



# Community Issues & INSIGHTS

## **Community Issues and Insights 2023: Inflation Remains a Burden and Consumer Debt is on the Rise**

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The Federal Reserve Bank of Cleveland's Community Issues Survey (CIS) collects information semiannually from direct service providers to monitor economic conditions and identify issues impacting low- and moderate-income (LMI) households in the Fourth District—a region that includes Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. In March 2023, we surveyed more than 600 service providers who directly serve LMI individuals and communities across our District and received 95 responses (15 percent response rate). The results of this survey, summarized here, provide insights into how organizations and the households they serve are faring as they continue to navigate the impacts of inflation.

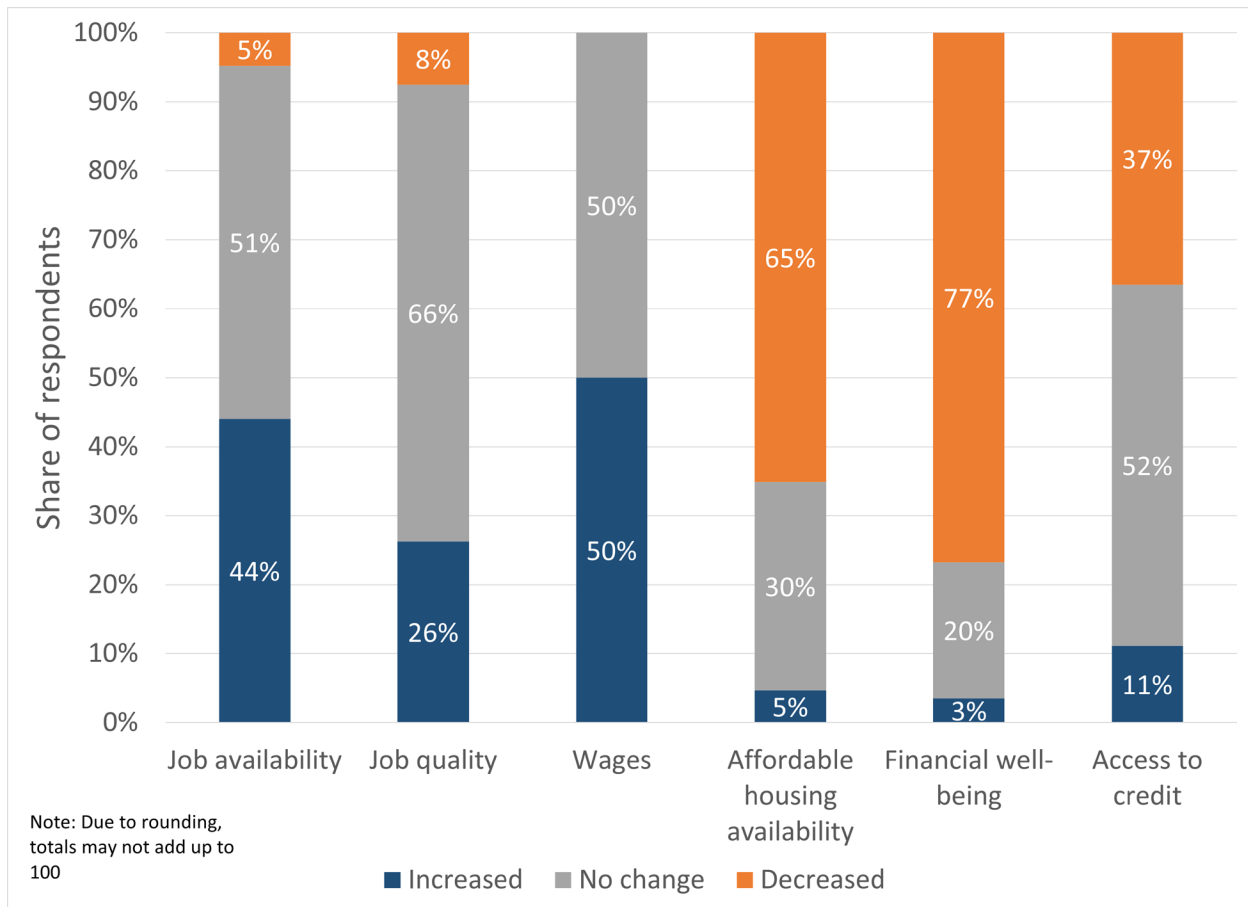
### **Key Findings**

- Forty-four percent of respondents said that job availability for LMI workers increased in the past 6 months, down from 78 percent respondents who said the same in the March 2022 survey. The majority of respondents (51 percent) said there was no change (Figure 1).
- Sixty-five percent of respondents said the availability of affordable housing continues to decrease (Figure 1). This has been a consistent trend since the first CIS in 2018, and the index is near its lowest point.
- Seventy-seven percent of respondents reported that financial well-being for LMI people decreased, primarily due to inflation impacts. The majority of respondents said access to credit is unchanged over the past 6 months (Figure 1).
- Respondents' top concerns were the lack of affordable housing, continued impacts of inflation on household budgets, and the impact from the ending of expanded SNAP benefits.
- Nonprofit organizations report the demand for their services remains high, while both funding and capacity remain steady.

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The views expressed in this report are those of the author and are not necessarily those of the Federal Reserve Bank of Cleveland or the Board of Governors of the Federal Reserve System. The responses expressed in this report reflect the perspectives of those responding to the survey; they do not necessarily represent the perspectives of all organizations within the Fourth District.

**Figure 1. Change in Economic Conditions of LMI Households in the Six Months Prior to March 2023**



### What is a Diffusion Index?

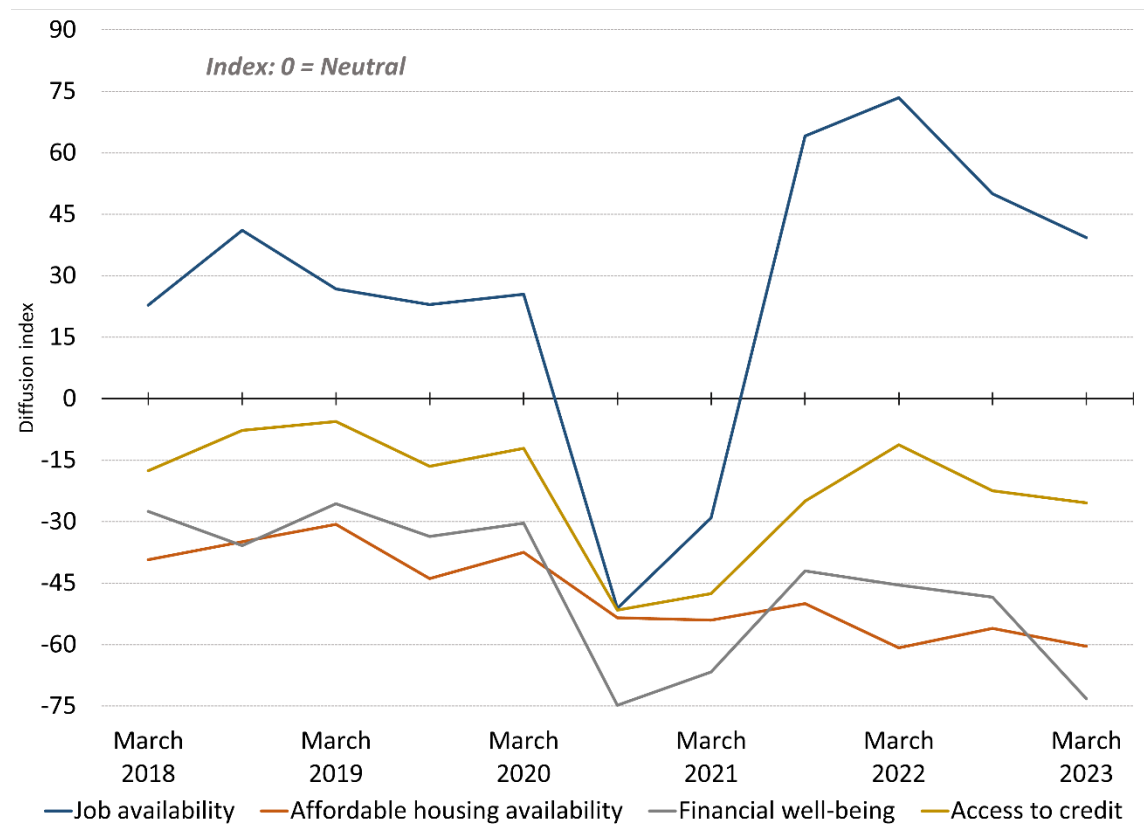
A diffusion index is a useful way of summarizing data to understand if something is improving or worsening over time. In the diffusion indices shown in this report, each response to a survey question is tallied as increased, decreased, or no change. That survey question’s diffusion index is then calculated by subtracting the percent of decreased responses from the percent of increased responses. An index value greater than zero means that the average response indicates improving conditions, and a value less than zero means that the average response suggests worsening conditions.

The highest value of 100 would occur if every respondent believed a condition was improving, while the lowest value of –100 would occur if every respondent believed it was worsening. When we compare the values over time, we get a sense of how conditions are changing. For more information on the calculation, see the Survey Methodology section.

## Economic Conditions in LMI Households

We build a diffusion index from each survey question so we can observe trends in the responses over time. According to the March 2023 survey, job availability remains elevated, but it is moving closer to prepandemic levels, while both affordable housing availability and financial well-being are near their lowest points (Figure 2). Regarding housing, survey respondents expressed concerns over rising rents, shrinking supply, and fewer landlords accepting Section 8 vouchers. For financial well-being, many respondents expressed concern over inflation’s continued strain on LMI households’ budgets.

**Figure 2. State of LMI Households**



Inflation continues to impact household budgets, so survey respondents were asked which price increases had the greatest impact. Increase in rent and food prices topped the list, followed by utilities and transportation costs (Table 1).

**Table 1. Price Increases Having the Greatest Effect on LMI Households’ Budgets**

Category	Share (percent)
Rent	30
Food	29
Utilities	19
Transportation	18
Childcare	2

**Table 1. Price Increases Having the Greatest Effect on LMI Households' Budgets**

<b>Medical bills or medication</b>	<b>1</b>
<b>Other</b>	<b>2</b>
<b>Total</b>	<b>100</b>

### Top Issues Impacting LMI households in the Fourth District

#### **Job availability: Currently strong but beginning to ebb**

Job availability for LMI households remains strong as employers continue to have many open positions. Employee shortages for employers was the primary reason respondents cited for increases in job availability. Other reasons cited were increased retirements, the lack of childcare options, the resuming of construction projects, and economic growth such as new businesses opening and increased manufacturing (in Dayton). Said one respondent, “childcare, especially reliable services, have always been lacking. Many community members have triaged solutions with ‘informal’ or unregulated in-home services because women [who are] desperate to get back to work have had to improvise.” While 44 percent of respondents said that job availability for LMI workers increased in the past 6 months, that percentage is down from the peak of 78 percent reported by the March 2022 survey, and it is moving closer to pre-pandemic levels. Only 5 percent of respondents said that job availability was decreasing, but such responses may be indicative of a growing trend. One Southeast Ohio respondent commented that “our clients are the ones that are usually the first to be laid off. We are beginning to see reductions in hours and the reduction in jobs in our area.” Job quality remains high, and the wages paid continue to increase due to competition among businesses to attract and retain workers. However, “significant challenges remain, especially with respect to childcare, elder care, transportation, and the ability of people to participate in training and upskilling—they need income and are unable to participate in the training without stipends and other supports.”

#### **Affordable housing: Concerns over rising rents and shrinking supply**

Several respondents noted rising rents, evictions, and a shortage of affordable housing resulted in a rise in homelessness and more families’ moving in with relatives. According to multiple respondents, fewer landlords are accepting Section 8 vouchers, and this is contributing to the housing shortage. Respondents pointed out that rising interest rates make it more expensive to buy, build, or rehab units. Others expressed concern that out-of-town and institutional investors are crowding out first-time buyers or LMI households by making cash purchases of homes. Kentucky respondents noted the loss of housing during the July 2022 eastern Kentucky floods. One wrote that the “the flooding damaged nearly one-third of all homes in the counties affected. Housing was already scarce. We now have families living in campers with no available housing to move them into. Housing is a crisis in this region.” Rebuilding homes takes time, too—a respondent in Dayton wrote, “there are many fewer affordable units available due to the loss of thousands of units after the 2019 tornadoes.”

#### **Financial well-being: Rising inflation continues to strain LMI households’ budgets**

Most respondents (77 percent) said that financial well-being for the people they served decreased in the past six months. Concern about inflation was cited by 41 percent of respondents, up from 32 percent in the March 2022 survey. Nonprofit respondents reported increased demand for their services due to rising costs for food, shelter, and utilities. One respondent noted that food pantry usage is up 30 percent

compared to prepandemic levels. Another mentioned an increase in first-time users. Several respondents cited the aftermath and recovery from the July 2022 flood in eastern Kentucky. According to one, “the families affected by the flood lost nearly everything. Having to purchase everything they owned all over again put a huge financial strain on them that they may never recover from.” In addition to relying on social service organizations and food pantries, households are coping with the rise in prices through a combination of aggressive budgeting, prioritizing, cutting back, buying less, and doing without.

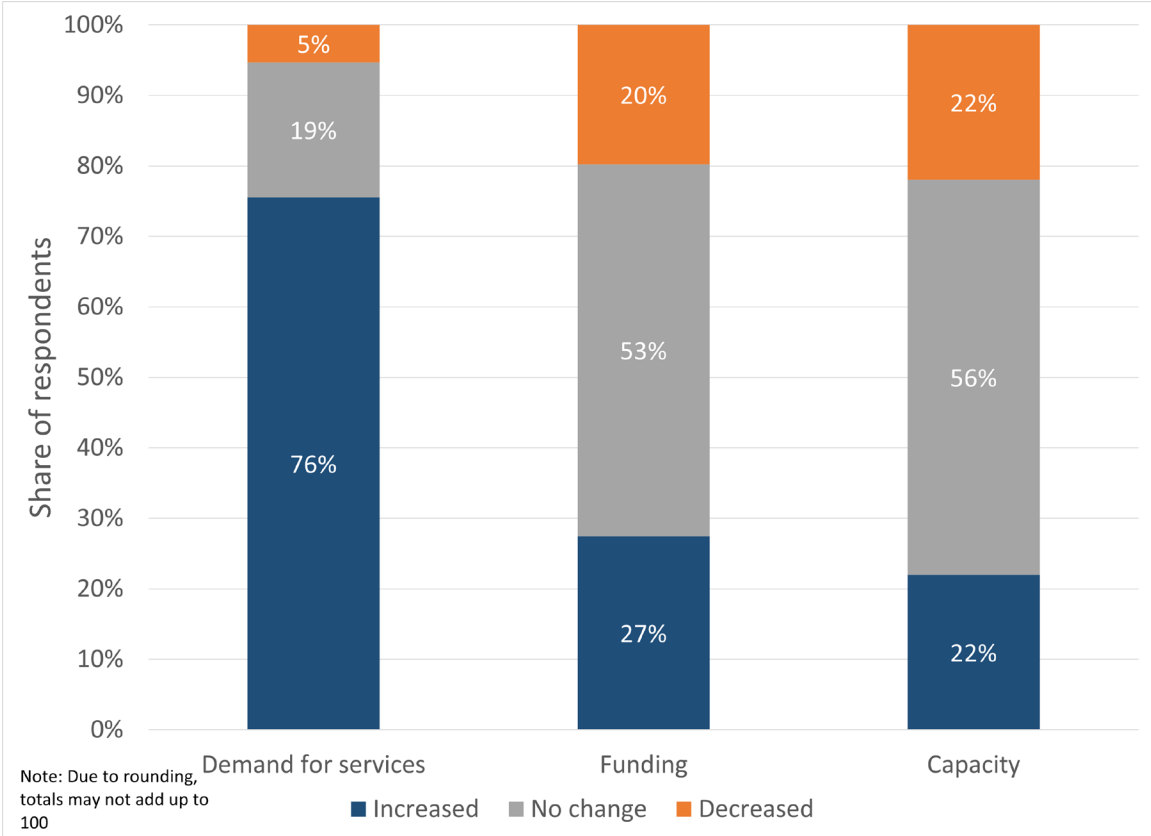
#### **Access to credit: High interest rates raise the cost of borrowing**

A majority of respondents (52 percent) said access to credit was unchanged over the past 6 months, while 37 percent said it declined. Some contacts who offer loan products to households and businesses noted increased demand due to rising interest rates. For example, one community service provider saw a rise in applications for their zero-interest small-dollar loans, and a community development financial institution reported that more individuals were seeking funding through their enterprise because of higher interest rates at local banks. Higher interest rates make it more expensive to use credit, and one respondent wrote, “most everything is more expensive and daily needs are eating up a major portion of people’s budgets. That leads to credit card debt, which is compounded by super high interest rates creating a never-ending debt cycle that is hard to stabilize, let alone get out of.”

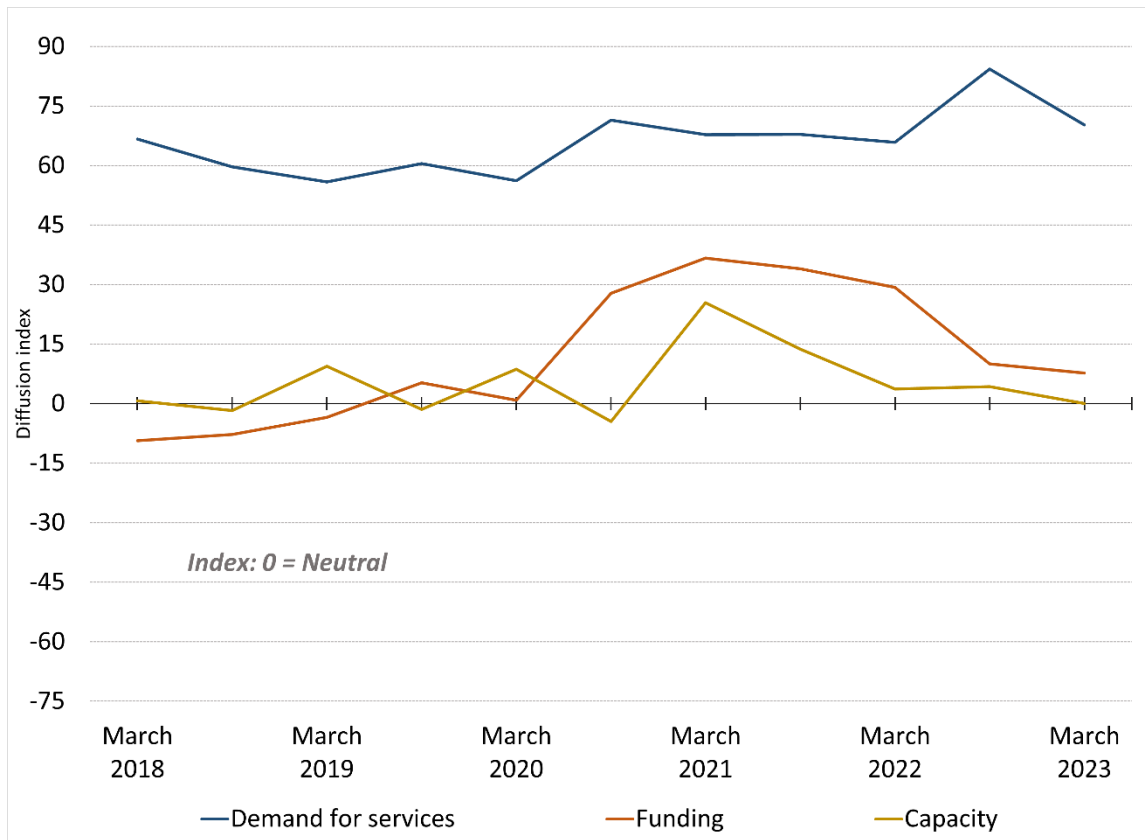
#### **How Organizations that Serve LMI Households Are Faring**

In the March 2023 survey, 76 percent of respondents indicated that demand for their services increased (Figure 3), and this demand is expected to remain high in the coming months following the expiration of expanded SNAP benefits. The current job market continues to make it difficult for nonprofit organizations to retain and hire staff, and the ending of pandemic-related funds is expected to impact budgets. This trend can be seen in Figure 4, as funding sources increased during the pandemic years and have since leveled off.

**Figure 3. Change in Nonprofit Organizations' Operations in the Six Months Prior to March 2023**



**Figure 4. State of Organizations that Serve LMI Households**



**Top Issues Impacting Organizations that Serve LMI Households**

**Demand for services: Demand remains high**

Many respondents said that rising prices are straining budgets and causing households to reach out to their organizations. Others attributed increased demand to new programs attracting new clients. Several respondents anticipated increased demand in the coming months following the expiration of extra SNAP benefits. One community service provider said, “with the ending of the SNAP emergency allotment last month, we expect to see a significant surge in demand for emergency food assistance.”

**Capacity and funding: The current job market continues to make it difficult for nonprofit employee retention and hiring, and pandemic-related federal funds are expiring**

Some organizations touted an increased capacity due to a combination of new hires and new funding, but others had concerns about retaining staff, attracting new staff, and turnover. One respondent wrote, “tight operating budgets restrict the level of compensation and benefits for staff. This leads to challenges in attracting and retaining staff as well as limiting the recruiting pool to less-experienced candidates.” While several respondents noted the expiration of pandemic-related funds, a handful reported continued funding. The temporary nature of some nonprofit funding can also impact hiring; one respondent commented that some funds are short-term “so it is difficult to meet our fundamental capacity need, which is manpower. Temporary funds don't attract the type of skilled employees we need.”

## Conclusion

The March 2023 Community Issues Survey examined the state of LMI households and the organizations that serve them during a time of high inflation and high interest rates. From the responses, we learned that job availability remains strong but shows signs of slowing. Affordable housing is in short supply, and the shortage is leading to a rise in homelessness and more families' moving in with relatives. Rising prices on a range of essential goods and services are creating extreme financial strain on LMI households, and higher interest rates make borrowing more expensive. Demand remains high for nonprofit organizations. While government money has helped them to expand programs, the tight job market and increasing wages have made it difficult to hire and retain the necessary talent to serve families most in need. According to respondents, the expiration of pandemic-related funds is expected to impact budgets.

## Survey Methodology

The Federal Reserve Bank of Cleveland developed this survey tool to elicit perspectives from community stakeholders that directly serve LMI individuals and communities on key issues impacting the economic mobility and resiliency of those populations. In March 2023, the online survey was distributed to more than 600 individuals working in direct service organizations in the Fourth District; 84 completed the survey. The following tables show the types of organizations that provided responses to the survey and in which states the organizations were located.

### Respondents by Organization Type

Organization Type	Share (percent)
Community service provider*	45
Government entity	17
Neighborhood and housing development organization	13
Foundation/funder	8
Community development financial institution	6
Workforce development board	3
Other	8
<b>Total</b>	<b>100</b>

\*Community service providers include organizations such as community action agencies and social service organizations

### Respondents by State\*

State	Share of respondents (percent)	Share, 2019 population (percent)
Ohio	76	69
Kentucky	12	12
Pennsylvania	11	19
West Virginia	2	1

\* Shares may not sum to 100 due to rounding.



### Type of Clients Predominantly Served\*

Clients	Share (percent)
Urban	53
Rural	39
Suburban	9

\* Shares may not sum to 100 due to rounding.

### Survey Methodology: Diffusion Indices

The replies of survey respondents to questions related to the conditions of the LMI communities they serve and the organizations they represent are calculated to build the LMI Community Index and Organization Index. The calculation and example that follow are a guide to better understand the information provided in the indices:

$$\text{Diffusion Index} = (I - D) * 100$$

I = increase (% of observations)

D = decrease (% of observations)

Index > 0 indicates improving conditions

Index = 0 is neutral

Index < 0 indicates worsening conditions

Example: A decrease in the index from 40 to 20 would indicate that conditions have still improved but that more respondents are stating that conditions are worsening.