



Report for November 2019

Issued November 29, 2019

National Association of Credit Management

Combined Sectors

The data this month is more than a little interesting and encouraging. It is the second month in a row for a positive trend in the overall Credit Managers' Index (CMI); there have been gains in both manufacturing and service. This gain is more impressive given the fact that many of the other economic indicators have been trending in a negative direction. "The Purchasing Managers' Index has been in contraction territory for the past three months, however, the latest new orders index started to come back towards expansion territory," said NACM Economist Chris Kuehl, Ph.D. "Most of the recent indicators have shown increased caution among those in the business community. That seems to be the watchword of late. The Fed has seen a decline in business borrowing and capital expenditures have been trending down along with capacity utilization numbers." He explained that the CMI is the current ray of economic sunshine. "This is important given the tendency for the CMI to predict the future a little more accurately than many other surveys."

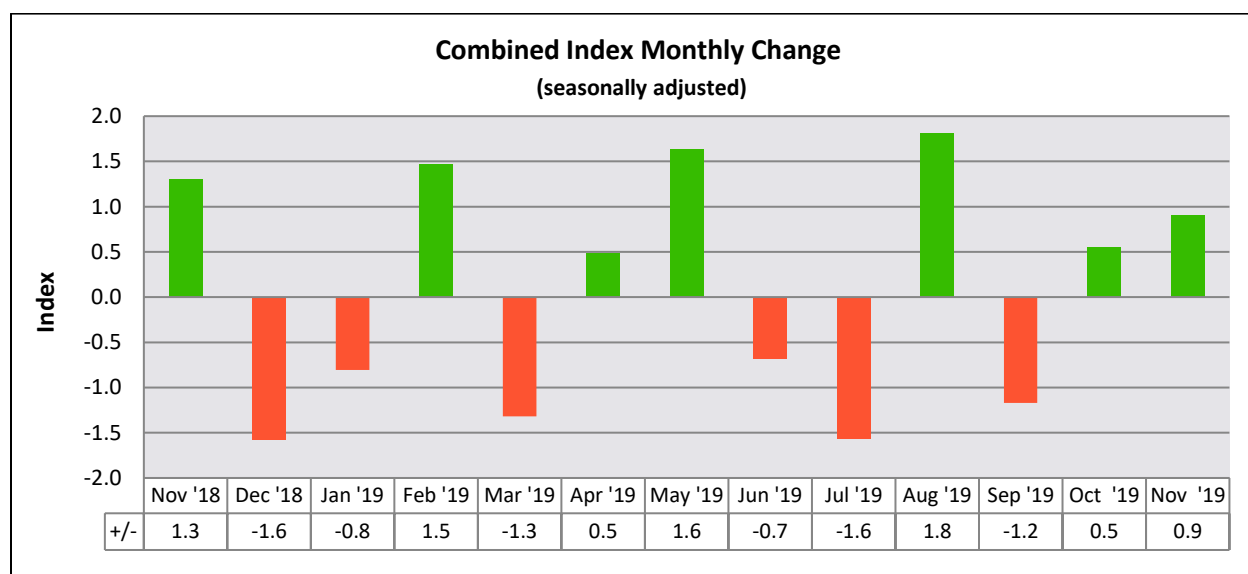
The overall score improved from 54.6 to 55.5, marking the highest point reached since May of this year when it stood at 55.7. The index of favorable factors rose from 60.1 to 61.6, taking the numbers back to levels seen in August. The index of unfavorable factors improved as well (50.9 to 51.5). That is higher than it has been in well over two years—in February it hit 51. The breakdown of the categories suggests some interesting trends.

The sales score ramped up very nicely from 57.9 to 61.6. It was not quite as robust as the 64.4 notched in August, but headed in the right direction and back above 60. The new credit applications numbers also returned to the 60s with a score of 61.2 compared to 59 in October. The dollar collections numbers fell from 62.1 to 59.2—a little unexpected. "There has been some evidence that companies are trying to work their credit numbers down a little in anticipation of a tougher year in 2020," said Kuehl. "Dollar collections would be expected to be up more than they are." The reading for amount of credit extended improved significantly from 61.6 to 64.3, the highest point reached since May of this year. He added, "There are obviously those still buying and still accessing credit in order to do so."

The rejections of credit applications showed some decline, but still managed to remain in the expansion zone (a score above 50) with a reading of 51.3 compared to 52.1 in October. Kuehl said that for the past year, this category has been strong with no time spent in the contraction zone. The accounts placed for collection remained in contraction territory but improved slightly from the month prior. It was sitting at 49.1 and is now at 49.8—an incremental move, but one that is in the right direction. The disputes category moved back into the expansion zone with a reading of 50.3 after an October number of 48.1. The dollar amount beyond terms reading was very nearly the same as it had been in October, but there was a slight improvement as it went from 52 to 52.6. He noted that this is another of the indicators that seems to show increased worry about the coming year. Companies seem to be trying to get current with their credit so they are not taking that burden with them into the new year. The reading for dollar amount of customer deductions also improved nicely with a reading of 51.4 compared to the 50.9 in October. The data on filings for bankruptcies trended in a positive direction as well with a reading of 53.5—nearly identical to October's 53.4.

"This month marks the first time that five of the six unfavorable readings have been in expansion territory in nearly three years," said Kuehl. "The only category in contraction now is accounts placed for collection. It is unlikely this signals a new period of rapid growth for the economy, but it does reduce the potential for a serious recession."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19
Sales	64.5	59.0	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6
New credit applications	62.2	57.5	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2
Dollar collections	60.9	59.3	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2
Amount of credit extended	65.3	61.9	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3
Index of favorable factors	63.2	59.4	59.5	60.7	59.0	60.1	63.8	61.4	58.6	61.8	59.1	60.1	61.6
Rejections of credit applications	51.4	51.4	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3
Accounts placed for collection	48.2	49.7	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8
Disputes	50.1	49.6	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3
Dollar amount beyond terms	52.3	49.3	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6
Dollar amount of customer deductions	49.6	49.7	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4
Filings for bankruptcies	53.6	55.0	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5
Index of unfavorable factors	50.9	50.8	49.4	51.0	49.9	50.0	50.2	50.7	50.0	50.9	50.7	50.9	51.5
NACM Combined CMI	55.8	54.2	53.4	54.9	53.6	54.0	55.7	55.0	53.4	55.2	54.1	54.6	55.5



Manufacturing Sector

As for manufacturing in the U.S., Kuehl noted that by most accounts the sector has been struggling, and for a variety of reasons. The most pressing of late has been the impact of the trade war with China. There has been a challenge getting the parts and materials needed from China. The slowdown in the Chinese economy has also affected those nations that traditionally sell to the Chinese—they now can't buy as much from the U.S. as they once did. The worker shortage has also played a major role and most of the manufacturing data has been troubled—everything from three months of the Purchasing Managers' Index in contraction territory to the reduction in industrial production numbers, durable goods orders, capacity utilization numbers and so on. The fact the CMI is trending in a positive direction is a welcome surprise.

The combined score for the manufacturing sector went from 53.9 to 54.5. That takes the numbers back to the levels seen in August. The readings have been at this level most of the year, but had slipped a bit in October. The

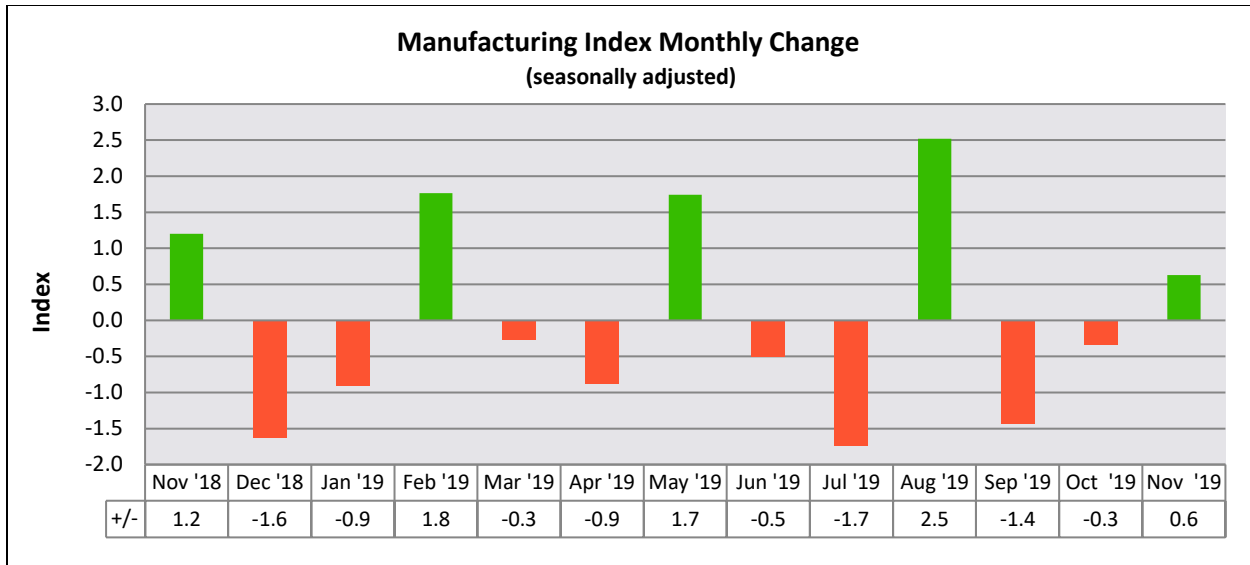
index of favorable factors tracked up a bit from what they had been in October. The reading is now 59.7 and was at 59.1. Much of the year has been showing readings above 60, but they had started to fade a little at the end of summer. The index of unfavorable factors improved over the October readings with a 51.1 compared to 50.5 last month.

The sales numbers broke back into the 60s with a reading of 60.7 from 56.7 in October. The new credit applications reading stayed very close to the October reading with a 59.8 compared to the previous 59.2. There was a slight decline in dollar collections as the November reading was 56.8 compared to the 58.7 noted in October. These are still very solid and healthy levels and on par with the bulk of the last year. The amount of credit extended stayed in the same spot as last month—at 61.6.

The rejections of credit applications fell a little, but remained comfortably in the expansion zone with a reading of 51.6 compared to 52.1 notched in October. The accounts placed for collection stayed very close to last month's readings and just short of breaking back into expansion (49.3 to 49.4). The disputes reading also tracked in a more positive direction, but remains in contraction territory with a reading of 49.6 compared to the 46.7 in October. The dollar amount beyond terms data was also very close to the numbers from October. The reading last month was 52 and this month it is 52.1. There was a bit of a drop in the dollar amount of customer deductions from last month as it slid from 51.1 to 50.8. The reading for filings for bankruptcies trended back to healthier levels with a 53 compared to the 51.7 previously. The last time bankruptcy data was at 53 was in July.

“The point is the CMI data is contradicting some of the gloom and doom story that has been building in the manufacturing sector,” Kuehl said. “The inhibitions have been real enough, but there continues to be expansion tied to steady consumer demand.”

Manufacturing Sector (seasonally adjusted)	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19
Sales	64.2	59.0	59.1	61.7	58.4	58.6	63.3	58.5	57.6	65.3	57.9	56.7	60.7
New credit applications	61.7	56.8	53.3	58.6	61.2	59.8	63.9	62.5	60.0	60.1	59.5	59.2	59.8
Dollar collections	61.6	59.0	58.4	60.5	57.8	58.6	60.5	59.2	54.7	59.6	58.7	58.7	56.8
Amount of credit extended	65.4	60.9	60.3	59.2	63.9	58.5	64.6	61.3	54.7	61.4	59.2	61.6	61.6
Index of favorable factors	63.2	58.9	57.7	60.0	60.3	58.9	63.1	60.4	56.7	61.6	58.8	59.1	59.7
Rejections of credit applications	53.1	51.6	53.3	53.5	53.2	53.1	52.5	53.8	53.4	53.0	51.9	52.1	51.6
Accounts placed for collection	49.2	50.3	49.7	50.5	46.8	49.3	49.0	53.5	46.7	50.6	49.7	49.3	49.4
Disputes	49.6	48.6	46.8	48.7	50.2	47.7	48.2	48.3	51.0	50.3	50.6	46.7	49.6
Dollar amount beyond terms	50.3	50.0	49.1	52.8	51.0	48.5	51.8	50.2	48.0	55.9	52.1	52.0	52.1
Dollar amount of customer deductions	48.6	49.1	46.7	49.3	48.4	49.5	48.4	49.8	52.7	49.3	51.1	51.1	50.8
Filings for bankruptcies	52.2	54.4	54.0	53.3	54.6	53.3	52.0	52.0	53.0	51.4	52.0	51.7	53.0
Index of unfavorable factors	50.5	50.7	49.9	51.4	50.7	50.2	50.3	51.3	50.8	51.7	51.2	50.5	51.1
NACM Manufacturing CMI	55.6	54.0	53.1	54.8	54.6	53.7	55.4	54.9	53.2	55.7	54.3	53.9	54.5



Service Sector

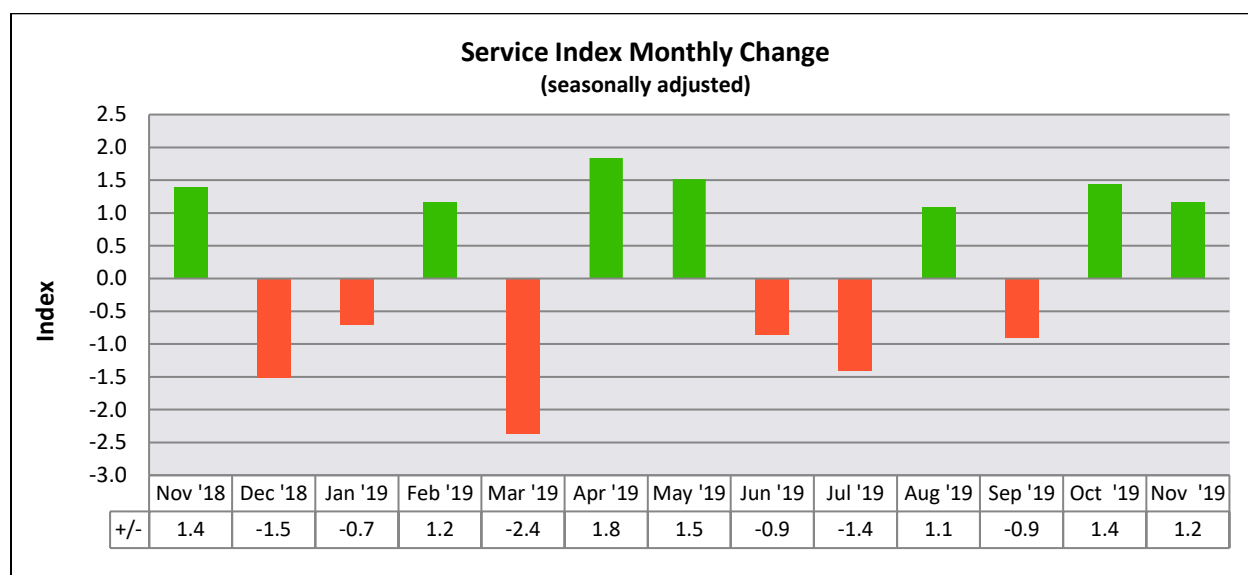
Kuehl notes that the retail season is in full swing; the numbers have been better than expected. Retail sales have been up in general although there has been somewhat less interest in the high-dollar items that drove holiday sales in past years. The level of consumer confidence remains high as long as the jobless rate stays down and there have been few signs of impending layoffs. The CMI data on the service sector tends to be weighted towards the retail community as well as health care and construction. The data seems to be mirroring what the retailers are reporting.

The combined score for the service sector improved from 55.3 to 56.5, the highest reading in over two years. Last November (2018) the reading was at 56, but it has rarely been higher than 55 since. The index of favorable factors improved quite dramatically with a reading of 63.4 compared to October's 61.2. This reading is as high as it has been since May of this year. The index of unfavorable factors also noted an improvement with this month's reading of 51.8, but in this case the jump was small—moving from 51.4 in October.

The sales numbers are as good as would be expected this time of year. The reading in October was 59.1 and now it's back in the 60s with a reading of 62.5. That is comparable to the August number of 63.4. The new credit applications data also tracked back into the 60s with a reading of 62.5 from 58.7 last month. The dollar collections number also registered in the 60s, but the reading was down from the month before. It was sitting at 65.5 and is now 61.7. The amount of credit extended also jumped dramatically and stayed in the high 60s (from 61.6 to 66.9). This marks the first time since August that all the sub-categories have been in the 60s.

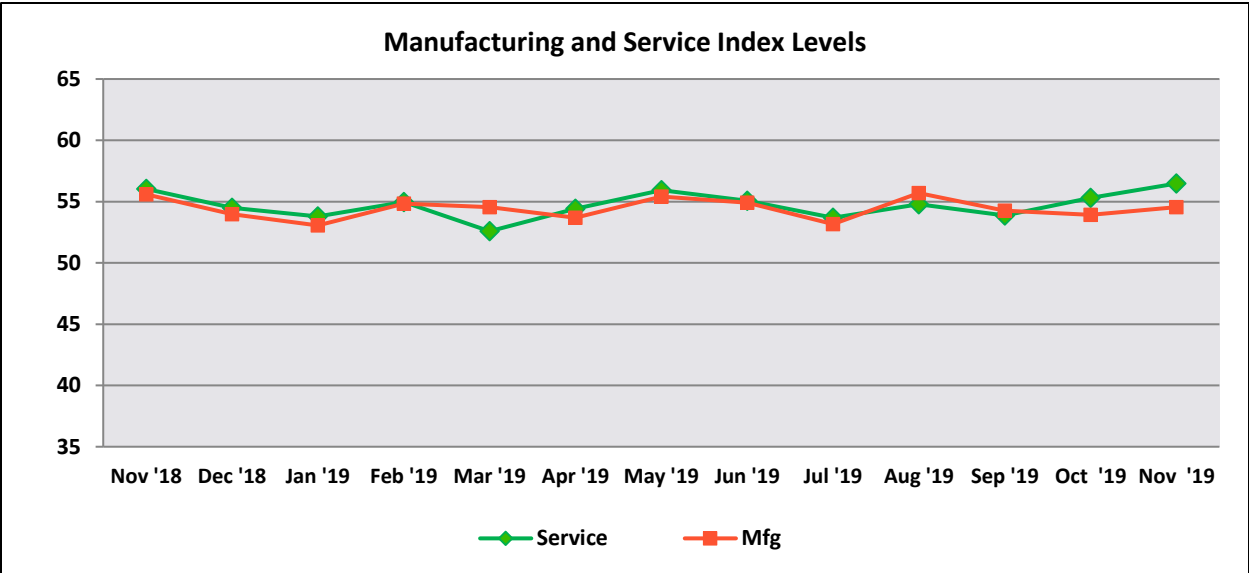
The rejections of credit applications slipped and now teeters precariously on the edge of contraction with a reading of 51 as opposed to the October reading of 52. The accounts placed for collection trended back into expansion territory with a reading of 50.1—not firmly in the category, but better than the 48.8 registered last month. The disputes numbers also trended back into expansion by the narrowest of margins as it has gone from 49.4 to 50.9. A narrow win but a win, nonetheless. The dollar amount beyond terms improved from 52.1 to 53.1. That puts the data in a healthy position. The dollar amount of customer deductions rose to a level of 52 compared to the 50.7 noted in October. The filings for bankruptcies numbers slipped a bit from 55.1 to 54, but this is still a solid reading in the mid-50s. "The good news is that all of the readings are now in the 50s for the first time in three years, a development that promises decent numbers in the months to come," said Kuehl. "There will likely be some slowdown once the holiday season is over, but the decline may not create as much angst as last year."

Service Sector (seasonally adjusted)	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19
Sales	64.9	59.0	60.3	63.5	58.0	63.4	68.5	62.3	59.3	63.4	59.6	59.1	62.5
New credit applications	62.7	58.2	63.0	59.2	54.3	59.6	64.6	62.4	61.6	61.7	59.8	58.7	62.6
Dollar collections	60.1	59.6	59.6	57.7	55.5	59.6	59.1	61.4	58.4	60.4	58.2	65.5	61.7
Amount of credit extended	65.2	63.0	62.1	65.5	63.2	62.7	66.3	63.7	62.6	62.1	60.2	61.6	66.9
Index of favorable factors	63.2	59.9	61.3	61.5	57.7	61.3	64.6	62.4	60.5	61.9	59.4	61.2	63.4
Rejections of credit applications	49.7	51.2	50.3	50.8	49.1	50.8	51.2	51.0	51.9	51.2	50.9	52.0	51.0
Accounts placed for collection	47.2	49.1	46.7	47.5	46.0	47.7	45.1	46.6	45.7	46.7	47.1	48.8	50.1
Disputes	50.6	50.5	47.4	48.3	48.9	49.4	49.0	48.8	50.0	48.5	49.4	49.4	50.9
Dollar amount beyond terms	54.3	48.5	45.7	49.8	49.0	46.7	50.9	49.3	44.2	51.2	48.3	52.1	53.1
Dollar amount of customer deductions	50.7	50.3	49.2	50.6	49.1	49.8	50.1	50.3	49.7	50.6	53.1	50.7	52.0
Filings for bankruptcies	54.9	55.6	53.6	56.5	52.7	54.6	54.5	55.0	53.4	51.9	52.1	55.1	54.0
Index of unfavorable factors	51.2	50.9	48.8	50.6	49.1	49.8	50.1	50.2	49.1	50.0	50.1	51.4	51.8
NACM Service CMI	56.0	54.5	53.8	55.0	52.6	54.4	55.9	55.1	53.7	54.8	53.9	55.3	56.5



November 2019 versus November 2018

Kuehl concluded, “This is only the second time this year with two consecutive readings trending towards the positive. It comes at a good time as far as creating some optimism for the coming 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 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:

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

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, 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.*



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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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