# Report for May 2018

**Issued May 31, 2018**
**National Association of Credit Management**

## Combined Sectors

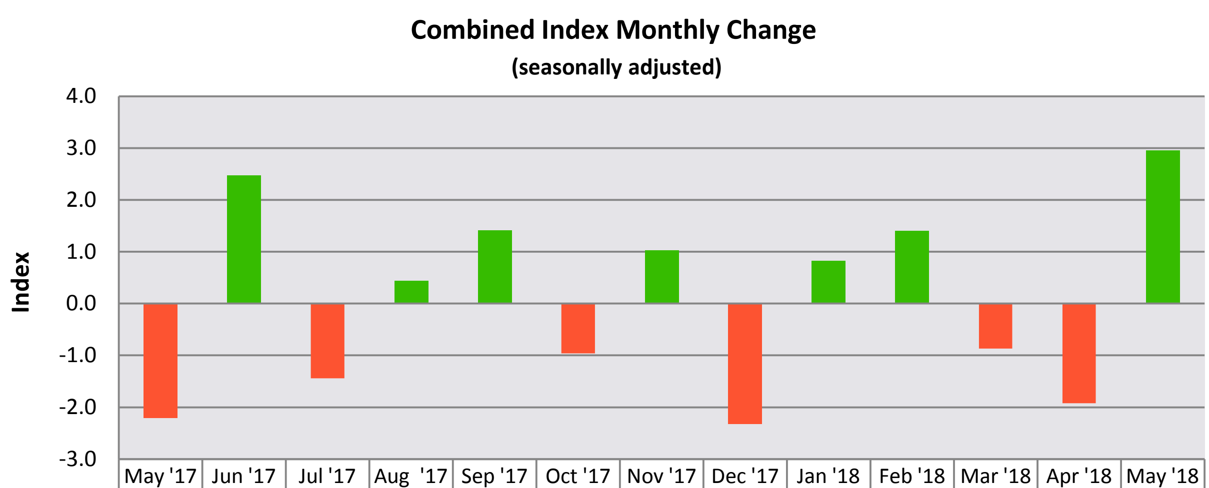
Lately, there have been more than a few sighs of relief heard as people try to review the state of the current economy. Some of the indicators attracting the most attention have stuttered and pointed to big declines only to stage a rebound later. Inflation numbers jumped with the ferment in the Middle East and then calmed. There were also a series of reactions to the steel and aluminum tariffs and other indicators of a trade war. The CMI has had its share of scares as well. "In April's report, the bottom fell out of the dollar collection category, but this month it has bounced back to a more expected position," said NACM Economist Chris Kuehl, Ph.D. "The April reading now seems an anomaly, but one that could occur again. The drop was drastic in April, but there has been up-and-down movement in that category for over a year—just not usually to this extreme."

The combined score for this month's CMI was back to what it had been through most of the year. It now stands at 56.6, nearly the same as it was in February when it stood at 56.5. The index of favorable factors rebounded strongly as well, hitting 65.7. It had not been this high since last November. The index of non-favorable factors recovered a little and left the contraction zone (anything below 50) by moving from 49.4 to 50.6—exactly the same reading as March.

As is generally the case, the interesting data is contained in the sub-index readings. This month looks like a return to positive news across the board as far as the favorable numbers. The sales category jumped as high as it has been since the recession with a reading of 69.6—just a hair shy of 70. "This data tracks with much of the other data releases, such as durable goods orders and capacity utilization, as well as the data from the Purchasing Managers' Index," said Kuehl. The new credit applications data also improved a bit by moving from 62.2 to 63.8, showcasing an active demand for new credit. Next, the controversial dollar collections number launched its way out of the doldrums by moving from 46.7 to 62.5—the same level as was seen in February. "The best theory on this dramatic drop has been that many companies suddenly began to protect their cash flow and stalled their creditors for a while," Kuehl said. "These were the weeks of maximum unease over the impact of the tariff and trade war threats." The last of the favorable readings is amount of credit extended. Here, the change was slight, moving from 66.1 to 66.8.

The unfavorable factors remain generally low, but there is not much indication that conditions are getting any worse. The rejections of credit applications improved just slightly from 51 to 51.3. The accounts placed for collection stayed in the contraction zone, only shifting from 48.7 to 49. The disputes category showed much the same behavior with a slight improvement over what it was the month before (48 to 48.1), continuing to languish in contraction territory. The other marker that is watched as carefully as the dollar collection data is dollar amount beyond terms. It shows that creditors are trying to stretch their terms. This reading is still in contraction territory but not nearly as deeply, moving from 46.4 to 49.4. The dollar amount of customer deductions also stayed in the 40s but improved from 48.4 to 49.7. The filings for bankruptcies remained thoroughly in expansion territory at 56.4 compared to 53.8 in April. Kuehl noted that although these numbers all saw some improvement, the majority of the categories are still showing contraction. Only two of the six are in the 50s, which demonstrates some continued fragility. On the plus side, they are all trending in a generally positive direction and might break into expansion territory sooner than later.

| Combined Manufacturing and Service Sectors (seasonally adjusted) | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 | Dec '17 | Jan '18 | Feb '18 | Mar '18 | Apr '18 | May '18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 60.6 | 66.5 | 62.8 | 62.2 | 67.3 | 66.8 | 68.3 | 59.2 | 63.0 | 66.8 | 64.1 | 65.8 | 69.6 |
| New credit applications | 59.3 | 59.8 | 59.7 | 61.2 | 60.5 | 62.8 | 63.7 | 57.3 | 59.8 | 63.3 | 62.7 | 62.2 | 63.8 |
| Dollar collections | 56.7 | 62.5 | 60.2 | 58.9 | 60.0 | 60.2 | 63.1 | 59.1 | 58.7 | 62.9 | 59.6 | 46.7 | 62.5 |
| Amount of credit extended | 63.6 | 66.8 | 64.1 | 66.7 | 66.3 | 65.5 | 67.8 | 61.8 | 64.3 | 66.4 | 66.2 | 66.1 | 66.8 |
| **Index of favorable factors** | **60.0** | **63.9** | **61.7** | **62.2** | **63.5** | **63.8** | **65.7** | **59.4** | **61.4** | **64.9** | **63.2** | **60.2** | **65.7** |
| Rejections of credit applications | 52.4 | 52.6 | 51.9 | 52.2 | 52.5 | 51.8 | 52.4 | 51.4 | 51.8 | 51.5 | 53.3 | 51.0 | 51.3 |
| Accounts placed for collection | 48.5 | 49.3 | 48.9 | 48.7 | 50.3 | 49.5 | 50.5 | 49.8 | 51.7 | 49.8 | 50.4 | 48.7 | 49.0 |
| Disputes | 47.9 | 50.4 | 48.8 | 49.1 | 51.7 | 47.6 | 48.3 | 49.7 | 49.6 | 49.6 | 47.7 | 48.0 | 48.1 |
| Dollar amount beyond terms | 45.9 | 50.4 | 48.3 | 47.4 | 50.4 | 47.3 | 47.5 | 49.3 | 47.0 | 49.9 | 47.2 | 46.4 | 49.4 |
| Dollar amount of customer deductions | 48.7 | 49.1 | 48.1 | 49.2 | 49.8 | 48.7 | 48.9 | 49.7 | 49.7 | 49.1 | 49.8 | 48.4 | 49.7 |
| Filings for bankruptcies | 52.7 | 53.4 | 53.6 | 55.3 | 56.2 | 55.3 | 55.1 | 55.0 | 55.2 | 55.4 | 55.2 | 53.8 | 56.4 |
| **Index of unfavorable factors** | **49.3** | **50.9** | **49.9** | **50.3** | **51.8** | **50.0** | **50.4** | **50.8** | **50.8** | **50.9** | **50.6** | **49.4** | **50.6** |
| **NACM Combined CMI** | **53.6** | **56.1** | **54.6** | **55.1** | **56.5** | **55.5** | **56.6** | **54.2** | **55.1** | **56.5** | **55.6** | **53.7** | **56.6** |




| | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 | Dec '17 | Jan '18 | Feb '18 | Mar '18 | Apr '18 | May '18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| +/- | -2.2 | 2.5 | -1.4 | 0.4 | 1.4 | -1.0 | 1.0 | -2.3 | 0.8 | 1.4 | -0.9 | -1.9 | 2.9 |

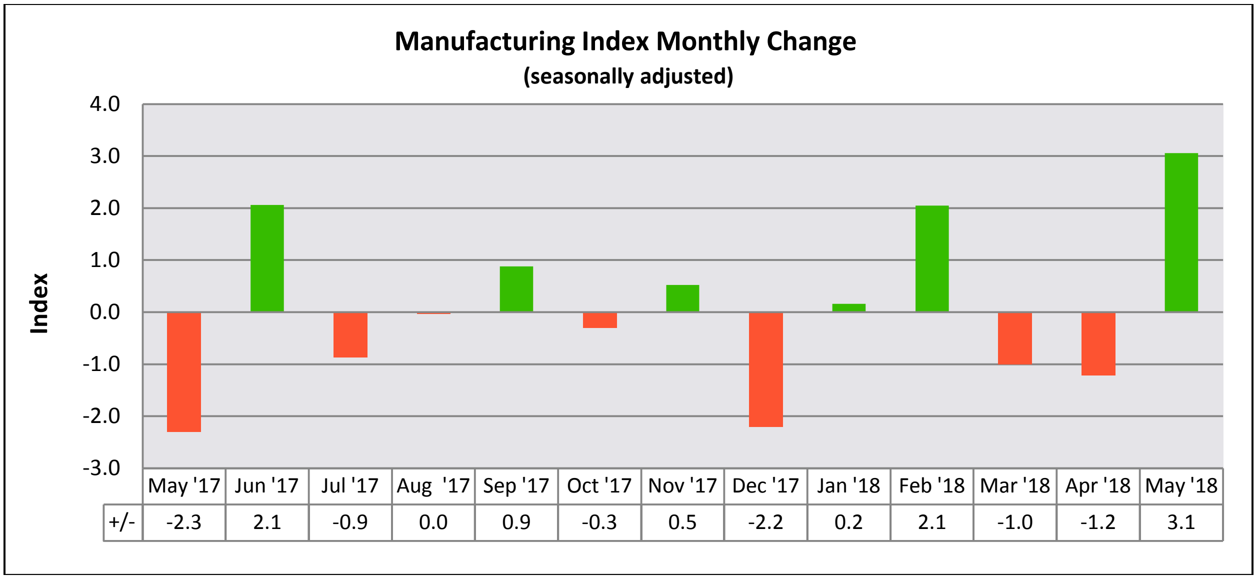
## Manufacturing Sector

“There is generally good news on the manufacturing front, which is more than a little encouraging and somewhat unexpected,” Kuehl said. “The manufacturing sector overall has been riding some impressive waves up and down. The tax cuts at the start of the year really had a stimulating impact on the small- and medium-sized manufacturers because they were able to do the purchasing they had been putting off. On the other hand, the sector was left dealing with the uncertainty of tariffs on key commodities, like steel and aluminum, as well as the looming threat of trade wars with China, NAFTA nations, Europe and almost every other nation they sell to. Much of the data from manufacturing looks like the overall CMI this month.”

The sales category comes very close to the rarified air of the 70s with a reading of 69.6, compared to the 66.2 seen last month. The new credit applications category stayed strong moving from 60.8 to 62.4. The dollar collections data that had collapsed so dramatically the month prior rebounded and is now at 63.5, opposed to the 46.1 that was notched in April. "This anomaly is still a little mysterious and seems related to trepidations regarding cash flow," said Kuehl. The amount of credit extended stayed almost exactly where it had been the month before (66) with a reading of 66.4.

Just as with the overall CMI, there was not that much movement in the unfavorable categories. The rejections of credit applications improved a little from 52.4 to 53.4. "This is good news given the number of new applications. When these readings diverge it means companies that are not all that creditworthy are requesting credit and are subsequently turned down," Kuehl explained. The category of accounts placed for collection surged out of contraction territory with a 51.3 reading compared to 49.8 in April. "This is especially welcoming news since there has been concern that those low dollar collection numbers would next trigger more collection activity," he said. Disputes stayed in contraction territory and slid quite a bit deeper (48 to 46.9). "This is one of the cautions that were triggered by last month's dollar collection fiasco," Kuehl added. In contrast, the dollar amount beyond terms ramped up and escaped the contraction zone with a reading of 50.2 compared to April's 46.8. Again, this was somewhat unexpected good news given the usual link between dollar collection and slow pays. The dollar amount of customer deductions remained right where it was at 48.4. The filings for bankruptcies showed a nice gain to 58. This is the best reading seen in this category in several years and suggests most of the manufacturers are thriving.

| **Manufacturing Sector** (seasonally adjusted) | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 | Dec '17 | Jan '18 | Feb '18 | Mar '18 | Apr '18 | May '18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 59.5 | 66.9 | 64.0 | 60.8 | 65.0 | 67.4 | 68.2 | 59.2 | 62.7 | 65.8 | 62.5 | 66.2 | 69.6 |
| New credit applications | 58.6 | 59.8 | 60.6 | 61.8 | 59.0 | 61.8 | 64.5 | 56.5 | 57.8 | 65.2 | 62.4 | 60.8 | 62.4 |
| Dollar collections | 57.3 | 61.0 | 61.1 | 59.3 | 60.4 | 59.5 | 60.9 | 58.9 | 58.7 | 62.8 | 59.5 | 46.1 | 63.5 |
| Amount of credit extended | 63.4 | 67.4 | 64.5 | 66.1 | 64.0 | 65.2 | 67.4 | 60.7 | 63.4 | 65.9 | 65.3 | 66.0 | 66.4 |
| **Index of favorable factors** | **59.7** | **63.8** | **62.5** | **62.0** | **62.1** | **63.5** | **65.3** | **58.8** | **60.7** | **64.9** | **62.4** | **59.8** | **65.5** |
| Rejections of credit applications | 52.6 | 53.3 | 52.9 | 52.8 | 52.5 | 53.7 | 52.6 | 51.5 | 51.8 | 51.5 | 54.1 | 52.4 | 53.4 |
| Accounts placed for collection | 49.5 | 49.8 | 49.8 | 49.7 | 50.1 | 48.6 | 51.5 | 50.3 | 51.2 | 50.1 | 51.0 | 49.8 | 51.3 |
| Disputes | 48.0 | 49.6 | 47.8 | 47.3 | 53.0 | 48.2 | 47.1 | 48.8 | 48.4 | 47.6 | 46.0 | 48.0 | 46.9 |
| Dollar amount beyond terms | 48.1 | 49.3 | 49.4 | 49.2 | 51.9 | 48.6 | 48.2 | 50.1 | 45.0 | 48.5 | 46.5 | 46.8 | 50.2 |
| Dollar amount of customer deductions | 48.6 | 48.7 | 47.6 | 48.0 | 48.5 | 47.1 | 45.7 | 49.1 | 46.6 | 47.7 | 48.7 | 48.4 | 48.4 |
| Filings for bankruptcies | 53.1 | 53.6 | 53.0 | 55.5 | 54.7 | 56.0 | 55.4 | 54.4 | 55.3 | 56.3 | 55.6 | 55.1 | 58.0 |
| **Index of unfavorable factors** | **50.0** | **50.7** | **50.1** | **50.4** | **51.8** | **50.4** | **50.1** | **50.7** | **49.7** | **50.3** | **50.3** | **50.1** | **51.4** |
| **NACM Manufacturing CMI** | **53.9** | **55.9** | **55.1** | **55.0** | **55.9** | **55.6** | **56.1** | **53.9** | **54.1** | **56.2** | **55.2** | **54.0** | **57.0** |




## Service Sector

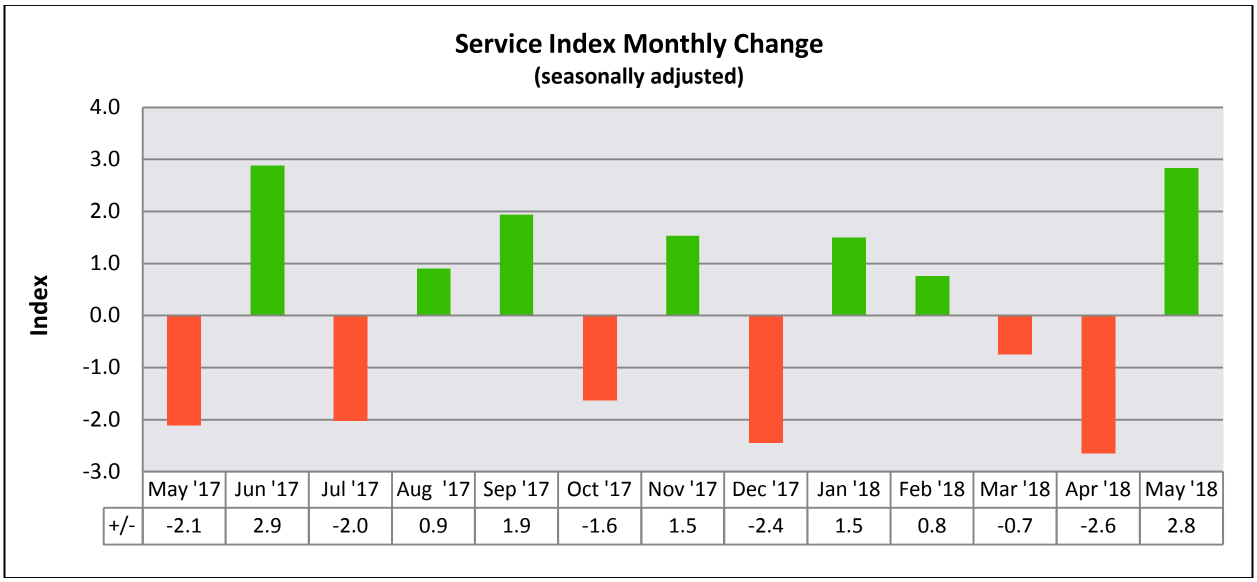
The sales category can be volatile this time of year and not because there is a lot of activity. “The big spending holidays are over and there are all the inhibitors as far as the consumer—everything from the looming reality of filing tax returns to bad winter weather and the hangover from all that holiday-inspired spending,” Kuehl said. “The data matches pretty well with what had been observed with manufacturing but with a few unique trends. The sales category was strong with services as well, despite the slow pace of retail activity. Fortunately, the other service sectors have more than made up for this.”

The construction sector performed well as did finance and accounting, taking the latest reading to 69.6 after a 65.5 mark in April. The new credit applications category also performed well, moving from 63.6 to 65.1. As with manufacturing, the dollar collection data improved dramatically (47.3 to 61.5). This abrupt fall and rise will remain confusing for a while, at least until there is some kind of pattern manifesting. The amount of credit extended moved even further from the 66.2 reading in April and is now at 67.2.

The rejections of credit applications slipped a bit, which is slightly worrying. It was at 49.5 and is now at 49.2. This is hardly earthshaking, Kuehl explained, but when the applications and rejections are up, it signals that some of those who are seeking credit may be getting desperate. The accounts placed for collection also slipped a little from 47.7 to 46.7, yet another slightly troubling sign given the issue with dollar collections last month. The disputes reading improved somewhat but remains in contraction territory. It was at 47.9 and is now at 49.3. The dollar amount beyond terms reading also improved (46 to 48.5), but it was still stuck in contraction territory. This is good news as one would have expected this category to have trended worse if that dollar collection issue had worsened. The dollar amount of customer deductions broke into expansion territory by a hair, reaching 50.9 after being at 48.3 the month prior. The filings for bankruptcy reading also saw some improvement going from 52.4 to 54.8.

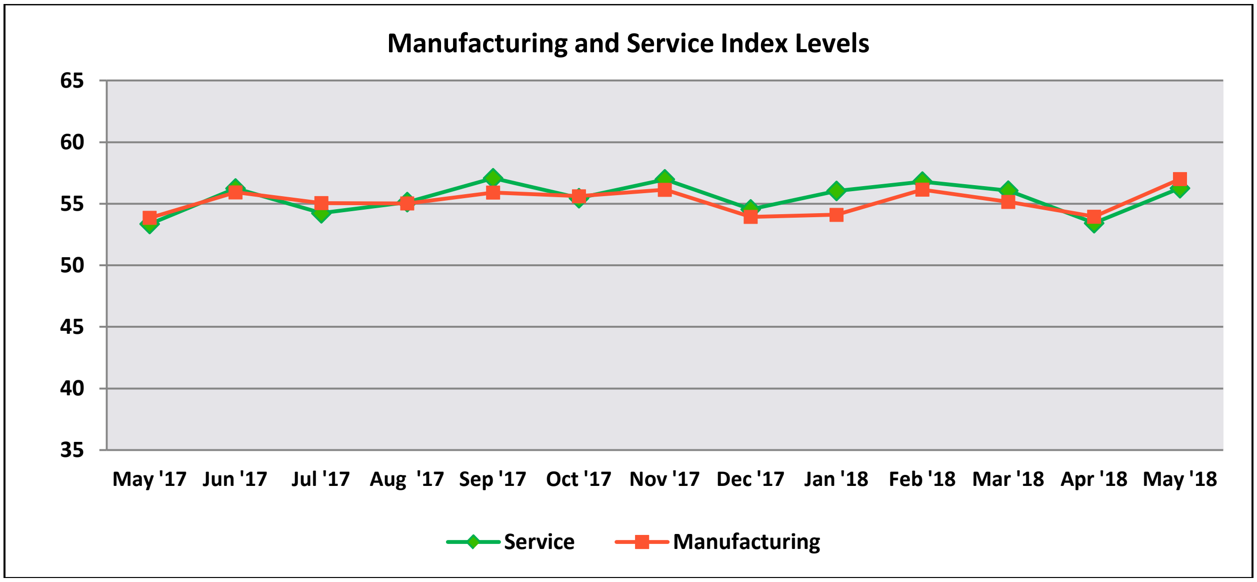
| **Service Sector** (seasonally adjusted) | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 | Dec '17 | Jan '18 | Feb '18 | Mar '18 | Apr '18 | May '18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 61.7 | 66.0 | 61.7 | 63.6 | 69.7 | 66.1 | 68.4 | 59.2 | 63.3 | 67.8 | 65.8 | 65.5 | 69.6 |
| New credit applications | 59.9 | 59.9 | 58.8 | 60.6 | 62.0 | 63.7 | 62.9 | 58.2 | 61.8 | 61.5 | 63.0 | 63.6 | 65.1 |
| Dollar collections | 56.0 | 63.9 | 59.4 | 58.6 | 59.5 | 61.0 | 65.4 | 59.4 | 58.6 | 63.0 | 59.8 | 47.3 | 61.5 |
| Amount of credit extended | 63.8 | 66.3 | 63.8 | 67.3 | 68.6 | 65.9 | 68.2 | 63.0 | 65.1 | 66.9 | 67.2 | 66.2 | 67.2 |
| **Index of favorable factors** | **60.3** | **64.0** | **60.9** | **62.5** | **64.9** | **64.2** | **66.2** | **59.9** | **62.2** | **64.8** | **63.9** | **60.6** | **65.8** |
| Rejections of credit applications | 52.3 | 51.9 | 50.8 | 51.5 | 52.5 | 49.8 | 52.3 | 51.2 | 51.8 | 51.5 | 52.4 | 49.5 | 49.2 |
| Accounts placed for collection | 47.5 | 48.9 | 48.1 | 47.8 | 50.6 | 50.3 | 49.6 | 49.3 | 52.1 | 49.6 | 49.7 | 47.7 | 46.7 |
| Disputes | 47.7 | 51.3 | 49.8 | 50.8 | 50.3 | 47.0 | 49.5 | 50.7 | 50.9 | 51.6 | 49.3 | 47.9 | 49.3 |
| Dollar amount beyond terms | 43.6 | 51.6 | 47.2 | 45.6 | 49.0 | 46.1 | 46.7 | 48.4 | 49.0 | 51.3 | 47.8 | 46.0 | 48.5 |
| Dollar amount of customer deductions | 48.9 | 49.5 | 48.6 | 50.4 | 51.1 | 50.2 | 52.1 | 50.4 | 52.7 | 50.5 | 50.9 | 48.3 | 50.9 |
| Filings for bankruptcies | 52.3 | 53.2 | 54.2 | 55.2 | 57.6 | 54.6 | 54.7 | 55.7 | 55.0 | 54.4 | 54.8 | 52.4 | 54.8 |
| **Index of unfavorable factors** | **48.7** | **51.1** | **49.8** | **50.2** | **51.8** | **49.7** | **50.8** | **51.0** | **51.9** | **51.5** | **50.8** | **48.6** | **49.9** |
| **NACM Service CMI** | **53.4** | **56.2** | **54.2** | **55.1** | **57.1** | **55.5** | **57.0** | **54.5** | **56.0** | **56.8** | **56.1** | **53.4** | **56.3** |




## May 2018 versus May 2017

“The big story this month was the return to normal readings in dollar collections,” Kuehl concluded. “It seems that April was an anomaly when it came to how creditors were choosing to handle their obligations. There are generally good readings in the favorable categories, but most of the unfavorable readings continue to be in 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.

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