

Report for June 2020

Issued June 30, 2020 National Association of Credit Management

Combined Sectors

Last month, it was suggested we should all refrain from dancing in the streets based on just one month of promising data from May's Credit Managers' Index (CMI), but now some of that dancing activity might be warranted as there has been a second month of progress, noted NACM Economist Chris Kuehl, Ph.D. "Those categories in the most trouble have staged a dramatic turnaround. The lockdown has started to end for a wide variety of business sectors and is showing up in the credit data. There is still a long way to go for many of the service sectors, however, which is apparent in some of the index readings. But even in this arena, there has been substantial progress. The gains have been more obvious in several of the manufacturing sectors, although there are others still waiting for that consumer demand to kick in. The majority of the predictions asserted this would be a V-shaped recession. These numbers continue to support that conclusion."

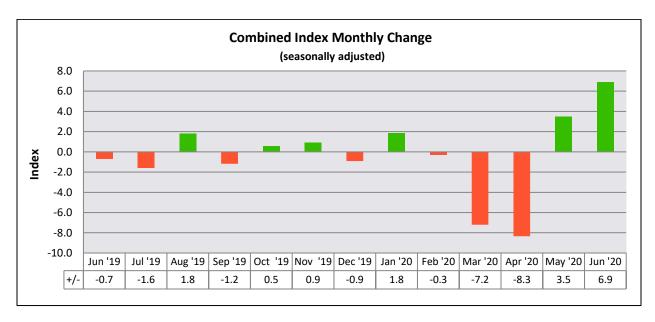
The combined score for the June CMI left the contraction zone (a score under 50) as it jumped from 44.1 to 51. This is the best score since March and is certainly a major improvement over the 40.6 notched in April. In February, the reading was 56.2—not all that far from where it is today. The combined score for the favorable factors made a major gain as it also jumped back into expansion territory with a reading of 55.3. In April, it was languishing at 32 and in May, it was still in the 30s with a reading of 39.5. Granted, the reading in February was 62.2, but 55.3 is solidly in expansion territory. The combined score for the unfavorable factors also saw a little gain from 47.2 to 48.1. "This suggests there has now been enough time for companies to have entered credit difficulty," said Kuehl. "The good news is that the recovery in the favorables may have come in time to keep the unfavorables from dragging the entire index down."

The really good news is coming from the four breakout categories in the favorable section. The sales data made a simply stunning rebound, from 20 in April to 28.6 in May, and now it is sitting at 54.1 in June. "This reading managed to skip right past the 30s and 40s, more than a little encouraging," said Kuehl. The new credit applications made a dramatic leap as well (from 43.3 to 57.9). This is not far from the 62.2 that was noted in February. The dollar collections data shifted from 43.2 to 53.9 and the amount of credit extended moved from 42.8 to 55.2. "It is hard to overestimate the importance of these gains. The favorable factor collapse was the issue that dragged the whole index into territory it had not seen since the 2008 recession, and it took years to recover from that series of losses."

The data from the unfavorables showed a little weakness this month, but there was no collapse. "The sudden nature of the lockdown recession caught the business and credit community by surprise," Kuehl explained. "Prior to the recession of 2008, there was the usual warning that something threatening was starting to build and most credit managers started to behave more cautiously. They were not offering generous terms to any but their best clients and new applications were carefully scrutinized. This time, there was abundant confidence at the start of the year; there was no time to exercise much caution."

The rejections of credit applications category took a little hit this month (51.9 to 49.8). Kuehl noted that there is a little more concern regarding the ability of companies to stay current while the economy finds its footing. Accounts placed for collection also slipped considerably from 49.1 to 46.7. "There had not been time for companies to get in trouble prior to this month, but it has now been three months since the lockdown started and there are companies getting farther behind in their ability to pay on their credit." Dollar amount beyond terms had been a problem for the last few months as companies were watching their cash flow like a hawk. Now, they have improved from 32.4 to 44.4. The disputes category slipped a bit and fell into contraction territory with a reading of 49.6 as opposed to last month's 51.5. Dollar amount of customer deductions stayed about where it had been with a reading of 50.6 from 50.9 in May. Filings for bankruptcies also remained fairly stable at 47.7 as compared to 47.3. "There is hope that bankruptcy activity will slow as businesses are allowed to start making a comeback."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20
Sales	60.4	58.4	64.4	58.7	57.9	61.6	58.8	63.0	64.0	39.5	20.0	28.6	54.1
New credit applications	62.4	60.8	60.9	59.7	59.0	61.2	59.4	61.1	62.2	44.0	31.1	43.3	57.9
Dollar collections	60.3	56.6	60.0	58.5	62.1	59.2	57.9	61.7	58.8	49.3	35.5	43.2	53.9
Amount of credit extended	62.5	58.7	61.7	59.7	61.6	64.3	61.1	62.9	63.6	53.2	41.6	42.8	55.2
Index of favorable factors	61.4	58.6	61.8	59.1	60.1	61.6	59.3	62.2	62.2	46.5	32.0	39.5	55.3
Rejections of credit applications	52.4	52.6	52.1	51.4	52.1	51.3	52.0	52.0	53.8	53.5	52.7	51.9	49.8
Accounts placed for collection	50.0	46.2	48.6	48.4	49.1	49.8	50.3	50.6	50.6	50.6	47.4	49.1	46.7
Disputes	48.6	50.5	49.4	50.0	48.1	50.3	50.8	52.4	50.3	52.1	50.8	51.5	49.6
Dollar amount beyond terms	49.8	46.1	53.6	50.2	52.0	52.6	51.0	54.2	53.5	43.9	27.6	32.4	44.4
Dollar amount of customer deductions	50.0	51.2	50.0	52.1	50.9	51.4	51.3	52.2	51.5	50.4	49.4	50.9	50.6
Filings for bankruptcies	53.5	53.2	51.6	52.1	53.4	53.5	53.4	54.4	53.3	53.2	50.2	47.3	47.7
Index of unfavorable factors	50.7	50.0	50.9	50.7	50.9	51.5	51.5	52.6	52.2	50.6	46.3	47.2	48.1
NACM Combined CMI	55.0	53.4	55.2	54.1	54.6	55.5	54.6	56.4	56.2	49.0	40.6	44.1	51.0



Manufacturing Sector

Kuehl commented that the recovery from the lockdown recession was destined to be odd, which has certainly been the case. There was very little wrong with the overall economy at the start of this recession, no signal that tough times were ahead. The manufacturing sector was looking forward to a decent year of growth, around 2.5% or maybe more. Demand was up, consumers were confident and even the trade wars had not dented the export sector seriously. Then, everything stopped. It was as if the economy was placed in suspended animation. Now that the system has been allowed to start thawing, there is evidence consumers are picking up where they left off—at least for the most part.

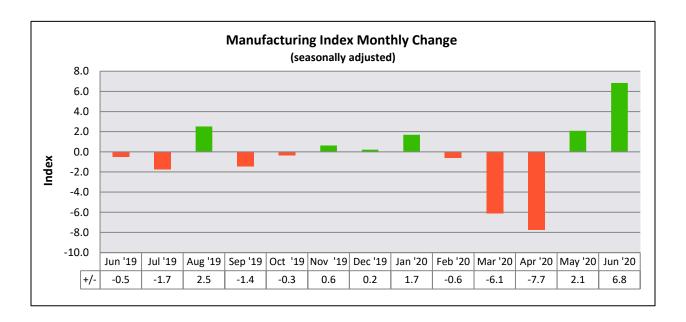
The combined score for the manufacturing sector staged a nice rebound this month and jumped back into expansion territory with a reading of 51 compared to 44.1 in May and the even more uncomfortable 42 in April. The most dramatic leap was in the combined index of favorable factors as the new reading is 55.7. Last month, the numbers were still in the 30s with a reading of 38.6, and the month before, the damage was even more obvious with a 34.3. The current reading is still a far cry from the 62 seen in February, but something in the mid-50s is certainly acceptable. The index of unfavorable factors showed stability at this point—the number is the same as it was last month—47.8. There has been some distress in the sector, which started to show up. It has not crashed yet, and with the high favorable numbers, it probably will not.

There was a great deal of movement in the favorable subcategories—all of it in a positive direction. The sales numbers jumped to 57.8. "This says it all in many respects," said Kuehl. "There never was a reduction in real demand, the consumer simply did not have access to goods and services, and therefore spent no money. The surge is a reaction to pent-up demand." New credit applications also jumped back into positive territory with a reading of 57.5 after languishing at 43.2. The dollar collections data similarly rose from 40.5 to 52.4, and the amount of credit extended returned to expansion territory after a 43 reading in May. It now stands firmly at 55.4. "It signals that the bigger organizations are asking for extensive credit again."

There was not as much movement in the unfavorables, but that has been the story thus far. "The negative activity doesn't show up right away given that actions taken by credit managers are triggered by distress," Kuehl said. "In a more normal recession, there would have been warning signs that would have provoked some caution, but these signs were missing this time." Rejections of credit applications actually fell a little this month as they slipped from 53.3 into contraction territory at 49.5. "There has been enough time for some businesses to show problems and that affects their ability to get credit." There was also a deterioration as far as accounts placed for collection. The reading was at 50.4 and has now fallen to 47.1. It has been at least three months since the crisis started and companies have been at risk for a while. The disputes category slid from 51.6 to 47.4, which signals that some are working to negotiate a better deal as they try to rebound. The really good news came in the dollar amount beyond terms category as these numbers jumped from 31.9 to 44. This was the first category that showed stress in the unfavorable list and now appears to be on the mend as companies catch up with their credit. Dollar amount of customer deductions stayed roughly the same as it moved from 50.5 to 49.9. Filings for bankruptcies stayed more or less stable as well—going from 49.3 to 48.8. "There is an expectation these filings will accelerate a bit in the coming months as there are sectors of the economy that are not yet part of the recovery. In the next month or two, the favorables will likely keep showing improvement and the unfavorables will continue to show stress."

Manufacturing Sector (seasonally adjusted)	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20
Sales	58.5	57.6	65.3	57.9	56.7	60.7	57.9	63.8	65.7	40.3	21.4	27.5	57.8
New credit applications	62.5	60.0	60.1	59.5	59.2	59.8	61.2	60.2	61.4	45.0	35.7	43.2	57.5
Dollar collections	59.2	54.7	59.6	58.7	58.7	56.8	57.5	62.9	58.3	53.4	35.0	40.5	52.4
Amount of credit extended	61.3	54.7	61.4	59.2	61.6	61.6	59.1	61.3	62.8	54.0	45.1	43.0	55.4
Index of favorable factors	60.4	56.7	61.6	58.8	59.1	59.7	58.9	62.0	62.0	48.2	34.3	38.6	55.7
Rejections of credit applications	53.8	53.4	53.0	51.9	52.1	51.6	53.0	52.5	53.0	54.4	52.8	53.3	49.5

Accounts placed for collection	53.5	46.7	50.6	49.7	49.3	49.4	51.1	51.8	51.4	51.6	50.0	50.4	47.1
Disputes	48.3	51.0	50.3	50.6	46.7	49.6	51.0	52.5	48.9	51.4	50.6	51.6	47.4
Dollar amount beyond terms	50.2	48.0	55.9	52.1	52.0	52.1	52.4	54.3	54.2	44.3	28.6	31.9	44.0
Dollar amount of customer deductions	49.8	52.7	49.3	51.1	51.1	50.8	52.6	51.1	49.8	51.3	50.1	50.5	49.9
Filings for bankruptcies	52.0	53.0	51.4	52.0	51.7	53.0	51.8	54.2	53.3	52.0	51.1	49.3	48.8
Index of unfavorable factors	51.3	50.8	51.7	51.2	50.5	51.1	52.0	52.7	51.8	50.8	47.2	47.8	47.8
NACM Manufacturing CMI	54.9	53.2	55.7	54.3	53.9	54.5	54.8	56.5	55.9	49.8	42.0	44.1	51.0



Service Sector

According to Kuehl, the lockdown recession made the greatest impact on the service sector. That was nearly inevitable given all the restrictions put in place. Any policy of containment and isolation was going to mean radically changing people's ability to interact with one another, which altered the service sector drastically. As the economy starts on the slow road to recovery, there will be large sectors that will lag—some may be years away from true recovery. The data on the service sector improved this month, but not quite as dramatically as the manufacturing sector.

The combined score for the service CMI returned to expansion territory with a reading of 51 after last month's 44.1. For the last year or so, these numbers have only been in the mid-50s, so this month is not that far from what had been considered normal. The combined score for the favorable factors went from 40.4 to 54.8, a substantial improvement over the 29.8 that was notched in April. The combined unfavorable score remained very close to what it had been (46.5 to 48.5), but the important part is that it is trending in a positive direction.

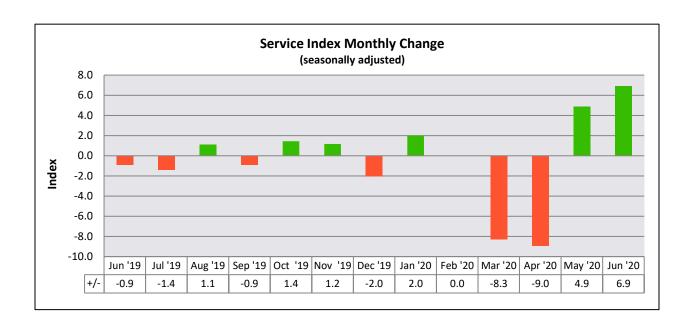
The real action was seen in the subcategories. The sales numbers were mired in extreme contraction with a 29.7 reading in May, but there has been a significant gain. These numbers are now back in expansion territory with a reading of 50.4. It may take a while to reach the levels seen in February (62.3), but at least the data is headed in the right direction. The new credit applications numbers made a similar recovery as they moved from 43.5 to 58.4. The dollar collections data also recovered with a robust return to expansion by going from 45.8 to 55.4. Amount of credit

extended shifted up as well as it recovered to 55.1 after sitting at 42.7. "It was only a few months ago that there were numbers in the 60s on a regular basis," said Kuehl, "but at least now the trend is back toward growth."

He noted there has not been as much movement in the unfavorable categories, but that is likely to change in the months ahead as many in the service sector took immense hits and some will not fully recover. Rejections of credit applications stayed very close to what it had been and remained in expansion territory with a 50.1 reading after 50.6 in May. Accounts placed for collection shifted down as expected from 47.9 to 46.4 as there has been sufficient time for business to get in some trouble. This category will likely see more stress down the road. The disputes category remained stable and in expansion territory with a reading of 51.7. Dollar amount beyond terms had been an issue the last few months, but there has been an improvement from a miserable 33 reading to one of 44.9. It is not yet back to expansion territory, but it is headed in the right direction. Dollar amount of customer deductions remained stable and in the expansion zone with a reading of 51.2—exactly the same as in May. Filings for bankruptcies improved a bit from 45.3 to 46.5, somewhat unexpected good news given the travails in the retail sector of late.

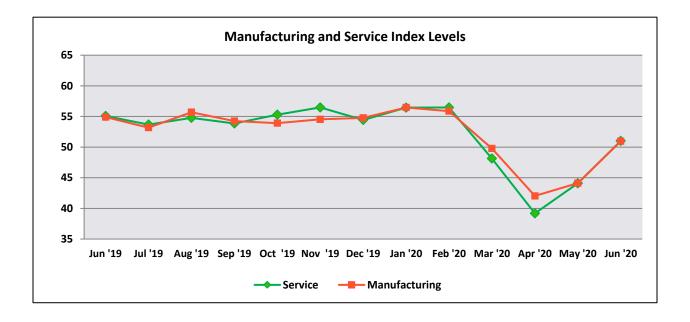
In summary, Kuehl said the stress placed on the service sector has been intense. There will be more struggles to come as the decisions to reopen have been mixed and have left many of the service operations somewhat perplexed about how to move forward. The unfavorable numbers are likely to worsen, but hopefully, they will be offset by improved favorables.

Service Sector (seasonally adjusted)	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20
Sales	62.3	59.3	63.4	59.6	59.1	62.5	59.7	62.2	62.3	38.7	18.6	29.7	50.4
New credit applications	62.4	61.6	61.7	59.8	58.7	62.6	57.6	62.0	63.1	43.0	26.5	43.5	58.4
Dollar collections	61.4	58.4	60.4	58.2	65.5	61.7	58.3	60.5	59.3	45.1	36.1	45.8	55.4
Amount of credit extended	63.7	62.6	62.1	60.2	61.6	66.9	63.0	64.5	64.5	52.4	38.1	42.7	55.1
Index of favorable factors	62.4	60.5	61.9	59.4	61.2	63.4	59.7	62.3	62.3	44.8	29.8	40.4	54.8
Rejections of credit applications	51.0	51.9	51.2	50.9	52.0	51.0	50.9	51.5	54.6	52.5	52.6	50.6	50.1
Accounts placed for collection	46.6	45.7	46.7	47.1	48.8	50.1	49.5	49.3	49.8	49.7	44.8	47.9	46.4
Disputes	48.8	50.0	48.5	49.4	49.4	50.9	50.6	52.3	51.7	52.8	50.9	51.3	51.7
Dollar amount beyond terms	49.3	44.2	51.2	48.3	52.1	53.1	49.7	54.2	52.8	43.5	26.6	33.0	44.9
Dollar amount of customer deductions	50.3	49.7	50.6	53.1	50.7	52	50.0	53.3	53.2	49.5	48.7	51.2	51.2
Filings for bankruptcies	55.0	53.4	51.9	52.1	55.1	54.0	54.9	54.6	53.4	54.3	49.3	45.3	46.5
Index of unfavorable factors	50.2	49.1	50.0	50.1	51.4	51.8	50.9	52.5	52.6	50.4	45.5	46.5	48.5
NACM Service CMI	55.1	53.7	54.8	53.9	55.3	56.5	54.4	56.4	56.5	48.1	39.2	44.1	51.0



June 2020 versus June 2019

"It is still early, and there are still many difficult days ahead," Kuehl concluded, "but this makes two months in a row with strong numbers, and in the favorable categories where the future is starting to take shape."



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:

 $\frac{\text{Number of "higher" responses} + \cancel{1} \times \text{number of "same" responses}}{\text{Total number of responses}}$

For negative indicators, the calculation is:

Number of "lower" responses + ½ × number of "same" responses

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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