

## Payment Behavior Index (PBI) points to slower Q1 GDP growth

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### Executive summary

- Our Payment Behavior Index (PBI) fell by 3.6 points from 70.8 to 67.2 this quarter, indicating slower Q1-2015 GDP growth.
- Receivables at risk increased by 5%. Commodities, autos and retail: top 3 due to stronger dollar and severe winter weather.

### Payment behavior suggests lower Q1 growth

The Euler Hermes Payment Behavior Index (PBI) currently points to slower GDP growth in Q1-2015 as compared to the already tepid 2.2% annualized rate of Q4-2014. This index is based upon proprietary past due information from Euler Hermes' clients on the frontlines of business. A PBI above 50 indicates payment behavior better than average and below 50 worse than average. The PBI fell by 3.6 points from 70.8 to 67.2 in Q1-15 (figure1). This shows a deterioration in payment behavior – thus companies reported their customers either incurred more debt, took longer to make repayments or both.

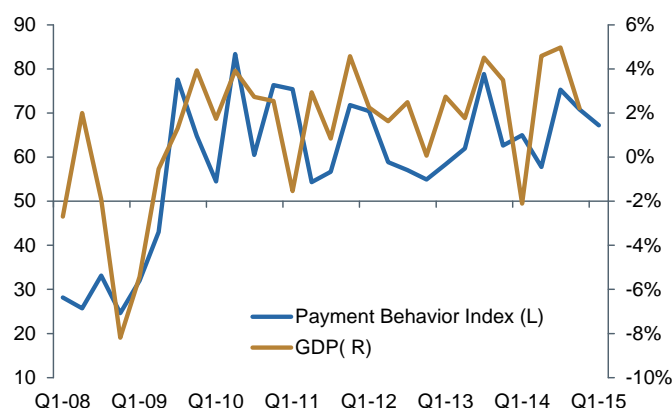
### Commodities (steel), Auto and Retail sectors facing a difficult start to the year due to USD strength, extreme winter weather and falling energy prices

The drop in the PBI was caused by a 5% increase in the amount of receivables at risk as reported by EH clients. Weakness in the commodity industry was largely driven by steel producers who suffered sharp pricing pressure as a stronger U.S. dollar drove a flood of imports. EH expects these conditions to continue into Q2-2015. Higher receivables at risk in the auto and retail sectors were a result of the severe winter weather which hit sales. We believe this will be temporary, with pent-up demand to drive a strong Q2. If Q2 auto and retail sales start weakly it would lift concerns both in this sector and broadly about the US outlook due to a lack of consumer demand.

### Chemicals benefit from lower energy prices, electronics improve from a low base

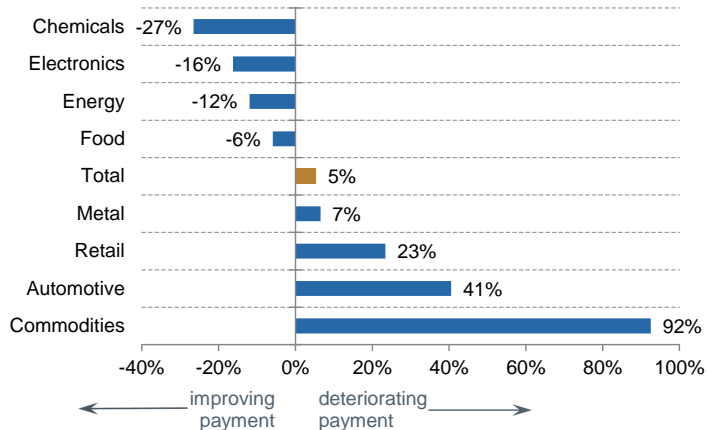
The fall in energy prices has been a boon to the chemicals industry as energy is a large portion of the input cost of chemicals production, explaining the improvement in payment behavior, a pattern which is likely to continue through 2015. The improvement in the electronics industry simply represents a return to more normal payment patterns after a poor performance in Q4-14. Businesses in the energy sector have adjusted to falling prices and have reduced receivables outstanding.

Figure 1: Payment Behavior Index vs. GDP



Sources: IHS, BEA, Euler Hermes

Figure 2: Receivables at Risk, Q1-15 / Q4-14



Source: Euler Hermes