Report for February 2017

Issued Feb. 28, 2017

National Association of Credit Management

Combined Sectors

The rebound in the data this month was expected to a degree. There has been a nice run of good economic news to start the year—a reaction to several factors that have served to boost confidence in the business community as well as with the consumer. The trends of 2016 have carried forward into 2017 to an extent and many of these have been encouraging for business. There was the release of "animal spirits" due to the Trump victory, although it has been hard to identify what has changed thus far. "The sense is that there has to be an improvement in the coming year if there is investment in infrastructure, tax reform and changes in the regulatory system," said NACM Economist Chris Kuehl, Ph.D. "The challenge for the year is that these changes will take time. Nobody is sure what the patience level for consumer or business will be."

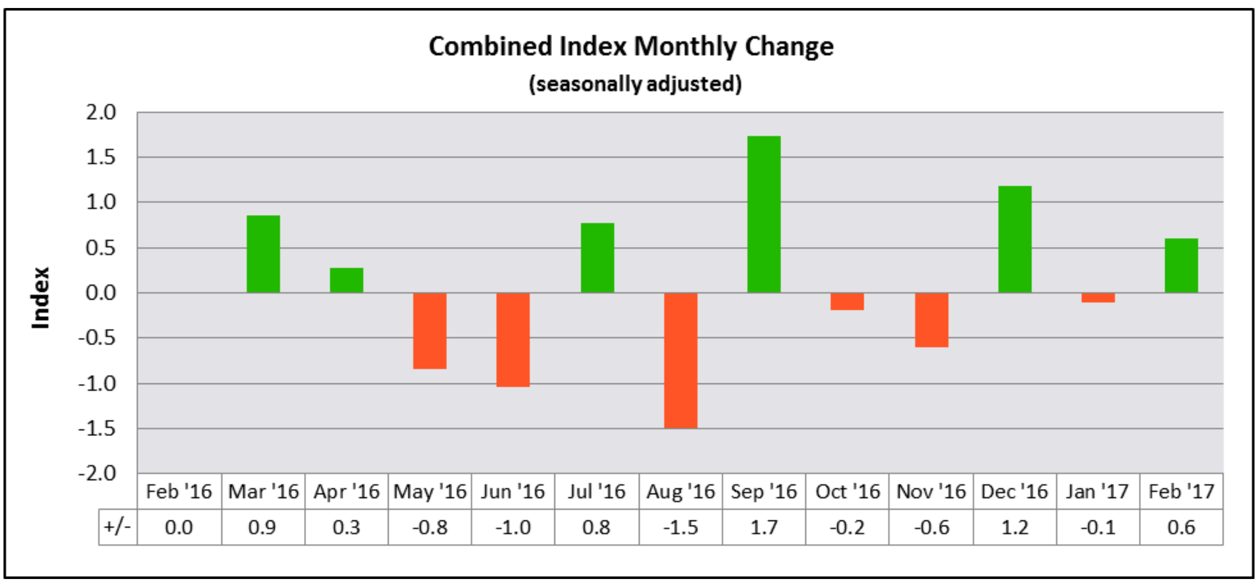
The combined score for the CMI hit a level that has not been seen since before the recession started in 2008-2009. It is now at 55.4, up from 54. This is nearly the same reading as has been registered by the latest PMI (now at 56). The jump in the index of favorable factors is even higher—63.6. This index has crested above 60 a few times last year (March, July and November) and has been above 60 in both January and February of this year, but this is the biggest leap yet. The index of unfavorable factors has likewise improved. It is now at an even 50. This is hardly as impressive as the favorable factors, but it is better than the 49.5 marked last month.

The detailed breakdown of the two sets of scores tells an interesting story. In the favorable categories, the sales reading went from 60.1 to 62.6, marking a high point for the last few years. The new credit applications data also hit new highs with a reading of 62 as compared to 60.8 last month. This category did not reach 60 through the entirety of 2016 nor in any of the previous years after the recession hit. The dollar collections reading jumped into the 60s with a reading of 63 compared to January's 58.2. The category of amount of credit extended went from 64.1 to 66.8, far more robust than anything seen in the years since the recession. "One would have to go back to 2007 to see a period when all four of these subcategories were all above 60," noted Kuehl.

The news was not quite as impressive as far as the nonfavorable categories are concerned, but there was certainly improvement. There are still many sectors struggling in the overall economy and there are still many businesses that have been unable to dig out of the hole they have been in since the downturn, but the trend overall has been positive. The numbers are better than they have been.

There has been a small improvement in the category of rejections of credit applications, which is good news given the better numbers found in credit applications. The number last month was above 50, but barely, at 50.6. This month there has been an improvement to 51.4. The accounts placed for collection remains mired in the 40s and is tracking in the wrong direction as it moved from 49.4 to 48.2. The disputes reading remains in the 40s as well, but improved over last month's reading (46.0 to 48.7). There was a nice breakthrough as far as dollar amount beyond terms is concerned, as it is now back in the 50s with a reading of 51 compared to 48.4 last month. The dollar amount of customer deductions worsened a little—going from 48.7 to 47.6. There was also some deterioration as far as filings for bankruptcies, slipping from 53.9 to 53.2

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17
Sales	56.8	59.2	59.8	56.7	56.9	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6
New credit applications	58.2	59.8	58.5	56.6	56.6	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0
Dollar collections	58.3	59.6	57.5	57.4	57.1	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0
Amount of credit extended	61.2	61.7	60.9	61.0	57.6	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8
Index of favorable factors	**58.6**	**60.0**	**59.2**	**57.9**	57.0	**60.0**	**56.4**	**59.5**	**58.4**	**60.3**	**59.1**	**60.8**	**63.6**
Rejections of credit applications	52.2	51.2	52.2	51.9	51.2	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4
Accounts placed for collection	49.0	48.5	50.9	50.5	48.8	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2
Disputes	49.7	50.8	50.8	50.8	49.5	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7
Dollar amount beyond terms	47.5	50.8	51.2	49.2	49.0	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0
Dollar amount of customer deductions	49.5	49.8	50.7	50.7	49.6	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6
Filings for bankruptcies	52.6	52.2	53.8	53.0	51.1	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2
Index of unfavorable factors	**50.1**	**50.6**	**51.6**	**51.0**	**49.9**	**49.2**	**49.1**	**49.9**	**50.3**	**48.0**	**50.8**	**49.5**	**50.0**
NACM Combined CMI	**53.5**	**54.3**	**54.6**	**53.8**	**52.7**	**53.5**	**52.0**	**53.7**	**53.5**	**52.9**	**54.1**	**54.0**	**55.4**



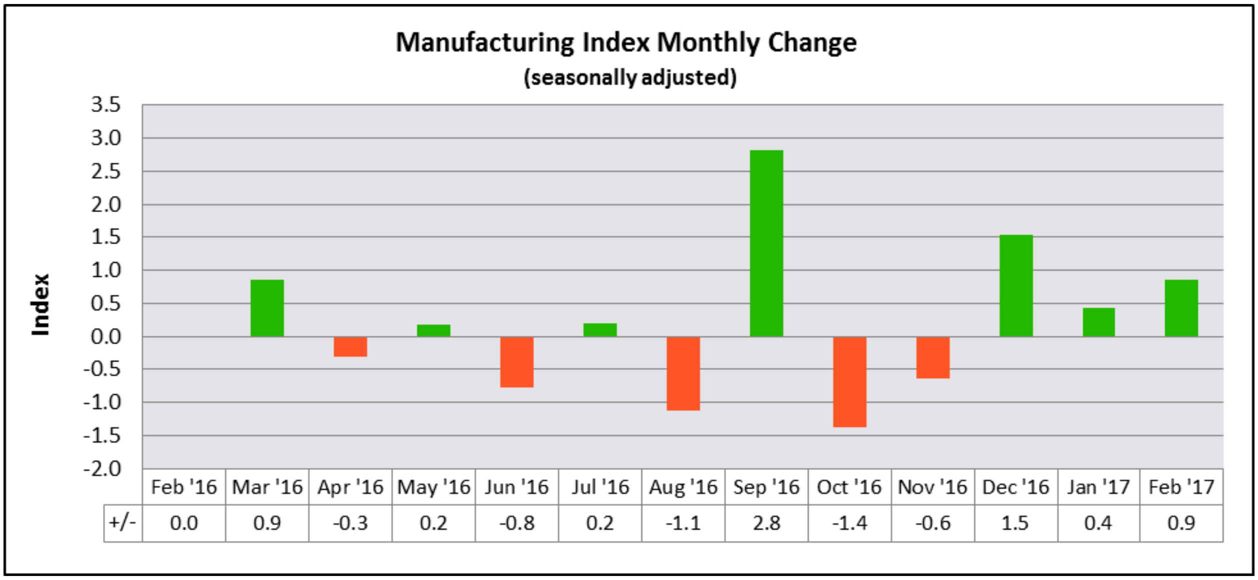
Manufacturing Sector

This month marks the third in a row for good manufacturing news. The numbers are as high now as they have been in several years—going back to the prerecession days. The combined total is now at 55.1, as robust as the numbers indicated by the Purchasing Managers' Index. The index for the favorable factors jumped to levels not seen since before the credit collapse in 2008-2009. It is now at 63.4 from 60.5. It was just in August that these numbers were languishing at 55.3. The index of unfavorable factors failed to improve, but there were gains in some of the subcategories. The index had jumped above 50 last month to 50.1, but fell this month to 49.6.

The details were instructive as they usually are. The sales category dropped a little, but remained above 60 with a reading of 60.7 compared to last month's 61.7. The reading for new credit applications also dipped slightly as it fell from 61.8 to 61.6. The big gain was in dollar collections (55.3 to 64.1), a very good sign for other than the obvious reason. "When manufacturers start to get their accounts caught up, this is a good signal that they are planning to start asking for more credit in the near future," said Kuehl. There was also a substantial boost in the reading for amount of credit extended as it jumped from 63 to 67.2. He added, "One of the observations that can be made here is that some of the larger customers are asking for more credit and these are the same ones that have been catching up on their obligations."

The data from the unfavorable categories have not been as robust, but are trending in the right direction for the most part. The category of rejections of credit applications improved from a reading of 51.6 last month to one of 52.3 this month. There was unfortunately a big decline in the accounts placed for collection as this shifted from 51.9 to 47.4. "It appears that companies that are in growth sectors are starting to pull things together, but others are struggling (especially in the farm sector lately)," Kuehl noted. "The sense is that some companies are at the end of their rope and the recovery has been too slow for them." The reading for disputes stayed in the contraction zone, but showed signs of improvement (from 45.7 to 47.4). The category of dollar amount beyond terms improved enough to enter the expansion zone—rising from 49.4 to 52.1, another signal that companies are trying to get caught up with those debts. The dollar amount of customer deductions sagged as it went from 48.7 to 46.1. There was also a slight decline in the filings for bankruptcy numbers (53.5 to 52.3).

Manufacturing Sector (seasonally adjusted)	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17
Sales	54.7	57.6	56.3	53.9	56.1	58.4	52.4	58.2	54.4	58.5	58.7	61.7	60.7
New credit applications	53.7	56.8	55.3	56.8	54.7	56.5	55.8	59.2	56.9	51.6	56.1	61.8	61.6
Dollar collections	56.2	58.2	54.9	55.0	57.5	58.8	54.1	57.5	56.1	65.5	59.3	55.3	64.1
Amount of credit extended	58.2	60.2	58.4	58.4	55.4	61.8	58.8	61.4	58.3	60.4	60.2	63.0	67.2
Index of favorable factors	**55.7**	**58.2**	**56.2**	**56.0**	**55.9**	**58.9**	**55.3**	**59.1**	**56.4**	**59.0**	**58.5**	**60.5**	**63.4**
Rejections of credit applications	52.4	51.1	51.8	51.7	53.3	50.8	51.1	53.3	52.7	49.3	51.5	51.6	52.3
Accounts placed for collection	48.6	48.2	50.3	51.8	49.7	48.7	48.3	50.2	49.0	45.0	50.1	51.9	47.4
Disputes	49.8	49.4	48.7	50.7	48.9	45.0	46.5	47.7	49.2	44.5	48.8	45.7	47.4
Dollar amount beyond terms	49.6	51.9	51.4	50.1	50.2	48.3	45.4	50.5	50.0	43.0	50.1	49.4	52.1
Dollar amount of customer deductions	49.2	48.2	49.5	51.4	48.5	48.0	48.1	51.9	48.5	49.4	49.2	48.7	46.1
Filings for bankruptcies	52.1	51.6	53.7	52.1	50.0	49.8	54.5	53.0	54.3	55.6	54.4	53.5	52.3
Index of unfavorable factors	**50.3**	**50.1**	**50.9**	**51.3**	**50.1**	**48.4**	**49.0**	**51.1**	**50.6**	**47.8**	**50.7**	**50.1**	**49.6**
NACM Manufacturing CMI	**52.5**	**53.3**	**53.0**	**53.2**	**52.4**	**52.6**	**51.5**	**54.3**	**52.9**	**52.3**	**53.8**	**54.3**	**55.1**



Service Sector

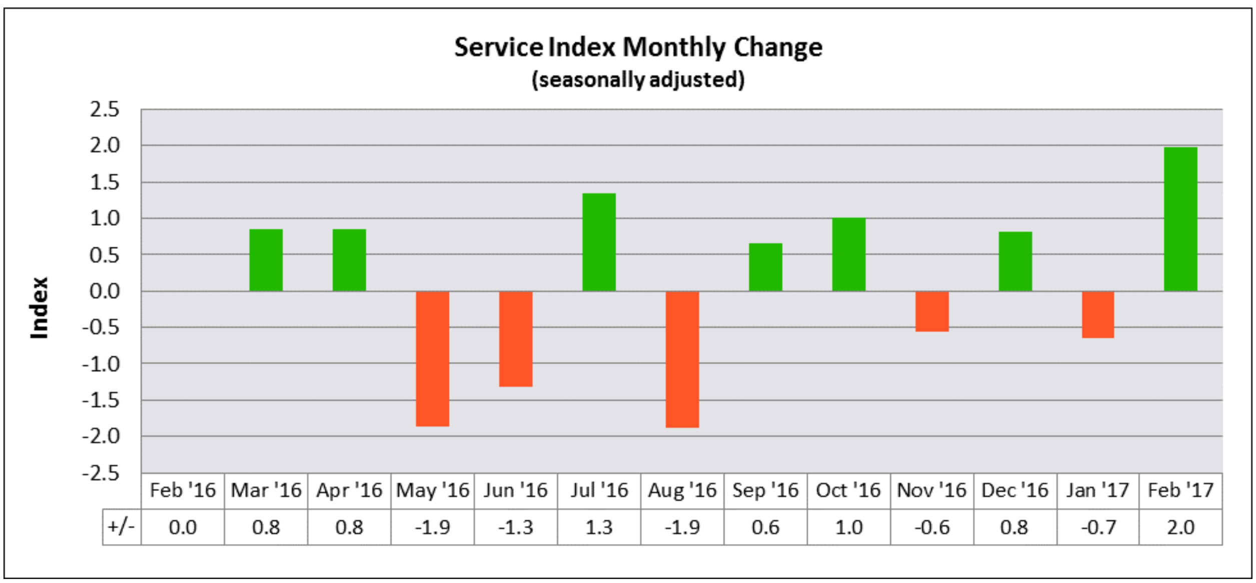
Last month, the service sector numbers failed to keep pace with the manufacturing numbers, dragging the overall index down as well. This month, there has been a major reversal of fortune. It has been the service side of the economy that is leading the way in several categories. “This is almost entirely due to the resurgence of the consumer, as they have been buying more things and they have been buying more actual services as well,” Kuehl said. “Retail has been having a surprisingly good quarter and construction has been up along with the medical economy.”

The overall reading for the service factors was 53.8 last month. Now it is up to 55.8, the highest point since April of last year and back to the trends that had been seen during the middle of last year. The favorable factors saw growth as well, going from 61.2 to 63.8. This is as good as it has been in the years since the recession, a solid signal for continued growth. The index of unfavorable factors also improved (48.9 to 50.4) and regained a foothold in the expansion sector. The fact is that many in the service sector have been having the same challenges as far as reacting to the recovery.

The sub-index readings offer a lot of variety as well. The sales category went from 58.5 to 64.5. It’s a substantial jump from any perspective—the highest reading in over three years. The reading for new credit applications also jumped from 59.7 to 62.4. That is as high as has been seen since March of last year. The dollar collections reading improved a little as it went from 61.2 to 61.9. Not a big jump, but one that is certainly in the preferred direction and solidly in the 60s. The amount of credit extended also improved from a reading of 65.2 to one of 66.4. That means that all four of these factors are in the 60s, which has not happened since April of last year.

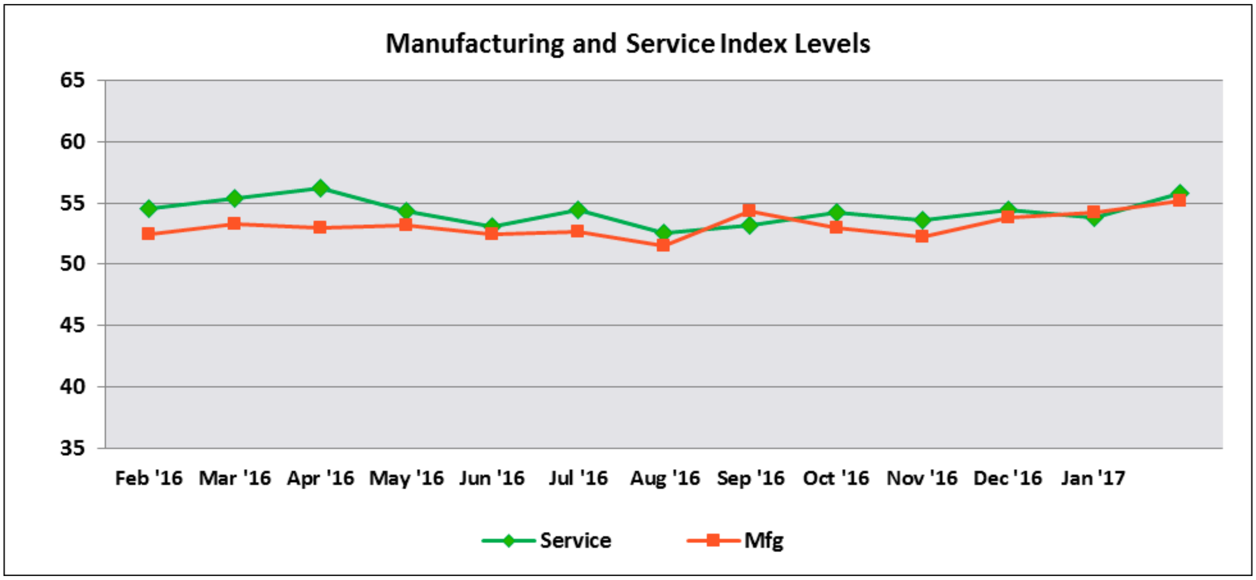
The data on the unfavorable factors also improved, but not as dramatically. The rejections of credit applications moved out of the contraction zone as it went from 49.7 to 50.5. There was a slight improvement in the category of accounts placed for collection. It is still in contraction at 49, but higher than last month’s 46.9. The disputes category improved, but stayed in contraction territory as well (49.9 after one of 46.2). This is about as close as one can get to expansion and yet fall a little short. The reading on dollar amount beyond terms went from 47.3 to 49.8—another factor that showed nice improvement, but has stayed just out of the expansion category. The dollar amount of customer deductions also enjoyed that nice improvement, but another one that fell, just going from 48.8 to 49.2. The filings for bankruptcy numbers slipped a bit from 54.3 to 54, but this category remains comfortably in the 50s.

Service Sector (seasonally adjusted)	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17
Sales	58.8	60.7	63.2	59.5	57.8	61.6	55.0	57.7	59.5	65.1	58.5	58.5	64.5
New credit applications	62.7	62.8	61.8	56.5	58.5	59.0	57.6	58.0	59.1	57.4	57.8	59.7	62.4
Dollar collections	60.4	61.0	60.0	59.8	56.7	60.3	57.0	61.5	58.0	61.5	59.7	61.2	61.9
Amount of credit extended	64.1	63.1	63.5	63.6	59.8	63.8	60.7	62.4	64.7	62.4	62.6	65.2	66.4
Index of favorable factors	**61.5**	**61.9**	**62.1**	**59.9**	**58.2**	**61.2**	**57.6**	**59.9**	**60.3**	**61.6**	**59.7**	**61.2**	**63.8**
Rejections of credit applications	51.9	51.4	52.6	52.0	49.1	50.7	52.0	49.4	50.9	48.5	51.1	49.7	50.5
Accounts placed for collection	49.4	48.8	51.6	49.2	47.9	47.7	47.1	45.6	47.3	46.5	49.3	46.9	49.0
Disputes	49.7	52.3	52.9	50.8	50.1	50.2	49.2	49.9	50.6	50.9	50.7	46.2	49.9
Dollar amount beyond terms	45.5	49.6	51.1	48.4	47.9	49.2	47.3	46.0	48.1	46.9	48.4	47.3	49.8
Dollar amount of customer deductions	49.8	51.3	51.8	50.1	50.7	50.1	48.2	49.0	50.5	46.5	50.4	48.8	49.2
Filings for bankruptcies	53.1	52.9	53.8	53.9	52.2	51.5	51.2	52.3	53.3	50.3	55.7	54.3	54.0
Index of unfavorable factors	**49.9**	**51.0**	**52.3**	**50.7**	**49.6**	**49.9**	**49.2**	**48.7**	**50.1**	**48.3**	**50.9**	**48.9**	**50.4**
NACM Service CMI	**54.5**	**55.4**	**56.2**	**54.4**	**53.1**	**54.4**	**52.5**	**53.2**	**54.2**	**53.6**	**54.4**	**53.8**	**55.8**



February 2017 versus February 2016

The last few months have seen an improvement and some readings that have not been seen since the recession. “There is most definitely growth, but there is also a drag on that growth from the damage that was done years ago,” Kuehl concluded. “The favorable are booming, but the unfavorable are not, although they are looking better than has been the case in the past.”



Methodology Appendix

CMI data have been collected and tabulated monthly since February 2002. The index, published since February 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.

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