Report for May 2013

Issued May 31, 2013

National Association of Credit Management

Combined Sectors

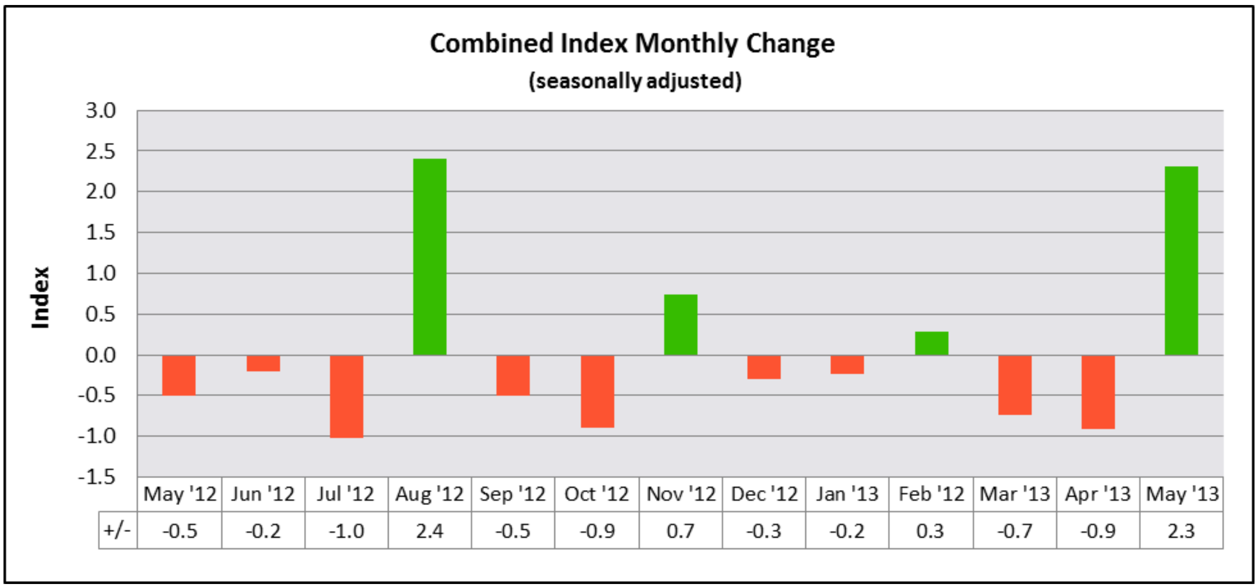
The Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) for May leapt over two percentage points, from 53.3 to 55.6, to reach a level not posted since August 2012. The improvement becomes more convincing upon review of the data, and is supported by better consumer confidence numbers and the general enthusiasm greeting the latest housing data.

The index of favorable factors made the transition into the 60s for the first time since November of last year, and is at the highest point in well over a year and a half at 61.6. This was a major breakthrough month and signals the potential for solid gains in subsequent months. Each of the four favorable factors staged recoveries. Sales jumped from 58.3 to 63, which is much higher than it has been in over a year. New credit applications improved from 56.5 to just under the 60 mark at 59.2, another level not seen in a year. Dollar collections jumped as well, from 57.2 to 59.2, a number last seen in December. Finally, amount of credit extended jumped much further into the 60s, from 60.8 to 65. Not since before the recession has this number been so high. "If the willingness to extend credit is surging at this pace, there will be some lofty expectations for the months to come. There would be good reason to question data this optimistic except for the good news percolating in the ranks of the consumer sector, and it is reasonable to assume that this CMI number reflects some of that.

The data from the unfavorable factors is also encouraging and further reinforces the notion that a real rebound is underway. The jump was not quite as spectacular as with the favorable factors, but if the past is prologue there will likely be a bigger response in next month's data. The unfavorable factor index rose above last month's neutral 50 reading to 51.6. Some of its categories experienced a little reversal, but were offset by gains in other segments. Two factors, disputes and filings for bankruptcies, didn't move at all and remained at 48.5 and 56, respectively. Rejections of credit applications fell from 51.6 to 50.8 but, anecdotally, it appears there are far more applications to deal with, which may have affected rejection rates. Accounts placed for collection crept up from 50.1 to 50.6, and dollar amount of customer deductions improved by a larger degree, but remains in the 40s, from 46.8 to 49.6. Dollar amount beyond terms made the most solid gain, jumping out of the 40s from 47 to 54.1, marking the highest level seen in well over two years. Creditors are clearly getting caught up in a variety of economic sectors. In review, the one factor that had the most impact was that of dollar amount beyond terms and if there is to be progress this would be a good place to see it.

The data from this month's CMI looks especially positive, and it would be tempting to start trotting out all kinds of caveats and warnings in order to not be swayed by the stunning improvements. But the CMI may simply be presaging much better days ahead.

Combined Manufacturing and Service Sectors (seasonally adjusted)	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13
Sales	61.2	60.6	58.5	62.0	59.5	57.4	60.4	56.7	58.6	59.2	57.4	58.3	63.0
New credit applications	59.9	57.5	57.2	56.8	57.4	56.6	56.5	57.7	57.1	56.7	56.9	56.5	59.2
Dollar collections	58.5	60.0	58.7	59.7	58.5	54.6	61.3	59.2	56.9	57.5	57.7	57.2	59.2
Amount of credit extended	61.3	62.6	61.3	61.4	62.3	62.2	63.0	61.5	62.2	62.5	61.6	60.8	65.0
Index of favorable factors	**60.2**	**60.2**	**58.9**	**60.0**	**59.4**	**57.7**	**60.3**	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**
Rejections of credit applications	51.1	51.4	51.4	52.4	51.4	52.0	51.1	51.5	52.8	52.3	51.9	51.6	50.8
Accounts placed for collection	50.5	48.3	48.9	52.4	52.5	53.0	51.2	52.1	50.4	51.8	49.7	50.1	50.6
Disputes	49.4	48.9	47.6	51.9	50.5	50.9	50.1	50.5	50.4	50.4	48.3	48.5	48.5
Dollar amount beyond terms	48.0	50.5	47.8	50.9	51.0	48.0	49.9	50.9	49.6	49.8	51.2	47.0	54.1
Dollar amount of customer deductions	50.2	48.7	48.2	51.4	51.0	50.7	49.7	51.3	50.3	50.7	49.9	46.8	49.6
Filings for bankruptcies	56.4	56.0	54.9	59.6	59.1	58.9	58.4	57.4	58.1	58.3	57.3	56.0	56.0
Index of unfavorable factors	**50.9**	**50.6**	**49.8**	**53.1**	**52.6**	**52.3**	**51.7**	**52.3**	**51.9**	**52.2**	**51.4**	**50.0**	**51.6**
NACM Combined CMI	**54.6**	**54.5**	**53.4**	**55.8**	**55.3**	**54.4**	**55.2**	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**



Manufacturing Sector

For the second month in a row, something positive has come out of the manufacturing sector. This sector warrants special attention, as the CMI tends to predict the movement in the next month's Purchasing Managers' Index (PMI). The PMI data that has emerged thus far is not much to write home about, but isn't bad either. By the looks of this month's CMI, the data for the PMI for June will look a lot better.

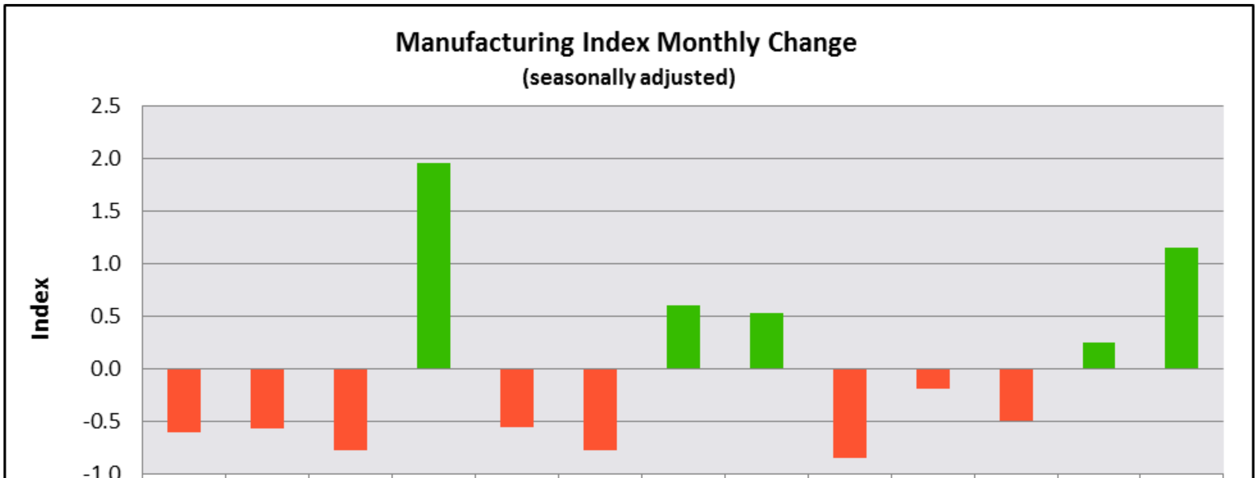
There was a good rebound in terms of the overall index from 53.4 to 54.5. This is not as spectacular as the overall index numbers, but is much better and comes close to that of December. The real movement occurred in the favorable factor index, which came in just shy of reaching 60, at 59.6, and is the highest level reached since June of last year when the reading was 60.4.

Looking at the individual factors, there was good progress in important categories. New credit applications showed some solid growth (from 55.8 to 57.4), despite the expectations it would not do so well with so many manufacturers affected by decisions related to the sequester. This may yet start to manifest in the coming months. Amount of credit extended was already in the 60s at 60.1, and improved more to 63.3. Dollar collections gained more modestly than expected, from 57.4 to 58.5. Finally, the all-important sales number stayed at last month's reading of 59.2, but the important note to take away is that it is still very close to breaking the 60 barrier.

Even with four of its six factors posting declines, the unfavorable factor index nonetheless trended in the positive direction, improving from 50.1 to 51.1, and returning to numbers last seen in February. Rejections of credit applications fell from 52.2 to 51.3. Here, as in the combined number, there is some suspicion that there were more applications than in the past year, and not all of them of the desired quality. Accounts placed for collection fell from 51.8 to 50.3. As mentioned in the CMI reports of the last few months, there are more than a few companies scrambling to keep up with the competition, but, lacking the necessary resources, they soon start to fall off the pace and get in trouble. Disputes deteriorated more from 48.5 to 46.8, reinforcing the notion that some companies are struggling to handle the transition between recession and the start of real growth. Finally, the last drop was in filings for bankruptcies, which slipped from 55.3 to 54.7.

The two factors that improved, driving the rise in the index were dollar amount of customer deductions, from 48.0 to 48.2, with the real bright spot coming from dollar amount beyond terms, which surged from 45.5 to 55.7—far higher than it has been in a year, and higher than almost any month since the downturn started. "It is evident that those companies healthy enough to react to the economy's growth potential are catching up on their debt," said Kuehl. "This was truly a month with a clear distinction between the haves and the have nots."

Manufacturing Sector **(seasonally adjusted)**	**May '12**	**Jun '12**	**Jul '12**	**Aug '12**	**Sep '12**	**Oct '12**	**Nov '12**	**Dec '12**	**Jan '13**	**Feb '13**	**Mar '13**	**Apr '13**	**May '13**
Sales	61.6	59.1	57.2	60.0	57.3	56.7	57.8	56.9	57.4	57.3	55.5	59.2	59.2
New credit applications	61.1	57.2	56.5	56.3	55.7	57.0	53.6	58.0	57.7	55.5	54.8	55.8	57.4
Dollar collections	59.7	61.9	59.6	59.7	56.8	52.6	60.7	59.7	56.6	55.9	54.7	57.4	58.5
Amount of credit extended	61.0	63.2	59.6	60.8	61.9	61.6	61.7	61.2	61.1	61.6	61.3	60.1	63.3
Index of favorable factors	**60.9**	**60.4**	**58.2**	**59.2**	**57.9**	**57.0**	**58.4**	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**
Rejections of credit applications	50.4	50.5	51.2	52.2	50.7	51.2	52.1	51.4	51.1	52.2	51.8	52.2	51.3
Accounts placed for collection	49.0	47.7	49.1	52.1	52.0	52.4	50.7	52.2	50.3	50.7	48.6	51.8	50.3
Disputes	48.2	47.0	47.6	50.1	49.3	48.9	49.1	49.2	49.9	47.9	47.0	48.5	46.8
Dollar amount beyond terms	46.9	49.2	47.8	50.1	51.3	48.3	50.4	52.1	48.0	49.3	52.4	45.5	55.7
Dollar amount of customer deductions	49.5	46.6	46.6	49.2	50.9	49.9	48.5	50.0	49.2	48.8	48.5	48.0	48.2
Filings for bankruptcies	54.3	53.8	53.3	57.5	56.8	56.3	56.4	55.6	56.5	56.9	56.7	55.3	54.7
Index of unfavorable factors	**49.7**	**49.1**	**49.3**	**51.9**	**51.8**	**51.2**	**51.2**	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**
NACM Manufacturing CMI	**54.2**	**53.6**	**52.8**	**54.8**	**54.3**	**53.5**	**54.1**	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**



	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13
+/-	-0.6	-0.6	-0.8	2.0	-0.5	-0.8	0.6	0.5	-0.8	-0.2	-0.5	0.2	1.2

Service Sector

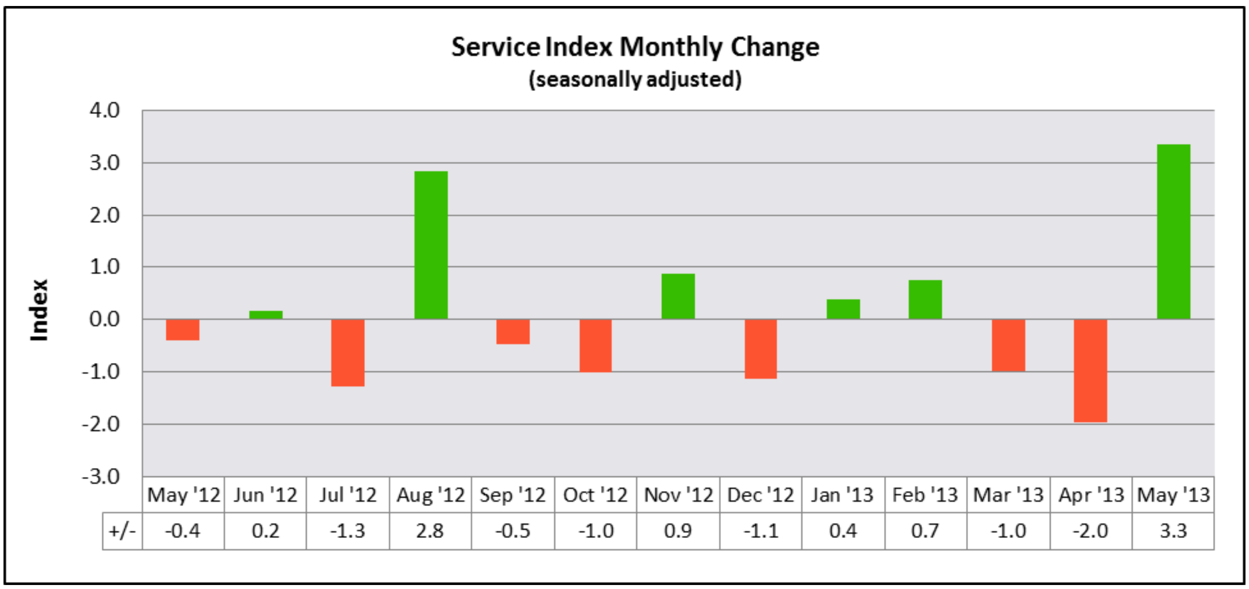
"What a difference a month can make," said Kuehl. "In the survey for April, the real issues showed up in the service sector as retail struggled and the other sectors were not compensating. This month, the service categories are pulling the index forward and retail is in the lead. It is astonishing what a difference some confident consumers can make." The overall index reading jumped from 53.3 to 56.6 to equal the numbers seen last summer. The most impressive gains were in the favorable factors, which surged into the 60s dramatically. The favorable factor index leapt from 58.3 to 63.6.

Almost all favorable factors made it into the 60s this month. The only exception was dollar collections, but the improvement from 57.1 to 59.9 could not possibly get any closer. Sales improved sharply, reaching levels not seen in over two years. Last month, the reading registered a decline and sat at 57.4. This month, the reading is 66.7, and is mostly attributed to growth in the home construction sector and retail in general. New credit applications also improved significantly from 57.2 to 61. Amount of credit extended is tracking close to 70 these days, standing at 66.8. This sector has not seen numbers like this since before the recession in 2008.

The movement in unfavorable factors was nearly as impressive. The index reading went from 50 to 52—not the kind of wild improvement that might have been desired, but back to respectable levels. Rejections of credit applications was the only factor to fall (from 51.1 to 50.2), once more giving the feeling that this is volume related. Accounts placed for collection improved from 48.4 to 51, disputes made a substantial gain from 48.6 to 50.2, dollar amount of customer deductions jumped back into the 50s with a move from 49.5 to 51, and there was improvement in filings for bankruptcies from 56.6 to 57.2. Dollar amount beyond terms was once again the big mover, rising from 45.6 to 52.5.

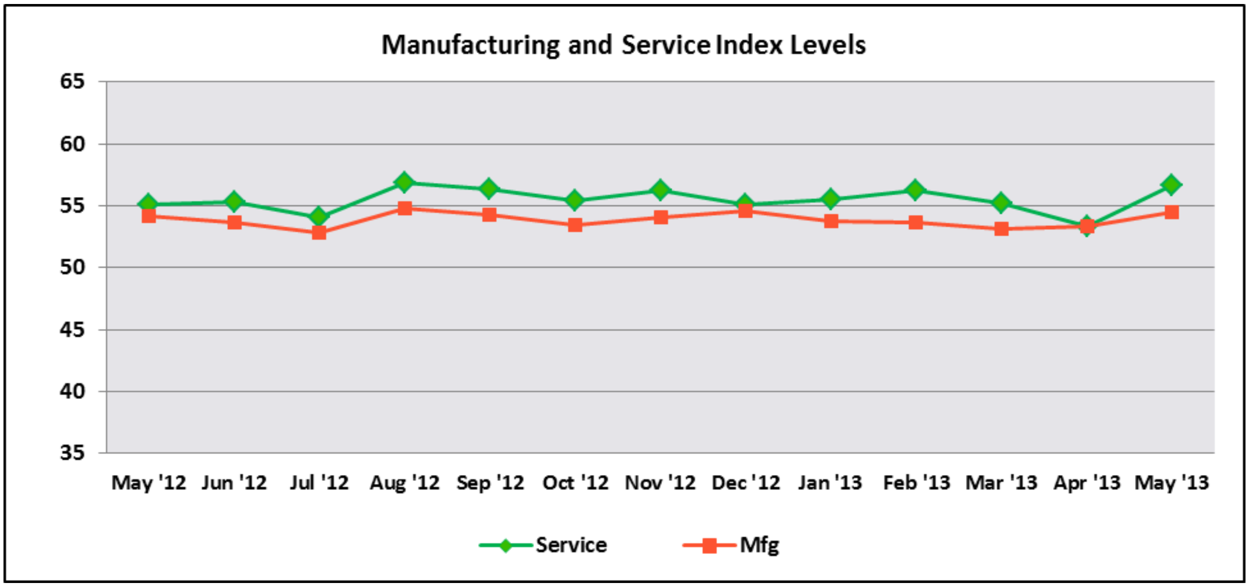
"This is really the story of the month across the two sectors," said Kuehl. "Debtors are making an effort to get current. When that has happened in the past, there has been far more credit activity." This month's numbers bear out that trend again. Last month, only two of six unfavorable factors managed to stay in the 50s, with the rest in the 40s. This month, all registered in the 50s, with one getting close to the 60 mark.

Service Sector (seasonally adjusted)	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13
Sales	60.9	62.1	59.8	64.0	61.7	58.2	63.0	56.6	59.9	61.2	59.4	57.4	66.7
New credit applications	58.8	57.7	57.9	57.3	59.2	56.2	59.5	57.3	56.5	57.9	59.1	57.2	61.0
Dollar collections	57.3	58.1	57.9	59.7	60.3	56.5	62.0	58.7	57.2	59.1	60.7	57.1	59.9
Amount of credit extended	61.5	62.0	63.0	61.9	62.7	62.8	64.4	61.8	63.2	63.4	61.9	61.5	66.8
Index of favorable factors	**59.6**	**60.0**	**59.6**	**60.7**	**61.0**	**58.4**	**62.2**	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**
Rejections of credit applications	51.8	52.2	51.6	52.5	52.2	52.8	50.2	51.6	54.5	52.5	51.9	51.1	50.2
Accounts placed for collection	52.0	49.0	48.7	52.6	53.0	53.6	51.7	52.0	50.6	52.9	50.8	48.4	51.0
Disputes	50.6	50.8	47.6	53.7	51.7	52.9	51.1	51.9	50.9	52.9	49.6	48.6	50.2
Dollar amount beyond terms	49.0	51.9	47.8	51.7	50.7	47.8	49.4	49.6	51.1	50.4	49.9	45.6	52.5
Dollar amount of customer deductions	51.0	50.9	49.7	53.6	51.1	51.5	50.9	52.6	51.3	52.7	51.3	49.5	51.0
Filings for bankruptcies	58.4	58.3	56.4	61.6	61.3	61.5	60.4	59.2	59.8	59.6	58.0	56.6	57.2
Index of unfavorable factors	**52.1**	**52.2**	**50.3**	**54.3**	**53.3**	**53.3**	**52.3**	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**
NACM Service CMI	**55.1**	**55.3**	**54.0**	**56.9**	**56.4**	**55.4**	**56.2**	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**



May 2013 versus May 2012

The year-over-year numbers sharply improved, a very good sign given all the other economic data emerging this month. The early warning indicators are all trending positive now, and that will bear watching. If the CMI holds this trend through June, there will be some reason to celebrate.



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:

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

For negative indicators, the calculation is:

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

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.*

NACM
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 this report and the CMI archives at http://web.nacm.org/cmi/cmi.asp.

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