



## Report for January 2016

Issued January 29, 2016

National Association of Credit Management

### Combined Sectors

Add the National Association of Credit Management's Credit Managers' Index (CMI) for January to the list of data sources pointing in a positive direction despite the turmoil in the markets.

"Unless you have been on an extended vacation through the first of the year, you have noticed there has been some pretty wild and panicked behavior in the markets," said NACM Economist, Chris Kuehl, Ph.D. However, the underlying economic data have not been supporting this kind of panic. Most of the data coming from housing and employment has been generally positive and there has even been decent news from some sectors of the manufacturing community.

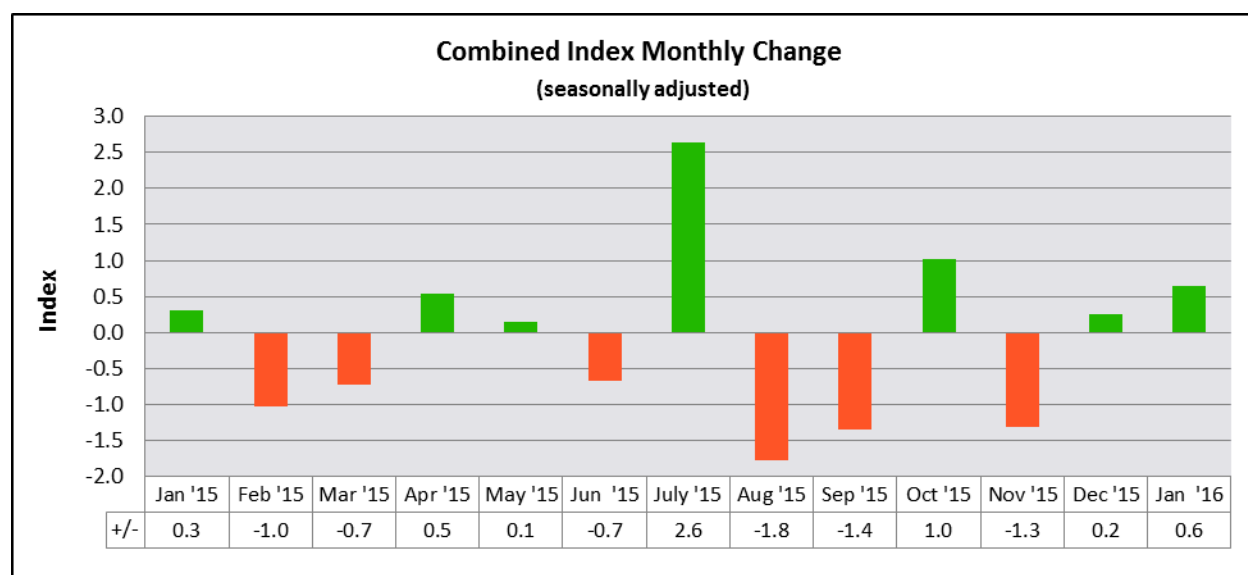
The combined reading for the CMI moved up from 52.8 to 53.5, returning numbers to what they were in October of last year. This is still off from the high point of 56 in July, but the trend is certainly moving in the right direction of late. The combined favorable factors surged from 56.6 to 58.2, which gets the index back to where it was towards the start of the fourth quarter. The combined unfavorable reading didn't get any better, but it didn't get any worse either, staying at 50.3. The good news is that some had assumed this reading would slip into the contraction zone (any reading below 50) by now, but it has managed to avoid that fate so far.

The sub-index readings are informative as usual. The sales category didn't shift all that much as it moved from 55 to 55.8. It remains a far cry from the 65.1 reading notched last July, but the good news is that the decline that started in October has been reversed. The new credit applications category improved quite a lot from 56.4 to 58.1 and that is solid news. Kuehl explained, "It suggests there is interest in new credit and that means that companies are considering expansion. The cautionary note here is that there was an increase in rejection of credit applications in the unfavorable indices." The dollar collections category also moved up from 55.8 to 57.8, bringing numbers back to results from the end of last summer when there was more enthusiasm regarding the recovery. The reading for amount of credit extended made it back into the 60s after languishing in the 50s in December. "This suggests that there are some good customers with good credit that are availing themselves of credit and expanding in one way or another," Kuehl said.

The data on the unfavorable categories are not as encouraging, but at least the big declines seem to have come to an end for now. As mentioned above, there was a small decline in the category of rejections of credit applications from 52.8 to 52.2. This is a small movement to be sure, but it happens at the same time there had been improvement in the new credit application category. This suggests there are companies that are seeking credit in desperation, hoping that somebody will throw them a line. That is not happening much of late.

There was reversal in the category of accounts placed for collection; it has now slipped below 50 by shifting from 50.2 to 49.4. There are more and more companies that have reached the point at which collections activity is the only option. The reading for disputes has not changed from last month and remains in the contraction zone at 48.6. There was a slight improvement in the category of dollar amount beyond terms, but it is still in contraction territory at 48.6, but up from the 48 registered last month. The category of dollar amount of customer deductions improved significantly, from 48.5 to 49.5. The filings for bankruptcies reading improved by the smallest of margins—53.7 to 53.8. The number of sub-categories in contraction territory is now at four—last month only three dipped into the contraction zone, showing that there are still many companies in some economic distress.

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16
Sales	61.5	58.9	58.4	59.1	57.1	56.6	65.1	57.9	56.4	58.3	56.0	55.0	55.8
New credit applications	58.3	58.0	56.6	58.6	58.5	60.5	60.8	57.7	58.1	58.9	58.0	56.4	58.1
Dollar collections	60.1	57.4	57.6	58.8	57.5	56.8	61.9	58.3	56.4	56.7	55.7	55.8	57.8
Amount of credit extended	62.2	60.5	60.6	62.6	62.0	64.5	66.4	63.0	60.1	63.7	61.0	59.4	61.0
<b>Index of favorable factors</b>	<b>60.5</b>	<b>58.7</b>	<b>58.3</b>	<b>59.8</b>	<b>58.8</b>	<b>59.6</b>	<b>63.5</b>	<b>59.2</b>	<b>57.7</b>	<b>59.4</b>	<b>57.7</b>	<b>56.6</b>	<b>58.2</b>
Rejections of credit applications	51.9	51.4	52.6	52.3	51.9	50.8	51.8	51.3	51.3	51.4	51.0	52.8	52.2
Accounts placed for collection	50.1	50.8	49.8	49.8	51.1	47.8	50.3	51.2	49.3	50.0	47.1	50.2	49.4
Disputes	49.5	48.8	49.0	47.2	48.0	48.2	49.9	49.5	47.5	48.5	48.4	48.6	48.6
Dollar amount beyond terms	50.6	48.4	45.5	48.8	50.7	46.8	49.1	49.3	47.0	47.8	47.4	48.0	48.6
Dollar amount of customer deductions	50.2	51.8	48.7	47.4	47.8	49.5	49.3	49.9	49.4	50.1	48.9	48.5	49.5
Filings for bankruptcies	56.9	55.0	55.1	54.6	56.0	52.5	55.6	54.4	53.3	53.6	52.5	53.7	53.8
<b>Index of unfavorable factors</b>	<b>51.5</b>	<b>51.0</b>	<b>50.1</b>	<b>50.0</b>	<b>50.9</b>	<b>49.2</b>	<b>51.0</b>	<b>50.9</b>	<b>49.7</b>	<b>50.2</b>	<b>49.2</b>	<b>50.3</b>	<b>50.3</b>
<b>NACM Combined CMI</b>	<b>55.1</b>	<b>54.1</b>	<b>53.4</b>	<b>53.9</b>	<b>54.1</b>	<b>53.4</b>	<b>56.0</b>	<b>54.2</b>	<b>52.9</b>	<b>53.9</b>	<b>52.6</b>	<b>52.8</b>	<b>53.5</b>



## Manufacturing Sector

There has been considerable difference of opinion as far as the status of manufacturing in the United States. One analyst may be asserting that manufacturing is in full-on recession already, and another is asserting the year looks pretty promising. It reminds one of the parable of the blind man and the elephant with each describing only what they can feel in front of them. Those that have looked at manufacturing as connected to the energy sector are justifiably depressed, but those that are in automotive are feeling pretty good about the coming year. In general, the CMI report is more upbeat than has been the case in the recent past.

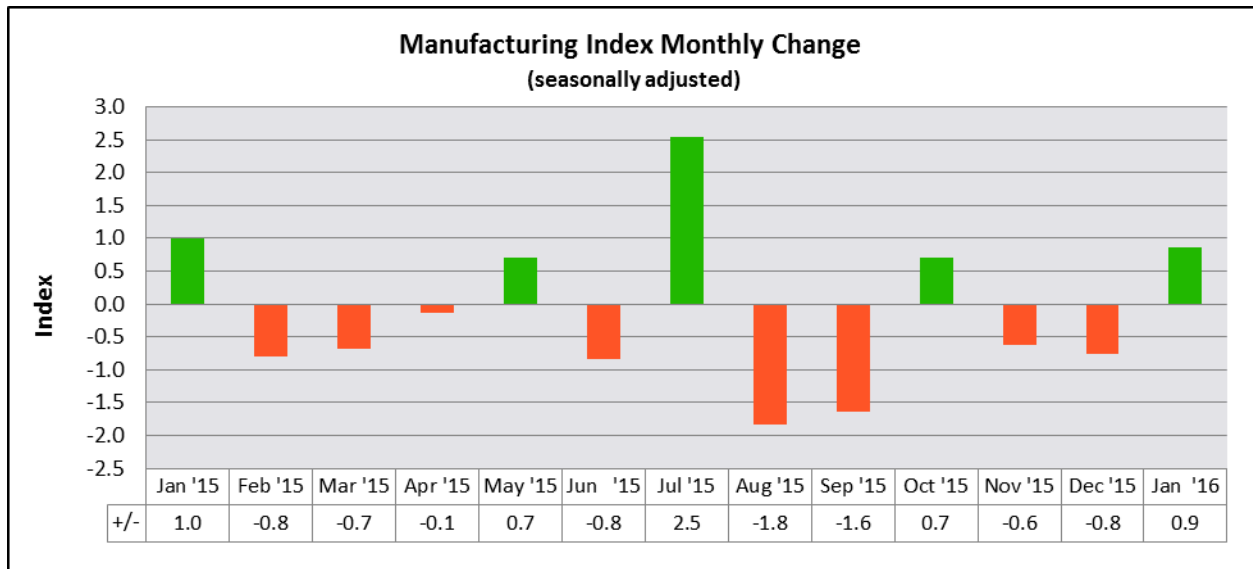
The combined CMI score for manufacturing has improved as it has increased from 51.6 to 52.5. This is not spectacular by any stretch, but is now higher than at any time since last October. The data for the favorable factors showed a nice jump from 54.1 to 56.2, comparative to levels seen last October. The combined index for the

unfavorable factors remained unchanged, just like the overall CMI unfavorable index. The reading has remained at 49.9—about as close as it can get to expansion without actually getting there.

The specifics are the most interesting, as one would expect. The sales category moved up nicely from 51.9 to 54.3, still not what it was through most of last year, but trending in the right direction. The new credit applications reading jumped from 54 to 55.4. That is a good sign, but one tempered by the fact the rejections of credit application is not moving in the same direction. The dollar collections numbers improved a bit as the reading went from 55 to 55.9. This is usually a good sign of improved business conditions as it indicates that business is catching up and paying its bills. The fourth of the indicators is amount of credit extended and here there was a nice hike from 55.4 to 59.3. “Those that are seeking credit are looking for more than might have been the case a few months ago,” noted Kuehl.

The unfavorable categories didn’t see the same activity although there was some improvement in various categories. The rejections of credit applications slipped from 54.1 to 52.4 and that is the opposite trend from the favorable category of new applications. As mentioned in the review of the combined CMI, there are companies that are in trouble right now and seek someone to throw them a lifeline by offering credit when that would likely be a bad idea. “Many of the companies are not offering that credit rescue these days and thus reject a lot of the applications that are coming in,” Kuehl said The accounts placed for collection category also slid a bit from 49.3 to 48.5 and that is certainly not a welcome sign either. The disputes category stayed right where it was last month at 47.1, while dollar amount beyond terms finally rose above the 50 barrier for the first time since August—it went increased 48.8 to 50.3. This is another indication that creditors are trying to catch up as they are preparing to ask for more credit at some point. The dollar amount of customer deductions made some strides as well—moving from 47.3 to 49. This is close to escaping the contraction zone, but not quite. The category of filings for bankruptcies dipped a little from 52.8 to 52.3, but a modest drop like this is not of huge concern as the overall reading remains in the expansion zone.

<b>Manufacturing Sector (seasonally adjusted)</b>	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16
Sales	60.2	60.1	58.5	57.0	56.4	56.8	66.0	56.4	55.6	57.7	55.5	51.9	54.3
New credit applications	56.7	58.2	56.0	58.7	58.1	58.8	60.5	56.1	56.6	57.3	57.1	54.0	55.4
Dollar collections	60.4	57.1	57.1	57.0	55.1	58.2	59.4	57.8	56.7	56.4	55.6	55.0	55.9
Amount of credit extended	63.6	58.7	59.7	60.9	62.3	62.7	66.5	63.0	57.1	61.8	59.0	55.4	59.3
<b>Index of favorable factors</b>	<b>60.2</b>	<b>58.5</b>	<b>57.8</b>	<b>58.4</b>	<b>58.0</b>	<b>59.1</b>	<b>63.1</b>	<b>58.3</b>	<b>56.5</b>	<b>58.3</b>	<b>56.8</b>	<b>54.1</b>	<b>56.2</b>
Rejections of credit applications	52.1	52.5	53.5	53.2	53.0	49.5	52.6	51.8	51.5	51.5	52.0	54.1	52.4
Accounts placed for collection	50.6	51.8	51.4	50.8	51.6	48.3	49.7	50.7	48.5	49.5	48.6	49.3	48.5
Disputes	49.4	47.2	48.6	46.9	47.7	47.9	48.5	48.6	47.7	46.3	47.8	47.1	47.1
Dollar amount beyond terms	50.8	52.2	46.0	48.3	50.6	47.5	49.8	51.1	46.6	47.3	48.4	48.8	50.3
Dollar amount of customer deductions	49.5	48.7	48.7	45.7	48.7	49.8	48.6	48.8	49.2	48.5	47.9	47.6	49.0
Filings for bankruptcies	56.2	55.1	55.1	54.8	56.8	52.3	55.7	54.9	53.1	53.6	51.7	52.8	52.3
<b>Index of unfavorable factors</b>	<b>51.4</b>	<b>51.3</b>	<b>50.6</b>	<b>50.0</b>	<b>51.4</b>	<b>49.2</b>	<b>50.8</b>	<b>51.0</b>	<b>49.5</b>	<b>49.4</b>	<b>49.4</b>	<b>49.9</b>	<b>49.9</b>
<b>NACM Manufacturing CMI</b>	<b>55.0</b>	<b>54.2</b>	<b>53.5</b>	<b>53.3</b>	<b>54.0</b>	<b>53.2</b>	<b>55.7</b>	<b>53.9</b>	<b>52.3</b>	<b>53.0</b>	<b>52.3</b>	<b>51.6</b>	<b>52.5</b>



## Service Sector

This is often a weird time of year for tracking the service sector because serious weather and seasonal factors are at work. You have the aftermath of the holiday season to contend with and that will mean that retail and transportation will be down. The other major sector as far as services are concerned will not figure that prominently for a few more months—construction is down this time of year. This makes it hard to determine just what is moving the needle.

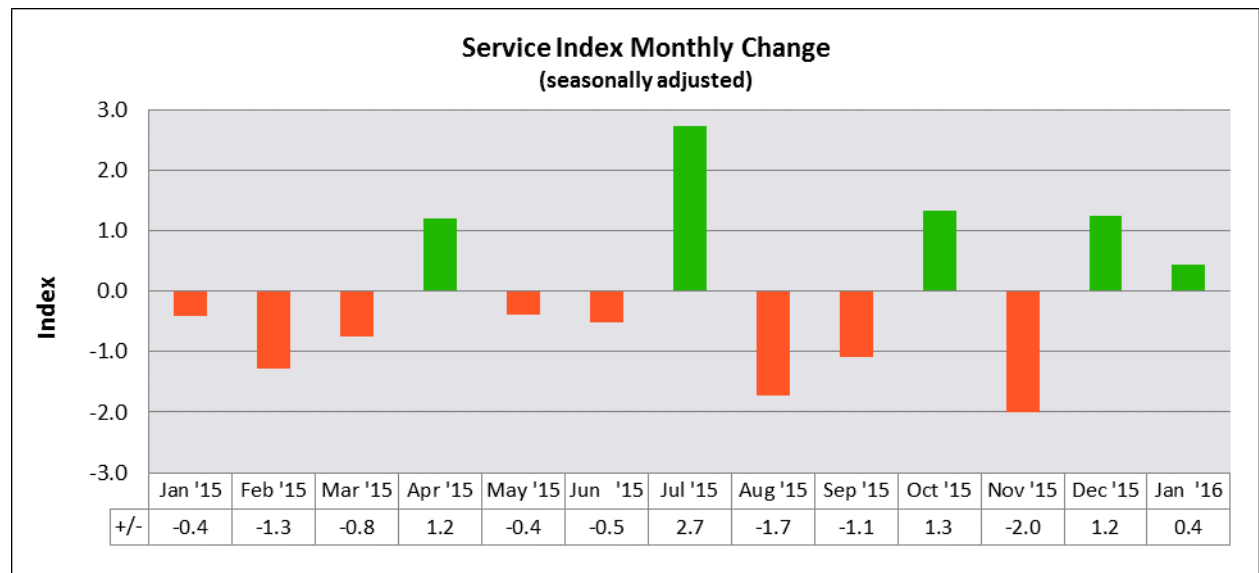
The combined reading for services trended up slightly from 54.1 to 54.5, and the biggest change was an increase in the favorable factors from 59.2 to 60.2. Breaking that 60 barrier again takes the data back to where it stood in October and that bodes well for the coming months. The combined reading for the unfavorable factors improved by just a little, moving from 50.6 to 50.8. The good news is that there has been no slide into contraction as was feared.

The details are interesting as always. The sales category went from 58.1 to 57.4, an expected drop given the end of the shopping season and the less than robust performance in the retail community. The new credit applications data looked really good as it climbed from 58.8 to 60.9, but the same caution applies here as was the case with manufacturing. There was not such good news as far as approving these credit applications, meaning that not all of those seeking credit are the customers that one would prefer to have. The dollar collection category jumped sharply from 56.6 to 59.7. This is very good news indeed as this often sinks in the months after the holidays as some businesses do not fare well in the last months of the year. They also seem to be catching up and paying their bills like those in manufacturing. The amount of credit extended slipped back, but stayed firmly in the 60s with a reading of 62.7 compared with the 63.4 last month.

The unfavorable factors were not quite as benign. The rejections of credit applications improved a bit from 51.6 to 52, but the movement was not as dramatic as the new application numbers might have suggested. The accounts placed for collection slipped a little as the readings went from 51.1 to 50.3. There are more accounts in trouble at the start of the year as retail tallies up its wins and losses. The disputes category was almost flat, moving from 50 to 50.1, the good news is that it has remained in the expansion zone rather than slipping back to contraction as was the case in November. The dollar amount beyond terms reading sank further into contraction by sliding from 47.3 to 46.8 and that is cause for some concern. “These slow pays are often a precursor for some future issues, and it is common to see the number of accounts out for collection rise when the dollars beyond terms gets worse,” Kuehl warned. The dollar amount of customer deductions made it back to 50 from 49.4. The filings for bankruptcies category improved a little as it went from 54.5 to 55.3. This is better than it looks as this is often the

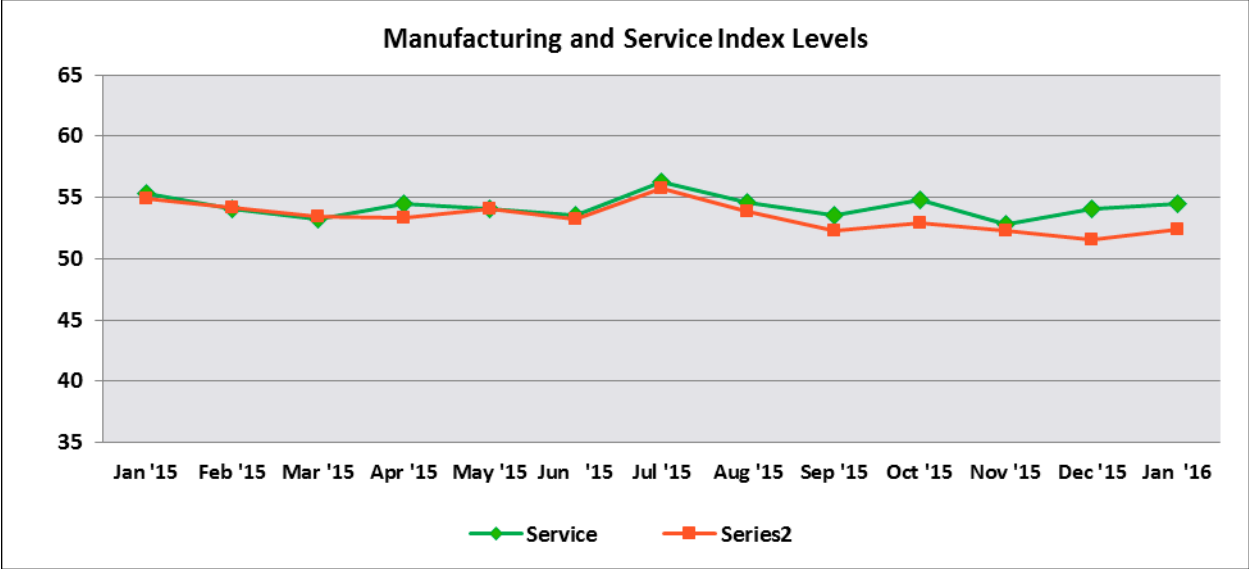
time of year that some retailers give up. If they didn't prosper in the holiday spending season, they are unlikely to last until they get another opportunity this year.

<b>Service Sector (seasonally adjusted)</b>	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16
Sales	62.8	57.7	58.3	61.1	57.9	56.3	64.3	59.5	57.2	58.9	56.5	58.1	57.4
New credit applications	60.0	57.8	57.1	58.5	58.9	62.2	61.0	59.3	59.5	60.5	58.9	58.8	60.9
Dollar collections	59.7	57.7	58.1	60.7	60.0	55.4	64.3	58.8	56.1	57.0	55.9	56.6	59.7
Amount of credit extended	60.8	62.3	61.5	64.4	61.8	66.3	66.3	63.1	63.2	65.6	63.1	63.4	62.7
<b>Index of favorable factors</b>	<b>60.8</b>	<b>58.9</b>	<b>58.7</b>	<b>61.2</b>	<b>59.6</b>	<b>60.0</b>	<b>64.0</b>	<b>60.2</b>	<b>59.0</b>	<b>60.5</b>	<b>58.6</b>	<b>59.2</b>	<b>60.2</b>
Rejections of credit applications	51.7	50.3	51.7	51.3	50.8	52.0	51.0	50.8	51.1	51.4	50.0	51.6	52.0
Accounts placed for collection	49.7	49.9	48.1	48.7	50.5	47.3	50.9	51.7	50.0	50.6	45.6	51.1	50.3
Disputes	49.5	50.4	49.4	47.5	48.4	48.5	51.3	50.4	47.4	50.7	49.0	50.0	50.1
Dollar amount beyond terms	50.5	44.7	45.1	49.2	50.7	46.1	48.5	47.5	47.4	48.4	46.3	47.3	46.8
Dollar amount of customer deductions	51.0	54.8	48.7	49.1	46.9	49.24	50.0	51.0	49.7	51.7	49.8	49.4	50.0
Filings for bankruptcies	57.6	54.9	55.0	54.3	55.1	52.6	55.6	54.0	53.6	53.6	53.2	54.5	55.3
<b>Index of unfavorable factors</b>	<b>51.7</b>	<b>50.8</b>	<b>49.7</b>	<b>50.0</b>	<b>50.4</b>	<b>49.3</b>	<b>51.2</b>	<b>50.9</b>	<b>49.9</b>	<b>51.1</b>	<b>49.0</b>	<b>50.6</b>	<b>50.8</b>
<b>NACM Service CMI</b>	<b>55.3</b>	<b>54.0</b>	<b>53.3</b>	<b>54.5</b>	<b>54.1</b>	<b>53.6</b>	<b>56.3</b>	<b>54.6</b>	<b>53.5</b>	<b>54.8</b>	<b>52.8</b>	<b>54.1</b>	<b>54.5</b>



### January 2016 versus January 2015

“The good news is that trend lines are up on both the manufacturing and service side and that promises some better news as some of the motivations for spring growth start to appear,” Kuehl concluded.



**Methodology Appendix**

CMI data has 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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors*</b>	<b>Why Unfavorable</b>
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, Maryland, 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 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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