



Report for March 2013

Issued March 29, 2013

National Association of Credit Management

Combined Sectors

The March CMI fell slightly from 54.9 to 54.2, with both favorable and unfavorable factor indexes dipping by roughly equal amounts. Some sub-factors showed significant movement, but there was no clear signal from any of the factors as far as financial stress is concerned, or anything to cause much confidence either.

Sales slipped from its position of 59.2 in February to 57.4 in March. This is a fairly substantial decline of 1.8, but at 57.4, the index is as high as it was in December. The main concern is that for the last year, the sales reading averaged in the low 60s and now seems to be struggling to get there again. On the encouraging side, the new credit applications number rose slightly (56.7 to 56.9), showing a significant desire by businesses to expand and to more aggressively pursue credit. However, serious issues remain in balancing the desire for more credit and creditworthiness. Dollar collections also improved (57.5 to 57.7), and is continuing to trend in the right direction, but amount of credit extended fell (62.5 to 61.6), suggesting some return to caution on the part of trade creditors. The important point is that this category remains above 60, which is a healthy sign.

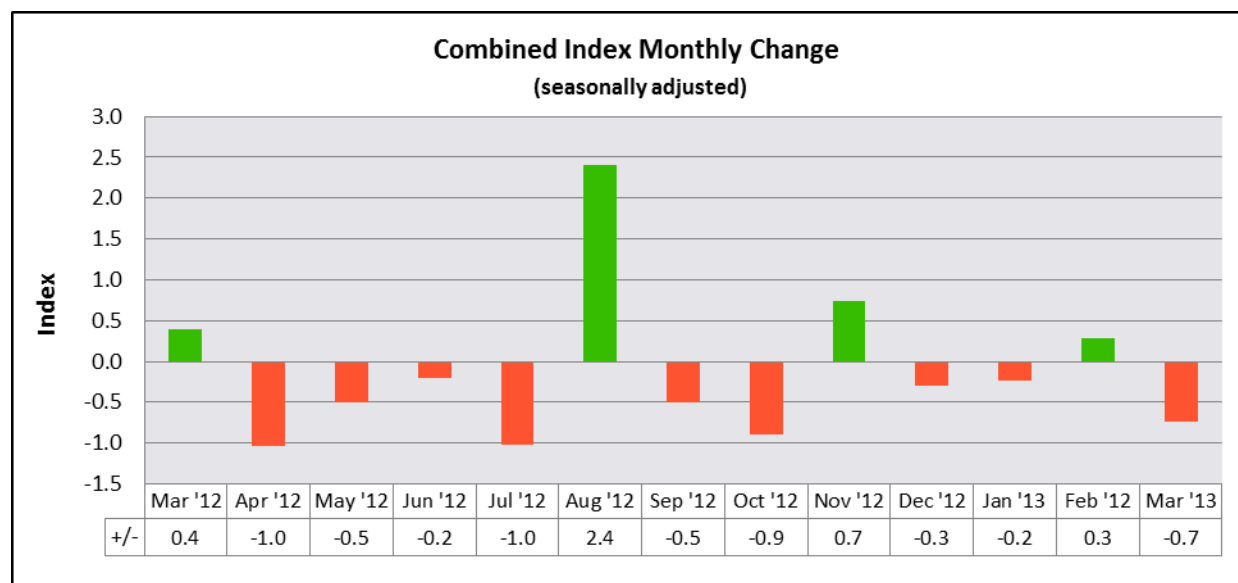
Overall, the index of favorable factors fell from 59 to 58.4. This ceased its positive trending, but the drop was not too severe, as 58.4 is the lowest number reported for this index since October of last year. However, it bears noting that the favorable factor index was at 60 or above for most of 2012, and the stronger readings were all taking place a year ago at this time. For the nine months from March-November 2012, the index was over 60 for six, and below for three. Since October 2012, the index was over 60 only once.

There was a similar decline in the index of unfavorable factors, but not as steep (52.2 to 51.4), putting the current reading roughly where it has been for the last year. Volatility and variation in this index exist, but the range has been narrow: a low point of 49.8 in July 2012 to a high point of 53.1 the very next month. The variations within the index were a little more dramatic, and all but one factor fell, with three slipping under 50, the point separating contraction from expansion.

Despite the increase in applications for credit, or perhaps because of them, there was deterioration in rejections of credit applications (52.3 to 51.9). Accounts placed for collection reinforced an even bigger downward trend, falling from a respectable 51.8 to 49.7, marking its first time in contraction since July of last year. Disputes showed renewed weakness in its slide (50.4 to 48.3), also marking the first time this factor has fallen under 50 since last July. Dollar amount of customer deductions also fell into contraction territory, but barely (50.7 to 49.9). Finally, filings for bankruptcy posted a significant loss (58.3 to 57.3), but is at least still showing solid growth. In contrast, dollar amount beyond terms provided the bright spot, jumping into expansion territory when it improved from 49.8 to 51.2. The overall conclusion in looking at the unfavorable factor data is that there are more companies in distress than there were a month or two earlier, which likely reflects the consternation and confusion that has marked government inactivity the last few months.

The CMI is telling roughly the same story as other economic indicators of late. The latest durable goods order data showed an improvement if growth in the aerospace sector is taken into consideration, but not if the sales that Boeing posted last month are stripped out. Housing data has been strong, but just this month there was a slight dip in the sales of existing homes and in new home building. Nothing is suggesting a return to recession, but neither is there a sure sign of an imminent breakout in the manufacturing or service sectors.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13
Sales	64.1	60.0	61.2	60.6	58.5	62.0	59.5	57.4	60.4	56.7	58.6	59.2	57.4
New credit applications	60.4	58.2	59.9	57.5	57.2	56.8	57.4	56.6	56.5	57.7	57.1	56.7	56.9
Dollar collections	61.4	59.3	58.5	60.0	58.7	59.7	58.5	54.6	61.3	59.2	56.9	57.5	57.7
Amount of credit extended	63.9	64.6	61.3	62.6	61.3	61.4	62.3	62.2	63.0	61.5	62.2	62.5	61.6
Index of favorable factors	62.5	60.5	60.2	60.2	58.9	60.0	59.4	57.7	60.3	58.8	58.7	59.0	58.4
Rejections of credit applications	50.6	51.6	51.1	51.4	51.4	52.4	51.4	52.0	51.1	51.5	52.8	52.3	51.9
Accounts placed for collection	52.0	50.3	50.5	48.3	48.9	52.4	52.5	53.0	51.2	52.1	50.4	51.8	49.7
Disputes	50.9	50.7	49.4	48.9	47.6	51.9	50.5	50.9	50.1	50.5	50.4	50.4	48.3
Dollar amount beyond terms	50.7	50.0	48.0	50.5	47.8	50.9	51.0	48.0	49.9	50.9	49.6	49.8	51.2
Dollar amount of customer deductions	51.1	50.4	50.2	48.7	48.2	51.4	51.0	50.7	49.7	51.3	50.3	50.7	49.9
Filings for bankruptcies	56.8	56.2	56.4	56.0	54.9	59.6	59.1	58.9	58.4	57.4	58.1	58.3	57.3
Index of unfavorable factors	52.0	51.6	50.9	50.6	49.8	53.1	52.6	52.3	51.7	52.3	51.9	52.2	51.4
NACM Combined CMI	56.2	55.1	54.6	54.5	53.4	55.8	55.3	54.4	55.2	54.9	54.6	54.9	54.2



Manufacturing Sector

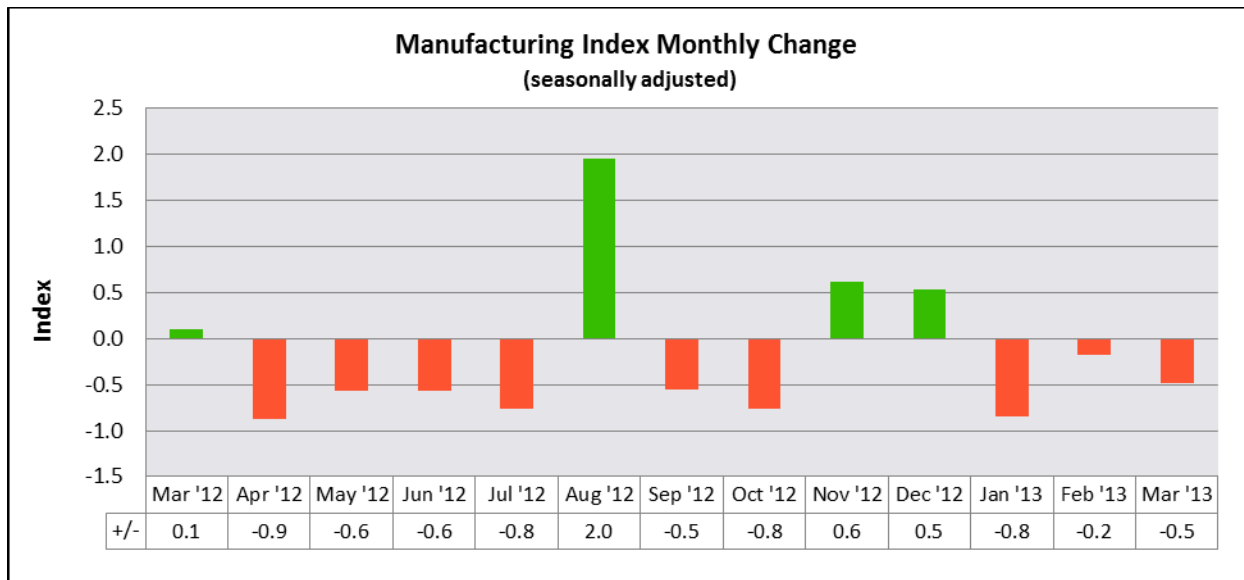
The bulk of the manufacturing data these days has been fairly positive, but there are some caveats. Durable goods looked pretty solid this month, as long as the data from Boeing is included. Without the aerospace sector, the data performed fairly poorly. It seems that growth in one sector, like automotive or energy, is always offset by the data from the areas performing poorly like construction and agribusiness. There is indication of better days ahead at the moment, as the latest Federal Reserve reports on manufacturing look promising. There was a big jump in the numbers from the Philadelphia Fed survey, as well as those from the Texas Fed. The Empire State survey was a little weaker, but still respectable. All of these data sources tell roughly the same story: there is growth in some areas, shrinking in others. A mixed report is not all that unusual in the world of industrial production.

The decline in the favorable factor index was fairly substantial (57.6 to 56.5), marking the lowest reading seen in over a year. The factor that seemed to have the most impact on the total number was sales, which fell from 57.3 to 55.5, the lowest level for that category in over a year. The reduction in sales seems to be related to the impact of

sequestration, or at least that's the conclusion of those monitoring the durable goods data. All of the favorable factors felt the decline however. New credit applications dropped (55.5 to 54.8), posting another low point for the last 12 months. There is evidence that business is considering more capital expenditure, but thus far there is not much evidence of accelerated desire for credit. Dollar collections declined (55.9 to 54.7), but at least was not a low point for the last year. In October, it sat at 52.6. The most surprising number was in amount of credit extended, which deteriorated, but not as much as one might expect (61.6 to 61.3). This suggests that if a company sees an opportunity to expand, there will likely be some opportunities to obtain available credit.

The real damage seems to have taken place in the unfavorable factors index, which fell from 51 to 50.8, taking the readings back to what they were in January. As recently as December, there was only one factor under 50, and now there are three. Rejections of credit applications slipped (52.2 to 51.8), seemingly from the desire to be more cautious about economic expansion in the months to come. Accounts placed for collection also slipped below 50 (50.7 to 48.6). There are more companies in distress and much of this is thought to be related to the challenges posed by the travails in Washington. Disputes was already under 50 at 47.9 and fell further to 47. There is a sense that many companies are seeking adjustments due to waves of uncertainty regarding sequestration and other issues. Dollar amount beyond terms actually improved, moving out of contraction territory (49.3 to 52.4). This suggests that those who can keep their accounts current are striving to do so. There was not much change in dollar amount of customer deductions, as it fell just slightly (48.8 to 48.5), and there was a similarly mild shift in filings for bankruptcies (56.9 to 56.7).

Manufacturing Sector (seasonally adjusted)	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13
Sales	65.4	59.4	61.6	59.1	57.2	60.0	57.3	56.7	57.8	56.9	57.4	57.3	55.5
New credit applications	57.9	56.6	61.1	57.2	56.5	56.3	55.7	57.0	53.6	58.0	57.7	55.5	54.8
Dollar collections	62.2	59.2	59.7	61.9	59.6	59.7	56.8	52.6	60.7	59.7	56.6	55.9	54.7
Amount of credit extended	63.2	64.3	61.0	63.2	59.6	60.8	61.9	61.6	61.7	61.2	61.1	61.6	61.3
Index of favorable factors	62.2	59.9	60.9	60.4	58.2	59.2	57.9	57.0	58.4	58.9	58.2	57.6	56.5
Rejections of credit applications	49.6	51.5	50.4	50.5	51.2	52.2	50.7	51.2	52.1	51.4	51.1	52.2	51.8
Accounts placed for collection	51.6	49.9	49.0	47.7	49.1	52.1	52.0	52.4	50.7	52.2	50.3	50.7	48.6
Disputes	50.2	50.2	48.2	47.0	47.6	50.1	49.3	48.9	49.1	49.2	49.9	47.9	47.0
Dollar amount beyond terms	50.1	49.4	46.9	49.2	47.8	50.1	51.3	48.3	50.4	52.1	48.0	49.3	52.4
Dollar amount of customer deductions	50.6	50.4	49.5	46.6	46.6	49.2	50.9	49.9	48.5	50.0	49.2	48.8	48.5
Filings for bankruptcies	55.3	56.5	54.3	53.8	53.3	57.5	56.8	56.3	56.4	55.6	56.5	56.9	56.7
Index of unfavorable factors	51.2	51.3	49.7	49.1	49.3	51.9	51.8	51.2	51.2	51.8	50.8	51.0	50.8
NACM Manufacturing CMI	55.6	54.7	54.2	53.6	52.8	54.8	54.3	53.5	54.1	54.6	53.8	53.6	53.1



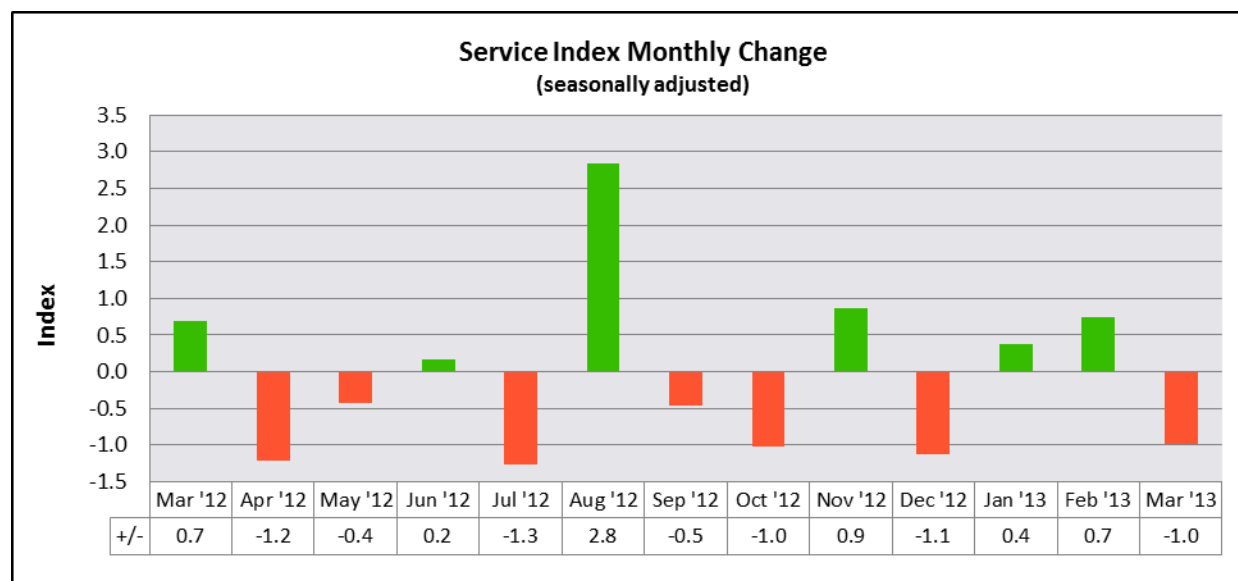
Service Sector

The service sector as a whole saw positive movement last month, but the pace of growth slowed in March. The overall reading for the sector slipped from 56.2 to 55.3, returning to the pace from the end of last year. It appears this has become a matter of which particular services sector is being referenced. The growth in construction has continued to be significant, but retail is not doing as well.

The index of favorable factors went from 60.4 to 60.3. The lack of change shows that service data is still coming in far stronger than that of the manufacturing sector. The biggest drop was in sales, but the registered 59.4 is still on the high end of recent data. New credit applications improved (57.9 to 59.1), seemingly driven by what is happening in construction. There is a lot more credit activity in this sector than there has been in years, everything from construction loans to credit for construction-related machinery and building materials. The demand for credit from retail is still fairly paltry. Dollar collections improved (59.1 to 60.7), but was offset to a significant degree by the drop in the amount of credit extended (63.4 to 61.9). There may be additional demand for credit, but evidence of trepidation is obviously still showing. It should be noted that credit extended is still above 60.

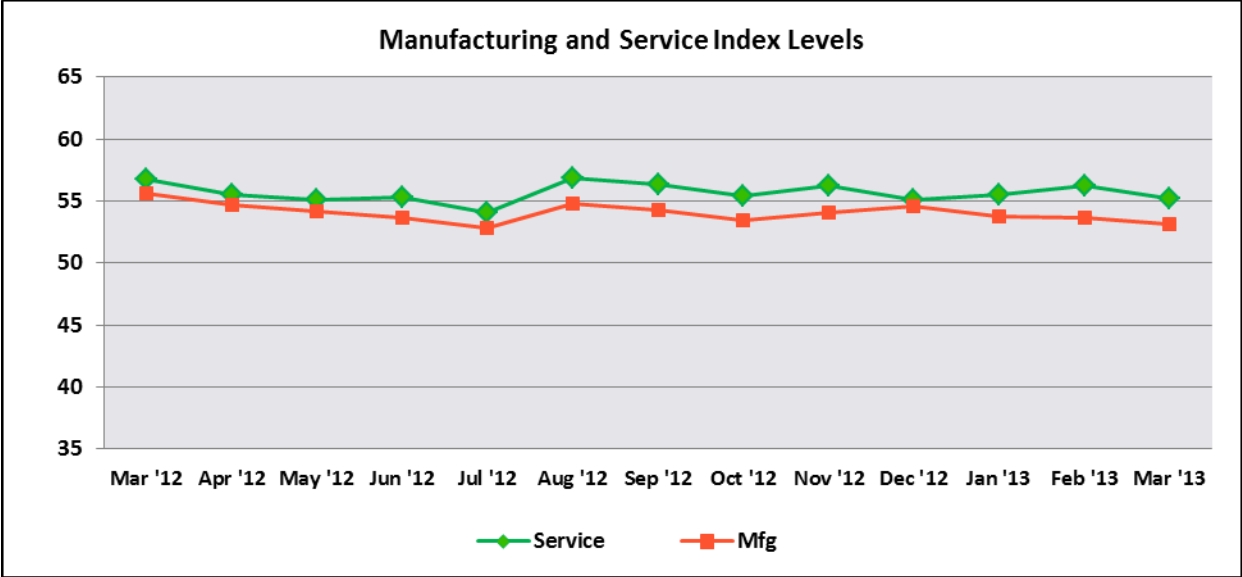
All unfavorable factors declined, to varying degrees, and appear to reflect the travails in both retail and the service sectors most closely tied to the government. As most of government business is service related, the sequestration process is affecting the businesses that sell to the government. Rejections of credit applications declined (52.5 to 51.9), mostly due to those in construction trying to get back in the game, but who are still not in good financial health. The decline in accounts placed for collection (52.9 to 50.8) suggests that more companies are getting in trouble, but also noteworthy is that this number has been very consistent for the past year and shouldn't yet cause much alarm. Disputes fell into contraction (52.9 to 49.6). Again, some companies are in distress and now seeking additional consideration due to the whipsawing they have taken from the government. Dollar amount beyond terms also slipped below 50 into contraction (50.4 to 49.9). Dollar amount of customer deductions fell from 52.7 to 51.3. Finally, the decline in filings for bankruptcies (59.6 to 58) is not altogether shocking, as there are generally more retail bankruptcies at this time of the year—more in the first couple of months of the year from those that didn't get the holiday boost they were counting on.

Service Sector (seasonally adjusted)	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13
Sales	62.8	60.6	60.9	62.1	59.8	64.0	61.7	58.2	63.0	56.6	59.9	61.2	59.4
New credit applications	62.8	59.9	58.8	57.7	57.9	57.3	59.2	56.2	59.5	57.3	56.5	57.9	59.1
Dollar collections	60.7	59.4	57.3	58.1	57.9	59.7	60.3	56.5	62.0	58.7	57.2	59.1	60.7
Amount of credit extended	64.6	64.9	61.5	62.0	63.0	61.9	62.7	62.8	64.4	61.8	63.2	63.4	61.9
Index of favorable factors	62.7	61.2	59.6	60.0	59.6	60.7	61.0	58.4	62.2	58.6	59.2	60.4	60.3
Rejections of credit applications	51.6	51.8	51.8	52.2	51.6	52.5	52.2	52.8	50.2	51.6	54.5	52.5	51.9
Accounts placed for collection	52.5	50.7	52.0	49.0	48.7	52.6	53.0	53.6	51.7	52.0	50.6	52.9	50.8
Disputes	51.6	51.3	50.6	50.8	47.6	53.7	51.7	52.9	51.1	51.9	50.9	52.9	49.6
Dollar amount beyond terms	51.2	50.6	49.0	51.9	47.8	51.7	50.7	47.8	49.4	49.6	51.1	50.4	49.9
Dollar amount of customer deductions	51.5	50.4	51.0	50.9	49.7	53.6	51.1	51.5	50.9	52.6	51.3	52.7	51.3
Filings for bankruptcies	58.4	55.9	58.4	58.3	56.4	61.6	61.3	61.5	60.4	59.2	59.8	59.6	58.0
Index of unfavorable factors	52.8	51.8	52.1	52.2	50.3	54.3	53.3	53.3	52.3	52.8	53.0	53.5	51.9
NACM Service CMI	56.8	55.6	55.1	55.3	54.0	56.9	56.4	55.4	56.2	55.1	55.5	56.2	55.3



March 2013 versus March 2012

The year-over-year numbers are maddening in their consistency. One can look at the last year and be optimistic about the fact that most of the readings have been solidly in the mid-50s, or one can look at these numbers and bemoan the lack of growth. The economy is a long way from those heady days when the numbers were in the 70s, but are also a long way from the index readings in the 30s.



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 the PMI and other manufacturing and service sector indices.

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.*



About the National Association of Credit Management

NACM, headquartered in Columbia, Maryland, supports more than 15,000 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, education, products and services designed to improve the management of business credit and accounts receivable. NACM's collective voice has influenced federal legislative policy 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. Its annual Credit Congress is the largest gathering of credit professionals in the world.

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>.

Source: National Association of Credit Management

Contact: [Caroline Zimmerman](#), 410-740-5560

Website: www.nacm.org

Twitter: [NACM_National](#)