



Report for April 2014

Issued April 30, 2014

National Association of Credit Management

Combined Sectors

With the advance of spring and the warmer weather, there are signs that the economy is perking up right alongside the jonquils and the daffodils. It is also evident that cold and snowy weather was not the only drag on economic progress over the course of the last quarter. The improvement seen this month was not dramatic and left room for some serious concern about what happens next. Consumer attitude is still a problem and the data on business expansion remain weak. For now, the favorable factors in the April report of the Credit Managers' Index (CMI) issued by the National Association of Credit Management (NACM) are a source of encouragement, but the unfavorable factors show strains in the performance of those that owe money.

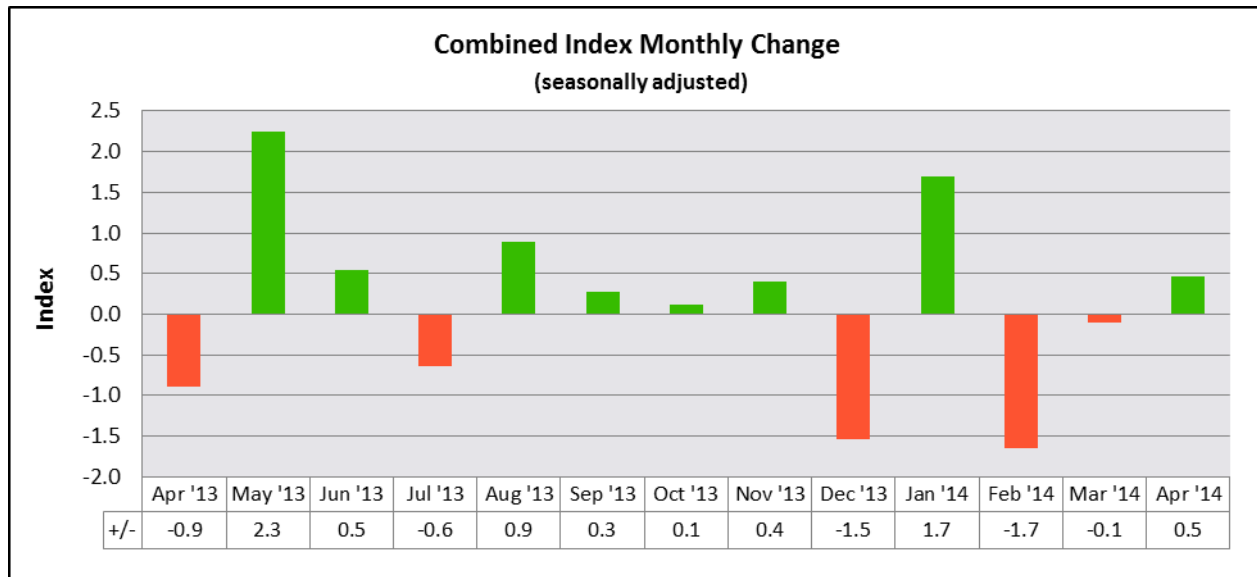
The CMI improved just slightly this month, rising from 55.5 to 56. In January, the index was at 57.3. The index has yet to rebound to where it was in January, but importantly is still firmly in the mid-50s and starting to trend in the right direction. The index of favorable factors improved from 59 to 60.7, which remains shy of January's 61.5, but happily back above 60. However, the index of unfavorable factors posted a disconcerting fall from 53.2 to 52.8, recording its worst performance since July and indicating definite signs of distress in the trade debtor community.

All four favorable factors improved: sales from 59.1 to 61.8, new credit applications from 57.3 to 59.3, dollar collections from 56.4 to 58.1 and amount of credit extended from 63.1 to 63.8. Sales and dollar collections improved enough to hit levels recorded at the start of the year. "It is always a good sign when an indicator exceeds 60, as sales did, and the increase in extended credit indicates more desire to expand now that winter is over and there are signs of improved business," said NACM Economist Chris Kuehl, PhD of the April favorable factors.

"Good news did not come out of the unfavorable factors and these will be the ones to watch in the next month or so," Kuehl cautioned. "For the past several months, the most consistent part of the survey was the unfavorable factor index. Even as the favorable factor index numbers slipped, there was no real evidence of mounting distress. Now there are concerns that overall business suffered a little more than expected in the last few months."

Rejections of credit applications slipped just slightly from 52.4 to 52.3, but the problem is this category is down at the same time that applications are up. "This signals that some of those applying for credit are not in great shape," Kuehl said. Accounts placed for collection slipped dramatically from 54.1 to 51.7, while disputes bucked the downward trend by improving dramatically from 50.9 to 54.7. Dollar amount beyond terms slid right to the edge of contraction from 52.4 to 50 and dollar amount of customer deductions fell from 51.2 to 50.3, with Kuehl noting that both factors are trending too close to contraction for comfort. Filings for bankruptcies fell slightly from 58.4 to 58.1, but is still in pretty good shape for the year. "These readings would suggest that there is more than a little reversal taking place in the business community as a whole, but everything is still hanging on to that expansion placement—even if only by the skin of its teeth," Kuehl said.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14
Sales	58.3	63.0	62.3	61.4	63.1	62.7	62.5	63.4	58.7	61.5	59.4	59.1	61.8
New credit applications	56.5	59.2	58.8	58.0	58.7	57.4	58.5	59.2	57.2	58.2	58.1	57.3	59.3
Dollar collections	57.2	59.2	59.3	57.5	60.4	60.6	61.4	59.7	58.7	60.9	58.8	56.4	58.1
Amount of credit extended	60.8	65.0	62.8	62.4	63.3	62.9	63.8	63.2	62.6	65.4	61.4	63.1	63.8
Index of favorable factors	58.2	61.6	60.8	59.8	61.4	60.9	61.5	61.3	59.3	61.5	59.4	59.0	60.7
Rejections of credit applications	51.6	50.8	52.5	53.2	52.7	53.0	52.1	53.3	54.5	54.6	52.3	52.4	52.3
Accounts placed for collection	50.1	50.6	53.9	53.6	52.5	54.3	53.3	55.0	53.4	55.2	54.6	54.1	51.7
Disputes	48.6	48.5	51.9	51.0	51.6	51.7	51.8	51.9	50.7	52.2	51.9	50.9	54.7
Dollar amount beyond terms	45.5	54.1	50.5	48.5	51.1	52.2	52.7	54.7	49.7	52.8	51.1	52.4	50.0
Dollar amount of customer deductions	48.7	49.6	52.5	51.0	51.4	51.7	51.8	52.4	51.5	51.6	50.4	51.2	50.3
Filings for bankruptcies	56.0	56.0	56.8	58.2	58.7	59.8	59.6	59.0	59.0	60.5	58.5	58.4	58.1
Index of unfavorable factors	50.1	51.6	53.0	52.6	53.0	53.8	53.6	54.3	53.1	54.5	53.1	53.2	52.8
NACM Combined CMI	53.3	55.6	56.1	55.5	56.4	56.6	56.7	57.1	55.6	57.3	55.6	55.5	56.0



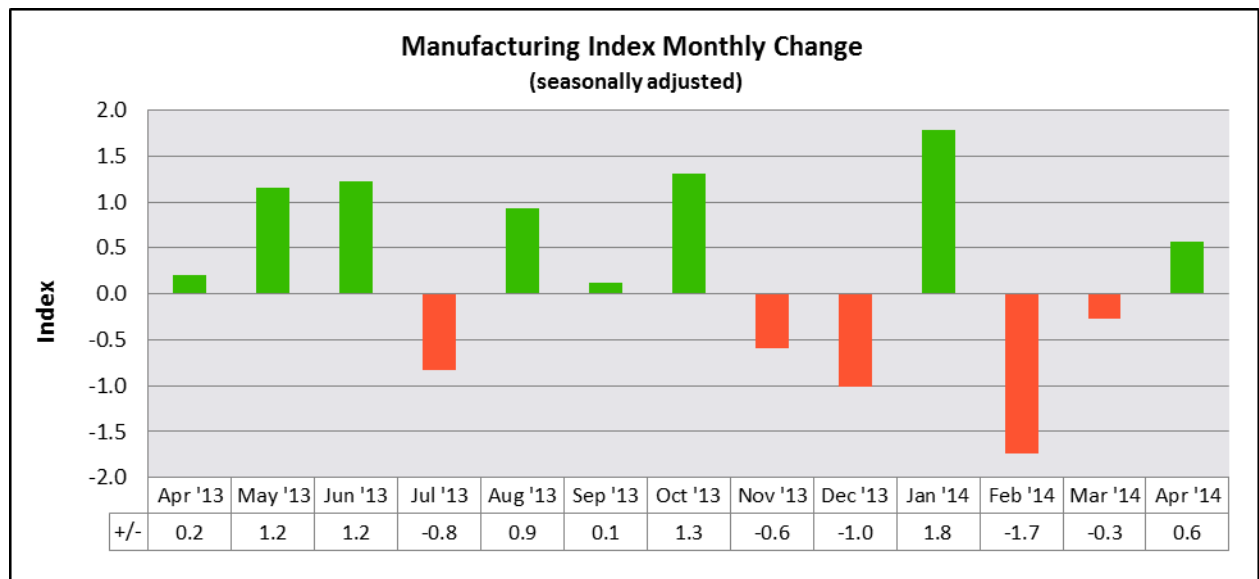
Manufacturing Sector

“The movement in the manufacturing sector was pretty healthy, all things considered,” said Kuehl. “This is the sector most impacted by the winter weather, although many would argue that construction and retail really got the worst of it.” Manufacturers experienced significant production interference and transportation delays. A sharp reduction in demand added to the sector’s woes, but was offset by additional export activity that started to show up in March and extended to some degree into April.

The manufacturing index of favorable factors rose from 58.4 to 61, putting the reading it close to where it was in January when it was at 62. One of the bigger improvements was in sales, which jumped back above 60 to 61.6 from last month’s 58.5. This is as high as the category has been since December. New credit applications went from 56.1 to 58.8, a welcome improvement given how far it had fallen in previous months. Dollar collections rose from 57.4 to 59.1, another recovery to January levels. Finally, amount of credit extended improved from 61.7 to 64.5. This factor has remained strong for all of the last 12 months, not once falling under 60.

The unfavorable factor index slipped from 53.5 to 52.7. “This is not catastrophic, but certainly not trending in the desired direction,” Kuehl said. Rejections of credit applications remained unchanged at 52.6, barely budging for the last three months despite the submission of more applications. Accounts placed for collection has many wondering about the health of some companies in the sector with its dramatic drop from 56.1 to 51.5, but disputes improved substantially from 50.6 to 57.2, which is a little puzzling. “It would seem that there is no real argument between credit issuers and recipients. Either they are in a position to pay or they aren’t,” Kuehl said. Dollar amount beyond terms fell from 52.8 to 49.5, marking the first time the factor has fallen into contraction territory since July. Kuehl noted that the lack of progress this quarter has put many companies behind in their debt and it will take some robust growth to get these companies back to where they need to be. Dollar amount of customer deductions dropped into contraction territory as well, from 50.4 to 48.5. It was last below 50 in December and has hovered around 50 for most of the last year. Finally, filings for bankruptcies is still falling a little, from 58.5 to 57.

Manufacturing Sector (seasonally adjusted)	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14
Sales	59.2	59.2	61.0	60.3	62.3	61.6	64.3	63.4	61.7	59.6	57.9	58.5	61.6
New credit applications	55.8	57.4	58.6	57.5	58.4	55.6	58.9	59.2	57.7	59.5	57.7	56.1	58.8
Dollar collections	57.4	58.5	59.4	57.9	61.0	60.5	61.4	58.7	59.5	62.7	56.4	57.4	59.1
Amount of credit extended	60.1	63.3	61.2	61.4	62.1	62.4	64.8	61.8	61.5	66.4	60.4	61.7	64.5
Index of favorable factors	58.1	59.6	60.0	59.3	61.0	60.0	62.4	60.8	60.1	62.0	58.1	58.4	61.0
Rejections of credit applications	52.2	51.3	52.7	52.9	52.3	52.4	52.0	52.9	55.5	54.4	52.8	52.6	52.6
Accounts placed for collection	51.8	50.3	53.6	53.6	53.0	53.7	54.0	55.7	53.3	55.7	59.9	56.1	51.5
Disputes	48.5	46.8	50.8	49.5	49.8	50.8	52.1	51	50.2	51.0	51.6	50.6	57.2
Dollar amount beyond terms	45.5	55.7	50.8	48.3	52.5	52.9	54.6	54.8	50.0	53.2	51.7	52.8	49.5
Dollar amount of customer deductions	48.0	48.2	52.5	49.8	49.3	50.7	51.9	51.4	49.7	51.8	50.4	50.4	48.5
Filings for bankruptcies	55.3	54.7	57.1	58.1	57.9	59.4	59.0	58.5	57.7	60.4	58.6	58.5	57.0
Index of unfavorable factors	50.2	51.1	52.9	52.0	52.5	53.3	53.9	54	52.7	54.4	54.1	53.5	52.7
NACM Manufacturing CMI	53.4	54.5	55.8	54.9	55.9	56.0	57.3	56.7	55.7	57.5	55.7	55.5	56.0



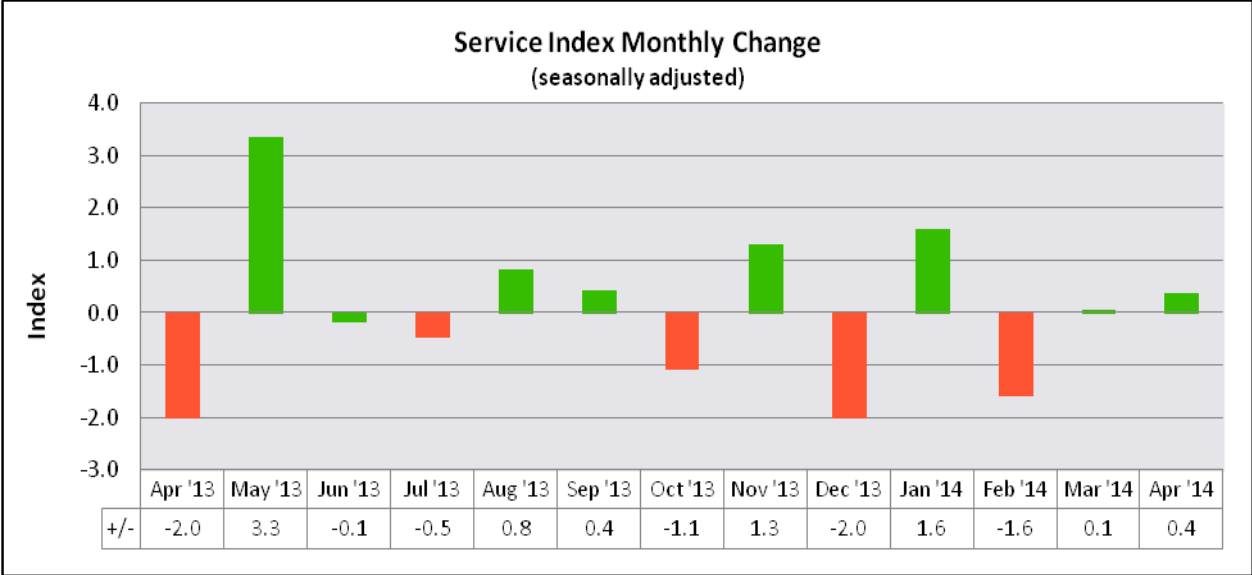
Service Sector

“Worries about the impact of winter weather most apply to the service sector as it tends to be weighted toward the retail and construction industries, which are both very sensitive to the vagaries of the weather,” Kuehl said. “It is evident that as spring approached, the performance in these areas improved. Consumer confidence is up compared to last year, but nothing happening in construction can be construed as encouraging.”

The service index of favorable factors improved from 59.5 to 60.5, along the same lines of the last few months. Sales improved from 59.6 to 61.9, as good as the start of the year. New credit applications improved slightly from 58.5 to 59.8, which seems to reflect more business from retail at the same time that construction has slumped, and dollar collections improved pretty dramatically from 55.4 to 57.1. Amount of credit extended was the only factor to fall, from 64.5 to 63.1, seemingly the result of reduced activity in construction.

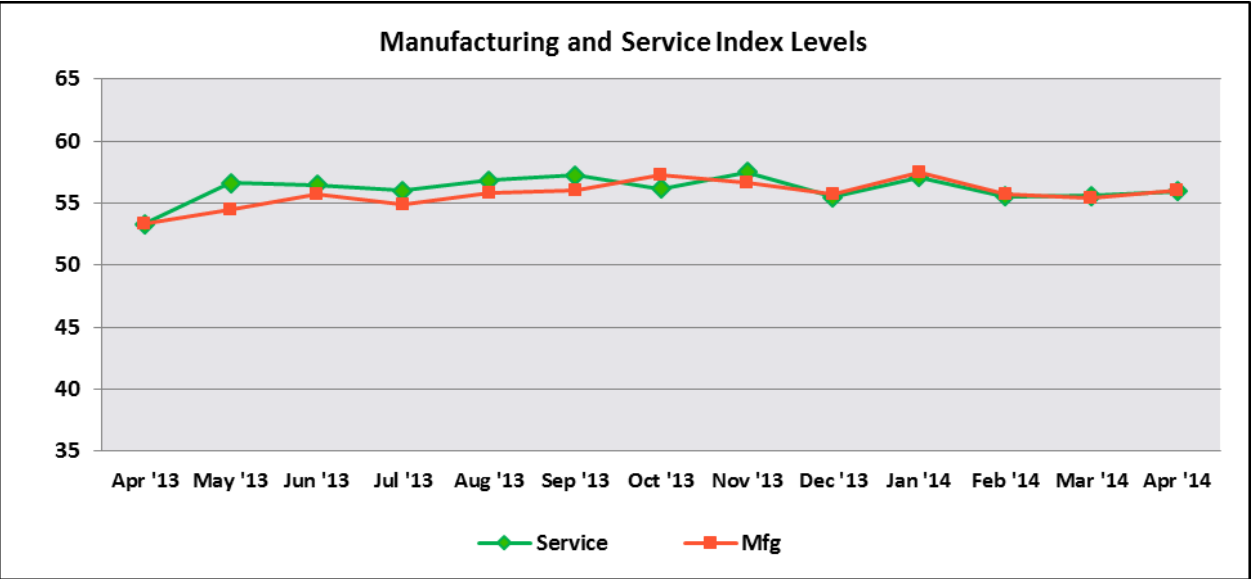
The service index of unfavorable factors remained unchanged at 53, but its categories did see activity. Rejections of credit applications fell from 52.2 to 51.9, continuing a trend seen in the manufacturing sector: a lot of companies are looking for credit, but many are not worthy of receiving it at this point. Accounts placed for collection dropped from 52.2 to 51.8 and dollar amount beyond terms slid as well, from 52 to 50.5. For factors that improved, disputes was something of an anomaly with its rise from 51.2 to 52.1. This was not as dramatic as its counterpart in manufacturing, but it still bucks the overall trend. Dollar amount of customer deductions and filings for bankruptcies improved as well, 51.9 to 52.1 and 58.4 to 59.2, respectively. “The improvement in bankruptcy filings is a good signal overall. It shows that there are issues, but they have not been quite severe enough to shove companies out of business thus far,” Kuehl said.

Service Sector (seasonally adjusted)	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14
Sales	57.4	66.7	63.6	62.5	63.9	63.8	60.6	63.4	55.7	63.4	60.9	59.6	61.9
New credit applications	57.2	61.0	59.1	58.4	59.1	59.2	58.1	59.1	56.7	57.0	58.5	58.5	59.8
Dollar collections	57.1	59.9	59.3	57.1	59.8	60.7	61.3	60.6	57.8	59.2	61.1	55.4	57.1
Amount of credit extended	61.5	66.8	64.3	63.3	64.5	63.4	62.8	64.5	63.6	64.4	62.3	64.5	63.1
Index of favorable factors	58.3	63.6	61.6	60.3	61.8	61.8	60.7	61.9	58.4	61.0	60.7	59.5	60.5
Rejections of credit applications	51.1	50.2	52.4	53.5	53.2	53.7	52.2	53.6	53.5	54.8	51.8	52.2	51.9
Accounts placed for collection	48.4	51.0	54.1	53.6	52.0	55.0	52.7	54.2	53.5	54.8	49.3	52.2	51.8
Disputes	48.6	50.2	53.0	52.6	53.3	52.6	51.4	52.8	51.3	53.3	52.2	51.2	52.1
Dollar amount beyond terms	45.6	52.5	50.3	48.7	49.7	51.5	50.9	54.5	49.3	52.3	50.6	52.0	50.5
Dollar amount of customer deductions	49.5	51.0	52.5	52.2	53.5	52.8	51.8	53.3	53.3	51.4	50.4	51.9	52.1
Filings for bankruptcies	56.6	57.2	56.5	58.2	59.6	60.1	60.3	59.4	60.4	60.5	58.4	58.4	59.2
Index of unfavorable factors	50.0	52.0	53.1	53.1	53.6	54.3	53.2	54.6	53.6	54.5	52.1	53.0	53.0
NACM Service CMI	53.3	56.6	56.5	56.0	56.9	57.3	56.2	57.5	55.5	57.1	55.5	55.6	56.0



April 2014 versus April 2013

“The performance of the CMI has been flat and that seems to be the best that can be asked for right now,” Kuehl said. “It would have been nice to see some momentum by now, but after a winter of epic cold and snow, it is probably good just to get steady performance.”



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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