NACM CMI CREDIT MANAGERS' INDEX

Report for October 2020

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National Association of Credit Management

Combined Sectors

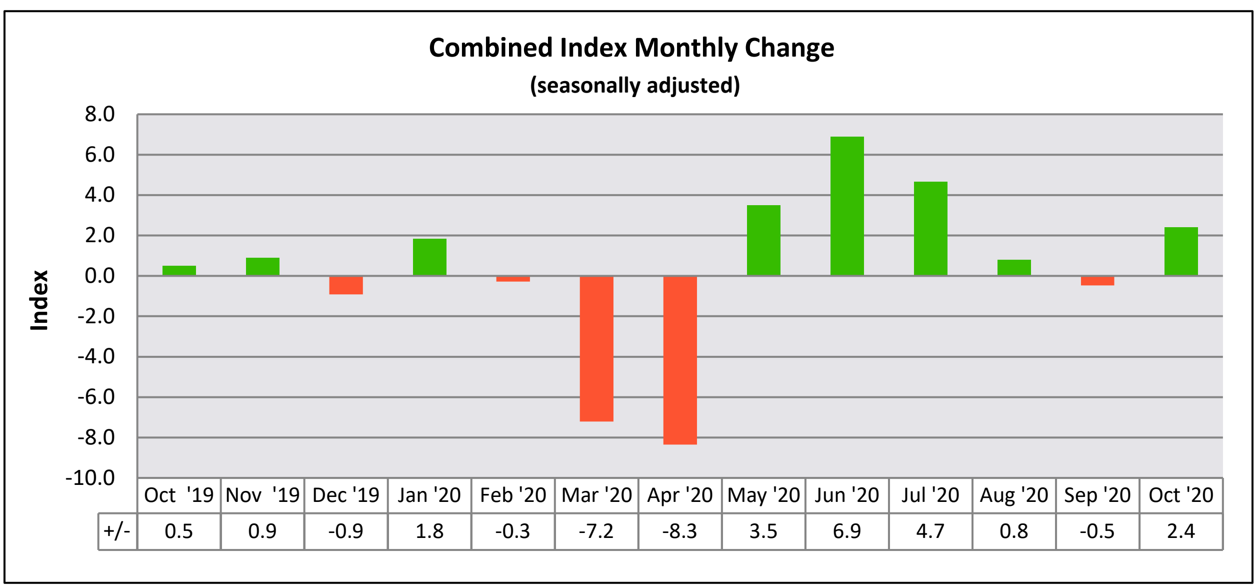
This is the point where hyperbole and comparisons seem to fail. How does one even attempt to describe the economic situation the U.S. and the world face right now? There has been so much of this crisis that has been unexpected, and so much of it has been artificial. The recession was not organic, and thus, took everybody by surprise. "The downturn in 2008 was predicted by credit managers as they saw significant distress showing up in 2007," said NACM Economist Chris Kuehl, Ph.D. "There was no such warning this time. This was an utter collapse and one that nobody could have anticipated." Since then, there has been a dramatic rebound in some areas and continued distress in others. This is a dramatic turnaround to be sure but needs to be put in some perspective. It is estimated that third quarter GDP will have climbed by over 20%, but remember that second quarter GDP was down by over 35%. The bottom line is that month to month comparisons will be very unreliable for a few more months.

The current combined index holds at the highest level seen in years—58.4. This is in contrast to the reading in April when it was at 40.6. That gain of nearly twenty points is a bounce back to be sure but not really as impressive as it would appear at first glance. The combined index for the favorable factors has staged the biggest gains with a reading of 68 compared to 63.3 last month and 32 in April. The combined index for the unfavorables has not shown this wild variability. This month, it registers a reading of 51.9 and last month the reading was 51.1. In April, when the favorables were crashing, the unfavorables read a much less dramatic 46.3. "The fact is that this recession has been so sudden and so unusual there has not been time for many businesses to get into the kind of situation that would trigger unfavorable readings," said Kuehl.

As one would expect the biggest jump occurs in the sales category. Last month, was impressive in its own right as it had jumped to 65.5. Now its stands at 74.2, and that is nearly unprecedented in the history of the survey. The new credit applications data stayed a little closer to last month with a reading of 65.2 compared to 63.6 in September. The dollar collections numbers also stayed a little closer to September levels, but they still improved quite a lot as they went from 63.3 to 64.6. The amount of credit extended jumped almost as dramatically as the sales numbers with a reading of 68 compared to 60.8 last month. In April, this reading was down to 41.6. "The trend seems to be that companies that have been able to emerge from the lockdown are seeing significant demand and new opportunities and are asking for more credit. This is actually a hallmark of a short and sharp recession. Weaker companies fail and stronger companies move aggressively to gain market share given up by those that have gone out of business."

The unfavorables are not showing as much drama but there has been movement, nonetheless. The good news is that the rate of rejections of credit applications has not moved much, and most importantly, it has stayed in the expansion zone with a reading of 51.4 as compared to 51.6 in September. "This is good given the surge in new applications as it suggests that those newly applying for credit are indeed creditworthy," Kuehl said. The data for accounts placed for collection have remained more or less stable. The reading last month was 49.4 and this month it is 49.5. It is still in the contraction zone below 50 but hovering very close to breaking back into expansion. There had been an expectation these numbers would look worse by now but those who took on debt have been able to keep current. The disputes category surged back into expansion territory with a reading of 51, contrasting nicely with the 48.7 registered in September. The dollar amount beyond terms shot back into expansion territory with a vengeance as it registered a gain to 58 after a respectable 54.6 in September. This is as interesting as the improved performance in dollar collections as it signals that debtors want to stay on good terms with those they are seeking credit from. The dollar amount of customer deductions held steady and in expansion territory with a reading of 51 compared to 51.1 in the prior month. The filings for bankruptcies slipped a bit from 51.3 to 50.7, but the important point is that these numbers stayed in expansion territory.

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Oct '19**	**Nov '19**	**Dec '19**	**Jan '20**	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**	**Aug '20**	**Sep '20**	**Oct '20**
Sales	57.9	61.6	58.8	63.0	64.0	39.5	20.0	28.6	54.1	64.3	65.8	65.5	74.2
New credit applications	59.0	61.2	59.4	61.1	62.2	44.0	31.1	43.3	57.9	62.4	63.4	63.6	65.2
Dollar collections	62.1	59.2	57.9	61.7	58.8	49.3	35.5	43.2	53.9	62.5	61.2	63.3	64.6
Amount of credit extended	61.6	64.3	61.1	62.9	63.6	53.2	41.6	42.8	55.2	57.3	61.3	60.8	68.0
Index of favorable factors	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**	**63.3**	**68.0**
Rejections of credit applications	52.1	51.3	52.0	52.0	53.8	53.5	52.7	51.9	49.8	50.0	51.5	51.6	51.4
Accounts placed for collection	49.1	49.8	50.3	50.6	50.6	50.6	47.4	49.1	46.7	50.8	51.6	49.4	49.5
Disputes	48.1	50.3	50.8	52.4	50.3	52.1	50.8	51.5	49.6	50.7	51.8	48.7	51.0
Dollar amount beyond terms	52.0	52.6	51.0	54.2	53.5	43.9	27.6	32.4	44.4	57.3	58.2	54.6	58.0
Dollar amount of customer deductions	50.9	51.4	51.3	52.2	51.5	50.4	49.4	50.9	50.6	52.4	52.2	51.1	51.0
Filings for bankruptcies	53.4	53.5	53.4	54.4	53.3	53.2	50.2	47.3	47.7	48.8	47.7	51.3	50.7
Index of unfavorable factors	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**	**51.1**	**51.9**
NACM Combined CMI	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**	**56.0**	**58.4**



Manufacturing Sector

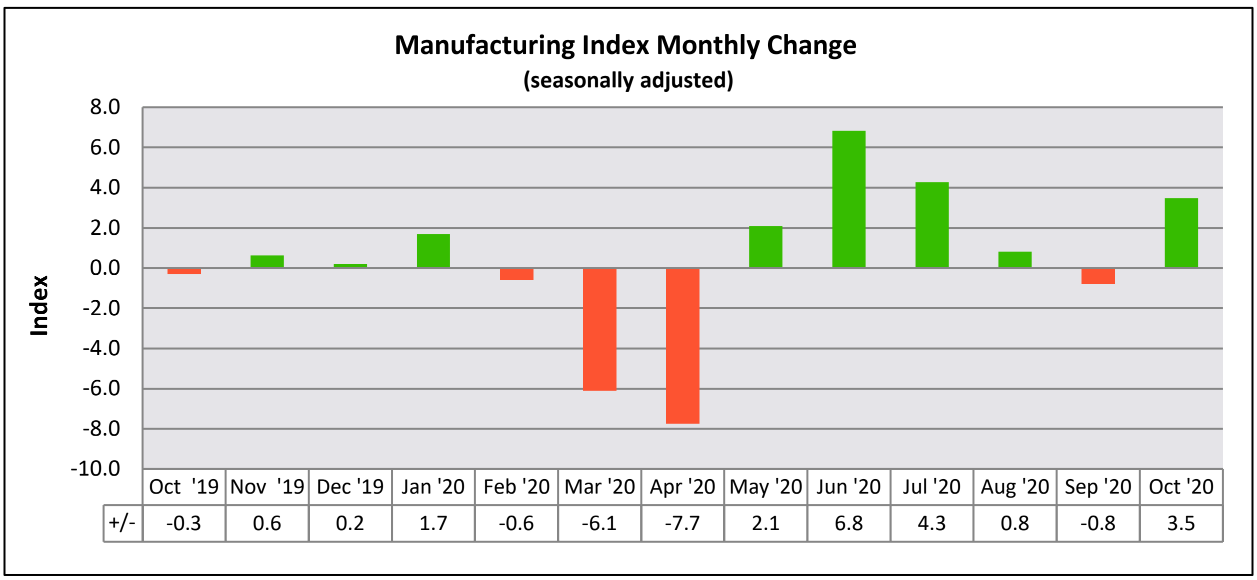
“The manufacturing sector has been somewhat immune from the economic gyrations created by the lockdowns,” noted Kuehl. It has depended to a great extent what sector a given manufacturer serves. Those that are engaged in aerospace have not seen much progress and neither have those that orient toward sectors such as hospitality or tourism in general. The automotive sector has been up and down but is currently trending up and so is the construction equipment sector. Oil and gas have been likewise up and down. The majority of the damage has been felt by the service sector.

The combined score for manufacturing rose sharply to 58.8, and this is up from the decent reading in September when the numbers were at 55.3. Through the last several months there have been reliable readings in the expansion zone—the last time they slipped into contraction was in May with a reading of 44.1. The index of favorable factors has been even more impressive at 67.9 this month and 62.5 last month. In April, these readings were down to 34.3, so it is important to note that the current high numbers are coming against that backdrop. The index of unfavorable factors improved but not as dramatically with a rise to 52.6 after a reading of 50.5 in September.

The bulk of the activity has been in the favorable categories for the majority of the year. That trend has continued. The sales reading jumped to 75.3 after a 65.1 in September. “There has been an observed surge in the acquisition of goods since the pandemic shut down most of the service sector. This has been good for a lot of consumer manufacturing as well as industrial activity.” The new credit applications improved as well, but the leap was not quite as impressive with a new reading of 62 compared to 60.8. The dollar collections data also made a nice jump from 63.9 to 65. The amount of credit extended also improved dramatically with a reading of 69.4 compared to 60.3 in September. The companies that are seeking credit are seeking quite a lot of credit as they try to take advantage of pent up demand and opportunities to expand market share.

The rejections of credit applications improved a bit as well, and combined with the increase in applications, this points to some solid future growth. The number last month was at 51.7 and is now sitting at 52.8. This factor has been consistently solid for the last several months. The accounts placed for collection jumped back into expansion territory with a reading of 51.4 after last month’s 49.4. This is good news given the increased pressure that had been building in many of the industrial sectors. The disputes numbers also returned to expansion territory with a reading of 51.6 as compared to the 48.1 in September. The dollar amount beyond terms surged to a high of 58.4 as compared to the prior month at 52.3. “The fact is that most companies are doing their best to get current and stay current as they anticipate more credit needs.” The dollar amount of customer deductions moved out of the contraction zone as well as the numbers went from 49.8 to 50.5. The filings for bankruptcies remained very stable with a reading of 51.2 compared to 51.6. If there is to be an increase in bankruptcy activity it is more likely to hit after the first of the year and the end of the holiday spending season.

Manufacturing Sector (seasonally adjusted)	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20
Sales	56.7	60.7	57.9	63.8	65.7	40.3	21.4	27.5	57.8	66.3	67.2	65.1	75.3
New credit applications	59.2	59.8	61.2	60.2	61.4	45.0	35.7	43.2	57.5	64.4	60.4	60.8	62.0
Dollar collections	58.7	56.8	57.5	62.9	58.3	53.4	35.0	40.5	52.4	61.1	61.3	63.9	65.0
Amount of credit extended	61.6	61.6	59.1	61.3	62.8	54.0	45.1	43.0	55.4	56.8	58.9	60.3	69.4
Index of favorable factors	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**	**62.5**	**67.9**
Rejections of credit applications	52.1	51.6	53.0	52.5	53.0	54.4	52.8	53.3	49.5	49.8	52.5	51.7	52.8
Accounts placed for collection	49.3	49.4	51.1	51.8	51.4	51.6	50.0	50.4	47.1	49.3	50.9	49.4	51.4
Disputes	46.7	49.6	51.0	52.5	48.9	51.4	50.6	51.6	47.4	49.6	51.7	48.1	51.6
Dollar amount beyond terms	52.0	52.1	52.4	54.3	54.2	44.3	28.6	31.9	44.0	53.7	57.8	52.3	58.4
Dollar amount of customer deductions	51.1	50.8	52.6	51.1	49.8	51.3	50.1	50.5	49.9	52.0	51.9	49.8	50.5
Filings for bankruptcies	51.7	53.0	51.8	54.2	53.3	52.0	51.1	49.3	48.8	49.4	47.9	51.6	51.2
Index of unfavorable factors	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**	**50.5**	**52.6**
NACM Manufacturing CMI	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**	**55.3**	**58.8**



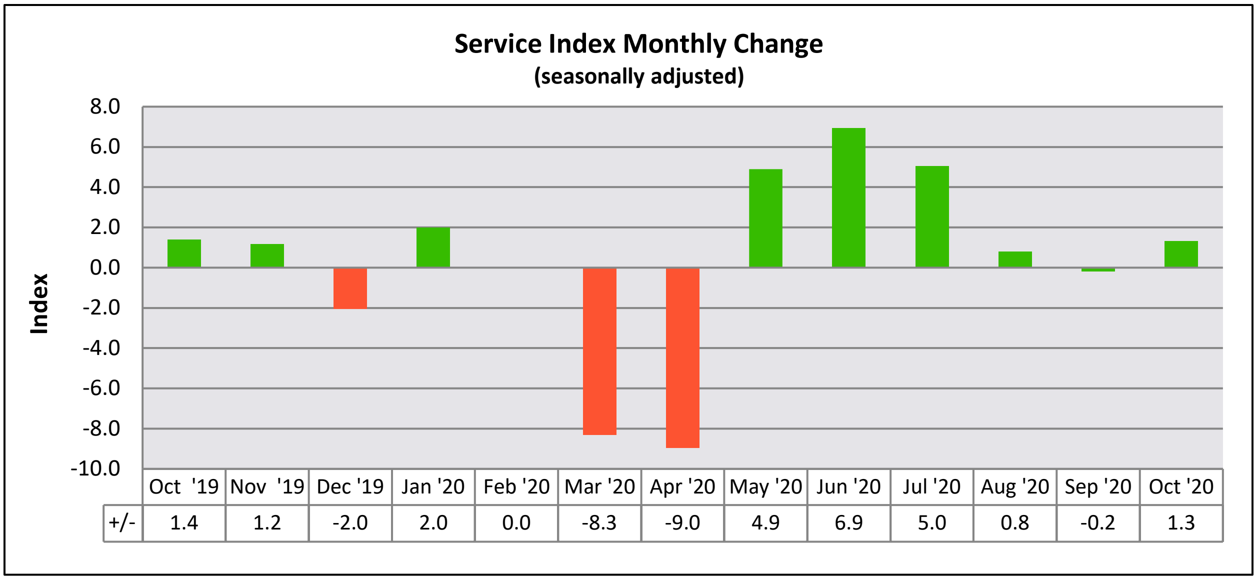
Service Sector

The lockdown recession slammed the service sector very hard and for the most obvious of reasons. The desire to enforce isolation in hopes of slowing the spread of the virus meant shutting down situations where people might congregate and that meant everything from retail to events to performances and travel. Just as the lockdown slammed service fast, the recovery has been almost as swift as there has been a reduction of the restrictions. The latest number for the combined score is 58, and that was a substantial improvement over the 56.7 notched last month. The combined score for the favorable index was just as impressive as it was for the manufacturing sector with a reading of 68.1 compared to 64.1 in September. The combined score for the unfavorable factors was 51.3, and that is quite close to the previous month's level of 51.8.

The sales numbers skyrocketed here as well as in manufacturing with a reading of 73.1. In April, this number was a nearly unbelievable 18.6—the entire U.S. service sector was shut down completely, and since that point, there has been a fairly rapid rebound. There was a solid gain as far new credit applications were concerned with a shift from 66.4 to 68.4, and the dollar collections data also improved with a new reading of 64.3 compared to the 62.6 in September. There were big gains as far as amount of credit extended as the new reading is 66.6, and the prior month was at 61.3. “The bottom line is these are all in very healthy states and that bodes well for the coming holiday spending season and beyond.”

The rejections of credit applications slipped a bit but stayed in expansion territory by the thinnest of margins. It was at 51.5 and is now at 50. The accounts placed for collection remained in contraction territory and even fell from the level set last month. It was at 49.4 and close to breaking back into expansion but is now sitting at 47.7. The disputes category went the other direction and returned to the expansion zone with a reading of 50.5 as compared to the previous mark or 49.3. The dollar amount beyond terms numbers remained very stable but at a high level—well into the expansion zone. It was at 57 and is now sitting at 57.7. The dollar amount of customer deductions shifted down a little but still hung on to expansion with a reading of 51.5 as compared to the 52.4 seen in September. Likewise, the filings for bankruptcies remained very stable with a reading of 50.3 following the 50.9 seen last month. “All of these readings have risen dramatically from the months of March, April and even May. The worst of the sector collapse is over and there has been movement in a positive direction,” said Kuehl.

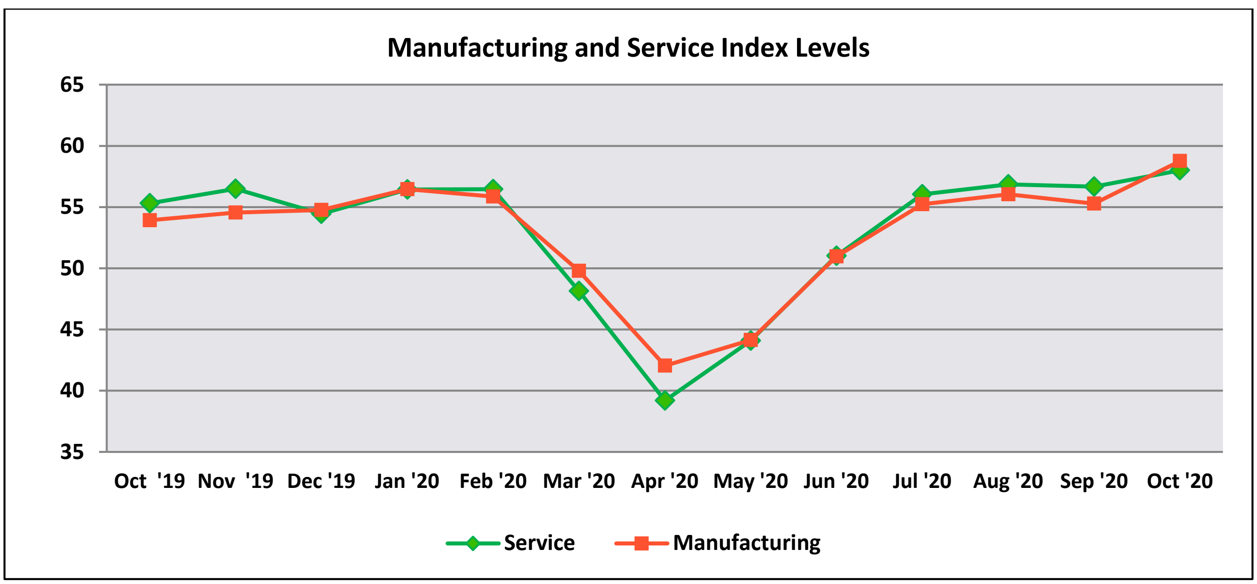
Service Sector (seasonally adjusted)	**Oct '19**	**Nov '19**	**Dec '19**	**Jan '20**	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**	**Aug '20**	**Sep '20**	**Oct '20**
Sales	59.1	62.5	59.7	62.2	62.3	38.7	18.6	29.7	50.4	62.4	64.3	65.9	73.1
New credit applications	58.7	62.6	57.6	62.0	63.1	43.0	26.5	43.5	58.4	60.5	66.3	66.4	68.4
Dollar collections	65.5	61.7	58.3	60.5	59.3	45.1	36.1	45.8	55.4	63.9	61.0	62.6	64.3
Amount of credit extended	61.6	66.9	63.0	64.5	64.5	52.4	38.1	42.7	55.1	57.7	63.6	61.3	66.6
Index of favorable factors	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**	**64.1**	**68.1**
Rejections of credit applications	52.0	51.0	50.9	51.5	54.6	52.5	52.6	50.6	50.1	50.2	50.6	51.5	50.0
Accounts placed for collection	48.8	50.1	49.5	49.3	49.8	49.7	44.8	47.9	46.4	52.2	52.3	49.4	47.7
Disputes	49.4	50.9	50.6	52.3	51.7	52.8	50.9	51.3	51.7	51.9	51.8	49.3	50.5
Dollar amount beyond terms	52.1	53.1	49.7	54.2	52.8	43.5	26.6	33.0	44.9	60.9	58.5	57.0	57.7
Dollar amount of customer deductions	50.7	52	50.0	53.3	53.2	49.5	48.7	51.2	51.2	52.7	52.5	52.4	51.5
Filings for bankruptcies	55.1	54.0	54.9	54.6	53.4	54.3	49.3	45.3	46.5	48.3	47.6	50.9	50.3
Index of unfavorable factors	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**	**51.8**	**51.3**
NACM Service CMI	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**	**56.7**	**58.0**



	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20
+/-	1.4	1.2	-2.0	2.0	0.0	-8.3	-9.0	4.9	6.9	5.0	0.8	-0.2	1.3

October 2020 versus October 2019

"The disaster of the spring will be with the economy for some time to come," Kuehl concluded. "The rebound that has been noted this month will have to be balanced against the unprecedented collapse earlier in the year, and it may be well into 2021 before the data starts to settle down and provide a more accurate look."



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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