



Report for May 2023

Issued May 31, 2023

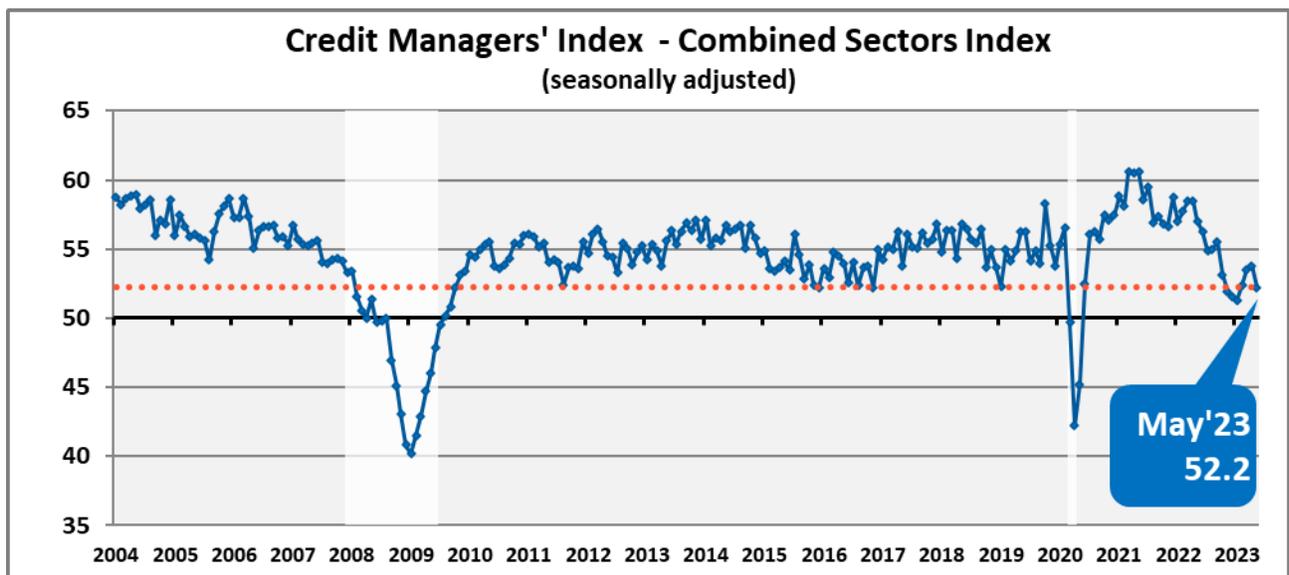
National Association of Credit Management

Credit Managers' Index Combined Sectors

The National Association of Credit Management's seasonally adjusted combined Credit Managers' Index (CMI) for May 2023 came in at 52.2 points, losing 1.6 points from April and erasing nearly all gains made since January. The main driver for the deterioration came from favorable factors, led by a large drop in sales and dollar collections, the same factors that had led the recovery from January's low. Respondents are indicating that there is notable weakness now in the riskier end of their portfolios, with more clients asking for extended terms while higher interest rates are making that proposition less palatable to credit managers, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"Last month, we saw the factor index for rejections of credit applications plummet in response to the banking crisis created by the failure of Silicon Valley Bank," Cutts said. "In the manufacturing segment of the CMI, this index recovered markedly, indicating the banking crisis is not an issue for respondents in that segment. However, on the services side, we see no improvement this month as customers are having more trouble receiving credit. There are many moving parts to financial markets at the present time, with lingering debt ceiling issues, the potential for further interest rate hikes by the Fed and some stress on banks still present. The CMI is indicating that a recession starting in 2023 is a strong possibility once again."

**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.*



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

Combined Manufacturing and Service Sectors (seasonally adjusted)	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23
Sales	70.1	65.8	65.5	63.0	63.6	55.5	54.5	54.8	49.8	56.5	56.5	59.3	53.9
New credit applications	64.2	63.5	60.0	62.6	61.2	58.7	56.7	55.5	56.3	57.9	58.8	58.8	57.9
Dollar collections	64.2	60.5	60.3	58.0	63.4	54.9	56.2	57.8	57.3	59.8	59.7	61.8	57.1
Amount of credit extended	69.5	67.0	67.2	64.8	65.9	58.7	57.1	55.4	56.8	57.9	58.1	58.9	56.2
Index of favorable factors	67.0	64.2	63.2	62.1	63.5	56.9	56.1	55.9	55.1	58.0	58.3	59.7	56.3
Rejections of credit applications	50.5	50.4	51.0	49.5	52.1	52.0	51.1	51.0	50.5	50.4	50.6	47.9	48.7
Accounts placed for collection	50.7	49.6	47.3	49.5	49.3	47.6	46.5	46.2	45.0	45.3	46.4	46.5	45.6
Disputes	49.0	49.1	48.4	49.2	48.4	50.3	48.4	49.0	48.8	48.1	50.4	49.5	48.6
Dollar amount beyond terms	47.2	51.0	46.6	46.1	49.0	49.0	47.6	45.7	47.4	49.6	52.8	54.1	51.7
Dollar amount of customer deductions	48.6	50.4	49.2	49.4	49.4	51.3	49.3	49.3	50.2	48.5	50.4	49.6	53.0
Filings for bankruptcies	56.4	55.4	53.4	57.2	53.4	53.5	52.2	50.9	50.5	49.8	51.6	51.5	49.4
Index of unfavorable factors	50.4	51.0	49.3	50.2	50.3	50.6	49.2	48.7	48.7	48.6	50.4	49.8	49.5
NACM Combined CMI	57.0	56.3	54.9	54.9	55.6	53.2	52.0	51.6	51.3	52.4	53.5	53.8	52.2

CMI Combined Sectors Factor Indexes

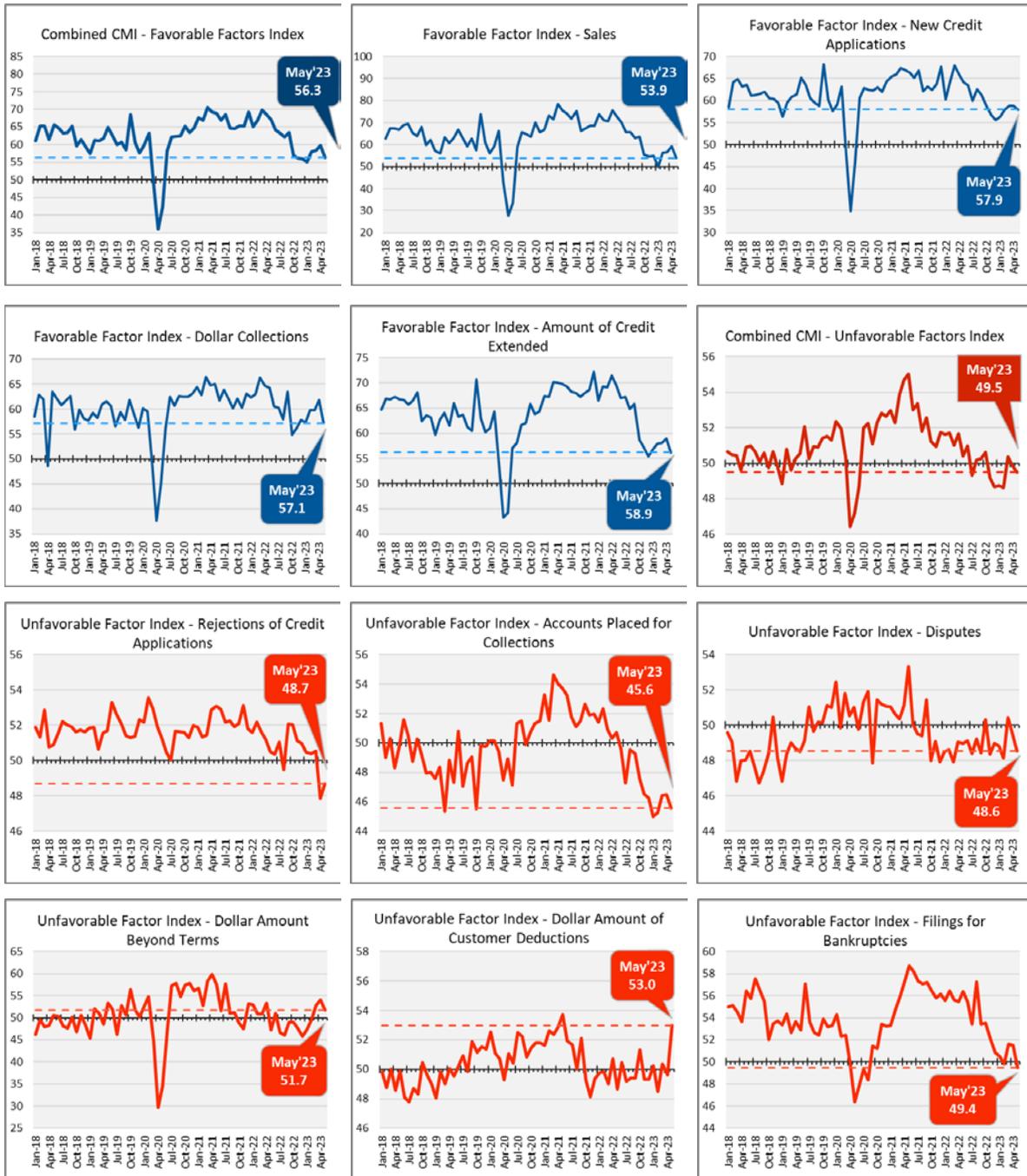
Key Findings:

- The index for favorable factors fell 3.4 points to 56.3, led by a 5.4-point deterioration in the sales factor index to 53.9 points and a 4.7-point deterioration by the dollar collections index to 57.1. The amount of credit extended factor index lost 2.7 points to 56.2.
- Favorable factors are all still showing expansionary levels but are back to the low levels recorded by the CMI in January and February.
- The index for unfavorable factors fell 0.3 to 49.5. This index has stayed in a tight range around 50, showing neither a steady improving nor declining trend over the past year.
- All but two of the unfavorable factor indexes deteriorated in the May survey; the index for dollar amount of customer deductions improved by 3.4 points to 53.0 and the index for rejections of credit applications improved to 48.7 from April's level of 47.9.
- The index for the dollar amount beyond terms slid 2.4 points to 51.7, remaining in the expansion range above 50 points for the third month in a row. This was the largest decline in May for components of the unfavorable factors group of the Combined CMI.
- The factor index for filings for bankruptcies sank 2.1 points into contraction territory. Although the index has remained in a narrow range between 48.5 and 51.0 over the past twelve months, respondent comments indicate that they expect more bankruptcies over the coming months.

“The Credit Managers’ Index looked like we were headed straight into recession in January,” said Cutts. “Then we saw three months that quashed that idea. The May CMI survey reversed most of the improvement made since January, and while not exactly disastrous news, there is a clear signal that business conditions are weakening. Several respondents indicated higher prices are masking lower unit sales.”

CMI Combined Sectors Factor Indexes Charts

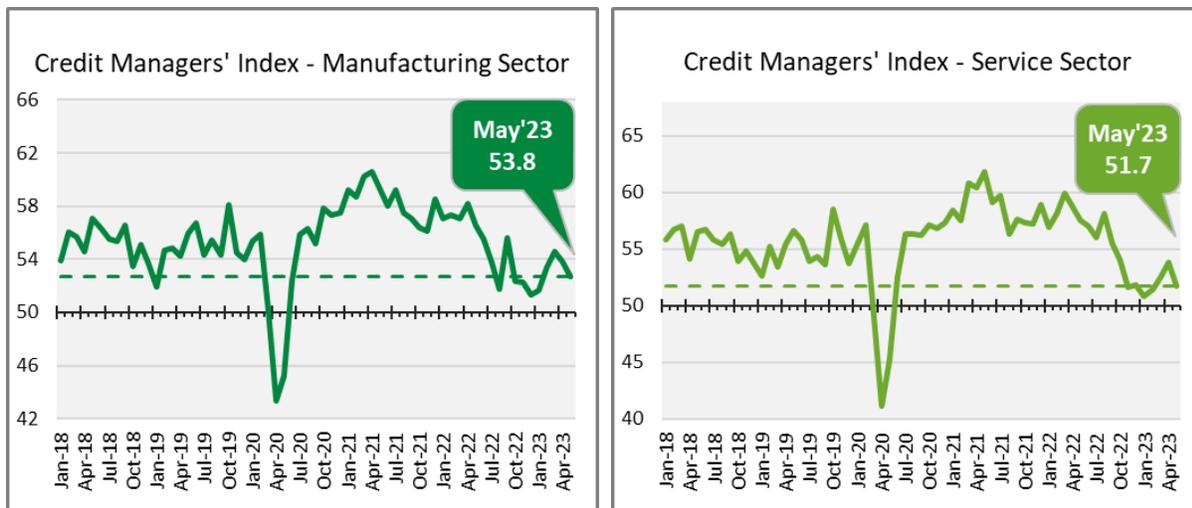
**All charts contain seasonally adjusted data. Please note that the vertical axes are not scaled identically, and the dotted line represents the most recent value.*



CMI Manufacturing versus CMI Service Sectors Indexes

The CMI index for manufacturing lost 1.1 points in the May survey to show a level 52.7, its weakest reading since January when the index was at 51.7. The service sector CMI deteriorated 2.1 points this month to come in at 51.7, its lowest reading since February.

“Both the Service and Manufacturing Sector CMIs are showing economic expansion but both lost considerable momentum in May,” Cutts said. “Importantly, in both sectors, the sales factor index lost over five points. Since dollar sales are a function of both prices charged and unit sales made, this decline is notable because whatever higher prices CMI respondent companies may be able to pass on to their customers, unit sales are falling by a larger amount. The Producer Price Index is showing inflation in commodities for final demand at the lowest level since January 2021, at 2.4%. The wide gap between producer price inflation and consumer price inflation, at 5.0% in April as measured by the Consumer Price Index, means companies have some pricing power now and likely some extra profits. How long this will last is unknown.”



The data in the charts are seasonally adjusted.

CMI Manufacturing Sector Factor Indexes

Among the CMI Manufacturing Sector Factor Indexes, favorable factors deteriorated 3.2 points to 54.3, its lowest level since May of 2020. Unfavorable factors improved this month by 0.2 points to 51.6, still in expansion territory and the second strongest reading over the past 12 months.

Key Findings:

- Two favorable factor indexes deteriorated sharply in May. The Index for dollar collections lost 7.0 points to 52.4, matching its value from October of last year. The index for sales fell 5.1 points to 52.8, its worst reading since January. The index for the amount of credit extended also declined, but at a more modest loss of 1.6 points to 54.6.
- The new credit applications factor index was the only favorable factor to improve, with a gain of 0.7 points to 57.5.
- Two unfavorable factor indexes improved in May: the index for rejections of new credit applications increased 1.6 points, jumping back to the expansion side after falling below 50 points in April, and the index for the dollar amount of customer deductions, which jumped 6.4 points to 54.9, it's highest reading since 2003. Unfavorable factor indexes are inverted so a higher number means less of that activity. Credit

managers are clearly not entertaining discounts with high interest rates and only recent relief on input prices.

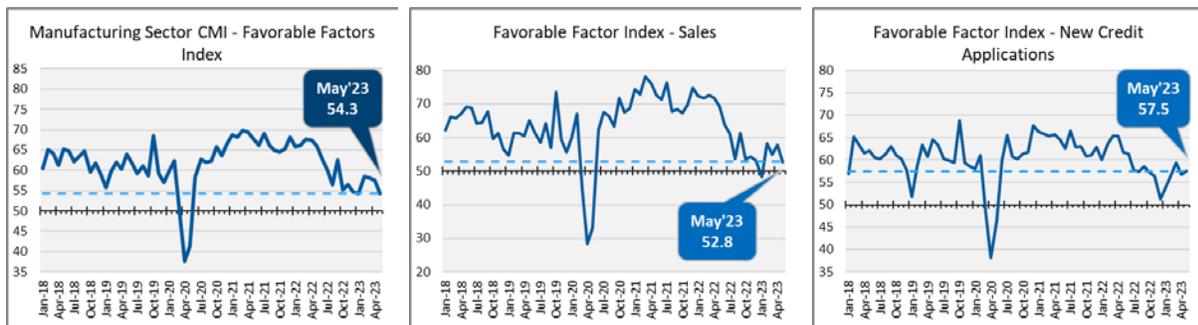
- The factor index for disputes experienced the sharpest drop in the Manufacturing CMI unfavorable factors group. It lost 2.3 points and dropped below 50 points into contraction range.

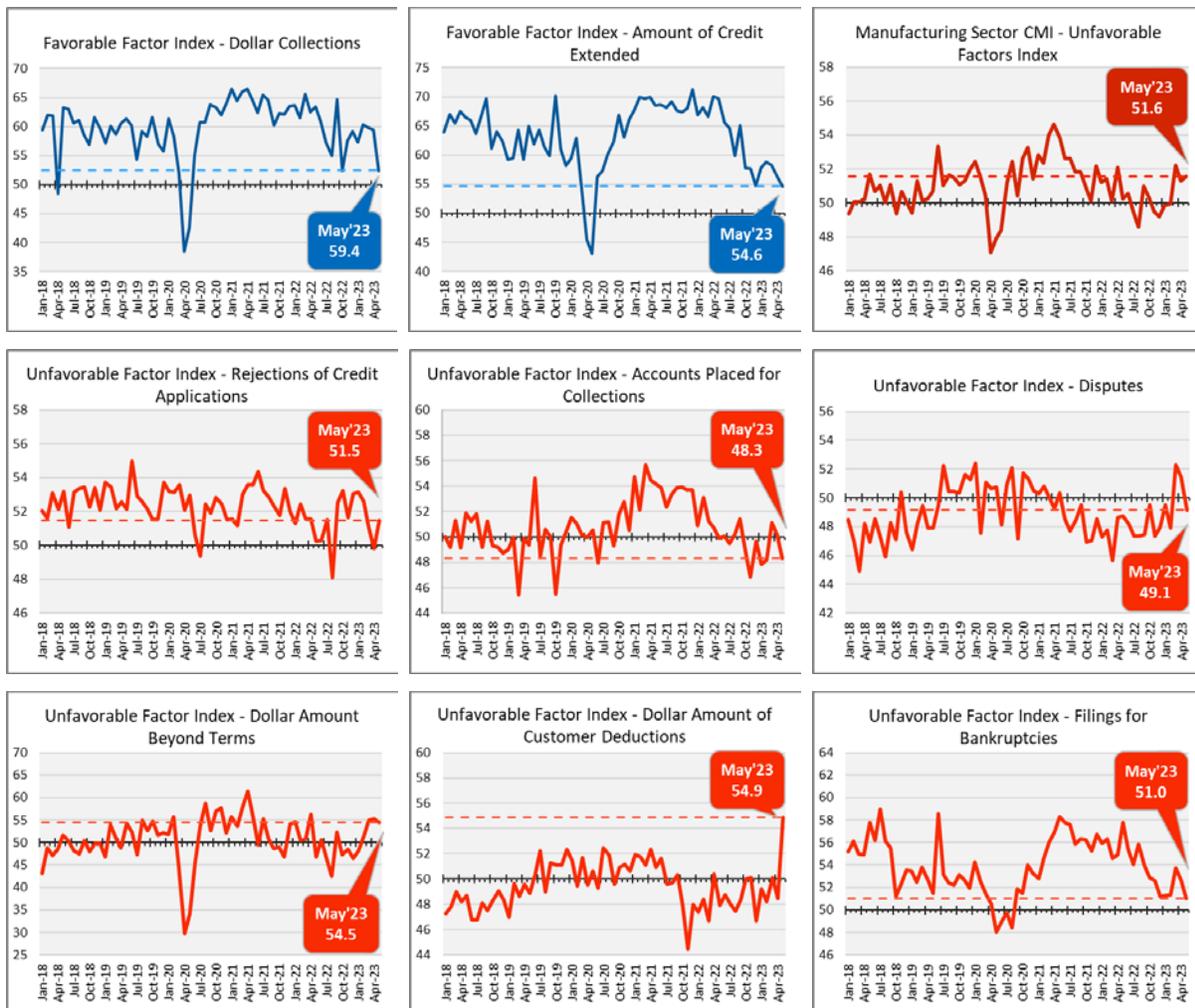
“The theme that carried through respondent comments this month was the stress on customers, with a notable increase in customers asking for discounts or extended terms,” Cutts said. “While credit is generally available to manufacturers, credit managers are reining in their pandemic generosity as they also face a tougher credit environment.”

Manufacturing Sector (seasonally adjusted)	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23
Sales	69.2	63.8	61.1	53.5	61.4	53.6	54.2	53.1	48.4	58.2	54.9	57.8	52.8
New credit applications	61.7	61.4	57.8	57.4	58.6	57.3	56.4	51.3	54.0	56.6	59.3	56.8	57.5
Dollar collections	63.4	60.9	57.3	55.0	64.7	52.4	57.6	59.2	57.3	60.4	59.8	59.4	52.4
Amount of credit extended	69.6	65.6	64.6	59.9	65.1	57.8	57.7	54.7	57.8	58.8	58.3	56.2	54.6
Index of favorable factors	66.0	62.9	60.2	56.5	62.4	55.3	56.5	54.6	54.4	58.5	58.1	57.6	54.3
Rejections of credit applications	50.3	50.3	51.5	48.1	52.5	53.2	51.7	53.0	53.2	52.6	51.0	49.8	51.5
Accounts placed for collection	49.9	50.1	49.5	50.2	51.4	49.0	46.8	49.6	47.8	48.2	51.1	50.2	48.3
Disputes	48.7	48.2	47.4	47.3	47.5	49.5	47.4	48.0	49.5	47.9	52.3	51.5	49.1
Dollar amount beyond terms	46.8	50.6	46.5	42.6	52.2	47.3	48.5	46.5	48.2	51.3	54.9	55.2	54.5
Dollar amount of customer deductions	47.9	48.7	48.1	47.5	48.3	50.0	50.1	46.7	49.2	48.2	50.1	48.5	54.9
Filings for bankruptcies	57.8	55.4	54.0	55.9	54.0	52.9	52.6	51.2	51.3	51.4	53.7	52.7	51.0
Index of unfavorable factors	50.2	50.5	49.5	48.6	51.0	50.3	49.5	49.2	49.9	49.9	52.2	51.3	51.6
NACM Manufacturing CMI	56.5	55.5	53.8	51.7	55.6	52.3	52.3	51.3	51.7	53.4	54.6	53.8	52.7

CMI Manufacturing Sector Factor Indexes Charts

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CMI Service Sector Factor Indexes

The May CMI service sector index recorded deterioration in the favorable factors index of 3.6 points, and deterioration in the unfavorable factors index of 1.0 point. Favorable factors for the service sector have lost a combined 9.8 points over the past year, while unfavorable factors have seen a slower decline, deteriorating by 3.1 points versus their level in May 2022.

Key Findings:

- As with the manufacturing sector, favorable factor indexes led the decline in the overall index, with the sales factor index taking the largest hit. In May, the sales factor index dropped 5.9 points to 55.0, almost 16 points lower than a year ago.
- All favorable factor indexes deteriorated in this month’s survey by at least 2.3 points but all factor indexes remain above the expansion/contraction threshold of 50 points.
- Only two factor indexes fell among the unfavorable group, but the decline in the index for dollar amount beyond terms was so precipitous, at a loss of 4.0 points, that it pulled the entire group index down for the month. The index for dollar amount beyond terms now sits at 48.9. The factor index for filings for bankruptcies deteriorated by 2.6 points to 47.8, its lowest level of the past 12 months.

- The four remaining unfavorable factor indexes improved between 0 and 0.4 points, essentially unchanged from April.

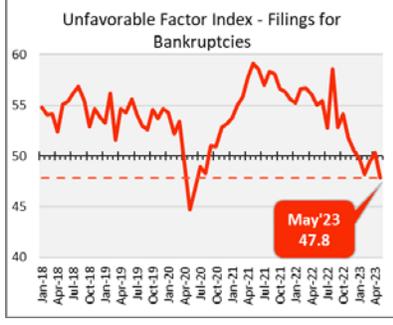
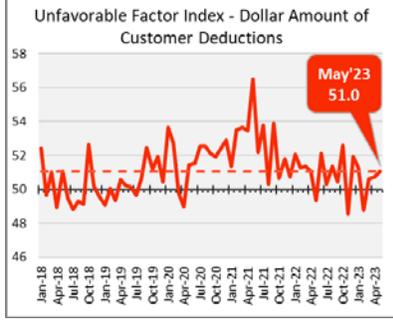
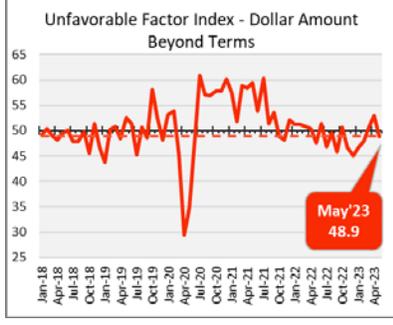
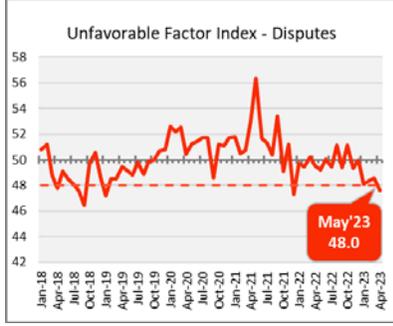
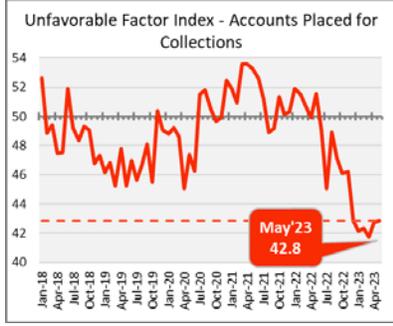
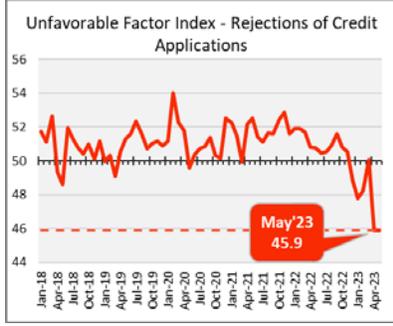
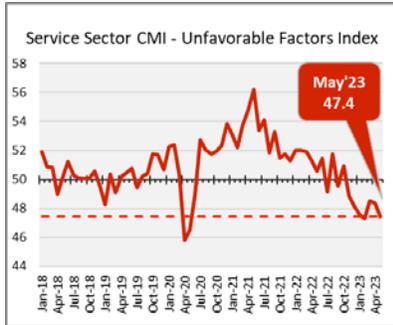
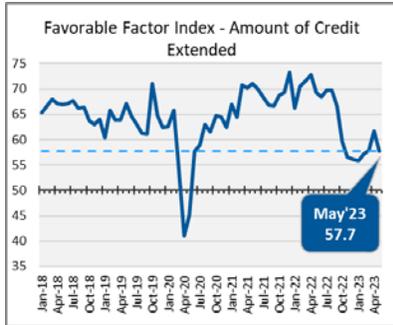
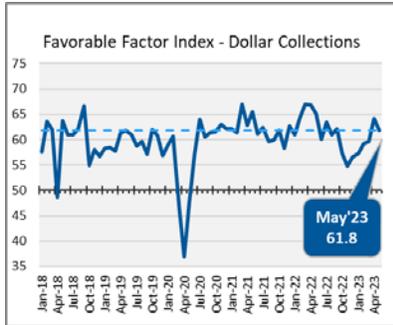
“The service sector CMI index lost nearly all the improvement reported in the past two months but still has a healthy margin before it hits the contraction range” said Cutts. “The factor index for accounts placed for collections was unchanged from April’s level but at 42.8, the level itself is troubling. The dollar amount beyond terms has been on both the expanding and contracting side of the line in recent months, and it would seem a natural extension that collections referrals would move similarly, but they don’t. I think some of the difference has to do with a willingness to work with clients through all the disruptions caused by the pandemic. But patience is wearing thin three years on. Collection efforts are successful as that factor index is still a very healthy 61.8 points.”

Service Sector (seasonally adjusted)	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23
Sales	70.9	67.7	70.0	72.5	65.7	57.4	54.9	56.5	51.3	54.7	58.1	60.9	55.0
New credit applications	66.7	65.6	62.2	67.8	63.8	60.1	57.1	59.8	58.6	59.2	58.4	60.8	58.4
Dollar collections	65.1	60.1	63.4	61.0	62.1	57.3	54.8	56.5	57.2	59.2	59.6	64.2	61.8
Amount of credit extended	69.3	68.4	69.8	69.7	66.6	59.7	56.6	56.1	55.8	57.1	57.9	61.6	57.7
Index of favorable factors	68.0	65.4	66.3	67.8	64.6	58.6	55.8	57.2	55.7	57.5	58.5	61.9	58.2
Rejections of credit applications	50.8	50.5	50.5	50.9	51.6	50.8	50.5	48.9	47.8	48.2	50.1	45.9	45.9
Accounts placed for collection	51.5	49.0	45.0	48.9	47.1	46.1	46.2	42.8	42.1	42.3	41.7	42.8	42.8
Disputes	49.2	50.0	49.4	51.1	49.4	51.1	49.3	50.0	48.1	48.4	48.6	47.6	48.0
Dollar amount beyond terms	47.5	51.4	46.8	49.6	45.8	50.7	46.7	45.0	46.6	47.9	50.6	52.9	48.9
Dollar amount of customer deductions	49.3	52.1	50.3	51.4	50.5	52.6	48.5	51.9	51.3	48.8	50.6	50.8	51.0
Filings for bankruptcies	55.0	55.5	52.8	58.6	52.9	54.1	51.8	50.5	49.8	48.2	49.4	50.4	47.8
Index of unfavorable factors	50.6	51.4	49.1	51.7	49.5	50.9	48.9	48.2	47.6	47.3	48.5	48.4	47.4
NACM Service CMI	57.5	57.0	56.0	58.2	55.6	54.0	51.6	51.8	50.9	51.4	52.5	53.8	51.7

CMI Service Sector Factor Indexes Charts

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

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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 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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