Report for June 2019

Issued June 28, 2019

National Association of Credit Management

Combined Sectors

The last month has been a bit ragged as far as national data is concerned. Some of that concern has started to appear in the latest Credit Managers' Index (CMI). In addition, the Purchasing Managers' Index (PMI) for this month shows the lowest reading seen in over 10 years—barely above the threshold for contraction at 50.1. This is just for the manufacturing index as the service version has not yet been released. There have been other warning signs—durable goods orders are down and so is capacity utilization. "The dip in the overall CMI looks pretty positive in comparison to other economic trends as it slipped only slightly from 55.7 to 55," said NACM Economist Chris Kuehl, Ph.D. "The drop in manufacturing, however, was more pronounced."

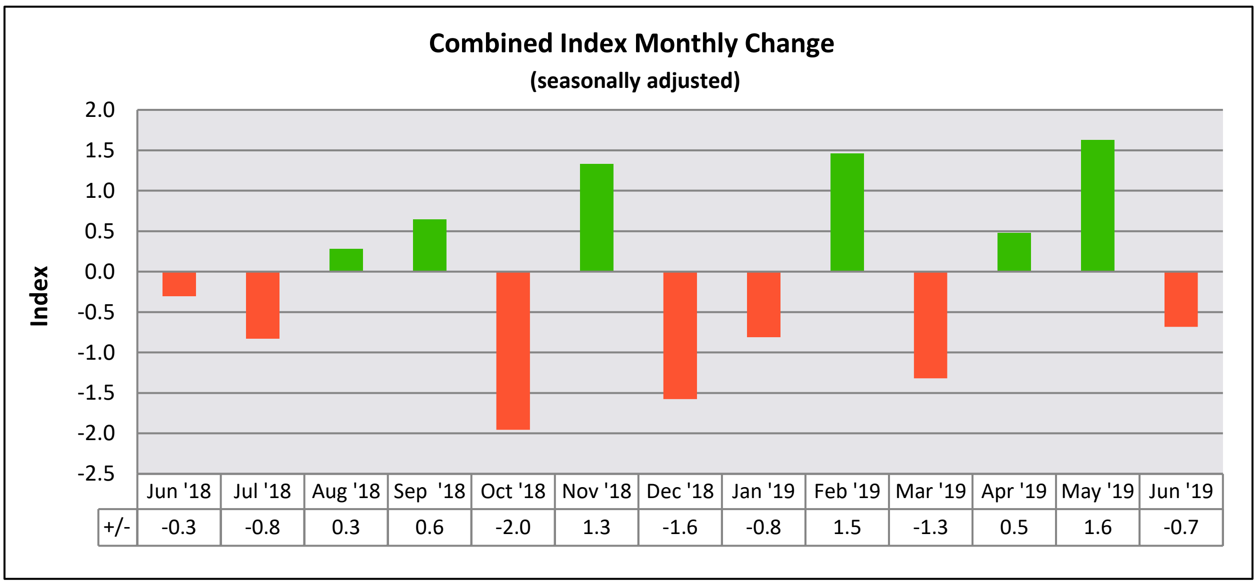
The index of favorable factors stayed comfortably in the 60s, but there was a slight decline in the numbers from last month's 63.8; it is now at 61.4. The index of unfavorable factors improved by a bit moving from 50.2 to 50.7. "The bad news is the two-month positive trend has ended," Kuehl said, "but the good news is there has not been the dramatic decline seen in some of the other indicators."

The news from the favorable categories continues to be fairly decent even with the decline. The sales numbers are now at 60.4, close to the average seen over the last few months. The new credit applications data also slipped back to what was expected with a reading of 62.4 compared to 64.2 the month prior. The dollar collections data improved a little. Kuehl noted that this is always very good news to a credit manager. It was at 59.8 and is now at 60.3, the highest reading since November of last year. The amount of credit extended slid from 65.4 to 62.5, but this is obviously still well into expansion territory (a reading above 50).

The improvements in the nonfavorable categories were subtle, but overall there was some gain and stability. The rejections of credit applications improved from 51.8 to 52.4. "This is always a good sign when overall applications are down," Kuehl said. "It means those seeking credit are more creditworthy." The accounts placed for collection also improved and escaped the contraction zone. The last time numbers for this category were in the 50s was in September of last year. The reading this month was 50 and last month it was at 47, a pretty substantial improvement. The disputes category stayed right where it was last month at 48.6. This remains in contraction territory, but not quite as deep as has been the case earlier in the year. The reading for dollar amount beyond terms fell from expansion territory with a reading of 49.8 compared to 51.3 in May. He explained that this is a concern as slow pays are often the first sign of some impending trouble. The dollar amount of customer deductions entered expansion territory for the first time since February with a reading of 50, up from 49.3. He added that this is another early warning sign and could be the start of more serious issues. The filings for bankruptcies saw some minor improvement (53.3 to 53.5). The important point is that this category has been comfortably in the expansion zone for well over a year.

Kuehl summarized the combined sectors for June as follows: Generally speaking, the data this month trends positive albeit at a slower pace than was attained earlier. Given the CMI often predicts the behavior of the PMI, it will be interesting to see what happens in the months ahead. Will the PMI slump continue or will there be a recovery sooner than later? The news conveyed by the CMI has been a little mixed of late, but the nice recovery in the nonfavorable categories has been encouraging. There were only two categories that were in the contraction zone this month; last month there were three. That is a trend one can only hope will continue.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19
Sales	69.6	63.9	65.0	68.8	62.7	64.5	59.0	59.7	62.6	58.2	61.0	65.9	60.4
New credit applications	60.5	61.2	62.5	61.9	61.7	62.2	57.5	58.2	58.9	57.8	59.7	64.2	62.4
Dollar collections	63.2	61.0	62.6	62.8	57.5	60.9	59.3	59.0	59.1	56.6	59.1	59.8	60.3
Amount of credit extended	66.2	66.1	66.9	67.1	64.5	65.3	61.9	61.2	62.3	63.5	60.6	65.4	62.5
Filings Index of favorable factors	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**	**61.4**
Rejections of credit applications	51.2	52.5	52.2	51.8	51.4	51.4	51.4	51.8	52.1	51.2	52.0	51.8	52.4
Accounts placed for collection	51.3	49.9	49.0	50.2	48.8	48.2	49.7	48.2	49.0	46.4	48.5	47.0	50.0
Disputes	48.3	47.7	46.4	47.6	48.9	50.1	49.6	47.1	48.5	49.5	48.5	48.6	48.6
Dollar amount beyond terms	49.2	47.4	48.5	49.9	47.7	52.3	49.3	47.4	51.3	50.0	47.6	51.3	49.8
Dollar amount of customer deductions	48.1	47.9	48.7	48.6	49.5	49.6	49.7	48.0	50.0	48.8	49.7	49.3	50.0
Filings for bankruptcies	55.7	57.4	55.9	55.6	52.1	53.6	55.0	53.8	54.9	53.7	53.9	53.3	53.5
Index of unfavorable factors	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**	**50.7**
NACM Combined CMI	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**	**55.0**



Manufacturing Sector

According to Kuehl: For the last several months, the manufacturing sector has been credited with fueling the economy in the U.S. and the world as a whole. At the same time, the biggest threats to the global economy have also impacted the manufacturing industry. Most of the concerns have revolved around the effect of the trade and tariff wars. Manufacturers were initially hit by the steel and aluminum tariffs, but then came the attacks on China, Europe and Mexico (among others). These are markets that the U.S. manufacturer needs, so the U.S. is affected indirectly. The Chinese slowdown has meant China buys less from other nations, which are often the markets for U.S. exports. This angst is starting to show up in measures like the Purchasing Managers' Index and this month's CMI.

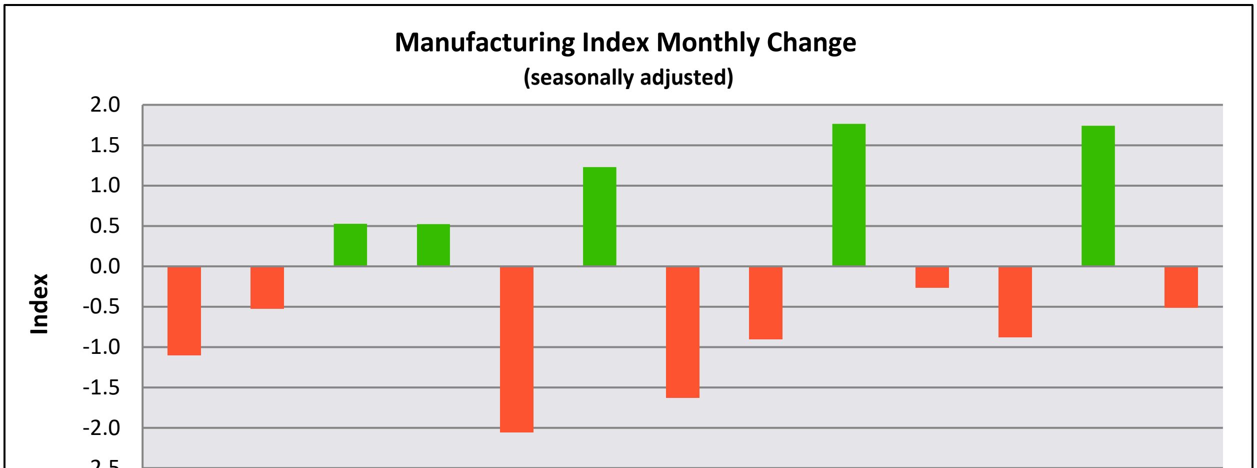
The overall score slipped, but not dramatically, as it went from 55.4 to 54.9, still higher than at any point since November of last year. The index of favorable factors remained in the 60s, but fell a little from 63.1 to 60.4. The index of unfavorable factors improved and clawed its way further into expansion territory with a reading of 51.3 compared to May's 50.3.

The sales data fell quite a bit from the previous month's reading as it dropped from 63.3 to 58.5, but this was more in line with the data seen over the last several months. Last month looks like the anomaly. The new credit applications shifted slightly downward with a reading of 62.5 compared to 63.9 in May. The dollar collections data slipped out of the 60s, but only by a hair, going from 60.5 to 59.2. The amount of credit extended also downshifted a little (64.6 to 61.3). "The good news for this set of readings is that all are very comfortably in the expansion zone—two are in the 60s still," Kuehl said.

There was a bit more variety with the unfavorable categories. The rejections of credit applications ticked upward a little with a reading of 53.8 after 52.5 last month. "This is always a positive sign as it suggests that more of the applicants are qualified and successfully getting the credit they have requested," he said. Accounts placed for collection saw a nice jump back into the expansion zone with a reading of 53.5 up from 49 in May. The disputes category stayed roughly the same with a reading of 48.3; May's reading was 48.2. It is close to leaving contraction, but has a way to go yet. The dollar amount beyond terms fell a little from the 51.8 noted last month, but it is still in expansion territory with a reading of 50.2. The dollar amount of customer deductions rose a bit, but still sits in contraction territory with a reading 49.8, up from 48.4. The filings for bankruptcies stayed right where it was last month with a reading of 52.

"Thus far, the worries that have affected the industrial community have not sent the manufacturing economy into a tailspin. The threats posed by the trade and tariff wars have been put off a number of times as there have been exemptions granted to major steel exporters to the U.S. (Brazil, South Korea)," Kuehl said. "It is expected that both Canada and Mexico will be next. The European tariffs have been delayed and the threats to Mexican business have not materialized. Even the most draconian of the restrictions on China have been put off for the time being."

Manufacturing Sector (seasonally adjusted)	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19
Sales	69.1	62.4	66.5	68.2	62.3	64.2	59.0	59.1	61.7	58.4	58.6	63.3	58.5
New credit applications	60.2	59.5	61.4	61.8	61.5	61.7	56.8	53.3	58.6	61.2	59.8	63.9	62.5
Dollar collections	63.3	61.5	62.4	59.0	58.5	61.6	59.0	58.4	60.5	57.8	58.6	60.5	59.2
Amount of credit extended	65.7	65.1	67.1	68.5	63.7	65.4	60.9	60.3	59.2	63.9	58.5	64.6	61.3
Index of favorable factors	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**	**60.4**
Rejections of credit applications	50.6	53.5	53.7	53.1	51.9	53.1	51.6	53.3	53.5	53.2	53.1	52.5	53.8
Accounts placed for collection	50.6	50.6	49.6	51.2	49.1	49.2	50.3	49.7	50.5	46.8	49.3	49.0	53.5
Disputes	47.9	47.0	45.8	48.7	48.7	49.6	48.6	46.8	48.7	50.2	47.7	48.2	48.3
Dollar amount beyond terms	48.7	48.1	48.4	50.2	49.1	50.3	50.0	49.1	52.8	51.0	48.5	51.8	50.2
Dollar amount of customer deductions	46.6	46.9	48.1	47.4	48.0	48.6	49.1	46.7	49.3	48.4	49.5	48.4	49.8
Filings for bankruptcies	56.2	59.1	56.0	56.0	50.9	52.2	54.4	54.0	53.3	54.6	53.3	52.0	52.0
Index of unfavorable factors	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**	**51.3**
NACM Manufacturing CMI	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**	**54.9**



	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19
+/-	-1.1	-0.5	0.5	0.5	-2.1	1.2	-1.6	-0.9	1.8	-0.3	-0.9	1.7	-0.5

Service Sector

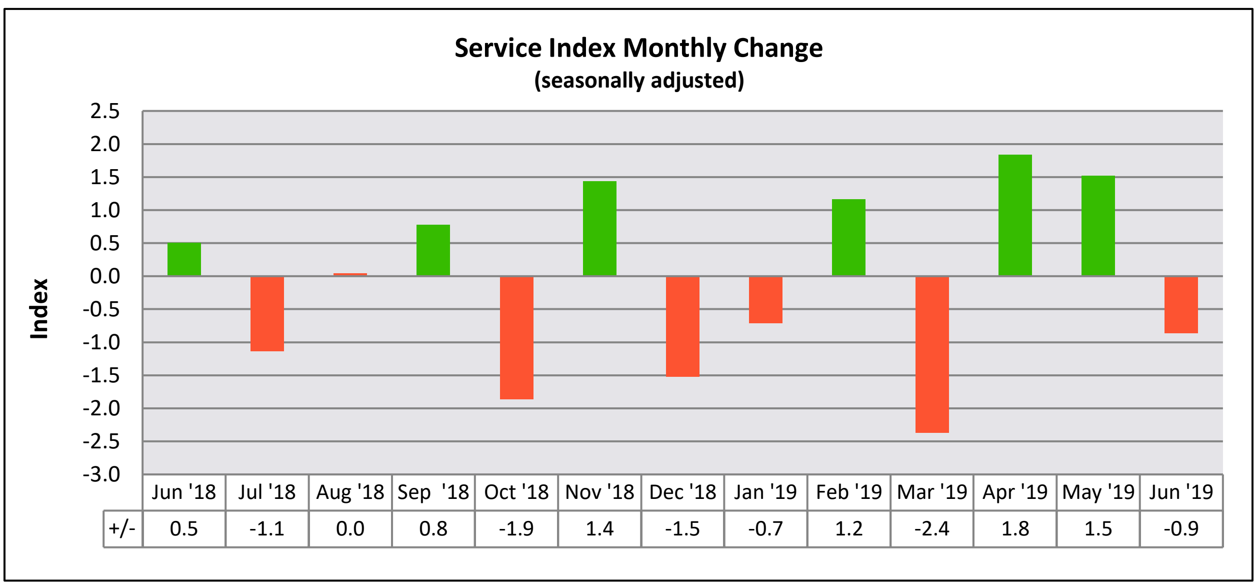
The changes were minor as far as the service data is concerned—almost no change in the overall score from last month as it dropped from 55.9 to 55.1. “This is consistent with much of the other national data that has been produced of late,” Kuehl explained. “There has been relatively little movement in the big service areas such as retail and construction, although there are signals of a decline on the horizon with new home starts down and consumer confidence waning.” The index of favorable factors slipped a little, but stayed in the 60s with a reading of 62.4 after one of 64.6 in May. The index of unfavorable factors also remained about the same with a reading this month of 50.2 compared to 50.1 the month before.

When one looks at the breakdown within each category, there is more variety. The sales data was very high last month with a reading of 68.5. It fell back to more normal levels with a reading of 62.3. The new credit applications shifted down a little as well with a reading of 62.4 compared to the 64.6 seen in May. The dollar collections data improved though—good news for the credit managers. It was just shy of the 60 mark in May with a reading of 59.1 and is now standing at 61.4. The amount of credit extended slid a bit as it went from 66.3 to 63.7. “All in all, this month was weaker than in May, but the numbers have remained solidly in the 60s, which is certainly growth,” Kuehl said.

The shifts as far as the unfavorables were not quite as dramatic. The rejections of credit applications remained very close to 50, the line separating expansion from contraction. It was 51.2 last month and 51 this month. Kuehl noted that given the slowdown in applications, it is good news that rejection levels have not worsened. The accounts placed for collection reading remained in the contraction zone, but improved a little as it went from 45.1 to 46.6. The reading of 46.6 was the lowest in two years. “It is encouraging to see it start to recover a little,” he said. The disputes category slipped a bit as it moved from 49 to 48.8. “This is often an early sign of some trouble down the road.” The dollar amount beyond terms reading fell back into contraction territory with a reading of 49.3 as opposed to the 50.9 that was registered last month. “This is another of those early warning readings that often signals bigger issues down the road,” he added. “Those slow pays become collections far too often and some slide as far as bankruptcy.” The dollar amount of customer deductions improved a little, certainly encouraging as it went from 50.1 to 50.3. There was also some additional good news coming from the filings for bankruptcy category as it moved from 54.5 to 55. “Even with all the trepidation, there are not as many companies throwing in the towel,” Kuehl said. “That is something that usually happens in retail right after the conclusion of the holiday season as companies soon know if the business they did during that period was enough to keep them afloat.”

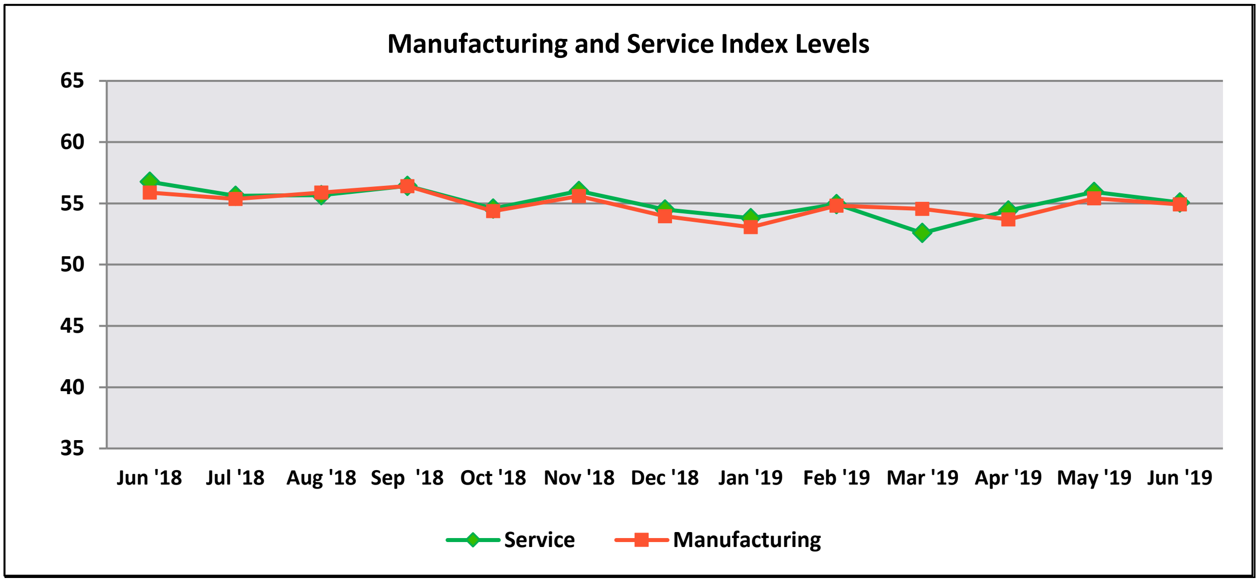
Kuehl believes that the test for the service sector will come this summer as many of the major categories are going into their peak seasons. Retail and entertainment as well as travel all wait for the summer months. This is also a peak time for much of the construction sector.

Service Sector (seasonally adjusted)	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19
Sales	70.1	65.3	63.4	69.4	63.2	64.9	59.0	60.3	63.5	58.0	63.4	68.5	62.3
New credit applications	60.9	63.0	63.5	62.0	61.9	62.7	58.2	63.0	59.2	54.3	59.6	64.6	62.4
Dollar collections	63.0	60.5	62.9	66.5	56.4	60.1	59.6	59.6	57.7	55.5	59.6	59.1	61.4
Amount of credit extended	66.8	67.2	66.7	65.8	65.2	65.2	63.0	62.1	65.5	63.2	62.7	66.3	63.7
Index of favorable factors	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**	**62.4**
Rejections of credit applications	51.8	51.5	50.7	50.5	50.9	49.7	51.2	50.3	50.8	49.1	50.8	51.2	51.0
Accounts placed for collection	52.0	49.3	48.5	49.2	48.4	47.2	49.1	46.7	47.5	46.0	47.7	45.1	46.6
Disputes	48.6	48.3	47.0	46.4	49.1	50.6	50.5	47.4	48.3	48.9	49.4	49.0	48.8
Dollar amount beyond terms	49.7	46.8	48.6	49.6	46.3	54.3	48.5	45.7	49.8	49.0	46.7	50.9	49.3
Dollar amount of customer deductions	49.6	48.8	49.3	49.7	51.1	50.7	50.3	49.2	50.6	49.1	49.8	50.1	50.3
Filings for bankruptcies	55.1	55.8	55.9	55.3	53.2	54.9	55.6	53.6	56.5	52.7	54.6	54.5	55.0
Index of unfavorable factors	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**	**50.2**
NACM Service CMI	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**	**55.1**



June 2019 versus June 2018

"Last month we were grasping at straws and thought we might have the beginning of a trend, but that didn't last long. This month there was a substantial decline in the manufacturing sector and a minor one for the service industry," Kuehl concluded.



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:

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

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, 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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