Report for September 2019

Issued September 30, 2019

National Association of Credit Management

Combined Sectors

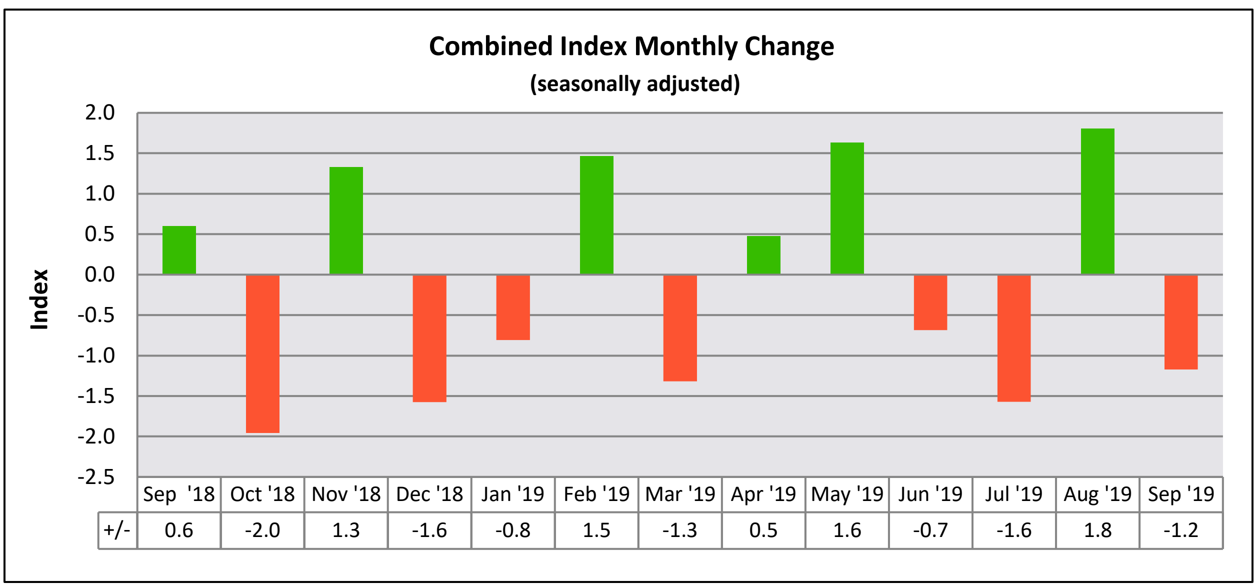
It was fun while it lasted! “Last month featured a nice little rebound in the Credit Managers’ Index (CMI)—especially on the manufacturing side,” said Chris Kuehl, NACM Economist. “That gain was short-lived as this month there was a bit of a decline. The data is still pretty firmly in the expansion zone (above 50) but not as robustly as was the case earlier.” His take is that the indicators for the economy in general have been following that same pattern—some good indicators coinciding with some not so good. Industrial production numbers were far better than they were in the previous month and there was an improvement in the industrial capacity numbers as well. On the other hand, the Purchasing Managers’ Index sank into contraction territory for the first time in years with a reading of 49.1. The problems with the CMI were in the favorable categories, but the drop was not calamitous.

The combined index score fell from 55.2 to 54.1, but still higher than the numbers seen in July (53.4). Readings in the mid-50s, however, certainly beat the high 40s that are showing up in the Purchasing Managers’ Index. The combined score for the favorable factors fell from 61.8 to 59.1, but again, this is better than the 58.6 notched in July. “There is certainly no reason to panic about numbers in the high 50s, but there is concern that a downward trend might extend,” Kuehl said. The combined score for the nonfavorable factors stayed almost the same as last month—going from 50.9 to 50.7. “This category has been teetering on the edge of contraction for months and even years, but has been able to keep out of the contraction zone thus far.”

The biggest drop in the favorable categories was in sales, which could be a potential problem. Last month the sales data was at a high point—64.4. This was close to the level reached in May. The reading this month fell to 58.7, about where it was in July. “A reading in the upper 50s is certainly no cause for alarm,” Kuehl said, “but the trend is not good and signals there may be more caution in the economy—an observation that has been made by many looking at other data points.” The other readings in this category were not as concerning. The new credit applications data slipped from 60.9 to 59.7, a pretty minor reduction. The dollar collections numbers went from 60 to 58.5. He suggests this is a bit more worrisome as it shows some creditors may be struggling a little. The amount of credit extended also fell out of the 60s with a reading of 59.7 as compared to last month’s 61.7. In sum, “the numbers are not as good as they were in August, but they have hardly fallen off the map.”

The data from the nonfavorable factors didn’t vary much from the month before, but this is somewhat cold comfort as the readings are not all that high. The rejections of credit applications slipped a bit from 52.1 to 51.4. Kuehl explains that this category is tied to the applications for credit—if there are fewer applications and there are more rejections, it essentially means there are fewer good applicants. There was very little change in terms of accounts out for collection. The reading this month was 48.4; it was 48.6 the month before. The more salient point is this category remains in contraction territory. The disputes numbers actually improved with a reading of 50 after an August reading of 49.4. It is always good to see a reading break out of contraction—even if only by a little. The reading for dollar amount beyond terms fell quite a bit, but has still managed to stay out of contraction (down from 53.6 to 50.2). He notes that this is worrying in that slow pays are the first sign of future problems. The dollar amount of customer deductions improved a little, which was somewhat unexpected. It has gone from 50 to 52.1. There was also an improvement in filings for bankruptcies from 51.6 to 52.1. According to Kuehl, “The bankruptcy numbers had been a bright spot for years, but had been slipping over the last few months, so it was reassuring to see an upward trend.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19
Sales	68.8	62.7	64.5	59.0	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7
New credit applications	61.9	61.7	62.2	57.5	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7
Dollar collections	62.8	57.5	60.9	59.3	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5
Amount of credit extended	67.1	64.5	65.3	61.9	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7
Index of favorable factors	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**
Rejections of credit applications	51.8	51.4	51.4	51.4	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4
Accounts placed for collection	50.2	48.8	48.2	49.7	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4
Disputes	47.6	48.9	50.1	49.6	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0
Dollar amount beyond terms	49.9	47.7	52.3	49.3	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2
Dollar amount of customer deductions	48.6	49.5	49.6	49.7	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1
Filings for bankruptcies	55.6	52.1	53.6	55.0	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1
Index of unfavorable factors	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**
NACM Combined CMI	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**



Manufacturing Sector

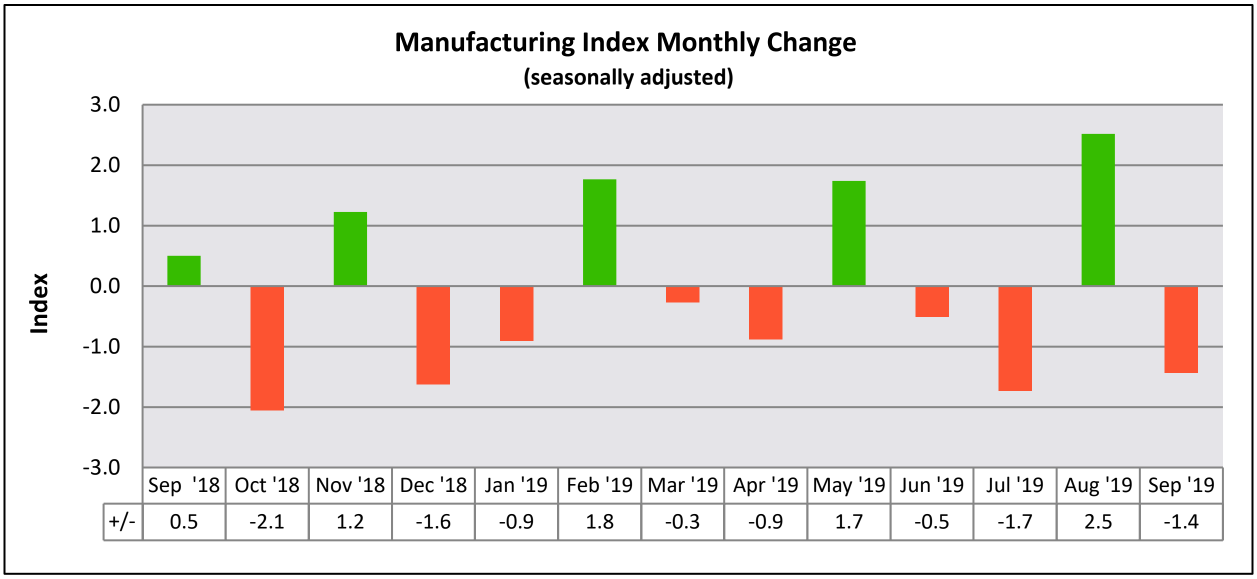
As for the manufacturing sector, Kuehl said that it has been experiencing the greatest levels of volatility thus far this year. The start was pretty impressive, but there were developing concerns as the trade and tariff war began to take shape. By mid-year, the slowing global economy was taking a toll on the U.S. industrial sector. Much of what the U.S. exports is machinery and other higher tech goods, and the market has been suffering a little. These issues are expected to worsen.

The combined score for manufacturing is at 54.3—less impressive than the month before (55.7). It is still higher than it was in July, however. The favorable numbers fell from the 60s, but remained firmly in expansion territory with a reading of 58.8. The nonfavorable factors came in very close to what they had been—51.2 as compared to 51.7. The sales data took a significant hit as it went from 65.3 to 57.9, a development that was not unexpected given all the challenges that have been facing the manufacturing sector of late. Kuehl attributes this to the global slowdown, as most of the major trading partners for the U.S. have been struggling. "Of the top-15 U.S. trade partners, all but three now have Purchasing Managers' Index readings below 50 and the three that are still in expansion territory are only at 51 or 52." The new credit application numbers slipped from 60.1 to 59.5. The dollar collections numbers also declined, but not by that much as they went from 59.6 to 58.7, certainly still respectable. The amount of credit extended numbers fell out of the 60s, going from 61.4 to 59.2. He notes that the favorable numbers are clearly still favorable as readings in the 50s are solid. The worry is that sales data tends to drive everything else.

There was less volatility in the nonfavorable categories, but the readings have been weak for several months and in some cases years. The rejections of credit applications data slipped, but stayed out of contraction territory with a reading of 51.9 compared to 53 last month. The accounts placed for collection did slip back into contraction with a reading of 49.7 from 50.6 the month prior. This takes the reading back to levels seen in July (46.7) and far lower than the June reading of 53.5. The disputes numbers remained almost as they were the month before with a reading of 50.6 after being at 50.3 in August. The dollar amount beyond terms slipped quite a bit from 55.9 to 52.1, but the good news is that the data is still in expansion territory. "The slow pay is often the first sign of trouble and thus far there are few major alarms sounding," Kuehl said. The dollar amount of customer deductions improved as the reading rose from 49.3 to expansion territory at 51.1. The filings for bankruptcy reading recovered a little bit of ground as it went from 51.4 to 52.

As far as manufacturing is concerned, there are conflicting assessments according to Kuehl. There have been more than a few positive signs and there have been negative indicators as well. The sense is that trends will be more negative as the trade war grinds on and more tariffs come into play.

Manufacturing Sector (seasonally adjusted)	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19
Sales	68.2	62.3	64.2	59.0	59.1	61.7	58.4	58.6	63.3	58.5	57.6	65.3	57.9
New credit applications	61.8	61.5	61.7	56.8	53.3	58.6	61.2	59.8	63.9	62.5	60.0	60.1	59.5
Dollar collections	59.0	58.5	61.6	59.0	58.4	60.5	57.8	58.6	60.5	59.2	54.7	59.6	58.7
Amount of credit extended	68.5	63.7	65.4	60.9	60.3	59.2	63.9	58.5	64.6	61.3	54.7	61.4	59.2
Index of favorable factors	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**
Rejections of credit applications	53.1	51.9	53.1	51.6	53.3	53.5	53.2	53.1	52.5	53.8	53.4	53.0	51.9
Accounts placed for collection	51.2	49.1	49.2	50.3	49.7	50.5	46.8	49.3	49.0	53.5	46.7	50.6	49.7
Disputes	48.7	48.7	49.6	48.6	46.8	48.7	50.2	47.7	48.2	48.3	51.0	50.3	50.6
Dollar amount beyond terms	50.2	49.1	50.3	50.0	49.1	52.8	51.0	48.5	51.8	50.2	48.0	55.9	52.1
Dollar amount of customer deductions	47.4	48.0	48.6	49.1	46.7	49.3	48.4	49.5	48.4	49.8	52.7	49.3	51.1
Filings for bankruptcies	56.0	50.9	52.2	54.4	54.0	53.3	54.6	53.3	52.0	52.0	53.0	51.4	52.0
Index of unfavorable factors	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**
NACM Manufacturing CMI	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**



Service Sector

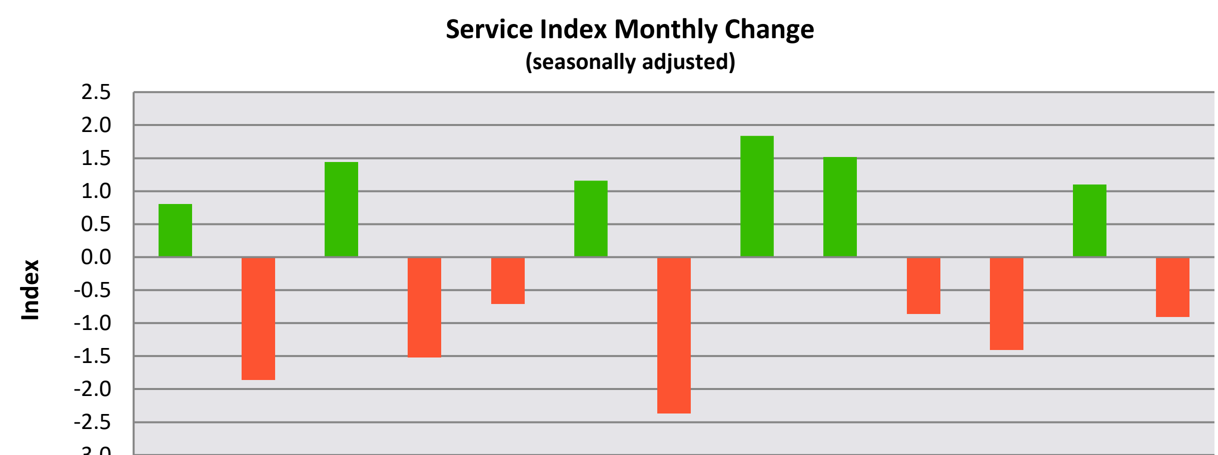
As the holiday season gets firmly underway, Kuehl says it is likely there will be additional movement in the index as there is both good news and bad. The retail sales numbers will climb, but the question will be by how much and for how long. If the season is not quite what had been expected, the nonfavorable factors will likely show the strain—perhaps even experiencing a hike in bankruptcies in the retail community. The other service category that shows strong influence over the CMI is construction. This area may decline simply due to seasonal factors.

The combined score is 53.9, which takes the readings back to nearly what they were in July at 53.7. The favorable factors slipped out of the 60s with a reading of 59.4 compared to the 61.9 in August. The nonfavorable combined score went from 50 to 50.1, as close to no change as one can get. The majority of the activity in the survey was in the favorable categories.

Sales slipped out of the 60s with a reading of 59.6, but these are obviously very legitimate readings and still a little higher than was the case in July (59.3). The new credit applications also dropped from the 60s with a reading of 59.8 after 61.7 in August. Again, this is not a bad number overall. The dollar collections number was the third to leave the 60 range with a new reading of 58.2. Only amount of credit extended was able to stay in that 60 zone with a reading of 60.2 compared to the 62.1 registered the month before.

The rejection of credit applications fell a bit from 51.2 to 50.9, but the important note is the reading stayed out of the contraction zone. The accounts placed for collection improved from a reading of 46.7 to one of 47.1, but this is still in contraction territory. Kuehl thinks the fear is that there will be more struggles in the sector as the year progresses. “It will all come down to the impact of the tariffs. The imposition of new tariffs on goods from China is expected to cost the consumer an additional $1,000 a year, but that is only if the big retailers raise their prices, although operations such as Wal-Mart, Target and others have no intention of doing so. They will push their suppliers to eat the cost of the tariffs.” The disputes category improved a bit from 48.5 to 49.4—not quite out of the contraction hole but getting closer. The dollar amount beyond terms fell fairly hard from 51.2 to 48.3. That is worrying, Kuehl noted, given the fact that slow pays usually precede bigger issues. The dollar amount of customer deductions improved from 50.6 to 53.1 and may signal some stability down the road. There was an improvement in the filings for bankruptcies readings with 52.1 as compared to 51.9 last month. “The success of the retail season will determine whether there will be more bankruptcies toward the beginning of next year,” he said.

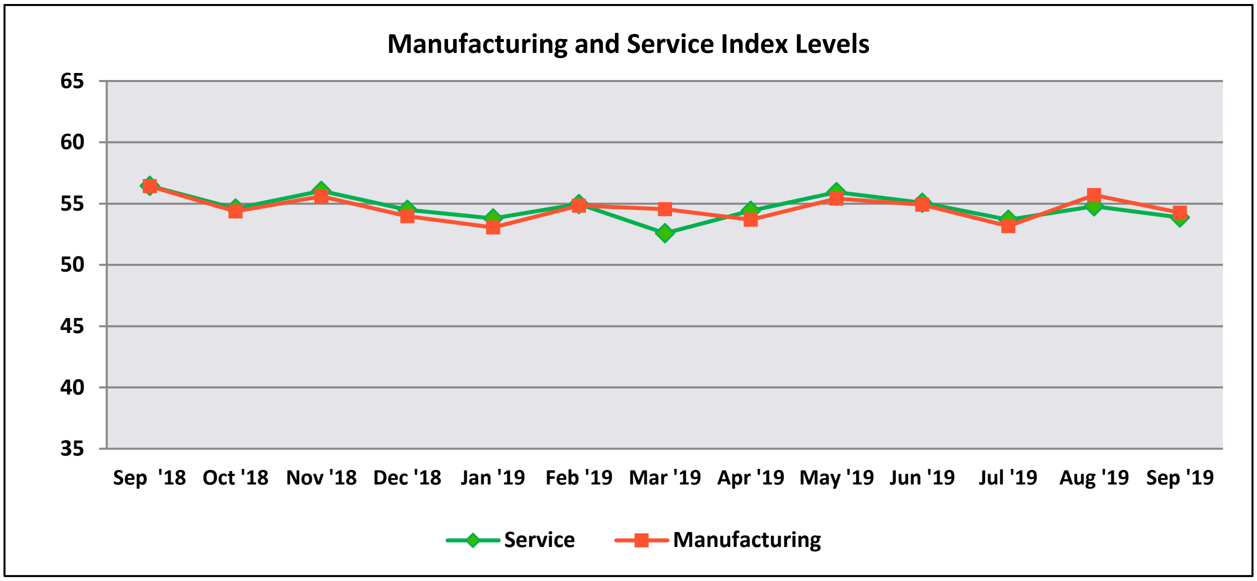
Service Sector (seasonally adjusted)	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19
Sales	69.4	63.2	64.9	59.0	60.3	63.5	58.0	63.4	68.5	62.3	59.3	63.4	59.6
New credit applications	62.0	61.9	62.7	58.2	63.0	59.2	54.3	59.6	64.6	62.4	61.6	61.7	59.8
Dollar collections	66.5	56.4	60.1	59.6	59.6	57.7	55.5	59.6	59.1	61.4	58.4	60.4	58.2
Amount of credit extended	65.8	65.2	65.2	63.0	62.1	65.5	63.2	62.7	66.3	63.7	62.6	62.1	60.2
Index of favorable factors	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**
Rejections of credit applications	50.5	50.9	49.7	51.2	50.3	50.8	49.1	50.8	51.2	51.0	51.9	51.2	50.9
Accounts placed for collection	49.2	48.4	47.2	49.1	46.7	47.5	46.0	47.7	45.1	46.6	45.7	46.7	47.1
Disputes	46.4	49.1	50.6	50.5	47.4	48.3	48.9	49.4	49.0	48.8	50.0	48.5	49.4
Dollar amount beyond terms	49.6	46.3	54.3	48.5	45.7	49.8	49.0	46.7	50.9	49.3	44.2	51.2	48.3
Dollar amount of customer deductions	49.7	51.1	50.7	50.3	49.2	50.6	49.1	49.8	50.1	50.3	49.7	50.6	53.1
Filings for bankruptcies	55.3	53.2	54.9	55.6	53.6	56.5	52.7	54.6	54.5	55.0	53.4	51.9	52.1
Index of unfavorable factors	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**
NACM Service CMI	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**



	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19
+/-	0.8	-1.9	1.4	-1.5	-0.7	1.2	-2.4	1.8	1.5	-0.9	-1.4	1.1	-0.9

September 2019 versus September 2018

“The data this month was slightly less impressive than last month, but the declines were not steep,” Kuehl said. “The exception was that sales numbers tanked, and that worries analysts down the road.”



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, 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.

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