Report for September 2013

Issued September 30, 2013

National Association of Credit Management

Combined Sectors

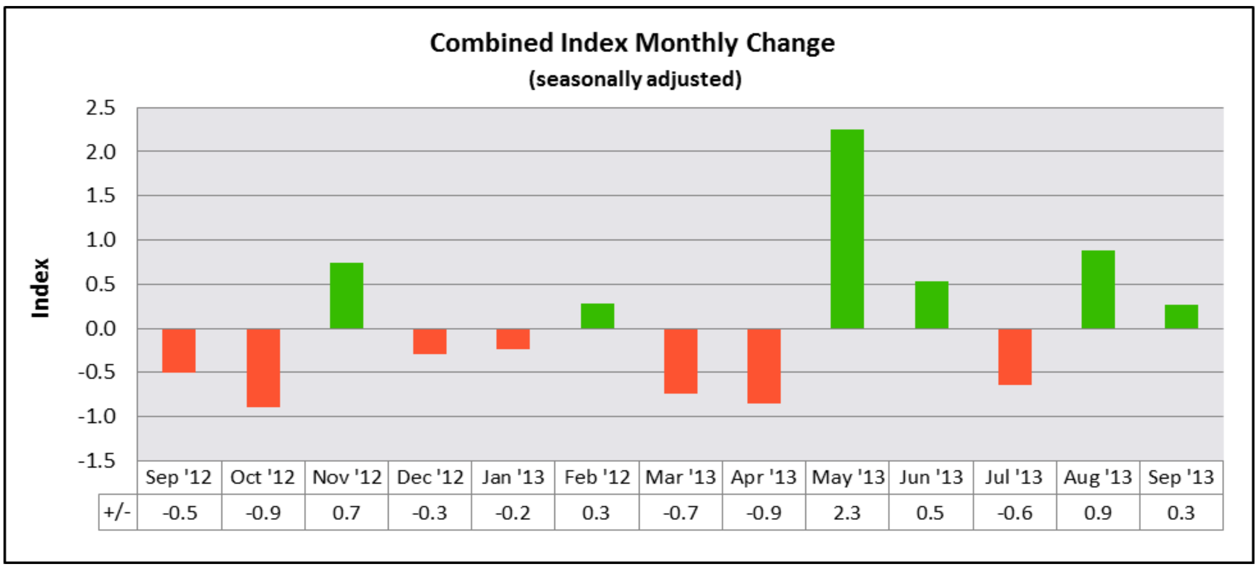
The Credit Managers' Index (CMI) increased by 0.2 in September and now stands at 56.6, the highest this year. This was a relatively small jump from the 56.4 registered last month, but the point is, this is higher than the index has been in well over three years. The trend that started this year in May has continued, a very positive development given all the turmoil affecting the economy in the last month or so. At least from the perspective of the credit manager, the wrangling in Congress has not yet had a big impact, but this may be a situation in which the impact is somewhat delayed. The CMI started to show solid gains at the start of the summer and the Purchasing Managers' Index (PMI) followed suit, sitting at its highest point this year in August. Thus far, the expectation is that the PMI will continue to trend in the same direction as the CMI. "This is a logical relationship that has been manifesting for some time," said NACM Economist Chris Kuehl, PhD. "The thinking behind using the actions of purchasing managers to gauge the economy is that nothing happens in a business until a purchasing decision is made. By that same logic, no purchasing of significance is going to happen without a credit decision."

The more interesting data from September comes from the individual factors, which illustrate what is happening in a little more detail. The favorable factor index slid slightly, falling from 61.4 to 60.9. All but one favorable factor sagged, but not by that much, meaning this can probably be termed more of a stall than a retreat. Much of the drop in the favorable factor index can be attributed to a slide in sales from 63.1 to 62.7, as well as to a retreat in new credit applications from 58.7 to 57.4. The reading for amount of credit extended also retreated a little, from 63.3 to 62.9. The only factor that improved was dollar collections, which moved slightly from 60.4 to 60.6. "Although a decline is not the preferred outcome, it is useful to note that three of the four factors are above 60 and the overall reading is still above 60," said Kuehl. "Given that anything above 50 signals expansion, it is indeed good news that these are mostly north of 60 now."

The most intriguing news is found in the unfavorable factor index, which made a fairly healthy jump from 53 to 53.8. This signals that some of the debt issues are being solved, which is generally a precursor to more aggressive expansion. Some behaviors can be implied from this data, Kuehl noted. "When times are tough, debtors begin to take advantage of what leverage they have and start to test those that have given them credit," he said. "There are more slow pays, and many of the negative indicators get progressively worse as companies try to hang on to their cash and test the patience of the credit manager. There comes a point when these companies want access to credit again, prompting them to try to catch up and get back in the good graces of those from whom they seek credit. This could explain why the data within the unfavorable categories has improved."

In fact, all unfavorable factors improved, and some by substantial amounts. Rejections of credit applications improved from 52.7 to 53, disputes moved from 51.6 to 51.7 and dollar amount of customer deductions rose from 51.4 to 51.7. There was a big improvement in accounts placed for collection, from 52.5 to 54.3, a healthy jump in dollar amount beyond terms from 51.1 to 52.2 and an impressive gain in filings for bankruptcy from 58.7 to 59.8. All are now solidly in the 50s, signaling expansion, and some are getting very close to hitting the 60s, which has not been seen in quite some time. "The data this month is a little weak in terms of points indicating future expansion, but the good news is that there are far fewer issues affecting the credit sector than there were just a few months ago," said Kuehl.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13
Sales	59.5	57.4	60.4	56.7	58.6	59.2	57.4	58.3	63.0	62.3	61.4	63.1	62.7
New credit applications	57.4	56.6	56.5	57.7	57.1	56.7	56.9	56.5	59.2	58.8	58.0	58.7	57.4
Dollar collections	58.5	54.6	61.3	59.2	56.9	57.5	57.7	57.2	59.2	59.3	57.5	60.4	60.6
Amount of credit extended	62.3	62.2	63.0	61.5	62.2	62.5	61.6	60.8	65.0	62.8	62.4	63.3	62.9
Index of favorable factors	**59.4**	**57.7**	**60.3**	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**	**59.8**	**61.4**	**60.9**
Rejections of credit applications	51.4	52.0	51.1	51.5	52.8	52.3	51.9	51.6	50.8	52.5	53.2	52.7	53.0
Accounts placed for collection	52.5	53.0	51.2	52.1	50.4	51.8	49.7	50.1	50.6	53.9	53.6	52.5	54.3
Disputes	50.5	50.9	50.1	50.5	50.4	50.4	48.3	48.6	48.5	51.9	51.0	51.6	51.7
Dollar amount beyond terms	51.0	48.0	49.9	50.9	49.6	49.8	51.2	45.5	54.1	50.5	48.5	51.1	52.2
Dollar amount of customer deductions	51.0	50.7	49.7	51.3	50.3	50.7	49.9	48.7	49.6	52.5	51.0	51.4	51.7
Filings for bankruptcies	59.1	58.9	58.4	57.4	58.1	58.3	57.3	56.0	56.0	56.8	58.2	58.7	59.8
Index of unfavorable factors	**52.6**	**52.3**	**51.7**	**52.3**	**51.9**	**52.2**	**51.4**	**50.1**	**51.6**	**53.0**	**52.6**	**53.0**	**53.8**
NACM Combined CMI	**55.3**	**54.4**	**55.2**	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**	**55.5**	**56.4**	**56.6**



Manufacturing Sector

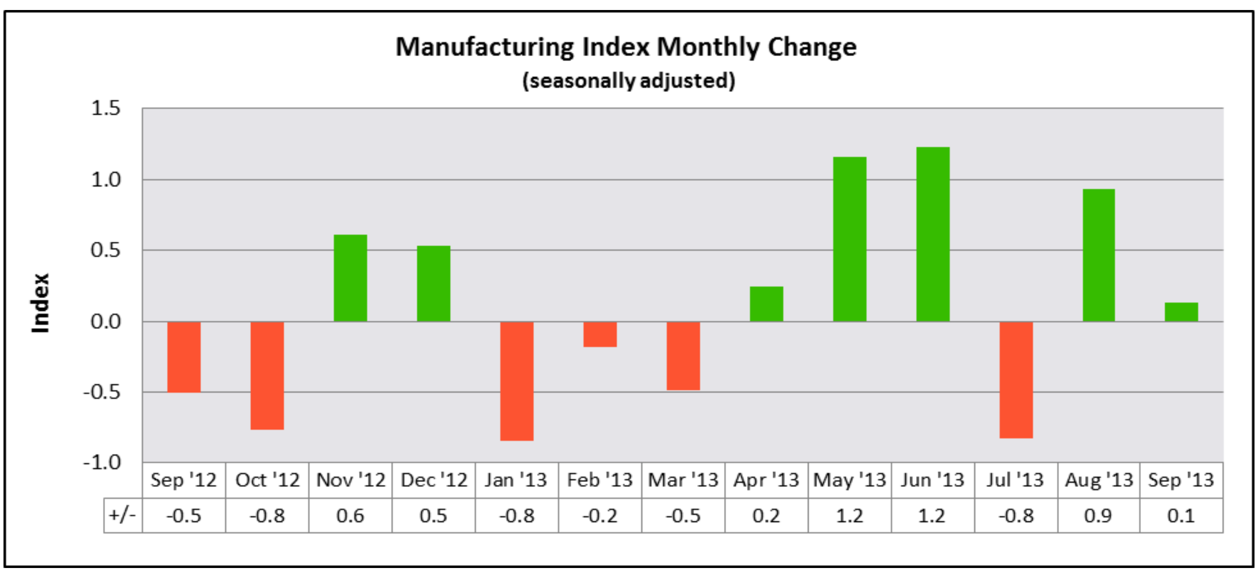
The gain in the manufacturing sector index gained just 0.1 to inch up to 56. The increase was still significant nonetheless, since it has not been this high since the recession started, and is consistent with some of the other measures of the manufacturing sector. "There have been gains lately in everything from industrial production to durable goods orders to capacity utilization and even the PMI," said Kuehl. The data from the CMI this month suggests that these trends will continue into the rest of the year."

As with the overall index, the disappointing numbers appear in the favorable factors. The favorable factor index fell a whole point, from 61 to 60. The good news is that the reading is still sitting at 60, but there is certainly no padding left if other issues occur down the road, Kuehl noted.

Sales sagged a little from 62.3 to 61.6, with a similar reduction occurring in two other favorable factors. The biggest drop was in new credit applications from 58.4 to 55.6, which is a lower reading than seen through most of the year. "This reflects the sense that manufacturers are in stall mode when it comes to expansion and are not as interested in making additional purchases at the moment," said Kuehl "but this could change in time, should some of the uncertainty surrounding the future of the economy be alleviated." Dollar collections also retreated, from 61 to 60.5. The only gain was in amount of credit extended, which improved from 62.1 to 62.4. "The good news in all of this is that three of the four categories are above 60 and the combined score is still at 60. The overall assessment is that growth has slowed a little, but that there is no sign yet of a full-on reduction," said Kuehl.

The unfavorable factor index brought good news, as it registered a pretty solid improvement from 52.5 to 53.3, which places this reading as high as it has been in over two years. Rejections of credit applications moved very slightly from 52.3 to 52.4, while accounts placed for collection posted a larger gained, moving from 53 to 53.7. The disputes category finally broke over 50 for the first time since June, from 49.8 to 50.8. Dollar amount beyond terms also showed some significant improvement, as it went from 52.5 to 52.9, and dollar amount of customer deductions went from 49.3 to 50.7, marking the first time it has managed to get out of the 40s since June as well. The improvement continued with filings for bankruptcies, which jumped quite a bit from 57.9 to 59.4. Overall, this month marks the first time since June that all the categories were above 50 and that is a solid signal for what is likely to follow in the coming months.

Manufacturing Sector (seasonally adjusted)	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13
Sales	57.3	56.7	57.8	56.9	57.4	57.3	55.5	59.2	59.2	61.0	60.3	62.3	61.6
New credit applications	55.7	57.0	53.6	58.0	57.7	55.5	54.8	55.8	57.4	58.6	57.5	58.4	55.6
Dollar collections	56.8	52.6	60.7	59.7	56.6	55.9	54.7	57.4	58.5	59.4	57.9	61.0	60.5
Amount of credit extended	61.9	61.6	61.7	61.2	61.1	61.6	61.3	60.1	63.3	61.2	61.4	62.1	62.4
Index of favorable factors	**57.9**	**57.0**	**58.4**	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**	**59.3**	**61.0**	**60.0**
Rejections of credit applications	50.7	51.2	52.1	51.4	51.1	52.2	51.8	52.2	51.3	52.7	52.9	52.3	52.4
Accounts placed for collection	52.0	52.4	50.7	52.2	50.3	50.7	48.6	51.8	50.3	53.6	53.6	53.0	53.7
Disputes	49.3	48.9	49.1	49.2	49.9	47.9	47.0	48.5	46.8	50.8	49.5	49.8	50.8
Dollar amount beyond terms	51.3	48.3	50.4	52.1	48.0	49.3	52.4	45.5	55.7	50.8	48.3	52.5	52.9
Dollar amount of customer deductions	50.9	49.9	48.5	50.0	49.2	48.8	48.5	48.0	48.2	52.5	49.8	49.3	50.7
Filings for bankruptcies	56.8	56.3	56.4	55.6	56.5	56.9	56.7	55.3	54.7	57.1	58.1	57.9	59.4
Index of unfavorable factors	**51.8**	**51.2**	**51.2**	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**	**52.0**	**52.5**	**53.3**
NACM Manufacturing CMI	**54.3**	**53.5**	**54.1**	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**	**54.9**	**55.9**	**56.0**



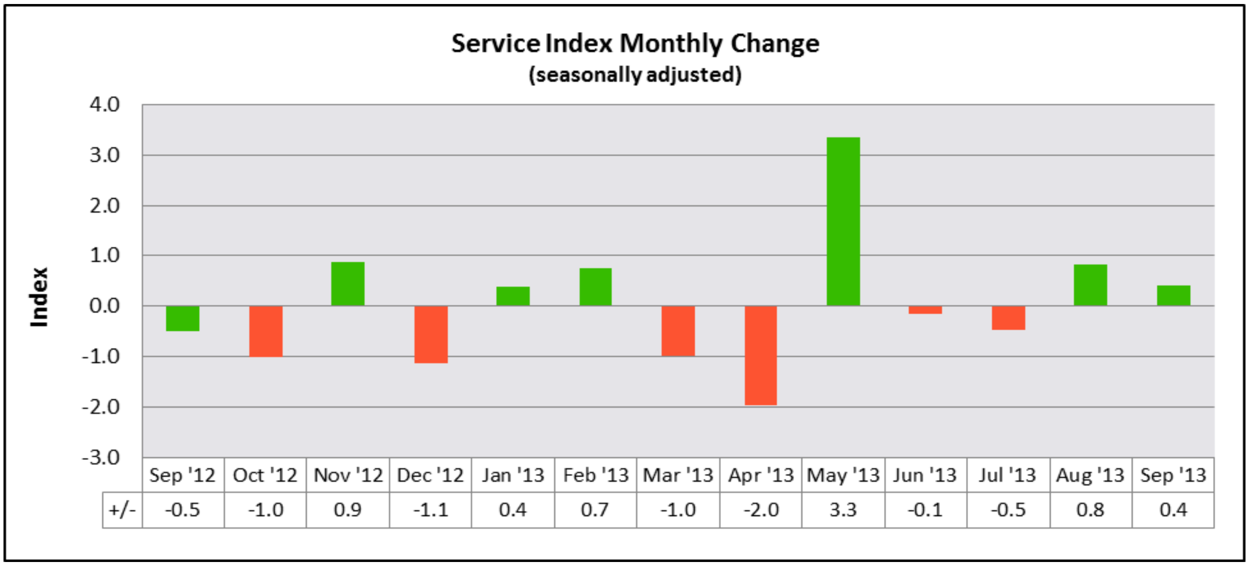
Service Sector

Service sector index improved from 56.9 to 57.3 in September, reaching the highest point in over three years and catching up, to some degree, with the growth seen in manufacturing. However, some issues still are cause for concern. The service sector is large and includes everything from retail to construction and even health care. “Construction carried more than a little responsibility for the growth in services earlier in the year, but the combination of higher mortgage rates and higher costs of housing has slowed it down,” said Kuehl. “Nor is retail expecting a banner year as far as holiday sales are concerned, but it is not expected to crash either.”

The service sector may be seeing some residual issues, but the growth continues to impress. Its favorable factor index didn’t change at all from last month, but this is not all bad given that the reading is firmly in the 60s at 61.8, and the breakdown tells some interesting stories. Sales fell, but only very slightly, from 63.9 to 63.8. There was a similarly small movement in new credit applications, but that was still at least in a positive direction, as the factor moved from 59.1 to 59.2. Dollar collections rose pretty substantially from 59.8 to 60.7, and amount of credit extended fell somewhat significantly from 64.5 to 63.4. “The overall good news in the favorable factors is that the majority are still solidly in the 60s, which has not been the case for much of the year,” said Kuehl.

When it comes to the unfavorable factors, the index grew from 53.6 to 54.3, but the changes in the individual categories were even more impressive—mirroring the trend manifested in the manufacturing sector. Rejections of credit applications improved from 53.2 to 53.7, coinciding with the growth in new credit applications in the favorable factors. Accounts placed for collection improved dramatically from 52 to 55. This puts this category at a level not seen since before the recession started. The disputes category fell back a little from 53.3 to 52.6, which seems to reflect some of the issues in construction and to some extent in the retail community. Dollar amount beyond terms moved out of the 40s for the first time since June, from 49.7 to 51.5, and dollar amount of customer deductions slid a bit from 53.5 to 52.8. The last of the unfavorable categories, filings for bankruptcies, jumped into the 60s for the first time since the start of the year, from 59.6 to 60.1, despite the struggles in the construction sector.

Service Sector (seasonally adjusted)	Sep '12	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13
Sales	61.7	58.2	63.0	56.6	59.9	61.2	59.4	57.4	66.7	63.6	62.5	63.9	63.8
New credit applications	59.2	56.2	59.5	57.3	56.5	57.9	59.1	57.2	61.0	59.1	58.4	59.1	59.2
Dollar collections	60.3	56.5	62.0	58.7	57.2	59.1	60.7	57.1	59.9	59.3	57.1	59.8	60.7
Amount of credit extended	62.7	62.8	64.4	61.8	63.2	63.4	61.9	61.5	66.8	64.3	63.3	64.5	63.4
Index of favorable factors	**61.0**	**58.4**	**62.2**	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**	**60.3**	**61.8**	**61.8**
Rejections of credit applications	52.2	52.8	50.2	51.6	54.5	52.5	51.9	51.1	50.2	52.4	53.5	53.2	53.7
Accounts placed for collection	53.0	53.6	51.7	52.0	50.6	52.9	50.8	48.4	51.0	54.1	53.6	52.0	55.0
Disputes	51.7	52.9	51.1	51.9	50.9	52.9	49.6	48.6	50.2	53.0	52.6	53.3	52.6
Dollar amount beyond terms	50.7	47.8	49.4	49.6	51.1	50.4	49.9	45.6	52.5	50.3	48.7	49.7	51.5
Dollar amount of customer deductions	51.1	51.5	50.9	52.6	51.3	52.7	51.3	49.5	51.0	52.5	52.2	53.5	52.8
Filings for bankruptcies	61.3	61.5	60.4	59.2	59.8	59.6	58.0	56.6	57.2	56.5	58.2	59.6	60.1
Index of unfavorable factors	**53.3**	**53.3**	**52.3**	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**	**53.1**	**53.6**	**54.3**
NACM Service CMI	**56.4**	**55.4**	**56.2**	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**	**56.0**	**56.9**	**57.3**



September 2013 versus September 2012

"The year-over-year numbers are still trending up, which is good news in light of all the current uncertainty in the economy. The growth in the unfavorable factors would be the story of this month, as more and more companies start to get caught up with their credit," said 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 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 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 this report and the CMI archives at http://web.nacm.org/cmi/cmi.asp.

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