Report for April 2019

Issued April 30, 2019

National Association of Credit Management

Combined Sectors

In March, the consumer sector was the one that let the economy down, but this month that same consumer is playing a more heroic role. The data in April's Credit Managers' Index (CMI) showed a slowdown in the manufacturing sector after a robust month in March. "April's service sector is demonstrating all the growth, while the manufacturing sector slumped," said NACM Economist Chris Kuehl, Ph.D. "This matches pretty well with other data that has been coming in from the data analysts. The latest retail numbers were unexpectedly strong with growth at 1.6% when expectations were for growth of maybe 1%. Last month, there was a fall in the data despite the fact that consumer confidence numbers have been essentially solid—if not particularly impressive."

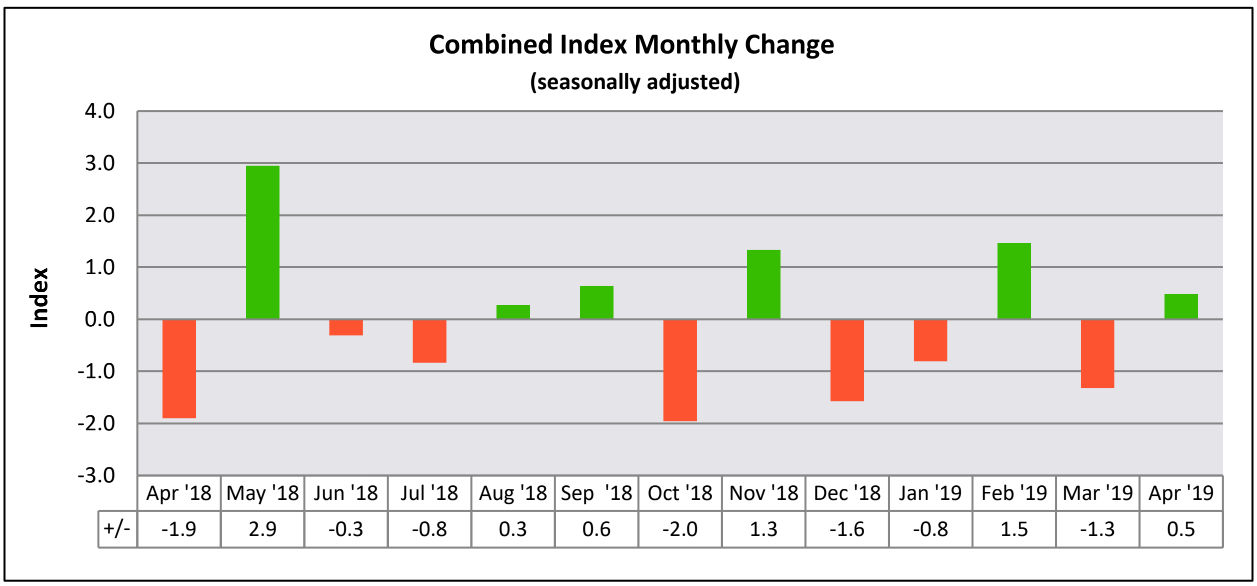
The combined score for April's CMI is 54, an improvement over the 53.6 notched the month prior. Over the last several months, there has not been a great deal of variability in the combined score. The high point was reached in May of 2018, when it hit 56.6. It was also at or above 56 three times in the last 12 months. The low point was this January when it hit 53.4, followed by last year's readings of 53.7 in April and 53.6 in March. The range has been fairly narrow. The combined index for favorable factors jumped back into the 60s with a reading of 60.1—about where it had been in February. The combined score for the unfavorable factors moved out of the contraction zone (a score below 50) by the narrowest of margins with a reading of 50 after last month's 49.9.

As is usually the case, there was quite a bit of interesting data in the subsectors. The sales data jumped back into the 60s with a reading of 61 after stumbling a little to 58.2 the month before. New credit applications also improved with a move from 57.8 to 59.7, but this category had been in the 60s for most of the last few years, although it started to fall into the 50s in December. The dollar collections data also improved, but not quite enough to break into the 60s. It is at 59.1 after reading 56.6 in March. The amount of credit extended stayed in the 60s, but fell a little from 63.5 to 60.6.

There was more variability in the unfavorable factors. Rejections of credit applications improved a little and stayed comfortably in expansion territory. The reading last month was 51.2 and this month the data was at 52. Accounts placed for collection remained in the 40s, but improved from last month. It was at 46.4, the lowest point seen in several years. Now it is at 48.5, basically in the range that has been dominant most of the past 12 months. In contrast, the disputes category slipped further into the contraction zone with a reading of 48.5 after a reading of 49.5 in March. Dollar amount beyond terms fell out of the expansion zone with a reading of 47.6 after hitting 50 the month prior. Dollar amount of customer deductions improved a little with a reading of 49.7 compared to 48.8 the month prior. Filings for bankruptcies stayed very close to what it had been moving from 53.7 in March to 53.9 in April.

Kuehl noted that by and large the readings improved this month, but the real news has been the changing position of manufacturing and service sectors. "At this stage it is not clear what is causing the shifts in these sectors and it is certainly too early to identify any kind of a trend."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19
Sales	65.8	69.6	69.6	63.9	65.0	68.8	62.7	64.5	59.0	59.7	62.6	58.2	61.0
New credit applications	62.2	63.8	60.5	61.2	62.5	61.9	61.7	62.2	57.5	58.2	58.9	57.8	59.7
Dollar collections	46.7	62.5	63.2	61.0	62.6	62.8	57.5	60.9	59.3	59.0	59.1	56.6	59.1
Amount of credit extended	66.1	66.8	66.2	66.1	66.9	67.1	64.5	65.3	61.9	61.2	62.3	63.5	60.6
Index of favorable factors	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**
Rejections of credit applications	51.0	51.3	51.2	52.5	52.2	51.8	51.4	51.4	51.4	51.8	52.1	51.2	52.0
Accounts placed for collection	48.7	49.0	51.3	49.9	49.0	50.2	48.8	48.2	49.7	48.2	49.0	46.4	48.5
Disputes	48.0	48.1	48.3	47.7	46.4	47.6	48.9	50.1	49.6	47.1	48.5	49.5	48.5
Dollar amount beyond terms	46.4	49.4	49.2	47.4	48.5	49.9	47.7	52.3	49.3	47.4	51.3	50.0	47.6
Dollar amount of customer deductions	48.4	49.7	48.1	47.9	48.7	48.6	49.5	49.6	49.7	48.0	50.0	48.8	49.7
Filings for bankruptcies	53.8	56.4	55.7	57.4	55.9	55.6	52.1	53.6	55.0	53.8	54.9	53.7	53.9
Index of unfavorable factors	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**
NACM Combined CMI	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**



Manufacturing Sector

Kuehl said the manufacturing data from last month was strong. Much of the gain in the CMI in March was due to improvements in the performance of the manufacturing community. “It is not that conditions have dramatically changed, but some of the enthusiasm has faded. This has been reflected in some of the other manufacturing data released of late—the Fed’s industrial index fell and there was some decline in the latest Purchasing Managers’ Index (mostly in the New Orders Data).”

The combined score for the manufacturing sector dropped from 54.6 to 53.7, taking this data to the low side of where it has been the last year. The numbers fell to 53.1 in January, but most of the readings for the last year have been in the 55 to 57 range—at least in the last few months. The combined score for the favorable factors fell out of the 60s for the first time since January with a reading of 58.9 after a March’s 60.3 and a February reading of 60.

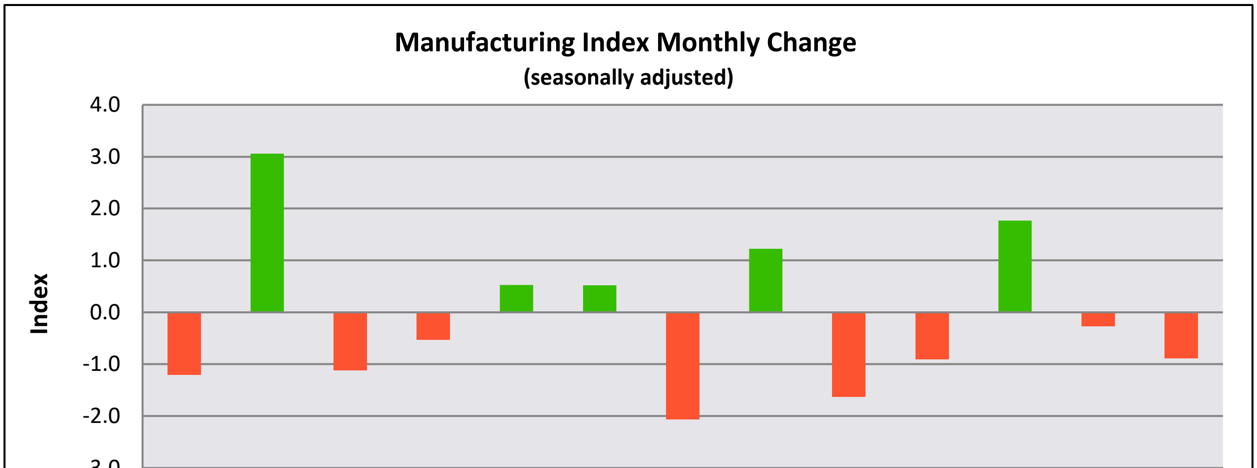
The combined score for the unfavorable factors stayed in the expansion zone with a reading of 50.2 following 50.7 the month before.

The data in the subsectors showed some declines in select areas, but steady performance in others. The sales data stayed very close to what it had been—58.6 compared to 58.4 the month before. New credit applications slipped out of the 60s going from 61.2 to 59.8. The dollar collections data improved—always good news. It went from 57.8 to 58.6, but there was a big decline in the amount of credit extended as it moved from 63.9 to 58.5. "Compared to the months before, there were no readings for the manufacturing favorables in the 60s, which has not happened in well over a year," Kuehl said.

Rejections of credit applications stayed almost exactly where it had been the month before—dipping slightly to 53.1 after being at 53.2. Accounts placed for collection improved quite a bit from 46.8 to 49.3, but it remains in the contraction zone. There was a significant decline in the disputes category. It is now in contraction territory with a reading of 47.7 after one of 50.2 in March. Dollar amount beyond terms also fell out of the expansion zone with a reading of 48.5. This is in sharp contrast with the 51 noted in March. Dollar amount of customer deductions improved slightly (48.4 to 49.5). Better than last month, but still in contraction territory. Filings for bankruptcies slipped a little but stayed in the 50s with a reading of 53.3 following the March reading of 54.6.

"There is not a lot of consensus about what has been pushing manufacturing up and down of late, but the dominant view is that uncertainty in the trade sector has played a big role," Kuehl said. "There have been on again and off again tariff threats, while manufacturers have been struggling to keep track of the changes that have swept through various trade talks. One minute there is no hope for a pact with China and the next minute it seems imminent. Then five minutes later there is an impasse that can't be overcome. This has also been an issue with Europe and with the reconfigured NAFTA (USMCA)."

Manufacturing Sector (seasonally adjusted)	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19
Sales	66.2	69.6	69.1	62.4	66.5	68.2	62.3	64.2	59.0	59.1	61.7	58.4	58.6
New credit applications	60.8	62.4	60.2	59.5	61.4	61.8	61.5	61.7	56.8	53.3	58.6	61.2	59.8
Dollar collections	46.1	63.5	63.3	61.5	62.4	59.0	58.5	61.6	59.0	58.4	60.5	57.8	58.6
Amount of credit extended	66.0	66.4	65.7	65.1	67.1	68.5	63.7	65.4	60.9	60.3	59.2	63.9	58.5
Index of favorable factors	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**
Rejections of credit applications	52.4	53.4	50.6	53.5	53.7	53.1	51.9	53.1	51.6	53.3	53.5	53.2	53.1
Accounts placed for collection	49.8	51.3	50.6	50.6	49.6	51.2	49.1	49.2	50.3	49.7	50.5	46.8	49.3
Disputes	48.0	46.9	47.9	47.0	45.8	48.7	48.7	49.6	48.6	46.8	48.7	50.2	47.7
Dollar amount beyond terms	46.8	50.2	48.7	48.1	48.4	50.2	49.1	50.3	50.0	49.1	52.8	51.0	48.5
Dollar amount of customer deductions	48.4	48.4	46.6	46.9	48.1	47.4	48.0	48.6	49.1	46.7	49.3	48.4	49.5
Filings for bankruptcies	55.1	58.0	56.2	59.1	56.0	56.0	50.9	52.2	54.4	54.0	53.3	54.6	53.3
Index of unfavorable factors	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**
NACM Manufacturing CMI	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**



	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19
+/-	-1.2	3.1	-1.1	-0.5	0.5	0.5	-2.1	1.2	-1.6	-0.9	1.8	-0.3	-0.9

Service Sector

What a difference a month seems to make. Kuehl explained that last month it was the retail sector that was worrying everyone—consumer confidence was ebbing and retail activity was lackluster at best. Fast forward to April and the consumer has woken up along with the daffodils and grape hyacinths. The jump in retail activity was wholly unexpected as most analysts put the expansion at no more than 1% (and that was from the optimists). The actual growth was 1.6% with this activity spread around over several sectors. “The biggest gains were seen in gas stations as the price of fuel has gone up, but there were gains in terms of clothing sales, furniture and car parts. About the only area where gains were missing were in sporting goods—even luxury goods got a boost. All that activity showed up in the CMI data as well.”

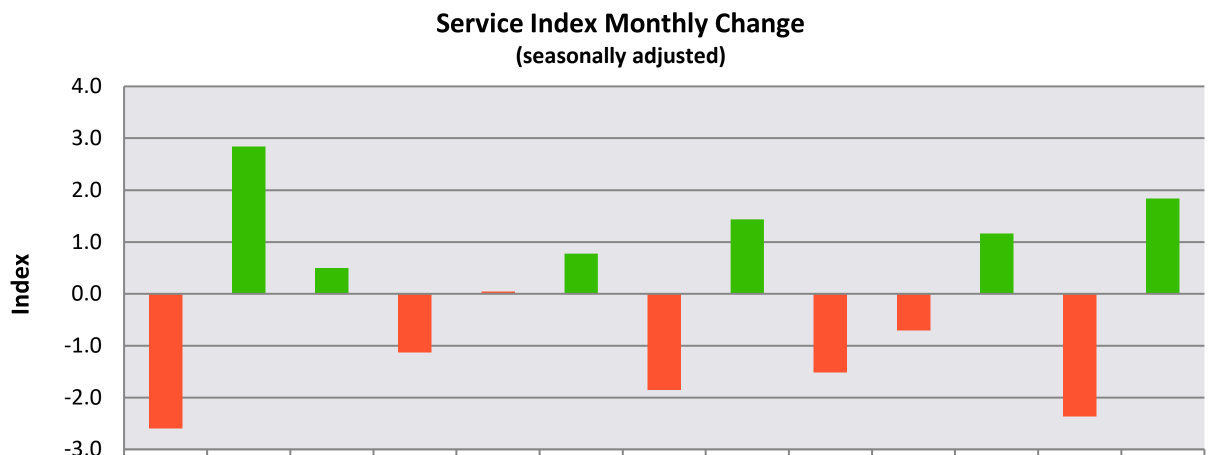
The combined score for the service sector was 54.4, which compares very nicely with the 52.6 in March. This month saw the data return to the levels that had been seen over the last few months. “The majority of the service sector growth came from retail,” Kuehl said. The combined score for the favorable factors also jumped and ended up at 61.3 after languishing at 57.7 the month before. In the last year, there have only been two months when the combined score was not in the 60s. The combined score for the unfavorables was 49.8—still stuck in the contraction zone. It is, however, even closer to the 50 line than it was the month before when it was 49.1.

Kuehl explained that sales made a dramatic comeback and retail was the impetus behind this surge. Sales is now sitting at 63.4; it was at 58. There have only been two months when the readings were below 60 and last month was one of them (the other was December of last year). The new credit applications numbers are very close to that 60 line as well—reading at 59.6 compared to 54.3 last month. That is a substantial jump. Dollar collections also crept ever closer to the 60 line with a reading of 59.6 from the 55.5 notched in March. Amount of credit extended remained in the 60s, but fell a little from 63.2 to 62.7. “It seems that some of the order activity is a little calmer than it has been but the data is still very strong,” he said.

The rejections of credit applications numbers improved and moved into the expansion zone, albeit by a very narrow margin (from 49.1 to 50.8). Accounts placed for collection moved up a little but did not break into expansion territory. It was at 46 and now is back to 47.7. Kuehl noted that this is not earth shattering, but that 46 reading had been very worrying and it is good to see the numbers moving in the right direction this month. The disputes numbers also improved, but not quite enough to break out of contraction territory—it was at 48.9 and now sits just south of expansion at 49.4. The dollar amount beyond terms category slipped, perhaps the most distressing reading of them all. He said, “In past months, there has been a connection between an expansion of slow pays and more serious credit issues. Dollar amount beyond terms last month was within shouting distance of the expansion zone with a reading of 49, but this month there has been a big fall—all the way to 46.7. If this pattern continues, it is expected that other areas will suffer—accounts out for collection and even bankruptcies." Dollar amount of customer deductions rose a little closer toward expansion but is still just short at 49.8—compared to the 49.1 the month prior. There was a nice rebound as far as filings for bankruptcies as the new reading is 54.6 after last month came in at 52.7. March had been the lowest reading seen since the numbers in April of last year when filings fell to 52.4. Now it is back to what has been considered normal for much of the year.

"Will retail continue to push economic expansion? There are as many reasons to think it might as there are reasons to think it will start to fade," Kuehl said. "The good news is that unemployment numbers are still encouraging and there have been some recent pay hikes. The tax cut enthusiasm of last year has faded, but so has fear of rapid inflation and a subsequent slide into recession. On the negative side, there are signs that housing and automotive are stalling as far as economic drivers, while the trade war has started to affect the consumer."

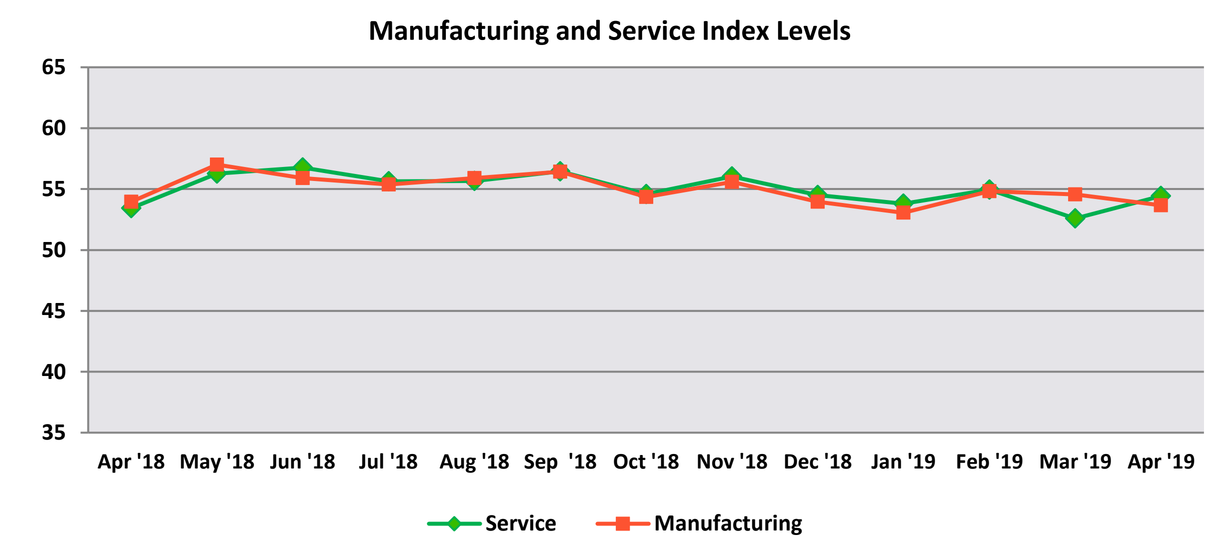
Service Sector **(seasonally adjusted)**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**	**Feb '19**	**Mar '19**	**Apr '19**
Sales	65.5	69.6	70.1	65.3	63.4	69.4	63.2	64.9	59.0	60.3	63.5	58.0	63.4
New credit applications	63.6	65.1	60.9	63.0	63.5	62.0	61.9	62.7	58.2	63.0	59.2	54.3	59.6
Dollar collections	47.3	61.5	63.0	60.5	62.9	66.5	56.4	60.1	59.6	59.6	57.7	55.5	59.6
Amount of credit extended	66.2	67.2	66.8	67.2	66.7	65.8	65.2	65.2	63.0	62.1	65.5	63.2	62.7
Index of favorable factors	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**
Rejections of credit applications	49.5	49.2	51.8	51.5	50.7	50.5	50.9	49.7	51.2	50.3	50.8	49.1	50.8
Accounts placed for collection	47.7	46.7	52.0	49.3	48.5	49.2	48.4	47.2	49.1	46.7	47.5	46.0	47.7
Disputes	47.9	49.3	48.6	48.3	47.0	46.4	49.1	50.6	50.5	47.4	48.3	48.9	49.4
Dollar amount beyond terms	46.0	48.5	49.7	46.8	48.6	49.6	46.3	54.3	48.5	45.7	49.8	49.0	46.7
Dollar amount of customer deductions	48.3	50.9	49.6	48.8	49.3	49.7	51.1	50.7	50.3	49.2	50.6	49.1	49.8
Filings for bankruptcies	52.4	54.8	55.1	55.8	55.9	55.3	53.2	54.9	55.6	53.6	56.5	52.7	54.6
Index of unfavorable factors	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**
NACM Service CMI	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**



	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19
+/-	-2.6	2.8	0.5	-1.1	0.0	0.8	-1.9	1.4	-1.5	-0.7	1.2	-2.4	1.8

April 2019 versus April 2018

"Once again, we have another shift in momentum," Kuehl said. "Every time this happens it is tempting to declare this is finally a sign of a trend, but as soon as that statement is made, the data shifts again, and in the opposite direction. Now, it would seem to be in a steady state for the time being."



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.

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

NACM
National Association of Credit Management