



Report for July 2023

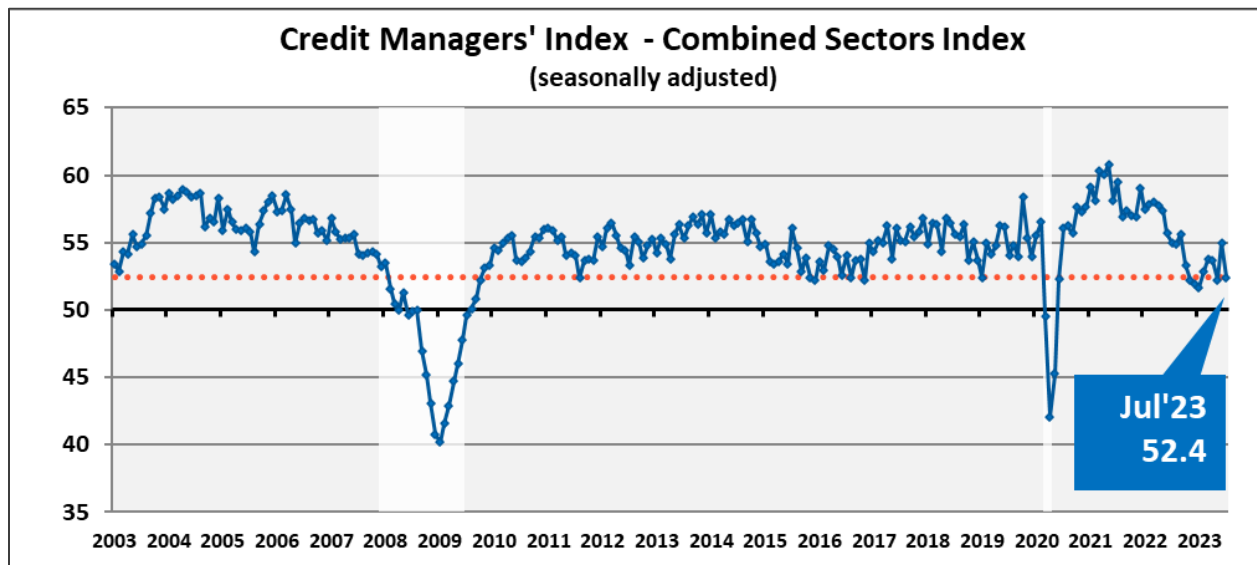
Issued July 31, 2023

National Association of Credit Management

Credit Managers' Index Combined Sectors

The National Association of Credit Management's seasonally adjusted combined Credit Managers' Index (CMI) for July 2023 came in at 52.4 points, deteriorating 2.6 points from June. "The deterioration in this month's index was across the board, but three factors saw notably large declines," said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"Taken together, the weakening in sales, dollar collections and the dollar amount beyond terms, paint a somewhat bleak picture of companies trying to manage cash flow and protect margins," Cutts said. "While the CMI continues to be volatile month to month, the overall has been a slow rise from the post-pandemic recession low point set at the start of the year. Volatility generally is bad for the economy, and credit managers are seeing that in how their customers are trying to manage their invoices, asking for extended terms, or going beyond terms until they get collection notices before paying up. Other economic indicators are quite strong, but the CMI indicates that businesses are still under significant stress."



The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. For this month's report the seasonal adjustment factors have been re-estimated, which may affect prior published values of the CMI indexes.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23	Jun '23	Jul '23
Sales	65.5	62.9	63.7	56.0	55.3	55.9	51.2	57.6	57.0	59.0	54.1	62.0	55.6
New credit applications	60.0	63.1	61.3	59.0	57.2	55.6	56.9	58.5	58.9	58.5	57.7	58.3	56.8
Dollar collections	60.9	58.2	63.9	55.5	56.2	58.3	57.7	59.7	60.0	61.4	57.1	61.6	56.2
Amount of credit extended	67.1	64.5	65.6	59.0	57.6	56.1	57.9	58.6	58.2	58.6	56.5	60.2	56.8
Index of favorable factors	63.4	62.2	63.6	57.4	56.6	56.5	55.9	58.6	58.5	59.4	56.4	60.5	56.4
Rejections of credit applications	51.1	49.5	52.0	51.9	51.0	50.9	50.4	50.4	50.8	47.7	48.7	53.3	50.7
Accounts placed for collection	47.2	49.5	49.4	47.6	46.7	46.4	45.2	45.5	46.6	46.7	45.9	48.2	48.2
Disputes	48.6	49.2	48.4	50.3	48.4	49.0	48.9	48.4	50.6	49.6	48.4	51.1	50.3
Dollar amount beyond terms	47.0	45.7	49.4	49.3	48.2	46.5	47.9	51.4	53.0	53.8	51.4	51.8	46.1
Dollar amount of customer deductions	49.2	49.6	49.4	51.3	49.3	49.3	50.0	48.5	50.5	49.8	52.9	51.0	51.0
Filings for bankruptcies	53.5	57.1	53.3	53.5	52.3	51.0	50.8	50.1	51.8	51.4	49.7	52.4	52.3
Index of unfavorable factors	49.4	50.1	50.3	50.6	49.3	48.9	48.9	49.1	50.5	49.8	49.5	51.3	49.8
NACM Combined CMI	55.0	54.9	55.6	53.3	52.2	51.9	51.7	52.9	53.7	53.7	52.2	55.0	52.4

CMI Combined Sectors Factor Indexes

Key Findings:

- Although all the favorable factor indexes remain on the expansionary side, they are near the lowest levels seen since the end of the pandemic recession.
- The index for favorable factors dropped 4.1 points to 56.4, led by a 6.3-point deterioration in the sales factor index to 55.6 points, down 9.9 points from a year ago, and a 5.4-point fall in the dollar collections index to 56.2, a decrease of 4.7 points from a year ago. The amount of credit extended factor index lost 3.4 points to 56.8, marking a decline of 10.3 points from a year ago.
- The index for unfavorable factors deteriorated by 1.5 points to 49.8. This index has stayed in a tight range of around 50, showing neither a steady improvement nor declining trend over the past year and a half.
- Three of the unfavorable factor indexes deteriorated in the July survey; the index for dollar amount beyond terms led the decline, falling by 5.7 points to 46.1, putting it well into contraction territory. This is the lowest value for the index since August 2022.
- The remaining three unfavorable factor indexes were essentially unchanged from the June survey.

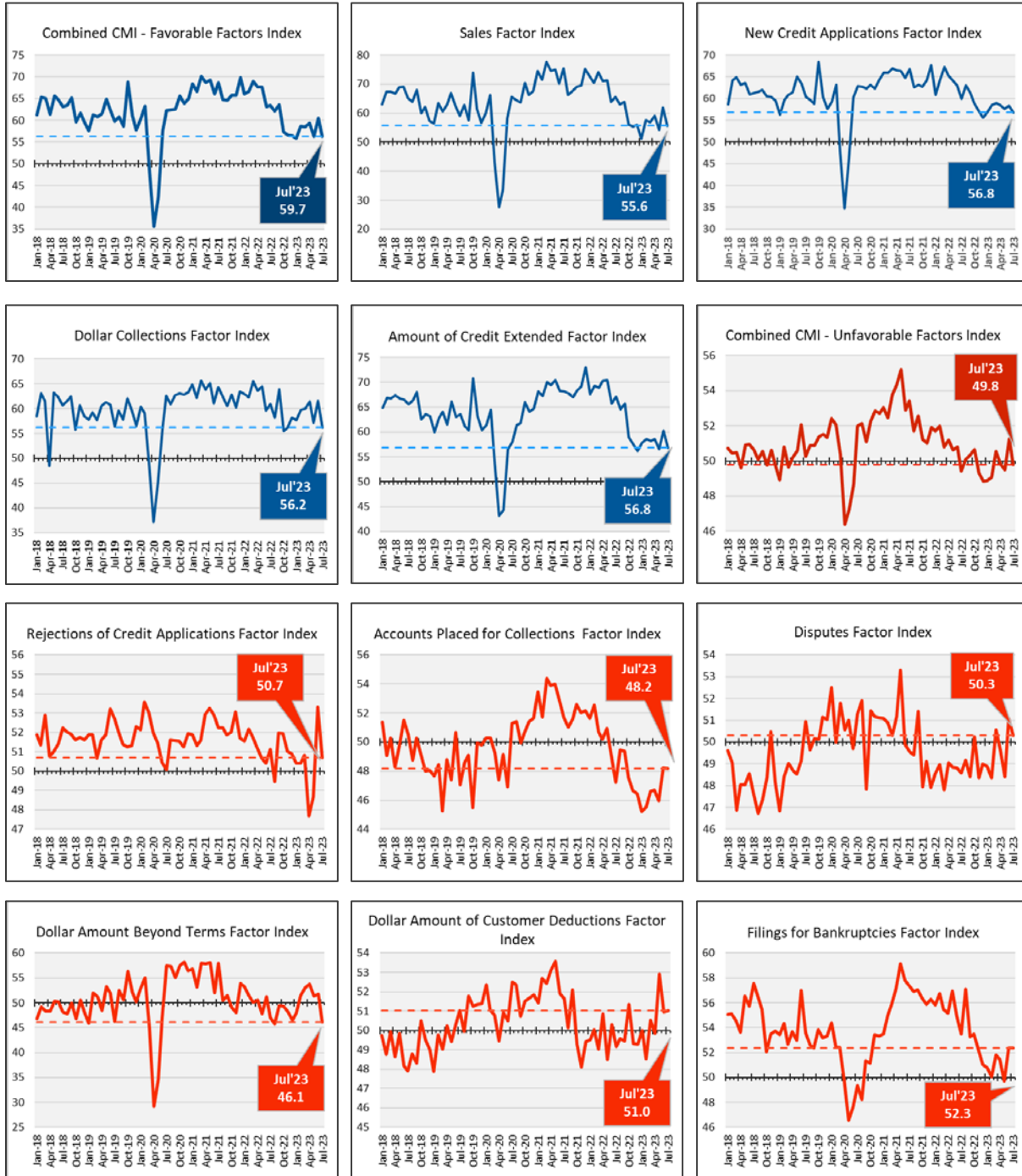
“The Credit Managers’ Index year has been see-sawing between ‘recession is about to start’ and ‘business is good’ levels since the start of this year,” said Cutts. “But whereas earlier in the year there were contradictions in the directions of the factor indexes, we are now seeing alignment. For the last thirteen months, the index for accounts placed for collections has been in the contraction range below 50 points, meaning credit managers are referring more accounts to collections each month. Now we are seeing the number of accounts going beyond terms finally matching this trend, with a large increase in delinquent accounts in July. From February through June, the factor index indicated that fewer accounts were going beyond terms.”

“Sales are slowing, but remain healthy. However, the share of respondents seeing falling sales has moved from 22.4% in March 2021 to 44.4% in July. New credit applications are slowing, so new and existing businesses are

not seeking to grow as quickly as they had been but the applications that are received are being approved at roughly the same rate as before the banking crisis,” said Cutts.

CMI Combined Sectors Factor Indexes Charts

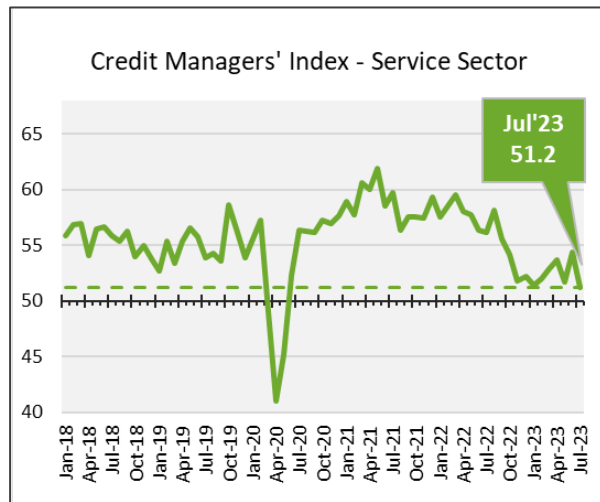
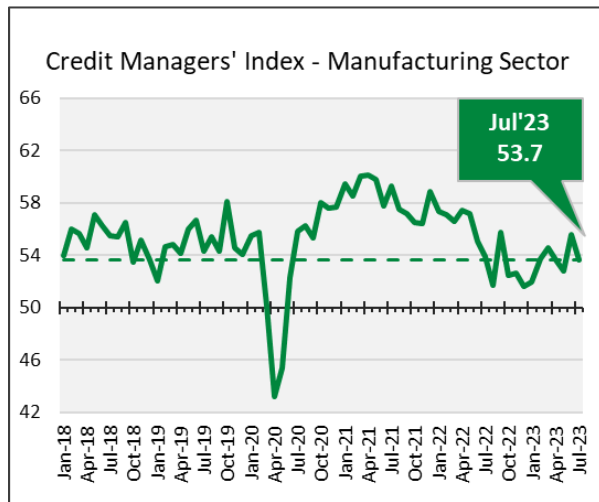
All charts contain seasonally adjusted data. Please note that the vertical axes are not scaled identically, and the dotted line represents the most recent value.



CMI Manufacturing versus CMI Service Sectors Indexes

The CMI index for manufacturing declined 1.9 points in the July survey to 53.7, matching its February level. The service sector CMI deteriorated 3.1 points this month to come in at 51.2, its lowest level since May 2020.

“Both the Service and Manufacturing Sector CMI’s deteriorated this month,” Cutts said. “Softening sales were strong drivers for the declines in both sectors, however, both sectors recorded sales factor indexes that were several points above their January lows. Comments from survey respondents indicated optimism within the manufacturing sector, as supply chain issues were being resolved and plenty of runway left between new and previous orders. Within the service sector, the comments were laden with stress, as respondents noted labor shortages, late payment issues from both private and government customers, and liquidity issues.”



The data in the charts are seasonally adjusted.

CMI Manufacturing Sector Factor Indexes

Among the CMI Manufacturing Sector Factor Indexes, favorable factors declined 4.1 points to 55.5, erasing most of the gains from June and marking a 5.0-point drop from a year ago. Unfavorable factors fell this month by 0.5 to 52.4. This index value is 2.9 points better than a year ago.

Key Findings:

- All favorable factor indexes declined this month, led by a 6.8-point drop in the sales factor index to 54.9.
- The index for the amount of credit extended lost 5.2 points to 54.8. This is 10.2 points lower than a year ago and the lowest value for the index since May of 2020. This index is still showing expansion but is trending down.
- Only two unfavorable factor indexes deteriorated in July, but they fell enough to bring down the aggregated index for unfavorable factors. The rejections of credit applications factor index dropped 3.8 points to 51.6 and is essentially unchanged from a year ago. The index for the dollar amount beyond terms lost 3.0 points to 51.3, which is up 2.7 points since January.
- The dollar amount of customer deductions gained 2.2 points to 53.3, marking a 5.5-point gain from a year ago.

“Respondents in the manufacturing sector were notably upbeat despite the index level declines,” Cutts said.

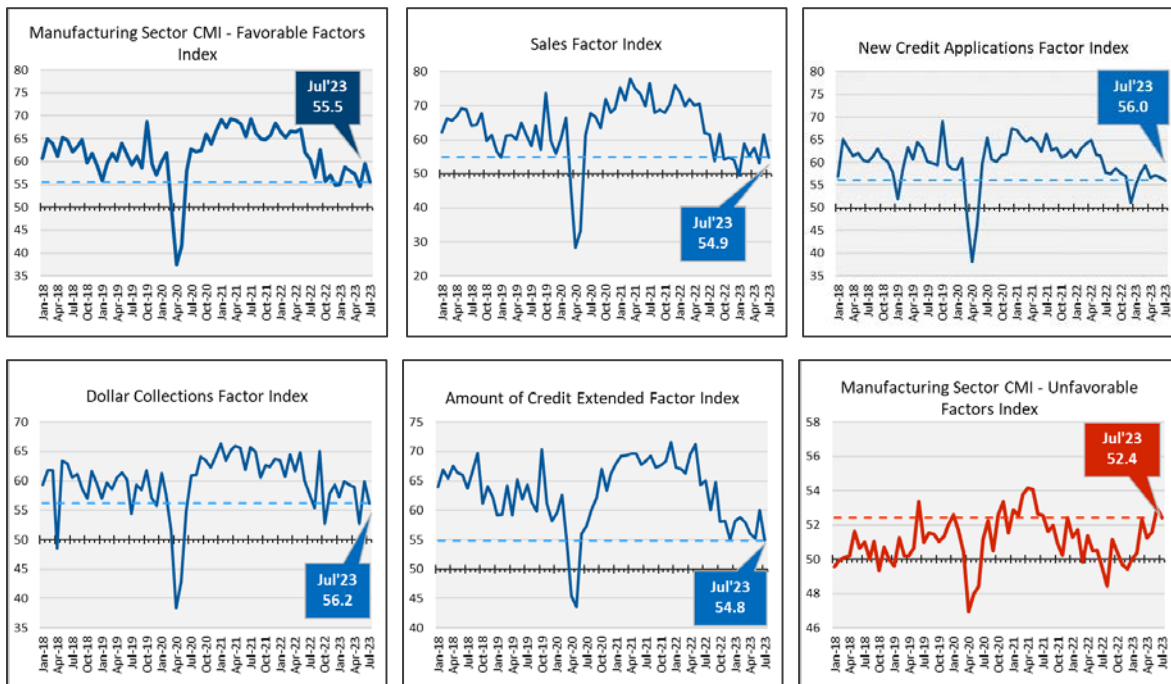
“Many noted that supply chains and labor shortages are still problematic, causing delays in order fulfillment but

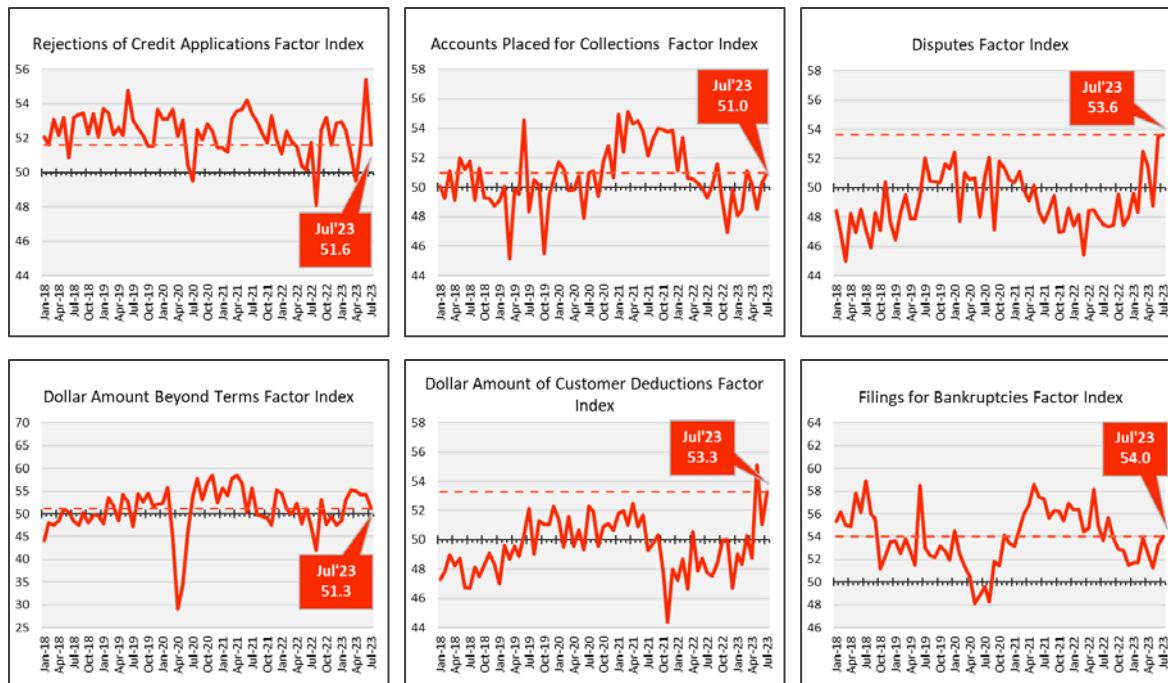
with healthy sales activity. Several others noted that they have not seen any bankruptcies in their customer portfolios this year.”

Manufacturing Sector (seasonally adjusted)	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23	Jun '23	Jul '23
Sales	61.6	53.7	61.8	54.2	54.9	54.1	49.5	58.9	55.2	57.6	53.1	61.7	54.9
New credit applications	57.7	57.4	58.7	57.6	57.0	51.1	55.0	57.5	59.4	56.6	57.1	56.7	56.0
Dollar collections	57.7	55.4	65.1	52.7	57.9	59.4	57.2	60.0	59.4	58.9	52.7	59.9	56.2
Amount of credit extended	65.1	60.0	64.8	58.1	58.2	55.0	58.2	58.8	57.9	55.9	55.2	60.0	54.8
Index of favorable factors	60.5	56.6	62.6	55.6	57.0	54.9	55.0	58.8	58.0	57.3	54.5	59.6	55.5
Rejections of credit applications	51.7	48.1	52.5	53.2	51.6	52.9	53.0	52.4	51.1	49.5	51.7	55.4	51.6
Accounts placed for collection	49.3	50.1	51.6	49.0	46.9	49.8	48.1	48.5	51.1	50.2	48.5	50.3	51.0
Disputes	47.5	47.3	47.4	49.6	47.4	48.0	49.6	48.3	52.5	51.5	48.8	53.5	53.6
Dollar amount beyond terms	47.2	41.9	53.1	47.7	49.4	47.6	48.5	53.0	55.1	55.1	54.2	54.2	51.3
Dollar amount of customer deductions	47.8	47.6	48.4	50.0	50.0	46.7	49.1	48.4	50.3	48.8	55.1	51.1	53.3
Filings for bankruptcies	53.6	55.7	53.9	52.9	52.8	51.5	51.7	51.7	53.9	52.5	51.3	53.2	54.0
Index of unfavorable factors	49.5	48.4	51.1	50.4	49.7	49.4	50.0	50.4	52.3	51.3	51.6	53.0	52.4
NACM Manufacturing CMI	53.9	51.7	55.7	52.5	52.6	51.6	52.0	53.7	54.6	53.7	52.8	55.6	53.7

CMI Manufacturing Sector 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 Service Sector Factor Indexes

The May CMI service sector index marked a 3.2-point decline in the favorable factors index to 57.2, its lowest level since January. The sector’s unfavorable factors index deteriorated 2.5 points to 47.1, its worst reading since May of 2020.

Key Findings:

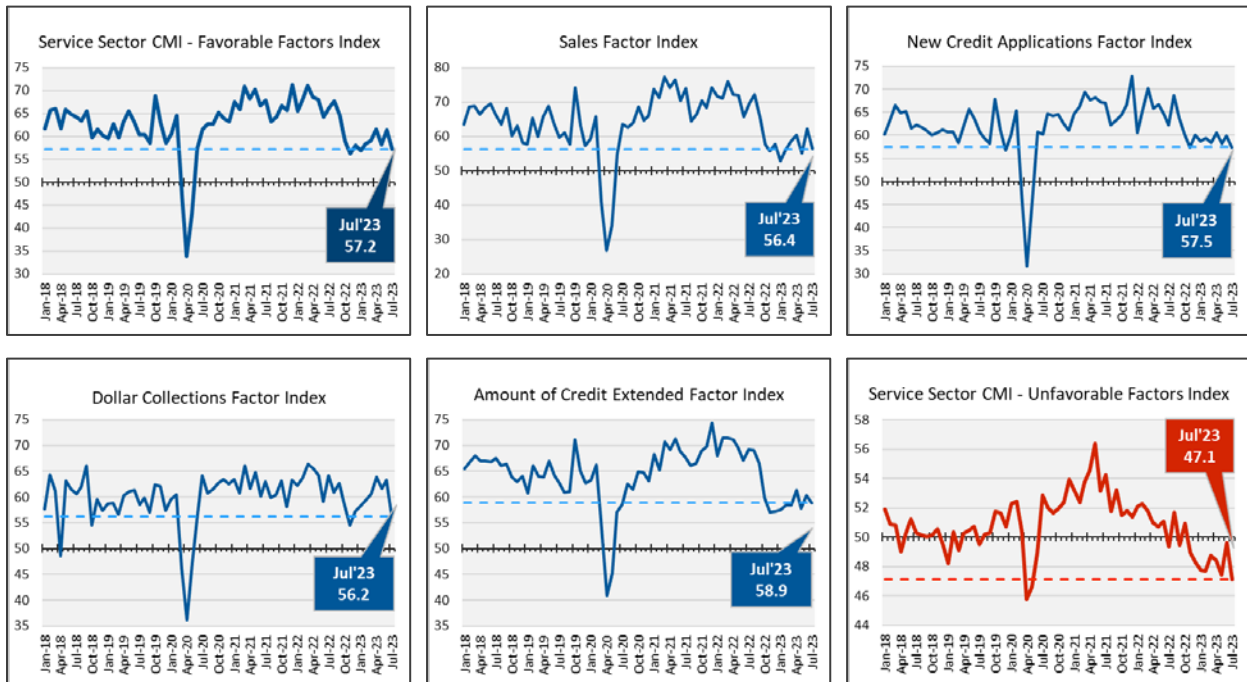
- All factor indexes for the service sector CMI deteriorated in July.
- The index for dollar collections lost 7.0 points to lead the decline in the favorable factor index. The index sits at 56.2, its lowest level since November of last year.
- The sales factor index lost 5.8 points to 56.4. This level is 15.7 points below its recent peak in August 2022.
- The dollar amount beyond terms factor index lost 8.3 points to 41.0, the lowest level of the index since May 2020.

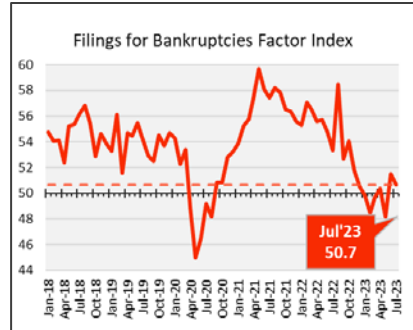
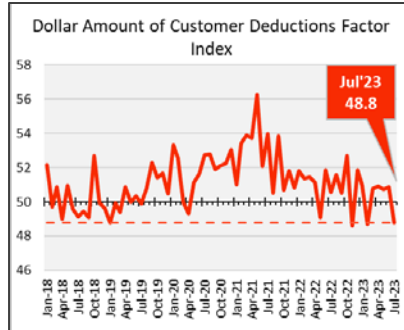
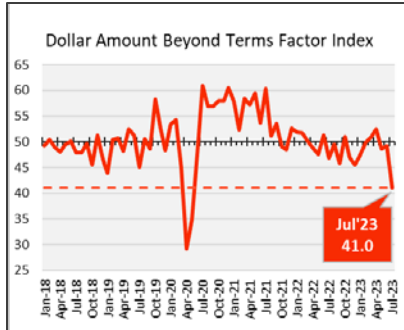
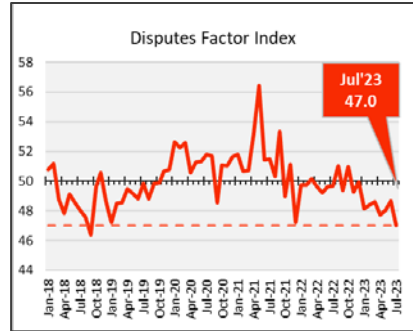
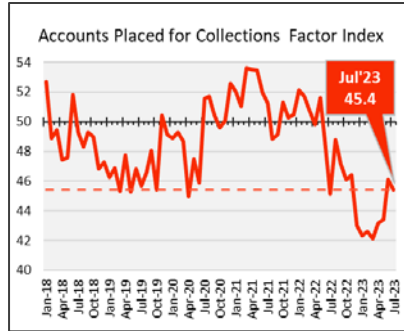
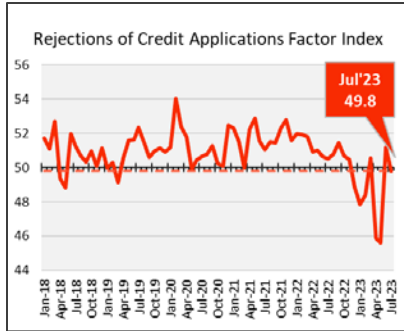
“The service sector CMI index is notably weaker this month, with several factors setting new lows for the year or even further back,” said Cutts. “Favorable factors, despite the declines, remain firmly in expansion. However, five of the six unfavorable factors are now at levels indicating contraction, and the one index that is still on the expansionary side, the filings for bankruptcies index, is on the fence with a value of 50.7. A few respondents indicated that their customers are having trouble getting payments from their customers, so managing cash flow is a problem, and one indicated that delayed Medicaid reimbursements from California and Utah were problematic. The most telling comment was that business was ‘topsy-turvy’ this year, with strong months followed by dramatic opposite shifts, very much in line with how the CMI has been moving this year.”

Service Sector (seasonally adjusted)	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23	Jun '23	Jul '23
Sales	69.5	72.1	65.7	57.8	55.7	57.7	52.9	56.3	58.7	60.4	55.2	62.2	56.4
New credit applications	62.3	68.8	63.8	60.3	57.4	60.1	58.7	59.5	58.5	60.5	58.3	60.0	57.5
Dollar collections	64.1	60.9	62.7	58.3	54.5	57.1	58.2	59.5	60.7	63.8	61.6	63.3	56.2
Amount of credit extended	69.1	69.0	66.5	59.9	57.0	57.2	57.5	58.4	58.4	61.3	57.7	60.4	58.9
Index of favorable factors	66.3	67.7	64.7	59.1	56.2	58.0	56.8	58.4	59.1	61.5	58.2	61.5	57.2
Rejections of credit applications	50.5	50.8	51.4	50.7	50.5	48.9	47.8	48.4	50.6	45.9	45.6	51.2	49.8
Accounts placed for collection	45.1	48.8	47.1	46.1	46.4	43.0	42.3	42.6	42.1	43.2	43.4	46.1	45.4
Disputes	49.7	51.0	49.4	51.0	49.3	49.9	48.1	48.4	48.6	47.7	48.0	48.7	47.0
Dollar amount beyond terms	46.9	49.5	45.8	51.0	47.0	45.5	47.4	49.8	50.8	52.5	48.6	49.3	41.0
Dollar amount of customer deductions	50.6	51.6	50.5	52.7	48.6	51.8	51.0	48.7	50.8	50.9	50.7	50.9	48.8
Filings for bankruptcies	53.3	58.5	52.7	54.0	51.8	50.5	49.8	48.5	49.7	50.3	48.2	51.5	50.7
Index of unfavorable factors	49.4	51.7	49.5	50.9	48.9	48.3	47.7	47.7	48.8	48.4	47.4	49.6	47.1
NACM Service CMI	56.1	58.1	55.6	54.2	51.8	52.2	51.4	52.0	52.9	53.7	51.7	54.3	51.2

CMI Service Sector Factor Indexes Charts

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

Source: National Association of Credit Management

Contacts: Annacaroline Caruso, 410-423-1837

Website: www.nacm.org

Twitter: @NACM_National





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 first 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 factor activities, 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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