



Report for August 2021

Issued August 30, 2021
National Association of Credit Management

Combined Sectors

Overall, the latest data for NACM's Credit Managers' Index (CMI) remain relatively healthy. The same pattern is showing up with the Purchasing Managers' Index, a measure that the CMI often anticipates.

The August reading for the combined score is back to 57.7—about where the numbers stood in June. Thus far the past 12 months have shown quite a bit of variability with a high of 60.6 in April; a low of 56.0 last September; and an average of 58.4.

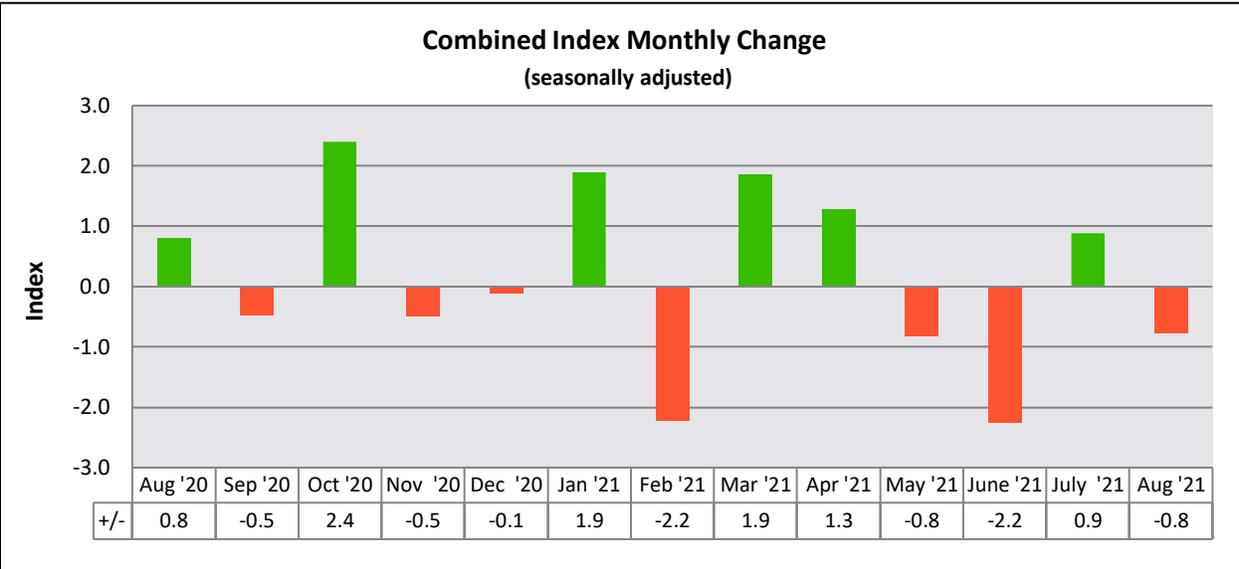
This latest reading is the fifth lowest in the last 12 months, making it a fairly average mark. The index of favorable factors dropped a point, but this number remains comfortably in the 60s. The closest this sector has gotten to the 50s was in September of last year, and these factors have not dipped close to the contraction zone since the recession in Q2 of 2020. The index of unfavorable factors remains stable and has been nearly the same for three straight months.

Sales data slipped by roughly five points, the first time that sales have been out of the 70s since February. Credit applications also decreased by roughly five points in August after reaching an all-time high in July.

“The dollar collections reading did not change much, and that is encouraging as it points to the desire to continue staying current on debt,” noted NACM Economist Chris Kuehl, Ph.D. However, amount of credit extended soared by 7.3 points. “This reading may indicate a surge in ‘hoarding’ by many companies that have worried about the breakdown in the supply chain and the potential for higher inflation,” Kuehl pointed out.

Rejections of credit applications continued to remain stable as accounts out for collection dipped slightly and disputes remained in contraction territory with a one-tenth of a point gain.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21	Aug '21
Sales	65.8	65.5	74.2	66.5	70.2	75.9	69.9	73.9	74.7	73.2	67.7	73.3	68.6
New credit applications	63.4	63.6	65.2	63.9	64.4	67.8	65.5	63.9	65.9	64.6	63.1	69.8	64.4
Dollar collections	61.2	63.3	64.6	62.6	62.8	66.0	59.2	64.5	63.1	60.0	61.1	63.8	62.8
Amount of credit extended	61.3	60.8	68.0	64.8	65.3	69.2	66.8	68.4	69.0	69.0	67.4	61.1	68.4
Index of favorable factors	62.9	63.3	68.0	64.4	65.7	69.7	65.3	67.7	68.2	66.7	64.8	67.0	66.0
Rejections of credit applications	51.5	51.6	51.4	51.5	51.3	51.6	51.5	52.0	53.0	53.1	52.3	52.2	52.2
Accounts placed for collection	51.6	49.4	49.5	56.2	51.6	52.9	51.6	55.1	59.6	54.2	53.2	52.0	51.7
Disputes	51.8	48.7	51.0	50.6	51.2	50.9	51.0	50.6	51.3	53.7	50.4	49.4	49.5
Dollar amount beyond terms	58.2	54.6	58.0	58.1	57.0	58.9	52.0	57.0	59.4	57.1	49.5	52.4	51.6
Dollar amount of customer deductions	52.2	51.1	51.0	51.7	51.5	51.3	52.8	52.2	53.0	53.6	52.6	52.2	50.1
Filings for bankruptcies	47.7	51.3	50.7	53.0	52.5	52.3	54.5	55.7	57.1	59.3	58.3	58.2	57.4
Index of unfavorable factors	52.2	51.1	51.9	53.5	52.5	53.0	52.2	53.8	55.6	55.2	52.7	52.7	52.1
NACM Combined CMI	56.5	56.0	58.4	57.9	57.8	59.7	57.5	59.3	60.6	59.8	57.5	58.4	57.7



Manufacturing Sector

The manufacturing sector’s score dipped by three-tenths of a point in August. Its favorable factors category dropped only one-tenth of a point, while unfavorable factors slipped by six-tenths of a point.

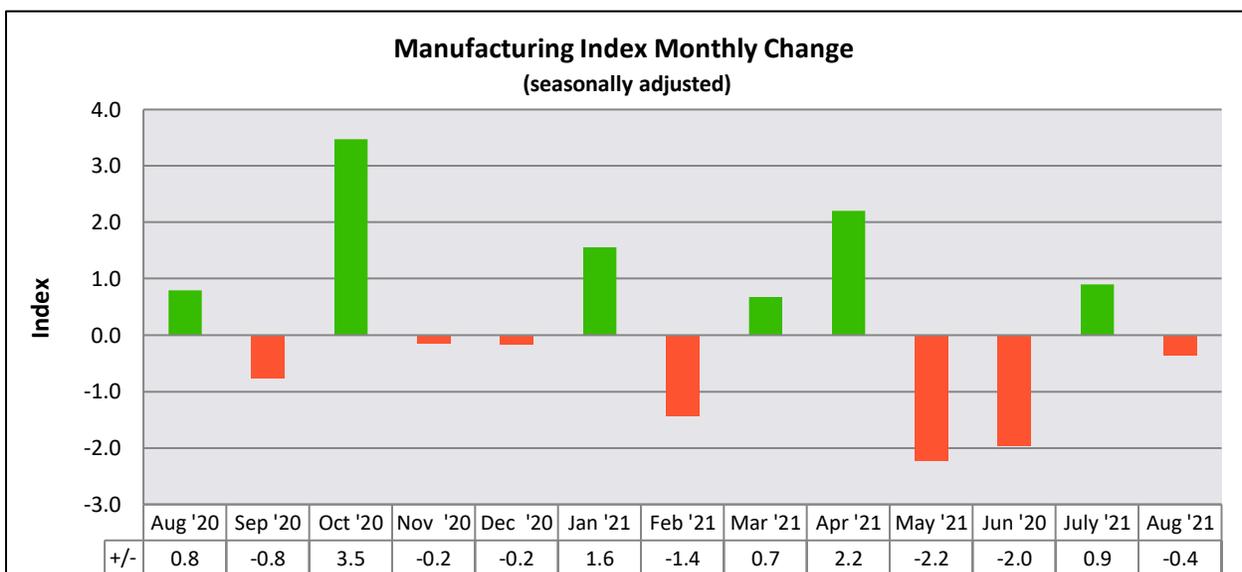
New credit applications had the biggest drop (8.5 points) followed by sales (5.7 points). Dollar collections data slipped only slightly by five-tenths of a point, and amount credit extended soared (14.4 points).

“As mentioned above, there is evidence of significant stockpiling as manufacturers worry about supply chain failures and future inflation,” Kuehl explained.

Within unfavorable factors, rejections of credit applications and dollar amount of customer deductions each fell six-tenths of a point. Filings for bankruptcies slipped one point, while disputes gained one. Accounts placed for collections rose 1.5 points and beyond terms went down 3.5.

“There has been a surprising level of volatility in the manufacturing data,” Kuehl said. “Through the bulk of 2020, there was generally more stability in manufacturing than in the service sector, but the latest manufacturer sector numbers are lower than might have been expected.”

Manufacturing Sector (seasonally adjusted)	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21	Aug '21
Sales	67.2	65.1	75.3	69.9	71.1	76.7	71.1	72.7	75.6	71.3	68.2	74.7	69.0
New credit applications	60.4	60.8	62.0	62.4	70.2	68.6	66.9	62.3	65.4	64.4	60.0	71.9	63.4
Dollar collections	61.3	63.9	65.0	62.3	65.9	67.1	63.8	65.5	64.7	64.4	62.5	65.5	65.0
Amount of credit extended	58.9	60.3	69.4	62.6	66.8	69.7	69.1	67.8	68.9	68.2	67.3	54.3	68.7
Index of favorable factors	62.0	62.5	67.9	64.3	68.5	70.5	67.7	67.1	68.7	67.1	64.5	66.6	66.5
Rejections of credit applications	52.5	51.7	52.8	52.5	51.3	50.9	51.1	53.8	53.8	53.3	53.4	53.7	53.1
Accounts placed for collection	50.9	49.4	51.4	63.0	51.4	54.1	52.0	56.3	65.4	54.0	53.4	51.6	53.1
Disputes	51.7	48.1	51.6	49.8	50.7	50.5	51.8	50.4	49.6	51.2	48.7	47.3	48.3
Dollar amount beyond terms	57.8	52.3	58.4	58.9	53.5	59.1	53.3	57.2	61.3	55.2	48.5	54.3	50.8
Dollar amount of customer deductions	51.9	49.8	50.5	51.0	50.6	51.0	52.0	50.8	52.8	51.1	52.4	50.6	50.0
Filings for bankruptcies	47.9	51.6	51.2	53.7	52.8	52.1	54.4	55.6	56.7	58.8	57.8	57.5	56.5
Index of unfavorable factors	52.1	50.5	52.6	54.8	51.7	52.9	52.4	54.0	56.6	54.0	52.4	52.5	51.9
NACM Manufacturing CMI	56.0	55.3	58.8	58.6	58.4	60.0	58.5	59.2	61.4	59.2	57.2	58.1	57.8



Service Sector

The service sector's combined score in August fell eight-tenths of a point, month on month. Its index of favorable factors slipped 1.9 points, and its unfavorable factors fell seven-tenths of a point.

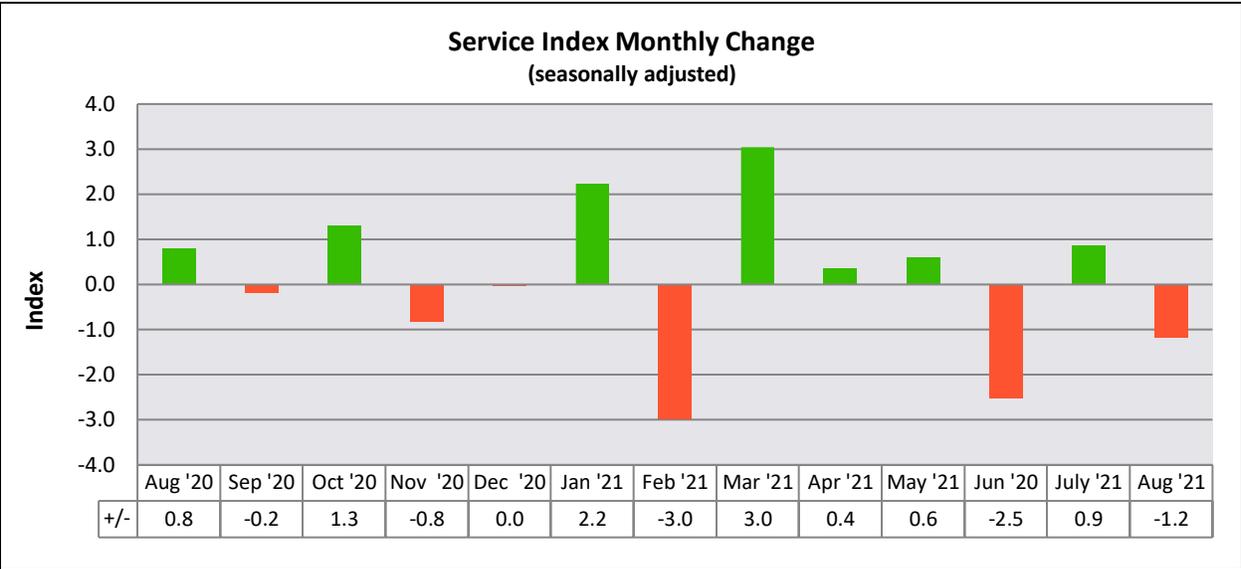
Sales data declined with a 3.8-point drop and new credit applications fell 2.3 points. Dollar collections also dropped with a 1.7-point loss, while credit extended improved slightly by one-tenth of a point.

“As with manufacturing there has been evidence suggesting companies are buying more inventory than they would normally as they are suspicious regarding the supply chain,” Kuehl said. “They now have to hope that demand somehow keeps up with this extra inventory.”

Rejections of credit applications improved with a seven-tenths-point gain, while the number of accounts placed for collection fell by 2 points. Disputes also slipped close to the contraction zone with eight-tenths-point drop, while dollar amount beyond terms improved by 2 points. However, dollar amount of customer deductions fell 3.4 point, and number of filings for bankruptcies fell five-tenths of a point.

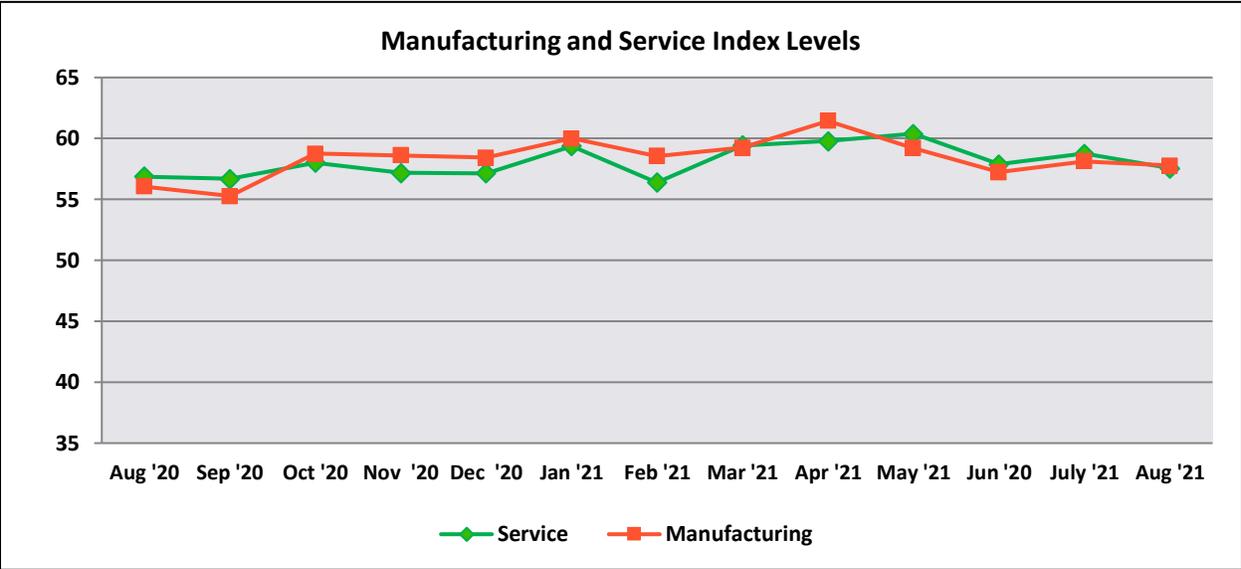
“Recovery now seems threatened as the virus has made a resurgence,” Kuehl said. “The expectation held that people would embrace the opportunity to get a vaccine but fully half the population has shunned it and the old restrictions and protocols are back, affecting consumer activity.”

Service Sector (seasonally adjusted)	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21	Aug '21
Sales	64.3	65.9	73.1	63.1	69.3	75.1	68.6	75.1	73.7	75.2	67.1	71.9	68.1
New credit applications	66.3	66.4	68.4	65.4	58.7	66.9	64.1	65.6	66.4	64.9	66.1	67.6	65.3
Dollar collections	61.0	62.6	64.3	62.9	59.7	64.9	54.6	63.4	61.6	55.7	59.8	62.2	60.5
Amount of credit extended	63.6	61.3	66.6	67.0	63.9	68.7	64.4	69.0	69.1	69.8	67.5	68.0	68.1
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Rejections of credit applications	50.6	51.5	50.0	50.4	51.2	52.2	51.8	50.2	52.2	52.9	51.1	50.7	51.4
Accounts placed for collection	52.3	49.4	47.7	49.4	51.8	51.8	51.2	54.0	53.7	54.3	53.0	52.3	50.3
Disputes	51.8	49.3	50.5	51.4	51.7	51.3	50.2	50.9	53.0	56.2	52.1	51.5	50.7
Dollar amount beyond terms	58.5	57.0	57.7	57.4	60.6	58.8	50.8	56.7	57.5	58.9	50.5	50.5	52.5
Dollar amount of customer deductions	52.5	52.4	51.5	52.4	52.4	51.5	53.5	53.5	53.1	56.1	52.7	53.7	50.3
Filings for bankruptcies	47.6	50.9	50.3	52.4	52.2	52.6	54.6	55.8	57.6	59.9	58.7	58.9	58.4
Index of unfavorable factors	52.2	51.8	51.3	52.2	53.3	53.0	52.0	53.5	54.5	56.4	53.0	53.0	52.3
NACM Service CMI	56.9	56.7	58.0	57.2	57.1	59.4	56.4	59.4	59.8	60.4	57.9	58.7	57.6



August 2021 versus August 2020

The sectors are back to their month-to-month gyrations. There is good news one week and bad news the next, and this creates a certain amount of ongoing volatility. The important point at this stage is there is no sign of the major collapse that took the index down so dramatically in 2020.



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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