Report for December 2019

Issued December 31, 2019

National Association of Credit Management

Combined Sectors

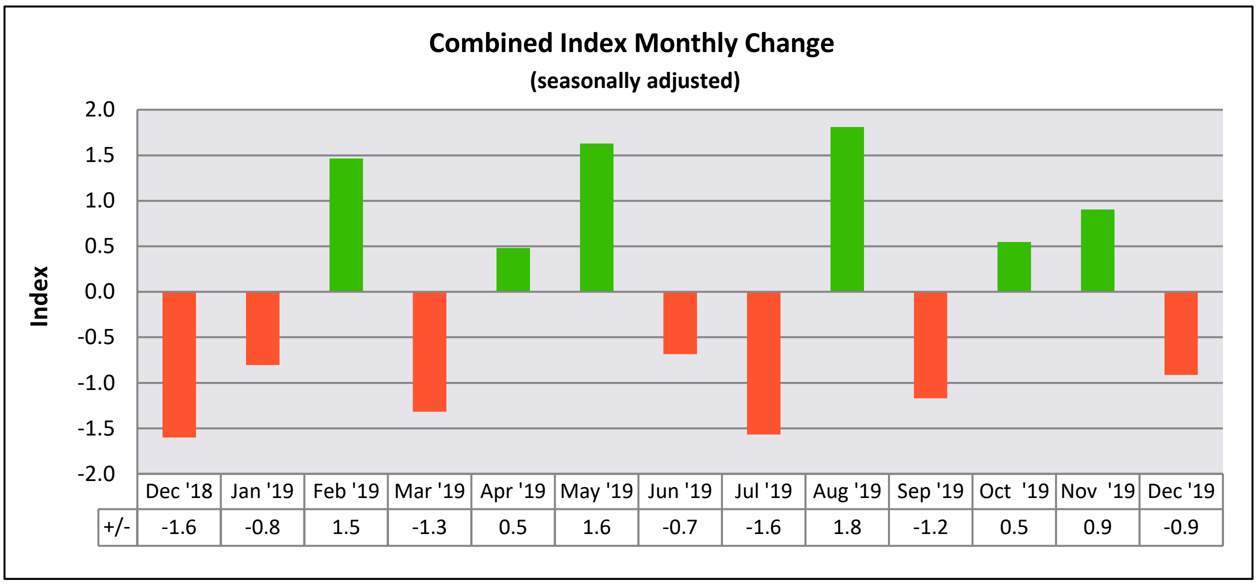
The latest score from the Credit Managers' Index (CMI) is not likely to cause any dancing in the street, but it isn't exactly all doom and gloom either. "The reading this month was a little down from the month before, but compared to the big declines the Purchasing Managers' Index has been experiencing, the data remains very solid," said NACM Economist, Chris Kuehl, Ph.D. December's composite score of 54.6 is exactly the same as it was in October. The November reading was a bit better with a 55.5 reading. "The really good news for an end-of-the-year report is the numbers have stayed quite consistent and in reasonably positive territory," he added. The lowest point all year was 53.4, reached in January and again in July. The highest readings were in May (55.7) and November (55.5).

There was a similar story in terms of the favorable and unfavorable categories. Generally speaking, the favorable numbers have been very solid with numbers in the high 50s and low 60s. The current favorable numbers dipped a little to 59.3 from a reading of 61.6 in November, but overall, the scores have been consistent all year. The low point was July when the reading hit 58.6 and the high point was May's 63.8. The majority of the concern expressed by the CMI shows up in the unfavorable numbers. The current reading is exactly the same as it was last month at 51.5, on par with the data presented all year. The high point has been the last two months with that 51.5 reading, while the low point was 49.4 in January. The numbers have been in expansion territory for 10 of the 12 months with only January and March in contraction (a score below 50).

The details tell a fairly compelling story as far as next year is concerned. The sales numbers have been high all year. The latest reading of 58.8 was a little down from November (61.6), but higher than in either September or October. The new credit application category also fell out of the 60s with a reading of 59.4 compared to 61.2 in November. The dollar collections reading slipped quite a bit though from 59.2 to 57.9. This is the lowest it has been since July. Kuehl noted that there had been some good numbers here for a while as it seemed many companies were working to get their credit obligations under better control. The amount of credit extended also slowed a little—down from 64.3 to 61.1.

The data in the unfavorable categories were a little more vexing. The rejections of credit applications improved a little from 51.3 to 52, good news given that applications have been down a little. The accounts placed for collection escaped the contraction zone with a reading of 50.3. This marks the first time these numbers have been in the 50s since June. Kuehl said that this is one of those indications that companies are trying to get their credit affairs in order for the coming year. The disputes numbers stayed about where they were the prior month, but this is good news as both months have been in the 50s. Last month it was at 50.3 and this month at 50.8. The dollar amount beyond terms data slipped a little (52.6 to 51), but still stayed out of the contraction zone. The dollar amount of customer deductions was almost the same as it had been last month with a reading of 51.3 compared to November's 51.4. The filings for bankruptcies also maintained an even reading of 53.4 compared to 53.5 last month. "The most encouraging aspect of the unfavorable data this month is all the readings are in expansion territory for the first time in several years," he said. "The turnaround is not spectacular and it will not take much to see these numbers deteriorate again, but for now the data shows companies are in generally better shape as far as their trade credit is concerned. We will see what the data looks like after the first of the year when the retailers determine what those sales did to their profit expectations."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19
Sales	59.0	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8
New credit applications	57.5	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4
Dollar collections	59.3	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9
Amount of credit extended	61.9	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1
Index of favorable factors	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**
Rejections of credit applications	51.4	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0
Accounts placed for collection	49.7	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3
Disputes	49.6	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8
Dollar amount beyond terms	49.3	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0
Dollar amount of customer deductions	49.7	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3
Filings for bankruptcies	55.0	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4
Index of unfavorable factors	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**
NACM Combined CMI	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**



Manufacturing Sector

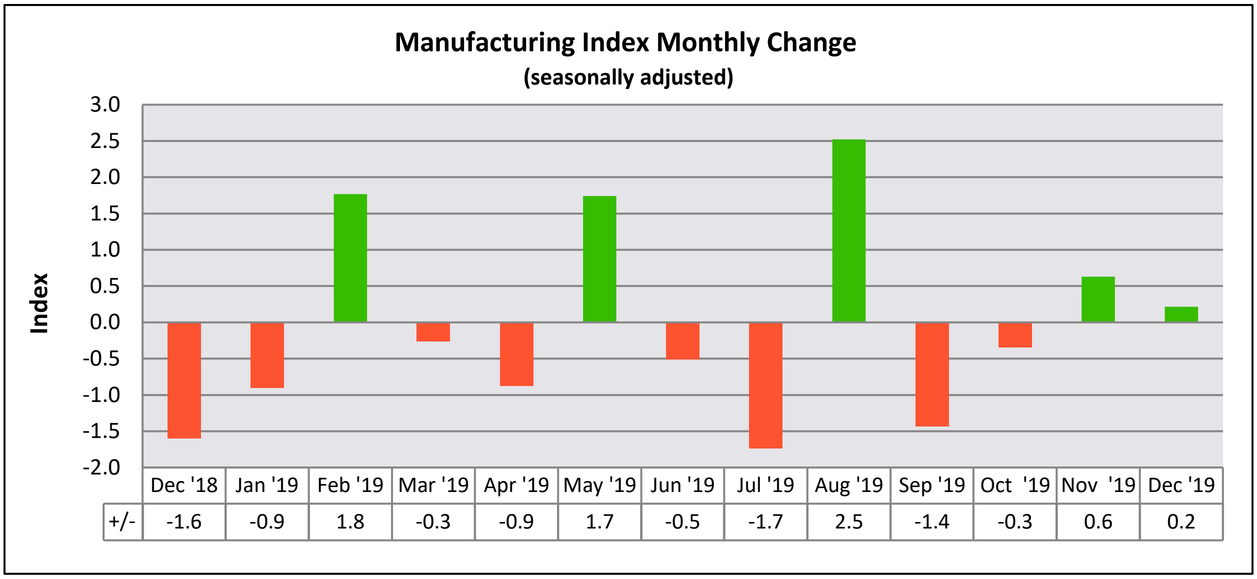
The manufacturing sector has been experiencing its share of ups and downs this year; it has been harder than usual to get an accurate read, according to Kuehl. For example, the data from the Purchasing Managers' Index (PMI) has been in contraction territory for four straight months. In contrast, the latest industrial production numbers show a recovery in the manufacturing sector despite the inhibitions in place due to the trade wars. There has been some question about how important manufacturing really is for the overall U.S. economy, but it is important to remember that the manufacturing share of the U.S. GDP is over $2.7 trillion, larger than the entire GDP of India.

The overall numbers for the manufacturing sector remained very close to what they had been the month before—54.8 as compared to 54.5. The favorable factors slipped just slightly from 59.7 to 58.9, while the unfavorable factors improved from 51.1 to 52. The trend is certainly better than has been with the PMI of late. The details are, as always, interesting.

Sales slipped out of the 60s, but remained comfortable at 57.9—higher than in October and on a par with the data in September. The readings for new credit applications improved from 59.8 to 61.2, as high as it has been since June. The dollar collections numbers also improved from 56.8 to 57.5. Kuehl noted this seems to be related to companies getting their credit positions set for the new year. The amount of credit extended slipped some from 61.6 to 59.1.

The rejections of credit applications data improved quite a bit from the reading in November as it moved from 51.6 to 53, the highest level reached since August. The category of accounts placed for collection jumped out of the contraction zone with a reading of 51.1 compared to 49.4 the month prior. This is the highest level reached since June. The disputes reading also left contraction territory with a reading of 51, the highest point since July. The dollar amount beyond terms stayed very close to what it was in November (52.4 compared to 52.1). The dollar amount of customer deductions improved quite a lot with a solid 52.6 reading compared to 50.8 in November. The filings for bankruptcies shifted down a little but stayed in expansion territory with a reading of 51.8 after 53 last month. “The most important aspect of the unfavorable readings this month,” Kuehl said, “is that all of them have left the contraction zone behind for the first time in nearly three years.”

Manufacturing Sector (seasonally adjusted)	**Dec '18**	**Jan '19**	**Feb '19**	**Mar '19**	**Apr '19**	**May '19**	**Jun '19**	**Jul '19**	**Aug '19**	**Sep '19**	**Oct '19**	**Nov '19**	**Dec '19**
Sales	59.0	59.1	61.7	58.4	58.6	63.3	58.5	57.6	65.3	57.9	56.7	60.7	57.9
New credit applications	56.8	53.3	58.6	61.2	59.8	63.9	62.5	60.0	60.1	59.5	59.2	59.8	61.2
Dollar collections	59.0	58.4	60.5	57.8	58.6	60.5	59.2	54.7	59.6	58.7	58.7	56.8	57.5
Amount of credit extended	60.9	60.3	59.2	63.9	58.5	64.6	61.3	54.7	61.4	59.2	61.6	61.6	59.1
Index of favorable factors	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**
Rejections of credit applications	51.6	53.3	53.5	53.2	53.1	52.5	53.8	53.4	53.0	51.9	52.1	51.6	53.0
Accounts placed for collection	50.3	49.7	50.5	46.8	49.3	49.0	53.5	46.7	50.6	49.7	49.3	49.4	51.1
Disputes	48.6	46.8	48.7	50.2	47.7	48.2	48.3	51.0	50.3	50.6	46.7	49.6	51.0
Dollar amount beyond terms	50.0	49.1	52.8	51.0	48.5	51.8	50.2	48.0	55.9	52.1	52.0	52.1	52.4
Dollar amount of customer deductions	49.1	46.7	49.3	48.4	49.5	48.4	49.8	52.7	49.3	51.1	51.1	50.8	52.6
Filings for bankruptcies	54.4	54.0	53.3	54.6	53.3	52.0	52.0	53.0	51.4	52.0	51.7	53.0	51.8
Index of unfavorable factors	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**
NACM Manufacturing CMI	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**



Service Sector

With all the good news that has been coming from the manufacturing sector, Kuehl noted that it was a bit of a wonder that overall numbers for the CMI have not been better. The culprit has been the service sector. That creates a certain amount of concern regarding the coming year. The problem has been an uneven retail season and some issues affecting construction.

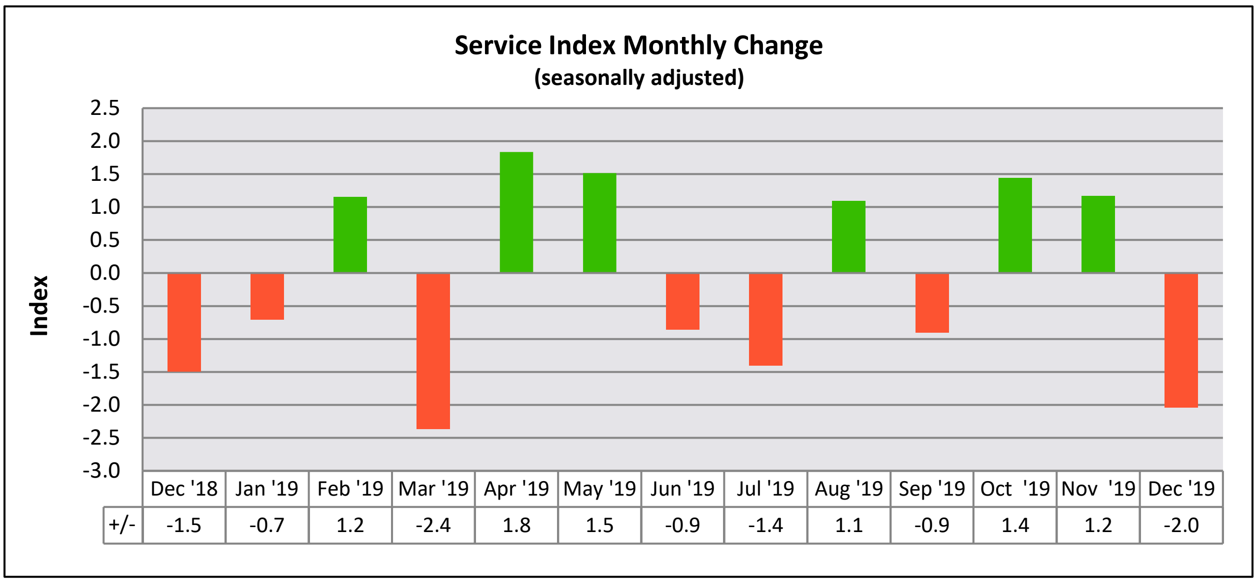
The composite numbers are not awful, but they declined from 56.5 to 54.4, even lower than in October. The composite for the favorable factors dropped quite a bit from the 63.4 notched in November, but these are still in the high 50s at 59.7. The unfavorable score stayed fairly close to the prior month with a reading of 50.9 compared to November's 51.8.

The sales numbers slipped from 62.5 to 59.7, but that is pretty consistent with the numbers registered all year. "The real concern here is that sales are up due to all the discounting and specials, but profits are not keeping pace with those revenues," Kuehl said. There was also a steep decline for the category of new credit applications as it slowed from 62.6 to 57.6. The dollar collections data went south as well—moving from 61.7 to 58.3. The amount of credit extended slid a bit from the 66.9 reading in November to 63 in December, but that remains a very solid number.

The rejections of credit applications slipped slightly, but stayed out of contraction with a reading of 50.9 compared to 51 in November. The accounts placed for collection fell out of expansion territory with a reading of 49.5 from 50.1, ending the brief foray out of contraction. The disputes reading was nearly the same as it had been with a reading of 50.6 after 50.9 last month. The dollar amount beyond terms also worsened a little and fell back into contraction with a reading of 49.7—just last month the data was firmly into the expansion category with a reading of 53.1. The dollar amount of customer deductions stayed in the expansion zone but only barely with a reading of 50 from 52. The filings for bankruptcies changed very little—54.9 up from November's 54.

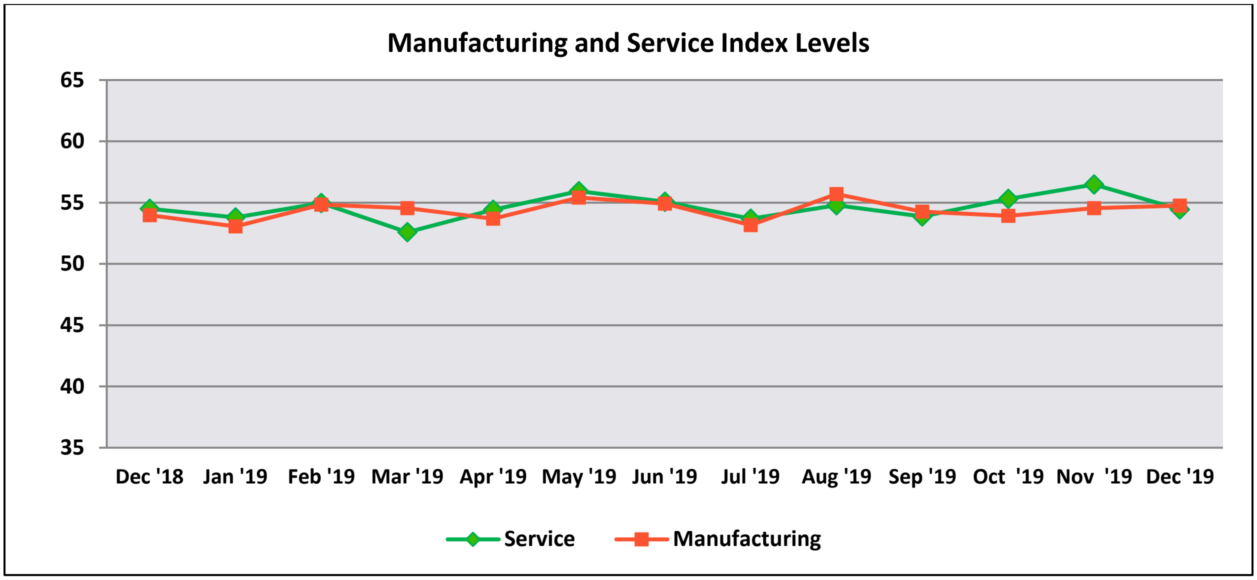
"The worry at this point is many retailers already look a little weaker than expected," Kuehl said, "That does not bode well for after the holidays. Construction seems to be picking up a little as far as residential activity is concerned, but labor shortage remains a huge issue."

Service Sector (seasonally adjusted)	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19
Sales	59.0	60.3	63.5	58.0	63.4	68.5	62.3	59.3	63.4	59.6	59.1	62.5	59.7
New credit applications	58.2	63.0	59.2	54.3	59.6	64.6	62.4	61.6	61.7	59.8	58.7	62.6	57.6
Dollar collections	59.6	59.6	57.7	55.5	59.6	59.1	61.4	58.4	60.4	58.2	65.5	61.7	58.3
Amount of credit extended	63.0	62.1	65.5	63.2	62.7	66.3	63.7	62.6	62.1	60.2	61.6	66.9	63.0
Index of favorable factors	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**
Rejections of credit applications	51.2	50.3	50.8	49.1	50.8	51.2	51.0	51.9	51.2	50.9	52.0	51.0	50.9
Accounts placed for collection	49.1	46.7	47.5	46.0	47.7	45.1	46.6	45.7	46.7	47.1	48.8	50.1	49.5
Disputes	50.5	47.4	48.3	48.9	49.4	49.0	48.8	50.0	48.5	49.4	49.4	50.9	50.6
Dollar amount beyond terms	48.5	45.7	49.8	49.0	46.7	50.9	49.3	44.2	51.2	48.3	52.1	53.1	49.7
Dollar amount of customer deductions	50.3	49.2	50.6	49.1	49.8	50.1	50.3	49.7	50.6	53.1	50.7	52.0	50.0
Filings for bankruptcies	55.6	53.6	56.5	52.7	54.6	54.5	55.0	53.4	51.9	52.1	55.1	54.0	54.9
Index of unfavorable factors	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**
NACM Service CMI	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**



December 2019 versus December 2018

"A bit of a mixed set of messages this month with a nice recovery in manufacturing, but some concerns regarding the fate of the retailer and how this will affect the service readings in the new year," Kuehl concluded.



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

Website: www.nacm.org
Twitter: NACM_National