Report for February 2019

Issued February 28, 2019

National Association of Credit Management

Combined Sectors

After a somewhat rocky beginning, the economic data for the Credit Managers' Index (CMI) for February has been a welcome correction. Now the question is which of these trends will really take hold through the remainder of 2019? "There is some evidence to support both optimism and pessimism," said NACM Economist Chris Kuehl, Ph.D. "As a matter of fact, these contradictory indications have become quite the topic among economists. The Purchasing Managers' Index tumbled dramatically at the end of the year but then bounced back in February. There were similar performances seen in everything from capacity utilization to capital expenditures, durable goods orders and other markers of the economy. The worrisome part shows up with higher commodity prices and the impact of a global economic slowdown. This month's CMI follows some of that same pattern."

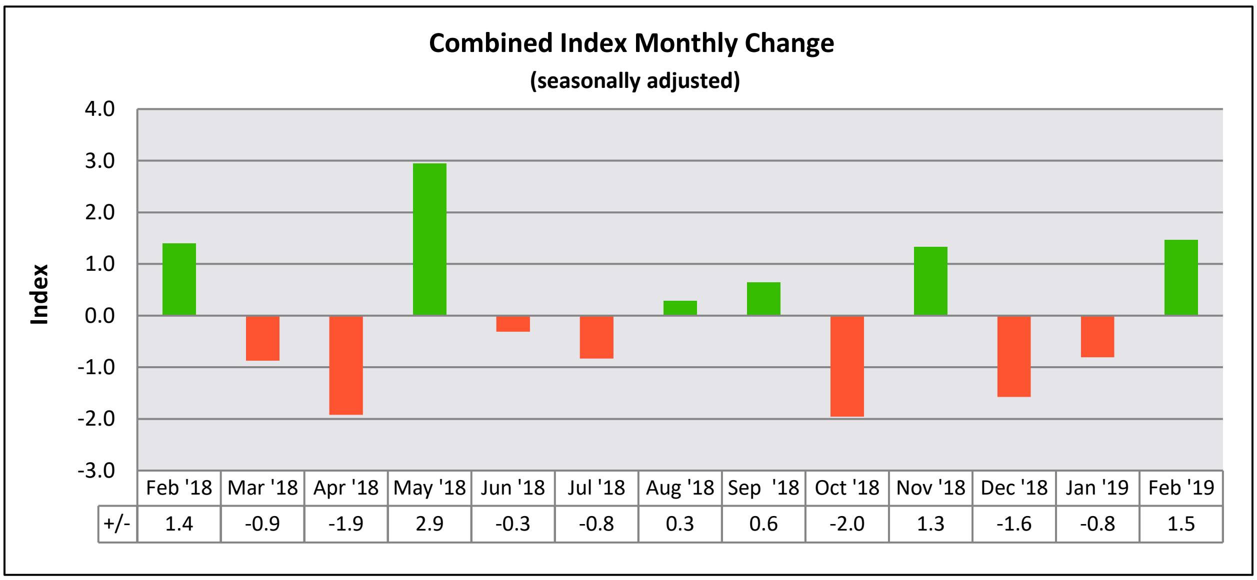
The overall reading for February's CMI regained some ground with a score of 54.9—up from the 53.4 notched the month before. This takes the number back to the levels seen in November 2018 when it hit 55.8. The even-better performance was noted in the index of favorable factors as it hit 60.7 after falling to 59.5 in January. The only months where this score has been under 60 were December 2018 and January—all the rest of the last 12 months have been in the 60s. The index of unfavorable factors also reached a nice milestone as the index escaped the contraction zone (a score under 50) with a reading of 51. In the last 12 months, this index has been in contraction only three times; the February score is the highest seen in the past year.

As is generally the case, the details provide some better insights. As mentioned, the index of favorable factors returned to the 60s with a reading of 60.7. Two of the sub-index categories remain in the high 50s and two are solidly in the 60s again. The sales category had fallen to 59.7 and is now at 62.6. This is higher than it has been for the last couple of months, but not back to the 64.5 level reached during November 2018. The new credit applications sub-index remained in the 50s, but it improved from 58.2 to 58.9, while the dollar collections reading stayed almost the same as last month with a reading of 59.1 compared to the 59 in January. The amount of credit extended number went from 61.2 to 62.3, higher than it was in December 2018 or January.

There was some significant movement in the sub-index readings for the unfavorable factors as well. The rejections of credit applications shifted up again and now stands at 52.1, the highest score notched since August of last year when it hit 52.2. The accounts placed for collection moved up from 48.2 to 49, although this remains in contraction territory. The disputes category likewise improved slightly (48.5 from 47.1), but it remains in the contraction zone. The reading for dollar amount beyond terms escaped the contraction zone by hitting 51.3 after languishing at 47.4 in January. This is a substantial jump and in a critical area as slow pays are often the start of bigger issues down the road. The dollar amount of customer deductions also jumped back into the expansion zone by the narrowest of margins as it hit an even 50 after tracking at 48 the prior month. The filings for bankruptcies numbers improved as well, and the reading remained strongly in the mid-50s with a 54.9 from 53.8.

The combination of improved performance in the favorable factors and a real recovery in the unfavorable index casts a different light on the start of 2019. "It is not that the concerns voiced at the start of the year are not valid—there is plenty to worry about as far as inflation is concerned and the issues of a trade and tariff war will be biting sooner than later," Kuehl said. "What this does seem to show is continued resilience in many businesses and that would suggest they could survive a bit of downturn this year."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19
Sales	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7	64.5	59.0	59.7	62.6
New credit applications	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7	62.2	57.5	58.2	58.9
Dollar collections	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5	60.9	59.3	59.0	59.1
Amount of credit extended	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5	65.3	61.9	61.2	62.3
Index of favorable factors	**64.9**	**63.2**	**60.2**	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**
Rejections of credit applications	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4	51.4	51.4	51.8	52.1
Accounts placed for collection	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8	48.2	49.7	48.2	49.0
Disputes	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9	50.1	49.6	47.1	48.5
Dollar amount beyond terms	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7	52.3	49.3	47.4	51.3
Dollar amount of customer deductions	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5	49.6	49.7	48.0	50.0
Filings for bankruptcies	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1	53.6	55.0	53.8	54.9
Index of unfavorable factors	**50.9**	**50.6**	**49.4**	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**
NACM Combined CMI	**56.5**	**55.6**	**53.7**	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**



Manufacturing Sector

Kuehl notes manufacturing has been growing rapidly in the U.S. over the last few years for a variety of reasons. At the top of the list has been the advantage brought by the heavier use of technology and robotics. There have also been some advantages created by cheaper commodities costs and improved options as far as transportation. Global demand has played a major role as well. These are all factors that are in some jeopardy now. The dollar has gained value and that hurts exports, tariffs have added to commodity costs, trade wars inhibit market opportunity and there are chronic issues like labor shortage and productivity decline as fewer trained people are available for hire. These factors seemed to be weighing on the sector the last few months, but the latest readings from the CMI indicate there is still strength.

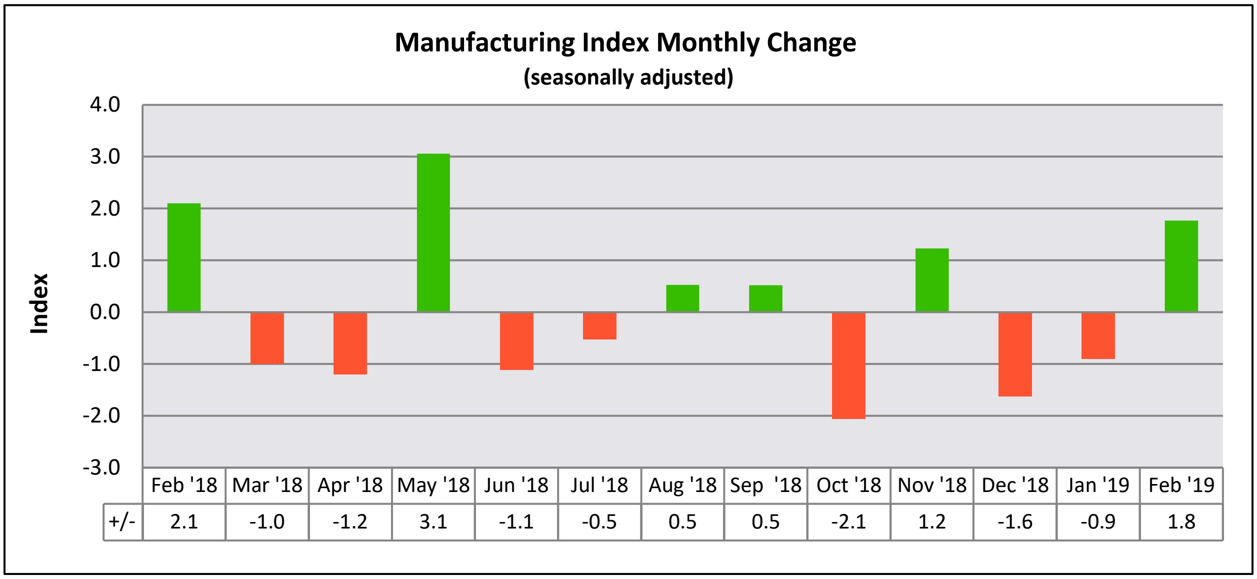
The overall index rose from 53.1 to 54.8. That takes the readings back to levels last seen in November 2018. The index of favorable factors moved back into the 60s after having dipped into the 50s in December 2018 and January. The index of unfavorable factors moved out of the contraction zone with a nice jump to 51.4—marking the highest reading since May of last year. "This data is consistent with the various manufacturing readings that have come from the Purchasing Managers' Index as well as data on industrial production, durable goods orders and factory orders," Kuehl said. "As is often the case, there are some unusual factors at work that may not extend that far into 2019. Some could even reverse by year's end."

The sales numbers improved and are back in the 60s again with a reading of 61.7—still a far cry from the 68.2 that was notched in September of last year. The new credit applications reading also improved, but it fell a little short of the 60s at 58.6 as compared to the 53.3 from the month before. The dollar collections data jumped back into the 60s with a reading of 60.5 after hitting 58.4 in January. There was a little dip in the amount of credit extended category as it went from 60.3 to 59.2. Kuehl suggests there seems to be a little more frugality showing up in terms of what kind of credit is asked for and for what kind of purchasing.

The rejections of credit applications stayed almost the same as it was the month before—moving from 53.3 to 53.5. That is good news when combined with the numbers of new credit applications. The accounts placed for collection category slipped back into expansion territory by the narrowest of margins—hitting 50.5 after last month's 49.7. The category of disputes improved a bit, but they stayed in the contraction zone at 48.7. Still, this was an improvement over the 46.8 that was noted the month prior. The dollar amount beyond terms also jumped into the expansion zone with a reading of 52.8 following the 49.1 in January. The dollar amount of customer deductions stayed in contraction territory, but it improved over the month before (46.7 to 49.3). The reading last month had been the lowest number seen since June of last year, and now it is back to semi-respectability. The filings for bankruptcies numbers slipped slightly, but they remained in expansion with a reading of 53.3 compared to 54 last month.

Concerning manufacturing he explains there was an improvement these last few months, but there are some factors that may have led to this expansion. The threatened tariffs and the impending trade war have pushed a lot of advance buying and stockpiling on the assumption that everything from commodities to intermediate parts and finished goods will be unavailable. Inventory levels are as high as they have been in some time. If the trade deal works out in some fashion, it may be very hard to reduce the size of that inventory overhang.

Manufacturing Sector **(seasonally adjusted)**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**	**Feb '19**
Sales	65.8	62.5	66.2	69.6	69.1	62.4	66.5	68.2	62.3	64.2	59.0	59.1	61.7
New credit applications	65.2	62.4	60.8	62.4	60.2	59.5	61.4	61.8	61.5	61.7	56.8	53.3	58.6
Dollar collections	62.8	59.5	46.1	63.5	63.3	61.5	62.4	59.0	58.5	61.6	59.0	58.4	60.5
Amount of credit extended	65.9	65.3	66.0	66.4	65.7	65.1	67.1	68.5	63.7	65.4	60.9	60.3	59.2
Index of favorable factors	**64.9**	**62.4**	**59.8**	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**
Rejections of credit applications	51.5	54.1	52.4	53.4	50.6	53.5	53.7	53.1	51.9	53.1	51.6	53.3	53.5
Accounts placed for collection	50.1	51.0	49.8	51.3	50.6	50.6	49.6	51.2	49.1	49.2	50.3	49.7	50.5
Disputes	47.6	46.0	48.0	46.9	47.9	47.0	45.8	48.7	48.7	49.6	48.6	46.8	48.7
Dollar amount beyond terms	48.5	46.5	46.8	50.2	48.7	48.1	48.4	50.2	49.1	50.3	50.0	49.1	52.8
Dollar amount of customer deductions	47.7	48.7	48.4	48.4	46.6	46.9	48.1	47.4	48.0	48.6	49.1	46.7	49.3
Filings for bankruptcies	56.3	55.6	55.1	58.0	56.2	59.1	56.0	56.0	50.9	52.2	54.4	54.0	53.3
Index of unfavorable factors	**50.3**	**50.3**	**50.1**	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**
NACM Manufacturing CMI	**56.2**	**55.2**	**54.0**	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**



Service Sector

Kuehl said as with manufacturing, there was an improvement in the service sector as well. This set of gains has been a little harder to pin down as there seem to be several factors at work. There are also major differences between service sectors with more concern expressed over the pace of retail and less concern expressed toward health care and construction.

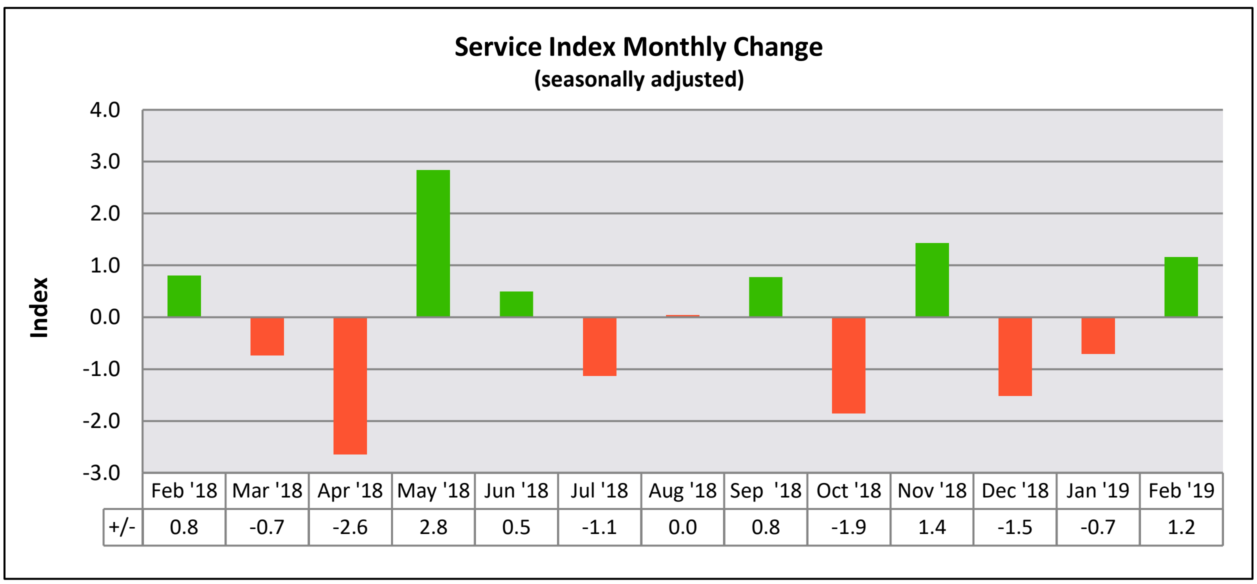
The overall reading for the service sector was 55—up from 53.8. This marks the highest level reached since November of last year. The combined index of favorable factors stayed roughly the same as it had been with a reading of 61.5 compared to 61.3. The combined index for the unfavorable factors was 50.6, marking the return to expansion after falling to 48.8 the prior month. The data was solid enough and the sub-readings reinforced this notion.

The sales numbers hit 63.5, back to numbers seen last November. The new credit applications data slipped, however, and fell out of the 60s with a reading of 59.2. This is still healthy, but just last month it was at 63. The dollar collections numbers also fell a bit (59.6 to 57.7). This remains solidly in the expansion zone, but the trend is not quite what would be desired. The category of amount of credit extended improved, however, and jumped further into the expansion zone with a reading of 65.5 as compared to the 62.1 from last month. Kuehl notes much of the down data has been coming from retail and much of the positive data is coming from construction and health care.

The rejections of credit applications improved a little as it went from 50.3 to 50.8. This is good news given the fact that applications have been in decline to some degree. The accounts placed for collection improved from 46.7 to 47.5, but this is still contraction territory. The category of disputes also improved, but it stayed in the contraction zone with a reading of 48.3 after 47.3 in January. The dollar amount beyond terms staged yet another improvement that fell just short of entering expansion territory. It was at 45.7, the lowest level in well over a year, and has now rebounded to 49.8. The dollar amount of customer deductions did expand enough (49.2 to 50.6) to leave the contraction zone. The filings for bankruptcies category improved further on the 53.6 reading last month and now stands at 56.5. This very good news as this the time of year that often features retail sector bankruptcies.

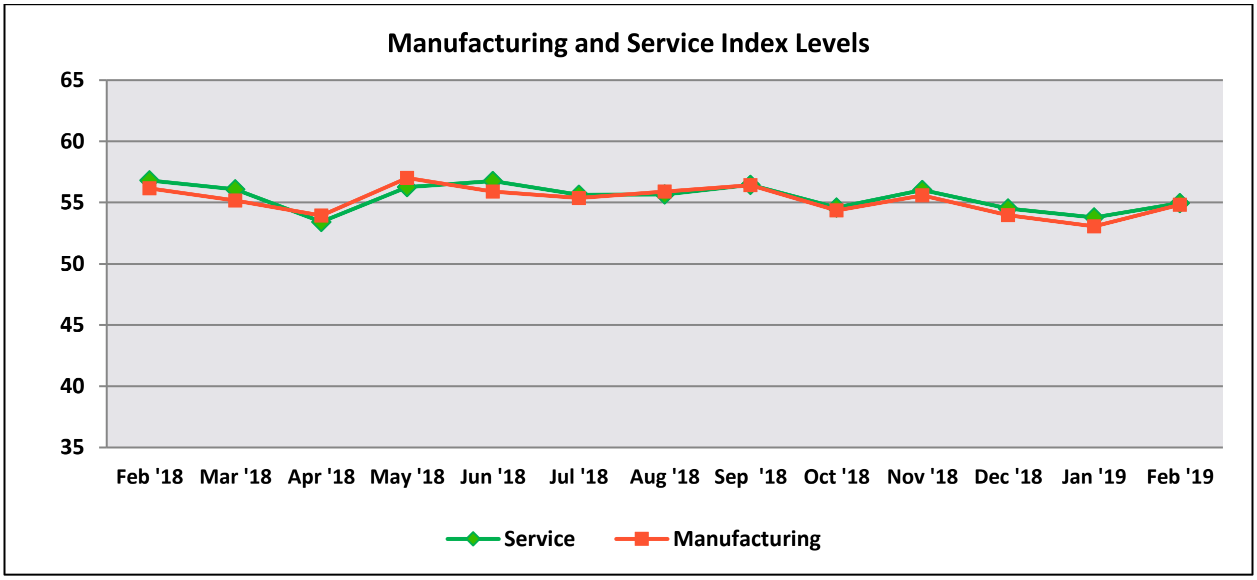
“The rest of the year promises to be a challenge for the retail sector as the levels of consumer confidence are dropping steadily,” Kuehl said. “And there will likely be additional inflation pressure as the trade wars and tariff battles continue to heat up.”

Service Sector **(seasonally adjusted)**	**Feb '18**	**Mar '18**	**Apr '18**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**	**Feb '19**
Sales	67.8	65.8	65.5	69.6	70.1	65.3	63.4	69.4	63.2	64.9	59.0	60.3	63.5
New credit applications	61.5	63.0	63.6	65.1	60.9	63.0	63.5	62.0	61.9	62.7	58.2	63.0	59.2
Dollar collections	63.0	59.8	47.3	61.5	63.0	60.5	62.9	66.5	56.4	60.1	59.6	59.6	57.7
Amount of credit extended	66.9	67.2	66.2	67.2	66.8	67.2	66.7	65.8	65.2	65.2	63.0	62.1	65.5
Index of favorable factors	**64.8**	**63.9**	**60.6**	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**
Rejections of credit applications	51.5	52.4	49.5	49.2	51.8	51.5	50.7	50.5	50.9	49.7	51.2	50.3	50.8
Accounts placed for collection	49.6	49.7	47.7	46.7	52.0	49.3	48.5	49.2	48.4	47.2	49.1	46.7	47.5
Disputes	51.6	49.3	47.9	49.3	48.6	48.3	47.0	46.4	49.1	50.6	50.5	47.4	48.3
Dollar amount beyond terms	51.3	47.8	46.0	48.5	49.7	46.8	48.6	49.6	46.3	54.3	48.5	45.7	49.8
Dollar amount of customer deductions	50.5	50.9	48.3	50.9	49.6	48.8	49.3	49.7	51.1	50.7	50.3	49.2	50.6
Filings for bankruptcies	54.4	54.8	52.4	54.8	55.1	55.8	55.9	55.3	53.2	54.9	55.6	53.6	56.5
Index of unfavorable factors	**51.5**	**50.8**	**48.6**	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**
NACM Service CMI	**56.8**	**56.1**	**53.4**	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**



February 2019 versus February 2018

"Last month was more than a little worrying," Kuehl concluded. "The data showed some deep slumps and there was concern that a trend was deepening, but along comes February and the trend seems to have reversed to a significant degree."



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:

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

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, 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 11,000 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.

Source: National Association of Credit Management

Contacts: Michael Miller, 410-740-5560
Andrew Michaels, 410-740-5560
Christie Citranglo, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National