Report for January 2014

Issued January 31, 2014

National Association of Credit Management

Combined Sectors

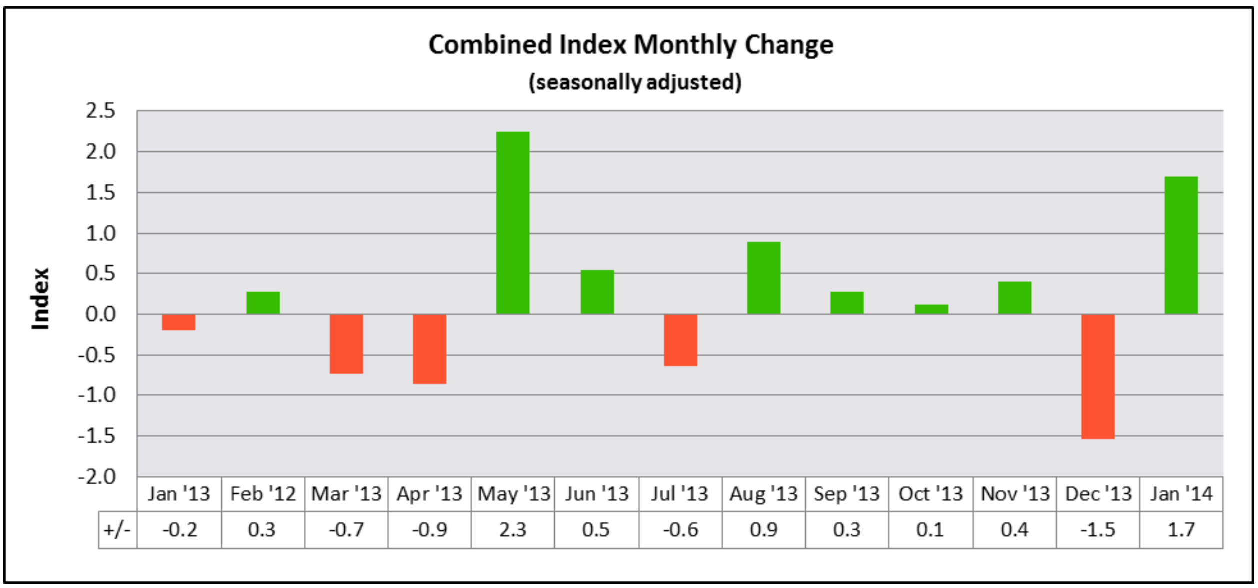
January's reading for the Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) rebounded to 57.3, the highest point reached in over a year and even more robust than the 57.1 notched in November. This now begs the question, which of the last three months is signaling the real trend? The November CMI hit a two-year high followed by a December low that took the index back to summer levels and now the January is back to highs not seen in two years. In December, there was a palpable gloom falling over the economy where the data was concerned. The December CMI recorded a low not seen since July and it looked as if all the gains that started to accumulate in the third and fourth quarters were evaporating. The January data dispels that mood a little.

The factors comprising the CMI provide more insight. All of the favorable factors improved in January. Sales regained some of its former momentum and climbed back into the 60s to 61.5 after falling to 58.7 last month. Granted, this is still on the low end of the 60s, but is trending in a more positive direction. New credit applications rose from 57.2 to 58.2, with the biggest improvement occurring in dollar collections, which jumped from 58.7 to 60.9, its first time over 60 since October. There was also a very significant jump in amount of credit extended from 62.6 to 65.4, marking its first time cresting over 65 since May. Finally, amount of credit extended hasn't been this high in almost three years and shows that credit is far more accessible now than it has been in some time. The favorable factor index regained a little of its luster and is back in the 60s with a fairly comfortable margin of 61.5 compared to December's 59.3.

The unfavorable factor index also provided some good news. The majority of the factors showed improvement and some truly regained the momentum that had been building in the months prior to December. Rejections of credit applications remained stable, moving up from 54.5 to 54.6, which is certainly better than the stagnant course recorded in the last few months. The reading hit the bottom of a downward trend in May at 50.8 and barely budged from June on. Accounts placed for collection improved quite a bit from 53.4 to 55.2, suggesting the little slump recorded at the end of the year did not force many companies into a state of distress. There was similar improvement in disputes from 50.7 to 52.2, which washed away end-of-year worries that struggling companies would be pushed over the edge and would start to become a challenge from a collection point of view. Dollar amount beyond terms was one of the big gainers, jumping out of contraction territory from December's 49.7 to January's 52.8. Finally, dollar amount of customer deductions stayed almost the same, improving very slightly from 51.5 to 51.6 and filings for bankruptcies posted a nice improvement from 59.0 to 60.5. Overall, the unfavorable factor index steadied more than many had expected with its bump from 53.1 to 54.5.

"The numbers posted in the December CMI were anything but inspiring and seemed to match a general lack of enthusiasm in the economy," said NACM Economist Chris Kuehl, PhD. "It was suggested that the low reading was likely an anomaly and, with the rebound in January, it now appears this is the case. The next set of data will attract a lot of attention as analysts seek to determine whether there is a clear trend back to more positive readings and if this will occur on a more consistent basis."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14
Sales	58.6	59.2	57.4	58.3	63.0	62.3	61.4	63.1	62.7	62.5	63.4	58.7	61.5
New credit applications	57.1	56.7	56.9	56.5	59.2	58.8	58.0	58.7	57.4	58.5	59.2	57.2	58.2
Dollar collections	56.9	57.5	57.7	57.2	59.2	59.3	57.5	60.4	60.6	61.4	59.7	58.7	60.9
Amount of credit extended	62.2	62.5	61.6	60.8	65.0	62.8	62.4	63.3	62.9	63.8	63.2	62.6	65.4
Index of favorable factors	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**	**59.8**	**61.4**	**60.9**	**61.5**	**61.3**	**59.3**	**61.5**
Rejections of credit applications	52.8	52.3	51.9	51.6	50.8	52.5	53.2	52.7	53.0	52.1	53.3	54.5	54.6
Accounts placed for collection	50.4	51.8	49.7	50.1	50.6	53.9	53.6	52.5	54.3	53.3	55.0	53.4	55.2
Disputes	50.4	50.4	48.3	48.6	48.5	51.9	51.0	51.6	51.7	51.8	51.9	50.7	52.2
Dollar amount beyond terms	49.6	49.8	51.2	45.5	54.1	50.5	48.5	51.1	52.2	52.7	54.7	49.7	52.8
Dollar amount of customer deductions	50.3	50.7	49.9	48.7	49.6	52.5	51.0	51.4	51.7	51.8	52.4	51.5	51.6
Filings for bankruptcies	58.1	58.3	57.3	56.0	56.0	56.8	58.2	58.7	59.8	59.6	59.0	59.0	60.5
Index of unfavorable factors	**51.9**	**52.2**	**51.4**	**50.1**	**51.6**	**53.0**	**52.6**	**53.0**	**53.8**	**53.6**	**54.3**	**53.1**	**54.5**
NACM Combined CMI	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**	**55.5**	**56.4**	**56.6**	**56.7**	**57.1**	**55.6**	**57.3**



Manufacturing Sector

"There was an evident surge in positive activity in the manufacturing sector with some surprising variations when compared to the service sector's activity. The combined and individual manufacturing indices were mostly very encouraging," Kuehl said. The main manufacturing index score improved to 57.5, which is about as good as the index has been all year. The favorable factor index improved to 62.0, while the unfavorable factor index improved to 54.4. These are all very positive numbers and the manufacturing sector jumped back to where it was a few months ago. "The peculiar part is that there were also some areas of decline and these were as unexpected as some of the gains," Kuehl noted.

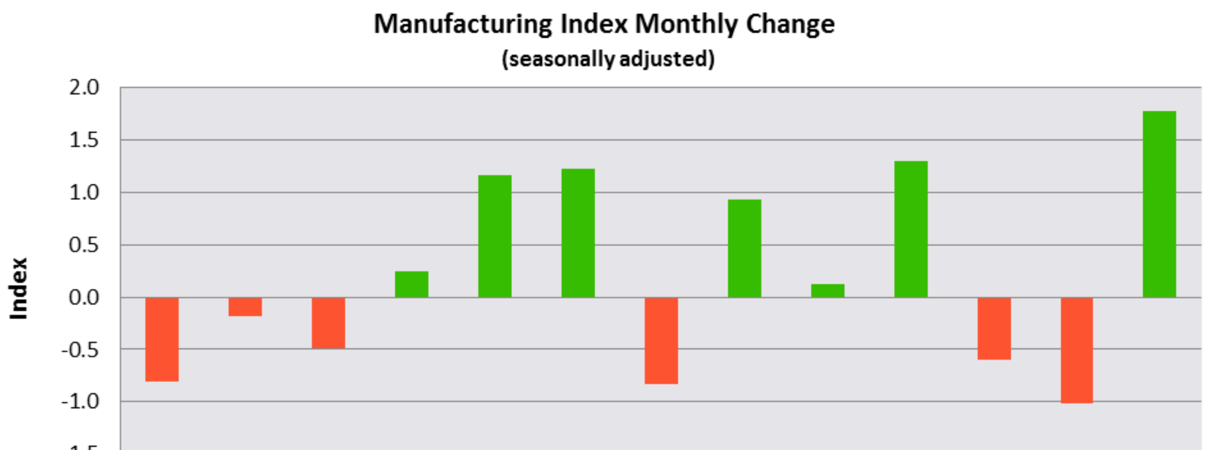
"The most vexing decline was sales' decline from a robust 61.7 to 59.6, the lowest since May of last year," Kuehl added. "This could have been more easily written off as an anomaly except for the unexpected durable goods numbers released by the government that were supposed to sport a significant gain but analysts were universally shocked to see that despite a good month for aerospace, there was a sharp reduction in durable goods orders. This is perplexing and worrisome. It may all be attributable to bad weather and a worried consumer but it will certainly bear close consideration in the months to come. The other favorable factors were much more consistent with the otherwise noted growth."

New credit applications improved to 59.5, which perhaps signals a sales pick up again in the coming months. Dollar collections showed substantial improvement as well, to 62.7. Finally, amount of credit extended improved to 66.4, marking a two-year high that's only rivaled by October's number, which occurred at the end of a several months-long run. "These gains make the sales number all the more confusing," Kuehl said. "Which of these data sets are telling the real story of the current trend?"

Unfavorable factor numbers also improved. Rejections of credit applications fell back a little, which may explain some of the weak sales data. In December, the reading was 55.5 and this month it recorded a 54.4. Accounts placed for collection improved to 55.7, a good sign for those who worried that a slump in manufacturing would start to claim victims right away. Kuehl said that the fear of a swift decline is based on the inventory built by many companies in the latter part of the year. This is what drove the rise in third quarter GDP so high and that is a good thing unless there is an inability to sell the accumulated inventory.

Disputes posted the smallest gain, moving to 51.0. Larger gains occurred in dollar amount beyond terms to 53.2 and in dollar amount of customer deductions to 51.8, thus escaping its fall into the contraction zone last month. Finally, filings for bankruptcies jumped into the 60s for the first time in two years, moving from 57.7 to 60.4.

Manufacturing Sector (seasonally adjusted)	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14
Sales	57.4	57.3	55.5	59.2	59.2	61.0	60.3	62.3	61.6	64.3	63.4	61.7	59.6
New credit applications	57.7	55.5	54.8	55.8	57.4	58.6	57.5	58.4	55.6	58.9	59.2	57.7	59.5
Dollar collections	56.6	55.9	54.7	57.4	58.5	59.4	57.9	61.0	60.5	61.4	58.7	59.5	62.7
Amount of credit extended	61.1	61.6	61.3	60.1	63.3	61.2	61.4	62.1	62.4	64.8	61.8	61.5	66.4
Index of favorable factors	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**	**59.3**	**61.0**	**60.0**	**62.4**	**60.8**	**60.1**	**62.0**
Rejections of credit applications	51.1	52.2	51.8	52.2	51.3	52.7	52.9	52.3	52.4	52.0	52.9	55.5	54.4
Accounts placed for collection	50.3	50.7	48.6	51.8	50.3	53.6	53.6	53.0	53.7	54.0	55.7	53.3	55.7
Disputes	49.9	47.9	47.0	48.5	46.8	50.8	49.5	49.8	50.8	52.1	51	50.2	51.0
Dollar amount beyond terms	48.0	49.3	52.4	45.5	55.7	50.8	48.3	52.5	52.9	54.6	54.8	50.0	53.2
Dollar amount of customer deductions	49.2	48.8	48.5	48.0	48.2	52.5	49.8	49.3	50.7	51.9	51.4	49.7	51.8
Filings for bankruptcies	56.5	56.9	56.7	55.3	54.7	57.1	58.1	57.9	59.4	59.0	58.5	57.7	60.4
Index of unfavorable factors	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**	**52.0**	**52.5**	**53.3**	**53.9**	**54**	**52.7**	**54.4**
NACM Manufacturing CMI	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**	**54.9**	**55.9**	**56.0**	**57.3**	**56.7**	**55.7**	**57.5**



	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14
+/-	-0.8	-0.2	-0.5	0.2	1.2	1.2	-0.8	0.9	0.1	1.3	-0.6	-1.0	1.8

Service Sector

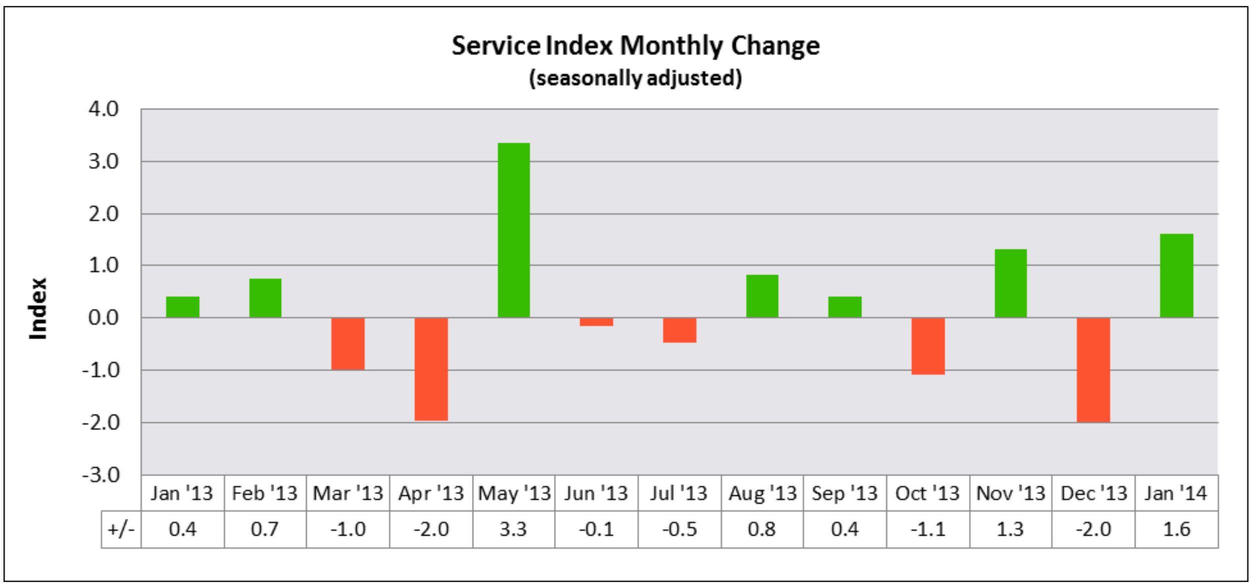
Gains in the service sector were not quite as impressive as they were in manufacturing but there was the logic is that the service sector did not experience quite the fall that manufacturing did at the end of the year. It is also worth noting that this is traditionally the time of year that retail sees a bit of a post-holiday season letdown. That did not seem to manifest as dramatically as it has in past years. The service sector index improved solidly from 55.5 to 57.1 and the gains for its favorable factor index (58.4 to 61.0) and unfavorable factor index (53.6 to 54.5) were pretty impressive as well. Two of the three readings jumped back above the 60 mark, returning to the impressive levels of a few months ago. “Had this not taken place during the crucial retail period of the year, there would have been some real concerns. One other factor of note is that construction activity makes up a good part of the overall index and construction numbers were low during this period due to the bitter cold,” Kuehl said.

In contrast to the manufacturing sales number, service sector sales responded well and moved to 63.4, higher than any point since May of last year. Given that these numbers are coming after the holiday, they are that much more encouraging, Kuehl noted. New credit applications improved to 57.0, essentially flat growth, but the gains in dollar collections was more impressive, jumping to 59.2 and within shouting distance of breaking 60. Amount of credit extended similarly improved, to 64.4. “This was not as impressive as the gains made in the corresponding manufacturing index number,” said Kuehl, “but remember, this is supposedly past the peak season for the retail sector and construction has been affected by weather.”

The unfavorable factor index also registered some impressive gains—in addition to more tepid reactions. Rejections of credit applications rose to 54.8 and seemed consistent with the new credit applications data. Accounts placed for collection improved to 54.8, suggesting not a great deal of business stress is manifesting even though the retail sales number was less than hoped. Disputes jumped to 53.3, another encouraging sign in regards to the overall health of the service sector after a mediocre year. Dollar amount beyond terms improved from 49.3 to 52.3, which now means that none of the unfavorable factors remain in the contraction zone. Filings for bankruptcies essentially remained unchanged, nudging to 60.5. The only service sector reading to decline was that of dollar amount of customer deductions from 53.3 to 51.4, and that is somewhat disconcerting.

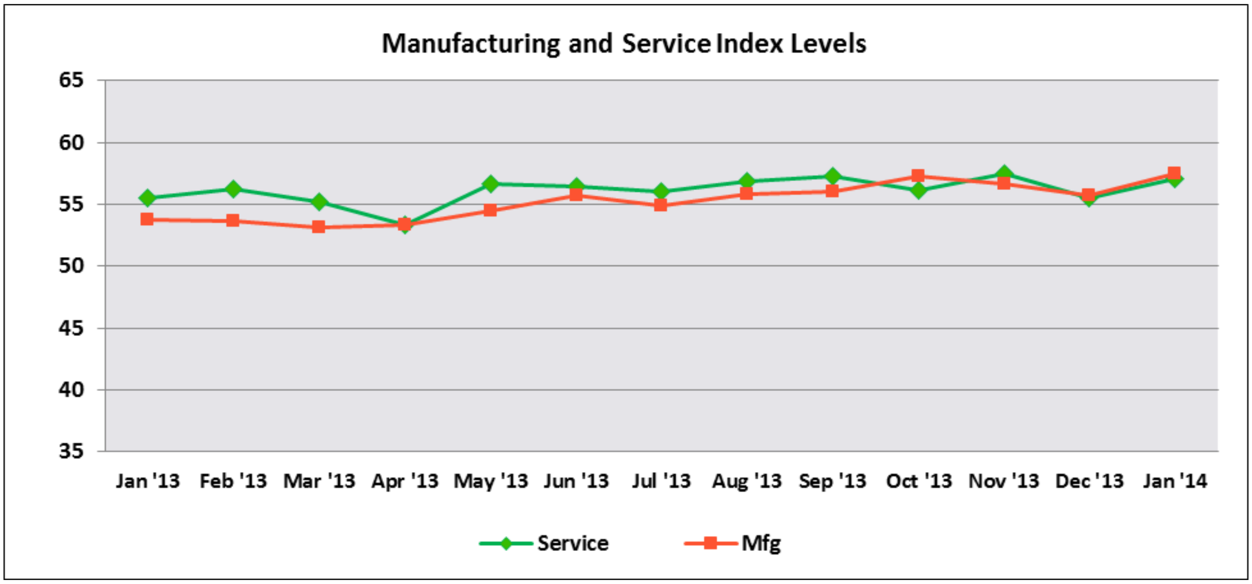
“The takeaway from the service sector for January is that growth was maintained when it really shouldn’t have,” Kuehl said. “Retail numbers did not actually collapse last year but they were far from impressive and there were declines in construction to some degree. The best that could have been hoped for was flat growth. Instead, other parts of the service economy carried the day. Health care seems to be at the top of these performers.”

Service Sector (seasonally adjusted)	**Jan '13**	**Feb '13**	**Mar '13**	**Apr '13**	**May '13**	**Jun '13**	**Jul '13**	**Aug '13**	**Sep '13**	**Oct '13**	**Nov '13**	**Dec '13**	**Jan '14**
Sales	59.9	61.2	59.4	57.4	66.7	63.6	62.5	63.9	63.8	60.6	63.4	55.7	63.4
New credit applications	56.5	57.9	59.1	57.2	61.0	59.1	58.4	59.1	59.2	58.1	59.1	56.7	57.0
Dollar collections	57.2	59.1	60.7	57.1	59.9	59.3	57.1	59.8	60.7	61.3	60.6	57.8	59.2
Amount of credit extended	63.2	63.4	61.9	61.5	66.8	64.3	63.3	64.5	63.4	62.8	64.5	63.6	64.4
Index of favorable factors	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**	**60.3**	**61.8**	**61.8**	**60.7**	**61.9**	**58.4**	**61.0**
Rejections of credit applications	54.5	52.5	51.9	51.1	50.2	52.4	53.5	53.2	53.7	52.2	53.6	53.5	54.8
Accounts placed for collection	50.6	52.9	50.8	48.4	51.0	54.1	53.6	52.0	55.0	52.7	54.2	53.5	54.8
Disputes	50.9	52.9	49.6	48.6	50.2	53.0	52.6	53.3	52.6	51.4	52.8	51.3	53.3
Dollar amount beyond terms	51.1	50.4	49.9	45.6	52.5	50.3	48.7	49.7	51.5	50.9	54.5	49.3	52.3
Dollar amount of customer deductions	51.3	52.7	51.3	49.5	51.0	52.5	52.2	53.5	52.8	51.8	53.3	53.3	51.4
Filings for bankruptcies	59.8	59.6	58.0	56.6	57.2	56.5	58.2	59.6	60.1	60.3	59.4	60.4	60.5
Index of unfavorable factors	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**	**53.1**	**53.6**	**54.3**	**53.2**	**54.6**	**53.6**	**54.5**
NACM Service CMI	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**	**56.0**	**56.9**	**57.3**	**56.2**	**57.5**	**55.5**	**57.1**



January 2014 versus January 2013

“The trends are back in a positive place for both the manufacturing and service sectors,” Kuehl said. “The question now is whether that will be the norm going forward or if there will be another slump. The betting is that positive trends will accelerate in the coming months.”



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 1,000 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 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 CMI archives at http://web.nacm.org/cmi/cmi.asp.

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