Report for July 2014

Issued July 31, 2014
National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) improved to 56.8 from 56.1 in July. The readings for the favorable and unfavorable factor indices improved, from 62.4 to 63.7 for the favorable factor index, marking the highest point in over four years, and from 52.0 to 52.2 for the unfavorable factor index. The latter being below marks set earlier in the year, but is at least trending in the preferred direction.

"The overall sense is that real progress in economic recovery is being made and the future looks brighter," said NACM Economist Chris Kuehl, PhD about the July CMI report. "But, not to rain on the parade, these numbers also looked good at the start of the year, and it has taken until mid-summer to regain that momentum." Winter weather was partly responsible for this struggle, as was the significant decline in exports of American goods, Kuehl noted. "The rebound in exports played a major role in getting the US back to growth, but the caution is that many of those importing nations are still not in very good economic shape," he said.

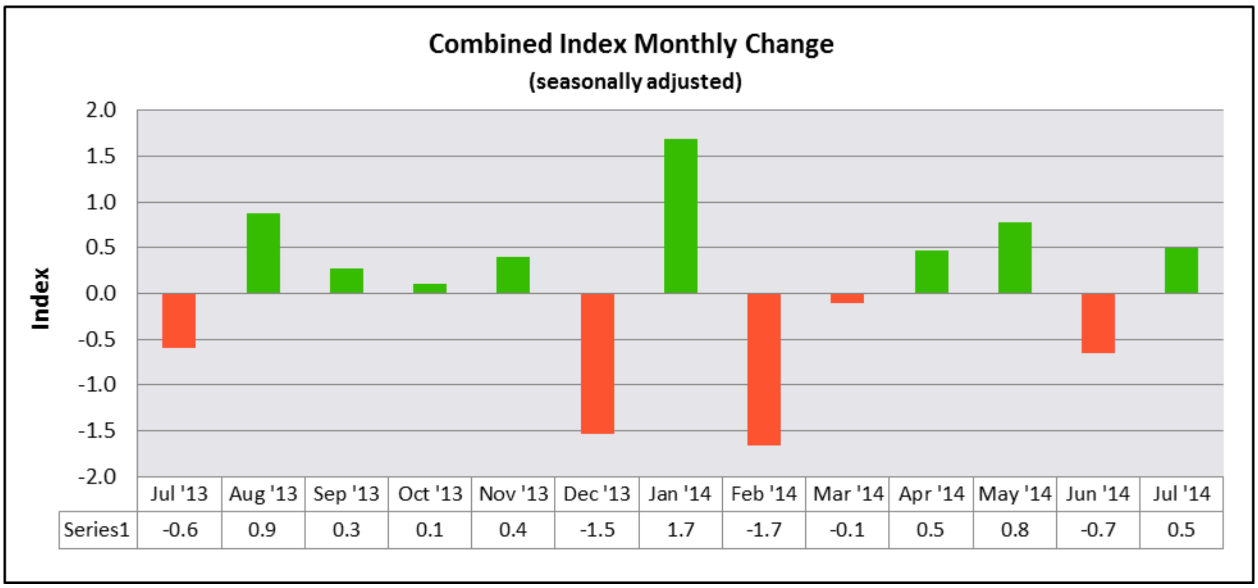
Significant readings within the favorable factors promise better days ahead. Sales improved from 63.9 to 65.2, back to the level set in May. "The sales reading has been strong for some months and that bodes well as sales will underpin any kind of real progress in the months to come," Kuehl said. New credit applications improved from 61.5 to 62.4, the second straight month above 60 and at a yearly high. Dollar collections got back on track and crested above 60 again, moving from 59.3 to 61.0. Finally, amount of credit extended jumped dramatically from 64.8 to 66.1. "This is the highest reading since the recession and suggests far more credit access than before," Kuehl said. "This tracks with the data that comes from the Federal Reserve on bank lending in general and that is very solid news for the economy as a whole."

The unfavorable factor index details are also instructive, just not as dramatic. The good news is that all of the factors that had fallen into contraction (below 50) returned to expansion territory. Disputes improved from 49.5 to 50.3, dollar amount beyond terms jumped from 49.6 to 51.1 and dollar amount of customer deductions rose from 49.4 to 50.6. Rejections of credit applications also improved, but barely, from 52.0 to 52.1. "Given the large hike in amount of credit extended, it appears there are still unworthy applications to credit issuers, but those that are acceptable seem to be asking for more credit than in the past," Kuehl said. Two factors fell. Accounts placed for collection declined from 52.5 to 51.5, indicating remaining strain in the creditor community and filings for bankruptcies fell from 58.9 to 57.6. "This remains a pretty healthy reading, but also suggests that not every sector of industry in the country is in the most robust of health," Kuehl said.

"There is a growing sense of confidence in the progress of the economy right now, although there are still many who see dark clouds behind the silver linings," Kuehl said. "The latest data releases all seem to point toward the kind of rebound expected by analysts at the start of the year. The level of consumer confidence is at a point not seen since before the recession hit and despite gasoline prices spiking for a part of the survey period. The latest GDP numbers were far higher than expected with a whopping 4% gain in Q2 that offset the decline in the first quarter, which was revised to 2.1%."

"The CMI has joined this parade with a set of readings that mark highs not seen in over a year in some cases," Kuehl said. "Given that the CMI is often predictive, it would appear that economic conditions for the coming months will continue tracking in a positive direction."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14
Sales	61.4	63.1	62.7	62.5	63.4	58.7	61.5	59.4	59.1	61.8	65.6	63.9	65.2
New credit applications	58.0	58.7	57.4	58.5	59.2	57.2	58.2	58.1	57.3	59.3	58.9	61.5	62.4
Dollar collections	57.5	60.4	60.6	61.4	59.7	58.7	60.9	58.8	56.4	58.1	61.2	59.3	61.0
Amount of credit extended	62.4	63.3	62.9	63.8	63.2	62.6	65.4	61.4	63.1	63.8	65.0	64.8	66.1
Index of favorable factors	**59.8**	**61.4**	**60.9**	**61.5**	**61.3**	**59.3**	**61.5**	**59.4**	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**
Rejections of credit applications	53.2	52.7	53.0	52.1	53.3	54.5	54.6	52.3	52.4	52.3	52.7	52.0	52.1
Accounts placed for collection	53.6	52.5	54.3	53.3	55.0	53.4	55.2	54.6	54.1	51.7	53.8	52.5	51.5
Disputes	51.0	51.6	51.7	51.8	51.9	50.7	52.2	51.9	50.9	54.7	50.2	49.5	50.3
Dollar amount beyond terms	48.5	51.1	52.2	52.7	54.7	49.7	52.8	51.1	52.4	50.0	51.5	49.6	51.1
Dollar amount of customer deductions	51.0	51.4	51.7	51.8	52.4	51.5	51.6	50.4	51.2	50.3	50.4	49.4	50.6
Filings for bankruptcies	58.2	58.7	59.8	59.6	59.0	59.0	60.5	58.5	58.4	58.1	58.4	58.9	57.6
Index of unfavorable factors	**52.6**	**53.0**	**53.8**	**53.6**	**54.3**	**53.1**	**54.5**	**53.1**	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**
NACM Combined CMI	**55.5**	**56.4**	**56.6**	**56.7**	**57.1**	**55.6**	**57.3**	**55.6**	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**



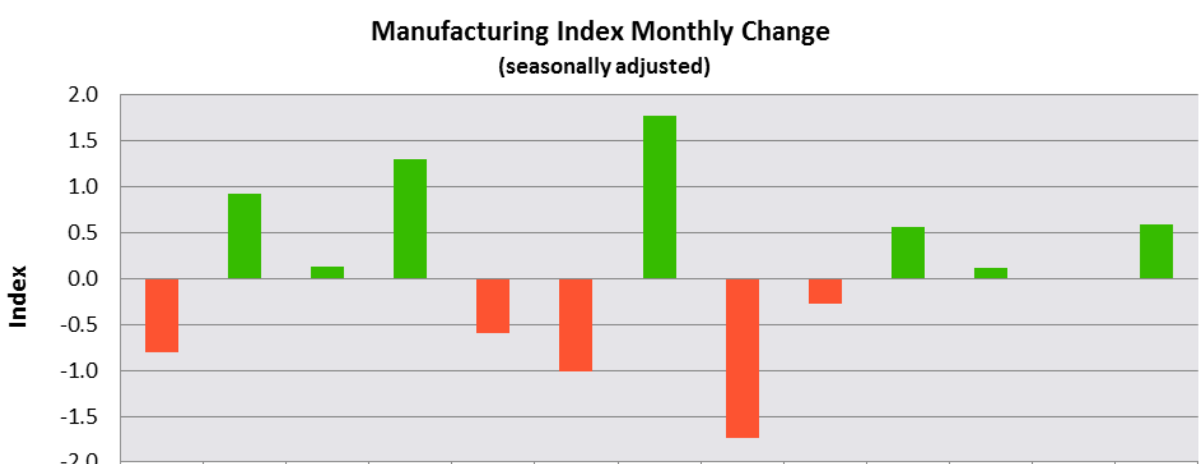
Manufacturing Sector

The manufacturing sector data seemingly matched other indicators of late. Durable goods and industrial production numbers have been volatile, making accurate assessments difficult—some sectors are booming while others are stalling. The manufacturing index improved from 56.1 to 56.7, just enough to return to levels seen last November when most thought the economy was moving at a respectable pace. The index of favorable factors jumped from 62.8 to 63.4, a high not seen since the end of the recession and the index of unfavorable factors also improved from 51.7 to 52.3. Details from both indices suggest good days in the future, Kuehl said.

Sales fell from 65.7 to 64.8, seemingly reflecting that some manufacturing areas are slow to rebound, most notably those oriented toward the overseas markets. The important point is that the reading is still above 60 and one of the higher readings this year. New credit applications slipped as well, from 61.7 to 61.1, but also remains in the 60s. Dollar collections rose from 58.5 to 61.3, coming close to January's reading. Perhaps the most significant change in the index occurred within amount of credit extended, which improved from 65.2 to 66.4, a high not seen since the recession ended. “It means that there is some truly robust activity in the credit arena. None of the optimistic scenarios for economic growth will pan out if there is no movement in credit,” Kuehl said.

Similar volatility appeared in the unfavorable factors. Rejections of credit applications improved from 51.4 to 52.1. “That so much more credit was offered this month would seem to suggest there would be fewer rejections, but there are still many companies that really don’t qualify but seem to be hopeful and are requesting anyway,” Kuehl said. Disputes (48.5 to 50.3), dollar amount beyond terms (50.2 to 51.0) and dollar amount of customer deductions (47.9 to 49.2) all improved their status around the 50-point separating expansion from contraction. Disputes rose out of the contraction zone, deductions is coming closer to doing so and dollar amount beyond terms is in a far more comfortable position. Accounts placed for collection slipped just slightly from 53.5 to 53.0, which reinforces the notion that some companies are still struggling to participate in the recovery. Filings for bankruptcies also fell, from 58.7 to 57.8, a decline of some importance. The overall situation in bankruptcies is still OK, Kuehl said, but there are areas suffering financial setbacks.

Manufacturing Sector (seasonally adjusted)	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14
Sales	60.3	62.3	61.6	64.3	63.4	61.7	59.6	57.9	58.5	61.6	64.5	65.7	64.8
New credit applications	57.5	58.4	55.6	58.9	59.2	57.7	59.5	57.7	56.1	58.8	57.2	61.7	61.1
Dollar collections	57.9	61.0	60.5	61.4	58.7	59.5	62.7	56.4	57.4	59.1	62.0	58.5	61.3
Amount of credit extended	61.4	62.1	62.4	64.8	61.8	61.5	66.4	60.4	61.7	64.5	64.4	65.2	66.4
Index of favorable factors	**59.3**	**61.0**	**60.0**	**62.4**	**60.8**	**60.1**	**62.0**	**58.1**	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**
Rejections of credit applications	52.9	52.3	52.4	52.0	52.9	55.5	54.4	52.8	52.6	52.6	52.6	51.4	52.1
Accounts placed for collection	53.6	53.0	53.7	54.0	55.7	53.3	55.7	59.9	56.1	51.5	53.3	53.5	53.0
Disputes	49.5	49.8	50.8	52.1	51	50.2	51.0	51.6	50.6	57.2	49.6	48.5	50.3
Dollar amount beyond terms	48.3	52.5	52.9	54.6	54.8	50.0	53.2	51.7	52.8	49.5	52.5	50.2	51.0
Dollar amount of customer deductions	49.8	49.3	50.7	51.9	51.4	49.7	51.8	50.4	50.4	48.5	48.3	47.9	49.2
Filings for bankruptcies	58.1	57.9	59.4	59.0	58.5	57.7	60.4	58.6	58.5	57.0	57.1	58.7	57.8
Index of unfavorable factors	**52.0**	**52.5**	**53.3**	**53.9**	**54**	**52.7**	**54.4**	**54.1**	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**
NACM Manufacturing CMI	**54.9**	**55.9**	**56.0**	**57.3**	**56.7**	**55.7**	**57.5**	**55.7**	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**



	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14
+/-	-0.8	0.9	0.1	1.3	-0.6	-1.0	1.8	-1.7	-0.3	0.6	0.1	0.0	0.6

Service Sector

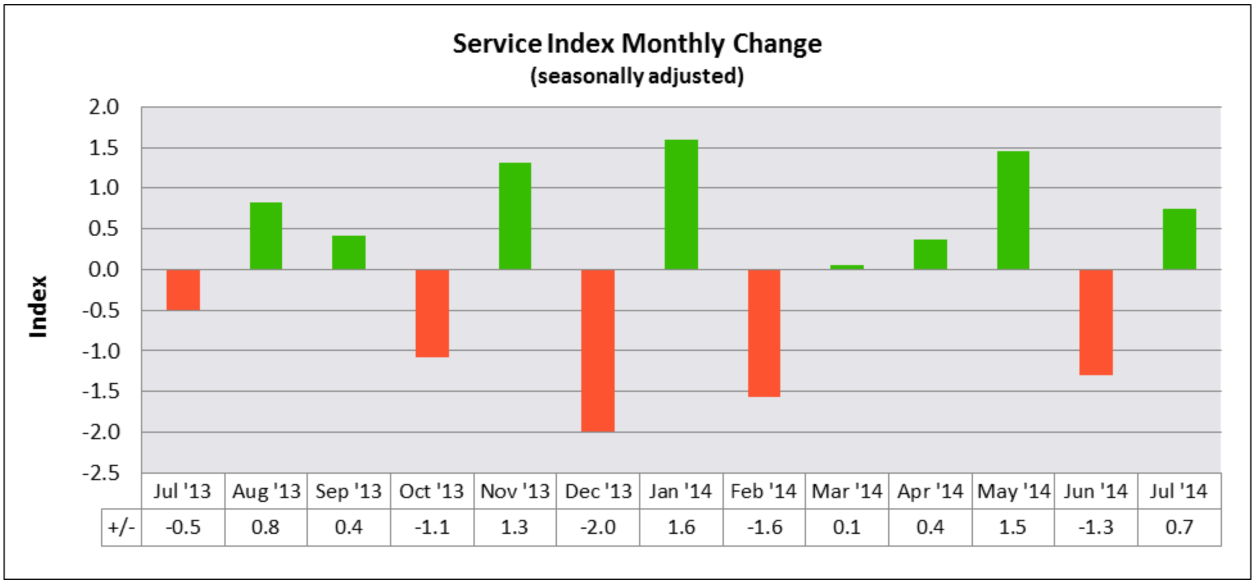
"The service sector posted the gains that made the overall numbers improve for the most part," Kuehl said. "The index improved from 56.1 to 56.9 and that is right back to the growth that started to show up in May when the weather improved enough to boost retail a little." The index of favorable factors improved from 61.9 to 63.9, a high not seen since the end of the recession. However, the unfavorable index slipped just slightly from 52.2 to 52.1, signaling there are still troubled companies in retail and construction, among others.

All of the favorable factors improved. Sales moved up sharply from 62.1 to 65.6, almost as high as May's dramatic reading when retail numbers surged (albeit, not for long). The new credit applications improvement from 61.3 to 63.6 is good news given the struggles that companies have had in retail and construction of late. The dollar collections rise from 60.1 to 60.7 keeps it firmly above 60, as are all the favorable factors. Amount of credit extended's shift from 64.3 to 65.9 exceeded the reading in May and was better than anything seen since 2008.

The unfavorable factors experienced a tougher month, with four of the six factors posting declines. Rejections of credit applications slipped (52.6 to 52.1), reinforcing the observation that there are still companies trying to get credit and not qualifying. "There is more credit available to those that deserve it, but there is no sense of credit being handed out indiscriminately," Kuehl said. The fall in accounts placed for collections (51.4 to 50.0) suggests there is still some damage to work through from the first quarter—hopefully, the improving recovery will allow creditors to get current again. Finally, disputes slipped a bit (50.4 to 50.2) and filings for bankruptcy posting a bigger decline (59.0 to 57.3). Improvement came in dollar amount beyond terms (48.9 to 51.2), which jumped into expansion territory again, and dollar amount of customer deductions rose solidly (51.0 to 52.0).

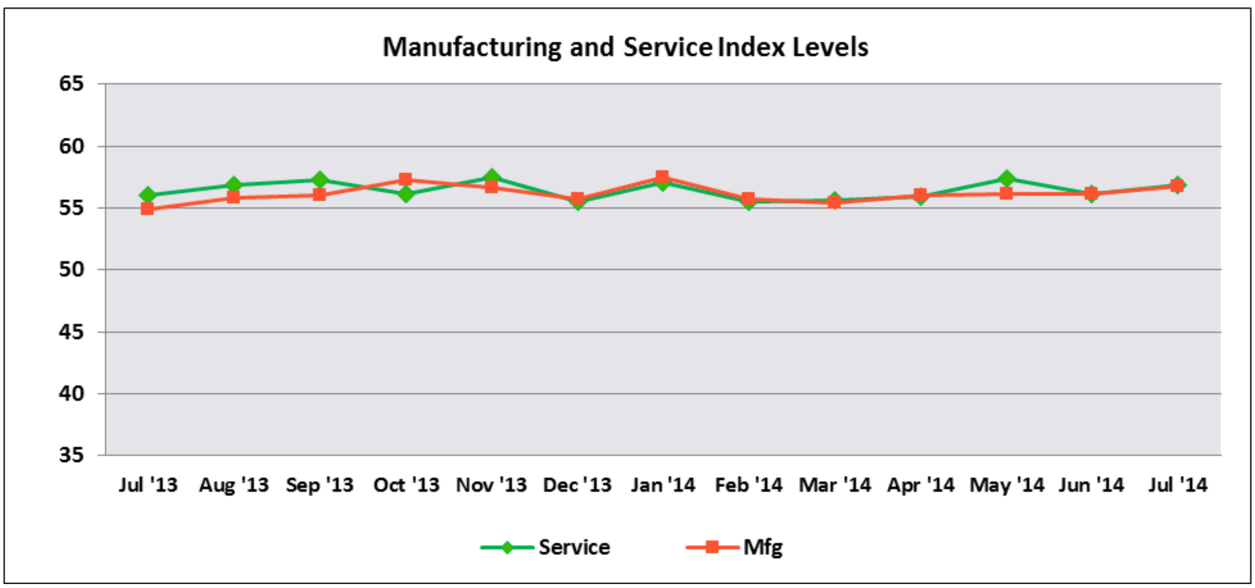
"The overall sense from the service sector readings is that recovery has started, but it is far from universal and there is no assurance that it will last," Kuehl said. "The service category is broad, including everything from retail to construction and professional services. One sector can be booming and another struggling, so the good news for the moment is that there are more improved sectors than sectors in distress."

Service Sector (seasonally adjusted)	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14
Sales	62.5	63.9	63.8	60.6	63.4	55.7	63.4	60.9	59.6	61.9	66.6	62.1	65.6
New credit applications	58.4	59.1	59.2	58.1	59.1	56.7	57.0	58.5	58.5	59.8	60.7	61.3	63.6
Dollar collections	57.1	59.8	60.7	61.3	60.6	57.8	59.2	61.1	55.4	57.1	60.5	60.1	60.7
Amount of credit extended	63.3	64.5	63.4	62.8	64.5	63.6	64.4	62.3	64.5	63.1	65.7	64.3	65.9
Index of favorable factors	**60.3**	**61.8**	**61.8**	**60.7**	**61.9**	**58.4**	**61.0**	**60.7**	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**
Rejections of credit applications	53.5	53.2	53.7	52.2	53.6	53.5	54.8	51.8	52.2	51.9	52.8	52.6	52.1
Accounts placed for collection	53.6	52.0	55.0	52.7	54.2	53.5	54.8	49.3	52.2	51.8	54.4	51.4	50.0
Disputes	52.6	53.3	52.6	51.4	52.8	51.3	53.3	52.2	51.2	52.1	50.8	50.4	50.2
Dollar amount beyond terms	48.7	49.7	51.5	50.9	54.5	49.3	52.3	50.6	52.0	50.5	50.4	48.9	51.2
Dollar amount of customer deductions	52.2	53.5	52.8	51.8	53.3	53.3	51.4	50.4	51.9	52.1	52.4	51.0	52.0
Filings for bankruptcies	58.2	59.6	60.1	60.3	59.4	60.4	60.5	58.4	58.4	59.2	59.8	59.0	57.3
Index of unfavorable factors	**53.1**	**53.6**	**54.3**	**53.2**	**54.6**	**53.6**	**54.5**	**52.1**	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**
NACM Service CMI	**56.0**	**56.9**	**57.3**	**56.2**	**57.5**	**55.5**	**57.1**	**55.5**	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**



July 2014 versus July 2013

"At the moment, the service and manufacturing sectors are nearly identical as far as their tracking is concerned and the fact that both are climbing further toward respectability is an even better signal," Kuehl said.



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 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 CMI archives at http://web.nacm.org/cmi/cmi.asp.

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