Report for January 2011

Issued January 31, 2011
National Association of Credit Management

Combined Sectors

"The assertion is that 2011 is the transition year 2010 was supposed to be," said Chris Kuehl, PhD, managing director for Armada Corporate Intelligence and economic advisor for the National Association of Credit Management (NACM). "The 'green shoots' that started to appear about this time last year wilted and died by the end of spring, but 2011 is starting to show some signs of greater economic stability," he said. "This trend has been noted in several indexes and indicators and the Credit Managers' Index (CMI) is no exception." There was an overall improvement in the numbers—from 55.8 to 56.4—the highest point reached in the combined index since April 2010 when the index hit 56.5. What makes this latest number more encouraging is the expectation that the index will continue to see improvement over the next several months, noted Kuehl. Back in April that high point was followed by steady decline that took the index all the way back to 53 in August before a slow rebound got underway.

The most encouraging indicator this month is amount of credit extended. The jump from 61.7 to 64.8 is very significant as this is the signal that many have been waiting to see. While sales and new credit applications slowed a little in January, the numbers remain robust due to the overall increase in activity in these indicators over the past several months. Sales dropped from 65.9 to 63.5, which is still very respectable given that the holiday season had ended. New credit applications fell from 60.1 to 58.6, but that is also somewhat attributable to the arrival of a generally slow time of year as compared to the last quarter.

The fact that credit extended sharply increased despite the slowdown in sales and credit applications indicates more credit availability than in previous months—quite a bit more. This indicator has not seen such high readings since early 2008, and those were barely at 62, much less at 64.8. Banks are reporting a loosening of credit in the United States and since lenders are more active, more commercial credit is appearing as well. Companies are far more willing to offer credit and, as they start to consider expansion in the coming year, it will also create more opportunity to engage their clients.

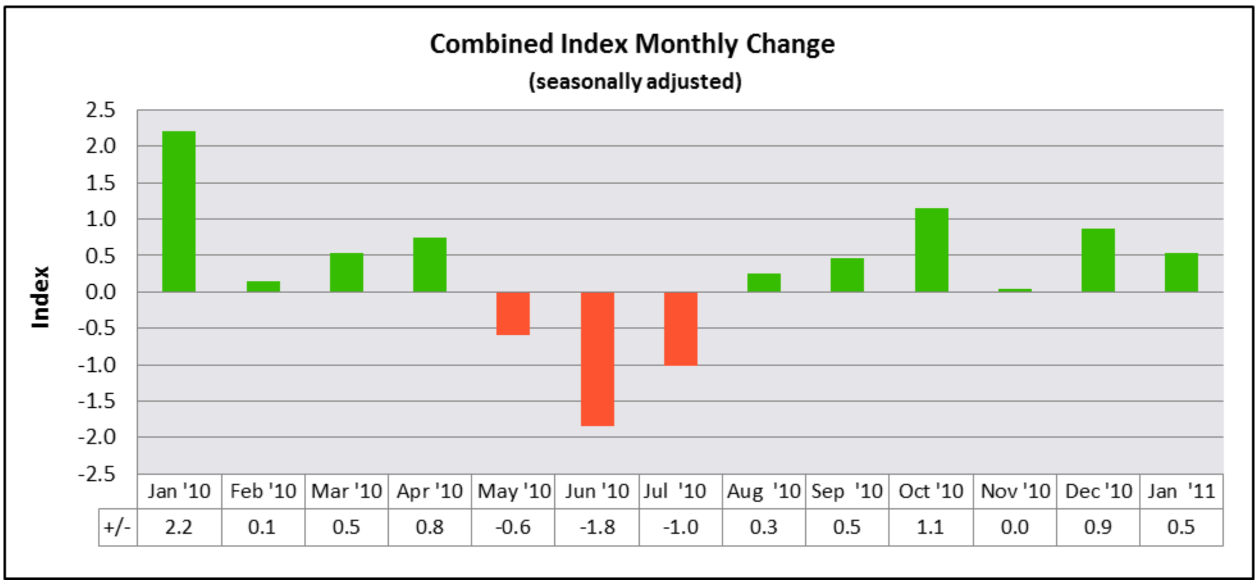
This was not the only piece of good news in the CMI. There was improvement across the board in the negative factors. Rejection of credit applications was subdued and there was improvement in accounts placed for collection. Even disputes and bankruptcy data showed improvement. The positive development in these negative indicators over the last few months has been identified as an important trend in previous years.

"As companies start to see increased sales and begin to anticipate growth opportunities in coming months, it is important that they get positioned to take on more debt, if needed, for that expansion," said Kuehl. "If they are planning to access more credit, they generally have to catch up on their current debt first." In the midst of the downturn, companies tried to conserve cash flow at all costs, during which they are more prone to stretching out credit obligations. The result is reflected in the deterioration of unfavorable factors. As companies recover and catch up on their credit, they are in a position to request more and in a position to be granted that access. "This is what seems to be happening now," said Kuehl. "Companies are setting themselves up for more growth in the months to come. The data from the CMI is reflected in the latest economic numbers from the Purchasing Managers Index (PMI) as well as surveys from groups like the National Association of Business Economists and the Conference Board."

The index now stands at a level that normally signals more rapid expansion in the near future.

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

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '10	Jan '11
Sales	60.7	60.9	65.0	65.7	64.5	59.0	57.2	57.6	58.6	60.8	61.9	65.9	63.5
New credit applications	57.0	57.7	57.5	57.4	58.6	57.4	54.1	54.6	54.8	56.8	58.2	60.1	58.6
Dollar collections	61.3	61.1	61.9	62.1	59.7	59.4	56.3	57.7	60.0	61.9	58.6	60.7	60.9
Amount of credit extended	58.8	59.4	61.3	61.3	60.2	55.9	56.0	57.1	58.7	59.8	61.2	61.7	64.8
Index of favorable factors	**59.4**	**59.8**	**61.4**	**61.6**	**60.7**	**57.9**	**55.9**	**56.7**	**58.0**	**59.8**	**60.0**	**62.1**	**62.0**
Rejections of credit applications	51.4	51.0	50.1	50.9	50.7	51.0	52.0	50.7	49.1	51.4	51.0	50.8	51.2
Accounts placed for collection	50.7	50.4	51.1	50.6	54.5	51.4	49.3	51.1	50.4	51.7	52.5	51.5	52.5
Disputes	51.4	52.2	52.2	51.7	51.3	50.4	50.6	50.9	50.8	49.9	50.8	49.2	51.0
Dollar amount beyond terms	52.2	52.0	51.5	51.9	50.2	49.1	49.4	47.0	49.1	50.9	48.9	53.4	51.5
Dollar amount of customer deductions	52.5	51.2	51.7	55.7	51.8	50.3	50.5	49.6	50.6	48.9	50.2	49.6	50.6
Filings for bankruptcies	54.7	56.3	55.3	57.6	57.6	56.6	55.0	56.9	55.7	57.0	56.3	55.4	59.1
Index of unfavorable factors	**52.2**	**52.2**	**52.0**	**53.1**	**52.7**	**51.5**	**51.1**	**51.0**	**50.9**	**51.6**	**51.6**	**51.7**	**52.6**
NACM Combined CMI	**55.1**	**55.2**	**55.7**	**56.5**	**55.9**	**54.1**	**53.0**	**53.3**	**53.8**	**54.9**	**55.0**	**55.8**	**56.4**



Manufacturing Sector

The trends manifested in the combined index are emphasized in the manufacturing sector. The jump from 61.6 to 66.2 in amount of credit extended was truly impressive. That marks the highest point for credit extended since 2007 and takes the manufacturing sector to pre-recession levels as far as credit access is concerned. This is a very significant change and one that can lead to more aggressive growth in the months ahead.

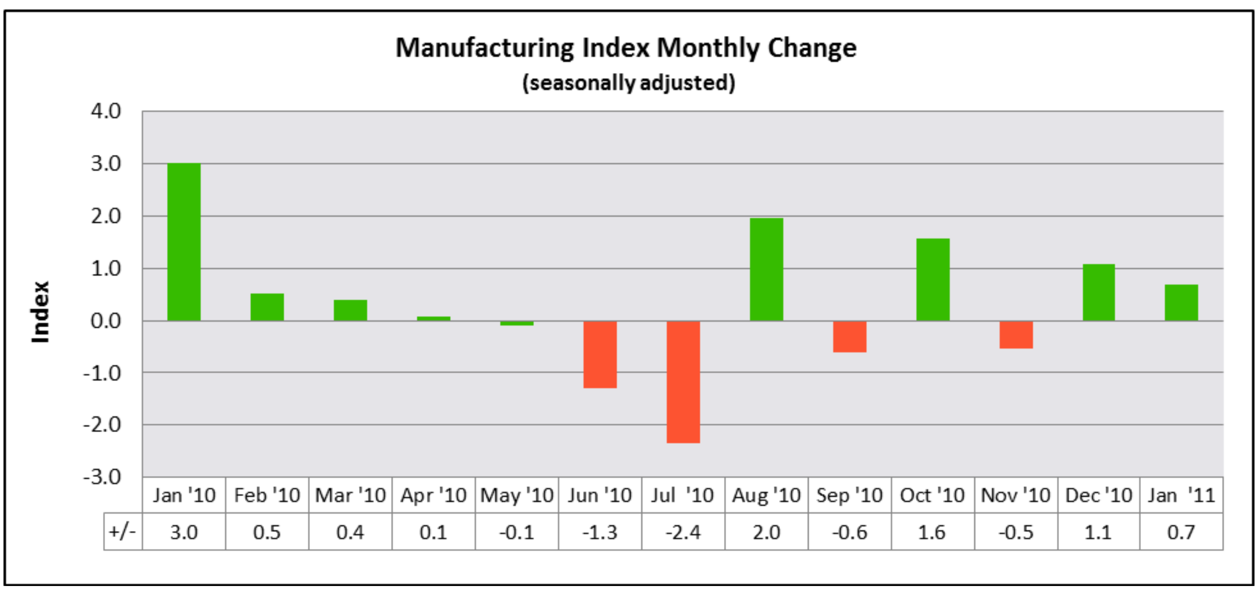
At the time of the 2008 financial sector collapse, manufacturers were actually having a pretty good year. Most had not seen declines in demand as late as the third quarter of 2008 and many had order backlogs that would have sustained them for months into 2009. The event that jerked the rug from underneath manufacturers was the collapse in credit markets. In a matter of weeks the financial system imploded and suddenly companies could not finance the purchase of raw materials or new equipment. Soon thereafter, consumers started to feel the impact and the rest is history. Within a few months, manufacturers were in severe distress, which the index confirms.

In January, the sales number deteriorated a little, but no more than expected and the number of new credit applications also slowed. Unfavorable factors generally reported good news, with some exceptions such as dollars beyond terms. This improvement was a bit less dramatic than that of favorable factors, but that is primarily due to the startling improvement in credit availability.

The change in the credit situation in part stems from the fact that banks have been far more interested in the manufacturing community. Machine tool makers are seeing increased demand and an additional boom is being created by manufacturers seeking credit in order to accumulate reserves in commodities and other raw materials. This has been an area where manufacturers are uninterested in carrying inventory, but now with a real fear of commodity price inflation, some companies are trying to hedge with advance purchasing.

The economy continues to be led by the manufacturing sector and this now seems secure for the duration of the recovery. The steady improvement in the CMI manufacturing numbers matches up well with the other indicators such as durable goods orders and PMI data.

Manufacturing Sector (seasonally adjusted)	Jan '10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '10	Jan '11
Sales	61.8	62.5	66.9	65.2	66.0	59.1	56.1	59.4	57.9	59.3	62.2	66.6	64.7
New credit applications	54.0	57.8	57.9	57.1	58.9	58.9	53.7	54.3	54.4	54.9	57.8	59.1	57.7
Dollar collections	61.5	59.6	61.4	60.9	59.7	59.0	53.0	60.1	61.1	61.0	57.9	60.5	60.3
Amount of credit extended	59.2	60.7	62.0	62.1	58.9	58.2	55.8	56.0	57.3	59.9	61.2	61.6	66.2
Index of favorable factors	**59.1**	**60.2**	**62.1**	**61.3**	**60.9**	**58.8**	**54.6**	**57.5**	**57.7**	**58.8**	**59.8**	**61.9**	**62.2**
Rejections of credit applications	52.4	51.4	50.9	52.3	51.6	51.8	52.0	52.6	49.6	53.2	52.1	51.3	52.0
Accounts placed for collection	51.3	51.0	51.9	52.0	54.3	54.3	48.5	52.8	51.9	53.6	52.7	51.1	53.0
Disputes	50.7	51.9	51.5	51.8	50.0	50.6	50.8	51.3	50.0	49.5	48.6	48.1	49.8
Dollar amount beyond terms	52.5	53.3	51.3	52.2	50.1	50.3	50.4	51.0	49.6	55.2	49.4	53.9	52.1
Dollar amount of customer deductions	52.2	51.3	51.6	50.8	51.0	49.2	49.9	48.4	49.4	48.5	48.8	49.4	49.1
Filings for bankruptcies	55.4	56.5	54.8	56.6	59.5	55.6	53.4	57.1	55.8	57.7	56.7	56.5	60.2
Index of unfavorable factors	**52.4**	**52.6**	**52.0**	**52.6**	**52.7**	**52.0**	**50.8**	**52.2**	**51.1**	**52.9**	**51.4**	**51.7**	**52.7**
NACM Manufacturing CMI	**55.1**	**55.6**	**56.0**	**56.1**	**56.0**	**54.7**	**52.4**	**54.3**	**53.7**	**55.3**	**54.7**	**55.8**	**56.5**



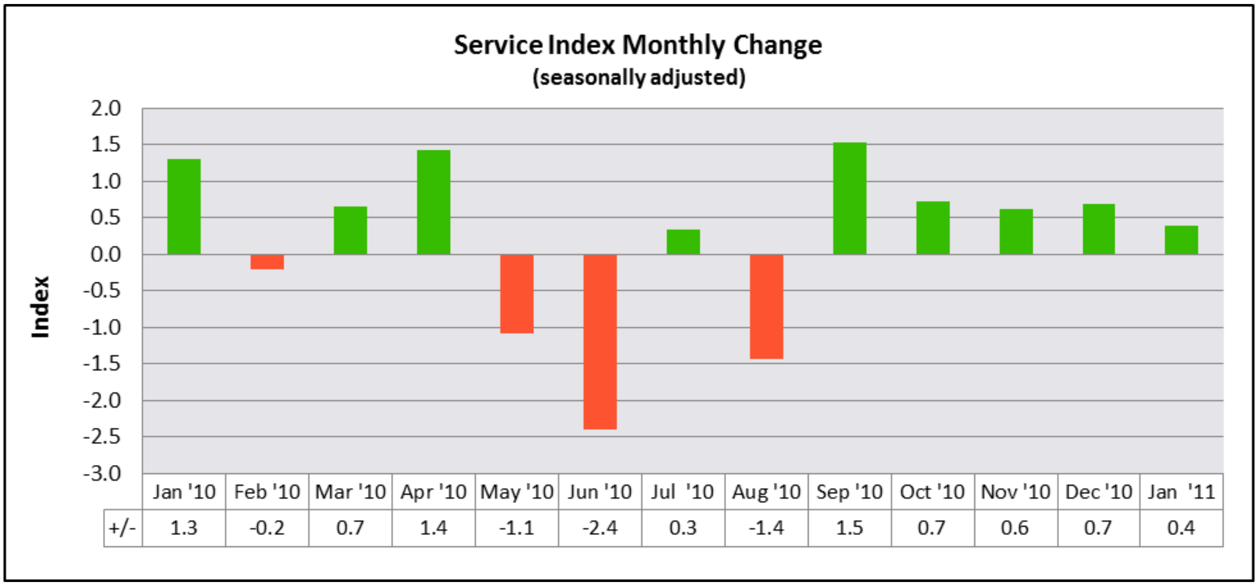
Service Sector

Service numbers also improved in some categories, but not as dramatically as those in the manufacturing sector. The index of favorable factors dipped, slowing to 61.7 from 62.2. This is still respectable, but the extension of credit is far more limited than in manufacturing. There was a slight decline in sales as well as new credit application numbers. Some of this was expected given the end of the heavy holiday season, but the lack of credit access for service companies as compared to manufacturers is more an indication of where lenders are drawn. The service community continues to be ragged in some areas and stronger in others. IT, health care and, to some extent, financial services have made gains, but serious issues remaining in construction weigh the whole index down.

The bad news is that this sector has not seen the increase in activity of late that manufacturing has, but the good news is that it has steadily performed throughout the last few months. The best of the good news came from unfavorable factors: filings for bankruptcy and dollar amount of customer deductions showed marked improvement. These numbers reflect the sense that the worst of the downturn is past and there should be marked improvements by the second quarter.

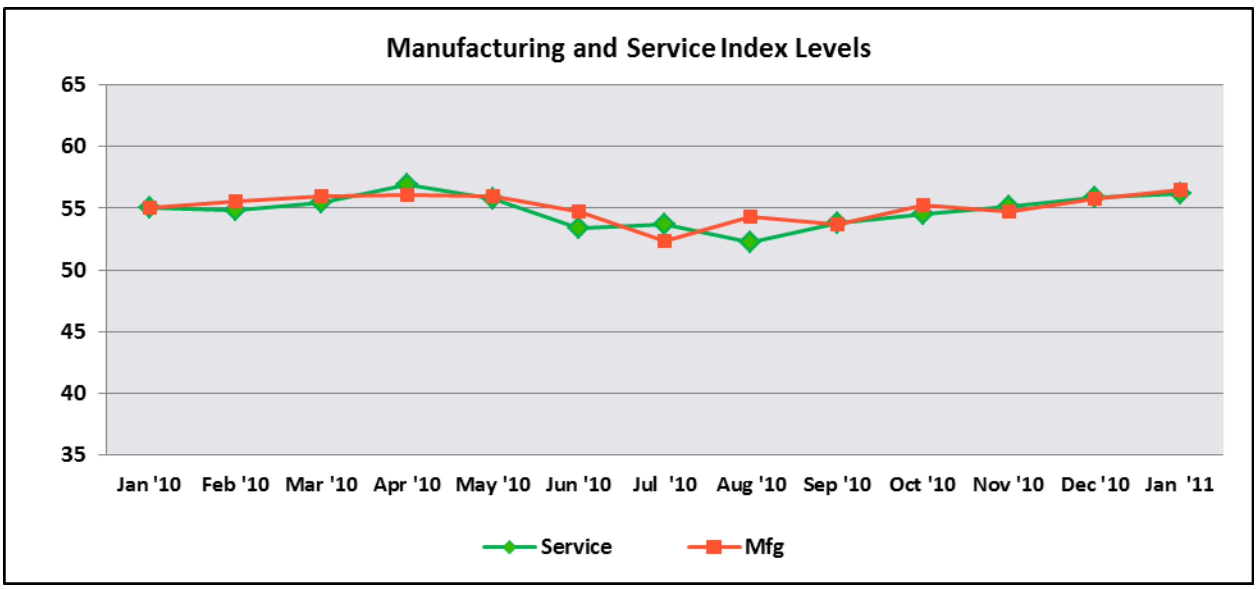
When compared with other national numbers, the service indicators back up the uneven performance of select sectors. Retail had its best December in more than five years with a 0.7% growth rate. At the same time, the entire housing market slipped even lower and now rests at about where it was at the end of the 1990s.

Service Sector (seasonally adjusted)	Jan '10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '10	Jan '11
Sales	59.6	59.3	63.0	66.3	63.0	58.8	58.2	55.7	59.3	62.2	61.6	65.1	62.3
New credit applications	60.1	57.6	57.1	57.7	58.2	55.9	54.5	54.8	55.1	58.7	58.6	61.1	59.4
Dollar collections	61.2	62.7	62.4	63.2	59.7	59.7	59.7	55.2	59.0	62.9	59.2	60.9	61.6
Amount of credit extended	58.3	58.2	60.5	60.5	61.5	53.7	56.3	58.1	60.0	59.6	61.2	61.8	63.4
Index of favorable factors	**59.8**	**59.4**	**60.8**	**62.0**	**60.6**	**57.0**	**57.2**	**56.0**	**58.4**	**60.9**	**60.2**	**62.2**	**61.7**
Rejections of credit applications	50.4	50.6	49.4	49.6	49.7	50.3	51.9	48.7	48.7	49.6	49.8	50.3	50.4
Accounts placed for collection	50.1	49.9	50.2	49.2	54.8	48.5	50.1	49.4	48.9	49.9	52.4	52.0	52.1
Disputes	52.1	52.5	52.9	51.6	52.7	50.3	50.5	50.5	51.5	50.3	52.9	50.3	52.1
Dollar amount beyond terms	51.9	50.6	51.6	51.7	50.3	47.9	48.4	43.1	48.5	46.6	48.5	52.9	51.0
Dollar amount of customer deductions	52.9	51.1	51.8	60.5	52.6	51.4	51.0	50.8	51.7	49.4	51.6	49.9	52.1
Filings for bankruptcies	53.9	56.0	55.8	58.6	55.7	57.6	56.6	56.6	55.5	56.3	55.9	54.3	57.9
Index of unfavorable factors	**51.9**	**51.8**	**52.0**	**53.5**	**52.6**	**51.0**	**51.4**	**49.8**	**50.8**	**50.4**	**51.8**	**51.6**	**52.6**
NACM Service CMI	**55.0**	**54.8**	**55.5**	**56.9**	**55.8**	**53.4**	**53.7**	**52.3**	**53.8**	**54.6**	**55.2**	**55.8**	**56.2**



January 2011 vs. January 2010

If you are a big fan of continuity, this has been the year for you. The combined index has been in a narrow band for the past year and there are no signs of a dramatic shift in either direction in the short term. When one looks at what follows an expansion of credit, there is an expectation that the following months will steadily improve.



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 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.

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.*

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 18,000 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.

Contact: Caroline Zimmerman: 410-740-5560, caroline@nacm.org

Website: www.nacm.org
Twitter: NACM_National