Report for August 2013

Issued August 30, 2013

National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI) for August returned to the growth patterns of earlier this summer. The numbers look impressive again, and the index sits at 56.4, up nearly a full point from July's 55.5. The last few months were a little volatile, but not unexpected. The surge that kicked off the summer was based primarily on expectations, but as the second quarter came to an end, there was some fear that business anticipated too much, too fast. The big jump from the April index's 53.3 to May's 55.6 was followed by a couple of months that looked OK, but which didn't carry the momentum forward significantly. July now looks like a month that gave businesses a chance to regroup and consider what the rest of the year would really look like, as the August numbers are the best in over 18 months, and higher than the previous peak in June.

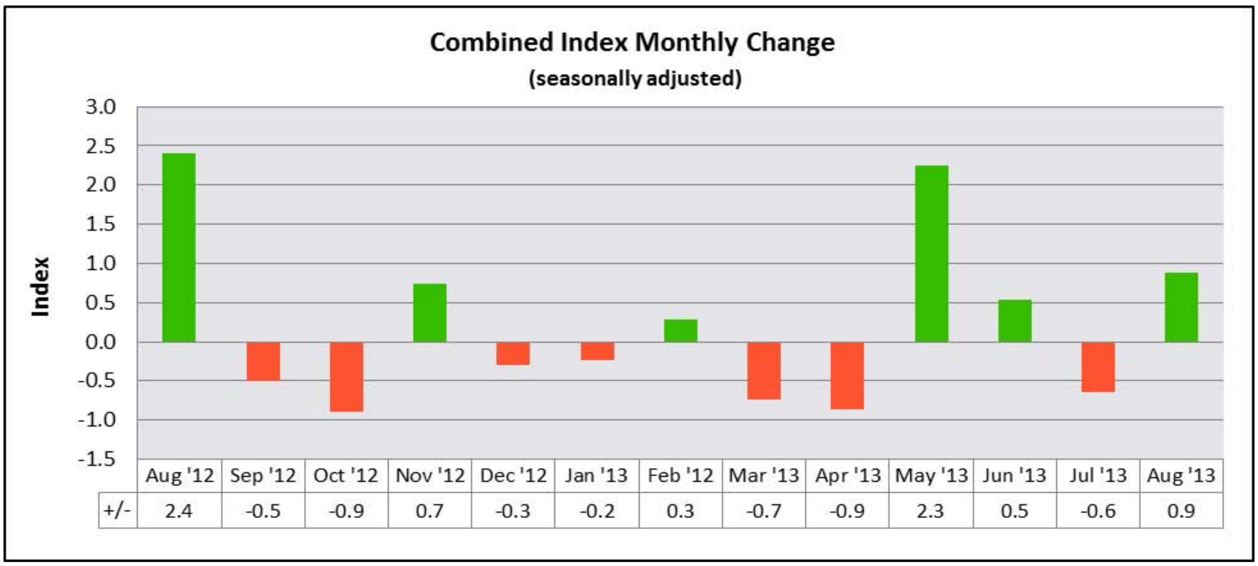
Sales returned to early summer levels, bouncing up to 63.1 after falling below 62 last month. This is a level not seen in well over a year and a half. New credit applications also jumped, though not as dramatically, and remains a little under the record pace it set in May. The current reading is 58.7, only a little below May's 59.2. Another good sign is that dollar collections jumped into the 60s for the first time since the recession started, sitting at 60.4. The last of the favorable categories, amount of credit extended, showed substantial improvement, although this month did not break the record set in May when it reached 65. The current reading is 63.3, almost a full point better than last month. Overall, the index of favorable factors is back in the 60s. At 61.4, it is the highest level reached in well over two years.

Some important trends showed up in the unfavorable factors index as well. The gain noted in new credit applications, a favorable factor, was somewhat tempered by the lack of progress in rejections of credit applications, which retreated from 53.2 in July to 52.7 in August. "This suggests that some troubled companies are trying to access credit in the hopes they will see a turnaround sooner than later," said NACM Economist Chris Kuehl, PhD. There was also some decline in accounts placed for collection, from 53.6 to 52.5, again suggesting some companies are struggling this summer. "As noted in last month's report, a pattern is developing that will test weaker companies. As major competitors make their move, the others in that sector will struggle to hang onto their market share, and some will be better prepared than others," he said.

The rest of the unfavorable factors showed some progress. Disputes improved from 51 to 51.6. Dollar amount beyond terms made a substantial recovery after slumping to 48.5 in July. It now stands at 51.1—not a record breaker by any stretch, but trending in the right direction, Kuehl noted. Dollar amount of customer deductions also made a very slight gain from 51 to 51.4. Finally, filings for bankruptcies trended slightly higher, from 58.2 to 58.7.

Overall, the index of unfavorable factors was mostly flat, improving slightly from 52.6 to 53. The majority of the action in August was in the favorable categories, while the unfavorable numbers stayed roughly the same. "This bodes pretty well for the coming months, as long as nothing affects sales numbers drastically," said Kuehl.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13
Sales	62.0	59.5	57.4	60.4	56.7	58.6	59.2	57.4	58.3	63.0	62.3	61.4	63.1
New credit applications	56.8	57.4	56.6	56.5	57.7	57.1	56.7	56.9	56.5	59.2	58.8	58.0	58.7
Dollar collections	59.7	58.5	54.6	61.3	59.2	56.9	57.5	57.7	57.2	59.2	59.3	57.5	60.4
Amount of credit extended	61.4	62.3	62.2	63.0	61.5	62.2	62.5	61.6	60.8	65.0	62.8	62.4	63.3
Index of favorable factors	60.0	59.4	57.7	60.3	58.8	58.7	59.0	58.4	58.2	61.6	60.8	59.8	61.4
Rejections of credit applications	52.4	51.4	52.0	51.1	51.5	52.8	52.3	51.9	51.6	50.8	52.5	53.2	52.7
Accounts placed for collection	52.4	52.5	53.0	51.2	52.1	50.4	51.8	49.7	50.1	50.6	53.9	53.6	52.5
Disputes	51.9	50.5	50.9	50.1	50.5	50.4	50.4	48.3	48.6	48.5	51.9	51.0	51.6
Dollar amount beyond terms	50.9	51.0	48.0	49.9	50.9	49.6	49.8	51.2	45.5	54.1	50.5	48.5	51.1
Dollar amount of customer deductions	51.4	51.0	50.7	49.7	51.3	50.3	50.7	49.9	48.7	49.6	52.5	51.0	51.4
Filings for bankruptcies	59.6	59.1	58.9	58.4	57.4	58.1	58.3	57.3	56.0	56.0	56.8	58.2	58.7
Index of unfavorable factors	53.1	52.6	52.3	51.7	52.3	51.9	52.2	51.4	50.1	51.6	53.0	52.6	53.0
NACM Combined CMI	55.8	55.3	54.4	55.2	54.9	54.6	54.9	54.2	53.3	55.6	56.1	55.5	56.4



Manufacturing Sector

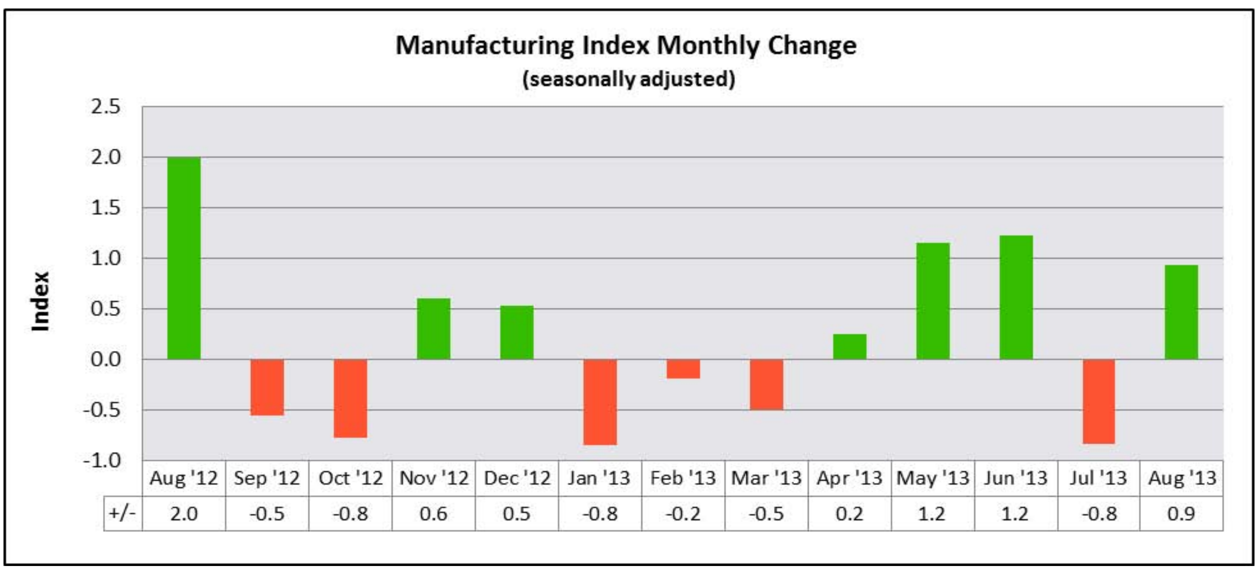
“The rebound in the manufacturing sector was impressive and related to a significant boost in sales and other elements measured in the favorable factors,” said Kuehl. The movement in the overall index was significant and took manufacturing as a whole back to the record-setting months of May and June. “It is looking more and more like July was the anomaly, and that most of the good news that started to appear in May continues to manifest,” said Kuehl. The index reading in July was 54.9, a drop from June’s 55.8. Now the index is back to 55.9, which sets expectations for the year somewhat higher.

The breakdown of the categories reveals that the factors that led to expansion earlier in the summer are still playing a major role. Sales extended its reach into the 60s, hitting 62.3, the highest level in over two years. New credit applications also jumped, from 57.5 to 58.4, among the highest point this year, and dollar collections is back in the 60s, at 61, for the first time since November. Finally, amount of credit extended improved from 61.4 to 62.1, and is nearly as robust as it was in May when the index shot up to 63.3. Overall, the index of favorable factors moved from 59.3 to 61, the highest in three years. The trend of the last four months is now clearly positive with only the month of July bucking that trend.

Movement in the unfavorable factor index was not as spectacular, but is trending in the right direction as well. “There was a decline in rejections of credit applications, from 52.9 to 52.3. This suggests that some struggling companies are seeking credit and hoping to get help from the companies with which they are doing business. In some cases, they are getting some cooperation, but in most, the credit is not becoming available,” said Kuehl. “Accounts placed for collection fell as well, from 53.6 to 53. This is not a crisis, but it does reinforce the notion that some companies are overextended as they try to react to the nascent economic rebound.”

Among the rest of the unfavorable factors, disputes moved slightly closer to the 50s, rising from 49.5 to 49.8, while dollar amount beyond terms made a solid leap back into the 50s, from 48.3 to 52.5. “This is a good sign, and means that companies seeking additional credit are now moving to catch up on current debt. This action has been a precursor to growth in the past,” said Kuehl. Dollar amount of customer deductions fell just slightly from the 49.8 noted in July, remaining stubbornly under the 50 mark at 49.3. Finally, filings for bankruptcies posted a fairly sharp decline, from 58.1 to 57.9, which can be attributed to some companies being unable to meet the demands of a growing economy. “The actions of competitors can put too much pressure on some businesses, and the only alternative is taking on too much debt—a tactic that either gets them past the crisis, or leads them to bankruptcy,” said Kuehl.

Manufacturing Sector (seasonally adjusted)	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13
Sales	60.0	57.3	56.7	57.8	56.9	57.4	57.3	55.5	59.2	59.2	61.0	60.3	62.3
New credit applications	56.3	55.7	57.0	53.6	58.0	57.7	55.5	54.8	55.8	57.4	58.6	57.5	58.4
Dollar collections	59.7	56.8	52.6	60.7	59.7	56.6	55.9	54.7	57.4	58.5	59.4	57.9	61.0
Amount of credit extended	60.8	61.9	61.6	61.7	61.2	61.1	61.6	61.3	60.1	63.3	61.2	61.4	62.1
Index of favorable factors	59.2	57.9	57.0	58.4	58.9	58.2	57.6	56.5	58.1	59.6	60.0	59.3	61.0
Rejections of credit applications	52.2	50.7	51.2	52.1	51.4	51.1	52.2	51.8	52.2	51.3	52.7	52.9	52.3
Accounts placed for collection	52.1	52.0	52.4	50.7	52.2	50.3	50.7	48.6	51.8	50.3	53.6	53.6	53.0
Disputes	50.1	49.3	48.9	49.1	49.2	49.9	47.9	47.0	48.5	46.8	50.8	49.5	49.8
Dollar amount beyond terms	50.1	51.3	48.3	50.4	52.1	48.0	49.3	52.4	45.5	55.7	50.8	48.3	52.5
Dollar amount of customer deductions	49.2	50.9	49.9	48.5	50.0	49.2	48.8	48.5	48.0	48.2	52.5	49.8	49.3
Filings for bankruptcies	57.5	56.8	56.3	56.4	55.6	56.5	56.9	56.7	55.3	54.7	57.1	58.1	57.9
Index of unfavorable factors	51.9	51.8	51.2	51.2	51.8	50.8	51.0	50.8	50.2	51.1	52.9	52.0	52.5
NACM Manufacturing CMI	54.8	54.3	53.5	54.1	54.6	53.8	53.6	53.1	53.4	54.5	55.8	54.9	55.9



Service Sector

“The rebound in the service sector was not quite as spectacular as in manufacturing, but is in some ways more welcome and probably overdue,” said Kuehl. “The summer months can be tricky for this sector, as it is not generally a great time for the retail community until the back-to-school action starts. The good news is that the service sector index rose from 56 to 56.9, keeping the overall movement stable.” For the last four months, the reading was above 56, keeping it consistent with numbers from the start of the year. The sector seemingly underpinning the growth in the service sector is construction, which has been driven by the housing market.

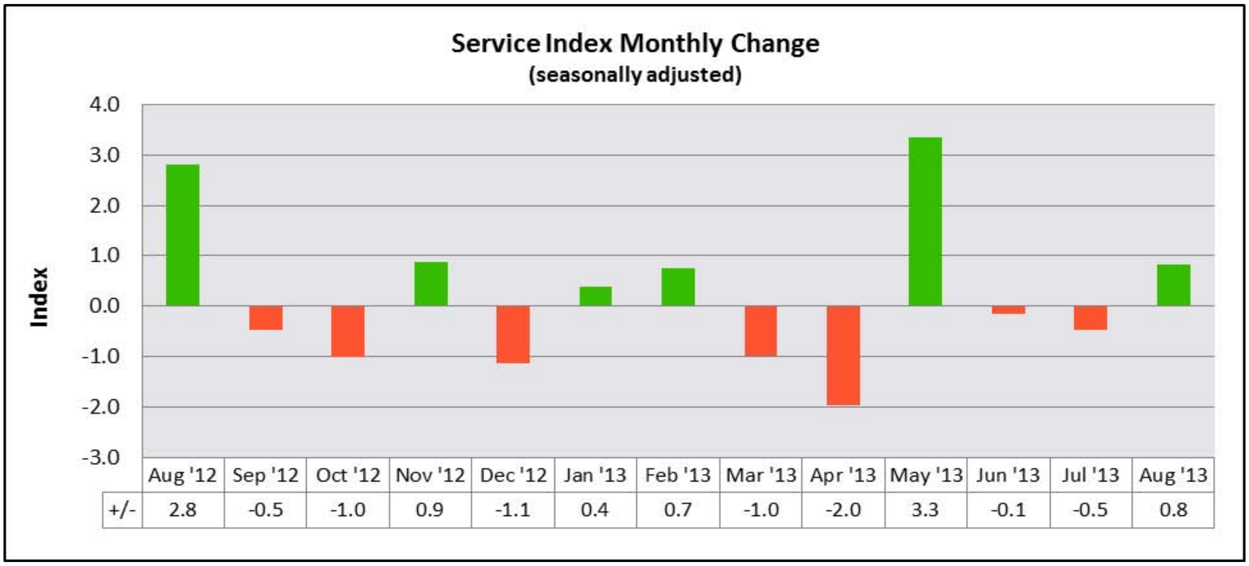
Sales trended back up from 62.5 to 63.9, but is less than the 66.7 reached in May when the housing market was really hot. The other favorable factors also trended in the right direction with new credit applications rising from 58.4 to 59.1, while dollar collections improved from 57.1 to 59.8. Rounding out the factors was a jump in amount of credit extended, from 63.3 to 64.5. Looking at the total reading for the favorable factor index, there was a nice move from 60.3 to 61.8, and that is as high as it has been since the big surge in May when the reading was 63.6. “Business activity seems to be picking up in services, but there are also some worries about what has been driving that enthusiasm and how long it will last. It all seems to come down to levels of consumer confidence and the health of sectors like housing and retail,” said Kuehl.

Good news also came from the unfavorable factor index, just not quite as robust. But first, rejections of credit applications slipped very slightly from 53.5 to 53.2, appearing consistent with that observed in manufacturing: struggling businesses are requesting credit, but there is not much enthusiasm for providing credit to those on the edge. Accounts placed for collection also fell, by quite a bit, from 53.6 to 52. As with the previous factor, more companies are feeling the pressure of getting their companies back in the game before they are quite ready.

The improvements came in the rest of the unfavorable factors. Disputes went from 52.6 to 53.3. Dollar amount beyond terms is still under 50, but getting better, improving from 48.7 to 49.7. Dollar amount of customer deductions rose from 52.2 to 53.5, another signal that businesses are doing more to get current with their creditors. “When similar developments occur in the economy, it has been noted that companies considering expansion are moving to clean up their credit in anticipation of being in a position to ask for more,” said Kuehl. “That is especially important for the retailers, who want to have flexibility in inventory if needed.” Finally, filings for bankruptcies improved significantly, from 58.2 to 59.6, which may suggest slightly more stability in construction.

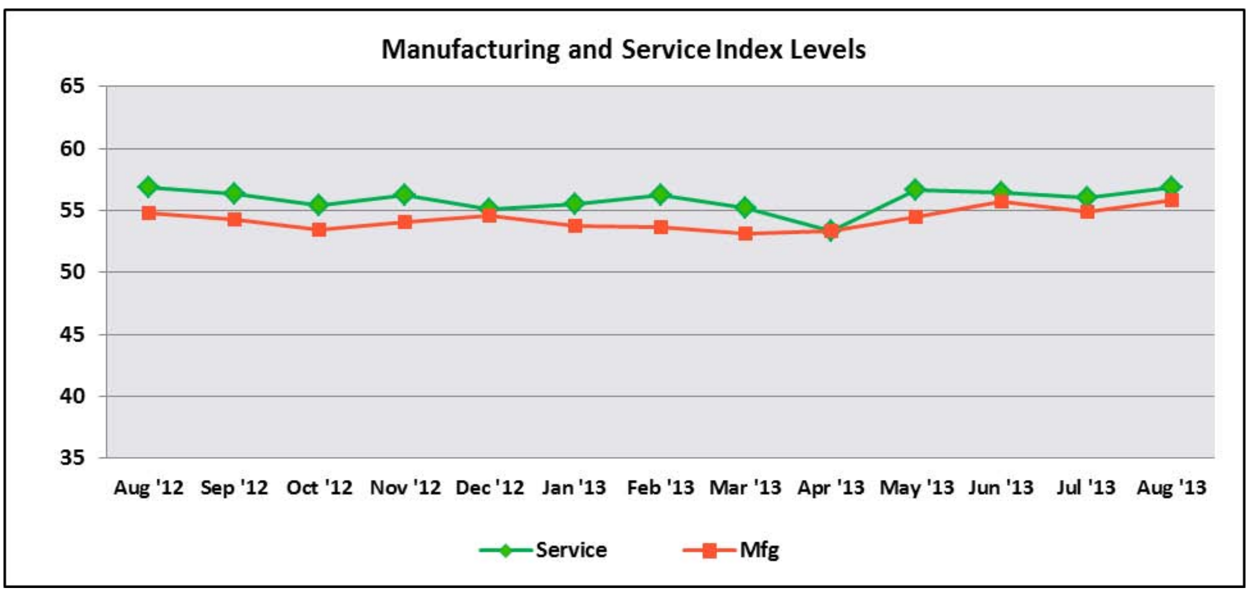
“The fact is the service sector still drives the bulk of economic growth in the United States, and it certainly drives hiring. If there is still trouble in this sector, the overall pace of economic growth will be slower than preferred. It is good news to see the trend that started in May start a recovery in August,” said Kuehl.

Service Sector (seasonally adjusted)	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13
Sales	64.0	61.7	58.2	63.0	56.6	59.9	61.2	59.4	57.4	66.7	63.6	62.5	63.9
New credit applications	57.3	59.2	56.2	59.5	57.3	56.5	57.9	59.1	57.2	61.0	59.1	58.4	59.1
Dollar collections	59.7	60.3	56.5	62.0	58.7	57.2	59.1	60.7	57.1	59.9	59.3	57.1	59.8
Amount of credit extended	61.9	62.7	62.8	64.4	61.8	63.2	63.4	61.9	61.5	66.8	64.3	63.3	64.5
Index of favorable factors	60.7	61.0	58.4	62.2	58.6	59.2	60.4	60.3	58.3	63.6	61.6	60.3	61.8
Rejections of credit applications	52.5	52.2	52.8	50.2	51.6	54.5	52.5	51.9	51.1	50.2	52.4	53.5	53.2
Accounts placed for collection	52.6	53.0	53.6	51.7	52.0	50.6	52.9	50.8	48.4	51.0	54.1	53.6	52.0
Disputes	53.7	51.7	52.9	51.1	51.9	50.9	52.9	49.6	48.6	50.2	53.0	52.6	53.3
Dollar amount beyond terms	51.7	50.7	47.8	49.4	49.6	51.1	50.4	49.9	45.6	52.5	50.3	48.7	49.7
Dollar amount of customer deductions	53.6	51.1	51.5	50.9	52.6	51.3	52.7	51.3	49.5	51.0	52.5	52.2	53.5
Filings for bankruptcies	61.6	61.3	61.5	60.4	59.2	59.8	59.6	58.0	56.6	57.2	56.5	58.2	59.6
Index of unfavorable factors	54.3	53.3	53.3	52.3	52.8	53.0	53.5	51.9	50.0	52.0	53.1	53.1	53.6
NACM Service CMI	56.9	56.4	55.4	56.2	55.1	55.5	56.2	55.3	53.3	56.6	56.5	56.0	56.9



August 2013 versus August 2012

"The year-over-year numbers began to trend up again this month," said Kuehl. "The really good news is that there are numbers driving the CMI that have not been seen since the end of the recession in 2009, and the overall track is now solidly in the mid-50s with many factors solidly in the 60s again."



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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