Report for September 2012

Issued September 28, 2012

National Association of Credit Management

Combined Sectors

The Credit Managers' Index showed a nice recovery in August when the combined index number moved from 53.4 to 55.8, showing better overall performance than earlier in the year. The 55.8 was higher than anything seen in the last year (except for the February number, which matched it). The sense was that some key areas were showing improvement. Now comes the September number, and it is nearly the same as in August: 55.3. The combined index number is at or above the level reached only three times this year. In short, the bounce first registered in August appears to be more secure than originally assumed. Slight shifts in some categories (factors) have implications for the next few months, but it can be asserted at this stage that the momentum from late summer is carrying forward to some extent into the fall.

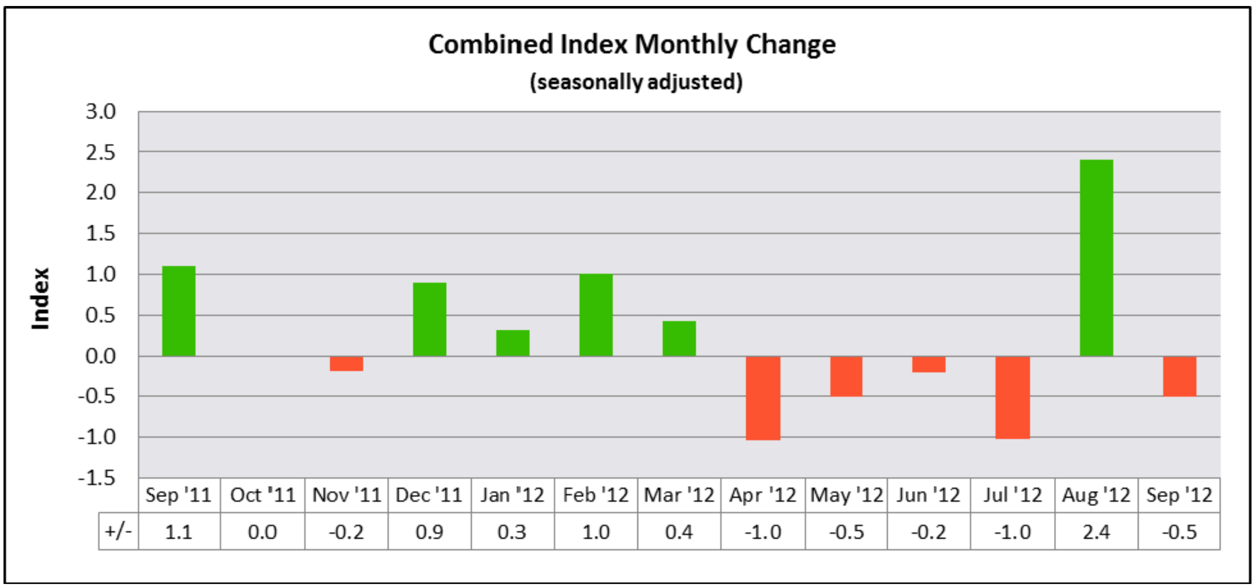
There was a slight decline in the favorable factor index due mostly to a reversal of the sales number, which slipped from 62 to 59.5. This marked the second lowest point reached in sales in over a year after July's 58.5. The rebound in August was expected to continue into September, but that was not the case. This may be the most worrisome of the figures. Without some expansion in sales, the other categories may start to slump as well. Sales is well above the contraction level, but everyone would be more comfortable if it was back in that 60 range. There was also a decline from 59.7 to 58.5 in dollar collections. This category bounces fairly consistently between 58 and 62, but is trending on the low side of that range.

Other favorable factors have been more cooperative. New credit applications showed another gain, moving from 56.8 to 57.4. Granted, most of the year saw numbers at least this high and higher, but at least the trending is in the right direction. Better news came from amount of credit extended, with an improvement from 61.4 to 62.3. There may be fewer credit applications being accepted, but those that have been approved appear to be getting higher dollar amounts. That is essentially good news, and though this number was higher in past months, as long as it remains over 50 there is reason for optimism.

There was more variety and some drama in the unfavorable categories. The unfavorable factor index sank from 53.1 to 52.6, making it largely responsible for the decline in the combined index. The shift was not all that drastic and a far cry from the sub-50 readings from just a month ago, but expectations were that the numbers would improve. The good news is that all the categories remain above 50; the bad news is that some of them took a dip and are a lot closer to contraction territory than many observers feel comfortable with.

The largest drop was in disputes (51.9 to 50.5), followed by rejections of credit applications (52.4 to 51.4). The deterioration in rejections of credit applications, which fell from 52.4 to 51.4, is somewhat troubling, and partially offset the gain in new credit applications. This is not a huge shift, but demonstrates that too many of those seeking additional credit are not prepared and are unlikely to get what they are asking. There were lesser declines in dollar amount of customer deductions (51.4 to 51.0) and bankruptcies (59.6 to 59.1). Among the numbers that improved, as expected, was most notably dollars beyond terms, which improved from 50.9 to 51. In general terms, September showed only modest movement up or down, and in the face of all the other negative data on the economy that is nothing to be dismissed as insignificant.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
Sales	61.4	60.4	58.3	60.5	63.5	64.4	64.1	60.0	61.2	60.6	58.5	62.0	59.5
New credit applications	57.8	58.9	57.6	55.3	61.9	59.5	60.4	58.2	59.9	57.5	57.2	56.8	57.4
Dollar collections	57.8	56.8	56.9	61.4	56.8	63.0	61.4	59.3	58.5	60.0	58.7	59.7	58.5
Amount of credit extended	62.8	61.9	62.4	64.7	63.3	64.3	63.9	64.6	61.3	62.6	61.3	61.4	62.3
Index of favorable factors	**59.9**	**59.5**	**58.8**	**60.5**	**61.4**	**62.8**	**62.5**	**60.5**	**60.2**	**60.2**	**58.9**	**60.0**	**59.4**
Rejections of credit applications	49.9	50.2	49.5	49.5	50.2	50.5	50.6	51.6	51.1	51.4	51.4	52.4	51.4
Accounts placed for collection	48.7	50.1	49.5	50.0	49.1	50.9	52.0	50.3	50.5	48.3	48.9	52.4	52.5
Disputes	47.6	49.0	47.9	49.2	49.2	49.7	50.9	50.7	49.4	48.9	47.6	51.9	50.5
Dollar amount beyond terms	49.1	47.6	48.0	48.8	48.0	51.2	50.7	50.0	48.0	50.5	47.8	50.9	51.0
Dollar amount of customer deductions	49.2	48.7	48.9	49.1	50.1	48.5	51.1	50.4	50.2	48.7	48.2	51.4	51.0
Filings for bankruptcies	53.2	53.8	56.7	56.0	55.5	55.7	56.8	56.2	56.4	56.0	54.9	59.6	59.1
Index of unfavorable factors	**49.6**	**49.9**	**50.1**	**50.4**	**50.3**	**51.1**	**52.0**	**51.6**	**50.9**	**50.6**	**49.8**	**53.1**	**52.6**
NACM Combined CMI	**53.8**	**53.7**	**53.5**	**54.4**	**54.8**	**55.8**	**56.2**	**55.1**	**54.6**	**54.5**	**53.4**	**55.8**	**55.3**



Manufacturing Sector

Manufacturing categories were as stable as the combined index and surprising in some respects. Given the data coming from other sources, it would not have been shocking if there was a reversal to some degree this month. The reports from various manufacturing surveys conducted by the Federal Reserve have shown decline in the sector, and a fairly steep decline in some cases. The latest durable goods orders have not been encouraging either, but these are numbers notorious for their volatility. The manufacturing index showed that the sector as a whole slipped just slightly, from 54.8 to 54.3.

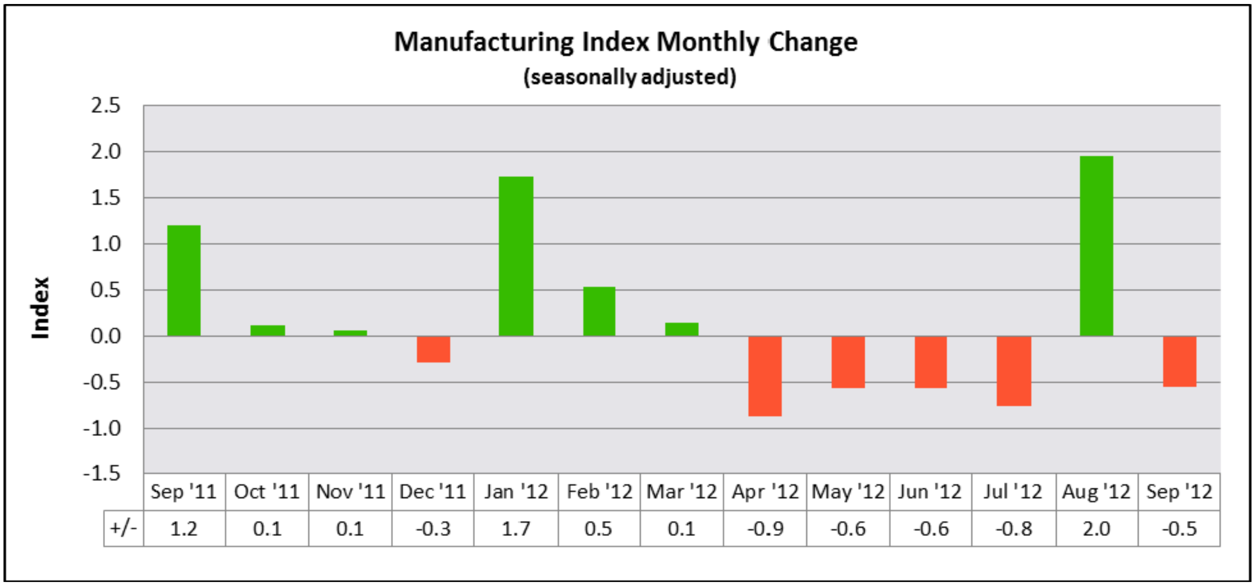
As with the combined index, the interesting movement was in the sub-indices, and the most significant downward movement came from the favorable factors. Sales tumbled from 60 to 57.3, nearly matching the lowest point for sales in the last 12 months, which was the 57.2 recorded in July. The expected gains in sales have yet to manifest and that is of concern for the future. New credit applications fell from 56.3 to 55.7, matched by a decline from 52.2

to 50.7 in rejections of credit applications. Dollar collections also deteriorated from 59.7 to 56.8, the lowest since November 2011. The only gain was in amount of credit extended with an improvement from 60.8 to 61.9. This is just one positive marker in a collection of negative ones, but credit extended is important as it suggests that some of the more significant customers are seeking credit. There may not be as many credit applications being granted, but those that are getting attention seem to be for larger lines of credit, a good signal for future growth.

Unfavorable factors are also shifting quite a bit, but the positive sign is that only one of them—disputes—is under 50. It was at 50.1 in August and is now resting at 49.3. Other categories saw some deterioration, but not by all that much. It was also encouraging to see several of the categories improve. Accounts placed for collection barely registered a drop (52.1 to 52). Dollar amount beyond terms improved from 50.1 to 51.3, a somewhat significant movement. There was also a nice bump in the dollar amount of customer deductions from 49.2 to 50.9. Finally, filings for bankruptcies slid a little (57.5 to 56.8), but thus far is still performing measurably better than it has through much of the year.

The manufacturing news is not cause for wild celebration, but manages to contradict the negative news coming from the manufacturing community to some degree. It is somewhat challenging at the moment to figure out just what is taking place. Much of the data suggests that conditions are worsening, while some of the data indicates the opposite. Anecdotal accounts from within the manufacturing sector suggest that things look better than expected. Trade shows are seeing better attendance with reports of more sales than expected. Granted, this is a self-selected cross section of the community as, generally speaking, it will be the more successful companies that turn out, and those are the most likely to make purchases as well.

Manufacturing Sector (seasonally adjusted)	**Sep '11**	**Oct '11**	**Nov '11**	**Dec '11**	**Jan '12**	**Feb '12**	**Mar '12**	**Apr '12**	**May '12**	**Jun '12**	**Jul '12**	**Aug '12**	**Sep '12**
Sales	59.5	59.3	58.1	57.7	64.1	65.1	65.4	59.4	61.6	59.1	57.2	60.0	57.3
New credit applications	57.5	60.6	55.7	49.5	64.2	59.3	57.9	56.6	61.1	57.2	56.5	56.3	55.7
Dollar collections	56.7	56.5	56.2	58.0	56.8	61.4	62.2	59.2	59.7	61.9	59.6	59.7	56.8
Amount of credit extended	62.1	60.7	62.7	63.6	66.2	65.7	63.2	64.3	61.0	63.2	59.6	60.8	61.9
Index of favorable factors	**58.9**	**59.3**	**58.2**	**57.2**	**62.8**	**62.9**	**62.2**	**59.9**	**60.9**	**60.4**	**58.2**	**59.2**	**57.9**
Rejections of credit applications	50.0	49.6	49.6	49.8	50.5	50.1	49.6	51.5	50.4	50.5	51.2	52.2	50.7
Accounts placed for collection	49.6	48.8	51.6	50.7	48.6	51.1	51.6	49.9	49.0	47.7	49.1	52.1	52.0
Disputes	44.9	47.7	48.5	49.3	48.3	49.6	50.2	50.2	48.2	47.0	47.6	50.1	49.3
Dollar amount beyond terms	51.3	49.7	47.1	48.4	47.6	52.2	50.1	49.4	46.9	49.2	47.8	50.1	51.3
Dollar amount of customer deductions	48.1	47.7	48.8	49.3	49.2	46.5	50.6	50.4	49.5	46.6	46.6	49.2	50.9
Filings for bankruptcies	53.4	53.7	56.5	55.7	53.8	53.8	55.3	56.5	54.3	53.8	53.3	57.5	56.8
Index of unfavorable factors	**49.5**	**49.5**	**50.4**	**50.5**	**49.7**	**50.5**	**51.2**	**51.3**	**49.7**	**49.1**	**49.3**	**51.9**	**51.8**
NACM Manufacturing CMI	**53.3**	**53.4**	**53.5**	**53.2**	**54.9**	**55.5**	**55.6**	**54.7**	**54.2**	**53.6**	**52.8**	**54.8**	**54.3**



Service Sector

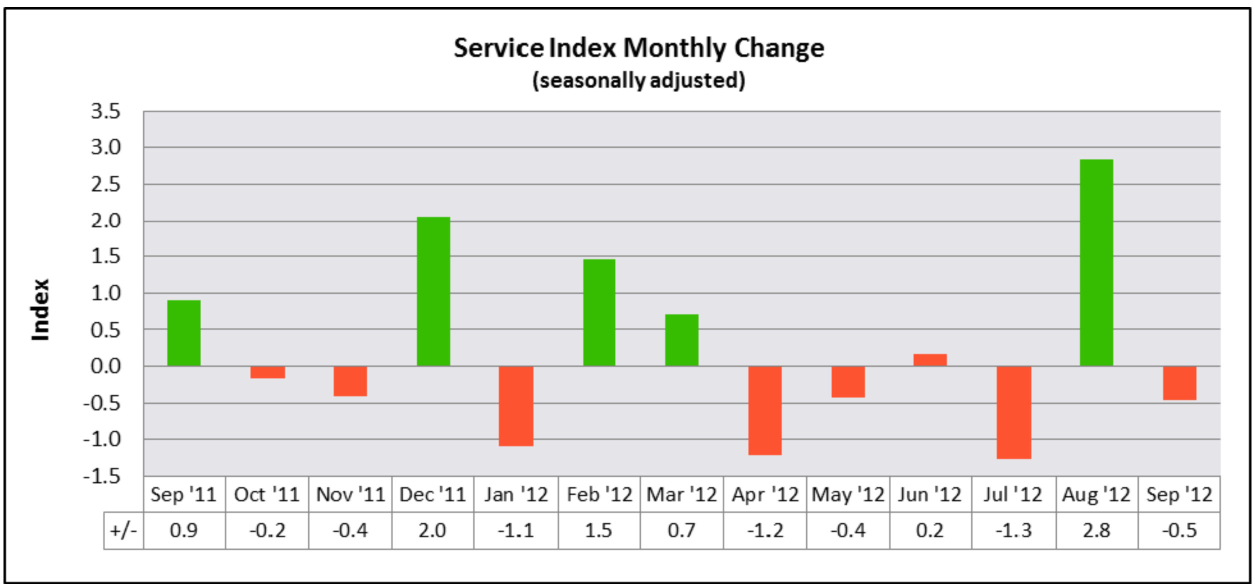
As with the combined and manufacturing data, the service sector saw very subtle changes. The service index didn't move much (56.9 to 56.4). This kept the sector at levels similar to what they were earlier in the year and higher than they had been all summer. The variation was again in the sub-indices. The favorable factor index improved from 60.7 to 61. The advance was not all that great, but it is good to note that this category has been in the 60s for eight of the last 12 months.

Sales sunk this month, but the number remains in the 60s at 61.7. There was actually a gain (57.3 to 59.2) in new credit applications and this has been attributed to the oncoming holiday spending season. Many retailers have been asking for more credit as they prepare for the selling. Dollar collections also improved from 59.7 to 60.3, as did amount of credit extended (61.9 to 62.7). This means that all but one of the favorable categories are sitting in the 60s, with the only holdout very nearly there. This is promising and sets the stage for some better months to come.

The news was nearly as promising in the unfavorable factor index, but some categories dragged the total down. The reading last month was 54.3, and this month the it was 53.3. Rejections of credit applications remained almost stable, falling slightly from 52.5 to 52.2, and there was improvement in accounts placed for collection, which moved further into expansionary territory from 52.6 to 53. Disputes turned somewhat negative, however, dropping from 53.7 to 51.7. There was also a decline in dollar amount beyond terms (51.7 to 50.7). One of the bigger changes was seen in dollar amount of customer deductions as the August reading of 53.6 fell to 51.1. The bankruptcy number was down too, but still in the 60s at 61.3.

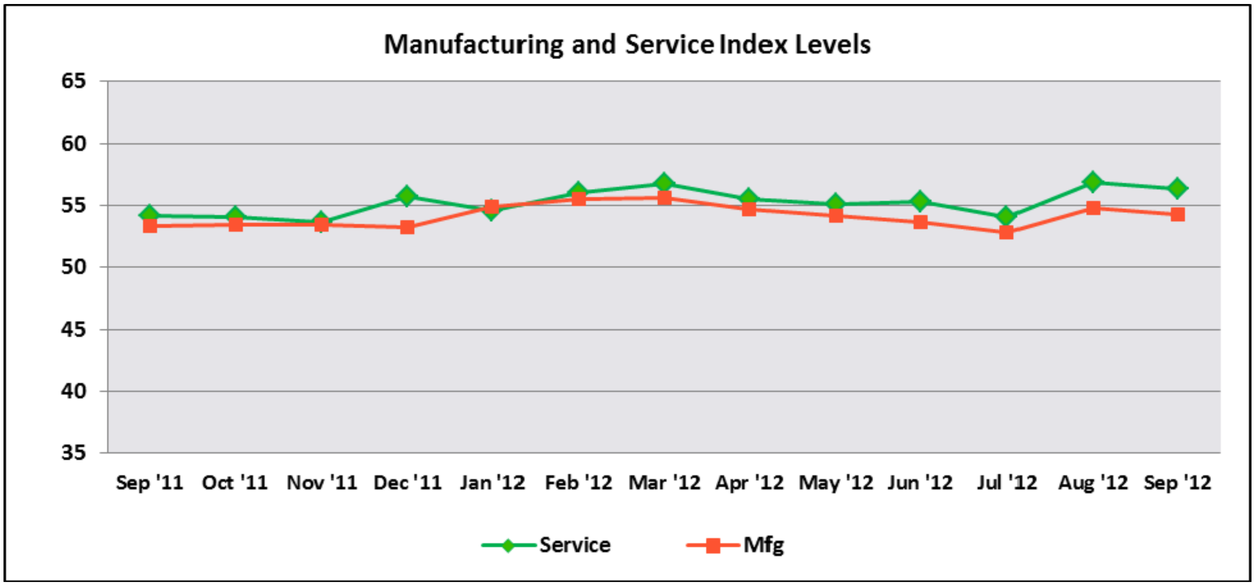
The major takeaway is that all of the factors are still reading in the 50s (and one in the 60s). It was only two months ago that several categories registered in the 40s, and that sets up growth opportunities in the months ahead. This is a period that many watch the service sector closely, as this is the time retailers and transportation providers make their yearly profits.

Service Sector (seasonally adjusted)	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
Sales	63.3	61.5	58.4	63.3	62.9	63.6	62.8	60.6	60.9	62.1	59.8	64.0	61.7
New credit applications	58.0	57.2	59.4	61.1	59.6	59.6	62.8	59.9	58.8	57.7	57.9	57.3	59.2
Dollar collections	58.9	57.0	57.6	64.9	56.7	64.5	60.7	59.4	57.3	58.1	57.9	59.7	60.3
Amount of credit extended	63.5	63.2	62.1	65.7	60.4	63.0	64.6	64.9	61.5	62.0	63.0	61.9	62.7
Index of favorable factors	**60.9**	**59.7**	**59.4**	**63.8**	**59.9**	**62.7**	**62.7**	**61.2**	**59.6**	**60.0**	**59.6**	**60.7**	**61.0**
Rejections of credit applications	49.8	50.9	49.4	49.1	49.9	50.8	51.6	51.8	51.8	52.2	51.6	52.5	52.2
Accounts placed for collection	47.8	51.3	47.5	49.3	49.6	50.7	52.5	50.7	52.0	49.0	48.7	52.6	53.0
Disputes	50.4	50.2	47.2	49.0	50.1	49.9	51.6	51.3	50.6	50.8	47.6	53.7	51.7
Dollar amount beyond terms	46.9	45.4	48.8	49.3	48.5	50.3	51.2	50.6	49.0	51.9	47.8	51.7	50.7
Dollar amount of customer deductions	50.2	49.8	48.9	48.9	51.0	50.6	51.5	50.4	51.0	50.9	49.7	53.6	51.1
Filings for bankruptcies	53.1	54.0	57.0	56.2	57.2	57.6	58.4	55.9	58.4	58.3	56.4	61.6	61.3
Index of unfavorable factors	**49.7**	**50.3**	**49.8**	**50.3**	**51.0**	**51.6**	**52.8**	**51.8**	**52.1**	**52.2**	**50.3**	**54.3**	**53.3**
NACM Service CMI	**54.2**	**54.0**	**53.6**	**55.7**	**54.6**	**56.0**	**56.8**	**55.6**	**55.1**	**55.3**	**54.0**	**56.9**	**56.4**



September 2012 vs. September 2011

The gains made from August 2011 to September 2011 were not matched this September, but neither were they lost. The good news is still that the overall index is over 50, and the fervent hope is that one of these days the encouraging month will give way to several in a row.



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.

Source: National Association of Credit Management

Contact: Caroline Zimmerman, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National