Report for December 2018

Issued December 31, 2018
National Association of Credit Management

Combined Sectors

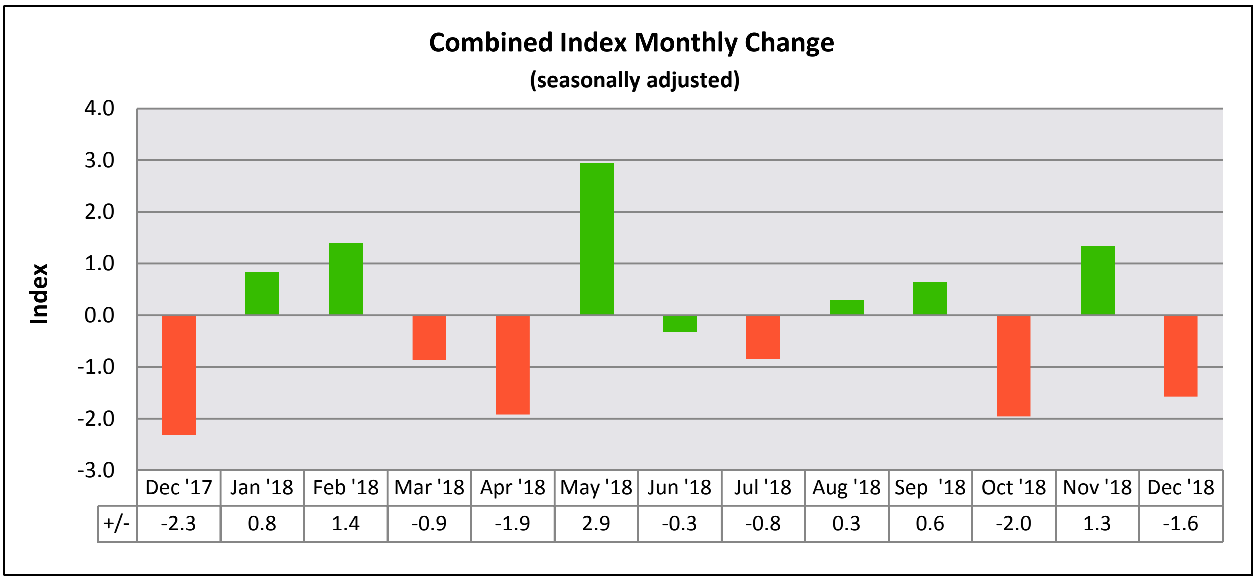
It can be tempting to read too much into the monthly changes that take place in the Credit Managers' Index (CMI). Not that these fluctuations are unimportant, but longer-term trends tend to be more informative when it comes to the status of the overall economy. December saw the combined score fall back to levels seen in October. On one level, this is disappointing. It would have been nice to see the index continue tracking upwards, but it is important to remember that any reading over 50 suggests growth, so a reading of 54.2 is certainly respectable. There is a lot about last month that seems to signal changes are coming, and one could reasonably add the CMI data as another indicator. "As we leave the last of 2018 behind," said NACM Economist Chris Kuehl, Ph.D., "there are growing concerns over everything from trade to the specter of inflation; all against a backdrop of labor shortage and possible government engagement, including regulation and future stimulus."

The overall score for the CMI fell to 54.2 from the previous month's 55.8. This is certainly not a major drop, but it is not the trend that had been hoped for. The last time the overall score was this low was in April when it fell to 53.7. Over the last several months, the reading has been very close to 55 or 56. The favorable factors also trended down in December. In fact, this was the movement that pulled the overall numbers down. The reading in December went from 63.2 to 59.4—the first time the data has been under 60 since December 2017 (also at 59.4). There was, however, only a slight movement in the unfavorable factors (50.9 to 50.8).

As usual, the details paint a clearer picture. The dip in the favorable factors may be the most important development this month. All of the favorable subcategories also fell out of the 60s, except for amount of credit extended, which tracked at a lower level than the month prior. The sales reading went from 64.5 to 59, a mark not seen since December 2017 when it hit 59.2. The new credit applications number fell from 62.2 to 57.5. It was last at that level in December 2017 (57.3). The dollar collections number dropped from 60.9 to 59.3—not quite as dramatic as some of the other readings, though. The amount of credit extended stayed in the 60s, but went from 65.3 to 61.9. "The slide in all these factors suggests there has been a slowdown, which is consistent with some of the other data that has been seen in the Purchasing Managers' Index (PMI), durable goods orders and capacity utilization," Kuehl said.

The combined score for the unfavorable factors was a little less threatening, but the numbers are still not good. The score went from 50.9 to 50.8—virtually no change. There was similar activity in the sub-index readings. The rejections of credit applications stayed exactly where it was last month with a reading of 51.4. This is especially good news given that new applications are generally down. The accounts placed for collection actually improved a little, but still fell short of escaping the contraction zone. It was at 48.2 last month and is now at 49.7. The disputes numbers fell a little and dropped out of the expansion zone with a reading of 49.6 after one of 50.1 the month before. The dollar amount beyond terms also slipped from 52.3 to 49.3. This drop is more worrisome, as this is often the first sign of impending credit issues. The dollar amount of customer deductions stayed very close to last month, but improved slightly with a reading of 49.7 compared to 49.6. The filings for bankruptcies reading improved quite a bit with a reading of 55 after one of 53.6. Kuehl concluded that, overall, the nonfavorables are stable enough, but they are still very close to contraction territory.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18
Sales	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7	64.5	59.0
New credit applications	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7	62.2	57.5
Dollar collections	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5	60.9	59.3
Amount of credit extended	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5	65.3	61.9
Index of favorable factors	**59.4**	**61.4**	**64.9**	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**
Rejections of credit applications	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4	51.4	51.4
Accounts placed for collection	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8	48.2	49.7
Disputes	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9	50.1	49.6
Dollar amount beyond terms	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7	52.3	49.3
Dollar amount of customer deductions	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5	49.6	49.7
Filings for bankruptcies	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1	53.6	55.0
Index of unfavorable factors	**50.8**	**50.8**	**50.9**	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**
NACM Combined CMI	**54.2**	**55.1**	**56.5**	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**



Manufacturing Sector

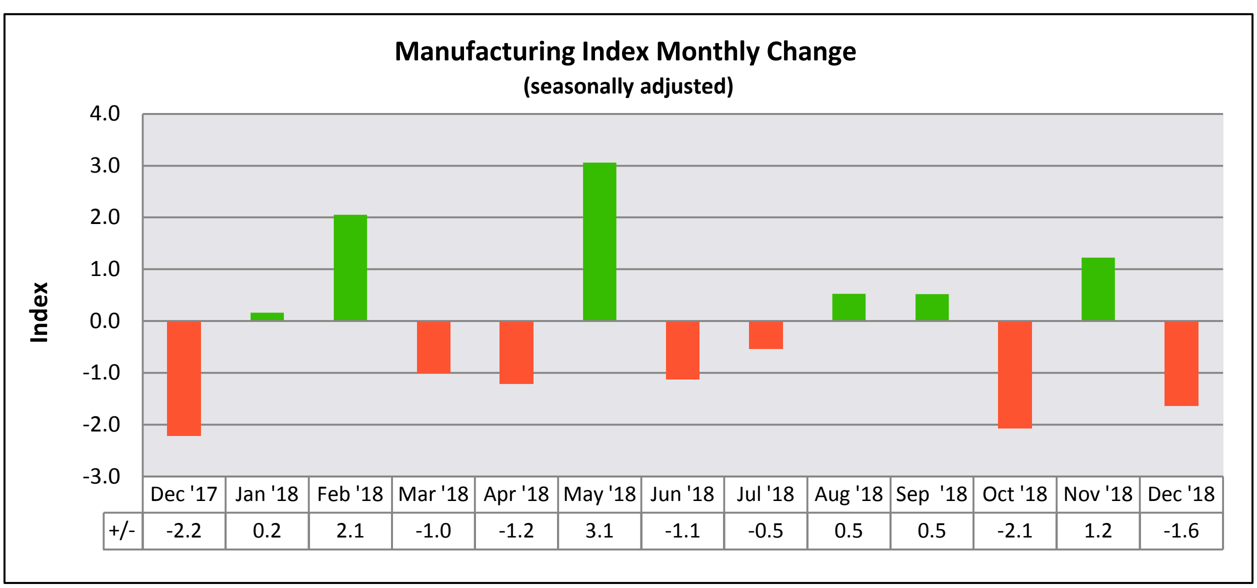
The manufacturing sector has been a subject of intense interest for most of this year. Kuehl noted that the U.S. economy is still very dependent on its service sector for jobs and the total GDP. All by itself, the GDP of manufacturing in the U.S. is as large as the eighth-biggest country in the world. “The sector is often seen as a kind of symbol for the overall success of the U.S. economy,” he said. “The numbers look a bit weaker in December, which is a bit worrying for the coming year.”

The combined score for the whole index slipped from 55.6 to 54, taking the reading back to where it was in October. The index of favorable factors fell out of the 60s for the first time since December 2017. It is now at 58.9;

whereas it was 63.2 the month before. The sub-index numbers showed the same kind of retreat. The sales numbers went from 64.2 to 59, while the new credit applications data shifted from 61.7 to 56.8—a number that has not been seen since December 2017. The dollar collections number fell from 61.6 to 59 and the amount of credit extended remained in the 60s, but only by a hair as it went from 65.4 to 60.9. “The general sense is there was a slowdown in the manufacturing sector at the end of this year, but as these numbers are similar to what they were in 2017, this is also a seasonal reaction,” Kuehl explained. “The retail community may come to life at the end of the year, but the manufacturing community slows as the holidays tend to chew into productivity.”

The combined score for the nonfavorables improved very slightly from what it had been the month before, moving from 50.5 to 50.7. The sub-index numbers showed a bit more variety. The rejections of credit applications slipped from 53.1 to 51.6, but at least managed to stay in the expansion zone. The accounts placed for collection improved and entered expansion territory by a small margin, going from 49.2 to 50.3. The disputes category sagged a little, with a reading of 48.6 compared to the 49.6 reading the month before. The dollar amount beyond terms stayed very close to what it had been the month prior with a reading of 50 compared to 50.3. The best news here is the category stayed out of the contraction zone, albeit by the slightest margin. The dollar amount of customer deductions improved a bit, but remained in contraction territory with a reading of 49.1 compared to 48.6. The filings for bankruptcies reading improved slightly, as it went from 52.2 to 54.4.

Manufacturing Sector **(seasonally adjusted)**	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18
Sales	59.2	62.7	65.8	62.5	66.2	69.6	69.1	62.4	66.5	68.2	62.3	64.2	59.0
New credit applications	56.5	57.8	65.2	62.4	60.8	62.4	60.2	59.5	61.4	61.8	61.5	61.7	56.8
Dollar collections	58.9	58.7	62.8	59.5	46.1	63.5	63.3	61.5	62.4	59.0	58.5	61.6	59.0
Amount of credit extended	60.7	63.4	65.9	65.3	66.0	66.4	65.7	65.1	67.1	68.5	63.7	65.4	60.9
Index of favorable factors	**58.8**	**60.7**	**64.9**	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**
Rejections of credit applications	51.5	51.8	51.5	54.1	52.4	53.4	50.6	53.5	53.7	53.1	51.9	53.1	51.6
Accounts placed for collection	50.3	51.2	50.1	51.0	49.8	51.3	50.6	50.6	49.6	51.2	49.1	49.2	50.3
Disputes	48.8	48.4	47.6	46.0	48.0	46.9	47.9	47.0	45.8	48.7	48.7	49.6	48.6
Dollar amount beyond terms	50.1	45.0	48.5	46.5	46.8	50.2	48.7	48.1	48.4	50.2	49.1	50.3	50.0
Dollar amount of customer deductions	49.1	46.6	47.7	48.7	48.4	48.4	46.6	46.9	48.1	47.4	48.0	48.6	49.1
Filings for bankruptcies	54.4	55.3	56.3	55.6	55.1	58.0	56.2	59.1	56.0	56.0	50.9	52.2	54.4
Index of unfavorable factors	**50.7**	**49.7**	**50.3**	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**
NACM Manufacturing CMI	**53.9**	**54.1**	**56.2**	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**



Service Sector

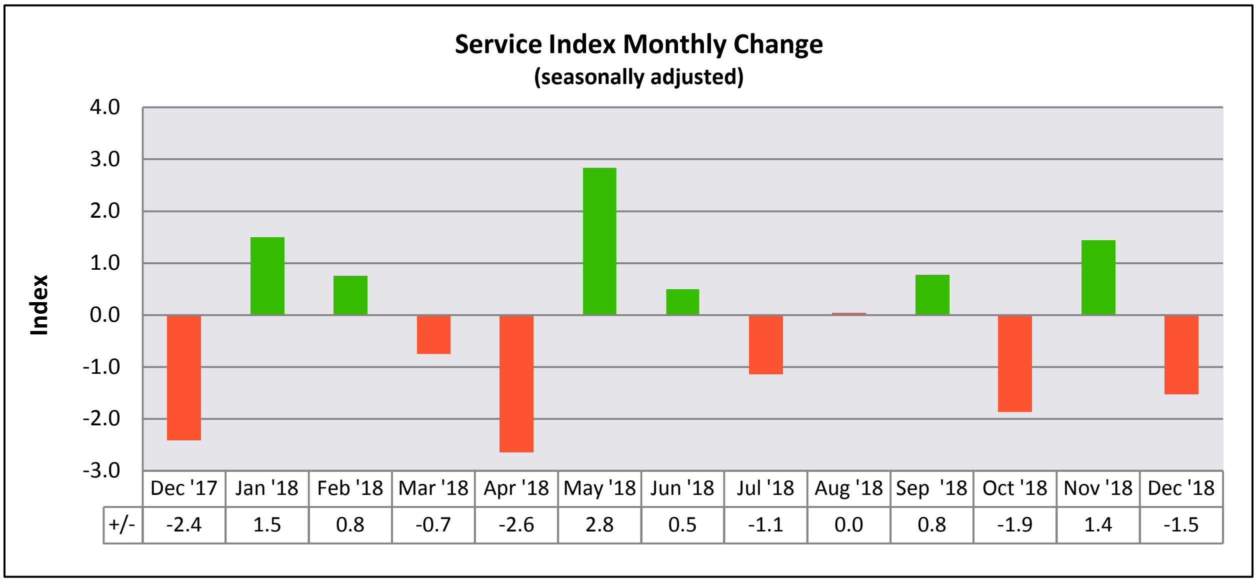
As with the combined CMI and the manufacturing sector, there was a decline in the numbers in the service sector. Kuehl summarizes the service sector by noting that there is always a bit of a challenge this time of year. The two biggest components of the sector are retail and construction, and these go in opposite directions. It is a big moment for retail, obviously, but a very slow period for construction. The upshot is some confusing readings from time to time.

In December, the combined score behaved similarly to manufacturing with a reading of 54.5 compared to 56 the month before. This is a number seen in October. The index of favorable factors fell a bit from 63.2 to 59.9, while the index of unfavorable factors fell, yet remained in expansion territory as it moved from 51.2 to 50.9.

The sales category slipped from 64.9 to 59; it has been a year since this number was that low. Given that this is retail season, a trend like this is not welcoming. The new credit applications segment also fell (62.7 to 58.2). The dollar collections data didn't fall all that drastically, but dropped out of the 60s by moving from 60.1 to 59.6. The amount of credit extended stayed in the 60s, but was reduced from what it had been, going from 65.2 to 63.

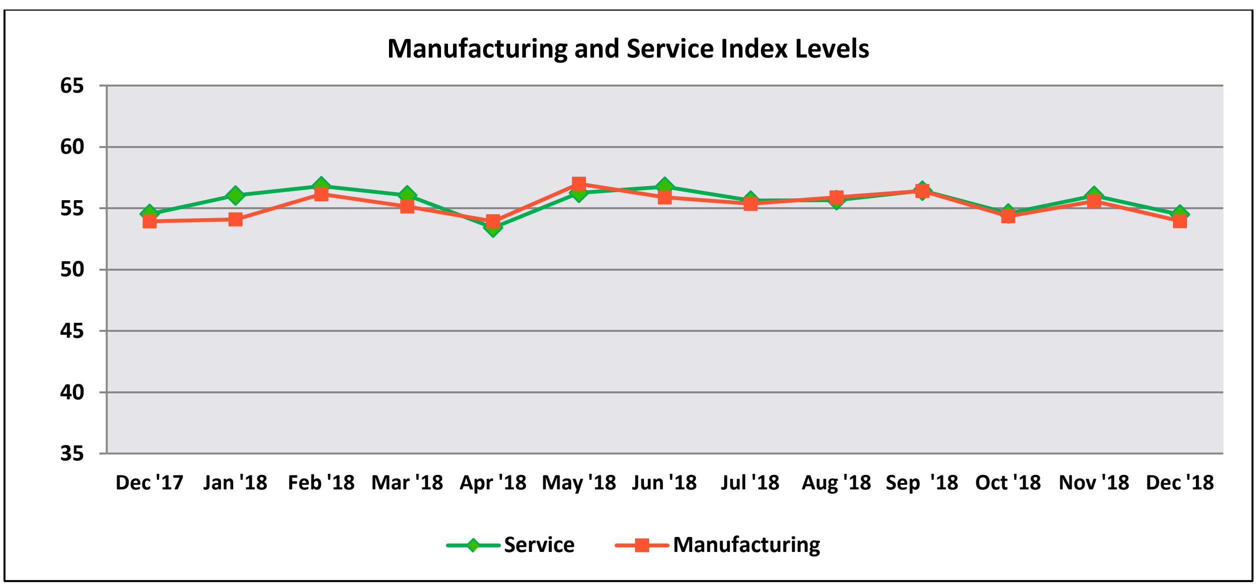
The variability was less pronounced in the nonfavorable categories. The rejections of credit applications actually improved a little as it went from 49.7 to 51.2. "Given that new applications were down, this is good news indeed because it suggests the applications that are being submitted are better than has been the case in the past," Kuehl said. "Either that or standards are being lowered." The accounts placed for collection also improved, but remained stuck in contraction territory at 49.1 from 47.2 last month. The disputes category stayed almost exactly where it had been with a reading of 50.5 compared to 50.6. The dollar amount beyond terms took a real tumble, which is concerning. It was in expansion territory at 54.3 just a month ago and now it has fallen into contraction territory with a reading of 48.5. This is not good since this is often the precursor to deeper issues down the road. The dollar amount of customer deductions remained stable as it only shifted from 50.7 to 50.3 and remained in expansion territory by the skin of its teeth. The filings for bankruptcies went from 54.9 to 55.6, back to the numbers seen earlier this summer.

Service Sector **(seasonally adjusted)**	**Dec '17**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**
Sales	59.2	63.3	67.8	65.8	65.5	69.6	70.1	65.3	63.4	69.4	63.2	64.9	59.0
New credit applications	58.2	61.8	61.5	63.0	63.6	65.1	60.9	63.0	63.5	62.0	61.9	62.7	58.2
Dollar collections	59.4	58.6	63.0	59.8	47.3	61.5	63.0	60.5	62.9	66.5	56.4	60.1	59.6
Amount of credit extended	63.0	65.1	66.9	67.2	66.2	67.2	66.8	67.2	66.7	65.8	65.2	65.2	63.0
Index of favorable factors	**59.9**	**62.2**	**64.8**	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**
Rejections of credit applications	51.2	51.8	51.5	52.4	49.5	49.2	51.8	51.5	50.7	50.5	50.9	49.7	51.2
Accounts placed for collection	49.3	52.1	49.6	49.7	47.7	46.7	52.0	49.3	48.5	49.2	48.4	47.2	49.1
Disputes	50.7	50.9	51.6	49.3	47.9	49.3	48.6	48.3	47.0	46.4	49.1	50.6	50.5
Dollar amount beyond terms	48.4	49.0	51.3	47.8	46.0	48.5	49.7	46.8	48.6	49.6	46.3	54.3	48.5
Dollar amount of customer deductions	50.4	52.7	50.5	50.9	48.3	50.9	49.6	48.8	49.3	49.7	51.1	50.7	50.3
Filings for bankruptcies	55.7	55.0	54.4	54.8	52.4	54.8	55.1	55.8	55.9	55.3	53.2	54.9	55.6
Index of unfavorable factors	**51.0**	**51.9**	**51.5**	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**
NACM Service CMI	**54.5**	**56.0**	**56.8**	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**



December 2018 versus December 2017

“There are some early warnings starting to show up as the favorables are sagging for the first time in a year,” said Kuehl. “At this point, the reason could be seasonal, but if the trend extends to next month, there will be more concerns about the coming year.”



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 December, 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	As this item becomes higher, it means customers are taking longer to pay.

beyond terms	
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 13,000 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.

Source: National Association of Credit Management

Contacts: Michael Miller, 410-740-5560
Andrew Michaels, 410-740-5560
Christie Citranglo, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National