Report for May 2016

Issued May 31, 2016

National Association of Credit Management

Combined Sectors

News from NACM's Credit Managers' Index (CMI) continues to be solid heading into mid-year with a May reading of 53.8; now other key economic indicators are finally starting to mirror the predictive monthly index.

It has been suggested that the CMI is often a more predictive economic indicator than most simply because the credit management function is fundamentally forward looking. The average credit manager doesn't much care if a business is doing all that well today compared with how well it will be doing in 60, 90 or 120 days, whenever payment is due, said NACM Economist Chris Kuehl, Ph.D. Lately, there have been some signs of life in data as varied as the Purchasing Managers' Index, durable goods orders, retail sales, employment and others. The CMI started to show this as early as the first of the year.

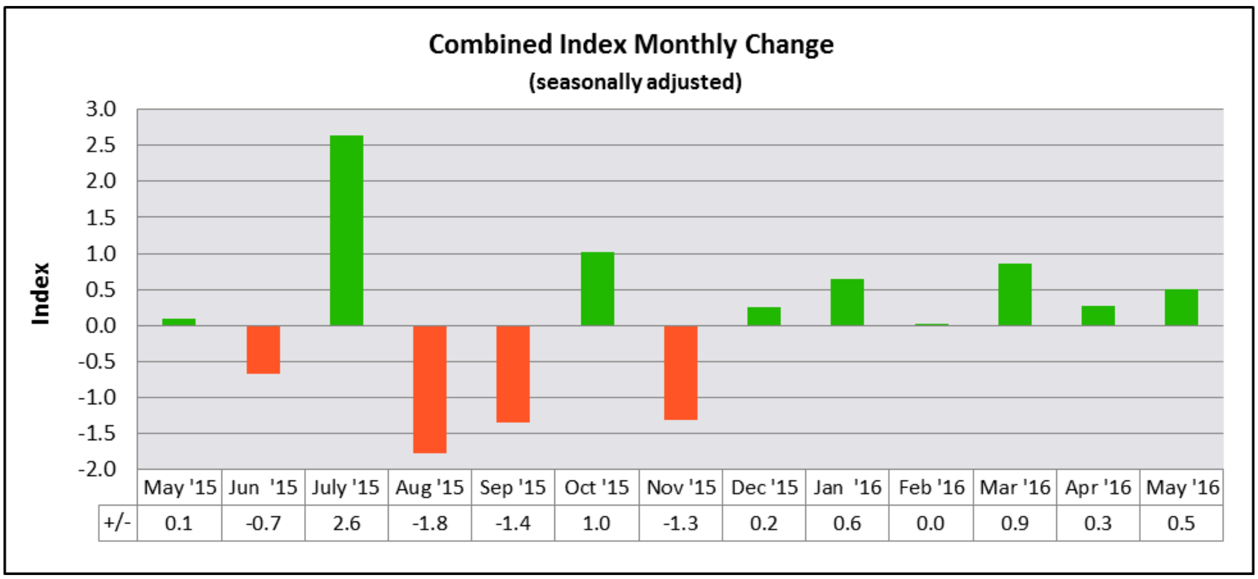
The May reading is not as strong as in the past two months, including April's calendar year high of 54.6, but the combined index remains comfortably above contraction (anything below 50).

The favorable factors categories slipped a little to a total of 57.9. The grouping remains at the high side of the 50s and not troublingly far from last month's 59.2. Three of the four components of the favorable index slumped a little. The sales numbers went from 59.8 to 56.7, which takes the data back below February's pace. New credit applications declined from 58.5 to 56.6, its lowest point since December. There was a very minor adjustment in the dollar collections, as the category moved from 57.5 to 57.4. These are still very good numbers and signal that there are creditors striving to bring their accounts current. "The one ray of sunshine in all this is the amount of credit extended, as it improved from 60.9 to 61," Kuehl noted "Those that are seeking credit are seeking quite a bit of it. That suggests the larger companies are the ones looking for more credit."

The combined unfavorable factors rankings also declined, but at a relatively minor rate. The numbers are still above the 50 mark, but many remain in the expansion area by very narrow margins. The rejections of credit applications category slipped from 52.2 to 51.9, seemingly mirroring the slide in the number of applications. Accounts placed for collection also dropped, but not by much. April's 50.9 reading fell to 50.5. The disputes category stayed flat at 50.8. The reading for the dollar amount beyond terms did, however, sink into the contraction zone with a reading of 49.2. The good news is that this is the only category that tracked below 50. The dollar amount of customer deductions also stayed consistent with April's reading (50.7)—yet another case of hanging on to the expansion zone by very narrow margins. The category of filings for bankruptcy dipped a little, but it managed to stay comfortably in the expansion zone with a reading of 53 after hitting 53.8 last month.

The news in May was not quite as exciting as it was last month. Some concerns exist that the growth trend may have peaked and could start to reverse in the coming months. The good news is that almost all of the numbers are in the expansion category, with most of the favorable factors firmly so. The majority of the good data are found in the favorable categories. "That is still the best news, as this is what points to the future," said Kuehl. "Improvements in the unfavorable categories have been harder to obtain, but at least the numbers seem to have steadied. It was only a few months ago that readings were consistently in the 40s. There have only been three months with numbers above 51, and this month was one of them."

Combined Manufacturing and Service Sectors (seasonally adjusted)	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16
Sales	57.1	56.6	65.1	57.9	56.4	58.3	56.0	55.0	55.8	56.8	59.2	59.8	56.7
New credit applications	58.5	60.5	60.8	57.7	58.1	58.9	58.0	56.4	58.1	58.2	59.8	58.5	56.6
Dollar collections	57.5	56.8	61.9	58.3	56.4	56.7	55.7	55.8	57.8	58.3	59.6	57.5	57.4
Amount of credit extended	62.0	64.5	66.4	63.0	60.1	63.7	61.0	59.4	61.0	61.2	61.7	60.9	61.0
Index of favorable factors	58.8	**59.6**	**63.5**	**59.2**	**57.7**	**59.4**	**57.7**	**56.6**	**58.2**	**58.6**	**60.0**	**59.2**	**57.9**
Rejections of credit applications	51.9	50.8	51.8	51.3	51.3	51.4	51.0	52.8	52.2	52.2	51.2	52.2	51.9
Accounts placed for collection	51.1	47.8	50.3	51.2	49.3	50.0	47.1	50.2	49.4	49.0	48.5	50.9	50.5
Disputes	48.0	48.2	49.9	49.5	47.5	48.5	48.4	48.6	48.6	49.7	50.8	50.8	50.8
Dollar amount beyond terms	50.7	46.8	49.1	49.3	47.0	47.8	47.4	48.0	48.6	47.5	50.8	51.2	49.2
Dollar amount of customer deductions	47.8	49.5	49.3	49.9	49.4	50.1	48.9	48.5	49.5	49.5	49.8	50.7	50.7
Filings for bankruptcies	56.0	52.5	55.6	54.4	53.3	53.6	52.5	53.7	53.8	52.6	52.2	53.8	53.0
Index of unfavorable factors	**50.9**	**49.2**	**51.0**	**50.9**	**49.7**	**50.2**	**49.2**	**50.3**	**50.3**	**50.1**	**50.6**	**51.6**	**51.0**
NACM Combined CMI	**54.1**	**53.4**	**56.0**	**54.2**	**52.9**	**53.9**	**52.6**	**52.8**	**53.5**	**53.5**	**54.3**	**54.6**	**53.8**



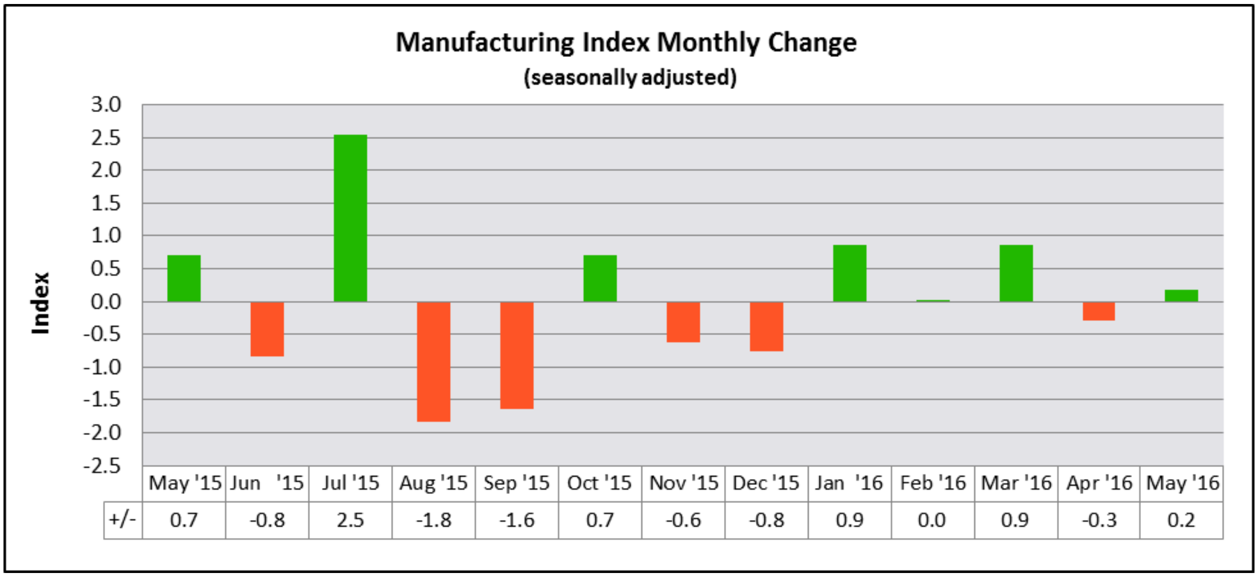
Manufacturing Sector

This has been an odd period for manufacturing data nationwide. "There have been some areas of solid improvement and others that are showing real distress," Kuehl said. It has been a tale of variation between industries." The oil and gas sector remains in the doldrums, although there have been some signs of life lately, as the price per barrel has started to recover. There have been some improvements in terms of capital investment, and data from the CMI seem to reflect that. The combined index is very close last month's number, moving from 53 to 53.2. The index of the favorable factors also slipped, but only very slightly from 56.2 to 56. The subsectors showed some movement, but the overall impact was more positive than negative. Sales numbers took a substantial fall from 56.3 to 53.9. That is as low as it has been since December of last year and could pose a concern if the trend continues into subsequent months. New credit applications actually improved, a very encouraging sign as far as future activity. It was at 55.3 last month and is now at 56.8. The dollar collections number also saw gains. That it moved from 54.9 to 55 suggests that creditors are staying current and may even be trying to catch up a little. The amount of credit extended went unchanged from April's reading of 58.4.

The combined reading for the unfavorable index improved this month, which is quite good news. It would indicate that many creditors are starting to some improved conditions. Some other manufacturing data of late reinforces this. Last month's 50.9 is now sitting at a better position (51.3). There was considerable variability with the subsectors. The rejections of credit applications category was almost what it was the month before, as it went from 51.8 to 51.7. Accounts placed for collection improved from 50.3 to 51.8, taking these numbers to their strongest showing in more than a year. It is good to see the level of distress reduced for categories that spent many recent months in the contraction zone. The disputes category also surged from 48.7 to 50.7. This is the first time in well over a year for the category to get out of contraction. Dollar amount beyond terms slipped from 51.4 to 50.1, which is a little distressing because the slow pay is something likely to be more problematic later. Dollar amount of customer deductions improved from 49.5 to 51.4 and left the 40s for the first time more than a year. The filings for bankruptcies category slipped from 53.7 to 52.1, but it appears that the majority of this activity has been either the oil and gas sector or in retail where there has been turmoil caused by faltering department stores.

This month has featured some pretty good news for the manufacturer. "There may not be all that much growth as indicated by the data in the favorable index, but the improved conditions in the creditor community shows up in the unfavorable data and in a substantial way," Kuehl noted.

Manufacturing Sector (seasonally adjusted)	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16
Sales	56.4	56.8	66.0	56.4	55.6	57.7	55.5	51.9	54.3	54.7	57.6	56.3	53.9
New credit applications	58.1	58.8	60.5	56.1	56.6	57.3	57.1	54.0	55.4	53.7	56.8	55.3	56.8
Dollar collections	55.1	58.2	59.4	57.8	56.7	56.4	55.6	55.0	55.9	56.2	58.2	54.9	55.0
Amount of credit extended	62.3	62.7	66.5	63.0	57.1	61.8	59.0	55.4	59.3	58.2	60.2	58.4	58.4
Index of favorable factors	**58.0**	**59.1**	**63.1**	**58.3**	**56.5**	**58.3**	**56.8**	**54.1**	**56.2**	**55.7**	**58.2**	**56.2**	**56.0**
Rejections of credit applications	53.0	49.5	52.6	51.8	51.5	51.5	52.0	54.1	52.4	52.4	51.1	51.8	51.7
Accounts placed for collection	51.6	48.3	49.7	50.7	48.5	49.5	48.6	49.3	48.5	48.6	48.2	50.3	51.8
Disputes	47.7	47.9	48.5	48.6	47.7	46.3	47.8	47.1	47.1	49.8	49.4	48.7	50.7
Dollar amount beyond terms	50.6	47.5	49.8	51.1	46.6	47.3	48.4	48.8	50.3	49.6	51.9	51.4	50.1
Dollar amount of customer deductions	48.7	49.8	48.6	48.8	49.2	48.5	47.9	47.6	49.0	49.2	48.2	49.5	51.4
Filings for bankruptcies	56.8	52.3	55.7	54.9	53.1	53.6	51.7	52.8	52.3	52.1	51.6	53.7	52.1
Index of unfavorable factors	**51.4**	**49.2**	**50.8**	**51.0**	**49.5**	**49.4**	**49.4**	**49.9**	**49.9**	**50.3**	**50.1**	**50.9**	**51.3**
NACM Manufacturing CMI	**54.0**	**53.2**	**55.7**	**53.9**	**52.3**	**53.0**	**52.3**	**51.6**	**52.5**	**52.5**	**53.3**	**53.0**	**53.2**



Service Sector

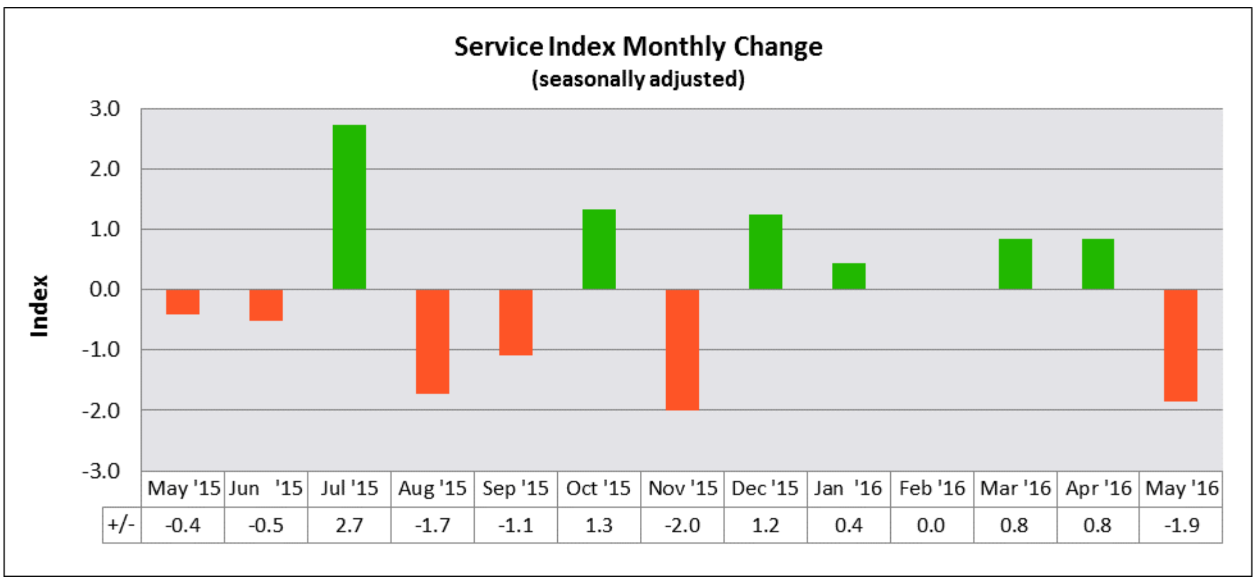
In April, the service sector was where the growth was. This month, however, it is showing the most distress. “The change in fortunes may be related to some of the consumer confidence issues that have been building for the past several months,” Kuehl explained. “The retail community has been taking its hits this spring and there was a bit of slowdown in some of the construction sectors.”

The combined service sector readings fell significantly, from 56.2 to 54.4. Although not quite catastrophic at first blush, these numbers were at roughly the same level at the end of last year and the first two months of this year. It only started to reach higher levels a couple of months ago. Readings for the favorable factors dropped, but not drastically, from 62.1 to 59.9. The subsectors showed some variation, as sales dropped from the 63.2 level seen last month to 59.5 in May. New credit applications also fell from 61.8 to 56.5, which may be the biggest cause for concern as it seems to indicate a possible a lull in credit interest. Dollar collections numbers slumped slightly as well, down from 60.0 to 59.8. There was actually an improved reading for amount of credit extended. This usually indicates that the larger companies are seeking more credit as they seek to expand or buy inventory.

The combined score for the unfavorable index is a bigger concern because the decline was more precipitous. It moved from a fairly comfortable expansion position (52.3) to a level barely above the contraction zone (50.7). This is a low since February. While it is no reason for panic, it is something to keep an eye on. The subsectors showed much variability as well. The rejections of credit applications declined from 52.6 to 52 leaves the category in respectable territory. Accounts placed for collection shrank quite a bit, from 51.6 to 49.2 and is now sitting in contraction territory. Clearly some companies are getting in trouble as the pace of economic growth remains sluggish. The disputes reading also weakened from 52.9 to 50.8, which is far too close to sliding into the contraction zone given that disputes often lead to collection efforts. The dollar amount beyond terms reading also fell out of expansion territory, from 51.1 to 48.4. Although this level is about normal for the past year, the data recently have been improving. There was some expectation that the trend would continue. Dollar amount of customer deductions fell to the brink of contraction, moving from last month’s 51.8 to 50.1. Filings for bankruptcies held close to steady with a reading of 53.8, down 0.1 from April. Of the six categories, two are in contraction, which sets the survey back to March levels.

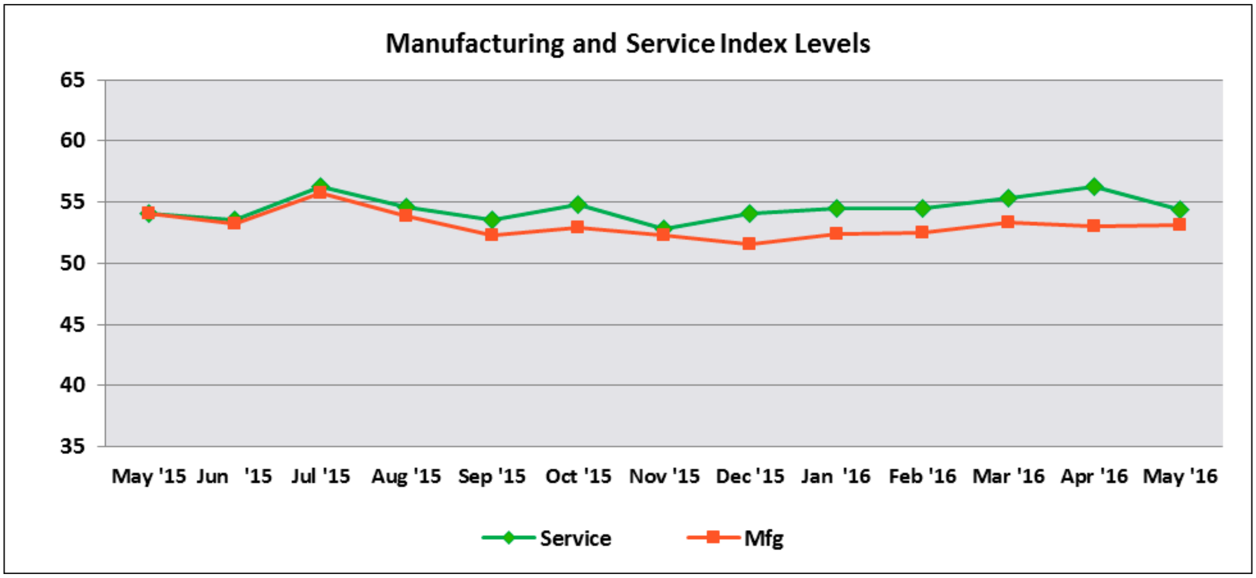
“The major factor seen as responsible for the decline is the slack performance of the retail sector,” Kuehl concluded. “The consumer has shown willingness to buy some things but not others. That has caused some level of decline across the board. Construction seems to be holding its own but is not expanding as it did much of last year.”

Service Sector (seasonally adjusted)	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16
Sales	57.9	56.3	64.3	59.5	57.2	58.9	56.5	58.1	57.4	58.8	60.7	63.2	59.5
New credit applications	58.9	62.2	61.0	59.3	59.5	60.5	58.9	58.8	60.9	62.7	62.8	61.8	56.5
Dollar collections	60.0	55.4	64.3	58.8	56.1	57.0	55.9	56.6	59.7	60.4	61.0	60.0	59.8
Amount of credit extended	61.8	66.3	66.3	63.1	63.2	65.6	63.1	63.4	62.7	64.1	63.1	63.5	63.6
Index of favorable factors	**59.6**	**60.0**	**64.0**	**60.2**	**59.0**	**60.5**	**58.6**	**59.2**	**60.2**	**61.5**	**61.9**	**62.1**	**59.9**
Rejections of credit applications	50.8	52.0	51.0	50.8	51.1	51.4	50.0	51.6	52.0	51.9	51.4	52.6	52.0
Accounts placed for collection	50.5	47.3	50.9	51.7	50.0	50.6	45.6	51.1	50.3	49.4	48.8	51.6	49.2
Disputes	48.4	48.5	51.3	50.4	47.4	50.7	49.0	50.0	50.1	49.7	52.3	52.9	50.8
Dollar amount beyond terms	50.7	46.1	48.5	47.5	47.4	48.4	46.3	47.3	46.8	45.5	49.6	51.1	48.4
Dollar amount of customer deductions	46.9	49.24	50.0	51.0	49.7	51.7	49.8	49.4	50.0	49.8	51.3	51.8	50.1
Filings for bankruptcies	55.1	52.6	55.6	54.0	53.6	53.6	53.2	54.5	55.3	53.1	52.9	53.8	53.9
Index of unfavorable factors	**50.4**	**49.3**	**51.2**	**50.9**	**49.9**	**51.1**	**49.0**	**50.6**	**50.8**	**49.9**	**51.0**	**52.3**	**50.7**
NACM Service CMI	**54.1**	**53.6**	**56.3**	**54.6**	**53.5**	**54.8**	**52.8**	**54.1**	**54.5**	**54.5**	**55.4**	**56.2**	**54.4**



May 2016 versus May 2015

In the grand scheme of things, the pattern is still one that favors growth. However, the pace has slowed and the relative positions have switched, with the manufacturing sector generally doing better than the service sector.



Methodology Appendix

CMI data have 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.*

N A C M
National Association of Credit Management

About the National Association of Credit Management

NACM, headquartered in Columbia, MD, 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 & 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.

Source: National Association of Credit Management

Contacts: Ainslee Sadler, 410-740-5560
Angela Culver, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National