Report for September 2018

Issued September 28, 2018

National Association of Credit Management

Combined Sectors

September showed another uptick in the Credit Managers' Index (CMI). This one puts the combined score as high as it has been since May and thoroughly in expansion territory. Anything over 50 qualifies as expansion, but getting past the mid-point is always welcome news as it suggests most of the economy is firing on all cylinders. The fact is the CMI is in agreement with a number of other leading indicators, which is always reassuring. "The latest data from the Purchasing Managers' Index (PMI) was welcoming news last month as the readings jumped into the 60s," said NACM Economist Chris Kuehl, Ph.D. "There has been growth in term of industrial production and the overall GDP as well. This is all somewhat unexpected given the turmoil and controversy over tariffs and trade wars, but timing is everything." He explained further that the truth of the matter is many of these tariffs and restrictions have not yet come to pass. By most accounts they will come sooner than later, but for the time being, there is a window of opportunity to sell and buy before the restrictions are in place. "This was what goosed the second quarter GDP numbers up to 4.2%—lots of frantic activity designed to beat the deadlines. That motivation will fade through the remainder of the year."

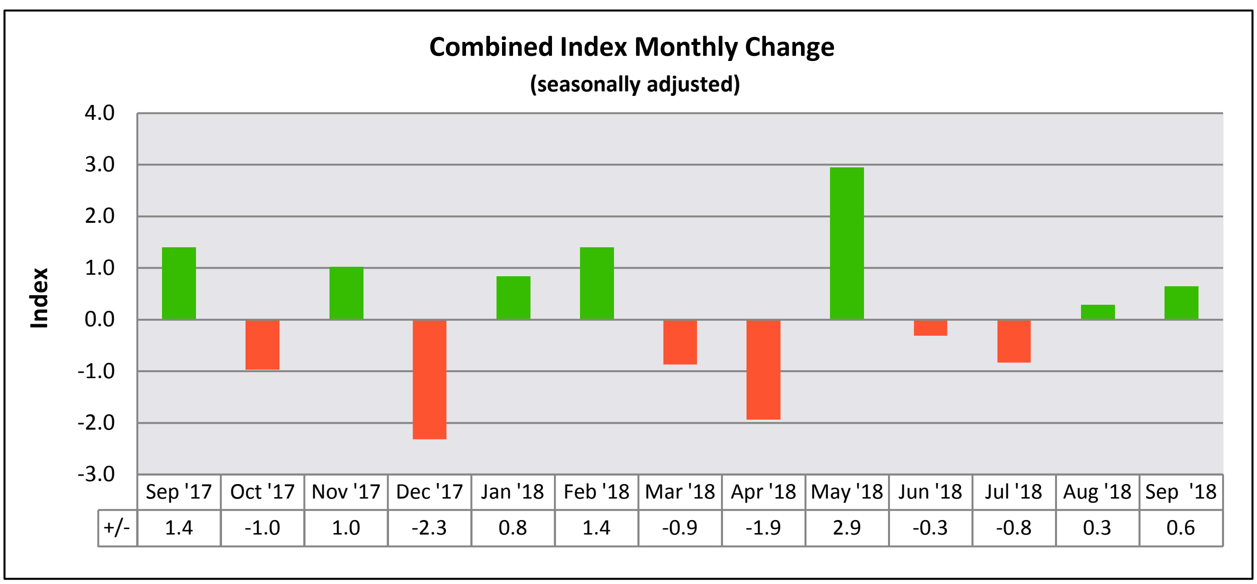
The combined score for the favorable factors hit a high point not seen since May of this year: 65.2 as compared to the previous month's 64.3 and May's 65.7. The combined score for the unfavorable factors was also an improvement, but a very small one as it went from 50.1 to 50.6. This has been the pattern for a year as the high point was reached in September of last year when it hit 51.8. "This continues to be the prime concern for the CMI data," Kuehl said. "Why are there still so many struggling operations given the overall growth of the economy and the good news that has been registered in the favorable categories?"

A breakdown of the favorable categories shows solid growth and numbers that are back to where they were at the start of the summer. The sales reading was 68.8, just shy of the reading in May and June. "There is likely to be some of that precautionary buying registered here as companies sought to try to insulate themselves against the impact of tariffs and trade wars," he said. The new credit applications reading fell just a bit from 62.5 to 61.9. This is still comfortably in the 60s, but indicates "there has been some evidence that business is starting to become a little more cautious and fearful of the future." The dollar collections data stayed nearly the same as it was last month with a reading of 62.8 as compared to 62.6. There was slightly more activity noted when it came to amount of credit extended as it improved from 66.9 to 67.1. "This reading has been very high for the bulk of the year and suggests that the biggest and most important creditors are asking for more credit as they are likely to be the companies that have been growing most aggressively," Kuehl said.

As with prior months, the real issues and concerns are showing up in the non-favorable categories. There was a slight reduction in the category of rejections of credit applications (52.2 to 51.8), which is consistent with the reduction in applications for new credit. "There have been more companies with questionable financial futures seeking credit, and many are not deemed a good risk right now," he said. "There is already evidence that companies with a lot of foreign trade exposure are not having an easy time of it as far as credit is concerned." On the positive side, there was a significant improvement in the accounts placed for collection category as it moved from the contraction zone to expansion by the barest of margins. It moved from 49 to 50.2; narrow as this is, the point remains that it signals growth again. There was also improvement in the disputes category, but the rise from 46.4 to 47.6 did not quite get the reading out of the contraction zone. There was a similar pattern with dollar amount beyond terms, but this month's reading is very, very close to escaping contraction. It was at 48.5 and now sits at 49.9—just a hair away from being in growth mode again. The reading for dollar amount of customer deductions remained very close to what it was last month and just shy of getting into the expansion zone (48.7 to

48.6). The filings for bankruptcies category also stayed very close to what it had been the month prior. It had been at 55.9 and it slipped a tiny bit to 55.6. Kuehl noted that throughout the year, the rate of bankruptcies has stayed in generally positive territory as companies have been able to work themselves out of the predicament they have been in. "The hope is that the number of bankruptcies will remain low as the trade wars and tariff issues come home to roost. There is deep concern regarding the farm sector and all the industries that have been related to it."

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Sep '17**	**Oct '17**	**Nov '17**	**Dec '17**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**
Sales	67.3	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8
New credit applications	60.5	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9
Dollar collections	60.0	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8
Amount of credit extended	66.3	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1
Index of favorable factors	**63.5**	**63.8**	**65.7**	**59.4**	**61.4**	**64.9**	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**
Rejections of credit applications	52.5	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8
Accounts placed for collection	50.3	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2
Disputes	51.7	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6
Dollar amount beyond terms	50.4	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9
Dollar amount of customer deductions	49.8	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6
Filings for bankruptcies	56.2	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6
Index of unfavorable factors	**51.8**	**50.0**	**50.4**	**50.8**	**50.8**	**50.9**	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**
NACM Combined CMI	**56.5**	**55.5**	**56.6**	**54.2**	**55.1**	**56.5**	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**



Manufacturing Sector

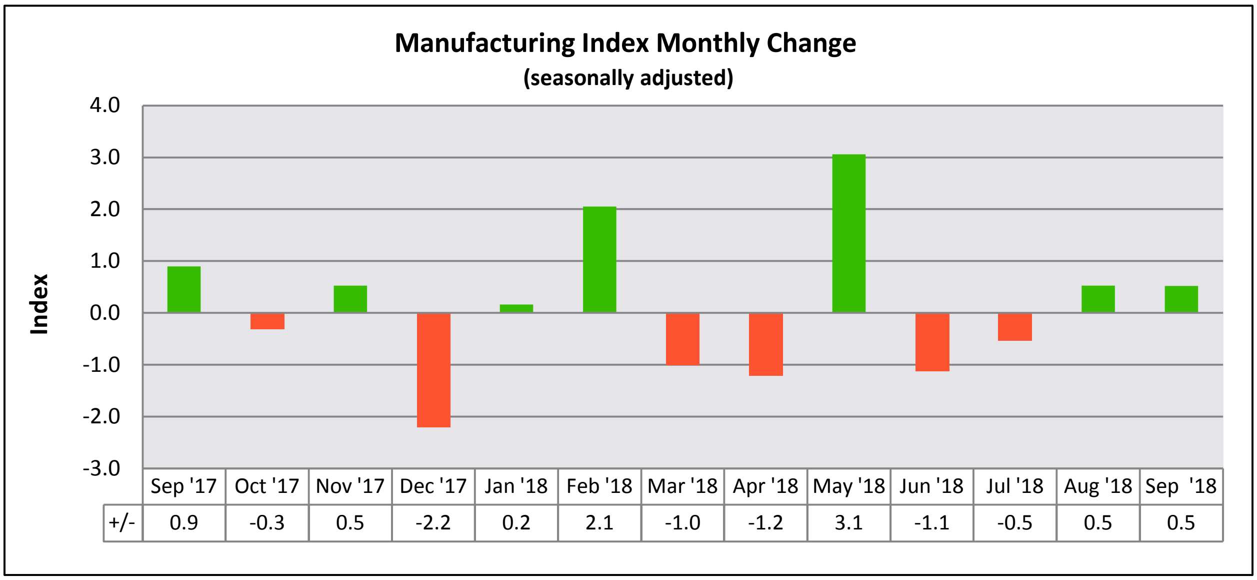
From last month to this, there has been only a slight change as far as the manufacturing sector is concerned. This will be well worth watching for the next month or two. As mentioned earlier, the performance of the PMI was very strong this month and last month the CMI index for manufacturing perked up—a kind of early sign that PMI data would be strong. “The data for manufacturing this month remains strong and has built on the gains of earlier months,” he said, “but there are a couple of troubling signs that may have an impact sooner than later.” The manufacturing combined score was 56.4 and last month it was at 55.9.

The combined score for the favorable factors index is the same as it was the month before—standing pat at 64.4. Kuehl explained this is one of those potential warning signs as these are the factors that tend to drive new business development. Even though the total number was the same as last month, there was still quite a bit of variability in the sub-categories. The sales reading improved quite a bit (66.5 to 68.2). He attributed this to the somewhat frantic reaction to the potential imposition of tariffs and other trade restrictions. “Many companies were trying to sell as much as they could before the taxes were levied and few think this pace will be maintained much longer.” The new credit applications category was similar to the reading last month—a reading of 61.8 as compared to 61.4. This is a bit worrisome as it may suggest expansion plans are being delayed. The dollar collections numbers fell from 62.4 to 59. He thinks that this may also present a future problem. For the first time in five months this category has dipped below 60, but at least it is not as big a drop as was seen in April. The amount of credit extended improved a bit as it went from 67.1 to 68.5, which signals the bigger questions are still being asked.

The less-exciting news was found in the non-favorable factors, although there were some areas of improvement and the overall index rose from 50.2 to 51.1. Kuehl noted, “This is not comfortable territory as it would not take much to send the numbers back into contraction territory, but compared to where it has been of late, this is a decent reading.” The rejections of credit applications slipped a bit but stayed about where it was last month. It went from 53.7 to 53.1 and is consistent with the numbers for applications for credit. The reading for accounts placed for collection went up quite a bit and escaped the contraction zone. It went from an August reading of 49.6 to one of 51.2. There was also positive movement as far as disputes are concerned, but not enough to leave contraction territory. It went from 45.8 to 48.7, so it is moving in the right direction. The dollar amount beyond terms reading also managed to escape contraction (48.4 to 50.2). This corresponds with the data from the dollar collections category. The dollar amount of customer deductions fell somewhat as it went from last month’s 48.1 to 47.4 this month. There was some good news from the filings for bankruptcies category as it stayed right where it was—solidly in the middle of the 50s with a reading of 56.

Manufacturing Sector (seasonally adjusted)	**Sep '17**	**Oct '17**	**Nov '17**	**Dec '17**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**
Sales	65.0	67.4	68.2	59.2	62.7	65.8	62.5	66.2	69.6	69.1	62.4	66.5	68.2
New credit applications	59.0	61.8	64.5	56.5	57.8	65.2	62.4	60.8	62.4	60.2	59.5	61.4	61.8
Dollar collections	60.4	59.5	60.9	58.9	58.7	62.8	59.5	46.1	63.5	63.3	61.5	62.4	59.0
Amount of credit extended	64.0	65.2	67.4	60.7	63.4	65.9	65.3	66.0	66.4	65.7	65.1	67.1	68.5
Index of favorable factors	**62.1**	**63.5**	**65.3**	**58.8**	**60.7**	**64.9**	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**
Rejections of credit applications	52.5	53.7	52.6	51.5	51.8	51.5	54.1	52.4	53.4	50.6	53.5	53.7	53.1
Accounts placed for collection	50.1	48.6	51.5	50.3	51.2	50.1	51.0	49.8	51.3	50.6	50.6	49.6	51.2
Disputes	53.0	48.2	47.1	48.8	48.4	47.6	46.0	48.0	46.9	47.9	47.0	45.8	48.7

Dollar amount beyond terms	51.9	48.6	48.2	50.1	45.0	48.5	46.5	46.8	50.2	48.7	48.1	48.4	50.2
Dollar amount of customer deductions	48.5	47.1	45.7	49.1	46.6	47.7	48.7	48.4	48.4	46.6	46.9	48.1	47.4
Filings for bankruptcies	54.7	56.0	55.4	54.4	55.3	56.3	55.6	55.1	58.0	56.2	59.1	56.0	56.0
Index of unfavorable factors	**51.8**	**50.4**	**50.1**	**50.7**	**49.7**	**50.3**	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**
NACM Manufacturing CMI	**55.9**	**55.6**	**56.1**	**53.9**	**54.1**	**56.2**	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**



Service Sector

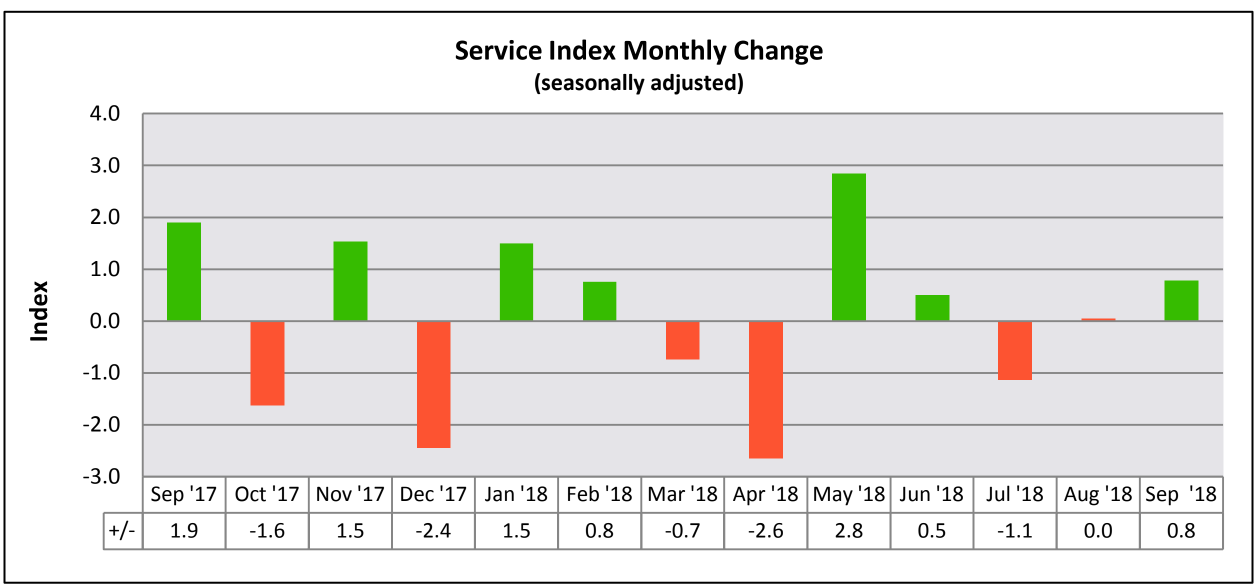
As expected this time of year, there was quite a lot of activity in the service sector. As has been pointed out many times, this is a very diverse sector for the CMI as it has large components that do not have all that much in common. The biggest group is retail. This is their time of year as the holiday spending season gets ramped up. The second-most important component of this index is construction. In contrast to retail, this sector starts to slow down this time of year.

The combined score for services returned to a more robust state with a reading of 56.4—close to the numbers seen in June when it hit 56.8. The index of favorable factors improved quite a bit and reached 65.9—slightly better than the numbers in May when it hit 65.8. The combined score for the non-favorable index was 50.1, just a hair better than it registered the month prior when it rested at 50. Much of the real news was in the details of the sub-categories.

The sales numbers went up considerably from 63.4 to 69.4—almost back to the 70.1 notched in June. The new credit applications reading dropped a little (63.5 to 62). “There was some trepidation showing in retail as many companies are still planning to rely on an inventory light approach to the season,” Kuehl said. The dollar collection data looked very positive as it moved from 62.9 to 66.5. “This is the time of year that retailers know they have to be current if they want to access any more credit.” There was a slight decline as far as amount of credit extended as it slipped from 66.7 to 65.8, but these numbers are still very respectable and very solidly in the 60s.

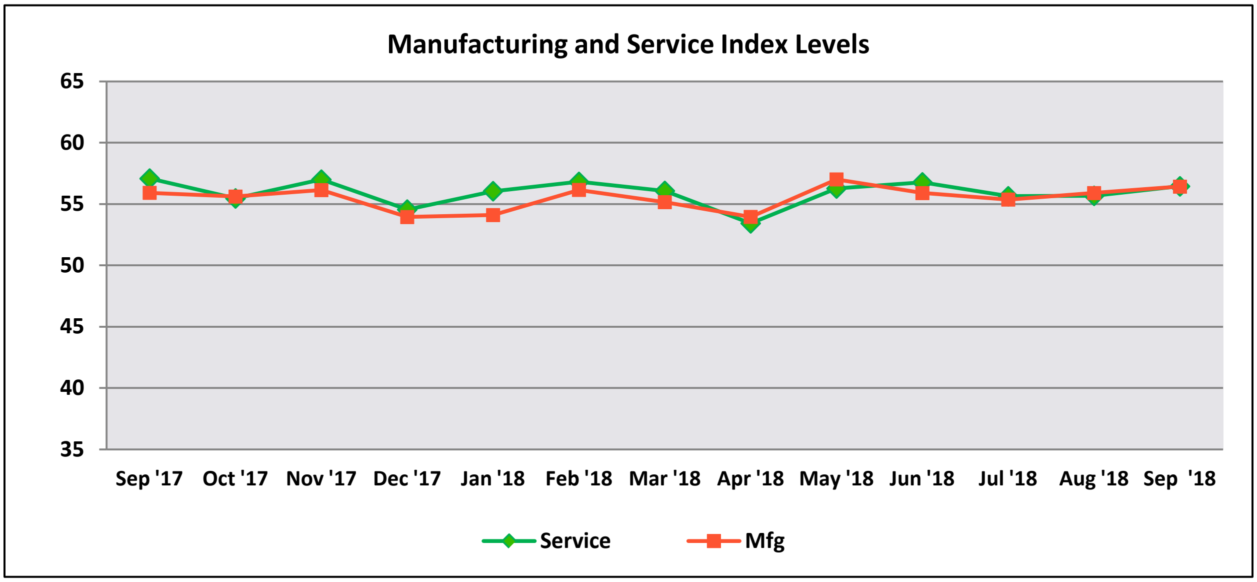
The rejections of credit applications stayed very close to what it was last month with a reading of 50.5 as compared to 50.7. The change in the category of accounts placed for collection was significant, but not quite enough to escape contraction as it moved from 48.5 to 49.2. The disputes reading fell a little from 47 to 46.4, which signals there are still struggling companies out there trying to buy time. The dollar amount beyond terms category moved as well, but fell short of escaping contraction (48.6 to 49.6). This is certainly the direction one wants to see it move. The dollar amount of customer deductions also moved in a positive direction, but only incrementally, shifting from 49.3 to 49.7. The filings for bankruptcies reading stayed close to where it had been, moving from 55.9 to 55.3. “It is expected there will be more volatility in this category after the holidays have ended and revenue is examined,” he said.

Service Sector (seasonally adjusted)	**Sep '17**	**Oct '17**	**Nov '17**	**Dec '17**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep ‘18**
Sales	69.7	66.1	68.4	59.2	63.3	67.8	65.8	65.5	69.6	70.1	65.3	63.4	69.4
New credit applications	62.0	63.7	62.9	58.2	61.8	61.5	63.0	63.6	65.1	60.9	63.0	63.5	62.0
Dollar collections	59.5	61.0	65.4	59.4	58.6	63.0	59.8	47.3	61.5	63.0	60.5	62.9	66.5
Amount of credit extended	68.6	65.9	68.2	63.0	65.1	66.9	67.2	66.2	67.2	66.8	67.2	66.7	65.8
Index of favorable factors	**64.9**	**64.2**	**66.2**	**59.9**	**62.2**	**64.8**	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**
Rejections of credit applications	52.5	49.8	52.3	51.2	51.8	51.5	52.4	49.5	49.2	51.8	51.5	50.7	50.5
Accounts placed for collection	50.6	50.3	49.6	49.3	52.1	49.6	49.7	47.7	46.7	52.0	49.3	48.5	49.2
Disputes	50.3	47.0	49.5	50.7	50.9	51.6	49.3	47.9	49.3	48.6	48.3	47.0	46.4
Dollar amount beyond terms	49.0	46.1	46.7	48.4	49.0	51.3	47.8	46.0	48.5	49.7	46.8	48.6	49.6
Dollar amount of customer deductions	51.1	50.2	52.1	50.4	52.7	50.5	50.9	48.3	50.9	49.6	48.8	49.3	49.7
Filings for bankruptcies	57.6	54.6	54.7	55.7	55.0	54.4	54.8	52.4	54.8	55.1	55.8	55.9	55.3
Index of unfavorable factors	**51.8**	**49.7**	**50.8**	**51.0**	**51.9**	**51.5**	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**
NACM Service CMI	**57.1**	**55.5**	**57.0**	**54.5**	**56.0**	**56.8**	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**



September 2018 versus September 2017

"The movement is subtle to be sure," Kuehl noted, "but at least it is heading in the right direction, and for two months in a row. Dare we hope for a longer trend?"



Methodology Appendix

CMI data has 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 Wyoming. 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 Purchasing Managers' Index (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:

$$\underline{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}$$

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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