



Report for November 2009

Issued December 1, 2009

National Association of Credit Management

Combined Sectors

Black Friday has come and gone and the results are mixed. On the one hand there was much more traffic in the stores than last year, but the average consumer has been spending a bit less and more cautiously. The same pattern seems to have emerged in the business community, as indicated by the shifts in the Credit Managers' Index (CMI). For the first time in some months, the reports suggest that sales are rising at a pretty rapid clip. The index noted a jump from 51.1 to 55. Given that last year's number was at 34.4, this is pretty encouraging news heading into the depths of the holiday season. There was also some positive movement in terms of new credit applications and dollar collections. The new applications number went from 52.7 to 55.4 and that is much improved from the 45.2 notched in November 2008. Dollar collections had been pretty steady for the past several months, ranging from 50 in November 2008 to 53.4 in September this year. For two months in a row that level has improved more dramatically—54.7 in October and 55.8 in November. These improvements in the positive factors are encouraging.

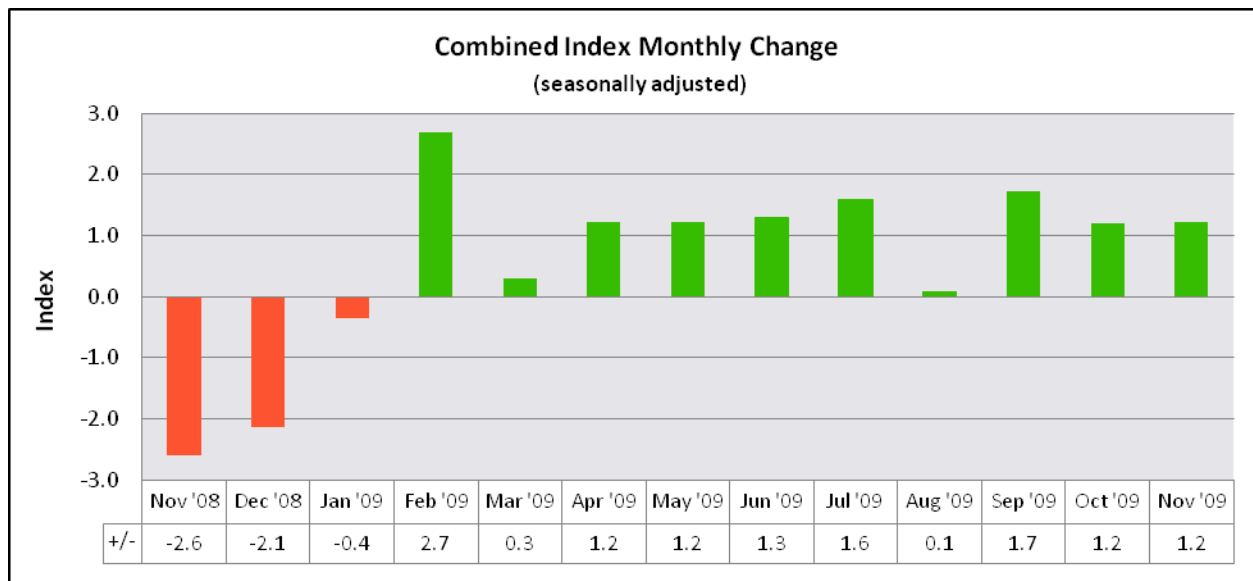
In general there was improvement in the non-favorable category as well, but the pace has slowed from what it was in October and September. There have been fewer disputes and fewer rejections of credit applications and a marked reduction of accounts placed for collection. The data suggest that creditors are still working to get their financial affairs in order in anticipation of better times ahead. The pattern in the past has shown that creditors start to work toward catching up a few months before they anticipate getting back into higher levels of production. To do that means they need to get more engaged with their suppliers.

November marks the second month in a row that the CMI crested 50 and that mirrors the trends identified in the Purchasing Managers' Index. The growth in credit availability remains a major concern in the business community as a whole and there are still some strong headwinds as far as the financial sector is concerned, but there is some renewed activity going into the Christmas season and that is construed as a good sign.

NACM's economist, Dr. Chris Kuehl, indicated that this latest set of survey results reinforces some of the assessments that have been made about the future. "As sales increase and credit applications are granted, there is a sense that more business is optimistic about the coming year than not. It was revealed in a recent KPMG survey that business confidence is improving and the CMI provides a clue as to why. Access to credit remains a limiting factor for many businesses but there is evidence of the logjam loosening. In conversations with credit managers and through the comments sent along with the survey, there is a sense that there are growing opportunities for the best customers and a willingness to get engaged with those showing a plan and some progress."

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)	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '09
Sales	34.4	27.2	29.5	34.1	35.2	37.4	41.8	44.8	48.6	48.4	49.9	51.1	55.0
New credit applications	45.2	44.7	42.7	44.9	44.3	47.8	48.2	50.7	52.6	49.3	50.0	52.7	55.4
Dollar collections	50.0	43.9	47.5	47.1	48.4	48.0	48.8	51.2	50.8	50.5	53.4	54.7	55.8
Amount of credit extended	43.3	42.2	40.5	42.2	41.8	42.3	44.3	46.1	48.2	48.0	49.3	53.6	54.6
Index of favorable factors	43.2	39.5	40.0	42.1	42.4	43.9	45.8	48.2	50.0	49.1	50.6	53.0	55.2
Rejections of credit applications	45.0	45.6	45.9	46.7	47.8	47.4	47.4	47.9	47.5	49.0	48.4	49.0	49.3
Accounts placed for collection	36.1	35.2	36.8	37.8	37.1	38.5	40.2	40.5	44.0	43.6	45.3	47.1	49.5
Disputes	43.9	44.5	43.4	44.8	44.1	47.2	47.5	47.7	50.2	49.7	50.8	51.0	49.6
Dollar amount beyond terms	38.8	31.6	30.6	42.0	42.3	40.5	43.4	43.6	45.3	46.2	48.1	48.1	49.0
Dollar amount of customer deductions	45.4	46.4	45.2	46.2	45.5	49.8	47.5	48.9	49.2	50.6	51.8	50.5	51.3
Filings for bankruptcies	40.5	39.7	35.4	38.4	40.5	40.2	42.3	42.8	43.7	45.8	51.5	52.6	53.0
Index of unfavorable factors	41.6	40.5	39.5	42.6	42.9	43.9	44.7	45.2	46.7	47.5	49.3	49.7	50.3
NACM Combined CMI	42.2	40.1	39.7	42.4	42.7	43.9	45.1	46.4	48.0	48.1	49.8	51.0	52.3



Manufacturing Sector

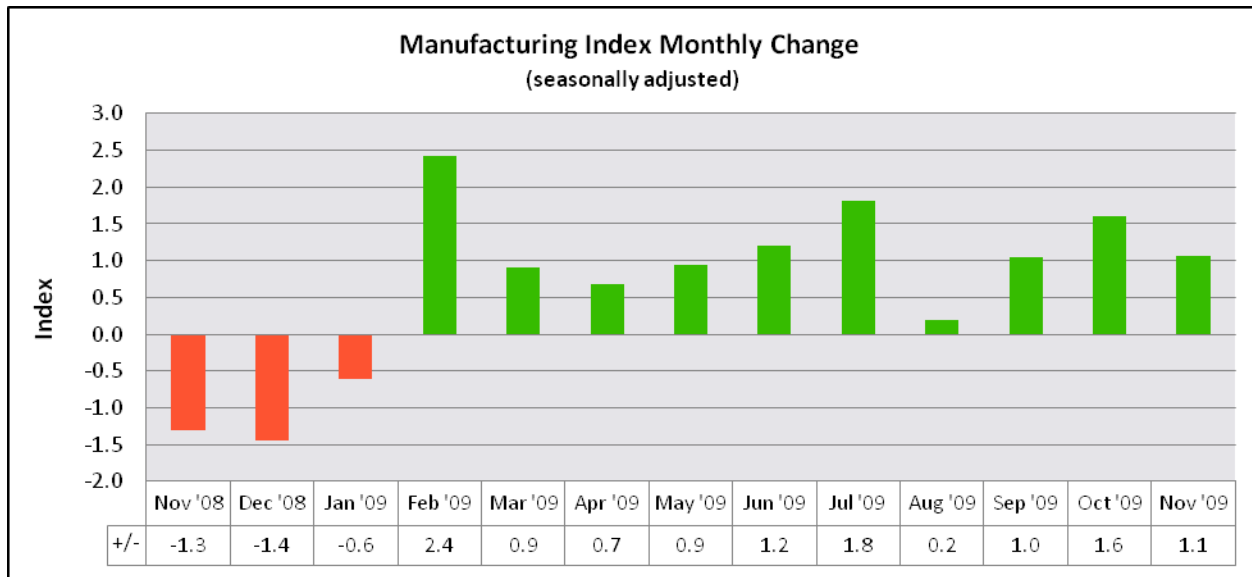
One of the more significant improvements in the CMI came from the manufacturing category. The jump in favorable factors from the 50 mark in September has been impressive—reaching 54.9 in November. The CMI and the PMI are almost at the same level and both have risen from the depths earlier this year. The big increase has been attributed to a major jump in sales (from 52 to 56.3) and a similar increase in new credit applications (from 52.9 to 56.8). The rise took place despite the fact that dollar collections were down and the amount of credit extended was flat. This would suggest that there is some advance activity underway—manufacturers anticipating the arrival of a better year in 2010.

There was a slight reduction in November's progress compared to what took place in October, but this seems to have most to do with the fact that there were more disputes and exposure than expected. The sense within the sector is that everything is based on future demand as opposed to reacting to the current situation. By this time, the boost that came from the "Cash for Clunkers" program has dissipated and most of the manufacturing for the

Christmas season has taken place. There is some anticipation of growth in sectors like construction and energy in the spring and that is motivating much of the sector.

Kuehl said, "Manufacturing remains fragile in the economy at the moment and much of the focus is now on next year. The sense is that some of the more moribund sectors will start to stage a mild recovery and manufacturers are trying to get in the proper position. The attempt to catch up on credit is one signal, but so is the expansion of credit application so that future demand needs might be met successfully. The most worrisome aspect of this latest expansion is that it is still not rooted in current demand."

Manufacturing Sector (seasonally adjusted)	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '09
Sales	38.5	26.8	31.6	34.7	36.7	39.6	40.7	45.4	48.7	48.4	48.7	52.0	56.3
New credit applications	45.5	48.8	44.8	45.2	44.6	50.7	49.3	51.1	55.3	48.6	50.5	52.9	56.8
Dollar collections	49.6	44.5	48.2	48.3	49.5	48.0	47.5	51.6	51.7	51.3	52.1	55.7	53.1
Amount of credit extended	42.8	44.0	39.6	40.5	41.8	44.1	44.2	45.8	49.3	48.9	48.8	53.5	53.4
Index of favorable factors	44.1	41.0	41.1	42.2	43.1	45.6	45.4	48.5	51.3	49.3	50.0	53.5	54.9
Rejections of credit applications	45.2	47.8	46.0	46.5	48.1	47.2	47.4	47.8	47.5	50.6	48.9	49.6	49.5
Accounts placed for collection	35.3	35.0	39.1	38.1	37.7	38.6	41.8	41.2	44.1	43.3	46.3	47.1	49.5
Disputes	44.4	44.7	42.6	44.4	44.4	45.8	47.6	46.1	49.3	48.2	49.5	50.9	48.0
Dollar amount beyond terms	40.0	31.8	30.8	46.5	48.1	42.8	44.5	45.3	46.3	48.1	48.3	47.9	50.0
Dollar amount of customer deductions	44.2	45.8	44.6	44.5	45.6	47.6	46.6	47.6	47.8	50.4	50.8	49.9	50.3
Filings for bankruptcies	38.7	40.6	36.4	39.2	40.6	39.6	43.6	43.2	43.1	47.3	51.7	52.1	55.4
Index of unfavorable factors	41.3	41.0	39.9	43.2	44.1	43.6	45.2	45.2	46.4	48.0	49.2	49.6	50.4
NACM Manufacturing CMI	42.4	41.0	40.4	42.8	43.7	44.4	45.3	46.5	48.3	48.5	49.6	51.2	52.2



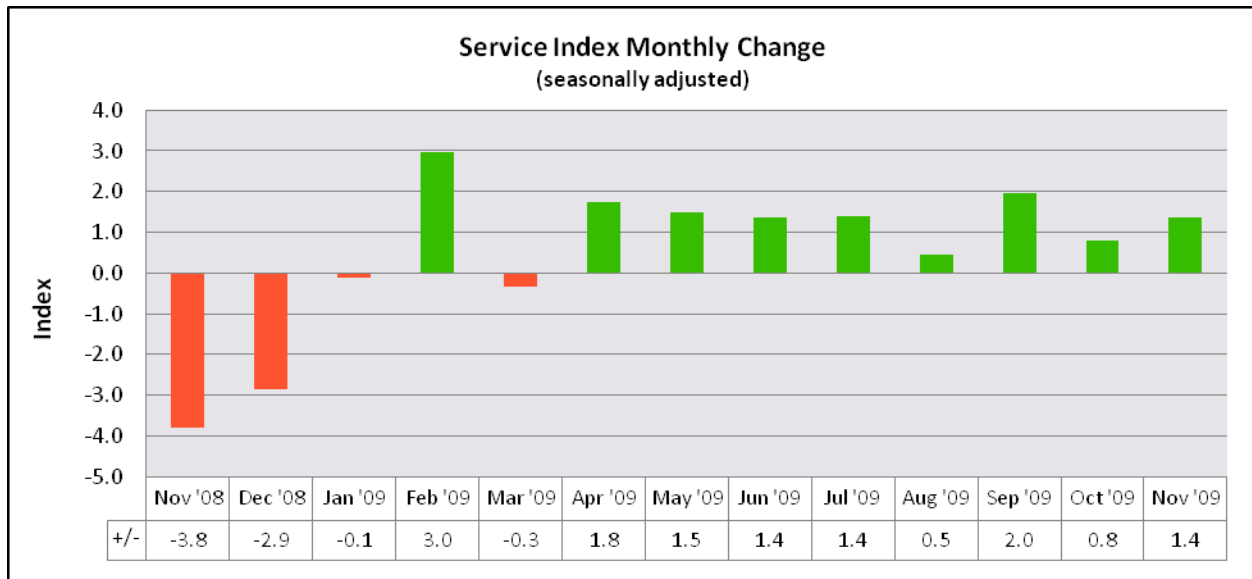
Service Sector

The gains in the service sector matched up well with what took place in October. As with the manufacturing sector, there was some expansion in sales and with new credit applications, but the biggest jump took place in the category of dollar collections—53.7 to 58.6. This has been attributed in part to the arrival of the holiday

season and the reaction of the retail community to the current economic situation. It has also been noted that the service sector is catching up when it comes to collections, just as the manufacturing community has.

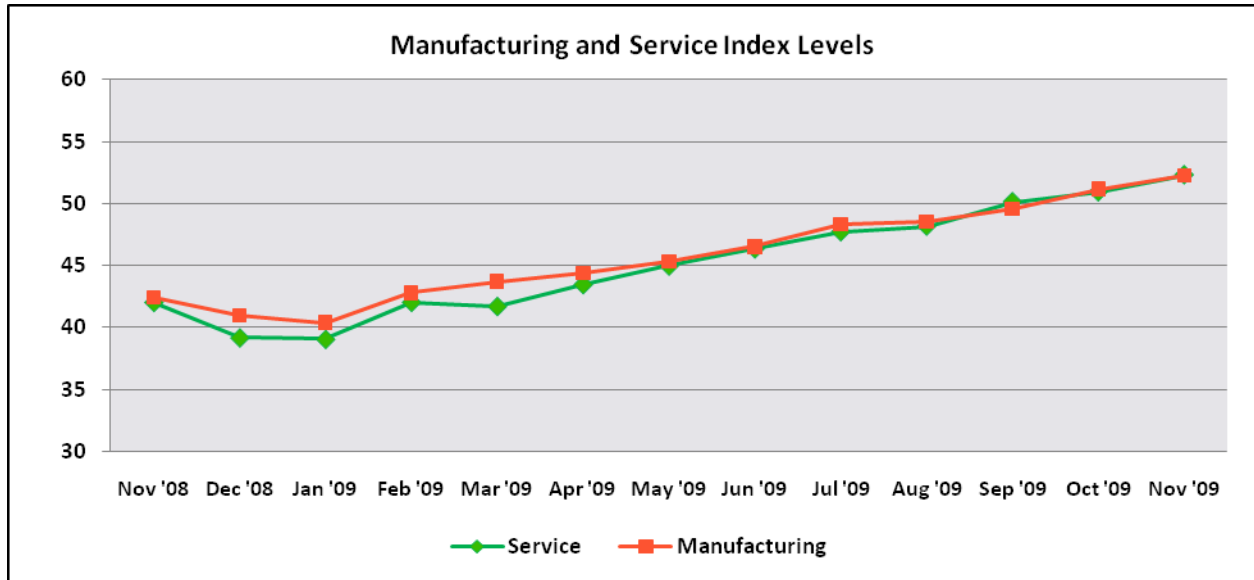
The service sector is by far the broadest of the categories in the survey and trending is a little harder to do, but the worst performers are still in the financial sector and the best are in the medical sector. Retail is currently faring better than it has through most of the year but that isn't saying much.

Service Sector (seasonally adjusted)	Nov	Dec '08	Jan '09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '09
Sales	30.2	27.5	27.3	33.5	33.7	35.2	42.9	44.1	48.4	46.5	51.0	50.3	53.7
New credit applications	44.8	40.5	40.5	44.6	44.0	44.9	47.2	50.3	49.9	49.5	49.5	52.4	54.1
Dollar collections	50.3	43.2	46.8	45.9	47.4	48.0	50.0	50.8	49.8	50.5	54.8	53.7	58.6
Amount of credit extended	43.7	40.3	41.4	43.9	41.8	40.6	44.3	46.4	47.1	46.3	49.8	53.8	55.7
Index of favorable factors	42.3	37.9	39.0	41.9	41.7	42.2	46.1	47.9	48.8	48.2	51.2	52.5	55.5
Rejections of credit applications	44.7	43.4	45.7	46.9	47.5	47.7	47.4	48.1	47.4	48.5	47.9	48.5	49.2
Accounts placed for collection	36.9	35.4	34.4	37.5	36.5	38.5	38.7	39.8	43.9	43.7	44.3	47.1	49.4
Disputes	43.3	44.3	44.1	45.2	43.9	48.6	47.3	49.4	51.2	49.0	52.1	51.0	51.2
Dollar amount beyond terms	37.6	31.4	30.3	37.4	36.6	38.3	42.3	41.9	44.3	49.5	47.9	48.3	48.0
Dollar amount of customer deductions	46.6	47.0	45.7	48.0	45.4	52.0	48.4	50.2	50.7	51.1	52.7	51.1	52.3
Filings for bankruptcies	42.2	38.8	34.4	37.7	40.4	40.8	41.0	42.3	44.4	47.0	51.3	53.0	50.7
Index of unfavorable factors	41.9	40.1	39.1	42.1	41.7	44.3	44.2	45.3	47.0	48.1	49.4	49.8	50.1
NACM Service CMI	42.0	39.2	39.1	42.0	41.7	43.5	45.0	46.3	47.7	48.2	50.1	50.9	52.3



November 2009 vs. November 2008

The rise of the CMI is now starting to enter pretty solid territory. It would now take a pretty pronounced slump in economic activity to drive the index below the 50 growth barrier, but there are still months ahead when a dip might be expected. The first quarter of 2010 is expected to be the weakest of the year and there are still quite a few that think a second recession could evolve in the early part of the year. The numbers now are heading upward and at a unified and rapid clip.



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>.

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