



Report for June 2018

Issued June 29, 2018

National Association of Credit Management

Combined Sectors

There had been some faint hope there would be two months in a row with some positive trending, but there was also the fear the old patterns would reappear and provide another down month. There was a third option as it turns out—a month that looked a lot like the previous month. There was some variability, but not really enough to push the needle one way or the other. This is pretty consistent with many of the other measures that have been employed to gauge the state of the economy at the moment. “There has been stability in the Purchasing Managers’ Index as well,” said NACM Economist Chris Kuehl, Ph.D. “The level of capacity utilization nationwide has almost reached the bottom of what would be considered normal with a reading of just over 78% (the ideal is between 80% and 85%).”

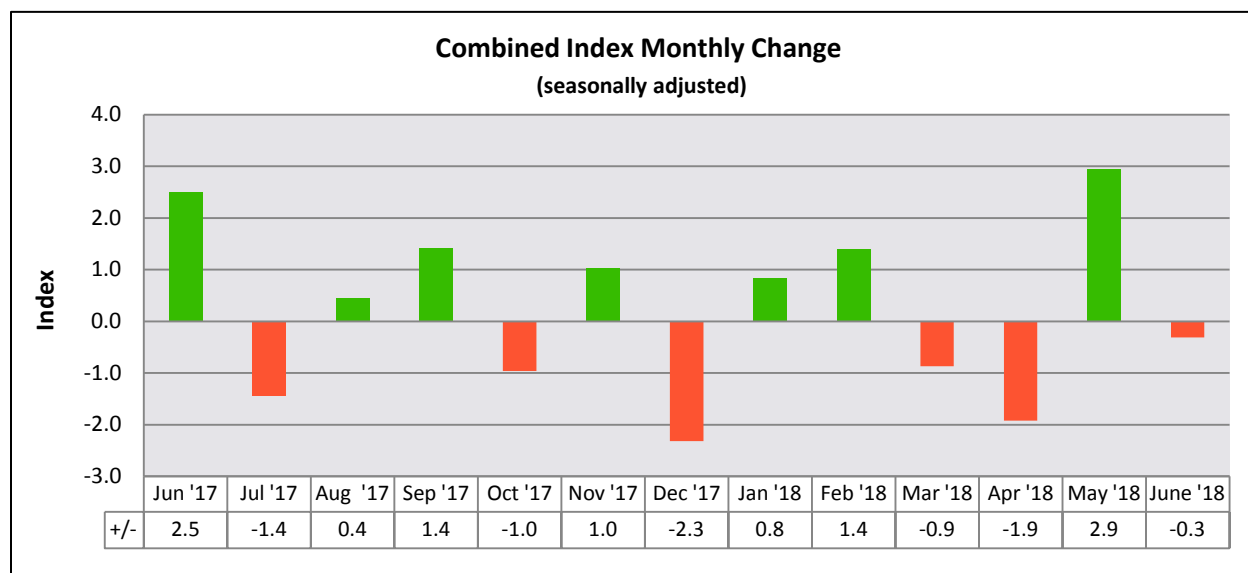
There was quite a significant difference between the performance of the manufacturing sector and the service sector. The combined score for the CMI this month was 56.3 and last month it was 56.6—about as close to no movement as one can get. The highest point reached by the combined index in the last year (56.6) occurred in November 2017 and in May 2018, so this month’s reading is more than respectable. The index of favorable factors slipped a little from last month, but a reading of 64.9 is certainly a very good one—as high as it has been since February. The index of unfavorable factors was exactly the same as it was last month. There was even positive movement in one of the subcategories.

The details in the subcategories tell some interesting stories even as the overall index seemed to remain stable. In the favorable readings, the sales category was the same as last month with a very high number (69.6). This is the highest it has registered since the end of the recession, and it did it two months in a row. There was, however, a little dip in the new credit application category as it went from 63.8 to 60.5, which remains a very robust number and on a par with the data collected for the past year. The ever mercurial dollar collection reading improved a little from 62.5 to 63.2. That completes a major turnaround from where the number was in April. The amount of credit extended category stayed almost level with a reading of 66.2 compared to 66.8.

The variability in the nonfavorable categories exceeded that of the favorable readings, but in general there was stability here as well. The rejections of credit applications number was almost the same at 51.2, only slightly lower than May’s 51.3. This is especially good news given that new applications for credit slumped a little. “Companies seeking credit may be fewer in number, but those that are looking are creditworthy,” Kuehl explained. The accounts placed for collection actually managed to escape the contraction zone (under 50) by moving from a reading of 49 to one of 51.3. This is indeed a positive trend. The disputes category stayed very near what it had been at 48.3, but still was slightly better than May’s 48.1. The dollar amount beyond terms also had the reputation for being erratic over the last year with big movements up and down—usually coinciding with the data from the dollar collection reading. This month there was almost no movement at all (49.4 to 49.2). He noted that the trend is not the ideal direction hoped for. “The category didn’t get into the expansion zone, but it didn’t bury itself further into the contraction category either.” The reading for amount of customer deductions slipped a bit deeper into contraction with a 48.1 as compared to last month’s 49.7. The data from filings for bankruptcies also slipped a bit from 56.4 to 55.7, but these numbers are still quite firmly in expansion territory. Kuehl summarized the trend by saying, “By and large, the nonfavorables are at least pretty stable, and in some cases, they have improved.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	June '18

Sales	66.5	62.8	62.2	67.3	66.8	68.3	59.2	63.0	66.8	64.1	65.8	69.6	69.6
New credit applications	59.8	59.7	61.2	60.5	62.8	63.7	57.3	59.8	63.3	62.7	62.2	63.8	60.5
Dollar collections	62.5	60.2	58.9	60.0	60.2	63.1	59.1	58.7	62.9	59.6	46.7	62.5	63.2
Amount of credit extended	66.8	64.1	66.7	66.3	65.5	67.8	61.8	64.3	66.4	66.2	66.1	66.8	66.2
Index of favorable factors	63.9	61.7	62.2	63.5	63.8	65.7	59.4	61.4	64.9	63.2	60.2	65.7	64.9
Rejections of credit applications	52.6	51.9	52.2	52.5	51.8	52.4	51.4	51.8	51.5	53.3	51.0	51.3	51.2
Accounts placed for collection	49.3	48.9	48.7	50.3	49.5	50.5	49.8	51.7	49.8	50.4	48.7	49.0	51.3
Disputes	50.4	48.8	49.1	51.7	47.6	48.3	49.7	49.6	49.6	47.7	48.0	48.1	48.3
Dollar amount beyond terms	50.4	48.3	47.4	50.4	47.3	47.5	49.3	47.0	49.9	47.2	46.4	49.4	49.2
Dollar amount of customer deductions	49.1	48.1	49.2	49.8	48.7	48.9	49.7	49.7	49.1	49.8	48.4	49.7	48.1
Filings for bankruptcies	53.4	53.6	55.3	56.2	55.3	55.1	55.0	55.2	55.4	55.2	53.8	56.4	55.7
Index of unfavorable factors	50.9	49.9	50.3	51.8	50.0	50.4	50.8	50.8	50.9	50.6	49.4	50.6	50.6
NACM Combined CMI	56.1	54.6	55.1	56.5	55.5	56.6	54.2	55.1	56.5	55.6	53.7	56.6	56.3



Manufacturing Sector

The manufacturing sector was far more volatile this month than was the service sector, although there was some stability in some of the categories. The combined score this month was lower than last month by a significant amount—55.9 as compared to 57. This took it to levels close to where they were in March, but still better than in April. The favorable factors index dropped slightly from 65.5 to 64.6, but these remain very strong numbers and clearly in expansion-oriented territory. The index for the nonfavorable factors slipped from 51.4 to 50.1—barely hanging on to the expansion zone and back to the levels of the last few months. The data collected around the subcategories tell interesting stories as well.

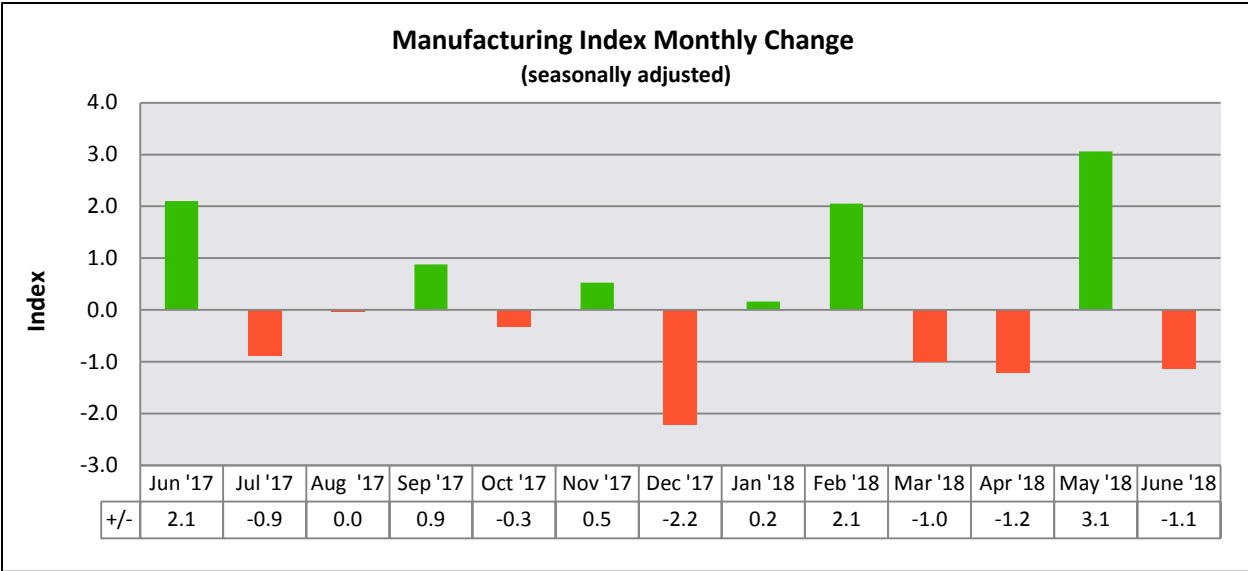
There was not much of a slip as far as the sales category was concerned; it remains at a very high level with a reading of 69.1 compared to last month's 69.6. These are numbers that have not been seen since the end of the

recession. The new credit applications category dropped from 62.4 to 60.2. Although that is a fairly significant decline, the important note is the category remains in the 60s. The dollar collection category stayed almost exactly where it had been at 63.3 (compared to 63.5), but most importantly, Kuehl said that “this factor was calm and contrasts with the wild variability that was on display most of the last year.” The amount of credit extended also fell slightly, but remained in good shape with a reading of 65.7 compared to 66.4 last month.

The activity in the nonfavorable categories was perhaps a little more interesting and significant. There was a slight dip as far as the rejections of credit applications. That is slightly worrisome as there was also a dip in the number of total applications. The number last month was 53.4; it had fallen to 50.6—barely staying out of the contraction zone. The accounts placed for collection category also fell, but not quite as far (51.3 to 50.6)—another narrow escape from contraction territory. The disputes category improved, but not enough to enter the expansion zone as it moved from 46.9 to 47.9. “The dollar amount beyond terms category has been driving a lot of the angst regarding this index of late,” Kuehl said. “Some of that worry has started to return as the data went from 50.2 back into contraction territory with a reading of 48.7.” The dollar amount of customer deductions slipped even deeper into contraction with a reading of 46.6 after hitting 48.4 the month before. This category has not been this low since January of this year. The filings for bankruptcies fell slightly (58 to 56.2), but remains solidly in the expansion zone.

“The volatility surrounding steel tariffs and threats of a trade war have caused a great deal of uncertainty among steel and aluminum users,” Kuehl said. “To make matters worse there has been a hike in logistics costs due the higher price of oil and fuel.”

Manufacturing Sector (seasonally adjusted)	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	June '18
Sales	66.9	64.0	60.8	65.0	67.4	68.2	59.2	62.7	65.8	62.5	66.2	69.6	69.1
New credit applications	59.8	60.6	61.8	59.0	61.8	64.5	56.5	57.8	65.2	62.4	60.8	62.4	60.2
Dollar collections	61.0	61.1	59.3	60.4	59.5	60.9	58.9	58.7	62.8	59.5	46.1	63.5	63.3
Amount of credit extended	67.4	64.5	66.1	64.0	65.2	67.4	60.7	63.4	65.9	65.3	66.0	66.4	65.7
Index of favorable factors	63.8	62.5	62.0	62.1	63.5	65.3	58.8	60.7	64.9	62.4	59.8	65.5	64.6
Rejections of credit applications	53.3	52.9	52.8	52.5	53.7	52.6	51.5	51.8	51.5	54.1	52.4	53.4	50.6
Accounts placed for collection	49.8	49.8	49.7	50.1	48.6	51.5	50.3	51.2	50.1	51.0	49.8	51.3	50.6
Disputes	49.6	47.8	47.3	53.0	48.2	47.1	48.8	48.4	47.6	46.0	48.0	46.9	47.9
Dollar amount beyond terms	49.3	49.4	49.2	51.9	48.6	48.2	50.1	45.0	48.5	46.5	46.8	50.2	48.7
Dollar amount of customer deductions	48.7	47.6	48.0	48.5	47.1	45.7	49.1	46.6	47.7	48.7	48.4	48.4	46.6
Filings for bankruptcies	53.6	53.0	55.5	54.7	56.0	55.4	54.4	55.3	56.3	55.6	55.1	58.0	56.2
Index of unfavorable factors	50.7	50.1	50.4	51.8	50.4	50.1	50.7	49.7	50.3	50.3	50.1	51.4	50.1
NACM Manufacturing CMI	55.9	55.1	55.0	55.9	55.6	56.1	53.9	54.1	56.2	55.2	54.0	57.0	55.9



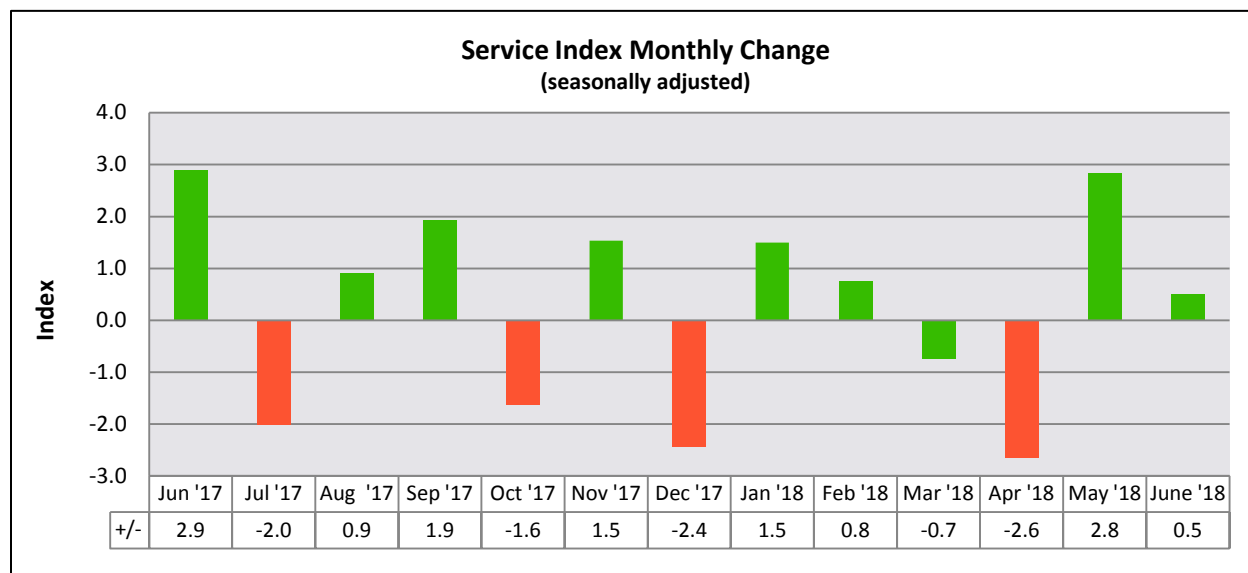
Service Sector

There was not as much volatility in the service sector this month. Some of that is attributed to the relative lack of drama that has surrounded the sector. “The various threats on trade deals have less to do with services as the bulk of the activity is related to manufactured exports and imports,” Kuehl explained. The combined score of 56.8 for the service sector improved over what it was last month and hit a high not seen since February. The index of favorable factors stayed about where it had been with a reading of 65.2 following last month’s 65.8. The index of unfavorable factors also improved and escaped from the contraction zone with a reading of 51.1.

The sales category has hit a record number—at least a record since the recession started. The index has been close for months. This month it pushed over the barriers to hit 70.1 after being at 69.6. “The impetus for this seems to be the start of the summer driving and vacation season and the reappearance of the consumer who had seemed to be in hiding the previous few months,” Kuehl noted. “They are not spending as much on goods and are focused on services.” The new credit applications fell by quite a bit from 65.1 to 60.9. Here, he said there is a sense that some of the retailers are still being very cautious about what kind of inventory they plan to invest in. The data for dollar collections improved (61.5 to 63); a welcome sign as that category has been the source of a lot of worry over the last several months. The amount of credit extended fell slightly from 67.2 to 66.8, but “these are still very respectable numbers and signal very robust growth across the services board.”

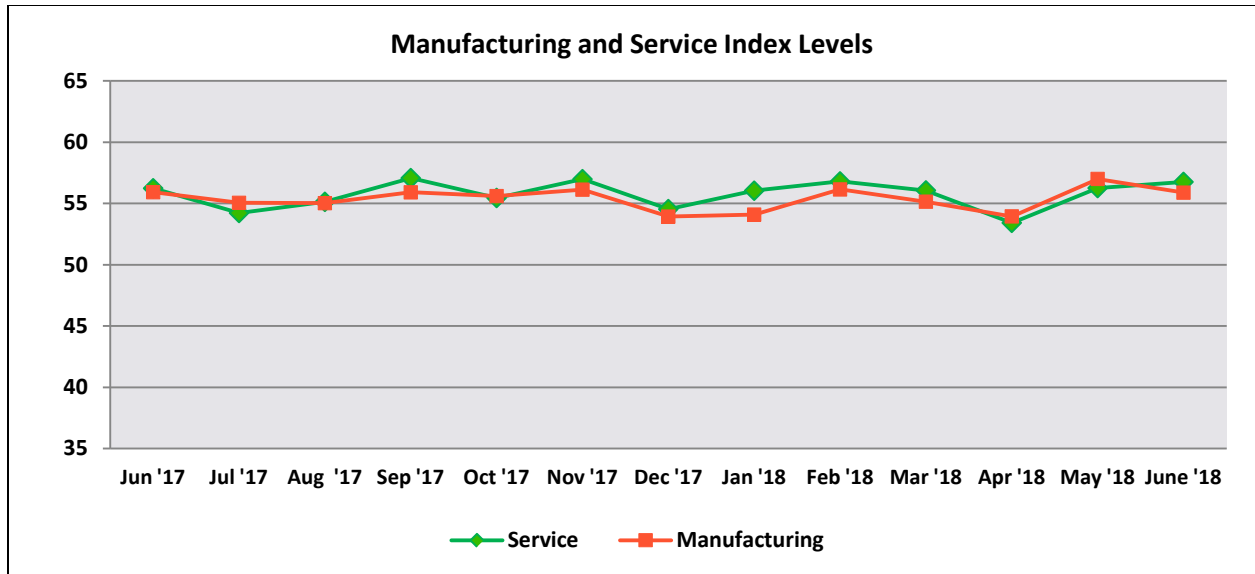
There was some significant movement in the nonfavorable category as well. The rejections of credit applications category escaped the doldrums of the contraction zone by moving from 49.2 to 51.8. That pairs well with the reduced number of applications. Kuehl suggested that those asking for credit are generally the kind of business that qualifies for that credit. There was a major improvement in the reading for accounts placed for collection as it went from 46.7 to 52. “This is a major turnaround as far as collection action is concerned and that is very good news indeed as far as future growth is concerned,” he said. The disputes category fell a little from last month’s reading of 49.3 to 48.6. “The other category that has been sending the CMI into hills and valleys all year has been the dollar amount beyond terms,” he explained. “This volatility was not in evidence this month, but the data improved—that is the important part.” It was at 48.5 and is now at 49.7, within shouting distance of the expansion zone. The amount of customer deductions also slipped a bit from 50.9 to 49.6. The filings for bankruptcies still sports a number solidly in the expansion zone as it improved from 54.8 to 55.1, a pretty consistent story most of this year.

Service Sector (seasonally adjusted)	Jun '17	Jul '17	Aug '17	Sep '17	Oct '17	Nov '17	Dec '17	Jan '18	Feb '18	Mar '18	Apr '18	May '18	June '18
Sales	66.0	61.7	63.6	69.7	66.1	68.4	59.2	63.3	67.8	65.8	65.5	69.6	70.1
New credit applications	59.9	58.8	60.6	62.0	63.7	62.9	58.2	61.8	61.5	63.0	63.6	65.1	60.9
Dollar collections	63.9	59.4	58.6	59.5	61.0	65.4	59.4	58.6	63.0	59.8	47.3	61.5	63.0
Amount of credit extended	66.3	63.8	67.3	68.6	65.9	68.2	63.0	65.1	66.9	67.2	66.2	67.2	66.8
Index of favorable factors	64.0	60.9	62.5	64.9	64.2	66.2	59.9	62.2	64.8	63.9	60.6	65.8	65.2
Rejections of credit applications	51.9	50.8	51.5	52.5	49.8	52.3	51.2	51.8	51.5	52.4	49.5	49.2	51.8
Accounts placed for collection	48.9	48.1	47.8	50.6	50.3	49.6	49.3	52.1	49.6	49.7	47.7	46.7	52.0
Disputes	51.3	49.8	50.8	50.3	47.0	49.5	50.7	50.9	51.6	49.3	47.9	49.3	48.6
Dollar amount beyond terms	51.6	47.2	45.6	49.0	46.1	46.7	48.4	49.0	51.3	47.8	46.0	48.5	49.7
Dollar amount of customer deductions	49.5	48.6	50.4	51.1	50.2	52.1	50.4	52.7	50.5	50.9	48.3	50.9	49.6
Filings for bankruptcies	53.2	54.2	55.2	57.6	54.6	54.7	55.7	55.0	54.4	54.8	52.4	54.8	55.1
Index of unfavorable factors	51.1	49.8	50.2	51.8	49.7	50.8	51.0	51.9	51.5	50.8	48.6	49.9	51.1
NACM Service CMI	56.2	54.2	55.1	57.1	55.5	57.0	54.5	56.0	56.8	56.1	53.4	56.3	56.8



June 2018 versus June 2017

“There is nothing quite as dramatic as the material chronicled in the last several months,” Kuehl concluded. “That is probably a good thing as there was a real desire for some stability. The numbers this month looked a lot like last month—not too bad these days.”



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 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 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>.

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