



## **2009 State of Credit**

*An AEM Market Intelligence Product*

### Credit in 2008

In the third quarter of 2008, the recession had just begun, and while credit fears were beginning to surface in the media, credit difficulties were not apparent in member survey data:

In the Third Quarter 2008 Agriculture Industry Conditions Survey, 93% of the survey respondents, and 100% of those answering the question, stated they were not having credit problems. 69% said the \$700 billion bailout would make credit more accessible.

In the Third Quarter 2008 Construction Industry Conditions Survey, 3% of respondents stated they had experienced problems obtaining credit, and 56% felt that the bailout would make credit more accessible.

### Credit in the Spring of 2009

In the First Quarter 2009 Construction Industry Conditions Report, we asked if people were having trouble with credit, and the data was reflecting increased trouble in obtaining credit.

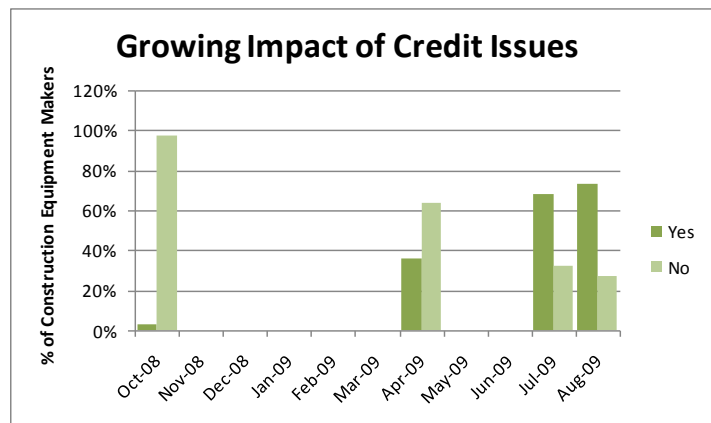
36% said they were hearing of problems obtaining credit from customers, 42% from both customers and suppliers.

By the end of 2<sup>nd</sup> quarter in 2009, the data collected in AEM's Industry Conditions Survey reflected more serious credit problems. 68% said they were hearing of problems with obtaining credit from customers; 30% were hearing of problems with obtaining credit from suppliers.

These results prompted AEM to conduct a more detailed survey on credit issues:

### Credit in the Summer of 2009

As you can see from the chart, the impact of credit issues on construction equipment manufacturers is growing. To be consistent, the chart is based on responses only from the construction equipment markets.



Credit issues were nearly non-existent in late 2008, moving to a solid majority in 2009.



**15% of companies stated they were unable to obtain the credit necessary to operate.**

This is a significant because credit for operations ranked 4<sup>th</sup> in terms of impact on member companies.

The ranking of different types of credit in terms of impact follows a path from the end user back to the OEM, with customer issues being highest, dealer issues in the middle, and OEM issues at the bottom.

Please rank the following types of credit in order of their impact on your company:	
	Rank
End user/customer credit to purchase products	2.22
Dealer credit to purchase inventory	2.60
Dealer credit to finance customer sales	3.27
OEM credit for operations	3.38
OEM credit to finance dealer inventory	3.52

Credit for dealer inventory financing is a problem for those who sell through dealers and provide financing, with heavy & light construction, along with utility, being those most affected.

Have you been able to obtain the credit necessary for dealer inventory financing?				
	Yes	No	We don't provide financing for dealer inventory	We don't sell through dealers
Heavy Construction Equipment	14%	29%	45%	12%
Light Construction Equipment	19%	22%	41%	19%
Agriculture Equipment	19%	15%	42%	23%
Forestry Equipment	12%	6%	59%	24%
Mining Equipment	8%	8%	46%	38%
Utility Equipment	20%	20%	33%	27%
Average %	11%	13%	30%	14%

The ability for dealers to obtain credit to buy inventory from OEMs to make it available for sale to their customers is also impaired, with over 84% of those in heavy equipment reporting difficulties, and well over half on average.



**Are you aware of any of your dealers having difficulty obtaining credit to buy inventory from your company?**

	<b>Yes</b>	<b>No</b>
<b>Heavy Construction Equipment</b>	84.2%	15.8%
<b>Light Construction Equipment</b>	70.0%	30.0%
<b>Utility Equipment</b>	53.8%	46.2%
<b>Forestry Equipment</b>	50.0%	50.0%
<b>Mining Equipment</b>	50.0%	50.0%
<b>Agriculture Equipment</b>	47.8%	52.2%
<b>Average %</b>	64.8%	35.2%

Dealer financing of customer sales, which ranked 2<sup>nd</sup> in terms of impact, is a concern for over 63% of respondents, with heavy and light construction and utility equipment being most affected.

**Are you aware of any of your dealers having difficulty obtaining credit to finance the customer's purchase of your products?**

	<b>Yes</b>	<b>No</b>
<b>Heavy Construction Equipment</b>	75.7%	24.3%
<b>Utility Equipment</b>	69.2%	30.8%
<b>Light Construction Equipment</b>	62.1%	37.9%
<b>Forestry Equipment</b>	57.1%	42.9%
<b>Agriculture Equipment</b>	54.5%	45.5%
<b>Mining Equipment</b>	44.4%	55.6%
<b>Average %</b>	63.7%	36.3%

Nearly 80% of heavy equipment companies report their customers have had difficulty obtaining credit to buy equipment. Since financing plays a larger role as equipment becomes larger and more expensive, it makes sense that they would see a higher impact. Agriculture is second at 68%. Light construction and utility equipment are 3<sup>rd</sup> and 4<sup>th</sup> at 65.6% and 62.5%, respectively.

Across all markets, two thirds report problems.



**Are you aware of customers (end users) who had difficulty in obtaining credit to buy your products?**

	<b>Yes</b>	<b>No</b>
<b>Heavy Construction Equipment</b>	79.1%	20.9%
<b>Agriculture Equipment</b>	68.0%	32.0%
<b>Light Construction Equipment</b>	65.6%	34.4%
<b>Utility Equipment</b>	62.5%	37.5%
<b>Forestry Equipment</b>	53.3%	46.7%
<b>Mining Equipment</b>	46.2%	53.8%
<b>Average %</b>	66.7%	33.3%

**An estimated 15.8% of sales have been lost, about \$11 billion of a \$70+ billion industry.**

**That's \$1.60 for every person on the planet.**

Heavy construction equipment has been hit the hardest, closely followed by light construction.

**How much sales, do you estimate have been lost due to credit difficulties, as a percentage of total sales? If no sales have been lost, enter zero.**

	<b>Average % lost</b>	<b># Responses</b>
<b>Heavy Construction Equipment</b>	20.1%	34
<b>Mining Equipment</b>	13.3%	9
<b>Light Construction Equipment</b>	19.4%	28
<b>Agriculture Equipment</b>	10.4%	24
<b>Forestry Equipment</b>	14.3%	15
<b>Utility Equipment</b>	10.6%	14