Report for January 2019

Issued January 31, 2019

National Association of Credit Management

Combined Sectors

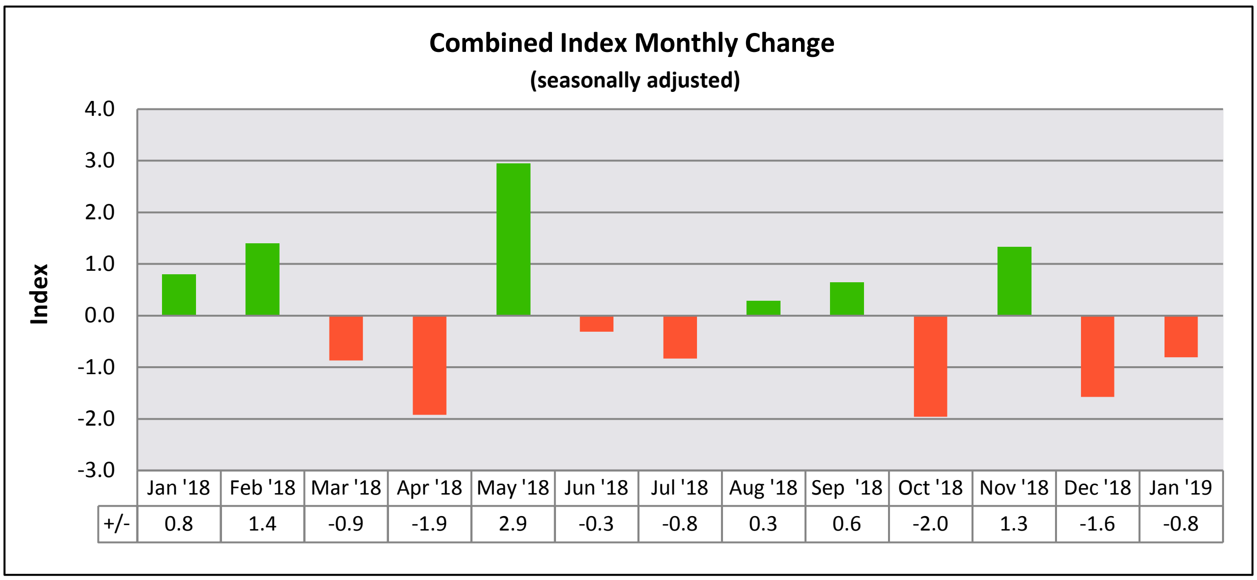
January's Credit Managers' Index (CMI) was characterized by a slight downturn from December 2018. As 2019 started, there was a great deal of conversation regarding how the year would progress in comparison to 2018. The sense was that 2018 was a "pull out all the stops" year and 2019 would not likely feature that kind of encouragement. There will be no big tax cut in 2019 and there will be no low interest rate environment as had been provided by the Federal Reserve. There was not even the momentum in terms of growth that carried over from the end of 2017. "The first sets of data coming in have shown there was good reason to be worried. The Purchasing Managers' Index trended lower and so did the December CMI," said NACM Economist Chris Kuehl, Ph.D. "Now that January is in, there was still more decline although nothing precipitous. The optimists are asserting this is just a 'breather.' They expect recovery in the second half of the year. The more pessimistic assert this will be just the start and conditions will steadily worsen through the year."

This month's data is not a lot different than it was the month prior, but the trend has been down. That has created some concern regarding the rest of the year, and it will take some good news to force the index to start trending in the opposite direction. The combined index fell a bit from 54.2 to 53.4. The index remains in expansion territory (a reading above 50) where it has been for the majority of the year. The bad news is this is the lowest reading seen in the last 12 months, hardly the direction preferred. The change was extremely slight as far as the favorable factors are concerned and, in fact, they went up (59.4 to 59.5). The bad news is these last two months have been the only two below 60 in the last year. Even more concerning is the index of unfavorable factors as this reading slumped into contraction territory with a reading of 49.4 compared to the 50.8 notched in December. Kuehl noted the last time these numbers were that low was in April of 2018. Up to this point, the decline in the CMI data was felt primarily in the favorable categories, while the unfavorable stayed relatively stable. Now there are some new signs of real distress among creditors.

It was only a month or two ago that the four categories included in the favorable sector were all reading in the 60s. Now only one remains in that classification. The others are all still in the high 50s, which certainly continues to signal growth, but the pace has slowed a little. The sales category improved slightly from 59 to 59.7, getting close to the 60 line again. The new credit applications also moved back up a little, but the category stayed under the 60 line as it went from 57.5 to 58.2. The all-important dollar collections number dropped a bit, from 59.3 to 59. The amount of credit extended also dropped, but stayed in the 60s with a reading of 61.2 as compared to 61.9 in December.

There was a slight improvement in the rejections of credit applications number—51.4 to 51.8, which is good news given the applications for credit category has been a little weak. The decline in accounts placed for collection is a bit more worrisome. It was at 49.7 and is now at 48.2. The disputes category sank as well (49.6 to 47.1). There was a similar drop in dollar amount beyond terms as it shifted from 49.3 to 47.4. The downward trend continues with the dollar amount of customer deductions which fell from 49.7 to 48. The filings for bankruptcy sagged, but stayed in the expansion category by going from 55 to 53.8. "The message is loud and clear: Companies are having issues, and this has started to affect their ability to keep pace with their obligations," said Kuehl. "There has been enough of a slowdown in some sectors to impact the data. The numbers are still in the high 40s and not all that far from expansion, but the trend is not in the preferred direction and is likely to get worse as the year progresses."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19
Sales	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7	64.5	59.0	59.7
New credit applications	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7	62.2	57.5	58.2
Dollar collections	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5	60.9	59.3	59.0
Amount of credit extended	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5	65.3	61.9	61.2
Index of favorable factors	**61.4**	**64.9**	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**
Rejections of credit applications	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4	51.4	51.4	51.8
Accounts placed for collection	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8	48.2	49.7	48.2
Disputes	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9	50.1	49.6	47.1
Dollar amount beyond terms	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7	52.3	49.3	47.4
Dollar amount of customer deductions	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5	49.6	49.7	48.0
Filings for bankruptcies	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1	53.6	55.0	53.8
Index of unfavorable factors	**50.8**	**50.9**	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**
NACM Combined CMI	**55.1**	**56.5**	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**



Manufacturing Sector

Kuehl relates that the good news story from much of 2018 was the resurgence of the manufacturing sector in the U.S. Many factors played a role in this growth and the question for 2019 is whether they will still be providing that positive impetus. Last year, there was a tax break that allowed companies to buy machinery that had been planned for years, the consumer came back to life pushing demand for a variety of factory goods and the growth of the global economy stimulated the export sector. There will be no tax cut this year, the consumer has been slowing down and the global economy is not expected to grow at the pace it did last year—the International Monetary Fund (IMF) just downgraded growth again on the eve of the Davos meeting.

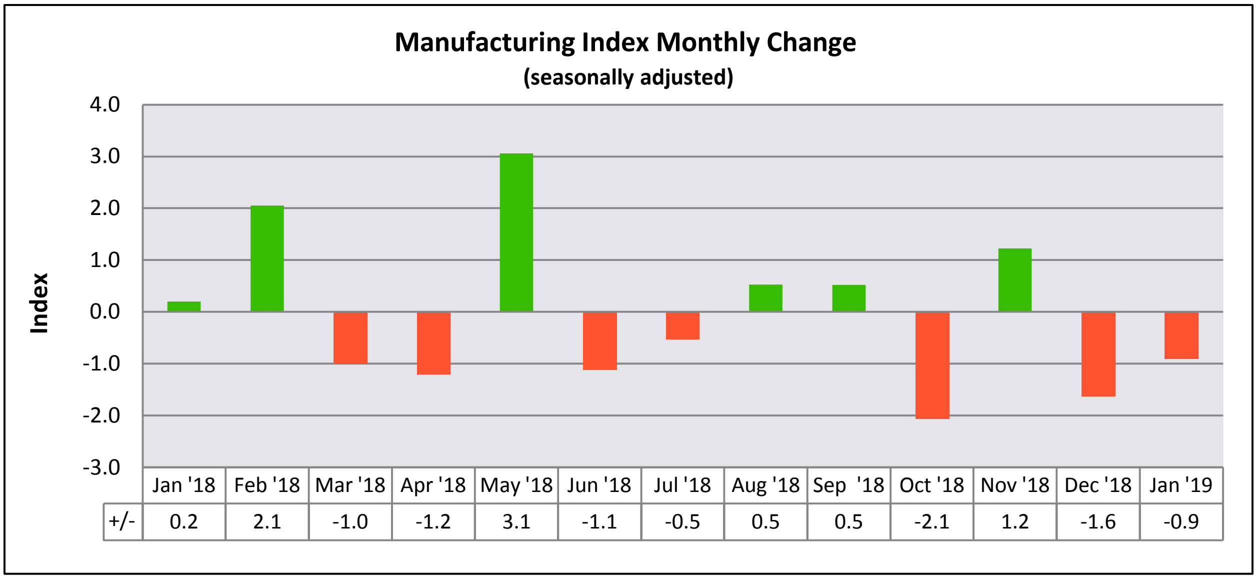
The favorable and unfavorable numbers both weakened, enough to start creating some worry. The overall favorable factors dropped from 58.9 to 57.7, while the overall unfavorable readings went from 50.7 into the contraction zone with a 49.9 mark. The total for the whole of the manufacturing sector fell from 54 to 53.1. “These are lower numbers than would be preferred, but not really cause for panic just yet,” said Kuehl. “The overall score remains in growth territory as do the favorable numbers. Even the unfavorables are just barely in the contraction zone.”

The sales category improved slightly (59 to 59.1), but it still fell short of the 60s where it has been for the past year. The new credit applications declined considerably from 56.8 to 53.3—not a good sign. This category has been in the 60s since July of 2018 and keeps sliding. The dollar collections data also fell a bit, from 59 to 58.4. Kuehl noted this is the category that is most carefully watched as it signals whether creditors are staying current with their obligations. The amount of credit extended remained in the 60s, but by the narrowest of margins (60.9 to 60.3).

The rejections of credit applications actually improved a little, moving from 51.6 to 53.3. Kuehl suggests this is especially good news given there has been a decline in the applications for new credit—those that are applying are generally creditworthy. The accounts placed for collection slipped into contraction territory with a reading of 49.7 compared to 50.3. The disputes category also shifted deeper into contraction territory (46.8 48.6). The dollar amount beyond terms moved into contraction territory as well, dipping from 50 to 49.1. There was also a significant decline in the category of dollar amount of customer deductions as the reading fell to 46.7 after 49.1 last month. The filings for bankruptcies stayed stable enough, moving from 54.4 to 54.

“These numbers are worrying at this stage, but they are not yet catastrophic,” concluded Kuehl. “The slip into the contraction zone has been fairly recent and the data is not showing a deep collapse; however, the data shows many companies are now struggling, and there is nothing to suggest there will be a major economic surge that will help pull any of these companies out of this slump.” As usual there are significant differences between the various sectors—energy-related manufacturing is doing far better than agriculture, for example. Health care manufacturing remains strong and automotive is holding its own.

Manufacturing Sector **(seasonally adjusted)**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**
Sales	62.7	65.8	62.5	66.2	69.6	69.1	62.4	66.5	68.2	62.3	64.2	59.0	59.1
New credit applications	57.8	65.2	62.4	60.8	62.4	60.2	59.5	61.4	61.8	61.5	61.7	56.8	53.3
Dollar collections	58.7	62.8	59.5	46.1	63.5	63.3	61.5	62.4	59.0	58.5	61.6	59.0	58.4
Amount of credit extended	63.4	65.9	65.3	66.0	66.4	65.7	65.1	67.1	68.5	63.7	65.4	60.9	60.3
Index of favorable factors	**60.7**	**64.9**	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**
Rejections of credit applications	51.8	51.5	54.1	52.4	53.4	50.6	53.5	53.7	53.1	51.9	53.1	51.6	53.3
Accounts placed for collection	51.2	50.1	51.0	49.8	51.3	50.6	50.6	49.6	51.2	49.1	49.2	50.3	49.7
Disputes	48.4	47.6	46.0	48.0	46.9	47.9	47.0	45.8	48.7	48.7	49.6	48.6	46.8
Dollar amount beyond terms	45.0	48.5	46.5	46.8	50.2	48.7	48.1	48.4	50.2	49.1	50.3	50.0	49.1
Dollar amount of customer deductions	46.6	47.7	48.7	48.4	48.4	46.6	46.9	48.1	47.4	48.0	48.6	49.1	46.7
Filings for bankruptcies	55.3	56.3	55.6	55.1	58.0	56.2	59.1	56.0	56.0	50.9	52.2	54.4	54.0
Index of unfavorable factors	**49.7**	**50.3**	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**
NACM Manufacturing CMI	**54.1**	**56.2**	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**



Service Sector

Kuehl summarizes the service sector by saying the service economy has fared a little better than manufacturing this month as more of the readings are still in the 60s and generally in expansion territory. The sector is very diverse, and that makes the data both intriguing and sometimes confusing. It tends to be weighted toward retail and construction, but health care plays a significant role as well. It is not clear that any of the government shutdown activity has affected the data at this point, but if there is to be a reaction, it would be in the service category given the potential impact on spending by consumers.

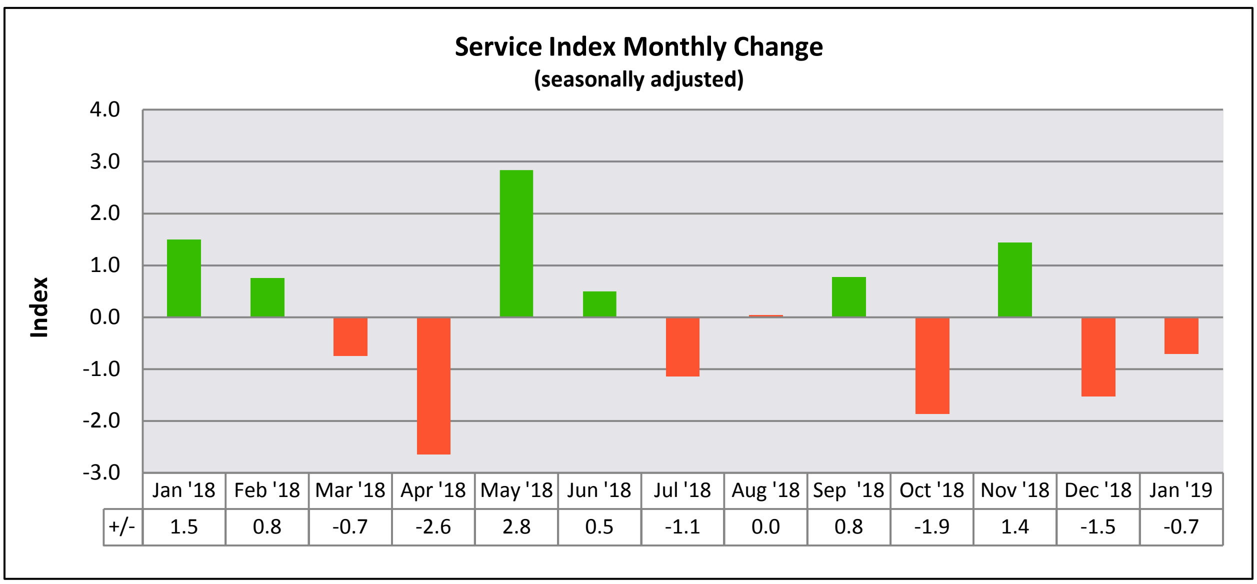
The overall CMI score for services went from 54.5 to 53.8, the lowest reading since April of last year. Kuehl notes this is not a point of panic at this stage as the data is still in the expansion zone, but the data is clearly weaker than it once was. The favorable factors data actually improved this month and got back into the 60s with a reading of 61.3 as compared to the 59.9 that was notched in December. The unfavorable index fell from 50.9 to 48.8, "more of a concern as that signals there is serious weakness in the creditor population showing up."

The sales reading regained a little lost ground and moved from 59 to 60.3, while new credit applications also made a nice positive move, jumping from 58.2 to 63, and that was unexpected. "It seems that many retailers gained additional confidence from the solid holiday season and expect the consumer to keep spending into the new year," Kuehl said. "That may turn out to be an inaccurate assessment given the recent slump in consumer confidence." The dollar collection numbers stayed right where they were the month prior at 59.6 and the amount of credit extended shifted down a little from 63 to 62.1.

The rejections of credit applications fell a little but stayed out of the contraction zone by the narrowest of margins (51.2 to 50.3). The fact that this number is still in the 50s is good news given the number of new applications. The accounts placed for collection sank deeper into contraction with a 46.7 reading compared to the 49.1 reported last month. Kuehl noted this is getting worrisome as there are many more companies struggling to meet their obligations. The disputes category dropped out of the expansion category by shifting from 50.5 to 47.4. The dollar amount beyond terms also fell (48.5 to 45.7). "This is especially bad news given the data on collections as it suggests that even more trying times are ahead," he said. "These slow pays usually get worse unless there is some kind of economic rebound, which is not expected this year. The company that is falling behind now will be challenged to recover." The dollar amount of customer deductions also fell into contraction, but not quite as dramatically—50.3 to 49.2. The filings for bankruptcies slipped, but stayed in the expansion zone as it went from 55.6 to 53.6.

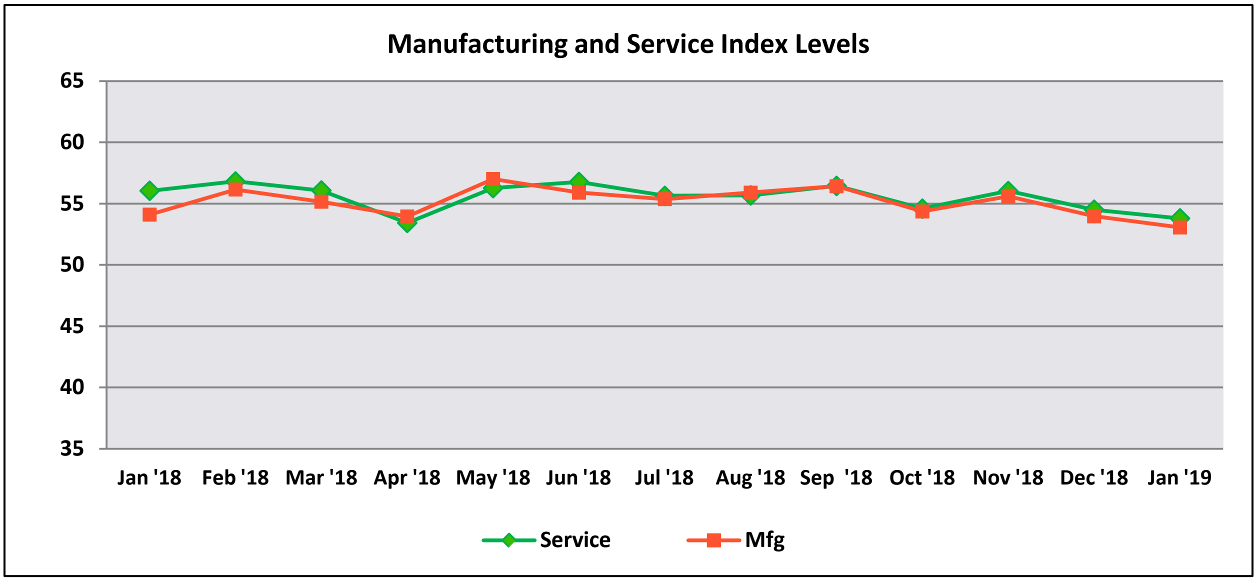
Kuehl concludes the focus is now on retail and the consumer. The U.S. economy is unusually reliant on consumer activity as it accounts for some 80% of the GDP (in most European states it is closer to 65%). The consumer confidence levels have been dropping, but these are always volatile and change very quickly, and for a variety of reasons.

Service Sector (seasonally adjusted)	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19
Sales	63.3	67.8	65.8	65.5	69.6	70.1	65.3	63.4	69.4	63.2	64.9	59.0	60.3
New credit applications	61.8	61.5	63.0	63.6	65.1	60.9	63.0	63.5	62.0	61.9	62.7	58.2	63.0
Dollar collections	58.6	63.0	59.8	47.3	61.5	63.0	60.5	62.9	66.5	56.4	60.1	59.6	59.6
Amount of credit extended	65.1	66.9	67.2	66.2	67.2	66.8	67.2	66.7	65.8	65.2	65.2	63.0	62.1
Index of favorable factors	**62.2**	**64.8**	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**
Rejections of credit applications	51.8	51.5	52.4	49.5	49.2	51.8	51.5	50.7	50.5	50.9	49.7	51.2	50.3
Accounts placed for collection	52.1	49.6	49.7	47.7	46.7	52.0	49.3	48.5	49.2	48.4	47.2	49.1	46.7
Disputes	50.9	51.6	49.3	47.9	49.3	48.6	48.3	47.0	46.4	49.1	50.6	50.5	47.4
Dollar amount beyond terms	49.0	51.3	47.8	46.0	48.5	49.7	46.8	48.6	49.6	46.3	54.3	48.5	45.7
Dollar amount of customer deductions	52.7	50.5	50.9	48.3	50.9	49.6	48.8	49.3	49.7	51.1	50.7	50.3	49.2
Filings for bankruptcies	55.0	54.4	54.8	52.4	54.8	55.1	55.8	55.9	55.3	53.2	54.9	55.6	53.6
Index of unfavorable factors	**51.9**	**51.5**	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**
NACM Service CMI	**56.0**	**56.8**	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**



January 2019 versus January 2018

“The trend of late has not been what anyone would like to see,” said Kuehl. “The unfavorable numbers are sinking deeper into the contraction zone, and there has not been enough activity in the favorable categories to offset the decline. The sense is that further slowdown is likely.”



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 Wyoming. 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 Purchasing Managers’ Index (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:

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

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, 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 11,000 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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