Report for June 2015

Issued June 30, 2015

National Association of Credit Management

Combined Sectors

Economic conditions continue to fluctuate in a kind of seesaw mode, which even patient analysts are starting to find tiresome. Although the change in the June Credit Manager's Index (CMI), down to a 53.4 reading from May's 54.1 is not huge, this looks to be a month that dashes rather than encourages. Still, there is every reason to assume that the next month will be follow suit with much of the rest of the last year and be different.

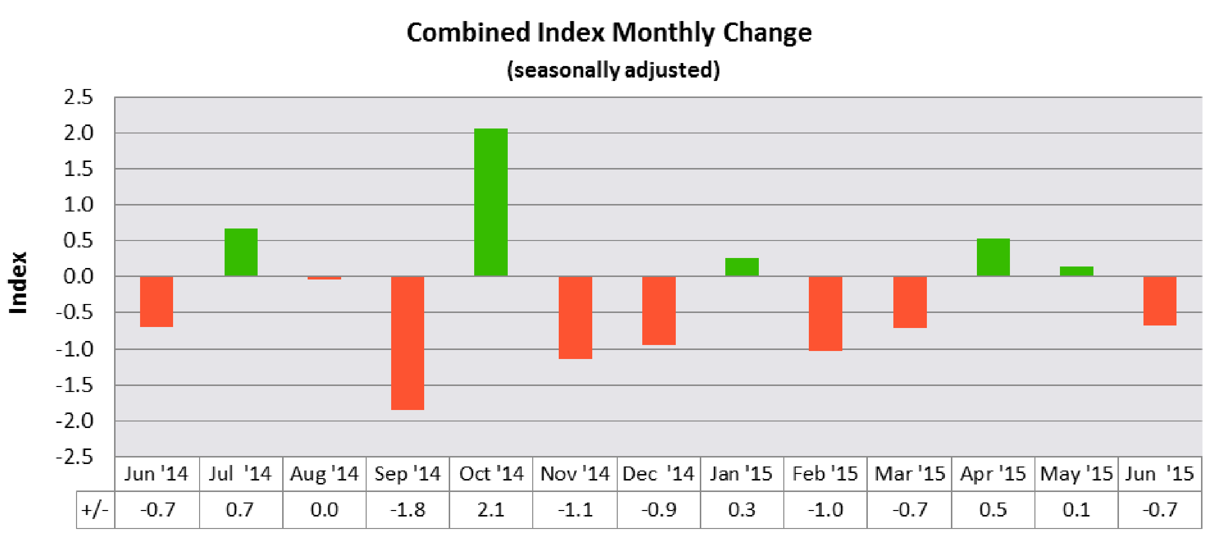
"Every month, analysts await new set of data releases poised to make some declarative statement regarding where the economy is heading—every month, the clear path proves to be elusive once again," said NACM Economist Chris Kuehl, Ph.D. "There always seems to be something both optimists and pessimists can latch on to. The CMI has been providing much of the same, as one month looks pretty promising and then the next one seems to dash some of those hopes."

The May-to-June change mirrors that of earlier this year, as readings moved from February's 54.1 to a 53.4 in March. This has become something Kuehl described as "an annoying pattern;" but a silver lining is reflected in the fact that readings have been well above the 50 line for more than three years. Throughout the last year, the combined CMI has varied between a low of 53.4 and a high of 57. "It is not great news that June, like March, marks a low point for the last 12 months and that the peak was registered back in October," he noted.

The index of favorable factors has likewise been volatile but remained well above the 50 mark that separates contraction from expansion. The latest reading is 59.6, actually a small improvement from May's 58.8. For the most part, readings have bounced between a low of 58.3 in March and a high of 63.8 in August. Of the four components of the favorable index, two gained ground and two slipped. "The most distressing aspect of these trends is that all the peak numbers were from a year or so ago," Kuehl said. The "sales" reading slid from 57.1 to 56.6, marking the lowest reading seen in well over a year. This does not foreshadow a solid future and, as such, may be the most disconcerting of the readings. "New credit applications" rose above 60 for the first time since August, increasing to 60.5 from a 58.5 in May. There was, however, a slip in the "dollar collections" reading, as it went from 57.5 to 56.8. Still, this remains on the high side of the 50s and there has not been any panic yet. The "amount of credit extended" shifted up from 62 to 64.5, the highest level since December. There is obviously robust credit activity, as there have been more applications received and more credit made available. It will be interesting to see if that activity finally boosts sales.

The real damage seems to be concentrated in the unfavorable factors categories, as the index slipped into the 40s for the first time in three years. It doesn't represent a freefall, as there was not very far to go from May's 50.9. Actually, movement has been slight throughout the last year, with the range extending from the low of 49.2 in the current month to a high of 53.2 in October. Consistent distress has existed in several industry categories, and it shows. The "rejections of credit applications" declined from 51.9 to 50.8, which is itself getting dangerously close to contraction territory. "Accounts placed for collection" reading sank back into it, down to a 47.8 after being at 51.1 in May. The "disputes" category improved just a bit, 48 to 48.2, but could not reenter expansion territory. "Dollar amount beyond terms" sunk like a rock, from 50.7 to 46.8. Evidence is building therein that companies are finding it increasingly difficult to make good on their debts. The "dollar amount of customer deductions" improved but also remained in contraction territory—moving from 47.8 to 49.5. The "filings for bankruptcies" category remained in expansion, but fell sharply from May's 56 to a 52.5, the lowest point reached since 2013. "The overall sense is that the long-delayed recovery has been taking its toll, as businesses are finding it harder and harder to struggle on," Kuehl surmised.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15
Sales	63.9	65.2	64.8	60.9	65.7	62.7	61.4	61.5	58.9	58.4	59.1	57.1	56.6
New credit applications	61.5	62.4	60.9	59.0	59.4	58.1	59.2	58.3	58.0	56.6	58.6	58.5	60.5
Dollar collections	59.3	61.0	62.7	59.9	61.5	60.3	56.6	60.1	57.4	57.6	58.8	57.5	56.8
Amount of credit extended	64.8	66.1	66.7	64.0	63.8	63.7	64.6	62.2	60.5	60.6	62.6	62.0	64.5
Index of favorable factors	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**	**60.5**	**60.5**	**58.7**	**58.3**	**59.8**	58.8	**59.6**
Rejections of credit applications	52.0	52.1	51.9	52.5	53.6	51.7	51.5	51.9	51.4	52.6	52.3	51.9	50.8
Accounts placed for collection	52.5	51.5	52.1	50.7	52.7	51.8	51.1	50.1	50.8	49.8	49.8	51.1	47.8
Disputes	49.5	50.3	50.6	49.2	50.4	50.8	48.5	49.5	48.8	49.0	47.2	48.0	48.2
Dollar amount beyond terms	49.6	51.1	50.3	47.2	53.6	52.3	48.7	50.6	48.4	45.5	48.8	50.7	46.8
Dollar amount of customer deductions	49.4	50.6	49.9	49.8	50.8	49.7	48.5	50.2	51.8	48.7	47.4	47.8	49.5
Filings for bankruptcies	58.9	57.6	57.5	55.8	58.1	56.8	58.5	56.9	55.0	55.1	54.6	56.0	52.5
Index of unfavorable factors	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**	**51.1**	**51.5**	**51.0**	**50.1**	**50.0**	**50.9**	**49.2**
NACM Combined CMI	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**	**54.9**	**55.1**	**54.1**	**53.4**	**53.9**	**54.1**	**53.4**



Manufacturing Sector

Manufacturing data of late have provided little in the way of continuity. Durable goods numbers have been off amid issues with everything from capacity utilization to capital spending plans. The data from the CMI join that litany of changing patterns. There was a decrease in the total reading from 54 in May to 53.2 in June. "This remains comfortably in expansion territory, but the readings have been slipping of late and compare poorly with last year," Kuehl said. "The index of favorable factors actually improved, but manufacturing's unfavorable factors dragged the entire index down." The favorable index followed up on May's 58 by moving to the edge of breaking through into the 60s, with a reading of 59.1.

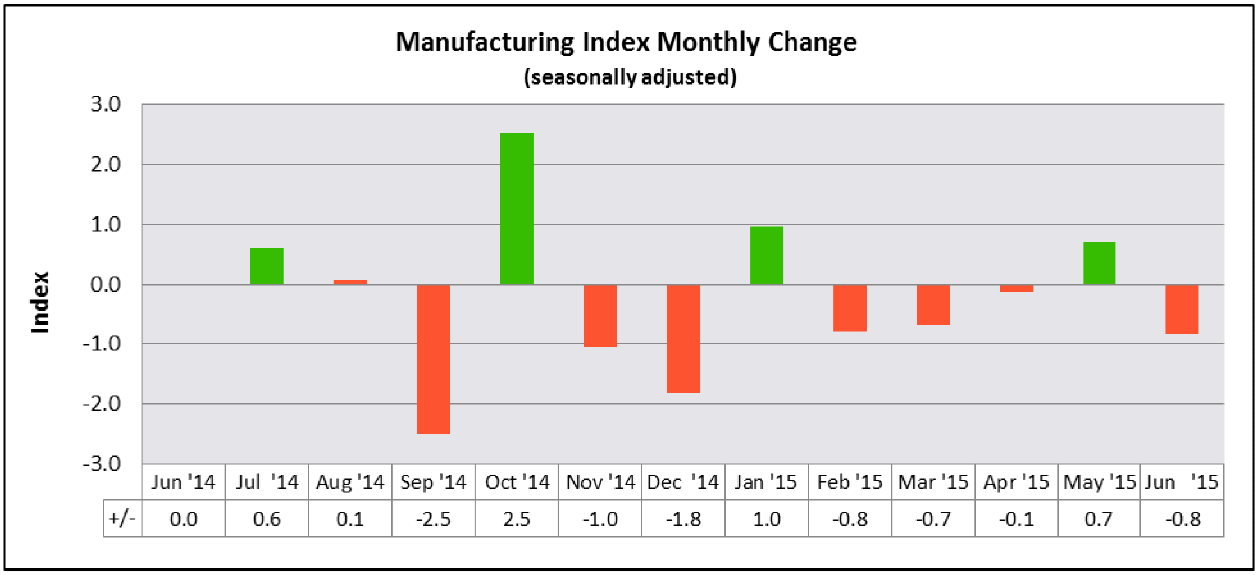
The "sales" category inched from 56.4 to 56.8. Although essentially flat, the rate is less impressive than most months in 2014, notably the peak of 66 reached in August. The "new credit applications" number increased slightly from 58.1 to 58.8, which is its best level in several months. The "dollar collections" category surged from 55.1 to 58.2, sending a very good signal regarding the health of most the manufacturing customers. Even the "amount of credit extended" increased, as generally more customers ask for more money when there has been progress within the existing consumer base.

The bad news came with the index of unfavorable factors. The overall reading dove from 51.4 to 49.2, a point not seen in more than a year and a dubious trip into contraction territory for the first time since September's 49.9. The sub-readings illustrate the problem. The category of "rejections of credit applications" slid into the contraction at 49.5. That is a dramatic and alarming trend that suggests some in the new applicants pool are far from creditworthy. The category of "accounts placed for collection" traveled a similar path, from 51.6 to 48.3—it's the first time in the contraction zone in more than three years for the category. "There are some obvious signs of distress in the manufacturing community, as the expected wave of consumer demand has yet to manifest," Kuehl said. "As such, companies that have been awaiting it are getting in trouble with their creditors."

The "disputes" reading improved ever so slightly, but remained in contraction at 47.9. Granted, the miniscule May-to-June change is about as stable as the category has been in a while. "Dollar amount beyond terms" slid back out of the expansion zone as well, going from 50.6 to 47.5. The "amount of customer deductions" improved just slightly from 48.7 to 49.8, but also failed to impress. The only unfavorable category not in contraction at the moment is "filings for bankruptcies," but even that slipped closer, falling from a May reading of 56.2 to 52.3.

"This has been a tale of two directions," Kuehl noted. "On the one hand, there is some hope for better numbers in the future as the favorables look better than in a long while. However, the present is not so positive, as the unfavorables are worsening, which signals that many companies are not in the shape they would like to be and are falling behind in their obligations."

Manufacturing Sector (seasonally adjusted)	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15
Sales	65.7	64.8	66.0	61.2	64.8	62.7	60.1	60.2	60.1	58.5	57.0	56.4	56.8
New credit applications	61.7	61.1	60.4	59.9	58.5	57.9	58.5	56.7	58.2	56.0	58.7	58.1	58.8
Dollar collections	58.5	61.3	64.2	60.4	60.4	59.9	55.3	60.4	57.1	57.1	57.0	55.1	58.2
Amount of credit extended	65.2	66.4	66.6	62.3	64.1	64.2	63.3	63.6	58.7	59.7	60.9	62.3	62.7
Index of favorable factors	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**	**59.4**	**60.2**	**58.5**	**57.8**	**58.4**	**58.0**	**59.1**
Rejections of credit applications	51.4	52.1	51.2	51.4	54.3	51.3	50.8	52.1	52.5	53.5	53.2	53.0	49.5
Accounts placed for collection	53.5	53.0	52.8	50.5	53.7	52.5	50.4	50.6	51.8	51.4	50.8	51.6	48.3
Disputes	48.5	50.3	50.3	47.4	50.8	50.5	47.3	49.4	47.2	48.6	46.9	47.7	47.9
Dollar amount beyond terms	50.2	51.0	51.6	46.3	54.1	52.8	48.0	50.8	52.2	46.0	48.3	50.6	47.5
Dollar amount of customer deductions	47.9	49.2	48.5	48.9	50.5	49.8	46.7	49.5	48.7	48.7	45.7	48.7	49.8
Filings for bankruptcies	58.7	57.8	56.3	54.8	57.0	56.2	58.9	56.2	55.1	55.1	54.8	56.8	52.3
Index of unfavorable factors	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**	**50.4**	**51.4**	**51.3**	**50.6**	**50.0**	**51.4**	**49.2**
NACM Manufacturing CMI	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**	**54.0**	**55.0**	**54.2**	**53.5**	**53.3**	**54.0**	**53.2**



Service Sector

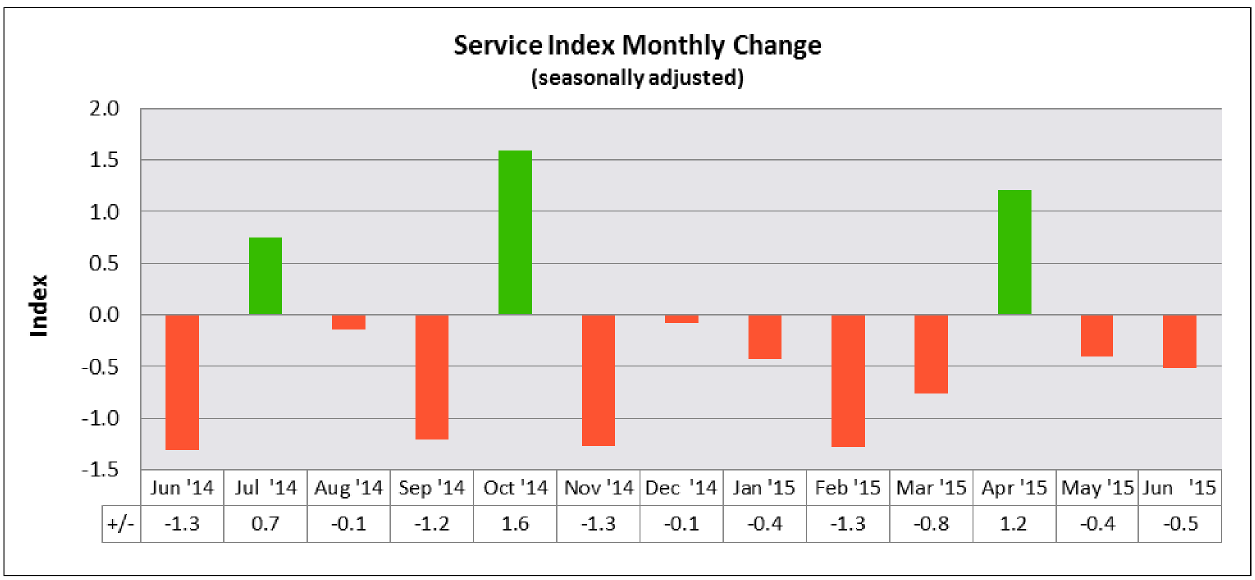
Unsurprisingly, the service sector has been following roughly the same pattern as the manufacturers. This represents a broad cross-section of the national economy and accounts for the vast majority of the GDP—up to 70%, depending on the methodology. “The sector includes everything from construction to health care to retail,” said Kuehl. “It is subject to a host of variables that do not necessarily track with one another. Much of the current pain seems to be connected to retail and construction, although the latter is starting to show signs of better health.”

The total index slipped from 54.1 to 53.6, which reduces it to the lows of March. Like in manufacturing, the index of favorable factors looks better than the index of unfavorables. The May favorable factors result of 59.5 moved to 60 in June. While that’s not quite back to April’s level, it is at least reversing the most recent, negative trend. The “sales” category shifted downward from 57.9 to 56.3, which is as low as it has been in well over two years. This is most closely connected to the retail sector, as it has been underwhelmed by consumer interest to say the least. The “new credit applications” category improved from 58.9 to 62.2, which seems to be related to more confidence in the construction sector, especially among new home builders. “Dollar collections” dropped significantly, from 60 to 55.4. The reading is now at its lowest point since 2013. Alternatively, “amount of credit extended” improved from 61.8 to 66.3, its highest level since August.

As with the manufacturing sector, the bulk of the damage can be found in the unfavorable categories. The overall reading slipped from 50.4 to 49.3, taking the numbers back to what had been seen in March. The “rejections of credit applications” category’s 52 in June marked a surprise improvement from the previous 50.8. It suggests that some in the construction sector are in improved shape. The “accounts placed for collection” numbers worsened noticeably, sliding from 50.5 into the contraction zone at 47.3 in June. The “disputes” category didn’t change much and remains muted at 48.5. A steeper drop than expected for “dollar amount beyond terms,” a category that has had lower readings than counterparts during the last few years, from a 50.7 to a 46.1 returned it firmly to contraction territory where it spend much of 2015. The “dollar amount of customer deductions” improved from a 46.9, but failed to leave the contraction zone at a reading of 49.2. The “filings for bankruptcies” clung to expansion after a significant fall to a reading of 52.6 from May’s 55.1.

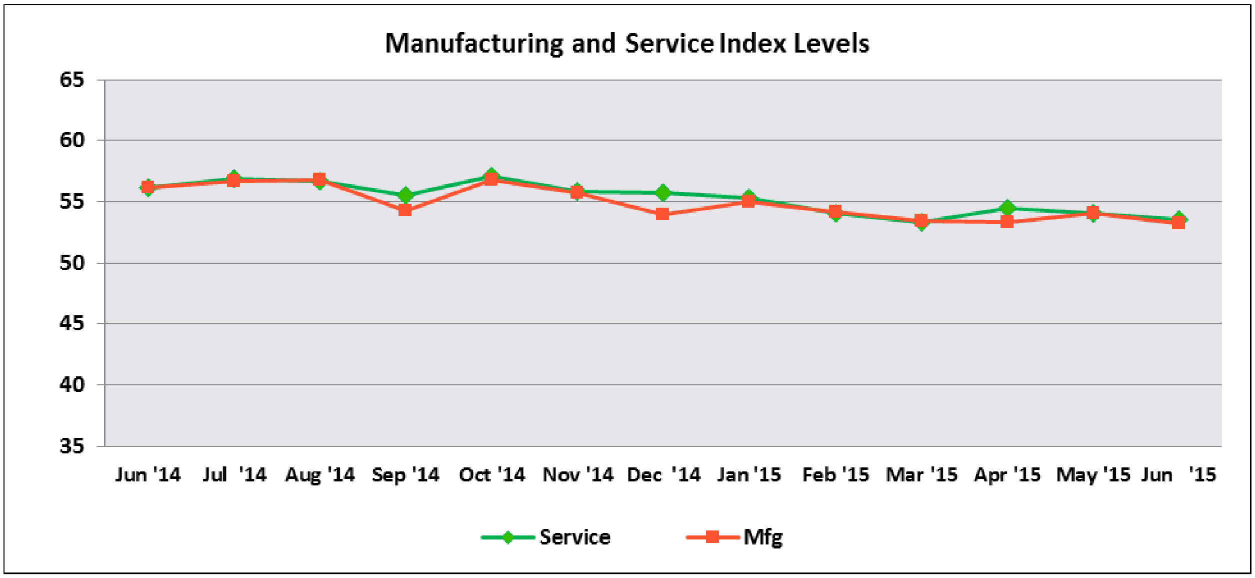
In general, the same conclusion can be reached with services as has been reached with manufacturing, in Kuehl’s estimation: “There is reason for some future optimism based on the favorable factors, but the unfavorable factors point to some areas of distress in the present.”

Service Sector **(seasonally adjusted)**	**Jun '14**	**Jul '14**	**Aug '14**	**Sep '14**	**Oct '14**	**Nov '14**	**Dec '14**	**Jan '15**	**Feb '15**	**Mar '15**	**Apr '15**	**May '15**	**Jun '15**
Sales	62.1	65.6	63.6	60.7	66.7	62.7	62.6	62.8	57.7	58.3	61.1	57.9	56.3
New credit applications	61.3	63.6	61.5	58.0	60.3	58.4	59.8	60.0	57.8	57.1	58.5	58.9	62.2
Dollar collections	60.1	60.7	61.3	59.4	62.5	60.7	57.8	59.7	57.7	58.1	60.7	60.0	55.4
Amount of credit extended	64.3	65.9	66.8	65.7	63.6	63.3	65.8	60.8	62.3	61.5	64.4	61.8	66.3
Index of favorable factors	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**	**61.6**	**60.8**	**58.9**	**58.7**	**61.2**	**59.6**	**60.0**
Rejections of credit applications	52.6	52.1	52.6	53.7	52.9	52.1	52.2	51.7	50.3	51.7	51.3	50.8	52.0
Accounts placed for collection	51.4	50.0	51.4	51.0	51.7	51.2	51.8	49.7	49.9	48.1	48.7	50.5	47.3
Disputes	50.4	50.2	50.9	50.9	50.0	51.2	49.7	49.5	50.4	49.4	47.5	48.4	48.5
Dollar amount beyond terms	48.9	51.2	48.9	48.1	53.2	51.8	49.3	50.5	44.7	45.1	49.2	50.7	46.1
Dollar amount of customer deductions	51.0	52.0	51.4	50.7	51.1	49.6	50.1	51.0	54.8	48.7	49.1	46.9	49.2
Filings for bankruptcies	59.0	57.3	58.8	56.8	59.2	57.4	58.12	57.6	54.9	55.0	54.3	55.1	52.6
Index of unfavorable factors	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**	**51.9**	**51.7**	**50.8**	**49.7**	**50.0**	**50.4**	**49.3**
NACM Service CMI	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**	**55.8**	**55.3**	**54.0**	**53.3**	**54.5**	**54.1**	**53.6**



June 2015 versus June 2014

"The year-over-year trend is not encouraging," Kuehl said. "There has been a distinct downward slide, and it is apparent that conditions were far better in mid-2014 than they are now. That was neither expected nor wanted at this stage of a recovery."



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 https://www.nacm.org/cmi/cmi-archive.html.

Source: National Association of Credit Management

Contact: Jennifer Lehman, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National