Report for May 2019

Issued May 31, 2019

National Association of Credit Management

Combined Sectors

NACM's Economist Chris Kuehl, Ph.D., writes: It might be useful to remind those who follow the Credit Managers' Index (CMI) just why this is such an important tool for assessing the state of the economy. Why do people pay so much attention to the CMI and the index that inspired it—the Purchasing Managers' Index (PMI). It really comes down to four factors: timeliness, accuracy, lack of bias and predictive ability. Both indices track changes in the economy on a monthly basis, reflect consistent data from contributors, remain free of the bias that often occurs when someone is trying to manipulate outcomes and do a good job of predicting what is to come. The CMI is even better at this than the PMI given the reality of a credit manager's life—they are always more concerned about what is to come than what is happening right now. They want to know what shape a company will be in when it is time to pay the debt owed—30, 60, 90 days (or more) ahead.

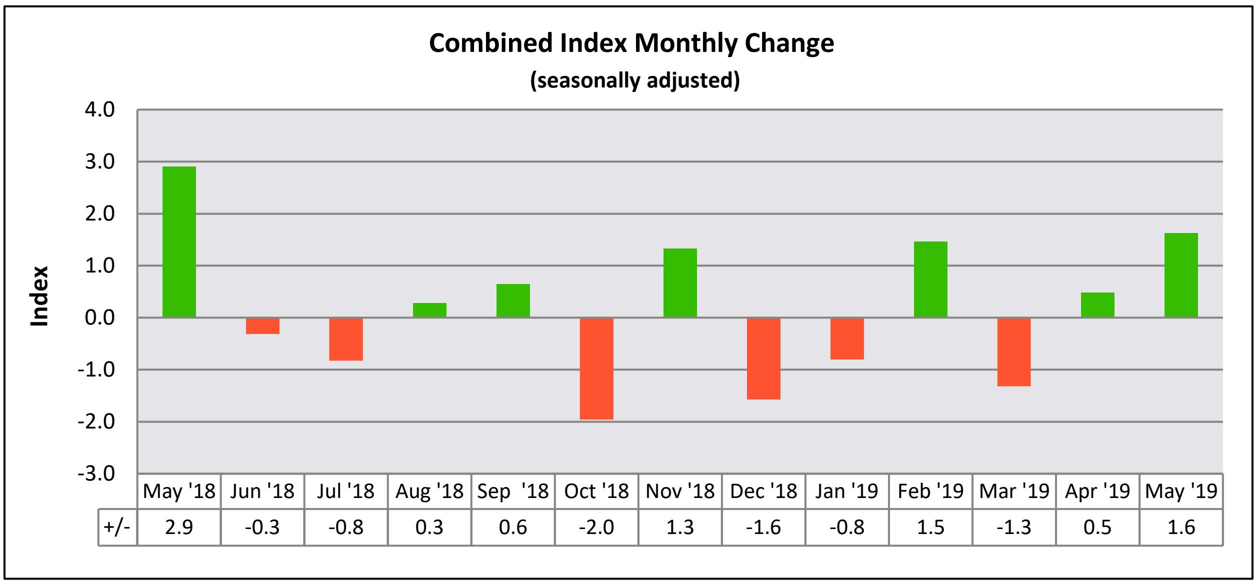
This month's CMI is trending in a positive direction for the second month in a row. This has not happened since August and September of last year. May's reading for the combined score was 55.7, up from 54 last month. The last time this reading was this high was in November of last year when it hit 55.8. The index of favorable factors rose pretty dramatically from 60.1 in April to 63.8 in May. Again, the last time numbers were this good was November 2018. There was not a dramatic improvement as far as the unfavorable factors, but they still had a small rise from 50 to 50.2.

There was even better news in the breakdown for each sector. The sales category jumped from 61 to 65.9, a reading as good as those seen last year when numbers averaged in the high 60s (May at 69.6, June at 69.6, July at 63.9, August at 65, September at 68.8). The reading for new credit applications shifted up as well from 59.7 to 64.2 (the highest point in a year). The data on dollar collections moved from 59.1 to 59.8—not a big improvement, but very solidly in the expansion zone (a reading above 50). The amount of credit extended also saw a tidy gain (60.6 to 65.4)—as high as that nice set of readings in November of last year.

There was generally good news for the nonfavorables, but the changes were not quite as dramatic. The rejections of credit applications reading fell a little but remained in the expansion zone. It was at 52 and slipped slightly to 51.8. The accounts placed for collection also fell a bit—from 48.5 to 47, which could become a bit of a concern. "This is essentially the last stage for credit and signals that something more drastic may be coming, such as bankruptcy," Kuehl said. The disputes category stayed almost the same as it had been the previous month as it went from 48.5 to 48.6. The big improvement was in dollar amount beyond terms. It had been at 47.6 and this month it tracked at 51.3. He noted that in contrast to the news on accounts placed for collection, this reading suggests some companies are catching up with their credit obligations. The dollar amount of customer deductions remained very close to last month's readings with a score of 49.3 compared to 49.7 in April. The filings for bankruptcies reading also remained close to what it had been the month before (53.9 to 53.3).

"The Purchasing Managers' Index this month fell pretty dramatically (and the New Orders Index fell even further), but both remained solidly in the expansion zone above 50," Kuehl said. "The readings from the CMI suggest that there may be less gloom ahead than might be indicated by the PMI as the favorable numbers all tracked strongly positive. The two indices seem to agree on current conditions and indicate that many companies are struggling with some of the economic headwinds related to trade concerns and a slower-spending consumer."

Combined Manufacturing and Service Sectors (seasonally adjusted)	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19
Sales	69.6	69.6	63.9	65.0	68.8	62.7	64.5	59.0	59.7	62.6	58.2	61.0	65.9
New credit applications	63.8	60.5	61.2	62.5	61.9	61.7	62.2	57.5	58.2	58.9	57.8	59.7	64.2
Dollar collections	62.5	63.2	61.0	62.6	62.8	57.5	60.9	59.3	59.0	59.1	56.6	59.1	59.8
Amount of credit extended	66.8	66.2	66.1	66.9	67.1	64.5	65.3	61.9	61.2	62.3	63.5	60.6	65.4
Index of favorable factors	**65.7**	**64.9**	**63.1**	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**
Rejections of credit applications	51.3	51.2	52.5	52.2	51.8	51.4	51.4	51.4	51.8	52.1	51.2	52.0	51.8
Accounts placed for collection	49.0	51.3	49.9	49.0	50.2	48.8	48.2	49.7	48.2	49.0	46.4	48.5	47.0
Disputes	48.1	48.3	47.7	46.4	47.6	48.9	50.1	49.6	47.1	48.5	49.5	48.5	48.6
Dollar amount beyond terms	49.4	49.2	47.4	48.5	49.9	47.7	52.3	49.3	47.4	51.3	50.0	47.6	51.3
Dollar amount of customer deductions	49.7	48.1	47.9	48.7	48.6	49.5	49.6	49.7	48.0	50.0	48.8	49.7	49.3
Filings for bankruptcies	56.4	55.7	57.4	55.9	55.6	52.1	53.6	55.0	53.8	54.9	53.7	53.9	53.3
Index of unfavorable factors	**50.6**	**50.6**	**50.5**	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**
NACM Combined CMI	**56.6**	**56.3**	**55.5**	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**



Manufacturing Sector

Last month, the manufacturing sector slipped a little while the service sector experienced some growth. Kuehl explains that the primary reason there was a hitch in the manufacturing sector is thought to be the issues of a trade war and the potential impact on U.S. exports and imports. There has also been some concern regarding a slip in consumer confidence given there continues to be confidence in the job market. The numbers from the latest Purchasing Managers' Index have been far weaker than was the case just a few months ago, but they are still in the expansion zone. The changes in the CMI have been far more subtle.

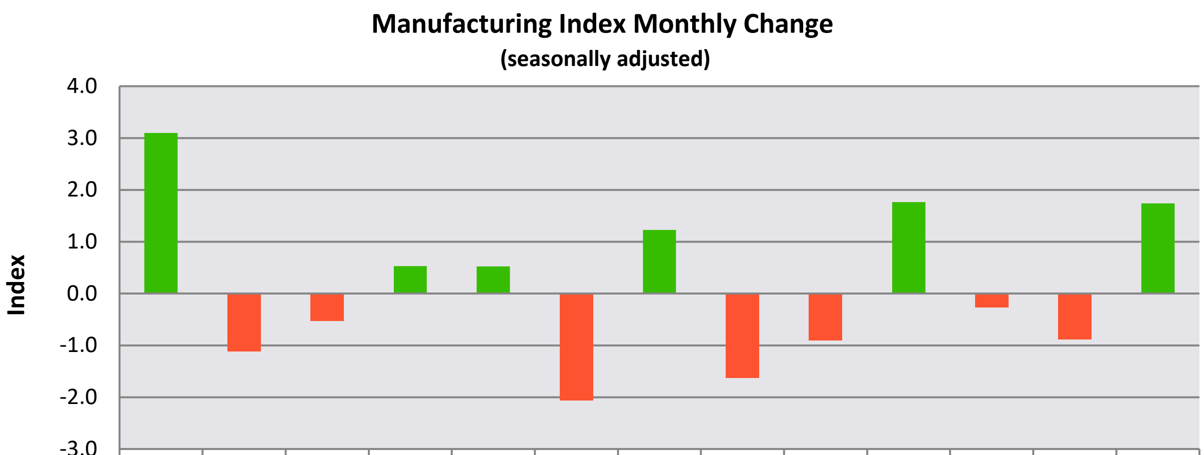
The combined score for the manufacturing sector was 55.4 this month as compared to 53.7 last month. This is the highest reading notched since November of last year when it hit 55.6. The index of favorable factors rose sharply and jumped back into the 60s with a reading of 63.1 after last month's 58.9. The last time this reading was that high was in November of last year. The index of unfavorable factors rose very, very slightly from 50.2 to 50.3, but the important note is this reading is still in expansion territory, if by the narrowest of margins.

The data from the favorable category was quite positive this month with all of the readings in the 60s. The sales mark reached 63.3 after sitting at 58.6 in April. This is the highest level reached since last November when it hit 64.2. The new credit applications also moved back into the 60s with a reading of 63.9, up from 59.8. The dollar collections data improved from 58.6 to 60.5 and there was a similar move from the amount of credit extended as it went from 58.5 to a whopping 64.6. The last time this reading was this high was (surprise!) in November. Last month, all the readings were in the 50s and this month all are back in the 60s noted Kuehl.

The data from the nonfavorable categories is not quite as good, but there is nothing catastrophic. The rejections of credit applications shifted down slightly from 53.1 to 52.5, but remained in the expansion zone. The accounts placed for collection also slipped, but only by a small amount (49.3 to 49). The category is still below 50 where it has been since February. The disputes category improved, but stayed in contraction territory as it moved from 47.7 to 48.2. The dollar amount beyond terms broke away from the contraction zone with a reading of 51.8 after 48.5 the month before. Kuehl said that it is a good sign that slow pays have not been quite the issue they had been. The dollar amount of customer deductions slipped deeper into contraction territory with a reading of 48.4 as compared to last month at 49.5. This category has not been out of the contraction zone for almost three years at this point. Filings for bankruptcies skidded a bit, but stayed in expansion territory as it moved from 53.3 to 52.

Kuehl sums up the manufacturing sector, "There has seen some mixed activity of late as there have been government moves that have been a clear benefit to some sectors and a clear inhibition to others. The steel and aluminum tariffs have been good for producers of the metal, but not great for users. The tariffs on China have been good for some of those that compete with Chinese firms, but bad for those that source from China or those that sell to China and are encountering their retaliatory tariffs and restrictions."

Manufacturing Sector (seasonally adjusted)	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19
Sales	69.6	69.1	62.4	66.5	68.2	62.3	64.2	59.0	59.1	61.7	58.4	58.6	63.3
New credit applications	62.4	60.2	59.5	61.4	61.8	61.5	61.7	56.8	53.3	58.6	61.2	59.8	63.9
Dollar collections	63.5	63.3	61.5	62.4	59.0	58.5	61.6	59.0	58.4	60.5	57.8	58.6	60.5
Amount of credit extended	66.4	65.7	65.1	67.1	68.5	63.7	65.4	60.9	60.3	59.2	63.9	58.5	64.6
Index of favorable factors	**65.5**	**64.6**	**62.1**	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**
Rejections of credit applications	53.4	50.6	53.5	53.7	53.1	51.9	53.1	51.6	53.3	53.5	53.2	53.1	52.5
Accounts placed for collection	51.3	50.6	50.6	49.6	51.2	49.1	49.2	50.3	49.7	50.5	46.8	49.3	49.0
Disputes	46.9	47.9	47.0	45.8	48.7	48.7	49.6	48.6	46.8	48.7	50.2	47.7	48.2
Dollar amount beyond terms	50.2	48.7	48.1	48.4	50.2	49.1	50.3	50.0	49.1	52.8	51.0	48.5	51.8
Dollar amount of customer deductions	48.4	46.6	46.9	48.1	47.4	48.0	48.6	49.1	46.7	49.3	48.4	49.5	48.4
Filings for bankruptcies	58.0	56.2	59.1	56.0	56.0	50.9	52.2	54.4	54.0	53.3	54.6	53.3	52.0
Index of unfavorable factors	**51.4**	**50.1**	**50.9**	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**
NACM Manufacturing CMI	**57.0**	**55.9**	**55.4**	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**



	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19
+/-	3.1	-1.1	-0.5	0.5	0.5	-2.1	1.2	-1.6	-0.9	1.8	-0.3	-0.9	1.7

Service Sector

"Last month, the service sector was on something of a roll," Kuehl said. "It seems that this has extended into this month as well. The sector is a broad one and is always hard to identify just which part is creating the growth, but it has been clear that retail has been strengthening alongside the construction sector. There have been signs of a slowdown in home building, though. That might figure into future months. Meanwhile, the summer travel season is about ready to start. It traditionally boosts retail activity."

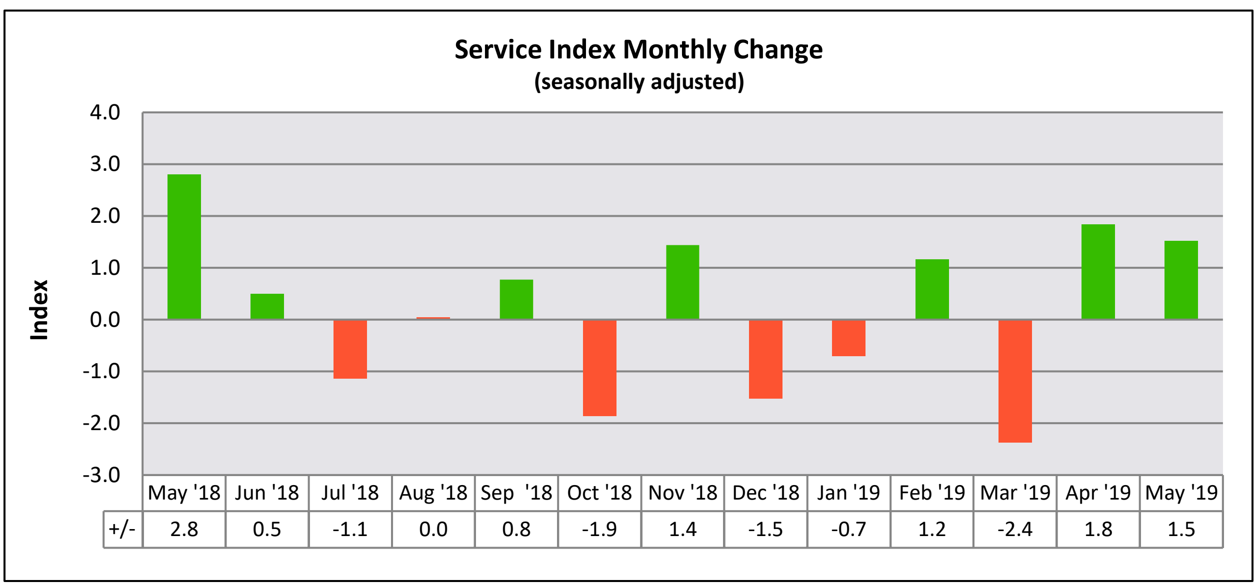
The overall index for service increased from 54.4 to 55.9, the highest point since November of last year (a VERY good month). The index of favorable factors jumped from 61.3 to 64.6 and the index for nonfavorable factors escaped the contraction zone by moving from 49.8 to 50.1.

The favorable categories generally improved as sales moved from 63.4 to 68.5. "This was a striking improvement," Kuehl said, "and may end up being a bit of an anomaly when future readings are factored in." On the other hand, there have been similar numbers in past months as the readings hit 69.4 in September of last year and 70.1 in June. The new credit applications category also shifted up pretty dramatically as it went from 59.6 to 64.6—as high as it was last May when the reading was 65.1. The dollar collections data slipped a tiny bit and that is a small concern. It was at 59.6 and is now at 59.1. "These are obviously very robust numbers still, but this is an all-important marker for the status of credit," he said. The amount of credit extended shifted up sharply as well (62.7 to 66.3). This marks a return to the range that was common from May through November of last year.

The nonfavorable categories were similarly mixed. The rejections of credit applications improved; a good sign given there were more applications. "There are times when the number of applications increases, but there are more rejections. This signals that many applicants are not qualified and are desperately seeking somebody who will offer them credit," said Kuehl. The accounts placed for collection sank deeper into contraction territory. This may be the most concerning of all the readings. It was at 47.7 and is now at 45.1. This category has been in contraction for the majority of the last year (June of 2018 was the only exception at 52). There are clearly many companies now struggling with their debt and credit status noted Kuehl. The disputes numbers also slipped, but only slightly, as they went from 49.4 to 49. The dollar amount beyond terms reading improved quite a lot and actually escaped the contraction zone with a reading of 50.9 as compared to 46.7. This was the first time this category had been in the 50s since the 54.3 notched in November of last year. The dollar amount of customer deductions also moved into expansion territory with a reading of 50.1 compared to 49.8 the month prior. The filings for bankruptcies stayed very close to April's 54.6 with May's 54.5.

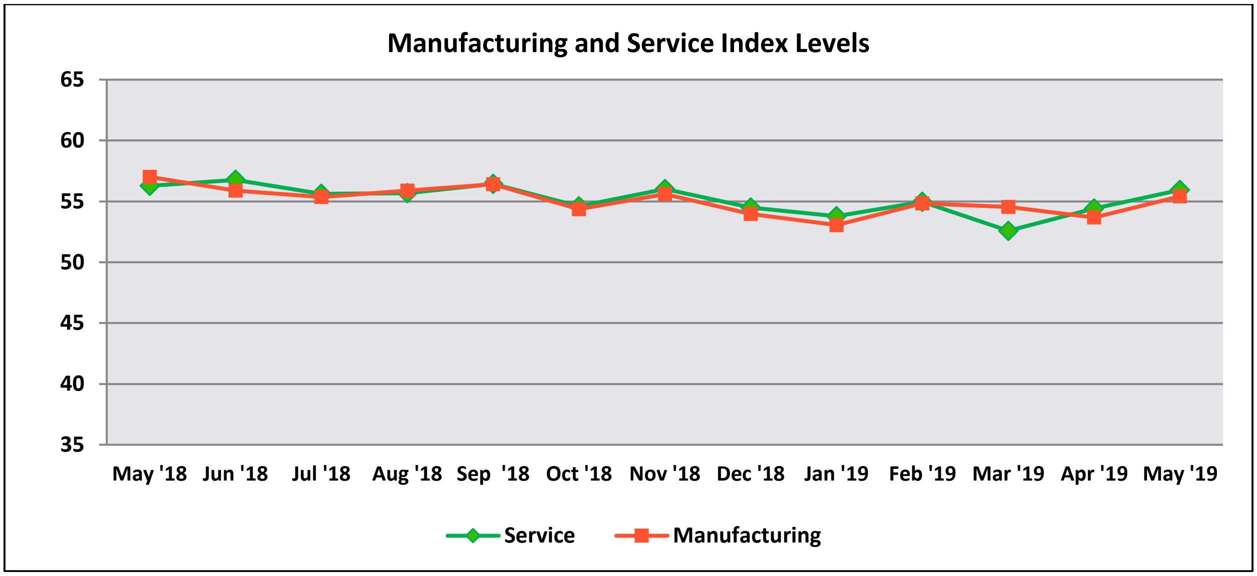
"Retail has been solid thus far this year, but jumpy," said Kuehl. "The tariffs that have been indicated in the U.S.-China fight have not focused on retail activity until this latest round and have only started to have an impact. The consumer is spending a little less on big ticket items like vehicles, but more on "little luxuries," such as clothing and some sporting goods. There have been big retail gains for gas stations, but department stores are not as robust as would have been expected."

Service Sector **(seasonally adjusted)**	**May '18**	**Jun '18**	**Jul '18**	**Aug '18**	**Sep '18**	**Oct '18**	**Nov '18**	**Dec '18**	**Jan '19**	**Feb '19**	**Mar '19**	**Apr '19**	**May '19**
Sales	69.6	70.1	65.3	63.4	69.4	63.2	64.9	59.0	60.3	63.5	58.0	63.4	68.5
New credit applications	65.1	60.9	63.0	63.5	62.0	61.9	62.7	58.2	63.0	59.2	54.3	59.6	64.6
Dollar collections	61.5	63.0	60.5	62.9	66.5	56.4	60.1	59.6	59.6	57.7	55.5	59.6	59.1
Amount of credit extended	67.2	66.8	67.2	66.7	65.8	65.2	65.2	63.0	62.1	65.5	63.2	62.7	66.3
Index of favorable factors	**65.8**	**65.2**	**64.0**	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**
Rejections of credit applications	49.2	51.8	51.5	50.7	50.5	50.9	49.7	51.2	50.3	50.8	49.1	50.8	51.2
Accounts placed for collection	46.7	52.0	49.3	48.5	49.2	48.4	47.2	49.1	46.7	47.5	46.0	47.7	45.1
Disputes	49.3	48.6	48.3	47.0	46.4	49.1	50.6	50.5	47.4	48.3	48.9	49.4	49.0
Dollar amount beyond terms	48.5	49.7	46.8	48.6	49.6	46.3	54.3	48.5	45.7	49.8	49.0	46.7	50.9
Dollar amount of customer deductions	50.9	49.6	48.8	49.3	49.7	51.1	50.7	50.3	49.2	50.6	49.1	49.8	50.1
Filings for bankruptcies	54.8	55.1	55.8	55.9	55.3	53.2	54.9	55.6	53.6	56.5	52.7	54.6	54.5
Index of unfavorable factors	**49.9**	**51.1**	**50.1**	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**
NACM Service CMI	**56.3**	**56.8**	**55.6**	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**



May 2019 versus May 2018

Dare we say that we might have a trend? Kuehl suggests that just considering the possibility will now probably jinx the whole thing; however, there are signs some of this momentum will certainly carry forward through the bulk of the summer. If there are warning signs ahead, they seem to be toward the latter part of the year.



Methodology Appendix

CMI data has 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 Wyoming. 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 Purchasing Managers' Index (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, 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 11,000 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
Andrew Michaels, 410-740-5560
Christie Citranglo, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National