



Report for August 2015

Issued August 31, 2015

National Association of Credit Management

Combined Sectors

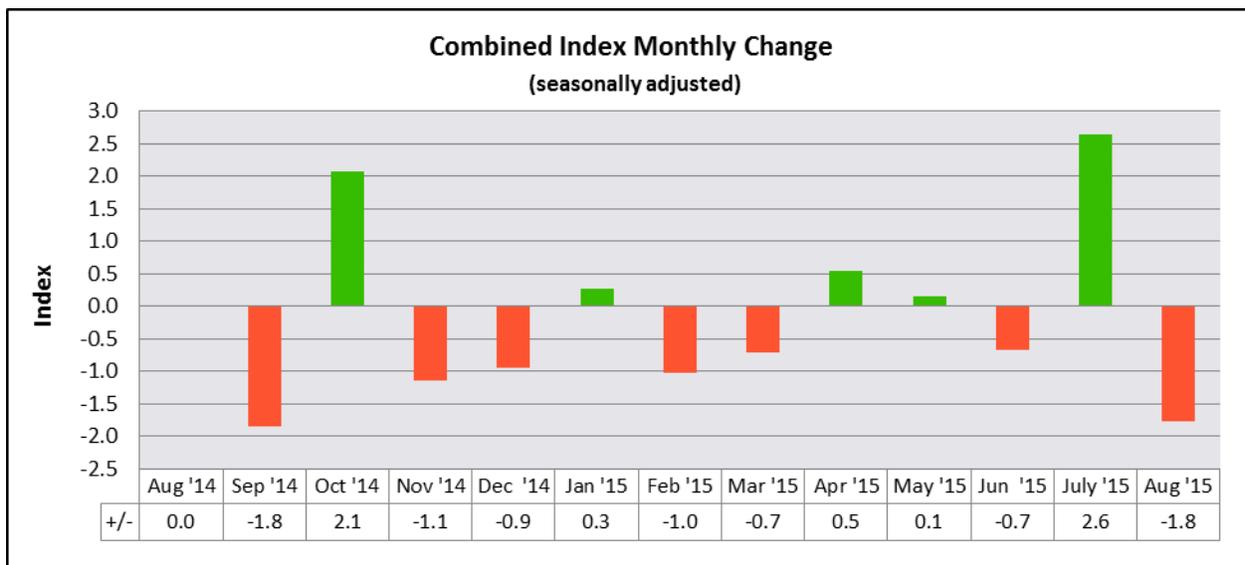
Are we enjoying the ride? This has been a roller coaster of sorts this summer with a wide range of performances as far as the CMI is concerned. This month, there was a sharp drop from the month before as the combined score slipped from a nice high of 56.0 to 54.2. A full two-point drop is nothing to dismiss and the reasons for that decline are concerns. On the other hand, the reading was lower at 53.4 in June and it was almost the same at 54.1 in May. The two months prior to that the readings were in the 53 range so compared to this, the current reading is not so bad. This volatility is reflected in a great many of the data releases over the last few weeks. The Purchasing Managers' Index has been equally volatile and we have all been watching the wild gyrations in the stock market with a mixture of fascination and horror.

The breakdown of the various categories sheds a little light on what seems to be going on in the credit world and by extension the rest of the world. The biggest contributors to the growth last month were the favorable factors and this month the majority of the retreat is being seen in this same collection. Last month, the index of favorable factors hit 63.5 and that was the highest level since August of last year when it reached 63.8. This month, that index reading fell to 59.2—more in line with the readings that have been seen most of the last few months. The biggest shift took place in the sales category as it fell from 65.1 to 57.9. Readings in the 60s had not been seen since January of this year and now we are looking at last month's number as an anomaly. There was also a decline in new credit applications although this fall was not so dramatic. It went from 60.8 to 57.7 and likewise there was a relatively small reduction in the dollar collections data as this slipped from 61.9 to 58.3. The only category that managed to remain in the 60s was amount of credit extended, but there was a reduction here as well—moving from 66.4 to 63.0. Even though the index stayed in the 60s, that three-point drop is significant. There was a real sense of optimism a month ago and that now seems to have faded. Of more concern is that all of this data was collected prior to the market meltdown and that suggests that next month is likely to be worse.

There was negative performance in the unfavorable factors as well, although many were not as drastic as those in the favorable category. The combined index fell just slightly from 51.0 to 50.9. Although this change was minor, the concern is that this is very close to contraction territory and many of the sub-categories are already there and sliding deeper. The rejections of credit applications went from 51.8 to 51.3 and that barely qualifies as a drop. The accounts placed for collection actually improved a little from 50.3 to 51.2 and that is something to note as it suggests two things. The first is that companies are starting to show a little lenience with those that are behind on their payments and it also shows that companies are doing more to catch up. Both trends point to more confidence in the latter part of the year. The disputes category barely budged from 49.9 to 49.5, but it remains in the 40s and that is not a comfortable place to be.

The dollar amount beyond terms improved a little, but stayed in the 40s as it went from 49.1 to 49.3. This is connected to the issue of collections as it seems that companies are trying to catch up with their credit. The category of dollar amount of customer deductions also saw a slight uptick, but even with this the overall number remained in contraction territory. Last month, it was at 49.3 and this month it is at 49.9. The filings for bankruptcies category slipped and that is worrying. It went from 55.6 to 54.4 and that is the second-worst reading since a year ago. The worst of the bankruptcy readings was June and it had been hoped that the rebound in July would be sustained. There is doubt about that now and this can be an awkward time of year for some sectors of the economy. There is also some concern that the market debacle at the end of August will have pushed some of these companies into the bankruptcy abyss.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15
Sales	64.8	60.9	65.7	62.7	61.4	61.5	58.9	58.4	59.1	57.1	56.6	65.1	57.9
New credit applications	60.9	59.0	59.4	58.1	59.2	58.3	58.0	56.6	58.6	58.5	60.5	60.8	57.7
Dollar collections	62.7	59.9	61.5	60.3	56.6	60.1	57.4	57.6	58.8	57.5	56.8	61.9	58.3
Amount of credit extended	66.7	64.0	63.8	63.7	64.6	62.2	60.5	60.6	62.6	62.0	64.5	66.4	63.0
Index of favorable factors	63.8	60.9	62.6	61.2	60.5	60.5	58.7	58.3	59.8	58.8	59.6	63.5	59.2
Rejections of credit applications	51.9	52.5	53.6	51.7	51.5	51.9	51.4	52.6	52.3	51.9	50.8	51.8	51.3
Accounts placed for collection	52.1	50.7	52.7	51.8	51.1	50.1	50.8	49.8	49.8	51.1	47.8	50.3	51.2
Disputes	50.6	49.2	50.4	50.8	48.5	49.5	48.8	49.0	47.2	48.0	48.2	49.9	49.5
Dollar amount beyond terms	50.3	47.2	53.6	52.3	48.7	50.6	48.4	45.5	48.8	50.7	46.8	49.1	49.3
Dollar amount of customer deductions	49.9	49.8	50.8	49.7	48.5	50.2	51.8	48.7	47.4	47.8	49.5	49.3	49.9
Filings for bankruptcies	57.5	55.8	58.1	56.8	58.5	56.9	55.0	55.1	54.6	56.0	52.5	55.6	54.4
Index of unfavorable factors	52.1	50.9	53.2	52.2	51.1	51.5	51.0	50.1	50.0	50.9	49.2	51.0	50.9
NACM Combined CMI	56.7	54.9	57.0	55.8	54.9	55.1	54.1	53.4	53.9	54.1	53.4	56.0	54.2



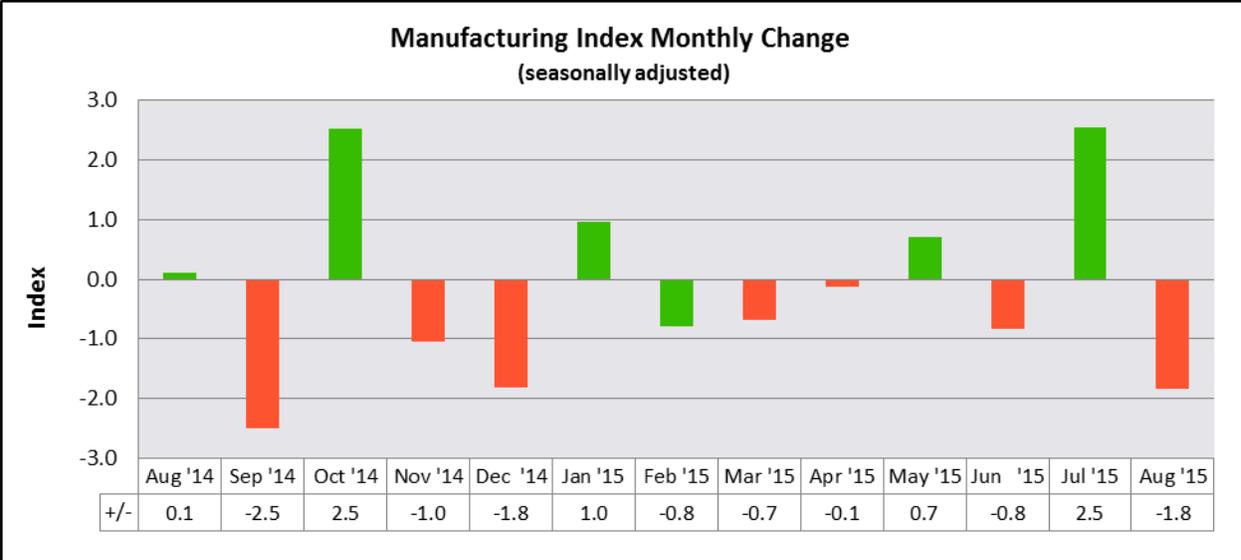
Manufacturing Sector

A lot of this month's drama played out in the manufacturing sector as one would expect. This has been a very volatile summer for the manufacturer as they have been affected by the strengthened dollar and the collapse in the energy sector. It is hard to overestimate the damage caused by the fall in the price of crude oil and the subsequent slide in demand for all things related to the oil fields.

The overall reading for the manufacturing sector slid from 55.7 to 53.9 and as with the total CMI data, the majority of the shift was in the favorable categories—they just weren't looking all that favorable. The combined favorable index slid from 63.1 to 58.3 and that is a very major drop. The sales category went from 66.0 to 56.4 and that is a whopping 10 point drop. Given that the average change has been a few points between months this is a staggering number. The bulk of the problem is in the energy sector, but there were reported slowdowns in automotive as well. The new credit applications category also fell hard from 60.5 to 56.1 and that makes sense given the dearth of sales. The dollar collections data also fell, but not as drastically as it went from 59.4 to 57.8. The amount of credit extended shifted as well, but again not as dramatically as the sales category did. It moved from 66.5 to 63.0.

Just as with the greater CMI, there was some negative and some positive movement in the unfavorable categories. The combined index actually improved a little as it went from 50.8 to 51.0. The movement was slight to be sure, but that tracks in a positive direction and is a little further away from contraction. The sub-categories are all over the place. The rejections of credit applications shifted down from 52.6 to 51.8 and that signals that there is some reluctance to take risks with companies in select sectors. It has been reported that any business that is tied to the oil and gas sector is struggling to find credit and that same problem is affecting those in the coal business. The accounts placed for collection category improved and left contraction territory as it moved from 49.7 to 50.7. There was almost no change at all for the disputes category as it went from 48.5 to 48.6 and the dollar amount beyond terms improved and left contraction territory as well. It shifted from 49.8 last month to 51.1 this month and that is a respectable improvement. The thinking is that many companies are still expecting a better end to the year and intend to expand in one way or the other. That means that they are cleaning up their credit and getting current with those they will need to approach in the future. The dollar amount of customer deductions remained very close to what it was last month—moving slightly up from 48.6 to 48.8. The filings for bankruptcies category is a concern as this went from 55.7 to 54.9. The bankruptcies seem to be concentrated in sectors affiliated with energy and to some degree those that are connected to the export dependent sectors.

Manufacturing Sector (seasonally adjusted)	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15
Sales	66.0	61.2	64.8	62.7	60.1	60.2	60.1	58.5	57.0	56.4	56.8	66.0	56.4
New credit applications	60.4	59.9	58.5	57.9	58.5	56.7	58.2	56.0	58.7	58.1	58.8	60.5	56.1
Dollar collections	64.2	60.4	60.4	59.9	55.39	60.4	57.1	57.1	57.0	55.1	58.2	59.4	57.8
Amount of credit extended	66.6	62.3	64.1	64.2	63.38	63.6	58.7	59.7	60.9	62.3	62.7	66.5	63.0
Index of favorable factors	64.3	60.9	61.9	61.2	59.4	60.2	58.5	57.8	58.4	58.0	59.1	63.1	58.3
Rejections of credit applications	51.2	51.4	54.3	51.3	50.81	52.1	52.5	53.5	53.2	53.0	49.5	52.6	51.8
Accounts placed for collection	52.8	50.5	53.7	52.5	50.46	50.6	51.8	51.4	50.8	51.6	48.3	49.7	50.7
Disputes	50.3	47.4	50.8	50.5	47.35	49.4	47.2	48.6	46.9	47.7	47.9	48.5	48.6
Dollar amount beyond terms	51.6	46.3	54.1	52.8	48.0	50.8	52.2	46.0	48.3	50.6	47.5	49.8	51.1
Dollar amount of customer deductions	48.5	48.9	50.5	49.8	46.79	49.5	48.7	48.7	45.7	48.7	49.8	48.6	48.8
Filings for bankruptcies	56.3	54.8	57.0	56.2	58.93	56.2	55.1	55.1	54.8	56.8	52.3	55.7	54.9
Index of unfavorable factors	51.8	49.9	53.4	52.2	50.4	51.4	51.3	50.6	50.0	51.4	49.2	50.8	51.0
NACM Manufacturing CMI	56.8	54.3	56.8	55.8	54.0	55.0	54.2	53.5	53.3	54.0	53.2	55.7	53.9

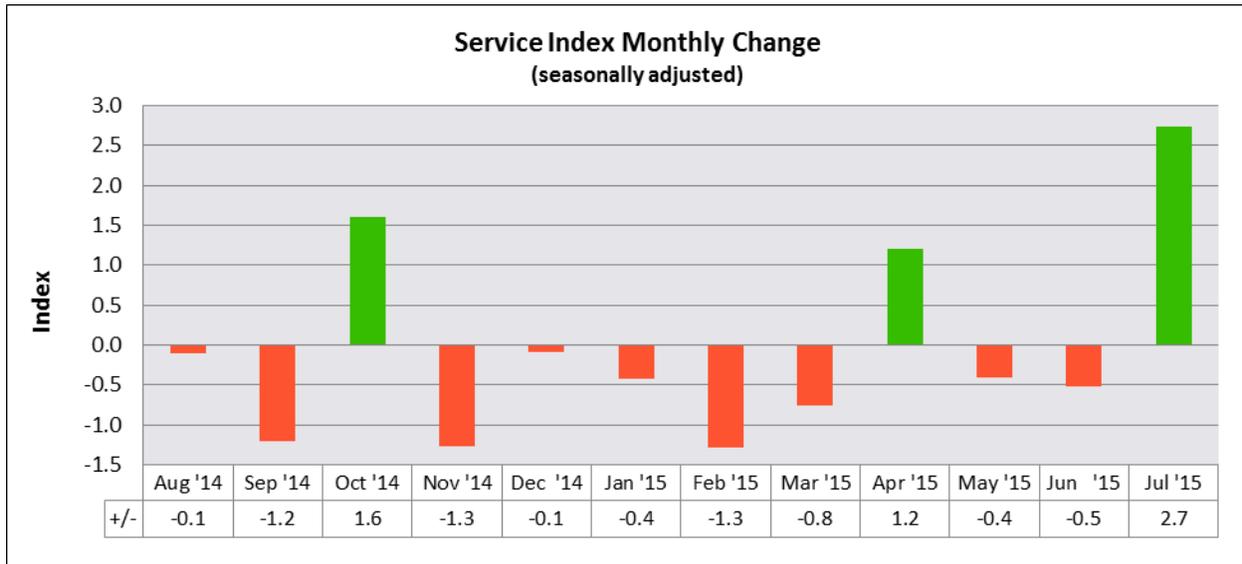


Service Sector

The service sector performance was as rocky as that in manufacturing and for much the same reason. The combined index slid from 56.3 to 54.6 and that takes the reading back to the levels that have been seen through most of the year. It is still in the expansion zone, but not as robust as it had been. There was the same split between the performance of the favorable and unfavorable factors. The combined favorable index moved down more dramatically than the combined unfavorable index. It moved from 64.0 to 60.2 and there was the same drama in the sub-categories as was manifested in the manufacturing sector. The sales category went from 64.3 to 59.5 and that is about average for the year as a whole. The new credit applications category went from 61.0 to 59.3—not a huge drop, but back to levels seen at the start of the summer. The dollar collections number went from 64.3 to 58.8 and amount of credit extended went from 66.3 to 63.1. In the great scheme of things, these are not bad numbers—all in the upper 50s and low 60s. The concern is that they all fell a little and that is not the direction that anybody had hoped for based on the strong showing last month.

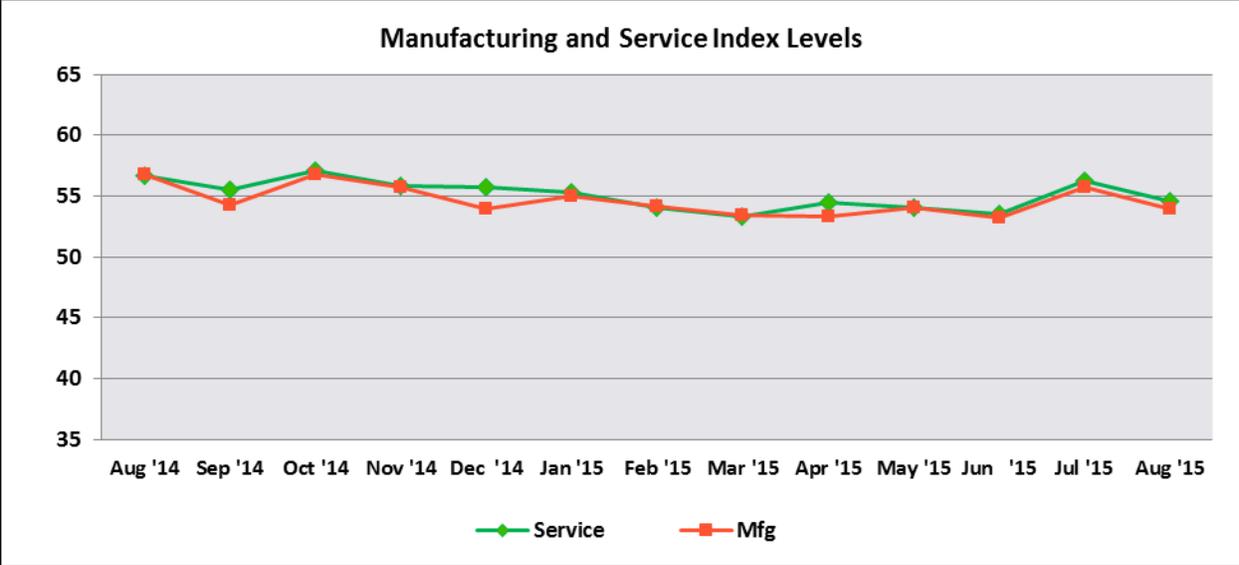
The combined unfavorable index was not as dramatic and there were improvements as well as declines. The index moved from 51.2 to 50.9 and that is getting uncomfortably close to contraction territory. The category of rejections of credit applications slipped from 51.0 to 50.8, but remained just barely in expansion territory. The accounts placed for collection showed a gain and that tracks with some of the other observations about creditors trying to clean up their credit in anticipation of a better end to the year. The shift was from 50.9 to 51.7. There was a small dip in the disputes category as well as it moved from 51.3 to 50.4. The dollar amount beyond terms slipped further into the contraction zone as it moved from 48.5 to 47.5. That is not what had been expected given that there is evidence that companies are trying to catch up on their credit a little. It seems that retail activity is still spotty and leaving a number of companies in an awkward position. The amount of customer deductions improved a little and is now more comfortably out of contraction territory as it moved from 50.0 to 51.0. The filings for bankruptcies category is still firmly in the expansion category, but there was a decline from last month as the sector number went from 55.6 to 54.0. There has not been the crisis that has affected manufacturing, but the travails in the energy realm have had an impact on the service side as well.

Service Sector (seasonally adjusted)	Aug '14	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15
Sales	63.6	60.7	66.7	62.7	62.68	62.8	57.7	58.3	61.1	57.9	56.3	64.3	59.5
New credit applications	61.5	58.0	60.3	58.4	59.8	60.0	57.8	57.1	58.5	58.9	62.2	61.0	59.3
Dollar collections	61.3	59.4	62.5	60.7	57.87	59.7	57.7	58.1	60.7	60.0	55.4	64.3	58.8
Amount of credit extended	66.8	65.7	63.6	63.3	65.86	60.8	62.3	61.5	64.4	61.8	66.3	66.3	63.1
Index of favorable factors	63.3	60.9	63.3	61.3	61.6	60.8	58.9	58.7	61.2	59.6	60.0	64.0	60.2
Rejections of credit applications	52.6	53.7	52.9	52.1	52.25	51.7	50.3	51.7	51.3	50.8	52.0	51.0	50.8
Accounts placed for collection	51.4	51.0	51.7	51.2	51.8	49.7	49.9	48.1	48.7	50.5	47.3	50.9	51.7
Disputes	50.9	50.9	50.0	51.2	49.72	49.5	50.4	49.4	47.5	48.4	48.5	51.3	50.4
Dollar amount beyond terms	48.9	48.1	53.2	51.8	49.37	50.5	44.7	45.1	49.2	50.7	46.1	48.5	47.5
Dollar amount of customer deductions	51.4	50.7	51.1	49.6	50.12	51.0	54.8	48.7	49.1	46.9	49.24	50.0	51.0
Filings for bankruptcies	58.8	56.8	59.2	57.4	58.12	57.6	54.9	55.0	54.3	55.1	52.6	55.6	54.0
Index of unfavorable factors	52.3	51.9	53.0	52.2	51.9	51.7	50.8	49.7	50.0	50.4	49.3	51.2	50.9
NACM Service CMI	56.7	55.5	57.1	55.8	55.8	55.3	54.0	53.3	54.5	54.1	53.6	56.3	54.6



August 2015 versus August 2014

That sick feeling that one gets on a roller coaster seems to be affecting those that have been following the gyrations of the CMI this year. A good month seems to occur after a bad one and then there is a return to the negative side in the next one.



Methodology Appendix

CMI data has been collected and tabulated monthly since February 2002. The index, published since January 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:

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

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 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, Maryland, supports more than 15,000 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 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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Contact: [Jennifer Lehman](mailto:Jennifer.Lehman@nacm.org), 410-740-5560

Website: www.nacm.org

Twitter: [NACM_National](https://twitter.com/NACM_National)