Report for February 2014

Issued February 28, 2014

National Association of Credit Management

Combined Sectors

February's reading of 55.6 puts the Credit Managers' Index (CMI) right back to where it was in December, when the overall index fell to a low point. This is not good news, as it has not been this anemic since July 2013. The sense was that the economy was stalling in the middle of the holiday spending season, but a month later the index bounced back to levels not seen in over two years (57.3). This created a sense that recovery had finally arrived and some expectations of more consistent growth through the rest of 2014.

"It appears this will be another one of 'those' years. At least it is starting out that way," said Chris Kuehl, PhD, economist for the National Association of Credit Management. "The burning question is yet again, which of these months is going to turn out to be the anomaly?"

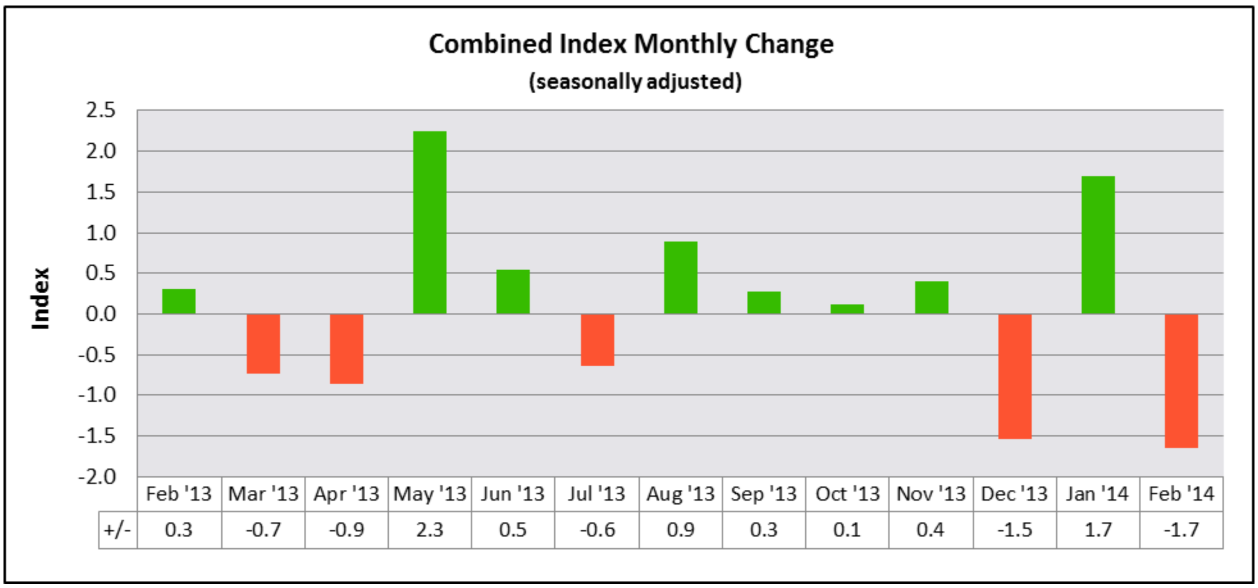
The February numbers indicate a weakness in a variety of areas, rather than something attributable to one or two specific situations. The index of favorable factors stumbled from 61.5 to 59.4, as did the index of unfavorable factors, from 54.5 to 53.1. Declines within these broader measures were pretty much across the board. Kuehl noted the slowing was broadly represented, creating a sense that something universal has been affecting the economy, and when the CMI is compared to other measures from the same timeframe, the message is consistent. "This may all end up being related to the bad weather this winter or it could be deeper and connected to continued weakness in the consumer and the business reaction to this consistent caution," Kuehl said.

A breakdown of the favorable categories shows a decline in almost all factors. Sales slipped from 61.5 to 59.4, a large reason for the favorable factor index's slip back to the December level. New credit applications barely moved from 58.2 to 58.1, but tracking in the wrong direction. Dollar collections slipped from 60.9 to 58.8, erasing the gains made last month. Amount of credit extended fell from 65.4 to 61.4 and may be the most serious blow. The low, not seen since April, suggests that credit is tighter than it has been. The good news is the category remains above 60.

There were across-the-board declines in the unfavorable factors as well. Rejections of credit applications fell from 54.6 to 52.3, erasing the gains of the last two months. Accounts placed for collection slipped from 55.2 to 54.6, but remains about where it has been floating for the last several months. Disputes went from 52.2 to 51.9 and dollar amount beyond terms went from 52.8 to 51.1. These are not huge drops, but they create some concern about what will happen in the next few months. Dollar amount of customer deductions went from 51.6 to 50.4, and, as with accounts placed for collection, leaves the category in roughly the same range as it has been for most of the last six months. Filings for bankruptcies went from 60.5 to 58.5, a steeper decline than expected as it has not been this low since August.

"The sense is that slow growth is starting to have an impact on the survival of business and some of that is to be expected, especially in the retail sector," Kuehl said. "The holiday season was not very robust and for companies that rely on those last months of the year, this can be the difference between staying open another year and giving up. As the economy slogs along, it is producing a growing number of businesses no longer positioned for survival."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14
Sales	59.2	57.4	58.3	63.0	62.3	61.4	63.1	62.7	62.5	63.4	58.7	61.5	59.4
New credit applications	56.7	56.9	56.5	59.2	58.8	58.0	58.7	57.4	58.5	59.2	57.2	58.2	58.1
Dollar collections	57.5	57.7	57.2	59.2	59.3	57.5	60.4	60.6	61.4	59.7	58.7	60.9	58.8
Amount of credit extended	62.5	61.6	60.8	65.0	62.8	62.4	63.3	62.9	63.8	63.2	62.6	65.4	61.4
Index of favorable factors	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**	**59.8**	**61.4**	**60.9**	**61.5**	**61.3**	**59.3**	**61.5**	**59.4**
Rejections of credit applications	52.3	51.9	51.6	50.8	52.5	53.2	52.7	53.0	52.1	53.3	54.5	54.6	52.3
Accounts placed for collection	51.8	49.7	50.1	50.6	53.9	53.6	52.5	54.3	53.3	55.0	53.4	55.2	54.6
Disputes	50.4	48.3	48.6	48.5	51.9	51.0	51.6	51.7	51.8	51.9	50.7	52.2	51.9
Dollar amount beyond terms	49.8	51.2	45.5	54.1	50.5	48.5	51.1	52.2	52.7	54.7	49.7	52.8	51.1
Dollar amount of customer deductions	50.7	49.9	48.7	49.6	52.5	51.0	51.4	51.7	51.8	52.4	51.5	51.6	50.4
Filings for bankruptcies	58.3	57.3	56.0	56.0	56.8	58.2	58.7	59.8	59.6	59.0	59.0	60.5	58.5
Index of unfavorable factors	**52.2**	**51.4**	**50.1**	**51.6**	**53.0**	**52.6**	**53.0**	**53.8**	**53.6**	**54.3**	**53.1**	**54.5**	**53.1**
NACM Combined CMI	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**	**55.5**	**56.4**	**56.6**	**56.7**	**57.1**	**55.6**	**57.3**	**55.6**



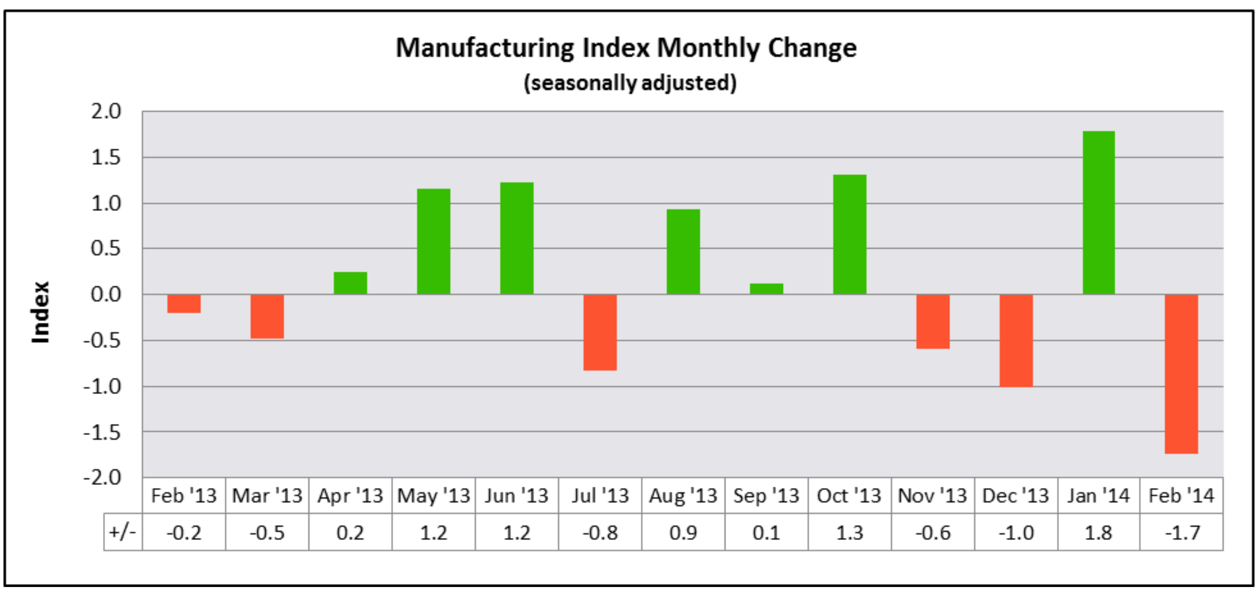
Manufacturing Sector

"Manufacturing is proving to be mysterious as the readings have been volatile and unpredictable," Kuehl said. "There has been much conjecture regarding the impact of the winter and analysts are mixed. Some are blaming the storms and the bitter cold for a general slowdown in all aspects of the economy. By implication, this suggests that the economy will improve when the weather does. The counter assertion is that there are deeper issues and recovery will not be as simple as turning calendar pages."

The manufacturing sector index fell from 57.5 to 55.7 driven by a dramatic slip in the favorable factor index from 62.0 to 58.1. Sales slipped slightly from 59.6 to 57.9, to lows not seen since March 2013. This seems to be more than a weather-related issue. New credit applications also dropped by a similar degree from 59.5 to 57.7, while dollar collections took a major hit, spiraling from 62.7 down to 56.4. That is a profound retreat, nearly as low as it has been in almost a year. Amount of credit extended slipped badly as well, from 66.4 to 60.4, staying above 60 by a slim margin, but falling to a low not seen since April. “If these readings continue to track this low, it essentially means that manufacturing has given up almost a solid year of gains,” Kuehl said.

The unfavorable factor index fell only slightly from 54.4 to 54.1. “This is perhaps the best news in the CMI this month as it suggests there is still no real distress in the sector despite the bad news, as far as growth is concerned,” said Kuehl. Most factors showed relatively little movement. Rejections of credit applications slipped from 54.4 to 52.8, but accounts placed for collection actually improved from 55.7 to 59.9, suggesting there is not a lot of financial distress showing up in many of the companies that make up the bulk of the manufacturing community. Disputes also improved a little from 51.0 to 51.6, also reinforcing the notion that overall financial distress has not set in. Dollar amount beyond terms slipped from 53.2 to 51.7 and dollar amount of customer deductions went from 51.8 to 50.4—not a big drop to be sure, but not trending in the right direction. Filings for bankruptcies slipped out of the 60s to 58.6. “Right now, the signs of real distress are not evident, but if there is continued slowing, this situation could change in a hurry,” Kuehl said.

Manufacturing Sector (seasonally adjusted)	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14
Sales	57.3	55.5	59.2	59.2	61.0	60.3	62.3	61.6	64.3	63.4	61.7	59.6	57.9
New credit applications	55.5	54.8	55.8	57.4	58.6	57.5	58.4	55.6	58.9	59.2	57.7	59.5	57.7
Dollar collections	55.9	54.7	57.4	58.5	59.4	57.9	61.0	60.5	61.4	58.7	59.5	62.7	56.4
Amount of credit extended	61.6	61.3	60.1	63.3	61.2	61.4	62.1	62.4	64.8	61.8	61.5	66.4	60.4
Index of favorable factors	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**	**59.3**	**61.0**	**60.0**	**62.4**	**60.8**	**60.1**	**62.0**	**58.1**
Rejections of credit applications	52.2	51.8	52.2	51.3	52.7	52.9	52.3	52.4	52.0	52.9	55.5	54.4	52.8
Accounts placed for collection	50.7	48.6	51.8	50.3	53.6	53.6	53.0	53.7	54.0	55.7	53.3	55.7	59.9
Disputes	47.9	47.0	48.5	46.8	50.8	49.5	49.8	50.8	52.1	51	50.2	51.0	51.6
Dollar amount beyond terms	49.3	52.4	45.5	55.7	50.8	48.3	52.5	52.9	54.6	54.8	50.0	53.2	51.7
Dollar amount of customer deductions	48.8	48.5	48.0	48.2	52.5	49.8	49.3	50.7	51.9	51.4	49.7	51.8	50.4
Filings for bankruptcies	56.9	56.7	55.3	54.7	57.1	58.1	57.9	59.4	59.0	58.5	57.7	60.4	58.6
Index of unfavorable factors	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**	**52.0**	**52.5**	**53.3**	**53.9**	**54**	**52.7**	**54.4**	**54.1**
NACM Manufacturing CMI	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**	**54.9**	**55.9**	**56.0**	**57.3**	**56.7**	**55.7**	**57.5**	**55.7**



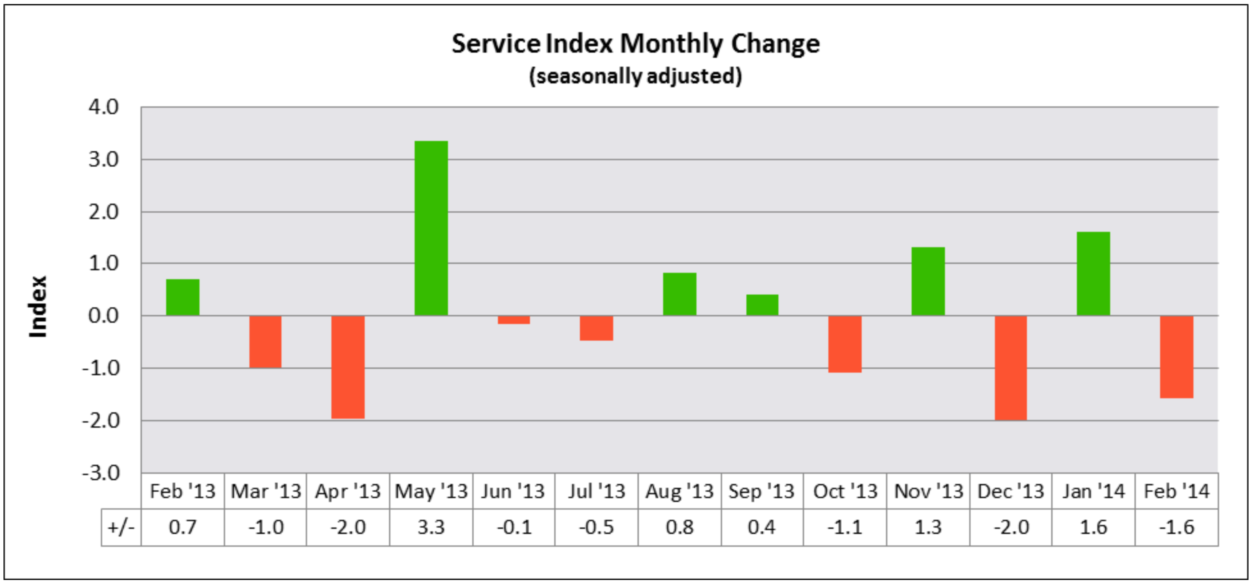
Service Sector

The retreat in the service sector, which fell from 57.1 o 55.5, was not quite as dramatic as in manufacturing, but was still mostly negative. The service sector's index of favorable factors declined from 61.0 to 60.7, leaving it above 60 and better than it has been for much of the past year. Sales slipped from 63.4 to 60.9 and amount of credit extended also slid from 64.4 to 62.3, but the two other factors managed to record gains. New credit applications provided some good news, improving from 57.0 to 58.5. It appears that there is life left in the retail sector as well as in construction. Dollar collections also improved, from 59.2 to 61.1, posting its highest reading since October. This is also a good sign, suggesting underlying health in the service sector.

The index of unfavorable factors slid more dramatically than the favorable factor index, from 54.5 to 52.1, indicating that there is more distress showing up in these categories. "That is not particularly shocking given there is always a shakeout in the retail community this time of year," Kuehl noted. Rejections of credit applications fell fairly steeply, from 54.8 to 51.8 and accounts placed for collection also shrank from 54.8 to 49.3, marking the first time under the 50 expansion/contraction mark since April. This is mostly showing up in retail, but there is also tension in construction-related business due to slowing in the housing sector again. Disputes slid, but not that much, from 53.3 to 52.2. Dollar amount beyond terms fell from 52.3 to 50.6, which was not a huge drop, but now getting close to falling under 50, which might become a concern down the road. Dollar amount of customer deductions also slid close to the contraction line by falling from 51.4 to 50.4. Finally, filings for bankruptcies dropped from 60.5 to 58.4.

"The overall sense of the service sector is that retail pulled the index down and there was no other sector with the ability to offset these reductions," Kuehl said. "Construction-related categories were down a little and growth in the health care sector was not enough to pull the whole index forward, although this is where much of the favorable factor growth seemed to come from."

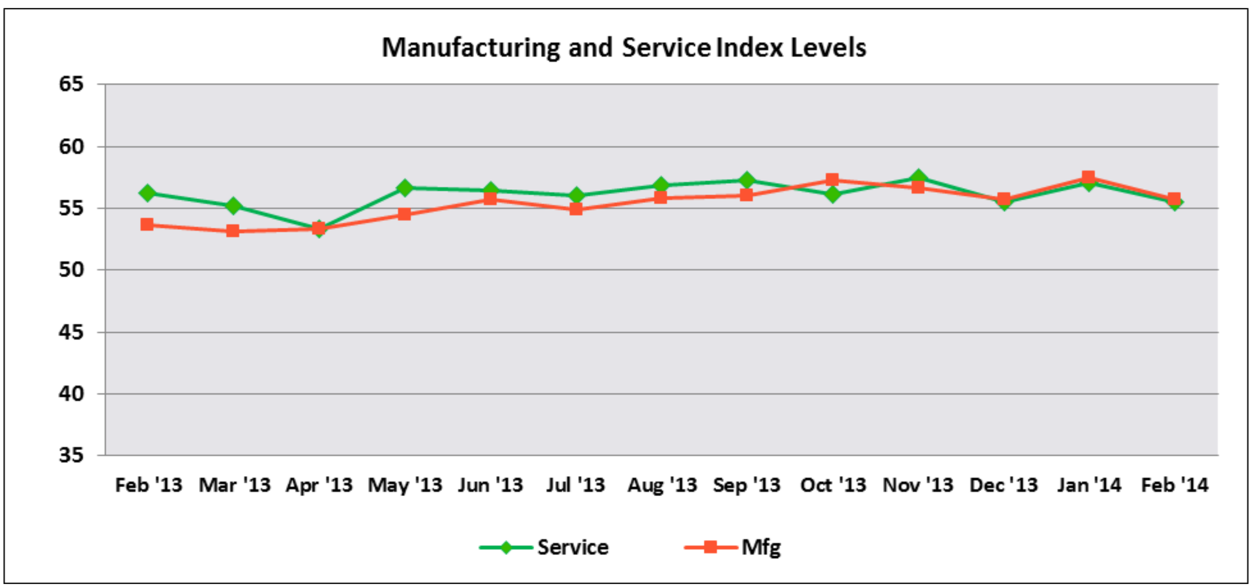
Service Sector (seasonally adjusted)	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14
Sales	61.2	59.4	57.4	66.7	63.6	62.5	63.9	63.8	60.6	63.4	55.7	63.4	60.9
New credit applications	57.9	59.1	57.2	61.0	59.1	58.4	59.1	59.2	58.1	59.1	56.7	57.0	58.5
Dollar collections	59.1	60.7	57.1	59.9	59.3	57.1	59.8	60.7	61.3	60.6	57.8	59.2	61.1
Amount of credit extended	63.4	61.9	61.5	66.8	64.3	63.3	64.5	63.4	62.8	64.5	63.6	64.4	62.3
Index of favorable factors	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**	**60.3**	**61.8**	**61.8**	**60.7**	**61.9**	**58.4**	**61.0**	**60.7**
Rejections of credit applications	52.5	51.9	51.1	50.2	52.4	53.5	53.2	53.7	52.2	53.6	53.5	54.8	51.8
Accounts placed for collection	52.9	50.8	48.4	51.0	54.1	53.6	52.0	55.0	52.7	54.2	53.5	54.8	49.3
Disputes	52.9	49.6	48.6	50.2	53.0	52.6	53.3	52.6	51.4	52.8	51.3	53.3	52.2
Dollar amount beyond terms	50.4	49.9	45.6	52.5	50.3	48.7	49.7	51.5	50.9	54.5	49.3	52.3	50.6
Dollar amount of customer deductions	52.7	51.3	49.5	51.0	52.5	52.2	53.5	52.8	51.8	53.3	53.3	51.4	50.4
Filings for bankruptcies	59.6	58.0	56.6	57.2	56.5	58.2	59.6	60.1	60.3	59.4	60.4	60.5	58.4
Index of unfavorable factors	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**	**53.1**	**53.6**	**54.3**	**53.2**	**54.6**	**53.6**	**54.5**	**52.1**
NACM Service CMI	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**	**56.0**	**56.9**	**57.3**	**56.2**	**57.5**	**55.5**	**57.1**	**55.5**



	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14
+/-	0.7	-1.0	-2.0	3.3	-0.1	-0.5	0.8	0.4	-1.1	1.3	-2.0	1.6	-1.6

February 2014 versus February 2013

"The roller coaster is still on display, but the good news is that the range is still pretty solid," Kuehl said. "The sign of positive growth is staying above 50 and for the last two years the index has been solidly over 50."



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.*

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.

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