

Euler Hermes ACI: Major Trade Credit Index Reaches Record Low

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A major credit index dropped to its lowest point in its more than five year history, as growth in the nation's manufacturing sector was trumped by a sharp contraction in the service sector. According to analysis from leading trade credit insurer Euler Hermes ACI, the trade credit markets are now facing the same problems as the rest of the country's credit markets as more companies find it difficult to pay their bills due to insufficient cash flow.

In his monthly commentary regarding a national survey of credit managers in the manufacturing and service sectors, Euler Hermes ACI Chief Economist Daniel C. North said the survey data showed a decline for the fourth consecutive month in December and dropped to a record low. Six of the 10 survey components fell, including a 4% drop in dollar collections. "While the manufacturing index actually gained slightly, it was overshadowed by a sharp loss in the service index," he explained. "The deterioration in the combined index matches that of other major indicators in the macroeconomy, including disappointing holiday sales, a weakening employment market, accelerating declines in housing prices, downgrades of banks and insurers, plummeting consumer confidence, and a rapid increase in delinquencies and defaults on many types of credit."

For the first time in four months, the manufacturing sector actually gained ground, rising 0.8%. Most of the increase came from significant improvements in disputes and the dollar amount of customer deductions. North said the data suggests that "at least for the month of December, manufacturers' customers are being less aggressive about holding on to their cash."

Meanwhile, the service sector index fell 2.3% in December on a seasonally adjusted basis, led by sharp downturns in sales and dollar collections. It was the seventh decline in sales in the past eight months. North said the data suggests that businesses are experiencing an unpleasant combination of slower cash flow, and expectations of slower consumer demand. "Once again the housing market continues to wreak havoc in the service sector," he explained. "One survey participant described a 'residential housing crisis' and 'a continuing problem of buyer walk-offs.' And another reported that 'past dues are higher and customers that were robbing Peter to pay Paul are feeling the unavailability of cash.' And finally, there was the almost plaintive comment from a construction material supplier that 'it's been a tough year.'"

North said survey respondents confirmed that business bankruptcies across the country are continuing to rise, and that increase -- coupled with declining sales and increased dollar amounts placed for collection -- show that the nation's business conditions are indeed worsening. "It would appear that trade credit managers are now encountering the same difficulty found in other credit markets -- the inability of debtors to pay their bills due to insufficient cash flow. The survey data suggests that indeed more business than usual are having a tough time surviving in this environment as sales and cash flow dry up," he concluded.

Euler Hermes ACI is North America's oldest and largest provider of trade credit insurance and accounts receivable management solutions and is the US subsidiary of the Euler Hermes Group. Headquartered in Owings Mills, MD, the company protects and insures more than \$150 billion in US trade transactions annually. Additionally, Euler Hermes ACI provides a suite of receivables management services that includes commercial third party collections, receivables management outsourcing, and international collections. For more information, visit <http://www.eulerhermes.com/usa>.

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 5,800 employees in 49 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and posted a consolidated turnover of 2.01 billion euros in 2006.

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