



Report for December 2014

Issued December 31, 2014

National Association of Credit Management

Combined Sectors

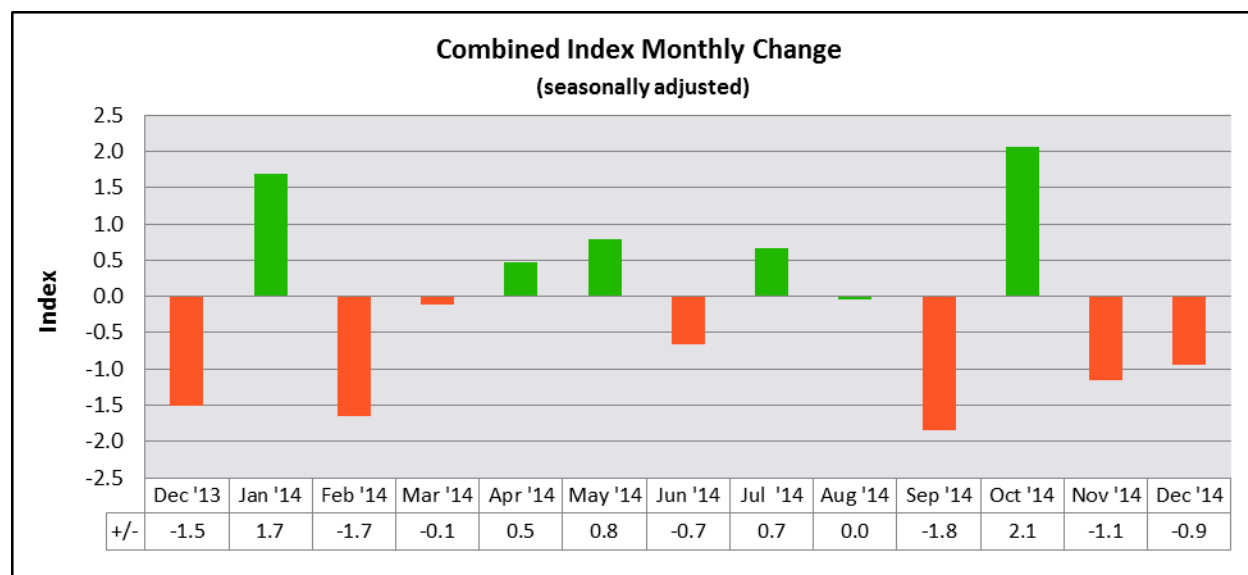
While other economic indicators remained strong, the December report of the Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) shows several categories with lows not seen since March 2014. Overall, the combined numbers for manufacturing and service sectors fell to 54.9, compared with 55.8 in November. "It would have been nice to end the year on a high note," said Chris Kuehl, PhD, NACM economist. Although durable goods orders were robust, employment numbers solid and retail sales better than many had expected, CMI data ended the year by falling over two consecutive months to its worst numbers since the start of 2014. "That is a real worry," Kuehl said.

Although the combined Index of Favorable Factors slipped from 61.2 to 60.5—the lowest result since March—the combined data is still comfortably high. The Sales category dropped from 62.7 to 61.4—another low as compared with previous months. New Credit Applications improved, however, as it shifted from 58.1 to 59.2. Such a shift can serve as a mixed message, given there was a slight increase in the number of credit applications that were rejected. During times of stress, companies that are not credit worthy may attempt to get some credit lifelines, Kuehl said. The reading for Dollar Collections saw a significant drop, from 60.3 to 56.6—another low not seen since March. Amount of Credit Extended rose a bit from 63.7 to 64.6, which suggests that there are bigger credit offerings being made to some of the larger companies. The good news is that most of the readings were over 60 and that continues to be a positive development.

Most of the CMI's bad news stems from the Index of Unfavorable Factors, helping to make 2015 a mystery to predict. The combined index dropped from 52.2 to 51.1, toward the low side of that reading over the course of the past year and close to contraction levels (below 50). Rejections of Credit Applications dropped, but only slightly from 51.7 to 51.5. Bigger credit offerings to a select few clients and more applications from less than creditworthy companies seem to be the pattern of late. Accounts Placed for Collection also slipped a little from 51.8 to 51.1. The bigger issue, however, is that several readings are so close to the breakpoint between contraction and expansion. The category of Disputes took fell to 48.5, inside the contraction zone and at its lowest point in well over two years. This signals considerable tension between those that issue credit and those that receive it. Similarly, Dollar Amount Beyond Terms moved from 52.3 to 48.7—its lowest point since September. Dollar Amount of Customer Deductions also dropped from 49.7 to 48.5. "That is a trend that nobody wants to see extended," Kuehl said. And Filings for Bankruptcies actually improved from 56.5 to 58.5. "That is a decent sign of some progress as it suggests that the issues that have been affecting the creditors have not yet reached the point that companies are crashing and burning," he noted.

The data reflect two major problems: The reason for the weak numbers is not clear, and data for the unfavorable categories indicates weakness in company financials, Kuehl said. Given that some of the other national data has been improving, it begs the question: why isn't credit data pointing in the same direction? "At first blush, it appears that there have been stressors all year and that some companies have been able to cope better than others," Kuehl said. "There were companies that were weak to begin with, and there has not been enough growth to pull these companies out of it."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14
Sales	58.7	61.5	59.4	59.1	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7	61.4
New credit applications	57.2	58.2	58.1	57.3	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1	59.2
Dollar collections	58.7	60.9	58.8	56.4	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3	56.6
Amount of credit extended	62.6	65.4	61.4	63.1	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7	64.6
Index of favorable factors	59.3	61.5	59.4	59.0	60.7	62.7	62.4	63.7	63.8	60.9	62.6	61.2	60.5
Rejections of credit applications	54.5	54.6	52.3	52.4	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7	51.5
Accounts placed for collection	53.4	55.2	54.6	54.1	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8	51.1
Disputes	50.7	52.2	51.9	50.9	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8	48.5
Dollar amount beyond terms	49.7	52.8	51.1	52.4	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3	48.7
Dollar amount of customer deductions	51.5	51.6	50.4	51.2	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7	48.5
Filings for bankruptcies	59.0	60.5	58.5	58.4	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8	58.5
Index of unfavorable factors	53.1	54.5	53.1	53.2	52.8	52.8	52.0	52.2	52.1	50.9	53.2	52.2	51.1
NACM Combined CMI	55.6	57.3	55.6	55.5	56.0	56.8	56.1	56.8	56.7	54.9	57.0	55.8	54.9



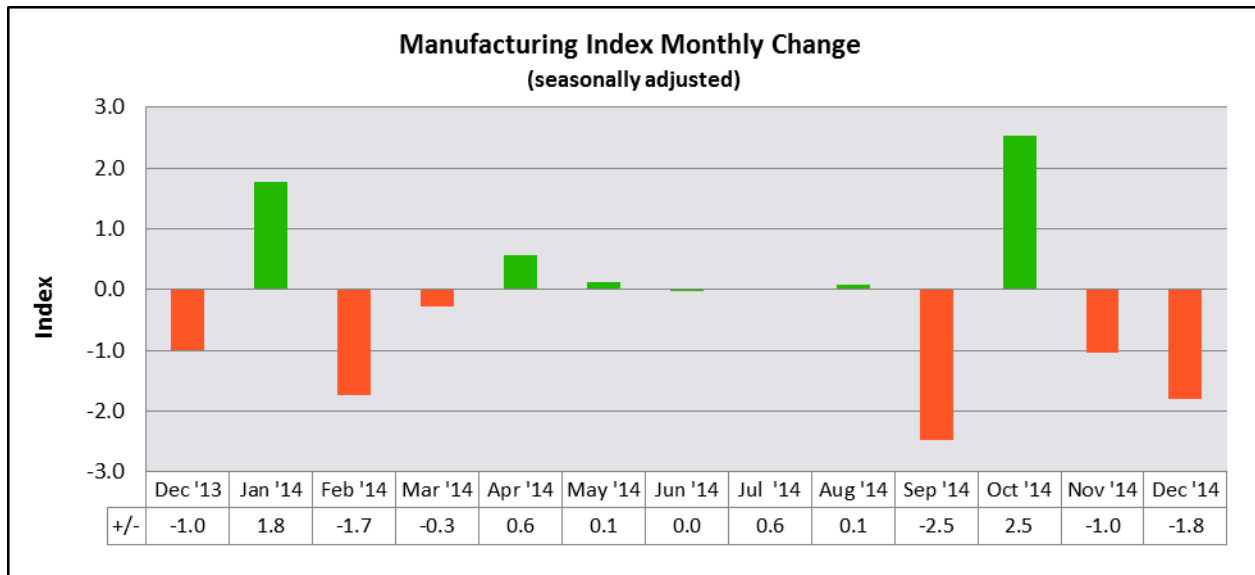
Manufacturing Sector

The manufacturing sector index fell almost two points from 55.8 to 54.0. “This is not much of a shock given the struggles in some key sectors,” Kuehl said. “At the start of the year, there were issues affecting the construction sector and these lasted through the majority of the year. Later in the year there were issues affecting the energy sector and that helped drag the data down to an extent,” he added.

The favorable factor index fell from 61.2 to 59.4, the lowest point since March. Slipping out of the 60s is not a welcome trend as this has not happened since the beginning of 2014 and the big recessionary dip in Q1, Kuehl noted. Sales slipped a bit from 62.7 to 60.1, but at least the category remains above 60. New credit applications improved from 57.9 to 58.5, but may not be so positive a development as evidence suggests that there are applications coming from those that few have any interest in lending to. Dollar collections slipped from 59.9 to 55.4, a sign of some alarm as there will likely be some expanded collection efforts in the future. Amount of credit extended declined from 64.2 to 63.4, but not as bad as many expected.

The Index of Unfavorable Factors deteriorated more dramatically, from 52.2 to 50.4, and is far too close to the contraction zone for comfort. Rejections of Credit Applications dropped from 51.3 to 50.8, once again dangerously close to the point of contraction. Accounts Placed for Collection moved down from 52.5 to 50.5 and there is an expectation of worse to come given the Dollar Collection data. Disputes and Dollar Amount Beyond Terms both fell to lows seen in September, from 50.5 to 47.4 and 52.8 to 48.0, respectively. Dollar Amount of Customer Deductions also slipped, from 49.8 to 46.8, but there was some decent news from filings for bankruptcies, which improved from 56.2 to 58.9.

Manufacturing Sector (seasonally adjusted)	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14
Sales	61.7	59.6	57.9	58.5	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7	60.1
New credit applications	57.7	59.5	57.7	56.1	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9	58.5
Dollar collections	59.5	62.7	56.4	57.4	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9	55.4
Amount of credit extended	61.5	66.4	60.4	61.7	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2	63.4
Index of favorable factors	60.1	62.0	58.1	58.4	61.0	62.0	62.8	63.4	64.3	60.9	61.9	61.2	59.4
Rejections of credit applications	55.5	54.4	52.8	52.6	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3	50.8
Accounts placed for collection	53.3	55.7	59.9	56.1	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5	50.5
Disputes	50.2	51.0	51.6	50.6	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5	47.4
Dollar amount beyond terms	50.0	53.2	51.7	52.8	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8	48.0
Dollar amount of customer deductions	49.7	51.8	50.4	50.4	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8	46.8
Filings for bankruptcies	57.7	60.4	58.6	58.5	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2	58.9
Index of unfavorable factors	52.7	54.4	54.1	53.5	52.7	52.2	51.7	52.3	51.8	49.9	53.4	52.2	50.4
NACM Manufacturing CMI	55.7	57.5	55.7	55.5	56.0	56.1	56.1	56.7	56.8	54.3	56.8	55.8	54.0



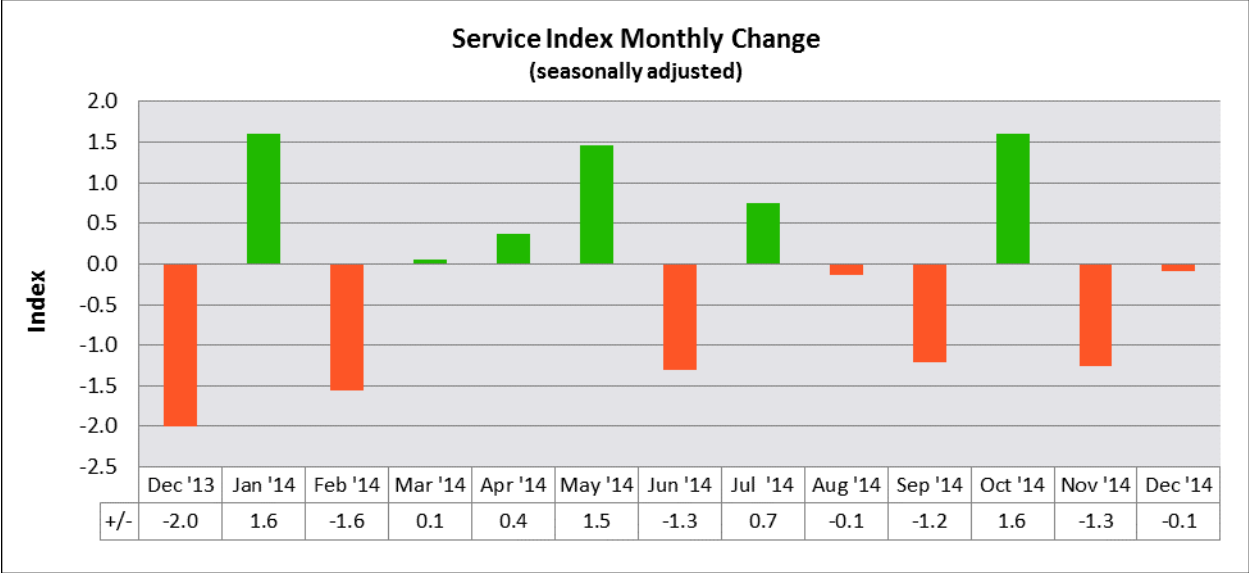
Service Sector

The service sector data was far better than that from manufacturing, but not good enough to offset the bad news. “Again, this is not too shocking given the fact that this is the prime time for the retail community and by all accounts the last month was pretty impressive for the retailers,” Kuehl said. The service sector index registered no change from November to December, remaining at 55.8. The Index of Favorable Factors stayed almost the same as well, moving up slightly from 61.3 to 61.6. Most of the Favorable Factors looked really good this month—at least as compared to the readings for manufacturing, Kuehl noted. Sales was static, barely dropping from 62.7 to 62.6 and New Credit Applications improved a good bit from 58.4 to 59.8. This is happening for much the same reason as with manufacturing. Dollar Collections fell from 60.7 to 57.8 and that is perhaps the most worrisome aspect of the favorable readings as this likely means some collection issues in the future. Amount of Credit Extended actually improved a good bit, from 63.3 to 65.8. Again, the pattern has been to offer more credit to bigger clients.

The Index for the Unfavorable Factors only suffered a slight drop from 52.2 to 51.9. Within the index, Rejections of Credit Applications stayed at nearly the same level as in November, improving from 52.1 to 52.2. Accounts Placed for Collection stayed roughly the same as well, improving from 51.2 to 51.8. The same can’t be said about Disputes, which slipped into contraction with a fall from 51.2 to 49.7. Dollar Amount Beyond Terms also fell into contraction territory with a slide from 51.8 to 49.3. To round out the category, both Dollar Amount of Customer Deductions and Filings for Bankruptcies saw improvement. Deductions rose out of contraction, from 49.6 to 50.1, just above the line of separation and definitely in the right direction, and filings for bankruptcies went from 57.4 to 58.1.

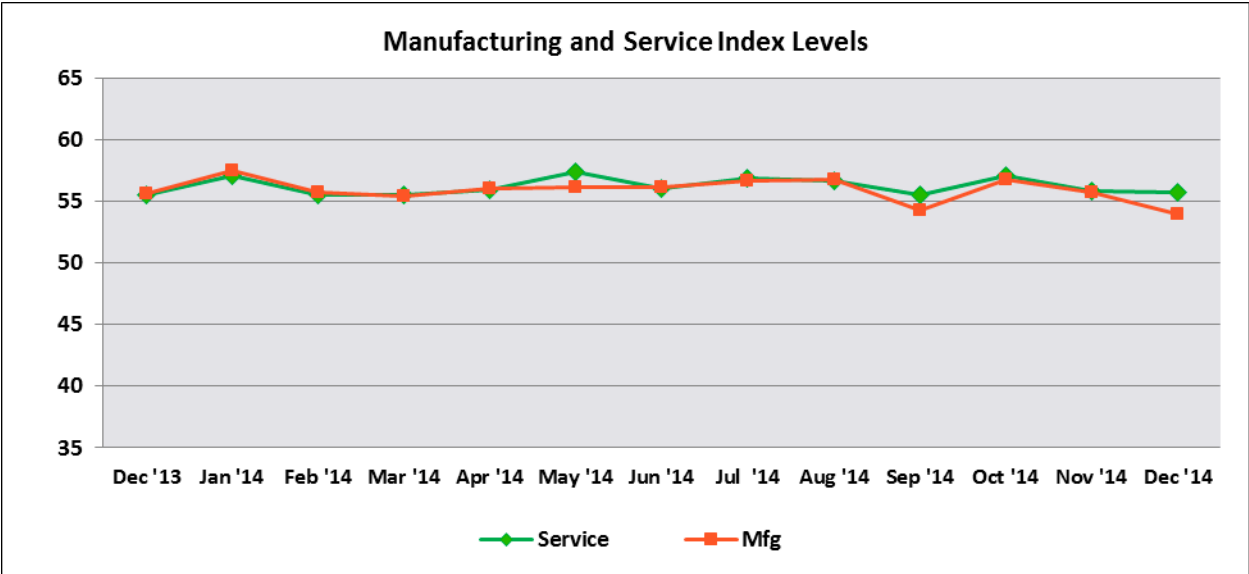
“The last month of the year is always problematic for the CMI and most other data sources as the holiday season plays games,” Kuehl said. “The retail data was solid and that covers a multitude of problems in other sectors, such as construction and, to some degree, the medical sector.”

Service Sector (seasonally adjusted)	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14
Sales	55.7	63.4	60.9	59.6	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7	62.6
New credit applications	56.7	57.0	58.5	58.5	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4	59.8
Dollar collections	57.8	59.2	61.1	55.4	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7	57.8
Amount of credit extended	63.6	64.4	62.3	64.5	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3	65.8
Index of favorable factors	58.4	61.0	60.7	59.5	60.5	63.4	61.9	63.9	63.3	60.9	63.3	61.3	61.6
Rejections of credit applications	53.5	54.8	51.8	52.2	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1	52.2
Accounts placed for collection	53.5	54.8	49.3	52.2	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2	51.8
Disputes	51.3	53.3	52.2	51.2	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2	49.7
Dollar amount beyond terms	49.3	52.3	50.6	52.0	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8	49.3
Dollar amount of customer deductions	53.3	51.4	50.4	51.9	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6	50.1
Filings for bankruptcies	60.4	60.5	58.4	58.4	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4	58.1
Index of unfavorable factors	53.6	54.5	52.1	53.0	53.0	53.4	52.2	52.1	52.3	51.9	53.0	52.2	51.9
NACM Service CMI	55.5	57.1	55.5	55.6	56.0	57.4	56.1	56.9	56.7	55.5	57.1	55.8	55.8



December 2014 versus December 2013

“The end of the year was supposed to be better than this—at least that was the thinking in October,” Kuehl said. “The sense is that the economic momentum stalled and now all eyes are on next month in hopes that this slide doesn’t deepen.”



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.*



National Association of Credit Management

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>.

Source: National Association of Credit Management

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