Report for March 2017

Issued Mar. 31, 2017

National Association of Credit Management

Combined Sectors

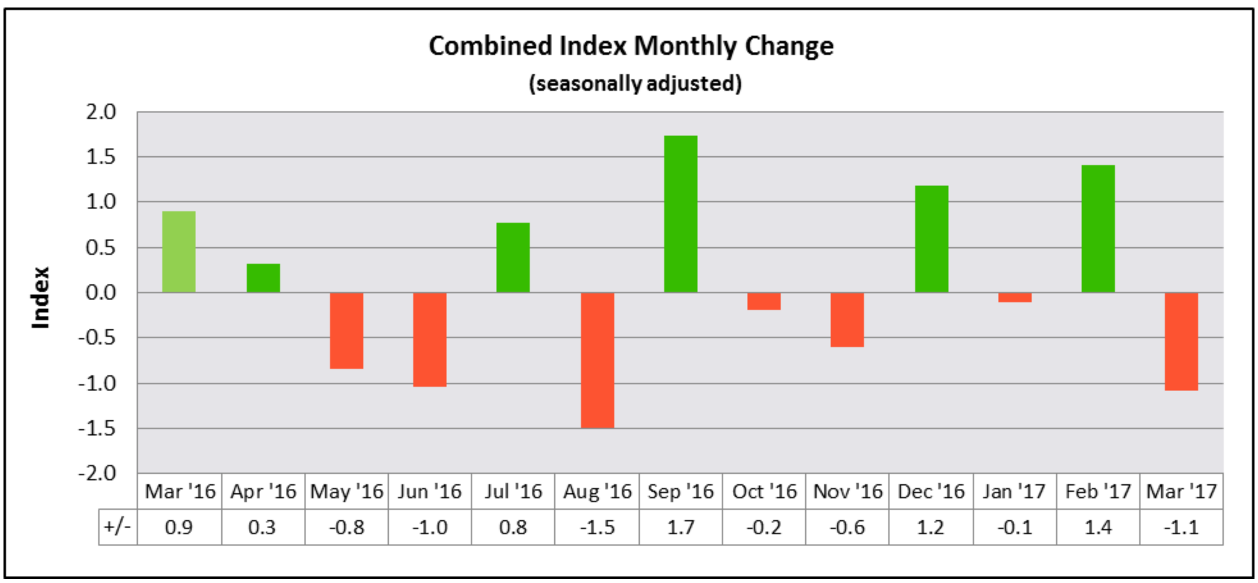
The bloom may have started to fade a bit, but the Credit Managers' Index (CMI) numbers continue to be reasonably strong. As has been pointed out over the last few months, the economy has been in a state of expectation, allowing more growth and expansion than might have been expected otherwise. The markets have certainly been frothy with anticipation, but now there seems to be some disappointment setting in. "The index survey for March was taken prior to the ACA defeat in Congress and suggests there had been some reduction in enthusiasm even prior to the legislative setback to the Trump agenda," said NACM Economist Chris Kuehl, Ph.D. "This is typical of a boom fed by expectations—patience wears thin as fast as it develops. The fact is, good numbers still dominate—they are just not quite as good as they had been."

The combined score for the CMI dipped a little from 55.4 to 54.3, despite a small gain in the unfavorable category. The very high readings in the favorable categories seen last month have faded somewhat, although most of the subcategories are still above 60. The combined favorable readings are at 60.6 after reaching 63.6 last month. This remains the third-highest reading in the last 12 months. The combined score for the unfavorable reading was 50.2, a very slight improvement over the 50 score last month. As usual, the interesting information lies in the specific subcategories.

The sales score was 61.2, down just a bit from the 62.6 notched in February. This remains the third-highest reading in the last year. The new credit applications reading slipped from 62 to 60.5, but all three months this year have been over 60. That contrasts with the previous year when that 60 barrier was never broken. The dollar collections score took the biggest hit as it went from 63 to 56.4. This is worrisome, as it suggests that a good number of companies are suddenly struggling to pay their debts. It is expected this will start to show up in the unfavorable numbers sooner than later. The amount of credit extended also fell, but is still the second-highest reading in the last year, as it went from 66.8 to 64.4. For the last several months, all the good news has been coming from the favorable readings, but this month these scores were generally lower. The encouraging data was coming from the unfavorable categories.

There was an improvement in the rejections of credit applications as it went from 51.4 to 51.6. This is significant given that there were slightly fewer applications. There was also an improved reading for accounts placed for collection, although it has not yet moved out of the 40s. It is closer, though, as it moved from 48.2 to 49.8. The score for disputes (48.5) fell slightly and remains firmly in contraction territory at 48.7. The dollar amount beyond terms slumped badly, consistent with the drop in dollar collections noted in the favorable category analysis. It was at 51 and slipped back into the 40s with a reading of 47.4. The dollar amount of customer deductions sported an improvement and is very close to exiting contraction territory as it went from 47.6 to 49.8. There was a slight improvement in the filings for bankruptcies category as well, moving from 53.2 to 53.8. The overall improvement in the unfavorable category was very slight. "The numbers are essentially flat, but that is better news than has been the case in earlier months when the sections continued to show stress," said Kuehl. "Right now, there are two categories that are in expansion territory and four that are still in contraction, but it is encouraging to note that two of these categories are very close to the 50 level with readings of 49.8. The hope is that they trend a little higher in the months to come."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17
Sales	59.2	59.8	56.7	56.9	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2
New credit applications	59.8	58.5	56.6	56.6	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5
Dollar collections	59.6	57.5	57.4	57.1	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4
Amount of credit extended	61.7	60.9	61.0	57.6	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4
Index of favorable factors	**60.0**	**59.2**	**57.9**	**57.0**	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**	**60.8**	**63.6**	**60.6**
Rejections of credit applications	51.2	52.2	51.9	51.2	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6
Accounts placed for collection	48.5	50.9	50.5	48.8	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8
Disputes	50.8	50.8	50.8	49.5	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5
Dollar amount beyond terms	50.8	51.2	49.2	49.0	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4
Dollar amount of customer deductions	49.8	50.7	50.7	49.6	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8
Filings for bankruptcies	52.2	53.8	53.0	51.1	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8
Index of unfavorable factors	**50.6**	**51.6**	**51.0**	**49.9**	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**	**49.5**	**50.0**	**50.2**
NACM Combined CMI	**54.3**	**54.6**	**53.8**	**52.7**	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**	**54.0**	**55.4**	**54.3**



Manufacturing Sector

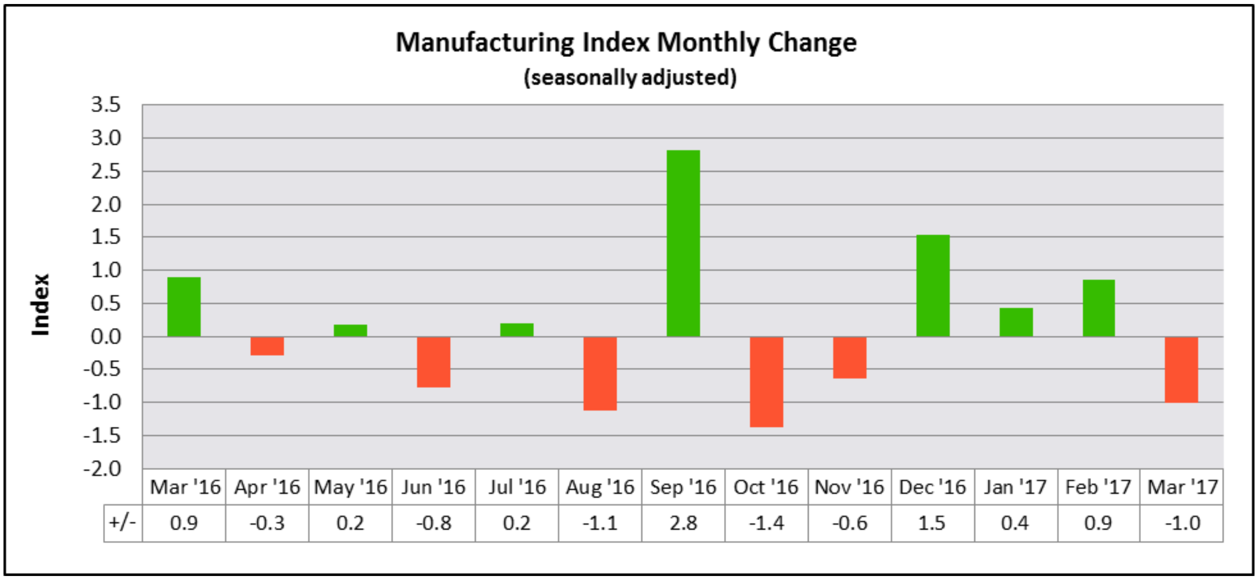
The scores for the manufacturing sector slipped a bit as far as the favorable categories are concerned, but there was a minor (but encouraging) improvement in the unfavorable categories. The combined score for the manufacturing sector was 54.1, down from 55.1. This is still a good number, but the trend is not heading in the right direction. The combined score for the favorable factors slipped quite a bit from last month’s 63.4 to this month’s 60.2. It is still above 60, but only barely. The combined unfavorable reading improved slightly from 49.6 to 50, but it is certainly encouraging to get back to expansion territory—if only by a slim margin.

The sales category stayed positive and actually improved over what it was last month, going from 60.7 to 61.7. The new credit applications category fell out of the 60s with a reading of 59.7 compared to the 61.6 that was notched the month prior. The dollar collections reading was the one that dragged this whole sector down as it fell hard from 64.1 to 56.1. Kuehl pointed out that there is some obvious distress manifesting as companies seem to be struggling to stay current with their debts. The category of amount of credit extended also slipped from the very high reading of last month when it hit 67.2. At 63.4, the numbers still look pretty good and higher than they have been for the past year.

The reading for rejections of credit applications stayed almost steady with a reading of 52.1 compared to 52.3 last month. This is good news given the reduction in applications for credit overall, as it suggests the applicants are generally creditworthy. The accounts placed for collection improved a little, which comes as a surprise given some of the weakness in the favorable categories. It is now in the expansion zone with a reading of 50.6, up from 47.4 in February. The disputes category stayed exactly the same with a reading of 47.4. Stability is nice, but it would be more welcome if it was stable in the expansion zone. The major damage is seen in the category of dollar amount beyond terms and explains the big drop in dollar collections. This reading went from 52.1 in February to 48.2 this month. Kuehl suggests that the expectation is these slow pays will start to show up in expanded collection activity in the months to come. The dollar amount of customer deductions improved quite a bit, but remains in contraction territory with a reading of 49.2. That is still better than the 46.1 reading last month, however. The filings for bankruptcies stayed very close to what was seen last month (52.3) with a reading of 52.7.

“In general, the manufacturing news has been positive—at least as far as the data from the Purchasing Managers’ Index is concerned, but the CMI data is exposing weakness that is likely to show up later this year,” said Kuehl. “Much of the expansion has been anticipatory, built on the hope that the big infrastructure plan will come to fruition and right now that is a risky bet.”

Manufacturing Sector (seasonally adjusted)	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17
Sales	57.6	56.3	53.9	56.1	58.4	52.4	58.2	54.4	58.5	58.7	61.7	60.7	61.7
New credit applications	56.8	55.3	56.8	54.7	56.5	55.8	59.2	56.9	51.6	56.1	61.8	61.6	59.7
Dollar collections	58.2	54.9	55.0	57.5	58.8	54.1	57.5	56.1	65.5	59.3	55.3	64.1	56.1
Amount of credit extended	60.2	58.4	58.4	55.4	61.8	58.8	61.4	58.3	60.4	60.2	63.0	67.2	63.4
Index of favorable factors	**58.2**	**56.2**	**56.0**	**55.9**	**58.9**	**55.3**	**59.1**	**56.4**	**59.0**	**58.5**	**60.5**	**63.4**	**60.2**
Rejections of credit applications	51.1	51.8	51.7	53.3	50.8	51.1	53.3	52.7	49.3	51.5	51.6	52.3	52.1
Accounts placed for collection	48.2	50.3	51.8	49.7	48.7	48.3	50.2	49.0	45.0	50.1	51.9	47.4	50.6
Disputes	49.4	48.7	50.7	48.9	45.0	46.5	47.7	49.2	44.5	48.8	45.7	47.4	47.4
Dollar amount beyond terms	51.9	51.4	50.1	50.2	48.3	45.4	50.5	50.0	43.0	50.1	49.4	52.1	48.2
Dollar amount of customer deductions	48.2	49.5	51.4	48.5	48.0	48.1	51.9	48.5	49.4	49.2	48.7	46.1	49.2
Filings for bankruptcies	51.6	53.7	52.1	50.0	49.8	54.5	53.0	54.3	55.6	54.4	53.5	52.3	52.7
Index of unfavorable factors	**50.1**	**50.9**	**51.3**	**50.1**	**48.4**	**49.0**	**51.1**	**50.6**	**47.8**	**50.7**	**50.1**	**49.6**	**50.0**
NACM Manufacturing CMI	**53.3**	**53.0**	**53.2**	**52.4**	**52.6**	**51.5**	**54.3**	**52.9**	**52.3**	**53.8**	**54.3**	**55.1**	**54.1**



Service Sector

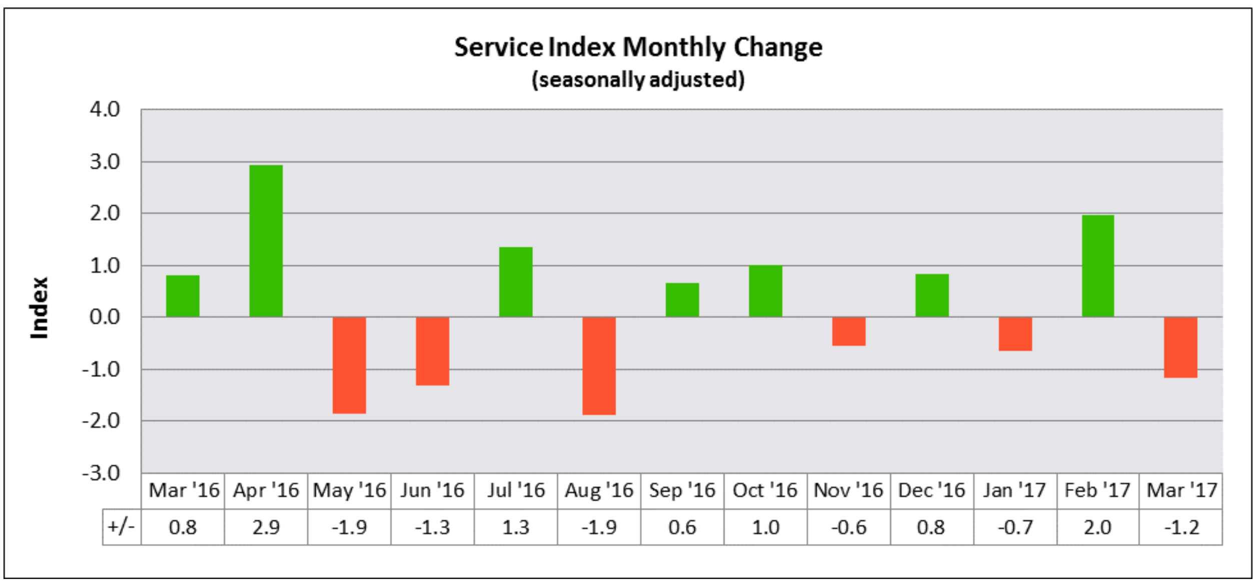
In some of the previous months, the service sector and the manufacturing sector deviated one from another. If one sector was going through a bad patch, the other might be able to carry it. This month, the two sectors are behaving similarly—not necessarily a good thing. The combined score for the service sector is 54.6 compared to 55.8 last month. The combined favorable reading slipped, but remained in the 60s with a reading of 61 down from 63.8 in February. The combined score for the unfavorable categories was 50.3, nearly identical to the 50.4 that was noted last month.

The sales category slid from 64.5 to 60.6, taking this score back to levels that have been common over the past year. The new credit applications category fell a bit, but not hard as it went from 62.4 to 61.3. As with manufacturing, the big decline was seen in the dollar collections category as it fell from 61.9 to 56.7. This is a theme this month and a worrying one. “Companies that are not staying current on their debt will soon be showing up in all those unfavorable segments,” said Kuehl. The amount of credit extended remained close to what it was last month (66.4), but down slightly to 65.3. He suggests that the bigger companies with good credit are still accessing larger sums.

The rejections of credit applications remained more or less steady with a slight improvement from 50.5 to 51.1. That is certainly good news since the level of new credit applications has weakened a little. The accounts placed for collection was exactly the same as last month with a reading of 49. It is tantalizingly close to expansion territory, but remains stuck in the contraction zone for now. The disputes category slipped a bit from 49.9 to 49.7. This is another category that is just so close to breaking back above 50. The dollar amount beyond terms is as big an issue for the service sector as it has been for manufacturing, with a steep drop (49.8 to 46.7). The slow pay is feeding the reduction in dollar collections noted above. The dollar amount of customer deductions category sports a slight improvement, enough to get the scores back into expansion territory. The February reading was 49.2 and this month it is 50.4. The filings for bankruptcies also saw a slight uptick from 54 to 54.9.

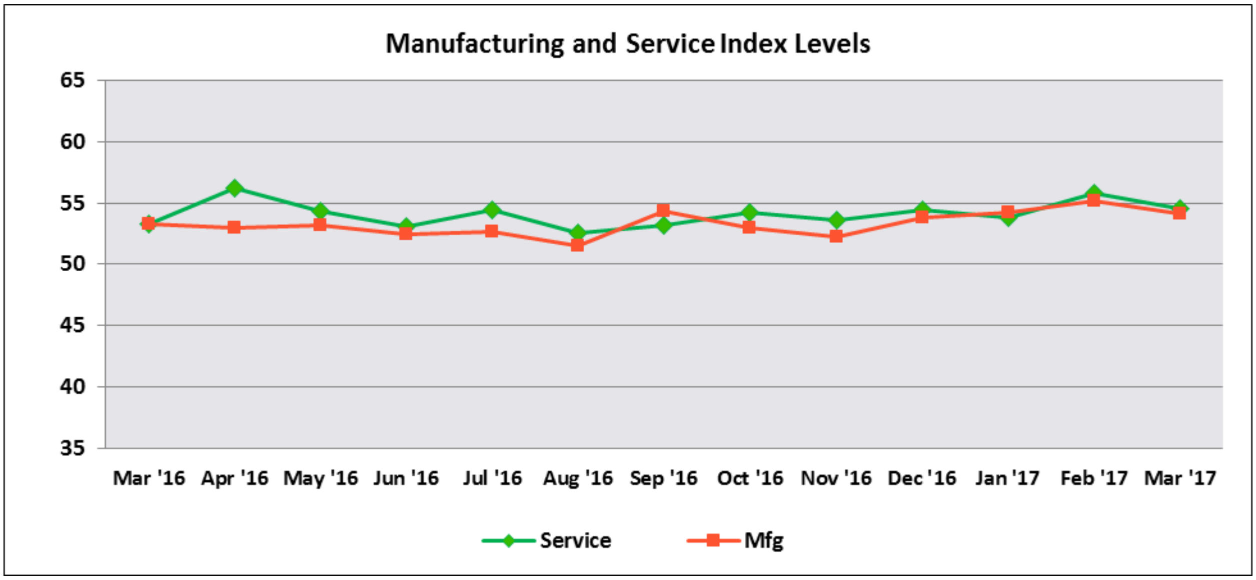
“This is a transitional period for the retailer,” Kuehl said. “If there is going to be a struggle to stay solvent, this will be the time. There is no big holiday spend to drive the consumer and this is also tax time, a period that tends to drive consumers into hiding. Those that did not do as well as expected last holiday season are now struggling to pay their bills and at the same time prepare for next year.”

Service Sector (seasonally adjusted)	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17
Sales	60.7	63.2	59.5	57.8	61.6	55.0	57.7	59.5	65.1	58.5	58.5	64.5	60.6
New credit applications	62.8	61.8	56.5	58.5	59.0	57.6	58.0	59.1	57.4	57.8	59.7	62.4	61.3
Dollar collections	61.0	60.0	59.8	56.7	60.3	57.0	61.5	58.0	61.5	59.7	61.2	61.9	56.7
Amount of credit extended	63.1	63.5	63.6	59.8	63.8	60.7	62.4	64.7	62.4	62.6	65.2	66.4	65.3
Index of favorable factors	**61.9**	**62.1**	**59.9**	**58.2**	**61.2**	**57.6**	**59.9**	**60.3**	**61.6**	**59.7**	**61.2**	**63.8**	**61.0**
Rejections of credit applications	51.4	52.6	52.0	49.1	50.7	52.0	49.4	50.9	48.5	51.1	49.7	50.5	51.1
Accounts placed for collection	48.8	51.6	49.2	47.9	47.7	47.1	45.6	47.3	46.5	49.3	46.9	49.0	49.0
Disputes	52.3	52.9	50.8	50.1	50.2	49.2	49.9	50.6	50.9	50.7	46.2	49.9	49.7
Dollar amount beyond terms	49.6	51.1	48.4	47.9	49.2	47.3	46.0	48.1	46.9	48.4	47.3	49.8	46.7
Dollar amount of customer deductions	51.3	51.8	50.1	50.7	50.1	48.2	49.0	50.5	46.5	50.4	48.8	49.2	50.4
Filings for bankruptcies	52.9	53.8	53.9	52.2	51.5	51.2	52.3	53.3	50.3	55.7	54.3	54.0	54.9
Index of unfavorable factors	**51.0**	**52.3**	**50.7**	**49.6**	**49.9**	**49.2**	**48.7**	**50.1**	**48.3**	**50.9**	**48.9**	**50.4**	**50.3**
NACM Service CMI	**53.3**	**56.2**	**54.4**	**53.1**	**54.4**	**52.5**	**53.2**	**54.2**	**53.6**	**54.4**	**53.8**	**55.8**	**54.6**



March 2017 versus March 2016

"The data this month is not as encouraging as it has been, but the numbers still indicate a strong and growing economy healthier than it was most of last year," concluded Kuehl. "There appears to be some separation between those companies that have been doing well and those that are not keeping pace."



Methodology Appendix

CMI data have 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 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.

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