Report for December 2013

Issued December 30, 2013

National Association of Credit Management

Combined Sectors

Market-watchers looking for holiday cheer would be hard pressed to find any in the December Credit Managers' Index (CMI), published by the National Association of Credit Management (NACM). The Combined Index fell dramatically from 57.1 to 55.6, erasing most of the gains made in the last few months and taking the CMI back to levels not seen since the middle of summer. Though the manufacturing index fell by a full point from 56.7 to 55.7, it was the service sector's two-point fall from 57.5 to 55.5 reflecting a slow response to Christmas and a slowdown in the housing sector that delivered the hardest blow.

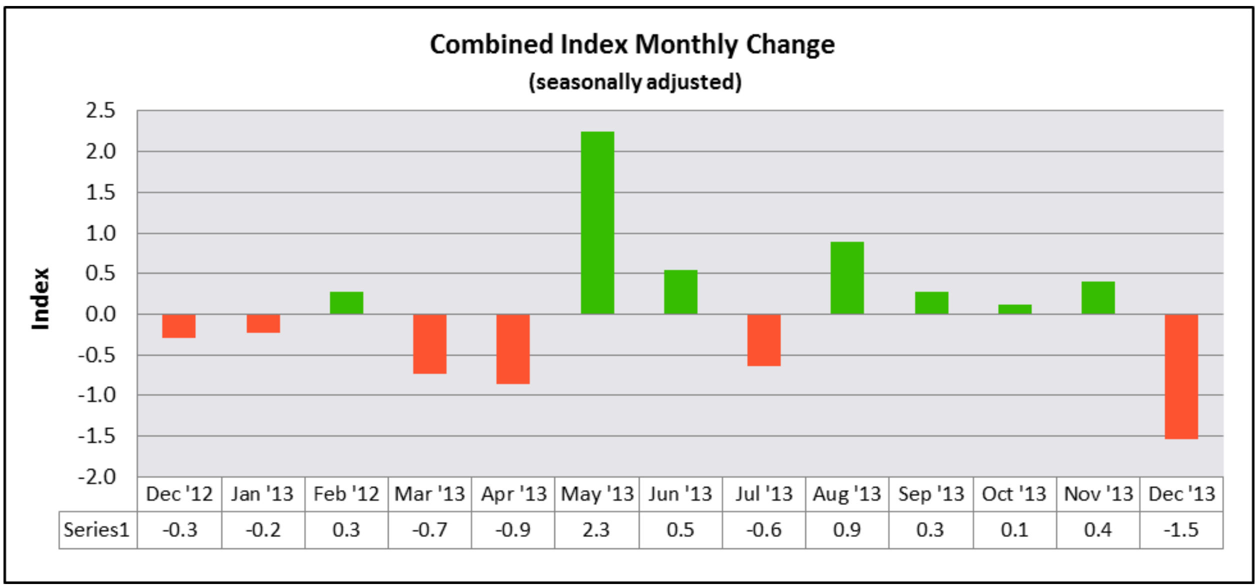
The CMI's four favorable factors registered the biggest declines, as the gains made in the second half of the year seemed to evaporate. Overall, the favorable factor index fell from 61.3 to 59.3, driven by a sharp reduction in sales, which stumbled from 63.4 in November to 58.7 in December, marking the fifth lowest sales reading in the last 12 months. New credit applications dropped by two points from 59.2 to 57.2, a reading not seen since April, and dollar collections slipped a full point from 59.7 to 58.7. The smallest drop occurred in amount of credit extended, from 63.2 to 62.6, which could be the only silver lining in the favorable factor index. "This suggests there might be an opportunity to recover in the coming months," said NACM Economist Chris Kuehl, PhD. "It gives some faint hope that many companies are still interested in making credit available to the customers they trust."

December also saw a slowdown in the unfavorable factors, which contributed further to the overall decline in the combined index. The unfavorable factor index fell from 54.3 to 53.1, staying in the same range of numbers recorded in the last six months. Dollar amount beyond terms took a big dive in December, falling from 54.7 to 49.7 and into contraction territory. Accounts placed for collection slipped from 55 to 53.4 and disputes fell from 51.9 to 50.7. Dollar amount of customer deductions managed to stay in the same ballpark as November, falling from 52.4 to 51.5, and filings for bankruptcies remained at 59. The only factor that improved was rejections of credit applications, from 53.3 to 54.5, which supports the notion that credit is still available for companies in good standing, but decreases in accounts placed for collection and disputes both suggest that more and more companies are experiencing financial distress.

"The sense is that most of the financial issues are of relatively recent origin and that would suggest that things could turn in either direction," Kuehl said. "The situation could get more serious and some of the longer-term issues could emerge or this might be more of a curve in the road and just a delay in the response of the overall credit world and the economy."

What's most alarming about the December CMI, however, has more to do with the CMI in general than it has to do with any one particular factor. "The most concerning part of this month's data is that the CMI is very often a predictor of what is to come in the near future given its ability to track the availability of credit," Kuehl said. "This month's reading could signal that the economy is due to slow down substantially in the first quarter of the year."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13
Sales	56.7	58.6	59.2	57.4	58.3	63.0	62.3	61.4	63.1	62.7	62.5	63.4	58.7
New credit applications	57.7	57.1	56.7	56.9	56.5	59.2	58.8	58.0	58.7	57.4	58.5	59.2	57.2
Dollar collections	59.2	56.9	57.5	57.7	57.2	59.2	59.3	57.5	60.4	60.6	61.4	59.7	58.7
Amount of credit extended	61.5	62.2	62.5	61.6	60.8	65.0	62.8	62.4	63.3	62.9	63.8	63.2	62.6
Index of favorable factors	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**	**59.8**	**61.4**	**60.9**	**61.5**	**61.3**	**59.3**
Rejections of credit applications	51.5	52.8	52.3	51.9	51.6	50.8	52.5	53.2	52.7	53.0	52.1	53.3	54.5
Accounts placed for collection	52.1	50.4	51.8	49.7	50.1	50.6	53.9	53.6	52.5	54.3	53.3	55.0	53.4
Disputes	50.5	50.4	50.4	48.3	48.6	48.5	51.9	51.0	51.6	51.7	51.8	51.9	50.7
Dollar amount beyond terms	50.9	49.6	49.8	51.2	45.5	54.1	50.5	48.5	51.1	52.2	52.7	54.7	49.7
Dollar amount of customer deductions	51.3	50.3	50.7	49.9	48.7	49.6	52.5	51.0	51.4	51.7	51.8	52.4	51.5
Filings for bankruptcies	57.4	58.1	58.3	57.3	56.0	56.0	56.8	58.2	58.7	59.8	59.6	59.0	59.0
Index of unfavorable factors	**52.3**	**51.9**	**52.2**	**51.4**	**50.1**	**51.6**	**53.0**	**52.6**	**53.0**	**53.8**	**53.6**	**54.3**	**53.1**
NACM Combined CMI	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**	**55.5**	**56.4**	**56.6**	**56.7**	**57.1**	**55.6**



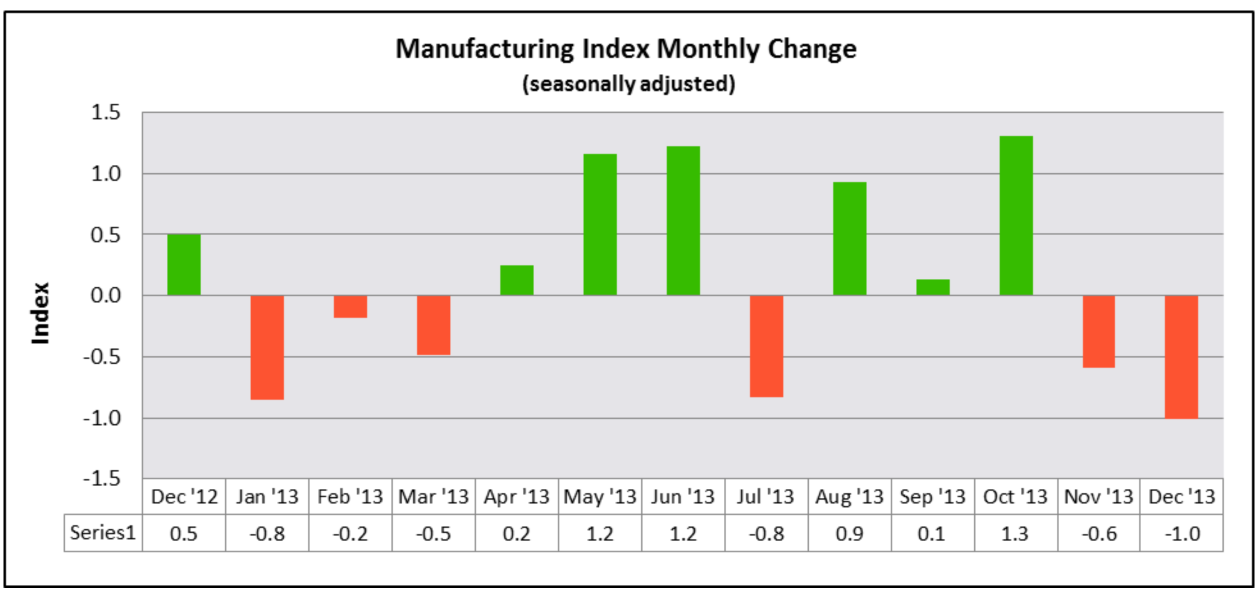
Manufacturing Sector

The manufacturing index performed poorly compared to recent months, dropping from 57.1 to 55.6, with the unfavorable factors declining more drastically than the favorable factors. The reduction in activity is still a concern given that many recent signals for the manufacturing community were positive. “The gains in industrial production, capacity utilization, durable goods orders and productivity are real enough, but the CMI data suggests that the gains will be followed by some reversal in the coming quarter,” Kuehl said.

Sales declined substantially from 63.4 to 61.7. The good news is that the category remains above 60 for now. Even with the slide, the reading is the fourth highest in the last 12 months. New credit applications also fell, slipping from 59.2 to 57.7, but there’s no good news here for future months, as it would appear that much of the previous action has stopped. Better news came from dollar collections, which registered an improvement from 58.7 to 59.5, suggesting that creditors in manufacturing are striving to stay current even in some stressful moments. Amount of credit extended barely budged from 61.8 to 61.5, a good indicator that companies remain interested in giving access to credit. Overall, the favorable factor index declined from 60.8 to 60.1.

The index of unfavorable factors slipped from 54 to 52.7, a far bigger fall than that of the favorable factors, with five factors posting declines. Accounts placed for collection fell from 55.7 to 53.3, indicating that more companies are getting in over their head to their creditors. Disputes slipped from 51 to 50.2. Dollar amount beyond terms is the factor that dragged the index into trouble, slipping from 54.8 to 50. Dollar amount of customer deductions didn't look all that great either, falling from 51.4 to 49.7, below the line that separates contraction from expansion. Finally, filings for bankruptcies fell only slightly by comparison, from 58.5 to 57.7. Rejections of credit applications actually improved from 52.9 to 55.5 and Kuehl noted that this was somewhat unexpected given all the other negative news, but it follows the pattern mentioned above: there remains an interest in accessing and issuing credit to the right customers under the right circumstances. "There are some growing signs of weakness, but nothing to suggest that business failure is surging," he said.

Manufacturing Sector (seasonally adjusted)	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13
Sales	56.9	57.4	57.3	55.5	59.2	59.2	61.0	60.3	62.3	61.6	64.3	63.4	61.7
New credit applications	58.0	57.7	55.5	54.8	55.8	57.4	58.6	57.5	58.4	55.6	58.9	59.2	57.7
Dollar collections	59.7	56.6	55.9	54.7	57.4	58.5	59.4	57.9	61.0	60.5	61.4	58.7	59.5
Amount of credit extended	61.2	61.1	61.6	61.3	60.1	63.3	61.2	61.4	62.1	62.4	64.8	61.8	61.5
Index of favorable factors	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**	**59.3**	**61.0**	**60.0**	**62.4**	**60.8**	**60.1**
Rejections of credit applications	51.4	51.1	52.2	51.8	52.2	51.3	52.7	52.9	52.3	52.4	52.0	52.9	55.5
Accounts placed for collection	52.2	50.3	50.7	48.6	51.8	50.3	53.6	53.6	53.0	53.7	54.0	55.7	53.3
Disputes	49.2	49.9	47.9	47.0	48.5	46.8	50.8	49.5	49.8	50.8	52.1	51	50.2
Dollar amount beyond terms	52.1	48.0	49.3	52.4	45.5	55.7	50.8	48.3	52.5	52.9	54.6	54.8	50.0
Dollar amount of customer deductions	50.0	49.2	48.8	48.5	48.0	48.2	52.5	49.8	49.3	50.7	51.9	51.4	49.7
Filings for bankruptcies	55.6	56.5	56.9	56.7	55.3	54.7	57.1	58.1	57.9	59.4	59.0	58.5	57.7
Index of unfavorable factors	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**	**52.0**	**52.5**	**53.3**	**53.9**	**54**	**52.7**
NACM Manufacturing CMI	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**	**54.9**	**55.9**	**56.0**	**57.3**	**56.7**	**55.7**



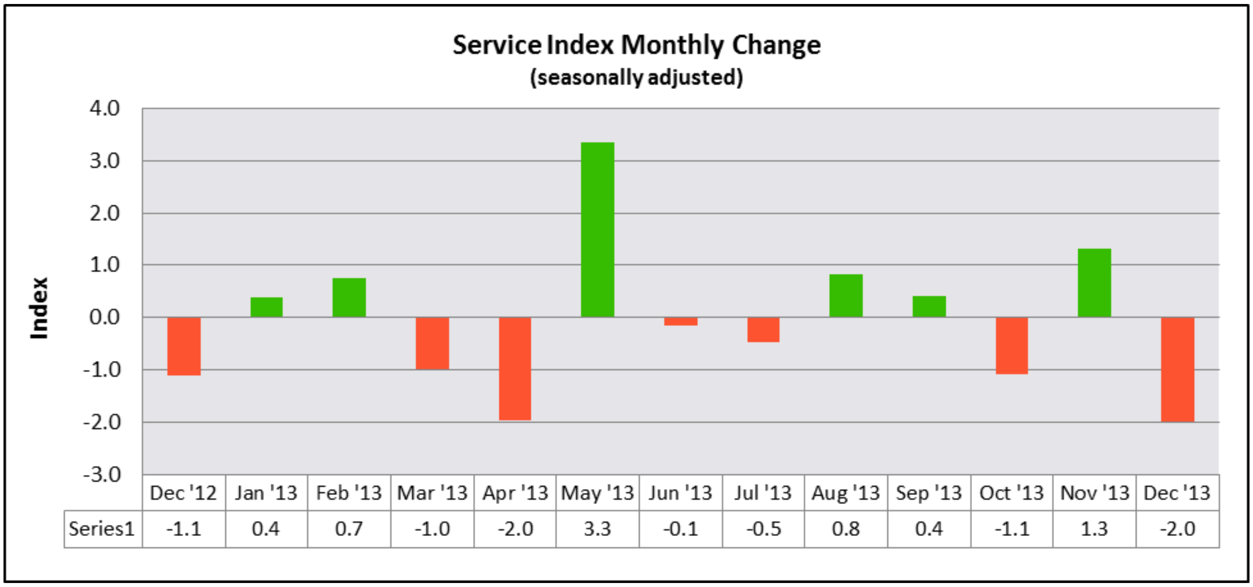
Service Sector

"This is supposed to be a good time for the service sector, at least for retail. That has not generally been the case and the latest numbers for the service sector index, which fell two full points from 57.5 to 55.5, coincide with some other less-than-sterling data sets," said Kuehl. "The problem seems to be a slow response to Christmas. There will be plenty of reason to examine the data from next month's CMI, as much of the last-minute activity is not reflected in this month's data. The problems go far beyond the issue of holiday shopping. The slowdown in the housing sector affected construction, and the weather over the last month had an impact on transportation services."

The biggest drop occurred in the favorable factor index, which fell from 61.9 to 58.4. This is the lowest point since April and a major concern going forward. The bottom seems to have dropped out of sales, which posted the most substantial decline of the favorable factors. A month ago, that reading was at a celebratory 63.4, the highest reading in over a year. Now, it sits at 55.7, lower than at any point since December 2012. "This is not a comfortable reversal of fortune and demonstrates the challenges experienced in retail this year," Kuehl noted. New credit applications fell as well, and by a significant amount, from 59.1 to 56.7. Dollar collections also slipped pretty far, from 60.6 to 57.8. The only factor to hold somewhat steady was amount of credit extended, but even it declined from 64.5 to 63.6.

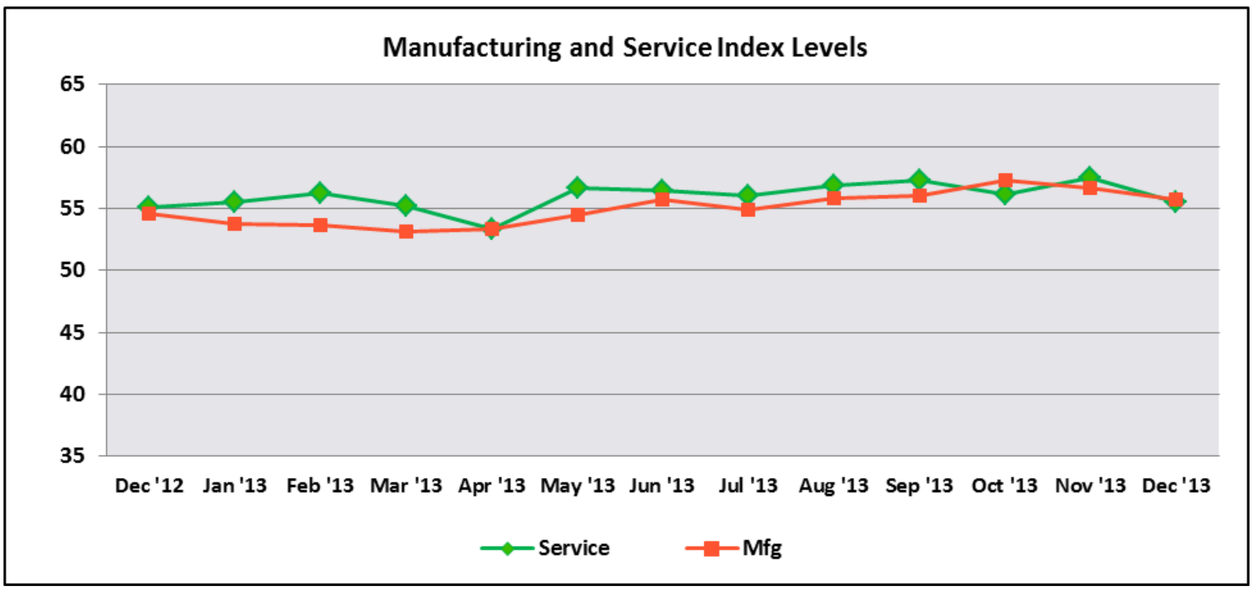
The unfavorable index fell as well, from 54.6 to 53.6, but not nearly as drastically as the favorable factor index. "At this point, it does not seem that companies are in dire straits, but as past history shows, it is a short distance between slowdown and actual reversal," Kuehl said. Rejections of credit applications stayed nearly the same, down from 53.6 to 53.5, indicating that there are still good credit risk companies seeking credit and they are still being granted access. Accounts placed for collection fell from 54.2 to 53.5, which was not far enough to worry those that have seen customers get into real trouble in a hurry. Disputes declined from 52.8 to 51.3, one of the milder declines this month, but dollar amount beyond terms fell hard from 54.5 to 49.3. This generally suggests that debtors are stretching their accounts as far as they dare. Dollar amount of customer deductions went nowhere, staying at last month's 53.3. Finally, filings for bankruptcies was the only factor to improve, from 59.4 to 60.4. "This is interesting statement as well," said Kuehl. "It suggests that many of the issues now manifesting are of a recent nature and that holds out hope that future readings will improve and allow a comeback in the data."

Service Sector (seasonally adjusted)	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13
Sales	56.6	59.9	61.2	59.4	57.4	66.7	63.6	62.5	63.9	63.8	60.6	63.4	55.7
New credit applications	57.3	56.5	57.9	59.1	57.2	61.0	59.1	58.4	59.1	59.2	58.1	59.1	56.7
Dollar collections	58.7	57.2	59.1	60.7	57.1	59.9	59.3	57.1	59.8	60.7	61.3	60.6	57.8
Amount of credit extended	61.8	63.2	63.4	61.9	61.5	66.8	64.3	63.3	64.5	63.4	62.8	64.5	63.6
Index of favorable factors	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**	**60.3**	**61.8**	**61.8**	**60.7**	**61.9**	**58.4**
Rejections of credit applications	51.6	54.5	52.5	51.9	51.1	50.2	52.4	53.5	53.2	53.7	52.2	53.6	53.5
Accounts placed for collection	52.0	50.6	52.9	50.8	48.4	51.0	54.1	53.6	52.0	55.0	52.7	54.2	53.5
Disputes	51.9	50.9	52.9	49.6	48.6	50.2	53.0	52.6	53.3	52.6	51.4	52.8	51.3
Dollar amount beyond terms	49.6	51.1	50.4	49.9	45.6	52.5	50.3	48.7	49.7	51.5	50.9	54.5	49.3
Dollar amount of customer deductions	52.6	51.3	52.7	51.3	49.5	51.0	52.5	52.2	53.5	52.8	51.8	53.3	53.3
Filings for bankruptcies	59.2	59.8	59.6	58.0	56.6	57.2	56.5	58.2	59.6	60.1	60.3	59.4	60.4
Index of unfavorable factors	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**	**53.1**	**53.6**	**54.3**	**53.2**	**54.6**	**53.6**
NACM Service CMI	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**	**56.0**	**56.9**	**57.3**	**56.2**	**57.5**	**55.5**



December 2013 versus December 2012

"If misery loves company this was a good month, as the two sectors essentially behaved the same way," said Kuehl. "Neither manufacturing nor services was able to shake off the arrival of the end-of-year doldrums, and they both trended down in near lockstep."



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 1,000 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 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 CMI archives at http://web.nacm.org/cmi/cmi.asp.

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Contact: Caroline Zimmerman, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National