



Report for July 2021

Issued July 30, 2021

National Association of Credit Management

Combined Sectors

The combined score for NACM's July Credit Managers' Index rebounded to 58.4 after two months of decline. However, this month's reading is still less than it was the month prior.

"This has been one crazy and unpredictable year, and it has come on top of an even crazier and unpredictable 2020," said NACM Economist Chris Kuehl, Ph.D.

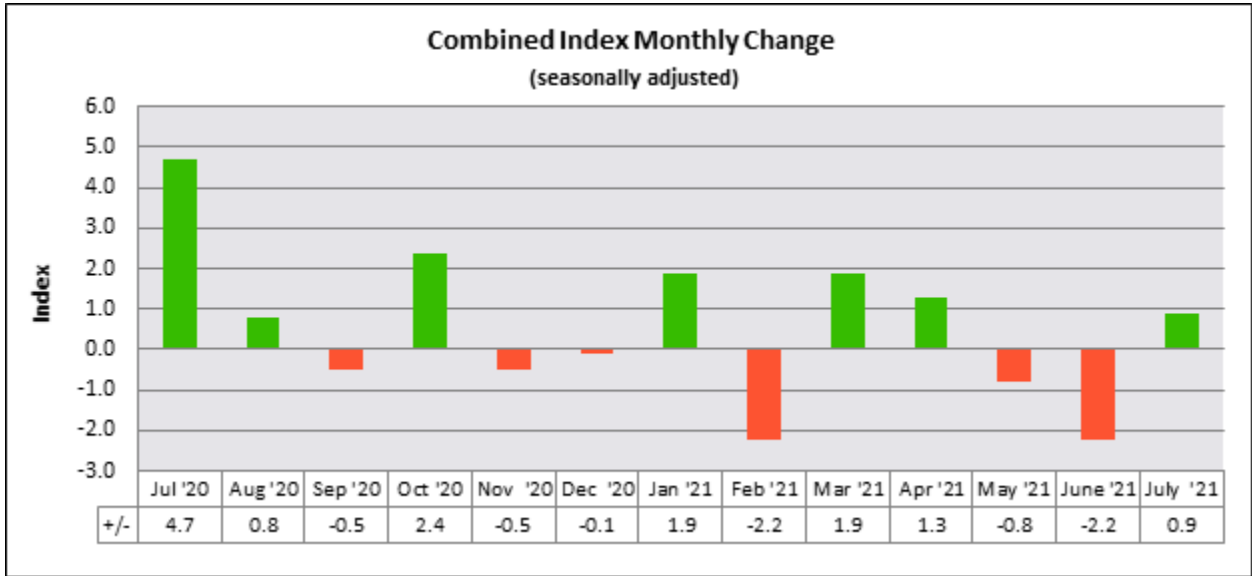
With a 2.2-point gain month on month, the combined index of favorable factors recovered some ground. Sales rose 5.6 points as new credit applications increased 6.7 points, reaching a new high for the CMI. Dollar collections data increased nearly three points to a reading of 63.8. However, amount of credit extended took a 6.3-point drop.

"Credit managers are being a bit more cautious," Kuehl said. "More businesses can fail during a recovery than a recession, which tends to make credit managers nervous."

The index of unfavorable factors remained stable at 52.7. Rejections of credit applications only slipped one-tenth of a point, while accounts placed for collection fell 1.2 points. Disputes entered the contraction zone with a 1-point drop as dollar amount beyond terms climbed out of the contraction zone with a 2.9-point gain. Dollar amount of customer deductions declined four-tenths of a point, and filings for bankruptcies, one-tenth of a point.

"Given the jump in credit applications, it is good news that the numbers of rejections remained stable," Kuehl said. "And the rise in disputes comes as no surprise. Last month it was noted that when there was an increase in slow pays, there is usually an increase in disputes as well and that seems to have been the case with this month's data."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21
Sales	64.3	65.8	65.5	74.2	66.5	70.2	75.9	69.9	73.9	74.7	73.2	67.7	73.3
New credit applications	62.4	63.4	63.6	65.2	63.9	64.4	67.8	65.5	63.9	65.9	64.6	63.1	69.8
Dollar collections	62.5	61.2	63.3	64.6	62.6	62.8	66.0	59.2	64.5	63.1	60.0	61.1	63.8
Amount of credit extended	57.3	61.3	60.8	68.0	64.8	65.3	69.2	66.8	68.4	69.0	69.0	67.4	61.1
Index of favorable factors	61.6	62.9	63.3	68.0	64.4	65.7	69.7	65.3	67.7	68.2	66.7	64.8	67.0
Rejections of credit applications	50.0	51.5	51.6	51.4	51.5	51.3	51.6	51.5	52.0	53.0	53.1	52.3	52.2
Accounts placed for collection	50.8	51.6	49.4	49.5	56.2	51.6	52.9	51.6	55.1	59.6	54.2	53.2	52.0
Disputes	50.7	51.8	48.7	51.0	50.6	51.2	50.9	51.0	50.6	51.3	53.7	50.4	49.4
Dollar amount beyond terms	57.3	58.2	54.6	58.0	58.1	57.0	58.9	52.0	57.0	59.4	57.1	49.5	52.4
Dollar amount of customer deductions	52.4	52.2	51.1	51.0	51.7	51.5	51.3	52.8	52.2	53.0	53.6	52.6	52.2
Filings for bankruptcies	48.8	47.7	51.3	50.7	53.0	52.5	52.3	54.5	55.7	57.1	59.3	58.3	58.2
Index of unfavorable factors	51.7	52.2	51.1	51.9	53.5	52.5	53.0	52.2	53.8	55.6	55.2	52.7	52.7
NACM Combined CMI	55.6	56.5	56.0	58.4	57.9	57.8	59.7	57.5	59.3	60.6	59.8	57.5	58.4



Manufacturing Sector

The manufacturing sector's combined score for July improved nine-tenths of a point to 58.1. Its favorable factors category increased 2.2 points to 66.6, while its index of unfavorable factors inched up one-tenth of a point to 52.5, month on month.

Sales jumped 6.5 points to 74.7 and new credit applications soared 11.9 points to 71.9, as dollar collections improved 3 points to 65.5, signaling a strong rebound. However, amount of credit extended took a bit hit with a 13-point drop.

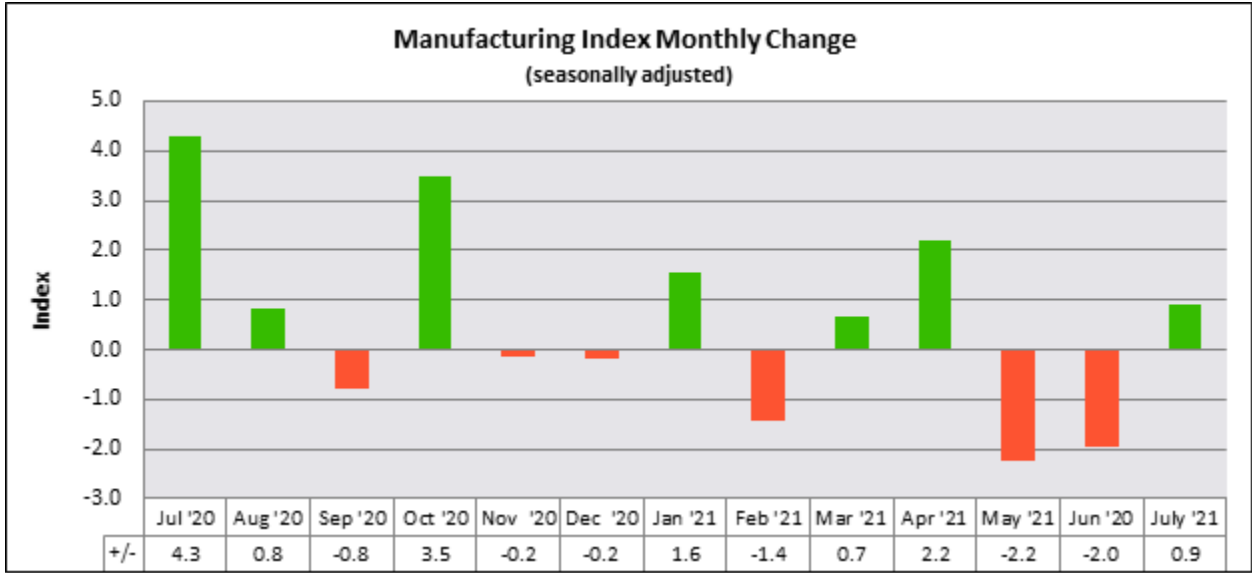
"While the jump in credit applications bodes very well for future activity, there remains some concern on whether there are too many requests for credit," Kuehl said. "There is some trepidation on the part of credit managers. Although there still seems to be a willingness to extend credit, it might not be in the amounts that have been requested."

Rejections of credit applications slipped three-tenths of a point to 53.7, and accounts placed for collection, 1.8 points to 51.6. Disputes fell further into the contraction zone with a 1.4-point drop to 47.3. But dollar amount beyond terms numbers returned to the expansion zone with a 5.7-point gain to 54.3. At 50.6 and a 1.8-point fall, dollar amount of customer deductions slipped dangerously close to contraction. However, filings for bankruptcies remained stable at 57.5.

"The manufacturing sector has been in more turmoil than would have been expected during such a dramatic growth period," Kuehl said. "The good news is that demand has been surging as consumers shake off the dust from last year, but the bad news is that this demand has overwhelmed the producers.

"This has led to shortages, bottlenecks and inflation, and these issues have been accelerated by the renewed fears regarding the pandemic," he added. "Manufacturers were already anticipating a slump of some kind as consumers returned to spending on services, but now shortages and collapsed supply chains are adding to the worry."

Manufacturing Sector (seasonally adjusted)	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21
Sales	66.3	67.2	65.1	75.3	69.9	71.1	76.7	71.1	72.7	75.6	71.3	68.2	74.7
New credit applications	64.4	60.4	60.8	62.0	62.4	70.2	68.6	66.9	62.3	65.4	64.4	60.0	71.9
Dollar collections	61.1	61.3	63.9	65.0	62.3	65.9	67.1	63.8	65.5	64.7	64.4	62.5	65.5
Amount of credit extended	56.8	58.9	60.3	69.4	62.6	66.8	69.7	69.1	67.8	68.9	68.2	67.3	54.3
Index of favorable factors	62.2	62.0	62.5	67.9	64.3	68.5	70.5	67.7	67.1	68.7	67.1	64.5	66.6
Rejections of credit applications	49.8	52.5	51.7	52.8	52.5	51.3	50.9	51.1	53.8	53.8	53.3	53.4	53.7
Accounts placed for collection	49.3	50.9	49.4	51.4	63.0	51.4	54.1	52.0	56.3	65.4	54.0	53.4	51.6
Disputes	49.6	51.7	48.1	51.6	49.8	50.7	50.5	51.8	50.4	49.6	51.2	48.7	47.3
Dollar amount beyond terms	53.7	57.8	52.3	58.4	58.9	53.5	59.1	53.3	57.2	61.3	55.2	48.5	54.3
Dollar amount of customer deductions	52.0	51.9	49.8	50.5	51.0	50.6	51.0	52.0	50.8	52.8	51.1	52.4	50.6
Filings for bankruptcies	49.4	47.9	51.6	51.2	53.7	52.8	52.1	54.4	55.6	56.7	58.8	57.8	57.5
Index of unfavorable factors	50.6	52.1	50.5	52.6	54.8	51.7	52.9	52.4	54.0	56.6	54.0	52.4	52.5
NACM Manufacturing CMI	55.2	56.0	55.3	58.8	58.6	58.4	60.0	58.5	59.2	61.4	59.2	57.2	58.1



Service Sector

The service sector's combined score in July moved up eight-tenths of a point to 58.7, month on month. Its index of favorable factors moved up 2.3 points to 67.4, and its unfavorable factors held at 53.0.

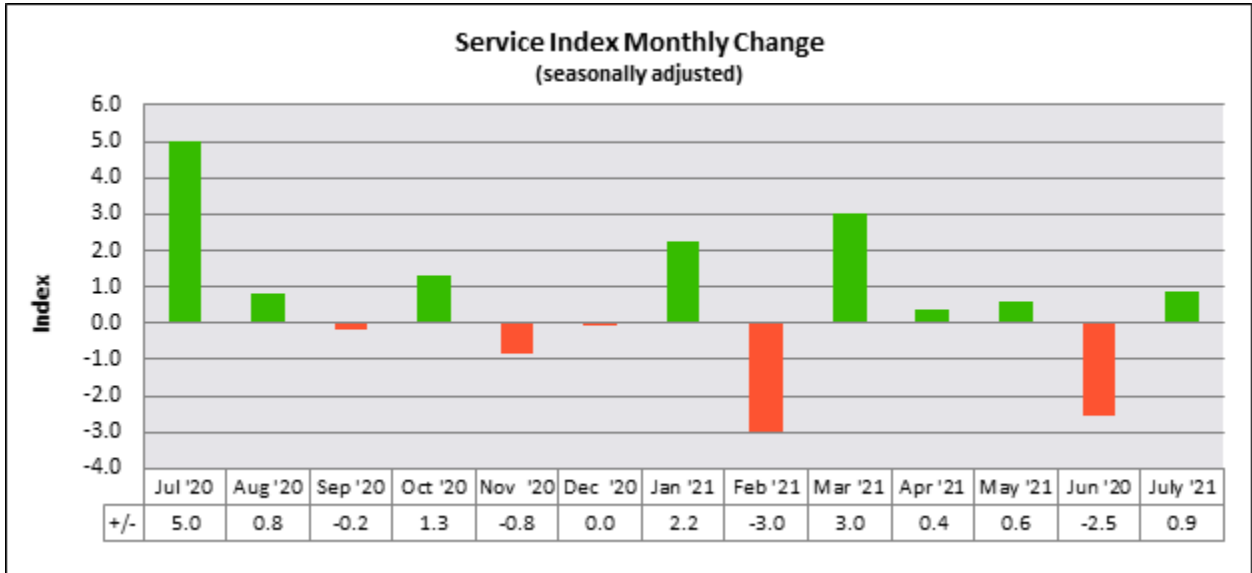
Sales jumped to 4.8 points to 71.9 as new credit applications improved slightly with 1.5-point gain to 67.6. Dollar collections increased by 2.4 points to 62.2. Amount of credit extended inched one-half of a point to 68.0.

Rejections of credit applications crept downward four-tenths of a point to 50.7, and accounts placed for collection, seven-tenths of a point to 52.3, and disputes, six-tenths of a point to 51.5. Dollar amount beyond terms held at 50.5.

Of the two unfavorable categories that saw improvement, dollar amount of customer deductions moved up one point to 53.7, and filings for bankruptcies, two-tenths of a point to 58.9.

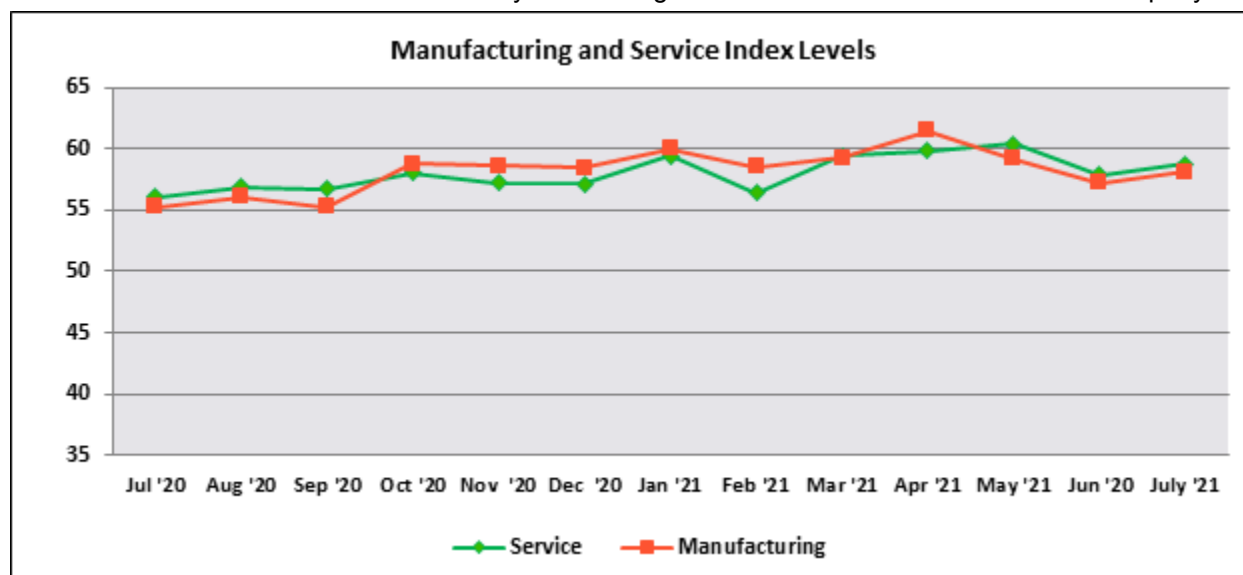
"This is in contrast to the manufacturing data where the amount of credit extended fell," Kuehl explained. "There seems to be anticipation of a better holiday season. If this sector continues to see the gains that have been on display so far this year, the end result will be a robust GDP. The more than 9.0% gain in the second-quarter GDP numbers were fueled predominantly by retail, hospitality, entertainment and other service activity. Now comes the holiday spending and travel season, and all eyes are on the mood of the consumer."

Service Sector (seasonally adjusted)	Jul '20	Aug '20	Sep '20	Oct '20	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21
Sales	62.4	64.3	65.9	73.1	63.1	69.3	75.1	68.6	75.1	73.7	75.2	67.1	71.9
New credit applications	60.5	66.3	66.4	68.4	65.4	58.7	66.9	64.1	65.6	66.4	64.9	66.1	67.6
Dollar collections	63.9	61.0	62.6	64.3	62.9	59.7	64.9	54.6	63.4	61.6	55.7	59.8	62.2
Amount of credit extended	57.7	63.6	61.3	66.6	67.0	63.9	68.7	64.4	69.0	69.1	69.8	67.5	68.0
Index of favorable factors	61.1	63.8	64.1	68.1	64.6	62.9	68.9	62.9	68.3	67.7	66.4	65.1	67.4
Rejections of credit applications	50.2	50.6	51.5	50.0	50.4	51.2	52.2	51.8	50.2	52.2	52.9	51.1	50.7
Accounts placed for collection	52.2	52.3	49.4	47.7	49.4	51.8	51.8	51.2	54.0	53.7	54.3	53.0	52.3
Disputes	51.9	51.8	49.3	50.5	51.4	51.7	51.3	50.2	50.9	53.0	56.2	52.1	51.5
Dollar amount beyond terms	60.9	58.5	57.0	57.7	57.4	60.6	58.8	50.8	56.7	57.5	58.9	50.5	50.5
Dollar amount of customer deductions	52.7	52.5	52.4	51.5	52.4	52.4	51.5	53.5	53.5	53.1	56.1	52.7	53.7
Filings for bankruptcies	48.3	47.6	50.9	50.3	52.4	52.2	52.6	54.6	55.8	57.6	59.9	58.7	58.9
Index of unfavorable factors	52.7	52.2	51.8	51.3	52.2	53.3	53.0	52.0	53.5	54.5	56.4	53.0	53.0
NACM Service CMI	56.1	56.9	56.7	58.0	57.2	57.1	59.4	56.4	59.4	59.8	60.4	57.9	58.7



July 2021 versus July 2020

The manufacturing sector was the more volatile of the two this month and that comes as a bit of a surprise. The factors that have contributed to that volatility are shortages and the threats of inflation that accompany them.



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:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \text{ number of "same" responses}}{\text{Total number of responses}}$$

For negative indicators, the calculation is:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \text{ number of "same" responses}}{\text{Total number of responses}}$$

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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