Report for August 2022

Issued August 31, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for August remained level at 55.0 points, with improvements in unfavorable factor indexes offsetting deterioration in favorable factor indexes. Several respondents noted this month that supply constraints are still problematic, and many also indicated that receivables are slow coming in either due to customer staffing issues or inability to meet terms, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The CMI is still indicating solid economic growth, but there is more to the story than just value of the current level of 55 points," Cutts said. "While the CMI remains five points above the contraction threshold, the favorable factor index is at its lowest level since June of 2020, and the unfavorable factors index is at the second lowest reading since that time, with last month's value being the lowest. The broader economic conditions, like inflation, labor shortages and demand shifts, are becoming more evident in the CMI

"Price increases are leading the day. Respondents indicated that sales in terms of dollars continue to grow, but units of sales are stagnant or down. Buyers are sensitive to prices, but we may also be seeing some companies with too much inventory pausing purchases. Slowing payment speeds and lower collections amounts are also appearing in the CMI responses, consistent with some payors having difficulties now, perhaps an early indicator of the coming broader economic stress."

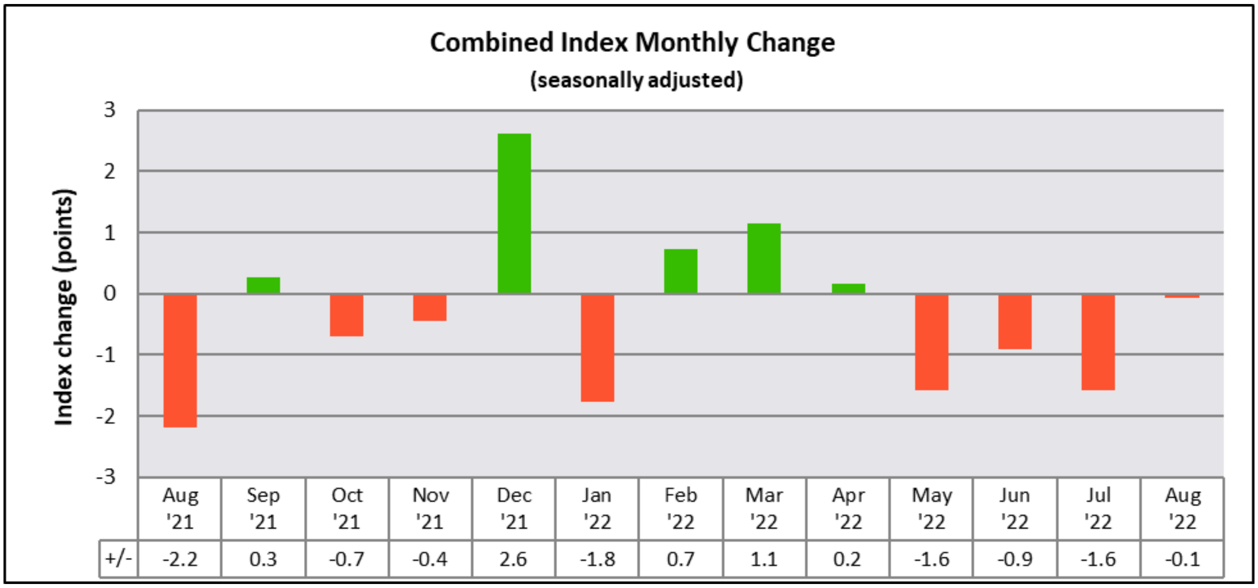
The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. The combined August CMI fell by 0.1 points to 55.0, which with rounding, matches the July reading. The index of favorable factors slid 1.5 points in August to 62.1, a level that is 2.6 points lower than a year ago. The index of unfavorable factors improved by 0.8 points to 50.2 points, 1.7 points lower than a year ago.

Three of the four categories in the favorable factors list dropped in the August survey. The dollar collections index led the decline with a sharp 3.5-point drop to 57.7, its lowest level since June 2020. The sales index fell for the fifth month in a row, losing another 2.8 points to 63.0, and the amount of credit extended index dropped 2.3 points to 65.3. The index for new credit applications improved by 2.7 points to 62.4. The declines in the favorable factor indexes over the past several months are notable but the levels of the indexes continue to indicate strong expansionary conditions.

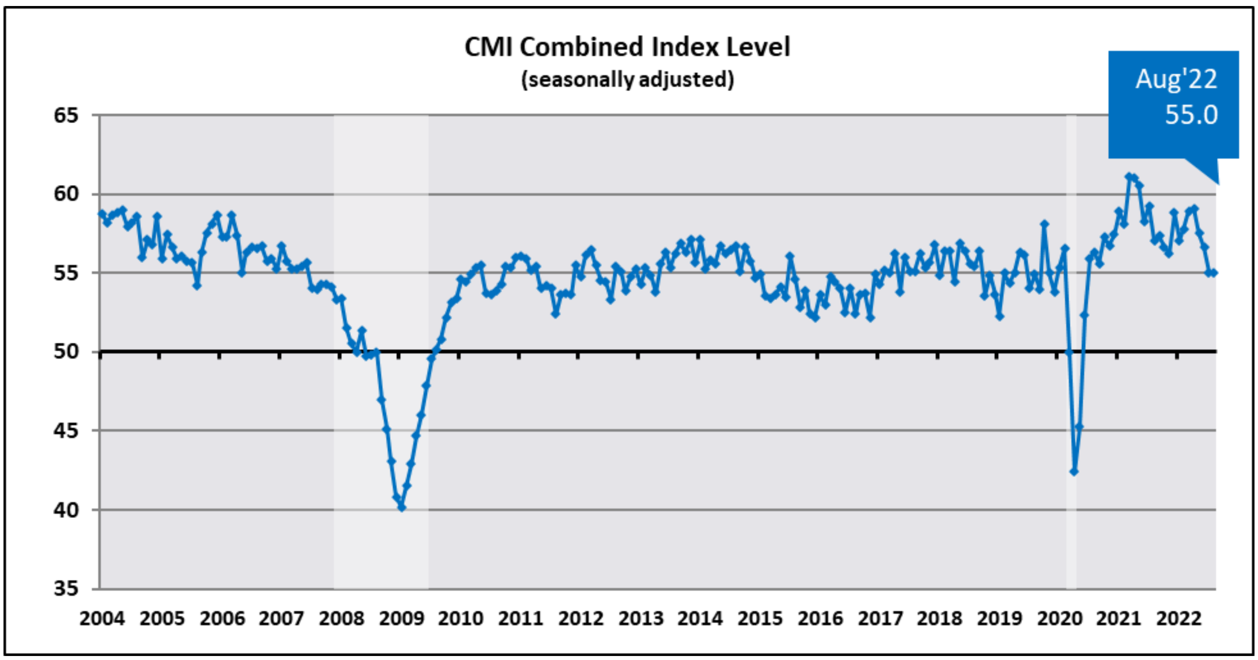
Half of the unfavorable factor indexes for the combined CMI improved in the August survey. Consistent with data on federal court filings for bankruptcies, member respondents noted that the share of customers that were filing for bankruptcy in the most recent CMI survey was down, with the index showing a 3.9-point improvement over the July level. The filings for bankruptcies index, at 57.6 points is at its best level since June 2021. On a related note, the accounts placed for collections index improved by 2.2 points to 49.6, but this index remained in contraction territory. The disputes index showed the least improvement but gained 0.9 points to hit 49.2. Among the unfavorable factors that showed deterioration in August, the rejections of credit applications index saw the largest loss at 1.4 points dipping into the contraction zone with reading of 49.4, the lowest value of the index since November 2016. The dollar amount beyond terms index lost 0.3 points to come in at 46.4, its lowest reading since May of 2020. Lastly, the dollar amount of customer deductions index slipped 0.1 points to 49.2.

"The Credit Managers Index is reflecting so much of the news we're reading about the economy in general," Cutts said. "The CMI is showing the impact of inflation in the sales index, the effects of the Fed's policy tightening on rejections of credit applications and applications for new credit indexes, and supply chain issues in the disputes index. But at the same time, the combination of all these factor indexes is pointing to a pretty good situation currently despite possible storm clouds forming."

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**
Sales	66.0	67.8	67.4	67.4	75.1	71.2	71.3	77.1	74.7	71.6	66.6	65.8	63.0
New credit applications	63.0	63.5	62.1	62.9	67.6	60.6	64.0	68.8	67.1	64.7	64.1	59.7	62.4
Dollar collections	61.5	60.4	61.3	59.2	63.5	62.5	63.2	67.0	65.9	65.5	60.9	61.2	57.7
Amount of credit extended	68.6	67.2	67.6	67.7	71.7	67.2	68.7	69.2	72.1	70.4	67.7	67.6	65.3
Index of favorable factors	**64.8**	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**	**68.1**	**64.8**	**63.6**	**62.1**
Rejections of credit applications	52.2	52.1	52.3	53.2	51.7	51.5	52.3	51.9	51.3	50.7	50.2	50.8	49.4
Accounts placed for collection	51.4	51.4	52.1	52.0	52.1	51.1	52.7	51.5	50.6	51.0	49.7	47.4	49.6
Disputes	49.6	51.2	48.3	48.6	48.2	48.4	48.6	48.0	49.1	49.1	49.4	48.3	49.2
Dollar amount beyond terms	51.4	50.6	49.5	47.1	53.3	53.5	50.9	51.2	54.2	47.2	51.1	46.7	46.4
Dollar amount of customer deductions	49.9	51.9	49.4	48.2	49.3	49.5	49.9	49.0	50.5	48.7	50.7	49.3	49.2
Filings for bankruptcies	57.3	57.1	56.4	55.9	55.7	55.2	56.4	55.8	55.7	56.4	55.8	53.7	57.6
Index of unfavorable factors	**51.9**	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**	**50.5**	**51.1**	**49.4**	**50.2**
NACM Combined CMI	**57.1**	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**	**57.5**	**56.6**	**55.0**	**55.0**



	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22
+/-	-2.2	0.3	-0.7	-0.4	2.6	-1.8	0.7	1.1	0.2	-1.6	-0.9	-1.6	-0.1



Manufacturing Sector

The Manufacturing CMI lost 2.5 points in the August survey to sit at 51.6, its worst reading since May 2020. The index of unfavorable factors lost 0.8 points to 48.7, while the index of favorable factors slid 4.9 points to 56.0. All favorable factor indexes have recorded declines in each of the past four surveys. The favorable factor leading the decline in the August survey is the sales index with an 8.8-point loss to 52.9, which is 12.3 points lower than a year ago and its lowest value since May 2020.

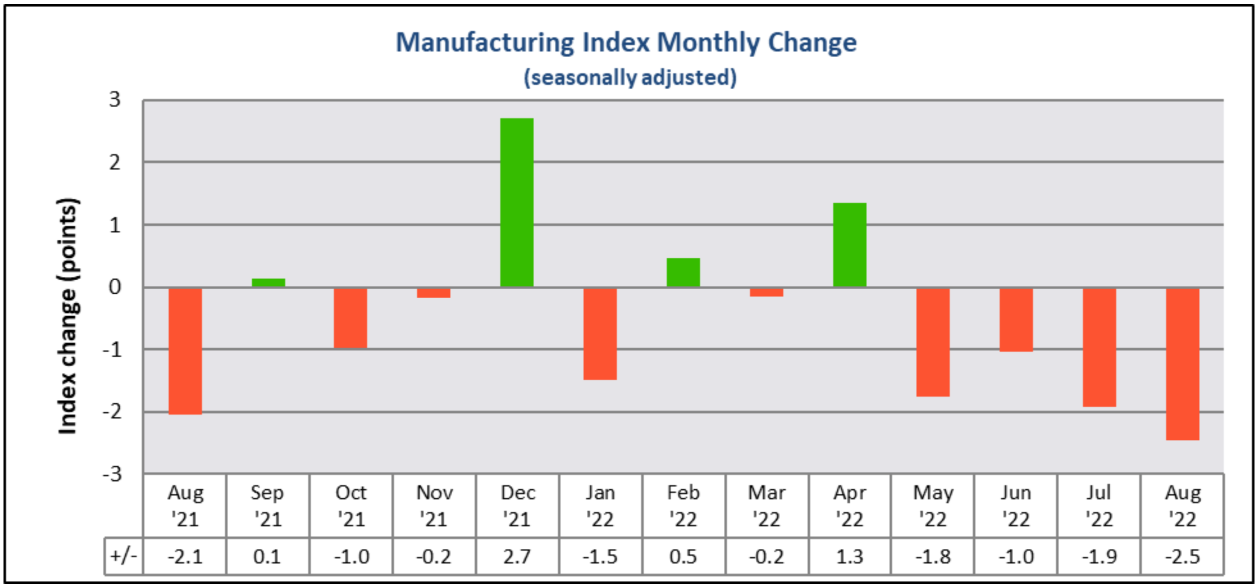
Among the other favorable factor indexes, the amount of credit extended declined 6.0 points to 59.4. The index for dollar collections lost 4.2 points in August to sit at 54.6, and the index for new credit applications dropped 0.7 points to 57.0.

Among unfavorable factor indexes in the manufacturing sector, four factors showed deterioration in the August Survey. The dollar amount beyond terms index led the decline with a 3.5-point drop to a contractionary value of 43.2. This index is now also at its worst level since May 2020. The index for rejections of credit applications dipped 3.3 points to 48.2, its first value below 50 since July of 2020. The dollar amount of customer deductions index fell from 48.4 in July to 47.4 in August and the disputes index shaved another 0.1 point to come in at 47.1. Among the two unfavorable factor indexes that improved in August, filings for bankruptcies gained 2.4 points to hit 56.4 and the accounts placed for collections index rose 0.8 points to 50.1.

“The CMI Manufacturing sector indexes are starting to show some stress, with many factor indexes hitting lows that we last saw in May and June of 2020,” Cutts said. “Many respondents noted that supply chain issues are still affecting their businesses, and some noted that customers added excess inventory which is diminishing orders now.

“The five-month decline in the Manufacturing Sector CMI accelerated in August and it is nearing the contractionary threshold of 50 points. Importantly, the dollar amount beyond terms index, a clear indicator of economic stress, is down 14.6 points since April. On the plus side, we are not seeing rising bankruptcy filings in the CMI Survey data and this is backed up by the low business bankruptcies data from the U.S. Courts, which showed a 31% decline in filings for the twelve-month period ending June 2022 versus June 2021.”

Manufacturing Sector (seasonally adjusted)	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**
Sales	65.2	69.2	66.3	69.4	76.3	72.8	73.1	74.1	73.6	71.1	64.9	61.7	52.9
New credit applications	62.4	63.3	60.7	60.9	62.1	60.2	63.4	65.9	66.7	62.8	62.5	57.7	57.0
Dollar collections	63.5	60.0	61.1	61.6	64.4	64.0	62.3	66.4	63.4	64.6	61.6	58.8	54.6
Amount of credit extended	68.0	67.6	67.8	67.5	70.2	67.6	68.2	66.5	70.6	70.8	67.1	65.4	59.4
Index of favorable factors	**64.8**	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**	**67.3**	**64.0**	**60.9**	**56.0**
Rejections of credit applications	52.9	52.4	52.2	53.1	52.1	51.2	52.6	51.7	51.8	50.4	50.0	51.4	48.1
Accounts placed for collection	53.4	54.4	53.9	53.8	54.5	50.3	53.6	51.9	50.9	49.9	49.9	49.3	50.1
Disputes	48.3	49.7	47.4	46.4	48.4	47.7	47.9	45.8	48.6	48.9	48.7	47.2	47.1
Dollar amount beyond terms	50.6	48.4	48.2	46.7	54.6	55.2	50.7	51.4	57.8	46.9	50.7	46.7	43.2
Dollar amount of customer deductions	49.4	50.0	48.0	44.6	47.8	47.0	48.3	46.5	50.0	48.0	49.0	48.4	47.4
Filings for bankruptcies	56.1	56.3	55.8	55.6	56.4	55.7	56.4	54.6	54.9	57.1	55.7	54.0	56.4
Index of unfavorable factors	**51.8**	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**	**50.2**	**50.7**	**49.5**	**48.7**
NACM Manufacturing CMI	**57.0**	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**	**57.1**	**56.0**	**54.1**	**51.6**



Service Sector

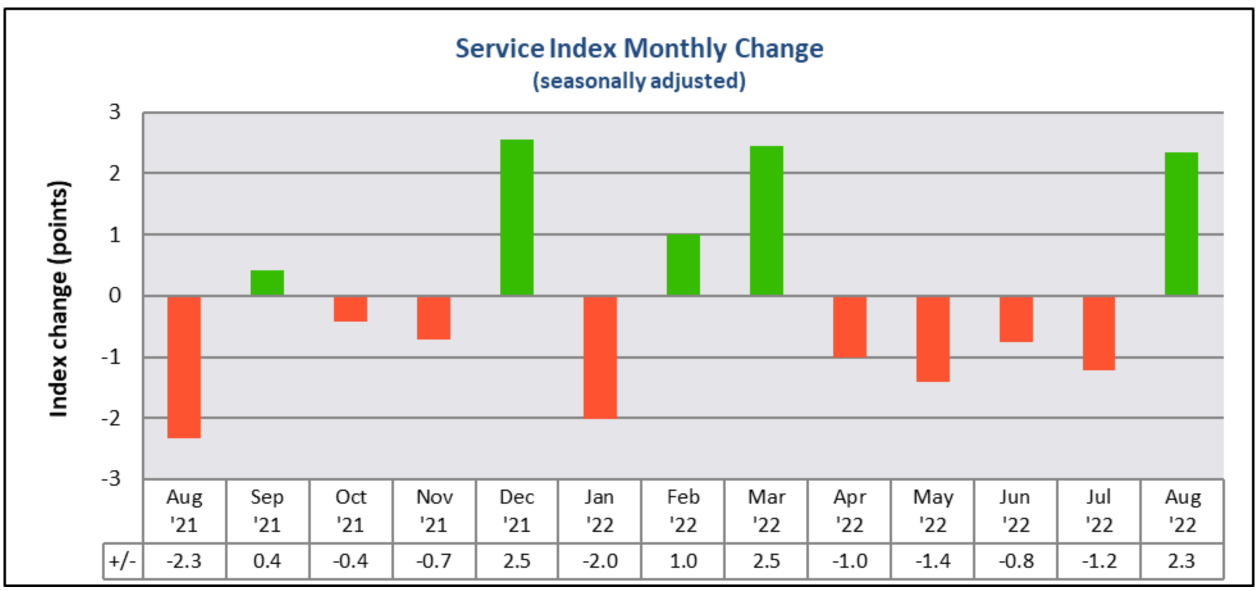
The service sector CMI index improved 2.4 points to 58.4 in the August survey with all but one factor index showing improvement. The index has not shown much of a trend recently, remaining it a narrow band around the important 50-point mark, but it sits 1.2 points higher than a year ago. The index of unfavorable factors led the rise with a gain of 2.6 points which erased most of the decline from the July survey, but was not high enough to push the value over that of a year ago. In the August 2021 survey the unfavorable factor index was at 52.1 and it now sits at 51.8. Similarly, the favorable factors index overcame the decline in the July survey by posting a 2.0-point gain this month and it has posted a 3.5-point improvement over the August 2021 survey value.

In the favorable factors category, the index for dollar collections posted the only decline in the group, losing 2.7 points to come in at 60.8, with a cumulative four-month decline of 7.6 points. Among the other favorable factors, the new credit applications index led with a 6.2-point jump to 67.9; the sales index rose 3.3 points to 73.2; and amount of credit extended gained 1.5 points to 71.2.

Among service sector unfavorable factor indexes, the index for bankruptcy filings showed the largest improvement, gaining 5.3 points to 58.7. The accounts placed for collections index marked a 3.8-point gain, and the dollar amount beyond terms index posted a 3.0-point increase. The disputes index grew 1.8 points to 51.2; the dollar amount of customer deductions index added 0.9 points to 51.1; and rejections of credit applications increased 0.4 points to 50.7.

“The services sector CMI index has done a sharp change in direction in the August 2022 survey with strong improvements in all factor indexes except dollar collections,” Cutts said. “The general story this year has been how consumers have reduced spending on goods in favor of services, and now the CMI data is showing that as well with the decline in the Manufacturing Sector CMI and the improvement in the Services sector CMI. But several respondents in the services group still noted that they are affected by parts shortages, rising costs of commodities and parts, and labor shortages.”

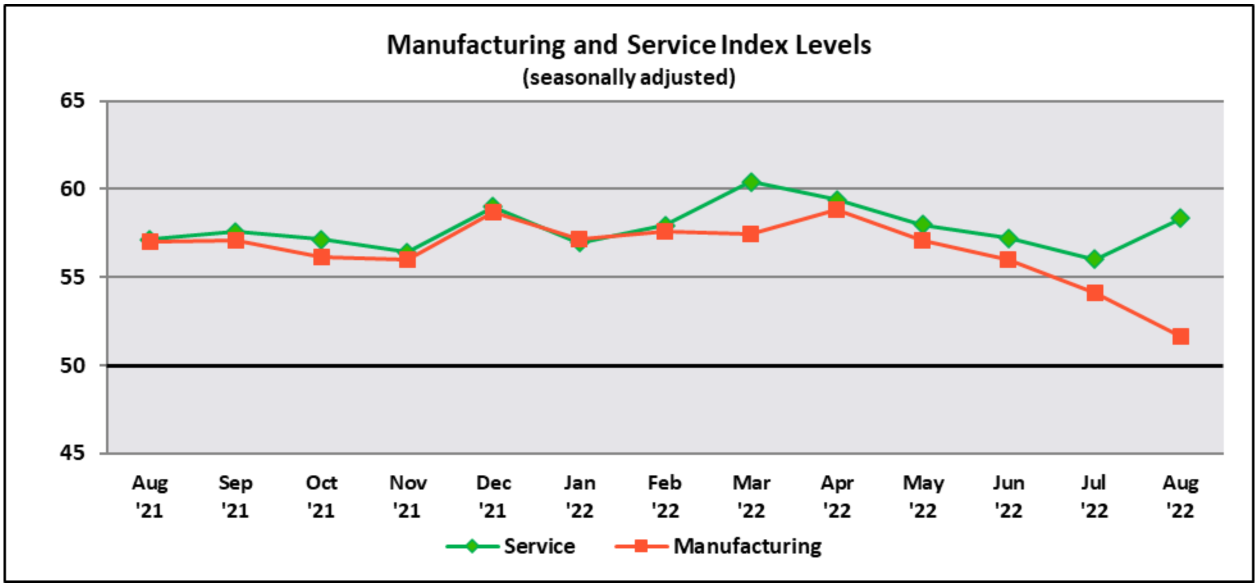
Service Sector (seasonally adjusted)	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22
Sales	66.8	66.4	68.5	65.3	73.9	69.7	69.6	80.0	75.7	72.1	68.2	69.9	73.2
New credit applications	63.5	63.8	63.5	64.8	73.0	60.9	64.7	71.6	67.4	66.7	65.8	61.7	67.9
Dollar collections	59.4	60.8	61.5	56.7	62.6	60.9	64.1	67.7	68.4	66.5	60.1	63.5	60.8
Amount of credit extended	69.1	66.9	67.4	67.9	73.3	66.7	69.3	71.9	73.6	69.9	68.4	69.7	71.2
Index of favorable factors	**64.7**	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**	**68.8**	**65.6**	**66.2**	**68.2**
Rejections of credit applications	51.4	51.9	52.5	53.2	51.4	51.8	52.0	52.2	50.8	51.1	50.4	50.3	50.7
Accounts placed for collection	49.4	48.5	50.3	50.2	49.8	51.9	51.9	51.0	50.3	52.1	49.5	45.4	49.2
Disputes	50.8	52.8	49.1	50.9	48.0	49.2	49.3	50.3	49.6	49.3	50.1	49.4	51.2
Dollar amount beyond terms	52.2	52.8	50.8	47.6	52.1	51.8	51.0	51.0	50.6	47.4	51.5	46.6	49.6
Dollar amount of customer deductions	50.4	53.9	50.9	51.7	50.8	51.9	51.4	51.5	51.0	49.3	52.3	50.2	51.1
Filings for bankruptcies	58.4	57.8	57.0	56.1	55.0	54.6	56.4	56.9	56.5	55.6	56.0	53.4	58.7
Index of unfavorable factors	**52.1**	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**	**50.8**	**51.6**	**49.2**	**51.8**
NACM Service CMI	**57.2**	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**	**58.0**	**57.2**	**56.0**	**58.4**



Manufacturing versus Services Sectors

The CMI indexes for service and manufacturing sectors are now indicating very different economic conditions. The Manufacturing sector index is pointing more toward recession conditions while the services sector is indicating continued economic growth.

“The abrupt drop in the Manufacturing sector CMI this month is quite telling,” Cutts said. “The large decline in most of the factor indexes, especially those indexes tied to sales, dollar collections and dollar amount beyond terms, suggest that the recession may be starting in the sector. Credit underwriting appears to be getting tighter, with more customers being denied on their credit applications. The Fed has been walking a tightrope, trying to get inflation in check avoiding an economic recession. The impacts of their monetary policy tightening are now showing up in the manufacturing sector, but how much deeper they will be felt will depend on many factors."



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.

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