



## Report for December 2011

Issued December 29, 2011

National Association of Credit Management

### Combined Sectors

The holiday season has been a good one in terms of economic growth, at least for the retail community. That became pretty obvious in this month's Credit Managers' Index (CMI). After seeing a pretty meager performance in the service sector since the middle of summer, this month's gains were impressive and suggest that most of the glowing reports from retailers were accurate. The story on the manufacturing side was not so upbeat, but that is not unusual this time of year. Manufacturers do not generally see big gains in the fourth quarter. The service side of the economy is another story, especially that part connected to the consumer and the holiday season.

Overall, the gains were solid as the December CMI went from 53.5 to 54.4, the highest reading since May, but not as impressive as the index reading a year ago. In December 2010, the CMI reached 55.8 and there was some talk of a breakout year in 2011. That did not come to pass and the index started to slump by March. By the end of the summer there was concern that CMI readings would slip below growth and end up in the 40s again. That also did not take place, and by the end of this year, gains pushed the index back into the mid-50s.

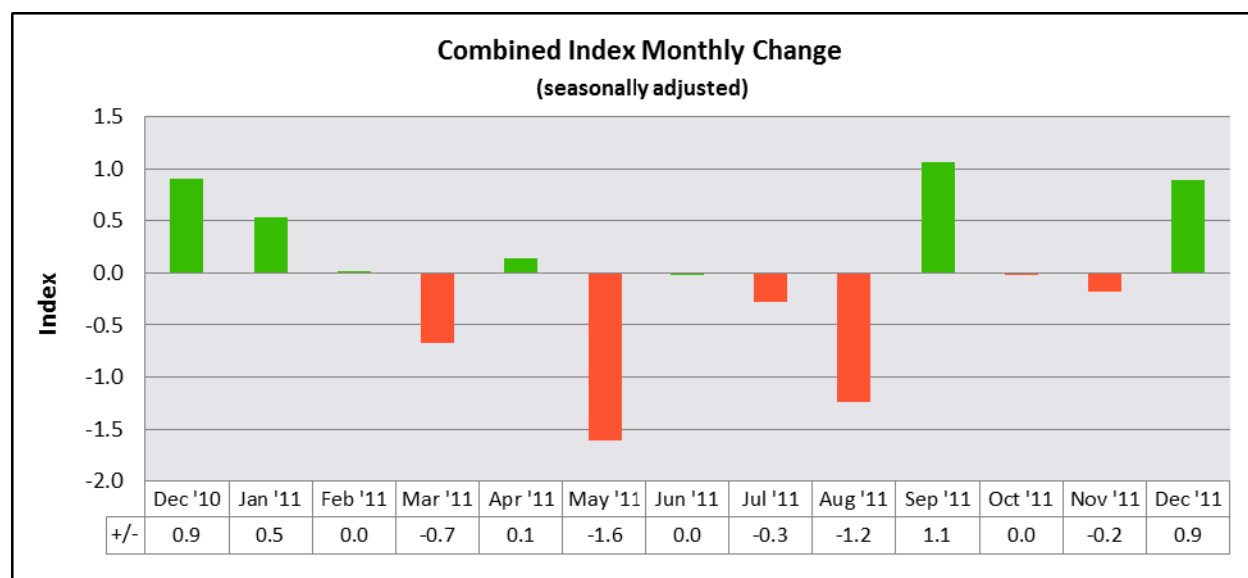
"Throughout the year, the manufacturing and service sectors exchanged positions with one another, and it was a rare month when both sectors were on the same track," said NACM Economist Chris Kuehl, PhD. "December was no exception. The service sector grew much faster than manufacturing due to the strength of the retail segments of the index."

In general, the combined level of sales started to grow again and jumped back above 60 after having fallen to 58.2 in November. The other piece of good news was that dollar collections gained considerably, from 56.9 to 61.4. This kind of gain is often seen this time of year as retailers have more cash to work with and many companies are trying to get their books in order. The gains in favorable factors, which moved from 58.8 to 60.5, would have been greater were it not for the decline in new credit applications. This is also somewhat more common at the end of the retail season, and the offsetting good news is that the amount of credit extended moved from 62.4 to 64.7.

Unfavorable factor numbers were not as positive, although the majority of the movement was insignificant. The problem is that most of these index readings are still in the 40s. Rejection of credit applications is still in the contraction zone at 49.5. The index for accounts placed for collection moved into expansion territory, but just barely, rising from 49.5 to an even 50. Only the bankruptcy filing factor is solidly in expansion territory with a reading of 56, but that is down from the previous month's reading of 56.7. "In general it can be said that many companies remain in distress, and this doesn't bode well for the coming months when there will be no boost from holiday spending," said Kuehl.

The index of unfavorable factors did stay in the expansion zone, but only by the narrowest of margins—expanding from 50.1 to 50.4. "This is certainly a better trend than the one noted some months ago, but it has been more than a year since this index has been above 53," said Kuehl. "The fact remains that many businesses are still struggling with debt and cash flow. The retail sector did very well in 2011, but the gains were anything but universal. As the data starts to come out, it will be evident that some companies did not manage to turn things around this year. It has already been announced that Sears/K-Mart did poorly compared to their competitors and will soon be closing over 100 stores. There will be more such announcements in the weeks to come as retailers finish computing this year's sales season. The most persistent concern is that few companies came out of 2011 with enough momentum to carry them very far into the coming year."

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Dec '10</b>	<b>Jan '11</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>
Sales	65.9	63.5	66.3	64.7	64.5	59.4	60.8	60.0	59.2	61.4	60.4	58.2	60.5
New credit applications	60.1	58.6	60.3	59.8	58.8	58.2	56.7	57.3	55.8	57.8	58.9	57.6	55.3
Dollar collections	60.7	60.9	63.4	60.0	61.3	58.7	58.1	56.2	56.9	57.8	56.8	56.9	61.4
Amount of credit extended	61.7	64.8	66.5	64.4	64.7	62.1	60.4	62.0	60.7	62.8	61.9	62.4	64.7
<b>Index of favorable factors</b>	<b>62.1</b>	<b>62.0</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>
Rejections of credit applications	50.8	51.2	51.4	50.8	50.8	51.5	50.9	51.0	50.2	49.9	50.2	49.5	49.5
Accounts placed for collection	51.5	52.5	49.9	52.1	50.5	50.3	49.8	49.9	47.6	48.7	50.1	49.5	50.0
Disputes	49.2	51.0	49.2	48.9	49.3	48.8	49.3	50.0	48.7	47.6	49.0	47.9	49.2
Dollar amount beyond terms	53.4	51.5	50.6	49.7	50.7	46.5	49.9	48.3	44.2	49.1	47.6	48.0	48.8
Dollar amount of customer deductions	49.6	50.6	50.1	49.3	49.9	48.6	50.0	48.9	49.1	49.2	48.7	48.9	49.1
Filings for bankruptcies	55.4	59.1	56.0	57.4	58.1	58.1	56.5	55.8	54.5	53.2	53.8	56.7	56.0
<b>Index of unfavorable factors</b>	<b>51.7</b>	<b>52.6</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>NACM Combined CMI</b>	<b>55.8</b>	<b>56.4</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>

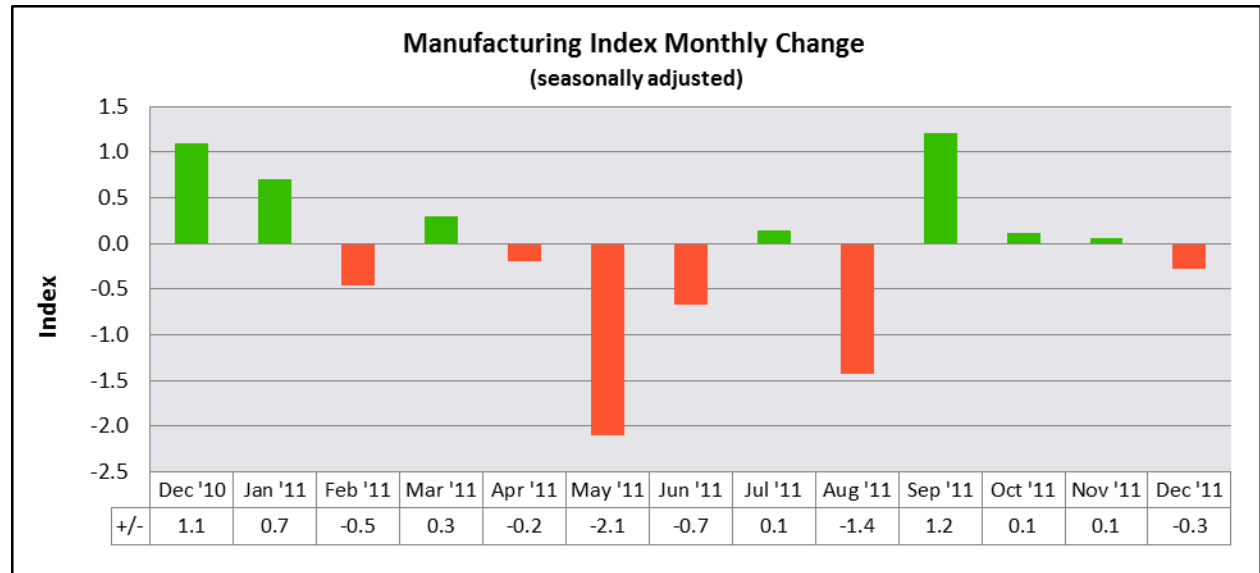


## Manufacturing Sector

The decline in manufacturing was not overwhelming, but it managed to take the edge off the gains made in the service sector. Overall, the index for manufacturing dropped from 53.5 to 53.2. Most of the decline can be attributed to declines in the favorable factors where the drop was more precipitous, going from 58.2 to 57.2. While sales category was off, the biggest shift was in new credit applications. This indicator moved from 55.7 to 49.5, in one month shifting from expansion to contraction. Some of the decline in new credit activity is to be expected as it tends to be a slow time of year, but there are some worries about what this might mean for the next quarter. In last month's report, it was noted that some of the other data from the manufacturing community was suggesting that many companies have been considering a substantial increase in their capital expenditures in the coming year. This development, at least thus far, has not been showing up in the CMI. For the most part, the other elements of the sector index either improved or only declined slightly. That big drop in credit applications is unlikely to be repeated in the coming months if all the data regarding investment intent is to be believed.

Most of the manufacturing sector's index of unfavorable factors remains in the 40s and accounts placed for collection and bankruptcies declined. The bright spot in this otherwise bleak collection is that most are slowly improving, with emphasis on slowly. There was improvement in rejections of credit applications, disputes, dollar amount beyond terms and customer deductions, but all are still under 50.

<b>Manufacturing Sector (seasonally adjusted)</b>	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11
Sales	66.6	64.7	65.1	65.4	63.9	57.8	58.5	59.3	58.0	59.5	59.3	58.1	57.7
New credit applications	59.1	57.7	59.6	60.6	60.3	58.7	54.5	56.4	55.3	57.5	60.6	55.7	49.5
Dollar collections	60.5	60.3	61.5	60.8	60.2	60.1	55.3	55.4	56.0	56.7	56.5	56.2	58.0
Amount of credit extended	61.6	66.2	67.6	64.5	66.5	61.4	59.2	61.2	59.5	62.1	60.7	62.7	63.6
<b>Index of favorable factors</b>	<b>61.9</b>	<b>62.2</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>
Rejections of credit applications	51.3	52.0	51.9	51.6	51.0	52.6	51.8	50.8	50.4	50.0	49.6	49.6	49.8
Accounts placed for collection	51.1	53.0	51.2	53.9	50.7	50.7	49.8	49.4	47.3	49.6	48.8	51.6	50.7
Disputes	48.1	49.8	48.2	49.0	50.5	49.2	49.0	50.0	48.6	44.9	47.7	48.5	49.3
Dollar amount beyond terms	53.9	52.1	51.3	51.6	52.2	45.8	50.6	49.1	42.6	51.3	49.7	47.1	48.4
Dollar amount of customer deductions	49.4	49.1	50.1	48.8	49.5	47.7	49.5	47.8	48.9	48.1	47.7	48.8	49.3
Filings for bankruptcies	56.5	60.2	53.9	57.2	56.8	56.4	55.6	55.9	54.5	53.4	53.7	56.5	55.7
<b>Index of unfavorable factors</b>	<b>51.7</b>	<b>52.7</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>NACM Manufacturing CMI</b>	<b>55.8</b>	<b>56.5</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>



## Service Sector

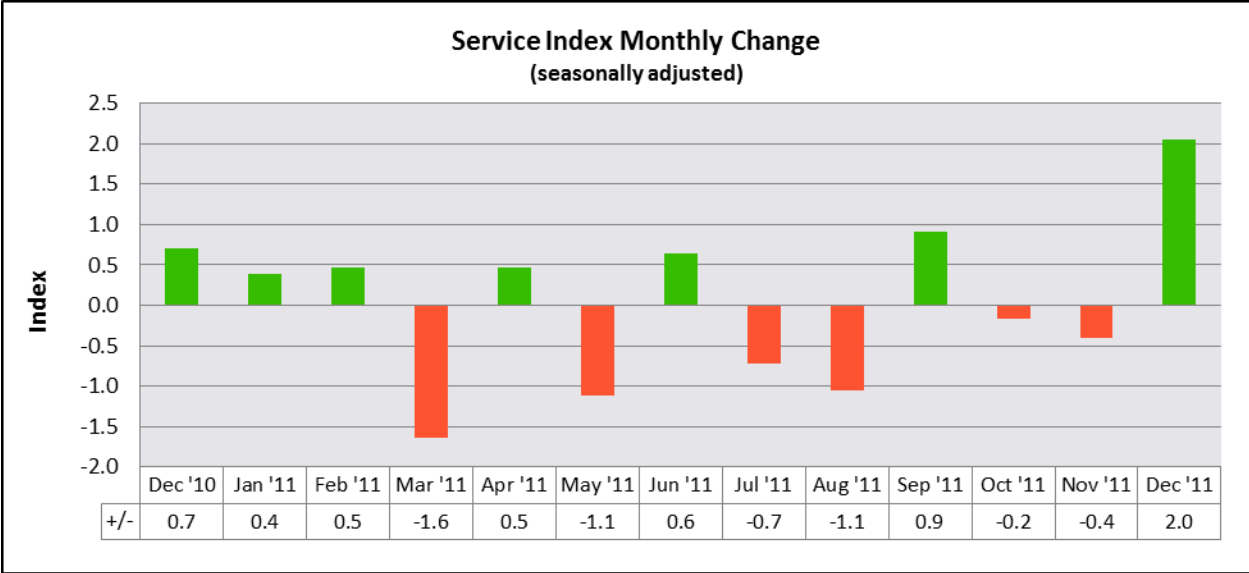
The big movements in the overall CMI originated in the service sector, as the annual holiday season did its usual job of perking up the retail community. The gains in sales were dramatic, as expected, and took the factor back to levels seen in May. The jump from 58.4 to 63.3 was welcome news and within shouting distance of levels from one year ago when the reading was 65.1. It is expected that the sales number will dwindle in the coming months as it nearly always does. There was more good news in other favorable factors as well with gains in new credit

applications and the amount of credit extended, and a big gain in dollar collections. This is usually the time the retail community pulls it together, and there is some evidence that this has been taking place. If there is anything to create concern, it is that all of this year's numbers were not as good as last year's. Hopes of gains that would exceed those of the previous year gave in to the struggles of the economy this past year. However, it is a positive sign that all favorable factors for the service sector are in the 60s. The most important observation is that the overall index number is higher than last year and higher than any month in 2011 except for February.

Some of the unfavorable factor numbers improved, but most are still under 50 and in contraction territory. The fact that retailers use this period to catch up is a bit of a concern as it is evident that not all have been able to make the progress hoped for. There is concern as to what happens in the next year. Last year by this point, the unfavorable factors were all trending above 50 and mostly stayed in expansion territory through the first quarter. The index shows profound strain and the recent gains in the fourth quarter may not have been enough to solve the financial problems of the sector.

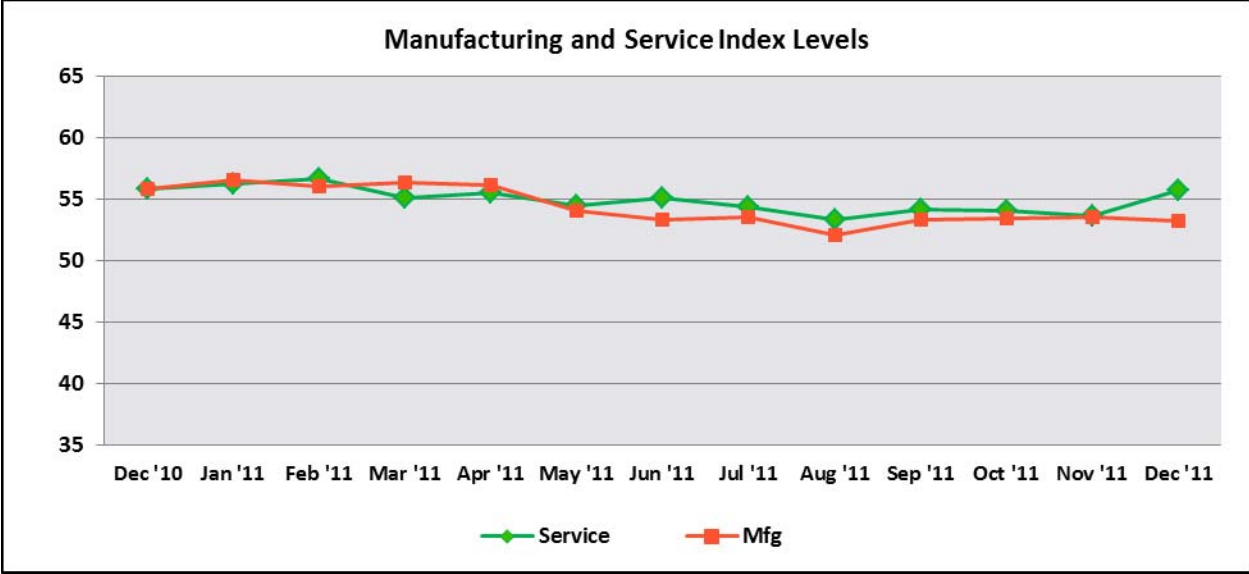
Retail will fall off in the coming quarter and the service sector will come to depend on some of the hardest hit sectors in the economy: construction and finance. The first quarter numbers are likely to dip, but if they hold even close to the levels set in the last quarter of 2011, there is hope of strengthened economic performance into 2012. This was the expectation at the end of 2010, but that was before the appearance of problems that beset the economy as a result of the supply chain disruption from the Japanese earthquake and tsunami, as well as the impact on oil pricing from the Arab Spring and the violence that took Libya out of the oil markets for the foreseeable future.

<b>Service Sector (seasonally adjusted)</b>	<b>Dec '10</b>	<b>Jan '11</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>
Sales	65.1	62.3	67.5	63.9	65.0	61.1	63.2	60.7	60.5	63.3	61.5	58.4	63.3
New credit applications	61.1	59.4	61.0	59.0	57.3	57.8	58.8	58.2	56.3	58.0	57.2	59.4	61.1
Dollar collections	60.9	61.6	65.2	59.2	62.3	57.3	60.9	57.1	57.9	58.9	57.0	57.6	64.9
Amount of credit extended	61.8	63.4	65.4	64.2	63.0	62.7	61.6	62.7	61.9	63.5	63.2	62.1	65.7
<b>Index of favorable factors</b>	<b>62.2</b>	<b>61.7</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>
Rejections of credit applications	50.3	50.4	51.0	50.1	50.5	50.4	50.0	51.2	50.1	49.8	50.9	49.4	49.1
Accounts placed for collection	52.0	52.1	48.6	50.2	50.2	49.9	49.8	50.3	47.8	47.8	51.3	47.5	49.3
Disputes	50.3	52.1	50.1	48.7	48.1	48.5	49.6	50.0	48.9	50.4	50.2	47.2	49.0
Dollar amount beyond terms	52.9	51.0	49.9	47.8	49.2	47.3	49.1	47.5	45.9	46.9	45.4	48.8	49.3
Dollar amount of customer deductions	49.9	52.1	50.1	49.8	50.3	49.4	50.5	49.9	49.3	50.2	49.8	48.9	48.9
Filings for bankruptcies	54.3	57.9	58.2	57.7	59.5	59.8	57.3	55.8	54.6	53.1	54.0	57.0	56.2
<b>Index of unfavorable factors</b>	<b>51.6</b>	<b>52.6</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>NACM Service CMI</b>	<b>55.8</b>	<b>56.2</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>



**December 2011 vs. December 2010**

The year-over-year performance was better this month than last, but there is some concern about the length of time the index has been resting in the middle ground between expansion and contraction. The index has not dipped into negative territory but it hasn't really strengthened and that has been an ongoing worry. The hope is that by 2012 there will be some numbers that are closer to 60 than 50.



**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>.

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