Report for December 2012

Issued December 28, 2012
National Association of Credit Management

Combined Sectors

As it did in October, the CMI slipped again this month, from 55.2 to 54.9. By most accounts the retreat is related to issues affecting the economy as a whole for the past few months. The "fiscal cliff" continues to manifest in the minds of business and the consumer, and the latest confidence polls seem to bear this out. For most of the holiday season, there was some hope that a compromise would be worked out at the last minute, but now the mood is sharply depressed as it seems all but certain that there will be no settlement of lasting value. At the time of this writing, there was no semblance of an agreement, and even a last gasp maneuver was going to be judged a failure. The reaction captured in this month's CMI shows a stark lack of confidence as opposed to anything substantial. The overall news for the economy has been pretty good, and so it is with much of the CMI. The factors most connected to mood and confidence are the ones slipping.

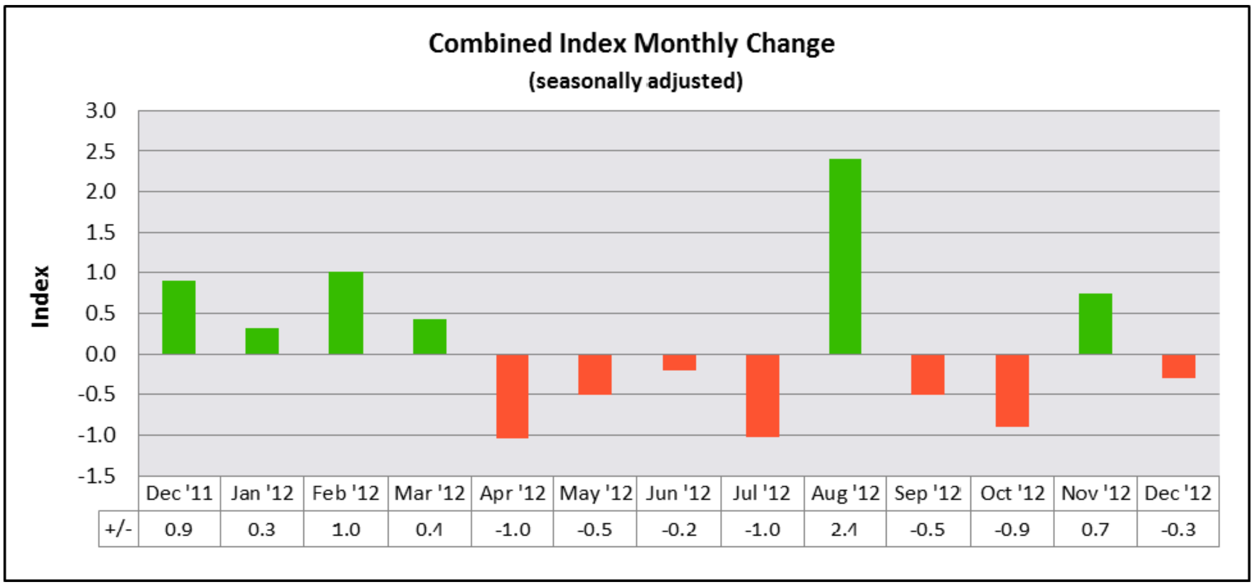
The most dramatic movement was in sales, which plummeted to 56.7. The number hasn't been this bad since December 2009, and is almost a full point lower than reported in October 2012. This reinforces the notion that business is just stalled out in anticipation of what might happen with spending and taxation next year. There was some cautious optimism just a month ago, but that optimism has evaporated. Strangely enough, there were not the same level of distress in the other favorable factors, although they declined somewhat as well.

In the other favorable factors, new credit applications actually increased, from 56.5 to 57.7, suggesting many companies still expect something will get done in Washington before the first quarter of 2013 is completed. At least they seem to be taking steps to get prepared for a better year. Dollar collections fell from 61.3 to 59.2, which was not a huge drop, but indicates that companies are back to protecting their cash flow and may have started to stretch out their creditors again. There was also a decline in the amount of credit extended, which dropped from 63 to 61.5. This is also not a catastrophic decline, but takes the category back to the numbers seen for most of the year. Overall, the favorable factor index fell from 60.3 to 58.8, a drop that would have been far worse if it were not for the slight improvement in new credit applications.

In contrast, the unfavorable factor index improved from 51.7 to 52.3. Business conditions have not worsened appreciably, it's just that there is not all that much improvement given the concerns that remain in place regarding next year. Rejections of credit applications improved slightly from 51.1 to 51.5, as did disputes from 50.1 to 50.5. Likewise, there was a small improvement in accounts placed for collection from 51.2 to 52.1, suggesting that more companies are staying current on their accounts—either that or creditors are feeling more patient. Dollar amount beyond terms made a bigger jump from 49.9 to 50.9, and dollar amount of customer deductions by a more significant amount, from 49.7 to 51.3. Only filings for bankruptcies declined, from 58.4 to 57.4, but this is a small reduction, and the whole category remains very strong compared to where it was just a few months ago.

The overall sense is that the entire decline registered in the CMI this month is due to the tensions created by the fiscal cliff debate. This is a theme shared by almost every other economic indicator. The inability of Congress and the president to make a deal has already cost significant economic growth, and it is now anticipated that real decline in GDP growth will be the next outcome. The whole business community seems to be in state of suspense.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12
Sales	60.5	63.5	64.4	64.1	60.0	61.2	60.6	58.5	62.0	59.5	57.4	60.4	56.7
New credit applications	55.3	61.9	59.5	60.4	58.2	59.9	57.5	57.2	56.8	57.4	56.6	56.5	57.7
Dollar collections	61.4	56.8	63.0	61.4	59.3	58.5	60.0	58.7	59.7	58.5	54.6	61.3	59.2
Amount of credit extended	64.7	63.3	64.3	63.9	64.6	61.3	62.6	61.3	61.4	62.3	62.2	63.0	61.5
Index of favorable factors	**60.5**	**61.4**	**62.8**	**62.5**	**60.5**	**60.2**	**60.2**	**58.9**	**60.0**	**59.4**	**57.7**	**60.3**	**58.8**
Rejections of credit applications	49.5	50.2	50.5	50.6	51.6	51.1	51.4	51.4	52.4	51.4	52.0	51.1	51.5
Accounts placed for collection	50.0	49.1	50.9	52.0	50.3	50.5	48.3	48.9	52.4	52.5	53.0	51.2	52.1
Disputes	49.2	49.2	49.7	50.9	50.7	49.4	48.9	47.6	51.9	50.5	50.9	50.1	50.5
Dollar amount beyond terms	48.8	48.0	51.2	50.7	50.0	48.0	50.5	47.8	50.9	51.0	48.0	49.9	50.9
Dollar amount of customer deductions	49.1	50.1	48.5	51.1	50.4	50.2	48.7	48.2	51.4	51.0	50.7	49.7	51.3
Filings for bankruptcies	56.0	55.5	55.7	56.8	56.2	56.4	56.0	54.9	59.6	59.1	58.9	58.4	57.4
Index of unfavorable factors	**50.4**	**50.3**	**51.1**	**52.0**	**51.6**	**50.9**	**50.6**	**49.8**	**53.1**	**52.6**	**52.3**	**51.7**	**52.3**
NACM Combined CMI	**54.4**	**54.8**	**55.8**	**56.2**	**55.1**	**54.6**	**54.5**	**53.4**	**55.8**	**55.3**	**54.4**	**55.2**	**54.9**



Manufacturing Sector

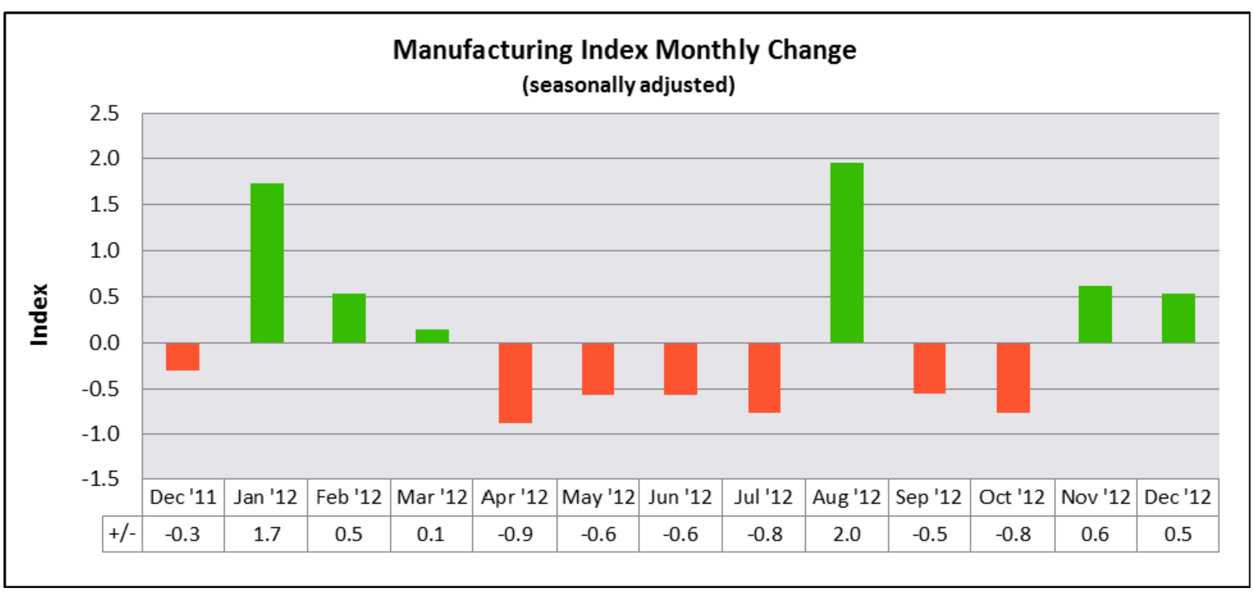
One of the more surprising aspects of this month's CMI is that the manufacturing sector actually saw some improvement, albeit slight. The index of favorable factors crept up from 58.4 to 58.9 despite the fact that sales fell from 57.8 to 56.9. This bad news was offset by gains in some of the other favorable factors. Thus far it has been the manufacturer that has shown the most resilience, but the reaction of the consumer to higher taxes and reduced spending has yet to be figured in. The most consistent worry within the ranks of the manufacturer is the sequestration process and the potential cuts in military spending. The 10% across the board approach is a spectacularly ham-handed means by which to trim the budget, and this would impact a great many U.S. manufacturers of parts and assemblies that supply the U.S. military.

Outside of sales, the favorable factors looked pretty solid. New credit applications jumped from 53.6 to 58, the highest level reached since May of this year. There have been several reports suggesting that companies are planning to do more capital expenditures in 2013, and this surge in credit interest lends some credence to that assumption. There was a slight decline in dollar collections, from 60.7 to 59.7, but this is not seen as a cause for alarm. There was almost no movement in amount of credit extended, which shifted down only slightly from 61.7 to 61.2. The overall news from the favorable categories is positive.

There isn't that much to be concerned with in the unfavorable factors either. The index crept up from 51.2 to 51.8. This is not a major improvement, but it is still an increase. There was a retreat in rejections of credit applications from 52.1 to 51.4, but that is to be expected given the surge in the number of applicants. Accounts placed for collection moved up pretty sharply from 50.7 to 52.2. This is most likely due to creditors wanting to keep their options wide open and trying to maintain good standing. There was also a very slight increase in disputes from 49.1 to 49.2, but it remains under the 50 level that indicates expansion as opposed to contraction. Dollar amount beyond terms improved substantially from 50.4 to 52.1, as did dollar amount of customer deductions, which moved from 48.5 to 50, cresting into expansion territory for the first time since September. The only decline was in filings for bankruptcies from 56.4 to 55.6, but it remains solidly in the middle of expansion territory.

This month there was only one category, disputes, that fell into contraction territory, and even that was by the narrowest of margins. That is an improvement on November and most of the past year. As discussed in the overall assessment of the CMI, there is nothing to suggest a major decline in business conditions or prospects. There is more frustration with the stalemate at the political level than ever, and that is affecting business mood.

Manufacturing Sector (seasonally adjusted)	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12	Dec '12
Sales	57.7	64.1	65.1	65.4	59.4	61.6	59.1	57.2	60.0	57.3	56.7	57.8	56.9
New credit applications	49.5	64.2	59.3	57.9	56.6	61.1	57.2	56.5	56.3	55.7	57.0	53.6	58.0
Dollar collections	58.0	56.8	61.4	62.2	59.2	59.7	61.9	59.6	59.7	56.8	52.6	60.7	59.7
Amount of credit extended	63.6	66.2	65.7	63.2	64.3	61.0	63.2	59.6	60.8	61.9	61.6	61.7	61.2
Index of favorable factors	**57.2**	**62.8**	**62.9**	**62.2**	**59.9**	**60.9**	**60.4**	**58.2**	**59.2**	**57.9**	**57.0**	**58.4**	**58.9**
Rejections of credit applications	49.8	50.5	50.1	49.6	51.5	50.4	50.5	51.2	52.2	50.7	51.2	52.1	51.4
Accounts placed for collection	50.7	48.6	51.1	51.6	49.9	49.0	47.7	49.1	52.1	52.0	52.4	50.7	52.2
Disputes	49.3	48.3	49.6	50.2	50.2	48.2	47.0	47.6	50.1	49.3	48.9	49.1	49.2
Dollar amount beyond terms	48.4	47.6	52.2	50.1	49.4	46.9	49.2	47.8	50.1	51.3	48.3	50.4	52.1
Dollar amount of customer deductions	49.3	49.2	46.5	50.6	50.4	49.5	46.6	46.6	49.2	50.9	49.9	48.5	50.0
Filings for bankruptcies	55.7	53.8	53.8	55.3	56.5	54.3	53.8	53.3	57.5	56.8	56.3	56.4	55.6
Index of unfavorable factors	**50.5**	**49.7**	**50.5**	**51.2**	**51.3**	**49.7**	**49.1**	**49.3**	**51.9**	**51.8**	**51.2**	**51.2**	**51.8**
NACM Manufacturing CMI	**53.2**	**54.9**	**55.5**	**55.6**	**54.7**	**54.2**	**53.6**	**52.8**	**54.8**	**54.3**	**53.5**	**54.1**	**54.6**



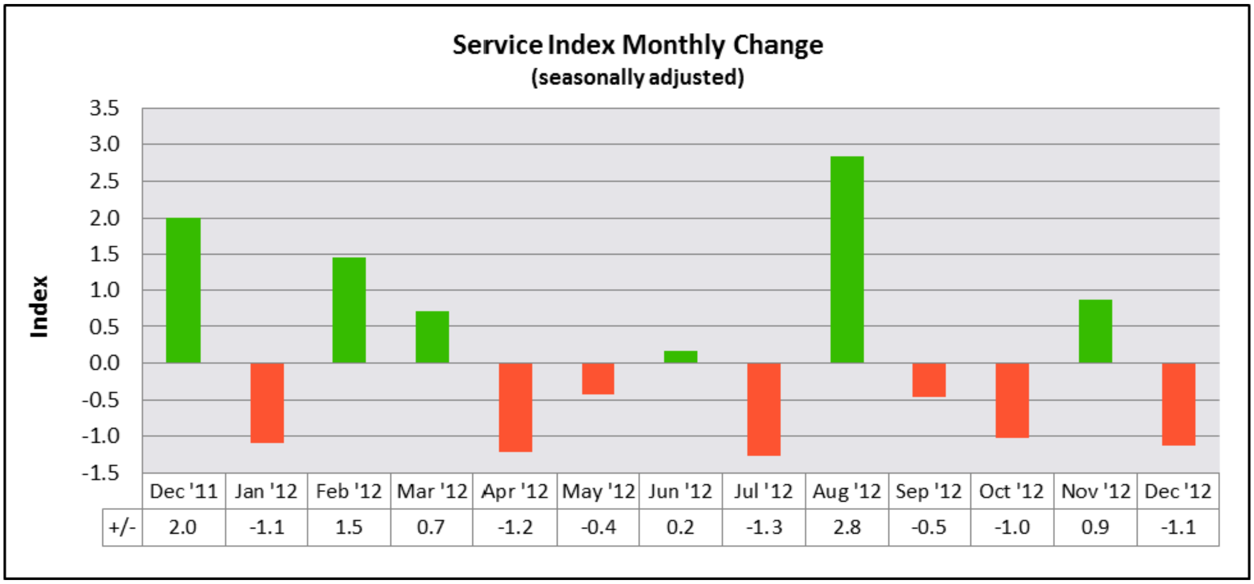
Service Sector

The service sector's reaction was far more extreme, given the importance of the fourth quarter to retail. This sector saw the most dramatic drop in sales, and points squarely to an upset and confused consumer. November's reading was 63, and December's plummeted to 56.6—by far the worst performance in over two years. The previous low in sales was established in October 2012 with a reading of 58.2. This was not the only category responsible for the overall decline in favorable factors from 62.2 to 58.6, but was the major contributor.

Unlike in the manufacturing sector, there was no growth in new credit applications. There is not a great deal of anticipation of better days ahead for retail until much later in 2013. The category slumped from 59.5 to 57.3, which isn't bad considering the headwinds facing retail. The decline in dollar collections from 62 to 58.7 is a little more problematic, suggesting significant slowdown in payments, which generally suggests that cash flow is a bigger issue than it was some months ago. Amount of credit extended fell from 64.4 to 61.8, but that is not all that worrisome given that this category is still solidly in the 60s, clearly in expansion.

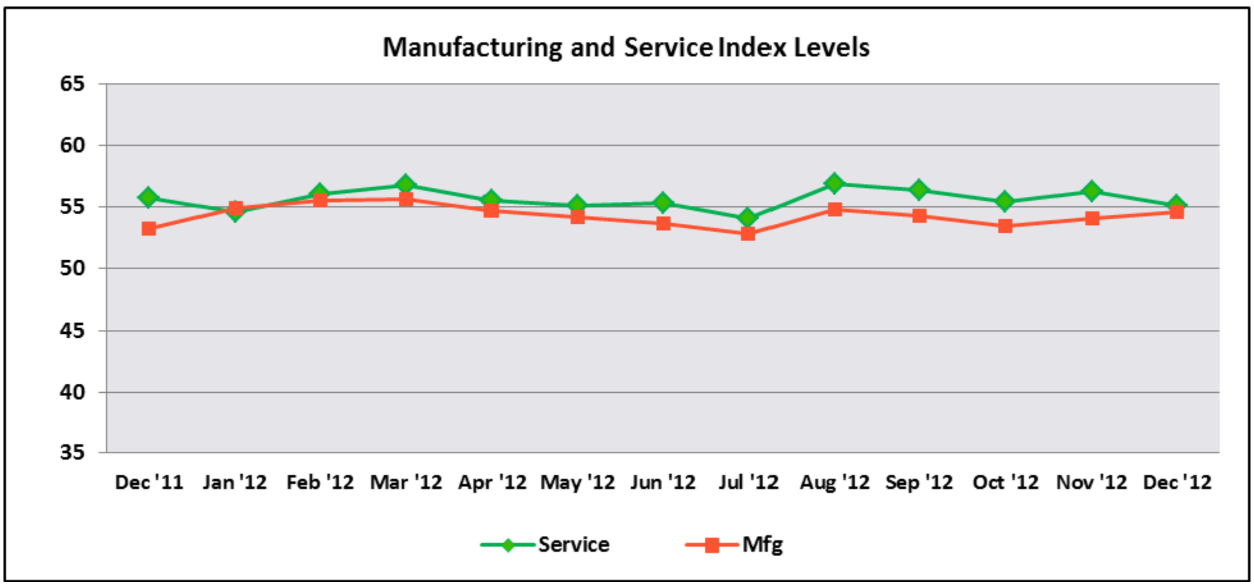
Unfavorable factor numbers were slightly stronger in the service sector than in the manufacturing sector. Manufacturing's unfavorable factor index sits at 51.8, and service index is at 52.8. At the same time, this is a crucial period for retail, and by now almost everybody is aware that retail suffered some setbacks this last month. The damage to the overall numbers for the service sector came almost exclusively from the problems in the favorable factors. Rejections of credit applications improved slightly, and that has to be counted as something of a surprise given the turmoil. There was also some improvement in accounts placed for collection, from 51.7 to 52. This was matched with very slight improvements in disputes and dollar amount beyond terms. The former rose from 51.1 to 51.9, and the latter from 49.4 to 49.6. There was a larger improvement in dollar amount of customer deductions, from 50.9 to 52.6. The only decline in the unfavorable was in filings for bankruptcies from 60.4 to 59.2.

Service Sector **(seasonally adjusted)**	**Dec '11**	**Jan '12**	**Feb '12**	**Mar '12**	**Apr '12**	**May '12**	**Jun '12**	**Jul '12**	**Aug '12**	**Sep '12**	**Oct '12**	**Nov '12**	**Dec '12**
Sales	63.3	62.9	63.6	62.8	60.6	60.9	62.1	59.8	64.0	61.7	58.2	63.0	56.6
New credit applications	61.1	59.6	59.6	62.8	59.9	58.8	57.7	57.9	57.3	59.2	56.2	59.5	57.3
Dollar collections	64.9	56.7	64.5	60.7	59.4	57.3	58.1	57.9	59.7	60.3	56.5	62.0	58.7
Amount of credit extended	65.7	60.4	63.0	64.6	64.9	61.5	62.0	63.0	61.9	62.7	62.8	64.4	61.8
Index of favorable factors	**63.8**	**59.9**	**62.7**	**62.7**	**61.2**	**59.6**	**60.0**	**59.6**	**60.7**	**61.0**	**58.4**	**62.2**	**58.6**
Rejections of credit applications	49.1	49.9	50.8	51.6	51.8	51.8	52.2	51.6	52.5	52.2	52.8	50.2	51.6
Accounts placed for collection	49.3	49.6	50.7	52.5	50.7	52.0	49.0	48.7	52.6	53.0	53.6	51.7	52.0
Disputes	49.0	50.1	49.9	51.6	51.3	50.6	50.8	47.6	53.7	51.7	52.9	51.1	51.9
Dollar amount beyond terms	49.3	48.5	50.3	51.2	50.6	49.0	51.9	47.8	51.7	50.7	47.8	49.4	49.6
Dollar amount of customer deductions	48.9	51.0	50.6	51.5	50.4	51.0	50.9	49.7	53.6	51.1	51.5	50.9	52.6
Filings for bankruptcies	56.2	57.2	57.6	58.4	55.9	58.4	58.3	56.4	61.6	61.3	61.5	60.4	59.2
Index of unfavorable factors	**50.3**	**51.0**	**51.6**	**52.8**	**51.8**	**52.1**	**52.2**	**50.3**	**54.3**	**53.3**	**53.3**	**52.3**	**52.8**
NACM Service CMI	**55.7**	**54.6**	**56.0**	**56.8**	**55.6**	**55.1**	**55.3**	**54.0**	**56.9**	**56.4**	**55.4**	**56.2**	**55.1**



November 2012 vs. November 2011

The number this month is weaker than last, but this is a decline that can be almost entirely attributed to the political games being played in the halls of Congress. Were it not for the sharp drop in sales numbers that many attribute to the fiscal cliff uncertainty, the overall CMI would likely have improved.



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:

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

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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