Report for February 2018

Issued February 28, 2018

National Association of Credit Management

Combined Sectors

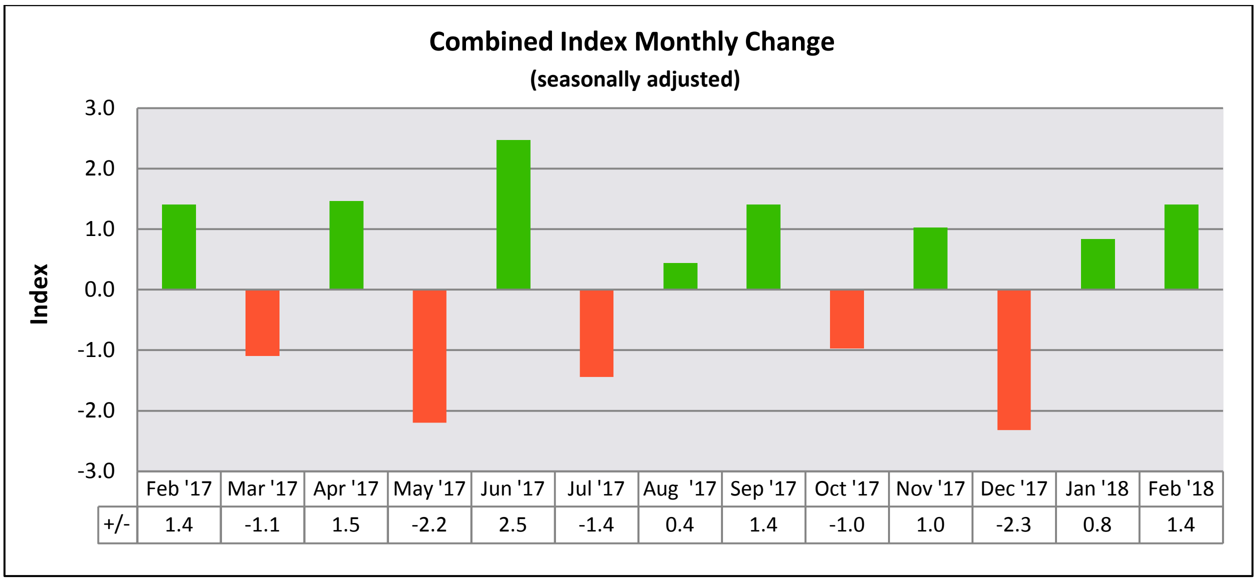
Can it be true? Are we really seeing a positive trend emerge as far as NACM's Credit Managers' Index (CMI) is concerned? "To be honest, two good months in a row hardly constitutes a trend, but it has been many months in a row for all this up and down gyration," said NACM Economist Chris Kuehl, Ph.D. "It is gratifying to see two consecutive months of solid performance." The numbers for this month's combined score are up—56.5 as compared to the 55.1 that was noted last month. This latest reading is almost as high as it was last November when it reached 56.6. The index of favorable factors also improved, and by quite a lot—moving from 61.4 to 64.9. This is again close to the numbers that were seen last November when the reading was 65.7. There was similar progress in the index for unfavorable factors—50.9 for February from 50.8 in January. The movement in the unfavorable categories has been slight for some time, which has been an ongoing concern. He concluded that the good news for the moment is that these readings have been relatively stable and even getting a little better.

The details have been interesting—as is usually the case. The majority of the movement has been in the favorable categories, but there was some significant movement in the unfavorables as well. The sales category made a big jump from 63 to 66.8, marking the highest point since September of last year when it hit 67.3. One of the themes you may have noticed already is that this month's numbers are back to what they were in the latter part of last year when the economy as a whole was growing at around 3%. The new credit applications category jumped back into the 60s by moving from 59.8 in January to the current reading of 63.3. There was a similar pattern as far as dollar collections were concerned, as last month the reading was 58.7 and this month the reading is 62.9. To complete the favorable sweep, there was the reading for amount of credit extended (64.3 to 66.4). These are really very healthy numbers and all rival the highs seen last fall.

The numbers were also better in the non-favorable categories, but the overall readings have not generally been as impressive. "The bottom line here is that there are still lots of companies that are struggling and have not yet participated in the recovery that has been driving the economy as a whole," said Kuehl. "As a matter of fact, there is some additional risk these days as competitors feeling that growth start to push everyone to keep pace—some will simply not be able to keep up."

The rejections of credit applications slipped a little (51.8 to 51.5) reflecting some of the above mentioned desperation. "Ready or not, there are companies seeking credit to expand and stay with the competition, but are not qualified to get what they seek," suggested Kuehl. There was also a substantial dip in accounts placed for collection as the numbers fell from 51.7 back to contraction territory (anything under 50) with a 49.8 reading. He added that companies are still in trouble and are likely to react more negatively as expansion pressure grows. The disputes category stayed the same—better than falling, but still in contraction at 49.6. The dollar amount beyond terms category has been a problem all year as companies fall into the slow-pay category one month and manage to escape it the next. This month there was an improvement from 47 to 49.9, but that is still in the contraction zone. There was a slight reduction in the numbers for amount of customer deductions from 49.7 to 49.1. The only reading that really seemed to improve was filings for bankruptcies (55.2 to 55.4). Kuehl concluded that the most important observation from the unfavorable list is that four of the six readings are in contraction territory—albeit less dramatically than was the case the previous month.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18
Sales	62.6	61.2	63.8	60.6	66.5	62.8	62.2	67.3	66.8	68.3	59.2	63.0	66.8
New credit applications	62.0	60.5	62.0	59.3	59.8	59.7	61.2	60.5	62.8	63.7	57.3	59.8	63.3
Dollar collections	63.0	56.4	61.2	56.7	62.5	60.2	58.9	60.0	60.2	63.1	59.1	58.7	62.9
Amount of credit extended	66.8	64.4	67.2	63.6	66.8	64.1	66.7	66.3	65.5	67.8	61.8	64.3	66.4
Index of favorable factors	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**	**61.7**	**62.2**	**63.5**	**63.8**	**65.7**	**59.4**	**61.4**	**64.9**
Rejections of credit applications	51.4	51.6	52.1	52.4	52.6	51.9	52.2	52.5	51.8	52.4	51.4	51.8	51.5
Accounts placed for collection	48.2	49.8	49.0	48.5	49.3	48.9	48.7	50.3	49.5	50.5	49.8	51.7	49.8
Disputes	48.7	48.5	49.1	47.9	50.4	48.8	49.1	51.7	47.6	48.3	49.7	49.6	49.6
Dollar amount beyond terms	51.0	47.4	51.0	45.9	50.4	48.3	47.4	50.4	47.3	47.5	49.3	47.0	49.9
Dollar amount of customer deductions	47.6	49.8	49.2	48.7	49.1	48.1	49.2	49.8	48.7	48.9	49.7	49.7	49.1
Filings for bankruptcies	53.2	53.8	53.5	52.7	53.4	53.6	55.3	56.2	55.3	55.1	55.0	55.2	55.4
Index of unfavorable factors	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**	**49.9**	**50.3**	**51.8**	**50.0**	**50.4**	**50.8**	**50.8**	**50.9**
NACM Combined CMI	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**	**56.5**	**55.5**	**56.6**	**54.2**	**55.1**	**56.5**



Manufacturing Sector

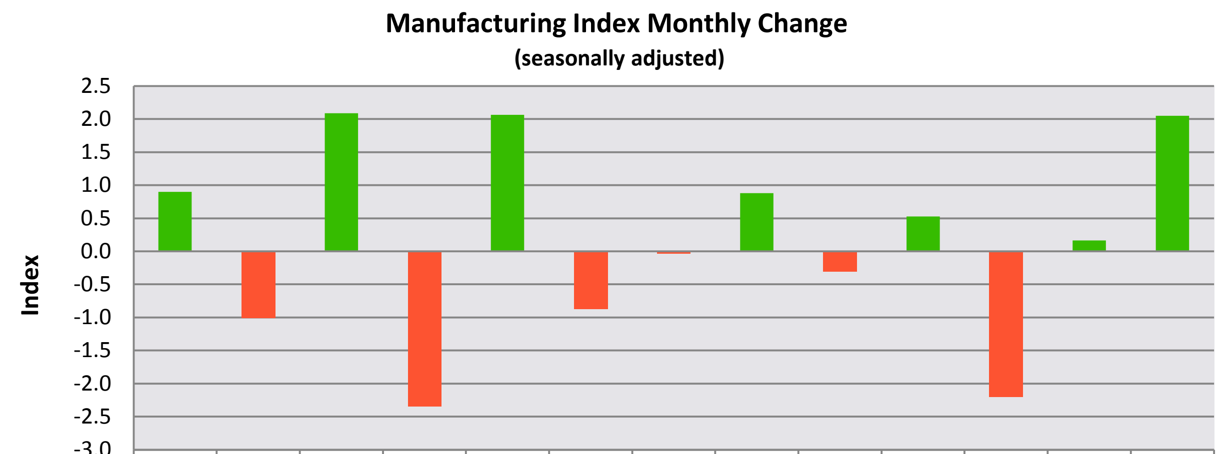
There was more good news when one breaks down the manufacturing data. The combined score was 54.1 last month and is 56.2 this month—equal to the highest point reached since April of 2017. The combined score for the favorable factors was also an improvement—going from 60.7 to 64.9, almost to the high point reached in November of last year. The combined score for the unfavorable factors also improved from 49.7 to 50.3. This is still close to the contraction zone, but it is nevertheless out of that danger for the moment. This reading above 50 has been hugging that boundary between expansion and contraction all year.

The sales category jumped dramatically—going from 62.7 to 65.8, taking the reading to levels not seen since (you guessed it) November of last year. The new credit application reading took a big leap as well—from 57.8 to 65.2, as high as it has been in over two years. There is a great deal of movement in the factory and manufacturing sector as there is a lot of catching up to do. Now, there is money with which to do that catching up. There is some sense of frantic activity here though and that is reflected in the less spectacular growth in the unfavorable categories. The dollar collections reading also improved (58.7 to 62.8). There was also growth in the amount of credit extended category as it moved from 63.4 to 65.9. Kuehl noted that just as with the overall score for the CMI, the manufacturing sector is looking solid and focused on the future.

The improvements in the non-favorable categories were subtle, but some of these are nonetheless important indicators. The rejections of credit applications slipped a bit from 51.8 to 51.5. This suggests that some of those seeking new credit are unlikely to have much success locating it. “The crush of competition has more than a few of the manufacturers scrambling to stay competitive, whether they can really afford the expansion or not,” he said. “If they don’t try to get up to speed, they know they will fall further behind.” There was also a drop when it came to accounts placed for collection (51.2 to 50.1)—still in expansion territory, but just barely. The readings for disputes slumped further into contraction territory with a slide from 48.4 to 47.6. However, there was a little bit of better news as far as dollar amount beyond terms. The slow-pay reading is still in contraction territory, but not as deep as it was before as it went from 45 to 48.5. The dollar amount of customer deductions also improved, but remained mired in contraction slipping from 46.6 to 47.7. The filings for bankruptcies category showed a bit more promise as it moved from 55.3 to 56.3, but the real story is that three of the six categories are in contraction territory—the same as it was last month.

The manufacturing community is diverse—that goes without saying, he noted. At any given time, there are sectors that are doing well and others that are struggling. “Right now, the energy-related manufacturers are doing better than at any time since the boom in the last decade, but the auto sector has been slowing down,” Kuehl said. “Health care manufacturing is up as usual, and so is aerospace, but the farm sector is down. The ups and downs tend to even out over the longer term.”

Manufacturing Sector (seasonally adjusted)	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18
Sales	60.7	61.7	64.7	59.5	66.9	64.0	60.8	65.0	67.4	68.2	59.2	62.7	65.8
New credit applications	61.6	59.7	61.4	58.6	59.8	60.6	61.8	59.0	61.8	64.5	56.5	57.8	65.2
Dollar collections	64.1	56.1	61.3	57.3	61.0	61.1	59.3	60.4	59.5	60.9	58.9	58.7	62.8
Amount of credit extended	67.2	63.4	67.8	63.4	67.4	64.5	66.1	64.0	65.2	67.4	60.7	63.4	65.9
Index of favorable factors	**63.4**	**60.2**	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**	**62.1**	**63.5**	**65.3**	**58.8**	**60.7**	**64.9**
Rejections of credit applications	52.3	52.1	52.9	52.6	53.3	52.9	52.8	52.5	53.7	52.6	51.5	51.8	51.5
Accounts placed for collection	47.4	50.6	50.1	49.5	49.8	49.8	49.7	50.1	48.6	51.5	50.3	51.2	50.1
Disputes	47.4	47.4	49.2	48.0	49.6	47.8	47.3	53.0	48.2	47.1	48.8	48.4	47.6
Dollar amount beyond terms	52.1	48.2	51.5	48.1	49.3	49.4	49.2	51.9	48.6	48.2	50.1	45.0	48.5
Dollar amount of customer deductions	46.1	49.2	49.1	48.6	48.7	47.6	48.0	48.5	47.1	45.7	49.1	46.6	47.7
Filings for bankruptcies	52.3	52.7	54.1	53.1	53.6	53.0	55.5	54.7	56.0	55.4	54.4	55.3	56.3
Index of unfavorable factors	**49.6**	**50.0**	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**	**51.8**	**50.4**	**50.1**	**50.7**	**49.7**	**50.3**
NACM Manufacturing CMI	**55.1**	**54.1**	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**	**55.9**	**55.6**	**56.1**	**53.9**	**54.1**	**56.2**



	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18
+/-	0.9	-1.0	2.1	-2.3	2.1	-0.9	0.0	0.9	-0.3	0.5	-2.2	0.2	2.1

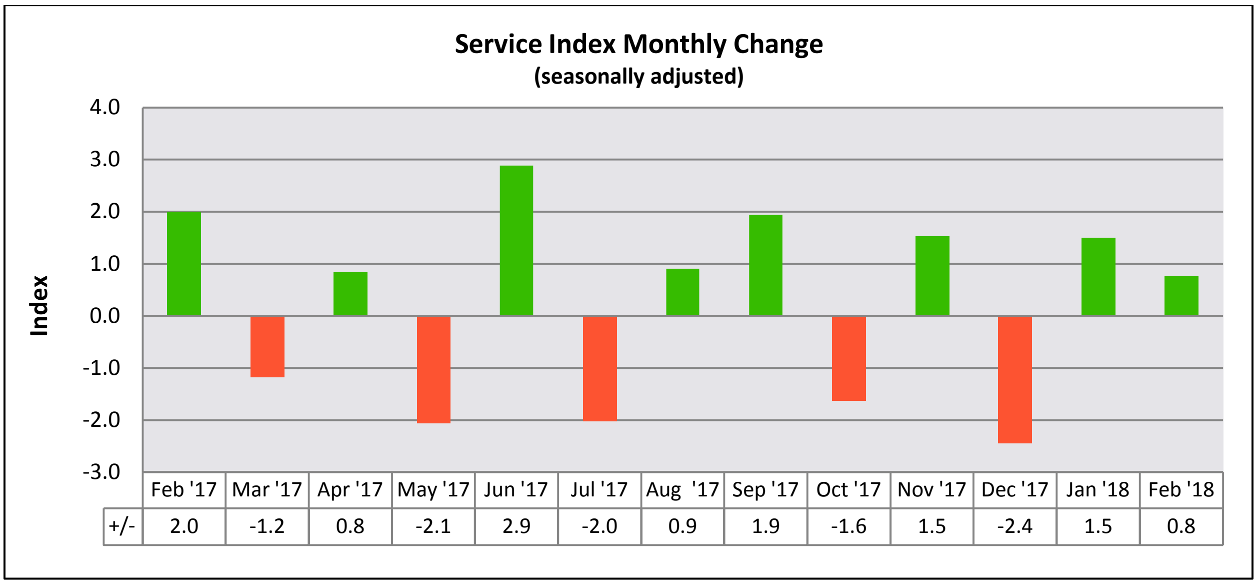
Service Sector

The service sector also saw some improvement, but more limited than has been seen in manufacturing. "The fact is that retail is somewhat slower this time of year and the winter months are not generally good ones for the service-heavy construction sector," said Kuehl. The combined CMI for services went from 56.0 to 56.8—not a big gain, but one that took these numbers closer to what they were in November of last year. The favorable factors jumped quite a bit—from 62.2 to 64.8, but these are still not as robust as the numbers were in November. The unfavorable index actually fell a little (51.9 to 51.5). This is not a dramatic drop as the important note is that this category remains in expansion territory.

The sales reading was quite robust and back to numbers seen last year. It increased from 63.3 to 67.8. The new credit applications reading slipped a little. This was a marked contrast with the growth that was seen in manufacturing. "There are many in retail and construction that want to get through the slow season before loading up on debt," he said. Last month, it was at 61.8 and this month, it is 61.5. The dollar collections reading jumped quite a lot—that always makes the credit manager happy. It went from 58.6 to 63. The amount of credit extended also shifted up (65.1 to 66.9). "The really good news as far as the favorable factors are concerned is that all of them are in the 60s."

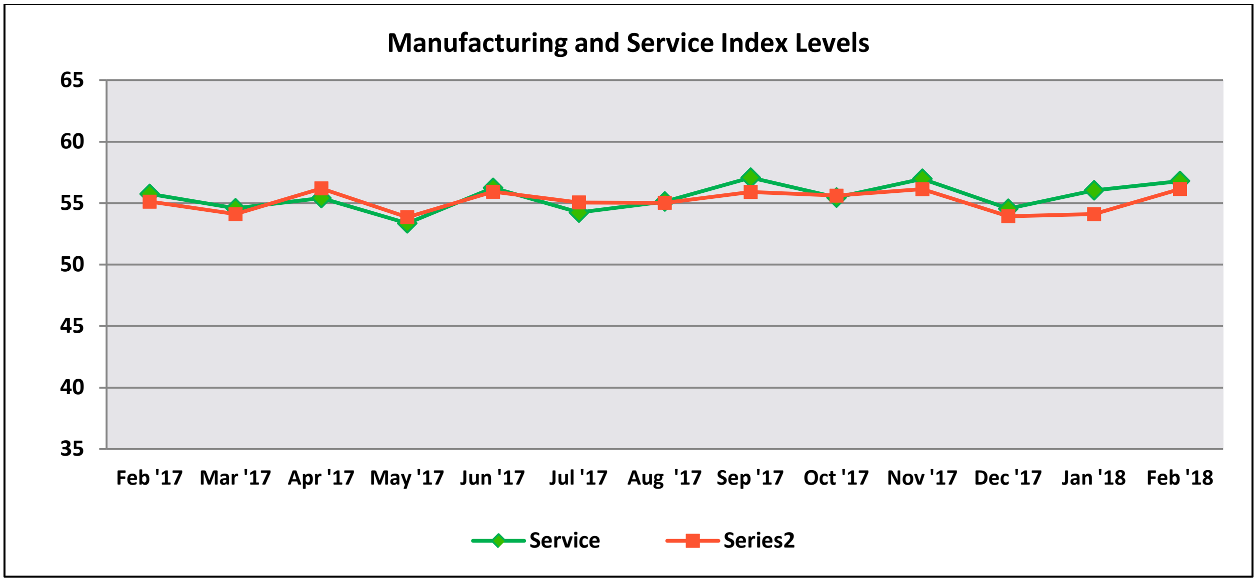
The rejections of credit applications slipped a little. That was expected given the decline in applications for new credit. It is still in the expansion zone, though, with a reading of 51.5 as compared to the 51.8 from the previous month. The accounts placed for collection reading slipped quite a lot. This is a bigger worry. It has gone from 52.1 in January into contraction territory in February with a reading of 49.6. The disputes category improved a little with a reading of 51.6 after one of 50.9 last month. The dollar amount beyond terms reading climbed out of the contraction zone with a reading of 51.3 after a 49 level the month before. The slow-pay issue has started to fade just a little—not uncommon after the holiday season ends. The dollar amount of customer deductions fell off a bit from 52.7 to 50.5 and is now barely hanging on to the expansion zone. The filings for bankruptcies reading also fell a little from 55 to 54.4 as retailers evaluate their standing at this time of year. According to Kuehl, this has been a year where the online option has really taken its toll on the brick-and-mortar operations.

Service Sector (seasonally adjusted)	**Feb '17**	**Mar '17**	**Apr '17**	**May '17**	**Jun '17**	**Jul '17**	**Aug '17**	**Sep '17**	**Oct '17**	**Nov '17**	**Dec '17**	**Jan '18**	**Feb '18**
Sales	64.5	60.6	62.9	61.7	66.0	61.7	63.6	69.7	66.1	68.4	59.2	63.3	67.8
New credit applications	62.4	61.3	62.6	59.9	59.9	58.8	60.6	62.0	63.7	62.9	58.2	61.8	61.5
Dollar collections	61.9	56.7	61.2	56.0	63.9	59.4	58.6	59.5	61.0	65.4	59.4	58.6	63.0
Amount of credit extended	66.4	65.3	66.5	63.8	66.3	63.8	67.3	68.6	65.9	68.2	63.0	65.1	66.9
Index of favorable factors	**63.8**	**61.0**	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**	**64.9**	**64.2**	**66.2**	**59.9**	**62.2**	**64.8**
Rejections of credit applications	50.5	51.1	51.3	52.3	51.9	50.8	51.5	52.5	49.8	52.3	51.2	51.8	51.5
Accounts placed for collection	49.0	49.0	47.9	47.5	48.9	48.1	47.8	50.6	50.3	49.6	49.3	52.1	49.6
Disputes	49.9	49.7	49.1	47.7	51.3	49.8	50.8	50.3	47.0	49.5	50.7	50.9	51.6
Dollar amount beyond terms	49.8	46.7	50.5	43.6	51.6	47.2	45.6	49.0	46.1	46.7	48.4	49.0	51.3
Dollar amount of customer deductions	49.2	50.4	49.3	48.9	49.5	48.6	50.4	51.1	50.2	52.1	50.4	52.7	50.5
Filings for bankruptcies	54.0	54.9	52.9	52.3	53.2	54.2	55.2	57.6	54.6	54.7	55.7	55.0	54.4
Index of unfavorable factors	**50.4**	**50.3**	**50.2**	**48.7**	**51.1**	**49.8**	**50.2**	**51.8**	**49.7**	**50.8**	**51.0**	**51.9**	**51.5**
NACM Service CMI	**55.8**	**54.6**	**55.4**	**53.4**	**56.2**	**54.2**	**55.1**	**57.1**	**55.5**	**57.0**	**54.5**	**56.0**	**56.8**



February 2018 versus February 2017

“This was a good month and it came on top of a good month. Is that enough to qualify as a trend?” Kuehl asked. “Probably not yet, but one has to start somewhere. If there are decent readings in the next month or two, we will have an actual recovery to talk about.”



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.

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