Report for August 2018

Issued August 31, 2018

National Association of Credit Management

Combined Sectors

Steady as she goes. Right at the moment, it feels good to have a month without a lot of drama. There has been quite a lot taking place affecting the progress of the economy now and in the future. As far as the data from the Credit Managers' Index (CMI), there has been some stability with August readings looking a lot like last month. Where there has been change, it has been in a positive direction. "Given all the turmoil surrounding trade issues and the mercurial behavior of the president, it might be expected this drama would be affecting the overall performance of the economy," said NACM Economist Chris Kuehl, Ph.D. "The assessment is that the economic drivers are mostly shrugging off these issues and have been reacting to more traditional motivators. This state of calm is not likely to last, however, given the appearance of some inflation indicators and the potential impact of various trade deals, which have been on-again and off-again."

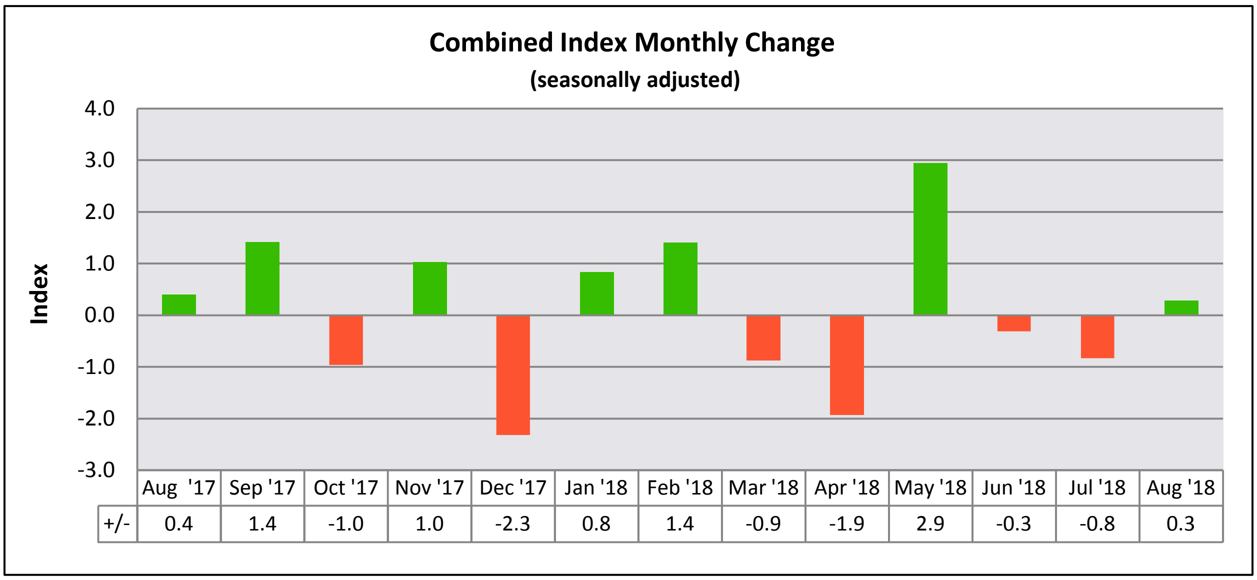
The combined score for the CMI this month was 55.8, nearly identical to the 55.5 notched last month. There was significant similarity between last month and this month in the index of non-favorable factors as well. This month fell slightly to 50.1 after a reading of 50.5 in July. There was more variation in the index of favorable factors with improvement in all four categories. It was at 63.1 in July and is now at 64.3—just below May and June of this year. The real news, as always, is in the details and the sub-index readings.

The sales category perked back up. That is always good news as it is the sale that starts the whole process in motion for a credit manager. Last month, the reading was down to 63.9, the lowest mark since the 63 set in January. It is now back to 65, but not yet in the exalted territory reached in May and June when the levels were over 69. It always seems a little picky to look at readings in the 60s as troublesome—these have been spectacular numbers for a few years. What matters now is the trend, Kuehl explained. It is always good to see these readings improve. The new credit applications numbers also improved a little, increasing from 61.2 to 62.5. The often volatile dollar collections data improved as well (61 to 62.6). This reading is one of the best this year with only February and June exceeding this month. The amount of credit extended also saw a small improvement from 66.1 to 66.9. "The good news for this sector is it has been above 66 for seven months in a row," he said. "That means good customers are asking for some considerable amounts of credit."

There was not quite as much drama as far as the non-favorable factors. There was a slight dip in the rejections of credit applications (52.5 to 52.2), but this was a minor shift and comes at the same time that overall applications have been up. There was also a slip in the accounts placed for collection category as it went from 49.9 to 49. It had been hoped that it would break past the 50 barrier (anything above 50 is expansion) this month, but there are obviously still distressed creditors. Likewise, there was a dip in the disputes category from 47.7 to 46.4. The dollar amount beyond terms saw an improvement—good news although the reading is still in the contraction zone at 48.5. However, this is better than the previous month's reading of 47.4. The dollar amount of customer deductions also saw some better numbers (47.9 to 48.7). Finally, there are the numbers for filings for bankruptcies. They looked a bit weaker, falling from 57.4 to 55.9. Kuehl noted that readings in the mid-50s are good and this category is firmly in the expansion zone, but the trend is not where anyone would want it to be.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18
Sales	62.2	67.3	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0

New credit applications	61.2	60.5	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5
Dollar collections	58.9	60.0	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6
Amount of credit extended	66.7	66.3	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9
Index of favorable factors	**62.2**	**63.5**	**63.8**	**65.7**	**59.4**	**61.4**	**64.9**	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**
Rejections of credit applications	52.2	52.5	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2
Accounts placed for collection	48.7	50.3	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0
Disputes	49.1	51.7	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4
Dollar amount beyond terms	47.4	50.4	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5
Dollar amount of customer deductions	49.2	49.8	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7
Filings for bankruptcies	55.3	56.2	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9
Index of unfavorable factors	**50.3**	**51.8**	**50.0**	**50.4**	**50.8**	**50.8**	**50.9**	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**
NACM Combined CMI	**55.1**	**56.5**	**55.5**	**56.6**	**54.2**	**55.1**	**56.5**	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**



Manufacturing Sector

There has been a lot of drama surrounding the manufacturing sector over the last several months. Some of that volatility has been seen in the data. Not as much variability as one would expect though. “The volatility seems to signal that most manufacturers are reacting to solid consumer demand from within the U.S. and outside,” said Kuehl. “The worry stems from the near constant threat of new tariffs and trade disputes. The steel and aluminum tariffs are still biting hard. Then, there is the roller coaster strategy that has tariffs imposed on cars and other products one day and those restrictions being lifted the next day.” In the midst of that storm, there has been some manufacturing stability.

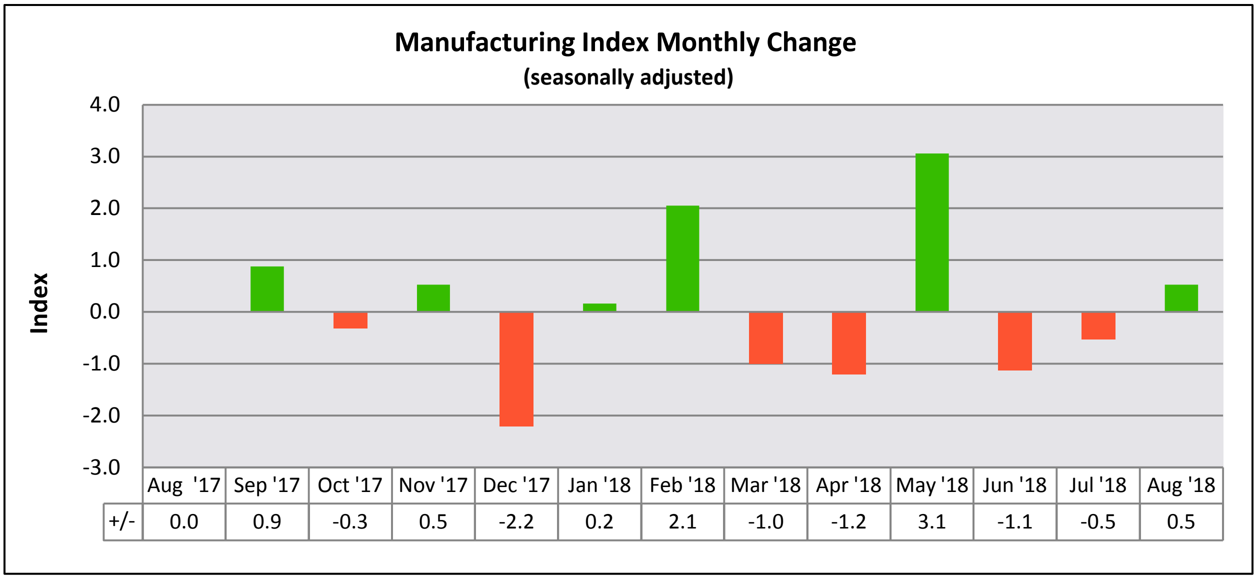
The combined score for the manufacturing sector improved over last month’s reading and is back to what it was in June (55.9). Even last month was not a huge dip, falling to just 55.4. For the past year, the sector has been strong with only one month under 54 (53.9 in December). The index of favorable factors improved as well, reaching 64.4 after slipping to 62.1 the month prior. There was a slight decline as far as the index of unfavorable factors from

50.9 to 50.2. “This category has been hugging the border between contraction and expansion for the past year,” he said. “There is nothing to suggest this will alter any time soon.”

The sales category shifted up from 62.4 and hit 66.5 this month, bringing the reading back to what had been seen as normal over the last year. This year, the reading has been below 63 only twice; in May and June the numbers were over 69. The new credit applications category also saw an improvement when the numbers jumped back into the 60s after a reading of 59.5 last month. It is now sitting at 61.4. The dollar collections data improved from 61.5 to 62.4. According to Kuehl, this has been a vexing area for the last year and seems to move in tandem with the non-favorable category of dollar amount beyond terms. The fewer slow pays, the better the dollar collection. There was also an improvement in the amount of credit extended (65.1 to 67.1).

There has been some movement in the non-favorable categories as well. The rejections of credit applications stayed very close to previous readings (53.5 to 53.7). That is good news given that new applications went up. Kuehl suggested this means those who are applying for credit are getting approved. The accounts placed for collection reading fell a bit and is now in contraction territory. It was at 50.6 and now sits at 49.6. The last time this was in contraction territory was April when it hit 49.8. The disputes category fell deeper into contraction with a reading of 45.8 compared to last month’s 47. “This is not a good sign as disputes nearly always lead to more serious issues, like collection and even bankruptcy,” he said. The dollar amount beyond terms stayed close to what it had been, with a reading of 48.4 compared to 48.1 in July, but at least it was an improvement. The dollar amount of customer deductions improved by quite a bit, but is still mired in the contraction zone. It was 46.9 and is now 48.1. The filings for bankruptcies category fell back quite a bit from what it had been, moving from 59.1 to 56. “These are still very good numbers and suggest that most companies are finding a way to survive,” he concluded.

Manufacturing Sector (seasonally adjusted)	**Aug ‘17**	**Sep '17**	**Oct '17**	**Nov '17**	**Dec '17**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**
Sales	60.8	65.0	67.4	68.2	59.2	62.7	65.8	62.5	66.2	69.6	69.1	62.4	66.5
New credit applications	61.8	59.0	61.8	64.5	56.5	57.8	65.2	62.4	60.8	62.4	60.2	59.5	61.4
Dollar collections	59.3	60.4	59.5	60.9	58.9	58.7	62.8	59.5	46.1	63.5	63.3	61.5	62.4
Amount of credit extended	66.1	64.0	65.2	67.4	60.7	63.4	65.9	65.3	66.0	66.4	65.7	65.1	67.1
Index of favorable factors	**62.0**	**62.1**	**63.5**	**65.3**	**58.8**	**60.7**	**64.9**	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**
Rejections of credit applications	52.8	52.5	53.7	52.6	51.5	51.8	51.5	54.1	52.4	53.4	50.6	53.5	53.7
Accounts placed for collection	49.7	50.1	48.6	51.5	50.3	51.2	50.1	51.0	49.8	51.3	50.6	50.6	49.6
Disputes	47.3	53.0	48.2	47.1	48.8	48.4	47.6	46.0	48.0	46.9	47.9	47.0	45.8
Dollar amount beyond terms	49.2	51.9	48.6	48.2	50.1	45.0	48.5	46.5	46.8	50.2	48.7	48.1	48.4
Dollar amount of customer deductions	48.0	48.5	47.1	45.7	49.1	46.6	47.7	48.7	48.4	48.4	46.6	46.9	48.1
Filings for bankruptcies	55.5	54.7	56.0	55.4	54.4	55.3	56.3	55.6	55.1	58.0	56.2	59.1	56.0
Index of unfavorable factors	**50.4**	**51.8**	**50.4**	**50.1**	**50.7**	**49.7**	**50.3**	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**
NACM Manufacturing CMI	**55.0**	**55.9**	**55.6**	**56.1**	**53.9**	**54.1**	**56.2**	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**



Service Sector

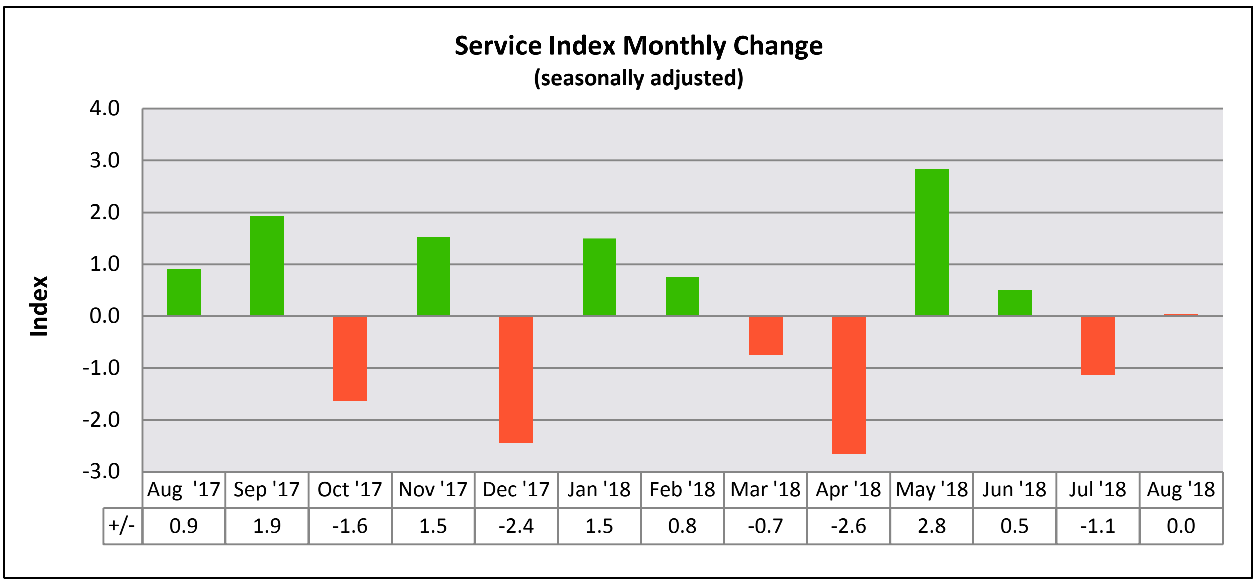
As with the manufacturing data, there was not a lot of change in the service sector readings. That likely shows the diversity of this category as much as it suggests the activity within the sector. The service area is vast and diverse as there are contributions from retail, construction, health care, finance, entertainment and more. It is not likely that all these sectors will be moving in lock step, so growth in one area can temper lack of growth in another. For example, the retail sector is looking awfully robust these days, but the same can't be said for construction as it starts to enter a slump.

The combined score for services was very close to what it was last month, shifting from 55.6 to 55.7. The index of favorable factors improved but very slightly (64 to 64.2). The non-favorable index also showed some minor movement from 50.1 to 50. Kuehl noted this was the month for stability in services, but on closer examination, it resembled water acrobatics with calm above the water hiding the chaos underneath.

The sales category slipped a little as it fell from 65.3 to 63.4. This month's reading is the lowest since January. The new credit applications reading improved very slightly from 63 to 63.5. Likewise, there was an improvement in the dollar collection category—62.9 after last month's 60.5. The amount of credit extended moved down just a bit, but dipping from 67.2 to 66.7 is hardly a crisis. "The real significance of this is all the readings have been above 60 since April of this year," he said.

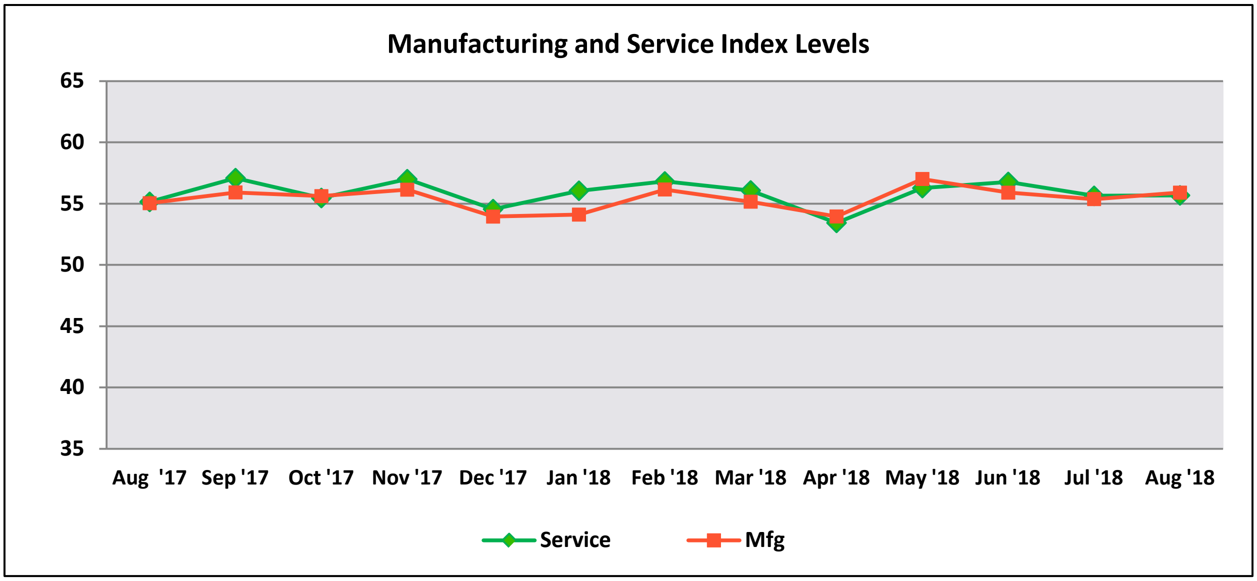
The rejections of credit applications category fell a bit from 51.5 to 50.7, but managed to stay out of the contraction zone for another month. This is good news given there was improvement in the number of new applications. The accounts placed for collection sank a little deeper into contraction territory with a reading of 48.5 as compared to 49.3 in July. The disputes category also took a bit of a tumble deeper into the 40s with a reading of 47 after 48.3 last month. The good news was that there was an improvement in the dollar amount beyond terms. As with the manufacturing data, there is often a connection between this category and the dollar collection numbers. The slow pay reading this month was 48.6 and in July, it was 46.8. The reading for dollar amount of customer deductions was 48.8 and is now 49.3—still in contraction territory, but moving in the right direction. The filings for bankruptcies category almost stayed right where it was with a reading of 55.9, following the 55.8 notched last month.

Service Sector (seasonally adjusted)	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18
Sales	63.6	69.7	66.1	68.4	59.2	63.3	67.8	65.8	65.5	69.6	70.1	65.3	63.4
New credit applications	60.6	62.0	63.7	62.9	58.2	61.8	61.5	63.0	63.6	65.1	60.9	63.0	63.5
Dollar collections	58.6	59.5	61.0	65.4	59.4	58.6	63.0	59.8	47.3	61.5	63.0	60.5	62.9
Amount of credit extended	67.3	68.6	65.9	68.2	63.0	65.1	66.9	67.2	66.2	67.2	66.8	67.2	66.7
Index of favorable factors	**62.5**	**64.9**	**64.2**	**66.2**	**59.9**	**62.2**	**64.8**	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**
Rejections of credit applications	51.5	52.5	49.8	52.3	51.2	51.8	51.5	52.4	49.5	49.2	51.8	51.5	50.7
Accounts placed for collection	47.8	50.6	50.3	49.6	49.3	52.1	49.6	49.7	47.7	46.7	52.0	49.3	48.5
Disputes	50.8	50.3	47.0	49.5	50.7	50.9	51.6	49.3	47.9	49.3	48.6	48.3	47.0
Dollar amount beyond terms	45.6	49.0	46.1	46.7	48.4	49.0	51.3	47.8	46.0	48.5	49.7	46.8	48.6
Dollar amount of customer deductions	50.4	51.1	50.2	52.1	50.4	52.7	50.5	50.9	48.3	50.9	49.6	48.8	49.3
Filings for bankruptcies	55.2	57.6	54.6	54.7	55.7	55.0	54.4	54.8	52.4	54.8	55.1	55.8	55.9
Index of unfavorable factors	**50.2**	**51.8**	**49.7**	**50.8**	**51.0**	**51.9**	**51.5**	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**
NACM Service CMI	**55.1**	**57.1**	**55.5**	**57.0**	**54.5**	**56.0**	**56.8**	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**



August 2018 versus August 2017

"The month-to-month change was negligible, but that doesn't entirely capture what has been taking place in the world of credit or the economy as a whole," Kuehl concluded. "There was a lot of position shifting in the various sub-categories."



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:

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

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 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.

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