



Report for September 2015

Issued September 30, 2015

National Association of Credit Management

Combined Sectors

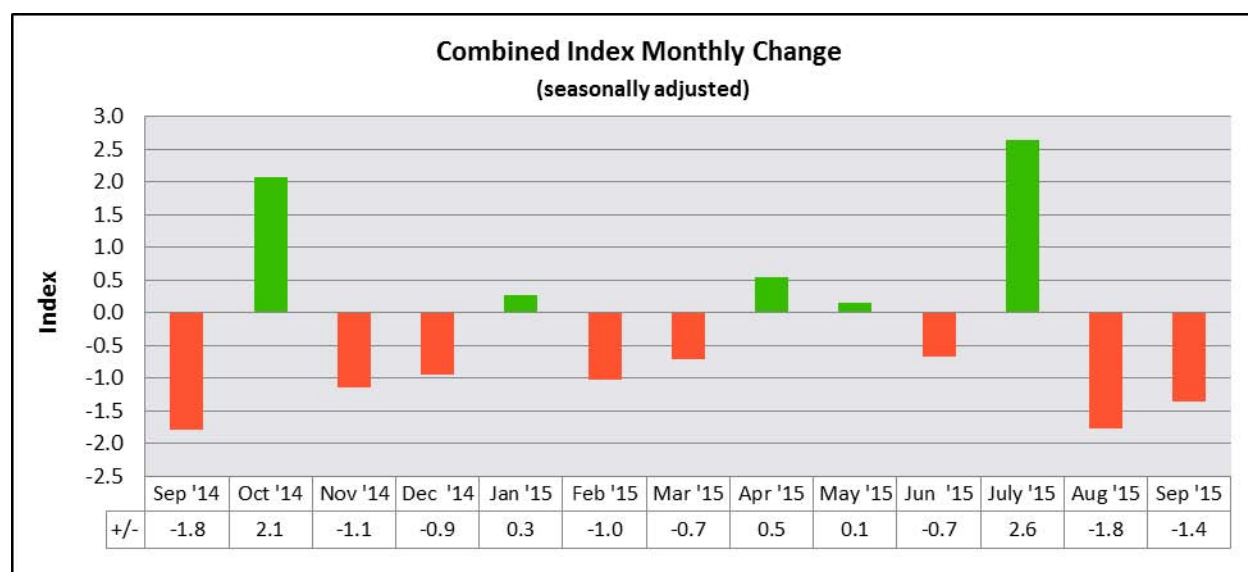
So much for that hoped for pattern of one bad month followed by a good one. This month's CMI is as low as it has been in more than a year and this time the problem is in the non-favorable categories—a bigger concern than if the favorable had been the issue. When the unfavorable factors are showing stress, it is an indication that companies are feeling the pinch and may be starting a long downward trend. Prior to this month, this set of readings had been more or less stable and above 50, but in truth—not all that much above 50.

There was a decline in the favorable categories as well—just not quite as dramatic as in the unfavorable group. The overall index fell from 59.2 to 57.7—not a huge decline, but the worst performance in the last 12 months. At the beginning of this year, the favorable numbers had been above 60 and as recently as July hit 63.5. Now there is the start of a more serious slump. The fall-off in the sales category has continued with a reading of 56.4—once again the lowest reading in the last 12 months, but only slightly off the decline last month when it hit 57.9. The new credit applications reading improved just slightly and that is an interesting sign. It went from 57.7 to 58.1, taking this reading close to the previous levels set this year, but it is still the third lowest reading in the last year. The dollar collections category slipped badly and this is a worry. The current reading is 56.4 and this is another 12-month low and substantially down from what it was last month at 58.3. This is not good news at all and reinforces the negatives that show up in the unfavorable categories. The amount of credit extended category fell a little as well, but not as drastically and at least it has remained in the 60s. For the bulk of this year the favorable factors have been strong—often in the 60s. As recently as July, all of the categories were in the 60s and it seemed to signal the rest of the year would be positive. Now we have a month when almost all the categories have weakened. This is signaling an abundance of caution going into what is supposed to be strong selling season and this is worrying. It would seem that many of the triggers that usually promote growth are not working out—unemployment is relatively low, there is no inflation in the energy sector and there has been improvement in the housing data—nothing seems to be able to shake the lethargy and concern.

The more worrisome data shows up in the unfavorable factors. These are the readings that indicate whether creditors are in trouble. The data for the last year has certainly not been strong, but at least the majority of the readings had been above 50. Now there are only two of the six above 50—the rest have all slipped into the contraction zone. The overall reading for the unfavorable categories is 49.7 and that is only the second time in the last year the combined reading has been in the contraction zone—June saw a reading of 49.2. The most encouraging number was in the rejections of credit applications category as it did not move at all from last month, staying at 51.3. The accounts placed for collection category worsened as it fell from 51.2 to 49.3. This marks the second lowest point in the last 12 months; only June sported a reading that was lower. The category of disputes fell as well. The reading this month was 47.5 and that is among the lowest points of the year, but in truth, the last time this category was over 50 was in November of last year. The majority of the last year has seen a lot of tension between credit issuers and creditors, **as overall business conditions worsened. The “dollar amount beyond terms”** category slipped as well—from 49.3 to 47.0 and that is lowest it has been since June. This is another set of readings that has consistently been under 50 and that signals that many companies have been falling into the category of a **“slow pay.”** The dollar amount of customer deductions category has declined, but only slightly from 49.9 to 49.4. The bad news is that this category has been below 50 for most of the last year. The filings for bankruptcies category has been consistently above 50 and it remained so this month despite a slip from 54.4 to 53.3

The CMI reflects a lot of the other data right now—worsening at a point in the year when many had expected to see some modest improvements.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15
Sales	60.9	65.7	62.7	61.4	61.5	58.9	58.4	59.1	57.1	56.6	65.1	57.9	56.4
New credit applications	59.0	59.4	58.1	59.2	58.3	58.0	56.6	58.6	58.5	60.5	60.8	57.7	58.1
Dollar collections	59.9	61.5	60.3	56.6	60.1	57.4	57.6	58.8	57.5	56.8	61.9	58.3	56.4
Amount of credit extended	64.0	63.8	63.7	64.6	62.2	60.5	60.6	62.6	62.0	64.5	66.4	63.0	60.1
Index of favorable factors	60.9	62.6	61.2	60.5	60.5	58.7	58.3	59.8	58.8	59.6	63.5	59.2	57.7
Rejections of credit applications	52.5	53.6	51.7	51.5	51.9	51.4	52.6	52.3	51.9	50.8	51.8	51.3	51.3
Accounts placed for collection	50.7	52.7	51.8	51.1	50.1	50.8	49.8	49.8	51.1	47.8	50.3	51.2	49.3
Disputes	49.2	50.4	50.8	48.5	49.5	48.8	49.0	47.2	48.0	48.2	49.9	49.5	47.5
Dollar amount beyond terms	47.2	53.6	52.3	48.7	50.6	48.4	45.5	48.8	50.7	46.8	49.1	49.3	47.0
Dollar amount of customer deductions	49.8	50.8	49.7	48.5	50.2	51.8	48.7	47.4	47.8	49.5	49.3	49.9	49.4
Filings for bankruptcies	55.8	58.1	56.8	58.5	56.9	55.0	55.1	54.6	56.0	52.5	55.6	54.4	53.3
Index of unfavorable factors	50.9	53.2	52.2	51.1	51.5	51.0	50.1	50.0	50.9	49.2	51.0	50.9	49.7
NACM Combined CMI	54.9	57.0	55.8	54.9	55.1	54.1	53.4	53.9	54.1	53.4	56.0	54.2	52.9



Manufacturing Sector

This has been a rough period for manufacturing and that has come as a bit of a surprise given the expectations at the start of the year. In the beginning, the assertion was that improvements in the auto sector would combine with a resurgent housing market to drive growth. Commodity prices were (and are) down and that was supposed to be a boon as well. The collapse in the oil sector was supposed to be temporary and by this time in 2015, the economic news would be good. Thus far that prediction is not coming to pass.

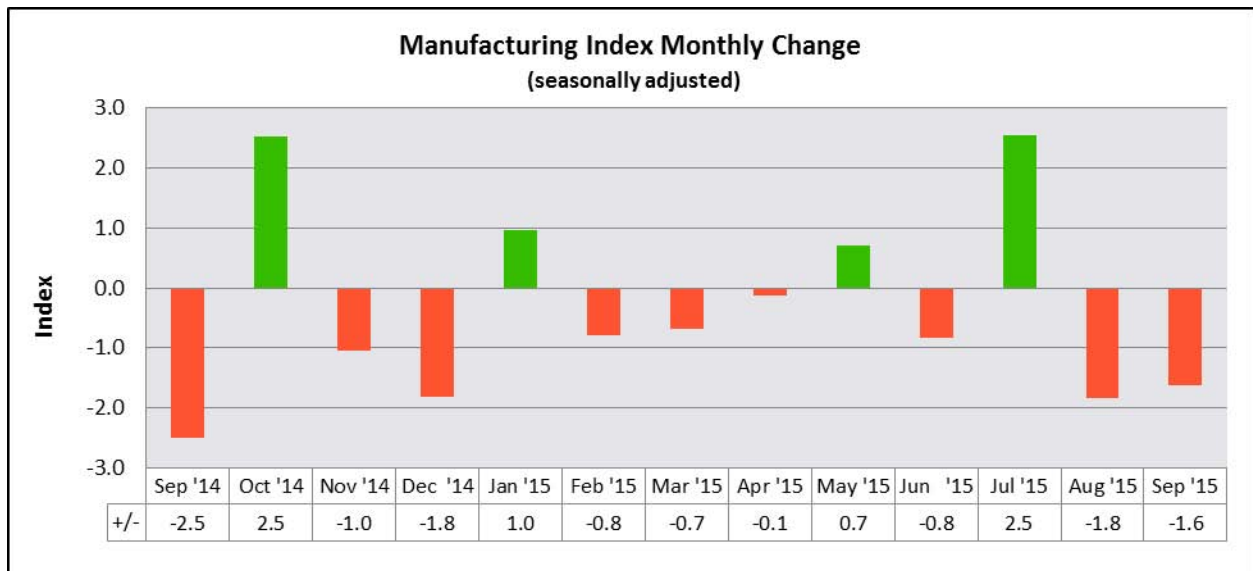
The combined score for the whole of the manufacturing sector is weaker than it has been since June—falling to 52.3. The last 12 months have been anything but robust, however, so this decline is not all that steep. The details are more telling as there was a fairly steep decline in the index of favorable factors. As recently as July, the reading was a nice 63.1, but it fell in August to 58.3 and fell further this month to 56.5. This is not the trend that anybody hoped for. The sales category fell a little and was not the only category to see a drop this month. It went from 56.4 to 55.6. The new credit applications number actually improved a little and it was the only category to see this trend

as it went from 56.1 to 56.6. The dollar collections reading slid from 57.8 to 56.7 and that is more than a little distressing as it marks the lowest level since May of this year. The amount of credit extended category dropped by a considerable degree—from 63.0 to 57.1. This is a signal that credit is starting to tighten up and that is never a good portent for the future.

There was considerable distress noted in the unfavorable factors as well. These are the factors that usually suggest that creditors are getting in trouble. For the last several months, the good news has been that current credit was in decent shape, that the economic issues of the day had yet to really impact, but this no longer seems to be the case. The distress is showing up. The overall index for the unfavorable categories went from 51.0 to 49.5, marking the lowest point since June.

The rejections of credit applications category slipped from 51.8 to 51.5 and that was the smallest decline of the bunch this month. The accounts placed for collection reading slipped below the contraction point as it moved from 50.7 to 48.5. This is not a good trend as collection is generally seen as the last resort for the credit manager. It usually means that the relationship between the creditor and the credit recipient is at an end. The disputes category was off again as well. That has been in a pattern for the past year. It slipped from 48.6 to 47.7 and takes the readings back to where they were at the start of the summer. The readings for dollar amount beyond terms also declined from 51.1 to 46.6. This is the category that generally precedes collection as companies track from being a slow pay to actually in collection. The dollar amount of customer deductions category improved a little, but remained in the 40s with a reading of 49.2 after a reading last month of 48.8. The filings for bankruptcies reading moved from 54.9 to 53.1, but that is still above 50, making this one of two that remained in positive territory.

Manufacturing Sector (seasonally adjusted)	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15
Sales	61.2	64.8	62.7	60.1	60.2	60.1	58.5	57.0	56.4	56.8	66.0	56.4	55.6
New credit applications	59.9	58.5	57.9	58.5	56.7	58.2	56.0	58.7	58.1	58.8	60.5	56.1	56.6
Dollar collections	60.4	60.4	59.9	55.39	60.4	57.1	57.1	57.0	55.1	58.2	59.4	57.8	56.7
Amount of credit extended	62.3	64.1	64.2	63.38	63.6	58.7	59.7	60.9	62.3	62.7	66.5	63.0	57.1
Index of favorable factors	60.9	61.9	61.2	59.4	60.2	58.5	57.8	58.4	58.0	59.1	63.1	58.3	56.5
Rejections of credit applications	51.4	54.3	51.3	50.81	52.1	52.5	53.5	53.2	53.0	49.5	52.6	51.8	51.5
Accounts placed for collection	50.5	53.7	52.5	50.46	50.6	51.8	51.4	50.8	51.6	48.3	49.7	50.7	48.5
Disputes	47.4	50.8	50.5	47.35	49.4	47.2	48.6	46.9	47.7	47.9	48.5	48.6	47.7
Dollar amount beyond terms	46.3	54.1	52.8	48.0	50.8	52.2	46.0	48.3	50.6	47.5	49.8	51.1	46.6
Dollar amount of customer deductions	48.9	50.5	49.8	46.79	49.5	48.7	48.7	45.7	48.7	49.8	48.6	48.8	49.2
Filings for bankruptcies	54.8	57.0	56.2	58.93	56.2	55.1	55.1	54.8	56.8	52.3	55.7	54.9	53.1
Index of unfavorable factors	49.9	53.4	52.2	50.4	51.4	51.3	50.6	50.0	51.4	49.2	50.8	51.0	49.5
NACM Manufacturing CMI	54.3	56.8	55.8	54.0	55.0	54.2	53.5	53.3	54.0	53.2	55.7	53.9	52.3



Service Sector

The combined score for the service sector was off this month as well and slipped back to numbers last seen in June. The reading for the month was 53.5 and last month was 54.6. This makes the lowest reading since March of this year, but in truth, most of the readings this year have been very close to the 50 level. The combined score for the favorable categories declined and went from 60.2 to 59.0. This is not a huge drop, but there is the psychological impact of having left the 60s. The combined score for the unfavorable index was 49.9 and that was down from the 50.9 registered the month before. The slide took the readings back to the weak months of the summer and that is not supposed to be happening at this point in the year.

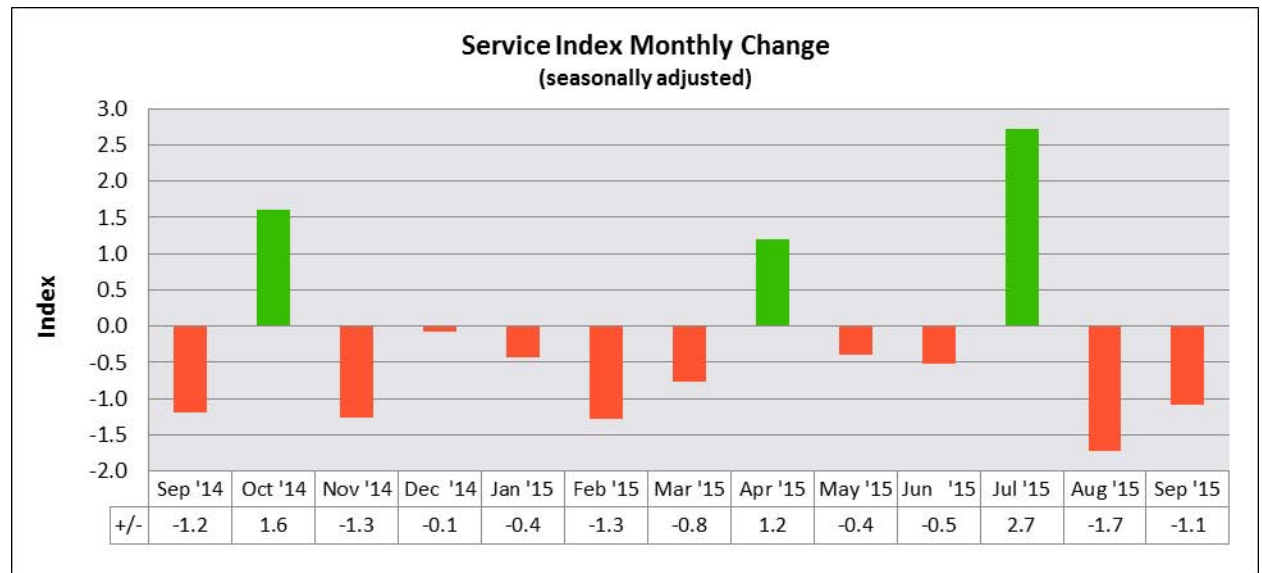
The data in the favorable categories varied. The sales reading went from 59.5 to 57.2 and that is a far cry from the 64.3 that was registered in July. The new credit applications category went up just slightly—from 59.3 to 59.5. This was the same behavior as noted in the manufacturing data and it is worth pausing to explain a little. The other indicators are all down and yet this one is slightly up—why? The basic explanation is that as companies get in trouble, they seek credit issuers that will give them another chance or two or three. It is important to note that the number of credit applications granted declined—more may be asking, but most are not getting the answer they had been seeking. The category of dollar collections was down as well—going from 58.8 to 56.1. This is not good news as creditor distress spreads quickly. The amount of credit extended reading also improved a tiny bit as it went from 63.1 to 63.2. This suggests that those that are getting credit are the larger clients.

The unfavorable categories are telling a tale of woe in service just as they did in the manufacturing readings. The rejections of credit applications category improved slightly as it went from 50.8 to 51.1. There is evidence that creditors are falling into two broad categories—the healthier ones that are expecting to make more money as the selling season approaches and those that are struggling to get through the year. Many of those that are in the latter community are in sectors like construction and transportation. The accounts placed for collection reading went from 51.7 to 50.0—just barely staying out of the contraction zone. The disputes reading slipped badly and slid from 50.4 to 47.4, marking the lowest point in the last 12 months. The dollar amount beyond terms category stayed roughly the same as it moved from 47.5 to 47.4, but this remains firmly in the contraction sector below 50. The dollar amount of customer deductions category slipped into contraction as it went from 51.0 to 49.7 and the filings for bankruptcies reading also shifted down by going from 54.0 to 53.6.

The next few months will be critical for this sector as this is the time of year business conditions will theoretically improve. The data thus far has been anything but encouraging, putting a lot of pressure on the holiday selling

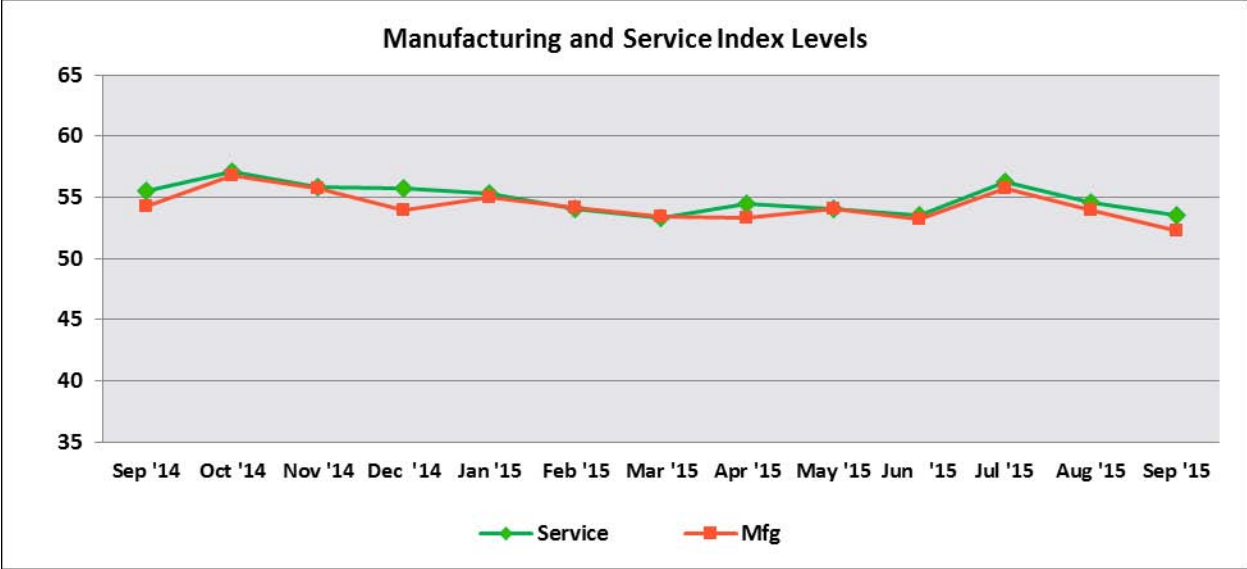
season. The construction sector is going into its slow time of year and that puts more emphasis on retail which has been off to a slow start this year.

Service Sector (seasonally adjusted)	Sep '14	Oct '14	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15
Sales	60.7	66.7	62.7	62.68	62.8	57.7	58.3	61.1	57.9	56.3	64.3	59.5	57.2
New credit applications	58.0	60.3	58.4	59.8	60.0	57.8	57.1	58.5	58.9	62.2	61.0	59.3	59.5
Dollar collections	59.4	62.5	60.7	57.87	59.7	57.7	58.1	60.7	60.0	55.4	64.3	58.8	56.1
Amount of credit extended	65.7	63.6	63.3	65.86	60.8	62.3	61.5	64.4	61.8	66.3	66.3	63.1	63.2
Index of favorable factors	60.9	63.3	61.3	61.6	60.8	58.9	58.7	61.2	59.6	60.0	64.0	60.2	59.0
Rejections of credit applications	53.7	52.9	52.1	52.25	51.7	50.3	51.7	51.3	50.8	52.0	51.0	50.8	51.1
Accounts placed for collection	51.0	51.7	51.2	51.8	49.7	49.9	48.1	48.7	50.5	47.3	50.9	51.7	50.0
Disputes	50.9	50.0	51.2	49.72	49.5	50.4	49.4	47.5	48.4	48.5	51.3	50.4	47.4
Dollar amount beyond terms	48.1	53.2	51.8	49.37	50.5	44.7	45.1	49.2	50.7	46.1	48.5	47.5	47.4
Dollar amount of customer deductions	50.7	51.1	49.6	50.12	51.0	54.8	48.7	49.1	46.9	49.24	50.0	51.0	49.7
Filings for bankruptcies	56.8	59.2	57.4	58.12	57.6	54.9	55.0	54.3	55.1	52.6	55.6	54.0	53.6
Index of unfavorable factors	51.9	53.0	52.2	51.9	51.7	50.8	49.7	50.0	50.4	49.3	51.2	50.9	49.9
NACM Service CMI	55.5	57.1	55.8	55.8	55.3	54.0	53.3	54.5	54.1	53.6	56.3	54.6	53.5



September 2015 versus September 2014

Thus far, the trend is far from a happy one. Nearly all the readings are down from where they were a month ago and significantly down from a year ago. There will have to be a big rebound just to get back to where the readings were in October and November of 2014.



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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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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Contact: [Jennifer Lehman](#), 410-740-5560

Website: www.nacm.org

Twitter: [NACM_National](#)