Report for December 2017

Issued December 31, 2017

National Association of Credit Management

Combined Sectors

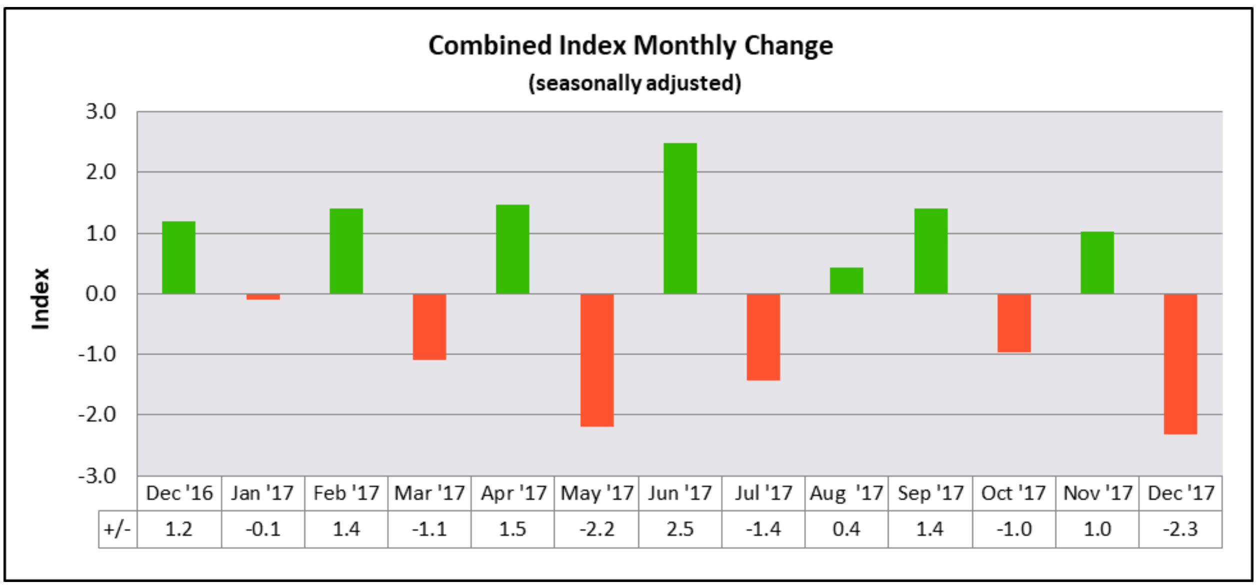
After a record-setting November, credit managers are reporting a slight step back in the latest Credit Managers' Index (CMI). The drop in the performance of the favorable factors was dramatic and not the least expected given the patterns that have been noted for the last several months. "In November, the sense was that real progress was ahead and many people have been speaking of 2018 with great expectations," said NACM Economist, Chris Kuehl, Ph.D. "It may yet work out that way. This month may be written off as an anomaly, but it may also signal that some of those weaknesses that had been warned about are manifesting." The overall score in November was 56.6 and has fallen to 54.2—the lowest reading since May. More distressing is the reason for the decline, as the biggest drop was in the favorable factors. They fell from an overall score of 65.7 to 59.4, the first time this category has dropped out of the 60s in well over a year. The unfavorable category was the bright spot this month, as it scarcely changed—increasing from 50.4 to 50.8.

All of the favorable measures suffered this month. Some dropped like a stone. Sales fell hard from 68.3 to 59.2—nearly a 10-point decline—hitting a low point not reached since December 2016. The new credit applications also fell from the 60s to 57.3. The dollar collections category slipped out of the 60s by the narrowest of margins (63.1 to 59.1). Only amount of credit extended managed to stay in the 60s, with a reading of 61.8 after November's 67.8.

There was considerably less movement in the unfavorable categories, which is a good thing this month. There were even some minor improvements. The rejections of credit applications stayed in the 50s, but slid slightly from 52.4 to 51.4. Accounts placed for collection fell out of the 50s again by slipping to 49.8 from November's 50.5. This category has been slipping back and forth across the barrier between expansion (over 50) and contraction (under 50) all year. The disputes category increased a little, but still stayed in the contraction zone—49.7 as compared to the 48.3 notched in November. "The dollar amount beyond terms has been a challenge all year as the slow pays show up one month and not so much the next," said Kuehl. "This time the reading was better than it was the month before, but still hovers in the 40s." It was 47.5 in November and this month it is up to 49.3—within striking distance of expansion for the first time since September. The dollar amount of customer deductions limped in at 49.7, but it was still an improvement over November, when it hit 48.9. The filings for bankruptcies stayed fairly stable with a reading of 55 following the reading of 55.1 the month before.

Kuehl notes these are somewhat confusing numbers given the growth that has been taking place in the economy over the last couple of quarters. "It begs the question—which of these is the anomaly? Is it the good growth that has been showing up in the GDP numbers or is this month an oddity for the credit managers? Both the manufacturing and service sectors have seen this decline, so it isn't a matter of one part of the economy struggling." This is the point that demands some attention to the pattern that has been established with the CMI in the past. Given that credit activity precedes a great deal of the business cycle, the CMI often serves as an early warning system. Still, even with the big declines, the overall score is comfortably above the line and in expansion territory. The favorable categories have been near record levels much of the year. "Perhaps it was time for them to come back to earth. It is hoped that this is not the beginning of a more serious slide," said Kuehl.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17
Sales	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8	62.2	67.3	66.8	68.3	59.2
New credit applications	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7	61.2	60.5	62.8	63.7	57.3
Dollar collections	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2	58.9	60.0	60.2	63.1	59.1
Amount of credit extended	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1	66.7	66.3	65.5	67.8	61.8
Index of favorable factors	**59.1**	**60.8**	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**	**61.7**	**62.2**	**63.5**	**63.8**	**65.7**	**59.4**
Rejections of credit applications	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9	52.2	52.5	51.8	52.4	51.4
Accounts placed for collection	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9	48.7	50.3	49.5	50.5	49.8
Disputes	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8	49.1	51.7	47.6	48.3	49.7
Dollar amount beyond terms	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3	47.4	50.4	47.3	47.5	49.3
Dollar amount of customer deductions	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1	49.2	49.8	48.7	48.9	49.7
Filings for bankruptcies	55.0	53.9	53.2	53.8	53.5	52.7	53.4	53.6	55.3	56.2	55.3	55.1	55.0
Index of unfavorable factors	**50.8**	**49.5**	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**	**49.9**	**50.3**	**51.8**	**50.0**	**50.4**	**50.8**
NACM Combined CMI	**54.1**	**54.0**	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**	**56.5**	**55.5**	**56.6**	**54.2**



Manufacturing Sector

The manufacturing sector has been performing similarly to the overall CMI, as has the service sector. The enthusiasm that's been noted in the manufacturing sector over the last several months has been real enough, but with more than a few caveats. In discussing the state of the economy in general, Kuehl remarked that the growth in the automotive sector was attributed to some extent to the damage from the hurricanes and the need to replace close to four million cars in a short period of time. Much of the rest of the growth was related to an expanding export sector.

The overall score for manufacturing fell to 53.9 this month from 56.1 in November. This is certainly not a crisis given the numbers remain comfortably in the middle of the 50s, but the trend is not what would be preferred. The combined score for the favorable factors is the arresting one as it has fallen to 58.8 this month from 65.3 in

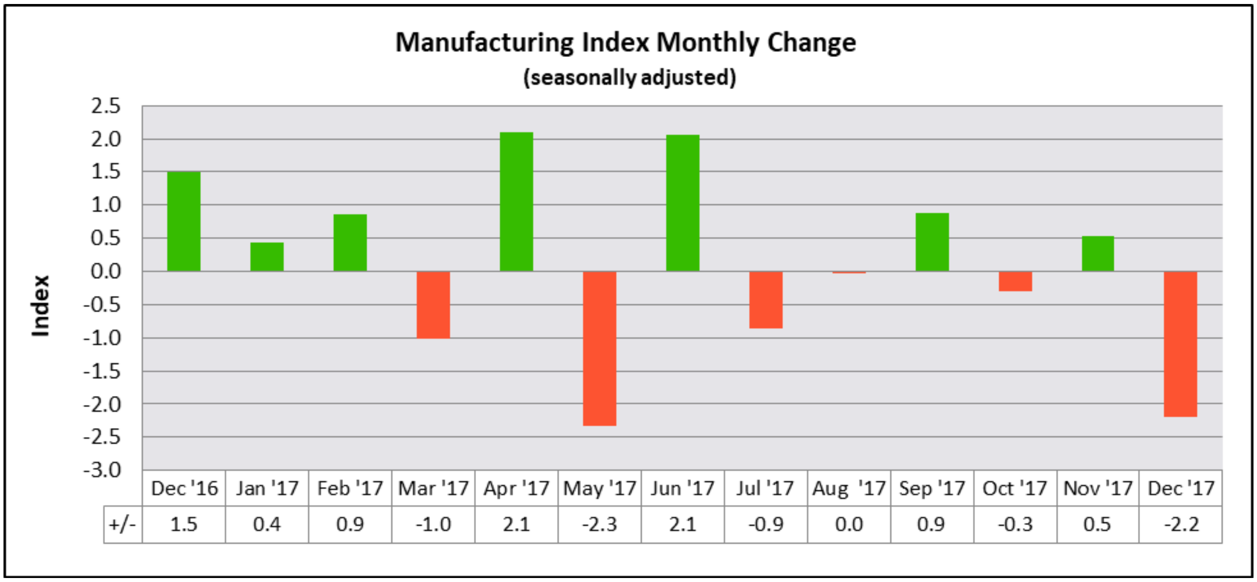
November. The combined score for the unfavorable factors didn't change much—rising from 50.1 to 50.7, but at least the movement is in the right direction.

When looking at the details, there is even more to worry about. The sales category fell drastically (68.2 to 59.2), hurtling the reading from record territory to levels not seen since May of this year. The new credit applications dropped out of the 60s as well, with a reading of 56.5 following November's 64.5. The same story was noted in dollar collections, which fell to 58.9 from 60.9 in November. The category finished off with yet another fall as amount of credit extended slid from 67.4 to 60.7.

The action in the unfavorable categories was far less dramatic—there were even a couple of factors that showed improvement. The rejections of credit applications skidded a bit from 52.6 to 51.5, but at least it stayed in the expansion zone. Accounts placed for collection slid a bit as well—from 51.5 to 50.3. The disputes reading improved, but stayed in contraction territory as it moved from 47.1 to 48.8. The dollar amount beyond terms emerged out of the contraction zone with a reading 50.1 as compared to 48 the prior month. This has been a highly volatile category all year and has accounted for a lot of the ups and downs that have been reported. The dollar amount of customer deductions category also made a run at reaching expansion territory with a reading of 49.1 after a November reading of 45.7. This category has been in the doldrums all year and is about as close as it has come to expansion territory. The filings for bankruptcies reading slipped a little, but remains solidly in the 50s (54.4 from 55.4).

"Manufacturers are still upbeat, but there appears to be some trepidation about what next year might bring," said Kuehl. "There is enthusiasm about the potential growth from tax cuts, but there is also worry about the timing and the sustainability of consumer demand and export activity."

Manufacturing Sector (seasonally adjusted)	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17
Sales	58.7	61.7	60.7	61.7	64.7	59.5	66.9	64.0	60.8	65.0	67.4	68.2	59.2
New credit applications	56.1	61.8	61.6	59.7	61.4	58.6	59.8	60.6	61.8	59.0	61.8	64.5	56.5
Dollar collections	59.3	55.3	64.1	56.1	61.3	57.3	61.0	61.1	59.3	60.4	59.5	60.9	58.9
Amount of credit extended	60.2	63.0	67.2	63.4	67.8	63.4	67.4	64.5	66.1	64.0	65.2	67.4	60.7
Index of favorable factors	**58.5**	**60.5**	**63.4**	**60.2**	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**	**62.1**	**63.5**	**65.3**	**58.8**
Rejections of credit applications	51.5	51.6	52.3	52.1	52.9	52.6	53.3	52.9	52.8	52.5	53.7	52.6	51.5
Accounts placed for collection	50.1	51.9	47.4	50.6	50.1	49.5	49.8	49.8	49.7	50.1	48.6	51.5	50.3
Disputes	48.8	45.7	47.4	47.4	49.2	48.0	49.6	47.8	47.3	53.0	48.2	47.1	48.8
Dollar amount beyond terms	50.1	49.4	52.1	48.2	51.5	48.1	49.3	49.4	49.2	51.9	48.6	48.2	50.1
Dollar amount of customer deductions	49.2	48.7	46.1	49.2	49.1	48.6	48.7	47.6	48.0	48.5	47.1	45.7	49.1
Filings for bankruptcies	54.4	53.5	52.3	52.7	54.1	53.1	53.6	53.0	55.5	54.7	56.0	55.4	54.4
Index of unfavorable factors	**50.7**	**50.1**	**49.6**	**50.0**	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**	**51.8**	**50.4**	**50.1**	**50.7**
NACM Manufacturing CMI	**53.8**	**54.3**	**55.1**	**54.1**	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**	**55.9**	**55.6**	**56.1**	**53.9**



Service Sector

This time of year, there is an expectation that retail and transportation can carry the day in the service sector. In fact, Kuehl says that there has been more retail action and the parcel delivery companies have been swamped. Unfortunately, these are not the only service sector categories. Many of the others are in something of a slump. Housing has slowed, as it does this time of year, and construction has been off. Even the medical sector has shown some weakness.

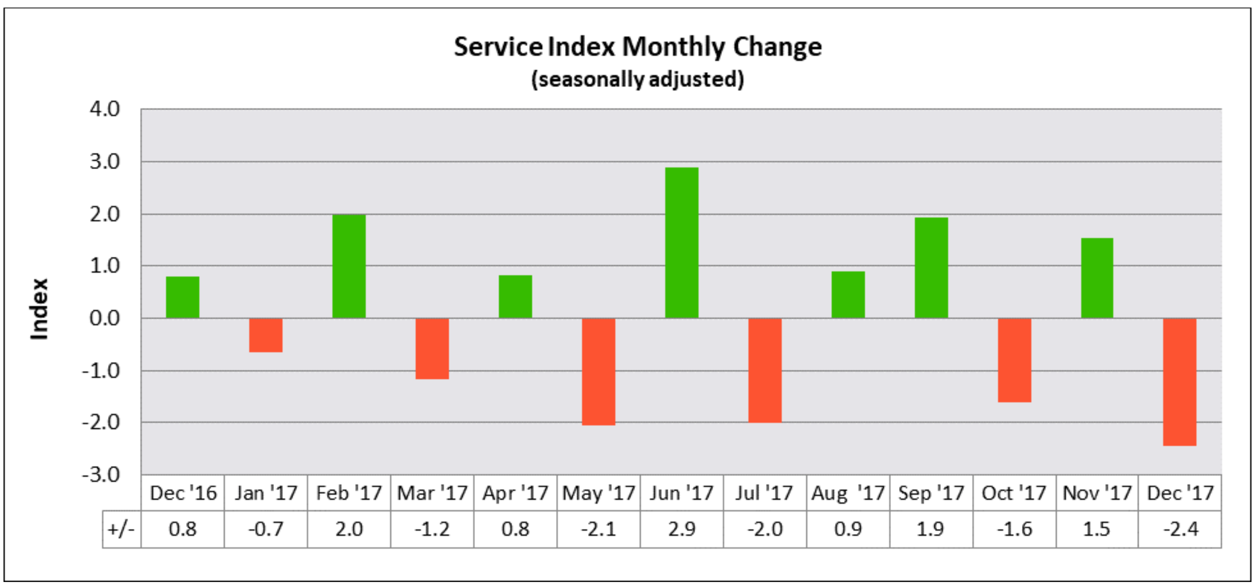
The combined score for the service sector is 54.5. That is not awful, but far less than the 57 notched in November. The combined score for the favorable factors slipped from an exalted 66.2 to 59.9, the first time this category has been below 60 since December of last year. The combined score for the unfavorable factors improved from 50.8 to 51.

The sales reading dropped like a rock—just like the readings in the manufacturing sector. The enthusiasm that was driving sales seems to have faded somewhat. It was at 68.4 and now sits at 59.2. The new credit applications category also fell (62.9 to 58.2). The dollar collections numbers have been up and down this year. That pattern has continued as November was 65.4 and this month it's 59.4. The last of the favorables, amount of credit extended, matched up with the others—68.2 in November and 63 this month. The numbers are not really bad at this point—even with these big drops. They are firmly in the expansion zone, but they were almost at record highs just a month or so ago.

The unfavorables moved a lot less. The rejections of credit applications slipped a bit from 52.3 to 51.2, but the good news is that the category stayed in the 50s. The accounts placed for collection fell a little as well, from 49.6 to 49.3, but remains in sight of the 50s. The disputes numbers finally got back into the expansion zone by moving from 49.5 to 50.7. That takes the reading back to numbers seen in August. The dollar amount beyond terms reading also showed some positive movement—from 46.7 to 48.4. That is still obviously in the contraction zone, but trending in the right direction. The dollar amount of customer deductions dropped from 52.1 to 50.4. The filings for bankruptcies improved quite a lot, from 54.7 to 55.7—one of the strongest readings of the entire category. This is good news indeed in a sector that includes a lot of retail.

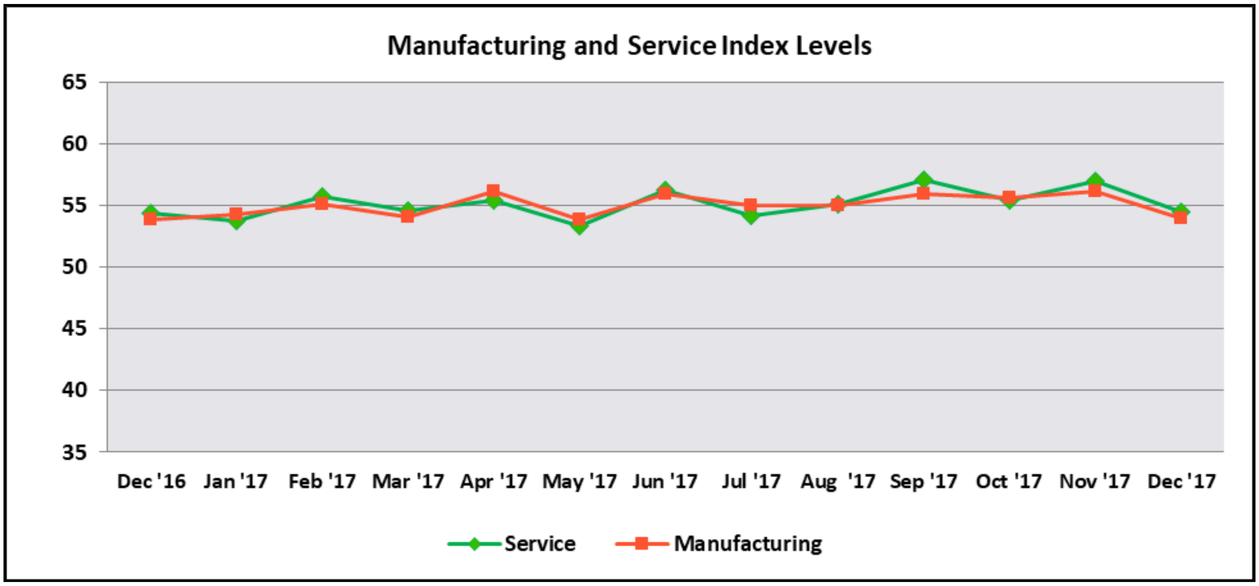
Kuehl noted that given these numbers have been collected prior to the end of the holiday season, there is some expectation that next month will show some improvement, as the retail sector seems to be doing pretty well this year.

Service Sector (seasonally adjusted)	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17
Sales	58.5	58.5	64.5	60.6	62.9	61.7	66.0	61.7	63.6	69.7	66.1	68.4	59.2
New credit applications	57.8	59.7	62.4	61.3	62.6	59.9	59.9	58.8	60.6	62.0	63.7	62.9	58.2
Dollar collections	59.7	61.2	61.9	56.7	61.2	56.0	63.9	59.4	58.6	59.5	61.0	65.4	59.4
Amount of credit extended	62.6	65.2	66.4	65.3	66.5	63.8	66.3	63.8	67.3	68.6	65.9	68.2	63.0
Index of favorable factors	**59.7**	**61.2**	**63.8**	**61.0**	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**	**64.9**	**64.2**	**66.2**	**59.9**
Rejections of credit applications	51.1	49.7	50.5	51.1	51.3	52.3	51.9	50.8	51.5	52.5	49.8	52.3	51.2
Accounts placed for collection	49.3	46.9	49.0	49.0	47.9	47.5	48.9	48.1	47.8	50.6	50.3	49.6	49.3
Disputes	50.7	46.2	49.9	49.7	49.1	47.7	51.3	49.8	50.8	50.3	47.0	49.5	50.7
Dollar amount beyond terms	48.4	47.3	49.8	46.7	50.5	43.6	51.6	47.2	45.6	49.0	46.1	46.7	48.4
Dollar amount of customer deductions	50.4	48.8	49.2	50.4	49.3	48.9	49.5	48.6	50.4	51.1	50.2	52.1	50.4
Filings for bankruptcies	55.7	54.3	54.0	54.9	52.9	52.3	53.2	54.2	55.2	57.6	54.6	54.7	55.7
Index of unfavorable factors	**50.9**	**48.9**	**50.4**	**50.3**	**50.2**	**48.7**	**51.1**	**49.8**	**50.2**	**51.8**	**49.7**	**50.8**	**51.0**
NACM Service CMI	**54.4**	**53.8**	**55.8**	**54.6**	**55.4**	**53.4**	**56.2**	**54.2**	**55.1**	**57.1**	**55.5**	**57.0**	**54.5**



December 2017 versus December 2016

"This was not a month to bring joy to the economy—that slide in the favorable factors will demand a lot of attention going forward," Kuehl concluded. "It is hoped that this is not a harbinger of things to come."



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:

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

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 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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