Report for January 2020

Issued January 31, 2020

National Association of Credit Management

Combined Sectors

It is hard to decide what the latest lesson from the Credit Managers' Index (CMI) would be. Is it that 2019 ended on a more promising note than was expected or is it that 2020 is starting out to be a better year than had been anticipated? "Given that credit managers tend to think in the future, this month's good data may be seen as a harbinger of things to come," said NACM Economist Chris Kuehl, Ph.D. "Not that everything is likely to come up roses in the next several months, but for the time being the threats seem a little more distant than expected."

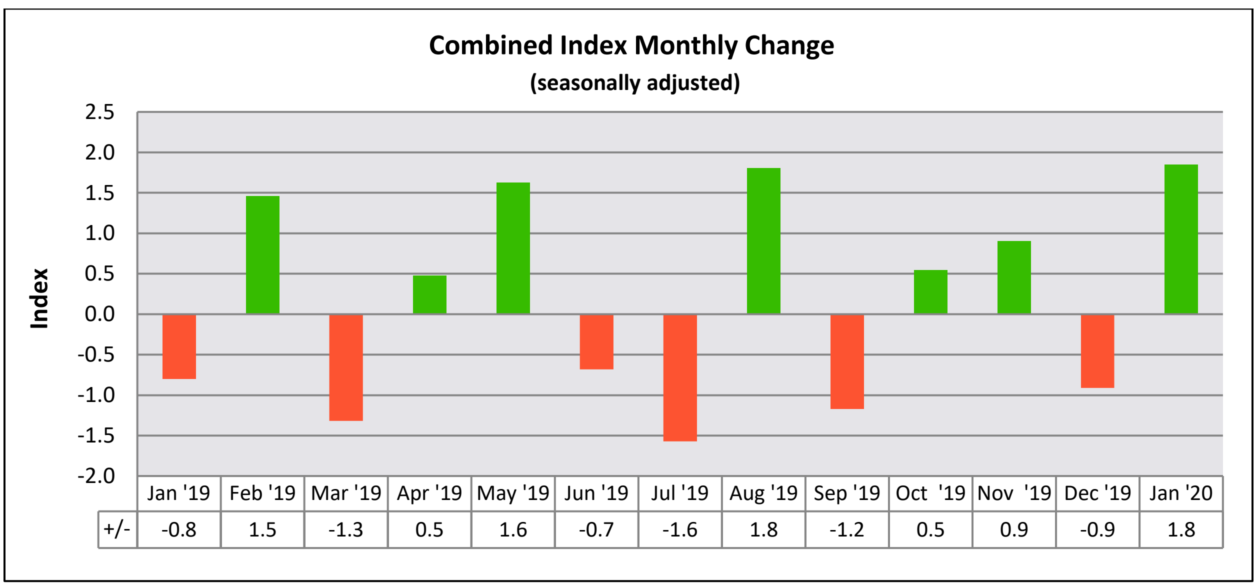
The numbers this month are up quite substantially. This tends to contrast with the numbers released by the Institute for Supply Management and Markit in their purchasing managers' indices. The overall score for the CMI moved up from 54.6 to 56.4, the highest reading seen in almost three years. The good news was reflected in both the favorable and unfavorable categories. The favorable readings returned to the 60s with a reading of 62.2 compared to last month's 59.3. The numbers for the favorables have not been this good since May of last year. The combined unfavorable numbers also jumped as they went from 51.5 to 52.6. This is another three-year high.

The details in the subcategories were also showing real progress. The sales numbers reached 63—nearly as high as the levels reached last August when the reading was 64.4. Kuehl noted this is one of the real surprises given that the first of the year is not generally seen as an active time for consumers or business. The new credit applications reading is at 61.1 and last month it was at 59.4. This takes the category back to where it was in November when it hit 61.2. The dollar collections data also moved into the 60s with a reading of 61.7 compared to 57.9 in December. The amount of credit extended kept pace with a reading of 62.9, while last month it stood at 61.1. "All four of the categories were in the 60s," he added. "This had not been the case since last August."

There was similar good news as far as the unfavorable categories are concerned. The data for rejections of credit applications stayed the same as the month prior, not a bad thing given that the numbers stand at 52. "This is positive news as it comes at the same time that applications are up," Kuehl said. "This means there are good applications coming in." The accounts placed for collection improved a little as well. Most importantly, they stayed above the 50 line, indicating expansion, with a reading of 50.6 compared to 50.3 in December. The disputes number also jumped up by quite a bit as it went from 50.8 to 52.4. The data for dollar amount beyond terms made the biggest gain, however. It now stands at 54.2 after being at 51. He thinks this is perhaps the most significant reading of them all. "There has been a desire on the part of many companies to go into 2020 with a reduced set of credit obligations in order to be better protected should there be some kind of slowdown. This is showing up in the credit data with reduced slow pays and improved dollar collections." There was also improvement as far as the category of dollar amount of customer deductions. It moved from 51.3 to 52.2, which took the reading back to what it was in September. There was a nice rise in the filings for bankruptcies data with a new reading of 54.4 compared to 53.4 in December. "For the second month in a row the numbers for this index were all in the expansion zone and by a substantial margin," he said. "There has not been a two-month period like this in over three years."

Kuehl says it is the sworn duty of a dismal scientist to point out that good news months can easily be followed by bad news months—there have already been several of these shifts. May of last year was even stronger in some respects than this one; however, by mid-summer the numbers had fallen precipitously. For now, we can enjoy the data and hope for a third-straight month of these gains.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20
Sales	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8	63.0
New credit applications	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4	61.1
Dollar collections	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9	61.7
Amount of credit extended	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1	62.9
Index of favorable factors	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**
Rejections of credit applications	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0	52.0
Accounts placed for collection	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3	50.6
Disputes	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8	52.4
Dollar amount beyond terms	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0	54.2
Dollar amount of customer deductions	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3	52.2
Filings for bankruptcies	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4	54.4
Index of unfavorable factors	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**
NACM Combined CMI	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**



Manufacturing Sector

As for manufacturing, Kuehl said the sector was supposed to be in pretty bad shape by this point. There have been any number of headwinds to contend with over the last several months after all. There have been tariffs that made steel and aluminum more expensive to buy. Then, there were the tariffs that all but killed trade between the U.S. and China and reduced U.S. export activity as global trade in general faltered. Add in the GM strike, problems at

Boeing and a sense that 2020 was likely to be a slower year and the manufacturing sector has been buckling down for a rocky 2020. Then we get these numbers in the latest CMI—some of the best we have seen in well over two years. Is this just a one-month anomaly or is the sector in better shape than many had expected?

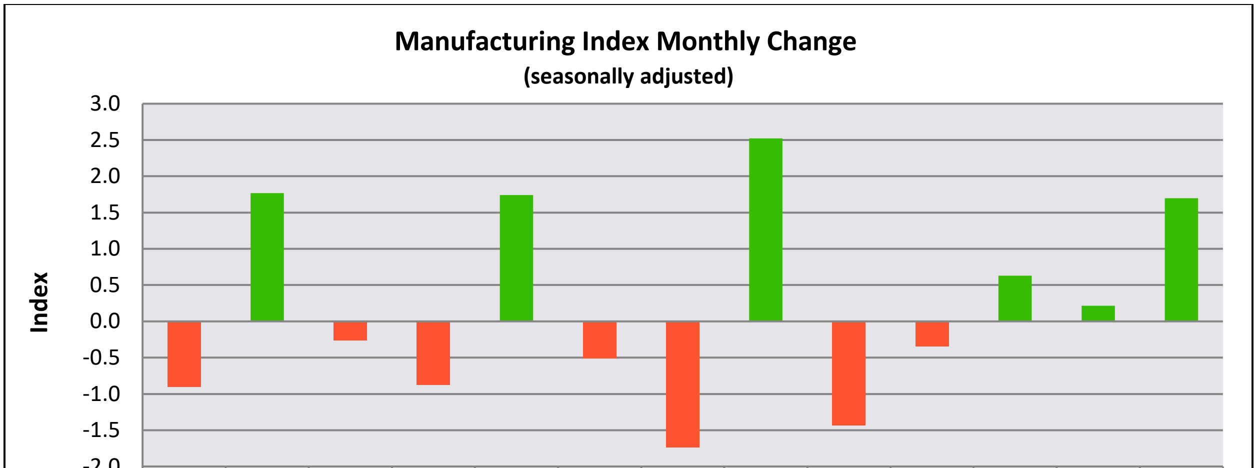
The combined score for manufacturing is 56.5, substantially higher than readings collected over the last couple of years. In August it hit 55.7 and in May it was at 55.4, but this January takes the crown. The index of favorable factors moved into some rarified territory with a reading of 62—the first time the readings have been in the 60s since August and only the sixth time in the last 12 months. This is also the highest reading in close to three years. The index of unfavorable factors jumped a little from last month with a reading of 52.7 compared to 52 in December. The more interesting news is that this number is higher than it has been in a year.

The sales data surged back into the mid-60s with a reading of 63.8 after one of 57.9 last month. In August it hit 65.3, but this month's reading is the next highest. The new credit applications numbers slipped a bit but stayed in the 60s with a reading of 60.2 compared to the 61.2 in December. The data for dollar collections improved as well—going from 57.5 to 62.9. That tracks well with some of the data in the unfavorable categories. The amount of credit extended moved from 59.1 to 61.3, meaning all of this January's favorable readings entered the 60s for the first time since May of 2019.

The rejections of credit applications slipped a bit but stayed in the expansion zone with a reading of 52.5 compared to the 53 notched in December. The accounts placed for collection numbers improved slightly from 51.1 to 51.8, but the important factor is this category has been out of the contraction zone for the last two months after spending most of the last two years in the doldrums. The disputes category also improved a little—going from 51 to 52.5. There was a bigger improvement in the dollar amount beyond terms as it went from 52.4 to 54.3, while the dollar amount of customer deductions slipped a little from 52.6 to 51.1. The filings for bankruptcies improved quite a lot from 51.8 to 54.2. With that, the entire sector was above the 50 line and in expansion territory. This is the second month in a row for this kind of reading, which has not happened in well over three years.

"These readings are not necessarily spectacular, although there have been a few months in the last couple of years that have been better," Kuehl said. "The important aspect of these readings is nothing like this kind of performance had been expected given all the gloom and doom surrounding the manufacturing sector. This can all change in a heartbeat and there have been times in the last year when there has been such a flip, but for now the news is quite encouraging."

Manufacturing Sector (seasonally adjusted)	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20
Sales	59.1	61.7	58.4	58.6	63.3	58.5	57.6	65.3	57.9	56.7	60.7	57.9	63.8
New credit applications	53.3	58.6	61.2	59.8	63.9	62.5	60.0	60.1	59.5	59.2	59.8	61.2	60.2
Dollar collections	58.4	60.5	57.8	58.6	60.5	59.2	54.7	59.6	58.7	58.7	56.8	57.5	62.9
Amount of credit extended	60.3	59.2	63.9	58.5	64.6	61.3	54.7	61.4	59.2	61.6	61.6	59.1	61.3
Index of favorable factors	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**
Rejections of credit applications	53.3	53.5	53.2	53.1	52.5	53.8	53.4	53.0	51.9	52.1	51.6	53.0	52.5
Accounts placed for collection	49.7	50.5	46.8	49.3	49.0	53.5	46.7	50.6	49.7	49.3	49.4	51.1	51.8
Disputes	46.8	48.7	50.2	47.7	48.2	48.3	51.0	50.3	50.6	46.7	49.6	51.0	52.5
Dollar amount beyond terms	49.1	52.8	51.0	48.5	51.8	50.2	48.0	55.9	52.1	52.0	52.1	52.4	54.3
Dollar amount of customer deductions	46.7	49.3	48.4	49.5	48.4	49.8	52.7	49.3	51.1	51.1	50.8	52.6	51.1
Filings for bankruptcies	54.0	53.3	54.6	53.3	52.0	52.0	53.0	51.4	52.0	51.7	53.0	51.8	54.2
Index of unfavorable factors	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**
NACM Manufacturing CMI	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**



	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20
+/-	-0.9	1.8	-0.3	-0.9	1.7	-0.5	-1.7	2.5	-1.4	-0.3	0.6	0.2	1.7

Service Sector

According to Kuehl, there is often a bit of a mixed message sent by the service sector at this time of year. In the economy and with the Credit Managers' Index, there are dominant subsectors that will affect the overall performance of the category. This time of year, those dominant sectors are retail, entertainment and travel. Later in the year, the construction sector plays a bigger role. Then, there is the constant of health care. At the end of the year, one has the spending season aftermath to consider. In January, there is a process of "taking stock." This year, there have been some worries about retail. While traffic numbers were good and revenue was up, many reported lower profits as consumers tended to stick to discounted goods; there is just not enough margin in these.

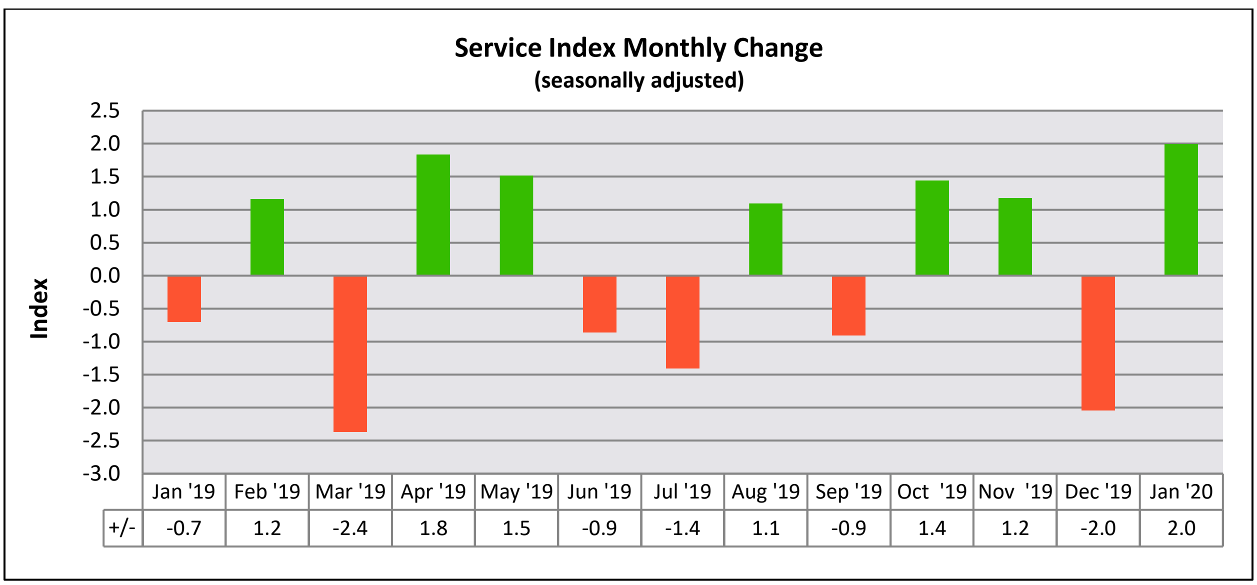
The combined score for services was solid but not spectacular. It went from 54.4 to 56.4, but that just took the reading back to where it was in November when it stood at 56.5. The index for the favorable factors did a nice jump, but again the numbers in November (63.4) were better. It had been at 59.7 in December and now sits at 62.3. The index of unfavorable factors improved from 50.9 to 52.5, even better than the data in November when it stood at 51.8.

The sales numbers returned to previous highs with a reading of 62.2 compared to December's 59.7. In November, it stood at 62.5. The new credit applications data made a similar move as it went from 57.6 to 62 along with dollar collections which jumped from 58.3 to 60.5. The pattern continues with amount of credit extended. In November, it stood at a level of 66.9—higher than it was in May. In December, it fell to 63 and now is back to 64.5. All these gyrations mean these four categories are now back in the 60s as they were in November and previously in August.

The data for the unfavorables showed some of that same behavior. The rejections of credit applications shifted up slightly from a reading of 50.9 to one of 51.5, very close to the 51 in November. Accounts placed for collection slipped a bit and that is a concern. It was at 49.5 and in November it stood at 50.1. Now it has fallen to 49.3. "This is not deep into contraction," Kuehl said, "but it confirms that many in the retail community are not in the best of shape after the holiday rush." The reading for disputes improved a little from 50.6 to 52.3. The data for dollar amount beyond terms made a nice recovery with a reading of 54.2 after a December reading of 49.7. He added that this tends to reinforce the notion that companies are trying to get their debts and other financial issues in order for the new year. The dollar amount of customer deductions improved a bit as well as it went from 50 to 53.3, even better than November's data. The filings for bankruptcies slipped a bit as it went from 54.9 to 54.6—consistent with the data from November as well.

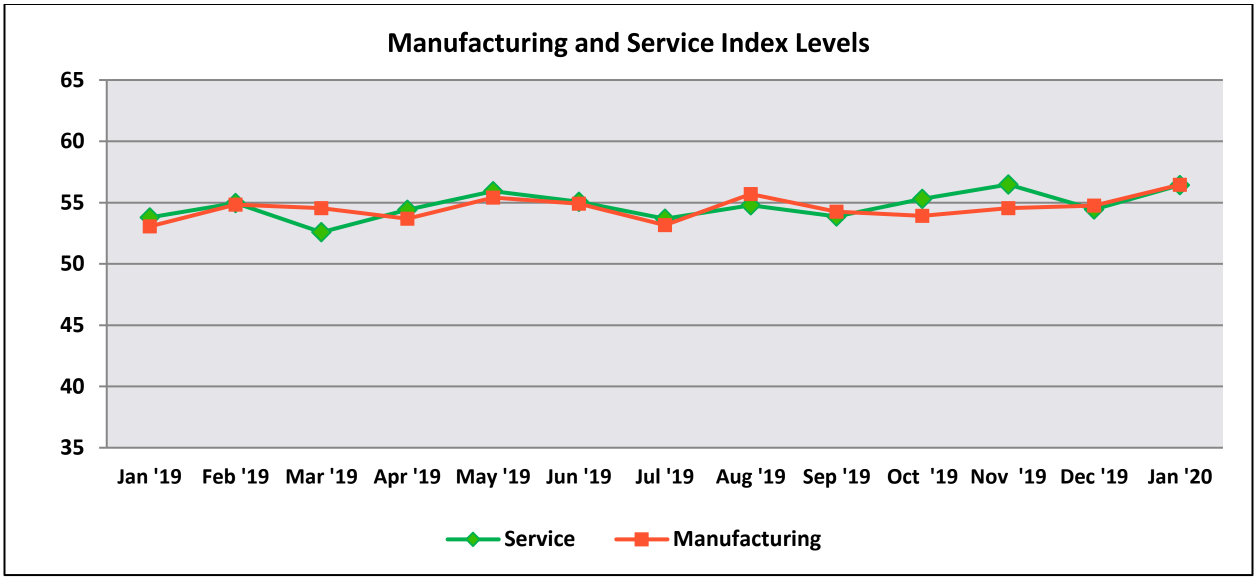
“For the most part retail did well this year, but the big shifts in the sector were even more obvious,” Kuehl said. “It was a good year for the online merchants and a bad-to-mediocre one for the brick-and-mortar versions; a pattern likely to intensify.”

Service Sector (seasonally adjusted)	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20
Sales	60.3	63.5	58.0	63.4	68.5	62.3	59.3	63.4	59.6	59.1	62.5	59.7	62.2
New credit applications	63.0	59.2	54.3	59.6	64.6	62.4	61.6	61.7	59.8	58.7	62.6	57.6	62.0
Dollar collections	59.6	57.7	55.5	59.6	59.1	61.4	58.4	60.4	58.2	65.5	61.7	58.3	60.5
Amount of credit extended	62.1	65.5	63.2	62.7	66.3	63.7	62.6	62.1	60.2	61.6	66.9	63.0	64.5
Index of favorable factors	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**
Rejections of credit applications	50.3	50.8	49.1	50.8	51.2	51.0	51.9	51.2	50.9	52.0	51.0	50.9	51.5
Accounts placed for collection	46.7	47.5	46.0	47.7	45.1	46.6	45.7	46.7	47.1	48.8	50.1	49.5	49.3
Disputes	47.4	48.3	48.9	49.4	49.0	48.8	50.0	48.5	49.4	49.4	50.9	50.6	52.3
Dollar amount beyond terms	45.7	49.8	49.0	46.7	50.9	49.3	44.2	51.2	48.3	52.1	53.1	49.7	54.2
Dollar amount of customer deductions	49.2	50.6	49.1	49.8	50.1	50.3	49.7	50.6	53.1	50.7	52	50.0	53.3
Filings for bankruptcies	53.6	56.5	52.7	54.6	54.5	55.0	53.4	51.9	52.1	55.1	54.0	54.9	54.6
Index of unfavorable factors	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**
NACM Service CMI	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**



January 2020 versus January 2019

“Whether this was an indication of a strong finish to 2019 or a good start to 2020 the data is encouraging,” Kuehl concluded. “Now, all eyes will be on next month to determine which month was the anomaly—the shrinking December or the booming January.”



Methodology Appendix

CMI data has been collected and tabulated monthly since February 2002. The index, published since February 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 Wyoming. 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 Purchasing Managers' Index (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, 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 11,000 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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