Report for November 2021

Issued November 30, 2021

National Association of Credit Management

Combined Sectors

The November combined score for the National Association of Credit Management's Credit Managers' Index is just shy of where it was a year ago. With a 0.6-point drop to 57.4—month on month—it is the lowest it has been in the past year. However, it is not far behind the scores for February, June or August 2021 or December 2020.

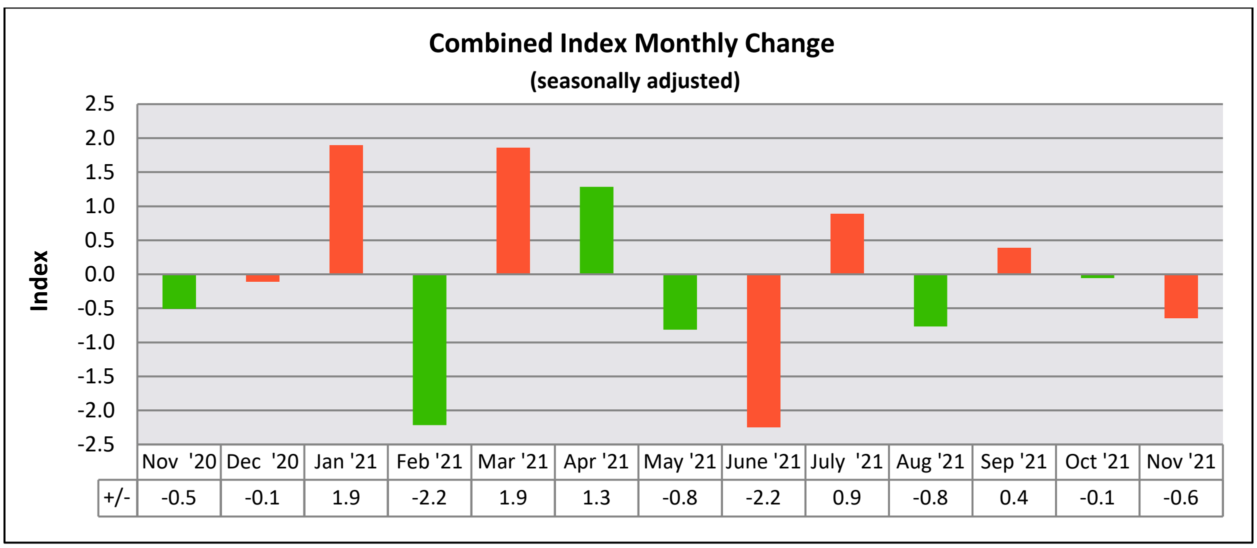
"The rebound of the global economy this year was as unprecedented as the pandemic itself," said NACM Economist Chris Kuehl, Ph.D. "The U.S. growth rate in the second quarter touched 9.5% before settling back to 6.5%. CMI data has reflected all of this turmoil. This month shows a slight reduction in activity, which still remains robust."

The combined index of favorable factors fell 1.3 points compared with October, but it remains higher than it was two months ago. Dollar collections took the biggest hit with a 3-point decline, followed by sales and amount of credit extended, 2.4 and 0.4 points, respectively. New credit applications was the only favorable category to edge up (0.8 points).

Overall, the index of unfavorable factors dropped for the second-consecutive month. The 0.2-point decrease took it to its lowest point this past year. A 1.8 drop brought dollar amount beyond terms back into contraction territory, while dollar amount of customer deductions fell further into the zone with a 1-point decline. Filings for bankruptcies fell (0.8 points) for the sixth-consecutive month. Rejections had a 1.1-point gain and accounts placed for collections improved by 0.6 points. Although disputes improved 0.5 points, it still remains in the contraction zone.

"As recently as September all the categories in the unfavorable index were in expansion territory, and now three have fallen into contraction territory," Kuehl said. "That has not been the case in over a year."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21	Aug '21	Sep '21	Oct '21	Nov '21
Sales	66.5	70.2	75.9	69.9	73.9	74.7	73.2	67.7	73.3	68.6	70.4	72.7	70.3
New credit applications	63.9	64.4	67.8	65.5	63.9	65.9	64.6	63.1	69.8	64.4	65.0	64.6	65.4
Dollar collections	62.6	62.8	66.0	59.2	64.5	63.1	60.0	61.1	63.8	62.8	61.1	63.4	60.4
Amount of credit extended	64.8	65.3	69.2	66.8	68.4	69.0	69.0	67.4	61.1	68.4	67.5	70.0	69.6
Index of favorable factors	**64.4**	**65.7**	**69.7**	**65.3**	**67.7**	**68.2**	**66.7**	**64.8**	**67.0**	**66.0**	**66.0**	**67.7**	**66.4**
Rejections of credit applications	51.5	51.3	51.6	51.5	52.0	53.0	53.1	52.3	52.2	52.2	52.1	52.1	53.2
Accounts placed for collection	56.2	51.6	52.9	51.6	55.1	59.6	54.2	53.2	52.0	51.7	51.7	51.5	52.1
Disputes	50.6	51.2	50.9	51.0	50.6	51.3	53.7	50.4	49.4	49.5	51.3	48.5	49.0
Dollar amount beyond terms	58.1	57.0	58.9	52.0	57.0	59.4	57.1	49.5	52.4	51.6	51.9	50.9	49.1
Dollar amount of customer deductions	51.7	51.5	51.3	52.8	52.2	53.0	53.6	52.6	52.2	50.1	52.3	49.5	48.5
Filings for bankruptcies	53.0	52.5	52.3	54.5	55.7	57.1	59.3	58.3	58.2	57.4	57.3	56.8	56.0
Index of unfavorable factors	**53.5**	**52.5**	**53.0**	**52.2**	**53.8**	**55.6**	**55.2**	**52.7**	**52.7**	**52.1**	**52.8**	**51.5**	**51.3**
NACM Combined CMI	**57.9**	**57.8**	**59.7**	**57.5**	**59.3**	**60.6**	**59.8**	**57.5**	**58.4**	**57.7**	**58.1**	**58.0**	**57.4**



Manufacturing Sector

The manufacturing sector's combined score fell to 56.9, the lowest reading registered in the last 12 months. Its favorable factors fell 0.4 points to 66.6, while unfavorable factors fell to its lowest in the last year with a reading of 50.4

"Manufacturers are struggling to keep pace with demand and were slammed hard by the supply-chain breakdowns," Kuehl said. "These shortages continue to affect what the coming year will look like."

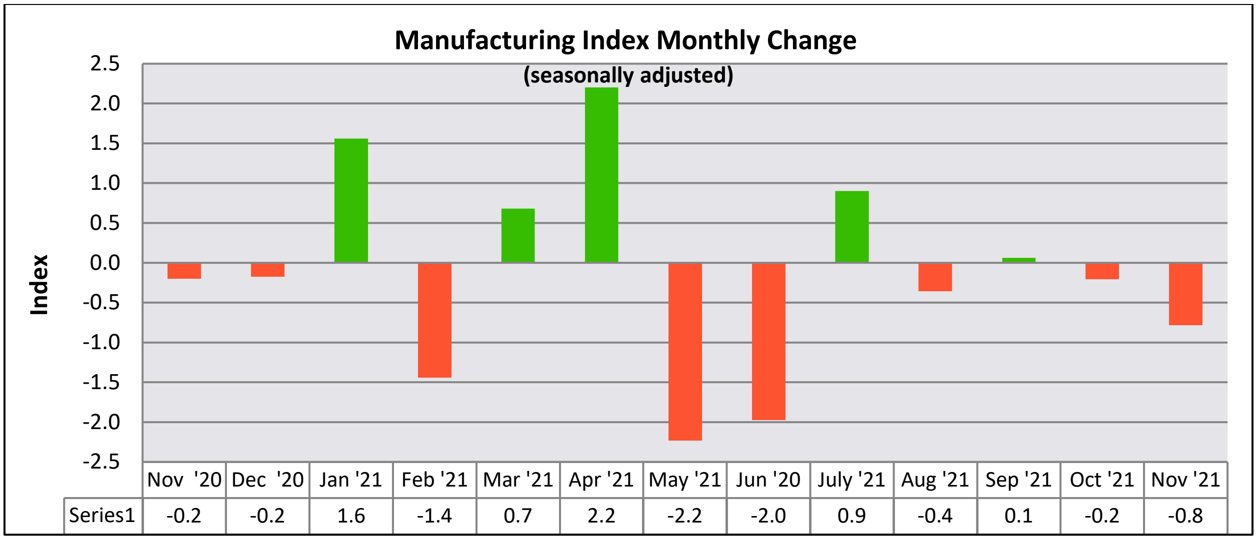
Sales saw a 0.5-point gain, and new credit applications improved 0.3 points. Dollar collections slipped 0.8 points, while amount of credit extended took the largest hit with a 1.6-point decline.

"The manufacturers have been reacting to the supply chain breakdown and the threat of future inflation with additional inventory purchases as a kind of hedge," Kuehl said. "That has resulted in a surge in demand for credit. Now they have to hope that future demand justifies these inventories."

Rejections of credit applications saw a 1.3-point gain while accounts placed for collection remained very close to levels in October, gaining only one-tenth of a point. The disputes category fell deeper into contraction with a 1.2-point drop, and dollar amount beyond terms fell 2.1 points, also into the contraction zone. Dollar amount of customer deductions dropped 3.2 points to 45.0, while filings for bankruptcies fell 0.9 points.

"Manufacturing has started to show strains from the combination of the supply-chain crisis, inflation, labor shortage and the erosion of some consumer demand," Kuehl said.

Manufacturing Sector (seasonally adjusted)	**Nov '20**	**Dec '20**	**Jan '21**	**Feb '21**	**Mar '21**	**Apr '21**	**May '21**	**June '21**	**July '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**
Sales	69.9	71.1	76.7	71.1	72.7	75.6	71.3	68.2	74.7	69.0	71.6	71.8	72.3
New credit applications	62.4	70.2	68.6	66.9	62.3	65.4	64.4	60.0	71.9	63.4	64.7	62.7	63.0
Dollar collections	62.3	65.9	67.1	63.8	65.5	64.7	64.4	62.5	65.5	65.0	60.4	63.5	62.7
Amount of credit extended	62.6	66.8	69.7	69.1	67.8	68.9	68.2	67.3	54.3	68.7	67.9	70.0	68.4
Index of favorable factors	**64.3**	**68.5**	**70.5**	**67.7**	**67.1**	**68.7**	**67.1**	**64.5**	**66.6**	**66.5**	**66.2**	**67.0**	**66.6**
Rejections of credit applications	52.5	51.3	50.9	51.1	53.8	53.8	53.3	53.4	53.7	53.1	52.4	52.0	53.3
Accounts placed for collection	63.0	51.4	54.1	52.0	56.3	65.4	54.0	53.4	51.6	53.1	54.5	53.7	53.8
Disputes	49.8	50.7	50.5	51.8	50.4	49.6	51.2	48.7	47.3	48.3	49.8	47.5	46.3
Dollar amount beyond terms	58.9	53.5	59.1	53.3	57.2	61.3	55.2	48.5	54.3	50.8	49.9	50.4	48.3
Dollar amount of customer deductions	51.0	50.6	51.0	52.0	50.8	52.8	51.1	52.4	50.6	50.0	50.6	48.2	45.0
Filings for bankruptcies	53.7	52.8	52.1	54.4	55.6	56.7	58.8	57.8	57.5	56.5	56.5	56.5	55.6
Index of unfavorable factors	**54.8**	**51.7**	**52.9**	**52.4**	**54.0**	**56.6**	**54.0**	**52.4**	**52.5**	**51.9**	**52.3**	**51.4**	**50.4**
NACM Manufacturing CMI	**58.6**	**58.4**	**60.0**	**58.5**	**59.2**	**61.4**	**59.2**	**57.2**	**58.1**	**57.8**	**57.8**	**57.6**	**56.9**



Service Sector

The service sector's combined score fell a half point to 57.9. Its favorable factors saw a 2.1-point drop to 66.3, while the index of unfavorable factors improved by a half point to 52.2.

"Over the last year the service sector has been the most volatile and for the most obvious of reasons," Kuehl said. "The entire travel and entertainment sector had been slammed by the lockdown recession, but then it experienced truly dramatic growth as consumers resumed old patterns."

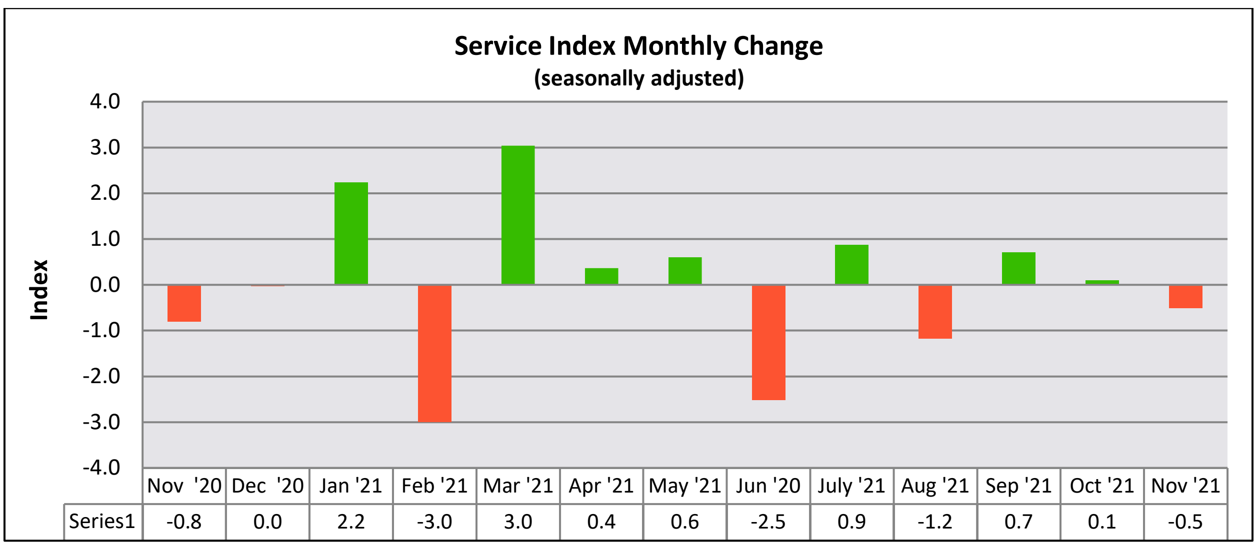
The sales data saw a 5.2-point drop to 68.4, a reading last seen in August. New credit applications improved 1.3 points. However, dollar collections data fell into the contraction zone with a reading of 58.1, levels not seen since May. Credit extended dropped 0.9-points.

"There is evidence of additional inventory accumulation due to the supply chain issues; but as the peak shipping season has come and gone, there is less pressure from the retailers," Kuehl noted.

Rejections of credit applications data improved 1 point and accounts placed for collection saw a 1.1-point gain. The disputes category jumped 2.2 points. However, dollar amount beyond terms saw a 1.5-point drop. The dollar amount of customer deductions improved 1.2 points, while filings for bankruptcies data slipped 0.6 points.

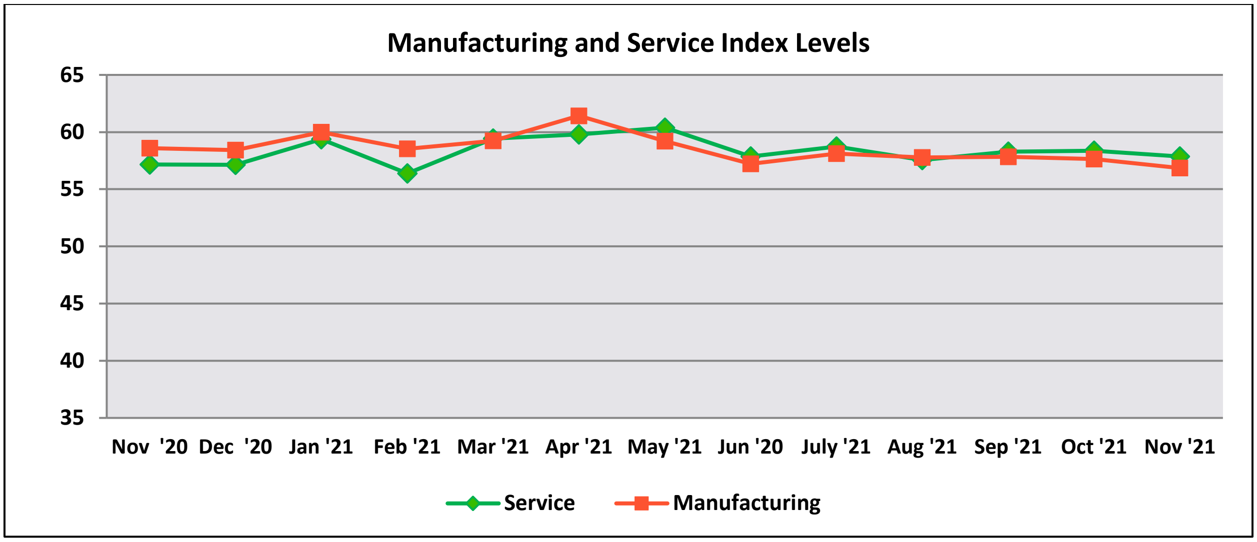
"The surge in service sector activity is primarily down to growth in the retail sector and a return to travel and entertainment," Kuehl said.

Service Sector (seasonally adjusted)	Nov '20	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21	Aug '21	Sep '21	Oct '21	Nov '21
Sales	63.1	69.3	75.1	68.6	75.1	73.7	75.2	67.1	71.9	68.1	69.3	73.6	68.4
New credit applications	65.4	58.7	66.9	64.1	65.6	66.4	64.9	66.1	67.6	65.3	65.2	66.6	67.9
Dollar collections	62.9	59.7	64.9	54.6	63.4	61.6	55.7	59.8	62.2	60.5	61.8	63.3	58.1
Amount of credit extended	67.0	63.9	68.7	64.4	69.0	69.1	69.8	67.5	68.0	68.1	67.1	70.0	70.9
Index of favorable factors	**64.6**	**62.9**	**68.9**	**62.9**	**68.3**	**67.7**	**66.4**	**65.1**	**67.4**	**65.5**	**65.8**	**68.4**	**66.3**
Rejections of credit applications	50.4	51.2	52.2	51.8	50.2	52.2	52.9	51.1	50.7	51.4	51.8	52.1	53.1
Accounts placed for collection	49.4	51.8	51.8	51.2	54.0	53.7	54.3	53.0	52.3	50.3	48.9	49.3	50.4
Disputes	51.4	51.7	51.3	50.2	50.9	53.0	56.2	52.1	51.5	50.7	52.8	49.4	51.6
Dollar amount beyond terms	57.4	60.6	58.8	50.8	56.7	57.5	58.9	50.5	50.5	52.5	53.8	51.4	49.9
Dollar amount of customer deductions	52.38	52.37	51.5	53.5	53.5	53.1	56.1	52.7	53.7	50.3	54.0	50.8	52.0
Filings for bankruptcies	52.4	52.2	52.6	54.6	55.8	57.6	59.9	58.7	58.9	58.4	58.1	57.2	56.5
Index of unfavorable factors	**52.2**	**53.3**	**53.0**	**52.0**	**53.5**	**54.5**	**56.4**	**53.0**	**53.0**	**52.3**	**53.2**	**51.7**	**52.2**
NACM Service CMI	**57.2**	**57.1**	**59.4**	**56.4**	**59.4**	**59.8**	**60.4**	**57.9**	**58.7**	**57.6**	**58.3**	**58.4**	**57.9**



November 2021 versus November 2020

There is more stress showing up in the manufacturing sector, and this is connected to the dual challenges of a broken supply chain and chronic labor shortage. The surge in inflation has been a more important recent factor as well.



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.

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