



Report for June 2012

Issued June 29, 2012

National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI) for June sits at 54.5, just slightly behind May's reading of 54.6. The sub-index of favorable factors maintained a reading of 60.2, with the sub-index of unfavorable factors moving downward slightly to 50.6. The reasons for the flux in unfavorable readings are concerning, but instructive, and provide hints to where the economy may be heading in the summer months. The variation in favorable factors also point to changes ahead. The differences are subtle, but significant, and that is where the real story gets told.

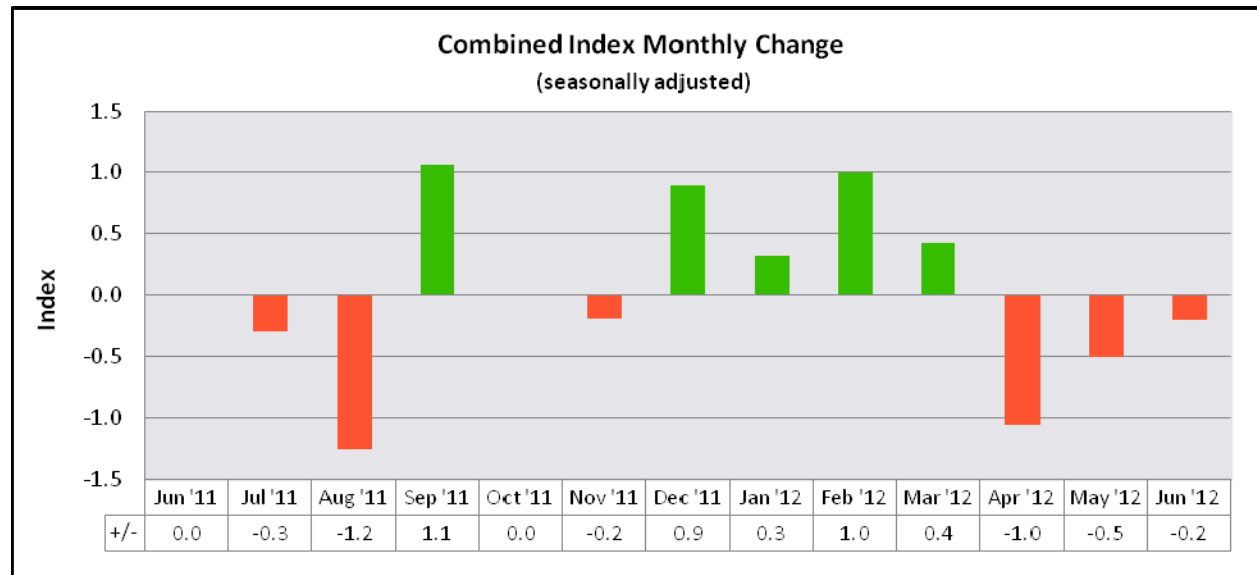
The most distressing trend of the latest CMI is that sales continue to sag. The decline from 61.2 to 60.6 matches the low point set in April, when sales slipped to 60. The trend for the year had been more aggressive with readings between 63.5 and 64.4, but the pace has since struggled. The new credit applications number also declined to 57.5, reaching a low not seen since December 2011. The slowing pace of expansion does not bode well for the summer months. However, a solid increase in dollar collections, which returned to the 60s from 58.5, and the rise in amount of credit extended—from 61.3 to 62.6—was good news. The favorable factor index was above 64 from December through April, so there is still plenty of room for improvement. In the end, the areas that improved were offset by the areas that fell back.

The movement in unfavorable factors is interesting. There was a slight overall decline obscuring a lot of the variability within this index. The concern going forward is for the three categories now under 50. The biggest shift took place in accounts placed for collection, down from 50.5 to 48.3. There was also deterioration in dollar amount of customer deductions, from 50.2 to 48.7. On the brighter side, filings for bankruptcies changed little, dipping from 56.4 to 56.

The pace of bankruptcy activity has not sped up significantly and that is a good indication of the fact that most business has not yet fallen back to the miserable patterns of a year or so ago. The shifts were subtle. The resulting collective number barely changed from what it was last month, and is close to the pace noted for the past year. Thus far, there does not seem to be an acceleration of distress, and that can be counted as a positive, though it would be nice to see the categories crest above 50 and stay there for a while. Through the course of the year, the lowest level in unfavorable factors was set in August 2011 when it sagged to 49.1, with the highest point set in March 2012 when it reached 52. That is a very narrow band and suggests most companies are holding their own, but not growing like many expected. The data coincide with the majority of the data cascading through the system thus far this year. Durable goods orders have been steady but anemic; the [Purchasing Managers Index](#) has not been bad, but not all that good either. Capacity utilization shows a 20% slack and so on.

The economy as a whole seems to have settled into a pattern that is not in crisis, but neither is it expanding at an acceptable pace. It has been opined that no news is good news. There is something to be said for a month of data that didn't really change, especially when changes of late have been more negative than positive. The latest CMI report is nearly identical to the prior reading, and right now that is a cause for some optimism. Not that there weren't variations in the details—those will be the trends assessed in the coming months.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12
Sales	60.8	60.0	59.2	61.4	60.4	58.3	60.5	63.5	64.4	64.1	60.0	61.2	60.6
New credit applications	56.7	57.3	55.8	57.8	58.9	57.6	55.3	61.9	59.5	60.4	58.2	59.9	57.5
Dollar collections	58.1	56.2	56.9	57.8	56.8	56.9	61.4	56.8	63.0	61.4	59.3	58.5	60.0
Amount of credit extended	60.4	62.0	60.7	62.8	61.9	62.4	64.7	63.3	64.3	63.9	64.6	61.3	62.6
Index of favorable factors	59.0	58.9	58.1	59.9	59.5	58.8	60.5	61.4	62.8	62.5	60.5	60.2	60.2
Rejections of credit applications	50.9	51.0	50.2	49.9	50.2	49.5	49.5	50.2	50.5	50.6	51.6	51.1	51.4
Accounts placed for collection	49.8	49.9	47.6	48.7	50.1	49.5	50.0	49.1	50.9	52.0	50.3	50.5	48.3
Disputes	49.3	50.0	48.7	47.6	49.0	47.9	49.2	49.2	49.7	50.9	50.7	49.4	48.9
Dollar amount beyond terms	49.9	48.3	44.2	49.1	47.6	48.0	48.8	48.0	51.2	50.7	50.0	48.0	50.5
Dollar amount of customer deductions	50.0	48.9	49.1	49.2	48.7	48.9	49.1	50.1	48.5	51.1	50.4	50.2	48.7
Filings for bankruptcies	56.5	55.8	54.5	53.2	53.8	56.7	56.0	55.5	55.7	56.8	56.2	56.4	56.0
Index of unfavorable factors	51.0	50.6	49.1	49.6	49.9	50.1	50.4	50.3	51.1	52.0	51.6	50.9	50.6
NACM Combined CMI	54.2	53.9	52.7	53.8	53.7	53.5	54.4	54.8	55.8	56.2	55.1	54.6	54.5



Manufacturing Sector

The manufacturing story is similar to that of the overall index. There was some variability, but for the most part there was little real change. The manufacturing index slipped from 54.2 to 53.6, the lowest since December. Since the end of 2011, the pace had been quickening, with readings between 54.2 and 55.6, but the entire sector has been dragged down by reductions in the pace of favorable factors. This is consistent with the data collected all year on manufacturing. U.S. exports have slowed, as major trade partners struggle to overcome economic issues. At the same time, the U.S. consumer is reluctant to engage. The demand is there, but has been tempered by the need for many to continue deleveraging. Consumer optimism also can't seem to improve in the face of high unemployment and worries about the future of big issues like health care and energy pricing.

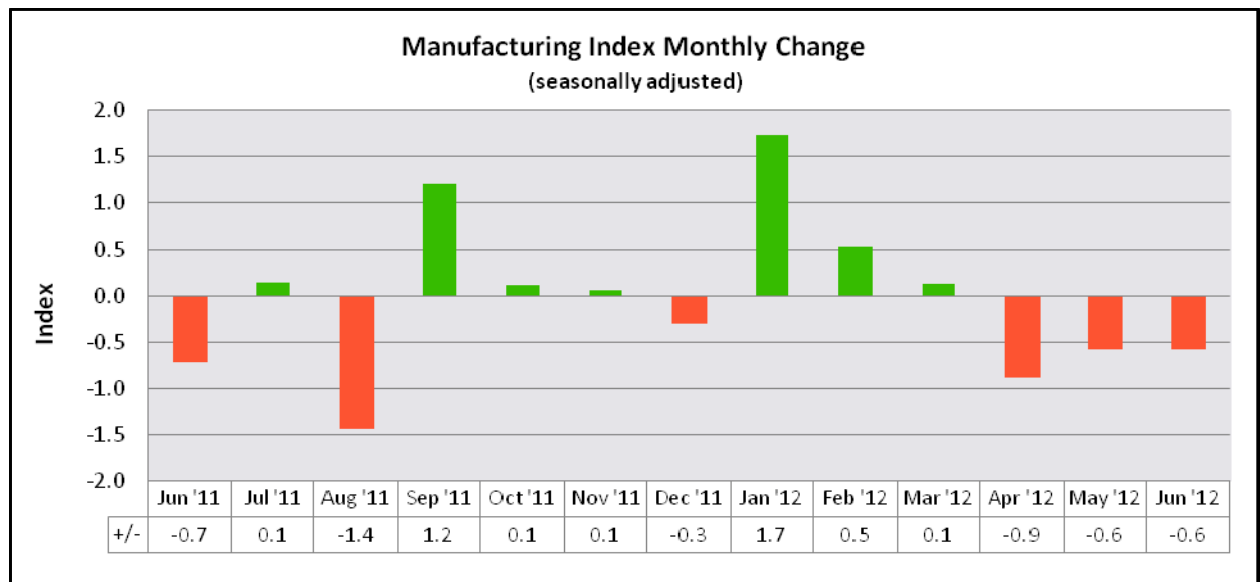
For the second time since December, sales slipped under 60 to 59.1. This is not an unacceptable number, as it still suggests expansion, but the sales number had been as high as 65.4 in March. New credit applications also fell from the 60s in May (61.1) to the current 57.2. This factor has been pretty volatile throughout the last several months and seems to be related to some sectors of the manufacturing community doing far better than others. The most

positive piece of data is reflected in dollar collections, which improved from 59.7 to 61.9. There was also improvement in the level of credit extended, from 61 to 63.2, which shows that even though fewer credit applications are being submitted, those that have been are getting more attention.

The unfavorable index saw some movement as well. Overall, the numbers shifted slightly downward from 49.7 to 49.1, but is fairly consistent with where the index has been for the past year. It had been hoped that the trend earlier in the year would carry forward, since there was a three-month period when the data was in the 50s, but now the spring slump has taken the index back into contraction territory. At the moment, four of the six factors are in contraction territory—not good news going into the summer months—with four of the six deteriorating in June. The biggest drops were in accounts placed for collection (49 to 47.7), dollar amount of customer deductions (49.5 to 46.6) and disputes (48.2 to 47). Dollar amount beyond terms did rise moderately, from 46.9 to 49.2, but still remains in contraction. The lone bright spot was in rejections of credit applications, which improved from 50.4 to 50.5, but was not enough to affect the overall number.

The sector is essentially stalled, and that is not great news for the future. The majority of manufacturers are somewhat akin to the shark—if they don't keep moving forward, they die. The heavy investments in machinery and materials require revenue streams sufficient to handle the required payments.

Manufacturing Sector (seasonally adjusted)	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12
Sales	58.5	59.3	58.0	59.5	59.3	58.1	57.7	64.1	65.1	65.4	59.4	61.6	59.1
New credit applications	54.5	56.4	55.3	57.5	60.6	55.7	49.5	64.2	59.3	57.9	56.6	61.1	57.2
Dollar collections	55.3	55.4	56.0	56.7	56.5	56.2	58.0	56.8	61.4	62.2	59.2	59.7	61.9
Amount of credit extended	59.2	61.2	59.5	62.1	60.7	62.7	63.6	66.2	65.7	63.2	64.3	61.0	63.2
Index of favorable factors	56.9	58.1	57.2	58.9	59.3	58.2	57.2	62.8	62.9	62.2	59.9	60.9	60.4
Rejections of credit applications	51.8	50.8	50.4	50.0	49.6	49.6	49.8	50.5	50.1	49.6	51.5	50.4	50.5
Accounts placed for collection	49.8	49.4	47.3	49.6	48.8	51.6	50.7	48.6	51.1	51.6	49.9	49.0	47.7
Disputes	49.0	50.0	48.6	44.9	47.7	48.5	49.3	48.3	49.6	50.2	50.2	48.2	47.0
Dollar amount beyond terms	50.6	49.1	42.6	51.3	49.7	47.1	48.4	47.6	52.2	50.1	49.4	46.9	49.2
Dollar amount of customer deductions	49.5	47.8	48.9	48.1	47.7	48.8	49.3	49.2	46.5	50.6	50.4	49.5	46.6
Filings for bankruptcies	55.6	55.9	54.5	53.4	53.7	56.5	55.7	53.8	53.8	55.3	56.5	54.3	53.8
Index of unfavorable factors	51.0	50.5	48.7	49.5	49.5	50.4	50.5	49.7	50.5	51.2	51.3	49.7	49.1
NACM Manufacturing CMI	53.4	53.5	52.1	53.3	53.4	53.5	53.2	54.9	55.5	55.6	54.7	54.2	53.6



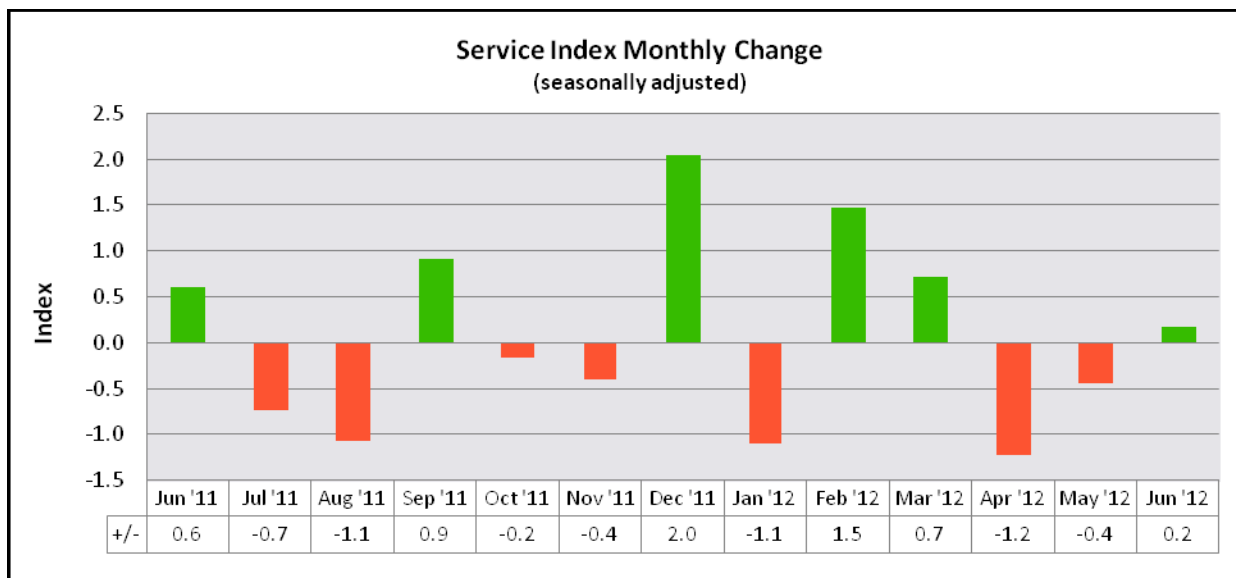
Service Sector

The news from the service sector was just slightly better than from manufacturers. There was also the usual volatility that comes from a broad sector that includes everything from construction to retail and health care. The best news came from the favorable factor index that had an overall gain from 59.6 to 60. This is a far cry from the highs reached just a few months ago, but at least it is back in the 60s. The major shifts took place in sales, which improved from 60.9 to 62.1 and in amount of credit extended, which improved from 61.5 to 62. Dollar collections also improved from 57.3 to 58.1. The only declining favorable factor was new credit applications, from 58.8 to 57.7. The bulk of the growth in services seems to be coming from health care and retail. Construction continues to struggle, although those engaged in public sector work are still seeing expansion. The home building sector is very much in the doldrums even though recent housing data suggest that the bottom may have been reached at last.

Unfavorable factors varied considerably. Overall, the index improved very slightly from 52.1 to 52.2, but within specific factors there were good, and not so good, indications. Only accounts placed for collection ended up in contraction territory, falling from 52 to 49, indicating that some sectors within the service economy are struggling with the very slow recovery. The good news is that filings for bankruptcies only deteriorated slightly, from 58.4 to 58.3. The bulk of the bankruptcy issues were faced years ago, leaving substantially fewer overall now.

Several unfavorable factors improved, including rejection of credit applications (51.8 to 52.2), disputes (50.6 to 50.8) and dollar amount beyond terms (49 to 51.9). The declines were in dollar amount of customer deductions (51 to 50.9) and accounts placed for collection and filings for bankruptcies, as noted above. Growth in the service sector of the economy has been faster than in manufacturing for the past few months. This is not so much a tribute to the resilience of service sector industries, as the pace has been pretty anemic compared to past years. It is more of a statement on the current weakness in manufacturing compared to where manufacturing index numbers were a few months ago.

Service Sector (seasonally adjusted)	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12
Sales	63.2	60.7	60.5	63.3	61.5	58.4	63.3	62.9	63.6	62.8	60.6	60.9	62.1
New credit applications	58.8	58.2	56.3	58.0	57.2	59.4	61.1	59.6	59.6	62.8	59.9	58.8	57.7
Dollar collections	60.9	57.1	57.9	58.9	57.0	57.6	64.9	56.7	64.5	60.7	59.4	57.3	58.1
Amount of credit extended	61.6	62.7	61.9	63.5	63.2	62.1	65.7	60.4	63.0	64.6	64.9	61.5	62.0
Index of favorable factors	61.1	59.7	59.1	60.9	59.7	59.4	63.8	59.9	62.7	62.7	61.2	59.6	60.0
Rejections of credit applications	50.0	51.2	50.1	49.8	50.9	49.4	49.1	49.9	50.8	51.6	51.8	51.8	52.2
Accounts placed for collection	49.8	50.3	47.8	47.8	51.3	47.5	49.3	49.6	50.7	52.5	50.7	52.0	49.0
Disputes	49.6	50.0	48.9	50.4	50.2	47.2	49.0	50.1	49.9	51.6	51.3	50.6	50.8
Dollar amount beyond terms	49.1	47.5	45.9	46.9	45.4	48.8	49.3	48.5	50.3	51.2	50.6	49.0	51.9
Dollar amount of customer deductions	50.5	49.9	49.3	50.2	49.8	48.9	48.9	51.0	50.6	51.5	50.4	51.0	50.9
Filings for bankruptcies	57.3	55.8	54.6	53.1	54.0	57.0	56.2	57.2	57.6	58.4	55.9	58.4	58.3
Index of unfavorable factors	51.0	50.8	49.4	49.7	50.3	49.8	50.3	51.0	51.6	52.8	51.8	52.1	52.2
NACM Service CMI	55.1	54.3	53.3	54.2	54.0	53.6	55.7	54.6	56.0	56.8	55.6	55.1	55.3



June 2012 vs. June 2011

The year-to-year trend is holding right about where it has been for the past year—right in the mid-50s. The best that can be said at this stage is that conditions have not appreciably worsened, and there is still an opportunity to gain momentum in the future. The real drag on the sectors has been from the expansion side. Thus far, the negatives are not pulling either sector down.

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 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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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.

This report and the CMI archives may be viewed at <http://web.nacm.org/cmi/cmi.asp>.

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