Report for February 2016

Issued February 29, 2016

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's Credit Managers' Index (CMI) for February reports a combined score and manufacturing and service sector totals identical to last month with the sub-categories showing offsetting positive and negative trends.

"At first blush, it would seem the CMI was utterly unchanged since last month—the combined score was the same as it was in January—53.5. Oddly enough the combined scores for both manufacturing and services behaved the same way. It is a case of déjà vu all over again or so it would seem," said NACM Economist, Chris Kuehl, Ph.D. "The fact is there was change, but in the sub-index readings and when they were all added up, they created a match for last month only different."

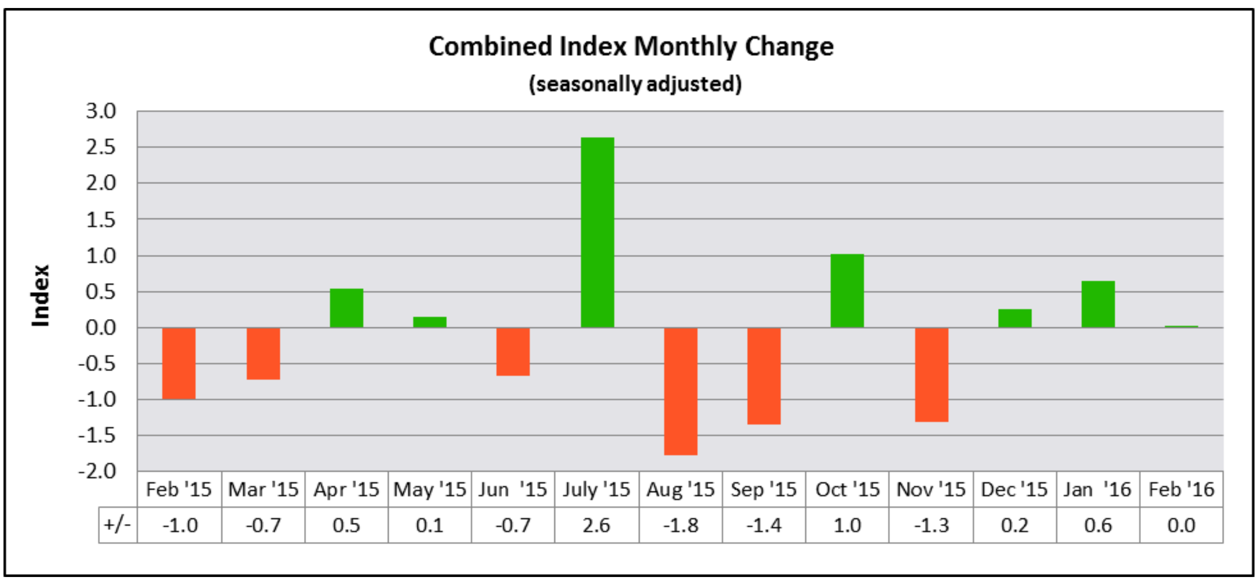
In some respects, this seems to reflect the economy as a whole. Since the start of the year, there has been a sense of one step forward and another step back. "The markets have gyrated violently on bad news from the oil sector and good news from the oil consumption sector. This month appears to offer some stability, but in fact the CMI has seen a lot of change," he added. "There has been similar activity in some of the other indices that are watched carefully for trend signals. The Purchasing Managers' Index is back down in the 40s and that is worrisome, but at the same time, there has been a gain in the New Orders Index and that suggests that future readings could be stronger."

When one looks at the index of favorable factors, there was a slight improvement from 58.2 to 58.6 and this is certainly the direction preferred. All of the sub-categories showed improvement and that is a most positive development. The sales category went from 55.8 to 56.8 and that takes these readings back to what they were in the latter part of last year. The new credit applications shifted up ever so slightly from 58.1 to 58.2 and that is likely a sign of some stability. The bad news in credit applications comes when there are a lot of them but not from companies that anybody wants to offer credit to. "There seem to be fewer desperate companies hoping against hope that somebody will be gullible enough to offer them additional credit," Kuehl explained. The dollar collections reading also registered a significant improvement as it went from 57.8 to 58.3, signaling that companies are paying their debts as expected. There was also a very small gain in the amount of credit extended as it went from 61.0 to 61.2.

The trends in the unfavorable categories were not quite as encouraging. The rejections of credit applications remained unchanged at 52.2 and that seems consistent with the reading on new applications. It seems that those seeking credit are generally qualified to ask and are getting what they are requesting. There has been a slight deterioration in accounts placed for collection as it has sunk a bit from 49.4 to 49.0. The data for this category has been staying fairly consistent with readings that range from 47.1 to 51.2. The disputes category improved as well—moving from 48.6 to 49.7. The dollar amount beyond terms fell quite a bit from 48.6 to 47.5 and that is of some significant concern as this increase in the number of slow pays can easily lead to everything from collection to more bankruptcies. The dollar amount of customer deductions shifted not at all—staying at 49.5. The category of filings for bankruptcies also sank a bit from 53.8 to 52.6. This was a predictable reaction to the increase in slow pays.

The primary concern as far as the unfavorable factors are concerned is that four of the six categories are under 50 and therefore in the contraction zone. "The good news is that there is a marked difference in the performance of the favorable factors as all of them are in expansion territory and one of the readings is above 60 (amount of credit extended)," Kuehl said of the positive trend. As for the negative, "The decline of the unfavorable numbers suggests more and more companies are facing struggles to keep current on their debt. Thus far, the challenges are not unexpected with the companies engaged in the oil sector having the hardest time of it."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16
Sales	58.9	58.4	59.1	57.1	56.6	65.1	57.9	56.4	58.3	56.0	55.0	55.8	56.8
New credit applications	58.0	56.6	58.6	58.5	60.5	60.8	57.7	58.1	58.9	58.0	56.4	58.1	58.2
Dollar collections	57.4	57.6	58.8	57.5	56.8	61.9	58.3	56.4	56.7	55.7	55.8	57.8	58.3
Amount of credit extended	60.5	60.6	62.6	62.0	64.5	66.4	63.0	60.1	63.7	61.0	59.4	61.0	61.2
Index of favorable factors	**58.7**	**58.3**	**59.8**	58.8	**59.6**	**63.5**	**59.2**	**57.7**	**59.4**	**57.7**	**56.6**	**58.2**	**58.6**
Rejections of credit applications	51.4	52.6	52.3	51.9	50.8	51.8	51.3	51.3	51.4	51.0	52.8	52.2	52.2
Accounts placed for collection	50.8	49.8	49.8	51.1	47.8	50.3	51.2	49.3	50.0	47.1	50.2	49.4	49.0
Disputes	48.8	49.0	47.2	48.0	48.2	49.9	49.5	47.5	48.5	48.4	48.6	48.6	49.7
Dollar amount beyond terms	48.4	45.5	48.8	50.7	46.8	49.1	49.3	47.0	47.8	47.4	48.0	48.6	47.5
Dollar amount of customer deductions	51.8	48.7	47.4	47.8	49.5	49.3	49.9	49.4	50.1	48.9	48.5	49.5	49.5
Filings for bankruptcies	55.0	55.1	54.6	56.0	52.5	55.6	54.4	53.3	53.6	52.5	53.7	53.8	52.6
Index of unfavorable factors	**51.0**	**50.1**	**50.0**	**50.9**	**49.2**	**51.0**	**50.9**	**49.7**	**50.2**	**49.2**	**50.3**	**50.3**	**50.1**
NACM Combined CMI	**54.1**	**53.4**	**53.9**	**54.1**	**53.4**	**56.0**	**54.2**	**52.9**	**53.9**	**52.6**	**52.8**	**53.5**	**53.5**



Manufacturing Sector

Just as with the combined CMI, there was no movement in the combined manufacturing survey or at least that is how it appears as this month the reading was the same as last month at 52.5. The fact is there were indeed differences between this month and last as seen in the sub-categories. The movement up by some of the data was offset by movement down in others. The trends are present, but a little less dramatic than they have been in previous months.

The combined index of favorable factors fell a little and the index of unfavorable factors rose slightly, providing a bit of a mixed message as far as the data is concerned. Within these broader categories, there was a great deal of movement and the message ends up being as mixed as much of the other manufacturing data has been of late. If you have been trying to get a sense of the sector as a whole, you are noticing a lot of variability. The Purchasing Managers' Index is still tracking in the contraction zone, but the New Orders Index is rising again and that is the more predictive aspect of the PMI data. The industrial production numbers are better than they were prior to the recession despite the recent fall, but durable goods orders have been off. Kuehl likens this movement to the tale of the manufacturing sector in 2016—"strong showings in a sector such as automotive and a weak showing in the energy sector."

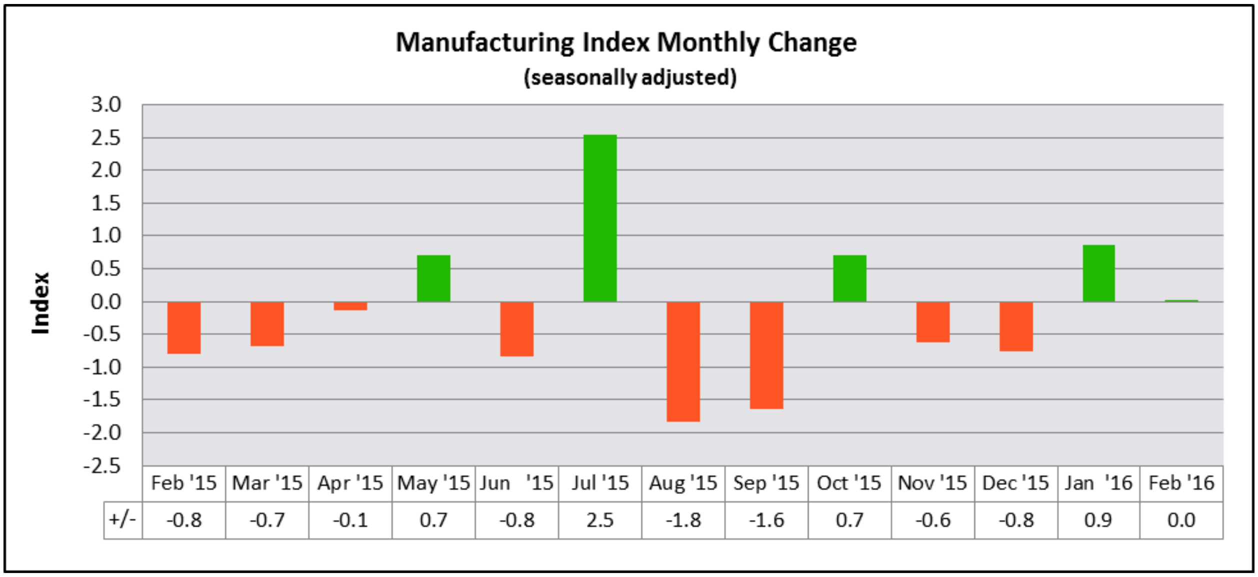
The sales category improved a little and that is good news, especially since the reading is firmly in the mid-50s. It went from 54.3 to 54.7. The bad news is that there was a drop in the new credit applications number as it went from 55.4 to 53.7. This is not shocking given the issues in the oil sector and in some of the other manufacturing communities, but this does not bode well for the future. There was improvement in the dollar collections reading as it moved from 55.9 to 56.2, but there was a reversal in amount of credit extended as this moved from 59.3 to 58.2. It was a month with both positive and negative developments but the down data reflected caution as far as issuing credit—fewer companies looking for credit and a more limited distribution of that credit.

There was similar variety in the unfavorable categories with some trending in a positive direction and some tracking in a more negative direction. The rejections of credit applications stayed just as it was last month at 52.4 and that is actually somewhat encouraging given the slide in the number of applications. The accounts placed for collection was also essentially unchanged as it went from 48.5 to 48.6 and that is another somewhat positive sign as it would suggest there has been some stability in terms of bad debt. The concern is that this reading remains in the contraction zone. The disputes category changed significantly as it moved from 47.1 to 49.8. This is a big jump and it is not quite clear why there have been fewer disputes recorded—enough of a shift to nearly take the category into the expansion zone. The news was not as good as far as dollar amount beyond terms as it dropped back into contraction territory with a reading that went from 50.3 to 49.6. There are more slow pays showing up and if that trend continues, there will be changes in terms of collection activity and even bankruptcies. The dollar amount of customer deductions rose very slightly as well—from 49.0 to 49.2 and the filings for bankruptcies remained close to what it had been the month before, but slightly down from 52.3 to 52.1

"The mixed readings are not dramatically different, but it has been enough to cause a little concern for the future and this month there were still four categories in the contraction zone and only two in expansion territory," Kuehl said.

Manufacturing Sector (seasonally adjusted)	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16
Sales	60.1	58.5	57.0	56.4	56.8	66.0	56.4	55.6	57.7	55.5	51.9	54.3	54.7
New credit applications	58.2	56.0	58.7	58.1	58.8	60.5	56.1	56.6	57.3	57.1	54.0	55.4	53.7
Dollar collections	57.1	57.1	57.0	55.1	58.2	59.4	57.8	56.7	56.4	55.6	55.0	55.9	56.2
Amount of credit extended	58.7	59.7	60.9	62.3	62.7	66.5	63.0	57.1	61.8	59.0	55.4	59.3	58.2
Index of favorable factors	**58.5**	**57.8**	**58.4**	**58.0**	**59.1**	**63.1**	**58.3**	**56.5**	**58.3**	**56.8**	**54.1**	**56.2**	**55.7**
Rejections of credit applications	52.5	53.5	53.2	53.0	49.5	52.6	51.8	51.5	51.5	52.0	54.1	52.4	52.4
Accounts placed for collection	51.8	51.4	50.8	51.6	48.3	49.7	50.7	48.5	49.5	48.6	49.3	48.5	48.6
Disputes	47.2	48.6	46.9	47.7	47.9	48.5	48.6	47.7	46.3	47.8	47.1	47.1	49.8
Dollar amount beyond terms	52.2	46.0	48.3	50.6	47.5	49.8	51.1	46.6	47.3	48.4	48.8	50.3	49.6
Dollar amount of customer deductions	48.7	48.7	45.7	48.7	49.8	48.6	48.8	49.2	48.5	47.9	47.6	49.0	49.2

Filings for bankruptcies	55.1	55.1	54.8	56.8	52.3	55.7	54.9	53.1	53.6	51.7	52.8	52.3	52.1
Index of unfavorable factors	**51.3**	**50.6**	**50.0**	**51.4**	**49.2**	**50.8**	**51.0**	**49.5**	**49.4**	**49.4**	**49.9**	**49.9**	**50.3**
NACM Manufacturing CMI	**54.2**	**53.5**	**53.3**	**54.0**	**53.2**	**55.7**	**53.9**	**52.3**	**53.0**	**52.3**	**51.6**	**52.5**	**52.5**



Service Sector

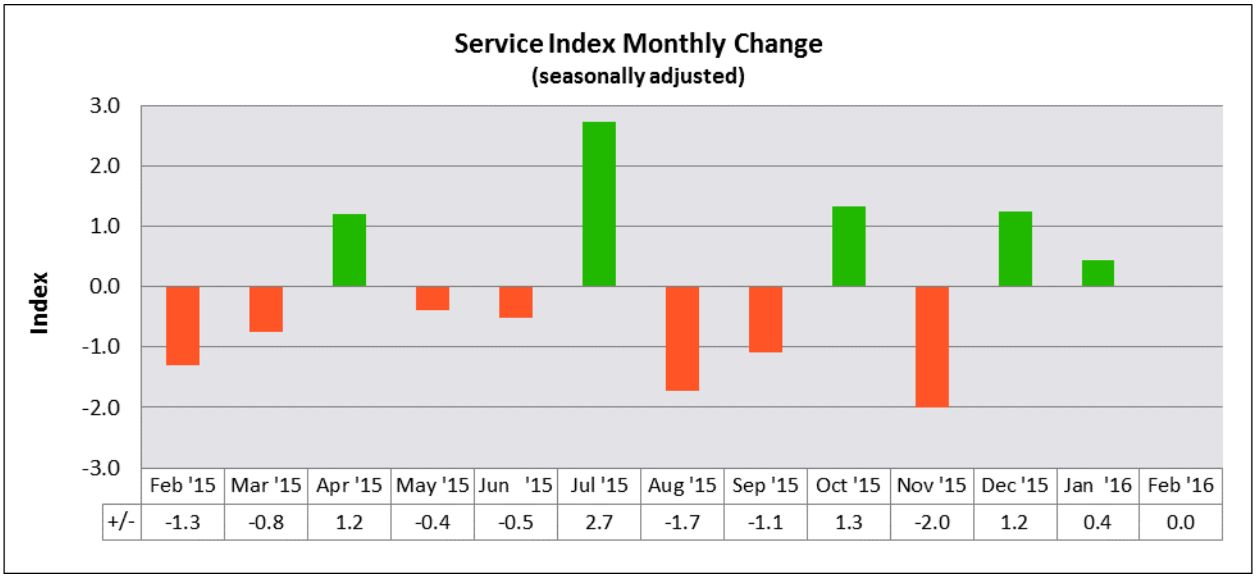
The service sector showed the same kind of continuity as the manufacturing readings did and for much the same reason. The variability was in the sub-index readings and they are all over the place. The challenge for services is that it is such a vast category with many unrelated sectors. “The total U.S. economy is heavily related to service, but the range is very broad—from the professional services such as accounting and banking and law to the lower-paid services such as retail work and food service,” Kuehl noted. “The CMI data tends to be weighted pretty strongly towards retail, construction and health care, but the other categories figure in as well.”

The combined score was the same as it was last month—54.5. That is a respectable position and firmly in the middle of the 50s. The distortions that come with the holiday season are well and truly over by this time and there have not been many other issues that have affected the retail community although the storms that have pounded the eastern seaboard have affected a large part of the population and this has been reflected in some of the numbers. The favorable factor reading improved from 60.2 to 61.5 and that is more than a little encouraging given that this reading is very definitely in the expansion category. The variability within the sub-categories remains significant. The combined score in the unfavorable category trended in the opposite direction and that is a little concerning as it slipped from 50.8 to 49.9—almost a full point drop.

The sales category improved from 57.4 to 58.8 and that is good to see after what many had been describing as an anemic holiday season. The gains in new credit applications were likewise encouraging and it seems that much of this was coming out of the construction sector as well as retail. The good news continues with the data on dollar collections as this has moved from 59.7 to 60.4 and finally there were gains in the amount of credit extended as it went from 62.7 to 64.1. The whole category was improving and in the right sense. The retail sector was not thrilled with the holiday season, but there have been some hopeful signs for the coming season and the access to credit points in a good direction. The expectation in the coming months is for more growth in the entertainment categories as the low price of gasoline is going to spur a lot more driving vacations and that means more hotels, meals and spending at entertainment venues.

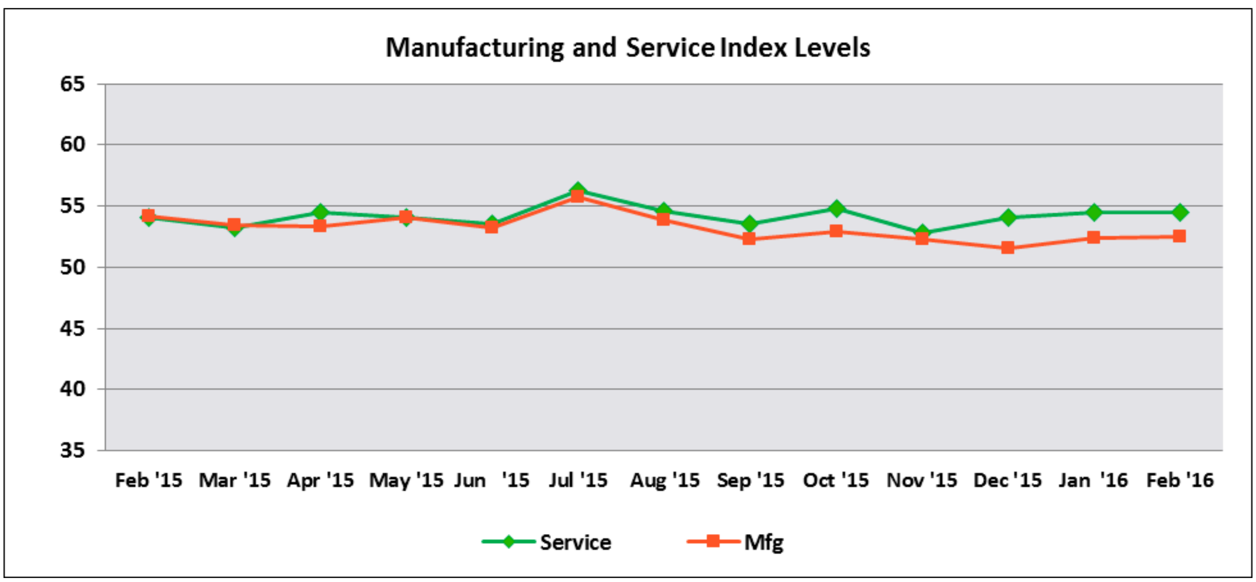
The bad news is showing up in the unfavorable categories. The rejections of credit applications category shifted down from 52.0 to 51.9, despite the fact there had been an increase in the number of applications and an increase in the amount of credit extended. This usually means that some of those applying for credit are not worthy of that credit and are rejected. These are often companies that are desperately hoping that somebody is willing to take a big risk on them. The accounts placed for collection category also slipped quite a bit—from 50.3 to 49.4, signaling that some companies are having some real issues. The disputes category also worsened and slipped from expansion to contraction by falling from 50.1 to 49.7. This is another sign of some distress in the sector and it would appear that most of that is in the retail category. The dollar amount beyond terms category slipped again—going from 46.8 to 45.5. This is deep in contraction territory and that is more than a little worrisome. There are many more companies that are falling far behind and becoming more than slow pays. The next stop on that train is real credit collection activity and there are some real fears that retail is going to take some big hits unless the consumer starts to get fully engaged soon. The category of dollar amount of customer deductions slipped into contraction as well by shifting from 50.0 to 49.8. The filings for bankruptcies data showed yet another decline and went from 55.3 to 53.1. Last month, there was only one category that had fallen into the contraction zone, but this month there are four of the six in contraction and that is hardly the trend that anyone wants to see. The question now is whether the good news in the favorable categories will be strong enough to pull the data forward in the unfavorable categories.

Service Sector (seasonally adjusted)	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16
Sales	57.7	58.3	61.1	57.9	56.3	64.3	59.5	57.2	58.9	56.5	58.1	57.4	58.8
New credit applications	57.8	57.1	58.5	58.9	62.2	61.0	59.3	59.5	60.5	58.9	58.8	60.9	62.7
Dollar collections	57.7	58.1	60.7	60.0	55.4	64.3	58.8	56.1	57.0	55.9	56.6	59.7	60.4
Amount of credit extended	62.3	61.5	64.4	61.8	66.3	66.3	63.1	63.2	65.6	63.1	63.4	62.7	64.1
Index of favorable factors	**58.9**	**58.7**	**61.2**	**59.6**	**60.0**	**64.0**	**60.2**	**59.0**	**60.5**	**58.6**	**59.2**	**60.2**	**61.5**
Rejections of credit applications	50.3	51.7	51.3	50.8	52.0	51.0	50.8	51.1	51.4	50.0	51.6	52.0	51.9
Accounts placed for collection	49.9	48.1	48.7	50.5	47.3	50.9	51.7	50.0	50.6	45.6	51.1	50.3	49.4
Disputes	50.4	49.4	47.5	48.4	48.5	51.3	50.4	47.4	50.7	49.0	50.0	50.1	49.7
Dollar amount beyond terms	44.7	45.1	49.2	50.7	46.1	48.5	47.5	47.4	48.4	46.3	47.3	46.8	45.5
Dollar amount of customer deductions	54.8	48.7	49.1	46.9	49.24	50.0	51.0	49.7	51.7	49.8	49.4	50.0	49.8
Filings for bankruptcies	54.9	55.0	54.3	55.1	52.6	55.6	54.0	53.6	53.6	53.2	54.5	55.3	53.1
Index of unfavorable factors	**50.8**	**49.7**	**50.0**	**50.4**	**49.3**	**51.2**	**50.9**	**49.9**	**51.1**	**49.0**	**50.6**	**50.8**	**49.9**
NACM Service CMI	**54.0**	**53.3**	**54.5**	**54.1**	**53.6**	**56.3**	**54.6**	**53.5**	**54.8**	**52.8**	**54.1**	**54.5**	**54.5**



February 2016 versus February 2015

"It doesn't get much flatter than this as the categories of manufacturing and service stayed right where they were the month before," Kuehl concluded. "This doesn't mean there was no activity, as the sub-index readings have been all over the place and this provides a lot of tension as far as determining where things go from here."



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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