



Report for October 2015

Issued October 30, 2015

National Association of Credit Management

Combined Sectors

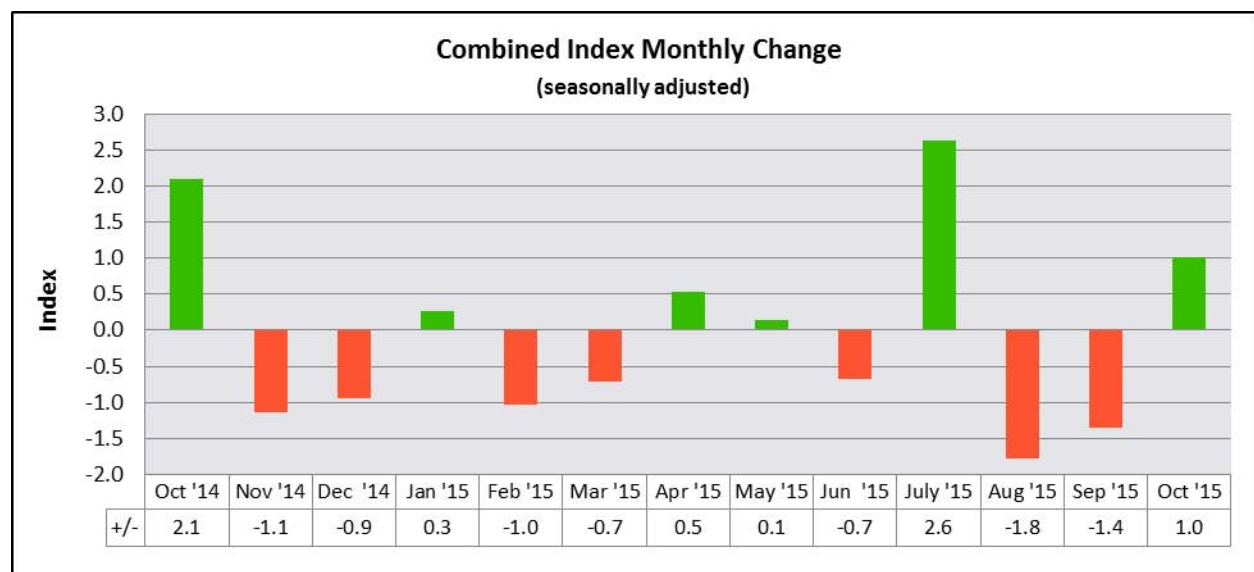
What's that on the horizon? A little glimmer of hope or is this just a mirage? As in most data sets, only time will tell. The readings this month have been a vast improvement over the readings of the previous two months and that is certainly welcome news in a period when the bulk of the data has been trending in a negative direction. Just in the last few weeks, we have seen more weakness in durable goods orders and the new homes market, while the export community laments the continued strength of the dollar. The CMI stands in some opposition to this trend and there is some faint hope that this index is going to play the harbinger role yet this year.

The rise in the overall score is not enormous as it has gained from the 52.9 level to 53.9, but the previous month had set a record for low readings in the last couple of years and it is now good to see the CMI combined score back to levels that could be considered closer to normal. In the last 12 months, the reading has been lower than this three times and in April of this year, **it matched this month's score. The biggest gains were seen in the favorable category** as the overall score was 59.4 as opposed to the 57.7 reading last month. This is still not in the 60s, but this reading has been under this level in four of the last 12 months. All four of the sub-categories rose albeit only slightly. The sales category rose from 56.4 to 58.3 and that was better than any month in the last six save for July when it rose to 65.1. It is more and more obvious that July was an anomaly for the economy as a whole as there were sudden spikes in many other data sets. The new credit applications category rose just a bit to 58.9 after a reading of 58.1 last month and the dollar collections reading went from 56.4 to 56.7. These are modest increases to be sure, but they are trending in a better direction and that is welcome news. There was a more substantial rise in the category of amount of credit extended. It was still in the 60s last month, but only by a hair at 60.1. Now there is a more comfortable margin at 63.7.

The combined score for the unfavorable categories also improved over last month and climbed above the 50 level—a nice little psychological boost. It was sitting at 49.7 and is now at 50.2. Still not all that strong, but at least out of the contraction zone for now. The sub-categories showed a lot of movement as well. The rejections of credit applications category was essentially flat with a move from 51.3 to 51.4. The accounts placed for collection category also escaped the 40s by moving from 49.3 to 50. Granted, this is still razor thin, but there had been some fear that this category would be getting worse as companies struggle to get on their financial feet. The disputes category remains in the 40s with a reading of 48.5, but that is a point better than it was last month when it sat at 47.5. The dollar amount beyond terms category improved slightly as well—moving from 47 to 47.8, but it remains in contraction territory. The category of dollar amount of customer deductions managed to clear the 50 barrier, but with little room to spare. It is now at 50.1 and was at 49.4. The filings for bankruptcies category was one of the few that was not in contraction previously and it got a bit better as it moved from 53.3 to 53.6.

In all, this was a substantially more upbeat month than last, but there are all the usual caveats these days. It was only July when the data seemed to indicate a very healthy year ahead and that was followed by two rather disastrous months in August and September. The numbers in July were pretty clearly anomalies, but now it is not so clear what to make of the down months. In September, the unfavorable factors drifted into the contraction zone with four of the six categories under 40. Now there are only two in that zone, but the ones that have returned to the growth category are there by razor-thin margins. This is the time of year that retail and services will again dominate and manufacturing will become less active. It will merit watching to see if the holiday season can stimulate some more economic expansion.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15
Sales	65.7	62.7	61.4	61.5	58.9	58.4	59.1	57.1	56.6	65.1	57.9	56.4	58.3
New credit applications	59.4	58.1	59.2	58.3	58.0	56.6	58.6	58.5	60.5	60.8	57.7	58.1	58.9
Dollar collections	61.5	60.3	56.6	60.1	57.4	57.6	58.8	57.5	56.8	61.9	58.3	56.4	56.7
Amount of credit extended	63.8	63.7	64.6	62.2	60.5	60.6	62.6	62.0	64.5	66.4	63.0	60.1	63.7
Index of favorable factors	62.6	61.2	60.5	60.5	58.7	58.3	59.8	58.8	59.6	63.5	59.2	57.7	59.4
Rejections of credit applications	53.6	51.7	51.5	51.9	51.4	52.6	52.3	51.9	50.8	51.8	51.3	51.3	51.4
Accounts placed for collection	52.7	51.8	51.1	50.1	50.8	49.8	49.8	51.1	47.8	50.3	51.2	49.3	50.0
Disputes	50.4	50.8	48.5	49.5	48.8	49.0	47.2	48.0	48.2	49.9	49.5	47.5	48.5
Dollar amount beyond terms	53.6	52.3	48.7	50.6	48.4	45.5	48.8	50.7	46.8	49.1	49.3	47.0	47.8
Dollar amount of customer deductions	50.8	49.7	48.5	50.2	51.8	48.7	47.4	47.8	49.5	49.3	49.9	49.4	50.1
Filings for bankruptcies	58.1	56.8	58.5	56.9	55.0	55.1	54.6	56.0	52.5	55.6	54.4	53.3	53.6
Index of unfavorable factors	53.2	52.2	51.1	51.5	51.0	50.1	50.0	50.9	49.2	51.0	50.9	49.7	50.2
NACM Combined CMI	57.0	55.8	54.9	55.1	54.1	53.4	53.9	54.1	53.4	56.0	54.2	52.9	53.9



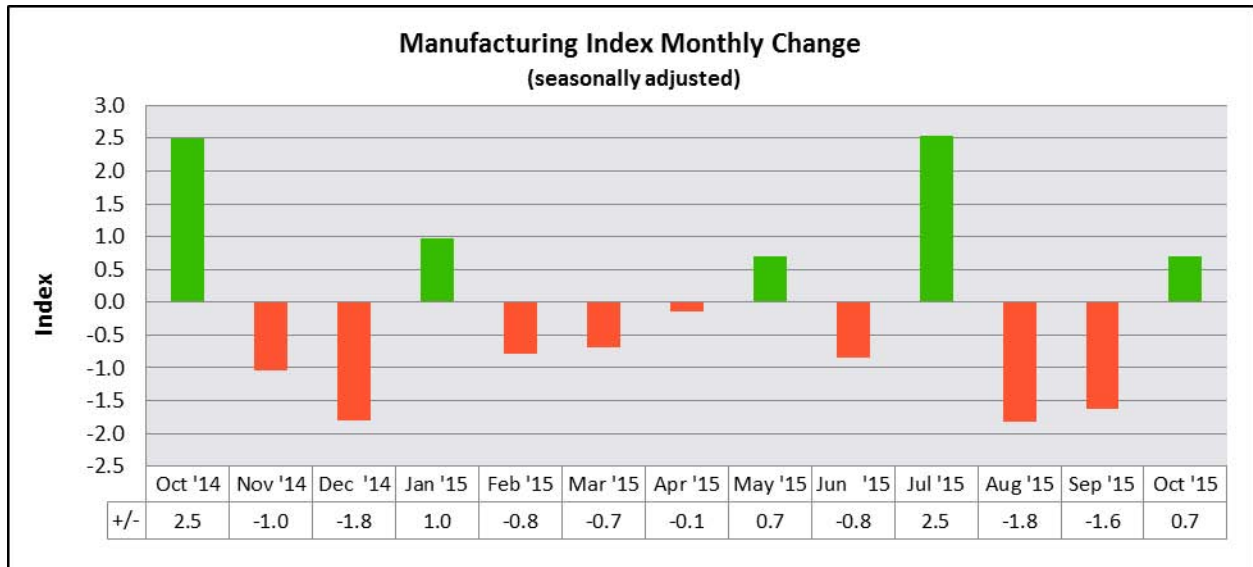
Manufacturing Sector

As with the overall reading, the manufacturing sector saw a rebound this month. The move was a little unexpected given all the headwinds that have been developing for the industrial community. Despite the strong dollar damaging the export sector and the collapse of the energy economy, there was growth in the manufacturing sector. The combined score was 53—up from the 52.3 in September. The favorable category was also an improvement as it went from 56.5 to 58.3 and that is about where this index has been for the last year. The sub-categories reflected these gains with the sales category moving from 55.6 to 57.7. That is about where this category has been much of the year with low 60s at the start of the year and high 50s toward the middle. The new credit applications category improved from 56.6 to 57.3, but the dollar collections reading went from 56.7 to 56.4. This is not a major decline, but it was somewhat unexpected given the performance of the other factors. The amount of credit extended category jumped quite a bit with a reading of 61.8 after a 57.1 mark in September.

The movement in the unfavorable category was similar to that in the favorable—some good news and some not so good. The combined score is still in the contraction zone at 49.4 and that is a hair worse than it was in September when it stood at 49.5. This is not so deep in contraction to cause excessive concern, but it is not trending the way that had been hoped. The rejections of credit applications category stayed right where it was at 51.5 and that is generally a good sign as this suggests that those that are applying for credit are getting it. The accounts placed for collection category improved a bit, but the reading remains in the contraction zone as it rose to 49.5 from 48.5. The area where a reversal was noted was in the disputes category as the number shifted from 47.7 to 46.3. This is getting pretty deep into contraction territory and that could be an issue in the coming months. The dollar amount beyond terms reading improved a little from 46.6 to 47.3, but as with the others cited, there was no emergence from the contraction zone. The category of dollar amount of customer deductions slipped a bit deeper into the contraction zone with a reading of 48.5 after hitting 49.2 in September. The filings for bankruptcies category improved a little from 53.1 to 53.6. Although there was some improvement in the sector, it is still troubling that of the six sub-categories, four of them are in the 40s and some are sinking lower than they had been.

The issues that have been affecting manufacturing have not been secrets this year and the impact has been captured by everything from the Purchasing Managers' Index to durable goods and factory orders. There has been a slowdown in capital expenditures and capacity utilization has been short of normal as well. The wonder is that the CMI numbers are as good as they are and one can only hope these are signs of better months to come.

Manufacturing Sector (seasonally adjusted)	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15
Sales	64.8	62.7	60.1	60.2	60.1	58.5	57.0	56.4	56.8	66.0	56.4	55.6	57.7
New credit applications	58.5	57.9	58.5	56.7	58.2	56.0	58.7	58.1	58.8	60.5	56.1	56.6	57.3
Dollar collections	60.4	59.9	55.39	60.4	57.1	57.1	57.0	55.1	58.2	59.4	57.8	56.7	56.4
Amount of credit extended	64.1	64.2	63.38	63.6	58.7	59.7	60.9	62.3	62.7	66.5	63.0	57.1	61.8
Index of favorable factors	61.9	61.2	59.4	60.2	58.5	57.8	58.4	58.0	59.1	63.1	58.3	56.5	58.3
Rejections of credit applications	54.3	51.3	50.81	52.1	52.5	53.5	53.2	53.0	49.5	52.6	51.8	51.5	51.5
Accounts placed for collection	53.7	52.5	50.46	50.6	51.8	51.4	50.8	51.6	48.3	49.7	50.7	48.5	49.5
Disputes	50.8	50.5	47.35	49.4	47.2	48.6	46.9	47.7	47.9	48.5	48.6	47.7	46.3
Dollar amount beyond terms	54.1	52.8	48.0	50.8	52.2	46.0	48.3	50.6	47.5	49.8	51.1	46.6	47.3
Dollar amount of customer deductions	50.5	49.8	46.79	49.5	48.7	48.7	45.7	48.7	49.8	48.6	48.8	49.2	48.5
Filings for bankruptcies	57.0	56.2	58.93	56.2	55.1	55.1	54.8	56.8	52.3	55.7	54.9	53.1	53.6
Index of unfavorable factors	53.4	52.2	50.4	51.4	51.3	50.6	50.0	51.4	49.2	50.8	51.0	49.5	49.4
NACM Manufacturing CMI	56.8	55.8	54.0	55.0	54.2	53.5	53.3	54.0	53.2	55.7	53.9	52.3	53.0



Service Sector

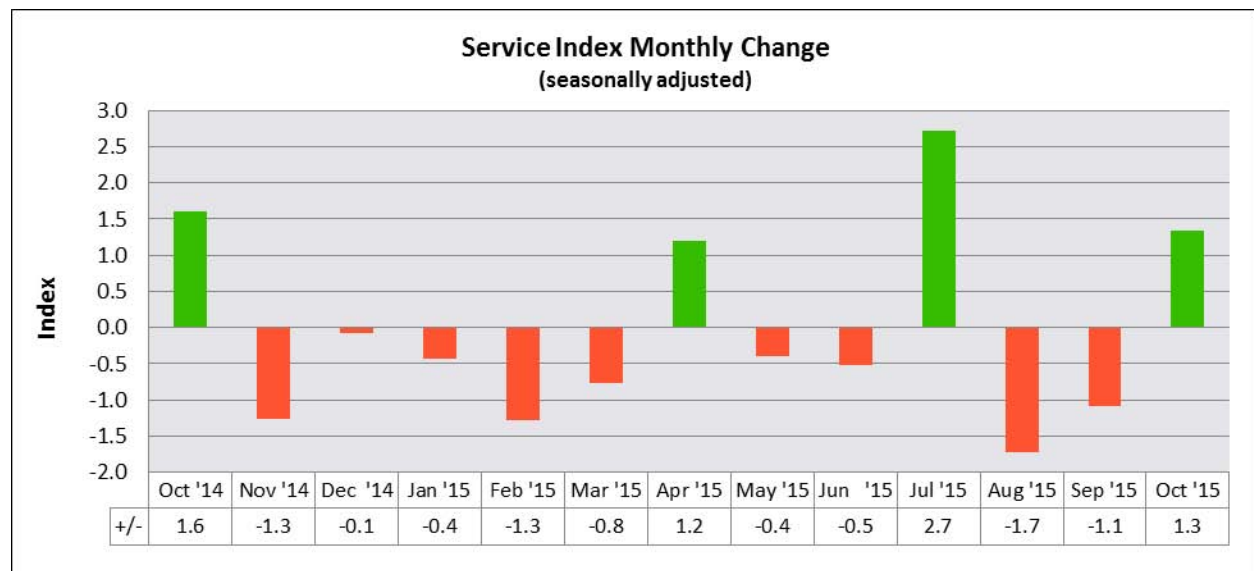
The service sector is heading into a very important time of the year. This is the point where retail takes over and all eyes are on the consumer. We are in the midst of a Halloween season that is about as expected and once again, this holiday is the second-biggest spending occasion on the calendar. Next comes 'Blackvember,' as the whole month is now chock-full of sales and promotions, and then comes the final countdown to Christmas. This is the retail time, but it is also important as far as eating out and celebrating—all good for the service sector.

The combined score was an improvement over last month as it went from 53.5 to 54.8. This takes the reading back to levels that have been common this past year, but not back to the high points reached at the start of the year. The favorable factors returned to the 60s, but just barely as it moved from 59 to 60.5. The sub-categories also improved pretty substantially. The sales category moved from 57.2 to 58.9 and that is among some of the higher readings for the year—a nice start to the coming season. The new credit applications category got back into the 60s with a reading of 60.5 compared to the September mark of 59.5. The dollar collections category moved from 56.1 to 57 and the amount of credit extended reading rose substantially from 63.2 to 65.6. This is not all that unusual at this time of year as many retailers are building inventory and staff in anticipation of the coming shopping season.

The combined score of the unfavorable factors improved significantly as it went from 49.9 to 51.1 and thus managed to exit the contraction zone with some room to spare. The rejections of credit applications category improved very slightly from 51.1 to 51.4 and the score for the accounts placed for collection category moved from 50 to 50.6. This reading remains dangerously close to contraction, but has so far avoided the contraction zone and is now at least trending in a decent direction. The disputes category bucked the trend this month and improved with a reading of 50.7 after one of 47.4 last month. There was improvement in the category of dollar amount beyond terms, but it remains under 50 and in the contraction zone as it moved from 47.4 to 48.4. The dollar amount of customer deductions reading also saw a significant improvement as it went from 49.7 to 51.7—escaping the 40s with some slack. The filings for bankruptcies category was likewise encouraging as it went absolutely nowhere—same reading as was recorded in September—53.6.

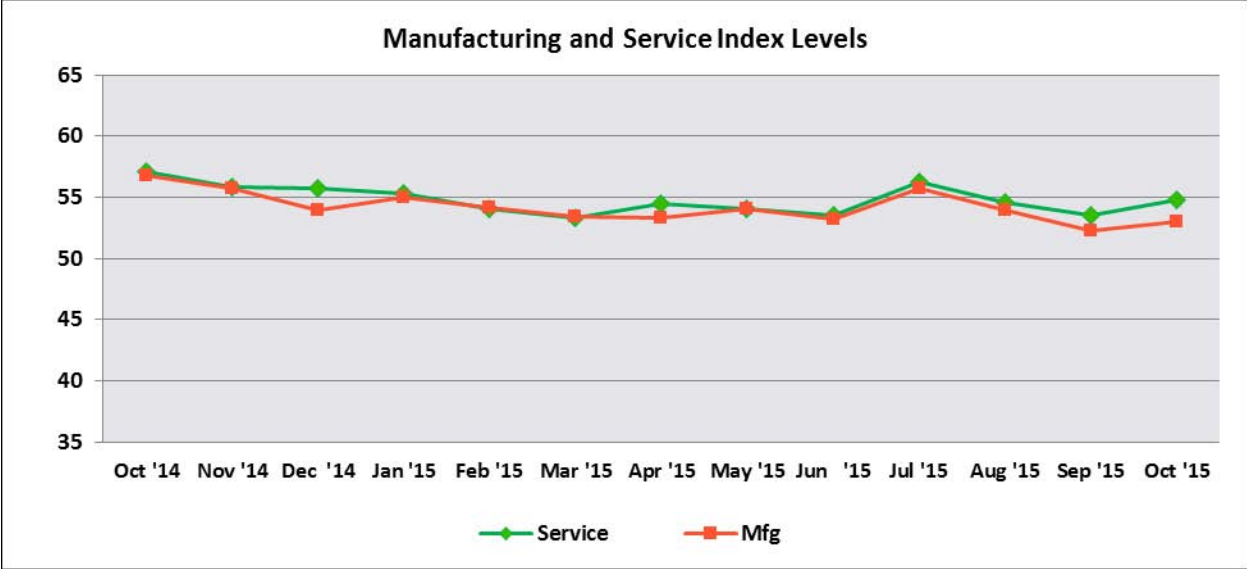
At the moment the expectation in retail is that there will be a better year than last and parts of the service sector share this enthusiasm. The sectors that remain of concern are those that are dependent on tourism as the number of international visitors has fallen as the dollar gains and as these countries struggle to get some additional economic growth.

Service Sector (seasonally adjusted)	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15
Sales	66.7	62.7	62.68	62.8	57.7	58.3	61.1	57.9	56.3	64.3	59.5	57.2	58.9
New credit applications	60.3	58.4	59.8	60.0	57.8	57.1	58.5	58.9	62.2	61.0	59.3	59.5	60.5
Dollar collections	62.5	60.7	57.87	59.7	57.7	58.1	60.7	60.0	55.4	64.3	58.8	56.1	57.0
Amount of credit extended	63.6	63.3	65.86	60.8	62.3	61.5	64.4	61.8	66.3	66.3	63.1	63.2	65.6
Index of favorable factors	63.3	61.3	61.6	60.8	58.9	58.7	61.2	59.6	60.0	64.0	60.2	59.0	60.5
Rejections of credit applications	52.9	52.1	52.25	51.7	50.3	51.7	51.3	50.8	52.0	51.0	50.8	51.1	51.4
Accounts placed for collection	51.7	51.2	51.8	49.7	49.9	48.1	48.7	50.5	47.3	50.9	51.7	50.0	50.6
Disputes	50.0	51.2	49.72	49.5	50.4	49.4	47.5	48.4	48.5	51.3	50.4	47.4	50.7
Dollar amount beyond terms	53.2	51.8	49.37	50.5	44.7	45.1	49.2	50.7	46.1	48.5	47.5	47.4	48.4
Dollar amount of customer deductions	51.1	49.6	50.12	51.0	54.8	48.7	49.1	46.9	49.24	50.0	51.0	49.7	51.7
Filings for bankruptcies	59.2	57.4	58.12	57.6	54.9	55.0	54.3	55.1	52.6	55.6	54.0	53.6	53.6
Index of unfavorable factors	53.0	52.2	51.9	51.7	50.8	49.7	50.0	50.4	49.3	51.2	50.9	49.9	51.1
NACM Service CMI	57.1	55.8	55.8	55.3	54.0	53.3	54.5	54.1	53.6	56.3	54.6	53.5	54.8



October 2015 versus October 2014

This month the trend has been more upbeat and now the debate is over whether the July numbers were the outliers or the data in August and September. Services are continuing to outpace the manufacturing levels.



Methodology Appendix

CMI data has 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

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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 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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