Report for May 2022

Issued May 31, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for May fell to its lowest level since January with declines in both favorable and unfavorable factors. These changes are consistent with the reported shifts in consumer buying patterns caused by high inflation, and continuing supply chain and logistics issues plaguing businesses around the globe, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"While many people do not own equities, aggregate consumer behavior is highly correlated with large movements in stock prices," Cutts said. "Taking the high prices that consumers are now paying at the gas pump and for groceries, which affects everyone, the loss of more than 10% in the major stock market indexes over the past month reinforces the point that things are not good in the economy despite the rosy employment numbers. Retailers are noting the speed with which consumers are shifting away from goods just as inventories are rising sharply and sales are stalling.

"The CMI component factors are indicating these same conditions, though the combined index is not yet showing that a recession is imminent," she added. "Economists are rapidly increasing their estimates for the probability that a recession will start over the next 12 months, and I think the CMI data backs this trend."

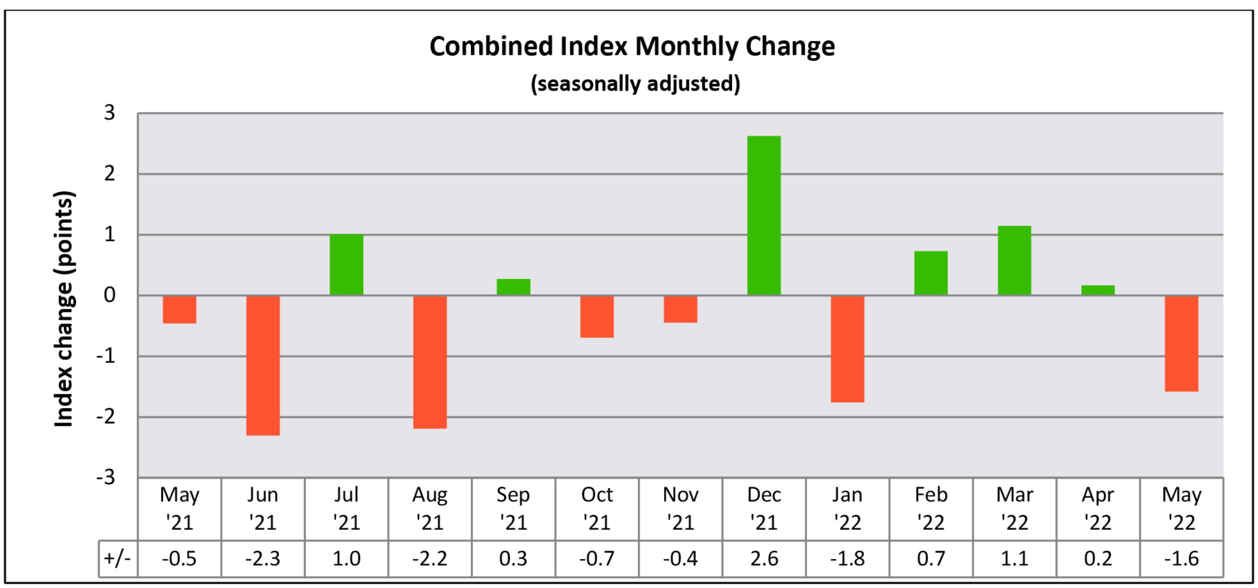
The combined March CMI fell by 1.6 points to an index value of 57.5. The index of favorable factors slid 1.8 points to 68.1, and unfavorable factors were not far off with a decline of 1.4 points to 50.5. All categories in the favorable factors list dropped for the second month in a row, with sales falling the most by 3.1 points. New credit applications dropped 2.4 points; the amount of credit extended lost 1.7 points; and dollar collections fell 0.4 points. While the declines in the favorable factor indexes are notable, the levels of the indexes still indicate expansionary conditions.

Directionally the story is similar among unfavorable factors, but this side of the index—sitting at 50.5—is on the edge of entering contraction territory. Two unfavorable factors indicated improving conditions and were already reading in the expansionary zone. Accounts placed for collection gained 0.4 points to 51.0, and filings for bankruptcies added 0.7 points to 56.4. Disputes, which has been running below the 50-point demarcation line between expansion and contraction since September 2021, stayed level in May at 49.1. Dollar amount of customer deductions deteriorated 1.8 points to a level of 48.7. Both factors reflect the supply disruptions and delivery delays that have resulted from global system shocks. Rejections of credit applications fell 0.6 points to its lowest reading since July of 2020. Lastly, and most importantly, the dollar amount beyond terms fell from 54.2 to 47.2, a full 7-

point drop. This value coincides with the buildup of inventories just as consumer demand has shifted, leaving some businesses in a precarious position.

“The loss of momentum among favorable factors, especially sales, and the huge about-face for the amount beyond terms on the unfavorable factors list indicate to me that we may be at the start of economic turn,” Cutts said. “There is still some capacity for households to bear the higher cost of living we’re in, but there is limited substitution that can alleviate the pain of higher food and gas prices. The conflict in Ukraine will put global pressure on grain prices, and higher oil prices will spill through everything, from the obvious plastics and gasoline to the less obvious animal feed, beauty products and clothing. Unfortunately, oil extraction is complicated, and we can’t just flip a switch to increase supply.”

Combined Manufacturing and Service Sectors **(seasonally adjusted)**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**
Sales	74.3	69.9	75.4	66.0	67.8	67.4	67.4	75.1	71.2	71.3	77.1	74.7	71.6
New credit applications	65.8	65.1	66.2	63.0	63.5	62.1	62.9	67.6	60.6	64.0	68.8	67.1	64.7
Dollar collections	65.4	61.2	64.4	61.5	60.4	61.3	59.2	63.5	62.5	63.2	67.0	65.9	65.5
Amount of credit extended	70.2	68.8	68.4	68.6	67.2	67.6	67.7	71.7	67.2	68.7	69.2	72.1	70.4
Index of favorable factors	**68.9**	**66.2**	**68.6**	**64.8**	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**	**68.1**
Rejections of credit applications	53.1	52.1	52.0	52.2	52.1	52.3	53.2	51.7	51.5	52.3	51.9	51.3	50.7
Accounts placed for collection	54.1	52.8	51.5	51.4	51.4	52.1	52.0	52.1	51.1	52.7	51.5	50.6	51.0
Disputes	53.5	50.1	49.1	49.6	51.2	48.3	48.6	48.2	48.4	48.6	48.0	49.1	49.1
Dollar amount beyond terms	56.7	51.8	56.9	51.4	50.6	49.5	47.1	53.3	53.5	50.9	51.2	54.2	47.2
Dollar amount of customer deductions	53.6	52.4	51.8	49.9	51.9	49.4	48.2	49.3	49.5	49.9	49.0	50.5	48.7
Filings for bankruptcies	58.9	58.5	56.9	57.3	57.1	56.4	55.9	55.7	55.2	56.4	55.8	55.7	56.4
Index of unfavorable factors	**55.0**	**52.9**	**53.0**	**51.9**	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**	**50.5**
NACM Combined CMI	**60.6**	**58.3**	**59.3**	**57.1**	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**	**57.5**



Manufacturing Sector

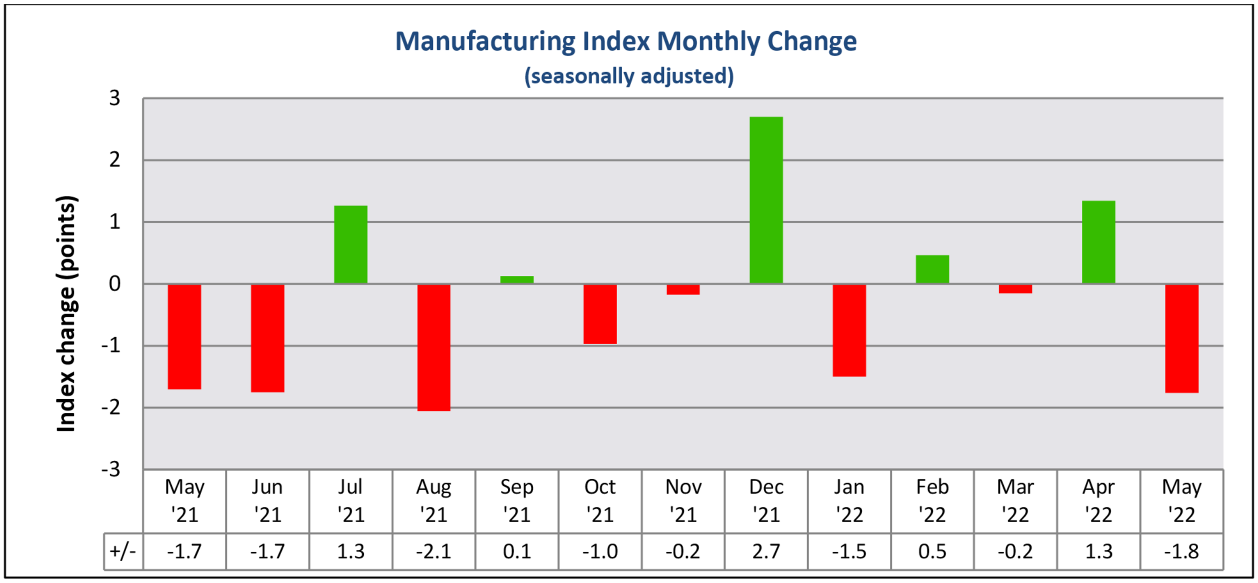
The Manufacturing CMI lost 1.7 points in May to sit at 57.1. The index of unfavorable factors fell 2.1 points to 50.2, and the index of favorable factors slid 1.3 points to 67.3. Dollar amount beyond terms leads the decline with a whopping 10.9-point loss from a recent high in April of 57.8 to a six-month low in May of 46.9.

Among favorable factors, the amount of credit extended rose 0.2 points, and dollar collections gained 1.2 points. These improvements were offset by deterioration in new credit applications (3.9 points) and sales (2.5 points). Among unfavorable factors, disputes gained 0.3 points but remains in the contraction zone for the 12th executive month. The dollar amount of customer deductions fell 2.0 points, and rejections for credit applications lost 1.4 points. The index for accounts placed in collections fell 1 point, placing the index in contraction territory for the first time since September 2020. The remaining factor in the unfavorable list, bankruptcy filings, gained 2.2 points to 57.1.

“Many respondents in the manufacturing sector are indicating continuing issues getting input materials such as resins, raw materials and parts that are affecting their ability to meet demand,” Cutts said. “The increasing costs for materials and labor also are hurting their bottom lines. But several respondents indicated that times have never been better. This dichotomy is reflective of how the stresses in the economy are creating new winners and losers as swift demand shifts and input supply-availability test the ability of businesses to effectively respond.

“It’s not enough to have long-term relationships with reliable vendors because they may be affected by several problems deep in the supply chain that was not even a consideration until recently. Similarly, seemingly simple parts, like a standard bolt, could shut down an entire assembly line if the deliveries are not on time. This is leading to a rethinking of supply chain redundancy and resilience on the part of manufacturers. Before COVID, the emphasis was on managing just-in-time efficiency to maximize profitability; now it’s on making sure there is an inventory cushion or several options for substitutions if the need arises.”

Manufacturing Sector (seasonally adjusted)	May '21	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22
Sales	73.4	70.0	76.2	65.2	69.2	66.3	69.4	76.3	72.8	73.1	74.1	73.6	71.1
New credit applications	64.3	62.3	65.9	62.4	63.3	60.7	60.9	62.1	60.2	63.4	65.9	66.7	62.8
Dollar collections	65.3	62.1	65.6	63.5	60.0	61.1	61.6	64.4	64.0	62.3	66.4	63.4	64.6
Amount of credit extended	69.7	68.6	68.3	68.0	67.6	67.8	67.5	70.2	67.6	68.2	66.5	70.6	70.8
Index of favorable factors	**68.2**	**65.7**	**69.0**	**64.8**	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**	**67.3**
Rejections of credit applications	53.4	53.4	53.4	52.9	52.4	52.2	53.1	52.1	51.2	52.6	51.7	51.8	50.4
Accounts placed for collection	53.8	53.5	51.9	53.4	54.4	53.9	53.8	54.5	50.3	53.6	51.9	50.9	49.9
Disputes	50.9	48.3	47.1	48.3	49.7	47.4	46.4	48.4	47.7	47.9	45.8	48.6	48.9
Dollar amount beyond terms	54.9	49.5	54.8	50.6	48.4	48.2	46.7	54.6	55.2	50.7	51.4	57.8	46.9
Dollar amount of customer deductions	51.0	52.2	50.0	49.4	50.0	48.0	44.6	47.8	47.0	48.3	46.5	50.0	48.0
Filings for bankruptcies	58.5	58.0	57.3	56.1	56.3	55.8	55.6	56.4	55.7	56.4	54.6	54.9	57.1
Index of unfavorable factors	**53.8**	**52.5**	**52.4**	**51.8**	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**	**50.2**
NACM Manufacturing CMI	**59.5**	**57.8**	**59.0**	**57.0**	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**	**57.1**



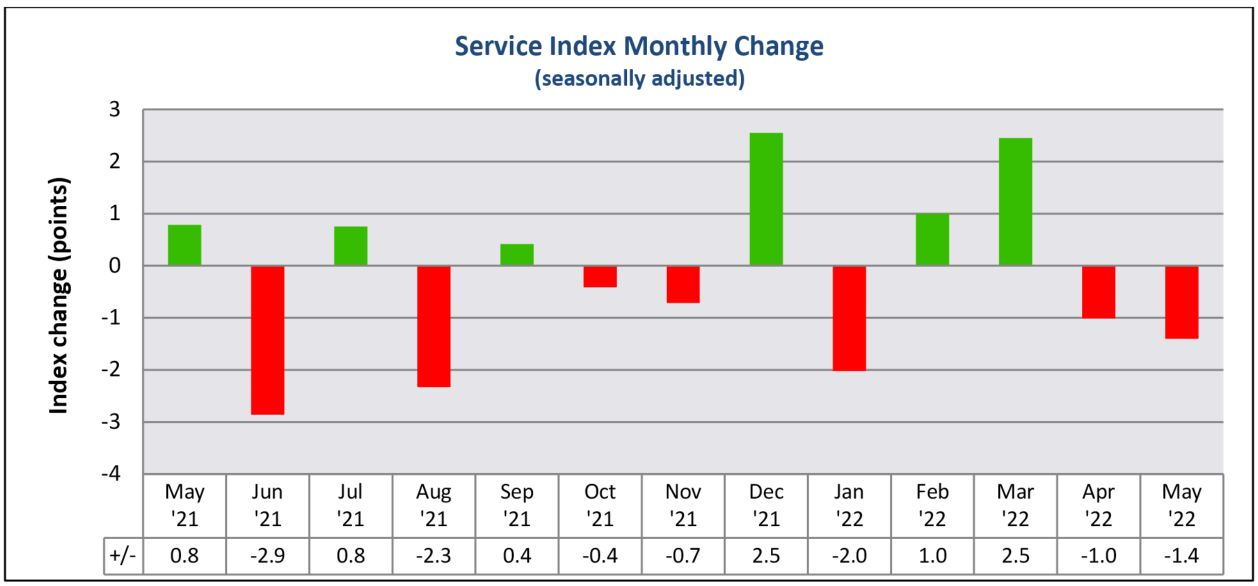
Service Sector

The service sector CMI index fell 1.4 points to 58.0, matching January's level. Favorable factors lead the decline, with a fall of 2.5 points, while unfavorable factors also lost ground, posting a 0.7-point drop. In the favorable factors category, sales fell 3.6 points after hitting a recent high of 80.0 in March and the amount of credit extended dropped 3.7 points to 69.9, erasing all the gains of the past two months. New credit applications declined 0.7 points to 66.7, and dollar collections fell 1.9 points to 66.5.

Among service sector unfavorable factors, dollar amount beyond terms led the decline in the unfavorable group, posting a 3.2-point decline to 47.4, a two-year low. The dollar amount of deductions deteriorated by 1.7 points to the worst level since April 2020 at 49.3. Disputes lost 0.3 points, and filings for bankruptcies dropped 0.9 points. Two unfavorable factor indexes had gains: rejections of credit applications, up 0.3 points, and accounts placed for collections, up 1.8 points, with the latter reaching an eleven-month high of 52.1.

"In February, we saw a surge in all favorable factors of the Service sector CMI that has since reversed course," Cutts said. "Some of our survey respondents have indicated concern over inflation impacts, energy policy and the Fed; and I share their concern. The combined and sector CMIs are showing that overall economic conditions are solid now, but the trend is showing a slowing momentum. I think we are now realizing the impact of the Ukraine-Russia war here in the U.S. and will soon feel the impacts of China's COVID shutdowns and supply shocks upon supply shocks upon still more supply shocks. The financial markets are doing more to reduce demand right now than the Fed actions to-date, but eventually the Fed's quantitative tightening will carry a wallop. Still, for all that, consumers are tired of staying at home and appear ready to spend what they can this summer to feel a little more normal after these past two grueling years."

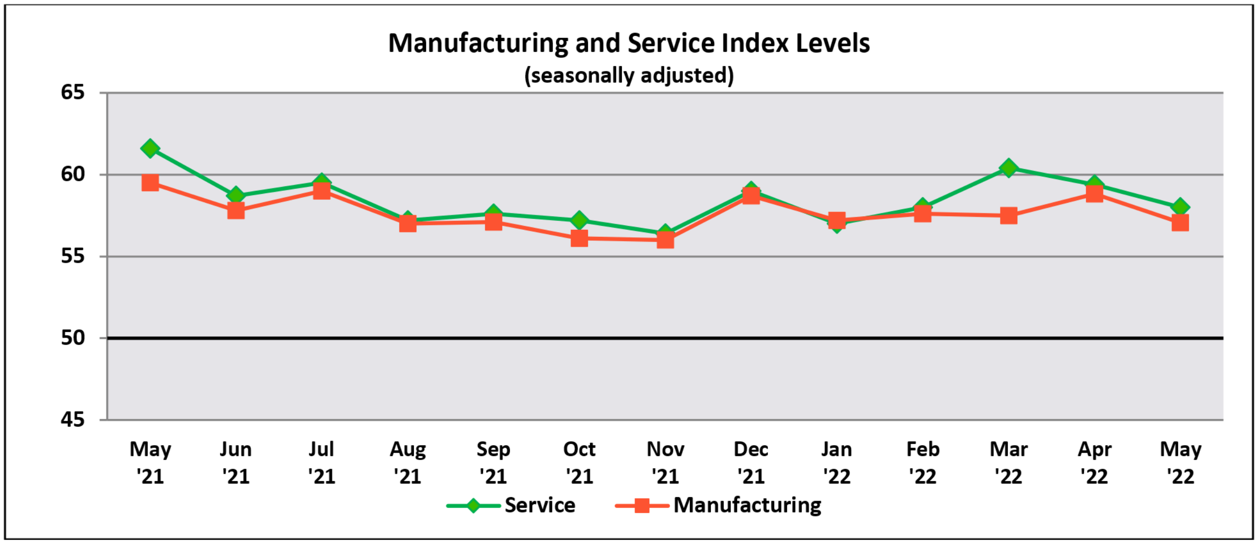
Service Sector (seasonally adjusted)	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**
Sales	75.3	69.8	74.6	66.8	66.4	68.5	65.3	73.9	69.7	69.6	80.0	75.7	72.1
New credit applications	67.3	67.9	66.6	63.5	63.8	63.5	64.8	73.0	60.9	64.7	71.6	67.4	66.7
Dollar collections	65.6	60.2	63.1	59.4	60.8	61.5	56.7	62.6	60.9	64.1	67.7	68.4	66.5
Amount of credit extended	70.6	69.0	68.5	69.1	66.9	67.4	67.9	73.3	66.7	69.3	71.9	73.6	69.9
Index of favorable factors	**69.7**	**66.7**	**68.2**	**64.7**	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**	**68.8**
Rejections of credit applications	52.8	50.9	50.6	51.4	51.9	52.5	53.2	51.4	51.8	52.0	52.2	50.8	51.1
Accounts placed for collection	54.3	52.2	51.0	49.4	48.5	50.3	50.2	49.8	51.9	51.9	51.0	50.3	52.1
Disputes	56.1	51.8	51.2	50.8	52.8	49.1	50.9	48.0	49.2	49.3	50.3	49.6	49.3
Dollar amount beyond terms	58.4	54.1	59.0	52.2	52.8	50.8	47.6	52.1	51.8	51.0	51.0	50.6	47.4
Dollar amount of customer deductions	56.1	52.6	53.7	50.4	53.9	50.9	51.7	50.8	51.9	51.4	51.5	51.0	49.3
Filings for bankruptcies	59.4	58.9	56.5	58.4	57.8	57.0	56.1	55.0	54.6	56.4	56.9	56.5	55.6
Index of unfavorable factors	**56.2**	**53.4**	**53.7**	**52.1**	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**	**50.8**
NACM Service CMI	**61.6**	**58.7**	**59.5**	**57.2**	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**	**58.0**



May 2022 versus May 2021

Both the service and manufacturing CMIs are still well into the expansionary side but have lost considerable ground since May 2021. The manufacturing CMI has lost 2.5 points and now sits at 57.1, while the services CMI has dropped 3.6 points to 58.0. Importantly, the dollar amount beyond terms has crashed into contraction territory in both sector CMIs. For the manufacturing sector, the factor index dove 8 points to 46.9, and the service sectors CMI has plummeted 11.0 points to 47.4.

"The severity of the declines in the dollar amount beyond terms in both sector CMIs is worrisome," Cutts said. "It indicates stress in firms that goes against the narrative of price gouging and greed that have been in recent headlines. In speaking with many clients over the past month, they are feeling the stress from all sides, whether its inventory control issues for intermediate goods, like bolts and wire or raw materials, or labor supply issues, or now disappearing customers once they finally have inventory ready to deliver."



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:

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

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.*

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

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