Report for December 2016

Issued Dec. 30, 2016

National Association of Credit Management

Combined Sectors

Prognosticators can sometimes be quite off target, both in predicting the economy as well as elections. Some expectations were that President-elect Donald Trump's success could stun the business community and the consumer, and even cause markets to tumble. "It is pretty obvious that none of that happened," said NACM Economist Chris Kuehl, Ph.D. "The possibility remains that concerns will mount, but for now the mood is upbeat and enthusiastic. Consumer confidence levels are at highs not seen in over a decade, and there is some pretty solid data coming from the Credit Managers' Index this month."

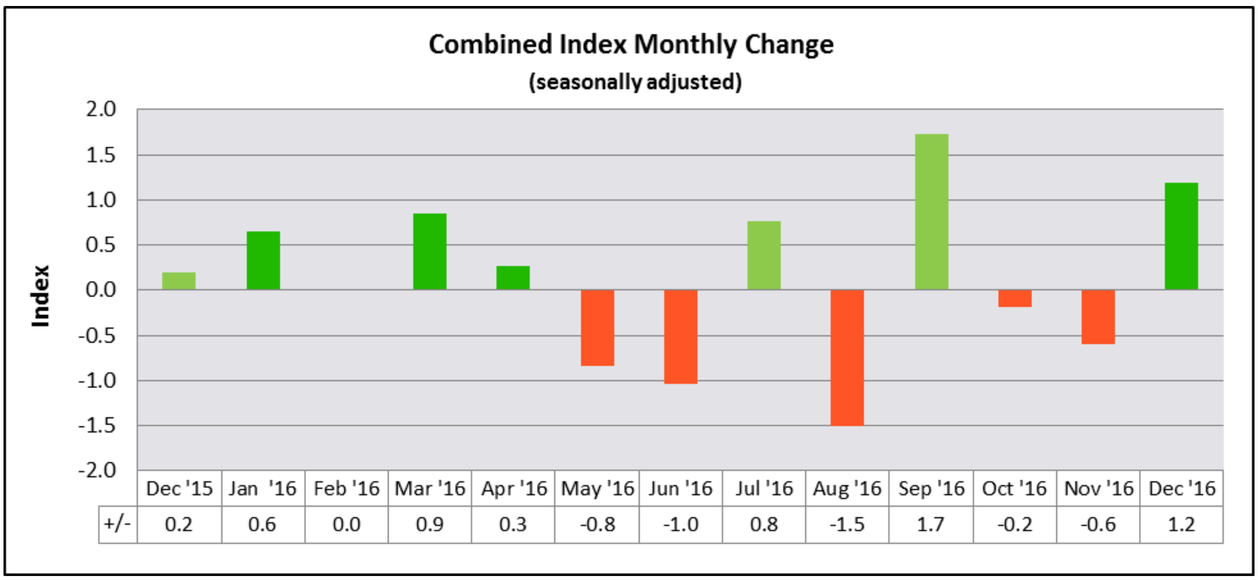
The reading for the combined CMI jumped up from 52.9 to 54.1, the third-highest reading seen this year. In April, it hit 54.6 and in March it was at 54.3. Last month's 52.9 was the fourth-lowest reading in the last 12 months. The news was similarly positive in both the favorable and unfavorable index readings. The favorable score last month was 60.3. This month there was a slight decline to 59.1, but that is still higher than it was for five months of this year. The recovery in the index of unfavorable factors was more impressive, as it went from 48 (thoroughly in contraction territory) to 50.8, as high as it has been since May.

The breakdowns were also impressive. The sales category slipped a little from 61.8 to 58.6, still higher than it had been since July. In August, these numbers had fallen to as low as 53.7. The new credit applications reading improved quite a lot, going from 54.5 to 57. This is a good sign, as there was a corresponding improvement in the rejections of credit applications (48.9 to 51.3). "It is not a good thing when applications go up and rejections also rise," Kuehl said, "as this indicates that more applications are coming from those with credit issues." The dollar collections number fell off a bit from 63.5 to 59.5, but even with the dip, the category is as high as it has been in July and September. The amount of credit extended stayed right where it was, a good thing given that the reading is 61.4—right where it has been for much of the year.

As mentioned, the rejection of credit applications improved alongside the number of new applications. Other areas of improvement were to be found in the non-favorable categories. The accounts placed for collection numbers improved from 45.8 to 49.7, close to entering expansion territory. The disputes category moved from 47.7 to 49.8 and marks another category that is getting close to normal. The dollar amount beyond terms shifted from 44.9 to 49.3. "This is the third of four categories that leaped back to near respectability after languishing in the contraction zone," Kuehl said. "The last of these moves was seen in dollar amount of customer deductions, as this shifted from 47.9 to 49.8. All four of these categories were in the doldrums. Now, they are all nearly back into expansion territory and as high as they have been in the last several months." The last of these categories is filings for bankruptcies. Here, the numbers shifted from 53 to 55. "The overall trend for the non-favorable categories is as good as it has been for the last several months," Kuehl added. "Good news indeed given the time of year."

When there is a problem in retail during the holiday season, the economy is not doing all that well. "This year is not turning out to be a record breaker," Kuehl said, "but it will be better than it was last year. That means more retailers will be alive to fight another day. There has also been some decent expansion in the manufacturing sectors that is connected to retail, and the construction community got a little shot in the arm with the warmer-than-usual weather that extended their season by more than a month."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16
Sales	55.0	55.8	56.8	59.2	59.8	56.7	56.9	60.0	53.7	57.9	56.9	61.8	58.6
New credit applications	56.4	58.1	58.2	59.8	58.5	56.6	56.6	57.8	56.7	58.6	58.0	54.5	57.0
Dollar collections	55.8	57.8	58.3	59.6	57.5	57.4	57.1	59.5	55.5	59.5	57.0	63.5	59.5
Amount of credit extended	59.4	61.0	61.2	61.7	60.9	61.0	57.6	62.8	59.7	61.9	61.5	61.4	61.4
Index of favorable factors	**56.6**	**58.2**	**58.6**	**60.0**	**59.2**	**57.9**	57.0	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**
Rejections of credit applications	52.8	52.2	52.2	51.2	52.2	51.9	51.2	50.7	51.6	51.3	51.8	48.9	51.3
Accounts placed for collection	50.2	49.4	49.0	48.5	50.9	50.5	48.8	48.2	47.7	47.9	48.1	45.8	49.7
Disputes	48.6	48.6	49.7	50.8	50.8	50.8	49.5	47.6	47.8	48.8	49.9	47.7	49.8
Dollar amount beyond terms	48.0	48.6	47.5	50.8	51.2	49.2	49.0	48.8	46.3	48.2	49.0	44.9	49.3
Dollar amount of customer deductions	48.5	49.5	49.5	49.8	50.7	50.7	49.6	49.0	48.1	50.4	49.5	47.9	49.8
Filings for bankruptcies	53.7	53.8	52.6	52.2	53.8	53.0	51.1	50.7	52.8	52.7	53.8	53.0	55.0
Index of unfavorable factors	**50.3**	**50.3**	**50.1**	**50.6**	**51.6**	**51.0**	**49.9**	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**
NACM Combined CMI	**52.8**	**53.5**	**53.5**	**54.3**	**54.6**	**53.8**	**52.7**	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**



Manufacturing Sector

"The manufacturing sector has been fighting some pretty serious headwinds of late, but they have not resulted in the expected slowdown—at least not yet," Kuehl said. The biggest concern towards the end of the year was the gain in strength of the dollar and the expected impact on exports. "The fact the Fed finally got around to hiking the rates means that the dollar will gain even more—and quickly." Despite all this, there was progress in these categories.

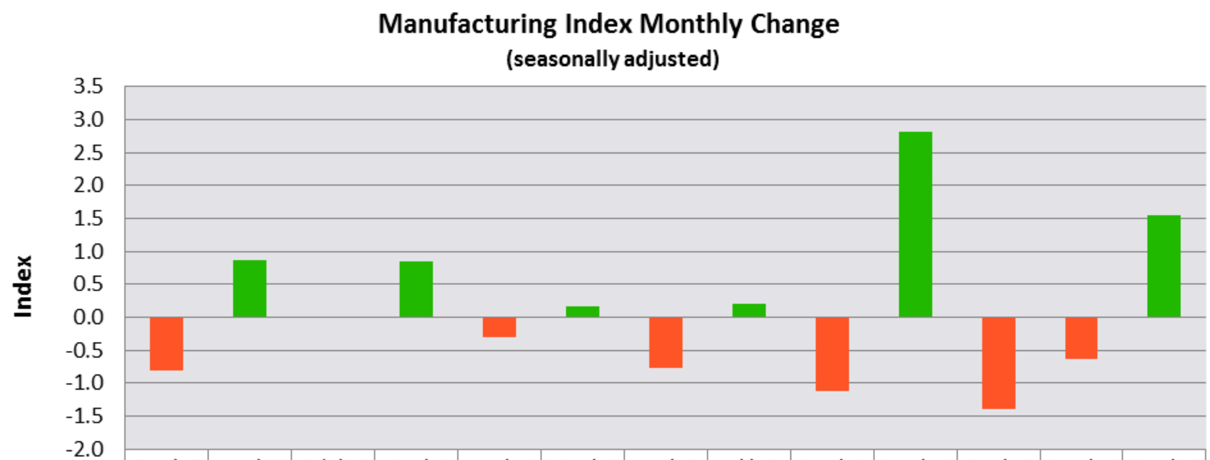
The overall score for manufacturing was 53.8 as opposed to the 52.3 reading last month. The favorable factors slipped a little from 59 to 58.5, but for all intents and purposes, the data stayed right where it was. The unfavorable factors crested back above the expansion/contraction line with a reading of 50.7 after one of 47.8 in the prior month. As is usually the case, the details contain the bulk of the story.

In the favorable categories, there was a slight gain in the sales reading as it went from 58.5 to 58.7. New credit applications shifted up dramatically from 51.6 to 56.1. The really good news is that the category of rejections of credit applications also showed better performance, as the readings went from 49.3 to 51.5. The new applications are mostly coming from the better credit risks and known customers. The dollar collections category dropped quite a bit (65.5 to 59.3), but these numbers are still better than they have been all year—the next highest reading was 58.8 in July. The amount of credit extended stayed about where it had been the previous month, with a reading of 60.2 after a reading last month of 60.4.

The big changes took place in the unfavorable categories. These were shifting in a very positive direction for the most part. As noted, there was positive movement as far as the rejections of credit applications were concerned. The category of accounts placed for collection shifted out of the contraction zone with a reading of 50.1 after a reading of 45. The disputes category shifted up as well, but remains stuck in the contraction zone with a reading of 48.8, up from 44.5 last month. The dollar amount beyond terms category also left the contraction zone behind with a move from 43 to 50.1, the most significant shift of them all this month. The dollar amount of customer deductions was one of the few readings that didn't show much improvement, but it also didn't change all that much, as it went from 49.4 to 49.2. The filings for bankruptcies also slipped a bit, but remains firmly in the expansion category (55.6 to 54.4).

"In short, there was a nice rebound as far as manufacturing was concerned," Kuehl said. "That seems related to both the better mood of the consumer and the fact that construction season was extended a little by the unseasonable weather."

Manufacturing Sector (seasonally adjusted)	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16
Sales	51.9	54.3	54.7	57.6	56.3	53.9	56.1	58.4	52.4	58.2	54.4	58.5	58.7
New credit applications	54.0	55.4	53.7	56.8	55.3	56.8	54.7	56.5	55.8	59.2	56.9	51.6	56.1
Dollar collections	55.0	55.9	56.2	58.2	54.9	55.0	57.5	58.8	54.1	57.5	56.1	65.5	59.3
Amount of credit extended	55.4	59.3	58.2	60.2	58.4	58.4	55.4	61.8	58.8	61.4	58.3	60.4	60.2
Index of favorable factors	**54.1**	**56.2**	**55.7**	**58.2**	**56.2**	**56.0**	**55.9**	**58.9**	**55.3**	**59.1**	**56.4**	**59.0**	**58.5**
Rejections of credit applications	54.1	52.4	52.4	51.1	51.8	51.7	53.3	50.8	51.1	53.3	52.7	49.3	51.5
Accounts placed for collection	49.3	48.5	48.6	48.2	50.3	51.8	49.7	48.7	48.3	50.2	49.0	45.0	50.1
Disputes	47.1	47.1	49.8	49.4	48.7	50.7	48.9	45.0	46.5	47.7	49.2	44.5	48.8
Dollar amount beyond terms	48.8	50.3	49.6	51.9	51.4	50.1	50.2	48.3	45.4	50.5	50.0	43.0	50.1
Dollar amount of customer deductions	47.6	49.0	49.2	48.2	49.5	51.4	48.5	48.0	48.1	51.9	48.5	49.4	49.2
Filings for bankruptcies	52.8	52.3	52.1	51.6	53.7	52.1	50.0	49.8	54.5	53.0	54.3	55.6	54.4
Index of unfavorable factors	**49.9**	**49.9**	**50.3**	**50.1**	**50.9**	**51.3**	**50.1**	**48.4**	**49.0**	**51.1**	**50.6**	**47.8**	**50.7**
NACM Manufacturing CMI	**51.6**	**52.5**	**52.5**	**53.3**	**53.0**	**53.2**	**52.4**	**52.6**	**51.5**	**54.3**	**52.9**	**52.3**	**53.8**



	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16
+/-	-0.8	0.9	0.0	0.9	-0.3	0.2	-0.8	0.2	-1.1	2.8	-1.4	-0.6	1.5

Service Sector

"This is the service sector's prime season," Kuehl noted."If there are issues manifesting now, there are some real problems evolving. Fortunately, the data this month is pointing in a far more positive direction, which should set up a better year ahead (or at least a quarter)."

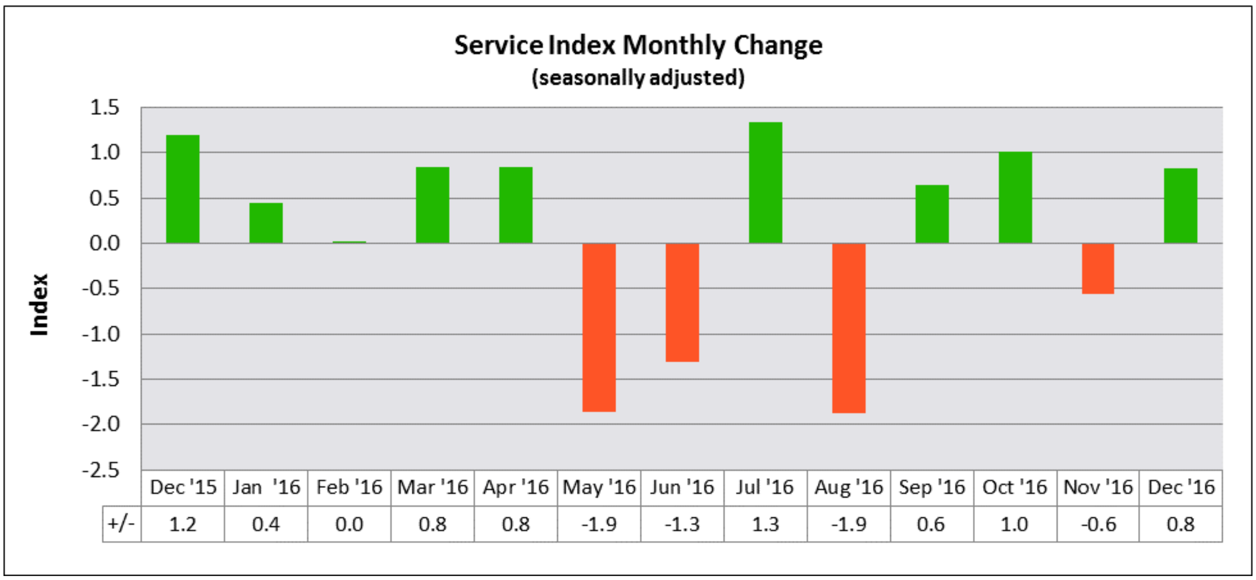
The overall reading for the service sector went from 53.6 to 54.4, marking the best reading since July of this year. The reading for the favorable factors slipped a little, but stayed close to last month, trending from 61.6 to 59.7. The reading for the unfavorable factors saw the most improvement (48.3 to 50.9), the highest reading since April of this year. It is not comfortably in expansion territory by any means, but it is heading in the right direction at least.

The sales category slipped back to levels seen earlier in the year by moving from 65.1 to 58.5. The new credit applications category stayed very close to where it had been with a reading of 57.8 compared to 57.4 the previous month. As with the manufacturing sector, the critical connection is that the rejections of credit applications category also saw an improvement, suggesting that those trying to access credit are acceptable and are getting what they have requested. The category of dollar collections also saw some slight deterioration as it went from 61.5 to 59.7. The fall was not too dramatic and the levels are still well into the expansion zone. The last of the favorable categories is amount of credit extended, where there was a slight improvement (62.4 to 62.6).

"As with the manufacturing data, the big changes took place in the unfavorable readings, as these showed good signs of improvement—vital for the retailers this time of year," Kuehl said. "Without growth during the big spending periods, these companies are hard-pressed to get through the rest of the year."

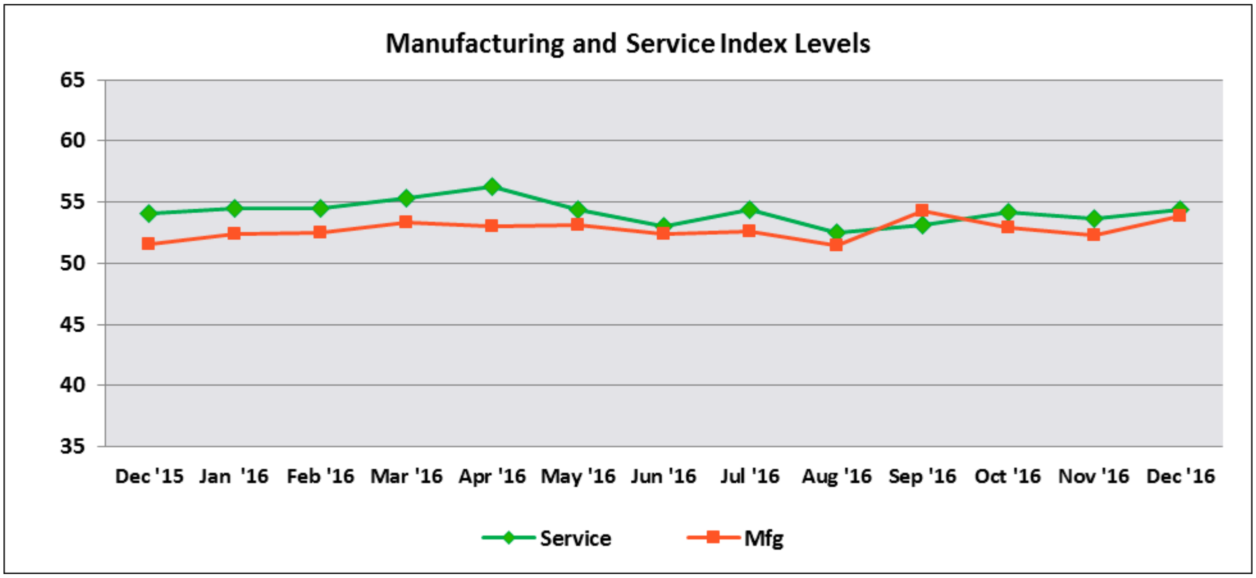
Rejections of credit applications went from 48.5 to 51.1, a significant departure from the contraction zone. The accounts placed for collection category almost reached into expansion territory with a reading of 49.3 compared to the 46.5 logged in the previous month. The disputes category slipped just slightly but stayed in expansion territory with a reading of 50.7 after the previous month's 50.9. Dollar amount beyond terms gained a little as it went from 46.9 to 48.4 and the dollar amount of customer deductions got back into the expansion zone with a reading of 50.4—up from 46.5. The filings for bankruptcies improved quite a lot with a reading of 55.7 after last month's 50.3.

Service Sector (seasonally adjusted)	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16
Sales	58.1	57.4	58.8	60.7	63.2	59.5	57.8	61.6	55.0	57.7	59.5	65.1	58.5
New credit applications	58.8	60.9	62.7	62.8	61.8	56.5	58.5	59.0	57.6	58.0	59.1	57.4	57.8
Dollar collections	56.6	59.7	60.4	61.0	60.0	59.8	56.7	60.3	57.0	61.5	58.0	61.5	59.7
Amount of credit extended	63.4	62.7	64.1	63.1	63.5	63.6	59.8	63.8	60.7	62.4	64.7	62.4	62.6
Index of favorable factors	**59.2**	**60.2**	**61.5**	**61.9**	**62.1**	**59.9**	**58.2**	**61.2**	**57.6**	**59.9**	**60.3**	**61.6**	**59.7**
Rejections of credit applications	51.6	52.0	51.9	51.4	52.6	52.0	49.1	50.7	52.0	49.4	50.9	48.5	51.1
Accounts placed for collection	51.1	50.3	49.4	48.8	51.6	49.2	47.9	47.7	47.1	45.6	47.3	46.5	49.3
Disputes	50.0	50.1	49.7	52.3	52.9	50.8	50.1	50.2	49.2	49.9	50.6	50.9	50.7
Dollar amount beyond terms	47.3	46.8	45.5	49.6	51.1	48.4	47.9	49.2	47.3	46.0	48.1	46.9	48.4
Dollar amount of customer deductions	49.4	50.0	49.8	51.3	51.8	50.1	50.7	50.1	48.2	49.0	50.5	46.5	50.4
Filings for bankruptcies	54.5	55.3	53.1	52.9	53.8	53.9	52.2	51.5	51.2	52.3	53.3	50.3	55.7
Index of unfavorable factors	**50.6**	**50.8**	**49.9**	**51.0**	**52.3**	**50.7**	**49.6**	**49.9**	**49.2**	**48.7**	**50.1**	**48.3**	**50.9**
NACM Service CMI	**54.1**	**54.5**	**54.5**	**55.4**	**56.2**	**54.4**	**53.1**	**54.4**	**52.5**	**53.2**	**54.2**	**53.6**	**54.4**



December 2016 versus December 2015

“The trend for both manufacturing and the service sector is positive,” Kuehl said in conclusion. “This time, it was due to the improvements in the unfavorable categories more than in the favorable. This means less distress in the response, setting up a pretty good start to the coming year.”



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.

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