Report for April 2020

Issued April 30, 2020

National Association of Credit Management

Combined Sectors

NACM Economist, Chris Kuehl, Ph.D., shares his views on the COVID-19 pandemic. He notes that the use of the word unprecedented has become a cliché by this time; everybody has become frustrated with the rash of uncertainties that have characterized this economic crisis. The reference to a "lockdown recession" seems to say it all. There has been nothing natural about this global economic collapse. It was not triggered by any sort of economic issue as had been the case with the 2008 recession, or any of the other downturns the world has faced in the last several decades. The decision to shutter the entire business community in order to deal with a pandemic is creating a crisis that has never existed before. That leaves business with few options other than to simply hang on.

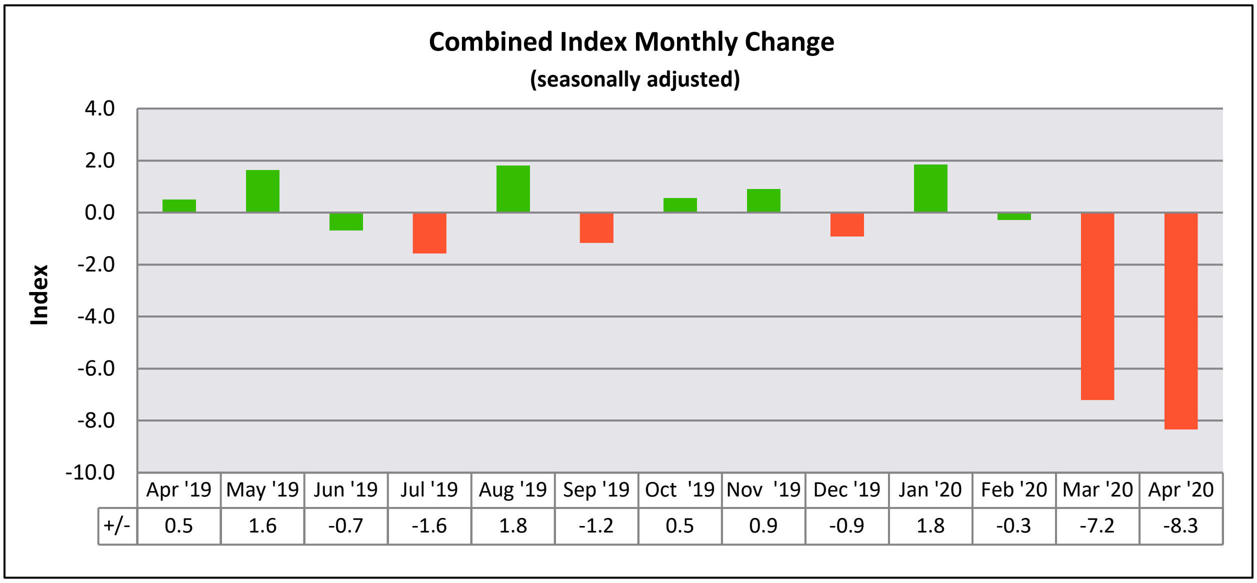
The data collected by the CMI this month is as bad as it has been in the history of the index—numbers that rival the depths of the 2008 recession and, in some cases, far worse. "The most vexing issue is that nobody has a real sense as to when this situation will change," Kuehl said. "The optimistic scenario holds there will be a swift rebound just as soon as the restrictions are lifted. It seems most states will be engaging in a phased recovery through the month of May. The pessimistic outlook holds that consumers will not be ready to resume old patterns; business will be reluctant to fully engage, and this will extend the downturn well into the summer."

Now for the litany of bad reports. The combined score for the CMI fell to 40.6 this month. That comes dangerously close to the miserable numbers from 2008, when readings in the 30s became common. The index of favorable factors has fallen into the low 30s—in record territory. "The shutdown in the economy has been widespread and has left no opportunity for progress," Kuehl said. The index of unfavorable factors had been holding up to some degree, but this month it fell to 46.3, and will almost certainly trend in a more negative direction in future months. The extent of the collapse becomes more obvious with a look at the specific factors.

The sales numbers (20) have never been this low—not since the origins of the CMI. Kuehl explained that this is no surprise given the shutdown orders; it is hard to sell much when the company has been shuttered and so have all the potential customers. The only good news is that this category can only go up from here. The new credit applications numbers have also cratered—down to 31.1, as there have been no sales. The dollar collection data has collapsed to 35.5. "Almost every business is hanging on to what money they still have and have not been concerned with keeping current with their credit," he said. The amount of credit extended sported the highest reading of the four at 41.6, but that is still obviously very low. The only thing that kept this category in the 40s has been the demand from sectors that are still functioning—medical, some grocery operations and other sectors that were deemed essential.

The data from the unfavorable categories has been weak, but not quite as catastrophic as the favorables. This is simply due to timing. "This crisis is still fairly young as it began in earnest in March," he said. "There has not yet been time for all the negatives to manifest, but they have started to and will become more evident in future readings." The rejections of credit applications have remained in positive territory with a reading of 52.7 compared to 53.5 the month prior. He added that application numbers are way down and the only applications are coming from those few sectors that have stayed in business. Most of them have been doing reasonably well. The accounts placed for collection numbers are starting to reflect the stress with a reading of 47.4 compared to 50.6 in March. “This is still a matter of timing as many creditors have not yet reached the point where collection action is mandated,” he explained. The disputes category has also managed to stay just within the expansion zone with a reading of 50.8 compared to 52.1 the month before. The dollar amount beyond terms reading has fallen off a cliff with a decline from 43.9 to 27.6. “The vast majority of companies are suddenly unable to keep current on any of their obligations and are falling further behind with every passing day.” The dollar amount of customer deductions slipped out of positive territory with a reading of 49.4 from 50.4 in March. The filings for bankruptcies number has remained just barely in positive territory (above 50) with a reading of 50.2 compared to the 53.2 that was registered last month. He concluded that this is a situation that will worsen in time as more companies find themselves in trouble.

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Apr '19**	**May '19**	**Jun '19**	**Jul '19**	**Aug '19**	**Sep '19**	**Oct ‘19**	**Nov '19**	**Dec '19**	**Jan '20**	**Feb '20**	**Mar '20**	**Apr '20**
Sales	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8	63.0	64.0	39.5	20.0
New credit applications	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4	61.1	62.2	44.0	31.1
Dollar collections	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9	61.7	58.8	49.3	35.5
Amount of credit extended	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1	62.9	63.6	53.2	41.6
Index of favorable factors	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**
Rejections of credit applications	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0	52.0	53.8	53.5	52.7
Accounts placed for collection	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3	50.6	50.6	50.6	47.4
Disputes	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8	52.4	50.3	52.1	50.8
Dollar amount beyond terms	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0	54.2	53.5	43.9	27.6
Dollar amount of customer deductions	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3	52.2	51.5	50.4	49.4
Filings for bankruptcies	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4	54.4	53.3	53.2	50.2
Index of unfavorable factors	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**
NACM Combined CMI	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**



Manufacturing Sector

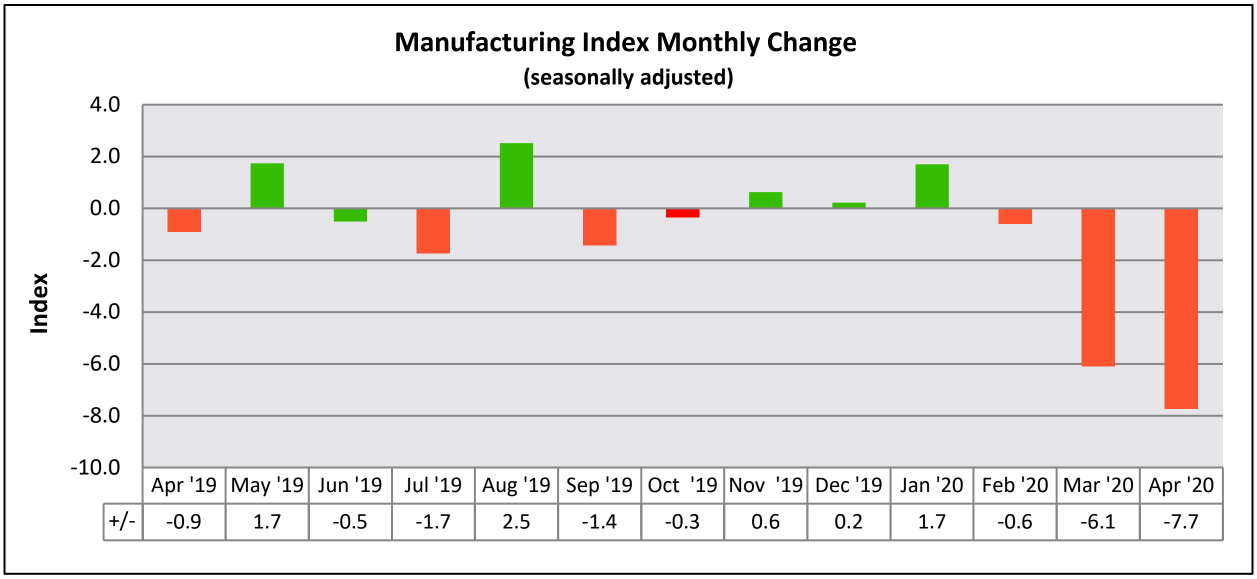
As for manufacturing, Kuehl said that the impact of the lockdown recession has been felt most profoundly in the service sector as opposed to the manufacturing sector. There are obvious exceptions to this as there have been manufacturers that have been devastated by a combination of factors. Those connected most closely to the energy sector have taken an enormous hit as oil prices have cratered and severely limited production around the world. The airline sector has been another one that will be hard pressed to rebound quickly. Other sectors have fared better—such as those related to the medical community. The manufacturers most sensitive to the consumer will be the ones that will be watching the reopening carefully.

The combined score for the manufacturing sector fell to 42 from the 49.8 reading in March. The majority of the damage was in the favorable category as this reading went from 48.2 to 34.3. To illustrate the extent of this crisis, consider the fact that manufacturing was at 62 in February. The unfavorable category has been a little less affected, but still notched a significant loss as it fell from 50.8 to 47.2. Kuehl said that this relatively less dramatic decline is attributed to the fact there has not yet been enough time for creditors to get in real trouble.

The majority of the damage has been seen in the favorable categories—sales utterly collapsed—not a shock to anyone given the total shutdown of the economy. It had already shown a steep decline from February when it was at 65.7. By March, it was down to 40.3 and now sits at a record low of 21.4. There is simply no activity to register. The new credit application numbers show a similar collapse as they have gone from 61.4 in February to 45 in March down to 35.7 in April. The dollar collections data follows that grim trajectory—58.3 in February, 53.4 in March and 35 in April. He noted that the effort to keep current on the part of creditors has largely been abandoned in the face of the lockdown. The amount of credit extended category was on the same path—62.8 in February, 54 in March and big tumble to 45.1 in April. "The slightly less dramatic drop has been attributed to the fact that some select manufacturing sectors have been handling the lockdown better than others."

There has not yet been enough time elapsed to make the unfavorable numbers crash to the extent the favorables have, but that day is unfortunately coming. The rejections of credit applications actually remained in positive territory with a reading of 52.8 compared to 54.4 in March. "The fact is those asking for credit are in very hot fields right now and are producing faster than they had been," he said. The accounts placed for collection have also managed to stay just barely in positive territory with a reading of 50. "The manufacturers are just starting to encounter issues and there has not yet been enough time for them to get into collection trouble. If the shutdown extends a lot further, the collection issues will magnify." The disputes category also managed to hang on to the expansion zone by the thinnest of margins. It was at 51.4 last month and dipped to 50.6 in April. "The dollar amount beyond terms is where the crisis has become obvious. This is what is setting up for big problems later. The creditors are starting to slow down as far as keeping on top of their terms. These slow pays make it clear that companies are working hard to protect their capital." The numbers in February were solidly in expansion territory and then fell to 44.3 in March. Now, they are in record low territory at 28.6. The dollar amount of customer deductions also managed to stay just in expansion territory with a reading of 50.1 after a March reading of 51.3. There was also a positive result as far as filings for bankruptcies as it maintained a level of 51.1 after a 52 reading in March. "Even with all the damage done in April, there were five of the six categories still sitting in positive territory, but only by the narrowest of margins," he said. "This will change in May, but how much they change will be determined by the speed of the rebound."

Manufacturing Sector (seasonally adjusted)	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20
Sales	58.6	63.3	58.5	57.6	65.3	57.9	56.7	60.7	57.9	63.8	65.7	40.3	21.4
New credit applications	59.8	63.9	62.5	60.0	60.1	59.5	59.2	59.8	61.2	60.2	61.4	45.0	35.7
Dollar collections	58.6	60.5	59.2	54.7	59.6	58.7	58.7	56.8	57.5	62.9	58.3	53.4	35.0
Amount of credit extended	58.5	64.6	61.3	54.7	61.4	59.2	61.6	61.6	59.1	61.3	62.8	54.0	45.1
Index of favorable factors	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**
Rejections of credit applications	53.1	52.5	53.8	53.4	53.0	51.9	52.1	51.6	53.0	52.5	53.0	54.4	52.8
Accounts placed for collection	49.3	49.0	53.5	46.7	50.6	49.7	49.3	49.4	51.1	51.8	51.4	51.6	50.0
Disputes	47.7	48.2	48.3	51.0	50.3	50.6	46.7	49.6	51.0	52.5	48.9	51.4	50.6
Dollar amount beyond terms	48.5	51.8	50.2	48.0	55.9	52.1	52.0	52.1	52.4	54.3	54.2	44.3	28.6
Dollar amount of customer deductions	49.5	48.4	49.8	52.7	49.3	51.1	51.1	50.8	52.6	51.1	49.8	51.3	50.1
Filings for bankruptcies	53.3	52.0	52.0	53.0	51.4	52.0	51.7	53.0	51.8	54.2	53.3	52.0	51.1
Index of unfavorable factors	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**
NACM Manufacturing CMI	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**



Service Sector

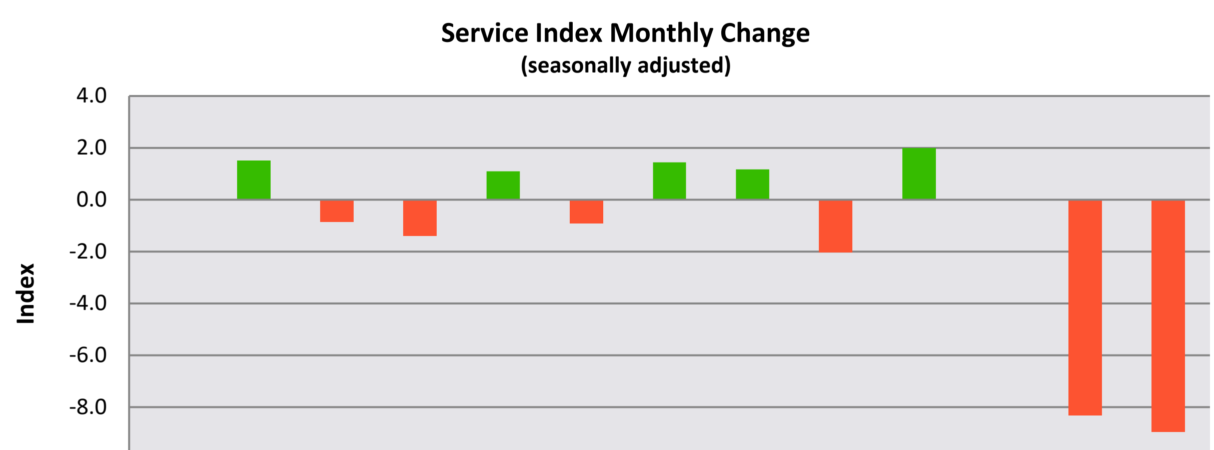
Kuehl's take here is that this recession has been immensely hard on the global economy in general, so it is not easy to single out a country or region or even an industry sector that has suffered more than another. However, the evidence shows that the brunt of the damage has been sustained in the service sector as the vast majority of the shuttered businesses have been in the service area. The data from the latest CMI makes that abundantly clear. These are record low numbers; low enough that a rapid comeback will be very hard to execute in some of these sectors.

The combined score for the service sector was 39.2, as close to a total collapse as has been seen since the Credit Managers' Index was launched. The index of favorable factors is at 29.8—a brutal reading. In February of this year, the index was sitting at 62.3; it had not been under 59 for over two years. In the last 12 months, the favorable readings had been above 60 nine times. In March, they fell to a worrisome 44.8 and now sit at a miserable 29.8. "This is a stunning collapse," Kuehl said, "and worse than many had projected at the start of this debacle." The index of unfavorable factors also fell, but as with the manufacturing sector, the decline has been tempered by the fact there has not been enough time to react. In February, the numbers were at 52.6; now they are sitting at 45.5.

As usual, the devil is in the details. The sales numbers have fallen to almost absurd depths—18.6 is so far below the previous record to be truly nightmarish. It was at 62.3 in February and at a very low 38.7 in March. He attributed this to the near complete elimination of the entire service sector in the U.S. It also accounts for the fact that there has been a loss of some 30 million jobs. The new credit applications have also fallen to all-time lows of 26.5 compared to 43 last month and 63.1 in February. The dollar collections numbers fell as well to 36.1. That compares to the 45.1 in the prior month and 59.3 in February. Even the amount of credit extended has fallen to 38.1 after having been at 64.5 only two months ago.

There was not quite the drastic deterioration with the unfavorable numbers. The rejections of credit applications actually rose a little—from 52.5 to 52.6. "The fact is only a very few companies are in a position to even ask for credit and they are generally in sectors that have been deemed essential," Kuehl said. The accounts placed for collection category fell but stayed in roughly the same range as the last few years. It is currently at 44.8 and was sitting at 49.7 last month and 49.8 in February. He added that many companies have not reached the point that collection action would be called for, but that is expected to change in the next month or so. The disputes category stayed in positive territory but by the narrowest of margins (50.9 from 52.8). The dollar amount beyond terms shows the damage pretty clearly with a reading of 26.6. “It is evident that companies are falling behind in their obligations.” The dollar amount of customer deductions slipped somewhat from the March readings as it went from 49.5 to 48.7 and the filings for bankruptcies slipped below the 50 line for the first time in several years. It was at 54.3 and now sits at 49.3. He noted that many of the service-based companies have less in the way of resilience.

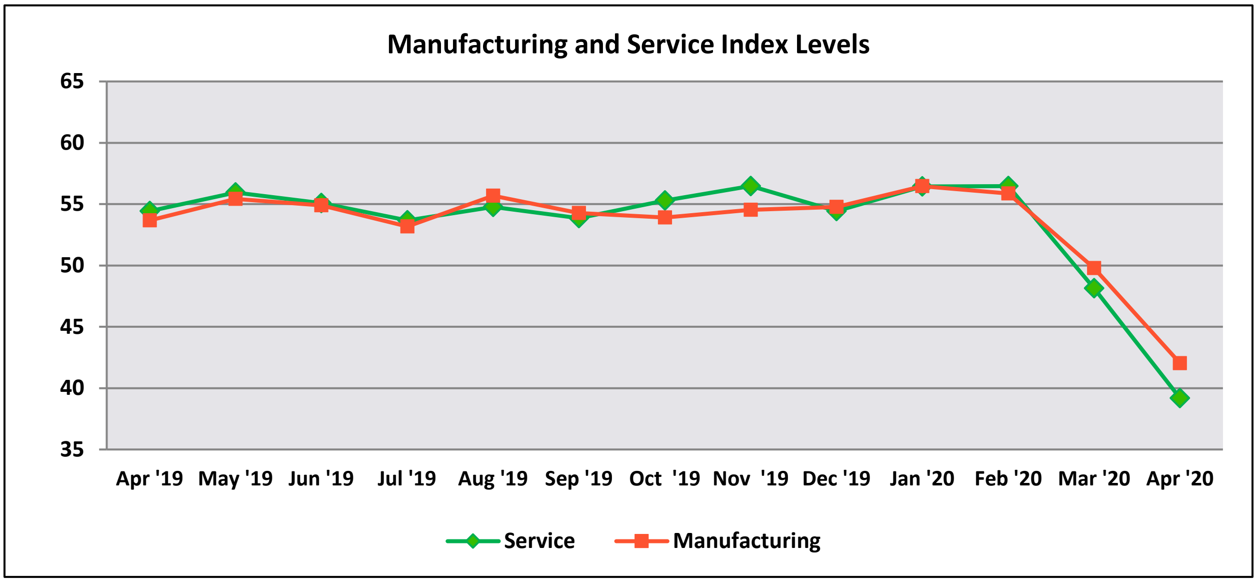
Service Sector (seasonally adjusted)	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20
Sales	63.4	68.5	62.3	59.3	63.4	59.6	59.1	62.5	59.7	62.2	62.3	38.7	18.6
New credit applications	59.6	64.6	62.4	61.6	61.7	59.8	58.7	62.6	57.6	62.0	63.1	43.0	26.5
Dollar collections	59.6	59.1	61.4	58.4	60.4	58.2	65.5	61.7	58.3	60.5	59.3	45.1	36.1
Amount of credit extended	62.7	66.3	63.7	62.6	62.1	60.2	61.6	66.9	63.0	64.5	64.5	52.4	38.1
Index of favorable factors	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**
Rejections of credit applications	50.8	51.2	51.0	51.9	51.2	50.9	52.0	51.0	50.9	51.5	54.6	52.5	52.6
Accounts placed for collection	47.7	45.1	46.6	45.7	46.7	47.1	48.8	50.1	49.5	49.3	49.8	49.7	44.8
Disputes	49.4	49.0	48.8	50.0	48.5	49.4	49.4	50.9	50.6	52.3	51.7	52.8	50.9
Dollar amount beyond terms	46.7	50.9	49.3	44.2	51.2	48.3	52.1	53.1	49.7	54.2	52.8	43.5	26.6
Dollar amount of customer deductions	49.8	50.1	50.3	49.7	50.6	53.1	50.7	52	50.0	53.3	53.2	49.5	48.7
Filings for bankruptcies	54.6	54.5	55.0	53.4	51.9	52.1	55.1	54.0	54.9	54.6	53.4	54.3	49.3
Index of unfavorable factors	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**
NACM Service CMI	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**



	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20
+/-	0.0	1.5	-0.9	-1.4	1.1	-0.9	1.4	1.2	-2.0	2.0	0.0	-8.3	-9.0

April 2020 versus April 2019

In conclusion Kuehl said that it is more than obvious these are conditions we have never seen. This is an imposed recession—a response to the need to control a pandemic. The lockdown is supposed to start easing in the month of May, but the pattern is still unknown. Each of the 50 states will decide what that pace and process will be. That will likely delay a recovery of the economy as a whole.



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, Maryland, 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.

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