Report for November 2012

Issued November 30, 2012
National Association of Credit Management

Combined Sectors

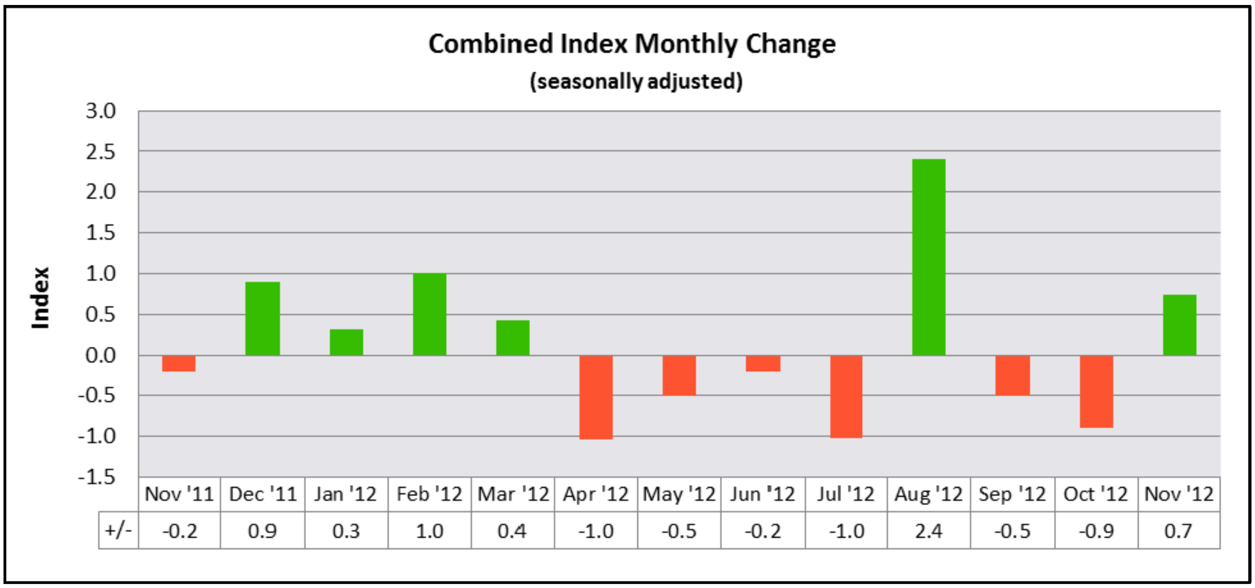
The latest iteration of the Credit Managers' Index showed a return to form in some key factors, and jumped almost a full point from where it languished in October. November's 55.2 reading is still shy of the high points reached back in February and March (55.8 and 56.2, respectively), but is back to the levels seen in August and September. When the reading from October fell to 54.4, there was a sense that it may have been an anomaly, and not as dangerous as it would appear. Now that assessment looks more accurate.

The most important jump was in sales, which climbed from 57.4 to 60.4. It is always encouraging to see the data cresting past 60, and this marks the best sales month since August when the reading was at 62. However, the best improvement in the favorable factors was in dollar collections, as it improved from 54.6 to 61.3. That is an impressive showing by any measure, and suggests that companies are seeing enough improvement in revenues to start catching up on their debt. There was also a full-point improvement in amount of credit extended, which signals there is more demand from reliable customers than in the past few months. This is a pattern that has been noted a few times in the past. As companies begin to get current on their credit, they are often motivated by the need to ask for more credit for expansion. First they catch up and then they ask for more credit and that appears to be happening again. The only favorable factor that weakened was new credit applications, which fell from 56.6 to 56.5.

There was slightly more volatility in the unfavorable categories, causing a decline in the overall unfavorable index. Every indicator except dollar amount beyond terms, which rose from 48 to 49.9, slipped. Rejections of credit applications fell from 52 to 51.1—not a major reduction, but a signal that there are still applicants coming with less than acceptable ratings. The decline in accounts placed for collection from 53 to 51.2 was a little steeper, but is consistent with the pace set for most of the year and suggests that many companies are still trying to get back into financial shape. Disputes and filings for bankruptcies fell only slightly, to 50.1 and 58.4, respectively, but dollar amount of customer deductions slipped just under the 50 mark to 49.7, suggesting negotiation is taking place between good customers and their creditors.

The news is essentially positive despite the evident weakness in the unfavorable factors. The trend with the positive categories has reversed for the moment, and seems to reflect some of the other good news of the overall economy. The improvement in the housing sector is starting to show up in both the manufacturing and service sub-sectors, and there is an evident reaction to a more upbeat consumer. December's data will be watched with more than a keen interest, as this may be the month that most reflects the impact of Hurricane Sandy. Any impact due to a downturn attributed to storm damage is likely to be serious, but somewhat short lived. By the early part of next year there may be better numbers than expected as the rebuilding effort gets fully underway.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12
Sales	58.3	60.5	63.5	64.4	64.1	60.0	61.2	60.6	58.5	62.0	59.5	57.4	60.4
New credit applications	57.6	55.3	61.9	59.5	60.4	58.2	59.9	57.5	57.2	56.8	57.4	56.6	56.5
Dollar collections	56.9	61.4	56.8	63.0	61.4	59.3	58.5	60.0	58.7	59.7	58.5	54.6	61.3
Amount of credit extended	62.4	64.7	63.3	64.3	63.9	64.6	61.3	62.6	61.3	61.4	62.3	62.2	63.0
Index of favorable factors	**58.8**	**60.5**	**61.4**	**62.8**	**62.5**	**60.5**	**60.2**	**60.2**	**58.9**	**60.0**	**59.4**	**57.7**	**60.3**
Rejections of credit applications	49.5	49.5	50.2	50.5	50.6	51.6	51.1	51.4	51.4	52.4	51.4	52.0	51.1
Accounts placed for collection	49.5	50.0	49.1	50.9	52.0	50.3	50.5	48.3	48.9	52.4	52.5	53.0	51.2
Disputes	47.9	49.2	49.2	49.7	50.9	50.7	49.4	48.9	47.6	51.9	50.5	50.9	50.1
Dollar amount beyond terms	48.0	48.8	48.0	51.2	50.7	50.0	48.0	50.5	47.8	50.9	51.0	48.0	49.9
Dollar amount of customer deductions	48.9	49.1	50.1	48.5	51.1	50.4	50.2	48.7	48.2	51.4	51.0	50.7	49.7
Filings for bankruptcies	56.7	56.0	55.5	55.7	56.8	56.2	56.4	56.0	54.9	59.6	59.1	58.9	58.4
Index of unfavorable factors	**50.1**	**50.4**	**50.3**	**51.1**	**52.0**	**51.6**	**50.9**	**50.6**	**49.8**	**53.1**	**52.6**	**52.3**	**51.7**
NACM Combined CMI	**53.5**	**54.4**	**54.8**	**55.8**	**56.2**	**55.1**	**54.6**	**54.5**	**53.4**	**55.8**	**55.3**	**54.4**	**55.2**



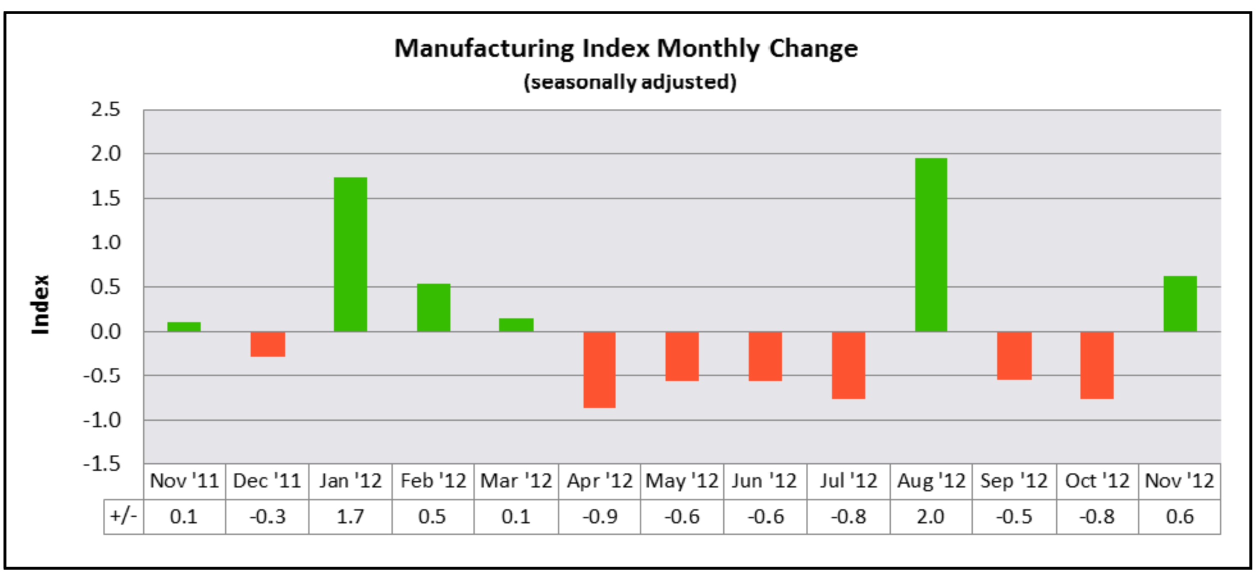
Manufacturing Sector

November's manufacturing sector index rose from 53.5 to 54.1. Manufacturing continues to be the most closely watched sector of the economy. If there is to be any kind of recovery in 2013, it will be rooted in the performance of the manufacturer, as this sector has provided the bulk of the growth (such as it is) during the recession. The data from the last few months has shown slippage, which comes as no surprise given that all the other manufacturing indicators were showing stress as well. Everything from durable goods orders to factory orders and capacity utilization showed strain, but at the same time capital expenditure has seen steady improvement, at least as far as future plans are concerned. It seemed that something was slightly out of sync, and now the CMI is starting to settle, provided these trends extend into next month and next year.

Sales regained a little momentum and rose from 56.7 to 57.8. The past few months have been better with numbers in the 60s, but at least the data shifted away from the low point reached over a year ago in October. The concerns are with new credit applications, as this fell hard, from 57 to 53.6. It seems that companies may be thinking about that capital acquisition, but aren't ready to pull the trigger just yet. There was, on the other hand, a big boost in dollar collections, suggesting that companies are doing their best to catch up on their credit. Perhaps once there have been a few months of gain here, it will be reflected in sales and new credit applications. Finally, amount of credit extended was flat, moving from 61.6 to 61.7.

The range on the unfavorable factors was wider. Rejections of credit applications progressed from 51.2 to 52.1. It is always hard to know what triggers movement in this category. Sometimes it's that applicants are in better financial condition and they go for more credit, but just as often the company offering the credit is relaxing standards a little to boost business. Accounts placed for collection fell off a little, slipping from 52.4 to 50.7. It would seem that collections are not becoming a huge factor, but the problem has not vanished either. Disputes improved slightly from 48.9 to 49.1, but the factor as a whole is still under the 50 mark that signals expansion. Dollar amount beyond terms moved out of the contraction zone by shifting from 48.3 to 50.4. This is another indication that creditors are moving to improve their standing again. However, there was a corresponding slip in dollar amount of customer deductions, as it dropped further from its already sub-50 level in October of 49.9 to 48.5. This category has been weak for over a year, and that seems to reflect the fact that many creditors are still testing to see how much flexibility they can extract. The good news is that filings for bankruptcies are stable and well into the 50s at 56.4.

Manufacturing Sector (seasonally adjusted)	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12
Sales	58.1	57.7	64.1	65.1	65.4	59.4	61.6	59.1	57.2	60.0	57.3	56.7	57.8
New credit applications	55.7	49.5	64.2	59.3	57.9	56.6	61.1	57.2	56.5	56.3	55.7	57.0	53.6
Dollar collections	56.2	58.0	56.8	61.4	62.2	59.2	59.7	61.9	59.6	59.7	56.8	52.6	60.7
Amount of credit extended	62.7	63.6	66.2	65.7	63.2	64.3	61.0	63.2	59.6	60.8	61.9	61.6	61.7
Index of favorable factors	**58.2**	**57.2**	**62.8**	**62.9**	**62.2**	**59.9**	**60.9**	**60.4**	**58.2**	**59.2**	**57.9**	**57.0**	**58.4**
Rejections of credit applications	49.6	49.8	50.5	50.1	49.6	51.5	50.4	50.5	51.2	52.2	50.7	51.2	52.1
Accounts placed for collection	51.6	50.7	48.6	51.1	51.6	49.9	49.0	47.7	49.1	52.1	52.0	52.4	50.7
Disputes	48.5	49.3	48.3	49.6	50.2	50.2	48.2	47.0	47.6	50.1	49.3	48.9	49.1
Dollar amount beyond terms	47.1	48.4	47.6	52.2	50.1	49.4	46.9	49.2	47.8	50.1	51.3	48.3	50.4
Dollar amount of customer deductions	48.8	49.3	49.2	46.5	50.6	50.4	49.5	46.6	46.6	49.2	50.9	49.9	48.5
Filings for bankruptcies	56.5	55.7	53.8	53.8	55.3	56.5	54.3	53.8	53.3	57.5	56.8	56.3	56.4
Index of unfavorable factors	**50.4**	**50.5**	**49.7**	**50.5**	**51.2**	**51.3**	**49.7**	**49.1**	**49.3**	**51.9**	**51.8**	**51.2**	**51.2**
NACM Manufacturing CMI	**53.5**	**53.2**	**54.9**	**55.5**	**55.6**	**54.7**	**54.2**	**53.6**	**52.8**	**54.8**	**54.3**	**53.5**	**54.1**



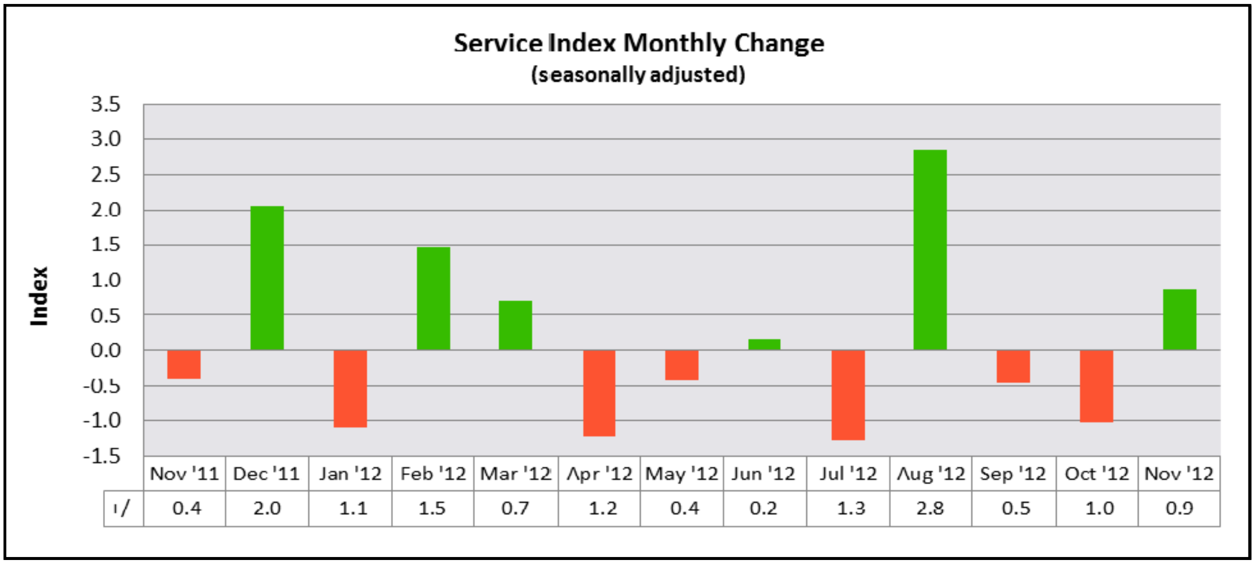
Service Sector

The service sector always seems to come to life this time of year, reflected by the jump in the index from 55.4 to 56.2. Chalk that up to the gains that retail and the transportation sectors make as the holidays near. The expectation is for further signs of improvement when the December numbers roll out, as the service index doesn't generally capture the Black Friday activity. Other significant sectors are playing a role this time around, most notably the resurgence in the housing market. Construction was a big part of the fall in this index in previous years, and now there are some signs of recovery in that data.

The biggest jump was in the favorable factors, and this more than offset the continued weakness in the unfavorable categories. Last month the overall favorable index was at 58.4, and this month it is at 62.2, the highest point reached since March of this year (back when there was all that talk about green shoots). Sales led the way with a large rise from 58.2 to 63, followed by an improved pace of new credit applications from 56.2 to 59.5—another sector that hasn't seen these numbers since April. The news keeps getting better with dollar collections improvement from 56.5 to 62—better than at any time since February of this year. The sense of a pattern here can be mostly attributed to the emergence of the consumer as a factor, and the rebound in some key service categories like construction and housing. Finally, amount of credit extended displayed solid growth, rising from 62.8 to 64.4. That is again comparable to numbers last seen in April. All favorable factors are above or very near 60. Only new credit applications fell just under that mark at 59.5.

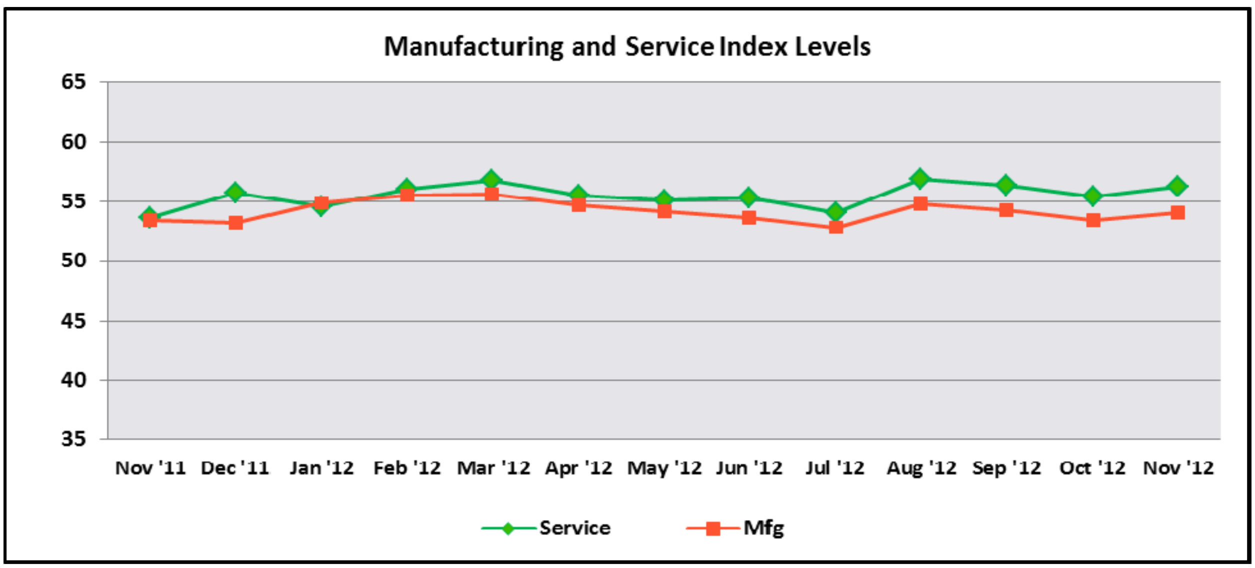
The overall unfavorable factor index fell from 53.3 to 52.3, but was the result of specific declines, and is not a major drop. Rejections of credit applications declined from 52.8 to 50.2, but as stated above, is always a tricky category as there are various reasons to reject applications and sometimes the rationale says more about the company doing the rejecting. Accounts placed for collection went from 53.6 to 51.7, seemingly the result of losing some patience with companies in sectors that appear to be growing. Disputes slipped slightly from 52.9 to 51.1, which appears to track well with the data on collections. The change in dollar amount beyond terms saw a positive shift from 47.8 to 49.4. It is still below that magic 50 level, but is at least trending in the right direction. Dollar amount of customer deductions slid a bit from 51.5 to 50.9 and so did the bankruptcy factor, going from 61.5 to 60.4. The real takeaway from the unfavorable category is that the changes were minor and currently only one of the categories is under 50, while one of the categories is above 60.

Service Sector (seasonally adjusted)	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12	Oct '12	Nov '12
Sales	58.4	63.3	62.9	63.6	62.8	60.6	60.9	62.1	59.8	64.0	61.7	58.2	63.0
New credit applications	59.4	61.1	59.6	59.6	62.8	59.9	58.8	57.7	57.9	57.3	59.2	56.2	59.5
Dollar collections	57.6	64.9	56.7	64.5	60.7	59.4	57.3	58.1	57.9	59.7	60.3	56.5	62.0
Amount of credit extended	62.1	65.7	60.4	63.0	64.6	64.9	61.5	62.0	63.0	61.9	62.7	62.8	64.4
Index of favorable factors	**59.4**	**63.8**	**59.9**	**62.7**	**62.7**	**61.2**	**59.6**	**60.0**	**59.6**	**60.7**	**61.0**	**58.4**	**62.2**
Rejections of credit applications	49.4	49.1	49.9	50.8	51.6	51.8	51.8	52.2	51.6	52.5	52.2	52.8	50.2
Accounts placed for collection	47.5	49.3	49.6	50.7	52.5	50.7	52.0	49.0	48.7	52.6	53.0	53.6	51.7
Disputes	47.2	49.0	50.1	49.9	51.6	51.3	50.6	50.8	47.6	53.7	51.7	52.9	51.1
Dollar amount beyond terms	48.8	49.3	48.5	50.3	51.2	50.6	49.0	51.9	47.8	51.7	50.7	47.8	49.4
Dollar amount of customer deductions	48.9	48.9	51.0	50.6	51.5	50.4	51.0	50.9	49.7	53.6	51.1	51.5	50.9
Filings for bankruptcies	57.0	56.2	57.2	57.6	58.4	55.9	58.4	58.3	56.4	61.6	61.3	61.5	60.4
Index of unfavorable factors	**49.8**	**50.3**	**51.0**	**51.6**	**52.8**	**51.8**	**52.1**	**52.2**	**50.3**	**54.3**	**53.3**	**53.3**	**52.3**
NACM Service CMI	**53.6**	**55.7**	**54.6**	**56.0**	**56.8**	**55.6**	**55.1**	**55.3**	**54.0**	**56.9**	**56.4**	**55.4**	**56.2**



November 2012 vs. November 2011

It is obviously too soon to assert that a trend has been broken and another has set, but it is good news to note that the negative performance that seemed to dominate in October has at least been interrupted. The overall range is still in the mid-50s. That is better than sinking into the 40s, but not as good as trending back into the 60s for a while.



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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