**Report for January 2021**

**Issued January 31, 2021**
**National Association of Credit Management**

## Combined Sectors

The January Credit Manager's Index's combined score reached 59.7—a high not seen since March 2006. Is this a bellwether of things to come? NACM Economist Chris Kuehl, Ph.D., thinks so. Unlike the Great Recession of 2008-09, the pandemic-driven recession went down dramatically and bounced back dramatically, creating a V-shape recovery versus the former's U-shaped recovery, Kuehl explained.

At the start of the pandemic, the CMI combined score plummeted from 56.2 in February to 49 in March and then spiraled further to 40.6 in April—the lowest it has been since the start of the pandemic, but still slightly better than the 39.7 reached in Jan. 2009.

Government assistance played a bigger role last year than it is now, but it certainly remains a factor in the recent recovery. Confidence is strengthening as we go into the second and third quarters, increasing credit managers' willingness to extend credit, Kuehl noted.

Scores for both sectors have reached expansion. "Everything is now above 50," Kuehl said. "The numbers signify confidence in growth." Select sectors have seen some very solid rebound, and Kuehl points out the data conceal the fact that booming areas are obscuring the continued deterioration in others.

The previous high combined reading since the onset of the pandemic occurred in October, when it registered 58.4. While the impact of the pandemic has not lessened since the start of the crisis, this amplifies the theme we will be seeing throughout the data.

"Credit managers do not dwell long on the past and tend to look toward the future," Kuehl said. "The expectations for the U.S. economy as a whole have been improving with the vaccine roll out and the assumption that many of the restrictive protocols may start to lift in spring and summer."

The index of favorable factors also rose to levels not seen since October. The reading now stands at 69.7, a number not seen in years. The index of unfavorable factors also saw a gain and now stands at 53—just shy of where it stood in November.

Some of the sub-category readings were quite impressive. Sales reached an unparalleled high of 75.9. In April, this number was a mere 20, a truly remarkable turnaround. The new credit applications reading also saw a significant jump from 64.4 to 67.8. Dollar collections data also showed strong gains as it went from 62.8 to 66, month on month. Finally, amount of credit extended grew from 65.3 to 69.2.

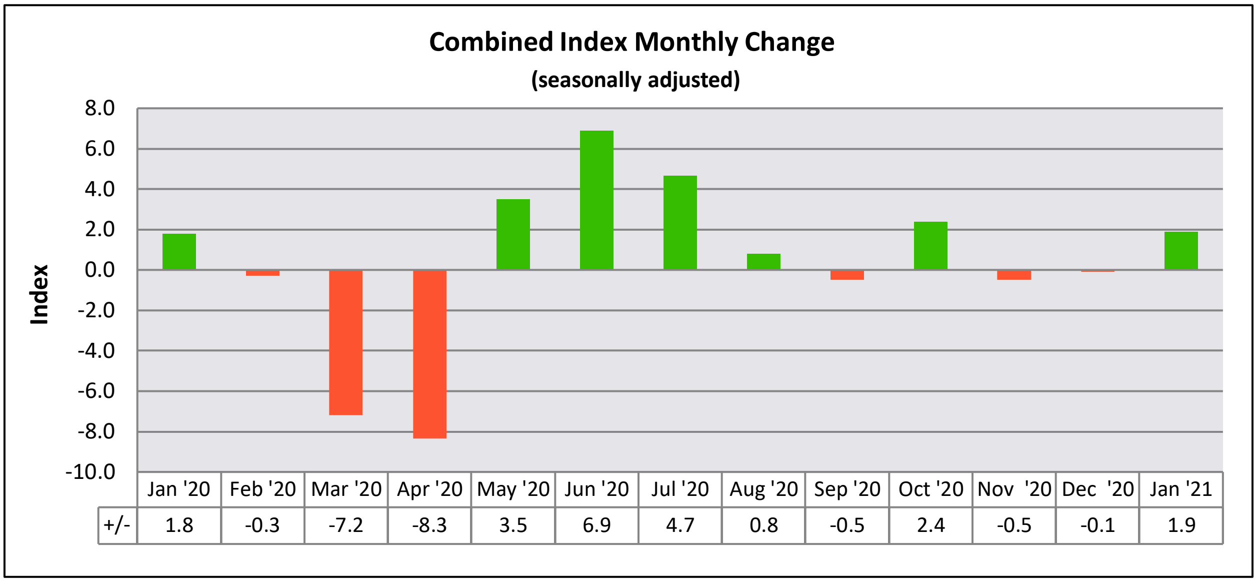
These are all very strong readings, stronger than has been seen in years, Kuehl said. “Confidence in a very robust recovery by the middle of this year appears to be the impetus. Many businesses are likely preparing for a wave of pent-up consumer demand and they want to be ready.”

The numbers for the unfavorable factors are solid, but not quite as spectacular. This suggests considerable damage in many sectors. It will take a while for companies in these areas to recover even with the growth that many see on the horizon. With all the new applications for credit, it is good to see the rejections of credit applications number improve even slightly from 51.3 to 51.6. The sense is that most of the applications are coming from companies that are in good financial shape, Kuehl noted. “Although, there is also some indication that companies have more risk tolerance than has been the case in the past.”

Accounts placed for collection data also improved from 51.6 to 52.9. However, disputes slipped closer to contraction with a reading of 50.9 from 51.2 in December. Dollar amount beyond terms strengthened from 57 to 58.9. “That remains a very strong number and far better than was the case just a few months ago,” Kuehl said. The dollar amount of customer deductions saw slight improvement, going from 51.3 to 51.5. Filings for bankruptcies also remained somewhat stable at 52.3 as compared to 52.5.

“Overall, these unfavorable readings are solid—all of them in the expansion zone for the third month in a row,” Kuehl said. “Obviously, these are not the numbers seen in the favorable categories, and some sectors are certainly still in very deep trouble. Overall, however, the economic conclusion is that most industries are surviving and some are even thriving.”

| **Combined Manufacturing and Service Sectors (seasonally adjusted)** | **Jan ‘20** | **Feb ‘20** | **Mar ‘20** | **Apr ‘20** | **May ‘20** | **Jun ‘20** | **Jul ‘20** | **Aug ‘20** | **Sep ‘20** | **Oct ‘20** | **Nov ‘20** | **Dec ‘20** | **Jan ‘21** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 63.0 | 64.0 | 39.5 | 20.0 | 28.6 | 54.1 | 64.3 | 65.8 | 65.5 | 74.2 | 66.5 | 70.2 | 75.9 |
| New credit applications | 61.1 | 62.2 | 44.0 | 31.1 | 43.3 | 57.9 | 62.4 | 63.4 | 63.6 | 65.2 | 63.9 | 64.4 | 67.8 |
| Dollar collections | 61.7 | 58.8 | 49.3 | 35.5 | 43.2 | 53.9 | 62.5 | 61.2 | 63.3 | 64.6 | 62.6 | 62.8 | 66.0 |
| Amount of credit extended | 62.9 | 63.6 | 53.2 | 41.6 | 42.8 | 55.2 | 57.3 | 61.3 | 60.8 | 68.0 | 64.8 | 65.3 | 69.2 |
| **Index of favorable factors** | **62.2** | **62.2** | **46.5** | **32.0** | **39.5** | **55.3** | **61.6** | **62.9** | **63.3** | **68.0** | **64.4** | **65.7** | **69.7** |
| Rejections of credit applications | 52.0 | 53.8 | 53.5 | 52.7 | 51.9 | 49.8 | 50.0 | 51.5 | 51.6 | 51.4 | 51.5 | 51.3 | 51.6 |
| Accounts placed for collection | 50.6 | 50.6 | 50.6 | 47.4 | 49.1 | 46.7 | 50.8 | 51.6 | 49.4 | 49.5 | 56.2 | 51.6 | 52.9 |
| Disputes | 52.4 | 50.3 | 52.1 | 50.8 | 51.5 | 49.6 | 50.7 | 51.8 | 48.7 | 51.0 | 50.6 | 51.2 | 50.9 |
| Dollar amount beyond terms | 54.2 | 53.5 | 43.9 | 27.6 | 32.4 | 44.4 | 57.3 | 58.2 | 54.6 | 58.0 | 58.1 | 57.0 | 58.9 |
| Dollar amount of customer deductions | 52.2 | 51.5 | 50.4 | 49.4 | 50.9 | 50.6 | 52.4 | 52.2 | 51.1 | 51.0 | 51.7 | 51.5 | 51.3 |
| Filings for bankruptcies | 54.4 | 53.3 | 53.2 | 50.2 | 47.3 | 47.7 | 48.8 | 47.7 | 51.3 | 50.7 | 53.0 | 52.5 | 52.3 |
| **Index of unfavorable factors** | **52.6** | **52.2** | **50.6** | **46.3** | **47.2** | **48.1** | **51.7** | **52.2** | **51.1** | **51.9** | **53.5** | **52.5** | **53.0** |
| **NACM Combined CMI** | **56.4** | **56.2** | **49.0** | **40.6** | **44.1** | **51.0** | **55.6** | **56.5** | **56.0** | **58.4** | **57.9** | **57.8** | **59.7** |




## Manufacturing Sector

Two dominant sectors are powering through the pandemic crisis—construction and manufacturing. Construction has been propelled by the surge of interest in single-family homes and the fact that people have been seeking an escape from crowded urban environments. The growth of the manufacturing sector has been a bit more complex. Consumers have been cut off from buying services as they once did. Instead, they have largely substituted buying things instead of vacations, restaurant outings and other entertainment. Severe supply chain issues have also altered expectations and allowed some domestic companies to perform better than expected.

The manufacturing combined score rocketed to an even 60 after a reading of 58.4 the previous month—a level not seen for many years. The index of favorable factors also surged as it went to 70.5 compared to 68.5 in December. What makes this even more remarkable is the fact this reading was 34.3 in April. In comparison, improvement in the index of unfavorable factors was not quite dramatic as it went from 51.7 to 52.9. “There is a real split between those companies that are doing very well and those that got crushed by the downturn,” Kuehl said. “That is likely to manifest for a long while.”

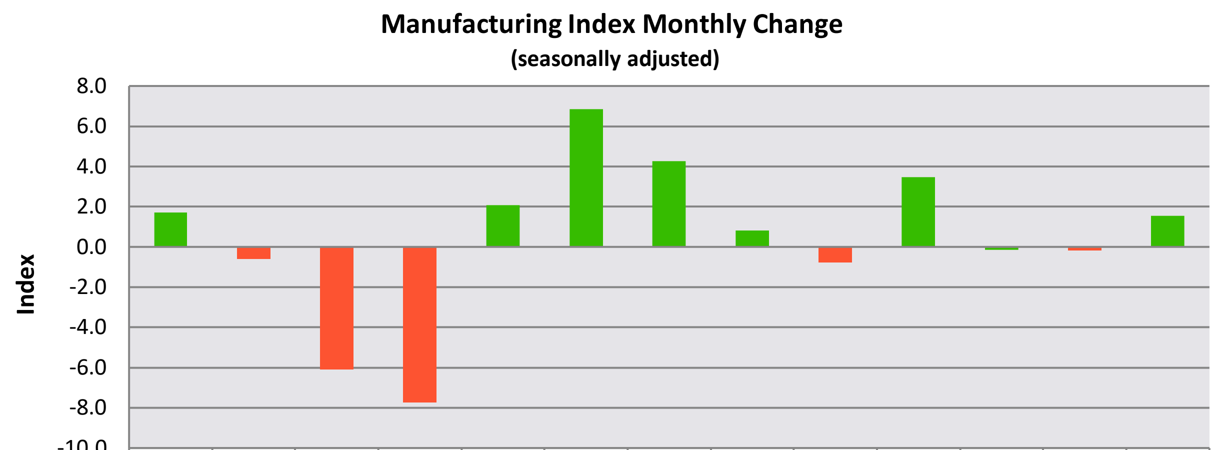
The numbers in the favorable categories are nothing short of astonishing. Sales jumped to 76.7 from 71.1 even higher than October’s high of 75.3. In April, that number collapsed all the way to 21.4. New credit applications data slipped a little month on month with a reading of 68.6 compared to 70.2. The number remains robust, however. Dollar collections improved from 65.9 to 67.1, a promising sign given all this new activity. The amount of credit extended went from 66.8 to 69.7, another solid indicator that much of the credit is going to those asking for most of it.

The unfavorable data is not bad, but it certainly reflects that not every manufacturing sector has seen a banner year. Rejections of credit applications slipped a bit, which is something of a concern given the increase in new requests for credit. It is not a major slip and is still in the expansion zone as it went from 51.3 to 50.9. Accounts placed for collection improved, moving from 51.4 to 54.1. The number of companies in distress has not budged much. The disputes number remained close to what it had been the month prior with a reading of 50.5 compared to 50.7. Dollar amount beyond terms data showed a big improvement—53.5 to 59.1—and that has some future implications. “This suggests that companies are taking steps to get their credit in order in the event they need to access more in the months to come,” Kuehl said.

Dollar amount of customer deductions remained fairly stable as it went from 50.6 to 51. Filings for bankruptcies also mirrored the previous month closely as it fell slightly from 52.8 to 52.1.

“At this point, there is not much mystery as far as which sectors are performing better than others,” Kuehl said. “Automotive has been consistently strong, while aerospace has been consistently weak. Farm equipment has been better than expected and construction-related equipment has seen big gains, while oil and gas have been strained. Consumer goods and appliances have done well and so has medical equipment so long as it has been focused on the pandemic.”

| Manufacturing Sector (seasonally adjusted) | Jan '20 | Feb '20 | Mar '20 | Apr '20 | May '20 | Jun '20 | Jul '20 | Aug '20 | Sep '20 | Oct '20 | Nov '20 | Dec '20 | Jan '21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 63.8 | 65.7 | 40.3 | 21.4 | 27.5 | 57.8 | 66.3 | 67.2 | 65.1 | 75.3 | 69.9 | 71.1 | 76.7 |
| New credit applications | 60.2 | 61.4 | 45.0 | 35.7 | 43.2 | 57.5 | 64.4 | 60.4 | 60.8 | 62.0 | 62.4 | 70.2 | 68.6 |
| Dollar collections | 62.9 | 58.3 | 53.4 | 35.0 | 40.5 | 52.4 | 61.1 | 61.3 | 63.9 | 65.0 | 62.3 | 65.9 | 67.1 |
| Amount of credit extended | 61.3 | 62.8 | 54.0 | 45.1 | 43.0 | 55.4 | 56.8 | 58.9 | 60.3 | 69.4 | 62.6 | 66.8 | 69.7 |
| **Index of favorable factors** | **62.0** | **62.0** | **48.2** | **34.3** | **38.6** | **55.7** | **62.2** | **62.0** | **62.5** | **67.9** | **64.3** | **68.5** | **70.5** |
| Rejections of credit applications | 52.5 | 53.0 | 54.4 | 52.8 | 53.3 | 49.5 | 49.8 | 52.5 | 51.7 | 52.8 | 52.5 | 51.3 | 50.9 |
| Accounts placed for collection | 51.8 | 51.4 | 51.6 | 50.0 | 50.4 | 47.1 | 49.3 | 50.9 | 49.4 | 51.4 | 63.0 | 51.4 | 54.1 |
| Disputes | 52.5 | 48.9 | 51.4 | 50.6 | 51.6 | 47.4 | 49.6 | 51.7 | 48.1 | 51.6 | 49.8 | 50.7 | 50.5 |
| Dollar amount beyond terms | 54.3 | 54.2 | 44.3 | 28.6 | 31.9 | 44.0 | 53.7 | 57.8 | 52.3 | 58.4 | 58.9 | 53.5 | 59.1 |
| Dollar amount of customer deductions | 51.1 | 49.8 | 51.3 | 50.1 | 50.5 | 49.9 | 52.0 | 51.9 | 49.8 | 50.5 | 51.0 | 50.6 | 51.0 |
| Filings for bankruptcies | 54.2 | 53.3 | 52.0 | 51.1 | 49.3 | 48.8 | 49.4 | 47.9 | 51.6 | 51.2 | 53.7 | 52.8 | 52.1 |
| **Index of unfavorable factors** | **52.7** | **51.8** | **50.8** | **47.2** | **47.8** | **47.8** | **50.6** | **52.1** | **50.5** | **52.6** | **54.8** | **51.7** | **52.9** |
| **NACM Manufacturing CMI** | **56.5** | **55.9** | **49.8** | **42.0** | **44.1** | **51.0** | **55.2** | **56.0** | **55.3** | **58.8** | **58.6** | **58.4** | **60.0** |




| | Jan '20 | Feb '20 | Mar '20 | Apr '20 | May '20 | Jun '20 | Jul '20 | Aug '20 | Sep '20 | Oct '20 | Nov '20 | Dec '20 | Jan '21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| +/- | 1.7 | -0.6 | -6.1 | -7.7 | 2.1 | 6.8 | 4.3 | 0.8 | -0.8 | 3.5 | -0.2 | -0.2 | 1.6 |

## Service Sector

The service sector has borne the brunt of the recession thus far, a theme for 2021 as well. Consumers once spent as much as 65% of their disposable income on services. Shutdowns and other pandemic protocols made much of these services inaccessible. The higher the income category, the more that was spent on services with people in the upper 25% spending as much as 80% on services. Even with all these restrictions, some spots of progress within service sectors exist. Those are connected to medical, construction and even retail. It is important to remember that credit managers are basically dealing with the future, and there is an expectation that service activity will make a big comeback in the middle of the year if the vaccine is distributed as planned.

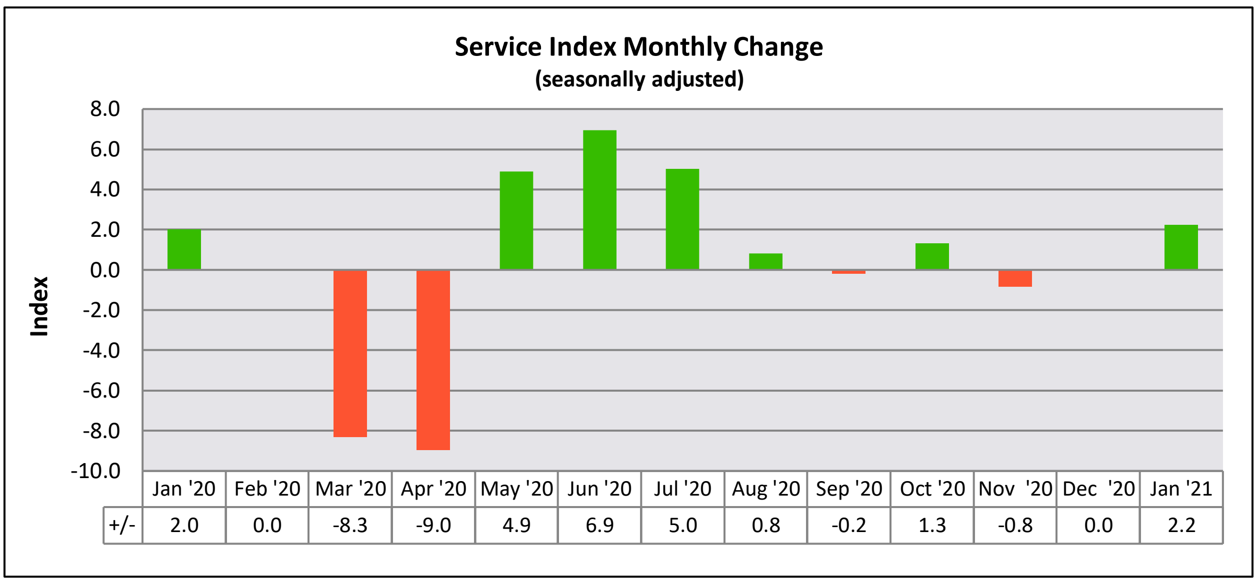
The service sector's combined score went from 57.1 to 59.4. The index of favorable factors improved from 62.9 to 68.9 despite ongoing pressure. The index of unfavorable factors slumped, telling its own story. Sectors that have seen some progress are propping up the index, but a great many businesses are still in deep trouble and will doubtlessly have issues throughout the year.

At 75.1, up from 69.3, the sales data is very solid and illustrates the confidence that many companies have in the recovery. New credit applications data shifted up dramatically as well—58.7 to 66.9—back to levels seen late last year. Dollar collections data also returned to the 60s with a reading of 64.9 as compared to 59.7 in December. Amount of credit extended moved from 63.9 to 68.7, meaning that all four of the favorable categories are now at least in the 60s.

More dramatic differences are seen in the unfavorable categories as one would expect. Rejections of credit applications stayed pretty stable at 52.2, up slightly from 51.2. Accounts placed for collection held at 51.8. "This is not bad as it is still in the expansion zone, but not by all that much," Kuehl said. "There are fears that more businesses will start to encounter collection action in the months ahead given the poor retail performance over the last few months. The latest retail data show that consumer demand has been down for three straight months." The disputes category also stayed stable with a reading of

51.3 compared to 51.7 last month. Dollar amount beyond terms slipped a little from 60.6 to 58.8, which comes as no surprise given the issues affecting the retail and service sectors in general. Dollar amount of customer deductions slipped a little as well from 52.4 to 51.5. And filings for bankruptcies stayed stable with a reading of 52.6 compared with 52.2 last month.

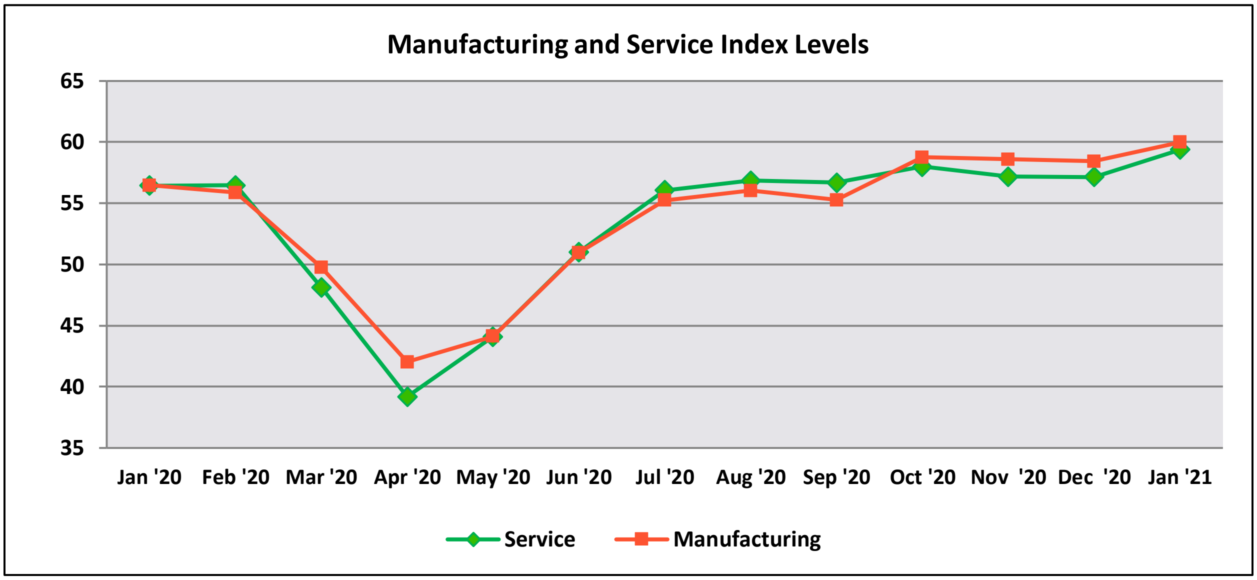
| Service Sector (seasonally adjusted) | Jan '20 | Feb '20 | Mar '20 | Apr '20 | May '20 | Jun '20 | Jul '20 | Aug '20 | Sep '20 | Oct '20 | Nov '20 | Dec '20 | Jan '21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 62.2 | 62.3 | 38.7 | 18.6 | 29.7 | 50.4 | 62.4 | 64.3 | 65.9 | 73.1 | 63.1 | 69.3 | 75.1 |
| New credit applications | 62.0 | 63.1 | 43.0 | 26.5 | 43.5 | 58.4 | 60.5 | 66.3 | 66.4 | 68.4 | 65.4 | 58.7 | 66.9 |
| Dollar collections | 60.5 | 59.3 | 45.1 | 36.1 | 45.8 | 55.4 | 63.9 | 61.0 | 62.6 | 64.3 | 62.9 | 59.7 | 64.9 |
| Amount of credit extended | 64.5 | 64.5 | 52.4 | 38.1 | 42.7 | 55.1 | 57.7 | 63.6 | 61.3 | 66.6 | 67.0 | 63.9 | 68.7 |
| **Index of favorable factors** | **62.3** | **62.3** | **44.8** | **29.8** | **40.4** | **54.8** | **61.1** | **63.8** | **64.1** | **68.1** | **64.6** | **62.9** | **68.9** |
| Rejections of credit applications | 51.5 | 54.6 | 52.5 | 52.6 | 50.6 | 50.1 | 50.2 | 50.6 | 51.5 | 50.0 | 50.4 | 51.2 | 52.2 |
| Accounts placed for collection | 49.3 | 49.8 | 49.7 | 44.8 | 47.9 | 46.4 | 52.2 | 52.3 | 49.4 | 47.7 | 49.4 | 51.8 | 51.8 |
| Disputes | 52.3 | 51.7 | 52.8 | 50.9 | 51.3 | 51.7 | 51.9 | 51.8 | 49.3 | 50.5 | 51.4 | 51.7 | 51.3 |
| Dollar amount beyond terms | 54.2 | 52.8 | 43.5 | 26.6 | 33.0 | 44.9 | 60.9 | 58.5 | 57.0 | 57.7 | 57.4 | 60.6 | 58.8 |
| Dollar amount of customer deductions | 53.3 | 53.2 | 49.5 | 48.7 | 51.2 | 51.2 | 52.7 | 52.5 | 52.4 | 51.5 | 52.4 | 52.4 | 51.5 |
| Filings for bankruptcies | 54.6 | 53.4 | 54.3 | 49.3 | 45.3 | 46.5 | 48.3 | 47.6 | 50.9 | 50.3 | 52.4 | 52.2 | 52.6 |
| **Index of unfavorable factors** | **52.5** | **52.6** | **50.4** | **45.5** | **46.5** | **48.5** | **52.7** | **52.2** | **51.8** | **51.3** | **52.2** | **53.3** | **53.0** |
| **NACM Service CMI** | **56.4** | **56.5** | **48.1** | **39.2** | **44.1** | **51.0** | **56.1** | **56.9** | **56.7** | **58.0** | **57.2** | **57.1** | **59.4** |




### January 2021 versus January 2020

The data show a real contrast between the past and future. The unfavorable readings are still showing some real weakness, although it must be noted that even these readings are above 50. The favorable factors are performing better as they are oriented toward the future and there are high expectations.

To note that a great deal of uncertainty remains as we enter 2021 would be an understatement. It is not just the second or third wave of the pandemic that has upset earlier assumptions of recovery. The U.S. presidential election and transition of power were perhaps the most chaotic and unpredictable in decades. It will be weeks and perhaps months before the dust settles, global events have been just as chaotic.




## 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:

Number of "higher" responses + ½ × number of "same" responses

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.*

**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.

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