



Report for August 2016

Issued August 31, 2016

National Association of Credit Management

Combined Sectors

The first piece of good news is that the August Credit Managers' Index (CMI) shows a combined overall score above 50, meaning it still remains in expansion territory. The second piece of good news is that the index of favorable factors is also above 50. That is about the end of the good news items, however.

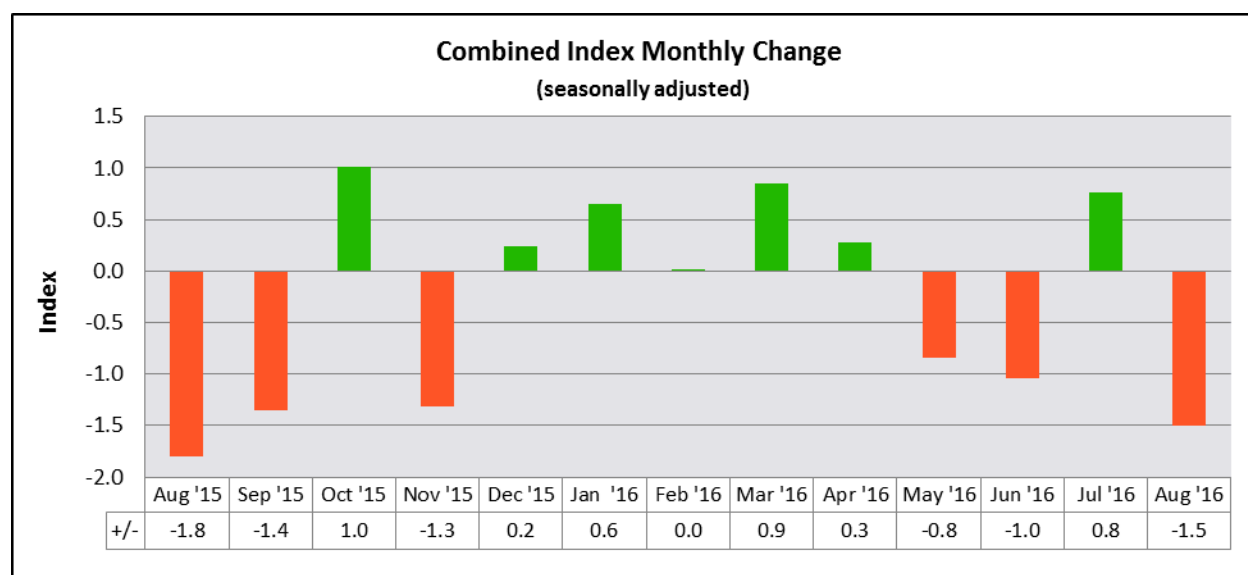
This month's combined index of the manufacturing and service sectors, while above 50, declined from 53.5 to 52.0, as low as it has been in more than two years. The score reflects the deterioration in the combined favorable categories reading (56.4). In July, it was as high as it was in March (60.0). The categories in the favorable sector were lower than they had been last month, and some by quite a lot. The index of combined unfavorable factors also dropped (49.2 to 49.1), but not as dramatically. "The best that can be said about the decline is that it was bad and hasn't gotten much worse," said NACM Economist Chris Kuehl, Ph.D.

When looking at specifics in the favorable categories, there was not much to celebrate and some of these sectors are worrying. The sales category was riding a high at 60.0 last month and dropped to 53.7, marking the lowest point in two years. "The sales collapse is consistent with what has been appearing in the Purchasing Managers' Index and other statistics, so it is unlikely to be an anomaly, not good timing as far as the retail community is concerned," explained Kuehl. New credit applications also fell, but not quite as hard—dropping from 57.8 to 56.7. The dollar collections number also dipped a little (59.5 to 55.5). This category has not seen a number this low since December of last year when it tumbled to 55.8. Amount of credit extended nosed down from a 62.8 reading to 59.7. It's not as low as it was in June, but this has been a category that is usually at 60 or higher, so it seemed like things had started to normalize a little. "Amount of credit extended is important as this reflects credit issuance to the larger clients and customers as they are the ones that will be seeking the most," Kuehl noted.

Not all that much changed in the unfavorable categories, but that is not necessarily a good thing given these categories have been weak for some time now. Rejections of credit applications actually improved as it went from 50.7 to 51.6. "This is not unusual when there are slowdowns in the number of applications and a reduction in the overall amount of credit extended, as the only companies accessing credit are the good customers and the ones least likely to be turned down," said Kuehl.

Category of accounts placed for collection fell from 48.2 to 47.7, the lowest this reading has been since November 2015 when it was 47.1. In contrast, the disputes category showed minor improvement as it went from 47.6 to 47.8, but the dollar amount beyond terms category declined (48.8 to 46.3). Similarly, dollar amount of customer deductions fell from 49.0 to 48.1. Filings for bankruptcies bucked the trend and improved moving from 50.7 to 52.8. "This reading has stayed fairly steady for the bulk of the year and signals that most of the credit crisis has been as expected," Kuehl said. "The bottom line as far as the unfavorable factors are concerned is that things have not started to improve any, but they are not getting any worse either. It is supposed there is some small comfort in that."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16
Sales	57.9	56.4	58.3	56.0	55.0	55.8	56.8	59.2	59.8	56.7	56.9	60.0	53.7
New credit applications	57.7	58.1	58.9	58.0	56.4	58.1	58.2	59.8	58.5	56.6	56.6	57.8	56.7
Dollar collections	58.3	56.4	56.7	55.7	55.8	57.8	58.3	59.6	57.5	57.4	57.1	59.5	55.5
Amount of credit extended	63.0	60.1	63.7	61.0	59.4	61.0	61.2	61.7	60.9	61.0	57.6	62.8	59.7
Index of favorable factors	59.2	57.7	59.4	57.7	56.6	58.2	58.6	60.0	59.2	57.9	57.0	60.0	56.4
Rejections of credit applications	51.3	51.3	51.4	51.0	52.8	52.2	52.2	51.2	52.2	51.9	51.2	50.7	51.6
Accounts placed for collection	51.2	49.3	50.0	47.1	50.2	49.4	49.0	48.5	50.9	50.5	48.8	48.2	47.7
Disputes	49.5	47.5	48.5	48.4	48.6	48.6	49.7	50.8	50.8	50.8	49.5	47.6	47.8
Dollar amount beyond terms	49.3	47.0	47.8	47.4	48.0	48.6	47.5	50.8	51.2	49.2	49.0	48.8	46.3
Dollar amount of customer deductions	49.9	49.4	50.1	48.9	48.5	49.5	49.5	49.8	50.7	50.7	49.6	49.0	48.1
Filings for bankruptcies	54.4	53.3	53.6	52.5	53.7	53.8	52.6	52.2	53.8	53.0	51.1	50.7	52.8
Index of unfavorable factors	50.9	49.7	50.2	49.2	50.3	50.3	50.1	50.6	51.6	51.0	49.9	49.2	49.1
NACM Combined CMI	54.2	52.9	53.9	52.6	52.8	53.5	53.5	54.3	54.6	53.8	52.7	53.5	52.0



Manufacturing Sector

The same good and bad news scenario applies as far as the manufacturing subset is concerned. The reading remains above 50 and in the expansion category, but the bad news is that it has fallen a bit from what it was the month before. In July, the reading was 52.6, and this month it is 51.1, the lowest seen in more than two years. There is not much to celebrate as far as the details are concerned either. Readings for the favorable factors were down from 58.9 to 55.3. While this was a disappointment, the numbers are not as bad as they could have been. They are still more or less in line with what has been seen thus far this year. The big drop was in the sales category as this fell from 58.4 to 52.4, the lowest it has been seen since December of last year. The new credit applications number also dropped, but not by as much (56.5 to 55.8). Dollar collections showed a big decline as it shifted from 58.8 to 54.1. Amount of credit extended also fell from 61.8 to 58.8. “The silver lining in all of this is that these are

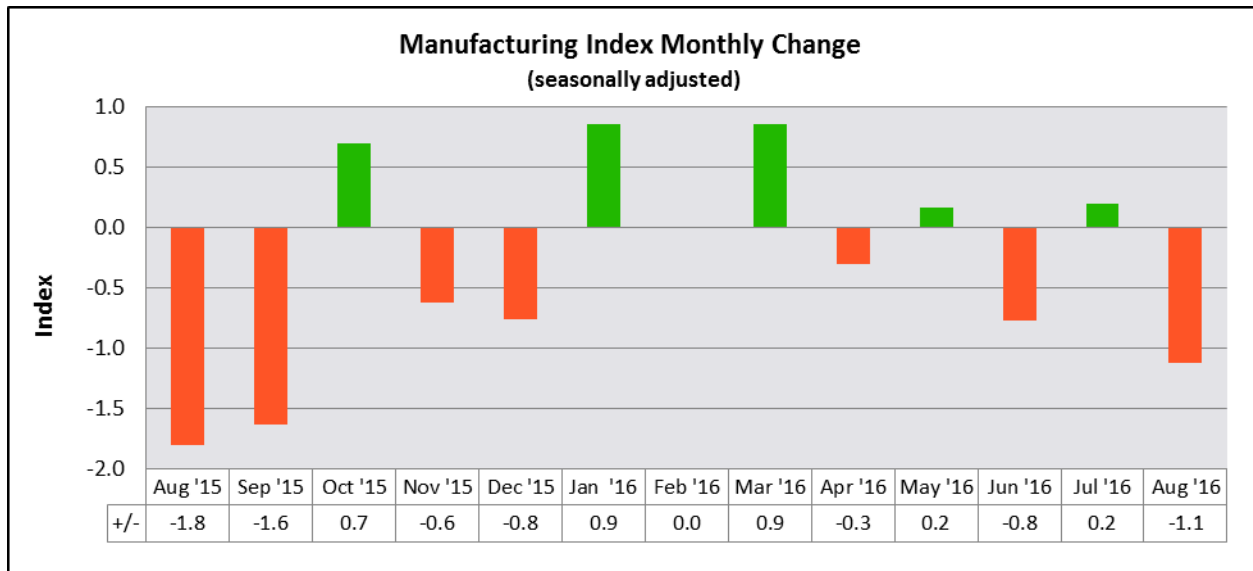
all firmly in the middle of the expansion zone, so there is no reason to panic just yet,” Kuehl said. “It is true that conditions looked a lot better a month ago, but if one looks at the data over the course of the year, the current readings look to be on the low side of normal.”

When it comes to the unfavorable categories, there was improvement although not enough to escape the contraction zone. The reading in July was 48.4, and this month it is 49.0, still very close to the lowest readings that were registered this year. The rejections of credit applications category improved a little from 50.8 to 51.1. “That makes a certain amount of sense when the majority of credit is going to companies where there is a good relationship,” Kuehl explained. Accounts placed for collection deteriorated just a little as it went from 48.7 to 48.3, but the disputes category registered a slightly better number (45.0 to 46.5). “The problem, of course, is that numbers this buried in the middle of the 40s is not a good thing and shows some serious decline,” Kuehl noted.

Dollar amount beyond terms went from 48.3 to 45.4, and dollar amount of customer deductions improved a hair—from 48.0 to 48.1. The big news this month was a startling improvement in the category of filings for bankruptcies as it went from 49.8 to 54.5. “This is a reflection of the fact that many of the weakest players in the sector have already gone out of business,” Kuehl said, “and those that remain are better able to handle some of the normal issues in the economy as a whole.”

“In general terms, the manufacturing sector in the country has seen some positive developments and some that are negative”, Kuehl concluded. “The automotive sector remains pretty healthy, but is not as robust as it was last year. The aerospace sector has shown signs of recovery, but the oil and gas industry is still moribund and not likely to see progress anytime soon.”

Manufacturing Sector (seasonally adjusted)	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16
Sales	56.4	55.6	57.7	55.5	51.9	54.3	54.7	57.6	56.3	53.9	56.1	58.4	52.4
New credit applications	56.1	56.6	57.3	57.1	54.0	55.4	53.7	56.8	55.3	56.8	54.7	56.5	55.8
Dollar collections	57.8	56.7	56.4	55.6	55.0	55.9	56.2	58.2	54.9	55.0	57.5	58.8	54.1
Amount of credit extended	63.0	57.1	61.8	59.0	55.4	59.3	58.2	60.2	58.4	58.4	55.4	61.8	58.8
Index of favorable factors	58.3	56.5	58.3	56.8	54.1	56.2	55.7	58.2	56.2	56.0	55.9	58.9	55.3
Rejections of credit applications	51.8	51.5	51.5	52.0	54.1	52.4	52.4	51.1	51.8	51.7	53.3	50.8	51.1
Accounts placed for collection	50.7	48.5	49.5	48.6	49.3	48.5	48.6	48.2	50.3	51.8	49.7	48.7	48.3
Disputes	48.6	47.7	46.3	47.8	47.1	47.1	49.8	49.4	48.7	50.7	48.9	45.0	46.5
Dollar amount beyond terms	51.1	46.6	47.3	48.4	48.8	50.3	49.6	51.9	51.4	50.1	50.2	48.3	45.4
Dollar amount of customer deductions	48.8	49.2	48.5	47.9	47.6	49.0	49.2	48.2	49.5	51.4	48.5	48.0	48.1
Filings for bankruptcies	54.9	53.1	53.6	51.7	52.8	52.3	52.1	51.6	53.7	52.1	50.0	49.8	54.5
Index of unfavorable factors	51.0	49.5	49.4	49.4	49.9	49.9	50.3	50.1	50.9	51.3	50.1	48.4	49.0
NACM Manufacturing CMI	53.9	52.3	53.0	52.3	51.6	52.5	52.5	53.3	53.0	53.2	52.4	52.6	51.5



Service Sector

There was no offsetting joy in service data as the slide continued. The overall service sector reading slipped from 54.4 to 52.5—again a mixed message of sorts. On the one hand, the reading is still in positive territory, but it is obviously heading in the wrong direction. The same breakdown appears in service data as it has appeared in manufacturing—weakness in the favorable factors and a steadier performance in non-favorable data.

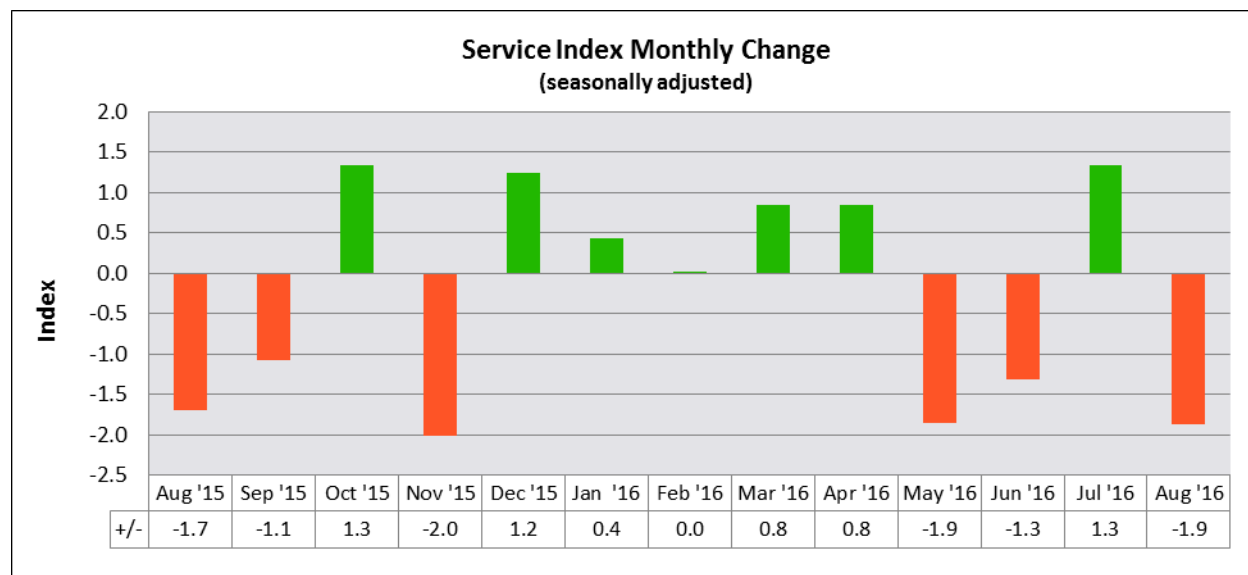
The overall index for favorable data moved down sharply from July's 61.2 to this month's 57.6, far lower than any reading seen in more than two years. This sector typically saw numbers in the 60s, and those days seem to have ended for the time being. Sales data fell hard from 61.6 to 55.0, not a happy development for retailers as they start to anticipate the holiday season. New credit applications slipped from 59.0 to 57.6, and dollar collections reflected a corresponding drop from 60.3 to 57.0. Amount of credit extended moved down a little, but it stayed well into the expansion zone with a reading of 60.7 after the previous month's 63.8.

The overall reading for the unfavorable categories slipped, but not by all that much (49.9 to 49.2). The important point is that both are contraction zone numbers and with the fall they are getting worse. Over the last three months, this data has been in contraction trouble, not the time of year one would expect to see this develop.

Rejections of credit applications moved from 50.7 to 52.0 suggesting "old and secure clients are securing the credit they asked for, but they are not asking for as much as they used to," Kuehl said. The accounts placed for collection reading slipped, but not by all that much as it went from 47.7 to 47.1, and the disputes category also dipped from 50.2 to 49.2. This is the first time that the reading fell below 50 since February and suggests that some collection action is likely on the horizon. Dollar amount beyond terms fell deeper into the contraction hole with a reading that went from 49.2 to 47.3. The category of dollar amount of customer deductions fell from 50.1 to 48.2, taking this reading to lows not seen since early last year. Filings for bankruptcies held close to what it had been—moving slightly from 51.5 to 51.2.

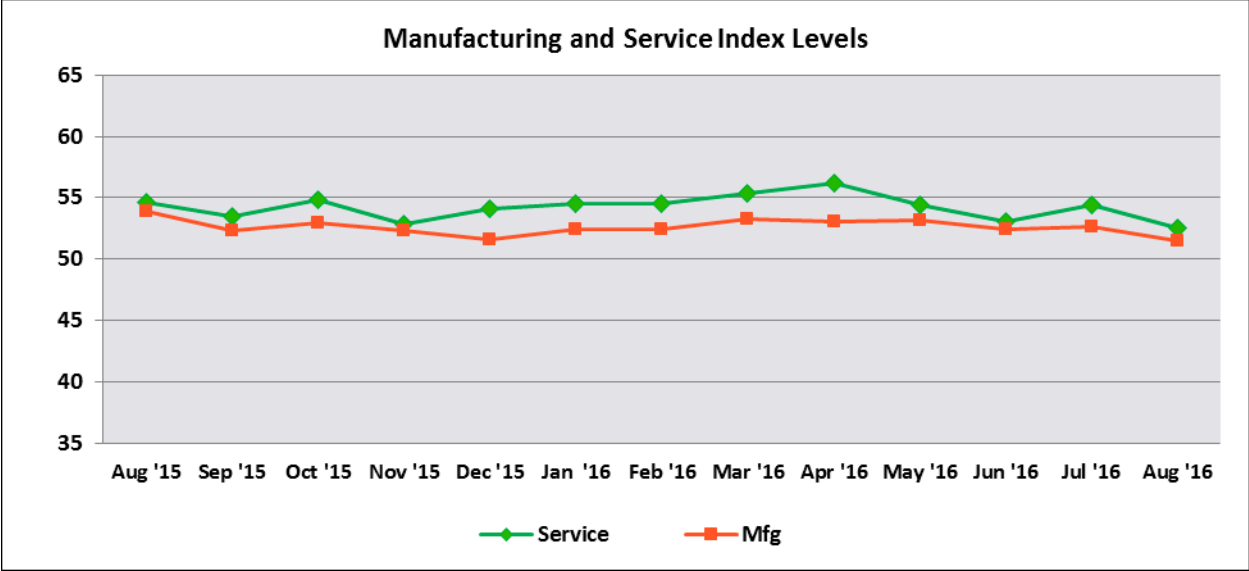
The service sector is always the hardest to draw many conclusions from because it is so varied. There is, of course, the retail sector, but this category also includes construction and health care and financial services. At first glance, it would appear that most of the weakness is due to the retail community and that is going to be an issue in the months to come. Kuehl posed the all-important question: Is this a real consumer slump, or a case of shifting priorities as far as shopping—putting the online stores ahead of the brick and mortar options?

Service Sector (seasonally adjusted)	Aug '15	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16
Sales	59.5	57.2	58.9	56.5	58.1	57.4	58.8	60.7	63.2	59.5	57.8	61.6	55.0
New credit applications	59.3	59.5	60.5	58.9	58.8	60.9	62.7	62.8	61.8	56.5	58.5	59.0	57.6
Dollar collections	58.8	56.1	57.0	55.9	56.6	59.7	60.4	61.0	60.0	59.8	56.7	60.3	57.0
Amount of credit extended	63.1	63.2	65.6	63.1	63.4	62.7	64.1	63.1	63.5	63.6	59.8	63.8	60.7
Index of favorable factors	60.2	59.0	60.5	58.6	59.2	60.2	61.5	61.9	62.1	59.9	58.2	61.2	57.6
Rejections of credit applications	50.8	51.1	51.4	50.0	51.6	52.0	51.9	51.4	52.6	52.0	49.1	50.7	52.0
Accounts placed for collection	51.7	50.0	50.6	45.6	51.1	50.3	49.4	48.8	51.6	49.2	47.9	47.7	47.1
Disputes	50.4	47.4	50.7	49.0	50.0	50.1	49.7	52.3	52.9	50.8	50.1	50.2	49.2
Dollar amount beyond terms	47.5	47.4	48.4	46.3	47.3	46.8	45.5	49.6	51.1	48.4	47.9	49.2	47.3
Dollar amount of customer deductions	51.0	49.7	51.7	49.8	49.4	50.0	49.8	51.3	51.8	50.1	50.7	50.1	48.2
Filings for bankruptcies	54.0	53.6	53.6	53.2	54.5	55.3	53.1	52.9	53.8	53.9	52.2	51.5	51.2
Index of unfavorable factors	50.9	49.9	51.1	49.0	50.6	50.8	49.9	51.0	52.3	50.7	49.6	49.9	49.2
NACM Service CMI	54.6	53.5	54.8	52.8	54.1	54.5	54.5	55.4	56.2	54.4	53.1	54.4	52.5



August 2016 versus August 2015

“Overall, it was fun while it lasted—the trends had been up and now they aren’t,” Kuehl noted. “The most vexing part of the change is that it is happening at the start of the season that many in the economy count on for growth.”



Methodology Appendix

CMI data have been collected and tabulated monthly since February 2002. The index, published since January 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 Idaho. 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 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 15,000 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: [Ainslee Sadler](#), 410-740-5560
[Angela Culver](#), 410-740-5560

Website: www.nacm.org
Twitter: [NACM National](#)