NACM CMI
CREDIT MANAGERS' INDEX

Report for July 2020

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National Association of Credit Management

Combined Sectors

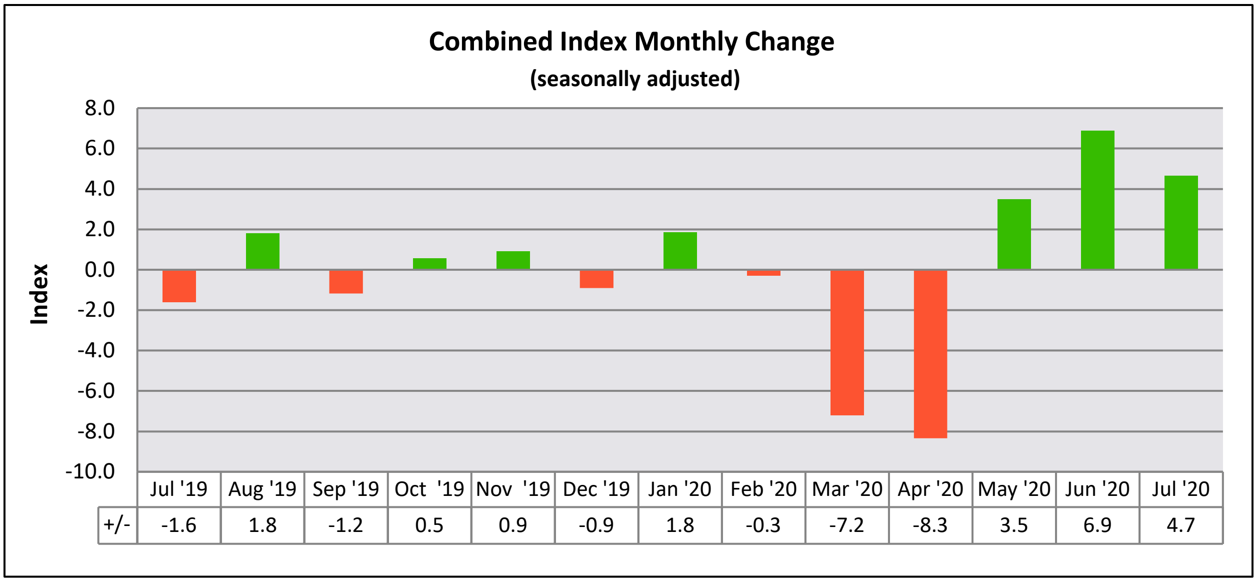
We seem to have a trend on our hands, and it is one that is more encouraging than would be expected given all the economic turmoil that has dominated the world since March. The pandemic continues to threaten and baffle as very little of the containment strategy has worked as intended. The lockdown of the global economy was intended to last only a few weeks as the viral infection was supposed to reach its peak in April, allowing the much-anticipated May rebound. "We are now in summer, but the virus is nowhere near a peak," said Chris Kuehl, Ph.D., NACM economist. "The lockdown lift has halted, and many states are considering a reimposition of restrictions. In the midst of all this, the credit managers are responding with significant enthusiasm regarding the future. This matters as the Credit Managers' Index is very often prescient due to the tendency for credit managers to think more about the future than what is happening right now."

The months of March and April were flat disastrous with numbers lower than the index has seen since its inception—far lower than were recorded in 2008/2009. The recovery started in May with numbers that got within shouting distance of expansion, but by June, the combined index was above 50 and in the growth territory again. Now comes July, and the numbers are even a bit stronger than they were the month before. The combined score jumped to 55.6 from June's 51, and the gains in the favorable categories were even more impressive as the index returned to the 60s with a 61.6 reading compared to the 55.3 in June and the truly miserable reading of 32 in April. The latest reading takes the index back to where it was in February before the pandemic restrictions set in. "There was some expectation that there would be a decline in the unfavorable numbers by this point, but that has not yet been the case as this month's reading is 51.7 as compared to last month at 48.1," Kuehl said. This latest number takes the index back to February as well.

As is usually the case, there is interesting activity in the sub-index readings. The most significant and encouraging sign was the return to the 60s in terms of sales. In April, sales had fallen all the way to 20, and that was a level that had never been reached. In February, the level had been at 64, and this month it stands at 64.3. Only once in the last twelve months has the level of sales activity been higher and that was in August 2019. Sales was not the only measure that returned to the 60s as new credit applications went from 57.9 to 62.4, which is higher than it has been in the last year. The reading in February was 62.2. The dollar collections data also jumped back to these high levels with a reading of 62.5 as compared 53.9. This makes yet another category that has not been more robust this year, the closest being 62.1 last October. Finally, there is the amount of credit extended, and it just missed hitting that 60 level with a reading of 57.3. This is the only one of the four that languished a bit compared to the previous year but is still higher than it has been since February.

"There has been some expectation that the unfavorable factors would start to show some weakness by now given the blows the economy has taken in the last several months, but there has been some good news showing up in these categories as well," Kuehl noted. The rejections of credit applications reading improved from 49.8 to 50, and thus, escaped the contraction zone by a hair. "This is better news than it seems given the sharp rise in credit applications as it suggests that the applicants have been credit worthy." Accounts placed for collection also moved out of the contraction zone with a reading of 50.8 as compared to the 46.7 that had been notched in June. The disputes category became the third of these readings to move into expansion territory with a reading of 50.7 after registering a 49.6 the prior month. Dollar amount beyond terms made a major jump as it went from 44.4 to 57.3, and this has as much significance as any of the readings. “There had been an assumption that companies would start falling seriously behind in paying their debts by this time, but there has been little evidence of this so far as companies are showing the ability to keep current on their obligations.” Dollar amount of customer deductions had moved into expansion territory the month before, but that position has solidified a bit this month with a reading of 52.4 compared to the 50.6 in June. Filings for bankruptcies continued to falter a little and didn’t quite escape contraction with a reading of 48.8 compared to 47.7 in June.

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Jul '19**	**Aug '19**	**Sep '19**	**Oct '19**	**Nov '19**	**Dec '19**	**Jan '20**	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**
Sales	58.4	64.4	58.7	57.9	61.6	58.8	63.0	64.0	39.5	20.0	28.6	54.1	64.3
New credit applications	60.8	60.9	59.7	59.0	61.2	59.4	61.1	62.2	44.0	31.1	43.3	57.9	62.4
Dollar collections	56.6	60.0	58.5	62.1	59.2	57.9	61.7	58.8	49.3	35.5	43.2	53.9	62.5
Amount of credit extended	58.7	61.7	59.7	61.6	64.3	61.1	62.9	63.6	53.2	41.6	42.8	55.2	57.3
Index of favorable factors	**58.6**	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**
Rejections of credit applications	52.6	52.1	51.4	52.1	51.3	52.0	52.0	53.8	53.5	52.7	51.9	49.8	50.0
Accounts placed for collection	46.2	48.6	48.4	49.1	49.8	50.3	50.6	50.6	50.6	47.4	49.1	46.7	50.8
Disputes	50.5	49.4	50.0	48.1	50.3	50.8	52.4	50.3	52.1	50.8	51.5	49.6	50.7
Dollar amount beyond terms	46.1	53.6	50.2	52.0	52.6	51.0	54.2	53.5	43.9	27.6	32.4	44.4	57.3
Dollar amount of customer deductions	51.2	50.0	52.1	50.9	51.4	51.3	52.2	51.5	50.4	49.4	50.9	50.6	52.4
Filings for bankruptcies	53.2	51.6	52.1	53.4	53.5	53.4	54.4	53.3	53.2	50.2	47.3	47.7	48.8
Index of unfavorable factors	**50.0**	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**
NACM Combined CMI	**53.4**	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**



Manufacturing Sector

There has unquestionably been considerable damage caused to the economy by the lockdown and other reactions to the pandemic, but the manufacturing sector has proven to be more resilient than many had assumed. It has depended on sectors with some feeling extreme decline, while others have actually boomed in this environment. The data this month shows there has been a significant bounce back. The index of favorable factors jumped back into the 60s with the best number it has seen in over a year. The reading now sits at 62.2, and in February, it was at 62. The index of unfavorable factors also improved and left the contraction zone with a reading of 50.6 compared to the 47.8 in June. It has been interesting to note that the unfavorable readings have never fallen that low throughout this crisis as the low point was reached in April with a 47.2.

The majority of the activity was seen in the favorable categories with sales dominating the surge. In June, the reading was 57.8. This month it jumped to 66.3, and that is higher than it has been all year and a far cry from the 21.4 that was noted in April. The new credit applications score also returned to the 60s with a 64.4 as compared to 57.5 in June and 35.7 in April. The dollar collections numbers returned to 61.1 for the first time since January when it stood at 62.9. Amount of credit extended improved a bit from the levels in June as it went from 55.4 to 56.8. There has not been the same level of volatility as has been seen in the other categories as the worst reading from April was 45.1, but the high point was in February with a 62.8.

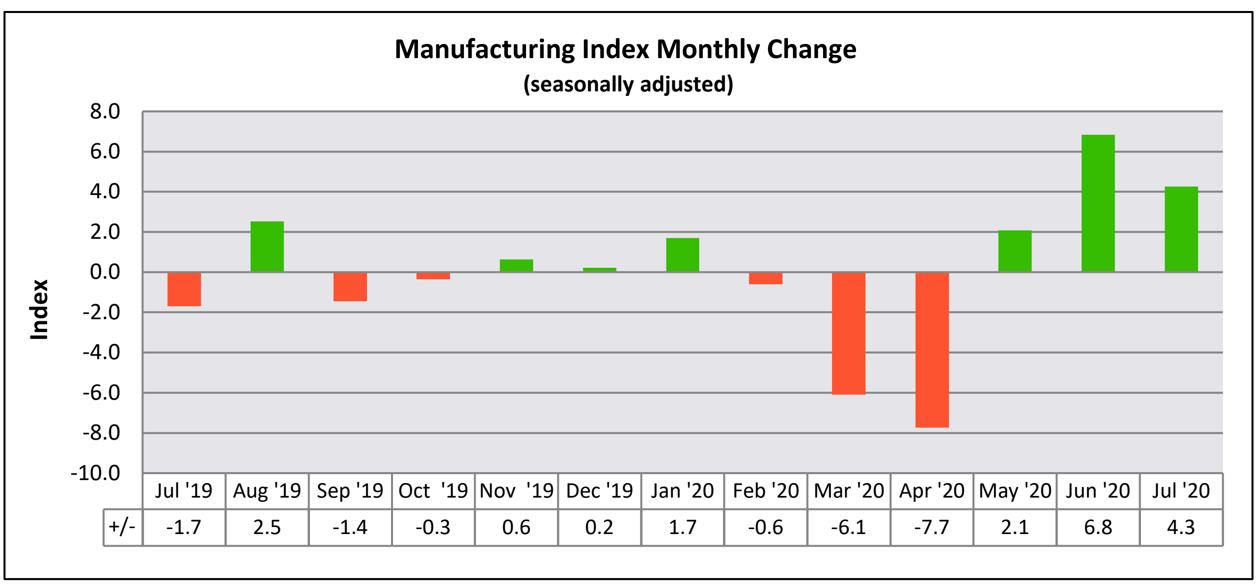
Rejections of credit applications did not move much from the prior month and is still out of the expansion zone with a reading of 49.8 compared to June's 49.5. Even in April and May, these numbers were still in expansion territory. Accounts placed for collection improved a little as well but remained in contraction territory. It was sitting at 47.1 and is now at 49.3. The disputes numbers behaved similarly as they are now sitting at 49.6 after June's reading of 47.4. The biggest jump was notched in the dollar beyond terms category as it has moved from 44 to 53.7. "This was an area where there was more expectation of distress, but the fact is that most are keeping up with their terms—a good sign for the future." Dollar amount of customer deductions went from 49.9 to 52, and escaped the contraction zone in a decisive manner. Filings for bankruptcies improved a little but remained in contraction territory with a reading of 49.4 compared to the 48.8 in June.

Within manufacturing there has been remarkable variety of experience with some sectors still near collapse and others on their way to real recovery. The aerospace sector has been suffering as much as any of them, but in contrast, there has been a gain in the automotive sector over the last month. Construction has gained and so has the oil and gas sector, but there have been holes in both of these. It has been mixed as far as retail-oriented manufacturing.

Manufacturing Sector (seasonally adjusted)	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20
Sales	57.6	65.3	57.9	56.7	60.7	57.9	63.8	65.7	40.3	21.4	27.5	57.8	66.3
New credit applications	60.0	60.1	59.5	59.2	59.8	61.2	60.2	61.4	45.0	35.7	43.2	57.5	64.4
Dollar collections	54.7	59.6	58.7	58.7	56.8	57.5	62.9	58.3	53.4	35.0	40.5	52.4	61.1
Amount of credit extended	54.7	61.4	59.2	61.6	61.6	59.1	61.3	62.8	54.0	45.1	43.0	55.4	56.8
Index of favorable factors	**56.7**	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**
Rejections of credit applications	53.4	53.0	51.9	52.1	51.6	53.0	52.5	53.0	54.4	52.8	53.3	49.5	49.8
Accounts placed for collection	46.7	50.6	49.7	49.3	49.4	51.1	51.8	51.4	51.6	50.0	50.4	47.1	49.3
Disputes	51.0	50.3	50.6	46.7	49.6	51.0	52.5	48.9	51.4	50.6	51.6	47.4	49.6
Dollar amount beyond terms	48.0	55.9	52.1	52.0	52.1	52.4	54.3	54.2	44.3	28.6	31.9	44.0	53.7
Dollar amount of customer deductions	52.7	49.3	51.1	51.1	50.8	52.6	51.1	49.8	51.3	50.1	50.5	49.9	52.0
Filings for bankruptcies	53.0	51.4	52.0	51.7	53.0	51.8	54.2	53.3	52.0	51.1	49.3	48.8	49.4
Index of unfavorable factors	**50.8**	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**
NACM Manufacturing CMI	**53.2**	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**

Service Sector

There has been significant progress as far as the service sector is concerned, and that is a bit of a surprise given the impact of the recession. It has been clear from the start that service sector damage was concentrated in areas such as hospitality, food service, tourism, travel and the like. The retail sector was slammed at the beginning, but this was an area that was allowed to emerge from the lockdown earlier than some others. That has been reflected in the



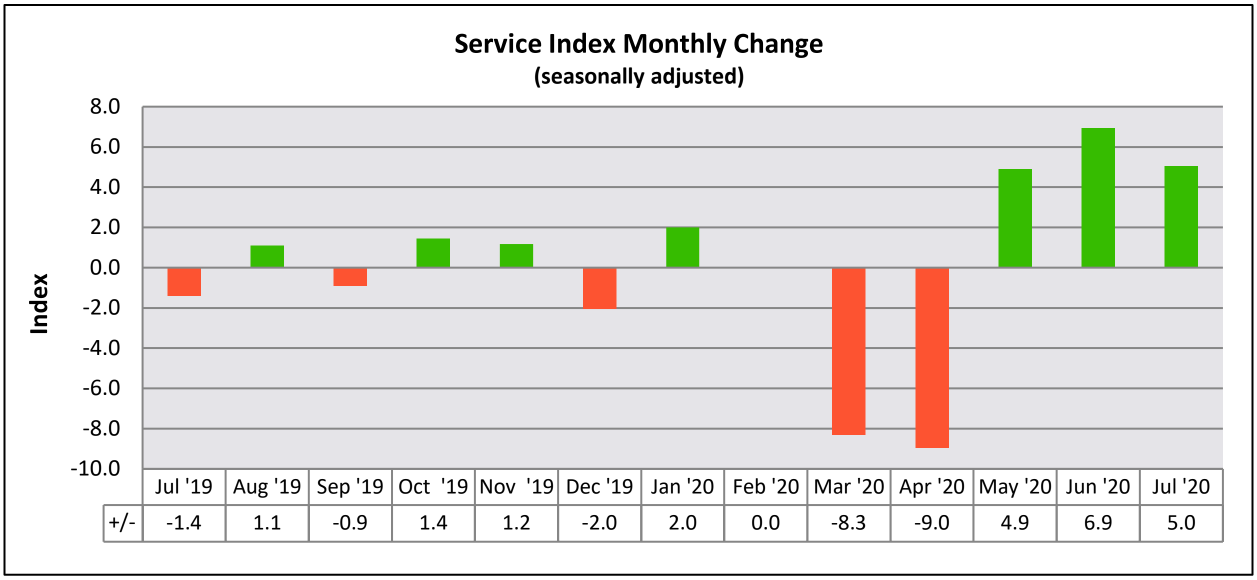
numbers—everything from consumer spending to retail sales and now the numbers from the CMI. It has been anticipated that service numbers would remain down for an extended time, but the combined score went from 51 to 56.1, and that is far better than had been noted in April when the index languished at 39.2. The most dramatic shift was in the favorable factors where the combined score moved above 60 with a score of 61.1. It was at 29.8 in April. The combined unfavorable score went from 48.5 to 52.7 and well past the 45.5 in April.

Sales popped back to the 60s after having sunk to a record low in April of 18.6. This latest number is as high as the index has seen since August of last year when it hit 63.4. New credit applications also returned to the 60s with a reading of 60.5 compared to the 58.4 noted in June. That is also a far cry from the 26.5 collapse in April. The dollar collections number jumped from 55.4 to 63.9, and that is a better position than at any time since last October. Rounding out the favorable categories is amount of credit extended, and that had been in expansion territory with a reading of 55.1 and improved a little to 57.7.

The rejections of credit applications stayed almost exactly where it had been with a reading of 50.2 compared to the 50.1 in June. The accounts placed for collection escaped the contraction zone with a reading of 52.2 as compared to June's 46.4. "This had been expected to worsen as companies would have had time to get in financial distress, but that has not yet been the case," said Kuehl. The disputes numbers remained stable with a reading of 51.9 compared to the 51.7 in June. The dollar amount beyond terms data was another one that had been expected to slip as companies struggled with the impact of the lockdown, but there was a huge improvement to 60.9—the highest reading seen in years. Dollar amount of customer deductions moved slightly from 51.2 to 52.7, and the filings for bankruptcies also recovered a little but still remained mired in contraction territory with a reading of 48.3 compared to June's 46.5.

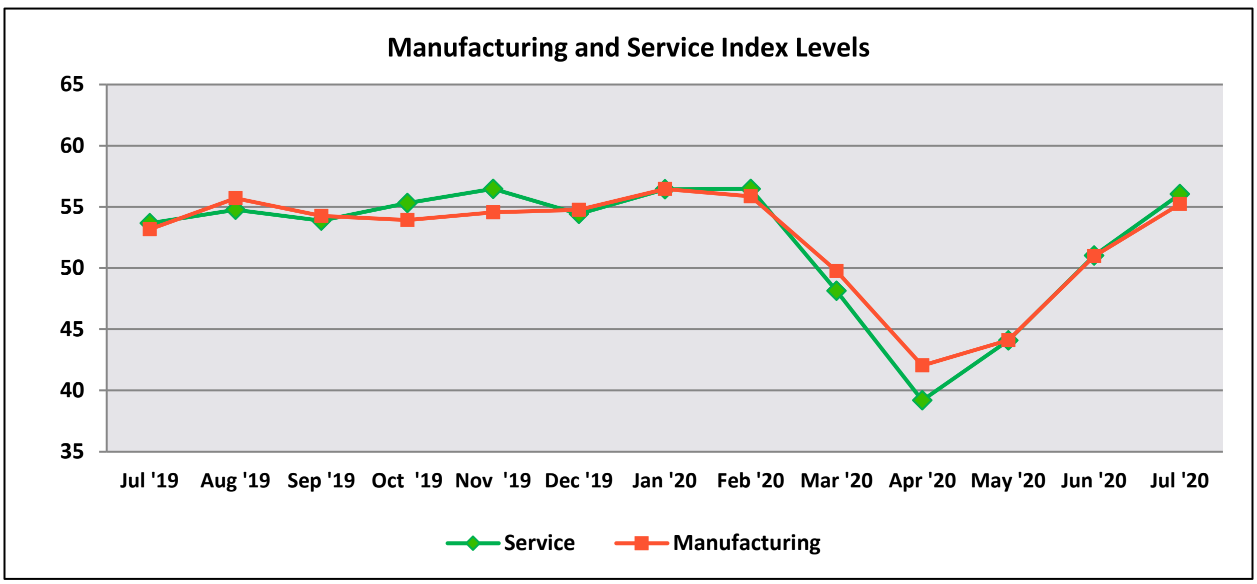
The service sector is immensely diverse, and that has been apparent as the pandemic crisis has unfolded. The data that is collected for the CMI is heavily weighted toward the retail sector as opposed to some of those areas that sustained the biggest economic blows. The recovery in retail has been substantial and that has allowed the progress in the CMI numbers as well.

Service Sector **(seasonally adjusted)**	**Jul '19**	**Aug '19**	**Sep '19**	**Oct '19**	**Nov '19**	**Dec '19**	**Jan '20**	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**
Sales	59.3	63.4	59.6	59.1	62.5	59.7	62.2	62.3	38.7	18.6	29.7	50.4	62.4
New credit applications	61.6	61.7	59.8	58.7	62.6	57.6	62.0	63.1	43.0	26.5	43.5	58.4	60.5
Dollar collections	58.4	60.4	58.2	65.5	61.7	58.3	60.5	59.3	45.1	36.1	45.8	55.4	63.9
Amount of credit extended	62.6	62.1	60.2	61.6	66.9	63.0	64.5	64.5	52.4	38.1	42.7	55.1	57.7
Index of favorable factors	**60.5**	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**
Rejections of credit applications	51.9	51.2	50.9	52.0	51.0	50.9	51.5	54.6	52.5	52.6	50.6	50.1	50.2
Accounts placed for collection	45.7	46.7	47.1	48.8	50.1	49.5	49.3	49.8	49.7	44.8	47.9	46.4	52.2
Disputes	50.0	48.5	49.4	49.4	50.9	50.6	52.3	51.7	52.8	50.9	51.3	51.7	51.9
Dollar amount beyond terms	44.2	51.2	48.3	52.1	53.1	49.7	54.2	52.8	43.5	26.6	33.0	44.9	60.9
Dollar amount of customer deductions	49.7	50.6	53.1	50.7	52	50.0	53.3	53.2	49.5	48.7	51.2	51.2	52.7
Filings for bankruptcies	53.4	51.9	52.1	55.1	54.0	54.9	54.6	53.4	54.3	49.3	45.3	46.5	48.3
Index of unfavorable factors	**49.1**	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**
NACM Service CMI	**53.7**	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**



July 2020 versus July 2019

"The recovery from the depths of the lockdown recession has been impressive, but now the primary question is whether it can be sustained," said Kuehl. "There has been a slowing of the process when it comes to ending the lockdown, and some states have resumed these shutdowns. Will that drag these numbers back down? It is too early to tell at this juncture."



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.

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.

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