

U.S. Business Trends Report

12 month period ending September 2011

Published February 2012



Decide with Confidence

Dun & Bradstreet, as the industry leader in business intelligence, closely tracks U.S. business conditions using two of its powerful indicators of business health: recent business failure and delinquency. The **U.S. Business Trends Report** reflects the results of this tracking for approximately 34 million active U.S.-based businesses in D&B's global database. This report summarized data trends for the 12 month period ending September 30, 2011. D&B's cogent indicators are sensitive to a business' first tremors of trouble and provide unique insights into the general health of the country's business environment. The following analysis includes an update on current economic conditions, an overview of business bankruptcies, failures and delinquencies, and a breakdown of business failures and delinquencies by industry and state based on those indicators.

Economic Snapshot

D&B remains cautiously optimistic about the state of the U.S. economy. The factors driving the U.S. economy in Q3 2011 were unique due to the length and severity of the preceding recession. The healing process surrounding the severe structural imbalances impacting the U.S. economy is progressing but will take time to correct. The process also makes the U.S. recovery fragile and sensitive to exogenous shocks as seen at the mid-point of 2011 when the debt ceiling negotiations created a real threat of a double-dip recession. Fortunately since then, the U.S. economy has been showing signs of acceleration in several aspects. Commodity price rises and inflation have both eased, the supply-chain disruptions from the Japan earthquake and tsunami have been overcome and the threat of default on U.S. government debt has dissipated. In Q3 2011, the economy grew at an annualized rate of 1.8%, faster than the 1.3% growth registered in Q2, and the fastest rate since Q4 2010. The acceleration in economic growth chiefly reflected upturns in corporate investment (in property, equipment and software) and exports, and smaller decreases in state and local government spending. Favorably, inventory adjustments detracted from overall growth, leaving the economy well placed to continue to grow as firms replenish stocks in the quarters ahead. The improved economic environment has made commercial conditions easier, evident in easing bankruptcy rates, falling business failures and improving delinquency ratios. However, the recovery remains uneven, across industries and states, and conditions are still difficult for many.

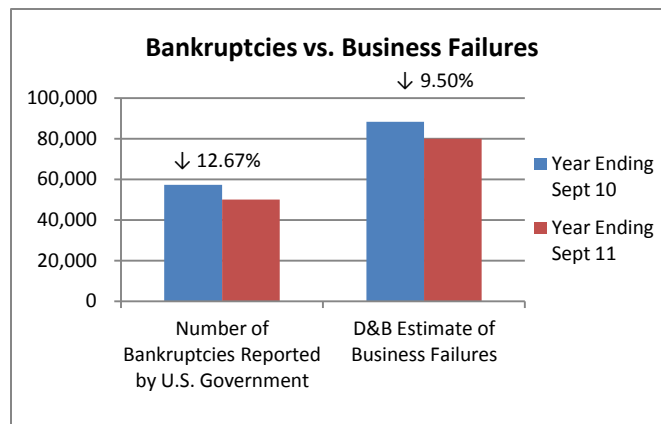
Recent economic indicators support the view that the economy is likely to continue growing, if still relatively slowly in 2012. In the final months of 2011, the job market posted consistent gains, and unemployment fell to its lowest level since early 2009. In 2011 overall, the economy added 1.64 million new jobs, the largest gain since 2006. Even so, the weak labor market remains the core risk facing the U.S. economy. Ultimately, job growth has remained slow and unemployment levels high. Without a sharp acceleration, it will take years to make up for the nearly 9 million jobs lost during the 2008-09 recession while also accommodating all those set to enter the workforce. Continued labor market weakness will mean that private consumption remains subdued. In December 2011, retail sales were the weakest in seven months, indicating that U.S. consumers are still focused on paying down their debts at the expense of consumption. Weak consumer spending, typically the core driver of the U.S. economy, will continue to weigh on key sectors such as construction, transportation, as well as manufacturing.

Downside risks remain sizeable and business and consumer confidence still relatively fragile. Renewed uncertainty and financial market volatility stemming from the unresolved euro-zone debt crisis continue to cast a pale over the global economy. Meanwhile, 2012 will be clouded by further political uncertainty with elections set for November. A return to the brinksmanship that risked a default on U.S. government debt in 2011 is unlikely. However, bipartisan politicking is likely to undermine the legislative process. In the months ahead, Congress's effectiveness will be tested on a number of key items including the extension of payroll tax cuts for the entirety of 2012. Until more clarity emerges, many firms will remain reluctant to hire more staff or invest in facilities and equipment.

The global outlook remains highly uncertain; however, D&B is not anticipating the U.S. economy will enter recession, albeit growth will remain slow as the economy recovers from the heavy structural blows of the recession. The continued recovery in the U.S., supported by the improving job market and household spending, and growth in China along with other emerging economies, will drive the global economy in 2012. The main constraint on global growth will be in the E.U., where a number of countries are in recession. Nevertheless, downside risks remain strong with the sovereign debt crisis in Europe and S&P's wholesale downgrade of the E.U. countries.

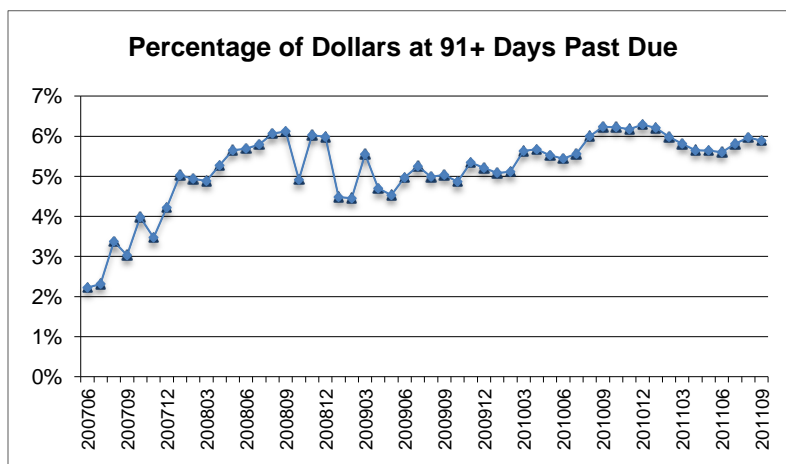
Overall Bankruptcies, Failures and Delinquencies

The long tail of the severe Great Recessions continues to be reflected in measures of business health in the U.S. The U.S. Government reported a 12.67% decrease in the number of bankruptcies during the 12 month period ending September 2011, from 57,266 to 50,011. Yet, D&B believes there are a significant number of “hidden” business failures not captured in this official bankruptcy statistic. D&B bases its estimates of overall business failures on a more detailed analysis including recent payment trends and behaviors such as delinquencies and charge-offs, as well as other business failure metrics recorded in D&B’s global database. In the 12 months ending in September 2011, D&B estimates there were 79,903 business failures—60% more than the official bankruptcies reported by the U.S. Government.



However, both business failures and bankruptcies show a downturn. The same picture is reflected by macroeconomic indicators, as reported by the *Bureau of Economic Analysis*—who also reported an upturn in consumer spending in Q3 2011, mainly due to an upturn in durable goods. An increase was also recorded in the GDP price index, as well as the exports of goods and services, bearing evidence of the general acceleration of the economy.

From a trend perspective, the number of business failures has decreased by 9.5% from September 2010 to 2011. Similarly, the percentage of dollars delinquent has decreased from September 2010 until June 2011, with a slight increase in July and August 2011. The overall delinquency rate at the end of the 12 month period was slightly below 6%. Unlike during the 2008-2009 recession, where delinquency rates were volatile and experiencing sharp increases and decreases from quarter to quarter, changes in delinquency rates in the previous year were much more gradual. Delinquency rates are a leading indicator for the overall health of the economy, and imply that the situation, while slightly improving throughout the year, is far less volatile than during the recession period.



Delinquency and Failure by Industry

Delinquency rates¹ and failure rates, while varying depending on the industry, were decreasing overall from September 2010 to September 2011. In aggregate, both rates were trending downward, with the decrease in business failures of 23% and overall decrease in delinquency rates of 5%. From September 2010 to 2011, all major industries experienced double-digit decreases in failure rates. The top three industries with the highest failure rates include Construction, Transportation and Automotive industries. While these industries registered decreases in their failure rates of 17%, 27% and 14% respectively, they were still significantly higher than other industries. These industries, although showing signs of recovery, are coping with very weak demand as the country’s quarterly personal income registers a sluggish upturn. The industries with the lowest failure rates were Natural Resources, Other Services and Utilities, all of which also had double digit decreases in their failure rates. Specifically, the Utilities industry had the highest decrease (34%) in failure rates from September 2010 to 2011. The cause of low failure rates and the significant decreases of the same can be explained by energy prices approaching record levels. The mining industry is exploring and developing new production fields. Earnings in the mining industry and mining support services have made a notable contribution to industrial earnings growth in the third quarter. Agriculture, included in Natural Resources was also not affected by the recession and adds significantly to the country’s quarterly Personal Income.

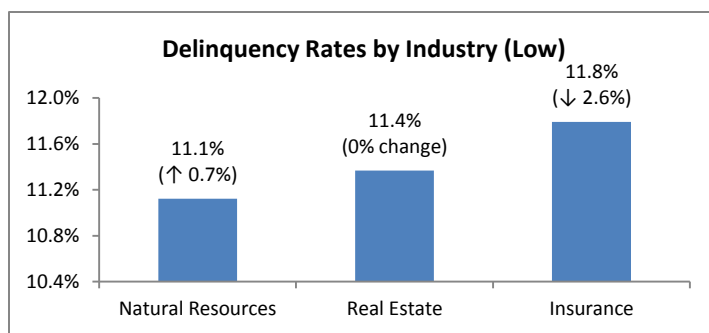
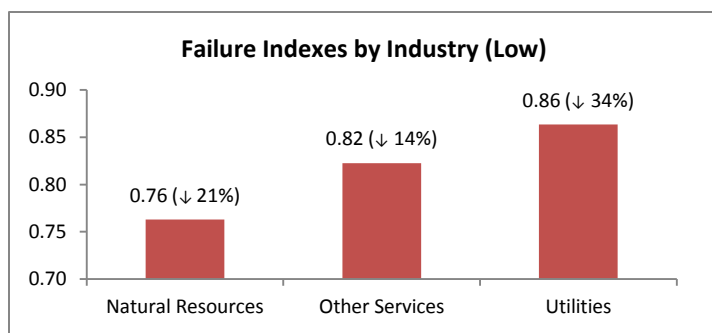
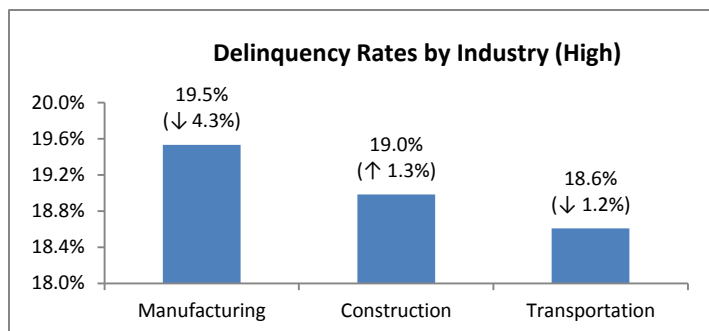
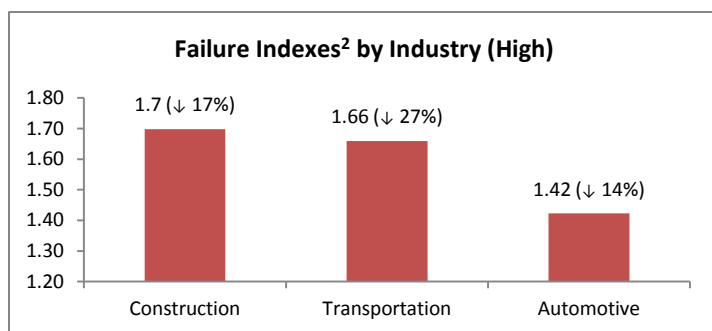
The above also explain the dynamics of the delinquency rates, which, while more volatile than failure rates, were overall decreasing from September 2010 to 2011. Manufacturing, Construction and Transportation industries have the highest delinquency rates, while Natural Resources, Real Estate and Insurance have the lowest delinquency rates. This pattern reflects

the unevenness of the over U.S. economic recovery and the severe impact the Great Recession had on key sectors of the U.S. economy.

From a trend perspective, we continue to see high delinquency and failure rates from the Transportation and Construction industry, despite decreases in both rates. Natural Resources also continues to hold the top position for both lowest delinquency and failure rates. The Utilities industry had the largest improvement from September 2010 to 2011, decreasing by 34%, whereas the Telecommunications industry had the largest decrease in delinquency rates by about 10%.

Though failures are decreasing, they are still not at pre-recession level. Compared to 2006 (pre-recession), failure and bankruptcy numbers in 2011 are higher across the board – across all industries and all employee groups. Comparison of bankruptcies between 2008 and 2011 by firm size presents a more interesting scenario. From 2008 to 2011, the number of bankruptcies dropped by 2.5% for businesses with 50-99 employees, by 17% for businesses with 100-499 employees and by 50% for large businesses with more than 500 employees. However, the number of bankruptcies increased by 10% for businesses in the smallest size-class—less than 50 employees. The recovery of businesses from the recession seems to be related to their size class, with the lower size classes recovering more gradually and the lowest size class still reeling in its wake.

The pattern of the rise and fall in the number of bankruptcies also varies considerably across industries. Only four sectors—Manufacturing, Retail, Transportation and Telecommunication—registered drops in the number of bankruptcies from 2008 to 2011. The number of bankruptcies fell by approximately 8%, 9%, 16% and 33% respectively in the above sectors. It is important to note that these industries were hard hit by the recession. On the other hand, Business Services shows a huge increase of 140% in the number of bankruptcies during the same period. We do have to use some caution in interpreting the increase in bankruptcies for Business Services – during this period there were large numbers of start ups. The high bankruptcy rates may be more indicative of hardships faced by start-ups rather than any structural problem associated with Business Services.



¹ Delinquency Rate is the percentage of 91+ days past due amount against the total amount owed – and is a leading indicator of the company's likelihood to fail.

² Failure Index is calculated as a failure rate for industry divided by average failure rate for U.S. overall in the same year.

Delinquency and Failure by State

Similar to the break down by industry, delinquency and failure rates across states varied. Failure rates decreased in all states, registering an overall decrease of 23%. The exception was Wyoming, which had a 17% increase in failure rates from September 2010 to 2011. Delinquency rates, while in aggregate decreased by 5.5% over the 12 month period, were quite volatile with 21 states increasing their delinquency rates and the remaining 29 decreasing their rates.

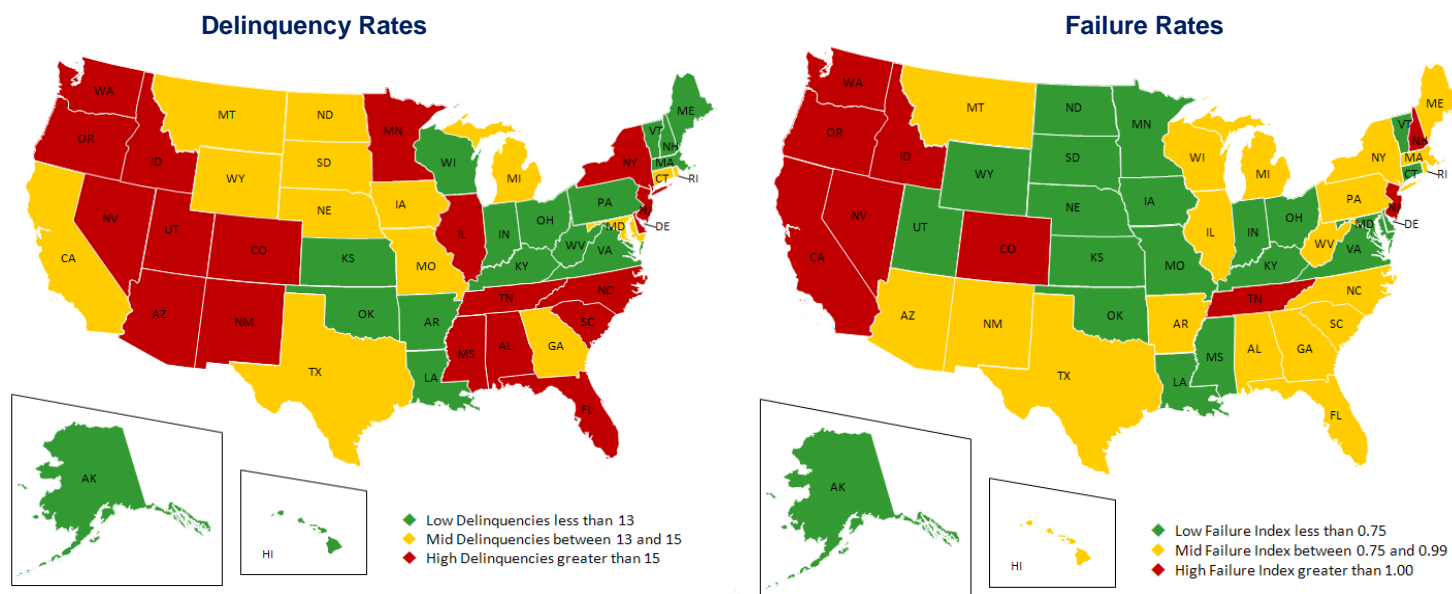
Nevada, California, and Washington have the highest failure rates, with Nevada significantly higher than any other state. Nevada is one of the states that has experienced significant downturns in house prices and records the highest unemployment rates for past few quarters. Also, Nevada and Washington are two out of the only three states that lost employment by the end of the year. Washington also has the highest per capita exports in the country and is hit by the rising dollar.

North Dakota, Louisiana, Arkansas, and Vermont have the lowest failure rates, with all four states experiencing double digit decreases in their rates. Arkansas had the most improvement in their failure rates, decreasing by 38% within the 12 months ending September 2011. All of these states have Natural Resources (mining and agriculture) as their major industries which contribute significantly to their well-being. Nevada, Arizona and Utah have the highest delinquency rates, while West Virginia, Arkansas, and Vermont have the lowest delinquency rates. The key industry of West Virginia is Mining which continues to do well.

Nevada not only had the highest failure and delinquency rates, but it also increased by 37.8% from September 2010 to 2011. Although the state experienced an 11% improvement in its overall failure rate, Nevada's failure rate was still significantly higher than any other state. These numbers indicate that the state will continue to face significant hardship.

North Dakota and West Virginia continue to have very low failure and delinquency rates. However, Arkansas and Louisiana were the states that improved the greatest from September 2010 to 2011, with Arkansas decreasing their failure rates by 38% and Louisiana decreasing their delinquency rates by 37%.

Though the number of failures is still significantly higher (double) that in 2006 (pre-recession), recent improvements are significant. Considering all states, there was an overall 22% decline in failures and a 16% decline in bankruptcies in 2010 compared to 2011. 2010 had the highest number of failures. In 2011, only one state, Utah, has higher number of failures than in 2010. Twenty states had higher number of failures in 2011 than in 2008. Forty-five states had higher number of failures in 2010 than in 2008.



D&B tracks business performances in terms of delinquencies and failures, and one observation remains consistent as the economy moves through cycles. There are always pockets of prosperity even when the economy, as a whole, is showing declining trends. There are also pockets of high risk and negative performance when the economy as a whole is improving. The differences within sectors point to the need of using rigorous analytic techniques and utilizing data and predictive scores at a very granular level.

Appendices

[Appendix A: Business Failures by Industry](#)

[Appendix B: Delinquencies by Industry](#)

[Appendix C: Business Failures by State](#)

[Appendix D: Delinquencies by State](#)

D&B has been the leading provider of business information and commercial insight for over 175 years, with a global business database is over 205 million businesses worldwide. The quality backbone of this database is DUNSRight® process—the unparalleled way we collect, aggregate, edit and check data from thousands of sources daily—using more than 2,000 separate automated checks.



Decide with Confidence

Appendix A: Failure Rates by Industry

Major Industry	Failure Index 2010 Q3	Failure Index 2011 Q3	% Change in Failure Rate
Automotive	1.28	1.42	-14%
Business Services	0.84	0.90	-17%
Construction	1.57	1.70	-17%
Financial Services	1.40	1.31	-28%
Insurance	0.86	0.96	-13%
Manufacturing	1.34	1.36	-22%
Natural Resources	0.74	0.76	-21%
Other Services	0.74	0.82	-14%
Real Estate	1.13	1.23	-16%
Retail	1.21	1.31	-16%
Telecommunications	1.26	1.17	-28%
Transportation	1.76	1.66	-27%
Utilities	1.01	0.86	-34%
Wholesale	1.14	1.22	-17%
ALL	1.00	1.00	-23%



Decide with Confidence

Appendix B: Delinquency Rates by Industry

Major Industry	Average % 91Plus Oct 09 to Sep 10	Average % 91Plus Oct 10 to Sep 11	% Change Average % 91Plus
Automotive	19.2%	18.0%	-5.9%
Business Services	14.0%	13.3%	-4.9%
Construction	18.7%	19.0%	1.3%
Financial Services	16.3%	15.1%	-7.2%
Insurance	12.1%	11.8%	-2.6%
Manufacturing	20.4%	19.5%	-4.3%
Natural Resources	11.0%	11.1%	0.7%
Other Services	13.7%	13.1%	-4.0%
Real Estate	11.4%	11.4%	0.0%
Retail	17.2%	15.9%	-7.6%
Telecommunications	20.4%	18.4%	-9.4%
Transportation	18.8%	18.6%	-1.2%
Utilities	14.9%	14.2%	-4.9%
Wholesale	18.5%	17.6%	-5.1%
ALL	15.6%	14.7%	-5.5%



Decide with Confidence

Appendix C: Failure Rates by State

State	Failure Index 2010 Q3	Failure Index 2011 Q3	% Change in Failure Rate
AK	0.60	0.49	-38%
AL	1.02	0.90	-32%
AR	0.90	0.77	-34%
AZ	1.10	0.94	-35%
CA	1.79	1.96	-16%
CO	1.42	1.40	-24%
CT	0.60	0.55	-29%
DC	0.65	0.77	-8%
DE	0.84	0.69	-37%
FL	0.84	0.81	-25%
GA	0.98	0.97	-23%
HI	1.01	0.83	-37%
IA	0.51	0.53	-20%
ID	1.10	1.16	-19%
IL	0.96	0.96	-23%
IN	0.80	0.69	-33%
KS	0.61	0.55	-30%
KY	0.65	0.56	-34%
LA	0.51	0.48	-28%
MA	0.79	0.81	-21%
MD	0.69	0.68	-24%
ME	0.88	0.99	-12%
MI	1.04	0.96	-29%
MN	0.66	0.65	-23%
MO	0.80	0.73	-29%
MS	0.53	0.60	-13%
MT	0.94	0.84	-31%
NC	0.81	0.78	-25%
ND	0.30	0.34	-14%
NE	0.60	0.61	-21%
NH	1.42	1.21	-34%
NJ	0.95	1.00	-19%
NM	1.03	0.96	-28%
NV	1.99	2.30	-11%
NY	0.80	0.84	-18%
OH	0.83	0.69	-35%
OK	0.70	0.58	-36%
OR	1.31	1.31	-23%
PA	0.89	0.85	-26%
PR	5.06	6.75	3%
RI	0.91	0.82	-30%
SC	0.89	0.87	-25%
SD	0.64	0.73	-12%
TN	1.26	1.34	-18%
TX	1.04	0.99	-27%
UT	0.62	0.77	-5%
VA	0.59	0.62	-19%
VI	0.78	1.39	36%
VT	0.54	0.49	-29%
WA	1.26	1.45	-11%
WI	0.83	0.93	-13%
WV	0.75	0.78	-20%
WY	0.45	0.68	17%
ALL	1.00	1.00	-23%



Appendix D: Delinquency Rates by State

STATE	Average % 91Plus Oct 09 to Sep 10	Average % 91Plus Oct 10 to Sep 11	% Change Average % 91Plus
AK	8.5%	7.9%	-7.2%
AL	21.7%	18.2%	-16.0%
AR	11.3%	10.4%	-7.3%
AZ	20.0%	21.2%	6.1%
CA	16.5%	14.9%	-9.7%
CO	15.9%	15.9%	-0.2%
CT	16.0%	14.8%	-7.2%
DC	14.9%	13.6%	-8.4%
DE	16.2%	15.3%	-5.9%
FL	19.3%	19.5%	1.0%
GA	19.3%	14.4%	-25.3%
HI	10.9%	10.0%	-8.6%
IA	12.9%	14.6%	12.8%
ID	17.0%	17.5%	3.0%
IL	16.8%	16.9%	1.0%
IN	12.6%	12.6%	-0.3%
KS	11.8%	12.2%	3.3%
KY	14.7%	11.8%	-19.6%
LA	16.3%	10.3%	-37.0%
MA	12.6%	12.7%	0.7%
MD	16.0%	13.9%	-13.2%
ME	9.6%	9.7%	1.2%
MI	16.1%	14.9%	-7.3%
MN	15.7%	16.1%	2.7%
MO	14.1%	14.9%	5.2%
MS	21.9%	17.1%	-21.8%
MT	14.1%	14.3%	1.8%
NC	16.9%	16.8%	-0.8%
ND	12.7%	13.2%	4.2%
NE	13.0%	14.0%	8.0%
NH	10.0%	10.7%	6.9%
NJ	16.9%	16.3%	-3.6%
NM	18.2%	19.5%	7.4%
NV	20.9%	28.8%	37.8%
NY	15.9%	15.1%	-5.2%
OH	11.8%	12.1%	2.3%
OK	11.1%	10.6%	-4.4%
OR	13.6%	15.5%	13.8%
PA	12.5%	11.5%	-8.7%
RI	15.1%	14.3%	-5.5%
SC	17.7%	15.2%	-14.5%
SD	13.3%	14.2%	6.3%
TN	20.0%	17.4%	-13.0%
TX	13.9%	13.2%	-4.7%
UT	19.1%	20.4%	6.3%
VA	11.6%	10.5%	-9.1%
VT	9.8%	9.4%	-4.0%
WA	14.9%	16.2%	8.5%
WI	13.3%	12.5%	-6.4%
WV	7.8%	6.3%	-18.8%
WY	11.9%	13.3%	12.0%
ALL	15.60%	14.74%	-5.52%