# Report for April 2011

**Issued April 29, 2011**
**National Association of Credit Management**

## Combined Sectors

April 2011 is the month the U.S. economy started to confront dual threats and the credit community almost instantly reflected the transition. For the past two years the focus of the business community has been almost solely oriented toward recovery and finding strategies that would propel them toward that recovery. The threat of inflation was not a concern beyond the sense that at some point all the efforts to dig out of the downturn would come back to haunt the economy. That was before the price of oil started to accelerate at a rate not seen since the 2008 debacle. Now the inflation threat has become a clear and present danger and one that is affecting the business and credit community.

In March the manufacturing sector held its own and provided the sole piece of good news for the Credit Managers' Index (CMI) as a whole, but in April the sector stumbled and exchanged positions with the service sector. In March the news for the service side was not so good, but in April it staged a bit of a recovery and much of this appears to be related to the hike in inflation as well as the reactions from the business community most affected by price shifts. The changes from month to month have been subtle and the CMI itself barely moved from the position it marked in March, up just 0.1% from 55.7 to 55.8. "The devil is in the details," said Chris Kuehl, PhD, managing director of Armada Corporate Intelligence and economic advisor for the National Association of Credit Management. "Overall sales stayed at almost the same rate from month to month but that obscures the fact that there was a real reversal of fortune with the two sectors." Sales fell in the manufacturing sector while they rose in the service sector—the exact opposite of what happened in March. Some of this can be accounted for by the fact that inflated pricing in some parts of the economy causes a rise in sales that benefits one group, but punishes another, Kuehl said. Sales from gas station outlets were up so much that the nation's overall retail numbers rose 0.8%, but when gasoline and food costs are stripped out of that number, the growth falls to 0.3%, a solid indication of how much inflation has had an effect.

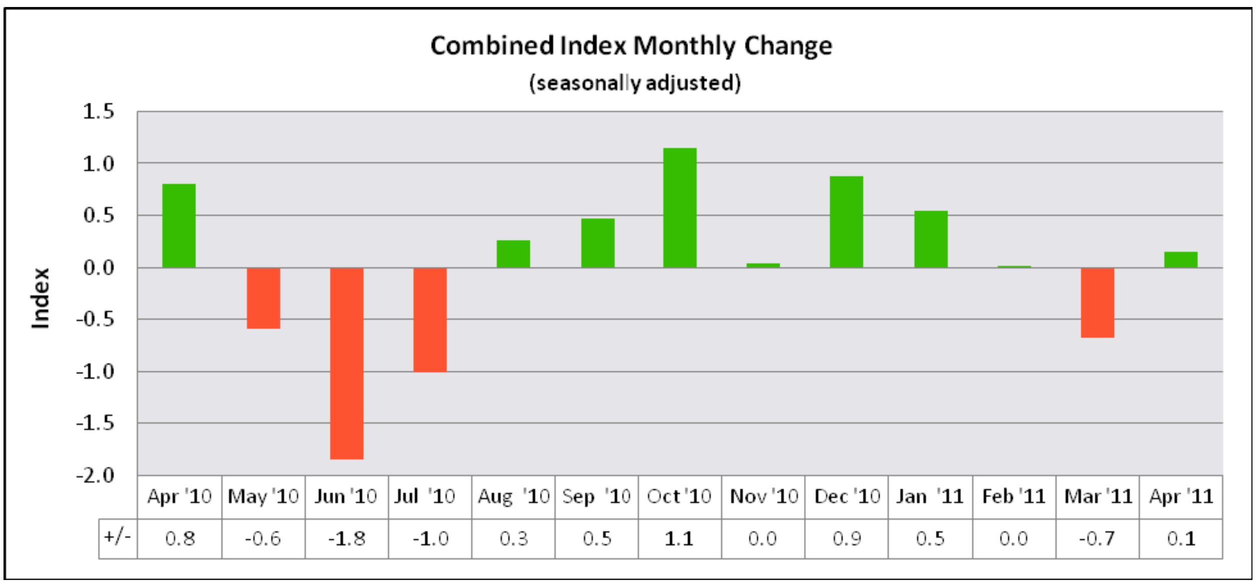
Looking at some of the other favorable factors for both sectors there was more evidence of divergence. The number of new credit applications in manufacturing fell to levels not seen since the start of the year, but in the service indicators the fall was even more dramatic—numbers not seen since October of last year. The evidence is pretty strong that business has returned to a more cautious position than they had started to adopt earlier in the year. There is now much more concern about the future of the economy through 2011 and that has caused many businesses to pull back on credit. Given that it was the expansion of credit that had been fueling enthusiasm at the start of this year, one can expect further slowdowns in expansion for the next few months.

Yet another sign of divergence is the rate of dollar collections between the two sectors. Overall, the number improved from 60 to 61.3 but that obscures a shift. Dollar collections were actually down in the manufacturing sector while recovering nicely in the service sector. Commodity inflation is taking a much bigger bite in manufacturing and is affecting cash flow. The bulk of the impact of inflation is being felt in the basic industries at the moment, although the consumer is seeing more of that rise every day. Manufacturers are paying those high fuel costs along with everybody else, but they are also paying record prices for everything from steel to copper to resins and chemicals. It is not just gasoline that goes up when the price of oil rises. The price of feedstock for the fertilizer industry rises and so do the prices of petrochemicals. Transportation costs have risen as well and that affects the manufacturer first as they are paying for the transportation of the raw materials they need.

"The overall news from the CMI is that conditions have stabilized, but the fact is that there is considerable volatility just under the surface," Kuehl noted. The expectation is that inflation issues will affect the service sector in short order and the advantage held by that category will diminish in future index readings.

*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 '10 | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec '10 | Jan '11 | Feb | Mar | Apr '11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 65.7 | 64.5 | 59.0 | 57.2 | 57.6 | 58.6 | 60.8 | 61.9 | 65.9 | 63.5 | 66.3 | 64.7 | 64.5 |
| New credit applications | 57.4 | 58.6 | 57.4 | 54.1 | 54.6 | 54.8 | 56.8 | 58.2 | 60.1 | 58.6 | 60.3 | 59.8 | 58.8 |
| Dollar collections | 62.1 | 59.7 | 59.4 | 56.3 | 57.7 | 60.0 | 61.9 | 58.6 | 60.7 | 60.9 | 63.4 | 60.0 | 61.3 |
| Amount of credit extended | 61.3 | 60.2 | 55.9 | 56.0 | 57.1 | 58.7 | 59.8 | 61.2 | 61.7 | 64.8 | 66.5 | 64.4 | 64.7 |
| **Index of favorable factors** | **61.6** | **60.7** | **57.9** | **55.9** | **56.7** | **58.0** | **59.8** | **60.0** | **62.1** | **62.0** | **64.1** | **62.2** | **62.3** |
| Rejections of credit applications | 50.9 | 50.7 | 51.0 | 52.0 | 50.7 | 49.1 | 51.4 | 51.0 | 50.8 | 51.2 | 51.4 | 50.8 | 50.8 |
| Accounts placed for collection | 50.6 | 54.5 | 51.4 | 49.3 | 51.1 | 50.4 | 51.7 | 52.5 | 51.5 | 52.5 | 49.9 | 52.1 | 50.5 |
| Disputes | 51.7 | 51.3 | 50.4 | 50.6 | 50.9 | 50.8 | 49.9 | 50.8 | 49.2 | 51.0 | 49.2 | 48.9 | 49.3 |
| Dollar amount beyond terms | 51.9 | 50.2 | 49.1 | 49.4 | 47.0 | 49.1 | 50.9 | 48.9 | 53.4 | 51.5 | 50.6 | 49.7 | 50.7 |
| Dollar amount of customer deductions | 55.7 | 51.8 | 50.3 | 50.5 | 49.6 | 50.6 | 48.9 | 50.2 | 49.6 | 50.6 | 50.1 | 49.3 | 49.9 |
| Filings for bankruptcies | 57.6 | 57.6 | 56.6 | 55.0 | 56.9 | 55.7 | 57.0 | 56.3 | 55.4 | 59.1 | 56.0 | 57.4 | 58.1 |
| **Index of unfavorable factors** | **53.1** | **52.7** | **51.5** | **51.1** | **51.0** | **50.9** | **51.6** | **51.6** | **51.7** | **52.6** | **51.2** | **51.4** | **51.5** |
| **NACM Combined CMI** | **56.5** | **55.9** | **54.1** | **53.0** | **53.3** | **53.8** | **54.9** | **55.0** | **55.8** | **56.4** | **56.4** | **55.7** | **55.8** |




## Manufacturing Sector

The CMI data reflects the intense volatility in the manufacturing community. Some parts of this sector are seeing expansion at a record clip—most notably the energy subsector. There has also been a solid recovery in those subsectors aimed at the export market—a continued advantage provided by the weak dollar. The problem is that other parts of manufacturing have slumped in response to the inflation pressure combined with a slow rebound by consumers. Looking at the set of favorable indicators provides a sense of that volatility.

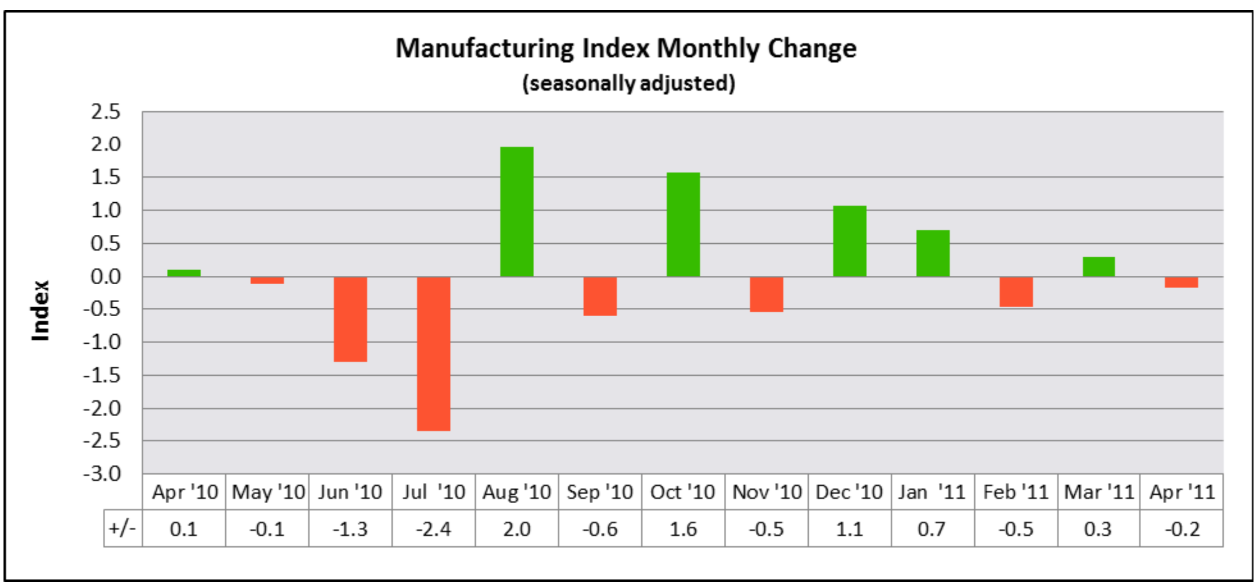
Sales have been in decline after a dramatic boom in the latter part of last year. December's reading peaked at 66.6; in April it slipped to 63.9. This is not heading in the direction that many expected. The level of credit applications stayed pretty stable, although it had been hoped that these levels would have crept further upward by now. The dollar collection numbers are not catastrophic, but they are down to levels not seen since last year. The one piece of positive news in this set of data is that credit extended has grown and is back to the levels seen earlier in the year. This reflects the fact that many companies started to extend additional credit as the recovery began to pick up speed and some of this activity is just starting to manifest.

The biggest changes took place in unfavorable factors. It appears many more manufacturers are struggling than was the case even a few months ago. The number of accounts placed for collection has risen, and there have been more bankruptcies. The other negative factors have not worsened appreciably, but neither have they improved—worrisome for an economy that is supposed to be on the road to rebound. The evidence is spotty and anecdotal at this stage, but cash flow issues seem to be at the heart of the problem.

Manufacturers have been hit with crippling price hikes in the last couple of months. The costs of metals have soared; and are so volatile that it is almost impossible to plan for the hikes. The same pattern has been seen for manufacturers depending on other raw materials like resins and plastics. The commodity price surge has been near universal and has combined with higher fuel costs to put a strain on companies. The resulting effect is manufacturers being forced to delay payment on some of their obligations.

Manufacturers in general have been at the forefront of the economic recovery, and the national numbers still look pretty solid with durable goods orders generally in a positive place. The problem is that growth is starting to fall behind the costs of production and that puts the manufacturer in a bind. In past years the low wage inflation would have helped counter the inflation in commodity pricing, but as manufacturing becomes more and more capital intensive, the impact of low labor costs becomes less and less important.

| **Manufacturing Sector** (seasonally adjusted) | Apr '10 | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec '10 | Jan '11 | Feb | Mar | Apr '11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 65.2 | 66.0 | 59.1 | 56.1 | 59.4 | 57.9 | 59.3 | 62.2 | 66.6 | 64.7 | 65.1 | 65.4 | 63.9 |
| New credit applications | 57.1 | 58.9 | 58.9 | 53.7 | 54.3 | 54.4 | 54.9 | 57.8 | 59.1 | 57.7 | 59.6 | 60.6 | 60.3 |
| Dollar collections | 60.9 | 59.7 | 59.0 | 53.0 | 60.1 | 61.1 | 61.0 | 57.9 | 60.5 | 60.3 | 61.5 | 60.8 | 60.2 |
| Amount of credit extended | 62.1 | 58.9 | 58.2 | 55.8 | 56.0 | 57.3 | 59.9 | 61.2 | 61.6 | 66.2 | 67.6 | 64.5 | 66.5 |
| **Index of favorable factors** | **61.3** | **60.9** | **58.8** | **54.6** | **57.5** | **57.7** | **58.8** | **59.8** | **61.9** | **62.2** | **63.4** | **62.8** | **62.7** |
| Rejections of credit applications | 52.3 | 51.6 | 51.8 | 52.0 | 52.6 | 49.6 | 53.2 | 52.1 | 51.3 | 52.0 | 51.9 | 51.6 | 51.0 |
| Accounts placed for collection | 52.0 | 54.3 | 54.3 | 48.5 | 52.8 | 51.9 | 53.6 | 52.7 | 51.1 | 53.0 | 51.2 | 53.9 | 50.7 |
| Disputes | 51.8 | 50.0 | 50.6 | 50.8 | 51.3 | 50.0 | 49.5 | 48.6 | 48.1 | 49.8 | 48.2 | 49.0 | 50.5 |
| Dollar amount beyond terms | 52.2 | 50.1 | 50.3 | 50.4 | 51.0 | 49.6 | 55.2 | 49.4 | 53.9 | 52.1 | 51.3 | 51.6 | 52.2 |
| Dollar amount of customer deductions | 50.8 | 51.0 | 49.2 | 49.9 | 48.4 | 49.4 | 48.5 | 48.8 | 49.4 | 49.1 | 50.1 | 48.8 | 49.5 |
| Filings for bankruptcies | 56.6 | 59.5 | 55.6 | 53.4 | 57.1 | 55.8 | 57.7 | 56.7 | 56.5 | 60.2 | 53.9 | 57.2 | 56.8 |
| **Index of unfavorable factors** | **52.6** | **52.7** | **52.0** | **50.8** | **52.2** | **51.1** | **52.9** | **51.4** | **51.7** | **52.7** | **51.1** | **52.0** | **51.8** |
| **NACM Manufacturing CMI** | **56.1** | **56.0** | **54.7** | **52.4** | **54.3** | **53.7** | **55.3** | **54.7** | **55.8** | **56.5** | **56.0** | **56.3** | **56.1** |



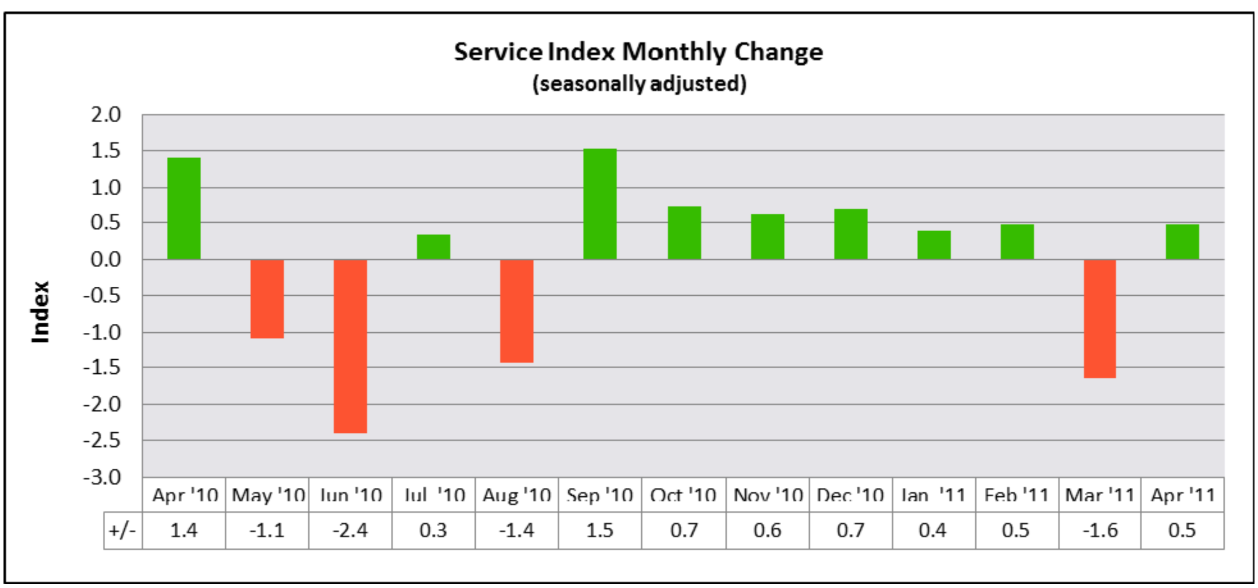
## Service Sector

The decline in sales noted in March started to reverse in April, beginning with better numbers in the favorable factors. Sales data improved and jumped back to levels seen earlier in the year, but new credit applications continued to fall and are back to levels not seen since the middle of last year. The best news is that dollar collections were back, which seems to reflect a more aggressive consumer. It also may reflect the fact that inflation has improved the appearance of cash flow in the food and fuel sectors as well as improving the numbers for those service subsectors that are best able to pass on the costs imposed by higher priced commodities.

Unfavorable factors barely shifted this month—good news, all things considered. It was the sharp deterioration of these factors in March that led to the big decline in performance. It would be preferable for these to start improving, but given recent economic stressors, it is acceptable to see a steady state of activity at this stage.

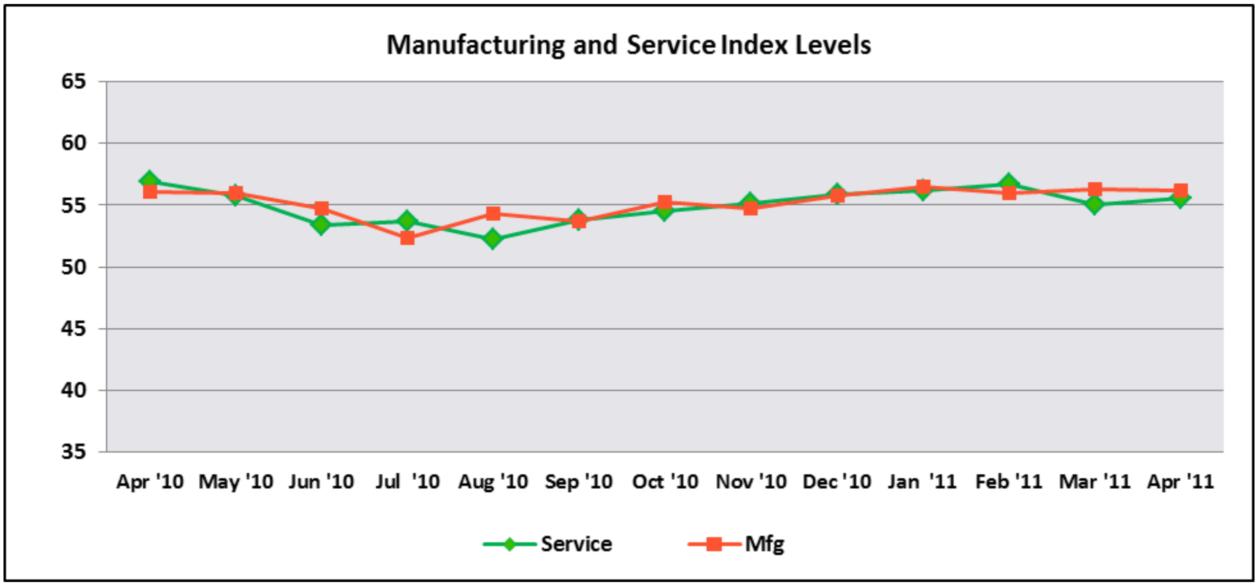
The impact of inflation has not really been felt in the service sector this year but it is only a matter of time. The Federal Reserve has been asserting all along that core rates of inflation remain under control—still under the 2% threshold the Fed has set. At the same time, the headline inflation rate is out of control as it reacts to those volatile sectors that the core doesn't consider. The high costs of food and energy have already smacked manufacturers and will doubtless start to filter into the service and consumer categories in the months ahead.

| Service Sector (seasonally adjusted) | Apr '10 | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec '10 | Jan '11 | Feb | Mar | Apr '11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 66.3 | 63.0 | 58.8 | 58.2 | 55.7 | 59.3 | 62.2 | 61.6 | 65.1 | 62.3 | 67.5 | 63.9 | 65.0 |
| New credit applications | 57.7 | 58.2 | 55.9 | 54.5 | 54.8 | 55.1 | 58.7 | 58.6 | 61.1 | 59.4 | 61.0 | 59.0 | 57.3 |
| Dollar collections | 63.2 | 59.7 | 59.7 | 59.7 | 55.2 | 59.0 | 62.9 | 59.2 | 60.9 | 61.6 | 65.2 | 59.2 | 62.3 |
| Amount of credit extended | 60.5 | 61.5 | 53.7 | 56.3 | 58.1 | 60.0 | 59.6 | 61.2 | 61.8 | 63.4 | 65.4 | 64.2 | 63.0 |
| **Index of favorable factors** | **62.0** | **60.6** | **57.0** | **57.2** | **56.0** | **58.4** | **60.9** | **60.2** | **62.2** | **61.7** | **64.8** | **61.6** | **61.9** |
| Rejections of credit applications | 49.6 | 49.7 | 50.3 | 51.9 | 48.7 | 48.7 | 49.6 | 49.8 | 50.3 | 50.4 | 51.0 | 50.1 | 50.5 |
| Accounts placed for collection | 49.2 | 54.8 | 48.5 | 50.1 | 49.4 | 48.9 | 49.9 | 52.4 | 52.0 | 52.1 | 48.6 | 50.2 | 50.2 |
| Disputes | 51.6 | 52.7 | 50.3 | 50.5 | 50.5 | 51.5 | 50.3 | 52.9 | 50.3 | 52.1 | 50.1 | 48.7 | 48.1 |
| Dollar amount beyond terms | 51.7 | 50.3 | 47.9 | 48.4 | 43.1 | 48.5 | 46.6 | 48.5 | 52.9 | 51.0 | 49.9 | 47.8 | 49.2 |
| Dollar amount of customer deductions | 60.5 | 52.6 | 51.4 | 51.0 | 50.8 | 51.7 | 49.4 | 51.6 | 49.9 | 52.1 | 50.1 | 49.8 | 50.3 |
| Filings for bankruptcies | 58.6 | 55.7 | 57.6 | 56.6 | 56.6 | 55.5 | 56.3 | 55.9 | 54.3 | 57.9 | 58.2 | 57.7 | 59.5 |
| **Index of unfavorable factors** | **53.5** | **52.6** | **51.0** | **51.4** | **49.8** | **50.8** | **50.4** | **51.8** | **51.6** | **52.6** | **51.3** | **50.7** | **51.3** |
| **NACM Service CMI** | **56.9** | **55.8** | **53.4** | **53.7** | **52.3** | **53.8** | **54.6** | **55.2** | **55.8** | **56.2** | **56.7** | **55.1** | **55.5** |



## April 2011 vs. April 2010

The year-over-year numbers are stable, which is a mixed bag as far as positive and negative trends are concerned. The good news is that things didn't get any worse; the bad news is that the index has stabilized at a pretty mediocre level.




## 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 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 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:

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

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

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 17,000 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.

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