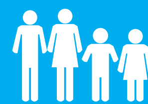
Weathering the Great Recession: Did High-Poverty Neighborhoods Fare Worse?

Between 2007 and late 2009, the nation lost more than 6.4 million jobs, experienced a 12 percent drop in home values, and had a dramatic increase in foreclosures.[1] The Great Recession had devastating impacts for families at every rung of the economic ladder, affecting residents of both high- and low-poverty neighborhoods. However, in many ways, families in high-poverty neighborhoods were experiencing hard times before the recession hit, making any additional losses that much more harmful to their economic prospects.

This issue brief explores how residents of high- and low-poverty neighborhoods fared in terms of employment, wages, wealth, and housing losses during the Great Recession.[2] Past research by Pew's Economic Mobility Project has shown that neighborhood poverty is a powerful driver of Americans' economic mobility, pointing to the importance of environment for long-term economic success.[4] As efforts to bolster the recovery continue, exploring whether the recession was more or less severely felt by families in different neighborhoods can provide insight into where policy interventions can most effectively promote economic mobility.



$21,203
annual household income

The official **poverty line** in 2007 for a family of four, as defined by the United States Census Bureau.[3]

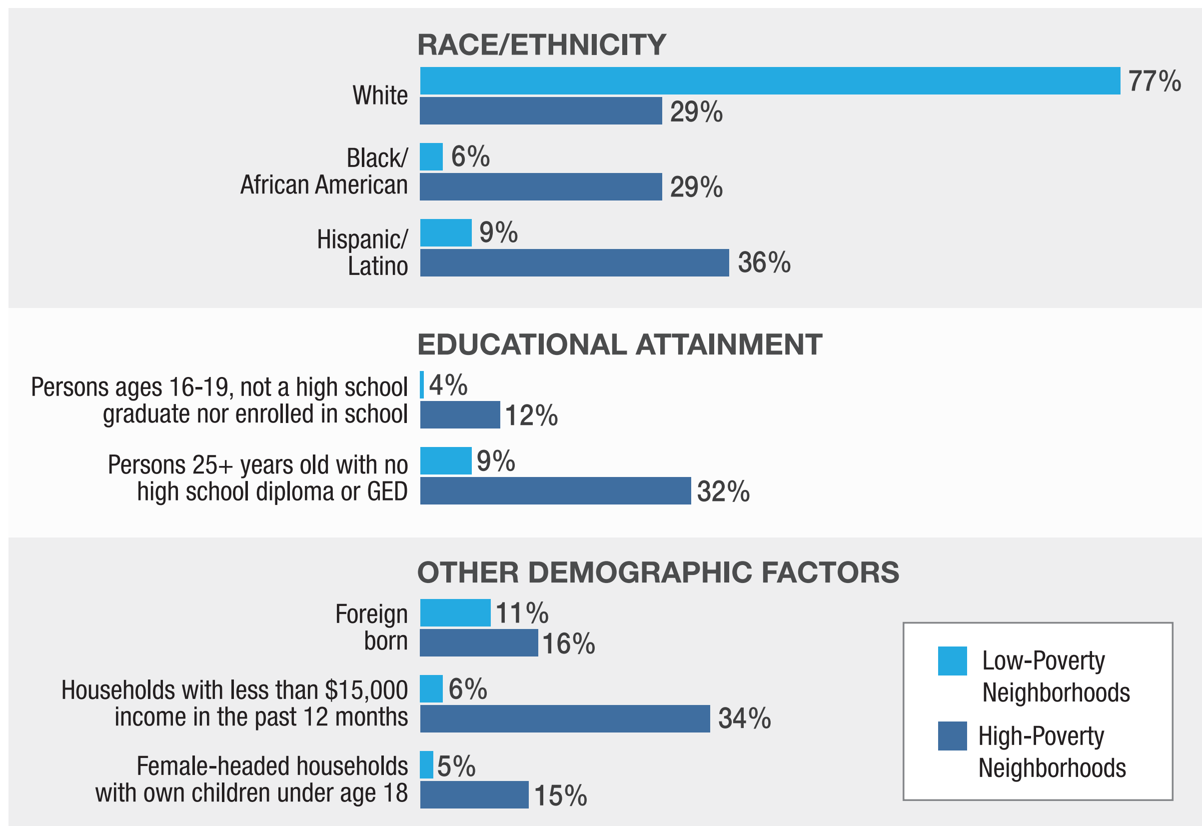
- **High-poverty neighborhoods** are defined as those with 30 percent of the population or more living in poverty.
- **Low-poverty neighborhoods** are defined as those with less than 10 percent of the population living in poverty.
- **Neighborhoods** are defined by census tracts or small subdivisions of a county that average about 1,500 households and 4,000 residents.

Key Findings

There were no differences by neighborhood type in the proportion of residents who had wage losses or family income losses greater than 20 percent.

During the recession, between 9 and 10 percent of household heads experienced a wage loss of more than 20 percent, and nearly a quarter of families lost more than 20 percent of their incomes. This was the case in both low- and high-poverty neighborhoods.

FIGURE 1:
Low- and high-poverty neighborhoods have notable demographic differences



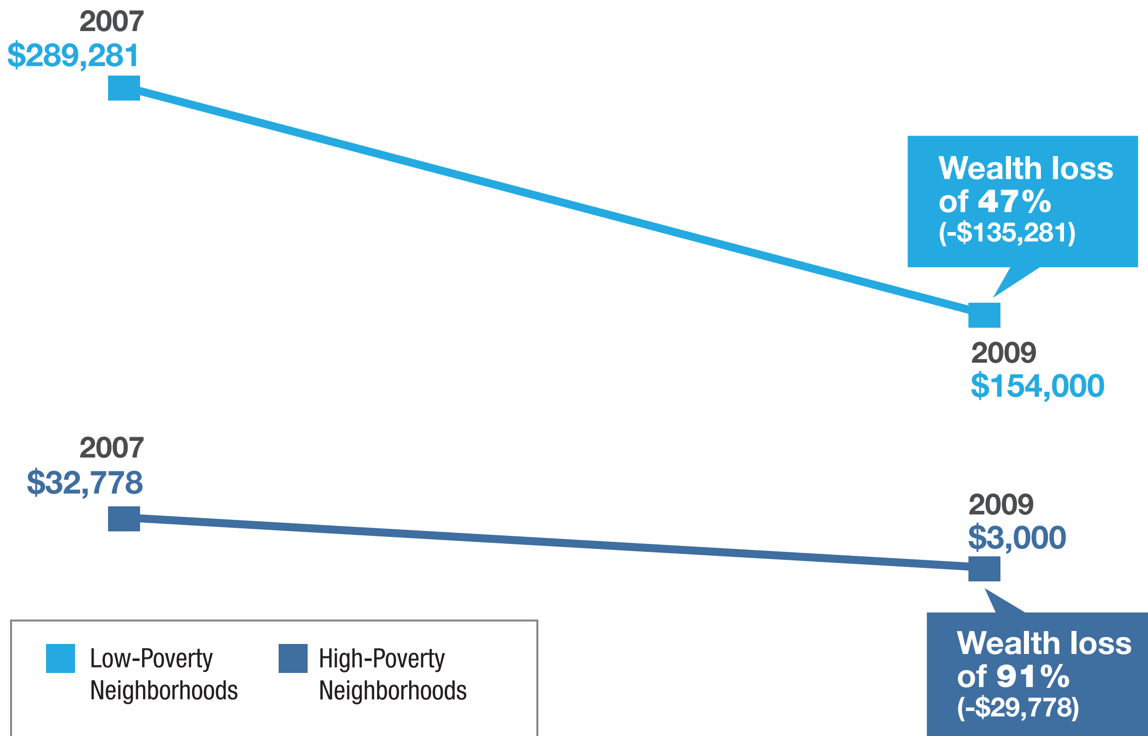
NOTES: Statistics are weighted by total population of census tracts. All differences compared with high-poverty neighborhoods are significant at the 1 percent level. The "white" and "black/African American" categories include only those who self-identify as non-Hispanic.

SOURCE: American Community Survey five-year estimates 2005-2009.

Families in high-poverty neighborhoods experienced smaller absolute dollar losses in wealth, but higher percentage losses than those in low-poverty neighborhoods.

A defining factor of the Great Recession was the tremendous wealth loss experienced by families. Between 2007 and 2010, median family wealth dropped nearly 40 percent.[5] About 62 percent of families in low-poverty neighborhoods experienced wealth losses during the recession, compared with half of families in high-poverty neighborhoods. Also, the absolute losses in median wealth were substantively higher for families in low-poverty neighborhoods ($135,281) than for families in high-poverty neighborhoods ($29,778) (see Figure 2). This is partly due to the fact that families in low-poverty neighborhoods started with greater wealth.[6]

FIGURE 2:
Families in high-poverty neighborhoods had lower absolute dollar losses in wealth, but higher percentage losses



NOTES: Wealth is a measure of total net worth from 2007-2009 and is inflated to 2009 dollars using the Consumer Price Index research series (CPI-U-RS). All differences compared with high-poverty neighborhoods are significant at the 1 percent level.

SOURCE: Panel Study of Income Dynamics 2007-2009.

While families in high-poverty neighborhoods lost less wealth in absolute terms, their wealth losses reflect a 91 percent decline in their overall wealth. For families in low-poverty neighborhoods, their wealth losses reflect a 47 percent decline.

Families in low-poverty neighborhoods were the most likely to be homeowners and to have experienced home equity losses.

While wealth losses during the recession were certainly impacted by declines in families' investments and businesses, by far the largest driver of wealth loss was the collapse of the housing market.[7] Those in low-poverty neighborhoods were significantly more likely to own their homes and significantly less likely to be renters throughout the recession than residents of other neighborhoods. Seventy percent of those living in low-poverty neighborhoods owned their homes

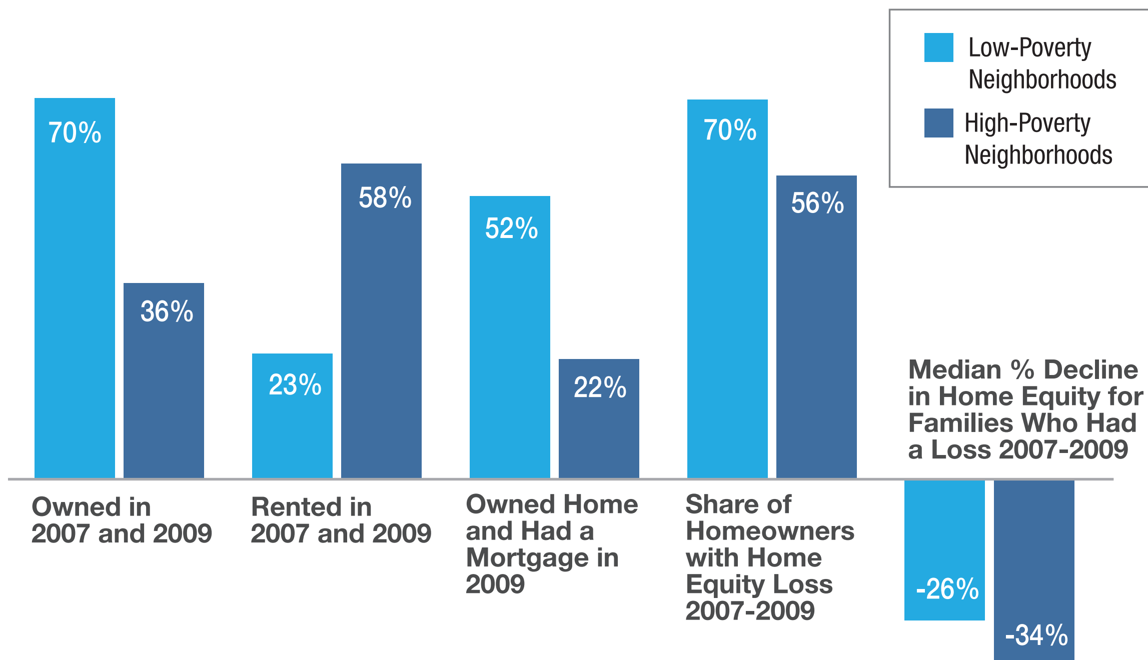
throughout the recession, compared with 36 percent of those living in high-poverty neighborhoods (see Figure 3). Conversely, 58 percent of those in high-poverty neighborhoods rented during this period, compared with 23 percent of those in low-poverty neighborhoods.

Notably, the magnitude of home equity declines was comparable across the different neighborhoods during the recession. Losses in home equity ranged from 26 percent in low-poverty neighborhoods to 34 percent in high-poverty neighborhoods, but were not statistically different by neighborhood type. However, homeowners in low-poverty neighborhoods were by far the most likely to experience any loss in home equity during the recession. Fully 70 percent of homeowners in low-poverty neighborhoods experienced a loss of home equity between 2007 and 2009, compared with 56 percent of homeowners in high-poverty neighborhoods (see Figure 3).

Families in high-poverty neighborhoods were the most likely to be behind on mortgage payments and to expect to be behind on payments in the next 12 months.

FIGURE 3:

Families in low-poverty neighborhoods were the most likely to own their homes and the most likely to have experienced a home equity loss during the recession



NOTE: All differences compared with high-poverty neighborhoods are significant at the 1 percent level.

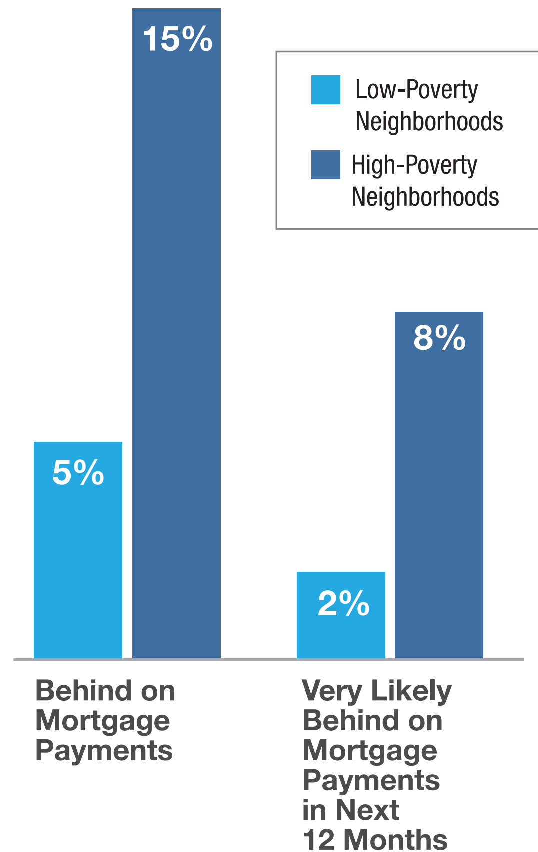
SOURCE: Panel Study of Income Dynamics 2007-2009.

Homeowners in low-poverty neighborhoods were the most likely to have a mortgage in 2009. Just one-fifth (22 percent) of homeowners in high-poverty neighborhoods had a mortgage on their homes, compared with more than half (52 percent) in low-poverty neighborhoods (see Figure 3). Therefore, homeowners in low-poverty neighborhoods were more exposed to the impact of the housing bust than those in high-poverty neighborhoods.

Still, homeowners in high-poverty neighborhoods were the most likely to report difficulty making mortgage payments. They were three times more likely to report being behind on their mortgage payments than those in low-poverty neighborhoods. They also were four times more likely to say they expected to be behind on their mortgage payments in the next year (see Figure 4).

FIGURE 4:

Homeowners in high-poverty neighborhoods were about four times more likely than homeowners in low-poverty neighborhoods to report mortgage distress



NOTE: All differences compared with high-poverty neighborhoods are significant at the 5 percent level.

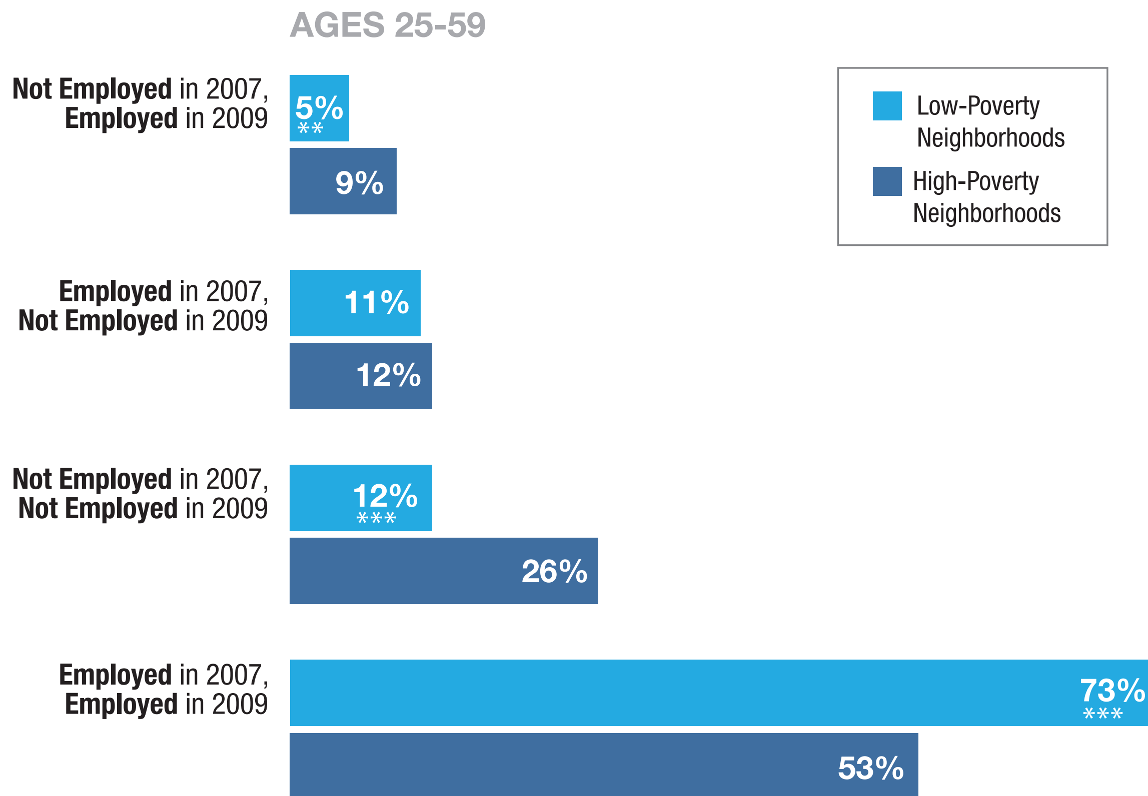
SOURCE: Panel Study of Income Dynamics 2007-2009.

Those in high-poverty neighborhoods were the least likely to be employed and the most likely to be unemployed during the recession.

One of the defining factors of the Great Recession was the high unemployment rate, which peaked at just over 10 percent in October 2009. Just over half (53 percent) of those living in high-poverty neighborhoods were employed in both 2007 and 2009, compared with more than 7 in 10 individuals in low-poverty neighborhoods.[8] And more than a quarter of those in high-poverty neighborhoods were unemployed in both years, compared with 12 percent in low-poverty communities (see Figure 5).

Women living in high-poverty neighborhoods were twice as likely as women in low-poverty neighborhoods to be jobless in both 2007 and 2009.

FIGURE 5:
Those in high-poverty neighborhoods were the least likely to be employed before and during the recession



NOTES: "Employed" is defined as currently employed by the time of 2007 or 2009 interview. "Not employed" includes temporary laid off, unemployed, retired, student, and other non working status. *** $p<0.01$, ** $p<0.05$, the difference is compared with high-poverty neighborhoods.

SOURCE: Panel Study of Income Dynamics 2007-2009.

Meanwhile, 20 percent of men in high-poverty neighborhoods were jobless in both periods, compared with 8 percent of men in low-poverty neighborhoods.

The chance of becoming unemployed during the recession did not differ across neighborhood types.

The likelihood of individuals being employed in 2007 but no longer employed in 2009 was much the same in both low- and high-poverty neighborhoods, with one exception: retirement. Individuals ages 50-59 living in low-poverty neighborhoods were three times as likely as those in the poorest neighborhoods to retire during the two-year period (9 percent compared with 3 percent). This could signal that those living in low-poverty neighborhoods had the financial security to stop working in a down economy, or that they were more likely to be working

for companies that offered them incentives for early retirement.

Even when analyses control for home price changes, foreclosure rates, age, education, gender, marital status, race and ethnicity, and family poverty status, the same findings emerge. Residents in high-poverty neighborhoods were less likely to be employed and more likely to be unemployed in both 2007 and 2009. But neighborhood poverty was not associated with *changes* in employment during the recession.

Conclusion

By nearly any measure, the Great Recession had a devastating impact on Americans' economic security and economic mobility, and the timing of a complete national recovery remains unclear. Perhaps surprisingly, this research reveals that the economic downturn was felt fairly equally across various communities, taking its toll on those living in high- and low-poverty neighborhoods alike.

Still, as policy makers consider targeted interventions to bolster the economy, a focus on those living in the highest-poverty neighborhoods is likely to go a long way. While residents of high-poverty neighborhoods did not experience different rates of change in employment, wages, or home equity losses than residents of low-poverty neighborhoods between 2007 and 2009, their position prior to the onset of the Great Recession exposed them to much higher absolute levels of economic insecurity. Further, the recession severely diminished their wealth holdings and put them at an increased risk of foreclosure.

As previous Economic Mobility Project research has shown, the lower earnings, wealth, educational attainment, and homeownership rates among those in high-poverty neighborhoods negatively influence not only their economic security but their economic mobility prospects as well.[9] Policy efforts to promote economic recovery from the Great Recession in the short term and economic opportunity in the long term thus go hand in hand.

Data

This study uses data from the 2007-2009 waves of the Panel Study of Income Dynamics (PSID) matched with geographic data on where respondents live.[10] The PSID collects comprehensive socioeconomic information on individuals and families—including employment, income, wealth, and homeownership—as well as demographic information. In addition, information on mortgage distress was collected in the 2009 wave, including whether individuals were behind on their mortgage payments or received a mortgage modification.

Source

Lerman, Bob, and Sisi Zhang, "Coping with the Great Recession: Disparate Impacts on Economic Well-Being and Mobility in Poor Neighborhoods." Washington, DC: Urban Institute, Opportunity and Ownership Project Research Report, 2012 (forthcoming).[11]

For more information, visit www.economicmobility.org or call Samantha Lasky at 202-540-6390.

Endnotes

1 Lerman, Bob, and Tom Kingsley, "Metro Areas Suffering the Worst Housing Shocks Also Lose the Most Jobs." Washington, DC: Urban Institute. http://www.metrotrends.org/commentary/jobs-housing.cfm.

2 This issue brief was distilled from analysis by Bob Lerman and Sisi Zhang of the Urban Institute. The full analysis compared high-poverty neighborhoods with three other neighborhood types with different levels of poverty. For tables containing all data, please access http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_urban_neighborhoods_table.pdf.

3 U.S. Census Bureau. http://www.census.gov/hhes/www/poverty/data/threshld/thresh07.html.

4 Sharkey, Patrick, "Neighborhoods and the Black-White Mobility Gap." Washington, DC: The Pew Charitable Trusts, Economic Mobility Project, 2009. http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/PEW_SHARKEY_v12.pdf?n=1399.

5 Bricker, Jesse, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin* 98(2) [June 2012]. Washington, DC: Federal Reserve Board. http://www.federalreserve.gov/pubs/bulletin/2012/PDF/scf12.pdf.

6 The measure of wealth used in this section is total net worth, including home equity.

7 Bricker et al., "Changes in U.S. Family Finances."

8 For this study, the proportion employed is calculated by dividing the number of individuals employed at the time of interview by all individuals of the same age and gender group, rather than dividing by just those in the labor force. In economic downturns, many out-of-work individuals give up on searching for jobs. A typical unemployment rate calculation, which is restricted to labor force participants, would not include such discouraged job-seekers.

9 Sharkey, "Neighborhoods and the Black-White Mobility Gap."

10 Some of the data used in this analysis are derived from Sensitive Data Files of the Panel Study of Income Dynamics, obtained under special contractual arrangements designed to protect the anonymity of respondents. These data are not available from the authors. Persons interested in obtaining PSID Sensitive Data Files should contact PSIDHelp@isr.umich.edu. One table in this report also uses the 2005-2009 American Community Survey public data files to better understand the demographic composition of neighborhoods with different poverty levels.

11 Lerman and Zhang thank Eugene Steuerle, Urban Institute fellow and Richard B. Fisher chair, for his helpful comments on this report.