Report for February 2015

Issued February 27, 2015

National Association of Credit Management

Combined Sectors

For the last month or so, there has been a lot to worry about and this has stripped a good bit of confidence from those that assess the economy on a regular basis. Not all the news is bad, however. There have been some palpable improvements in the labor market; and there is still no sign of an inflation surge, but there are also many reports that cause concern. We can now add the Credit Managers' Index to that list as the latest readings are downright depressing, given where it appeared it might be a few months ago. The decline in momentum is unexpected, but not hard to understand with the recent arrival of some serious economic headwinds.

The combined reading for the overall CMI plunged to a level not seen in more than a year. The new mark is 53.2 compared with 55.1 last month. "That is a nasty drop and at no point in the year has it been that low," said Chris Kuehl, Kansas City-based NACM economist. "In December, it stood at 54.9 and that was seen as bad enough. The reduction in the overall score was reflected in reductions across the board—favorable and unfavorable factors in both the manufacturing and service sectors."

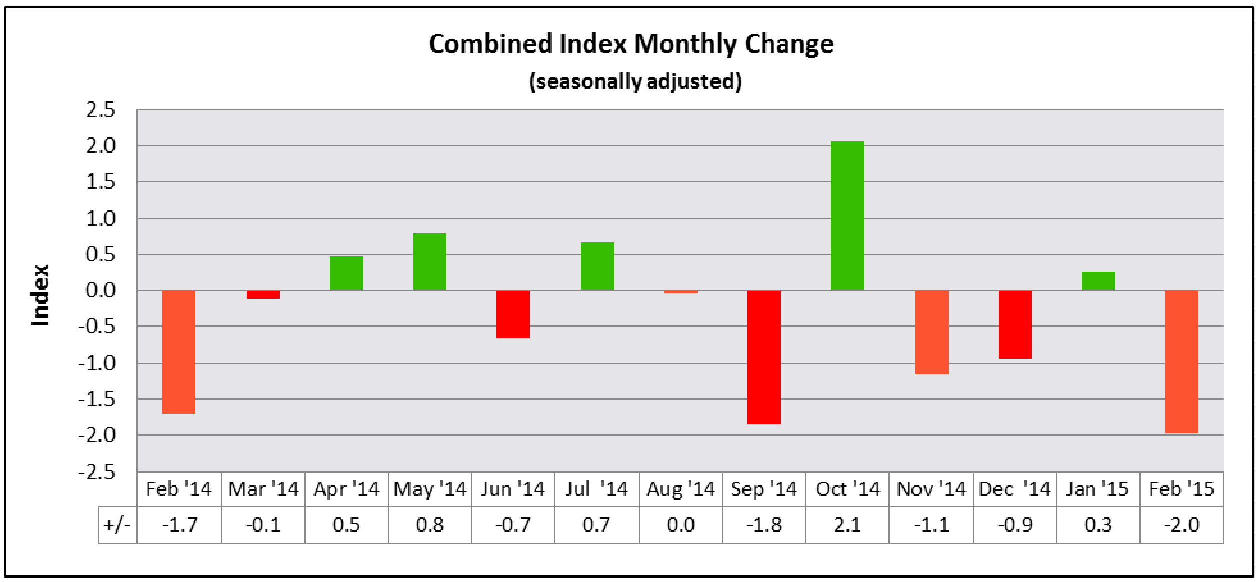
The index of favorable factors tumbled out of the 60 range for the first time since March of last year—falling to 57.2 from 60.5 the previous month. Even February and March of 2014 was in better shape at 59.4 and 59.0, respectively. This is a massive decline and is causing a great deal of concern. The sales category slid out of the 60s to 59.5, and the last time it was this low was in March when it was 59.1. It was only a few months ago that sales were tracking at 65.7. The new credit applications category also dropped like a stone from 58.3 to 54.4—setting another record for the past two years. The one piece of positive news was dollar collections as it moved from 60.1 to 62.8, but amount of credit extended collapsed. In January, it was at 62.2 and now it sits at 52.1. "That is a nearly catastrophic decline and one that is worse than anything seen in close to three years," said Kuehl. "It would not be an understatement to assert that there is suddenly a credit crunch manifesting, and that hasn't been an issue since 2009."

The index of unfavorable factors also declined, but compared with favorable factors that slide is almost benign. In January, it stood at 51.5 and now it is at 50.5. That is not such a big change, but this reading is now dangerously close to the contraction zone. Several of the sub-readings are now under 50, and that is not the trend that seemed to be setting up toward the end of last year.

The rejections of credit applications reading slipped to 48.1; the lowest it has been in more than a year, another sign of a credit crunch. The accounts placed for collection moved from 50.1 to 50.8, which is an improvement of sorts, although it remains too close to contraction territory for comfort. The disputes category worsened from an already weak position—falling to 48.8 from 49.5, and the dollar amount beyond terms also stumbled into the contraction zone with a reading of 48.4. That marks the lowest point for this reading since September of last year.

The dollar amount of customer deductions went from 50.2 to 51.8, and that was one of the very few bright spots in the report while filings for bankruptcies went from 56.9 to 55.0. "This is still the most robust reading among all the unfavorable categories, and there is some comfort to be taken from that," said Kuehl. "At least for the moment, all these negative readings have not resulted in lots of business bankruptcies, but the trend is not very promising."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15
Sales	59.4	59.1	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7	61.4	61.5	59.5
New credit applications	58.1	57.3	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1	59.2	58.3	54.4
Dollar collections	58.8	56.4	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3	56.6	60.1	62.8
Amount of credit extended	61.4	63.1	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7	64.6	62.2	52.1
Index of favorable factors	**59.4**	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**	**60.5**	**60.5**	**57.2**
Rejections of credit applications	52.3	52.4	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7	51.5	51.9	48.1
Accounts placed for collection	54.6	54.1	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8	51.1	50.1	50.8
Disputes	51.9	50.9	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8	48.5	49.5	48.8
Dollar amount beyond terms	51.1	52.4	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3	48.7	50.6	48.4
Dollar amount of customer deductions	50.4	51.2	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7	48.5	50.2	51.8
Filings for bankruptcies	58.5	58.4	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8	58.5	56.9	55.0
Index of unfavorable factors	**53.1**	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**	**51.1**	**51.5**	**50.5**
NACM Combined CMI	**55.6**	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**	**54.9**	**55.1**	**53.2**



Manufacturing Sector

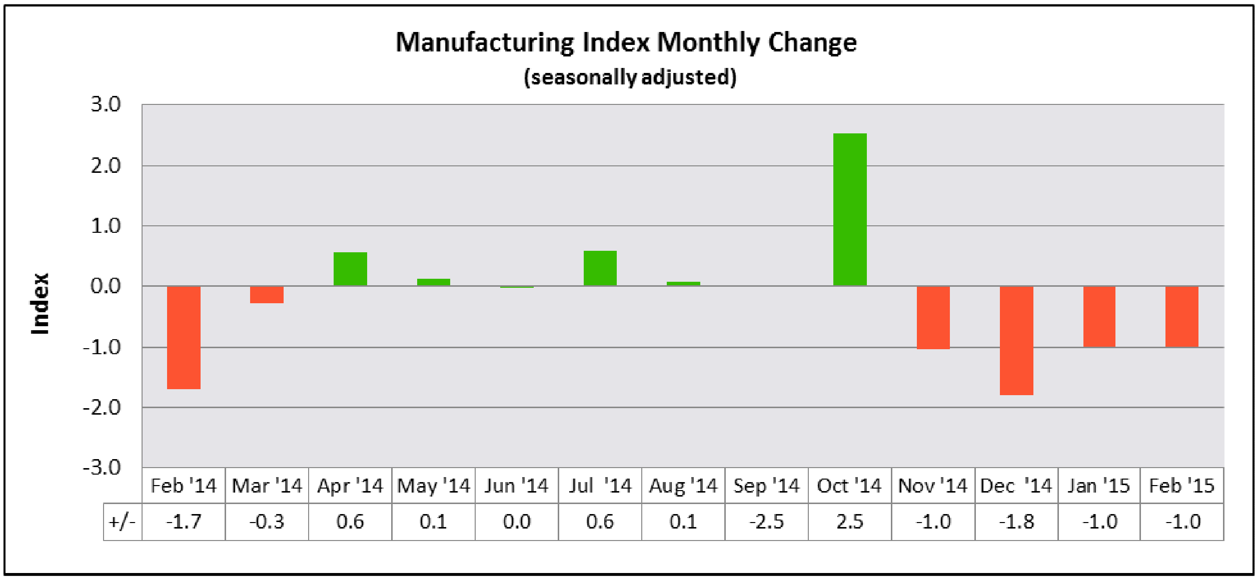
The manufacturing sector didn't take the brunt of the decline compared with the debacle in the service category, but that isn't to say that there was not a negative reaction within this sector. The index of favorable factors slipped out of the 60s with a reading of 57.9, marking the first time it has not been above 60 in well over a year. Sales actually improved a little—going from 60.2 to 61.0. Unfortunately, that is about all that went well this month. New credit applications stayed right where it was last month at 56.7, and dollar collections improved from 60.4 to 64.5. The real disaster was captured in the amount of credit extended as it collapsed from 63.6 to 49.4. This takes that reading back to the days of the recession and the severe credit crunch that accelerated the decline.

The combined score for the unfavorable factors was also down, but not as dramatically as the score for favorable factors. It slipped from 51.4 to 50.9. Within the subcategories, there has been a lot of volatility and variability.

Rejections of credit applications slid from 52.1 to 50.3, and that is far closer to contraction territory than anyone wants to be. Accounts placed for collection went up a bit, 50.6 to 51.8, and dollar amount beyond terms also improved as it went from 50.6 to 51.8. Disputes stayed in the doldrums as it slipped from 49.4 to 47.2, and dollar amount beyond terms improved slightly from 50.8 to 52.2. It was back to sliding when looking at dollar amount of customer deductions as it went from 49.5 to 48.7. Filings for bankruptcies stayed roughly in the same range as shifted from 56.2 to 55.1.

“The startling numbers are those that involve new credit and access to credit, and this is not very encouraging as far as the future is concerned,” said Kuehl. “The sense is that credit is getting very tight again, and there is no easy answer as to why. The banks are supposedly getting more involved, but there is a caution in the ranks of credit managers when it comes to trade credit. There is also some reluctance on the part of some good companies to ask for more credit.”

Manufacturing Sector (seasonally adjusted)	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15
Sales	57.9	58.5	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7	60.1	60.2	61.0
New credit applications	57.7	56.1	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9	58.5	56.7	56.7
Dollar collections	56.4	57.4	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9	55.39	60.4	64.5
Amount of credit extended	60.4	61.7	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2	63.38	63.6	49.4
Index of favorable factors	**58.1**	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**	**59.4**	**60.2**	**57.9**
Rejections of credit applications	52.8	52.6	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3	50.81	52.1	50.3
Accounts placed for collection	59.9	56.1	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5	50.46	50.6	51.8
Disputes	51.6	50.6	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5	47.35	49.4	47.2
Dollar amount beyond terms	51.7	52.8	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8	48.0	50.8	52.2
Dollar amount of customer deductions	50.4	50.4	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8	46.79	49.5	48.7
Filings for bankruptcies	58.6	58.5	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2	58.93	56.2	55.1
Index of unfavorable factors	**54.1**	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**	**50.4**	**51.4**	**50.9**
NACM Manufacturing CMI	**55.7**	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**	**54.0**	**55.0**	**53.7**



Service Sector

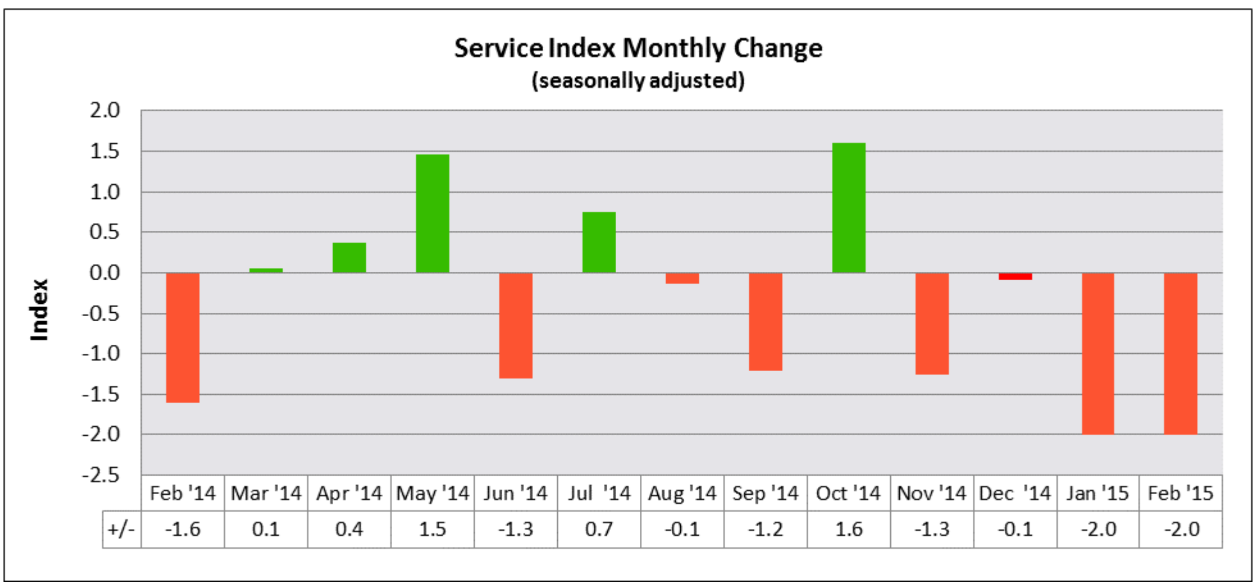
"Much of the damage that shows up in this month's report is contained in the service categories, and this is not something that bodes well for the year ahead," said Kuehl. "This is a part of the CMI report that is weighted to some degree toward retail and construction, but that matches up with the service economy for the country as a whole. There were some problems cropping up in retail at the end of the year and construction has been hammered for months already. There is nothing in this report that will reassure those that are looking at these sectors."

The overall index tumbled to a low of 52.6—the lowest point seen in more than two years. These are readings that almost go back to the immediate aftermath of the recession. The index of favorable factors crashed out of the 60s, falling from 60.8 to 56.4. This is biggest one-month drop in three years, and one would have to go back to 2012 to see readings this low. Sales at 57.9 had not been out of the 60s since March of last year and even then it was higher than it is now. "This is a category that seems to have been affected badly by the sluggish construction sector," Kuehl said. New credit applications also fell out of the 60s and was lower than it has been since early in 2013. The dollar collections number improved from 59.7 to 61.0—just as it did in the manufacturing category. "The growth is not showing up, but it would appear that people are still trying to pay their bills and stay current," Kuehl noted. Amount of credit extended fell hard—from 60.8 to 54.8. "This is the same pattern as was observed in manufacturing and ranks as the most distressing aspect of this report," he added. "There is a very clear credit crunch emerging, and it isn't altogether clear why. The best guess is that there is far more concern about factors like the strong dollar and potential interest rate hikes. There may even be some concern about inflation showing up."

The overall index of unfavorable factors shows a similar reaction as it does for manufacturing. "Not much of a positive nature, but it is not as drastic a change as was seen in the favorable numbers," said Kuehl. The index moved from 51.7 to 50.1, and that is lower than this reading has been since last year. The subcategories also show some limited signs of distress and the occasional positive reading. Rejections of credit applications shifted from 51.7 to 45.9, which is a massive retreat not seen since the credit collapse in 2009. Accounts placed for collection stayed roughly where it had been before and maybe a little improved as it shifted from 49.7 to 49.9. The disputes category went up as well from 49.5 to 50.4.

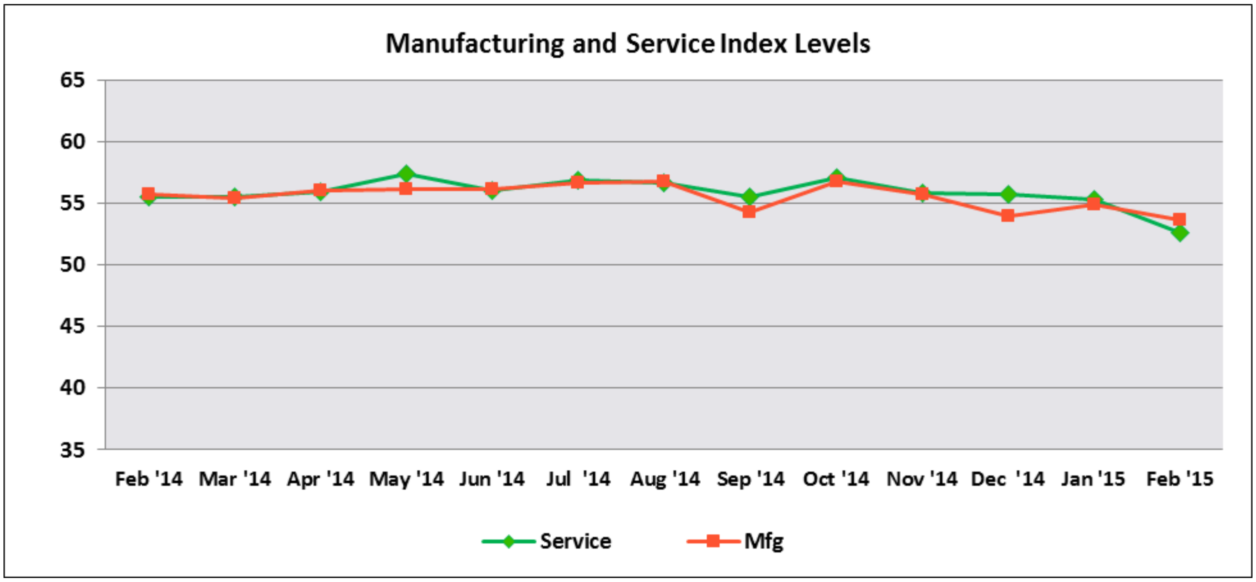
Dollar amount beyond terms, however, slipped badly from 50.5 to 44.7, but there was improvement in dollar amount of customer deductions as it went from 51.0 to 54.8. Filings for bankruptcy stayed in the same range as it moved slightly from 57.6 to 54.9. "This was a bigger adjustment than was seen with the manufacturers and suggests that this last retail season may have been harder on the sector than originally thought," said Kuehl. "Many of the struggling retailers are shutting down after a year that didn't do much to rescue them from their financial stress."

Service Sector (seasonally adjusted)	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15
Sales	60.9	59.6	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7	62.68	62.8	57.9
New credit applications	58.5	58.5	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4	59.8	60.0	52.1
Dollar collections	61.1	55.4	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7	57.87	59.7	61.0
Amount of credit extended	62.3	64.5	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3	65.86	60.8	54.8
Index of favorable factors	**60.7**	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**	**61.6**	**60.8**	**56.4**
Rejections of credit applications	51.8	52.2	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1	52.25	51.7	45.9
Accounts placed for collection	49.3	52.2	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2	51.8	49.7	49.9
Disputes	52.2	51.2	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2	49.72	49.5	50.4
Dollar amount beyond terms	50.6	52.0	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8	49.37	50.5	44.7
Dollar amount of customer deductions	50.4	51.9	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6	50.12	51.0	54.8
Filings for bankruptcies	58.4	58.4	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4	58.12	57.6	54.9
Index of unfavorable factors	**52.1**	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**	**51.9**	**51.7**	**50.1**
NACM Service CMI	**55.5**	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**	**55.8**	**55.3**	**52.6**



February 2015 versus February 2014

"This is not a good year-over-year trend and has many people really concerned about happens next. Some of the sectors that have been driving the economy are not performing as they have in the past and that is starting to manifest in the credit world as well," said Kuehl.



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.

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Source: National Association of Credit Management

Contact: Jennifer Lehman, 410-740-5560
Angela Culver, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National