Report for August 2009

Issued September 1, 2009

National Association of Credit Management

Combined Sectors

After six months of solid gains, the Credit Managers' Index showed slower progress and registered declines in key indicators. There was still some positive movement in the Index as a whole, but there are obvious weaknesses showing up in terms of credit availability, credit applications and sales. There were also areas of concern in terms of dollar exposure, disputes and other negatives. There was a sense that bigger economic issues began to overtake the sector, slowing down some of the progress noted in the last few months. The Index showed a dramatic decline from the levels in July, but overall the Index gained and moved a little closer to the magic number of 50, climbing from July's combined index score of 48 to the August score of 48.1.

These numbers are a little sobering given the sense that the economy had started to come out of the recession in July's report. This suggests that the proposed recovery is a little weaker than some of the indicators reflect, especially in terms of availability of money. The reduction in credit applications indicates that there is less willingness to lend and that companies seeking credit are being put through more hoops than in the past. The number of additional disputes and delinquencies also suggests that some sectors of the economy are still struggling.

NACM Economist Chris Kuehl, Ph.D. stated that these readings do not necessarily mean that the other signs of economic recovery are not accurate but, he indicated, "the credit system has not healed and it may be some time before there is a sense that the biggest issues are behind the economy. There are some shoes left to drop, most notably the commercial property sector." It had been assumed that the August index would crest over 50—signaling expansion—which correlated to the Purchasing Managers' Index (PMI) that had also risen to levels very near the 50 level. "It is mildly encouraging to note that the index has not fallen, but an anemic .1 gain was much less than had been anticipated," said Kuehl.

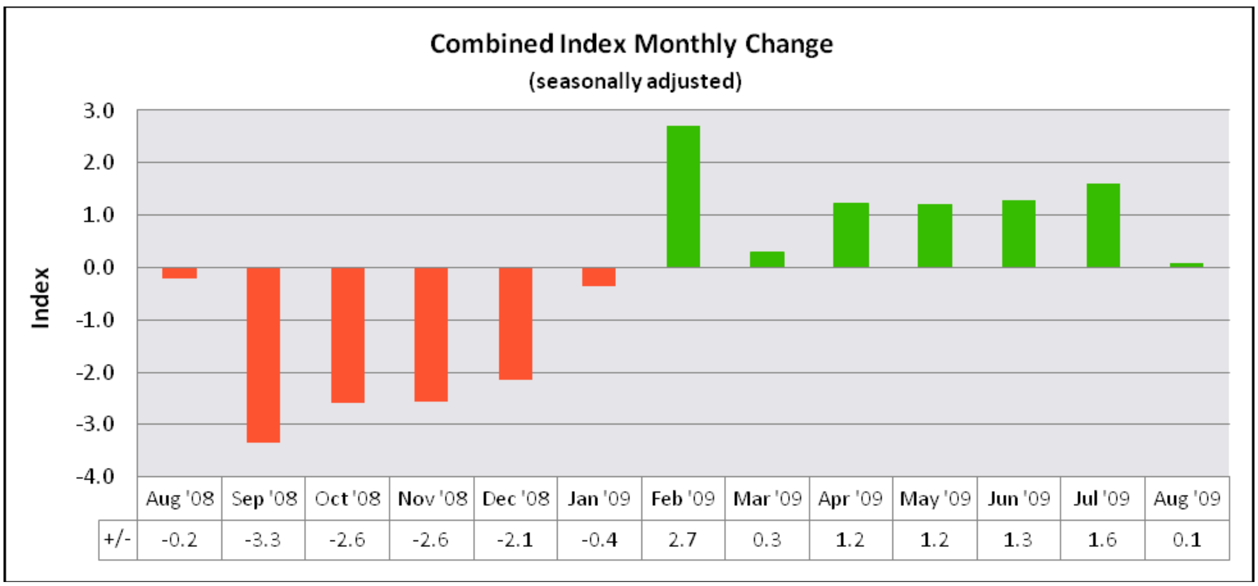
Other data that has been used to assert that the recession has started to bottom out is accurate and encouraging. Housing starts are returning back to growth and it is encouraging to see durable goods orders back to normal, but the money situation remains a solid concern for business as it seeks to expand into other sectors to capture some newly available market share.

The issues are the same as they have been for the last few months: consumer confidence and investor confidence. At the moment, the investment community is more encouraged than the consumer, and that creates a problem in the not-too-distant future. Until consumers start to draw on the rebuilding inventory levels, there is nothing to suggest that producers should start gearing up again. This is part of what seems to be making credit scarce—a concern that the current growth is somewhat artificial, motivated by inventory gains in anticipation of demand or programs like "Cash for Clunkers."

"Overall there were more down sectors than positive ones this month," said Kuehl. "There is a small amount of solace to be taken in the observation that none of these areas declined a lot, but growth *was* expected." The biggest improvement was in number of bankruptcies, but that may be connected to the fact that most of those companies threatened with collapse have already been forced into that procedure.

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)	Aug '08	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug '09
Sales	56.5	45.3	45.6	34.4	27.2	29.5	34.1	35.2	37.4	41.8	44.8	48.6	48.4
New credit applications	52.8	49.7	49.7	45.2	44.7	42.7	44.9	44.3	47.8	48.2	50.7	52.6	49.3
Dollar collections	57.1	54.6	50.9	50.0	43.9	47.5	47.1	48.4	48.0	48.8	51.2	50.8	50.5
Amount of credit extended	60.0	53.9	47.7	43.3	42.2	40.5	42.2	41.8	42.3	44.3	46.1	48.2	48.0
Index of favorable factors	**56.6**	**50.9**	**48.5**	**43.2**	**39.5**	**40.0**	**42.1**	**42.4**	**43.9**	**45.8**	**48.2**	**50.0**	**49.1**
Rejections of credit applications	48.5	47.8	44.6	45.0	45.6	45.9	46.7	47.8	47.4	47.4	47.9	47.5	49.0
Accounts placed for collection	45.6	41.7	36.4	36.1	35.2	36.8	37.8	37.1	38.5	40.2	40.5	44.0	43.6
Disputes	46.4	45.8	42.9	43.9	44.5	43.4	44.8	44.1	47.2	47.5	47.7	50.2	49.7
Dollar amount beyond terms	43.6	42.0	41.8	38.8	31.6	30.6	42.0	42.3	40.5	43.4	43.6	45.3	46.2
Dollar amount of customer deductions	48.5	46.6	45.8	45.4	46.4	45.2	46.2	45.5	49.8	47.5	48.9	49.2	50.6
Filings for bankruptcies	48.2	46.5	42.6	40.5	39.7	35.4	38.4	40.5	40.2	42.3	42.8	43.7	45.8
Index of unfavorable factors	**46.8**	**45.0**	**42.3**	**41.6**	**40.5**	**39.5**	**42.6**	**42.9**	**43.9**	**44.7**	**45.2**	**46.7**	**47.5**
NACM Combined CMI	**50.7**	**47.4**	**44.8**	**42.2**	**40.1**	**39.7**	**42.4**	**42.7**	**43.9**	**45.1**	**46.4**	**48.0**	**48.1**



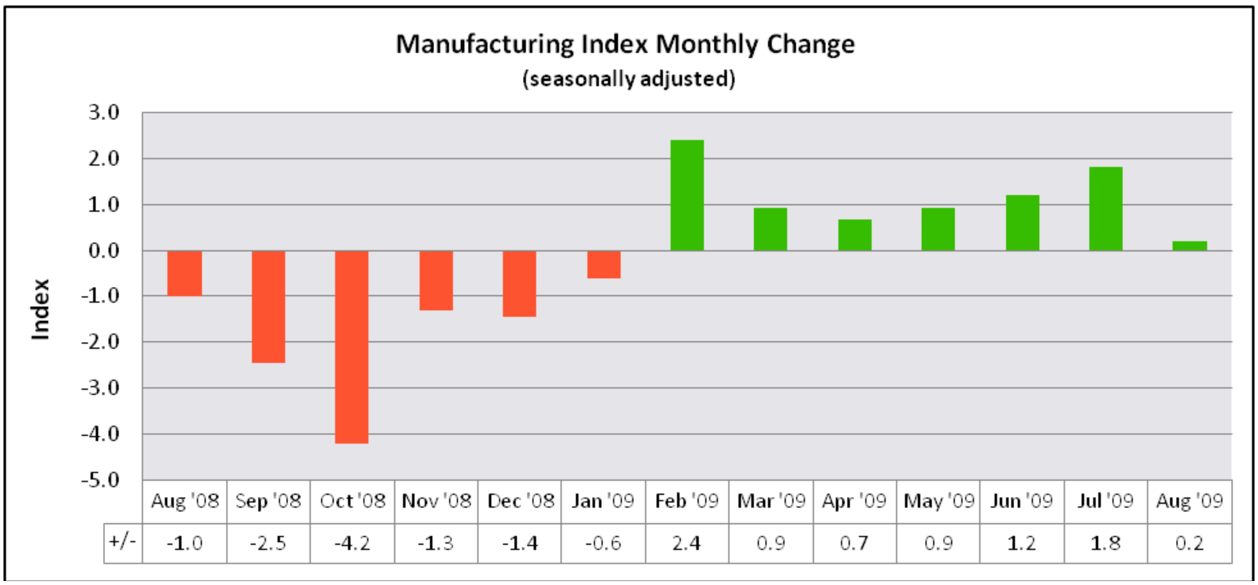
Manufacturing Sector

The growth that had been seen in manufacturing slowed in August as well. There was still a gain in the manufacturing index—from 48.3 to 48.5—but this was far less dramatic than expected. With the advance of the PMI and the improvement in durable goods orders, it was thought that the manufacturing sector would show a similar increase. The tiny gain essentially reflected a flat month. The biggest shifts took place in the number of new credit applications. There was a nice surge in July as the index moved up to 55.3, but the drop to 48.6 was steep and this suggests that the enthusiasm evident in manufacturing for July slowed as the more constrained month of August dawned.

The factors that kept manufacturing growing in August had more to do with the current consumer base. There were fewer dollars past term, fewer disputes and fewer bankruptcies. The clients that exist in the sector are getting their financial houses in order, but this may also be more of the worst companies leaving the scene as opposed to any general improvement in the status of current customers.

"It would appear there are mixed signals in the manufacturing sector right now. It is true that durable goods orders are up, but much of this number was accounted for by the surge in auto production reacting to the 'Cash for Clunkers' program as well as the very volatile aviation market. The increase in business machine production is encouraging, but not solid enough to propel a recovery at this point," said Kuehl.

Manufacturing Sector (seasonally adjusted)	Aug '08	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug '09
Sales	57.4	45.2	46.1	38.5	26.8	31.6	34.7	36.7	39.6	40.7	45.4	48.7	48.4
New credit applications	53.0	50.9	49.2	45.5	48.8	44.8	45.2	44.6	50.7	49.3	51.1	55.3	48.6
Dollar collections	56.2	55.6	46.3	49.6	44.5	48.2	48.3	49.5	48.0	47.5	51.6	51.7	51.3
Amount of credit extended	62.0	56.2	48.1	42.8	44.0	39.6	40.5	41.8	44.1	44.2	45.8	49.3	48.9
Index of favorable factors	**57.2**	**52.0**	**47.4**	**44.1**	**41.0**	**41.1**	**42.2**	**43.1**	**45.6**	**45.4**	**48.5**	**51.3**	**49.3**
Rejections of credit applications	48.1	49.0	46.2	45.2	47.8	46.0	46.5	48.1	47.2	47.4	47.8	47.5	50.6
Accounts placed for collection	47.4	42.3	36.0	35.3	35.0	39.1	38.1	37.7	38.6	41.8	41.2	44.1	43.3
Disputes	43.8	45.5	41.3	44.4	44.7	42.6	44.4	44.4	45.8	47.6	46.1	49.3	48.2
Dollar amount beyond terms	41.8	43.1	38.6	40.0	31.8	30.8	46.5	48.1	42.8	44.5	45.3	46.3	48.1
Dollar amount of customer deductions	46.9	45.9	42.8	44.2	45.8	44.6	44.5	45.6	47.6	46.6	47.6	47.8	50.4
Filings for bankruptcies	47.2	45.6	42.6	38.7	40.6	36.4	39.2	40.6	39.6	43.6	43.2	43.1	47.3
Index of unfavorable factors	**45.9**	**45.2**	**41.3**	**41.3**	**41.0**	**39.9**	**43.2**	**44.1**	**43.6**	**45.2**	**45.2**	**46.4**	**48.0**
NACM Manufacturing CMI	**50.4**	**47.9**	**43.7**	**42.4**	**41.0**	**40.4**	**42.8**	**43.7**	**44.4**	**45.3**	**46.5**	**48.3**	**48.5**

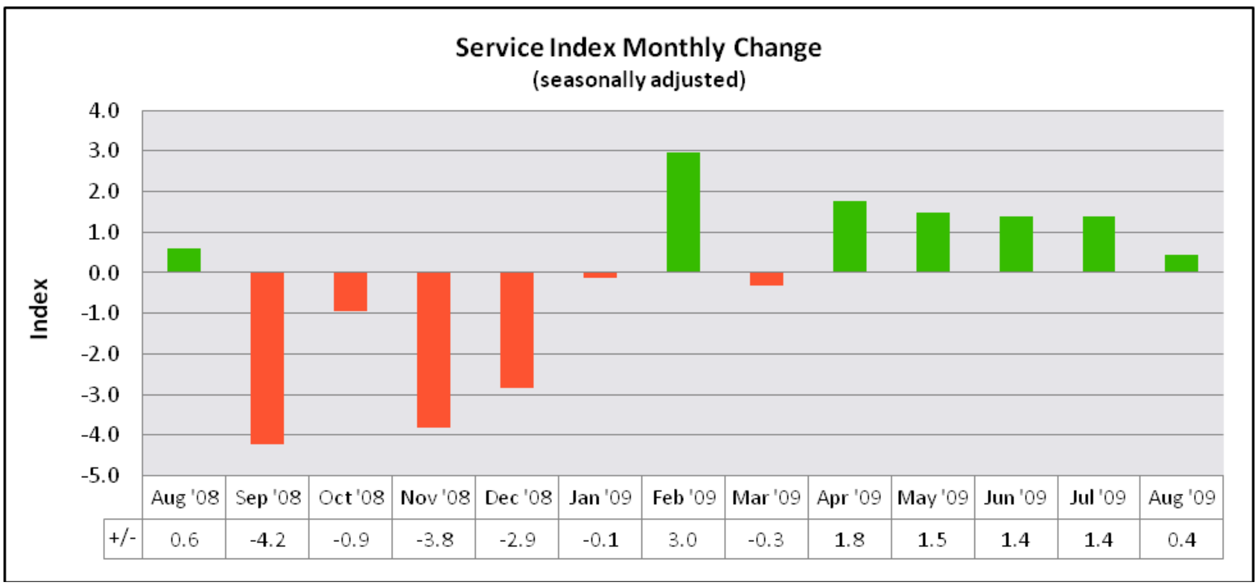


Service Sector

There wasn't much in the service sector that provided encouragement, but there was more progress than in the manufacturing sector as the service index crept upward from 47.7 to 48.1. The most significant change was a reduction in sales. The other factors remained very close to what they had been in July, but this is not unexpected news. The retail sector has been hurt and has been slow to rebound. At the same time, there has been relatively little growth in other service sectors as financial sector prospects remain low: real estate is down and many of the corporate service areas have been reduced in reaction to the problems in the economy as a whole. The only modest gains have been in health care services and the government.

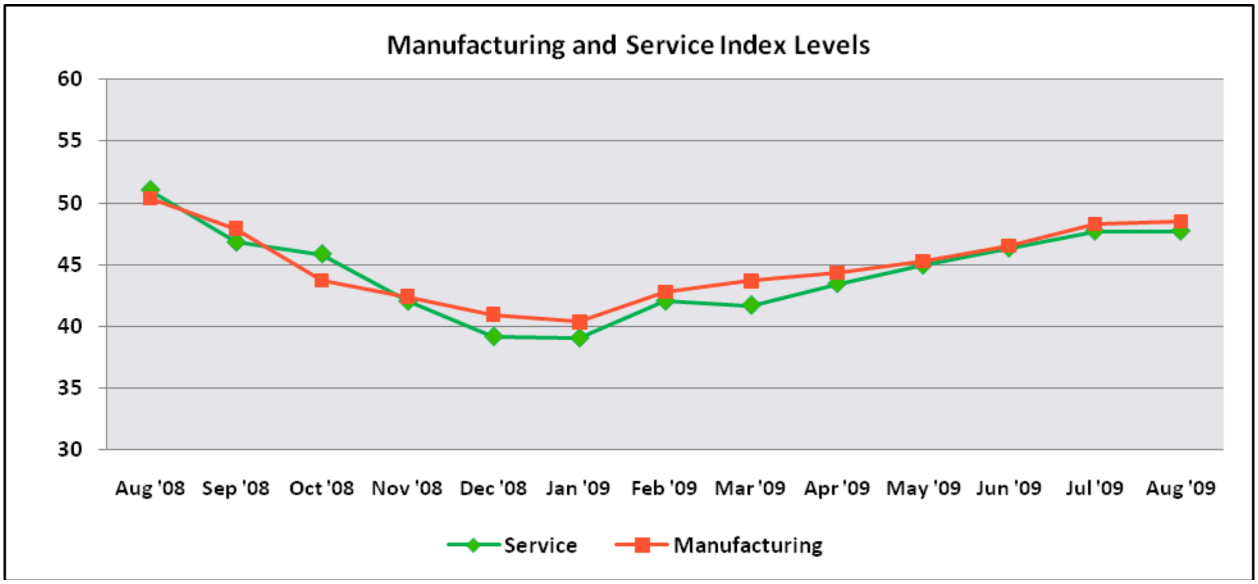
It is notable that some of the problem areas have seen some improvement. There have been fewer disputes and delinquencies and there is less dollar exposure than before. “This is good news as it suggests that some of the worst is over in these service sectors. The stability of the economy has started to manifest in these traditional areas that serve as barometers for the wider economy. Retail has not recovered and may not this year, but the backsliding seems to have halted and those that have survived the recession seem to be hanging in there,” said Kuehl.

Service Sector (seasonally adjusted)	Aug '08	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug '09
Sales	55.5	45.4	45.1	30.2	27.5	27.3	33.5	33.7	35.2	42.9	44.1	48.4	46.5
New credit applications	52.6	48.4	50.2	44.8	40.5	40.5	44.6	44.0	44.9	47.2	50.3	49.9	49.5
Dollar collections	58.0	53.6	55.5	50.3	43.2	46.8	45.9	47.4	48.0	50.0	50.8	49.8	50.5
Amount of credit extended	58.0	51.5	47.2	43.7	40.3	41.4	43.9	41.8	40.6	44.3	46.4	47.1	46.3
Index of favorable factors	**56.0**	**49.7**	**49.5**	**42.3**	**37.9**	**39.0**	**41.9**	**41.7**	**42.2**	**46.1**	**47.9**	**48.8**	**48.2**
Rejections of credit applications	48.8	46.5	43.0	44.7	43.4	45.7	46.9	47.5	47.7	47.4	48.1	47.4	48.5
Accounts placed for collection	43.8	41.0	36.7	36.9	35.4	34.4	37.5	36.5	38.5	38.7	39.8	43.9	43.7
Disputes	48.9	46.1	44.5	43.3	44.3	44.1	45.2	43.9	48.6	47.3	49.4	51.2	49.0
Dollar amount beyond terms	45.4	40.9	44.9	37.6	31.4	30.3	37.4	36.6	38.3	42.3	41.9	44.3	49.5
Dollar amount of customer deductions	50.0	47.3	48.8	46.6	47.0	45.7	48.0	45.4	52.0	48.4	50.2	50.7	51.1
Filings for bankruptcies	49.2	47.3	42.6	42.2	38.8	34.4	37.7	40.4	40.8	41.0	42.3	44.4	47.0
Index of unfavorable factors	**47.7**	**44.9**	**43.4**	**41.9**	**40.1**	**39.1**	**42.1**	**41.7**	**44.3**	**44.2**	**45.3**	**47.0**	**48.1**
NACM Service CMI	**51.0**	**46.8**	**45.9**	**42.0**	**39.2**	**39.1**	**42.0**	**41.7**	**43.5**	**45.0**	**46.3**	**47.7**	**48.1**



August 2009 vs. August 2008

“The change from last year’s level has been negligible. The data was flat for the month and has delayed the expected crest over 50, into expansion. There is still some hope that September will show a gain that will take the Index back to the position it held in August 2008, but for now, that goal is proving elusive. From this 2008 point, the Index began a precipitous drop that took levels down to the 30s. It is not likely that this pattern will be repeated, but the pace of gains will be slow,” said Kuehl.



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 1000 trade credit managers during the last 10 days of the 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 or 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 items, the calculation is:

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

For the negative factors, the calculation is:

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

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: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 19,000 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.

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