Report for June 2017

Issued June 30, 2017

National Association of Credit Management

Combined Sectors

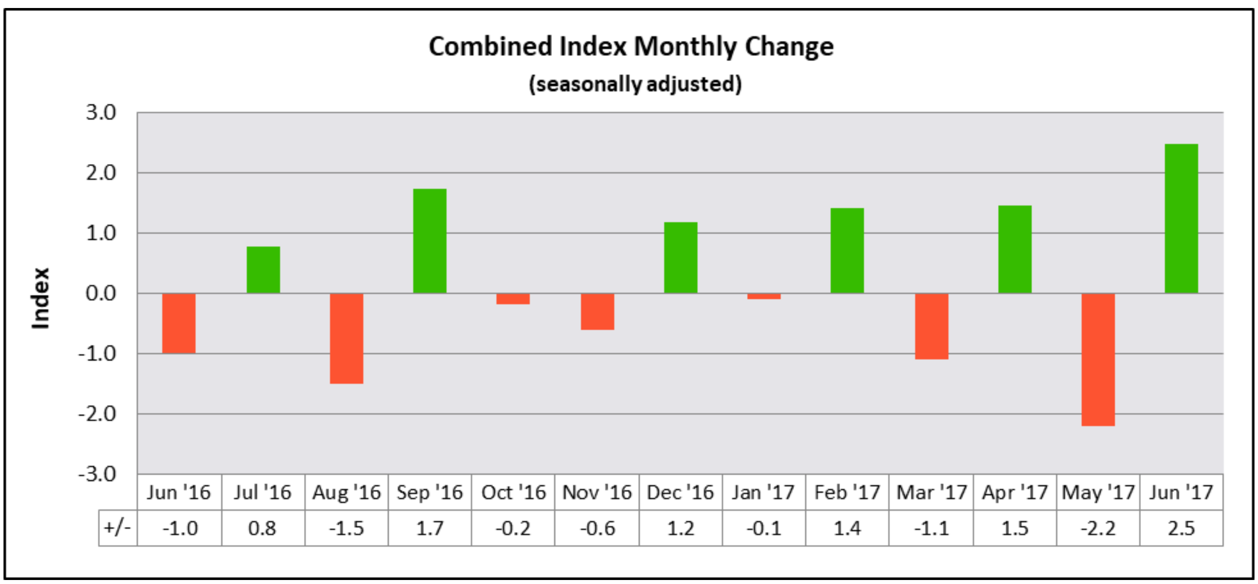
Is it appropriate to say “wheee” when talking about economic data? It seems that this may be the only response that makes any sense over the last few months as the Credit Managers’ Index (CMI) looks like a roller coaster. It is up one month and plunges down the next—only to rise again the following month. “The variability would be more problematic were it not for the fact that this behavior has been mirrored in all kinds of other data streams,” said NACM Economist Chris Kuehl, Ph.D. “The fact is that there are contradictory waves coursing through the economy as the wild enthusiasm that greeted the start of the year has come face to face with reality. As with the data over the last few months, the majority of the shift this month was due to the same two categories: dollar collections and accounts beyond terms.”

The combined CMI score returned to solid growth territory with a reading of 56.1 after slumping to 53.6 in May. The June reading is as good as it has been in well over a year. The highest level that had been reached this year was 55.8 in April, followed by a decline to 53.6 in May. The overall score for the favorable factors also surged with a reading of 63.9, following a 60 mark the month before. In April and February, the indicator was almost the equal of what it is today—63.6—but June’s number is still the highest seen this year and for several years prior to that. The indicator for the unfavorable factors also looked healthier with a reading of 50.9, but healthy is a relative term here. The data remains perilously close to contraction (under 50), but at least this is an improvement over last month when it was 49.3. The unfavorable numbers have been hugging the border between expansion and contraction for the last few years.

In the favorable categories, there were some big gains and some minor ones. The category of sales went from 60.6 to 66.5, the best reading for the last several years—better than the previous high of 63.8 set in April. There was minor movement in the new credit applications data (59.3 to 59.8). As mentioned earlier, the mover this month was dollar collections once again. It went from 56.7 to 62.5 and continues the pattern of the last several months (56.4, 61.2, 56.7 and 62.5). There was also an improvement in the category of amount of credit extended as it went from 63.6 to 66.8; again, the best performance in the last few years.

The activity in the unfavorable factors was more subtle but important nonetheless. The category of rejections of credit applications improved from 52.4 to 52.6—not a major move, but getting more solid and comfortable in 50s. This matches well with the new credit application numbers. There was a slight improvement in the accounts placed for collection, but it remains in the contraction zone with a number of 49.3, as opposed to last month’s 48.5. The category of disputes climbed out of contraction with a reading of 50.4 compared to last month’s 47.9. The big mover this month was as it has been in the previous months: dollar amount beyond terms. Last month it was 45.9 and this month it is back in the expansion zone with a reading of 50.4. “This echoes the dollar collection data to suggest that companies are struggling to keep current with their creditors, but they have not entered into a crisis situation just yet,” said Kuehl. The category of dollar amount of customer deductions improved a little from 48.7 to 49.1, but is still in contraction territory. The filings for bankruptcies reading also changed a bit (52.7 to 53.4). This was not a major shift as both numbers are comfortably in the 50s. This month there are only two categories remaining in contraction territory and just last month there were four.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17
Sales	56.9	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6	66.5
New credit applications	56.6	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3	59.8
Dollar collections	57.1	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7	62.5
Amount of credit extended	57.6	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6	66.8
Index of favorable factors	57.0	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**	**60.8**	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**
Rejections of credit applications	51.2	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4	52.6
Accounts placed for collection	48.8	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5	49.3
Disputes	49.5	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9	50.4
Dollar amount beyond terms	49.0	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9	50.4
Dollar amount of customer deductions	49.6	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7	49.1
Filings for bankruptcies	51.1	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7	53.4
Index of unfavorable factors	**49.9**	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**	**49.5**	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**
NACM Combined CMI	**52.7**	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**	**54.0**	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**



Manufacturing Sector

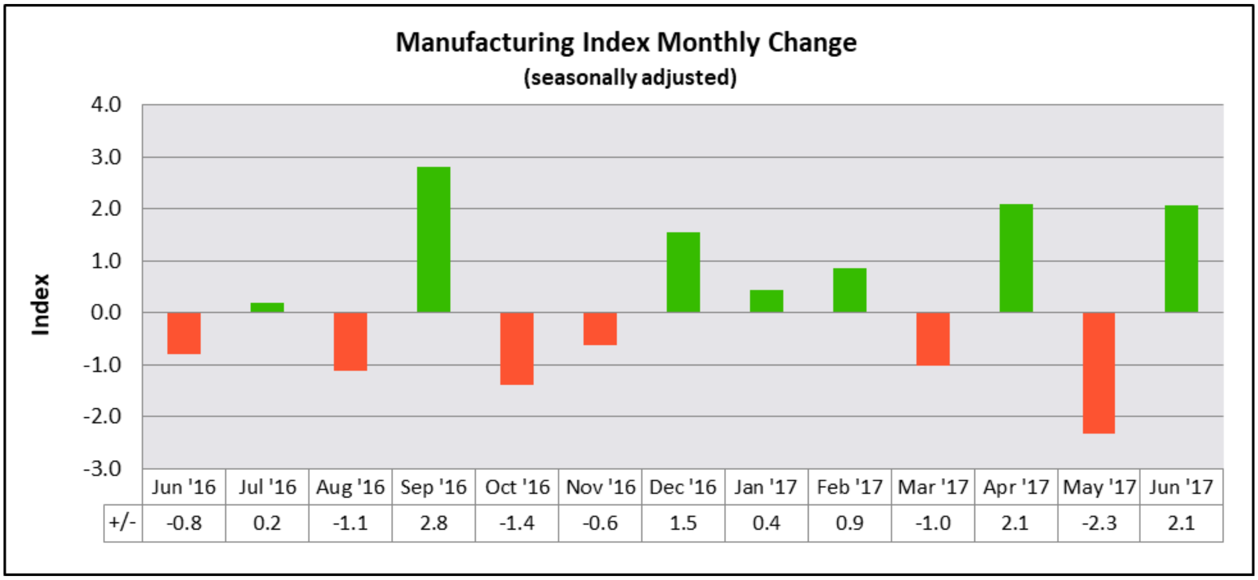
The same amusement park experience exists in the manufacturing sector. "This has been a volatile area of the economy thus far this year—by almost any measure," said Kuehl. "There has been extensive variability in everything from factory orders to durable goods orders, capacity utilization and within the various categories of the Purchasing Managers' Index. The CMI data has been just as volatile."

The combined score for manufacturing trended back up from May and is now at 55.9 after last month's dip to 53.9. June's number is not quite as high as it was in April when it hit 56.2, but it is close. The combined score for the favorable factors is back in the 60s with a reading of 63.8 (compared to 59.7 last month). The combined score for the unfavorable factors was 50.7, a slight improvement over the 50 reading in May. As with the combined CMI, the unfavorable readings are hugging the zone between contraction and expansion as they have been for the last few years.

The details are similar to the combined index. The category of sales jumped dramatically from 59.5 to 66.9, by far the highest reading seen in the last several years, eclipsing the previous high of 64.7 set in April. The new credit applications number shifted up, but only slightly (58.6 to 59.8). Once again, there was a big recovery as far as the dollar collection data was concerned. It went from 57.3 to 61, repeating the bouncing ball behavior that has manifested in the last few months. The amount of credit extended reading changed a little, improving from 63.4 to 67.4. This is only slightly off the pace that was set in April when the reading was at 67.8.

The rejections of credit applications moved up a little, matching the performance of the new credit applications reading. It was 52.6 last month and is now sitting at 53.3. The category of accounts placed for collection improved also, but stayed in contraction territory (49.5 to 49.8). “There is still a lot of financial damage to work through and many companies have been forcing collection activity,” explained Kuehl. The disputes category improved a bit, but remained in contraction territory with a reading of 49.6 after a reading of 48 last month. There was an improvement in dollar amount beyond terms, but not quite as dramatic a shift as was noted in the overall scores. The reading went from 48.1 to 49.3; a decent gain, but not one that takes the data out of the contraction zone. The category of dollar amount of customer deductions also showed just the slightest improvement from 48.6 to 48.7. That still leaves the category in the contraction zone. Bankruptcies showed a minor improvement in the filings going from 53.1 to 53.6.

Manufacturing Sector **(seasonally adjusted)**	**Jun '16**	**Jul '16**	**Aug '16**	**Sep '16**	**Oct '16**	**Nov '16**	**Dec '16**	**Jan '17**	**Feb '17**	**Mar '17**	**Apr '17**	**May '17**	**Jun '17**
Sales	56.1	58.4	52.4	58.2	54.4	58.5	58.7	61.7	60.7	61.7	64.7	59.5	66.9
New credit applications	54.7	56.5	55.8	59.2	56.9	51.6	56.1	61.8	61.6	59.7	61.4	58.6	59.8
Dollar collections	57.5	58.8	54.1	57.5	56.1	65.5	59.3	55.3	64.1	56.1	61.3	57.3	61.0
Amount of credit extended	55.4	61.8	58.8	61.4	58.3	60.4	60.2	63.0	67.2	63.4	67.8	63.4	67.4
Index of favorable factors	**55.9**	**58.9**	**55.3**	**59.1**	**56.4**	**59.0**	**58.5**	**60.5**	**63.4**	**60.2**	**63.8**	**59.7**	**63.8**
Rejections of credit applications	53.3	50.8	51.1	53.3	52.7	49.3	51.5	51.6	52.3	52.1	52.9	52.6	53.3
Accounts placed for collection	49.7	48.7	48.3	50.2	49.0	45.0	50.1	51.9	47.4	50.6	50.1	49.5	49.8
Disputes	48.9	45.0	46.5	47.7	49.2	44.5	48.8	45.7	47.4	47.4	49.2	48.0	49.6
Dollar amount beyond terms	50.2	48.3	45.4	50.5	50.0	43.0	50.1	49.4	52.1	48.2	51.5	48.1	49.3
Dollar amount of customer deductions	48.5	48.0	48.1	51.9	48.5	49.4	49.2	48.7	46.1	49.2	49.1	48.6	48.7
Filings for bankruptcies	50.0	49.8	54.5	53.0	54.3	55.6	54.4	53.5	52.3	52.7	54.1	53.1	53.6
Index of unfavorable factors	**50.1**	**48.4**	**49.0**	**51.1**	**50.6**	**47.8**	**50.7**	**50.1**	**49.6**	**50.0**	**51.1**	**50.0**	**50.7**
NACM Manufacturing CMI	**52.4**	**52.6**	**51.5**	**54.3**	**52.9**	**52.3**	**53.8**	**54.3**	**55.1**	**54.1**	**56.2**	**53.9**	**55.9**



Service Sector

As with the manufacturing sector, there was volatility in the service sector. “This is an odd time of year for services in general as this is the height of both the construction season as well as the travel season, but retail is generally down as there are no big spending holidays to spark a rush to the stores,” said Kuehl. “This year the construction sector has been very active and vacation season has been better than it was last year.”

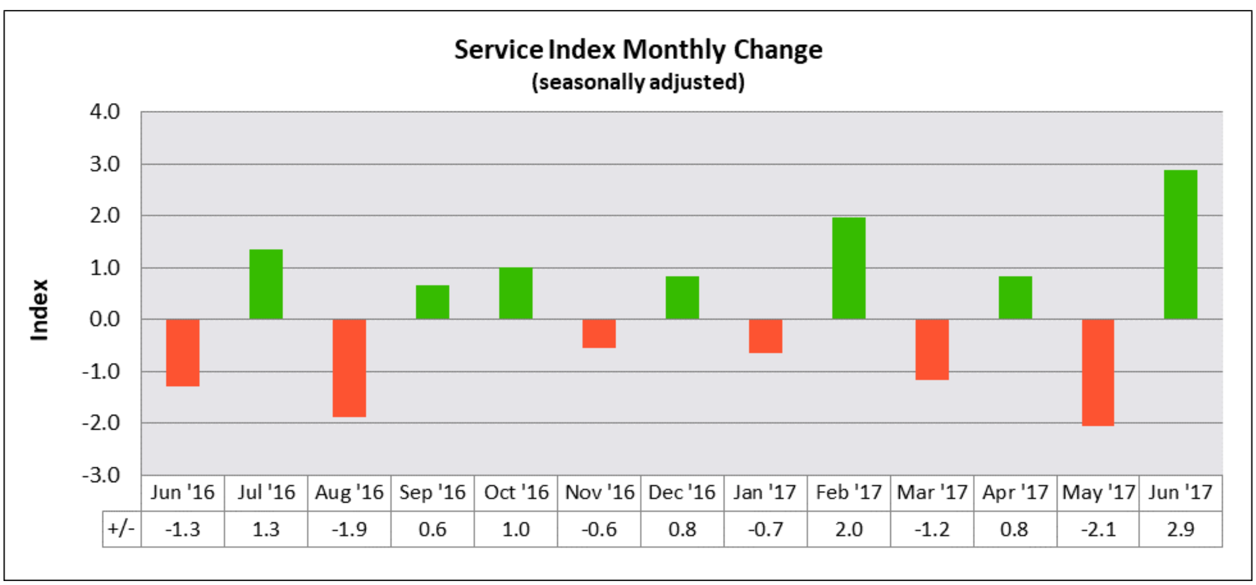
The combined score for the service side was an improvement over last month with a reading of 56.2 compared to 53.4 in May. That is the highest mark reached in the last 24 months and even exceeds the level reached in April. The combined score for the favorable factors also set records as it moved from 60.3 to 64. The previous high was set in April when it hit 63.3. The combined score for the unfavorable factors was still close to the margin between contraction and expansion, but was an improvement over last month, now sitting at 51.1 as opposed to the 48.7 mark in May.

The sales category jumped from 61.7 to 66, well past the old high set in February when it hit 64.5. The new credit applications number stayed just where it was and just short of entering the 60s. At 59.9, it is still respectable enough. The dollar collections numbers also saw a nice bump as they went from 56 to 63.9—the highest reading in well over three years. The amount of credit extended moved from 63.8 to 66.3, again one of the highest scores in the last several years.

There was a reversal in the unfavorables, however, that is creating a little concern. The dip in rejections of credit applications (52.3 to 51.9) comes at the same time that applications for credit look a little stagnant. “There appear to be more applications from those that are not creditworthy,” Kuehl said, suggesting “there is some panic in some of these sectors. Most of that appears to be concentrated in the construction arena.” The category of accounts placed for collection improved a little, but this category remains in contraction territory as the reading moved from 47.5 to 48.9. The category of disputes, however, improved enough to leave the contraction zone (47.7 to 51.3). The category of dollar amount beyond terms improved spectacularly as it moved from 43.6 to 51.6—that is the biggest jump of any of the categories and the best performance seen in well over a year. This category has not been in expansion territory except for the month of April when it hit 50.5. “This is coupled with the big improvement in dollar collections to suggest that creditors are trying to get caught up,” Kuehl explained. The category of dollar amount of customer deductions also changed a little, going from 48.9 to 49.5, but that still leaves the readings in the contraction zone. The filings for bankruptcies category is also moving slightly, but in the right direction (52.3 to 53.2).

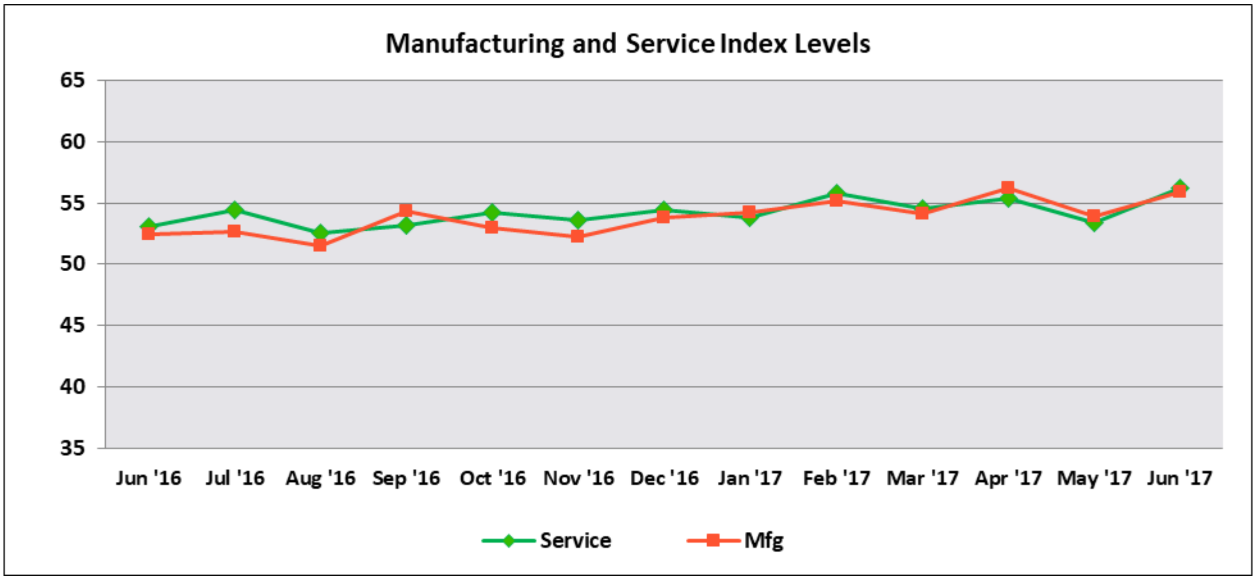
"As with manufacturing, the yo-yo of the data has been centered on dollar collections and slow pays," said Kuehl. "These are the first indications of problems to come, but thus far the other shoe has not dropped. Each time it appears that more bad news is to come, the next month improves."

Service Sector (seasonally adjusted)	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17
Sales	57.8	61.6	55.0	57.7	59.5	65.1	58.5	58.5	64.5	60.6	62.9	61.7	66.0
New credit applications	58.5	59.0	57.6	58.0	59.1	57.4	57.8	59.7	62.4	61.3	62.6	59.9	59.9
Dollar collections	56.7	60.3	57.0	61.5	58.0	61.5	59.7	61.2	61.9	56.7	61.2	56.0	63.9
Amount of credit extended	59.8	63.8	60.7	62.4	64.7	62.4	62.6	65.2	66.4	65.3	66.5	63.8	66.3
Index of favorable factors	**58.2**	**61.2**	**57.6**	**59.9**	**60.3**	**61.6**	**59.7**	**61.2**	**63.8**	**61.0**	**63.3**	**60.3**	**64.0**
Rejections of credit applications	49.1	50.7	52.0	49.4	50.9	48.5	51.1	49.7	50.5	51.1	51.3	52.3	51.9
Accounts placed for collection	47.9	47.7	47.1	45.6	47.3	46.5	49.3	46.9	49.0	49.0	47.9	47.5	48.9
Disputes	50.1	50.2	49.2	49.9	50.6	50.9	50.7	46.2	49.9	49.7	49.1	47.7	51.3
Dollar amount beyond terms	47.9	49.2	47.3	46.0	48.1	46.9	48.4	47.3	49.8	46.7	50.5	43.6	51.6
Dollar amount of customer deductions	50.7	50.1	48.2	49.0	50.5	46.5	50.4	48.8	49.2	50.4	49.3	48.9	49.5
Filings for bankruptcies	52.2	51.5	51.2	52.3	53.3	50.3	55.7	54.3	54.0	54.9	52.9	52.3	53.2
Index of unfavorable factors	**49.6**	**49.9**	**49.2**	**48.7**	**50.1**	**48.3**	**50.9**	**48.9**	**50.4**	**50.3**	**50.2**	**48.7**	**51.1**
NACM Service CMI	**53.1**	**54.4**	**52.5**	**53.2**	**54.2**	**53.6**	**54.4**	**53.8**	**55.8**	**54.6**	**55.4**	**53.4**	**56.2**



June 2017 versus June 2016

"This is yet another month that reverses course from the month prior, but it is hoped this back and forth ends, as nobody wants the stability to develop due to a downturn," Kuehl concluded.



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:

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

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 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.

Source: National Association of Credit Management

Contacts: Adam Fusco, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National