



Report for April 2017

Issued Apr. 28, 2017

National Association of Credit Management

Combined Sectors

The big question circulating among those who try to read the economic tea leaves is whether reality or expectation will win out as far as the future of the U.S. economy. On the one hand, there has been a rash of confidence-building surveys that have been coming from consumers, business leaders and investors. In many cases these numbers have been higher than has been the case in years. The enthusiasm has been based on expectations of change—tax reform, a major rewrite of the Affordable Care Act, big spending on infrastructure, changes in the regulatory system and so on. “The reality is that consumers are not spending on retail, as sales have been down for three months; the political reality has been far rockier than expected and most of these big changes have been stalled,” said NACM Economist Chris Kuehl, Ph.D. “There has been more caution in the business community than the good surveys would seem to suggest.”

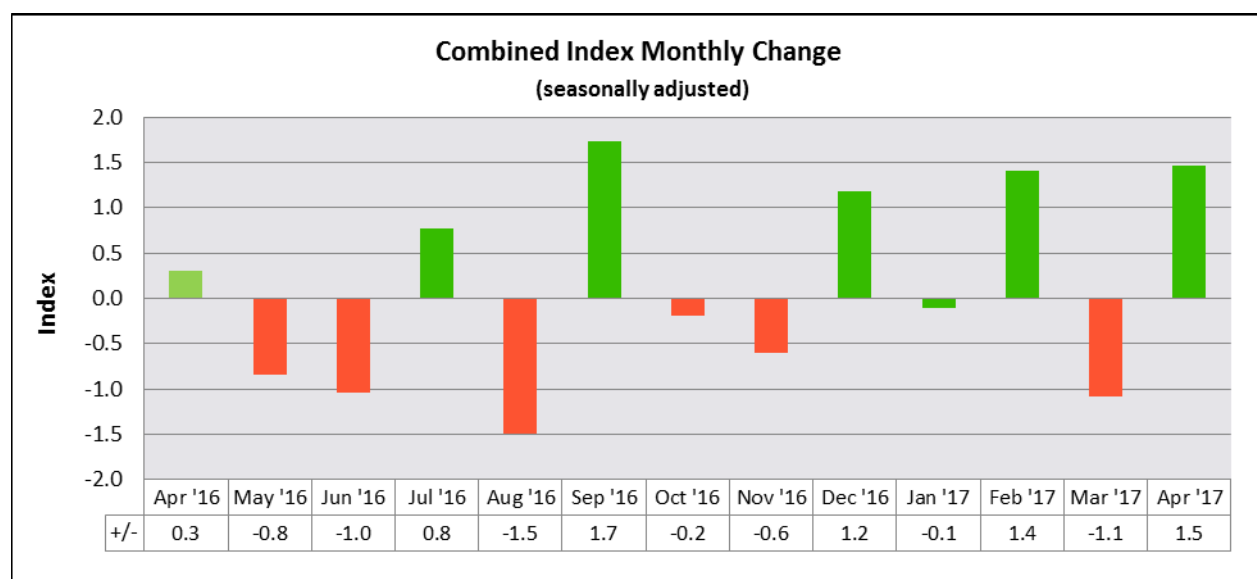
The reaction as far as the Credit Managers’ Index is concerned is generally upbeat. Even the sectors that were worrisome in March have improved a bit. The combined index was up from last month, moving from 54.3 to 55.8, slightly higher than it was in February. The index of favorable factors also saw a nice upward bump from 60.6 to 63.6, right back to the previous levels in February. The index for unfavorable factors went from 50.2 to 50.6—a modest improvement, but headed in the right direction. As is always the case, the most interesting data is in the subcategories.

The sales category moved up to levels not seen in years at 63.8 compared to 61.2 last month. The new credit applications numbers shifted up as well (60.5 to 62). The most interesting movement was with dollar collections as it went from 56.4 to 61.2. Last month, there was some concern that a decline in dollar collections might be signaling some bad times to come. “When there are reductions in the readings for dollar collections and an increase in accounts beyond terms, it is often the first sign of trouble with creditors,” explained Kuehl. “What follows is a steady increase in everything from accounts out for collection to disputes and bankruptcies.” This fear now seems to have faded somewhat. Finishing off the favorable is the data for amount of credit extended. Here, there was a nice big jump as well, moving from 64.4 to 67.2.

The performance of the unfavorable factors left a little to be desired, but this has been the pattern for several months now. The minor improvement is reflected in the specific categories as well, with most trending slightly positive. The rejections of credit applications went from 51.6 to 52.1. Kuehl noted that the increase in applications is good news as it suggests that those seeking credit are creditworthy for the most part. The accounts placed for collection saw a very small decline from 49.8 to 49. The most important fact is that this category remains in the contraction zone (anything under 50). The disputes category improved, but not enough to escape contraction territory as it moved from 48.5 to 49.1. Last month, there was a concern regarding dollar amount beyond terms as it seemed to combine with dollar collections to set off alarms. This month, the reading is much improved and even jumped back into expansion territory by shifting from 47.4 to 51. This is encouraging news overall and takes some of the pressure off as far as future readings. The dollar amount of customer deductions slipped a little and again remained in the contraction zone by shifting from 49.8 to 49.2. The filings for bankruptcies category also slipped a bit, but remained in expansion territory with a reading of 53.5 after last month’s 53.8.

Generally speaking, “the month showed a significant improvement over the previous month as most of the numbers seemed to rebound to levels seen in February and near the high level for the last few years,” said Kuehl. “Thus far, the enthusiasm regarding economic growth remains intact and suggests that confidence levels may be pulling the economy along as opposed to the usual pattern.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17
Sales	59.8	56.7	56.9	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8
New credit applications	58.5	56.6	56.6	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0
Dollar collections	57.5	57.4	57.1	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2
Amount of credit extended	60.9	61.0	57.6	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2
Index of favorable factors	59.2	57.9	57.0	60.0	56.4	59.5	58.4	60.3	59.1	60.8	63.6	60.6	63.6
Rejections of credit applications	52.2	51.9	51.2	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1
Accounts placed for collection	50.9	50.5	48.8	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0
Disputes	50.8	50.8	49.5	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1
Dollar amount beyond terms	51.2	49.2	49.0	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0
Dollar amount of customer deductions	50.7	50.7	49.6	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2
Filings for bankruptcies	53.8	53.0	51.1	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5
Index of unfavorable factors	51.6	51.0	49.9	49.2	49.1	49.9	50.3	48.0	50.8	49.5	50.0	50.2	50.6
NACM Combined CMI	54.6	53.8	52.7	53.5	52.0	53.7	53.5	52.9	54.1	54.0	55.4	54.3	55.8



Manufacturing Sector

The various reports that have been coming from the manufacturing community have been decidedly mixed. “The reports from the Federal Reserve have been weak in general, but the latest iteration of the Purchasing Managers’ Index shows numbers that haven’t been seen in a few years—especially those that make up the new orders segment of the report,” according to Kuehl.

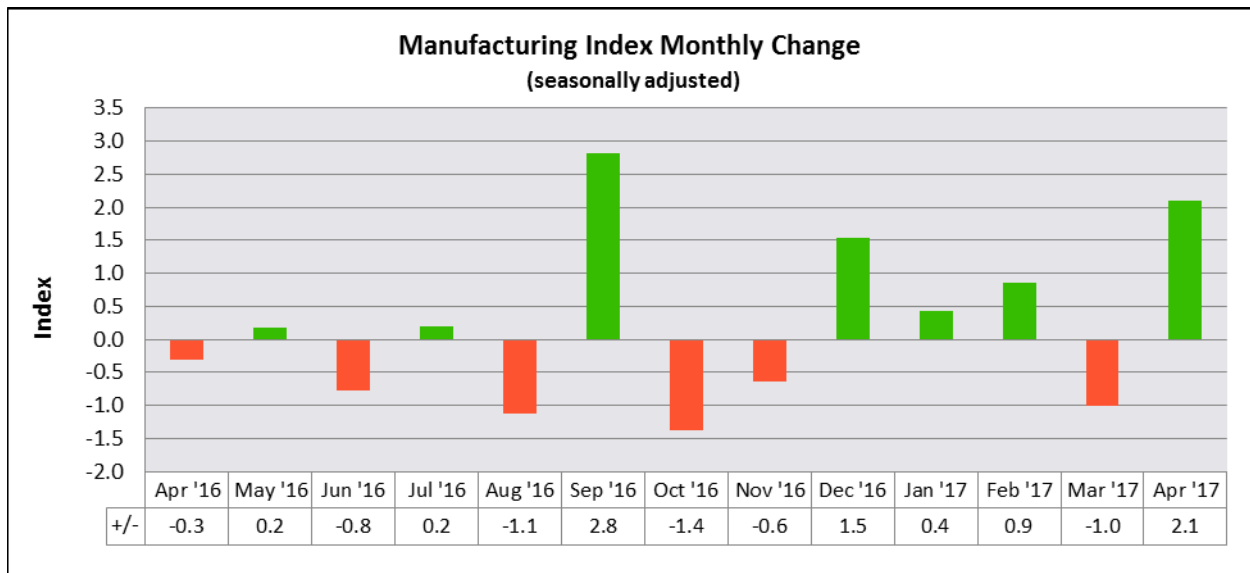
The data from the CMI reflects that enthusiasm, as there have been gains that are higher than anything seen for the last several years. The combined score for manufacturing is 56.2. That contrasts with the 54.1 last month and the 55.1 noted the month before. The index of favorable factors rose substantially and got back to where it was in February with a reading of 63.8. In March, it was 60.2 and in February it was 63.4. The index of unfavorable factors

also rose just slightly, heading in the right direction as it moved from 50 to 51.1, as high as this reading has been since September of last year.

The most impressive gains have been in the favorable factors, as has been the case for the last several months. The sales category went from 61.7 to 64.7. This has been linked to the overall confidence level of the manufacturer. The new credit applications reading jumped from 59.7 to 61.4, just slightly below the record level set in February. The dollar collection category also saw a significant recovery from 56.1 to 61.3. The concerns that were expressed when that reading fell in March have largely dissipated. The amount of credit extended is at a very high level now—slightly more than the level set in February. The reading is 67.8; last month it had dipped to 63.4. It has been a long time since these numbers have been this close to 70.

The data from the unfavorable categories are not as impressive, but moving in a positive direction nonetheless. The rejections of credit applications shifted a little from 52.1 to 52.9, but that is certainly good news given the additional credit request activity. The accounts placed for collection dipped a little, but stayed in the expansion zone (50.6 to 50.1). The disputes reading remained in contraction territory, but got a little closer to breaking out. It was at 47.4 and is now at 49.2. Kuehl explained that last month the focus was on dollar amount beyond terms as there was some fear that slow pays were going to drag the index down, but there was a nice recovery as the readings went from 48.2 to 51.5, just a little less than was noted in February when the index showed 52.1. The dollar amount of customer deductions slipped a bit and remained in contraction territory with a reading of 49.1 compared to 49.2 last month. The filings for bankruptcies category went from 52.7 to 54.1, a nice rebound from what it has been much of the year.

Manufacturing Sector (seasonally adjusted)	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17
Sales	56.3	53.9	56.1	58.4	52.4	58.2	54.4	58.5	58.7	61.7	60.7	61.7	64.7
New credit applications	55.3	56.8	54.7	56.5	55.8	59.2	56.9	51.6	56.1	61.8	61.6	59.7	61.4
Dollar collections	54.9	55.0	57.5	58.8	54.1	57.5	56.1	65.5	59.3	55.3	64.1	56.1	61.3
Amount of credit extended	58.4	58.4	55.4	61.8	58.8	61.4	58.3	60.4	60.2	63.0	67.2	63.4	67.8
Index of favorable factors	56.2	56.0	55.9	58.9	55.3	59.1	56.4	59.0	58.5	60.5	63.4	60.2	63.8
Rejections of credit applications	51.8	51.7	53.3	50.8	51.1	53.3	52.7	49.3	51.5	51.6	52.3	52.1	52.9
Accounts placed for collection	50.3	51.8	49.7	48.7	48.3	50.2	49.0	45.0	50.1	51.9	47.4	50.6	50.1
Disputes	48.7	50.7	48.9	45.0	46.5	47.7	49.2	44.5	48.8	45.7	47.4	47.4	49.2
Dollar amount beyond terms	51.4	50.1	50.2	48.3	45.4	50.5	50.0	43.0	50.1	49.4	52.1	48.2	51.5
Dollar amount of customer deductions	49.5	51.4	48.5	48.0	48.1	51.9	48.5	49.4	49.2	48.7	46.1	49.2	49.1
Filings for bankruptcies	53.7	52.1	50.0	49.8	54.5	53.0	54.3	55.6	54.4	53.5	52.3	52.7	54.1
Index of unfavorable factors	50.9	51.3	50.1	48.4	49.0	51.1	50.6	47.8	50.7	50.1	49.6	50.0	51.1
NACM Manufacturing CMI	53.0	53.2	52.4	52.6	51.5	54.3	52.9	52.3	53.8	54.3	55.1	54.1	56.2



Service Sector

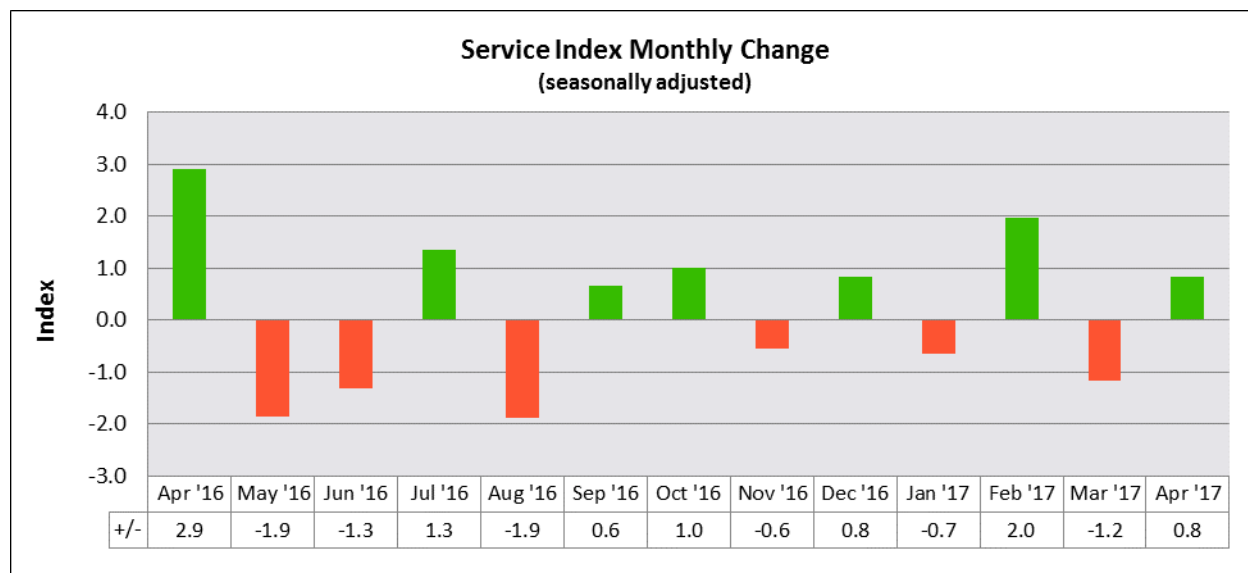
The service sector also experienced a rebound, but not one quite as impressive as that in manufacturing. Kuehl explained that the sector is very diverse and always provides a bit of a challenge as one part of the survey can show solid growth and another may be limping along. “The retail sector has been struggling to a degree, as reflected in the three straight months of sales reversals, but there has been growth in the medical sector as well as construction.” The overall score for the service sector improved to levels seen in February, going from 54.6 to 55.4. The index of favorable factors returned to the levels seen earlier in the year as it went from 61 to 63.3. The index of unfavorable factors notched down very slightly and is still clinging to the expansion zone with a reading of 50.2 as compared to 50.3 last month.

The sales category improved over what it was in March, but was not yet back to levels seen in February. It is now at 62.9 compared to 60.6 last month and 64.5 the month before. The new credit applications category improved a bit as it went from 61.3 to 62.6—higher than it was in February. The dollar collections reading at 61.2 is better than it had been. There is less concern than was expressed last month when there was a substantial dip from February (61.9 to 56.7). The reading for amount of credit extended also improved and returned to the levels seen earlier. It is now at 66.5. That compares to the 66.4 in February and the 65.3 last month. Once again, all four of the favorable categories are in the 60s and some substantially so.

There has been less growth in the unfavorable categories, but as noted earlier, the sector has kept in the expansion region by the very skin of its teeth. The overall score for the unfavorable readings tells only part of the story. The rejections of credit applications moved a little deeper into expansion territory with a reading of 51.3 compared to 51.1 last month. The accounts placed for collection worsened quite a bit. That seems to be related to the stress in the retail community. It went from 49 to 47.9, near the low point in January. The disputes category also dipped a little and stayed in contraction territory with a reading of 49.1 after one of 49.7 last month. The dollar amount beyond terms staged a nice comeback and is mostly responsible for keeping the overall index in expansion territory with a reading of 50.5 following last month’s 46.7. The dollar amount of customer deductions slipped back into the contraction zone with a reading of 49.3 as compared to 50.4 the month before. The filings for bankruptcies also fell from the levels set last month, but stayed in expansion territory with a reading of 52.9. It was at 54.9 the month previous.

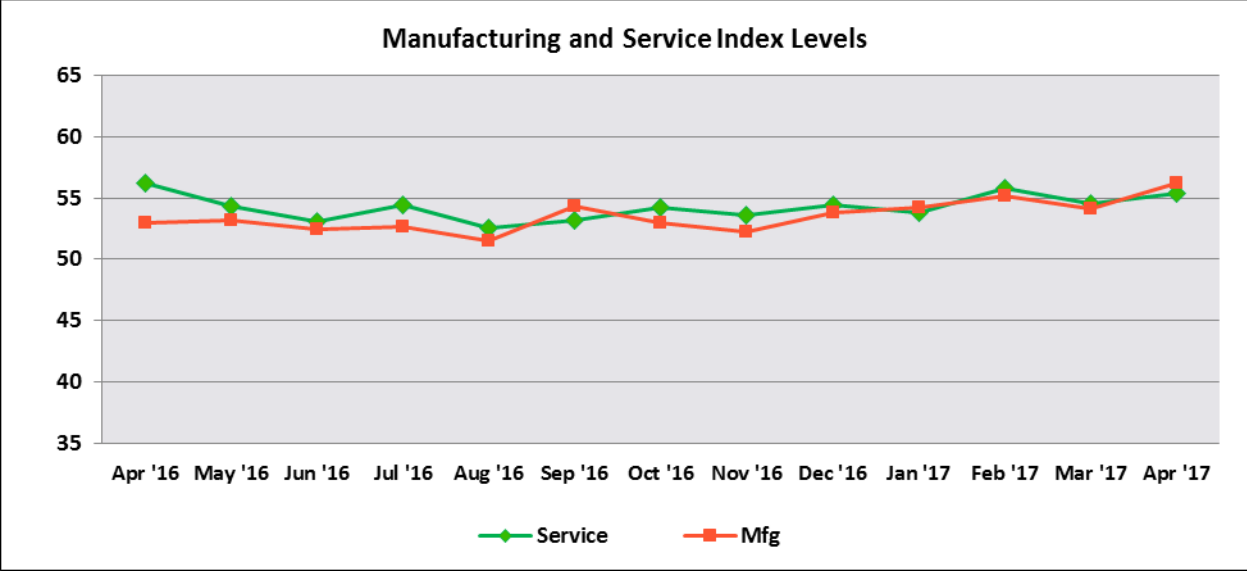
“The general sense is that there remains considerable stress in the retail community and these problems are starting to drag on the credit managers for the suppliers,” said Kuehl. “It is reassuring that slow pays are starting to dwindle, but there are signs that some of these have become bigger problems as disputes and collections are up.”

Service Sector (seasonally adjusted)	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17
Sales	63.2	59.5	57.8	61.6	55.0	57.7	59.5	65.1	58.5	58.5	64.5	60.6	62.9
New credit applications	61.8	56.5	58.5	59.0	57.6	58.0	59.1	57.4	57.8	59.7	62.4	61.3	62.6
Dollar collections	60.0	59.8	56.7	60.3	57.0	61.5	58.0	61.5	59.7	61.2	61.9	56.7	61.2
Amount of credit extended	63.5	63.6	59.8	63.8	60.7	62.4	64.7	62.4	62.6	65.2	66.4	65.3	66.5
Index of favorable factors	62.1	59.9	58.2	61.2	57.6	59.9	60.3	61.6	59.7	61.2	63.8	61.0	63.3
Rejections of credit applications	52.6	52.0	49.1	50.7	52.0	49.4	50.9	48.5	51.1	49.7	50.5	51.1	51.3
Accounts placed for collection	51.6	49.2	47.9	47.7	47.1	45.6	47.3	46.5	49.3	46.9	49.0	49.0	47.9
Disputes	52.9	50.8	50.1	50.2	49.2	49.9	50.6	50.9	50.7	46.2	49.9	49.7	49.1
Dollar amount beyond terms	51.1	48.4	47.9	49.2	47.3	46.0	48.1	46.9	48.4	47.3	49.8	46.7	50.5
Dollar amount of customer deductions	51.8	50.1	50.7	50.1	48.2	49.0	50.5	46.5	50.4	48.8	49.2	50.4	49.3
Filings for bankruptcies	53.8	53.9	52.2	51.5	51.2	52.3	53.3	50.3	55.7	54.3	54.0	54.9	52.9
Index of unfavorable factors	52.3	50.7	49.6	49.9	49.2	48.7	50.1	48.3	50.9	48.9	50.4	50.3	50.2
NACM Service CMI	56.2	54.4	53.1	54.4	52.5	53.2	54.2	53.6	54.4	53.8	55.8	54.6	55.4



April 2017 versus April 2016

“Overall there was a gain this month and the dip in March seems to have been reversed,” Kuehl noted. “The big gains were in manufacturing, and the service sector more or less held steady on the strength of the favorable factors despite continued weakness in the unfavorable.”



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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