



## Report for March 2010

Issued April 1, 2010

National Association of Credit Management

### Combined Sectors

The most striking aspect of this month's Credit Managers' Index (CMI), issued by the National Association of Credit Management (NACM), is that sales in both the manufacturing and service sectors jumped—and at a pace not seen in over a year. This reinforces the news from consumer demand studies showing that spending was up last month. The increase in sales was nearly five points, faster than any increase since early 2008. This burst in sales occurred despite the fact that new credit applications were flat. There was a slight extension in the amount of credit extended, but the majority of that increase seems to have originated from companies working with the suppliers and contacts they have had for years as opposed to new additions to the business fold.

“The pace of growth in the overall economy has been uneven thus far, but is about what was expected from most analysts,” said Chris Kuehl, Ph.D., NACM economic analyst. “All along, the assumption has been that this would be a recovery marked by slow and methodical reactions to demand that was expected to be spotty and very much affected by the pace of consumer attitude recovery. The fact that consumers added 0.3% to their activity despite some of the worst weather this winter appears to indicate some significant pent-up demand.” CMI data bolsters this assessment.

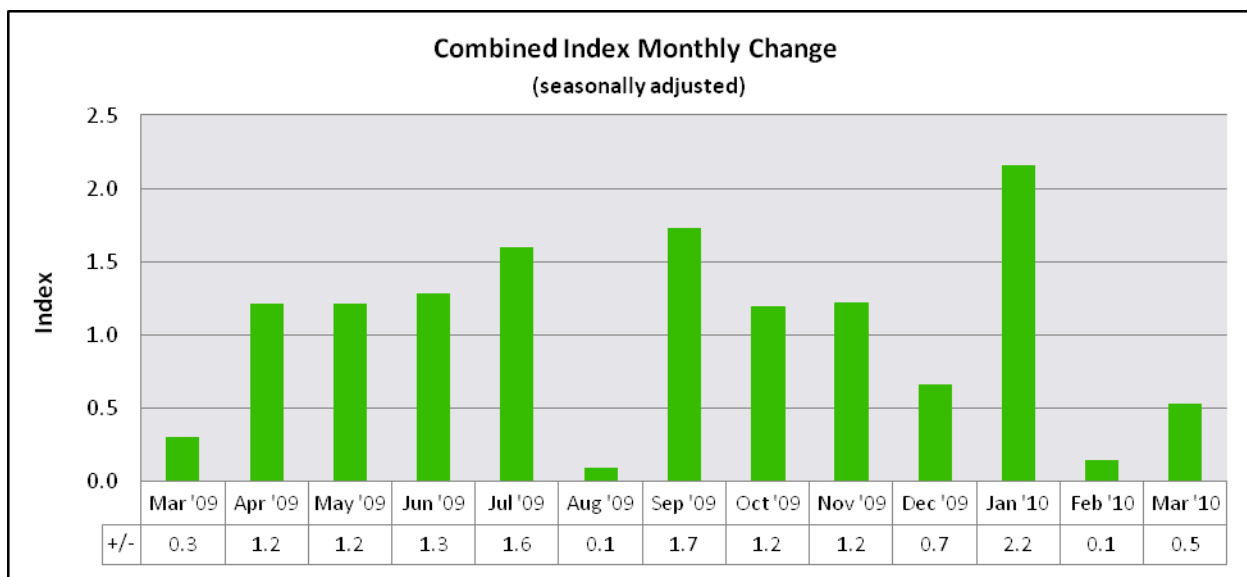
Kuehl noted the only really major change from last month's data was in the sales factor. For the most part, the negative factors remained stable with only slight improvements in items like accounts placed for collection and dollars beyond terms. For all practical purposes, there was no change in the data, but the sales numbers allowed for a gain in the combined index, which improved from 55.2 to 55.7.

“It is early in the process, but if one couples this data with reports from other sectors, there is reason to assume there will be some pretty decent progress ahead in the coming months,” he said. “The consumer is getting a little more confident despite the fact that there has been no change in personal income and the business confidence level has also expanded according to data from both the Institute of Supply Management and the Conference Board.”

“There are still plenty of worries about the future, but for now these are somewhat unfocused. There are signs that inflation could be an issue before the end of the year and there are continued concerns about the ability of the banking sector to recover fast enough to provide the credit that expanding demand will require,” said Kuehl. “The fact that financial reform is now the topic for Congress will make banks more cautious than usual until this situation is resolved and that could take all summer,” he added.

*See page 5 of this report for information about the methodology and factors used to measure economic performance.*

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Mar '09</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec '09</b>	<b>Jan '10</b>	<b>Feb</b>	<b>Mar '10</b>
Sales	35.2	37.4	41.8	44.8	48.6	48.4	49.9	51.1	55.0	56.7	60.7	60.9	65.0
New credit applications	44.3	47.8	48.2	50.7	52.6	49.3	50.0	52.7	55.4	54.2	57.0	57.7	57.5
Dollar collections	48.4	48.0	48.8	51.2	50.8	50.5	53.4	54.7	55.8	58.0	61.3	61.1	61.9
Amount of credit extended	41.8	42.3	44.3	46.1	48.2	48.0	49.3	53.6	54.6	55.2	58.8	59.4	61.3
<b>Index of favorable factors</b>	<b>42.4</b>	<b>43.9</b>	<b>45.8</b>	<b>48.2</b>	<b>50.0</b>	<b>49.1</b>	<b>50.6</b>	<b>53.0</b>	<b>55.2</b>	<b>56.0</b>	<b>59.4</b>	<b>59.8</b>	<b>61.4</b>
Rejections of credit applications	47.8	47.4	47.4	47.9	47.5	49.0	48.4	49.0	49.3	50.1	51.4	51.0	50.1
Accounts placed for collection	37.1	38.5	40.2	40.5	44.0	43.6	45.3	47.1	49.5	50.9	50.7	50.4	51.1
Disputes	44.1	47.2	47.5	47.7	50.2	49.7	50.8	51.0	49.6	51.0	51.4	52.2	52.2
Dollar amount beyond terms	42.3	40.5	43.4	43.6	45.3	46.2	48.1	48.1	49.0	51.4	52.2	52.0	51.5
Dollar amount of customer deductions	45.5	49.8	47.5	48.9	49.2	50.6	51.8	50.5	51.3	51.3	52.5	51.2	51.7
Filings for bankruptcies	40.5	40.2	42.3	42.8	43.7	45.8	51.5	52.6	53.0	50.5	54.7	56.3	55.3
<b>Index of unfavorable factors</b>	<b>42.9</b>	<b>43.9</b>	<b>44.7</b>	<b>45.2</b>	<b>46.7</b>	<b>47.5</b>	<b>49.3</b>	<b>49.7</b>	<b>50.3</b>	<b>50.8</b>	<b>52.2</b>	<b>52.2</b>	<b>52.0</b>
<b>NACM Combined CMI</b>	<b>42.7</b>	<b>43.9</b>	<b>45.1</b>	<b>46.4</b>	<b>48.0</b>	<b>48.1</b>	<b>49.8</b>	<b>51.0</b>	<b>52.3</b>	<b>52.9</b>	<b>55.1</b>	<b>55.2</b>	<b>55.7</b>



## Manufacturing Sector

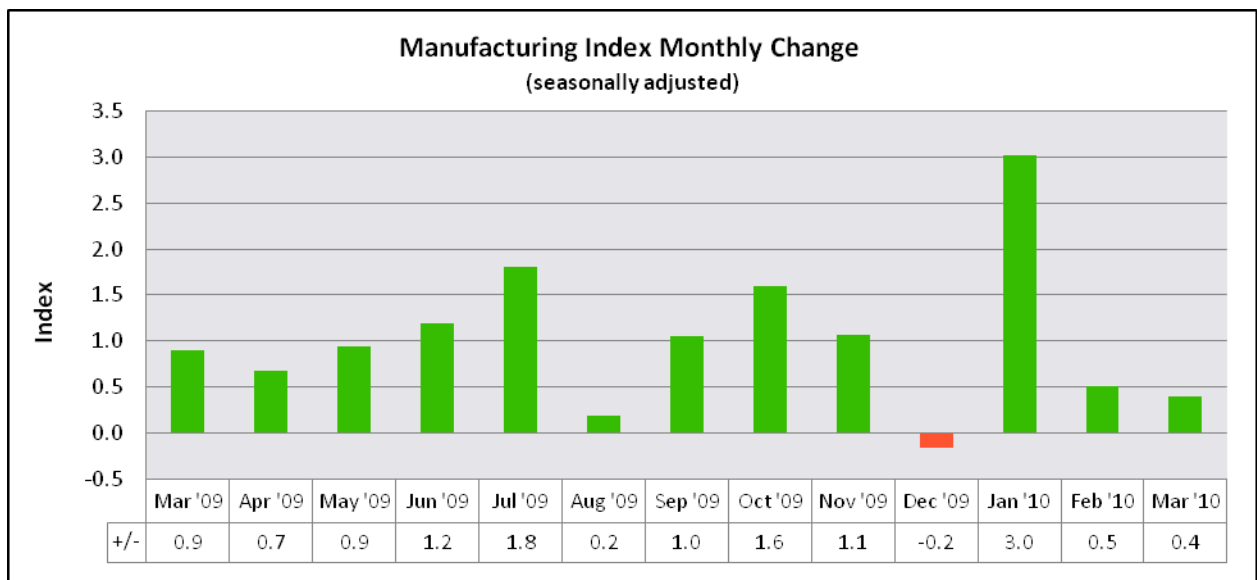
As with the combined sector, the biggest change in the manufacturing arena was in the level of sales—jumping from a 62.5 reading in February to 66.9 in March. This suggests that the momentum created during the inventory build-up has continued to some extent, but at a slower pace than seen in the last quarter of 2009. “The manufacturing sector saw more action in terms of dollar collections and amount of credit extended. This is not very surprising given the ongoing attempts to build inventory back to levels deemed acceptable for meeting demand—or at least the demand that many have been anticipating,” said Kuehl.

“There were a number of anecdotal stories indicating that manufacturers in some sectors—mainly those supplying the health care industry and those with connections to energy production—are seeing the beginnings of consistent demand,” Kuehl said, noting there was solid growth in the business machine category as well, which could be a result of electronic equipment needed in the service sector or the machines needed in the manufacture of products. Export-centered companies have also seen growth for the past few months due to the weakness of the

dollar and the fact that some of the U.S. export targets have been seeing economic growth including Brazil, Colombia and Chile.

There was little change in the negative factors except the dollars beyond terms and the number of bankruptcies. In both, the issue is that some companies in the manufacturing sector are very weak coming out of the recession and that will make them highly vulnerable to competition when demand returns. This is a pattern observed many times in the past and is the reason that coming out of a recession is often much more dangerous for a weaker company than being in the middle of one, Kuehl said.

<b>Manufacturing Sector (seasonally adjusted)</b>	Mar '09	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar '10
Sales	36.7	39.6	40.7	45.4	48.7	48.4	48.7	52.0	56.3	55.8	61.8	62.5	66.9
New credit applications	44.6	50.7	49.3	51.1	55.3	48.6	50.5	52.9	56.8	55.2	54.0	57.8	57.9
Dollar collections	49.5	48.0	47.5	51.6	51.7	51.3	52.1	55.7	53.1	56.0	61.5	59.6	61.4
Amount of credit extended	41.8	44.1	44.2	45.8	49.3	48.9	48.8	53.5	53.4	55.2	59.2	60.7	62.0
<b>Index of favorable factors</b>	<b>43.1</b>	<b>45.6</b>	<b>45.4</b>	<b>48.5</b>	<b>51.3</b>	<b>49.3</b>	<b>50.0</b>	<b>53.5</b>	<b>54.9</b>	<b>55.6</b>	<b>59.1</b>	<b>60.2</b>	<b>62.1</b>
Rejections of credit applications	48.1	47.2	47.4	47.8	47.5	50.6	48.9	49.6	49.5	49.5	52.4	51.4	50.9
Accounts placed for collection	37.7	38.6	41.8	41.2	44.1	43.3	46.3	47.1	49.5	51.0	51.3	51.0	51.9
Disputes	44.4	45.8	47.6	46.1	49.3	48.2	49.5	50.9	48.0	50.1	50.7	51.9	51.5
Dollar amount beyond terms	48.1	42.8	44.5	45.3	46.3	48.1	48.3	47.9	50.0	51.4	52.5	53.3	51.3
Dollar amount of customer deductions	45.6	47.6	46.6	47.6	47.8	50.4	50.8	49.9	50.3	49.8	52.2	51.3	51.6
Filings for bankruptcies	40.6	39.6	43.6	43.2	43.1	47.3	51.7	52.1	55.4	46.6	55.4	56.5	54.8
<b>Index of unfavorable factors</b>	<b>44.1</b>	<b>43.6</b>	<b>45.2</b>	<b>45.2</b>	<b>46.4</b>	<b>48.0</b>	<b>49.2</b>	<b>49.6</b>	<b>50.4</b>	<b>49.7</b>	<b>52.4</b>	<b>52.6</b>	<b>52.0</b>
<b>NACM Manufacturing CMI</b>	<b>43.7</b>	<b>44.4</b>	<b>45.3</b>	<b>46.5</b>	<b>48.3</b>	<b>48.5</b>	<b>49.6</b>	<b>51.2</b>	<b>52.2</b>	<b>52.1</b>	<b>55.1</b>	<b>55.6</b>	<b>56.0</b>



## Service Sector

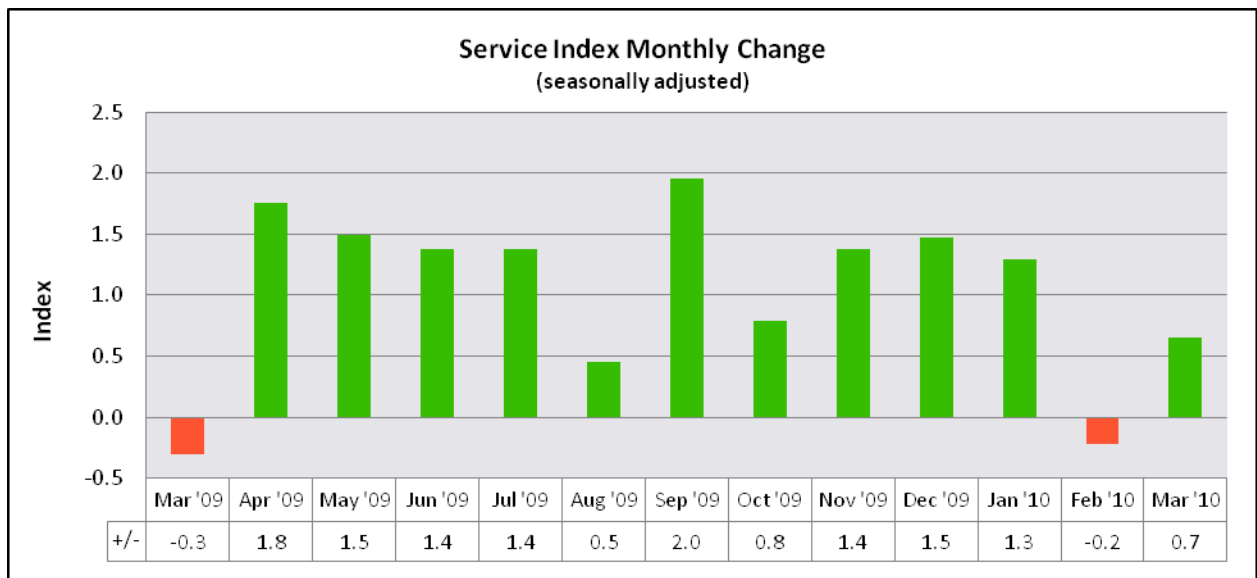
The service sector did not move at quite the same pace as manufacturing, although there were gains in this category as well Kuehl reported. Sales jumped, but not to the extent they did in manufacturing. At the same time, there was improvement in the amount of credit extended and that is promising as far as what can be expected from the consumer sector in the months ahead. "The sector itself is very broad and there has been a

considerable difference between the sub-sectors in terms of performance. Retail is showing some signs of life, but the financial sector is still fundamentally moribund,” he said.

There was very little change in the negative factors, but in general they moved up very slightly, which can be taken as somewhat optimistic news. The service growth was positive this month after a negative period in February. “That was welcome news,” Kuehl said, “but most all of this gain was attributed to the boost in sales—just as in the combined sector.”

It is expected that the service sector will be slower to rebound than the manufacturing sector as there has not been the inventory build component. The assumption is that improved consumer sentiment will help this sector gain some momentum in the months to come; once this occurs, history indicates that the recovery is usually sustained.

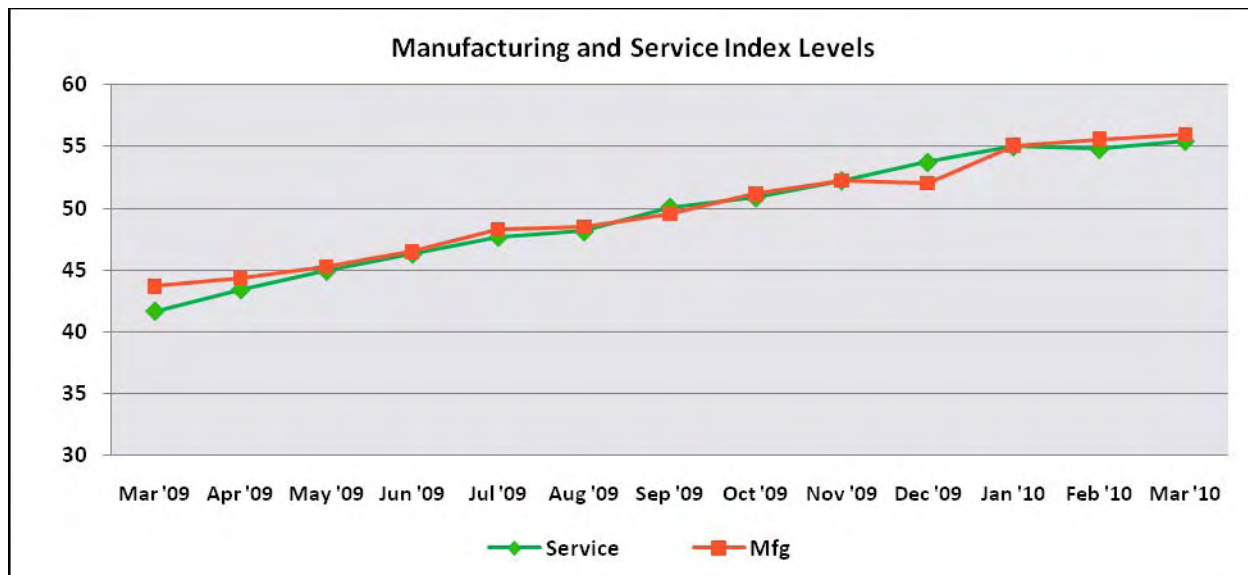
<b>Service Sector</b> <b>(seasonally adjusted)</b>	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '09	Jan '10	Feb	Mar '10
Sales	33.7	35.2	42.9	44.1	48.4	46.5	51.0	50.3	53.7	57.5	59.6	59.3	63.0
New credit applications	44.0	44.9	47.2	50.3	49.9	49.5	49.5	52.4	54.1	53.2	60.1	57.6	57.1
Dollar collections	47.4	48.0	50.0	50.8	49.8	50.5	54.8	53.7	58.6	59.9	61.2	62.7	62.4
Amount of credit extended	41.8	40.6	44.3	46.4	47.1	46.3	49.8	53.8	55.7	55.2	58.3	58.2	60.5
<b>Index of favorable factors</b>	<b>41.7</b>	<b>42.2</b>	<b>46.1</b>	<b>47.9</b>	<b>48.8</b>	<b>48.2</b>	<b>51.2</b>	<b>52.5</b>	<b>55.5</b>	<b>56.5</b>	<b>59.8</b>	<b>59.4</b>	<b>60.8</b>
Rejections of credit applications	47.5	47.7	47.4	48.1	47.4	48.5	47.9	48.5	49.2	50.6	50.4	50.6	49.4
Accounts placed for collection	36.5	38.5	38.7	39.8	43.9	43.7	44.3	47.1	49.4	50.7	50.1	49.9	50.2
Disputes	43.9	48.6	47.3	49.4	51.2	49.0	52.1	51.0	51.2	51.9	52.1	52.5	52.9
Dollar amount beyond terms	36.6	38.3	42.3	41.9	44.3	49.5	47.9	48.3	48.0	51.4	51.9	50.6	51.6
Dollar amount of customer deductions	45.4	52.0	48.4	50.2	50.7	51.1	52.7	51.1	52.3	52.7	52.9	51.1	51.8
Filings for bankruptcies	40.4	40.8	41.0	42.3	44.4	47.0	51.3	53.0	50.7	54.3	53.9	56.0	55.8
<b>Index of unfavorable factors</b>	<b>41.7</b>	<b>44.3</b>	<b>44.2</b>	<b>45.3</b>	<b>47.0</b>	<b>48.1</b>	<b>49.4</b>	<b>49.8</b>	<b>50.1</b>	<b>52.0</b>	<b>51.9</b>	<b>51.8</b>	<b>52.0</b>
<b>NACM Service CMI</b>	<b>41.7</b>	<b>43.5</b>	<b>45.0</b>	<b>46.3</b>	<b>47.7</b>	<b>48.2</b>	<b>50.1</b>	<b>50.9</b>	<b>52.3</b>	<b>53.8</b>	<b>55.0</b>	<b>54.8</b>	<b>55.5</b>



## March 2010 vs. March 2009

Both service and manufacturing sector indicators are now hovering around 55. While, this is not stunning in terms of growth prospects, it is a far cry from where the numbers stood a year ago. Kuehl said that going forward, there will be less and less distance between the readings of 2009 and 2010 as this is the point that the first, very faint signs of recovery began to appear. “The gap will narrow steadily until there is some renewed growth spurts to propel the survey higher,” he said.

The first three months of 2010 were essentially flat after a pretty impressive jump in the last part of 2009. The fear was that the gains made in the fourth quarter of 2009 would be eroded in 2010, but thus far the gains have held with slight improvements to note.



## 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:

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

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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors*</b>	<b>Why Unfavorable</b>
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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