



## Report for August 2012

Issued August 31, 2012

National Association of Credit Management

### Combined Sectors

For the past several years, the Credit Managers Index (CMI) has consistently predicted the performance of the greater economy by roughly a month. In 2008, when the majority of the economic indicators pointed toward more growth, the CMI had already started to track downward and essentially predicted the impending recession. This indicative quality has been noted and is largely attributed to the nature of the credit manager's world, which essentially focuses on the future. Credit managers are more concerned about what is happening in the next 30, 60, 90 or 120 days—when invoices are due. If this trend holds true, the news from this month is going to make many happy about coming trends in the economy.

At the top of the list of numbers to get excited about is the CMI reading itself. It now sits at 55.8, and that ends four straight months of decline. It also takes the index back to levels seen in March when the CMI was at 56.2. The second number to get enthused over is the index of unfavorable factors. Last month that set of numbers slipped beneath 50, the line that separates expansion from contraction. Now at 53.1, it is as high as it has been in well over a year. The prior high was 52, which was also back in March. Finally there is the index of favorable factors, which recovered nicely as well. The current reading is back to 60 and is consistent with the numbers seen through most of the spring.

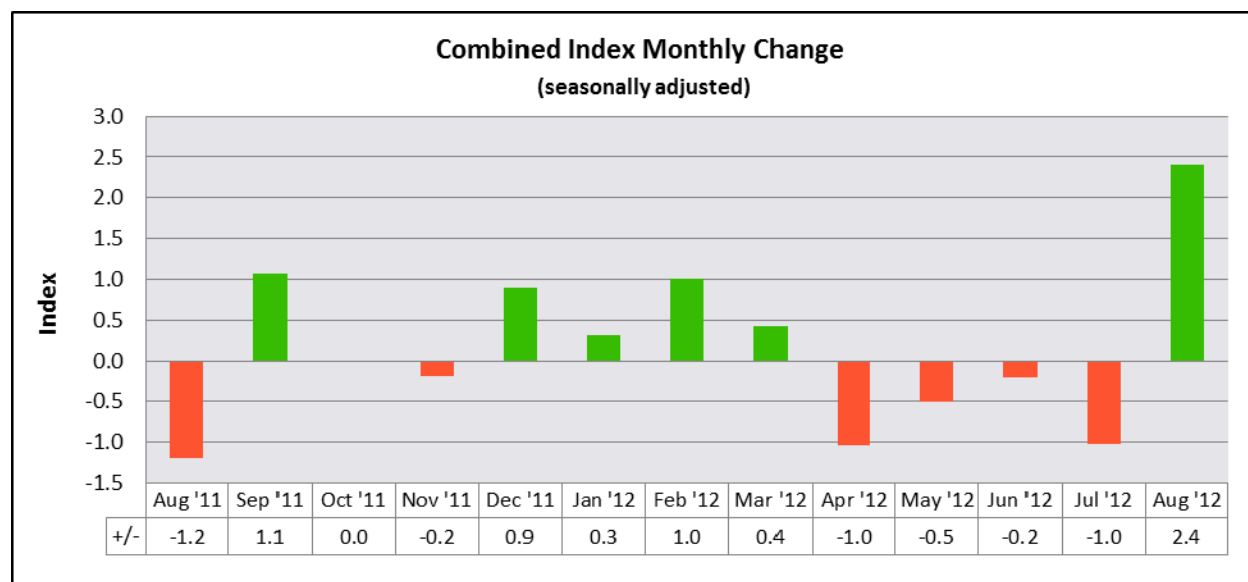
There is more in the details to fuel a cautiously upbeat attitude. The number that moved the needle on the index of favorable factors was sales, and the almost four-point jump was impressive. Sales returned to the 60s, sitting right at 60, after falling to 58.5 last month. It had been one of the more consistently positive index numbers for the past year, staying above 60 all year with the exception of a dip to 58.3 in November 2011. There was a slight weakening in new credit applications, but the other favorable factors, dollar collections and amount of credit extended, remained stable.

The most significant change took place in the unfavorable factors. Last month, only two of the six factors were above the expansion mark, and this month all of them are. The biggest improvements were in accounts placed for collection (48.9 to 52.4), disputes (47.6 to 51.9) and filings for bankruptcies (54.9 to 59.6). Filing for bankruptcies is as positive as this category has tracked in well over a year. Business closures have tapered off over the last several months and that is generally a good sign.

It is far too early to declare a dramatic turnaround in the economy, but these better numbers are reinforcing some of the other emerging data points. The housing market is showing consistent signs of life, boosting the prospects for construction employment. Durable goods orders also posted solid numbers, although a significant part of that gain seemed to come from the aerospace industry. Finally, the rate of new claims for unemployment has slowed, but did not have much effect on the rate of unemployment itself.

The best that can be said about the August CMI is that a declining pattern was thoroughly broken, and there is reason to believe that this could be start of a much more positive trend than has been seen through most of the summer.

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Aug '11</b>	<b>Sep '11</b>	<b>Oct '11</b>	<b>Nov '11</b>	<b>Dec '11</b>	<b>Jan '12</b>	<b>Feb '12</b>	<b>Mar '12</b>	<b>Apr '12</b>	<b>May '12</b>	<b>Jun '12</b>	<b>Jul '12</b>	<b>Aug '12</b>
Sales	59.2	61.4	60.4	58.3	60.5	63.5	64.4	64.1	60.0	61.2	60.6	58.5	62.0
New credit applications	55.8	57.8	58.9	57.6	55.3	61.9	59.5	60.4	58.2	59.9	57.5	57.2	56.8
Dollar collections	56.9	57.8	56.8	56.9	61.4	56.8	63.0	61.4	59.3	58.5	60.0	58.7	59.7
Amount of credit extended	60.7	62.8	61.9	62.4	64.7	63.3	64.3	63.9	64.6	61.3	62.6	61.3	61.4
<b>Index of favorable factors</b>	<b>58.1</b>	<b>59.9</b>	<b>59.5</b>	<b>58.8</b>	<b>60.5</b>	<b>61.4</b>	<b>62.8</b>	<b>62.5</b>	<b>60.5</b>	<b>60.2</b>	<b>60.2</b>	<b>58.9</b>	<b>60.0</b>
Rejections of credit applications	50.2	49.9	50.2	49.5	49.5	50.2	50.5	50.6	51.6	51.1	51.4	51.4	52.4
Accounts placed for collection	47.6	48.7	50.1	49.5	50.0	49.1	50.9	52.0	50.3	50.5	48.3	48.9	52.4
Disputes	48.7	47.6	49.0	47.9	49.2	49.2	49.7	50.9	50.7	49.4	48.9	47.6	51.9
Dollar amount beyond terms	44.2	49.1	47.6	48.0	48.8	48.0	51.2	50.7	50.0	48.0	50.5	47.8	50.9
Dollar amount of customer deductions	49.1	49.2	48.7	48.9	49.1	50.1	48.5	51.1	50.4	50.2	48.7	48.2	51.4
Filings for bankruptcies	54.5	53.2	53.8	56.7	56.0	55.5	55.7	56.8	56.2	56.4	56.0	54.9	59.6
<b>Index of unfavorable factors</b>	<b>49.1</b>	<b>49.6</b>	<b>49.9</b>	<b>50.1</b>	<b>50.4</b>	<b>50.3</b>	<b>51.1</b>	<b>52.0</b>	<b>51.6</b>	<b>50.9</b>	<b>50.6</b>	<b>49.8</b>	<b>53.1</b>
<b>NACM Combined CMI</b>	<b>52.7</b>	<b>53.8</b>	<b>53.7</b>	<b>53.5</b>	<b>54.4</b>	<b>54.8</b>	<b>55.8</b>	<b>56.2</b>	<b>55.1</b>	<b>54.6</b>	<b>54.5</b>	<b>53.4</b>	<b>55.8</b>



## Manufacturing Sector

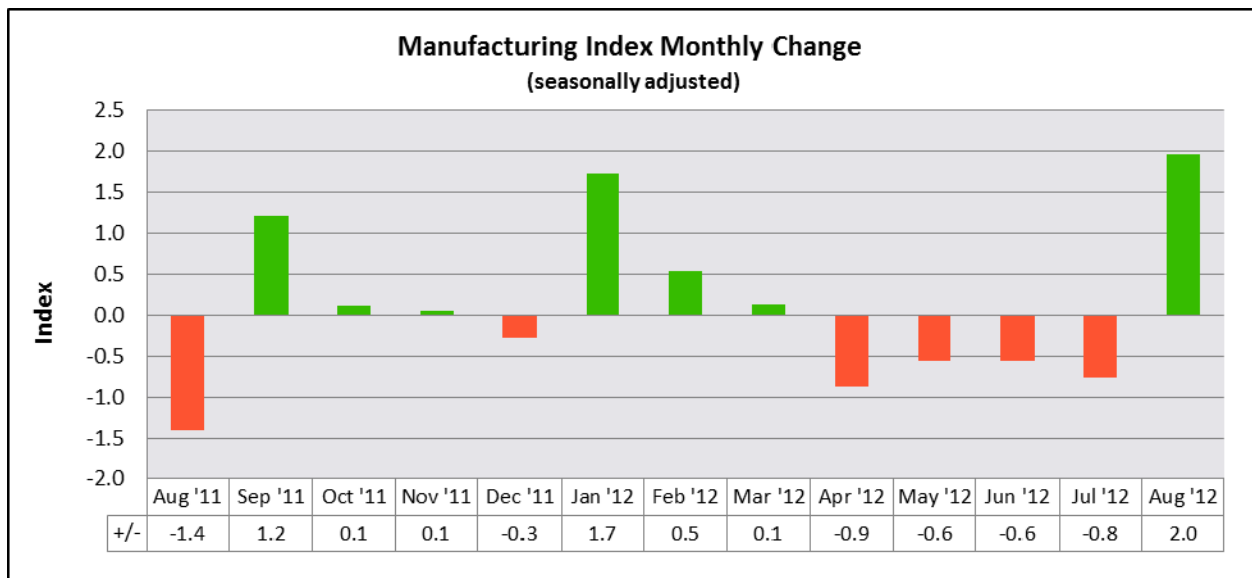
The good news that propelled the CMI to better numbers than seen for the past few years was manifested very clearly in the manufacturing sector. There was a jump in the manufacturing index from 52.8 to 54.8, marking the highest point reached since March 2012. In other words, the data suggest that conditions have started to return to the status prior to the decline over the months of spring. If this trend holds, the next quarter will report higher numbers than predicted by most analysts.

The change in the index of favorable factors was relatively modest, improving from 58.2 to 59.2 and putting it closer to the average that has prevailed through much of the year. Sales saw the biggest movement, as it went from 57.2 to 60, and amount of credit extended also improved from 59.6 to 60.8. This is very good news given the role that manufacturing has played in the economic recovery thus far. There was a slight decline in new credit applications from 56.5 to 56.3. Dollar collections also slipped a little from 59.6 to 59.7.

There was more dramatic movement in the index of unfavorable factors. Since April, the unfavorable index has been under 50 and, last month, only two of its factors were above 50. This month, all of the factors were over 50 except one: dollar amount of customer deductions, which improved to 49.2, just shy of the expansion mark and not significantly better than where it was last year. Rejections of credit applications went from 51.2 to 52.2 while accounts placed for collection went from 49.1 to 52.1. Disputes jumped from 47.6 to 50.1 and dollar amount beyond terms went from 47.8 to 50.1. Bankruptcy filings went from 53.3 to 57.5, taking that reading to a high not seen in well over a year.

Looking at the data coming from the manufacturing community as a whole, the numbers make sense. As mentioned above, durable goods orders showed some improvement and the latest reassessment of the second quarter GDP number showed a more robust export sector than previously reported. There is no sense that manufacturers are out of the woods entirely, and success is highly dependent on what sector these companies are active in. The point is that manufacturing continues to play the role it has throughout the recession and its aftermath. Perhaps not as robustly as in the past, but it remains a growth sector.

<b>Manufacturing Sector (seasonally adjusted)</b>	<b>Aug '11</b>	<b>Sep '11</b>	<b>Oct '11</b>	<b>Nov '11</b>	<b>Dec '11</b>	<b>Jan '12</b>	<b>Feb '12</b>	<b>Mar '12</b>	<b>Apr '12</b>	<b>May '12</b>	<b>Jun '12</b>	<b>Jul '12</b>	<b>Aug '12</b>
Sales	58.0	59.5	59.3	58.1	57.7	64.1	65.1	65.4	59.4	61.6	59.1	57.2	60.0
New credit applications	55.3	57.5	60.6	55.7	49.5	64.2	59.3	57.9	56.6	61.1	57.2	56.5	56.3
Dollar collections	56.0	56.7	56.5	56.2	58.0	56.8	61.4	62.2	59.2	59.7	61.9	59.6	59.7
Amount of credit extended	59.5	62.1	60.7	62.7	63.6	66.2	65.7	63.2	64.3	61.0	63.2	59.6	60.8
<b>Index of favorable factors</b>	<b>57.2</b>	<b>58.9</b>	<b>59.3</b>	<b>58.2</b>	<b>57.2</b>	<b>62.8</b>	<b>62.9</b>	<b>62.2</b>	<b>59.9</b>	<b>60.9</b>	<b>60.4</b>	<b>58.2</b>	<b>59.2</b>
Rejections of credit applications	50.4	50.0	49.6	49.6	49.8	50.5	50.1	49.6	51.5	50.4	50.5	51.2	52.2
Accounts placed for collection	47.3	49.6	48.8	51.6	50.7	48.6	51.1	51.6	49.9	49.0	47.7	49.1	52.1
Disputes	48.6	44.9	47.7	48.5	49.3	48.3	49.6	50.2	50.2	48.2	47.0	47.6	50.1
Dollar amount beyond terms	42.6	51.3	49.7	47.1	48.4	47.6	52.2	50.1	49.4	46.9	49.2	47.8	50.1
Dollar amount of customer deductions	48.9	48.1	47.7	48.8	49.3	49.2	46.5	50.6	50.4	49.5	46.6	46.6	49.2
Filings for bankruptcies	54.5	53.4	53.7	56.5	55.7	53.8	53.8	55.3	56.5	54.3	53.8	53.3	57.5
<b>Index of unfavorable factors</b>	<b>48.7</b>	<b>49.5</b>	<b>49.5</b>	<b>50.4</b>	<b>50.5</b>	<b>49.7</b>	<b>50.5</b>	<b>51.2</b>	<b>51.3</b>	<b>49.7</b>	<b>49.1</b>	<b>49.3</b>	<b>51.9</b>
<b>NACM Manufacturing CMI</b>	<b>52.1</b>	<b>53.3</b>	<b>53.4</b>	<b>53.5</b>	<b>53.2</b>	<b>54.9</b>	<b>55.5</b>	<b>55.6</b>	<b>54.7</b>	<b>54.2</b>	<b>53.6</b>	<b>52.8</b>	<b>54.8</b>



## Service Sector

After last month's plunge, there was not much expected from the service side of the equation, but what a difference a month can make. As with the manufacturing sector, the real news was in sales and some of the unfavorable categories, but the overall numbers are providing ammunition for those that see a decent holiday season shaping up. The back-to-school sales numbers were respectable, and now all eyes are on the Halloween period.

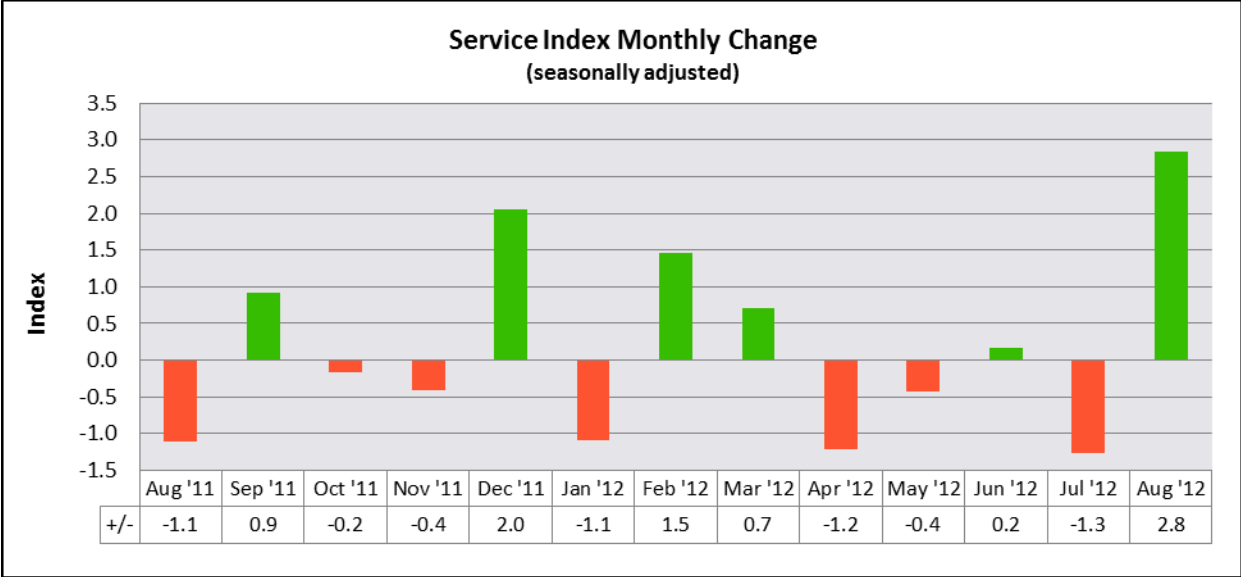
The service sector index came in at 56.9, marking the highest reading since March when the prospects for a decent economic recovery looked pretty promising. This was before the "spring swoon" that got underway in April and it was before the country faced a drought of epic proportions. The silver lining looked pretty substantial until the bottom began to drop out in April. Now there is some cautious optimism that progress may be made in the months ahead. The changes in the index of favorable factors were modest, rising from 59.6 to 60.7, but the changes in the unfavorable factors were more impressive, shifting from 50.3 to 54.3. The most informative data is in the details.

As mentioned earlier, sales jumped by more than four points, and dollar collections improved from 57.9 to 59.7. New credit applications basically remained steady with a small drop from 57.9 to 57.3. Amount of credit extended also fell, from 63 to a reading of 61.9—not positive, but the important point is it has remained over 60.

When it comes to the unfavorable factors, the best news is that last month four of the six factors were in contraction territory and this month none of them are, and one has even jumped into the 60s. Rejections of credit applications moved slightly from 51.6 to 52.5, but the rest of the factors registered quite big jumps: accounts placed for collection from 48.7 to 52.6, disputes from 47.6 to 53.7, dollar amount beyond terms from 47.8 to 51.7, dollar amount of customer deductions from 49.7 to 53.6, and filings for bankruptcies from 56.4 to 61.6.

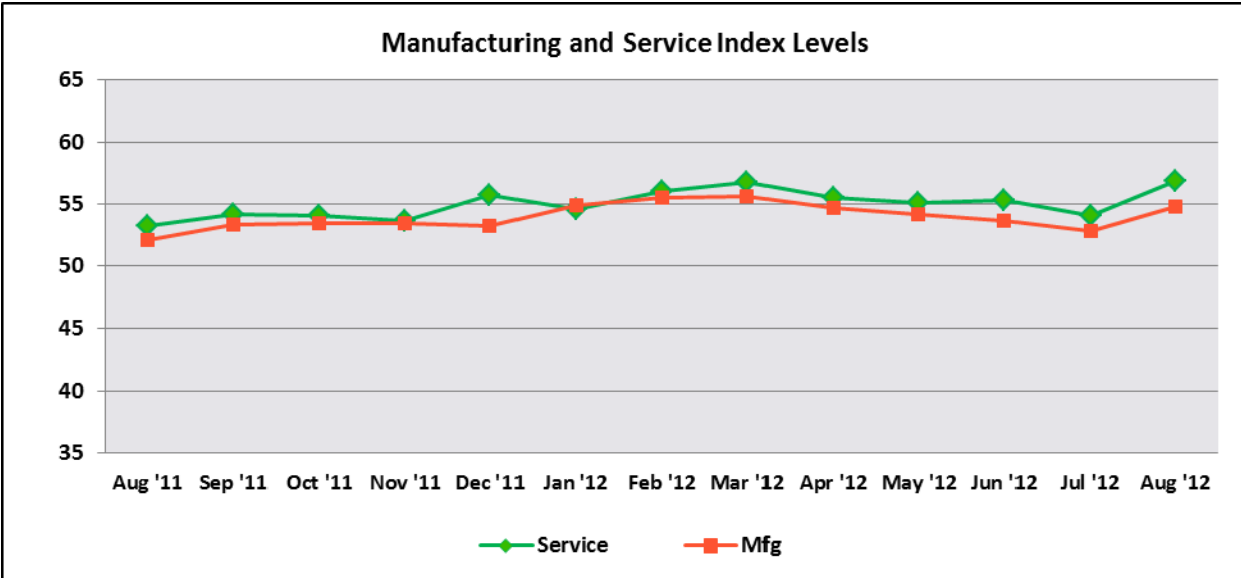
The bankruptcy number is the highest seen in that factor since the middle of last year and that is a very positive signal for more than just the obvious reason. When there is a reduction in bankruptcies, it means that more businesses are staying out of financial distress, but it also means that there are other options for companies in trouble. In improving economic conditions, a company that is struggling can become a target for acquisition by a company that has been more successful. These acquisitions tend to preserve jobs and the value of the company far better than the bankruptcy would.

<b>Service Sector (seasonally adjusted)</b>	<b>Aug '11</b>	<b>Sep '11</b>	<b>Oct '11</b>	<b>Nov '11</b>	<b>Dec '11</b>	<b>Jan '12</b>	<b>Feb '12</b>	<b>Mar '12</b>	<b>Apr '12</b>	<b>May '12</b>	<b>Jun '12</b>	<b>Jul '12</b>	<b>Aug '12</b>
Sales	60.5	63.3	61.5	58.4	63.3	62.9	63.6	62.8	60.6	60.9	62.1	59.8	64.0
New credit applications	56.3	58.0	57.2	59.4	61.1	59.6	59.6	62.8	59.9	58.8	57.7	57.9	57.3
Dollar collections	57.9	58.9	57.0	57.6	64.9	56.7	64.5	60.7	59.4	57.3	58.1	57.9	59.7
Amount of credit extended	61.9	63.5	63.2	62.1	65.7	60.4	63.0	64.6	64.9	61.5	62.0	63.0	61.9
<b>Index of favorable factors</b>	<b>59.1</b>	<b>60.9</b>	<b>59.7</b>	<b>59.4</b>	<b>63.8</b>	<b>59.9</b>	<b>62.7</b>	<b>62.7</b>	<b>61.2</b>	<b>59.6</b>	<b>60.0</b>	<b>59.6</b>	<b>60.7</b>
Rejections of credit applications	50.1	49.8	50.9	49.4	49.1	49.9	50.8	51.6	51.8	51.8	52.2	51.6	52.5
Accounts placed for collection	47.8	47.8	51.3	47.5	49.3	49.6	50.7	52.5	50.7	52.0	49.0	48.7	52.6
Disputes	48.9	50.4	50.2	47.2	49.0	50.1	49.9	51.6	51.3	50.6	50.8	47.6	53.7
Dollar amount beyond terms	45.9	46.9	45.4	48.8	49.3	48.5	50.3	51.2	50.6	49.0	51.9	47.8	51.7
Dollar amount of customer deductions	49.3	50.2	49.8	48.9	48.9	51.0	50.6	51.5	50.4	51.0	50.9	49.7	53.6
Filings for bankruptcies	54.6	53.1	54.0	57.0	56.2	57.2	57.6	58.4	55.9	58.4	58.3	56.4	61.6
<b>Index of unfavorable factors</b>	<b>49.4</b>	<b>49.7</b>	<b>50.3</b>	<b>49.8</b>	<b>50.3</b>	<b>51.0</b>	<b>51.6</b>	<b>52.8</b>	<b>51.8</b>	<b>52.1</b>	<b>52.2</b>	<b>50.3</b>	<b>54.3</b>
<b>NACM Service CMI</b>	<b>53.3</b>	<b>54.2</b>	<b>54.0</b>	<b>53.6</b>	<b>55.7</b>	<b>54.6</b>	<b>56.0</b>	<b>56.8</b>	<b>55.6</b>	<b>55.1</b>	<b>55.3</b>	<b>54.0</b>	<b>56.9</b>



### August 2012 vs. August 2011

The year-to-year trend just reversed course dramatically and unexpectedly. This bodes well for the start of the holiday season and many will be paying close attention to see if this trend holds.



### 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 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.*



## 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>.

Source: National Association of Credit Management

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