Report for March 2009

Issued April 1, 2009

National Association of Credit Management

Combined Sectors

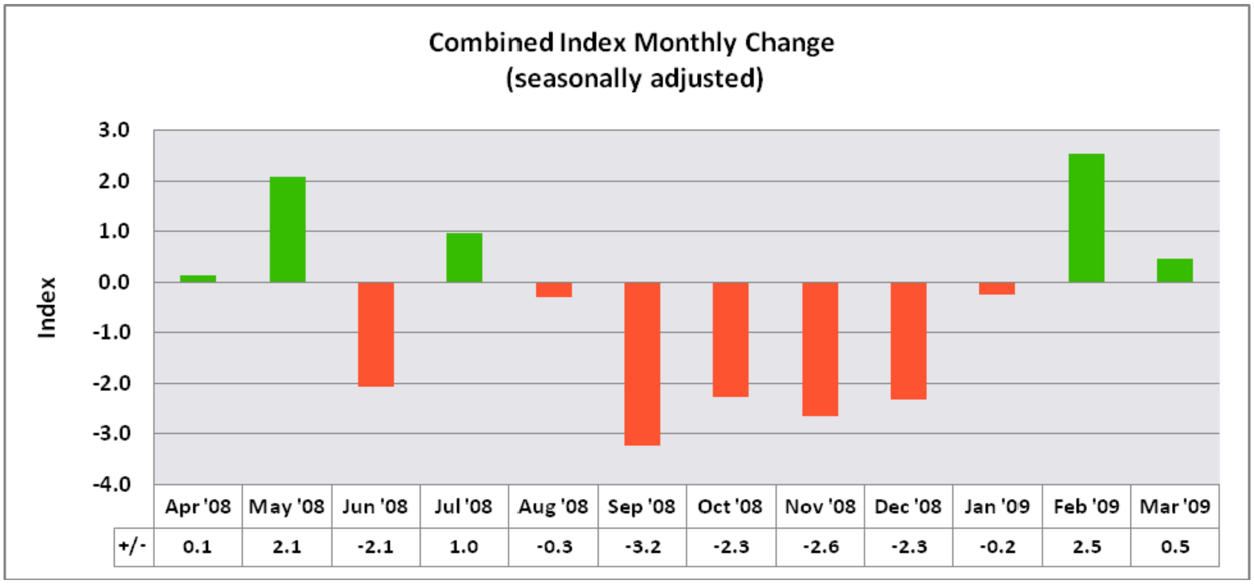
The seasonally adjusted Credit Managers' Index (CMI) rose another 0.5% in March after rising by 2.5% in February. This two-month increase broke a lengthy string of negative readings and matches up well with other data that has recently emerged—a slight reversal of the downward trend in manufacturing, a small boost in retail sales and a sharp spike in durable goods orders. A number of the components in the index are still below the 50 level, but they are starting to trend in a positive direction for the first time since July 2008.

Sales, dollar collections and amount of credit extended have started to rise, although all remain under 50. In terms of favorable factors, there were small reductions in categories like accounts placed for collection, disputes and dollar amounts of customer deductions, but on the negative side, the number of bankruptcies grew. All in all, the index of favorable factors showed the biggest improvement and pushed the overall CMI number to a level not seen since November of last year.

Considered together, recent data from the CMI and other economic benchmarks cautiously suggest that there may very well be a bottom in sight for this recession. "Getting back to an expansionary position will be not be simple and may take a few more months, but there are more and more signs that the recession may have reached its low point. The key issue from this point is how fast the rebound may be. Given that the most important issue in this recession has been access to credit, it is encouraging to note that the index is showing a pretty significant increase in credit extension, the best numbers since December 2008," commented NACM Economist Chris Kuehl. "As the survey is examined in coming months, there will be some categories that will merit close attention—the key will be the favorable factors as they will likely show progress of the recovery more quickly than the unfavorable factors. It is not uncommon for business to feel the most threat as the economy starts to come out of a recession—bankruptcies often surge as stronger competitors begin to put pressure on weaker companies. But if new credit applications and the amount of credit extended show signs of progress, the economy will respond relatively quickly," said Kuehl.

See page 4 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '08	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar
Sales	50.8	54.0	57.7	54.2	55.7	56.5	45.3	45.6	34.4	27.2	29.5	34.1	35.2
New credit applications	53.0	54.5	55.0	50.2	53.9	52.8	49.7	49.7	45.2	44.7	42.7	44.9	44.3
Dollar collections	55.1	54.8	61.3	56.4	60.5	57.1	54.6	50.9	50.0	43.9	47.5	47.1	48.4
Amount of credit extended	55.6	56.4	61.2	58.2	59.5	60.0	54.9	51.8	46.6	43.6	43.2	43.2	44.6
Index of favorable factors	**53.6**	**54.9**	**58.8**	**54.7**	**57.4**	**56.6**	**51.1**	**49.5**	**44.0**	**39.8**	**40.7**	**42.3**	**43.1**
Rejections of credit applications	49.0	48.9	48.1	49.1	48.1	48.5	47.8	44.6	45.0	45.6	45.9	46.7	47.8
Accounts placed for collection	45.3	45.8	43.0	44.5	43.5	45.6	41.7	36.4	36.1	35.2	36.8	37.8	37.1
Disputes	49.0	46.9	50.1	47.9	46.3	46.4	45.8	42.9	43.9	44.5	43.4	44.8	44.1
Dollar amount beyond terms	43.6	42.6	43.7	42.8	47.9	43.6	42.0	41.8	38.8	31.6	30.6	42.0	42.3
Dollar amount of customer deductions	49.0	47.5	49.9	48.1	47.8	48.5	46.6	45.8	45.4	46.4	45.2	46.2	45.5
Filings for bankruptcies	48.6	49.2	51.2	49.0	47.2	48.2	46.5	42.6	40.5	39.7	35.4	38.4	40.5
Index of unfavorable factors	**47.4**	**46.8**	**47.6**	**46.9**	**46.8**	**46.8**	**45.0**	**42.3**	**41.6**	**40.5**	**39.5**	**42.6**	**42.9**
NACM Combined CMI	**49.9**	**50.0**	**52.1**	**50.0**	**51.0**	**50.7**	**47.5**	**45.2**	**42.6**	**40.2**	**40.0**	**42.5**	**43.0**



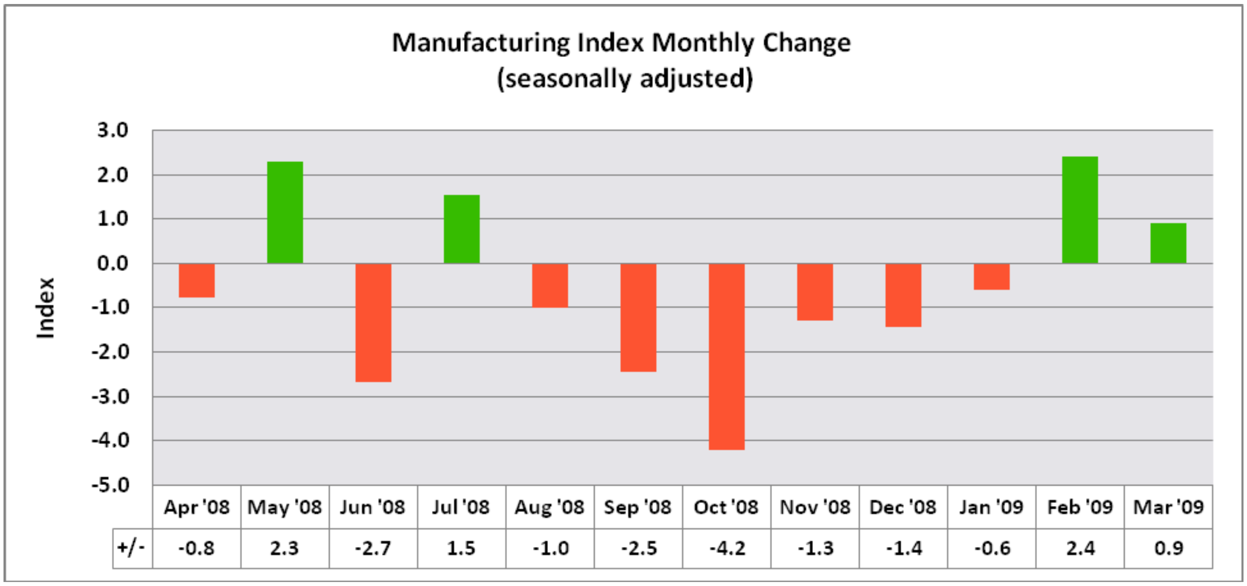
Manufacturing Sector

The seasonally adjusted manufacturing index showed some signs of life, bolstering the notion that the improved durable goods orders may not be a onetime fluke. Many of the favorable factors were up—sales, dollar collections and amount of credit extended. Only new credit applications were down.

As far as the non-favorable factors were concerned, there was more good news than bad. Accounts placed for collection were down, the dollar amount of customer deductions improved and the level of disputes remained the same. The rejections of credit applications and bankruptcies both worsened, but not enough to drag the whole survey down. "The overall manufacturing index improved for the second month in a row and is now back to the levels seen last October. Still a far cry from the positive numbers registered last August, but up substantially from the 40.4 reached in January," said NACM Economist Chris Kuehl.

"The manufacturing sector has been taking some severe hits over the last few months and there has only lately been much to get excited about. The fact that durable goods orders rose by 3.4% took many people by surprise, but looking at the CMI data suggests that there was some improvement in the credit position of manufacturers beginning in February and extending into March."

Manufacturing Sector (seasonally adjusted)	Mar '08	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar
Sales	53.1	54.0	59.9	54.4	56.5	57.4	45.2	46.1	38.5	26.8	31.6	34.7	36.7
New credit applications	55.6	55.5	54.9	51.1	55.0	53.0	50.9	49.2	45.5	48.8	44.8	45.2	44.6
Dollar collections	55.6	54.6	58.8	54.4	60.8	56.2	55.6	46.3	49.6	44.5	48.2	48.3	49.5
Amount of credit extended	56.5	57.7	58.6	57.9	58.8	62.0	56.2	48.1	42.8	44.0	39.6	40.5	41.8
Index of favorable factors	**55.2**	**55.4**	**58.0**	**54.4**	**57.8**	**57.1**	**52.0**	**47.4**	**44.1**	**41.0**	**41.1**	**42.2**	**43.1**
Rejections of credit applications	49.5	48.8	49.4	49.4	48.7	48.1	49.0	46.2	45.2	47.8	46.0	46.5	48.1
Accounts placed for collection	48.3	47.1	45.9	45.8	44.8	47.4	42.3	36.0	35.3	35.0	39.1	38.1	37.7
Disputes	47.0	46.3	48.8	46.9	45.2	43.8	45.5	41.3	44.4	44.7	42.6	44.4	44.4
Dollar amount beyond terms	46.0	44.0	45.7	41.8	47.7	41.8	43.1	38.6	40.0	31.8	30.8	46.5	48.1
Dollar amount of customer deductions	48.0	45.5	50.1	48.4	46.5	46.9	45.9	42.8	44.2	45.8	44.6	44.5	45.6
Filings for bankruptcies	50.2	48.7	53.0	48.2	49.7	47.2	45.6	42.6	38.7	40.6	36.4	39.2	40.6
Index of unfavorable factors	**48.2**	**46.7**	**48.8**	**46.8**	**47.1**	**45.9**	**45.3**	**41.3**	**41.3**	**41.0**	**39.9**	**43.2**	**44.1**
NACM Manufacturing CMI	**51.0**	**50.2**	**52.5**	**49.8**	**51.4**	**50.4**	**47.9**	**43.7**	**42.4**	**41.0**	**40.4**	**42.8**	**43.7**

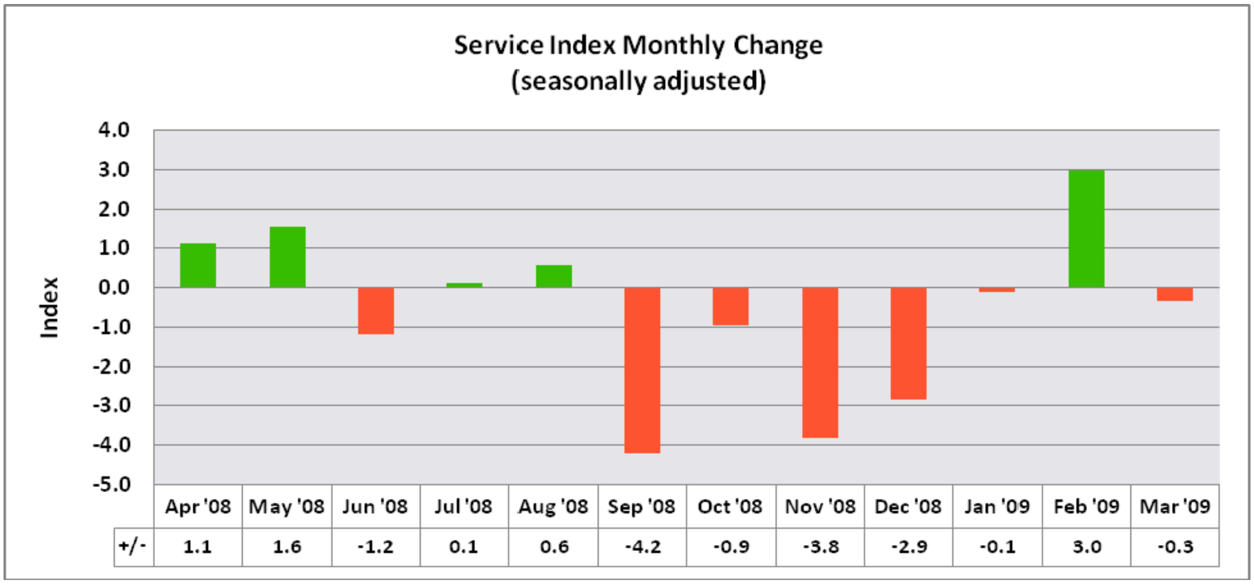


Service Sector

The seasonally adjusted service sector index did not continue to rise from its surprise showing in February. It has sunk back by 0.3 after a rapid 3-point rise the month before. The main motivation for this reversal seems to have been a significant drop in the amount of credit extended, a rise in disputes and an increase in bankruptcies. The increase in unfavorable factors offset the fact that favorable factors only slightly declined.

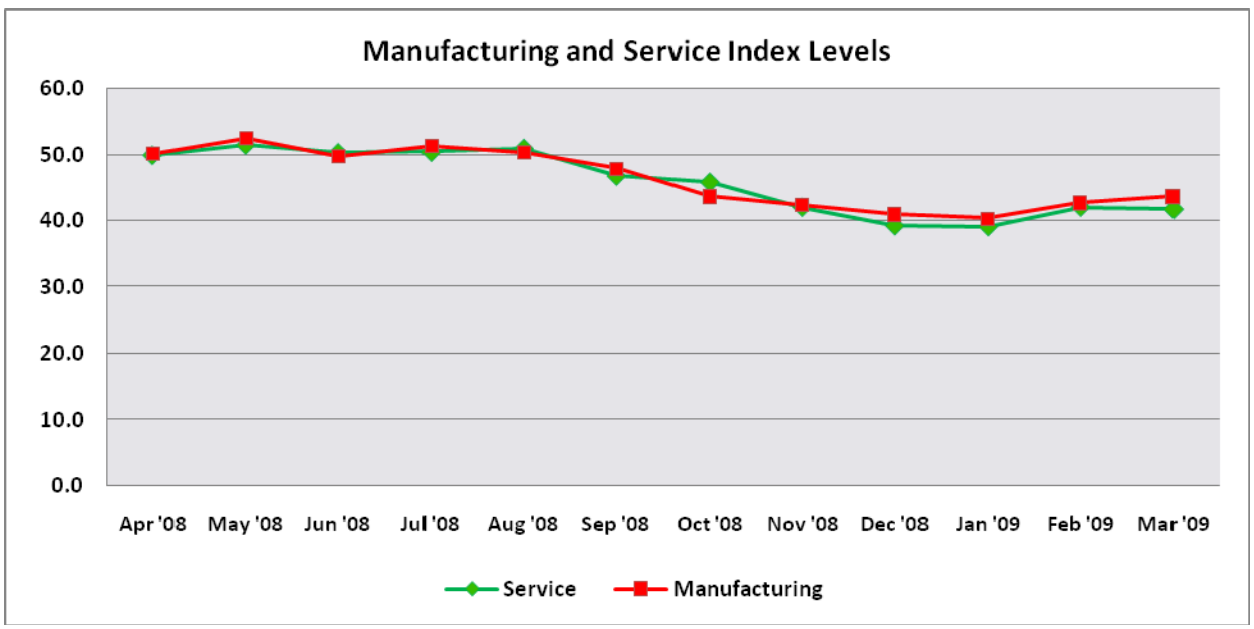
"The service sector has been hit hard of late by both the overall decline in the economy and the rising rate of unemployment. As people lose jobs and others fear that they will be the next on the chopping block, the demand for many services ebb. This affects everything from entertainment to financial services. The fact that bankruptcy rates are still increasing in this sector is one indication. The good news is that the March numbers show that the gains from February have not been entirely given up," said NACM Economist Chris Kuehl.

Service Sector (seasonally adjusted)	Mar '08	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar
Sales	48.5	53.9	55.5	54.0	54.9	55.5	45.4	45.1	30.2	27.5	27.3	33.5	33.7
New credit applications	50.4	53.4	55.1	49.3	52.7	52.6	48.4	50.2	44.8	40.5	40.5	44.6	44.0
Dollar collections	54.6	55.0	63.8	58.4	60.1	58.0	53.6	55.5	50.3	43.2	46.8	45.9	47.4
Amount of credit extended	55.1	56.3	62.2	59.8	58.3	58.0	51.5	47.2	43.7	40.3	41.4	43.9	41.8
Index of favorable factors	**52.2**	**54.7**	**59.2**	**55.4**	**56.5**	**56.0**	**49.7**	**49.5**	**42.3**	**37.9**	**39.0**	**41.9**	**41.7**
Rejections of credit applications	48.5	49.0	46.7	48.7	47.5	48.8	46.5	43.0	44.7	43.4	45.7	46.9	47.5
Accounts placed for collection	42.2	44.4	40.1	43.2	42.1	43.8	41.0	36.7	36.9	35.4	34.4	37.5	36.5
Disputes	51.0	47.4	51.3	48.9	47.4	48.9	46.1	44.5	43.3	44.3	44.1	45.2	43.9
Dollar amount beyond terms	41.1	41.1	41.6	43.7	48.0	45.4	40.9	44.9	37.6	31.4	30.3	37.4	36.6
Dollar amount of customer deductions	50.0	49.5	49.6	47.8	49.0	50.0	47.3	48.8	46.6	47.0	45.7	48.0	45.4
Filings for bankruptcies	47.0	49.7	49.4	49.8	44.6	49.2	47.3	42.6	42.2	38.8	34.4	37.7	40.4
Index of unfavorable factors	**46.6**	**46.9**	**46.5**	**47.0**	**46.4**	**47.7**	**44.9**	**43.4**	**41.9**	**40.1**	**39.1**	**42.1**	**41.7**
NACM Service CMI	**48.8**	**50.0**	**51.5**	**50.4**	**50.5**	**51.0**	**46.8**	**45.9**	**42.0**	**39.2**	**39.1**	**42.0**	**41.7**



March 2009 vs. March 2008

On a seasonally adjusted basis, the year over year numbers are still pretty depressing, but there is some hope that the index is starting to head in a more positive direction. In March 2008, the index was above 50, but only by a small amount. The pace of both manufacturing and service indices remained pretty steady until September and October of last year when the big drops started. The latest trend shows that it could be a while before those levels are hit again.



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 800 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:

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

For the negative factors, the calculation is:

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

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.

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