A Look Back at the CMI's Accurate Predictions

On June 23, 1896, America's credit managers heard O.G. McMechen's call to create a national association for business credit management, resulting in the formation of the National Association of Credit Men, which would eventually grow to become the National Association of Credit Management (NACM). It was McMechen's hope, and that of all the 62 business leaders that gathered in Toledo, Ohio that Tuesday nearly 118 years ago, that by sharing information, the commercial credit profession in the United States could address the threat of widespread business credit fraud, most commonly perpetrated at the time through the secret sale of goods in bulk, and enhance the abilities of business credit managers nationwide through the sharing of their expertise.

That expertise has only grown deeper and deeper over the last 118 years, benefiting the American business economy in ways that McMechen could never have predicted. One of the most poignant is through NACM's Credit Managers' Index (CMI), which is nothing less than the distilled insight and economic perspective of today's commercial credit manager packaged into a remarkably accurate forecasting tool used by some of the world's largest organizations and economic regulators. To celebrate NACM's 118th birthday, here are just a few examples of when its flagship index proved the value of the business credit manager's insight by accurately predicting the economic future.

Early Success

Right from the jump, the CMI proved to be an accurate predictor of GDP as reported on a quarterly basis. The first reading, posted for January 2003, indicated a slight 0.2-point improvement in the total combined CMI, with a larger 1.1-point increase in the service sector offsetting a decline in manufacturing, which suffered a loss of 0.6 points. A quarter later that year, according to the US Bureau of Economic Analysis' (BEA's) revised final figures, US gross domestic product growth moved from 1.4% in the first quarter of 2003 to 3.3% in the second, reflecting the CMI increase which grew in February 2003 as well, driven predominantly by sales increases. Similarly, in January 2005, the CMI saw a decline from 55.0 to 52.7, a drop chalked up to seasonal influences that didn't dim respondents' outlooks, as they predicted continued growth. Sure enough, first-quarter growth in 2005 of 3.8% gave a little in the second quarter of the same year, to 3.3%, suggesting, as the CMI did, seasonal influences that weren't strong enough to throw off what was at the time a growing economy.

Bankruptcy Figures and Individual Factors

Digging into the CMI's four favorable factors and six unfavorable factors, which are combined to create the full CMI, can also reveal powerful indicators that illuminate very specific sections of the business world. Bankruptcy figures are less an indicator of economic strength or weakness than a reflection of bankruptcy viability and other factors, but nonetheless, increases and declines are often reflected in the filing for bankruptcies factor, included in the CMI's unfavorable factors. Recently an uptick in month-to-month commercial filings in February 2014 was indicated in the factor's slip from 60.5 in January to 58.5 in February. (The neutral line for the CMI and its individual factors is 50. A number above 50 indicates expansion, while one below 50 indicates contraction.) Other measurements of cash flow and purchasing behavior can also find echoes in some of the CMI's individual factors like amount of credit extended and new credit applications, among others.

The Great Recession

Three months before the official start of the Great Recession in December 2007, the September 2007 CMI edged up only slightly to 54.3 following a sharp 1.3-point drop in July and a 0.2-point decline in August. Nonetheless, uneasiness set in and October's decline to 54.1 continued a downward trend that essentially predicted the recession. Eighteen months later in June 2009 the deepest recession in recent history ended, but positive news could be seen in the CMI as early as February of that year, with a slow trickle upward that correctly predicted the country's very tentative return to economic growth that summer.

Ultimately all of these examples of the CMI's power are examples of the value of credit professionals, whose responsibilities focus on what's next, in addition to what's happening right now. "I think it's the nature of credit management," said NACM Economist Chris Kuehl, PhD. "Credit managers are as concerned about the condition of their clients 15, 30, 60 and 90 days from now as they are today. The tendency is to think ahead."

The CMI had raised the visibility of the importance of the credit and finance profession. Join your colleagues each month in taking the survey to ensure a healthy representation of industries across the United States; the more responses, the more accurate the CMI report. Sign up to receive monthly email reminders that the survey period has opened, generally the third week of each month, at http://web.nacm.org/apps/cmi/cmi_check.aspx.

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