# Report for November 2011

**Issued November 30, 2011**

**National Association of Credit Management**

## Combined Sectors

The Credit Managers' Index (CMI) remained largely unchanged for the third consecutive month, dropping slightly to 53.5 from 53.7. While not ordinarily great news, given September's strong data, it is not altogether a bad thing that October and November stayed much the same.

"There is a story for just about everyone these days," said Chris Kuehl, PhD, economist for the National Association of Credit Management (NACM). "If one is of a more pessimistic bent, there is the continued high rate of unemployment, the struggles in the housing sector and the sense that nobody in the political realm has a clue what to do about any of this. There is the mess in Europe, the gyrations in stocks and consumer polls that suggest that vast numbers of people are in bed with the covers pulled over their heads. If you tend toward optimistic, there is something for you as well, especially recently."

Retail numbers are coming in far more robust than anybody anticipated. Black Friday totals were almost 7% above last year and records were set in terms of dollar expenditures. Subsequent Cyber Monday sales were also just as dramatic. There is also evidence that manufacturers are setting up to do far more capital spending than in past years. Even the savings rate for consumers has started to creep back up after falling back to 3.3%. "It would be nice to see some gains in select areas," said Kuehl, "but there are no emergency warning signs popping up at this point either."

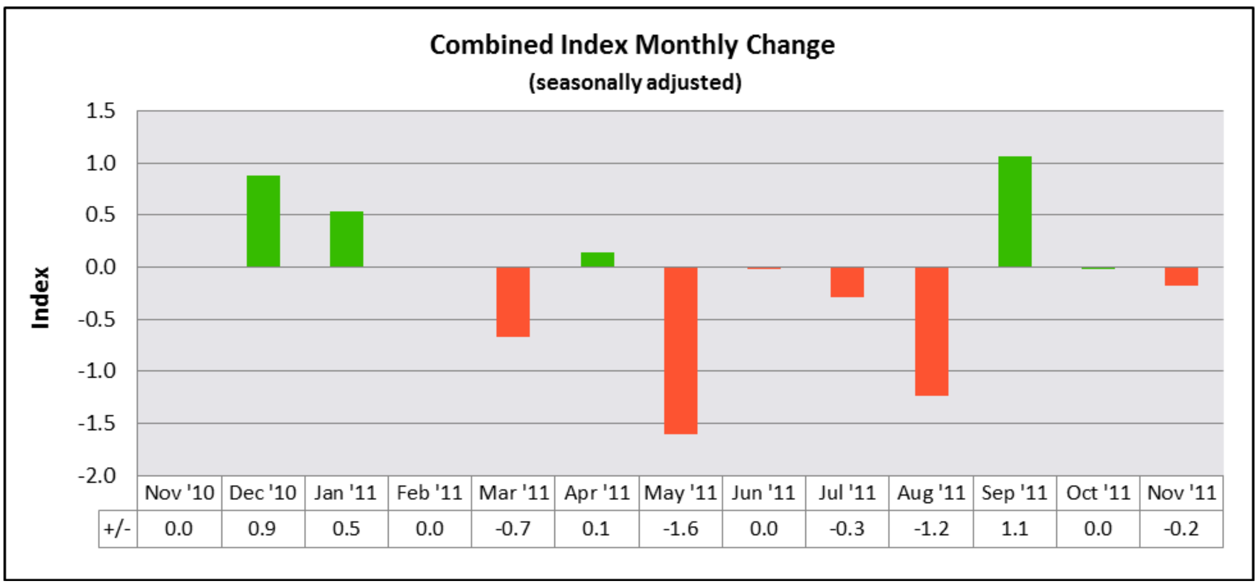
Much the same message can be gleaned from this month's CMI data; there is something to depress the pessimistic and something to provide encouragement to the optimistic as well. The most negative news came in sales, which tumbled from the 61.4 high reached in September to 58.2 in November—the lowest reading in the last year. The decline was seen across the board in both the manufacturing and service sectors. Some of this is to be expected as the end of the year draws closer, and there is reason to expect gains in the months to come if the data on capital expenditure planning is reliable.

Other favorable factors carried better news. Dollar collections improved marginally from 56.8 to 56.9, which marks the second best performance since July behind the jump to 57.8 in September. Even better news came in the amount of credit extended, which moved from 61.9 to 62.4, higher than any month since April. Overall, the index of favorable factors faded slightly from 59.5 to 58.8. This is not a dramatic decline, but it takes the index to levels seen in the depths of the summer, which is a bit of a concern.

There was better news in terms of unfavorable factors, suggesting that fewer companies are in financial distress. This is partly the result of an economic rebound and partly due to the fact that those companies in trouble months ago have either self-corrected or have gone out of business. The index did not shift dramatically, but it moved in the right direction from 49.9 to 50.1.

Most indicators were pretty stable. Rejections of credit applications trended down slightly from 50.2 to 49.5, suggesting that credit remains pretty tight. There was a slight improvement in dollars beyond terms from 47.6 to 48, but it remains under the all-important 50 mark. The biggest change was in the filings for bankruptcy number. There was a substantial improvement from 53.8 to 56.7 and that is the best performance since May. The indication is that those companies weakened by the recession have already fallen by the wayside and, for the most part, every industry is now working with the survivors. "This is not to say that they don't have their own financial issues," explained Kuehl, "but, going forward, many companies will see opportunities to gain market share from those competitors that have left the scene and that strengthens their ability to gain momentum in the coming year."

| Combined Manufacturing and Service Sectors (seasonally adjusted) | Nov '10 | Dec '10 | Jan '11 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov '11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 61.9 | 65.9 | 63.5 | 66.3 | 64.7 | 64.5 | 59.4 | 60.8 | 60.0 | 59.2 | 61.4 | 60.4 | 58.2 |
| New credit applications | 58.2 | 60.1 | 58.6 | 60.3 | 59.8 | 58.8 | 58.2 | 56.7 | 57.3 | 55.8 | 57.8 | 58.9 | 57.6 |
| Dollar collections | 58.6 | 60.7 | 60.9 | 63.4 | 60.0 | 61.3 | 58.7 | 58.1 | 56.2 | 56.9 | 57.8 | 56.8 | 56.9 |
| Amount of credit extended | 61.2 | 61.7 | 64.8 | 66.5 | 64.4 | 64.7 | 62.1 | 60.4 | 62.0 | 60.7 | 62.8 | 61.9 | 62.4 |
| **Index of favorable factors** | **60.0** | **62.1** | **62.0** | **64.1** | **62.2** | **62.3** | **59.6** | **59.0** | **58.9** | **58.1** | **59.9** | **59.5** | **58.8** |
| Rejections of credit applications | 51.0 | 50.8 | 51.2 | 51.4 | 50.8 | 50.8 | 51.5 | 50.9 | 51.0 | 50.2 | 49.9 | 50.2 | 49.5 |
| Accounts placed for collection | 52.5 | 51.5 | 52.5 | 49.9 | 52.1 | 50.5 | 50.3 | 49.8 | 49.9 | 47.6 | 48.7 | 50.1 | 49.5 |
| Disputes | 50.8 | 49.2 | 51.0 | 49.2 | 48.9 | 49.3 | 48.8 | 49.3 | 50.0 | 48.7 | 47.6 | 49.0 | 47.9 |
| Dollar amount beyond terms | 48.9 | 53.4 | 51.5 | 50.6 | 49.7 | 50.7 | 46.5 | 49.9 | 48.3 | 44.2 | 49.1 | 47.6 | 48.0 |
| Dollar amount of customer deductions | 50.2 | 49.6 | 50.6 | 50.1 | 49.3 | 49.9 | 48.6 | 50.0 | 48.9 | 49.1 | 49.2 | 48.7 | 48.9 |
| Filings for bankruptcies | 56.3 | 55.4 | 59.1 | 56.0 | 57.4 | 58.1 | 58.1 | 56.5 | 55.8 | 54.5 | 53.2 | 53.8 | 56.7 |
| **Index of unfavorable factors** | **51.6** | **51.7** | **52.6** | **51.2** | **51.4** | **51.5** | **50.6** | **51.0** | **50.6** | **49.1** | **49.6** | **49.9** | **50.1** |
| **NACM Combined CMI** | **55.0** | **55.8** | **56.4** | **56.4** | **55.7** | **55.8** | **54.2** | **54.2** | **53.9** | **52.7** | **53.8** | **53.7** | **53.5** |



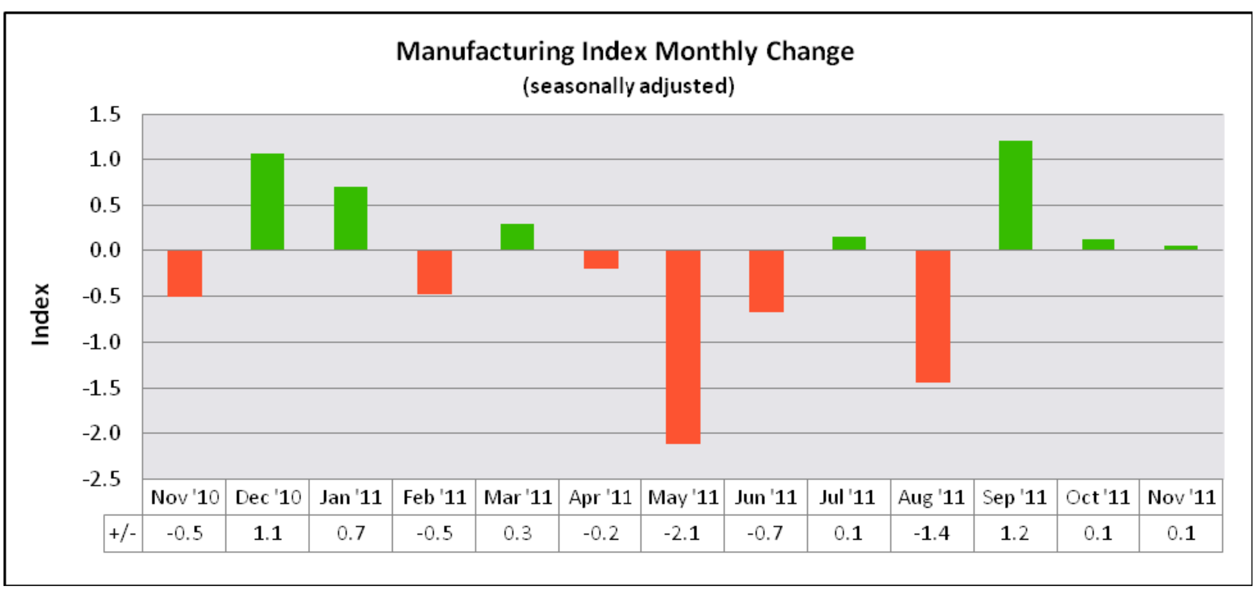

## Manufacturing Sector

The story of the U.S. economy for the past year has been the story of the manufacturing sector. When the industrial community was healthy, the economy showed signs of life, and when manufacturers suffered from one setback or another, the economy as a whole stuttered. The good news for manufacturers has come from the export side of the equation, as growth in emerging markets such as Brazil, China, India and elsewhere has spurred demand. On the negative side, sluggish domestic demand, along with supply-chain interruptions, have compromised growth. The most important of these were the earthquake and tsunami in Japan affecting the auto sector, but in recent weeks the floods in Thailand have also affected the automotive supply chain.

This month, the story is slightly upbeat as the overall manufacturing index moved from 53.4 to 53.5. This is not much movement, but it's important that the index has been tracking as well as it did in May. Still, there were some declines. Manufacturing sales weakened a little, from 59.3 to 58.1, but this is very consistent across the last several months. The peak for the year was back in March when it sat at 65.4, but since then it has hovered between 57.8 and 63.9. The biggest and most significant drop came in new credit applications, as the index dropped from 60.6 to 55.7. This was a more pronounced decline than in the past and suggests that credit has started to tighten again. While not as tight as bank credit has been, trade credit is not all that readily available in some industries.

Overall, there was a decline in favorable factors, but not an alarming one. It decreased from 59.3 to 58.2 leaving the index at roughly the same level set in September and better than the levels recorded in the summer months. The news was better in the unfavorable factors, as there was a slight gain from 49.5 to 50.3. The most significant change was an improvement in the index of accounts placed for collection as it moved from 48.8 to 51.6, marking the first time this category has been out of the 40s since May. Improvement in filings for bankruptcy, moving from 53.7 to 56.5, further indicates that the weakest players have started to fall by the wayside. It is not great news that some customers have reached the point they can't pay their bills, but there are signs that troublesome accounts are starting to decline. It would have been nice to see these companies regain their health and ability to pay, but at least there are fewer accounts requiring stringent collection efforts.

| **Manufacturing Sector** **(seasonally adjusted)** | Nov '10 | Dec '10 | Jan '11 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov '11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 62.2 | 66.6 | 64.7 | 65.1 | 65.4 | 63.9 | 57.8 | 58.5 | 59.3 | 58.0 | 59.5 | 59.3 | 58.1 |
| New credit applications | 57.8 | 59.1 | 57.7 | 59.6 | 60.6 | 60.3 | 58.7 | 54.5 | 56.4 | 55.3 | 57.5 | 60.6 | 55.7 |
| Dollar collections | 57.9 | 60.5 | 60.3 | 61.5 | 60.8 | 60.2 | 60.1 | 55.3 | 55.4 | 56.0 | 56.7 | 56.5 | 56.2 |
| Amount of credit extended | 61.2 | 61.6 | 66.2 | 67.6 | 64.5 | 66.5 | 61.4 | 59.2 | 61.2 | 59.5 | 62.1 | 60.7 | 62.7 |
| **Index of favorable factors** | **59.8** | **61.9** | **62.2** | **63.4** | **62.8** | **62.7** | **59.5** | **56.9** | **58.1** | **57.2** | **58.9** | **59.3** | **58.2** |
| Rejections of credit applications | 52.1 | 51.3 | 52.0 | 51.9 | 51.6 | 51.0 | 52.6 | 51.8 | 50.8 | 50.4 | 50.0 | 49.6 | 49.6 |
| Accounts placed for collection | 52.7 | 51.1 | 53.0 | 51.2 | 53.9 | 50.7 | 50.7 | 49.8 | 49.4 | 47.3 | 49.6 | 48.8 | 51.6 |
| Disputes | 48.6 | 48.1 | 49.8 | 48.2 | 49.0 | 50.5 | 49.2 | 49.0 | 50.0 | 48.6 | 44.9 | 47.7 | 48.5 |
| Dollar amount beyond terms | 49.4 | 53.9 | 52.1 | 51.3 | 51.6 | 52.2 | 45.8 | 50.6 | 49.1 | 42.6 | 51.3 | 49.7 | 47.1 |
| Dollar amount of customer deductions | 48.8 | 49.4 | 49.1 | 50.1 | 48.8 | 49.5 | 47.7 | 49.5 | 47.8 | 48.9 | 48.1 | 47.7 | 48.8 |
| Filings for bankruptcies | 56.7 | 56.5 | 60.2 | 53.9 | 57.2 | 56.8 | 56.4 | 55.6 | 55.9 | 54.5 | 53.4 | 53.7 | 56.5 |
| **Index of unfavorable factors** | **51.4** | **51.7** | **52.7** | **51.1** | **52.0** | **51.8** | **50.4** | **51.0** | **50.5** | **48.7** | **49.5** | **49.5** | **50.3** |
| **NACM Manufacturing CMI** | **54.7** | **55.8** | **56.5** | **56.0** | **56.3** | **56.1** | **54.0** | **53.4** | **53.5** | **52.1** | **53.3** | **53.4** | **53.5** |



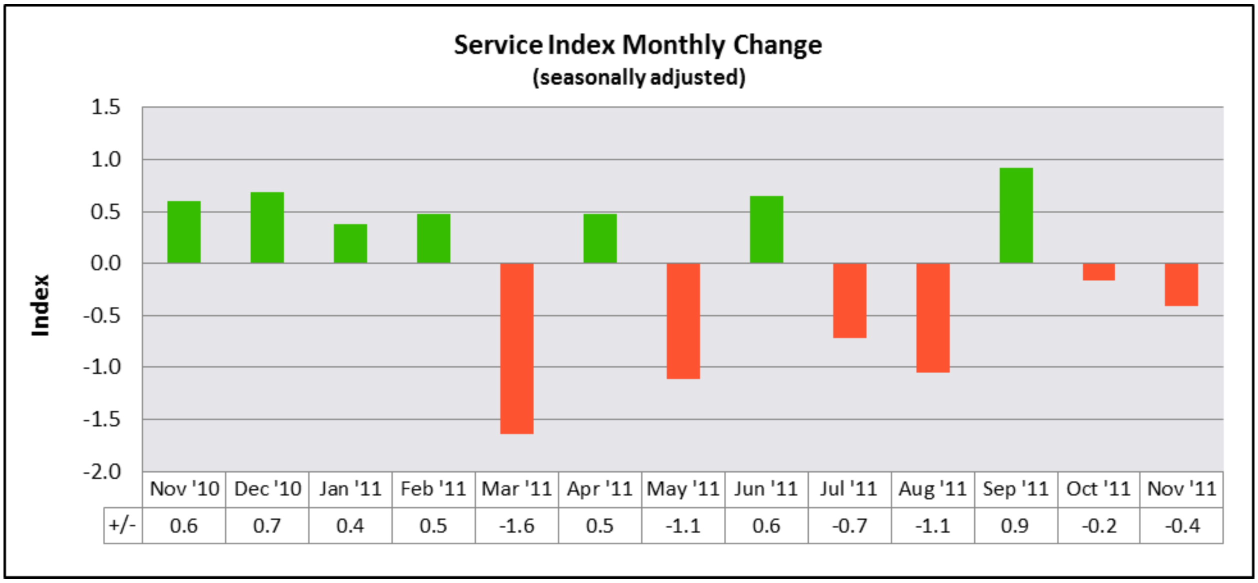
## Service Sector

There was a bit more drama in the service sector than in manufacturing and the readings had a greater impact on the overall index. As with manufacturing, sales numbers were down, falling from 61.5 to 58.4. This is the first time sales has fallen below 60 in over a year. The interesting question now is whether the strong retail showing in the last week will show up in the data for next month. November's CMI data was collected prior to the Thanksgiving spending frenzy and, if one looks at past years, there is often a significant jump in December data reflecting the spending that took place during the Black Friday-Cyber Monday period. Last year, the retail community had a decent start to the season and saw gains of 4% over the previous year. This year, retail gains were over 7% on Black Friday and almost 20% over Cyber Monday in 2010. The CMI sales category jumped from 61.6 to 65.1 last year before settling back to 62.3 in January 2011. It is a good bet there will be a similar and more pronounced jump in this year's readings.

There was a slight dip in the total index of favorable factors due to the drop in sales and the slight reduction in the amount of credit extended. The real difference between the manufacturing category and the service category was that unfavorable factors deteriorated for service along with the favorable ones. There were more rejections of credit applications, which fell from 50.9 to 49.4, and there was a significant decline in accounts placed for collection, which moved from 51.3 to 47.5.

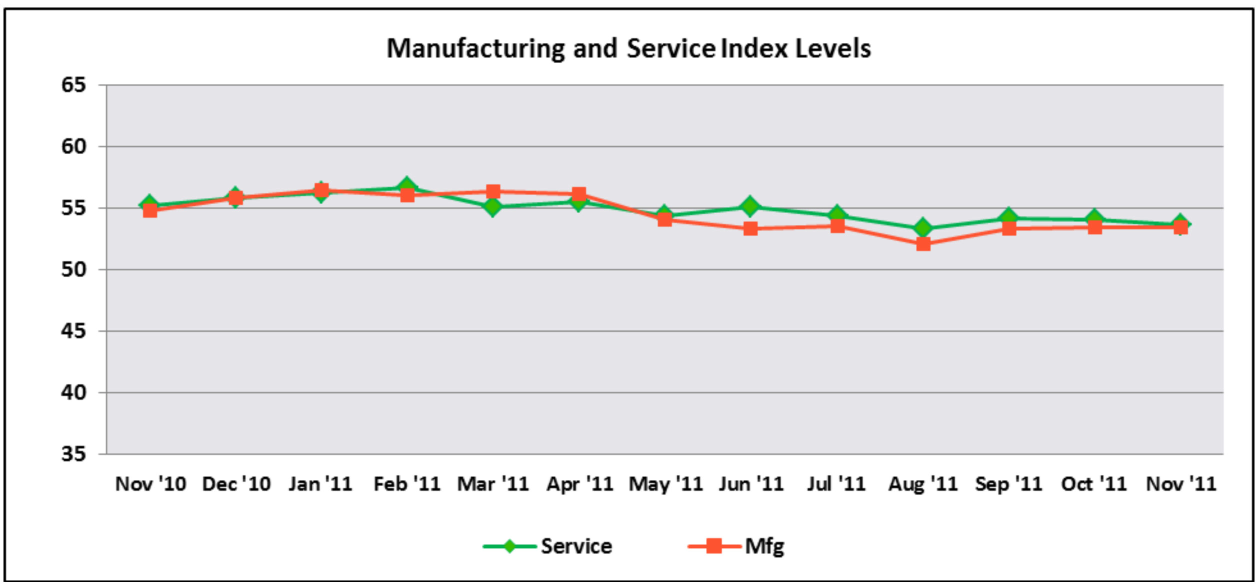
Across the board, the unfavorable factors weakened. Last month there were only two factors under 50, and this month there were none that crested above 50. All six factors are in contraction, albeit only slightly. The point is that these are trending in the wrong direction, which suggests a lot of stress remains in the service sector. The retail community may be seeing some light at the end of the tunnel, but the construction sector is going through yet a third round of damage. The residential market fell apart some years ago and commercial construction declined last year. This year, it's public sector construction that's suffering as states and cities slash budgets. There has been growth in health care services but declines in the banking and financial sectors. Overall, service sector readings have stalled, but at least there have been no signs of impending collapse.

| **Service Sector** (seasonally adjusted) | Nov '10 | Dec '10 | Jan '11 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov '11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 61.6 | 65.1 | 62.3 | 67.5 | 63.9 | 65.0 | 61.1 | 63.2 | 60.7 | 60.5 | 63.3 | 61.5 | 58.4 |
| New credit applications | 58.6 | 61.1 | 59.4 | 61.0 | 59.0 | 57.3 | 57.8 | 58.8 | 58.2 | 56.3 | 58.0 | 57.2 | 59.4 |
| Dollar collections | 59.2 | 60.9 | 61.6 | 65.2 | 59.2 | 62.3 | 57.3 | 60.9 | 57.1 | 57.9 | 58.9 | 57.0 | 57.6 |
| Amount of credit extended | 61.2 | 61.8 | 63.4 | 65.4 | 64.2 | 63.0 | 62.7 | 61.6 | 62.7 | 61.9 | 63.5 | 63.2 | 62.1 |
| **Index of favorable factors** | **60.2** | **62.2** | **61.7** | **64.8** | **61.6** | **61.9** | **59.7** | **61.1** | **59.7** | **59.1** | **60.9** | **59.7** | **59.4** |
| Rejections of credit applications | 49.8 | 50.3 | 50.4 | 51.0 | 50.1 | 50.5 | 50.4 | 50.0 | 51.2 | 50.1 | 49.8 | 50.9 | 49.4 |
| Accounts placed for collection | 52.4 | 52.0 | 52.1 | 48.6 | 50.2 | 50.2 | 49.9 | 49.8 | 50.3 | 47.8 | 47.8 | 51.3 | 47.5 |
| Disputes | 52.9 | 50.3 | 52.1 | 50.1 | 48.7 | 48.1 | 48.5 | 49.6 | 50.0 | 48.9 | 50.4 | 50.2 | 47.2 |
| Dollar amount beyond terms | 48.5 | 52.9 | 51.0 | 49.9 | 47.8 | 49.2 | 47.3 | 49.1 | 47.5 | 45.9 | 46.9 | 45.4 | 48.8 |
| Dollar amount of customer deductions | 51.6 | 49.9 | 52.1 | 50.1 | 49.8 | 50.3 | 49.4 | 50.5 | 49.9 | 49.3 | 50.2 | 49.8 | 48.9 |
| Filings for bankruptcies | 55.9 | 54.3 | 57.9 | 58.2 | 57.7 | 59.5 | 59.8 | 57.3 | 55.8 | 54.6 | 53.1 | 54.0 | 57.0 |
| **Index of unfavorable factors** | **51.8** | **51.6** | **52.6** | **51.3** | **50.7** | **51.3** | **50.9** | **51.0** | **50.8** | **49.4** | **49.7** | **50.3** | **49.8** |
| **NACM Service CMI** | **55.2** | **55.8** | **56.2** | **56.7** | **55.1** | **55.5** | **54.4** | **55.1** | **54.3** | **53.3** | **54.2** | **54.0** | **53.6** |




## November 2011 vs. November 2010

The year-over-year comparison is not very exciting these days. There has been very little change from one month to the next. This can be either good or bad news, according to one's preference. The good news is that it has remained stable and well above the 50 mark that determines whether the economy is contracting or expanding. The bad news is that it has stabilized at the lower end of what can be considered expansion. This has been characterized as wine box opening time, as opposed to champagne cork-popping time.




## 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:

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

For negative indicators, the calculation is:

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

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

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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