NACM CMI CREDIT MANAGERS' INDEX

Report for February 2021

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National Association of Credit Management

Combined Sectors

The rollout of COVID-19 vaccinations has proved to be more difficult than anticipated. Even the most efficient nations have only managed to inoculate about 10% of the world population. In turn, this has delayed the lifting of pandemic protocols and economic recovery. As a result, the start of the new year has lost some of its glimmer and so too has the National Association of Credit Management's Credit Managers' Index (CMI).

"The February CMI lost some of the edge noted in January's data—similar to patterns found in many other economic indicators released thus far this year," said NACM Economist Chris Kuehl, Ph.D. "Overall, the latest CMI numbers are not bad and many of the index's sub-readings are historically high."

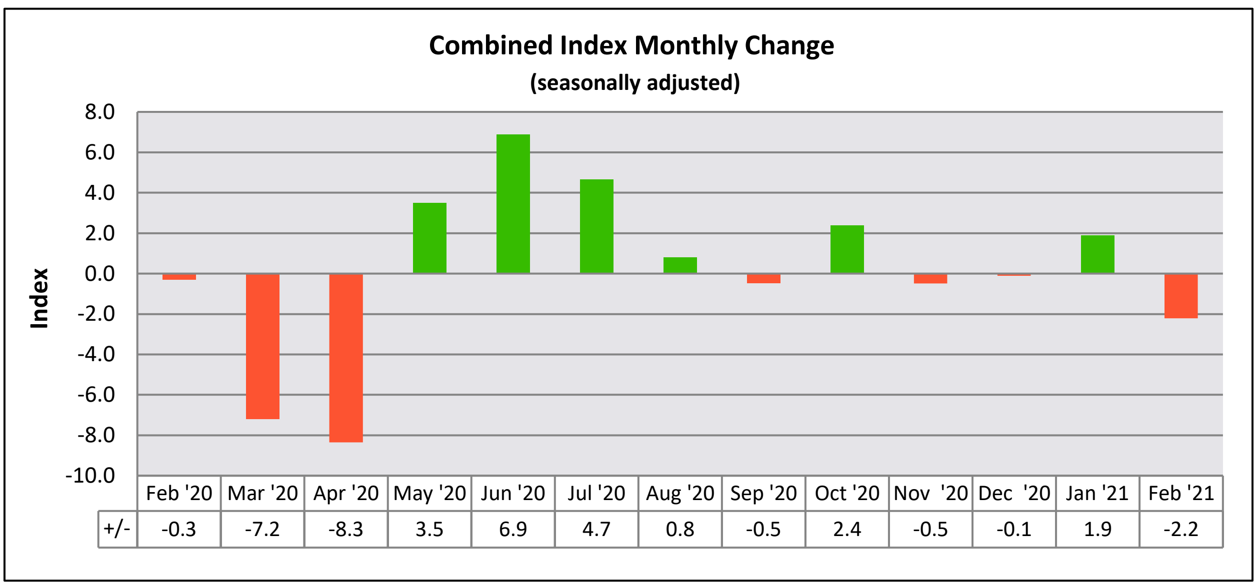
Although muted optimism may account for February's dip, data still show manufacturing, construction and transportation sectors are recovering and were not hit as hard by the 2020 recession. Service sectors remain the hardest hit by the pandemic-induced recession, and the small rebound experienced at the end of last year and the start of 2021 has faded.

The combined index slipped from 59.7 to 57.5, but the reading remains in line with three of the past five months. Similarly, the combined index of favorable factors (65.3) down 4.4 points since January closely aligns with December's reading (65.7). Likewise, the combined index of unfavorable factors (52.2) nearly mirrors December (52.5) with only a 0.8-point slip from last month.

"Subsectors show a fairly universal pattern," Kuehl noted. Although most of the favorable subsectors fell slightly, all of them remain comfortably in expansion territory. Sales (69.9) with a 6-point decline month on month remains robust and a far cry from the 20.0 recorded in April 2020. New credit applications fell from 67.8 to 65.5, but holding in the mid-60s is welcome news. Dollar collections (59.2) took the biggest hit with a 6.8 decline and dropped out of the 60s, where it had been since July 2020. This downward move creates some concern after nearly 7 months of steady growth. "It would appear that some companies have reached the end of their rope and are showing a little distress," Kuehl said. The amount of credit extended (66.8) fell 2.4 points making it about equal with December and still robust.

Unfavorable subsectors also remain in expansion territory. Rejections of credit applications changed very little, going from 51.6 to 51.5. This is good news given that new applications are down a little, and it suggests that most of those companies seeking terms are acceptable credit risks. There was a little dip in the accounts placed for collection category as it went from 52.9 in January to 51.6 this month. Although these numbers are in the expansion zone, they are trending in the wrong direction. The reason being that businesses were in trouble last year and are still in jeopardy for the coming year. The disputes numbers improved a little as they went from 50.9 to 51.0 and that it is a promising shift. There was a fairly dramatic decline in the dollar beyond terms category as it shifted from a high point of 58.9 to 52.0. "There are more companies facing stress and falling behind in their obligations, especially those in the service and retail sectors," Kuehl explained. The dollar amount of customer deductions moved up a little from 51.3 to 52.9, and filings for bankruptcies showed similar movement as it went from 52.3 to 54.5. "Overall, unfavorable subcategories have not declined to the same extent as some of the favorable subcategories have," Kuehl pointed out.

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**	**Aug '20**	**Sep '20**	**Oct '20**	**Nov '20**	**Dec '20**	**Jan '21**	**Feb '21**
Sales	64.0	39.5	20.0	28.6	54.1	64.3	65.8	65.5	74.2	66.5	70.2	75.9	69.9
New credit applications	62.2	44.0	31.1	43.3	57.9	62.4	63.4	63.6	65.2	63.9	64.4	67.8	65.5
Dollar collections	58.8	49.3	35.5	43.2	53.9	62.5	61.2	63.3	64.6	62.6	62.8	66.0	59.2
Amount of credit extended	63.6	53.2	41.6	42.8	55.2	57.3	61.3	60.8	68.0	64.8	65.3	69.2	66.8
Index of favorable factors	**62.2**	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**	**63.3**	**68.0**	**64.4**	**65.7**	**69.7**	**65.3**
Rejections of credit applications	53.8	53.5	52.7	51.9	49.8	50.0	51.5	51.6	51.4	51.5	51.3	51.6	51.5
Accounts placed for collection	50.6	50.6	47.4	49.1	46.7	50.8	51.6	49.4	49.5	56.2	51.6	52.9	51.6
Disputes	50.3	52.1	50.8	51.5	49.6	50.7	51.8	48.7	51.0	50.6	51.2	50.9	51.0
Dollar amount beyond terms	53.5	43.9	27.6	32.4	44.4	57.3	58.2	54.6	58.0	58.1	57.0	58.9	52.0
Dollar amount of customer deductions	51.5	50.4	49.4	50.9	50.6	52.4	52.2	51.1	51.0	51.7	51.5	51.3	52.8
Filings for bankruptcies	53.3	53.2	50.2	47.3	47.7	48.8	47.7	51.3	50.7	53.0	52.5	52.3	54.5
Index of unfavorable factors	**52.2**	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**	**51.1**	**51.9**	**53.5**	**52.5**	**53.0**	**52.2**
NACM Combined CMI	**56.2**	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**	**56.0**	**58.4**	**57.9**	**57.8**	**59.7**	**57.5**



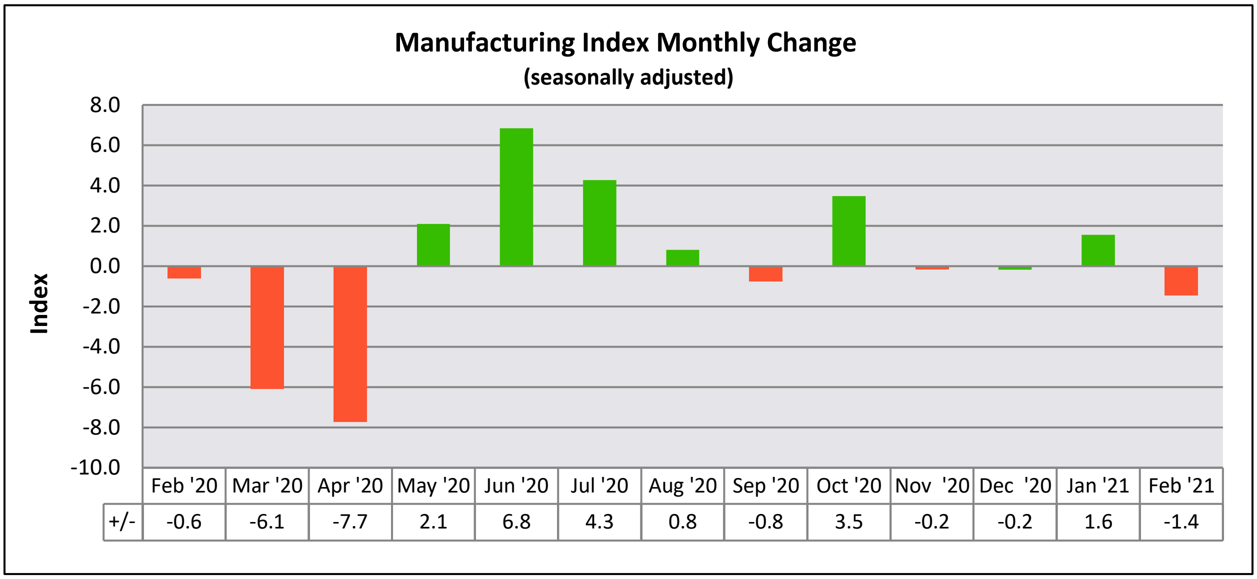
Manufacturing Sector

The manufacturing sector has been one of the rare bright spots as far as the 2020 economy, but only parts of it. "This recession was aimed at the service sector," Kuehl said. "This has had some interesting implications. Because this was not in any sense an organic recession, the consumer still had a considerable amount of spending capacity." Consumers were cut off from their usual patterns; they were not able to spend on services that once accounted for upward of 65% of their expenditures. "This meant they shifted their spending on things, which was a benefit for those in manufacturing that fed into the consumer sector," Kuehl added. This included everything from cars to appliances, furniture and more. "Construction boomed; and thus, manufacturing geared toward construction boomed as well," Kuehl said. "Medical manufacturing surged and so on. The story was much different for manufacturers aimed at the travel and tourism business as well as hospitality and entertainment."

The combined score for manufacturing at 58.5 remained comfortably in expansion territory, down slightly from 60 the previous month. The index of favorable factors also slid a bit. "But given that last month it was at 70.5, this slip to 67.7 was very minor indeed," Kuehl said. "These remain very impressive numbers." The index of unfavorable factors changed very little from what they were the month before—52.4 compared to 52.9 in January. "As is usually the case, the majority of the variability was in the subcategories," Kuehl noted. Sales went from 76.7 to 71.1, and that remains strong and much higher than it has been. The new credit applications numbers did not shift dramatically as they went from 68.6 to 66.9. The dollar collections numbers saw a fairly significant drop from 67.1 to 63.8. "This is a little worrisome despite the fact these are still very solid numbers," Kuehl said. The amount of credit extended saw little change, moving from 69.7 to 69.1. "There is still a significant amount of credit on offer in the manufacturing sector," Kuehl said.

"Movement within the unfavorable factors tended to be less drastic, but perhaps more significant," Kuehl continued. The rejections of credit applications improved from 50.9 to 51.1. "Given the slight decline in new applications, this is good news," Kuehl explained. "Those that are applying for credit are getting what they have been asking for." The accounts placed for collection shifted down a little from 54.1 to 52. "However, the important point is that this category remains comfortably in the expansion zone," he said. There was also slight improvement in the disputes category as it went from 50.5 to 51.8. The dollar amount beyond terms reading dropped dramatically from 59.1 to 53.3, but this basically brought the index back to where it was in December when the reading was 53.5. "Some companies are showing distress and have become slow pays, but the data is still in expansion territory," Kuehl said. There was not much movement in the category of dollar amount of customer deductions as the reading shifted from 51 to 52. Filings for bankruptcies improved with a reading of 54.4 compared to the 52.1 in January. "For the third month in a row, all of the unfavorable readings were in expansion territory," Kuehl noted. "The last time a reading fell into contraction territory was in November when disputes fell to 49.8."

Manufacturing Sector (seasonally adjusted)	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21
Sales	65.7	40.3	21.4	27.5	57.8	66.3	67.2	65.1	75.3	69.9	71.1	76.7	71.1
New credit applications	61.4	45.0	35.7	43.2	57.5	64.4	60.4	60.8	62.0	62.4	70.2	68.6	66.9
Dollar collections	58.3	53.4	35.0	40.5	52.4	61.1	61.3	63.9	65.0	62.3	65.9	67.1	63.8
Amount of credit extended	62.8	54.0	45.1	43.0	55.4	56.8	58.9	60.3	69.4	62.6	66.8	69.7	69.1
Index of favorable factors	**62.0**	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**	**62.5**	**67.9**	**64.3**	**68.5**	**70.5**	**67.7**
Rejections of credit applications	53.0	54.4	52.8	53.3	49.5	49.8	52.5	51.7	52.8	52.5	51.3	50.9	51.1
Accounts placed for collection	51.4	51.6	50.0	50.4	47.1	49.3	50.9	49.4	51.4	63.0	51.4	54.1	52.0
Disputes	48.9	51.4	50.6	51.6	47.4	49.6	51.7	48.1	51.6	49.8	50.7	50.5	51.8
Dollar amount beyond terms	54.2	44.3	28.6	31.9	44.0	53.7	57.8	52.3	58.4	58.9	53.5	59.1	53.3
Dollar amount of customer deductions	49.8	51.3	50.1	50.5	49.9	52.0	51.9	49.8	50.5	51.0	50.6	51.0	52.0
Filings for bankruptcies	53.3	52.0	51.1	49.3	48.8	49.4	47.9	51.6	51.2	53.7	52.8	52.1	54.4
Index of unfavorable factors	**51.8**	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**	**50.5**	**52.6**	**54.8**	**51.7**	**52.9**	**52.4**
NACM Manufacturing CMI	**55.9**	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**	**55.3**	**58.8**	**58.6**	**58.4**	**60.0**	**58.5**



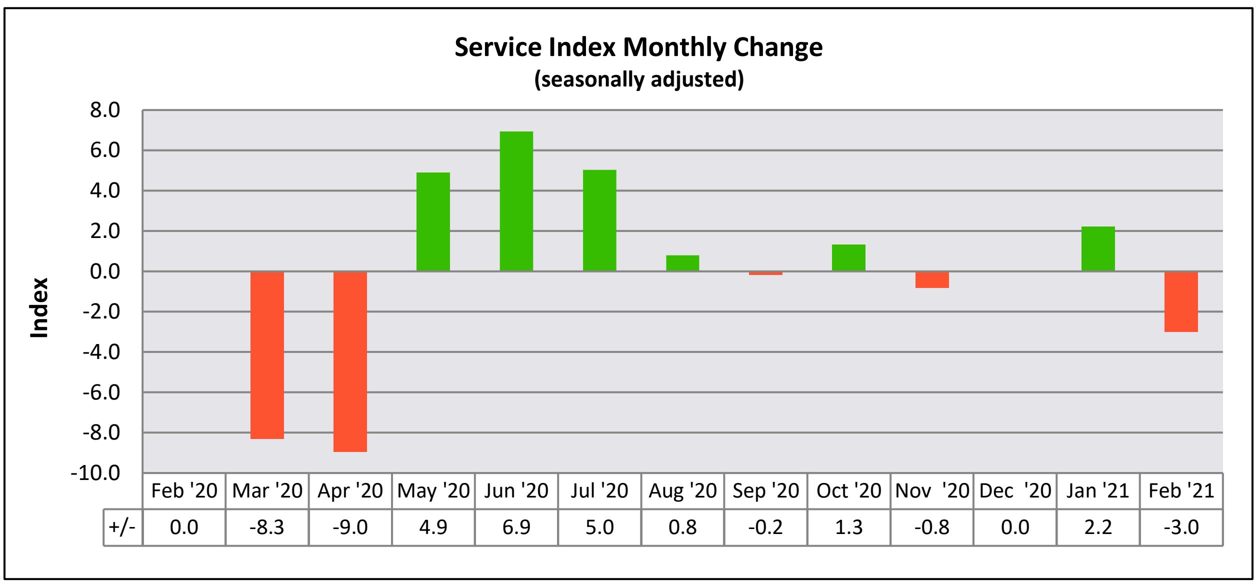
Service Sector

The service sector experienced more stress this month and that was expected. "This is the part of the economy that has been taking its lumps for the last year," Kuehl said. "It is important to remember data collected in the CMI reflects heavily on the retail sector than other parts of the service economy; therefore, it does not reflect the damage that has been inflicted on sectors such as travel, tourism and entertainment." The combined score for the services sector dropped from 59.4 to 56.4. "This is a significant decline, but the data has remained comfortably in the expansion sector," Kuehl said. The index of favorable factors also dropped by a significant degree, from 68.9 to 62.9. The index of unfavorable factors moved very little as it went from 53 to 52. "Most importantly, it also stayed in the expansion zone, signifying growth," Kuehl said.

"The details told the story that most of the other economic data has been telling," he added. "Sales numbers skidded from 75.1 to 68.6, only slightly lower than the readings notched in December." New credit applications data also shifted down a little from 66.9 to 64.1. However, dollar collections data fell pretty hard as it went from 64.9 to 54.6. "That is probably the prime story this month," Kuehl pointed out. "The fact is that many retail operations limped out of the holiday season and are not starting the year in good shape." Amount of credit extended also slipped from 68.7 to 64.4, but not much in comparison to the other readings.

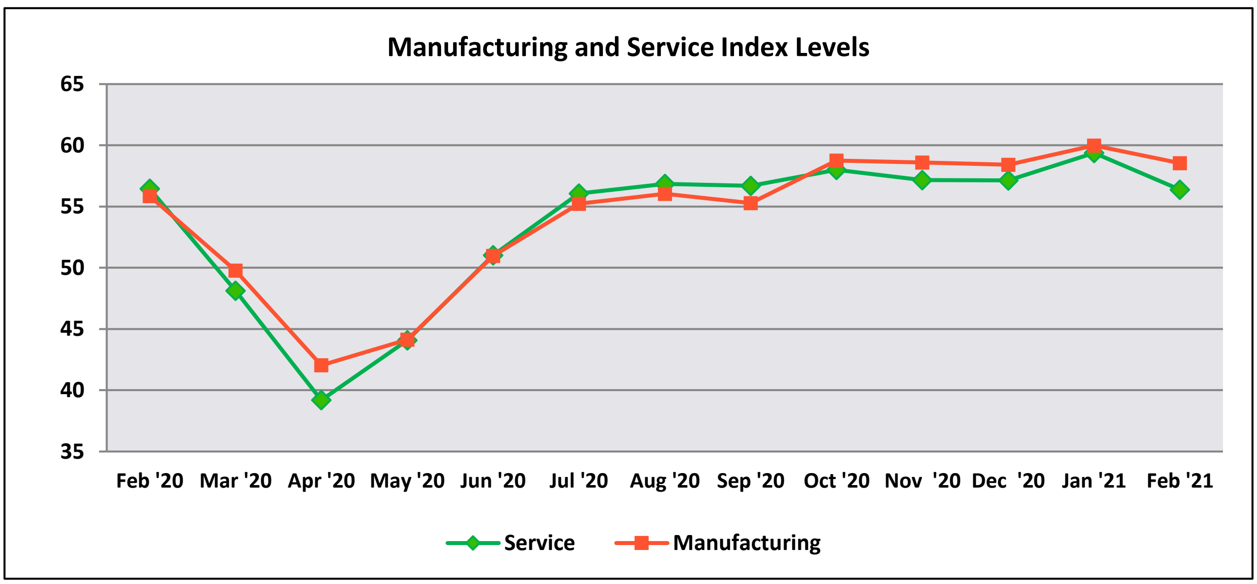
Rejections of credit applications declined a little, moving from 52.2 to 51.8. "Not too bad of a shift given the overall decline in credit applications," Kuehl noted. Accounts placed for collection remained stable with a reading of 51.2 as opposed to 51.8 in the prior month. "This may also reflect the fact that some suppliers are cutting their customers some additional slack as they expect to see better numbers in the months to come," Kuehl commented. Disputes numbers slid dangerously close to contraction territory, going from 51.3 to 50.2. Dollar amount beyond terms showed a sharp fall-off that is consistent with the decline in dollar collections, Kuehl said. "It was sitting at 58.8 and is now at 50.8, barely clinging to expansion zone territory." Dollar amount of customer deductions saw improvement, moving from 51.5 to 53.5. Filings for bankruptcies data also show an improvement from 52.6 to 54.6, indicating that many of the retailers that were in trouble have already filed and those that survived are hanging on for the rest of the year, Kuehl explained.

Service Sector (seasonally adjusted)	**Feb '20**	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**	**Aug '20**	**Sep '20**	**Oct '20**	**Nov '20**	**Dec '20**	**Jan '21**	**Feb '21**
Sales	62.3	38.7	18.6	29.7	50.4	62.4	64.3	65.9	73.1	63.1	69.3	75.1	68.6
New credit applications	63.1	43.0	26.5	43.5	58.4	60.5	66.3	66.4	68.4	65.4	58.7	66.9	64.1
Dollar collections	59.3	45.1	36.1	45.8	55.4	63.9	61.0	62.6	64.3	62.9	59.7	64.9	54.6
Amount of credit extended	64.5	52.4	38.1	42.7	55.1	57.7	63.6	61.3	66.6	67.0	63.9	68.7	64.4
Index of favorable factors	**62.3**	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**	**64.1**	**68.1**	**64.6**	**62.9**	**68.9**	**62.9**
Rejections of credit applications	54.6	52.5	52.6	50.6	50.1	50.2	50.6	51.5	50.0	50.4	51.2	52.2	51.8
Accounts placed for collection	49.8	49.7	44.8	47.9	46.4	52.2	52.3	49.4	47.7	49.4	51.8	51.8	51.2
Disputes	51.7	52.8	50.9	51.3	51.7	51.9	51.8	49.3	50.5	51.4	51.7	51.3	50.2
Dollar amount beyond terms	52.8	43.5	26.6	33.0	44.9	60.9	58.5	57.0	57.7	57.4	60.6	58.8	50.8
Dollar amount of customer deductions	53.2	49.5	48.7	51.2	51.2	52.7	52.5	52.4	51.5	52.4	52.4	51.5	53.5
Filings for bankruptcies	53.4	54.3	49.3	45.3	46.5	48.3	47.6	50.9	50.3	52.4	52.2	52.6	54.6
Index of unfavorable factors	**52.6**	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**	**51.8**	**51.3**	**52.2**	**53.3**	**53.0**	**52.0**
NACM Service CMI	**56.5**	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**	**56.7**	**58.0**	**57.2**	**57.1**	**59.4**	**56.4**



February 2021 versus February 2020

Differences between the last few months and the crash last year are still obvious. Although growth continues, the pace of that growth has slowed and is more apparent on the service side of the equation than on manufacturing.



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, 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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