Report for March 2021

Issued March 31, 2021

National Association of Credit Management

Combined Sectors

Typically, economists look for the dark cloud that surrounds the silver lining. This month's Credit Managers' Index (CMI), however, is liable to cost membership in the "dismal science" club. CMI numbers look far better than anyone had anticipated.

Expectations for recovery were cautiously optimistic at the start of 2021 due to the arrival of COVID-19 vaccines and the potential for a loosening of lockdown protocols. Then, the pace of vaccine distributions slowed. Additionally, it was not clear when the government would issue another economic stimulus or what it would look like. The latest assessment from the Federal Reserve Bank of Atlanta states that first quarter GDP numbers could reach 10%. Many suggest annual growth will be in the vicinity of 6.5% or higher. Although stimulus cash has fed the surge in consumer spending, the advancement in vaccinations has triggered expectations for the end of lockdowns.

In the January CMI, favorable factors captured a sporadic surge in consumer enthusiasm. By February, these same readings dipped a bit. Now, in March, these factors have tracked back toward levels seen at the start of the year. At 59.3, the combined index closely mirrors January's high of 59.7. The index of favorable factors also recovered some ground, going from 65.3 in February to 67.7 in March. With a score of 53.8, the index of unfavorable factors not only recovered ground, but it gained on the previous high of the past 12 months set in November (53.5).

"This is the highest reading seen in well over two years; it points to better months ahead," said NACM Economist Chris Kuehl, Ph.D. "The details in the subcategories are likewise instructive."

Sales numbers have been high for several consecutive months. Three of the last four months saw scores above 70—with January hitting the high point at 75.9. "It appears credit managers are not getting soft on credit requirements just to appease the salesforce," Kuehl noted.

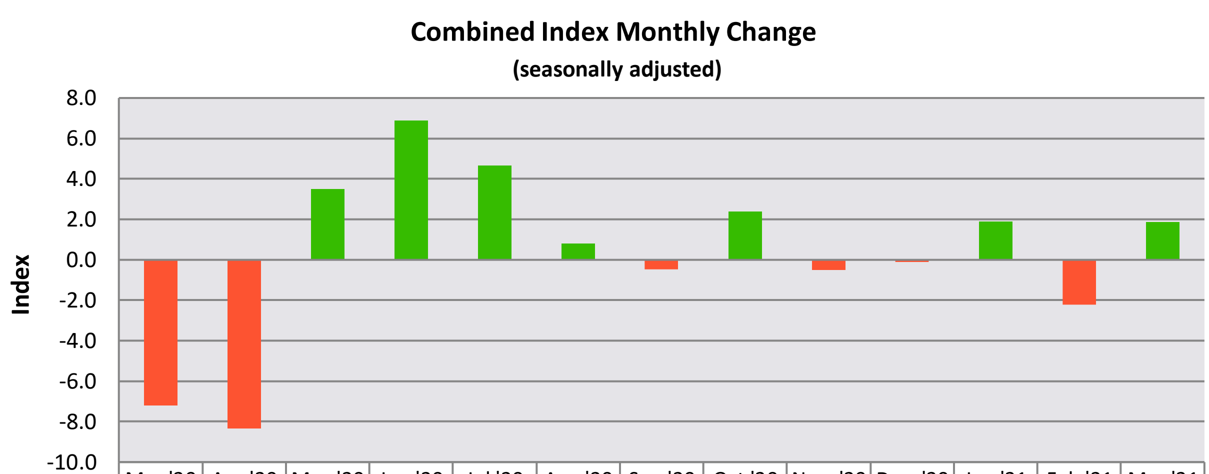
Despite a small slip from 65.5 to 63.9 month on month, data on new credit applications remains solid. "There has been a slight slowdown in credit demand; but overall, the numbers are still good," Kuehl explained. Dollar collections gained more than five points as it moved from 59.2 to 64.5. Amount of credit extended also improved month on month—66.8 to 68. "This surge in activity means credit requests are larger than they have been," Kuehl said.

The most significant improvements were noted in unfavorable categories, he added. Rejections of credit applications improved only half a point to 52, but it reached a high not registered since March 2020 before the pandemic hit. Accounts placed for collection moved upward to 55.1 from 51.6, while disputes took a slight downward trend as it went from 51 to 50.6. "The important point at this stage is that the number stayed above 50," Kuehl said.

Dollar amount beyond terms reflects one of the most significant improvements month on month as it went from 52 to 57. “Although it not quite at the level seen in January, it shows an attempt to get caught up on credit,” Kuehl explained. With a 0.8 decline, dollar amount of customer deductions held close to the previous month with a reading of 52.2. Filings for bankruptcies also remained similar, but the just more than one-point increase was an improvement.

“The truly encouraging news is that the CMI reflects five straight months with readings of 50 or above in the unfavorable categories,” Kuehl said. “Not one of the readings has been in the contraction zone since October 2020. This bodes very well for future economic growth readings.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Mar '20**	**Apr '20**	**May '20**	**Jun '20**	**Jul '20**	**Aug '20**	**Sep '20**	**Oct '20**	**Nov '20**	**Dec '20**	**Jan '21**	**Feb '21**	**Mar '21**
Sales	39.5	20.0	28.6	54.1	64.3	65.8	65.5	74.2	66.5	70.2	75.9	69.9	73.9
New credit applications	44.0	31.1	43.3	57.9	62.4	63.4	63.6	65.2	63.9	64.4	67.8	65.5	63.9
Dollar collections	49.3	35.5	43.2	53.9	62.5	61.2	63.3	64.6	62.6	62.8	66.0	59.2	64.5
Amount of credit extended	53.2	41.6	42.8	55.2	57.3	61.3	60.8	68.0	64.8	65.3	69.2	66.8	68.4
Index of favorable factors	**46.5**	**32.0**	**39.5**	**55.3**	**61.6**	**62.9**	**63.3**	**68.0**	**64.4**	**65.7**	**69.7**	**65.3**	**67.7**
Rejections of credit applications	53.5	52.7	51.9	49.8	50.0	51.5	51.6	51.4	51.5	51.3	51.6	51.5	52.0
Accounts placed for collection	50.6	47.4	49.1	46.7	50.8	51.6	49.4	49.5	56.2	51.6	52.9	51.6	55.1
Disputes	52.1	50.8	51.5	49.6	50.7	51.8	48.7	51.0	50.6	51.2	50.9	51.0	50.6
Dollar amount beyond terms	43.9	27.6	32.4	44.4	57.3	58.2	54.6	58.0	58.1	57.0	58.9	52.0	57.0
Dollar amount of customer deductions	50.4	49.4	50.9	50.6	52.4	52.2	51.1	51.0	51.7	51.5	51.3	52.8	52.2
Filings for bankruptcies	53.2	50.2	47.3	47.7	48.8	47.7	51.3	50.7	53.0	52.5	52.3	54.5	55.7
Index of unfavorable factors	**50.6**	**46.3**	**47.2**	**48.1**	**51.7**	**52.2**	**51.1**	**51.9**	**53.5**	**52.5**	**53.0**	**52.2**	**53.8**
NACM Combined CMI	**49.0**	**40.6**	**44.1**	**51.0**	**55.6**	**56.5**	**56.0**	**58.4**	**57.9**	**57.8**	**59.7**	**57.5**	**59.3**



	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21
+/-	-7.2	-8.3	3.5	6.9	4.7	0.8	-0.5	2.4	-0.5	-0.1	1.9	-2.2	1.9

Manufacturing Sector

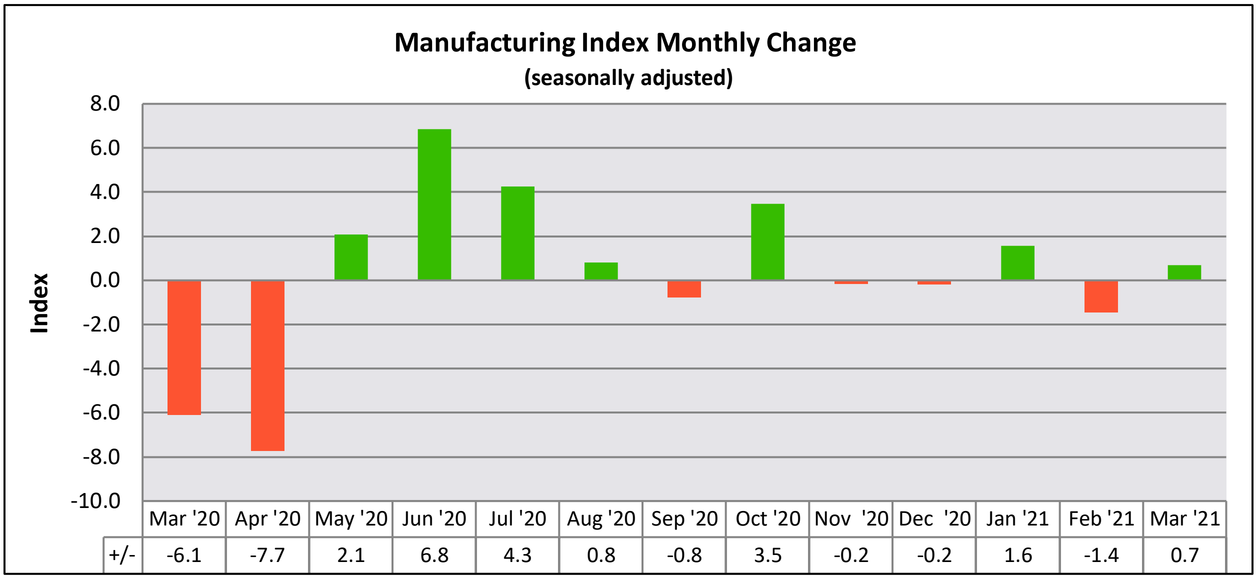
Manufacturing sectors have performed well through most of the last several months. “This has been explained in part by the fact consumers have been unable to spend as they usually do on services,” Kuehl noted. Prior to the pandemic lockdown, consumers spent about 65% of their disposable income on services. The higher the income, the more they spent on services as opposed to things, he added. The top 25% of income earners spent close to 80% on services. “When that was no longer possible, the spending switched to goods, a positive sight for many manufacturers,” Kuehl said.

The combined score sits at 59.2, slightly higher than February (58.5). The manufacturing sector performed consistently through much of the last year as compared to the volatility in the service sector. The index of favorable factors shifted slightly from 67.7 to 67.1, while the index of unfavorable factors improved by 1.6 points from 54 to 52.4. “This is probably the best of patterns and consistent as far as the good news with regard to negative factors,” Kuehl explained.

The details reinforce these assumptions, he added. Sales numbers increased from 71.1 to 72.7. The better news is these readings have been above 70 for four consecutive months, Kuehl continued. New credit applications data dropped a little from 66.9 to 62.3, but these readings remain in the 60s. Collar collections improved from 63.8 to 65.5, and amount of credit extended went down slightly from 69.1 to 67.8. “The key takeaway from this data is that these numbers are above 60, which reflects solid progress and scores well into expansion territory,” Kuehl said.

Unfavorable data reflects some real progress, he added. Data on rejections of credit applications improved from 51.1 to 53.8. “This is even better news than it would appear because this comes at the same time as fewer applications for credit,” Kuehl said. “Meaning, the more creditworthy applicants are the ones that have been requesting additional credit.” Accounts placed for collection also shows solid improvement, moving from 52 to 56.3. Disputes dropped from 51.8 the prior month to 50.4. Dollar amount beyond terms category gained nearly four points, going from 53.3 to 57.2. Dollar amount of customer deductions tracked down from 52 to 50.8. Filings for bankruptcies continued to improve with a reading of 55.6 compared to 54.4 in February. “The important development is there have been five consecutive months of readings in the expansion zone, which hasn’t been the case in several years,” Kuehl said.

Manufacturing Sector (seasonally adjusted)	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21
Sales	40.3	21.4	27.5	57.8	66.3	67.2	65.1	75.3	69.9	71.1	76.7	71.1	72.7
New credit applications	45.0	35.7	43.2	57.5	64.4	60.4	60.8	62.0	62.4	70.2	68.6	66.9	62.3
Dollar collections	53.4	35.0	40.5	52.4	61.1	61.3	63.9	65.0	62.3	65.9	67.1	63.8	65.5
Amount of credit extended	54.0	45.1	43.0	55.4	56.8	58.9	60.3	69.4	62.6	66.8	69.7	69.1	67.8
Index of favorable factors	**48.2**	**34.3**	**38.6**	**55.7**	**62.2**	**62.0**	**62.5**	**67.9**	**64.3**	**68.5**	**70.5**	**67.7**	**67.1**
Rejections of credit applications	54.4	52.8	53.3	49.5	49.8	52.5	51.7	52.8	52.5	51.3	50.9	51.1	53.8
Accounts placed for collection	51.6	50.0	50.4	47.1	49.3	50.9	49.4	51.4	63.0	51.4	54.1	52.0	56.3
Disputes	51.4	50.6	51.6	47.4	49.6	51.7	48.1	51.6	49.8	50.7	50.5	51.8	50.4
Dollar amount beyond terms	44.3	28.6	31.9	44.0	53.7	57.8	52.3	58.4	58.9	53.5	59.1	53.3	57.2
Dollar amount of customer deductions	51.3	50.1	50.5	49.9	52.0	51.9	49.8	50.5	51.0	50.6	51.0	52.0	50.8
Filings for bankruptcies	52.0	51.1	49.3	48.8	49.4	47.9	51.6	51.2	53.7	52.8	52.1	54.4	55.6
Index of unfavorable factors	**50.8**	**47.2**	**47.8**	**47.8**	**50.6**	**52.1**	**50.5**	**52.6**	**54.8**	**51.7**	**52.9**	**52.4**	**54.0**
NACM Manufacturing CMI	**49.8**	**42.0**	**44.1**	**51.0**	**55.2**	**56.0**	**55.3**	**58.8**	**58.6**	**58.4**	**60.0**	**58.5**	**59.2**



Service Sector

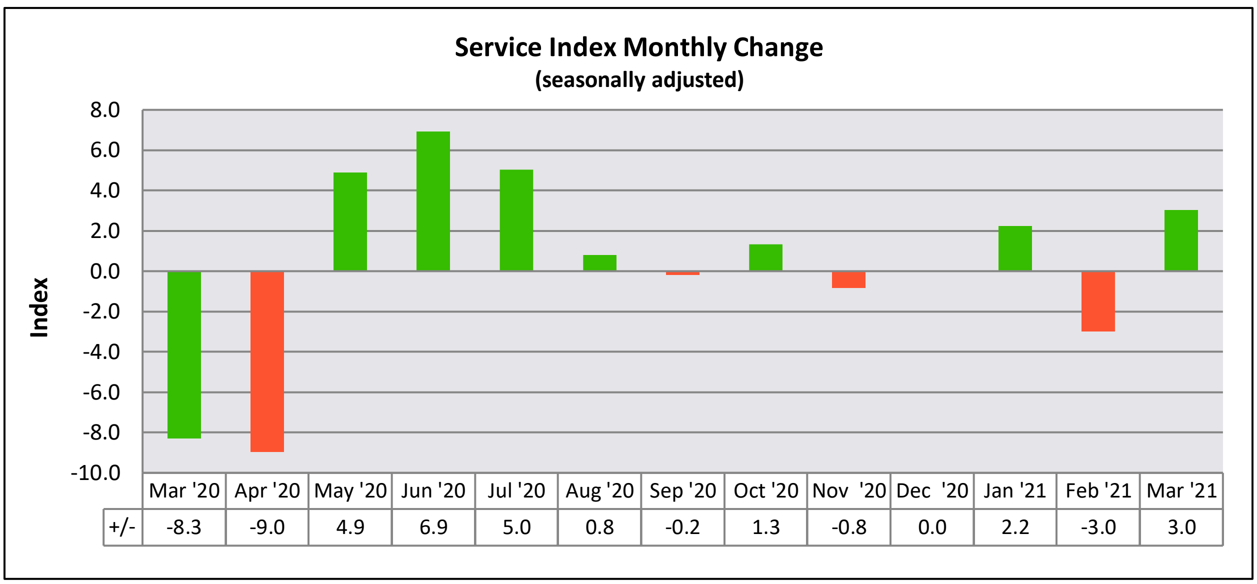
The service sector itself is broad, and the CMI reflects more heavily retail than some of the other service areas such as hospitality, entertainment or the restaurant trade. Retailers and other services less affected by pandemic shutdowns are the catalyst for the sector's improvement of late. "When one looks at the distribution of responses to the CMI, it is obvious that there are differences in terms of recovery," Kuehl said.

The combined score improved three points from 56.4 to 59.4. The index of favorable factors reflects dramatic improvement as it went from 62.9 to 68.3. The index of unfavorable factors made some strides as well, moving from 52 to 53.5. "The sense is that retailers are still seeing consumer spending focused on goods and have been able to move on from the lockdowns more quickly," Kuehl added.

Sales readings returned to numbers registered in January, going from 68.6 to 75.1. New credit applications data performed outdid manufacturing slightly as it went from 64.1 to 65.6. "Retainers are starting to prepare for a better spending year ahead," Kuehl said. "This is the time of year retailers gear up for summer." Dollar collections improved nearly nine points to 63.4 and is just shy of January's 64.9. Amount of credit extended nearly increased five points to 69. "March marks the third month in a row with all the readings in the 60s and 70s," Kuehl pointed out.

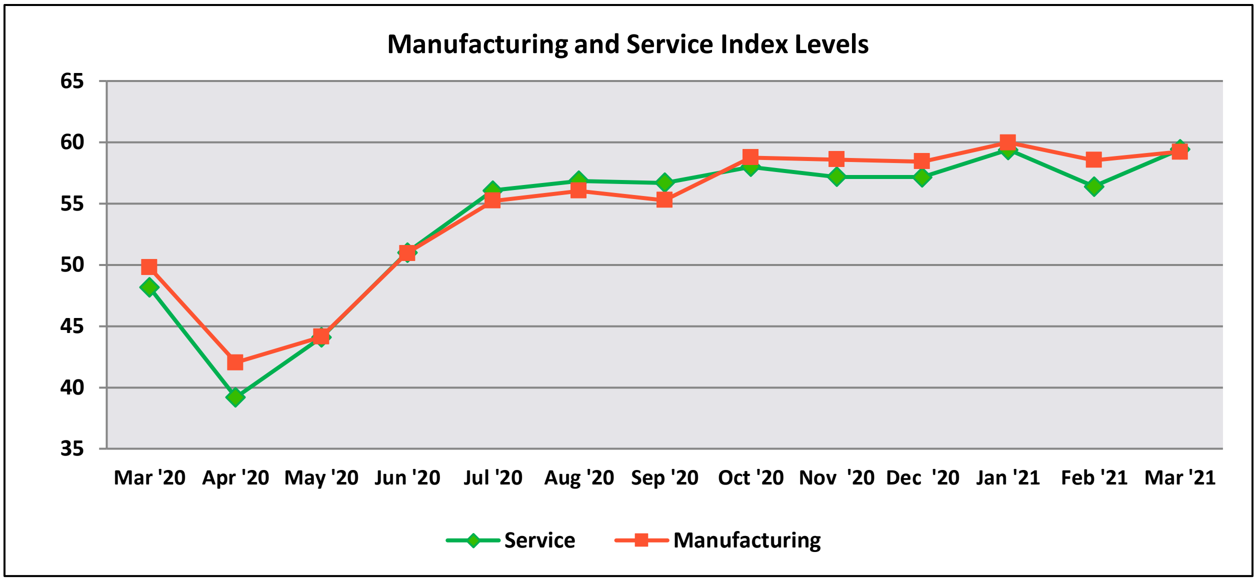
Data in the unfavorable categories fared better than expected as well. "Rejections of credit applications remained in expansion zone by the narrowest of margins," Kuehl said. Accounts placed for collection moved deeper into expansion territory to 54. Disputes improved slightly to 50.9. With a nearly six-point gain to 56.7, dollar amount beyond terms made the most significant improvement. "This is significant given the current stage of retail," Kuehl said. "It is clear enough that retailers are seeking to get their credit in good order as they contemplate the need to start acquiring inventory for the coming season." Dollar amount of customer deductions stayed at 53.5, and filings for bankruptcies improved from 54.6 to 55.8. "As with manufacturing, this marks the fourth month in a row for all these readings to be in the expansion zone, and several are more comfortably in that category than they had been," Kuehl said.

Service Sector (seasonally adjusted)	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21
Sales	38.7	18.6	29.7	50.4	62.4	64.3	65.9	73.1	63.1	69.3	75.1	68.6	75.1
New credit applications	43.0	26.5	43.5	58.4	60.5	66.3	66.4	68.4	65.4	58.7	66.9	64.1	65.6
Dollar collections	45.1	36.1	45.8	55.4	63.9	61.0	62.6	64.3	62.9	59.7	64.9	54.6	63.4
Amount of credit extended	52.4	38.1	42.7	55.1	57.7	63.6	61.3	66.6	67.0	63.9	68.7	64.4	69.0
Index of favorable factors	**44.8**	**29.8**	**40.4**	**54.8**	**61.1**	**63.8**	**64.1**	**68.1**	**64.6**	**62.9**	**68.9**	**62.9**	**68.3**
Rejections of credit applications	52.5	52.6	50.6	50.1	50.2	50.6	51.5	50.0	50.4	51.2	52.2	51.8	50.2
Accounts placed for collection	49.7	44.8	47.9	46.4	52.2	52.3	49.4	47.7	49.4	51.8	51.8	51.2	54.0
Disputes	52.8	50.9	51.3	51.7	51.9	51.8	49.3	50.5	51.4	51.7	51.3	50.2	50.9
Dollar amount beyond terms	43.5	26.6	33.0	44.9	60.9	58.5	57.0	57.7	57.4	60.6	58.8	50.8	56.7
Dollar amount of customer deductions	49.5	48.7	51.2	51.2	52.7	52.5	52.4	51.5	52.4	52.4	51.5	53.5	53.5
Filings for bankruptcies	54.3	49.3	45.3	46.5	48.3	47.6	50.9	50.3	52.4	52.2	52.6	54.6	55.8
Index of unfavorable factors	**50.4**	**45.5**	**46.5**	**48.5**	**52.7**	**52.2**	**51.8**	**51.3**	**52.2**	**53.3**	**53.0**	**52.0**	**53.5**
NACM Service CMI	**48.1**	**39.2**	**44.1**	**51.0**	**56.1**	**56.9**	**56.7**	**58.0**	**57.2**	**57.1**	**59.4**	**56.4**	**59.4**



March 2021 versus March 2020

Data show that the damage inflicted by last year's shutdowns and reactions seem to have faded. The recovery in the service sector is due more to the retail concentration in the CMI data than to reductions in lockdown activity as there are still many sectors that are affected.



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.

Source: National Association of Credit Management

Contacts: Michael Miller, 410-740-5560
Andrew Michaels, 410-740-5560

Website: www.nacm.org
Twitter: NACM_National