Report for April 2010

Issued May 3, 2010
National Association of Credit Management

Combined Sectors

The movement this month in the Credit Managers' Index, issued by the National Association of Credit Management (NACM), was not spectacular, but was steady, which is good news in the context of the current economy. In the last few months, the bulk of the positive movement in the index was in indicators like new sales and some expansion in the areas of credit. Now the improvement is appearing in a reduction of negative factors, creating a pattern that alternates emphasis on positive and negative factors. Last month's big CMI news was that sales jumped and data coming now from other sectors of the economy is reinforcing that news. Retail sales have seen two improved months in a row and the latest durable goods data showed some solid gains in everything but the aircraft industry.

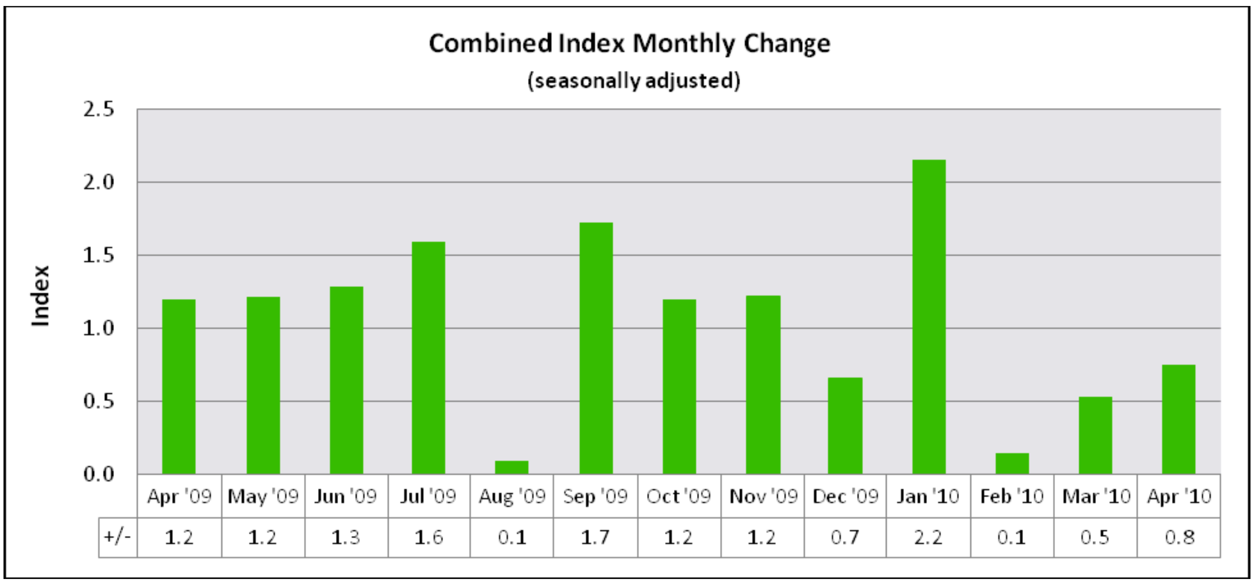
The biggest gains this month took place in two factors: dollar amount of customer deductions and filings for bankruptcies. The majority of the factors—both positive and negative—have been stable, which is corresponding to activity taking place in the economy overall. "In the last two months, the trends in the recovery have been consistent; the inventory build has been completed for the most part and now there is a need for the consumer to get engaged," said Chris Kuehl, Ph.D., NACM economic analyst. "In that same period, the consumer has started to show some signs of life as indicated in the Conference Board's latest consumer confidence index."

The best news provided by the reduction in bankruptcy activity is that there appears to be a much needed lull in business failure. "This is partly attributable to the fact that the weakest companies have already been forced out, but there is also a strong trend, suggesting companies are starting to get enough cash flow to survive," said Kuehl, "but there is still a challenge in terms of getting financing, which is reflected in the CMI data in amount of credit extended." There was no change in the figures from last month and relatively little change from the last several months and the overall rank in this category is still historically low.

The economic data overall is pointing to a period of watch and wait. The signs have been good for most of the year and there will doubtlessly be gains in second quarter GDP. The real breakthrough growth has only just started to manifest, however, and there are many barriers remaining. The unemployment rate has not slipped and the important sectors in the overall economy have only started to show some secure recovery. "With all the challenges, the best news is that the consumer is getting steadily more confident and that soon translates into more solid growth in both the manufacturing and service sectors," said Kuehl.

See page 5 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '09	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr '10
Sales	37.4	41.8	44.8	48.6	48.4	49.9	51.1	55.0	56.7	60.7	60.9	65.0	65.7
New credit applications	47.8	48.2	50.7	52.6	49.3	50.0	52.7	55.4	54.2	57.0	57.7	57.5	57.4
Dollar collections	48.0	48.8	51.2	50.8	50.5	53.4	54.7	55.8	58.0	61.3	61.1	61.9	62.1
Amount of credit extended	42.3	44.3	46.1	48.2	48.0	49.3	53.6	54.6	55.2	58.8	59.4	61.3	61.3
Index of favorable factors	**43.9**	**45.8**	**48.2**	**50.0**	**49.1**	**50.6**	**53.0**	**55.2**	**56.0**	**59.4**	**59.8**	**61.4**	**61.6**
Rejections of credit applications	47.4	47.4	47.9	47.5	49.0	48.4	49.0	49.3	50.1	51.4	51.0	50.1	50.9
Accounts placed for collection	38.5	40.2	40.5	44.0	43.6	45.3	47.1	49.5	50.9	50.7	50.4	51.1	50.6
Disputes	47.2	47.5	47.7	50.2	49.7	50.8	51.0	49.6	51.0	51.4	52.2	52.2	51.7
Dollar amount beyond terms	40.5	43.4	43.6	45.3	46.2	48.1	48.1	49.0	51.4	52.2	52.0	51.5	51.9
Dollar amount of customer deductions	49.8	47.5	48.9	49.2	50.6	51.8	50.5	51.3	51.3	52.5	51.2	51.7	55.7
Filings for bankruptcies	40.2	42.3	42.8	43.7	45.8	51.5	52.6	53.0	50.5	54.7	56.3	55.3	57.6
Index of unfavorable factors	**43.9**	**44.7**	**45.2**	**46.7**	**47.5**	**49.3**	**49.7**	**50.3**	**50.8**	**52.2**	**52.2**	**52.0**	**53.1**
NACM Combined CMI	**43.9**	**45.1**	**46.4**	**48.0**	**48.1**	**49.8**	**51.0**	**52.3**	**52.9**	**55.1**	**55.2**	**55.7**	**56.5**



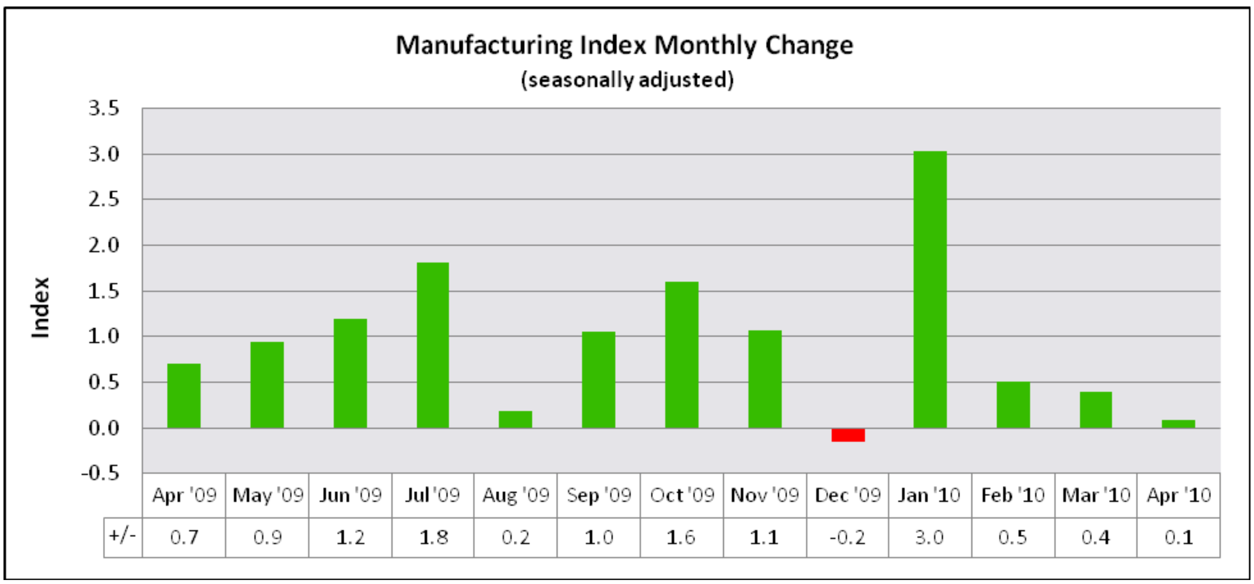
Manufacturing Sector

The CMI reflects the changes affecting the manufacturing sector in the last couple of months. The index in December and January reflected the fact that many manufacturers were aggressively building their inventory levels in anticipation of demand. That trend carried into February to a lesser extent and by March and April the inventory build was complete for the most part and now the sector is waiting for the real demand to start. The data from this month showed a decline in sales from the spike in March, but it is still significantly higher than it was for most of the last two years.

The data also shows that, while sales have declined, the accessibility of credit has stabilized to some degree. New credit applications have held steady and so has the amount of credit extended. The negatives didn't change too much either, although there were gains in some of the areas reflected in the combined index, such as a reduction in bankruptcies. The decline in these factors for manufacturing definitely results from most of the serious damage in the industrial sector taking place earlier in the recession. It now appears that those companies that survived the recession in 2009 are likely to make a go of it in 2010, even those in sectors especially hard hit, automotive and construction being at the top of the list.

The change in the sector from last month was almost imperceptible, which is better than a decline, but this stall in the progress of the manufacturing community creates some concerns for later in the year. "The overall data from the Purchasing Managers Index (PMI) has been on a positive run, but there is some expectation that the data for the coming month will be a little less robust than in previous months, reflecting that slowdown as consumers start to absorb the inventory build," Kuehl said. "There are also some fears that the Deepwater Horizon oil disaster will create ongoing issues in the months to come, but it is very early in the game. There are already disruptions in some industries that depend on the Gulf Coast, but the bigger threat is oil prices that might climb in reaction to the threat and the subsequent efforts by the oil companies to address the risks."

Manufacturing Sector (seasonally adjusted)	Apr '09	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr '10
Sales	39.6	40.7	45.4	48.7	48.4	48.7	52.0	56.3	55.8	61.8	62.5	66.9	65.2
New credit applications	50.7	49.3	51.1	55.3	48.6	50.5	52.9	56.8	55.2	54.0	57.8	57.9	57.1
Dollar collections	48.0	47.5	51.6	51.7	51.3	52.1	55.7	53.1	56.0	61.5	59.6	61.4	60.9
Amount of credit extended	44.1	44.2	45.8	49.3	48.9	48.8	53.5	53.4	55.2	59.2	60.7	62.0	62.1
Index of favorable factors	**45.6**	**45.4**	**48.5**	**51.3**	**49.3**	**50.0**	**53.5**	**54.9**	**55.6**	**59.1**	**60.2**	**62.1**	**61.3**
Rejections of credit applications	47.2	47.4	47.8	47.5	50.6	48.9	49.6	49.5	49.5	52.4	51.4	50.9	52.3
Accounts placed for collection	38.6	41.8	41.2	44.1	43.3	46.3	47.1	49.5	51.0	51.3	51.0	51.9	52.0
Disputes	45.8	47.6	46.1	49.3	48.2	49.5	50.9	48.0	50.1	50.7	51.9	51.5	51.8
Dollar amount beyond terms	42.8	44.5	45.3	46.3	48.1	48.3	47.9	50.0	51.4	52.5	53.3	51.3	52.2
Dollar amount of customer deductions	47.6	46.6	47.6	47.8	50.4	50.8	49.9	50.3	49.8	52.2	51.3	51.6	50.8
Filings for bankruptcies	39.6	43.6	43.2	43.1	47.3	51.7	52.1	55.4	46.6	55.4	56.5	54.8	56.6
Index of unfavorable factors	**43.6**	**45.2**	**45.2**	**46.4**	**48.0**	**49.2**	**49.6**	**50.4**	**49.7**	**52.4**	**52.6**	**52.0**	**52.6**
NACM Manufacturing CMI	**44.4**	**45.3**	**46.5**	**48.3**	**48.5**	**49.6**	**51.2**	**52.2**	**52.1**	**55.1**	**55.6**	**56.0**	**56.1**



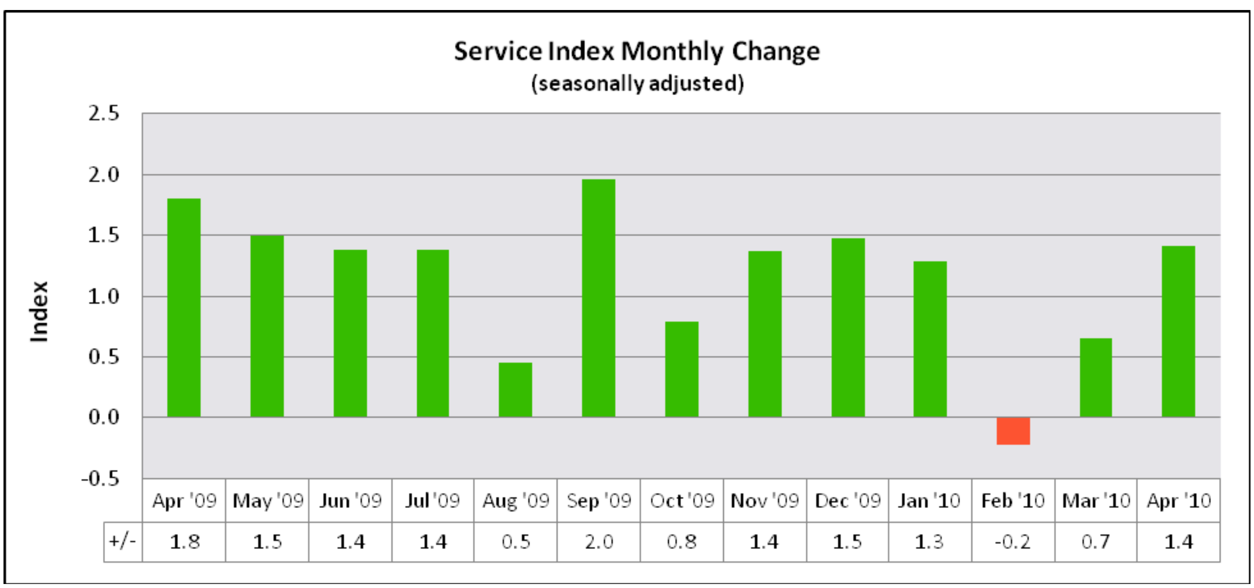
Service Sector

Shifts in the service sector provided the most positive news. The rise in sales that started in March continued into April and at the same time there was an increase in the level of dollar collection. The data from retailers in February and March continued to show a steady growth pattern—far beyond what many had expected to see. This has a number of long-term implications depending on what happens with the consumer from this point. Kuehl said the initial interpretation of the new retail numbers and the data from consumer surveys have indicated that the consumer is coming out of their shell and if that trend keeps building, the news for the service sector will continue to be positive. “The gains in the service sector favorable index have been far more impressive than that from manufacturing. That is almost the reverse of what was seen a couple of months ago,” he said. “The good news from an overall economic standpoint is that if the employment issue is going to be addressed, there needs to be progress in the service sector, as this accounts for 80% of the job growth in the U.S. and the bulk of these jobs are in small- to medium-sized business communities.”

Just as with the manufacturing sector, there was a reduction in bankruptcy activity. During the last 18 months, the rate of bankruptcy rose almost every month. This is part of the good and bad of a recession. The bad news is obvious enough, as each of these business failures means a loss of jobs, but in the longer term, the exit of weaker companies means expanded market share for the companies that remain in the category. The reduction in serious business breakdown also frees some of the credit industry from the damage that is created by the need to figure out how to manage these breakdowns.

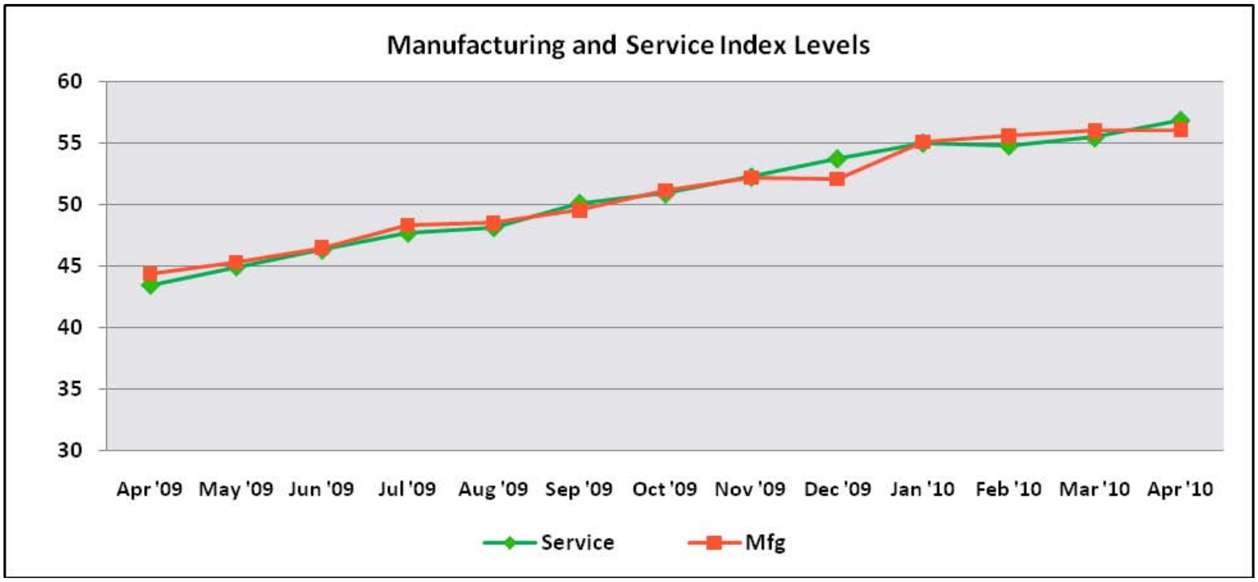
The absence of worsening negative factors in the service economy is a positive sign and reflects the increased stability developing among consumers in general.

Service Sector (seasonally adjusted)	Apr '09	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar '10	Apr '10
Sales	35.2	42.9	44.1	48.4	46.5	51.0	50.3	53.7	57.5	59.6	59.3	63.0	66.3
New credit applications	44.9	47.2	50.3	49.9	49.5	49.5	52.4	54.1	53.2	60.1	57.6	57.1	57.7
Dollar collections	48.0	50.0	50.8	49.8	50.5	54.8	53.7	58.6	59.9	61.2	62.7	62.4	63.2
Amount of credit extended	40.6	44.3	46.4	47.1	46.3	49.8	53.8	55.7	55.2	58.3	58.2	60.5	60.5
Index of favorable factors	**42.2**	**46.1**	**47.9**	**48.8**	**48.2**	**51.2**	**52.5**	**55.5**	**56.5**	**59.8**	**59.4**	**60.8**	**62.0**
Rejections of credit applications	47.7	47.4	48.1	47.4	48.5	47.9	48.5	49.2	50.6	50.4	50.6	49.4	49.6
Accounts placed for collection	38.5	38.7	39.8	43.9	43.7	44.3	47.1	49.4	50.7	50.1	49.9	50.2	49.2
Disputes	48.6	47.3	49.4	51.2	49.0	52.1	51.0	51.2	51.9	52.1	52.5	52.9	51.6
Dollar amount beyond terms	38.3	42.3	41.9	44.3	49.5	47.9	48.3	48.0	51.4	51.9	50.6	51.6	51.7
Dollar amount of customer deductions	52.0	48.4	50.2	50.7	51.1	52.7	51.1	52.3	52.7	52.9	51.1	51.8	60.5
Filings for bankruptcies	40.8	41.0	42.3	44.4	47.0	51.3	53.0	50.7	54.3	53.9	56.0	55.8	58.6
Index of unfavorable factors	**44.3**	**44.2**	**45.3**	**47.0**	**48.1**	**49.4**	**49.8**	**50.1**	**52.0**	**51.9**	**51.8**	**52.0**	**53.5**
NACM Service CMI	**43.5**	**45.0**	**46.3**	**47.7**	**48.2**	**50.1**	**50.9**	**52.3**	**53.8**	**55.0**	**54.8**	**55.5**	**56.9**



April 2010 vs. April 2009

The most encouraging news comes from the fact that the index levels have continued to crest over the 55 mark, although, to some extent, the two sectors have swapped places, Kuehl said. The manufacturing numbers have faded a bit from what they were a month or two ago while service has seen a gain that pushed it into the lead position. In the end, they are both above that key mid-50s metric and that continues to show substantial growth. The numbers for the CMI also continue to run in parallel to other indexes built on a similar diffusion index, such as the PMI.



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 1,000 trade credit managers near the end 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 those from the Purchasing Managers, the Supply Chain Managers and others.

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:

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

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.*

NACM
National Association of Credit Management

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 18,000 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 and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy.

This report and the CMI archives may be viewed at http://web.nacm.org/cmi/cmi.asp.

Contact: Caroline Zimmerman: 410-740-5560, caroline@nacm.org

Website: www.nacm.org
Twitter: NACM_National