Report for January 2017

Issued Jan. 31, 2017

National Association of Credit Management

Combined Sectors

So far, so good. Last month, the CMI data showed a nice bounce and numbers that were as good as they have been in several months. This improved data came after a few months of less-than-stellar performance, so the question on most minds was what would happen this month. Would there be further progress or would the numbers shrink back to the levels noted in previous months? The good news is that there was no shrinkage—or at least very little. It turned out to be a steady month with overall numbers very close to what they had been in December.

"This has been the pattern thus far this year, as far as the economy is concerned," said NACM Economist Chris Kuehl, Ph.D. "The momentum that was building through 2016 started to pick up steam with the election of Donald Trump and the promise of more business-friendly policies. It is not yet clear whether these will come to fruition, but there remains some feeling of optimism."

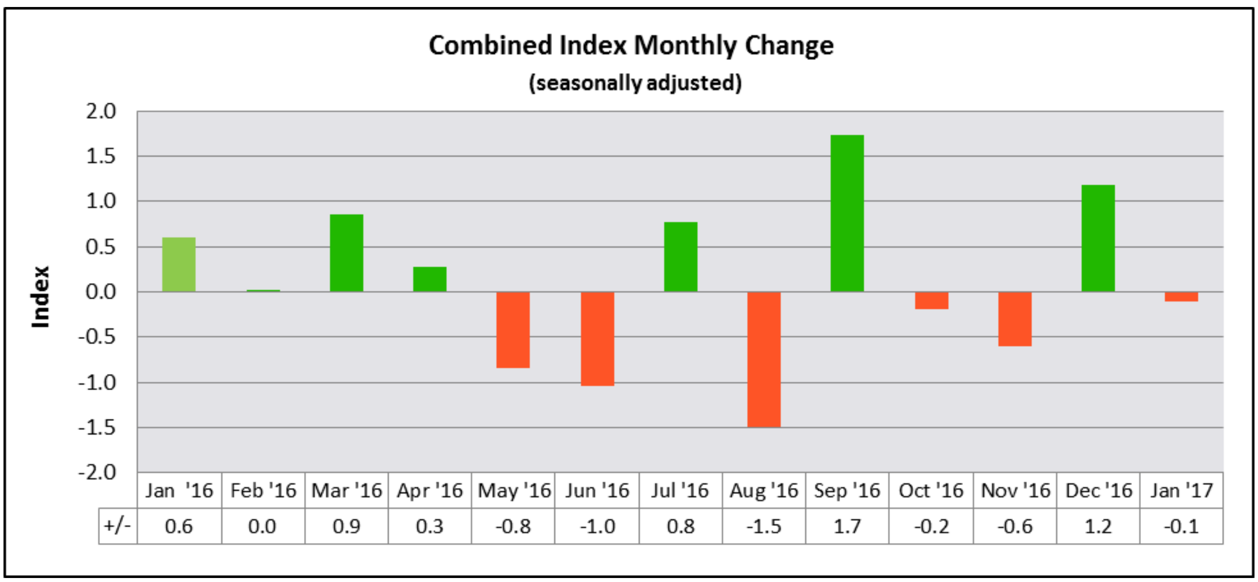
The combined score for the Credit Managers' Index was 54. It was 54.1 last month. One would have to go back to March and April of 2016 to get numbers in this range. The combined scores for the favorable factors at 60.8 was an improvement over the 59.1 registered last month. The news was not quite as good for the combined unfavorable numbers, however, as they sipped from 50.8 to 49.5, back into the contraction zone. "It is safe to assert that about half the companies out there are starting to see some real improvement in their prospects while others are in real trouble and can't find a way to dig out of all this," Kuehl said.

The breakdown of the favorable factors shows improvement in a variety of categories. The sales data improved from 58.6 to 60.1, nearly as good as the numbers were in November. The new credit applications reading also jumped up into the 60s as it moved from 57 to 60.8, the highest level seen in well over a year. The dollar collections numbers slipped a little from 59.5 to 58.2. This is consistent with the overall decline in the unfavorable categories. The amount of credit extended shifted up as well and hit levels not seen in two years by moving from 61.4 to 64.1. This kind of movement suggests that bigger customers and clients are asking for more substantial credit allocations. That means more machinery orders and inventory orders. There has been improvement in the nation's capacity utilization numbers of late and this credit data is consistent with these gains.

The bad news is found in the unfavorable factors. "The contrast between the two suggests there is a shakeout of sorts taking place in the economy," Kuehl said. "There was a slight decline in the reading for rejections of credit applications which takes a little of the wind out of the sails of the positive new application numbers, as there is a suggestion that some of these new applicants are not all that creditworthy and are hoping that somebody isn't paying enough attention."

The accounts placed for collection dipped just slightly from 49.7 to 49.4, but the important point is that the category remains under 50 for the eighth month in a row. The reading for disputes fell hard (49.8 to 46), the lowest in well over a year. The category of dollar beyond terms also slipped from 49.3 to 48.4, not as dramatic a decline as in some of the categories, but not heading in the right direction. Dollar amount of customer deductions also fell by about the same level as the reading for dollar beyond terms as it went from 49.8 to 48.7, while the reading for filings for bankruptcies went from 55 to 53.9. This is the only reading that stayed above 50 this month—not a positive sign. The good news in the favorable categories shows that some business is rebounding, but the problems that plague the other business categories are not going away anytime soon. The expectation is that some of the weaker players will soon exit and leave only the stronger competitors. At this point, the unfavorable numbers will start to match the favorable trends.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17
Sales	55.8	56.8	59.2	59.8	56.7	56.9	60.0	53.7	57.9	56.9	61.8	58.6	60.1
New credit applications	58.1	58.2	59.8	58.5	56.6	56.6	57.8	56.7	58.6	58.0	54.5	57.0	60.8
Dollar collections	57.8	58.3	59.6	57.5	57.4	57.1	59.5	55.5	59.5	57.0	63.5	59.5	58.2
Amount of credit extended	61.0	61.2	61.7	60.9	61.0	57.6	62.8	59.7	61.9	61.5	61.4	61.4	64.1
Index of favorable factors	**58.2**	**58.6**	**60.0**	**59.2**	**57.9**	57.0	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**	**60.8**
Rejections of credit applications	52.2	52.2	51.2	52.2	51.9	51.2	50.7	51.6	51.3	51.8	48.9	51.3	50.6
Accounts placed for collection	49.4	49.0	48.5	50.9	50.5	48.8	48.2	47.7	47.9	48.1	45.8	49.7	49.4
Disputes	48.6	49.7	50.8	50.8	50.8	49.5	47.6	47.8	48.8	49.9	47.7	49.8	46.0
Dollar amount beyond terms	48.6	47.5	50.8	51.2	49.2	49.0	48.8	46.3	48.2	49.0	44.9	49.3	48.4
Dollar amount of customer deductions	49.5	49.5	49.8	50.7	50.7	49.6	49.0	48.1	50.4	49.5	47.9	49.8	48.7
Filings for bankruptcies	53.8	52.6	52.2	53.8	53.0	51.1	50.7	52.8	52.7	53.8	53.0	55.0	53.9
Index of unfavorable factors	**50.3**	**50.1**	**50.6**	**51.6**	**51.0**	**49.9**	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**	**49.5**
NACM Combined CMI	**53.5**	**53.5**	**54.3**	**54.6**	**53.8**	**52.7**	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**	**54.0**



Manufacturing Sector

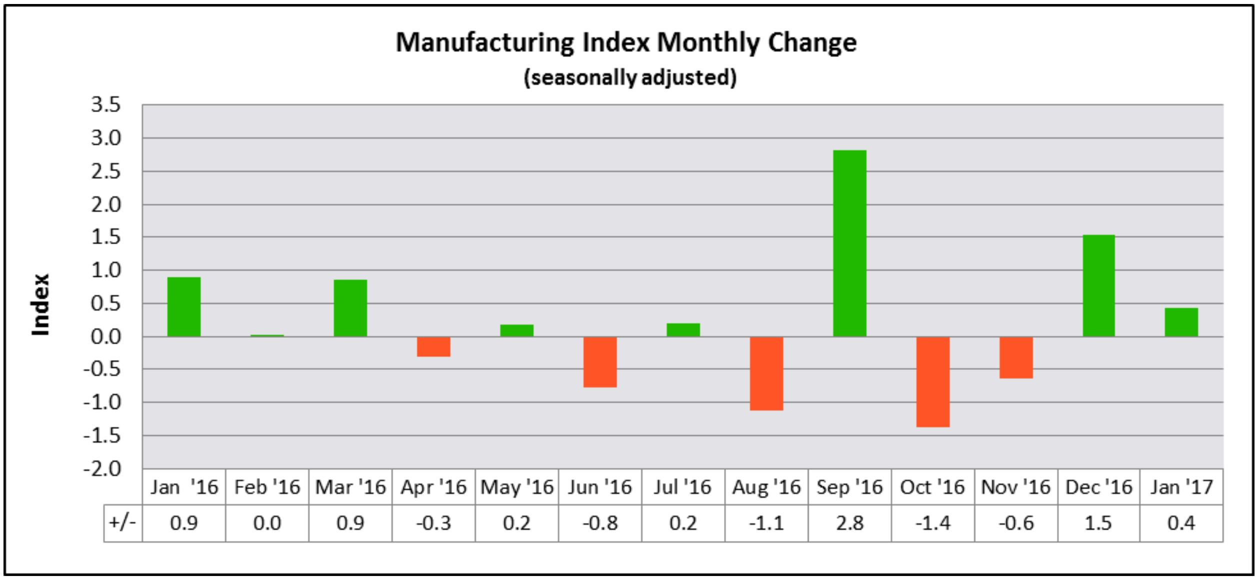
There was a similar set of readings in the manufacturing category, but the unfavorable factors stayed above 50, a positive development in general. The combined score for the index as a whole was 54.3, an improvement over the 53.8 that was recorded last month. The sense is that manufacturers are starting to get more excited about the coming year and are leaning toward more investment in capital goods and even additional hiring. The latest capacity utilization numbers at the national level have been tightening, although the percentage is still below the level considered normal (80% to 85% usage). The combined score for the favorable factors was 60.5, after a reading of 58.5 the month before. This marks the highest level seen in the past two years. The combined score for the unfavorable factors dipped just slightly, but stayed above the 50 mark by moving from 50.7 to 50.1.

The specific categories tell an interesting story as well. The sales category jumped from 58.7 to 61.7, the best performance seen in over two years. Likewise, there was a big jump in the category of new credit applications (56.1 to 61.8), again the best numbers in over two years. There is clearly a lot more activity than has been seen in a while. Dollar collections showed some weakness, with a reading that went to 55.3 after a previous mark of 59.3. It has been noted that there was not much change in the category of rejections of credit applications—a shift from 51.5 to 51.6. This is very good news, as it suggests that all those new applications are coming from legitimate sources and ones that are creditworthy. The amount of credit extended jumped into the 60s as well—the third month in a row as it moved from 60.2 to 63. The companies asking for credit are asking for more and that is a good sign.

The unfavorable categories are not telling quite as uplifting a story, although there was some improvement in some readings. As mentioned, there was an improvement in the rejections of credit applications category. Improved readings were also to be found for accounts placed for collection, as this moved from 50.1 to 51.9; however, the data for disputes was not as good as the previous reading of 48.8. This month, the number was 45.7. The readings for dollar amount beyond terms also slipped from the 50.1 rank to 49.4. There was a similar drop in the dollar amount of customer deductions, as the reading went from 49.2 to 48.7. The filings for bankruptcies dropped as well, from 54.4 to 53.5.

"Generally speaking, the manufacturer is looking ahead to better news, provided there are really reductions in regulations, tax changes and infrastructure spend," Kuehl said. "Thus far, all that has happened is some attacks on trade and imports, which hurts some manufacturers and benefits some others."

Manufacturing Sector (seasonally adjusted)	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17
Sales	54.3	54.7	57.6	56.3	53.9	56.1	58.4	52.4	58.2	54.4	58.5	58.7	61.7
New credit applications	55.4	53.7	56.8	55.3	56.8	54.7	56.5	55.8	59.2	56.9	51.6	56.1	61.8
Dollar collections	55.9	56.2	58.2	54.9	55.0	57.5	58.8	54.1	57.5	56.1	65.5	59.3	55.3
Amount of credit extended	59.3	58.2	60.2	58.4	58.4	55.4	61.8	58.8	61.4	58.3	60.4	60.2	63.0
Index of favorable factors	**56.2**	**55.7**	**58.2**	**56.2**	**56.0**	**55.9**	**58.9**	**55.3**	**59.1**	**56.4**	**59.0**	**58.5**	**60.5**
Rejections of credit applications	52.4	52.4	51.1	51.8	51.7	53.3	50.8	51.1	53.3	52.7	49.3	51.5	51.6
Accounts placed for collection	48.5	48.6	48.2	50.3	51.8	49.7	48.7	48.3	50.2	49.0	45.0	50.1	51.9
Disputes	47.1	49.8	49.4	48.7	50.7	48.9	45.0	46.5	47.7	49.2	44.5	48.8	45.7
Dollar amount beyond terms	50.3	49.6	51.9	51.4	50.1	50.2	48.3	45.4	50.5	50.0	43.0	50.1	49.4
Dollar amount of customer deductions	49.0	49.2	48.2	49.5	51.4	48.5	48.0	48.1	51.9	48.5	49.4	49.2	48.7
Filings for bankruptcies	52.3	52.1	51.6	53.7	52.1	50.0	49.8	54.5	53.0	54.3	55.6	54.4	53.5
Index of unfavorable factors	**49.9**	**50.3**	**50.1**	**50.9**	**51.3**	**50.1**	**48.4**	**49.0**	**51.1**	**50.6**	**47.8**	**50.7**	**50.1**
NACM Manufacturing CMI	**52.5**	**52.5**	**53.3**	**53.0**	**53.2**	**52.4**	**52.6**	**51.5**	**54.3**	**52.9**	**52.3**	**53.8**	**54.3**



Service Sector

As pointed out, there has been a marked difference between the performance of the favorable and unfavorable factors. That difference is stark in the service sector. “The thinking is that this last retail season was the moment of truth for many retailers,” Kuehl said. “If they were going to survive, this would be the season and the year that would prove it. In the end, there were a lot of victims to go along with the winners.”

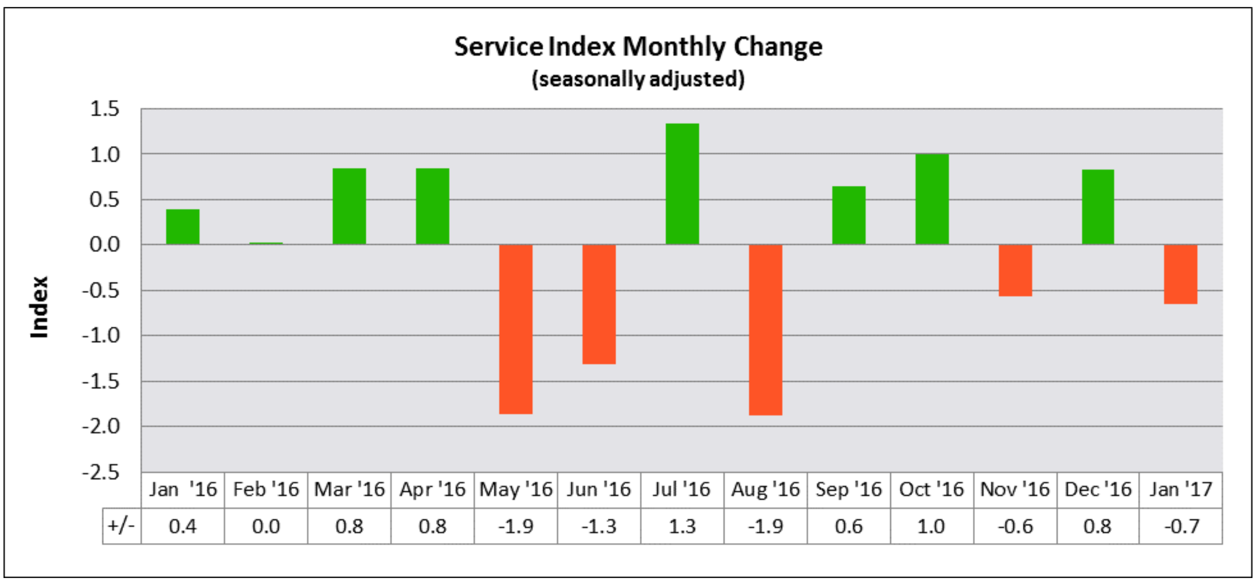
The overall combined service sector index fell a little, but remained in growth territory with a number of 53.8 after notching a 54.4 last month. The combined favorable index was very strong and positive as it moved from 59.7 to 61.2. This is back to the numbers that were registered in November and July. The combined index of the unfavorable categories told a very different story as it went from 50.9 to 48.9—firmly in the contraction zone.

The categories tell an interesting story in both the favorable and unfavorable sectors. The sales readings went from 58.5 to 58.5—in other words there was no movement at all. This is interesting given the season, although much of the new activity would have taken place last year. The new credit applications shifted from 57.8 to 59.7, back to levels seen at the start of the holiday season. The dollar collections numbers improved, but that is not the same trend that was seen in manufacturing. In service, the numbers went from 59.7 to 61.2, back to where they had been. The amount of credit extended shot up from 62.6 to 65.2, the highest point reached in the last year.

The unfavorable categories did not fare as well. “The rejections of credit applications tumbled from 51.1 to 49.7, suggesting that many of those new applications are coming from those not in the best position to seek additional credit,” Kuehl said. “The category of accounts placed for collection fell from 49.3 to 46.9—not something anyone wants to see. There are a lot of companies struggling to pay their debts. The disputes reading also tanked (50.7 to 46.2). There had been some faint hope that these numbers would keep improving, but they are falling out of the expansion category quickly.”

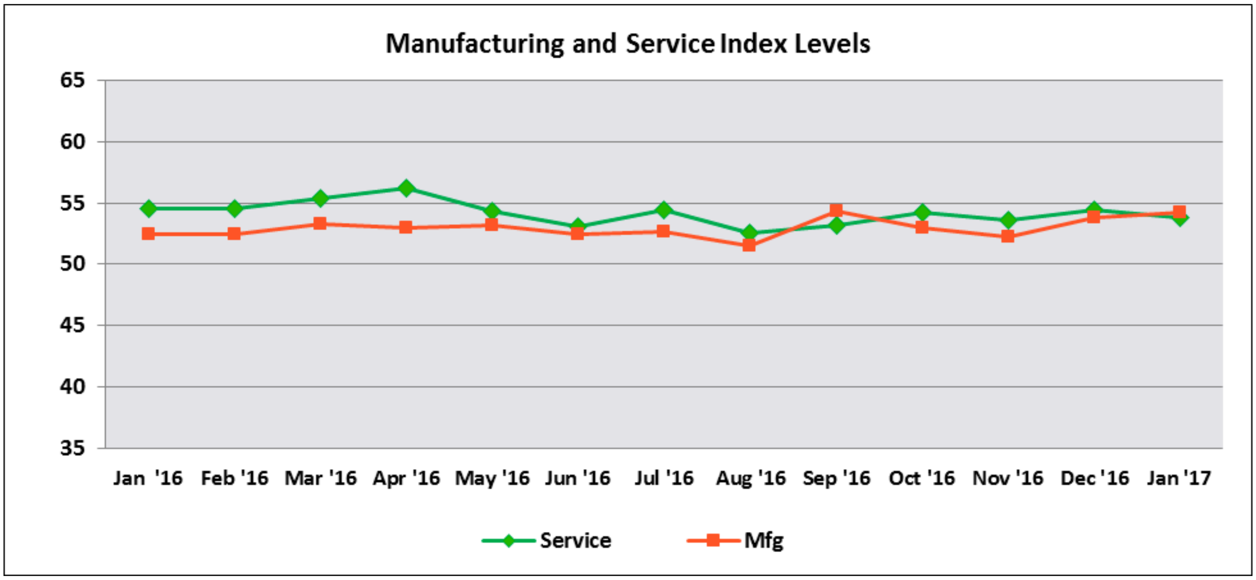
The dollar amount beyond terms also fell, but not quite as dramatically (48.4 to 47.3). There was a similar decline in the dollar amount of customer deductions, as these numbers fell out of expansion territory. It went from 50.4 to 48.8 and the filings for bankruptcies went from 55.7 to 54.3. All in all, the entire set of unfavorables dropped below 50, with the exception of the bankruptcy numbers. This was not a good month and reflects the strains that have been affecting retail and to some degree construction, as these are the two most represented industries in the survey.

Service Sector (seasonally adjusted)	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17
Sales	57.4	58.8	60.7	63.2	59.5	57.8	61.6	55.0	57.7	59.5	65.1	58.5	58.5
New credit applications	60.9	62.7	62.8	61.8	56.5	58.5	59.0	57.6	58.0	59.1	57.4	57.8	59.7
Dollar collections	59.7	60.4	61.0	60.0	59.8	56.7	60.3	57.0	61.5	58.0	61.5	59.7	61.2
Amount of credit extended	62.7	64.1	63.1	63.5	63.6	59.8	63.8	60.7	62.4	64.7	62.4	62.6	65.2
Index of favorable factors	**60.2**	**61.5**	**61.9**	**62.1**	**59.9**	**58.2**	**61.2**	**57.6**	**59.9**	**60.3**	**61.6**	**59.7**	**61.2**
Rejections of credit applications	52.0	51.9	51.4	52.6	52.0	49.1	50.7	52.0	49.4	50.9	48.5	51.1	49.7
Accounts placed for collection	50.3	49.4	48.8	51.6	49.2	47.9	47.7	47.1	45.6	47.3	46.5	49.3	46.9
Disputes	50.1	49.7	52.3	52.9	50.8	50.1	50.2	49.2	49.9	50.6	50.9	50.7	46.2
Dollar amount beyond terms	46.8	45.5	49.6	51.1	48.4	47.9	49.2	47.3	46.0	48.1	46.9	48.4	47.3
Dollar amount of customer deductions	50.0	49.8	51.3	51.8	50.1	50.7	50.1	48.2	49.0	50.5	46.5	50.4	48.8
Filings for bankruptcies	55.3	53.1	52.9	53.8	53.9	52.2	51.5	51.2	52.3	53.3	50.3	55.7	54.3
Index of unfavorable factors	**50.8**	**49.9**	**51.0**	**52.3**	**50.7**	**49.6**	**49.9**	**49.2**	**48.7**	**50.1**	**48.3**	**50.9**	**48.9**
NACM Service CMI	**54.5**	**54.5**	**55.4**	**56.2**	**54.4**	**53.1**	**54.4**	**52.5**	**53.2**	**54.2**	**53.6**	**54.4**	**53.8**



January 2017 versus January 2016

"This month the overall data was a bit misleading; it was utterly flat, suggesting that little had changed," Kuehl said. "In reality, a lot changed, with big gains in the favorable categories coupled with very negative performance in the unfavorable numbers."



Methodology Appendix

CMI data have 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.*

About the National Association of Credit Management

NACM, headquartered in Columbia, MD, 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 & Expo 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 https://www.nacm.org/cmi/cmi-archive.html.

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