Report for October 2017

Issued October 31, 2017

National Association of Credit Management

Combined Sectors

The upward trend seems to have stalled at just two months duration, but the decline was not deep. The overall score for the combined sectors is still at 55.5, in the same ballpark as the other high points. Last month's 56.5 was the highest level reached in over two years; it is not too surprising there was a slight retreat. As mentioned last month, there will be some challenges as far as interpreting data for the next month or so. "The storms altered a lot of economic patterns," said NACM Economist Chris Kuehl, Ph.D. "That has been seen in everything from volatile job numbers, changes in the rate of housing starts and even internal migration patterns for skilled workers. There are already signs of shifts as reconstruction gets thoroughly underway."

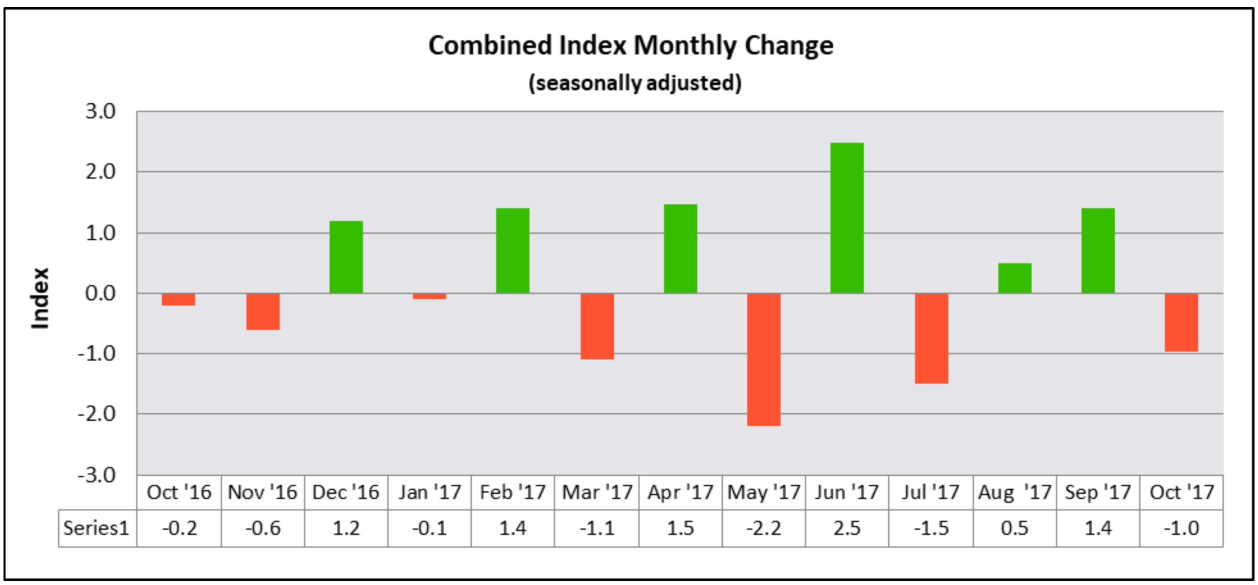
The division between the performance of the favorable and the unfavorable factors remains stark. The index of favorables improved from 63.5 to 63.8, a very healthy number. The unfavorable combined score retreated a little from 51.8 to 50. This reading remains in the expansion category (anything above 50), but only by the narrowest of margins. Most of the good news is coming from the favorable categories.

The sales numbers fell back a bit, but they remain very high at 66.8. Last month, they were 67.3. The last two months have seen readings that are close to six points higher than they have been in over a year. In June, the reading jumped to 66.5, but prior to that, the range was from 56.9 to 63.8. The current reading is down from last month, but still ranks as the second-best reading in a year. The new credit applications reading improved from 60.5 to 62.8, a genuinely good sign as it indicates a greater demand for credit and thus a desire to grow and expand. In addition, there was a modest gain in the dollar collections category as it moved from 60 to 60.2. There was a slight decline in the amount of credit extended, but the numbers stayed high at 65.5. The previous month saw a reading of 66.3. "Even with the small areas of retreat, the numbers for the favorable sectors remained in very solid territory," said Kuehl.

It was not the same story as far as the unfavorable factors are concerned. The dip was not severe—the overall reading stayed at the 50 level as opposed to sliding back into contraction territory. The rejections of credit applications slipped from 52.5 to 51.8, but at least it is still in expansion territory. The category of accounts placed for collection fell out of the expansion zone by dropping from 50.3 to 49.5. This is actually back to the pattern that has been observed all year as last month was the first in nearly two years to be above 50. There was a big decline in the numbers for disputes as well—last month the reading was 51.7. This month, it tumbled all the way to 47.6. The numbers for dollar amount beyond terms took another dive and ended up at 47.3 after having been at 50.4 the previous month. "The volatility that has characterized the CMI for the last several months has been largely attributed to the vagaries of the slow pay," explained Kuehl. There was also a decline in the category of dollar amount of customer deductions. It was at 49.8 last month and fell to 48.7 this month. Likewise, there was a dip in the readings for filings for bankruptcies, although the numbers stayed comfortably in the expansion zone at 55.3. It was at 56.2 the month prior.

"The bad news is that readings for the unfavorable factors were nearly all in expansion territory last month with only one reading in the 40s," said Kuehl. "This month the situation is reversed, with only two categories in the expansion zone and both of these also saw some decline from the month before."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17
Sales	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8	62.2	67.3	66.8
New credit applications	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7	61.2	60.5	62.8
Dollar collections	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2	58.9	60.0	60.2
Amount of credit extended	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1	66.7	66.3	65.5
Index of favorable factors	**58.4**	**60.3**	**59.1**	**60.8**	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**	**61.7**	**62.2**	**63.5**	**63.8**
Rejections of credit applications	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9	52.2	52.5	51.8
Accounts placed for collection	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9	48.7	50.3	49.5
Disputes	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8	49.1	51.7	47.6
Dollar amount beyond terms	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3	47.4	50.4	47.3
Dollar amount of customer deductions	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1	49.2	49.8	48.7
Filings for bankruptcies	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7	53.4	53.6	55.3	56.2	55.3
Index of unfavorable factors	**50.3**	**48.0**	**50.8**	**49.5**	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**	**49.9**	**50.3**	**51.8**	**50.0**
NACM Combined CMI	**53.5**	**52.9**	**54.1**	**54.0**	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**	**56.5**	**55.5**



Manufacturing Sector

The manufacturing community has been buffeted by a whole host of issues of late and they have had some impact on growth. Some of the issues have been more or less positive and others clearly negative. Both seem to be showing up in the latest CMI data. "The storms have done a number on manufacturing just as with other parts of the economy, but at a different pace," said Kuehl. "The demand for replacement cars, appliances and damaged industrial goods has provided a nice little boost—albeit a temporary one. Houston alone accounted for almost three million cars."

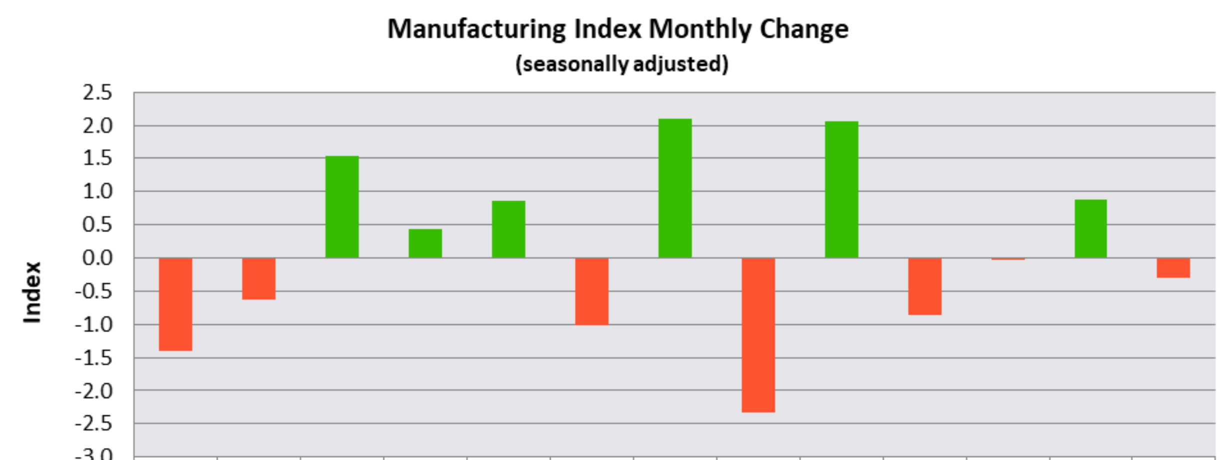
The overall data matches up pretty well with the CMI as a whole, but there are variations. The combined score for the manufacturing sector slipped just a hair from what it was the month previous (55.9 to 55.6). There was improvement in the combined score for the favorable factors as it jumped from 62.1 last month to 63.5 this month. The unfavorable factors also changed slightly, but in a negative direction—slipping from 51.8 to 50.4. "There is thus good growth indication for some and reason for alarm for others," noted Kuehl. "These differences seem to relate to industries with gains in automotive, but decreases in the energy sector."

Within the overall category of favorable factors, there was good news across the board. The sales category moved up from 65 to 67.4, a new high for the last couple of years. The new credit applications reading also surged back to the high point reached in August, with a reading of 61.8 as compared to 59 last month. The dollar collections reading fell a bit from 60.4 to 59.5. This has been a pattern that has been seen over the last several months. It is up one month and down the next. The amount of credit extended also gained, however. That suggests that good customers are asking for more. It went from 64 to 65.2.

The unfavorable categories were where the trouble starts to manifest. The rejections of credit applications improved. That was encouraging as it suggests that those asking for credit are generally creditworthy. The reading went from 52.5 to 53.7. The news was not so good when it came to accounts placed for collection as this went from 50.1 to 48.6. The disputes category also dropped, and dramatically—the reading slipped from 53 to 48.2. This is one the biggest declines seen this year. The dollar amount beyond terms fell out of the expansion zone, as well (from 51.9 to 48.6). This reading has been working in tandem with dollar collections all year. When one is down, it is nearly certain the other is as well. Kuehl noted that the slow pay problem has persisted with creditors shifting back and forth between needing more time to pay and catching up. The dollar amount of customer deductions slipped further into contraction territory with a reading of 47.1 after last month's 48.5. The filings for bankruptcies reading improved a bit as it went from 54.7 to 56.

"As with the overall scoring, the critical issue is that last month the majority of the readings were in the 50s—only one category was in contraction territory (dollar amount of customer deductions). This month, only two remain in the 50 category and four have fallen in the contraction zone," Kuehl said.

Manufacturing Sector (seasonally adjusted)	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17
Sales	54.4	58.5	58.7	61.7	60.7	61.7	64.7	59.5	66.9	64.0	60.8	65.0	67.4
New credit applications	56.9	51.6	56.1	61.8	61.6	59.7	61.4	58.6	59.8	60.6	61.8	59.0	61.8
Dollar collections	56.1	65.5	59.3	55.3	64.1	56.1	61.3	57.3	61.0	61.1	59.3	60.4	59.5
Amount of credit extended	58.3	60.4	60.2	63.0	67.2	63.4	67.8	63.4	67.4	64.5	66.1	64.0	65.2
Index of favorable factors	**56.4**	**59.0**	**58.5**	**60.5**	**63.4**	**60.2**	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**	**62.1**	**63.5**
Rejections of credit applications	52.7	49.3	51.5	51.6	52.3	52.1	52.9	52.6	53.3	52.9	52.8	52.5	53.7
Accounts placed for collection	49.0	45.0	50.1	51.9	47.4	50.6	50.1	49.5	49.8	49.8	49.7	50.1	48.6
Disputes	49.2	44.5	48.8	45.7	47.4	47.4	49.2	48.0	49.6	47.8	47.3	53.0	48.2
Dollar amount beyond terms	50.0	43.0	50.1	49.4	52.1	48.2	51.5	48.1	49.3	49.4	49.2	51.9	48.6
Dollar amount of customer deductions	48.5	49.4	49.2	48.7	46.1	49.2	49.1	48.6	48.7	47.6	48.0	48.5	47.1
Filings for bankruptcies	54.3	55.6	54.4	53.5	52.3	52.7	54.1	53.1	53.6	53.0	55.5	54.7	56.0
Index of unfavorable factors	**50.6**	**47.8**	**50.7**	**50.1**	**49.6**	**50.0**	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**	**51.8**	**50.4**
NACM Manufacturing CMI	**52.9**	**52.3**	**53.8**	**54.3**	**55.1**	**54.1**	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**	**55.9**	**55.6**



	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17
Series1	-1.4	-0.6	1.5	0.4	0.9	-1.0	2.1	-2.3	2.1	-0.9	0.0	0.9	-0.3

Service Sector

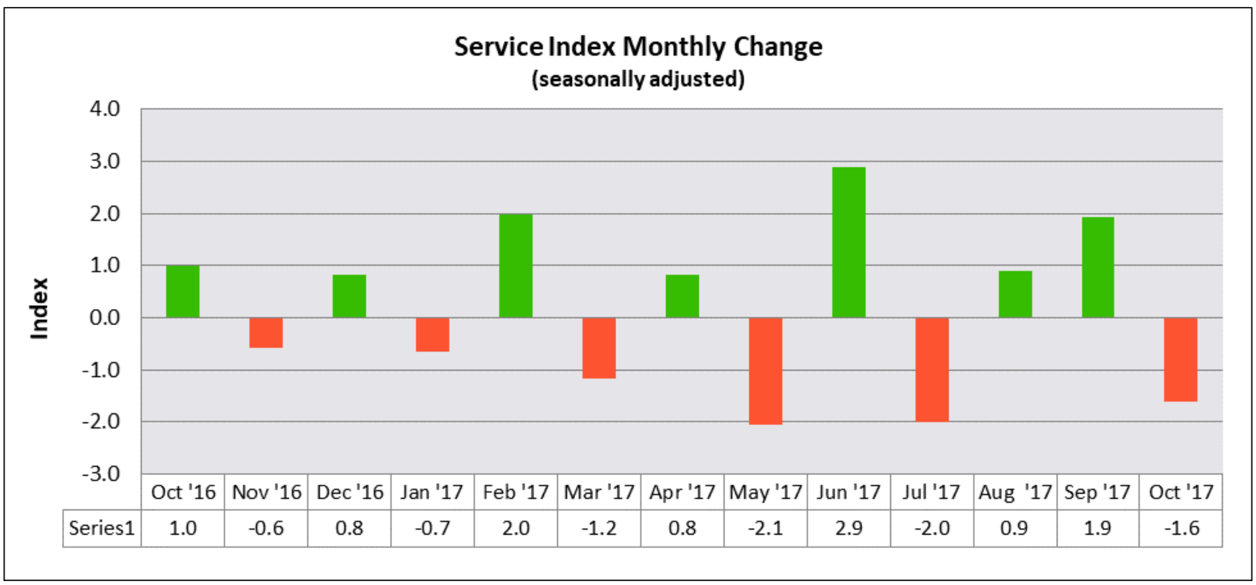
The service sector is often the most volatile, given the broad nature of the industries included. There is everything from construction to retail to health care and transportation. The overall index reading dropped quite a bit, but is still solidly in the middle of the expansion zone. It went from a several-month high of 57.1 to 55.5, about where the index has been most of the current year. The index of favorable factors fell slightly from 64.9 to 64.2, but remains very securely in the expansion category. The unfavorable numbers were also down (51.8 to 48.7). That is a bigger concern as this puts this category in the contraction zone for the first time since July.

The sales category stayed pretty close to last month's reading with a shift from 69.7 to 66.1. The new credit applications numbers improved significantly from 62 to 63.7. There was also solid performance as far as dollar collections are concerned as they moved from 59.5 to 61. That is the first time this reading has broken the 60 barrier since June. The amount of credit extended fell slightly, but this category has been high for some time—moving from 68.6 to 65.9. The readings for this category have been in the 60s for nearly three years.

The distress was in the unfavorable categories, as would be expected. The rejections of credit applications slipped out of the expansion zone as it moved from 52.5 to 49.8. The accounts placed for collection stayed very nearly the same—a major contrast to the numbers collected in the manufacturing sector. The level was 50.6 last month and 50.3 this month. The disputes category fell hard as it went from a reading of 50.3 to one of 47. The dollar amount beyond terms reading sank deeper into the contraction zone with a reading of 46.1 compared to 49 last month. This reading is still not as low as it was in August, but it is low. The dollar amount of customer deductions slipped from 51.1, but stayed in the expansion zone with a reading of 50.2. The filings for bankruptcies slipped a bit as well—falling from 57.6 last month to 54.6 this month.

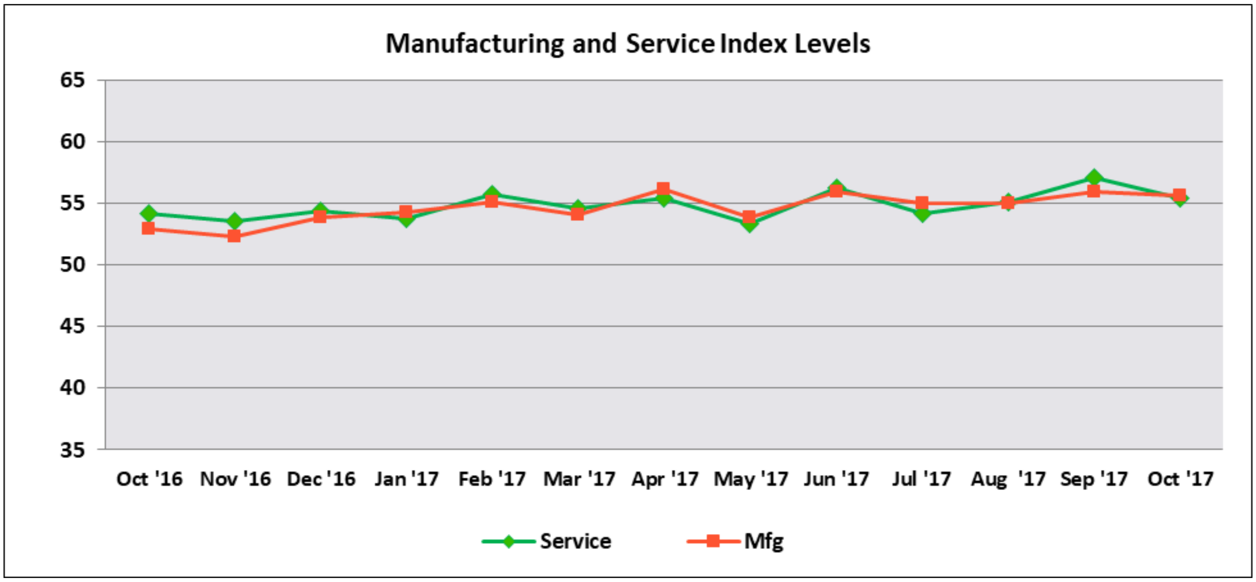
"The pattern has been the same for both manufacturing and service—a robust favorable reading on top of very weak unfavorable," said Kuehl.

Service Sector (seasonally adjusted)	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17
Sales	59.5	65.1	58.5	58.5	64.5	60.6	62.9	61.7	66.0	61.7	63.6	69.7	66.1
New credit applications	59.1	57.4	57.8	59.7	62.4	61.3	62.6	59.9	59.9	58.8	60.6	62.0	63.7
Dollar collections	58.0	61.5	59.7	61.2	61.9	56.7	61.2	56.0	63.9	59.4	58.6	59.5	61.0
Amount of credit extended	64.7	62.4	62.6	65.2	66.4	65.3	66.5	63.8	66.3	63.8	67.3	68.6	65.9
Index of favorable factors	**60.3**	**61.6**	**59.7**	**61.2**	**63.8**	**61.0**	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**	**64.9**	**64.2**
Rejections of credit applications	50.9	48.5	51.1	49.7	50.5	51.1	51.3	52.3	51.9	50.8	51.5	52.5	49.8
Accounts placed for collection	47.3	46.5	49.3	46.9	49.0	49.0	47.9	47.5	48.9	48.1	47.8	50.6	50.3
Disputes	50.6	50.9	50.7	46.2	49.9	49.7	49.1	47.7	51.3	49.8	50.8	50.3	47.0
Dollar amount beyond terms	48.1	46.9	48.4	47.3	49.8	46.7	50.5	43.6	51.6	47.2	45.6	49.0	46.1
Dollar amount of customer deductions	50.5	46.5	50.4	48.8	49.2	50.4	49.3	48.9	49.5	48.6	50.4	51.1	50.2
Filings for bankruptcies	53.3	50.3	55.7	54.3	54.0	54.9	52.9	52.3	53.2	54.2	55.2	57.6	54.6
Index of unfavorable factors	**50.1**	**48.3**	**50.9**	**48.9**	**50.4**	**50.3**	**50.2**	**48.7**	**51.1**	**49.8**	**50.2**	**51.8**	**49.7**
NACM Service CMI	**54.2**	**53.6**	**54.4**	**53.8**	**55.8**	**54.6**	**55.4**	**53.4**	**56.2**	**54.2**	**55.1**	**57.1**	**55.5**



October 2017 versus October 2016

"What doesn't show up that well with this data is the stark difference between the readings for the favorable categories and the unfavorable," concluded Kuehl. "The favorable numbers are consistently in the 60s and the unfavorables keep sinking into the 40s and the contraction zone."



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.

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