# Report for November 2022

### Issued November 30, 2022

**National Association of Credit Management**

## Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for November 2022 came in at 52.0 points, with deterioration in nearly every factor index. Respondents continue to cite ongoing supply constraints and logistics issues as negatively affecting their businesses, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The combined CMI has been deteriorating for the past eight months, and this month it recorded its lowest value since May of 2020. More specifically, the combined CMI just recorded its lowest non-recession, non-pandemic value. Technically the index is still on the expansionary side, so there is some room for optimism, like the bump in October retail sales. But the rapid decline of the housing and financial markets, headwinds from the end of federal pandemic aid programs and now large tech industry layoffs suggest growing recession risk as we head into 2023.

"Members have indicated that some parts of their supply chains have gotten better, but they are still fighting to get all the parts or products delivered when they need and expect them. Cargo shippers are working to realign their capacity and schedules for container ships. This is affecting our members' ability to get products and materials in and to export their products out. I am concerned that we could see a railroad strike in early December as the largest union for conductors has rejected the proposed contract negotiated in September and that work stoppages at ports may increase. The global supply chain and logistics systems are still fragile and problematic for NACM members."

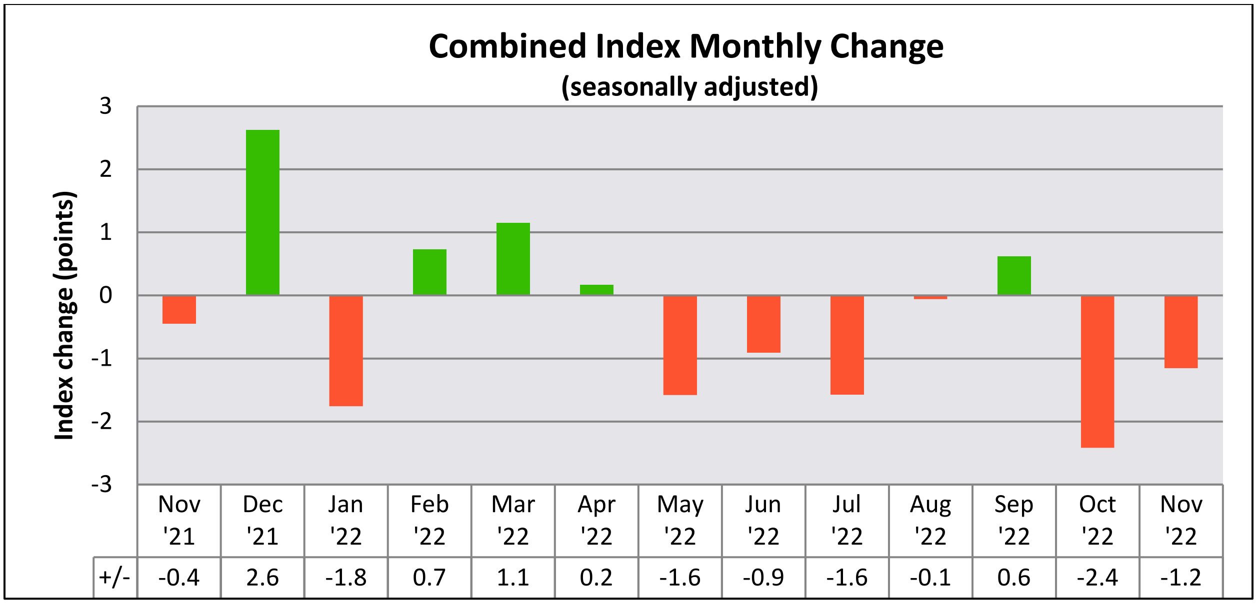
The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. The combined November CMI fell by 1.2 points to 52.0. The index of favorable factors deteriorated by 0.8 to 56.1, a level that is 8.2 points lower than a year ago and the lowest value since May of 2020. The index of unfavorable factors fell by 1.4 points to a reading of 49.3 points; 1.5 points lower than a year ago and the lowest value recorded since June of 2020.

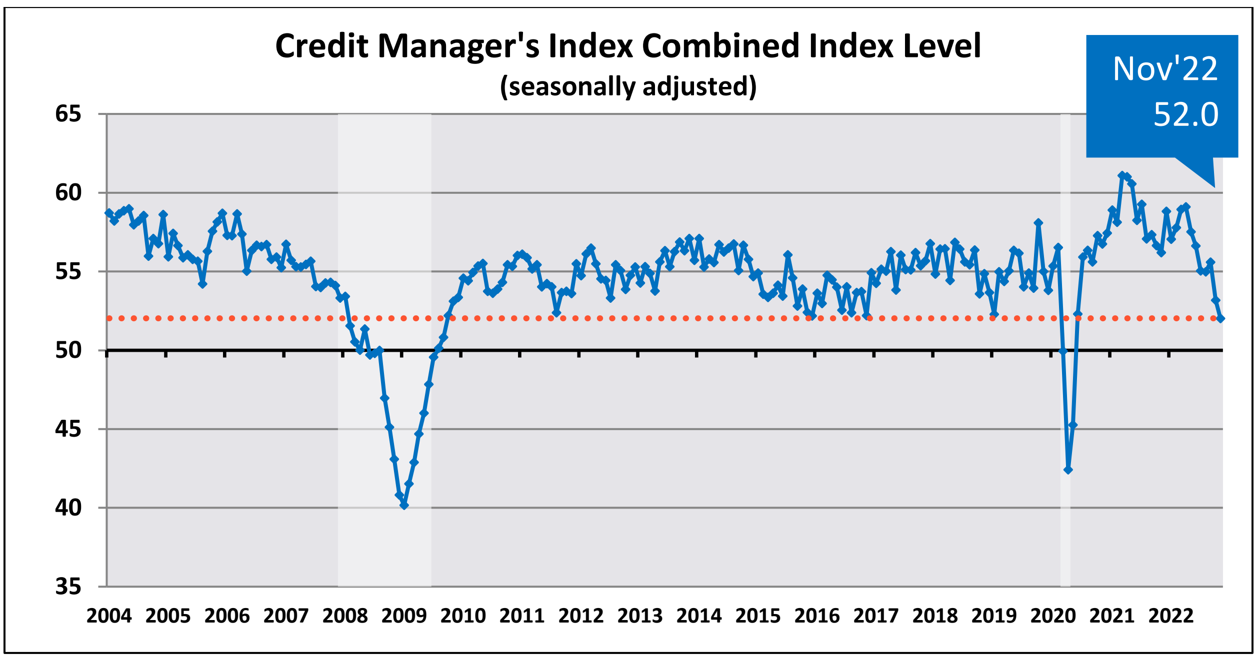
Three of the four categories in the favorable factors list declined in the November survey. The index for new credit applications leads the declining factors, shedding 2.0 points in this month's survey to 57.0. The index for the amount of credit extended dropped 1.5 points to 57.2, and the sales index lost 0.7 points to sit at 54.5. The index for dollar collections rose 1.0 point to 55.7. Respondents indicate that while collections are holding up, they are having to do considerably more work to get paid either because of client understaffing or cashflow issues. All of the favorable factor indexes except dollar collections are at the lowest levels recorded by the CMI survey outside of a recession period.

All the unfavorable factor indexes for the combined CMI deteriorated in the November survey. The largest decline was recorded by the index for disputes, which fell 2.1 points to 48.3.  The index for the dollar amount of customer deductions lost 1.9 points to 49.4, and the indexes for filings for bankruptcies and dollar amount beyond terms both lost 1.4 points, to 52.4 and 47.6, respectively. The rejections of credit applications index declined 1.0 point to 51.2, and the index for accounts placed for collection fell to 46.9 after recording a loss of 0.7 of a point.

“Credit is still available to businesses, but it is getting tougher to come by and it comes with higher costs,” said Cutts. “Bankruptcies are still low relative to pre-pandemic times, but they have started ticking up according to the U.S. Courts statistics through the third quarter of this year. That said, NACM member respondents are indicating credit deterioration with more accounts going beyond terms or being referred to collections. Disputes and customer deductions are now reflecting both dissatisfaction because of delayed deliveries as well as inability to pay. I believe the CMI is indicative of recession starting soon, if it hasn’t already, from a business point of view. Whether the National Bureau of Economic Research Business Cycle Dating Committee agrees won’t be known for quite a while as they often announce the start of the recession several months after it begins (in their consensus view) due to lags in relevant data.”

| **Combined Manufacturing and Service Sectors (seasonally adjusted)** | **Nov '21** | **Dec '21** | **Jan '22** | **Feb '22** | **Mar '22** | **Apr '22** | **May '22** | **Jun '22** | **Jul '22** | **Aug '22** | **Sep '22** | **Oct '22** | **Nov '22** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 67.4 | 75.1 | 71.2 | 71.3 | 77.1 | 74.7 | 71.6 | 66.6 | 65.8 | 63.0 | 64.2 | 55.2 | 54.5 |
| New credit applications | 62.9 | 67.6 | 60.6 | 64.0 | 68.8 | 67.1 | 64.7 | 64.1 | 59.7 | 62.4 | 61.4 | 59.0 | 57.0 |
| Dollar collections | 59.2 | 63.5 | 62.5 | 63.2 | 67.0 | 65.9 | 65.5 | 60.9 | 61.2 | 57.7 | 63.3 | 54.7 | 55.7 |
| Amount of credit extended | 67.7 | 71.7 | 67.2 | 68.7 | 69.2 | 72.1 | 70.4 | 67.7 | 67.6 | 65.3 | 66.3 | 58.7 | 57.2 |
| **Index of favorable factors** | **64.3** | **69.5** | **65.4** | **66.8** | **70.5** | **69.9** | **68.1** | **64.8** | **63.6** | **62.1** | **63.8** | **56.9** | **56.1** |
| Rejections of credit applications | 53.2 | 51.7 | 51.5 | 52.3 | 51.9 | 51.3 | 50.7 | 50.2 | 50.8 | 49.4 | 52.2 | 52.2 | 51.2 |
| Accounts placed for collection | 52.0 | 52.1 | 51.1 | 52.7 | 51.5 | 50.6 | 51.0 | 49.7 | 47.4 | 49.6 | 49.4 | 47.6 | 46.9 |
| Disputes | 48.6 | 48.2 | 48.4 | 48.6 | 48.0 | 49.1 | 49.1 | 49.4 | 48.3 | 49.2 | 48.2 | 50.4 | 48.3 |
| Dollar amount beyond terms | 47.1 | 53.3 | 53.5 | 50.9 | 51.2 | 54.2 | 47.2 | 51.1 | 46.7 | 46.4 | 48.7 | 49.0 | 47.6 |
| Dollar amount of customer deductions | 48.2 | 49.3 | 49.5 | 49.9 | 49.0 | 50.5 | 48.7 | 50.7 | 49.3 | 49.2 | 49.1 | 51.3 | 49.4 |
| Filings for bankruptcies | 55.9 | 55.7 | 55.2 | 56.4 | 55.8 | 55.7 | 56.4 | 55.8 | 53.7 | 57.6 | 53.5 | 53.8 | 52.4 |
| **Index of unfavorable factors** | **50.8** | **51.7** | **51.5** | **51.8** | **51.2** | **51.9** | **50.5** | **51.1** | **49.4** | **50.2** | **50.2** | **50.7** | **49.3** |
| **NACM Combined CMI** | **56.2** | **58.8** | **57.1** | **57.8** | **58.9** | **59.1** | **57.5** | **56.6** | **55.0** | **55.0** | **55.6** | **53.2** | **52.0** |




## Manufacturing Sector

The Manufacturing CMI was little changed in the November survey, gaining 0.1 points to a reading of 52.3. This value is 3.7 points below a year ago. The index of favorable factors led the improvement with a 1.3-point gain to 56.3, while the index of unfavorable factors declined by 0.7 points to come in at 49.6.

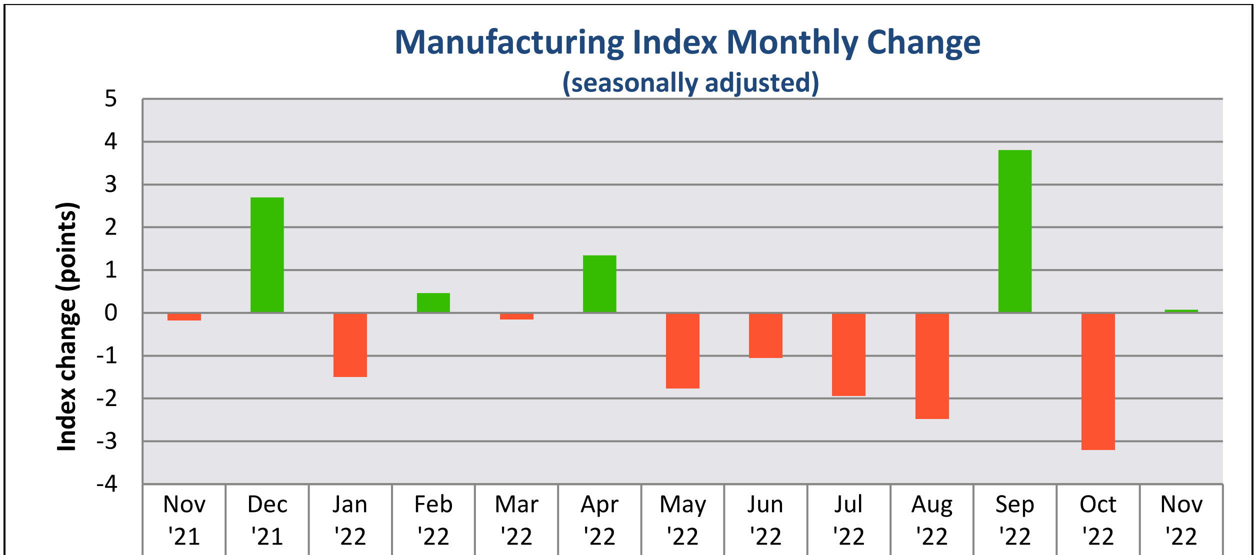
Four out of the 10 factor indexes showed improvement in November, but their strength was enough to pull the overall Manufacturing CMI into the black. The index for dollar collections posted the largest gain with a 4.9-point improvement to 56.7. Among the rest of the favorable factor indexes, sales recorded a 1.2-point improvement to 54.0; new credit applications fell 0.7 to 56.8; and the amount of credit extended lost 0.4 of a point to 57.9.

Among the unfavorable factor indexes, only two posted gains: the dollar amount beyond terms improved 1.7 points to 48.5 and the dollar amount of customer deductions rose 0.3 to 50.2. The index for disputes led the sector's decline with a loss of 2.2 points to 47.3 followed by accounts placed for collection, which lost 2.0 points to 47.1 and the index for rejections of credit applications which lost 1.9 points to 51.5. The filings for bankruptcies index lost 0.2 of a point to 49.6.

"The CMI Manufacturing sector index is down 3.7 points from this time last year. In talking with members, I hear time and again how logistics and supply problems are affecting the sector's ability to make and deliver products to their customers in a timely manner. Though we hear how supply chains have improved, and our members agree that they have, big problems remain. It doesn't really matter if you get most of your materials easily if you are missing a critical component, whether an expensive, complicated computer chip or a cheap bolt, that will complete the product. Moreover, global shipping companies are reconfiguring their schedules to account for lower volumes by cancelling some scheduled ship runs, causing exporters to scramble for space on another vessel, adding more delays and costs. We are still far from normal in both the availability of materials and logistics, and it is a global problem.

"The yield curve first inverted on April 1, 2022, with the constant-maturity interest rates on 2-Year Treasury Notes exceeding those on 10-Year Treasury Notes. On Nov. 22, every rate (calculated on a constant maturity, annualized basis) on a Treasury Bill or Note with a maturity of less than 10 years was below the rate on the 10-Year Treasury Note. The four-week Treasury Bill rate on that day closed at 3.81%, the 6-month Treasury Bill was at 4.55%, The 2-year Treasury Note rate was at 4.47% and the 10-year Treasury Note rate closed at 3.76%. And the yield curve continues to steepen. A recession typically follows six to 18 months after the first inversion of the 2- and 10-year Treasuries. We are in that window now. Through the yield curve, investors are indicating that they expect rates to fall in the future due to recession and a subsequent reversal of Fed monetary policy."

| **Manufacturing Sector** (seasonally adjusted) | Nov '21 | Dec '21 | Jan '22 | Feb '22 | Mar '22 | Apr '22 | May '22 | Jun '22 | Jul '22 | Aug '22 | Sep '22 | Oct '22 | Nov '22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 69.4 | 76.3 | 72.8 | 73.1 | 74.1 | 73.6 | 71.1 | 64.9 | 61.7 | 52.9 | 61.4 | 52.8 | 54.0 |
| New credit applications | 60.9 | 62.1 | 60.2 | 63.4 | 65.9 | 66.7 | 62.8 | 62.5 | 57.7 | 57.0 | 58.4 | 57.5 | 56.8 |
| Dollar collections | 61.6 | 64.4 | 64.0 | 62.3 | 66.4 | 63.4 | 64.6 | 61.6 | 58.8 | 54.6 | 64.1 | 51.8 | 56.7 |
| Amount of credit extended | 67.5 | 70.2 | 67.6 | 68.2 | 66.5 | 70.6 | 70.8 | 67.1 | 65.4 | 59.4 | 65.0 | 58.3 | 57.9 |
| **Index of favorable factors** | **64.9** | **68.2** | **66.2** | **66.7** | **68.2** | **68.6** | **67.3** | **64.0** | **60.9** | **56.0** | **62.2** | **55.1** | **56.3** |
| Rejections of credit applications | 53.1 | 52.1 | 51.2 | 52.6 | 51.7 | 51.8 | 50.4 | 50.0 | 51.4 | 48.1 | 52.7 | 53.4 | 51.5 |
| Accounts placed for collection | 53.8 | 54.5 | 50.3 | 53.6 | 51.9 | 50.9 | 49.9 | 49.9 | 49.3 | 50.1 | 51.5 | 49.1 | 47.1 |
| Disputes | 46.4 | 48.4 | 47.7 | 47.9 | 45.8 | 48.6 | 48.9 | 48.7 | 47.2 | 47.1 | 47.2 | 49.5 | 47.3 |
| Dollar amount beyond terms | 46.7 | 54.6 | 55.2 | 50.7 | 51.4 | 57.8 | 46.9 | 50.7 | 46.7 | 43.2 | 51.8 | 46.8 | 48.5 |
| Dollar amount of customer deductions | 44.6 | 47.8 | 47.0 | 48.3 | 46.5 | 50.0 | 48.0 | 49.0 | 48.4 | 47.4 | 47.9 | 49.9 | 50.2 |
| Filings for bankruptcies | 55.6 | 56.4 | 55.7 | 56.4 | 54.6 | 54.9 | 57.1 | 55.7 | 54.0 | 56.4 | 54.2 | 53.0 | 52.8 |
| **Index of unfavorable factors** | **50.0** | **52.3** | **51.2** | **51.6** | **50.3** | **52.3** | **50.2** | **50.7** | **49.5** | **48.7** | **50.9** | **50.3** | **49.6** |
| **NACM Manufacturing CMI** | **56.0** | **58.7** | **57.2** | **57.6** | **57.5** | **58.8** | **57.1** | **56.0** | **54.1** | **51.6** | **55.4** | **52.2** | **52.3** |




| | Nov '21 | Dec '21 | Jan '22 | Feb '22 | Mar '22 | Apr '22 | May '22 | Jun '22 | Jul '22 | Aug '22 | Sep '22 | Oct '22 | Nov '22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| +/- | -0.2 | 2.7 | -1.5 | 0.5 | -0.2 | 1.3 | -1.8 | -1.0 | -1.9 | -2.5 | 3.8 | -3.2 | 0.1 |

## Service Sector

The Service sector CMI declined 2.4 points to 51.8 in the November survey, its lowest reading since the May 2020 survey. The index of favorable factors led the fall with loss of 2.8 points to 55.9. In the November 2021 survey, the favorable factor index was at 63.7. The unfavorable factors index posted a 2.0-point decline this month to 49.1, a level that is 2.5 points below the level from a year ago. The unfavorable factors index has remained within a tight 3-point range around 51.5 for the past 14 months without any clear trend emerging.

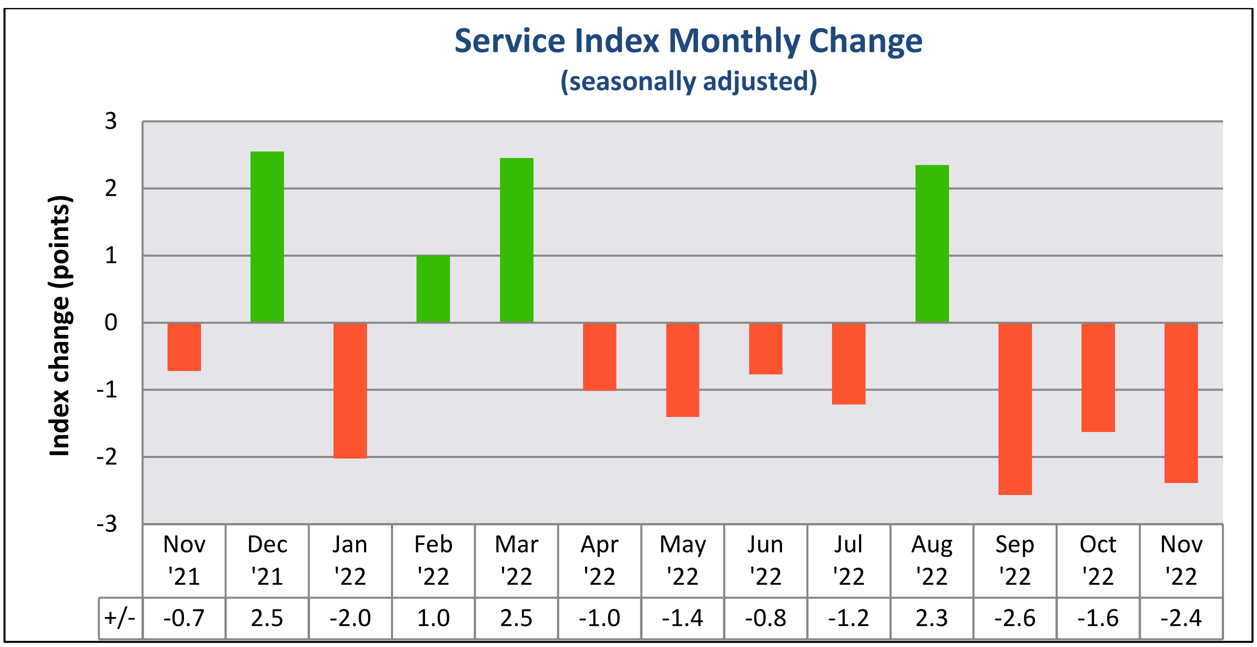
All favorable factor component indexes deteriorated in the November survey. The new credit applications index led the decline with a drop if 3.4 points to 57.1. The dollar collections index shed 2.9 points to record a value of 54.7; the sales index fell 2.6 points to 55.0; and the index for the amount of credit extended dropped 2.5 points to 56.6.

Among service sector unfavorable factor indexes, only one index improved in the November survey. The accounts placed for collections index recorded a gain of 0.7 of a point to 46.8. The index for the dollar amount beyond terms recorded the largest decline for the sector with a loss of 4.4 points to 46.8, followed by a 4.1-point decline in the index for the dollar amount of customer deductions which now sits at 48.6. The filings for bankruptcies index fell 2.5 points to 52.0; the disputes index lost 1.9 points; and the index for rejections of credit applications lost one-tenth of a point to 50.9.

“The services sector CMI index showed deterioration in conditions pretty much across the board,” Cutts said. “The services sector enjoyed a rebound starting in late 2021 when consumers made the switch away from spending on goods towards spending on services. But with summer vacations a distant memory, consumer demand for services is waning. Importantly, though, consumers are still in a spending mood heading into the final stretch of the holiday season.

"Inflation is taking a bite out of household budgets, and they are responding as we would expect by substituting cheaper goods or eliminating discretionary expenditures. Ironically though, it is now cheaper to get some pre-cooked dinners, like a roasted chicken from the supermarket, or to eat out a fast food or fast casual restaurant than it is to get the raw ingredients from the supermarket and cook dinner at home."

| **Service Sector** (seasonally adjusted) | Nov '21 | Dec '21 | Jan '22 | Feb '22 | Mar '22 | Apr '22 | May '22 | Jun '22 | Jul '22 | Aug '22 | Sep '22 | Oct '22 | Nov '22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 65.3 | 73.9 | 69.7 | 69.6 | 80.0 | 75.7 | 72.1 | 68.2 | 69.9 | 73.2 | 66.9 | 57.6 | 55.0 |
| New credit applications | 64.8 | 73.0 | 60.9 | 64.7 | 71.6 | 67.4 | 66.7 | 65.8 | 61.7 | 67.9 | 64.3 | 60.5 | 57.1 |
| Dollar collections | 56.7 | 62.6 | 60.9 | 64.1 | 67.7 | 68.4 | 66.5 | 60.1 | 63.5 | 60.8 | 62.5 | 57.6 | 54.7 |
| Amount of credit extended | 67.9 | 73.3 | 66.7 | 69.3 | 71.9 | 73.6 | 69.9 | 68.4 | 69.7 | 71.2 | 67.6 | 59.1 | 56.6 |
| **Index of favorable factors** | **63.7** | **70.7** | **64.6** | **66.9** | **72.8** | **71.3** | **68.8** | **65.6** | **66.2** | **68.2** | **65.3** | **58.7** | **55.9** |
| Rejections of credit applications | 53.2 | 51.4 | 51.8 | 52.0 | 52.2 | 50.8 | 51.1 | 50.4 | 50.3 | 50.7 | 51.6 | 51.0 | 50.9 |
| Accounts placed for collection | 50.2 | 49.8 | 51.9 | 51.9 | 51.0 | 50.3 | 52.1 | 49.5 | 45.4 | 49.2 | 47.3 | 46.1 | 46.8 |
| Disputes | 50.9 | 48.0 | 49.2 | 49.3 | 50.3 | 49.6 | 49.3 | 50.1 | 49.4 | 51.2 | 49.1 | 51.2 | 49.3 |
| Dollar amount beyond terms | 47.6 | 52.1 | 51.8 | 51.0 | 51.0 | 50.6 | 47.4 | 51.5 | 46.6 | 49.6 | 45.6 | 51.2 | 46.8 |
| Dollar amount of customer deductions | 51.7 | 50.8 | 51.9 | 51.4 | 51.5 | 51.0 | 49.3 | 52.3 | 50.2 | 51.1 | 50.3 | 52.7 | 48.6 |
| Filings for bankruptcies | 56.1 | 55.0 | 54.6 | 56.4 | 56.9 | 56.5 | 55.6 | 56.0 | 53.4 | 58.7 | 52.8 | 54.5 | 52.0 |
| **Index of unfavorable factors** | **51.6** | **51.2** | **51.9** | **52.0** | **52.2** | **51.5** | **50.8** | **51.6** | **49.2** | **51.8** | **49.4** | **51.1** | **49.1** |
| **NACM Service CMI** | **56.4** | **59.0** | **57.0** | **58.0** | **60.4** | **59.4** | **58.0** | **57.2** | **56.0** | **58.4** | **55.8** | **54.2** | **51.8** |

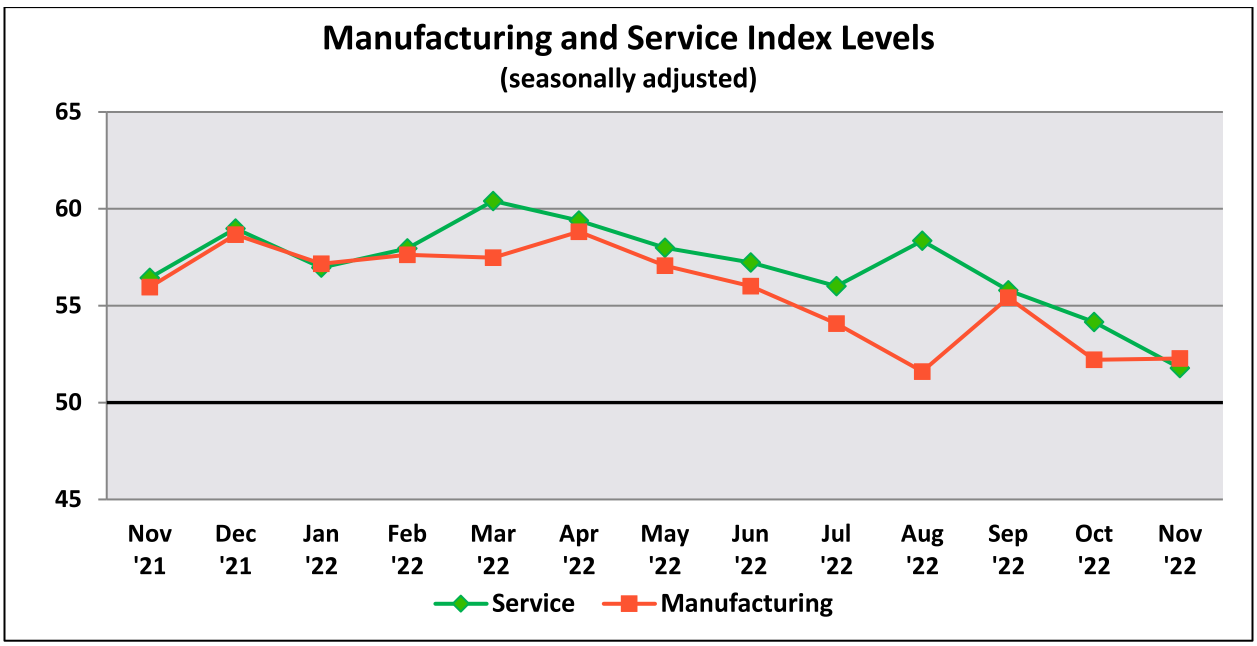


## Manufacturing versus Services Sectors

The CMI indexes for service and manufacturing sectors converged again in this month's survey. The manufacturing index's slight gain this month coupled with the decline in the service CMI pulled the manufactoring sector index to a higher level than the service CMI. The service CMI recorded a new low for the year.

"The CMI sector indexes are showing a clear weakening since the spring. Both remain above the technical economic contraction threshold of 50 points," Cutts continued. "However, they are at their lowest non-recession, non-pandemic values and the CMI tends to lead downturns in the business cycle.

"When economists talk of recession, they mean when the National Bureau of Economic Research will officially declare the start based on job losses, GDP and other factors. But credit managers are the first in line to see trends in manufacturing and services, and they have been indicating for several months now that conditions are weakening. For example, at first we saw the sales (dollars) indexes in both sectors reach a peak in March, but many respondents said that they weren't selling as many units, just that price increases were keeping sales trends positive. Since then, the manufacturing sales index has fallen over 20 points and the service sales index is down 15 points. Both are above the expansion/contraction threshold value of 50 points but the trend, to me, is clearly troubling."




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 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.