



## Report for September 2016

Issued Sept. 30, 2016

National Association of Credit Management

### Combined Sectors

This month may be an anomaly, but we certainly hope not. After a big dip in the Credit Managers' Index (CMI) last month, it recovered a bit this month, and the best news is that the gains were seen primarily in the favorable categories. "The readings last month were especially disturbing because for most of 2016, the numbers were pretty good—even hitting 60 in March and July," said NACM Economist Chris Kuehl, Ph.D. In August, the favorable numbers sagged to levels not seen since December. Now they appear to be back to those growth numbers with a reading in the combined favorable categories of 59.5.

Together, the index of favorable factors and the index of unfavorable factors "showed a lot of improvement as well—going from 52.0 to 53.7," Kuehl noted. As with the last several months, unfavorable factors continued to drag down the whole index. In August, the combined unfavorable number was 49.1, and this month it remains in contraction territory at 49.9.

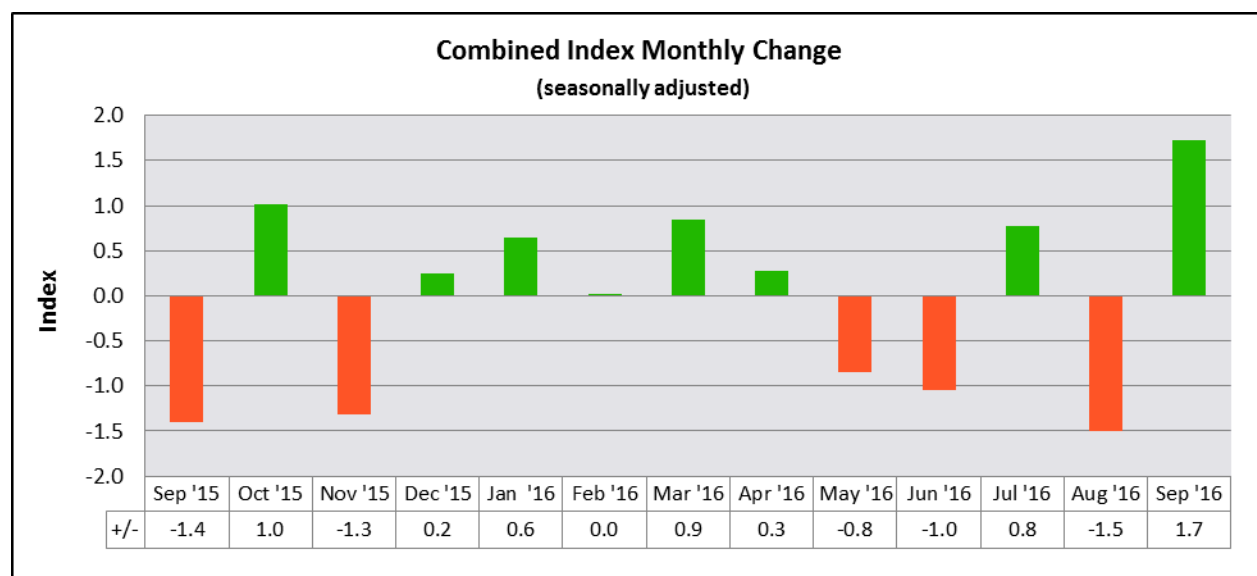
"There has been a great deal of confusion and trepidation in the business community as well as with consumers as the election year has progressed," Kuehl noted. "There is uneasiness as many in the country are really not very happy with either the Democratic or Republican candidate. The surveys suggest that companies are delaying decisions about growth and expansion until they see what happens. There are some people that assert this trepidation will last into next year and others that believe that once the dust settles, there will be an opportunity for some real growth as all the pent-up demand is released."

Looking more closely at the favorable numbers, there is lots of encouraging news. *Sales* jumped back to respectable levels at 57.9—an improvement over the 53.7 noted in August. *New credit applications* also improved, but not quite as dramatically as it moved from 56.7 to 58.6. The *dollar collections* category improved quite a bit, and "that always brings a smile to the credit manager's face," Kuehl added. In August, the category was at 55.5; and in September, it improved to 59.5. "That is as good as it has been since July—making that low reading in August the anomaly," he further noted. The category of *amount of credit extended* also improved nicely as it went from an already respectable 59.7 to 61.9. There have only been two months (June and August) in the last year that were below 60.

The news from the unfavorable factors has not been as sanguine. The category of *rejections of credit applications* stayed roughly the same as it went from 51.6 to 51.3. The increase in the number of applications makes this relative stability important. It is actually pretty good news that this category didn't change much. The *accounts placed for collection* also remained close to what it had been, going from 47.7 in August to 47.9 in September. Although this is not good news to be sure, at least there has been some stability. There was some improvement in the *disputes* category as it went from 47.8 to 48.8; however, it remains in contraction territory. The most significant improvement was in *dollar amount beyond terms* as it moved from 46.3 to 48.2. This was a nice shift up, but it still has a ways to go to escape the contraction zone. The *dollar amount of customer deductions*, however, did escape the contraction zone with a reading of 50.4 after languishing at 48.1 in August. "There are some signs of life starting to show up, and that is good news," Kuehl said. *Filings for bankruptcies* remained about where it was in August, going from 52.8 to 52.7.

"It is hoped that this data is a harbinger of things to come, but after the last few months of intense gyrations there is certainly no guarantee," he surmised. "The business community as a whole has been cautious and uneasy and has not been eager to make commitments for the future. That has been affecting the CMI, but now there is some sense that decisions will be made in the not distant future."

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16
Sales	56.4	58.3	56.0	55.0	55.8	56.8	59.2	59.8	56.7	56.9	60.0	53.7	57.9
New credit applications	58.1	58.9	58.0	56.4	58.1	58.2	59.8	58.5	56.6	56.6	57.8	56.7	58.6
Dollar collections	56.4	56.7	55.7	55.8	57.8	58.3	59.6	57.5	57.4	57.1	59.5	55.5	59.5
Amount of credit extended	60.1	63.7	61.0	59.4	61.0	61.2	61.7	60.9	61.0	57.6	62.8	59.7	61.9
<b>Index of favorable factors</b>	<b>57.7</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>
Rejections of credit applications	51.3	51.4	51.0	52.8	52.2	52.2	51.2	52.2	51.9	51.2	50.7	51.6	51.3
Accounts placed for collection	49.3	50.0	47.1	50.2	49.4	49.0	48.5	50.9	50.5	48.8	48.2	47.7	47.9
Disputes	47.5	48.5	48.4	48.6	48.6	49.7	50.8	50.8	50.8	49.5	47.6	47.8	48.8
Dollar amount beyond terms	47.0	47.8	47.4	48.0	48.6	47.5	50.8	51.2	49.2	49.0	48.8	46.3	48.2
Dollar amount of customer deductions	49.4	50.1	48.9	48.5	49.5	49.5	49.8	50.7	50.7	49.6	49.0	48.1	50.4
Filings for bankruptcies	53.3	53.6	52.5	53.7	53.8	52.6	52.2	53.8	53.0	51.1	50.7	52.8	52.7
<b>Index of unfavorable factors</b>	<b>49.7</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>NACM Combined CMI</b>	<b>52.9</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>



## Manufacturing Sector

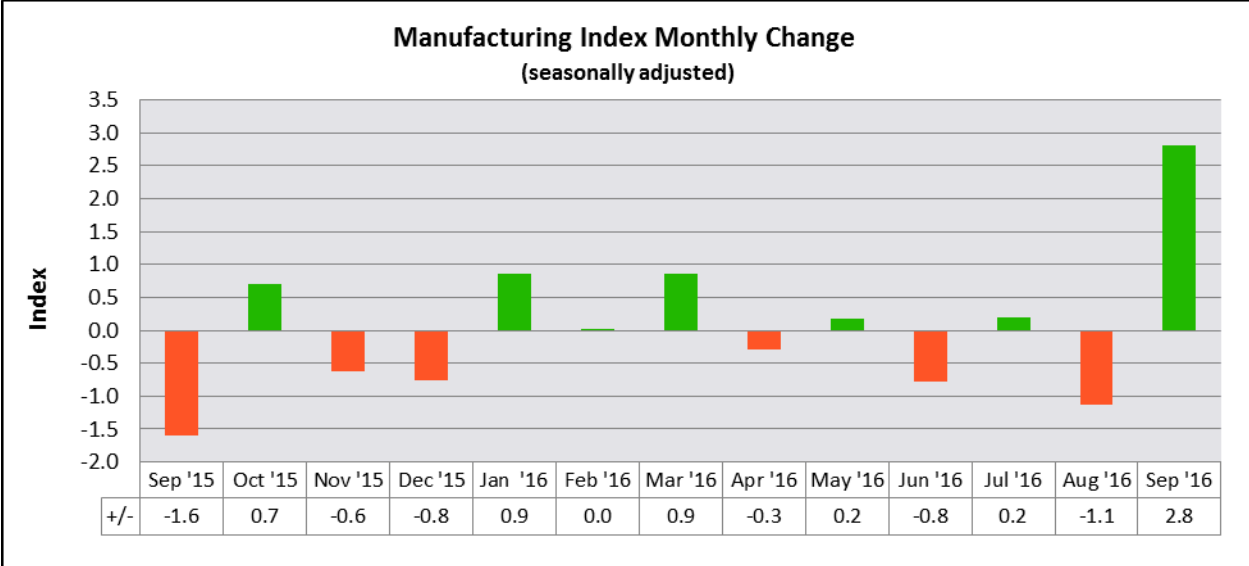
The combined index reading for the manufacturing sector was the best it has been in more than a year. It is now at 54.3, up from 51.5 in August. This is mostly due to the improved numbers registered in the favorable categories, but there was a bit of improvement in some of the unfavorable categories. The sector is diverse as are the service categories, and it is evident that no real growth has been seen in the gas and oil sector, but automotive and aerospace still look strong. The combined index for the favorable factors jumped significantly from August with a reading of 59.1 as compared with 55.3. This is the strongest reading seen this year and even through most of 2015. The big movement was seen across most of the subcategories. The *sales* category went from 52.4 to 58.2—back to where it was in July. The *new credit applications* category also moved up dramatically as it was at 55.8 in August and now sits at 59.2. This may be the most significant reading of them all as it is the highest in almost two years. There is clearly movement in the manufacturing sector, and this has been reflected in some of the other data such as capital investment and capacity utilization. This has been encouraging some to assume that there will be some

expansion in the latter part of this year and early next. There was also encouraging news from *dollar collections* category as it moved from 54.1 to 57.5. The *amount of credit extended* was back above 60 at nearly the same level as in July: It was at 61.8 and is now at 61.4.

The data from the unfavorable categories also indicated some better news, although there are still several that remain in the contraction zone. The *rejections of credit applications* improved from 51.1 to 53.3 and as mentioned in the narrative above that is good news. When there is an improvement in the number of credit applications at the same time that rejections are down, there is a sense that more deals are being made. The category of *accounts placed for collection* left the contraction zone for the first time in three months as it went from 48.3 to 50.2. The category of *disputes* improved but stayed in contraction territory as it has moved to 47.7 after being at 46.5 in August. The *dollar amount beyond terms* left contraction territory as well, going from 45.4 to 50.5; the last time this category was above 50 was in June. *Dollar amount of customer deductions* also left the contraction zone by moving from 48.1 to 51.9, and *filings for bankruptcies* sank a bit but remained in expansion territory with a reading of 53.0 after being at 54.5 in August.

Overall, the news has been far better than expected this month, and there is fervent hope that this is a trend and not just a false reading. Given that there has been pretty good data most of the year, it seems reasonable to think this may be a return to some level of normal.

<b>Manufacturing Sector (seasonally adjusted)</b>	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16
Sales	55.6	57.7	55.5	51.9	54.3	54.7	57.6	56.3	53.9	56.1	58.4	52.4	58.2
New credit applications	56.6	57.3	57.1	54.0	55.4	53.7	56.8	55.3	56.8	54.7	56.5	55.8	59.2
Dollar collections	56.7	56.4	55.6	55.0	55.9	56.2	58.2	54.9	55.0	57.5	58.8	54.1	57.5
Amount of credit extended	57.1	61.8	59.0	55.4	59.3	58.2	60.2	58.4	58.4	55.4	61.8	58.8	61.4
<b>Index of favorable factors</b>	<b>56.5</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>
Rejections of credit applications	51.5	51.5	52.0	54.1	52.4	52.4	51.1	51.8	51.7	53.3	50.8	51.1	53.3
Accounts placed for collection	48.5	49.5	48.6	49.3	48.5	48.6	48.2	50.3	51.8	49.7	48.7	48.3	50.2
Disputes	47.7	46.3	47.8	47.1	47.1	49.8	49.4	48.7	50.7	48.9	45.0	46.5	47.7
Dollar amount beyond terms	46.6	47.3	48.4	48.8	50.3	49.6	51.9	51.4	50.1	50.2	48.3	45.4	50.5
Dollar amount of customer deductions	49.2	48.5	47.9	47.6	49.0	49.2	48.2	49.5	51.4	48.5	48.0	48.1	51.9
Filings for bankruptcies	53.1	53.6	51.7	52.8	52.3	52.1	51.6	53.7	52.1	50.0	49.8	54.5	53.0
<b>Index of unfavorable factors</b>	<b>49.5</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>NACM Manufacturing CMI</b>	<b>52.3</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>



### Service Sector

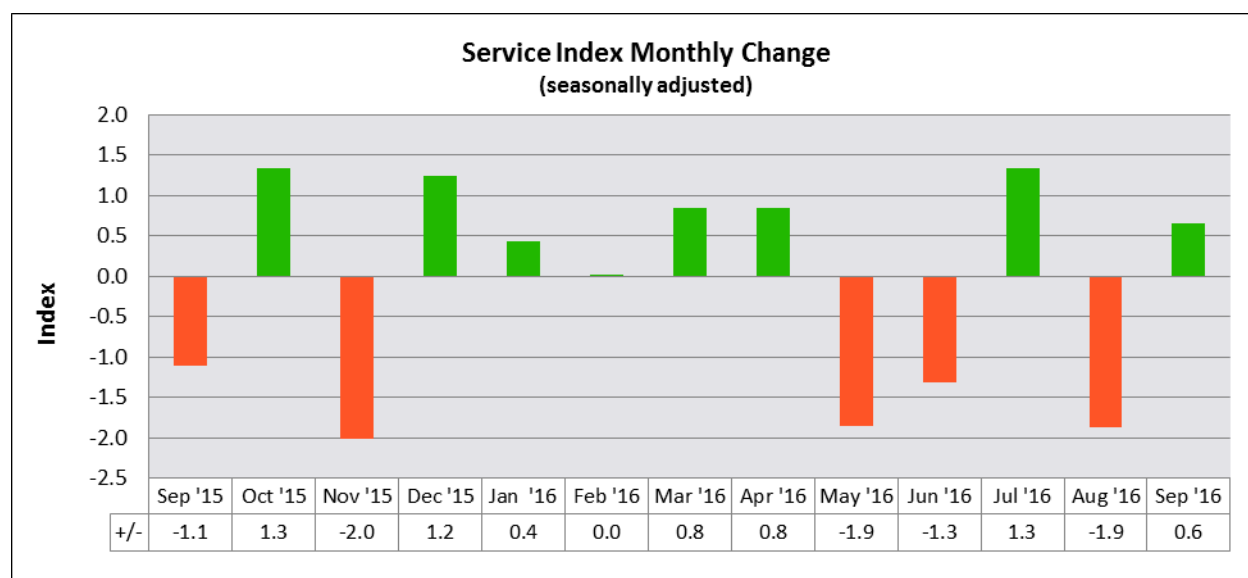
There was positive news from the service readings as well but not quite as dramatic as was seen in manufacturing. The combined score was improved over last month when the reading was 52.5. Now it is at 53.2, but that is not quite as good as the reading was in July. The difference was once again in the favorable categories. The combined index is now at 59.9, and that is about as close as one can get to 60. In July, the reading was 61.2, but in August, it fell to 57.6. The combined index of the unfavorable categories did not share this level of improvement with a reading of 48.7 after one of 49.2 in August.

There was generally good news coming from the favorable categories. The *sales* reading went from 55.0 to 57.7, and the *new credit applications* reading improved from 57.6 to 58.0. These moves were not as dramatic as the gains notched in manufacturing, but it is still progress. The improvement in *dollar collections* was more encouraging with a reading of 61.5 after an August number of 57.0. There was progress in *amount of credit extended* as the recent number is 62.4 and last month it was at 60.7. While this is welcome, the reading in July was at 63.8.

The unfavorable factors worsened a little, and that is a bit worrisome. *Rejections of credit applications* slipped, and that coupled with the increase in applications sends some warning flags. This means that too many of the new applications are not passing scrutiny, and that translates into some desperate companies hoping against hope that there are gullible credit professionals out there. There was also a decline noted as far as the *accounts placed for collection* category. It was at 47.1 and is now at 45.6. The *disputes* category improved, but only very slightly, and it still remains in contraction territory with a September reading of 49.9 after an August reading of 49.2. *Dollar amount beyond terms* also worsened a bit as it went from 47.3 to 46.0; the category of *dollar amount of customer deductions* showed some slight improvement, but it is still in the contraction zone with a reading of 49.0 after an August reading of 48.2. *Filings for bankruptcies* also improved a little as the September reading was 52.3, while August was at 51.2.

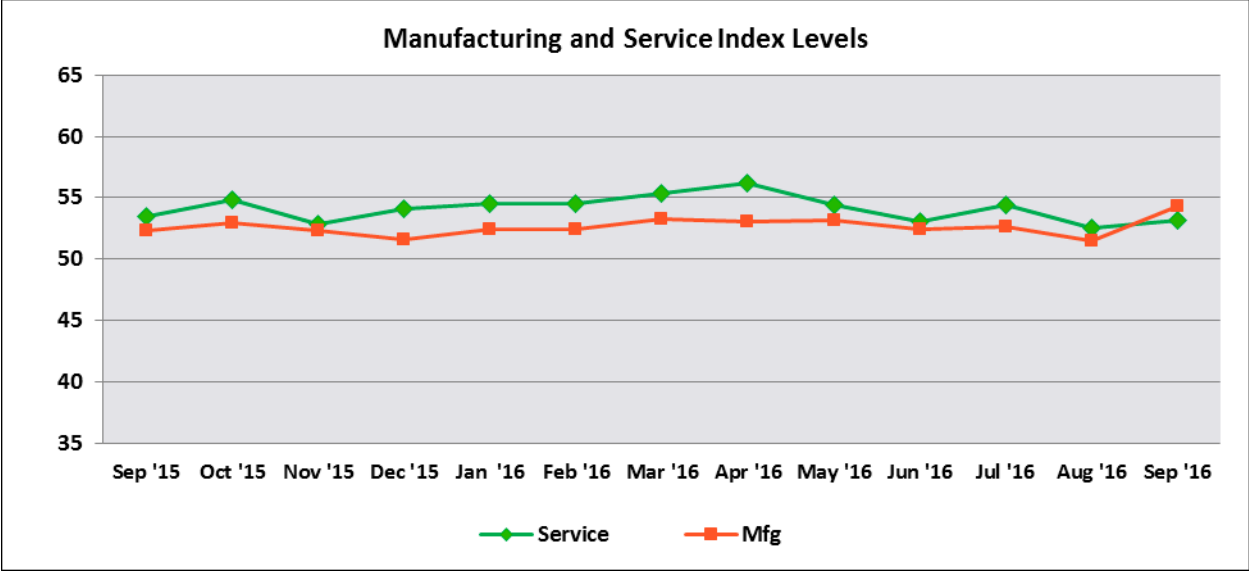
The slowdown in the services sector is tied to the trepidation seen in the consumer. This data is heavily weighted to retail, and thus far the consumer is not all that active or confident. Retailers need a good holiday spending season, but so far they are not expecting one.

<b>Service Sector (seasonally adjusted)</b>	Sep '15	Oct '15	Nov '15	Dec '15	Jan '16	Feb '16	Mar '16	Apr '16	May '16	Jun '16	Jul '16	Aug '16	Sep '16
Sales	57.2	58.9	56.5	58.1	57.4	58.8	60.7	63.2	59.5	57.8	61.6	55.0	57.7
New credit applications	59.5	60.5	58.9	58.8	60.9	62.7	62.8	61.8	56.5	58.5	59.0	57.6	58.0
Dollar collections	56.1	57.0	55.9	56.6	59.7	60.4	61.0	60.0	59.8	56.7	60.3	57.0	61.5
Amount of credit extended	63.2	65.6	63.1	63.4	62.7	64.1	63.1	63.5	63.6	59.8	63.8	60.7	62.4
<b>Index of favorable factors</b>	<b>59.0</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>
Rejections of credit applications	51.1	51.4	50.0	51.6	52.0	51.9	51.4	52.6	52.0	49.1	50.7	52.0	49.4
Accounts placed for collection	50.0	50.6	45.6	51.1	50.3	49.4	48.8	51.6	49.2	47.9	47.7	47.1	45.6
Disputes	47.4	50.7	49.0	50.0	50.1	49.7	52.3	52.9	50.8	50.1	50.2	49.2	49.9
Dollar amount beyond terms	47.4	48.4	46.3	47.3	46.8	45.5	49.6	51.1	48.4	47.9	49.2	47.3	46.0
Dollar amount of customer deductions	49.7	51.7	49.8	49.4	50.0	49.8	51.3	51.8	50.1	50.7	50.1	48.2	49.0
Filings for bankruptcies	53.6	53.6	53.2	54.5	55.3	53.1	52.9	53.8	53.9	52.2	51.5	51.2	52.3
<b>Index of unfavorable factors</b>	<b>49.9</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>NACM Service CMI</b>	<b>53.5</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>



## September 2016 versus September 2015

There is no doubt that this month was better than last and little doubt that most of that progress can be attributed to manufacturers. Service is lagging for now; and at this point, it may be a couple of months before there is a reversal.



**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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