



Report for September 2017

Issued September 29, 2017

National Association of Credit Management

Combined Sectors

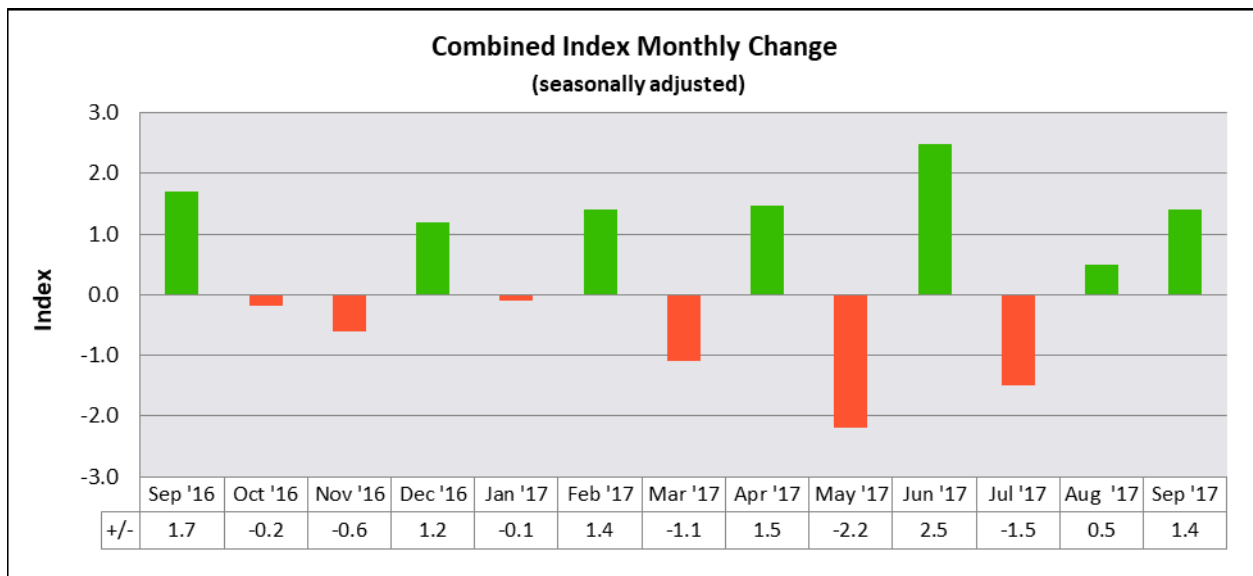
Don't look now, but we seem to have the start of a trend and it is a positive one at that. In August, there were gains in the combined index. Now, in September, these gains have been amplified considerably. The pattern that has started to manifest in the latest Credit Managers' Index (CMI) matches nicely with the patterns that are present in a variety of other measures, according to NACM Economist Chris Kuehl, Ph.D. "The Purchasing Managers' Index is as robust as it has been in a year, with readings above 57. There has been positive growth in the capacity utilization numbers, although these are still a bit short of ideal." The news from this month's CMI is even more encouraging when one looks at the details and the subindex readings. The majority of the progress is seen in the favorable factors. However, there remains some weakness in the unfavorable factors, but there was progress in both sectors.

The combined score this month is 56.5, the best number that has appeared this year—above even the 56.1 that had been notched in June. "The hope is that this may be the start of a nice little trend for the end of the year," noted Kuehl. The combined score for the favorable factors is even more encouraging because it is now sitting at 63.5, the highest since April of this year when it hit 63.6. In fact, all of the subindex numbers are in the 60s. That has not happened in several months—not since April of this year. The index of unfavorable factors also trended up a bit from 50.3 to 51.8, another record level for the year. Granted, a reading of 51.8 is not all that deep into expansion territory (anything above 50), but the majority of the subindex readings are now in the 50s.

Breaking down the favorable subindex readings provides some genuine enthusiasm. The sales category hit 67.3. That is the best reading all year, exceeding the 66.5 that was posted in June. The fact is that sales across most of the categories have become more robust. New credit applications fell back just slightly from 61.2 to 60.5, but even with this decline, the readings have remained in the 60s. The dollar collections data returned to the 60s from the 58.9 reading seen in August. It is now at 60, which is good news because this category has been very volatile over the last several months. The amount of credit extended stayed roughly where it was the month before as it moved from 66.7 to 66.3. "There is still evidence that most of the credit is being issued to some of the larger companies," said Kuehl.

The improvements in the unfavorable categories were a bit more subtle, but it is encouraging that all except one of these readings has now escaped the contraction zone. The rejections of credit applications moved from 52.2 to 52.5. That matches well with the improvement in the number of applications, as it suggests that those seeking credit are worth issuing it to, said Kuehl. The improvements continue with the data for accounts placed for collection. The reading is back in expansion territory at 50.3, the first time this number has been above that 50 line all year. The gains in disputes were also significant and allowed that category to escape the contraction zone. It is now sitting at 51.7 and that is as high as it has been all year. Only in June has this reading been in expansion territory and that reading was 50.4. One of the more closely watched readings has been the dollar amount beyond terms. It is back in the expansion zone as well (50.4). The current reading matches some of the higher readings for the year. The dollar amount of customer deductions improved a little, but is the only reading to remain in the contraction zone at 49.8. There was also some improvement in the filings for bankruptcy readings as well (55.3 to 56.2). "All in all, the unfavorables remain close to contraction, but for now they are all trending positive," said Kuehl.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17
Sales	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8	62.2	67.3
New credit applications	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7	61.2	60.5
Dollar collections	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2	58.9	60.0
Amount of credit extended	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1	66.7	66.3
Index of favorable factors	59.5	58.4	60.3	59.1	60.8	63.6	60.6	63.6	60.0	63.9	61.7	62.2	63.5
Rejections of credit applications	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9	52.2	52.5
Accounts placed for collection	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9	48.7	50.3
Disputes	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8	49.1	51.7
Dollar amount beyond terms	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3	47.4	50.4
Dollar amount of customer deductions	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1	49.2	49.8
Filings for bankruptcies	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7	53.4	53.6	55.3	56.2
Index of unfavorable factors	49.9	50.3	48.0	50.8	49.5	50.0	50.2	50.6	49.3	50.9	49.9	50.3	51.8
NACM Combined CMI	53.7	53.5	52.9	54.1	54.0	55.4	54.3	55.8	53.6	56.1	54.6	55.1	56.5



Manufacturing Sector

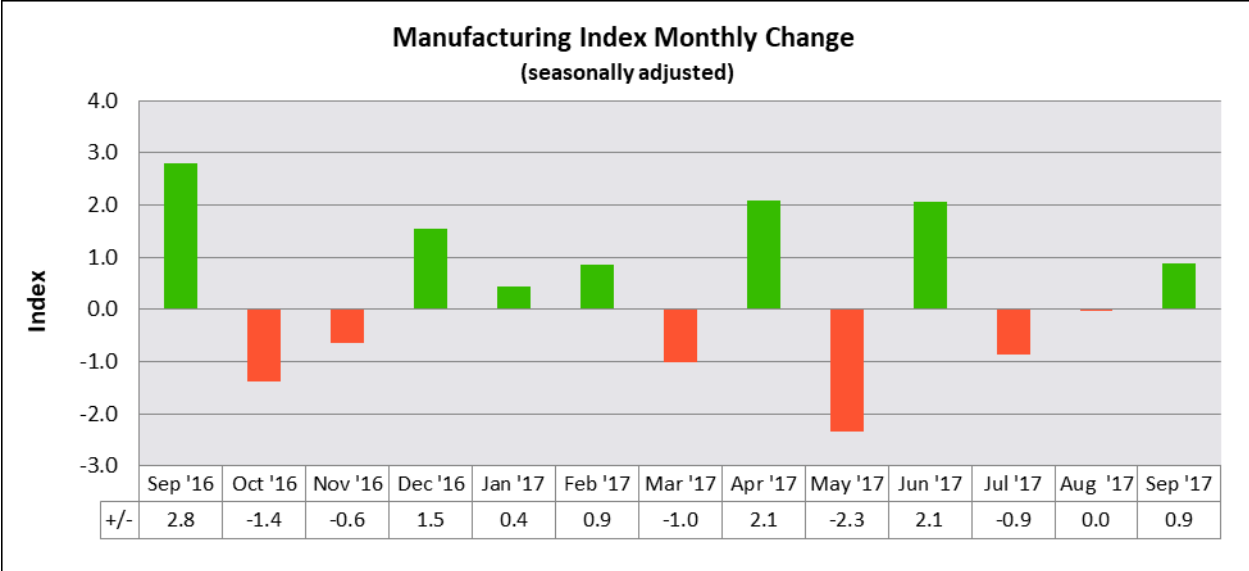
The performance in the manufacturing sector has been far more positive than had been expected in the country as a whole, noted Kuehl. “Much of this can be attributed to a boost in exports over the last few months. The dollar has weakened enough to give U.S. exporters a bit of an edge and, most importantly, the countries the U.S. sells to (such as Europe) have seen enough growth to be able to buy from the U.S. again.” The overall score was similar to the month before as it went from 55 to 55.9. The combined score for the favorable factors improved from 62 to 62.1—a minor move, but the important point is that these numbers are remaining in the 60s. The combined score for the unfavorable readings is 51.8, as good as it has been all year.

The details are important as well as they tell a more complete story. The sales numbers surged high into the 60s with a reading of 65—nearly as robust as the reading in June. The new credit applications reading fell by quite a bit

and tumbled out of the 60s to a reading of 59 from the previous month's 61.8. "There is some support for the notion that only the more qualified are seeking credit right now and credit is being issued somewhat cautiously," said Kuehl. The dollar collections reading improved from 59.3 to 60.4. There is some hope that the volatility in this category will ease a bit. The amount of credit extended sagged a little from the 66.1 reading last month, but remains comfortable at 64.

The nonfavorables showed some solid improvement as well. The rejections of credit applications slipped a bit, but not by a significant degree, as it went from 52.8 to 52.5. The accounts placed for collection escaped the contraction zone with a reading of 50.1 after the 49.7 reading in August. The disputes category also improved from a reading of 47.3 to one of 53. That is a generally good signal that credit has become more stable. The volatile dollar amount beyond terms also saw improvement (from 49.2 to 51.9). "Along with the dollar collections data, this has been a reading that has been defying trends with one month up and the next down," said Kuehl. "It will be good to see more stability in the slow pay category." The dollar amount beyond terms also got back to the expansion zone with a reading of 51.9. Dollar amount of customer deductions stayed in the contraction zone with a reading of 48.5—slightly better than the 48 that was notched in August. The filings for bankruptcies slipped a bit from 55.5 to 54.7. Overall, there were improved readings in most of these categories; all but one of them is now in expansion territory.

Manufacturing Sector (seasonally adjusted)	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17
Sales	58.2	54.4	58.5	58.7	61.7	60.7	61.7	64.7	59.5	66.9	64.0	60.8	65.0
New credit applications	59.2	56.9	51.6	56.1	61.8	61.6	59.7	61.4	58.6	59.8	60.6	61.8	59.0
Dollar collections	57.5	56.1	65.5	59.3	55.3	64.1	56.1	61.3	57.3	61.0	61.1	59.3	60.4
Amount of credit extended	61.4	58.3	60.4	60.2	63.0	67.2	63.4	67.8	63.4	67.4	64.5	66.1	64.0
Index of favorable factors	59.1	56.4	59.0	58.5	60.5	63.4	60.2	63.8	59.7	63.8	62.5	62.0	62.1
Rejections of credit applications	53.3	52.7	49.3	51.5	51.6	52.3	52.1	52.9	52.6	53.3	52.9	52.8	52.5
Accounts placed for collection	50.2	49.0	45.0	50.1	51.9	47.4	50.6	50.1	49.5	49.8	49.8	49.7	50.1
Disputes	47.7	49.2	44.5	48.8	45.7	47.4	47.4	49.2	48.0	49.6	47.8	47.3	53.0
Dollar amount beyond terms	50.5	50.0	43.0	50.1	49.4	52.1	48.2	51.5	48.1	49.3	49.4	49.2	51.9
Dollar amount of customer deductions	51.9	48.5	49.4	49.2	48.7	46.1	49.2	49.1	48.6	48.7	47.6	48.0	48.5
Filings for bankruptcies	53.0	54.3	55.6	54.4	53.5	52.3	52.7	54.1	53.1	53.6	53.0	55.5	54.7
Index of unfavorable factors	51.1	50.6	47.8	50.7	50.1	49.6	50.0	51.1	50.0	50.7	50.1	50.4	51.8
NACM Manufacturing CMI	54.3	52.9	52.3	53.8	54.3	55.1	54.1	56.2	53.9	55.9	55.1	55.0	55.9



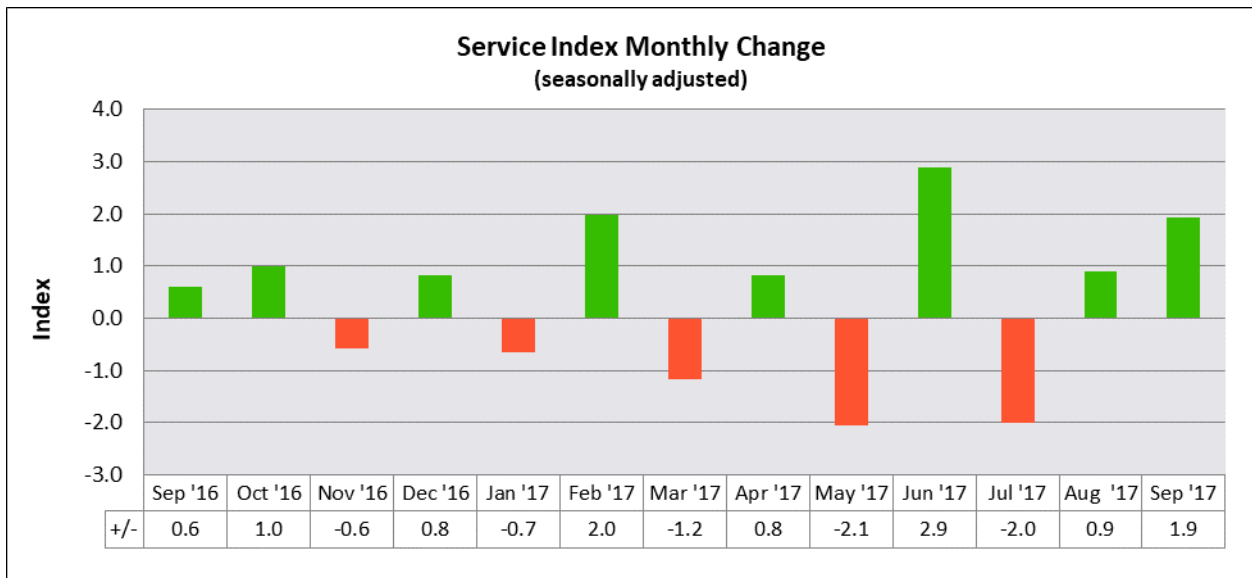
Service Sector

The improvement in the service category was more robust than in manufacturing this month, but these have traditionally been more volatile categories and that situation can change somewhat abruptly. The combined score for the overall sector was 57.1, a significant improvement over the August reading of 55.1. The combined score for the favorable factors also jumped to levels not seen all year. It is now at 64.9, up from the 62.5 levels set in August. The combined score for the unfavorable index likewise showed gains as it went from 50.2 to 51.8. “Much of what has been driving the service sector has been improved retail activity as well as transportation. This will likely continue as the holiday season gets underway,” suggested Kuehl.

The sales numbers showed a truly amazing level of growth and reached 69.7 after hitting 63.6 the month prior. The only month to come close to this level was June when it hit 66. The new credit applications reading improved from 60.6 to 62. Kuehl noted that there is evidence that more retailers are seeking credit, as would be expected this time of year. The dollar collections readings moved up, but didn’t quite break into the 60s as they went from 58.6 to 59.5. Meanwhile, the amount of credit extended shifted up to match that sales number and rested at 68.6 after hitting 67.3 the month before.

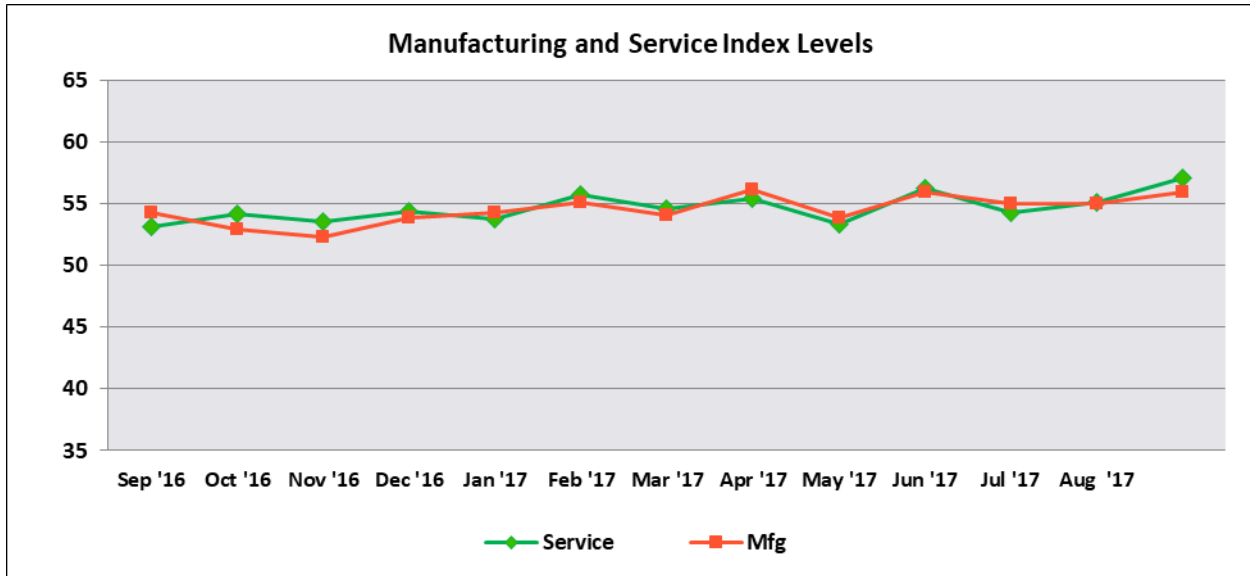
There was likewise improvement in the nonfavorable categories with rejections of credit applications moving further into positive territory with a reading of 52.5 as compared to the 51.5 the month prior. There was improvement in the accounts placed for collection, as the reading this month was 50.6. That took the category into the expansion zone for the first time all year. The disputes category stayed in expansion territory but slipped a bit from 50.8 to 50.3. The dollar amount beyond terms has been as volatile in the service sector as it has been in manufacturing, but the reading this month is an improvement over last month as it went from 45.6 to 49—not quite out of the contraction zone but getting closer. The reading for amount of customer deductions also showed a little gain by moving from 50.4 to 51.1. There was also a slight gain in filings for bankruptcy as it went from 55.2 to 57.6. “The overall sense of improvement is causing some to anticipate a trend that will continue into the next several months,” said Kuehl.

Service Sector (seasonally adjusted)	Sep '16	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17
Sales	57.7	59.5	65.1	58.5	58.5	64.5	60.6	62.9	61.7	66.0	61.7	63.6	69.7
New credit applications	58.0	59.1	57.4	57.8	59.7	62.4	61.3	62.6	59.9	59.9	58.8	60.6	62.0
Dollar collections	61.5	58.0	61.5	59.7	61.2	61.9	56.7	61.2	56.0	63.9	59.4	58.6	59.5
Amount of credit extended	62.4	64.7	62.4	62.6	65.2	66.4	65.3	66.5	63.8	66.3	63.8	67.3	68.6
Index of favorable factors	59.9	60.3	61.6	59.7	61.2	63.8	61.0	63.3	60.3	64.0	60.9	62.5	64.9
Rejections of credit applications	49.4	50.9	48.5	51.1	49.7	50.5	51.1	51.3	52.3	51.9	50.8	51.5	52.5
Accounts placed for collection	45.6	47.3	46.5	49.3	46.9	49.0	49.0	47.9	47.5	48.9	48.1	47.8	50.6
Disputes	49.9	50.6	50.9	50.7	46.2	49.9	49.7	49.1	47.7	51.3	49.8	50.8	50.3
Dollar amount beyond terms	46.0	48.1	46.9	48.4	47.3	49.8	46.7	50.5	43.6	51.6	47.2	45.6	49.0
Dollar amount of customer deductions	49.0	50.5	46.5	50.4	48.8	49.2	50.4	49.3	48.9	49.5	48.6	50.4	51.1
Filings for bankruptcies	52.3	53.3	50.3	55.7	54.3	54.0	54.9	52.9	52.3	53.2	54.2	55.2	57.6
Index of unfavorable factors	48.7	50.1	48.3	50.9	48.9	50.4	50.3	50.2	48.7	51.1	49.8	50.2	51.8
NACM Service CMI	53.2	54.2	53.6	54.4	53.8	55.8	54.6	55.4	53.4	56.2	54.2	55.1	57.1



September 2017 versus September 2016

“Once more, there may be some expectation of stability and a trend toward the positive,” concluded Kuehl. “The favorable factors are improving, but the unfavorable numbers are still lagging badly.”



Methodology Appendix

CMI data have 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 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

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.

View CMI archives at <https://www.nacm.org/cmi/cmi-archive.html>.

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