An Annual Outlook at CMI Trends

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The Credit Manager's Index (CMI) is created from a monthly survey of U.S. credit and collections professionals. As a startlingly accurate economic predictor, proving its worth most notably during the recession, the survey asks participants to rate different factors in their monthly business cycle. These factors include sales, new credit applications, accounts placed for collections, dollar amount beyond terms—are higher than, lower than or same as the previous month. These results reflect the entire cycle of commercial business transactions, providing an accurate, predictive benchmarking tool.

The index is between 0 and 50 and interprets values below 50 points to be in contraction, showing low performance behavior, while values above 50 shows improvement. Taking a snapshot of yearly trends from the CMI, NACM Economist Amy Crews Cutts, Ph.D., CBE said the CMI over 2023 bounced around the lowest levels outside of actual declared recessions in terms of the longtime series of the combined sectors index. "The CMI continues to show considerable weakness but without a deliberate trend other than bouncing around just above the contraction threshold," Cutts said. "The way things are behaving; I would say we are in a mild contraction even though the numbers are in expansion. We've been bouncing around just above 50 for the last 7 months."

Taking a deeper look at yearly CMI trends, a few factors are noteworthy:

Contractions in the manufacturing sector. The Manufacturing Sector CMI deteriorated 2.7 points in the January survey to a level of 50.8—its lowest reading since May 2020. However, the Service Sector CMI was unchanged from its December level, standing at 51.4. The path between the services and manufacturing sectors in the CMI were both running along mild levels until the third quarter of 2022 where the services index peaked in August 2022, while manufacturing peaked in the first quarter of 2022. "They've declined since then but manufacturing coasted down to the level its currently in and slowing down the CMI," said Cutts. "This means the manufacturing sector was expanding at slower rates. However, the service factor was doing fine and then fell immediately, now bouncing along the 51 level."

Accounts placed for collections. Another trend in the services sector shows accounts placed for collections being in contraction since April 2022. Respondents said more accounts are placed for collections than the prior month. Economically, this points to signs of many businesses being in financial trouble. "It's a metric that shows once businesses go past terms and creditors refer them to collections, they're coughing up the money. And that number in the service sector is sitting at around 55 but the number of accounts placed for collections is worrisome," explained Cutts. "It makes you look at why are companies not paying their bills on time. The dollar amount beyond terms only recently went into contraction territory May of 2023."

Disputes are rising. Dollar amount beyond terms saw the largest decline from December 2023 to January 2024, falling 4.6 points to 43.6, a new low for the post-pandemic period and the seventh consecutive month below the 50 threshold. And rejections of credit applications led with a rise of 1.6 points to 50.7, its first value in over the expansion threshold in five months. "When you see the dollar amount beyond terms and the dollar amount in collections rising, disputes rise as well," said Cutts. "But this most likely means the disputes are actually companies that aren't doing well and are trying to get their bills reduced."

Trends in sales. Sales in the service sector are still in positive on the expansion side, hovering around 55 since the third quarter of 2023. However, this 55 is coming from being in the 75 range prior. Cutts said survey respondents commented dollars of sales are rising, but units of sales are falling. Pricing increases are not boating well for profitability because as costs go up, companies must raise prices, therefore selling fewer units. "Manufacturing sales are even worse hovering around 50 but have the story of being in the 75 range until about 2 years ago," Cutts said. "Factors such as inflation kicked in and prices started going up. In economics we call it the *price elasticity*. When you raise the price, the number of units sold falls by more and so your revenue ends up going down."

The next CMI Survey opens March 11. Sign up to receive survey participation alerts.