



## Report for July 2009

Issued August 3, 2009

National Association of Credit Management

### Combined Sectors

For the sixth straight month, the Credit Managers' Index indicates that there is growth in the availability of capital. The recovery in the index started in February of this year, supporting the notion that the economy was starting to show some rebound and "green shoots." The July index also moved much closer to the magic number of 50, signaling expansion is taking place. The reading is now at 48.

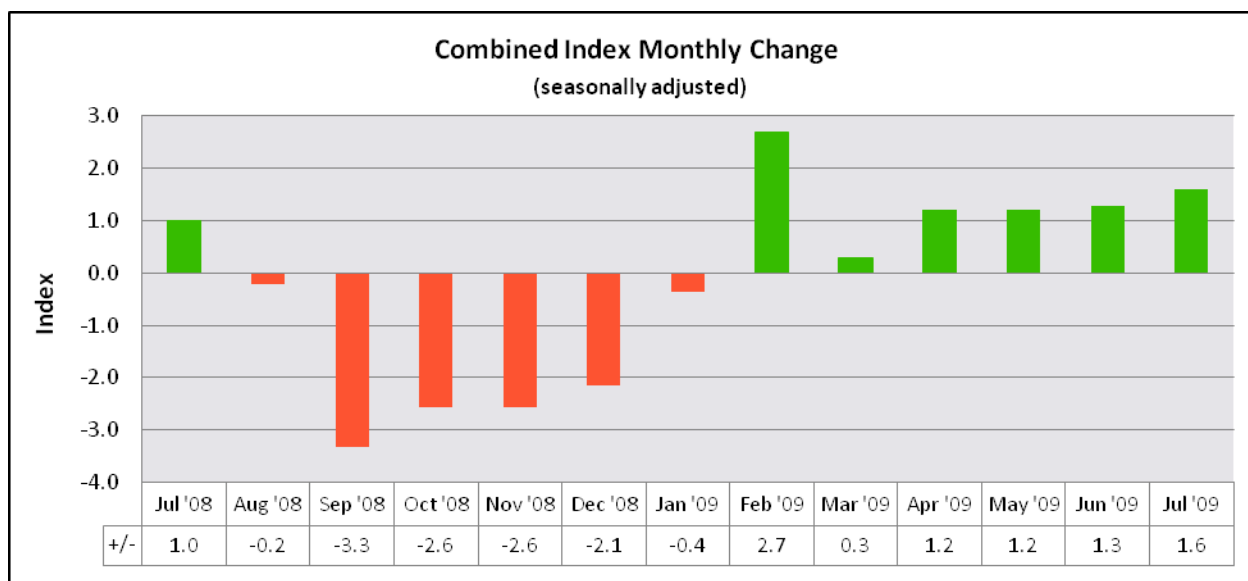
Over the last two months, the dominant economic debate has focused on whether the recession has already ended, is ending now or is in the process of ending. The data coming from the housing sector is generally very positive with sales of both existing and new homes up. There are improvements in some of the manufacturing indicators, and some data suggests overseas sales have been improving. At the same time, there are concerns about the continued high rate of unemployment and the lingering impact of the downturn.

At the core of this debate is consumer confidence. Data from the Conference Board and the University of Michigan show some erosion of confidence lately, but at the core of that measure is whether consumers and businesses are seeing improved access to capital. The latest Credit Managers' Index suggests that credit markets are continuing to edge toward expansion. If the trend of the last several months continues, the index may soon break above 50. The current score for the combined index is 48, up from June's number of 46.4. Once the index crests 50, it will signal that expansion is taking place.

"This marks the sixth straight month of improvement in the index, and it now looks likely that expansion will be under way by the end of the third quarter," said Dr. Chris Kuehl, NACM's economic analyst. The specific improvements in performance are even more encouraging. Sales and the amount of credit extended both jumped dramatically. Sales were up from 44.8 in June to 48.6 in July, while the credit extended measure went from 46.1 to 48.2. The index of favorable factors as a whole reached the critical 50 point and two of the measures moved into expansion territory as new credit applications moved to 52.6 and dollar collections went to 50.8. The unfavorable indicators also moved in the right direction as there were fewer disputes, fewer bankruptcies, fewer credit rejections and fewer dollars beyond terms. "The sense is that the weakest companies fell by the wayside as the economy toughened and now all that is left are the survivors," said Kuehl. "The good news is that in a recession, this process allows the solid companies to pick up market share and recover much faster. There is some anecdotal evidence that this process is taking place. As some businesses vanish, their slice of the business is being absorbed by other competitors."

*See page 5 of this report for information about the methodology and factors used to measure economic performance.*

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Jul '08</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec '08</b>	<b>Jan '09</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul '09</b>
Sales	55.7	56.5	45.3	45.6	34.4	27.2	29.5	34.1	35.2	37.4	41.8	44.8	48.6
New credit applications	53.9	52.8	49.7	49.7	45.2	44.7	42.7	44.9	44.3	47.8	48.2	50.7	52.6
Dollar collections	60.5	57.1	54.6	50.9	50.0	43.9	47.5	47.1	48.4	48.0	48.8	51.2	50.8
Amount of credit extended	58.6	60.0	53.9	47.7	43.3	42.2	40.5	42.2	41.8	42.3	44.3	46.1	48.2
<b>Index of favorable factors</b>	<b>57.1</b>	<b>56.6</b>	<b>50.9</b>	<b>48.5</b>	<b>43.2</b>	<b>39.5</b>	<b>40.0</b>	<b>42.1</b>	<b>42.4</b>	<b>43.9</b>	<b>45.8</b>	<b>48.2</b>	<b>50.0</b>
Rejections of credit applications	48.1	48.5	47.8	44.6	45.0	45.6	45.9	46.7	47.8	47.4	47.4	47.9	47.5
Accounts placed for collection	43.5	45.6	41.7	36.4	36.1	35.2	36.8	37.8	37.1	38.5	40.2	40.5	44.0
Disputes	46.3	46.4	45.8	42.9	43.9	44.5	43.4	44.8	44.1	47.2	47.5	47.7	50.2
Dollar amount beyond terms	47.9	43.6	42.0	41.8	38.8	31.6	30.6	42.0	42.3	40.5	43.4	43.6	45.3
Dollar amount of customer deductions	47.8	48.5	46.6	45.8	45.4	46.4	45.2	46.2	45.5	49.8	47.5	48.9	49.2
Filings for bankruptcies	47.2	48.2	46.5	42.6	40.5	39.7	35.4	38.4	40.5	40.2	42.3	42.8	43.7
<b>Index of unfavorable factors</b>	<b>46.8</b>	<b>46.8</b>	<b>45.0</b>	<b>42.3</b>	<b>41.6</b>	<b>40.5</b>	<b>39.5</b>	<b>42.6</b>	<b>42.9</b>	<b>43.9</b>	<b>44.7</b>	<b>45.2</b>	<b>46.7</b>
<b>NACM Combined CMI</b>	<b>50.9</b>	<b>50.7</b>	<b>47.4</b>	<b>44.8</b>	<b>42.2</b>	<b>40.1</b>	<b>39.7</b>	<b>42.4</b>	<b>42.7</b>	<b>43.9</b>	<b>45.1</b>	<b>46.4</b>	<b>48.0</b>



## Manufacturing Sector

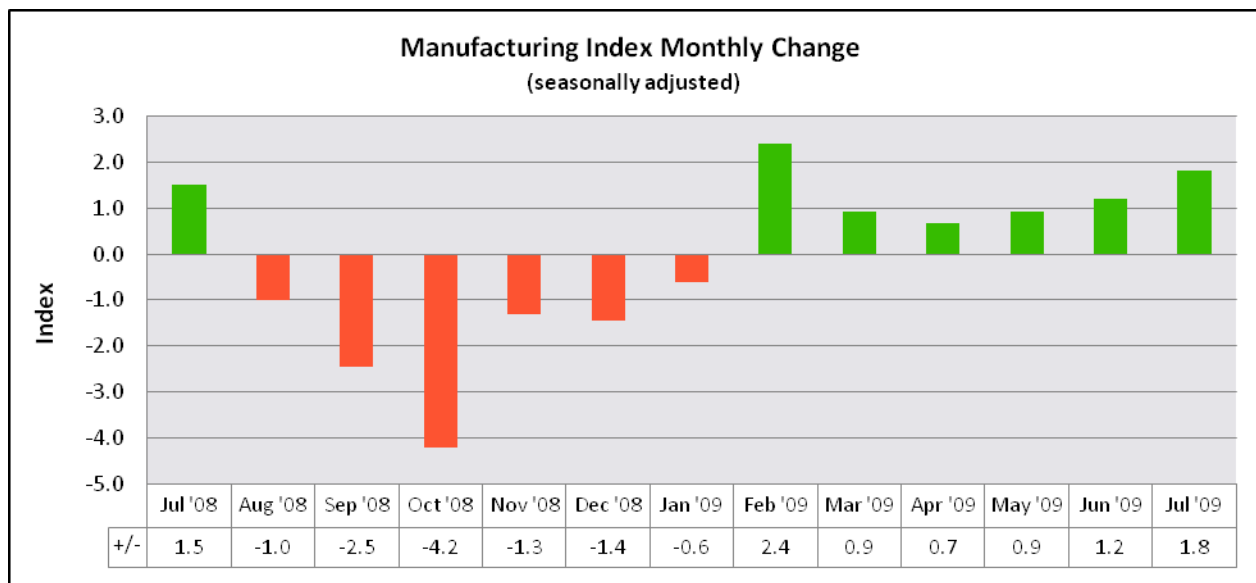
One of the more surprising developments in the survey was the solid performance recorded in the manufacturing sector. The index was even higher for manufacturing than for the combined total—48.3 as compared to 48. The improvements noted in the combined elements were even more pronounced when manufacturing was isolated. Sales posted a big gain and so did new credit applications with numbers jumping from 51.1 to 55.3. There was also some improvement in the amount of credit extended. Overall, the manufacturing index jumped 1.8%.

“The sense is that the first steps are underway in a manufacturing recovery as the pattern of the past suggests that the first indicator of recovery is when companies start to re-engage with their suppliers by asking for credit,” said Kuehl. “There is generally a lag between the period in which new applications jump and when there is evidence that these applications have been granted. At that point, the overall sector begins to show some signs of expansion.”

“It is also heartening to see that some of the unfavorable factors continue to trend in the right direction. The accounts placed for collection category showed improvement, and there were fewer disputes and bankruptcies. Given the challenges that continue to plague the automotive sector, it has been encouraging to see expansion in

other sectors. It would appear that manufacturing activity is more diverse than ever and the expansion in new sectors, such as energy, may be offsetting the declines.”

<b>Manufacturing Sector</b> <b>(seasonally adjusted)</b>	Jul '08	Aug	Sep	Nov	Oct	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul '09
Sales	56.5	57.4	45.2	38.5	46.1	26.8	31.6	34.7	36.7	39.6	40.7	45.4	48.7
New credit applications	55.0	53.0	50.9	45.5	49.2	48.8	44.8	45.2	44.6	50.7	49.3	51.1	55.3
Dollar collections	60.8	56.2	55.6	49.6	46.3	44.5	48.2	48.3	49.5	48.0	47.5	51.6	51.7
Amount of credit extended	58.8	62.0	56.2	42.8	48.1	44.0	39.6	40.5	41.8	44.1	44.2	45.8	49.3
<b>Index of favorable factors</b>	<b>57.8</b>	<b>57.2</b>	<b>52.0</b>	<b>44.1</b>	<b>47.4</b>	<b>41.0</b>	<b>41.1</b>	<b>42.2</b>	<b>43.1</b>	<b>45.6</b>	<b>45.4</b>	<b>48.5</b>	<b>51.3</b>
Rejections of credit applications	48.7	48.1	49.0	45.2	46.2	47.8	46.0	46.5	48.1	47.2	47.4	47.8	47.5
Accounts placed for collection	44.8	47.4	42.3	35.3	36.0	35.0	39.1	38.1	37.7	38.6	41.8	41.2	44.1
Disputes	45.2	43.8	45.5	44.4	41.3	44.7	42.6	44.4	44.4	45.8	47.6	46.1	49.3
Dollar amount beyond terms	47.7	41.8	43.1	40.0	38.6	31.8	30.8	46.5	48.1	42.8	44.5	45.3	46.3
Dollar amount of customer deductions	46.5	46.9	45.9	44.2	42.8	45.8	44.6	44.5	45.6	47.6	46.6	47.6	47.8
Filings for bankruptcies	49.7	47.2	45.6	38.7	42.6	40.6	36.4	39.2	40.6	39.6	43.6	43.2	43.1
<b>Index of unfavorable factors</b>	<b>47.1</b>	<b>45.9</b>	<b>45.2</b>	<b>41.3</b>	<b>41.3</b>	<b>41.0</b>	<b>39.9</b>	<b>43.2</b>	<b>44.1</b>	<b>43.6</b>	<b>45.2</b>	<b>45.2</b>	<b>46.4</b>
<b>NACM Manufacturing CMI</b>	<b>51.4</b>	<b>50.4</b>	<b>47.9</b>	<b>42.4</b>	<b>43.7</b>	<b>41.0</b>	<b>40.4</b>	<b>42.8</b>	<b>43.7</b>	<b>44.4</b>	<b>45.3</b>	<b>46.5</b>	<b>48.3</b>

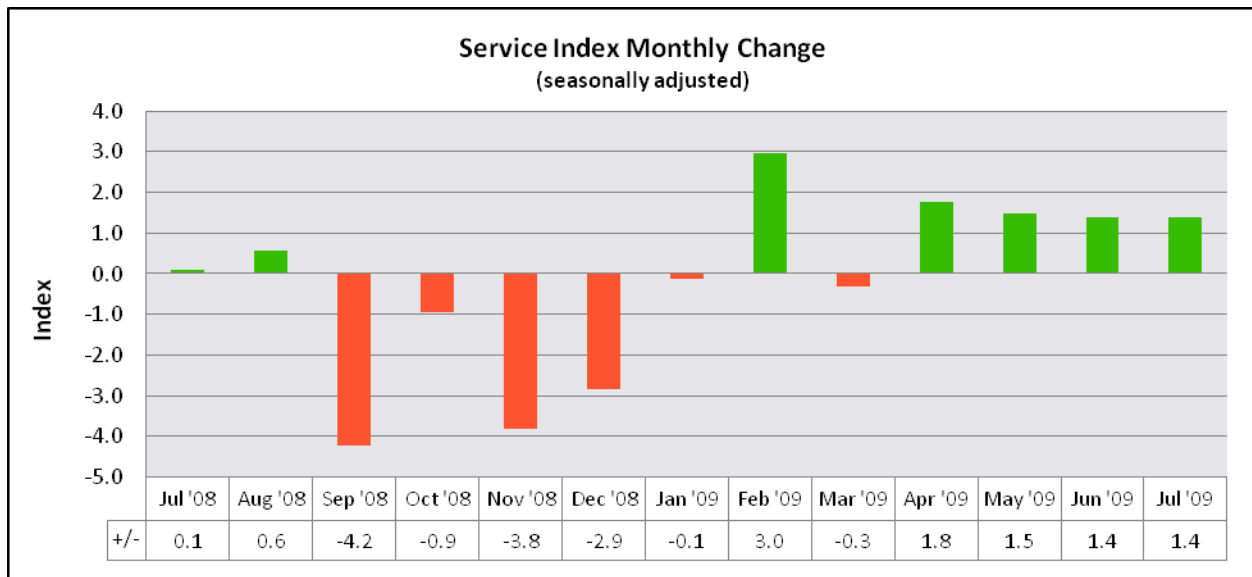


## Service Sector

The service sector has seen an increase as well but not as dramatic as that in manufacturing, Kuehl reported. Although there was an increase in sales, there was actually a decrease in the number of credit applications as well as credit granted. “This reflects what has been happening in the retail sector and other vulnerable service sectors such as transportation and financial services,” Kuehl said. The good news coming from the service sector is that the unfavorable factors saw progress: fewer disputes, less dollar exposure and fewer filings for bankruptcy. There is a sense that most of the damage has been done in the service arena and the level of decline will level out sooner than later. This observation is reflected in other studies such as the Fed’s Beige Book which reported the current pace of decline in most regions this period was far less than in previous periods. This is a far cry from an announcement that times are getting better, but the decline has to reach an end before there is a chance for recovery.

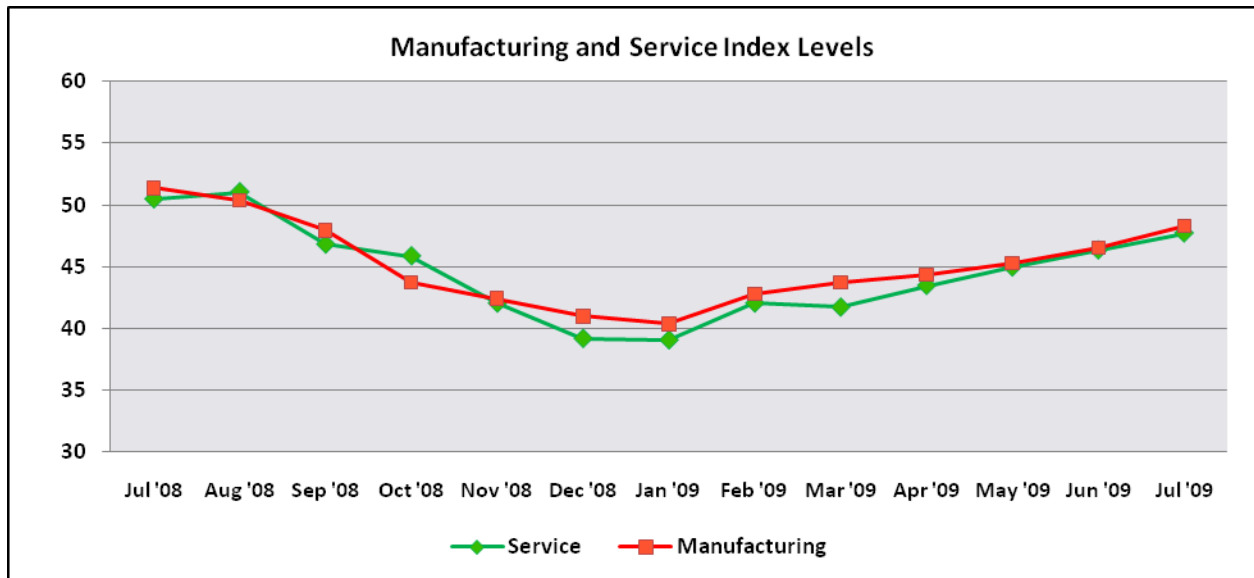
Even with some uneven data, there was an improvement over June from a reading of 46.3 to 47.7. That is getting very close to the 50 level, and it can be assumed that this level will be crested in the next month or so, allowing the retail sector to enter expansion territory.

<b>Service Sector (seasonally adjusted)</b>	<b>Jul '08</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec '08</b>	<b>Jan '09</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul '09</b>
Sales	54.9	55.5	45.4	45.1	30.2	27.5	27.3	33.5	33.7	35.2	42.9	44.1	48.4
New credit applications	52.7	52.6	48.4	50.2	44.8	40.5	40.5	44.6	44.0	44.9	47.2	50.3	49.9
Dollar collections	60.1	58.0	53.6	55.5	50.3	43.2	46.8	45.9	47.4	48.0	50.0	50.8	49.8
Amount of credit extended	58.3	58.0	51.5	47.2	43.7	40.3	41.4	43.9	41.8	40.6	44.3	46.4	47.1
<b>Index of favorable factors</b>	<b>56.5</b>	<b>56.0</b>	<b>49.7</b>	<b>49.5</b>	<b>42.3</b>	<b>37.9</b>	<b>39.0</b>	<b>41.9</b>	<b>41.7</b>	<b>42.2</b>	<b>46.1</b>	<b>47.9</b>	<b>48.8</b>
Rejections of credit applications	47.5	48.8	46.5	43.0	44.7	43.4	45.7	46.9	47.5	47.7	47.4	48.1	47.4
Accounts placed for collection	42.1	43.8	41.0	36.7	36.9	35.4	34.4	37.5	36.5	38.5	38.7	39.8	43.9
Disputes	47.4	48.9	46.1	44.5	43.3	44.3	44.1	45.2	43.9	48.6	47.3	49.4	51.2
Dollar amount beyond terms	48.0	45.4	40.9	44.9	37.6	31.4	30.3	37.4	36.6	38.3	42.3	41.9	44.3
Dollar amount of customer deductions	49.0	50.0	47.3	48.8	46.6	47.0	45.7	48.0	45.4	52.0	48.4	50.2	50.7
Filings for bankruptcies	44.6	49.2	47.3	42.6	42.2	38.8	34.4	37.7	40.4	40.8	41.0	42.3	44.4
<b>Index of unfavorable factors</b>	<b>46.4</b>	<b>47.7</b>	<b>44.9</b>	<b>43.4</b>	<b>41.9</b>	<b>40.1</b>	<b>39.1</b>	<b>42.1</b>	<b>41.7</b>	<b>44.3</b>	<b>44.2</b>	<b>45.3</b>	<b>47.0</b>
<b>NACM Service CMI</b>	<b>50.5</b>	<b>51.0</b>	<b>46.8</b>	<b>45.9</b>	<b>42.0</b>	<b>39.2</b>	<b>39.1</b>	<b>42.0</b>	<b>41.7</b>	<b>43.5</b>	<b>45.0</b>	<b>46.3</b>	<b>47.7</b>



### July 2009 vs. July 2008

“The performance from a year ago to this July is stark,” said Kuehl. “In the summer of 2008, the decline was beginning to manifest itself. The index was rising, but only very slightly, resting just above the 50 mark. In the months to come, the index would begin to dive rapidly, with September being the worst in the history of the index. This July, the trend was in the other direction with gains each and every month since February. The expectation is that the index will be above the 50 level by September and possibly by August. The contrast between the two years is becoming as stark as any noted in the last several years.”



### 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 1000 trade credit managers during the last 10 days of the month, with about equal representation between the manufacturing and service sectors. The survey asks respondents to comment on whether they are seeing improvement, deterioration or no change for various favorable or 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 those from the Purchasing Managers, the Supply Chain Managers and others.

### 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 items, the calculation is:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

For the negative factors, the calculation is:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors</b>	<b>Why Unfavorable*</b>
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: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*



## About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 19,000 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 and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy.

This report and the CMI archives may be viewed at <http://web.nacm.org/cmi/cmi.asp>.

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