Report for May 2009

Issued June 1, 2009

National Association of Credit Management

Combined Sectors

Lately, there has been a great deal of discussion about whether or not there is reason for some optimism regarding the U.S. economy's recovery. The phrases are showing up everywhere: "green shoots" and "light at the end of the tunnel" and even references to a "phoenix rising from the ashes." "Those who have been watching the Credit Managers' Index have been able to refer to these improvements for three months already, and the May data carries the same theme," said Chris Kuehl, Ph.D., NACM economist.

Over the past several years, the CMI has provided a judicious overview of economic indicators as the credit management function is at the core of every company's financial well-being. CMI data began to show some upward movement in February and now has carried forward those gains for four straight months. There have been additional recent indicators of recovery: consumer confidence is up, durable goods orders are up, first time claims for unemployment are down and even the much beleaguered housing market is showing some movement. The CMI presaged these more optimistic statistics.

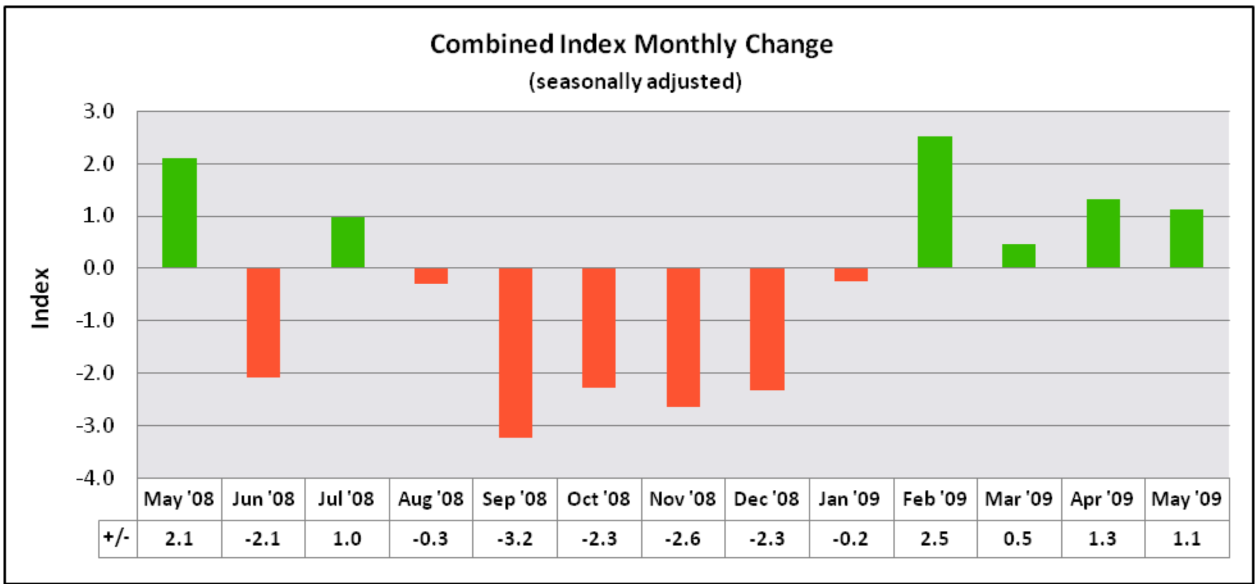
The latest CMI combined index rose from 44.3 to 45.4, which equals levels not seen since October 2008 when the overall economy began its major slide. The index is certainly moving in the right direction and is now only a few points away from breaking above the 50-point threshold that would indicate expansion as opposed to contraction. Kuehl said, "The recession essentially came to an end in February and March of 2009. The CMI data, combined with various other measures, suggest that the economy finally reached its lowest point and has been in the recovery stage since." Kuehl pointed out that this doesn't mean the economy will come roaring back in the next few months, but asserted that the second quarter will be the last quarter of negative GDP as the third quarter should show some growth.

The specifics within the survey are even more interesting as they reveal some important driving factors in economic recovery. For example, sales jumped from 37.4 to 41.8, representing one of the biggest increases in the last several months. There has also been substantial movement in the new credit sphere and that is a sign that businesses have started to lean toward expansion again. One of the underlying factors the CMI captures is the access to capital. Without the presence of additional open capital markets, there is no opportunity to expand credit; the CMI is now showing that some of that credit is being extended again. Additionally, a couple of negative factors declined, reflecting some stability in terms of delinquencies and disputes and some reduction in dollars outstanding.

There is still a great deal of regional and sector variation, which mirrors the performance of the U.S. economy as a whole. The states that have seen the highest rates of job loss and bankruptcy—California, Florida, Michigan and Ohio—are seeing the weakest performance in terms of credit. However, some states seeing severe declines—most notably Arizona and Nevada—have shown some improvement. Kuehl noted that he has been speaking before a variety of NACM industry groups during the last few months and has observed some very different moods. The sectors that have been struggling are those one would suspect: automotive and retail. The growth sectors in medical and energy are reacting differently and may even be in true recovery by this time. The overall energy sector has been growing, especially in the area of alternative technologies. The entertainment sectors have also been holding steady.

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)	May '08	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May
Sales	57.7	54.2	55.7	56.5	45.3	45.6	34.4	27.2	29.5	34.1	35.2	37.4	41.8
New credit applications	55.0	50.2	53.9	52.8	49.7	49.7	45.2	44.7	42.7	44.9	44.3	47.8	48.2
Dollar collections	61.3	56.4	60.5	57.1	54.6	50.9	50.0	43.9	47.5	47.1	48.4	48.0	48.8
Amount of credit extended	61.2	58.2	59.5	60.0	54.9	51.8	46.6	43.6	43.2	43.2	44.6	46.1	47.1
Index of favorable factors	**58.8**	**54.7**	**57.4**	**56.6**	**51.1**	**49.5**	**44.0**	**39.8**	**40.7**	**42.3**	**43.1**	**44.8**	**46.5**
Rejections of credit applications	48.1	49.1	48.1	48.5	47.8	44.6	45.0	45.6	45.9	46.7	47.8	47.4	47.4
Accounts placed for collection	43.0	44.5	43.5	45.6	41.7	36.4	36.1	35.2	36.8	37.8	37.1	38.5	40.2
Disputes	50.1	47.9	46.3	46.4	45.8	42.9	43.9	44.5	43.4	44.8	44.1	47.2	47.5
Dollar amount beyond terms	43.7	42.8	47.9	43.6	42.0	41.8	38.8	31.6	30.6	42.0	42.3	40.5	43.4
Dollar amount of customer deductions	49.9	48.1	47.8	48.5	46.6	45.8	45.4	46.4	45.2	46.2	45.5	49.8	47.5
Filings for bankruptcies	51.2	49.0	47.2	48.2	46.5	42.6	40.5	39.7	35.4	38.4	40.5	40.2	42.3
Index of unfavorable factors	**47.6**	**46.9**	**46.8**	**46.8**	**45.0**	**42.3**	**41.6**	**40.5**	**39.5**	**42.6**	**42.9**	**43.9**	**44.7**
NACM Combined CMI	**52.1**	**50.0**	**51.0**	**50.7**	**47.5**	**45.2**	**42.6**	**40.2**	**40.0**	**42.5**	**43.0**	**44.3**	**45.4**



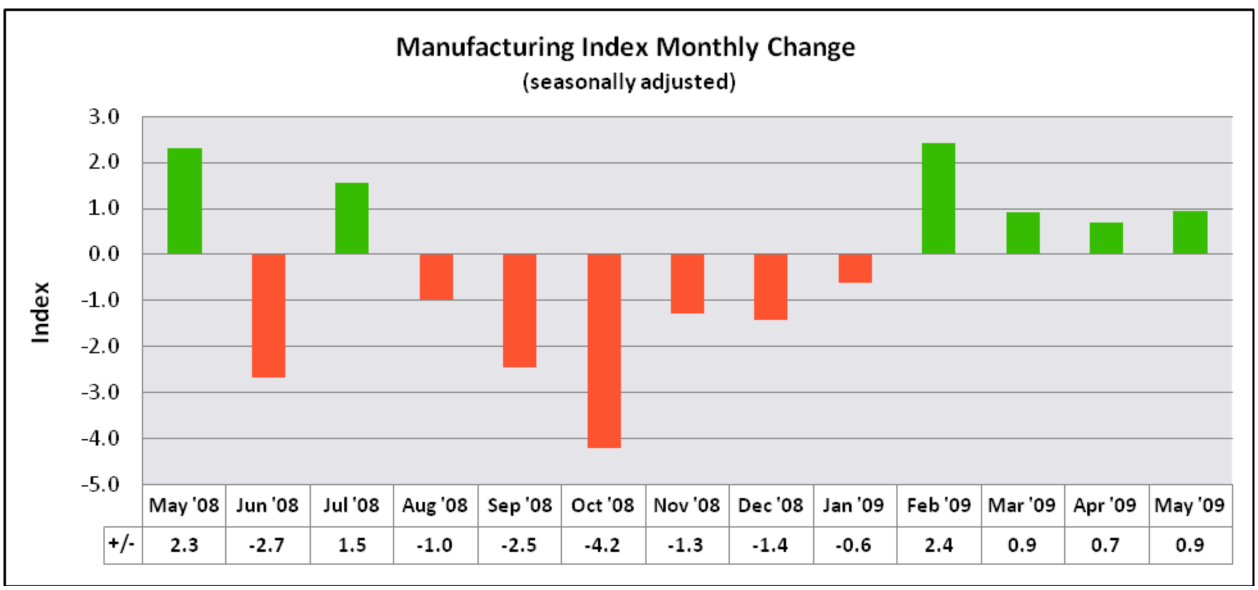
Manufacturing Sector

The manufacturing sector continues to improve slowly. While the index only moved slightly from 44.4 to 45.3, that was enough to put it in a position not seen since September 2008. The most improvement tended to show up in the reduction of unfavorable factors, as favorable indicators basically were unchanged from last month's data. By most accounts the manufacturing sector is just now showing some positive movement this month, and it is possible that credit activity in the sector may have provided some advance warning.

Kuehl noted that the manufacturing sector is more diverse in its experience than the service industries thus far. There is very little positive news coming from the automotive sector or from those connected to construction in general. Aerospace has been down as well, but on the plus side there has been expansion in the energy sector as well as in the growing field of medical manufacturing. In the months to come there will likely be more aggressive growth in this area as other data suggest that capital expenditures in the manufacturing arena are growing.

There is evidence that manufacturing in general is still in the process of a shakeout, which provides both positive and negative elements. On the negative side there has been an increase in bankruptcies over the past several months (although the pace has slowed). But this negative can be a positive in the months ahead as the remaining competitors have more access to market share. There tends to be a rapid expansion for those companies that survive a downturn. While there is still no sign that significant amounts of credit have been flowing into the manufacturing sector, there is little evidence that manufacturers have requested much as most are still waiting to see more evidence of demand.

Manufacturing Sector (seasonally adjusted)	May '08	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May
Sales	59.9	54.4	56.5	57.4	45.2	46.1	38.5	26.8	31.6	34.7	36.7	39.6	40.7
New credit applications	54.9	51.1	55.0	53.0	50.9	49.2	45.5	48.8	44.8	45.2	44.6	50.7	49.3
Dollar collections	58.8	54.4	60.8	56.2	55.6	46.3	49.6	44.5	48.2	48.3	49.5	48.0	47.5
Amount of credit extended	58.6	57.9	58.8	62.0	56.2	48.1	42.8	44.0	39.6	40.5	41.8	44.1	44.2
Index of favorable factors	**58.0**	**54.4**	**57.8**	**57.1**	**52.0**	**47.4**	**44.1**	**41.0**	**41.1**	**42.2**	**43.1**	**43.1**	**43.1**
Rejections of credit applications	49.4	49.4	48.7	48.1	49.0	46.2	45.2	47.8	46.0	46.5	48.1	47.2	47.4
Accounts placed for collection	45.9	45.8	44.8	47.4	42.3	36.0	35.3	35.0	39.1	38.1	37.7	38.6	41.8
Disputes	48.8	46.9	45.2	43.8	45.5	41.3	44.4	44.7	42.6	44.4	44.4	45.8	47.6
Dollar amount beyond terms	45.7	41.8	47.7	41.8	43.1	38.6	40.0	31.8	30.8	46.5	48.1	42.8	44.5
Dollar amount of customer deductions	50.1	48.4	46.5	46.9	45.9	42.8	44.2	45.8	44.6	44.5	45.6	47.6	46.6
Filings for bankruptcies	53.0	48.2	49.7	47.2	45.6	42.6	38.7	40.6	36.4	39.2	40.6	39.6	43.6
Index of unfavorable factors	**48.8**	**46.8**	**47.1**	**45.9**	**45.3**	**41.3**	**41.3**	**41.0**	**39.9**	**43.2**	**44.1**	**44.1**	**44.1**
NACM Manufacturing CMI	**52.5**	**49.8**	**51.4**	**50.4**	**47.9**	**43.7**	**42.4**	**41.0**	**40.4**	**42.8**	**43.7**	**44.4**	**45.3**

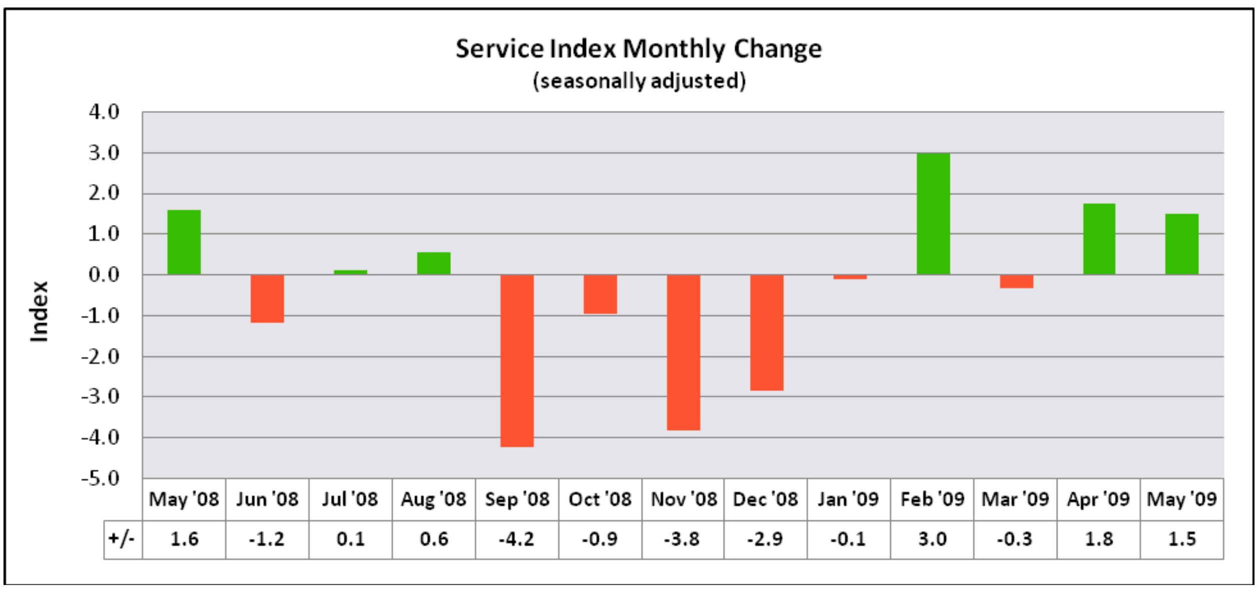


Service Sector

The growth in the service sector has been most impressive this month—jumping from 43.5 to 45. This has been spurred by higher sales and a very dramatic expansion of credit. The growth in this sector is especially important in the U.S. economy since the service sector represents close to 80% of the nation's GDP. The diversity of the sector makes instant analysis challenging, but CMI data suggests that only retail remains in a serious slump. There has been some improvement in the entertainment and tourism sectors, although it must be pointed out that tourism fell quite far and any improvement looks spectacular in comparison. These numbers are at their highest levels since last October as well.

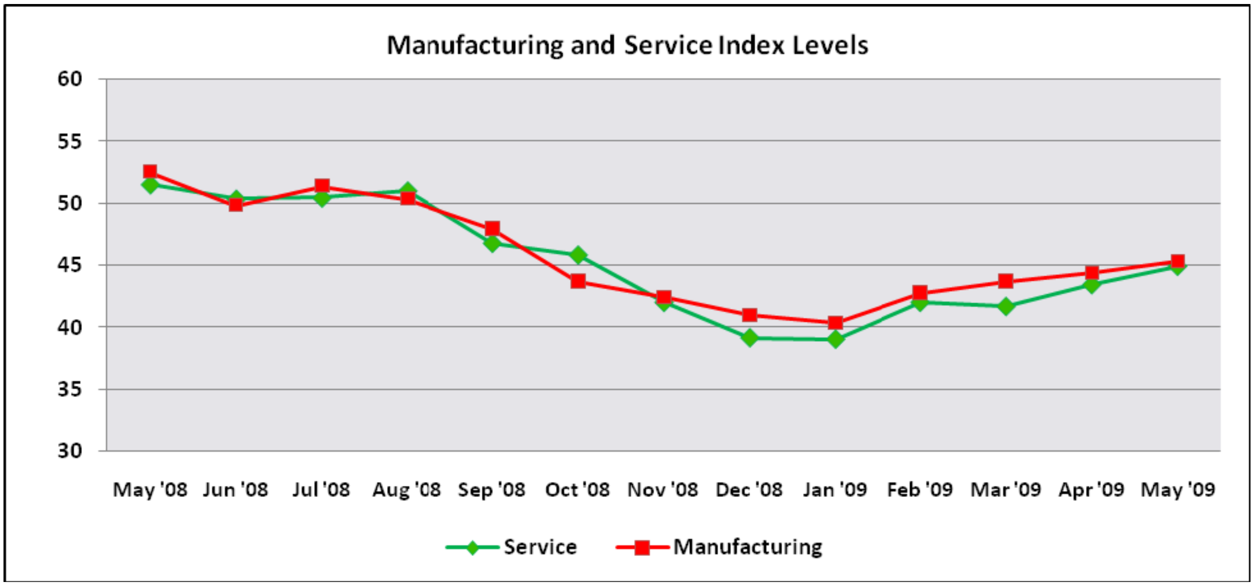
The health care and hospital-related service arena has provided the biggest jumps in growth numbers. This is nearly the only sector that has seen job growth in the last year; there is a renewed sense of urgency in health care-related industries as the government begins to determine what will likely change in the system. The CMI data backs up some assertions from other groups, including the National Association of Business Economists, which points to the recovery track in services as a key indicator for its upwardly revised assumptions about the economy's performance.

Service Sector (seasonally adjusted)	May '08	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May
Sales	55.5	54.0	54.9	55.5	45.4	45.1	30.2	27.5	27.3	33.5	33.7	35.2	42.9
New credit applications	55.1	49.3	52.7	52.6	48.4	50.2	44.8	40.5	40.5	44.6	44.0	44.9	47.2
Dollar collections	63.8	58.4	60.1	58.0	53.6	55.5	50.3	43.2	46.8	45.9	47.4	48.0	50.0
Amount of credit extended	62.2	59.8	58.3	58.0	51.5	47.2	43.7	40.3	41.4	43.9	41.8	40.6	44.3
Index of favorable factors	**59.2**	**55.4**	**56.5**	**56.0**	**49.7**	**49.5**	**42.3**	**37.9**	**39.0**	**41.9**	**41.7**	**42.2**	**46.1**
Rejections of credit applications	46.7	48.7	47.5	48.8	46.5	43.0	44.7	43.4	45.7	46.9	47.5	47.7	47.4
Accounts placed for collection	40.1	43.2	42.1	43.8	41.0	36.7	36.9	35.4	34.4	37.5	36.5	38.5	38.7
Disputes	51.3	48.9	47.4	48.9	46.1	44.5	43.3	44.3	44.1	45.2	43.9	48.6	47.3
Dollar amount beyond terms	41.6	43.7	48.0	45.4	40.9	44.9	37.6	31.4	30.3	37.4	36.6	38.3	42.3
Dollar amount of customer deductions	49.6	47.8	49.0	50.0	47.3	48.8	46.6	47.0	45.7	48.0	45.4	52.0	48.4
Filings for bankruptcies	49.4	49.8	44.6	49.2	47.3	42.6	42.2	38.8	34.4	37.7	40.4	40.8	41.0
Index of unfavorable factors	**46.5**	**47.0**	**46.4**	**47.7**	**44.9**	**43.4**	**41.9**	**40.1**	**39.1**	**42.1**	**41.7**	**44.3**	**44.2**
NACM Service CMI	**51.5**	**50.4**	**50.5**	**51.0**	**46.8**	**45.9**	**42.0**	**39.2**	**39.1**	**42.0**	**41.7**	**43.5**	**45.0**



May 2009 vs. May 2008

Looking at the year-over-year performance, there is even more reason to take heart in the pace of the recovery. It is beginning to show the classic "U" that signals a normal recessionary pattern. At the moment, the gains are taking the index back to where it was in October 2008—just after the meltdown started to accelerate. If the trend continues at its current pace and in the same direction, the index will be back above 50 by mid to late summer. That would reinforce the assessments by various groups that hold that real GDP growth will return in the third quarter.



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:

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

For the negative factors, the calculation is:

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

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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