Report for April 2016

Issued April 29, 2016

National Association of Credit Management

Combined Sectors

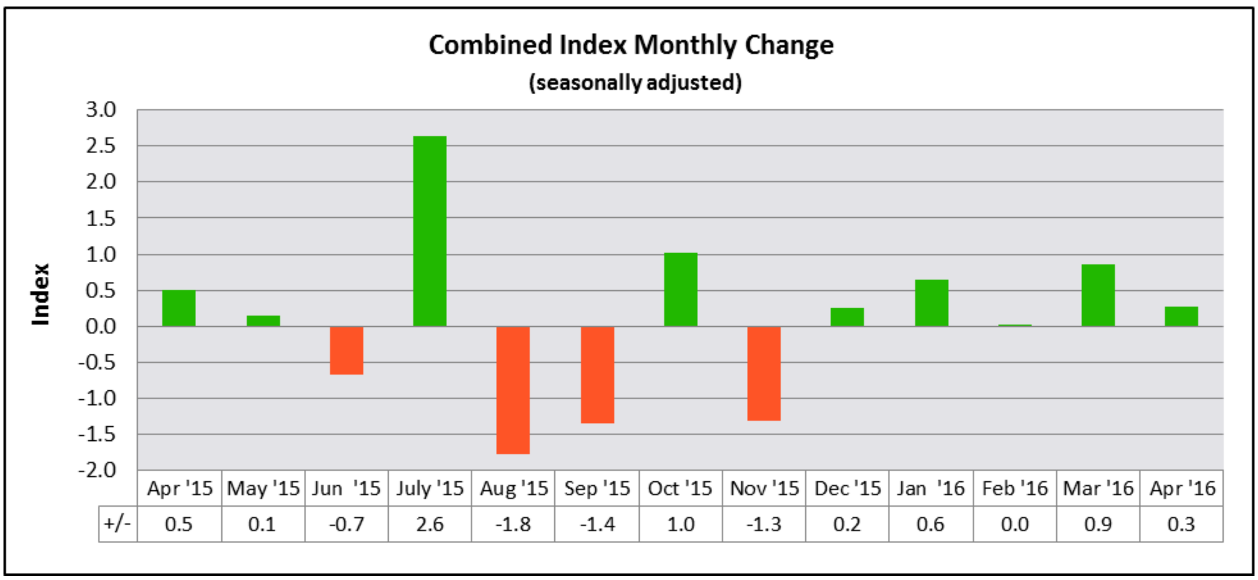
It would appear the Credit Managers' Index (CMI) is on a roll. However, there is always a chance of a reversal, as we all know how capricious the economy can be. This marks the fifth month in a row of gains. At 54.6, the combined index score is at the highest level it has been since July, which was such a robust month. There was a dramatic hike in the data for the month that was not subsequently sustained. The short answer for what might have accounted for that is: anticipation. Many of the measures of the economy had spiked in July along with the CMI, and there had been a very strong second quarter. The thinking was that a real corner had been turned and the remainder of the year would be equally strong. Momentum was lost in August and the economy slumped, as reflected in a steady deterioration of the CMI numbers then. The difference between last summer and now is that there has been a consistent build in the data, which would suggest more sustainability.

Improvement in the unfavorable factors categories was enough to offset a slight dip in the favorable factors. "This indicates that there are some signs that troubled companies are coming out of their crises, while stronger companies continue to grow, albeit at a slower pace," said NACM Economist Chris Kuehl, Ph.D. The combined favorable number slipped from 60 to 59.2, and the combined unfavorable number dropped from 50.6 to 51.6. When one breaks these numbers down to the subsectors, there are some pretty solid trends manifesting. The sales numbers went from 59.2 to 59.8, as close to the 60s as it has been in almost a year. New credit applications slipped a bit from 59.8 to 58.5. Kuehl explained this by saying it "seems to be due to some pullback in sectors that are not quite sure what awaits them the remainder of this year, especially the export-centered businesses." Dollar collections data also slid from 59.6 to 57.5, and this is a bit of concern. "Usually, the dollar collections data improves, as there is more demand for credit because it is far easier to ask for additional credit if one is current with the creditor," he said. Amount of credit extended slipped as well, but it stayed in the 60s, going from 61.7 to 60.9. "It was not a bad month by any stretch," he noted, "but some of the momentum from the previous month has slowed."

The good news this month came from unfavorable categories that signaled some recovery in companies that had been facing financial issues previously. Rejections of credit applications improved from 51.2 to 52.2 and indicated that while there may be slightly fewer applicants, they are better ones in terms of creditworthiness. There was also a big improvement in the category of accounts placed for collection, from 48.5 to 50.9. This marks the first time it has been above the 50 mark this year. Numbers for disputes stayed right where it was last month at 50.8, and the reading for dollar amount beyond terms improved from 50.8 to 51.2. This is the best reading for the category in more than a year and a half, which is very encouraging. Reduction in slow pays is a sign of potentially more active credit requests. Dollar amount of customer deductions also went back into the 50s, as it shifted from 49.8 to 50.7. The readings for filings for bankruptcies tracked back up by going from 52.2 to 53.8. This is the first time that all of the unfavorable readings were above 50 in close to two years, and that is a significant development.

"To some degree, these numbers suggest that companies that were on the ropes have finally reached the end," Kuehl said. "They are no longer driving data down, but there is also evidence that the improved favorable data has sparked some recovery and growth, allowing businesses to get back in the game as far as expansion and the need for additional credit."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16
Sales	59.1	57.1	56.6	65.1	57.9	56.4	58.3	56.0	55.0	55.8	56.8	59.2	59.8
New credit applications	58.6	58.5	60.5	60.8	57.7	58.1	58.9	58.0	56.4	58.1	58.2	59.8	58.5
Dollar collections	58.8	57.5	56.8	61.9	58.3	56.4	56.7	55.7	55.8	57.8	58.3	59.6	57.5
Amount of credit extended	62.6	62.0	64.5	66.4	63.0	60.1	63.7	61.0	59.4	61.0	61.2	61.7	60.9
Index of favorable factors	**59.8**	58.8	**59.6**	**63.5**	**59.2**	**57.7**	**59.4**	**57.7**	**56.6**	**58.2**	**58.6**	**60.0**	**59.2**
Rejections of credit applications	52.3	51.9	50.8	51.8	51.3	51.3	51.4	51.0	52.8	52.2	52.2	51.2	52.2
Accounts placed for collection	49.8	51.1	47.8	50.3	51.2	49.3	50.0	47.1	50.2	49.4	49.0	48.5	50.9
Disputes	47.2	48.0	48.2	49.9	49.5	47.5	48.5	48.4	48.6	48.6	49.7	50.8	50.8
Dollar amount beyond terms	48.8	50.7	46.8	49.1	49.3	47.0	47.8	47.4	48.0	48.6	47.5	50.8	51.2
Dollar amount of customer deductions	47.4	47.8	49.5	49.3	49.9	49.4	50.1	48.9	48.5	49.5	49.5	49.8	50.7
Filings for bankruptcies	54.6	56.0	52.5	55.6	54.4	53.3	53.6	52.5	53.7	53.8	52.6	52.2	53.8
Index of unfavorable factors	**50.0**	**50.9**	**49.2**	**51.0**	**50.9**	**49.7**	**50.2**	**49.2**	**50.3**	**50.3**	**50.1**	**50.6**	**51.6**
NACM Combined CMI	**53.9**	**54.1**	**53.4**	**56.0**	**54.2**	**52.9**	**53.9**	**52.6**	**52.8**	**53.5**	**53.5**	**54.3**	**54.6**



Manufacturing Sector

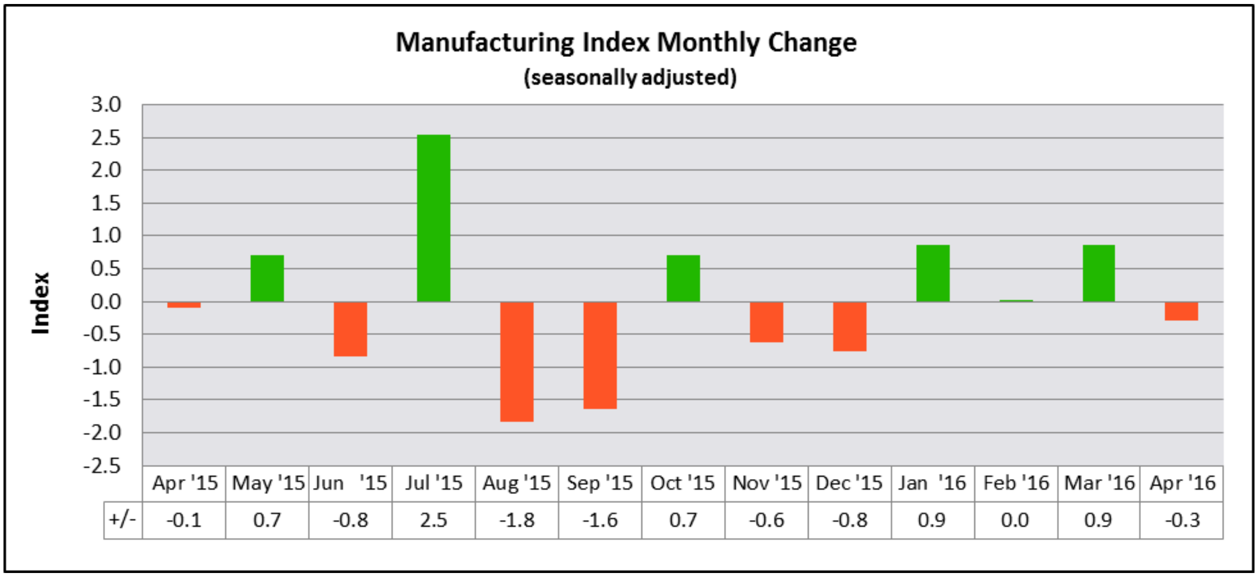
Overall, data for the manufacturing sector trailed the robust levels of the combined index score and that of the service sector, but it was not exactly bad either. There was a slowdown in momentum, but the numbers still added up to expansion. The total manufacturing score went from 53.3 to 53, a pretty modest decline. The favorable index slipped quite a bit, but it remains in a comfortable range. It was 58.2 and is now 56.2, while the unfavorable index improved from 50.1 to 50.9.

Subcategories showed quite a bit of movement. Sales slid from 57.6 to 56.3. It appears the majority of the reduction was due to the continued crisis in the oil and gas sector. New credit applications numbers also fell from 56.8 to 55.3. There seems to be less demand for credit in most sectors but not all. The diversity of the manufacturing community has been on display of late. The biggest drop was in dollar collections as this number went from 58.2 to 54.9. “Of all the data this month, these numbers are the most concerning because they have not been this low in almost two years,” said Kuehl. “It would appear there is more sluggish response to credit obligations at the moment.” The amount of credit extended drifted out of the 60s, going from 60.2 to 58.4. “These are not encouraging numbers to be sure,” he added, “but it is important to note that all of them are well within the comfort zone as far as expansion is concerned.”

Numbers are somewhat more encouraging as far as the unfavorable factors, and that is certainly good news. The interesting data are in the subcategories. Rejections of credit applications improved a little, from 51.1 to 51.8, suggesting there may be fewer applications, but they are generally of better quality. Accounts placed for collection reached above 50 for the first time since last August as the reading moved from 48.2 to 50.3. The disputes category did not provide the same good news as it slipped from 49.4 to 48.7. Dollar amount beyond terms dropped slightly from 51.9 to 51.4, but the good news is that the category stayed in the expansion zone, maintaining a somewhat comfortable margin. Dollar amount of customer deductions clawed a little closer to expansion, as it went from 48.2 to 49.5, and filings for bankruptcies improved from 51.6 to 53.7.

“The data show a significant amount of variation according to the manufacturing sector under discussion,” Kuehl said. “The oil and gas sector is still in the doldrums, but the automotive and aerospace sectors are both doing relatively well. There are still issues in export-centered manufacturing, but there were some gains in sectors where there has been more capital investment such as health care and even some agricultural areas.”

Manufacturing Sector (seasonally adjusted)	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16
Sales	57.0	56.4	56.8	66.0	56.4	55.6	57.7	55.5	51.9	54.3	54.7	57.6	56.3
New credit applications	58.7	58.1	58.8	60.5	56.1	56.6	57.3	57.1	54.0	55.4	53.7	56.8	55.3
Dollar collections	57.0	55.1	58.2	59.4	57.8	56.7	56.4	55.6	55.0	55.9	56.2	58.2	54.9
Amount of credit extended	60.9	62.3	62.7	66.5	63.0	57.1	61.8	59.0	55.4	59.3	58.2	60.2	58.4
Index of favorable factors	**58.4**	**58.0**	**59.1**	**63.1**	**58.3**	**56.5**	**58.3**	**56.8**	**54.1**	**56.2**	**55.7**	**58.2**	**56.2**
Rejections of credit applications	53.2	53.0	49.5	52.6	51.8	51.5	51.5	52.0	54.1	52.4	52.4	51.1	51.8
Accounts placed for collection	50.8	51.6	48.3	49.7	50.7	48.5	49.5	48.6	49.3	48.5	48.6	48.2	50.3
Disputes	46.9	47.7	47.9	48.5	48.6	47.7	46.3	47.8	47.1	47.1	49.8	49.4	48.7
Dollar amount beyond terms	48.3	50.6	47.5	49.8	51.1	46.6	47.3	48.4	48.8	50.3	49.6	51.9	51.4
Dollar amount of customer deductions	45.7	48.7	49.8	48.6	48.8	49.2	48.5	47.9	47.6	49.0	49.2	48.2	49.5
Filings for bankruptcies	54.8	56.8	52.3	55.7	54.9	53.1	53.6	51.7	52.8	52.3	52.1	51.6	53.7
Index of unfavorable factors	**50.0**	**51.4**	**49.2**	**50.8**	**51.0**	**49.5**	**49.4**	**49.4**	**49.9**	**49.9**	**50.3**	**50.1**	**50.9**
NACM Manufacturing CMI	**53.3**	**54.0**	**53.2**	**55.7**	**53.9**	**52.3**	**53.0**	**52.3**	**51.6**	**52.5**	**52.5**	**53.3**	**53.0**



Service Sector

The star this month was the service sector because the gains were impressive compared with where they have been. This is good news indeed for a country that is 80% dependent on the sector for jobs and overall GDP growth. The favorable index total reached even further into the 60s with a reading that went from 61.9 to 62.1. There was also improvement in the unfavorable index total, which increased from 51.0 to 52.3. For the second month in a row, all of the favorable categories were in the 60s range, and for the first time in almost two years, all of the unfavorable factors exceeded 50. These are good trends by anyone's definition.

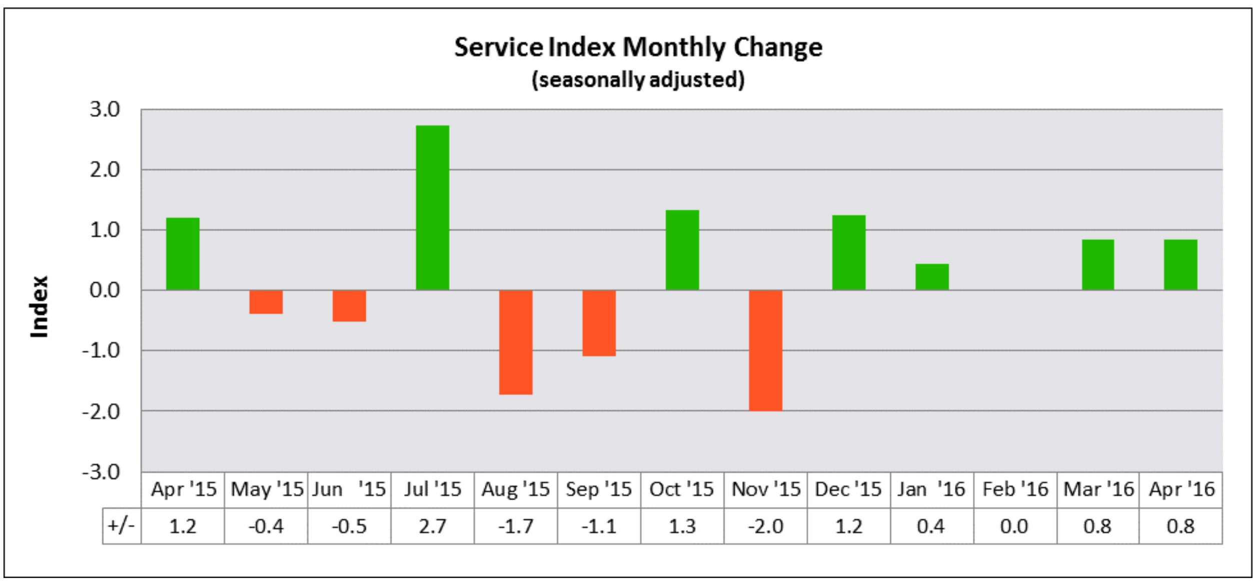
The subcategories all showed real progress. Sales numbers jumped from 60.7 to 63.2, with only last July reporting better data. The new credit applications number dipped a little, but it stayed in the 60s with a reading of 61.8 after a 62.8 last month. "There is some evidence that fewer applications are taking place, but those submitted are of better quality," Kuehl said. The dollar collections reading also slipped slightly, but it stayed in the 60s, as it went from 61.0 to 60. "This remains the biggest worry in the CMI this month given the bad news that came from the manufacturing sector in the same category," he noted. Amount of credit extended improved from 63.1 to 63.5, which suggests those applying for credit are among the better companies and are the ones asking for more credit.

The unfavorable data also improved this month, which is a good sign given that this is not the time of year that sees strong retail growth. "If these positive developments continue," he said, "there may be some good news down the road as the summer months bring more retail and construction activity."

There was improvement in the category of rejections of credit applications (51.4 to 52.6), which is consistent with the favorable data. There are fewer applications, but more credit has been made available. This pattern has been seen before, and it shows that better creditors are getting more active. Accounts placed for collection finally escaped the 40s by jumping from 48.8 to 51.6, the highest level it has seen since last August. The disputes category improved slightly, from 52.3 to 52.9. The reading for dollar amount beyond terms also exited the contraction zone as it moved from 49.6 to 51.1, the highest point reached in over two years. The dollar amount of customer deductions gained a little (51.3 to 51.8), and filings for bankruptcies improved from 52.9 to 53.8.

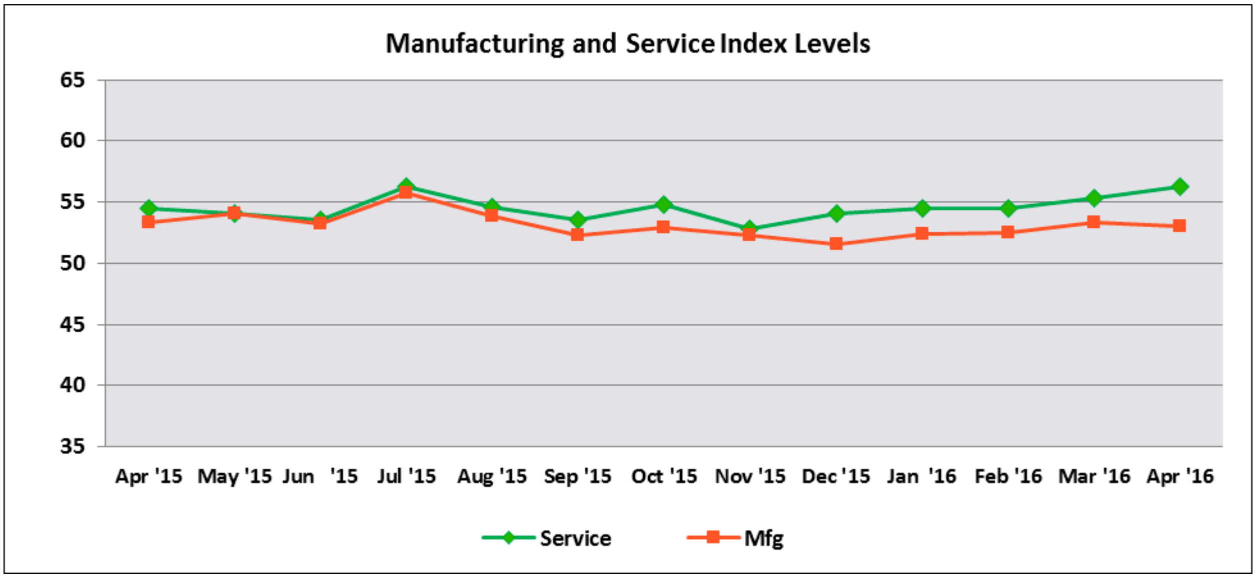
"The overall sense is that there are some major gains showing up in the service sector—led by the health care, retail and construction sectors," said Kuehl. "The data on housing have been mixed, but there has been more activity as far as commercial construction is concerned. Retailers are in their slow season, but there have been glimmers of hope as the consumer seems to have started to react to the low prices at the pump. The expectation is that this will be a good summer driving season, and that will help retail and the hospitality sector immensely."

Service Sector (seasonally adjusted)	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16
Sales	61.1	57.9	56.3	64.3	59.5	57.2	58.9	56.5	58.1	57.4	58.8	60.7	63.2
New credit applications	58.5	58.9	62.2	61.0	59.3	59.5	60.5	58.9	58.8	60.9	62.7	62.8	61.8
Dollar collections	60.7	60.0	55.4	64.3	58.8	56.1	57.0	55.9	56.6	59.7	60.4	61.0	60.0
Amount of credit extended	64.4	61.8	66.3	66.3	63.1	63.2	65.6	63.1	63.4	62.7	64.1	63.1	63.5
Index of favorable factors	**61.2**	**59.6**	**60.0**	**64.0**	**60.2**	**59.0**	**60.5**	**58.6**	**59.2**	**60.2**	**61.5**	**61.9**	**62.1**
Rejections of credit applications	51.3	50.8	52.0	51.0	50.8	51.1	51.4	50.0	51.6	52.0	51.9	51.4	52.6
Accounts placed for collection	48.7	50.5	47.3	50.9	51.7	50.0	50.6	45.6	51.1	50.3	49.4	48.8	51.6
Disputes	47.5	48.4	48.5	51.3	50.4	47.4	50.7	49.0	50.0	50.1	49.7	52.3	52.9
Dollar amount beyond terms	49.2	50.7	46.1	48.5	47.5	47.4	48.4	46.3	47.3	46.8	45.5	49.6	51.1
Dollar amount of customer deductions	49.1	46.9	49.24	50.0	51.0	49.7	51.7	49.8	49.4	50.0	49.8	51.3	51.8
Filings for bankruptcies	54.3	55.1	52.6	55.6	54.0	53.6	53.6	53.2	54.5	55.3	53.1	52.9	53.8
Index of unfavorable factors	**50.0**	**50.4**	**49.3**	**51.2**	**50.9**	**49.9**	**51.1**	**49.0**	**50.6**	**50.8**	**49.9**	**51.0**	**52.3**
NACM Service CMI	**54.5**	**54.1**	**53.6**	**56.3**	**54.6**	**53.5**	**54.8**	**52.8**	**54.1**	**54.5**	**54.5**	**55.4**	**56.2**



April 2016 versus April 2015

"The trend over the last few months has been about as encouraging as anything seen in the last year. Data started to show recovery at the end of last year; and despite all the turmoil, there has been growth in both manufacturing and service. The outlook for the next few months is encouraging," Kuehl concluded.



Methodology Appendix

CMI data has 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:

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

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 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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