



Report for May 2017

Issued May 31, 2017

National Association of Credit Management

Combined Sectors

It was nice while it lasted. The last month was an upbeat one and it appeared that the issues that surfaced in March had faded away. On the other hand, maybe the data will turn again in June. Over the last four months there has been something of a roller coaster as far as the indicators are concerned. This month the numbers are down, especially in the unfavorable categories. This behavior is pretty consistent with the other numbers that have been emerging as far as the economy itself. “The wild enthusiasm that was noted at the start of the year has faded as reality sets in,” said NACM Economist Chris Kuehl, Ph.D. “There will be few swift changes or victories as far as the economy is concerned. Tax reform, infrastructure build, deregulation and all the rest will be slow to appear and it is not clear that business and consumer will have sufficient patience.”

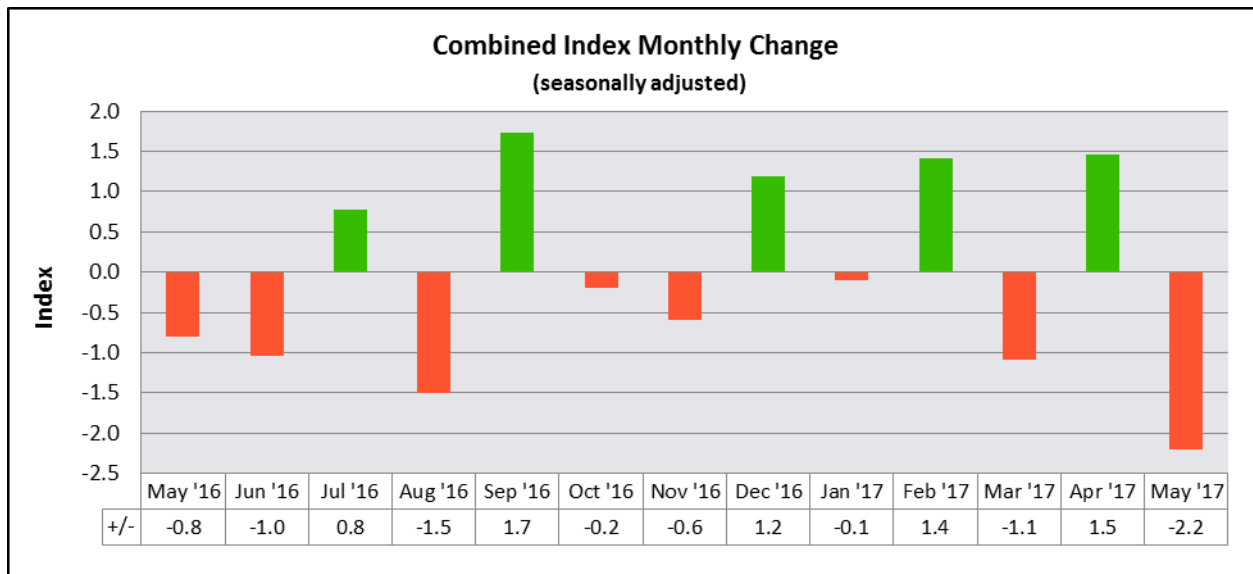
The data this month is not exactly bad, but it has fallen off the pace that was set last month. The combined reading for the index as a whole fell to 53.6 and that is the lowest it has been since November of last year. To be sure, a number of 53.6 is not a crisis but just a month ago it was at 55.8. The index for the favorable factors fell as well but stayed in the 60 range (by the narrowest of margins). It went from 63.6 to 60.0. The index for the unfavorable factors went down to below the 50 range and that is a bigger concern. Last month the reading was 50.6 and now it stands at 49.3, and that is as low as it has been since August of last year. “The trouble that has been brewing has started to get palpably worse,” Kuehl said.

The favorable subcategories all slipped a little and most fell out of the 60s this month. The sales category went from 63.8 to 60.6 and it has not been that low since January. The new credit applications number slipped out of the 60s by moving from 62.0 to 59.3. The dollar collections data also slipped into the 50s by moving from 61.2 to 56.7, and this reignites the concern from March when there was a similar decline in dollar collections. “There had been some hope that dollar collections were trending back up and that this was a signal that companies were starting to think expansion again,” Kuehl said. “Now we are not so sure. The amount of credit extended slid from 67.2 to 63.6 and that is certainly still in respectable territory.”

The really bad news surfaced in the unfavorable categories. “The rejections of credit applications actually rose a little from 52.1 to 52.4 and that would suggest one of two things,” Kuehl said. “Either the applicants that are trying for additional credit are in good shape or those that issue credit are being more generous.” The data for accounts placed for collection worsened a little from last month as the reading went from 49.0 to 48.5. This data has been sub-50 for a long time now and that is not a good trend overall. The disputes reading took a big hit as well, as it moved from 49.1 to 47.9. The dollar amount beyond terms reading collapsed from 51.0 to 45.9 and that is the other concern from March that has reappeared. “The combination of more slow pays and weaker dollar collection means that there are still considerable struggles in terms of paying and there is renewed worry that other negatives will start to accelerate,” Kuehl said. The dollar amount of customer deductions fell as well, going from 49.2 to 48.7, and there were negative readings in the filings for bankruptcies category as it went from 53.5 to 52.7.

“The sense right now is that companies are less upbeat than they were earlier in the year,” Kuehl said. “The big growth opportunities have not materialized as yet, but there remains some hope they will. The other measures of the economy have been showing some of this angst as well, as the Purchasing Managers’ Index has been down from previous heights and the latest durable goods numbers were a little off their recent peak.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17
Sales	56.7	56.9	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6
New credit applications	56.6	56.6	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3
Dollar collections	57.4	57.1	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7
Amount of credit extended	61.0	57.6	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6
Index of favorable factors	57.9	57.0	60.0	56.4	59.5	58.4	60.3	59.1	60.8	63.6	60.6	63.6	60.0
Rejections of credit applications	51.9	51.2	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4
Accounts placed for collection	50.5	48.8	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5
Disputes	50.8	49.5	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9
Dollar amount beyond terms	49.2	49.0	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9
Dollar amount of customer deductions	50.7	49.6	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7
Filings for bankruptcies	53.0	51.1	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7
Index of unfavorable factors	51.0	49.9	49.2	49.1	49.9	50.3	48.0	50.8	49.5	50.0	50.2	50.6	49.3
NACM Combined CMI	53.8	52.7	53.5	52.0	53.7	53.5	52.9	54.1	54.0	55.4	54.3	55.8	53.6



Manufacturing Sector

The reversal that was felt in the overall index was likewise experienced in the manufacturing sector. This has been an up-and-down year for the majority of the manufacturers already as there have been all manner of encouragements alongside concerns. “It has been good news that the energy sector is attracting attention again, but not such good news as far as companies dependent on trade are concerned,” Kuehl said. “This is the sector that had been hoping to get better news from deregulation and the emphasis on infrastructure but that seems more remote than ever.”

The overall index remains in the expansion zone with a reading of 53.9, but that is down from 56.2 and is the lowest level seen since December of last year. The favorable factor index slipped dramatically and left the 60s

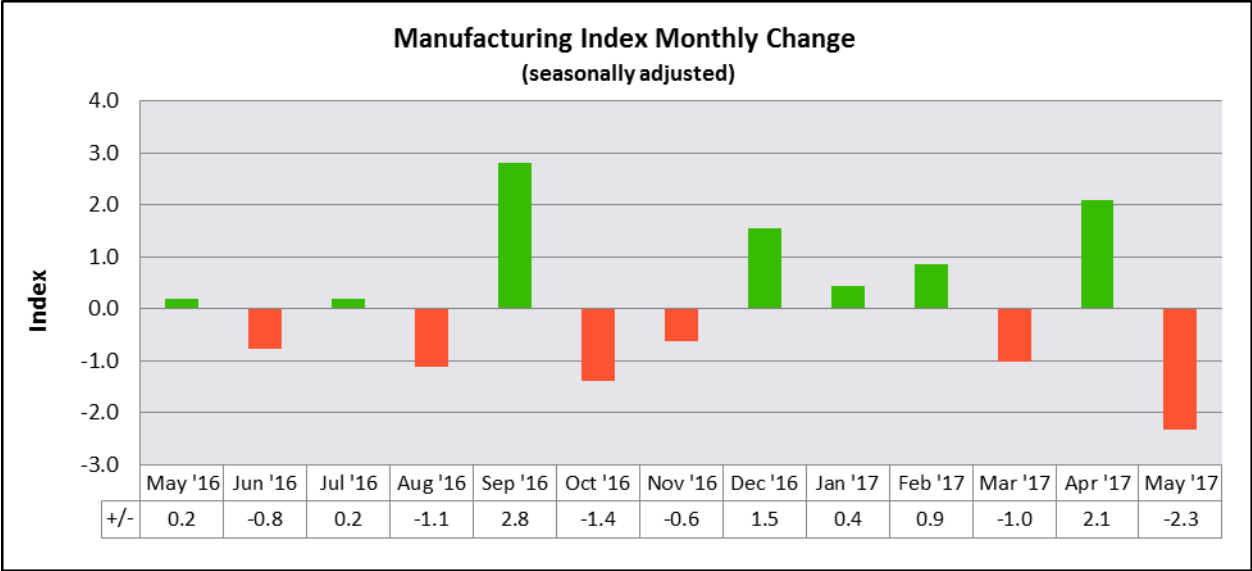
readings behind as it moved from 63.8 to 59.7. There was similar bad news in the unfavorable index numbers as they also slipped from 51.1 to 50.0, the same level reached in March of this year.

The details are telling. The big drop as far as the favorable factors are concerned was in the sales category, with a several-point dip from 64.7 to 59.5. Things don't get much better when looking at new credit applications, as these also slid from 61.4 to 58.6. Once again there was concern over dollar collections as these slid from 61.3 to 57.3. Only the category of amount of credit extended managed to stay in the 60s. It fell, but not as far as some of the others, as it went from 67.8 to 63.4. "All in all, the numbers suggest a real cooling of enthusiasm in the manufacturing sector and that has been reflected in the numbers from the Purchasing Managers' Index," Kuehl said.

The unfavorable index stumbled as well, as several of the subreadings tumbled back into contraction territory. Last month there were only two readings below 50 and this month there are four that have fallen back. The rejections of credit applications didn't shift all that much and this is a little sign of hope as it suggests that those that are asking for credit are capable of getting approved. The trouble starts to manifest with the accounts placed for collection as they dipped out of the expansion category by shifting from 50.1 to 49.5. The disputes category also dug further into contraction territory with a reading of 48.0 after the 49.2 the month before. Again, there were issues illustrated by the dollar amount beyond terms. "The slow-pay marker shifted from 51.5 to 48.1 and back to the bad old days of March," Kuehl said. "There is once again concern that some companies are struggling to stay current and unfortunately the next step is often collection or worse." The dollar amount of customer deductions slipped further back into the 40s with a reading of 48.6 after hitting 49.1 the month before. The filings for bankruptcies also slipped, but stayed out of contraction territory with a reading of 53.1 compared to 54.1 the month prior.

"There is general uneasiness in the manufacturing community as there are fears that many of those early-year expectations are not going to be met and that there will not be the demand they had been anticipating from consumers or the business community as a whole," Kuehl said.

Manufacturing Sector (seasonally adjusted)	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17
Sales	53.9	56.1	58.4	52.4	58.2	54.4	58.5	58.7	61.7	60.7	61.7	64.7	59.5
New credit applications	56.8	54.7	56.5	55.8	59.2	56.9	51.6	56.1	61.8	61.6	59.7	61.4	58.6
Dollar collections	55.0	57.5	58.8	54.1	57.5	56.1	65.5	59.3	55.3	64.1	56.1	61.3	57.3
Amount of credit extended	58.4	55.4	61.8	58.8	61.4	58.3	60.4	60.2	63.0	67.2	63.4	67.8	63.4
Index of favorable factors	56.0	55.9	58.9	55.3	59.1	56.4	59.0	58.5	60.5	63.4	60.2	63.8	59.7
Rejections of credit applications	51.7	53.3	50.8	51.1	53.3	52.7	49.3	51.5	51.6	52.3	52.1	52.9	52.6
Accounts placed for collection	51.8	49.7	48.7	48.3	50.2	49.0	45.0	50.1	51.9	47.4	50.6	50.1	49.5
Disputes	50.7	48.9	45.0	46.5	47.7	49.2	44.5	48.8	45.7	47.4	47.4	49.2	48.0
Dollar amount beyond terms	50.1	50.2	48.3	45.4	50.5	50.0	43.0	50.1	49.4	52.1	48.2	51.5	48.1
Dollar amount of customer deductions	51.4	48.5	48.0	48.1	51.9	48.5	49.4	49.2	48.7	46.1	49.2	49.1	48.6
Filings for bankruptcies	52.1	50.0	49.8	54.5	53.0	54.3	55.6	54.4	53.5	52.3	52.7	54.1	53.1
Index of unfavorable factors	51.3	50.1	48.4	49.0	51.1	50.6	47.8	50.7	50.1	49.6	50.0	51.1	50.0
NACM Manufacturing CMI	53.2	52.4	52.6	51.5	54.3	52.9	52.3	53.8	54.3	55.1	54.1	56.2	53.9



Service Sector

The service sector also experienced a decline, but not one that was as sharp as that in manufacturing. “This is always the diverse sector and it tends to ride out the waves of the economy a bit better than does manufacturing, as it always seems there is one big part of the sector that is doing a bit better than the others,” Kuehl said. “This month that seems to be the construction sector.” There was a dip in the combined score as it went from 55.4 to 53.4, but that sag was not as dramatic as the one in the manufacturing category.

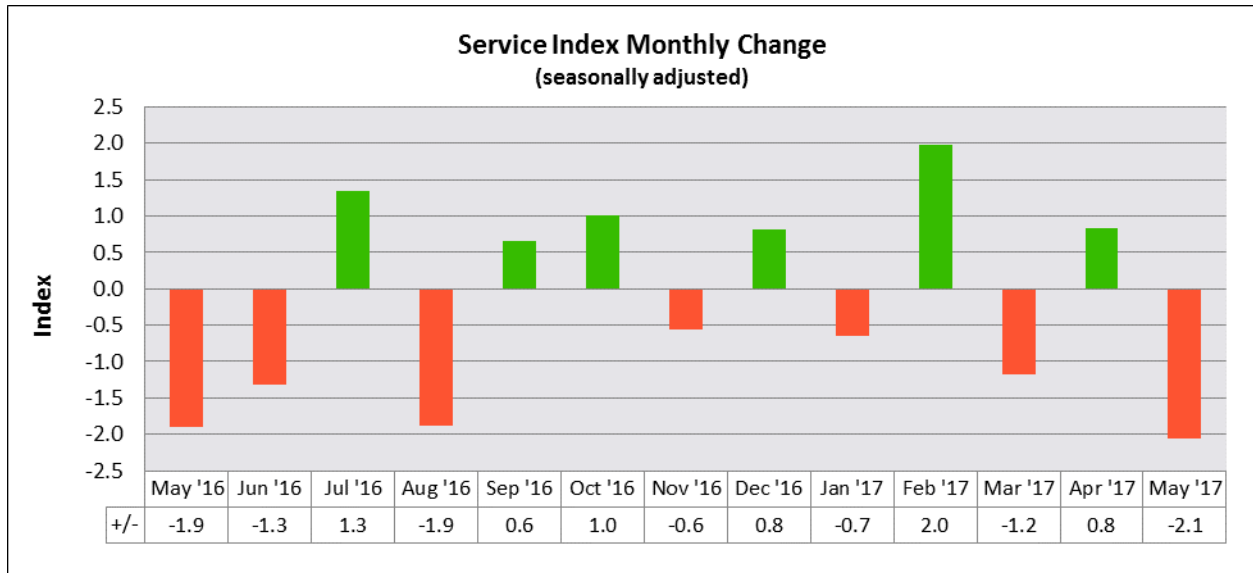
The index for the favorable factors dipped right along with the other scores and for much the same reason. Last month’s reading was 63.3 and this month it was at 60.3. The good news is that this reading was still in the 60s. The index for the unfavorable factors also fell, but not quite as dramatically as manufacturing. Last month the reading was 50.2 and this month it is at 48.7. The significant part of this decline is that the index fell under the expansion mark for the first time since January of this year.

The sales reading didn’t move all that much and that is a good thing. It went from 62.9 to 61.7 and that remains promising. The new credit applications reading went from 62.6 to 59.9; not a big drop, but it is significant that this has now fallen out of the 60s. “The dollar collection category is once again a problem as it has dipped from 61.2 to 56.0; that is a big fall,” Kuehl said. The slide in amount of credit extended is far less but still significant, as it went from 66.5 to 63.8. “The worry as with the manufacturing data revolves around the slide in dollar collections, especially as this tends to correlate with slow pays,” Kuehl said.

The rejections of credit applications reading was the only one that swung in a more positive direction as it moved from 51.3 to 52.3. “Just as with the manufacturing data, it seems that those who are asking for credit are in a position to get what they are asking for,” Kuehl said. The accounts placed for collection reading slipped, but not drastically, as it went from 47.9 to 47.5. “The real issue is that this category has been mired in the 40s for almost three years without a break. There are obviously still a lot of companies struggling and running out of the ability to make their payments.” The disputes reading also fell a little, as it remained in the negative column. It went from 49.1 last month to 47.7 this month and this is another category that has been stuck in the contraction zone for an extended period of time. Last December was the last month it was in the 50s. The challenge category that twins up with dollar collection is dollar amount beyond terms and here the drop was very severe, going from 50.5 to 43.6. This is far lower than this has been in years, going all the way back to the recession in 2008–2009. “There are lots of companies that are facing severe cash flow issues and these soon become even bigger issues,” Kuehl said. The

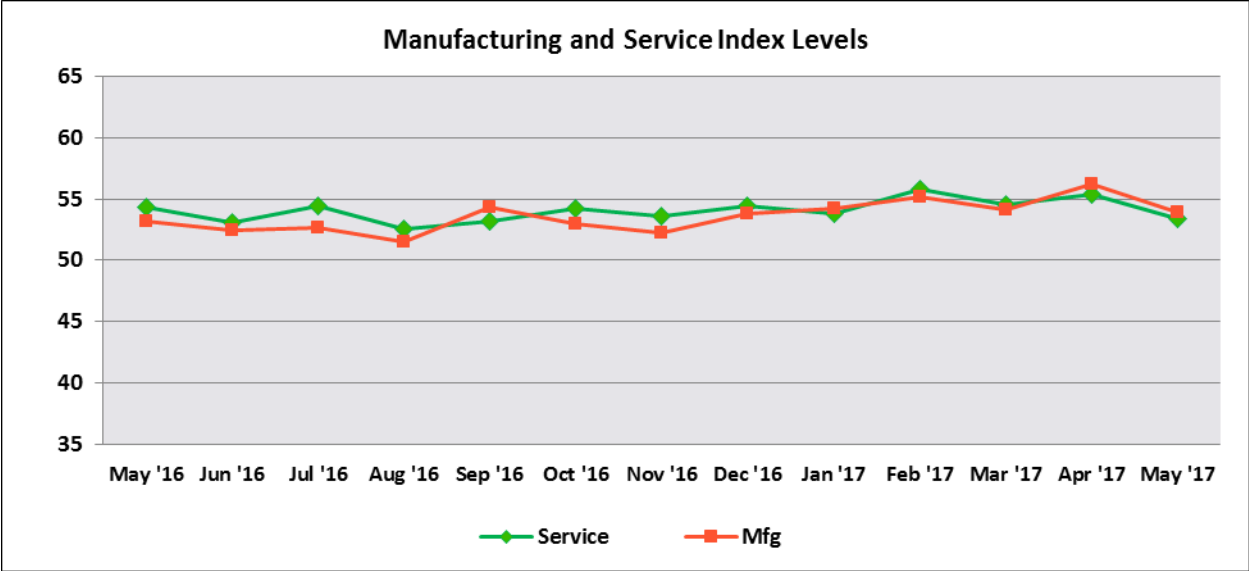
category of dollar amount of customer deductions slipped, but not that drastically, as it went from 49.3 to 48.9. The filings for bankruptcies shifted as well, but stayed in the growth category, with a reading of 52.3 as compared to the 52.9 last month.

Service Sector (seasonally adjusted)	May '16	Jun '16	Jul '16	Aug '16	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17
Sales	59.5	57.8	61.6	55.0	57.7	59.5	65.1	58.5	58.5	64.5	60.6	62.9	61.7
New credit applications	56.5	58.5	59.0	57.6	58.0	59.1	57.4	57.8	59.7	62.4	61.3	62.6	59.9
Dollar collections	59.8	56.7	60.3	57.0	61.5	58.0	61.5	59.7	61.2	61.9	56.7	61.2	56.0
Amount of credit extended	63.6	59.8	63.8	60.7	62.4	64.7	62.4	62.6	65.2	66.4	65.3	66.5	63.8
Index of favorable factors	59.9	58.2	61.2	57.6	59.9	60.3	61.6	59.7	61.2	63.8	61.0	63.3	60.3
Rejections of credit applications	52.0	49.1	50.7	52.0	49.4	50.9	48.5	51.1	49.7	50.5	51.1	51.3	52.3
Accounts placed for collection	49.2	47.9	47.7	47.1	45.6	47.3	46.5	49.3	46.9	49.0	49.0	47.9	47.5
Disputes	50.8	50.1	50.2	49.2	49.9	50.6	50.9	50.7	46.2	49.9	49.7	49.1	47.7
Dollar amount beyond terms	48.4	47.9	49.2	47.3	46.0	48.1	46.9	48.4	47.3	49.8	46.7	50.5	43.6
Dollar amount of customer deductions	50.1	50.7	50.14	48.2	49.0	50.5	46.5	50.4	48.8	49.2	50.4	49.3	48.9
Filings for bankruptcies	53.9	52.2	51.5	51.2	52.3	53.3	50.3	55.7	54.3	54.0	54.9	52.9	52.3
Index of unfavorable factors	50.7	49.6	49.9	49.2	48.7	50.1	48.3	50.9	48.9	50.4	50.3	50.2	48.7
NACM Service CMI	54.4	53.1	54.4	52.5	53.2	54.2	53.6	54.4	53.8	55.8	54.6	55.4	53.4



May 2017 versus May 2016

“Each month’s performance seems determined to be the opposite of the month prior,” Kuehl said. “This was a down month again after a solid one and the indices are starting to resemble roller coasters.”



Methodology Appendix

CMI data have 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 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.

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