Report for April 2013

Issued April 30, 2013

National Association of Credit Management

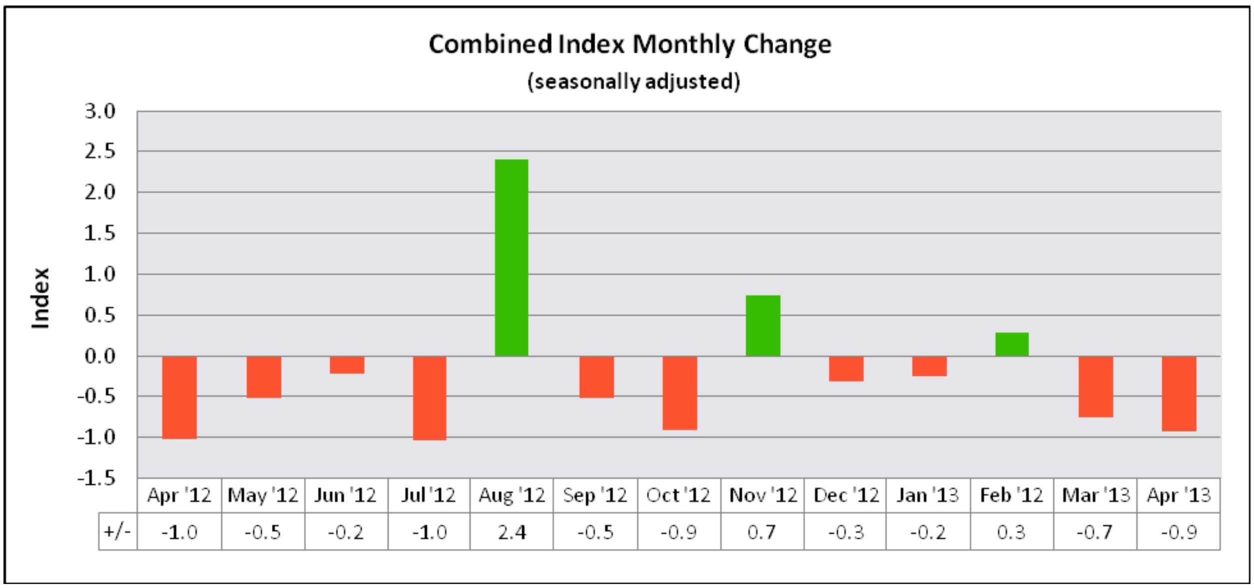
Combined Sectors

The Credit Managers' Index (CMI) for April fell to levels not seen in over a year, reflecting the sluggishness of the overall economy. The 53.3 mark is the lowest in over 16 months, the same weak levels seen in the "spring swoon" of 2012. The reading is still in expansion territory, but it is certainly heading in the wrong direction. There are some positive notes, but for the most part the data shows an economy struggling with dual issues: the favorable factors, which signal growth, are not offering encouragement, and the unfavorable factors, which indicate whether companies are in a credit crisis, are exhibiting weakness.

For the favorable factor index, the sales number was a potential bright spot, gaining slightly over last month (from 57.4 to 58.3). In general, the data over the last 12 months was relatively consistent, ranging from a high of 62 in August 2012 to a low of 56.7 in December. The bad news is that those readings of 60 and above were from the first of last year until the end of summer. Since then, they have slipped into the high to mid-50s. New credit applications changed very little from last month (from 56.9 to 56.5). This suggests that companies are still seeking to expand and are asking for credit, and the data is consistent with other data emerging on capital expenditure decisions since the first of the year. Most of the organizations that track capital expenditure report a steady increase, but no spectacular expansion thus far. Dollar collections also remained relatively stable (from 57.7 to 57.2). The most significant drop in favorable factors was in amount of credit extended (from 61.6 to 60.8). Although nearly a one-point decline, the more important point is that the category remains above 60, and thus far is the only factor consistently in this range. It has not dipped below 60 in over a year, indicating that plenty of companies are extending credit to creditworthy applicants. The overall favorable factor index retreated only slightly (from 58.4 to 58.2), but is one of the lower readings from the past year. The only month with a weaker performance was October, which saw a rebound back above 60 in November. Few expect to see that development this time.

The real damage to the CMI came from the unfavorable factors. Many companies are now feeling the stress of the slow economy this year. The index of unfavorable factors fell more than a point (from 51.4 to 50), and is dangerously close to slipping into contraction territory. The index has not been this low since July 2012. Accounts placed for collection actually improved (from 49.7 to 50.1), as did disputes (from 48.3 to 48.5), which counts as stable even though the reading is below 50. On the reverse side, rejections of credit applications slipped (from 51.9 to 51.6), but not dramatically. Filings for bankruptcy also slipped (from 57.3 to 56), but remains firmly in the mid-50s. The most dramatic decline was in dollar amount beyond terms (from 51.2 to 47). The collapse signals that many companies have entered the danger zone. There was also a substantial decline in dollar amount of customer deductions (from 49.9 to 46.8)—digging even deeper into contraction territory. The sense is that many companies are now on the brink of real trouble, and if the economy continues to stall, there will be some overt business collapse in the next quarter or two.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13
Sales	60.0	61.2	60.6	58.5	62.0	59.5	57.4	60.4	56.7	58.6	59.2	57.4	58.3
New credit applications	58.2	59.9	57.5	57.2	56.8	57.4	56.6	56.5	57.7	57.1	56.7	56.9	56.5
Dollar collections	59.3	58.5	60.0	58.7	59.7	58.5	54.6	61.3	59.2	56.9	57.5	57.7	57.2
Amount of credit extended	64.6	61.3	62.6	61.3	61.4	62.3	62.2	63.0	61.5	62.2	62.5	61.6	60.8
Index of favorable factors	**60.5**	**60.2**	**60.2**	**58.9**	**60.0**	**59.4**	**57.7**	**60.3**	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**
Rejections of credit applications	51.6	51.1	51.4	51.4	52.4	51.4	52.0	51.1	51.5	52.8	52.3	51.9	51.6
Accounts placed for collection	50.3	50.5	48.3	48.9	52.4	52.5	53.0	51.2	52.1	50.4	51.8	49.7	50.1
Disputes	50.7	49.4	48.9	47.6	51.9	50.5	50.9	50.1	50.5	50.4	50.4	48.3	48.5
Dollar amount beyond terms	50.0	48.0	50.5	47.8	50.9	51.0	48.0	49.9	50.9	49.6	49.8	51.2	47.0
Dollar amount of customer deductions	50.4	50.2	48.7	48.2	51.4	51.0	50.7	49.7	51.3	50.3	50.7	49.9	46.8
Filings for bankruptcies	56.2	56.4	56.0	54.9	59.6	59.1	58.9	58.4	57.4	58.1	58.3	57.3	56.0
Index of unfavorable factors	**51.6**	**50.9**	**50.6**	**49.8**	**53.1**	**52.6**	**52.3**	**51.7**	**52.3**	**51.9**	**52.2**	**51.4**	**50.0**
NACM Combined CMI	**55.1**	**54.6**	**54.5**	**53.4**	**55.8**	**55.3**	**54.4**	**55.2**	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**



Manufacturing Sector

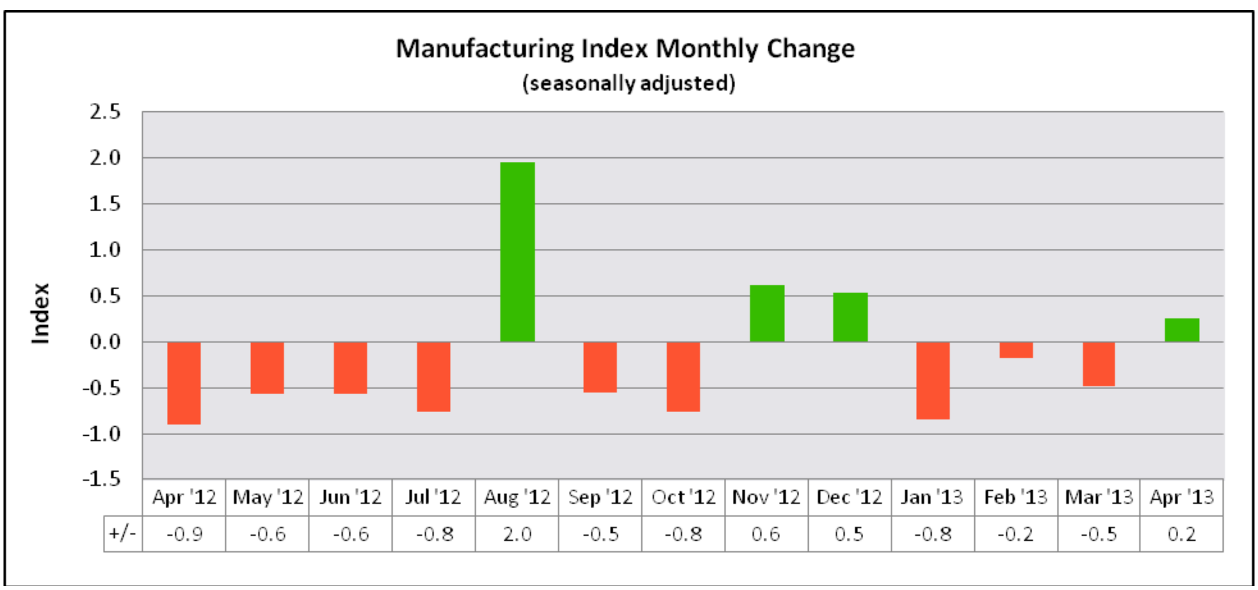
In the last few months, the bad news came from the manufacturing sector, but this month it contains more positive data than the service sector. The favorable factor index improved significantly from 56.5 to 58.1, mainly due to a jump in sales (from 55.5 to 59.2), which was likely the result of a surge in capital equipment purchasing. From data that started to develop last year, this gain was expected. Several organizations had asserted that their members were looking to do more in the way of capital expenditure this year, and some indications now show this is taking place, albeit a little later than originally expected. The latest data on capacity utilization shows that the overall industrial sector is nearing normal levels. In the past, this signaled a need to add capacity. The challenge now is that demand will have to keep pace if this additional capacity is to be successfully employed.

The other favorable factors showed slightly less dramatic movement, but mostly in a positive direction. New credit applications improved (from 54.8 to 55.8), indicating that companies are pursuing purchases more aggressively. Dollar collections posted one of the biggest jumps in several months (from 54.7 to 57.4), and is the best reading for the year. Amount of credit extended only saw a small dip (from 61.3 to 60.1), but is still above 60.

The unfavorable factor index showed a slight decline (from 50.8 to 50.2). The readings continue to skirt very close to contraction, which is a continuing concern. Rejections of credit applications improved (from 51.9 to 52.2), which is good news for the future given the increase noted in the data for credit applications. This gives the sense of credit availability for companies that are in decent financial condition. Disputes improved (from 47 to 48.5), but is still below 50. Accounts placed for collection also improved (from 48.6 to 51.8), shooting above the contraction mark after a month in the doldrums, and indicates less crisis in terms of good credit positions maintained. Dollar amount of customer deductions fell slightly (48.5 to 48), but importantly remains below 50.

Much of what drove the CMI down was dollar amount beyond terms, which slipped badly from a solid 52.4 to a miserable 45.5. Suddenly, many companies are showing stress and starting to fall behind in their obligations. This can easily become a major crisis unless there is a swift turnaround in the overall economy.

Manufacturing Sector (seasonally adjusted)	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13
Sales	59.4	61.6	59.1	57.2	60.0	57.3	56.7	57.8	56.9	57.4	57.3	55.5	59.2
New credit applications	56.6	61.1	57.2	56.5	56.3	55.7	57.0	53.6	58.0	57.7	55.5	54.8	55.8
Dollar collections	59.2	59.7	61.9	59.6	59.7	56.8	52.6	60.7	59.7	56.6	55.9	54.7	57.4
Amount of credit extended	64.3	61.0	63.2	59.6	60.8	61.9	61.6	61.7	61.2	61.1	61.6	61.3	60.1
Index of favorable factors	**59.9**	**60.9**	**60.4**	**58.2**	**59.2**	**57.9**	**57.0**	**58.4**	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**
Rejections of credit applications	51.5	50.4	50.5	51.2	52.2	50.7	51.2	52.1	51.4	51.1	52.2	51.8	52.2
Accounts placed for collection	49.9	49.0	47.7	49.1	52.1	52.0	52.4	50.7	52.2	50.3	50.7	48.6	51.8
Disputes	50.2	48.2	47.0	47.6	50.1	49.3	48.9	49.1	49.2	49.9	47.9	47.0	48.5
Dollar amount beyond terms	49.4	46.9	49.2	47.8	50.1	51.3	48.3	50.4	52.1	48.0	49.3	52.4	45.5
Dollar amount of customer deductions	50.4	49.5	46.6	46.6	49.2	50.9	49.9	48.5	50.0	49.2	48.8	48.5	48.0
Filings for bankruptcies	56.5	54.3	53.8	53.3	57.5	56.8	56.3	56.4	55.6	56.5	56.9	56.7	55.3
Index of unfavorable factors	**51.3**	**49.7**	**49.1**	**49.3**	**51.9**	**51.8**	**51.2**	**51.2**	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**
NACM Manufacturing CMI	**54.7**	**54.2**	**53.6**	**52.8**	**54.8**	**54.3**	**53.5**	**54.1**	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**



Service Sector

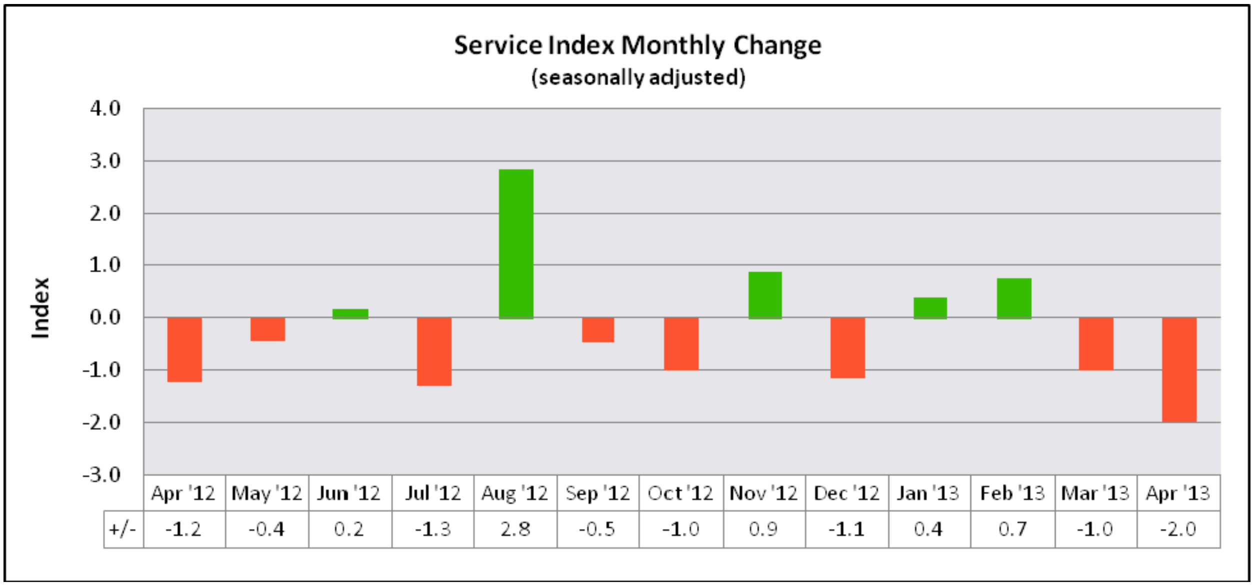
The real troubles are in the service sector, and it is not altogether clear why. It should be noted that the service sector, as measured by the CMI, is incredibly diverse. It includes a solid representation from retail, of course, but also includes construction and professional services, health care and the like. It is often a sector where weakness in one area can offset strength in another. The drops in the sector this month appear to be related mostly to retail. The construction sector is actually showing some real signs of improvement, but not enough to pull the whole sector along with it.

The favorable factors index dropped to the lowest level in over a year. It now sits at 58.3, which is a precipitous drop from the 60.3 registered last month. As worrisome as that decline may be, this is still well above 50, the line separating contraction from expansion. The individual numbers are instructive as well. Sales stumbled (from 59.4 to 57.4), a two-point drop suggesting that weak consumer demand is taking its toll on retailers. There were similar drops in new credit applications (from 59.1 to 57.2), showing the angst within the retail sector and its willingness to apply for credit, and in dollar collections (from 60.7 to 57. 1). Amount of credit extended came in as the least altered of the factors, with only a slight drop (from 61.9 to 61.5).

The unfavorable factors index data added to the gloom to some extent. Even though the drop from 51.9 to 50 was not as drastic as in the favorable factor index, it presents as much of a concern, as it now teeters on the edge of contraction. Rejections of credit applications remained about where it was last month, dropping slightly (from 51.9 to 51.1), and continues to show a willingness to extend credit if the applicant is deemed worthy. Accounts placed for collection dropped significantly (from 50.8 to 48.4), sliding into contraction territory for the first time since last July. Dollar amount of customer deductions slipped under 50 as well (51.3 to 49.5). Disputes dug deeper below 50 (from 49.6 to 48.6), and marked the first time it has been in the 40s for two consecutive months since mid-2011. Filings for bankruptcies fell as well (from 58 to 56.6), and is starting to show stress. The real disaster came from dollar amount beyond terms (from 49.9 to 45.6), which has not been this low in over two years. A lot of companies are getting in real trouble, and fast. As noted in prior reports, when competitors in a given sector start to expand, the others in that industry have to try to keep pace, or risk losing market share. Right now, there appear to be too many companies without that ability.

In all, the service sector index looked as bad as it has in well over a year. Of the six unfavorable factors, four are under 50, which has not been the case for over 18 months. This is not the kind of news that sends the signal for renewed economic growth. Since most of the damage came from the retail community, it suggests that the slumping confidence of the consumer is causing some major issues.

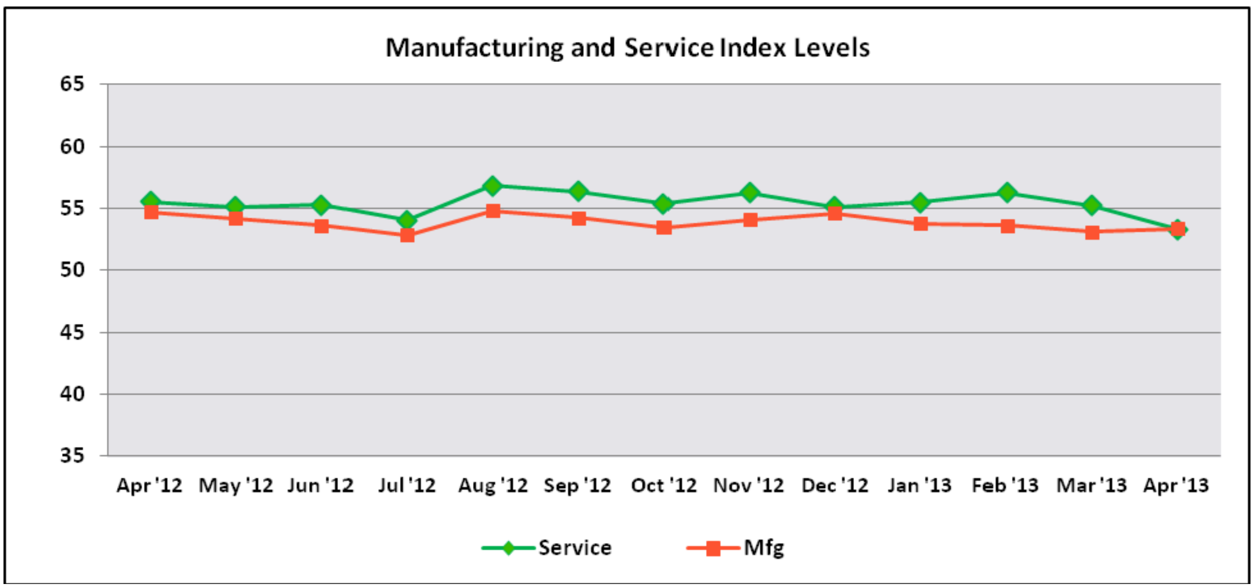
Service Sector (seasonally adjusted)	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13
Sales	60.6	60.9	62.1	59.8	64.0	61.7	58.2	63.0	56.6	59.9	61.2	59.4	57.4
New credit applications	59.9	58.8	57.7	57.9	57.3	59.2	56.2	59.5	57.3	56.5	57.9	59.1	57.2
Dollar collections	59.4	57.3	58.1	57.9	59.7	60.3	56.5	62.0	58.7	57.2	59.1	60.7	57.1
Amount of credit extended	64.9	61.5	62.0	63.0	61.9	62.7	62.8	64.4	61.8	63.2	63.4	61.9	61.5
Index of favorable factors	**61.2**	**59.6**	**60.0**	**59.6**	**60.7**	**61.0**	**58.4**	**62.2**	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**
Rejections of credit applications	51.8	51.8	52.2	51.6	52.5	52.2	52.8	50.2	51.6	54.5	52.5	51.9	51.1
Accounts placed for collection	50.7	52.0	49.0	48.7	52.6	53.0	53.6	51.7	52.0	50.6	52.9	50.8	48.4
Disputes	51.3	50.6	50.8	47.6	53.7	51.7	52.9	51.1	51.9	50.9	52.9	49.6	48.6
Dollar amount beyond terms	50.6	49.0	51.9	47.8	51.7	50.7	47.8	49.4	49.6	51.1	50.4	49.9	45.6
Dollar amount of customer deductions	50.4	51.0	50.9	49.7	53.6	51.1	51.5	50.9	52.6	51.3	52.7	51.3	49.5
Filings for bankruptcies	55.9	58.4	58.3	56.4	61.6	61.3	61.5	60.4	59.2	59.8	59.6	58.0	56.6
Index of unfavorable factors	**51.8**	**52.1**	**52.2**	**50.3**	**54.3**	**53.3**	**53.3**	**52.3**	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**
NACM Service CMI	**55.6**	**55.1**	**55.3**	**54.0**	**56.9**	**56.4**	**55.4**	**56.2**	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**



	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13
+/-	-1.2	-0.4	0.2	-1.3	2.8	-0.5	-1.0	0.9	-1.1	0.4	0.7	-1.0	-2.0

April 2013 versus April 2012

The year-over-year numbers are declining, and that is a worrisome trend. The index is at a year-and-a-half low point. If the trend of the last two months does not reverse, the chances are good that the whole CMI will drift below that all-important 50 mark, and if it does, the PMI will be right behind.



Methodology Appendix

CMI data has been collected and tabulated monthly since February 2002. The index, published since January 2003, is based on a survey of approximately 900 trade credit managers in the second half of each month, with about equal representation between the manufacturing and service sectors. The survey asks respondents to comment on whether they are seeing improvement, deterioration or no change for various favorable and unfavorable factors. There is representation from all states, except some of the less populated such as Vermont and Idaho.

The computation of seasonality is based on the formula used by the U.S. Census Bureau and most of the federal government's statistical gathering apparatus, making it possible to compare the CMI diffusion index with comparable indices, such as the PMI and other manufacturing and service sector indices.

Factors Making Up the Diffusion Index

As shown in the table below, 10 equally weighted items determine the index. These items are classified into two categories: favorable factors and unfavorable factors. A diffusion index is calculated for each item with the overall CMI being a simple average of the 10 items. Survey responses for each item capture the change—higher, lower or the same—in the current month compared to the previous month.

For positive indicators, the calculation is:

$$\frac{\text{Number of “higher” responses} + \tfrac{1}{2} \times \text{number of “same” responses}}{\text{Total number of responses}}$$

For negative indicators, the calculation is:

$$\frac{\text{Number of “lower” responses} + \tfrac{1}{2} \times \text{number of “same” responses}}{\text{Total number of responses}}$$

A resulting CMI number of more than 50 indicates an economy in expansion; less than 50 indicates contraction.

Favorable Factors	**Why Favorable**
Sales	Higher sales are considered more favorable than lower sales.
New credit applications	An increase in credit applications says that demand is greater this month, which represents increased business if credit is extended.
Dollar collections	Higher dollar collections represent improved cash flow for the selling firm and the ability of buying firms to pay.
Amount of credit extended	An increase for this item means business activity is expanding with greater sales via trade credit.
Unfavorable Factors*	**Why Unfavorable**
Rejections of credit applications	Increased rejections of credit applications means more marginal creditworthy customers are seeking trade credit and being denied.
Accounts placed for collection	As this item increases, the selling firm is having trouble collecting accounts, or conversely, there is an increase in buyers not paying.
Disputes	Higher dispute activity often is associated with cash flow problems of customers. They dispute the invoice to defer payment until later.
Dollar amount of receivables beyond terms	As this item becomes higher, it means customers are taking longer to pay.
Dollar amount of customer deductions	Higher deductions often are associated with cash flow problems of customers.
Filings for bankruptcies	Higher bankruptcy filings mean cash flow difficulties of customers are increasing.

**Note: When survey respondents report increases in unfavorable factors, the index numbers drop, reflecting worsening conditions.*

About the National Association of Credit Management

NACM, headquartered in Columbia, Maryland, supports more than 15,000 business credit and financial professionals worldwide with premier industry services, tools and information. NACM and its network of affiliated associations are the leading resource for credit and financial management information, education, products and services designed to improve the management of business credit and accounts receivable. NACM's collective voice has influenced our nation's policy makers on federal legislation concerning commercial business and trade credit for more than 100 years, and continues to play an active role in legislative issues that pertain to business credit and corporate bankruptcy. Its annual Credit Congress is the largest gathering of credit professionals in the world.

NACM has a wealth of member experts in the fields of business-to-business credit and law. Consider using NACM as a resource in the development of your next credit or finance story.

View this report and the CMI archives at http://web.nacm.org/cmi/cmi.asp.

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