Report for November 2016

Issued Nov. 30, 2016

National Association of Credit Management

Combined Sectors

Business data has been more than unpredictable of late. The elections are to be thanked for much of this. There was a great deal of flux during the campaign as everybody seemingly waited to see what would happen next. The surprise win for Trump set off alarm bells, but these quickly faded as it was assumed that his policies were more overtly aimed at economic growth.

"Post election, there is still trepidation in some sectors and enthusiasm in others," said NACM Economist Chris Kuehl, Ph.D. The data from the CMI this month reflects this shifting attitude, but there is an additional caveat to be aware of, Kuehl noted. The response to the survey was less robust than it has been in past months. This creates some concern that readings might be skewed as compared with where they have been and might be in future months.

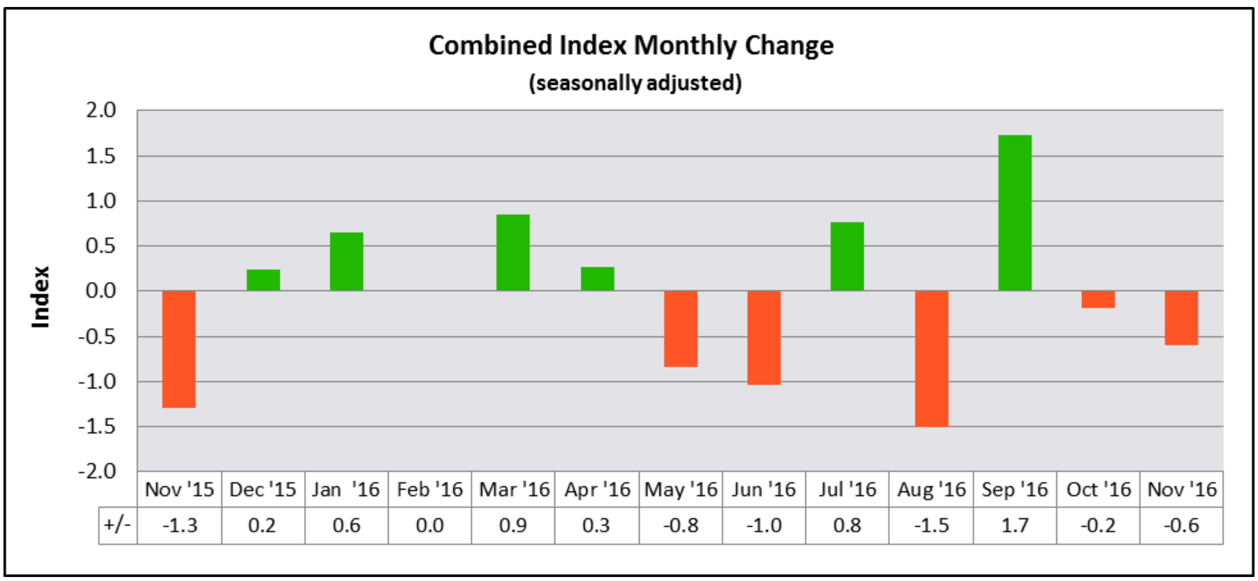
The overall score for the index stayed close to what it has been the last two or three months. It is slightly down at 52.9 compared with 53.5 in October and 53.7 in September. The interesting dynamic is found in comparing the favorable factors with the unfavorable ones, however. Overall favorable factors improved to 60.3, back to the level seen in September when it hit 59.5. The score for the unfavorable factors caused the most concern as it has fallen to 48 from 50.3. This reading has returned to the levels seen earlier in the year when the numbers were in the high 40s. This month is the lowest reading yet this year, but only by a point.

When examining specifics, some patterns become visible and show a certain amount of continuity over the last few months. At 61.8, the sales category came in higher than it has been, but it is close to what it was in July when it hit 60. The new credit applications number dipped a little from 58 to 54.5, but that is not uncommon at this time of year. The holiday season has patterns of its own and requires some patience as far as interpretation is concerned. The dollar collections reading also improved dramatically as it went from 57 to 63.5—a point that has not been seen this year. On the other hand, improved business forecasts may have prompted more interest in obtaining credit. Amount of credit extended stayed about where it was the prior month with a reading of 61.4 compared with 61.5 in October.

Unfavorable factors fluctuated a bit more. The reading for rejections of credit applications slipped to 48.9 from 51.8. Coupled with the reduction in the new credit applications, that is of some concern. "There are fewer applicants, but more of them are getting rejected," Kuehl pointed out. The accounts placed for collection reading also slid as it went from 48.1 to 45.8, its lowest point this year. Data for disputes, at 47.7, stayed roughly where it has been over the last few months, although down from what it was in October. Last month, it was 49.9 and in August, 47.8. The readings for dollar amount beyond terms fell hard, very likely an anomaly given the rest of the readings, Kuehl said. It was at 49 and now comes in at 44.9, lower than has been noted yet this year. The data for dollar amount of customer deductions also slipped from 49.5 to 47.9, but that is not far from what it has been this year. The data for filings for bankruptcies shifted from 53.8 to 53, essentially unchanged.

The slight reduction in the number of responses may have impacted a few of the readings because dramatic changes in a given sector or region may have an outsized impact on the overall index; but for the most part, the data has been consistent with what has been noted through the previous year. "The challenge this time of year is that the holidays, in general, can skew data," Kuehl noted. "We have already seen retail affected as consumers have been active, but focused exclusively on discounted items—lots of traffic, but low profits as these goods don't carry the highest of margins."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16
Sales	56.0	55.0	55.8	56.8	59.2	59.8	56.7	56.9	60.0	53.7	57.9	56.9	61.8
New credit applications	58.0	56.4	58.1	58.2	59.8	58.5	56.6	56.6	57.8	56.7	58.6	58.0	54.5
Dollar collections	55.7	55.8	57.8	58.3	59.6	57.5	57.4	57.1	59.5	55.5	59.5	57.0	63.5
Amount of credit extended	61.0	59.4	61.0	61.2	61.7	60.9	61.0	57.6	62.8	59.7	61.9	61.5	61.4
Index of favorable factors	**57.7**	**56.6**	**58.2**	**58.6**	**60.0**	**59.2**	**57.9**	57.0	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**
Rejections of credit applications	51.0	52.8	52.2	52.2	51.2	52.2	51.9	51.2	50.7	51.6	51.3	51.8	48.9
Accounts placed for collection	47.1	50.2	49.4	49.0	48.5	50.9	50.5	48.8	48.2	47.7	47.9	48.1	45.8
Disputes	48.4	48.6	48.6	49.7	50.8	50.8	50.8	49.5	47.6	47.8	48.8	49.9	47.7
Dollar amount beyond terms	47.4	48.0	48.6	47.5	50.8	51.2	49.2	49.0	48.8	46.3	48.2	49.0	44.9
Dollar amount of customer deductions	48.9	48.5	49.5	49.5	49.8	50.7	50.7	49.6	49.0	48.1	50.4	49.5	47.9
Filings for bankruptcies	52.5	53.7	53.8	52.6	52.2	53.8	53.0	51.1	50.7	52.8	52.7	53.8	53.0
Index of unfavorable factors	**49.2**	**50.3**	**50.3**	**50.1**	**50.6**	**51.6**	**51.0**	**49.9**	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**
NACM Combined CMI	**52.6**	**52.8**	**53.5**	**53.5**	**54.3**	**54.6**	**53.8**	**52.7**	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**



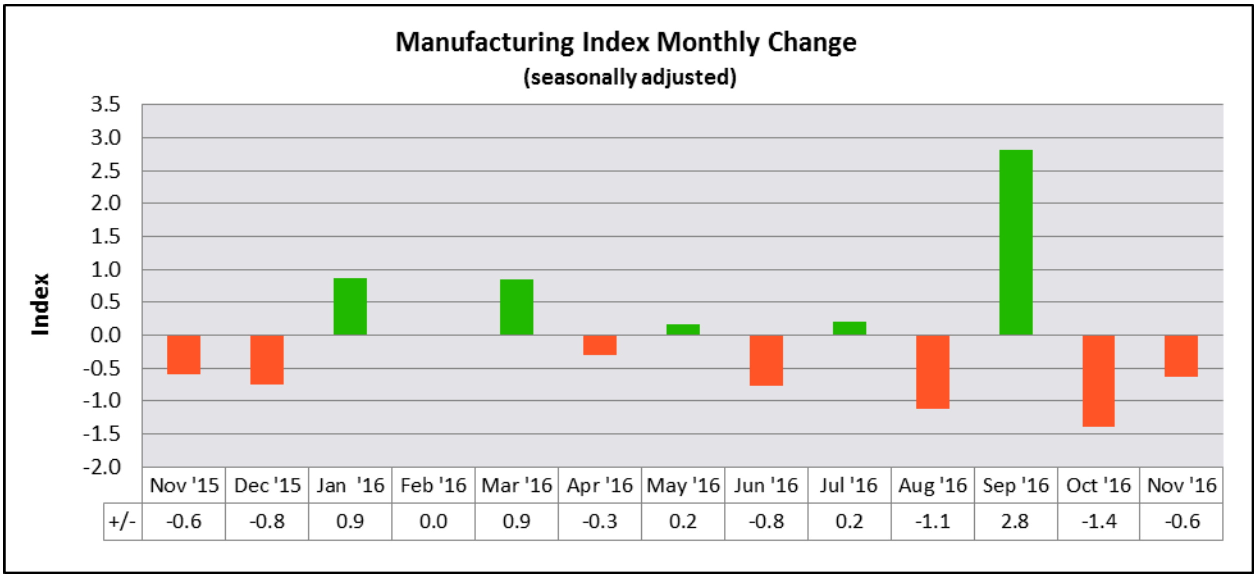
Manufacturing Sector

"The manufacturing sector has been more than a little cautious this year as the outcome of the election promised major changes regardless of who the victor would be," said Kuehl. "That caution played out in delayed orders and very careful management of cash flow." This pattern was visible with this last month's readings as well. The overall score was very close to what it was last month—52.3 vs. 52.9. There was not as much similarity between the favorable and unfavorable sections, however. The gains in the favorable category, with a reading of 5, put the numbers back to where they were a month ago. They were 56.4 in October and 59.1 in September. The overall score for the unfavorable readings was 47.8, considerably lower than the previous reading of 50.6, but frankly these numbers have been weak all year with six of the 12 months under 50. The devil (as always) is in the details.

The readings for sales hit 58.5 after being at 54.4 the prior month. This is closer to what the category read in September (58.2). The category of new credit applications shifted down from 56.9 last month to 51.6 this month, suggesting that there is some trepidation about ordering at this point in the year. The dollar collections number jumped dramatically from 56.1 to 65.5. This is thought to be an anomaly based on a smaller than normal rate of participation in the survey. The amount of credit extended shifted up slightly from 58.3 to 60.4, taking the data back to levels last seen in September.

The readings for the unfavorable factors also showed some variability. Rejections of credit applications fell back into the contraction zone (below 50) with a reading of 49.3 after reaching 52.7 last month. Accounts placed for collection slumped a little more with a reading of 45 after being at 49 last month. Over the last year, nine months had readings below 50, so this number is no shock. The disputes category also slipped a bit from 49.2 to 44.5, consistent with the run of sub-50 performances, which have been taking place all year. Only one month had a reading above 50—in May, it hit a whopping 50.7. The category of dollar amount beyond terms slipped dramatically, but this may also be an anomaly due to the limited responses this month. It fell from 50 to 43, close to the previous low point of 45.4 set in August. Dollar amount of customer deductions stayed about where it had been the month prior with a reading of 49.4 after hitting 48.5 in October. The filings for bankruptcies number also stayed about where it has been with a reading of 55.6 compared with 54.3 the month prior.

Manufacturing Sector (seasonally adjusted)	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16
Sales	55.5	51.9	54.3	54.7	57.6	56.3	53.9	56.1	58.4	52.4	58.2	54.4	58.5
New credit applications	57.1	54.0	55.4	53.7	56.8	55.3	56.8	54.7	56.5	55.8	59.2	56.9	51.6
Dollar collections	55.6	55.0	55.9	56.2	58.2	54.9	55.0	57.5	58.8	54.1	57.5	56.1	65.5
Amount of credit extended	59.0	55.4	59.3	58.2	60.2	58.4	58.4	55.4	61.8	58.8	61.4	58.3	60.4
Index of favorable factors	**56.8**	**54.1**	**56.2**	**55.7**	**58.2**	**56.2**	**56.0**	**55.9**	**58.9**	**55.3**	**59.1**	**56.4**	**59.0**
Rejections of credit applications	52.0	54.1	52.4	52.4	51.1	51.8	51.7	53.3	50.8	51.1	53.3	52.7	49.3
Accounts placed for collection	48.6	49.3	48.5	48.6	48.2	50.3	51.8	49.7	48.7	48.3	50.2	49.0	45.0
Disputes	47.8	47.1	47.1	49.8	49.4	48.7	50.7	48.9	45.0	46.5	47.7	49.2	44.5
Dollar amount beyond terms	48.4	48.8	50.3	49.6	51.9	51.4	50.1	50.2	48.3	45.4	50.5	50.0	43.0
Dollar amount of customer deductions	47.9	47.6	49.0	49.2	48.2	49.5	51.4	48.5	48.0	48.1	51.9	48.5	49.4
Filings for bankruptcies	51.7	52.8	52.3	52.1	51.6	53.7	52.1	50.0	49.8	54.5	53.0	54.3	55.6
Index of unfavorable factors	**49.4**	**49.9**	**49.9**	**50.3**	**50.1**	**50.9**	**51.3**	**50.1**	**48.4**	**49.0**	**51.1**	**50.6**	**47.8**
NACM Manufacturing CMI	**52.3**	**51.6**	**52.5**	**52.5**	**53.3**	**53.0**	**53.2**	**52.4**	**52.6**	**51.5**	**54.3**	**52.9**	**52.3**



Service Sector

A similar stretch of unique readings in the service category may or may not be due to fewer responses to this month's CMI. The combined score for the service sector was 53.6; the month prior, it was at 54.2" noted Kuehl. "This is pretty consistent with the readings this year." The combined favorable index went from 60.3 to 61.6, while the combined index for the unfavorable categories went from 50.1 to 48.3. The majority of the data has been consistent with the numbers seen throughout the year.

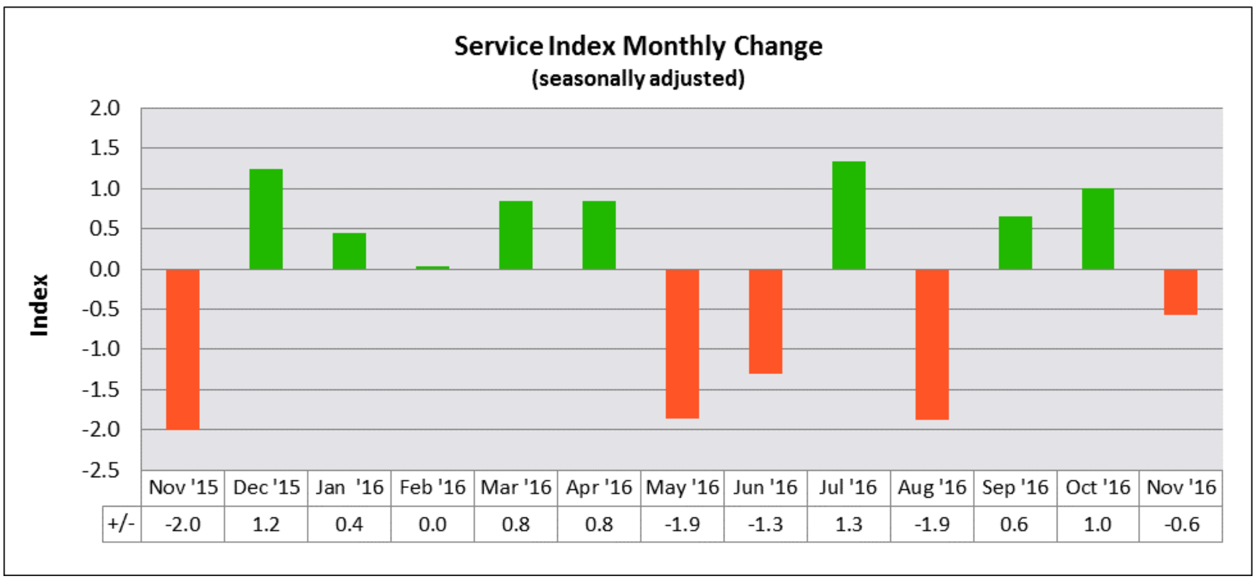
Specific categories provide a little more volatility. Sales shot up from 59.5 to 65.1, which is fairly consistent with the various retail numbers that have been emerging thus far this year. New credit applications fell a little from 59.1 to 57.4, while dollar collections improved from 58 to 61.5. "The sense is that credit requests tend to flag a little this time of year as retailers have already done most of their ordering," Kuehl said. "Now, they will be more likely to spend to catch up with the credit they already have." Amount of credit extended went down, but only slightly from 64.7 to 62.4. The important note is that these numbers have been at or above 60 for all but one month in the last 12 months.

Data for rejections of credit applications worsened, but not all that dramatically as it went from 50.9 to 48.5. There was also a small decline, 47.3 to 46.5, in the accounts placed for collection category. Disputes improved just a little and stayed in the expansion zone with a reading of 50.9, after 50.6 the previous month. Dollar amount beyond terms notched a reading of 46.9, significantly lower than the previous month when it hit 48.1. Dollar amount of customer deductions slipped as well (50.5 to 46.5). Both of these readings may be more extreme due to the small sample size, but they are not wildly out of sync with the data from the last several months. The filings for bankruptcies category continues to be the bearer of good news, although this month the data dipped from 53.3 to 50.3.

The data this month is consistent with the inconsistency found in many other measures of late. The election theatrics was unsettling and the unexpected win by Trump forced a major re-think for most businesses. Some of the change will be positive and some negative, and it will be a while before it is all sorted.

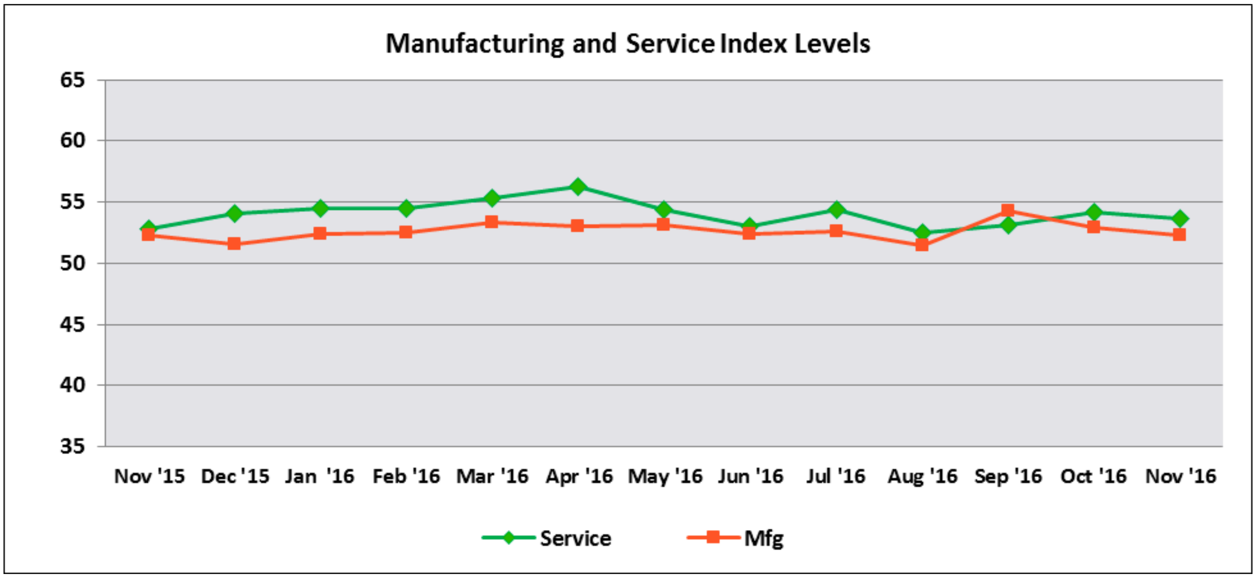
Service Sector (seasonally adjusted)	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16

Sales	56.5	58.1	57.4	58.8	60.7	63.2	59.5	57.8	61.6	55.0	57.7	59.5	65.1
New credit applications	58.9	58.8	60.9	62.7	62.8	61.8	56.5	58.5	59.0	57.6	58.0	59.1	57.4
Dollar collections	55.9	56.6	59.7	60.4	61.0	60.0	59.8	56.7	60.3	57.0	61.5	58.0	61.5
Amount of credit extended	63.1	63.4	62.7	64.1	63.1	63.5	63.6	59.8	63.8	60.7	62.4	64.7	62.4
Index of favorable factors	**58.6**	**59.2**	**60.2**	**61.5**	**61.9**	**62.1**	**59.9**	**58.2**	**61.2**	**57.6**	**59.9**	**60.3**	**61.6**
Rejections of credit applications	50.0	51.6	52.0	51.9	51.4	52.6	52.0	49.1	50.7	52.0	49.4	50.9	48.5
Accounts placed for collection	45.6	51.1	50.3	49.4	48.8	51.6	49.2	47.9	47.7	47.1	45.6	47.3	46.5
Disputes	49.0	50.0	50.1	49.7	52.3	52.9	50.8	50.1	50.2	49.2	49.9	50.6	50.9
Dollar amount beyond terms	46.3	47.3	46.8	45.5	49.6	51.1	48.4	47.9	49.2	47.3	46.0	48.1	46.9
Dollar amount of customer deductions	49.8	49.4	50.0	49.8	51.3	51.8	50.1	50.7	50.1	48.2	49.0	50.5	46.5
Filings for bankruptcies	53.2	54.5	55.3	53.1	52.9	53.8	53.9	52.2	51.5	51.2	52.3	53.3	50.3
Index of unfavorable factors	**49.0**	**50.6**	**50.8**	**49.9**	**51.0**	**52.3**	**50.7**	**49.6**	**49.9**	**49.2**	**48.7**	**50.1**	**48.3**
NACM Service CMI	**52.8**	**54.1**	**54.5**	**54.5**	**55.4**	**56.2**	**54.4**	**53.1**	**54.4**	**52.5**	**53.2**	**54.2**	**53.6**



November 2016 versus November 2015

In conclusion, Kuehl noted, “This has been an odd month and for lots of reasons—obvious and not so obvious. Politics has affected the numbers more than it usually would, and there was a slightly smaller sample size for the CMI this month. That allows for some anomalies, which will take a while to sort out.”



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:

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

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, 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