



## Report for October 2012

Issued November 1, 2012

National Association of Credit Management

### Combined Sectors

The October Credit Managers' Index fell from 55.3 to 54.4, reflecting the mood of the overall economy right now. The readings are not great, but not dismal either. Some aspects of the overall survey point in a positive direction, and some are decidedly worrying. The sense is that a few of the big issues that have been affecting other economic measures are having an impact on the CMI as well. It is hard to point explicitly at the "fiscal cliff" as a cause for overall decline, but it is also quite apparent that the uncertainty affecting business decision-making is having an impact, as some of the future indicators are weaker than expected at this point.

The most distressing number in this month's survey, and the one that seems to point to the fiscal cliff issue, would be sales. The October sales number has fallen as low as it has been since the middle of last year, settling in at 57.4. In July, the sales index dipped under 60 for the first time since November 2011, but in August there was a strong rebound to 62. That was followed by September's slip to barely back under 60 to 59.5. Given that many companies continue to indicate that they are planning more capital expenditures, there is not much to attribute this drop in sales to other than worry about the outcome of the fiscal cliff issue. The silver lining in this case would be that a solution to the crisis would likely result in a jump in capital expenditures and investment in general. The downside is that the powers that be could still allow the unthinkable to occur.

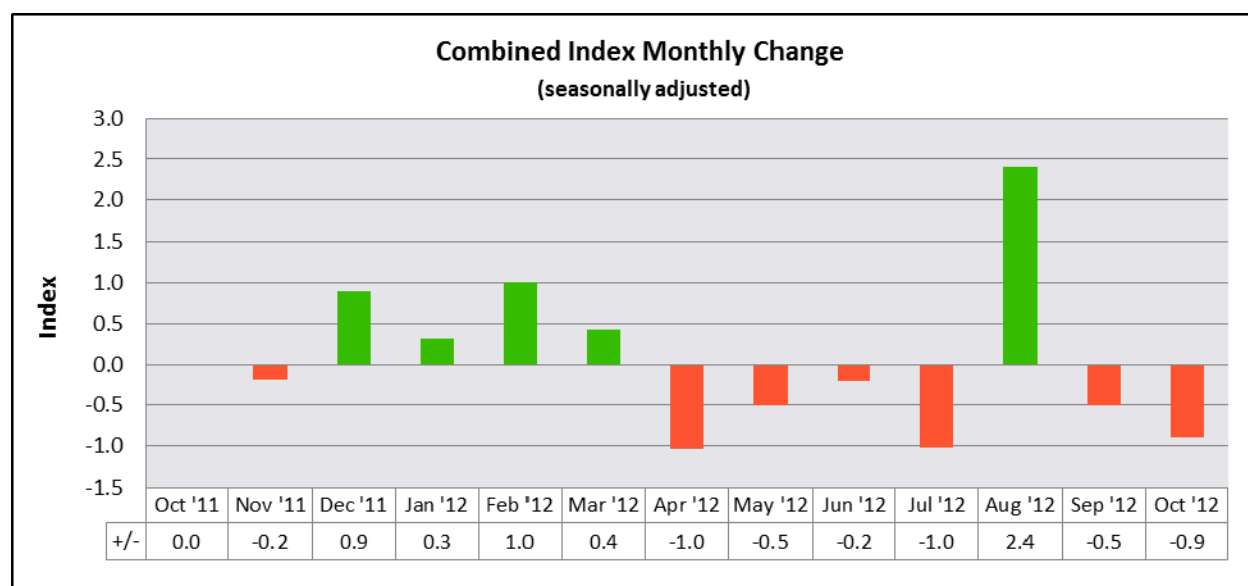
In most respects, the other favorable factors stayed comfortably above the 50 mark despite the fact that all four categories slipped. Amount of credit extended is still solidly in the low 60s with a reading of 62.2. New credit applications slid from 57.4 to 56.6, the lowest since late last year. Dollar collections moved downward pretty sharply from 58.5 to 54.6. This is cause for some concern as this is the lowest reading for collections in over a year. There is mounting evidence that the business community is retrenching to some extent, slowing collection down more than is comfortable, although it should be noted that the reading is still in the mid-50s and well into expansion territory, just like the overall favorable factor index, which fell to 57.7.

The unfavorable factors also saw some decline, but nothing as dramatic as in the favorable factor numbers. The shift in the unfavorable factor index from September to October was very slight, a decline from 52.6 to 52.3. This slow erosion and essentially flat performance since the August reading of 53.1 is better news than one would assume given all the struggles that the economy has been plodding through of late.

Dollar amount beyond terms sported the biggest decline as it slipped from 51 to 48. In the past, this has indicated that companies are starting to struggle to meet their obligations and in the months to come some of the other negatives start to accelerate. There was also a decline in dollar amount of customer deductions from 51 to 50.7, and filings for bankruptcies sagged as well from 59.1 to 58.9. Thus far, the bottom has not dropped out of the unfavorable categories indicating that there is time for a rebound, but past patterns suggest that these numbers will look worse in months to come unless there is a shift in economic fortunes.

Some unfavorable factors did improve, although the movement was pretty slight. There was a gain in rejections of credit applications from 51.4 to 52. Likewise, there was a gain in accounts placed for collection from 52.5 to 53. Even disputes improved slightly from 50.5 to 50.9.

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</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>	<b>Sep '12</b>	<b>Oct '12</b>
Sales	60.4	58.3	60.5	63.5	64.4	64.1	60.0	61.2	60.6	58.5	62.0	59.5	57.4
New credit applications	58.9	57.6	55.3	61.9	59.5	60.4	58.2	59.9	57.5	57.2	56.8	57.4	56.6
Dollar collections	56.8	56.9	61.4	56.8	63.0	61.4	59.3	58.5	60.0	58.7	59.7	58.5	54.6
Amount of credit extended	61.9	62.4	64.7	63.3	64.3	63.9	64.6	61.3	62.6	61.3	61.4	62.3	62.2
<b>Index of favorable factors</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>	<b>59.4</b>	<b>57.7</b>
Rejections of credit applications	50.2	49.5	49.5	50.2	50.5	50.6	51.6	51.1	51.4	51.4	52.4	51.4	52.0
Accounts placed for collection	50.1	49.5	50.0	49.1	50.9	52.0	50.3	50.5	48.3	48.9	52.4	52.5	53.0
Disputes	49.0	47.9	49.2	49.2	49.7	50.9	50.7	49.4	48.9	47.6	51.9	50.5	50.9
Dollar amount beyond terms	47.6	48.0	48.8	48.0	51.2	50.7	50.0	48.0	50.5	47.8	50.9	51.0	48.0
Dollar amount of customer deductions	48.7	48.9	49.1	50.1	48.5	51.1	50.4	50.2	48.7	48.2	51.4	51.0	50.7
Filings for bankruptcies	53.8	56.7	56.0	55.5	55.7	56.8	56.2	56.4	56.0	54.9	59.6	59.1	58.9
<b>Index of unfavorable factors</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>52.6</b>	<b>52.3</b>
<b>NACM Combined CMI</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>	<b>55.3</b>	<b>54.4</b>



## Manufacturing Sector

Manufacturing has been a mainstay of the economic recovery for the last few years, but there have been some signs of trouble showing up of late. The latest numbers dipped as far as durable goods orders are concerned, and there have been declines in factory orders as well. The news has not been all bad though. The rate of capacity utilization has improved and there has been some improvement in the new orders index in the larger Purchasing Managers Index. That same combination of good and bad news has appeared in the CMI number as well. The overall movement of the manufacturing index was slightly negative, falling from 54.3 to 53.5. This is not trending in the direction that any would desire, but the fact is that the manufacturing index has been in a pretty tight range for close to a year now. The highest reading was 55.6 in March of this year and the lowest reading was 52.8 in July. There has been consistency in the overall reading and, thus far, it has stayed in the expansion zone. The variability is found in the favorable and unfavorable factor index numbers.

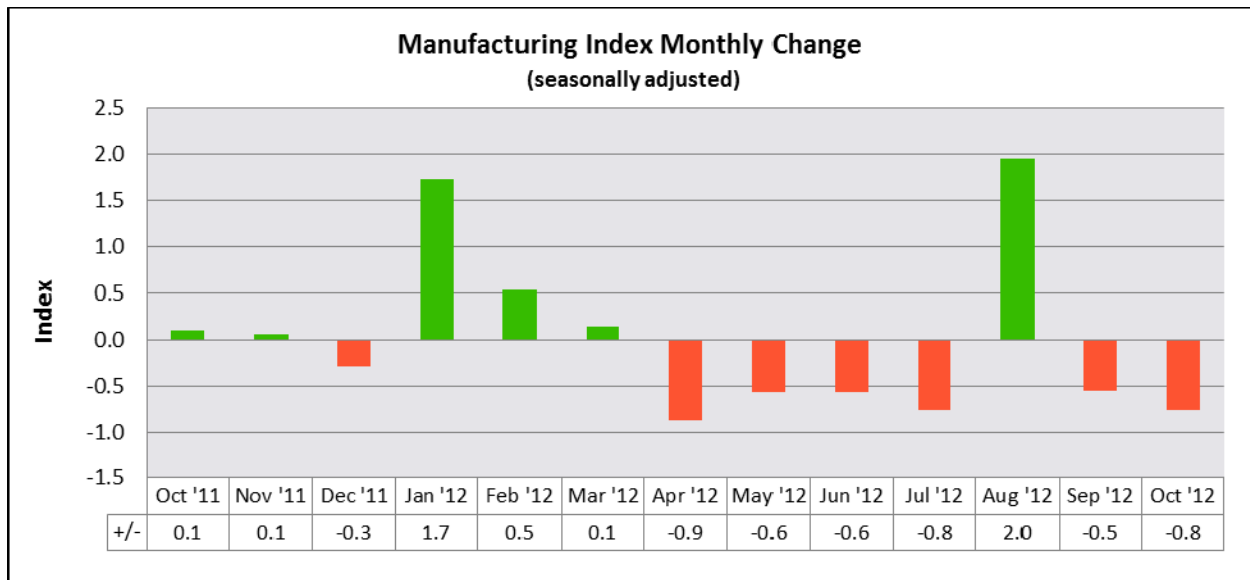
The favorable categories have been generally good this year, but the slowdown has been obvious over the last few months. In the beginning of the year the readings had reached into the 60s, but that stopped as the summer months arrived and the “spring swoon” took hold. The latest reading for the favorable factors was 57, down from the August number of 57.9. This is still positive territory, but the trend had been more promising.

Sales fell to the lowest point reached all year (56.7) and lower than anything seen since the middle of 2011. This is the number that seems to reflect the impact of the fiscal cliff paralysis. The data from studies of capital expenditure suggest that many companies are ready to spend and expand, but they remain inhibited and cautious. Anecdotally many companies report that they will start to spend as soon as they know what to anticipate in the year ahead. The rest of the favorable factors showed some volatility. New credit applications improved from 55.7 to 57, reinforcing the notion that companies intend to act when they get some signal of stability and intent from Congress. Dollar collections slipped a bit from 56.8 to 52.6, which indicates payments are slowing down. Amount of credit extended also slipped, falling from 61.9 to 61.6.

The unfavorable factor index number was not all that different from the month previous, declining from 51.8 to 51.2. The bad news as far as trends are concerned is that of the six unfavorable factors, there are now three below 50 and in contraction now. In September, there was only one. Disputes slipped slightly from 49.3 to 48.9 and dollar amount beyond terms fell pretty dramatically from 51.3 to 48.3. Granted this is a category that has been under 50 for the bulk of the last year, but it had started to show progress and it is disappointing to see that level sink back below 50. Dollar amount of customer deductions slid as well, from 50.9 to 49.9. This was not a huge decline, but the slide beneath 50 causes some concern because it is now trending back toward where it had been most of the last year. Filings for bankruptcies also slipped, but only very slightly, from 56.8 to 56.3.

Despite the general reduction in progress for this index, some factors improved a little. Rejections of credit applications improved from 50.7 to 51.2 and can be attributed to the fact that fewer unqualified applicants are applying. There was also a slight uptick in accounts placed for collection from 52 to 52.4.

<b>Manufacturing Sector (seasonally adjusted)</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>	<b>Sep '12</b>	<b>Oct '12</b>
Sales	59.3	58.1	57.7	64.1	65.1	65.4	59.4	61.6	59.1	57.2	60.0	57.3	56.7
New credit applications	60.6	55.7	49.5	64.2	59.3	57.9	56.6	61.1	57.2	56.5	56.3	55.7	57.0
Dollar collections	56.5	56.2	58.0	56.8	61.4	62.2	59.2	59.7	61.9	59.6	59.7	56.8	52.6
Amount of credit extended	60.7	62.7	63.6	66.2	65.7	63.2	64.3	61.0	63.2	59.6	60.8	61.9	61.6
<b>Index of favorable factors</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>	<b>57.9</b>	<b>57.0</b>
Rejections of credit applications	49.6	49.6	49.8	50.5	50.1	49.6	51.5	50.4	50.5	51.2	52.2	50.7	51.2
Accounts placed for collection	48.8	51.6	50.7	48.6	51.1	51.6	49.9	49.0	47.7	49.1	52.1	52.0	52.4
Disputes	47.7	48.5	49.3	48.3	49.6	50.2	50.2	48.2	47.0	47.6	50.1	49.3	48.9
Dollar amount beyond terms	49.7	47.1	48.4	47.6	52.2	50.1	49.4	46.9	49.2	47.8	50.1	51.3	48.3
Dollar amount of customer deductions	47.7	48.8	49.3	49.2	46.5	50.6	50.4	49.5	46.6	46.6	49.2	50.9	49.9
Filings for bankruptcies	53.7	56.5	55.7	53.8	53.8	55.3	56.5	54.3	53.8	53.3	57.5	56.8	56.3
<b>Index of unfavorable factors</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>51.8</b>	<b>51.2</b>
<b>NACM Manufacturing CMI</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>	<b>54.3</b>	<b>53.5</b>



## Service Sector

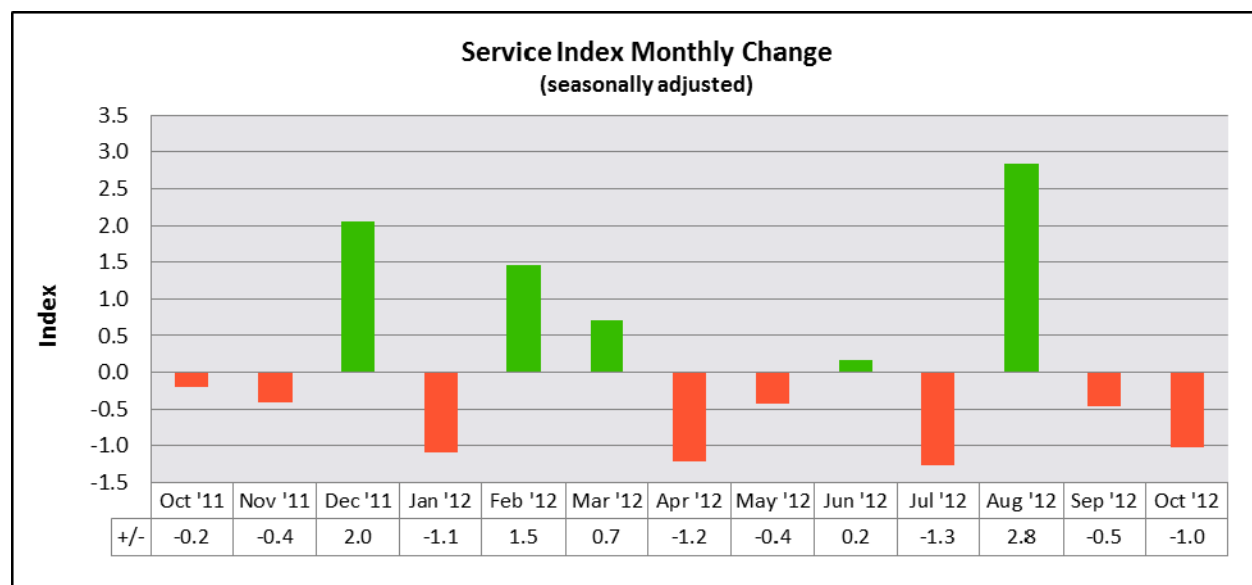
The service sector was as varied as one might expect this time of year. The slowdown in the economy that has accompanied the fiscal cliff conversation is a little less direct in the service economy, and the onset of the holiday shopping season tends to offset some of that gloom. On the other hand, this is a very diverse sector and that always provides a little something for everyone.

The unfavorable factor index stayed exactly where it was in September, but somewhat akin to a group of synchronized swimmers, there was a lot of activity under the water. Both months may have ended up with a reading of 53.3, but how they got there was different. The index of favorable factors showed more outward volatility. Sales dropped from 61.7 to 58.2, the lowest reading in more than a year. In November 2011, the index fell to 58.4 and it has been higher since. There is not much evidence that retail is off, so the decline in sales is taking place in categories like professional services, finance and health care. New credit applications slipped from 59.2 to 56.2, still respectably above the 50 mark, but not so close to getting back above that 60 mark. Dollar collections dropped out of the 60s, as it fell from 60.3 to 56.5, but there was a very small improvement in amount of credit extended, which improved 62.7 to 62.8.

As mentioned above, there was no change in the unfavorable factors at the collective level. That doesn't mean that there was no variety within the categories themselves. There was a small improvement in rejections of credit applications from 52.2 to 52.8. Accounts placed for collection rose from 53 to 53.6. Not great activity, but further into the 50s and a good thing overall. Disputes improved from 51.7 to 52.9, as did dollar amount of customer deductions from 51.1 to 51.5. Finally, filings for bankruptcies improved from 61.3 to 61.5. Given that all these categories improved, why didn't the overall index reflect the good news? It all comes down to one category that sustained a really big decline.

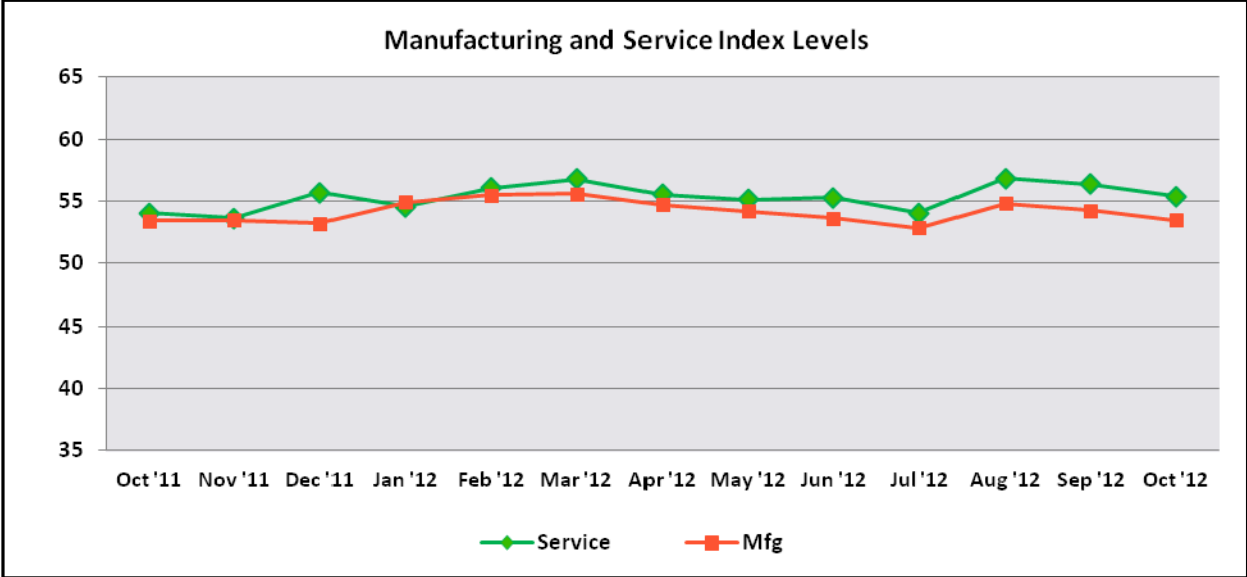
Dollar amount beyond terms was a real downer this month, as it fell from 50.7 to 47.8. This is the only category that slipped into contraction territory, and this is worrisome given the impact it has on the other factors in the months to come. This is often the first sign of some real trouble—companies are starting to fall behind on payment obligations. These are not yet ready for the collection process and there is still nothing all that draconian in place, but that is where too many of these companies will be heading if there is no economic reversal.

<b>Service Sector (seasonally adjusted)</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>	<b>Sep '12</b>	<b>Oct '12</b>
Sales	61.5	58.4	63.3	62.9	63.6	62.8	60.6	60.9	62.1	59.8	64.0	61.7	58.2
New credit applications	57.2	59.4	61.1	59.6	59.6	62.8	59.9	58.8	57.7	57.9	57.3	59.2	56.2
Dollar collections	57.0	57.6	64.9	56.7	64.5	60.7	59.4	57.3	58.1	57.9	59.7	60.3	56.5
Amount of credit extended	63.2	62.1	65.7	60.4	63.0	64.6	64.9	61.5	62.0	63.0	61.9	62.7	62.8
<b>Index of favorable factors</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>	<b>61.0</b>	<b>58.4</b>
Rejections of credit applications	50.9	49.4	49.1	49.9	50.8	51.6	51.8	51.8	52.2	51.6	52.5	52.2	52.8
Accounts placed for collection	51.3	47.5	49.3	49.6	50.7	52.5	50.7	52.0	49.0	48.7	52.6	53.0	53.6
Disputes	50.2	47.2	49.0	50.1	49.9	51.6	51.3	50.6	50.8	47.6	53.7	51.7	52.9
Dollar amount beyond terms	45.4	48.8	49.3	48.5	50.3	51.2	50.6	49.0	51.9	47.8	51.7	50.7	47.8
Dollar amount of customer deductions	49.8	48.9	48.9	51.0	50.6	51.5	50.4	51.0	50.9	49.7	53.6	51.1	51.5
Filings for bankruptcies	54.0	57.0	56.2	57.2	57.6	58.4	55.9	58.4	58.3	56.4	61.6	61.3	61.5
<b>Index of unfavorable factors</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>53.3</b>	<b>53.3</b>
<b>NACM Service CMI</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>	<b>56.4</b>	<b>55.4</b>



### October 2012 vs. October 2011

The best that can be said about this month is that conditions have not appreciably worsened. It isn't exactly a steady state, but there is no big fall to note yet either. The good news is that we have another month in the expansion zone, but in the last 12 months there hasn't been much progress toward the upper end of the 50s, much less the 60s.



**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.

<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>.

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