Report for June 2016

Issued June 30, 2016

National Association of Credit Management

Combined Sectors

That nice little run of steady improvement in NACM's Credit Managers' Index seems to have come to an end, or at least it has stalled. Although there has been no collapse, as the overall numbers in June remained in the expansion zone, they are falling again. The combined reading for the CMI slipped from May's 53.8 to 52.7, the lowest it has been since November's 52.6.

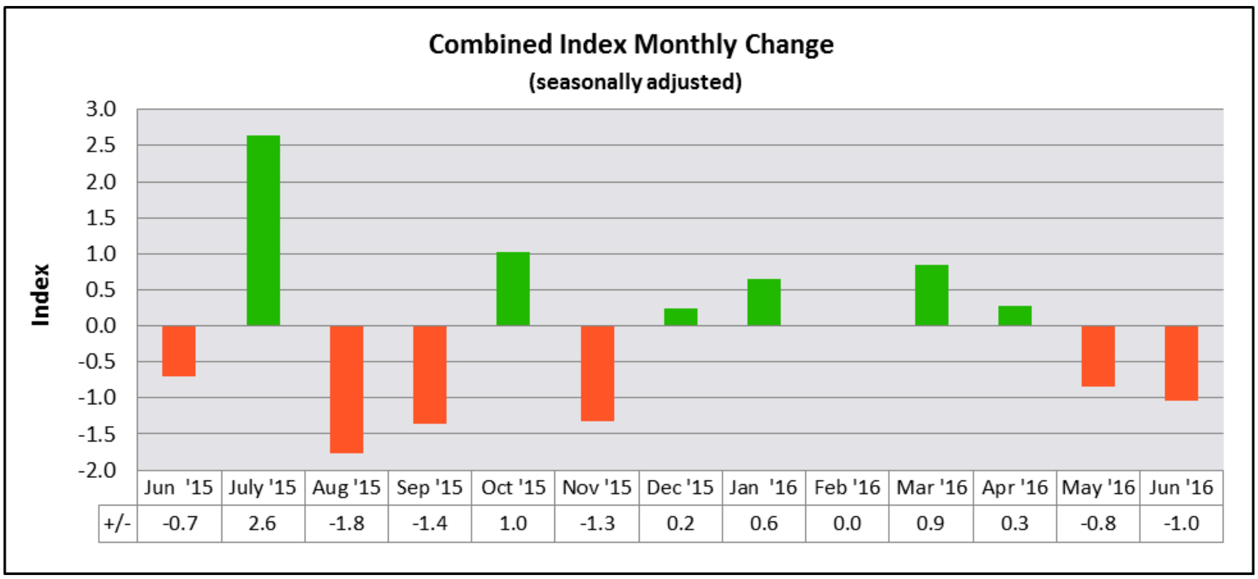
Since data have all been collected prior to the Brexit vote explosion, all eyes will be on the data coming in a month or so. "There may or may not be an immediate impact as the details of the divorce are still being worked out," said NACM Economist Chris Kuehl, Ph.D. "What is known thus far is that the markets lost $3 trillion in just over 48 hours and credit access has tightened accordingly. The first place a crisis is likely to show up will be in the unfavorable factors as companies that have exposure to the U.K. or Europe will possibly see more disputes, need for collection action and bankruptcies."

Since November, CMI readings have been close to 54, so this is not a catastrophic decline. Nonetheless, it is concerning. The favorable factors categories remained in pretty good shape with a 57 mark. The damage is still most apparent in the unfavorable factors, where this month's reading was down to 49.9 from May's 51. As is always the case, the interesting story is in the details.

In the favorable categories, the movement in sales was minor, going from 56.7 to 56.9. The point is that this was movement in the right direction. Granted, the sales performance was in the 59 range just a month or two ago, so there remains lots of room for improvement. The new credit applications grouping held firm from last month, but that is still lower than any point since December of last year. Dollar collections shifted very slightly from 57.4 to 57.1, which is close to what it has been for the bulk of the year (although it hit 61.9 in July of 2015). The amount of credit extended category fell further than the other readings, to 61 from 57.6—a rather significant drop. "This may signal one of two things," noted Kuehl. "Either there has been a reduction in the amount of credit requested or the credit is not available at the same level as before. Given where the data is coming from, it seems more likely that there has been a decline in requested credit."

The unfavorable categories in the CMI show the most strain. There was a small drop in the category of rejections of credit applications from 51.9 to 51.2. "This reading is part of why it has been assumed that there has been less credit requested rather than less credit offered," explained Kuehl. "If there was a reluctance to offer more credit, it would likely have started to show up here." The accounts placed for collection category took a fall from 50.5 to 48.8, the lowest point since March. The disputes reading also slipped back into the contraction zone, moving from 50.8 to 49.5. The 49 reading for dollar amount beyond terms was nearly the same as it was last month, but that is also below the contraction line. Dollar amount of customer deductions also tumbled into contraction territory, as it went from 50.7 to 49.6. Filings for bankruptcies avoided slipping out of the expansion zone, but did recede to where it was significant, from 53.0 to 51.1. The only other unfavorable category sitting outside of the contraction zone is rejections of credit applications. Not since last year have there been at least four of the unfavorable categories in contraction.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16
Sales	56.6	65.1	57.9	56.4	58.3	56.0	55.0	55.8	56.8	59.2	59.8	56.7	56.9
New credit applications	60.5	60.8	57.7	58.1	58.9	58.0	56.4	58.1	58.2	59.8	58.5	56.6	56.6
Dollar collections	56.8	61.9	58.3	56.4	56.7	55.7	55.8	57.8	58.3	59.6	57.5	57.4	57.1
Amount of credit extended	64.5	66.4	63.0	60.1	63.7	61.0	59.4	61.0	61.2	61.7	60.9	61.0	57.6
Index of favorable factors	**59.6**	**63.5**	**59.2**	**57.7**	**59.4**	**57.7**	**56.6**	**58.2**	**58.6**	**60.0**	**59.2**	**57.9**	57.0
Rejections of credit applications	50.8	51.8	51.3	51.3	51.4	51.0	52.8	52.2	52.2	51.2	52.2	51.9	51.2
Accounts placed for collection	47.8	50.3	51.2	49.3	50.0	47.1	50.2	49.4	49.0	48.5	50.9	50.5	48.8
Disputes	48.2	49.9	49.5	47.5	48.5	48.4	48.6	48.6	49.7	50.8	50.8	50.8	49.5
Dollar amount beyond terms	46.8	49.1	49.3	47.0	47.8	47.4	48.0	48.6	47.5	50.8	51.2	49.2	49.0
Dollar amount of customer deductions	49.5	49.3	49.9	49.4	50.1	48.9	48.5	49.5	49.5	49.8	50.7	50.7	49.6
Filings for bankruptcies	52.5	55.6	54.4	53.3	53.6	52.5	53.7	53.8	52.6	52.2	53.8	53.0	51.1
Index of unfavorable factors	**49.2**	**51.0**	**50.9**	**49.7**	**50.2**	**49.2**	**50.3**	**50.3**	**50.1**	**50.6**	**51.6**	**51.0**	**49.9**
NACM Combined CMI	**53.4**	**56.0**	**54.2**	**52.9**	**53.9**	**52.6**	**52.8**	**53.5**	**53.5**	**54.3**	**54.6**	**53.8**	**52.7**



Manufacturing Sector

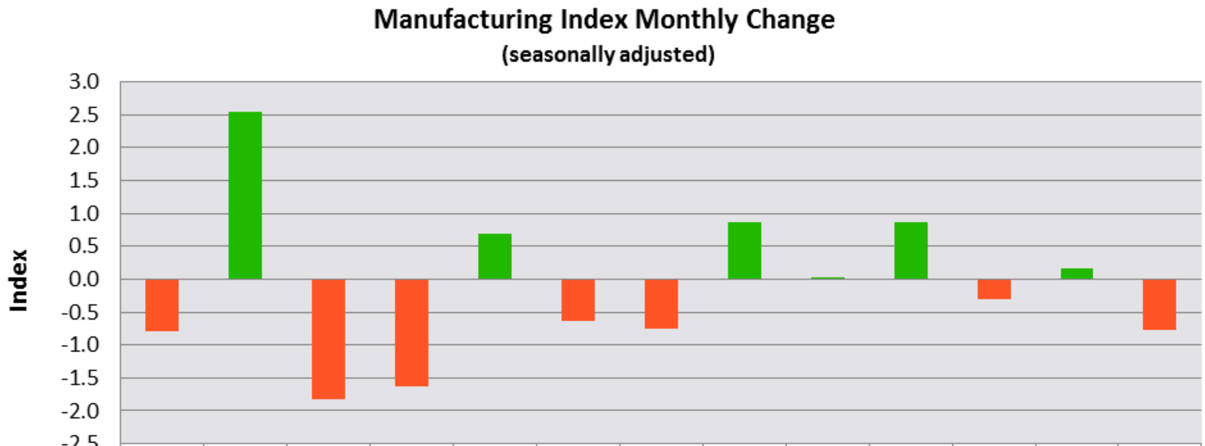
The manufacturing sector seems just a bit healthier than the service sector, at least from a month-to-month perspective. The data for both the favorable and unfavorable categories were not as dramatically different as they were a month ago, although there was general decline and weakness in evidence. June's index of favorable factors remained nearly the same as last month's reading at 55.9. This is consistent with the numbers through this year, aside from aberrations last June and July. The collective unfavorable factors showed more weakness in falling from 51.3 to 50.1, barely remaining on the right side of expansion.

The sales category actually improved quite a bit, to 56.1 from 53.9, returning to levels seen earlier in the year. New credit applications shifted down to 54.7 from 56.8, taking the readings back to where they were in February. The dollar collections data also improved substantially, from 55 to 57.5, which is always a good sign because this often presages desire to ask for additional credit. The amount of credit extended plummeted from 58.4 to 55.4, the lowest point reached in more than a year.

The unfavorable factors index is more complex. With both improvements and declines, the details are somewhat all over the place. At 50.1, the index is holding on to the expansion category by the skin of its teeth. Rejections of credit applications improved from 51.7 to 53.3, which is better news than it might seem. “It suggests that those that are applying for credit are being deemed worthy at a better pace than before. It is good news when there are fewer applications from those that are not considered solid candidates for credit,” Kuehl said. However, that is countered by accounts placed for collection slipping from 51.8 in May into the contraction zone at 49.7 this month. The disputes category entered contraction territory as well, posting a 48.9. Dollar amount beyond terms was nearly unchanged at 50.2. Meanwhile, dollar amount of customer deductions showed a big drop from what appears to have been an anomaly in May (51.4) to a level that rivals where it has been for much of the year (48.5). There was also a decline in the filings for bankruptcies category, which now sits exactly on the fence at 50.

“The dark clouds on the manufacturing horizon include a decline in the sales of new cars and the potential drop in export demand as the dollar gains a lot more strength against the pound and the euro. How this will all play out remains to be seen,” Kuehl concluded.

Manufacturing Sector (seasonally adjusted)	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16
Sales	56.8	66.0	56.4	55.6	57.7	55.5	51.9	54.3	54.7	57.6	56.3	53.9	56.1
New credit applications	58.8	60.5	56.1	56.6	57.3	57.1	54.0	55.4	53.7	56.8	55.3	56.8	54.7
Dollar collections	58.2	59.4	57.8	56.7	56.4	55.6	55.0	55.9	56.2	58.2	54.9	55.0	57.5
Amount of credit extended	62.7	66.5	63.0	57.1	61.8	59.0	55.4	59.3	58.2	60.2	58.4	58.4	55.4
Index of favorable factors	**59.1**	**63.1**	**58.3**	**56.5**	**58.3**	**56.8**	**54.1**	**56.2**	**55.7**	**58.2**	**56.2**	**56.0**	**55.9**
Rejections of credit applications	49.5	52.6	51.8	51.5	51.5	52.0	54.1	52.4	52.4	51.1	51.8	51.7	53.3
Accounts placed for collection	48.3	49.7	50.7	48.5	49.5	48.6	49.3	48.5	48.6	48.2	50.3	51.8	49.7
Disputes	47.9	48.5	48.6	47.7	46.3	47.8	47.1	47.1	49.8	49.4	48.7	50.7	48.9
Dollar amount beyond terms	47.5	49.8	51.1	46.6	47.3	48.4	48.8	50.3	49.6	51.9	51.4	50.1	50.2
Dollar amount of customer deductions	49.8	48.6	48.8	49.2	48.5	47.9	47.6	49.0	49.2	48.2	49.5	51.4	48.5
Filings for bankruptcies	52.3	55.7	54.9	53.1	53.6	51.7	52.8	52.3	52.1	51.6	53.7	52.1	50.0
Index of unfavorable factors	**49.2**	**50.8**	**51.0**	**49.5**	**49.4**	**49.4**	**49.9**	**49.9**	**50.3**	**50.1**	**50.9**	**51.3**	**50.1**
NACM Manufacturing CMI	**53.2**	**55.7**	**53.9**	**52.3**	**53.0**	**52.3**	**51.6**	**52.5**	**52.5**	**53.3**	**53.0**	**53.2**	**52.4**



	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16
+/-	-0.8	2.5	-1.8	-1.6	0.7	-0.6	-0.8	0.9	0.0	0.9	-0.3	0.2	-0.8

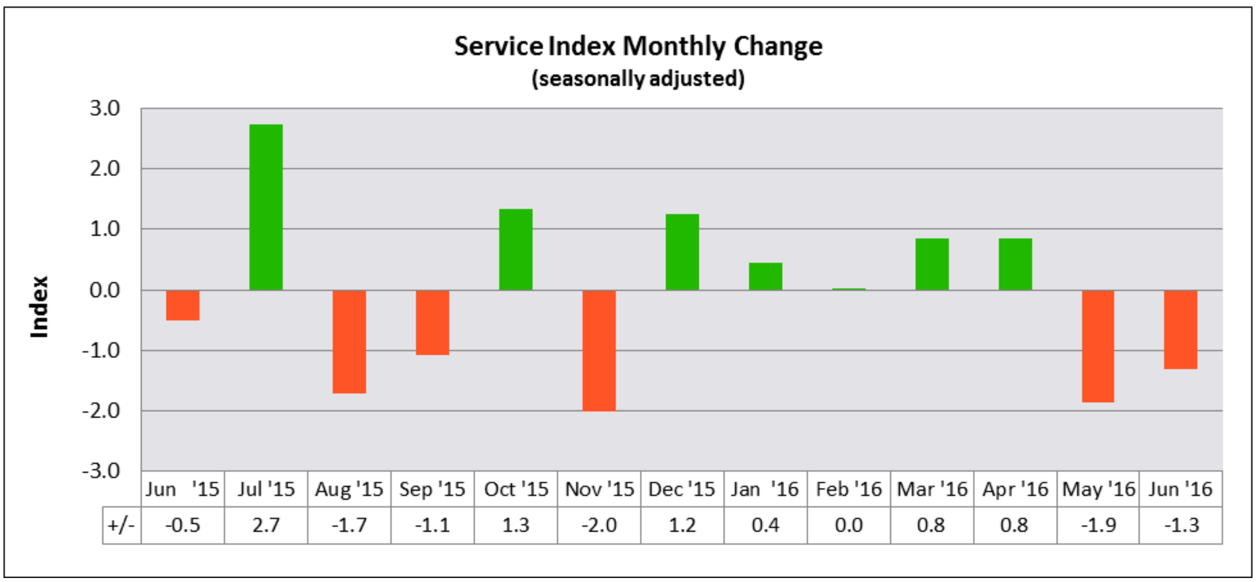
Service Sector

Last month's combined service sector reading of 54.4 slid to 53.1 in June. In the last couple of months, the service sector has lost a lot of its previous momentum, but even with weaker readings, the data have been somewhat consistent during the last year. In the last 12 months, the high water mark of 56.3 was in July (though April's figure was close), and the low point was 52.8 in November. The index of the favorable factors remains high, but fell from May's 59.9 to 58.2 this month. Although not bad as far as readings go, it is still a letdown because the index for most of the year has been spent in the 60s. The index of unfavorable factors slid under the contraction line, moving from 50.7 to 49.6. "This is the fifth time the index has fallen into contraction territory in the last year, however, so a decline like this is not all that dramatic," noted Kuehl.

The sales category declined from 59.5 to 57.8, but remains in respectable territory. Importantly, the new credit applications number improved from 56.5 to 58.5. On the other hand, there was a drop in the category of dollar collections from 59.8 to 56.7. The amount of credit extended also fell to 59.8, bringing it below the 60s for the first time this year. This may reflect a reduced demand for credit more than a reluctance to offer more.

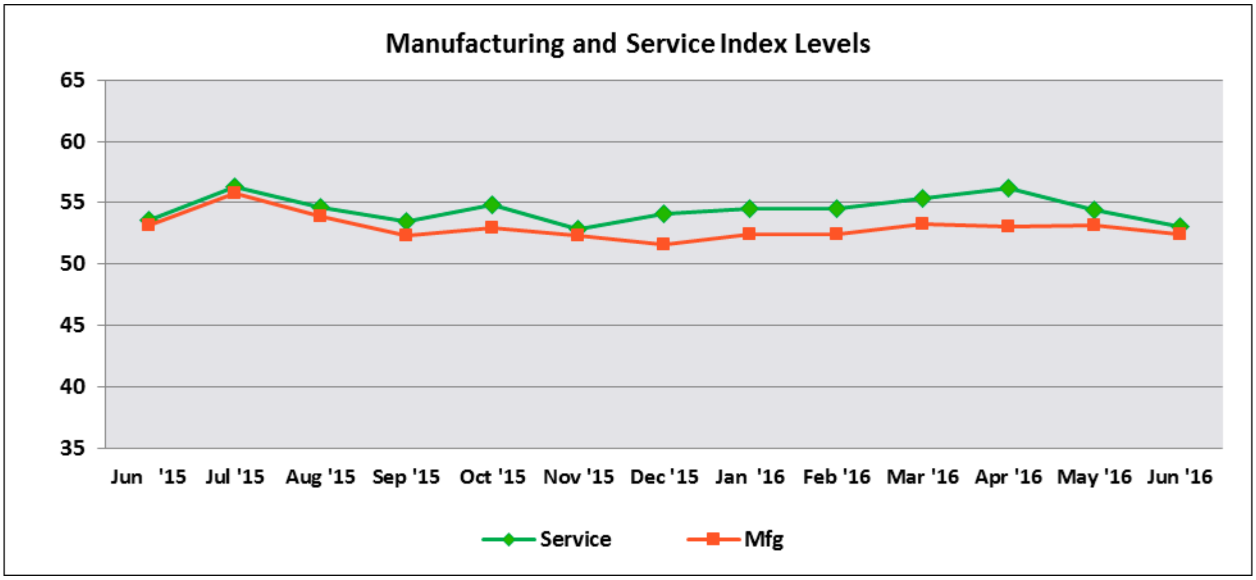
Rejections of credit applications posted a reading of 49.1 on the heels of last month's52. That is not such a good sign, as it suggests there are applicants that do not really meet the standards. Accounts placed for collection reading showed further decline, to 47.9 from last month's 49.2. The category of disputes also shifted down, but notably remained within expansion territory even if by the narrowest possible margin at 50.1. The category of dollar amount beyond terms also continued a slide, down to 47.9. This is not a trend that anyone wants to see accelerate, as it generally leads to more accounts placed for collection. The dollar amount of customer deductions increased from 50.1 to 50.7, which is a rare good news point in an otherwise bleak area of the report. The filings for bankruptcies category stayed comfortably in the expansion zone with a reading of 52.2, though it fell from last month's 53.9. Serious issues remain in the retail community, and the slow pace of consumer activity has not helped in the least. "There has been better news in the construction sector and in health care, but the consumer continues to vex the retailer and stunt growth," explained Kuehl.

Service Sector **(seasonally adjusted)**	**Jun '15**	**Jul '15**	**Aug '15**	**Sep '15**	**Oct '15**	**Nov '15**	**Dec '15**	**Jan '16**	**Feb '16**	**Mar '16**	**Apr '16**	**May '16**	**Jun '16**
Sales	56.3	64.3	59.5	57.2	58.9	56.5	58.1	57.4	58.8	60.7	63.2	59.5	57.8
New credit applications	62.2	61.0	59.3	59.5	60.5	58.9	58.8	60.9	62.7	62.8	61.8	56.5	58.5
Dollar collections	55.4	64.3	58.8	56.1	57.0	55.9	56.6	59.7	60.4	61.0	60.0	59.8	56.7
Amount of credit extended	66.3	66.3	63.1	63.2	65.6	63.1	63.4	62.7	64.1	63.1	63.5	63.6	59.8
Index of favorable factors	**60.0**	**64.0**	**60.2**	**59.0**	**60.5**	**58.6**	**59.2**	**60.2**	**61.5**	**61.9**	**62.1**	**59.9**	**58.2**
Rejections of credit applications	52.0	51.0	50.8	51.1	51.4	50.0	51.6	52.0	51.9	51.4	52.6	52.0	49.1
Accounts placed for collection	47.3	50.9	51.7	50.0	50.6	45.6	51.1	50.3	49.4	48.8	51.6	49.2	47.9
Disputes	48.5	51.3	50.4	47.4	50.7	49.0	50.0	50.1	49.7	52.3	52.9	50.8	50.1
Dollar amount beyond terms	46.1	48.5	47.5	47.4	48.4	46.3	47.3	46.8	45.5	49.6	51.1	48.4	47.9
Dollar amount of customer deductions	49.24	50.0	51.0	49.7	51.7	49.8	49.4	50.0	49.8	51.3	51.8	50.1	50.7
Filings for bankruptcies	52.6	55.6	54.0	53.6	53.6	53.2	54.5	55.3	53.1	52.9	53.8	53.9	52.2
Index of unfavorable factors	**49.3**	**51.2**	**50.9**	**49.9**	**51.1**	**49.0**	**50.6**	**50.8**	**49.9**	**51.0**	**52.3**	**50.7**	**49.6**
NACM Service CMI	**53.6**	**56.3**	**54.6**	**53.5**	**54.8**	**52.8**	**54.1**	**54.5**	**54.5**	**55.4**	**56.2**	**54.4**	**53.1**



June 2016 versus June 2015

"Year-over-year numbers have not been encouraging of late," Kuehl said. "The service sector is leading that decline after some months of good news. The summer has not yet been a positive experience, and global issues are depressing the average business and consumer even more."



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.*

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.

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