Report for May 2015

Issued May 29, 2015

National Association of Credit Management

Combined Sectors

The word of the day seems to be "incremental." It is not that the results are bad—there are still signs of growth and some stability. The problem is that there was an expectation of more by this time. It was only last fall that many predicted there would be a real recovery in 2015 based on the good news that was recorded in the third quarter. Granted, there was some concern when the GDP numbers for the fourth quarter weakened, but there were few that asserted the economy would tank in the first quarter of this year. As the assessment of the slide into recession took place, there was plenty to suggest that the second quarter would be better and indeed all indications show that there has been improvement—just not as much as had been expected.

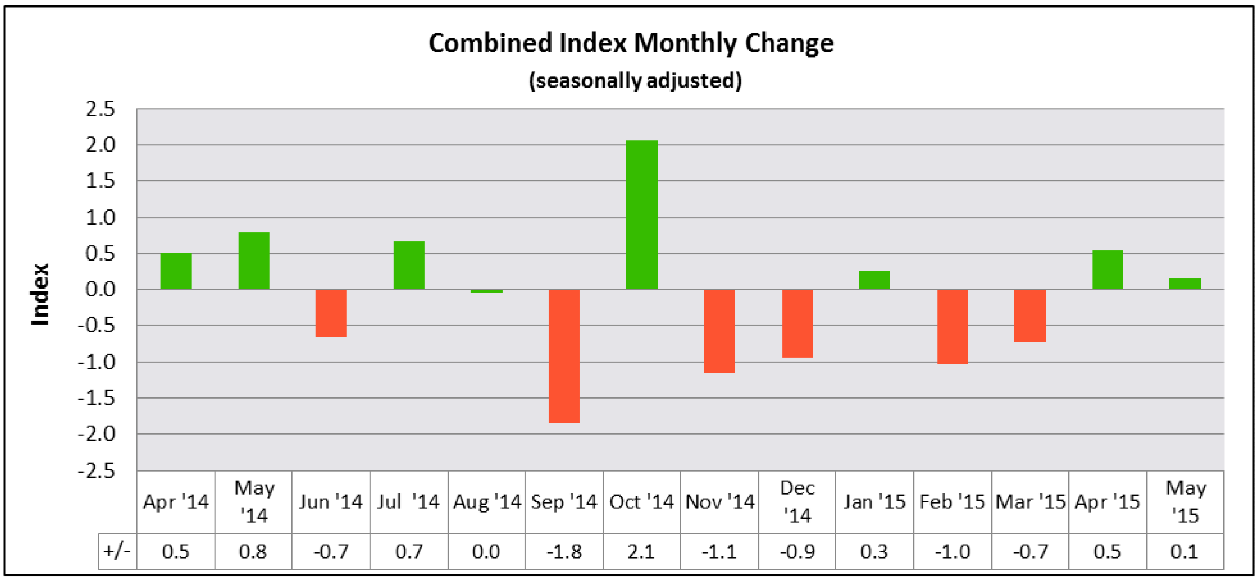
The May CMI reflects this slow growth and slightly disappointing performance. The combined number is back to 54.1—the same reading observed in February. This is certainly respectable enough, but most of last year saw the combined score in the 56 range, and as recently as October of last year the reading was 57. The expectation had been for these numbers to improve or at least hold steady at this point. The good news is that the overall reading was not as low as the 53.4 in March. If one looks at just the favorable factors, there has been a further decline—from 59.8 to 58.8, and the index of unfavorable factors remains just barely above the contraction zone.

All of the sub-categories in the favorable index slipped this month, but it is important to note that all these readings are still in or above the upper 50s, so there is little cause for panic at this stage. The sales category has been as high as 65.7 in October of last year, but has been slipping ever since. It now sits at 57.1, lower than it has been in two years. This suggests that there remains a lot of caution among consumers and business buyers alike—something that has been reinforced by the durable goods data as of late. The new credit applications data stayed about where it was last month—moving from 58.6 to 58.5. That remains pretty consistent over the last few months. The dollar collections category shifted down a little and was at 57.5 after being at 58.8 last month. The amount of credit extended shifted slightly downward as well as it went from 62.6 to 62.0, but this is a reading that is still in the 60s and at a comfortable level.

There was more variety, and more distress, within the unfavorable categories. The good news is that fewer of these readings are in the 40s than last month. Only two fell below the contraction line this month as compared to the four last month. The rejections of credit applications went from 52.3 to 51.9 and that takes the category back to levels seen earlier this year. The accounts placed for collection saw an improvement as it reentered expansion territory—readings last month were 49.8 and now they are at 51.1. The reading for disputes improved a bit as it went from 47.2 to 48.0, but that category is still languishing in contraction territory. The dollar amount beyond terms category went from 48.8 to 50.7, marking another desired return to the expansion zone. There has not been much movement as far as dollar amount of customer deductions, as it barely budged from the 47.4 reading last month to 47.8 this month. There was some improvement in the category of filings for bankruptcies as it moved into the middle 50s with a reading of 56.0 after last month's reading of 54.6.

The data from the CMI is about on par with the other measurements thus far this year. The expected rebound in the second quarter has been tepid with little movement in capacity utilization, GDP growth or employment, among other areas. It is not that there is a slide into further recession; it is just a stalled and unresponsive economy according to the measures that have emerged thus far this year.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15
Sales	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7	61.4	61.5	58.9	58.4	59.1	57.1
New credit applications	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1	59.2	58.3	58.0	56.6	58.6	58.5
Dollar collections	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3	56.6	60.1	57.4	57.6	58.8	57.5
Amount of credit extended	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7	64.6	62.2	60.5	60.6	62.6	62.0
Index of favorable factors	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**	**60.5**	**60.5**	**58.7**	**58.3**	**59.8**	**58.8**
Rejections of credit applications	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7	51.5	51.9	51.4	52.6	52.3	51.9
Accounts placed for collection	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8	51.1	50.1	50.8	49.8	49.8	51.1
Disputes	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8	48.5	49.5	48.8	49.0	47.2	48.0
Dollar amount beyond terms	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3	48.7	50.6	48.4	45.5	48.8	50.7
Dollar amount of customer deductions	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7	48.5	50.2	51.8	48.7	47.4	47.8
Filings for bankruptcies	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8	58.5	56.9	55.0	55.1	54.6	56.0
Index of unfavorable factors	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**	**51.1**	**51.5**	**51.0**	**50.1**	**50.0**	**50.9**
NACM Combined CMI	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**	**54.9**	**55.1**	**54.1**	**53.4**	**53.9**	**54.1**



Manufacturing Sector

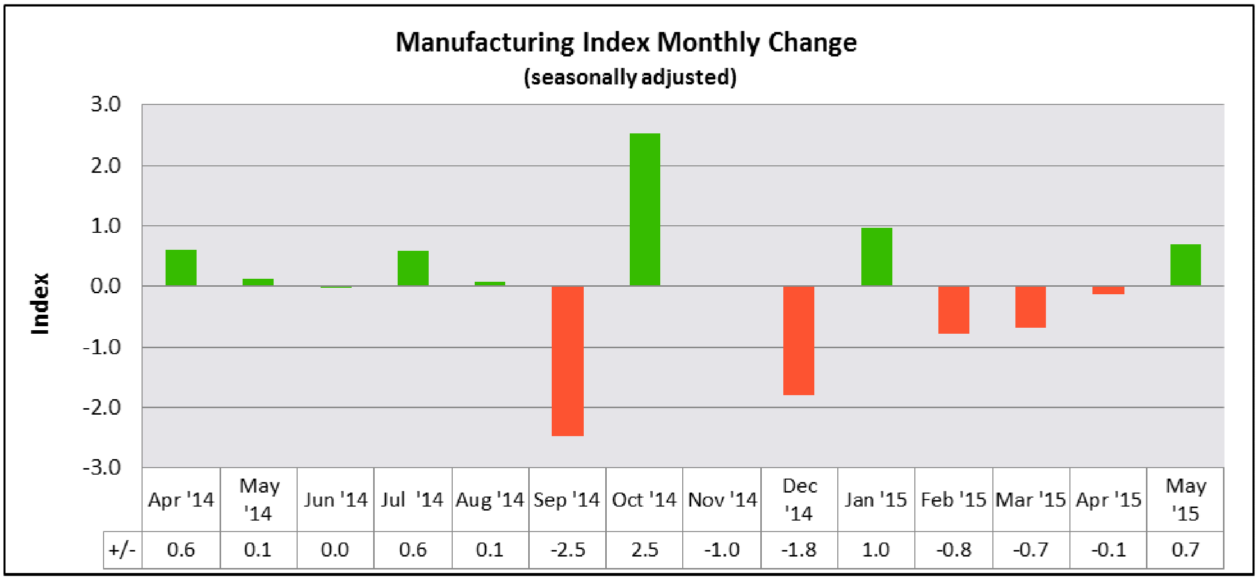
The manufacturing sector has been taking its lumps thus far this year and for the most part there has been little mystery as to why. It had been expected that some of the downturn would have reversed by now and there have been some gains. However, at the same time, that the sector started to recover from the impact of a bad winter and the port strike, other issues complicated the life of the manufacturer. The primary concern now focuses on the value of the dollar and what that has meant to the export community.

The index of favorable factors fell back slightly this month, but the readings are still high. It has gone from 58.4 to 58.0 and that is just slightly below where it has been of late. On the other hand, these readings had been consistently in the 60s for almost two years until the start of this year. The sales category slipped to the lowest point in more than two years and that is certainly not a trend that anyone wanted to see. The drop from 57.0 last month to May's 56.4 is a far cry from the 66.0 registered last August or even the 60.1 in February. The new credit applications reading stayed in roughly the same place, moving from 58.7 to 58.1, but this was still a decline and part of a longer trend. The dollar collections category slipped quite a bit, from 57.0 to 55.1, but there was a nice gain in the amount of credit extended as it went from 60.9 to 62.3. There may be fewer companies getting credit, but those that are seem to be asking for and getting more credit than in past months.

The overall unfavorable index actually improved a little, from 50.0 to 51.4. This remains far too close to the contraction zone than anyone would like, but at least the trend is in the right direction. Rejections of credit applications stayed roughly in the same position—moving from 53.2 to 53.0. The accounts placed for collection reading improved from 50.8 last month to 51.6 this month and that is a lot more comfortably in the 50s and closer to what it has been averaging over the last year or so. The disputes category remains mired in the 40s, but is improved over last month, up from 46.9 to 47.7. The dollar amount beyond terms climbed out of contraction, from 48.3 to 50.6. The dollar amount of customer deductions still remains in the contraction zone with a reading of 48.7, but at least that is an improvement over the 45.7 registered last month. The filings for bankruptcies reading improved quite a bit, as it moved from 54.8 to 56.8.

The sector as a whole still fights some headwinds. Analysts are unsure what the future holds, although they are noting that there are more positive signs than negative ones. The major issue right now is the health of the export market and the impact of a rising dollar. The other issues are long-standing: labor shortages, the status of interest rates and the reluctance of the consumer to get fully engaged.

Manufacturing Sector (seasonally adjusted)	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15
Sales	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7	60.1	60.2	60.1	58.5	57.0	56.4
New credit applications	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9	58.5	56.7	58.2	56.0	58.7	58.1
Dollar collections	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9	55.39	60.4	57.1	57.1	57.0	55.1
Amount of credit extended	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2	63.38	63.6	58.7	59.7	60.9	62.3
Index of favorable factors	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**	**59.4**	**60.2**	**58.5**	**57.8**	**58.4**	**58.0**
Rejections of credit applications	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3	50.81	52.1	52.5	53.5	53.2	53.0
Accounts placed for collection	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5	50.46	50.6	51.8	51.4	50.8	51.6
Disputes	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5	47.35	49.4	47.2	48.6	46.9	47.7
Dollar amount beyond terms	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8	48.0	50.8	52.2	46.0	48.3	50.6
Dollar amount of customer deductions	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8	46.79	49.5	48.7	48.7	45.7	48.7
Filings for bankruptcies	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2	58.93	56.2	55.1	55.1	54.8	56.8
Index of unfavorable factors	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**	**50.4**	**51.4**	**51.3**	**50.6**	**50.0**	**51.4**
NACM Manufacturing CMI	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**	**54.0**	**55.0**	**54.2**	**53.5**	**53.3**	**54.0**



Service Sector

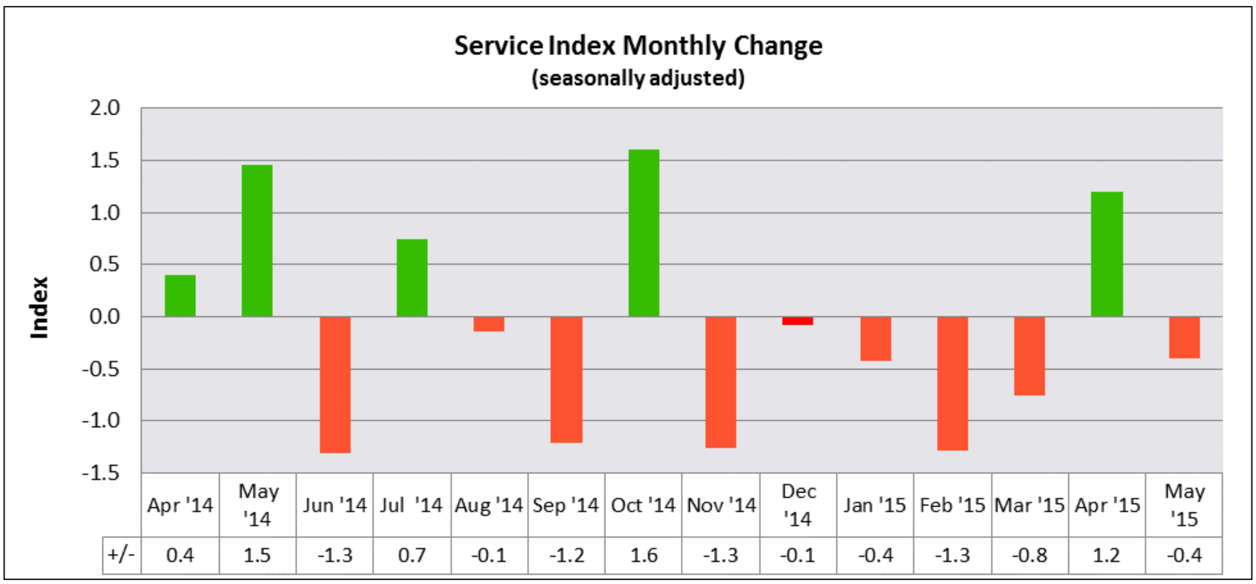
There was not much movement in the overall score for the service sector part of the CMI and that is somewhat expected given the time of year. Retail numbers are often stagnant in the late spring as the vacation season has just started and that limits spending to a degree. On the other hand, this is a good time of year for the construction sector in general—or at least it would be if there was some hope of expansion in the public sector. The reading for the service sector overall was 54.1 this month little changed from the 54.5 last month.

The favorable category was lower than last month and slipped out of the 60s, with a reading of 59.6 after hitting 61.2 last month. One of the main reasons was the decline in the sales category a 61.1 reading last month to 57.9 this month. That marks the lowest reading since February. Over the course of the last year, the category had mostly held in the 60s before tailing off into the 50s and showing an appearance that it is still sinking. The new credit applications reading improved from 58.5 to 58.9, and the overall score is still on the high side. That is consistent with what has been noted for most of the past year. The dollar collections number slipped very little, going from 60.7 to 60.0. There was also a significant change, and in the wrong direction, in the amount of credit extended and in the wrong direction from 64.4 to 61.8. The good news is that this reading is still comfortably in the 60s.

The overall index of the unfavorable factors stayed almost the same with a move from 50.0 to 50.4. The trend is heading in the right direction, but this is awfully close to the contraction point. It's never a comfortable place to be. The readings for rejections of credit applications slipped to the edge of contraction again, down to 50.8 from 51.3. It is the lowest point since February. The accounts placed for collection moved from April's 48.7 into expansion with a reading of 50.5. The disputes category failed to do so but saw some improvement, from 47.5 to 48.4. The dollar amount beyond terms escaped the 40s with a reading of 50.7 after a reading of 49.2 last month. The dollar amount of customer deductions took a dive and sank deeper into the 40s, as it moved from 49.1 to 46.9. There was, however, better news as far as filings for bankruptcies, as this reading went from 54.3 to 55.1.

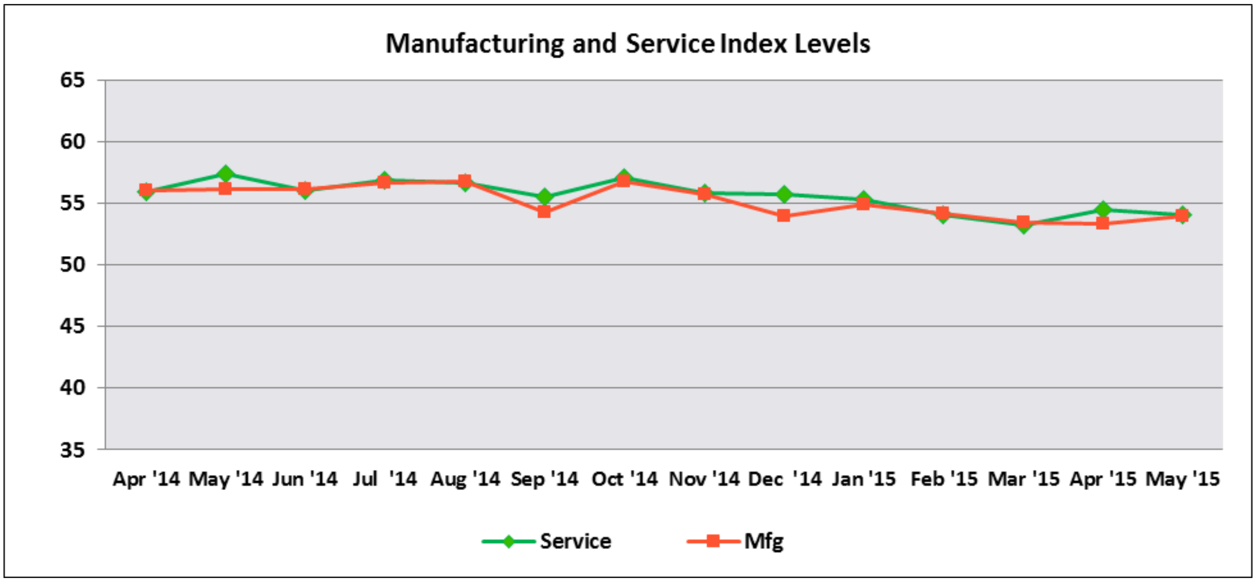
This is an odd time of year for the service sector in general as the big shopping days are over until the holiday season starts in a few months. Also, the construction sector has been struggling with a variety of ills, including the incredible rains that have set back progress for a third of the country.

Service Sector (seasonally adjusted)	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15
Sales	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7	62.68	62.8	57.7	58.3	61.1	57.9
New credit applications	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4	59.8	60.0	57.8	57.1	58.5	58.9
Dollar collections	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7	57.87	59.7	57.7	58.1	60.7	60.0
Amount of credit extended	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3	65.86	60.8	62.3	61.5	64.4	61.8
Index of favorable factors	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**	**61.6**	**60.8**	**58.9**	**58.7**	**61.2**	**59.6**
Rejections of credit applications	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1	52.25	51.7	50.3	51.7	51.3	50.8
Accounts placed for collection	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2	51.8	49.7	49.9	48.1	48.7	50.5
Disputes	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2	49.72	49.5	50.4	49.4	47.5	48.4
Dollar amount beyond terms	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8	49.37	50.5	44.7	45.1	49.2	50.7
Dollar amount of customer deductions	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6	50.12	51.0	54.8	48.7	49.1	46.9
Filings for bankruptcies	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4	58.12	57.6	54.9	55.0	54.3	55.1
Index of unfavorable factors	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**	**51.9**	**51.7**	**50.8**	**49.7**	**50.0**	**50.4**
NACM Service CMI	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**	**55.8**	**55.3**	**54.0**	**53.3**	**54.5**	**54.1**



May 2015 versus May 2014

The year-over-year trend is slightly off and is closer to the contraction zone than it has been. There is no imminent danger of sliding under 50 anytime soon, but by the same token there will be little flirting with the 60s either.



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.*

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 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

Contact: Jennifer Lehman, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National