Report for November 2018

Issued November 30, 2018
National Association of Credit Management

Combined Sectors

It was not a big bounce back, but the good news is the data certainly didn't get any worse. This is not an unusual pattern for this year—comparisons have been made to a rollercoaster for months. It seems that a dip one month is followed by a recovery the next. Thus far, there have been few longer-lasting trends. "The more pertinent data is showing some consistent concerns within the nonfavorable categories as well as some consistently good news within the favorable categories," said NACM Economist Chris Kuehl, Ph.D. "The reason for this split in performance is that some sectors are doing very well (the oil and gas business, automotive and health care), but other sectors are consistently struggling (some retail, agriculture and aerospace)."

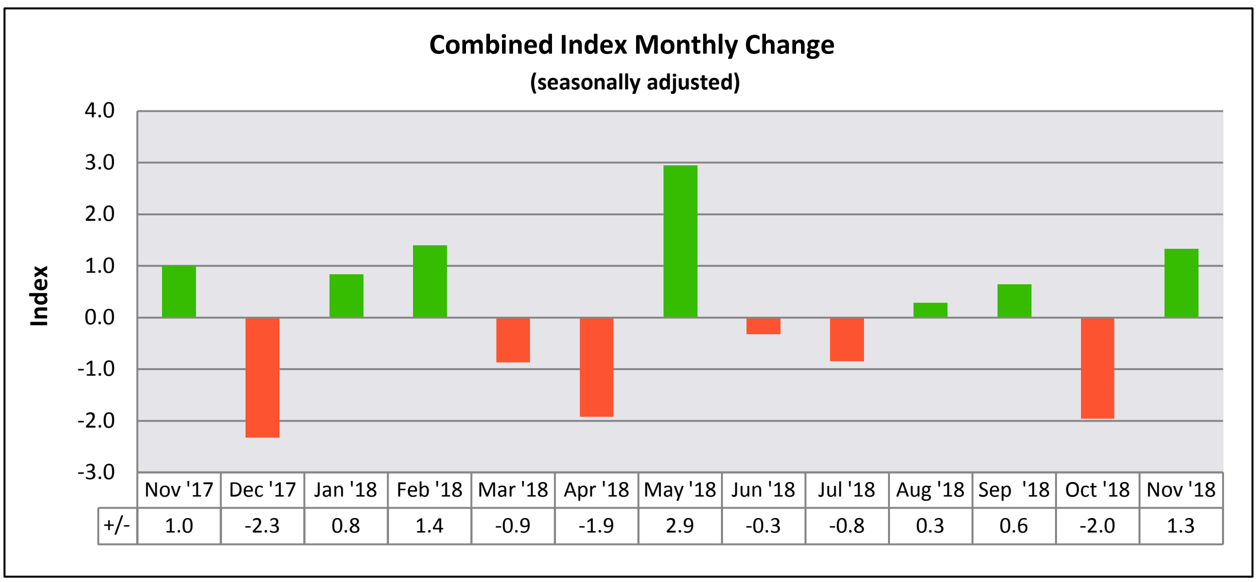
The combined score moved from 54.5 to 55.8. This takes the measurement back to levels last seen in August. In fact, there has been quite a lot of consistency with the overall data. The lowest point in the last 12 months was the 53.7 notched in April. The high point was 56.6. That was reached twice—once in February and again in May. The important thing is these readings have all been close to the mid-50s for the last couple of years. That means general expansion has been in place. The index of favorable factors also rebounded—moving from 61.6 to 63.2. This is not as robust as it had been the last two months, but it is headed in the right direction. The index of unfavorable factors crept back into expansion territory (anything over 50) with a reading of 50.9 up from 49.7 the month previous. There has been a consistent pattern with these nonfavorable readings as the range has been from 49.4 to 50.9. This month actually marked the highest reading in the last 12 months.

The detail is, as always, the most interesting data. The sales category made something of a comeback with a reading of 64.5 up from 62.7 last month. This is still a little short of where the readings stood in August (65) and September (68.8), but trending in the right direction. The new credit applications data also improved as it went from 61.7 to 62.2. The dollar collections data moved back into the 60s with a reading of 60.9 compared to the 57.5 last month. The amount if credit extended shifted up as well (64.5 to 65.3).

There was also some interesting and encouraging data coming from the nonfavorable categories. The rejections of credit applications remained static at 51.4, which leaves this category just slightly under the norm for the last several months. The accounts placed for collection reading worsened just a little and remained in the contraction zone (dropping from 48.8 to 48.2). The disputes reading emerged from contraction territory, but only by a hair as it went from 49.9 to 50.1. The dollar amount beyond terms made a bigger leap out of contraction with a reading of 52.3 after one of 47.7 the month prior. The dollar amount of customer deductions was little changed with a reading of 49.6 after the previous month's reading of 49.5. It is still in contraction territory, but at least it is slowly heading in the right direction. There was more progress in the filings for bankruptcies category as it has moved from 52.1 to 53.6.

Kuehl noted that the overall sense of the reading this month is there has been some progress, but nothing to suggest the pattern of ups and downs will be broken anytime soon. The other data coming out regarding the economy looks similar to this. The Purchasing Managers' Index has slipped a bit the last few months and there have been declines in measures like durable goods orders and factory orders. This is the time retailers do the bulk of their work, but the news has not been all good. "The fact is that sales are up, but with all the discounts and sales, the profits have not been as solid. Revenue is up and the hope is those shopping later will be less attuned to those discounts and sales."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18
Sales	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7	64.5
New credit applications	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7	62.2
Dollar collections	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5	60.9
Amount of credit extended	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5	65.3
Index of favorable factors	**65.7**	**59.4**	**61.4**	**64.9**	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**
Rejections of credit applications	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4	51.4
Accounts placed for collection	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8	48.2
Disputes	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9	50.1
Dollar amount beyond terms	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7	52.3
Dollar amount of customer deductions	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5	49.6
Filings for bankruptcies	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1	53.6
Index of unfavorable factors	**50.4**	**50.8**	**50.8**	**50.9**	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**
NACM Combined CMI	**56.6**	**54.2**	**55.1**	**56.5**	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**



Manufacturing Sector

"The manufacturing sector continues to expect the other shoe to drop at any moment, but thus far, the impact has been delayed," Kuehl said. "From the moment the steel tariffs were announced, there was an expectation prices would surge to the point that many manufacturers would have to lose money by holding prices constant to hang on to market share, or they would have to jack up those prices and risk alienating consumers." The tariff is 25% for steel and 10% for aluminum, but the price hikes have been far greater than this. On average, the hike has been between 40% and 45%. The full impact is just starting to be felt as many companies sought to buy as much steel as they could prior to the price hike. That inventory is now vanishing. That will mean buying the much higher-priced steel. "This month the data has been solid enough and an improvement over what it had been the month before, but the issues and concerns are starting to manifest," he added.

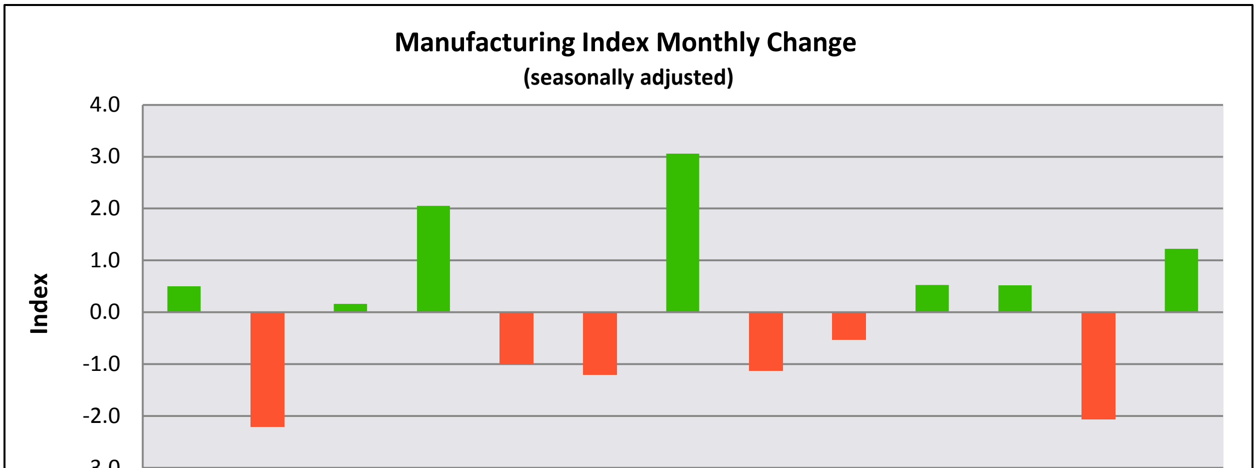
The combined score went from 54.4 to 55.6, back to the levels seen in the last few months (although not yet back to the 56.4 reading in September). The favorable factors improved from 61.5 to 63.2, but remained below the 64.4 that was noted in both August and September. The unfavorable index climbed free of the contraction zone with a reading of 50.5. Last month it has fallen to 49.6. The more indicative data is in the subcategories.

The sales category recovered from the 62.3 reading in October—the lowest level seen since July. It is now at 64.2. That is still lower than it has been for several months, but at least the trend is in the right direction. The new credit applications numbers (61.7) remained very close to what they had been in October (61.5). There was a significant improvement in the dollar collections data as it climbed back into the 60s with a reading of 61.6 after sinking to 58.5 in October. The amount of credit extended also improved with a reading of 65.4 compared to 63.7.

The activity within the unfavorable data was instructive as well. The rejections of credit applications improved and worked its way up into the mid-50s with a reading of 53.1. This is exactly the same as was noted in September and an improvement over the 51.9 reported the month prior. The accounts placed for collection stayed mired in contraction territory with a reading 49.2—slightly better than the 49.1 noted in October. The disputes category got a bit closer to escaping the contraction zone with a reading of 49.6 from last month's 48.7. The dollar amount beyond terms escaped the contraction zone going from 49.1 to 50.3. The dollar amount of customer deductions moved up slightly from 48 to 48.6 and the filings for bankruptcies clambered back to near respectability with a reading of 52.2 after a slide to 50.9.

"As expected, the manufacturing sector is in flux," Kuehl said. "It is likely this will start showing up in next month's CMI as well as the ones to come in 2019."

Manufacturing Sector (seasonally adjusted)	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18
Sales	68.2	59.2	62.7	65.8	62.5	66.2	69.6	69.1	62.4	66.5	68.2	62.3	64.2
New credit applications	64.5	56.5	57.8	65.2	62.4	60.8	62.4	60.2	59.5	61.4	61.8	61.5	61.7
Dollar collections	60.9	58.9	58.7	62.8	59.5	46.1	63.5	63.3	61.5	62.4	59.0	58.5	61.6
Amount of credit extended	67.4	60.7	63.4	65.9	65.3	66.0	66.4	65.7	65.1	67.1	68.5	63.7	65.4
Index of favorable factors	**65.3**	**58.8**	**60.7**	**64.9**	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**
Rejections of credit applications	52.6	51.5	51.8	51.5	54.1	52.4	53.4	50.6	53.5	53.7	53.1	51.9	53.1
Accounts placed for collection	51.5	50.3	51.2	50.1	51.0	49.8	51.3	50.6	50.6	49.6	51.2	49.1	49.2
Disputes	47.1	48.8	48.4	47.6	46.0	48.0	46.9	47.9	47.0	45.8	48.7	48.7	49.6
Dollar amount beyond terms	48.2	50.1	45.0	48.5	46.5	46.8	50.2	48.7	48.1	48.4	50.2	49.1	50.3
Dollar amount of customer deductions	45.7	49.1	46.6	47.7	48.7	48.4	48.4	46.6	46.9	48.1	47.4	48.0	48.6
Filings for bankruptcies	55.4	54.4	55.3	56.3	55.6	55.1	58.0	56.2	59.1	56.0	56.0	50.9	52.2
Index of unfavorable factors	**50.1**	**50.7**	**49.7**	**50.3**	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**
NACM Manufacturing CMI	**56.1**	**53.9**	**54.1**	**56.2**	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**



	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18
+/-	0.5	-2.2	0.2	2.1	-1.0	-1.2	3.1	-1.1	-0.5	0.5	0.5	-2.1	1.2

Service Sector

Kuehl summarized the activity this month by saying it is a confusing time as far as the service sector is concerned. It is the very peak of the year for the retailers—hence the reference to Black Friday. This is supposedly the day retailers start to see their ledger books shift to being in the black. It is not quite that dramatic these days, but this remains the critical season for retail as compared to any other time of the year. At the same time, another sector of the service community well represented in the CMI shifts downward as there is less activity in the construction industry. The data this month is similar to that of the overall CMI with some gains that suggest a return to patterns observed earlier in the year.

The overall CMI for service went from 54.6 to 56, nearly as positive as the data showed in September. The index of favorable factors improved as well—moving from 61.7 to 63.2, but that remains short of the 65.9 level hit in September. The index of unfavorable factors escaped contraction territory by moving from 49.8 to 51.2, back to levels that have been common these last several months.

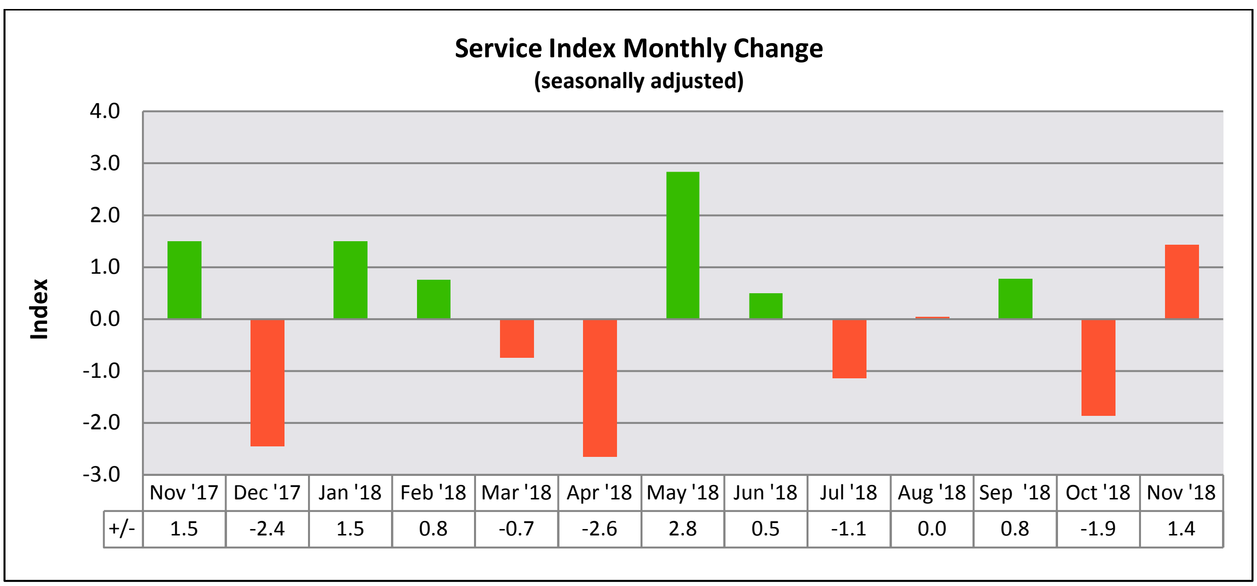
There has been the usual variability in the specific categories. The sales data improved with a reading of 64.9 as compared to the 63.2 the month before. The new credit applications category also went back up a little—from 61.9 to 62.7. The all-important dollar collections data jumped back into the 60s with a reading of 60.1 after slumping to 56.4 last month. This is not at the exalted levels seen in September when it hit 66.5, but the current numbers are about where they had been prior to the surge. The amount of credit extended stayed right where it was last month—at 65.2

The unfavorables moved around some as well. The rejections of credit applications fell back into contraction territory with a reading of 49.7. Last month the category was holding on with a 50.9 score, but the last time this category was under 50 was in May of this year. The accounts placed for collection went from 48.4 to 47.2—deeper into contraction territory. “The sense is that some retailers are under some stress,” Kuehl noted. “There has been a lot of buying from China with the expectation that many of these goods will be hit with tariffs and other trade restrictions.” The category of disputes emerged from the contraction zone with a reading of 50.6 after languishing at 49.1 the month prior. The dollar amount beyond terms made a truly spectacular comeback from the month before. It was buried in contraction with a reading of 46.3 and this month the number is 54.3. He explained that there is evidence many retailers were doing their best to get caught up in advance of the big selling season to come. The dollar amount of customer deductions slipped a bit from 51.1 to 50.7, but stayed out of contraction.

The filings for bankruptcies improved a little from 53.2 to 54.9—still less robust than it has been for the last few months.

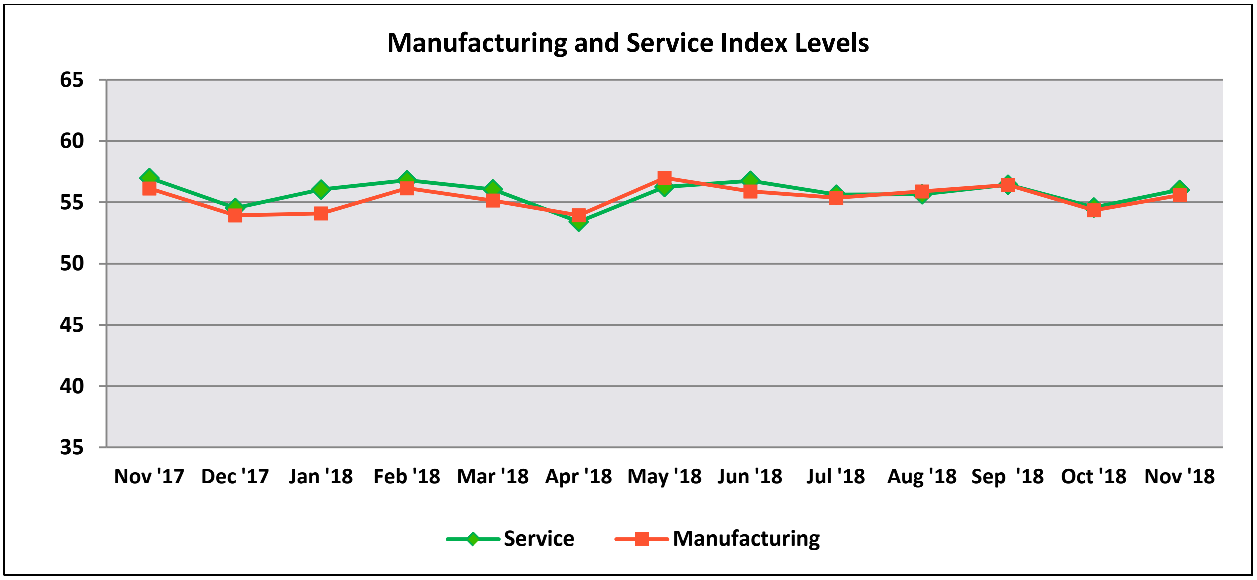
"If the retailers have the holiday sales, they are expecting there should be some good readings in December CMI," Kuehl said, "but there might also be weaker data from construction given the early arrival of winter."

Service Sector (seasonally adjusted)	**Nov '17**	**Dec '17**	**Jan '18**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**
Sales	68.4	59.2	63.3	67.8	65.8	65.5	69.6	70.1	65.3	63.4	69.4	63.2	64.9
New credit applications	62.9	58.2	61.8	61.5	63.0	63.6	65.1	60.9	63.0	63.5	62.0	61.9	62.7
Dollar collections	65.4	59.4	58.6	63.0	59.8	47.3	61.5	63.0	60.5	62.9	66.5	56.4	60.1
Amount of credit extended	68.2	63.0	65.1	66.9	67.2	66.2	67.2	66.8	67.2	66.7	65.8	65.2	65.2
Index of favorable factors	**66.2**	**59.9**	**62.2**	**64.8**	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**
Rejections of credit applications	52.3	51.2	51.8	51.5	52.4	49.5	49.2	51.8	51.5	50.7	50.5	50.9	49.7
Accounts placed for collection	49.6	49.3	52.1	49.6	49.7	47.7	46.7	52.0	49.3	48.5	49.2	48.4	47.2
Disputes	49.5	50.7	50.9	51.6	49.3	47.9	49.3	48.6	48.3	47.0	46.4	49.1	50.6
Dollar amount beyond terms	46.7	48.4	49.0	51.3	47.8	46.0	48.5	49.7	46.8	48.6	49.6	46.3	54.3
Dollar amount of customer deductions	52.1	50.4	52.7	50.5	50.9	48.3	50.9	49.6	48.8	49.3	49.7	51.1	50.7
Filings for bankruptcies	54.7	55.7	55.0	54.4	54.8	52.4	54.8	55.1	55.8	55.9	55.3	53.2	54.9
Index of unfavorable factors	**50.8**	**51.0**	**51.9**	**51.5**	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**
NACM Service CMI	**57.0**	**54.5**	**56.0**	**56.8**	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**



November 2018 versus November 2017

"There was a divergence this time around," Kuehl concluded. "The favorable factors showed considerable improvement, but the unfavorable categories were slumping. "



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:

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

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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