CREDIT MANAGERS' INDEX

Report for July 2015

Issued July 31, 2015

National Association of Credit Management

Combined Sectors

The summer of opposites continues. Just about the time one thinks there is a trend that can be counted upon, there is another one that manifests that contradicts it. The durable goods numbers came in and it looked like there was evidence of a nice rebound in consumer spending on items of more lasting value and then we get the worst consumer confidence numbers we have seen since 2014. This same volatility has been showing up in the Credit Managers' Index, as last month was tanking, but this month there has been a very nice little recovery. Which of these two are to be trusted as far the rest of the year is concerned? Hard to say as nothing in the trends seem to last longer than a month or two at most.

Last month, the reading for the combined index was not very impressive and many assumed that this was the start of an extended decline due to the fact that most of the negative news was focused on the unfavorable factors and these generally do not reverse all that quickly. Last month, the data showed a number of 53.4 and that was as low as it had been since March. This month there has been a nice recovery to 56 and that is higher than any monthly reading since last October. Think about that for a moment—as high as it was when the GDP numbers for the country were trending at close to 5% growth. This is a pretty stunning turnaround.

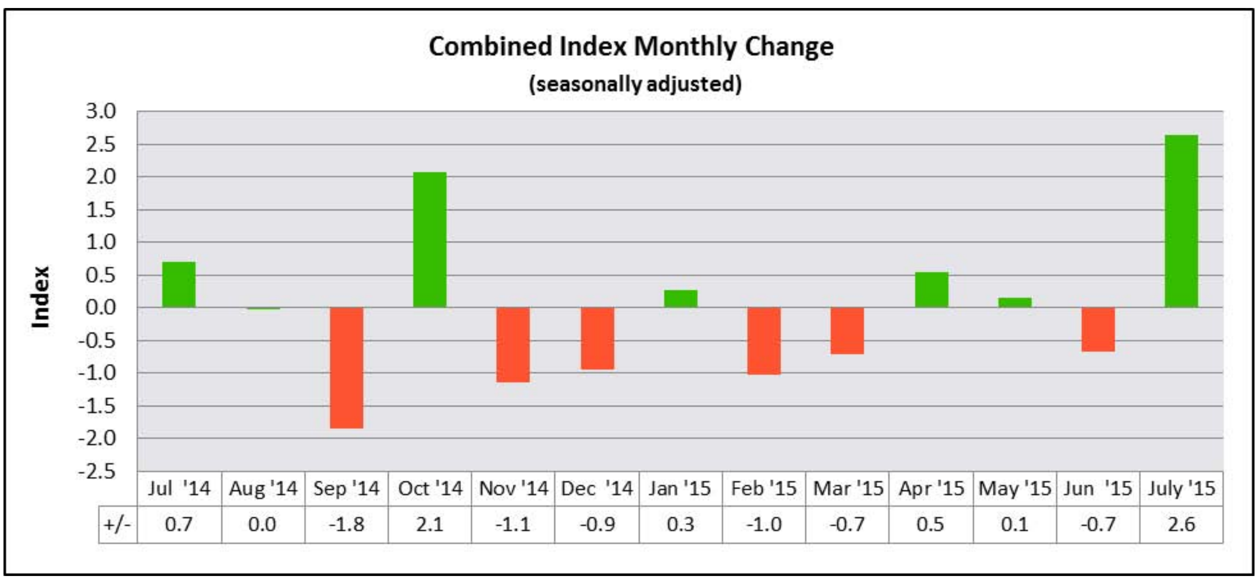
The favorable factors were driving this improvement and that bodes well for the future. Last month the data showed a 59.6 and this month the number is 63.5 and it has not reached that exalted level since August of a year ago. There was some improvement in the unfavorable category as well as it went to 51 from 49.2, but this was not as dramatic as the movement in the favorable categories.

Perhaps the most spectacular gain was in the category of sales as the reading hit 65.1 after a mark of 56.6 a month ago. The July reading is as robust as it has been seen since July of a year ago. For the last five months, the sales category has been under 60 and this is a rather impressive jump for a 30-day period. One would question this gain were it not for the fact there has been similar movement reported in durable goods orders as well as the Purchasing Managers' Index. There were improved numbers in the other categories as well, but nothing quite this dramatic. The new credit applications sector went from 60.5 to 60.8 and that is roughly steady as opposed to any really significant movement. The dollar collections category jumped up quite a bit as well as it was 56.8 last month and is 61.9 this month. It is always good when companies are getting paid and on time. The amount of credit extended shifted up slightly as well—from 64.5 to 66.4. For the first time since August of last year, all of the favorable categories were above 60 and that is a real signal of impending growth. The readings of last August seemed to predict that impressive third quarter growth in 2014. That is the good news, but the bad news is that the economy in 2014 was not able to sustain that pace and one look at the last year of CMI data underscores that things started to slide after that August peak.

The unfavorables have been dragging the economy down over the last few months so it is good news that these numbers are improving again, but thus far the gains have not been as impressive as they were in the favorable sectors. Even after an improved month, there are still three of the readings under 50 and in the contraction zone. The rejections of credit applications improved a bit from 50.8 to 51.8. This is not a big gain, but at least it is more comfortably in the expansion zone. The category of accounts placed for collection moved out of the contraction zone by shifting from 47.8 to 50.3. This is still uncomfortably close to contraction, but this number has been under 50 for three of the last five months and it is hoped that it doesn't fall back again. The disputes category remained in the 40s, but was at least getting better as it went from 48.2 to 49.9 and that is as close as it can get to 50 without jumping that barrier. The dollar amount beyond terms category also stayed under 50, but improved significantly from 46.8 to 49.1. The reading for dollar amount of customer deductions was the third of these readings to remain under 50, but there was no improvement here—the number was 49.5 in June and is 49.3 this month. That is essentially flat and somewhat frustrating. The best news as far as the unfavorables are concerned was in the filings for bankruptcies category as it went from 52.5 to 55.6 and that is as good as this category looked in May. The pace of bankruptcy action has been slow.

The overall sense of this data is that it points to some improved conditions in the next few months and may also signal that there has been some damage repair taking place as well. Now all we have to do is wait to see what next month brings.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15
Sales	65.2	64.8	60.9	65.7	62.7	61.4	61.5	58.9	58.4	59.1	57.1	56.6	65.1
New credit applications	62.4	60.9	59.0	59.4	58.1	59.2	58.3	58.0	56.6	58.6	58.5	60.5	60.8
Dollar collections	61.0	62.7	59.9	61.5	60.3	56.6	60.1	57.4	57.6	58.8	57.5	56.8	61.9
Amount of credit extended	66.1	66.7	64.0	63.8	63.7	64.6	62.2	60.5	60.6	62.6	62.0	64.5	66.4
Index of favorable factors	63.7	63.8	60.9	62.6	61.2	60.5	60.5	58.7	58.3	59.8	58.8	59.6	63.5
Rejections of credit applications	52.1	51.9	52.5	53.6	51.7	51.5	51.9	51.4	52.6	52.3	51.9	50.8	51.8
Accounts placed for collection	51.5	52.1	50.7	52.7	51.8	51.1	50.1	50.8	49.8	49.8	51.1	47.8	50.3
Disputes	50.3	50.6	49.2	50.4	50.8	48.5	49.5	48.8	49.0	47.2	48.0	48.2	49.9
Dollar amount beyond terms	51.1	50.3	47.2	53.6	52.3	48.7	50.6	48.4	45.5	48.8	50.7	46.8	49.1
Dollar amount of customer deductions	50.6	49.9	49.8	50.8	49.7	48.5	50.2	51.8	48.7	47.4	47.8	49.5	49.3
Filings for bankruptcies	57.6	57.5	55.8	58.1	56.8	58.5	56.9	55.0	55.1	54.6	56.0	52.5	55.6
Index of unfavorable factors	52.2	52.1	50.9	53.2	52.2	51.1	51.5	51.0	50.1	50.0	50.9	49.2	51.0
NACM Combined CMI	56.8	56.7	54.9	57.0	55.8	54.9	55.1	54.1	53.4	53.9	54.1	53.4	56.0



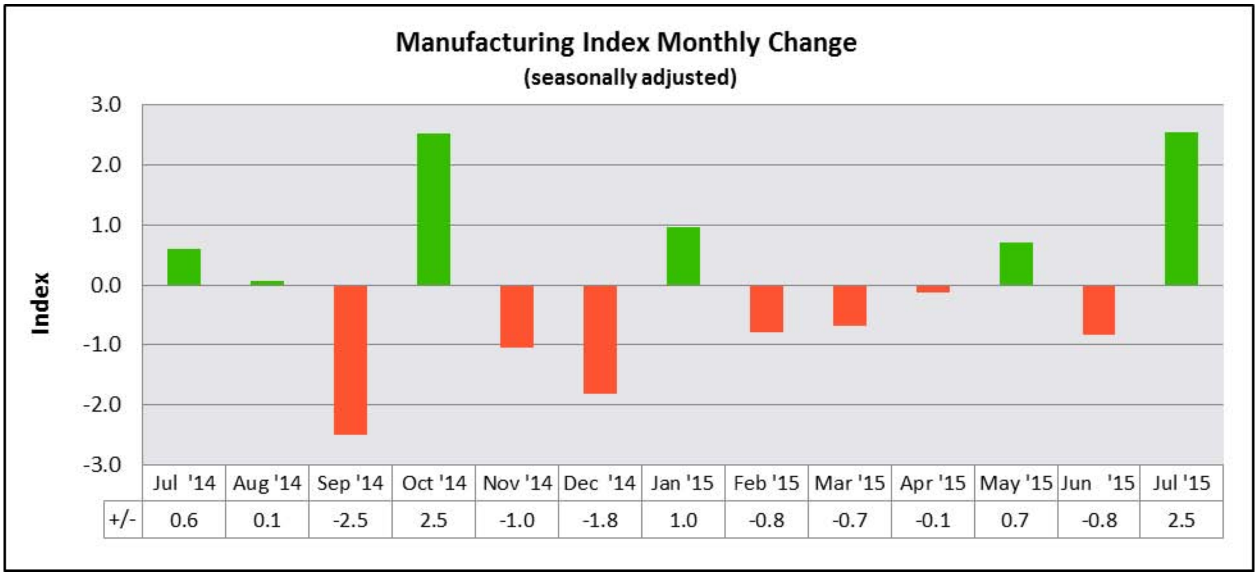
Manufacturing Sector

The most dramatic changes seem to have taken place in the manufacturing sector and this is also the category that seems to be getting more reinforcement from other readings—such as the improved durable goods numbers as well as the data from the Purchasing Managers' Index. The combined reading went from 53.2 to 55.7 and the bulk of the gain was attributable to the improved data in the favorable category, although it is equally important that the unfavorable category climbed out of the 40s this month.

The favorable index surged back to the 60s with a reading of 63.1—much improved from the 59.1 in June. This is the best performance since last August and is more impressive given the issues that have been affecting the once booming energy sector. Even without that motivator, the manufacturers are seeing improved conditions. The category of sales jumped by almost 10 points as it went from 56.8 to 66.0. This has been driven by demand in a number of sectors—everything from automotive to construction and even general business machinery. The new credit applications reading went from 58.8 to 60.5, while the dollar collections category went from 58.2 to 59.4—just shy of getting back into the 60s. The amount of credit extended went from 62.7 to 66.5—again as high as it has been since August of last year. All of this comparison to a year ago is pretty good news as it was about this time a year ago that growth started to manifest for the economy as a whole. The trick now will be to sustain that growth.

The unfavorable data also saw improvement, but not quite as robustly as the favorable numbers as four of the six categories are still under 50—even as they improved from where they were a month ago. The overall number moved from 49.2 to 50.8 and it is good to be out of the contraction zone again. The rejections of credit applications went from 49.5 to 52.6 and that combines with the good news as far as new applications to suggest that there is more credit activity in general. The accounts placed for collection is still in the contraction zone, but has come up from 48.3 to 49.7 and that is certainly a solid trend. The disputes category moved from 47.9 to 48.5 and that is also a good trend, but in the contraction zone still. The dollar amount beyond terms remains in contraction territory, but has also improved as it went from 47.5 to 49.8. The dollar amount of customer deductions is more deeply mired than before—going from 49.8 to 48.6. This is the only category that is getting worse, however. The filings for bankruptcies also improved and have remained well above the 50 line as it went from 52.3 to 55.7. In general, the news from the unfavorable front has been positive this month, but there will be some additional digging out to do as conditions got pretty bad in the last few months.

Manufacturing Sector (seasonally adjusted)	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15
Sales	64.8	66.0	61.2	64.8	62.7	60.1	60.2	60.1	58.5	57.0	56.4	56.8	66.0
New credit applications	61.1	60.4	59.9	58.5	57.9	58.5	56.7	58.2	56.0	58.7	58.1	58.8	60.5
Dollar collections	61.3	64.2	60.4	60.4	59.9	55.39	60.4	57.1	57.1	57.0	55.1	58.2	59.4
Amount of credit extended	66.4	66.6	62.3	64.1	64.2	63.38	63.6	58.7	59.7	60.9	62.3	62.7	66.5
Index of favorable factors	63.4	64.3	60.9	61.9	61.2	59.4	60.2	58.5	57.8	58.4	58.0	59.1	63.1
Rejections of credit applications	52.1	51.2	51.4	54.3	51.3	50.81	52.1	52.5	53.5	53.2	53.0	49.5	52.6
Accounts placed for collection	53.0	52.8	50.5	53.7	52.5	50.46	50.6	51.8	51.4	50.8	51.6	48.3	49.7
Disputes	50.3	50.3	47.4	50.8	50.5	47.35	49.4	47.2	48.6	46.9	47.7	47.9	48.5
Dollar amount beyond terms	51.0	51.6	46.3	54.1	52.8	48.0	50.8	52.2	46.0	48.3	50.6	47.5	49.8
Dollar amount of customer deductions	49.2	48.5	48.9	50.5	49.8	46.79	49.5	48.7	48.7	45.7	48.7	49.8	48.6
Filings for bankruptcies	57.8	56.3	54.8	57.0	56.2	58.93	56.2	55.1	55.1	54.8	56.8	52.3	55.7
Index of unfavorable factors	52.3	51.8	49.9	53.4	52.2	50.4	51.4	51.3	50.6	50.0	51.4	49.2	50.8
NACM Manufacturing CMI	56.7	56.8	54.3	56.8	55.8	54.0	55.0	54.2	53.5	53.3	54.0	53.2	55.7



Service Sector

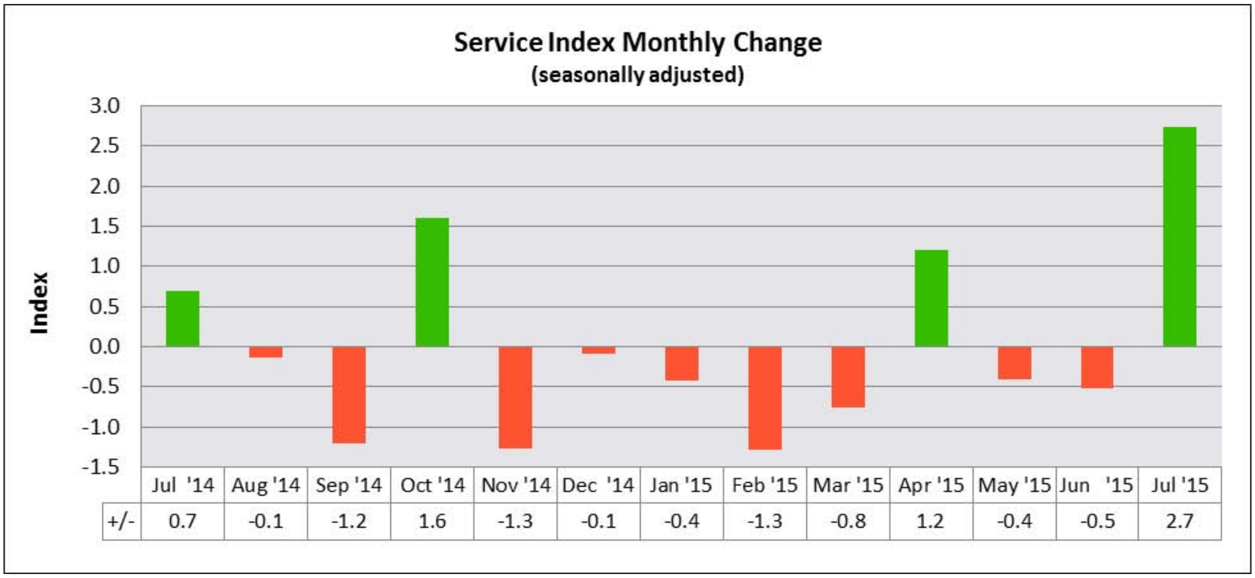
There was a nice jump in the service sector as well and that is always good news given the dependence of the U.S. economy on service industries. The bulk of the CMI data in the service realm will focus on retail, construction and to a degree heath care. The recent collapse of consumer confidence as reported by the Conference Board has many in retail worrying, but the data from the CMI is more encouraging and seems to suggest that there will be some growth later in the year.

The combined score was an improvement—going from 53.6 to 56.3 and just as with manufacturing, the most impressive numbers have been in the favorable sector as it went from 60 to 64. This is higher than has been seen in well over a year and that bodes very well. The big jump was in sales as this reading went from 56.3 to 64.3—higher than at any time since July of last year. The sense thus far is that retailers can look forward to a good season in 2015—at least in the early stages. The new credit applications category fell just slightly—from 62.2 to 61, but the reading remains in the 60s and that is certainly good news. The dollar collections sector jumped as dramatically as sales—going from 55.4 to 64.3 and the amount of credit extended moved not at all—staying at 66.3. There is good credit growth in retail, but things remain a little slow in the construction sector.

The combined reading for the unfavorable categories improved, but not by as much as the favorable. The important thing is that it exited the 40s by moving from 49.3 to 51.2. The rejections of credit applications went from 52 to 51 and that drop seems to be mostly connected to issues in some parts of the construction sector. The accounts placed for collection improved and left the contraction zone behind—moving from 47.3 to 50.9. The disputes category went from 48.5 to 51.3 and that is another exit from the contraction zone. The dollar amount beyond terms stayed in the 40s, but improved from June—going from 46.1 to 48.5 and there was a similar pattern with dollar amount of customer deductions as it barely managed to leave the contraction zone with a shift from 49.2 to 50. The filings for bankruptcies sector improved as well—going from 52.6 to 55.6.

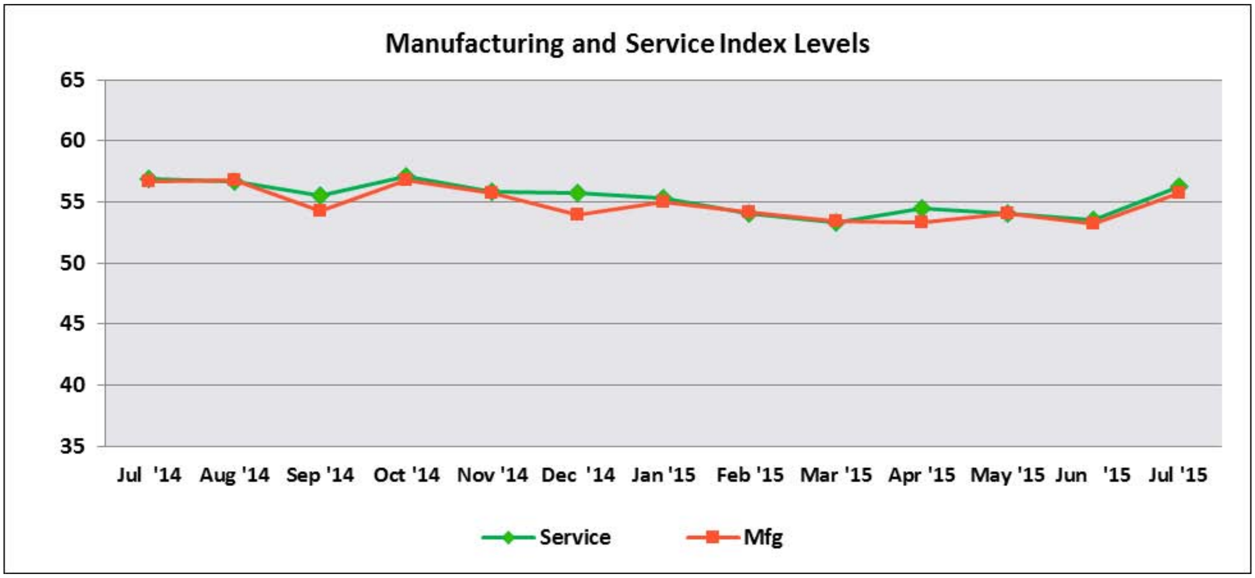
In general terms, the retail sector seemed to gather some strength and construction lost a little momentum while the health care sector stayed about as it has been. The signals suggest that retail will have a good few months, but that collapse in the level of confidence is a concern and many will be eager to see if the subsequent polls are different or reinforce the notion that consumers are returning to their tentative ways.

Service Sector (seasonally adjusted)	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15
Sales	65.6	63.6	60.7	66.7	62.7	62.68	62.8	57.7	58.3	61.1	57.9	56.3	64.3
New credit applications	63.6	61.5	58.0	60.3	58.4	59.8	60.0	57.8	57.1	58.5	58.9	62.2	61.0
Dollar collections	60.7	61.3	59.4	62.5	60.7	57.87	59.7	57.7	58.1	60.7	60.0	55.4	64.3
Amount of credit extended	65.9	66.8	65.7	63.6	63.3	65.86	60.8	62.3	61.5	64.4	61.8	66.3	66.3
Index of favorable factors	63.9	63.3	60.9	63.3	61.3	61.6	60.8	58.9	58.7	61.2	59.6	60.0	64.0
Rejections of credit applications	52.1	52.6	53.7	52.9	52.1	52.25	51.7	50.3	51.7	51.3	50.8	52.0	51.0
Accounts placed for collection	50.0	51.4	51.0	51.7	51.2	51.8	49.7	49.9	48.1	48.7	50.5	47.3	50.9
Disputes	50.2	50.9	50.9	50.0	51.2	49.72	49.5	50.4	49.4	47.5	48.4	48.5	51.3
Dollar amount beyond terms	51.2	48.9	48.1	53.2	51.8	49.37	50.5	44.7	45.1	49.2	50.7	46.1	48.5
Dollar amount of customer deductions	52.0	51.4	50.7	51.1	49.6	50.12	51.0	54.8	48.7	49.1	46.9	49.2	50.0
Filings for bankruptcies	57.3	58.8	56.8	59.2	57.4	58.12	57.6	54.9	55.0	54.3	55.1	52.6	55.6
Index of unfavorable factors	52.1	52.3	51.9	53.0	52.2	51.9	51.7	50.8	49.7	50.0	50.4	49.3	51.2
NACM Service CMI	56.9	56.7	55.5	57.1	55.8	55.8	55.3	54.0	53.3	54.5	54.1	53.6	56.3



July 2015 versus July 2014

It is nice to see the year-over-year trend looking this positive and for both manufacturing and service. This is a solid trend and one that everybody hopes will continue into the remaining months of the year. One cautionary note is to look at July and August of last year as they were strong and were followed by a dip.



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.

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