



## Report for May 2021

Issued May 31, 2021

National Association of Credit Management

### Combined Sectors

As credit managers are well aware, their interests are often oriented toward the future. It is the nature of their tasks. As decisions are made regarding the extension of credit and credit terms, they are consumed about more than the present day. Rather, they look forward to what will happen in 90 days or longer. This is an important point to consider when looking at NACM's Credit Managers' Index.

The index is an assessment of what is likely to happen from the perspective of credit managers. "When the numbers are as consistently good as they have been the last few months, that is a signal that economic conditions are expected to be positive in the next quarter or two," said NACM Economist Chris Kuehl, Ph.D.

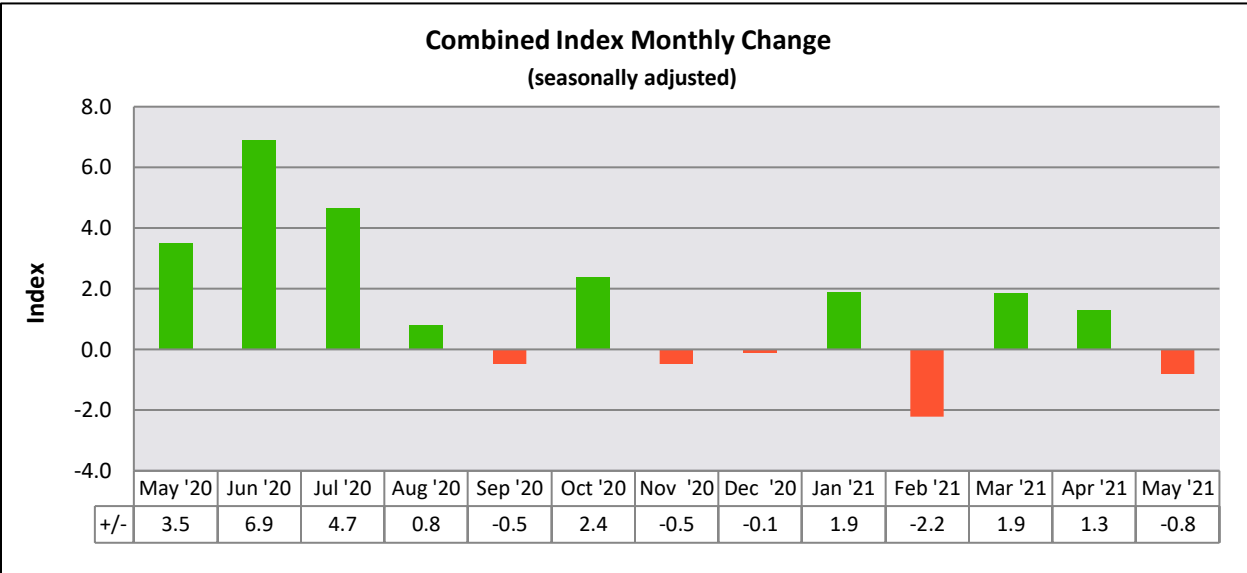
Month on month, the data changed very little from April to May. The numbers remain healthy and firmly in the expansion zone. The combined score for the manufacturing and service sectors slipped just 0.8 points—about where it was in January. The last time the combined numbers were in contraction territory was in May of 2020.

The combined index of favorable factors also remained robust despite a slight fall from April's readings, and the combined index of unfavorable factors only dropped 0.4 points month on month.

Sales have been beyond robust for months now, Kuehl pointed out. "The memories of readings as low as 28.6 and 54.1 are fading as these readings remain above 70 for six of the last eight months." New credit applications remain high, while dollar collections slipped a little more than the other favorable categories. "This is hardly concerning given that the number remains above 60, but this is a category we watch aggressively, after all 'it isn't a sale until we are paid,'" Kuehl said. Amount of credit extended held.

With a 5.4-point drop, accounts placed for collection had the biggest change. "However, that is a similar reading to what it has been the last few months," Kuehl said. Rejections of credit applications was one of four unfavorable categories to improve—albeit slightly. Disputes gained 2.4 points. "There has been a little less controversy over what position companies find themselves in," Kuehl explained. With a 2.3-point drop, dollar amount beyond terms returned to where it has been in previous months. Dollar amount of customer deductions held close to last month's reading, and filings for bankruptcies had its best reading since January 2014. "It is well above the average for the last 12 months," Kuehl said. "The shake-out in most of the business community seems to have taken place, and those companies that were severely weakened by the pandemic have met their fate and left the survivors to seek market share."

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21
Sales	28.6	54.1	64.3	65.8	65.5	74.2	66.5	70.2	75.9	69.9	73.9	74.7	73.2
New credit applications	43.3	57.9	62.4	63.4	63.6	65.2	63.9	64.4	67.8	65.5	63.9	65.9	64.6
Dollar collections	43.2	53.9	62.5	61.2	63.3	64.6	62.6	62.8	66.0	59.2	64.5	63.1	60.0
Amount of credit extended	42.8	55.2	57.3	61.3	60.8	68.0	64.8	65.3	69.2	66.8	68.4	69.0	69.0
<b>Index of favorable factors</b>	<b>39.5</b>	<b>55.3</b>	<b>61.6</b>	<b>62.9</b>	<b>63.3</b>	<b>68.0</b>	<b>64.4</b>	<b>65.7</b>	<b>69.7</b>	<b>65.3</b>	<b>67.7</b>	<b>68.2</b>	<b>66.7</b>
Rejections of credit applications	51.9	49.8	50.0	51.5	51.6	51.4	51.5	51.3	51.6	51.5	52.0	53.0	53.1
Accounts placed for collection	49.1	46.7	50.8	51.6	49.4	49.5	56.2	51.6	52.9	51.6	55.1	59.6	54.2
Disputes	51.5	49.6	50.7	51.8	48.7	51.0	50.6	51.2	50.9	51.0	50.6	51.3	53.7
Dollar amount beyond terms	32.4	44.4	57.3	58.2	54.6	58.0	58.1	57.0	58.9	52.0	57.0	59.4	57.1
Dollar amount of customer deductions	50.9	50.6	52.4	52.2	51.1	51.0	51.7	51.5	51.3	52.8	52.2	53.0	53.6
Filings for bankruptcies	47.3	47.7	48.8	47.7	51.3	50.7	53.0	52.5	52.3	54.5	55.7	57.1	59.3
<b>Index of unfavorable factors</b>	<b>47.2</b>	<b>48.1</b>	<b>51.7</b>	<b>52.2</b>	<b>51.1</b>	<b>51.9</b>	<b>53.5</b>	<b>52.5</b>	<b>53.0</b>	<b>52.2</b>	<b>53.8</b>	<b>55.6</b>	<b>55.2</b>
<b>NACM Combined CMI</b>	<b>44.1</b>	<b>51.0</b>	<b>55.6</b>	<b>56.5</b>	<b>56.0</b>	<b>58.4</b>	<b>57.9</b>	<b>57.8</b>	<b>59.7</b>	<b>57.5</b>	<b>59.3</b>	<b>60.6</b>	<b>59.8</b>



**Manufacturing Sector**

Although the combined score for manufacturing is a bit weaker than it was in April, the score remains quite strong. The sector’s index of favorable factors has returned to March levels. Its index of unfavorable factors repeated that

same pattern. “It would seem that April was a bit of an anomaly, but the important part is that these numbers are still firmly in expansion territory,” Kuehl said.

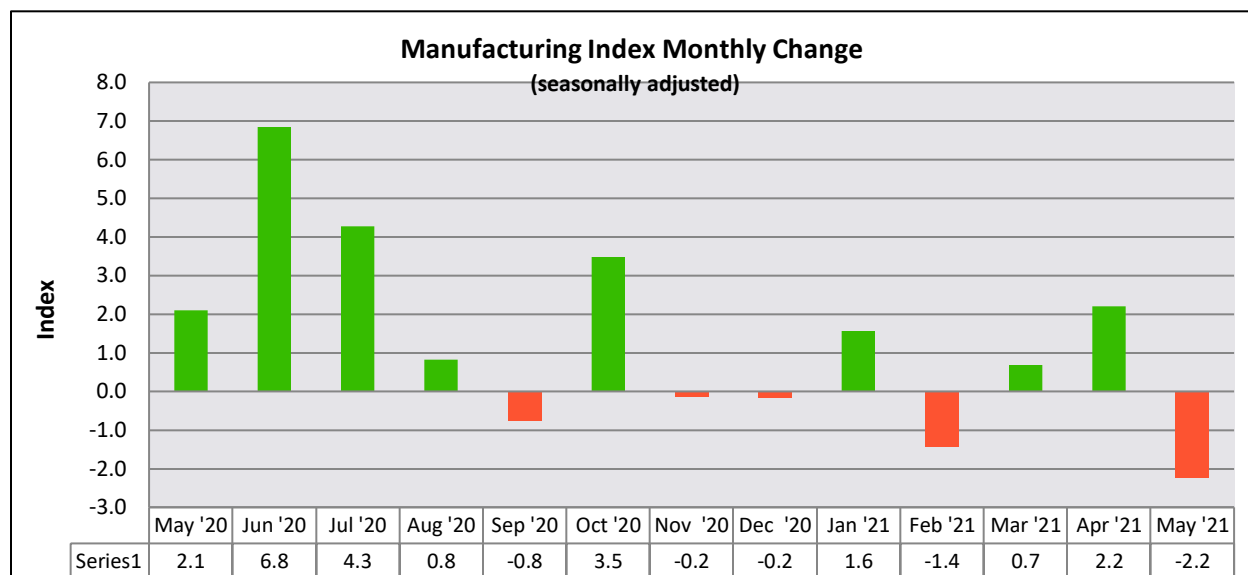
Sales is strong—although a little off the pace from last month. “This is a reading that takes numbers back to the levels in February,” Kuehl pointed out. New credit applications dropped one point. “Not at the high levels seen in January and February, but still very solid readings,” he said. Dollar collections slipped 0.3 points and amount of credit extended, 0.7 points.

“In general, the favorable categories were stable,” Kuehl said. “The majority of change took place in some of the unfavorable categories.”

Rejections of credit applications held close with a 0.5 shift upward. Accounts placed for collection, however, took a 11.4-point drop as it went from 65.4 to 54.0. “This month’s numbers are back to levels seen earlier in the year, and that indicates that April numbers were likely an anomaly,” Kuehl said. Disputes returned to the expansion zone, and dollar amount beyond terms fell 6.1 points from its peak last month. “This number combined with data from accounts placed for collection suggests there are more issues appearing in the manufacturing sector that have challenged companies,” Kuehl explained. Dollar amount of customer deductions slipped slightly, “but overall, this reading was reasonably stable,” he added. Filings for bankruptcies gained 2.1 points. “The concern is that these numbers may start to deteriorate if the issues of collection and slow pays continue to develop,” Kuehl said.

“Manufacturing did better than expected during the recession, but it has now started to feel the impact of the consumer shift back to services. There have also been consistent supply chain issues that have hampered the continued progress of the sector,” Kuehl said. “The manufacturing sector is starting to enter an interesting stage. Last year the performance of manufacturing was far better than had been anticipated due to the fact consumers started to shift their emphasis from services to buying goods. The money that was poured into the economy ended up driving everything from appliances to cars and electronics. Now the consumer has an opportunity to return to the service economy and early evidence shows that this is precisely what they are doing. Does this mean a sharp reduction in demand for those goods?”

<b>Manufacturing Sector (seasonally adjusted)</b>	<b>May '20</b>	<b>Jun '20</b>	<b>Jul '20</b>	<b>Aug '20</b>	<b>Sep '20</b>	<b>Oct '20</b>	<b>Nov '20</b>	<b>Dec '20</b>	<b>Jan '21</b>	<b>Feb '21</b>	<b>Mar '21</b>	<b>Apr '21</b>	<b>May '21</b>
Sales	27.5	57.8	66.3	67.2	65.1	75.3	69.9	71.1	76.7	71.1	72.7	75.6	71.3
New credit applications	43.2	57.5	64.4	60.4	60.8	62.0	62.4	70.2	68.6	66.9	62.3	65.4	64.4
Dollar collections	40.5	52.4	61.1	61.3	63.9	65.0	62.3	65.9	67.1	63.8	65.5	64.7	64.4
Amount of credit extended	43.0	55.4	56.8	58.9	60.3	69.4	62.6	66.8	69.7	69.1	67.8	68.9	68.2
<b>Index of favorable factors</b>	<b>38.6</b>	<b>55.7</b>	<b>62.2</b>	<b>62.0</b>	<b>62.5</b>	<b>67.9</b>	<b>64.3</b>	<b>68.5</b>	<b>70.5</b>	<b>67.7</b>	<b>67.1</b>	<b>68.7</b>	<b>67.1</b>
Rejections of credit applications	53.3	49.5	49.8	52.5	51.7	52.8	52.5	51.3	50.9	51.1	53.8	53.8	53.3
Accounts placed for collection	50.4	47.1	49.3	50.9	49.4	51.4	63.0	51.4	54.1	52.0	56.3	65.4	54.0
Disputes	51.6	47.4	49.6	51.7	48.1	51.6	49.8	50.7	50.5	51.8	50.4	49.6	51.2
Dollar amount beyond terms	31.9	44.0	53.7	57.8	52.3	58.4	58.9	53.5	59.1	53.3	57.2	61.3	55.2
Dollar amount of customer deductions	50.5	49.9	52.0	51.9	49.8	50.5	51.0	50.6	51.0	52.0	50.8	52.8	51.1
Filings for bankruptcies	49.3	48.8	49.4	47.9	51.6	51.2	53.7	52.8	52.1	54.4	55.6	56.7	58.8
<b>Index of unfavorable factors</b>	<b>47.8</b>	<b>47.8</b>	<b>50.6</b>	<b>52.1</b>	<b>50.5</b>	<b>52.6</b>	<b>54.8</b>	<b>51.7</b>	<b>52.9</b>	<b>52.4</b>	<b>54.0</b>	<b>56.6</b>	<b>54.0</b>
<b>NACM Manufacturing CMI</b>	<b>44.1</b>	<b>51.0</b>	<b>55.2</b>	<b>56.0</b>	<b>55.3</b>	<b>58.8</b>	<b>58.6</b>	<b>58.4</b>	<b>60.0</b>	<b>58.5</b>	<b>59.2</b>	<b>61.4</b>	<b>59.2</b>



## Service Sector

The combined score for the service sector improved to the highest level seen in well over a year. Data for the sector’s index of favorable factors maintained the momentum set over the last few months. Its index of unfavorable factors also improved a little.

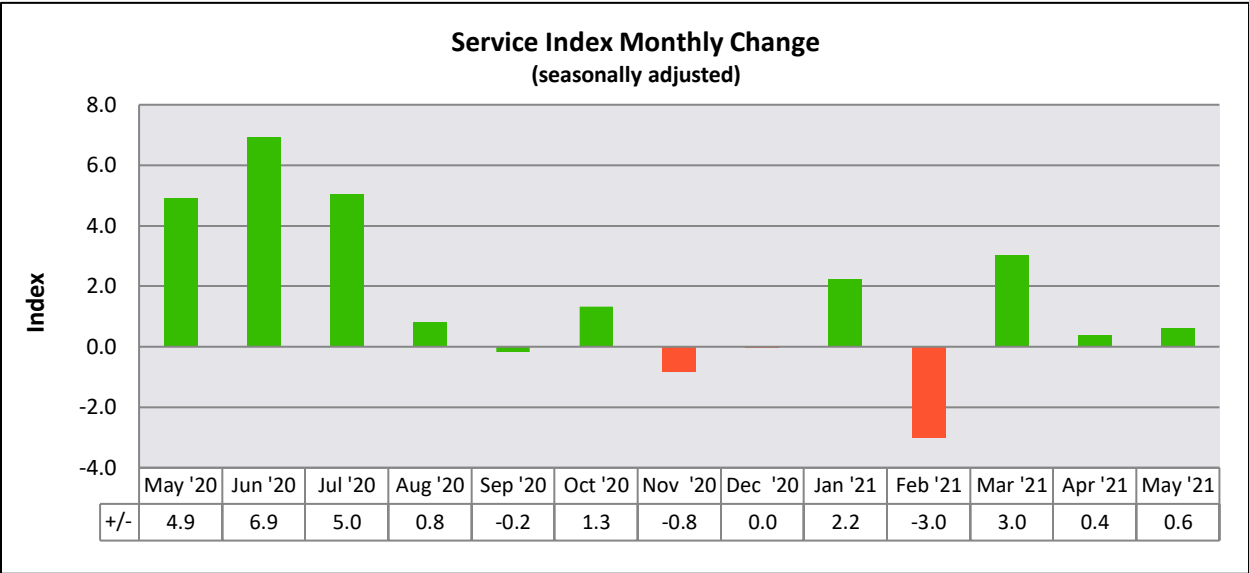
Sales returned to the levels noted in March. New credit applications slipped 1.5 points, while dollar collections dropped 5.9 points. “That is similar to the decline noted in manufacturing,” Kuehl said. “There are companies in distress as the rest of the economy starts to rebound.” Amount of credit extended remained stable.

Overall, the sector’s unfavorable categories registered more volatility. “Accounts placed for collection improved quite a bit as it went from 53.7 to 54.4, and that contrasts with the decline seen in the manufacturing data,” Kuehl said. “The stress in the retail sector has been easing a little as the lockdowns have been relaxed.” Rejections of credit applications improved 0.7 points, and disputes, 3.2 points. Dollar amount beyond terms also shifted upward, 1.4 points. “This was a very weak category for manufacturing and a much stronger one for services,” Kuehl said. “That suggests the credit managers are witnessing that shift in consumer emphasis from goods purchasing to services.” Dollar amount of customer deductions registered a 3-point gain. Filings for bankruptcies grew 2.3 points.

“The overall sense is that services are strongly rebounding, and that has been showing up in the retail sector as well as in hospitality, entertainment and travel,” Kuehl said. “There has been a subtle shift in terms of the economic drivers, and it has been reflected in the CMI data. The U.S. has been a service sector driven economy for many years, and that was interrupted by the pandemic and subsequent lockdown. The opportunity for the sector to resume operations has been reflected in some of the latest readings.”

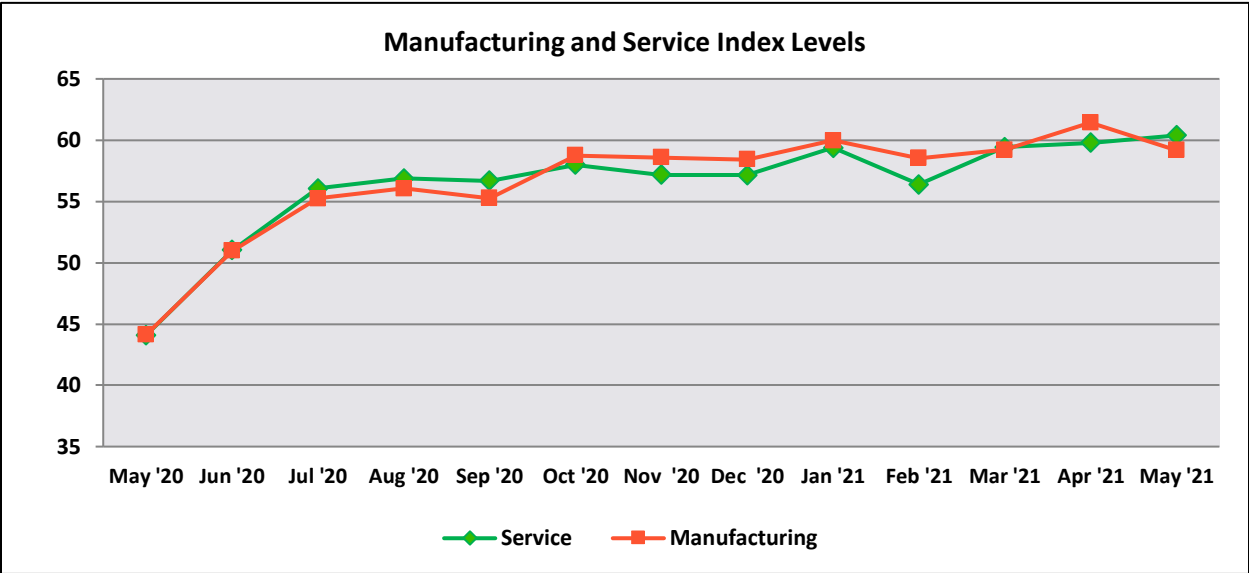
<b>Service Sector</b> (seasonally adjusted)	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21
Sales	29.7	50.4	62.4	64.3	65.9	73.1	63.1	69.3	75.1	68.6	75.1	73.7	75.2
New credit applications	43.5	58.4	60.5	66.3	66.4	68.4	65.4	58.7	66.9	64.1	65.6	66.4	64.9

Dollar collections	45.8	55.4	63.9	61.0	62.6	64.3	62.9	59.7	64.9	54.6	63.4	61.6	55.7
Amount of credit extended	42.7	55.1	57.7	63.6	61.3	66.6	67.0	63.9	68.7	64.4	69.0	69.1	69.8
<b>Index of favorable factors</b>	<b>40.4</b>	<b>54.8</b>	<b>61.1</b>	<b>63.8</b>	<b>64.1</b>	<b>68.1</b>	<b>64.6</b>	<b>62.9</b>	<b>68.9</b>	<b>62.9</b>	<b>68.3</b>	<b>67.7</b>	<b>66.4</b>
Rejections of credit applications	50.6	50.1	50.2	50.6	51.5	50.0	50.4	51.2	52.2	51.8	50.2	52.2	52.9
Accounts placed for collection	47.9	46.4	52.2	52.3	49.4	47.7	49.4	51.8	51.8	51.2	54.0	53.7	54.3
Disputes	51.3	51.7	51.9	51.8	49.3	50.5	51.4	51.7	51.3	50.2	50.9	53.0	56.2
Dollar amount beyond terms	33.0	44.9	60.9	58.5	57.0	57.7	57.4	60.6	58.8	50.8	56.7	57.5	58.9
Dollar amount of customer deductions	51.2	51.2	52.7	52.5	52.4	51.5	52.4	52.4	51.5	53.5	53.5	53.1	56.1
Filings for bankruptcies	45.3	46.5	48.3	47.6	50.9	50.3	52.4	52.2	52.6	54.6	55.8	57.6	59.9
<b>Index of unfavorable factors</b>	<b>46.5</b>	<b>48.5</b>	<b>52.7</b>	<b>52.2</b>	<b>51.8</b>	<b>51.3</b>	<b>52.2</b>	<b>53.3</b>	<b>53.0</b>	<b>52.0</b>	<b>53.5</b>	<b>54.5</b>	<b>56.4</b>
<b>NACM Service CMI</b>	<b>44.1</b>	<b>51.0</b>	<b>56.1</b>	<b>56.9</b>	<b>56.7</b>	<b>58.0</b>	<b>57.2</b>	<b>57.1</b>	<b>59.4</b>	<b>56.4</b>	<b>59.4</b>	<b>59.8</b>	<b>60.4</b>



**May 2021 versus May 2020**

Data supports the notion that 2021 is continuing to be the year of rapid recovery. Not only are the numbers positive, but the acceleration out of the 2020 doldrums has been relatively swift. The service sector is now showing a faster growth pattern as consumers resume their old habits.



**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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors*</b>	<b>Why Unfavorable</b>
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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