CREDIT MANAGERS' INDEX

Report for August 2017

Issued August 31, 2017

National Association of Credit Management

Combined Sectors

At least the ride seems to have come to an end, but nobody really knows for how long. The data this month looks a lot like last month and that counts as progress these days. "What is interesting is that there has been some discernible improvement in the overall economy, but not enough to push much activity for the credit managers," said NACM Economist Chris Kuehl, Ph.D. "A steady state is good news as long as it has steadied at a relatively high rate, and that seems to be the case this month." There have been sectors that have improved over the last few months, but more of them have shown declines.

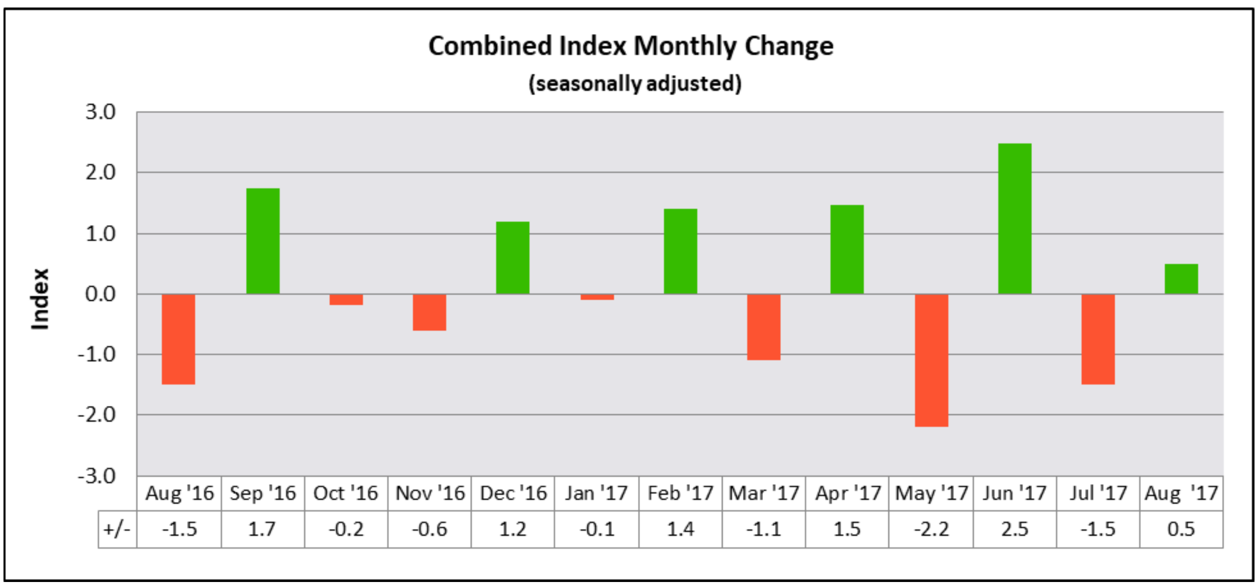
The combined index for the CMI was better than it was last month with a reading of 55.1 as compared to 54.6. This is a respectable level as compared to the year as a whole. There have been three months that have seen readings above this and the rest have been below. The months that have exceeded 55.1 include February, April and June. There was an increase in the index of favorable factors from 61.7 to 62.2, while the index of unfavorable factors increased just slightly from 50 to 50.3. "This has been the pattern for months—strong performance in the favorable categories and weak performance in the unfavorable readings," added Kuehl.

There was more variability in the subsectors. The sales data stayed very nearly the same as last month (62.8 to 62.2), but there was some substantial growth in terms of new credit applications where there was significant growth as the reading went from 59.7 to 61.2. The dollar collections data has been very volatile over the last several months; it has been one of the factors that created the roller coaster impact seen in the CMI. There was a decline this month from 60.2 to 58.9, taking the numbers back to where they were in May. The amount of credit extended improved from 64.1 to 66.7. "This suggests that more money is being handed out to the bigger debtors," said Kuehl.

There has been even more volatility in the unfavorable factors. The rejections of credit applications numbers improved from 51.9 to 52.2, matching well with the expansion of credit to the largest debtors. The accounts placed for collection remained very close to what it was last month—just under the 50 mark at 48.7, as compared to 48.9 the month prior. "It is good that there has been some stability here," Kuehl noted, "but it would be better to see that stability with numbers over 50." The disputes category has seen some minor improvement, as it has shifted from 48.8 to 49.1. This is certainly trending in the right direction, but remains under the 50 line that separates decline from expansion. The dollar amount beyond terms has been one of the more volatile factors due to a major fluctuation as far as slow plays. It has worsened somewhat from 48.3 to 47.4. The dollar amount of customer deductions has changed a bit as well, going from 48.1 to 49.2, a somewhat healthy trend. The bad news is that these numbers are under 50, but the trend has been in the right direction. The readings for filings for bankruptcies have continued to be well in expansion territory at 55.3, up from the 54.1 notched the month before.

"The bottom line is that there is stability, but at a relatively low level and there are plenty of questions as far as the months to come," said Kuehl. "The sense is that there will be growth in the third quarter as there has been in previous years, but there is also an expectation that this growth will fade in the fourth quarter again."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17
Sales	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8	62.2
New credit applications	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7	61.2
Dollar collections	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2	58.9
Amount of credit extended	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1	66.7
Index of favorable factors	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**	**60.8**	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**	61.7	**62.2**
Rejections of credit applications	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9	52.2
Accounts placed for collection	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9	48.7
Disputes	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8	49.1
Dollar amount beyond terms	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3	47.4
Dollar amount of customer deductions	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1	49.2
Filings for bankruptcies	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7	53.4	54.1	55.3
Index of unfavorable factors	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**	**49.5**	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**	**50.0**	**50.3**
NACM Combined CMI	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**	**54.0**	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**



Manufacturing Sector

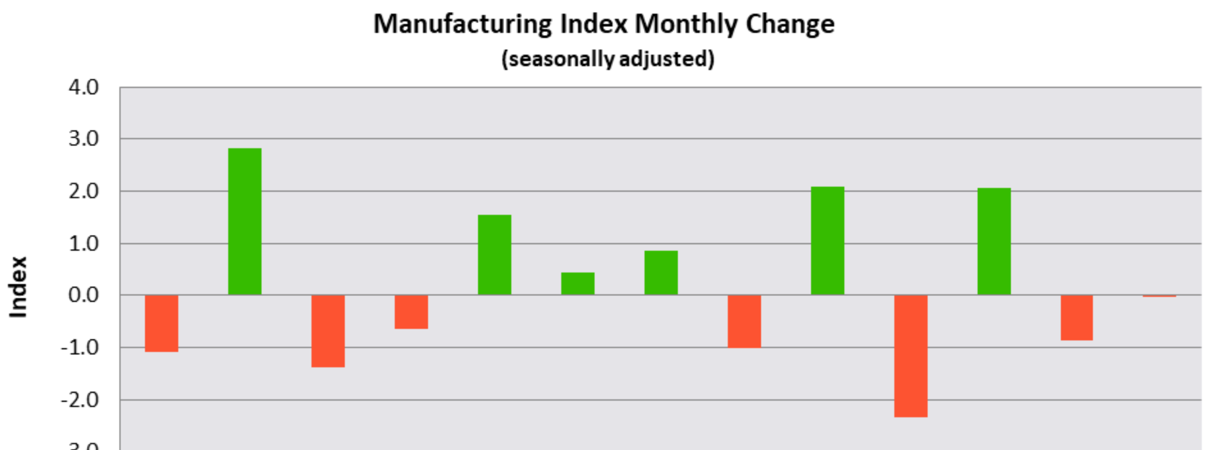
The patterns seen in the overall CMI are repeated in the manufacturing sector. The combined reading for the manufacturing sector was 55 this month, slightly down from 55.1 the month before. The numbers have been relatively stable all year, with the high point of 56.2 in April. The low point was 51.5 in August of last year. The variability has been in the subsectors. The index of favorable factors stayed in very healthy territory—going from 62.5 to 62. The index for the unfavorable factors saw a similar pattern—moving from 50.1 to 50.4. These numbers show a very stable environment, but this covers up a considerable variability in the subregions.

The sales reading fell a bit from 64 to 60.8, but the good news is that the trend is still strongly positive. The new credit applications data showed a slight gain as it went from 60.6 to 61.8, as high as it has been since January of this year. The dollar collections numbers fell, but not as drastically as in the past. It was 61.1 last month and has fallen to 59.3, but this is still higher than it was in May. The amount of credit extended trended up from 64.5 to 66.1. “This suggests the majority of the creditors are larger accounts seeking bigger amounts and bigger projects,” said Kuehl.

There was more volatility in the unfavorable factors with the combined numbers shifting from 50.1 to 50.4—a minor change, but trending in the right direction. The rejections of credit applications went from 52.9 to 52.8, a virtually negligible shift. The accounts placed for collection was also essentially the same as it was last month (49.8 to 49.7), and that pattern continues with disputes, which shifted from 47.8 to 47.3. “All of these have been very slight as far as changes are concerned,” explained Kuehl, “and even though they are all sinking a little, that trend is really what matters.” The dollar amount beyond terms has been a volatile issue over the last few months. This month, it fell again but not by much, as it went from 49.4 to 49.2. The number remains higher than it was earlier in the year. The dollar amount of customer deductions improved slightly by shifting from 47.6 to 48. Finally, there has been some shift in the filings for bankruptcies, as they have moved from 53 to 55.5.

“Generally speaking, the manufacturing sector has been somewhat more stable than it was earlier in the year, but has stabilized at a relatively weak level,” explained Kuehl. “The fear is that an interruption in overall growth will manifest pretty quickly.”

Manufacturing Sector (seasonally adjusted)	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17
Sales	52.4	58.2	54.4	58.5	58.7	61.7	60.7	61.7	64.7	59.5	66.9	64.0	60.8
New credit applications	55.8	59.2	56.9	51.6	56.1	61.8	61.6	59.7	61.4	58.6	59.8	60.6	61.8
Dollar collections	54.1	57.5	56.1	65.5	59.3	55.3	64.1	56.1	61.3	57.3	61.0	61.1	59.3
Amount of credit extended	58.8	61.4	58.3	60.4	60.2	63.0	67.2	63.4	67.8	63.4	67.4	64.5	66.1
Index of favorable factors	**55.3**	**59.1**	**56.4**	**59.0**	**58.5**	**60.5**	**63.4**	**60.2**	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**
Rejections of credit applications	51.1	53.3	52.7	49.3	51.5	51.6	52.3	52.1	52.9	52.6	53.3	52.9	52.8
Accounts placed for collection	48.3	50.2	49.0	45.0	50.1	51.9	47.4	50.6	50.1	49.5	49.8	49.8	49.7
Disputes	46.5	47.7	49.2	44.5	48.8	45.7	47.4	47.4	49.2	48.0	49.6	47.8	47.3
Dollar amount beyond terms	45.4	50.5	50.0	43.0	50.1	49.4	52.1	48.2	51.5	48.1	49.3	49.4	49.2
Dollar amount of customer deductions	48.1	51.9	48.5	49.4	49.2	48.7	46.1	49.2	49.1	48.6	48.7	47.6	48.0
Filings for bankruptcies	54.5	53.0	54.3	55.6	54.4	53.5	52.3	52.7	54.1	53.1	53.6	53.0	55.5
Index of unfavorable factors	**49.0**	**51.1**	**50.6**	**47.8**	**50.7**	**50.1**	**49.6**	**50.0**	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**
NACM Manufacturing CMI	**51.5**	**54.3**	**52.9**	**52.3**	**53.8**	**54.3**	**55.1**	**54.1**	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**



	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17
+/-	-1.1	2.8	-1.4	-0.6	1.5	0.4	0.9	-1.0	2.1	-2.3	2.1	-0.9	0.0

Service Sector

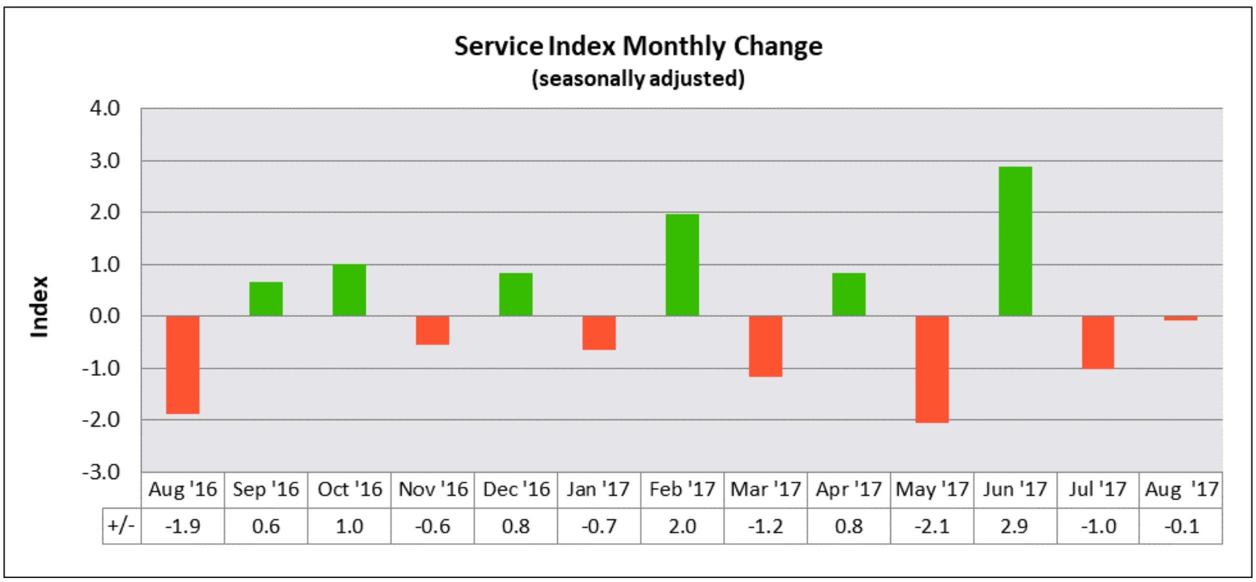
The service sector was about the same as manufacturing—at least as far as the overall performance was concerned. There are naturally all the usual caveats to offer. The fact is the service sector is massive and diverse—after all, it accounts for nearly 80% of the U.S. GDP. The readings come from a wide variety of sectors—retail, construction, health care and others. The index tends to be dominated by retail, but there are other contributors that help to round out the numbers. Overall, the combined score was much like it was last month, with a reading of 55.1 compared to 55.2. This is as close to flat as it gets. These numbers, however, are at the high side of the year's readings.

The sales numbers actually improved and stand with a reading of 63.6 after one of 61.7 last month. This is not as robust as it was in June, but is higher than all but two months in the past year (June and February). The new credit applications number also improved from 58.8 to 60.6, a good signal when combined with the fact there was an improvement as far as applications rejected. The dollar collection numbers slipped a little from 59.4 to 58.6, but that decline was not as dramatic as it has been in past months. This has been the reading behind much of the index fluctuation over the last few months. The fourth of the favorable categories is amount of credit extended. The news was really good here, as the readings last month were 63.8. This month it is up to 67.3, the highest level of performance this year. "This reading reinforces the notion that much of the credit extended has been to bigger companies requiring larger amounts," said Kuehl.

There has been additional volatility in the unfavorable categories. There was good news in the rejections of credit applications and that combines nicely with additional requests. The number last month was 50.8. This month it is more firmly in the growth category with a 51.5 reading. The accounts placed for collection reading shifted down a little from 48.1 to 47.8—not as dramatic a drop as has been seen previously, but still some reason for concern. The disputes category improved enough to take the reading into positive territory (49.8 to 50.8). There was a sharp decline in dollar amount beyond terms, which has been an ongoing concern. It seems that every other month features an increase in the number of slow pays and then there is a recovery the next month. "The pattern is that business gets in trouble and starts to slip behind and then find a way to pull out of the mess," explained Kuehl. The dollar amount of customer deductions improved. That was welcome news—it went from 48.6 to 50.4. The reading for filings for bankruptcies improved a bit and ended with a reading of 55.2 as opposed to the 54 last month.

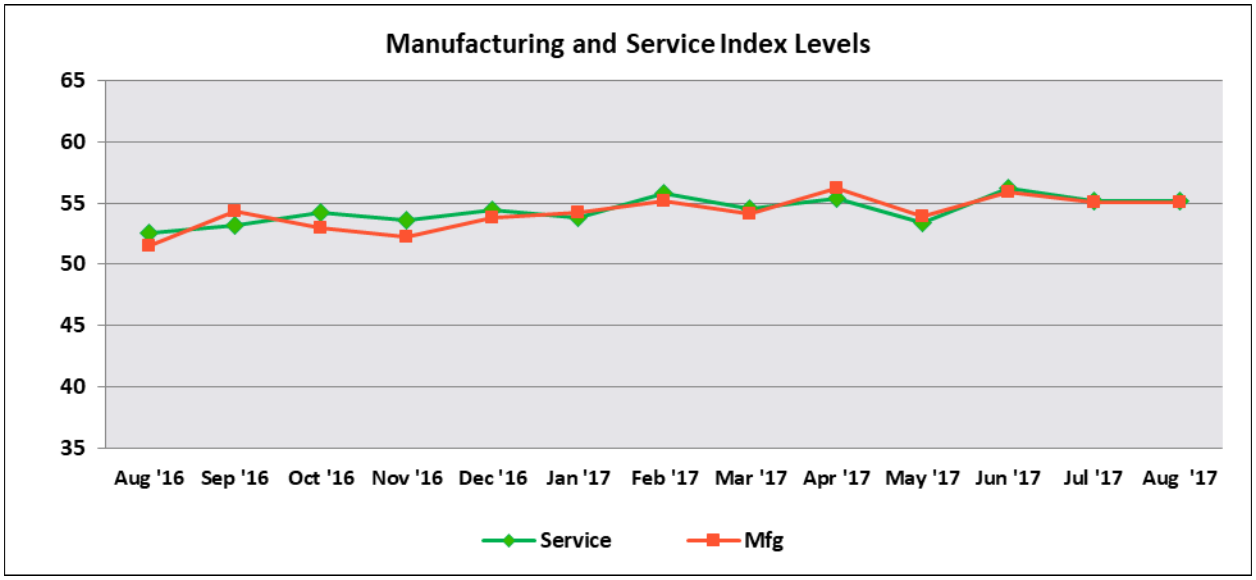
"Retail has just started to show signs of catching up with the stated levels of consumer confidence that have been appearing from the start of the year," Kuehl noted. "The hope is that this is a trend that lasts for a few months—at least through the holiday season."

Service Sector (seasonally adjusted)	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17
Sales	55.0	57.7	59.5	65.1	58.5	58.5	64.5	60.6	62.9	61.7	66.0	61.7	63.6
New credit applications	57.6	58.0	59.1	57.4	57.8	59.7	62.4	61.3	62.6	59.9	59.9	58.8	60.6
Dollar collections	57.0	61.5	58.0	61.5	59.7	61.2	61.9	56.7	61.2	56.0	63.9	59.4	58.6
Amount of credit extended	60.7	62.4	64.7	62.4	62.6	65.2	66.4	65.3	66.5	63.8	66.3	63.8	67.3
Index of favorable factors	**57.6**	**59.9**	**60.3**	**61.6**	**59.7**	**61.2**	**63.8**	**61.0**	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**
Rejections of credit applications	52.0	49.4	50.9	48.5	51.1	49.7	50.5	51.1	51.3	52.3	51.9	50.8	51.5
Accounts placed for collection	47.1	45.6	47.3	46.5	49.3	46.9	49.0	49.0	47.9	47.5	48.9	48.1	47.8
Disputes	49.2	49.9	50.6	50.9	50.7	46.2	49.9	49.7	49.1	47.7	51.3	49.8	50.8
Dollar amount beyond terms	47.3	46.0	48.1	46.9	48.4	47.3	49.8	46.7	50.5	43.6	51.6	47.2	45.6
Dollar amount of customer deductions	48.2	49.0	50.5	46.5	50.4	48.8	49.2	50.4	49.3	48.9	49.5	48.6	50.4
Filings for bankruptcies	51.2	52.3	53.3	50.3	55.7	54.3	54.0	54.9	52.9	52.3	53.2	54.0	55.2
Index of unfavorable factors	**49.2**	**48.7**	**50.1**	**48.3**	**50.9**	**48.9**	**50.4**	**50.3**	**50.2**	**48.7**	**51.1**	**51.4**	**50.2**
NACM Service CMI	**52.5**	**53.2**	**54.2**	**53.6**	**54.4**	**53.8**	**55.8**	**54.6**	**55.4**	**53.4**	**56.2**	**55.2**	**55.1**



August 2017 versus August 2016

"Have we finally seen some stability in all this?" Kuehl said. "If so, the timing couldn't be better as we are fast approaching the most critical point in the year for consumers. It would be nice to carry some momentum into the holiday period."



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.

Source: National Association of Credit Management

Contacts: Adam Fusco, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National