# Report for December 2009

**Issued January 4, 2010**
**National Association of Credit Management**

## Combined Sectors

**The reports on the economy have been mildly encouraging at year's end and now everyone's attention is turned to 2010—the year that is supposed to provide the anticipated recovery. The December CMI matched the mood of the economy as a whole—essentially flat, but showing some mild progress. The most important aspect of the report is that the index remained above the 50 mark that separates growth from contraction and even showed a slight gain as it moved from 52.3 to 52.9. "This is hardly the kind of advance that provokes celebration, but given the gloomy assessments made about the 2009 holiday season, the gain is certainly preferable to what had been anticipated," said Chris Kuehl, NACM economist.**

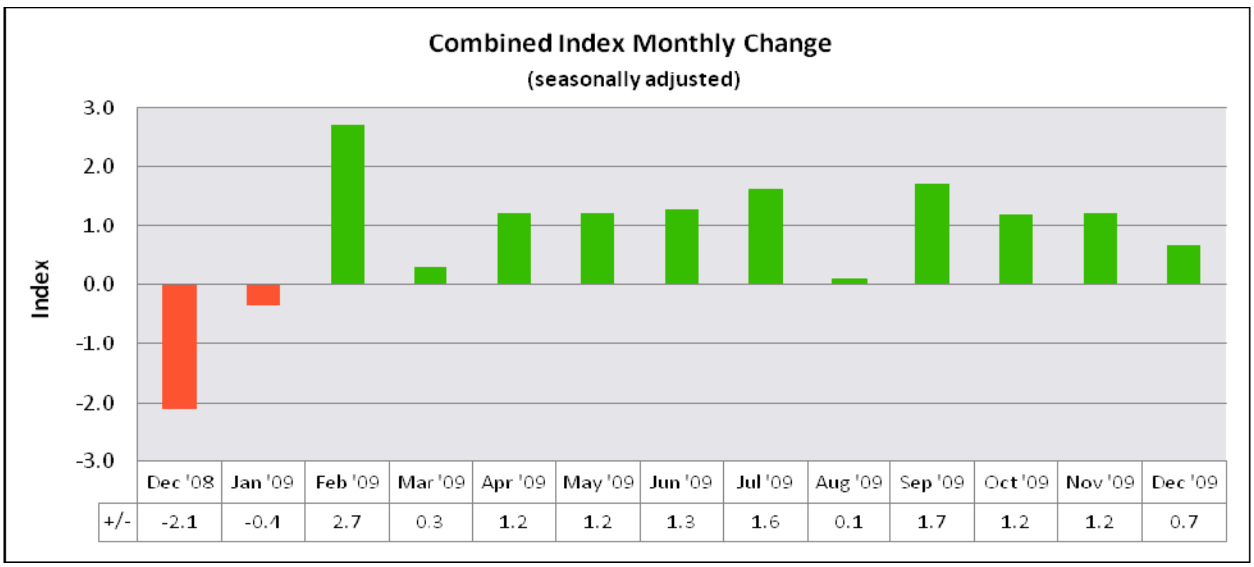
**The indicators that showed the least movement included sales and new credit applications. "This is to be expected and is consistent with December readings in past years," said Kuehl. "This is the period in which most manufacturers are in semi-hibernation unless the retail community is frantically trying to bolster inventory. That was not the strategy employed by retail this year; stores held the line on inventory and shoppers eventually caved and bought what was available." The retail numbers thus far showed a gain of around 4.5% over last year, but these are still preliminary. What did show up as more positive was an increase in dollar collections and an expansion of credit extended. Both of these data points bode well for the coming year, and the fact that there is still evidence of companies seeking to catch up on their debt is making it a bit easier to advance credit. As has been stated many times and from a variety of sources, the key to the economy's healthy recovery is the rebound in the credit markets. Thus far that recovery has been slow, but there continues to be a willingness to extend new credit and there is some sense that more will become available in the coming year.**

**Other elements showing promise include the modest improvement in unfavorable factors—disputes, rejection of credit applications and the like are still showing declines. But one unfavorable factor—filings for bankruptcies—has deteriorated significantly. "There have been more bankruptcies and that poses some long-term problems. The growth of bankruptcy activity is not unexpected at this point in a recession, but until these are worked through, there will be hesitation in the market to extend credit to any but the most healthy companies," Kuehl said. "As the economy rebounds, the companies that have been struggling to survive will start to encounter more aggressive competition, which is often the straw that breaks the back of these weakened companies."**

**The overall conclusion from this month's data is that the economy remains weak, but headed in the right direction. The slow thaw in the credit markets is still taking place and there are signs of expansion in both the manufacturing and service sectors. There has been no sign of explosive growth thus far, but that is consistent with most of the other assessments on the economy. The improvement in 2010 looks more feasible, but there are still no fireworks in the immediate future.**

*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) | Dec '08 | Jan '09 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec '09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 27.2 | 29.5 | 34.1 | 35.2 | 37.4 | 41.8 | 44.8 | 48.6 | 48.4 | 49.9 | 51.1 | 55.0 | 56.7 |
| New credit applications | 44.7 | 42.7 | 44.9 | 44.3 | 47.8 | 48.2 | 50.7 | 52.6 | 49.3 | 50.0 | 52.7 | 55.4 | 54.2 |
| Dollar collections | 43.9 | 47.5 | 47.1 | 48.4 | 48.0 | 48.8 | 51.2 | 50.8 | 50.5 | 53.4 | 54.7 | 55.8 | 58.0 |
| Amount of credit extended | 42.2 | 40.5 | 42.2 | 41.8 | 42.3 | 44.3 | 46.1 | 48.2 | 48.0 | 49.3 | 53.6 | 54.6 | 55.2 |
| **Index of favorable factors** | **39.5** | **40.0** | **42.1** | **42.4** | **43.9** | **45.8** | **48.2** | **50.0** | **49.1** | **50.6** | **53.0** | **55.2** | **56.0** |
| Rejections of credit applications | 45.6 | 45.9 | 46.7 | 47.8 | 47.4 | 47.4 | 47.9 | 47.5 | 49.0 | 48.4 | 49.0 | 49.3 | 50.1 |
| Accounts placed for collection | 35.2 | 36.8 | 37.8 | 37.1 | 38.5 | 40.2 | 40.5 | 44.0 | 43.6 | 45.3 | 47.1 | 49.5 | 50.9 |
| Disputes | 44.5 | 43.4 | 44.8 | 44.1 | 47.2 | 47.5 | 47.7 | 50.2 | 49.7 | 50.8 | 51.0 | 49.6 | 51.0 |
| Dollar amount beyond terms | 31.6 | 30.6 | 42.0 | 42.3 | 40.5 | 43.4 | 43.6 | 45.3 | 46.2 | 48.1 | 48.1 | 49.0 | 51.4 |
| Dollar amount of customer deductions | 46.4 | 45.2 | 46.2 | 45.5 | 49.8 | 47.5 | 48.9 | 49.2 | 50.6 | 51.8 | 50.5 | 51.3 | 51.3 |
| Filings for bankruptcies | 39.7 | 35.4 | 38.4 | 40.5 | 40.2 | 42.3 | 42.8 | 43.7 | 45.8 | 51.5 | 52.6 | 53.0 | 50.5 |
| **Index of unfavorable factors** | **40.5** | **39.5** | **42.6** | **42.9** | **43.9** | **44.7** | **45.2** | **46.7** | **47.5** | **49.3** | **49.7** | **50.3** | **50.8** |
| **NACM Combined CMI** | **40.1** | **39.7** | **42.4** | **42.7** | **43.9** | **45.1** | **46.4** | **48.0** | **48.1** | **49.8** | **51.0** | **52.3** | **52.9** |




## Manufacturing Sector

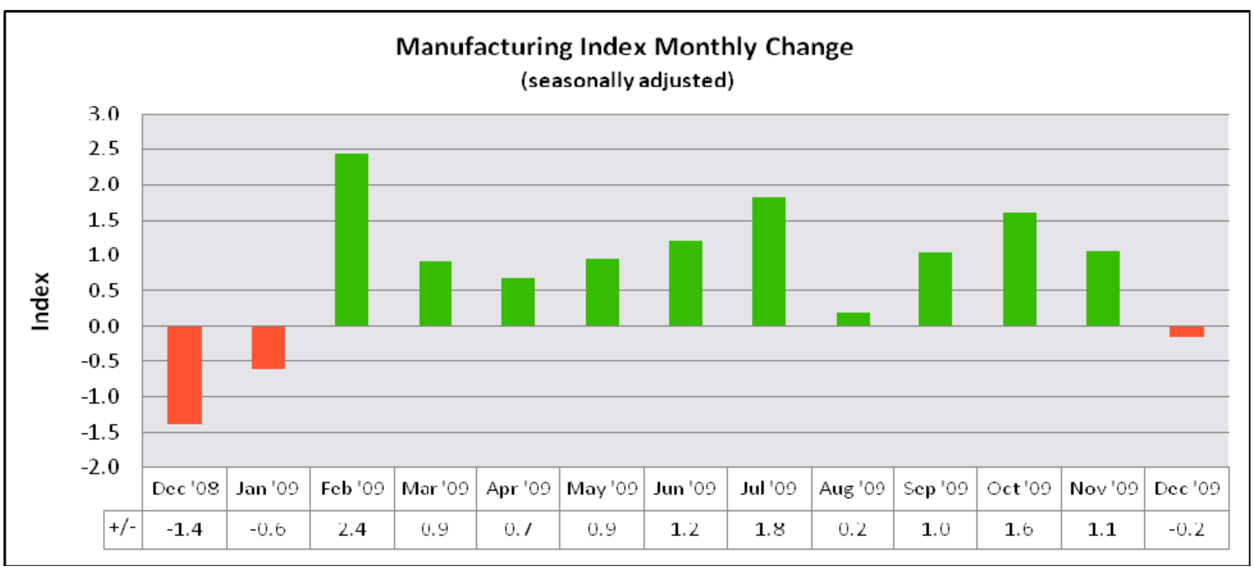
The pattern in the manufacturing sector was similar to that in the index as a whole when it came to favorable factors, but there was real decline in the unfavorable category, which caused manufacturing to slip into contraction territory for the first time since January 2009. "The December period is usually pretty challenging to this sector, and this December's decline was much less drastic than that of a year ago," said Kuehl, "but the fact remains that manufacturing ended its ten-month run of positive growth. It is likely that the new year will bring some progress again, but this dip in the index demonstrates that there are still problems in manufacturing that will take some time to correct."

Sales actually declined a little from the November data, but there were sharp increases in the amount of dollar collection and the level of additional credit extended. The reduction in sales activity is to be expected in what is the slowest period of the year for the manufacturing community, but it is very good news indeed to see that more and more manufacturers are catching up on their debt and preparing themselves for what may lie ahead. As was noted in the last two months of the index, there is a familiar process underway and the fact that this process has continued to advance is good news.

During the depths of a recession, the most common reaction is for companies to try to stretch out their creditors in order to maintain cash flow and reserves. As the recession begins to wane, these companies begin to consider the future and start to take steps that will position them for recovery. They start to catch up on their debt so they can request more credit when they need it. The index shows more dollar collections and more credit extended, which is consistent with these past patterns.

As with the combined index, the most striking difference was in the unfavorable category. Bankruptcies moved up sharply as the reading dropped from 55.4 to 46.6. The manufacturing sector has been hit hard by the recession and many companies have been unable to hang on for the expected recovery. The bulk of the closures are taking place in the hard-hit sectors like automotive and construction, but there has been an even more obvious concentration geographically. Michigan continues to have major issues and new problems have been in states like California and Arizona. Many companies created due to the opportunities in the boom have gone by the wayside and their bankruptcies are starting to show up prominently in the data supplied to the index. Kuehl said, “It would appear that this problem will continue into the coming year as the stronger companies push to gain market share at the expense of those with less resilience. The manufacturing sector is still dealing with very low capacity utilization and that will remain a drain on the sector’s progress for some time to come. Traditionally that number is close to 80% and at the moment it is barely over 70%—a level not seen since the 1980s recession.”

| **Manufacturing Sector** (seasonally adjusted) | Dec '08 | Jan '09 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec '09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 26.8 | 31.6 | 34.7 | 36.7 | 39.6 | 40.7 | 45.4 | 48.7 | 48.4 | 48.7 | 52.0 | 56.3 | 55.8 |
| New credit applications | 48.8 | 44.8 | 45.2 | 44.6 | 50.7 | 49.3 | 51.1 | 55.3 | 48.6 | 50.5 | 52.9 | 56.8 | 55.2 |
| Dollar collections | 44.5 | 48.2 | 48.3 | 49.5 | 48.0 | 47.5 | 51.6 | 51.7 | 51.3 | 52.1 | 55.7 | 53.1 | 56.0 |
| Amount of credit extended | 44.0 | 39.6 | 40.5 | 41.8 | 44.1 | 44.2 | 45.8 | 49.3 | 48.9 | 48.8 | 53.5 | 53.4 | 55.2 |
| **Index of favorable factors** | **41.0** | **41.1** | **42.2** | **43.1** | **45.6** | **45.4** | **48.5** | **51.3** | **49.3** | **50.0** | **53.5** | **54.9** | **55.6** |
| Rejections of credit applications | 47.8 | 46.0 | 46.5 | 48.1 | 47.2 | 47.4 | 47.8 | 47.5 | 50.6 | 48.9 | 49.6 | 49.5 | 49.5 |
| Accounts placed for collection | 35.0 | 39.1 | 38.1 | 37.7 | 38.6 | 41.8 | 41.2 | 44.1 | 43.3 | 46.3 | 47.1 | 49.5 | 51.0 |
| Disputes | 44.7 | 42.6 | 44.4 | 44.4 | 45.8 | 47.6 | 46.1 | 49.3 | 48.2 | 49.5 | 50.9 | 48.0 | 50.1 |
| Dollar amount beyond terms | 31.8 | 30.8 | 46.5 | 48.1 | 42.8 | 44.5 | 45.3 | 46.3 | 48.1 | 48.3 | 47.9 | 50.0 | 51.4 |
| Dollar amount of customer deductions | 45.8 | 44.6 | 44.5 | 45.6 | 47.6 | 46.6 | 47.6 | 47.8 | 50.4 | 50.8 | 49.9 | 50.3 | 49.8 |
| Filings for bankruptcies | 40.6 | 36.4 | 39.2 | 40.6 | 39.6 | 43.6 | 43.2 | 43.1 | 47.3 | 51.7 | 52.1 | 55.4 | 46.6 |
| **Index of unfavorable factors** | **41.0** | **39.9** | **43.2** | **44.1** | **43.6** | **45.2** | **45.2** | **46.4** | **48.0** | **49.2** | **49.6** | **50.4** | **49.7** |
| **NACM Manufacturing CMI** | **41.0** | **40.4** | **42.8** | **43.7** | **44.4** | **45.3** | **46.5** | **48.3** | **48.5** | **49.6** | **51.2** | **52.2** | **52.1** |



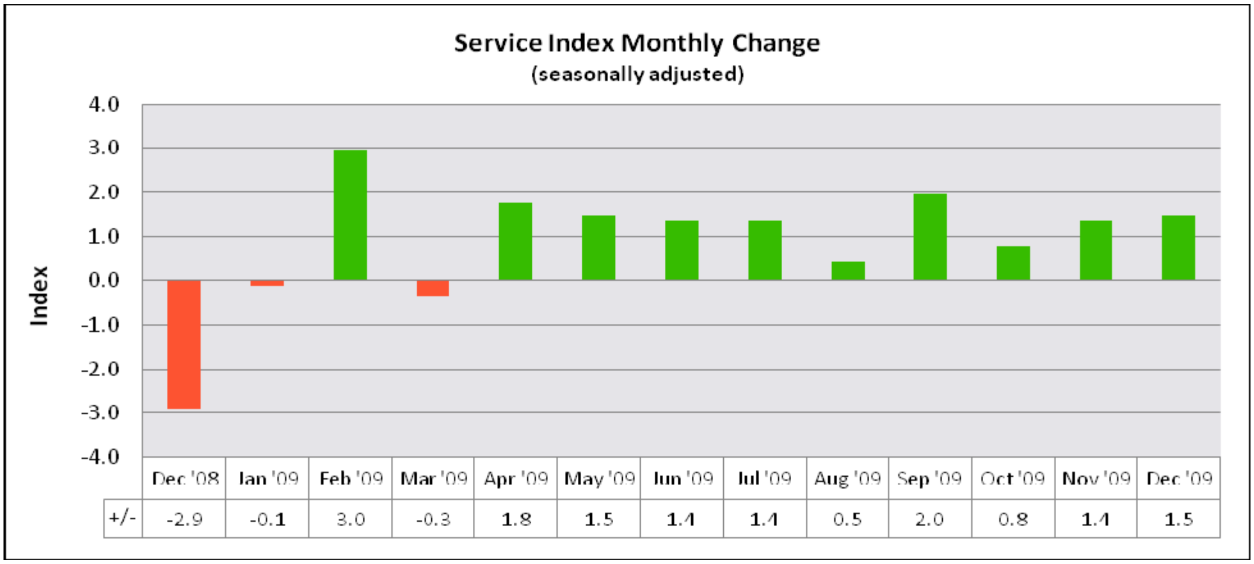
## Service Sector

The service sector held its own and managed to save the combined index from sliding into contraction. The contrast with the manufacturing sector was not so great when it came to the favorable factors, but there were some real differences in unfavorable factors—the biggest being in sales. Unlike manufacturing, this is the season for the service sector because it includes retail. The surge in holiday spending was late in arriving, but did show up and the index reflects this advance in sales activity, jumping from 53.7 to 57.5, twice what the index showed in December 2008. The retail season has been judged positive by most analysts and the CMI reflects that assessment. Most of the other favorable factors were flat, but there was modest growth.

As with manufacturing, there was an expansion in the number of bankruptcies. "There is likely to be a wave of bankruptcies in the next month or two as those retailers that didn't have the rescuing season they had hoped for will not be able to survive the doldrums of 2010," said Kuehl. "Retail bankruptcies are expected, but the good news is that most of the major players seem to have made it out of the year with some future." As these companies move out of the holiday season and into the slow time for the retail community, reductions in the favorable category are likely, although these are expected to be countered to some degree by improvements in the unfavorable categories—assuming there is some measurable activity in the economy as a whole.

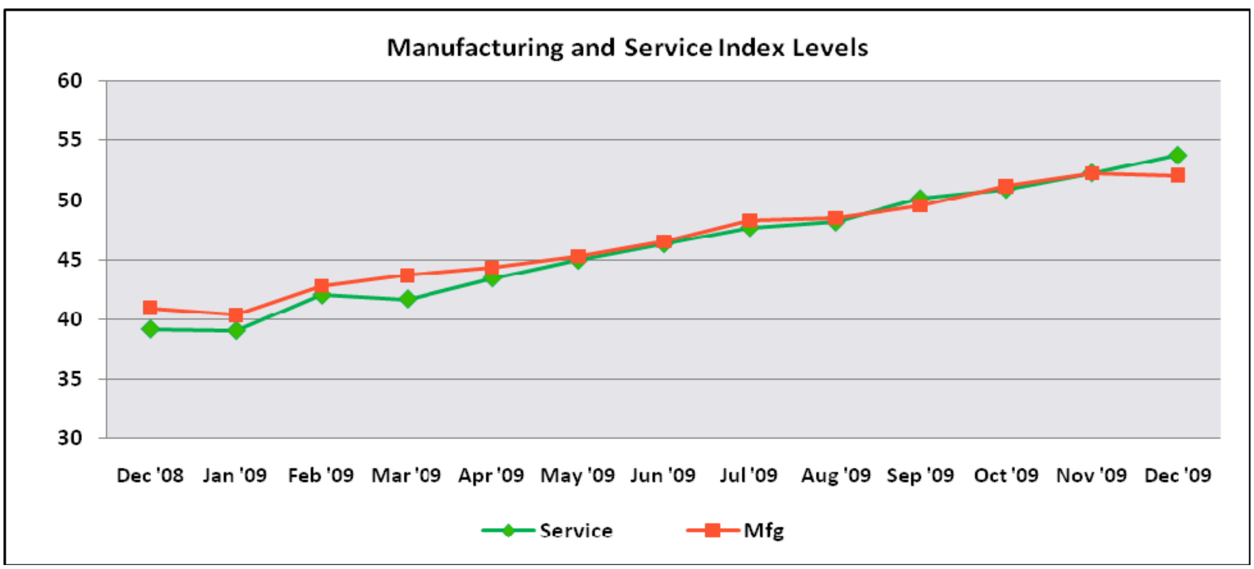
The service sector should stabilize in the next month or so as the heavy season for retail is replaced by more activity in the service sector areas connected to the financial community and law.

| Service Sector (seasonally adjusted) | Dec '08 | Jan '09 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec '09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 27.5 | 27.3 | 33.5 | 33.7 | 35.2 | 42.9 | 44.1 | 48.4 | 46.5 | 51.0 | 50.3 | 53.7 | 57.5 |
| New credit applications | 40.5 | 40.5 | 44.6 | 44.0 | 44.9 | 47.2 | 50.3 | 49.9 | 49.5 | 49.5 | 52.4 | 54.1 | 53.2 |
| Dollar collections | 43.2 | 46.8 | 45.9 | 47.4 | 48.0 | 50.0 | 50.8 | 49.8 | 50.5 | 54.8 | 53.7 | 58.6 | 59.9 |
| Amount of credit extended | 40.3 | 41.4 | 43.9 | 41.8 | 40.6 | 44.3 | 46.4 | 47.1 | 46.3 | 49.8 | 53.8 | 55.7 | 55.2 |
| **Index of favorable factors** | **37.9** | **39.0** | **41.9** | **41.7** | **42.2** | **46.1** | **47.9** | **48.8** | **48.2** | **51.2** | **52.5** | **55.5** | **56.5** |
| Rejections of credit applications | 43.4 | 45.7 | 46.9 | 47.5 | 47.7 | 47.4 | 48.1 | 47.4 | 48.5 | 47.9 | 48.5 | 49.2 | 50.6 |
| Accounts placed for collection | 35.4 | 34.4 | 37.5 | 36.5 | 38.5 | 38.7 | 39.8 | 43.9 | 43.7 | 44.3 | 47.1 | 49.4 | 50.7 |
| Disputes | 44.3 | 44.1 | 45.2 | 43.9 | 48.6 | 47.3 | 49.4 | 51.2 | 49.0 | 52.1 | 51.0 | 51.2 | 51.9 |
| Dollar amount beyond terms | 31.4 | 30.3 | 37.4 | 36.6 | 38.3 | 42.3 | 41.9 | 44.3 | 49.5 | 47.9 | 48.3 | 48.0 | 51.4 |
| Dollar amount of customer deductions | 47.0 | 45.7 | 48.0 | 45.4 | 52.0 | 48.4 | 50.2 | 50.7 | 51.1 | 52.7 | 51.1 | 52.3 | 52.7 |
| Filings for bankruptcies | 38.8 | 34.4 | 37.7 | 40.4 | 40.8 | 41.0 | 42.3 | 44.4 | 47.0 | 51.3 | 53.0 | 50.7 | 54.3 |
| **Index of unfavorable factors** | **40.1** | **39.1** | **42.1** | **41.7** | **44.3** | **44.2** | **45.3** | **47.0** | **48.1** | **49.4** | **49.8** | **50.1** | **52.0** |
| **NACM Service CMI** | **39.2** | **39.1** | **42.0** | **41.7** | **43.5** | **45.0** | **46.3** | **47.7** | **48.2** | **50.1** | **50.9** | **52.3** | **53.8** |




## December 2009 vs. December 2008

The performance of the CMI continues to look very solid compared to the doldrums experienced a year ago, but in a couple of months there will be an opportunity to compare recovery periods. “There has been a pretty consistent performance since April 2009, and by the time we reach April 2010 there should be a more solid level of expansion. If this doesn’t start to manifest itself there will be renewed fears of a double dip recession,” said Kuehl.




## 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.

This report and the CMI archives may be viewed at http://web.nacm.org/cmi/cmi.asp.

**Contact:** Caroline Zimmerman: 410-740-5560, caroline@nacm.org

Website: www.nacm.org
Twitter: NACM_National