Report for November 2014

Issued November 26, 2014

National Association of Credit Management

Combined Sectors

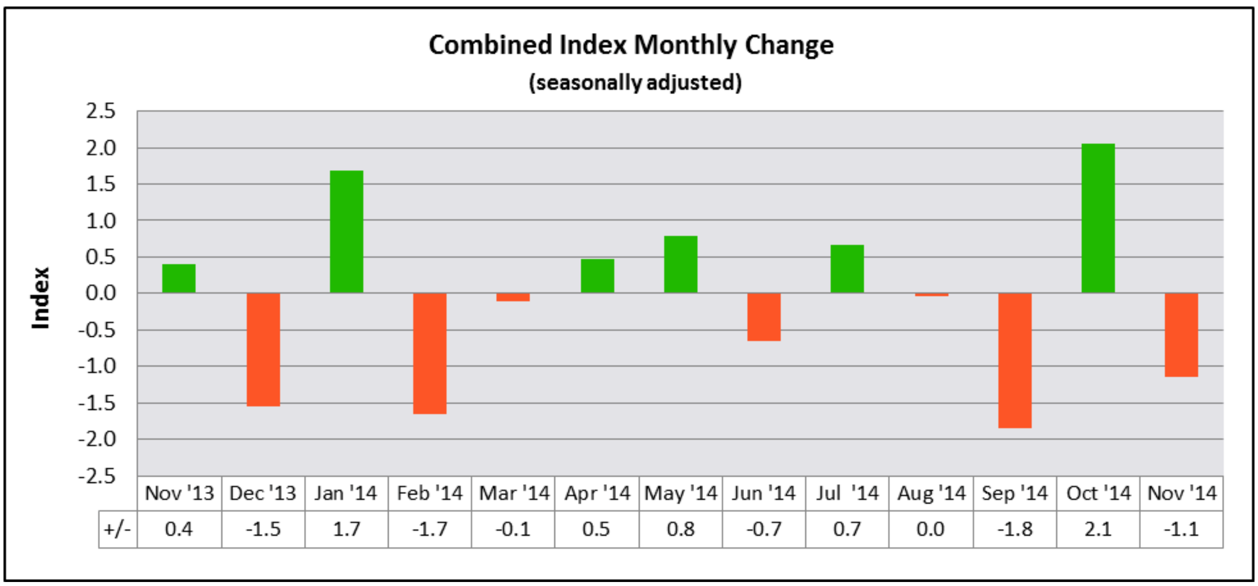
The data this month sent the Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) back to the doldrums recorded in September. The reading dropped from 57.0 to 55.8, taking the index back to levels not seen since February and March when the economy was in the middle of a significant Q1 recession. It is not as low as September's reading of 54.9, but still lower than all but three of the last 12 months. The index of favorable factors dropped from 62.6 to 61.2. Remaining above 60 is still good news, but this month's level is tempered by prior readings as high as 63.8. There was also a drop in the unfavorable factor index as they went from 53.2 to 52.2. That puts this index at the same levels seen over most of the last 12 months and the conclusion reached from this performance is that the higher readings in October may have been the ones that were out of line with past behavior.

"This is the least desired outcome," said NACM Economist Chris Kuehl, PhD. "The main question at the end of last month was whether the readings in September were anomalous or were October's out of sync? It now appears that the October numbers were the odd ones, and that changes the expectations for the rest of the year. There would not be quite the concern were it not for the fact that other economic data tends to support the notion that growth is stalling and worries that seemed to have faded earlier in the quarter have started to resurface."

Breaking down favorable factor index data provides some insight. Sales has been the most variable factor, and the 62.7 this month puts it right smack in the middle of recent performance. New credit applications dropped from 59.4 to 58.1, a low that goes back to March. The decline in dollar collections was also significant, dropping from 61.5 to 60.3 and returning to the levels seen during the summer. The only factor that didn't change that much was amount of credit extended, from 63.8 to 63.7. "This is interesting given the drop in new credit applications, as it suggests that fewer companies were getting credit but those that were receiving credit were getting more than in the past," Kuehl said. Larger companies appear to be expanding and that coincides with the data coming from the capital expenditure numbers.

"The breakdown in the unfavorable factors shows some serious problems developing and these are cause for concern," Kuehl said. Disputes was the only factor to improve with its rise from 50.4 to 50.8. Rejections of credit applications fell dramatically from the reading in October, from 53.6 to 51.7, the lowest number over two years and beating the low point of 51.9 set in August. "A sudden tightening of credit is not a good sign," Kuehl said. Accounts placed for collection dropped from 52.7 to 51.8, which is also worrisome even though the readings have been bouncing around most of the year with lows earlier in the year and some higher readings lately. Dollar amount beyond terms slipped from 53.6 to 52.3 and dollar amount of customer deductions also slipped, from 50.8 to 49.7. The deductions number has hovered around neutral territory all year, but the hope was that it would stay above 50 for more than one month. Filings for bankruptcies moved from 58.1 to 56.8 and that is lower than most of the last three years, which creates more concern about the stability of businesses.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14
Sales	63.4	58.7	61.5	59.4	59.1	61.8	65.6	63.9	65.2	64.8	60.9	65.7	62.7
New credit applications	59.2	57.2	58.2	58.1	57.3	59.3	58.9	61.5	62.4	60.9	59.0	59.4	58.1
Dollar collections	59.7	58.7	60.9	58.8	56.4	58.1	61.2	59.3	61.0	62.7	59.9	61.5	60.3
Amount of credit extended	63.2	62.6	65.4	61.4	63.1	63.8	65.0	64.8	66.1	66.7	64.0	63.8	63.7
Index of favorable factors	**61.3**	**59.3**	**61.5**	**59.4**	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**	**61.2**
Rejections of credit applications	53.3	54.5	54.6	52.3	52.4	52.3	52.7	52.0	52.1	51.9	52.5	53.6	51.7
Accounts placed for collection	55.0	53.4	55.2	54.6	54.1	51.7	53.8	52.5	51.5	52.1	50.7	52.7	51.8
Disputes	51.9	50.7	52.2	51.9	50.9	54.7	50.2	49.5	50.3	50.6	49.2	50.4	50.8
Dollar amount beyond terms	54.7	49.7	52.8	51.1	52.4	50.0	51.5	49.6	51.1	50.3	47.2	53.6	52.3
Dollar amount of customer deductions	52.4	51.5	51.6	50.4	51.2	50.3	50.4	49.4	50.6	49.9	49.8	50.8	49.7
Filings for bankruptcies	59.0	59.0	60.5	58.5	58.4	58.1	58.4	58.9	57.6	57.5	55.8	58.1	56.8
Index of unfavorable factors	**54.3**	**53.1**	**54.5**	**53.1**	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**	**52.2**
NACM Combined CMI	**57.1**	**55.6**	**57.3**	**55.6**	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**	**55.8**



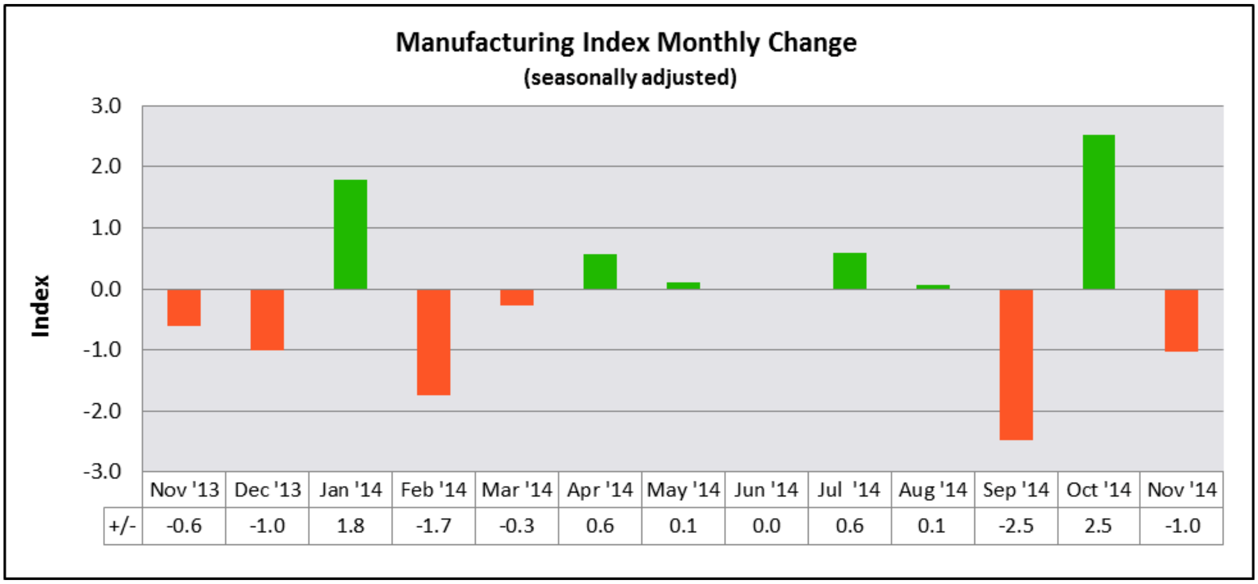
Manufacturing Sector

The manufacturing sector index fell from 56.8 to 55.8. "The bad news in the manufacturing sector seems to be showing up in the unfavorable factors, a development we've seen before," Kuehl said. "It usually signals that there is some progress being made in manufacturing, but not every sector is feeling it and not every company has been in a position to take advantage. Some start to fall behind and struggle with their finances even as the greater manufacturing community sees growth." This observation seems to be reinforced by the numbers coming from the Purchasing Managers Index as well as durable goods orders and even capacity utilization data. The breakdown is dependent on the manufacturing sector. Automotive is doing far better than sectors tied to commercial construction.

The good news is that there was not that much change as far as the favorable factors are concerned. The index only slipped from 61.9 to 61.2. The data is strongly positive in general as the overall category is still above 60 and the breakdown shows that two of the four sub-categories are also above 60. Sales fell from 64.8 to 62.7, which is a bit of a concern as that is the lowest reading since the spring (except for September). New credit applications slipped from 58.5 to 57.9 and dollar collections went from 60.4 to 59.9. The interesting number came from amount of credit extended, which improved very slightly from 64.1 to 64.2. "As mentioned above, with applications for credit going down at the same time that credit amounts are up suggests that bigger companies are seeking and getting credit and that many of the struggles may be taking place with the smaller operations," Kuehl said.

The index of unfavorable factors showed some distress with its fall from 53.4 to 52.2. While this is lower than in October, it is still higher than most of the last few months and stayed out of the contraction zone, where it was in September. Rejections of credit applications dropped precipitously from 54.3 to 51.3 and that doesn't bode well for the Q4 numbers as this suggests there has been a tightening of credit and the last time this occurred there was an economy-wide stall. Accounts placed for collection shifted down as well, from 53.7 to 52.5, signaling that more companies are getting in financial distress. Anecdotally that distress is showing up in the smaller companies as opposed to the larger ones. Dollar amount beyond terms fell sharply as well, from 54.1 to 52.8 and dollar amount of customer deductions slipped from 50.5 to 49.8 and into the contraction zone. Filings for bankruptcies dropped from 57.0 to 56.2—still pretty strong, but certainly not trending in the right direction. To put these readings in context, there is only one factor under 50, whereas there were three in contraction territory in September.

Manufacturing Sector (seasonally adjusted)	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14	Nov '14
Sales	63.4	61.7	59.6	57.9	58.5	61.6	64.5	65.7	64.8	66.0	61.2	64.8	62.7
New credit applications	59.2	57.7	59.5	57.7	56.1	58.8	57.2	61.7	61.1	60.4	59.9	58.5	57.9
Dollar collections	58.7	59.5	62.7	56.4	57.4	59.1	62.0	58.5	61.3	64.2	60.4	60.4	59.9
Amount of credit extended	61.8	61.5	66.4	60.4	61.7	64.5	64.4	65.2	66.4	66.6	62.3	64.1	64.2
Index of favorable factors	**60.8**	**60.1**	**62.0**	**58.1**	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**	**61.2**
Rejections of credit applications	52.9	55.5	54.4	52.8	52.6	52.6	52.6	51.4	52.1	51.2	51.4	54.3	51.3
Accounts placed for collection	55.7	53.3	55.7	59.9	56.1	51.5	53.3	53.5	53.0	52.8	50.5	53.7	52.5
Disputes	51.9	50.2	51.0	51.6	50.6	57.2	49.6	48.5	50.3	50.3	47.4	50.8	50.5
Dollar amount beyond terms	54.8	50.0	53.2	51.7	52.8	49.5	52.5	50.2	51.0	51.6	46.3	54.1	52.8
Dollar amount of customer deductions	51.4	49.7	51.8	50.4	50.4	48.5	48.3	47.9	49.2	48.5	48.9	50.5	49.8
Filings for bankruptcies	58.5	57.7	60.4	58.6	58.5	57.0	57.1	58.7	57.8	56.3	54.8	57.0	56.2
Index of unfavorable factors	**54.3**	**52.7**	**54.4**	**54.1**	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**	**52.2**
NACM Manufacturing CMI	**56.7**	**55.7**	**57.5**	**55.7**	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**	**55.8**



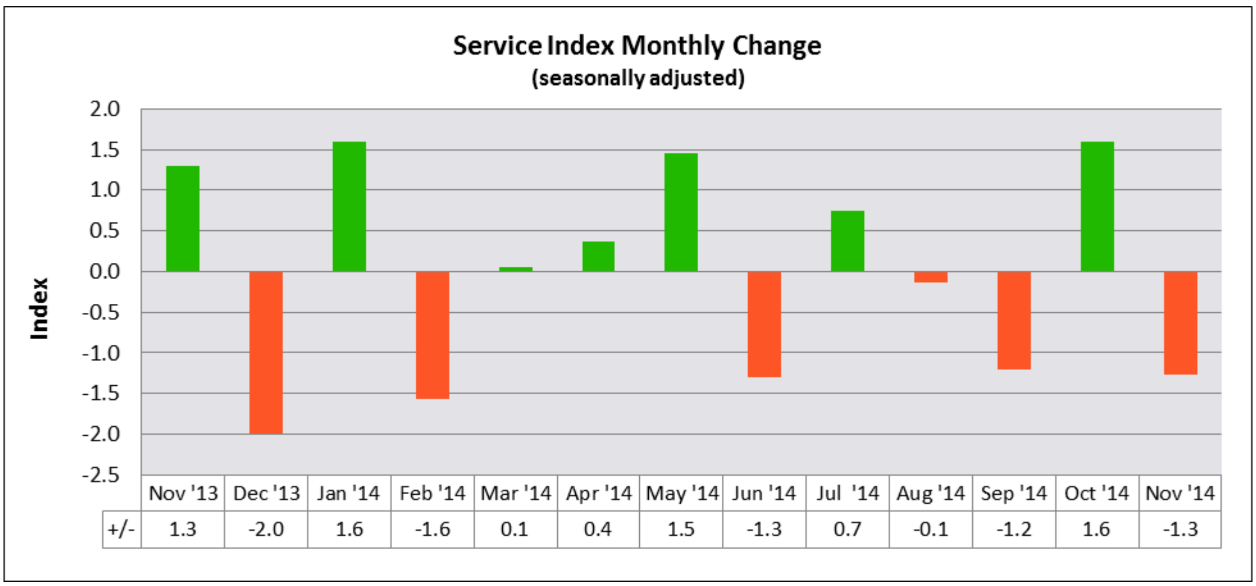
Service Sector

"The service sector numbers returned to an undesirable pattern, and that is not good news given the time of the year," said Kuehl. "This is the retail season and the expectation is that numbers would start to show improvement but they really didn't perform that way last year and it now starts to appear that 2014 will look more like 2013 than had been expected." The index fell from 57.1 to 55.8, almost exactly where it was in September and lower than in any previous month since March. The index of favorable factors fell from 63.3 to 61.3, while the unfavorable factor index slipped from 53.0 to 52.2.

Sales slipped from a robust high of 66.7 to 62.7, resulting in the majority of the damage done to the favorable factors index. Prior to September when it dipped to 60.7, the weakest month was March when the reading fell to 59.6. New credit applications saw a slide from 60.3 to 58.4 and dollar collections went from 62.5 to 60.7. Once again the interesting number was in amount of credit extended, which nudged from 63.6 to 63.3. This was not as dramatic as it was with manufacturing, but again there is some evidence that the larger companies are getting access to credit and smaller ones are not.

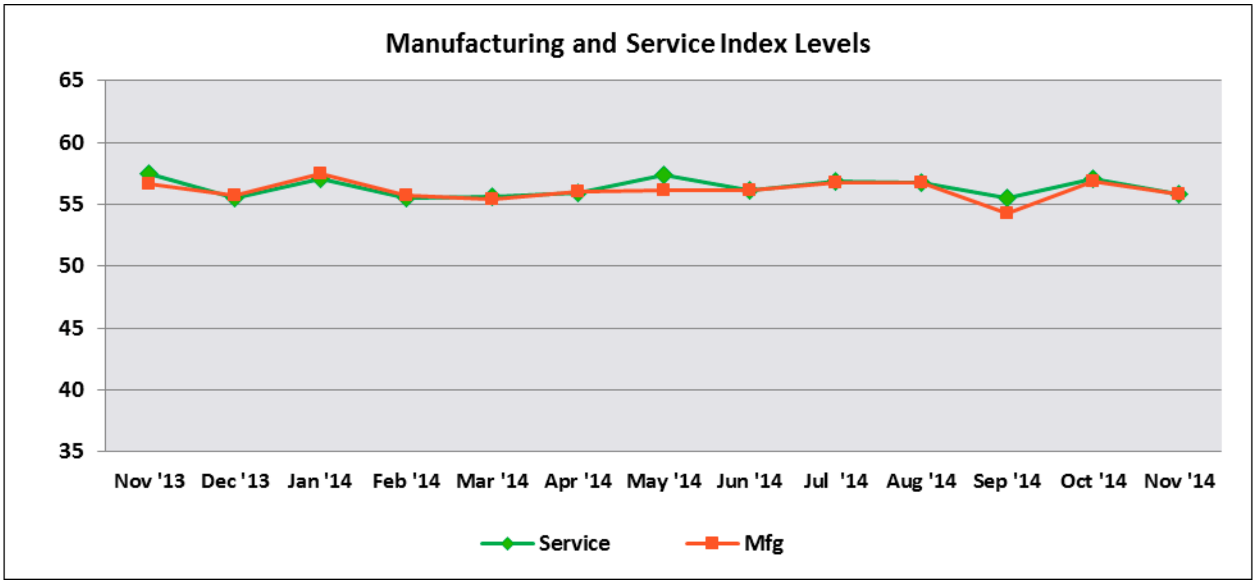
"The changes in the unfavorable factors are a growing concern," said Kuehl. Rejections of credit applications went from 52.9 to 52.1 and that was a little surprising given all the other data. There is still willingness to grant credit in the retail sector but it has slowed considerably in the construction sector. Accounts placed for collection slipped fairly insignificantly from 51.7 to 51.2. Over the last few months, it has been pretty consistent and that is a good sign given the usual volatility of the retail trade. Dollar amount beyond terms dropped fairly steeply from 53.2 to 51.8 as did dollar amount of customer deductions from 51.1 to 49.6. There is evident distress and this is showing up with the companies that have been solid partners in the past. Filings for bankruptcies fell from 59.2 to 57.4—still a respectable number, but no longer on the edge of the 60s, reflecting a setback. Disputes actually improved a little from 50.0 to 51.2. "This usually signals that there is less confusion as far as the creditor is concerned. Companies do not disagree that there are issues with their financial status," Kuehl said.

Service Sector (seasonally adjusted)	**Nov '13**	**Dec '13**	**Jan '14**	**Feb '14**	**Mar '14**	**Apr '14**	**May '14**	**Jun '14**	**Jul '14**	**Aug '14**	**Sep '14**	**Oct '14**	**Nov '14**
Sales	63.4	55.7	63.4	60.9	59.6	61.9	66.6	62.1	65.6	63.6	60.7	66.7	62.7
New credit applications	59.1	56.7	57.0	58.5	58.5	59.8	60.7	61.3	63.6	61.5	58.0	60.3	58.4
Dollar collections	60.6	57.8	59.2	61.1	55.4	57.1	60.5	60.1	60.7	61.3	59.4	62.5	60.7
Amount of credit extended	64.5	63.6	64.4	62.3	64.5	63.1	65.7	64.3	65.9	66.8	65.7	63.6	63.3
Index of favorable factors	**61.9**	**58.4**	**61.0**	**60.7**	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**	**61.3**
Rejections of credit applications	53.6	53.5	54.8	51.8	52.2	51.9	52.8	52.6	52.1	52.6	53.7	52.9	52.1
Accounts placed for collection	54.2	53.5	54.8	49.3	52.2	51.8	54.4	51.4	50.0	51.4	51.0	51.7	51.2
Disputes	52.8	51.3	53.3	52.2	51.2	52.1	50.8	50.4	50.2	50.9	50.9	50.0	51.2
Dollar amount beyond terms	54.5	49.3	52.3	50.6	52.0	50.5	50.4	48.9	51.2	48.9	48.1	53.2	51.8
Dollar amount of customer deductions	53.3	53.3	51.4	50.4	51.9	52.1	52.44	51.0	52.0	51.4	50.7	51.1	49.6
Filings for bankruptcies	59.4	60.4	60.5	58.4	58.4	59.2	59.8	59.0	57.3	58.8	56.8	59.2	57.4
Index of unfavorable factors	**54.6**	**53.6**	**54.5**	**52.1**	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**	**52.2**
NACM Service CMI	**57.5**	**55.5**	**57.1**	**55.5**	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**	**55.8**



November 2014 versus November 2013

"The roller coaster ride is obviously far from over," Kuehl noted. "Last month was showing gains that had many expecting a robust end to the year. Suddenly, that is all in flux again. The good news is that even with the decline, the readings are still thoroughly in the expansion zone but far more of the sub-categories have slipped into contraction than was the case last month."



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 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 the PMI and other manufacturing and service sector indices.

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

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 our nation's policy makers on federal legislation concerning commercial business and trade credit for more than 100 years, and continues to play an active role in legislative issues that pertain 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.

View CMI archives at http://web.nacm.org/cmi/cmi.asp.

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