CREDIT MANAGERS' INDEX

# Report for January 2013

**Issued January 31, 2013**

**National Association of Credit Management**

## Combined Sectors

On the surface there appears to be little change this month. The shift in the overall index was very minor, falling from 54.9 to 54.6. On closer examination there was a lot going on, reflecting that the economy is essentially in a transition mode again. The last time this kind of variety appeared in the index of ten factors was during the months that preceded the slide into recession in 2008. For every sign that things were deteriorating, there was a part of the index that looked solid and unaffected by the impending crisis. Now that transition is showing again, but this time it seems to be pointing in the other direction. For every factor that suggests the economy is still in the doldrums, there is one or two that point to better days ahead.

To begin with, sales improved to 58.6, which may be the most positive sign of all. For eight of the prior 12 months, the sales number had been over 60. That started to reverse in September 2012 when it fell to 59.5, with the worst occurring in December when sales fell to 56.7, a level not seen in over a year. Now we have a rebound and, while not in the 60s yet, it's headed in the right direction.

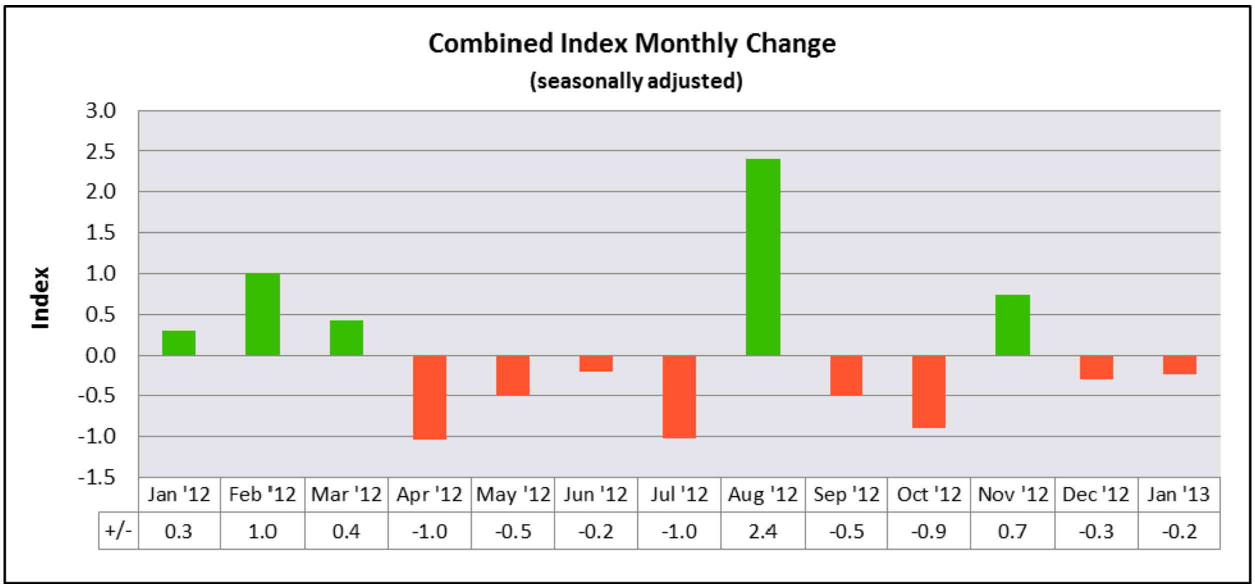
In contrast, dollar collections fell from 59.2 to 56.9, a very poor performance. New credit applications also declined, falling to 57.1 after improving to 57.7 in December. This is an important category in that it tends to anticipate the gains some of the other factors will have later. If there is not much in the way of new credit activity, it is a signal that fewer companies are in expansion mode. But data coming from other economic indicators show that expansion is apparently still on the minds of many businesspeople. The next Purchasing Managers' Index is expected to show some improvement as far as new orders are concerned and there continues to be expansion in capital expenditure. A further reflection of this continued expansion is that the amount of credit extended factor continued to gain, rising from 61.5 to 62.2.

When looking at this month's total for the favorable factor index, there was really no change from December. It fell just a tenth from 58.8 to 58.7. There was a little more variation in the unfavorable factor index, which dipped to a slightly larger degree, from 52.3 to 51.9. As with the favorable factors, the real information is in the details.

Rejections of credit applications improved from 51.5 to 52.8, reinforcing the notion that there is still expansion and growth underway. The falloff starts with accounts placed for collection, which declined from 52.1 to 50.4 and indicates that companies are getting into financial trouble again due to the slower-than-expected fourth quarter. The news that the national GDP declined in the fourth quarter comes as little surprise to those watching some of the early indicators. The disputes category barely changed, from 50.5 to 50.4, but there was marked negative movement in dollar amount beyond terms, which slipped from 50.9 to 49.6 and fell into contraction territory again for the fifth time in the last 12 months. There was also a reduction in dollar amount of customer deductions from 51.3 to 50.3. This is not a major drop and still places it just above that contraction/expansion mark. On the bright side, there was continued improvement in filings for bankruptcies from 57.4 to 58.1. The overall slump in the unfavorable category was not a major fall. It signals that for all the potential growth, there are still many fragile companies not in a position to withstand a lot more financial stress.

*This month's report marks the CMI's ten-year anniversary. Since the release of the first report in January 2003, the CMI has proven itself to be a remarkably accurate forecasting tool relied upon by economists, policymakers and financial professionals.*

| Combined Manufacturing and Service Sectors (seasonally adjusted) | Jan '12 | Feb '12 | Mar '12 | Apr '12 | May '12 | Jun '12 | Jul '12 | Aug '12 | Sep '12 | Oct '12 | Nov '12 | Dec '12 | Jan '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 63.5 | 64.4 | 64.1 | 60.0 | 61.2 | 60.6 | 58.5 | 62.0 | 59.5 | 57.4 | 60.4 | 56.7 | 58.6 |
| New credit applications | 61.9 | 59.5 | 60.4 | 58.2 | 59.9 | 57.5 | 57.2 | 56.8 | 57.4 | 56.6 | 56.5 | 57.7 | 57.1 |
| Dollar collections | 56.8 | 63.0 | 61.4 | 59.3 | 58.5 | 60.0 | 58.7 | 59.7 | 58.5 | 54.6 | 61.3 | 59.2 | 56.9 |
| Amount of credit extended | 63.3 | 64.3 | 63.9 | 64.6 | 61.3 | 62.6 | 61.3 | 61.4 | 62.3 | 62.2 | 63.0 | 61.5 | 62.2 |
| **Index of favorable factors** | **61.4** | **62.8** | **62.5** | **60.5** | **60.2** | **60.2** | **58.9** | **60.0** | **59.4** | **57.7** | **60.3** | **58.8** | **58.7** |
| Rejections of credit applications | 50.2 | 50.5 | 50.6 | 51.6 | 51.1 | 51.4 | 51.4 | 52.4 | 51.4 | 52.0 | 51.1 | 51.5 | 52.8 |
| Accounts placed for collection | 49.1 | 50.9 | 52.0 | 50.3 | 50.5 | 48.3 | 48.9 | 52.4 | 52.5 | 53.0 | 51.2 | 52.1 | 50.4 |
| Disputes | 49.2 | 49.7 | 50.9 | 50.7 | 49.4 | 48.9 | 47.6 | 51.9 | 50.5 | 50.9 | 50.1 | 50.5 | 50.4 |
| Dollar amount beyond terms | 48.0 | 51.2 | 50.7 | 50.0 | 48.0 | 50.5 | 47.8 | 50.9 | 51.0 | 48.0 | 49.9 | 50.9 | 49.6 |
| Dollar amount of customer deductions | 50.1 | 48.5 | 51.1 | 50.4 | 50.2 | 48.7 | 48.2 | 51.4 | 51.0 | 50.7 | 49.7 | 51.3 | 50.3 |
| Filings for bankruptcies | 55.5 | 55.7 | 56.8 | 56.2 | 56.4 | 56.0 | 54.9 | 59.6 | 59.1 | 58.9 | 58.4 | 57.4 | 58.1 |
| **Index of unfavorable factors** | **50.3** | **51.1** | **52.0** | **51.6** | **50.9** | **50.6** | **49.8** | **53.1** | **52.6** | **52.3** | **51.7** | **52.3** | **51.9** |
| **NACM Combined CMI** | **54.8** | **55.8** | **56.2** | **55.1** | **54.6** | **54.5** | **53.4** | **55.8** | **55.3** | **54.4** | **55.2** | **54.9** | **54.6** |



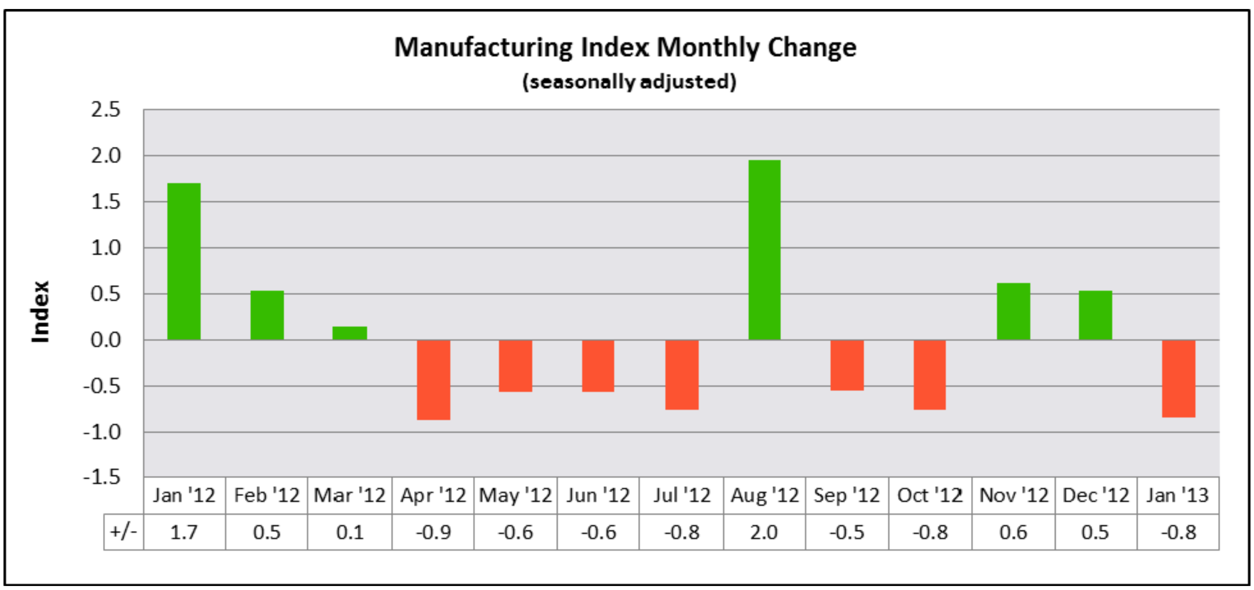

## Manufacturing Sector

Once again, all eyes are on the United States' manufacturing sector and, once again, the numbers are more confusing than preferred. The latest durable goods orders are a classic illustration of that mixed message. On the one hand, the gains were as impressive as they have been in years: a 4.6% rate of increase in December over November. The problem is that almost all of that gain came from the aerospace sector, as well as from those that supply the Department of Defense, as companies tried to get deliveries in before the sequestration process got underway. That same volatility is evident in the manufacturing index, which fell from 54.6 to 53.8.

The favorable factor index fall from 58.9 to 58.2 held some interesting changes. Sales somewhat unexpectedly improved from 56.9 to 57.4, a result of the rush that came at the tail end of the year for many businesses. There was a slight decline in new credit applications, which dropped from 58 to 57.7. In truth, this level of deterioration is miniscule, but dollar collections saw significant change as it dropped from 59.7 to 56.6. This factor has seen a lot of volatility in the last few months; several times the change has been between three and five percentage points. The vast majority of the business community has become extremely cautious as far as cash flow is concerned, and the readings reflect it. To round out the favorable factor assessment, there was limited change in amount of credit extended as it fell from 61.2 to 61.1. The good news here is that it's staying in the 60s.

The bigger movements were in some of the unfavorable factors. One of the more dramatic was a decline in accounts placed for collection from 52.2 to 50.3. There are simply more companies in some financial distress than in the past several months. Dollar amount beyond terms also registered a sharp decline from 52.1 to 48, sinking into that contraction zone again. Much of this has been attributed to the additional caution expressed over cash flow. There was also a decline in dollar amount of customer deductions, which slipped from 50 to 49.2. Rejections of credit applications also fell slightly from 51.4 to 51.1. This is encouraging as far as future activity is concerned. The main fear here is that the readings are still very close to that line between contraction and expansion. On the positive side, though not by a large amount, disputes improved from 49.2 to 49.9. The important part is that it is trending in the right direction, and has almost managed to get out of the contraction zone. There was also an improvement in filings for bankruptcies, which rose from 55.6 to 56.5. The most serious concern with the unfavorable factors is that of the six readings, three are now in contraction, while last month there was only one.

| **Manufacturing Sector** (seasonally adjusted) | Jan '12 | Feb '12 | Mar '12 | Apr '12 | May '12 | Jun '12 | Jul '12 | Aug '12 | Sep '12 | Oct '12 | Nov '12 | Dec '12 | Jan '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 64.1 | 65.1 | 65.4 | 59.4 | 61.6 | 59.1 | 57.2 | 60.0 | 57.3 | 56.7 | 57.8 | 56.9 | 57.4 |
| New credit applications | 64.2 | 59.3 | 57.9 | 56.6 | 61.1 | 57.2 | 56.5 | 56.3 | 55.7 | 57.0 | 53.6 | 58.0 | 57.7 |
| Dollar collections | 56.8 | 61.4 | 62.2 | 59.2 | 59.7 | 61.9 | 59.6 | 59.7 | 56.8 | 52.6 | 60.7 | 59.7 | 56.6 |
| Amount of credit extended | 66.2 | 65.7 | 63.2 | 64.3 | 61.0 | 63.2 | 59.6 | 60.8 | 61.9 | 61.6 | 61.7 | 61.2 | 61.1 |
| **Index of favorable factors** | **62.8** | **62.9** | **62.2** | **59.9** | **60.9** | **60.4** | **58.2** | **59.2** | **57.9** | **57.0** | **58.4** | **58.9** | **58.2** |
| Rejections of credit applications | 50.5 | 50.1 | 49.6 | 51.5 | 50.4 | 50.5 | 51.2 | 52.2 | 50.7 | 51.2 | 52.1 | 51.4 | 51.1 |
| Accounts placed for collection | 48.6 | 51.1 | 51.6 | 49.9 | 49.0 | 47.7 | 49.1 | 52.1 | 52.0 | 52.4 | 50.7 | 52.2 | 50.3 |
| Disputes | 48.3 | 49.6 | 50.2 | 50.2 | 48.2 | 47.0 | 47.6 | 50.1 | 49.3 | 48.9 | 49.1 | 49.2 | 49.9 |
| Dollar amount beyond terms | 47.6 | 52.2 | 50.1 | 49.4 | 46.9 | 49.2 | 47.8 | 50.1 | 51.3 | 48.3 | 50.4 | 52.1 | 48.0 |
| Dollar amount of customer deductions | 49.2 | 46.5 | 50.6 | 50.4 | 49.5 | 46.6 | 46.6 | 49.2 | 50.9 | 49.9 | 48.5 | 50.0 | 49.2 |
| Filings for bankruptcies | 53.8 | 53.8 | 55.3 | 56.5 | 54.3 | 53.8 | 53.3 | 57.5 | 56.8 | 56.3 | 56.4 | 55.6 | 56.5 |
| **Index of unfavorable factors** | **49.7** | **50.5** | **51.2** | **51.3** | **49.7** | **49.1** | **49.3** | **51.9** | **51.8** | **51.2** | **51.2** | **51.8** | **50.8** |
| **NACM Manufacturing CMI** | **54.9** | **55.5** | **55.6** | **54.7** | **54.2** | **53.6** | **52.8** | **54.8** | **54.3** | **53.5** | **54.1** | **54.6** | **53.8** |



## Service Sector

The shifts in the service sector were almost imperceptible. The overall index moved from 55.1 to 55.5, and that is really no change at all. The favorable factor index actually staged a small gain, improving from 58.6 to 59.2. The real significance is that this puts it close to 60 again. The index has been over 60 for seven of the last 12 months, but not consecutively.

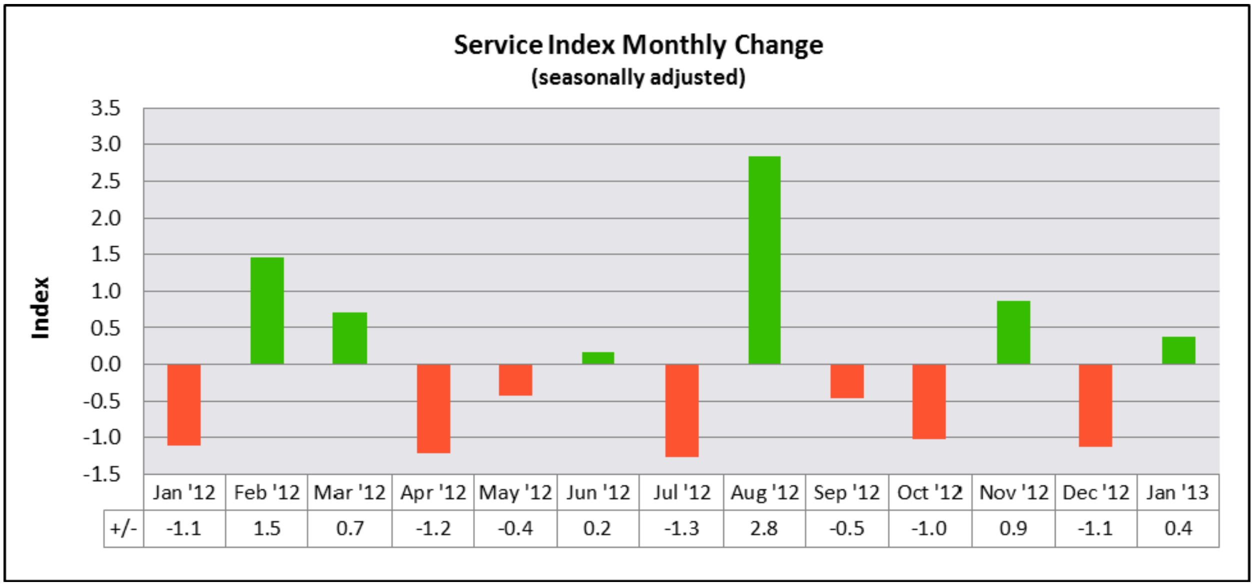
There was a significant improvement in sales from 56.6 to 59.9. This is pretty good news given that this reading reflects retail activity. The amount of credit extended also improved, jumping substantially higher into the 60s from 61.8 to 63.2, which is a good sign for the immediate future. One of the less encouraging readings was from new credit applications which fell from 57.3 to 56.5. This is in contrast to what is happening in manufacturing, and may signal that there is more stress in the retail and service sectors than in other parts of the economy. This makes sense when taking into consideration how the disputes over the “fiscal cliff,” debt ceilings and the like tend to impact consumer confidence. There was also a decline in dollar collections, from 58.7 to 57.2, but not too massive.

When the unfavorable factors are examined, there is considerable variability. Rejections of credit applications improved quite a lot from 51.6 to 54.5. The anecdotal evidence suggests that those applying for credit are in decent financial shape and those selling to them are more desperate for the business than they might have been in past years. In other words, people want the deals to go through. Accounts placed for collection deteriorated a little from 52 to 50.6, and is staying out of contraction by the thinnest of margins. Disputes remained pretty stable, but not as flat as in the manufacturing category. It moved from 51.9 to 50.9, and is also flirting with contraction.

The shift in dollar amount beyond terms from 49.6 to 51.1 was not huge, but brought the category back into expansion territory. Dollar amount of customer deductions also moved somewhat significantly, falling from 52.6 to 51.3. Finally, filings for bankruptcies saw a small shift from 59.2 to 59.8. Overall, the unfavorable factor index managed to rise slightly from 52.8 to 53.

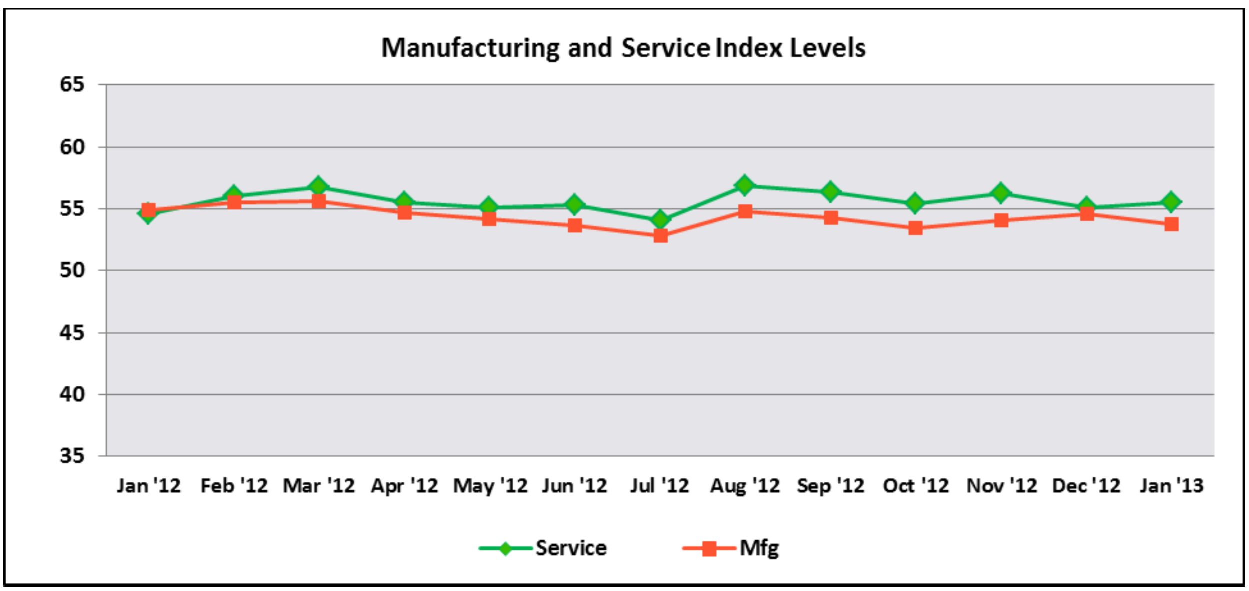
Nothing in the service sector numbers suggests a major crisis in development, but there is concern that something is slowing the progress seen even a month or so ago. Retail is now in the middle of its slow period, and many merchants would have preferred entering this period in a little better shape.

| **Service Sector** (seasonally adjusted) | Jan '12 | Feb '12 | Mar '12 | Apr '12 | May '12 | Jun '12 | Jul '12 | Aug '12 | Sep '12 | Oct '12 | Nov '12 | Dec '12 | Jan '13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 62.9 | 63.6 | 62.8 | 60.6 | 60.9 | 62.1 | 59.8 | 64.0 | 61.7 | 58.2 | 63.0 | 56.6 | 59.9 |
| New credit applications | 59.6 | 59.6 | 62.8 | 59.9 | 58.8 | 57.7 | 57.9 | 57.3 | 59.2 | 56.2 | 59.5 | 57.3 | 56.5 |
| Dollar collections | 56.7 | 64.5 | 60.7 | 59.4 | 57.3 | 58.1 | 57.9 | 59.7 | 60.3 | 56.5 | 62.0 | 58.7 | 57.2 |
| Amount of credit extended | 60.4 | 63.0 | 64.6 | 64.9 | 61.5 | 62.0 | 63.0 | 61.9 | 62.7 | 62.8 | 64.4 | 61.8 | 63.2 |
| **Index of favorable factors** | **59.9** | **62.7** | **62.7** | **61.2** | **59.6** | **60.0** | **59.6** | **60.7** | **61.0** | **58.4** | **62.2** | **58.6** | **59.2** |
| Rejections of credit applications | 49.9 | 50.8 | 51.6 | 51.8 | 51.8 | 52.2 | 51.6 | 52.5 | 52.2 | 52.8 | 50.2 | 51.6 | 54.5 |
| Accounts placed for collection | 49.6 | 50.7 | 52.5 | 50.7 | 52.0 | 49.0 | 48.7 | 52.6 | 53.0 | 53.6 | 51.7 | 52.0 | 50.6 |
| Disputes | 50.1 | 49.9 | 51.6 | 51.3 | 50.6 | 50.8 | 47.6 | 53.7 | 51.7 | 52.9 | 51.1 | 51.9 | 50.9 |
| Dollar amount beyond terms | 48.5 | 50.3 | 51.2 | 50.6 | 49.0 | 51.9 | 47.8 | 51.7 | 50.7 | 47.8 | 49.4 | 49.6 | 51.1 |
| Dollar amount of customer deductions | 51.0 | 50.6 | 51.5 | 50.4 | 51.0 | 50.9 | 49.7 | 53.6 | 51.1 | 51.5 | 50.9 | 52.6 | 51.3 |
| Filings for bankruptcies | 57.2 | 57.6 | 58.4 | 55.9 | 58.4 | 58.3 | 56.4 | 61.6 | 61.3 | 61.5 | 60.4 | 59.2 | 59.8 |
| **Index of unfavorable factors** | **51.0** | **51.6** | **52.8** | **51.8** | **52.1** | **52.2** | **50.3** | **54.3** | **53.3** | **53.3** | **52.3** | **52.8** | **53.0** |
| **NACM Service CMI** | **54.6** | **56.0** | **56.8** | **55.6** | **55.1** | **55.3** | **54.0** | **56.9** | **56.4** | **55.4** | **56.2** | **55.1** | **55.5** |




## January 2013 versus January 2012

The year-over-year numbers are very nearly the same. That is not a bad thing, but it is not the expansion some expected to see. There is still a great deal of trepidation within the ranks of businesses and consumers alike, as few can see what the rest of the year looks like until some of the big government decisions are made.




## 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.

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