Report for January 2015

Issued January 30, 2015

National Association of Credit Management

Combined Sectors

The January Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) appears to have has joined the ranks of the cautiously optimistic. The CMI had been sounding warnings like some kind of credit prophet as it trended down, while other indices were up or at least stable at the end of 2014. This month, however, the reading for the combined index rose to 55.1, up from 54.9 in December.

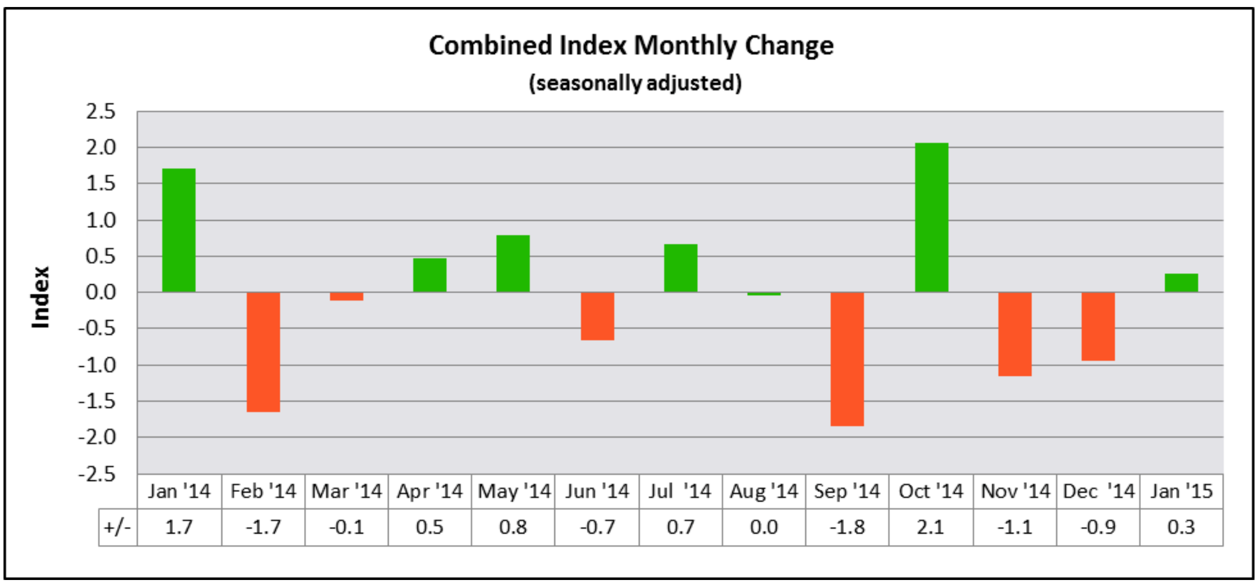
"This is certainly not a spectacular turnaround as the index was at 55.8 and 57.0 in November and October, respectively," said NACM Economist Chris Kuehl, Ph.D. "The fact is January's reading is still the third lowest in the past year, but it is trending in the right direction this month."

Overall, the index of favorable factors held at 60.5, but categories within the index saw some variability. The real change took place in the index of unfavorable categories as it moved from 51.1 to 51.5, Kuehl noted. "Although the numbers remain close, this shift means more to the big picture because the unfavorable numbers have been holding close to the dividing line between contraction and expansion."

"The breakdown of the favorable factors has been interesting," he added. The sales category barely budged upward from what it was the previous month and remains low as compared with much of last year. At 61.5, the current reading sits near the average range—a good number given the turmoil of the last several months. Over the past year, it reached a low of 59.1 in March and a high of 65.7 in October. New credit applications fell from 59.2 to 58.3, about what it was in November. "Although no real cause for alarm exists at this stage, a further slowdown in credit applications would suggest more caution in the business community and less expansion activity," Kuehl said. Dollar collections may well have the best news of the whole group, climbing from 56.6 to 60.1, which signals that companies are paying their bills more regularly. Amount of credit extended sunk 2.4 points, however, to 62.2. "This is still well within the 60s, but it reveals a pullback in credit activity and raises the question as to why," he noted. "It seems that there is more caution within the credit community as a whole, and that is affecting the number of applications as well as the amount of credit extended."

In the unfavorable categories, rejections of credit applications shifted upward from 51.5 to 51.9. "While it appears that there may be fewer applicants, those that are applying are more creditworthy," Kuehl said. Accounts placed for collection dropped from 51.1 to 50.1, which further indicates that companies are in distress and unable to stay current with their debt. Disputes improved slightly from 48.5 to 49.5, but it is still in the contraction zone. Two other readings climbed out of the zone, however. Dollar amount beyond terms moved from 48.7 to 50.6, and dollar amount of customer deductions went from 48.5 to 50.2. Filings for bankruptcies took a 1.6 downward slide to 56.9. "Although the reading remains in the solid mid-50s, it suggests that the weaker companies that have been in distress are finally giving up," Kuehl said. "The good news overall for the unfavorable category is that only one reading remains under 50 compared with last month, which had three. While there's nothing to suggest an imminent boom, it would appear that conditions have started to improve."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15
Sales	61.5	59.4	59.1	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7	61.4	61.5
New credit applications	58.2	58.1	57.3	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1	59.2	58.3
Dollar collections	60.9	58.8	56.4	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3	56.6	60.1
Amount of credit extended	65.4	61.4	63.1	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7	64.6	62.2
Index of favorable factors	**61.5**	**59.4**	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**	**60.5**	**60.5**
Rejections of credit applications	54.6	52.3	52.4	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7	51.5	51.9
Accounts placed for collection	55.2	54.6	54.1	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8	51.1	50.1
Disputes	52.2	51.9	50.9	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8	48.5	49.5
Dollar amount beyond terms	52.8	51.1	52.4	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3	48.7	50.6
Dollar amount of customer deductions	51.6	50.4	51.2	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7	48.5	50.2
Filings for bankruptcies	60.5	58.5	58.4	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8	58.5	56.9
Index of unfavorable factors	**54.5**	**53.1**	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**	**51.1**	**51.5**
NACM Combined CMI	**57.3**	**55.6**	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**	**54.9**	**55.1**



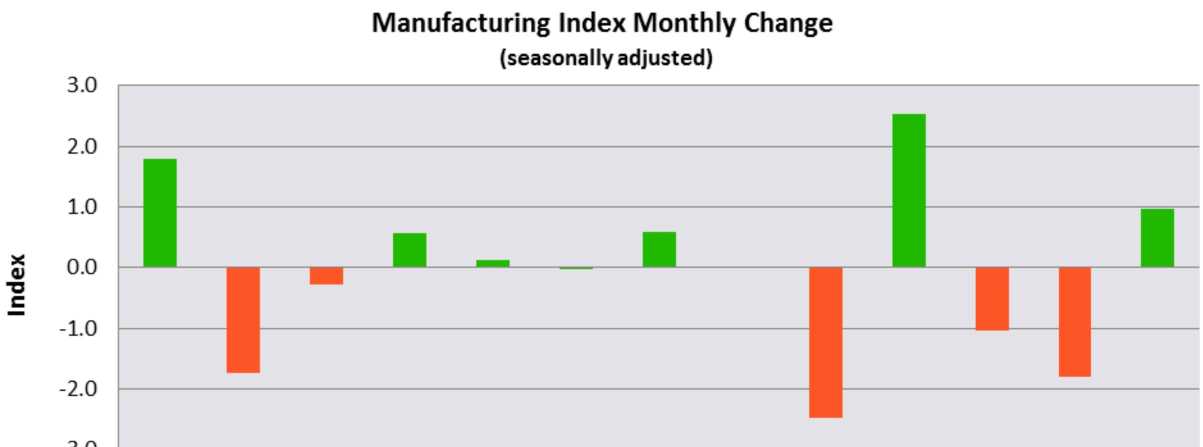
Manufacturing Sector

Readings for the manufacturing sector improved this month, albeit not greatly. The slump recorded in December seems to have been an anomaly as the numbers are back to what they were in November, and these are decent, Kuehl noted. The combined index moved up a point to 55.0 in January. Its highest point over the past 12 months was 56.8, and that was reached in both August and October. The index of favorable factors edged up from 59.4 to 60.2, which means the index has been in the 60s for nine out of 12 months, and the index of unfavorable factors crept up a bit from 50.4 to 51.4, but that is still uncomfortably close to contraction.

Subcategories tell an interesting tale as well, Kuehl said. Sales moved slightly from 60.1 to 60.2. “More importantly, however, this index has remained above 60 for 10 consecutive months,” he said. New credit applications slipped from 58.5 to 56.7—a fairly dramatic drop that suggests some slowdown in manufacturing growth. Dollar collections traveled north as it rose above 60 for the first time since October, moving from 55.3 to 60.4. "The really good news is that manufacturers are getting paid," Kuehl said. "Amount of credit extended went from 63.3 to 63.6, which means companies are doing more business with those that they have good relations with—fewer applications but they're offering more credit."

Unfavorable readings also showed some movement—mostly in a positive direction. Rejections of credit applications improved significantly as it expanded from 50.8 to 52.1. "This tells a story when combined with the slowdown in credit applications as it suggests that those seeking credit are in better financial shape than before—fewer bad risks hoping that somebody will throw them a lifeline," Kuehl noted. Accounts placed for collection improved slightly from 50.4 to 50.6. Dollar amount beyond terms managed to escape the 40s as it climbed from 48.0 to 50.8. Two other categories nearly cleared that same hurdle. Disputes rose from 47.3 to 49.4, which is not far from the average for the year, and dollar amount of customer deductions moved from 46.7 to 49.5. Filings for bankruptcies receded from 58.9 to 56.2, a substantial drop, which signals that some of the struggling companies are giving it up. "There is some anecdotal evidence that many of these failures are taking place in the energy sector as some of the weaker companies have been unable to cope with the drastic drop in the price of oil," Kuehl said.

Manufacturing Sector **(seasonally adjusted)**	**Jan '14**	**Feb '14**	**Mar '14**	**Apr '14**	**May '14**	**Jun '14**	**Jul '14**	**Aug '14**	**Sep '14**	**Oct '14**	**Nov '14**	**Dec '14**	**Jan '15**
Sales	59.6	57.9	58.5	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7	60.1	60.2
New credit applications	59.5	57.7	56.1	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9	58.5	56.7
Dollar collections	62.7	56.4	57.4	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9	55.3	60.4
Amount of credit extended	66.4	60.4	61.7	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2	63.3	63.6
Index of favorable factors	**62.0**	**58.1**	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**	**59.4**	**60.2**
Rejections of credit applications	54.4	52.8	52.6	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3	50.8	52.1
Accounts placed for collection	55.7	59.9	56.1	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5	50.4	50.6
Disputes	51.0	51.6	50.6	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5	47.3	49.4
Dollar amount beyond terms	53.2	51.7	52.8	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8	48.0	50.8
Dollar amount of customer deductions	51.8	50.4	50.4	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8	46.7	49.5
Filings for bankruptcies	60.4	58.6	58.5	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2	58.9	56.2
Index of unfavorable factors	**54.4**	**54.1**	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**	**50.4**	**51.4**
NACM Manufacturing CMI	**57.5**	**55.7**	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**	**54.0**	**55.0**



	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15
+/-	1.8	-1.7	-0.3	0.6	0.1	0.0	0.6	0.1	-2.5	2.5	-1.0	-1.8	1.0

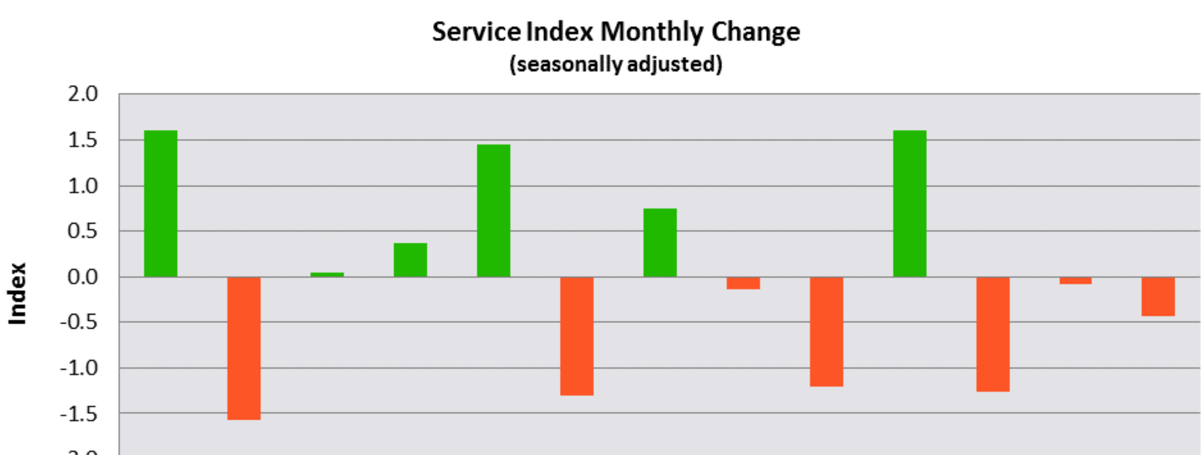
Service Sector

Overall the service sector slipped a little as it moved from 55.8 to 55.3. “This is still comfortably in the middle of the 50s, but the subcategories show some signs of distress,” Kuehl said. “This is the point in the year when the retail sector has a chance to take stock of the last few months and determine what is really going on in their businesses. The retail rush is over and so is the retail return rush, and that affords an opportunity to register some *real* numbers.” Although there is more to the CMI service readings than retail, this is by far the biggest category. The index of favorable factors dropped significantly from 61.6 to 60.8, but the good news is that this is still in the 60s range. The index of unfavorable factors also dipped slightly from 51.9 to 51.7. “The most important point is that the unfavorable category is still too close to contraction territory,” Kuehl stated.

Sales increased from 62.6 to 62.8—about average for the year but far off the pace that was registered in October when it hit 66.7. New credit applications also improved from 59.8 to 60.0, reflecting an opposite trend as compared with manufacturing where credit applications were down. Dollar collections grew from 57.8 to 59.7, while amount of credit extended dropped from 65.8 to 60.8. “The interesting point is that these are trending in just the opposite direction as manufacturing,” Kuehl said. “It seems that there are more applications but for less money, and when one looks at the reading for rejections of credit applications, it seems that there are more bad risks trying to get credit in the service sector.”

Rejections of credit applications fell from 52.2 to 51.7, which reinforces the notion that companies are getting more application activity from those that are not in good financial shape—mostly from within the retail sector as its numbers over the holiday period were not what it needed them to be, Kuehl noted. Accounts placed for collection slipped into the 40s for the first time since February of last year. “This is another signal that there is some serious distress in the retail sector,” he added. Disputes also showed signs of decline as it stayed in the 40s with a reading that slipped from 49.7 to 49.5. Dollar amount beyond terms managed to escape the 40s with a reading that moved from 49.3 to 50.5, and dollar amount of customer deductions saw similar movement as it shifted from 50.1 to 51.0. Filings for bankruptcies slid from 58.1 to 57.6. “That is yet another indication of some overall financial stress in the service sector,” Kuehl said. “The areas that seem to be taking the most heat are retail and construction, but this is a slow time of year for the latter, meaning that most of the damage is being done in retail. This is not unexpected as this is always the slowest point in the retail calendar. The reaction in a month or two will be of greater interest.”

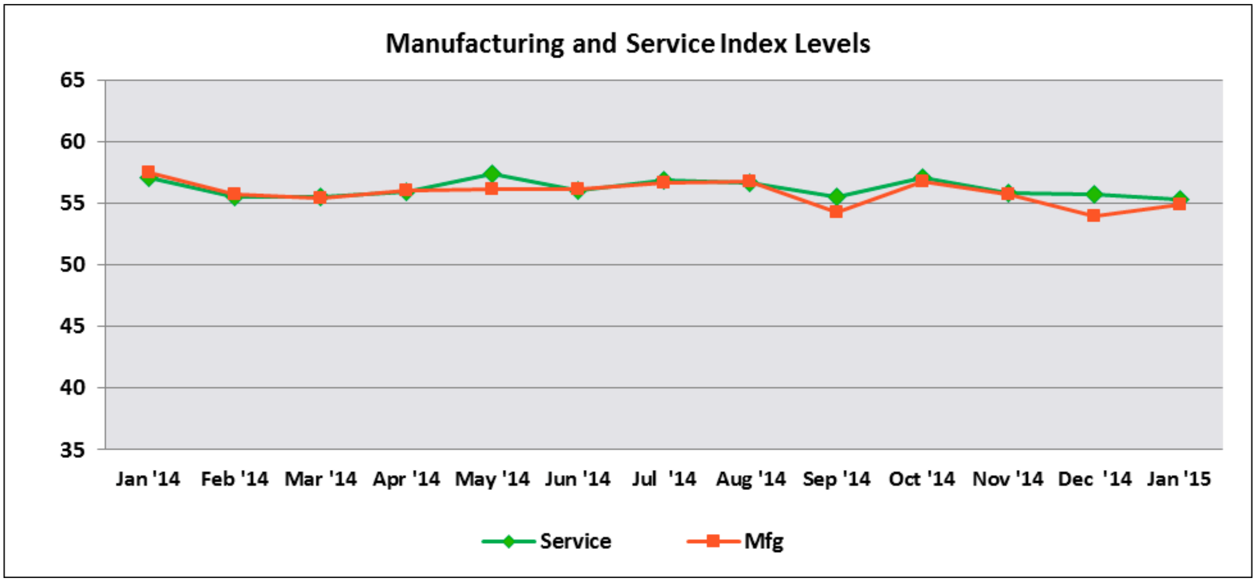
Service Sector (seasonally adjusted)	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15
Sales	63.4	60.9	59.6	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7	62.6	62.8
New credit applications	57.0	58.5	58.5	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4	59.8	60.0
Dollar collections	59.2	61.1	55.4	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7	57.8	59.7
Amount of credit extended	64.4	62.3	64.5	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3	65.8	60.8
Index of favorable factors	**61.0**	**60.7**	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**	**61.6**	**60.8**
Rejections of credit applications	54.8	51.8	52.2	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1	52.2	51.7
Accounts placed for collection	54.8	49.3	52.2	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2	51.8	49.7
Disputes	53.3	52.2	51.2	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2	49.7	49.5
Dollar amount beyond terms	52.3	50.6	52.0	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8	49.3	50.5
Dollar amount of customer deductions	51.4	50.4	51.9	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6	50.1	51.0
Filings for bankruptcies	60.5	58.4	58.4	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4	58.1	57.6
Index of unfavorable factors	**54.5**	**52.1**	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**	**51.9**	**51.7**
NACM Service CMI	**57.1**	**55.5**	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**	**55.8**	**55.3**



	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15
"+/-"	1.6	-1.6	0.1	0.4	1.5	-1.3	0.7	-0.1	-1.2	1.6	-1.3	-0.1	-0.4

January 2015 versus January 2014

"The slump that had so many people on edge at the start of the year seems to have come to an end, but there is not much cause for joy as the overall index is well off the peaks that appeared in the latter part of last year," Kuehl said. "This seems to match the GDP data of late—strong 5% growth in the third quarter that is now yielding to 3% growth in the fourth and so far slower yet in Q1 of this year."



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.

Source: National Association of Credit Management

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