Index and the Demand for Services Index. More detail on the themes emerging from the diffusion indexes and other data is provided below.

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We need some employment opportunities.

—New Hampshire
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Lack of Job Opportunities a Key Challenge for Lower-Income Communities

Service providers cited the lack of job opportunities as the most important challenge facing LMI communities (Figure 1). They also reported a tighter job market in the second quarter than in the first quarter, as reflected in our Job Availability Index (Figure 2). Nearly 40 percent of service providers said that job availability decreased in the second quarter, while only 15 percent said that it increased. Expectations for job availability over the next quarter are more neutral, with an almost even split between those who expect job availability to increase and those who expect it to decrease.

While we do not have job openings data broken out for New England or for lower-income communities, we do know that nationwide, the job openings rate (openings divided by employment plus openings) was up to 2.3 in June

FIGURE 2
DIFFUSION INDEXES FOR LOW-AND MODERATE-INCOME INDICATORS

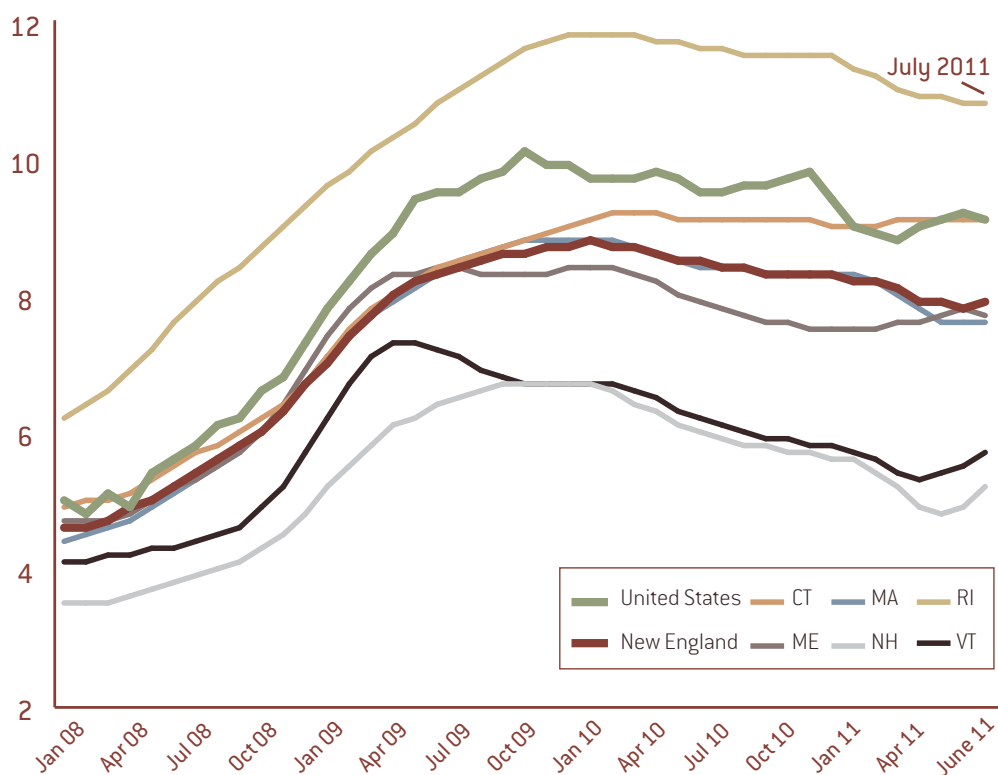
	2nd qtr 2011	1st qtr 2011	4th qtr 2010
Current conditions relative to the previous quarter			
Financial well-being	-51.9	-45.6	-57.1
Job availability	-24.5	-12.7	-23.2
Availability of affordable housing	-12.5	7.1	5.4
Access to credit	-34.9	-32.1	-25.0
Demand for services	-55.5	-52.6	-36.2
Organizational capacity	-15.5	-11.9	0.0
Organizational funding	-30.0	-30.5	-13.8
Current conditions relative to one year ago			
Financial well-being	-67.9	-45.6	-62.5
Job availability	-23.8	-7.3	-14.3
Availability of affordable housing	-6.7	21.8	9.3
Access to credit	-45.7	-28.3	-25.5
Demand for services	-58.2	-45.8	-41.4
Organizational capacity	-18.2	6.8	-6.9
Organizational funding	-41.8	-33.9	-25.9
Expectation for conditions over the next quarter			
Financial well-being	-38.1	-12.7	-33.9
Job availability	-5.6	22.2	14.5
Availability of affordable housing	-7.5	5.6	3.8
Access to credit	-19.8	-13.2	-15.7
Demand for services	-57.3	-54.2	-58.6
Organizational capacity	-10.9	-10.2	-6.9
Organizational funding	-33.6	-28.8	-29.3

Source: Community Outlook Survey (Q2 2011)

Jobs, jobs, jobs, jobs
—Massachusetts

Wages have not kept up with the increased costs... More low- to mid-income people will be worse off in the year ahead.
—Massachusetts

FIGURE 3
U.S. and New England Unemployment Rates
Seasonally adjusted



Source: U.S. Bureau of Labor Statistics

2011 from its recession-level low of 1.7 in October 2009, and was stagnant in the second quarter.³ New England’s unemployment rate, which has remained below the national average during the recession and recovery, has slowly declined from a high of 8.8 percent in January 2010 to 7.9 percent in July 2011 (Figure 3). The downward trend in unemployment rates reflects the fact that, among other factors, some people have found jobs and others have left the labor force to pursue training or because they have become discouraged and have given up searching for a job. Unemployment rates vary widely across the region. State unemployment rates range from 5.2 percent in New Hampshire to 10.8 percent in Rhode Island, the state with the fifth-highest unemployment rate in the nation. Several of the region’s larger and mid-sized cities have unemployment rates well above the national average (Figure 4).

Strong Concern about Impact of Public Sector Budget Cuts on the Social Safety Net

The economic slowdown and drop in property prices have resulted in sharp decreases in public revenues, necessitating spending cuts at the federal, state, and local levels. Eighty-four percent of service providers identified state and local budget cuts as one of the most important challenges facing LMI communities, and 70 percent cited federal budget cuts; combined, 88 percent of respondents cited some

form of public sector budget cuts as an important challenge (Figure 1). In their written responses, service providers cited concerns about the impact of budget cuts on a broad range of programs, such as transportation, workforce training, and health care, and were most concerned about the impact on social safety net programs, such as emergency food, health, and shelter assistance. In Connecticut, for example, the state had to cut \$25 million from more than two dozen job training, economic development, and tourism programs over the current fiscal year and next (FY2012-2013).⁴ In another example, Massachusetts has made cuts to programs for children, youth, and families such that funding for these programs in FY2012 will be 15 percent less than their comparable 2009 levels.⁵

FROM OUR RESEARCH: Service providers cited a concern for organizations' ability to sustain capacity as both nonprofit organizations and public sector agencies are being asked to do more with less.

Budget cuts are coming at a time of strong increased demand for services (and may indeed be contributing to the increase), as reflected in our Demand for Services Index (Figure 2). Sixty-one percent of respondents saw an increase in demand for their services over the last quarter versus the 6 percent that saw a decrease, and 60 percent of respondents expect an increase in demand for their services over the next quarter, while only 2 percent expect a decrease.

Additionally, respondents identified a decrease in funding for organizations: The Organizational Funding Index was -30.0 for current conditions relative to the previous quarter and -41.8 for current conditions relative to the previous year. Expectations over the next quarter are also negative, with 47 percent of service providers expecting funding to decrease and only 13 percent of service

FIGURE 4
MID-SIZED AND LARGER NEW ENGLAND CITIES WITH UNEMPLOYMENT RATES ABOVE THE NATIONAL AVERAGE

City	Unemployment Rate
Lawrence, MA	16.8
Hartford, CT	16.4
Waterbury, CT	14.5
Bridgeport, CT	14.3
Providence, RI	14.0
Fall River, MA	13.9
New Haven, CT	13.8
New Bedford, MA	13.1
Springfield, MA	12.0
Brockton, MA	10.8
Cranston, RI	10.5
Lowell, MA	10.3
Worcester, MA	10.0
Lynn, MA	9.4

Note: Figures are for June 2011; the national unemployment rate for that month was 9.1 percent
Source: U.S. Bureau of Labor Statistics/ Haver Analytics

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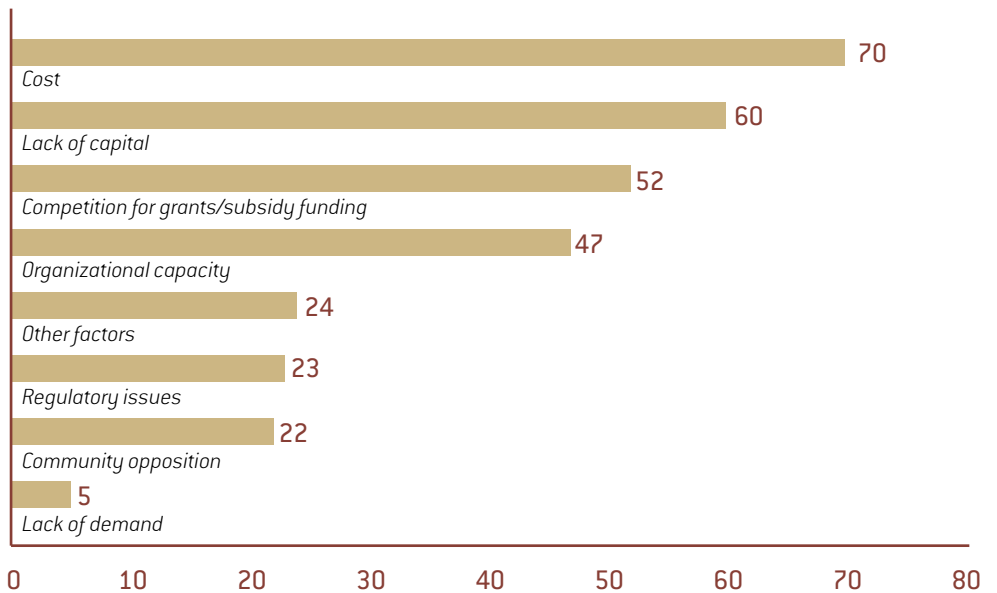
There are expectations of 15 to 20 percent in cuts to state funding over the next two years...Organizations have less access to funding, while the need for help keeps increasing as more families face unemployment or lower wages and increasing costs of living.
—Vermont

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providers expecting it to increase. In written responses, some service providers cited a concern for organizations' ability to sustain capacity as both nonprofit organizations and public sector agencies are being asked to do more with less. That said, our nonfinancial Organizational Capacity Index remained close to neutral at -15.5 for current conditions relative to the previous quarter and -10.9 for expectations over the next quarter.

FIGURE 5 FACTORS THAT MOST AFFECT THE AVAILABILITY OF AFFORDABLE HOUSING

Percentage of respondents



Note: Respondents were able to choose more than one answer.

Source: Community Outlook Survey (Q2 2011)

Grim Outlook for LMI Households'

Financial Well-Being

In written responses, many service providers told a common story about the financial fragility of LMI households. Temporary or long-term job losses have decreased incomes, or wages have not kept up with increased costs of living. There are few mechanisms for lower-income families to generate a return on their savings, and many have lost wealth with the decline in home prices. Many individuals have lower credit scores and/or are highly leveraged, and therefore look less favorable to lenders. Cuts in public programs result in fewer resources for those who need temporary assistance or would benefit from affordable housing or other community development programs. The combination of cyclical and long-term trends leaves many families financially vulnerable, and respondents indicated that they do not expect things to get better soon.

The Financial Well-being Index (measuring households' ability to fund basic needs, stay current on debt service, and save and invest for the future), the broadest of our LMI Indexes, reflect this narrative. Over the last quarter, 56

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Increasingly, the working poor are unable to meet their basic needs, especially housing costs, with one or even two incomes.

—Maine
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percent of service providers saw the financial well-being of households decline, while only 5 percent saw it improve. The index identifies a slightly improved outlook for the next quarter, with 48 percent of respondents expecting households' financial well-being to decline and 10 percent expecting it to improve. While stark, these numbers resemble other consumer outlook data. According to a McClatchy-Marist poll in August, 68 percent of adults surveyed about the economy said they felt the worst was yet to come. Only 25 percent expected their finances to improve over the next year (down from 28 percent in July), and 26 percent expected their own economic situation to worsen over the coming year (up from 20 percent in July).⁶

Our survey respondents expressed concern about both the short-term financial ability of households to weather the storm and the long-term impact on their wealth. A recent report by the Pew Research Center identifies the decline in wealth by race and ethnicity during the most recent recession.⁷ From 2005 to 2009, inflation-adjusted median wealth (assets minus debts) fell by 66 percent among Hispanic households and 53 percent among black households, compared with just 16 percent among white households. As a result of these declines, in 2009 the typical black household had just \$5,677 in wealth; the typical Hispanic household had \$6,325; and the typical white household had \$113,149.

Other Main Challenges and Emerging Issues

This section discusses two topics that appeared both on the respondents' list of most important challenges facing communities and on our LMI Indexes, affordable housing and access to credit, and two emerging issues cited in written responses, education and cost-of-living increases.

Affordable Housing

The Affordable Housing Index was relatively neutral for the second quarter, at -12.5 for current conditions relative to the previous quarter, and -6.7 for current conditions relative to the previous year (Figure 2). The majority of respondents (55 percent) said they expect conditions to remain unchanged over the next quarter. When respondents were asked which factors most affect the current and future availability of affordable housing, the top three factors cited were cost, lack of available capital, and increased competition for grant/subsidy funding (Figure 5). Service providers also pointed to additional factors that affect the availability of affordable housing, including discrimination based on national origin or the presence of children (because owners would be required to remove lead paint from rental properties), limited sites available for development, and the June 1 tornado that destroyed affordable housing in Western Massachusetts.

Access to Credit

The Access to Credit Index declined in the second quarter to -34.9 for current conditions relative to the previous quarter and -45.7 for conditions relative to the previous year (Figure 2). A sizable majority of respondents (65 percent) believe that access to credit will stay the same over the next quarter, but the overall

Jobs are becoming scarcer. Housing and energy costs continue to rise, and the availability of low-income housing has not increased to meet the higher demand.
—Rhode Island

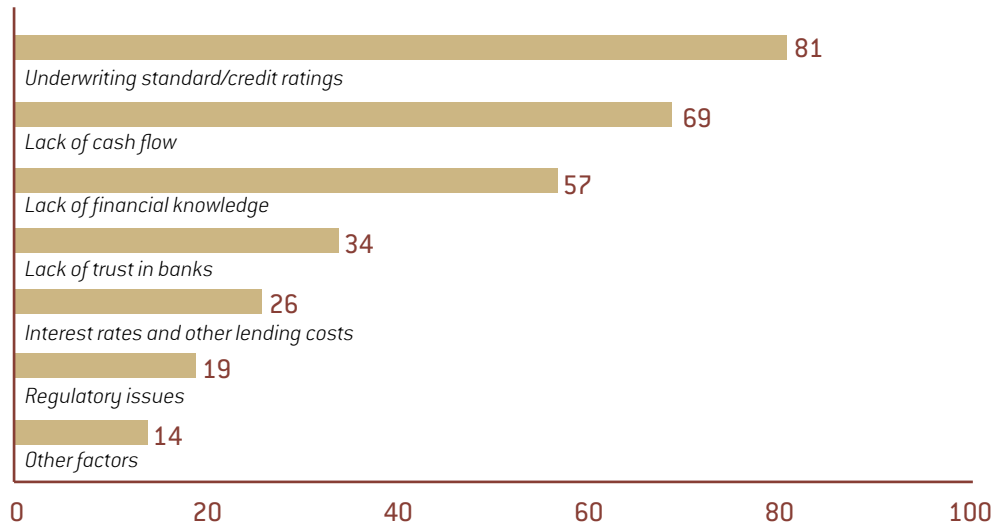
FROM OUR RESEARCH: Affordable housing was also affected by discrimination, limited sites available for development, and the June 1 tornado that destroyed housing units.

There is enough money available to lend, but businesses that are credit worthy are not borrowing until they see a clear end to this recession.

—Connecticut

FIGURE 6
FACTORS THAT MOST AFFECT ACCESS TO CREDIT

Percentage of respondents



Note: Respondents were able to choose more than one answer.

Source: Community Outlook Survey (Q2 2011)

index, at -19.8, indicates that, on balance, respondents expect a further decline. When asked to name those factors that most affect their clients' access to credit, the majority of respondents cited the following top three factors: underwriting standards/credit ratings, lack of cash flow, and lack of financial knowledge (Figure 6). Service providers also cited other factors that affect the availability of credit in LMI communities, including language and cultural barriers, the large down payment now being required for mortgages, and the need for technical assistance training for business owners.

Educational Attainment, Workforce Training, and Financial Literacy Training

In response to the question “Is there any emerging issue affecting LMI communities that you are concerned about?” many service providers cited problems with education. More specifically, a triad of problems related to education was identified: poor educational attainment, a lack of adequate workforce training, and the need for additional financial literacy training. Respondents discussed the need to overhaul the education system and raise educational attainment so that people can move out of poverty. Some highlighted a mismatch between available jobs and qualified workers to fill them, and noted that current vocational and community college programs are not able to bridge this gap. The Boston Fed’s New England Public Policy Center recently released a report indicating that a mismatch between the skills demanded by employers and the skills supplied by the population may be under way in New England, particularly for “middle-skill” jobs. According to the authors, “the nature of the mismatch varies within the region, indicating that policy makers should tailor their potential responses.”⁸ Several service providers also said that financial literacy training for their small business clients would help them improve their cash flow and interact with lenders.

Cost-of-Living Increases

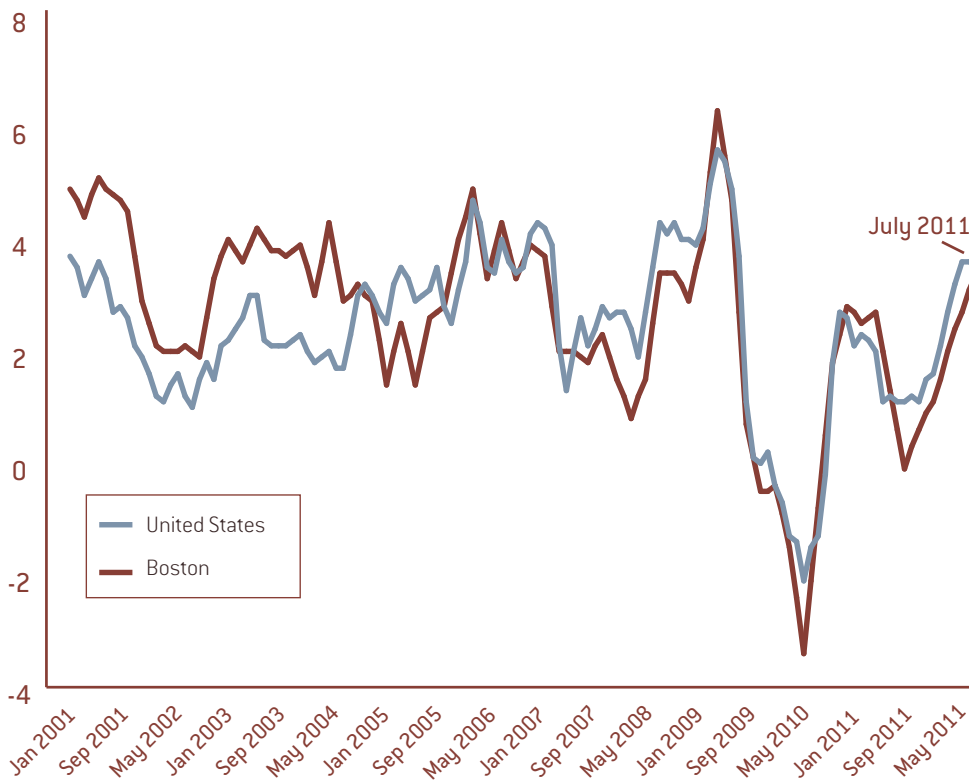
Concern over cost-of-living increases was another frequently mentioned emerging issue for LMI communities in New England. Increases in food and energy costs were cited most often, but respondents also indicated that the cost of clothing, health insurance, and other basic needs is also increasing.

Consumer prices in the Boston metropolitan area and the nation rose in June, bringing year-over-year headline inflation rates to 3.1 percent and 3.6 percent, respectively (Figure 7). The over-the-year increase in Boston-area prices was driven by higher energy prices (up 23.9 percent from a year ago). Energy prices rose more modestly in the nation, up 20.1 percent. If food and energy are excluded, Boston's core inflation rate rose 0.9 percent, with price increases in medical, education, and other goods and services more than offsetting price decreases in shelter and recreation. The core inflation rate in the nation was 1.6 percent in June.

FIGURE 7

CONSUMER PRICE INDEX

Percentage change, year over year



Source: U.S. Bureau of Labor Statistics/ Haver Analytics

Home heating is another significant challenge for the LMI community in rural New England... It is not unusual anymore for monthly winter heating costs to exceed the monthly mortgage payment for seniors and families.
—Massachusetts

.....
The challenges are multidimensional and require a cross-sectoral approach. I would argue that all of these topics are related and intertwined with local recovery for households and communities.
.....

—Massachusetts

Conclusion

Service providers identified a continued decline in the economic and financial conditions of lower-income households and communities in New England in the second quarter. Their responses prompt questions for consideration by policy makers, funders, community development and social service organizations, and researchers. Is there a case to be made for funders and organizations to shift some of their focus in the short term toward meeting households' immediate financial and economic needs? What are the long-term economic and social costs of any additional public sector budget cuts and how should these costs be factored into policy choices? Are there ways municipalities, funders, and service organizations can collaborate and share resources for the purpose of offsetting declines in funding? Given the increased demands placed on service organizations, how are they maintaining capacity, and are these strategies sustainable? Looking forward, what are some additional fiscal tools for providing municipalities "rainy day" funds to be drawn on in difficult economic times? LMI communities and many of the organizations that serve them are reeling from the effects of the economic recession and slow recovery, and it is projected that we are likely to remain in an extended period of protracted slow growth and continued high unemployment.⁹ As such, it is crucial that we find ways to promote the financial and economic stability of lower-income communities and strengthen the organizations that support them.

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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.
- ² 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.
- ³ U.S. Bureau of Labor Statistics/ Haver Analytics.
- ⁴ Keith Phaneuf, "With Layoffs Come Cuts to Job, Economic Development Programs," *The CT Mirror*, July 15, 2011. <http://www.ctmirror.org/story/13293/layoffs-come-cuts-worker-training-and-economic-development-programs>.
- ⁵ "Budget Monitor: The Fiscal Year 2012 General Appropriations Act," Massachusetts Budget and Policy Center. http://www.massbudget.org/file_storage/documents/FY12%20GAA.pdf.
- ⁶ Tony Pugh, "Americans Are Feeling Worse about Their Economy," McClatchy Newspapers, August 12, 2011. <http://www.mcclatchydc.com/2011/08/11/120356/americans-are-feeling-worse-about.html>.
- ⁷ Rakesh Kochhar, Richard Fry, and Paul Taylor, "Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics, Twenty-to-One." Pew Research Center. <http://pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>.
- ⁸ Julia Dennett and Alicia Sasser Modestino, "The Middle-Skills Gap: Ensuring an Adequate Supply of Skilled Labor in Northern and Southern New England," *New England Public Policy Center Policy Brief 11-1*, Federal Reserve Bank of Boston, November 2010. <http://www.bos.frb.org/economic/neppc/briefs/2011/pb111.htm>.
- ⁹ Federal Reserve Board of Governors press release on the August 9, 2011, meeting of the Federal Open Market Committee. <http://www.federalreserve.gov/newsevents/press/monetary/20110809a.htm>.

Survey Methodology

In January 2011, the Boston Fed launched the New England Community Outlook Survey, a quarterly online survey that gauges the financial and economic conditions of the region's lower-income communities and the organizations that serve them. This is the first published report of the survey.

Respondents represent organizations providing 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, 110 service providers from a variety of sectors and each of the six New England states were asked to respond to 23 multiple-choice and fill-in questions.¹ Below is a breakdown of respondents by state and by the sector in which their organization primarily does business:

State	Percent of Survey Sample	Percent of New England Population ¹
Massachusetts	33	49
New Hampshire	16	10
Connecticut ¹	15	19
Maine	15	10
Vermont	13	5
Rhode Island	9	8
	100	100

Primary Business	Percent of Survey Sample
Affordable housing	28
Economic development	26
Other	45
	100

Data collected represent the opinions of service providers that complete 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.

For a copy of the survey instrument or to register as a respondent, please visit: <http://www.bostonfed.org/commdev/>.

¹Excluding Fairfield County, CT.