Report for October 2009

Issued November 2, 2009

National Association of Credit Management

Combined Sectors

Is the recession truly over? Most of the evidence says "yes," although there will be problems to contend with for the next few months. In many ways, the best way to characterize the situation is to say that the beatings on the economy have stopped, but that every bone has been broken. The recovery started slowly in the last few months and will continue to progress slowly and not without some reversals from time to time, but news of the last few days of October has been especially solid with the third quarter GDP numbers stronger than anticipated—3.5% growth after four quarters in the negative category. Even more significant from the perspective of credit availability is that the CMI has broken past the 50 neutral barrier for the first time in over a year. The index started in that direction in September when the service side of the equation improved to 50.1, but manufacturing still lagged, finishing at 49.6. Now both sectors are showing expansion and the CMI as a whole is pointing toward growth.

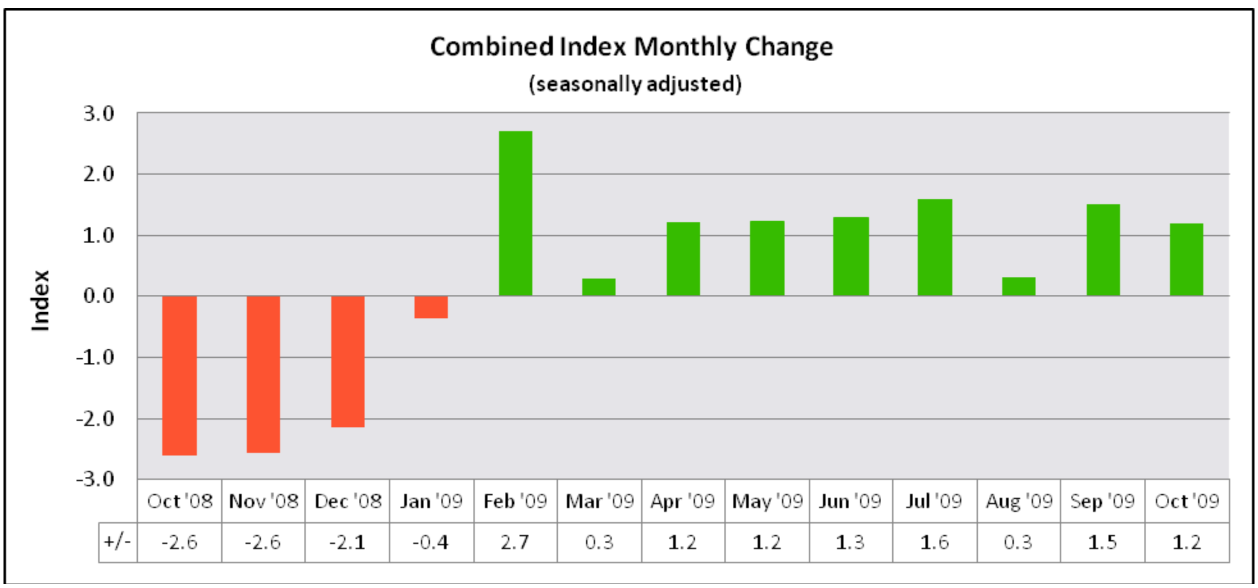
The significance of these findings is hard to overestimate given the kind of analysis taking place around the improved GDP numbers. The dominant theme is that four factors were at work with third quarter GDP: the impact of the stimulus package, the "Cash for Clunkers" program, the $8,000 new home-buyer credit and the Fed keeping interest rates low. These are all important factors, but are not the only ones at work—the CMI data makes this pretty clear. The private sector is also engaging in this economic comeback with the CMI tracking this activity in both the service and manufacturing sectors.

This month, progress was made in both the positive and negative indicators in contrast to the numbers in September where the majority of the progress was in the negative indicators. NACM's Economic Analyst Dr. Chris Kuehl said that there were two streams of good news, "Not only has there been some expansion in terms of credit availability, but there continues to be evidence that companies are catching up on their debt. Over the last few weeks, I have spoken at a several NACM events and have heard similar stories at each. Companies that had been behind in their obligations are catching up in anticipation of further growth and the need to ask for more credit in the future. By the same token, comments by attendees suggest that there is more money starting to filter into the system, making credit more accessible than it has been in some time."

The CMI data show a significant improvement in dollar collections and that the amount of credit extended is higher than it has been in well over a year. There were also far fewer accounts placed for collection and fewer applications rejected. This latter point is important to note as one would expect more rejections in a much more restrictive credit environment. This means that many of the applicants are more creditworthy than they have been in past months.

See page 5 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '09
Sales	45.6	34.4	27.2	29.5	34.1	35.2	37.4	41.8	44.8	48.6	48.4	49.9	51.1
New credit applications	49.7	45.2	44.7	42.7	44.9	44.3	47.8	48.2	50.7	52.6	49.3	50.0	52.7
Dollar collections	50.9	50.0	43.9	47.5	47.1	48.4	48.0	48.8	51.2	50.8	50.5	53.4	54.7
Amount of credit extended	47.7	43.3	42.2	40.5	42.2	41.8	42.3	44.3	46.1	48.2	48.0	49.3	53.6
Index of favorable factors	**48.5**	**43.2**	**39.5**	**40.0**	**42.1**	**42.4**	**43.9**	**45.8**	**48.2**	**50.0**	**49.1**	**50.6**	**53.0**
Rejections of credit applications	44.6	45.0	45.6	45.9	46.7	47.8	47.4	47.4	47.9	47.5	49.0	48.4	49.0
Accounts placed for collection	36.4	36.1	35.2	36.8	37.8	37.1	38.5	40.2	40.5	44.0	43.6	45.3	47.1
Disputes	42.9	43.9	44.5	43.4	44.8	44.1	47.2	47.5	47.7	50.2	49.7	50.8	51.0
Dollar amount beyond terms	41.8	38.8	31.6	30.6	42.0	42.3	40.5	43.4	43.6	45.3	46.2	48.1	48.1
Dollar amount of customer deductions	45.8	45.4	46.4	45.2	46.2	45.5	49.8	47.5	48.9	49.2	50.6	51.8	50.5
Filings for bankruptcies	42.6	40.5	39.7	35.4	38.4	40.5	40.2	42.3	42.8	43.7	45.8	51.5	52.6
Index of unfavorable factors	**42.3**	**41.6**	**40.5**	**39.5**	**42.6**	**42.9**	**43.9**	**44.7**	**45.2**	**46.7**	**47.5**	**49.3**	**49.7**
NACM Combined CMI	**44.8**	**42.2**	**40.1**	**39.7**	**42.4**	**42.7**	**43.9**	**45.1**	**46.4**	**48.0**	**48.1**	**49.8**	**51.0**



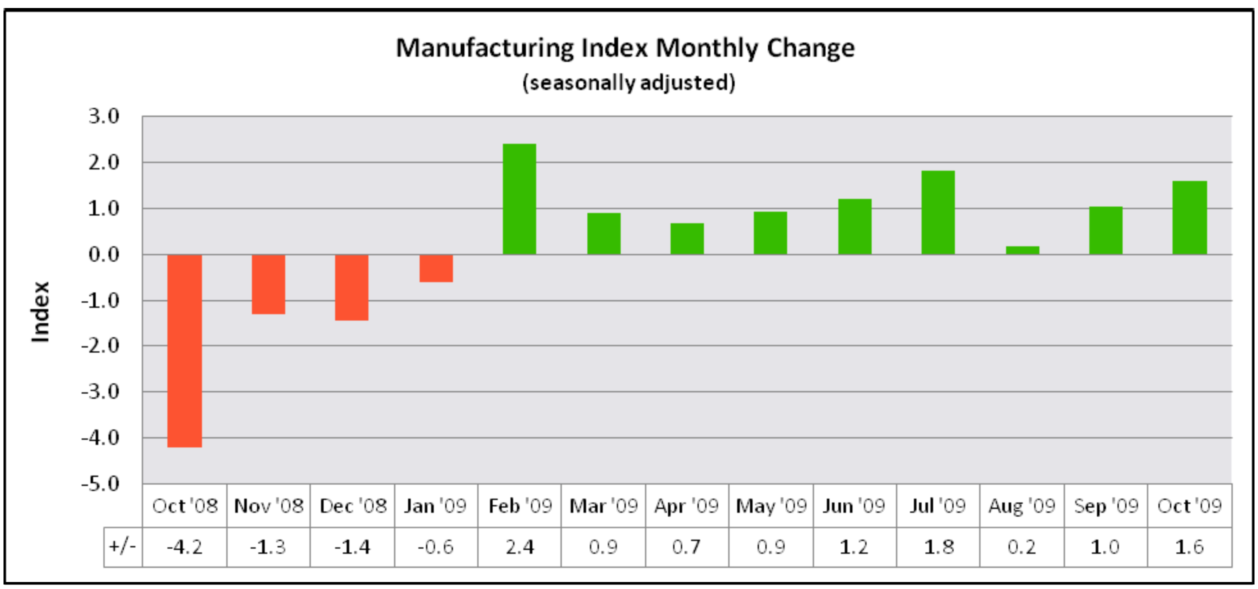
Manufacturing Sector

The manufacturing sector finally crested the 50 mark this month, a long-awaited development and one that is consistent with other economic data coming from the industrial community as a whole. "After falling just short of the growth mark in September at 49.6, manufacturing numbers are now past the neutral zone and are standing at 51.2," said Kuehl. "This is a pretty sharp gain given the slow development over the last several months. While it took from July to September to move 1.3 points, it only took one month for the sector to move 1.6 points to reach October's numbers. This is rapid expansion by any measure."

As noted in September's report, the data has been building to this point. In past years, when it appeared that creditors were starting to see their clients catch up, there was a delay of about a month or two before the manufacturers started to see more business. This pattern is nearly always the same. The companies that are in financial distress to some degree or another slow down payments and try to stretch dollars, even to the point of irritating their suppliers. Now that growth is nearing, these same manufacturers are gearing up by catching up. They are starting to bring in more raw materials, which is the predecessor to more production. That this is happening at a national level is represented by the rise in GDP numbers and the improvement in other indexes such as the Purchasing Managers Index (PMI) issued by the Institute of Supply Management. Right now the CMI and PMI are mirroring each other and that is generally a good sign for the manufacturing sector.

There remains a considerable way to go before the entire sector is nearly healthy, but the trends are moving in the right direction. From this point on, the critical factor will be consumer demand and the improvements that show up in trade.

Manufacturing Sector (seasonally adjusted)	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '09
Sales	46.1	38.5	26.8	31.6	34.7	36.7	39.6	40.7	45.4	48.7	48.4	48.7	52.0
New credit applications	49.2	45.5	48.8	44.8	45.2	44.6	50.7	49.3	51.1	55.3	48.6	50.5	52.9
Dollar collections	46.3	49.6	44.5	48.2	48.3	49.5	48.0	47.5	51.6	51.7	51.3	52.1	55.7
Amount of credit extended	48.1	42.8	44.0	39.6	40.5	41.8	44.1	44.2	45.8	49.3	48.9	48.8	53.5
Index of favorable factors	**47.4**	**44.1**	**41.0**	**41.1**	**42.2**	**43.1**	**45.6**	**45.4**	**48.5**	**51.3**	**49.3**	**50.0**	**53.5**
Rejections of credit applications	46.2	45.2	47.8	46.0	46.5	48.1	47.2	47.4	47.8	47.5	50.6	48.9	49.6
Accounts placed for collection	36.0	35.3	35.0	39.1	38.1	37.7	38.6	41.8	41.2	44.1	43.3	46.3	47.1
Disputes	41.3	44.4	44.7	42.6	44.4	44.4	45.8	47.6	46.1	49.3	48.2	49.5	50.9
Dollar amount beyond terms	38.6	40.0	31.8	30.8	46.5	48.1	42.8	44.5	45.3	46.3	48.1	48.3	47.9
Dollar amount of customer deductions	42.8	44.2	45.8	44.6	44.5	45.6	47.6	46.6	47.6	47.8	50.4	50.8	49.9
Filings for bankruptcies	42.6	38.7	40.6	36.4	39.2	40.6	39.6	43.6	43.2	43.1	47.3	51.7	52.1
Index of unfavorable factors	**41.3**	**41.3**	**41.0**	**39.9**	**43.2**	**44.1**	**43.6**	**45.2**	**45.2**	**46.4**	**48.0**	**49.2**	**49.6**
NACM Manufacturing CMI	**43.7**	**42.4**	**41.0**	**40.4**	**42.8**	**43.7**	**44.4**	**45.3**	**46.5**	**48.3**	**48.5**	**49.6**	**51.2**



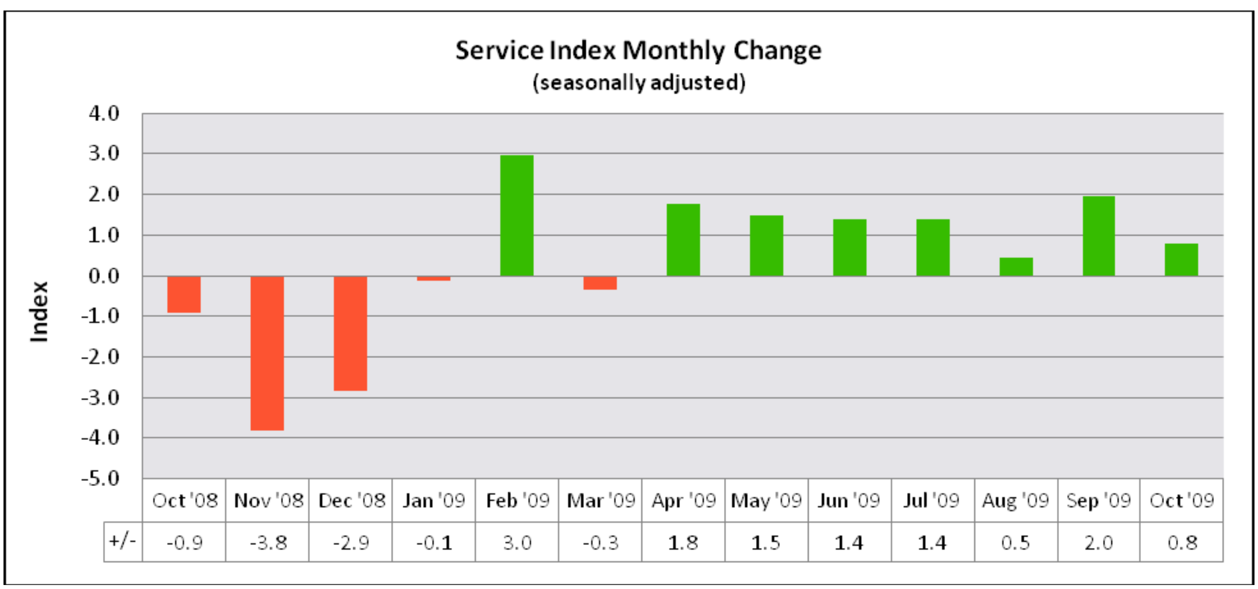
Service Sector

The big gains in September were in the service sector as the index moved from 48.2 to 50.1. This pattern was not repeated in October even though the sector still maintained some momentum, moving from 50.1 to 50.9. The manufacturing sector has rapidly jumped ahead of service in the race toward growth and that may reflect some retail reticence about the coming holiday season. There is still a sense that inventories will be held to lower-than-usual levels. This is affecting sales and the number of credit applications and also putting less pressure on the part of retailers to catch up with their suppliers.

Kuehl noted that "there seems to be some trepidation in the health care sector as well. This industry is booming, but there is also concern that changes from the as-yet-defined health care plan will impact them and many are in a state of some confusion. Disputes have been up, which may suggest that this is more about a fear of the future than of current conditions."

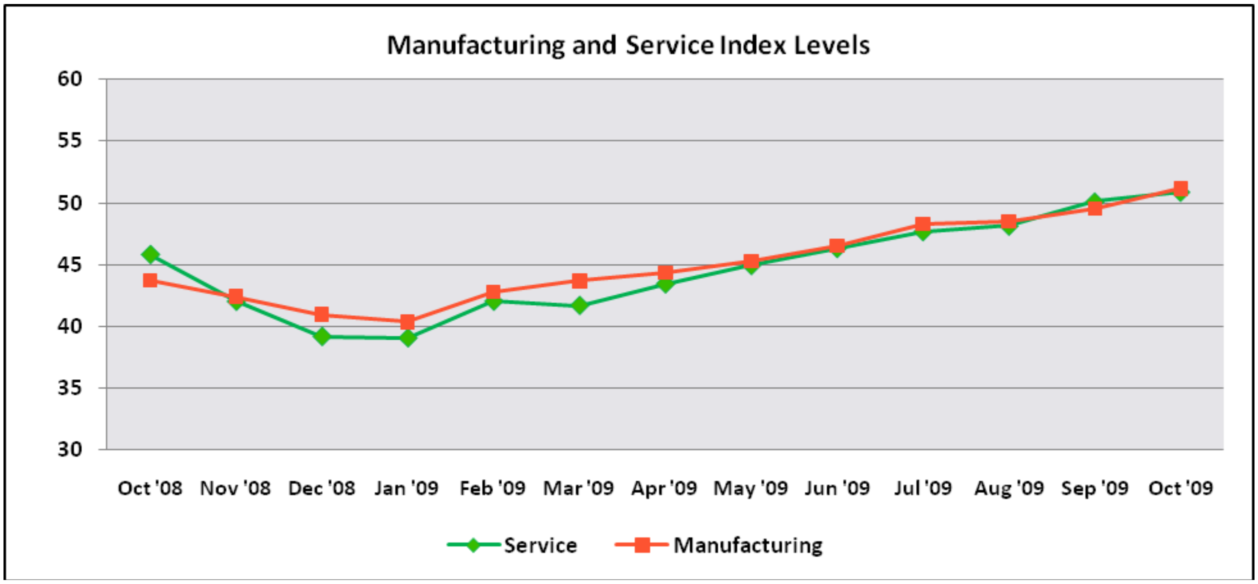
The good news from the service side is that there is still growth despite the challenges, providing optimism that the November numbers will be more impressive.

Service Sector (seasonally adjusted)	Oct	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '09
Sales	45.1	30.2	27.5	27.3	33.5	33.7	35.2	42.9	44.1	48.4	46.5	51.0	50.3
New credit applications	50.2	44.8	40.5	40.5	44.6	44.0	44.9	47.2	50.3	49.9	49.5	49.5	52.4
Dollar collections	55.5	50.3	43.2	46.8	45.9	47.4	48.0	50.0	50.8	49.8	50.5	54.8	53.7
Amount of credit extended	47.2	43.7	40.3	41.4	43.9	41.8	40.6	44.3	46.4	47.1	46.3	49.8	53.8
Index of favorable factors	**49.5**	**42.3**	**37.9**	**39.0**	**41.9**	**41.7**	**42.2**	**46.1**	**47.9**	**48.8**	**48.2**	**51.2**	**52.5**
Rejections of credit applications	43.0	44.7	43.4	45.7	46.9	47.5	47.7	47.4	48.1	47.4	48.5	47.9	48.5
Accounts placed for collection	36.7	36.9	35.4	34.4	37.5	36.5	38.5	38.7	39.8	43.9	43.7	44.3	47.1
Disputes	44.5	43.3	44.3	44.1	45.2	43.9	48.6	47.3	49.4	51.2	49.0	52.1	51.0
Dollar amount beyond terms	44.9	37.6	31.4	30.3	37.4	36.6	38.3	42.3	41.9	44.3	49.5	47.9	48.3
Dollar amount of customer deductions	48.8	46.6	47.0	45.7	48.0	45.4	52.0	48.4	50.2	50.7	51.1	52.7	51.1
Filings for bankruptcies	42.6	42.2	38.8	34.4	37.7	40.4	40.8	41.0	42.3	44.4	47.0	51.3	53.0
Index of unfavorable factors	**43.4**	**41.9**	**40.1**	**39.1**	**42.1**	**41.7**	**44.3**	**44.2**	**45.3**	**47.0**	**48.1**	**49.4**	**49.8**
NACM Service CMI	**45.9**	**42.0**	**39.2**	**39.1**	**42.0**	**41.7**	**43.5**	**45.0**	**46.3**	**47.7**	**48.2**	**50.1**	**50.9**



October 2009 vs. October 2008

"The year-over-year comparison is finally showing a clear trend toward growth," said Kuehl. The index holds that anything under 50 indicates contraction and that numbers over 50 are growth indicators. "The climb has been steep and awkward and the numbers are still far from robust, but the trend is clearly headed in the right direction," he said. "The comparison to October of last year is stark and, for the next few months, the emerging numbers will make last year's collapse all the more dramatic."



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 1000 trade credit managers during the last 10 days of the 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 or 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 items, the calculation is:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

For the negative factors, the calculation is:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

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: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

About the National Association of Credit Management

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland, supports approximately 19,000 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 and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative 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.

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