



## Report for February 2012

Issued February 29, 2012

National Association of Credit Management

### Combined Sectors

The Credit Managers' Index (CMI) is now sitting at 55.8, rising a full percentage point above January's reading. The index is at its highest since April 2011, a time when most indicators were pointing to a pretty solid year. It is worth noting that last year was also affected by an oil shock at about this point and a back-sliding economy in the months that followed. However, readings from this month are solid in key categories providing some confidence regarding what happens from this point.

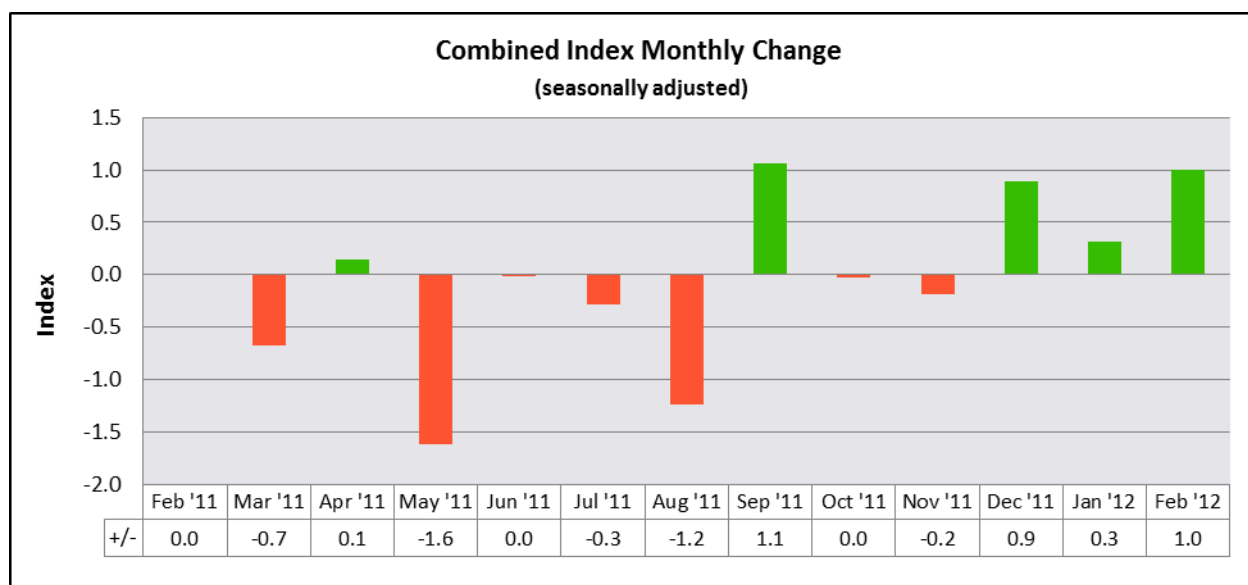
"The mood of the country could best be described as cautious and perhaps a little encouraged as far as economic growth prospects are concerned," said Chris Kuehl, PhD, economist for the National Association of Credit Management (NACM). The cautious part stems from the sudden spike in the price of oil and its impact on the price of gasoline. In the past, this kind of leap has been enough to send the economy hurtling into a recession, but thus far the consumer seems to be taking the hike in stride. This situation is not expected to last, Kuehl noted. If the threat of high prices is temporary, the consumer and the business community will heave a sigh of relief and will continue to focus on the good news that has dominated the start of the year. "There has been good news on the job front, better demand numbers, better growth numbers and better numbers in the CMI," he said.

The sales number is one of the most watched and it reached a level not seen since last April (64.4). "Once there is positive movement in the general sales category, there is often improvement in the index of unfavorable factors as well," said Kuehl. "An expansion in sales allows companies to catch up on their debt and improve their overall credit standing." Dollar collections jumped as well, dramatically—from 56.8 to 63—and like the expansion in sales is a sign of improved business conditions. More positive movement came from the amount of credit extended, which rose slightly from 63.3 to 64.3. "This bump in overall business activity is a precursor to additional expansion," Kuehl added. The only decline for the month was in new credit applications, which fell from 61.9 to 59.5. It was not a big drop, but suggests that many of those that were looking to expand and needed credit have already made their move.

The index of favorable factors rose from 61.4 to 62.8, marking the best reading since February 2011. This is also the third month in a row that the favorable factors index has been over 60. The index of unfavorable factors has also shown improvement as it moved from 50.3 to 51.1. "The damage from the recession is still manifesting in the unfavorable categories, but at least the index has remained above 50 for the past four months, and the current reading is better than it has been since April of last year," said Kuehl. "The theme here is that the CMI is about where it was in the spring of 2011, a period during which optimism was peaking. The problem in 2011 was that conditions deteriorated sharply after that peak and by the middle of the summer, the economy was back in the doldrums and the CMI was reversing course swiftly." Last year, the shocks that sent the economy reeling included the hike in oil prices and the supply chain crisis precipitated by the disasters in Japan. Thus far, the 2012 economy has not been visited by a crisis of that magnitude, but the recent hike in oil is not welcome in reminding business of how fragile the recovery remains.

There was not a great deal of movement in unfavorable factors, but for the most part the movement was positive. The sense is that most of the companies that were in financial distress a year ago have fallen into two broad categories. They either succumbed to the pressures of the recession and went out of business (as suggested by the increased rate of bankruptcies this past year) or they pulled themselves together and have started to make progress. "There has been very little real shift in the numbers since this time last year, but the good news is that four of the six unfavorable factors are now over 50 and that is an improvement over last month when there were only three indicators trending in expansion territory," said Kuehl.

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	Feb '11	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12
Sales	66.3	64.7	64.5	59.4	60.8	60.0	59.2	61.4	60.4	58.3	60.5	63.5	64.4
New credit applications	60.3	59.8	58.8	58.2	56.7	57.3	55.8	57.8	58.9	57.6	55.3	61.9	59.5
Dollar collections	63.4	60.0	61.3	58.7	58.1	56.2	56.9	57.8	56.8	56.9	61.4	56.8	63.0
Amount of credit extended	66.5	64.4	64.7	62.1	60.4	62.0	60.7	62.8	61.9	62.4	64.7	63.3	64.3
<b>Index of favorable factors</b>	<b>64.1</b>	<b>62.2</b>	<b>62.3</b>	<b>59.6</b>	<b>59.0</b>	<b>58.9</b>	<b>58.1</b>	<b>59.9</b>	<b>59.5</b>	<b>58.8</b>	<b>60.5</b>	<b>61.4</b>	<b>62.8</b>
Rejections of credit applications	51.4	50.8	50.8	51.5	50.9	51.0	50.2	49.9	50.2	49.5	49.5	50.2	50.5
Accounts placed for collection	49.9	52.1	50.5	50.3	49.8	49.9	47.6	48.7	50.1	49.5	50.0	49.1	50.9
Disputes	49.2	48.9	49.3	48.8	49.3	50.0	48.7	47.6	49.0	47.9	49.2	49.2	49.7
Dollar amount beyond terms	50.6	49.7	50.7	46.5	49.9	48.3	44.2	49.1	47.6	48.0	48.8	48.0	51.2
Dollar amount of customer deductions	50.1	49.3	49.9	48.6	50.0	48.9	49.1	49.2	48.7	48.9	49.1	50.1	48.5
Filings for bankruptcies	56.0	57.4	58.1	58.1	56.5	55.8	54.5	53.2	53.8	56.7	56.0	55.5	55.7
<b>Index of unfavorable factors</b>	<b>51.2</b>	<b>51.4</b>	<b>51.5</b>	<b>50.6</b>	<b>51.0</b>	<b>50.6</b>	<b>49.1</b>	<b>49.6</b>	<b>49.9</b>	<b>50.1</b>	<b>50.4</b>	<b>50.3</b>	<b>51.1</b>
<b>NACM Combined CMI</b>	<b>56.4</b>	<b>55.7</b>	<b>55.8</b>	<b>54.2</b>	<b>54.2</b>	<b>53.9</b>	<b>52.7</b>	<b>53.8</b>	<b>53.7</b>	<b>53.5</b>	<b>54.4</b>	<b>54.8</b>	<b>55.8</b>



## Manufacturing Sector

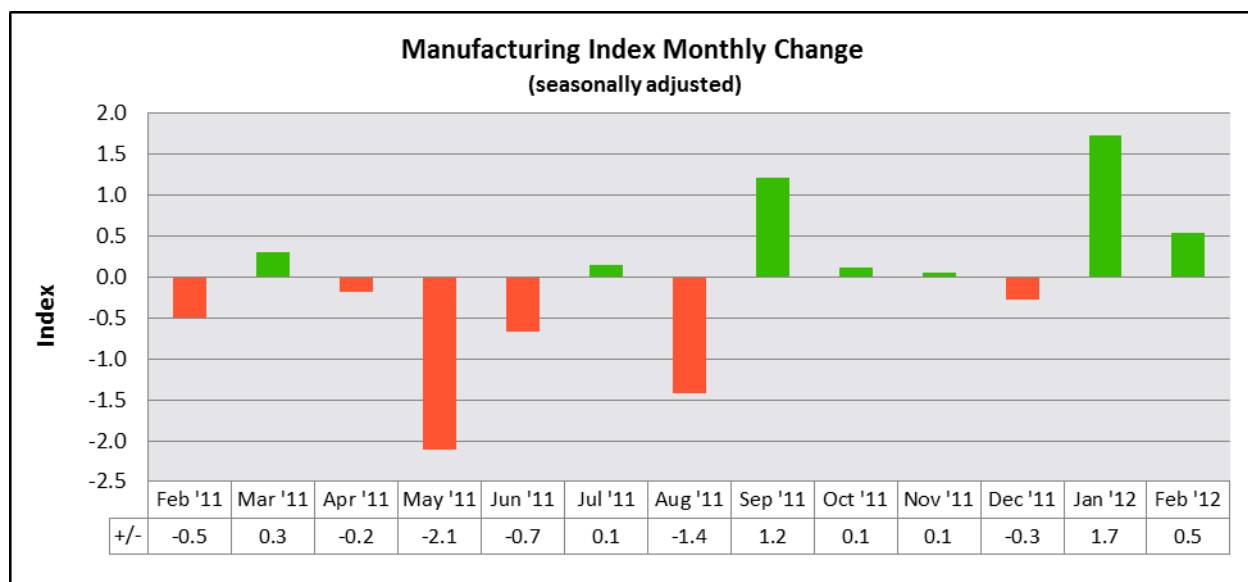
As with the total CMI, the biggest gains in the manufacturing sector were in the favorable factors. Sales jumped from 64.1 to 65.1, taking the index back to last March when it hit 65.4. The overall reading did not move much from where it was last month, but it is still as high as it has been since last April. This is also the second month in a row that the index of favorable factors has been over 60. As with the combined index, there was a marked improvement in dollar collections, suggesting that many companies in this sector have been seeing steady improvement—allowing them to catch up on debt. The only factor that fell below 60 was new credit applications, down from 64.2 to 59.3. This is not likely a cause for alarm as there are indications that most of the companies that have been seeking to expand have already made an attempt to get more credit. Of more significance is that the amount of credit extended continued to track over 60, although there was a drop from 66.2 to 65.7.

The index of unfavorable categories jumped back into the expansion category, but there has really been very little dramatic movement in this category over the last year. Thus far, the range has been narrow—from a high of 52 in March to a low of 48.7 in August. The latest reading (50.5) is not that far from the peaks set earlier in the year. The bankruptcy readings have been the most volatile, running from a high of 57.2 in March to a low of 53.4 in September. The current reading is 53.8—quite close to that bottom number, but the point is that bankruptcy activity has been in expansion territory all year and that is far different from the performance even a year or so ago. The majority of companies weakened by the recession either have failed completely or have started to recover. The next hurdle will be how these companies contend with inflation. As with the overall index, the good news is that four of the six unfavorable categories are now over 50. Last month, there were only three in that position.

The manufacturing sector continues its run and that has been a major factor in the overall growth of the U.S. economy. This is also why there is major concern about the price of oil as nothing will put as much stress on the industrial sector as a significant hike in the cost of fuel that lasts for several months. Not only will this impact the industries themselves, but there will also be additional costs in terms of transportation and the consumer could well go into hibernation. Thus far, the impact of high gas prices has been minimal, but the February CMI survey was conducted prior to the biggest price jumps.

The manufacturing community has been gambling to a degree. Starting at the end of last year, manufacturers began to build inventory in anticipation of a better year. The fear was that consumers were going to get on track in 2012 and manufacturers did not want to be left with too little to sell. It appeared that car sales were on their way to some robust months and that spurred the supply of parts. Now there are concerns building as the consumer had once again expressed a strong desire for the SUV, truck and larger car. If gas prices turn people back toward the smaller car, the auto sector may not be ready to make quick accommodations, although there are certainly more options within the fuel-efficient category than previously.

<b>Manufacturing Sector (seasonally adjusted)</b>	<b>Feb '11</b>	<b>Mar '11</b>	<b>Apr '11</b>	<b>May '11</b>	<b>Jun '11</b>	<b>Jul '11</b>	<b>Aug '11</b>	<b>Sep '11</b>	<b>Oct '11</b>	<b>Nov '11</b>	<b>Dec '11</b>	<b>Jan '12</b>	<b>Feb '12</b>
Sales	65.1	65.4	63.9	57.8	58.5	59.3	58.0	59.5	59.3	58.1	57.7	64.1	65.1
New credit applications	59.6	60.6	60.3	58.7	54.5	56.4	55.3	57.5	60.6	55.7	49.5	64.2	59.3
Dollar collections	61.5	60.8	60.2	60.1	55.3	55.4	56.0	56.7	56.5	56.2	58.0	56.8	61.4
Amount of credit extended	67.6	64.5	66.5	61.4	59.2	61.2	59.5	62.1	60.7	62.7	63.6	66.2	65.7
<b>Index of favorable factors</b>	<b>63.4</b>	<b>62.8</b>	<b>62.7</b>	<b>59.5</b>	<b>56.9</b>	<b>58.1</b>	<b>57.2</b>	<b>58.9</b>	<b>59.3</b>	<b>58.2</b>	<b>57.2</b>	<b>62.8</b>	<b>62.9</b>
Rejections of credit applications	51.9	51.6	51.0	52.6	51.8	50.8	50.4	50.0	49.6	49.6	49.8	50.5	50.1
Accounts placed for collection	51.2	53.9	50.7	50.7	49.8	49.4	47.3	49.6	48.8	51.6	50.7	48.6	51.1
Disputes	48.2	49.0	50.5	49.2	49.0	50.0	48.6	44.9	47.7	48.5	49.3	48.3	49.6
Dollar amount beyond terms	51.3	51.6	52.2	45.8	50.6	49.1	42.6	51.3	49.7	47.1	48.4	47.6	52.2
Dollar amount of customer deductions	50.1	48.8	49.5	47.7	49.5	47.8	48.9	48.1	47.7	48.8	49.3	49.2	46.5
Filings for bankruptcies	53.9	57.2	56.8	56.4	55.6	55.9	54.5	53.4	53.7	56.5	55.7	53.8	53.8
<b>Index of unfavorable factors</b>	<b>51.1</b>	<b>52.0</b>	<b>51.8</b>	<b>50.4</b>	<b>51.0</b>	<b>50.5</b>	<b>48.7</b>	<b>49.5</b>	<b>49.5</b>	<b>50.4</b>	<b>50.5</b>	<b>49.7</b>	<b>50.5</b>
<b>NACM Manufacturing CMI</b>	<b>56.0</b>	<b>56.3</b>	<b>56.1</b>	<b>54.0</b>	<b>53.4</b>	<b>53.5</b>	<b>52.1</b>	<b>53.3</b>	<b>53.4</b>	<b>53.5</b>	<b>53.2</b>	<b>54.9</b>	<b>55.5</b>



## Service Sector

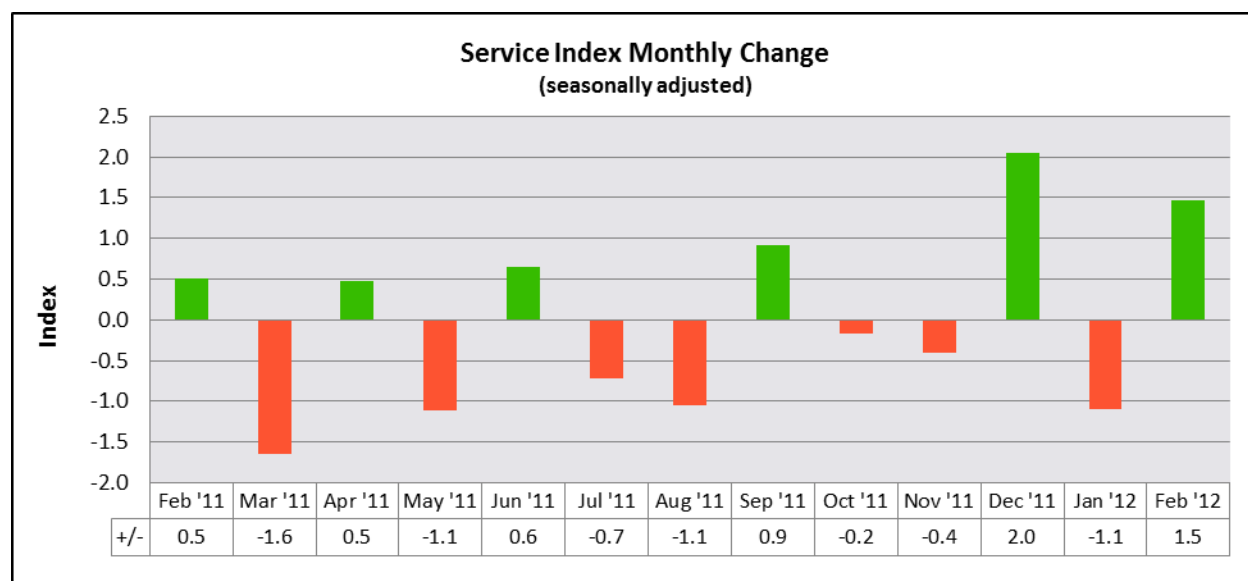
The good news was pretty widespread in the service sector. Sales continued to grow and hit 63.6. This is the highest reading in the last 12 months since April. The high peaks set at the beginning of 2011 have proved elusive, but mid-60s are not to be dismissed. The improvement in dollar collections was a high point for the service sector, just as it has been for the index as a whole as well as for manufacturing. It is also significant that there was consistency in new credit applications and an improvement in the amount of credit extended.

The data also improved in unfavorable factors. The reading this month is 51.6 and, once again, is the highest since April of last year. Overall, the range for unfavorable factors has been narrow, but the latest trending is in the right direction. The low point for the index in the last 12 months was in August (49.4), with the high point being this month. For the last three months there has been progress with readings over 50.

Only one unfavorable factor remains below 50, but even this month's performance is the best in well over a year. Disputes sits at 49.9, about as close to expansion territory as it can get. The sense is that the service economy has started to rally, but there are all the usual cautions about the impact of high gas prices and the like.

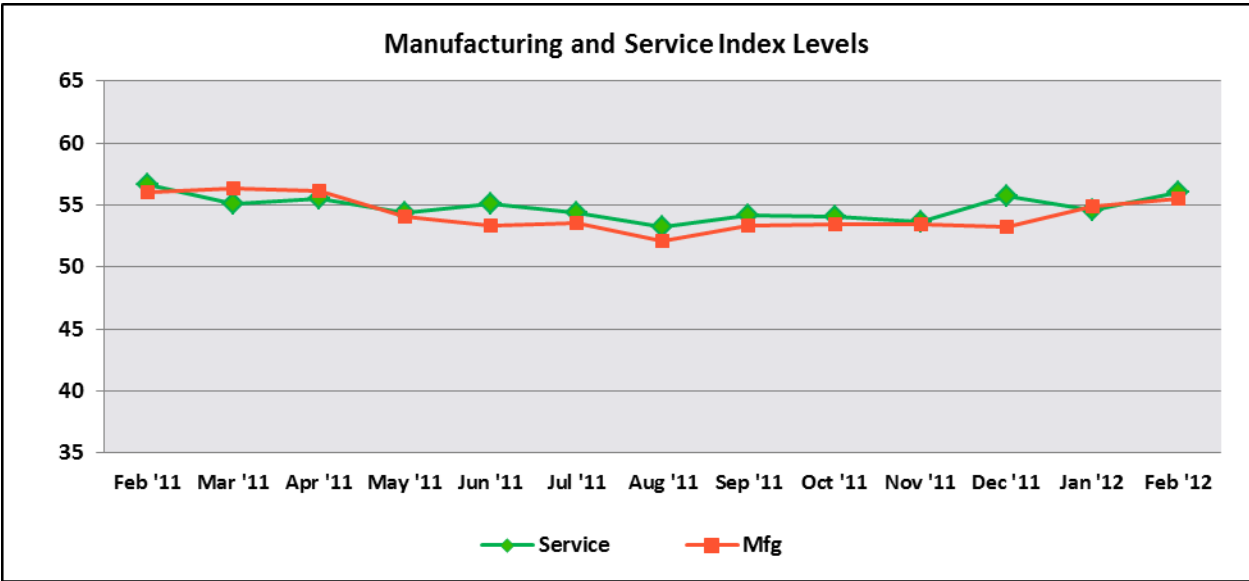
The news from the service sector was far better than expected. Generally, this sector reacts strongly to seasonal factors and sees declines in the retail sector, as well as some other sensitive areas like construction, this time of year. The retail slump occurred on schedule, but the construction sector has benefited from the unseasonably warm weather, not that the underlying issues in construction have faded. There is still no sign that recovery is around the corner in either residential or commercial construction, but public sector construction was in better shape due to the ability to keep working through the winter months.

<b>Service Sector (seasonally adjusted)</b>	<b>Feb '11</b>	<b>Mar '11</b>	<b>Apr '11</b>	<b>May '11</b>	<b>Jun '11</b>	<b>Jul '11</b>	<b>Aug '11</b>	<b>Sep '11</b>	<b>Oct '11</b>	<b>Nov '11</b>	<b>Dec '11</b>	<b>Jan '12</b>	<b>Feb '12</b>
Sales	67.5	63.9	65.0	61.1	63.2	60.7	60.5	63.3	61.5	58.4	63.3	62.9	63.6
New credit applications	61.0	59.0	57.3	57.8	58.8	58.2	56.3	58.0	57.2	59.4	61.1	59.6	59.6
Dollar collections	65.2	59.2	62.3	57.3	60.9	57.1	57.9	58.9	57.0	57.6	64.9	56.7	64.5
Amount of credit extended	65.4	64.2	63.0	62.7	61.6	62.7	61.9	63.5	63.2	62.1	65.7	60.4	63.0
<b>Index of favorable factors</b>	<b>64.8</b>	<b>61.6</b>	<b>61.9</b>	<b>59.7</b>	<b>61.1</b>	<b>59.7</b>	<b>59.1</b>	<b>60.9</b>	<b>59.7</b>	<b>59.4</b>	<b>63.8</b>	<b>59.9</b>	<b>62.7</b>
Rejections of credit applications	51.0	50.1	50.5	50.4	50.0	51.2	50.1	49.8	50.9	49.4	49.1	49.9	50.8
Accounts placed for collection	48.6	50.2	50.2	49.9	49.8	50.3	47.8	47.8	51.3	47.5	49.3	49.6	50.7
Disputes	50.1	48.7	48.1	48.5	49.6	50.0	48.9	50.4	50.2	47.2	49.0	50.1	49.9
Dollar amount beyond terms	49.9	47.8	49.2	47.3	49.1	47.5	45.9	46.9	45.4	48.8	49.3	48.5	50.3
Dollar amount of customer deductions	50.1	49.8	50.3	49.4	50.5	49.9	49.3	50.2	49.8	48.9	48.9	51.0	50.6
Filings for bankruptcies	58.2	57.7	59.5	59.8	57.3	55.8	54.6	53.1	54.0	57.0	56.2	57.2	57.6
<b>Index of unfavorable factors</b>	<b>51.3</b>	<b>50.7</b>	<b>51.3</b>	<b>50.9</b>	<b>51.0</b>	<b>50.8</b>	<b>49.4</b>	<b>49.7</b>	<b>50.3</b>	<b>49.8</b>	<b>50.3</b>	<b>51.0</b>	<b>51.6</b>
<b>NACM Service CMI</b>	<b>56.7</b>	<b>55.1</b>	<b>55.5</b>	<b>54.4</b>	<b>55.1</b>	<b>54.3</b>	<b>53.3</b>	<b>54.2</b>	<b>54.0</b>	<b>53.6</b>	<b>55.7</b>	<b>54.6</b>	<b>56.0</b>



### February 2012 vs. February 2011

The trend is most definitely as positive as it has been in some time. While the overall index is still in the mid-50s range, it has begun to head north at a pretty consistent pace. This is something of a breaking point as compared to the data of a year ago. As has become obvious, the high point of 2011 was April, followed by a swift slide. The hope is that there will not be a repeat of that retreat, but the latest oil shock is not welcome.



**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 900 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 on 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 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 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.

<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: 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 federal legislative policy 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. 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.

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

Source: National Association of Credit Management

Contact: [Caroline Zimmerman](#), 410-740-5560

Website: [www.nacm.org](http://www.nacm.org)

Twitter: [NACM\\_National](#)