



## Report for January 2012

Issued January 31, 2012

National Association of Credit Management

### Combined Sectors

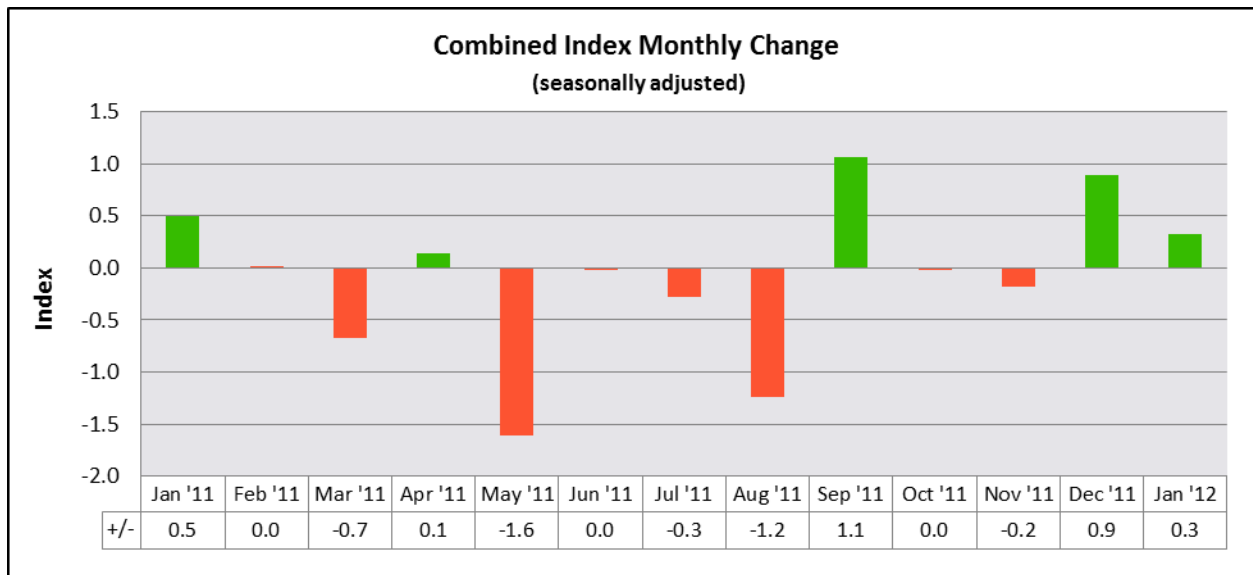
The gains from the end of last year have carried forward according to the January Credit Managers' Index (CMI), which rose from 54.4 to 54.8. This early activity is somewhat reminiscent of the enthusiasm that started 2011, but there are signs that this period of recovery might have more staying power than it did a year ago. The fear had been that all of these late gains would vanish as soon as the holiday impetus was gone, but the CMI numbers suggest that this is not the case—at least thus far. The most welcome gain was in sales. The reading in December was respectable at 60.5, but the new sales reading is at 63.5, the best performance since April 2011. It is more than a little encouraging that the January reading for this year is the same as it was in January 2011. Last year, that growth was followed by a very strong February at 66.3 and two more months with readings above 64, but the bottom dropped out in May and got progressively worse through the summer. “The next few months will bear watching to see if this sales trend is repeated and sustained longer than it was in 2011,” said Chris Kuehl, PhD, National Association of Credit Management (NACM) economist.

There are indicators signaling future strength. New credit applications reached 61.9, which is significantly higher than it has been in well over a year. This category has not been above 60 since February 2011 and the best reading then was 60.3. “The jump from December was nothing short of spectacular as the previous reading was only 55.3,” said Kuehl. “The trend toward more credit applications suggests a lot of new activity; it is equally encouraging that there was a gain in the number of credit applications accepted.” The overall amount of credit extended slipped a little from December—going from 64.7 to 63.3—but the decline still left the reading in the 60s and there is some evidence that there have been more extensions of credit to more companies but for smaller amounts. This may reflect caution on both sides, said Kuehl. The companies that are seeking credit for expansion are not willing to put themselves at too much risk, and the companies extending credit are also feeling a little protective.

The only negative trend in the set of favorable factors is a big drop in dollar collections, which is down from 61.4 in December to 56.8 in January. “This would be more of a concern if the latest number was not so consistent with the numbers noted for the last six months,” said Kuehl. “Looking over the last half of 2011 it appears that the December gains were something of an anomaly and dollar collections may have settled back to a more ‘normal’ position.”

Overall, the category of favorable factors rose from 60.5 to 61.4, spurred primarily by the gains in sales and credit application activity. The index of unfavorable factors did not perform quite as well, but neither was there a precipitous decline. It was essentially static—nudging from 50.4 to 50.3. This masked significant movement in some categories. The biggest change was in the number of credit applications rejected, which increased to 50.2 from 49.5 and reentered the world of expansion as opposed to contraction. There are still three categories that are below 50 and in contraction: accounts placed for collection, disputes and dollar amounts beyond terms. The good news is that in November five of the six categories were under 50 and in December there were four. The trend is headed in the right direction. “The overall sense is that some companies are still struggling with recovery and will continue to be in distress until there is some consistent growth,” said Kuehl.

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	Jan '11	Feb '11	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12
Sales	63.5	66.3	64.7	64.5	59.4	60.8	60.0	59.2	61.4	60.4	58.3	60.5	63.5
New credit applications	58.6	60.3	59.8	58.8	58.2	56.7	57.3	55.8	57.8	58.9	57.6	55.3	61.9
Dollar collections	60.9	63.4	60.0	61.3	58.7	58.1	56.2	56.9	57.8	56.8	56.9	61.4	56.8
Amount of credit extended	64.8	66.5	64.4	64.7	62.1	60.4	62.0	60.7	62.8	61.9	62.4	64.7	63.3
<b>Index of favorable factors</b>	<b>62.0</b>	<b>64.1</b>	<b>62.2</b>	<b>62.3</b>	<b>59.6</b>	<b>59.0</b>	<b>58.9</b>	<b>58.1</b>	<b>59.9</b>	<b>59.5</b>	<b>58.8</b>	<b>60.5</b>	<b>61.4</b>
Rejections of credit applications	51.2	51.4	50.8	50.8	51.5	50.9	51.0	50.2	49.9	50.2	49.5	49.5	50.2
Accounts placed for collection	52.5	49.9	52.1	50.5	50.3	49.8	49.9	47.6	48.7	50.1	49.5	50.0	49.1
Disputes	51.0	49.2	48.9	49.3	48.8	49.3	50.0	48.7	47.6	49.0	47.9	49.2	49.2
Dollar amount beyond terms	51.5	50.6	49.7	50.7	46.5	49.9	48.3	44.2	49.1	47.6	48.0	48.8	48.0
Dollar amount of customer deductions	50.6	50.1	49.3	49.9	48.6	50.0	48.9	49.1	49.2	48.7	48.9	49.1	50.1
Filings for bankruptcies	59.1	56.0	57.4	58.1	58.1	56.5	55.8	54.5	53.2	53.8	56.7	56.0	55.5
<b>Index of unfavorable factors</b>	<b>52.6</b>	<b>51.2</b>	<b>51.4</b>	<b>51.5</b>	<b>50.6</b>	<b>51.0</b>	<b>50.6</b>	<b>49.1</b>	<b>49.6</b>	<b>49.9</b>	<b>50.1</b>	<b>50.4</b>	<b>50.3</b>
<b>NACM Combined CMI</b>	<b>56.4</b>	<b>56.4</b>	<b>55.7</b>	<b>55.8</b>	<b>54.2</b>	<b>54.2</b>	<b>53.9</b>	<b>52.7</b>	<b>53.8</b>	<b>53.7</b>	<b>53.5</b>	<b>54.4</b>	<b>54.8</b>



## Manufacturing Sector

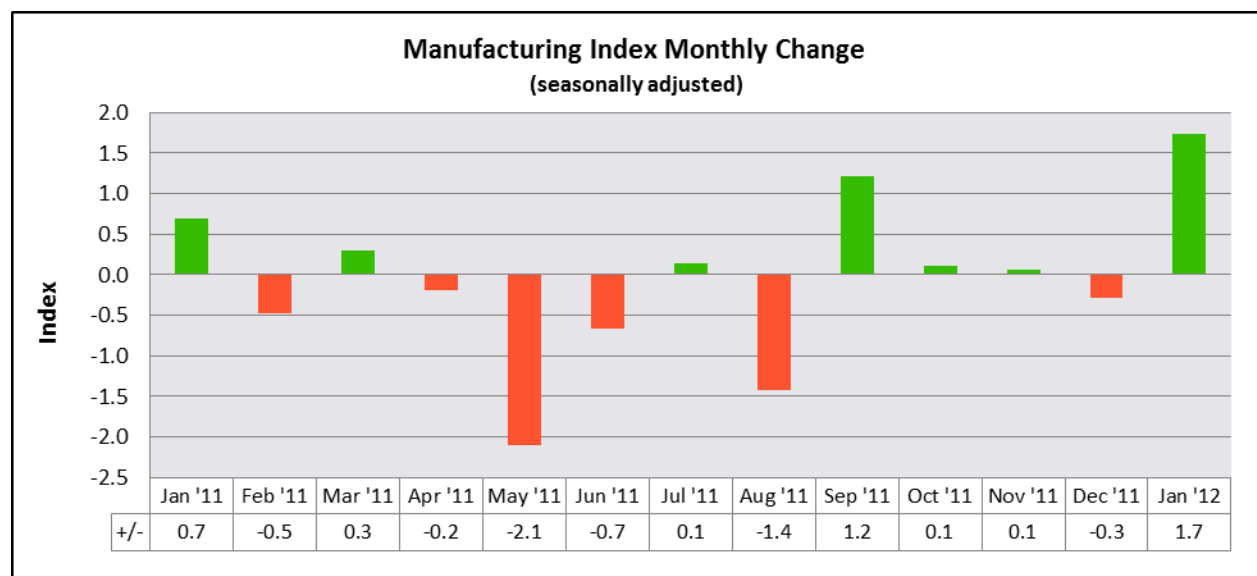
The big winner in December's report was the service sector, which was expected due to the surge in retail activity. However, manufacturing did not perform as well as it had been. Some of this is attributable to the normal slowing of production at the end of the year and the slump may be short lived. There was a solid rebound in the sector's index of favorable factors. For the first time since April, the index was over 60. In December, the reading was at 57.2 and in January the reading jumped to 62.8. At the start of 2011, manufacturing was at 62.2, reinforcing the sense that 2012 is repeating the good start. The hope is that the momentum lasts a bit longer than it did last year. As with the overall CMI, the real gains were in sales and the number of new credit applications. Sales returned to a plus-60 reading, jumping from 57.7 to 64.1. That is the highest reading since last April and is nearly identical to the reading of January 2011 when it stood at 64.7. New credit applications also gained significantly, rising from a contractionary 49.5 to a truly robust 64.2.

A recent assessment of capital spending plans conducted by the Fabricators and Manufacturers Association showed that manufacturers in every category intend to expand their rate of capital spending in 2012 for three

primary reasons. The first is that many have not done any spending in the last three or four years and machines need to be replaced. The second is that many are preparing to enter new markets through either exporting or adding new sectors and need additional equipment. Lastly, owners and managers have grown tired of waiting for some kind of rescue and are getting on with running their businesses. This can be seen in the sudden surge of requests for credit. The numbers look promising with a big gain recorded in the amount of credit extended, which rose from 63.6 to 66.2. That is the best number notched since April 2011. Taking note of the trend, the amount of credit extended in January 2011 was 66.2, exactly the same as this month.

The bad news came in the unfavorable factors. The index deteriorated from 50.5 to 49.7 and thus slipped into contraction territory again. Most of the last year saw this reading bounce along at the bottom of expansion. This month, four of the six factors were below 50 and all four—accounts placed for collection, disputes, dollars beyond terms and deductions—slipped. The manufacturing community is still deeply divided between sectors that are gaining and those that are not. The companies that touch the energy sector or agribusiness have been doing very well and the automotive sector has come back to life. But for anything attached to the construction business, last year was an extension of the depression that started in 2008.

<b>Manufacturing Sector (seasonally adjusted)</b>	Jan '11	Feb '11	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12
Sales	64.7	65.1	65.4	63.9	57.8	58.5	59.3	58.0	59.5	59.3	58.1	57.7	64.1
New credit applications	57.7	59.6	60.6	60.3	58.7	54.5	56.4	55.3	57.5	60.6	55.7	49.5	64.2
Dollar collections	60.3	61.5	60.8	60.2	60.1	55.3	55.4	56.0	56.7	56.5	56.2	58.0	56.8
Amount of credit extended	66.2	67.6	64.5	66.5	61.4	59.2	61.2	59.5	62.1	60.7	62.7	63.6	66.2
<b>Index of favorable factors</b>	<b>62.2</b>	<b>63.4</b>	<b>62.8</b>	<b>62.7</b>	<b>59.5</b>	<b>56.9</b>	<b>58.1</b>	<b>57.2</b>	<b>58.9</b>	<b>59.3</b>	<b>58.2</b>	<b>57.2</b>	<b>62.8</b>
Rejections of credit applications	52.0	51.9	51.6	51.0	52.6	51.8	50.8	50.4	50.0	49.6	49.6	49.8	50.5
Accounts placed for collection	53.0	51.2	53.9	50.7	50.7	49.8	49.4	47.3	49.6	48.8	51.6	50.7	48.6
Disputes	49.8	48.2	49.0	50.5	49.2	49.0	50.0	48.6	44.9	47.7	48.5	49.3	48.3
Dollar amount beyond terms	52.1	51.3	51.6	52.2	45.8	50.6	49.1	42.6	51.3	49.7	47.1	48.4	47.6
Dollar amount of customer deductions	49.1	50.1	48.8	49.5	47.7	49.5	47.8	48.9	48.1	47.7	48.8	49.3	49.2
Filings for bankruptcies	60.2	53.9	57.2	56.8	56.4	55.6	55.9	54.5	53.4	53.7	56.5	55.7	53.8
<b>Index of unfavorable factors</b>	<b>52.7</b>	<b>51.1</b>	<b>52.0</b>	<b>51.8</b>	<b>50.4</b>	<b>51.0</b>	<b>50.5</b>	<b>48.7</b>	<b>49.5</b>	<b>49.5</b>	<b>50.4</b>	<b>50.5</b>	<b>49.7</b>
<b>NACM Manufacturing CMI</b>	<b>56.5</b>	<b>56.0</b>	<b>56.3</b>	<b>56.1</b>	<b>54.0</b>	<b>53.4</b>	<b>53.5</b>	<b>52.1</b>	<b>53.3</b>	<b>53.4</b>	<b>53.5</b>	<b>53.2</b>	<b>54.9</b>



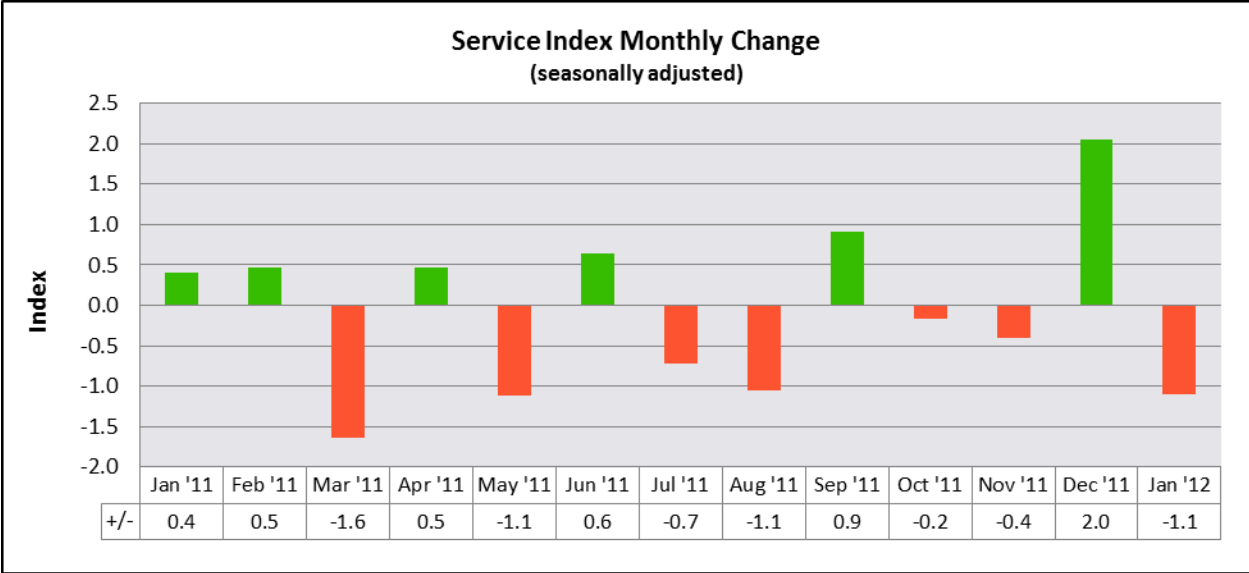
## Service Sector

Much of the service sector decline was predictable and should cause little alarm. Given the importance of retail to the service sector readings, it was expected that the post-holiday slide would be reflected in the data—and it was. The sales category slipped from 63.3 to 62.9. However, in January 2011 it was at 62.3 after hitting a high note in December 2010. The slide in new credit applications was also expected. In December it was at 61.1, but it is now at 59.6. Once again there is similarity between this January and last January when the reading was 59.4. The conclusion at this stage is that most of the performance this month can be attributed to natural factors that affect retail. There were big declines in dollar collections and amount of credit extended as well. The distressing part of these readings is that they are far lower than they were a year ago and that will bear watching. All told, the index of favorable factors tumbled from the high point in December to a level more consistent with the months leading up to Christmas. In December it stood at 63.8 and now it is at 59.9. This is not awful, but the momentum from retail has clearly faded.

The news was actually better in the unfavorable factors as that index rose from 50.3 to 51. The number of categories under 50 is now at three as opposed to December when five were in contraction territory. This is also somewhat predictable given the patterns of retail. The declines in disputes and accounts placed for collection suggest that companies were digging themselves out of debt to some degree. This happens every year as the bulk of the retail community makes the majority of its profit in the last month or so of the year. If there is ever a point at which these companies can make up some ground, it is now, and it seems many of them did enough to get through the year. There was even a reduction in the number of bankruptcy filings, but a cautionary note is necessary. A percentage of the retailers did not get what they needed to sustain themselves for another year and as 2012 progresses it is likely that retail bankruptcies will increase.

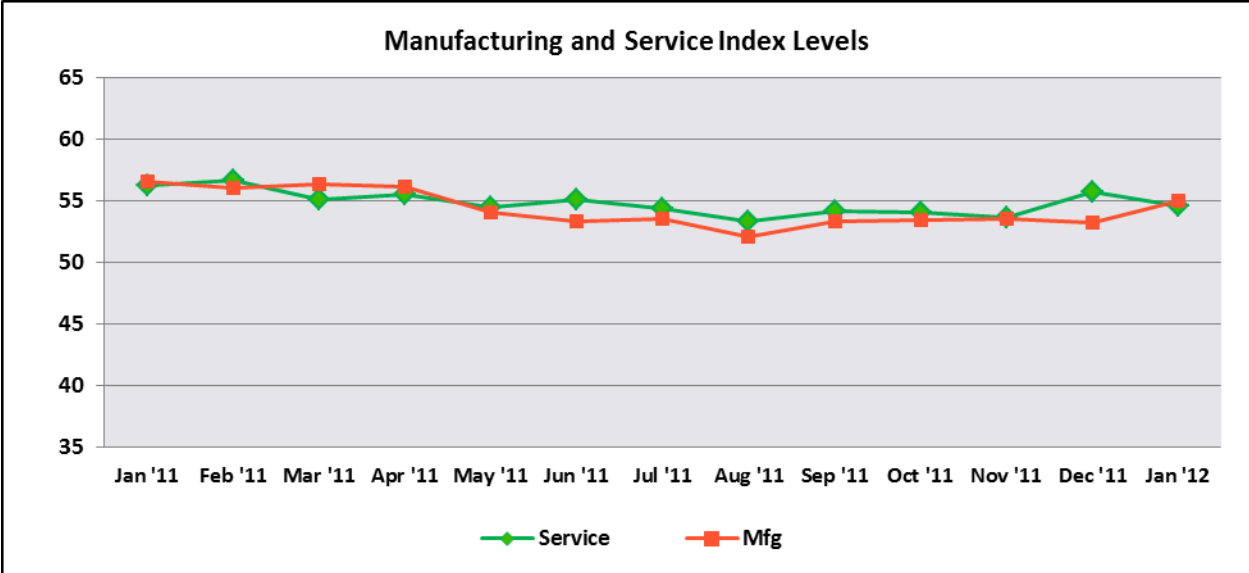
Given that the service category includes much more than retail, the next few months will be interesting as other categories reassert their leadership. Look for gains in energy-related services as well as health care and financial services. There will also be a surge in marketing activity as there always is when various political candidates start pouring billions into ads.

<b>Service Sector (seasonally adjusted)</b>	Jan '11	Feb '11	Mar '11	Apr '11	May '11	Jun '11	Jul '11	Aug '11	Sep '11	Oct '11	Nov '11	Dec '11	Jan '12
Sales	62.3	67.5	63.9	65.0	61.1	63.2	60.7	60.5	63.3	61.5	58.4	63.3	62.9
New credit applications	59.4	61.0	59.0	57.3	57.8	58.8	58.2	56.3	58.0	57.2	59.4	61.1	59.6
Dollar collections	61.6	65.2	59.2	62.3	57.3	60.9	57.1	57.9	58.9	57.0	57.6	64.9	56.7
Amount of credit extended	63.4	65.4	64.2	63.0	62.7	61.6	62.7	61.9	63.5	63.2	62.1	65.7	60.4
<b>Index of favorable factors</b>	<b>61.7</b>	<b>64.8</b>	<b>61.6</b>	<b>61.9</b>	<b>59.7</b>	<b>61.1</b>	<b>59.7</b>	<b>59.1</b>	<b>60.9</b>	<b>59.7</b>	<b>59.4</b>	<b>63.8</b>	<b>59.9</b>
Rejections of credit applications	50.4	51.0	50.1	50.5	50.4	50.0	51.2	50.1	49.8	50.9	49.4	49.1	49.9
Accounts placed for collection	52.1	48.6	50.2	50.2	49.9	49.8	50.3	47.8	47.8	51.3	47.5	49.3	49.6
Disputes	52.1	50.1	48.7	48.1	48.5	49.6	50.0	48.9	50.4	50.2	47.2	49.0	50.1
Dollar amount beyond terms	51.0	49.9	47.8	49.2	47.3	49.1	47.5	45.9	46.9	45.4	48.8	49.3	48.5
Dollar amount of customer deductions	52.1	50.1	49.8	50.3	49.4	50.5	49.9	49.3	50.2	49.8	48.9	48.9	51.0
Filings for bankruptcies	57.9	58.2	57.7	59.5	59.8	57.3	55.8	54.6	53.1	54.0	57.0	56.2	57.2
<b>Index of unfavorable factors</b>	<b>52.6</b>	<b>51.3</b>	<b>50.7</b>	<b>51.3</b>	<b>50.9</b>	<b>51.0</b>	<b>50.8</b>	<b>49.4</b>	<b>49.7</b>	<b>50.3</b>	<b>49.8</b>	<b>50.3</b>	<b>51.0</b>
<b>NACM Service CMI</b>	<b>56.2</b>	<b>56.7</b>	<b>55.1</b>	<b>55.5</b>	<b>54.4</b>	<b>55.1</b>	<b>54.3</b>	<b>53.3</b>	<b>54.2</b>	<b>54.0</b>	<b>53.6</b>	<b>55.7</b>	<b>54.6</b>



### January 2012 vs. January 2011

The last couple of months have been somewhat frantic with the service sector performance in December and from manufacturing in January. Yet, the January 2011 and January 2012 readings look very similar. That is good news if the momentum this year can carry a little further than it did last 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 900 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 on 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 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 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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors*</b>	<b>Why Unfavorable</b>
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 federal legislative policy 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. 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.

This report and the CMI archives may be viewed at <http://web.nacm.org/cmi/cmi.asp>.

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Contact: [Caroline Zimmerman](#), 410-740-5560

Website: [www.nacm.org](http://www.nacm.org)

Twitter: [NACM\\_National](#)