Report for October 2019

Issued October 31, 2019

National Association of Credit Management

Combined Sectors

The rebound for the October Credit Managers' Index (CMI) was not a spectacular one, but these days we will take what we can get. "The overall data for the economy as a whole has been like this—something for both the pessimist and the optimist. The manufacturers are slumping according to the Purchasing Managers' Index (PMI) as well as the data on industrial production from the Fed and various reports on everything from durable goods to capacity utilization," said NACM Economist Chris Kuehl, Ph.D. "At the same time, consumers continue to power the economy as they remain encouraged by the lack of inflation and the low levels of unemployment." We can now see the data from the Credit Managers' Index—an off month followed by an upswing. "Not that this month's data is startling in terms of a reversal, but a positive trend is welcome even when it is somewhat less impressive than preferred."

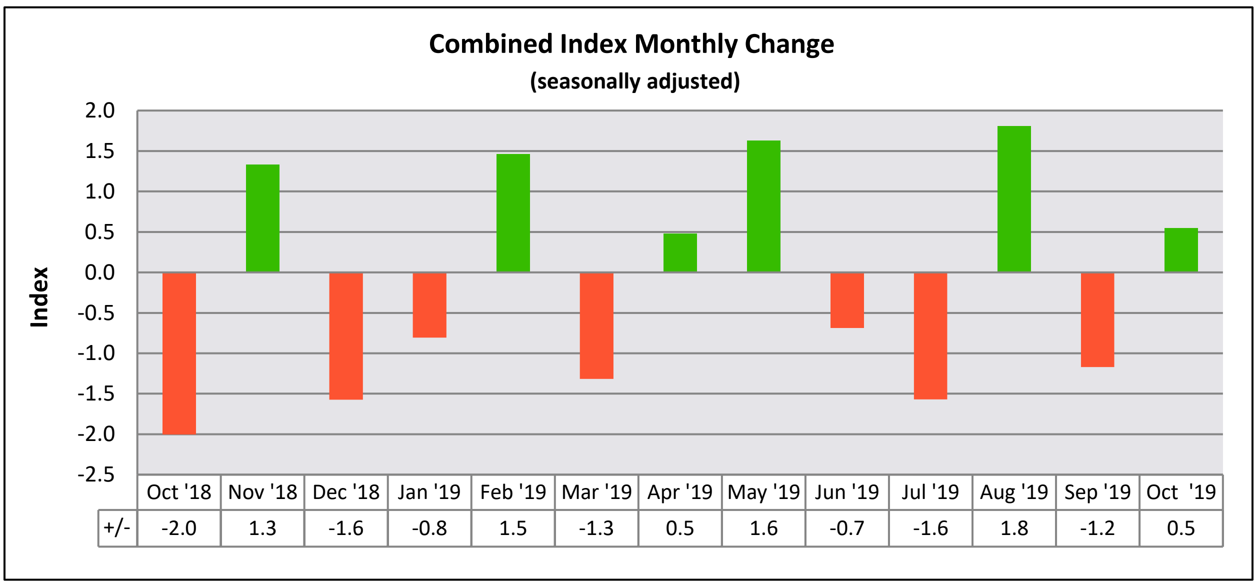
The combined score moved from the 54.1 reading in September to 54.6 in October—improved but not at the point reached in August when it hit 55.2. The combined index of favorable factors jumped back into the 60s with a reading of 60.1 compared to the 59.1 registered the prior month. Again, August was better yet with a reading of 61.8. There was the same pattern with the combined score of the unfavorable factors. This month was an improvement on the September reading as it went from 50.7 to 50.9 (the same as August). The relative stability in the unfavorable factors has some significance as shown in the data below.

The really indicative data shows up in the specific sectors. There was generally good news as far as the favorable factors were concerned, but sales fell a little from 58.7 to 57.9, again a far cry from the 64.4 reading in August. The new credit applications data also dropped back slightly (from 59.7 to 59). In contrast, there were good numbers coming from the dollar collections data—62.1 up from 58.5. Kuehl noted that if there is a category that delights the credit manager more than dollar collections, it would be hard pressed to identify. There was also good news as far the amount of credit extended as it went from 59.7 to 61.6. "The sense is that larger clients are more active and there is more emphasis on staying current with the credit offered," he added.

There was a bit more volatility in the unfavorable categories. The rejections of credit applications improved a bit from 51.4 to 52.1, precisely where that reading was in August. The accounts placed for collection category also improved, but not enough to escape the contraction zone (a score under 50). It went from 48.4 to 49.1 and is certainly in striking distance of expansion. This is the best reading notched in this category since June of this year. The disputes category on the other hand, fell from the levels reached last month, going from 50 to 48.1. The dollar amount beyond terms data improved quite a bit and may be somewhat connected to that better dollar collection reading. The reading in September was 50.2 and this month it is at 52. Kuehl explained that companies are trying to get current and to remain there as there is more concern about the potential for a slowdown next year. The dollar amount of customer deductions slipped a little, but not far enough to drop back into contraction. The reading last month was 52.1 and this month it is 50.9. The filings for bankruptcies data improved a bit with a reading of 53.4 compared to September's 52.1. He added, "The good news is this category has been showing improvement for several months now."

For the combined readings, he said, "Like much of the recent economic data, there are signs of concern showing up but nothing to suggest a serious slowdown or reversal. It appears the economy could head in either a slow growth or slow decline direction. Much will depend on the progress or lack of it on the global stage."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19
Sales	62.7	64.5	59.0	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9
New credit applications	61.7	62.2	57.5	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0
Dollar collections	57.5	60.9	59.3	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1
Amount of credit extended	64.5	65.3	61.9	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6
Index of favorable factors	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**	**60.1**
Rejections of credit applications	51.4	51.4	51.4	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1
Accounts placed for collection	48.8	48.2	49.7	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1
Disputes	48.9	50.1	49.6	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1
Dollar amount beyond terms	47.7	52.3	49.3	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0
Dollar amount of customer deductions	49.5	49.6	49.7	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9
Filings for bankruptcies	52.1	53.6	55.0	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4
Index of unfavorable factors	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**	**50.9**
NACM Combined CMI	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**	**54.6**



Manufacturing Sector

As for manufacturing, Kuehl said that by most accounts, the sector is in some trouble. The data coming from the Purchasing Managers' Index has been down for two months in a row and there has been some negativity from reports as varied as the industrial production index, durable goods orders, factory orders, capacity utilization and even capital investment. The primary issue has been the slowdown in the global economy as the export sector in the U.S. accounts for roughly 15% of the total GDP. This is not nearly as critical a sector for the U.S. as is the case for Germany, which is over 55% dependent on exports, but it is certainly important.

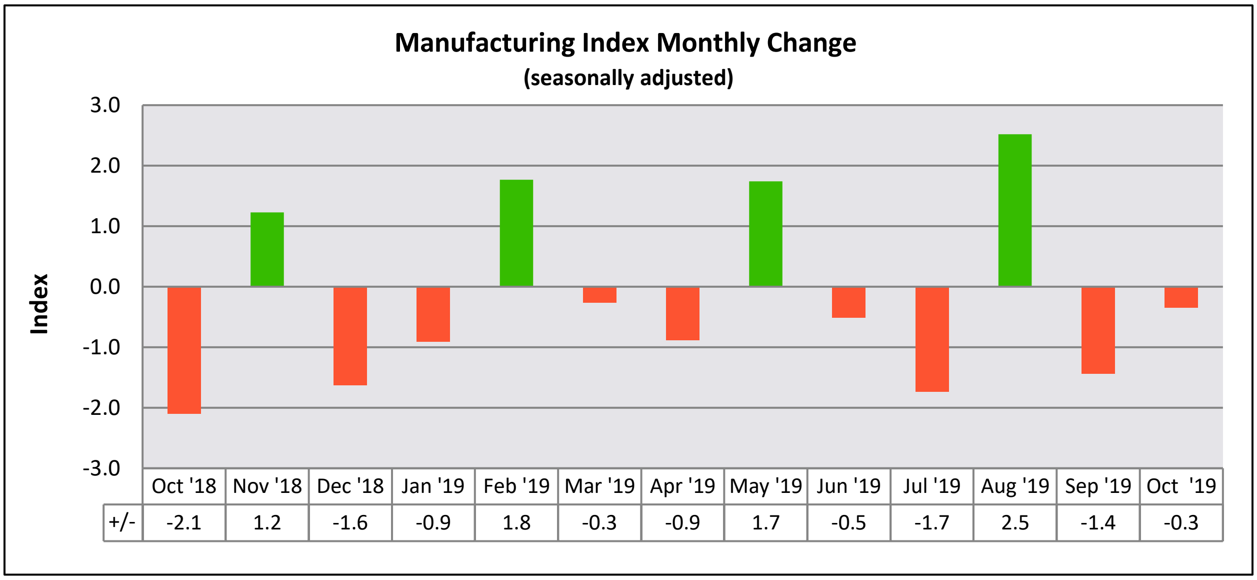
The combined score for manufacturing slipped from 54.3 to 53.9. This takes the readings back to levels seen in July. The combined score for the favorable factors improved a bit from 58.8 to 59.1, but the combined score for the unfavorable index fell from 51.2 to 50.5. "It is important that all of these measures remain in the expansion zone," Kuehl said, "but the trends for the unfavorable data is not what would be preferred."

The specific data in the favorable category tells an interesting story. The sales numbers went down quite a bit from 57.9 to 56.7, much less than the 65.3 notched in August. The new credit applications stayed very close to what had been noted previously with a reading of 59.2 compared to 59.5 in September. The dollar collections data stayed precisely where it was last month at 58.7, but that is a bit down from the reading in August when it was 59.6. The big shift was in the amount of credit extended as it went from 59.2 to 61.6. He explained, "The sense is that bigger companies are accessing credit as they try to anticipate the impact of further tariff restrictions."

The rejections of credit applications improved with a reading of 52.1 from the 51.9 notched last month. "This is good news considering that applications for credit seem to have stagnated a little," Kuehl said. The accounts placed for collections slipped a bit from 49.7 to 49.3. The difference was not all that severe, but the problem is that it remains in contraction territory. The disputes category fell dramatically with a reading of 46.7 compared to the 50.6 marked in September and 50.3 in August. The dollar amount beyond terms stayed roughly where it had been previously with a reading of 52 down from 52.1 in September. The dollar amount of customer deductions was unchanged from last month with a reading of 51.1. That is an improvement over what it had been in August (49.3). There was a slight dip in the filings for bankruptcies as the category went from 52 in September to 51.7 in October.

"The stumble that manufacturing seems to have taken is thus far not a catastrophic one," Kuehl said. "It seems more than a little artificial given the overall confidence level of the consumer and the fact that inflation has not triggered the Fed to try to slow down the economy." He added that this slowdown is almost purely a matter of trade wars and tariffs that have altered global patterns and thrown several nations into economic decline. "A truce in that trade war would likely do wonders for the global economy."

Manufacturing Sector (seasonally adjusted)	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19
Sales	62.3	64.2	59.0	59.1	61.7	58.4	58.6	63.3	58.5	57.6	65.3	57.9	56.7
New credit applications	61.5	61.7	56.8	53.3	58.6	61.2	59.8	63.9	62.5	60.0	60.1	59.5	59.2
Dollar collections	58.5	61.6	59.0	58.4	60.5	57.8	58.6	60.5	59.2	54.7	59.6	58.7	58.7
Amount of credit extended	63.7	65.4	60.9	60.3	59.2	63.9	58.5	64.6	61.3	54.7	61.4	59.2	61.6
Index of favorable factors	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**	**59.1**
Rejections of credit applications	51.9	53.1	51.6	53.3	53.5	53.2	53.1	52.5	53.8	53.4	53.0	51.9	52.1
Accounts placed for collection	49.1	49.2	50.3	49.7	50.5	46.8	49.3	49.0	53.5	46.7	50.6	49.7	49.3
Disputes	48.7	49.6	48.6	46.8	48.7	50.2	47.7	48.2	48.3	51.0	50.3	50.6	46.7
Dollar amount beyond terms	49.1	50.3	50.0	49.1	52.8	51.0	48.5	51.8	50.2	48.0	55.9	52.1	52.0
Dollar amount of customer deductions	48.0	48.6	49.1	46.7	49.3	48.4	49.5	48.4	49.8	52.7	49.3	51.1	51.1
Filings for bankruptcies	50.9	52.2	54.4	54.0	53.3	54.6	53.3	52.0	52.0	53.0	51.4	52.0	51.7
Index of unfavorable factors	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**	**50.5**
NACM Manufacturing CMI	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**	**53.9**



Service Sector

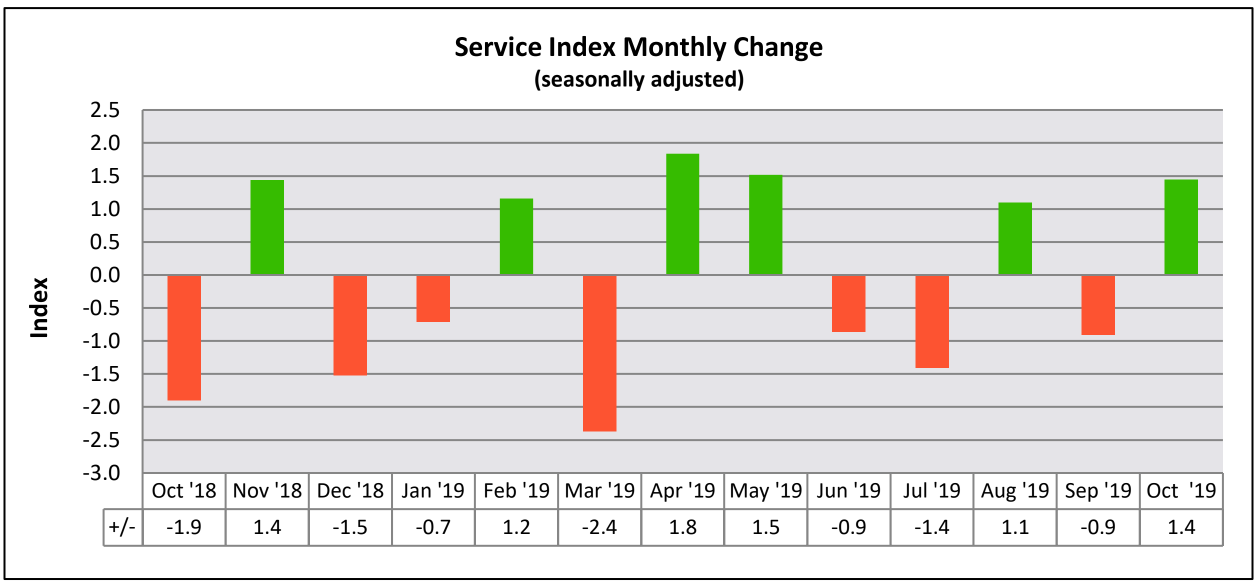
The fact that this is the retail season shows up in the data as the CMI tends to be somewhat heavy in the retail-oriented sectors. “The numbers have been a lot better for services than for manufacturing; a trend that is likely to continue into the coming months,” Kuehl said. The combined score for services jumped from 53.9 to 55.3. That seems to be on the strength of the favorable factors. The combined score for the favorables moved back into the 60s with a reading of 61.2 compared to last month’s 59.4. These readings are back to what they were in August. The unfavorable combined reading was also up, but less dramatically as it went from 50.1 to 51.4.

The sales data stayed about where it had been with a reading of 59.1 as compared to 59.6. Kuehl noted, “The part that worries a bit is the fact that numbers for the bulk of the year have been in the 60s. There have only been four months in the last 12 that have been under 60—two of those were this month and last.” The new credit applications data slipped a bit from 59.8 to 58.7, but this remains pretty solidly in the expansion zone. “The dollar collections data really made the difference for the services category and the entire CMI,” he explained. “This is not an unusual development this time of year as many companies do a lot of purchasing for the holidays and seek to keep their creditors reasonably healthy.” The amount of credit extended also saw a nice upswing from 60.2 to 61.6.

The rejections of credit applications tracked in a positive direction with a reading of 52 compared to the 50.9 reported in September. “This is consistent with the favorable data on new applications and a good signal,” he noted. The accounts placed for collection saw a fairly significant improvement, but the overall score is still in the contraction zone—moving from 47.1 to 48.8. At least the trend is in a good direction. The disputes category stayed right where it had been the month before with a reading of 49.4—not great as it remains in contraction, but at least not getting any worse at this point. “The improvement in the dollar amount beyond terms was significant and connected to the improvement in dollar collections.” The reading this month was 52.1 and last month it was at 48.3. The dollar amount of customer deductions slipped a little, but didn’t tumble out of the expansion zone. It was at 53.1 and is now at 50.7. The filings for bankruptcies category saw a nice gain as it moved from 52.1 to 55.1.

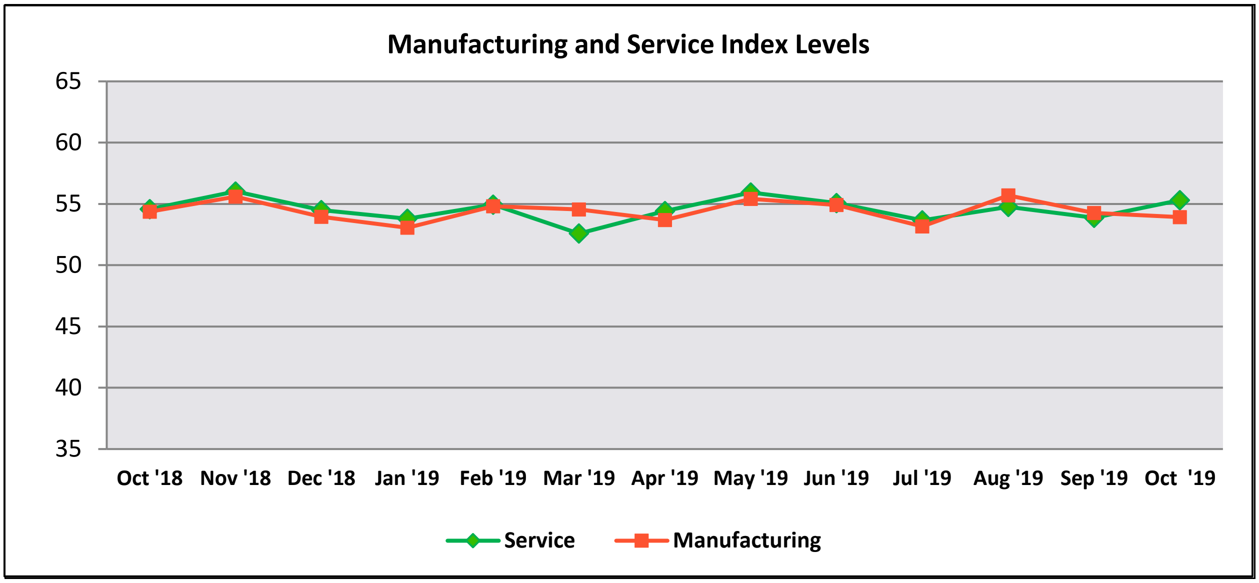
“This is the period that has long been referred to as the Black Quarter,” Kuehl said “as this is when the retail community will make the bulk of its income.” He thinks that this year will be reasonable but no record setter as the retailers entered the season with an inventory-light strategy. Other service sectors such as construction take a bit of a breather this time of year.

Service Sector (seasonally adjusted)	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**	**Feb '19**	**Mar '19**	**Apr '19**	**May '19**	**Jun '19**	**Jul '19**	**Aug '19**	**Sep '19**	**Oct '19**
Sales	63.2	64.9	59.0	60.3	63.5	58.0	63.4	68.5	62.3	59.3	63.4	59.6	59.1
New credit applications	61.9	62.7	58.2	63.0	59.2	54.3	59.6	64.6	62.4	61.6	61.7	59.8	58.7
Dollar collections	56.4	60.1	59.6	59.6	57.7	55.5	59.6	59.1	61.4	58.4	60.4	58.2	65.5
Amount of credit extended	65.2	65.2	63.0	62.1	65.5	63.2	62.7	66.3	63.7	62.6	62.1	60.2	61.6
Index of favorable factors	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**	**61.2**
Rejections of credit applications	50.9	49.7	51.2	50.3	50.8	49.1	50.8	51.2	51.0	51.9	51.2	50.9	52.0
Accounts placed for collection	48.4	47.2	49.1	46.7	47.5	46.0	47.7	45.1	46.6	45.7	46.7	47.1	48.8
Disputes	49.1	50.6	50.5	47.4	48.3	48.9	49.4	49.0	48.8	50.0	48.5	49.4	49.4
Dollar amount beyond terms	46.3	54.3	48.5	45.7	49.8	49.0	46.7	50.9	49.3	44.2	51.2	48.3	52.1
Dollar amount of customer deductions	51.1	50.7	50.3	49.2	50.6	49.1	49.8	50.1	50.3	49.7	50.6	53.1	50.7
Filings for bankruptcies	53.2	54.9	55.6	53.6	56.5	52.7	54.6	54.5	55.0	53.4	51.9	52.1	55.1
Index of unfavorable factors	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**	**51.4**
NACM Service CMI	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**	**55.3**



October 2019 versus October 2018

“This up and down activity has started to become routine,” Kuehl concluded. “This time, the data seems to have been affected by just a few factors—trade wars, tariffs and the upcoming holiday season.”



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:

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

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, 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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