CREDIT MANAGERS' INDEX

Report for February 2013

Issued February 28, 2013

National Association of Credit Management

Combined Sectors

It would appear to be déjà vu. The composite reading for the Credit Managers' Index (CMI) this month is exactly the same as it was in December—54.9. This is just slightly better than it was in January when the reading fell to 54.6. For all intents and purposes, the readings suggest that the economy has stalled. The interesting movements are in the individual factors where there is actually some better news overall. The favorable factor index is up to just below where it was in November, at 59. This is a slight improvement from the 58.7 registered in January, and shows that the gains occurred in important factors.

Sales jumped from 58.6 to 59.2, taking the reading back to last year's levels. The strength of this indicator can't be overlooked, as this signals substantial activity despite all the concerns registered over the "fiscal cliff," the debt ceiling and the sequester. However, the impact has been hard to figure out. On the one hand, it is pretty obvious that the lower GDP number from the fourth quarter was directly related to fiscal cliff concerns within the business community, but the latest revisions show no dip into recession as first thought. The data coming from the Purchasing Managers' Index shows similar variability, and other signs within the rest of the CMI's favorable factors point to continued confusion and caution.

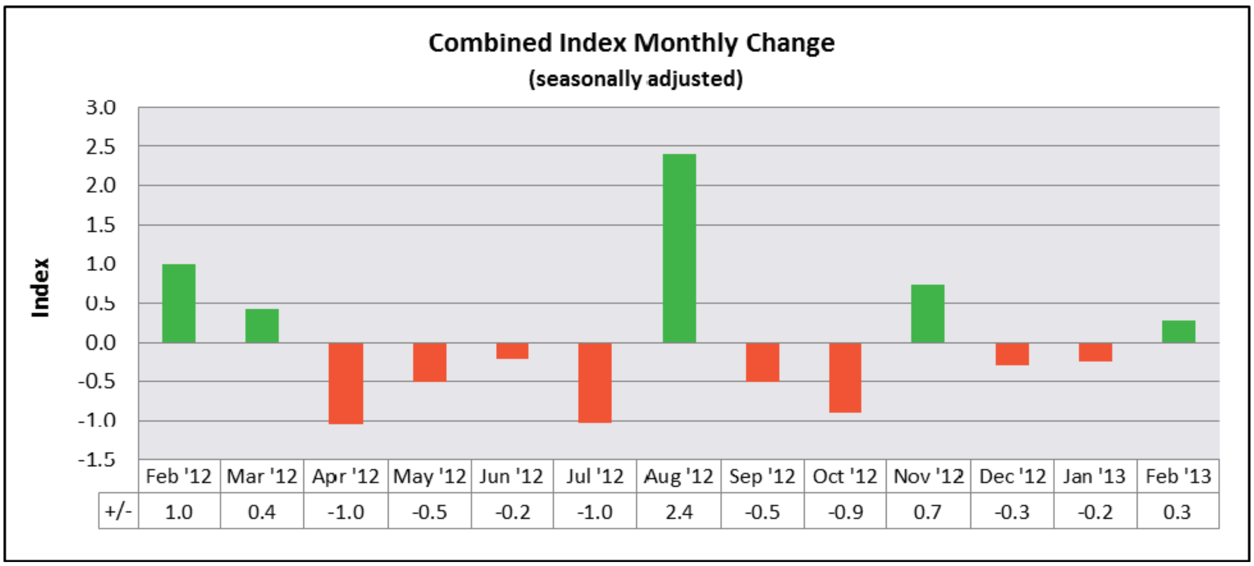
New credit applications fell off from 57.1 to 56.7, suggesting more caution is being expressed in the business community in the face of political uncertainty. Conversely, there was improvement in dollar collections, from 56.9 to 57.5, and in amount of credit extended, from 62.2 to 62.5.

The unfavorable factor index rose from 51.9 to 52.2, with all but one factor improving as well. This is a good sign, as the index approaches the better readings of the past year. In general, there was either significant progress or stability in the factors. Rejections of credit applications fell from 52.8 to 52.3, but it is still higher than the majority of the readings in the last year, except August when it reached 52.4. The trend seems to indicate that most of those seeking credit are qualified and most are getting the credit they apply for.

Accounts placed for collection improved from 50.4 to 51.8, signifying the manifestation of fewer debt issues as the economy continues to solidify. Disputes looks to be stable at 50.4 for two months in a row and dollar amount beyond terms barely changed, nudging up from 49.6 to 49.8. Dollar amount of customer deductions and filings for bankruptcies improved very slightly as well, with the former rising from 50.3 to 50.7, and the latter from 58.1 to 58.3. The overall impression is of a steady state, with a slight movement in a positive direction. What makes all of this interesting is that it is taking place against a backdrop of political drama that many believe will cause serious economic dislocation before all is said and done.

A couple of conclusions can be reached from the data. It is either a testament to the fact that business can ignore political gyrations and grow anyway, or it means that the economy would be growing that much faster if all the political histrionics were not a factor.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13
Sales	64.4	64.1	60.0	61.2	60.6	58.5	62.0	59.5	57.4	60.4	56.7	58.6	59.2
New credit applications	59.5	60.4	58.2	59.9	57.5	57.2	56.8	57.4	56.6	56.5	57.7	57.1	56.7
Dollar collections	63.0	61.4	59.3	58.5	60.0	58.7	59.7	58.5	54.6	61.3	59.2	56.9	57.5
Amount of credit extended	64.3	63.9	64.6	61.3	62.6	61.3	61.4	62.3	62.2	63.0	61.5	62.2	62.5
Index of favorable factors	**62.8**	**62.5**	**60.5**	**60.2**	**60.2**	**58.9**	**60.0**	**59.4**	**57.7**	**60.3**	**58.8**	**58.7**	**59.0**
Rejections of credit applications	50.5	50.6	51.6	51.1	51.4	51.4	52.4	51.4	52.0	51.1	51.5	52.8	52.3
Accounts placed for collection	50.9	52.0	50.3	50.5	48.3	48.9	52.4	52.5	53.0	51.2	52.1	50.4	51.8
Disputes	49.7	50.9	50.7	49.4	48.9	47.6	51.9	50.5	50.9	50.1	50.5	50.4	50.4
Dollar amount beyond terms	51.2	50.7	50.0	48.0	50.5	47.8	50.9	51.0	48.0	49.9	50.9	49.6	49.8
Dollar amount of customer deductions	48.5	51.1	50.4	50.2	48.7	48.2	51.4	51.0	50.7	49.7	51.3	50.3	50.7
Filings for bankruptcies	55.7	56.8	56.2	56.4	56.0	54.9	59.6	59.1	58.9	58.4	57.4	58.1	58.3
Index of unfavorable factors	**51.1**	**52.0**	**51.6**	**50.9**	**50.6**	**49.8**	**53.1**	**52.6**	**52.3**	**51.7**	**52.3**	**51.9**	**52.2**
NACM Combined CMI	**55.8**	**56.2**	**55.1**	**54.6**	**54.5**	**53.4**	**55.8**	**55.3**	**54.4**	**55.2**	**54.9**	**54.6**	**54.9**



Manufacturing Sector

If there is a sector that seems to have reacted to the fiscal cliff debacle and is now sitting on pins and needles for the sequester battle, it would be the manufacturing sector. The decisions that have to be made in advance make this industrial sector generally more cautious and the negatives that limited the composite score, which barely fell from 53.8 to 53.6, mostly seem to have come from the manufacturing sector's favorable factors.

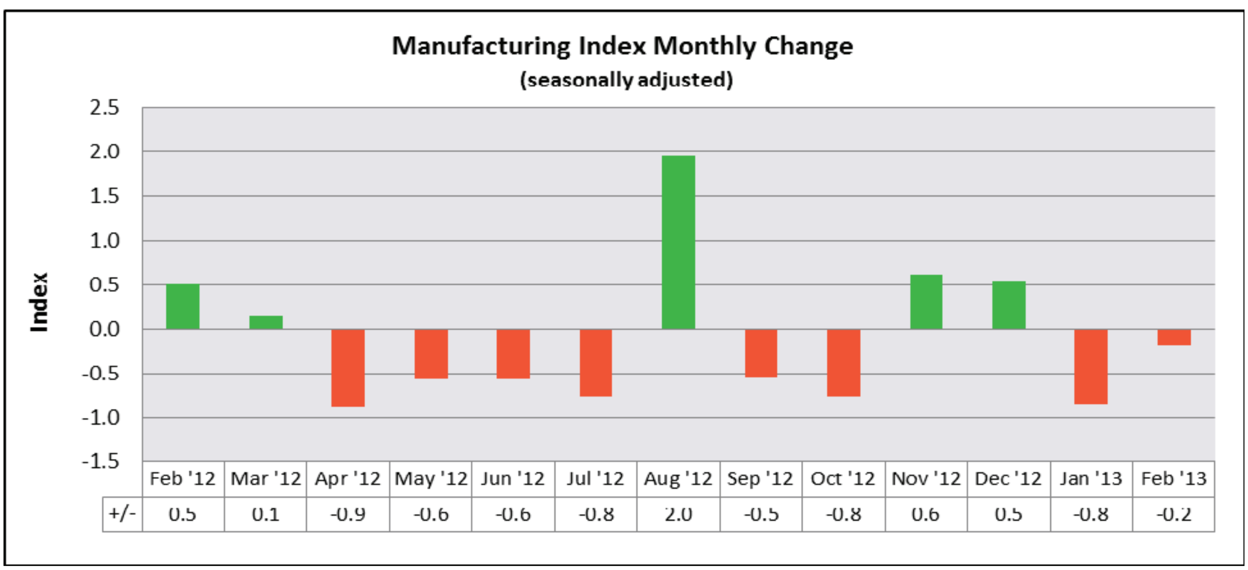
The favorable factor index declined a little from 58.2 to 57.6, the second weakest score in the last 12 months. Only October was worse at an even 57. The sense then was that uncertainty and concerns about the emerging fiscal crisis had played a role, and that is certainly what has been suggested by analysts this time. The most serious problem showed up in new credit applications, where the reading slipped from 57.7 to 55.5, the lowest since November and the second lowest in the last year. This signals that many in the manufacturing community are in a very cautious mood and reluctant to make any grand, long-term plans.

Sales remained roughly the same as last month, slipping just a bit from 57.4 to 57.3. However, there was a significant slip in dollar collections from 56.6 to 55.9, but amount of credit extended remains above 60 and didn't change much from last month, moving in a positive direction from 61.1 to 61.6. There may be some reluctance on the part of manufacturers to seek money, but those applying for credit are getting the funding they need. This matches pretty well with the data released by the Federal Reserve indicating that banks are loosening up and making more loans, especially to manufacturers with developing expansion opportunities.

Volatility showed in the unfavorable factors as well. Going down the list, rejections of credit applications improved from 51.1 to 52.2, further reinforcing the prior assessment that those seeking credit are getting it. The problem is that not many are actively looking to add to their credit burden. Accounts placed for collection also improved, but only slightly from 50.3 to 50.7. Disputes fell somewhat more dramatically than expected, from 49.9 to 47.9. That is the lowest since the middle of last summer, and suggests that more issues are cropping up as companies try to determine what they should be expecting in the coming months. In short, the uncertainty that some companies are experiencing is spreading to the companies to which they owe money. Dollar amount beyond terms jumped to 49.3 compared to the 48 registered last month. Dollar amount of customer deductions slipped slightly from 49.2 to 48.8, while filings for bankruptcies rose by the same margin, from 56.5 to 56.9.

The overall takeaway for the manufacturing sector is that there appears to be some pent-up demand for growth, but there are also inhibitions that seem to stem from the political wrangles.

Manufacturing Sector (seasonally adjusted)	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13
Sales	65.1	65.4	59.4	61.6	59.1	57.2	60.0	57.3	56.7	57.8	56.9	57.4	57.3
New credit applications	59.3	57.9	56.6	61.1	57.2	56.5	56.3	55.7	57.0	53.6	58.0	57.7	55.5
Dollar collections	61.4	62.2	59.2	59.7	61.9	59.6	59.7	56.8	52.6	60.7	59.7	56.6	55.9
Amount of credit extended	65.7	63.2	64.3	61.0	63.2	59.6	60.8	61.9	61.6	61.7	61.2	61.1	61.6
Index of favorable factors	**62.9**	**62.2**	**59.9**	**60.9**	**60.4**	**58.2**	**59.2**	**57.9**	**57.0**	**58.4**	**58.9**	**58.2**	**57.6**
Rejections of credit applications	50.1	49.6	51.5	50.4	50.5	51.2	52.2	50.7	51.2	52.1	51.4	51.1	52.2
Accounts placed for collection	51.1	51.6	49.9	49.0	47.7	49.1	52.1	52.0	52.4	50.7	52.2	50.3	50.7
Disputes	49.6	50.2	50.2	48.2	47.0	47.6	50.1	49.3	48.9	49.1	49.2	49.9	47.9
Dollar amount beyond terms	52.2	50.1	49.4	46.9	49.2	47.8	50.1	51.3	48.3	50.4	52.1	48.0	49.3
Dollar amount of customer deductions	46.5	50.6	50.4	49.5	46.6	46.6	49.2	50.9	49.9	48.5	50.0	49.2	48.8
Filings for bankruptcies	53.8	55.3	56.5	54.3	53.8	53.3	57.5	56.8	56.3	56.4	55.6	56.5	56.9
Index of unfavorable factors	**50.5**	**51.2**	**51.3**	**49.7**	**49.1**	**49.3**	**51.9**	**51.8**	**51.2**	**51.2**	**51.8**	**50.8**	**51.0**
NACM Manufacturing CMI	**55.5**	**55.6**	**54.7**	**54.2**	**53.6**	**52.8**	**54.8**	**54.3**	**53.5**	**54.1**	**54.6**	**53.8**	**53.6**



Service Sector

There was some pretty good news coming from the service side of the overall index, with the gains helping to offset the slips in the manufacturing data. The service sector index improved from 55.5 to 56.2, resulting in the combined index looking more positive. The gains in the favorable factors were impressive in some areas and basically stable in others, as the index moved back into the 60s, from 59.2 to 60.4.

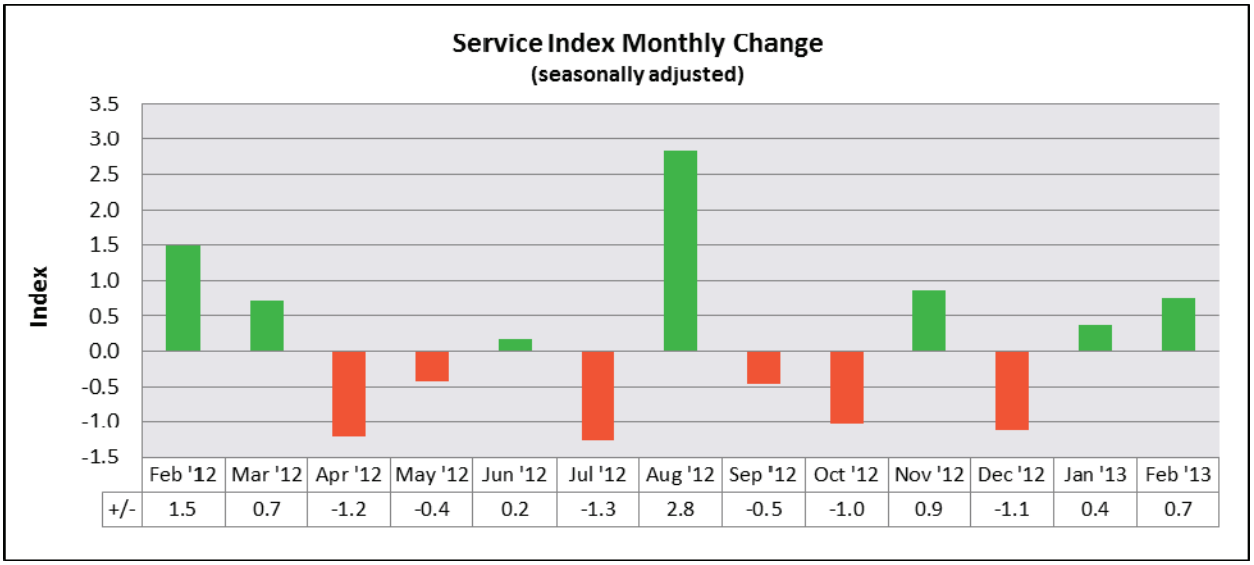
Sales also jumped into the 60s by improving from 59.9 to 61.2, a pretty impressive reading given that this is not the strong season for the retail community. The gains place sales back into the range it occupied a few months ago when retail started to surge. This time it would appear that some services are making a splash, especially those related to the medical and construction industries. The recovery in the housing market is also starting to have an impact on employment, and there is some evidence in the CMI data for this as well.

New credit applications shifted positively from 56.5 to 57.9 and dollar collections improved dramatically from 57.2 to 59.1. Amount of credit extended remains stable and thoroughly in the 60s by moving from 63.2 to 63.4. By all accounts, there are some recoveries underway in the service sector offsetting the stall in retail. If the expectations for additional retail expansion come to pass this spring, this set of factors could expand further into solid growth.

The unfavorable factor index improved from 53 to 53.5, with the specific movement of two factors pointing to some solid gains. Rejections of credit applications slipped from 54.5 to 52.5, which may even point in a positive direction, as it would appear that more applications are being submitted from companies that are not in the greatest of financial shape. This is happening in construction more than in other sectors. Accounts placed for collection improved from 50.6 to 52.9. Disputes also improved from 50.9 to 52.9, a sign that creditors' good relationships with clients are keeping arguments to a minimum. Dollar amount beyond terms fell back a little from 51.1 to 50.4, but dollar amount of customer deductions improved from 51.3 to 52.7. Finally, filings for bankruptcies went from 59.8 to 59.6, remaining stable.

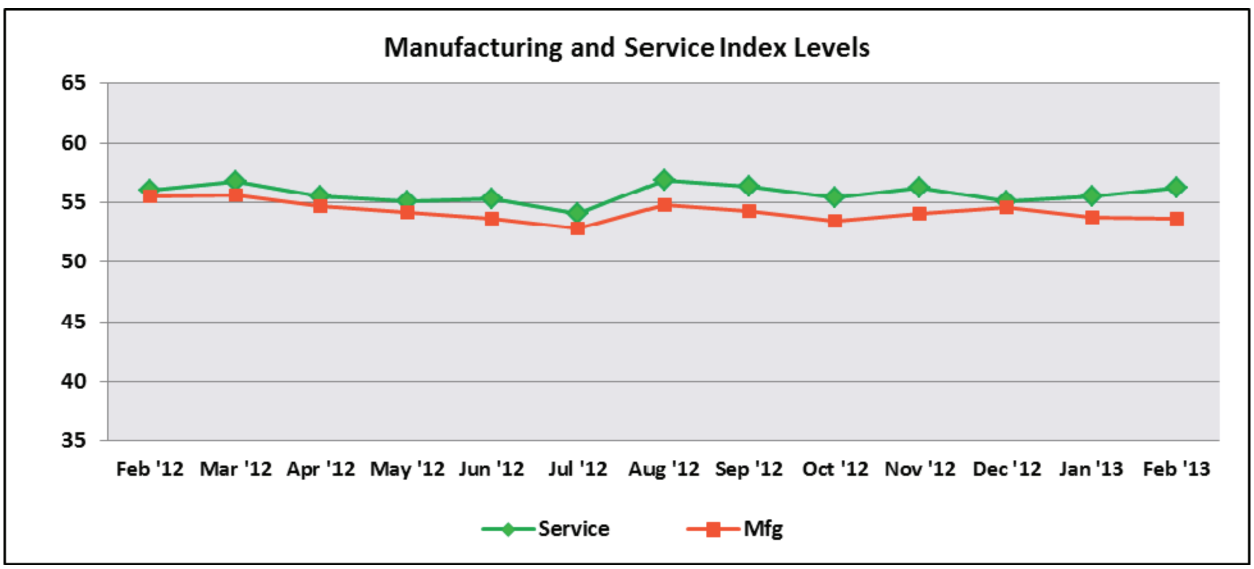
The overall sense from the service sector is that some of the more stressed sectors are making a bit of a comeback, with housing at the top of the list. Retail remains in some trouble, but that might reverse with some progress on the political issues or cheaper gas prices.

Service Sector (seasonally adjusted)	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13
Sales	63.6	62.8	60.6	60.9	62.1	59.8	64.0	61.7	58.2	63.0	56.6	59.9	61.2
New credit applications	59.6	62.8	59.9	58.8	57.7	57.9	57.3	59.2	56.2	59.5	57.3	56.5	57.9
Dollar collections	64.5	60.7	59.4	57.3	58.1	57.9	59.7	60.3	56.5	62.0	58.7	57.2	59.1
Amount of credit extended	63.0	64.6	64.9	61.5	62.0	63.0	61.9	62.7	62.8	64.4	61.8	63.2	63.4
Index of favorable factors	**62.7**	**62.7**	**61.2**	**59.6**	**60.0**	**59.6**	**60.7**	**61.0**	**58.4**	**62.2**	**58.6**	**59.2**	**60.4**
Rejections of credit applications	50.8	51.6	51.8	51.8	52.2	51.6	52.5	52.2	52.8	50.2	51.6	54.5	52.5
Accounts placed for collection	50.7	52.5	50.7	52.0	49.0	48.7	52.6	53.0	53.6	51.7	52.0	50.6	52.9
Disputes	49.9	51.6	51.3	50.6	50.8	47.6	53.7	51.7	52.9	51.1	51.9	50.9	52.9
Dollar amount beyond terms	50.3	51.2	50.6	49.0	51.9	47.8	51.7	50.7	47.8	49.4	49.6	51.1	50.4
Dollar amount of customer deductions	50.6	51.5	50.4	51.0	50.9	49.7	53.6	51.1	51.5	50.9	52.6	51.3	52.7
Filings for bankruptcies	57.6	58.4	55.9	58.4	58.3	56.4	61.6	61.3	61.5	60.4	59.2	59.8	59.6
Index of unfavorable factors	**51.6**	**52.8**	**51.8**	**52.1**	**52.2**	**50.3**	**54.3**	**53.3**	**53.3**	**52.3**	**52.8**	**53.0**	**53.5**
NACM Service CMI	**56.0**	**56.8**	**55.6**	**55.1**	**55.3**	**54.0**	**56.9**	**56.4**	**55.4**	**56.2**	**55.1**	**55.5**	**56.2**



February 2013 versus February 2012

The year-over-year numbers are very nearly the same as last month, but the order is reversed with the service sector showing the growth as opposed to manufacturing. Once again the good news is that the index is above 50, and comfortably so.



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.*

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 federal legislative policy results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining 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.

This report and the CMI archives may be viewed at http://web.nacm.org/cmi/cmi.asp.

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