



Report for January 2018

Issued January 31, 2018

National Association of Credit Management

Combined Sectors

NACM's Credit Managers' Index (CMI) rebounded in January after December's downshift, boosted by reports of climbing sales, new credit applications and the amount of credit trade creditors extended to their customers. Last month, there was a precipitous drop that followed a nice gain the month prior. This month, there was another rebound. "To be honest, the movements have not been all that dramatic," said NACM Economist Chris Kuehl, Ph.D., "and the vast majority of the change has been within the favorable factors, but the inconsistency has been a little vexing."

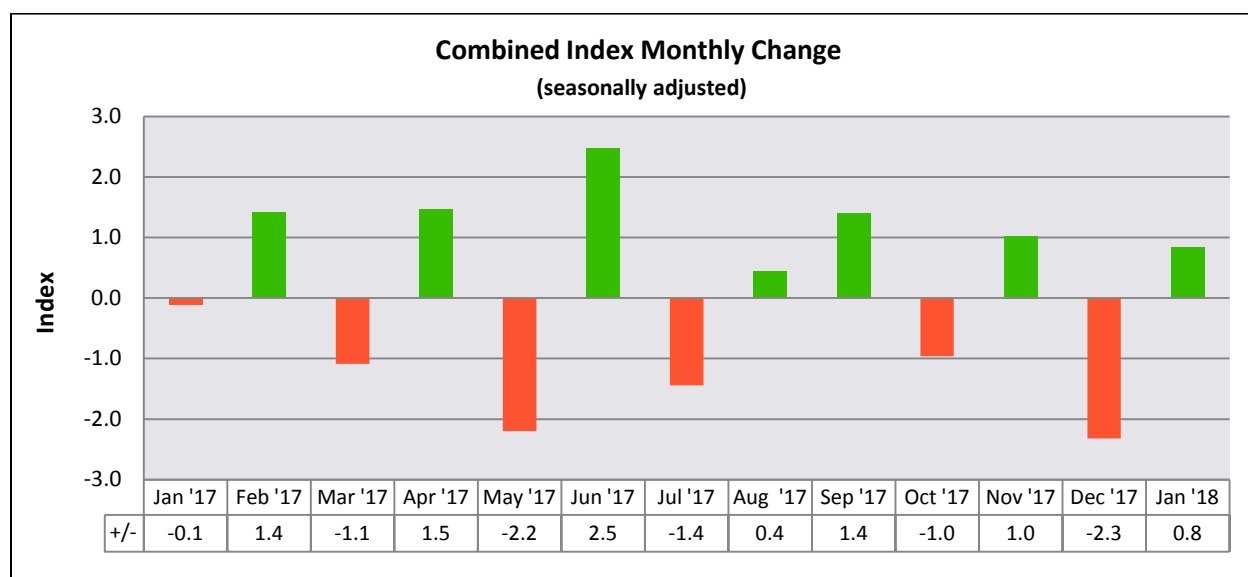
The combined reading for January's CMI is back to 55.1 after falling to 54.2 in December. There has been quite a bit of variety over the last 12 months, but numbers have stayed comfortably in the mid-50s with the lowest month being May at 53.6. The highest reading was in November (56.6), so there really has not been enough variation to cause any alarm. The issue is trending. It would be nice to see a few months in a row with numbers heading up. The index of favorable factors perked up this month to 61.4 after falling to 59.4 last month. Just as with the combined score, the variation over the last 12 months has been relatively minor—the numbers have been very solidly in the 60s. The lowest level with a reading under 60 for the first time in a year was last month. The highest point was reached in November of last year when it hit 65.7. The index of unfavorable factors followed the same pattern with numbers in a narrow range. This month was exactly the same as the month prior with a reading of 50.8. The low point for the year was 49.3 last May; the high point was 51.8 in September. The unfavorable numbers have been riding the line between contraction and expansion for over three years now.

The details are informative as well. The sales category rebounded nicely from December as it went from 59.2 to 63. The same upward progress was noted in new credit applications (57.3 to 59.8), but unfortunately dollar collections did not follow the same pattern as the reading slipped from 59.1 to 58.7. There was a nice recovery from 61.8 to 64.3 in the amount of credit extended category. "In short, the gains this month offset some of the losses of the previous month," noted Kuehl.

The rejections of credit applications improved just a little as it moved from 51.4 to 51.8. It is always good news when there has been an improvement in new credit applications. The category of accounts placed for collection climbed out of the contraction zone by moving from 49.8 to 51.7. There was a slight retreat in the disputes category as it went from 49.7 to 49.6, but for all intents and purposes the data showed stability in this category. The dollar amount beyond terms, however, took a pretty significant dip. That is not encouraging as what often happens next is trouble in other categories. The reading last month was 49.3 and this month it fell to 47. The dollar amount of customer deductions stayed right where it was last month with a reading of 49.7. On a positive note, there was a slight improvement in the category filings for bankruptcies as it moved from 55 to 55.2.

"January was a rebound month, but not an especially strong one, and it would be premature to assert that an upward trend may be in the offing," said Kuehl. In summary, he noted that the data coming in on the economy has been strong of late, but there are elements of that strength that may reflect some temporary reactions. "The tax cuts will show up in the data for the next several months, but as the burst is accommodated, there will be more long-term concern centered on inflation. That would affect the CMI as well as the Purchasing Managers' Index (PMI)."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18
Sales	60.1	62.6	61.2	63.8	60.6	66.5	62.8	62.2	67.3	66.8	68.3	59.2	63.0
New credit applications	60.8	62.0	60.5	62.0	59.3	59.8	59.7	61.2	60.5	62.8	63.7	57.3	59.8
Dollar collections	58.2	63.0	56.4	61.2	56.7	62.5	60.2	58.9	60.0	60.2	63.1	59.1	58.7
Amount of credit extended	64.1	66.8	64.4	67.2	63.6	66.8	64.1	66.7	66.3	65.5	67.8	61.8	64.3
Index of favorable factors	60.8	63.6	60.6	63.6	60.0	63.9	61.7	62.2	63.5	63.8	65.7	59.4	61.4
Rejections of credit applications	50.6	51.4	51.6	52.1	52.4	52.6	51.9	52.2	52.5	51.8	52.4	51.4	51.8
Accounts placed for collection	49.4	48.2	49.8	49.0	48.5	49.3	48.9	48.7	50.3	49.5	50.5	49.8	51.7
Disputes	46.0	48.7	48.5	49.1	47.9	50.4	48.8	49.1	51.7	47.6	48.3	49.7	49.6
Dollar amount beyond terms	48.4	51.0	47.4	51.0	45.9	50.4	48.3	47.4	50.4	47.3	47.5	49.3	47.0
Dollar amount of customer deductions	48.7	47.6	49.8	49.2	48.7	49.1	48.1	49.2	49.8	48.7	48.9	49.7	49.7
Filings for bankruptcies	53.9	53.2	53.8	53.5	52.7	53.4	53.6	55.3	56.2	55.3	55.1	55.0	55.2
Index of unfavorable factors	49.5	50.0	50.2	50.6	49.3	50.9	49.9	50.3	51.8	50.0	50.4	50.8	50.8
NACM Combined CMI	54.0	55.4	54.3	55.8	53.6	56.1	54.6	55.1	56.5	55.5	56.6	54.2	55.1



Manufacturing Sector

As with the combined CMI, there was a recovery in the manufacturing sector, but it was not as robust as the overall reading. The combined score improved from last month—going from 53.9 to 54.1. The important note, as with the combined score, is that these numbers are comfortably within the mid-50s—certainly out of the danger zone. The readings for the combined favorable factors also improved from 58.8 to 60.7. It is nice to see this data back in the 60s where it has been for all but two of the months in the last 12. The combined score for the unfavorable factors moved from 50.7 to 49.7. Not a big dip, but again, the issue is trends. Slipping into contraction is not the preferred direction.

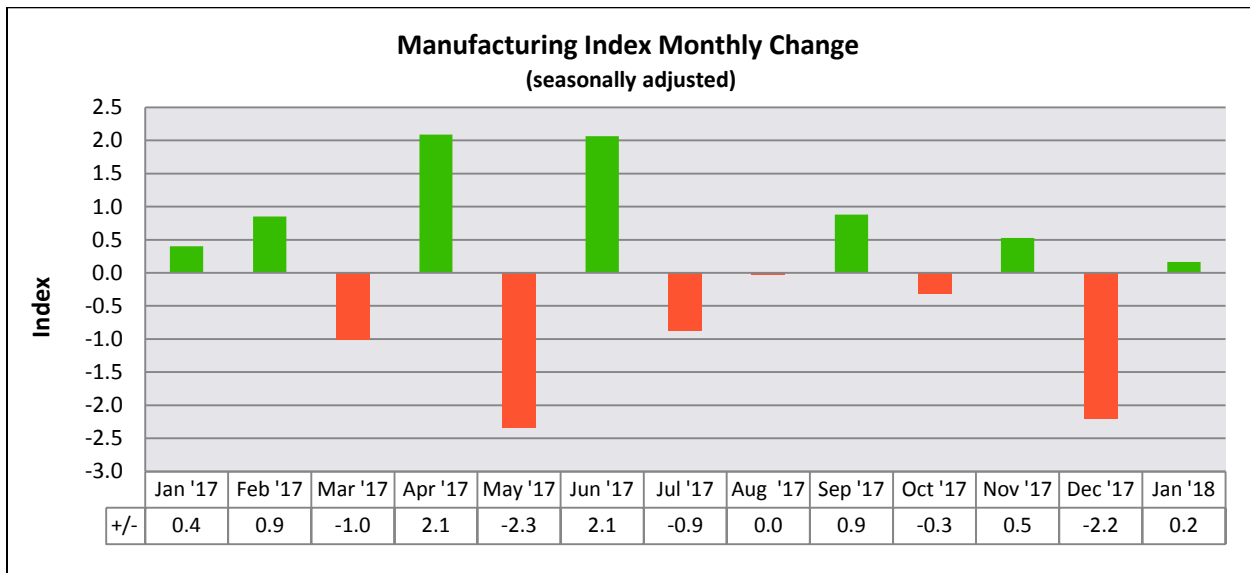
The sales category recovered quite a bit, moving from 59.2 to 62.7. The category of new credit applications shifted up as well (56.5 to 57.8). The dollar collections reading slipped from 58.9 to 58.7, which is a very small adjustment,

but one that concerns people a bit as this has been a category that has been all over the place all year. The issue with dollar collections is that there are many reasons for a dip, said Kuehl. “It can mean that clients are in trouble and are struggling to pay, but it may also mean that companies with leverage are forcing their creditors to essentially be their bank by holding off payment as long as possible.” The reading for amount of credit extended ramped up a bit as it moved from 60.7 to 63.4. The bottom line is that readings are very comfortably in the high 50s and 60s.

The category of rejections of credit applications remained very stable as the reading went from 51.5 to 51.8. It is good news when there has been an improvement in the rate of applications. The accounts placed for collection shifted up a little as well—moving from 50.3 to 51.2, and more comfortably in expansion territory. The disputes readings shifted down, but very slightly (48.8 to 48.4). The dollar amount beyond terms slipped badly. This is a major concern as it is now deep in the contraction zone—falling from 50.1 to 45. “The fear here is that companies are right on the edge of a problem,” warned Kuehl, “or are anticipating something and are stretching their creditors again. This has been an issue all year.” The dollar amount of customer deductions also fell pretty hard as it moved from 49.1 to 46.6. The good news is that filings for bankruptcies perked up by moving from 54.4 to 55.3.

Manufacturing has done pretty well this year, according to Kuehl. “The numbers have been encouraging from the Purchasing Managers’ Index to durable goods and factory orders. The caution here is that manufacturers may be entering a more suspicious place.”

Manufacturing Sector (seasonally adjusted)	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18
Sales	61.7	60.7	61.7	64.7	59.5	66.9	64.0	60.8	65.0	67.4	68.2	59.2	62.7
New credit applications	61.8	61.6	59.7	61.4	58.6	59.8	60.6	61.8	59.0	61.8	64.5	56.5	57.8
Dollar collections	55.3	64.1	56.1	61.3	57.3	61.0	61.1	59.3	60.4	59.5	60.9	58.9	58.7
Amount of credit extended	63.0	67.2	63.4	67.8	63.4	67.4	64.5	66.1	64.0	65.2	67.4	60.7	63.4
Index of favorable factors	60.5	63.4	60.2	63.8	59.7	63.8	62.5	62.0	62.1	63.5	65.3	58.8	60.7
Rejections of credit applications	51.6	52.3	52.1	52.9	52.6	53.3	52.9	52.8	52.5	53.7	52.6	51.5	51.8
Accounts placed for collection	51.9	47.4	50.6	50.1	49.5	49.8	49.8	49.7	50.1	48.6	51.5	50.3	51.2
Disputes	45.7	47.4	47.4	49.2	48.0	49.6	47.8	47.3	53.0	48.2	47.1	48.8	48.4
Dollar amount beyond terms	49.4	52.1	48.2	51.5	48.1	49.3	49.4	49.2	51.9	48.6	48.2	50.1	45.0
Dollar amount of customer deductions	48.7	46.1	49.2	49.1	48.6	48.7	47.6	48.0	48.5	47.1	45.7	49.1	46.6
Filings for bankruptcies	53.5	52.3	52.7	54.1	53.1	53.6	53.0	55.5	54.7	56.0	55.4	54.4	55.3
Index of unfavorable factors	50.1	49.6	50.0	51.1	50.0	50.7	50.1	50.4	51.8	50.4	50.1	50.7	49.7
NACM Manufacturing CMI	54.3	55.1	54.1	56.2	53.9	55.9	55.1	55.0	55.9	55.6	56.1	53.9	54.1



Service Sector

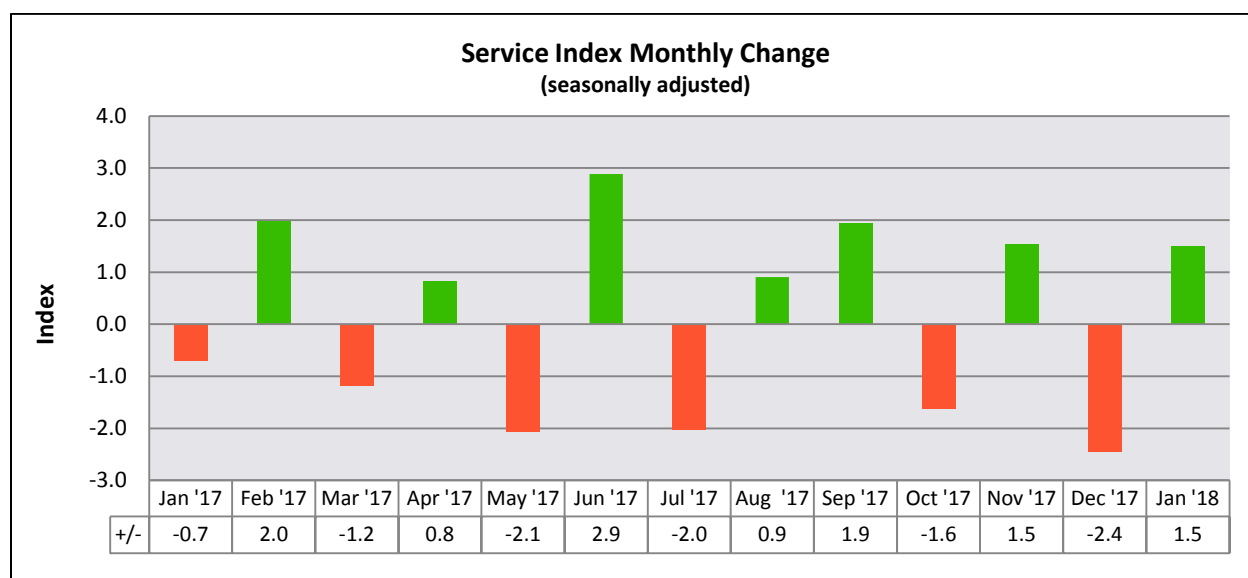
“This is the time of year when there is more likely to be movement in the service categories as the data will reflect some of the retail season as well as the post-holiday withdrawal,” said Kuehl. “There are often pretty extreme variations in performance in the construction sector as well as projects shutting down for the winter.” The overall score for the service data moved up quite a bit from 54.5 to 56. There was similar movement with the favorable and unfavorable categories as well. The favorables went from 59.9 to 62.2, back solidly in the 60s. In December, this category dipped into the 50s for the first time in well over a year. The unfavorables held pretty steady with a reading that was at 51.9 after being at 51.

The sales reading jumped back to familiar territory with a 63.3, after falling to 59.2 the month before. This category had only been in the 50s one other time in the last year—in January of 2017. The new credit applications sector jumped back into the 60s as well with a reading of 61.8 after one of 58.2. The category of dollar collections slipped a little from 59.4 to 58.6. That has been a theme for this month’s CMI. “It seems that credit managers are facing companies that are either strapped for cash or are trying to be more cautious about their cash,” said Kuehl. The reading for amount of credit extended improved quite a bit as it went from 63 to 65.1.

The readings for rejections of credit applications improved just slightly from 51.2 to 51.8, but this is still good news given that new credit applications have been substantially higher—those asking for more credit are qualified to do so. The accounts placed for collection improved enough to escape the contraction zone by moving from 49.3 to 52.1. The readings on disputes improved from 50.7 to 50.9. There was likewise progress when it came to dollar amount beyond terms as there was a slight tilt upward from 48.4 to 49. This is still in the contraction zone, but compared to the big dive that was seen in the manufacturing data, the trend is far better in the service category. There was a little movement upward in dollar amount of customer deductions—from 50.4 to 52.7. The filings for bankruptcies slipped a little, but the change was negligible as it moved from 55.7 to 55.

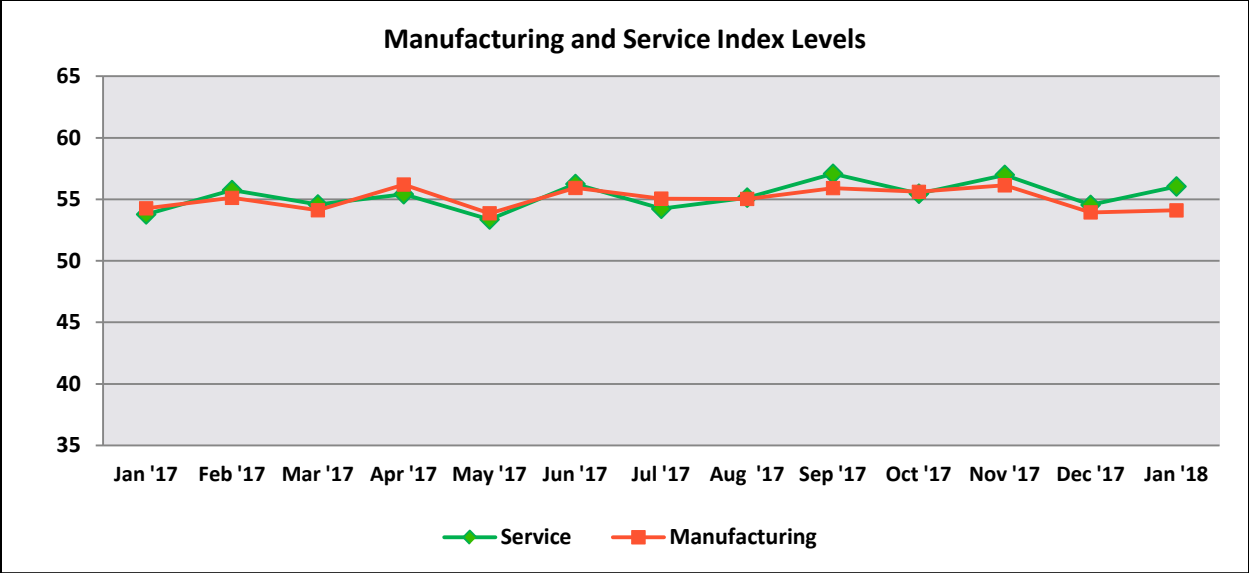
“By all accounts, the retail sector had a very good finish to the year,” noted Kuehl, “and there has been some momentum felt in 2018. The construction season lasted a bit longer in the northern states than usual, but that reprieve ended a few weeks ago.”

Service Sector (seasonally adjusted)	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18
Sales	58.5	64.5	60.6	62.9	61.7	66.0	61.7	63.6	69.7	66.1	68.4	59.2	63.3
New credit applications	59.7	62.4	61.3	62.6	59.9	59.9	58.8	60.6	62.0	63.7	62.9	58.2	61.8
Dollar collections	61.2	61.9	56.7	61.2	56.0	63.9	59.4	58.6	59.5	61.0	65.4	59.4	58.6
Amount of credit extended	65.2	66.4	65.3	66.5	63.8	66.3	63.8	67.3	68.6	65.9	68.2	63.0	65.1
Index of favorable factors	61.2	63.8	61.0	63.3	60.3	64.0	60.9	62.5	64.9	64.2	66.2	59.9	62.2
Rejections of credit applications	49.7	50.5	51.1	51.3	52.3	51.9	50.8	51.5	52.5	49.8	52.3	51.2	51.8
Accounts placed for collection	46.9	49.0	49.0	47.9	47.5	48.9	48.1	47.8	50.6	50.3	49.6	49.3	52.1
Disputes	46.2	49.9	49.7	49.1	47.7	51.3	49.8	50.8	50.3	47.0	49.5	50.7	50.9
Dollar amount beyond terms	47.3	49.8	46.7	50.5	43.6	51.6	47.2	45.6	49.0	46.1	46.7	48.4	49.0
Dollar amount of customer deductions	48.8	49.2	50.4	49.3	48.9	49.5	48.6	50.4	51.1	50.2	52.1	50.4	52.7
Filings for bankruptcies	54.3	54.0	54.9	52.9	52.3	53.2	54.2	55.2	57.6	54.6	54.7	55.7	55.0
Index of unfavorable factors	48.9	50.4	50.3	50.2	48.7	51.1	49.8	50.2	51.8	49.7	50.8	51.0	51.9
NACM Service CMI	53.8	55.8	54.6	55.4	53.4	56.2	54.2	55.1	57.1	55.5	57.0	54.5	56.0



January 2018 versus January 2017

“Another episode in the roller coaster world of the credit manager,” said Kuehl. “Last month, there was a decided drop and this month a recovery back to numbers that were typical of November. It looks like the up and down will be with us for a while.”



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

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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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