Report for March 2011

Issued March 31, 2011

National Association of Credit Management

Combined Sectors

This month's news is not so positive as recent world events are rippling through the U.S. economy. For the past several months there had been a consistent feeling of optimism—despite some struggling in the manufacturing sector based on solid sales—and the seeming willingness to increase trade credit. That optimism took a hit this month. There were sharp declines in sales, new credit applications, dollar collections and the amount of credit extended—all the positive factors. The overall favorable index dropped from 64.1 to 62.2. "This is not exactly catastrophic as the index remains in the 60s," said Chris Kuehl, PhD, managing director of Armada Corporate Intelligence and economic advisor for the National Association of Credit Management, "but the pace has dramatically slowed and that is hardly what had been anticipated or hoped for."

There were continued signs of distress in the unfavorable factors, but the decline slowed and that is somewhat better news. The overall sense of the March data is that the U.S. economy is struggling to keep pace with the events in the world that have drastically altered everything from commodity price expectations to sourcing decisions and credit allocation. "It is important to note that the ripple effects of the events in the Middle East and Japan have only started to manifest and will be factors for months to come," said Kuehl. "The Japanese catastrophe has affected supply chains all over the U.S. and Europe and that has added considerable expense to manufacturers being forced to find new suppliers or wait for weeks to get what they need from the affected region." The price per barrel of oil has jumped by almost $15 since December and that is now filtering into all sectors of the economy.

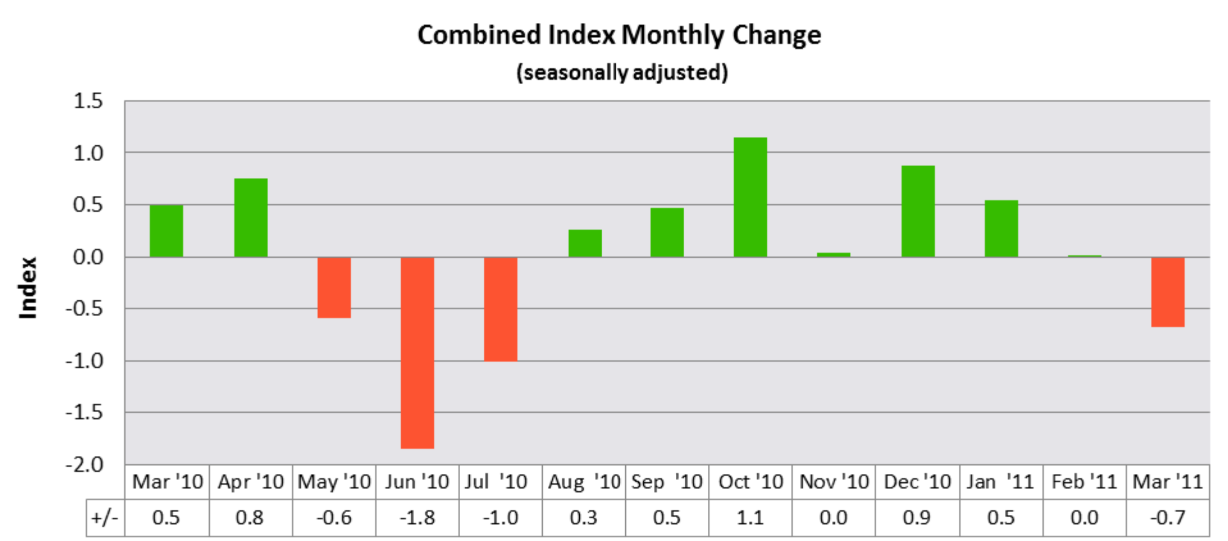
The most dramatic change in the CMI data is in the category of dollar collections. The combined index slipped back to levels not seen since November of last year, falling -0.7 from 56.4 to 55.7. All of the gains made in the favorable categories in February have been reversed as the index numbers are now back to where they were at the end of last year. Kuehl noted that the real damage here is not that the index numbers are drastically reduced—they are still holding fast in the 60s and upper 50s. The real problem is that expectations had been high and it was anticipated that these numbers would be well into the mid-60 level by now. There had been some expectation that gains would be placing these index numbers into the 70s by mid-summer, but that is no longer the most likely scenario. The gains seem to have stalled for the moment, and it is not likely they will start up again as long as the global situation remains fundamentally unpredictable.

When one looks at the unfavorable factors there is still cause to worry and there will be more concerns as prices start to escalate. The rise in oil prices has been sharp, but this is not the only sector seeing increases. The radical price hikes of all industrial metals and food inflation are as bad as they have been since the debacle in 2008 and are now moving through the economy: high oil prices have prompted higher airfares and freight rates. As businesses face these hikes, they are forced to spend more than anticipated and that puts a strain on their ability to keep pace with the other debts they owe. Many of the companies reporting on their creditors suggest that a key reason for the slowdown in payment has been the spike in operating costs.

If there is any good news in the data for this month it is that the index of unfavorable factors has not changed much as compared to the favorable factors. The negative news is the same as last month, suggesting that some concerns about credit collapse have been reduced. There were fewer bankruptcies in this period and that is good news. The other factors worsened a little, but not dramatically. "The anecdotal evidence suggests that most creditors are reacting to some short-term shocks but expect to be back to normal in the months to come—providing that the situation in the Middle East does not worsen appreciably," said Kuehl.

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)	Mar '10	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '10	Jan '11	Feb	Mar '11
Sales	65.0	65.7	64.5	59.0	57.2	57.6	58.6	60.8	61.9	65.9	63.5	66.3	64.7
New credit applications	57.5	57.4	58.6	57.4	54.1	54.6	54.8	56.8	58.2	60.1	58.6	60.3	59.8
Dollar collections	61.9	62.1	59.7	59.4	56.3	57.7	60.0	61.9	58.6	60.7	60.9	63.4	60.0
Amount of credit extended	61.3	61.3	60.2	55.9	56.0	57.1	58.7	59.8	61.2	61.7	64.8	66.5	64.4
Index of favorable factors	**61.4**	**61.6**	**60.7**	**57.9**	**55.9**	**56.7**	**58.0**	**59.8**	**60.0**	**62.1**	**62.0**	**64.1**	**62.2**
Rejections of credit applications	50.1	50.9	50.7	51.0	52.0	50.7	49.1	51.4	51.0	50.8	51.2	51.4	50.8
Accounts placed for collection	51.1	50.6	54.5	51.4	49.3	51.1	50.4	51.7	52.5	51.5	52.5	49.9	52.1
Disputes	52.2	51.7	51.3	50.4	50.6	50.9	50.8	49.9	50.8	49.2	51.0	49.2	48.9
Dollar amount beyond terms	51.5	51.9	50.2	49.1	49.4	47.0	49.1	50.9	48.9	53.4	51.5	50.6	49.7
Dollar amount of customer deductions	51.7	55.7	51.8	50.3	50.5	49.6	50.6	48.9	50.2	49.6	50.6	50.1	49.3
Filings for bankruptcies	55.3	57.6	57.6	56.6	55.0	56.9	55.7	57.0	56.3	55.4	59.1	56.0	57.4
Index of unfavorable factors	**52.0**	**53.1**	**52.7**	**51.5**	**51.1**	**51.0**	**50.9**	**51.6**	**51.6**	**51.7**	**52.6**	**51.2**	**51.4**
NACM Combined CMI	**55.7**	**56.5**	**55.9**	**54.1**	**53.0**	**53.3**	**53.8**	**54.9**	**55.0**	**55.8**	**56.4**	**56.4**	**55.7**



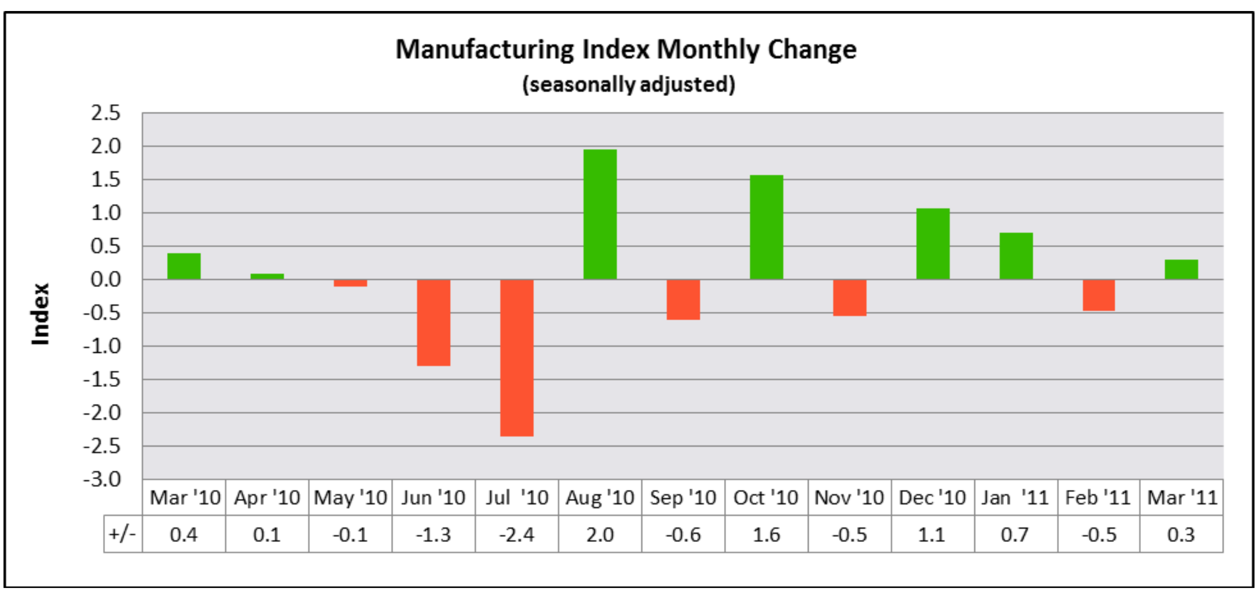
Manufacturing Sector

The manufacturing sector has been volatile over the last few months and March was no exception. The events in the Middle East and Japan have had a more profound impact on manufacturing, as this is the sector that is thus far feeling the stress from higher commodity prices and disturbed supply chains. The data for the month are scattered with continued good news as well as indicators of further stress. The good news is that sales continue to rise albeit not at the pace noted earlier in the year. U.S. manufacturers have been far more aggressive in overseas markets and this is showing up in the sales data. The latest export numbers have been setting records and, in fact, exports have been up every month during the recession. Imports have also been gaining, which is not such good news. The bulk of the extra cost of imports is from the rise in the price of oil as opposed to extra demand from the U.S. consumer.

Declines in the favorable factors centered on the amount of credit extended. The specific index declined from 67.6 to 64.5, a substantial drop and low not seen since December. This is a concern given that there was a further gain in the number of new credit applications. The message is that credit is tightening again, which is not unexpected. The ferment in the world has reintroduced caution and the credit system has tightened in general. Not only has trade credit become less available, banks are getting back into their cautious mode. The sense at the moment is that prices could spike in the coming months, and there is still fear of more negative activity in Japan should a follow-up earthquake further delay the start of reconstruction. The nuclear incident also worries many and it is only now that people are considering the impact this may have on power generation worldwide. This leaves credit issuers more nervous than they were a month or two ago. The real question is whether this is a short-term reaction or a permanent shift in policy.

The good news is again in the unfavorable categories. The problems affecting the manufacturing sector seem to have eased a little. The rate of bankruptcy has slowed drastically and there were improvements in other categories as well: accounts placed for collection improved from 51.2 to 53.9, disputes from 48.2 to 49 and dollars beyond terms from 51.3 to 51.6. This is not startling news and doesn't offset the issues with the other factors, but it is certainly a better trend than seen in previous months.

Manufacturing Sector (seasonally adjusted)	Mar '10	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '10	Jan '11	Feb	Mar '11
Sales	66.9	65.2	66.0	59.1	56.1	59.4	57.9	59.3	62.2	66.6	64.7	65.1	65.4
New credit applications	57.9	57.1	58.9	58.9	53.7	54.3	54.4	54.9	57.8	59.1	57.7	59.6	60.6
Dollar collections	61.4	60.9	59.7	59.0	53.0	60.1	61.1	61.0	57.9	60.5	60.3	61.5	60.8
Amount of credit extended	62.0	62.1	58.9	58.2	55.8	56.0	57.3	59.9	61.2	61.6	66.2	67.6	64.5
Index of favorable factors	**62.1**	**61.3**	**60.9**	**58.8**	**54.6**	**57.5**	**57.7**	**58.8**	**59.8**	**61.9**	**62.2**	**63.4**	**62.8**
Rejections of credit applications	50.9	52.3	51.6	51.8	52.0	52.6	49.6	53.2	52.1	51.3	52.0	51.9	51.6
Accounts placed for collection	51.9	52.0	54.3	54.3	48.5	52.8	51.9	53.6	52.7	51.1	53.0	51.2	53.9
Disputes	51.5	51.8	50.0	50.6	50.8	51.3	50.0	49.5	48.6	48.1	49.8	48.2	49.0
Dollar amount beyond terms	51.3	52.2	50.1	50.3	50.4	51.0	49.6	55.2	49.4	53.9	52.1	51.3	51.6
Dollar amount of customer deductions	51.6	50.8	51.0	49.2	49.9	48.4	49.4	48.5	48.8	49.4	49.1	50.1	48.8
Filings for bankruptcies	54.8	56.6	59.5	55.6	53.4	57.1	55.8	57.7	56.7	56.5	60.2	53.9	57.2
Index of unfavorable factors	**52.0**	**52.6**	**52.7**	**52.0**	**50.8**	**52.2**	**51.1**	**52.9**	**51.4**	**51.7**	**52.7**	**51.1**	**52.0**
NACM Manufacturing CMI	**56.0**	**56.1**	**56.0**	**54.7**	**52.4**	**54.3**	**53.7**	**55.3**	**54.7**	**55.8**	**56.5**	**56.0**	**56.3**



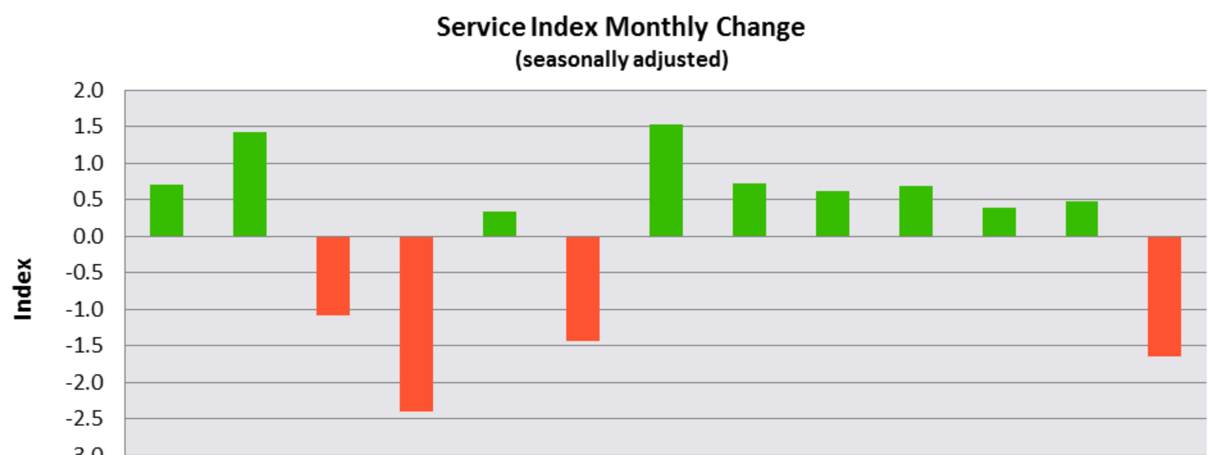
Service Sector

The most profound shift seems to have taken place in the service sector. The drop off in favorable factors was dramatic. Sales numbers dropped from 67.5 to 63.9, while new credit applications fell to 59 from 61. Dollar collections plummeted from 65.2 to 59.2 and the amount of credit extended declined as well, to 64.2 from 65.4. The collective index tumbled from 64.8 to 61.6, taking the gains from last month right out of the sector. The question now is whether the data from last month was an aberration or the data from this month is the setback it appears to be. The sense is that much of last month's gain came as there was a solid expectation that consumers were back on track and now there is a sense that those consumers are going back to their shell-shocked patterns.

Hikes in inflation affect the service sector in dramatic ways as consumers are highly sensitive to the movements in real inflation as well as expectations of future problems. The retail numbers in the last reporting period looked really good until examined more closely. More than half of the 0.7% gain was a result of the higher costs of gas and food. If the impact of inflation in just those two areas is stripped out, the gains in retail were just 0.3%. This is the message sent by the CMI as well. The damage to the month came from the favorable side of the equation and just as with manufacturing there was palpable improvement in some unfavorable categories.

Unlike in manufacturing there were also some elements of bad news. The rate of bankruptcy declined, but there were far more disputes and more dollars beyond terms. The overall unfavorable index fell from 51.3 to 50.7 while the total index for the service sector fell off from 56.7 to 55.1

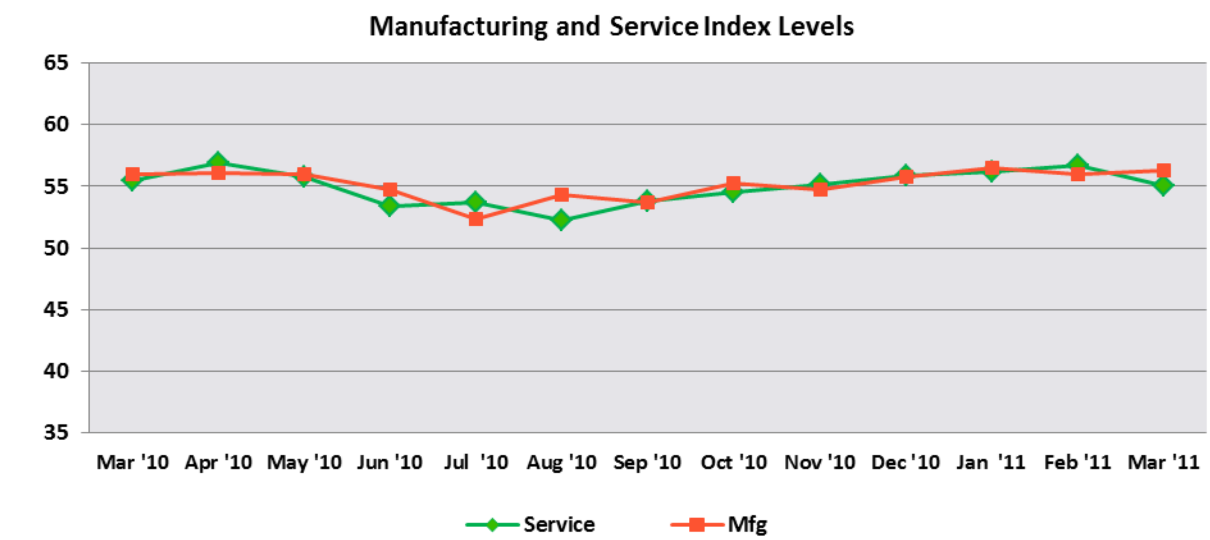
Service Sector (seasonally adjusted)	Mar '10	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '10	Jan '11	Feb	Mar '11
Sales	63.0	66.3	63.0	58.8	58.2	55.7	59.3	62.2	61.6	65.1	62.3	67.5	63.9
New credit applications	57.1	57.7	58.2	55.9	54.5	54.8	55.1	58.7	58.6	61.1	59.4	61.0	59.0
Dollar collections	62.4	63.2	59.7	59.7	59.7	55.2	59.0	62.9	59.2	60.9	61.6	65.2	59.2
Amount of credit extended	60.5	60.5	61.5	53.7	56.3	58.1	60.0	59.6	61.2	61.8	63.4	65.4	64.2
Index of favorable factors	**60.8**	**62.0**	**60.6**	**57.0**	**57.2**	**56.0**	**58.4**	**60.9**	**60.2**	**62.2**	**61.7**	**64.8**	**61.6**
Rejections of credit applications	49.4	49.6	49.7	50.3	51.9	48.7	48.7	49.6	49.8	50.3	50.4	51.0	50.1
Accounts placed for collection	50.2	49.2	54.8	48.5	50.1	49.4	48.9	49.9	52.4	52.0	52.1	48.6	50.2
Disputes	52.9	51.6	52.7	50.3	50.5	50.5	51.5	50.3	52.9	50.3	52.1	50.1	48.7
Dollar amount beyond terms	51.6	51.7	50.3	47.9	48.4	43.1	48.5	46.6	48.5	52.9	51.0	49.9	47.8
Dollar amount of customer deductions	51.8	60.5	52.6	51.4	51.0	50.8	51.7	49.4	51.6	49.9	52.1	50.1	49.8
Filings for bankruptcies	55.8	58.6	55.7	57.6	56.6	56.6	55.5	56.3	55.9	54.3	57.9	58.2	57.7
Index of unfavorable factors	**52.0**	**53.5**	**52.6**	**51.0**	**51.4**	**49.8**	**50.8**	**50.4**	**51.8**	**51.6**	**52.6**	**51.3**	**50.7**
NACM Service CMI	**55.5**	**56.9**	**55.8**	**53.4**	**53.7**	**52.3**	**53.8**	**54.6**	**55.2**	**55.8**	**56.2**	**56.7**	**55.1**



	Mar '10	Apr '10	May '10	Jun '10	Jul '10	Aug '10	Sep '10	Oct '10	Nov '10	Dec '10	Jan '11	Feb '11	Mar '11
+/-	0.7	1.4	-1.1	-2.4	0.3	-1.4	1.5	0.7	0.6	0.7	0.4	0.5	-1.6

March 2011 vs. March 2010

The year-over-year numbers fell slightly, but the important thing is that the levels are still holding in the expansion zone. The hope had been that these numbers would be heading closer to 60 by now.



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 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:

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

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.*

NACM
National Association of Credit Management

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 17,000 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
Twitter: NACM_National