Report for October 2022

Issued October 31, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for October 2022 came in at 53.2 points, with deterioration in favorable factor indexes offsetting improvements in unfavorable factor indexes. Respondents repeatedly cited ongoing supply constraints and logistics issues as negatively affecting their businesses, and many stressed that they are experiencing payment delays or sense that conditions are turning negatively with high inflation and interest rates, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The Combined CMI has been deteriorating since March and this month it recorded its lowest value since June of 2020. On net, conditions are still expansionary, but clearly the trend is weakening. This month more respondents added comments and nearly all were indicating worsening conditions, even if for the moment they were still doing well," Cutts said. "Of particular note, even when respondents indicated that their payments or collections were coming in as expected, the work they are doing to ensure they get paid has gotten significantly harder.

"The Treasury yield curve, which compares rates on Treasury bonds at different maturity terms, is not only inverted, meaning yields on shorter term bonds are higher than on those with longer terms, but the inversion is happening through more of the curve. Only the rates on 3-month Treasury bills and shorter terms are below the rate on the 10-year Treasury bond. This is often taken as a sign of imminent recession, and over the past few weeks the inversion has gotten deeper."

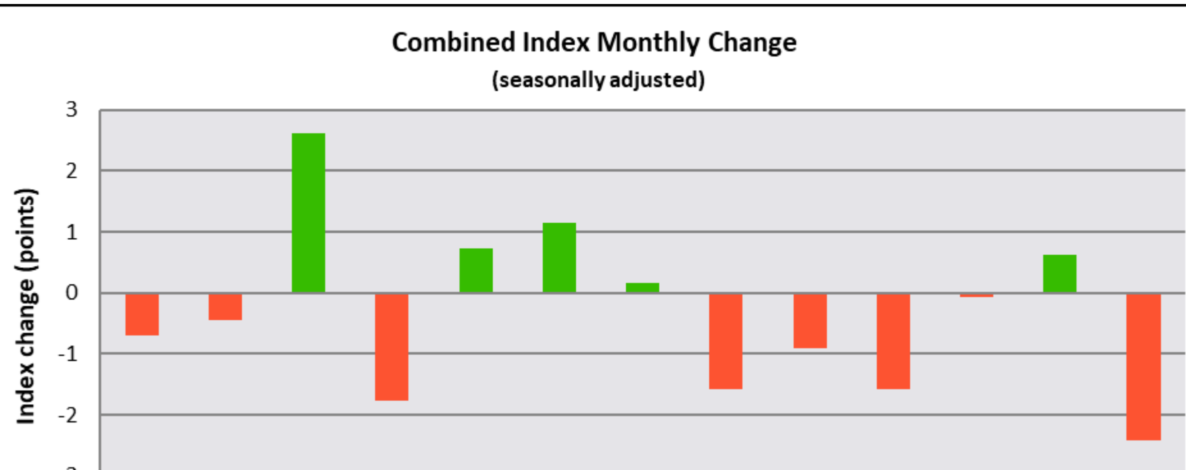
The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. The combined October CMI fell by 2.4 points to 53.2. The index of favorable factors deteriorated by 6.9 points to 56.9, a level that is 7.7 points lower than a year ago. The index of unfavorable factors improved by 0.5 points to hit 50.7 points; 0.6 points lower than a year ago.

All of the categories in the favorable factors list fell markedly in the October survey. The sales index leads the decline, losing 9.0 points in this month's survey and now sits at 55.2. The index for dollar collections dropped 8.6 points to 54.7, the index for the amount of credit extended contracted 7.6 points to 58.7 and index for new credit applications lost 2.4 points to hit 59.0. All of the favorable factor indexes are at the lowest levels recorded by the CMI survey outside of a recession period.

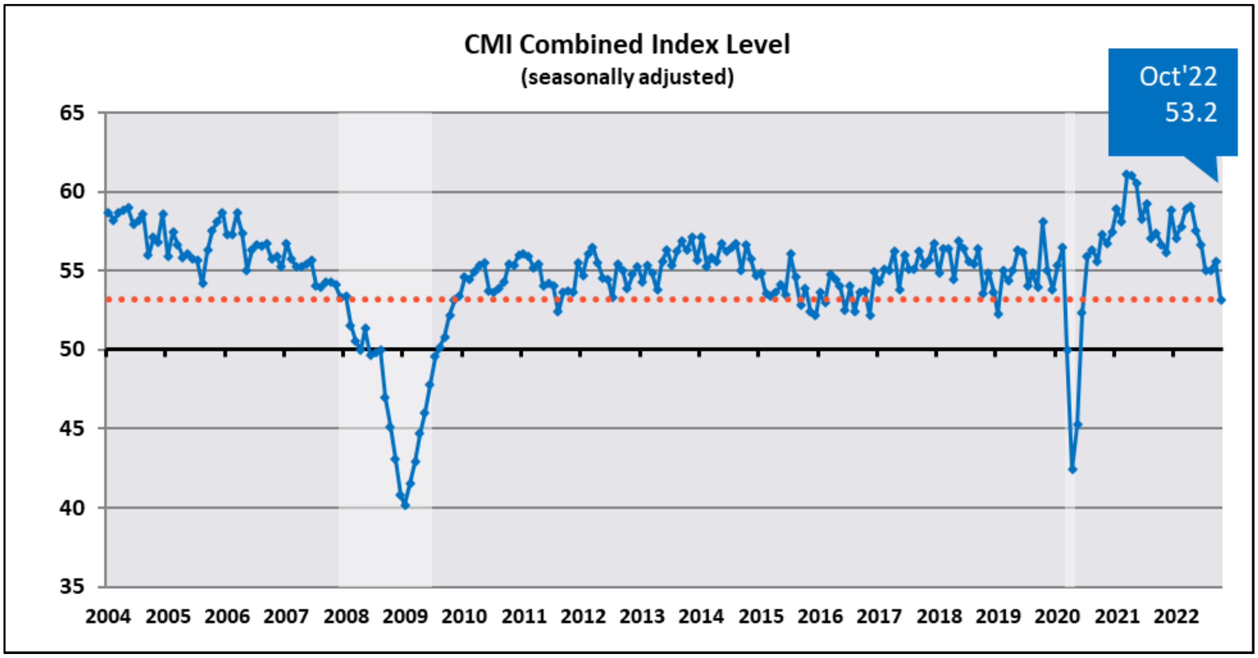
Only one of the unfavorable factor indexes for the combined CMI deteriorated in the October survey. The index for accounts placed for collection fell 1.8 points to 47.6, which being below 50 still indicates that more respondents are having less success with collections than last month. Two factor indexes tied for the strongest improvement over the month: the disputes index (at 50.4) and the dollar amount of customer deductions index (at 51.3), which both gained 2.2 points. Two other indexes also recorded the same gain of 0.3 points: the index for dollar amount beyond terms (at 49.0) and the index for filings for bankruptcies (at 53.8). The index for rejections of credit applications was unchanged with a reading of 52.2 points.

"Although the unfavorable factor indexes posted a gain for the month, there was a notable change in the tone of respondents that indicated this is not as good as it might seem," Cutts said. "For example, more respondents are noting that they are seeing more disputes that appear correlated with inability to pay rather unhappiness with a delay in shipments. The numbers may look the same in the survey, but the interpretation seems to be shifting."

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**	**Sep '22**	**Oct '22**
Sales	67.4	67.4	75.1	71.2	71.3	77.1	74.7	71.6	66.6	65.8	63.0	64.2	55.2
New credit applications	62.1	62.9	67.6	60.6	64.0	68.8	67.1	64.7	64.1	59.7	62.4	61.4	59.0
Dollar collections	61.3	59.2	63.5	62.5	63.2	67.0	65.9	65.5	60.9	61.2	57.7	63.3	54.7
Amount of credit extended	67.6	67.7	71.7	67.2	68.7	69.2	72.1	70.4	67.7	67.6	65.3	66.3	58.7
Index of favorable factors	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**	**68.1**	**64.8**	**63.6**	**62.1**	**63.8**	**56.9**
Rejections of credit applications	52.3	53.2	51.7	51.5	52.3	51.9	51.3	50.7	50.2	50.8	49.4	52.2	52.2
Accounts placed for collection	52.1	52.0	52.1	51.1	52.7	51.5	50.6	51.0	49.7	47.4	49.6	49.4	47.6
Disputes	48.3	48.6	48.2	48.4	48.6	48.0	49.1	49.1	49.4	48.3	49.2	48.2	50.4
Dollar amount beyond terms	49.5	47.1	53.3	53.5	50.9	51.2	54.2	47.2	51.1	46.7	46.4	48.7	49.0
Dollar amount of customer deductions	49.4	48.2	49.3	49.5	49.9	49.0	50.5	48.7	50.7	49.3	49.2	49.1	51.3
Filings for bankruptcies	56.4	55.9	55.7	55.2	56.4	55.8	55.7	56.4	55.8	53.7	57.6	53.5	53.8
Index of unfavorable factors	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**	**50.5**	**51.1**	**49.4**	**50.2**	**50.2**	**50.7**
NACM Combined CMI	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**	**57.5**	**56.6**	**55.0**	**55.0**	**55.6**	**53.2**



	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22
+/-	-0.7	-0.4	2.6	-1.8	0.7	1.1	0.2	-1.6	-0.9	-1.6	-0.1	0.6	-2.4



Manufacturing Sector

The Manufacturing CMI dropped 3.2 points in the October survey to sit at 52.2, nearly erasing the improvement in the September reading. The index of favorable factors led the decline with a 7.1-point loss to 55.1, while the index of unfavorable factors declined by 0.6 points to come in at 50.3.

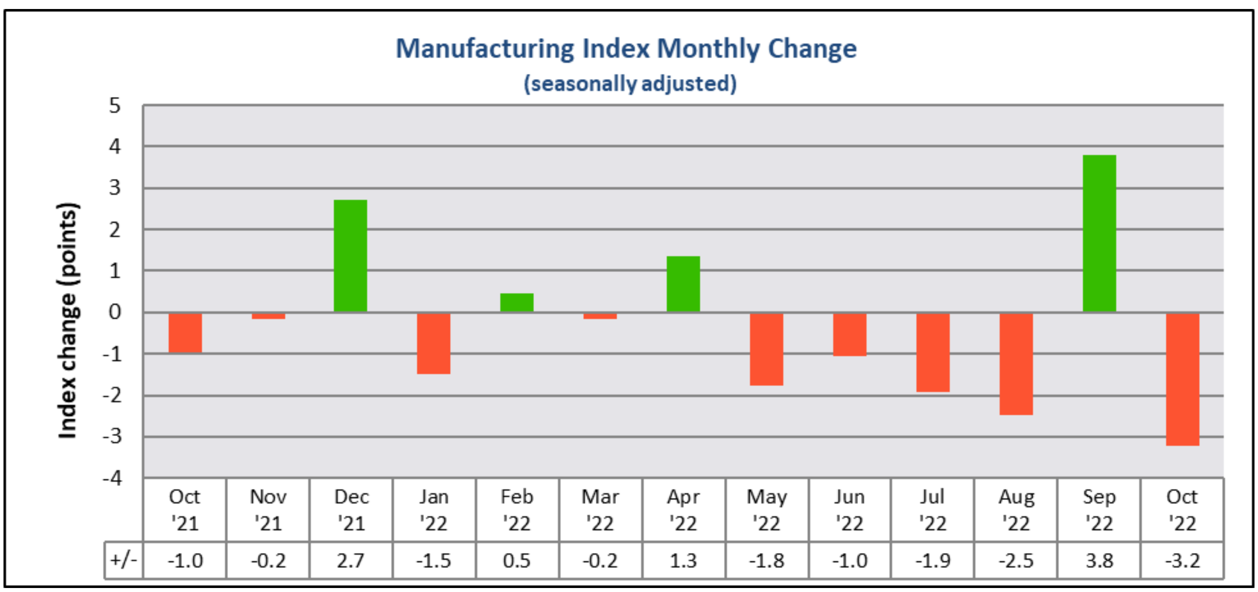
Three out of the 10 factor indexes showed improvement in October, and all are in the list of unfavorable factors: the index for rejections of credit applications gained 0.7 points to 53.4, dollar amount of customer deductions saw a 2.0-point gain to 49.9 and the index for disputes gained 2.3 points to 49.5. Among the other three unfavorable factor indexes, dollar amount beyond terms led the group's decline with a 5.0-point fall to 46.8, which is 1.4 points below its October 2021 value. The index for accounts placed for collection slumped 2.4 points to 49.1. The index for the filings for bankruptcy lost 1.2 points to 53.0, 2.8 points lower than a year ago.

Among the favorable factor indexes, dollar collections fell a jarring 12.4 points to 51.8, 9.3 points lower than its value a year ago. The index for sales also fell precipitously, losing 8.7 points to hit 52.8, a cumulative loss of 13.6 points since last October. The amount of credit extended index slid 6.6 points to 58.3, down 9.4 points from a year ago. Lastly, the index for new credit applications lost 0.9 points to sit at 57.5, down 3.2 points from last October.

"The CMI Manufacturing sector indexes not only took back most of the gains reported in the September survey, but the abrupt and sharp declines in the favorable factor indexes are a bit worrying," Cutts said. "Many of our member respondents continue to state that supply chains may be easing, but they remain problematic. Several indicated that they are having difficulty finding available containers for exports, or if they have acquired the containers, finding space on ships is not easy, despite what the aggregate indicators portray. Similarly, getting all the necessary components for manufacturing products is still challenging as just one missing part means the product can't be made, and rejiggering supply chains for resiliency is difficult, takes significant time and is expensive.

"The rapid rise in interest rates along with the inflationary pressures they are meant to abate will mean fewer companies will have the capital or the will to invest in supply chain resiliency measures or execute on their decarbonization plans. The inability to diversify supply chains and logistics will delay improvements in product deliveries, ironically hampering the success of central banks, including the Fed, in beating down inflation through demand destruction."

Manufacturing Sector (seasonally adjusted)	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**	**Sep '22**	**Oct '22**
Sales	66.3	69.4	76.3	72.8	73.1	74.1	73.6	71.1	64.9	61.7	52.9	61.4	52.8
New credit applications	60.7	60.9	62.1	60.2	63.4	65.9	66.7	62.8	62.5	57.7	57.0	58.4	57.5
Dollar collections	61.1	61.6	64.4	64.0	62.3	66.4	63.4	64.6	61.6	58.8	54.6	64.1	51.8
Amount of credit extended	67.8	67.5	70.2	67.6	68.2	66.5	70.6	70.8	67.1	65.4	59.4	65.0	58.3
Index of favorable factors	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**	**67.3**	**64.0**	**60.9**	**56.0**	**62.2**	**55.1**
Rejections of credit applications	52.2	53.1	52.1	51.2	52.6	51.7	51.8	50.4	50.0	51.4	48.1	52.7	53.4
Accounts placed for collection	53.9	53.8	54.5	50.3	53.6	51.9	50.9	49.9	49.9	49.3	50.1	51.5	49.1
Disputes	47.4	46.4	48.4	47.7	47.9	45.8	48.6	48.9	48.7	47.2	47.1	47.2	49.5
Dollar amount beyond terms	48.2	46.7	54.6	55.2	50.7	51.4	57.8	46.9	50.7	46.7	43.2	51.8	46.8
Dollar amount of customer deductions	48.0	44.6	47.8	47.0	48.3	46.5	50.0	48.0	49.0	48.4	47.4	47.9	49.9
Filings for bankruptcies	55.8	55.6	56.4	55.7	56.4	54.6	54.9	57.1	55.7	54.0	56.4	54.2	53.0
Index of unfavorable factors	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**	**50.2**	**50.7**	**49.5**	**48.7**	**50.9**	**50.3**
NACM Manufacturing CMI	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**	**57.1**	**56.0**	**54.1**	**51.6**	**55.4**	**52.2**



Service Sector

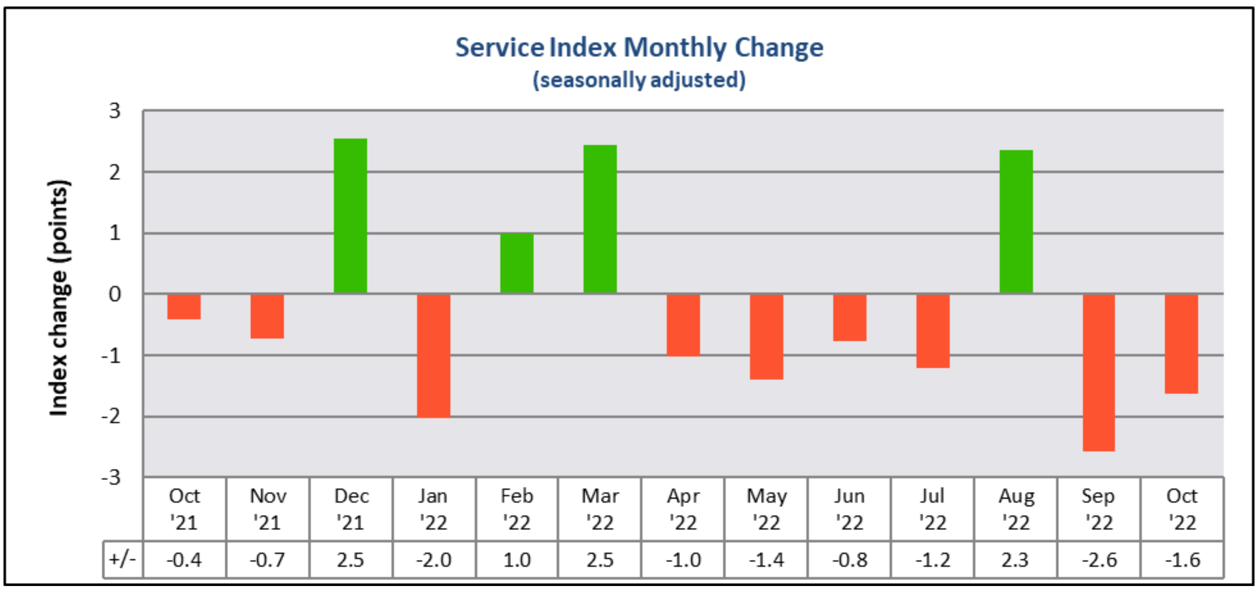
The service sector CMI index declined 1.6 points to 54.2 in the October survey, a level just above its June 2020 value when the economy was digging out from the COVID shutdowns. The index of favorable factors led the fall with loss of 6.6 points to 58.7. In the October 2021 survey, the favorable factor index was at 65.2. The unfavorable factors index posted a 1.7-point gain this month to 51.1, a level that is 3.0 points below the October 2021 value. The unfavorable factors index has remained within a tight 3-point range around 51.5 for the past 13 months, showing no clear trend.

All of the favorable factor category indexes dropped sharply in the October survey. The sales index plummeted 9.3 points to 57.6, down 10.9 points since a year ago and down more than 22 points since its recent peak in March of this year. The index for the amount of credit extended fell 8.5 points to 59.1. A year ago, this index was at 67.4. The dollar collections index dropped 4.9 points to 57.6. The index for new credit applications fell 3.8 points, its lowest value since May 2020.

Among service sector unfavorable factor indexes, only two lost ground in the October survey. The accounts placed for collections index recorded a loss of 1.2 points to 46.1 and the index for rejections of credit applications lost 0.6 points to 51.0. The index for dollar amount beyond terms showed marked improvement with a gain of 5.6 points to 51.2. This index also remained within a tight range over the past year without a clear indication of trend, and sits 0.4 points higher than a year ago. The dollar amount of customer deductions index regained 2.4 points to 52.7 The disputes index gained 2.1 points to sit at 51.2 and the index for filings for bankruptcies added 1.7 points to close at 54.5.

“The services sector CMI index showed a drastic drop in the favorable indexes values, like what our manufacturing members reported,” Cutts said. “Credit is tightening and is more costly for those that qualify, and sales have reached a point where the price increases have stopped covering for the loss in unit sales. Our respondents are indicating that they are seeing more customers showing signs of financial problems. This is reflected in the drop in actual dollar collections and the increase in accounts placed for collections.”

Service Sector (seasonally adjusted)	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22
Sales	68.5	65.3	73.9	69.7	69.6	80.0	75.7	72.1	68.2	69.9	73.2	66.9	57.6
New credit applications	63.5	64.8	73.0	60.9	64.7	71.6	67.4	66.7	65.8	61.7	67.9	64.3	60.5
Dollar collections	61.5	56.7	62.6	60.9	64.1	67.7	68.4	66.5	60.1	63.5	60.8	62.5	57.6
Amount of credit extended	67.4	67.9	73.3	66.7	69.3	71.9	73.6	69.9	68.4	69.7	71.2	67.6	59.1
Index of favorable factors	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**	**68.8**	**65.6**	**66.2**	**68.2**	**65.3**	**58.7**
Rejections of credit applications	52.5	53.2	51.4	51.8	52.0	52.2	50.8	51.1	50.4	50.3	50.7	51.6	51.0
Accounts placed for collection	50.3	50.2	49.8	51.9	51.9	51.0	50.3	52.1	49.5	45.4	49.2	47.3	46.1
Disputes	49.1	50.9	48.0	49.2	49.3	50.3	49.6	49.3	50.1	49.4	51.2	49.1	51.2
Dollar amount beyond terms	50.8	47.6	52.1	51.8	51.0	51.0	50.6	47.4	51.5	46.6	49.6	45.6	51.2
Dollar amount of customer deductions	50.9	51.7	50.8	51.9	51.4	51.5	51.0	49.3	52.3	50.2	51.1	50.3	52.7
Filings for bankruptcies	57.0	56.1	55.0	54.6	56.4	56.9	56.5	55.6	56.0	53.4	58.7	52.8	54.5
Index of unfavorable factors	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**	**50.8**	**51.6**	**49.2**	**51.8**	**49.4**	**51.1**
NACM Service CMI	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**	**58.0**	**57.2**	**56.0**	**58.4**	**55.8**	**54.2**

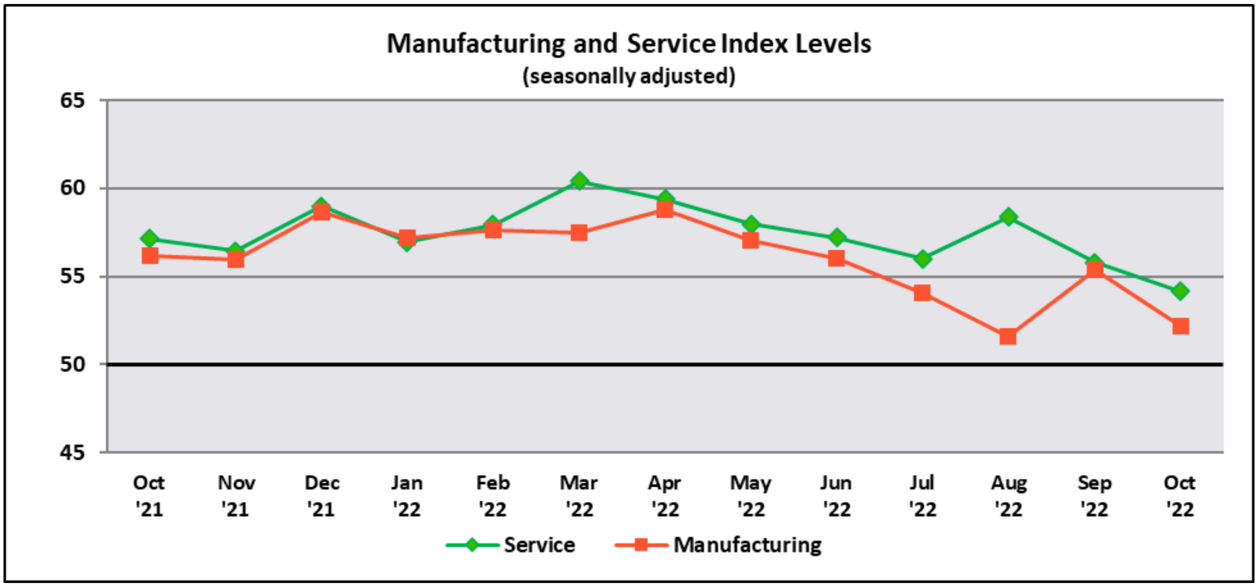


Manufacturing versus Services Sectors

The CMI indexes for service and manufacturing sectors converged in last month's survey, and this month they dropped nearly in tandem. The manufacturing index fell a bit faster, but did not match it's 12-month low set in August, while the services CMI recorded a new low for the year.

"The CMI sector indexes, ignoring the sharp bounces over the past two months, are showing a clear weakening since the spring. Both remain above the technical economic contraction threshold of 50 points. However, they are also hovering near their lowest values since the early part of the pandemic recovery, indicating to me that we are seeing warning signs of recession in the survey responses.

"Coinciding with the declince in the CMI sector indexes is the fact that the yield curve has inverted. This means that it is less expensive to borrow for longer terms, as marked by the 5- and 10-year Treasury bond yields, than it is to borrow for a short term, indicated by the yields on 6-month Treasury bill or a 1-year Treasury bond. The inversion of yield curve typically occurs before a recession when the Fed is raising rates to slow the economy but investors are expecting lower rates in the future, usually a recession in which the Fed would be forced to reverse course. A recession typically follows nine months to year and a half after the start of the inversion in the yield curve as measured by the 2-year to 10-year spread in Treasury bond yields. This inversion first happened on April 1 of this year."



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.*

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.

Source: National Association of Credit Management

Contacts: Diana Mota, 410-423-1837

Website: www.nacm.org

Twitter: NACM_National