Report for March 2023

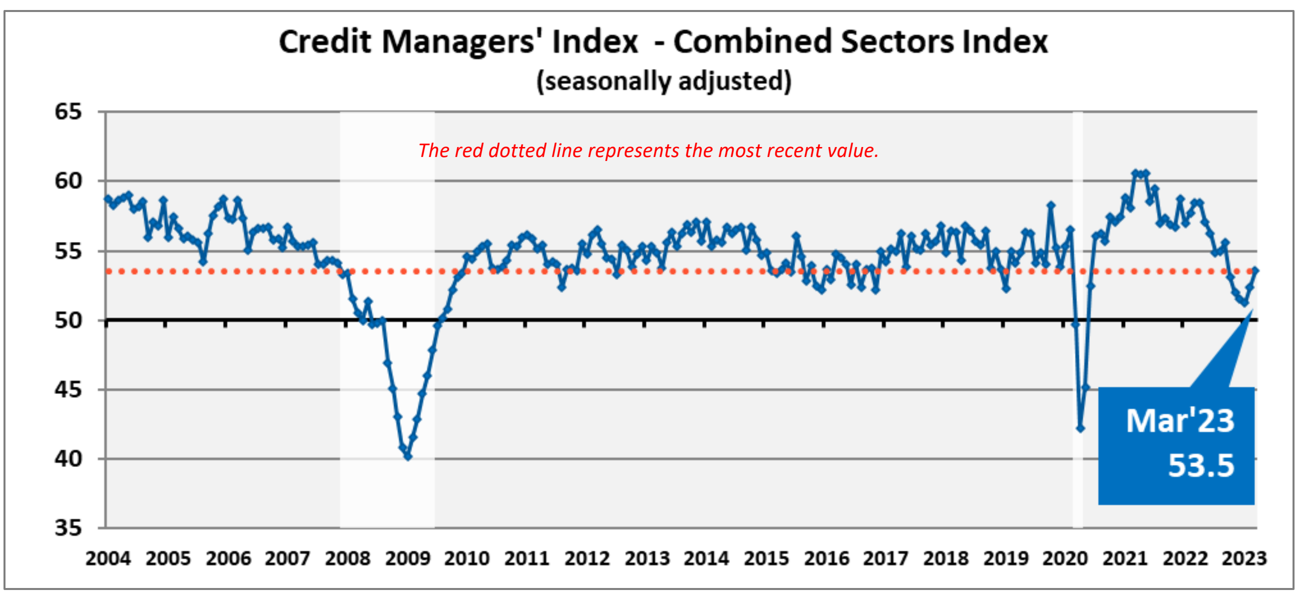
Issued March 31, 2023

National Association of Credit Management

Credit Managers' Index (CMI) Combined Sectors

The National Association of Credit Management's Credit Managers' Index (CMI) for March 2023 came in at 53.5 points, up 1.1 points from February and the best reading for the index since September. The main driver of the improvement came from unfavorable factors, which was led by a large improvement in dollar amounts beyond terms, filings for bankruptcies and the number of accounts being referred for collections. However, respondents in the CMI survey expressed a sense of slower payments and more distress among their smaller, weaker clients, with some noting the likelihood of higher bankruptcy rates and more merger activity this year, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"After the large movements we've been seeing in the CMI since December, it's refreshing to have a quieter month from a credit management perspective," Cutts said. "While there are still many concerns about the economy and questions about whether we will enter a recession earlier or later, the CMI is now indicating that the recession risk is fading for the near-term. In April we will see what, if any, effects the banking turmoil may have on the CMI and recession timing."



The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23
Sales	75.6	72.6	70.1	65.8	65.5	63.0	63.6	55.5	54.5	54.8	49.8	56.5	56.5
New credit applications	68.0	65.9	64.2	63.5	60.0	62.6	61.2	58.7	56.7	55.5	56.3	57.9	58.8
Dollar collections	66.3	64.6	64.2	60.5	60.3	58.0	63.4	54.9	56.2	57.8	57.3	59.8	59.7
Amount of credit extended	69.2	71.4	69.5	67.0	67.2	64.8	65.9	58.7	57.1	55.4	56.8	57.9	58.1
Index of favorable factors	**69.8**	**68.6**	**67.0**	**64.2**	**63.2**	**62.1**	**63.5**	**56.9**	**56.1**	**55.9**	**55.1**	**58.0**	**58.3**
Rejections of credit applications	51.6	51.2	50.5	50.4	51.0	49.5	52.1	52.0	51.1	51.0	50.5	50.4	50.6
Accounts placed for collection	50.9	50.3	50.7	49.6	47.3	49.5	49.3	47.6	46.5	46.2	45.0	45.3	46.4
Disputes	47.9	49.0	49.0	49.1	48.4	49.2	48.4	50.3	48.4	49.0	48.8	48.1	50.4
Dollar amount beyond terms	50.8	53.3	47.2	51.0	46.6	46.1	49.0	49.0	47.6	45.7	47.4	49.6	52.8
Dollar amount of customer deductions	49.0	50.7	48.6	50.4	49.2	49.4	49.4	51.3	49.3	49.3	50.2	48.5	50.4
Filings for bankruptcies	55.6	55.5	56.4	55.4	53.4	57.2	53.4	53.5	52.2	50.9	50.5	49.8	51.6
Index of unfavorable factors	**51.0**	**51.7**	**50.4**	**51.0**	**49.3**	**50.2**	**50.3**	**50.6**	**49.2**	**48.7**	**48.7**	**48.6**	**50.4**
NACM Combined CMI	**58.5**	**58.5**	**57.0**	**56.3**	**54.9**	**54.9**	**55.6**	**53.2**	**52.0**	**51.6**	**51.3**	**52.4**	**53.5**

CMI Combined Sectors Factor Indexes

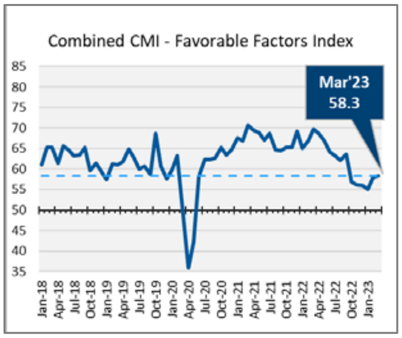
Key Findings:

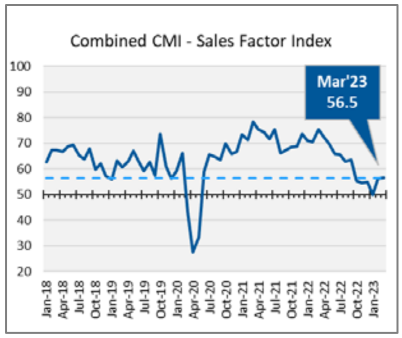
- The index for favorable factors is up 0.3 to 58.3, led by a 0.9-point improvement in the new credit applications factor index to 58.8 points. The remaining factors were little changed.
- The sales factor index stayed steady at 56.5 points this month, its highest reading since September 2022 when it was at 63.6 points.
- The index for unfavorable factors rose 1.8 points to 50.4, its first improving value since October 2022.
- All but one of the unfavorable factor indexes saw gains of at least 1.2 points this month; the index for rejections of new credit applications improved by just 0.2 points.
- All but one unfavorable factor moved from contraction to expansion territory in March. The accounts placed for collection factor improved by 1.1 but remains in contraction territory at 46.4.

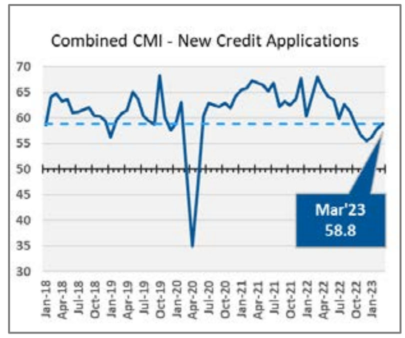
"Although I don't think the CMI survey respondents were thinking about bank failures when they wrote about bankruptcies, the failure of Silicon Valley Bank (SVB) this month is notable due to its size and commercial accounts concentration," Cutts said. "Normally, when a bank is insolvent, regulators will seize the bank assets and depositors will get made whole only up to $250,000 per account type. Had they followed this playbook with SVB holding fast to the FDIC limits, they would have caused the instant failure of thousands of firms that would have been unable to make payroll or meet other obligations. Between extending the insurance to cover all depositors and a special program that allows banks to maintain liquidity without realizing losses on their capital reserves, the crisis seems to have been quelled."

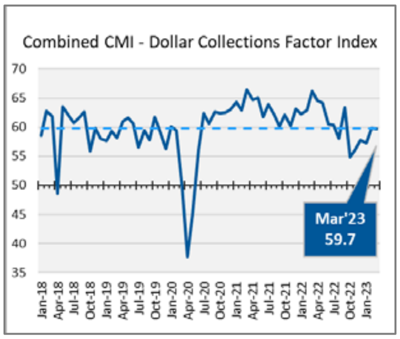
CMI Combined Sectors Factor Indexes Charts

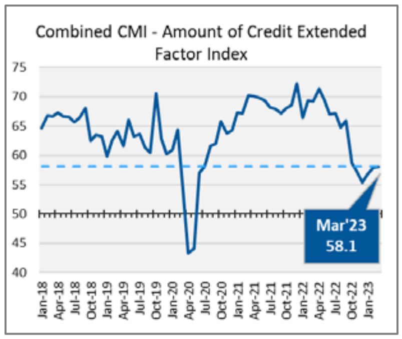
All charts contain seasonally adjusted data. Please note that the vertical axes are not scaled identically, and the dotted line represents the most recent value.

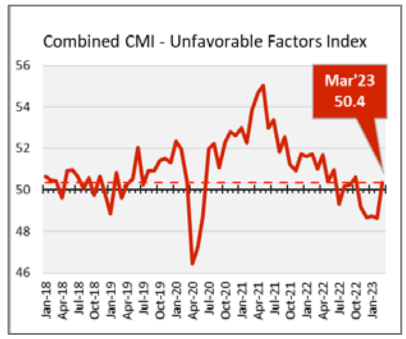


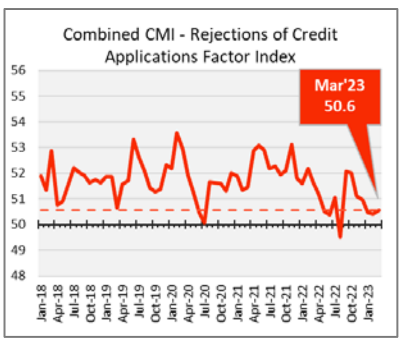


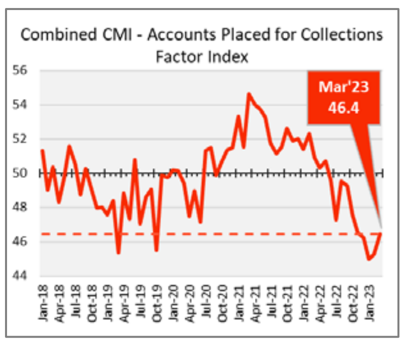


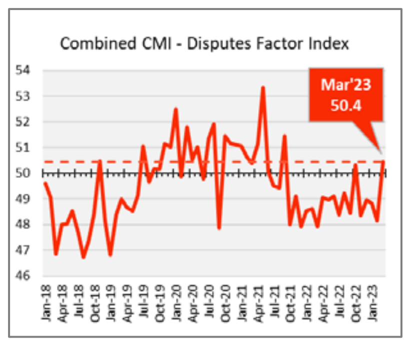


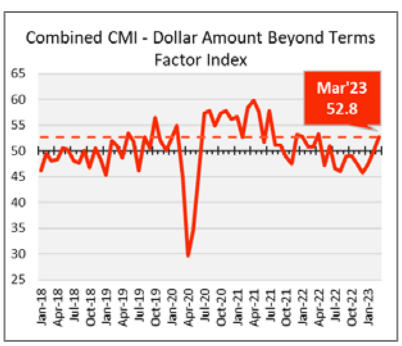


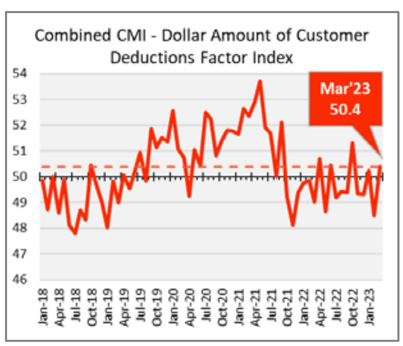


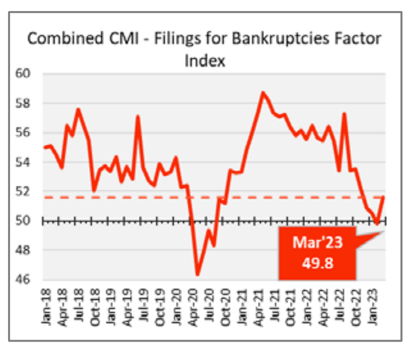








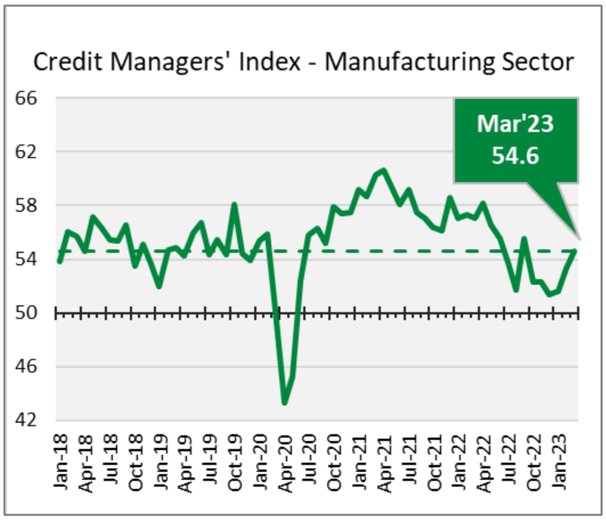


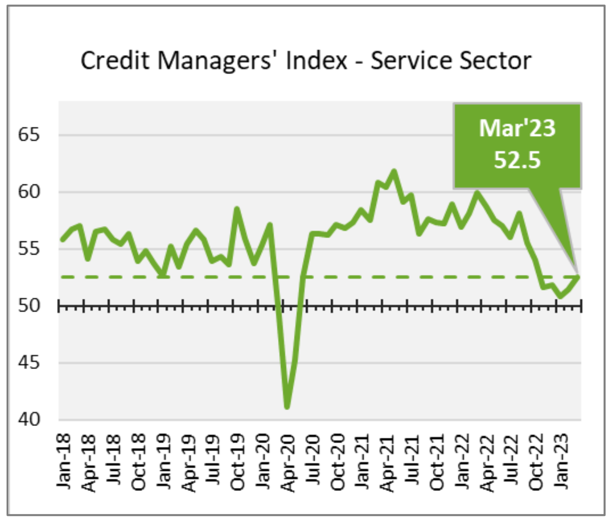


CMI Manufacturing vs Service Sectors Indexes

The CMI index for manufacturing gained 1.2 points in the March survey to 54.6, its highest level since last September. The service sector CMI improved 1.1 points this month to come in at 52.5, its highest level since last October.

“Over the past several months we’ve seen consistency in the experiences of credit managers in the manufacturing and services sectors, with differences showing up only in the degree of changes in various factors,” Cutts said. “This month the two sectors are reporting trends in opposition, where, for example, manufacturers are seeing a slowing in sales growth with a 3.4-point decline in their factor index, while service providers are seeing accelerating growth, with a 3.4-point improvement in their sales factor index. Yet the two sectors ended up with similar changes overall in their aggregated indexes. Like so many other indicators in the economy, volatility and uncertainty are the current state of business, but the general trends are neither firmly toward growth nor toward recession.”





The data in the charts are seasonally adjusted.

CMI Manufacturing Sector Factor Indexes

Within the CMI manufacturing sector, favorable factors deteriorated by 0.4 to 58.1, retaining most of the gains made in February. Unfavorable factors improved this month by 2.3 points to 52.2, back into expansionary territory.

Key Findings:

- The sales factor index led the decline for the group with a loss of 3.3 points to 54.9. The sales index is now down 17.7 points from March 2022.
- The new credit applications factor index was the only sub-index that improved in the March survey in the favorable factor group.
- The rejections of new credit applications factor index was the only one in the unfavorable group to see deterioration this month, losing 1.6 points to 51.0 points.
- The index for disputes experienced the largest improvement within all CMI manufacturing factor indexes, posting a gain of 4.4 points. The index is now back on the expansion side, with a level of 52.3 for March, its highest level since January of 2020.

“Respondents in the CMI survey from the manufacturing sector commented that they were seeing inventories stabilize and the availability of raw materials stabilize, and thus were seeing more timely payments among their customers this month,” Cutts said. “One respondent noted that bad weather was affecting their customer base but that their strong payers are still paying on time, while those that have been affected by storms historically slow payers are even more slow now.”

Manufacturing Sector (seasonally adjusted)	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23
Sales	72.6	71.7	69.2	63.8	61.1	53.5	61.4	53.6	54.2	53.1	48.4	58.2	54.9
New credit applications	65.3	65.3	61.7	61.4	57.8	57.4	58.6	57.3	56.4	51.3	54.0	56.6	59.3
Dollar collections	65.6	62.5	63.4	60.9	57.3	55.0	64.7	52.4	57.6	59.2	57.3	60.4	59.8
Amount of credit extended	66.6	70.1	69.6	65.6	64.6	59.9	65.1	57.8	57.7	54.7	57.8	58.8	58.3
Index of favorable factors	**67.5**	**67.4**	**66.0**	**62.9**	**60.2**	**56.5**	**62.4**	**55.3**	**56.5**	**54.6**	**54.4**	**58.5**	**58.1**
Rejections of credit applications	51.6	51.6	50.3	50.3	51.5	48.1	52.5	53.2	51.7	53.0	53.2	52.6	51.0
Accounts placed for collection	51.2	50.7	49.9	50.1	49.5	50.2	51.4	49.0	46.8	49.6	47.8	48.2	51.1
Disputes	45.6	48.6	48.7	48.2	47.4	47.3	47.5	49.5	47.4	48.0	49.5	47.9	52.3
Dollar amount beyond terms	50.8	56.3	46.8	50.6	46.5	42.6	52.2	47.3	48.5	46.5	48.2	51.3	54.9
Dollar amount of customer deductions	46.7	50.4	47.9	48.7	48.1	47.5	48.3	50.0	50.1	46.7	49.2	48.2	50.1
Filings for bankruptcies	54.6	54.9	57.8	55.4	54.0	55.9	54.0	52.9	52.6	51.2	51.3	51.4	53.7
Index of unfavorable factors	**50.1**	**52.1**	**50.2**	**50.5**	**49.5**	**48.6**	**51.0**	**50.3**	**49.5**	**49.2**	**49.9**	**49.9**	**52.2**
NACM Manufacturing CMI	**57.1**	**58.2**	**56.5**	**55.5**	**53.8**	**51.7**	**55.6**	**52.3**	**52.3**	**51.3**	**51.7**	**53.4**	**54.6**

CMI Manufacturing Sector Factor Indexes Charts

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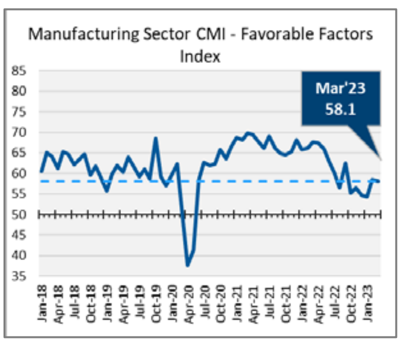

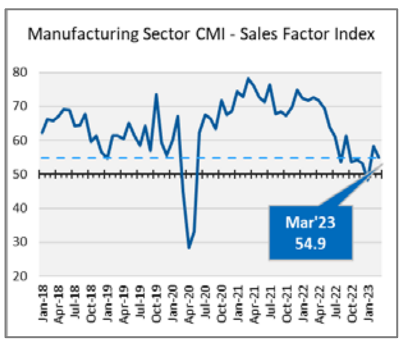

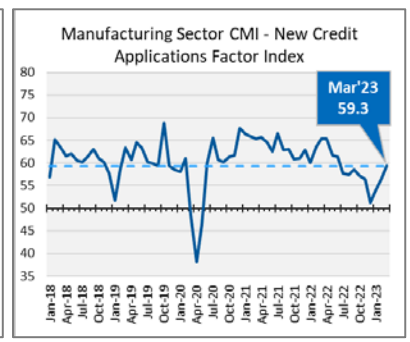

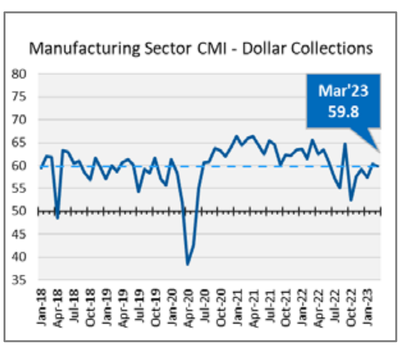

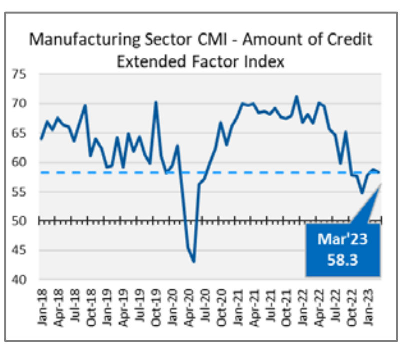

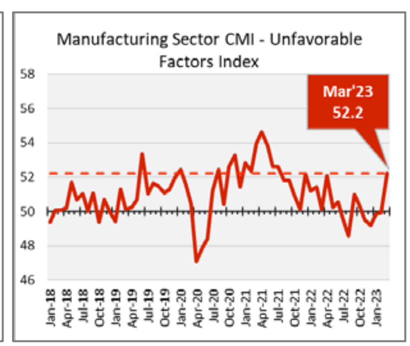

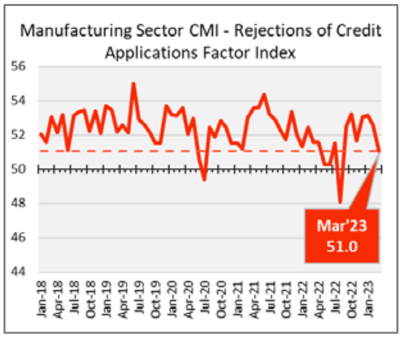

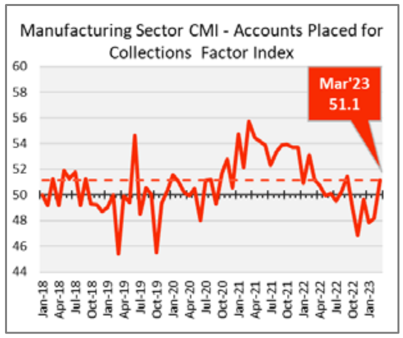

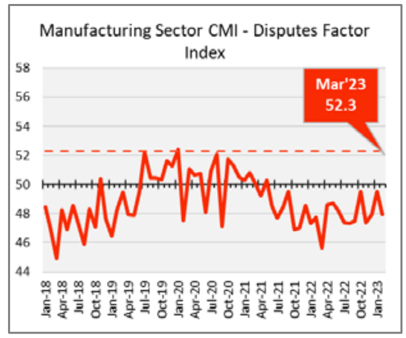

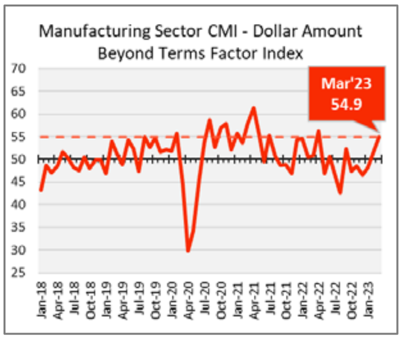

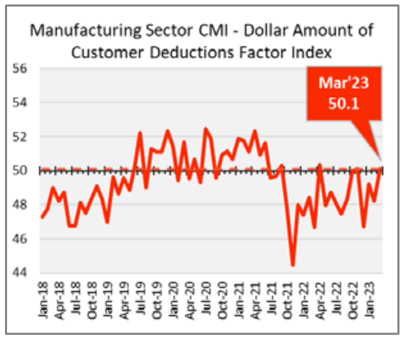

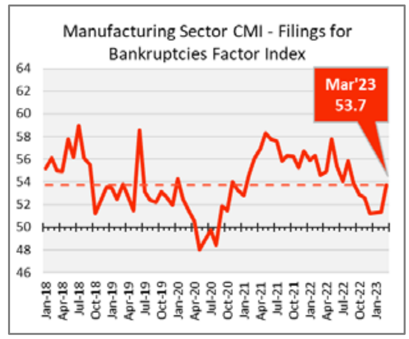

CMI Service Sector Factor Indexes

The CMI service sector index saw improvement in both the favorable factors index, by 1.0 point and the unfavorable factors index, by 1.2 points, in the March survey. Favorable factors have lost a combined 13.5 points over the past year, while unfavorable factors have remained fairly steady, deteriorating by 3.4 points versus their level in March 2022.

Key Findings:

- The sales factor index led the improvement in the CMI service sector favorable factors group, gaining 3.4 points to 58.1 points. This is the index's highest reading since September.
- The index for new credit applications was the only favorable factor index to deteriorate, losing 0.8 to 58.4. This factor has remained in a tight range in the high 50s for the past six months.
- The index for accounts placed for collection was the only unfavorable factor index to decrease in March, falling 0.6 points to 41.7. This is the lowest level of this factor index since May of 2009.
- In contrast, the index for the dollar amount beyond terms showed the strongest improvement for the unfavorable factors group, gaining 2.7 points to 50.7 and its highest level since last October.

"The service sector CMI index improved again this month to its best reading in several months," said Cutts. "But some of the trends are puzzling. While dollar collections are going well with respondents indicating continued improvement in their ability to receive payments from deeply overdue accounts (that factor index is at 59.6) and little change in the dollar amounts that are beyond terms with that factor index near neutral at 50.6, the number of accounts being sent to collections is signaling loudly that there is trouble afoot. The index for accounts placed for collections is at its lowest level since May of 2009, during the Great Recession. A net share of more than 8% of respondents are now saying they are sending more accounts to collections than they did last month. This refrain started in May of last year and it's just been building every month since."

Service Sector (seasonally adjusted)	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23
Sales	78.5	73.5	70.9	67.7	70.0	72.5	65.7	57.4	54.9	56.5	51.3	54.7	58.1
New credit applications	70.8	66.5	66.7	65.6	62.2	67.8	63.8	60.1	57.1	59.8	58.6	59.2	58.4
Dollar collections	66.9	66.7	65.1	60.1	63.4	61.0	62.1	57.3	54.8	56.5	57.2	59.2	59.6
Amount of credit extended	71.7	72.7	69.3	68.4	69.8	69.7	66.6	59.7	56.6	56.1	55.8	57.1	57.9
Index of favorable factors	**72.0**	**69.9**	**68.0**	**65.4**	**66.3**	**67.8**	**64.6**	**58.6**	**55.8**	**57.2**	**55.7**	**57.5**	**58.5**
Rejections of credit applications	51.7	50.8	50.8	50.5	50.5	50.9	51.6	50.8	50.5	48.9	47.8	48.2	50.1
Accounts placed for collection	50.7	49.9	51.5	49.0	45.0	48.9	47.1	46.1	46.2	42.8	42.1	42.3	41.7
Disputes	50.2	49.5	49.2	50.0	49.4	51.1	49.4	51.1	49.3	50.0	48.1	48.4	48.6
Dollar amount beyond terms	50.9	50.4	47.5	51.4	46.8	49.6	45.8	50.7	46.7	45.0	46.6	47.9	50.6
Dollar amount of customer deductions	51.4	51.1	49.3	52.1	50.3	51.4	50.5	52.6	48.5	51.9	51.3	48.8	50.6
Filings for bankruptcies	56.7	56.0	55.0	55.5	52.8	58.6	52.9	54.1	51.8	50.5	49.8	48.2	49.4
Index of unfavorable factors	**51.9**	**51.3**	**50.6**	**51.4**	**49.1**	**51.7**	**49.5**	**50.9**	**48.9**	**48.2**	**47.6**	**47.3**	**48.5**
NACM Service CMI	**59.9**	**58.7**	**57.5**	**57.0**	**56.0**	**58.2**	**55.6**	**54.0**	**51.6**	**51.8**	**50.9**	**51.4**	**52.5**

CMI Service Sector Factor Indexes Charts

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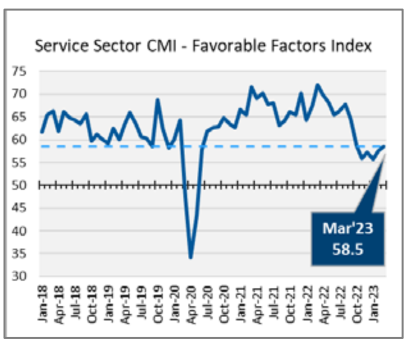

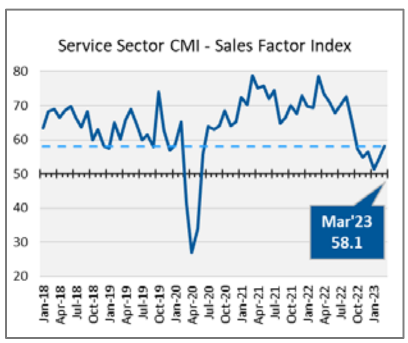

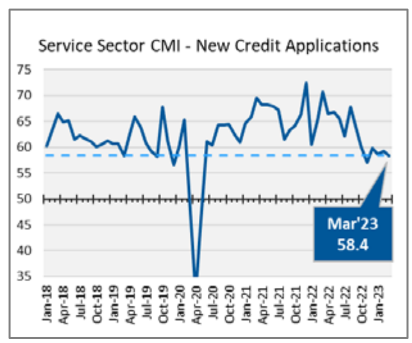

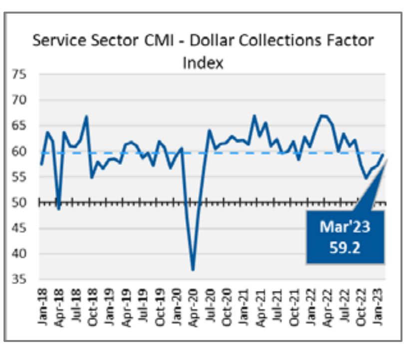

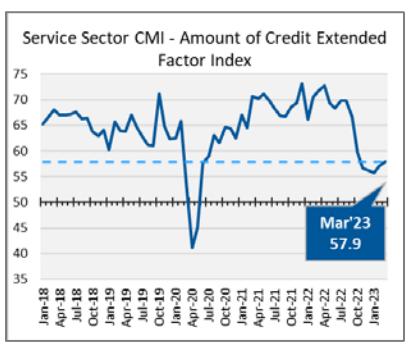

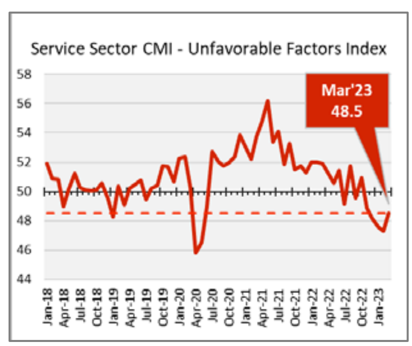

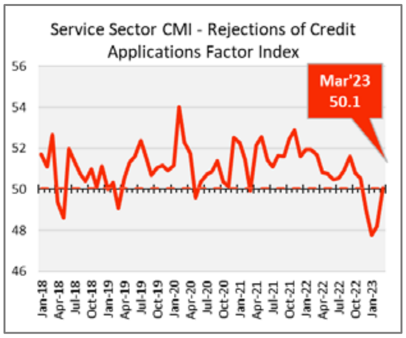

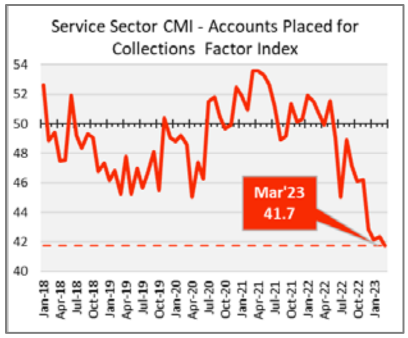

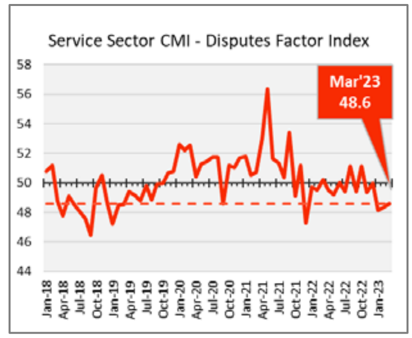

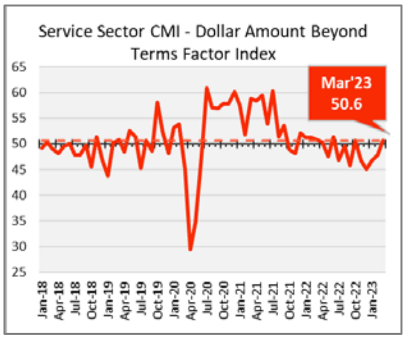

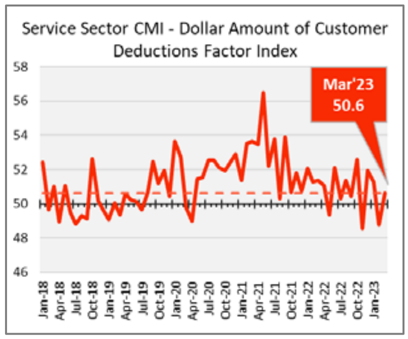

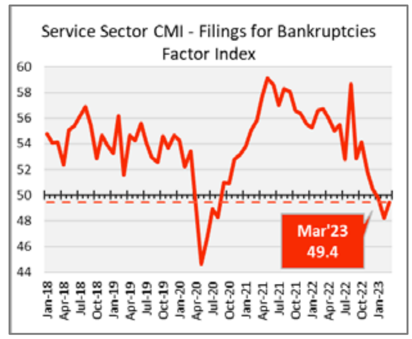

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

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Methodology Appendix

CMI data has been collected and tabulated monthly since March 2002. The index, published since March 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.*

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.

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.