Report for August 2020

Issued August 31, 2020
National Association of Credit Management

Combined Sectors

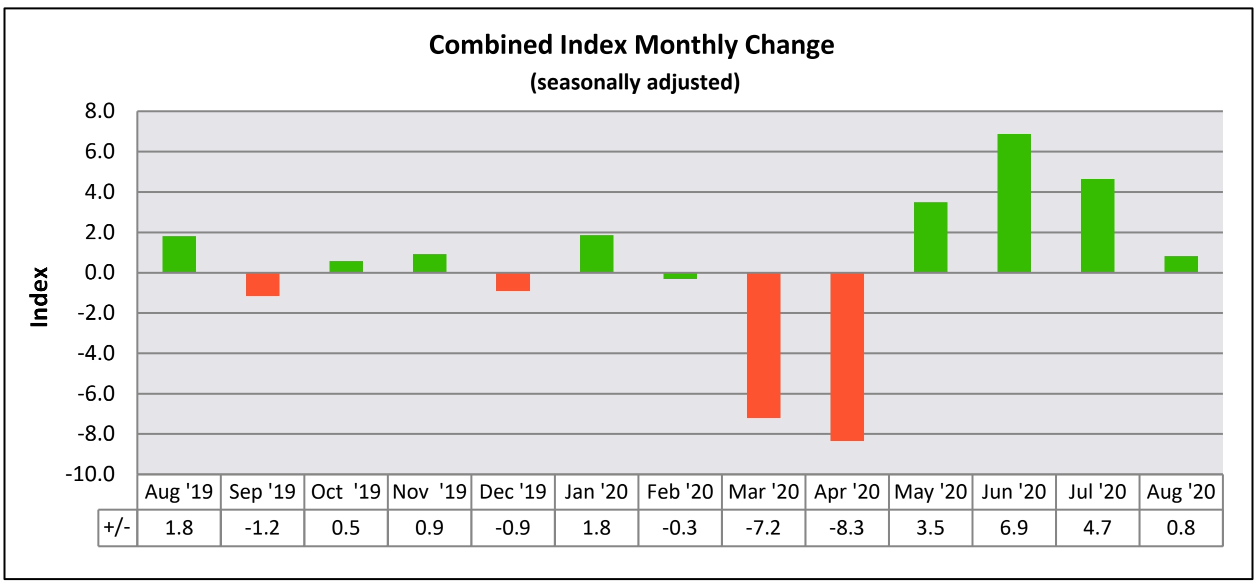
There are doubtless legions of credit managers that are starting to turn blue. They have been watching the data that has been emerging over the last several months of the Credit Managers' Index (CMI), and they have been waiting for it to turn sour somehow. The general economic news seems to be gloom and doom, but the CMI keeps showing significant progress. "Given that the credit manager tends to think in the future, this is yet another signal that there may well be better times ahead," said NACM Economist Chris Kuehl, Ph.D. The latest version of Markit's Purchasing Managers' Index (flash version) was also up, and that is consistent with what we have noted before as far as the CMI is concerned. "A movement in the CMI often presages movement in the PMI, and now we are seeing a rise that matches the one we have been observing in the CMI since June. Of course, all the economic news is not as rosy as this has been a recession and a recovery that has been highly sector specific."

The overall score improved for yet another month—moving from 55.6 to 56.5, and that is highest level reached in the last twelve months—very close to January when it reached 56.4. The index of favorable factors also rose to new heights as it hit 62.9. This is back to the numbers we started the year with as the reading was 62.2 in January and again in February. The index of unfavorable factors continued to show stability with a reading of 52.2 after last month's 51.7. The January number was only slightly better than it is this month as it was at 52.6. "The data is more than encouraging and seems to signal there is considerable confidence building as far as the end of the year," Kuehl noted.

The readings within the favorable categories are firmly back in expansion territory, and in many cases, they are better than they have been in well over a year. The sales number is at 65.8 and beats every reading in the last few years. The new credit application numbers are at 63.4, another reading better than anything seen in the last year. The dollar collections number was down just slightly from last month but stayed firmly in the 60s with a 61.2 reading as compared to 62.5 the month prior. The amount of credit extended finally jumped into the 60s, and that means that all of these favorables are in the 60s now. The latest reading is 61.3, and last month it was at 57.3. January and February were slightly higher but not my much so this sector is in clear recovery.

With one exception the unfavorable categories all returned to expansion territory with readings in the 50s. The exception has been filings for bankruptcies as the reading has fallen from 48.8 to 47.7. "This is not unexpected given the surge of businesses that had been forced out by the lockdown and the very slow process of restarting," said Kuehl. The rejections of credit applications moved up from 50 to 51.5, and that is good news given the fact there have been more credit applications. The highest levels were reached in February with a 53.8 reading, so this month is not all that far off. The accounts placed for collection also registered an improvement with a reading of 51.6 as compared to 50.8 last month. This is the highest reading this year, even better than the 50.6 noted in both January and February. The disputes numbers also improved with a reading of 51.8 as compared to the 50.7 in July. The reading for dollar amount beyond terms shifted up very dramatically as it hit 58.2 compared to July's 57.3. "That makes two months in a row for these very solid readings and suggests that there is a desire to stay very current in terms of credit. That is generally an indicator that more credit is likely to be requested and companies seek to be in good standing when the request is made." The dollar amount of customer deductions stayed very close to the numbers in July with a reading of 52.2 as compared to July's 52.4.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20
Sales	64.4	58.7	57.9	61.6	58.8	63.0	64.0	39.5	20.0	28.6	54.1	64.3	65.8
New credit applications	60.9	59.7	59.0	61.2	59.4	61.1	62.2	44.0	31.1	43.3	57.9	62.4	63.4
Dollar collections	60.0	58.5	62.1	59.2	57.9	61.7	58.8	49.3	35.5	43.2	53.9	62.5	61.2
Amount of credit extended	61.7	59.7	61.6	64.3	61.1	62.9	63.6	53.2	41.6	42.8	55.2	57.3	61.3
Index of favorable factors	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**
Rejections of credit applications	52.1	51.4	52.1	51.3	52.0	52.0	53.8	53.5	52.7	51.9	49.8	50.0	51.5
Accounts placed for collection	48.6	48.4	49.1	49.8	50.3	50.6	50.6	50.6	47.4	49.1	46.7	50.8	51.6
Disputes	49.4	50.0	48.1	50.3	50.8	52.4	50.3	52.1	50.8	51.5	49.6	50.7	51.8
Dollar amount beyond terms	53.6	50.2	52.0	52.6	51.0	54.2	53.5	43.9	27.6	32.4	44.4	57.3	58.2
Dollar amount of customer deductions	50.0	52.1	50.9	51.4	51.3	52.2	51.5	50.4	49.4	50.9	50.6	52.4	52.2
Filings for bankruptcies	51.6	52.1	53.4	53.5	53.4	54.4	53.3	53.2	50.2	47.3	47.7	48.8	47.7
Index of unfavorable factors	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**
NACM Combined CMI	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**



Manufacturing Sector

There has been very uneven recovery as far as the economy is concerned, and that will be a pattern repeated throughout the remainder of this year and into next. "For the most part, there has been far more progress in manufacturing, construction and even transportation," noted Kuehl. "The lockdown has not generally had the same impact on these sectors as has been the case with retail and the services in general. There are notable exceptions—oil and gas still deal with per barrel prices that are too low for U.S. producers, and the aerospace sector remains in dire straits as long as business travel is highly restricted."

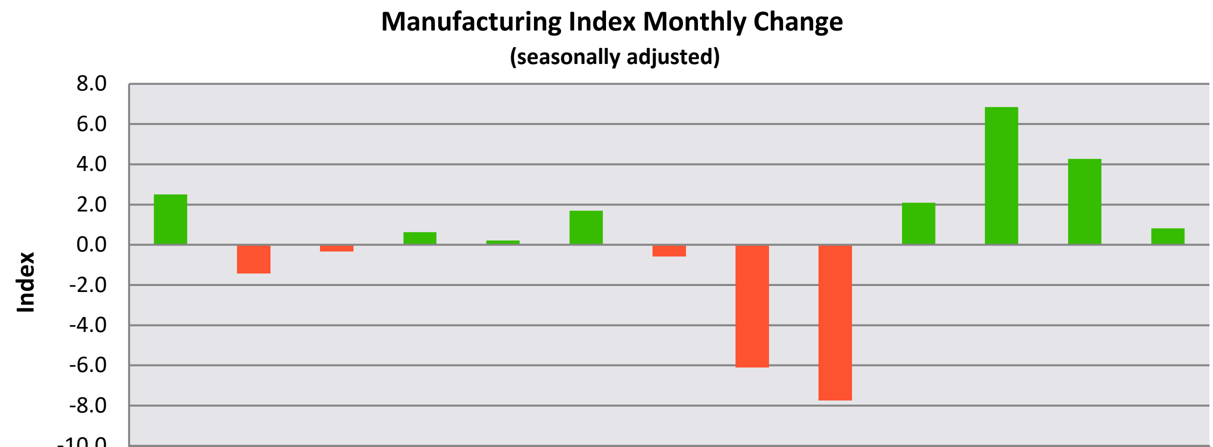
The overall score for the manufacturing sector improved substantially as more sectors are doing well than not. The score this month is 56, up from the 55.2 notched in July. This is as high as the index has registered since January. The index of favorable factors slipped a tiny bit but remained in the 60s with a reading of 62 compared to 62.2 in July. The unfavorable factors index improved as it went from 50.6 to 52.1. These are numbers that were last seen in January and February.

The most positive activity has been seen in the favorable numbers, and that has been the case for the last few months. The sales numbers surged even further into the high 60s with a reading of 67.2. In July, it hit 66.3, and that was the highest for the last two years. The new credit applications numbers remained in the 60s, but there was some loss of momentum as the numbers fell from 64.4 to 60.4. The dollar collections data stayed very nearly the same as last month with a reading of 61.3 compared to July's 61.1. The only category that has not gotten into the 60s has been amount of credit extended, but the levels are heading in the right direction. In July, the reading reached 56.8, and this month it sits at 58.9.

The unfavorables were also very solid with only filings for bankruptcies in the contraction territory with a reading of 47.9—slightly off from the July reading of 49.4. "This is not a surprise as there have been some in the manufacturing sector that have been badly affected by the issues in sectors such as aerospace as well as the oil patch." The rejections of credit applications left the contraction zone with a reading of 52.5 after July's reading of 49.8. This takes the levels back to where they were just as the lockdown was imposed. The accounts placed for collection also entered expansion territory with a reading of 50.9 after one of 49.3 in the prior month. The disputes category made the same leap and left contraction behind with a reading of 51.7 compared to 49.6 in July. The dollar amount beyond terms category made a nice jump as well as it had been at 53.7 and now sits at a very robust 57.8 as good as that number has been all year. The dollar amount of customer deductions fell back slightly from July's reading as it went from 52 to 51.9.

The manufacturing data in general has been solid with the notable exceptions of sectors that were squarely in the firing line as far as the lockdowns were concerned.

Manufacturing Sector (seasonally adjusted)	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20
Sales	65.3	57.9	56.7	60.7	57.9	63.8	65.7	40.3	21.4	27.5	57.8	66.3	67.2
New credit applications	60.1	59.5	59.2	59.8	61.2	60.2	61.4	45.0	35.7	43.2	57.5	64.4	60.4
Dollar collections	59.6	58.7	58.7	56.8	57.5	62.9	58.3	53.4	35.0	40.5	52.4	61.1	61.3
Amount of credit extended	61.4	59.2	61.6	61.6	59.1	61.3	62.8	54.0	45.1	43.0	55.4	56.8	58.9
Index of favorable factors	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**
Rejections of credit applications	53.0	51.9	52.1	51.6	53.0	52.5	53.0	54.4	52.8	53.3	49.5	49.8	52.5
Accounts placed for collection	50.6	49.7	49.3	49.4	51.1	51.8	51.4	51.6	50.0	50.4	47.1	49.3	50.9
Disputes	50.3	50.6	46.7	49.6	51.0	52.5	48.9	51.4	50.6	51.6	47.4	49.6	51.7
Dollar amount beyond terms	55.9	52.1	52.0	52.1	52.4	54.3	54.2	44.3	28.6	31.9	44.0	53.7	57.8
Dollar amount of customer deductions	49.3	51.1	51.1	50.8	52.6	51.1	49.8	51.3	50.1	50.5	49.9	52.0	51.9
Filings for bankruptcies	51.4	52.0	51.7	53.0	51.8	54.2	53.3	52.0	51.1	49.3	48.8	49.4	47.9
Index of unfavorable factors	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**
NACM Manufacturing CMI	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**



	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20
+/-	2.5	-1.4	-0.3	0.6	0.2	1.7	-0.6	-6.1	-7.7	2.1	6.8	4.3	0.8

Service Sector

The damage that has been noted as a result of the lockdown recession is clear enough by this time. "The impact has been felt dramatically in the service sector, but even here there has been a good deal of variability," said Kuehl. As the restrictions have been eased to some degree there has been some recovery in the retail sector—far more than in those sectors that depend on interaction. Anything to do with travel and tourism has been hammered and the food service sector has been hurt. Personal services have been hit very hard as well. Meanwhile, there has been far less damage in construction services as well as most of the professional services.

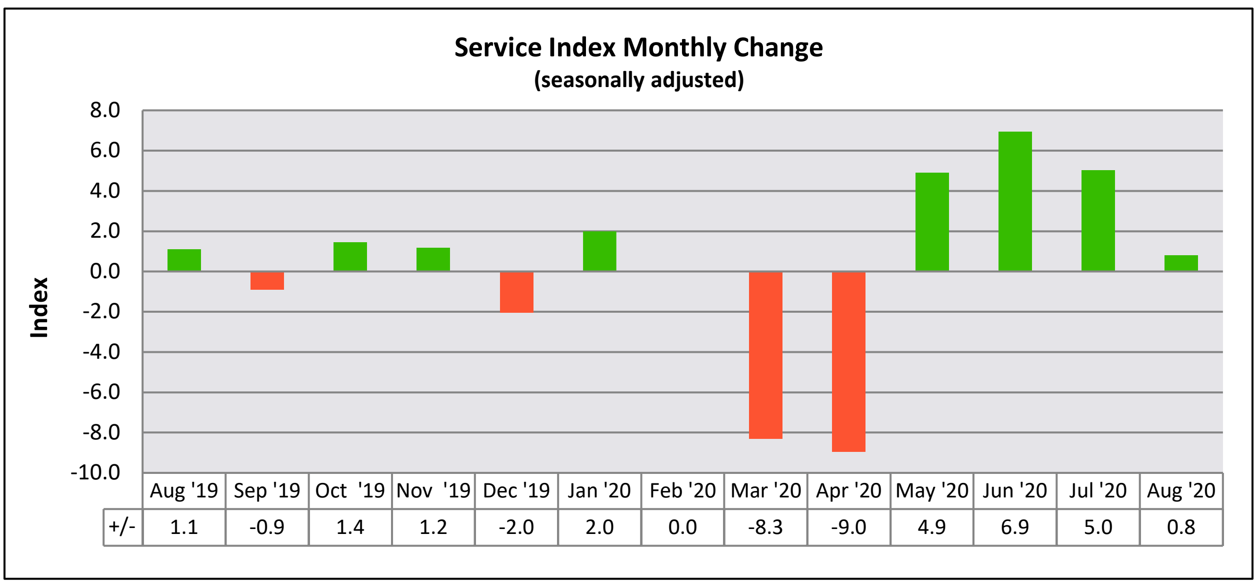
The overall reading for the service sector remained very close to the July reading. It went from 56.1 to 56.9, and that is back to the readings noted at the first of the year. "The score for the favorable factors moved up nicely despite the pressure on services in general, and that has been attributed to the rebound in retail." The unfavorable factor score was not all that bad either with a reading of 52.2 as compared to the 52.7 notched in July. The important thing is that these are numbers firmly in the expansion zone.

The action was as usual in the subcategories. The sales numbers kept moving up with a reading of 64.3 as opposed to the 62.4 registered last month. The new credit applications data improved dramatically with a reading of 66.3 after July's 60.5. "There is simply a lot more activity showing up in retail, and part of this is seasonal as retailers start to anticipate the holiday season." The dollar collections numbers slipped a little but remain in the 60s with a reading of 61. Last month the category showed a 63.9. The amount of credit extended went from 57.7 to 63.6, and that is indeed good news as it means that all of these favorable categories are now in the 60s, and it has been since January since that has been the case.

As with manufacturing the only category that now sits in contraction territory is filings for bankruptcies. There was a decline from July when the reading was 48.3. It is now sitting at 47.6. "There have been many new bankruptcy filings emerging as the full impact of the lockdown is felt and as many of the restrictions have been reimposed." The other categories have been more encouraging. The rejections of credit applications rose just slightly but essentially remained stable with a reading of 50.6 after July's reading of 50.2. The accounts placed for collection numbers went from 52.2 to 52.3, and that means no real change at all. The disputes category was another one that changed very little—51.9 to 51.8. The dollar amount beyond terms showed the most significant movement but not in the preferred direction. Last month, the reading was in the 60s with a reading of 60.9, and this month it has fallen to 58.5. The dollar amount of customer deductions followed the pattern with a very small move from 52.7 to 52.5. "The general sense is that there has been a balance of some good news on the retail front and less promising activity in other parts of the service sector," Kuehl said.

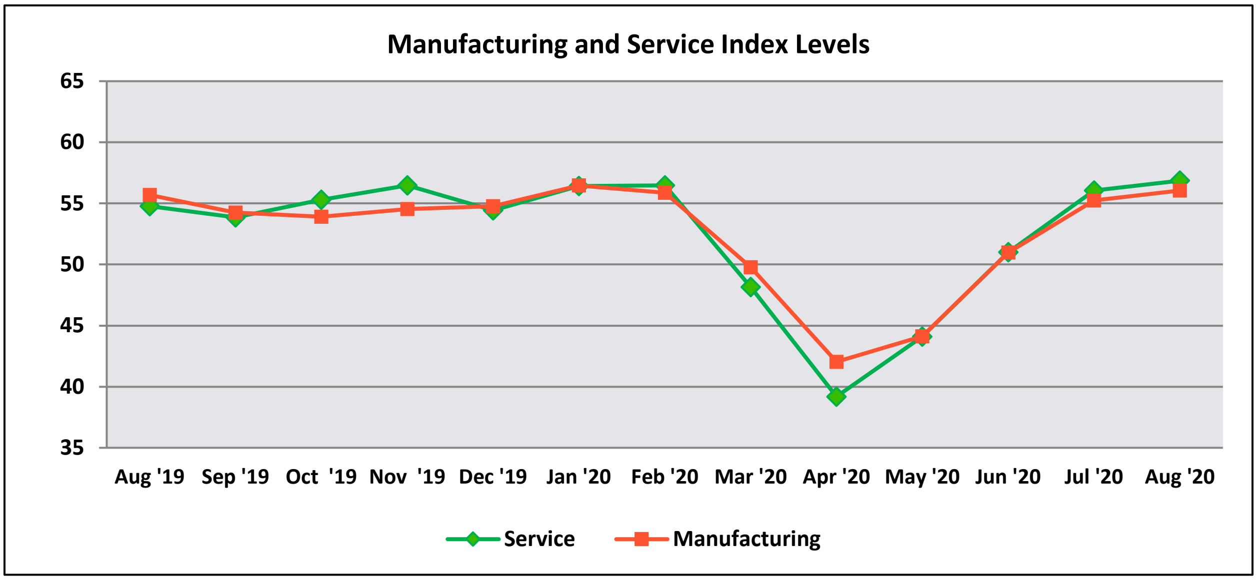
Both manufacturing and service will be watched carefully in the months ahead, but there will be more interest in the service sector trends as these will likely be the most sensitive. If there is another serious round of lockdowns the economy will suffer damage in the same sectors as before, but this time the business failures will likely be quicker to manifest.

Service Sector (seasonally adjusted)	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20
Sales	63.4	59.6	59.1	62.5	59.7	62.2	62.3	38.7	18.6	29.7	50.4	62.4	64.3
New credit applications	61.7	59.8	58.7	62.6	57.6	62.0	63.1	43.0	26.5	43.5	58.4	60.5	66.3
Dollar collections	60.4	58.2	65.5	61.7	58.3	60.5	59.3	45.1	36.1	45.8	55.4	63.9	61.0
Amount of credit extended	62.1	60.2	61.6	66.9	63.0	64.5	64.5	52.4	38.1	42.7	55.1	57.7	63.6
Index of favorable factors	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**
Rejections of credit applications	51.2	50.9	52.0	51.0	50.9	51.5	54.6	52.5	52.6	50.6	50.1	50.2	50.6
Accounts placed for collection	46.7	47.1	48.8	50.1	49.5	49.3	49.8	49.7	44.8	47.9	46.4	52.2	52.3
Disputes	48.5	49.4	49.4	50.9	50.6	52.3	51.7	52.8	50.9	51.3	51.7	51.9	51.8
Dollar amount beyond terms	51.2	48.3	52.1	53.1	49.7	54.2	52.8	43.5	26.6	33.0	44.9	60.9	58.5
Dollar amount of customer deductions	50.6	53.1	50.7	52	50.0	53.3	53.2	49.5	48.7	51.2	51.2	52.7	52.5
Filings for bankruptcies	51.9	52.1	55.1	54.0	54.9	54.6	53.4	54.3	49.3	45.3	46.5	48.3	47.6
Index of unfavorable factors	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**
NACM Service CMI	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**



August 2020 versus August 2019

"There has certainly been a period of claw back in the last few months, and that has been more than welcome," Kuehl said. "That trend had been expected to slow a little, but thus far, that has not been manifesting—at least as far as the credit managers are asserting."



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:

$$\underline{\text{Number of “lower” responses} + \tfrac{1}{2} \times \text{number of “same” responses}}$$

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.

NACM
National Association of Credit Management

**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.

Source: National Association of Credit Management

Contacts: Michael Miller, 410-740-5560
Andrew Michaels, 410-740-5560

Website: www.nacm.org

Twitter: NACM_National