



## Report for July 2017

Issued July 31, 2017

National Association of Credit Management

### Combined Sectors

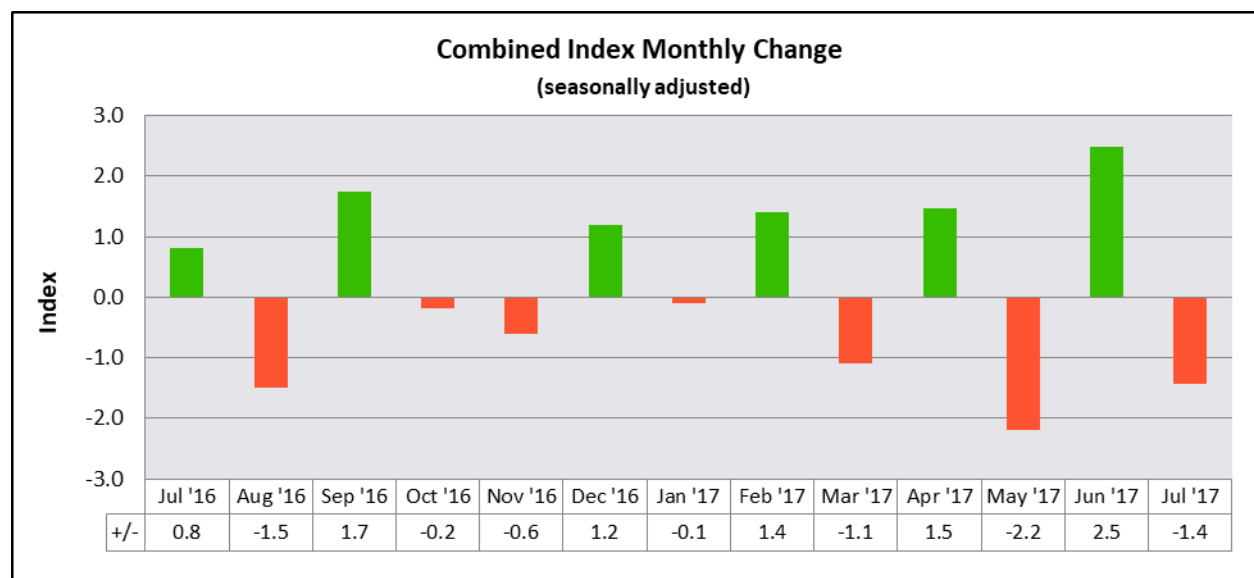
Here we go again. It had been hoped that there would be some consistency with the readings this month, but now we are back in the dumps again. This is probably overstating the trend, as the readings are still solidly in the mid-50s, but this back and forth pattern has been more than a little vexing. “The fact is that much of the country’s economic data has been like this for the past few months with lots of contradictions,” said NACM Economist Chris Kuehl, Ph.D. “The CMI has been right in there with data that shifts from upbeat to downbeat as one month yields to another.”

The overall reading for the index is not that bad at 54.6, but it is down from the month before when it was 56.1. The important note is that this month’s reading is the fourth-best in the last 12 months. It would have been considered really encouraging a year ago when the reading was at 53.5. The overall score for the favorable factors also dipped a little (63.9 to 61.7). It is hard to get too upset over a reading in the 60s, but it was higher in February, April and June. It had been assumed there would be more growth as the year progressed. As has been the case for the last several months, the majority of the distress has been seen in the unfavorable categories with an overall reading of 49.9—just slightly under the 50.9 that was registered last month. The good news is that this reading didn’t weaken any more than it did, but the bad news is that this reading has been sitting very close to the contraction zone for the better part of two years.

There is more information to be gleaned from the specific readings. The sales category slipped from 66.5 to 62.8, but is pretty consistent with the numbers that have been posted all year. The new credit applications reading barely moved as it went 59.8 to 59.7. There is quite obviously demand for new credit, Kuehl said. “This is consistent with what has been observed for durable goods and factory goods orders as well as for capacity utilization.” (Nationally these are close to normal rates at around 77%. The ideal is said to be between 80% and 85%.) In the last few months, there has been a great deal of variability as far as dollar collections, but there was not that much difference this month as it shifted from 62.5 to 60.2. There was a bit more movement as far as amount of credit extended is concerned with a reading of 64.1 compared to 66.8 in June.

There was more variance as far as the unfavorable numbers were concerned. The rejections of credit applications numbers went from 52.6 to 51.9, a significant decline, but the important note is that the readings remained in the 50s. There had been some hope that the reading for accounts placed for collection would crest above 50 (the line that separates contraction from expansion) this month as it had been at 49.3, but it dipped to 48.9. The reading for disputes fell back to 48.8 after being above 50 only once this year in June (50.4). The reading for dollar amount beyond terms also sank back into contraction territory with a reading of 48.3 after one of 50.4. This is a continuation of the see-saw we have seen with slow pay for months, noted Kuehl. “It looks like companies are catching up with their creditors one month and falling back the next. This is another month where they are losing ground.” The shift in the reading for dollar amount of customer deductions was not quite as dramatic as it went from 49.1 to 48.1. The change in filings for bankruptcies was something of a shock as there was a minor improvement from 53.4 to 53.6. This may simply be an anomaly for the month or it may suggest that the majority of companies are managing to stave off bankruptcy as they cope with the economic confusion of the moment.

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Jul '16</b>	<b>Aug '16</b>	<b>Sep '16</b>	<b>Oct '16</b>	<b>Nov '16</b>	<b>Dec '16</b>	<b>Jan '17</b>	<b>Feb '17</b>	<b>Mar '17</b>	<b>Apr '17</b>	<b>May '17</b>	<b>Jun '17</b>	<b>Jul '17</b>
Sales	60.0	53.7	57.9	56.9	61.8	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8
New credit applications	57.8	56.7	58.6	58.0	54.5	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7
Dollar collections	59.5	55.5	59.5	57.0	63.5	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2
Amount of credit extended	62.8	59.7	61.9	61.5	61.4	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1
<b>Index of favorable factors</b>	<b>60.0</b>	<b>56.4</b>	<b>59.5</b>	<b>58.4</b>	<b>60.3</b>	<b>59.1</b>	<b>60.8</b>	<b>63.6</b>	<b>60.6</b>	<b>63.6</b>	<b>60.0</b>	<b>63.9</b>	61.7
Rejections of credit applications	50.7	51.6	51.3	51.8	48.9	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9
Accounts placed for collection	48.2	47.7	47.9	48.1	45.8	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9
Disputes	47.6	47.8	48.8	49.9	47.7	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8
Dollar amount beyond terms	48.8	46.3	48.2	49.0	44.9	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3
Dollar amount of customer deductions	49.0	48.1	50.4	49.5	47.9	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1
Filings for bankruptcies	50.7	52.8	52.7	53.8	53.0	55.0	53.9	53.2	53.8	53.5	52.7	53.4	53.6
<b>Index of unfavorable factors</b>	<b>49.2</b>	<b>49.1</b>	<b>49.9</b>	<b>50.3</b>	<b>48.0</b>	<b>50.8</b>	<b>49.5</b>	<b>50.0</b>	<b>50.2</b>	<b>50.6</b>	<b>49.3</b>	<b>50.9</b>	<b>49.9</b>
<b>NACM Combined CMI</b>	<b>53.5</b>	<b>52.0</b>	<b>53.7</b>	<b>53.5</b>	<b>52.9</b>	<b>54.1</b>	<b>54.0</b>	<b>55.4</b>	<b>54.3</b>	<b>55.8</b>	<b>53.6</b>	<b>56.1</b>	<b>54.6</b>



## Manufacturing Sector

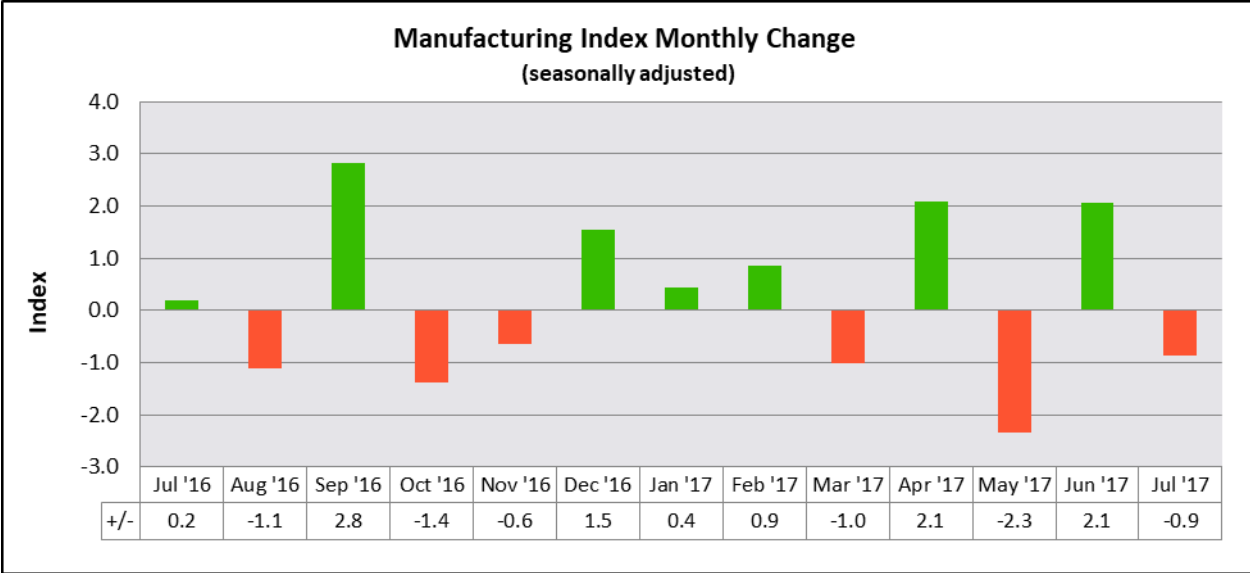
The same up and down shifts that were manifesting in the overall CMI showed up in the manufacturing sector as well. This is not inconsistent with the other data that has been collected as regards the manufacturer. “The durable goods data of late has been very strong, but only because of the aerospace activity,” Kuehl said. “The industrial production numbers have looked better, but mostly due to the oil and gas sector, which is not likely to last. Automotive seems to have lost much of its momentum, but is still not in full retreat.”

The overall score for the manufacturing favorable factors moved from 63.8 to 62.5, certainly a retreat of sorts, but the really good news is that the readings have been solidly in the 60s since January. The overall index of the unfavorable index also shifted slightly from 50.7 to 50.1—barely hanging on to the expansion zone. The details in both index readings are instructive.

The sales category dropped a bit, but is still high at 64—it was at 66.9 last month. The new credit applications reading went from 59.8 to 60.6, a nice little improvement that suggests companies out there still bent on expansion to one degree or another. The dollar collections numbers have been all over the place of late. They have been part of the month-to-month volatility of the index, but this month the movement was more subdued as it went from 61 to 61.1—essentially flat, but with some movement in a positive direction. The amount of credit extended fell from a reading of 67.4 to 64.5. The encouraging aspect of this month’s data is that all the readings in the favorable category are above 60, Kuehl noted, and that could not be said last month.

The data in the unfavorable categories has not been as encouraging. The rejections of credit applications shifted down a bit (53.3 to 52.9). There was no movement as far as accounts placed for collection as this stayed right where it was at 49.8. That is about as close to 50 as one can get. It has been hovering very close to that expansion territory since April when it dropped from 50.1 to 49.5. The disputes reading fell from 49.6 to 47.8, a signal that there is more stress among creditors. The dollar amount beyond terms has also been very volatile until this month when the movement was slight (49.3 to 49.4). “The ups and downs that have been marking the index for the past few months were largely due to changes in the measures of dollar collection and the slow pays, but this was not the issue this month,” Kuehl said. The dollar amount of customer deductions slipped from 48.7 to 47.6, while the filings for bankruptcies dropped only slightly, from 53.6 to 53.

<b>Manufacturing Sector (seasonally adjusted)</b>	<b>Jul '16</b>	<b>Aug '16</b>	<b>Sep '16</b>	<b>Oct '16</b>	<b>Nov '16</b>	<b>Dec '16</b>	<b>Jan '17</b>	<b>Feb '17</b>	<b>Mar '17</b>	<b>Apr '17</b>	<b>May '17</b>	<b>Jun '17</b>	<b>Jul '17</b>
Sales	58.4	52.4	58.2	54.4	58.5	58.7	61.7	60.7	61.7	64.7	59.5	66.9	64.0
New credit applications	56.5	55.8	59.2	56.9	51.6	56.1	61.8	61.6	59.7	61.4	58.6	59.8	60.6
Dollar collections	58.8	54.1	57.5	56.1	65.5	59.3	55.3	64.1	56.1	61.3	57.3	61.0	61.1
Amount of credit extended	61.8	58.8	61.4	58.3	60.4	60.2	63.0	67.2	63.4	67.8	63.4	67.4	64.5
<b>Index of favorable factors</b>	<b>58.9</b>	<b>55.3</b>	<b>59.1</b>	<b>56.4</b>	<b>59.0</b>	<b>58.5</b>	<b>60.5</b>	<b>63.4</b>	<b>60.2</b>	<b>63.8</b>	<b>59.7</b>	<b>63.8</b>	<b>62.5</b>
Rejections of credit applications	50.8	51.1	53.3	52.7	49.3	51.5	51.6	52.3	52.1	52.9	52.6	53.3	52.9
Accounts placed for collection	48.7	48.3	50.2	49.0	45.0	50.1	51.9	47.4	50.6	50.1	49.5	49.8	49.8
Disputes	45.0	46.5	47.7	49.2	44.5	48.8	45.7	47.4	47.4	49.2	48.0	49.6	47.8
Dollar amount beyond terms	48.3	45.4	50.5	50.0	43.0	50.1	49.4	52.1	48.2	51.5	48.1	49.3	49.4
Dollar amount of customer deductions	48.0	48.1	51.9	48.5	49.4	49.2	48.7	46.1	49.2	49.1	48.6	48.7	47.6
Filings for bankruptcies	49.8	54.5	53.0	54.3	55.6	54.4	53.5	52.3	52.7	54.1	53.1	53.6	53.0
<b>Index of unfavorable factors</b>	<b>48.4</b>	<b>49.0</b>	<b>51.1</b>	<b>50.6</b>	<b>47.8</b>	<b>50.7</b>	<b>50.1</b>	<b>49.6</b>	<b>50.0</b>	<b>51.1</b>	<b>50.0</b>	<b>50.7</b>	<b>50.1</b>
<b>NACM Manufacturing CMI</b>	<b>52.6</b>	<b>51.5</b>	<b>54.3</b>	<b>52.9</b>	<b>52.3</b>	<b>53.8</b>	<b>54.3</b>	<b>55.1</b>	<b>54.1</b>	<b>56.2</b>	<b>53.9</b>	<b>55.9</b>	<b>55.1</b>



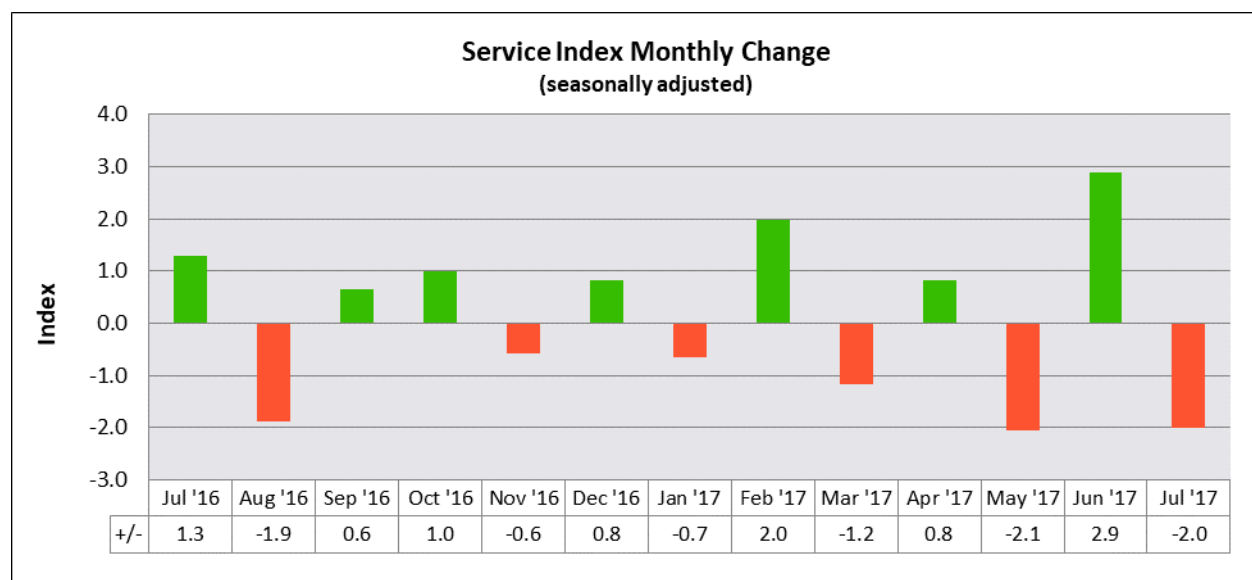
**Service Sector**

By most accounts, there should be more growth as far as the service sector is concerned given that consumer confidence is at a 16-year high. The problem is that the retail numbers are not reflecting this added enthusiasm and there has been some slowing in the construction sector as well—due to lack of workers and the slump in some demand for new homes. “The service economy remains the engine of U.S. growth, but it is worth pointing out that a great deal of the service sector is in support of manufacturing,” said Kuehl. “Think just of transportation and the role it plays in carrying raw materials, finished goods and commodities.”

The sales reading slipped from last month’s high of 66, but only back to where it was in May. It now stands at 61.7, just exactly where it stood in May. The new credit applications data slipped, but not by all that much as it went from 59.9 to 58.8. The dollar collections data was more volatile. That has been the case through most of the year. Last month, it was at 63.9 and this month it stands at 59.4. This is higher than it was in May, however, when it stood at 56. The amount of credit extended also fell a bit from 66.3 to 63.8, but the reading is still solidly in the 60s and that is good news.

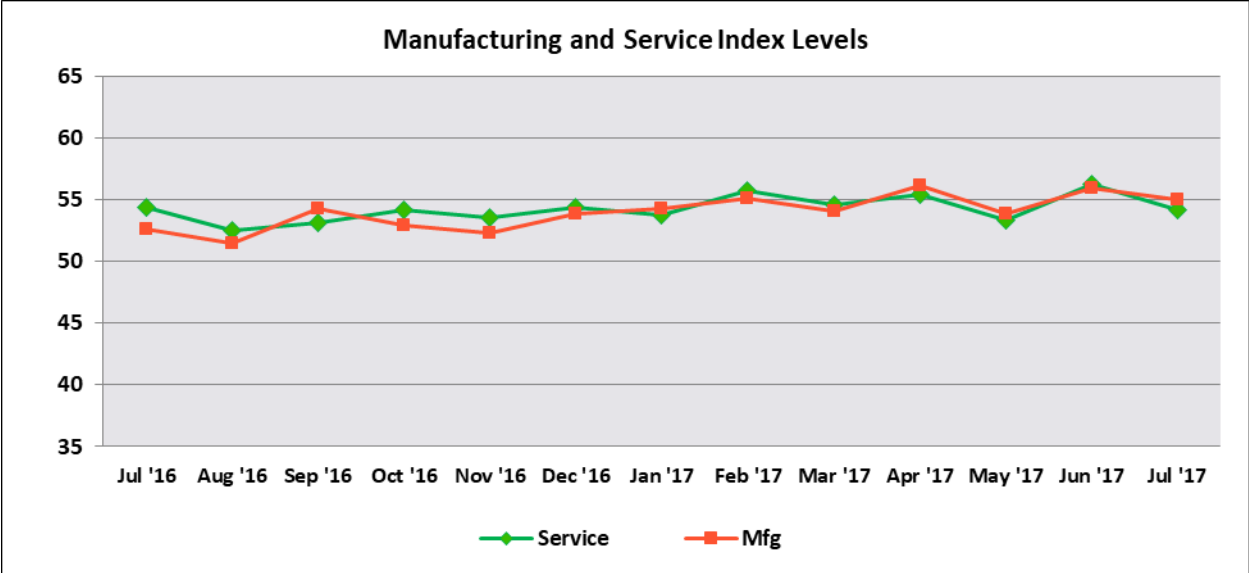
The unfavorable factors are still far too close to the contraction zone and they lost some ground this month. The rejections of credit applications slipped to 50.8 from 51.9. The fact that applications are also down suggests that there is less enthusiasm for expansion this holiday season, Kuehl noted. “It looks like retailers are planning another inventory-light year.” The accounts placed for collection also changed a little as it went from 48.9 to 48.1, basically steady—still in the contraction zone, but not digging a lot deeper. The disputes category fell out of the expansion zone by moving from 51.3 to 49.8. The dollar amount beyond terms also shifted, but not as much as has been the case in the past—it was 51.6 and now has fallen back to 47.2—still better than it was in May. The dollar amount of customer deductions shifted from 49.5 to 48.6, while filings for bankruptcies moved from 53.2 to 54.2—improved by a little.

<b>Service Sector (seasonally adjusted)</b>	<b>Jul '16</b>	<b>Aug '16</b>	<b>Sep '16</b>	<b>Oct '16</b>	<b>Nov '16</b>	<b>Dec '16</b>	<b>Jan '17</b>	<b>Feb '17</b>	<b>Mar '17</b>	<b>Apr '17</b>	<b>May '17</b>	<b>Jun '17</b>	<b>Jul '17</b>
Sales	61.6	55.0	57.7	59.5	65.1	58.5	58.5	64.5	60.6	62.9	61.7	66.0	61.7
New credit applications	59.0	57.6	58.0	59.1	57.4	57.8	59.7	62.4	61.3	62.6	59.9	59.9	58.8
Dollar collections	60.3	57.0	61.5	58.0	61.5	59.7	61.2	61.9	56.7	61.2	56.0	63.9	59.4
Amount of credit extended	63.8	60.7	62.4	64.7	62.4	62.6	65.2	66.4	65.3	66.5	63.8	66.3	63.8
<b>Index of favorable factors</b>	<b>61.2</b>	<b>57.6</b>	<b>59.9</b>	<b>60.3</b>	<b>61.6</b>	<b>59.7</b>	<b>61.2</b>	<b>63.8</b>	<b>61.0</b>	<b>63.3</b>	<b>60.3</b>	<b>64.0</b>	<b>60.9</b>
Rejections of credit applications	50.7	52.0	49.4	50.9	48.5	51.1	49.7	50.5	51.1	51.3	52.3	51.9	50.8
Accounts placed for collection	47.7	47.1	45.6	47.3	46.5	49.3	46.9	49.0	49.0	47.9	47.5	48.9	48.1
Disputes	50.2	49.2	49.9	50.6	50.9	50.7	46.2	49.9	49.7	49.1	47.7	51.3	49.8
Dollar amount beyond terms	49.2	47.3	46.0	48.1	46.9	48.4	47.3	49.8	46.7	50.5	43.6	51.6	47.2
Dollar amount of customer deductions	50.1	48.2	49.0	50.5	46.5	50.4	48.8	49.2	50.4	49.3	48.9	49.5	48.6
Filings for bankruptcies	51.5	51.2	52.3	53.3	50.3	55.7	54.3	54.0	54.9	52.9	52.3	53.2	54.2
<b>Index of unfavorable factors</b>	<b>49.9</b>	<b>49.2</b>	<b>48.7</b>	<b>50.1</b>	<b>48.3</b>	<b>50.9</b>	<b>48.9</b>	<b>50.4</b>	<b>50.3</b>	<b>50.2</b>	<b>48.7</b>	<b>51.1</b>	<b>49.8</b>
<b>NACM Service CMI</b>	<b>54.4</b>	<b>52.5</b>	<b>53.2</b>	<b>54.2</b>	<b>53.6</b>	<b>54.4</b>	<b>53.8</b>	<b>55.8</b>	<b>54.6</b>	<b>55.4</b>	<b>53.4</b>	<b>56.2</b>	<b>54.2</b>



### July 2017 versus July 2016

“It has been that kind of year—ups followed by downs. Now we have another down, but this time for some different reasons than the last several months,” concluded Kuehl.



**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.

<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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Contacts: [Adam Fusco](#), 410-740-5560

Website: [www.nacm.org](http://www.nacm.org)

Twitter: [NACM\\_National](#)