Report for March 2019

Issued March 29, 2019

National Association of Credit Management

Combined Sectors

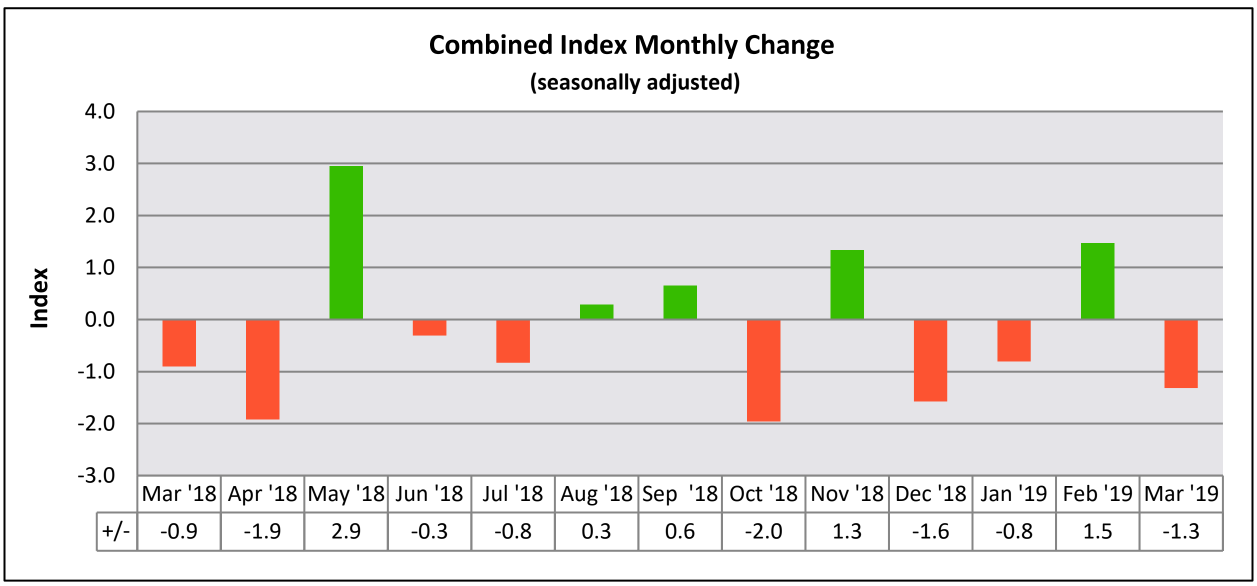
Month after month, we seek the ever-elusive trend of the Credit Managers' Index (CMI) going further into positive territory. One month our hopes are up and the next month they are dashed. "This was one of those months where the scores reversed again," said NACM Economist Chris Kuehl, Ph.D. "It is not a crisis situation by any stretch as the numbers are still firmly in the expansion zone (a score above 50), but we all would like to see improvement. The challenge is that much of the other economic data is telling the same story as there is a low expectation for first quarter GDP and reductions in the readings that are coming from the Purchasing Managers' Index as well as data from industrial output to capacity utilization." Maybe credit managers should be glad this month wasn't worse.

The combined CMI score was 53.6 in March; it was at 54.9 the month prior. In January it was 53.4, so perhaps February was the little anomaly and now the numbers are back to where they should have been. The combined score for the favorable factors slipped back out of the 60s again at 59, the lowest point reached in the last 12 months (even going back to 2017). The combined score for the unfavorable factors fell as well and is back in the contraction zone under 50. It was at 49.4 in January and is now at 49.9—very close to the 50 line, but still below the level of contraction.

The details are interesting as far as identifying trends. The sales numbers fell out of the 60s with a reading of 58.2, the lowest score in the past two years. These numbers have been in the 60s consistently until this year. There was also a decline in new credit applications, but they have been this low before (58.2 in January and 57.5 in December). The reading is now sitting at 57.8 after reaching 58.9 last month. The dollar collections reading slipped as well (59.1 to 56.6). That marks the lowest point since April 2018. The amount of credit extended stayed in the 60s and actually improved as it went from 62.3 to 63.5. "This may be the most interesting piece of data of all. In spite of all the down performance there was more credit extended," Kuehl said. "That suggests good customers are asking for and likely getting more credit." It is also important to note that even with these reversals, the favorable factors remain comfortably in the 50s.

The changes were also noticeable in the nonfavorable categories. The rejections of credit applications trended down a bit but not as much as would be expected given the drop in new applications for credit. The reading last month was 52.1 and this month it was 51.2. Kuehl noted that those applying for credit seem to be worthy enough to get much of what they are asking for. One of the major concerns is the sharp drop in the reading for accounts placed for collection. Last month it was at 49, close to the high point for the last 12 months. This category has not escaped the contraction zone since September of last year when it hit 50.2. There was actually a little improvement as far as the disputes category was concerned as it rose to 49.5 after a reading of 48.5 in February; still not in the expansion zone, but getting a little closer. The reading for dollar amount beyond terms fell, but managed to remain in the expansion zone (barely) with a reading of 50 compared to the 51.3 the month prior. The dollar amount of customer deductions fell out of the expansion zone with a reading of 48.8 from last month's 50. There was also a dip in filings for bankruptcies—meaning there were slightly more this month than last. The reading was at 53.7 after a 54.9 mark set in February. "There is no wholesale collapse under way, but the data trended down generally, and in some sectors the decline was significant—the worst reading in the last 12 months," Kuehl said. "The hope is that next month trends back up, but with all the other generally down data coming out of late, that doesn't seem likely."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19
Sales	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7	64.5	59.0	59.7	62.6	58.2
New credit applications	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7	62.2	57.5	58.2	58.9	57.8
Dollar collections	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5	60.9	59.3	59.0	59.1	56.6
Amount of credit extended	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5	65.3	61.9	61.2	62.3	63.5
Index of favorable factors	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**
Rejections of credit applications	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4	51.4	51.4	51.8	52.1	51.2
Accounts placed for collection	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8	48.2	49.7	48.2	49.0	46.4
Disputes	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9	50.1	49.6	47.1	48.5	49.5
Dollar amount beyond terms	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7	52.3	49.3	47.4	51.3	50.0
Dollar amount of customer deductions	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5	49.6	49.7	48.0	50.0	48.8
Filings for bankruptcies	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1	53.6	55.0	53.8	54.9	53.7
Index of unfavorable factors	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**
NACM Combined CMI	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**



Manufacturing Sector

"In many respects, the manufacturing sector has been pretty healthy the last few years—its share of GDP has grown and the sector now accounts for about $2.7 trillion dollars of the total U.S. GDP. If manufacturing was an independent country, its GDP would be larger than that of India—it would be the ninth-largest country in the world," Kuehl said. "There have been some weaker signals of late—everything from a reduced Purchasing Managers' Index to slips in capacity utilization and capital investment. The shift is seen in the CMI data as well."

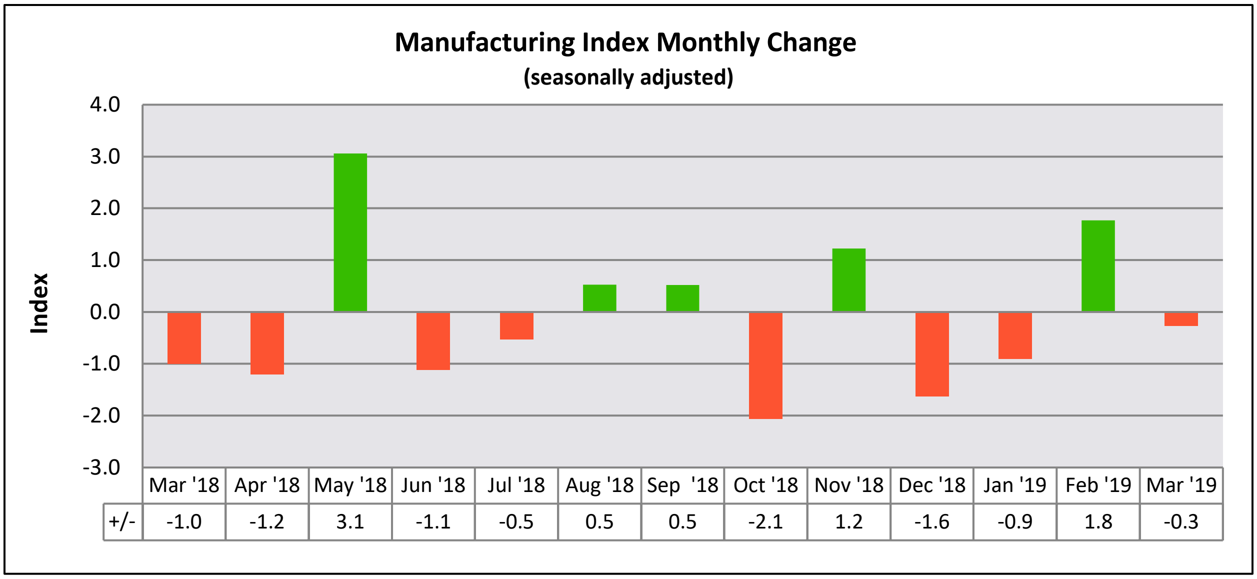
The combined score for the manufacturing sector is 54.6, only slightly less than the reading the month before at 54.8. The combined score for the favorable factors was 60.3, very close to the reading in February when it hit 60. The combined score for the nonfavorable factors slipped slightly from 51.4 to 50.7, but it still managed to escape the contraction zone. As usual, the details tell a more complete story.

The sales reading slid out of the 60s with a bit of a thump. It had been at 61.7 and now sits at 58.4—the lowest point since the middle of 2017. Kuehl noted the sluggish economy has been taking a toll on sales. The new credit applications data improved, however, from 58.6 to 61.2. "The sense is that companies are feeling some of that reduction in sales and are trying to improve the situation with more offers of credit." The dollar collections reading slipped out of the 60s with a reading of 57.8 after being at 60.5 the month before. The amount of credit extended jumped dramatically from 59.2 to 63.9. All in all, the data for the favorable factors looked solid and even improved in some key categories.

The data for the nonfavorables was also somewhat mixed. There was almost no change as far as rejections of credit applications is concerned. It was at 53.5 last month, 53.2 this month and 53.3 in January. The big change this month was in accounts placed for collection as it has shifted from 50.5 to 46.8, as low as this reading has been in over a year. "This is of some concern as this can be the last stage before companies start to slip into bankruptcy," he said. In contrast, there was improvement in the disputes category as it moved from 48.7 to 50.2. The dollar amount beyond terms slipped a little, but has remained in expansion territory with a reading of 51 after one of 52.8 the previous month. The dollar amount of customer deductions also fell a little and is now a bit deeper in the contraction zone (49.3 to 48.4). The filings for bankruptcies improved a little from 53.3 to 54.6.

"By and large, the manufacturing data was pretty solid," Kuehl concluded. "There was no real shift in either direction this time and the numbers are still solidly in the mid-50s."

Manufacturing Sector (seasonally adjusted)	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19
Sales	62.5	66.2	69.6	69.1	62.4	66.5	68.2	62.3	64.2	59.0	59.1	61.7	58.4
New credit applications	62.4	60.8	62.4	60.2	59.5	61.4	61.8	61.5	61.7	56.8	53.3	58.6	61.2
Dollar collections	59.5	46.1	63.5	63.3	61.5	62.4	59.0	58.5	61.6	59.0	58.4	60.5	57.8
Amount of credit extended	65.3	66.0	66.4	65.7	65.1	67.1	68.5	63.7	65.4	60.9	60.3	59.2	63.9
Index of favorable factors	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**
Rejections of credit applications	54.1	52.4	53.4	50.6	53.5	53.7	53.1	51.9	53.1	51.6	53.3	53.5	53.2
Accounts placed for collection	51.0	49.8	51.3	50.6	50.6	49.6	51.2	49.1	49.2	50.3	49.7	50.5	46.8
Disputes	46.0	48.0	46.9	47.9	47.0	45.8	48.7	48.7	49.6	48.6	46.8	48.7	50.2
Dollar amount beyond terms	46.5	46.8	50.2	48.7	48.1	48.4	50.2	49.1	50.3	50.0	49.1	52.8	51.0
Dollar amount of customer deductions	48.7	48.4	48.4	46.6	46.9	48.1	47.4	48.0	48.6	49.1	46.7	49.3	48.4
Filings for bankruptcies	55.6	55.1	58.0	56.2	59.1	56.0	56.0	50.9	52.2	54.4	54.0	53.3	54.6
Index of unfavorable factors	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**
NACM Manufacturing CMI	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**



Service Sector

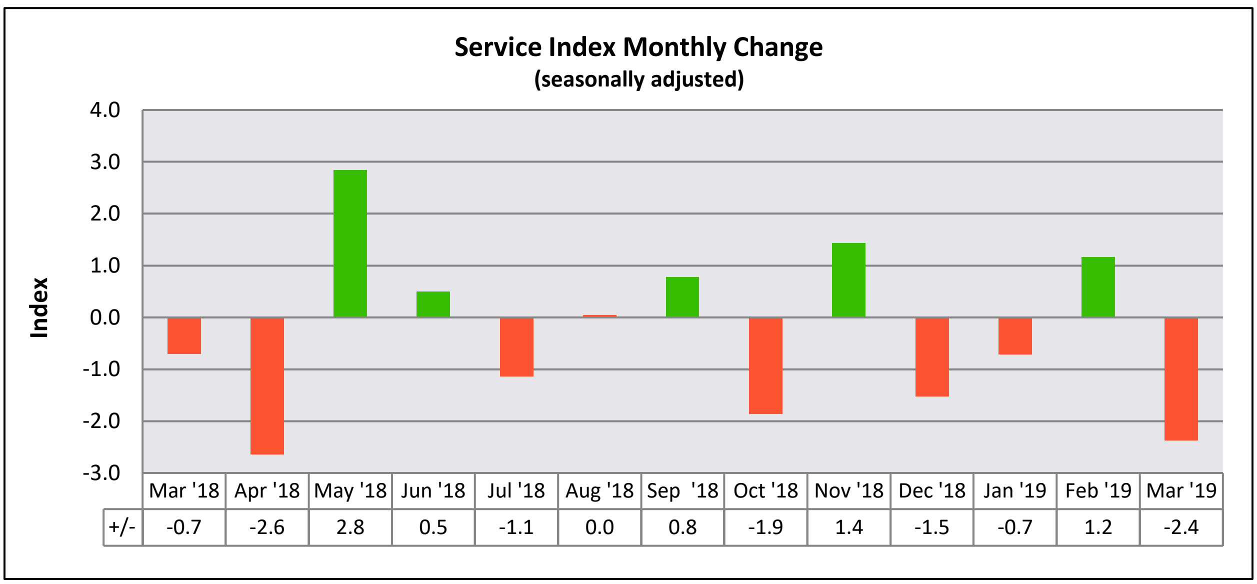
The service sector did not fare as well as manufacturing. The numbers are still in the low-50s, but have slipped a bit from what they had been the month before. “The service sector as a whole has suffered some reversals in the past several months as measured by the Purchasing Managers’ Index as well as some of the other measures of spending and consumer confidence,” Kuehl said. “The consumer is spending far less on things like entertainment and restaurant meals. There have been declines in many areas, but health care has been holding steady as usual.”

The combined score for the service sector was 52.6, down from the 55 notched last month. This remains a respectable number, but it’s slipping closer to the contraction zone. The combined score for the favorable factors slipped out of the 60s and is now sitting at 57.7, as compared to the 61.5 in February. This is the lowest point this index has reached in over a year. The combined score for the nonfavorable factors dropped into the contraction zone with a reading of 49.1 compared to 50.6 the month before.

The sales category saw a major dip—from 63.5 to 58, the lowest point reached in close to three years. Kuehl explained the numbers are still in the high 50s, so there is no need to panic, but it isn’t the trend that anyone would prefer. The new credit applications data also fell hard as it moved from 59.2 to 54.3. “There is obviously a lot more trepidation regarding requests for credit.” The dollar collections data also fell off, but not quite as dramatically (57.7 to 55.5) and the amount of credit extended skidded as well, but still managed to stay in the 60s with a reading of 63.2 compared to 65.5 in February.

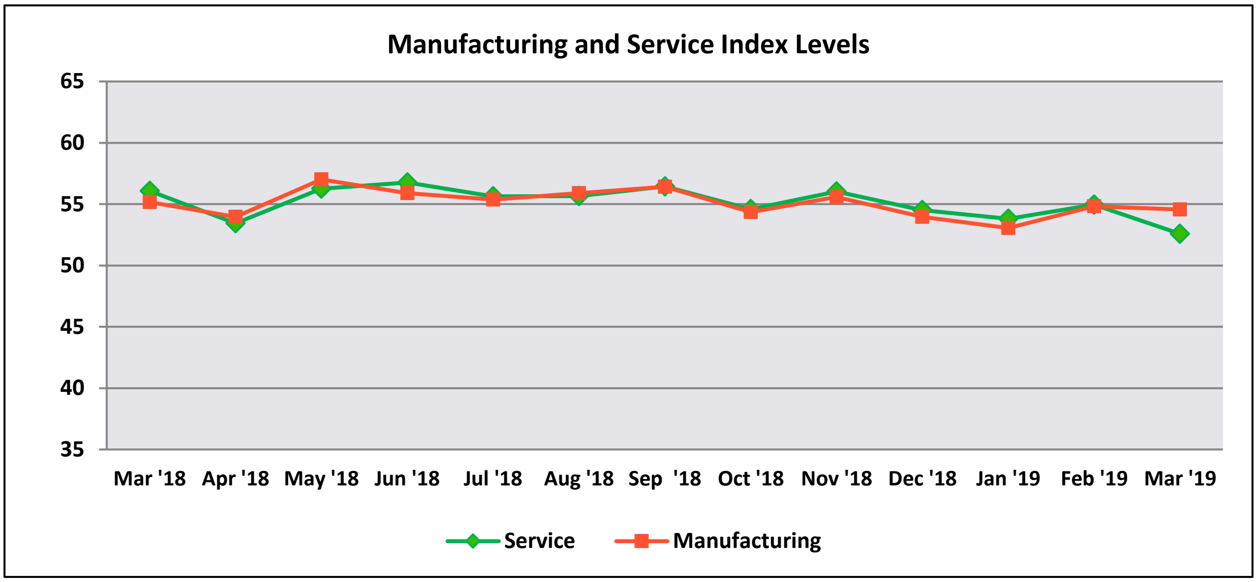
The rejections of credit applications slid a bit from 50.8 to 49.1, but the shift was not all that dramatic. He noted that given the reduced number of new applications, it would seem to indicate that those applying are quality applicants. Accounts placed for collection went from 47.5 to 46—not a major drop but heading the wrong direction. The disputes reading stayed very close to what it was the month before (48.3 to 48.9). The dollar amount beyond terms category also changed very little. That is also good news. It was at 49.8 and is now at 49. This is still not in the expansion zone, but is certainly close to breaking out of contraction. Dollar amount of customer deductions shifted from 50.6 to 49.1—not a major dip, but another marker that has now fallen into the contraction zone. Filings for bankruptcies slipped from 56.5 to 52.7; not a welcome piece of news, but at least this category is staying in the 50s which is more than can be said for any of the others. Kuehl summarized the service sector: “This marks the first time in over a year there have been so many categories stuck in the contraction zone.”

Service Sector (seasonally adjusted)	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**	**Feb '19**	**Mar '19**
Sales	65.8	65.5	69.6	70.1	65.3	63.4	69.4	63.2	64.9	59.0	60.3	63.5	58.0
New credit applications	63.0	63.6	65.1	60.9	63.0	63.5	62.0	61.9	62.7	58.2	63.0	59.2	54.3
Dollar collections	59.8	47.3	61.5	63.0	60.5	62.9	66.5	56.4	60.1	59.6	59.6	57.7	55.5
Amount of credit extended	67.2	66.2	67.2	66.8	67.2	66.7	65.8	65.2	65.2	63.0	62.1	65.5	63.2
Index of favorable factors	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**
Rejections of credit applications	52.4	49.5	49.2	51.8	51.5	50.7	50.5	50.9	49.7	51.2	50.3	50.8	49.1
Accounts placed for collection	49.7	47.7	46.7	52.0	49.3	48.5	49.2	48.4	47.2	49.1	46.7	47.5	46.0
Disputes	49.3	47.9	49.3	48.6	48.3	47.0	46.4	49.1	50.6	50.5	47.4	48.3	48.9
Dollar amount beyond terms	47.8	46.0	48.5	49.7	46.8	48.6	49.6	46.3	54.3	48.5	45.7	49.8	49.0
Dollar amount of customer deductions	50.9	48.3	50.9	49.6	48.8	49.3	49.7	51.1	50.7	50.3	49.2	50.6	49.1
Filings for bankruptcies	54.8	52.4	54.8	55.1	55.8	55.9	55.3	53.2	54.9	55.6	53.6	56.5	52.7
Index of unfavorable factors	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**
NACM Service CMI	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**



March 2019 versus March 2018

In conclusion, “This month the index fell a little,” Kuehl said. “But it seems to be mostly due to weak service sector activity as manufacturing more or less held its own.”



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:

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

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, 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 11,000 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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