CREDIT MANAGERS' INDEX

Report for December 2015

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National Association of Credit Management

Combined Sectors

As the year comes to an end there were two ways the CMI could go—there was always the distinct possibility it would trend in the same negative direction it showed in November and then there was the opportunity to show some positive movement. However, there was no expectation of dramatic movement in either direction. It is not quite a gift of the holiday season, but the latest numbers are a little better than last month's and the bulk of the change seems to be due to the retail sector and its response to the consumer this time of year.

The overall CMI score eased upward ever so slightly from 52.6 to 52.8, for all intents and purposes a flat reading. The good news is that the numbers did not dip as some had expected. The other good news is that most of the stability was in the unfavorable categories and that is slightly more encouraging as far as the future is concerned. The favorable index went down a bit—from 57.7 to 56.6, but overall, the favorable categories remain comfortably in the middle 50s and clearly in expansion territory. The unfavorable index emerged from the contraction zone as it went from 49.2 to 50.3. Granted, this is a razor-thin margin and no reason for wild celebration, but the reading this month is still better than it has been since August.

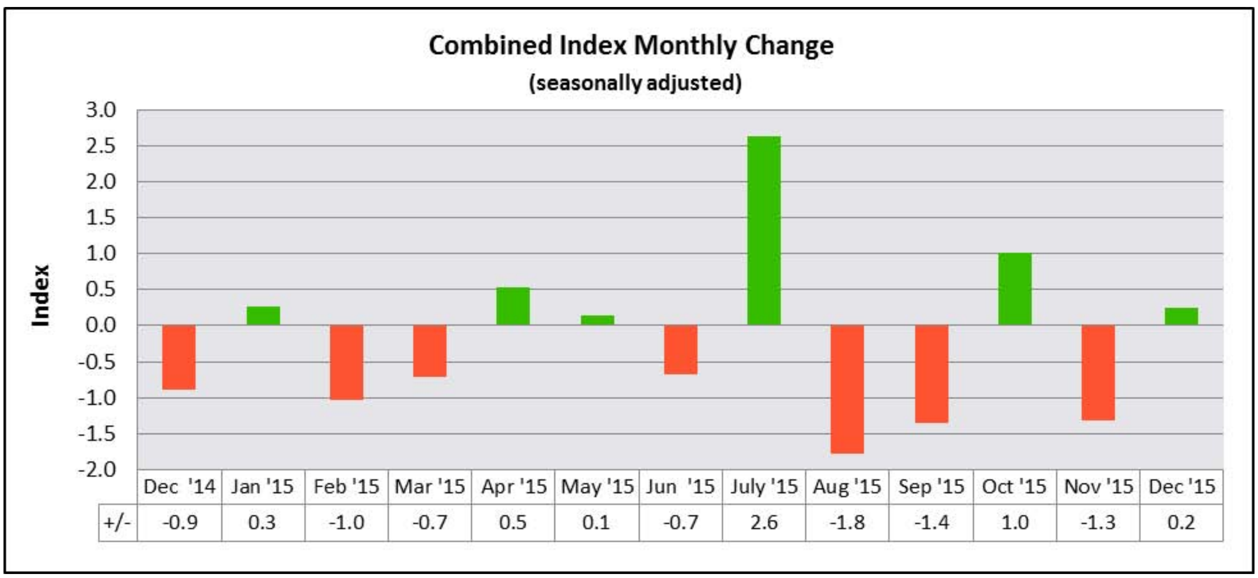
The most interesting data is contained in the sub-categories as there was some significant movement in both the favorable and unfavorable categories. The sales reading was at its peak in July when it hit 65.1, but has since fallen steadily and is now at 55.0—10 points off that pace. The new credit applications category slipped from 58.0 to 56.4, while the dollar collections reading went from 55.7 to 55.8—a very slight improvement, but really better described as flat. In July, this category reached its high point at 61.9. The amount of credit extended reading slid from 61.0 to 59.4, but remains on the high side and is not creating much cause for concern. Those who are getting credit these days tend to be the bigger and more financially secure, and ask for (and receive) larger amounts.

The unfavorable category has been the most worrying as this activity signals the distress within the creditor community. Overall, the numbers came up a bit and have at least escaped the contraction zone; there has been some of this activity in the sub-categories as well. The rejections of credit applications category improved quite a bit, moving from 51.0 to 52.8. This combines nicely with the amount of credit extended and seems to indicate that those applying for credit are more likely to get it than in the past. The accounts placed for collection reading also improved by a significant degree—moving from 47.1 to 50.2. This is important as the collection process is usually the tactic of last resort and it is good to see it moving back into the expansion zone, even if the movement is somewhat slight. The disputes category has been a problem all year and still is, as it remains mired in the contraction zone despite some slight improvement from 48.4 to 48.6.

The category of dollar amount beyond terms shifted up as well, but remains in the contraction zone with a reading of 48.0 after one of 47.4 in November. The dollar amount of customer deductions reading slipped from 48.9 to 48.5, but the change was very minor and is essentially flat. The filings for bankruptcies category went from 52.5 to 53.7 and stands out as the most encouraging of the categories. There is obviously a lot of distress in the creditor community these days, but at least the number of bankruptcies has been slowing.

The bulk of the good news has been coming from the unfavorable readings and that is a good sign as far as the future is concerned. It would seem to suggest that some of the companies in trouble have been able to rebound just a little and it further appears that this good news is in the retail space.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15
Sales	61.4	61.5	58.9	58.4	59.1	57.1	56.6	65.1	57.9	56.4	58.3	56.0	55.0
New credit applications	59.2	58.3	58.0	56.6	58.6	58.5	60.5	60.8	57.7	58.1	58.9	58.0	56.4
Dollar collections	56.6	60.1	57.4	57.6	58.8	57.5	56.8	61.9	58.3	56.4	56.7	55.7	55.8
Amount of credit extended	64.6	62.2	60.5	60.6	62.6	62.0	64.5	66.4	63.0	60.1	63.7	61.0	59.4
Index of favorable factors	60.5	60.5	58.7	58.3	59.8	58.8	59.6	63.5	59.2	57.7	59.4	57.7	56.6
Rejections of credit applications	51.5	51.9	51.4	52.6	52.3	51.9	50.8	51.8	51.3	51.3	51.4	51.0	52.8
Accounts placed for collection	51.1	50.1	50.8	49.8	49.8	51.1	47.8	50.3	51.2	49.3	50.0	47.1	50.2
Disputes	48.5	49.5	48.8	49.0	47.2	48.0	48.2	49.9	49.5	47.5	48.5	48.4	48.6
Dollar amount beyond terms	48.7	50.6	48.4	45.5	48.8	50.7	46.8	49.1	49.3	47.0	47.8	47.4	48.0
Dollar amount of customer deductions	48.5	50.2	51.8	48.7	47.4	47.8	49.5	49.3	49.9	49.4	50.1	48.9	48.5
Filings for bankruptcies	58.5	56.9	55.0	55.1	54.6	56.0	52.5	55.6	54.4	53.3	53.6	52.5	53.7
Index of unfavorable factors	51.1	51.5	51.0	50.1	50.0	50.9	49.2	51.0	50.9	49.7	50.2	49.2	50.3
NACM Combined CMI	54.9	55.1	54.1	53.4	53.9	54.1	53.4	56.0	54.2	52.9	53.9	52.6	52.8



Manufacturing Sector

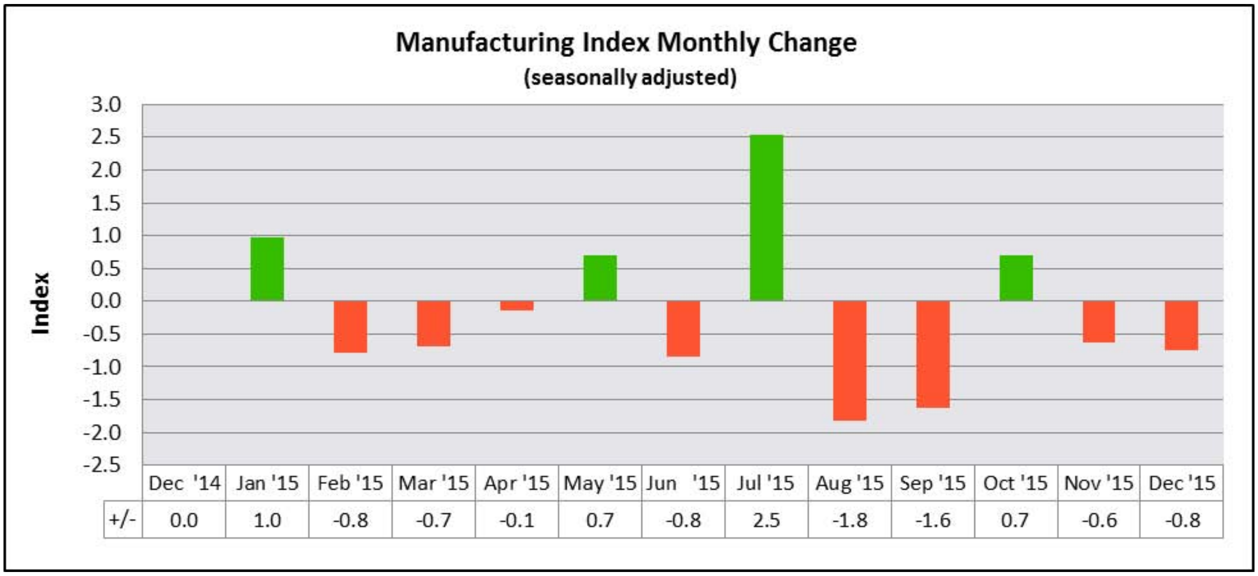
There was some good news in the overall CMI, but that good news was not shared in the manufacturing sector. The overall score deteriorated from 52.3 to 51.6—hanging onto the expansion zone by the thinnest of margins. The big changes were in the favorable sectors as the overall score fell from 56.8 to 54.1. There was also some movement in the unfavorable sector, but not all that dramatic as it went from 49.4 to 49.9. That is a very slight improvement and essentially flat, but at least it is not trending down any further.

The sub-categories tell the more detailed story as usual. The sales reading slid dramatically from 55.5 to 51.9—by far the lowest reading seen all year. It was as high as 66.0 in July and has been sinking ever since. This kind of decline is consistent with the bulk of the manufacturing data that has been seen elsewhere—especially from the Purchasing Managers' Index (which is now in the contraction zone under 50). The new credit applications reading slipped from 57.1 to 54.0 and that is another low point as far as the year is concerned. The dollar collections category changed, but not all that much as it went from 55.6 to 55.0, while the amount of credit extended category fell hard from 59.0 to 55.4. This means a great deal in the manufacturing sector as most credit issues are larger. This signals that investment in new capital equipment is trending slowly, matching what has been observed as far as overall capital investment is concerned. It has also been noted that capacity utilization numbers are off and have been for some months. If there is no stress on capacity, there is not much reason to do any additional purchasing.

The unfavorable readings have looked a little better though. The rejections of credit applications reading improved from 52.0 to 54.1, suggesting that those applying for credit are in a better position to get approved. The accounts placed for collection reading also saw a little improvement, although, it is still under the 50 mark. It went from 48.6 to 49.3. The category of disputes worsened with a reading of 47.1, following a November reading of 47.8. The real issue is that disputes have been reading under 50 for a solid year and there is little expectation this will change anytime soon. The dollar amount beyond terms category slightly improved, increasing from 48.4 to 48.8. This movement is essentially flat, and still under 50. The dollar amount of customer deductions reading was also basically unchanged, going from 47.9 to 47.6. The only really good news was in the filings for bankruptcies category, which shifted in a positive direction from 51.7 to 52.8.

The manufacturing data started its negative drift in the middle of the third quarter and this decline has been accelerating ever since. The sluggish economy has not provided the needed demand and there is too much slack in the system as a whole. The major caveat at this point is that much of the problem can be laid at the feet of the energy sector, tending to obscure the fact that other sectors, such as automotive and aerospace, are holding their own.

Manufacturing Sector (seasonally adjusted)	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15
Sales	60.1	60.2	60.1	58.5	57.0	56.4	56.8	66.0	56.4	55.6	57.7	55.5	51.9
New credit applications	58.5	56.7	58.2	56.0	58.7	58.1	58.8	60.5	56.1	56.6	57.3	57.1	54.0
Dollar collections	55.39	60.4	57.1	57.1	57.0	55.1	58.2	59.4	57.8	56.7	56.4	55.6	55.0
Amount of credit extended	63.38	63.6	58.7	59.7	60.9	62.3	62.7	66.5	63.0	57.1	61.8	59.0	55.4
Index of favorable factors	59.4	60.2	58.5	57.8	58.4	58.0	59.1	63.1	58.3	56.5	58.3	56.8	54.1
Rejections of credit applications	50.81	52.1	52.5	53.5	53.2	53.0	49.5	52.6	51.8	51.5	51.5	52.0	54.1
Accounts placed for collection	50.46	50.6	51.8	51.4	50.8	51.6	48.3	49.7	50.7	48.5	49.5	48.6	49.3
Disputes	47.35	49.4	47.2	48.6	46.9	47.7	47.9	48.5	48.6	47.7	46.3	47.8	47.1
Dollar amount beyond terms	48.0	50.8	52.2	46.0	48.3	50.6	47.5	49.8	51.1	46.6	47.3	48.4	48.8
Dollar amount of customer deductions	46.79	49.5	48.7	48.7	45.7	48.7	49.8	48.6	48.8	49.2	48.5	47.9	47.6
Filings for bankruptcies	58.93	56.2	55.1	55.1	54.8	56.8	52.3	55.7	54.9	53.1	53.6	51.7	52.8
Index of unfavorable factors	50.4	51.4	51.3	50.6	50.0	51.4	49.2	50.8	51.0	49.5	49.4	49.4	49.9
NACM Manufacturing CMI	54.0	55.0	54.2	53.5	53.3	54.0	53.2	55.7	53.9	52.3	53.0	52.3	51.6



Service Sector

The only reason that December's overall CMI score improved over the previous month was due to the service sector. The service sector data is pretty widely spread and changes in one small part of the data can have an outsized impact on the whole. The mover this month was clearly the retail community. However, it also helped that construction activity extended further into the year than usual due to the mild temperatures.

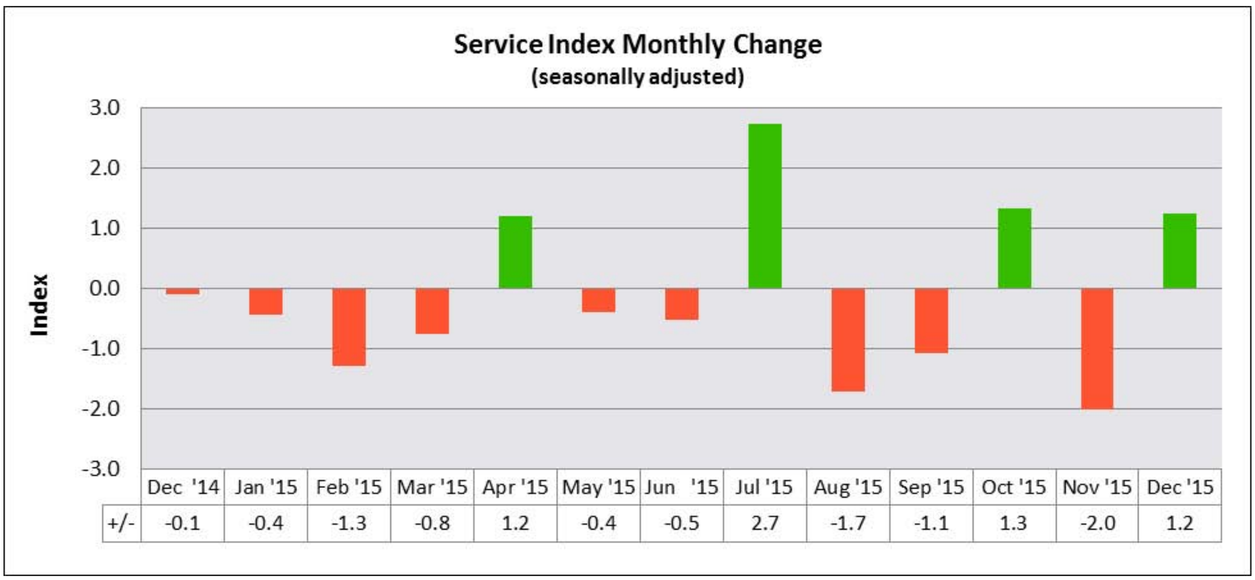
The overall score was 54.1 and this is up from the 52.8 registered last month. There has not been a great deal of variability in this category as the high point was in July at 56.3. The overall score for the favorable factors went from 58.6 to 59.2, putting these readings back to the norms of the last few months. The unfavorable index also saw an improvement as it went from 49.0 to 50.6; not very dramatic, but at least out of the contraction zone.

The sales category saw a nice little bump from 56.5 to 58.1, but that is still pretty far short of the high point in July when it hit 64.3. The new credit applications category slipped, but is really just flat as it moved from 58.9 to 58.8, while dollar collections shifted positively from 55.9 to 56.6. The amount of credit extended reading also saw an improvement as it went from 63.1 to 63.4. This is the time of year that retailers are going to be seeking larger amounts of credit to buy the inventory needed.

The rejections of credit applications reading slightly improved and went from 50.0 to 51.6, as there seemed to be fewer struggling firms seeking credit as a kind of bailout. It remains pretty close to the contraction zone and that will remain worrying. The biggest change was in the accounts placed for collection category. It surged out of contraction territory by moving from 45.6 to 51.1. This spectacular shift is really good news as it would suggest that there are far fewer creditors falling into real distress and there is a real possibility that some of the troubled companies are climbing out of their own reversals of fortune. The disputes category also showed improvement and managed to trend above the contraction zone again with a reading of 50.0 after falling to 49.0 last month.

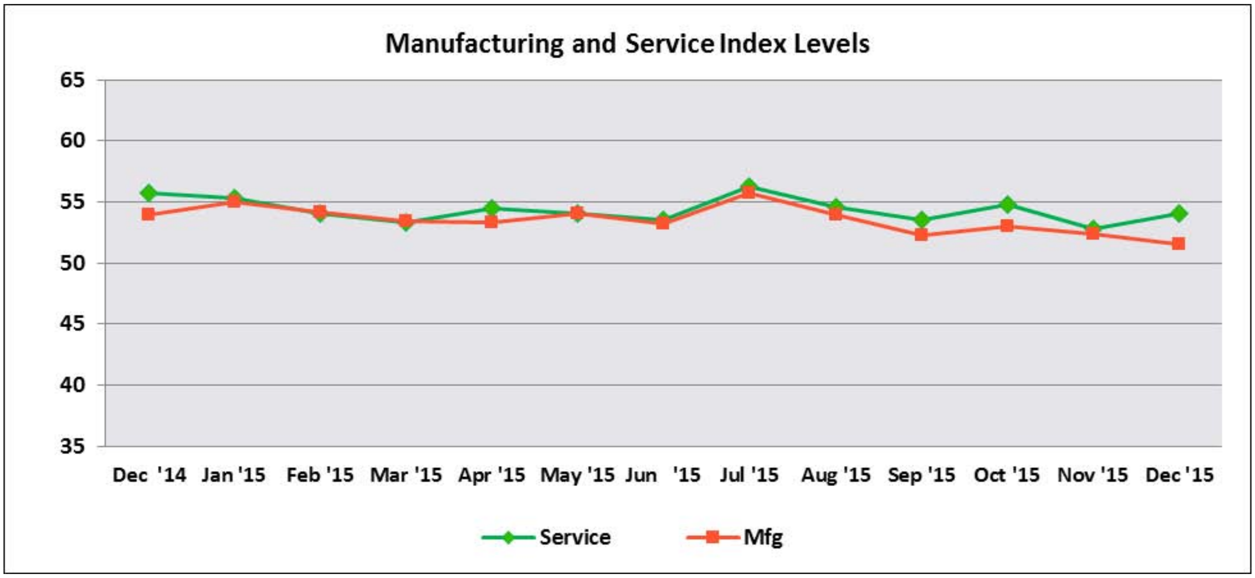
The reading of dollar amount beyond terms shifted from 46.3 to 47.3—a not insignificant trend, but the category is still in contraction. The dollar amount of customer deductions category shifted down and remained in contraction with a reading of 49.4 after one of 49.8 in November. There was some better news in the filings for bankruptcy reading as it moved from 53.2 to 54.5. The retail sector generally faces these bankruptcy issues after the holidays and the chance to reverse course has expired with the end of holiday shopping.

Service Sector (seasonally adjusted)	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15
Sales	62.68	62.8	57.7	58.3	61.1	57.9	56.3	64.3	59.5	57.2	58.9	56.5	58.1
New credit applications	59.8	60.0	57.8	57.1	58.5	58.9	62.2	61.0	59.3	59.5	60.5	58.9	58.8
Dollar collections	57.87	59.7	57.7	58.1	60.7	60.0	55.4	64.3	58.8	56.1	57.0	55.9	56.6
Amount of credit extended	65.86	60.8	62.3	61.5	64.4	61.8	66.3	66.3	63.1	63.2	65.6	63.1	63.4
Index of favorable factors	61.6	60.8	58.9	58.7	61.2	59.6	60.0	64.0	60.2	59.0	60.5	58.6	59.2
Rejections of credit applications	52.25	51.7	50.3	51.7	51.3	50.8	52.0	51.0	50.8	51.1	51.4	50.0	51.6
Accounts placed for collection	51.8	49.7	49.9	48.1	48.7	50.5	47.3	50.9	51.7	50.0	50.6	45.6	51.1
Disputes	49.72	49.5	50.4	49.4	47.5	48.4	48.5	51.3	50.4	47.4	50.7	49.0	50.0
Dollar amount beyond terms	49.37	50.5	44.7	45.1	49.2	50.7	46.1	48.5	47.5	47.4	48.4	46.3	47.3
Dollar amount of customer deductions	50.12	51.0	54.8	48.7	49.1	46.9	49.24	50.0	51.0	49.7	51.7	49.8	49.4
Filings for bankruptcies	58.12	57.6	54.9	55.0	54.3	55.1	52.6	55.6	54.0	53.6	53.6	53.2	54.5
Index of unfavorable factors	51.9	51.7	50.8	49.7	50.0	50.4	49.3	51.2	50.9	49.9	51.1	49.0	50.6
NACM Service CMI	55.8	55.3	54.0	53.3	54.5	54.1	53.6	56.3	54.6	53.5	54.8	52.8	54.1



December 2015 versus December 2014

This month, the trend lines diverged by a considerable degree. This was not a good month for manufacturing, but it was a very encouraging one for the service side—both in retail and in construction.



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:

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

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, 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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