Report for August 2011

Issued September 1, 2011

National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI) for August hasn't been this low in more than a year—falling from July's 53.9 to 52.7—and is now tracking at levels last seen in 2008–2009. "The news this month is not good and comes as no shock to anyone who has been tracking the data coming from all directions," said Chris Kuehl, PhD, economist for the National Association of Credit Management (NACM). If there is any good news, it is that the combined number has not yet fallen below 50, the threshold separating contraction from expansion. But the index of unfavorable factors fell to contractionary levels. The last time the unfavorable index was this low was in the 2009 period when the recession had just started to show signs of easing. The fact that the data was not worse this month than it was is probably worth noting as most of the other indices released in the last few weeks suggested there might have been an even steeper decline.

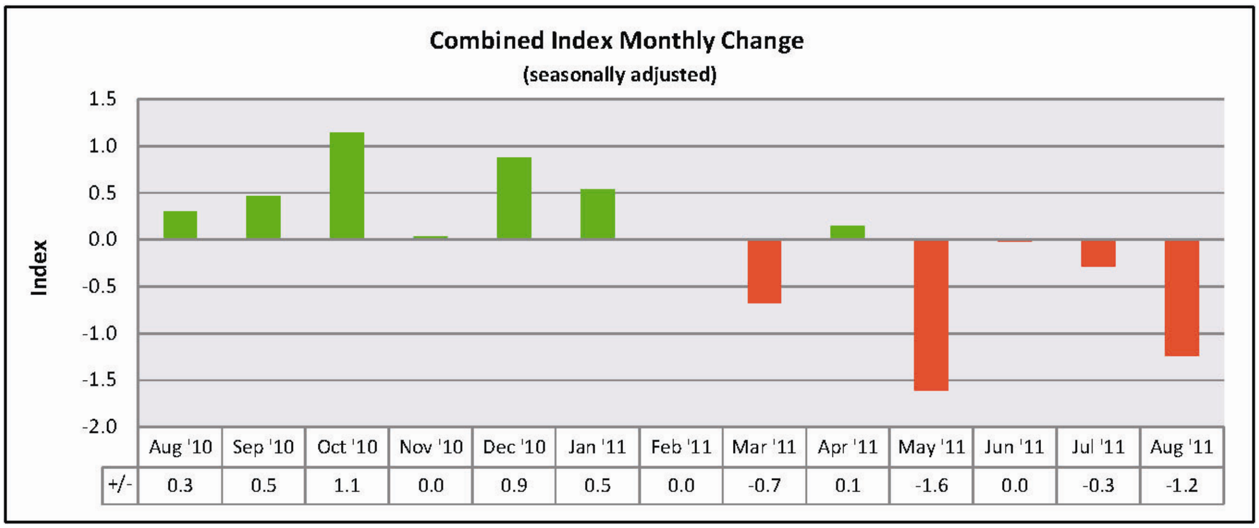
Kuehl said the best news in this month's data is found in the favorable index. Here the data barely changed, going from 58.9 to 58.1. This is still much lower than most of the last year, but the precipitous collapse that took place in the companion part of the overall index did not take place here. There was even some improvement in the amount of dollar collections, while declines in the sales category were slight, from 60 to 59.2. "The most interesting aspect of the data is that extension of credit actually improved in the middle of all this gloom and doom. The fact that favorable factors have improved slightly or remained stable provides some hope that conditions will improve in the coming months," said Kuehl. "There is still demand and business progress, but the crisis in the overall economy has been putting pressure on the finances of many companies."

Upon examining the unfavorable factors, it is striking that the problem is primarily one of sudden business stress and failure. The biggest declines were in accounts placed for collection and dollar amounts beyond terms. These are signs of real distress among customers, but it is equally significant that filings for bankruptcies did not increase dramatically and there was not an acceleration in the rejection of credit applications. The divergence in these factors is particularly interesting and informative. While speculative, one could look at this data and conclude that companies got in trouble in the last month or so because of a sudden drop in business after anticipating better times. Evidence from earlier in the year showed that companies across the board were anticipating better days in the second half of the year and many were trying to prepare for this with expansion plans. This anticipated economic growth did not come to pass and these companies swiftly got into trouble.

If there is a small silver lining to all this, it is that the level of bankruptcies has not risen at the same pace. That means one of two things. If the economy gets back in gear in the next couple of months, companies struggling now will have some time to gain control of their budgets and be able to avoid sliding further toward collapse and ultimately bankruptcy. If the economy doesn't catch fire to some extent in the near future, the bankruptcy rate will start to climb and the index will reflect it. The other mildly encouraging piece is that the rate of rejection for credit applications was not markedly different from last month. There is still credit available to customers that are bucking the trend. This is not like the situation at the end of 2008 when the entire credit system came screeching to a halt and even the best of companies were denied access.

The data this month is mixed but with a decidedly downward slope. The CMI remains in expansion territory, but is holding on to that status by a thread. There may be another month of essentially flat growth in store, but after that the economy will begin to tilt in one direction or another. If there is no real improvement in some of the fundamentals, the index will reflect continued deterioration. There is some resilience evident in the index numbers as the favorable categories are holding their own. The sectors that will drag the whole index further under include those that are most dependent on the decisions that companies made when they were expecting some solid economic growth by now. The credit requested made sense at the time, but now there is some serious concern as far as what happens next if the growth rate remains mired in the predicted 1% to 1.5% region.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '10	Sep	Oct	Nov	Dec '10	Jan '11	Feb	Mar	Apr	May	Jun	Jul	Aug '11
Sales	57.6	58.6	60.8	61.9	65.9	63.5	66.3	64.7	64.5	59.4	60.8	60.0	59.2
New credit applications	54.6	54.8	56.8	58.2	60.1	58.6	60.3	59.8	58.8	58.2	56.7	57.3	55.8
Dollar collections	57.7	60.0	61.9	58.6	60.7	60.9	63.4	60.0	61.3	58.7	58.1	56.2	56.9
Amount of credit extended	57.1	58.7	59.8	61.2	61.7	64.8	66.5	64.4	64.7	62.1	60.4	62.0	60.7
Index of favorable factors	**56.7**	**58.0**	**59.8**	**60.0**	**62.1**	**62.0**	**64.1**	**62.2**	**62.3**	**59.6**	**59.0**	**58.9**	**58.1**
Rejections of credit applications	50.7	49.1	51.4	51.0	50.8	51.2	51.4	50.8	50.8	51.5	50.9	51.0	50.2
Accounts placed for collection	51.1	50.4	51.7	52.5	51.5	52.5	49.9	52.1	50.5	50.3	49.8	49.9	47.6
Disputes	50.9	50.8	49.9	50.8	49.2	51.0	49.2	48.9	49.3	48.8	49.3	50.0	48.7
Dollar amount beyond terms	47.0	49.1	50.9	48.9	53.4	51.5	50.6	49.7	50.7	46.5	49.9	48.3	44.2
Dollar amount of customer deductions	49.6	50.6	48.9	50.2	49.6	50.6	50.1	49.3	49.9	48.6	50.0	48.9	49.1
Filings for bankruptcies	56.9	55.7	57.0	56.3	55.4	59.1	56.0	57.4	58.1	58.1	56.5	55.8	54.5
Index of unfavorable factors	**51.0**	**50.9**	**51.6**	**51.6**	**51.7**	**52.6**	**51.2**	**51.4**	**51.5**	**50.6**	**51.0**	**50.6**	**49.1**
NACM Combined CMI	**53.3**	**53.8**	**54.9**	**55.0**	**55.8**	**56.4**	**56.4**	**55.7**	**55.8**	**54.2**	**54.2**	**53.9**	**52.7**



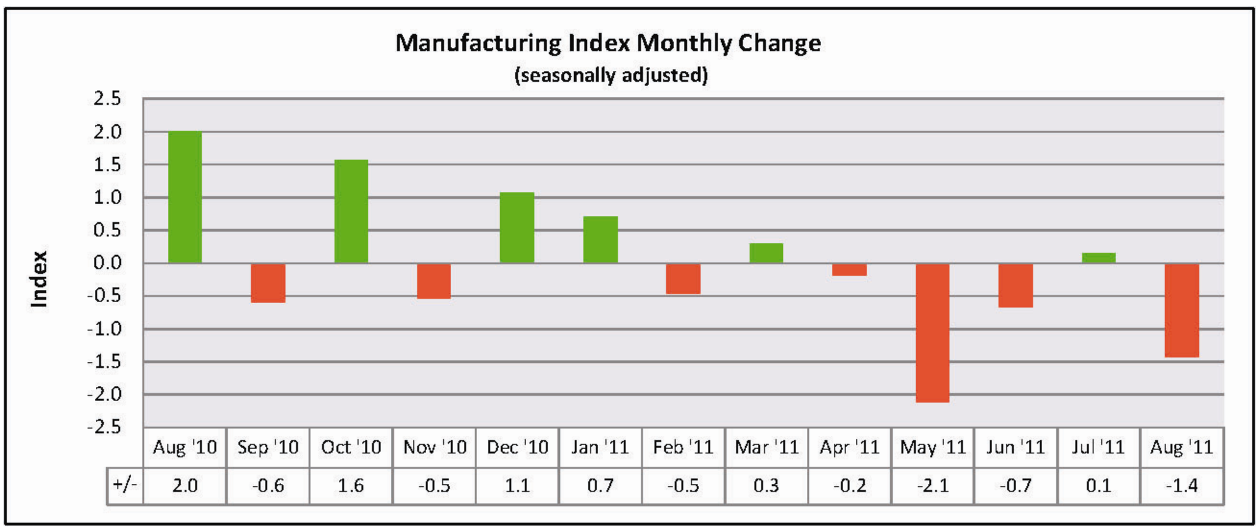
Manufacturing Sector

Once again, manufacturing patterns changed. Last month, there was a slight gain and now there has been a decline, and for the same reasons as cited in the analysis of the combined index. Moreover, most of the activity this month seems to have been concentrated in the manufacturing sector. The news has again been somewhat contradictory. On the one hand, favorable factors fell only a little—dropping from 58.1 to 57.2. This was largely due to the fact that sales have held somewhat steady and there was an increase in dollar collections. This latter improvement is due in no small part to the desire on the part of creditors to collect if there was a hint of future trouble or if the creditor itself was in some financial distress. The fact that new credit applications fell so slightly reflects that there continue to be good customers in some sectors and that there is still some credit available to these companies.

The bad news is contained in the unfavorable readings. The stress mentioned in the combined analysis is evident in the manufacturing sector. There is strong evidence that many companies are struggling with the almost flat growth of the economy and that many of them had bet on better conditions by now. They invested in the equipment and expansion they thought they might need and are now struggling to pay for that investment.

The most significant movement in the index was in dollars beyond terms and accounts placed for collection—signals that companies are in some distress. The one area that seems to have affected manufacturers more than service companies has been that of bankruptcies. The combined index showed some increase in bankruptcy, but the situation was bleaker in the manufacturing community, and that is not unexpected. Many of these companies stretched to expand in anticipation of more activity; now that the economy has slumped back, they have lost the flexibility they needed to hang in there much longer.

Manufacturing Sector (seasonally adjusted)	**Aug '10**	**Sep**	**Oct**	**Nov**	**Dec '10**	**Jan '11**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug '11**
Sales	59.4	57.9	59.3	62.2	66.6	64.7	65.1	65.4	63.9	57.8	58.5	59.3	58.0
New credit applications	54.3	54.4	54.9	57.8	59.1	57.7	59.6	60.6	60.3	58.7	54.5	56.4	55.3
Dollar collections	60.1	61.1	61.0	57.9	60.5	60.3	61.5	60.8	60.2	60.1	55.3	55.4	56.0
Amount of credit extended	56.0	57.3	59.9	61.2	61.6	66.2	67.6	64.5	66.5	61.4	59.2	61.2	59.5
Index of favorable factors	**57.5**	**57.7**	**58.8**	**59.8**	**61.9**	**62.2**	**63.4**	**62.8**	**62.7**	**59.5**	**56.9**	**58.1**	**57.2**
Rejections of credit applications	52.6	49.6	53.2	52.1	51.3	52.0	51.9	51.6	51.0	52.6	51.8	50.8	50.4
Accounts placed for collection	52.8	51.9	53.6	52.7	51.1	53.0	51.2	53.9	50.7	50.7	49.8	49.4	47.3
Disputes	51.3	50.0	49.5	48.6	48.1	49.8	48.2	49.0	50.5	49.2	49.0	50.0	48.6
Dollar amount beyond terms	51.0	49.6	55.2	49.4	53.9	52.1	51.3	51.6	52.2	45.8	50.6	49.1	42.6
Dollar amount of customer deductions	48.4	49.4	48.5	48.8	49.4	49.1	50.1	48.8	49.5	47.7	49.5	47.8	48.9
Filings for bankruptcies	57.1	55.8	57.7	56.7	56.5	60.2	53.9	57.2	56.8	56.4	55.6	55.9	54.5
Index of unfavorable factors	**52.2**	**51.1**	**52.9**	**51.4**	**51.7**	**52.7**	**51.1**	**52.0**	**51.8**	**50.4**	**51.0**	**50.5**	**48.7**
NACM Manufacturing CMI	**54.3**	**53.7**	**55.3**	**54.7**	**55.8**	**56.5**	**56.0**	**56.3**	**56.1**	**54.0**	**53.4**	**53.5**	**52.1**



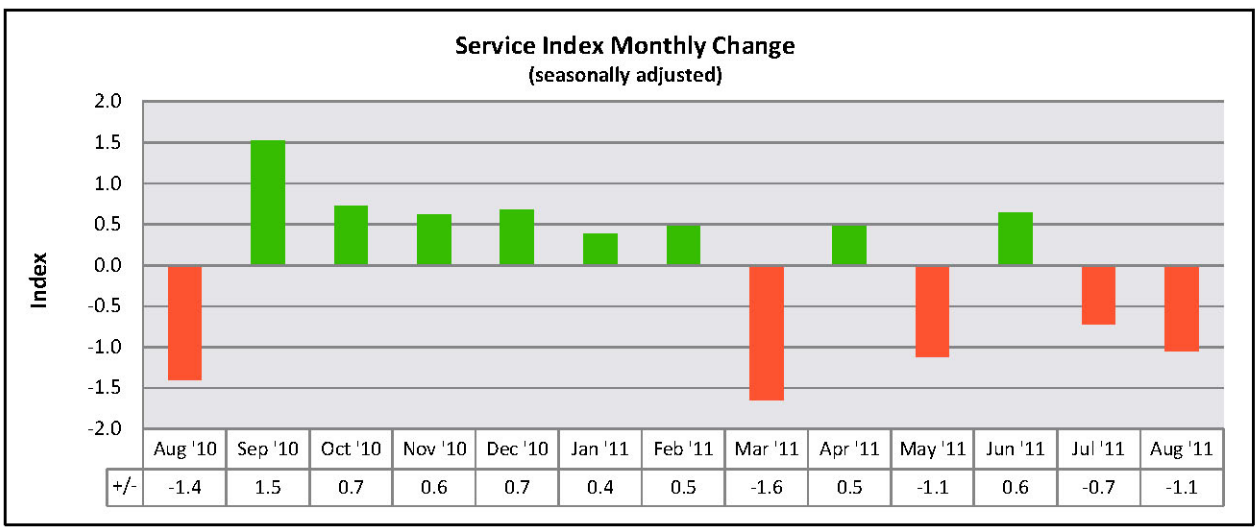
Service Sector

The pattern was similar in the service sector. The news was not all that bad regarding favorable factors, as the data suggest that this month was pretty similar to last month. There was not even a full point drop between the two. The real damage was in unfavorable factors, which dropped below 50 into contractionary territory. The sense within the service sector is that sales are holding steady and there is stability in terms of credit extended. The only real decline was in the number of new credit applications and that is attributable to the overall sense that the economy started to stall in late summer. Retailers started to see some glimmer of hope in the last week or so, and it will be interesting to see how this plays out next month.

The odd revelation from the last week is that consumers do not act as they say they will. In the same week the data on consumer confidence showed that people were as gloomy as they have been since 2009, the actual assessment of consumer spending showed a 0.8% gain, the biggest jump since 2009. Now analysts are trying to determine what the real consumer will look like. Is it the one that is going back to the stores and buying everything from clothing to electronics and furniture, or is it the one that took the poll and informed the researchers that they are depressed about jobs and have no intention of consuming any more than is absolutely required?

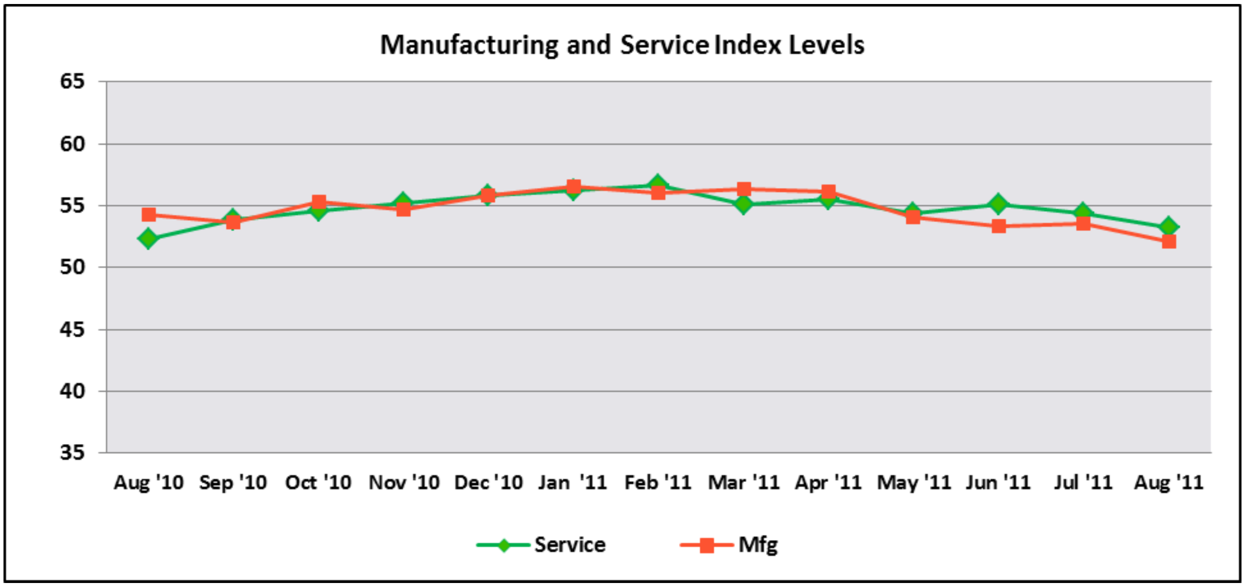
The worst of the service sector data came in the unfavorable factors and in the places one would expect. There were big changes in the number of accounts placed for collection, dollars beyond terms and even disputes. What did not change much were the number of bankruptcies and the number of credit applications rejected. As with manufacturing, the signals are that businesses are under stress and having issues with cash flow, but staying current with their creditors. The service side of the equation does not seem to be as vulnerable when it comes to bankruptcies, but time will tell. If there is a rebound, the companies in distress may recover, but if not, the bankruptcy numbers will doubtlessly go up.

Service Sector (seasonally adjusted)	Aug '10	Sep	Oct	Nov	Dec '10	Jan '11	Feb	Mar	Apr	May	Jun	Jul	Aug '11
Sales	55.7	59.3	62.2	61.6	65.1	62.3	67.5	63.9	65.0	61.1	63.2	60.7	60.5
New credit applications	54.8	55.1	58.7	58.6	61.1	59.4	61.0	59.0	57.3	57.8	58.8	58.2	56.3
Dollar collections	55.2	59.0	62.9	59.2	60.9	61.6	65.2	59.2	62.3	57.3	60.9	57.1	57.9
Amount of credit extended	58.1	60.0	59.6	61.2	61.8	63.4	65.4	64.2	63.0	62.7	61.6	62.7	61.9
Index of favorable factors	**56.0**	**58.4**	**60.9**	**60.2**	**62.2**	**61.7**	**64.8**	**61.6**	**61.9**	**59.7**	**61.1**	**59.7**	**59.1**
Rejections of credit applications	48.7	48.7	49.6	49.8	50.3	50.4	51.0	50.1	50.5	50.4	50.0	51.2	50.1
Accounts placed for collection	49.4	48.9	49.9	52.4	52.0	52.1	48.6	50.2	50.2	49.9	49.8	50.3	47.8
Disputes	50.5	51.5	50.3	52.9	50.3	52.1	50.1	48.7	48.1	48.5	49.6	50.0	48.9
Dollar amount beyond terms	43.1	48.5	46.6	48.5	52.9	51.0	49.9	47.8	49.2	47.3	49.1	47.5	45.9
Dollar amount of customer deductions	50.8	51.7	49.4	51.6	49.9	52.1	50.1	49.8	50.3	49.4	50.5	49.9	49.3
Filings for bankruptcies	56.6	55.5	56.3	55.9	54.3	57.9	58.2	57.7	59.5	59.8	57.3	55.8	54.6
Index of unfavorable factors	**49.8**	**50.8**	**50.4**	**51.8**	**51.6**	**52.6**	**51.3**	**50.7**	**51.3**	**50.9**	**51.0**	**50.8**	**49.4**
NACM Service CMI	**52.3**	**53.8**	**54.6**	**55.2**	**55.8**	**56.2**	**56.7**	**55.1**	**55.5**	**54.4**	**55.1**	**54.3**	**53.3**



August 2011 vs. August 2010

The very limited piece of good news is that the index remains over 50 and in expansion territory. The bad news is that it is far closer to contraction than it has been since the middle of 2009. The other area of concern is that unfavorable factor indices have already fallen below 50 and the only thing keeping the total index up is the continued confidence in sales and credit growth.



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:

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

For negative indicators, the calculation is:

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

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 federal legislative policy 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. 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.

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

Source: National Association of Credit Management

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