Report for March 2015

Issued March 31, 2015

National Association of Credit Management

Combined Sectors

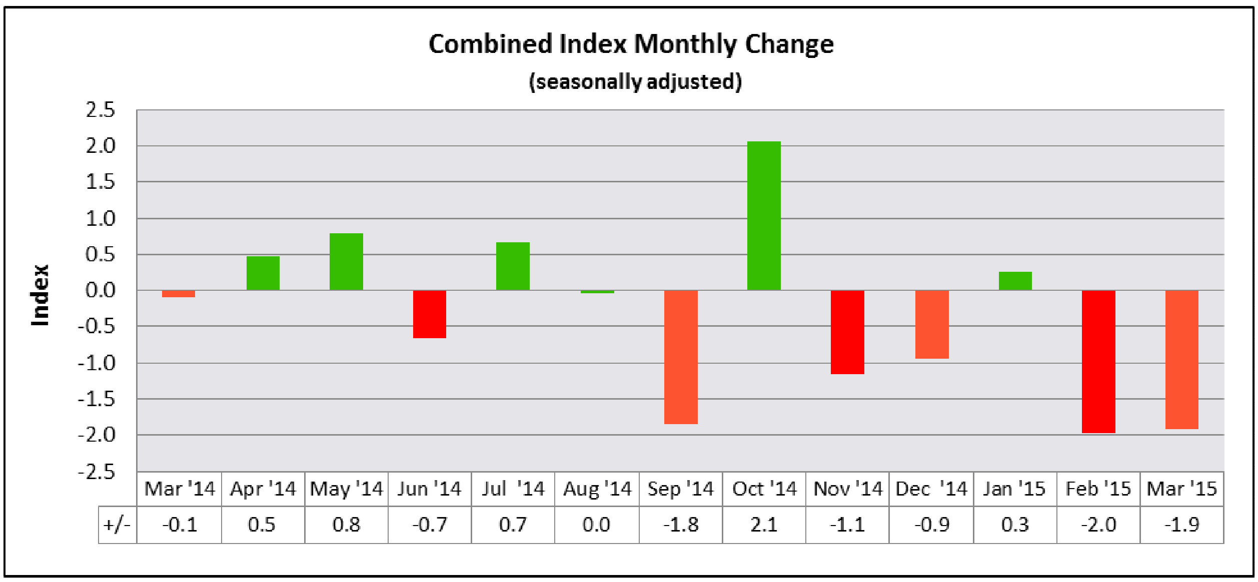
We now know that the readings of last month were not a fluke or some temporary aberration that could be marked off as something related to the weather. There is quite obviously some serious financial stress manifesting in the data and this does not bode well for the growth of the economy going forward. These readings are as low as they have been since the recession started and to see everything start to get back on track would take a substantial reversal at this stage. The data from the CMI is not the only place where this distress is showing up, but thus far, it may be the most profound.

The combined score is getting dangerously closer to the contraction zone and has not been this weak in many years (going back to 2010). It is sitting at 51.2 and that is down from the 53.2 noted last month. For most of the last two years, these readings have been in the mid-50s and above—comfortable territory and generally trending up from one month to the next and now there is a very disturbing trend downward. The index of favorable factors slipped substantially, but remains in the mid-range at 55.4. That would be seen as better news if it were not for the fact that these readings had consistently been in the 60s during the last couple of years. It was only August of last year when the reading was a robust 63.8. The most drastic fall took place with the unfavorable factors that indicate the real distress in the credit market. It has tumbled from 50.5 to 48.5 and that is firmly in the contraction zone—a place this index has not been since the days right after the recession formally ended. The signal this sends is that many companies are not nearly as healthy as it has been assumed and that there is considerably less resilience in the business sector than assumed.

The breakdown of the two index categories proves instructive. The category of sales slid to 57.9 and that is a far cry from the 65.7 that was notched back in October of last year. These numbers have been in the high 50s and 60s for the last year and now the slide is accelerating. The new credit applications category actually improved from 54.5 to 57.4, but when one combines this reading with the one for amount of credit extended, you get an even more miserable story than one would assume. The latter reading went from 52.1 to a very troubling 46.1. There may be more applications for credit, but there is not all that much getting issued and that indicates that much of the new credit being requested is coming from companies that are not in a position to get that credit. There is an abundance of caution showing up in the system. The dollar collections data shows that there is a decline as it went from 62.8 to 60.1, but overall this category is more or less holding steady.

The real damage is showing up in the unfavorable categories. By far the most disturbing is the rejection of credit applications as this has fallen from an already weak 48.1 to 42.9. This is credit crunch territory—unseen since the very start of the recession. Suddenly companies are having a very hard time getting credit. The accounts placed for collection reading slipped below 50 with a fall from 50.8 to 49.8 and that suggests that many companies are beyond slow pay and are faltering badly. The disputes category improved very slightly from 48.8 to 49, but is still below 50. This indicates that more companies are in such distress they are not bothering to dispute; they are just trying to survive. The dollar amount beyond terms slipped even deeper into contraction with a reading of 45.5 after a previous reading of 48.4. The dollar amount of customer deductions slipped out of the 50s as it went from 51.8 to 48.7. The only semi-bright spot was that filings for bankruptcies stayed almost the same—going from 55.0 to 55.1. This is the one and only category in the unfavorable list that did not fall into contraction territory and that suggests that there are big, big problems as far as the financial security of these companies are concerned.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15
Sales	59.1	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7	61.4	61.5	59.5	57.9
New credit applications	57.3	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1	59.2	58.3	54.4	57.4
Dollar collections	56.4	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3	56.6	60.1	62.8	60.1
Amount of credit extended	63.1	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7	64.6	62.2	52.1	46.1
Index of favorable factors	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**	**60.5**	**60.5**	**57.2**	**55.4**
Rejections of credit applications	52.4	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7	51.5	51.9	48.1	42.9
Accounts placed for collection	54.1	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8	51.1	50.1	50.8	49.8
Disputes	50.9	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8	48.5	49.5	48.8	49.0
Dollar amount beyond terms	52.4	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3	48.7	50.6	48.4	45.5
Dollar amount of customer deductions	51.2	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7	48.5	50.2	51.8	48.7
Filings for bankruptcies	58.4	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8	58.5	56.9	55.0	55.1
Index of unfavorable factors	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**	**51.1**	**51.5**	**50.5**	**48.5**
NACM Combined CMI	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**	**54.9**	**55.1**	**53.2**	**51.2**



Manufacturing Sector

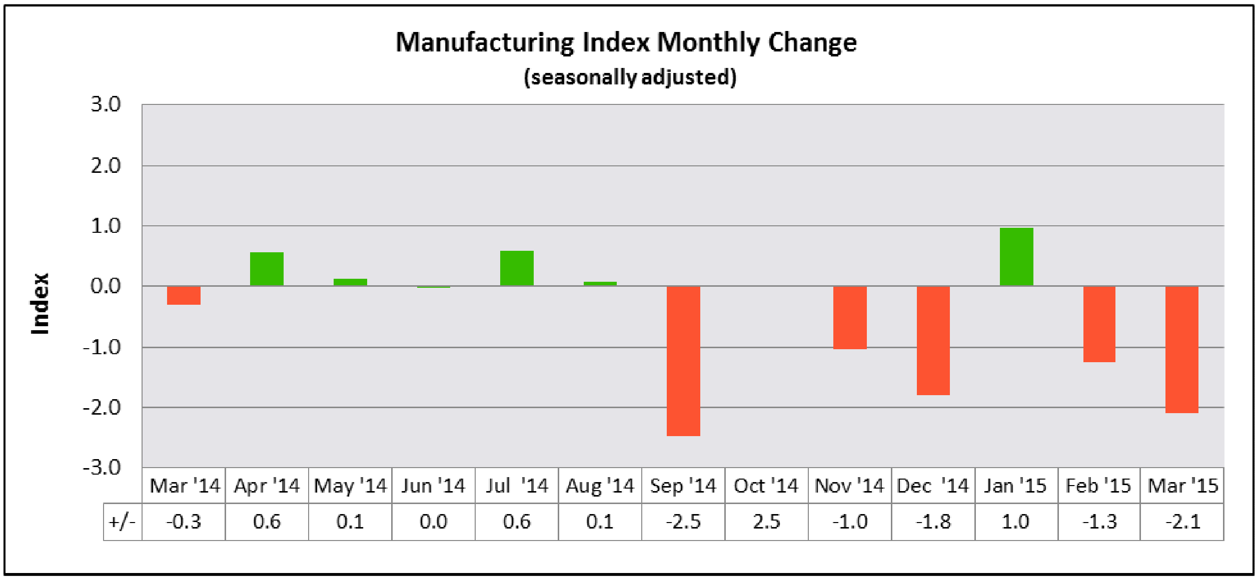
The damage this month is pretty widespread and the manufacturing sector took a hit as well as the service sector. The combined index slipped from 53.7 to 51.6 and that is getting uncomfortably close to the contraction zone. The index of favorable factors remains in acceptable territory with a reading of 55.6 after one of 57.9 last month, but for the bulk of the last year these readings have been in the 60s and trending in a far more positive direction is the case right now. The index of unfavorable factors is where the damage really starts to manifest as the overall score slipped from 50.9 to 48.9 and that marks the first time the combined reading has been this low since 2010, although it must be pointed out that these readings have not been all that high for quite a while—bouncing along in the low 50s for the past couple of years.

The sales category slid out of the 60s with a reading of 58.8. The last time this category was that low was in March of last year when it hit 58.5. The new credit applications category stayed roughly the same as last month with a slight rise from 56.7 to 58.6, but as pointed out in the narrative above, this is not really good news as the amount of credit extended slipped badly from 49.4 to 45.1. The fact is that companies that are not all that creditworthy are trying to get credit and they are not getting much attention. The dollar collections reading slipped from 64.5 to 59.8. The numbers are still solid given they are in the high 50s, but for most of the last year there have been readings in the 60s.

As stated earlier, the real concerns start to manifest with the unfavorable categories. The rejections of credit applications fell out of the 50s with a resounding thud—going from 50.3 to 43.8. There is most definitely a credit crunch underway and it is now easy to determine what the prime factor is. There are many companies seeking credit that are too weak and there is obviously an abundance of caution showing up in those that issue that credit. The accounts placed for collection held fairly steady and that comes as a bit of surprise—it went from 51.8 to 51.4. The disputes category actually improved a little—going from 47.2 to 48.6, but the important point is that it is still in the contraction category. The dollar amount beyond terms slid drastically from 52.2 to 46.0 and the dollar amount of customer deductions remained stable but at a low rate—moving not at all from the 48.7 that was noted last month. There was also no change in the filings for bankruptcies as it stayed right at 55.1—same as last month.

The big news is access to credit. It is suddenly very hard to get and this looks like the situation that existed at the start of the recession in 2008. The overall economy didn't look all that bad in late 2008, except that there was a dearth of credit and that soon led to business failures and struggles.

Manufacturing Sector (seasonally adjusted)	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15
Sales	58.5	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7	60.1	60.2	61.0	58.8
New credit applications	56.1	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9	58.5	56.7	56.7	58.6
Dollar collections	57.4	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9	55.3	60.4	64.5	59.8
Amount of credit extended	61.7	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2	63.3	63.6	49.4	45.1
Index of favorable factors	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**	**59.4**	**60.2**	**57.9**	**55.6**
Rejections of credit applications	52.6	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3	50.8	52.1	50.3	43.8
Accounts placed for collection	56.1	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5	50.4	50.6	51.8	51.4
Disputes	50.6	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5	47.3	49.4	47.2	48.6
Dollar amount beyond terms	52.8	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8	48.0	50.8	52.2	46.0
Dollar amount of customer deductions	50.4	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8	46.7	49.5	48.7	48.7
Filings for bankruptcies	58.5	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2	58.9	56.2	55.1	55.1
Index of unfavorable factors	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**	**50.4**	**51.4**	**50.9**	**48.9**
NACM Manufacturing CMI	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**	**54.0**	**55.0**	**53.7**	**51.6**

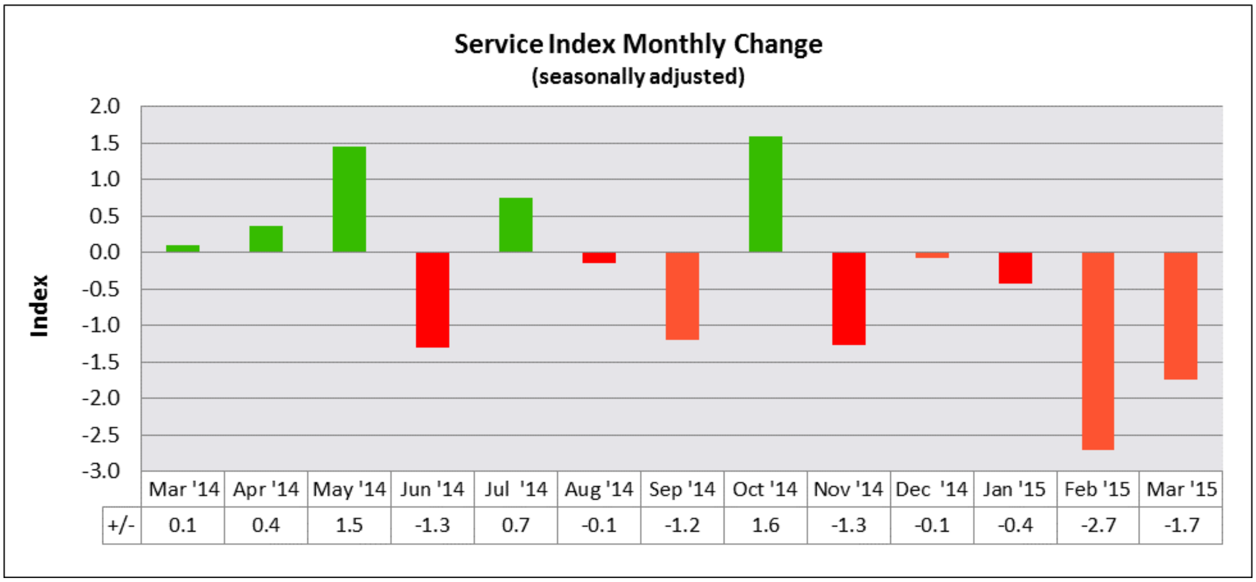


Service Sector

As was the case last month, the majority of the damage was seen in the service sector and this month it is going to be hard to blame it all on the weather or some other seasonal factor. The combined index is teetering right on the edge of contraction as it has slipped from 52.6 to 50.9. The index of favorable factors fell from 56.4 to 55.2 and just as with manufacturing, the big issue was access to credit. The sales category was not affected all that much from last month, but is down from much of the last year. It has fallen from 57.9 to 56.9. Again we see a hike in the new credit applications category as it moved from 52.1 to 56.2 and again this is far from good news given that amount of credit extended slipped from 54.8 to 47.2. The pattern is the same whether one is discussing the manufacturing or service side—too many seeking credit that are not going to get what they are seeking—either because there are doubts as to their credit status or because those issuing credit are in a very cautious mood. The dollar collections category is more or less stable and still in the 60s—it went from 61.0 to 60.4.

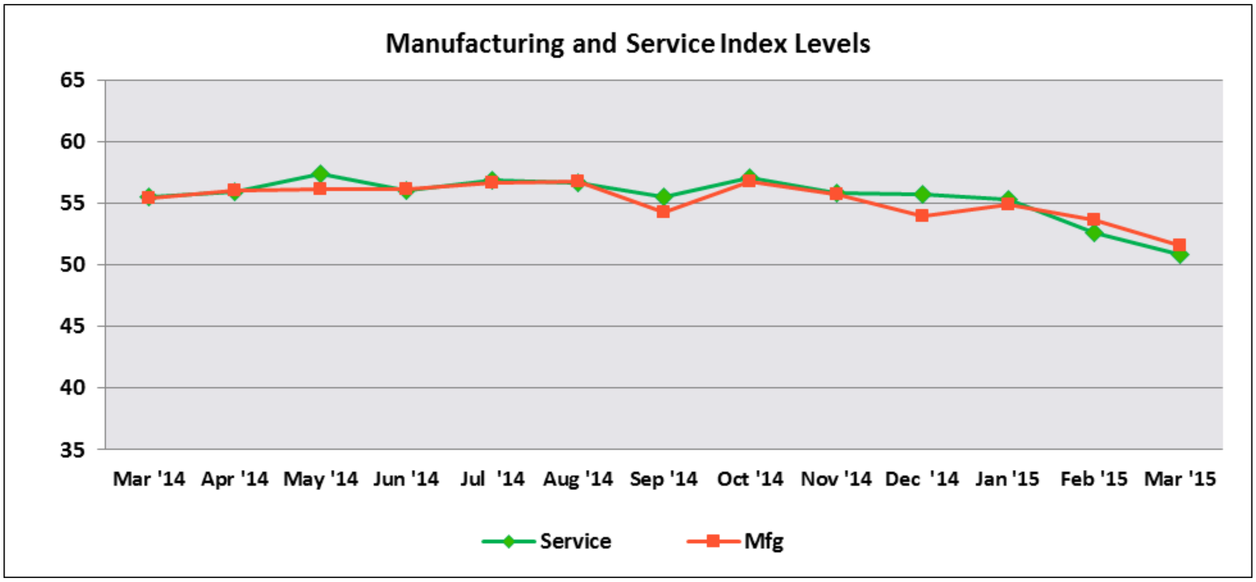
The overall unfavorable reading has been above 50 for several years and in some months, the reading was nearly mid-50s. That is no longer the case as the numbers slipped from 50.1 to 48.0. The details illustrate the problems just as they do for manufacturing. The rejections of credit applications is as miserable as it has been since the depths of the recession—going from 45.9 to 42.0. These are very bad readings and it will take a good long while to climb out of this mess. The accounts placed for collection category is weak as well—going from 49.9 to 48.1, but at least the fall wasn't as dramatic as with some of the other readings. The disputes category fell out of the 50s with a reading of 49.4 following last month's reading of 50.4. The dollar amount beyond terms improved a little but still remained in the 40s—going from 44.7 to 45.1. The dollar amount of customer deductions went from 54.8 to 48.7 and that was a sharp drop. The filings for bankruptcies went from 54.9 to 55.0 and that was one of the very few positive readings this month.

Service Sector (seasonally adjusted)	**Mar '14**	**Apr '14**	**May '14**	**Jun '14**	**Jul '14**	**Aug '14**	**Sep '14**	**Oct '14**	**Nov '14**	**Dec '14**	**Jan '15**	**Feb '15**	**Mar '15**
Sales	59.6	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7	62.68	62.8	57.9	56.9
New credit applications	58.5	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4	59.8	60.0	52.1	56.2
Dollar collections	55.4	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7	57.8	59.7	61.0	60.4
Amount of credit extended	64.5	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3	65.8	60.8	54.8	47.2
Index of favorable factors	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**	**61.6**	**60.8**	**56.4**	**55.2**
Rejections of credit applications	52.2	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1	52.2	51.7	45.9	42.0
Accounts placed for collection	52.2	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2	51.8	49.7	49.9	48.1
Disputes	51.2	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2	49.7	49.5	50.4	49.4
Dollar amount beyond terms	52.0	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8	49.3	50.5	44.7	45.1
Dollar amount of customer deductions	51.9	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6	50.1	51.0	54.8	48.7
Filings for bankruptcies	58.4	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4	58.12	57.6	54.9	55.0
Index of unfavorable factors	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**	**51.9**	**51.7**	**50.1**	**48.0**
NACM Service CMI	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**	**55.8**	**55.3**	**52.6**	**50.9**



March 2015 versus March 2014

The year-over-year trend remains miserable and seems to be getting worse and thus far nearly all the blame can be laid at the feet of credit access. There is just not a lot of confidence in those that are doing the credit offerings these days.



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.*

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