Report for September 2014

Issued September 30, 2014
National Association of Credit Management

Combined Sectors

The Credit Managers' Index (CMI) fell to 54.9 from 56.7 and, while still firmly in the growth category, this is the lowest reading in nearly two years. Prior to this, the lowest point reached in the last 12 months was 55.5 in March. Not even the Polar Vortex months were this weak and the collapse was felt in a variety of categories. This was not a good month and that brings a great many concerns to the forefront.

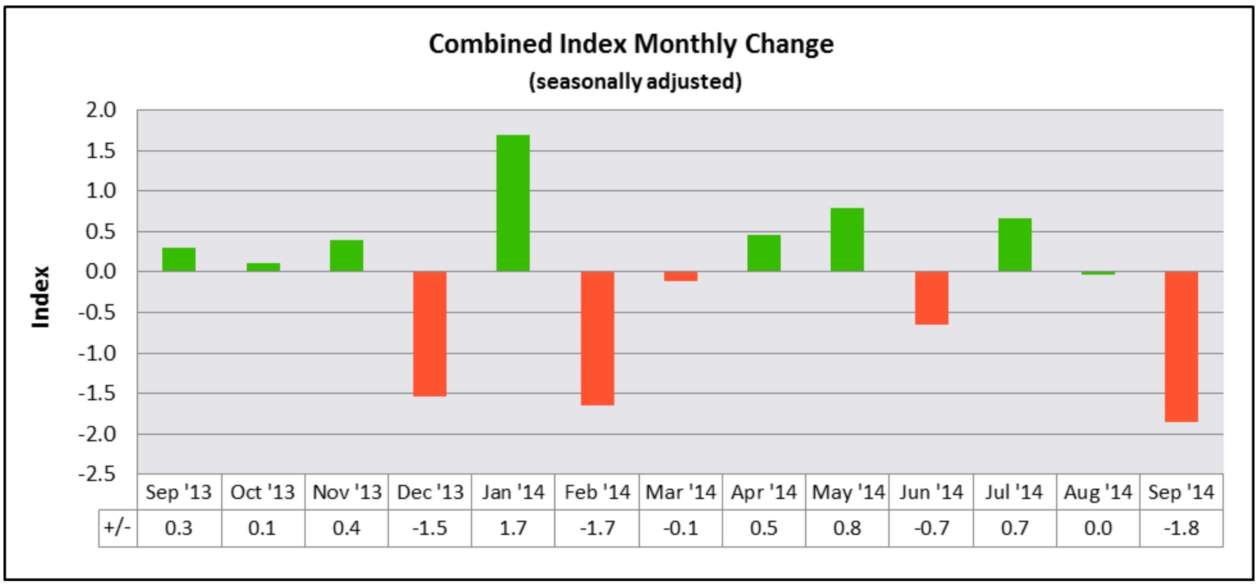
"This was not a small reversal of fortune by any stretch of the imagination," said NACM Economist Chris Kuehl, PhD. "This could be termed a collapse, and it begs a very important question. Which is correct: the Purchasing Managers' Index or the Credit Managers' Index?" In past years, it has been noted that the CMI tends to predict the pattern that will be seen in the PMI in the next month or two. "If that assessment continues to be accurate, the economy as a whole may be in for a very rude awakening," Kuehl said. "The numbers this month are almost shocking and there will be intense interest in what the index reports in the next iteration as this will determine whether this is the start of a depressing trend or just one of those anomalous months. The one factor that may provide some hope is that August and September are often difficult to get an accurate read on given the vagaries of the summer break and the return to school."

The index of favorable factors hung onto the 60s, but just by a hair with its fall from 63.8 to 60.9. One of the big declines was in sales, which fell from 64.8 to 60.9, a low going back to March. New credit applications went from 60.9 to 59.0. Though not a huge drop, it is now below 60 for the first time since May. Dollar collections went from 62.7 to 59.9 and that is a more substantial drop out of the 60s. Amount of credit extended fell as well, from 66.7 to 64.0. Importantly, these are still decent numbers overall, just not as exciting as they were a month ago. This may have more to do with a surge in the past than any comment on the situation right now.

More distressing is that unfavorable factors worsened, indicating some real business distress. The index fell from 52.1 to 50.9, dangerously close to slipping into contraction territory. Rejections of credit applications actually improved from 51.9 to 52.5, bringing speculation that some companies got a little looser with credit as sales started to sag. Accounts placed for collection fell from 52.1 to 50.7, which worries many as it appears that some of these accounts in trouble were in decent shape not long ago. The number of disputes increased and the factor slipped into the contraction zone with a fall from 50.6 to 49.2. It was not the only category to slip under 50. Dollar amount beyond terms plunged into negative territory, from 50.3 to 47.2. This is one of its sharpest drops all year and a low point not seen in almost two years. Dollar amount of customer deductions also declined, but only a little worse than last month's reading. This factor has been sinking for a while and is now sitting at 49.8. Filings for bankruptcies went south as well, moving from 57.5 to 55.8. All in all, these numbers are bad and signal more distress to come.

It is hard to determine just what the issue is given that much of the other economic data of late has been good. Durable goods numbers set a record last month, but that was due to Boeing more than anything else. The data for the second quarter GDP gets better with every revision and there have been improvements in everything from capacity utilization to employment. "Has this boom come to an end already? Are these good numbers from the economy not much more than a last gasp before sinking again?" Kuehl said. "Right now, the CMI data would seem to suggest this, but next month's could be a different story."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14
Sales	62.7	62.5	63.4	58.7	61.5	59.4	59.1	61.8	65.6	63.9	65.2	64.8	60.9
New credit applications	57.4	58.5	59.2	57.2	58.2	58.1	57.3	59.3	58.9	61.5	62.4	60.9	59.0
Dollar collections	60.6	61.4	59.7	58.7	60.9	58.8	56.4	58.1	61.2	59.3	61.0	62.7	59.9
Amount of credit extended	62.9	63.8	63.2	62.6	65.4	61.4	63.1	63.8	65.0	64.8	66.1	66.7	64.0
Index of favorable factors	**60.9**	**61.5**	**61.3**	**59.3**	**61.5**	**59.4**	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**
Rejections of credit applications	53.0	52.1	53.3	54.5	54.6	52.3	52.4	52.3	52.7	52.0	52.1	51.9	52.5
Accounts placed for collection	54.3	53.3	55.0	53.4	55.2	54.6	54.1	51.7	53.8	52.5	51.5	52.1	50.7
Disputes	51.7	51.8	51.9	50.7	52.2	51.9	50.9	54.7	50.2	49.5	50.3	50.6	49.2
Dollar amount beyond terms	52.2	52.7	54.7	49.7	52.8	51.1	52.4	50.0	51.5	49.6	51.1	50.3	47.2
Dollar amount of customer deductions	51.7	51.8	52.4	51.5	51.6	50.4	51.2	50.3	50.4	49.4	50.6	49.9	49.8
Filings for bankruptcies	59.8	59.6	59.0	59.0	60.5	58.5	58.4	58.1	58.4	58.9	57.6	57.5	55.8
Index of unfavorable factors	**53.8**	**53.6**	**54.3**	**53.1**	**54.5**	**53.1**	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**
NACM Combined CMI	**56.6**	**56.7**	**57.1**	**55.6**	**57.3**	**55.6**	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**



Manufacturing Sector

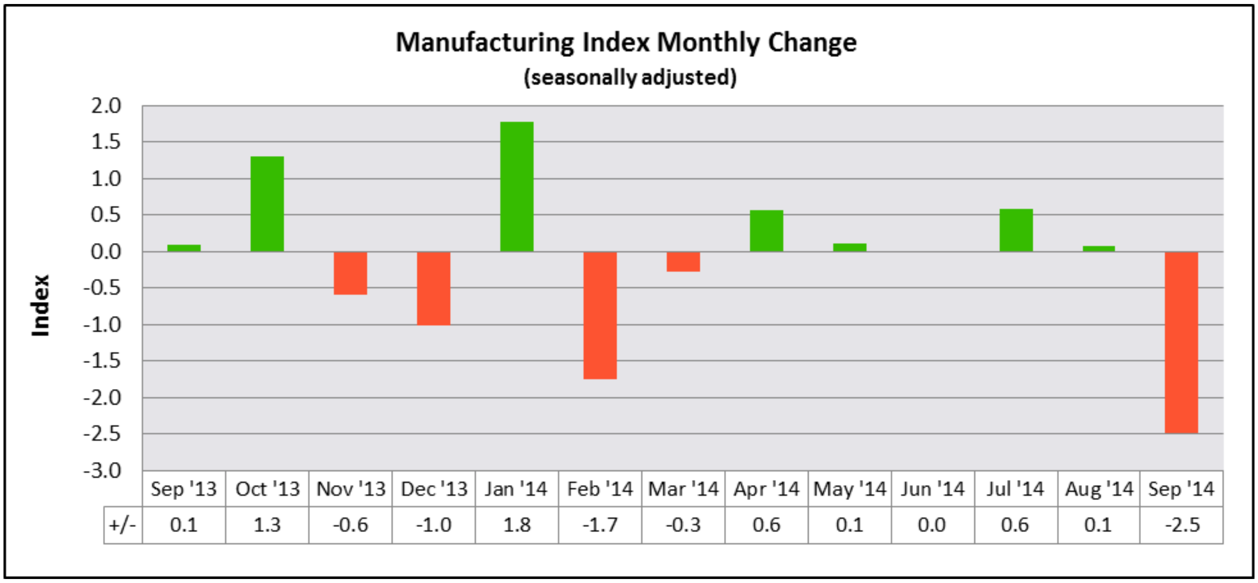
The slide that characterized the overall CMI was even more pronounced in the manufacturing data. The manufacturing sector index is as low as it has been in nearly three years. It stands at 54.3, which is shocking given that manufacturing had been one of the bright spots for the bulk of the year. The sag was not expected given all the upbeat information coming from other data sources. It now looks like some of the hot sectors that were driving the economy with some consistency may be faltering a little. All eyes are fixed on the automotive sector, which has been defying the odds for the better part of two years. Has the steam run out of that sector? “It is too early to tell, but these manufacturing numbers are far from encouraging,” Kuehl said. “The issue may be as simple as the usual auto sector maneuvering in the summer, but only time will tell.”

There was a big drop in sales from 66.0 to 61.2, but it still sits in the 60s—very good data, all things considered. That same pattern is apparent with the other favorable factors. New credit applications sagged a bit from 60.4 to 59.9, but it is still clearly respectable. Dollar collections is down from the robust 64.2 to 60.4 and amount of credit extended fell from 66.6 to 62.3. This is clearly going in the wrong direction, but it is important to note that the overall position of the readings is strong enough.

The really rough data shows up in the unfavorable factors, which suggests that some of the issues at the start of the year have started to drag down some manufacturers. "The unfavorable factor index fell below 50 for the first time in nearly three years, a most unexpected development and one that has many very concerned about what this means for the continued recovery," Kuehl said. It stands at 49.9, down from August's 51.8, and the problems manifest through the factors. Rejections of credit applications actually improved very slightly from 51.2 to 51.4, but it has been reported by some companies that standards have been loosened to some degree and that this explains the additional credit extended—not that the companies applying are in good shape as a rule. Accounts placed for collection fell from 52.8 to 50.5, suggesting that patience is wearing thin as far as getting paid is concerned. Disputes also slipped well into contraction territory with its fall from 50.3 to 47.4 and it was matched by dollar amount beyond terms' tumble from 51.6 to 46.3. There is obviously a lot of payment distress showing up in the sector. Dollar amount of customer deductions was already in contraction from the month before, but improved a little in September from 48.5 to 48.9. Filings for bankruptcies worsened as well, from 56.3 to 54.8. All in all it was a pretty miserable month.

"It is not altogether clear what has caused this slump and there is still the chance that this is all a fluke," Kuehl noted. "The most prevalent theory is that many companies started to expand in the last few months as they anticipated a better year ahead and now that may not be panning out as expected and manufacturers are getting stuck in neutral as they wait for the consumer to get engaged."

Manufacturing Sector (seasonally adjusted)	**Sep '13**	**Oct '13**	**Nov '13**	**Dec '13**	**Jan '14**	**Feb '14**	**Mar '14**	**Apr '14**	**May '14**	**Jun '14**	**Jul '14**	**Aug '14**	**Sep '14**
Sales	61.6	64.3	63.4	61.7	59.6	57.9	58.5	61.6	64.5	65.7	64.8	66.0	61.2
New credit applications	55.6	58.9	59.2	57.7	59.5	57.7	56.1	58.8	57.2	61.7	61.1	60.4	59.9
Dollar collections	60.5	61.4	58.7	59.5	62.7	56.4	57.4	59.1	62.0	58.5	61.3	64.2	60.4
Amount of credit extended	62.4	64.8	61.8	61.5	66.4	60.4	61.7	64.5	64.4	65.2	66.4	66.6	62.3
Index of favorable factors	**60.0**	**62.4**	**60.8**	**60.1**	**62.0**	**58.1**	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**
Rejections of credit applications	52.4	52.0	52.9	55.5	54.4	52.8	52.6	52.6	52.6	51.4	52.1	51.2	51.4
Accounts placed for collection	53.7	54.0	55.7	53.3	55.7	59.9	56.1	51.5	53.3	53.5	53.0	52.8	50.5
Disputes	50.8	52.1	51	50.2	51.0	51.6	50.6	57.2	49.6	48.5	50.3	50.3	47.4
Dollar amount beyond terms	52.9	54.6	54.8	50.0	53.2	51.7	52.8	49.5	52.5	50.2	51.0	51.6	46.3
Dollar amount of customer deductions	50.7	51.9	51.4	49.7	51.8	50.4	50.4	48.5	48.3	47.9	49.2	48.5	48.9
Filings for bankruptcies	59.4	59.0	58.5	57.7	60.4	58.6	58.5	57.0	57.1	58.7	57.8	56.3	54.8
Index of unfavorable factors	**53.3**	**53.9**	**54**	**52.7**	**54.4**	**54.1**	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**
NACM Manufacturing CMI	**56.0**	**57.3**	**56.7**	**55.7**	**57.5**	**55.7**	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**



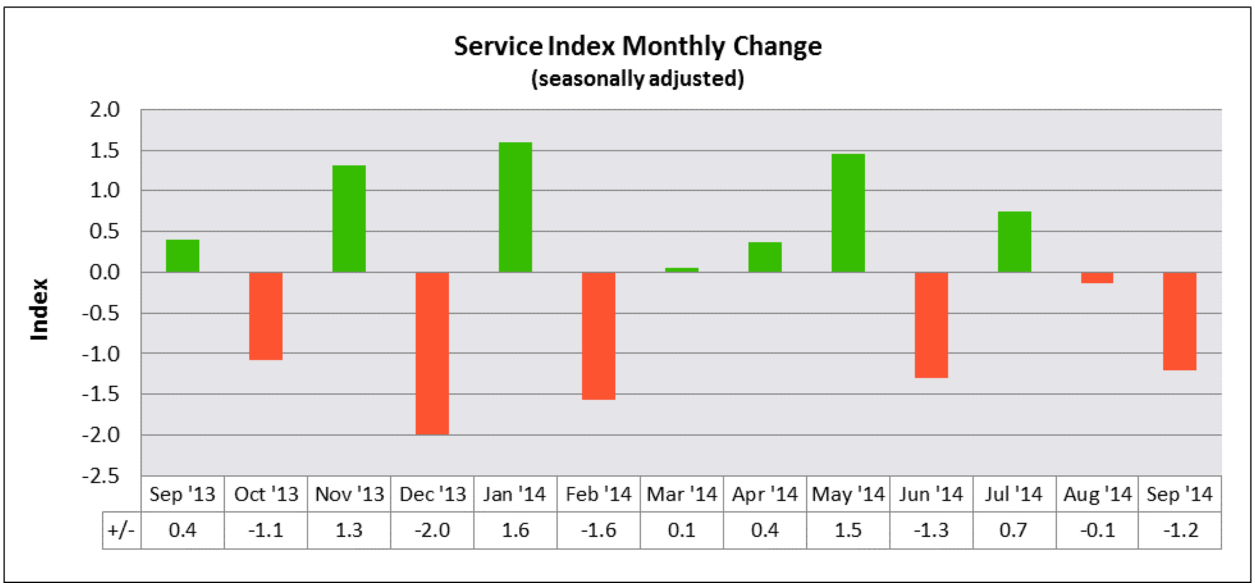
Service Sector

The service sector was affected as well, although not to the same degree as manufacturing. The service sector index slipped from 56.7 to 55.5, taking the index back to levels not seen since March. The CMI is weighted heavily toward retail, construction and medical services and these have been especially volatile this year. The construction sector alone has been racing from highs not seen since the boom to lows that outpace the recession. The decline in the favorable factor index was serious, from 63.3 to 60.9. What's important is it remains in the 60s, a solid performance even as it trends in the wrong direction.

Sales dove from 63.6 to 60.7, marking a new low since March. New credit applications fell out of the 60s, from 61.5 to 58.0. Dollar collections also dipped below 60 with its slip from 61.3 to 59.4. Amount of credit extended managed to stay in the 60s, but fell precipitously from 66.8 to 65.7. "The readings remain on the positive side, and by a large margin," Kuehl said. "This is the good news. The distressing part is that there was solid growth for the last several months and now that seems to have faded."

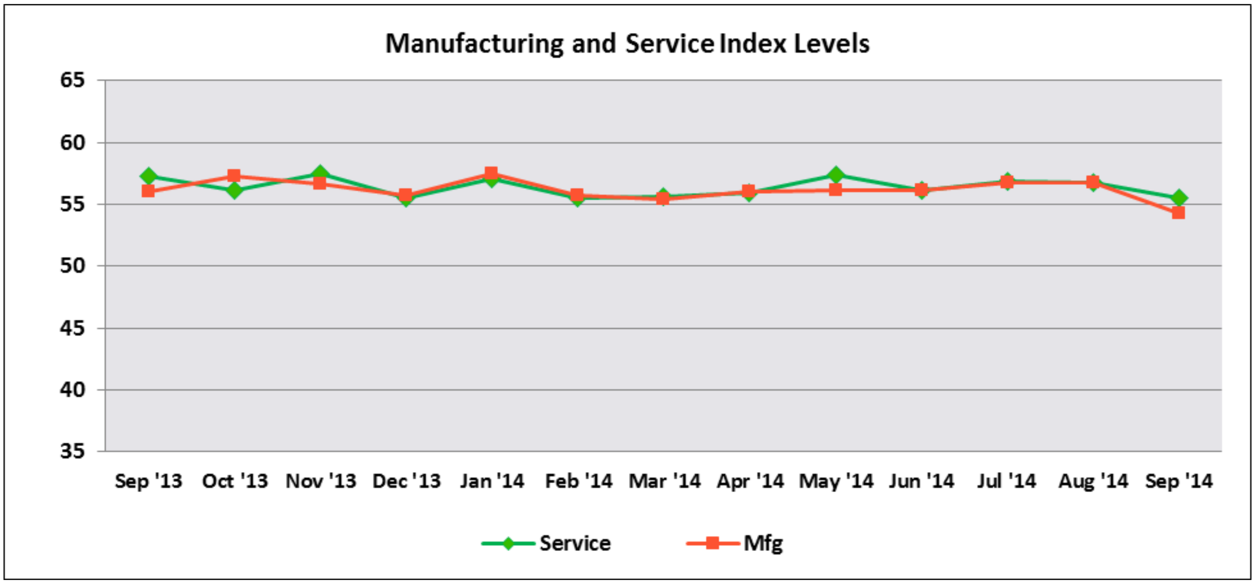
The unfavorable factor index numbers are a concern as well. The index slipped from 52.3 to 51.9—not quite as dramatic as in the manufacturing sector, but the slide is concerning. Rejections of credit applications improved from 52.6 to 53.7. "Once again it appears that credit is being issued to companies that might not have gotten it earlier as those that control credit access are under pressure to promote more business expansion," Kuehl said. Accounts placed for collection slipped only slightly from 51.4 to 51.0. Disputes went nowhere, staying just north of the contraction/expansion line at 50.9 for the second month in a row. Dollar amount beyond terms went from 48.9 to 48.1, digging further into contraction territory. Dollar amount of customer deductions slipped from 51.4 to 50.7 and is barely staying above the line of no growth. There was also a slip in filings for bankruptcies from 58.8 to 56.8. "The numbers are showing distress, but it is important to note that the index is still solidly in expansion category and that holds open the opportunity for a rebound in the coming months," Kuehl said. "If there is going to be one in the service category, now would be a good time to see it given that the retail season is now starting to ramp up for the holidays."

Service Sector (seasonally adjusted)	Sep '13	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14
Sales	63.8	60.6	63.4	55.7	63.4	60.9	59.6	61.9	66.6	62.1	65.6	63.6	60.7
New credit applications	59.2	58.1	59.1	56.7	57.0	58.5	58.5	59.8	60.7	61.3	63.6	61.5	58.0
Dollar collections	60.7	61.3	60.6	57.8	59.2	61.1	55.4	57.1	60.5	60.1	60.7	61.3	59.4
Amount of credit extended	63.4	62.8	64.5	63.6	64.4	62.3	64.5	63.1	65.7	64.3	65.9	66.8	65.7
Index of favorable factors	**61.8**	**60.7**	**61.9**	**58.4**	**61.0**	**60.7**	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**
Rejections of credit applications	53.7	52.2	53.6	53.5	54.8	51.8	52.2	51.9	52.8	52.6	52.1	52.6	53.7
Accounts placed for collection	55.0	52.7	54.2	53.5	54.8	49.3	52.2	51.8	54.4	51.4	50.0	51.4	51.0
Disputes	52.6	51.4	52.8	51.3	53.3	52.2	51.2	52.1	50.8	50.4	50.2	50.9	50.9
Dollar amount beyond terms	51.5	50.9	54.5	49.3	52.3	50.6	52.0	50.5	50.4	48.9	51.2	48.9	48.1
Dollar amount of customer deductions	52.8	51.8	53.3	53.3	51.4	50.4	51.9	52.1	52.4	51.0	52.0	51.4	50.7
Filings for bankruptcies	60.1	60.3	59.4	60.4	60.5	58.4	58.4	59.2	59.8	59.0	57.3	58.8	56.8
Index of unfavorable factors	**54.3**	**53.2**	**54.6**	**53.6**	**54.5**	**52.1**	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**
NACM Service CMI	**57.3**	**56.2**	**57.5**	**55.5**	**57.1**	**55.5**	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**



September 2014 versus September 2013

"This was not a good month for comparisons," Kuehl noted. "This September doesn't look very promising as compared to last September, but it is good to note that this year's dip resembles the dip from September 2013. September is a volatile month with a lot going on and it often skews quite differently than the rest of the year."



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:

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

For negative indicators, the calculation is:

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

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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