



Report for March 2014

Issued March 31, 2014

National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) saw little change in the readings for March as it slipped a fraction from 55.6 to 55.5. The stall at February and December levels leaves January's spike as the anomaly in recent months. The index's readings, which had fluctuated since October, provided cautious expectations of consistent future growth. It was hoped that the February reading was the outlier, rather than a grim thesis for the rest of 2014, but a holding pattern due in part to the effects of a harsh winter is preferred to a decline, leaving room for some optimism about the economy in months to come.

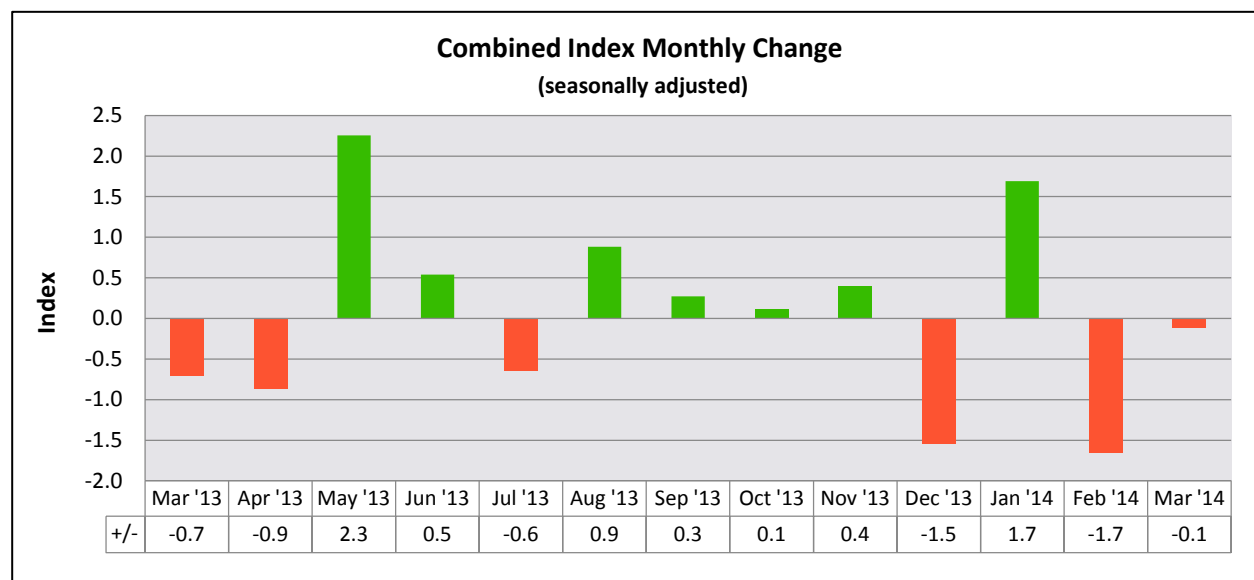
Most of the factors comprising the March CMI stayed the same from the previous month, with a few notable exceptions. The sub-index of favorable factors slipped very slightly from 59.4 to 59. Within this index, sales moved from 59.4 to 59.1, staying on the low side of the last year. In the previous 12 months, the sales reading was above 60 for eight months, but fell into the high 50s for the last two. New credit applications slid from 58.1 to 57.3. Dollar collections dipped from 58.8 to 56.4, posting the most dramatic change in the favorable factors. The only positive shift was in amount of credit extended from 61.4 to 63.1. "The rise in amount of credit extended is better news than it might seem as it suggests some anticipation for better days ahead," said NACM Economist Chris Kuehl. "That credit was being extended despite the drop in applications for credit is a good sign in general."

The unfavorable factor index showed the same kind of behavior, with an almost imperceptible rise from 53.1 to 53.2. There is no evidence of severe financial turmoil showing up thus far. Rejections of credit applications moved from 52.3 to 52.4 and trending in a positive direction, which is a good thing when coupled with the data on amount of credit extended. Filings for bankruptcies moved by the same amount, but in the opposite direction, from 58.5 to 58.4. The rest of the factors posted greater changes. Accounts placed for collection declined again, from 54.6 to 54.1, as did disputes, which fell the most from 51.9 to 50.9. Dollar amount beyond terms marked one of the few positive trends, improving from 51.1 to 52.4, but was bested by the increase in dollar amount of customer deductions from 50.4 to 51.2.

"At least the roller coaster seems to have ended for the moment," Kuehl said. "What accounts for this month of almost no movement? There have been many theories put forward thus far and one that cited as the reason for the stall in the overall economy is the impact of an unusually long and bitter winter." The CMI isn't far from readings registered in other segments of the economy. The latest durable goods numbers, industrial production numbers and other measures have been flat as well. Ample evidence suggests that weather caused a great deal of disruption in almost every category. The transportation system was paralyzed several times, affecting everything from manufacturing to retail. The most recent Federal Reserve Beige Book readings reported that weather had caused a slowdown in the economic growth in nine of the 12 districts. Some GDP numbers have been anemic, but about what was expected.

"Nothing seems to be pointing to a steep or extended decline, but it is not very encouraging for the CMI to flatten out in a fairly unimpressive position," Kuehl said. "There is nothing to set off alarm bells, which was not the case in February when there was a significant decline from the readings the month before. The sense for March is that almost everything is on hold and waiting for the return of predictable weather. The readings indicate a business community that is still somewhat encouraged about what might be happening in the economy later in the year, but there is a bias toward caution for the moment."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14
Sales	57.4	58.3	63.0	62.3	61.4	63.1	62.7	62.5	63.4	58.7	61.5	59.4	59.1
New credit applications	56.9	56.5	59.2	58.8	58.0	58.7	57.4	58.5	59.2	57.2	58.2	58.1	57.3
Dollar collections	57.7	57.2	59.2	59.3	57.5	60.4	60.6	61.4	59.7	58.7	60.9	58.8	56.4
Amount of credit extended	61.6	60.8	65.0	62.8	62.4	63.3	62.9	63.8	63.2	62.6	65.4	61.4	63.1
Index of favorable factors	58.4	58.2	61.6	60.8	59.8	61.4	60.9	61.5	61.3	59.3	61.5	59.4	59.0
Rejections of credit applications	51.9	51.6	50.8	52.5	53.2	52.7	53.0	52.1	53.3	54.5	54.6	52.3	52.4
Accounts placed for collection	49.7	50.1	50.6	53.9	53.6	52.5	54.3	53.3	55.0	53.4	55.2	54.6	54.1
Disputes	48.3	48.6	48.5	51.9	51.0	51.6	51.7	51.8	51.9	50.7	52.2	51.9	50.9
Dollar amount beyond terms	51.2	45.5	54.1	50.5	48.5	51.1	52.2	52.7	54.7	49.7	52.8	51.1	52.4
Dollar amount of customer deductions	49.9	48.7	49.6	52.5	51.0	51.4	51.7	51.8	52.4	51.5	51.6	50.4	51.2
Filings for bankruptcies	57.3	56.0	56.0	56.8	58.2	58.7	59.8	59.6	59.0	59.0	60.5	58.5	58.4
Index of unfavorable factors	51.4	50.1	51.6	53.0	52.6	53.0	53.8	53.6	54.3	53.1	54.5	53.1	53.2
NACM Combined CMI	54.2	53.3	55.6	56.1	55.5	56.4	56.6	56.7	57.1	55.6	57.3	55.6	55.5



Manufacturing Sector

The manufacturing sector was essentially flat and no real surprise given the speculation regarding the impact of winter weather. Few sectors seemed to be as affected as manufacturing. Some of the reason is that manufacturing is concentrated in parts of the country that experienced the worst weather this year: the eastern seaboard, upper Midwest and industrial Midwest. Even some of the southern manufacturing zones that usually escape such conditions were affected.

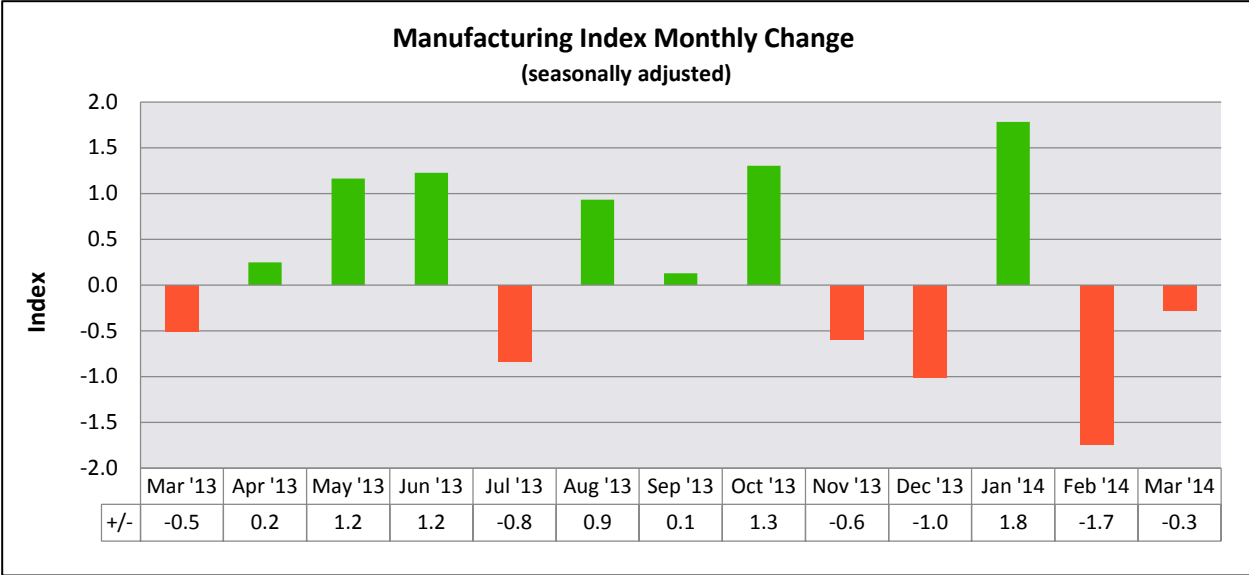
The manufacturing sector index barely moved, falling from 55.7 to 55.5. The favorable factor index improved just slightly from 58.1 to 58.4, which is nothing to get excited about as the readings have been consistently in the 60s for much of the last year. Sales went from 57.9 to 58.5, a significant positive trend only limited by the fact that this category had been in the 60s for seven of the last ten months. Dollar collections also improved, from 56.4 to 57.4, suggesting that businesses are collecting what is owed at a respectable rate. Amount of credit extended rose from 60.4 to 61.7 and has been above 60 for the last 12 months, indicating that businesses are seeking credit for larger

purchases. New credit applications, the only to fall, went from 57.7 to 56.1 and posted its lowest reading since September. This suggests that requests for credit are slowing down, but is somewhat tempered by the increase in amount of credit extended.

The unfavorable factor index fell from 54.1 to 53.5. “This does not yet translate into real financial distress as the index is still close to the middle of the range, even if on the low side of that middle,” said Kuehl. Dollar amount of customer deductions posted no change, remaining at 50.4. Likewise, filings for bankruptcies barely changed, slipping from 58.6 to 58.5, and rejections of credit applications slipped just slightly more, from 52.8 to 52.6, showing a continued interest in capital investment, just not at a very significant pace. Disputes and accounts placed for collection saw larger declines. Disputes dropped from 51.6 to 50.6, but this seems consistent with the changes in the number of accounts out for collection. However, accounts placed for collection dropped steeply and that is a concern. Falling from 59.9 to 56.1, it eliminated all the gains from last month. Kuehl said that the current reading is in line with most of the last year and as long as it doesn’t sink any further, there may be no reason to get concerned. Finally, dollar amount beyond terms posted the only improvement, going from 51.7 to 52.8.

“This was a very cautious month in manufacturing circles,” said Kuehl. “The weather was apparently a factor, but there seems to be more to it than just snow and cold. The consumer is not coming out of their rut just yet. The higher than normal rate of joblessness may still be a factor and there is generally a lack of confidence in the overall population. The business community is feeling it.”

Manufacturing Sector (seasonally adjusted)	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14
Sales	55.5	59.2	59.2	61.0	60.3	62.3	61.6	64.3	63.4	61.7	59.6	57.9	58.5
New credit applications	54.8	55.8	57.4	58.6	57.5	58.4	55.6	58.9	59.2	57.7	59.5	57.7	56.1
Dollar collections	54.7	57.4	58.5	59.4	57.9	61.0	60.5	61.4	58.7	59.5	62.7	56.4	57.4
Amount of credit extended	61.3	60.1	63.3	61.2	61.4	62.1	62.4	64.8	61.8	61.5	66.4	60.4	61.7
Index of favorable factors	56.5	58.1	59.6	60.0	59.3	61.0	60.0	62.4	60.8	60.1	62.0	58.1	58.4
Rejections of credit applications	51.8	52.2	51.3	52.7	52.9	52.3	52.4	52.0	52.9	55.5	54.4	52.8	52.6
Accounts placed for collection	48.6	51.8	50.3	53.6	53.6	53.0	53.7	54.0	55.7	53.3	55.7	59.9	56.1
Disputes	47.0	48.5	46.8	50.8	49.5	49.8	50.8	52.1	51	50.2	51.0	51.6	50.6
Dollar amount beyond terms	52.4	45.5	55.7	50.8	48.3	52.5	52.9	54.6	54.8	50.0	53.2	51.7	52.8
Dollar amount of customer deductions	48.5	48.0	48.2	52.5	49.8	49.3	50.7	51.9	51.4	49.7	51.8	50.4	50.4
Filings for bankruptcies	56.7	55.3	54.7	57.1	58.1	57.9	59.4	59.0	58.5	57.7	60.4	58.6	58.5
Index of unfavorable factors	50.8	50.2	51.1	52.9	52.0	52.5	53.3	53.9	54	52.7	54.4	54.1	53.5
NACM Manufacturing CMI	53.1	53.4	54.5	55.8	54.9	55.9	56.0	57.3	56.7	55.7	57.5	55.7	55.5



Service Sector

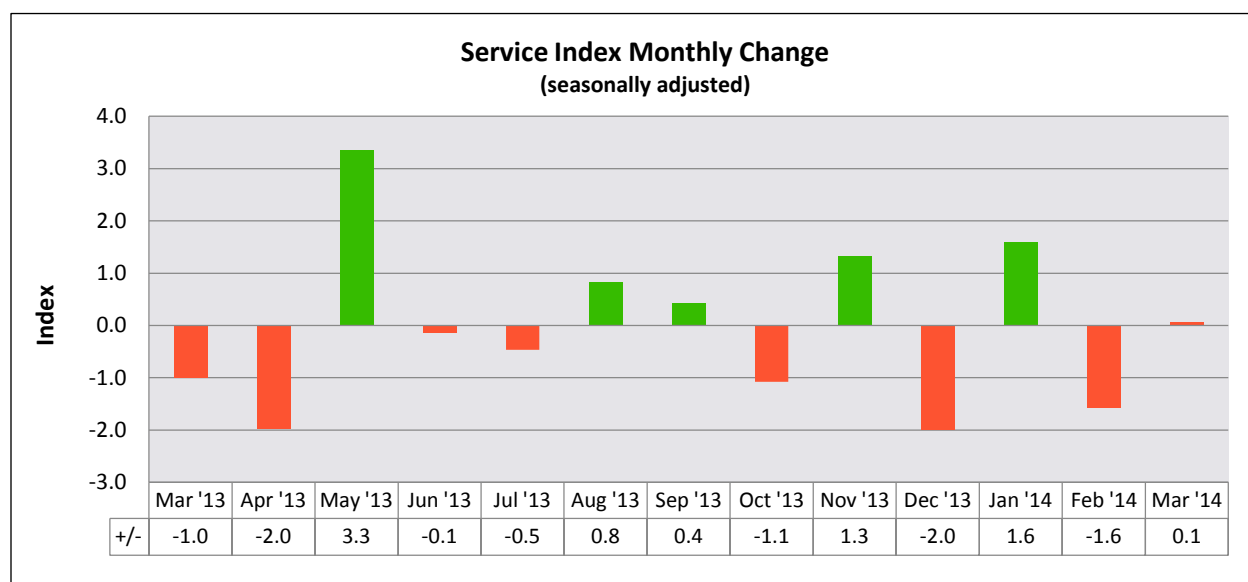
“If one can describe the overall index and the manufacturing sector as flat, then the service sector must be as flat as a pancake or the western half of Kansas—and I can say that as a Kansan,” Kuehl noted. “The numbers look almost as if they were simply transferred from last month. This is not all that shocking given what the winter did to the retail sector as well as construction. Those two make up a great deal of the CMI data and that was obvious in the data this month. The combined service index was 55.5 last month and 55.6 this month.”

The favorable factor index was likewise very similar to February’s, falling from 60.7 to 59.5. Though the change was not huge, Kuehl said the trend is worrying as this takes the index back below 60 for the first time since last year. The big changes in the favorable factors were found in sales, where the index fell from 60.9 to 59.6 and reflected the generally rotten period for retail, and in the big decline in dollar collections from 61.1 to 55.4 that led the decline in the favorable factor index. These are signs of real distress in the retail and construction sectors as they essentially lost a whole month. Finally, new credit applications remained at 58.5 and the most surprising reading came from the improvement in amount of credit extended from 62.3 to 64.5. It seems that a lot of operations were struggling, but those that weren’t have been on a roll and seem committed to expansion, Kuehl noted.

The unfavorable factor index improved from 52.1 to 53 on the back of five of the six factors. “The sense is that companies hit by the weather and a quiet consumer are being offset to some degree by those that are in better positions,” said Kuehl. The only factor to record a decline was disputes from 52.2 to 51.2, so it can’t be said that all is well. The most significant improvement came in accounts placed for collection, which moved out of contraction territory with its rise from 49.3 to 52.2. It seems that most of the companies are holding steady with their credit obligations despite the rough winter. Dollar amount beyond terms continued its positive trend, improving from 50.6 to 52 and taking it back to the levels seen for most of last year. Dollar amount of customer deductions likewise improved, from 50.4 to 51.9. Rejections of credit applications saw less improvement, moving from 51.8 to 52.2. That is still encouraging given there is more credit being offered. Finally, filings for bankruptcies stayed at 58.4.

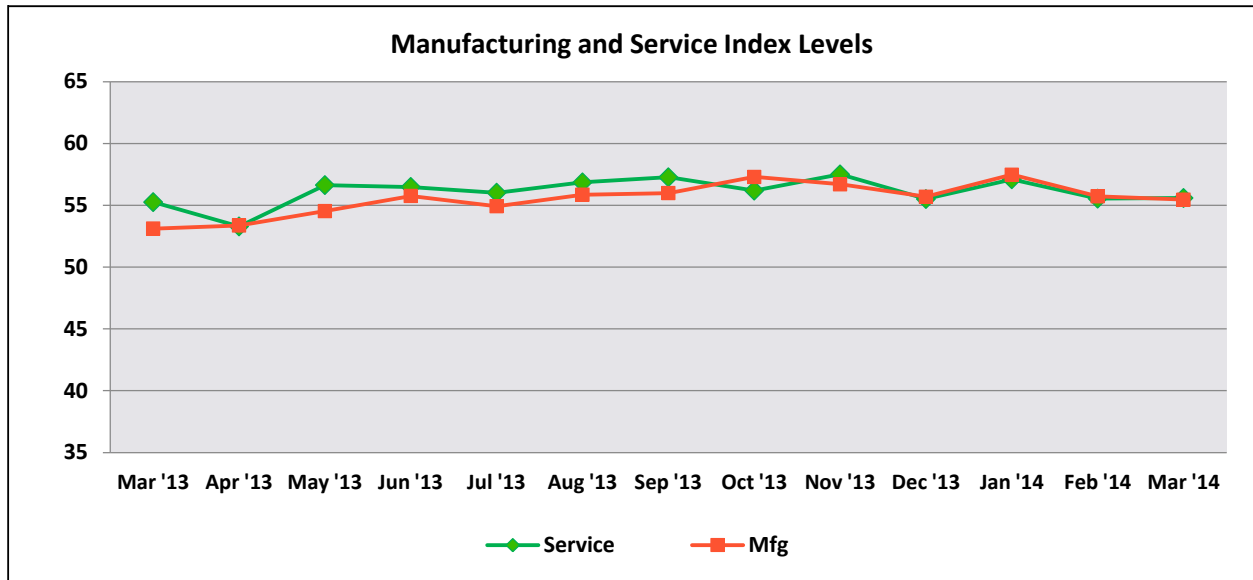
“The last month was a rough one for the dominant service categories and most are now watching to see if better weather next month will have any impact on consumer mood,” said Kuehl.

Service Sector (seasonally adjusted)	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14
Sales	59.4	57.4	66.7	63.6	62.5	63.9	63.8	60.6	63.4	55.7	63.4	60.9	59.6
New credit applications	59.1	57.2	61.0	59.1	58.4	59.1	59.2	58.1	59.1	56.7	57.0	58.5	58.5
Dollar collections	60.7	57.1	59.9	59.3	57.1	59.8	60.7	61.3	60.6	57.8	59.2	61.1	55.4
Amount of credit extended	61.9	61.5	66.8	64.3	63.3	64.5	63.4	62.8	64.5	63.6	64.4	62.3	64.5
Index of favorable factors	60.3	58.3	63.6	61.6	60.3	61.8	61.8	60.7	61.9	58.4	61.0	60.7	59.5
Rejections of credit applications	51.9	51.1	50.2	52.4	53.5	53.2	53.7	52.2	53.6	53.5	54.8	51.8	52.2
Accounts placed for collection	50.8	48.4	51.0	54.1	53.6	52.0	55.0	52.7	54.2	53.5	54.8	49.3	52.2
Disputes	49.6	48.6	50.2	53.0	52.6	53.3	52.6	51.4	52.8	51.3	53.3	52.2	51.2
Dollar amount beyond terms	49.9	45.6	52.5	50.3	48.7	49.7	51.5	50.9	54.5	49.3	52.3	50.6	52.0
Dollar amount of customer deductions	51.3	49.5	51.0	52.5	52.2	53.5	52.8	51.8	53.3	53.3	51.4	50.4	51.9
Filings for bankruptcies	58.0	56.6	57.2	56.5	58.2	59.6	60.1	60.3	59.4	60.4	60.5	58.4	58.4
Index of unfavorable factors	51.9	50.0	52.0	53.1	53.1	53.6	54.3	53.2	54.6	53.6	54.5	52.1	53.0
NACM Service CMI	55.3	53.3	56.6	56.5	56.0	56.9	57.3	56.2	57.5	55.5	57.1	55.5	55.6



March 2014 versus March 2013

“The roller coaster ride has come to a halt and everyone can get their bearings again,” Kuehl said. “Does this mean conditions will improve through the rest of the year or will things get worse? At the moment, all we know is that not much changed from last month.”



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 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 our nation's policy makers on federal legislation concerning commercial business and trade credit for more than 100 years, and continues to play an active role in legislative issues that pertain 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.

View CMI archives at <http://web.nacm.org/cmi/cmi.asp>.

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