Report for March 2018

Issued March 30, 2018

National Association of Credit Management

Combined Sectors

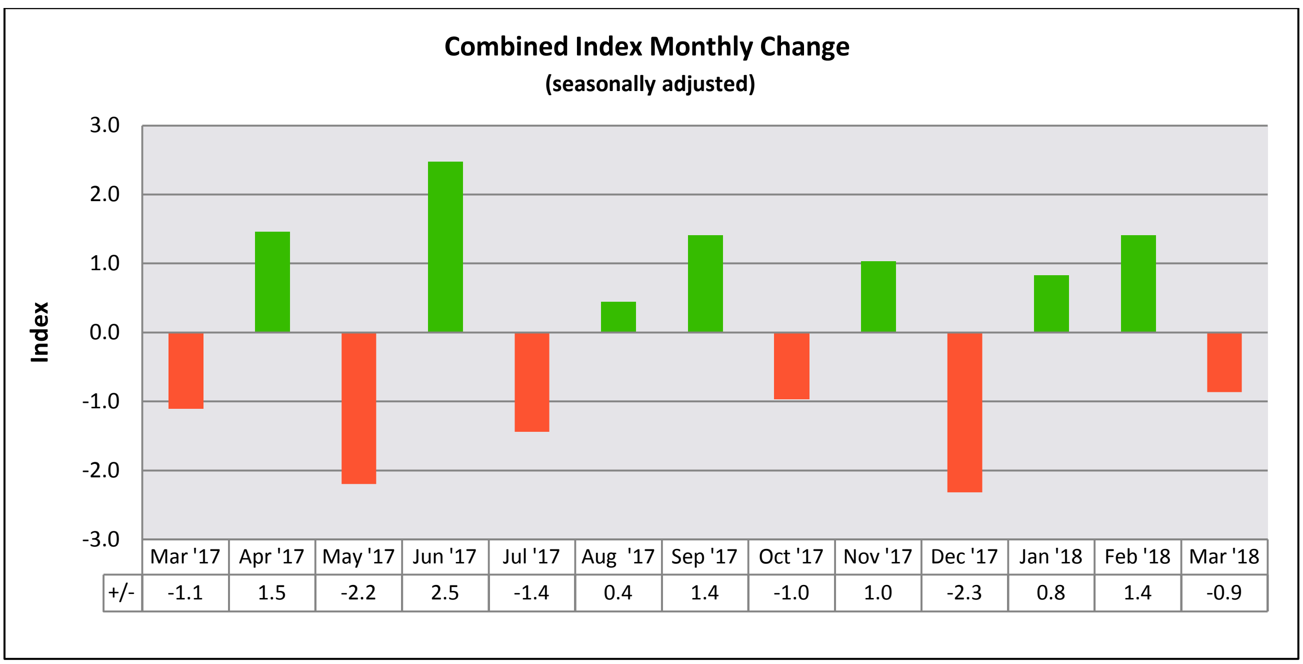
In February, there seemed to be a trend toward positive Credit Managers' Index (CMI) growth—after all, there were two months in a row where the data was improving. It is not that the bottom dropped out this month, but there was a reversal, and numbers tilted a little down. A movement from 56.5 to 55.6 would normally not be cause for alarm; it really isn't cause for panic now. It is simply that there have been expectations and they have not been met. The big tax reform effort was supposed to kick things into high gear, but it is starting to look a bit like a dud. That was a concern from the start, as it was coming so late in the game. "How much difference was this tax break going to make with an economy already growing at a 3% pace?" asked NACM Economist Chris Kuehl, Ph.D. "At this point, it doesn't appear to have had much impact, but there may be an upside to this. Without that surge in growth, there has been less threat of break-out inflation and the pressure on the Fed to hike interest rates."

There was a decline in both the favorable and unfavorable categories, but the decline was more precipitous in the favorable. Still, the numbers remain high and very comfortably within the 60s. In February, the favorable reading was at 64.9 and this month it is at 63.2. The sub-index numbers showed the same general pattern. The sales category slipped from 66.8 to 64.1, still higher than it notched in either January or December of last year. The new credit applications also slid a little (63.3 to 62.7), while the often-volatile dollar collections reading went from 62.9 to 59.6. This also remains higher than was the case in December or January. This reading has often been twinned with the unfavorable factor measuring slow pays. "It seems that companies scramble to get out of credit trouble one month and fall back into more trouble the next," said Kuehl. The indicator for amount of credit extended stayed high and almost the same as it was the month prior, only moving from 66.4 to 66.2. "There is still a lot of credit being offered—especially to some of the larger customers," he added.

The unfavorable factors also saw a decline, but not as dramatic as the one affecting the favorable. The overall score went from 50.9 to 50.6—hanging on to the expansion category (anything above 50) by the razor's edge. The rejections of credit applications improved a little (51.5 to 53.3). Kuehl suggests this looks to be a matter of selectivity, as many of those that would likely not qualify are not even trying to obtain credit. The accounts placed for collection also saw a small uptick—49.8 to 50.4, moving from the contraction zone to expansion. The disputes reading slipped, however, going deeper into contraction territory as it shifted from 49.6 to 47.7. The dollar amount beyond terms also saw a slide back down with a reading of 47.2 after 49.9 in February. That was about as close as one can get to breaking into expansion territory, but it fell even shorter this month. This category has been above 50 only three times in the last year—April, June and September. In contrast, there was a slight improvement in the category of dollar amount of customer deductions as the reading went from 49.1 to 49.8. The filings for bankruptcies slipped a bit, but it was not a big fall and did not pull this reading into the contraction zone. It was at 55.4 last month and is at 55.2 this month.

None of the news this month is exactly bad. The decline in the favorable numbers has not drawn these readings even close to contraction. The nonfavorables have shown some improvement. Collectively, the category still sits above 50. According to Kuehl, the issue is that many expected the news to be better than this by now. "The efforts that have been made regarding tax cuts and government spending should have been manifesting, but many sectors are simply treading water," he said. "Retail is not surging despite hikes in consumer confidence; it appears that potential trade issues have been taking their toll as well."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18
Sales	61.2	63.8	60.6	66.5	62.8	62.2	67.3	66.8	68.3	59.2	63.0	66.8	64.1
New credit applications	60.5	62.0	59.3	59.8	59.7	61.2	60.5	62.8	63.7	57.3	59.8	63.3	62.7
Dollar collections	56.4	61.2	56.7	62.5	60.2	58.9	60.0	60.2	63.1	59.1	58.7	62.9	59.6
Amount of credit extended	64.4	67.2	63.6	66.8	64.1	66.7	66.3	65.5	67.8	61.8	64.3	66.4	66.2
Index of favorable factors	**60.6**	**63.6**	**60.0**	**63.9**	**61.7**	**62.2**	**63.5**	**63.8**	**65.7**	**59.4**	**61.4**	**64.9**	**63.2**
Rejections of credit applications	51.6	52.1	52.4	52.6	51.9	52.2	52.5	51.8	52.4	51.4	51.8	51.5	53.3
Accounts placed for collection	49.8	49.0	48.5	49.3	48.9	48.7	50.3	49.5	50.5	49.8	51.7	49.8	50.4
Disputes	48.5	49.1	47.9	50.4	48.8	49.1	51.7	47.6	48.3	49.7	49.6	49.6	47.7
Dollar amount beyond terms	47.4	51.0	45.9	50.4	48.3	47.4	50.4	47.3	47.5	49.3	47.0	49.9	47.2
Dollar amount of customer deductions	49.8	49.2	48.7	49.1	48.1	49.2	49.8	48.7	48.9	49.7	49.7	49.1	49.8
Filings for bankruptcies	53.8	53.5	52.7	53.4	53.6	55.3	56.2	55.3	55.1	55.0	55.2	55.4	55.2
Index of unfavorable factors	**50.2**	**50.6**	**49.3**	**50.9**	**49.9**	**50.3**	**51.8**	**50.0**	**50.4**	**50.8**	**50.8**	**50.9**	**50.6**
NACM Combined CMI	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**	**56.5**	**55.5**	**56.6**	**54.2**	**55.1**	**56.5**	**55.6**



Manufacturing Sector

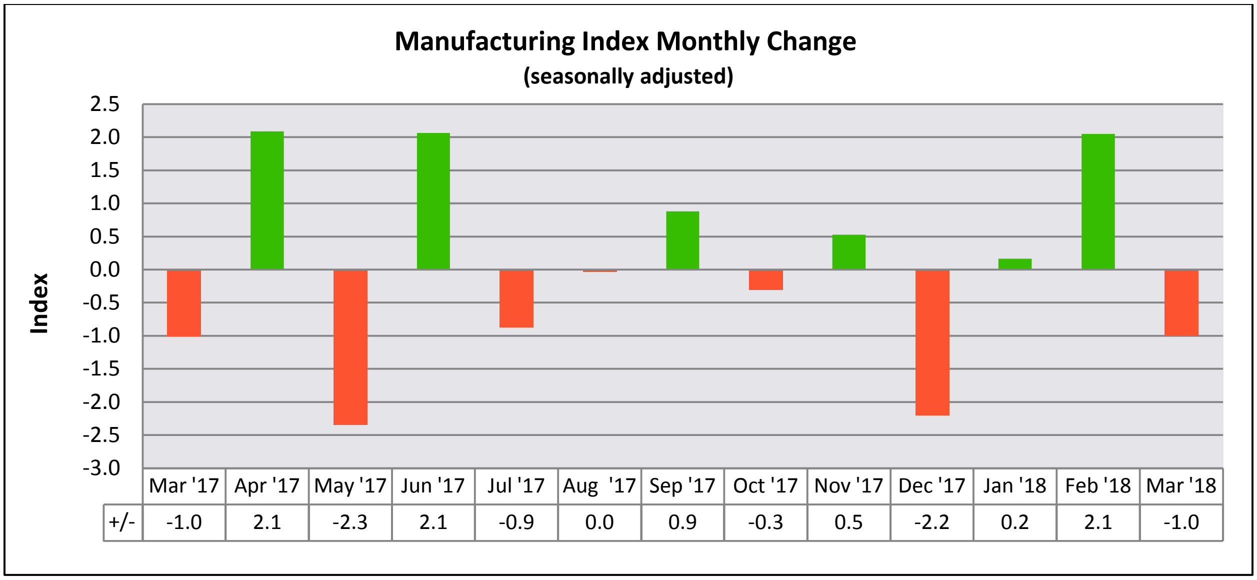
There were some pretty high expectations as far as the manufacturing sector was concerned. The thinking behind the tax cuts and other measures was that producers would be providing their own demand as this move has been a return of supply-side economic theory. It has not panned out thus far, but time will tell. The overall score for manufacturing is not bad—just not as good as had been hoped. The reading for March is 55.2 and last month it was 56.2, but the important thing to note is that even with this slight decline, the numbers are among the highest seen all year.

The favorable factors as a whole were down slightly but remain solidly in the 60s. They went from 64.9 to 62.4, still among the highest readings in the last year. The sales readings took a hit (65.8 to 62.5) but remains at a very healthy pace. The new credit applications number took a similar path as it went from 65.2 to 62.4. Given that the corresponding unfavorable reading rejections of credit applications improved, Kuehl suggests that those with less than sterling credit credentials stayed away from the market altogether. The dollar collections numbers slipped out of the 60s again by shifting from 62.8 to 59.5, but this category has been bouncing around that 60 mark all year. The amount of credit extended stayed very close to what it was last month going from 65.9 to 65.3. This is also a consistently high number, and there is still a lot of credit movement.

The score for the nonfavorables stayed exactly where it was last month with a reading of 50.3. There was movement within the sub-categories, but this didn't alter the overall story. The rejections of credit applications improved with a reading of 54.1 after one of 51.5 last month, meaning that those applying for credit are getting it for the most part. The accounts placed for collection also improved a bit from 50.1 to 51, among the highest levels seen this year. The disputes category slipped even further into contraction territory (47.6 to 46). That remains a worry as these disputes often lead to collection actions and other issues. The dollar amount beyond terms reading also fell further back into contraction at 46.5, after hitting 48.5 last month. This is another of those worrying categories as slow pays often become a collection issue sooner than later. The dollar amount of customer deductions improved a bit but remains stuck in contraction territory as it moved from 47.7 to 48.7. The change in filings for bankruptcies was a little more pronounced than in the past, but the reading remains firmly in the expansion zone as it went from 56.3 to 55.6.

Manufacturing in general has been both encouraged and discouraged by the events of this year, concluded Kuehl. "The additional tax breaks for corporations have been long sought and many now feel they are at least closer to a level global playing field, but the on-again, off-again conversation about tariffs on steel and aluminum have been disconcerting," he said. "So has talk of a real trade war. It has basically inhibited the longer-term plans for many sectors."

Manufacturing Sector (seasonally adjusted)	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18
Sales	61.7	64.7	59.5	66.9	64.0	60.8	65.0	67.4	68.2	59.2	62.7	65.8	62.5
New credit applications	59.7	61.4	58.6	59.8	60.6	61.8	59.0	61.8	64.5	56.5	57.8	65.2	62.4
Dollar collections	56.1	61.3	57.3	61.0	61.1	59.3	60.4	59.5	60.9	58.9	58.7	62.8	59.5
Amount of credit extended	63.4	67.8	63.4	67.4	64.5	66.1	64.0	65.2	67.4	60.7	63.4	65.9	65.3
Index of favorable factors	**60.2**	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**	**62.1**	**63.5**	**65.3**	**58.8**	**60.7**	**64.9**	**62.4**
Rejections of credit applications	52.1	52.9	52.6	53.3	52.9	52.8	52.5	53.7	52.6	51.5	51.8	51.5	54.1
Accounts placed for collection	50.6	50.1	49.5	49.8	49.8	49.7	50.1	48.6	51.5	50.3	51.2	50.1	51.0
Disputes	47.4	49.2	48.0	49.6	47.8	47.3	53.0	48.2	47.1	48.8	48.4	47.6	46.0
Dollar amount beyond terms	48.2	51.5	48.1	49.3	49.4	49.2	51.9	48.6	48.2	50.1	45.0	48.5	46.5
Dollar amount of customer deductions	49.2	49.1	48.6	48.7	47.6	48.0	48.5	47.1	45.7	49.1	46.6	47.7	48.7
Filings for bankruptcies	52.7	54.1	53.1	53.6	53.0	55.5	54.7	56.0	55.4	54.4	55.3	56.3	55.6
Index of unfavorable factors	**50.0**	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**	**51.8**	**50.4**	**50.1**	**50.7**	**49.7**	**50.3**	**50.3**
NACM Manufacturing CMI	**54.1**	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**	**55.9**	**55.6**	**56.1**	**53.9**	**54.1**	**56.2**	**55.2**



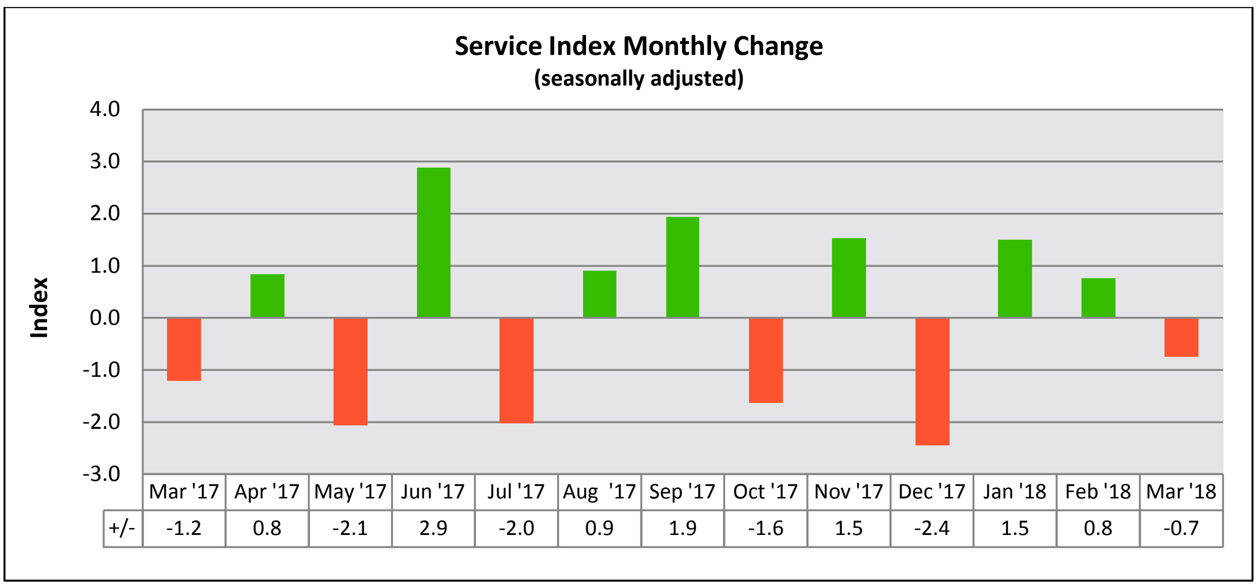
Service Sector

The changes in the service sector have been more subtle than for manufacturing, but there has been a reaction. The overall score for March shifted down, but only slightly, from 56.8 to 56.1. As with the other measures, it is important to remember that anything in the mid-50s is a good thing. Even as some had expected more activity by now, there is no sense of panic. The index of favorable factors slipped a bit, but as with manufacturing, the numbers are still firmly in the 60s—certainly positive news for the sector as a whole. It was at 64.8 and is now at 63.9.

The sales category slipped from 67.8 to 65.8, but this remains somewhat close to the norms of the past year. The new credit applications reading actually improved, suggesting that construction is off to a pretty good start as the retailer is not a big credit customer this time of year. The reading went from 61.5 to 63. There was a dip in dollar collections (63 to 59.8). “There is definitely some distress in parts of the service sector and has been for some time—much of this in retail,” noted Kuehl. The reading for amount of credit extended improved and is hitting some exalted territory as it moved from 66.9 to 67.2. This is a higher level than has been seen since last fall when the numbers were above 68.

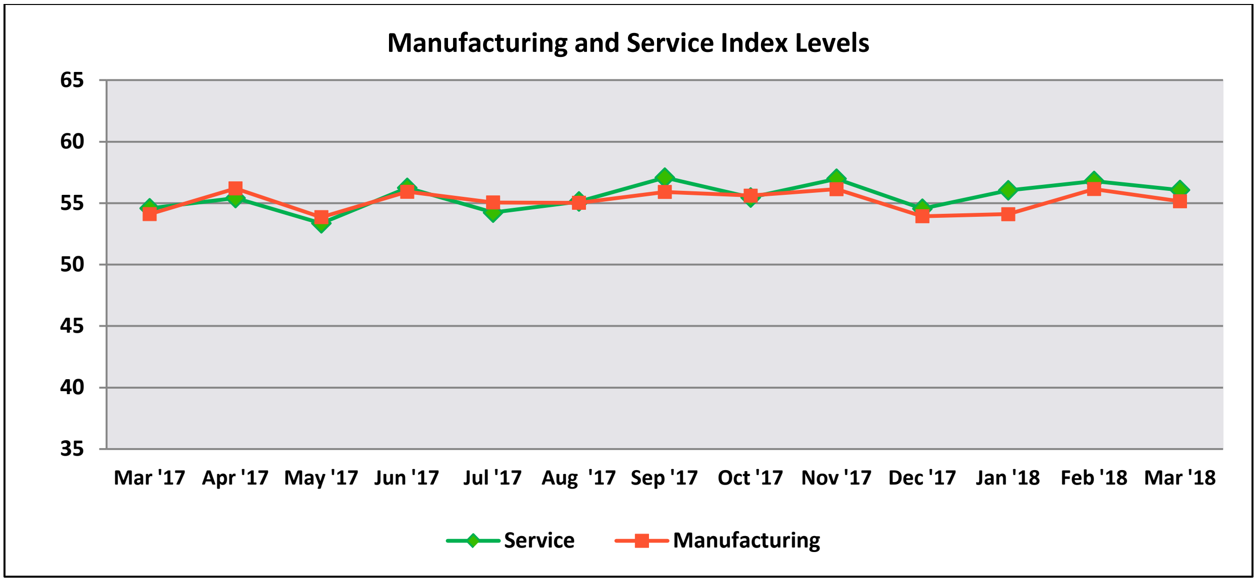
The combined score for the unfavorable categories showed a little distress but nothing to a crisis point at this juncture. The reading last month was 51.5. It has now fallen to 50.8—hanging on to expansion territory by a thread. The specifics are where the action is this time around. The rejections of credit applications improved from 51.5 to 52.4. According to Kuehl, that is consistent with the observation that most of the bad risk operations are not even trying to obtain credit these days. The accounts placed for collection changed very little from last month when the reading was 49.6. This month, it is 49.7, which is still very close to breaking out of the contraction zone. The disputes category slipped back into contraction with a reading of 49.3 after last month’s 51.6. As with manufacturing, this is not a good thing as disputes often lead to more serious issues of collection. The dollar amount beyond terms category also fell back into contraction with a reading of 47.8 after 51.3 last month. That matches with the distress noted as far as dollar collections have been concerned. The dollar amount of customer deductions stayed very close to that of the month prior. It is now at 50.9 and was at 50.5. The filings for bankruptcies also remained very consistent with a number of 54.8 after one of 54.4. “This is better news than one might think as the retail community has long been pressured by these bankruptcy threats,” Kuehl said.

Service Sector (seasonally adjusted)	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18
Sales	60.6	62.9	61.7	66.0	61.7	63.6	69.7	66.1	68.4	59.2	63.3	67.8	65.8
New credit applications	61.3	62.6	59.9	59.9	58.8	60.6	62.0	63.7	62.9	58.2	61.8	61.5	63.0
Dollar collections	56.7	61.2	56.0	63.9	59.4	58.6	59.5	61.0	65.4	59.4	58.6	63.0	59.8
Amount of credit extended	65.3	66.5	63.8	66.3	63.8	67.3	68.6	65.9	68.2	63.0	65.1	66.9	67.2
Index of favorable factors	**61.0**	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**	**64.9**	**64.2**	**66.2**	**59.9**	**62.2**	**64.8**	**63.9**
Rejections of credit applications	51.1	51.3	52.3	51.9	50.8	51.5	52.5	49.8	52.3	51.2	51.8	51.5	52.4
Accounts placed for collection	49.0	47.9	47.5	48.9	48.1	47.8	50.6	50.3	49.6	49.3	52.1	49.6	49.7
Disputes	49.7	49.1	47.7	51.3	49.8	50.8	50.3	47.0	49.5	50.7	50.9	51.6	49.3
Dollar amount beyond terms	46.7	50.5	43.6	51.6	47.2	45.6	49.0	46.1	46.7	48.4	49.0	51.3	47.8
Dollar amount of customer deductions	50.4	49.3	48.9	49.5	48.6	50.4	51.1	50.2	52.1	50.4	52.7	50.5	50.9
Filings for bankruptcies	54.9	52.9	52.3	53.2	54.2	55.2	57.6	54.6	54.7	55.7	55.0	54.4	54.8
Index of unfavorable factors	**50.3**	**50.2**	**48.7**	**51.1**	**49.8**	**50.2**	**51.8**	**49.7**	**50.8**	**51.0**	**51.9**	**51.5**	**50.8**
NACM Service CMI	**54.6**	**55.4**	**53.4**	**56.2**	**54.2**	**55.1**	**57.1**	**55.5**	**57.0**	**54.5**	**56.0**	**56.8**	**56.1**



March 2018 versus March 2017

Kuehl noted that this was another down month and a continuation of the roller coaster performances we have become accustomed to. “The good news is that the numbers are respectable and even robust when looking just at the favorable factors,” he said. “There are reasons for caution, but few reasons for any sort of panic. It has been more a matter of disappointment that things are not better than this after all the changes at the start of the year.”



Methodology Appendix

CMI data has 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 13,000 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

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