Report for March 2020

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National Association of Credit Management

Combined Sectors

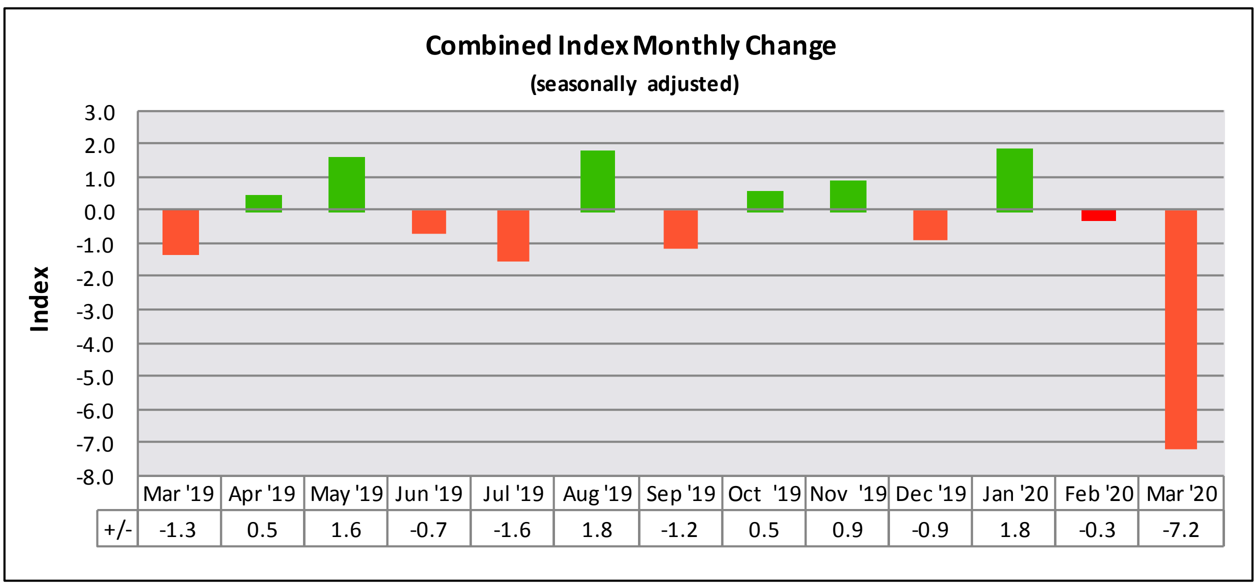
NACM Economist Chris Kuehl, Ph.D., discusses the effect of the coronavirus (COVID-19) on credit managers in the March Credit Managers' Index (CMI). Needless to say, the world today is a far cry from the world that existed a month ago; it is not clear the world of tomorrow will be recognizable, at least for a while. The credit manager has truly become a crucial player in this environment—more than during other recessions. The companies critical to the success of their own companies are suddenly faced with a shutdown that could last months. That has crippled their ability to pay their bills or even hang on to their employees. They will all become highly dependent on the relationships developed over past years. Credit managers will be faced with many challenges. The data this month is as bad as has been seen since the financial sector collapse in 2008, but the numbers have not crashed into the 30s yet. This still remains a possibility in months to come.

The combined score for the CMI dropped to 49. This measure has not been below the 50 line (contraction) for years. This will be the story throughout this month's assessment—record-setting declines that will match the recession numbers in 2008 and 2009. The index of favorable factors has tumbled out of the sixties in drastic fashion as it is now reading 46.5 after sitting at 62.2 in February. The index of unfavorable factors likewise fell, but not to the levels of the favorables. The full impact of the crisis has not yet hit many companies, so for the moment, the damage has been somewhat limited—falling from 52.2 to 50.6. This reading is not expected to remain above 50 in subsequent months, however.

The real damage can be seen in looking at the specific readings. The sales numbers plummeted from a high of 64 to 39.5; the reading has not been this low in years. The new credit applications also cratered from 62.2 to 44. The dollar collections numbers followed suit with a reading of 49.3 after a reading of 58.8 the month prior. The only sector that did not fall into the forties was the amount of credit extended as it went from 63.6 to 53.2. In short, there was very little to find favorable in the favorable data.

That trend continues with the unfavorable readings, but not quite as dramatically. "The full impact of the business shutdown has not been felt," Kuehl said, "although it will likely start to manifest in the weeks to come and in the next iteration of the CMI." The rejections of credit applications stayed almost where they had been with a reading of 53.5 compared to 53.8 in February. The accounts placed for collection numbers were exactly the same as last month at 50.6. He added that there has not yet been time for the crash in business activity to trigger actions as far as collection is concerned, but most expect this to develop soon enough. The disputes numbers actually improved from 50.3 to 52.1. There was a substantial decline as far as dollar amount beyond terms (53.5 to 43.9). "As companies are shut down, they are hoarding their cash reserves as aggressively as they can," he said, "and they will be reluctant to keep on top of their credit." The dollar amount of customer deductions did not alter much. The reading this month was 50.4 and last month it was 51.5. The filings for bankruptcies also remained stable at 53.2 from 53.3 last month. He noted that this will likely be the last of the indicators to move.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20
Sales	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8	63.0	64.0	39.5
New credit applications	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4	61.1	62.2	44.0
Dollar collections	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9	61.7	58.8	49.3
Amount of credit extended	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1	62.9	63.6	53.2
Index of favorable factors	**59.0**	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**	**59.1**	**60.1**	**61.6**	**59.3**	**62.2**	**62.2**	**46.5**
Rejections of credit applications	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0	52.0	53.8	53.5
Accounts placed for collection	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3	50.6	50.6	50.6
Disputes	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8	52.4	50.3	52.1
Dollar amount beyond terms	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0	54.2	53.5	43.9
Dollar amount of customer deductions	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3	52.2	51.5	50.4
Filings for bankruptcies	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4	54.4	53.3	53.2
Index of unfavorable factors	**49.9**	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**	**50.7**	**50.9**	**51.5**	**51.5**	**52.6**	**52.2**	**50.6**
NACM Combined CMI	**53.6**	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**	**54.1**	**54.6**	**55.5**	**54.6**	**56.4**	**56.2**	**49.0**



Manufacturing Sector

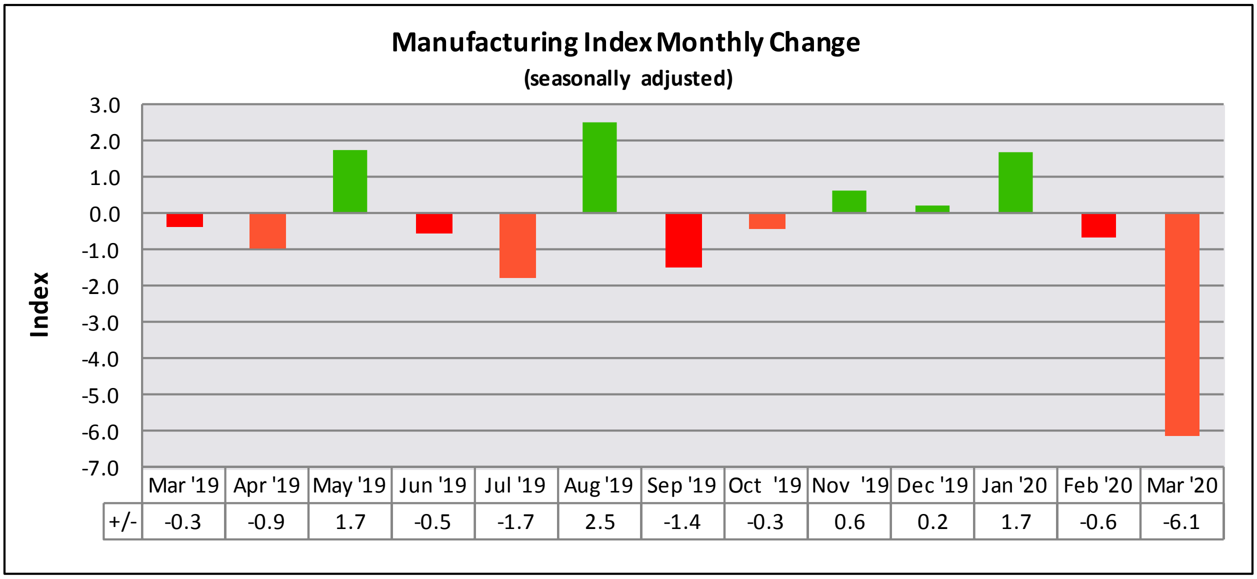
Here, Kuehl notes that the impact of the COVID-19 outbreak was felt by the manufacturing sector before it hit the country as a whole. This started out as a supply chain crisis for U.S. manufacturers as the heavy industrial manufacturing area of China was essentially shut down as early as January. It has since become a bigger concern with widespread business shutdowns across most of the U.S.

The combined score for the manufacturing sector fell from 55.9 to 49.8. These numbers have not been this low for several years. The combined favorable factors fell from 62 to 48.2, also the lowest point reached in several years and as low as was seen during the recession of 2008-2009. The combined unfavorable reading didn't alter appreciably. It was at 51.8 and is now at 50.8. As discussed above, Kuehl says there has not been enough time for most business to react. "The interruptions in business activity have developed in just the last two to three weeks;

this is showing up in immediate data such as sales and credit applications." Sales dropped drastically from 65.7 to 40.3—nearing levels not seen since the recession in 2008. The new credit applications also fell like a stone as February's numbers were at 61.4 and are now sitting at 45. The dollar collections numbers didn't fall as dramatically, but they are expected to in coming weeks as companies struggle with the shutdown and supply chain issues. The reading was at 58.3 and is now at 53.4—still temporarily in positive territory. The amount of credit extended fell from 62.8 to 54—also still in positive territory, but down considerably from where it had been.

There has been less time for the unfavorable factors to register the impact of the shutdown. This will doubtless become an issue in the months to come. The rejections of credit applications actually improved a little by moving from 53 to 54.4. "Those applications still arriving are generally coming from the better customers," he said. "The accounts placed for collection remained very close to where it had been before as there has not yet been time for many customers to get in trouble." The reading in February was 51.4 and this month it is 51.6. The disputes section also improved a little by going from 48.9 to 51.4, while most of the initial damage has been seen in the dollar amount beyond terms reading (from 54.2 to 44.3). He added that companies hit by the sudden shutdown are not in a position to pay their creditors and are protecting their cash flow at all costs. The dollar amount of customer deductions actually improved as the reading went from 49.8 to 51.3. As with most of the other readings, there has not been time for the bankruptcy numbers to alter—the filings for bankruptcies moved from 53.3 to 52, but in future surveys there will likely be a substantial increase.

Manufacturing Sector (seasonally adjusted)	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20
Sales	58.4	58.6	63.3	58.5	57.6	65.3	57.9	56.7	60.7	57.9	63.8	65.7	40.3
New credit applications	61.2	59.8	63.9	62.5	60.0	60.1	59.5	59.2	59.8	61.2	60.2	61.4	45.0
Dollar collections	57.8	58.6	60.5	59.2	54.7	59.6	58.7	58.7	56.8	57.5	62.9	58.3	53.4
Amount of credit extended	63.9	58.5	64.6	61.3	54.7	61.4	59.2	61.6	61.6	59.1	61.3	62.8	54.0
Index of favorable factors	**60.3**	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**	**58.8**	**59.1**	**59.7**	**58.9**	**62.0**	**62.0**	**48.2**
Rejections of credit applications	53.2	53.1	52.5	53.8	53.4	53.0	51.9	52.1	51.6	53.0	52.5	53.0	54.4
Accounts placed for collection	46.8	49.3	49.0	53.5	46.7	50.6	49.7	49.3	49.4	51.1	51.8	51.4	51.6
Disputes	50.2	47.7	48.2	48.3	51.0	50.3	50.6	46.7	49.6	51.0	52.5	48.9	51.4
Dollar amount beyond terms	51.0	48.5	51.8	50.2	48.0	55.9	52.1	52.0	52.1	52.4	54.3	54.2	44.3
Dollar amount of customer deductions	48.4	49.5	48.4	49.8	52.7	49.3	51.1	51.1	50.8	52.6	51.1	49.8	51.3
Filings for bankruptcies	54.6	53.3	52.0	52.0	53.0	51.4	52.0	51.7	53.0	51.8	54.2	53.3	52.0
Index of unfavorable factors	**50.7**	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**	**51.2**	**50.5**	**51.1**	**52.0**	**52.7**	**51.8**	**50.8**
NACM Manufacturing CMI	**54.6**	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**	**54.3**	**53.9**	**54.5**	**54.8**	**56.5**	**55.9**	**49.8**



Service Sector

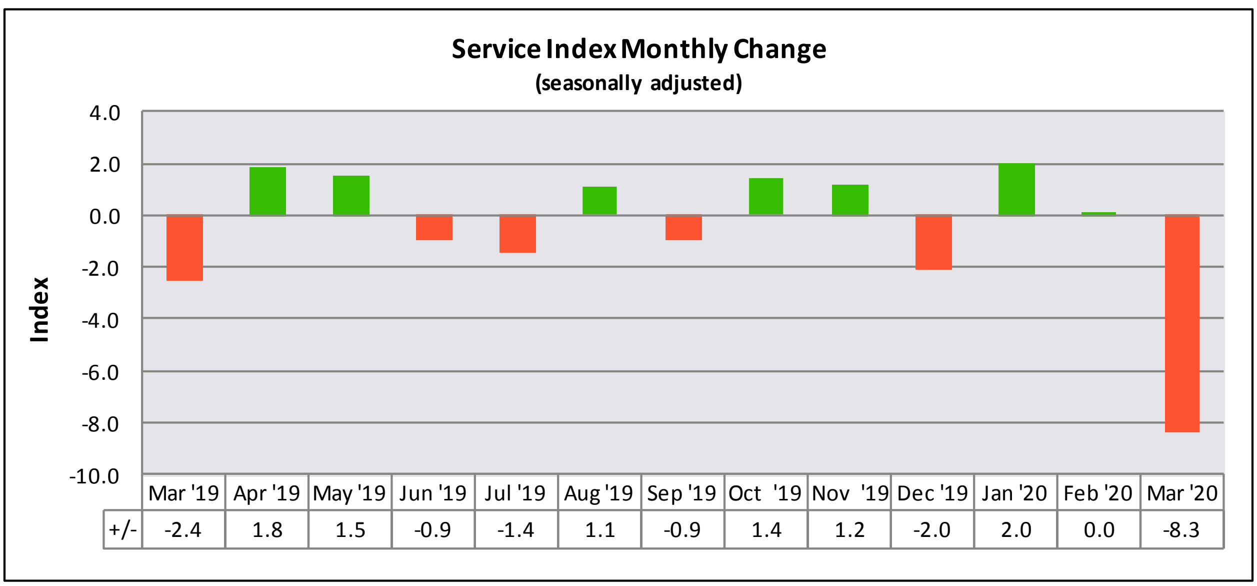
Kuehl notes that in the coming months, the service sector will be taking the brunt of the shutdown impact given that the distancing restrictions have been aimed at restaurants, events, retail outlets and the like. The service side of the U.S. economy is by far the largest percentage of the GDP. It accounts for millions of jobs and billions in consumer spending. The CMI is weighted pretty heavily towards the retail community; the data will reflect that orientation.

The combined score for the service CMI is 48.1, down considerably from the reading in February when it was 56.5. The current reading is as low as it has been in years. The combined score for the favorable factors is down dramatically as was the case with manufacturing. It was at 62.3 and has collapsed all the way to 44.8. The extent of the decline is obvious as one looks at the specific sectors. The combined score for the unfavorable factors remained close to what it had been with only one area showing the strain thus far. The combined score was 52.6 and is now 50.4—still in positive territory.

The sales numbers cratered and are now in the thirties with a reading of 38.7 from 62.3—as bad as has been seen since the recession in 2008. The same collapse has been noted in the new credit applications as the numbers have fallen from 63.1 to 43. The dollar collection data was not even a bright spot as it was with the manufacturing categories. It was at 59.3 and now stands at 45.1—as low as this has been in several years. The amount of credit extended remained in positive territory although the decline was significant—from 64.5 to 52.4.

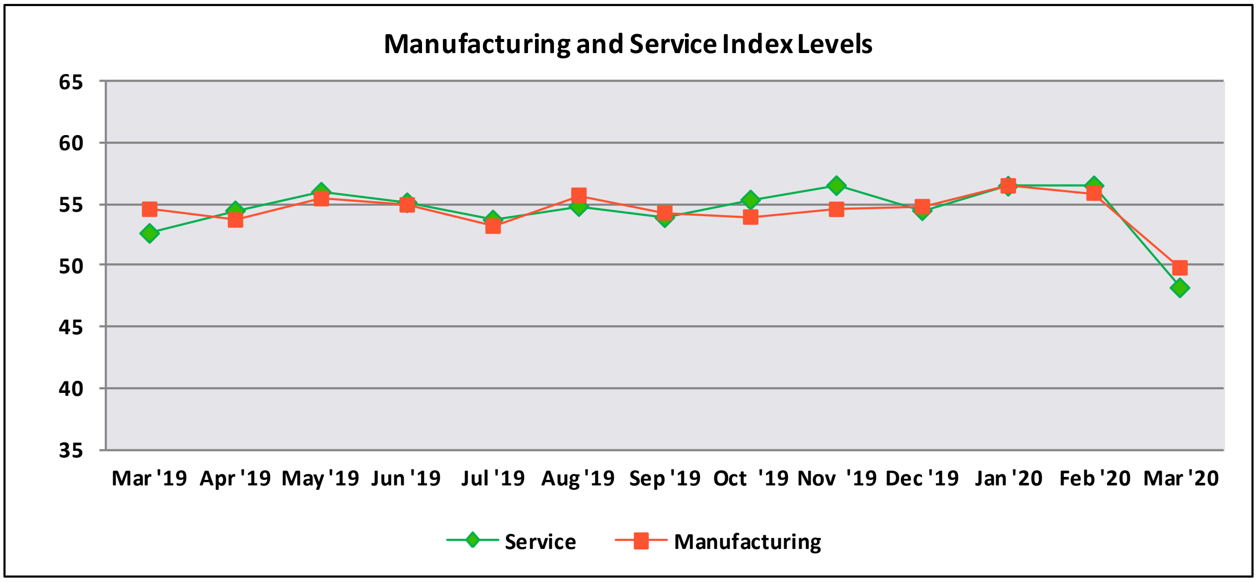
The specifics as far as the unfavorable readings were not as dramatic as those in the favorable categories and for the same reason as manufacturing. “Companies are just starting to get into serious trouble,” Kuehl said. “It will take a while before this makes an impact on their credit relationships.” The rejections of credit applications slipped but remained in positive territory with a reading of 52.5 compared to 54.6 previously. The accounts placed for collection reading remained close to last month as well (49.7 compared to 49.8). “There has not yet been time for companies to get in enough trouble to warrant collections action.” The disputes category remained close to what it had been with a reading of 51.7 from 52.8. “There have not been many arguments over the current situation as companies contemplate the future,” he added. “The big impact in the service sector has been the same as that in manufacturing—the dollar amount beyond terms.” It was at 52.8 and is now sitting at 43.5. “That reinforces the sense that companies have chosen to stretch their creditors as far as they can as they strive to protect cash flow.” There was also a slight decline in dollar amount of customer deductions as the reading fell into contraction territory with a reading of 49.5 after last month’s 53.2. The reading for filings for bankruptcies did not fall as there has not been time for companies to reach that point. The reading was at 53.4 and is now at 54.3, a number that will fall in the months to come.

Service Sector (seasonally adjusted)	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20
Sales	58.0	63.4	68.5	62.3	59.3	63.4	59.6	59.1	62.5	59.7	62.2	62.3	38.7
New credit applications	54.3	59.6	64.6	62.4	61.6	61.7	59.8	58.7	62.6	57.6	62.0	63.1	43.0
Dollar collections	55.5	59.6	59.1	61.4	58.4	60.4	58.2	65.5	61.7	58.3	60.5	59.3	45.1
Amount of credit extended	63.2	62.7	66.3	63.7	62.6	62.1	60.2	61.6	66.9	63.0	64.5	64.5	52.4
Index of favorable factors	**57.7**	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**	**59.4**	**61.2**	**63.4**	**59.7**	**62.3**	**62.3**	**44.8**
Rejections of credit applications	49.1	50.8	51.2	51.0	51.9	51.2	50.9	52.0	51.0	50.9	51.5	54.6	52.5
Accounts placed for collection	46.0	47.7	45.1	46.6	45.7	46.7	47.1	48.8	50.1	49.5	49.3	49.8	49.7
Disputes	48.9	49.4	49.0	48.8	50.0	48.5	49.4	49.4	50.9	50.6	52.3	51.7	52.8
Dollar amount beyond terms	49.0	46.7	50.9	49.3	44.2	51.2	48.3	52.1	53.1	49.7	54.2	52.8	43.5
Dollar amount of customer deductions	49.1	49.8	50.1	50.3	49.7	50.6	53.1	50.7	52	50.0	53.3	53.2	49.5
Filings for bankruptcies	52.7	54.6	54.5	55.0	53.4	51.9	52.1	55.1	54.0	54.9	54.6	53.4	54.3
Index of unfavorable factors	**49.1**	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**	**50.1**	**51.4**	**51.8**	**50.9**	**52.5**	**52.6**	**50.4**
NACM Service CMI	**52.6**	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**	**53.9**	**55.3**	**56.5**	**54.4**	**56.4**	**56.5**	**48.1**



March 2020 versus March 2019

Kuehl concluded that these are wholly uncharted waters. In the best-case scenario, the crisis fades as soon as May or June and many businesses resume normal operations as fast as they can. In the worst-case scenario, the shutdown extends deep into the summer, millions remain without work and business failures skyrocket. The credit manager will have to decide what the likely fate of their customers might be. If they are doomed, the only course is to get as much of what is owed as possible. If they think the situation will improve soon, they will be inclined to wait it out and keep the relationship intact.



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, MD, 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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