Report for October 2013

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National Association of Credit Management

Combined Sectors

Despite the threat of a political impasse in the U.S. that some thought could derail the entire global economy, October's Credit Managers' Index (CMI), published by the National Association of Credit Management (NACM), was largely unfazed. The combined CMI improved from 56.6 in September to 56.7 in October, marking the highest reading in over a year and a half.

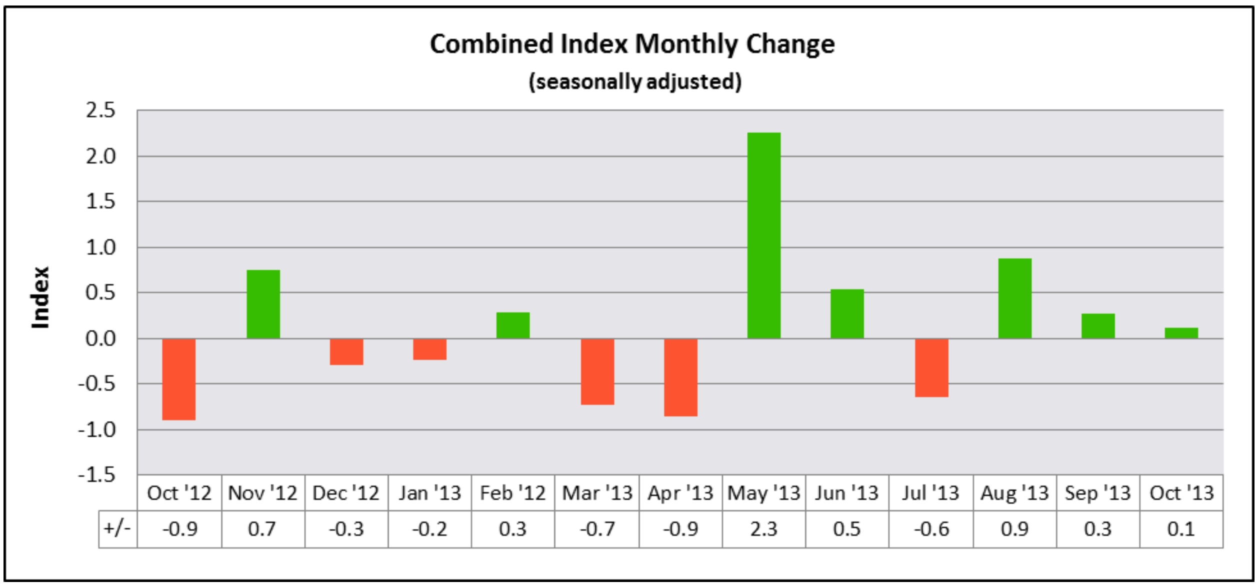
The October CMI may have been the most watched in years, according to NACM Economist Chris Kuehl, PhD. "The dominant story for the bulk of the last quarter was the political impasse that resulted in a government shutdown for three weeks and posed a threat to the U.S. credit rating," he said. "Everyone was hanging onto the edge of their seats to see what this would do to the economy. Predictions ranged widely from utter financial chaos to no real response at all."

Recent declines in retail, consumer confidence and industrial production seemed to bear out the most pessimistic predictions, but the CMI tends to lead other indicators by approximately three months. There was a slight drop in July's CMI readings, signaling some anxieties in the financial community about the then-looming threat of a government shutdown or default, but that was followed by successive increases in August, September and now October. "The credit decision is very early in the business process and thus signals future intent," Kuehl said. "The sense thus far is that all the political turmoil did not have an impact on the future plans for business."

The most surprising data in this month's CMI came in the favorable factors index, the combined reading of which increased from 60.9 last month to 61.5 in October. Sales slipped just slightly from 62.7 to 62.5, but managed to stay above 60, as it has since April. The CMI's best news came in the new credit applications and amount of credit extended readings. New credit applications rose from 57.4 to 58.5, signaling that more companies are seeking additional credit in order to grow their business. "This alone would not be cause for great celebration as there are many occasions that companies seek credit but are doing so from a position of weakness," Kuehl said. "The better news is that amount of credit extended also increased from 62.9 to 63.8, suggesting that those asking for additional credit are good companies with solid credit ratings. These are the companies expecting improvements in the economy by next year."

If the October CMI reflected any of the negative economic effects of the political brinksmanship in Washington, it did so in the unfavorable factors. The overall unfavorable index declined from September’s 53.8 to October's 53.6 driven by rejections of credit applications, which slipped from 53 to 52.1, and accounts placed for collection, which fell from 54.3 to 53.3. "More companies are having issues, which may be directly related to the government shutdown and related stress given that 156,000 companies do work for the government," Kuehl said. Still, disputes, dollar amount beyond terms and dollar amount of customer deductions all registered increases, and the unfavorable index itself has by and large remained stable and trending in the right direction.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13
Sales	57.4	60.4	56.7	58.6	59.2	57.4	58.3	63.0	62.3	61.4	63.1	62.7	62.5
New credit applications	56.6	56.5	57.7	57.1	56.7	56.9	56.5	59.2	58.8	58.0	58.7	57.4	58.5
Dollar collections	54.6	61.3	59.2	56.9	57.5	57.7	57.2	59.2	59.3	57.5	60.4	60.6	61.4
Amount of credit extended	62.2	63.0	61.5	62.2	62.5	61.6	60.8	65.0	62.8	62.4	63.3	62.9	63.8
Index of favorable factors	**57.7**	**60.3**	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**	**59.8**	**61.4**	**60.9**	**61.5**
Rejections of credit applications	52.0	51.1	51.5	52.8	52.3	51.9	51.6	50.8	52.5	53.2	52.7	53.0	52.1
Accounts placed for collection	53.0	51.2	52.1	50.4	51.8	49.7	50.1	50.6	53.9	53.6	52.5	54.3	53.3
Disputes	50.9	50.1	50.5	50.4	50.4	48.3	48.6	48.5	51.9	51.0	51.6	51.7	51.8
Dollar amount beyond terms	48.0	49.9	50.9	49.6	49.8	51.2	45.5	54.1	50.5	48.5	51.1	52.2	52.7
Dollar amount of customer deductions	50.7	49.7	51.3	50.3	50.7	49.9	48.7	49.6	52.5	51.0	51.4	51.7	51.8
Filings for bankruptcies	58.9	58.4	57.4	58.1	58.3	57.3	56.0	56.0	56.8	58.2	58.7	59.8	59.6
Index of unfavorable factors	**52.3**	**51.7**	**52.3**	**51.9**	**52.2**	**51.4**	**50.1**	**51.6**	**53.0**	**52.6**	**53.0**	**53.8**	**53.6**
NACM Combined CMI	**54.4**	**55.2**	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**	**55.5**	**56.4**	**56.6**	**56.7**



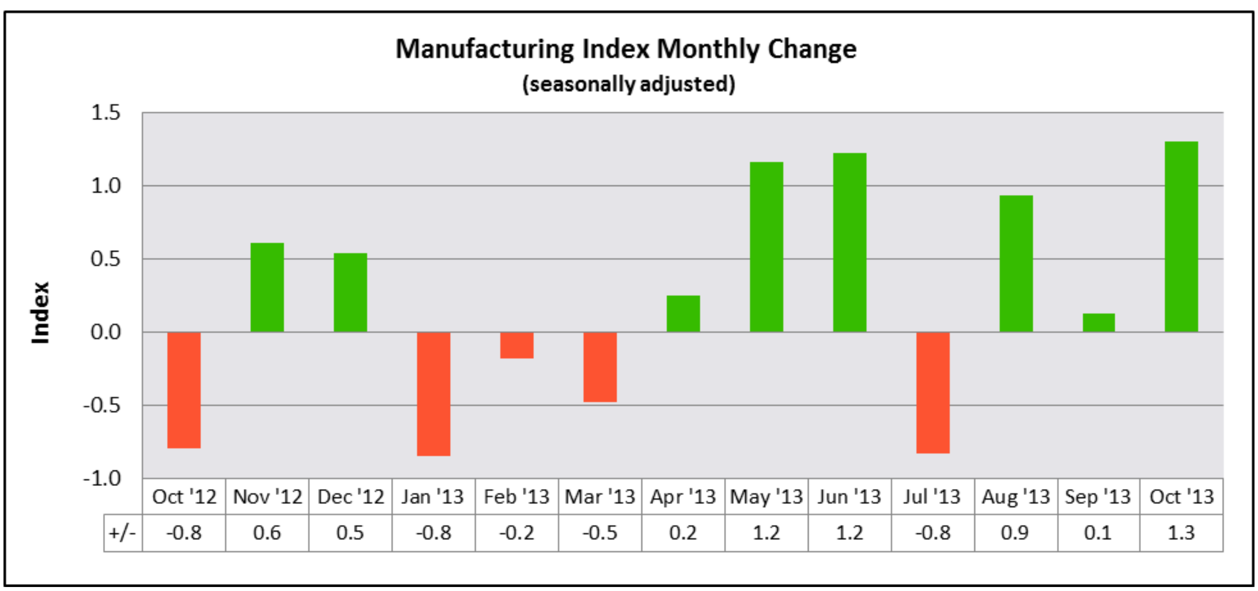
Manufacturing Sector

"The contrast between the manufacturing sector and the service sector could hardly be starker," Kuehl said. "It would appear the political impasse was of little consequence, at least for the time being." The manufacturing index improved from 56 to 57.3, the highest reading since the start of the recession and now much closer to the 60s than at any time in the last few years. The real progress came in the index of favorable factors, which rose from 60 to 62.4. A jump of over two points is unusual, especially given all the turmoil of late. The most surprising reaction was in sales, which improved from 61.6 to 64.3—another reading that has not been this high since the recession started, suggesting some manufacturing sectors are set to expand impressively in the months to come. The significant increases continued in the remaining factors. New credit applications jumped from 55.6 to 58.9, while amount of credit extended jumped from 62.4 to a startling 64.8. These numbers haven't been seen in over five years. Even dollar collections moved from 60.5 to 61.4. "The spectacular performance of the manufacturing sector seems inexplicable given the turmoil connected to Congress," Kuehl said, "but since this data is designed to be predictive, the bulk of the manufacturing community seems to be shrugging off the Washington drama and anticipating a more productive 2014. The one caveat is that the service sector performed poorly and could drag everything down."

The unfavorable factor index improved from 53.3 to 53.9, putting the reading at a three-year high. Each of the factors showed some positive trending. Rejections of credit applications slipped just slightly from 52.4 to 52, which is not all that shocking given that some businesses have been stressed in the last few months. They are asking for credit, but are not in a good position to have it granted. Accounts placed for collection went from 53.7 to 54 and disputes improved from 50.8 to 52.1. Disputes spent much of the last two years in the 40s, and in August it was still at 49.8. This marks the second month in a row that it has been above 50.

Dollar amount beyond terms jumped from 52.9 to 54.6, and there was a similar leap in dollar amount of customer deductions, from 50.7 to 51.9. There was a very slight decline in the filings for bankruptcies from 59.4 to 59. Kuehl said that it is too soon to make a solid judgment, but it would appear that some of these filings can be attributed to the shutdown, as several of the smaller companies that supply the Department of Defense have been hit by both the sequester-related budget cuts and the temporary cuts that came with the shutdown.

Manufacturing Sector (seasonally adjusted)	Oct '12	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13
Sales	56.7	57.8	56.9	57.4	57.3	55.5	59.2	59.2	61.0	60.3	62.3	61.6	64.3
New credit applications	57.0	53.6	58.0	57.7	55.5	54.8	55.8	57.4	58.6	57.5	58.4	55.6	58.9
Dollar collections	52.6	60.7	59.7	56.6	55.9	54.7	57.4	58.5	59.4	57.9	61.0	60.5	61.4
Amount of credit extended	61.6	61.7	61.2	61.1	61.6	61.3	60.1	63.3	61.2	61.4	62.1	62.4	64.8
Index of favorable factors	**57.0**	**58.4**	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**	**59.3**	**61.0**	**60.0**	**62.4**
Rejections of credit applications	51.2	52.1	51.4	51.1	52.2	51.8	52.2	51.3	52.7	52.9	52.3	52.4	52.0
Accounts placed for collection	52.4	50.7	52.2	50.3	50.7	48.6	51.8	50.3	53.6	53.6	53.0	53.7	54.0
Disputes	48.9	49.1	49.2	49.9	47.9	47.0	48.5	46.8	50.8	49.5	49.8	50.8	52.1
Dollar amount beyond terms	48.3	50.4	52.1	48.0	49.3	52.4	45.5	55.7	50.8	48.3	52.5	52.9	54.6
Dollar amount of customer deductions	49.9	48.5	50.0	49.2	48.8	48.5	48.0	48.2	52.5	49.8	49.3	50.7	51.9
Filings for bankruptcies	56.3	56.4	55.6	56.5	56.9	56.7	55.3	54.7	57.1	58.1	57.9	59.4	59.0
Index of unfavorable factors	**51.2**	**51.2**	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**	**52.0**	**52.5**	**53.3**	**53.9**
NACM Manufacturing CMI	**53.5**	**54.1**	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**	**54.9**	**55.9**	**56.0**	**57.3**



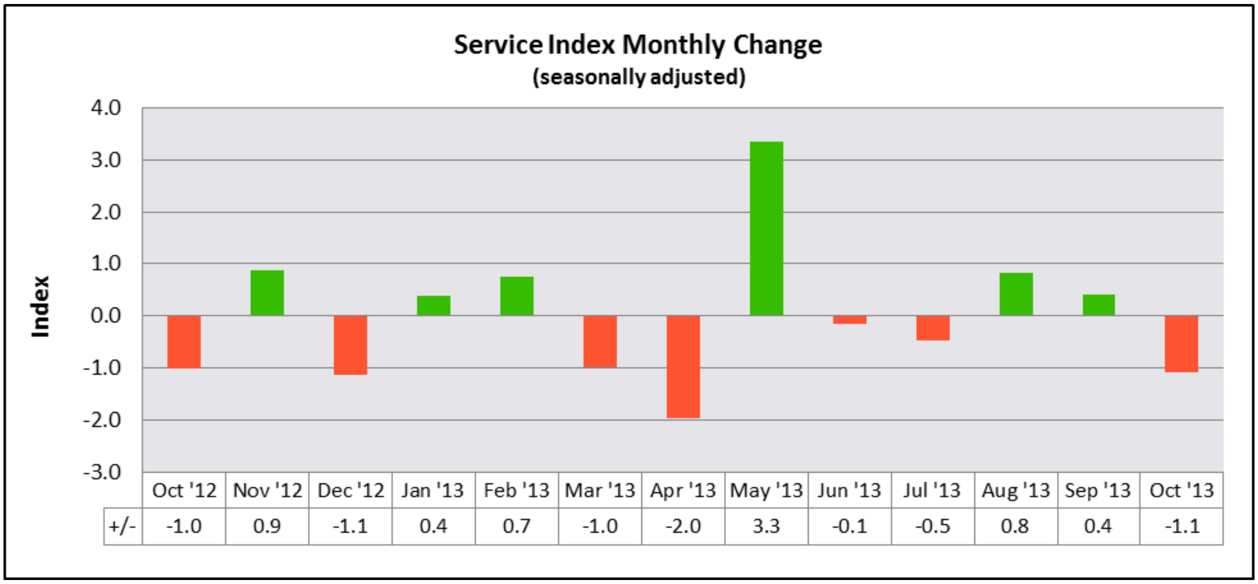
Service Sector

"The fractured activity at the government level manifested in the service numbers, which tempered the overall gains made by the CMI in October," Kuehl said. "It looks rather certain that the retail side of things bore the brunt of most of that damage. The service sector index fell from 57.3 to 56.2, which is not a staggering loss, but it took the index back to levels from earlier in the year."

The index of favorable factors fell from 61.8 to 60.7. Sales slumped from 63.8 to 60.6, marking the lowest point since April and almost erasing the gains made through the summer months. There was a corresponding fall in new credit applications from 59.2 to 58.1, and amount of credit extended posted a similar decline, 63.4 to 62.8. Dollar collections was the sole improvement, rising from 60.7 to 61.3. The good news is that all but one reading is still above 60.

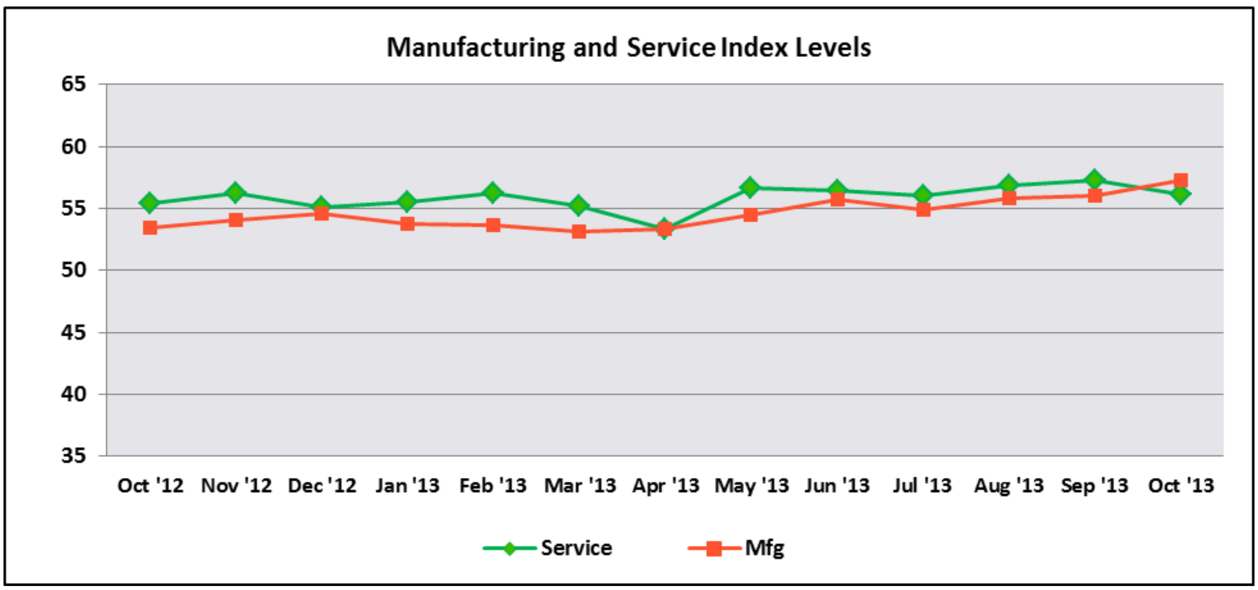
The unfavorable readings also showed signs of stress. The unfavorable factor index fell from 54.3 to 53.2, dragging it down to levels from the start of the year. All but one factor fell: rejections of credit applications from 53.7 to 52.2, accounts placed for collection from 55 to 52.7, disputes from 52.6 to 51.4, dollar amount beyond from 51.5 to 50.9 and dollar amount of customer deductions from 52.8 to 51.8. The one bright spot was in filings for bankruptcies, which rose from 60.1 to 60.3. "This was a very slight movement to be sure, but progress will be taken where it presents itself," said Kuehl. "More importantly, this factor is in the 60s, and thus far is the only one."

Service Sector (seasonally adjusted)	**Oct '12**	**Nov '12**	**Dec '12**	**Jan '13**	**Feb '13**	**Mar '13**	**Apr '13**	**May '13**	**Jun '13**	**Jul '13**	**Aug '13**	**Sep '13**	**Oct '13**
Sales	58.2	63.0	56.6	59.9	61.2	59.4	57.4	66.7	63.6	62.5	63.9	63.8	60.6
New credit applications	56.2	59.5	57.3	56.5	57.9	59.1	57.2	61.0	59.1	58.4	59.1	59.2	58.1
Dollar collections	56.5	62.0	58.7	57.2	59.1	60.7	57.1	59.9	59.3	57.1	59.8	60.7	61.3
Amount of credit extended	62.8	64.4	61.8	63.2	63.4	61.9	61.5	66.8	64.3	63.3	64.5	63.4	62.8
Index of favorable factors	**58.4**	**62.2**	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**	**60.3**	**61.8**	**61.8**	**60.7**
Rejections of credit applications	52.8	50.2	51.6	54.5	52.5	51.9	51.1	50.2	52.4	53.5	53.2	53.7	52.2
Accounts placed for collection	53.6	51.7	52.0	50.6	52.9	50.8	48.4	51.0	54.1	53.6	52.0	55.0	52.7
Disputes	52.9	51.1	51.9	50.9	52.9	49.6	48.6	50.2	53.0	52.6	53.3	52.6	51.4
Dollar amount beyond terms	47.8	49.4	49.6	51.1	50.4	49.9	45.6	52.5	50.3	48.7	49.7	51.5	50.9
Dollar amount of customer deductions	51.5	50.9	52.6	51.3	52.7	51.3	49.5	51.0	52.5	52.2	53.5	52.8	51.8
Filings for bankruptcies	61.5	60.4	59.2	59.8	59.6	58.0	56.6	57.2	56.5	58.2	59.6	60.1	60.3
Index of unfavorable factors	**53.3**	**52.3**	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**	**53.1**	**53.6**	**54.3**	**53.2**
NACM Service CMI	**55.4**	**56.2**	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**	**56.0**	**56.9**	**57.3**	**56.2**



October 2013 versus October 2012

"Thus far there hasn't been much real movement in the overall score," Kuehl said. "For almost two years the index has been in expansionary territory, but not by much. It would be welcome news to see the index break that 60 barrier, but it is good news indeed that falling under 50 is not imminent or even hinted at."



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.

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 this report and the CMI archives at http://web.nacm.org/cmi/cmi.asp.

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