Report for September 2020

Issued September 30, 2020
National Association of Credit Management

Combined Sectors

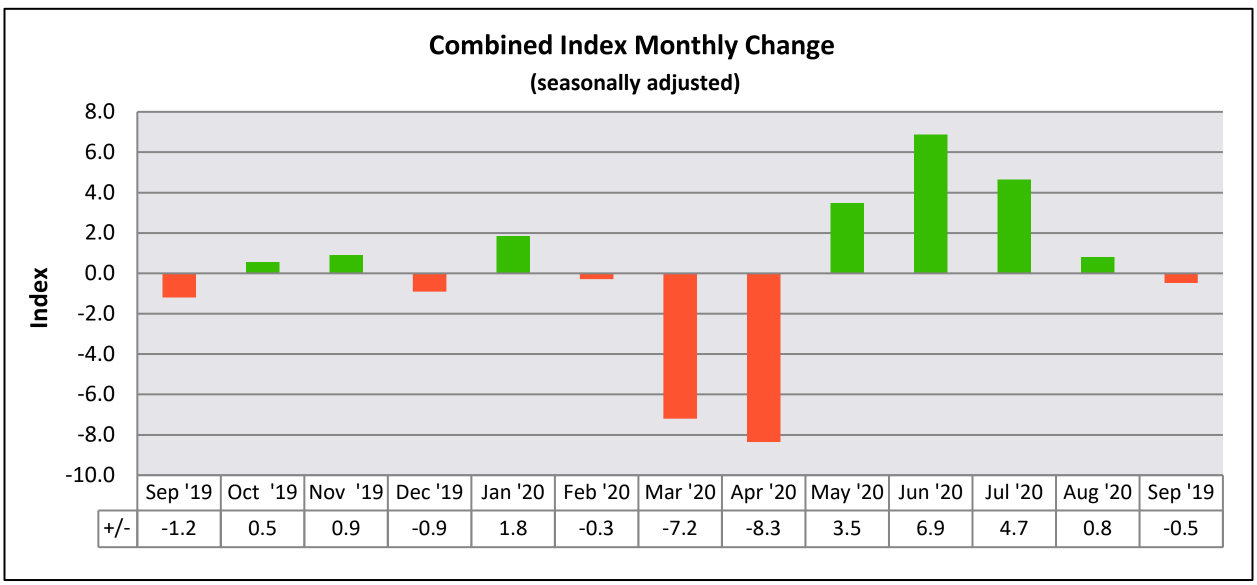
When there is a collapse as complete and dramatic as the one experienced in the second quarter of this year it becomes nearly impossible to make sense of the data that comes in afterwards. What does a rebound of 30 points in the third quarter mean after a dive of 35 points in the second quarter? Does that mean there was an actual decline of maybe 5%, or is there more to this than that? “The truth is that data will be hard to interpret for a while as we wait for some sense of normalcy to return,” said NACM Economist Chris Kuehl, Ph.D. “The data in the CMI is similar as there has been a significant surge in the data but it is coming off some record lows.”

Overall, there was a slight decline from where the index stood just a month ago. The combined score stood at 56.5 and is now at 56. This is a fairly minor decline, and the important point is that the reading is still in the mid-50s. The combined score for the favorable factors improved by quite a bit, and that is considered a very positive sign. It had been at 62.9 and now stands at 63.3—the highest point reached in well over a year. The last time these numbers were even close to that level was in January and February when they stood at 62.2. The rebound in these factors bodes well for the coming months. The combined index for the unfavorable factors slumped a little as it fell from 52.2 to 51.1.

The detail in the favorable and unfavorable sectors point in some interesting directions. “There was a dramatic fall in the favorable factors as the crisis emerged, but the unfavorables didn’t respond as negatively at first,” said Kuehl. “Now they are becoming the problem, and the favorables are carrying the load. It is all a matter of timing. The initial impact of the shutdown was felt in everything from sales to applications, but issues like bankruptcies and collections took a little longer to develop.” This month the sales numbers remained very high at 65.5—only a bit down from the 65.8 registered last month. The new credit applications reading improved a little from 63.4 to 63.6, and most importantly there was an improvement in dollar collections as it went from 61.2 to 63.3. To cap off a nice month of gains, the amount of credit extended went from 61.3 to 60.8—a slight decline but still above the 60 line. This makes the second month in a row for all four readings sitting above 60.

The rejections of credit applications stayed stable with a reading of 51.6 compared to last month’s 51.5. “Given the large number of new applications this is a very good sign. Often there are increases in applications during stressed economic times but too few qualify.” One area of concern is the accounts placed for collection as it moved from 51.6 to 49.4. “This suggests there are companies that are reeling from the lockdown and are falling behind.” The disputes readings also deteriorated from 51.8 to 48.7. The dollar amount beyond terms also sagged a bit but remained in solid territory with a reading of 54.6 after sitting at 58.2 the prior month. The dollar amount of customer deductions slipped a bit as well but stayed above the 50 line that separates expansion from contraction. It went from 52.2 to 51.1. The filings for bankruptcies actually improved with a reading of 51.3 as compared to last month at 47.7

Combined Manufacturing and Service Sectors (seasonally adjusted)	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
Sales	58.7	57.9	61.6	58.8	63.0	64.0	39.5	20.0	28.6	54.1	64.3	65.8	65.5
New credit applications	59.7	59.0	61.2	59.4	61.1	62.2	44.0	31.1	43.3	57.9	62.4	63.4	63.6
Dollar collections	58.5	62.1	59.2	57.9	61.7	58.8	49.3	35.5	43.2	53.9	62.5	61.2	63.3
Amount of credit extended	59.7	61.6	64.3	61.1	62.9	63.6	53.2	41.6	42.8	55.2	57.3	61.3	60.8
Index of favorable factors	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**	**63.3**
Rejections of credit applications	51.4	52.1	51.3	52.0	52.0	53.8	53.5	52.7	51.9	49.8	50.0	51.5	51.6
Accounts placed for collection	48.4	49.1	49.8	50.3	50.6	50.6	50.6	47.4	49.1	46.7	50.8	51.6	49.4
Disputes	50.0	48.1	50.3	50.8	52.4	50.3	52.1	50.8	51.5	49.6	50.7	51.8	48.7
Dollar amount beyond terms	50.2	52.0	52.6	51.0	54.2	53.5	43.9	27.6	32.4	44.4	57.3	58.2	54.6
Dollar amount of customer deductions	52.1	50.9	51.4	51.3	52.2	51.5	50.4	49.4	50.9	50.6	52.4	52.2	51.1
Filings for bankruptcies	52.1	53.4	53.5	53.4	54.4	53.3	53.2	50.2	47.3	47.7	48.8	47.7	51.3
Index of unfavorable factors	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**	**51.1**
NACM Combined CMI	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**	**56.0**



Manufacturing Sector

“As has been repeated ad nauseum the lockdown recession of 2020 has hit certain parts of the economy far harder than others,” Kuehl said. “The sectors that have been most sensitive are those where interaction is the foundation of the business—everything from hospitality to tourism, restaurants and retail. The manufacturing sector has been far less affected and, in some respects, has been benefiting from the shift in consumption from paying for services to spending on goods.”

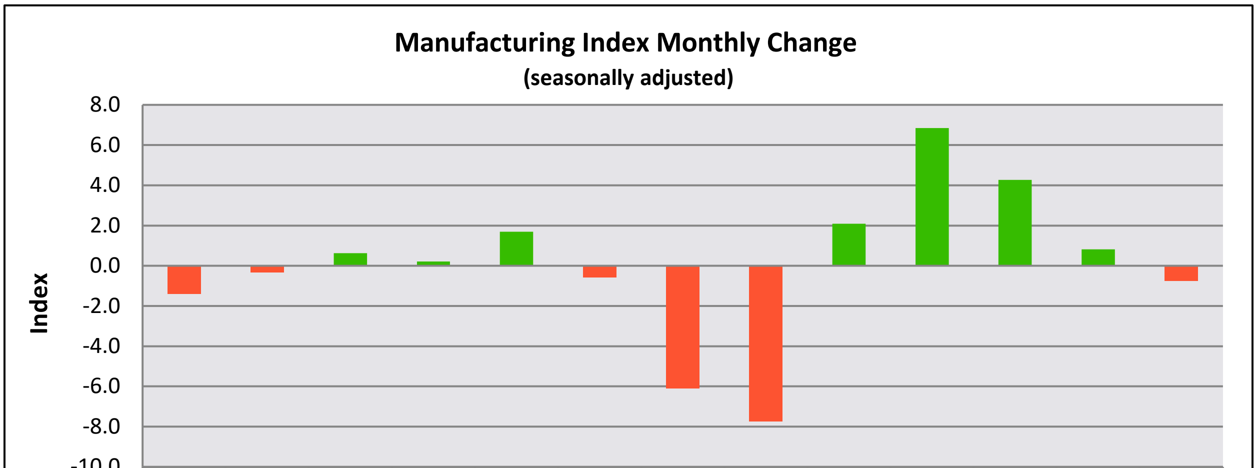
The combined score for the manufacturing sector fell a little from 56 to 55.3, but this is still firmly in the expansion zone. The index of favorable factors improved from a reading of 62 to one of 62.5, while the index of unfavorable factors slipped. The reading last month was 52.1, and this month it is sitting at 50.5. “There is some distress showing up in segments of the manufacturing sector that serves aerospace, travel in general as well as some parts of retail."

Then good news is in the favorable sectors as they continue their climb out of the lockdown. The sales numbers are not quite as high as the record-setting levels of last month but they remain very respectable at 65.1. The data for new credit applications improved a little but essentially stayed stable with a reading of 60.8 as compared to the 60.4 notched in August. The dollar collections data improved nicely with a reading of 63.9 compared to the 61.3 from last month. The amount of credit extended left the 50s behind with a reading of 60.3 as contrasted with the 58.9 in August. This marks the first time that all these factors have been in the 60s since last January, and "that suggests that there has been a real recovery as far as current and future business is concerned."

The unfavorable data was not as inspiring, but it could certainly have been worse. The rejections of credit applications sank a little from 52.5 in August to 51.7 in September. "This takes a little enthusiasm away from the expanded number of applications as there are more applicants that do not qualify and seem to be desperately seeking someone willing to take on more risk." The accounts placed for collection is worrying as these numbers are now in contraction territory with a reading of 49.4 after getting into expansion territory last month with a 50.9. The disputes category also fell out of expansion as it went from 51.7 to 48.1. There is quite obviously a segment of the manufacturing community that has not been able to shake off the lockdown impact. The dollar amount beyond terms category had made some dramatic progress last month with a reading of 57.8 but that has slowed a bit since as this month's reading has fallen to 52.3. This is certainly still in expansion territory but not in as comfortable a position as had been the case. The dollar amount of customer deductions slipped out of expansion territory as well with a reading of 49.8 compared to the 51.9 in August. The filings for bankruptcies regained its expansion status with a 51.6 compared to the 47.9 in August. The bankruptcy numbers have been in contraction since May.

Overall, the manufacturing data has been trending in a positive direction with gains seen in everything from the Purchasing Managers' Index to capacity utilization, industrial production and durable goods orders. Granted, there is still a long way to go to offset the damage that was done earlier in the year, but the data has been trending in the right direction.

Manufacturing Sector (seasonally adjusted)	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
Sales	57.9	56.7	60.7	57.9	63.8	65.7	40.3	21.4	27.5	57.8	66.3	67.2	65.1
New credit applications	59.5	59.2	59.8	61.2	60.2	61.4	45.0	35.7	43.2	57.5	64.4	60.4	60.8
Dollar collections	58.7	58.7	56.8	57.5	62.9	58.3	53.4	35.0	40.5	52.4	61.1	61.3	63.9
Amount of credit extended	59.2	61.6	61.6	59.1	61.3	62.8	54.0	45.1	43.0	55.4	56.8	58.9	60.3
Index of favorable factors	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**	**62.5**
Rejections of credit applications	51.9	52.1	51.6	53.0	52.5	53.0	54.4	52.8	53.3	49.5	49.8	52.5	51.7
Accounts placed for collection	49.7	49.3	49.4	51.1	51.8	51.4	51.6	50.0	50.4	47.1	49.3	50.9	49.4
Disputes	50.6	46.7	49.6	51.0	52.5	48.9	51.4	50.6	51.6	47.4	49.6	51.7	48.1
Dollar amount beyond terms	52.1	52.0	52.1	52.4	54.3	54.2	44.3	28.6	31.9	44.0	53.7	57.8	52.3
Dollar amount of customer deductions	51.1	51.1	50.8	52.6	51.1	49.8	51.3	50.1	50.5	49.9	52.0	51.9	49.8
Filings for bankruptcies	52.0	51.7	53.0	51.8	54.2	53.3	52.0	51.1	49.3	48.8	49.4	47.9	51.6
Index of unfavorable factors	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**	**50.5**
NACM Manufacturing CMI	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**	**55.3**



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

Service Sector

The narrative has become quite familiar by this time. "The lockdown was aimed at slowing the spread of the pandemic, and the economic collapse was an unfortunate result," said Kuehl. "The assumption at the start was that all those lockdown measures would be temporary and there was much talk of the May rebound. That obviously did not pan out, and now the issue is how much damage the economy sustained and when the recovery will begin in earnest. The majority of the damage was felt in the service sector, but that also means that the recovery that has been felt in recent weeks has been centered in the service sector as well."

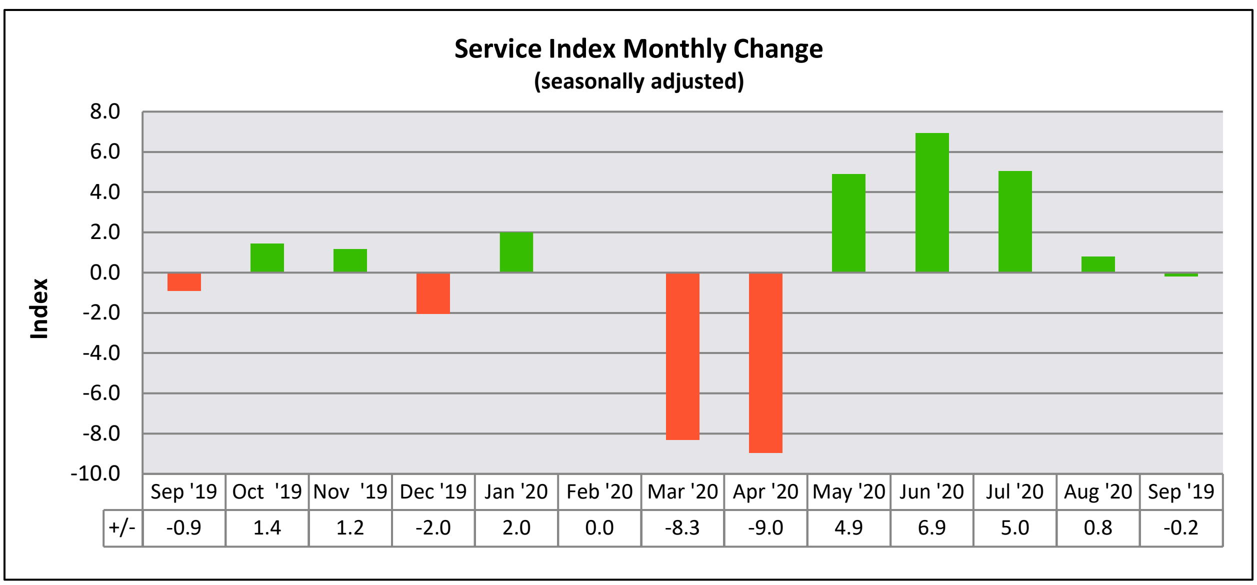
The combined score for services was nearly the same as it was last month. This reading stands at 56.7, and last month it was at 56.9. The combined score for the favorable factors improved a little and now sits firmly in the positive range with a reading of 64.1. Last month, it stood at 63.8. The combined unfavorable score was 51.8, and that is a little below the 52.2 notched last month.

As with manufacturing, the majority of the positive activity was in the favorable categories. Sales jumped again and ended up at 65.9 compared to the 64.3 registered in August. New credit applications stayed very close to the previous numbers with a 66.4 score compared to 66.3 last month. The dollar collections data improved to 62.6 after a 61 reading in the prior month. The amount of credit extended slipped a little from 63.6 to 61.3, but the most salient point is that all four categories were in the 60s for the second month in a row. "There is very clear evidence of recovery in some important service sectors such as retail. That doesn't mean that all the service sectors are in recovery but it is a promising start."

The rejections of credit applications actually improved a little as the numbers went from 50.6 to 51.5. "This is always an important category when comparing it with the numbers in the new credit application category. It is not helpful to have lots of new applications if they are coming from applicants that will not qualify." The accounts placed for collection slipped back into contraction territory for the first time since June. The score was 52.3 in August and now stands at 49.4. The disputes numbers have also worsened a little as they have fallen from 51.8 to 49.3. The dollar amount beyond terms was at a pretty high level in August with a reading of 58.5 and has now slipped a little to 57. This remains a very solid reading and a far cry from where it stood just a few months ago. The bad news is that this is the third month in a row for a decline as it was sitting at 60.9 in July. The dollar amount of customer deductions remained very stable with a reading of 52.4 compared to one of 52.5 the month before. The filings for bankruptcies climbed out of the contraction zone with a reading of 50.9 compared to the 47.6 in August. This is especially good news given the stress that many retailers were under a few months ago.

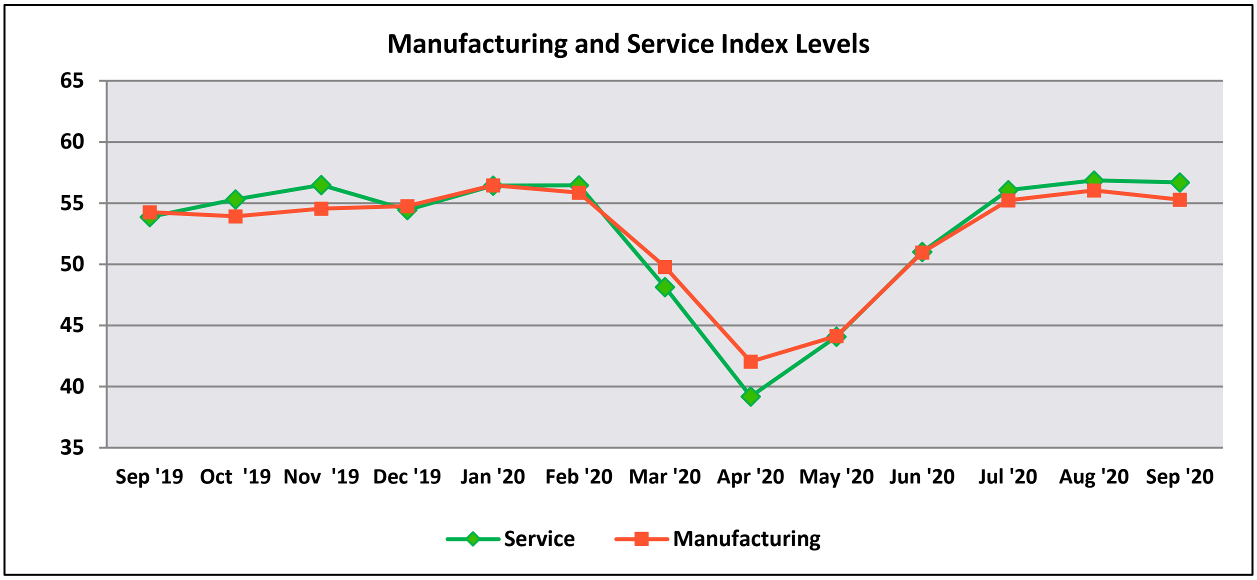
"In general terms the service sector remains the most stressed and vulnerable," said Kuehl. "Travel and tourism have not recovered to the levels set at the first of the year, and there continues to be severe contraction in the hospitality segment. Retailers are seeing progress but they continue to worry about the chances for another lockdown."

Service Sector (seasonally adjusted)	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20
Sales	59.6	59.1	62.5	59.7	62.2	62.3	38.7	18.6	29.7	50.4	62.4	64.3	65.9
New credit applications	59.8	58.7	62.6	57.6	62.0	63.1	43.0	26.5	43.5	58.4	60.5	66.3	66.4
Dollar collections	58.2	65.5	61.7	58.3	60.5	59.3	45.1	36.1	45.8	55.4	63.9	61.0	62.6
Amount of credit extended	60.2	61.6	66.9	63.0	64.5	64.5	52.4	38.1	42.7	55.1	57.7	63.6	61.3
Index of favorable factors	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**	**64.1**
Rejections of credit applications	50.9	52.0	51.0	50.9	51.5	54.6	52.5	52.6	50.6	50.1	50.2	50.6	51.5
Accounts placed for collection	47.1	48.8	50.1	49.5	49.3	49.8	49.7	44.8	47.9	46.4	52.2	52.3	49.4
Disputes	49.4	49.4	50.9	50.6	52.3	51.7	52.8	50.9	51.3	51.7	51.9	51.8	49.3
Dollar amount beyond terms	48.3	52.1	53.1	49.7	54.2	52.8	43.5	26.6	33.0	44.9	60.9	58.5	57.0
Dollar amount of customer deductions	53.1	50.7	52	50.0	53.3	53.2	49.5	48.7	51.2	51.2	52.7	52.5	52.4
Filings for bankruptcies	52.1	55.1	54.0	54.9	54.6	53.4	54.3	49.3	45.3	46.5	48.3	47.6	50.9
Index of unfavorable factors	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**	**51.8**
NACM Service CMI	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**	**56.7**



September 2020 versus September 2019

"That there has been progress is obvious," said Kuehl. "The lockdowns began to ease in the summer months, and the good news has been that consumers have been willing to engage in some of their old habits. The producers have been likewise eager to resume."



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.

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

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