



Report for April 2021

Issued April 31, 2021

National Association of Credit Management

Combined Sectors

Today's economic growth has been about as unexpected as last year's economic collapse. The pandemic-induced slump came with little to no warning. Just a few months ago, many analysts were cautiously suggesting that 2021 might see annual growth rates around 4.5%. Now, the Federal Reserve has projected that 6.5% is more likely for the year. Markets are up and so too is virtually every economic indicator one can name.

The NACM's Credit Managers' Index for April 2021 reached a high not seen for more than 15 years. The monthly combined index for manufacturing and service sectors broke through the 60-mark with a reading of 60.6 after hovering in the high 50s for several months. The last time the combined score surpassed 60 was March 2006 (60.2). However, April 2004 (62.2) still holds the record for the CMI's highest combined score.

"This recovery has been nearly as shocking," said NACM Economist Chris Kuehl, Ph.D. "The readings have been on a fairly steady climb since the early days of the pandemic last March and April. Movement in sub-categories have been equally impressive. There doesn't seem to be a problem with getting paid in many sectors these days. Not only are companies paying what they owe, they are doing it on time. This marks the sixth-straight month without readings falling into the 40s. That is nearly unprecedented as far as the CMI history is concerned."

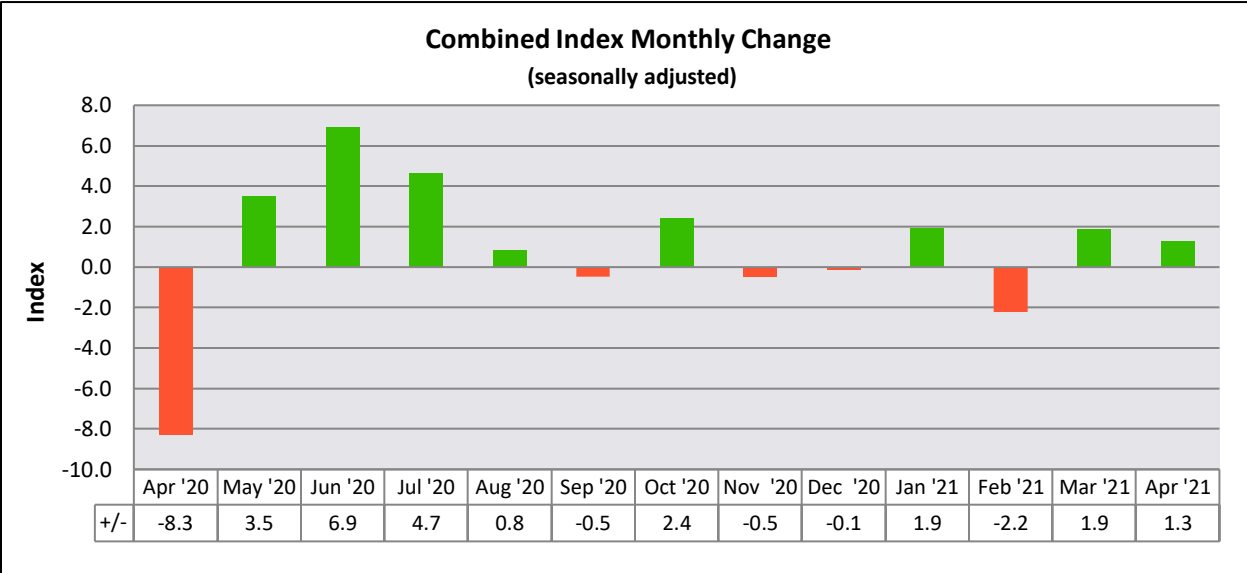
The **Index of Favorable Factors** reached 68.2—nearly as high as January's 69.7 reading. The index has held above 60 since June 2020, when it totaled 55.3 as it left three consecutive months of contraction. Month on month, three of the four subcategories registered gains. Sales (74.7) and amount of credit extended (69.0) fell just short of the highs noted in January (75.9 and 69.2, respectively), while new credit applications (65.9) bested February's score (65.5), but still lags behind January's (67.8). Dollar collections was the only subcategory to dip slightly (64.5 to 63.1).

"For the most part, the past 12 months have been very positive for favorable categories," Kuehl noted.

The **Index of Unfavorable Factors** reached 55.6—its highest since July 2004 (56.7), and each of its six subcategories also gained month on month. Rejections of credit applications (52.0 to 53.0) hit its highest level since March 2018 (53.3). Accounts placed for collection (59.6) set a new high since the CMI's inception, while dollar amount beyond terms (57.0 to 59.4) and dollar amount of customer deductions (52.0 to 53.0) saw solid gains. Disputes (51.3) edged up .7 points, while filings for bankruptcies (57.1) went up 1.4 points.

"These are all impressive numbers and reflect the overall gains in the economy noted thus far this year," Kuehl said. "Today's economic growth has been about as unexpected as last year's collapse. Just last year, these readings tallied in the 30s and 40s."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21
Sales	20.0	28.6	54.1	64.3	65.8	65.5	74.2	66.5	70.2	75.9	69.9	73.9	74.7
New credit applications	31.1	43.3	57.9	62.4	63.4	63.6	65.2	63.9	64.4	67.8	65.5	63.9	65.9
Dollar collections	35.5	43.2	53.9	62.5	61.2	63.3	64.6	62.6	62.8	66.0	59.2	64.5	63.1
Amount of credit extended	41.6	42.8	55.2	57.3	61.3	60.8	68.0	64.8	65.3	69.2	66.8	68.4	69.0
Index of favorable factors	32.0	39.5	55.3	61.6	62.9	63.3	68.0	64.4	65.7	69.7	65.3	67.7	68.2
Rejections of credit applications	52.7	51.9	49.8	50.0	51.5	51.6	51.4	51.5	51.3	51.6	51.5	52.0	53.0
Accounts placed for collection	47.4	49.1	46.7	50.8	51.6	49.4	49.5	56.2	51.6	52.9	51.6	55.1	59.6
Disputes	50.8	51.5	49.6	50.7	51.8	48.7	51.0	50.6	51.2	50.9	51.0	50.6	51.3
Dollar amount beyond terms	27.6	32.4	44.4	57.3	58.2	54.6	58.0	58.1	57.0	58.9	52.0	57.0	59.4
Dollar amount of customer deductions	49.4	50.9	50.6	52.4	52.2	51.1	51.0	51.7	51.5	51.3	52.8	52.2	53.0
Filings for bankruptcies	50.2	47.3	47.7	48.8	47.7	51.3	50.7	53.0	52.5	52.3	54.5	55.7	57.1
Index of unfavorable factors	46.3	47.2	48.1	51.7	52.2	51.1	51.9	53.5	52.5	53.0	52.2	53.8	55.6
NACM Combined CMI	40.6	44.1	51.0	55.6	56.5	56.0	58.4	57.9	57.8	59.7	57.5	59.3	60.6



Manufacturing Sector

The manufacturing sector escaped the worst of the pandemic-induced recession. Some areas even boasted of growth as consumers shifted their attention from services to buying things. There has been consistent demand for a host of consumer goods, such as vehicles, appliances and electronics—anything to keep people occupied during lockdown. Some manufacturing sectors, however, did not fare as well, particularly those sectors aimed at supporting service sector businesses. For example, airplane manufacturing was down. At 61.4, the combined score for the manufacturing sector was slightly higher month on month.

The **Index of Favorable Factors** hit 68.7, higher than March, but less than the high noted in January. Most of the favorable categories had significant gains with the exception of dollar collections, which retreated from 65.5 to 64.7. “But numbers in the mid-60s are still very robust,” Kuehl noted. Sales went from 72.7 to 75.6, and new credit applications shifted upward as well, 62.3 to 65.4. Amount of credit extended also improved again (67.8 to 68.8). Overall, these numbers lag behind scores achieved in January and February, but they have helped close the gap.

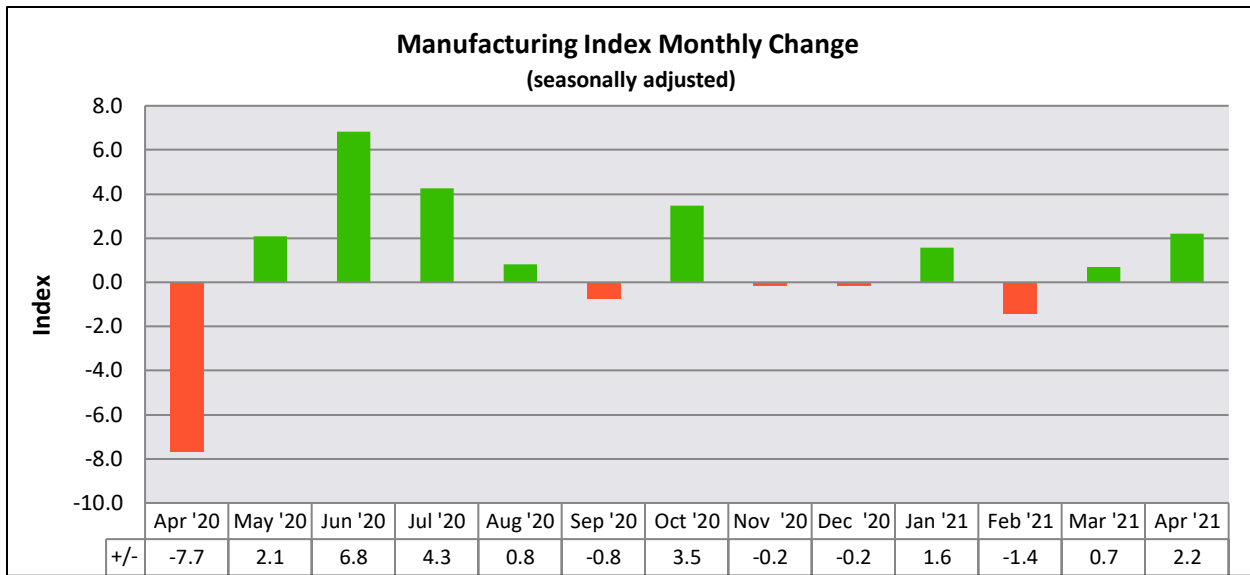
“These are all very firmly in the expansion zone, and this marks six straight months of very positive performance,” Kuehl said.

The **Index of Unfavorable Factors** made considerable progress with a reading of 56.6.

Rejections of credit applications held at 53.8, while accounts placed for collection jumped from 56.3 to 65.4 month on month. Disputes was the only subcategory to move downward (50.4 to 49.6). Dollar amount beyond terms read at 61.3, up from 57.2 in March. Dollar amount of customer deductions improved from 50.8 to 52.8, and the filings for bankruptcies went from 55.6 to 56.7.

“The sense is that companies are working hard to maintain their credit status in anticipation of needing more access later in the year,” Kuehl said. “Disputes did not take too big a tumble into the contraction zone, but it suggests that companies are getting more sensitive regarding their cash flow. However, the upward movement in dollar amount beyond terms further indicates a desire to stay current with creditors. All of the data on capital spending has been trending in a positive direction over the last few months, and that is reflected in this latest credit data as well.”

Manufacturing Sector (seasonally adjusted)	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21
Sales	21.4	27.5	57.8	66.3	67.2	65.1	75.3	69.9	71.1	76.7	71.1	72.7	75.6
New credit applications	35.7	43.2	57.5	64.4	60.4	60.8	62.0	62.4	70.2	68.6	66.9	62.3	65.4
Dollar collections	35.0	40.5	52.4	61.1	61.3	63.9	65.0	62.3	65.9	67.1	63.8	65.5	64.7
Amount of credit extended	45.1	43.0	55.4	56.8	58.9	60.3	69.4	62.6	66.8	69.7	69.1	67.8	68.9
Index of favorable factors	34.3	38.6	55.7	62.2	62.0	62.5	67.9	64.3	68.5	70.5	67.7	67.1	68.7
Rejections of credit applications	52.8	53.3	49.5	49.8	52.5	51.7	52.8	52.5	51.3	50.9	51.1	53.8	53.8
Accounts placed for collection	50.0	50.4	47.1	49.3	50.9	49.4	51.4	63.0	51.4	54.1	52.0	56.3	65.4
Disputes	50.6	51.6	47.4	49.6	51.7	48.1	51.6	49.8	50.7	50.5	51.8	50.4	49.6
Dollar amount beyond terms	28.6	31.9	44.0	53.7	57.8	52.3	58.4	58.9	53.5	59.1	53.3	57.2	61.3
Dollar amount of customer deductions	50.1	50.5	49.9	52.0	51.9	49.8	50.5	51.0	50.6	51.0	52.0	50.8	52.8
Filings for bankruptcies	51.1	49.3	48.8	49.4	47.9	51.6	51.2	53.7	52.8	52.1	54.4	55.6	56.7
Index of unfavorable factors	47.2	47.8	47.8	50.6	52.1	50.5	52.6	54.8	51.7	52.9	52.4	54.0	56.6
NACM Manufacturing CMI	42.0	44.1	51.0	55.2	56.0	55.3	58.8	58.6	58.4	60.0	58.5	59.2	61.4



Service Sector

The service sector has been the hardest hit part of the economy. Traditionally, it accounts for more than 74% of total GDP. Although the service category is broad and includes everything from accounting, finance and law to food service and retail, CMI data reflect more heavily, but there is representation in several other fields as well.

The service sector's combined index broke past scores set in January and March with a reading of 59.8. However, the **Index of Favorable Factors** slipped back a little (68.3 to 67.7) month on month. Sales data also retreated slightly (75.1 to 73.7). At 66.4, new credit applications returned close to January's high of 66.9. Dollar collections fell from 63.4 to 61.6. Amount of credit extended held close to March's reading as it went from 69.0 to 69.1.

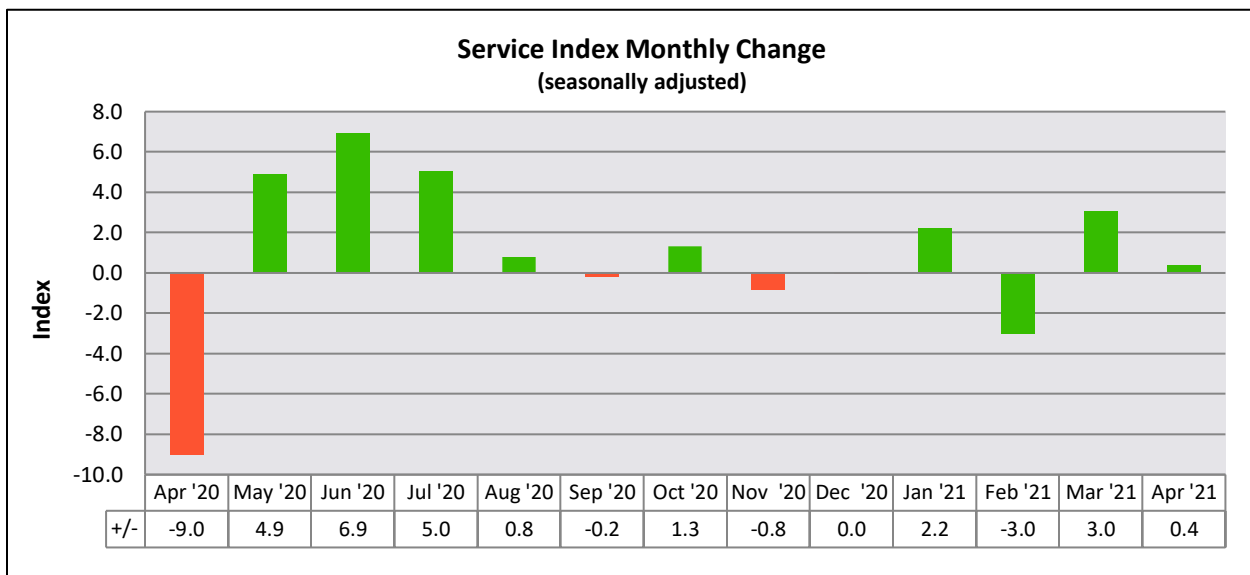
"The movement in dollar collections for the service sector was evident with manufacturing as well and suggests that companies have become a bit more cash flow sensitive and protective, Kuehl said. "Overall, the numbers are still robust—especially for a sector that took the hits it did last year. It's also important to note that there is a great deal of credit being made available and it is finding willing takers."

The **Index of Unfavorable Factors** improved from 53.5 to 54.5. Data from the unfavorable categories show progress as well. Rejections of credit applications went from 50.2 to 52.2, while accounts placed for collection fell slightly, 54.0 to 53.7, month on month. Disputes improved from 50.9 to 53.0. Dollar amount beyond terms data also improved with a reading of 57.5 compared to 56.7 the month prior. Dollar amount of customer deductions remained stable, 53.1 compared to March's 53.5. And at 57.6, filings for bankruptcies bested March's 55.8.

"The improvement noted in the rejections of credit applications category is a positive sign given that there was an increase in applications overall," Kuehl said. "And the improvement seen in the disputes category contrasts with the performance in the manufacturing sector. There are basically more clear winners and losers in the service sector and less room for true disputes. The bottom line for the entire service sector is progress and far more rapid progress than many had expected even a few months ago. The consumer has truly put their money where their mouth is."

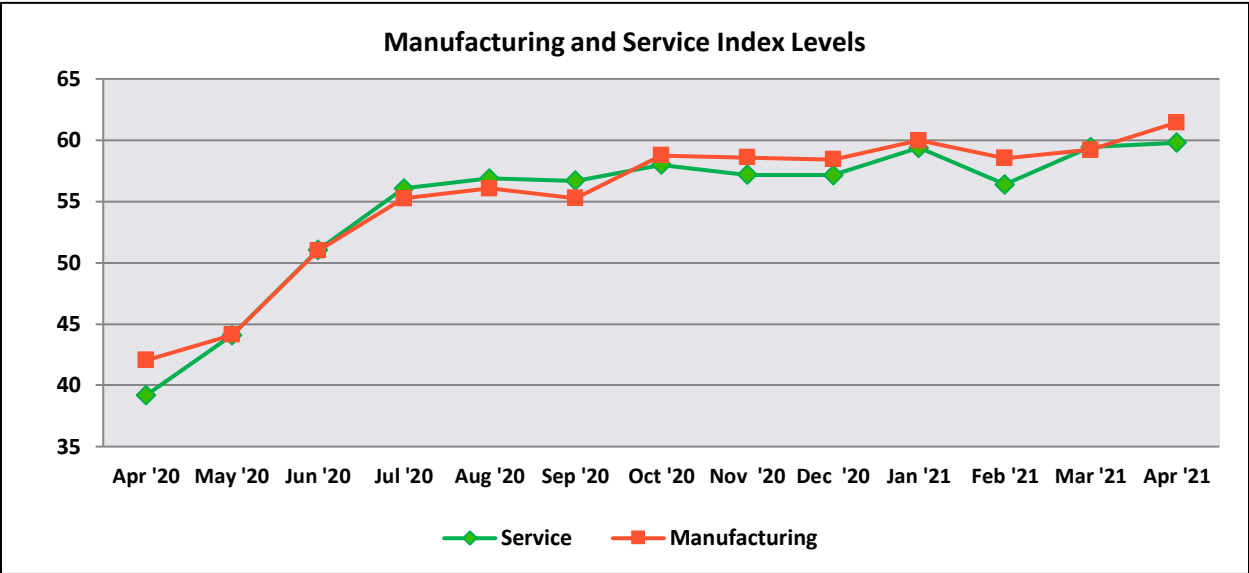
Service Sector (seasonally adjusted)	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21
Sales	18.6	29.7	50.4	62.4	64.3	65.9	73.1	63.1	69.3	75.1	68.6	75.1	73.7

New credit applications	26.5	43.5	58.4	60.5	66.3	66.4	68.4	65.4	58.7	66.9	64.1	65.6	66.4
Dollar collections	36.1	45.8	55.4	63.9	61.0	62.6	64.3	62.9	59.7	64.9	54.6	63.4	61.6
Amount of credit extended	38.1	42.7	55.1	57.7	63.6	61.3	66.6	67.0	63.9	68.7	64.4	69.0	69.1
Index of favorable factors	29.8	40.4	54.8	61.1	63.8	64.1	68.1	64.6	62.9	68.9	62.9	68.3	67.7
Rejections of credit applications	52.6	50.6	50.1	50.2	50.6	51.5	50.0	50.4	51.2	52.2	51.8	50.2	52.2
Accounts placed for collection	44.8	47.9	46.4	52.2	52.3	49.4	47.7	49.4	51.8	51.8	51.2	54.0	53.7
Disputes	50.9	51.3	51.7	51.9	51.8	49.3	50.5	51.4	51.7	51.3	50.2	50.9	53.0
Dollar amount beyond terms	26.6	33.0	44.9	60.9	58.5	57.0	57.7	57.4	60.6	58.8	50.8	56.7	57.5
Dollar amount of customer deductions	48.7	51.2	51.2	52.7	52.5	52.4	51.5	52.4	52.4	51.5	53.5	53.5	53.1
Filings for bankruptcies	49.3	45.3	46.5	48.3	47.6	50.9	50.3	52.4	52.2	52.6	54.6	55.8	57.6
Index of unfavorable factors	45.5	46.5	48.5	52.7	52.2	51.8	51.3	52.2	53.3	53.0	52.0	53.5	54.5
NACM Service CMI	39.2	44.1	51.0	56.1	56.9	56.7	58.0	57.2	57.1	59.4	56.4	59.4	59.8



April 2021 versus April 2020

The growth in both the manufacturing and service sectors has been far faster than had been anticipated, and that is very good news—at least for the short term. However, it is not showing up in the data yet, but in the months to come, there will be increased concerns about inflation and overheating—the downsides to a booming economy.



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.

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