



Report for September 2011

Issued September 30, 2011

National Association of Credit Management

Combined Sectors

Are there rays of hope coming from the Credit Managers' Index (CMI)? It would certainly seem that way after looking at the September performance. It is also a good time to look at why the CMI has been such a good tool for assessing the economy from one month to the next. It all comes down to the nature of the credit manager's world. For all intents and purposes, the credit manager lives in the future. They may be pleased that their customer had a good month, but what they are really interested in is whether that customer will have a good month when it is time to pay that invoice. Much of what the credit function focuses on remains in the realm of 30, 60, 90 and 120 days from now. When credit professionals answer the monthly survey questions for the index, they are forecasting in many respects and that is the prime reason that the CMI as a whole tends to predict future economic behavior.

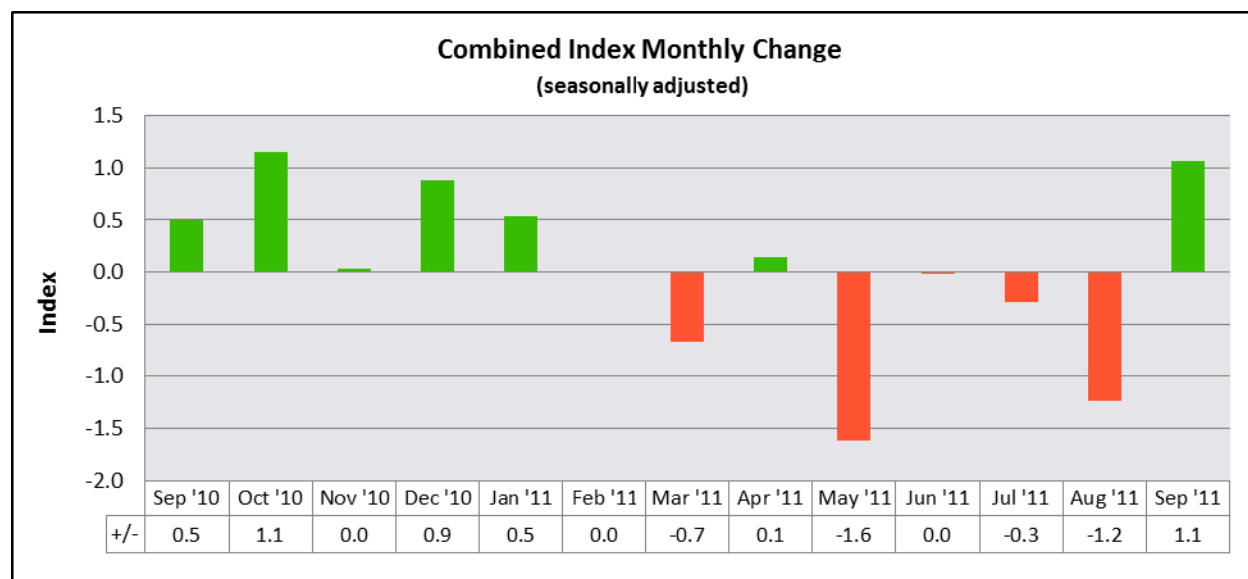
Over the past eight years, the CMI has repeatedly projected the overall performance of the U.S. economy by at least a month. In the early part of 2008, the CMI started to show weakness and was in decline well before the economy as a whole tumbled. Likewise, there were signs of recovery in the CMI earlier in 2009 than other economic data showed. "This pattern makes the data for September all the more interesting," said Chris Kuehl, PhD, economist for the National Association of Credit Management (NACM). "For the past few months, there was a slow deterioration of key credit conditions and many were expecting to see more declines this month. Instead, the combined index returned to the levels set in July. Granted, the index had been higher than recent readings since October of last year, but moving from 52.7 to 53.8 is not insignificant and it brings the combined index back to levels seen in the spring months."

The better news is in the breakdown of favorable and unfavorable factors. The recovery in favorable factors takes the index back to May's levels and the lift was impressive—improving from 58.1 to 59.9. The index was last at 60 this past April. That gain was driven in no small part by additional sales, which moved solidly past 60 to 61.4 and is at the highest point since April. There were corresponding solid index numbers in new credit applications, dollar collections and the amount of credit extended. These are all very good signs for future development and suggest that in the midst of all the gloom and doom provoked by political wrangling, there is business taking place and growth manifesting itself.

There were encouraging signs in unfavorable factors as well. The majority of the readings remain below 50, still signaling weakness, but the combined score moved up slightly from 49.1 to 49.6. This is not cause for celebration, but at least the pattern has started to reverse and the expectation is that these readings will be back above 50 before too long. The category that continues to show decline is rejections of credit applications, which is not all that shocking as more than a few companies are still trying desperately to get additional credit to hold on a little longer. The number of bankruptcies declined at the same time signaling that perhaps somewhat fewer companies are struggling. It may also signal that the companies walking that financial tightrope have finally given up. The fact that more credit applications have been submitted at the same time that more are being rejected would seem to suggest experimentation is taking place. The companies almost seem to be testing the waters to see what their options might be. Sales are up and that is good news, and now there may be attempts underway to judge the enthusiasm of supplier companies to expand market presence.

"The overall sense at this stage is that there is some life left in the economy. If one only looks at the numbers from July and August, it would be a very depressing story indeed," said Kuehl. "There is still not enough evidence to be convincing, but the most chronically optimistic could say that a recovery is at hand. The data is sufficient enough to make the case that the precipitous plunge predicted for the end of the year may not be taking place after all. Not that there is no threat of sinking back into recession, but a deep plunge seems more and more distant."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '10	Oct	Nov	Dec '10	Jan '11	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '11
Sales	58.6	60.8	61.9	65.9	63.5	66.3	64.7	64.5	59.4	60.8	60.0	59.2	61.4
New credit applications	54.8	56.8	58.2	60.1	58.6	60.3	59.8	58.8	58.2	56.7	57.3	55.8	57.8
Dollar collections	60.0	61.9	58.6	60.7	60.9	63.4	60.0	61.3	58.7	58.1	56.2	56.9	57.8
Amount of credit extended	58.7	59.8	61.2	61.7	64.8	66.5	64.4	64.7	62.1	60.4	62.0	60.7	62.8
Index of favorable factors	58.0	59.8	60.0	62.1	62.0	64.1	62.2	62.3	59.6	59.0	58.9	58.1	59.9
Rejections of credit applications	49.1	51.4	51.0	50.8	51.2	51.4	50.8	50.8	51.5	50.9	51.0	50.2	49.9
Accounts placed for collection	50.4	51.7	52.5	51.5	52.5	49.9	52.1	50.5	50.3	49.8	49.9	47.6	48.7
Disputes	50.8	49.9	50.8	49.2	51.0	49.2	48.9	49.3	48.8	49.3	50.0	48.7	47.6
Dollar amount beyond terms	49.1	50.9	48.9	53.4	51.5	50.6	49.7	50.7	46.5	49.9	48.3	44.2	49.1
Dollar amount of customer deductions	50.6	48.9	50.2	49.6	50.6	50.1	49.3	49.9	48.6	50.0	48.9	49.1	49.2
Filings for bankruptcies	55.7	57.0	56.3	55.4	59.1	56.0	57.4	58.1	58.1	56.5	55.8	54.5	53.2
Index of unfavorable factors	50.9	51.6	51.6	51.7	52.6	51.2	51.4	51.5	50.6	51.0	50.6	49.1	49.6
NACM Combined CMI	53.8	54.9	55.0	55.8	56.4	56.4	55.7	55.8	54.2	54.2	53.9	52.7	53.8



Manufacturing Sector

The gain in the manufacturing index is this month's best news. The overall CMI gain stemmed from improvements in both sectors, but given the decline manufacturing saw in August, these numbers represent a vast improvement. The jump in the favorable category was from 57.2 to 58.9, taking the combined favorable numbers to levels not seen since April of this year. The doldrums that sank the manufacturing community in the summer appear to be lifting a little.

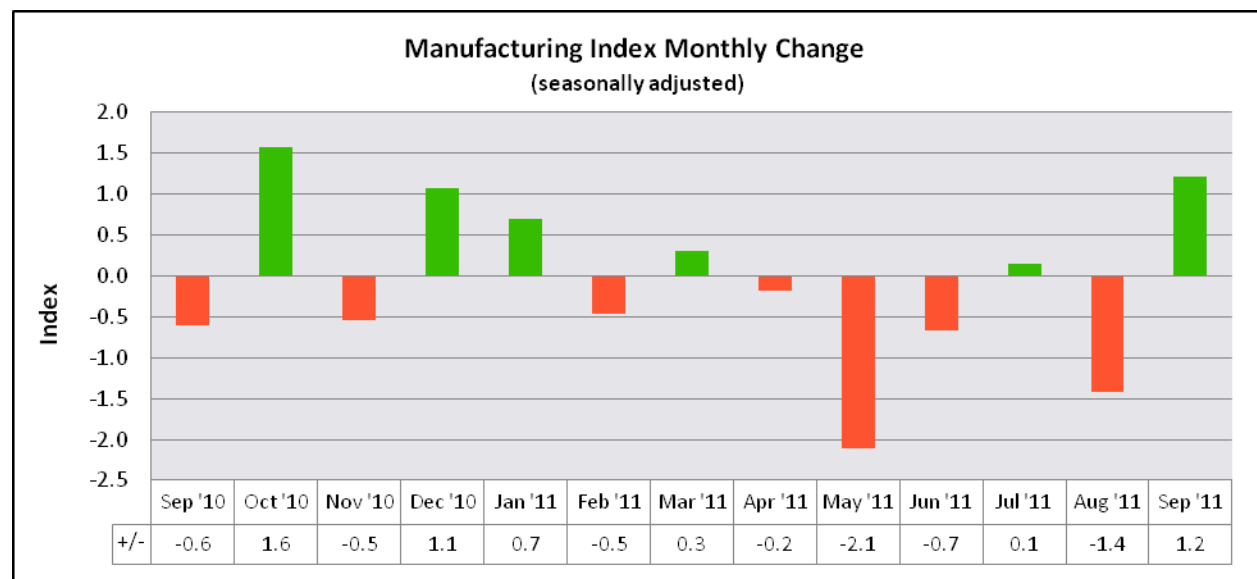
Sales jumped and is now back at the levels of last spring and there have been similar gains in the other categories. One of the biggest jumps took place in amount of credit extended and that is a very good sign in general. For the most part, the credit requests are coming from smaller operations looking to buy new machines. The anecdotal evidence is that demand for new machinery is starting to pick up steam. Many of the bigger trade shows in the manufacturing sector are reporting much larger attendance numbers than last year and those that are coming to these shows are far more interested in buying than before. That trend is reinforced by the CMI numbers. There is abundant evidence that business activity is ramping up again from the drops in August, and it is looking like much of the summer slowdown was prompted by all the political infighting. Many had suggested that the crisis around the debt ceiling and the threat to the U.S. debt

rating had been enough to essentially paralyze the business community. The uncertainty factor has been trotted out repeatedly in the last several months and some assert that this is not all that big a deal. The fact that August showed such a pronounced dip suggests that there really is something to that concern.

Unfavorable factors continue to weigh down the manufacturing sector, but there were small improvements along the way. Dollars beyond terms showed some real positive movement—from 42.6 to 51.3. That is very good news and suggests that customers are seeking enough new business to start getting current on their debt. There were some declines as well, though not as drastic. Bankruptcies continue to be an issue in the sector, but that tends to reflect the fact that many manufacturers are still small and vulnerable. They lack the padding needed to wait out bad patches and some had been pinning hopes on the economy rebounding by now.

This activity is not enough to assert that the crisis is over in manufacturing or that it can even resume its status as the driver of the U.S. economy. Coupled with other data points, it does suggest that the manufacturing side of the economy is still playing an essentially positive role. It has been noted elsewhere that outbound container traffic is about 8 points higher than this time last year, indicating that the export sector is still performing well in many categories.

Manufacturing Sector (seasonally adjusted)	Sep '10	Oct	Nov	Dec '10	Jan '11	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '11
Sales	57.9	59.3	62.2	66.6	64.7	65.1	65.4	63.9	57.8	58.5	59.3	58.0	59.5
New credit applications	54.4	54.9	57.8	59.1	57.7	59.6	60.6	60.3	58.7	54.5	56.4	55.3	57.5
Dollar collections	61.1	61.0	57.9	60.5	60.3	61.5	60.8	60.2	60.1	55.3	55.4	56.0	56.7
Amount of credit extended	57.3	59.9	61.2	61.6	66.2	67.6	64.5	66.5	61.4	59.2	61.2	59.5	62.1
Index of favorable factors	57.7	58.8	59.8	61.9	62.2	63.4	62.8	62.7	59.5	56.9	58.1	57.2	58.9
Rejections of credit applications	49.6	53.2	52.1	51.3	52.0	51.9	51.6	51.0	52.6	51.8	50.8	50.4	50.0
Accounts placed for collection	51.9	53.6	52.7	51.1	53.0	51.2	53.9	50.7	50.7	49.8	49.4	47.3	49.6
Disputes	50.0	49.5	48.6	48.1	49.8	48.2	49.0	50.5	49.2	49.0	50.0	48.6	44.9
Dollar amount beyond terms	49.6	55.2	49.4	53.9	52.1	51.3	51.6	52.2	45.8	50.6	49.1	42.6	51.3
Dollar amount of customer deductions	49.4	48.5	48.8	49.4	49.1	50.1	48.8	49.5	47.7	49.5	47.8	48.9	48.1
Filings for bankruptcies	55.8	57.7	56.7	56.5	60.2	53.9	57.2	56.8	56.4	55.6	55.9	54.5	53.4
Index of unfavorable factors	51.1	52.9	51.4	51.7	52.7	51.1	52.0	51.8	50.4	51.0	50.5	48.7	49.5
NACM Manufacturing CMI	53.7	55.3	54.7	55.8	56.5	56.0	56.3	56.1	54.0	53.4	53.5	52.1	53.3

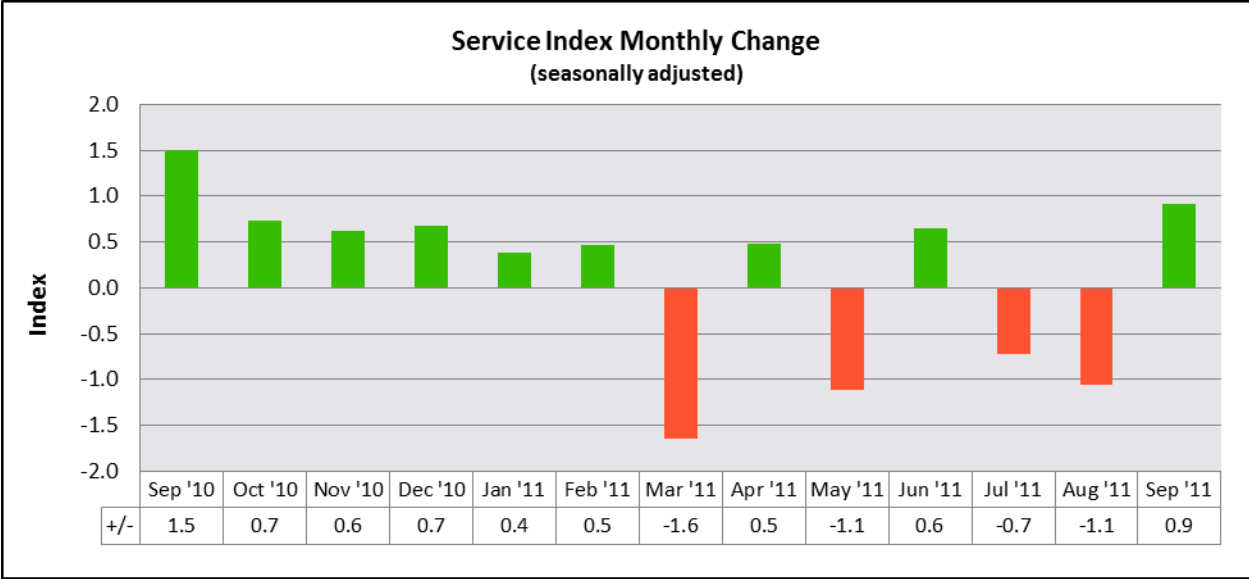


Service Sector

The service sector has been coming under a lot of scrutiny and the divide is showing up in the CMI to some degree. The category is by definition broad and covers everything from retail sales to professional services to health care. That broad definition has meant that shifts in one service category can obscure a shift in the opposite direction in another category. One of the changes noted in recent consumer behavior is that people are starting to spend more on goods and have started to return to old ways. What they are not doing is purchasing services at the rate they used to. In general, the purchase of services has declined by about 15% and that deterioration is heavier in areas like financial and professional services. The service sector gained a little in health care, but not to the extent that one might have assumed.

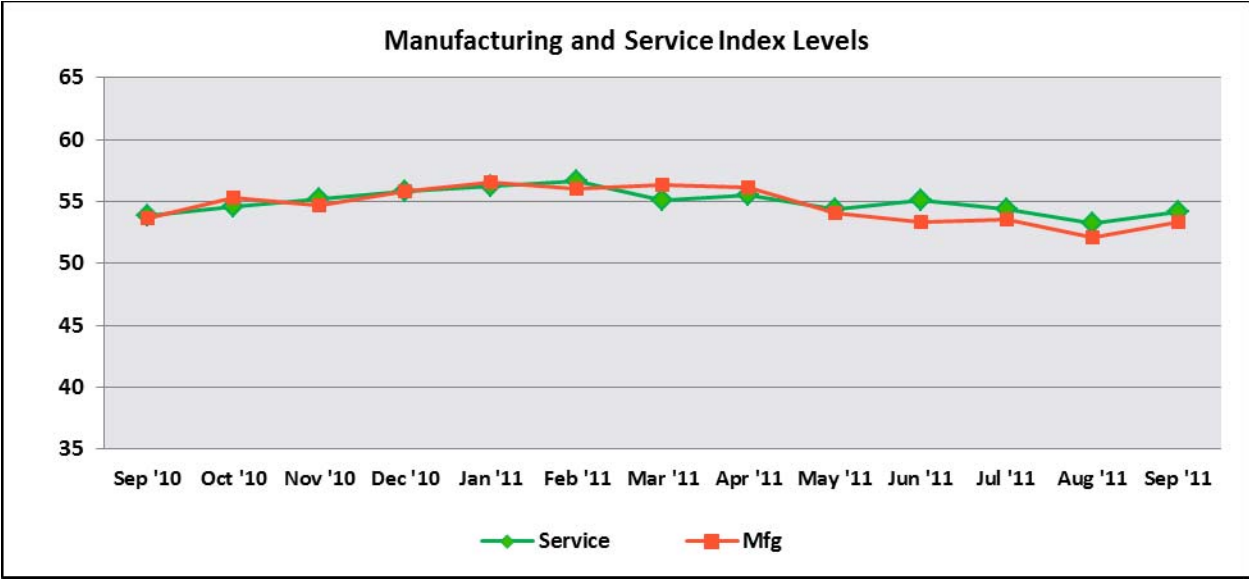
The most impressive gain was in the index of favorable factors, which jumped back above 60—as high as the category has been since April. This has become something of a theme across the data: a return to conditions that existed in April. This was the point in the year when there was generally more optimism than not. The summer was the period of the most decline and disappointment and seemed to culminate in the miserable readings for August. Sales came back to June levels and rose to the comfortable mid-60s that marked the earlier part of the year. There was also a nice jump in the number of new credit applications and that gain was only partially negated by an increase in the number of applications rejected. As with manufacturing, there is evidence that some weaker companies are trying to grab hold of credit lifelines in hopes the economy rebounds at some stage this year. The good news on the unfavorable side is that bankruptcies declined a little. Overall, the unfavorable category stayed almost the same as last month, but with a slight improvement as opposed to a slight loss.

Service Sector (seasonally adjusted)	Sep '10	Oct	Nov	Dec '10	Jan '11	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '11
Sales	59.3	62.2	61.6	65.1	62.3	67.5	63.9	65.0	61.1	63.2	60.7	60.5	63.3
New credit applications	55.1	58.7	58.6	61.1	59.4	61.0	59.0	57.3	57.8	58.8	58.2	56.3	58.0
Dollar collections	59.0	62.9	59.2	60.9	61.6	65.2	59.2	62.3	57.3	60.9	57.1	57.9	58.9
Amount of credit extended	60.0	59.6	61.2	61.8	63.4	65.4	64.2	63.0	62.7	61.6	62.7	61.9	63.5
Index of favorable factors	58.4	60.9	60.2	62.2	61.7	64.8	61.6	61.9	59.7	61.1	59.7	59.1	60.9
Rejections of credit applications	48.7	49.6	49.8	50.3	50.4	51.0	50.1	50.5	50.4	50.0	51.2	50.1	49.8
Accounts placed for collection	48.9	49.9	52.4	52.0	52.1	48.6	50.2	50.2	49.9	49.8	50.3	47.8	47.8
Disputes	51.5	50.3	52.9	50.3	52.1	50.1	48.7	48.1	48.5	49.6	50.0	48.9	50.4
Dollar amount beyond terms	48.5	46.6	48.5	52.9	51.0	49.9	47.8	49.2	47.3	49.1	47.5	45.9	46.9
Dollar amount of customer deductions	51.7	49.4	51.6	49.9	52.1	50.1	49.8	50.3	49.4	50.5	49.9	49.3	50.2
Filings for bankruptcies	55.5	56.3	55.9	54.3	57.9	58.2	57.7	59.5	59.8	57.3	55.8	54.6	53.1
Index of unfavorable factors	50.8	50.4	51.8	51.6	52.6	51.3	50.7	51.3	50.9	51.0	50.8	49.4	49.7
NACM Service CMI	53.8	54.6	55.2	55.8	56.2	56.7	55.1	55.5	54.4	55.1	54.3	53.3	54.2



September 2011 vs. September 2010

There is an audible sigh of relief this month as some insisted this would be the month the overall index would sink back under 50. Given that the PMI numbers from around the world have been trending negatively, there was good reason to assume the CMI would as well. Instead that graph is moving back up again. There is still a lot of vulnerability in this situation and it would not take much of a shock to send the economy and the index tumbling, but for now it is trending the right way again.



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 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.

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.*



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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.

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