Report for June 2021

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National Association of Credit Management

Combined Sectors

The current assessment of the U.S. economy is that it is on fire. Although it was assumed that 2021 would be a year of recovery, the dominant opinion held that most of this rebound would take place near the end of the year.

However, consumers had other plans as they came roaring out of the gate at record speed. The first quarter saw a growth rate in the first quarter of 6.5% and showed little sign of slowing in the second quarter even as inflation started to rear its ugly head. Throughout all of this growth, some consistent questions remain: How long will this last? Through the summer, the rest of the year, into 2022? Credit managers, who are forward thinkers, have started to provide an answer to these questions.

The last two months of **NACM's Credit Manager's Index (CMI)** have indicated some slowing in the overall economy. Although the numbers remain high, they have fallen slightly from April's peaks. Overall, the combined score for the June CMI fell 2.3 points month on month, and 3.1 points since April.

However, "57.5 is still a very respectable number in an index where anything over 50 is considered expansion," said NACM Economic Chris Kuehl, Ph.D.

With a 1.9-point slip month on month, the combined index of favorable factors still remains well into the 60s, but it now returns to numbers seen in November 2020. Sales tumbled 5.5 points close to a level not seen since November 2020. Amount of credit extended slipped 1.6 points month on month, and new credit applications, 1.5 points. Dollar collections with a 1.1 increase was the only category in June to see a gain.

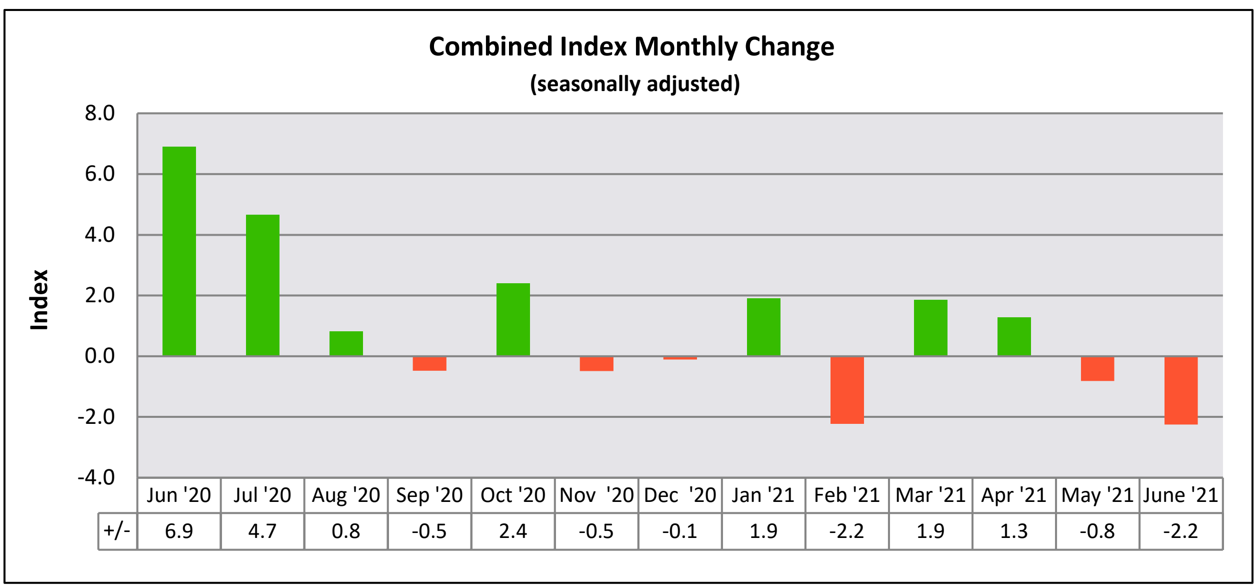
"The fall in sales is taking place at the same time that many have been touting all the increases in sales of capital goods and strong retail numbers," Kuehl said. "This is a good time to remember that credit managers are focused primarily on the future, and they seem to be getting a little nervous. As long as the numbers are in the 60s, there is no alarm to sound, but it is clearly not headed in the right direction."

The combined index of unfavorable factors also slipped to its lowest level since February 2021. With a combined drop of 2.5 points, some unfavorable categories noted significant changes. Disputes fell close to the contraction zone as it fell 3.3 points. Dollar amount beyond terms was the only category to fall into the contraction zone.

"As usual, the more interesting data shows up in the subcategories," Kuehl said. "A bit more desperation is showing up in some sectors, but the biggest change and by far the most worrying was dollar amount beyond terms as it fell 7.6 points. This is an early sign of distress in companies and suggests that some businesses are starting to try to protect their cash flow at the expense of their creditors."

Dips in rejections of credit applications, accounts placed for collection, dollar amount of customer deductions, and filings for bankruptcies ranged from one point to 0.8 points. "These are still very respectable readings and do not signal any real issues," Kuehl said. Overall, "unfavorable categories remain in decent shape, but they are no longer all in positive territory as they had been for the seven consecutive months prior."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21
Sales	54.1	64.3	65.8	65.5	74.2	66.5	70.2	75.9	69.9	73.9	74.7	73.2	67.7
New credit applications	57.9	62.4	63.4	63.6	65.2	63.9	64.4	67.8	65.5	63.9	65.9	64.6	63.1
Dollar collections	53.9	62.5	61.2	63.3	64.6	62.6	62.8	66.0	59.2	64.5	63.1	60.0	61.1
Amount of credit extended	55.2	57.3	61.3	60.8	68.0	64.8	65.3	69.2	66.8	68.4	69.0	69.0	67.4
Index of favorable factors	**55.3**	**61.6**	**62.9**	**63.3**	**68.0**	**64.4**	**65.7**	**69.7**	**65.3**	**67.7**	**68.2**	**66.7**	**64.8**
Rejections of credit applications	49.8	50.0	51.5	51.6	51.4	51.5	51.3	51.6	51.5	52.0	53.0	53.1	52.3
Accounts placed for collection	46.7	50.8	51.6	49.4	49.5	56.2	51.6	52.9	51.6	55.1	59.6	54.2	53.2
Disputes	49.6	50.7	51.8	48.7	51.0	50.6	51.2	50.9	51.0	50.6	51.3	53.7	50.4
Dollar amount beyond terms	44.4	57.3	58.2	54.6	58.0	58.1	57.0	58.9	52.0	57.0	59.4	57.1	49.5
Dollar amount of customer deductions	50.6	52.4	52.2	51.1	51.0	51.7	51.5	51.3	52.8	52.2	53.0	53.6	52.6
Filings for bankruptcies	47.7	48.8	47.7	51.3	50.7	53.0	52.5	52.3	54.5	55.7	57.1	59.3	58.3
Index of unfavorable factors	**48.1**	**51.7**	**52.2**	**51.1**	**51.9**	**53.5**	**52.5**	**53.0**	**52.2**	**53.8**	**55.6**	**55.2**	**52.7**
NACM Combined CMI	**51.0**	**55.6**	**56.5**	**56.0**	**58.4**	**57.9**	**57.8**	**59.7**	**57.5**	**59.3**	**60.6**	**59.8**	**57.5**



Manufacturing Sector

The overall reading for the manufacturing sector is down 2-points month on month. The sector's index of favorable factors dropped 2.6 points, but this is still a reading solidly in the middle of the 60s. Of the subcategories, new credit applications declined the most (4.4 points), followed by sales (3.1 points) and dollar collections (1.9 points). Amount of credit had a slight drop (0.9 points).

"Sales reached its lowest level since September of 2020," Kuehl noted. "Although a reading in the high 60s is still very good, the trend is clearly in the wrong direction. The bottom line is that these favorable numbers are still strong and very comfortably in the expansion zone, but they have been stronger and the sense is that they will continue to dip in the months ahead."

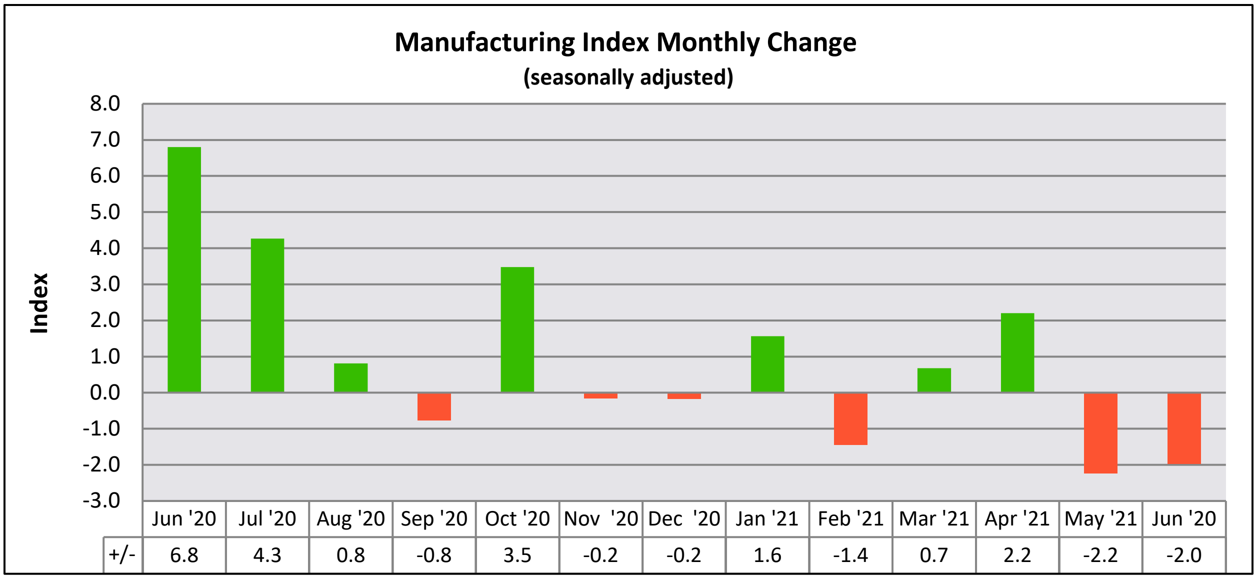
Overall, the sector's index of unfavorable factors fell 1.6 points. Dollar amount beyond terms took the biggest hit with a 6.7 fall, pushing it into the contraction zone. Disputes also entered contraction territory with a 2.5-point drop. Fillings for bankruptcies dipped 1 point, and accounts placed for collection, 0.6 points. The only categories to improve were dollar amount of customer deductions, which went up 1.3 points, and rejections of credit applications, which increased 0.1 points.

"The movement in the unfavorable categories merits some attention," Kuehl said. "Rejections of credit applications moved very little, which suggests that those requesting credit are still in a good position to receive approval, and filings for bankruptcies remains strong. However, there are suddenly serious slow pay issues and that signals some bigger concerns down the road because slow pays become credit collection issues at some point.

"The more worrisome aspect is that this is the sector's lowest reading since September of last year," Kuehl said. "As far as the manufacturing sector is concerned, the assumption has been that consumers would start to return to their old spending habits. This has been called the 'great inversion' by some and simply suggests that people will start going back to their old patterns, which would reduce the money they have available to spend on *things*.

However, some of the reduction in demand is a result of shortages and supply bottlenecks, Kuehl explained. "It is important at this stage to separate these issues from the behaviors of consumers. The auto sector is still at a standstill due to chip shortages, and that has nothing to do with demand. On the other hand, consumers have slowed when it comes to appliances and furniture as they do more service sector spending."

Manufacturing Sector (seasonally adjusted)	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21
Sales	57.8	66.3	67.2	65.1	75.3	69.9	71.1	76.7	71.1	72.7	75.6	71.3	68.2
New credit applications	57.5	64.4	60.4	60.8	62.0	62.4	70.2	68.6	66.9	62.3	65.4	64.4	60.0
Dollar collections	52.4	61.1	61.3	63.9	65.0	62.3	65.9	67.1	63.8	65.5	64.7	64.4	62.5
Amount of credit extended	55.4	56.8	58.9	60.3	69.4	62.6	66.8	69.7	69.1	67.8	68.9	68.2	67.3
Index of favorable factors	**55.7**	**62.2**	**62.0**	**62.5**	**67.9**	**64.3**	**68.5**	**70.5**	**67.7**	**67.1**	**68.7**	**67.1**	**64.5**
Rejections of credit applications	49.5	49.8	52.5	51.7	52.8	52.5	51.3	50.9	51.1	53.8	53.8	53.3	53.4
Accounts placed for collection	47.1	49.3	50.9	49.4	51.4	63.0	51.4	54.1	52.0	56.3	65.4	54.0	53.4
Disputes	47.4	49.6	51.7	48.1	51.6	49.8	50.7	50.5	51.8	50.4	49.6	51.2	48.7
Dollar amount beyond terms	44.0	53.7	57.8	52.3	58.4	58.9	53.5	59.1	53.3	57.2	61.3	55.2	48.5
Dollar amount of customer deductions	49.9	52.0	51.9	49.8	50.5	51.0	50.6	51.0	52.0	50.8	52.8	51.1	52.4
Filings for bankruptcies	48.8	49.4	47.9	51.6	51.2	53.7	52.8	52.1	54.4	55.6	56.7	58.8	57.8
Index of unfavorable factors	**47.8**	**50.6**	**52.1**	**50.5**	**52.6**	**54.8**	**51.7**	**52.9**	**52.4**	**54.0**	**56.6**	**54.0**	**52.4**
NACM Manufacturing CMI	**51.0**	**55.2**	**56.0**	**55.3**	**58.8**	**58.6**	**58.4**	**60.0**	**58.5**	**59.2**	**61.4**	**59.2**	**57.2**



Service Sector

Overall, the combined score for the service sector fell three points, and the sector's index of favorable factors, 1.3 points. Sales slipped the most with an 8.1-point decline. The other two subcategories—amount of credit extended and dollar collections—noted gains, 4.1 points and 1.2 points, respectively.

"Sales had a fairly profound drop at a time when it has been observed that people are spending aggressively on services," Kuehl said. "The index tends to be heavy on the retail sector, and there has been a slowing here as people spend more on travel and tourism.

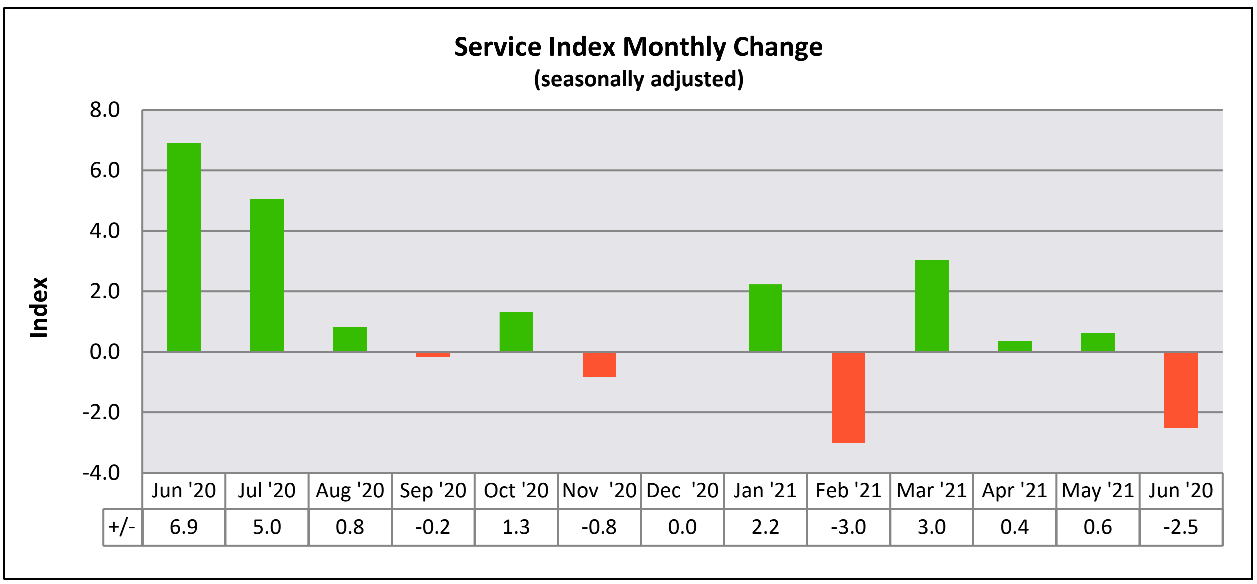
"With the gain in extended credit, it seems that those in the service sector are reacting to those improved conditions and are asking for more credit. The gain in dollar collections suggests that those in the service sector are seeing more growth and are anticipating further expansion. The overall pace of the favorable categories remains very strong."

Overall, the service sector's index of unfavorable factors declined 3.4 points. Within the subcategories, dollar amount beyond terms took the biggest hit with an 8.4-point drop, followed by disputes at 4.1 points and dollar amount of customer deductions at 3.4 points. The other three categories also registered declines: rejections of credit applications, 1.8 points; accounts placed for collection, 1.3 points; and filings for bankruptcies, 1.2 points.

"Unfavorable readings saw a little more volatility, but readings remain solidly in the expansion zone," Kuehl noted. "Disputes took a more dramatic decline; there are obviously more companies in some distress than was the case earlier in the year. The big shift in dollar amount beyond terms matches the decline seen in manufacturing as it nearly fell into contraction territory. This is the same kind of warning signal that was seen in the manufacturing data. Companies are trying to stretch their creditors as far as they can as they react to inputs such as inflation and shortages. Right now, the more serious indicators such as bankruptcy and collections have yet to manifest, but there are warning signs coming from the slow pay and disputes categories.

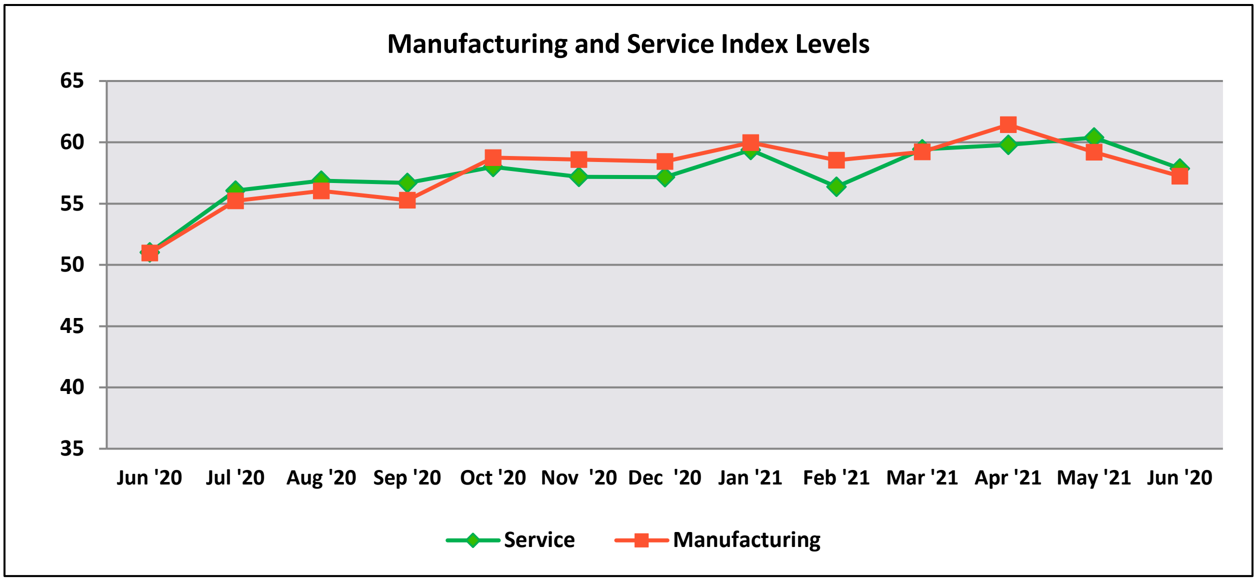
"The service sector has made a great deal of progress," Kuehl added. "In fact, it can be asserted that there has been almost too much progress because the entire sector has been struggling to get the workers it needs to fill the demand. The shutdown affected the service sector far more than any other, and now the rebound is having a stronger impact. It is closer to the numbers that have been noted over the last several months and is still strongly in expansion territory."

Service Sector (seasonally adjusted)	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21
Sales	50.4	62.4	64.3	65.9	73.1	63.1	69.3	75.1	68.6	75.1	73.7	75.2	67.1
New credit applications	58.4	60.5	66.3	66.4	68.4	65.4	58.7	66.9	64.1	65.6	66.4	64.9	66.1
Dollar collections	55.4	63.9	61.0	62.6	64.3	62.9	59.7	64.9	54.6	63.4	61.6	55.7	59.8
Amount of credit extended	55.1	57.7	63.6	61.3	66.6	67.0	63.9	68.7	64.4	69.0	69.1	69.8	67.5
Index of favorable factors	**54.8**	**61.1**	**63.8**	**64.1**	**68.1**	**64.6**	**62.9**	**68.9**	**62.9**	**68.3**	**67.7**	**66.4**	**65.1**
Rejections of credit applications	50.1	50.2	50.6	51.5	50.0	50.4	51.2	52.2	51.8	50.2	52.2	52.9	51.1
Accounts placed for collection	46.4	52.2	52.3	49.4	47.7	49.4	51.8	51.8	51.2	54.0	53.7	54.3	53.0
Disputes	51.7	51.9	51.8	49.3	50.5	51.4	51.7	51.3	50.2	50.9	53.0	56.2	52.1
Dollar amount beyond terms	44.9	60.9	58.5	57.0	57.7	57.4	60.6	58.8	50.8	56.7	57.5	58.9	50.5
Dollar amount of customer deductions	51.2	52.7	52.5	52.4	51.5	52.4	52.4	51.5	53.5	53.5	53.1	56.1	52.7
Filings for bankruptcies	46.5	48.3	47.6	50.9	50.3	52.4	52.2	52.6	54.6	55.8	57.6	59.9	58.7
Index of unfavorable factors	**48.5**	**52.7**	**52.2**	**51.8**	**51.3**	**52.2**	**53.3**	**53.0**	**52.0**	**53.5**	**54.5**	**56.4**	**53.0**
NACM Service CMI	**51.0**	**56.1**	**56.9**	**56.7**	**58.0**	**57.2**	**57.1**	**59.4**	**56.4**	**59.4**	**59.8**	**60.4**	**57.9**



June 2021 versus June 2020

The credit manager is a futurist and always has been. The focus of the profession is on what will happen down the road. The mantra is simple enough: It is not a sale until we're paid. That means that concern is rooted in how companies will perform over the 90, 120 or 180 day terms. The sense of that future is a little weaker now as compared to a month or two ago.



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.*

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

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