Report for April 2015

Issued April 30, 2015

National Association of Credit Management

Combined Sectors

April is a month with some mixed messages. The overall CMI Index showed slight improvement, going from 53.4 in March to 53.9 in April. While positive, looking through all of the numbers it is apparent that the last couple of months did some damage as there are weak numbers throughout the unfavorable categories. New information about February and March's CMI was also discovered. The good thing about data is that it is always arriving—the bad thing is that additional numbers and reinterpretations can somewhat alter the conclusions that had been drawn on the basis of the earlier numbers. In February and March the CMI seemed to show a drastic drop in the amount of credit extended by companies to those that wanted to buy their machines or commodities and inventory. There was also a big drop in the number of credit applications submitted. Many of the other categories were also in decline, but these were the most dramatic. Upon reviewing the data and assessing some of the additional numbers it seems that there was not quite the drama originally noted.

The big declines in amount of credit extended in February and March have been revised from 52.1 and 46.1 respectively to 60.5 and 60.6—more consistent with the numbers that had been seen throughout the past year. The numbers for rejections of credit applications went from 48.1 in February to 51.4 and March went from 42.9 to 52.6. The remainder of the categories were unchanged, but these revisions affected the combined scores a little—the index of favorable factors in February went from 57.2 to 58.7 and in March the numbers went from 55.4 to 58.3. The index of unfavorable factors in February went from 50.5 in February to 51.0 and in March it went from 48.5 to 50.1. The overall CMI in February went from 53.2 to 54.1 and in March it went from 51.2 to 53.4.

The last couple of months have been confusing and many companies have reacted with extreme caution. The two dominant worries have been the status of the dollar and whether interest rates will rise. The consensus view earlier in the year was that rates would be going up in June and the dollar would be close to parity with the euro at about the same time. Now these views have shifted somewhat and the rates may not go up until September and the dollar's surge has tapered off just a little. The impact of winter has faded and it really only affected a small part of the country while there has been some rise in the price per barrel of oil and the sector feels a bit more stable. Is that sufficient to describe the roller coaster in the CMI data? We may have to wait for May data to be able to determine that.

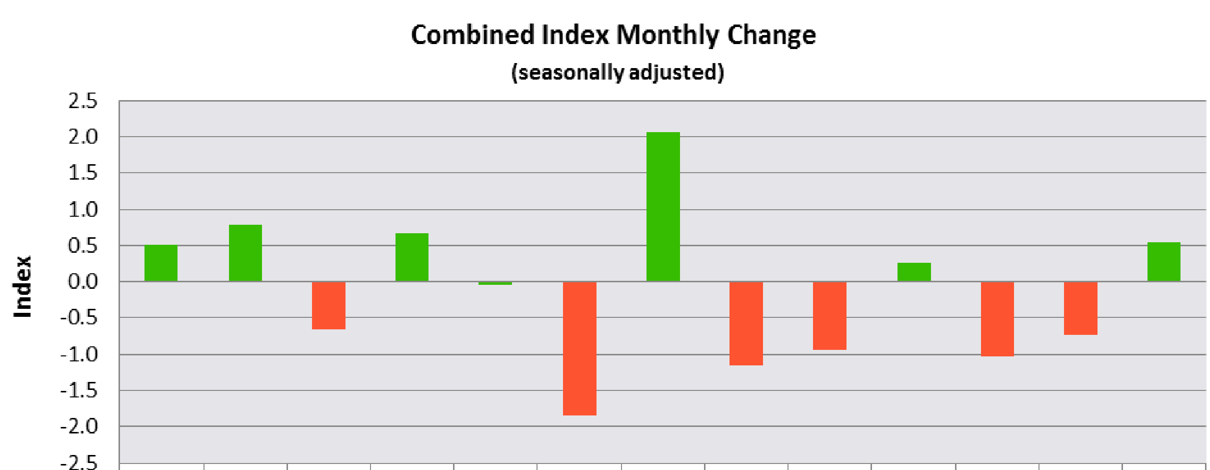
The rest of the CMI data has remained relatively stable. The category of sales moved up slightly from 58.4 to 59.1, but for the bulk of the last year it was in the 60s. The new credit applications data also improved a little and went from 56.6 to 58.6. Dollar collections improved a little as it went from 57.6 to 58.8. Thus far this is about where it has been for the last few months, but close to the lowest reading back in December. Overall the index of favorable factors improved—going from 58.3 to 59.8—back to the levels seen through most of the last several months.

There is continued distress in the unfavorable categories and it seems that the problems of the last couple of months have been manifesting in the unfavorable readings. The overall index has fallen slightly from the revised 50.1 reading in March and now sits at 50.0. Most of the other categories worsened in the past month and left the overall index at an even 50.0—right on the brink of sinking back to the contraction zone again.

The accounts placed for collection stayed right where it was at 49.8, but that is as weak as it has been in a year. There are more creditors that have run out of options and there is nothing left but to try to collect from them. The numbers are not catastrophic, but they are not positive. The disputes category has continued to slip and is now sitting at the lowest point in the last three years—47.2. The dollar amount beyond terms improved slightly, but remains mired in the contraction zone with a reading of 48.8 as opposed to the 45.5 registered in the previous month. The dollar amount of customer deductions slipped deeper into contraction as well— 47.4 as opposed to 48.7 the month before. Finally the reading for filings for bankruptcies weakened, but remained above 50. It was 55.1 and is now 54.6.

This is a month with some mixed messages. The overall CMI index number improved from where it was last month, but only by a fraction. The 53.4 reading in March is at 53.9. This is good, but it is also evident that the last couple of months did some damage as there are weak numbers throughout the unfavorable categories. It would appear that a collapsed energy sector, winter worries and trepidation regarding dollar values and the interest rate weighed pretty heavily on previous months. But most of these shouldn't be issues by summer.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15
Sales	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7	61.4	61.5	58.9	58.4	59.1
New credit applications	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1	59.2	58.3	58.0	56.6	58.6
Dollar collections	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3	56.6	60.1	57.4	57.6	58.8
Amount of credit extended	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7	64.6	62.2	60.5	60.6	62.6
Index of favorable factors	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**	**60.5**	**60.5**	**58.7**	**58.3**	**59.8**
Rejections of credit applications	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7	51.5	51.9	51.4	52.6	52.3
Accounts placed for collection	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8	51.1	50.1	50.8	49.8	49.8
Disputes	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8	48.5	49.5	48.8	49.0	47.2
Dollar amount beyond terms	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3	48.7	50.6	48.4	45.5	48.8
Dollar amount of customer deductions	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7	48.5	50.2	51.8	48.7	47.4
Filings for bankruptcies	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8	58.5	56.9	55.0	55.1	54.6
Index of unfavorable factors	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**	**51.1**	**51.5**	**51.0**	**50.1**	**50.0**
NACM Combined CMI	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**	**54.9**	**55.1**	**54.1**	**53.4**	**53.9**



	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15
+/-	0.5	0.8	-0.7	0.7	0.0	-1.8	2.1	-1.1	-0.9	0.3	-1.0	-0.7	0.5

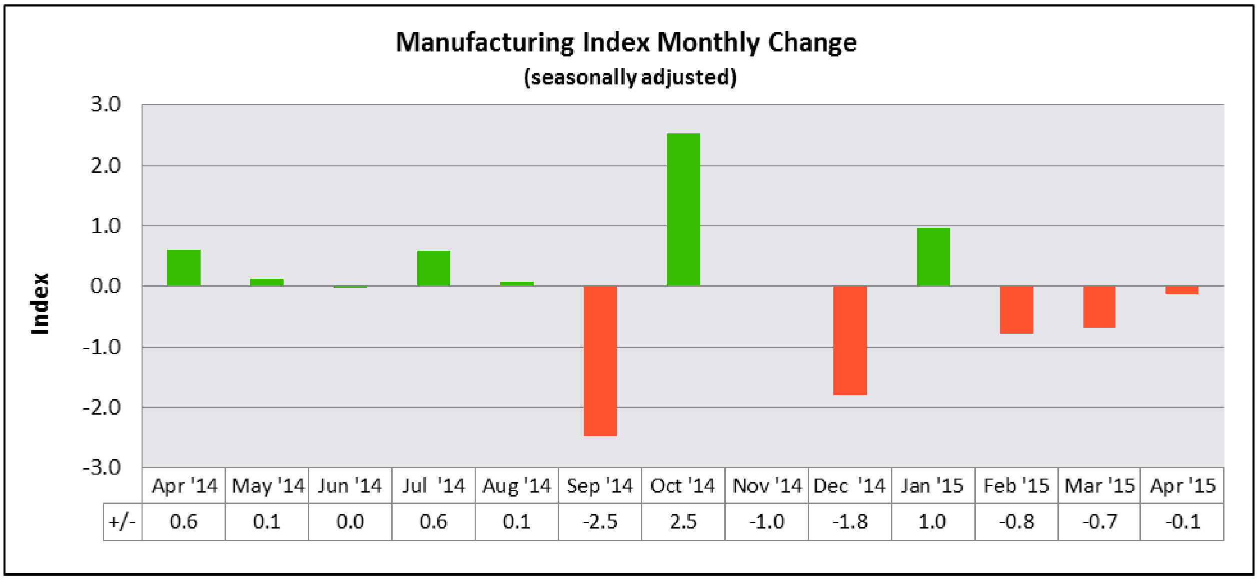
Manufacturing Sector

The damage this month is pretty widespread and the manufacturing sector took a hit as well as the service sector. The combined index slipped from 53.5 to 53.3 and that is still a little closer to the contraction zone than preferred. The index of favorable factors remains in acceptable territory with a reading of 58.4 after one of 57.8 last month, but for the bulk of the last year these readings have been in the 60s and trending in a far more positive direction than is the case right now. The index of unfavorable factors is where the damage really starts to manifest as the overall score slipped from 50.6 to 50.0 and that marks the first time the combined reading has been this low since September of last year. It must be pointed out that these readings have not been all that high for quite a while—bouncing along in the low 50s for the past couple of years.

The sales category slid out of the 60s with a reading of 57.0. The last time this category was that low was in 2012 when it as stumbling along in the 50s. The new credit applications category improved with a rise from 56.0 to 58.7, but as pointed out in the narrative above, this is better news than originally thought as the amount of credit extended improved from 59.7 to 60.9. The fact is that companies that are not all that creditworthy are trying to get credit and they are not getting much attention. The dollar collections reading slipped from 57.1 to 57.0. The numbers are still solid given they are in the high 50s, but for most of the last year there have been readings in the 60s.

As stated earlier, the real concerns start to manifest with the unfavorable categories. The rejections of credit applications slipped a bit—going from 53.5 to 53.2. There are still some signs of a crunch underway in some sectors and it is now easy to determine what the prime factor is. There are many companies seeking credit that are too weak and there is obviously an abundance of caution showing up in those that issue that credit. The accounts placed for collection held fairly steady and that comes as a bit of surprise—it went from 51.4 to 50.8. The disputes category also slipped a little—going from 48.6 to 46.9, and the important point is that it is still in the contraction category. The dollar amount beyond terms improved from 46.0 to 48.3 and the dollar amount of customer deductions deteriorated a bit —moving from the 48.7 to 45.7. There was also a slight shift in the filings for bankruptcies as it moved from 55.1 to 54.8.

Manufacturing Sector (seasonally adjusted)	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15
Sales	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7	60.1	60.2	60.1	58.5	57.0
New credit applications	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9	58.5	56.7	58.2	56.0	58.7
Dollar collections	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9	55.39	60.4	57.1	57.1	57.0
Amount of credit extended	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2	63.38	63.6	58.7	59.7	60.9
Index of favorable factors	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**	**59.4**	**60.2**	**58.5**	**57.8**	**58.4**
Rejections of credit applications	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3	50.81	52.1	52.5	53.5	53.2
Accounts placed for collection	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5	50.46	50.6	51.8	51.4	50.8
Disputes	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5	47.35	49.4	47.2	48.6	46.9
Dollar amount beyond terms	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8	48.0	50.8	52.2	46.0	48.3
Dollar amount of customer deductions	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8	46.79	49.5	48.7	48.7	45.7
Filings for bankruptcies	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2	58.93	56.2	55.1	55.1	54.8
Index of unfavorable factors	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**	**50.4**	**51.4**	**51.3**	**50.6**	**50.0**
NACM Manufacturing CMI	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**	**54.0**	**55.0**	**54.2**	**53.5**	**53.3**

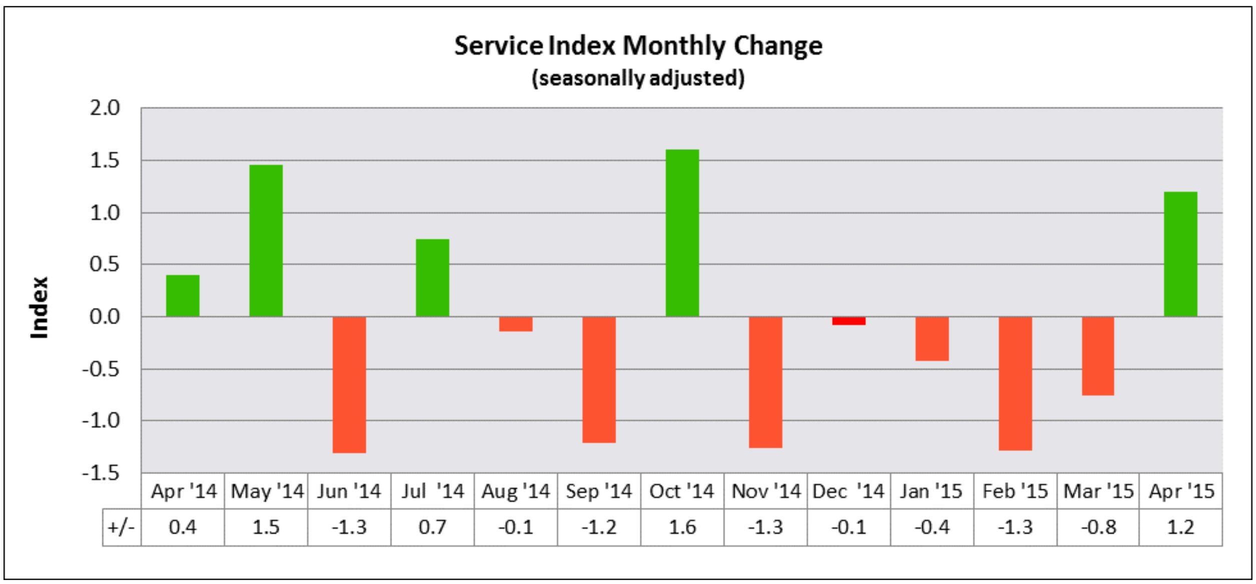


Service Sector

As was the case last month, the majority of the damage was seen in the service sector and this month it is going to be hard to blame it all on the weather or some other seasonal factor. The combined index is no longer teetering right on the edge of contraction as it has moved up from 53.3 to 54.5. The index of favorable factors also rose from 58.7 to 61.2 and just as with manufacturing, the big issue was access to credit. The sales category was not affected all that much from last month, but is up to where it was much of last year. It has risen from 58.3 to 61.1. Again we see a hike in the new credit applications category as it moved from 57.1 to 58.5 and again this is better news given that amount of credit extended rose from 61.5 to 64.4. The pattern is the same whether one is discussing the manufacturing or service side—too many seeking credit that are not going to get what they are seeking—either because there are doubts as to their credit status or because those issuing credit are in a very cautious mood. The dollar collections category is more or less stable and still in the 60s—it went from 58.1 to 60.7.

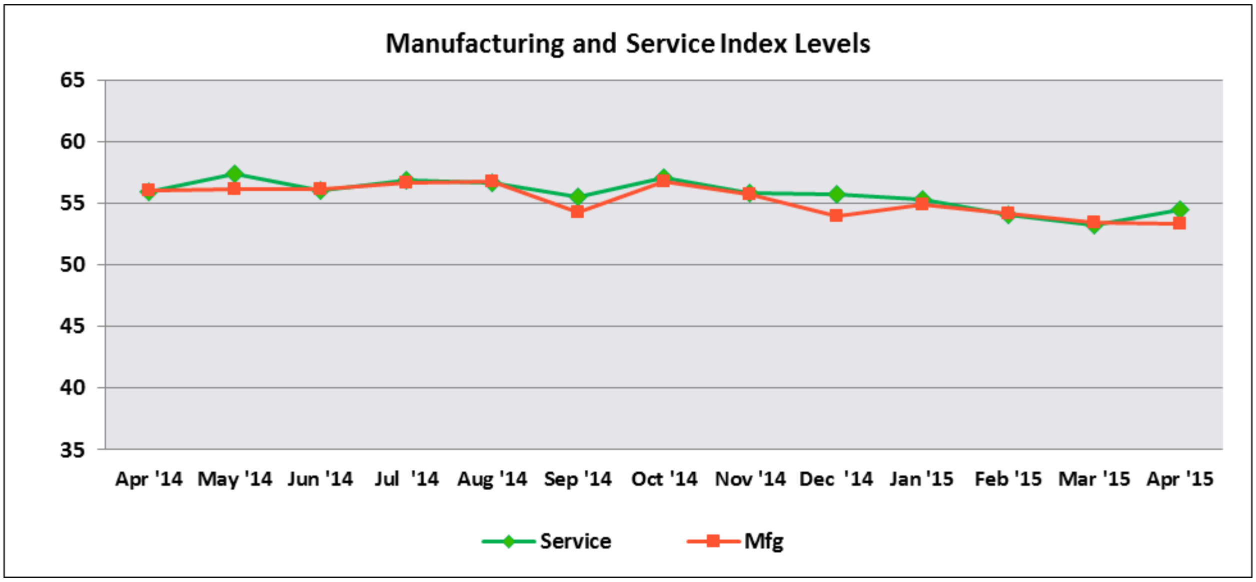
The overall unfavorable reading has been above 50 for several years and in some months, the reading was nearly mid-50s. That is no longer the case as the numbers slipped some months ago and have been low since—moving from 49.7 to 50.0. The details illustrate the problems just as they do for manufacturing. The rejections of credit applications are still close to contraction—going from 51.7 to 51.3. These are not great readings and it will take a good long while to climb out of this mess. The accounts placed for collection category is weak as well—going from 48.1 to 48.7, but at least the shift is in the right direction. The disputes category stayed out of the 50s with a reading of 47.5 following last month's reading of 49.4. The dollar amount beyond terms improved a little, but still remained in the 40s—going from 45.1 to 49.2. The dollar amount of customer deductions went from 48.7 to 49.1 and that was a minor improvement. The filings for bankruptcies went from 55.0 to 54.3 and that was one of the lowest readings seen in over a year.

Service Sector (seasonally adjusted)	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15
Sales	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7	62.68	62.8	57.7	58.3	61.1
New credit applications	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4	59.8	60.0	57.8	57.1	58.5
Dollar collections	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7	57.87	59.7	57.7	58.1	60.7
Amount of credit extended	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3	65.86	60.8	62.3	61.5	64.4
Index of favorable factors	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**	**61.6**	**60.8**	**58.9**	**58.7**	**61.2**
Rejections of credit applications	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1	52.25	51.7	50.3	51.7	51.3
Accounts placed for collection	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2	51.8	49.7	49.9	48.1	48.7
Disputes	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2	49.72	49.5	50.4	49.4	47.5
Dollar amount beyond terms	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8	49.37	50.5	44.7	45.1	49.2
Dollar amount of customer deductions	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6	50.12	51.0	54.8	48.7	49.1
Filings for bankruptcies	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4	58.12	57.6	54.9	55.0	54.3
Index of unfavorable factors	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**	**51.9**	**51.7**	**50.8**	**49.7**	**50.0**
NACM Service CMI	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**	**55.8**	**55.3**	**54.0**	**53.3**	**54.5**



April 2015 versus April 2014

The year-over-year trend overall remained about as it has been and still seems to be a little volatile. Thus far, nearly all the blame can be laid at the feet of the index of unfavorable factors … Favorable factors are performing well as a group, but there are just too many unfavorable categories in the 40s right now.



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:

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

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.*

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.

Source: National Association of Credit Management

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