CREDIT MANAGERS' INDEX

Report for June 2009

Issued July 1, 2009

National Association of Credit Management

Combined Sectors

The recovery from the recession of 2008-2009 continues to be a controversial topic as there are arguments asserting that the economy really has touched bottom and is on the road to rebound, just as there are arguments that assert that the economy has been severely damaged by the downturn and is not yet ready for recovery. The latest Credit Managers' Index (CMI) tends to favor the first interpretation although the data is not without some warning signs. "The latest CMI is holding steady and showing stability in the credit sector. The data has not yet been enough to push past the point of contraction to expansion, but it is getting ever closer to that point, suggesting that expansion is only a month or two away," said Dr. Chris Kuehl, NACM's economic analyst.

For the last few months, there has been a fairly steady flow of generally positive economic data, although there are areas where economic recovery still seems distant. Durable goods orders have been up for two months in a row, driven by new demand for machinery and computers. Consumer confidence is edging up based on expectations for future recovery and there are some signs that the consumer is starting to see some of the stimulus money as spending has been creeping up. Inflation remains a distant problem and the Federal Reserve remains committed to boosting the economy with low rates. Much of this confidence building has been anticipated by the movement in the CMI as it has now risen for five months in a row (starting with the February rebound).

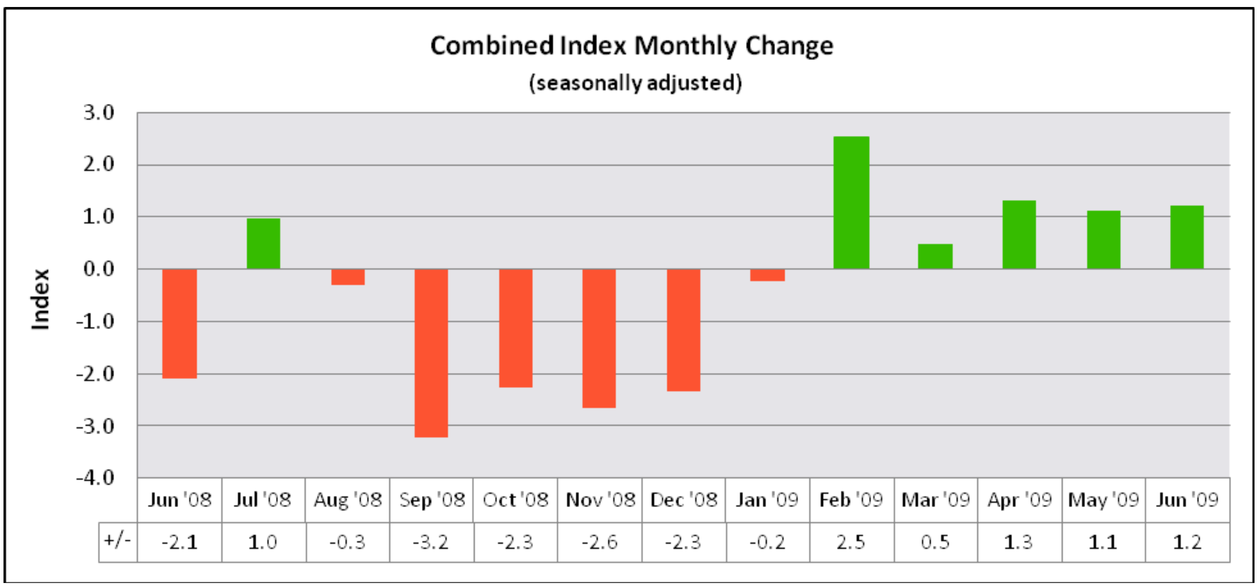
The latest CMI combined index rose from 45.4 to 46.6, over a point gain. This is still short of the 50 line that separates contraction from expansion, but it is drifting ever closer. The data reinforces the sense that has been dominating most economic analysis for the past few months. "The discussion started to shift from how much worse the economy would become to how fast it would recover," said Kuehl. "The balance now is delicate, as growth that is too sharp will result in a serious inflation jump, while growth that is too slow will keep the economy in the doldrums too long. The fact that the CMI is stable for the last three months is a good sign as far as inflation threats are concerned. If there was an imminent danger of too much liquidity, it would be reflected in a sharp rise in the index. This has not manifested itself thus far."

The growth areas are showing some truly positive signs. The biggest gains came from the favorable factors. Sales and new credit applications are both up dramatically, there has been a significant increase in credit granted and dollar collections are up. In unfavorable factors, there were fewer bankruptcies and fewer disputes. These are all signs of business returning to some semblance of normal activity. The businesses that have survived the recession are looking to return to this normalcy and are paying their bills, buying product and gaining access to capital again.

Now, the primary questions are whether this trend accelerates and what will be the source of the threats. The most serious concern now is with state governments. The sharp drops in revenue have thrust most of the states into a budget crisis and they have reacted with program cuts. These programs and projects provided a great deal of private business expansion and there will be a reaction to this decline. Some of this is showing up among survey respondents who have noted that governments are becoming less reliable in paying their bills. This is perhaps the most significant shoe to fall in recent months and solving the problem will take longer than dealing with private sector issues.

See page 6 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '08	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun
Sales	54.2	55.7	56.5	45.3	45.6	34.4	27.2	29.5	34.1	35.2	37.4	41.8	44.7
New credit applications	50.2	53.9	52.8	49.7	49.7	45.2	44.7	42.7	44.9	44.3	47.8	48.2	50.7
Dollar collections	56.4	60.5	57.1	54.6	50.9	50.0	43.9	47.5	47.1	48.4	48.0	48.8	51.2
Amount of credit extended	58.2	59.5	60.0	54.9	51.8	46.6	43.6	43.2	43.2	44.6	46.1	47.1	48.3
Index of favorable factors	**54.7**	**57.4**	**56.6**	**51.1**	**49.5**	**44.0**	**39.8**	**40.7**	**42.3**	**43.1**	**44.8**	**46.5**	**48.7**
Rejections of credit applications	49.1	48.1	48.5	47.8	44.6	45.0	45.6	45.9	46.7	47.8	47.4	47.4	47.9
Accounts placed for collection	44.5	43.5	45.6	41.7	36.4	36.1	35.2	36.8	37.8	37.1	38.5	40.2	40.5
Disputes	47.9	46.3	46.4	45.8	42.9	43.9	44.5	43.4	44.8	44.1	47.2	47.5	47.7
Dollar amount beyond terms	42.8	47.9	43.6	42.0	41.8	38.8	31.6	30.6	42.0	42.3	40.5	43.4	43.6
Dollar amount of customer deductions	48.1	47.8	48.5	46.6	45.8	45.4	46.4	45.2	46.2	45.5	49.8	47.5	48.9
Filings for bankruptcies	49.0	47.2	48.2	46.5	42.6	40.5	39.7	35.4	38.4	40.5	40.2	42.3	42.8
Index of unfavorable factors	**46.9**	**46.8**	**46.8**	**45.0**	**42.3**	**41.6**	**40.5**	**39.5**	**42.6**	**42.9**	**43.9**	**44.7**	**45.2**
NACM Combined CMI	**50.0**	**51.0**	**50.7**	**47.5**	**45.2**	**42.6**	**40.2**	**40.0**	**42.5**	**43.0**	**44.3**	**45.4**	**46.6**



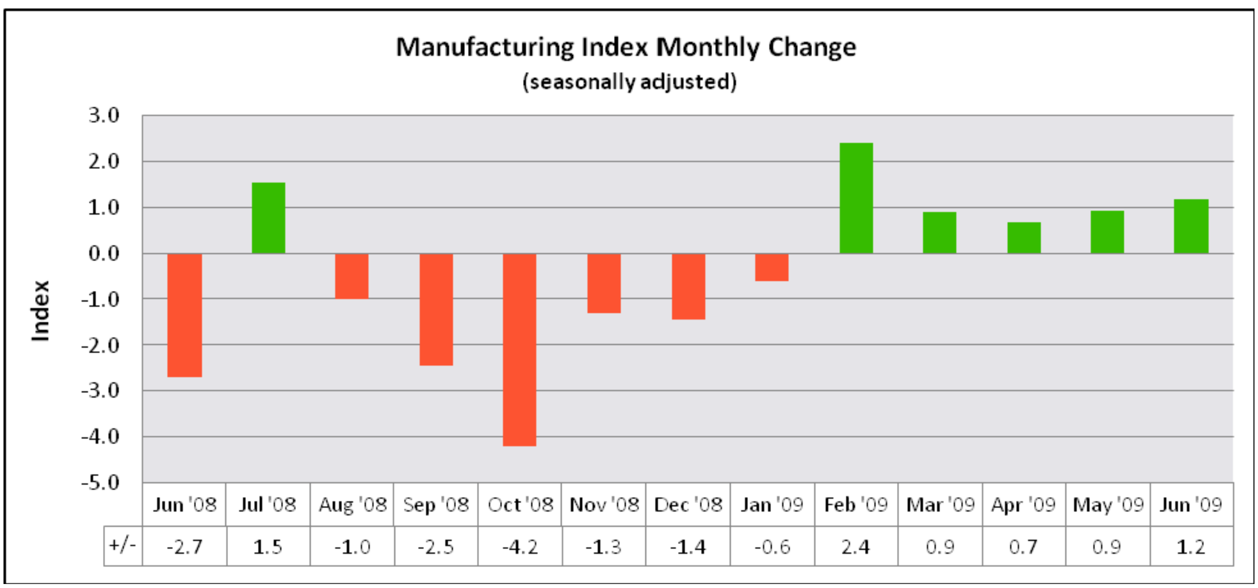
Manufacturing Sector

The manufacturing sector showed the most dramatic gains this month. Since the first of the year, the name of the game in manufacturing has been inventory reduction and these levels have fallen to nearly 20-year lows in many cases. This was a painful financial adjustment, but it has set up the sector for a solid rebound as any demand that develops at this point will prompt new production. That can be seen in the CMI data as sales took a big leap forward this month. That trend should continue into the summer as retailers start to consider what they will need later in the year.

There has been a big jump in dollars collected and that suggests that the prolonged slump in manufacturing is starting to ease. There has also been a big increase in credit and that plays even more positively given the fact that there are still some major issues in key manufacturing sectors. Kuehl pointed out that several of these major sectors are showing distinct signs of life at the NACM Annual Credit Congress at the Rosen Shingle Creek Resort outside Orlando, Florida, in June, “Two of the most hard-pressed manufacturing sectors are on the edge of some recovery. The announcement that United was buying 150 planes triggered a number of other airlines to consider adding to their fleets. The numbers from June's car sales are expected to show that car makers sold over 10 million cars in a month for the first time this year. These two core industries feed many tier two and three industries so their recovery is key to making the others more profitable."

There are also some rapidly growing sectors in manufacturing that have started to impact the economy. The energy sector is booming to the point that there are job shortages in the alternate energy community. Medical manufacturing continues to grow and the latest durable goods orders show a second month in a row of gain—1.8%. The majority of this movement has been in the production of machinery and computer equipment. These are capital purchases that indicate business expansion—a development the CMI predicted. In order for these expenditures to be made there needs to be availability of credit, and the CMI has shown a steady improvement in the manufacturing arena for the last few months.

Manufacturing Sector (seasonally adjusted)	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun
Sales	54.4	56.5	57.4	45.2	46.1	38.5	26.8	31.6	34.7	36.7	39.6	40.7	45.4
New credit applications	51.1	55.0	53.0	50.9	49.2	45.5	48.8	44.8	45.2	44.6	50.7	49.3	51.1
Dollar collections	54.4	60.8	56.2	55.6	46.3	49.6	44.5	48.2	48.3	49.5	48.0	47.5	51.6
Amount of credit extended	57.9	58.8	62.0	56.2	48.1	42.8	44.0	39.6	40.5	41.8	44.1	44.2	45.8
Index of favorable factors	**54.5**	**57.8**	**57.2**	**52.0**	**47.4**	**44.1**	**41.0**	**41.1**	**42.2**	**43.1**	**45.6**	**45.4**	**48.5**
Rejections of credit applications	49.4	48.7	48.1	49.0	46.2	45.2	47.8	46.0	46.5	48.1	47.2	47.4	47.8
Accounts placed for collection	45.8	44.8	47.4	42.3	36.0	35.3	35.0	39.1	38.1	37.7	38.6	41.8	41.2
Disputes	46.9	45.2	43.8	45.5	41.3	44.4	44.7	42.6	44.4	44.4	45.8	47.6	46.1
Dollar amount beyond terms	41.8	47.7	41.8	43.1	38.6	40.0	31.8	30.8	46.5	48.1	42.8	44.5	45.3
Dollar amount of customer deductions	48.4	46.5	46.9	45.9	42.8	44.2	45.8	44.6	44.5	45.6	47.6	46.6	47.6
Filings for bankruptcies	48.2	49.7	47.2	45.6	42.6	38.7	40.6	36.4	39.2	40.6	39.6	43.6	43.2
Index of unfavorable factors	**46.8**	**47.1**	**45.9**	**45.2**	**41.3**	**41.3**	**41.0**	**39.9**	**43.2**	**44.1**	**43.6**	**45.2**	**45.2**
NACM Manufacturing CMI	**49.8**	**51.4**	**50.4**	**47.9**	**43.7**	**42.4**	**41.0**	**40.4**	**42.8**	**43.7**	**44.4**	**45.3**	**46.5**



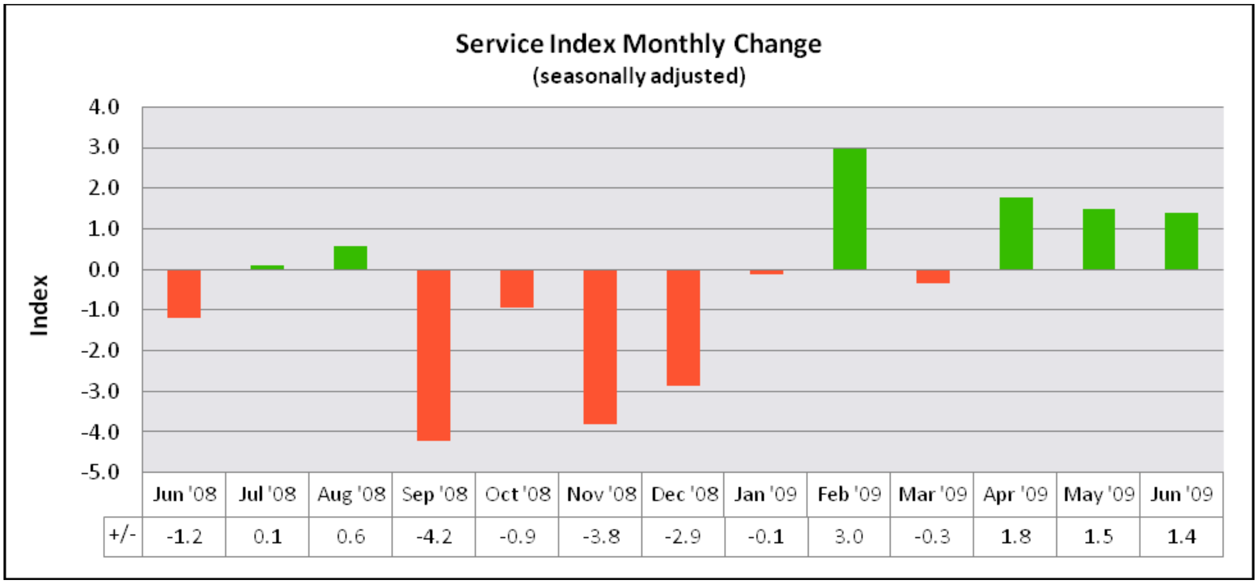
Service Sector

The service sector is reaching a point of stability and some of the indicators are now cresting over 50. The sector itself has not made that jump but there is solid evidence of expansion in new credit applications and dollars collected. These are good signs of improvement in two key areas. It shows that more and more business is returning to normal cash flow and it shows that capital markets are opening up again. The service sector remains the heart of the U.S. economy, making improvements here crucial.

Kuehl indicated at Credit Congress that the most stressed area in service remains the transportation and retail communities. Their issues tend to go hand in hand. As the manufacturers start to ramp up in reaction to demand and as export-import levels start to return to normal, there will be a quick response from both of these sectors. Transportation services are somewhat akin to the canary in the coal mine. The economy impacts their business immediately and in just the last week or so there has been evidence of improved freight flows—coinciding with the reports from retail that consumers are getting a bit more engaged.

There are still evident issues in the service sector. Bankruptcies have continued to expand and there is still a lot of dollar exposure. The retail expansion that took place in the middle of this decade is now in retreat and some of the bigger business failures have been in retail. It will take a while to purge these from the system. At the same time, many retailers struggle with cash flow and that has made late payments and disputes common. The service sectors that continue to grow include medical and the legal profession. Even the banking and finance sectors are starting to get a second wind.

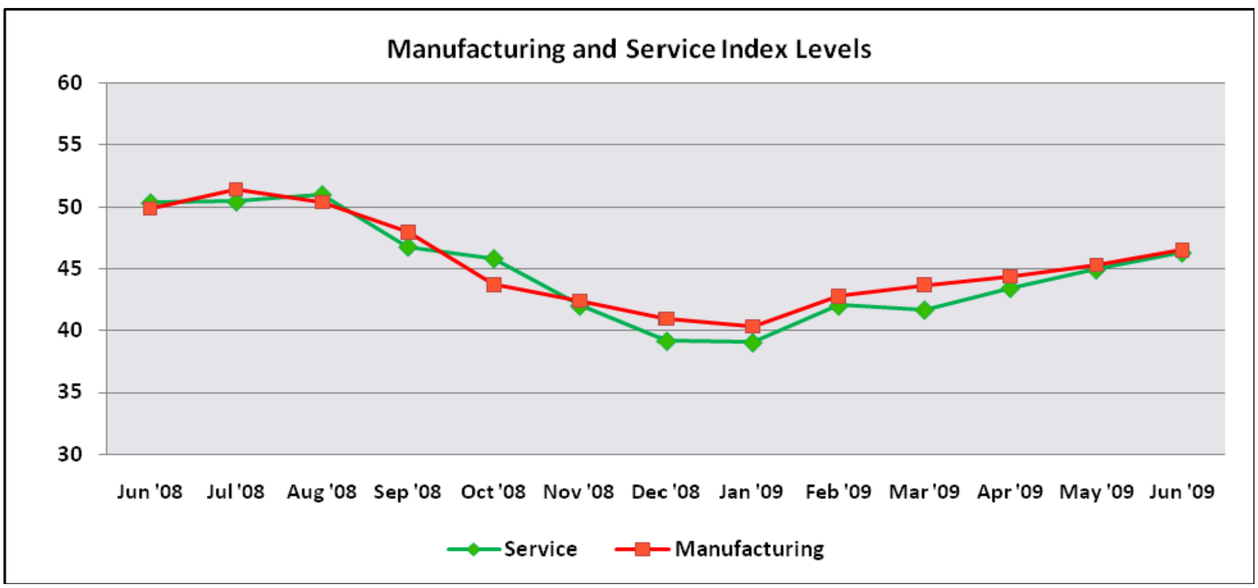
Service Sector (seasonally adjusted)	**Jun '08**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec '08**	**Jan '09**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Sales	54.0	54.9	55.5	45.4	45.1	30.2	27.5	27.3	33.5	33.7	35.2	42.9	44.1
New credit applications	49.3	52.7	52.6	48.4	50.2	44.8	40.5	40.5	44.6	44.0	44.9	47.2	50.3
Dollar collections	58.4	60.1	58.0	53.6	55.5	50.3	43.2	46.8	45.9	47.4	48.0	50.0	50.8
Amount of credit extended	59.8	58.3	58.0	51.5	47.2	43.7	40.3	41.4	43.9	41.8	40.6	44.3	46.4
Index of favorable factors	**55.4**	**56.5**	**56.0**	**49.7**	**49.5**	**42.3**	**37.9**	**39.0**	**41.9**	**41.7**	**42.2**	**46.1**	**47.9**
Rejections of credit applications	48.7	47.5	48.8	46.5	43.0	44.7	43.4	45.7	46.9	47.5	47.7	47.4	48.1
Accounts placed for collection	43.2	42.1	43.8	41.0	36.7	36.9	35.4	34.4	37.5	36.5	38.5	38.7	39.8
Disputes	48.9	47.4	48.9	46.1	44.5	43.3	44.3	44.1	45.2	43.9	48.6	47.3	49.4
Dollar amount beyond terms	43.7	48.0	45.4	40.9	44.9	37.6	31.4	30.3	37.4	36.6	38.3	42.3	41.9
Dollar amount of customer deductions	47.8	49.0	50.0	47.3	48.8	46.6	47.0	45.7	48.0	45.4	52.0	48.4	50.2
Filings for bankruptcies	49.8	44.6	49.2	47.3	42.6	42.2	38.8	34.4	37.7	40.4	40.8	41.0	42.3
Index of unfavorable factors	**47.0**	**46.4**	**47.7**	**44.9**	**43.4**	**41.9**	**40.1**	**39.1**	**42.1**	**41.7**	**44.3**	**44.2**	**45.3**
NACM Service CMI	**50.4**	**50.5**	**51.0**	**46.8**	**45.9**	**42.0**	**39.2**	**39.1**	**42.0**	**41.7**	**43.5**	**45.0**	**46.3**



June 2009 vs. June 2008

The magic 50 level remains elusive but is inching closer. It was almost a year ago that the index was above the 50 mark, and, at its worst, fell to the high 30s. Those days are gone, but the 50 mark is perhaps another month or two in the future. If current trends continue, the economy will be back in expansion mode by the end of the summer. Much will depend on the remaining issues facing the economy (such as the state budget struggles) but over the next two or three months, there will be a flow of stimulus money into the economy that may prove sufficient to push expansion.

The expansion in manufacturing and the service sectors have nearly caught up with one another and that is a good sign as well. When the numbers were above 50 they were pretty closely matched in both sectors.



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 1000 trade credit managers during the last 10 days of the 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 or 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 items, the calculation is:

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

For the negative factors, the calculation is:

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

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: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 19,000 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.

Contact: Caroline Zimmerman: 410-740-5560, caroline@nacm.org

Website: www.nacm.org