

# CBIA NEWS RELEASE

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## **Credit Conditions Worsen Amid Rising Economic Uncertainty**

*CBIA/Farmington Bank Credit Survey records some of the lowest numbers in more than a year*

Businesses are facing greater economic uncertainty at the national and state levels, leading to the second consecutive decline in Connecticut's credit conditions, according to the second-quarter 2011 CBIA/Farmington Bank Credit Survey. The good news is that for the second straight quarter exports are strong and leading to increased profits for many businesses.

"The survey clearly reflects a softening in the economy over the last quarter," says CBIA Vice President and Economist Peter Gioia. "That, combined with concern over the debt ceiling debate in Washington, has led to a downturn in business confidence and a significant uptick in firms experiencing problems obtaining credit."

"It's becoming increasingly apparent that the strength of economic recovery is now being adversely impacted by uncertainty at the federal and state level," says Don Klepper-Smith, chief economist and director of research at DataCore Partners in New Haven. "And when uncertainty abounds, businesses are a bit more reluctant to hire, sales volumes tend to taper off, and credit availability becomes that much more important to Connecticut businesses."

More than a quarter (28 percent) of survey respondents said that credit availability is a problem for their companies—up from 21 percent last quarter and the highest percentage in more than a year.

Only 9 percent of business executives responding rated current conditions good or excellent, down from 10 percent last quarter. More than half (55 percent) said current conditions are poor or fair, the highest reading in more than a year.

More than half of respondents (52 percent) expect conditions to worsen over the next three months (July-September). Only 8 percent said that credit availability going forward will get better, down from 14 percent last quarter and the lowest number in more than a year.

"With greater economic uncertainty looming and mounting pressure on 2011 profit margins, credit becomes even more critical to small businesses," says John Patrick, president and CEO of Farmington Bank. "And credit availability is especially important today because national fiscal and monetary policies, which usually help advance U.S. growth, may not be able to provide the stimulus needed to move the economy forward."

Other key survey findings:

- More than half of respondents (59 percent) said that without access to capital, they have been unable to grow or expand their business; 35 percent said they have reduced their workforce; 24 percent said they reduced compensation and benefits to employees; and another 24 percent said they were unable to increase inventories to meet demand.
- Thirty-two percent of respondents used financing within the last three months.

## Credit Conditions Worsen

Page 2

- Businesses said they need capital to invest in new plants and equipment (37 percent), expand operations (18 percent), hire new workers (13 percent), and maintain their current workforce (12 percent).
- The majority (84 percent) of businesses that received capital used traditional bank loans and lines of credit; 30 percent used vendor credit; 25 percent used private loans; and 20 percent used credit cards.

“As the national economic recovery heads into its third year, there is legitimate cause for concern,” says Marie O’Brien, president of the Connecticut Development Authority (CDA). “Credit availability is crucial to the overall health of Connecticut’s small business sector—those companies with fewer than 500 employees, responsible for sustainable new job creation. The lack of available credit will hinder efforts to grow our economy and create jobs.”

The CBIA/Farmington Bank Current Credit Conditions Index is 13.2, down from a high of 27.7 in the fourth quarter 2010.

Business executives are not optimistic about future credit conditions. The CBIA/Farmington Bank Future Expectations Index, which measures credit expectations three to six months from now, stands at 12.1—the lowest number since third quarter 2009. The overall CBIA/Farmington Bank Credit Availability Index also dipped—to 12.7—down from 21.8 last quarter, and the lowest number since third quarter 2009.

The current availability index, which indicates the health of Connecticut’s credit markets, has two primary components: one that measures current conditions and one that measures expectations in the marketplace three to six months out.

<b>CBIA/Farmington Bank Total Credit Availability Index</b>	<b>2Q11</b>
Farmington Bank Current Credit Availability Index	13.2
Farmington Bank Future Expectations Index	12.1
Farmington Bank Total Credit Availability Index	12.7

The credit survey, conducted by the Connecticut Business and Industry Association (CBIA) and DataCore Partners, was sponsored by Farmington Bank and the CDA. The methodology used to determine the index is similar to that used by The Conference Board to calculate consumer confidence measures. The survey was emailed to Connecticut businesses in June 2011. A total of 389 executives responded, for a 15 percent response rate and a margin of error of +/- 5 percent.

*For a copy of the survey, visit [www.cbiam.com/newsroom](http://www.cbiam.com/newsroom). For more information or to arrange an interview with Peter Gioia, CBIA vice president and economist, contact Nancy Andrews at 860-244-1957 or [andrewsn@cbiam.com](mailto:andrewsn@cbiam.com).*

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*CBIA is the state’s largest business organization, with 10,000 member companies.*