Report for October 2014

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National Association of Credit Management

Combined Sectors

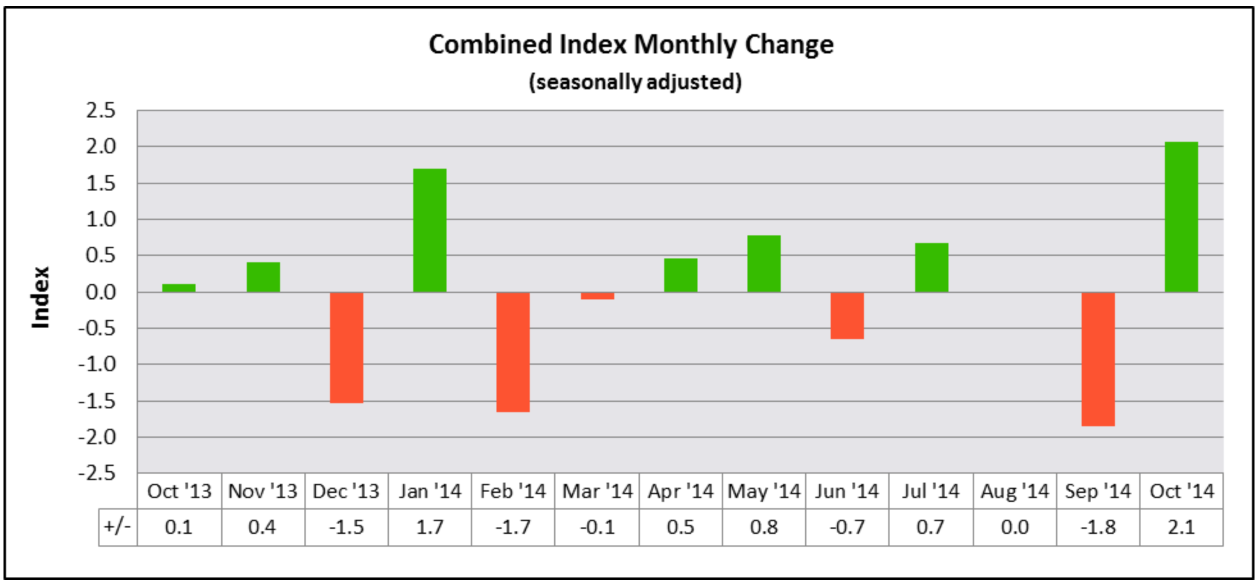
The Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) returned to a respectable status, jumping more than two points from 54.9 to 57.0. The readings are back to highs seen at the start of the year. The index of favorable factors cleared 60 comfortably and now sits at 62.6, which is still off the pace set in July and August, but is trending in the right direction again. The fall of the index of unfavorable factors to 50.9 last month was concerning as it was the lowest point reached in almost two years, but its impressive gain this month to 53.2 reaches back to March readings. This means that the concerns about the state of creditors have eased a little.

"The rebound in the data this month could be referred to as stunning were it not that last month felt like an anomaly," said NACM Economist Chris Kuehl, PhD. "Given the progress made through the course of the year, many were shocked at the low numbers registered in September and theories abounded to explain the slump—everything from reaction to politics to the impact of the weather." Most analysts attributed the slow progress to events outside the US, which remain a concern in the overall business community. The US has been affected by the collapse of the European economy and the slow progress in China and other parts of Asia. "This global slowdown is still a factor and will likely put something of a damper on the US economy through the rest of the year and into next, but the domestic economy is showing some resilience and that is reflected in the numbers for October's CMI," Kuehl said.

Within the favorable factors, positive movement bodes well for the rest of the year. Sales jumped from 60.9 to 65.7, a significant improvement indicating that many sectors of the economy started to come back to life last month. The sales data were reinforced by other data released of late. Industrial production has improved as did capacity utilization and factory orders. New credit applications' growth was more modest, from 59.0 to 59.4, but is trending in a positive direction. Dollar collections improved significantly from 59.9 to 61.5, but amount of credit extended went down from 64.0 to 63.8. "The performance here coupled with new credit applications suggests that the crash in performance last month made many companies a little more cautious with credit this month," Kuehl said. "The good data this month may well reverse that trend in the months to come."

Unfavorable factors were the big concern last month. It appeared that many companies had gotten into trouble and were struggling to pay bills. "The sense was that many had invested in expansion at the start of the year and the sluggish economy had made it hard to make that investment pay off," Kuehl said. "Now there is some evidence that progress is being made in the economy and these companies are expanding as they had expected to earlier." Rejections of credit applications improved from 52.5 to 53.6, which matches up well with the credit access data from the favorable factors. There was also improvement in accounts placed for collection from 50.7 to 52.7, showing some of the stress has eased up and creditors are catching up, and in filings for bankruptcies, which sits at 58.1, nearly the same as it was in July and a vast improvement over last month's 55.8. All three factors previously in contraction territory rose above 50. Disputes climbed from 49.2 to 50.4, dollar amount beyond terms moved from 47.2 to 53.6 and dollar amount of customer deductions recovered by improving from 49.8 to 50.8. "The sense overall is that much of the crisis atmosphere has dissipated and most creditors are staying current as far as their obligations are concerned," Kuehl said. "The rapid rebound this month is support for the notion that last month was an anomaly and perhaps a reaction to some of the issues that emerged globally toward the end of summer."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14
Sales	62.5	63.4	58.7	61.5	59.4	59.1	61.8	65.6	63.9	65.2	64.8	60.9	65.7
New credit applications	58.5	59.2	57.2	58.2	58.1	57.3	59.3	58.9	61.5	62.4	60.9	59.0	59.4
Dollar collections	61.4	59.7	58.7	60.9	58.8	56.4	58.1	61.2	59.3	61.0	62.7	59.9	61.5
Amount of credit extended	63.8	63.2	62.6	65.4	61.4	63.1	63.8	65.0	64.8	66.1	66.7	64.0	63.8
Index of favorable factors	**61.5**	**61.3**	**59.3**	**61.5**	**59.4**	**59.0**	**60.7**	**62.7**	**62.4**	**63.7**	**63.8**	**60.9**	**62.6**
Rejections of credit applications	52.1	53.3	54.5	54.6	52.3	52.4	52.3	52.7	52.0	52.1	51.9	52.5	53.6
Accounts placed for collection	53.3	55.0	53.4	55.2	54.6	54.1	51.7	53.8	52.5	51.5	52.1	50.7	52.7
Disputes	51.8	51.9	50.7	52.2	51.9	50.9	54.7	50.2	49.5	50.3	50.6	49.2	50.4
Dollar amount beyond terms	52.7	54.7	49.7	52.8	51.1	52.4	50.0	51.5	49.6	51.1	50.3	47.2	53.6
Dollar amount of customer deductions	51.8	52.4	51.5	51.6	50.4	51.2	50.3	50.4	49.4	50.6	49.9	49.8	50.8
Filings for bankruptcies	59.6	59.0	59.0	60.5	58.5	58.4	58.1	58.4	58.9	57.6	57.5	55.8	58.1
Index of unfavorable factors	**53.6**	**54.3**	**53.1**	**54.5**	**53.1**	**53.2**	**52.8**	**52.8**	**52.0**	**52.2**	**52.1**	**50.9**	**53.2**
NACM Combined CMI	**56.7**	**57.1**	**55.6**	**57.3**	**55.6**	**55.5**	**56.0**	**56.8**	**56.1**	**56.8**	**56.7**	**54.9**	**57.0**



Manufacturing Sector

The manufacturing sector data returned to the levels seen through most of the year. The index stands at 56.8, where it was in August. The drop to 54.3 in September now seems like the anomaly, as many had predicted. Manufacturers lost some momentum as exports to Europe and Asia dipped, but demand in the US has perked up a little in key sectors like automotive and energy. The index of favorable factors recovered nicely from 60.9 to 61.9. The index of unfavorable factors also made a nice rebound from 49.9 to 53.4. The dip into contraction territory last month was a concern as the readings had not been that low all year. Now the index is back to levels seen in March and is consistent with the data from the summer.

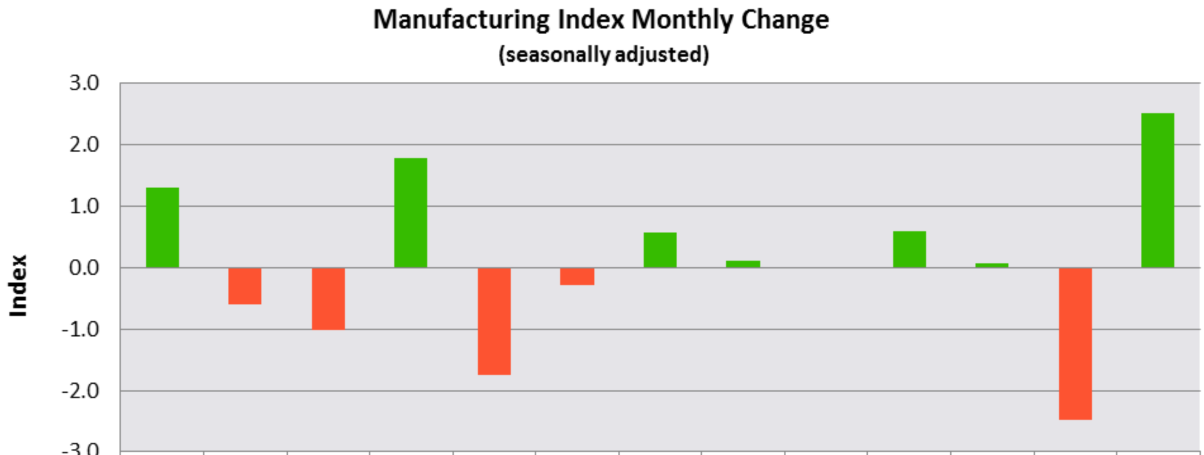
Sales rose from 61.2 to 64.8, as high as it was in July. New credit applications slipped a little from 59.9 to 58.5, reinforcing the assertion that many companies have become more cautious as a result of some of the late summer economic uncertainty. Dollar collections held steady at 60.4. Amount of credit extended moved up a bit from 62.3

to 64.1. “Coupled with the drop in new credit applications, this suggests that some of the existing customer base is seeking more credit—a good signal for the months to come,” Kuehl noted.

Rejections of credit applications improved significantly from 51.4 to 54.3, indicating that those asking for more credit are better risks now than the prior few months. Accounts placed for collection also improved from 50.5 to 53.7, taking the numbers back to what they were in the summer months. Filings for bankruptcies went from 54.8 to 57.0—another nice recovery. The factors in contraction all improved to reach expansion territory. Disputes climbed from 47.4 to 50.8, while dollar amount beyond terms also escaped the doldrums by moving from 46.3 to 54.1. The near eight-point shift was the most dramatic a shift seen in this month’s data. Dollar amount of customer deductions completed the transition for the whole index, improving from 48.9 to 50.5.

“The story as far as manufacturing is concerned seems to be that companies invested in expansion at the end of 2013 and the start of this year as they anticipated a continuation of the growth that started to manifest at the end of last year,” Kuehl said. “Remember that GDP growth in the third quarter of 2013 was over 4% and Q4 was over 3%. The consensus view at the time was that growth would continue and many expected the Fed to start raising rates sooner than later. It seemed a good time to make some anticipatory investments in machines and even physical plants. Then the economy crashed in the first quarter due to some combination of bad weather and the slide in exports and those investment decisions no longer looked that good. Now the rebound is arriving and the sector is better prepared to take advantage of it.”

Manufacturing Sector (seasonally adjusted)	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14
Sales	64.3	63.4	61.7	59.6	57.9	58.5	61.6	64.5	65.7	64.8	66.0	61.2	64.8
New credit applications	58.9	59.2	57.7	59.5	57.7	56.1	58.8	57.2	61.7	61.1	60.4	59.9	58.5
Dollar collections	61.4	58.7	59.5	62.7	56.4	57.4	59.1	62.0	58.5	61.3	64.2	60.4	60.4
Amount of credit extended	64.8	61.8	61.5	66.4	60.4	61.7	64.5	64.4	65.2	66.4	66.6	62.3	64.1
Index of favorable factors	**62.4**	**60.8**	**60.1**	**62.0**	**58.1**	**58.4**	**61.0**	**62.0**	**62.8**	**63.4**	**64.3**	**60.9**	**61.9**
Rejections of credit applications	52.0	52.9	55.5	54.4	52.8	52.6	52.6	52.6	51.4	52.1	51.2	51.4	54.3
Accounts placed for collection	54.0	55.7	53.3	55.7	59.9	56.1	51.5	53.3	53.5	53.0	52.8	50.5	53.7
Disputes	52.1	51	50.2	51.0	51.6	50.6	57.2	49.6	48.5	50.3	50.3	47.4	50.8
Dollar amount beyond terms	54.6	54.8	50.0	53.2	51.7	52.8	49.5	52.5	50.2	51.0	51.6	46.3	54.1
Dollar amount of customer deductions	51.9	51.4	49.7	51.8	50.4	50.4	48.5	48.3	47.9	49.2	48.5	48.9	50.5
Filings for bankruptcies	59.0	58.5	57.7	60.4	58.6	58.5	57.0	57.1	58.7	57.8	56.3	54.8	57.0
Index of unfavorable factors	**53.9**	**54**	**52.7**	**54.4**	**54.1**	**53.5**	**52.7**	**52.2**	**51.7**	**52.3**	**51.8**	**49.9**	**53.4**
NACM Manufacturing CMI	**57.3**	**56.7**	**55.7**	**57.5**	**55.7**	**55.5**	**56.0**	**56.1**	**56.1**	**56.7**	**56.8**	**54.3**	**56.8**



	Oct '13	Nov '13	Dec '13	Jan '14	Feb '14	Mar '14	Apr '14	May '14	Jun '14	Jul '14	Aug '14	Sep '14	Oct '14
+/-	1.3	-0.6	-1.0	1.8	-1.7	-0.3	0.6	0.1	0.0	0.6	0.1	-2.5	2.5

Service Sector

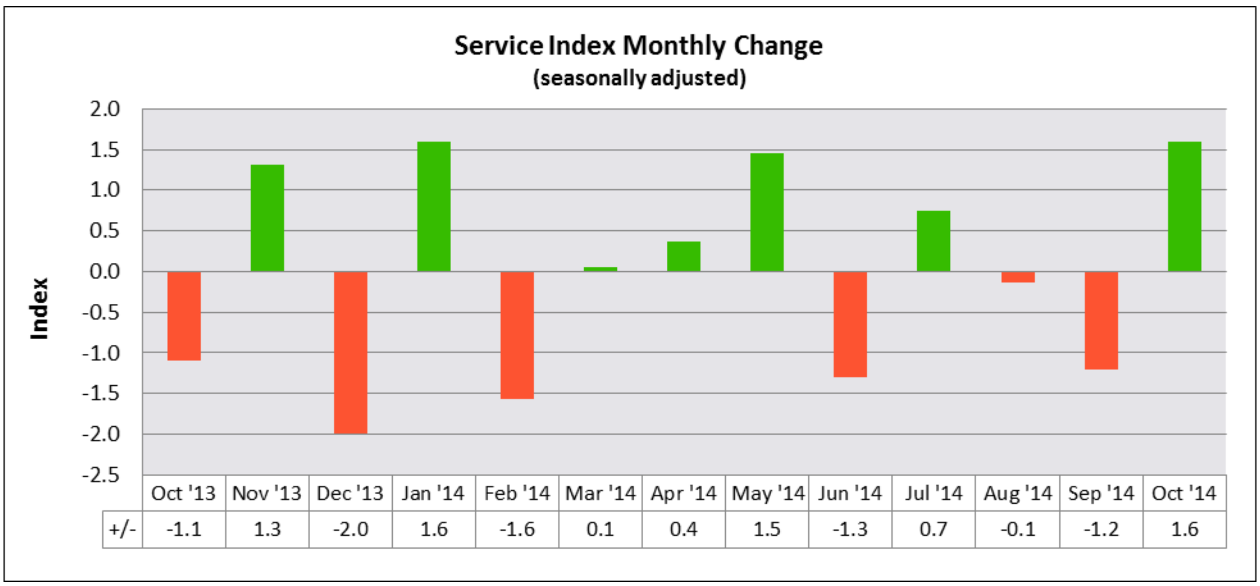
"The big months for the service sector readings have arrived," Kuehl said. "The retail community is contributing significantly to the data and this is the holiday season. Thus far, the data is encouraging as it is projected that there will be $11.3 billion spent on Halloween this year—about $125 per person and this is the second year in a row that adult costumes will outsell kid's outfits. Retailers are expecting around 4% growth over last year and the October CMI is reflecting much of that enthusiasm." The overall index has moved back to levels seen through most of the year, improving from 55.5 to 57.1. The index of favorable factors rose from 60.9 to 63.3, back to the August level. The index of unfavorable factors also improved from 51.9 to 53.0, the highest reading since May.

Sales jumped from 60.7 to 66.7, equaling what was seen in May. New credit applications shifted from 58.0 to 60.3. "This is in contrast to the manufacturing data that is likely explained by the fact that retailers are gearing up and thus requesting more credit," Kuehl noted. Dollar collections rose from 59.4 to 62.5, but amount of credit extended slipped a bit from 65.7 to 63.6. This likely indicates a more cautious approach in some sectors, but the important note is that all the categories are over 60 this month and back to August levels.

Rejections of credit applications slipped from 53.7 to 52.9, issuing another note of caution. Accounts placed for collection improved slightly from 51.0 to 51.7 and disputes went from 50.9 to 50.0 signaling some remaining distress within the creditor community. Anecdotally, it appears that most of the concern is still in the construction sector, while the retail community and other service categories are doing reasonably well. The good news is dollar amount beyond terms moved out of contraction territory with a shift from 48.1 to 53.2. Dollar amount of customer deductions went from 50.7 to 51.1 and filings for bankruptcies improved from 56.8 to 59.2. "This is not the time of year that retail operations generally file for bankruptcy, but this number could rise at the beginning of 2015 if the holiday season is not kind to some in the sector," Kuehl said.

The service category is broad in the CMI and the economy as a whole. The performance of the retail community can be boosting the numbers while construction might be dragging it down, and it has often been the opposite as well. The health care services sector is included in this assessment as well as professional services and so on. The good news is that there are gains in a part of the economy that accounts for almost 70% of the national GDP.

Service Sector **(seasonally adjusted)**	**Oct '13**	**Nov '13**	**Dec '13**	**Jan '14**	**Feb '14**	**Mar '14**	**Apr '14**	**May '14**	**Jun '14**	**Jul '14**	**Aug '14**	**Sep '14**	**Oct '14**
Sales	60.6	63.4	55.7	63.4	60.9	59.6	61.9	66.6	62.1	65.6	63.6	60.7	66.7
New credit applications	58.1	59.1	56.7	57.0	58.5	58.5	59.8	60.7	61.3	63.6	61.5	58.0	60.3
Dollar collections	61.3	60.6	57.8	59.2	61.1	55.4	57.1	60.5	60.1	60.7	61.3	59.4	62.5
Amount of credit extended	62.8	64.5	63.6	64.4	62.3	64.5	63.1	65.7	64.3	65.9	66.8	65.7	63.6
Index of favorable factors	**60.7**	**61.9**	**58.4**	**61.0**	**60.7**	**59.5**	**60.5**	**63.4**	**61.9**	**63.9**	**63.3**	**60.9**	**63.3**
Rejections of credit applications	52.2	53.6	53.5	54.8	51.8	52.2	51.9	52.8	52.6	52.1	52.6	53.7	52.9
Accounts placed for collection	52.7	54.2	53.5	54.8	49.3	52.2	51.8	54.4	51.4	50.0	51.4	51.0	51.7
Disputes	51.4	52.8	51.3	53.3	52.2	51.2	52.1	50.8	50.4	50.2	50.9	50.9	50.0
Dollar amount beyond terms	50.9	54.5	49.3	52.3	50.6	52.0	50.5	50.4	48.9	51.2	48.9	48.1	53.2
Dollar amount of customer deductions	51.8	53.3	53.3	51.4	50.4	51.9	52.1	52.44	51.0	52.0	51.4	50.7	51.1
Filings for bankruptcies	60.3	59.4	60.4	60.5	58.4	58.4	59.2	59.8	59.0	57.3	58.8	56.8	59.2
Index of unfavorable factors	**53.2**	**54.6**	**53.6**	**54.5**	**52.1**	**53.0**	**53.0**	**53.4**	**52.2**	**52.1**	**52.3**	**51.9**	**53.0**
NACM Service CMI	**56.2**	**57.5**	**55.5**	**57.1**	**55.5**	**55.6**	**56.0**	**57.4**	**56.1**	**56.9**	**56.7**	**55.5**	**57.1**



October 2014 versus October 2013

"What a difference a month can make," Kuehl said. "There was a sense that last month was not normal and not really an indication of where the economy really was. This month the data seemed to return to more common levels seen over the last several 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:

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

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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