Report for December 2020

Issued December 31, 2020

National Association of Credit Management

Combined Sectors

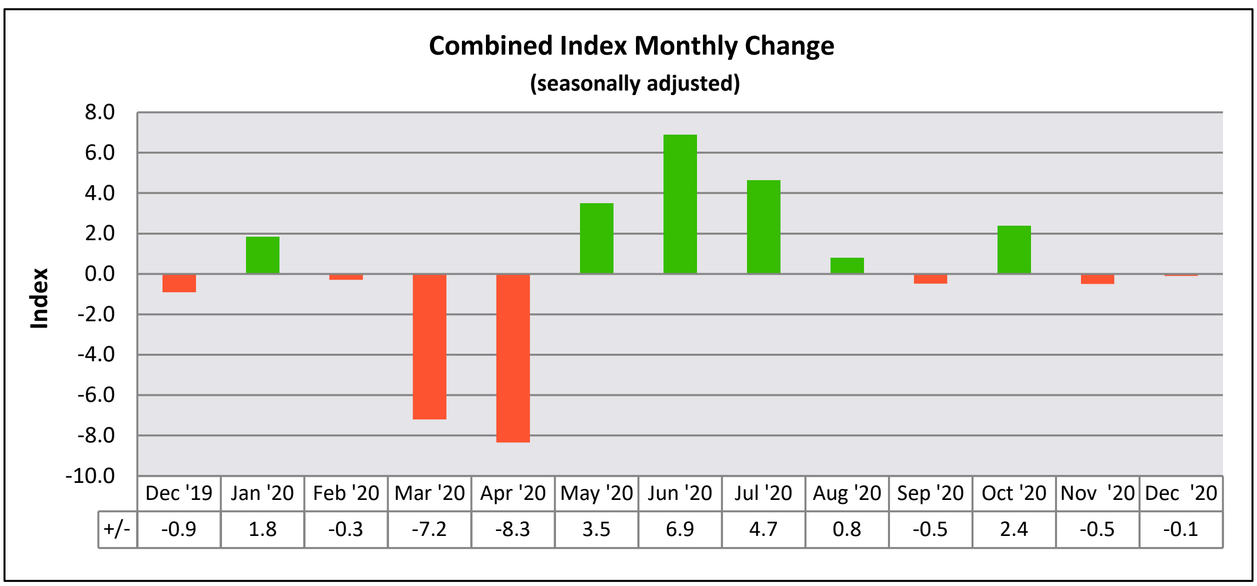
Astounding as it may appear, the economy may have reached a stage of some stability. At least that is what the December Credit Managers' Index (CMI) is suggesting. This has been a spectacularly difficult year to forecast and anticipate as the data has been swinging wildly. The utter collapse that followed the pandemic-inspired shutdown led to several months of artificial rebound. The economy behaved like a spring that was pushed down and then released. Neither the down state nor the rebound was accurate. "It now appears that the movement has slowed, and what we are seeing now could be considered normal or at least some version of normal," said NACM Economist Chris Kuehl, Ph.D. "This is not to say that there has been an end to the economic crisis. Unemployment remains very high; thousands of businesses have been forced to shut down and many others are hanging on by a thread. The data from the latest CMI makes that abundantly clear, but for the first time in almost a year, there is some reason to expect the future to look a little brighter."

The combined score for the CMI changed very little from its position last month, going from 57.9 to 57.8. This is just slightly off from the 58.4 reached in October. The last three months have been the high points for the past couple of years. The index of favorable factors improved over November's reading with a 65.7 as compared to 64.4. Again, the peak was in October when the reading stood at 68. The index of unfavorable factors went the other direction with a slight decline from 53.5 to 52.5. "This is really the story of the economy at the end of 2020 in a nutshell. There was a definite surge in activity at the start of the holiday spending season, but the arrival of the second wave of the virus prompted more shutdowns and a receding pace of economic expansion," Kuehl said.

The sub-sector readings told that story even more clearly. The sales numbers have been climbing, and at 70.2 they have almost returned to the levels seen in October. The consumer responded to the sales and discounts on offer, and the business community also found a reason to invest and spend. The new credit applications data also improved over last month, moving from 63.9 to 64.4. The dollar collections data stayed very stable at 62.8, just slightly above the 62.6 in November. The last of the favorable readings also trended back toward the level seen in October with a reading of 65.3 compared to 64.8 in November.

There was more activity and more of a retreat in the unfavorable categories. The rejections of credit applications remained very similar to the month prior with a reading of 51.3 as compared to 51.5. There was a much more pronounced change as far as accounts placed for collection as this reading had been 56.2 in November and has fallen back to 51.6. This is a reversal to be sure, but the data remains above the 50 line and therefore in expansion territory. There are more than a few indications that businesses remain fragile and the imposition of new restrictions pushed more over the edge. The disputes reading actually improved from November as it went from 50.6 to 51.2. There was a slight dip as far as the dollar amount beyond terms reading is concerned, moving from 58.1 to 57, but these are still very solid numbers and well into the expansion zone. The dollar amount of customer deductions showed very little change at all, moving from 51.7 to 51.5. The data regarding filings for bankruptcies showed a decline from 53 to 52.5, but these numbers are still firmly in the expansion zone. "Despite some weakening of the data in the unfavorable category all the readings are in expansion territory and that makes two months in a row for this kind of positive data. The favorables are all at least in the 60s this month as well, and that points in a positive direction going into the first quarter."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20
Sales	58.8	63.0	64.0	39.5	20.0	28.6	54.1	64.3	65.8	65.5	74.2	66.5	70.2
New credit applications	59.4	61.1	62.2	44.0	31.1	43.3	57.9	62.4	63.4	63.6	65.2	63.9	64.4
Dollar collections	57.9	61.7	58.8	49.3	35.5	43.2	53.9	62.5	61.2	63.3	64.6	62.6	62.8
Amount of credit extended	61.1	62.9	63.6	53.2	41.6	42.8	55.2	57.3	61.3	60.8	68.0	64.8	65.3
Index of favorable factors	**59.3**	**62.2**	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**	**63.3**	**68.0**	**64.4**	**65.7**
Rejections of credit applications	52.0	52.0	53.8	53.5	52.7	51.9	49.8	50.0	51.5	51.6	51.4	51.5	51.3
Accounts placed for collection	50.3	50.6	50.6	50.6	47.4	49.1	46.7	50.8	51.6	49.4	49.5	56.2	51.6
Disputes	50.8	52.4	50.3	52.1	50.8	51.5	49.6	50.7	51.8	48.7	51.0	50.6	51.2
Dollar amount beyond terms	51.0	54.2	53.5	43.9	27.6	32.4	44.4	57.3	58.2	54.6	58.0	58.1	57.0
Dollar amount of customer deductions	51.3	52.2	51.5	50.4	49.4	50.9	50.6	52.4	52.2	51.1	51.0	51.7	51.5
Filings for bankruptcies	53.4	54.4	53.3	53.2	50.2	47.3	47.7	48.8	47.7	51.3	50.7	53.0	52.5
Index of unfavorable factors	**51.5**	**52.6**	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**	**51.1**	**51.9**	**53.5**	**52.5**
NACM Combined CMI	**54.6**	**56.4**	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**	**56.0**	**58.4**	**57.9**	**57.8**



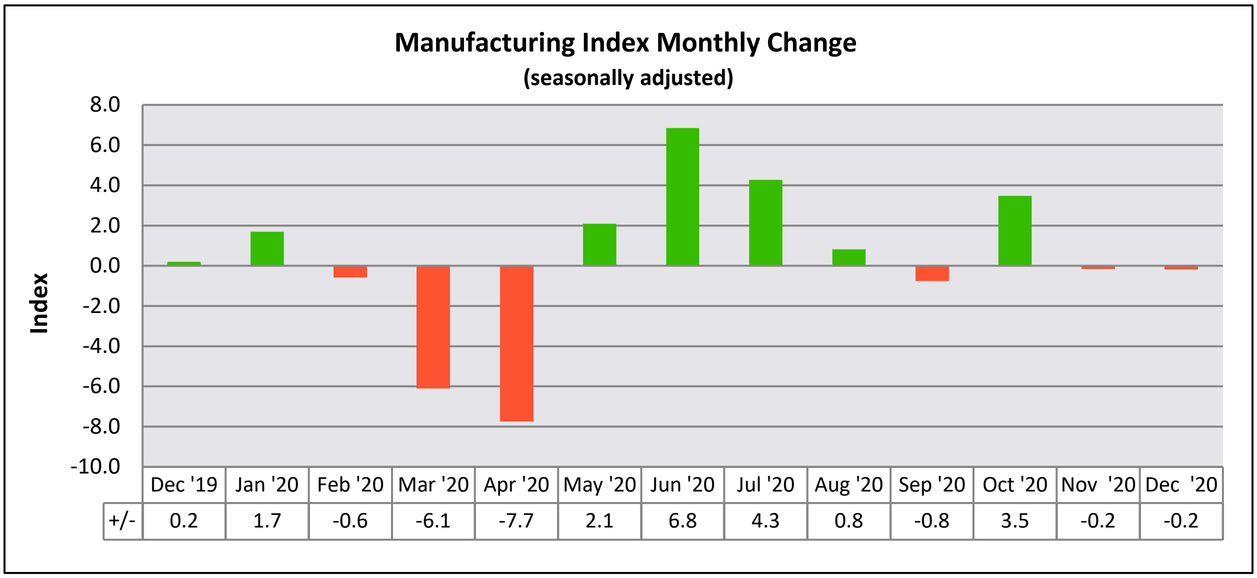
Manufacturing Sector

Manufacturing has been all over the place as one would expect. There have been sectors that have done quite well through this economic crisis while others have been damaged—it has all depended on what sector of the market has been the focus. Automotive has done pretty well while the aerospace sector has suffered an abrupt drop in demand. Export centric manufacturing has taken a hit while domestic focus has paid off with consumers buying everything from appliances to lawn equipment. In general, the data has been promising and fairly consistent. The combined score for the sector is very close to what was noted in November, moving from 58.6 to 58.4. The index of favorable factors shifted up to levels beyond October's reading. It now stands at 68.5 compared to 64.3 in November and 67.9 in October. The index of unfavorable factors slipped a bit with a reading of 51.7 compared to the 54.8 noted in November.

The variety in the sub-sectors has been illustrative. The sales numbers nearly recovered to where they were in October with a reading of 71.1. The new credit applications data jumped into the 70s with a reading of 70.2 after hitting 62.4 in November. This surge in credit applications seems to match some of the data regarding capital investment and capacity utilization. It has been a year of restrained investment and now some of that money may be shaking loose. The dollar collections data also improved with a reading of 65.9 compared to 62.3 in November. There was also positive movement as far as the amount of credit extended. It was at 62.6 and shifted to 66.8 this month—another sign that credit is being sought by some pretty large companies.

The movement in the unfavorable categories showed a little more stress. The rejections of credit applications slipped a bit from 52.5 to 51.3 but remained in expansion territory, and that is a good sign given the increase in applications. The accounts placed for collection dropped drastically, and that is a more distressing sign. It was reading at 63 in November, but this month it fell back to 51.4. "There is a deep split between the businesses that have been weathering all this and those that have been affected by the shutdowns, and that shows up in terms of collection." The disputes numbers climbed out of the contraction zone with a reading of 50.7 as contrasted with the 49.8 registered last month. The dollar amount beyond terms fell a little from 58.9 to 53.5, but is still in the expansion zone. "The companies that starting to fall behind in their obligations will need to be watched carefully going forward." The dollar amount of customer deductions also fell, and that reading is very close to the 50 line with a reading that moved from 51 to 50.6. The filings for bankruptcies data also slipped a bit from 53.7 to 52.8. All of these reductions merit some further examination, but the good news for the moment is all of the categories are in the expansion zone again after seeing a little decline in November. October's numbers are still better overall, but December bounced back a bit. The real drag on the month has been accounts placed for collection.

Manufacturing Sector (seasonally adjusted)	**Dec '19**	**Jan '20**	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**	**Aug '20**	**Sep '20**	**Oct '20**	**Nov '20**	**Dec '20**
Sales	57.9	63.8	65.7	40.3	21.4	27.5	57.8	66.3	67.2	65.1	75.3	69.9	71.1
New credit applications	61.2	60.2	61.4	45.0	35.7	43.2	57.5	64.4	60.4	60.8	62.0	62.4	70.2
Dollar collections	57.5	62.9	58.3	53.4	35.0	40.5	52.4	61.1	61.3	63.9	65.0	62.3	65.9
Amount of credit extended	59.1	61.3	62.8	54.0	45.1	43.0	55.4	56.8	58.9	60.3	69.4	62.6	66.8
Index of favorable factors	**58.9**	**62.0**	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**	**62.5**	**67.9**	**64.3**	**68.5**
Rejections of credit applications	53.0	52.5	53.0	54.4	52.8	53.3	49.5	49.8	52.5	51.7	52.8	52.5	51.3
Accounts placed for collection	51.1	51.8	51.4	51.6	50.0	50.4	47.1	49.3	50.9	49.4	51.4	63.0	51.4
Disputes	51.0	52.5	48.9	51.4	50.6	51.6	47.4	49.6	51.7	48.1	51.6	49.8	50.7
Dollar amount beyond terms	52.4	54.3	54.2	44.3	28.6	31.9	44.0	53.7	57.8	52.3	58.4	58.9	53.5
Dollar amount of customer deductions	52.6	51.1	49.8	51.3	50.1	50.5	49.9	52.0	51.9	49.8	50.5	51.0	50.6
Filings for bankruptcies	51.8	54.2	53.3	52.0	51.1	49.3	48.8	49.4	47.9	51.6	51.2	53.7	52.8
Index of unfavorable factors	**52.0**	**52.7**	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**	**50.5**	**52.6**	**54.8**	**51.7**
NACM Manufacturing CMI	**54.8**	**56.5**	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**	**55.3**	**58.8**	**58.6**	**58.4**



	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20
+/-	0.2	1.7	-0.6	-6.1	-7.7	2.1	6.8	4.3	0.8	-0.8	3.5	-0.2	-0.2

Service Sector

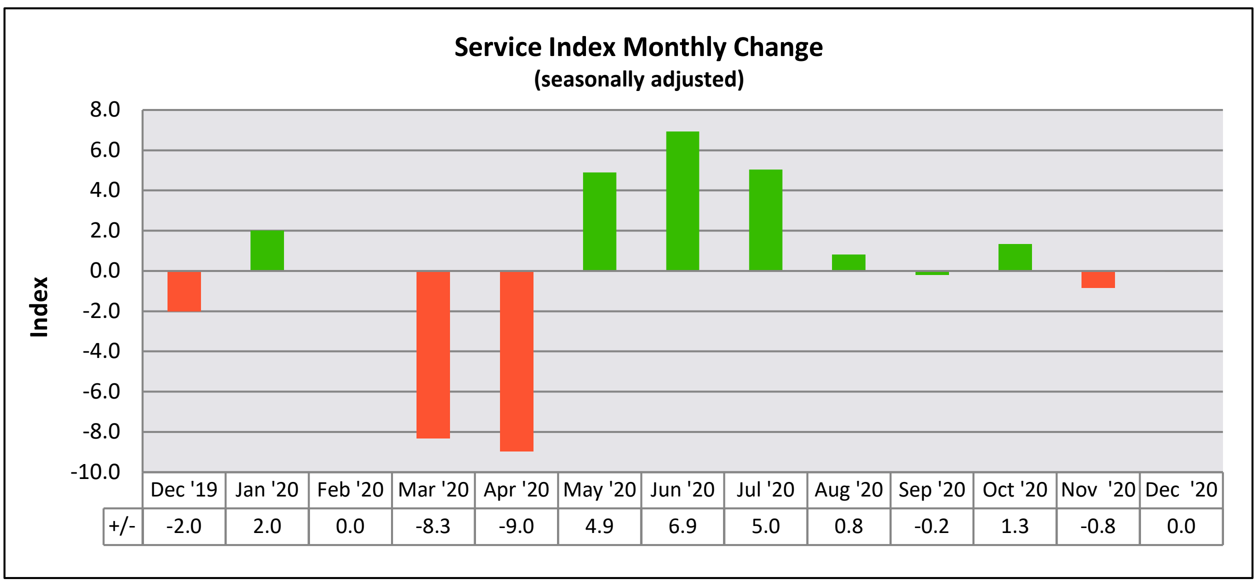
The story of this recession has been the impact on the service sector, but as with manufacturing, there are wide differences between the various divisions. The hospitality, travel and entertainment arenas were devastated by the lockdowns, and recovery was set back by the resumption of these restrictions. Other service areas were quicker to rebound—everything from construction to retail. The past holiday spending season does not appear to have been record breaking, but it was respectable and better than had been anticipated.

The combined score for services did not change significantly from the numbers in November. The reading was 57.2 and is now 57.1. The index of favorable factors slipped a bit but remained in very healthy territory with a reading of 62.9 compared to 64.6 in November. The index of unfavorable factors improved as the reading went from 52.2 to 53.3. There is that same separation as seen in manufacturing—some sectors coming out the pandemic recession in far better shape than others.

The sales numbers improved again, and started to get back to where they were in October when they broke the 70s to end up at 73.1. The November numbers fell back to 63.1, and now they have recovered to 69.3. The new credit applications data slipped out of the 60s with a reading of 58.7 compared to the 65.4 notched the month prior. This signals a slowdown in the retail sector as would be expected this time of year. The dollar collections numbers also sank a bit from 62.9 to 59.7, and that declining trend continued when looking at the amount of credit extended as the numbers went from 67 to 63.9. These are not bad numbers as they are all firmly in the expansion zone but these are all down from where they had been, and that is due to the travails that have been dogging the service sector all year.

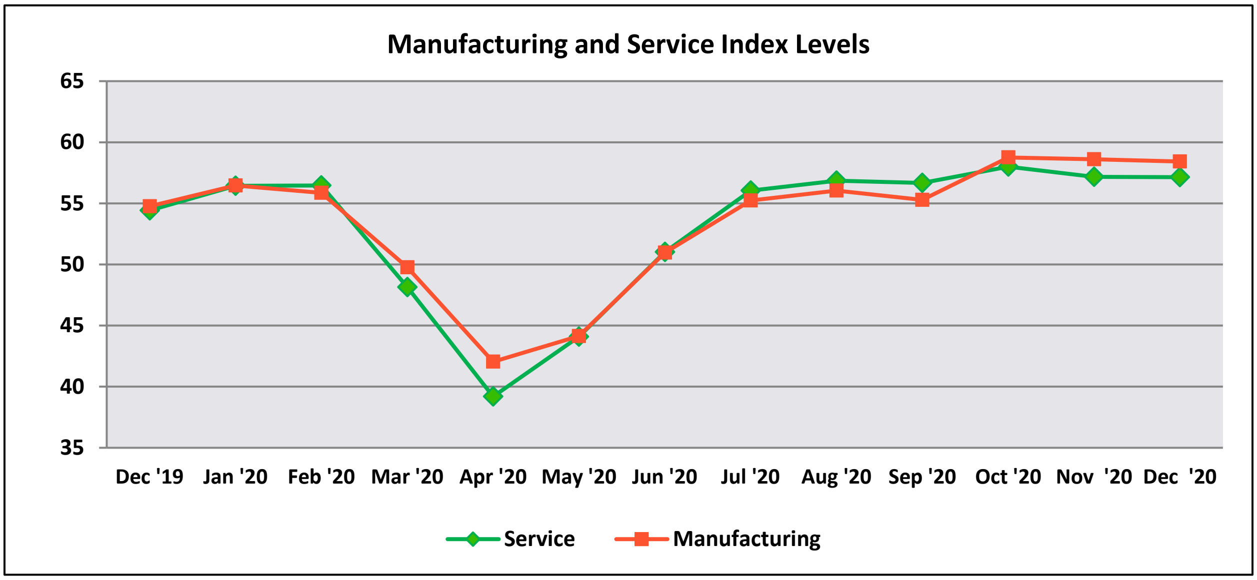
There is more evidence of the sector stress in the unfavorable readings. The rejection of credit applications improved a bit from 50.4 to 51.2, and that is good news given the reduction in applications. It means that there have been applicants that are more likely to win approval. The accounts placed for collection improved and escaped from the contraction zone by moving from 49.4 to 51.8. This is a real contrast to what has been seen in manufacturing as it translates into trying to stay current with credit issuers. The disputes numbers stayed very close to what they had been as the November reading was 51.4, and this month the reading is 51.7. The dollar amount beyond terms was a bit of a surprise as it jumped into the 60s with a reading of 60.6 as compared to 57.4. “This has been a trend that has developed in the last few months and signals that credit recipients want to remain current with their credit issuers,” said Kuehl. “This is the kind of behavior that bodes well for the future as it means that businesses want to continue to get access to that credit.” The dollar amount of customer deductions stayed exactly where it was the month before with a reading of 52.4. The filings for bankruptcies also remained very stable with a 52.2 this month compared to 52.4 the month before. The entire month saw data in the 50s, and that has not been the case in over a year. “The prospects for the service side of the economy will improve dramatically as the pandemic threat fades and some of these restrictions are removed,” noted Kuehl.

Service Sector (seasonally adjusted)	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20
Sales	59.7	62.2	62.3	38.7	18.6	29.7	50.4	62.4	64.3	65.9	73.1	63.1	69.3
New credit applications	57.6	62.0	63.1	43.0	26.5	43.5	58.4	60.5	66.3	66.4	68.4	65.4	58.7
Dollar collections	58.3	60.5	59.3	45.1	36.1	45.8	55.4	63.9	61.0	62.6	64.3	62.9	59.7
Amount of credit extended	63.0	64.5	64.5	52.4	38.1	42.7	55.1	57.7	63.6	61.3	66.6	67.0	63.9
Index of favorable factors	**59.7**	**62.3**	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**	**64.1**	**68.1**	**64.6**	**62.9**
Rejections of credit applications	50.9	51.5	54.6	52.5	52.6	50.6	50.1	50.2	50.6	51.5	50.0	50.4	51.2
Accounts placed for collection	49.5	49.3	49.8	49.7	44.8	47.9	46.4	52.2	52.3	49.4	47.7	49.4	51.8
Disputes	50.6	52.3	51.7	52.8	50.9	51.3	51.7	51.9	51.8	49.3	50.5	51.4	51.7
Dollar amount beyond terms	49.7	54.2	52.8	43.5	26.6	33.0	44.9	60.9	58.5	57.0	57.7	57.4	60.6
Dollar amount of customer deductions	50.0	53.3	53.2	49.5	48.7	51.2	51.2	52.7	52.5	52.4	51.5	52.4	52.4
Filings for bankruptcies	54.9	54.6	53.4	54.3	49.3	45.3	46.5	48.3	47.6	50.9	50.3	52.4	52.2
Index of unfavorable factors	**50.9**	**52.5**	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**	**51.8**	**51.3**	**52.2**	**53.3**
NACM Service CMI	**54.4**	**56.4**	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**	**56.7**	**58.0**	**57.2**	**57.1**



December 2020 versus December 2019

“The stability that has been noted over the last few months was shaken a little by the resumption of lockdowns, but thus far, this impact has not shaken the index off a course that puts it solidly in the expansion zone,” concluded Kuehl.



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.

Source: National Association of Credit Management

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

Website: www.nacm.org
Twitter: NACM_National