Report for June 2010

Issued June 30, 2010

National Association of Credit Management

Combined Sectors

The slowdown in the economy over the past several weeks has been chronicled in a variety of ways: retail sales fell, the housing market sank to levels not seen in close to two years, the financial markets stumbled in reaction to one global threat after another and the Credit Managers' Index (CMI) is slumping dramatically as well—from May's 55.9 to 54.1 for June—for the same reasons affecting much of the economy. Sales levels have dipped all the way back to numbers not recorded since the end of last year. The last time sales registered below 60 was in December 2009 when it hit 56.7. It is now at 59 after being as high as 65.7 as recently as April. This decline is consistent with observations made on consumer activity in general. Personal income may have risen by a somewhat respectable 0.4%, but spending has only increased by 0.2% and that is a far cry from the 3% growth registered in the first quarter of the year.

Other signals are also suggesting economic distress. Although there was a consistent rate of new credit applications, the number of applications granted fell to a point not seen since December 2009. Comments within the credit community suggest lending and credit have tightened considerably in the last few weeks and months. There was not as much activity in negative factors, but there was significant expansion in the number of credit applications rejected as well as accounts placed for collection. "There is simply a sense that stress has reentered the system in a big way and that is consistent with the kind of data that started to emerge in the consumer sector over the last month," said Chris Kuehl, Ph.D., NACM economic advisor, who prepares the CMI for the National Association of Credit Management (NACM). "This is a trend the CMI began to note in the May numbers and now the indications are that this is accelerating."

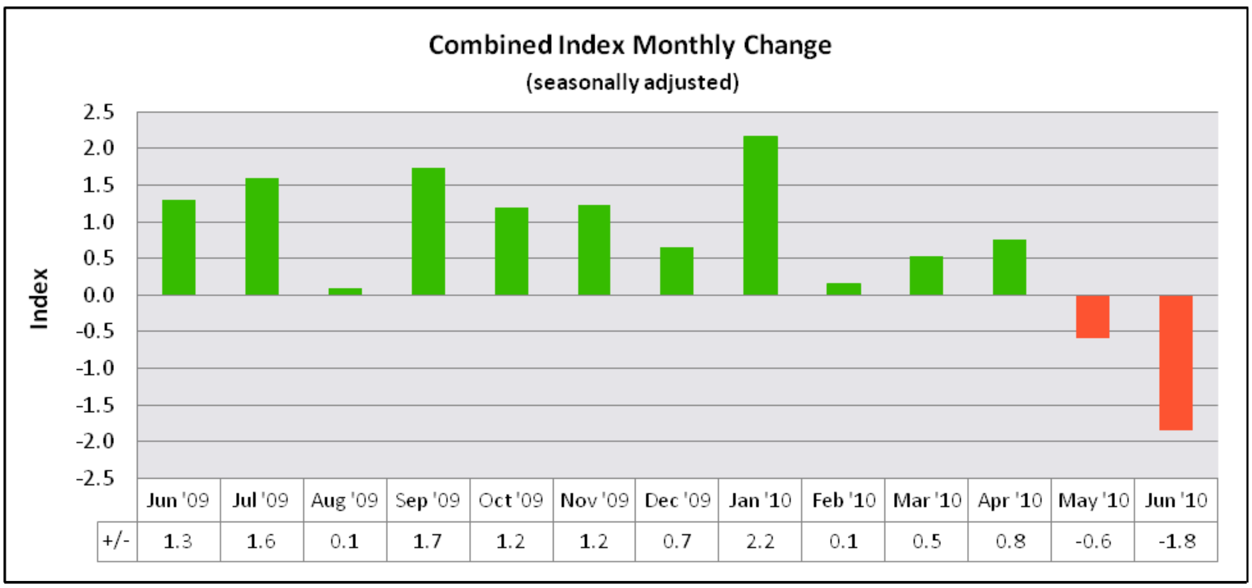
There are two factors that have been hanging over the financial community the last two months and both have started to show movement. "It will be interesting to note what happens with factors like credit extension as well as credit applications as these issues are dealt with to some degree," said Kuehl. "The banks have been close to paralysis waiting for the financial reform picture to clarify and it appears that some of the smaller and regional banks escaped the most onerous burdens. That may allow them to loosen up and start to make more money available, but much depends on whether these same banks have been able to contend with their remaining non-performing loans. There is also the fact that FDIC insurance has been extended to $250,000, which is retroactive to January 2008. This additional burden will force the FDIC to collect more money from banks to pay for the insurance and that could well serve to stall lending yet again."

The consumer has not yet engaged in the economic recovery and is stalling the rebound dramatically. Spending levels will not recover until there is some confidence restored in the consumer and that will require improved jobless numbers and some solid recovery of people's financial position; these appear to be off some time in the future.

"If there is any good news in this month's data, it is that the other negative factors have not yet manifested," said Kuehl. There has not been an increase in disputes or bankruptcies and there has even been a decline in the dollar amounts beyond terms. "The sense is that most companies avoiding getting overextended again and the return of the more cautious credit environment have meant that companies are not getting into as much financial distress as they had in the past. They are simply not growing at a pace that will allow much economic gain in the short to medium term."

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)	Jun '09	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr	May '10	Jun '10
Sales	44.8	48.6	48.4	49.9	51.1	55.0	56.7	60.7	60.9	65.0	65.7	64.5	59.0
New credit applications	50.7	52.6	49.3	50.0	52.7	55.4	54.2	57.0	57.7	57.5	57.4	58.6	57.4
Dollar collections	51.2	50.8	50.5	53.4	54.7	55.8	58.0	61.3	61.1	61.9	62.1	59.7	59.4
Amount of credit extended	46.1	48.2	48.0	49.3	53.6	54.6	55.2	58.8	59.4	61.3	61.3	60.2	55.9
Index of favorable factors	**48.2**	**50.0**	**49.1**	**50.6**	**53.0**	**55.2**	**56.0**	**59.4**	**59.8**	**61.4**	**61.6**	**60.7**	**57.9**
Rejections of credit applications	47.9	47.5	49.0	48.4	49.0	49.3	50.1	51.4	51.0	50.1	50.9	50.7	51.0
Accounts placed for collection	40.5	44.0	43.6	45.3	47.1	49.5	50.9	50.7	50.4	51.1	50.6	54.5	51.4
Disputes	47.7	50.2	49.7	50.8	51.0	49.6	51.0	51.4	52.2	52.2	51.7	51.3	50.4
Dollar amount beyond terms	43.6	45.3	46.2	48.1	48.1	49.0	51.4	52.2	52.0	51.5	51.9	50.2	49.1
Dollar amount of customer deductions	48.9	49.2	50.6	51.8	50.5	51.3	51.3	52.5	51.2	51.7	55.7	51.8	50.3
Filings for bankruptcies	42.8	43.7	45.8	51.5	52.6	53.0	50.5	54.7	56.3	55.3	57.6	57.6	56.6
Index of unfavorable factors	**45.2**	**46.7**	**47.5**	**49.3**	**49.7**	**50.3**	**50.8**	**52.2**	**52.2**	**52.0**	**53.1**	**52.7**	**51.5**
NACM Combined CMI	**46.4**	**48.0**	**48.1**	**49.8**	**51.0**	**52.3**	**52.9**	**55.1**	**55.2**	**55.7**	**56.5**	**55.9**	**54.1**

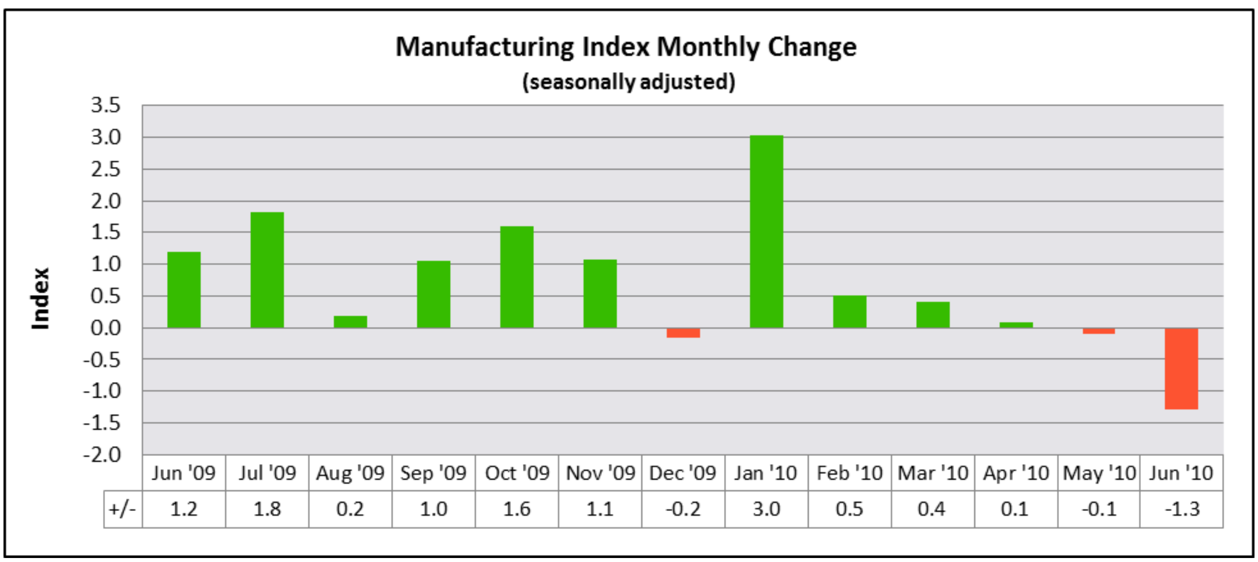


Manufacturing Sector

Kuehl said the surprising news in this month's report is that, in the wake of the overall decline, the manufacturing sector not only held its own, but expanded over what it registered in May. There was a decline in the sales numbers similar to those registered for the CMI as a whole. The slip from May was from 66 to 59.1, and this month's reading is the lowest the index has registered since December 2009; still, there was not much change in the amount of credit extended, which contrasts dramatically with the service sector. There was no really significant change in any of the positive factors except that of sales.

"There was more concern in some of the negative factors, but not enough to signal that there is more damage expected in the short term," said Kuehl. There was even a decline in bankruptcy filings, while the other factors remained very close to their May numbers. All in all, the manufacturing sector jumped back to levels seen at the start of the year—much better than in May or April. "There has been a pattern in the recovery thus far that has many analysts somewhat baffled," said Kuehl. "In most economic rebounds, the gains come from the reawakening of the consumer, but this time the consumer is still in the doldrums while manufacturers have been taking the lead since the end of 2009." The numbers have been consistent in most measures: durable goods orders have been solid, the Purchasing Managers Index for manufacturing has been nearing 60 on the same scale employed by the CMI, capacity utilization numbers are up and overall productivity has been strong throughout the recession and into the recovery. Manufacturers are steadily rebuilding their inventory levels, but at some juncture that has to come to an end. The overall numbers for the CMI suggest that the steam will begin to run out for the economy if consumers don't pick up the baton from the manufacturers.

Manufacturing Sector (seasonally adjusted)	Jun '09	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr	May '10	Jun '10
Sales	45.4	48.7	48.4	48.7	52.0	56.3	55.8	61.8	62.5	66.9	65.2	66.0	59.1
New credit applications	51.1	55.3	48.6	50.5	52.9	56.8	55.2	54.0	57.8	57.9	57.1	58.9	58.9
Dollar collections	51.6	51.7	51.3	52.1	55.7	53.1	56.0	61.5	59.6	61.4	60.9	59.7	59
Amount of credit extended	45.8	49.3	48.9	48.8	53.5	53.4	55.2	59.2	60.7	62.0	62.1	58.9	58.2
Index of favorable factors	**48.5**	**51.3**	**49.3**	**50.0**	**53.5**	**54.9**	**55.6**	**59.1**	**60.2**	**62.1**	**61.3**	**60.9**	**58.8**
Rejections of credit applications	47.8	47.5	50.6	48.9	49.6	49.5	49.5	52.4	51.4	50.9	52.3	51.6	51.8
Accounts placed for collection	41.2	44.1	43.3	46.3	47.1	49.5	51.0	51.3	51.0	51.9	52.0	54.3	54.3
Disputes	46.1	49.3	48.2	49.5	50.9	48.0	50.1	50.7	51.9	51.5	51.8	50.0	50.6
Dollar amount beyond terms	45.3	46.3	48.1	48.3	47.9	50.0	51.4	52.5	53.3	51.3	52.2	50.1	50.3
Dollar amount of customer deductions	47.6	47.8	50.4	50.8	49.9	50.3	49.8	52.2	51.3	51.6	50.8	51.0	49.2
Filings for bankruptcies	43.2	43.1	47.3	51.7	52.1	55.4	46.6	55.4	56.5	54.8	56.6	59.5	55.6
Index of unfavorable factors	**45.2**	**46.4**	**48.0**	**49.2**	**49.6**	**50.4**	**49.7**	**52.4**	**52.6**	**52.0**	**52.6**	**52.7**	**52.0**
NACM Manufacturing CMI	**46.5**	**48.3**	**48.5**	**49.6**	**51.2**	**52.2**	**52.1**	**55.1**	**55.6**	**56.0**	**56.1**	**56.0**	**54.7**



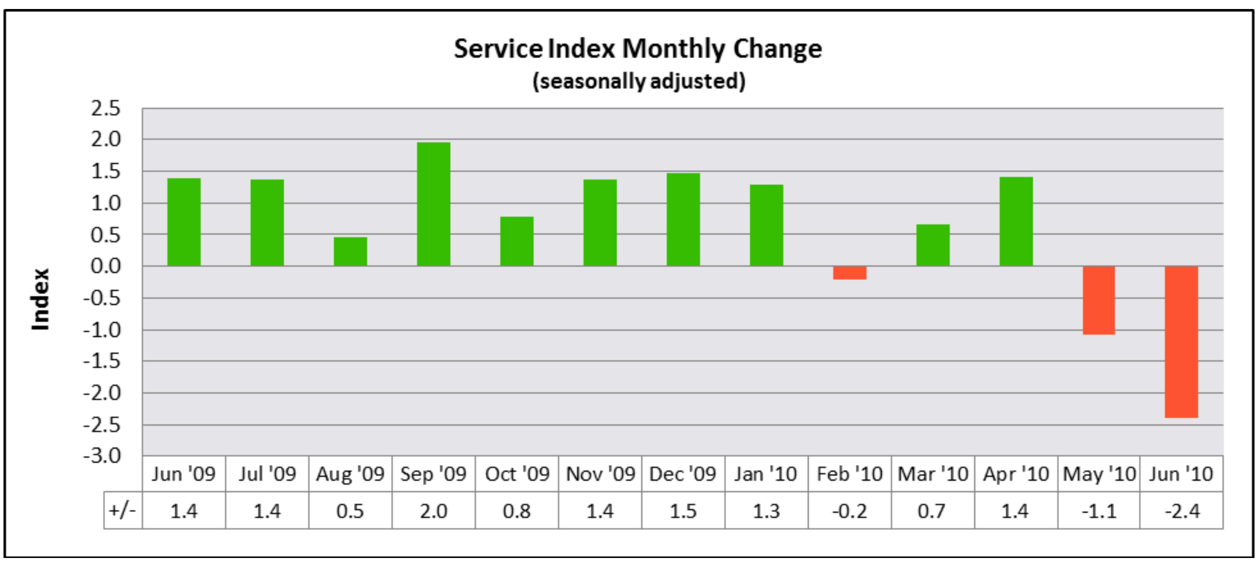
Service Sector

The service sector saw some of the most consistent declines. Not only was there a reduction in sales to levels not seen since December 2009, there were similar declines in many of the favorable factors. New credit applications were down to 55.9, the lowest since 2009, and the dollar collection number is down for the second straight month to 59.7. The amount of credit extended took the same dip—down to 53.7. It was last this low in October 2009. "These declines across the board in the favorable category add to the bleak numbers that appear in the non-favorable categories such as bankruptcy," said Kuehl. "There were generally no major issues in other sectors of the report as there has not been enough time to see the decline trickle through into more problems.

Most of the damage in the service sector is being sustained by the retail community as opposed to some of the more aggressive growth sectors, such as health care, and there are still problems in the financial and real estate communities affecting service numbers."

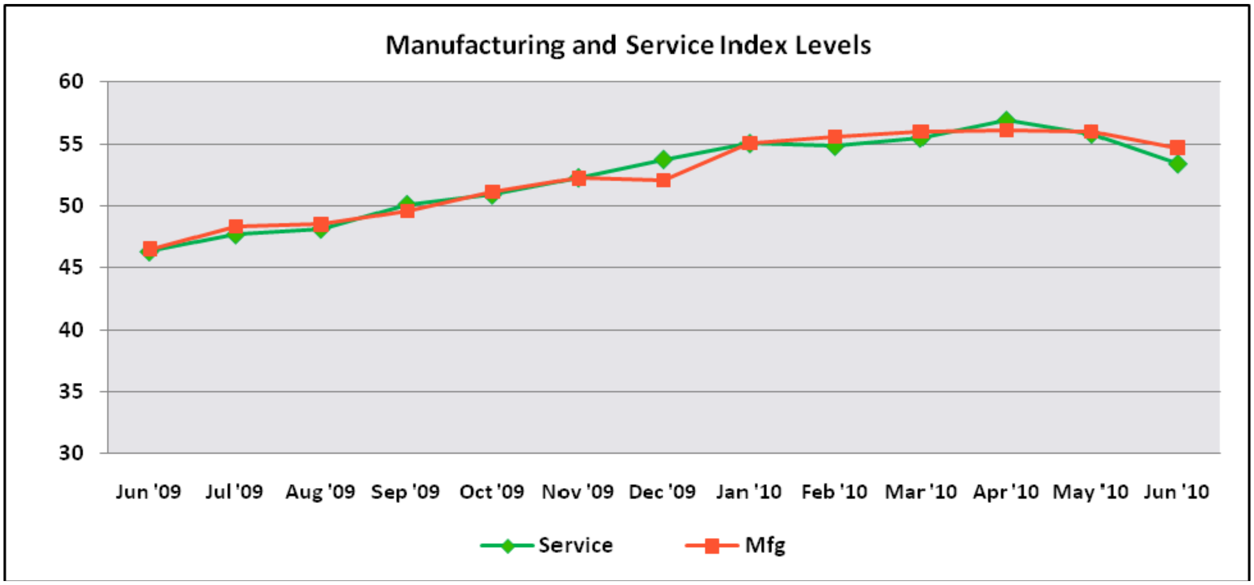
The fear is that the service economy is not rebounding fast enough to pull the recovery forward. This is due to the service sector still accounting for the majority of employment in the U.S. as well as the majority of the GDP. The service economy is not recovering jobs lost in the recession and is a major factor in slowing the consumer—a real Catch-22. If the consumer is waiting to see jobs stabilize before spending, and the retailers are waiting to see sales improve before they start adding jobs, there is an impasse.

Service Sector (seasonally adjusted)	Jun '09	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar	Apr	May '10	Jun '10
Sales	44.1	48.4	46.5	51.0	50.3	53.7	57.5	59.6	59.3	63.0	66.3	63.0	58.8
New credit applications	50.3	49.9	49.5	49.5	52.4	54.1	53.2	60.1	57.6	57.1	57.7	58.2	55.9
Dollar collections	50.8	49.8	50.5	54.8	53.7	58.6	59.9	61.2	62.7	62.4	63.2	59.7	59.7
Amount of credit extended	46.4	47.1	46.3	49.8	53.8	55.7	55.2	58.3	58.2	60.5	60.5	61.5	53.7
Index of favorable factors	**47.9**	**48.8**	**48.2**	**51.2**	**52.5**	**55.5**	**56.5**	**59.8**	**59.4**	**60.8**	**62.0**	**60.6**	**57.0**
Rejections of credit applications	48.1	47.4	48.5	47.9	48.5	49.2	50.6	50.4	50.6	49.4	49.6	49.7	50.3
Accounts placed for collection	39.8	43.9	43.7	44.3	47.1	49.4	50.7	50.1	49.9	50.2	49.2	54.8	48.5
Disputes	49.4	51.2	49.0	52.1	51.0	51.2	51.9	52.1	52.5	52.9	51.6	52.7	50.3
Dollar amount beyond terms	41.9	44.3	49.5	47.9	48.3	48.0	51.4	51.9	50.6	51.6	51.7	50.3	47.9
Dollar amount of customer deductions	50.2	50.7	51.1	52.7	51.1	52.3	52.7	52.9	51.1	51.8	60.5	52.6	51.4
Filings for bankruptcies	42.3	44.4	47.0	51.3	53.0	50.7	54.3	53.9	56.0	55.8	58.6	55.7	57.6
Index of unfavorable factors	**45.3**	**47.0**	**48.1**	**49.4**	**49.8**	**50.1**	**52.0**	**51.9**	**51.8**	**52.0**	**53.5**	**52.6**	**51.0**
NACM Service CMI	**46.3**	**47.7**	**48.2**	**50.1**	**50.9**	**52.3**	**53.8**	**55.0**	**54.8**	**55.5**	**56.9**	**55.8**	**53.4**



June 2010 vs. June 2009

The dip in the index is accelerating and this causes more than a little concern. The index remains above 50, but the level has dipped to where it stood at the beginning of the year. In essence there has been a loss of six months of economic progress with the collapse of sales. "The good news, such as it is, resides in the fact that a reversal of sales numbers will do a lot to turn the index north again, but this is far easier said than done while the consumer/worker remains concerned about the future," said Kuehl.



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:

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

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

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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