Report for March 2016

Issued March 31, 2016

National Association of Credit Management

Combined Sectors

With baseball season here, it seems appropriate to point out that the National Association of Credit Management's Credit Managers' Index (CMI) did *not* strike out in March.

Over the last two months, there has been a slow comeback under way, but it was fragile and not guaranteed to last. The March CMI is up to 54.3, the best reading since July's 56. "This month, we get one of the strongest signals yet suggesting that there is really something to look forward to," said NACM Economist Chris Kuehl, Ph.D. "The combined score for this month's CMI is higher than it has been since July of last year and that takes us all the way back to the enthusiasm that surrounded last summer. This strong reading coincides with some other national data points that have been trending in a better direction—everything from industrial production to durable goods orders to some of the most recent transportation indicators," Kuehl noted. "It is always with some trepidation that forecasts are made, but the sense of the subindex data is that credit conditions are improving and that is always good for economic growth."

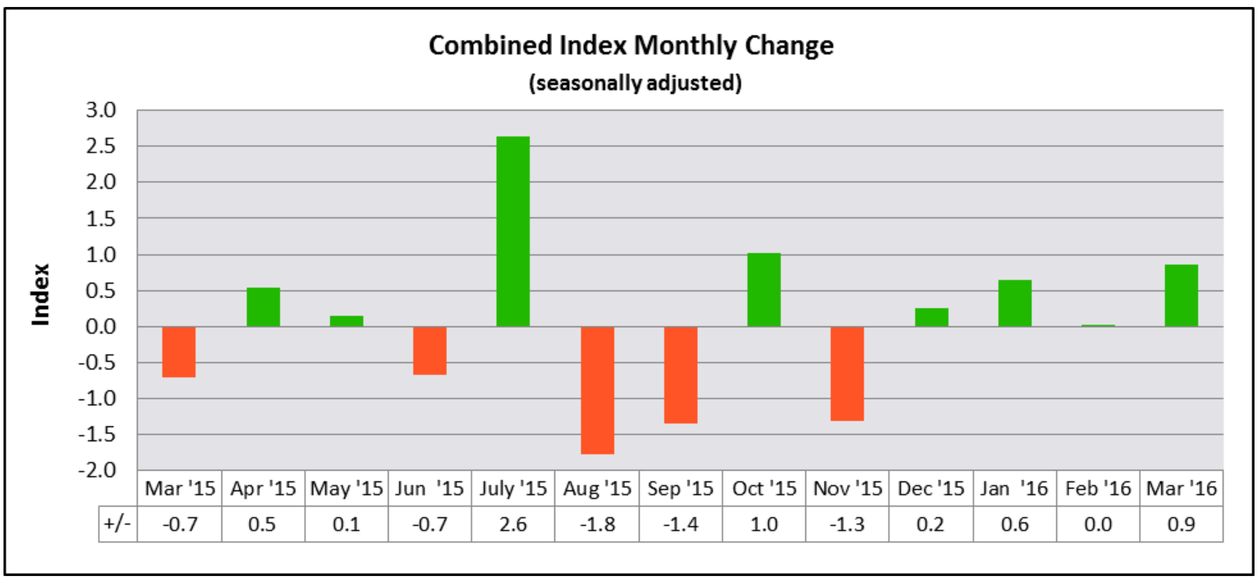
Favorable factors improved dramatically and have returned to the 60s for the first time since July. Just last month, the combined number was 58.6, and it has now jumped back to an even 60. All of the subindex readings improved significantly. The sales reading went from 56.8 to 59.2 and new credit applications improved from 58.2 to 59.8. There was a similar set of improved numbers with dollar collections, as it jumped from 58.3 to 59.6. Finally, there was a gain in the amount of credit extended as these numbers went from 61.2 to 61.7. "The data overall has not been this good since July of 2015, a time when expectations were high and reacting to the good news that emerged in the spring of that year," Kuehl said. "Remember that the Q2 GDP numbers in data often serves as a leading indicator given the role that credit plays in the economy. With that in mind, the future suddenly looks a bit brighter."

There was a similar gain in the unfavorable factors as far as combined scores are concerned, which is also good news in that it indicates companies are in less distress than was the case earlier. The combined score is 50.6—better than last month, but not drastically improved as far as recent trends are concerned—is up from 50.1 last month and 50.3 the month before. In truth, there has not been that much variability over the last year as the high point was reached in May and again in August when readings were at 50.9. The current reading is on the high side of what it has been this year.

There was a slight decline in the rejections of credit applications with a 51.2 reading that followed last month's 52.2. "This is data that can have alternative interpretations, as this may also mean that those that issue credit can be pickier than they were prior given they are seeing more applications," Kuehl noted. "More distressing is the fact that readings for accounts placed for collection went from 49 to 48.5 and that is not the direction that anybody wants to see." The disputes category improved from 49.7 to 50.8, suggesting that there is a sorting process under way as good accounts start to outweigh the troublesome ones. The category of dollar amount beyond terms got back in expansion territory by moving from 47.5 to 50.8, and this improvement was also seen in dollar amount of customer deductions, although that category has not yet busted out of the contraction category as it moved from 49.5 to 49.8. The filings for bankruptcies slipped from 52.6 to 52.2. That is a bit concerning, but the overall reading remains firmly in expansion territory.

"It is evident from the unfavorable numbers that there was some damage done to some in the business community by the sluggish start to the year, and that damage is still manifesting in the measures of financial distress such as collection and bankruptcies," Kuehl concluded. "The good news is that some of the negatives are improving. Only two categories remain in the contraction zone. Given the good numbers in the favorable categories this month, it is reasonable to expect better news next month in the unfavorable categories as well."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16
Sales	58.4	59.1	57.1	56.6	65.1	57.9	56.4	58.3	56.0	55.0	55.8	56.8	59.2
New credit applications	56.6	58.6	58.5	60.5	60.8	57.7	58.1	58.9	58.0	56.4	58.1	58.2	59.8
Dollar collections	57.6	58.8	57.5	56.8	61.9	58.3	56.4	56.7	55.7	55.8	57.8	58.3	59.6
Amount of credit extended	60.6	62.6	62.0	64.5	66.4	63.0	60.1	63.7	61.0	59.4	61.0	61.2	61.7
Index of favorable factors	**58.3**	**59.8**	**58.8**	**59.6**	**63.5**	**59.2**	**57.7**	**59.4**	**57.7**	**56.6**	**58.2**	**58.6**	**60.0**
Rejections of credit applications	52.6	52.3	51.9	50.8	51.8	51.3	51.3	51.4	51.0	52.8	52.2	52.2	51.2
Accounts placed for collection	49.8	49.8	51.1	47.8	50.3	51.2	49.3	50.0	47.1	50.2	49.4	49.0	48.5
Disputes	49.0	47.2	48.0	48.2	49.9	49.5	47.5	48.5	48.4	48.6	48.6	49.7	50.8
Dollar amount beyond terms	45.5	48.8	50.7	46.8	49.1	49.3	47.0	47.8	47.4	48.0	48.6	47.5	50.8
Dollar amount of customer deductions	48.7	47.4	47.8	49.5	49.3	49.9	49.4	50.1	48.9	48.5	49.5	49.5	49.8
Filings for bankruptcies	55.1	54.6	56.0	52.5	55.6	54.4	53.3	53.6	52.5	53.7	53.8	52.6	52.2
Index of unfavorable factors	**50.1**	**50.0**	**50.9**	**49.2**	**51.0**	**50.9**	**49.7**	**50.2**	**49.2**	**50.3**	**50.3**	**50.1**	**50.6**
NACM Combined CMI	**53.4**	**53.9**	**54.1**	**53.4**	**56.0**	**54.2**	**52.9**	**53.9**	**52.6**	**52.8**	**53.5**	**53.5**	**54.3**



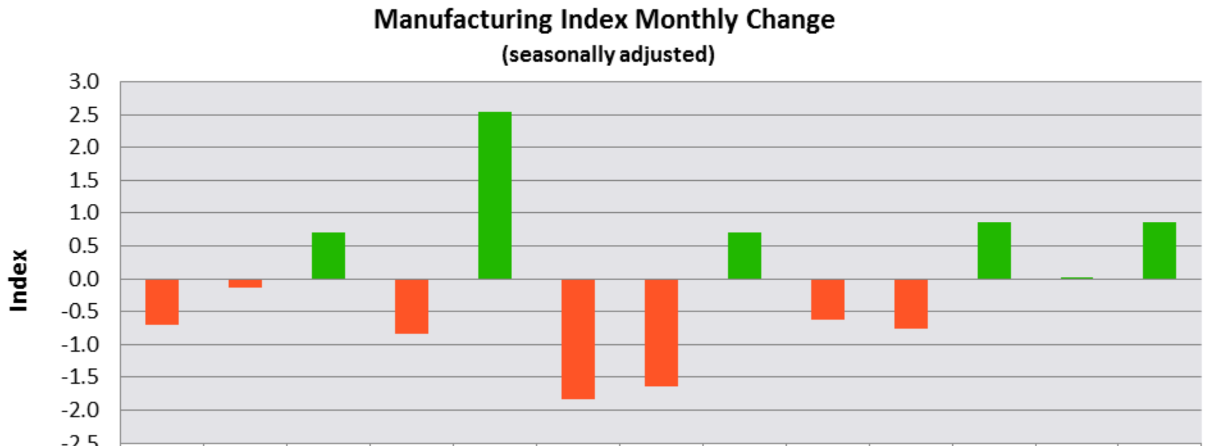
Manufacturing Sector

The data for the manufacturing sector mirrored the overall numbers, which seems to be consistent with some of the other national data that have measured the manufacturer of late. This is good news in general, but it is an even bigger deal given all the headwinds that have been affecting the sector of late—everything from the collapse of the oil sector to the reduction in export volume due to the high value of the dollar and the weakness of many of the traditional U.S. trading partners. The combined score for the sector was 53.3, as high a mark as been the case since August. It is not a massive leap from February and July tracked much more favorably (55.7), showing there remains a distance to travel. Still, the path seems right.

The favorable numbers showed the biggest gains as in the overall CMI. The index of favorable factors went from 55.7 to 58.2, which is a meaningful gain. The subindex readings are even more suggestive. The category of sales improved from 54.7 to 57.6. “This is worth lingering on for a moment as this has shown improvement despite the bottom dropping out of the oil patch,” said Kuehl. “This means that other manufacturing sectors are picking up the slack quite nicely.” The new credit applications reading also scored a nice gain as it went from 53.7 to 56.8. The dollar collections index improved significantly, from 56.2 to 58.2. The amount of credit extended reached the desirable 60 level again for the first time since October by shifting from 58.2 to 60.2. This is as good as these readings have been in months and that bodes well for the future.

There have not been significant gains as far as the unfavorable numbers are concerned, nothing like the gains in the favorable categories. The combined score is 50.1, up from 50.3 last month. “There is obviously some financial distress to work through in the manufacturing community,” Kuehl explained. The rejections of credit applications fell from 52.4 to 51.1 and that may signal that credit issuers have more to choose from and have become that much pickier than was the case previously. The accounts placed for collection slipped as well and remains in contraction territory as it went from 48.6 to 48.2. There was also decline in the disputes category as it went from 49.8 to 49.4. These are not awful numbers, but there is clearly distress and it seems that recovery will remain in the somewhat distant future at this pace. The dollar amount beyond terms reading improved quite a lot and seems to be responsible for almost all the gains in the unfavorable category as it went from 49.6 to 51.9. The slow pays are either catching up or they are sinking into further crisis. The dollar amount of customer deductions slipped a bit as well as it went from 49.2 to 48.2. The filings for bankruptcies also declined from 52.1 to 51.6. Right now, there is little or no improvement manifesting as three of the six categories continue to fall short of expansion territory. That is slightly better than last month though, as four of the six were trending negatively. It is hoped that the gains in the favorable numbers will help alter the course of the unfavorable numbers next month.

Manufacturing Sector (seasonally adjusted)	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16
Sales	58.5	57.0	56.4	56.8	66.0	56.4	55.6	57.7	55.5	51.9	54.3	54.7	57.6
New credit applications	56.0	58.7	58.1	58.8	60.5	56.1	56.6	57.3	57.1	54.0	55.4	53.7	56.8
Dollar collections	57.1	57.0	55.1	58.2	59.4	57.8	56.7	56.4	55.6	55.0	55.9	56.2	58.2
Amount of credit extended	59.7	60.9	62.3	62.7	66.5	63.0	57.1	61.8	59.0	55.4	59.3	58.2	60.2
Index of favorable factors	**57.8**	**58.4**	**58.0**	**59.1**	**63.1**	**58.3**	**56.5**	**58.3**	**56.8**	**54.1**	**56.2**	**55.7**	**58.2**
Rejections of credit applications	53.5	53.2	53.0	49.5	52.6	51.8	51.5	51.5	52.0	54.1	52.4	52.4	51.1
Accounts placed for collection	51.4	50.8	51.6	48.3	49.7	50.7	48.5	49.5	48.6	49.3	48.5	48.6	48.2
Disputes	48.6	46.9	47.7	47.9	48.5	48.6	47.7	46.3	47.8	47.1	47.1	49.8	49.4
Dollar amount beyond terms	46.0	48.3	50.6	47.5	49.8	51.1	46.6	47.3	48.4	48.8	50.3	49.6	51.9
Dollar amount of customer deductions	48.7	45.7	48.7	49.8	48.6	48.8	49.2	48.5	47.9	47.6	49.0	49.2	48.2
Filings for bankruptcies	55.1	54.8	56.8	52.3	55.7	54.9	53.1	53.6	51.7	52.8	52.3	52.1	51.6
Index of unfavorable factors	**50.6**	**50.0**	**51.4**	**49.2**	**50.8**	**51.0**	**49.5**	**49.4**	**49.4**	**49.9**	**49.9**	**50.3**	**50.1**
NACM Manufacturing CMI	**53.5**	**53.3**	**54.0**	**53.2**	**55.7**	**53.9**	**52.3**	**53.0**	**52.3**	**51.6**	**52.5**	**52.5**	**53.3**



	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16
+/-	-0.7	-0.1	0.7	-0.8	2.5	-1.8	-1.6	0.7	-0.6	-0.8	0.9	0.0	0.9

Service Sector

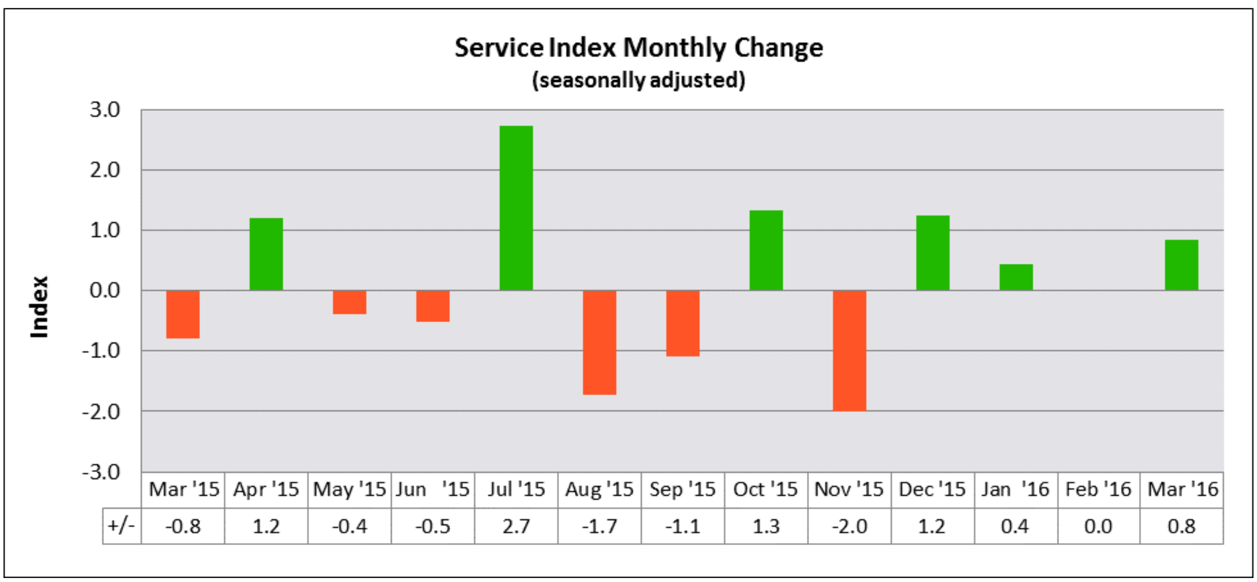
The service sector story is much the same as is the case with manufacturing as the favorable data is improving quite a lot and the unfavorable categories are not as impressive. The good news is the trends are improving and at a time of year when there is not all that much driving some of the important sectors in service. "This is a vast category (service accounts for close to 80% of the U.S. economy) and it requires some teasing out of the overall data," Kuehl noted. "This is not a boom time for the retail community as Easter is not the consumer driver that Christmas generally is. On the other hand, there is more activity in the construction sector, which gets picked up in the data."

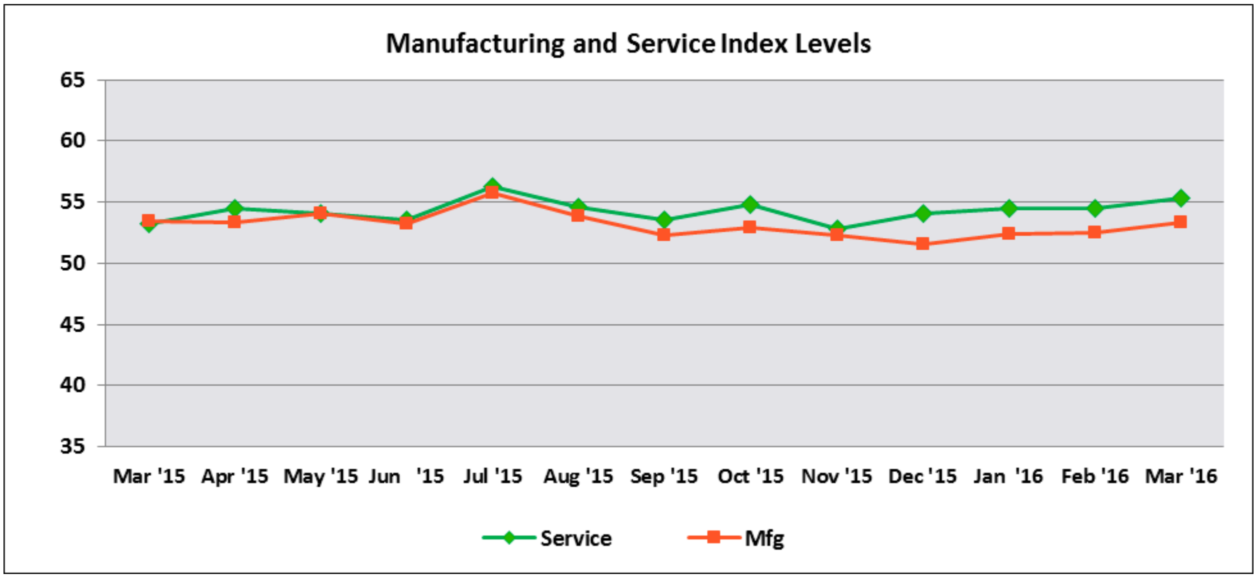
The overall score improved from 54.5 to 55.4. That is better than it has been since July (that *was* a very good month, wasn't it?). The favorable numbers improved from 61.5 to 61.9 and this month all the factors have been above 60 – the first time that has happened since, you guessed it, July. The sales category moved from 58.8 to 60.7 – only the third time in a year that numbers here have been above 60. The category of new credit applications went up slightly from 62.7 to 62.8—not a big gain, but the important part is that this is well above the 60 line. The dollar collections data improved a good bit as it went from 60.4 to 61.0, but there was not a similar gain in the amount of credit extended as this reading went from 64.1 to 63.1. It seems that there are more applicants, but as will be revealed in the unfavorable data, there has not been eagerness to offer credit. There are still some shaky signs as far as consumers are concerned and that worries the retail community.

The unfavorable combined score improved more than was the case with manufacturing. It is now out of contraction territory and by a significant amount. It was at 49.9 and is now at 51.0. This is certainly not comfortably in the expansion zone, but it hasn't been this high since October of last year. There was a slight retreat where rejections of credit applications was concerned, as it went from 51.9 to 51.4. The accounts placed for collection showed more stress as these numbers went from 49.4 to 48.8. This is not a trend that anyone is eager to see as collections are generally seen as a last resort on the part of those that issue credit. The disputes category improved quite a bit, and that is another hopeful sign. It was in contraction territory at 49.7 but now is at 52.3. Kuehl explained it by saying, "This is a substantial improvement and suggests that some credit issuers are separating customers into those they can work with and those they can no longer negotiate with." The dollar amount beyond terms category remains in the contraction zone, but there was a big improvement over last month's reading. It was deep in contraction territory at 45.5 and is now starting to climb out at 49.6. The dollar amount of customer deductions broke back into expansion territory by moving from 49.8 to 51.3 and that is certainly a positive move. The filings for bankruptcies slipped a little, but stayed in the expansion zone. It was 53.1 and is now 52.9.

The overall sense in the service sector is the same as for the total index. Big improvements are being seen in the favorable categories and these are the ones pointing to a better future. It appears that gains the unfavorable categories will be further down the road, but perhaps not all that far if this most recent data is any indication.

Service Sector (seasonally adjusted)	**Mar '15**	**Apr '15**	**May '15**	**Jun '15**	**Jul '15**	**Aug '15**	**Sep '15**	**Oct '15**	**Nov '15**	**Dec '15**	**Jan '16**	**Feb '16**	**Mar '16**
Sales	58.3	61.1	57.9	56.3	64.3	59.5	57.2	58.9	56.5	58.1	57.4	58.8	60.7
New credit applications	57.1	58.5	58.9	62.2	61.0	59.3	59.5	60.5	58.9	58.8	60.9	62.7	62.8
Dollar collections	58.1	60.7	60.0	55.4	64.3	58.8	56.1	57.0	55.9	56.6	59.7	60.4	61.0
Amount of credit extended	61.5	64.4	61.8	66.3	66.3	63.1	63.2	65.6	63.1	63.4	62.7	64.1	63.1
Index of favorable factors	**58.7**	**61.2**	**59.6**	**60.0**	**64.0**	**60.2**	**59.0**	**60.5**	**58.6**	**59.2**	**60.2**	**61.5**	**61.9**
Rejections of credit applications	51.7	51.3	50.8	52.0	51.0	50.8	51.1	51.4	50.0	51.6	52.0	51.9	51.4
Accounts placed for collection	48.1	48.7	50.5	47.3	50.9	51.7	50.0	50.6	45.6	51.1	50.3	49.4	48.8
Disputes	49.4	47.5	48.4	48.5	51.3	50.4	47.4	50.7	49.0	50.0	50.1	49.7	52.3
Dollar amount beyond terms	45.1	49.2	50.7	46.1	48.5	47.5	47.4	48.4	46.3	47.3	46.8	45.5	49.6
Dollar amount of customer deductions	48.7	49.1	46.9	49.24	50.0	51.0	49.7	51.7	49.8	49.4	50.0	49.8	51.3
Filings for bankruptcies	55.0	54.3	55.1	52.6	55.6	54.0	53.6	53.6	53.2	54.5	55.3	53.1	52.9
Index of unfavorable factors	**49.7**	**50.0**	**50.4**	**49.3**	**51.2**	**50.9**	**49.9**	**51.1**	**49.0**	**50.6**	**50.8**	**49.9**	**51.0**
NACM Service CMI	**53.3**	**54.5**	**54.1**	**53.6**	**56.3**	**54.6**	**53.5**	**54.8**	**52.8**	**54.1**	**54.5**	**54.5**	**55.4**





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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