



Report for March 2012

Issued March 30, 2012

National Association of Credit Management

Combined Sectors

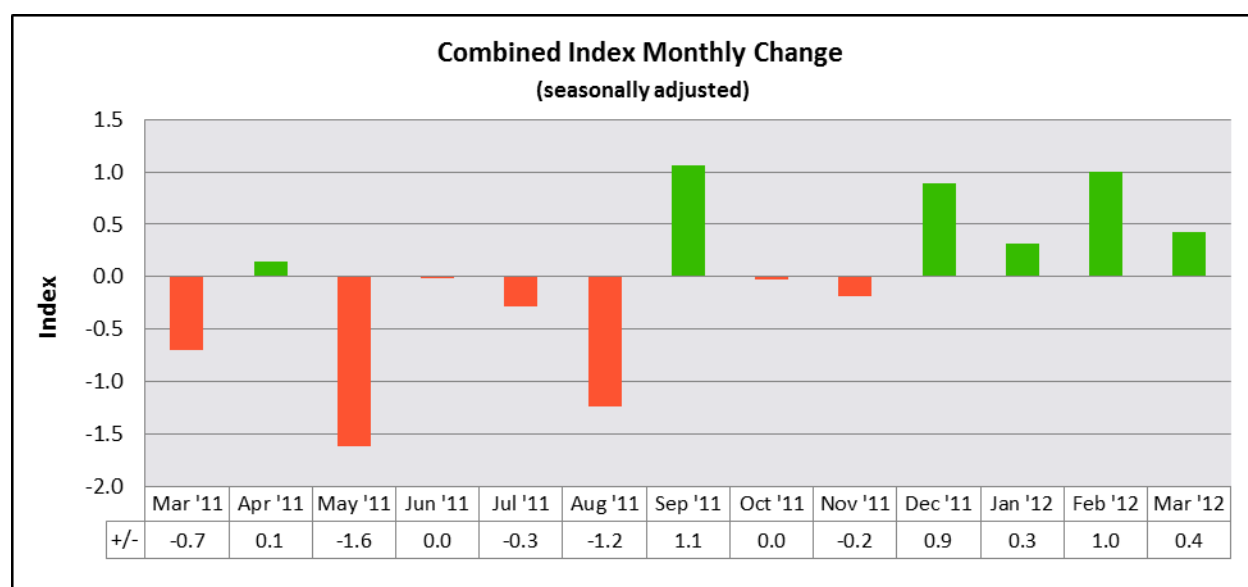
The Credit Managers' Index (CMI) for March is trending in a positive direction and is yet more reinforcement for the notion that the economy is doing better and that the recovery may be real. The combined index is now at the highest level seen in well over a year, even if the 56.2 reading is lackluster compared to the boom years of the last decade that featured index numbers well into the mid-60s and occasionally in the 70s.

The good news this month stems from an improvement in unfavorable factors, while favorable factors held their own. Sales, dollar collections and amount of credit extended all dipped a little, but stayed above 60. In fact, all favorable factors remained above 60. The more significant shifts took place in unfavorable factors. For the first time in more than a year, all unfavorable factors were over 50 and the combined total was a solid 52. The biggest jumps took place in the more sensitive indicators—accounts placed for collection moved from 50.9 to 52 and disputes moved from 49.7 to 50.9. Disputes have not been out of the 40s since July of last year and even that was only for one month. Dollar amount of customer deductions went from 48.5 to 51.1, which is only the third time it has been above 50 in the last year. Overall, the index of unfavorable factors reached the highest level in over a year. In the last four months, the numbers have been rising from the contractionary levels set last year. In November the index broke 50 by the barest of margins. Since then, the index has crept up in increments—50.4 in December, 50.3 in January, 51.1 in February and 52 in March.

What does all this really mean? One clue to these improvements is that bankruptcies have started to fall. The latest number is as strong as it has been in months and is a signal that most of the weakest companies have gone by the wayside, providing new opportunities for companies that survived the recession. "There is a dirty little secret among economists—some parts of a recession are helpful," said NACM Economist Chris Kuehl, PhD. "The fact is that during a boom period, there are many companies surviving and even thriving in spite of themselves. They are not all that well run and succeed mostly because everybody is succeeding in the boom." When conditions start to deteriorate these companies resort to tactics designed to boost cash flow at the expense of long-term profit. They become the low-cost providers and undercut their competitors, but usually in an unsustainable way. Eventually the race to the bottom ends and these competitors begin to fail and exit the market Kuehl said. This is the point when the stronger competitors are able to finally reassert themselves and get the pricing they need to succeed long term.

"At about this time, one should be thinking that all of this is going to lead somewhere that may not be all that good for the overall economy," said Kuehl. "One would be correct. The next phase in the progression involves a boost in the inflation threat." Kuehl explained that up to this point, the pressure of the recession and the plethora of low cost competitors have combined with a consumer who doesn't have much tolerance for higher prices. With the cost cutters going bankrupt and the consumer feeling a little flusher, the remaining companies can now start to hike prices. This is certainly good for their bottom line, but will mean that prices will start to rise and that fuels inflation. The current commodity-led increase is enough of a threat, but once the general price situation shifts, the real inflation threat develops as this will stimulate wage hikes as well. The rise in inflation is a sign that the economy as a whole is on a real rebound and now the emphasis will be on figuring out how to restrain that inflation surge without sending the economy back into recession.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12
Sales	64.7	64.5	59.4	60.8	60.0	59.2	61.4	60.4	58.3	60.5	63.5	64.4	64.1
New credit applications	59.8	58.8	58.2	56.7	57.3	55.8	57.8	58.9	57.6	55.3	61.9	59.5	60.4
Dollar collections	60.0	61.3	58.7	58.1	56.2	56.9	57.8	56.8	56.9	61.4	56.8	63.0	61.4
Amount of credit extended	64.4	64.7	62.1	60.4	62.0	60.7	62.8	61.9	62.4	64.7	63.3	64.3	63.9
Index of favorable factors	62.2	62.3	59.6	59.0	58.9	58.1	59.9	59.5	58.8	60.5	61.4	62.8	62.5
Rejections of credit applications	50.8	50.8	51.5	50.9	51.0	50.2	49.9	50.2	49.5	49.5	50.2	50.5	50.6
Accounts placed for collection	52.1	50.5	50.3	49.8	49.9	47.6	48.7	50.1	49.5	50.0	49.1	50.9	52.0
Disputes	48.9	49.3	48.8	49.3	50.0	48.7	47.6	49.0	47.9	49.2	49.2	49.7	50.9
Dollar amount beyond terms	49.7	50.7	46.5	49.9	48.3	44.2	49.1	47.6	48.0	48.8	48.0	51.2	50.7
Dollar amount of customer deductions	49.3	49.9	48.6	50.0	48.9	49.1	49.2	48.7	48.9	49.1	50.1	48.5	51.1
Filings for bankruptcies	57.4	58.1	58.1	56.5	55.8	54.5	53.2	53.8	56.7	56.0	55.5	55.7	56.8
Index of unfavorable factors	51.4	51.5	50.6	51.0	50.6	49.1	49.6	49.9	50.1	50.4	50.3	51.1	52.0
NACM Combined CMI	55.7	55.8	54.2	54.2	53.9	52.7	53.8	53.7	53.5	54.4	54.8	55.8	56.2



Manufacturing Sector

The March manufacturing numbers remain solid in critical areas. Sales continued to gain and is now solidly in the mid-60s. The 65.4 reading returns the sales category to highs last seen in March 2011, and this time there is an expectation that the gains will be sustained. The one concern is the declines in factors that usually point to further growth. New applications for credit fell from 59.3 to 57.9 and the amount of credit extended fell from 65.7 to 63.2. This suggests that the rapid growth marking manufacturing over the last several months has been slowing down and there may be trepidation about the future. The index of favorable factors remains in the 60s, but there was a slight decline from 62.9 to 62.2. The real point is that the index is still well above 60.

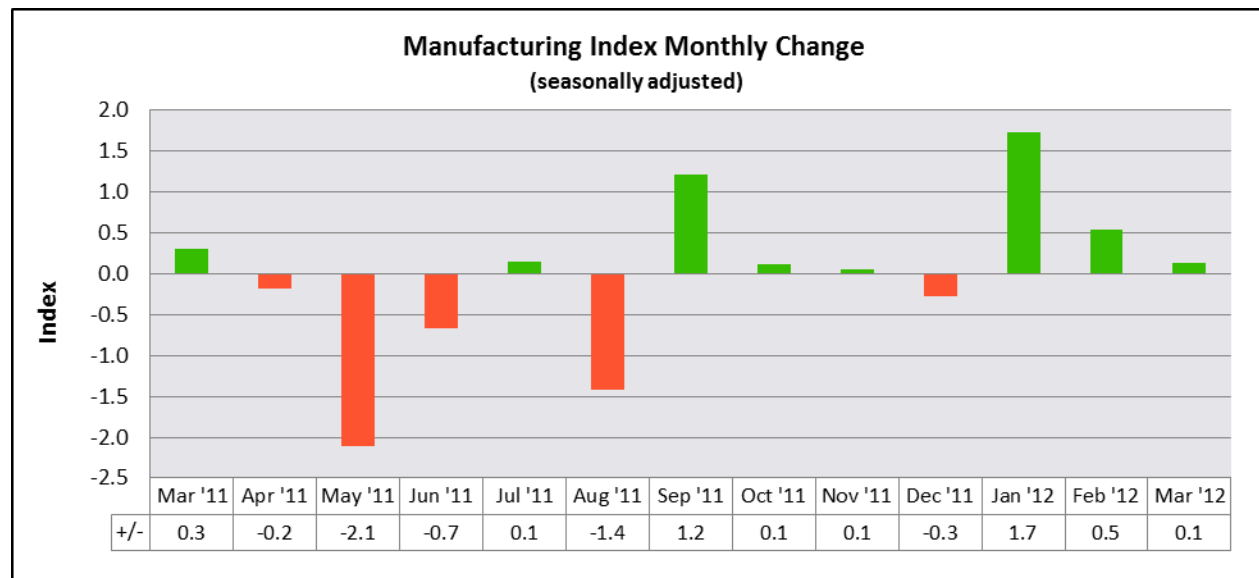
There was slight improvement in the index of unfavorable factors as well, which moved from 50.5 to 51.2. The bulk of that movement can be attributed to a reduction in the negatives—disputes were down and there was an improvement in the dollar amount of customer deductions. The factors that deteriorated were those that reflect the future. Rejections of credit applications shifted from 50.1 to 49.6 and that is the only category now remaining

under 50. The other significant shift is in the filings for bankruptcies number—from 53.8 to 55.3. The rate of failures has started to decline, which is consistent with the end of a recessionary period.

The manufacturing data in general has been mixed in the last few months. For every positive number there seems to be a negative one and it may be well into the summer before the sector starts to settle into a trend. Capacity utilization is in the low 80s, durable goods orders are down and there are some weaknesses that will remain in construction related activity. The bright spots are in anything related to energy and mining as well as the automotive sector. If the consumer continues to come back to life, the level of vehicle sales will continue to expand and that lifts the sector as a whole.

The year-to-year trend is still heading in the right direction, although it remains somewhat more subdued than would be preferred. The good news is still that the manufacturing index is tracking over 50 and has been for over 18 months. The bad news is that the index has yet to crest over 60. It is getting closer, however, and that provides encouragement for the future.

Manufacturing Sector (seasonally adjusted)	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12
Sales	65.4	63.9	57.8	58.5	59.3	58.0	59.5	59.3	58.1	57.7	64.1	65.1	65.4
New credit applications	60.6	60.3	58.7	54.5	56.4	55.3	57.5	60.6	55.7	49.5	64.2	59.3	57.9
Dollar collections	60.8	60.2	60.1	55.3	55.4	56.0	56.7	56.5	56.2	58.0	56.8	61.4	62.2
Amount of credit extended	64.5	66.5	61.4	59.2	61.2	59.5	62.1	60.7	62.7	63.6	66.2	65.7	63.2
Index of favorable factors	62.8	62.7	59.5	56.9	58.1	57.2	58.9	59.3	58.2	57.2	62.8	62.9	62.2
Rejections of credit applications	51.6	51.0	52.6	51.8	50.8	50.4	50.0	49.6	49.6	49.8	50.5	50.1	49.6
Accounts placed for collection	53.9	50.7	50.7	49.8	49.4	47.3	49.6	48.8	51.6	50.7	48.6	51.1	51.6
Disputes	49.0	50.5	49.2	49.0	50.0	48.6	44.9	47.7	48.5	49.3	48.3	49.6	50.2
Dollar amount beyond terms	51.6	52.2	45.8	50.6	49.1	42.6	51.3	49.7	47.1	48.4	47.6	52.2	50.1
Dollar amount of customer deductions	48.8	49.5	47.7	49.5	47.8	48.9	48.1	47.7	48.8	49.3	49.2	46.5	50.6
Filings for bankruptcies	57.2	56.8	56.4	55.6	55.9	54.5	53.4	53.7	56.5	55.7	53.8	53.8	55.3
Index of unfavorable factors	52.0	51.8	50.4	51.0	50.5	48.7	49.5	49.5	50.4	50.5	49.7	50.5	51.2
NACM Manufacturing CMI	56.3	56.1	54.0	53.4	53.5	52.1	53.3	53.4	53.5	53.2	54.9	55.5	55.6



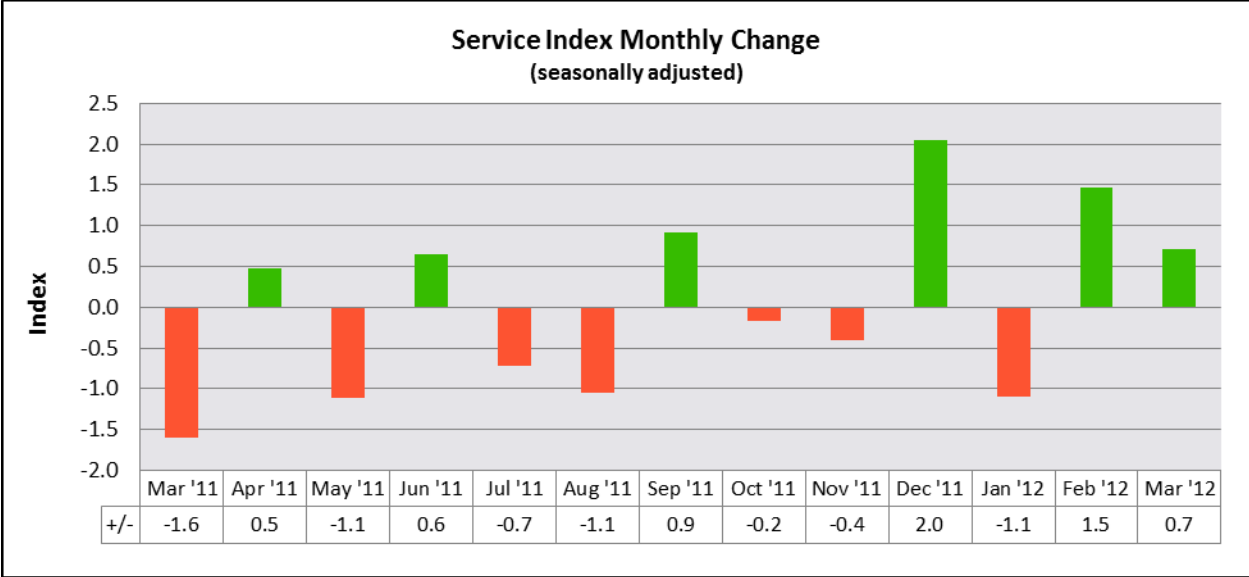
Service Sector

The index of favorable factors was steady despite significant change in one of the factors. The rise in new credit applications was impressive—improving from 59.6 to 62.8. The decline in dollar collections was equally impressive, but not in a good way. The February number had risen to 64.5, but in March it tumbled to 60.7. This may suggest that some business sectors are slowing more than expected. There was also a small decline in sales, but that is more an indication of a slow retail season than anything more endemic.

Unfavorable factors were overall positive as there is more evidence that some of the recession shake-out is finally coming to an end. For the first time in more than a year, all indicators were in expansion territory. The gains were not huge, but trending in the right direction. The biggest gains were in rejections of credit applications and disputes. It is good news to see that credit is moving again (as also indicated by the amount of credit extended). The decline in disputes suggests that companies considered to be weak have started to either vanish altogether or are starting to catch up on debt. This is often a trend that precedes more credit movement.

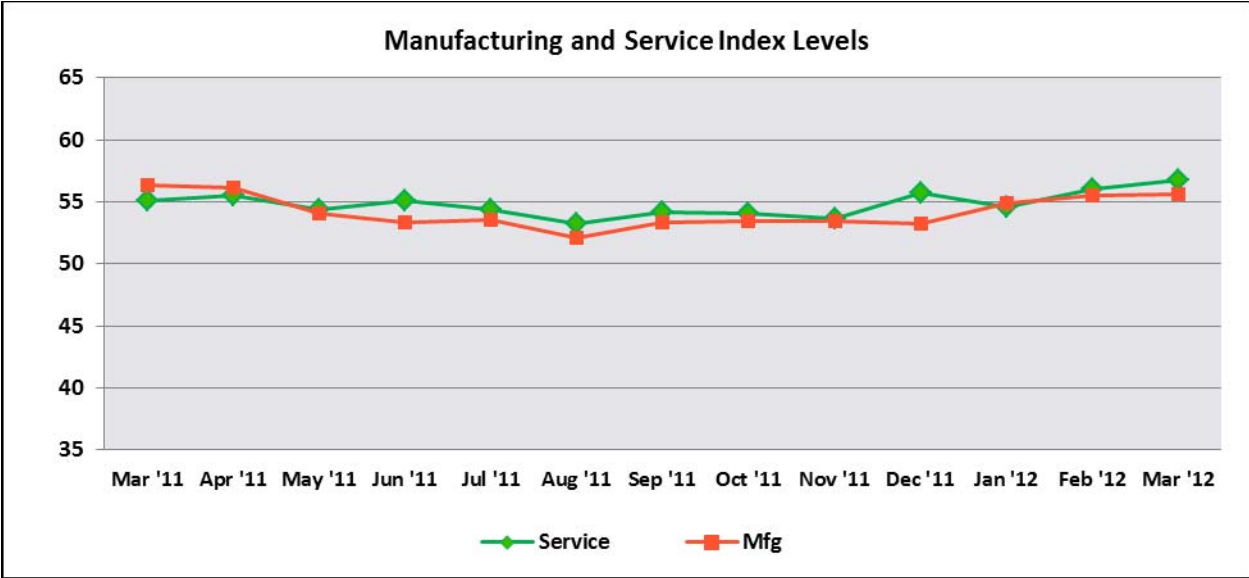
Activity in the service sector is always more volatile than in manufacturing due in part to the diversity of the sectors. The retail community is always very seasonal and reacts strongly to the holiday spending periods, as well as the spring ordering season for that coming holiday. Construction is also a volatile sector in most years. This has been something of an exception due to the unseasonable winter. The usual pattern would see a surge in activity as spring arrives, but this year there was no traditional shutdown due to weather.

Service Sector (seasonally adjusted)	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12
Sales	63.9	65.0	61.1	63.2	60.7	60.5	63.3	61.5	58.4	63.3	62.9	63.6	62.8
New credit applications	59.0	57.3	57.8	58.8	58.2	56.3	58.0	57.2	59.4	61.1	59.6	59.6	62.8
Dollar collections	59.2	62.3	57.3	60.9	57.1	57.9	58.9	57.0	57.6	64.9	56.7	64.5	60.7
Amount of credit extended	64.2	63.0	62.7	61.6	62.7	61.9	63.5	63.2	62.1	65.7	60.4	63.0	64.6
Index of favorable factors	61.6	61.9	59.7	61.1	59.7	59.1	60.9	59.7	59.4	63.8	59.9	62.7	62.7
Rejections of credit applications	50.1	50.5	50.4	50.0	51.2	50.1	49.8	50.9	49.4	49.1	49.9	50.8	51.6
Accounts placed for collection	50.2	50.2	49.9	49.8	50.3	47.8	47.8	51.3	47.5	49.3	49.6	50.7	52.5
Disputes	48.7	48.1	48.5	49.6	50.0	48.9	50.4	50.2	47.2	49.0	50.1	49.9	51.6
Dollar amount beyond terms	47.8	49.2	47.3	49.1	47.5	45.9	46.9	45.4	48.8	49.3	48.5	50.3	51.2
Dollar amount of customer deductions	49.8	50.3	49.4	50.5	49.9	49.3	50.2	49.8	48.9	48.9	51.0	50.6	51.5
Filings for bankruptcies	57.7	59.5	59.8	57.3	55.8	54.6	53.1	54.0	57.0	56.2	57.2	57.6	58.4
Index of unfavorable factors	50.7	51.3	50.9	51.0	50.8	49.4	49.7	50.3	49.8	50.3	51.0	51.6	52.8
NACM Service CMI	55.1	55.5	54.4	55.1	54.3	53.3	54.2	54.0	53.6	55.7	54.6	56.0	56.8



March 2012 vs. March 2011

The year-to-year trend is still heading in the right direction although it remains somewhat more subdued than would be preferred. The good news is still that the index is tracking over 50 and has been for over 18 months. The bad news is that the index has yet to crest over 60. It is getting closer, however, and that provides some encouraging notes for the future.



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 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:

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

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>.

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