Report for November 2013

Issued November 27, 2013

National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI), published by the National Association of Credit Management (NACM), increased to 57.1 in November, registering its highest reading since the beginning of the recession in 2008.

Building on the optimism from October's CMI, where respondents shook off the crisis in Washington to deliver the index's best figures in over a year and a half, November's readings signify a newfound stability in businesses' attitudes on the economy as well as a greater sense of security in their investments. "There is a real sense that credit is more available than it has been in some time, which bodes well for the coming year," said NACM Economist Chris Kuehl, PhD. "This is not to say that a shock to the economy would not force a decline, but more resilience has formed than has been the case in some time."

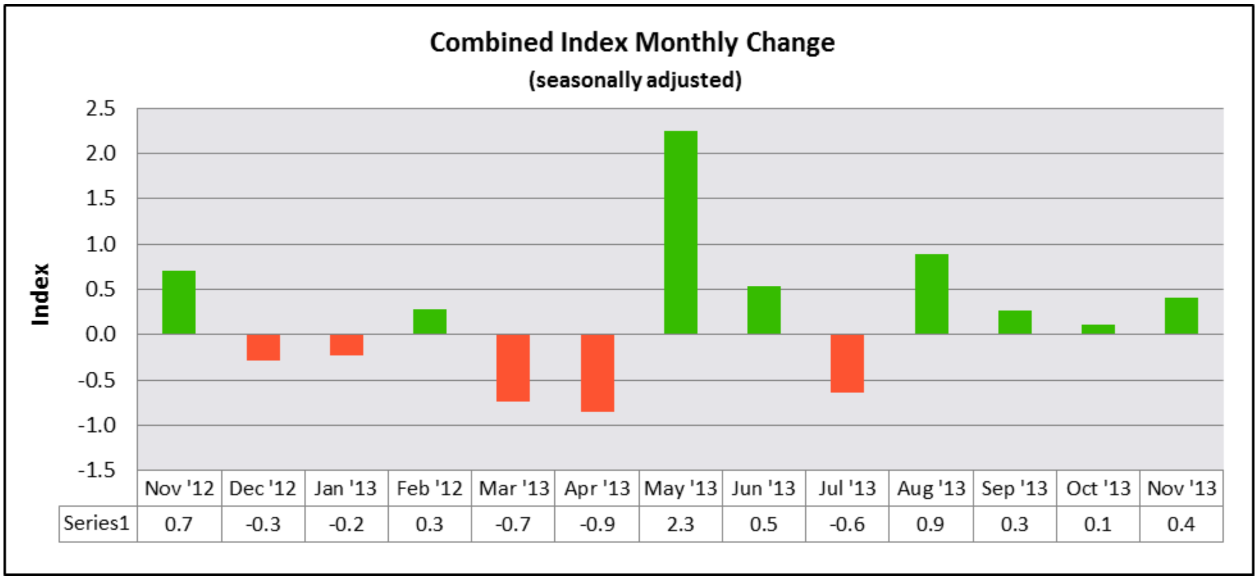
Sales climbed to 63.4 in November, besting May's record high of 63.0. Other favorable factors, however, fell victim to some slight seasonal shifts as new credit applications improved to 59.1, but amount of credit extended declined slightly from 63.8 to 63.2. "Given that there was more credit requested and less granted, the sense is this may be a short-term retrenchment slated to reverse once the holiday season distortions run their course," Kuehl said. Dollar collections also slipped in November, from 61.4 to a still-strong 59.7, "reflecting some of the cash flow management tricks that emerge this time of year," he added. Nonetheless, even with the divergences between individual favorable factors, the favorable index itself suffered only a slight decline from 61.5 to 61.3, which Kuehl noted wasn't any cause for concern.

The unfavorable index, however, experienced a noteworthy bump from 53.6 to 54.3 in November, ignoring any uncertainty about the economy and signaling that most of the companies that received credit in the past are managing to keep pace. Rejections of credit applications jumped by more than a point, from 52.1 to 52.3, and accounts placed for collection leapt by nearly two points from 53.3 to 55.0, an impressive development given that this factor hit the 40s in March.

The October CMI seemed to suggest that manufacturing had managed to shake off the crisis in Washington due to substantial gains in that sector, despite the predictions of real gloom and doom. What held the economy back was the slumping service sector, with consumer spending seemingly affected the most by the shutdown and related chaos. This month, the sectors reversed fortunes. The manufacturing sector index fell from 57.3 to 56.7 in an apparent reaction to the government issues, while consumers gained a little enthusiasm, giving the service sector index from a boost from 56.2 to 57.5. "Not that the shopper is telling anyone of their newfound excitement since the confidence surveys are still tracking badly," Kuehl said. "As retail sales and traffic numbers suggest, people are saying one thing, but doing another."

"The overall message from the unfavorable factors is that business does not seem to be in real distress at the moment," Kuehl said. "This does not necessarily mean that there is solid growth around the corner, but it does indicate that most of the companies in the survey are heading into 2014 stable, which opens up the possibility of substantial growth."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '12	Dec '12	Jan '13	Feb '13	Mar '13	Apr '13	May '13	Jun '13	Jul '13	Aug '13	Sep '13	Oct '13	Nov '13
Sales	60.4	56.7	58.6	59.2	57.4	58.3	63.0	62.3	61.4	63.1	62.7	62.5	63.4
New credit applications	56.5	57.7	57.1	56.7	56.9	56.5	59.2	58.8	58.0	58.7	57.4	58.5	59.1
Dollar collections	61.3	59.2	56.9	57.5	57.7	57.2	59.2	59.3	57.5	60.4	60.6	61.4	59.7
Amount of credit extended	63.0	61.5	62.2	62.5	61.6	60.8	65.0	62.8	62.4	63.3	62.9	63.8	63.2
Index of favorable factors	**60.3**	**58.8**	**58.7**	**59.0**	**58.4**	**58.2**	**61.6**	**60.8**	**59.8**	**61.4**	**60.9**	**61.5**	**61.3**
Rejections of credit applications	51.1	51.5	52.8	52.3	51.9	51.6	50.8	52.5	53.2	52.7	53.0	52.1	53.2
Accounts placed for collection	51.2	52.1	50.4	51.8	49.7	50.1	50.6	53.9	53.6	52.5	54.3	53.3	55.0
Disputes	50.1	50.5	50.4	50.4	48.3	48.6	48.5	51.9	51.0	51.6	51.7	51.8	51.9
Dollar amount beyond terms	49.9	50.9	49.6	49.8	51.2	45.5	54.1	50.5	48.5	51.1	52.2	52.7	54.6
Dollar amount of customer deductions	49.7	51.3	50.3	50.7	49.9	48.7	49.6	52.5	51.0	51.4	51.7	51.8	52.4
Filings for bankruptcies	58.4	57.4	58.1	58.3	57.3	56.0	56.0	56.8	58.2	58.7	59.8	59.6	59.0
Index of unfavorable factors	**51.7**	**52.3**	**51.9**	**52.2**	**51.4**	**50.1**	**51.6**	**53.0**	**52.6**	**53.0**	**53.8**	**53.6**	**54.3**
NACM Combined CMI	**55.2**	**54.9**	**54.6**	**54.9**	**54.2**	**53.3**	**55.6**	**56.1**	**55.5**	**56.4**	**56.6**	**56.7**	**57.1**



Manufacturing Sector

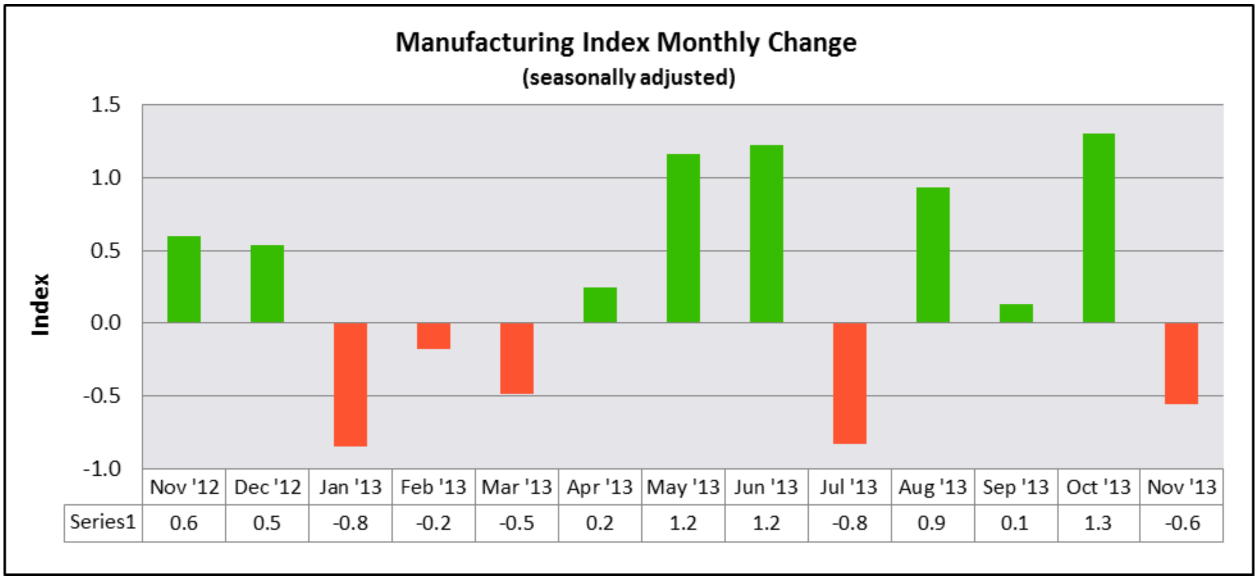
The manufacturing sector index fell from 57.3 to 56.7, but this is still higher than it's been in a few years. The readings within were mixed, but the overall sense was of renewed caution. The index of favorable factors declined quite a bit from 62.4 to 60.8, but this is still far higher than it's been in the last year or so. Sales tumbled from 64.3 to 63.4, but many had expected far worse given the crisis over the debt ceiling. New credit applications moved from 58.9 to 59.2, a continuation of improvement that began to manifest this year. "The significance of this gain can't be overstated as this is an assessment of the future intent of the manufacturing community," Kuehl said. There was a fairly steep drop in dollar collections from 61.4 to 58.7, which is seemingly related to tighter cash flow management at the expense of those that issued credit. Finally, amount of credit extended fell from 64.8 to 61.8, suggesting more caution among credit issuers despite receiving more applications.

The index of unfavorable factors also showed some interesting trends as the overall reading improved from 53.9 to 54. “It was obviously not a big jump, but it was a gain in the face of existing pressure to decline, and the specifics are interesting,” Kuehl said. Rejections of credit applications improved from 52 to 52.9. If the increase in applications noted above is considered along with the rejection of fewer applications, it seems expansion will be back in the near future. Accounts placed for collection also improved from 54 to 55.7, which is a statement in and of itself Kuehl noted. “The suggestion is that creditors are still catching up and that reinforces the trend toward asking for more credit,” he said.

For the rest of the unfavorable factors, disputes dropped from 52.1 to 50, dollar amount beyond terms rose slightly from 54.6 to 54.8, dollar amount of customer deductions went from 51.9 to 51.4 and filings for bankruptcies fell from 59 to 58.5. None rose or fell significantly. “Manufacturers see a fair amount of bankruptcy given the sensitivity of smaller companies to shifts in demand and business,” Kuehl said. “Thus far, the economy has not started to close in on the manufacturer, but declines in the auto industry would be devastating.”

“The best way to characterize the manufacturing sector this month is that it has slowed and stalled, but there is not yet a sign of full retreat and few are expecting to see one,” Kuehl said. “The holiday season is not generally a time of expansion given that most of the focus is on the retailer, but the stall could be more intense this year as retailers have shown no desire to add inventory at the last minute, thus limiting the ability of manufacturers to get a last-minute surge from new orders,” Kuehl said. “This retail reticence has also shown up in the reduced level of imports into the United States.”

Manufacturing Sector **(seasonally adjusted)**	**Nov '12**	**Dec '12**	**Jan '13**	**Feb '13**	**Mar '13**	**Apr '13**	**May '13**	**Jun '13**	**Jul '13**	**Aug '13**	**Sep '13**	**Oct '13**	**Nov '13**
Sales	57.8	56.9	57.4	57.3	55.5	59.2	59.2	61.0	60.3	62.3	61.6	64.3	63.4
New credit applications	53.6	58.0	57.7	55.5	54.8	55.8	57.4	58.6	57.5	58.4	55.6	58.9	59.2
Dollar collections	60.7	59.7	56.6	55.9	54.7	57.4	58.5	59.4	57.9	61.0	60.5	61.4	58.7
Amount of credit extended	61.7	61.2	61.1	61.6	61.3	60.1	63.3	61.2	61.4	62.1	62.4	64.8	61.8
Index of favorable factors	**58.4**	**58.9**	**58.2**	**57.6**	**56.5**	**58.1**	**59.6**	**60.0**	**59.3**	**61.0**	**60.0**	**62.4**	**60.8**
Rejections of credit applications	52.1	51.4	51.1	52.2	51.8	52.2	51.3	52.7	52.9	52.3	52.4	52.0	52.9
Accounts placed for collection	50.7	52.2	50.3	50.7	48.6	51.8	50.3	53.6	53.6	53.0	53.7	54.0	55.7
Disputes	49.1	49.2	49.9	47.9	47.0	48.5	46.8	50.8	49.5	49.8	50.8	52.1	51.0
Dollar amount beyond terms	50.4	52.1	48.0	49.3	52.4	45.5	55.7	50.8	48.3	52.5	52.9	54.6	54.8
Dollar amount of customer deductions	48.5	50.0	49.2	48.8	48.5	48.0	48.2	52.5	49.8	49.3	50.7	51.9	51.4
Filings for bankruptcies	56.4	55.6	56.5	56.9	56.7	55.3	54.7	57.1	58.1	57.9	59.4	59.0	58.5
Index of unfavorable factors	**51.2**	**51.8**	**50.8**	**51.0**	**50.8**	**50.2**	**51.1**	**52.9**	**52.0**	**52.5**	**53.3**	**53.9**	**54.0**
NACM Manufacturing CMI	**54.1**	**54.6**	**53.8**	**53.6**	**53.1**	**53.4**	**54.5**	**55.8**	**54.9**	**55.9**	**56.0**	**57.3**	**56.7**



Service Sector

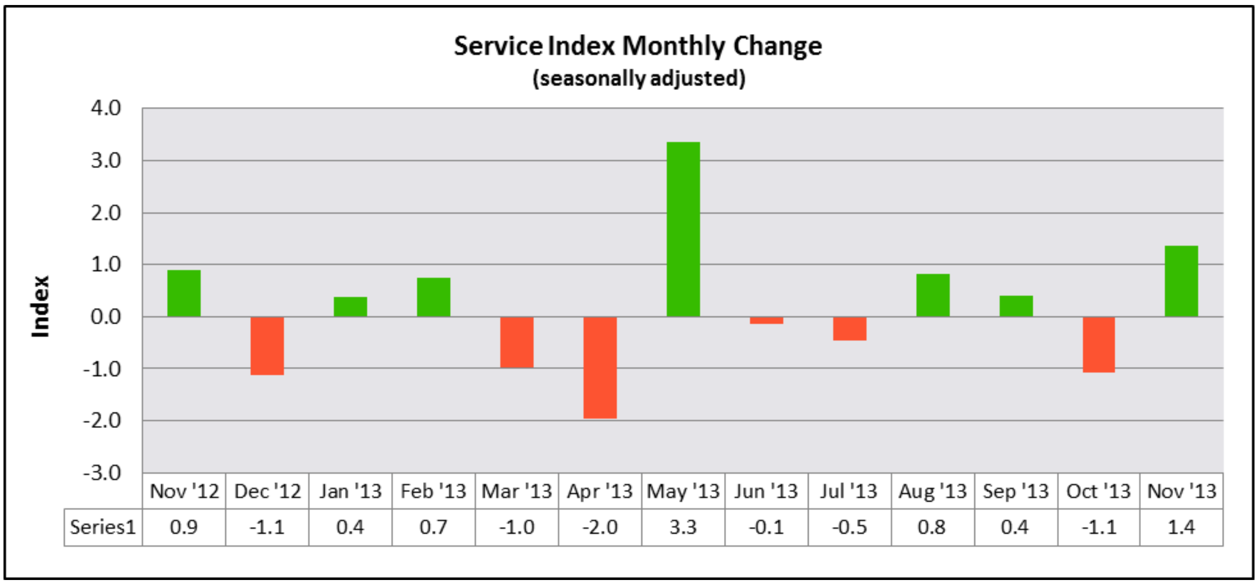
Last month, it seemed the consumer was the most affected by the antics of Congress as confidence levels dropped and retailers reported slower traffic. If one judged the season by what took place in August and September, there would be little enthusiasm for the year at all, but that was before Halloween-related spending showed some evidence that consumers were shrugging off the bad news. This was not a record-setting year for Halloween, but it was respectable. Americans spent an estimated $85 billion on Halloween, $7.6 billion on costumes and candy alone, contradicting the gloom expressed in confidence surveys.

The service sector index improved from 56.2 to 57.5. Both sub-indices improved as well, with the favorable factor index moving from 60.7 to 61.9, driven by sales, which surged from 60.6 to 63.4 due to consumer shrug-off of Washington-induced worries. New credit applications also showed improvement from 58.1 to 59.1. Kuehl said that given the time of year, "this is good news as retailers are not asking for credit for this year, but in anticipation of the business they expect to do next year." Dollar collections declined from 61.3 to 60.6, which may be related to cash flow decisions made by many retailers this time of year. Anticipating sales through the holidays, they may opt to spend on inventory and catch up on credit in a few weeks. Amount of credit extended improved from 62.8 to 64.5 and is indeed very good news, meaning that businesses asking for credit appear to be creditworthy.

The index of unfavorable factors was up to a reading not seen in a few years, from 53.2 to 54.6. The individual categories also tell a pretty solid story as far as the state of the creditors are concerned. Rejections of credit applications improved from 52.2 to 53.6 and accounts placed for collection jumped considerably from 52.7 to 54.2. "These factors show a lot of evidence that businesses in the service sector have been trying to get current with their credit and that often signals a bigger surge later," said Kuehl. Disputes improved from 51.4 to 52.8 and dollar amount beyond terms went from 50.9 to 54.5. "It is worth taking a closer look at that last reading," said Kuehl. "For most of the last year, that category has been in the 40s and now it has jumped solidly into the 50s for the first time since the recession. The creditors are not only in a position to start catching up with their credit; they seem to be interested in doing so," he added.

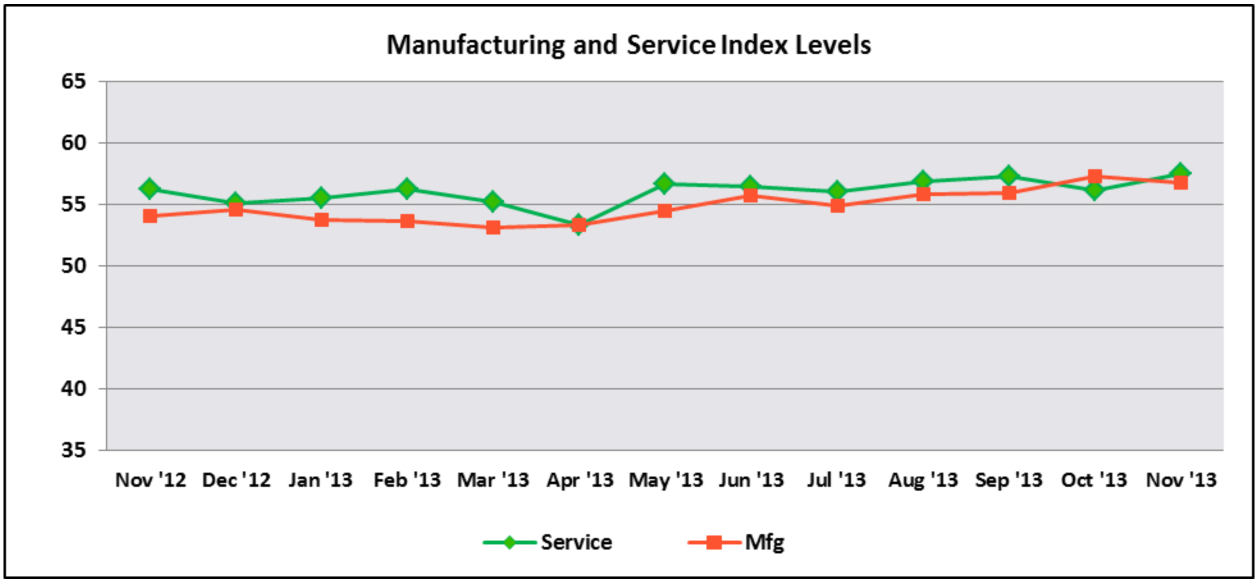
The improvement in dollar amount of customer deductions from 51.8 to 53.3 was quite dramatic and filings for bankruptcies only posted a small decline from 60.3 to 59.4, as the number of companies that file tends to spike this time of year as they realize that even a good season will not save them. Construction-related struggles this time of year can also contribute, and they are included in the assessment of service in the CMI construct.

Service Sector (seasonally adjusted)	**Nov '12**	**Dec '12**	**Jan '13**	**Feb '13**	**Mar '13**	**Apr '13**	**May '13**	**Jun '13**	**Jul '13**	**Aug '13**	**Sep '13**	**Oct '13**	**Nov '13**
Sales	63.0	56.6	59.9	61.2	59.4	57.4	66.7	63.6	62.5	63.9	63.8	60.6	63.4
New credit applications	59.5	57.3	56.5	57.9	59.1	57.2	61.0	59.1	58.4	59.1	59.2	58.1	59.1
Dollar collections	62.0	58.7	57.2	59.1	60.7	57.1	59.9	59.3	57.1	59.8	60.7	61.3	60.6
Amount of credit extended	64.4	61.8	63.2	63.4	61.9	61.5	66.8	64.3	63.3	64.5	63.4	62.8	64.5
Index of favorable factors	**62.2**	**58.6**	**59.2**	**60.4**	**60.3**	**58.3**	**63.6**	**61.6**	**60.3**	**61.8**	**61.8**	**60.7**	**61.9**
Rejections of credit applications	50.2	51.6	54.5	52.5	51.9	51.1	50.2	52.4	53.5	53.2	53.7	52.2	53.6
Accounts placed for collection	51.7	52.0	50.6	52.9	50.8	48.4	51.0	54.1	53.6	52.0	55.0	52.7	54.2
Disputes	51.1	51.9	50.9	52.9	49.6	48.6	50.2	53.0	52.6	53.3	52.6	51.4	52.8
Dollar amount beyond terms	49.4	49.6	51.1	50.4	49.9	45.6	52.5	50.3	48.7	49.7	51.5	50.9	54.5
Dollar amount of customer deductions	50.9	52.6	51.3	52.7	51.3	49.5	51.0	52.5	52.2	53.5	52.8	51.8	53.3
Filings for bankruptcies	60.4	59.2	59.8	59.6	58.0	56.6	57.2	56.5	58.2	59.6	60.1	60.3	59.4
Index of unfavorable factors	**52.3**	**52.8**	**53.0**	**53.5**	**51.9**	**50.0**	**52.0**	**53.1**	**53.1**	**53.6**	**54.3**	**53.2**	**54.6**
NACM Service CMI	**56.2**	**55.1**	**55.5**	**56.2**	**55.3**	**53.3**	**56.6**	**56.5**	**56.0**	**56.9**	**57.3**	**56.2**	**57.5**



November 2013 versus November 2012

"The most interesting part of the overall data this month is that the service sector performance overtook the manufacturing side," said Kuehl. "Some of that shift is to be expected given the time of year. This is the retailer's golden moment, so factories are idled a little more," he added.



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.*

NACM
National Association of Credit Management

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.

Source: National Association of Credit Management

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