Report for April 2018

Issued April 30, 2018

National Association of Credit Management

Combined Sectors

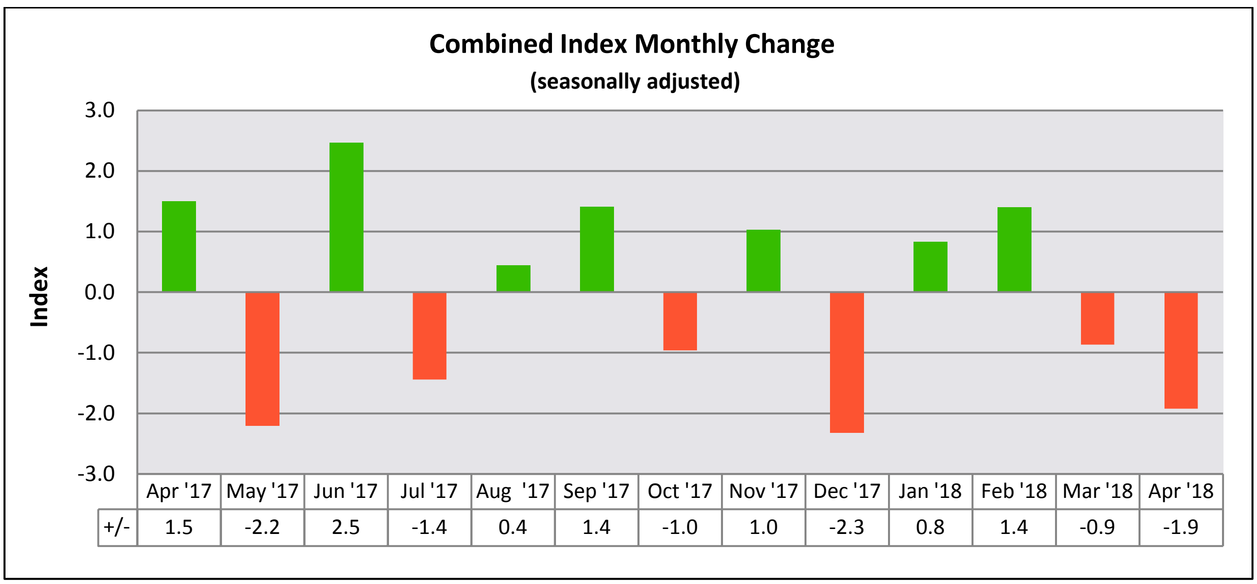
There are some growing signs of economic distress showing up. Now we can add the results of the latest Credit Managers' Index (CMI) to that list. "The numbers are not awful at this point—many of the indicators are still solidly in expansion territory, but the warning lights are starting to blink," said NACM Economist Chris Kuehl, Ph.D. "In just the last few weeks, there has been more concern over inflation and the eventual Fed reaction. Yields for the 10-year treasury just broke through the 3% psychological barrier. That has many wondering what interest rates will look like. Some of that caution seems to be showing up among credit managers as well."

The combined index number slipped to 53.7, a low not seen since May of 2017—nearly a year ago and before all the growth activity taking place at the start of this year. The index of favorable factors remains in the 60s, but just barely at 60.2. The March reading was 63.2. There is really no cause for much alarm at this point as 60.2 is still an awfully strong number, but the trend is not what would be preferred. The sales reading actually went up from 64.1 to 65.8, while new credit applications stayed stable with a reading of 62.2 following last month's 62.7. The stunner this month is in dollar collections. The collapse is almost hard to fathom as the reading fell out of the 60s with a resounding thud—all the way to deep into the contraction zone (a reading under 50) at 46.7. Kuehl suggests that this may be an anomaly, but it would be an enormous change and signals a level of distress that was not anticipated. The amount of credit extended also remained about as it has been at 66.1 compared to 66.2 in March.

The combined score for the unfavorable factors also showed some distress as well, with a reading of 49.4 compared to 50.6 the month prior. He noted that the last time the index was in the 40s was in July of last year. All but two of the readings are now in the contraction zone. The rejections of credit applications slipped a bit, but stayed above 50 with a reading of 51 after March's 53.3. The accounts placed for collection reading slid out of the expansion zone as it fell to 48.7 after having been at 50.4. The disputes reading actually improved a little, but remained in the contraction zone with a reading of 48 after falling to 47.7 in March. The dollar amount beyond terms data also fell again and now sits at 46.4 as compared to 47.2. This is the lowest point reached since May of last year. That constitutes another warning shot. "It looks like creditors are having more challenges as far as staying current, which may be contributing to the very weak dollar collection numbers," explained Kuehl. There was also a reduction in the numbers as far as dollar amount of customer deductions (from 49.8 to 48.4). The only other reading that has managed to stay in the expansion zone was filings for bankruptcies as it went from 55.2 to 53.8.

Kuehl summarized the findings for the combined index by saying that the overall sense of the data this month is reduced enthusiasm. There is not an immediate crisis manifesting as long as the favorable factors are in the 60s, but the collapse in the dollar collection numbers is worrying. This may be nothing more than a timing anomaly—there have been other examples of this in the data this year. Extreme weather has taken its toll and there has been a lot of uncertainty regarding trade and tariffs. The fact is that both dollar collections and slow pays have been volatile this year. This may be another example of that volatility. As the economy has recovered with some speed, there have been companies that have been forced to try to keep pace with their competitors, but really don't have the ability to do so without lots of credit. Now they may be struggling to keep on top of that debt. The economy as a whole has continued to grow, but some sectors have not been as robust as others—retail is still down and there have been stutters in manufacturing and export-oriented sectors.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18
Sales	63.8	60.6	66.5	62.8	62.2	67.3	66.8	68.3	59.2	63.0	66.8	64.1	65.8
New credit applications	62.0	59.3	59.8	59.7	61.2	60.5	62.8	63.7	57.3	59.8	63.3	62.7	62.2
Dollar collections	61.2	56.7	62.5	60.2	58.9	60.0	60.2	63.1	59.1	58.7	62.9	59.6	46.7
Amount of credit extended	67.2	63.6	66.8	64.1	66.7	66.3	65.5	67.8	61.8	64.3	66.4	66.2	66.1
Index of favorable factors	**63.6**	**60.0**	**63.9**	**61.7**	**62.2**	**63.5**	**63.8**	**65.7**	**59.4**	**61.4**	**64.9**	**63.2**	**60.2**
Rejections of credit applications	52.1	52.4	52.6	51.9	52.2	52.5	51.8	52.4	51.4	51.8	51.5	53.3	51.0
Accounts placed for collection	49.0	48.5	49.3	48.9	48.7	50.3	49.5	50.5	49.8	51.7	49.8	50.4	48.7
Disputes	49.1	47.9	50.4	48.8	49.1	51.7	47.6	48.3	49.7	49.6	49.6	47.7	48.0
Dollar amount beyond terms	51.0	45.9	50.4	48.3	47.4	50.4	47.3	47.5	49.3	47.0	49.9	47.2	46.4
Dollar amount of customer deductions	49.2	48.7	49.1	48.1	49.2	49.8	48.7	48.9	49.7	49.7	49.1	49.8	48.4
Filings for bankruptcies	53.5	52.7	53.4	53.6	55.3	56.2	55.3	55.1	55.0	55.2	55.4	55.2	53.8
Index of unfavorable factors	**50.6**	**49.3**	**50.9**	**49.9**	**50.3**	**51.8**	**50.0**	**50.4**	**50.8**	**50.8**	**50.9**	**50.6**	**49.4**
NACM Combined CMI	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**	**56.5**	**55.5**	**56.6**	**54.2**	**55.1**	**56.5**	**55.6**	**53.7**



Manufacturing Sector

There has been a lot of turmoil in the manufacturing community of late. The announced steel and aluminum tariffs have hit costs very hard. Even with all the exemptions that have been subsequently announced, there is concern that prices will continue to escalate. At the same time, there has been a general sense that oil prices are on their way up to old highs. Nearly every manufacturer has been reporting that logistics costs are going way up as well. This is on top of the ongoing issue of labor shortages, which has only become more acute with each passing year.

The combined score for manufacturing slipped from 55.2 to 54, taking the numbers back to where they were in January. This is not a massive decline as of yet, but it had been hoped that positive trends would start to dominate by this time. The favorable factors fell out of the 60s, but not by much as the latest reading is 59.8 after being at

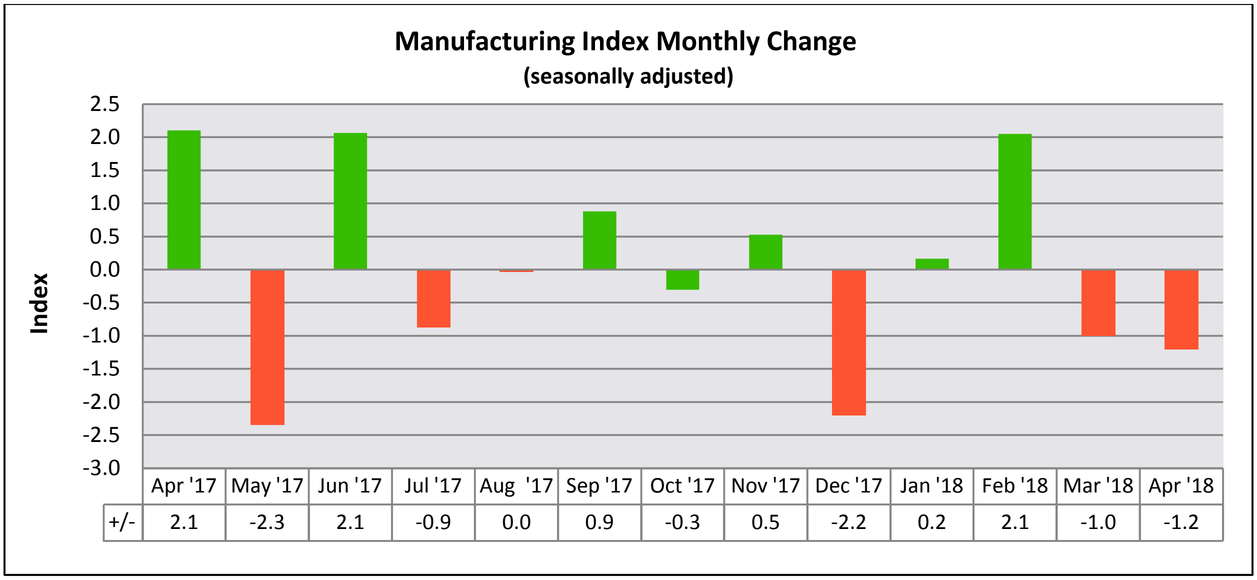
62.4 in March. The unfavorable index stayed almost the same as last month—50.1 after a reading of 50.3—still hugging the expansion zone by the skin of its teeth.

The sales category improved from 62.5 to 66.2. That takes these numbers close to what they were in June of last year (66.9). The new credit applications numbers shifted down a little, but stayed in the expansion zone by moving from 62.4 to 60.8. The big change was in dollar collections where the numbers cratered. The reading was at 59.5 in March and is now at 46.1. Similar to the combined score (59.6 to 46.7), this is a very dramatic change. “It is not altogether clear this change is permanent—there are some anomalies that may have played a role,” said Kuehl. The amount of credit extended also improved a little to 66 from the previous month’s reading of 65.3.

The data in the unfavorable categories stayed about the same with most of the readings close to expansion status, but still stuck in the contraction zone. The rejections of credit applications shifted down from 54.1 to 52.4, but at least it is still in expansion territory. The accounts placed for collection dropped out of the expansion zone with a reading of 49.8 after being at 51. The disputes category improved, but still languishes in contraction territory as it moved from 46 to 48. The dollar amount beyond terms stayed about where it was last month with a reading of 46.8 compared to 46.5. The dollar amount of customer deductions dropped very slightly from 48.7 to 48.4—essentially staying the same. Finally, the filings for bankruptcies reading went from 55.6 to 55.1. In all, these numbers remained very similar to what they have been—not really great but not getting appreciably worse.

“The sense is that there may be a breather under way—a time that manufactures are taking to sort out some of the issues surrounding trade wars and tariffs and the overall expected pace of growth now that interest rates are headed up and markets are getting nervous,” he concluded.

Manufacturing Sector (seasonally adjusted)	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18
Sales	64.7	59.5	66.9	64.0	60.8	65.0	67.4	68.2	59.2	62.7	65.8	62.5	66.2
New credit applications	61.4	58.6	59.8	60.6	61.8	59.0	61.8	64.5	56.5	57.8	65.2	62.4	60.8
Dollar collections	61.3	57.3	61.0	61.1	59.3	60.4	59.5	60.9	58.9	58.7	62.8	59.5	46.1
Amount of credit extended	67.8	63.4	67.4	64.5	66.1	64.0	65.2	67.4	60.7	63.4	65.9	65.3	66.0
Index of favorable factors	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**	**62.1**	**63.5**	**65.3**	**58.8**	**60.7**	**64.9**	**62.4**	**59.8**
Rejections of credit applications	52.9	52.6	53.3	52.9	52.8	52.5	53.7	52.6	51.5	51.8	51.5	54.1	52.4
Accounts placed for collection	50.1	49.5	49.8	49.8	49.7	50.1	48.6	51.5	50.3	51.2	50.1	51.0	49.8
Disputes	49.2	48.0	49.6	47.8	47.3	53.0	48.2	47.1	48.8	48.4	47.6	46.0	48.0
Dollar amount beyond terms	51.5	48.1	49.3	49.4	49.2	51.9	48.6	48.2	50.1	45.0	48.5	46.5	46.8
Dollar amount of customer deductions	49.1	48.6	48.7	47.6	48.0	48.5	47.1	45.7	49.1	46.6	47.7	48.7	48.4
Filings for bankruptcies	54.1	53.1	53.6	53.0	55.5	54.7	56.0	55.4	54.4	55.3	56.3	55.6	55.1
Index of unfavorable factors	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**	**51.8**	**50.4**	**50.1**	**50.7**	**49.7**	**50.3**	**50.3**	**50.1**
NACM Manufacturing CMI	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**	**55.9**	**55.6**	**56.1**	**53.9**	**54.1**	**56.2**	**55.2**	**54.0**



Service Sector

The service category followed the same trend as manufacturing, but with some fairly significant differences. The overall score dipped from 56.1 to 53.4. That takes the numbers back to what they were in December—still reasonably respectable. The index of favorable factors remained in the 60s, but it was less robust than in March as it slipped from 63.9 to 60.6. The index of unfavorable factors slid out of the expansion zone by moving from 50.8 to 48.6—a little distressing.

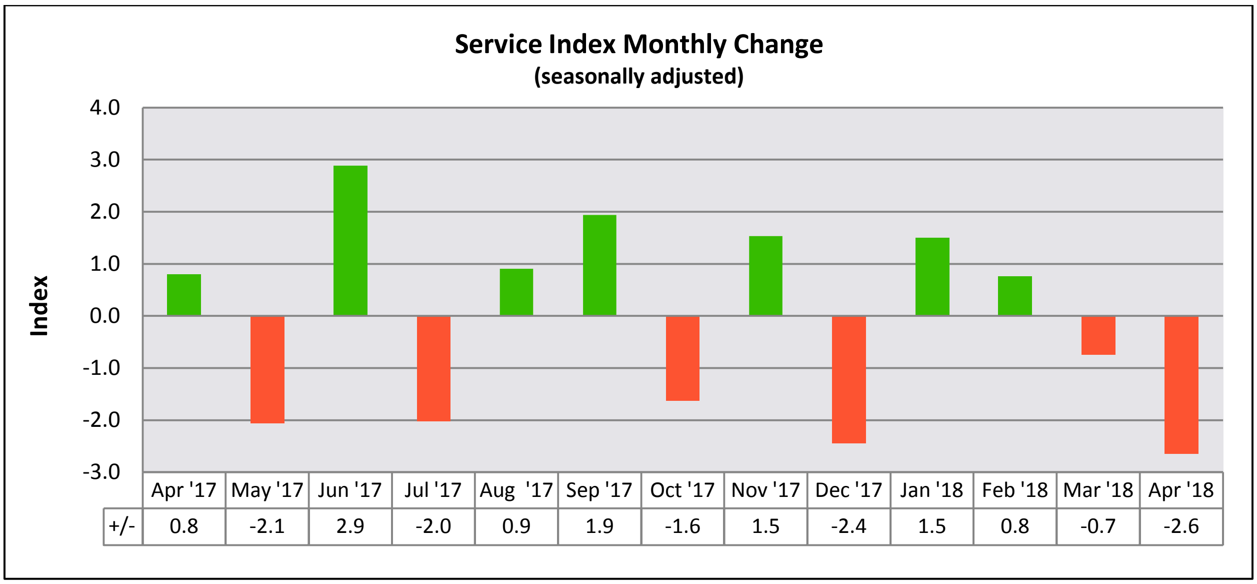
The sales category fell slightly from 65.8 to 65.5, so there was very little change noted and the numbers remain very strong. The new credit applications category went from 63 to 63.6, a very positive trend as well. Just as with manufacturing, the real damage was done in the dollar collections category with a precipitous drop from 59.8 to 47.3. “Also, as with manufacturing, it is not really clear what has been behind this cratering,” said Kuehl. “There are some anomalies that can be attributed to weather and some of the overall uncertainty on trade and tariffs, but time will tell.” The amount of credit extended slipped from 67.2 to 66.2, but these are still very strong numbers.

Some of the more dramatic activity was seen in the unfavorable categories. The rejections of credit applications fell under 50 with a reading of 49.5 as compared to the 52.4 notched in March. The accounts placed for collection slipped deeper into contraction territory with a reading of 47.7 as compared to the 49.7 last month. There was also a dip in the disputes reading (49.3 to 47.9). The dollar amount beyond terms also fell back a bit from 47.8 to 46. Kuehl noted, “This number is often related to dollar collections data and this suggests that some of the expansion efforts of the service sector have been premature—especially in retail and to some degree in construction.” The dollar amount of customer deductions also experienced a bit of a reversal with numbers this month at 48.3 after being at 50.9 and in expansion territory the month before. The filings for bankruptcies stayed in expansion territory, but slipped a bit from 54.8 to 54.2.

Kuehl said that the biggest concerns are in the retail sectors and construction, but even health care is feeling these pressures.

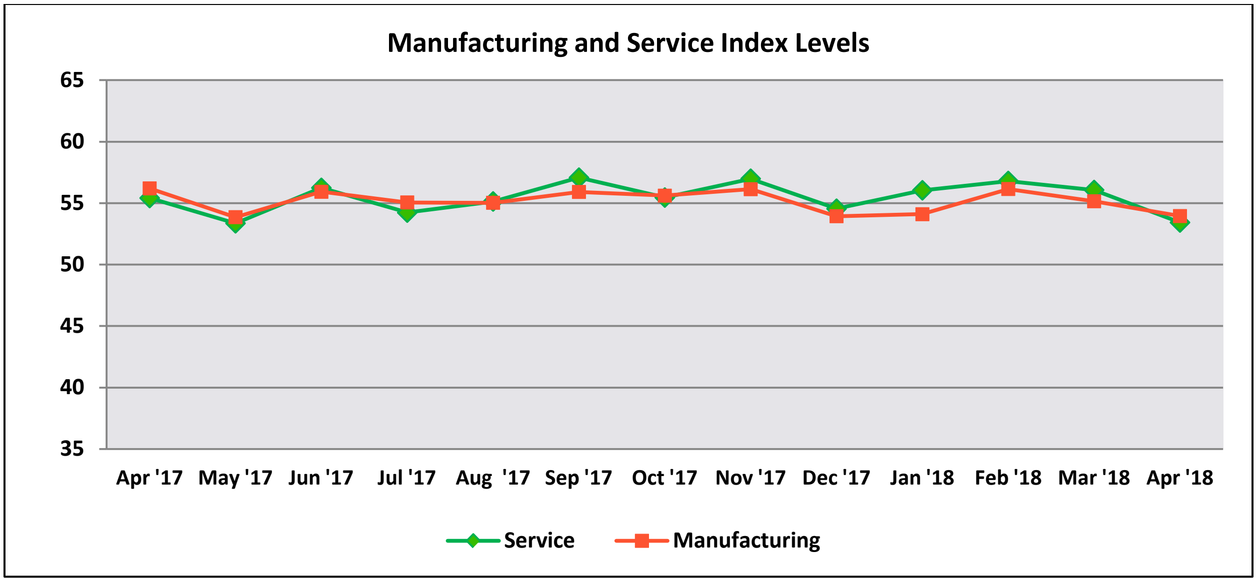
Service Sector (seasonally adjusted)	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18
Sales	62.9	61.7	66.0	61.7	63.6	69.7	66.1	68.4	59.2	63.3	67.8	65.8	65.5
New credit applications	62.6	59.9	59.9	58.8	60.6	62.0	63.7	62.9	58.2	61.8	61.5	63.0	63.6

Dollar collections	61.2	56.0	63.9	59.4	58.6	59.5	61.0	65.4	59.4	58.6	63.0	59.8	47.3
Amount of credit extended	66.5	63.8	66.3	63.8	67.3	68.6	65.9	68.2	63.0	65.1	66.9	67.2	66.2
Index of favorable factors	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**	**64.9**	**64.2**	**66.2**	**59.9**	**62.2**	**64.8**	**63.9**	**60.6**
Rejections of credit applications	51.3	52.3	51.9	50.8	51.5	52.5	49.8	52.3	51.2	51.8	51.5	52.4	49.5
Accounts placed for collection	47.9	47.5	48.9	48.1	47.8	50.6	50.3	49.6	49.3	52.1	49.6	49.7	47.7
Disputes	49.1	47.7	51.3	49.8	50.8	50.3	47.0	49.5	50.7	50.9	51.6	49.3	47.9
Dollar amount beyond terms	50.5	43.6	51.6	47.2	45.6	49.0	46.1	46.7	48.4	49.0	51.3	47.8	46.0
Dollar amount of customer deductions	49.3	48.9	49.5	48.6	50.4	51.1	50.2	52.1	50.4	52.7	50.5	50.9	48.3
Filings for bankruptcies	52.9	52.3	53.2	54.2	55.2	57.6	54.6	54.7	55.7	55.0	54.4	54.8	52.4
Index of unfavorable factors	**50.2**	**48.7**	**51.1**	**49.8**	**50.2**	**51.8**	**49.7**	**50.8**	**51.0**	**51.9**	**51.5**	**50.8**	**48.6**
NACM Service CMI	**55.4**	**53.4**	**56.2**	**54.2**	**55.1**	**57.1**	**55.5**	**57.0**	**54.5**	**56.0**	**56.8**	**56.1**	**53.4**



April 2018 versus April 2017

"The big mover this month was dollar collections," Kuehl said "as this helped drive both favorable and nonfavorable readings down and shoved some back into contraction territory."



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 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 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.

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Source: National Association of Credit Management

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