Report for February 2023

Issued February 28, 2023

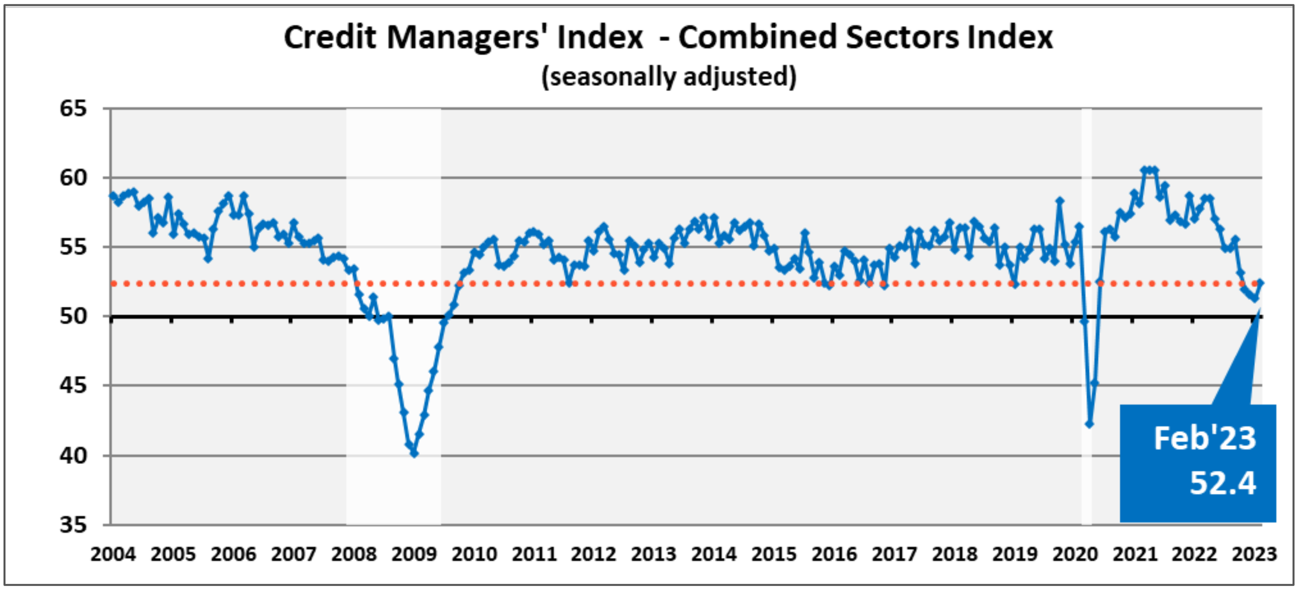
National Association of Credit Management

Credit Managers' Index – Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) improved for the first time since October with a 1.1-point jump in February. The main driver was a large increase in sales, but respondents in the CMI survey expressed growing concern regarding trouble collecting payments, noting that customers had tied up working capital in inventory build-ups, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"Like many other economic indicators for January, the February Credit Managers' Index, which looks back to activity in January, is showing a bit of a rebound," Cutts said. "It's nice to finally see a positive reading in the CMI, but I am cautious about reading too much into the headline number because several factors in the index continued to deteriorate. However, we cannot ignore that the Credit Managers' Index is indicating that the likelihood of recession starting in the near-term has diminished greatly."

"Retail and food services sales for January jumped 3.0% from December, blasting through the consensus expectation of 1.8%, sales of new single-family homes surged 7.2% month-over-month, and sales of passenger cars and light trucks leapt 17.7% in January," Cutts added. "Consumers continue to seemingly ignore the Fed's efforts to curtail their enthusiasm for spending, which may mean that the Fed will keep raising rates higher and for longer than originally hoped. Despite this good news from the consumer sector, there is an undercurrent of worry among businesses that the situation is not improving or is getting worse. All of the manufacturing activity indexes from the regional Federal Reserve Banks showed declines in January and wages and materials costs continue to rise while many shortages remain."



Combined Manufacturing and Service Sectors (seasonally adjusted)	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23
Sales	70.6	75.6	72.6	70.1	65.8	65.5	63.0	63.6	55.5	54.5	54.8	49.8	56.5
New credit applications	64.3	68.0	65.9	64.2	63.5	60.0	62.6	61.2	58.7	56.7	55.5	56.3	57.9
Dollar collections	62.9	66.3	64.6	64.2	60.5	60.3	58.0	63.4	54.9	56.2	57.8	57.3	59.8
Amount of credit extended	69.3	69.2	71.4	69.5	67.0	67.2	64.8	65.9	58.7	57.1	55.4	56.8	57.9
Index of favorable factors	**66.8**	**69.8**	**68.6**	**67.0**	**64.2**	**63.2**	**62.1**	**63.5**	**56.9**	**56.1**	**55.9**	**55.1**	**58.0**
Rejections of credit applications	52.2	51.6	51.2	50.5	50.4	51.0	49.5	52.1	52.0	51.1	51.0	50.5	50.4
Accounts placed for collection	52.3	50.9	50.3	50.7	49.6	47.3	49.5	49.3	47.6	46.5	46.2	45.0	45.3
Disputes	48.6	47.9	49.0	49.0	49.1	48.4	49.2	48.4	50.3	48.4	49.0	48.8	48.1
Dollar amount beyond terms	50.8	50.8	53.3	47.2	51.0	46.6	46.1	49.0	49.0	47.6	45.7	47.4	49.6
Dollar amount of customer deductions	49.9	49.0	50.7	48.6	50.4	49.2	49.4	49.4	51.3	49.3	49.3	50.2	48.5
Filings for bankruptcies	56.5	55.6	55.5	56.4	55.4	53.4	57.2	53.4	53.5	52.2	50.9	50.5	49.8
Index of unfavorable factors	**51.7**	**51.0**	**51.7**	**50.4**	**51.0**	**49.3**	**50.2**	**50.3**	**50.6**	**49.2**	**48.7**	**48.7**	**48.6**
NACM Combined CMI	**57.7**	**58.5**	**58.5**	**57.0**	**56.3**	**54.9**	**54.9**	**55.6**	**53.2**	**52.0**	**51.6**	**51.3**	**52.4**

CMI – Combined Sectors Factor Indexes

The index of favorable factors improved by 2.9 points to 58.0, a level that is 8.8 points lower than a year ago. The favorable factor index had its most recent peak in March of last year at 69.8 points. The index of unfavorable factors lost 0.1 in the February CMI survey, coming in at 48.6 points, 3.1 points lower than a year ago and the lowest value recorded since May of 2020 when the index was at 47.2 points.

All of the components in the favorable factors list improved in the February CMI survey. The index for sales leads with a 6.7-point jump to 56.5, its best reading since September. The index for dollar collections gained 2.5 points to 59.8, a value that is 6.5 points lower than its 12-month high of 66.3 set in March. The index for new credit applications gained 1.6 points to 57.9, its third consecutive month of improvements. The index for the amount of credit extended rose 1.1 points to hit 57.9, a level that is 11.4 points lower than a year ago and 13.5 points lower than its twelve-month high.

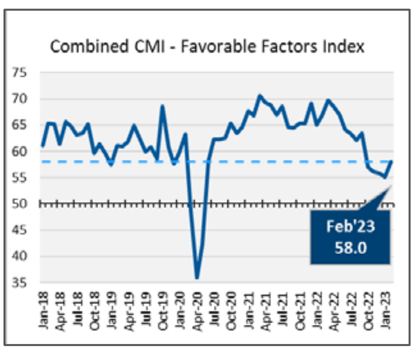
Four of the six unfavorable factor indexes for the combined CMI deteriorated in the February survey. The largest decline was recorded by the index for dollar amount of customer deductions, which fell 1.7 points to 48.5, a value that is 1.4 points lower than one year ago. The indexes for disputes and filings for bankruptcies both lost 0.7 to come in at 48.1 and 49.8, respectively. The rejections of credit applications index declined 0.1 to a reading of 50.4. This index has stayed in a narrow range between 49.5 and 52.1 over the past year with no discernable trend.

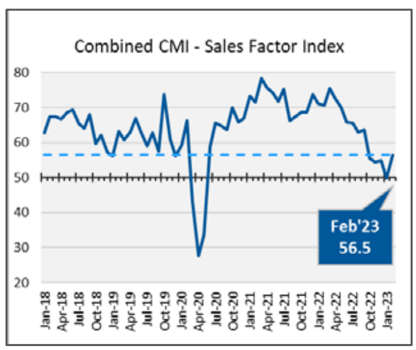
The index for dollar amount beyond terms improved with a 2.2-point jump to 49.6, its highest level since June, though it is still indicating that respondents are seeing a net decline in accounts making timely payment. The index for accounts placed for collection is up 0.3 from last month but is down 7.1 points from a year ago when the index was at its highest level for the trailing twelve months.

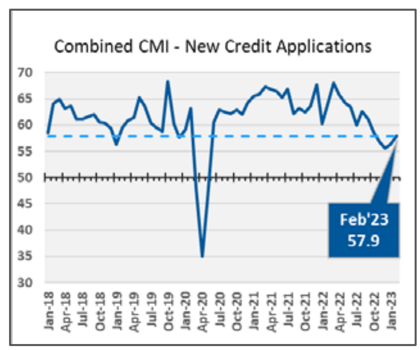
“The Combined CMI factor index for sales is little changed from where it was during the fourth quarter, but the past two months have been a wild ride,” Cutts said. “In January, we saw a 5.0-point drop in sales and now we have a 6.6-point gain. Importantly, the sales index is down nearly 20% since last March, a stunning change in activity. Inventories are rising in part because sales have slowed enough for many firms to work through backlogs.”

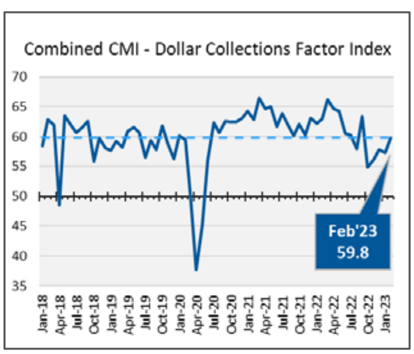
CMI – Combined Sectors Factor Indexes Charts

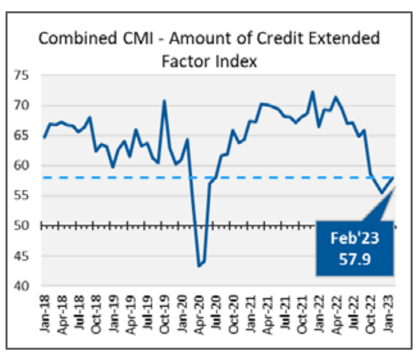
***Note: All charts contain seasonally adjusted data. Please note that the vertical axes are not scaled identically and the dotted line represents the most recent value.*

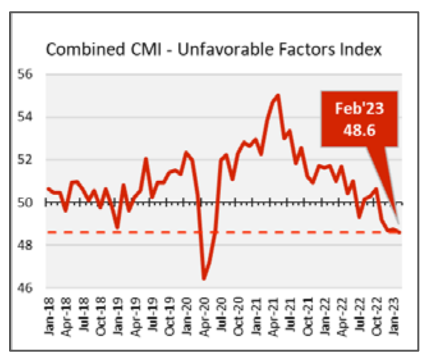


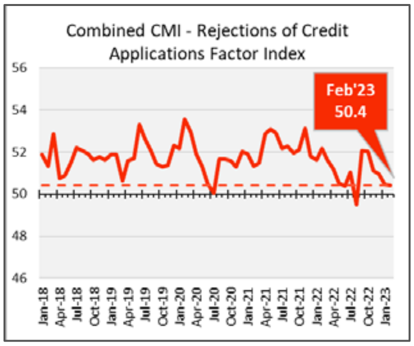


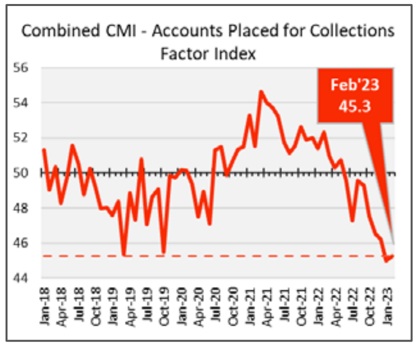


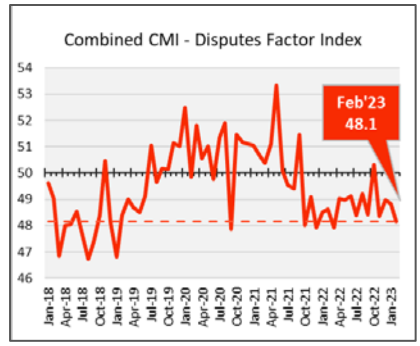


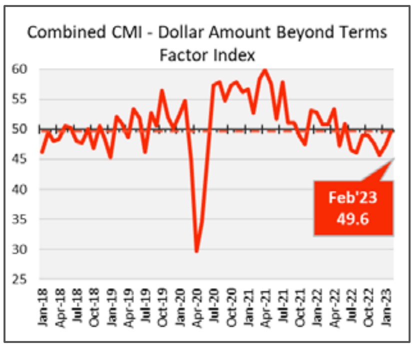


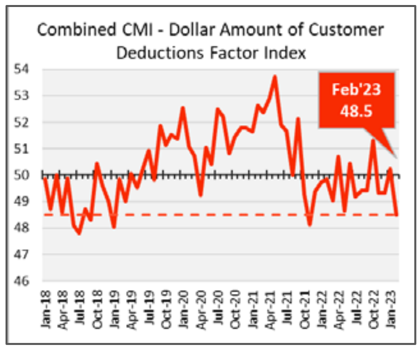


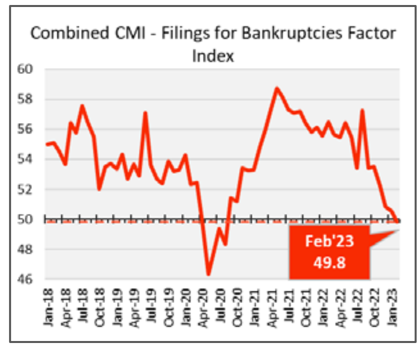










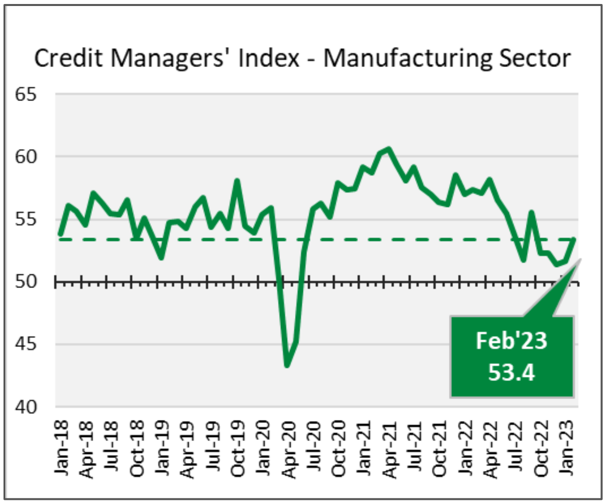


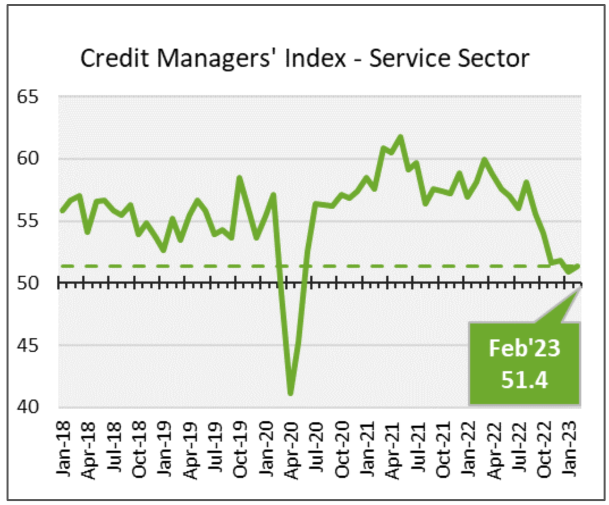
Manufacturing versus Service Sector Indexes

The CMI index for manufacturing gained 1.7 points in the February survey to show a level 53.4, its highest level since last September. The service sector CMI improved 0.5 this month to come in at 51.4, erasing most of the decline we saw in the January survey.

“Both sector CMI indexes improved this month, with manufacturing leading both in the amount of gain and the overall level,” Cutts said. “The manufacturing sector index had been falling faster than the services sector index but now we are seeing greater divergence. The CMI has been tracking closely with other indicators of economic activity, either coincidentally or leading by a month or two. While the numbers are important, it’s the comments from NACM member respondents that outline the true economic story.”

“Among the NACM survey manufacturing sector respondents, shortages of production materials are again at the forefront of concerns for many, and winter weather has also slowed production. The Federal Reserve Bank of New York’s Global Supply Chain Pressure Index corroborates this sentiment-it is still showing supply chain pressures that are nearly a full standard deviation higher than normal levels. Among service sector respondents, the most common concern was slower payments and the potential for rising bankruptcies or mergers among distressed firms. Higher diesel fuel prices are especially problematic for trucking companies, and one respondent noted that weaker firms are really struggling with the higher costs.”





Manufacturing Sector Factor Indexes

Favorable factors led the gain in the manufacturing CMI with a 4.1-point improvement to 58.5, its highest level since last September. The index is down 7.8 points year-over-year and down 9.0 points from its 12-month high of 57.8 from May. The Manufacturing index of unfavorable factors remained at 49.9, its fourth consecutive reading in contraction territory.

Seven out of the 10 manufacturing factor indexes recorded improvement in the February survey. Leading the gains was the index for sales, a favorable factor, which leaped 9.8 points to 58.2. A year ago, this index stood at 71.8, 13.6 points higher than it is today, and its twelve-month high was in March when the index was at 72.6. Two factor indexes share the title for second largest improvement: dollar collections, a favorable factor, and dollar amount beyond terms, and unfavorable factor. The dollar collections index sits 1.1 points below its February 2022 level and 5.2 points below its twelve-month high from last March. The dollar amount beyond terms index is now at 51.3, 4.9 points below its twelve-month high from last April.

The index for new credit applications recorded the third highest improvement in the February survey with a 2.6-point increase followed by the index for the amount of credit extended, which rose 1.0 point to 58.8. The index for accounts placed for collection rose 0.3 to 48.2 marking the fifth consecutive month that the index has been in contraction territory. The index for filings for bankruptcies rounds out the list of improving factors, coming in 0.1 higher than in January for a reading of 51.4.

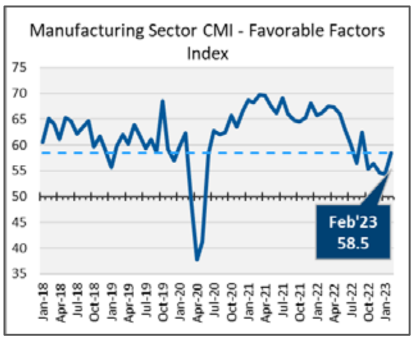
The three factor indexes showing deterioration are disputes, falling 1.6 points to 47.9, dollar amount of customer deductions, losing 1.0 point to 48.2, and rejections of credit applications, posting a 0.6-point drop to 52.6.

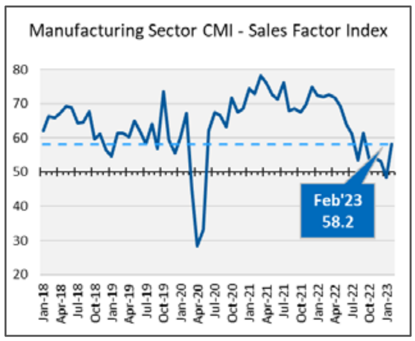
“Reversing one of the worrying trends from last month, rising sales are now driving applications for credit and the amount of credit extended,” Cutts said. “In January we saw a large decline in sales while customers were seeking more credit and getting it. The improvement in payment trends is a welcome relief, with a decline in the share of accounts that have gone past terms and fewer referrals for collection. One month doesn’t make a paradigm shift, so I am cautiously optimistic regarding the credit conditions in the manufacturing sector indicated by the CMI.”

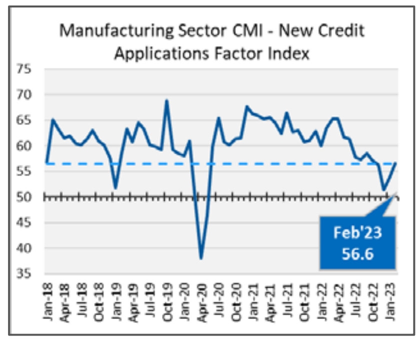
Manufacturing Sector (seasonally adjusted)	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23
Sales	71.8	72.6	71.7	69.2	63.8	61.1	53.5	61.4	53.6	54.2	53.1	48.4	58.2
New credit applications	63.5	65.3	65.3	61.7	61.4	57.8	57.4	58.6	57.3	56.4	51.3	54.0	56.6

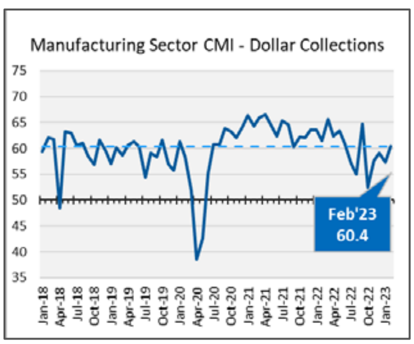
Dollar collections	61.5	65.6	62.5	63.4	60.9	57.3	55.0	64.7	52.4	57.6	59.2	57.3	60.4
Amount of credit extended	68.2	66.6	70.1	69.6	65.6	64.6	59.9	65.1	57.8	57.7	54.7	57.8	58.8
Index of favorable factors	**66.3**	**67.5**	**67.4**	**66.0**	**62.9**	**60.2**	**56.5**	**62.4**	**55.3**	**56.5**	**54.6**	**54.4**	**58.5**
Rejections of credit applications	52.4	51.6	51.6	50.3	50.3	51.5	48.1	52.5	53.2	51.7	53.0	53.2	52.6
Accounts placed for collection	53.1	51.2	50.7	49.9	50.1	49.5	50.2	51.4	49.0	46.8	49.6	47.8	48.2
Disputes	47.8	45.6	48.6	48.7	48.2	47.4	47.3	47.5	49.5	47.4	48.0	49.5	47.9
Dollar amount beyond terms	50.4	50.8	56.3	46.8	50.6	46.5	42.6	52.2	47.3	48.5	46.5	48.2	51.3
Dollar amount of customer deductions	48.4	46.7	50.4	47.9	48.7	48.1	47.5	48.3	50.0	50.1	46.7	49.2	48.2
Filings for bankruptcies	56.3	54.6	54.9	57.8	55.4	54.0	55.9	54.0	52.9	52.6	51.2	51.3	51.4
Index of unfavorable factors	**51.4**	**50.1**	**52.1**	**50.2**	**50.5**	**49.5**	**48.6**	**51.0**	**50.3**	**49.5**	**49.2**	**49.9**	**49.9**
NACM Manufacturing CMI	**57.3**	**57.1**	**58.2**	**56.5**	**55.5**	**53.8**	**51.7**	**55.6**	**52.3**	**52.3**	**51.3**	**51.7**	**53.4**

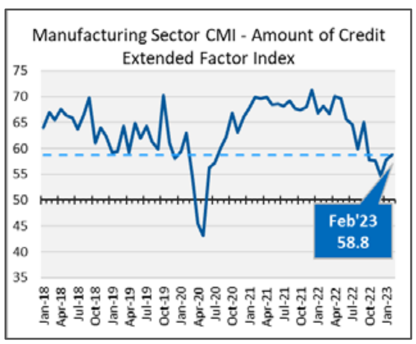
Manufacturing Sector Factor Indexes Charts

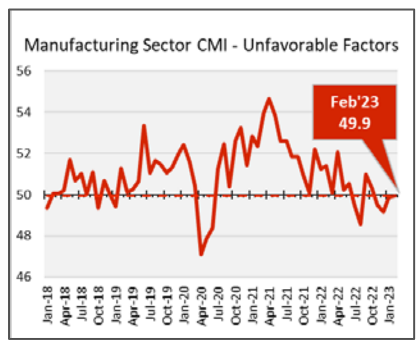


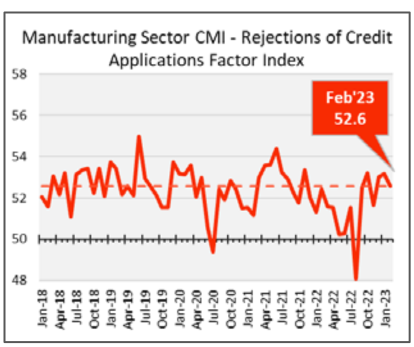


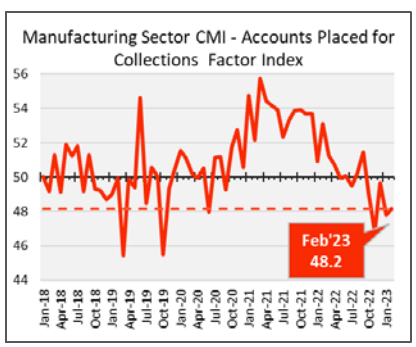


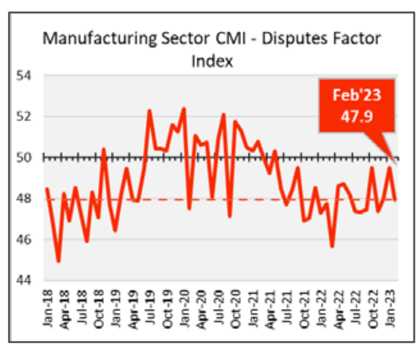


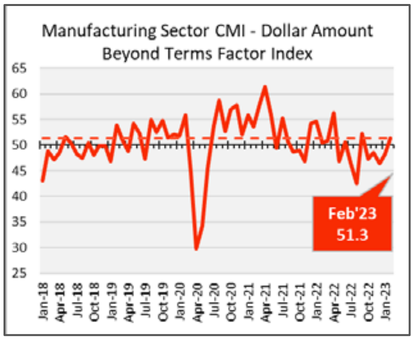


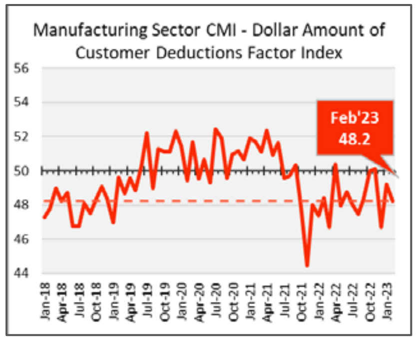


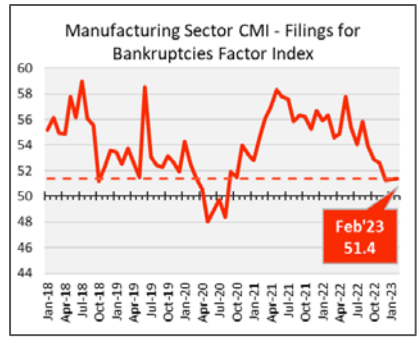












Service Sector Factor Indexes

The improvement in the CMI service sector was led by the 1.8-point improvement in the favorable factors index. This index sits at 51.4 points in this month's survey, a level that is 14.4 points below its 12-month high of 72.0 attained in March. The primary factor lifting the favorable factor index is the sales index, which recorded a 3.4-point improvement to hit a value of 54.7. This index is almost 24 points lower than its twelve-month high from last March.

"The service sector CMI index improved this month but did not erase the full amount of deterioration recorded in January," Cutts said. "The index is still planted firmly on the side of expansion but NACM members are citing problems getting payments in. Rising sales are great but not when achieving them comes at the cost of first extending additional credit because of inflation and then later not getting paid or having to hound your accounts to get paid after going well beyond terms."

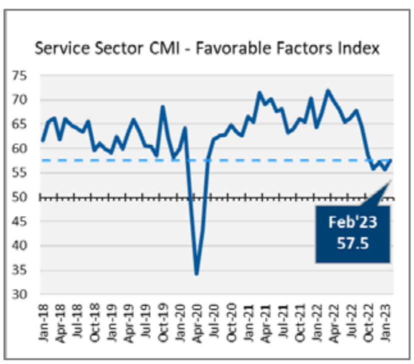
The index for dollar collections gained 2.0 points to 59.2. The index for the amount of credit extended increased 1.3 points to 57.1, putting the index 15.6 points below its twelve-month high of 72.7 recorded in April. The index for new credit applications rose 0.6 to 59.2, 11.5 points below its twelve-month high.

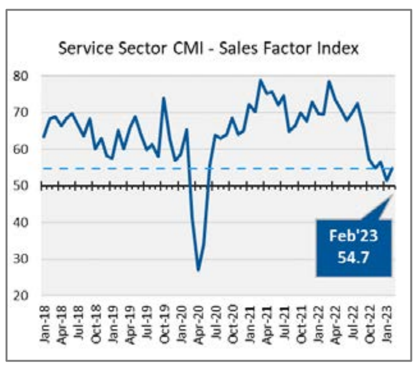
The unfavorable factors index posted its fourth consecutive decline with a loss of 0.3 to 47.3, a level that is 4.7 points below its 12-month high set a year ago. Just two factor indexes deteriorated among the six in the list of unfavorable factors, but their declines were large enough to bring the collected index down. The largest decline for the unfavorable factor group was marked by the dollar amount of customer deductions index, which lost 2.5 points to a value of 48.8. The other declining index was for filings for bankruptcies, which dropped 1.5 points to 48.2. February marks the second month this index has been in contraction territory since August 2020.

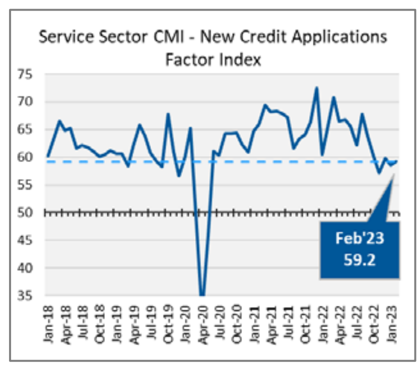
Leading the improved group of unfavorable factor indexes is the index for the dollar amount beyond terms which posted a 1.3 point gain to 47.9. This index is 3.5 points below its twelve month high set in June. The index for rejections of credit applications improved 0.5 to 48.2, but is down 3.7 points from its value this time last year when it hit its twelve-month high. The indexes for accounts placed for collection and disputes both improved by 0.2 to hit values of 42.3 and 48.4 respectively.

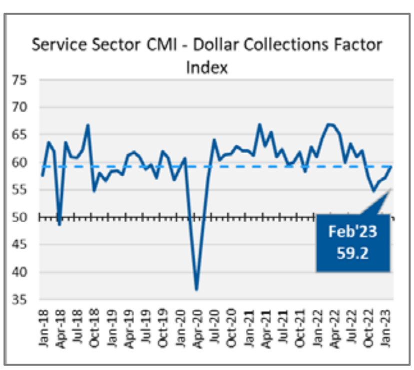
Service Sector (seasonally adjusted)	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23
Sales	69.4	78.5	73.5	70.9	67.7	70.0	72.5	65.7	57.4	54.9	56.5	51.3	54.7
New credit applications	65.2	70.8	66.5	66.7	65.6	62.2	67.8	63.8	60.1	57.1	59.8	58.6	59.2
Dollar collections	64.3	66.9	66.7	65.1	60.1	63.4	61.0	62.1	57.3	54.8	56.5	57.2	59.2
Amount of credit extended	70.5	71.7	72.7	69.3	68.4	69.8	69.7	66.6	59.7	56.6	56.1	55.8	57.1
Index of favorable factors	**67.4**	**72.0**	**69.9**	**68.0**	**65.4**	**66.3**	**67.8**	**64.6**	**58.6**	**55.8**	**57.2**	**55.7**	**57.5**
Rejections of credit applications	51.9	51.7	50.8	50.8	50.5	50.5	50.9	51.6	50.8	50.5	48.9	47.8	48.2
Accounts placed for collection	51.5	50.7	49.9	51.5	49.0	45.0	48.9	47.1	46.1	46.2	42.8	42.1	42.3
Disputes	49.5	50.2	49.5	49.2	50.0	49.4	51.1	49.4	51.1	49.3	50.0	48.1	48.4
Dollar amount beyond terms	51.2	50.9	50.4	47.5	51.4	46.8	49.6	45.8	50.7	46.7	45.0	46.6	47.9
Dollar amount of customer deductions	51.3	51.4	51.1	49.3	52.1	50.3	51.4	50.5	52.6	48.5	51.9	51.3	48.8
Filings for bankruptcies	56.6	56.7	56.0	55.0	55.5	52.8	58.6	52.9	54.1	51.8	50.5	49.8	48.2
Index of unfavorable factors	**52.0**	**51.9**	**51.3**	**50.6**	**51.4**	**49.1**	**51.7**	**49.5**	**50.9**	**48.9**	**48.2**	**47.6**	**47.3**
NACM Service CMI	**58.2**	**59.9**	**58.7**	**57.5**	**57.0**	**56.0**	**58.2**	**55.6**	**54.0**	**51.6**	**51.8**	**50.9**	**51.4**

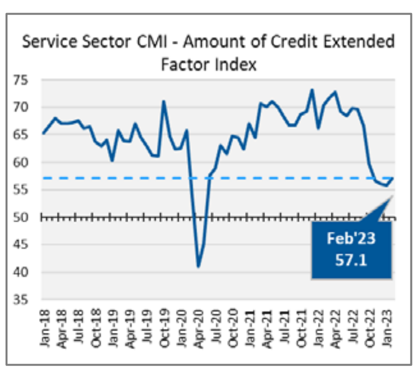
Service Sector Factor Indexes Charts

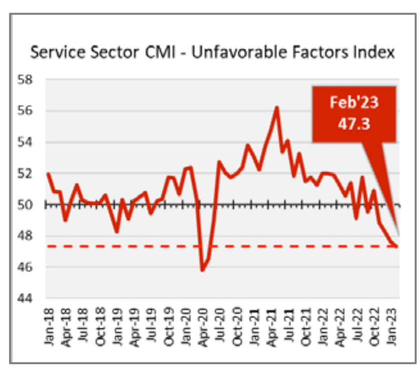


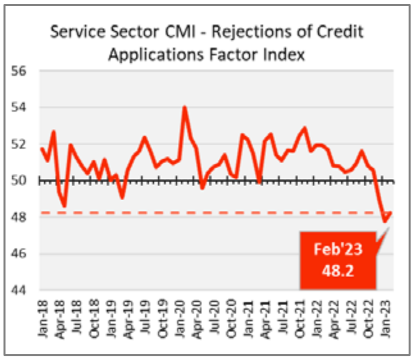


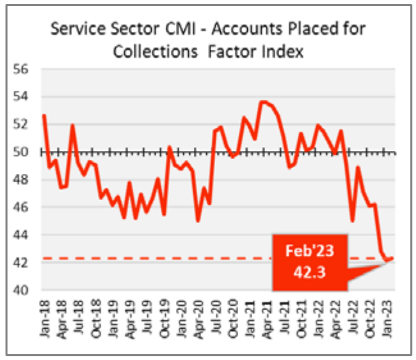


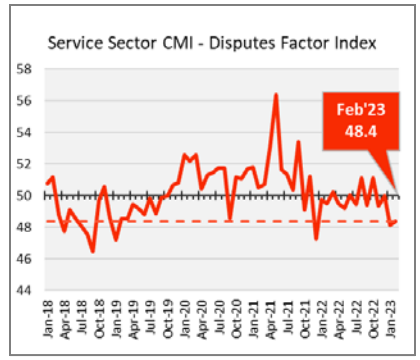


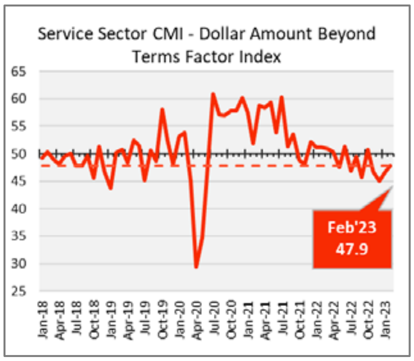


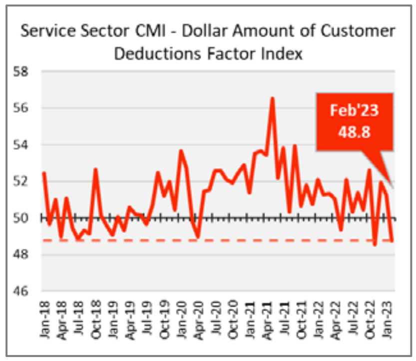


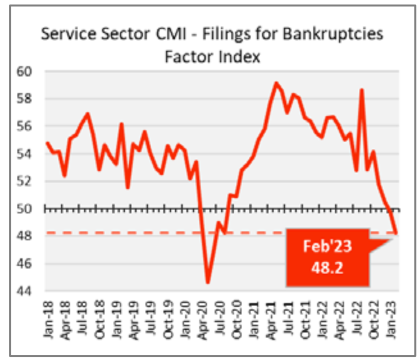












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Methodology Appendix

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:

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

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

**Note: 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.*

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