



## Report for November 2010

Issued November 30, 2010

National Association of Credit Management

### Combined Sectors

The progress noted over the last three months in the Credit Managers' Index (CMI) came to an end in November, at least as far as the manufacturing sector was concerned. The service sector data was a little more encouraging, but not enough to keep growth from stumbling. The combined index posted less than a 0.1 increase, which was barely enough to push the index from 54.9 to 55.0. "The issue was less about demand and growth than the fact that past issues were starting to catch up again," said Chris Kuehl, PhD, economic advisor for the National Association of Credit Management (NACM). "There was actually a pretty impressive gain in terms of overall sales—from 60.8 to 61.9—even though this factor in the service sector contracted somewhat. There were also gains in new credit applications and amount of credit extended. These indicators suggest real growth in both sectors and match data coming from the Purchasing Managers Index as well as more recent data from the retail community. The declines came from the indicators that point to debt issues and the struggles of companies that have not managed to get through the recession all that easily."

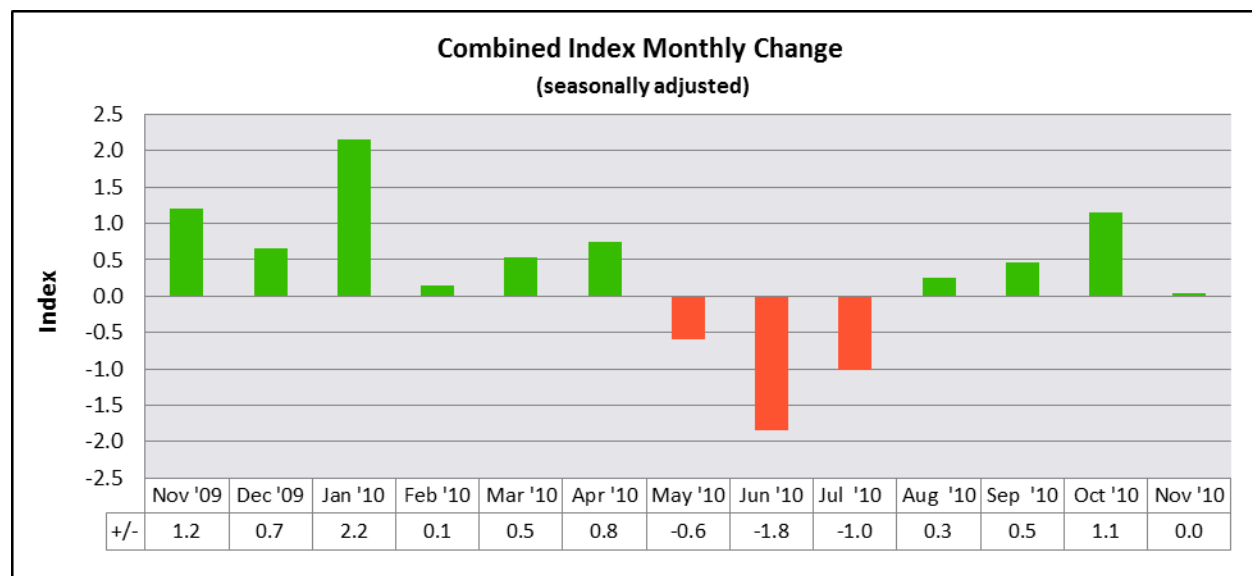
The dollar collection data showed a substantial decline—from 61.9 to 58.6—and for the most part the index of unfavorable factors demonstrated a similar decline. There was an increase in dollars beyond terms and in filings for bankruptcies as well as in other indicators. The pattern is not unfamiliar to the credit community and based on past data, there was reason to expect some of these results to start showing up. This is a critical time for many companies and some are not ready to address the situation effectively. During the worst of the recession, most companies were in the same position: hunkering down to survive. As the recovery started, the majority of those companies that made it through the worst of the decline maintained a pretty cautious position due to lack of real demand. Now there is some sense that an economic rebound may finally be on the horizon and some companies are starting to gear up for that rebound with more marketing, sales efforts and inventory accumulation. If a few companies in a given sector start to make moves, there is additional pressure on others in that sector to match them. If they are not financially strong enough to make that move, they can swiftly fall behind if the expected sales rebound does not occur on schedule.

Kuehl noted there is another take away from the unfavorable factors category. It appears that companies struggling to stay afloat are now having additional trouble getting access to credit, even if they have some opportunity to expand their business. The banks in general have returned to their more cautious ways and there are widespread reports of limited access to capital. The investment community remains unengaged, leaving companies with only their suppliers for credit. "That same set of limitations applies to these companies and that threatens to impose a stranglehold on credit availability in general," he said.

This month's anecdotal evidence also suggests some companies are waiting to see what happens at the congressional level. If tax cuts are not extended, many companies will need to pay out far more than they paid in the past and that has executives holding back a significant amount of capital as a contingency. Presumably, when the tax decision is made, this money will either be put toward the additional tax or released for other uses. There is also discussion over whether other issues concerning small businesses will be addressed—everything from revising the medical reform law to moves to push more stimulus into the economy. One of the areas already recommended for reform is a provision in the health care law that requires most companies to file 1099 tax forms on any contract that amounts to more than \$600 a year. NACM views this as a destructive provision for small businesses as it would tend to force them to choose fewer, larger businesses to provide a wide variety of services and products as opposed to several smaller ones, and require additional resources to issue the forms.

*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>Nov '09</b>	<b>Dec '09</b>	<b>Jan '10</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov '10</b>
Sales	55.0	56.7	60.7	60.9	65.0	65.7	64.5	59.0	57.2	57.6	58.6	60.8	61.9
New credit applications	55.4	54.2	57.0	57.7	57.5	57.4	58.6	57.4	54.1	54.6	54.8	56.8	58.2
Dollar collections	55.8	58.0	61.3	61.1	61.9	62.1	59.7	59.4	56.3	57.7	60.0	61.9	58.6
Amount of credit extended	54.6	55.2	58.8	59.4	61.3	61.3	60.2	55.9	56.0	57.1	58.7	59.8	61.2
<b>Index of favorable factors</b>	<b>55.2</b>	<b>56.0</b>	<b>59.4</b>	<b>59.8</b>	<b>61.4</b>	<b>61.6</b>	<b>60.7</b>	<b>57.9</b>	<b>55.9</b>	<b>56.7</b>	<b>58.0</b>	<b>59.8</b>	<b>60.0</b>
Rejections of credit applications	49.3	50.1	51.4	51.0	50.1	50.9	50.7	51.0	52.0	50.7	49.1	51.4	51.0
Accounts placed for collection	49.5	50.9	50.7	50.4	51.1	50.6	54.5	51.4	49.3	51.1	50.4	51.7	52.5
Disputes	49.6	51.0	51.4	52.2	52.2	51.7	51.3	50.4	50.6	50.9	50.8	49.9	50.8
Dollar amount beyond terms	49.0	51.4	52.2	52.0	51.5	51.9	50.2	49.1	49.4	47.0	49.1	50.9	48.9
Dollar amount of customer deductions	51.3	51.3	52.5	51.2	51.7	55.7	51.8	50.3	50.5	49.6	50.6	48.9	50.2
Filings for bankruptcies	53.0	50.5	54.7	56.3	55.3	57.6	57.6	56.6	55.0	56.9	55.7	57.0	56.3
<b>Index of unfavorable factors</b>	<b>50.3</b>	<b>50.8</b>	<b>52.2</b>	<b>52.2</b>	<b>52.0</b>	<b>53.1</b>	<b>52.7</b>	<b>51.5</b>	<b>51.1</b>	<b>51.0</b>	<b>50.9</b>	<b>51.6</b>	<b>51.6</b>
<b>NACM Combined CMI</b>	<b>52.3</b>	<b>52.9</b>	<b>55.1</b>	<b>55.2</b>	<b>55.7</b>	<b>56.5</b>	<b>55.9</b>	<b>54.1</b>	<b>53.0</b>	<b>53.3</b>	<b>53.8</b>	<b>54.9</b>	<b>55.0</b>



## Manufacturing Sector

The manufacturing sector advanced in some factors, but not enough to offset the declines in others. Sales improved more than anticipated as there were expectations that manufacturing was due to slump in response to retailers' decision to go into this holiday season with only the barest levels of inventory. There was also evidence that the inventory build previously driving the sector was finally starting to fizzle. While not dramatic, the sales boost was better than expected and has now entered the 60+ territory, moving from 59.3 to 62.2, which is as high as it has been since May of this year.

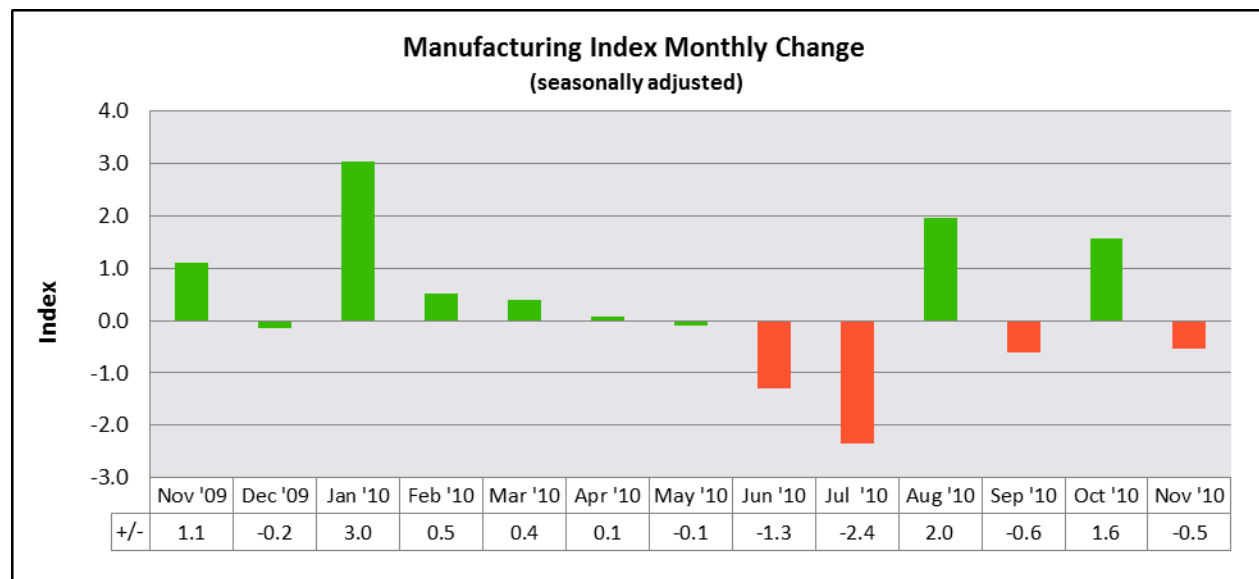
Other favorable factors also showed positive growth. New credit applications moved from 54.9 to 57.8 and amount of credit extended improved from 59.9 to 61.2. The bad news was in the dollar collections, where there was a decline from 61 to 57.9. That story extended into the unfavorable category with abundant signs of trouble for companies experiencing challenges. The big slips were with dollars beyond terms (55.2 to 49.4) and accounts placed for collection (53.6 to 52.7). This slide in the manufacturing sector reflects what many other analysts have

noted: those that tried to gear up for a recovery that never quite materialized are now struggling to regain balance. More than a few are not going to be able to ride this out very effectively.

The manufacturing sector very often slumps in the last month of the year when overall levels of retail demand start to ebb and construction slows to next to nothing until spring. The inventory for the holiday shopping season has been ordered for the most part and there will not be a reassessment of need until the beginning of the next year. The construction season has been none too impressive this year and there was very little gain in durable goods connected to housing. The only segments with noticeable growth are those engaged in global business.

The expectation is that the slump registered this month will likely extend into December. There remains a chance that growth in Asian markets will stimulate factory activity in the first quarter of next year, but it remains to be seen whether that will be something that perks up the manufacturing sector in the United States.

<b>Manufacturing Sector</b> <b>(seasonally adjusted)</b>	Nov '09	Dec '09	Jan '10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '10
Sales	56.3	55.8	61.8	62.5	66.9	65.2	66.0	59.1	56.1	59.4	57.9	59.3	62.2
New credit applications	56.8	55.2	54.0	57.8	57.9	57.1	58.9	58.9	53.7	54.3	54.4	54.9	57.8
Dollar collections	53.1	56.0	61.5	59.6	61.4	60.9	59.7	59.0	53.0	60.1	61.1	61.0	57.9
Amount of credit extended	53.4	55.2	59.2	60.7	62.0	62.1	58.9	58.2	55.8	56.0	57.3	59.9	61.2
<b>Index of favorable factors</b>	<b>54.9</b>	<b>55.6</b>	<b>59.1</b>	<b>60.2</b>	<b>62.1</b>	<b>61.3</b>	<b>60.9</b>	<b>58.8</b>	<b>54.6</b>	<b>57.5</b>	<b>57.7</b>	<b>58.8</b>	<b>59.8</b>
Rejections of credit applications	49.5	49.5	52.4	51.4	50.9	52.3	51.6	51.8	52.0	52.6	49.6	53.2	52.1
Accounts placed for collection	49.5	51.0	51.3	51.0	51.9	52.0	54.3	54.3	48.5	52.8	51.9	53.6	52.7
Disputes	48.0	50.1	50.7	51.9	51.5	51.8	50.0	50.6	50.8	51.3	50.0	49.5	48.6
Dollar amount beyond terms	50.0	51.4	52.5	53.3	51.3	52.2	50.1	50.3	50.4	51.0	49.6	55.2	49.4
Dollar amount of customer deductions	50.3	49.8	52.2	51.3	51.6	50.8	51.0	49.2	49.9	48.4	49.4	48.5	48.8
Filings for bankruptcies	55.4	46.6	55.4	56.5	54.8	56.6	59.5	55.6	53.4	57.1	55.8	57.7	56.7
<b>Index of unfavorable factors</b>	<b>50.4</b>	<b>49.7</b>	<b>52.4</b>	<b>52.6</b>	<b>52.0</b>	<b>52.6</b>	<b>52.7</b>	<b>52.0</b>	<b>50.8</b>	<b>52.2</b>	<b>51.1</b>	<b>52.9</b>	<b>51.4</b>
<b>NACM Manufacturing CMI</b>	<b>52.2</b>	<b>52.1</b>	<b>55.1</b>	<b>55.6</b>	<b>56.0</b>	<b>56.1</b>	<b>56.0</b>	<b>54.7</b>	<b>52.4</b>	<b>54.3</b>	<b>53.7</b>	<b>55.3</b>	<b>54.7</b>

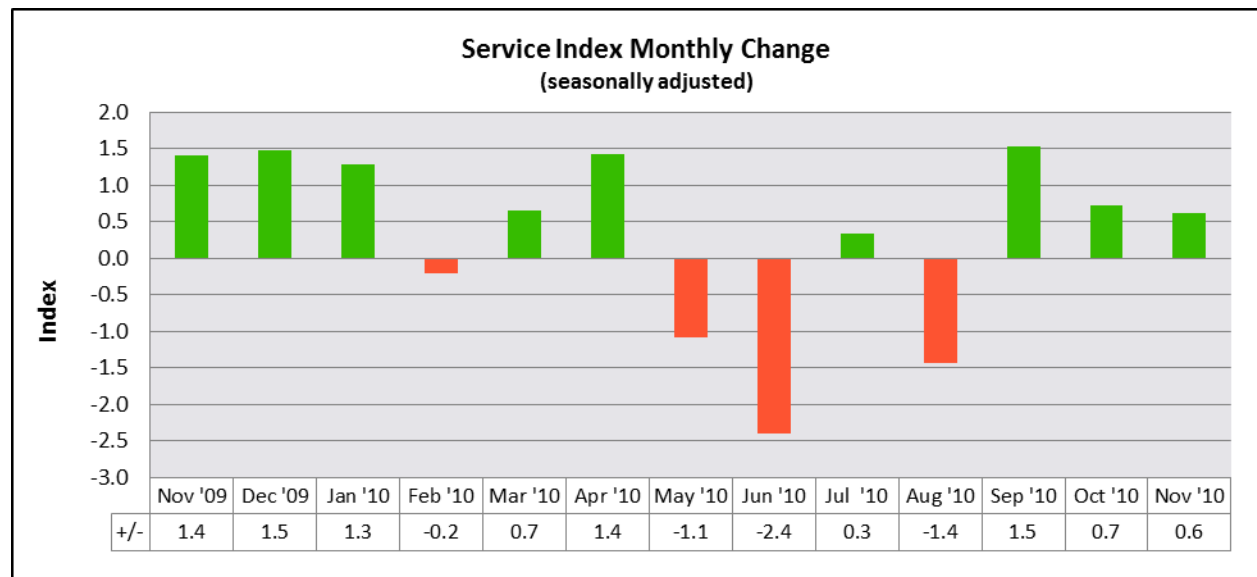


## Service Sector

The service sector almost reverses the manufacturing trends. While there were substantial gains in sales in manufacturing, sales decreased in this sector. The decline from 62.2 to 61.6 wasn't huge, but did illustrate a weakness not present in other categories. As with manufacturing, there was a decline in dollar collections, but the real area of divergence was with unfavorable factors that had been so prominent in manufacturing. Service companies don't seem to be in as dire trouble as their manufacturing counterparts. There have been more bankruptcies, but this was offset by modest improvement in other factors. The bankruptcy indicator tends to be volatile this time of year and many analysts are eager to see what the December numbers will look like.

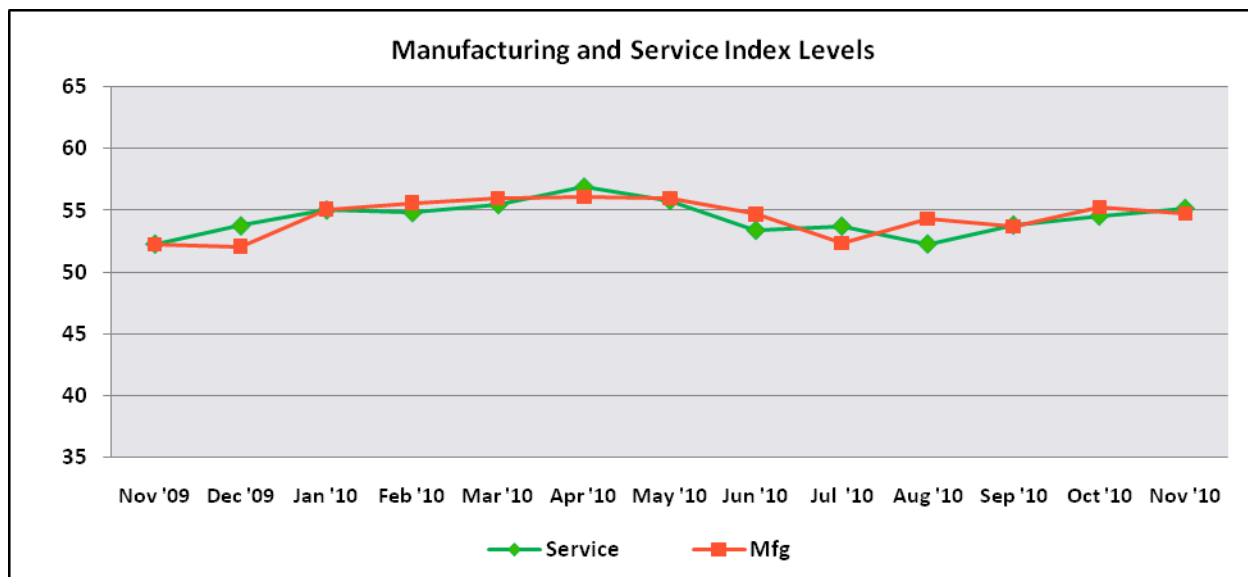
Data from the retail players in this sector have been spotty with some areas showing strong improvement in sales and credit performance while others languished. It appears that many companies tried to hedge their bets for the coming season and started to increase their credit exposure in hopeful anticipation of a decent holiday season. There is still some shakiness in the professional services and transportation communities as neither saw the bump that often accompanies the end of the year.

<b>Service Sector (seasonally adjusted)</b>	Nov '09	Dec '09	Jan '10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '10
Sales	53.7	57.5	59.6	59.3	63.0	66.3	63.0	58.8	58.2	55.7	59.3	62.2	61.6
New credit applications	54.1	53.2	60.1	57.6	57.1	57.7	58.2	55.9	54.5	54.8	55.1	58.7	58.6
Dollar collections	58.6	59.9	61.2	62.7	62.4	63.2	59.7	59.7	59.7	55.2	59.0	62.9	59.2
Amount of credit extended	55.7	55.2	58.3	58.2	60.5	60.5	61.5	53.7	56.3	58.1	60.0	59.6	61.2
<b>Index of favorable factors</b>	<b>55.5</b>	<b>56.5</b>	<b>59.8</b>	<b>59.4</b>	<b>60.8</b>	<b>62.0</b>	<b>60.6</b>	<b>57.0</b>	<b>57.2</b>	<b>56.0</b>	<b>58.4</b>	<b>60.9</b>	<b>60.2</b>
Rejections of credit applications	49.2	50.6	50.4	50.6	49.4	49.6	49.7	50.3	51.9	48.7	48.7	49.6	49.8
Accounts placed for collection	49.4	50.7	50.1	49.9	50.2	49.2	54.8	48.5	50.1	49.4	48.9	49.9	52.4
Disputes	51.2	51.9	52.1	52.5	52.9	51.6	52.7	50.3	50.5	50.5	51.5	50.3	52.9
Dollar amount beyond terms	48.0	51.4	51.9	50.6	51.6	51.7	50.3	47.9	48.4	43.1	48.5	46.6	48.5
Dollar amount of customer deductions	52.3	52.7	52.9	51.1	51.8	60.5	52.6	51.4	51.0	50.8	51.7	49.4	51.6
Filings for bankruptcies	50.7	54.3	53.9	56.0	55.8	58.6	55.7	57.6	56.6	56.6	55.5	56.3	55.9
<b>Index of unfavorable factors</b>	<b>50.1</b>	<b>52.0</b>	<b>51.9</b>	<b>51.8</b>	<b>52.0</b>	<b>53.5</b>	<b>52.6</b>	<b>51.0</b>	<b>51.4</b>	<b>49.8</b>	<b>50.8</b>	<b>50.4</b>	<b>51.8</b>
<b>NACM Service CMI</b>	<b>52.3</b>	<b>53.8</b>	<b>55.0</b>	<b>54.8</b>	<b>55.5</b>	<b>56.9</b>	<b>55.8</b>	<b>53.4</b>	<b>53.7</b>	<b>52.3</b>	<b>53.8</b>	<b>54.6</b>	<b>55.2</b>



## November 2010 vs. November 2009

The year-over-year data are essentially flat although there were varied responses between the two sectors. In the end, they balanced each other somewhat and left the readings at nearly the same level as last month. Once again, the key point is that the index is still well above the 50 level indicating expansion. However, that expansion has been anemic of late and there is still no hint of when those 60 levels will return.



## 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 near the end 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.*



National Association of Credit Management

## 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>.

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