Report for November 2020

Issued November 30, 2020
National Association of Credit Management

Combined Sectors

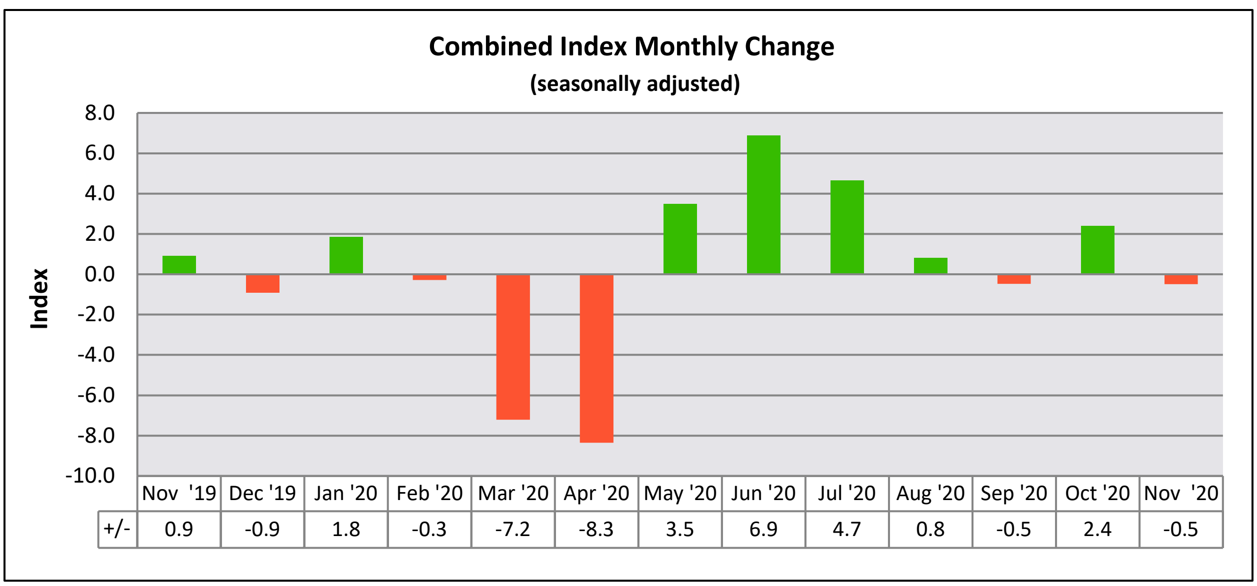
Given that we have not witnessed much that could be considered normal for a while, it is hard to determine when there might be an outbreak of "normal" circumstances, but the data this month appears to be as close as we have gotten in the last several months. The favorable numbers have fallen a little from the extraordinary highs seen last month while the unfavorable data seems to have stabilized a bit. This settling down in the data comes against a very unsettled background, however. The second or third wave of the pandemic has been ravaging communities all over the U.S. and has reintroduced restrictions and lockdowns at precisely the worst time imaginable for industries that had just started to see some progress. The retailers had hoped to see a decent holiday season, and now that is in doubt while the service sector is set to crash again. "The optimism that seems to be manifesting in this month's CMI is an indication that credit managers are looking ahead—as they always do," said NACM Economist Chris Kuehl, Ph.D. "The expectation is that real progress on reversing the virus impact is now only a month or two away as vaccines are rolling out rapidly."

The combined score for the CMI is 57.9 this month, and while that is not as robust as it was the previous month, it is a respectable number—the second highest reading for the year. The combined score for the favorable numbers also dipped a little, but that decline was from the stunning reading of 68 notched in October. This month the reading is 64.4, again the second highest reading of the year. The index of unfavorable factors improved a little this month, hitting 53.5, notching the best position seen this year—up from the 51.9 registered in October.

Over the last few months, it has been the favorable numbers that have made the strongest comeback, and that has reflected the fact certain segments of the economy bounced back quickly after the spring shutdown. There has been a surge in sectors as diverse as housing, transportation, and retail as people have adapted and shifted with the pandemic restrictions. Meanwhile, the service sector has been crushed. The sales numbers last month hit record levels with a 74.2 reading, and this month there was a return to earth with a reading of 66.5, which is obviously still quite high. The new credit applications slipped a bit but still stayed firmly in the mid-60s with a score of 63.9. The dollar collections data did a similar readjustment and went from 64.6 to 62.6. The amount of credit extended followed the same pattern as it dropped from 68 to 64.8. "The bottom line is that all these favorable numbers are still firmly in the 60s and that constitutes rapid growth," noted Kuehl.

Stability is the name of the game when looking at the unfavorable factors. The rejections of credit applications barely shifted at all as the reading went from 51.4 to 51.5. Given that there was a slight reduction in the number of new applications this is a solid number. The accounts placed for collection improved dramatically, and this is perhaps the best news in this data. A month ago, the reading was at 49.5, and it's now sitting at 56.2. There are fewer accounts in trouble, and that is very encouraging news. The disputes reading slipped a little but remained in the expansion zone with a reading of 50.6 as compared to 51 in October. The dollar amount beyond terms data remained very stable with a very solid reading of 58.1 as compared to 58 the month prior. "The desire is to stay current with credit, and that companies are working hard to maintain that relationship is another signal that businesses are growing more confident about the future," said Kuehl. The dollar amount of customer deductions also stayed stable but with a slight improvement from 51 to 51.7. There was a solid improvement for the filings for bankruptcy readings as it climbed from 50.7 to 53. The entire collection of unfavorable readings stayed above the 50 line and comfortably in the expansion zone this month, and that is the first time this has happened since February of this year.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20
Sales	61.6	58.8	63.0	64.0	39.5	20.0	28.6	54.1	64.3	65.8	65.5	74.2	66.5
New credit applications	61.2	59.4	61.1	62.2	44.0	31.1	43.3	57.9	62.4	63.4	63.6	65.2	63.9
Dollar collections	59.2	57.9	61.7	58.8	49.3	35.5	43.2	53.9	62.5	61.2	63.3	64.6	62.6
Amount of credit extended	64.3	61.1	62.9	63.6	53.2	41.6	42.8	55.2	57.3	61.3	60.8	68.0	64.8
Index of favorable factors	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**	**63.3**	**68.0**	**64.4**
Rejections of credit applications	51.3	52.0	52.0	53.8	53.5	52.7	51.9	49.8	50.0	51.5	51.6	51.4	51.5
Accounts placed for collection	49.8	50.3	50.6	50.6	50.6	47.4	49.1	46.7	50.8	51.6	49.4	49.5	56.2
Disputes	50.3	50.8	52.4	50.3	52.1	50.8	51.5	49.6	50.7	51.8	48.7	51.0	50.6
Dollar amount beyond terms	52.6	51.0	54.2	53.5	43.9	27.6	32.4	44.4	57.3	58.2	54.6	58.0	58.1
Dollar amount of customer deductions	51.4	51.3	52.2	51.5	50.4	49.4	50.9	50.6	52.4	52.2	51.1	51.0	51.7
Filings for bankruptcies	53.5	53.4	54.4	53.3	53.2	50.2	47.3	47.7	48.8	47.7	51.3	50.7	53.0
Index of unfavorable factors	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**	**51.1**	**51.9**	**53.5**
NACM Combined CMI	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**	**56.0**	**58.4**	**57.9**



Manufacturing Sector

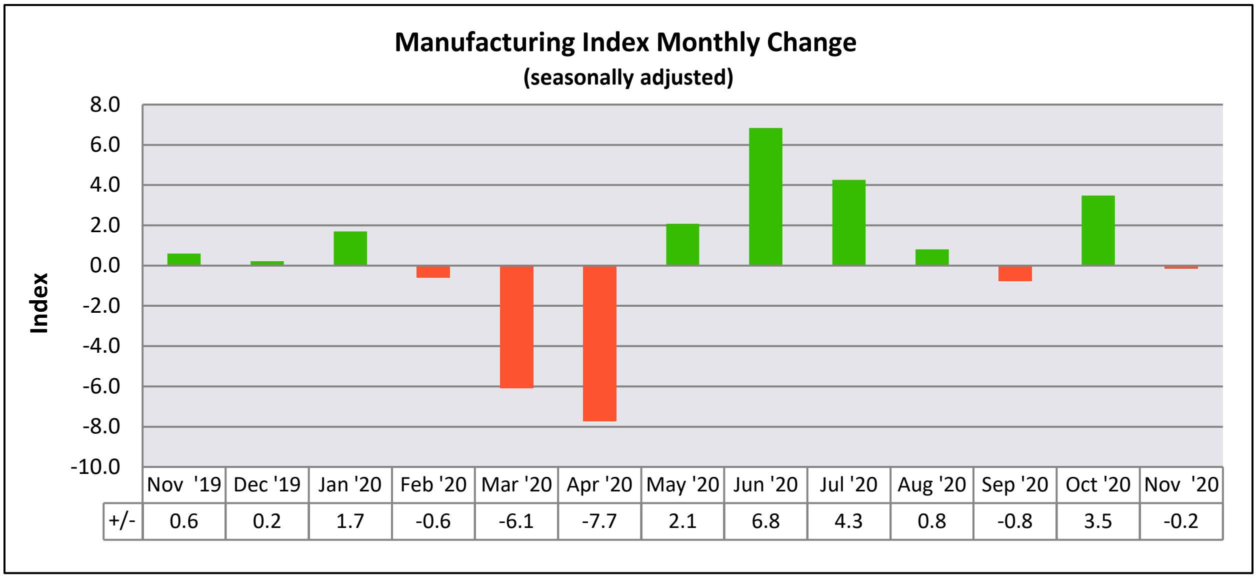
Manufacturing has managed to escape a certain amount of the economic carnage that came with the pandemic. "In some ways, the shifts in consumer activity was a benefit to some manufacturers as people tended to emphasize buying things overpaying for services. The challenge now is that retail has started to sag a little and at exactly the wrong time of the year. There is also the ongoing challenge of a disrupted global supply chain," Kuehl said.

The combined score for manufacturing was very nearly the same as it was the month before with a reading of 58.6 as compared to 58.8. The index of favorable factors slipped a bit but remained firmly in the 60s with a reading of 64.3 as compared to 67.9 last month. This still leaves this month's reading as the second strongest in the past year. The index of unfavorable factors improved a bit and moved deeper into the 50s with a reading of 54.8 as compared to 52.6 in October.

Last month, the sales data soared to astonishing levels, and this month, there was a return to reality. The data was still very strong with a reading of 69.9, second only to the 75.3 notched the month prior. The new credit applications data remained very stable with a reading of 62.4 as contrasted with last month's 62. The dollar collections numbers dipped a little but stayed high with a 62.3 compared to 65 in October. The amount of credit extended fell sharply from the 69.4 noted in October but still remained in the 60s with a reading of 62.6. "There seems to have been a little slowdown in terms of requesting credit within the manufacturing sector, but that is often the case this time of year," Kuehl said.

The rejections of credit applications stayed very close to last month's level with a reading of 52.5 compared to 52.8 in October. The accounts placed for collection showed a stunning improvement, and that signals a major change in the status of many manufacturing accounts. It was at 51.4 and now sits at 63. "This is a very definite indication that many companies seem to be regaining their economic footing." The disputes reading fell a little and slipped into contraction territory with a reading of 49.8 after a 51.6 in the previous month. The dollar amount beyond terms also showed some stability as this month—the reading was 58.9 and last month it was at 58.4. "These consistently high numbers show that creditors are trying to remain current, and that is very often a signal they are preparing for a good growth period in the future. Businesses want to make sure they have the access to credit they believe they will need." The dollar amount of customer deductions also remained stable with a reading of 51 as compared to the 50.5 noted last month. The filings for bankruptcies jumped from 51.2 to 53.7, and that is a promising sign as these readings have not been this solid since the start of the year.

Manufacturing Sector (seasonally adjusted)	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20
Sales	60.7	57.9	63.8	65.7	40.3	21.4	27.5	57.8	66.3	67.2	65.1	75.3	69.9
New credit applications	59.8	61.2	60.2	61.4	45.0	35.7	43.2	57.5	64.4	60.4	60.8	62.0	62.4
Dollar collections	56.8	57.5	62.9	58.3	53.4	35.0	40.5	52.4	61.1	61.3	63.9	65.0	62.3
Amount of credit extended	61.6	59.1	61.3	62.8	54.0	45.1	43.0	55.4	56.8	58.9	60.3	69.4	62.6
Index of favorable factors	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**	**62.5**	**67.9**	**64.3**
Rejections of credit applications	51.6	53.0	52.5	53.0	54.4	52.8	53.3	49.5	49.8	52.5	51.7	52.8	52.5
Accounts placed for collection	49.4	51.1	51.8	51.4	51.6	50.0	50.4	47.1	49.3	50.9	49.4	51.4	63.0
Disputes	49.6	51.0	52.5	48.9	51.4	50.6	51.6	47.4	49.6	51.7	48.1	51.6	49.8
Dollar amount beyond terms	52.1	52.4	54.3	54.2	44.3	28.6	31.9	44.0	53.7	57.8	52.3	58.4	58.9
Dollar amount of customer deductions	50.8	52.6	51.1	49.8	51.3	50.1	50.5	49.9	52.0	51.9	49.8	50.5	51.0
Filings for bankruptcies	53.0	51.8	54.2	53.3	52.0	51.1	49.3	48.8	49.4	47.9	51.6	51.2	53.7
Index of unfavorable factors	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**	**50.5**	**52.6**	**54.8**
NACM Manufacturing CMI	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**	**55.3**	**58.8**	**58.6**



Service Sector

The impact of the pandemic and the subsequent shutdown has been well documented by this time, and now that the nation (and world) is getting hit by the expected second and third waves, the service sector is getting slammed again. The majority of the warnings and admonitions have been aimed at situations where people gather—everything from events to restaurants. The retail community has not been hit as hard as it was earlier this year, but the curtailing of traditional holiday travel and activity has taken its toll. “Thus far, the CMI data has not reflected this latest round of restrictions but these are expected to have an impact in the coming month,” said Kuehl.

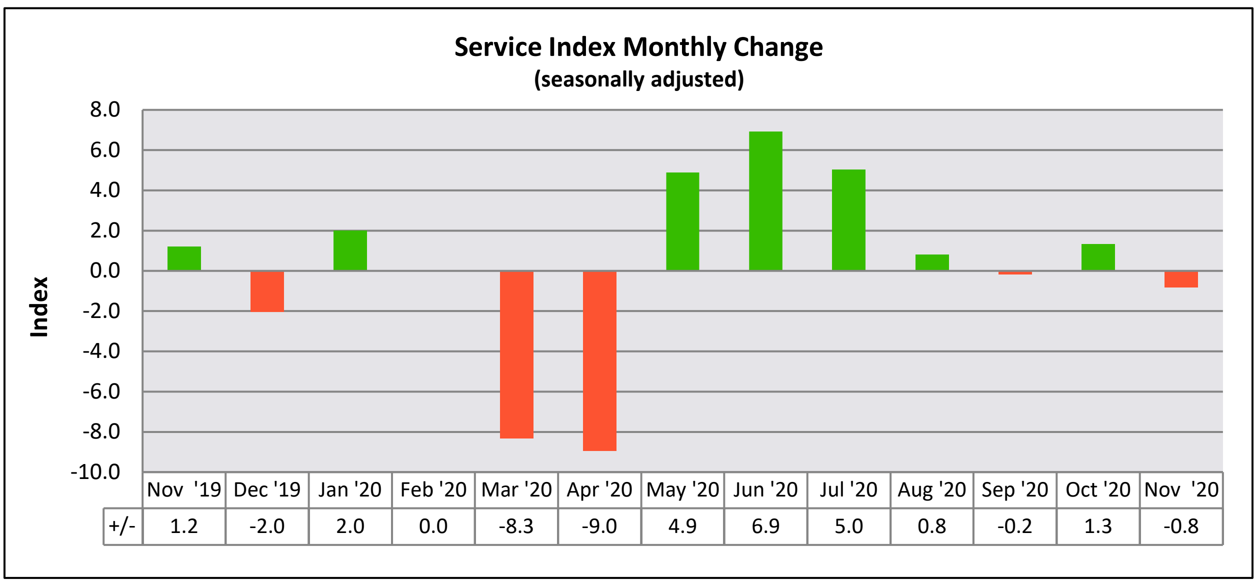
The combined index for services slid a little but not dramatically as it went from 58 to 57.2. The index of favorable factors also slipped but not all that much as the reading is now 64.6 and in October it was at 68.1. The index of unfavorable factors remained fairly stable but with an improvement from 51.3 to 52.2.

The sales numbers were staggering last month as the sector as a whole seemed to be reacting to pent up consumer demand. The drop this month was large but the reading remains in very solid territory at 63.1. The October number was something of an anomaly. The new credit applications data stayed fairly consistent with a reading of 65.4 as contrasted with the 68.4 noted in October. The dollar collections data also fell a little but stayed in the 60s at 62.9. Last month this data stood at 64.3. The amount of credit extended stayed very close to the previous reading and improved with a small jump from 66.6 to 67. “There is a strong level of demand from many retailers as they try to make the most of this year’s consumer emphasis on goods purchasing.”

The rejections of credit applications data stayed very close to October’s reading with a 50.4 number compared to 50. The accounts placed for collection did not see the big gains that were seen in manufacturing. Last month’s reading was 47.7 and this month the data shows a number of 49.4. This is an improvement to be sure but there are still some obvious issues in this sector. The disputes reading improved a little and moved further into the 50s with a 51.4 reading compared to October’s 50.5. The dollar amount beyond terms remained very stable and in the high 50s with a reading of 57.4 after one of 57.7 the month prior. The dollar amount of customer deductions improved a little from 51.5 to 52.4, and that suggests that there is some real growth returning to some in this sector. The filings for bankruptcies also pulled further into the 50s with a reading of 52.4 as contrasted with last month at 50.3.

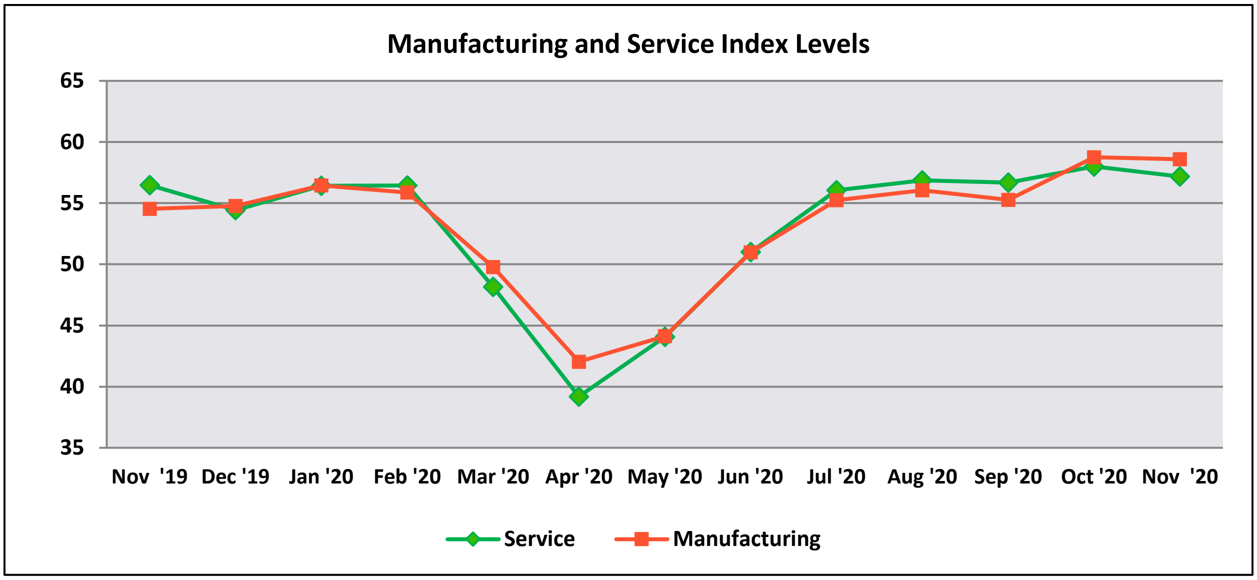
The CMI is heaviest in the retail sector of the service analysis and that has been apparent as the numbers have been showing some signs of improvement—even as major parts of the overall service economy have been slumping badly. The impact on retail from the recent restrictions and shutdowns will be more obvious in the months to come.

Service Sector (seasonally adjusted)	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20
Sales	62.5	59.7	62.2	62.3	38.7	18.6	29.7	50.4	62.4	64.3	65.9	73.1	63.1
New credit applications	62.6	57.6	62.0	63.1	43.0	26.5	43.5	58.4	60.5	66.3	66.4	68.4	65.4
Dollar collections	61.7	58.3	60.5	59.3	45.1	36.1	45.8	55.4	63.9	61.0	62.6	64.3	62.9
Amount of credit extended	66.9	63.0	64.5	64.5	52.4	38.1	42.7	55.1	57.7	63.6	61.3	66.6	67.0
Index of favorable factors	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**	**64.1**	**68.1**	**64.6**
Rejections of credit applications	51.0	50.9	51.5	54.6	52.5	52.6	50.6	50.1	50.2	50.6	51.5	50.0	50.4
Accounts placed for collection	50.1	49.5	49.3	49.8	49.7	44.8	47.9	46.4	52.2	52.3	49.4	47.7	49.4
Disputes	50.9	50.6	52.3	51.7	52.8	50.9	51.3	51.7	51.9	51.8	49.3	50.5	51.4
Dollar amount beyond terms	53.1	49.7	54.2	52.8	43.5	26.6	33.0	44.9	60.9	58.5	57.0	57.7	57.4
Dollar amount of customer deductions	52	50.0	53.3	53.2	49.5	48.7	51.2	51.2	52.7	52.5	52.4	51.5	52.4
Filings for bankruptcies	54.0	54.9	54.6	53.4	54.3	49.3	45.3	46.5	48.3	47.6	50.9	50.3	52.4
Index of unfavorable factors	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**	**51.8**	**51.3**	**52.2**
NACM Service CMI	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**	**56.7**	**58.0**	**57.2**



November 2020 versus November 2019

“Over the last few months there has been more overall stability in the index—not as many wild drops,” said Kuehl. “Last month, was especially robust as there seemed to be considerable levels of pent up demand. That pattern has since started to return to more familiar territory.”



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.

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

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