Report for December 2017

Issued December 31, 2017
National Association of Credit Management

Combined Sectors

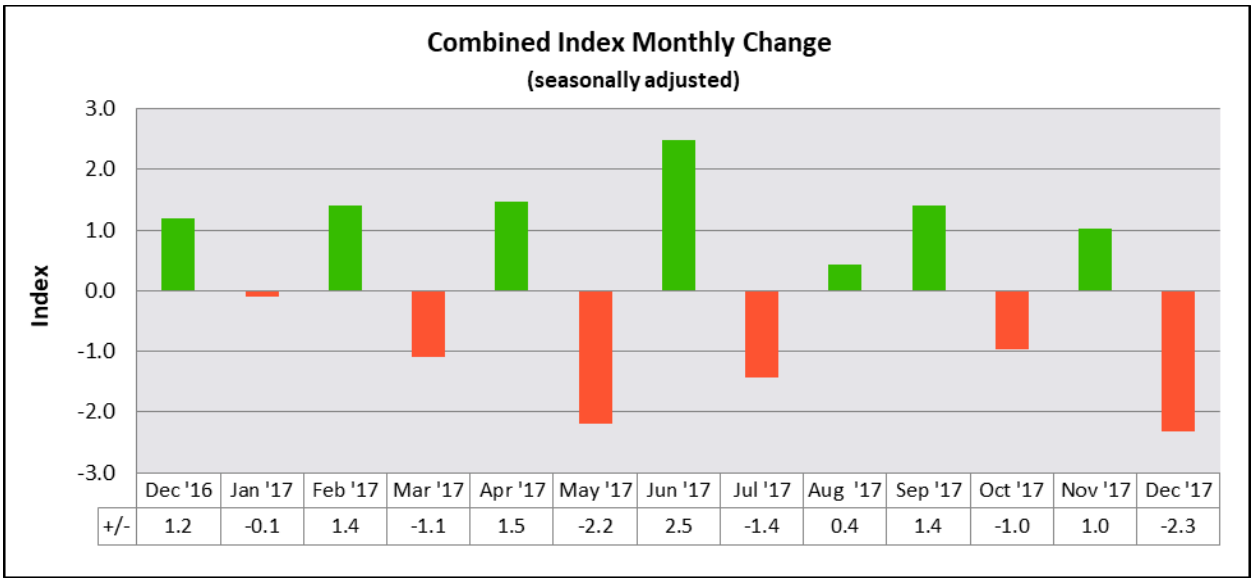
On the something day of Christmas, the Credit Managers got a lump of coal. At least according to the latest CMI. The drop in the performance of the favorable factors was dramatic and not the least expected given the patterns that have been noted for the last several months. In November the sense was that real progress was ahead and many people have been speaking of 2018 with great expectations. It may yet work out that way and this month may be written off as an anomaly but it may also signal that some of those weaknesses that had been warned about are manifesting. The reading of the overall score in November was 56.6 and that has fallen to 54.2. That is the lowest reading seen since May of this year. More distressing is the reason for the decline as the biggest drop was in the favorable factors. They went from an overall score of 65.7 to 59.4 and that is the first time this category has dropped out of the 60s in well over a year. The unfavorable category was the bright spot this month as it scarcely changed – going from 50.4 to 50.8.

All of the favorable measures suffered this month and some dropped like a stone. "Sales" fell hard from 68.3 to 59.2 – nearly a ten-point decline and hitting a low point that has not been seen since December of 2016. The "new credit applications" also fell from the 60s by moving from 63.7 to 57.3. The "dollar collections" category slipped out of the 60s by the narrowest of margins as it went from 63.1 to 59.1. Only "amount of credit extended" managed to stay in the 60s with a reading of 61.8 after November's 67.8.

There was considerably less movement in the unfavorable categories and that is a good thing this month. There were even some minor improvements. The "rejections of credit applications" stayed in the 50s but slid slightly from 52.4 to 51.4. "Accounts placed for collection" fell out of the 50s again by slipping to 49.8 from November's 50.5. This category has been slipping back and forth across the barrier between expansion and contraction all year. The "disputes" category rose a little but still stayed in the contraction zone with a reading of 49.7 as compared to the 48.3 notched in November. The "dollar amount beyond terms" has been a challenge all year as the slow pays show up one month and not so much the next. This time the reading was better than it was the month before but still hovers in the 40s. It was 47.3 in November and this month it is up to 49.3 – striking distance of the expansion zone for the first time since September. The "dollar amount of customer deductions" limped in at 49.7 and in contraction territory but it was still an improvement over the numbers in November when it hit 48.9. The "filings for bankruptcies stayed fairly stable with a reading of 55.0 following the reading of 55.1 the month before.

These are somewhat confusing numbers given the growth that has been taking place in the economy over the las couple of quarters. It begs the question – which of these is the anomaly. Is it the good growth that has been showing up in the GDP numbers or is this month an oddity for the credit managers. Both the manufacturing and service sectors have seen this decline so it isn't a matter of one part of the economy struggling. This is the point that demands some attention to the pattern that has been established with the CMI in the past. Given that credit activity precedes a great deal of the business cycle the CMI often stands like an early warning system. It is also useful to remember that any number above 50 indicates growth and even with the big declines the overall score is comfortably above the line and in expansion territory. The favorable categories have been near record levels much of the year and perhaps it was time for them to come back to earth. It is hoped that this is not the beginning of a more serious slide.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17
Sales	58.6	60.1	62.6	61.2	63.8	60.6	66.5	62.8	62.2	67.3	66.8	68.3	59.2
New credit applications	57.0	60.8	62.0	60.5	62.0	59.3	59.8	59.7	61.2	60.5	62.8	63.7	57.3
Dollar collections	59.5	58.2	63.0	56.4	61.2	56.7	62.5	60.2	58.9	60.0	60.2	63.1	59.1
Amount of credit extended	61.4	64.1	66.8	64.4	67.2	63.6	66.8	64.1	66.7	66.3	65.5	67.8	61.8
Index of favorable factors	**59.1**	**60.8**	**63.6**	**60.6**	**63.6**	**60.0**	**63.9**	**61.7**	**62.2**	**63.5**	**63.8**	**65.7**	**59.4**
Rejections of credit applications	51.3	50.6	51.4	51.6	52.1	52.4	52.6	51.9	52.2	52.5	51.8	52.4	51.4
Accounts placed for collection	49.7	49.4	48.2	49.8	49.0	48.5	49.3	48.9	48.7	50.3	49.5	50.5	49.8
Disputes	49.8	46.0	48.7	48.5	49.1	47.9	50.4	48.8	49.1	51.7	47.6	48.3	49.7
Dollar amount beyond terms	49.3	48.4	51.0	47.4	51.0	45.9	50.4	48.3	47.4	50.4	47.3	47.5	49.3
Dollar amount of customer deductions	49.8	48.7	47.6	49.8	49.2	48.7	49.1	48.1	49.2	49.8	48.7	48.9	49.7
Filings for bankruptcies	55.0	53.9	53.2	53.8	53.5	52.7	53.4	53.6	55.3	56.2	55.3	55.1	55.0
Index of unfavorable factors	**50.8**	**49.5**	**50.0**	**50.2**	**50.6**	**49.3**	**50.9**	**49.9**	**50.3**	**51.8**	**50.0**	**50.4**	**50.8**
NACM Combined CMI	**54.1**	**54.0**	**55.4**	**54.3**	**55.8**	**53.6**	**56.1**	**54.6**	**55.1**	**56.5**	**55.5**	**56.6**	**54.2**



Manufacturing Sector

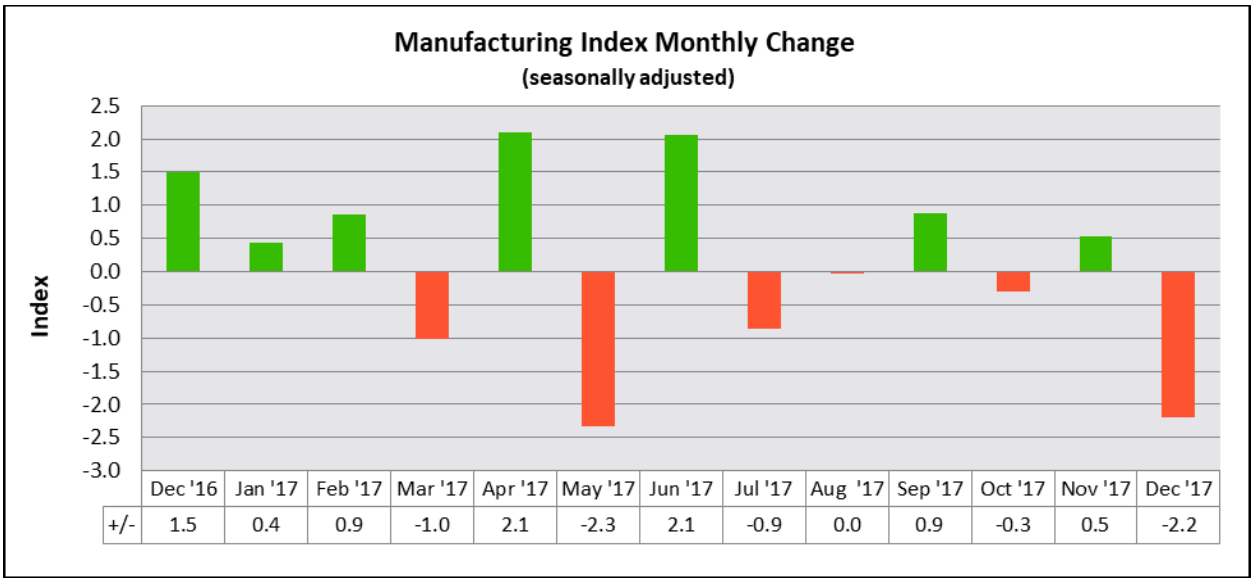
The manufacturing sector has been performing similarly to the overall CMI (so does the service sector detailed below). The enthusiasm that has been noted in the manufacturing sector over the last several months has been real enough but there have also been more than a few caveats issued. The growth in the automotive sector was attributed to some extent to the damage from the hurricanes and the need to replace close to 4 million cars in a short period of time. Much of the rest of the growth was related to an expanding export sector. The overall score for manufacturing fell from 56.1 in November to 53.9 this month. This is certainly not a crisis situation given the numbers remain comfortably in the middle of the 50s but the trend is not what would be preferred. The combined score for the favorable factors is the arresting one as it has gone from 65.3 in November to just 58.8 this month. The combined score for the unfavorable factors didn't change all that much – going from 50.1 to 50.7 but at least the movement is in the right direction.

When looking at the details there is even more to worry about. The "sales" category fell drastically from 68.2 to 59.2 and that shoved the reading from record territory to levels not seen since May of this year. The "new credit applications" dropped out of the 60s as well with a reading of 56.5 following November's 64.5. The same story was noted in "dollar collections" as the November reading was 60.9 and this month it fell to 58.9. The category finished off with yet another fall as "amount of credit extended" slid from 67.4 to 60.7.

The action in the unfavorable categories was far less dramatic and there were even a couple that showed some improvements. The "rejections of credit applications" skidded a bit from 52.6 to 51.5 but at least it stayed in the expansion zone. The "accounts placed for collection" slid a bit as well – from 51.5 to 50.3 but still clung to the expansion zone by a hair. The "disputes" reading improved but stayed in contraction territory as it moved from 47.1 to 48.8. The "dollar amount beyond terms" emerged out of the contraction zone with a reading 50.1 as compared to the 48. In November. This has been a highly volatile category all year and has accounted for a lot of the ups and downs that have been noted. The "dollar amount of customer deductions" category also made a run at reaching expansion territory with a reading of 49.1 after a November reading of 45.7. This category as been in the doldrums all year and this is about as close as it has come to expansion territory. The "filings for bankruptcies" reading slipped a little but remains solidly in the 50s. the November number was 55.4 and this month it was 54.4

Manufacturers are still upbeat but there appears to be some trepidation about what next year might bring. There is enthusiasm about the potential growth from tax cuts but there is also worry about the timing and the sustainability of consumer demand and export activity.

Manufacturing Sector (seasonally adjusted)	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17
Sales	58.7	61.7	60.7	61.7	64.7	59.5	66.9	64.0	60.8	65.0	67.4	68.2	59.2
New credit applications	56.1	61.8	61.6	59.7	61.4	58.6	59.8	60.6	61.8	59.0	61.8	64.5	56.5
Dollar collections	59.3	55.3	64.1	56.1	61.3	57.3	61.0	61.1	59.3	60.4	59.5	60.9	58.9
Amount of credit extended	60.2	63.0	67.2	63.4	67.8	63.4	67.4	64.5	66.1	64.0	65.2	67.4	60.7
Index of favorable factors	**58.5**	**60.5**	**63.4**	**60.2**	**63.8**	**59.7**	**63.8**	**62.5**	**62.0**	**62.1**	**63.5**	**65.3**	**58.8**
Rejections of credit applications	51.5	51.6	52.3	52.1	52.9	52.6	53.3	52.9	52.8	52.5	53.7	52.6	51.5
Accounts placed for collection	50.1	51.9	47.4	50.6	50.1	49.5	49.8	49.8	49.7	50.1	48.6	51.5	50.3
Disputes	48.8	45.7	47.4	47.4	49.2	48.0	49.6	47.8	47.3	53.0	48.2	47.1	48.8
Dollar amount beyond terms	50.1	49.4	52.1	48.2	51.5	48.1	49.3	49.4	49.2	51.9	48.6	48.2	50.1
Dollar amount of customer deductions	49.2	48.7	46.1	49.2	49.1	48.6	48.7	47.6	48.0	48.5	47.1	45.7	49.1
Filings for bankruptcies	54.4	53.5	52.3	52.7	54.1	53.1	53.6	53.0	55.5	54.7	56.0	55.4	54.4
Index of unfavorable factors	**50.7**	**50.1**	**49.6**	**50.0**	**51.1**	**50.0**	**50.7**	**50.1**	**50.4**	**51.8**	**50.4**	**50.1**	**50.7**
NACM Manufacturing CMI	**53.8**	**54.3**	**55.1**	**54.1**	**56.2**	**53.9**	**55.9**	**55.1**	**55.0**	**55.9**	**55.6**	**56.1**	**53.9**



Service Sector

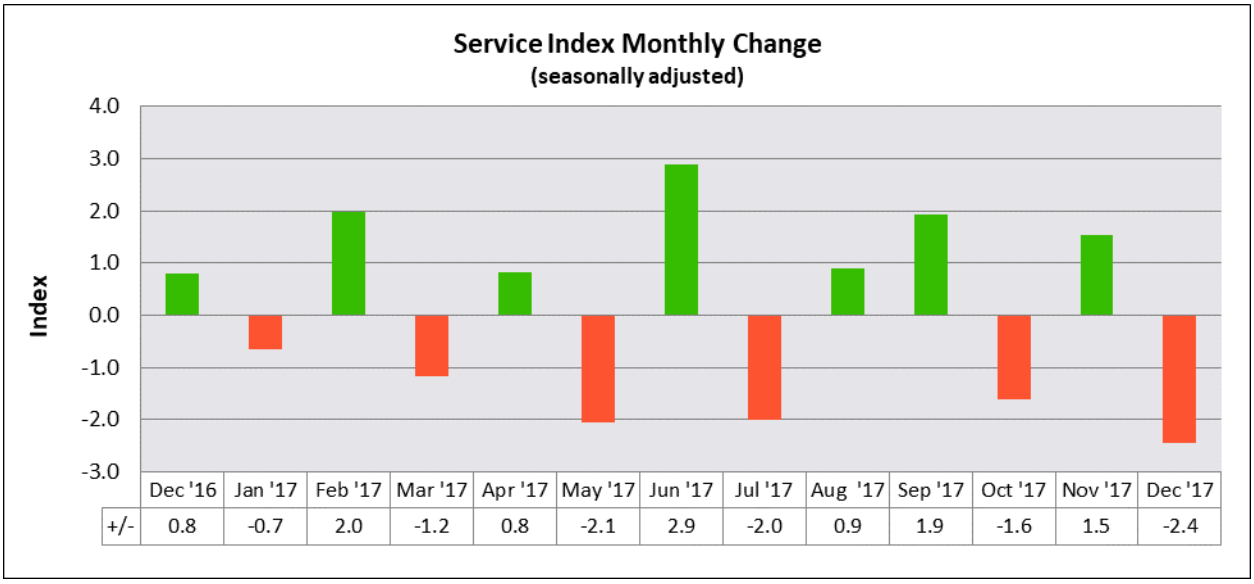
This time of year, there is an expectation that retail and transportation can carry the day in the service sector. In fact, there has been more retail action and the parcel delivery companies have been swamped. Unfortunately, these are not the only service sector categories and many of the others are in something of a slump. Housing has slowed as it does this time of year and construction has been off. Even the medical sector has shown some weakness. The combined score for the service sector is 54.5 and that is not awful but far less than the 57.0 notched in November. The combined score for the favorable factors slipped from an exalted 66.2 to 59.0 and that is the first time this category has been below 60 since December of last year. The combined score for the unfavorable factors improved from 50.8 to 51.0.

The ”sales” reading dropped like a rock – just like the readings in the manufacturing sector. The enthusiasm that was driving sales seems to have faded somewhat. It was at 68.4 and now sits at 59.2. The “new credit applications” category also fell from 62.9 to 58.2. The “dollar collections” numbers have been up and down this year and that pattern has continued as November was 65.4 and this month it is 59.4. The last of the favorable matched up with the others – 68.2 in November and 63.0 this month. The numbers are not really bad at this point – even with these big drops. They are firmly in the expansion zone but they were almost at record highs just a month or so ago.

The unfavorable moved a lot less. The “rejections of credit applications” slipped a but from 52.3 to 51.2 but the good news is that the category stays in the 50s. The “accounts placed for collection” fell a little as well as it went from 49.6 to 49.3 but it remains in sight of the 50s. The “disputes” numbers finally got back into the expansion zone by moving from 49.5 to 50.7 and that takes the reading back to numbers seen in August. The “dollar amount beyond terms” reading also showed some movement as it went from 46.7 to 48.4. That is still obviously in the contraction zone but trending in the right direction. The “dollar amount of customer deductions” went from 52.1 to 50.4 and that is not trending in the right direction although it is still in the expansion zone above 50. The “filings for bankruptcies” improved quite a lot as it went from 54.7 to 55.7 and that is one of the strongest readings of the entire category. This is good news indeed in a sector that includes a lot of retail.

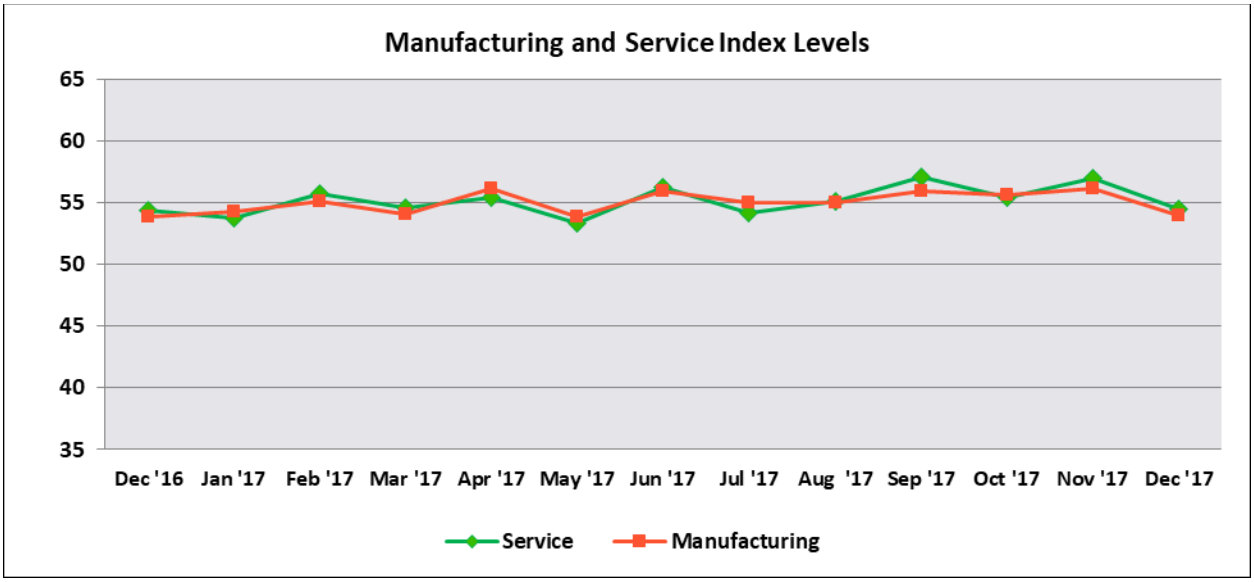
Given that these numbers have been collected prior to the end of the holiday season there is some expectation that next month will show some improvement as the retail sector seems to be doing pretty well this year.

Service Sector (seasonally adjusted)	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17
Sales	58.5	58.5	64.5	60.6	62.9	61.7	66.0	61.7	63.6	69.7	66.1	68.4	59.2
New credit applications	57.8	59.7	62.4	61.3	62.6	59.9	59.9	58.8	60.6	62.0	63.7	62.9	58.2
Dollar collections	59.7	61.2	61.9	56.7	61.2	56.0	63.9	59.4	58.6	59.5	61.0	65.4	59.4
Amount of credit extended	62.6	65.2	66.4	65.3	66.5	63.8	66.3	63.8	67.3	68.6	65.9	68.2	63.0
Index of favorable factors	**59.7**	**61.2**	**63.8**	**61.0**	**63.3**	**60.3**	**64.0**	**60.9**	**62.5**	**64.9**	**64.2**	**66.2**	**59.9**
Rejections of credit applications	51.1	49.7	50.5	51.1	51.3	52.3	51.9	50.8	51.5	52.5	49.8	52.3	51.2
Accounts placed for collection	49.3	46.9	49.0	49.0	47.9	47.5	48.9	48.1	47.8	50.6	50.3	49.6	49.3
Disputes	50.7	46.2	49.9	49.7	49.1	47.7	51.3	49.8	50.8	50.3	47.0	49.5	50.7
Dollar amount beyond terms	48.4	47.3	49.8	46.7	50.5	43.6	51.6	47.2	45.6	49.0	46.1	46.7	48.4
Dollar amount of customer deductions	50.4	48.8	49.2	50.4	49.3	48.9	49.5	48.6	50.4	51.1	50.2	52.1	50.4
Filings for bankruptcies	55.7	54.3	54.0	54.9	52.9	52.3	53.2	54.2	55.2	57.6	54.6	54.7	55.7
Index of unfavorable factors	**50.9**	**48.9**	**50.4**	**50.3**	**50.2**	**48.7**	**51.1**	**49.8**	**50.2**	**51.8**	**49.7**	**50.8**	**51.0**
NACM Service CMI	**54.4**	**53.8**	**55.8**	**54.6**	**55.4**	**53.4**	**56.2**	**54.2**	**55.1**	**57.1**	**55.5**	**57.0**	**54.5**



December 2017 versus December 2016

This was not a month to bring joy to the economy – that slide in the favorable factors will demand a lot of attention going forward. It is hoped that this is no harbinger of things to come.



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:

$$\frac{\text{Number of “higher” responses} + \tfrac{1}{2} \times \text{number of “same” responses}}{\text{Total number of responses}}$$

For negative indicators, the calculation is:

$$\frac{\text{Number of “lower” responses} + \tfrac{1}{2} \times \text{number of “same” responses}}{\text{Total number of responses}}$$

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

Contacts: Michael Miller, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National