Report for July 2016

Issued July 29, 2016

National Association of Credit Management

Combined Sectors

The economy has been more volatile than usual in the last several months with the Credit Managers' Index (CMI) joining other indicators to reflect some of that confusion. "We saw the job creation numbers crash in May to levels not seen since the recession and then jump back to nearly record levels in June," noted NACM Economist Chris Kuehl, Ph.D. "The latest durable goods numbers are down due to the reduction in export activity, but the housing sector is showing more strength than it has since before the downturn. Now, we see some of that back and forth in the CMI data as well."

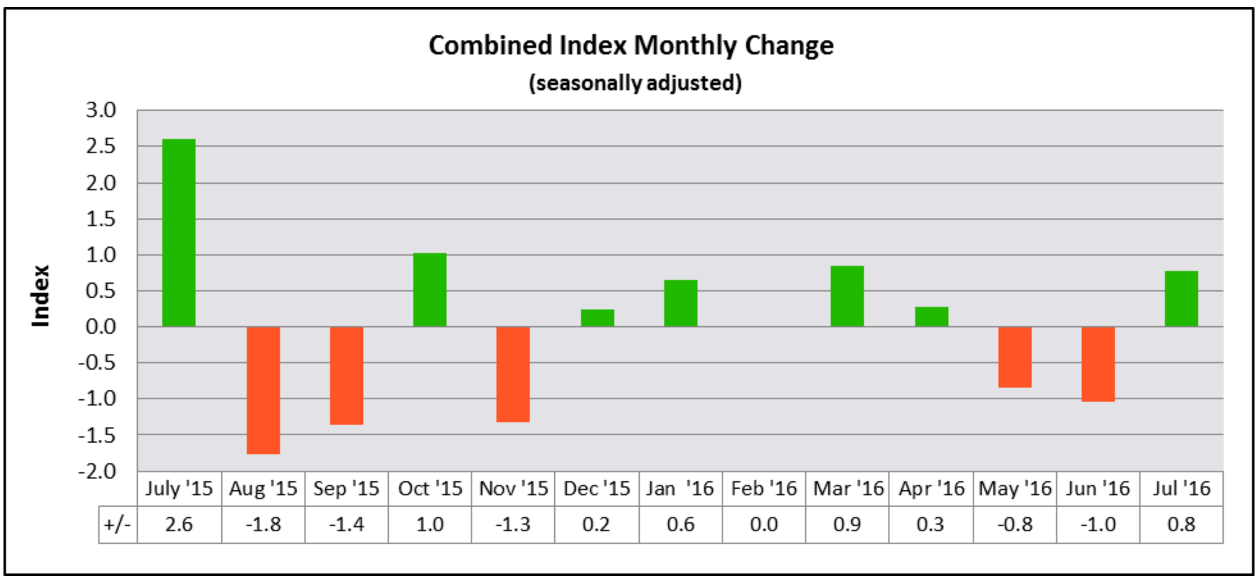
The combined score regained some momentum this month. It is now at 53.5 after dropping to 52.7 last month. This is close to where the numbers were in June when the index hit 53.8. The last year has had some variability within a pretty narrow range. The high point occurred last July when the reading was 56.0, while the low point was in November at 52.6. Most of the extreme activity happened in the various subcategories. The index of favorable factors improved enough to get back in the 60s range where it has been three times in the past year. The last time the reading was 60 or above was in March when it also hit 60. The index of unfavorable factors showed more distress as this is the second month in a row with a sub-50 reading. It was at 49.9 last month and has slipped even further to 49.2 this month. The reasons for that slide are apparent when we look at the details.

The strength of the favorable factors shows up consistently in all four of the categories. The sales reading is at 60.0, the first time the 60 line has been exceeded since July of last year when it hit 65.1. Last month, it was far lower at 56.9. The new credit applications number improved as well and now sits at 57.8 after sitting at 56.6 for two consecutive months. The dollar collections number is also up at 59.5, last month it was 57.1. The current reading is as good as it has been since March when it was at 59.6, but a year ago the reading was 61.9. The amount of credit extended crossed back into 60s territory with a reading of 62.8, compared to the 57.6 last month. This category has been above 60 for all but two months in the last year. It is good news to see that trend resume.

There is not such good news as far as the unfavorable factors are concerned. There is obvious distress in the ranks, and these problems are affecting the data. The rejections of credit applications worsened from last month; the reading now teeters on the edge of contraction. It went from 51.2 to 50.7, the lowest reading seen in over a year. "The fact that applications are up but approvals are down indicates that there are more companies in trouble and hoping they find a supplier that will give them credit regardless," explained Kuehl. "There are not many gullible companies out there these days; and therefore, there are more rejections." The accounts placed for collection worsened a little—going from 48.8 to 48.2. This small drop is not the issue—it is that this category has been in contraction territory for five of the last seven months. The category of disputes also worsened considerably by dropping from 49.5 to 47.6. There was a smaller decline in the category of dollar amount beyond terms as the drop was from 49.0 to 48.8 and a similarly small reduction in the reading for amount of customer deductions as it went from 49.6 to 49.0. The reading for filings for bankruptcies completed the set of reductions for the month as it slipped from 51 to 50.7, but at least it stayed above the 50 line.

"It has really been a tale of two trends," Kuehl concluded. "On the one hand, there has been impressive progress in some of the sectors of the economy, but at the same time there have been some very weak ones. These companies are struggling with their credit obligations."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16
Sales	65.1	57.9	56.4	58.3	56.0	55.0	55.8	56.8	59.2	59.8	56.7	56.9	60.0
New credit applications	60.8	57.7	58.1	58.9	58.0	56.4	58.1	58.2	59.8	58.5	56.6	56.6	57.8
Dollar collections	61.9	58.3	56.4	56.7	55.7	55.8	57.8	58.3	59.6	57.5	57.4	57.1	59.5
Amount of credit extended	66.4	63.0	60.1	63.7	61.0	59.4	61.0	61.2	61.7	60.9	61.0	57.6	62.8
Index of favorable factors	**63.5**	**59.2**	**57.7**	**59.4**	**57.7**	**56.6**	**58.2**	**58.6**	**60.0**	**59.2**	**57.9**	57.0	**60.0**
Rejections of credit applications	51.8	51.3	51.3	51.4	51.0	52.8	52.2	52.2	51.2	52.2	51.9	51.2	50.7
Accounts placed for collection	50.3	51.2	49.3	50.0	47.1	50.2	49.4	49.0	48.5	50.9	50.5	48.8	48.2
Disputes	49.9	49.5	47.5	48.5	48.4	48.6	48.6	49.7	50.8	50.8	50.8	49.5	47.6
Dollar amount beyond terms	49.1	49.3	47.0	47.8	47.4	48.0	48.6	47.5	50.8	51.2	49.2	49.0	48.8
Dollar amount of customer deductions	49.3	49.9	49.4	50.1	48.9	48.5	49.5	49.5	49.8	50.7	50.7	49.6	49.0
Filings for bankruptcies	55.6	54.4	53.3	53.6	52.5	53.7	53.8	52.6	52.2	53.8	53.0	51.1	50.7
Index of unfavorable factors	**51.0**	**50.9**	**49.7**	**50.2**	**49.2**	**50.3**	**50.3**	**50.1**	**50.6**	**51.6**	**51.0**	**49.9**	**49.2**
NACM Combined CMI	**56.0**	**54.2**	**52.9**	**53.9**	**52.6**	**52.8**	**53.5**	**53.5**	**54.3**	**54.6**	**53.8**	**52.7**	**53.5**



Manufacturing Sector

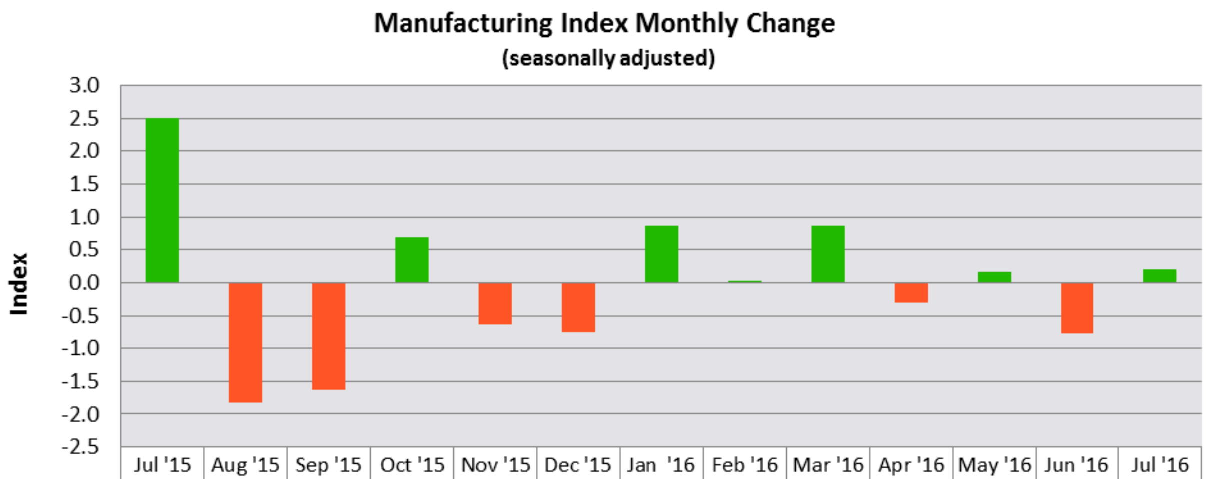
The data out of the manufacturing sector has been good—or at least better than it has been of late. The overall score is 52.6, a slight improvement over last month when it was 52.4. This is still lower than it was in the three months that preceded the downturn in June, but on average about where the reading has been all year. The favorable factors performed very well and the improvements were impressive. Last month, the reading was just 55.9, the lowest seen since February. Now it is back to 58.9 and on par with the highest reading for the year (63.1 last July). The unfavorable factors showed the most decline as there was another drop into the contraction zone. Last month it was 50.1 and now it sits at 48.4, the lowest level seen in over a year. The unfavorable index has been below 50 six times this year, but it hadn't been that low since January.

The sales category improved quite a bit and is up to 58.4 after a reading of 56.1 last month. This is the highest level seen since July of last year. The new credit applications numbers also shot up with a reading of 56.5 after a 54.7 last month. This takes the category back to where it was in May. The dollar collections number improved from 57.5 to 58.8, nearly as high as it was in July of last year when it hit 59.4. The amount of credit extended broke back into the 60 category with a reading of 61.8. It was last over 60 in March when it reached 60.2.

The real damage is being done in the unfavorable categories. The rejections of credit applications slipped from a respectable 53.3 to 50.8. Kuehl explained this by saying, “there are now many seeking credit and they are really not qualified to receive much consideration—they are just getting desperate.” The accounts placed for collection slid further into the contraction zone with a reading of 48.7 after 49.7 last month. The disputes category slid dramatically and is now deep in contraction territory with a miserable reading of 45.0. This is as low as it was back in the midst of the recession. The dollar amount beyond terms category also slipped as it went from 50.2 to 48.3. The reading for dollar amount of customer deductions slipped but only a little—from 48.5 to 48.0. Filings for bankruptcies also dropped out of the expansion zone by falling from 50.0 to 49.8. Of the six categories, all but one is now under 50 and in contraction. It was only two months ago that all six were above 50 and in expansion territory.

“The story in manufacturing has been feast or famine,” according to Kuehl. “Those that are connected to the automotive sector are humming along on the wave of continued demand and there has been growth in areas like medical manufacturing and even food service. The oil and gas sector has been in trouble for a while. Now some of these players are giving up. Aerospace hasn’t been what it once was either. The impact of Brexit has been felt in the export community which affects a lot of the manufacturers.”

Manufacturing Sector **(seasonally adjusted)**	**Jul '15**	**Aug '15**	**Sep '15**	**Oct '15**	**Nov '15**	**Dec '15**	**Jan '16**	**Feb '16**	**Mar '16**	**Apr '16**	**May '16**	**Jun '16**	**Jul '16**
Sales	66.0	56.4	55.6	57.7	55.5	51.9	54.3	54.7	57.6	56.3	53.9	56.1	58.4
New credit applications	60.5	56.1	56.6	57.3	57.1	54.0	55.4	53.7	56.8	55.3	56.8	54.7	56.5
Dollar collections	59.4	57.8	56.7	56.4	55.6	55.0	55.9	56.2	58.2	54.9	55.0	57.5	58.8
Amount of credit extended	66.5	63.0	57.1	61.8	59.0	55.4	59.3	58.2	60.2	58.4	58.4	55.4	61.8
Index of favorable factors	**63.1**	**58.3**	**56.5**	**58.3**	**56.8**	**54.1**	**56.2**	**55.7**	**58.2**	**56.2**	**56.0**	**55.9**	**58.9**
Rejections of credit applications	52.6	51.8	51.5	51.5	52.0	54.1	52.4	52.4	51.1	51.8	51.7	53.3	50.8
Accounts placed for collection	49.7	50.7	48.5	49.5	48.6	49.3	48.5	48.6	48.2	50.3	51.8	49.7	48.7
Disputes	48.5	48.6	47.7	46.3	47.8	47.1	47.1	49.8	49.4	48.7	50.7	48.9	45.0
Dollar amount beyond terms	49.8	51.1	46.6	47.3	48.4	48.8	50.3	49.6	51.9	51.4	50.1	50.2	48.3
Dollar amount of customer deductions	48.6	48.8	49.2	48.5	47.9	47.6	49.0	49.2	48.2	49.5	51.4	48.5	48.0
Filings for bankruptcies	55.7	54.9	53.1	53.6	51.7	52.8	52.3	52.1	51.6	53.7	52.1	50.0	49.8
Index of unfavorable factors	**50.8**	**51.0**	**49.5**	**49.4**	**49.4**	**49.9**	**49.9**	**50.3**	**50.1**	**50.9**	**51.3**	**50.1**	**48.4**
NACM Manufacturing CMI	**55.7**	**53.9**	**52.3**	**53.0**	**52.3**	**51.6**	**52.5**	**52.5**	**53.3**	**53.0**	**53.2**	**52.4**	**52.6**



	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16
+/-	2.5	-1.8	-1.6	0.7	-0.6	-0.8	0.9	0.0	0.9	-0.3	0.2	-0.8	0.2

Service Sector

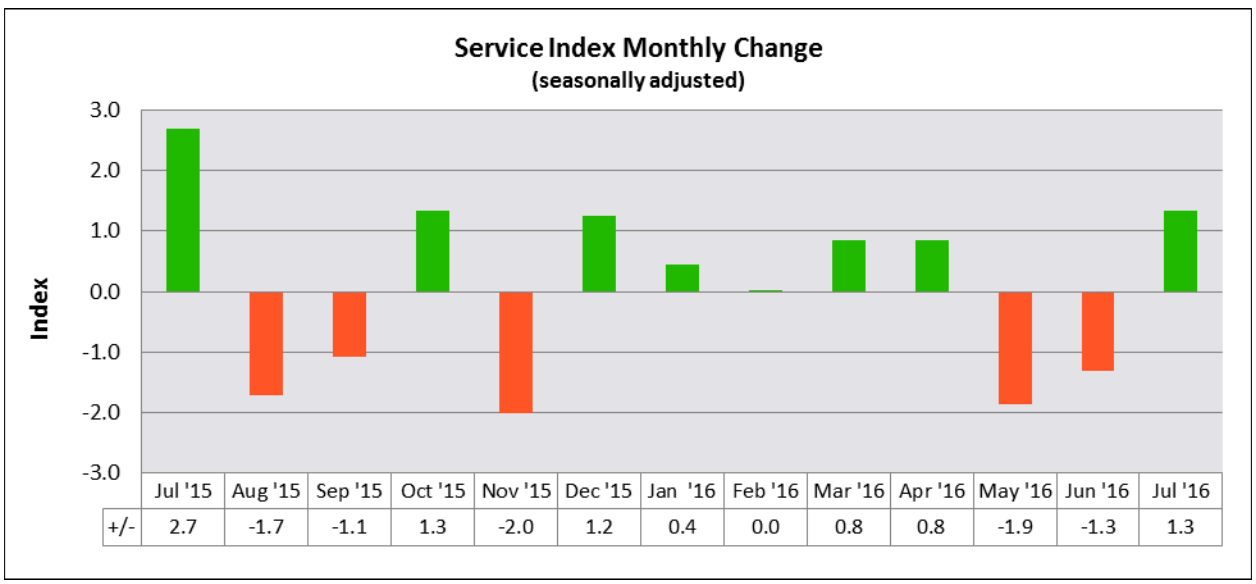
There has been some real concern over the state of the service sector in the economy as a whole as this is by far the biggest contributor to GDP and to job growth. As this sector goes, so goes the whole of the U.S. economy and of late, it has been looking more than a little stressed. The good news this month is that there has been a bit of a recovery with readings for the combined score of 54.4—the same as they were in May. The last month's numbers were 53.1, as low as it had been since November of last year. The favorable factors were the stronger of the two subcategories—similar to the data in the manufacturing sector. The reading last month was 58.2 and this month it was back above 60 with a reading of 61.2. The combined unfavorable index showed a very slight uptick, but remains below 50 at 49.9. Last month, it was slightly worse at 49.6. As is always the case, the devil is in the details.

The sales category jumped back into the 60s with a reading of 61.6, a significant improvement over the 57.8 from last month. The new credit applications reading improved as well and came very close to breaking back past 60. The current reading is 59.0, it had been 58.5. The dollar collections category went back above 60 with a reading of 60.3 after slipping to 56.7 last month. This puts this category back to levels seen earlier in the year. The amount of credit extended made a big leap and is sitting at 63.8 after slipping to 59.8 last month. That had been the only month in the last year when the reading was below 60.

As with the manufacturing community, the big problems are showing up in the unfavorable categories. The difference is that there have been improvements in the service readings, but not in manufacturing. Many of the numbers are still low, but there are some signs of positive trending. The category of rejections of credit applications improved just a bit as it went from 49.1 to 50.7—back into expansion territory after slipping out for a month. The accounts placed for collection stayed roughly where it had been at 47.7, last month it was at 47.9. The important consideration is that this is still in contraction territory. There was some improvement in the disputes reading as this went from 50.1 to 50.2, not a big leap by any stretch of the imagination, but heading in the right direction and over 50. The dollar amount beyond terms numbers also improved, rising from 47.9 to 49.2. This is not signaling that all is well quite yet, but the trend is in the right direction—higher than it has been since April. The dollar amount of customer deductions reading remained in the expansion zone, but slipped a little from 50.7 to 50.1. The filings for bankruptcies shifted from 52.2 to 51.5—again a decline, but still remaining above the 50 level suggesting expansion.

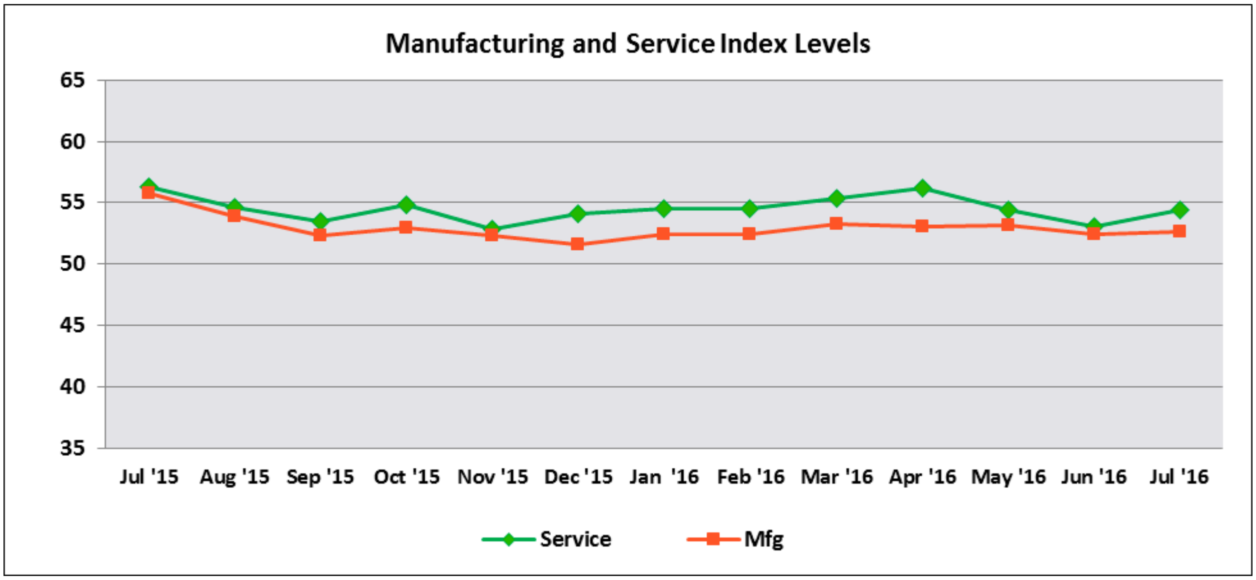
In conclusion, Kuehl said, "The big struggles are still in retail, but construction numbers are solid with real growth in the existing and new home markets. Medical services are still growing, but there appears to be diminishing activity in the financial sector. That trend may reverse in the coming months as some of the decline seemed related to trepidation regarding the Brexit issue in the U.K."

Service Sector (seasonally adjusted)	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16
Sales	64.3	59.5	57.2	58.9	56.5	58.1	57.4	58.8	60.7	63.2	59.5	57.8	61.6
New credit applications	61.0	59.3	59.5	60.5	58.9	58.8	60.9	62.7	62.8	61.8	56.5	58.5	59.0
Dollar collections	64.3	58.8	56.1	57.0	55.9	56.6	59.7	60.4	61.0	60.0	59.8	56.7	60.3
Amount of credit extended	66.3	63.1	63.2	65.6	63.1	63.4	62.7	64.1	63.1	63.5	63.6	59.8	63.8
Index of favorable factors	**64.0**	**60.2**	**59.0**	**60.5**	**58.6**	**59.2**	**60.2**	**61.5**	**61.9**	**62.1**	**59.9**	**58.2**	**61.2**
Rejections of credit applications	51.0	50.8	51.1	51.4	50.0	51.6	52.0	51.9	51.4	52.6	52.0	49.1	50.7
Accounts placed for collection	50.9	51.7	50.0	50.6	45.6	51.1	50.3	49.4	48.8	51.6	49.2	47.9	47.7
Disputes	51.3	50.4	47.4	50.7	49.0	50.0	50.1	49.7	52.3	52.9	50.8	50.1	50.2
Dollar amount beyond terms	48.5	47.5	47.4	48.4	46.3	47.3	46.8	45.5	49.6	51.1	48.4	47.9	49.2
Dollar amount of customer deductions	50.0	51.0	49.7	51.7	49.8	49.4	50.0	49.8	51.3	51.8	50.1	50.7	50.1
Filings for bankruptcies	55.6	54.0	53.6	53.6	53.2	54.5	55.3	53.1	52.9	53.8	53.9	52.2	51.5
Index of unfavorable factors	**51.2**	**50.9**	**49.9**	**51.1**	**49.0**	**50.6**	**50.8**	**49.9**	**51.0**	**52.3**	**50.7**	**49.6**	**49.9**
NACM Service CMI	**56.3**	**54.6**	**53.5**	**54.8**	**52.8**	**54.1**	**54.5**	**54.5**	**55.4**	**56.2**	**54.4**	**53.1**	**54.4**



July 2016 versus July 2015

"The year-over-year data started to trend back up a bit due to the solid favorable readings, but the unfavorable categories are holding back progress. It is a long way from the growth of just a few months ago," said Kuehl.



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.

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

Source: National Association of Credit Management

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