BUSINESS | EMPLOYMENT | CONSUMER CREDIT | HOUSING | CAPACITY
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NINTH DISTRICT Insight

A Front-Line Perspective on the Economic Health of Low- to Moderate-Income Communities

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SECOND QUARTER 2013

OVERVIEW

In 2nd quarter 2013, the Minneapolis Fed's Community Development Department surveyed community development organizations, including housing and economic developers, lenders, and service providers, to assess the economic well-being of low- to moderate-income (LMI) communities in the Ninth District. The survey included questions related to housing market conditions, employment conditions, consumer credit, business vitality, the capacity of community organizations to serve LMI households, and the impacts of the Affordable Care Act legislation. Respondents were representative of the broad range of organizations that serve LMI communities in the Ninth District, and their responses reflect the economic conditions of more than 200 cities and towns across the District.

Key Findings

For 2nd quarter, four indicators related to LMI community economic health showed overall improvement across the Ninth District. Among the positives were increased business openings, increased access to credit for both agricultural and non-agricultural business owners, and increased employment and job training opportunities for disadvantaged and dislocated workers. Indicators related to housing opportunities for LMI households showed continued decline or no improvement. When asked, "What are the most pressing issues related to community development in the LMI communities you serve," the majority of respondents cited lack of affordable housing and lack of living-wage jobs.

See page 2 for issue-specific findings. State-level results for all survey questions appear in the accompanying Supplemental Graphs *document.*

Key Findings: Issues at a Glance

Business Vitality

Respondents report continued increases in business openings and access to credit. However, new or less established businesses continue to experience challenges.

- 41 percent reported increased **business openings** in LMI communities.
- 37 percent reported that the ability of agricultural businesses in LMI communities to obtain the amount of credit they need has increased.
- 21 percent said that the ability of non-agricultural businesses in LMI communities to obtain the amount of credit they need has increased.

Employment Opportunities

Respondents report continued improvement in employment opportunities for disadvantaged and dislocated workers. However, skills mismatch remains a challenge in both urban and rural areas across the District.

- 45 percent reported increased employment opportunities for disadvantaged and dislocated workers in LMI communities.
- 39 percent reported a decrease in the ability of business owners in LMI communities to **recruit and retain workers** with the "right" skills.
- Anecdotal comments indicate continued high unemployment rates for younger and older workers with mismatched skills.

Consumer Credit Conditions

Consumer debt remains high for LMI households, but fewer respondents report continued increases. High debt loads and the use of payday lenders continue to raise concerns among financial service providers.

- 24 percent said that the amount of LMI **household consumer debt** has increased (38 percent reported an increase in Q4 2012).
- Anecdotal comments indicate growing concern about **high student loan debt**.

Housing Opportunities

Homeownership and rental opportunities for LMI households have either declined or remain unimproved.

- 51 percent reported a decrease in LMI households' ability to find affordable rental housing that meets their needs.
- 31 percent said that creditworthy LMI households' **ability to obtain a mortgage** has decreased.
- Anecdotal comments indicate decreased participation in first-time homebuyer programs.

Community Organizations' Capacity to Meet Service Needs

Community organizations reported a continued increase in the number of "formerly middle-class" households seeking assistance. Rising demand for services coupled with fewer resources remains an ongoing challenge for many service organizations.

- 48 percent reported that the number of **"formerly middle-class" households** seeking assistance has increased.
- 32 percent said their ability to meet the needs of clients seeking services has declined.

Response to Affordable Care Act

Respondents were polled about organizations' responses to the federal Affordable Care Act rules and provisions. Business, nonprofit, and local government entities appear to be facing similar challenges and reported the following issues:

- Instances of **employers cutting hours or not hiring** in order to remain below the threshold required for insurance.
- Concerns about increased operating costs related to record-keeping and employee benefits.
- Uncertainty regarding the new provisions, regarding both obligations and impacts.

"Ninth District Voices"

ILLUSTRATIVE COMMENTS FROM SURVEY RESPONDENTS

"The standards for extending credit continue to be stringent. Interest rates are very attractive, but financing is not readily available for start-up or innovative businesses."

—Community redevelopment agency, mixed urban & rural area, MT

"Businesses are doing better, have confidence that they will continue to do well and some are ready to expand by buying new equipment, hiring staff, or moving into larger space, or all three."

—Community development corporation, urban area, MN

"There is pent-up demand in the manufacturing sector so businesses are attempting to hire new workers. The downside is that many [laborers] are underqualified for the higher-skilled positions and unwilling to start at an entry level position that offers the chance for advancement."

—County economic development corporation, mixed urban & rural area, WI

"[Student loan debt] is impacting graduates' ability to qualify for other loans, especially home mortgages. The result is that many recent graduates are paying more in rent than they would have to pay on a home mortgage."

—Community bank, rural area, MN

"Many [households] have lost their homes or can no longer afford childcare, or medical and dental care when working part-time or for reduced wages. Housing and transportation remain a huge problem in our rural area."

—Community Action Agency, rural area, MN

"There is a shortage of affordable housing in [our region] and the gap between housing costs and income continues to widen. Financing and subsidies for affordable housing are insufficient."

—Housing redevelopment agency, mixed urban & rural area, MT

"We are seeing small nonprofit service providers and intermediaries defer full-time hiring decisions or replacing full-time positions with part-time jobs below 30 hours to avoid incurring the additional costs of the Affordable Care Act."

—Community bank, mixed urban & rural area, MN

Data Notes/Methodology

A total of 311 organizations from a sample of on-the-ground experts responded to the Minneapolis Fed's online survey, yielding a 22 percent response rate and 94 percent cooperation rate. Respondents were encouraged to respond only to topic areas that pertain to the work of their business and the customers they serve. The survey contained ten closed-ended questions where respondents were asked to compare current conditions to those prevailing six months ago by indicating whether indicators had "decreased," "stayed the same," or "increased." The survey also included 16 open-ended questions where respondents were asked to share relevant observations, comments, and anecdotes. All numbers and percentages reported are for valid cases only. Numbers for the Upper Peninsula of Michigan are suppressed because there are fewer than ten cases.

The respondent pool included:

- 93 community banks
- 79 housing developers and housing service providers
- 75 community economic developers*
- 37 employment and job service training providers
- 35 health and human service providers
- 33 financial education providers
- 30 community and neighborhood organizations
- 24 non-bank lenders†
- 14 university extension service providers
- 9 tribal organizations
- 5 foundations
- 3 trade associations

*Including small business technical assistance providers
†Including intermediaries, CDFIs, credit unions

Ninth District LMI Economic Index, Q2 2011 to Q2 2013

The **LMI Economic Index** measures overall change in community conditions. The Index ranges from 0 (most deterioration in conditions) to 200 (most improvement in conditions) where a value of 100 equals neutral. A number less than 100 indicates overall deterioration and a number greater than 100 indicates overall improvement. Indicators are ordered from greatest to least Districtwide deterioration based on second quarter 2013 survey responses. Index values for previous quarter surveys are provided where comparisons are available.

	Q2_2013	Q4_2012	Q2_2012	Q4_2011	Q2_2011
LMI households' ability to find affordable rental housing that meets their needs	58	72	73	50	48
The number of "formerly middle-class" households seeking services from community organizations	59	65	55	--	--
Ability of business owners in LMI communities to recruit and retain workers with the "right" skills	73	85	74	68	95
The ability of creditworthy LMI households to obtain a mortgage	75	74	74	54	69
LMI community organizations' ability to meet the needs of clients seeking assistance	83	78	78	80	80
Amount of consumer debt carried by LMI households	91	78	75	56	49
Access to credit for non-agricultural business owners in LMI communities	114	86*	87*	62*	48*
Business openings in LMI communities	134	111	107	101	95
Access to credit for agricultural business owners in LMI communities	134	--	--	--	--
Employment opportunities for disadvantaged and dislocated workers in LMI communities	135	116	111	87	73

How the LMI Economic Index is calculated

Respondents were asked to gauge changes in LMI community conditions by comparing current conditions with those that prevailed 12 months earlier using the response categories "decreased," "stayed the same," or "increased." For indicators where an increase is considered positive, the index numbers are calculated by subtracting the percent of respondents who answered "decreased" from the percent of respondents who answered "increased" and adding 100. For indicators where an increase is considered negative, the index numbers are calculated by subtracting the percent of respondents who answered "increased" from the percent of respondents who answered "decreased" and adding 100.

*Previous quarter surveys asked respondents to assess credit access for all business owners and did not separate out non-agricultural businesses from agricultural businesses. Qualitative information gathered from previous quarter surveys indicates that credit access for agricultural businesses, on average, has been looser than that for non-agricultural businesses, so it is still reasonable to assume that overall credit access has improved for non-agricultural businesses in comparison to six months ago.