Report for June 2013

Issued June 27, 2013

National Association of Credit Management

Combined Sectors

The June Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) confirms that the significant growth reported in May was genuine. The June CMI reached 56.1—not as dramatic a jump as last month, but still trending in the right direction. The reading is now as high as it has been since before the recession started to drag the economy down.

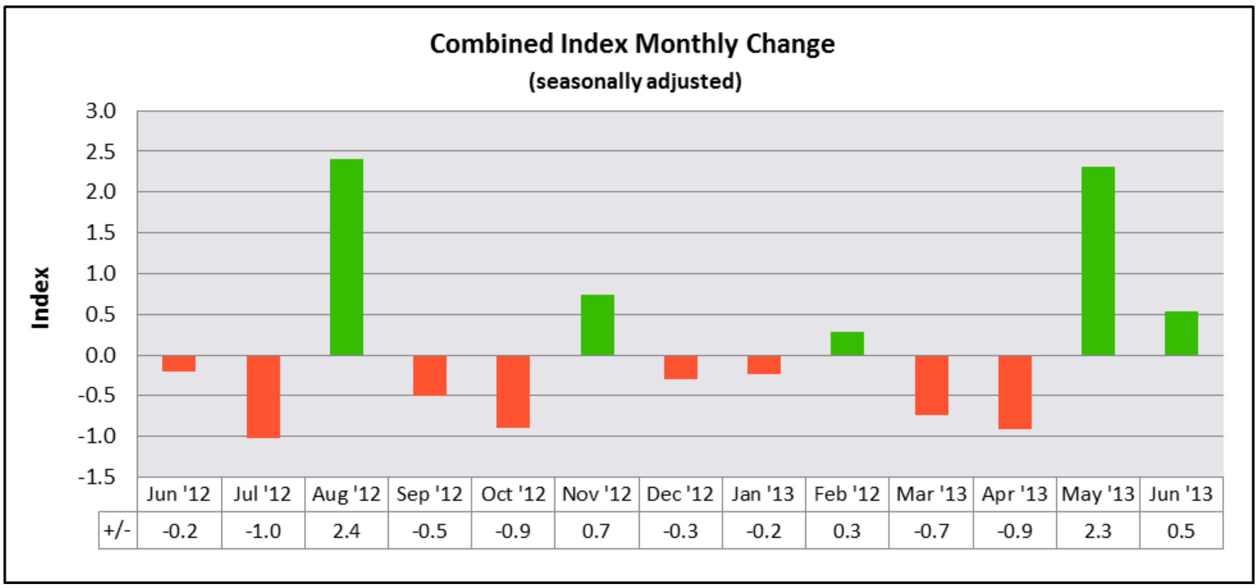
The index of favorable factors dipped a little, but remained above 60 at 60.8, which bodes very well for the future. Sales remained well above 60, even though the factor slipped slightly from 63 to 62.3, while new credit applications also fell from 59.2 to 58.8. Dollar collections was basically stable, rising from 59.2 to 59.3. Finally, amount of credit extended fell from 65.0 to 62.8. This has been perhaps the steadiest of the favorable factors given its narrow range over the last year: a low of 60.8 in April, with a high of 65.0 in May.

"The credit industry is one of those harbinger sectors," said NACM Economist Chris Kuehl, PhD. "Movement in the economy is heralded by movement in credit—positively and negatively. In the early days of the recession, the collapse in credit signaled what was to come as the CMI was plunging into the 40s and 30s before the rest of the economy really knew what had hit it. Now there is solid multi-month evidence of a resurging credit sector and that will likely lead to more overall economic progress."

The index of unfavorable factors jumped to a two-year high from 51.6 to 53.0, and all but one factor improved. "It is really hard to overstate the significance of these readings given the place that credit management holds in the overall economy," said Kuehl. A rise in rejections of credit applications from 50.8 to 52.6 indicated that while fewer credit applications were submitted, more were accepted. "In a nutshell, there are more companies with good credit applying now, and that is a positive sign for everybody," Kuehl noted. Accounts placed for collection improved from 50.6 to 53.9, a level not been seen in over 21 months. The consumers of credit are staying more current than they have been. Disputes moved out of the 40s for the first time since February, from 48.5 to 51.9, another sign that there is less tension within the ranks of the credit department. Dollar amount of customer deductions also moved out of the 40s for the first time since February to 52.5. Filings for bankruptcies stayed roughly the same, moving up slightly from 56.0 to 56.8. The declining factor was dollar amount beyond terms, which saw a big drop from 54.1 to 50.5, suggesting that some credit departments are cutting key customers a bit of slack and allowing more flexibility than in the past.

"In May, the index set recent records in a host of factors leaving only two real interpretations available: either something positive was developing in the economy as a whole, or that something had gone terribly wrong," said Kuehl. "Now that May's growth carried forward into June, it is safe to assume that the progress noted last month was genuine and that provides some interesting opportunities for the economy going forward."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13
Sales	60.6	58.5	62.0	59.5	57.4	60.4	56.7	58.6	59.2	57.4	58.3	63.0	62.3
New credit applications	57.5	57.2	56.8	57.4	56.6	56.5	57.7	57.1	56.7	56.9	56.5	59.2	58.8
Dollar collections	60.0	58.7	59.7	58.5	54.6	61.3	59.2	56.9	57.5	57.7	57.2	59.2	59.3
Amount of credit extended	62.6	61.3	61.4	62.3	62.2	63.0	61.5	62.2	62.5	61.6	60.8	65.0	62.8
Index of favorable factors	**60.2**	**58.9**	**60.0**	**59.4**	**57.7**	**60.3**	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**
Rejections of credit applications	51.4	51.4	52.4	51.4	52.0	51.1	51.5	52.8	52.3	51.9	51.6	50.8	52.5
Accounts placed for collection	48.3	48.9	52.4	52.5	53.0	51.2	52.1	50.4	51.8	49.7	50.1	50.6	53.9
Disputes	48.9	47.6	51.9	50.5	50.9	50.1	50.5	50.4	50.4	48.3	48.5	48.5	51.9
Dollar amount beyond terms	50.5	47.8	50.9	51.0	48.0	49.9	50.9	49.6	49.8	51.2	47.0	54.1	50.5
Dollar amount of customer deductions	48.7	48.2	51.4	51.0	50.7	49.7	51.3	50.3	50.7	49.9	46.8	49.6	52.5
Filings for bankruptcies	56.0	54.9	59.6	59.1	58.9	58.4	57.4	58.1	58.3	57.3	56.0	56.0	56.8
Index of unfavorable factors	**50.6**	**49.8**	**53.1**	**52.6**	**52.3**	**51.7**	**52.3**	**51.9**	**52.2**	**51.4**	**50.0**	**51.6**	**53.0**
NACM Combined CMI	**54.5**	**53.4**	**55.8**	**55.3**	**54.4**	**55.2**	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**



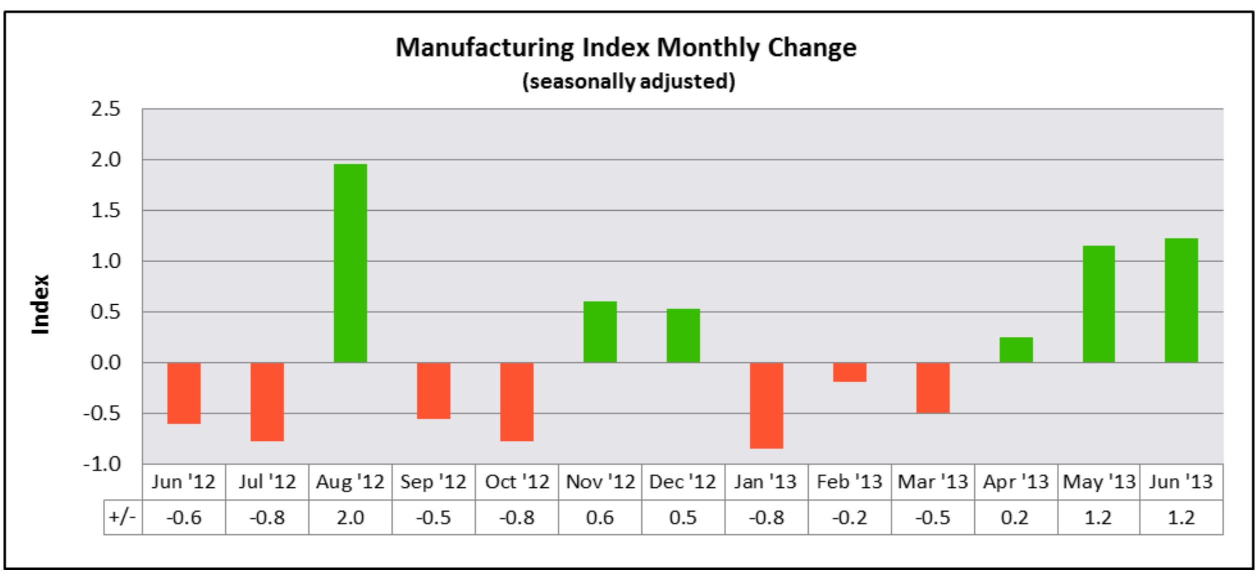
Manufacturing Sector

The manufacturing index rose from 54.5 to 55.8, the highest in over two years. There was a slight increase in the index of favorable factors, but the most important aspect of that slight rise is that the whole category is now in the 60s. The sales jump from 59.2 to 61.0 is consistent with data collected on the amount of capital expenditure in the factory sector. New credit applications and dollar collections also rose, from 57.4 to 58.6—an 18-month high, and from 58.5 to 59.4—a high not seen since December, respectively. The only category that slipped was amount of credit extended, but even with the fall from 63.3 to 61.2, the category remained above 60 and on a par with data from most of the past year.

The gains in the unfavorable factors were significant as well. The index moved from 51.1 to 52.9, setting a 20-month high. This the first time in close to two years that all unfavorable factors are above 50 and thoroughly in expansion territory, and is a very positive development for many in the manufacturing community that were prepared to write off another year. Rejections of credit applications improved from 51.3 to 52.7, seemingly reflecting more applications coming from the creditworthy than in the past few months. Accounts placed for collection rose fairly sharply from 50.3 to 53.6, which signals more creditors taking steps to get in better shape and anticipating the need for more credit in the coming months. Disputes finally jumped out of the 40s from 46.8 to 50.8, marking the first time out of the contraction doldrums since August. Dollar amount of customer deductions also left the contraction zone, from 48.2 to 52.5, barely missing a two-year high. Filings for bankruptcies took a nice jump as well, from 54.7 to 57.1. Only dollar amount beyond terms fell—and by quite a bit, from 55.7 to 50.8. It appears that creditors are giving debtors a little more slack because of anticipated growth.

If the overall CMI is telling a generally positive story, the manufacturing sector is trumpeting one, Kuehl said. This somewhat contradicts other manufacturing indicators, but closer examination reveals more positive news than first assumed. Durable goods looked a little weak until aerospace was stripped out, and with the Paris Air Show over, the sector should be pretty dynamic in the next month. Manufacturing data from the New York Fed was weak, but the Philadelphia Fed's was much better. Manufacturing is currently split between booming (automotive, energy, farm equipment and medical) and stagnant (construction related, aerospace and consumer durables) sectors. The good news is the former categories are still growing, and some life is coming back to the latter.

Manufacturing Sector (seasonally adjusted)	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13
Sales	59.1	57.2	60.0	57.3	56.7	57.8	56.9	57.4	57.3	55.5	59.2	59.2	61.0
New credit applications	57.2	56.5	56.3	55.7	57.0	53.6	58.0	57.7	55.5	54.8	55.8	57.4	58.6
Dollar collections	61.9	59.6	59.7	56.8	52.6	60.7	59.7	56.6	55.9	54.7	57.4	58.5	59.4
Amount of credit extended	63.2	59.6	60.8	61.9	61.6	61.7	61.2	61.1	61.6	61.3	60.1	63.3	61.2
Index of favorable factors	**60.4**	**58.2**	**59.2**	**57.9**	**57.0**	**58.4**	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**
Rejections of credit applications	50.5	51.2	52.2	50.7	51.2	52.1	51.4	51.1	52.2	51.8	52.2	51.3	52.7
Accounts placed for collection	47.7	49.1	52.1	52.0	52.4	50.7	52.2	50.3	50.7	48.6	51.8	50.3	53.6
Disputes	47.0	47.6	50.1	49.3	48.9	49.1	49.2	49.9	47.9	47.0	48.5	46.8	50.8
Dollar amount beyond terms	49.2	47.8	50.1	51.3	48.3	50.4	52.1	48.0	49.3	52.4	45.5	55.7	50.8
Dollar amount of customer deductions	46.6	46.6	49.2	50.9	49.9	48.5	50.0	49.2	48.8	48.5	48.0	48.2	52.5
Filings for bankruptcies	53.8	53.3	57.5	56.8	56.3	56.4	55.6	56.5	56.9	56.7	55.3	54.7	57.1
Index of unfavorable factors	**49.1**	**49.3**	**51.9**	**51.8**	**51.2**	**51.2**	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**
NACM Manufacturing CMI	**53.6**	**52.8**	**54.8**	**54.3**	**53.5**	**54.1**	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**

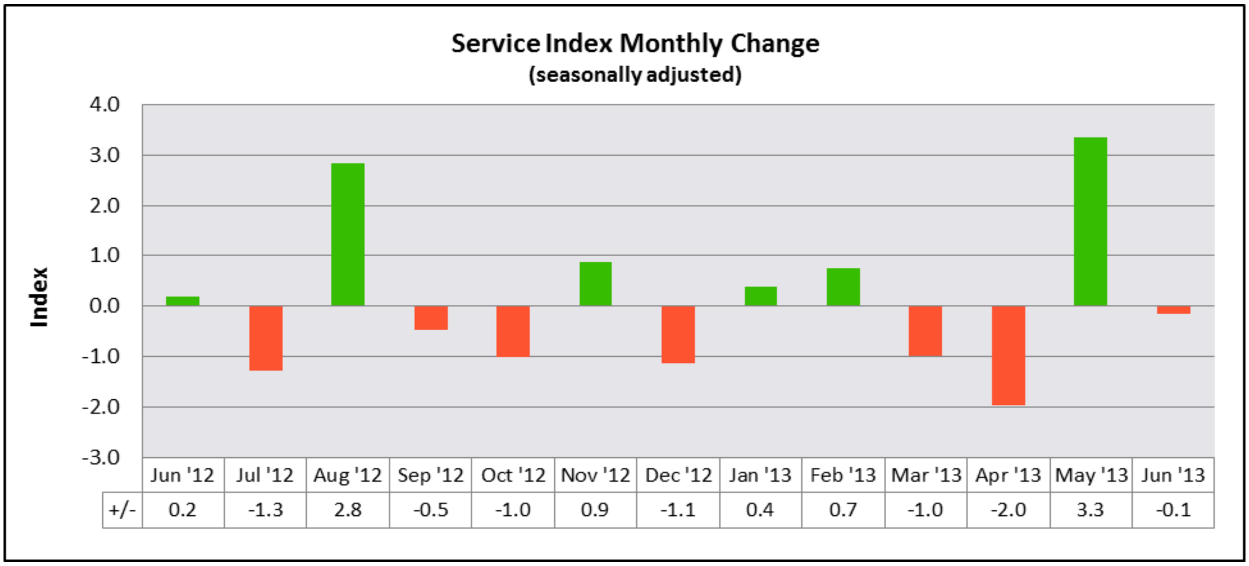


Service Sector

The decline in the service sector index was very small, from 56.6 to 56.5. This leaves the index close to the average of most of the past year. The bulk of the decline came from the favorable factors, the index of which slipped from 63.6 to 61.6. The good news is that this is still well into the 60s and on the high side of the year's average. Sales fell from 66.7 to 63.6, which was nearly inevitable given that last month's reading was the highest since before the recession hit in 2009. At 63.6, the reading is still higher than anything seen since August of 2012. New credit applications moved from 61 to 59.1, a little distressing, but not a crisis at this point. Dollar collections fell slightly from 59.9 to 59.3, but that is still higher than most of the last year. Amount of credit extended also fell from a pretty exalted position of 66.8 in May to 64.3. The May reading was far higher than it had been in the last year with the exception of November, when it was at 64.4.

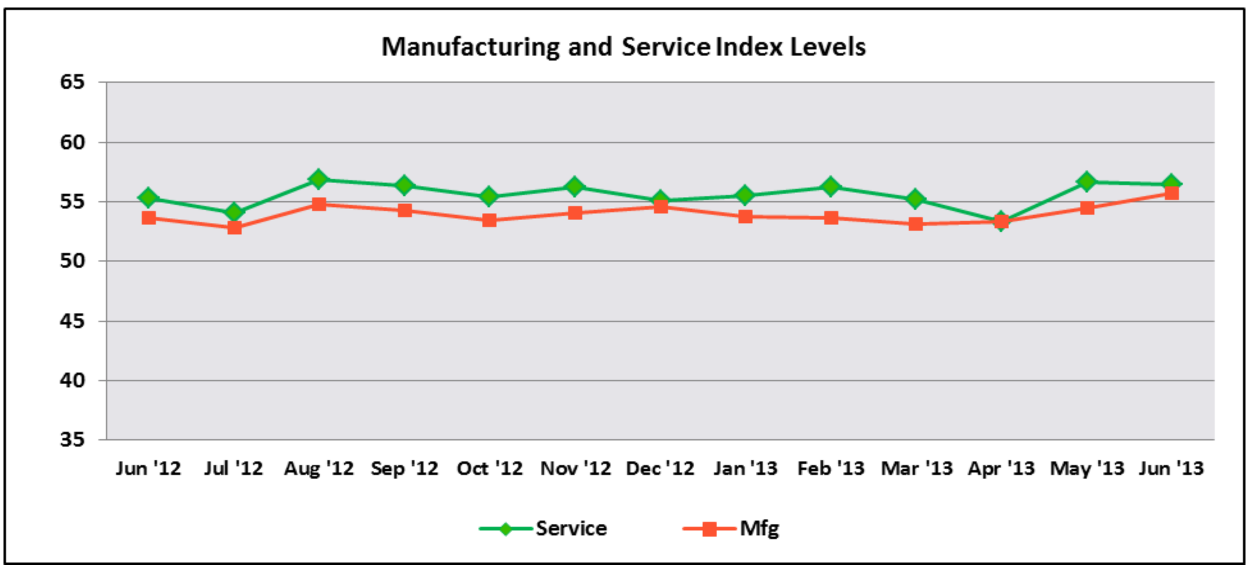
The overall index of unfavorable factors showed a slight rise, and is a pattern that repeats what was noted in the manufacturing index. The 53.1 marks a high point last seen in February. Rejections of credit applications also improved from 50.0 to 52.4, and is roughly where it was at the end of last year. Accounts placed for collection rose from 51 to 54.1, a signal of improved situations with the creditors. Likewise, disputes also improved from 50.2 to 53.0, as did dollar amount of customer deductions, which rose from 51.0 to 52.5. Two factors fell. Dollar amount beyond terms repeated the pattern noted in manufacturing, sliding from 52.5 to 50.3. The supposition is that some companies are giving their debtors more latitude in anticipation of improved performance later in the year. Filings for bankruptcies was the other to fall, from 57.2 to 56.5. Bankruptcies have slightly increased over the past year, and the pattern here seems consistent. In the early part of the year, the retail operations that did not handle the Christmas season well were the ones to toss in the towel. Now it appears to be those in the construction sector struggling to keep pace with the recent recovery. Some put themselves in crisis trying to catch up, but then didn't see the business boost to make that investment pay off.

Service Sector (seasonally adjusted)	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13
Sales	62.1	59.8	64.0	61.7	58.2	63.0	56.6	59.9	61.2	59.4	57.4	66.7	63.6
New credit applications	57.7	57.9	57.3	59.2	56.2	59.5	57.3	56.5	57.9	59.1	57.2	61.0	59.1
Dollar collections	58.1	57.9	59.7	60.3	56.5	62.0	58.7	57.2	59.1	60.7	57.1	59.9	59.3
Amount of credit extended	62.0	63.0	61.9	62.7	62.8	64.4	61.8	63.2	63.4	61.9	61.5	66.8	64.3
Index of favorable factors	**60.0**	**59.6**	**60.7**	**61.0**	**58.4**	**62.2**	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**
Rejections of credit applications	52.2	51.6	52.5	52.2	52.8	50.2	51.6	54.5	52.5	51.9	51.1	50.2	52.4
Accounts placed for collection	49.0	48.7	52.6	53.0	53.6	51.7	52.0	50.6	52.9	50.8	48.4	51.0	54.1
Disputes	50.8	47.6	53.7	51.7	52.9	51.1	51.9	50.9	52.9	49.6	48.6	50.2	53.0
Dollar amount beyond terms	51.9	47.8	51.7	50.7	47.8	49.4	49.6	51.1	50.4	49.9	45.6	52.5	50.3
Dollar amount of customer deductions	50.9	49.7	53.6	51.1	51.5	50.9	52.6	51.3	52.7	51.3	49.5	51.0	52.5
Filings for bankruptcies	58.3	56.4	61.6	61.3	61.5	60.4	59.2	59.8	59.6	58.0	56.6	57.2	56.5
Index of unfavorable factors	**52.2**	**50.3**	**54.3**	**53.3**	**53.3**	**52.3**	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**
NACM Service CMI	**55.3**	**54.0**	**56.9**	**56.4**	**55.4**	**56.2**	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**



June 2013 versus June 2012

The year-over-year numbers are still looking up. The trend is now solidly in the middle of the 50s and that is far better than only a few months ago. It is still early to declare that this will be a trend for the rest of the year, but it certainly looks far more optimistic than in the past.



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:

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

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.*

N A C M
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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