



## Report for October 2010

Issued October 29, 2010

National Association of Credit Management

### Combined Sectors

The Credit Managers' Index (CMI) improved dramatically in October and for the best reasons. This month saw solid activity in favorable factors for both the manufacturing and service sectors. Sales returned to levels not seen since May and is now above 60 again. Sales had been dropping steadily all summer and had been as low as 57.2, a reading not seen since December 2009. The boost in this factor occurred in both sectors. At the same time, there was a small jump in the number of credit applications, reaching a level not seen since June. Additionally, the increase in credit applications was coupled with fewer rejected ones, which is a solid sign for the future. "The overall feeling is that credit is starting to loosen up again after the decline in the summer. Banks are getting a little more aggressive, but more importantly there is more credit being extended by companies seeking to capture more share from their consumers," said Chris Kuehl, PhD, economic advisor for the National Association of Credit Management (NACM). The amount of credit extended is back to levels previously set in May and dollar collections, which had already started to improve in September to 60, is now up to 61.9. "It is good news when either of the sectors starts to move in a positive direction, but activity in the favorable category generally signals a bigger set of gains in the overall economy," said Kuehl.

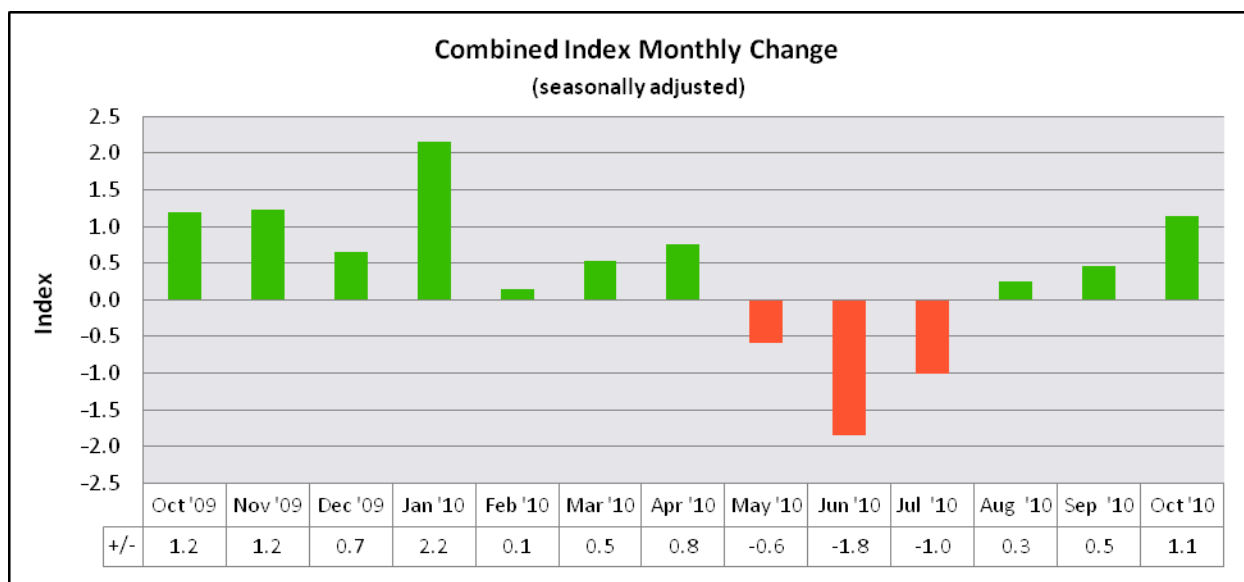
Improvement in unfavorable factors continued as well. These are the indicators that signal companies are struggling with debt. When they improve, there is a return to confidence in the business community as a whole. As disputes, bankruptcies and dollar exposure decline, there is evidence that companies are trying to catch up on debt, which is both a signal that business prospects have improved and that there is activity planned. An established pattern for these factors indicate that companies are seeking to get current with existing credit lines so they are in a position to ask for more in order to expand. This seems to be happening again, albeit at a subdued rate.

In the overall economy, there is evidence some progress is being made, but the pace has been excruciatingly slow. The latest data on jobs show that layoffs have slowed, but there is still not much evidence that hiring is underway. Durable goods orders were up, but only because there was another surge in orders for aircraft. The latest results from the Purchasing Managers Index show only modest gains; this pattern is the same in almost every current survey or study. "The good news is that there is progress, but the bad news is that it is far too slow to make a big impact on the issue that is of greatest concern in the public's mind: jobless totals. It will take a growth rate above 5% to erode the unemployment numbers, but the Commerce Department's recent numbers show that the economy grew at only 2% in the third quarter. The CMI numbers reinforce the notion that there has been growth, but it remains slower than preferred," said Kuehl.

The overall indicator that sets the tone for the entire October survey is the top number, and this month the index reached 54.9 after falling to as low as 53 in July. The numbers are not yet signaling that happy days are here again, but the trend is headed in the right direction and there is some renewed hope for a reasonably strong finish to the year.

*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>Oct '09</b> | <b>Nov</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 '10</b> |
|---|----------------|-------------|----------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Sales   | 51.1           | 55.0        | 56.7           | 60.7           | 60.9        | 65.0        | 65.7        | 64.5        | 59.0        | 57.2        | 57.6        | 58.6        | 60.8           |
| New credit applications   | 52.7           | 55.4        | 54.2           | 57.0           | 57.7        | 57.5        | 57.4        | 58.6        | 57.4        | 54.1        | 54.6        | 54.8        | 56.8           |
| Dollar collections  | 54.7           | 55.8        | 58.0           | 61.3           | 61.1        | 61.9        | 62.1        | 59.7        | 59.4        | 56.3        | 57.7        | 60.0        | 61.9           |
| Amount of credit extended   | 53.6           | 54.6        | 55.2           | 58.8           | 59.4        | 61.3        | 61.3        | 60.2        | 55.9        | 56.0        | 57.1        | 58.7        | 59.8           |
| <b>Index of favorable factors</b>                                       | <b>53.0</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>    |
| Rejections of credit applications                                       | 49.0           | 49.3        | 50.1           | 51.4           | 51.0        | 50.1        | 50.9        | 50.7        | 51.0        | 52.0        | 50.7        | 49.1        | 51.4           |
| Accounts placed for collection  | 47.1           | 49.5        | 50.9           | 50.7           | 50.4        | 51.1        | 50.6        | 54.5        | 51.4        | 49.3        | 51.1        | 50.4        | 51.7           |
| Disputes  | 51.0           | 49.6        | 51.0           | 51.4           | 52.2        | 52.2        | 51.7        | 51.3        | 50.4        | 50.6        | 50.9        | 50.8        | 49.9           |
| Dollar amount beyond terms  | 48.1           | 49.0        | 51.4           | 52.2           | 52.0        | 51.5        | 51.9        | 50.2        | 49.1        | 49.4        | 47.0        | 49.1        | 50.9           |
| Dollar amount of customer deductions                                    | 50.5           | 51.3        | 51.3           | 52.5           | 51.2        | 51.7        | 55.7        | 51.8        | 50.3        | 50.5        | 49.6        | 50.6        | 48.9           |
| Filings for bankruptcies  | 52.6           | 53.0        | 50.5           | 54.7           | 56.3        | 55.3        | 57.6        | 57.6        | 56.6        | 55.0        | 56.9        | 55.7        | 57.0           |
| <b>Index of unfavorable factors</b>                                     | <b>49.7</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>NACM Combined CMI</b>  | <b>51.0</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>    |



## Manufacturing Sector

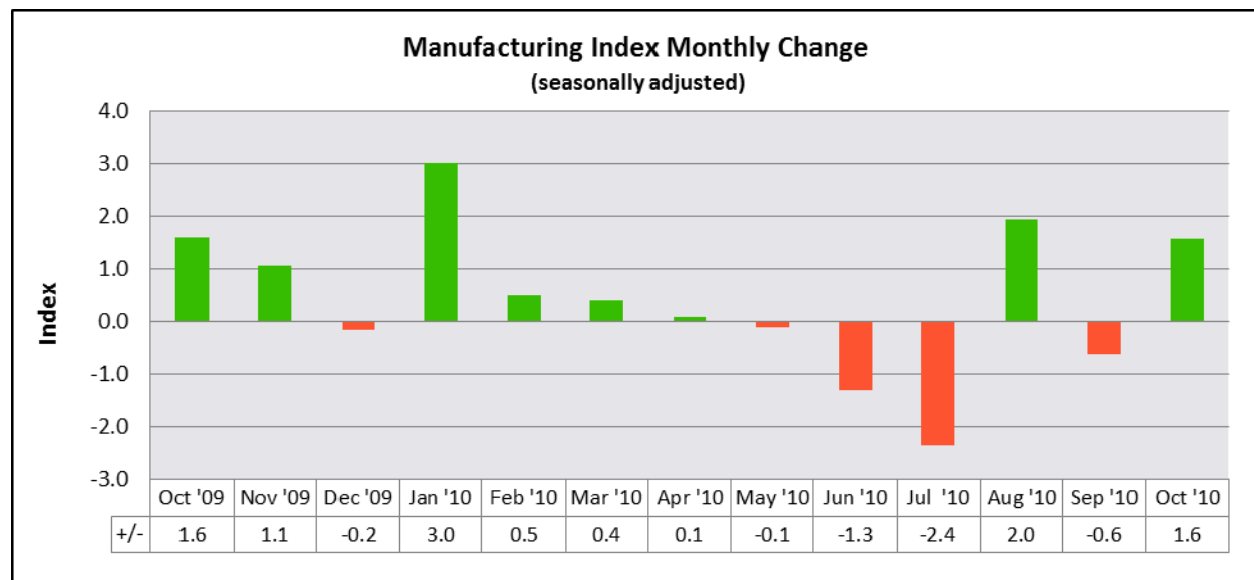
There were dramatic changes in the manufacturing sector. The favorable factors didn't change all that much, but they all remained in positive territory. The big shifts took place in the unfavorable factors. There was a dramatic improvement in dollar amount beyond terms—a jump from 49.6 to 55.2. There was a similar leap in accounts placed for collections—moving from 51.9 to 53.6. These are both indications that manufacturers are getting on top of their credit again and that is often preparatory to asking for more in the near future.

For much of the past year, the surprise as far as the economy was concerned was that manufacturing led the charge. Granted, this surge was in fits and spurts, but at least there was forward movement and that growth defied expectations. In late 2009, manufacturers were motivated to rebuild their inventories, but that process was complete by the middle of the second quarter and that is when the industrial sector began to slow down again. The latest recovery is not motivated as much by inventory but by decisions to make some capital equipment improvements. Data from a number of manufacturing organizations show that about half the manufacturers are

planning to make significant capital expenditures in the coming year and that more than half expect to add employees. The data also suggest that most operations are now running at about 75% capacity and expect to see that move to 80% or 85% in the next couple of quarters. If the CMI numbers are any indication, this is an accurate analysis as manufacturers are engaged in getting their credit caught up—the key step to making more requests in the future.

The motivation for this expansion is equal parts reaction to a booming export market and an expectation that consumer demand will continue growing in the months to come. There is also an expectation that inflation will manifest sooner or later and that provides yet another reason to do some capital expansion now while prices and interest rates are both low.

| <b>Manufacturing Sector</b><br><i>(seasonally adjusted)</i> | Oct '09     | Nov         | Dec '09     | Jan '10     | Feb         | Mar         | Apr         | May         | Jun         | Jul         | Aug         | Sep '10     | Oct '10     |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales   | 52.0        | 56.3        | 55.8        | 61.8        | 62.5        | 66.9        | 65.2        | 66.0        | 59.1        | 56.1        | 59.4        | 57.9        | 59.3        |
| New credit applications                                     | 52.9        | 56.8        | 55.2        | 54.0        | 57.8        | 57.9        | 57.1        | 58.9        | 58.9        | 53.7        | 54.3        | 54.4        | 54.9        |
| Dollar collections  | 55.7        | 53.1        | 56.0        | 61.5        | 59.6        | 61.4        | 60.9        | 59.7        | 59.0        | 53.0        | 60.1        | 61.1        | 61.0        |
| Amount of credit extended                                   | 53.5        | 53.4        | 55.2        | 59.2        | 60.7        | 62.0        | 62.1        | 58.9        | 58.2        | 55.8        | 56.0        | 57.3        | 59.9        |
| <b>Index of favorable factors</b>                           | <b>53.5</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> |
| Rejections of credit applications                           | 49.6        | 49.5        | 49.5        | 52.4        | 51.4        | 50.9        | 52.3        | 51.6        | 51.8        | 52.0        | 52.6        | 49.6        | 53.2        |
| Accounts placed for collection                              | 47.1        | 49.5        | 51.0        | 51.3        | 51.0        | 51.9        | 52.0        | 54.3        | 54.3        | 48.5        | 52.8        | 51.9        | 53.6        |
| Disputes  | 50.9        | 48.0        | 50.1        | 50.7        | 51.9        | 51.5        | 51.8        | 50.0        | 50.6        | 50.8        | 51.3        | 50.0        | 49.5        |
| Dollar amount beyond terms                                  | 47.9        | 50.0        | 51.4        | 52.5        | 53.3        | 51.3        | 52.2        | 50.1        | 50.3        | 50.4        | 51.0        | 49.6        | 55.2        |
| Dollar amount of customer deductions                        | 49.9        | 50.3        | 49.8        | 52.2        | 51.3        | 51.6        | 50.8        | 51.0        | 49.2        | 49.9        | 48.4        | 49.4        | 48.5        |
| Filings for bankruptcies                                    | 52.1        | 55.4        | 46.6        | 55.4        | 56.5        | 54.8        | 56.6        | 59.5        | 55.6        | 53.4        | 57.1        | 55.8        | 57.7        |
| <b>Index of unfavorable factors</b>                         | <b>49.6</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>NACM Manufacturing CMI</b>                               | <b>51.2</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> |

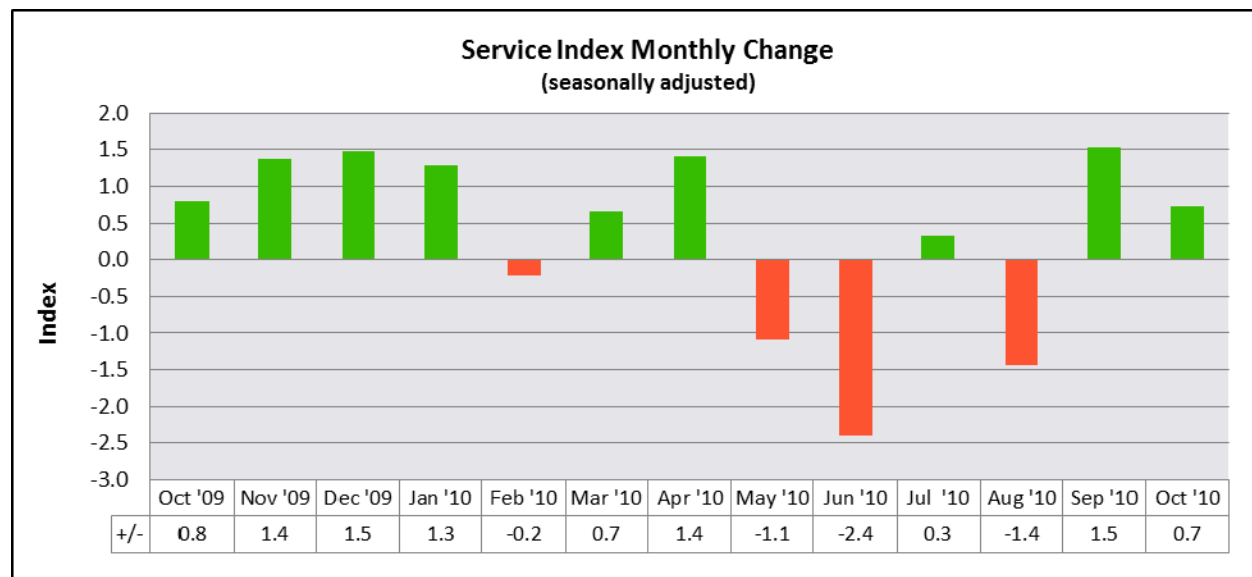


## Service Sector

The action in the service sector was similarly positive, but this time the favorable factors saw the biggest gains. There was an improvement in sales, with indicators moving from 59.3 to 62.2. There was also a significant gain in the number of credit applications—55.1 to 58.7. Dollar collections went up and the only decline was a slight drop in the level of credit extended—from 60 to 59.6. Given the role that the service sector plays in the overall economy this is very good news indeed.

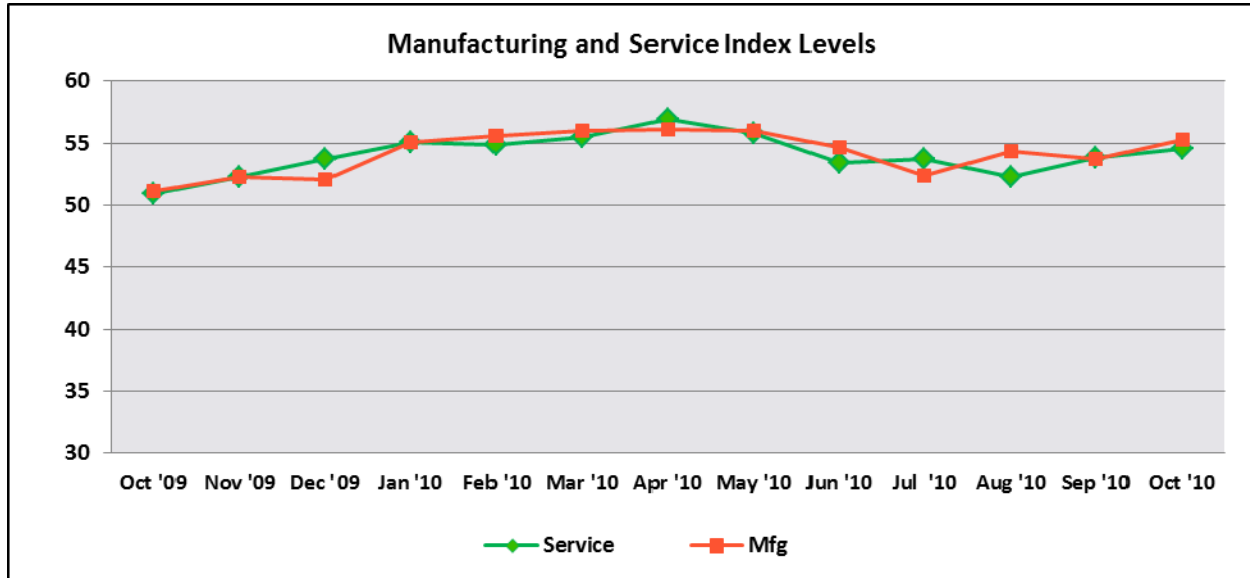
The most dramatic improvement was in filings for bankruptcies as the index moved from 55.7 to 57. There was also improvement in accounts placed for collection, which moved from 50.4 to 51.7. “These are not drastic changes, but almost across the board there was improvement that took index readings back to what they were at the beginning of the summer,” said Kuehl. “Starting in June, there was a distinct slump, and there were months when it looked like the index as a whole would soon slide back into contraction territory, but now the trend is in the other direction.” The only area where conditions deteriorated was with disputes, which slipped from 50.8 to 49.9, representing only the second time this year that disputes fell under the 50 level.

| <b>Service Sector<br/>(seasonally adjusted)</b> | <b>Oct '09</b> | <b>Nov</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 '10</b> | <b>Oct '10</b> |
|---|----------------|-------------|----------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|----------------|
| Sales   | 50.3           | 53.7        | 57.5           | 59.6           | 59.3        | 63.0        | 66.3        | 63.0        | 58.8        | 58.2        | 55.7        | 59.3           | 62.2           |
| New credit applications                         | 52.4           | 54.1        | 53.2           | 60.1           | 57.6        | 57.1        | 57.7        | 58.2        | 55.9        | 54.5        | 54.8        | 55.1           | 58.7           |
| Dollar collections                              | 53.7           | 58.6        | 59.9           | 61.2           | 62.7        | 62.4        | 63.2        | 59.7        | 59.7        | 59.7        | 55.2        | 59.0           | 62.9           |
| Amount of credit extended                       | 53.8           | 55.7        | 55.2           | 58.3           | 58.2        | 60.5        | 60.5        | 61.5        | 53.7        | 56.3        | 58.1        | 60.0           | 59.6           |
| <b>Index of favorable factors</b>               | <b>52.5</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>    |
| Rejections of credit applications               | 48.5           | 49.2        | 50.6           | 50.4           | 50.6        | 49.4        | 49.6        | 49.7        | 50.3        | 51.9        | 48.7        | 48.7           | 49.6           |
| Accounts placed for collection                  | 47.1           | 49.4        | 50.7           | 50.1           | 49.9        | 50.2        | 49.2        | 54.8        | 48.5        | 50.1        | 49.4        | 48.9           | 49.9           |
| Disputes  | 51.0           | 51.2        | 51.9           | 52.1           | 52.5        | 52.9        | 51.6        | 52.7        | 50.3        | 50.5        | 50.5        | 51.5           | 50.3           |
| Dollar amount beyond terms                      | 48.3           | 48.0        | 51.4           | 51.9           | 50.6        | 51.6        | 51.7        | 50.3        | 47.9        | 48.4        | 43.1        | 48.5           | 46.6           |
| Dollar amount of customer deductions            | 51.1           | 52.3        | 52.7           | 52.9           | 51.1        | 51.8        | 60.5        | 52.6        | 51.4        | 51.0        | 50.8        | 51.7           | 49.4           |
| Filings for bankruptcies                        | 53.0           | 50.7        | 54.3           | 53.9           | 56.0        | 55.8        | 58.6        | 55.7        | 57.6        | 56.6        | 56.6        | 55.5           | 56.3           |
| <b>Index of unfavorable factors</b>             | <b>49.8</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>NACM Service CMI</b>                         | <b>50.9</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>    |



## October 2010 vs. October 2009

The growth in year-over-year numbers has improved again and this time the two sectors are moving in tandem. This is not to say that there will not be further volatility in the months ahead (December is often a weak month for manufacturers), but this shows some evidence of economic stability. “The up-and-down reversals between the two sectors is unusual, and it is a good sign that they are twinned again,” explained Kuehl.



## 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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