



## Report for October 2016

Issued Oct. 31, 2016

National Association of Credit Management

### Combined Sectors

The news this month is not quite as uplifting as it was last month, but the numbers are still an improvement over what they had been for the last several months. The overall sense of the economy right now is mixed. Most of the indicators are telling the same jumbled story. We see improvements in parts of the Purchasing Managers' Index and declines in other parts.

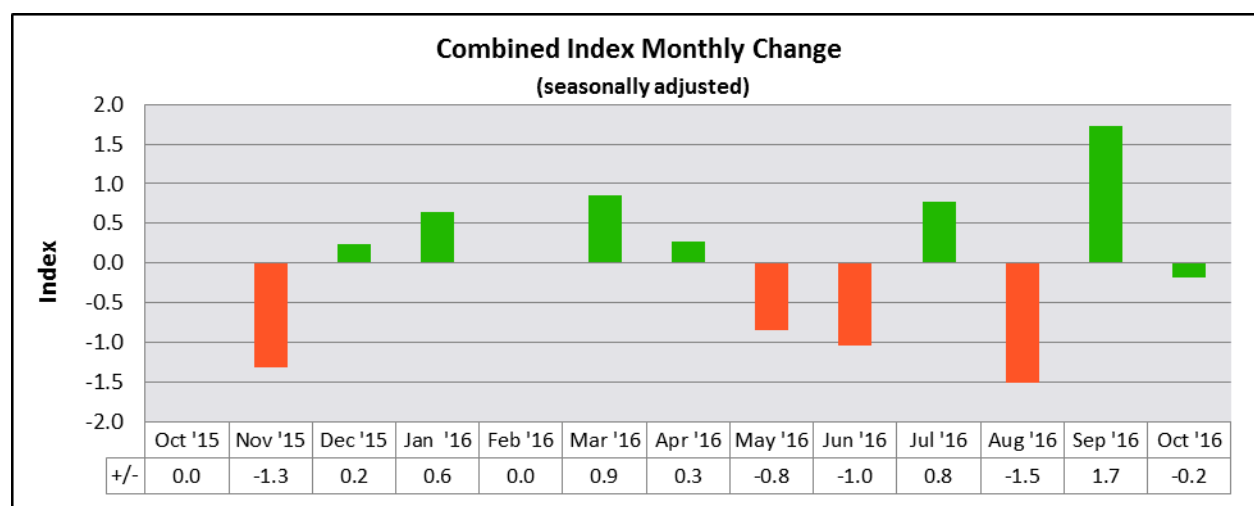
“Retailers seem to be gearing up for a better season—at least they have been more aggressive as far as hiring,” said NACM Economist Chris Kuehl, Ph.D. “At the same time, consumers have continued to be somewhat reticent. It is a waiting game for many—a desire to see what happens once the dust settles from the election.”

Readings for the combined index were impressive last month, and there has been a bit of return to less exalted readings this month. The combined CMI was at 53.7 in September and is now at 53.5—close to what it has been for the year with the high point coming in April when the reading hit 54.6. The index of favorable factors was at year-long highs in September and has fallen back a little. It was 59.5 and is now 58.4. That is about where the numbers have been all year with two months (March and July) hitting 60.0. The index of unfavorable factors actually improved a little from what it was in September as it went from 49.9 to 50.3. This is certainly not a big change, but it is always significant to move out of the contraction zone.

There was quite a bit of variability within the sub-index readings for both the favorable and unfavorable categories. The sales reading slipped from 57.9 to 56.9. That is a little lower than the average for the year, but still respectable. In the last 12 months, four months had readings under 56.9. The rest have been higher with July sporting a 60.0 mark. The new credit applications index stayed almost the same as last month with a mark of 58.0 as compared with 58.6 in September. The dollar collections reading slipped a little more dramatically as it went from 59.5 to 57.0. The amount of credit extended also stayed about where it had been as it moved from 61.9 to 61.5. “These are really good numbers and suggest that the best clients are asking for some substantial levels of credit to buy machines and inventory,” Kuehl explained.

Gains in the unfavorable categories were somewhat more unexpected and welcome as these readings have not changed all that much over the last year or so. The combined score at 50.3 marks the first time above 50 since May. The trend had been negative and was expected to stay in that category, but there was improvement in the sub-indices. Rejections of credit applications improved a bit from 51.3 to 51.8, an especially good sign when there is an increase in new credit applications as it signals that the new applications are coming from creditworthy clients. Category of accounts placed for collection also improved a little with a reading of 48.1 as compared with 47.9 last month. The disputes category saw a significant change as the reading went from 48.8 to 49.9. That is about as good as has been seen in this category since May and is very close to being back above 50. The dollar amount beyond terms reading went from 48.2 to 49.0. That is likely to mean slightly less growth in the number of accounts placed for collection in the future. It is still not in the expansion zone, but it is getting close. The dollar amount of customer deductions was one of the only categories that slipped as it went from 50.4 to 49.5. The filings for bankruptcies improved from a reading of 52.7 to one of 53.8, as good as has been seen since April of this year when it hit 53.8. “The overall conclusion that can be reached at this stage is that fewer companies are in distress and more are getting their credit affairs in better order,” Kuehl noted. “The majority of the sub-index readings are still below 50, but in the high 40s which may bode well for future gains.”

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Oct '15</b>	<b>Nov '15</b>	<b>Dec '15</b>	<b>Jan '16</b>	<b>Feb '16</b>	<b>Mar '16</b>	<b>Apr '16</b>	<b>May '16</b>	<b>Jun '16</b>	<b>Jul '16</b>	<b>Aug '16</b>	<b>Sep '16</b>	<b>Oct '16</b>
Sales	58.3	56.0	55.0	55.8	56.8	59.2	59.8	56.7	56.9	60.0	53.7	57.9	56.9
New credit applications	58.9	58.0	56.4	58.1	58.2	59.8	58.5	56.6	56.6	57.8	56.7	58.6	58.0
Dollar collections	56.7	55.7	55.8	57.8	58.3	59.6	57.5	57.4	57.1	59.5	55.5	59.5	57.0
Amount of credit extended	63.7	61.0	59.4	61.0	61.2	61.7	60.9	61.0	57.6	62.8	59.7	61.9	61.5
<b>Index of favorable factors</b>	<b>59.4</b>	<b>57.7</b>	<b>56.6</b>	<b>58.2</b>	<b>58.6</b>	<b>60.0</b>	<b>59.2</b>	<b>57.9</b>	57.0	<b>60.0</b>	<b>56.4</b>	<b>59.5</b>	<b>58.4</b>
Rejections of credit applications	51.4	51.0	52.8	52.2	52.2	51.2	52.2	51.9	51.2	50.7	51.6	51.3	51.8
Accounts placed for collection	50.0	47.1	50.2	49.4	49.0	48.5	50.9	50.5	48.8	48.2	47.7	47.9	48.1
Disputes	48.5	48.4	48.6	48.6	49.7	50.8	50.8	50.8	49.5	47.6	47.8	48.8	49.9
Dollar amount beyond terms	47.8	47.4	48.0	48.6	47.5	50.8	51.2	49.2	49.0	48.8	46.3	48.2	49.0
Dollar amount of customer deductions	50.1	48.9	48.5	49.5	49.5	49.8	50.7	50.7	49.6	49.0	48.1	50.4	49.5
Filings for bankruptcies	53.6	52.5	53.7	53.8	52.6	52.2	53.8	53.0	51.1	50.7	52.8	52.7	53.8
<b>Index of unfavorable factors</b>	<b>50.2</b>	<b>49.2</b>	<b>50.3</b>	<b>50.3</b>	<b>50.1</b>	<b>50.6</b>	<b>51.6</b>	<b>51.0</b>	<b>49.9</b>	<b>49.2</b>	<b>49.1</b>	<b>49.9</b>	<b>50.3</b>
<b>NACM Combined CMI</b>	<b>53.9</b>	<b>52.6</b>	<b>52.8</b>	<b>53.5</b>	<b>53.5</b>	<b>54.3</b>	<b>54.6</b>	<b>53.8</b>	<b>52.7</b>	<b>53.5</b>	<b>52.0</b>	<b>53.7</b>	<b>53.5</b>



## Manufacturing Sector

The manufacturing sector showed more strain than anticipated in this month's survey. The big gains from last month were not lost completely as the readings still remain a bit higher than they were in August, but they are not as robust as September. There remains a great deal of variability in the manufacturing community as there has been trepidation about the impact of the election, a concern that may not ebb right away. It is possible that Democrats will control the White House, the Senate and the House of Representatives, and this could presage some real changes in key legislative areas. There has been uneasiness about the policies that Democrats usually follow, which could impact manufacturers negatively.

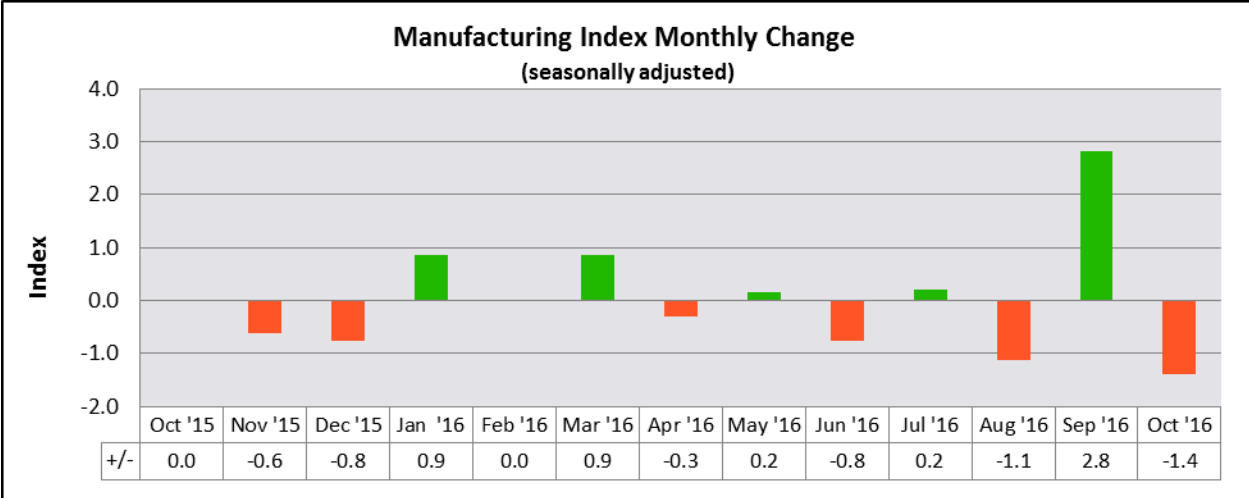
The combined score was back down to 52.9 after having been at 54.3 the month before. The combined score for the favorable factors also dropped a little as it went from 59.1 to 56.4 this month. To round off the streak of disappointing numbers, the overall unfavorable score declined as it went from 51.1 to 50.6. The sub-index readings tell a more complete story.

The sales category was at 58.2 last month and slipped to 54.4 this month, back to levels not seen since May of this year. The category of new credit applications shifted from 59.2 to 56.9. That takes the readings back to what they were in July, but still better than in August. The dollar collections numbers sagged a little, but were not all that different from the month before—going from 57.5 to 56.1. Rounding off the favorable categories was amount of credit extended as this went from 61.4 to 58.3, a little worse even than the August reading. It seems that there were not as many of the big credit requests this month, and the readings sagged in this category as a result.

The detail in the unfavorable categories has been instructive as well. Rejections of credit applications slipped from 53.3 to 52.7, not inconsistent with the decline in overall applications. The accounts placed for collection reading went from 50.2 to 49.0 and reentered the contraction zone. For the year, this category has been under 50 for all but two months. In both cases, the reading was only barely in the expansion category (50.2 and 50.3). Disputes numbers were a breath of fresh air compared with the others, although it is still in contraction territory at 49.2. At least, it is better than last month’s reading of 47.7. The dollar amount beyond terms category showed a number of 50.0 after a reading last month of 50.5, so there was a very small drop. Dollar amount of customer deductions flopped back into contraction territory with a reading of 48.5 compared with last month’s 51.9. There was not much movement in filings for bankruptcies, but it was a gain as the new number is 54.3. Last month, it was 53.0.

“In the most general of terms, there was a slight retreat as far as the manufacturing data is concerned,” Kuehl said. “It is a bit disappointing that the unfavorable factors worsened and slipped back to contraction territory in several categories.”

<b>Manufacturing Sector (seasonally adjusted)</b>	<b>Oct '15</b>	<b>Nov '15</b>	<b>Dec '15</b>	<b>Jan '16</b>	<b>Feb '16</b>	<b>Mar '16</b>	<b>Apr '16</b>	<b>May '16</b>	<b>Jun '16</b>	<b>Jul '16</b>	<b>Aug '16</b>	<b>Sep '16</b>	<b>Oct '16</b>
Sales	57.7	55.5	51.9	54.3	54.7	57.6	56.3	53.9	56.1	58.4	52.4	58.2	54.4
New credit applications	57.3	57.1	54.0	55.4	53.7	56.8	55.3	56.8	54.7	56.5	55.8	59.2	56.9
Dollar collections	56.4	55.6	55.0	55.9	56.2	58.2	54.9	55.0	57.5	58.8	54.1	57.5	56.1
Amount of credit extended	61.8	59.0	55.4	59.3	58.2	60.2	58.4	58.4	55.4	61.8	58.8	61.4	58.3
<b>Index of favorable factors</b>	<b>58.3</b>	<b>56.8</b>	<b>54.1</b>	<b>56.2</b>	<b>55.7</b>	<b>58.2</b>	<b>56.2</b>	<b>56.0</b>	<b>55.9</b>	<b>58.9</b>	<b>55.3</b>	<b>59.1</b>	<b>56.4</b>
Rejections of credit applications	51.5	52.0	54.1	52.4	52.4	51.1	51.8	51.7	53.3	50.8	51.1	53.3	52.7
Accounts placed for collection	49.5	48.6	49.3	48.5	48.6	48.2	50.3	51.8	49.7	48.7	48.3	50.2	49.0
Disputes	46.3	47.8	47.1	47.1	49.8	49.4	48.7	50.7	48.9	45.0	46.5	47.7	49.2
Dollar amount beyond terms	47.3	48.4	48.8	50.3	49.6	51.9	51.4	50.1	50.2	48.3	45.4	50.5	50.0
Dollar amount of customer deductions	48.5	47.9	47.6	49.0	49.2	48.2	49.5	51.4	48.5	48.0	48.1	51.9	48.5
Filings for bankruptcies	53.6	51.7	52.8	52.3	52.1	51.6	53.7	52.1	50.0	49.8	54.5	53.0	54.3
<b>Index of unfavorable factors</b>	<b>49.4</b>	<b>49.4</b>	<b>49.9</b>	<b>49.9</b>	<b>50.3</b>	<b>50.1</b>	<b>50.9</b>	<b>51.3</b>	<b>50.1</b>	<b>48.4</b>	<b>49.0</b>	<b>51.1</b>	<b>50.6</b>
<b>NACM Manufacturing CMI</b>	<b>53.0</b>	<b>52.3</b>	<b>51.6</b>	<b>52.5</b>	<b>52.5</b>	<b>53.3</b>	<b>53.0</b>	<b>53.2</b>	<b>52.4</b>	<b>52.6</b>	<b>51.5</b>	<b>54.3</b>	<b>52.9</b>



**Service Sector**

The bulk of the good news in this month’s data is coming from the service side of the CMI. This is somewhat to be expected given that this is the retail season and there has been some reason to be more confident than has been the case in recent months. The most interesting indication of retail confidence has been early hiring efforts. It has been harder for companies to get the people they want and need. That has meant that retailers and those in the logistics sector are hiring now in anticipation of a decent holiday period.

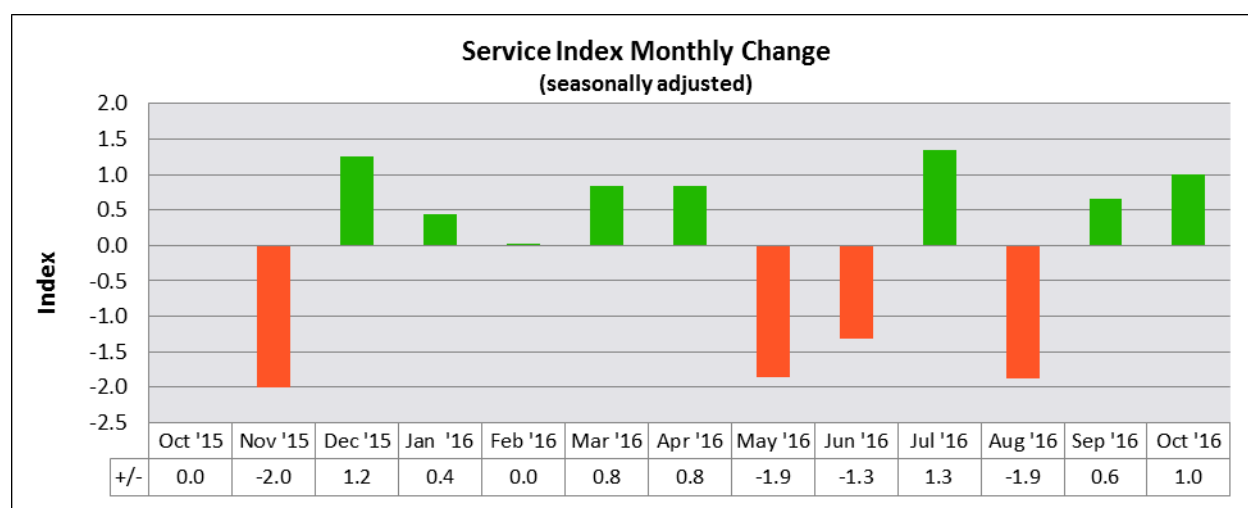
The combined index improved from 53.2 to 54.2, taking the overall numbers back to levels seen in July. The index of favorable factors got back into the 60s by the narrowest of margins as it moved from 59.9 to 60.3. It was last at that 60 mark in July when the reading was 61.2. The index of unfavorable factors also improved from 48.7 to 50.1. That marks the first time it has been above 50 since April of this year. There was quite a bit of improvement noted in the sub-index readings as well.

The sales category moved from 57.7 to 59.5, a level last seen in July. The new credit applications category also trended up a bit and went from 58.0 to 59.1—also last seen in July. The category of dollar collections went from 61.5 to 58.0, however—not such good news. It seems that there has been a slowdown in the process of catching up on credit obligations. The amount of credit extended continued its improvement—a good sign as well. The latest number is 64.7, the highest level reached since last October. “This looks to be related to the improvement in retail confidence and the need to order in larger amounts of inventory,” Kuehl explained.

The data in the unfavorable categories also seems solid. Rejections of credit applications improved and entered the realm of expansion with a 50.9 reading after 49.4 last month. It is still not as high as it was in August when it hit 52.0, but at least it has left the contraction zone. The accounts placed for collection readings are still in the 40s, but have improved slightly from 45.6 to 47.3. The disputes category moved from the contraction zone to expansion by the narrowest of margins as it moved from 49.9 to 50.6. The dollar amount beyond terms also remains in the contraction zone, but is less buried than it was by moving from 46.0 to 48.1. Dollar amount of customer deductions moved from the 40s into expansion territory with a reading of 50.5. The category of filings for bankruptcies also moved slightly upward with a reading of 53.3 after a 52.3 reading last month.

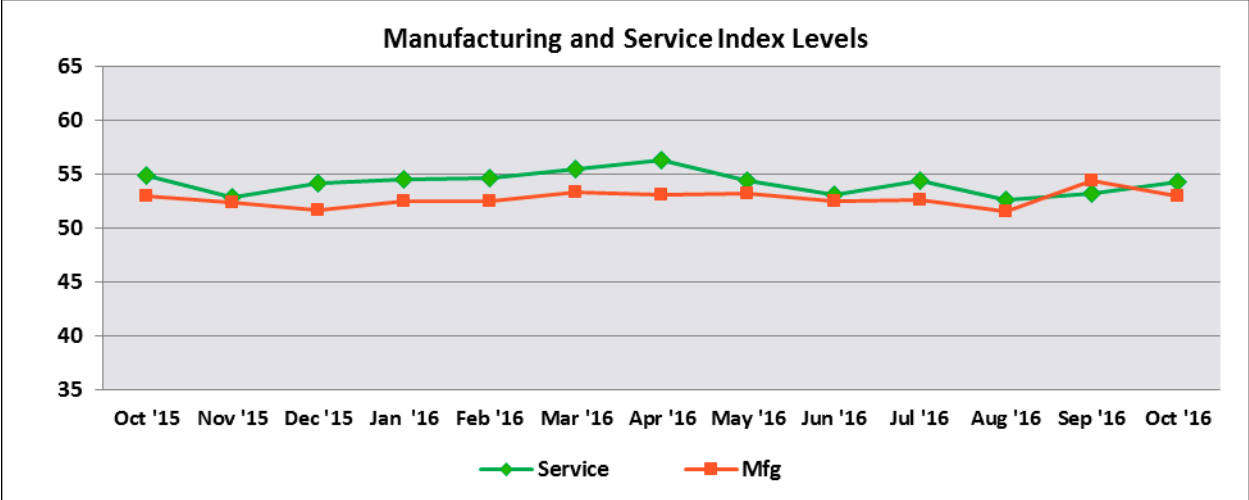
“Much of what has driven the gains in the service side this month appears to be in retail as there is some sense that consumers may be in a mood to spend again,” Kuehl noted. “There was also some movement in construction sectors as there has been renewed strength in the residential category as well as minor growth in the commercial side.”

<b>Service Sector (seasonally adjusted)</b>	<b>Oct '15</b>	<b>Nov '15</b>	<b>Dec '15</b>	<b>Jan '16</b>	<b>Feb '16</b>	<b>Mar '16</b>	<b>Apr '16</b>	<b>May '16</b>	<b>Jun '16</b>	<b>Jul '16</b>	<b>Aug '16</b>	<b>Sep '16</b>	<b>Oct '16</b>
Sales	58.9	56.5	58.1	57.4	58.8	60.7	63.2	59.5	57.8	61.6	55.0	57.7	59.5
New credit applications	60.5	58.9	58.8	60.9	62.7	62.8	61.8	56.5	58.5	59.0	57.6	58.0	59.1
Dollar collections	57.0	55.9	56.6	59.7	60.4	61.0	60.0	59.8	56.7	60.3	57.0	61.5	58.0
Amount of credit extended	65.6	63.1	63.4	62.7	64.1	63.1	63.5	63.6	59.8	63.8	60.7	62.4	64.7
<b>Index of favorable factors</b>	<b>60.5</b>	<b>58.6</b>	<b>59.2</b>	<b>60.2</b>	<b>61.5</b>	<b>61.9</b>	<b>62.1</b>	<b>59.9</b>	<b>58.2</b>	<b>61.2</b>	<b>57.6</b>	<b>59.9</b>	<b>60.3</b>
Rejections of credit applications	51.4	50.0	51.6	52.0	51.9	51.4	52.6	52.0	49.1	50.7	52.0	49.4	50.9
Accounts placed for collection	50.6	45.6	51.1	50.3	49.4	48.8	51.6	49.2	47.9	47.7	47.1	45.6	47.3
Disputes	50.7	49.0	50.0	50.1	49.7	52.3	52.9	50.8	50.1	50.2	49.2	49.9	50.6
Dollar amount beyond terms	48.4	46.3	47.3	46.8	45.5	49.6	51.1	48.4	47.9	49.2	47.3	46.0	48.1
Dollar amount of customer deductions	51.7	49.8	49.4	50.0	49.8	51.3	51.8	50.1	50.7	50.14	48.2	49.0	50.5
Filings for bankruptcies	53.6	53.2	54.5	55.3	53.1	52.9	53.8	53.9	52.2	51.5	51.2	52.3	53.3
<b>Index of unfavorable factors</b>	<b>51.1</b>	<b>49.0</b>	<b>50.6</b>	<b>50.8</b>	<b>49.9</b>	<b>51.0</b>	<b>52.3</b>	<b>50.7</b>	<b>49.6</b>	<b>49.9</b>	<b>49.2</b>	<b>48.7</b>	<b>50.1</b>
<b>NACM Service CMI</b>	<b>54.8</b>	<b>52.8</b>	<b>54.1</b>	<b>54.5</b>	<b>54.5</b>	<b>55.4</b>	<b>56.2</b>	<b>54.4</b>	<b>53.1</b>	<b>54.4</b>	<b>52.5</b>	<b>53.2</b>	<b>54.2</b>



### October 2016 versus October 2015

“There was not the big jump seen in the last month, but there is still some progress,” Kuehl said. “That would seem to set up a better end to the year and perhaps a better start to 2017 than would have been expected a few months ago.”



**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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors*</b>	<b>Why Unfavorable</b>
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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