Report for May 2020

Issued May 29, 2020

National Association of Credit Management

Combined Sectors

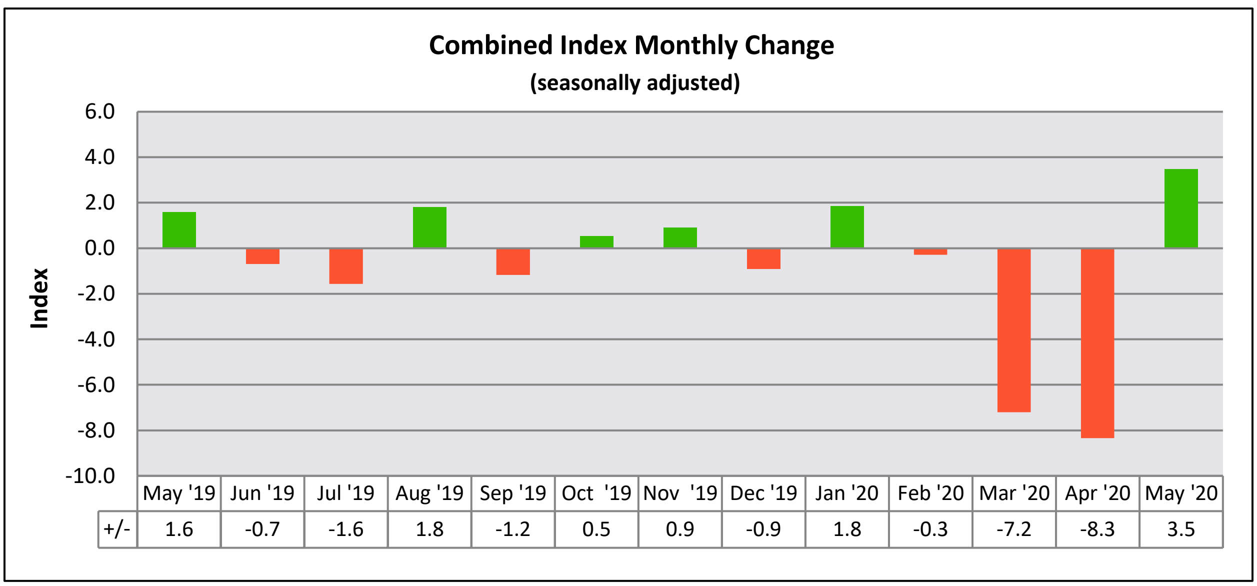
There is a temptation to look at the May Credit Managers' Index (CMI) data and start cheering wildly, but it would probably be a good idea to show some restraint—at least for the time being. NACM Economist Chris Kuehl, Ph.D., reports that after a catastrophic month in April, there are signs of a recovery showing up in May. As usual, there are plenty of caveats, but it is important to remember the CMI is very often a harbinger of things to come due to the nature of credit management. The focus of a credit manager is always on the future—trying to gauge the likelihood of getting paid 30, 60, 90, 120 days from now. The data this month would suggest that many are seeing a better future ahead. It may be possible to assert that April will be the bottom of this crisis and conditions should improve from this point. Over the last few months, the majority of the damage has been seen in the favorable factors as the lockdown recession took its toll. It was impossible for the majority of the business community to function at any level under these conditions, but now there appears to be a slow and halting movement to allow the recovery of the economy. This appears to be resonating with the data in this month's CMI.

The combined score for the CMI is still thoroughly mired in contraction territory (below 50) with a reading of 44.1. In April, it sat at 40.6. The index of favorable factors at 32, had plunged to levels not seen since the recession of 2008. The favorable factors data this month shows a gain to 39.5. That is still very, very low and no reason to celebrate, but it is heading in the right direction. The index of unfavorable factors gained a little as well—moving from 46.3 to 47.2. Kuehl notes that obviously, this remains in contraction, but it is significant that the negatives have not worsened and may, in fact, be improving.

Last month, the subcategories told a very bleak story. These numbers were as low as they have been in the history of the CMI. The improvement this month still leaves the data below 50, but there was considerable concern these numbers would get even worse before starting to rebound. The sales numbers fell like a rock the last couple of months—from 64 in February to 39.5 in March and a crushing 20 in April. This month's gain is significant but still leaves the index near historical lows with a reading of 28.6. The new credit applications number rose to 43.3 from 31.1. "It is a very good sign and shows that companies are starting to prepare for the rebound that was promised this summer," said Kuehl. The dollar collections data also left the 30s behind with a reading of 43.2 as opposed to the 35.5 notched the month prior. The amount of credit extended stayed roughly the same as it had in April as it moved from 41.6 to 42.8. It is not a huge move, but it is a move in the preferred direction.

The unfavorable factors have not been as miserable as the favorables as there has not been enough time for these issues to start kicking in. Kuehl said that this was the month when there was an expectation of more angst in these numbers, but so far, the data is holding more or less steady. The rejections of credit applications fell just slightly from a reading of 52.7 to 51.9, but the important consideration is that it remains out of contraction territory. There was an improvement in accounts placed for collection from 47.4 to 49.1. This has been one of the crucial markers as far as the index is concerned. "Collections will start as creditors are unable to meet their obligations," he said, "but thus far, there has not been time for these issues to develop given that the crisis is roughly two months old." The disputes category improved a little as it climbed from 50.8 to 51.5. There has also been a slight rebound in the dollar amount beyond terms reading. “As business was locked down, the majority became very guarded as far as cash flow,” he said. This led to a huge surge in slow pays and a reading of 27.6. The latest number is still deep in contraction territory at 32.4, but it is an improvement, nonetheless. The dollar amount of customer deductions climbed out of contraction territory (49.4 to 50.9). The filings for bankruptcies numbers started to fall, however, and that is a concern. The number in April was 50.2 and now it is sitting at 47.3. This is the first time the bankruptcy numbers have been below 50 in several years. He added, “this is a sign that already weak companies are succumbing to the lockdown recession.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20
Sales	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8	63.0	64.0	39.5	20.0	28.6
New credit applications	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4	61.1	62.2	44.0	31.1	43.3
Dollar collections	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9	61.7	58.8	49.3	35.5	43.2
Amount of credit extended	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1	62.9	63.6	53.2	41.6	42.8
Index of favorable factors	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**
Rejections of credit applications	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0	52.0	53.8	53.5	52.7	51.9
Accounts placed for collection	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3	50.6	50.6	50.6	47.4	49.1
Disputes	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8	52.4	50.3	52.1	50.8	51.5
Dollar amount beyond terms	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0	54.2	53.5	43.9	27.6	32.4
Dollar amount of customer deductions	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3	52.2	51.5	50.4	49.4	50.9
Filings for bankruptcies	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4	54.4	53.3	53.2	50.2	47.3
Index of unfavorable factors	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**
NACM Combined CMI	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**



Manufacturing Sector

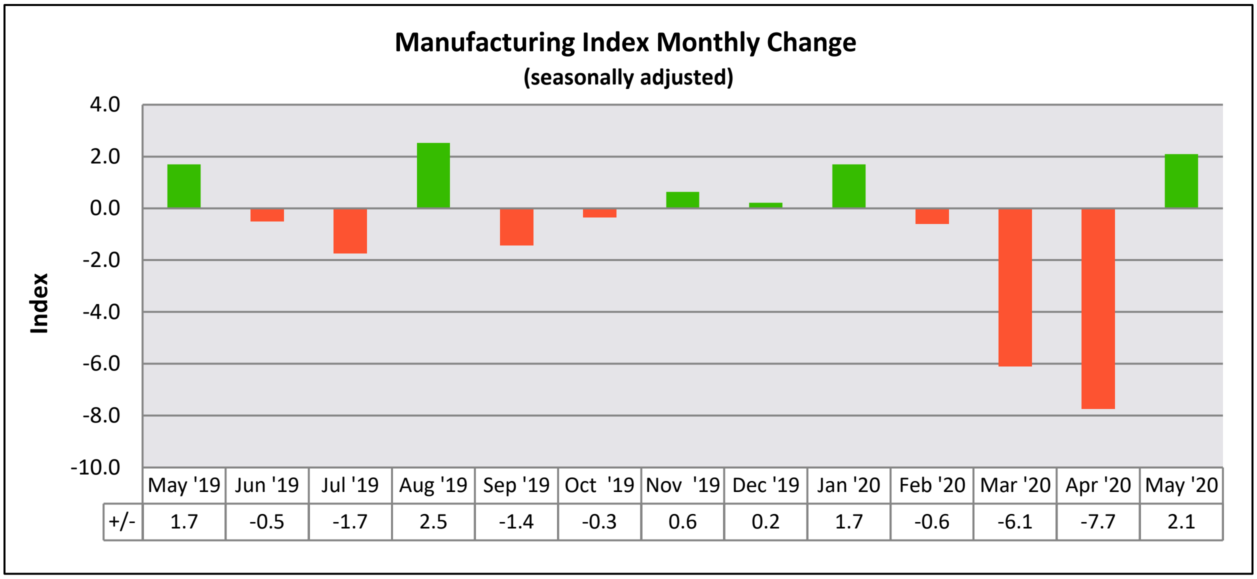
According to Kuehl, the numbers this month are certainly not great but they are better than they were in April. The wholesale collapse in the favorable factors seems to have slowed, although the readings are still very firmly in contraction territory. There was not a great deal of change as far as the unfavorable categories are concerned.

The overall manufacturing readings showed that the decline has started to slow and reverse—if only by a very narrow margin. The index was at 42 last month and is now up to 44.1. Not the most inspiring level, but hopefully the beginning of a trend that would extend over the next few months.

“Last month, the damage in the favorable categories was considerable. It dragged the entire index down to levels not seen in several years,” Kuehl said. “The data this month still shows the damage, but there has been some slightly more encouraging news as the numbers went from 34.3 to 38.6. Whatever optimism this generates is tempered by the knowledge these readings were at 62 in February and had not been below 56 in over a year.” The shift in the unfavorable factors was far less dramatic as it went from 47.2 to 47.8, but at least it is hovering close to the expansion zone. The details within the categories tell the story.

The sales data stayed in the 20s although there has been a slight improvement from 21.4 to 27.5. That remains a very long way from the readings as recently as February when it hit 65.7. Kuehl noted, “there has been a complete crash in the sales of manufactured goods.” The biggest gain came with the category of new credit applications as this went from 35.7 to 43.2. This is still a very low reading, but far better than had been seen earlier. The dollar collections data also jumped back into the 40s with a reading of 40.5 as compared 35 in April. The amount of credit extended data slipped a bit from 45.1 to 43—not such a good development. “It suggests that those who are seeking and getting credit have been slowing down.” The data from the unfavorable categories has not changed as much. The rejections of credit applications improved a little and stayed in positive territory (53.3 from 52.8). “This would suggest that most of those applying for credit are having some success.” There has been stability as far as accounts placed for collection as the reading this month was 50.4 and last month it was at 50. “There has not been enough time for many companies to get to the point that collection is an option, but that could well develop in the next few months if there is a slow economic rebound.” The disputes category saw an improvement from 50.6 to 51.6. There was even some recovery as far dollar amount beyond terms. The reading is still bad but has climbed out of the 20s by notching a 31.9 compared to the previous month at 28.6. The dollar amount of customer deductions remained very similar to what it had been—going from 50.1 to 50.5. The filings for bankruptcies slipped a bit from 51.1 to 49.3; this is a concern. He noted that there had not been time for the bankruptcy issue to develop in previous readings, but it is now clear that companies that were already weak are starting to get in some real trouble. This is a category that will require a lot of attention in the weeks and months to come.

Manufacturing Sector (seasonally adjusted)	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20
Sales	63.3	58.5	57.6	65.3	57.9	56.7	60.7	57.9	63.8	65.7	40.3	21.4	27.5
New credit applications	63.9	62.5	60.0	60.1	59.5	59.2	59.8	61.2	60.2	61.4	45.0	35.7	43.2
Dollar collections	60.5	59.2	54.7	59.6	58.7	58.7	56.8	57.5	62.9	58.3	53.4	35.0	40.5
Amount of credit extended	64.6	61.3	54.7	61.4	59.2	61.6	61.6	59.1	61.3	62.8	54.0	45.1	43.0
Index of favorable factors	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**
Rejections of credit applications	52.5	53.8	53.4	53.0	51.9	52.1	51.6	53.0	52.5	53.0	54.4	52.8	53.3
Accounts placed for collection	49.0	53.5	46.7	50.6	49.7	49.3	49.4	51.1	51.8	51.4	51.6	50.0	50.4
Disputes	48.2	48.3	51.0	50.3	50.6	46.7	49.6	51.0	52.5	48.9	51.4	50.6	51.6
Dollar amount beyond terms	51.8	50.2	48.0	55.9	52.1	52.0	52.1	52.4	54.3	54.2	44.3	28.6	31.9
Dollar amount of customer deductions	48.4	49.8	52.7	49.3	51.1	51.1	50.8	52.6	51.1	49.8	51.3	50.1	50.5
Filings for bankruptcies	52.0	52.0	53.0	51.4	52.0	51.7	53.0	51.8	54.2	53.3	52.0	51.1	49.3
Index of unfavorable factors	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**
NACM Manufacturing CMI	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**



Service Sector

For the service sector, Kuehl notes that obviously there has been a near universal economic impact from the lockdown recession, but there have been sectors that have been hit much harder than others. These will be the same sectors that will see the slowest recovery. The service sector has the most challenges as far as maintaining the strict rules around social distancing and isolation as these are sectors that depend on interaction. The economy will be very sensitive to the pace of service sector recovery as the consumer spends close to 65% of discretionary income on services.

The overall reading for services improved a little from 39.2 to 44.1. The index of favorable factors made a major leap closer to respectability with a reading of 40.4 after one of 29.8 in April. The change in the unfavorable category was not as dramatic, but was also in the right direction (45.5 to 46.5).

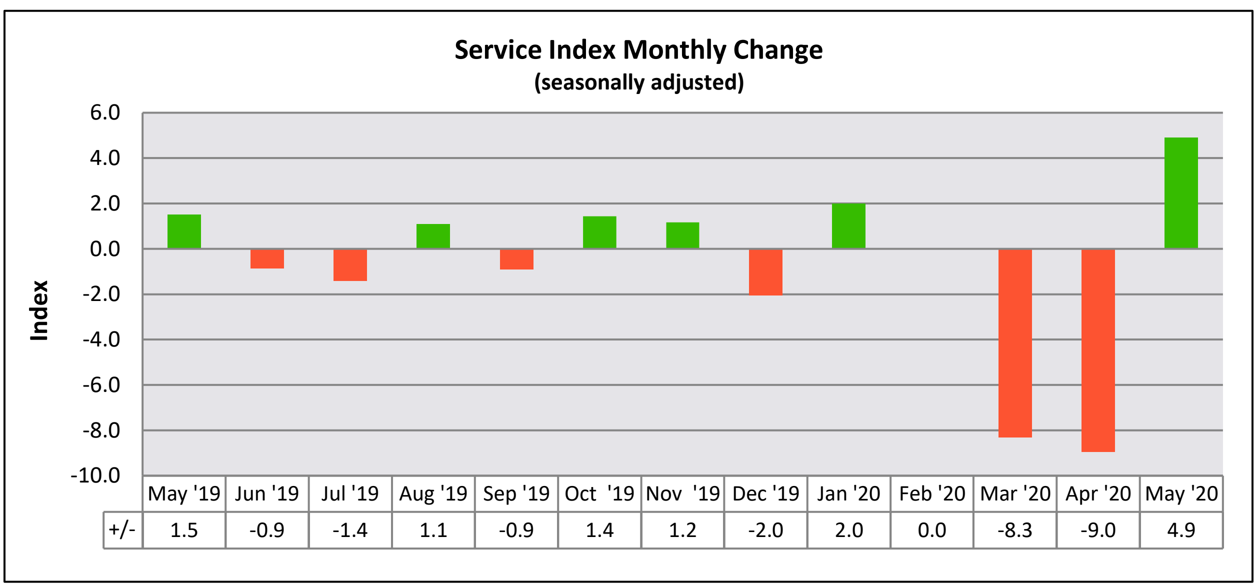
The changes in the subcategories have been dramatic. The sales numbers had hit levels that were truly catastrophic in April as the shutdown orders essentially closed 80% of all retailers and service outlets. The reading of 18.6 was unheard of in the history of the CMI. The numbers now are still quite low, but at least they are up drastically from April at 29.7. The new credit applications numbers jumped dramatically as well as this month. The data showed a 43.5 compared to 26.5 in April. The dollar collections number also went up from 36.1 to 45.8. Kuehl said this is a good sign as far as recovery is concerned. “It would indicate that companies were both able to pay their creditors and that they were willing to do so. In the prior month, the desire to hoard cash was overwhelming the desire to stay current on their credit.” The amount of credit extended shifted out of the 30s as well (38.1 to 42.7). The fact is, however, that none of the favorable categories are in expansion territory, while in January and February, all of them were in the 60s and high 50s. “It will be a while before these numbers recover, but at least the worst seems to be over.”

The rejections of credit applications slipped a little from 52.6 to 50.6. “This might actually be good news,” Kuehl said. “It suggests that some are applying for credit that might not have in the recent past. That shows some newfound levels of confidence are starting to appear.” The accounts placed for collection slipped a bit as the reading went from 44.8 to 47.9. “There has been time enough for companies to start to get in trouble as far as staying current.” The disputes reading was a bit better with a 51.3 after the 50.9 last month. The dollar amount beyond terms has been a problem over the last few months and it is still in miserable territory. It is not as bad as it has been, however, as it went from 26.6 to 33. The dollar amount of customer deductions jumped out of the contraction zone with a reading of 51.2 compared to 48.7 in April. The filings for bankruptcies stayed close to what it had been with a reading of 45.3

from 49.3 in April. “The fact is that many retailers and others in the service sector were struggling even before the shutdown,” he said, “and this recession put them over the edge.”

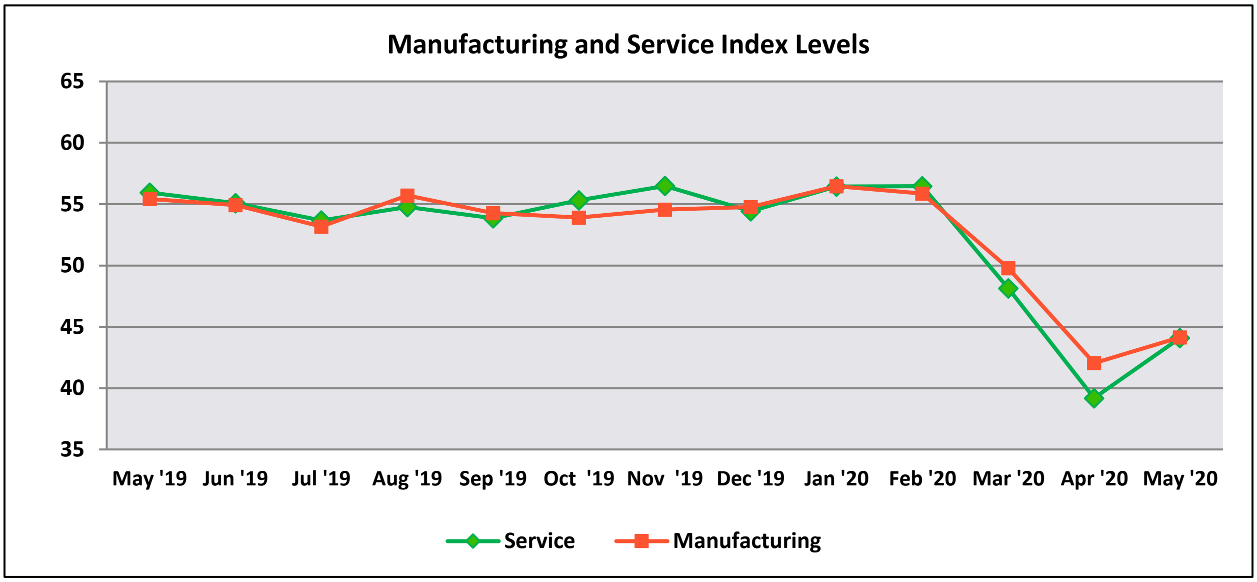
Kuehl concluded that the service sector of the economy was the first to be hit and was arguably the hardest hit. It will also be the first sector to open back up and show growth. This will be a crucial time as the pressure will be intense. This is the sector that will expose more people to the virus, that is inevitable. If the number of cases remains within acceptable limits and fatalities are manageable, the economy will continue to open, but a surge of infection and deaths will prompt talk of another shutdown. It is doubtful that many companies would survive round two of a lockdown.

Service Sector (seasonally adjusted)	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20
Sales	68.5	62.3	59.3	63.4	59.6	59.1	62.5	59.7	62.2	62.3	38.7	18.6	29.7
New credit applications	64.6	62.4	61.6	61.7	59.8	58.7	62.6	57.6	62.0	63.1	43.0	26.5	43.5
Dollar collections	59.1	61.4	58.4	60.4	58.2	65.5	61.7	58.3	60.5	59.3	45.1	36.1	45.8
Amount of credit extended	66.3	63.7	62.6	62.1	60.2	61.6	66.9	63.0	64.5	64.5	52.4	38.1	42.7
Index of favorable factors	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**
Rejections of credit applications	51.2	51.0	51.9	51.2	50.9	52.0	51.0	50.9	51.5	54.6	52.5	52.6	50.6
Accounts placed for collection	45.1	46.6	45.7	46.7	47.1	48.8	50.1	49.5	49.3	49.8	49.7	44.8	47.9
Disputes	49.0	48.8	50.0	48.5	49.4	49.4	50.9	50.6	52.3	51.7	52.8	50.9	51.3
Dollar amount beyond terms	50.9	49.3	44.2	51.2	48.3	52.1	53.1	49.7	54.2	52.8	43.5	26.6	33.0
Dollar amount of customer deductions	50.1	50.3	49.7	50.6	53.1	50.7	52	50.0	53.3	53.2	49.5	48.7	51.2
Filings for bankruptcies	54.5	55.0	53.4	51.9	52.1	55.1	54.0	54.9	54.6	53.4	54.3	49.3	45.3
Index of unfavorable factors	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**
NACM Service CMI	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**



May 2020 versus May 2019

"After a crash of near epic proportions there has been a significant rebound, but even with these better numbers, the economy is in trouble and credit managers should remain wary," Kuehl said. "The willingness to take some risks will be present with manufacturers, but the service side will be treated with more caution and trepidation."



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:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

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, 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.

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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