Report for April 2012

Issued April 30, 2012

National Association of Credit Management

Combined Sectors

After five straight months of gains, the Credit Managers' Index (CMI) slipped to 55.1 from the March reading of 56.2, and just slightly above the January reading. The decline is not drastic and, excluding February and March, the CMI is higher than the months since April 2011 when it stood at 55.8. The CMI had been the one economic bright spot for much of the year, at least up to now. April has not been a month to write home about, and for the last few weeks, analysts have been trying to decide whether the economy is on the edge of another spring swoon, which would repeat the slide from this time in 2011 and 2010. A lot of the factors are not the same as they were in either of these years, but the data that emerged in the last week did not inspire much confidence or enthusiasm. The growth in jobs has slowed and people seem to be getting laid off again. The latest durable goods orders are not looking good and there was some pretty gloomy prognostication coming from the Federal Reserve.

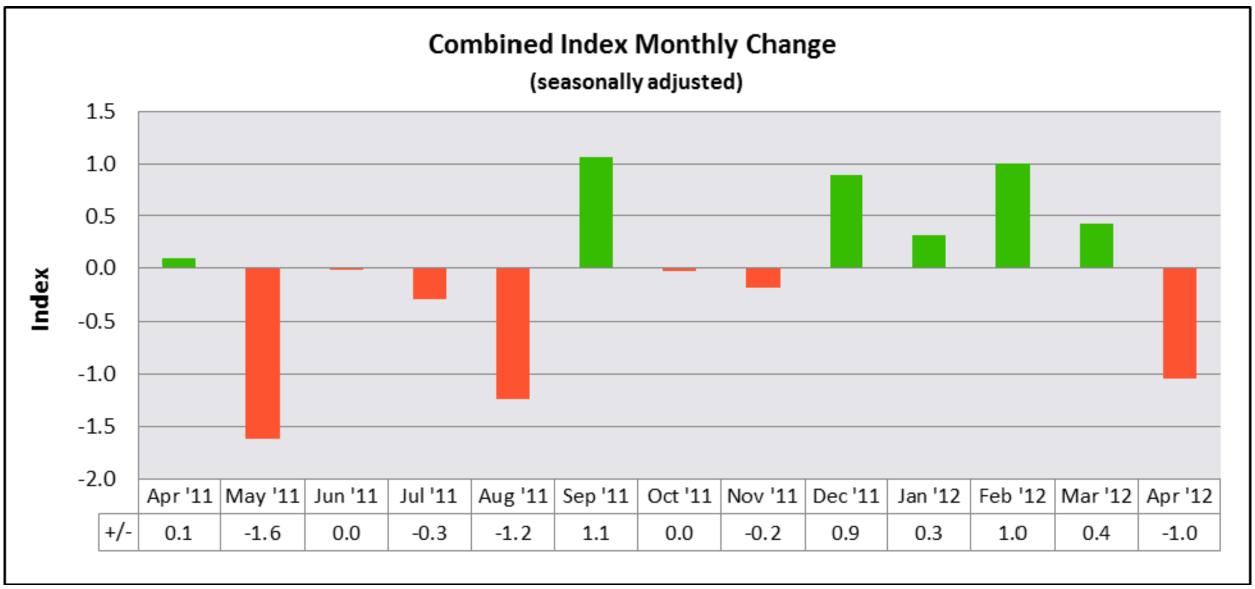
The decline in the CMI is consistent with other data released in recent weeks. The numbers are not suggesting an imminent crisis, and nothing that approaches the return to recession being seen in Europe. However, the decline indicates that the robust growth that started the year has faded somewhat, provoking concerns the economy will start to retreat for the third time in as many years.

"There has been nothing as dramatic as last year's earthquake in Japan that destroyed the global supply chain or the Arab Spring that resulted in massive political change in the Middle East and much higher oil prices," said NACM Economist Chris Kuehl, PhD. "Spring 2012 did feature tensions in Iran sufficient to force the price of oil up for a while, and the financial crisis in Europe has had almost as much impact on the global economy as the disaster in Japan. If there was nothing all that dramatic to drag the economy down what can the decline be attributed to? There are clues in the CMI data."

The index of favorable factors fell from 62.5 to 60.5. Sales had the biggest change, falling to 60, a level not seen since November 2011 when it stood at 58.3. "A drop of 4.1 points is not insignificant and that is taking place at a time when the retail numbers have been adequate in the country as a whole," said Kuehl. "The slide in sales tends to coincide with what has been reported as far as durable goods orders are concerned." Favorable factors declined almost across the board, including dollar collections, which fell from 61.4 to 59.3. New credit applications also slipped from 60.4 to 58.2, but there was some good news in the amount of credit extended, which rose from 63.9 to 64.6. At first blush, it seems businesses are cautious and not requesting as much credit, but those that are have been met with a willingness to extend.

The index of unfavorable factors fell as well, from 52 to 51.6, but the drop was not quite as dramatic as with favorable factors. The biggest decline was in dollar amount of customer deductions, which dropped from 51.1 to 50.4. Other categories improved, though. Rejections of credit applications rose from 50.6 to 51.6, reinforcing the notion that creditworthy companies are still accessing credit. By and large, there was not all that much movement in unfavorable factors. "The good news is that all the readings are still above the 50 mark denoting expansion, but the bad news is that there are several factors with readings between 50 and 50.7," said Kuehl. "It is a very fragile situation and it will not take much to push these numbers into contraction territory."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12
Sales	64.5	59.4	60.8	60.0	59.2	61.4	60.4	58.3	60.5	63.5	64.4	64.1	60.0
New credit applications	58.8	58.2	56.7	57.3	55.8	57.8	58.9	57.6	55.3	61.9	59.5	60.4	58.2
Dollar collections	61.3	58.7	58.1	56.2	56.9	57.8	56.8	56.9	61.4	56.8	63.0	61.4	59.3
Amount of credit extended	64.7	62.1	60.4	62.0	60.7	62.8	61.9	62.4	64.7	63.3	64.3	63.9	64.6
Index of favorable factors	**62.3**	**59.6**	**59.0**	**58.9**	**58.1**	**59.9**	**59.5**	**58.8**	**60.5**	**61.4**	**62.8**	**62.5**	**60.5**
Rejections of credit applications	50.8	51.5	50.9	51.0	50.2	49.9	50.2	49.5	49.5	50.2	50.5	50.6	51.6
Accounts placed for collection	50.5	50.3	49.8	49.9	47.6	48.7	50.1	49.5	50.0	49.1	50.9	52.0	50.3
Disputes	49.3	48.8	49.3	50.0	48.7	47.6	49.0	47.9	49.2	49.2	49.7	50.9	50.7
Dollar amount beyond terms	50.7	46.5	49.9	48.3	44.2	49.1	47.6	48.0	48.8	48.0	51.2	50.7	50.0
Dollar amount of customer deductions	49.9	48.6	50.0	48.9	49.1	49.2	48.7	48.9	49.1	50.1	48.5	51.1	50.4
Filings for bankruptcies	58.1	58.1	56.5	55.8	54.5	53.2	53.8	56.7	56.0	55.5	55.7	56.8	56.2
Index of unfavorable factors	**51.5**	**50.6**	**51.0**	**50.6**	**49.1**	**49.6**	**49.9**	**50.1**	**50.4**	**50.3**	**51.1**	**52.0**	**51.6**
NACM Combined CMI	**55.8**	**54.2**	**54.2**	**53.9**	**52.7**	**53.8**	**53.7**	**53.5**	**54.4**	**54.8**	**55.8**	**56.2**	**55.1**



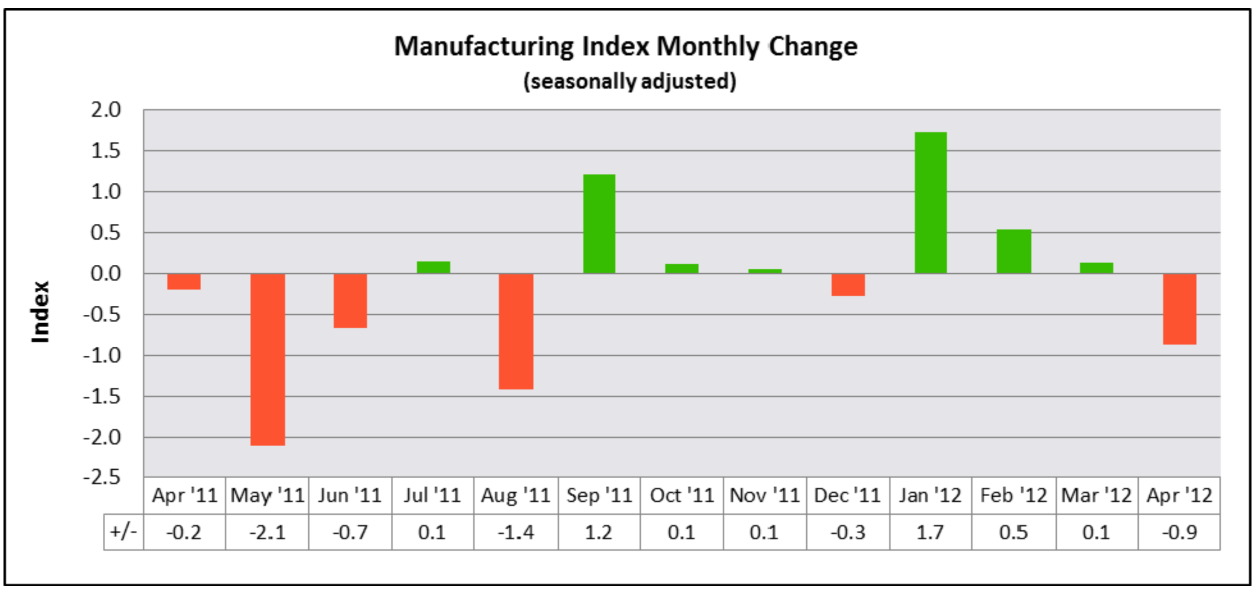
Manufacturing Sector

The sector credited with keeping the recovery moving in the right direction has long been manufacturing, and there is therefore intense concern when something seems to be going awry. The headlines for the past week have bordered on hysterical when durable goods orders fell by over 4% to levels not seen since the depths of the recession in 2009. What tends to be ignored is that durable goods data is volatile and reacts to changes in big sectors. Once aerospace was stripped out of the data, the decline was 0.8%, nothing to be happy about, but a far cry from the 4.1% drop. The manufacturing data suggest issues of significant slowdown, as almost all the decline in favorable factors can be attributed to the dramatic drop in sales. The readings hit lows seen in December 2011 and are far below what they were a year ago. In April 2011, the sales factor was at 63.9, and today it is at 59.4. Just last month, sales was at 65.4 and it seemed that solid growth was ahead. The total favorable factor index number reacted to this decline with a tumble from 62.2 to 59.9.

The other favorable factors stumbled as well, but none as dramatically as sales. New credit applications fell from 57.9 to 56.6 and dollar collections declined from 62.2 to 59.2. Despite the lower numbers, it is important to recognize that the favorable index is still in the high 50s and almost at 60 as a whole. This may be slower than it has been for a few months, but it is solidly in expansion territory.

The story in unfavorable factors is similar. Overall, there was very little change and even a slight improvement from 51.2 to 51.3. Last month, only one factor was under 50 and this month two have slipped into contraction territory. Accounts placed for collection dropped from 51.6 last month to 49.9 this month and dollar amount beyond terms slipped from 50.1 to 49.4. Neither decline was precipitous, and there is no reason to become overly concerned. The reaction in the CMI is all focused on the growth side of things this month. If that trend continues, however, it will not be long before there are negative reactions. The sense at the moment is that manufacturers are in a lull, but it would be premature to assume that the growth in that sector has halted for the year. The reactions from analysts who are looking ahead would indicate that they are looking at a recovery in manufacturing momentum by the end of the year.

Manufacturing Sector (seasonally adjusted)	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12
Sales	63.9	57.8	58.5	59.3	58.0	59.5	59.3	58.1	57.7	64.1	65.1	65.4	59.4
New credit applications	60.3	58.7	54.5	56.4	55.3	57.5	60.6	55.7	49.5	64.2	59.3	57.9	56.6
Dollar collections	60.2	60.1	55.3	55.4	56.0	56.7	56.5	56.2	58.0	56.8	61.4	62.2	59.2
Amount of credit extended	66.5	61.4	59.2	61.2	59.5	62.1	60.7	62.7	63.6	66.2	65.7	63.2	64.3
Index of favorable factors	**62.7**	**59.5**	**56.9**	**58.1**	**57.2**	**58.9**	**59.3**	**58.2**	**57.2**	**62.8**	**62.9**	**62.2**	**59.9**
Rejections of credit applications	51.0	52.6	51.8	50.8	50.4	50.0	49.6	49.6	49.8	50.5	50.1	49.6	51.5
Accounts placed for collection	50.7	50.7	49.8	49.4	47.3	49.6	48.8	51.6	50.7	48.6	51.1	51.6	49.9
Disputes	50.5	49.2	49.0	50.0	48.6	44.9	47.7	48.5	49.3	48.3	49.6	50.2	50.2
Dollar amount beyond terms	52.2	45.8	50.6	49.1	42.6	51.3	49.7	47.1	48.4	47.6	52.2	50.1	49.4
Dollar amount of customer deductions	49.5	47.7	49.5	47.8	48.9	48.1	47.7	48.8	49.3	49.2	46.5	50.6	50.4
Filings for bankruptcies	56.8	56.4	55.6	55.9	54.5	53.4	53.7	56.5	55.7	53.8	53.8	55.3	56.5
Index of unfavorable factors	**51.8**	**50.4**	**51.0**	**50.5**	**48.7**	**49.5**	**49.5**	**50.4**	**50.5**	**49.7**	**50.5**	**51.2**	**51.3**
NACM Manufacturing CMI	**56.1**	**54.0**	**53.4**	**53.5**	**52.1**	**53.3**	**53.4**	**53.5**	**53.2**	**54.9**	**55.5**	**55.6**	**54.7**



Service Sector

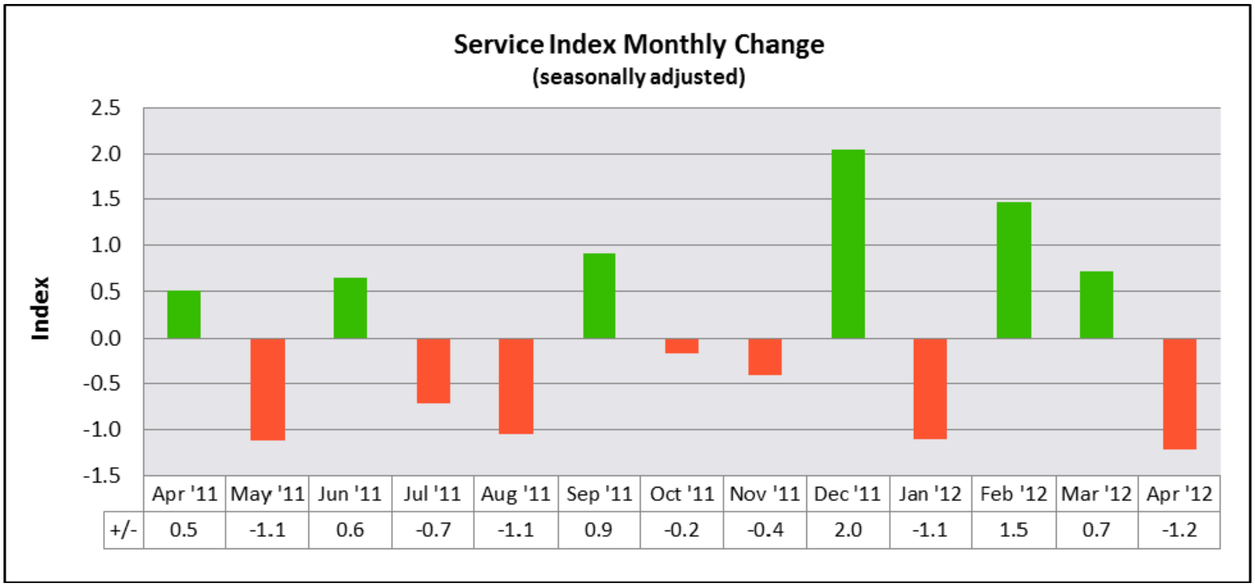
The service sector suffered a setback, but for different reasons than in manufacturing. Overall there was not the dramatic decline registered in manufacturing as the service index slipped from 56.8 to 55.6. Since December, the service index has hovered in roughly the same range—from 54.6 in January to 56.8 in March. There has not been the volatility in services seen elsewhere. The prime reason for this relative stability is that the services sector is diverse, and at any given moment one area may be doing well while another isn't. Retail numbers have been respectable this spring while construction remains thoroughly mired in decline. Financial services are making a little comeback and professional services are holding their own. On the downside, there is no positive movement in real estate and the once-robust areas like IT and health care have slowed down a little.

The favorable categories moved, but not all that dramatically. Sales slipped from 62.8 to 60.6, the lowest reading since December but still above 60 and a long way from contraction. One of the positive indications comes from amount of credit extended, which improved from 64.6 to 64.9. It seems companies in decent shape are still thinking expansion and that they have the ability to get credit. Overall there has been a reduction in the amount of credit made available as new credit applications have fallen from 62.8 to 59.9, but that has not stopped those companies that have been part of the overall expansion thus far this year.

When it comes to unfavorable factors, there wasn't a great deal of movement here either. The decline in the category as a whole was from 52.8 to 51.8. That keeps the reading in the range that has marked the sector since the start of the year. It broke past the 50 barrier in December and only reached as high at 52.8 last month. It is also good news to note that all the categories were above 50 this month and that is the second month in a row they have all been pointing in an expansionary direction. Granted, some of the readings are closer to 50 than previously, but at least they are still hanging in there. The biggest declines took place in accounts placed for collection (52.5 to 50.7) and in filings for bankruptcies (58.4 to 55.9). On the positive side, the bankruptcy numbers remain solid, as they have been for most of the past year.

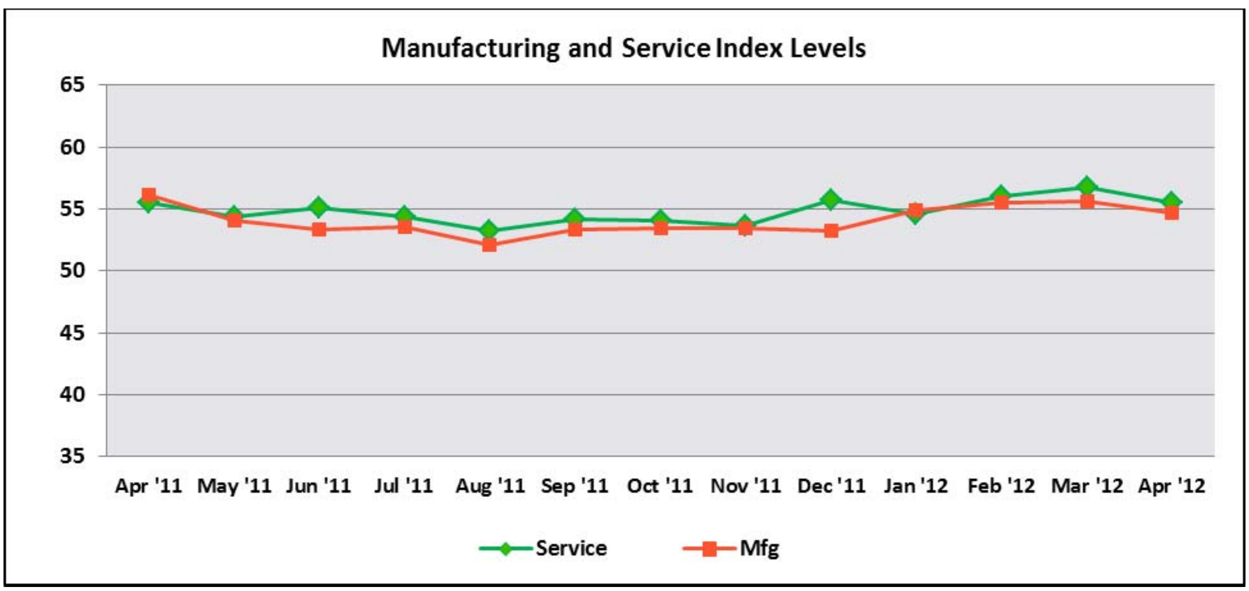
Just as with manufacturing, there is no real sign of credit distress appearing in the service sector. However, if trends continue to worsen in the favorable categories, the negatives will show up sooner than later.

Service Sector (seasonally adjusted)	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12
Sales	65.0	61.1	63.2	60.7	60.5	63.3	61.5	58.4	63.3	62.9	63.6	62.8	60.6
New credit applications	57.3	57.8	58.8	58.2	56.3	58.0	57.2	59.4	61.1	59.6	59.6	62.8	59.9
Dollar collections	62.3	57.3	60.9	57.1	57.9	58.9	57.0	57.6	64.9	56.7	64.5	60.7	59.4
Amount of credit extended	63.0	62.7	61.6	62.7	61.9	63.5	63.2	62.1	65.7	60.4	63.0	64.6	64.9
Index of favorable factors	**61.9**	**59.7**	**61.1**	**59.7**	**59.1**	**60.9**	**59.7**	**59.4**	**63.8**	**59.9**	**62.7**	**62.7**	**61.2**
Rejections of credit applications	50.5	50.4	50.0	51.2	50.1	49.8	50.9	49.4	49.1	49.9	50.8	51.6	51.8
Accounts placed for collection	50.2	49.9	49.8	50.3	47.8	47.8	51.3	47.5	49.3	49.6	50.7	52.5	50.7
Disputes	48.1	48.5	49.6	50.0	48.9	50.4	50.2	47.2	49.0	50.1	49.9	51.6	51.3
Dollar amount beyond terms	49.2	47.3	49.1	47.5	45.9	46.9	45.4	48.8	49.3	48.5	50.3	51.2	50.6
Dollar amount of customer deductions	50.3	49.4	50.5	49.9	49.3	50.2	49.8	48.9	48.9	51.0	50.6	51.5	50.4
Filings for bankruptcies	59.5	59.8	57.3	55.8	54.6	53.1	54.0	57.0	56.2	57.2	57.6	58.4	55.9
Index of unfavorable factors	**51.3**	**50.9**	**51.0**	**50.8**	**49.4**	**49.7**	**50.3**	**49.8**	**50.3**	**51.0**	**51.6**	**52.8**	**51.8**
NACM Service CMI	**55.5**	**54.4**	**55.1**	**54.3**	**53.3**	**54.2**	**54.0**	**53.6**	**55.7**	**54.6**	**56.0**	**56.8**	**55.6**



April 2012 vs. April 2011

The year-to-year trend is showing its usual volatility—that is to say it hasn't varied all that much. For over a year, the index has hovered just about dead center in the 50s. This is certainly better performance than was registered a couple of years ago, but it is not what had been hoped when the trends started to improve at the start of the year. The index today is about what it was a year ago.



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 those from the Purchasing Managers, the Supply Chain Managers and others.

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 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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