



Report for February 2020

Issued February 28, 2020

National Association of Credit Management

Combined Sectors

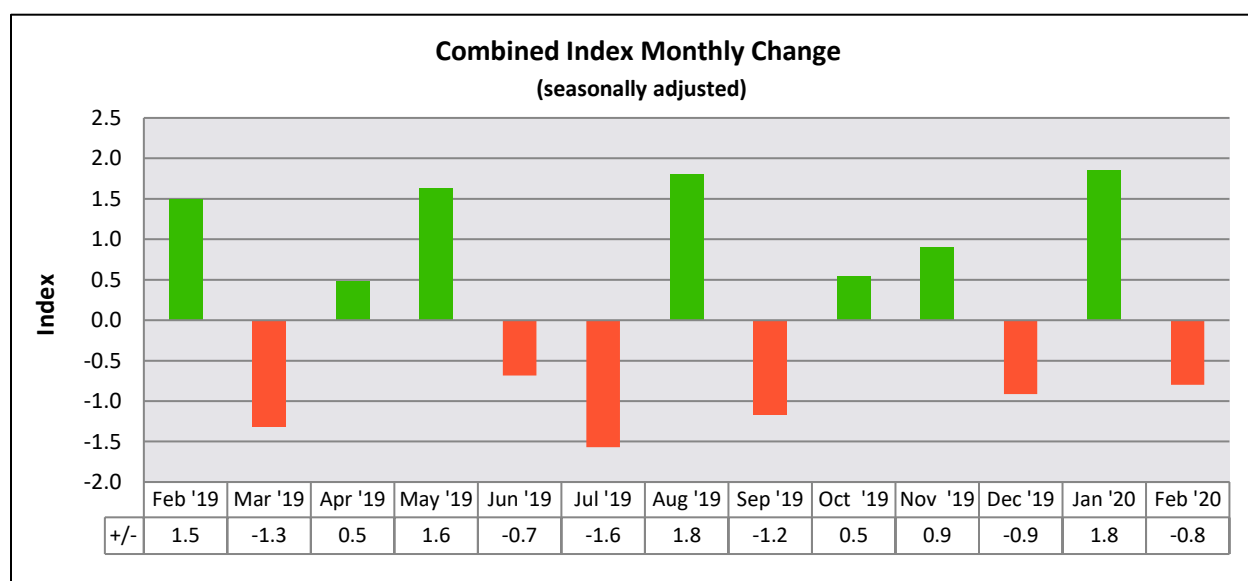
NACM Economist Chris Kuehl, Ph.D., commented that at the start of 2020, there were essentially two schools of thought as far as the progress of the year's economy. The more optimistic looked at the situation at the start of the year and noted there were some very positive indicators—low levels of unemployment, a robust stock market, a loose money position by the Fed, high rates of consumer confidence and so on. The GDP numbers came in better than expected. The pessimists noted there were headwinds to be wary of—trade fights, political instability, reduced levels of business investment and continued distress in the manufacturing sector. “It looked like a balance of opinions, but now there is the threat from the coronavirus (COVID-19) and its impact on China and global supply chains,” he said. “Is the Credit Managers' Index lending support to either position at this point? The growth shown last month faltered a bit, but the data still remains strong, so it may be too early to draw many conclusions.”

The combined CMI score remained very close to what it had been in January—slipping from 56.4 to 56.2, both months higher than any in the past two years. The index of favorable factors remained exactly where it was the month before at 62.2, but there was a very slight decline in the unfavorable factors (52.6 to 52.2). “The bottom line is there has been very little change despite the factors that might have affected the business community,” Kuehl said. “This is not to say that next month will not show reaction to all the global angst over the spread of the virus, but it is not showing up yet.”

The sales numbers actually improved to 64 from 63 and now sit near the high point reached in August of last year. The new credit applications reading was also higher than it has been since June. Last month, it stood at 61.1 and is now at 62.2. The dollar collections number fell fairly dramatically, however. That will be a development to keep an eye on. It was sitting at 61.7, but has declined to 58.8. This is not a drastic decline as the reading remains higher than in December, but this is the fifth-lowest point reached in the last 12 months. “This seems to signal that more companies are starting to guard their cash flow,” Kuehl said. The amount of credit extended improved a little from 62.9 to 63.6. He continued, “If it were not for the fall in dollar collections, the entire favorable category would have improved.”

The rejections of credit applications improved by a significant degree—moving from 52 to 53.8, good news given the increase in applications for credit. The accounts placed for collection stayed the same as the month before at 50.6—in the expansion zone (a reading above 50). The disputes category declined a little but is still in expansion. Last month, the reading was 52.4 and this month it is 50.3. The dollar amount beyond terms also slipped a bit but still stayed comfortably in the expansion category going from 54.2 to 53.5—similar to the high reached in August. The dollar amount of customer deductions fell as well, but stayed in expansion territory (52.5 to 51.5). There was a similar slight decline in filings for bankruptcies as it went from 54.4 to 53.5. “The important takeaway is that even with the declines noted, all of the categories are in the expansion zone for the third month in a row,” Kuehl explained.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20
Sales	62.6	58.2	61.0	65.9	60.4	58.4	64.4	58.7	57.9	61.6	58.8	63.0	64.0
New credit applications	58.9	57.8	59.7	64.2	62.4	60.8	60.9	59.7	59.0	61.2	59.4	61.1	62.2
Dollar collections	59.1	56.6	59.1	59.8	60.3	56.6	60.0	58.5	62.1	59.2	57.9	61.7	58.8
Amount of credit extended	62.3	63.5	60.6	65.4	62.5	58.7	61.7	59.7	61.6	64.3	61.1	62.9	63.6
Index of favorable factors	60.7	59.0	60.1	63.8	61.4	58.6	61.8	59.1	60.1	61.6	59.3	62.2	62.2
Rejections of credit applications	52.1	51.2	52.0	51.8	52.4	52.6	52.1	51.4	52.1	51.3	52.0	52.0	53.8
Accounts placed for collection	49.0	46.4	48.5	47.0	50.0	46.2	48.6	48.4	49.1	49.8	50.3	50.6	50.6
Disputes	48.5	49.5	48.5	48.6	48.6	50.5	49.4	50.0	48.1	50.3	50.8	52.4	50.3
Dollar amount beyond terms	51.3	50.0	47.6	51.3	49.8	46.1	53.6	50.2	52.0	52.6	51.0	54.2	53.5
Dollar amount of customer deductions	50.0	48.8	49.7	49.3	50.0	51.2	50.0	52.1	50.9	51.4	51.3	52.2	51.5
Filings for bankruptcies	54.9	53.7	53.9	53.3	53.5	53.2	51.6	52.1	53.4	53.5	53.4	54.4	53.3
Index of unfavorable factors	51.0	49.9	50.0	50.2	50.7	50.0	50.9	50.7	50.9	51.5	51.5	52.6	52.2
NACM Combined CMI	54.9	53.6	54.0	55.7	55.0	53.4	55.2	54.1	54.6	55.5	54.6	56.4	56.2



Manufacturing Sector

As for the manufacturing sector, Kuehl noted there has been a real slump over the last several months—at least according to some of the measures. The industrial production numbers have been down and there was a slide in the level of capacity utilization. For five months in a row, the Purchasing Managers’ Index (PMI) was in contraction territory. That slide in the PMI ended last month. There have been a few other suggestions that manufacturing has started to make a bit of a comeback. That is also showing up in the CMI as the decline has been very slight.

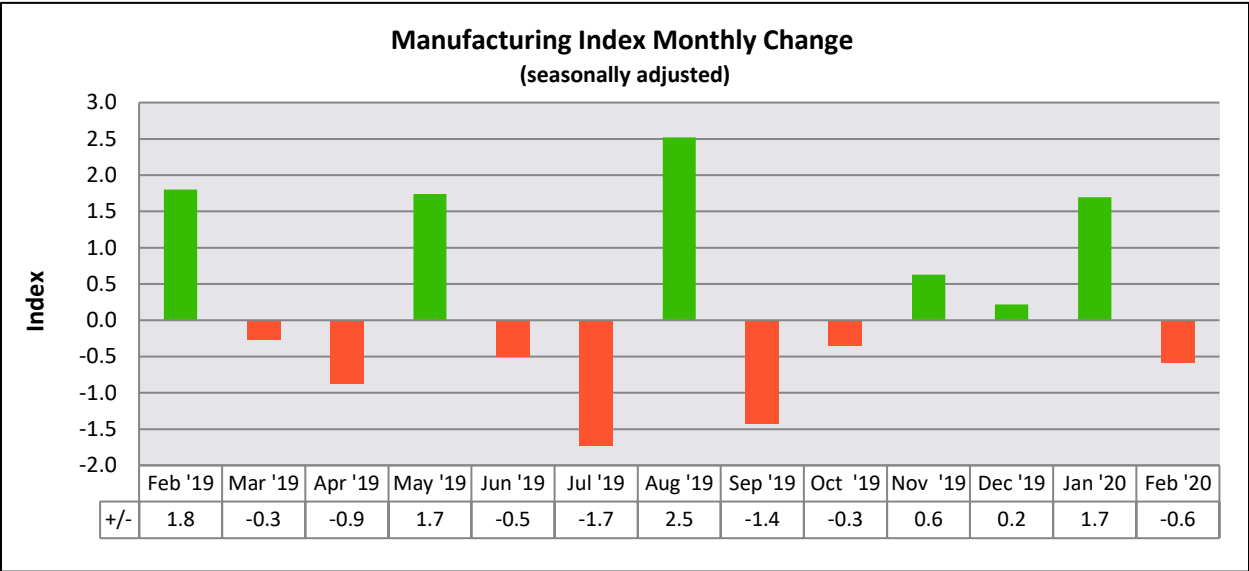
The combined reading moved down a bit from 56.5, but at 55.9, the reading remains one of the highest in the past year. The combined favorable index stayed right where it was—at 62 for the second month in a row. The combined index for the unfavorable factors slipped a bit from 52.7 to 51.8, but remains in the expansion zone and higher than it was in November of last year. “Manufacturing most definitely has been facing some serious headwinds, but

there are still sectors that remain relatively healthy,” Kuehl explained. “The slump has been pronounced in sectors connected to the aerospace industry as well as the agricultural sector, but automotive has been holding more or less steady. The worry now is that interruptions in the Chinese supply chain will have a negative impact.”

Sales improved over last month and the current reading is as high as it has been in a year—even exceeding the 65.3 set in August. It is now at 65.7 after reaching 63.8 in January. The new credit applications data also improved to 61.4 compared to 60.2 the month prior. “The dollar collection numbers fell quite a bit (62.9 to 58.3). That is a concern going forward, but is still high and on a par with the numbers seen at the end of last year,” Kuehl said. The amount of credit extended improved from a reading of 61.3 to 62.8, which indicates continued substantial requests for credit.

The rejections of credit applications data improved from 52.5 to 53, a good sign when coupled with the increase in applications and the amount of credit extended. Kuehl noted it indicates that those looking for credit are creditworthy and not searching frantically for someone to offer it to them. The accounts placed for collection slipped very slightly, but essentially remained right where it was last month, and in the expansion zone (from 51.8 to 51.4). The disputes number slipped quite a bit, which might suggest companies are getting somewhat concerned about their cash flow and credit position. It was at 52.5 and has now fallen into contraction territory with a reading of 48.9. The dollar amount beyond terms stayed almost exactly where it had been and is still in expansion with a reading of 54.2 compared to 54.3 in January. The dollar amount of customer deductions also fell back into contraction with a 49.8 report after last month’s 51.1. This is still fairly close to expansion, but certainly trending in the wrong direction. The filings for bankruptcies number declined a little but remained firmly in expansion territory with a reading of 53.3 compared to 54.2 previously.

Manufacturing Sector (seasonally adjusted)	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20
Sales	61.7	58.4	58.6	63.3	58.5	57.6	65.3	57.9	56.7	60.7	57.9	63.8	65.7
New credit applications	58.6	61.2	59.8	63.9	62.5	60.0	60.1	59.5	59.2	59.8	61.2	60.2	61.4
Dollar collections	60.5	57.8	58.6	60.5	59.2	54.7	59.6	58.7	58.7	56.8	57.5	62.9	58.3
Amount of credit extended	59.2	63.9	58.5	64.6	61.3	54.7	61.4	59.2	61.6	61.6	59.1	61.3	62.8
Index of favorable factors	60.0	60.3	58.9	63.1	60.4	56.7	61.6	58.8	59.1	59.7	58.9	62.0	62.0
Rejections of credit applications	53.5	53.2	53.1	52.5	53.8	53.4	53.0	51.9	52.1	51.6	53.0	52.5	53.0
Accounts placed for collection	50.5	46.8	49.3	49.0	53.5	46.7	50.6	49.7	49.3	49.4	51.1	51.8	51.4
Disputes	48.7	50.2	47.7	48.2	48.3	51.0	50.3	50.6	46.7	49.6	51.0	52.5	48.9
Dollar amount beyond terms	52.8	51.0	48.5	51.8	50.2	48.0	55.9	52.1	52.0	52.1	52.4	54.3	54.2
Dollar amount of customer deductions	49.3	48.4	49.5	48.4	49.8	52.7	49.3	51.1	51.1	50.8	52.6	51.1	49.8
Filings for bankruptcies	53.3	54.6	53.3	52.0	52.0	53.0	51.4	52.0	51.7	53.0	51.8	54.2	53.3
Index of unfavorable factors	51.4	50.7	50.2	50.3	51.3	50.8	51.7	51.2	50.5	51.1	52.0	52.7	51.8
NACM Manufacturing CMI	54.8	54.6	53.7	55.4	54.9	53.2	55.7	54.3	53.9	54.5	54.8	56.5	55.9



Service Sector

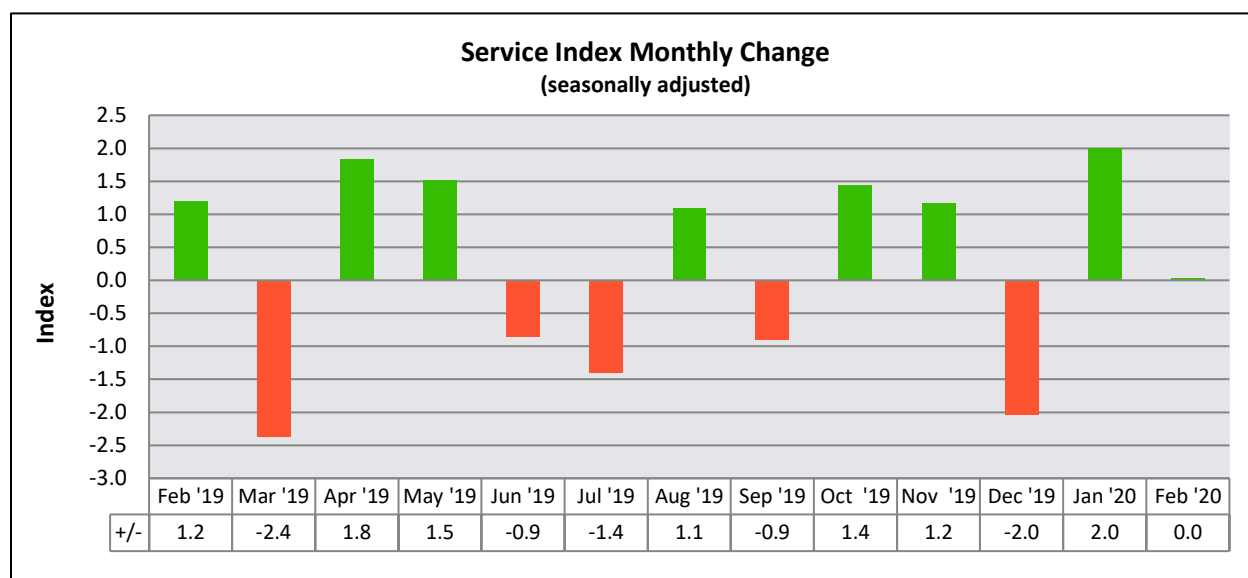
According to Kuehl, in contrast to the shifting activity in the manufacturing arena, the service sector has been calmer. The big retail season has come and gone and there is not a lot that will be driving services until later in the spring when there will be more action in retail, construction and the travel and entertainment sectors. The threat from COVID-19 may well be felt here first as there will be an impact on everything from consumer goods supply to reluctant travelers and people seeking to avoid crowds. This has not started manifesting as yet.

Sales remained very close to last month’s levels with a reading of 62.3 compared to 62.2 in January. The important factor is that this category remains in the 60s. The new credit applications number showed improvement as it went from 62 to 63.1. There was a drop in dollar collections, as there was in the manufacturing sector, but it was not quite as dramatic as it went from 60.5 to 59.3. The amount of credit extended remained exactly where it had been with another reading of 64.5—just slightly off the pace set in November of last year when it hit 66.9.

The rejections of credit applications improved quite a bit. This comes at the same time that there was a hike in applications. The new number is 54.6 after January’s 51.5. Kuehl noted that this is especially good news as there is often a slump in the retail community right after the holidays. It has not really manifested this time around. The accounts placed for collection number was very close to last month’s reading, but was up slightly at 49.8 as compared to 49.3. The important factor at this point is that these readings remain in contraction territory. The disputes reading slipped from 52.3 to 51.7, but stayed in expansion. “There is evidence that service sector business is looking to protect cash positions as well,” he said. The dollar amount beyond terms numbers fell slightly as well—from 54.2 to 52.8. He added that, again, the important part is these readings are still firmly in expansion territory. “The desire to protect cash has not caused too many companies to delay their response to their creditors.” The dollar amount of customer deductions remained almost exactly where it had been with a reading of 53.2 compared to 53.3 in January. The data for the filings for bankruptcies category slipped a bit from 54.6 to 53.4, but the reading remains firmly in the expansion zone and is not causing much concern.

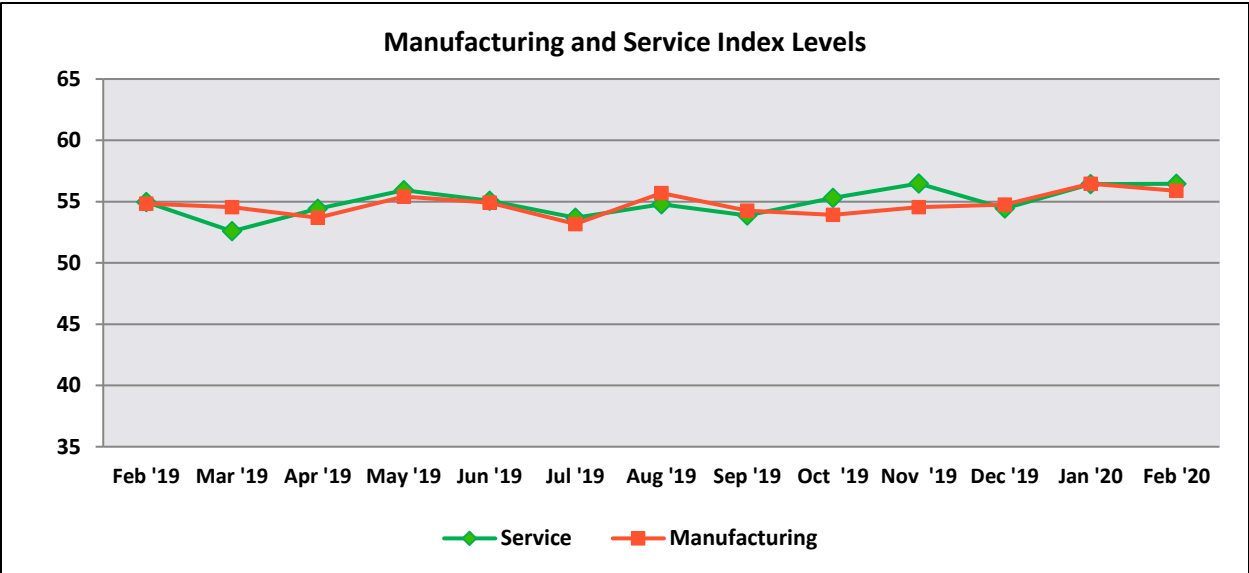
“Services will likely see a spring rebound in the next month or two, but there will be many keeping a close watch on the COVID-19 virus to see what effect it has on consumer behavior,” Kuehl acknowledged.

Service Sector (seasonally adjusted)	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20
Sales	63.5	58.0	63.4	68.5	62.3	59.3	63.4	59.6	59.1	62.5	59.7	62.2	62.3
New credit applications	59.2	54.3	59.6	64.6	62.4	61.6	61.7	59.8	58.7	62.6	57.6	62.0	63.1
Dollar collections	57.7	55.5	59.6	59.1	61.4	58.4	60.4	58.2	65.5	61.7	58.3	60.5	59.3
Amount of credit extended	65.5	63.2	62.7	66.3	63.7	62.6	62.1	60.2	61.6	66.9	63.0	64.5	64.5
Index of favorable factors	61.5	57.7	61.3	64.6	62.4	60.5	61.9	59.4	61.2	63.4	59.7	62.3	62.3
Rejections of credit applications	50.8	49.1	50.8	51.2	51.0	51.9	51.2	50.9	52.0	51.0	50.9	51.5	54.6
Accounts placed for collection	47.5	46.0	47.7	45.1	46.6	45.7	46.7	47.1	48.8	50.1	49.5	49.3	49.8
Disputes	48.3	48.9	49.4	49.0	48.8	50.0	48.5	49.4	49.4	50.9	50.6	52.3	51.7
Dollar amount beyond terms	49.8	49.0	46.7	50.9	49.3	44.2	51.2	48.3	52.1	53.1	49.7	54.2	52.8
Dollar amount of customer deductions	50.6	49.1	49.8	50.1	50.3	49.7	50.6	53.1	50.7	52	50.0	53.3	53.2
Filings for bankruptcies	56.5	52.7	54.6	54.5	55.0	53.4	51.9	52.1	55.1	54.0	54.9	54.6	53.4
Index of unfavorable factors	50.6	49.1	49.8	50.1	50.2	49.1	50.0	50.1	51.4	51.8	50.9	52.5	52.6
NACM Service CMI	55.0	52.6	54.4	55.9	55.1	53.7	54.8	53.9	55.3	56.5	54.4	56.4	56.5



February 2020 versus February 2019

“There was not much variation between last month and this despite the various headwinds that had been predicted,” Kuehl concluded. “The service sector is always slow this time of year and, thus far, manufacturing is holding steady enough with all eyes on the impact of the virus outbreak.”



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.*



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