CREDIT MANAGERS' INDEX

# Report for November 2017

**Issued November 30, 2017**

**National Association of Credit Management**

## Combined Sectors

That old familiar pattern has returned after a couple of months where we seemed to be heading for some semblance of consistency. The good news is that this month saw an improvement over last month, the direction we all would all like to head. There were some aspects of this growth that are familiar and some that are more unique to this set of readings. The familiar part is that most of the gain was in the favorable factors although there was also a small improvement in the unfavorable categories as well. "By and large, the Credit Managers' Index (CMI) this month is quite consistent with a variety of other economic measures such as the Purchasing Managers' Index, durable goods orders and capacity utilization numbers," said NACM Economist Chris Kuehl, Ph.D.

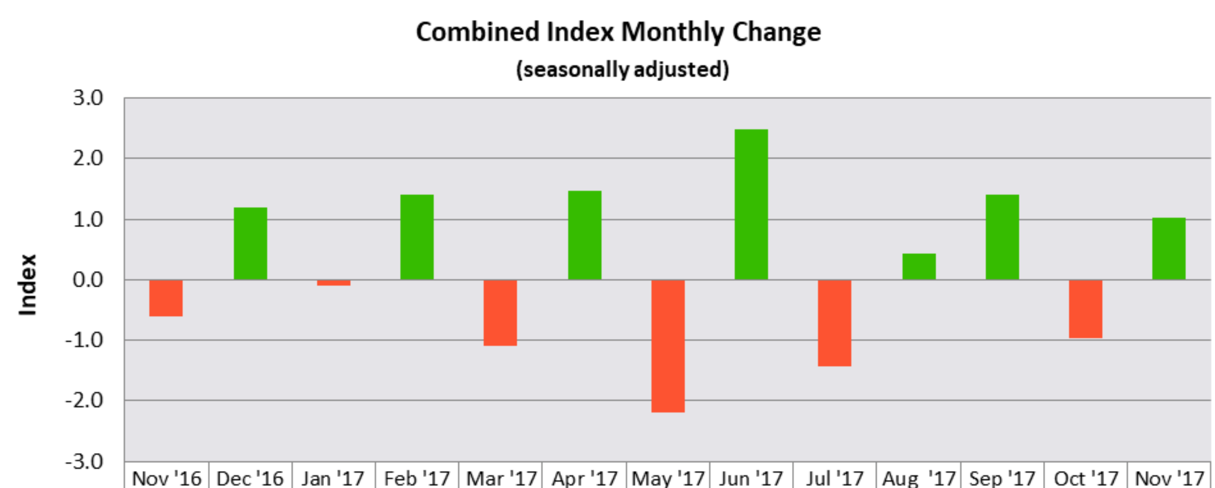
Kuehl noted that one interesting wrinkle that has appeared in other economic data involves bank lending. "There has been a sharp drop in demand for business loans in the last few months. That strikes many as odd given the kind of growth the U.S. has sported in that same period. It appears that many companies are self-financing their growth as opposed to borrowing. That has implications for the credit industry as a whole."

The overall index recovered a lot of the momentum lost last month. The combined index number is at 56.6, almost identical to what it was in September (56.5) and a nice rebound from the 55.5 registered in October. The index of favorable factors jumped to 65.7 after languishing at 63.8 in October. This reading is the highest seen in many years. When one looks at the specific sub-readings one can see why. The index for the unfavorable factors is not nearly in the same realm, but has been improving—that's what really counts. It was at 50 (the dividing line between contraction and expansion) last month and is now all the way up to 50.4! The important thing is the index is over 50 and has been for most of the past 12 months.

The sales category is very strong right now—as strong as it has been since the recession started, with a reading of 68.3. This is quite near a record high. The new credit applications reading also improved, but not by such a significant degree as it moved from 62.8 to 63.7. The dollar collections number was as robust as has been seen since the recession. It is now at 63.1. This had been the problem category through most of the year, but not this month. Finally, there is the amount of credit extended number, which remained very high at 67.8. "This category has been performing very well for the last few years as the bigger credit seekers have been asking for larger amounts consistently," said Kuehl.

There has been good news as far as the nonfavorable categories as well, but the numbers suggest there is still a lot of damage to work through as some categories are still in the 40s. The rejections of credit applications improved from a reading of 51.8 to 52.4, good news when paired with the growth in credit applications. The accounts placed for collection lurched out of the contraction zone with a reading of 50.5 as compared to the 49.5 last month. The disputes category remained in contraction territory at 48.3, but that is better than the 47.6 the month prior. Dollar amount beyond terms also remained in the contraction zone, but with some improvement to 47.5 after a 47.3 reading. The same pattern was observed with dollar amount of customer deductions as the reading stayed in contraction, but was marginally better with a move from 48.7 to 48.9. The readings for filings for bankruptcies also moved, but downward—the only one of these readings to do so. It was small, going from 55.3 to 55.1. Kuehl reported that there are still three readings in the 40s, but all three of these saw some improvement, and that is a welcome sign.

| Combined Manufacturing and Service Sectors (seasonally adjusted) | Nov '16 | Dec '16 | Jan '17 | Feb '17 | Mar '17 | Apr '17 | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 61.8 | 58.6 | 60.1 | 62.6 | 61.2 | 63.8 | 60.6 | 66.5 | 62.8 | 62.2 | 67.3 | 66.8 | 68.3 |
| New credit applications | 54.5 | 57.0 | 60.8 | 62.0 | 60.5 | 62.0 | 59.3 | 59.8 | 59.7 | 61.2 | 60.5 | 62.8 | 63.7 |
| Dollar collections | 63.5 | 59.5 | 58.2 | 63.0 | 56.4 | 61.2 | 56.7 | 62.5 | 60.2 | 58.9 | 60.0 | 60.2 | 63.1 |
| Amount of credit extended | 61.4 | 61.4 | 64.1 | 66.8 | 64.4 | 67.2 | 63.6 | 66.8 | 64.1 | 66.7 | 66.3 | 65.5 | 67.8 |
| **Index of favorable factors** | **60.3** | **59.1** | **60.8** | **63.6** | **60.6** | **63.6** | **60.0** | **63.9** | **61.7** | **62.2** | **63.5** | **63.8** | **65.7** |
| Rejections of credit applications | 48.9 | 51.3 | 50.6 | 51.4 | 51.6 | 52.1 | 52.4 | 52.6 | 51.9 | 52.2 | 52.5 | 51.8 | 52.4 |
| Accounts placed for collection | 45.8 | 49.7 | 49.4 | 48.2 | 49.8 | 49.0 | 48.5 | 49.3 | 48.9 | 48.7 | 50.3 | 49.5 | 50.5 |
| Disputes | 47.7 | 49.8 | 46.0 | 48.7 | 48.5 | 49.1 | 47.9 | 50.4 | 48.8 | 49.1 | 51.7 | 47.6 | 48.3 |
| Dollar amount beyond terms | 44.9 | 49.3 | 48.4 | 51.0 | 47.4 | 51.0 | 45.9 | 50.4 | 48.3 | 47.4 | 50.4 | 47.3 | 47.5 |
| Dollar amount of customer deductions | 47.9 | 49.8 | 48.7 | 47.6 | 49.8 | 49.2 | 48.7 | 49.1 | 48.1 | 49.2 | 49.8 | 48.7 | 48.9 |
| Filings for bankruptcies | 53.0 | 55.0 | 53.9 | 53.2 | 53.8 | 53.5 | 52.7 | 53.4 | 53.6 | 55.3 | 56.2 | 55.3 | 55.1 |
| **Index of unfavorable factors** | **48.0** | **50.8** | **49.5** | **50.0** | **50.2** | **50.6** | **49.3** | **50.9** | **49.9** | **50.3** | **51.8** | **50.0** | **50.4** |
| **NACM Combined CMI** | **52.9** | **54.1** | **54.0** | **55.4** | **54.3** | **55.8** | **53.6** | **56.1** | **54.6** | **55.1** | **56.5** | **55.5** | **56.6** |




| | Nov '16 | Dec '16 | Jan '17 | Feb '17 | Mar '17 | Apr '17 | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| +/- | -0.6 | 1.2 | -0.1 | 1.4 | -1.1 | 1.5 | -2.2 | 2.5 | -1.4 | 0.4 | 1.4 | -1.0 | 1.0 |

## Manufacturing Sector

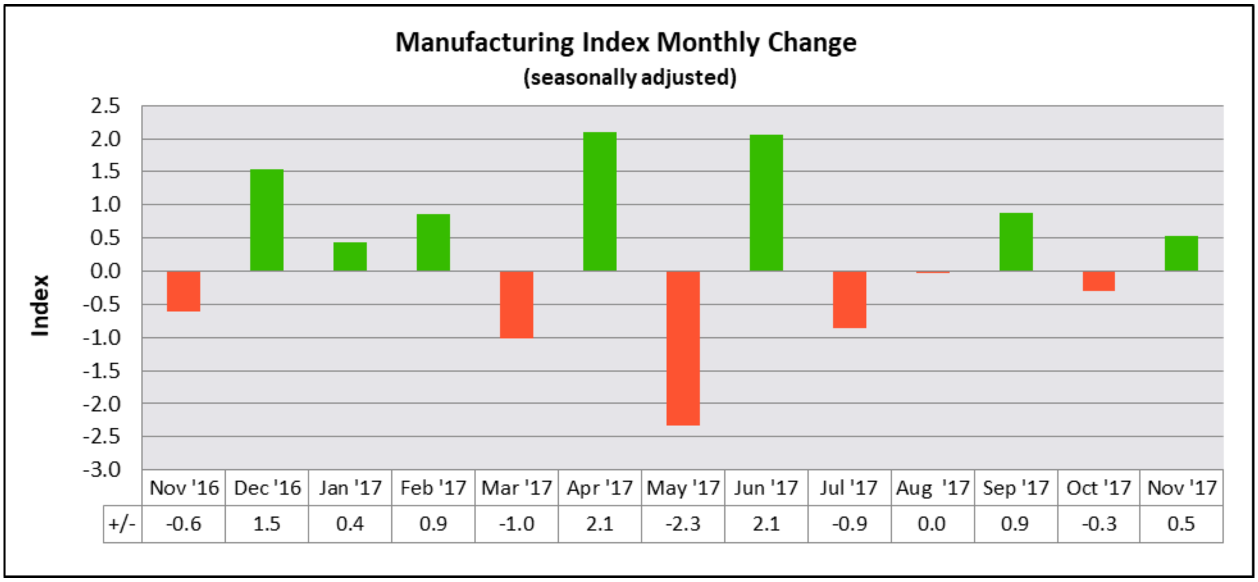
The performance of the combined CMI was mirrored in the manufacturing sector. The overall score moved from 55.6 to 56.1, as high as it has been since April of this year. The overall number for the favorable index also made a nice jump as it went from 63.5 to 65.3. The change in the nonfavorable index was not quite as dramatic, but it is not necessarily trending in the right direction by falling from 50.4 to 50.1. It is a very slight adjustment, moving closer to contraction territory—not where anybody would want it to be.

The sales category made a nice jump from 67.4 to 68.2. These are some of the highest numbers seen in more than five years. As an anecdotal addition to this data, there is the experience of the big FabTech show in Chicago. Kuehl's experience at the show was that more companies exhibited than has been the case since the recession, more companies and people attended, and there were more sales of machinery than there had been in 10 years.

This performance has also been repeated in many other manufacturing shows this year. The new credit applications reading also improved from 61.8 to 64.5. There was similar good news from the dollar collections data as it got back into the 60s with a reading of 60.9 compared to the 59.5 tracked the month before. The amount of credit extended jumped all the way to 67.4 after being at 65.2. This takes the reading back to where it was in April when the spring boom was just getting started.

The rejections of credit applications slipped a little from 53.7 to 52.6. That takes a little of the bloom off the applications for credit number. The important point is that this category remains in the expansion zone. The accounts placed for collection got out of the contraction zone with a reading of 51.5 as compared to the 48.6 notched in October. The disputes category slid deeper into contraction, however, with a reading of 47.1 compared to 48.2 the month before. Readings for dollar amount beyond terms has been a challenge most of this year—"slow pays have been the bane of the credit managers' existence," said Kuehl. This month the reading stayed under the 50 line, but there was not all that much change as it went from 48.6 to 48.2. The worst reading was dollar amount of customer deductions as it sagged deeply into contraction territory with a reading of 45.7 after last month's 47.1. There was also some trouble as far as filings for bankruptcies as this fell from 56 to 55.4.

| **Manufacturing Sector** (seasonally adjusted) | Nov '16 | Dec '16 | Jan '17 | Feb '17 | Mar '17 | Apr '17 | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 58.5 | 58.7 | 61.7 | 60.7 | 61.7 | 64.7 | 59.5 | 66.9 | 64.0 | 60.8 | 65.0 | 67.4 | 68.2 |
| New credit applications | 51.6 | 56.1 | 61.8 | 61.6 | 59.7 | 61.4 | 58.6 | 59.8 | 60.6 | 61.8 | 59.0 | 61.8 | 64.5 |
| Dollar collections | 65.5 | 59.3 | 55.3 | 64.1 | 56.1 | 61.3 | 57.3 | 61.0 | 61.1 | 59.3 | 60.4 | 59.5 | 60.9 |
| Amount of credit extended | 60.4 | 60.2 | 63.0 | 67.2 | 63.4 | 67.8 | 63.4 | 67.4 | 64.5 | 66.1 | 64.0 | 65.2 | 67.4 |
| **Index of favorable factors** | **59.0** | **58.5** | **60.5** | **63.4** | **60.2** | **63.8** | **59.7** | **63.8** | **62.5** | **62.0** | **62.1** | **63.5** | **65.3** |
| Rejections of credit applications | 49.3 | 51.5 | 51.6 | 52.3 | 52.1 | 52.9 | 52.6 | 53.3 | 52.9 | 52.8 | 52.5 | 53.7 | 52.6 |
| Accounts placed for collection | 45.0 | 50.1 | 51.9 | 47.4 | 50.6 | 50.1 | 49.5 | 49.8 | 49.8 | 49.7 | 50.1 | 48.6 | 51.5 |
| Disputes | 44.5 | 48.8 | 45.7 | 47.4 | 47.4 | 49.2 | 48.0 | 49.6 | 47.8 | 47.3 | 53.0 | 48.2 | 47.1 |
| Dollar amount beyond terms | 43.0 | 50.1 | 49.4 | 52.1 | 48.2 | 51.5 | 48.1 | 49.3 | 49.4 | 49.2 | 51.9 | 48.6 | 48.2 |
| Dollar amount of customer deductions | 49.4 | 49.2 | 48.7 | 46.1 | 49.2 | 49.1 | 48.6 | 48.7 | 47.6 | 48.0 | 48.5 | 47.1 | 45.7 |
| Filings for bankruptcies | 55.6 | 54.4 | 53.5 | 52.3 | 52.7 | 54.1 | 53.1 | 53.6 | 53.0 | 55.5 | 54.7 | 56.0 | 55.4 |
| **Index of unfavorable factors** | **47.8** | **50.7** | **50.1** | **49.6** | **50.0** | **51.1** | **50.0** | **50.7** | **50.1** | **50.4** | **51.8** | **50.4** | **50.1** |
| **NACM Manufacturing CMI** | **52.3** | **53.8** | **54.3** | **55.1** | **54.1** | **56.2** | **53.9** | **55.9** | **55.1** | **55.0** | **55.9** | **55.6** | **56.1** |




## Service Sector

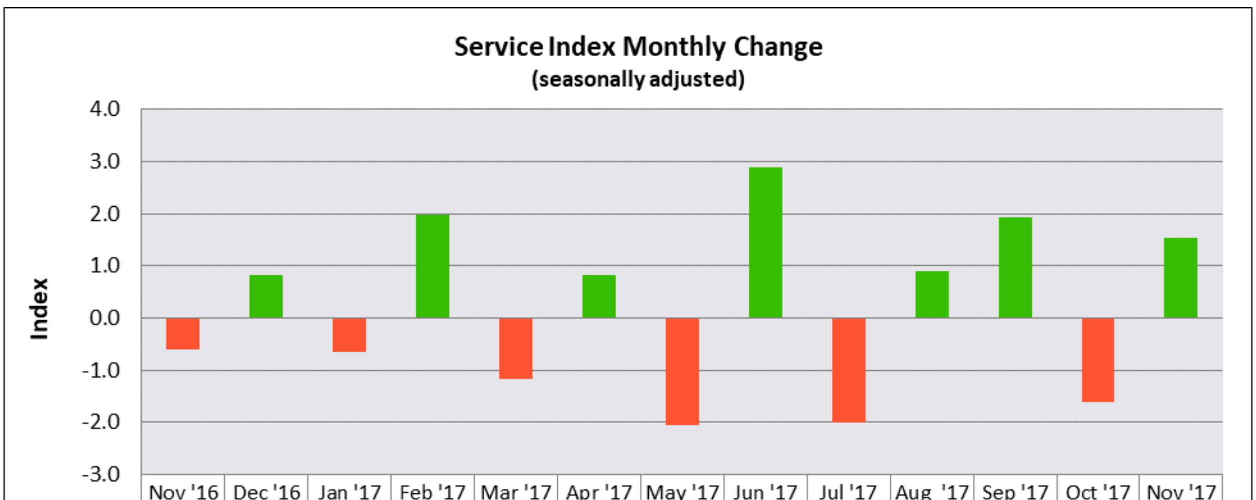
As with the manufacturing sector, there were gains in the service categories as well. This has always been one of the trickiest to track as it covers a wide variety of industry groups—everything from retail to health care and construction (and many more). The overall score was solid enough, moving from 55.5 to 57 and back to readings that were seen in September. The index of favorable factors saw a major boost as it went from a healthy 64.2 to an even healthier 66.2. The change in the nonfavorable readings was not quite as robust, but it certainly trends in the right direction and has escaped the contraction zone by moving from 49.7 to 50.8

The devil remains in the details. The sales category jumped from 66.1 to 68.4, showing some good gains in the overall retail sector. The new credit applications shifted down somewhat as it moved from 63.7 to 62.9. This also shows some of the volatility in the retail community. The dollar collections numbers had a nice jump from 61 to 65.4, as high as this reading has been in well over a year. The amount of credit extended also shifted up nicely with a reading of 68.2 compared to the 65.9 registered the month before.

Rejections of credit applications jumped out of the contraction zone by moving from 49.8 to 52.3. “That pairs well with the data on applications for credit, as it would appear that those asking for credit are actually in a position to accept it,” explained Kuehl. The data for accounts placed for collection slipped out of the expansion zone by dropping from 50.3 to 49.6. He said that this is a bit of a worry as collections are the last resort from a credit management perspective. The disputes reading stayed in the contraction zone, but improved a little (47 to 49.5). The dollar amount beyond terms remained essentially where it had been. It was at 46.1 and is now slightly better at 46.7. The dollar amount of customer deductions remained in expansion territory with a reading of 52.1 as compared to the 50.2 the month prior. Filings for bankruptcies remained very stable with a reading of 54.7 as compared to 54.6 the previous month.

“This is the crucial time for retail and thus far the news has been good, with improvement in everything from online sales to those in the traditional stores. That will likely show up in next month’s CMI data,” said Kuehl.

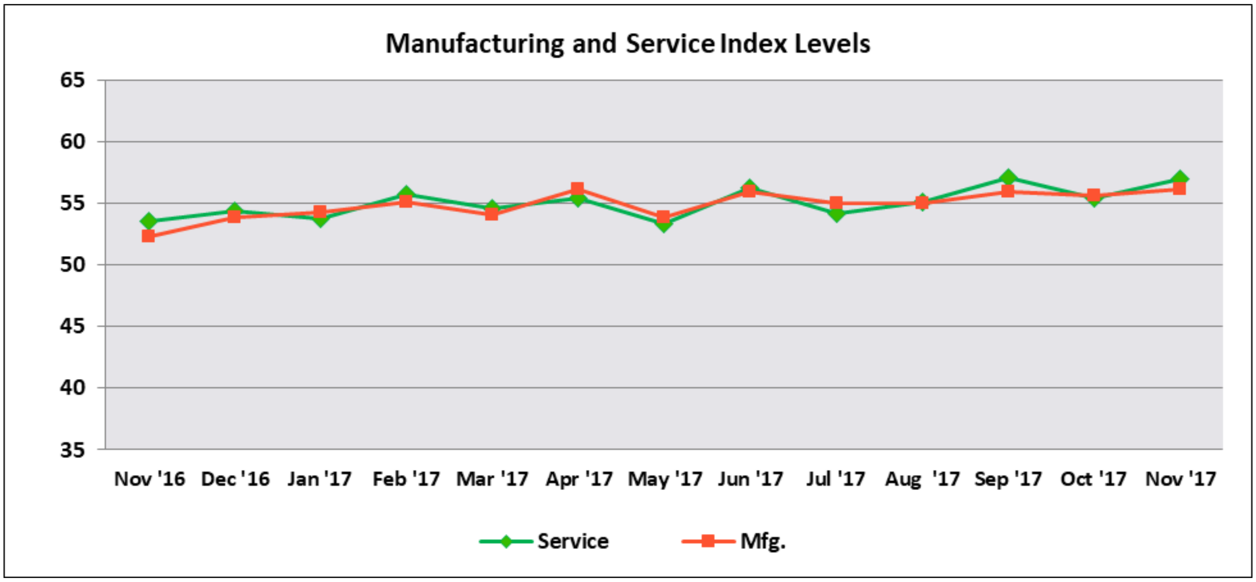
| Service Sector (seasonally adjusted) | Nov '16 | Dec '16 | Jan '17 | Feb '17 | Mar '17 | Apr '17 | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 65.1 | 58.5 | 58.5 | 64.5 | 60.6 | 62.9 | 61.7 | 66.0 | 61.7 | 63.6 | 69.7 | 66.1 | 68.4 |
| New credit applications | 57.4 | 57.8 | 59.7 | 62.4 | 61.3 | 62.6 | 59.9 | 59.9 | 58.8 | 60.6 | 62.0 | 63.7 | 62.9 |
| Dollar collections | 61.5 | 59.7 | 61.2 | 61.9 | 56.7 | 61.2 | 56.0 | 63.9 | 59.4 | 58.6 | 59.5 | 61.0 | 65.4 |
| Amount of credit extended | 62.4 | 62.6 | 65.2 | 66.4 | 65.3 | 66.5 | 63.8 | 66.3 | 63.8 | 67.3 | 68.6 | 65.9 | 68.2 |
| **Index of favorable factors** | **61.6** | **59.7** | **61.2** | **63.8** | **61.0** | **63.3** | **60.3** | **64.0** | **60.9** | **62.5** | **64.9** | **64.2** | **66.2** |
| Rejections of credit applications | 48.5 | 51.1 | 49.7 | 50.5 | 51.1 | 51.3 | 52.3 | 51.9 | 50.8 | 51.5 | 52.5 | 49.8 | 52.3 |
| Accounts placed for collection | 46.5 | 49.3 | 46.9 | 49.0 | 49.0 | 47.9 | 47.5 | 48.9 | 48.1 | 47.8 | 50.6 | 50.3 | 49.6 |
| Disputes | 50.9 | 50.7 | 46.2 | 49.9 | 49.7 | 49.1 | 47.7 | 51.3 | 49.8 | 50.8 | 50.3 | 47.0 | 49.5 |
| Dollar amount beyond terms | 46.9 | 48.4 | 47.3 | 49.8 | 46.7 | 50.5 | 43.6 | 51.6 | 47.2 | 45.6 | 49.0 | 46.1 | 46.7 |
| Dollar amount of customer deductions | 46.5 | 50.4 | 48.8 | 49.2 | 50.4 | 49.3 | 48.9 | 49.5 | 48.6 | 50.4 | 51.1 | 50.2 | 52.1 |
| Filings for bankruptcies | 50.3 | 55.7 | 54.3 | 54.0 | 54.9 | 52.9 | 52.3 | 53.2 | 54.2 | 55.2 | 57.6 | 54.6 | 54.7 |
| **Index of unfavorable factors** | **48.3** | **50.9** | **48.9** | **50.4** | **50.3** | **50.2** | **48.7** | **51.1** | **49.8** | **50.2** | **51.8** | **49.7** | **50.8** |
| **NACM Service CMI** | **53.6** | **54.4** | **53.8** | **55.8** | **54.6** | **55.4** | **53.4** | **56.2** | **54.2** | **55.1** | **57.1** | **55.5** | **57.0** |




| | Nov '16 | Dec '16 | Jan '17 | Feb '17 | Mar '17 | Apr '17 | May '17 | Jun '17 | Jul '17 | Aug '17 | Sep '17 | Oct '17 | Nov '17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| +/- | -0.6 | 0.8 | -0.7 | 2.0 | -1.2 | 0.8 | -2.1 | 2.9 | -2.0 | 0.9 | 1.9 | -1.6 | 1.5 |

## November 2017 versus November 2016

"Once again, the real story is not the month-over-month performance of the CMI but the major differences between readings for the favorable and nonfavorable data," Kuehl concluded. "If one looked at just one or the other there would be radically different conclusions as far as the health of the overall economy."




## 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 13,000 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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