# Report for July 2013

**Issued July 31, 2013**

**National Association of Credit Management**

## Combined Sectors

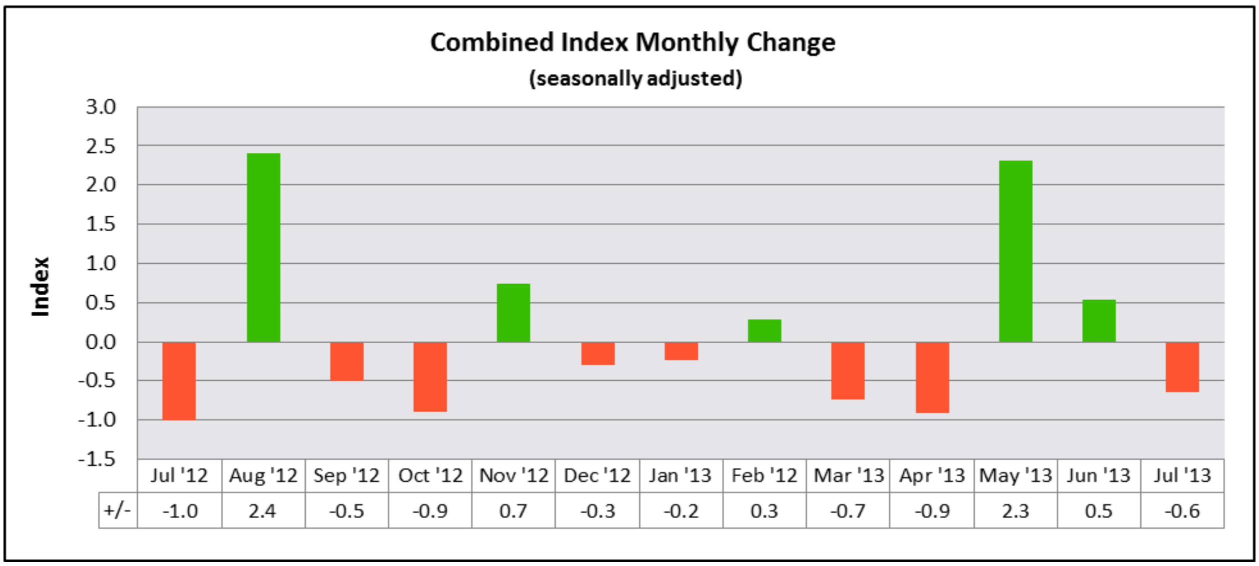
The Credit Managers' Index from the National Association of Credit Management slipped from June's notable high mark of 56.1 to 55.5. The index of favorable factors returned to the 50s by falling from 60.8 to 59.8, which is of some concern. In the last two months, this index has fallen 1.8% to the current reading. The reading is not catastrophic, but the 59.8 is truly mediocre. Four of the last 12 months have seen higher readings.

All of the favorable factors recorded declines, with some more precipitous than others. Sales is still in the 60s at 61.4, but is lower than May and June's. New credit applications had been surging in recent months, but retreated in July from 58.8 to 58. "This is not a big drop and this month is still stronger than any of the previous months, except for May and June," said NACM Economist Chris Kuehl, PhD. "There is a slowing of credit interest but nothing that would suggest a mass reversal." Dollar collections moved down pretty sharply (59.3 to 57.5) to some of the lowest readings of the past year. Only three of the last 12 months were lower, suggesting additional strains are showing up within the creditor community. Rounding out the favorable factors, amount of credit extended moved very little (62.8 to 62.4), indicating that a decent appetite for risk still exists, and credit continues to expand at a respectable rate.

There was also change and adjustment in the unfavorable factors, with some factors even seeing improvement. The overall index fell from 53 to 52.6, which was not a drastic decline, and keeps the reading in line with higher indicators for the past year. Accounts placed for collection slid slightly from 53.9 to 53.6. "There is no real sense that there is a crisis in payments across the board," said Kuehl. Disputes didn't change much either (from 51.9 to 51). A much bigger drop was recorded in dollar amount beyond terms, which fell below 50 to 48.5. Dollar amount of customer deductions also fell (from 52.5 to 51). The two factors to show improvement were rejections of credit applications and filings for bankruptcies. Rejections of credit applications rose from 52.5 to 53.2, reinforcing the notion that there is still tolerance for risk in the credit community, and filings for bankruptcies drew less concern, as the data for this month was much better, jumping from 56.8 to 58.2.

Overall, the July data suggests that growth slowed, but not enough to plunge companies into full-blown crisis. "Given that the national data has been pointing towards a slowing economy this is not too shocking," said Kuehl. "There are some clear areas of retreat, but just as important is the fact that there are some clear areas of growth and that provides some encouragement for the rest of the year."

| Combined Manufacturing and Service Sectors (seasonally adjusted) | Jul '12 | Aug '12 | Sep '12 | Oct '12 | Nov '12 | Dec '12 | Jan '13 | Feb '13 | Mar '13 | Apr '13 | May '13 | Jun '13 | Jul '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 58.5 | 62.0 | 59.5 | 57.4 | 60.4 | 56.7 | 58.6 | 59.2 | 57.4 | 58.3 | 63.0 | 62.3 | 61.4 |
| New credit applications | 57.2 | 56.8 | 57.4 | 56.6 | 56.5 | 57.7 | 57.1 | 56.7 | 56.9 | 56.5 | 59.2 | 58.8 | 58.0 |
| Dollar collections | 58.7 | 59.7 | 58.5 | 54.6 | 61.3 | 59.2 | 56.9 | 57.5 | 57.7 | 57.2 | 59.2 | 59.3 | 57.5 |
| Amount of credit extended | 61.3 | 61.4 | 62.3 | 62.2 | 63.0 | 61.5 | 62.2 | 62.5 | 61.6 | 60.8 | 65.0 | 62.8 | 62.4 |
| **Index of favorable factors** | **58.9** | **60.0** | **59.4** | **57.7** | **60.3** | **58.8** | **58.7** | **59.0** | **58.4** | **58.2** | **61.6** | **60.8** | **59.8** |
| Rejections of credit applications | 51.4 | 52.4 | 51.4 | 52.0 | 51.1 | 51.5 | 52.8 | 52.3 | 51.9 | 51.6 | 50.8 | 52.5 | 53.2 |
| Accounts placed for collection | 48.9 | 52.4 | 52.5 | 53.0 | 51.2 | 52.1 | 50.4 | 51.8 | 49.7 | 50.1 | 50.6 | 53.9 | 53.6 |
| Disputes | 47.6 | 51.9 | 50.5 | 50.9 | 50.1 | 50.5 | 50.4 | 50.4 | 48.3 | 48.5 | 48.5 | 51.9 | 51.0 |
| Dollar amount beyond terms | 47.8 | 50.9 | 51.0 | 48.0 | 49.9 | 50.9 | 49.6 | 49.8 | 51.2 | 47.0 | 54.1 | 50.5 | 48.5 |
| Dollar amount of customer deductions | 48.2 | 51.4 | 51.0 | 50.7 | 49.7 | 51.3 | 50.3 | 50.7 | 49.9 | 46.8 | 49.6 | 52.5 | 51.0 |
| Filings for bankruptcies | 54.9 | 59.6 | 59.1 | 58.9 | 58.4 | 57.4 | 58.1 | 58.3 | 57.3 | 56.0 | 56.0 | 56.8 | 58.2 |
| **Index of unfavorable factors** | **49.8** | **53.1** | **52.6** | **52.3** | **51.7** | **52.3** | **51.9** | **52.2** | **51.4** | **50.0** | **51.6** | **53.0** | **52.6** |
| **NACM Combined CMI** | **53.4** | **55.8** | **55.3** | **54.4** | **55.2** | **54.9** | **54.6** | **54.9** | **54.2** | **53.3** | **55.6** | **56.1** | **55.5** |




## Manufacturing Sector

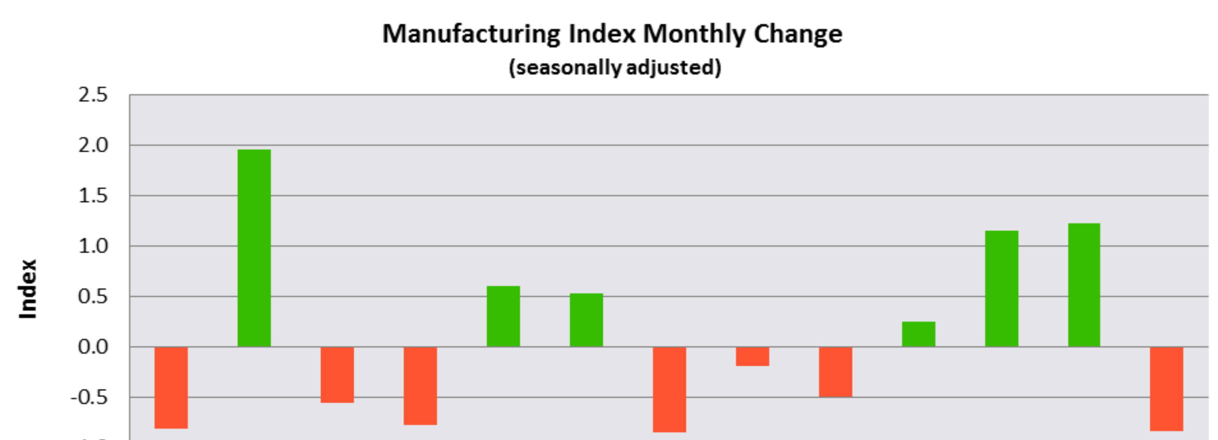
"The manufacturing sector was the star last month, but this month, the pace of growth fell back to earth a little," said Kuehl. "Not that the current numbers are all that bad, they are just not hurtling along as they were a month or so ago." In May, the manufacturing index sat at 54.5, and in June jumped to a robust 55.8. It has now fallen off that pace, but only back to numbers consistent with May. At 54.9, the index is the highest in 12 months, with the exception of June. The numbers are also the highest since the start of the recession in 2008.

There was a slight drop in the index of favorable factors. The reading in June was 60, and this month it sits at 59.3. Since the only two higher readings for the past 12 months were in May and June, the trend is not in the preferred direction. Sales fell slightly from 61 to 60.3, but it is still at the 60 level, as did new credit applications, from 58.6 to 57.5. Dollar collections posted the most dramatic slide of favorable factors (from 59.4 to 57.9), suggesting that some debtors are testing the patience of creditors. "This is familiar behavior when cash flow is an issue, but creditors don't look to be in real trouble thus far," said Kuehl. The best news within the favorable factor index is amount of credit extended, which saw almost no change and stayed in the 60s. The improvement from 61.2 to 61.4 shows that companies are seeking and getting access to money for expansion.

The unfavorable factor index fell 52.9 to 52, remaining fairly consistent. Rejections of credit applications improved a little from June's 52.7 to 52.9 in July, which is significant. Coupled with fall in the number of new credit applications, it means that creditworthy companies are the ones applying for credit, which is far more encouraging than when troubled companies are the ones that are seeking credit they are unlikely to get. Filings for bankruptcies also improved a little from 57.1 to 58.1, and accounts placed for collection stayed at 53.6, remaining on the high side of the readings for the past year. Payments don't yet seem to be a problem in the manufacturing sector. Disputes slipped from 50.8 to 49.5. Though under 50 again, it is not a big drop. Dollar amount beyond terms took a big fall from 50.8 to 48.3, taking the reading below any month since January. This is another signal that creditors are stretching their credit sources and using their leverage to protect their cash positions. Dollar amount of customer deductions fell the most, from 52.5 to 49.8, more evidence of that leveraging.

"Overall, manufacturing creditors are not in crisis and not preparing to slip into abject failure, but are more cautious than they were a month or so ago," said Kuehl. "The message is consistent given that other recent manufacturing data also show slowdowns in capital expenditure, capacity utilization and industrial production. It is important to note is this is not a total halt, just a slowdown. The question at this point is for how long."

| **Manufacturing Sector** (seasonally adjusted) | Jul '12 | Aug '12 | Sep '12 | Oct '12 | Nov '12 | Dec '12 | Jan '13 | Feb '13 | Mar '13 | Apr '13 | May '13 | Jun '13 | Jul '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 57.2 | 60.0 | 57.3 | 56.7 | 57.8 | 56.9 | 57.4 | 57.3 | 55.5 | 59.2 | 59.2 | 61.0 | 60.3 |
| New credit applications | 56.5 | 56.3 | 55.7 | 57.0 | 53.6 | 58.0 | 57.7 | 55.5 | 54.8 | 55.8 | 57.4 | 58.6 | 57.5 |
| Dollar collections | 59.6 | 59.7 | 56.8 | 52.6 | 60.7 | 59.7 | 56.6 | 55.9 | 54.7 | 57.4 | 58.5 | 59.4 | 57.9 |
| Amount of credit extended | 59.6 | 60.8 | 61.9 | 61.6 | 61.7 | 61.2 | 61.1 | 61.6 | 61.3 | 60.1 | 63.3 | 61.2 | 61.4 |
| **Index of favorable factors** | **58.2** | **59.2** | **57.9** | **57.0** | **58.4** | **58.9** | **58.2** | **57.6** | **56.5** | **58.1** | **59.6** | **60.0** | **59.3** |
| Rejections of credit applications | 51.2 | 52.2 | 50.7 | 51.2 | 52.1 | 51.4 | 51.1 | 52.2 | 51.8 | 52.2 | 51.3 | 52.7 | 52.9 |
| Accounts placed for collection | 49.1 | 52.1 | 52.0 | 52.4 | 50.7 | 52.2 | 50.3 | 50.7 | 48.6 | 51.8 | 50.3 | 53.6 | 53.6 |
| Disputes | 47.6 | 50.1 | 49.3 | 48.9 | 49.1 | 49.2 | 49.9 | 47.9 | 47.0 | 48.5 | 46.8 | 50.8 | 49.5 |
| Dollar amount beyond terms | 47.8 | 50.1 | 51.3 | 48.3 | 50.4 | 52.1 | 48.0 | 49.3 | 52.4 | 45.5 | 55.7 | 50.8 | 48.3 |
| Dollar amount of customer deductions | 46.6 | 49.2 | 50.9 | 49.9 | 48.5 | 50.0 | 49.2 | 48.8 | 48.5 | 48.0 | 48.2 | 52.5 | 49.8 |
| Filings for bankruptcies | 53.3 | 57.5 | 56.8 | 56.3 | 56.4 | 55.6 | 56.5 | 56.9 | 56.7 | 55.3 | 54.7 | 57.1 | 58.1 |
| **Index of unfavorable factors** | **49.3** | **51.9** | **51.8** | **51.2** | **51.2** | **51.8** | **50.8** | **51.0** | **50.8** | **50.2** | **51.1** | **52.9** | **52.0** |
| **NACM Manufacturing CMI** | **52.8** | **54.8** | **54.3** | **53.5** | **54.1** | **54.6** | **53.8** | **53.6** | **53.1** | **53.4** | **54.5** | **55.8** | **54.9** |




| | Jul '12 | Aug '12 | Sep '12 | Oct '12 | Nov '12 | Dec '12 | Jan '13 | Feb '13 | Mar '13 | Apr '13 | May '13 | Jun '13 | Jul '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| +/- | -0.8 | 2.0 | -0.5 | -0.8 | 0.6 | 0.5 | -0.8 | -0.2 | -0.5 | 0.2 | 1.2 | 1.2 | -0.8 |

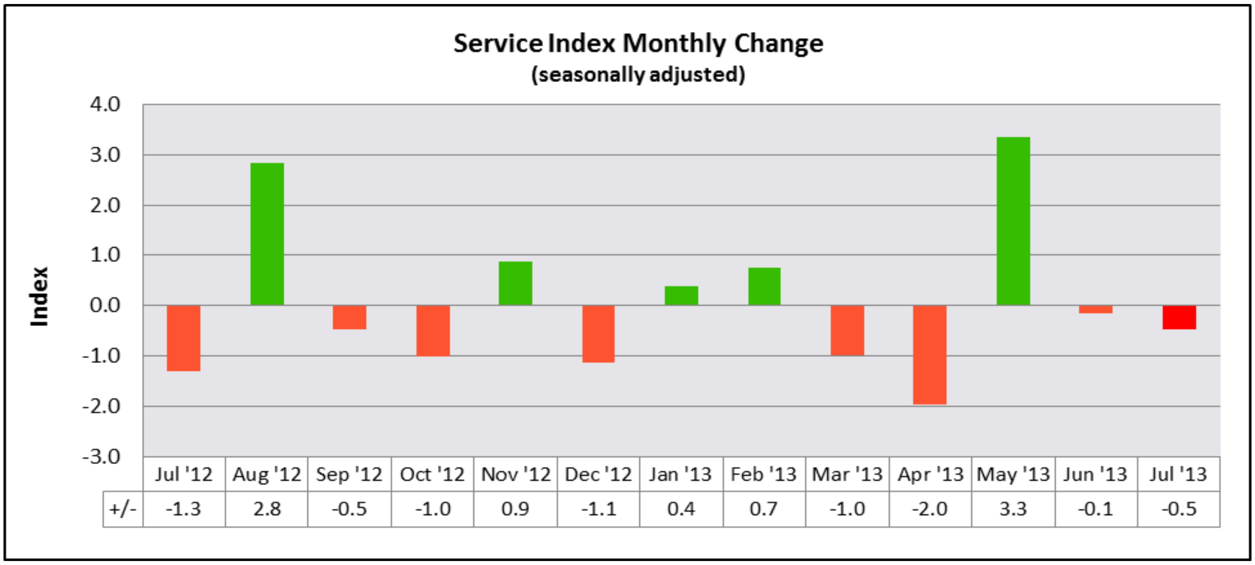
## Service Sector

The service sector data continues to be a little worrisome, but the challenge it presents is that the sector is broad. "Construction activity has been surging for the last six months, but the sector also includes retail, and the summer is often a slow time for the merchants," said Kuehl. "Next month's numbers will include the beginning of the back-to-school season, and that will likely tell a more complete story."

The service sector index slipped from 56.5 to 56, remaining consistent. That leaves the numbers higher than they have been in a year and only a little down from May and June. Sales fell from 63.6 to 62.5, but still sits higher than most of the past 12 months. The growth areas in service seem to be offsetting the shrinking areas to some degree. The fall in new credit applications from 59.1 to 58.4 is not too shocking, as most retailers borrowed for new inventory in the previous months. However, this is another year that retailers will be going into the holiday light, and only an engaged consumer will draw inventory down significantly. Dollar collections fell from 59.3 to 57.1, following the pattern in manufacturing. This is a sign that many companies are leveraging, protecting their cash flow. Amount of credit extended remains in the 60s, but slid from 64.3 to 63.3. "This is not really alarming, but it would be nice to see it trending the other direction again," said Kuehl.

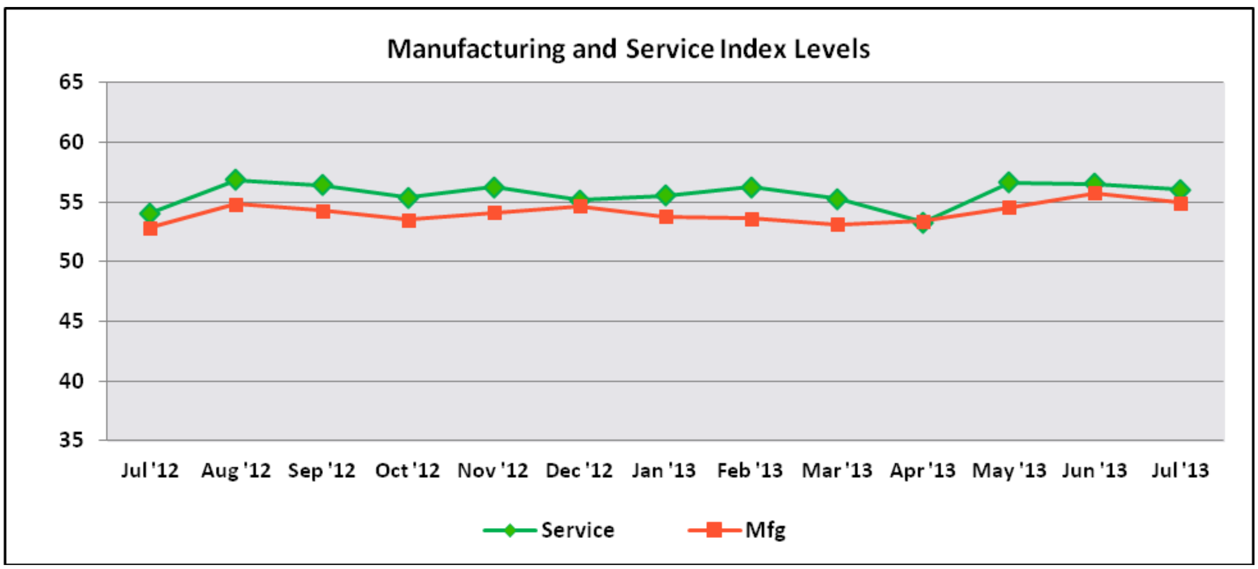
The index of unfavorable factors remained at 53.1. Rejections of credit applications improved from 52.5 to 53.6, signaling that those asking for credit are generally healthy enough to get it. Accounts placed for collection sagged from 54.1 to 53.6, which may reflect some of the summer struggles for the entertainment industry. Disputes fell from 53 to 52.6, in part from the same issue. Dollar amount beyond terms slid pretty significantly from 50.3 to 48.7, but dollar amount of customer deductions was almost unchanged, at 52.2. Finally, filings for bankruptcies actually improved from 56.5 to 58.2, and that is a solid sign. "Again, the overall sense is that companies are not yet in real crisis, they have simply become more tenuous and cautious," said Kuehl.

| **Service Sector (seasonally adjusted)** | **Jul '12** | **Aug '12** | **Sep '12** | **Oct '12** | **Nov '12** | **Dec '12** | **Jan '13** | **Feb '13** | **Mar '13** | **Apr '13** | **May '13** | **Jun '13** | **Jul '13** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 59.8 | 64.0 | 61.7 | 58.2 | 63.0 | 56.6 | 59.9 | 61.2 | 59.4 | 57.4 | 66.7 | 63.6 | 62.5 |
| New credit applications | 57.9 | 57.3 | 59.2 | 56.2 | 59.5 | 57.3 | 56.5 | 57.9 | 59.1 | 57.2 | 61.0 | 59.1 | 58.4 |
| Dollar collections | 57.9 | 59.7 | 60.3 | 56.5 | 62.0 | 58.7 | 57.2 | 59.1 | 60.7 | 57.1 | 59.9 | 59.3 | 57.1 |
| Amount of credit extended | 63.0 | 61.9 | 62.7 | 62.8 | 64.4 | 61.8 | 63.2 | 63.4 | 61.9 | 61.5 | 66.8 | 64.3 | 63.3 |
| **Index of favorable factors** | **59.6** | **60.7** | **61.0** | **58.4** | **62.2** | **58.6** | **59.2** | **60.4** | **60.3** | **58.3** | **63.6** | **61.6** | **60.3** |
| Rejections of credit applications | 51.6 | 52.5 | 52.2 | 52.8 | 50.2 | 51.6 | 54.5 | 52.5 | 51.9 | 51.1 | 50.2 | 52.4 | 53.5 |
| Accounts placed for collection | 48.7 | 52.6 | 53.0 | 53.6 | 51.7 | 52.0 | 50.6 | 52.9 | 50.8 | 48.4 | 51.0 | 54.1 | 53.6 |
| Disputes | 47.6 | 53.7 | 51.7 | 52.9 | 51.1 | 51.9 | 50.9 | 52.9 | 49.6 | 48.6 | 50.2 | 53.0 | 52.6 |
| Dollar amount beyond terms | 47.8 | 51.7 | 50.7 | 47.8 | 49.4 | 49.6 | 51.1 | 50.4 | 49.9 | 45.6 | 52.5 | 50.3 | 48.7 |
| Dollar amount of customer deductions | 49.7 | 53.6 | 51.1 | 51.5 | 50.9 | 52.6 | 51.3 | 52.7 | 51.3 | 49.5 | 51.0 | 52.5 | 52.2 |
| Filings for bankruptcies | 56.4 | 61.6 | 61.3 | 61.5 | 60.4 | 59.2 | 59.8 | 59.6 | 58.0 | 56.6 | 57.2 | 56.5 | 58.2 |
| **Index of unfavorable factors** | **50.3** | **54.3** | **53.3** | **53.3** | **52.3** | **52.8** | **53.0** | **53.5** | **51.9** | **50.0** | **52.0** | **53.1** | **53.1** |
| **NACM Service CMI** | **54.0** | **56.9** | **56.4** | **55.4** | **56.2** | **55.1** | **55.5** | **56.2** | **55.3** | **53.3** | **56.6** | **56.5** | **56.0** |




## July 2013 versus July 2012

"The year-over-year numbers flattened this month, and that is not what had been hoped," said Kuehl. "On the other hand, they are not really trending back down, so that can be seen as some cold comfort."




## 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:

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

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 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.

Source: National Association of Credit Management

Contact: Caroline Zimmerman, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National