Report for September 2009

Issued October 1, 2009

National Association of Credit Management

Combined Sectors

The combined CMI for September rose to 49.8, bouncing back from a nearly stagnant August on the strength of some dramatic improvements in dollar collections and in reductions in accounts placed for collection and dollar amount beyond terms. September saw the biggest improvement in these sectors in almost a year and that bodes very well for this quarter. Throughout the last year, the most distressing numbers seemed to be in these categories, which is expected in the middle of a recession. Even companies surviving the downturn were likely falling behind in bills or choosing to delay payments in an attempt to preserve cash flow. Now there is some sense that customers are starting to catch up and get current with their creditors.

The rate of dollar collections has not been this positive since September 2008, just as the economy started to seriously bottom out. The number of accounts placed for collection has declined and is lower than any point since last summer. Dollar exposure is also the lowest since summer 2008. These index readings suggest that there is a marked improvement in credit performance. "In order for the CMI to move into expansion territory—above 50—it will take the coalescing of three trends in credit: more credit availability, more sales that require the acquisition of credit and more prompt and regular payments on credit granted," said Dr. Chris Kuehl, NACM's economic analyst. "There has been some movement in sales and some positive movement in terms of credit availability, but up to this point there hadn't really been positive news regarding payment on that debt. Now all three factors seem to be moving in a generally positive direction."

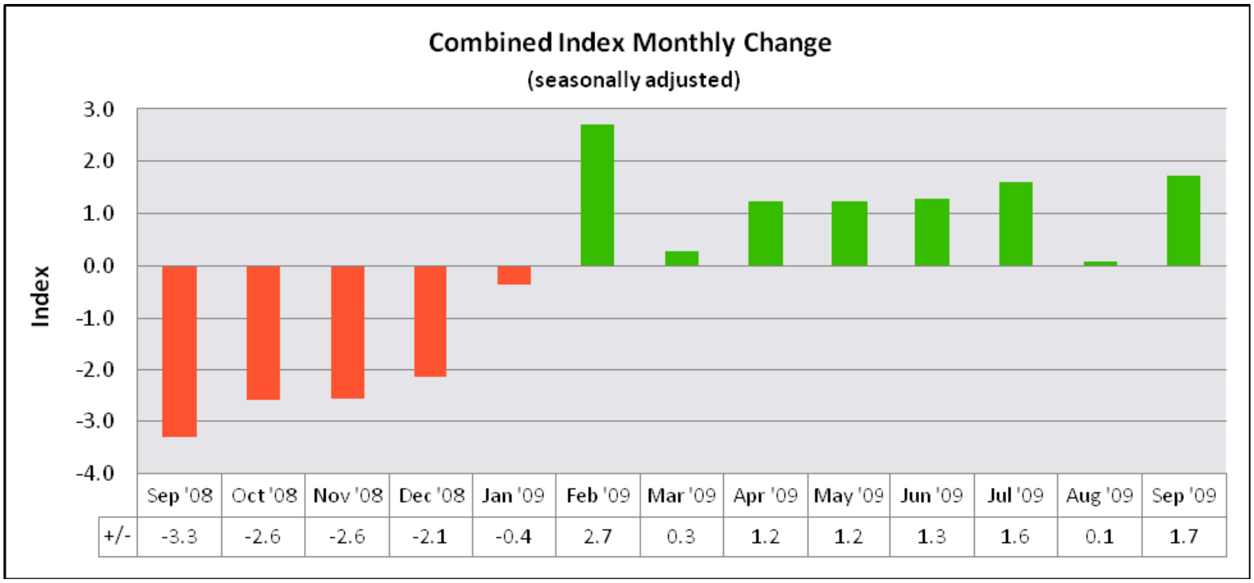
This development is consistent with some of the general economic observations made over the last few weeks. The Federal Reserve's Open Market Committee (OMC) made it clear that they thought the recession had reached an end and that the focus could now shift to recovery. Although recent Conference Board data showed a reduction in consumer optimism, a recovery of some consumer confidence as reported by the University of Michigan may have influenced the OMC opinion. There has also been good news in the housing sector in addition to data showing that some manufacturing industries have started to grow. Still, there remains plenty to worry about: from high unemployment to the state of commercial realty to future threats of inflation.

The CMI was expected to crest 50 in this month's survey, but the availability of credit was not quite what was hoped and the final number was just a fraction under the point that signals expansion. With the combined index now at 49.8, Kuehl is confident that the fabled 50 point will be reached and reported in October's survey.

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)	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '09
Sales	45.3	45.6	34.4	27.2	29.5	34.1	35.2	37.4	41.8	44.8	48.6	48.4	49.9
New credit applications	49.7	49.7	45.2	44.7	42.7	44.9	44.3	47.8	48.2	50.7	52.6	49.3	50.0
Dollar collections	54.6	50.9	50.0	43.9	47.5	47.1	48.4	48.0	48.8	51.2	50.8	50.5	53.4
Amount of credit extended	53.9	47.7	43.3	42.2	40.5	42.2	41.8	42.3	44.3	46.1	48.2	48.0	49.3
Index of favorable factors	**50.9**	**48.5**	**43.2**	**39.5**	**40.0**	**42.1**	**42.4**	**43.9**	**45.8**	**48.2**	**50.0**	**49.1**	**50.6**
Rejections of credit applications	47.8	44.6	45.0	45.6	45.9	46.7	47.8	47.4	47.4	47.9	47.5	49.0	48.4
Accounts placed for collection	41.7	36.4	36.1	35.2	36.8	37.8	37.1	38.5	40.2	40.5	44.0	43.6	45.3

Disputes	45.8	42.9	43.9	44.5	43.4	44.8	44.1	47.2	47.5	47.7	50.2	49.7	50.8
Dollar amount beyond terms	42.0	41.8	38.8	31.6	30.6	42.0	42.3	40.5	43.4	43.6	45.3	46.2	48.1
Dollar amount of customer deductions	46.6	45.8	45.4	46.4	45.2	46.2	45.5	49.8	47.5	48.9	49.2	50.6	51.8
Filings for bankruptcies	46.5	42.6	40.5	39.7	35.4	38.4	40.5	40.2	42.3	42.8	43.7	45.8	51.5
Index of unfavorable factors	**45.0**	**42.3**	**41.6**	**40.5**	**39.5**	**42.6**	**42.9**	**43.9**	**44.7**	**45.2**	**46.7**	**47.5**	**49.3**
NACM Combined CMI	**47.4**	**44.8**	**42.2**	**40.1**	**39.7**	**42.4**	**42.7**	**43.9**	**45.1**	**46.4**	**48.0**	**48.1**	**49.8**



Manufacturing Sector

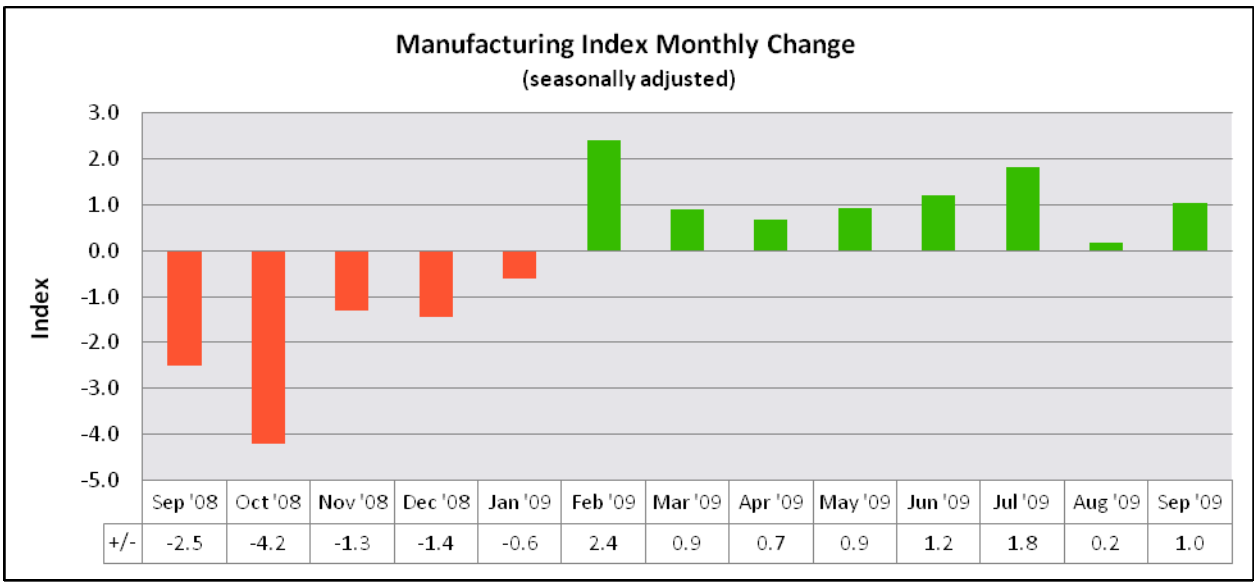
Manufacturing sector data mirrored improvements in the combined index despite the lack of an overt sign that sector conditions have improved much in the last few weeks. At this point, the evidence is somewhat anecdotal, but reports coming from a wide variety of manufacturing sectors suggest there has been improvement from just the end of August to today.

A look at the CMI data supports these rumors in so far as there has been a major drop in dollar exposure and a very dramatic decline in the number of bankruptcies. The peak for closure in the manufacturing sector seems to have taken place at the beginning of the year—from January to March. The major improvement in September is attributed to the fact that those that have survived thus far are probably going to make it through to the recovery.

The positive factors for manufacturing were flat this month. Improvement in sales, credit availability and dollar collections were very marginal, but this was not what moved the index back into more positive territory. Rather, it was the improvement in credit performance, which indicates that companies are getting back in their creditors' good graces.

"Even though the manufacturing index registered very close to the combined index at 49.6, the improvements were a little different than those in the combined index. While the CMI was primarily driven by some positive factors, the reduction of some negative factors had a greater influence on the manufacturing index," said Kuehl. "Given the horrific year that manufacturers have been through, it is more than encouraging to note that bankruptcies and delinquencies are ebbing and that credit is getting back in shape after the long period of decline."

Manufacturing Sector **(seasonally adjusted)**	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '09
Sales	45.2	46.1	38.5	26.8	31.6	34.7	36.7	39.6	40.7	45.4	48.7	48.4	48.7
New credit applications	50.9	49.2	45.5	48.8	44.8	45.2	44.6	50.7	49.3	51.1	55.3	48.6	50.5
Dollar collections	55.6	46.3	49.6	44.5	48.2	48.3	49.5	48.0	47.5	51.6	51.7	51.3	52.1
Amount of credit extended	56.2	48.1	42.8	44.0	39.6	40.5	41.8	44.1	44.2	45.8	49.3	48.9	48.8
Index of favorable factors	**52.0**	**47.4**	**44.1**	**41.0**	**41.1**	**42.2**	**43.1**	**45.6**	**45.4**	**48.5**	**51.3**	**49.3**	**50.0**
Rejections of credit applications	49.0	46.2	45.2	47.8	46.0	46.5	48.1	47.2	47.4	47.8	47.5	50.6	48.9
Accounts placed for collection	42.3	36.0	35.3	35.0	39.1	38.1	37.7	38.6	41.8	41.2	44.1	43.3	46.3
Disputes	45.5	41.3	44.4	44.7	42.6	44.4	44.4	45.8	47.6	46.1	49.3	48.2	49.5
Dollar amount beyond terms	43.1	38.6	40.0	31.8	30.8	46.5	48.1	42.8	44.5	45.3	46.3	48.1	48.3
Dollar amount of customer deductions	45.9	42.8	44.2	45.8	44.6	44.5	45.6	47.6	46.6	47.6	47.8	50.4	50.8
Filings for bankruptcies	45.6	42.6	38.7	40.6	36.4	39.2	40.6	39.6	43.6	43.2	43.1	47.3	51.7
Index of unfavorable factors	**45.2**	**41.3**	**41.3**	**41.0**	**39.9**	**43.2**	**44.1**	**43.6**	**45.2**	**45.2**	**46.4**	**48.0**	**49.2**
NACM Manufacturing CMI	**47.9**	**43.7**	**42.4**	**41.0**	**40.4**	**42.8**	**43.7**	**44.4**	**45.3**	**46.5**	**48.3**	**48.5**	**49.6**

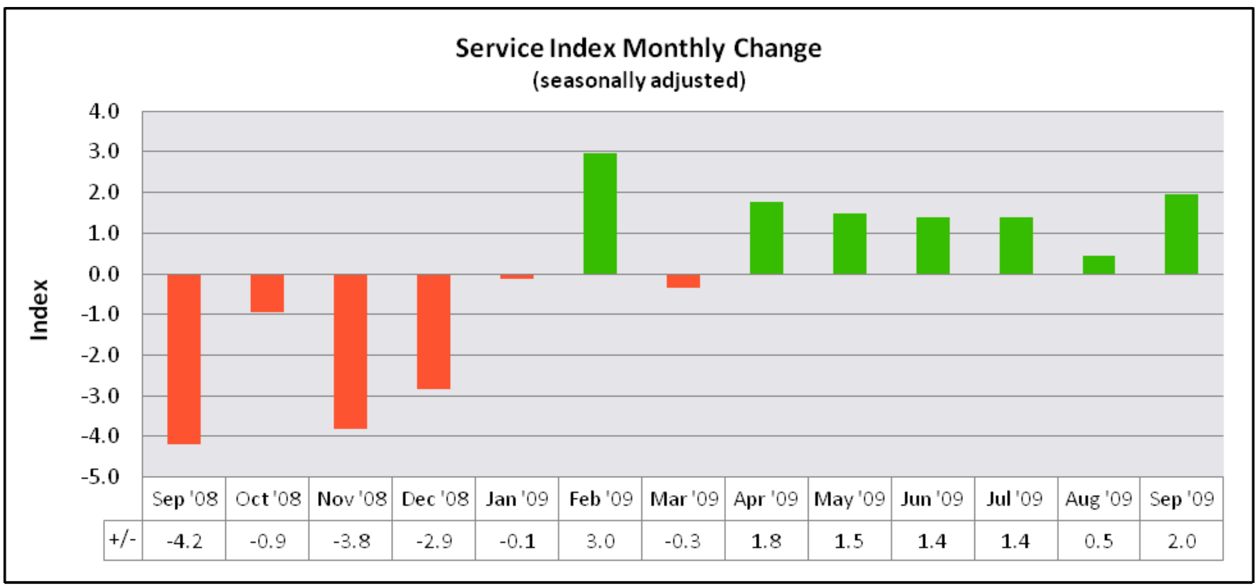


Service Sector

The behavior of the service sector was significantly different than that of the manufacturing sector. The real increase in performance came from the positive indicators, accounting for a major jump from the August reading of 48.2 to September's 51.2. The service sector has now crossed into positive territory for the first time since August 2008, reading 50.1. This is an interesting development since, up to this point, positive indicators had been weak for the sector. The biggest gain was in amount of credit extended, which hasn't been this high since September 2008. If this trend holds, there may be more growth later this year as service sector companies use that credit to expand. What is not as clear is where the service sector growth is concentrated. Anecdotal evidence indicates there has been some recovery in the financial sector as well as continued growth in the health care sector.

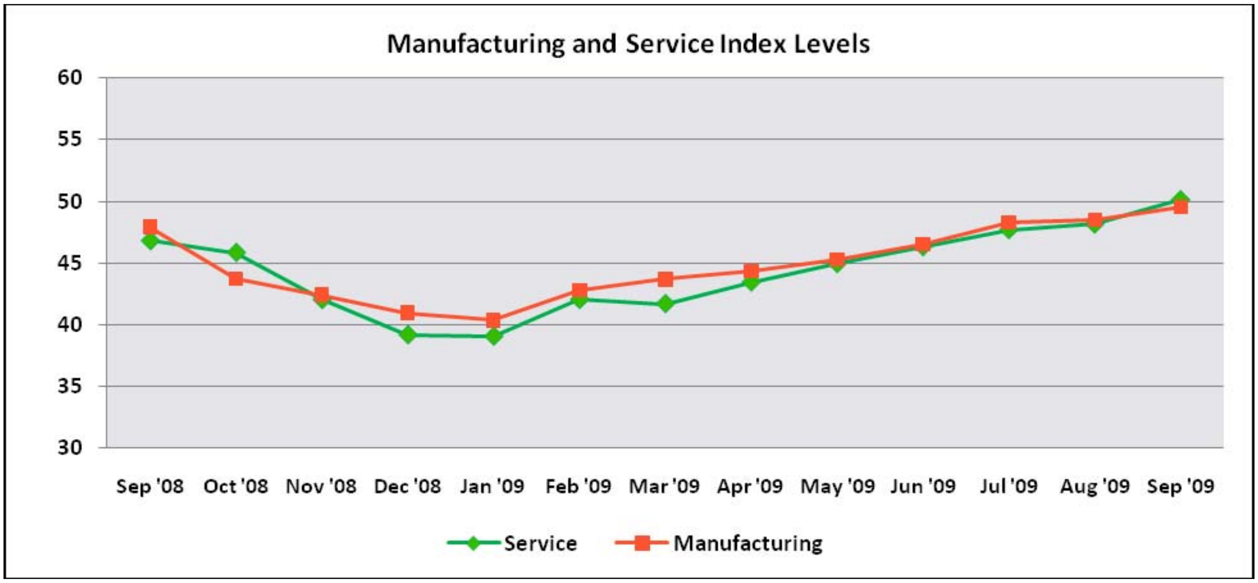
As in past years, the entire U.S. economy will rely on the service sector to pull it out of the doldrums. It is still the case that the services account for 80% of the U.S. domestic economy and roughly 80% of all jobs. From a credit perspective, if the service sector is beginning to recover, this will be good news for employment in the medium term. There has already been a slowing in the jobless numbers, but there has yet to be much additional hiring.

Service Sector (seasonally adjusted)	Sep	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '09
Sales	45.4	45.1	30.2	27.5	27.3	33.5	33.7	35.2	42.9	44.1	48.4	46.5	51.0
New credit applications	48.4	50.2	44.8	40.5	40.5	44.6	44.0	44.9	47.2	50.3	49.9	49.5	49.5
Dollar collections	53.6	55.5	50.3	43.2	46.8	45.9	47.4	48.0	50.0	50.8	49.8	50.5	54.8
Amount of credit extended	51.5	47.2	43.7	40.3	41.4	43.9	41.8	40.6	44.3	46.4	47.1	46.3	49.8
Index of favorable factors	**49.7**	**49.5**	**42.3**	**37.9**	**39.0**	**41.9**	**41.7**	**42.2**	**46.1**	**47.9**	**48.8**	**48.2**	**51.2**
Rejections of credit applications	46.5	43.0	44.7	43.4	45.7	46.9	47.5	47.7	47.4	48.1	47.4	48.5	47.9
Accounts placed for collection	41.0	36.7	36.9	35.4	34.4	37.5	36.5	38.5	38.7	39.8	43.9	43.7	44.3
Disputes	46.1	44.5	43.3	44.3	44.1	45.2	43.9	48.6	47.3	49.4	51.2	49.0	52.1
Dollar amount beyond terms	40.9	44.9	37.6	31.4	30.3	37.4	36.6	38.3	42.3	41.9	44.3	49.5	47.9
Dollar amount of customer deductions	47.3	48.8	46.6	47.0	45.7	48.0	45.4	52.0	48.4	50.2	50.7	51.1	52.7
Filings for bankruptcies	47.3	42.6	42.2	38.8	34.4	37.7	40.4	40.8	41.0	42.3	44.4	47.0	51.3
Index of unfavorable factors	**44.9**	**43.4**	**41.9**	**40.1**	**39.1**	**42.1**	**41.7**	**44.3**	**44.2**	**45.3**	**47.0**	**48.1**	**49.4**
NACM Service CMI	**46.8**	**45.9**	**42.0**	**39.2**	**39.1**	**42.0**	**41.7**	**43.5**	**45.0**	**46.3**	**47.7**	**48.2**	**50.1**



September 2009 vs. September 2008

The year-over-year comparison is starting to look very promising and will remain so for the next few months. This is the period in which the most recent gains will be compared to the beginnings of the collapse. As can be seen, the service sector is starting to accelerate past the manufacturing sector on the basis of more sales and more credit access, but the combined CMI is now poised to crest 50 at any moment. In the coming months, it will be readily apparent that this is a recovery period, which will contrast dramatically with what took place in the latter part of 2008.



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 1000 trade credit managers during the last 10 days of the 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 or 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 items, the calculation is:

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

For the negative factors, the calculation is:

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

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: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 19,000 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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