



Report for October 2018

Issued October 31, 2018

National Association of Credit Management

Combined Sectors

Granted, the job of the economist is to find the dark cloud behind every silver lining, but there have been some signals to suggest the good times may be starting to come to an end. “There has been a several-month-long deterioration of the housing sector with significant decline in everything from starts to permits. The tax cuts are now far enough in the past to have lost their influence as well,” said NACM Economist Chris Kuehl, Ph.D. “The industrial sector is still growing, but at a far slower pace. Now, it seems the Credit Managers’ Index (CMI) has joined the parade of party poopers with a decline that is not insignificant—both in the favorable and unfavorable categories.”

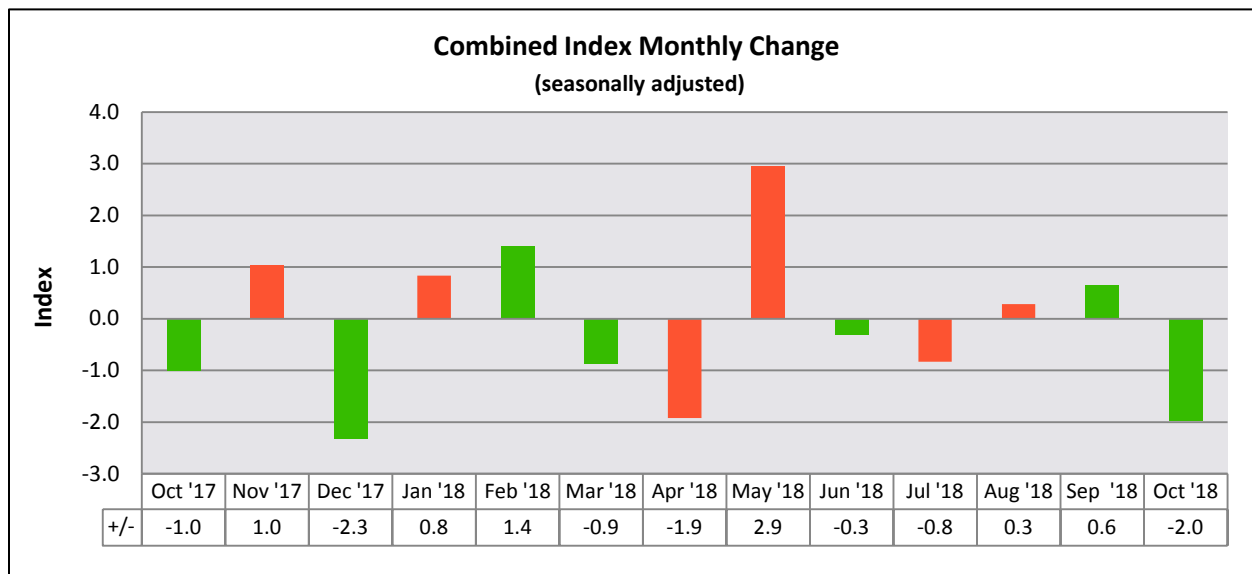
The overall score fell from 56.4 to 54.5, as low as it has been since April. This is not an emergency situation to be sure as these numbers are still solidly in the mid-50s, but it isn’t the trend hoped for at this point in the year. The index of favorable factors remained comfortably in the 60s with a reading of 61.6, but that contrasts with the 65.2 notched in September. This is also the lowest point seen since April of this year. The index of unfavorable factors slipped below 50 and now sits in contraction territory (anything below 50) for the first time since April. At 49.7, it is not far off the expansion pace, but a dip like this is not welcomed.

The details in both the favorable and unfavorable sectors are instructive. The sales reading fell hard—from 68.8 to 62.7. This reading has not been this low since December of last year (even April was only down to 65.8). The new credit applications reading stayed about where it had been the month before as it slipped from 61.9 to 61.7. The data for dollar collections dropped into the 50s (62.8 to 57.5) for the first time since April when it fell to 46.7. The amount of credit extended also fell quite a bit from 67.1 to 64.5, a low point that goes back to January of this year.

The unfavorable factors dropped from 50.6 into contraction to 49.7. Kuehl noted this is concerning as it suggests there are some companies in trouble as they head for one of the more robust times of the year. The rejections of credit applications stayed very close to what it had been the month before—moving from 51.8 to 51.4. This coordinates well with the stability in the applications for new credit. The reading for accounts placed for collection slipped back into the contraction zone with a reading of 48.8 after getting as high as 50.2 last month. The latest reading is about where it has been for the last three months. The disputes reading actually improved a little from 47.6 to 48.9. The dollar amount beyond terms fell fairly dramatically from 49.9 to 47.7. This is one of the readings that need to be watched as it can be the first step toward bigger issues. The dollar amount of customer deductions improved a little from 48.6 to 49.5, while the filings for bankruptcies fell by quite a bit. That causes more concern as this factor has traditionally been more stable than this. It had been at 55.6 and now stands at 52.1, the lowest point since 2016. “Up to this point, the various challenges companies have faced have not been as serious as all this; now that may be changing,” Kuehl said. “This would mean many companies are not very resilient and will need some good luck to survive any kind of a slowdown by the economy as a whole.”

Kuehl sums up the situation as follows: “There has been a pattern as far as slowdowns are concerned. The first phase is that some of the motivation for a growing economy begins to erode. That appears to be what has been seen with the weaker favorable factors and trouble for the unfavorables as well. The next step is the unfavorable readings begin to falter, suggesting companies are starting to face a real crisis from which they may not be able to easily recover. The sense right now is that some of the artificial stimulation has been wearing off, causing some sectors to falter.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18
Sales	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6	63.9	65.0	68.8	62.7
New credit applications	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5	61.2	62.5	61.9	61.7
Dollar collections	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2	61.0	62.6	62.8	57.5
Amount of credit extended	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2	66.1	66.9	67.1	64.5
Index of favorable factors	63.8	65.7	59.4	61.4	64.9	63.2	60.2	65.7	64.9	63.1	64.3	65.2	61.6
Rejections of credit applications	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2	52.5	52.2	51.8	51.4
Accounts placed for collection	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3	49.9	49.0	50.2	48.8
Disputes	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3	47.7	46.4	47.6	48.9
Dollar amount beyond terms	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2	47.4	48.5	49.9	47.7
Dollar amount of customer deductions	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1	47.9	48.7	48.6	49.5
Filings for bankruptcies	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7	57.4	55.9	55.6	52.1
Index of unfavorable factors	50.0	50.4	50.8	50.8	50.9	50.6	49.4	50.6	50.6	50.5	50.1	50.6	49.7
NACM Combined CMI	55.5	56.6	54.2	55.1	56.5	55.6	53.7	56.6	56.3	55.5	55.8	56.4	54.5



Manufacturing Sector

At the start of the year, Kuehl said the best news was coming from the manufacturing sector for a variety of reasons. The tax cuts at the beginning of the year actually did more good for the smaller manufacturers than they did for the larger companies. This led to some aggressive spending for a while. Much of that spending has now tapered off. There was also some expectation of relief from some of the global competition U.S. makers have been

facing, but that has proven to be ephemeral to this point. The consumer has started to get engaged as the holidays come closer; however, the manufacturer has been watching improvements in everything from durable goods to general factory goods. The decline as of late may not be a permanent thing, but some of the factors that pushed the economy earlier in the year have been fading.

The overall manufacturing score slipped from 56.4 to 54.4—a number that has not been this low since the April slump. The favorable factors stayed in the 60s with a reading of 61.5 after hitting 64.4 in September. The unfavorable factors slipped into the contraction zone with a reading of 49.6 as compared to 51.1 the month before. These numbers closely paralleled the readings for the overall CMI. The differences are found in the details.

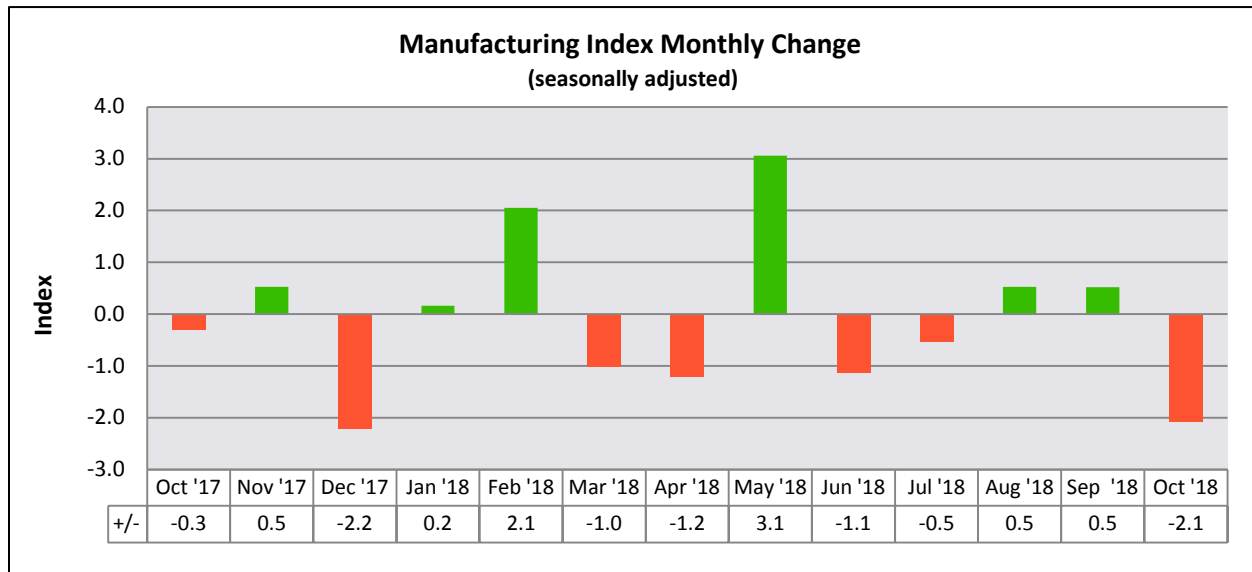
The sales data slipped quite a bit from 68.2 to 62.3, which was unexpected given the drop in both durable goods orders as well as factory orders. The new credit applications reading moved only slightly (61.8 to 61.5), while the all-important dollar collections numbers remained very close to what they had been, but slid further down into the 50s—going from 59 to 58.5. Again, this is certainly no sign of a crisis by any stretch, but it is a trend worth watching. The amount of credit extended dipped a bit from 68.5 to 63.7, suggesting some additional caution on the part of those issuing credit.

The rejections of credit applications number slipped, but not by a lot (53.1 to 51.9), good news given new applications has been steady enough. The accounts placed for collection sagged into contraction territory with a reading of 49.1 after last month's 51.2. This is definitely not a category anybody wants to see worsen. The reading is the worst since October of last year (although it had dropped to 49 twice this year—August and April). The disputes category remained in contraction territory, but it didn't get any worse as it remained where it was last month at 48.7. This category has been under 50 for the last few years and shows no signs of improving much. The dollar amount beyond terms is often an indicator when it comes to dollar collections as it is the first sign of impending trouble. It fell this month from 50.2 to 49.1 and is back in contraction territory where it has been most of the last year. The dollar amount of customer deductions improved just a little, but stayed in contraction territory anyway (47.4 to 48). Finally, there is the category of filings for bankruptcies. There was a big drop from 56 to 50.9. "This is a worry as bankruptcies have been seen as the course of last resort," said Kuehl. "Throughout the last year, these had not been accelerating, but now they are. This reading is by far the worst seen in several years."

"In general, the news for the manufacturing sector has been decent, but the troubles predicted earlier in the year are starting to manifest," Kuehl explained. "It is hard to pin down exactly what the issue is as manufacturing covers a pretty wide variety of industries, but the boost from the tax cut has faded. Now the worry is over an impending trade war with China as well as arguments over tariffs with once-close trading partners in Europe as well as Canada."

Manufacturing Sector (seasonally adjusted)	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18
Sales	67.4	68.2	59.2	62.7	65.8	62.5	66.2	69.6	69.1	62.4	66.5	68.2	62.3
New credit applications	61.8	64.5	56.5	57.8	65.2	62.4	60.8	62.4	60.2	59.5	61.4	61.8	61.5
Dollar collections	59.5	60.9	58.9	58.7	62.8	59.5	46.1	63.5	63.3	61.5	62.4	59.0	58.5
Amount of credit extended	65.2	67.4	60.7	63.4	65.9	65.3	66.0	66.4	65.7	65.1	67.1	68.5	63.7
Index of favorable factors	63.5	65.3	58.8	60.7	64.9	62.4	59.8	65.5	64.6	62.1	64.4	64.4	61.5
Rejections of credit applications	53.7	52.6	51.5	51.8	51.5	54.1	52.4	53.4	50.6	53.5	53.7	53.1	51.9
Accounts placed for collection	48.6	51.5	50.3	51.2	50.1	51.0	49.8	51.3	50.6	50.6	49.6	51.2	49.1
Disputes	48.2	47.1	48.8	48.4	47.6	46.0	48.0	46.9	47.9	47.0	45.8	48.7	48.7
Dollar amount beyond terms	48.6	48.2	50.1	45.0	48.5	46.5	46.8	50.2	48.7	48.1	48.4	50.2	49.1

Dollar amount of customer deductions	47.1	45.7	49.1	46.6	47.7	48.7	48.4	48.4	46.6	46.9	48.1	47.4	48.0
Filings for bankruptcies	56.0	55.4	54.4	55.3	56.3	55.6	55.1	58.0	56.2	59.1	56.0	56.0	50.9
Index of unfavorable factors	50.4	50.1	50.7	49.7	50.3	50.3	50.1	51.4	50.1	50.9	50.2	51.1	49.6
NACM Manufacturing CMI	55.6	56.1	53.9	54.1	56.2	55.2	54.0	57.0	55.9	55.4	55.9	56.4	54.4



Service Sector

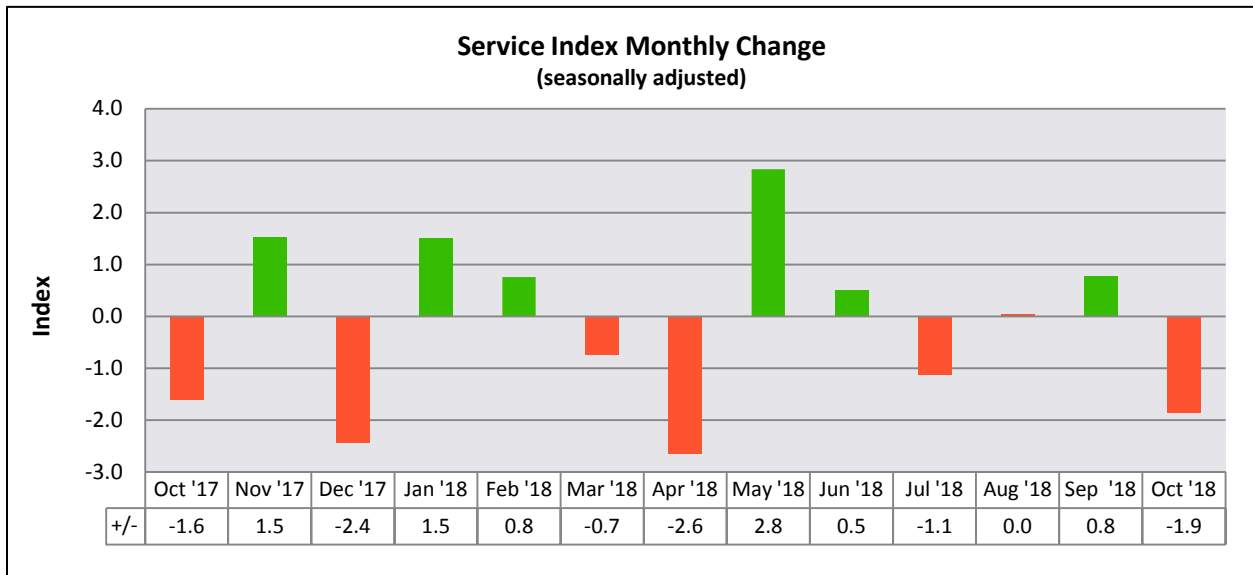
As with the manufacturing sector, the service sector has ridden the ups and downs of the recently volatile economy. “This is the largest part of the U.S. economy—accounting for nearly 80% of the national GDP and a similar amount of employment for the population,” Kuehl said. “There are many sectors that move seasonally. That can affect the overall readings on the economy—including the CMI from time to time. The responses received from participants tend to be heaviest with retail and to some degree construction. Health care plays a role, but there is very little impact from the higher-paid service sectors such as law, accounting or finance.”

The overall service CMI slipped to 54.6 from 56.4, the lowest reading seen since April (again). The good news is that even with this decline, the numbers are thoroughly in expansion territory. The readings for the favorable factors went from 65.9 to 61.7. It was a fairly precipitous decline, but the important part is the category as a whole remains in the 60s. The news was not quite as good for the nonfavorable factors as this sector slipped into the contraction zone with a reading of 49.8 after hitting 50.1 the month prior.

The sales category fell quite a bit (69.4 to 63.2), but Kuehl noted that is more of an issue with the service data than it is with manufacturing. “Since this is the holiday spending season one would expect to see more rather than less sales, but there is still some time for a reversal,” he said. “It has to be pointed out that most of the retail community bought their inventory some months ago.” The new credit applications category stayed very close to what it had been as it moved from 62 to 61.9. The dollar collections data took a huge hit—not good at all. It moved from 66.5 to 56.4. Kuehl suggests some of those retailers are not paying as quickly as they were expected to. The amount of credit extended stayed steady with last month at 65.8 compared to this month at 65.2

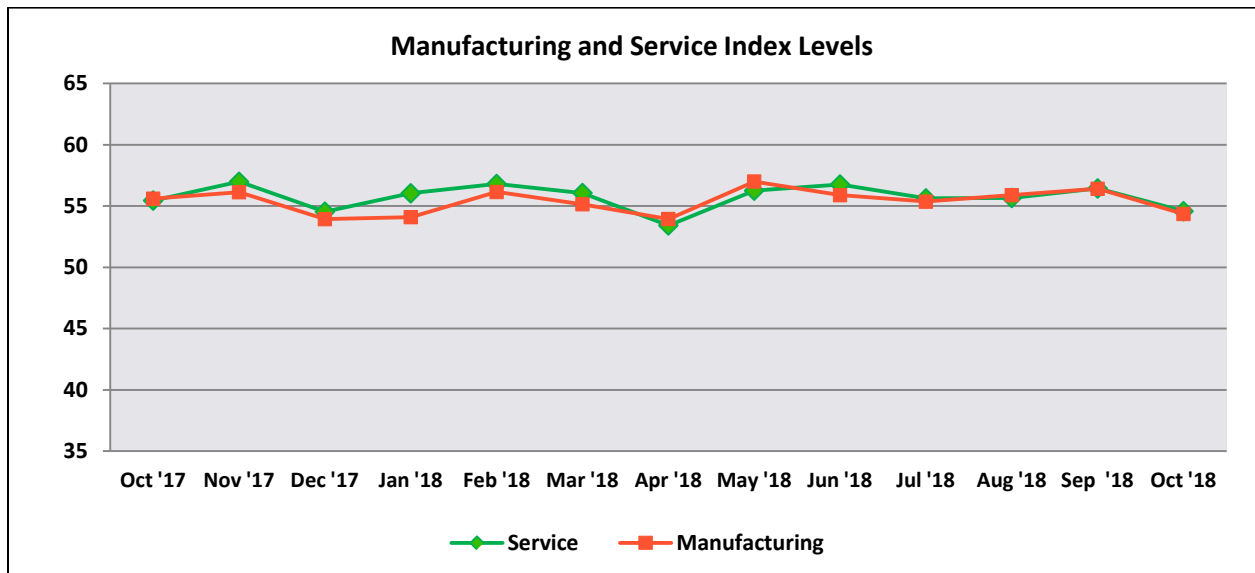
The rejections of credit applications stayed very close to last month's reading—moving from 50.5 to 50.9. The accounts placed for collection fell deeper into contraction territory with a reading of 48.4 as opposed to last month's 49.2. The disputes reading (49.1) was better than last month (46.4), but still stayed in contraction territory. The dollar amount beyond terms worsened a bit as it slid from 49.6 to 46.3. The dollar amount of customer deductions broke out of the contraction zone with a reading of 51.1 after one of 49.7 last month. As with manufacturing, there were worsening numbers with filings for bankruptcies as this month the reading was 53.2 compared to last month at 55.3. "Of the six sub-categories three are still in the contraction zone, which may well worsen as the holiday season ends," Kuehl said. "This will be another critical year for retail."

Service Sector (seasonally adjusted)	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18
Sales	66.1	68.4	59.2	63.3	67.8	65.8	65.5	69.6	70.1	65.3	63.4	69.4	63.2
New credit applications	63.7	62.9	58.2	61.8	61.5	63.0	63.6	65.1	60.9	63.0	63.5	62.0	61.9
Dollar collections	61.0	65.4	59.4	58.6	63.0	59.8	47.3	61.5	63.0	60.5	62.9	66.5	56.4
Amount of credit extended	65.9	68.2	63.0	65.1	66.9	67.2	66.2	67.2	66.8	67.2	66.7	65.8	65.2
Index of favorable factors	64.2	66.2	59.9	62.2	64.8	63.9	60.6	65.8	65.2	64.0	64.2	65.9	61.7
Rejections of credit applications	49.8	52.3	51.2	51.8	51.5	52.4	49.5	49.2	51.8	51.5	50.7	50.5	50.9
Accounts placed for collection	50.3	49.6	49.3	52.1	49.6	49.7	47.7	46.7	52.0	49.3	48.5	49.2	48.4
Disputes	47.0	49.5	50.7	50.9	51.6	49.3	47.9	49.3	48.6	48.3	47.0	46.4	49.1
Dollar amount beyond terms	46.1	46.7	48.4	49.0	51.3	47.8	46.0	48.5	49.7	46.8	48.6	49.6	46.3
Dollar amount of customer deductions	50.2	52.1	50.4	52.7	50.5	50.9	48.3	50.9	49.6	48.8	49.3	49.7	51.1
Filings for bankruptcies	54.6	54.7	55.7	55.0	54.4	54.8	52.4	54.8	55.1	55.8	55.9	55.3	53.2
Index of unfavorable factors	49.7	50.8	51.0	51.9	51.5	50.8	48.6	49.9	51.1	50.1	50.0	50.1	49.8
NACM Service CMI	55.5	57.0	54.5	56.0	56.8	56.1	53.4	56.3	56.8	55.6	55.7	56.4	54.6



October 2018 versus October 2017

“This was a fairly profound slide which comes at an awkward time,” Kuehl said. “This is the time of year services should be carrying the load, but it isn’t at the moment, while manufacturing generally slides until the first of the year.”



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 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 13,000 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

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