

Consumer Financial Fitness in Metropolitan Areas

Study conducted by the InCharge® Education Foundation, Inc

Introduction

The financial wellness of consumers (namely citizens) may be what economic policymaking is ultimately all about. Consumers account for over sixty percent of gross domestic product, and so their economic and financial wellness continues to be important. Additional reasons for the attention given to the economic condition of the consumer are related to the large part that financial wellness plays in general well being. The question arises: How do different population centers measure up in terms of offering the economic climate and conditions that promote economic and financial wellness? We investigated this by looking at US metropolitan areas to see how they rank in terms of the general economic well being and financial fitness of their population. We wanted to know what attributes of a community best promotes and explains economic security.

The analysis included 314 metropolitan areas of various population sizes.

Methodology

Variables were identified that directly or indirectly measured consumer economic wealth. To be selected a variable had to satisfy the following criteria:

- The variable must be “macroeconomic”, meaning that it had to be economically significant enough to be seriously considered by policy makers at the national level.
- The variable should have the proper econometric relationships with available measures like gross metropolitan product, since the latter can be expected to correlate significantly with the economic situation of the consumer.
- The variable can be linked to financial wellness by sound argument.

Many variables were studied, but the final set came from among those that were related to wealth, its sources and its maintenance. Using these criteria, disposable personal income was among the first candidates for inclusion in the study. It is reasonable to expect to include income in a process that is meant to rank metropolitan areas on economic grounds.

Since wages and salaries produce most of personal income, employment was also considered important. Employment levels are good indicators of the state of both the national and local economies. It can be expected that greater financial wellness will be associated with areas with higher employment opportunities.

Although income and employment are important measures, they say nothing about the levels of consumer debt that can threaten economic well-being. A credit worthiness measure was selected that reflected, in part, how well consumer income covered consumer liabilities. Higher levels of this measure are associated with the discretionary income left over after the bills are paid.

On average, a portion of this discretionary income among consumers is likely to be deposited in checking and savings accounts. Such bank deposits should correlate fairly well with consumer financial security.

Finally, refinancing activity was used in the analysis because it is connected to financial worth. It reflects the consumer's ability to convert non-financial assets, such as a home, into the money that can be used to decrease liabilities or purchase other types of equities and assets that may deliver higher returns. To the extent that it is motivated by the existence of home equity, refinancing underscores the availability and widespread utilization of other resources besides income and saving deposits.

The five variables that were selected are defined below:

- Real personal disposable income (i.e. in inflation adjusted dollars) for metropolitan areas in 2003. This measure is total personal income minus personal current taxes, and is income available for personal consumption expenditures and savings.
- The 2003 Equifax average Beacon credit score computed for metropolitan areas.
- Domestic deposits held or accepted in FDIC insured commercial banks in 2003 by metropolitan area. Per capita levels were derived.
- Household employment (Total Civilian Employment) in 2003 by metropolitan area. Household employment was expressed as a percent of total population.
- Dollar volume of refinancing by metropolitan area. (Actual 2002 data was used to estimate 2003 by assuming same percentage change as prior year). Per capita levels were derived.

Having identified these five variables, factor analysis, a statistical procedure, was then employed to help identify higher order economic forces with which the individual variables are related. These higher order factors are not all directly observed but are suggested by the strong associations among the variables in the analysis. The correlations among variables are used to give values to the factors. When combined, they were used to measure the economic security and related financial wellness of the average consumer in a metropolitan area. The analysis suggested that the financial wellness of the average consumer in a metropolitan area was most strongly related to a factor reflecting the combined effect of *employment opportunity and credit worthiness*. Income and bank deposits reflected a second factor that seems connected with *financial empowerment*. Refinancing activity pointed to the importance of a third factor associated with the desire and ability to tap into *near liquid financial reserves*.

Results

Using the variables in factor analysis to help reveal the higher order dynamics at play, the metropolitan areas were ranked according to the values of the combined factors. The following weights were assigned to the three factors:

| | |
|--|-----|
| Credit worthiness and employment opportunity | 50% |
| Financial empowerment | 30% |
| Availability of Near Liquid Reserves | 20% |

The higher the values of the factors thus weighted and combined, the higher the rankings.

The leaders emerging from the analysis are shown in the table immediately following. Corresponding values for the variables selected to perform the rankings are also shown. First among the 314 metropolitan areas is Wilmington-Newark DE-MD. Since the area's population is 608,000, it is also the leader for metropolitan areas with populations above 500,000. Trenton NJ PMSA leads areas with population between 200,000 and 500,000. Top ranking for metropolitan areas with population under 200,000 belongs to Bloomington-Normal IL MSA.

Top Ranking Nationally and by Population Group

| Grouping | Geography | Credit Score (Beacon) | Real Per Cap Income | Total Bank Deposits Per Capita | Refinancing, Per Capita | Household Employment, % of Population |
|--|------------------------------|-----------------------|---------------------|--------------------------------|-------------------------|---------------------------------------|
| National | Wilmington-Newark DE-MD PMSA | 691 | \$30,302 | \$132,912 | \$18,596 | 48 |
| Population over 500,000 | Wilmington-Newark DE-MD PMSA | 691 | \$30,302 | \$132,912 | \$18,596 | 48 |
| Population between 200,000 and 500,000 | Trenton NJ PMSA | 708 | \$37,801 | \$21,797 | \$162,017 | 50 |
| Population under 200,000 | Bloomington-Normal IL MSA | 712 | \$27,274 | \$41,609 | \$7,845 | 58 |

Below, Top Ten rankings are presented for the metropolitan areas according to population. Three population divisions were used, (1) Population over 500,000 (2) Population between 200,000 and 500,000 and (3) Population under 200,000. Each table shows the overall ranking together with how each metropolitan area ranked on the individual factors.

Rankings for Metros with Population Over 500,000

Rankings by Factors

Top 10

| Metro Overall Standing | | Geography | Population (2003 est.) | Credit Worthiness and Employment | | Financial Empowerment | | Availability of Near Liquid Reserves | |
|------------------------|-------|--------------------------------------|------------------------|----------------------------------|-------|-----------------------|-------|--------------------------------------|-------|
| Rank | Score | Metropolitan Area | 000's | Rank | Score | Rank | Score | Rank | Score |
| 1 | 100 | Wilmington-Newark DE-MD PMSA | 608 | 1 | 100 | 1 | 100 | 104 | 0 |
| 2 | 82 | San Francisco CA PMSA | 1,695 | 4 | 86 | 7 | 56 | 6 | 64 |
| 3 | 66 | Boston MA-NH NECMA | 6,158 | 43 | 67 | 6 | 56 | 16 | 40 |
| 4 | 65 | New York NY PMSA | 9,419 | 96 | 39 | 2 | 93 | 54 | 19 |
| 5 | 63 | Salt Lake City-Ogden UT MSA | 1,386 | 5 | 85 | 8 | 44 | 100 | 6 |
| 6 | 63 | Middlesex-Somerset-Hunterdon NJ PMSA | 1,221 | 6 | 83 | 33 | 21 | 5 | 71 |
| 7 | 60 | San Jose CA PMSA | 1,678 | 34 | 69 | 27 | 23 | 2 | 91 |
| 8 | 60 | Minneapolis-St. Paul MN-WI MSA | 3,084 | 3 | 86 | 17 | 27 | 32 | 30 |
| 9 | 58 | Chicago IL PMSA | 8,492 | 91 | 43 | 3 | 69 | 20 | 35 |
| 10 | 57 | Nassau-Suffolk NY PMSA | 2,808 | 12 | 77 | 15 | 31 | 25 | 31 |

Rankings for Metros with Population Between 200,000 and 500,000

Rankings by Factors

Top 10

| Metro Overall Standing | | Geography | Population (2003 est) | Credit Worthiness and Employment Opportunity (Score) | | Financial Empowerment (Score) | | Availability of Near Liquid Reserves (Score) | |
|------------------------|-------|--------------------------------|-----------------------|--|-------|-------------------------------|-------|--|-------|
| Rank | Score | | | Rank | Score | Rank | Score | Rank | Score |
| 1 | 100 | Trenton NJ PMSA | 362 | 78 | 34 | 84 | 24 | 1 | 100 |
| 2 | 74 | Madison WI MSA | 449 | 1 | 100 | 7 | 68 | 23 | 7 |
| 3 | 67 | Boulder-Longmont CO PMSA | 278 | 5 | 88 | 30 | 51 | 9 | 11 |
| 4 | 66 | Green Bay WI MSA | 234 | 3 | 94 | 13 | 58 | 40 | 5 |
| 5 | 65 | Appleton-Oshkosh-Neenah WI MSA | 369 | 2 | 97 | 62 | 37 | 58 | 3 |
| 6 | 63 | Burlington VT NECMA | 204 | 4 | 92 | 53 | 42 | 50 | 4 |
| 7 | 62 | Barnstable-Yarmouth MA NECMA | 230 | 13 | 75 | 11 | 59 | 3 | 15 |
| 8 | 59 | Santa Rosa CA PMSA | 467 | 14 | 74 | 34 | 50 | 7 | 12 |
| 9 | 59 | Des Moines IA MSA | 477 | 7 | 78 | 1 | 100 | 86 | 1 |
| 10 | 56 | Santa Cruz-Watsonville CA PMSA | 252 | 15 | 70 | 76 | 30 | 2 | 16 |

Rankings for Metros with Population Under 200,000

Rankings by Factors

Top 10

| Metro Overall Standing | | Geography | Population (2003 est) | Credit Worthiness and Employment Opportunity (Score) | | Financial Empowerment (Score) | | Availability of Near Liquid Reserves (Score) | |
|------------------------|-------|---------------------------|-----------------------|--|-------|-------------------------------|-------|--|-------|
| Rank | Score | | | Rank | Score | Rank | Score | Rank | Score |
| 1 | 100 | Bloomington-Normal IL MSA | 157 | 5 | 95 | 1 | 100 | 106 | 5 |
| 2 | 96 | Sioux Falls SD MSA | 184 | 2 | 97 | 2 | 84 | 108 | 0 |
| 3 | 85 | Rochester MN MSA | 131 | 1 | 100 | 73 | 23 | 67 | 15 |
| 4 | 84 | Wausau WI MSA | 127 | 4 | 95 | 51 | 29 | 37 | 21 |
| 5 | 82 | Iowa City IA MSA | 116 | 3 | 95 | 31 | 33 | 93 | 8 |
| 6 | 82 | St. Cloud MN MSA | 174 | 6 | 92 | 29 | 34 | 66 | 15 |
| 7 | 80 | Sheboygan WI MSA | 113 | 9 | 89 | 88 | 19 | 14 | 33 |
| 8 | 79 | Fargo-Moorhead ND-MN MSA | 179 | 7 | 91 | 11 | 39 | 105 | 5 |
| 9 | 77 | Columbia MO MSA | 141 | 8 | 89 | 23 | 35 | 96 | 8 |
| 10 | 76 | La Crosse WI-MN MSA | 129 | 10 | 86 | 59 | 26 | 31 | 23 |