CREDIT MANAGERS' INDEX

Report for July 2010

Issued August 2, 2010
National Association of Credit Management

Combined Sectors

July's Credit Managers' Index (CMI) continued to show that the economy as a whole is stuttering. The overall index remains above 50, but not by much, and these levels have not been seen since late last year when the index was down to 52.9 in December. As recently as April, the combined index was up to 56.5; it now sits at 53, and there are signs that this decline could continue into next month and possibly longer. "The fall is not as dramatic as it was when the recession started to wind up in 2008, but the trend is far from encouraging as there are weaknesses showing up in both the positive and negative categories," noted NACM Economic Advisor Chris Kuehl, Ph.D., who issues the CMI for the National Association of Credit Management each month.

For the second consecutive month, sales declined, which is consistent with the data coming from the retail community and also with the reported declines in consumer confidence. The level of sales had exceeded 60 for five months and only barely slipped back to 59 in June, but has now dropped to 57.2. Much of this is tied to the slip in inventory buildup in the manufacturing sector, but the service sector is declining as well. The fact is that businesses and consumers alike have become cautious with their funds and that is manifesting itself in a retrenchment in sales.

When one looks at the CMI trends over the last several months, it is apparent that companies have been making some very careful decisions about cash flow and exposure, and it is evident that consumers are doing much the same thing. "The last couple of months have seen some pretty solid earnings reports, but these extra profits in the corporate community have not been working their way into more job gains or into overall business expansion," explained Kuehl. This money is being saved and the cash is being used to reduce financial exposure.

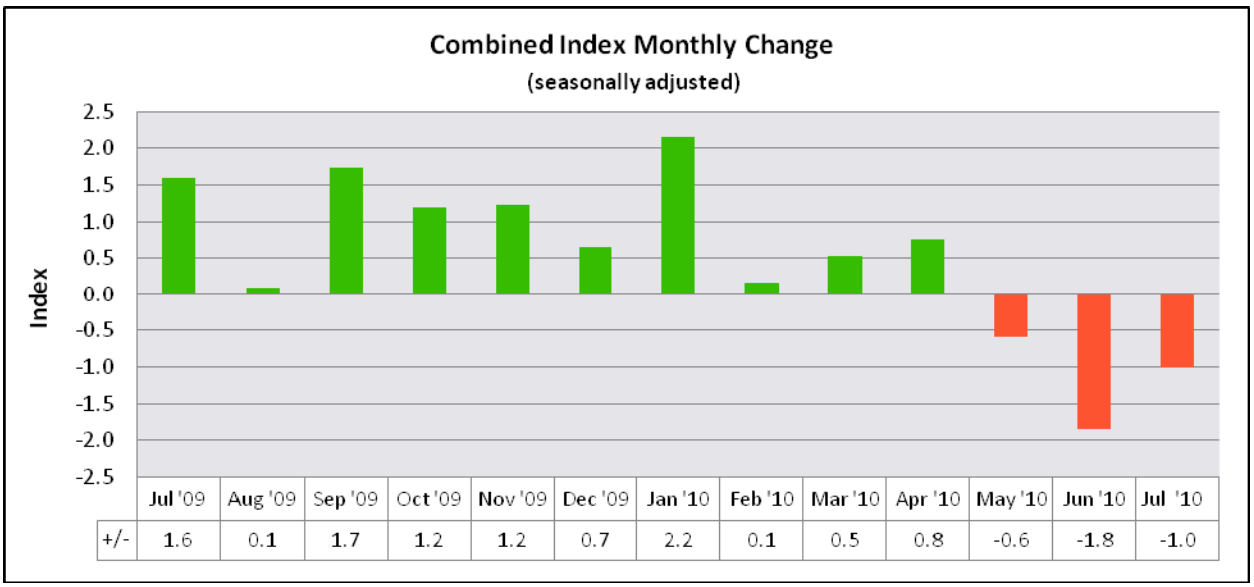
There has been some evidence in the data collected by the CMI that companies are getting more aggressive in terms of collecting debt. The number of accounts placed for collection has increased, and it appears that there is less patience than in previous months. The anecdotal discussions indicate that business does not want to be caught short by waiting to collect from a company that may be in trouble, and there is also a need to address the cash flow issues that companies are now facing.

A palpable decline in the number of credit applications filed and an equally sharp decline in the number of applications granted is evident. There are two related factors at work here. First, companies that would be offering credit have been cutting back as they focus on accumulating as much cash as possible; these same companies are not getting the access they once had to credit lines and loans in general, meaning they are far more reticent to offer credit. Second, companies that would be asking for credit are also stymied as they are not yet secure in assessments of the future and continue to avoid potential risks.

"The only real bright spot in the index is that the negative factors have not appreciably worsened from last month," said Kuehl. In the combined index there was no change at all, but there was a worsening of the situation in the manufacturing sector while conditions got slightly better in the service economy. There has been some conjecture as to whether the issues in the Gulf of Mexico have had an impact on the overall index and thus far there is not much evidence of this. The damage to industry has been highly localized and has affected the tourism and fishing industries more than any others. If there is an impact in the future, it will likely revolve around what is happening in the oil sector itself as this is by far the biggest industry in that part of the country. It remains on hold pending the decisions made about the oil drilling moratorium.

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)	Jul '09	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr	May	Jun	Jul '10
Sales	48.6	48.4	49.9	51.1	55.0	56.7	60.7	60.9	65.0	65.7	64.5	59.0	57.2
New credit applications	52.6	49.3	50.0	52.7	55.4	54.2	57.0	57.7	57.5	57.4	58.6	57.4	54.1
Dollar collections	50.8	50.5	53.4	54.7	55.8	58.0	61.3	61.1	61.9	62.1	59.7	59.4	56.3
Amount of credit extended	48.2	48.0	49.3	53.6	54.6	55.2	58.8	59.4	61.3	61.3	60.2	55.9	56.0
Index of favorable factors	**50.0**	**49.1**	**50.6**	**53.0**	**55.2**	**56.0**	**59.4**	**59.8**	**61.4**	**61.6**	**60.7**	**57.9**	**55.9**
Rejections of credit applications	47.5	49.0	48.4	49.0	49.3	50.1	51.4	51.0	50.1	50.9	50.7	51.0	52.0
Accounts placed for collection	44.0	43.6	45.3	47.1	49.5	50.9	50.7	50.4	51.1	50.6	54.5	51.4	49.3
Disputes	50.2	49.7	50.8	51.0	49.6	51.0	51.4	52.2	52.2	51.7	51.3	50.4	50.6
Dollar amount beyond terms	45.3	46.2	48.1	48.1	49.0	51.4	52.2	52.0	51.5	51.9	50.2	49.1	49.4
Dollar amount of customer deductions	49.2	50.6	51.8	50.5	51.3	51.3	52.5	51.2	51.7	55.7	51.8	50.3	50.5
Filings for bankruptcies	43.7	45.8	51.5	52.6	53.0	50.5	54.7	56.3	55.3	57.6	57.6	56.6	55.0
Index of unfavorable factors	**46.7**	**47.5**	**49.3**	**49.7**	**50.3**	**50.8**	**52.2**	**52.2**	**52.0**	**53.1**	**52.7**	**51.5**	**51.1**
NACM Combined CMI	**48.0**	**48.1**	**49.8**	**51.0**	**52.3**	**52.9**	**55.1**	**55.2**	**55.7**	**56.5**	**55.9**	**54.1**	**53.0**



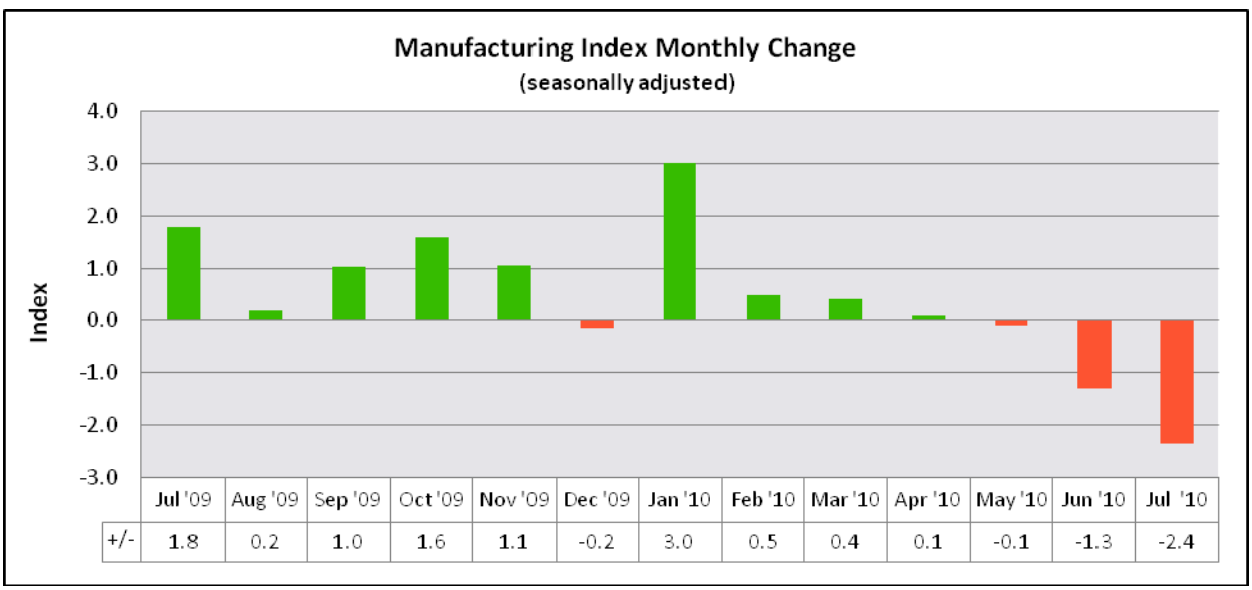
Manufacturing Sector

The silver lining in this month's report is that the negative categories have been less problematic than one would expect, at least for the time being. If the trend continues, these will likely worsen, especially dollars exposed. The most significant warning sign thus far is the sharp increase in accounts placed for collection, which is usually the first step toward much deeper issues in the future. The last time the economy started to slip, many of those that supplied the manufacturing community lost money as their consumers failed and dropped into bankruptcy. Now there is a new fear that this pattern will repeat.

The most immediate bad news comes from the decline in the positive factors. The big drop in sales marks the second month in a row for that decline. There was also a significant decline in new credit applications and the granting of new credit applications. "Business has slowed way down from what it was only a few months ago, essentially providing further evidence that the inventory build is over for the time being," noted Kuehl. The index of favorable factors was in the 60s only a month or two ago and is now sitting at 54.6. The sense is that nothing will be happening in this sector until there is a reversal of demand trends as well as a loosening of the credit markets that will make credit applications easier to approve.

Not much in this month's CMI will prove very encouraging for the next few months. There are three developing issues, and all three will prove problematic. The first, most obvious, is that sales have been slow for the last two months. The second issue is a little more hidden, but the credit application numbers tell a story. The banks are still not healthy and until they get engaged, there is not much feeding into the business community. Without access to that money, there is less that can be offered to consumers seeking credit. There may be some additional cash coming in the weeks ahead as corporations hang onto their profits, but the bulk of that money is not finding its way into helping consumers. Instead, it is going to bailing companies out of their own debt. Finally, there are some real signs of distress with more troubled accounts, which becomes a hard spiral to break. As companies get behind in their payments, it becomes a matter of time before this leads to bankruptcies and that weakens the companies they owe money to.

Manufacturing Sector (seasonally adjusted)	Jul '09	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr	May	Jun	Jul '10
Sales	48.7	48.4	48.7	52.0	56.3	55.8	61.8	62.5	66.9	65.2	66.0	59.1	56.1
New credit applications	55.3	48.6	50.5	52.9	56.8	55.2	54.0	57.8	57.9	57.1	58.9	58.9	53.7
Dollar collections	51.7	51.3	52.1	55.7	53.1	56.0	61.5	59.6	61.4	60.9	59.7	59	53.0
Amount of credit extended	49.3	48.9	48.8	53.5	53.4	55.2	59.2	60.7	62.0	62.1	58.9	58.2	55.8
Index of favorable factors	**51.3**	**49.3**	**50.0**	**53.5**	**54.9**	**55.6**	**59.1**	**60.2**	**62.1**	**61.3**	**60.9**	**58.8**	**54.6**
Rejections of credit applications	47.5	50.6	48.9	49.6	49.5	49.5	52.4	51.4	50.9	52.3	51.6	51.8	52.0
Accounts placed for collection	44.1	43.3	46.3	47.1	49.5	51.0	51.3	51.0	51.9	52.0	54.3	54.3	48.5
Disputes	49.3	48.2	49.5	50.9	48.0	50.1	50.7	51.9	51.5	51.8	50.0	50.6	50.8
Dollar amount beyond terms	46.3	48.1	48.3	47.9	50.0	51.4	52.5	53.3	51.3	52.2	50.1	50.3	50.4
Dollar amount of customer deductions	47.8	50.4	50.8	49.9	50.3	49.8	52.2	51.3	51.6	50.8	51.0	49.2	49.9
Filings for bankruptcies	43.1	47.3	51.7	52.1	55.4	46.6	55.4	56.5	54.8	56.6	59.5	55.6	53.4
Index of unfavorable factors	**46.4**	**48.0**	**49.2**	**49.6**	**50.4**	**49.7**	**52.4**	**52.6**	**52.0**	**52.6**	**52.7**	**52.0**	**50.8**
NACM Manufacturing CMI	**48.3**	**48.5**	**49.6**	**51.2**	**52.2**	**52.1**	**55.1**	**55.6**	**56.0**	**56.1**	**56.0**	**54.7**	**52.4**



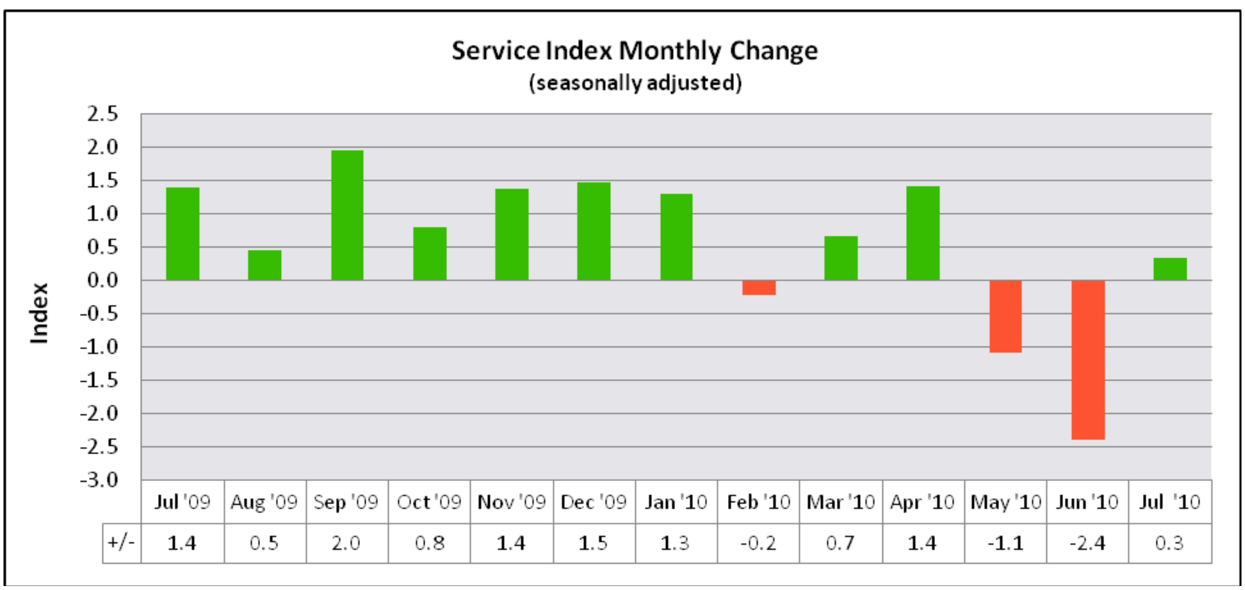
Service Sector

The situation in the service sector was considerably less distressful than in manufacturing, which prevented the combined index from tanking altogether. There was not the same reduction in sales seen in manufacturing over the last few months and, at 58.2, it is only a little under the 66.3 high point in April. There has also been a lack of significant change in dollar collections, but the decrease in credit applications suggests more conservatism creeping into these sectors as well.

The service sector has seen a bit more change in the negative factors. The most troubling is that dollars beyond terms has worsened, which is consistent with the other indicators. "People and businesses have all been trying to catch up on their debts, and those companies that had been hanging on during the early stages of the recovery are now in trouble again," said Kuehl. Even with these changes, there has been no movement in the unfavorable index from last month and not much change from the pattern over the last few months.

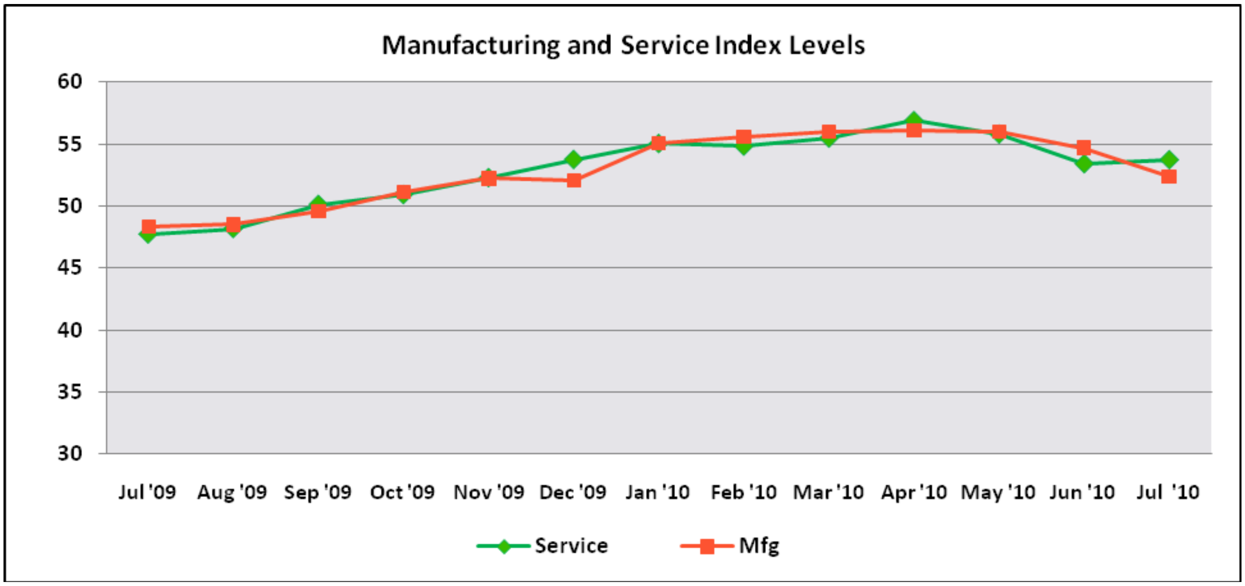
The apparent stability in the service sector is good news for the future however. If that trend holds, there will be some sense that the situation in the greater economy is not likely to worsen in the near future; however, as long as the data shows no gain, there will be little gain in the greater economy. The service sector still comprises more than 80% of the U.S. economy and GDP; consequently, these trends matter intensely.

Service Sector (seasonally adjusted)	Jul '09	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr	May	Jun	Jul '10
Sales	48.4	46.5	51.0	50.3	53.7	57.5	59.6	59.3	63.0	66.3	63.0	58.8	58.2
New credit applications	49.9	49.5	49.5	52.4	54.1	53.2	60.1	57.6	57.1	57.7	58.2	55.9	54.5
Dollar collections	49.8	50.5	54.8	53.7	58.6	59.9	61.2	62.7	62.4	63.2	59.7	59.7	59.7
Amount of credit extended	47.1	46.3	49.8	53.8	55.7	55.2	58.3	58.2	60.5	60.5	61.5	53.7	56.3
Index of favorable factors	**48.8**	**48.2**	**51.2**	**52.5**	**55.5**	**56.5**	**59.8**	**59.4**	**60.8**	**62.0**	**60.6**	**57.0**	**57.2**
Rejections of credit applications	47.4	48.5	47.9	48.5	49.2	50.6	50.4	50.6	49.4	49.6	49.7	50.3	51.9
Accounts placed for collection	43.9	43.7	44.3	47.1	49.4	50.7	50.1	49.9	50.2	49.2	54.8	48.5	50.1
Disputes	51.2	49.0	52.1	51.0	51.2	51.9	52.1	52.5	52.9	51.6	52.7	50.3	50.5
Dollar amount beyond terms	44.3	49.5	47.9	48.3	48.0	51.4	51.9	50.6	51.6	51.7	50.3	47.9	48.4
Dollar amount of customer deductions	50.7	51.1	52.7	51.1	52.3	52.7	52.9	51.1	51.8	60.5	52.6	51.4	51.0
Filings for bankruptcies	44.4	47.0	51.3	53.0	50.7	54.3	53.9	56.0	55.8	58.6	55.7	57.6	56.6
Index of unfavorable factors	**47.0**	**48.1**	**49.4**	**49.8**	**50.1**	**52.0**	**51.9**	**51.8**	**52.0**	**53.5**	**52.6**	**51.0**	**51.4**
NACM Service CMI	**47.7**	**48.2**	**50.1**	**50.9**	**52.3**	**53.8**	**55.0**	**54.8**	**55.5**	**56.9**	**55.8**	**53.4**	**53.7**



July 2010 vs. July 2009

The overall index is staying above 50, which is good news. The bad news is it has lost some ground from earlier in the year. However, for the past three months, the service and manufacturing sectors have been trading places with one another. This month's winner is the service economy, which in the long run is better news for the general pattern of economic growth. The fear at this stage is that the weak consumer factors and the tight financial factors could drag these numbers down in the months ahead.



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:

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

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.*

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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.

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