



Report for November 2015

Issued November 30, 2015

National Association of Credit Management

Combined Sectors

In October's Credit Managers' Index we were teased with an improved performance and there was a faint hope that improvement would be seen in November since this was the start of the holiday spending season. Now that faint hope is that much fainter. The data was not a disaster as the numbers are still above the contraction zone, but they fell back to what they were the month before.

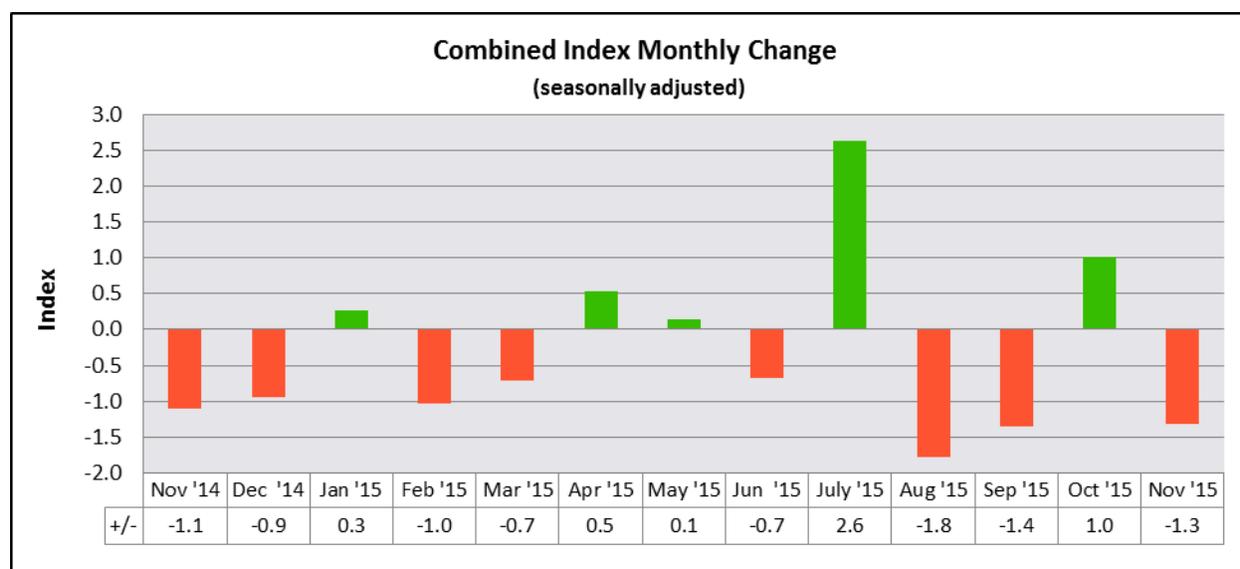
The overall combined CMI score (both manufacturing and service sector) slipped from 53.9 to 52.6, and that is lower than it was in September when it hit 52.9. This is the lowest reading in the past year and that is not what had been expected, although if one looks at some of the other data sets on the economy, they have all been struggling of late. The latest Purchasing Managers' Index numbers were barely in expansion territory with a reading 50.2. There was misery to share with both the favorable and unfavorable categories showing decline. The more worrisome of the two is the unfavorable factors, as the combined score is now in the contraction zone with a reading of 49.2—back to what it was in June of this year. The favorable factors also slipped with a reading that went from 59.4 to 57.7 and the same as was seen in September. It looks as if that little October bump was an anomaly and not a trend that could be counted upon.

When reviewing the sub-sectors of the favorable categories, the reductions in activity were across the board. The sales category slipped back to the levels of the previous month—shifting from 58.3 to 56.0. It seems a long time ago that sales was in the 60s, but it was just in July of this year that it hit 65.1. The new credit applications category dropped, but not quite as dramatically—from 58.9 to 58.0. The dollar collections category went from 56.7 to 55.7 and the amount of credit extended reading slipped from 63.7 to 61.0. This is obviously still a healthy number, but it is a far cry from the 66.4 reading in July.

The big shifts seem to have come with the unfavorable categories. The category of rejections of credit applications skidded just a bit—from 51.4 to 51.0. The reading for accounts placed for collection slipped back into the contraction zone, falling from 50.0 to 47.1, which is as low as this category has been since June when it hit 47.8. In fact, this month's reading is as low as it has been all year. The disputes category sank a little deeper into contraction territory with a reading of 48.4 on top of last month's 48.5. The same thing is noted with the dollar amount beyond terms category, which is just slightly below the reading last month—going from 47.8 to 47.4. There was a bigger drop when looking at the category of amount of customer deductions as it slipped out of expansion into contraction with a reading of 48.9 as opposed to last month's 50.1. The filings for bankruptcies category also fell, but at least it managed to stay out of the contraction zone with a reading of 52.5 compared to 53.6.

The majority of the unfavorable categories are now under the 50 line and that signals contraction—only two have managed to hold on to their position in expansion territory, and in both cases they are doing so by the skin of their teeth. Given all the data that has been emerging as far as the economy's overall strength, this is not a big surprise, but still a disappointment. It seems that companies are struggling at this point in the year and that is not a good sign given that this is the time when these companies are expected to make the bulk of their money for the year. This really applies mostly to retail, but the manufacturers respond to that retail drive.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15
Sales	62.7	61.4	61.5	58.9	58.4	59.1	57.1	56.6	65.1	57.9	56.4	58.3	56.0
New credit applications	58.1	59.2	58.3	58.0	56.6	58.6	58.5	60.5	60.8	57.7	58.1	58.9	58.0
Dollar collections	60.3	56.6	60.1	57.4	57.6	58.8	57.5	56.8	61.9	58.3	56.4	56.7	55.7
Amount of credit extended	63.7	64.6	62.2	60.5	60.6	62.6	62.0	64.5	66.4	63.0	60.1	63.7	61.0
Index of favorable factors	61.2	60.5	60.5	58.7	58.3	59.8	58.8	59.6	63.5	59.2	57.7	59.4	57.7
Rejections of credit applications	51.7	51.5	51.9	51.4	52.6	52.3	51.9	50.8	51.8	51.3	51.3	51.4	51.0
Accounts placed for collection	51.8	51.1	50.1	50.8	49.8	49.8	51.1	47.8	50.3	51.2	49.3	50.0	47.1
Disputes	50.8	48.5	49.5	48.8	49.0	47.2	48.0	48.2	49.9	49.5	47.5	48.5	48.4
Dollar amount beyond terms	52.3	48.7	50.6	48.4	45.5	48.8	50.7	46.8	49.1	49.3	47.0	47.8	47.4
Dollar amount of customer deductions	49.7	48.5	50.2	51.8	48.7	47.4	47.8	49.5	49.3	49.9	49.4	50.1	48.9
Filings for bankruptcies	56.8	58.5	56.9	55.0	55.1	54.6	56.0	52.5	55.6	54.4	53.3	53.6	52.5
Index of unfavorable factors	52.2	51.1	51.5	51.0	50.1	50.0	50.9	49.2	51.0	50.9	49.7	50.2	49.2
NACM Combined CMI	55.8	54.9	55.1	54.1	53.4	53.9	54.1	53.4	56.0	54.2	52.9	53.9	52.6



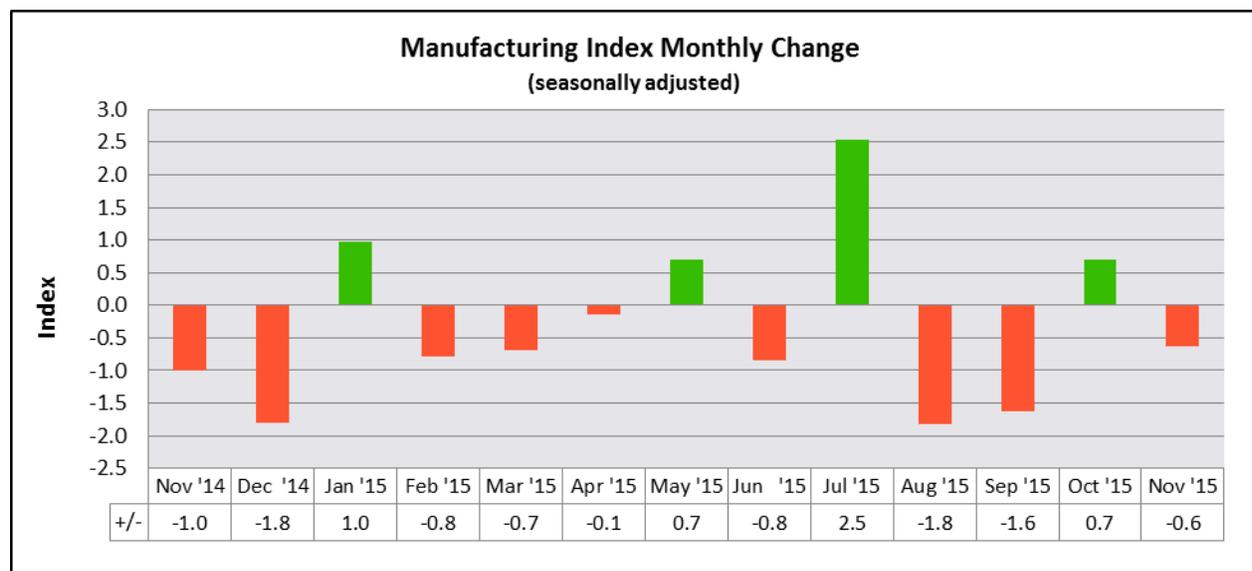
Manufacturing Sector

The drama of the reversal was not quite as intense in the manufacturing sector, but there was certainly damage done. The index of favorable factors went from 58.3 to 56.8 and that is right back to where it stood a month ago. The index of unfavorable factors was even with last month, but that is hardly something to celebrate given that it remains in the contraction zone with a reading of 49.4. There was some expectation that manufacturing would be able to stage some kind of comeback, but thus far the data is still mixed. Lately, the durable goods numbers are slightly improved, but others are pointing south.

The specific categories showed some negative movement with sales slipping from 57.7 to 55.5—again a near repeat of what it was in September. The new credit applications category shifted down as well, but only slightly from 57.3 to 57.1. The dollar collections category slid from 56.4 to 55.6 and the amount of credit extended reading fell out of the 60s to land at 59.0. These are certainly not numbers that would cause panic—they are all firmly in the expansion zone. The problem is that they were higher just a month ago.

The performance of the unfavorable factors category is more concerning as many subcategories fell into contraction territory, and seem to be accelerating in the wrong direction. The good news this month was that four of the six categories actually improved a little, although most remained in the contraction zone. The rejections of credit applications category improved from 51.5 to 52.0, and that is significant as it suggests that those applying for credit are in better shape than in the recent past. The accounts placed for collection category fell a little from 49.5 to 48.6, and that is just about where the data was a month ago. The disputes category also saw a bit of improvement, but remains in the contraction zone at 47.8—up from the 46.3 that was recorded last month. The dollar amount beyond terms category saw a similar level of improvement and went from 47.3 to 48.4. The dollar amount of customer deductions reading slipped from 48.5 to 47.9. The filings for bankruptcies category fell as well—from 53.6 to 51.7. The unfavorable data is still not pointing in the direction preferred as four of the six categories are still under 50, but if there is any light at the end of this particular tunnel, the trend is slightly more encouraging than it has been.

Manufacturing Sector (seasonally adjusted)	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15
Sales	62.7	60.1	60.2	60.1	58.5	57.0	56.4	56.8	66.0	56.4	55.6	57.7	55.5
New credit applications	57.9	58.5	56.7	58.2	56.0	58.7	58.1	58.8	60.5	56.1	56.6	57.3	57.1
Dollar collections	59.9	55.39	60.4	57.1	57.1	57.0	55.1	58.2	59.4	57.8	56.7	56.4	55.6
Amount of credit extended	64.2	63.38	63.6	58.7	59.7	60.9	62.3	62.7	66.5	63.0	57.1	61.8	59.0
Index of favorable factors	61.2	59.4	60.2	58.5	57.8	58.4	58.0	59.1	63.1	58.3	56.5	58.3	56.8
Rejections of credit applications	51.3	50.81	52.1	52.5	53.5	53.2	53.0	49.5	52.6	51.8	51.5	51.5	52.0
Accounts placed for collection	52.5	50.46	50.6	51.8	51.4	50.8	51.6	48.3	49.7	50.7	48.5	49.5	48.6
Disputes	50.5	47.35	49.4	47.2	48.6	46.9	47.7	47.9	48.5	48.6	47.7	46.3	47.8
Dollar amount beyond terms	52.8	48.0	50.8	52.2	46.0	48.3	50.6	47.5	49.8	51.1	46.6	47.3	48.4
Dollar amount of customer deductions	49.8	46.79	49.5	48.7	48.7	45.7	48.7	49.8	48.6	48.8	49.2	48.5	47.9
Filings for bankruptcies	56.2	58.93	56.2	55.1	55.1	54.8	56.8	52.3	55.7	54.9	53.1	53.6	51.7
Index of unfavorable factors	52.2	50.4	51.4	51.3	50.6	50.0	51.4	49.2	50.8	51.0	49.5	49.4	49.4
NACM Manufacturing CMI	55.8	54.0	55.0	54.2	53.5	53.3	54.0	53.2	55.7	53.9	52.3	53.0	52.3



Service Sector

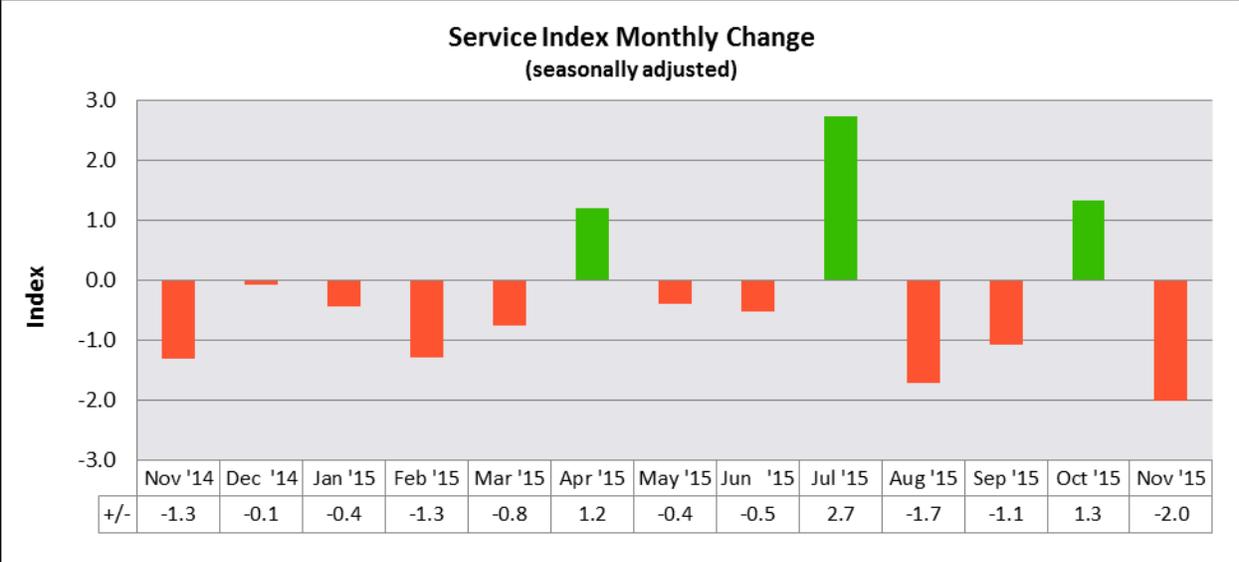
This is supposed to be the time of year for the service sector to light up, but so far that has not been taking place and there isn't much time left for that turnaround to get underway. The consumer is capable of spending more money as there is more in their savings than there has been since the recession. There has been a small wage increase, but no inflation thus far that might eat into spending power. There has been good news on the employment front and the fall in the price of gasoline has put some additional money in their wallets. Still the response has been sluggish.

The index of favorable factors has dropped out of the 60s and now stands at 58.6—still respectable, but not growing. The index of unfavorable factors slipped even further as it has left the 50s and is now sitting at 49.0 as opposed to the 51.1 last month.

The sales category slipped quite a bit from 58.9 to 56.5 and is as low as it has been since June of this year. The new credit applications category also fell out of the 60s and is at 58.9—as low as this has been since May of this year. The dollar collections category also slipped from 57.0 to 55.9. The amount of credit extended reading stayed in the 60s, but fell from 65.6 to 63.1.

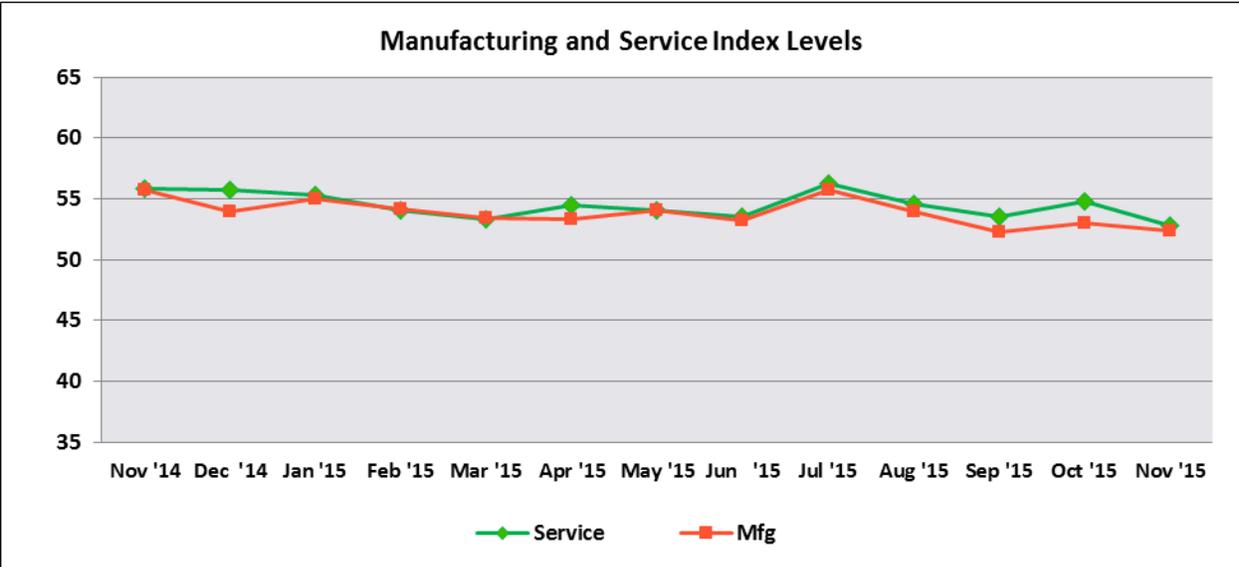
The same pattern exists in the unfavorable categories. The rejections of credit applications category managed to stay out of the contraction zone, but only by the narrowest of margins—hitting 50.0 after being at 51.4 the month before. The accounts placed for collection category moved down from 50.6 to 45.6 and that is a stunning number. It suggests strongly that there are some real issues with many of the companies that credit managers deal with right now as collection action is generally a last resort. The disputes category fell from 50.7 to 49.0 and the category of dollar amount beyond terms slipped even deeper into the contraction zone with a reading of 46.3 after a reading of 48.4 the month before. The dollar amount of customer deductions reading fell out of the expansion zone by moving from 51.7 to 49.8 and the filings for bankruptcies category went from 53.6 to 53.2 and remained one of two categories that stayed out of contraction.

Service Sector (seasonally adjusted)	Nov '14	Dec '14	Jan '15	Feb '15	Mar '15	Apr '15	May '15	Jun '15	Jul '15	Aug '15	Sep '15	Oct '15	Nov '15
Sales	62.7	62.68	62.8	57.7	58.3	61.1	57.9	56.3	64.3	59.5	57.2	58.9	56.5
New credit applications	58.4	59.8	60.0	57.8	57.1	58.5	58.9	62.2	61.0	59.3	59.5	60.5	58.9
Dollar collections	60.7	57.87	59.7	57.7	58.1	60.7	60.0	55.4	64.3	58.8	56.1	57.0	55.9
Amount of credit extended	63.3	65.86	60.8	62.3	61.5	64.4	61.8	66.3	66.3	63.1	63.2	65.6	63.1
Index of favorable factors	61.3	61.6	60.8	58.9	58.7	61.2	59.6	60.0	64.0	60.2	59.0	60.5	58.6
Rejections of credit applications	52.1	52.25	51.7	50.3	51.7	51.3	50.8	52.0	51.0	50.8	51.1	51.4	50.0
Accounts placed for collection	51.2	51.8	49.7	49.9	48.1	48.7	50.5	47.3	50.9	51.7	50.0	50.6	45.6
Disputes	51.2	49.72	49.5	50.4	49.4	47.5	48.4	48.5	51.3	50.4	47.4	50.7	49.0
Dollar amount beyond terms	51.8	49.37	50.5	44.7	45.1	49.2	50.7	46.1	48.5	47.5	47.4	48.4	46.3
Dollar amount of customer deductions	49.6	50.12	51.0	54.8	48.7	49.1	46.9	49.24	50.0	51.0	49.7	51.7	49.8
Filings for bankruptcies	57.4	58.12	57.6	54.9	55.0	54.3	55.1	52.6	55.6	54.0	53.6	53.6	53.2
Index of unfavorable factors	52.2	51.9	51.7	50.8	49.7	50.0	50.4	49.3	51.2	50.9	49.9	51.1	49.0
NACM Service CMI	55.8	55.8	55.3	54.0	53.3	54.5	54.1	53.6	56.3	54.6	53.5	54.8	52.8



November 2015 versus November 2014

This month, the trend has returned to the stress of the last few and the timing is not as it should be. This is the time of year the consumer comes to the rescue, but it doesn't appear that will happen this time.



Methodology Appendix

CMI data has been collected and tabulated monthly since February 2002. The index, published since January 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.*



National Association of Credit Management

About the National Association of Credit Management

NACM, headquartered in Columbia, Maryland, 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 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

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