Report for March 2022

Issued March 31, 2022
National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for March increased despite the Russian incursion into Ukraine in late February. The CMI is indicating resiliency in the U.S. economy, even with the new headwinds of war and uncertainty in the scope of its impacts on global trade. However, several respondents cited rising commodity prices and worsening supply chain issues that were weighing on their businesses, especially among those in the manufacturing sector, said NACM Economist Amy Crews Cutts, Ph.D., CBE.

"The Federal Open Market Committee of the Federal Reserve Board elected to raise its target range for the Federal Funds rate by 25 basis points, the first upward movement in rates since December 2018, and it promised several more increases over this year in an effort to tap the brakes on Inflation," Cutts said. "Unfortunately for the Fed and the economy, the forces leading to higher prices are not under U.S. control. Restarting the global economic engine from the near full stoppage two years ago has proved more vexing than anyone had anticipated. This is especially noteworthy in manufacturing as just one missing component can shut down a factory line for hours or days, or longer. Two years after the start of the pandemic, supply chain problems do not seem to be diminishing. Shipping logistics also remain problematic and shipping costs are through the roof, whether by sea or air."

"Because of the Russia-Ukraine war, I expect greater inflationary pressures and further worsening of supply chain problems in the near term due to sanctions on Russia and other disruptions from the war. Many producers are scrambling to line up new sources of raw materials to replace Russian and Ukrainian supplies, and the prices of affected commodities have jumped as a result. I think April will see most of the breadth of the impact of the war on domestic businesses, but for now the responses in the CMI, which covered the month ending March 11, support a strong growth outlook."

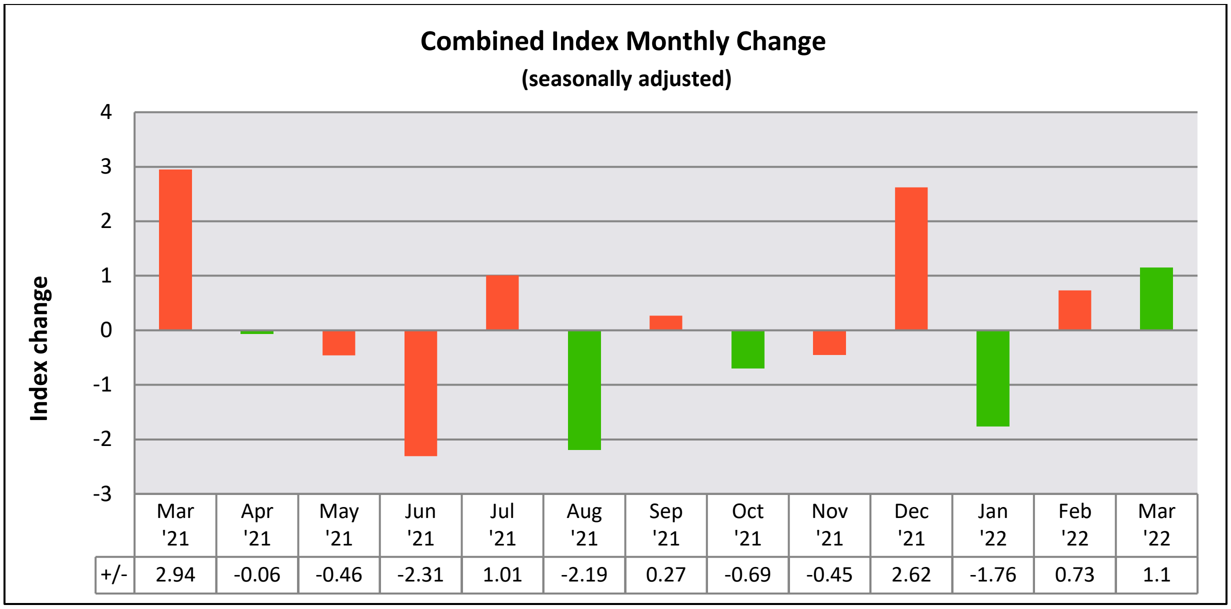
The combined March CMI rose by 1.1 points to an index value of 58.9. The gain is led by the rise in the index for favorable factors from 66.8 to 70.5, with every favorable factor improving. Three factors gained by multiple points: Sales jumped 5.8 points to 77.1; new credit applications rose by 4.7 points to 68.8; and dollar collections grew by 3.9 points to 67.0. The amount of credit extended rounds out the list of favorable factors as it gained 0.4 points to 69.2.

Notably every unfavorable factor in the combined CMI declined over the month except for the dollar amount beyond terms, which gained 0.3 points to 51.2. The number of accounts placed for collection lead the fall by losing 1.2 points. Two unfavorable factors remain in contraction territory, disputes with an index value of 48.0 and the dollar amount of customer deductions at 49.0. Among the other elements in the index of unfavorable factors, rejections of credit applications lost 0.4 points to 51.9 and filings for bankruptcies went down 0.6 points to 55.8. Even with these declines in the index for unfavorable factors did not break out of the 12-month range of the index.

“While respondents reported improving sales, many also cited difficulties getting materials or products from suppliers and one estimated that it would be the third quarter or later before any meaningful improvement would be seen,” Cutts said. “Another noted that although they were seeing some applicants shopping around, the respondent noted that were still doing all they can near at full capacity.

“The CMI is telling the story of this economy in a nutshell. It’s an embarrassment of riches in terms of demand as represented by the index of favorable factors, yet businesses are struggling to get things done as they can’t get the parts or transportation when they need them. Now add in the costs of fuel and other inputs, and they are feeling the squeeze as represented by the index of unfavorable factors, especially disputes and the dollar amount of deductions.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**
Sales	80.3	76.7	74.3	69.9	75.4	66.0	67.8	67.4	67.4	75.1	71.2	71.3	77.1
New credit applications	68.4	67.5	65.8	65.1	66.2	63.0	63.5	62.1	62.9	67.6	60.6	64.0	68.8
Dollar collections	67.6	65.2	65.4	61.2	64.4	61.5	60.4	61.3	59.2	63.5	62.5	63.2	67.0
Amount of credit extended	70.1	71.1	70.2	68.8	68.4	68.6	67.2	67.6	67.7	71.7	67.2	68.7	69.2
Index of favorable factors	**71.6**	**70.1**	**68.9**	**66.2**	**68.6**	**64.8**	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**
Rejections of credit applications	51.9	53.0	53.1	52.1	52.0	52.2	52.1	52.3	53.2	51.7	51.5	52.3	51.9
Accounts placed for collection	55.0	54.1	54.1	52.8	51.5	51.4	51.4	52.1	52.0	52.1	51.1	52.7	51.5
Disputes	50.5	51.3	53.5	50.1	49.1	49.6	51.2	48.3	48.6	48.2	48.4	48.6	48.0
Dollar amount beyond terms	58.5	60.9	56.7	51.8	56.9	51.4	50.6	49.5	47.1	53.3	53.5	50.9	51.2
Dollar amount of customer deductions	52.2	52.9	53.6	52.4	51.8	49.9	51.9	49.4	48.2	49.3	49.5	49.9	49.0
Filings for bankruptcies	56.3	57.5	58.9	58.5	56.9	57.3	57.1	56.4	55.9	55.7	55.2	56.4	55.8
Index of unfavorable factors	**54.1**	**55.0**	**55.0**	**52.9**	**53.0**	**51.9**	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**
NACM Combined CMI	**61.1**	**61.0**	**60.6**	**58.3**	**59.3**	**57.1**	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**



Manufacturing Sector

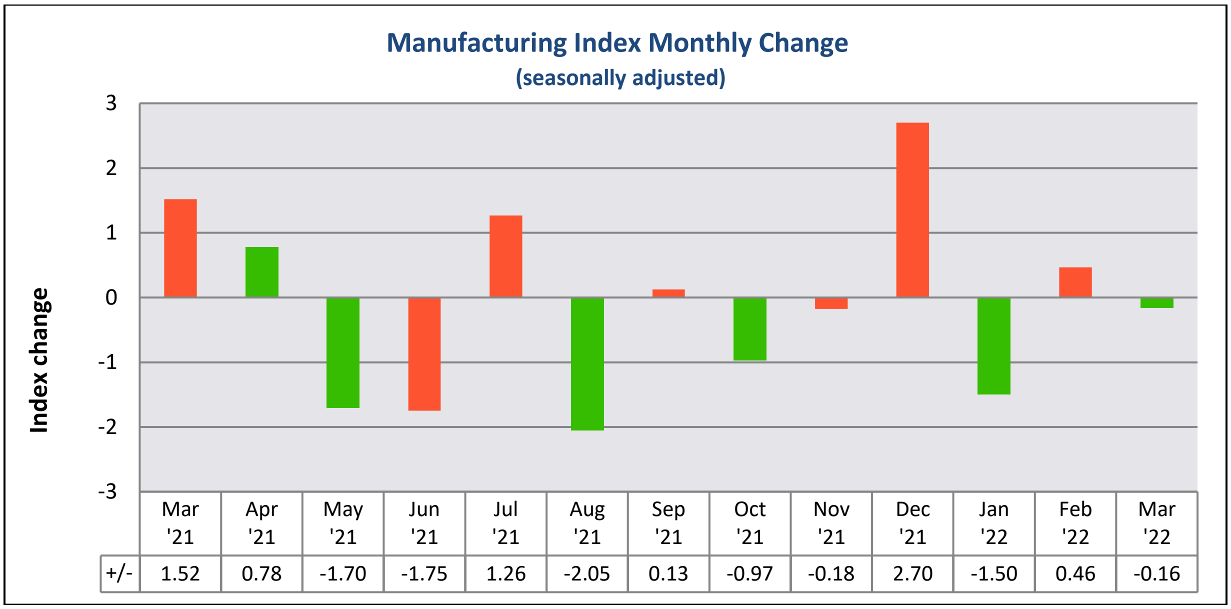
The Manufacturing CMI fell 0.2 points to 57.5. The index of favorable factors rose by 1.5 points led by a 4.1-point jump in dollar collections but was not strong enough to overcome the fall in the index of unfavorable factors. New credit applications posted a 2.5-point gain to 65.9 and sales also improved, adding 1.1 points to 74.1. The amount of credit extended, the only favorable factor to lose ground, fell 1.7 points to 66.5.

The dollar amount beyond terms was the only unfavorable factor to show a gain in March, and disputes led the descent with a 2.1-point loss to 45.8, the weakest reading for disputes since November of 2016. The remaining unfavorable factors were, in order of decline, dollar amount of customer deductions, 1.8 points to 46.5; filings for bankruptcies, 1.8 points to 54.6; accounts placed for collection, 1.7 points to 51.9; and rejections of credit applications, 0.9 points to 51.7.

“The CMI manufacturing indexes show smaller gains in the favorable factors index and stronger declines in the unfavorable factors relative to the combined index highlighting the stress that manufacturing firms are under,” Cutts said. “One respondent said they had the orders to expand operations but can’t get the equipment to do so, and many more reiterated the shortages of materials. There is little need to expand the amount of credit extended if they can’t meet the demands of their customers. And more and more they are seeing rising disputes and higher amounts of customer deductions as everyone is losing patience.”

Manufacturing Sector (seasonally adjusted)	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**
Sales	78.8	77.5	73.4	70.0	76.2	65.2	69.2	66.3	69.4	76.3	72.8	73.1	74.1
New credit applications	65.9	67.0	64.3	62.3	65.9	62.4	63.3	60.7	60.9	62.1	60.2	63.4	65.9
Dollar collections	66.9	66.4	65.3	62.1	65.6	63.5	60.0	61.1	61.6	64.4	64.0	62.3	66.4
Amount of credit extended	69.1	71.0	69.7	68.6	68.3	68.0	67.6	67.8	67.5	70.2	67.6	68.2	66.5
Index of favorable factors	**70.2**	**70.5**	**68.2**	**65.7**	**69.0**	**64.8**	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**
Rejections of credit applications	53.3	53.9	53.4	53.4	53.4	52.9	52.4	52.2	53.1	52.1	51.2	52.6	51.7

Accounts placed for collection	55.9	54.2	53.8	53.5	51.9	53.4	54.4	53.9	53.8	54.5	50.3	53.6	51.9
Disputes	49.9	49.4	50.9	48.3	47.1	48.3	49.7	47.4	46.4	48.4	47.7	47.9	45.8
Dollar amount beyond terms	58.0	63.3	54.9	49.5	54.8	50.6	48.4	48.2	46.7	54.6	55.2	50.7	51.4
Dollar amount of customer deductions	50.7	52.5	51.0	52.2	50.0	49.4	50.0	48.0	44.6	47.8	47.0	48.3	46.5
Filings for bankruptcies	56.0	57.0	58.5	58.0	57.3	56.1	56.3	55.8	55.6	56.4	55.7	56.4	54.6
Index of unfavorable factors	**54.0**	**55.1**	**53.8**	**52.5**	**52.4**	**51.8**	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**
NACM Manufacturing CMI	**60.5**	**61.2**	**59.5**	**57.8**	**59.0**	**57.0**	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**



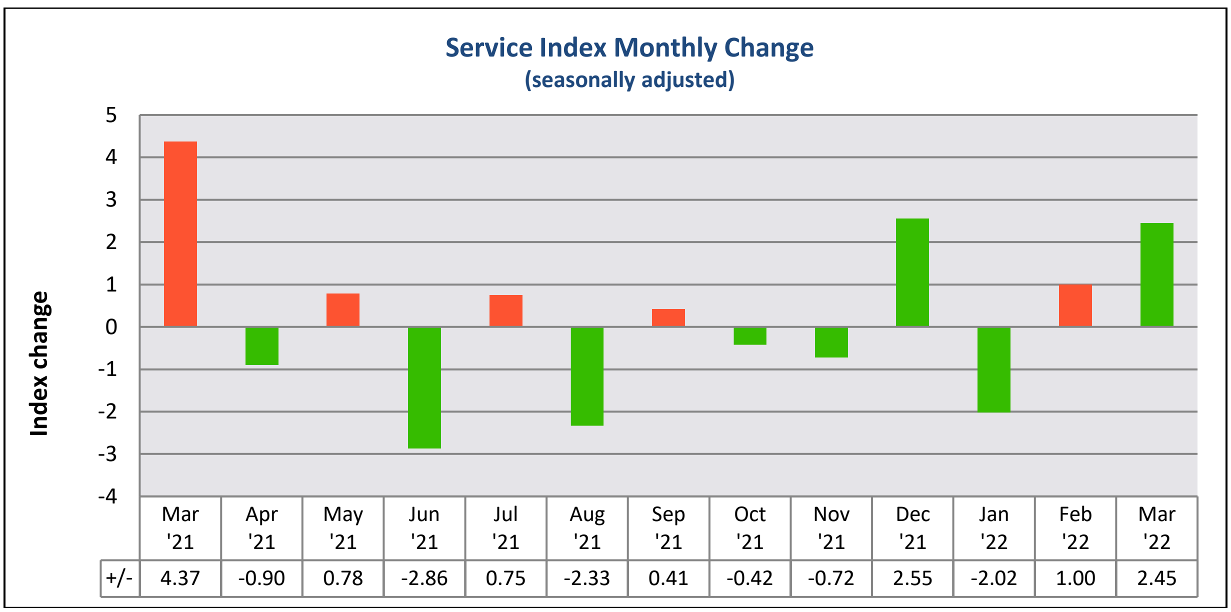
Service Sector

The service sector's combined index grew 2.5 points to 60.4, a result driven by a whopping 5.9-point improvement in the index of favorable factors. The sales index skyrocketed up 10.5 points to 80.0, a 12-month high, and the index for new credit applications added 6.9 points to 71.6. The dollar collections index also hit a 12-month high of 67.7 after a boost of 3.6 points, and the amount of credit extended index posted a gain of 2.6 points to an index value of 71.9.

The index of unfavorable factors affecting service sector firms improved 0.2 points to 52.2 as the 0.9-point decline in the index for accounts placed for collection was offset by the 1-point gain the index for disputes, and the 0.1-point loss for the dollar amount beyond terms index was made up by the symmetric gain in the index for the dollar amount of customer deductions. The remaining unfavorable factors posted modest improvements: the rejections index adding 0.2 points to 52.2 and the filings for bankruptcies index rising 0.5 points to 56.9.

"Only three times in the history of the services CMI have we seen the sales index hit a value of 80 or higher—this month, in March 2021 and in December 2005," Cutts said. "While the values in the sales index year-to-date have been a little smaller than for the same period in 2021, this start bodes well for the rest of the year. Services are less affected by the inflation in commodities prices, but they are not immune. Several respondents noted that they again raised prices in the March survey, but this was driven by the higher costs that they are facing from their suppliers."

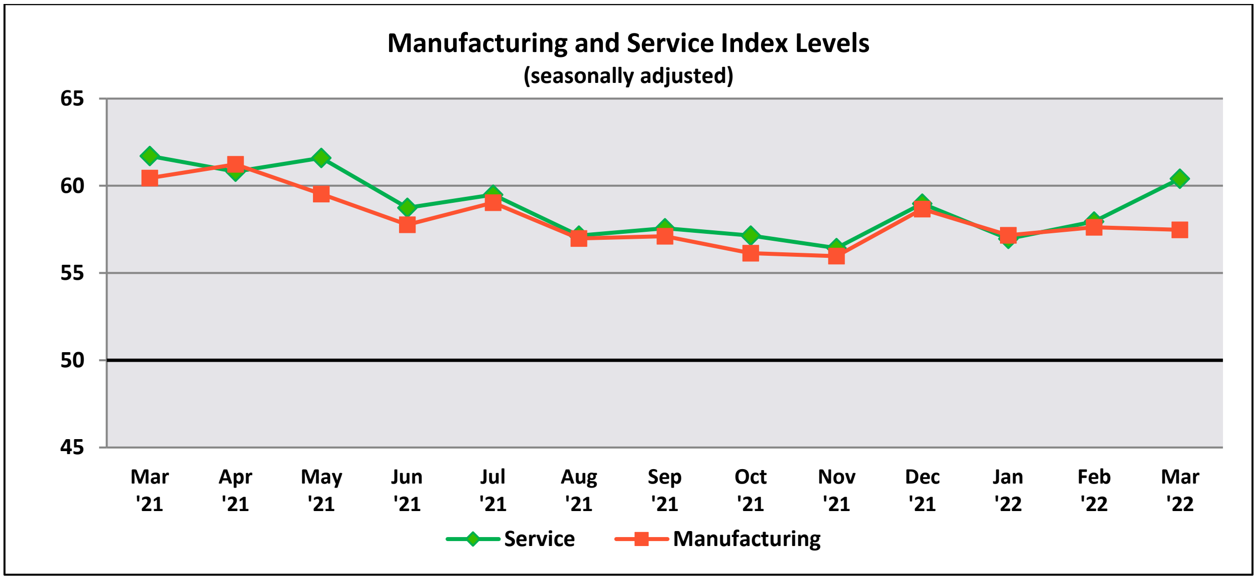
Service Sector (seasonally adjusted)	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**
Sales	81.9	75.9	75.3	69.8	74.6	66.8	66.4	68.5	65.3	73.9	69.7	69.6	80.0
New credit applications	70.8	68.0	67.3	67.9	66.6	63.5	63.8	63.5	64.8	73.0	60.9	64.7	71.6
Dollar collections	68.2	63.9	65.6	60.2	63.1	59.4	60.8	61.5	56.7	62.6	60.9	64.1	67.7
Amount of credit extended	71.2	71.3	70.6	69.0	68.5	69.1	66.9	67.4	67.9	73.3	66.7	69.3	71.9
Index of favorable factors	**73.0**	**69.8**	**69.7**	**66.7**	**68.2**	**64.7**	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**
Rejections of credit applications	50.5	52.2	52.8	50.9	50.6	51.4	51.9	52.5	53.2	51.4	51.8	52.0	52.2
Accounts placed for collection	54.0	53.9	54.3	52.2	51.0	49.4	48.5	50.3	50.2	49.8	51.9	51.9	51.0
Disputes	51.1	53.2	56.1	51.8	51.2	50.8	52.8	49.1	50.9	48.0	49.2	49.3	50.3
Dollar amount beyond terms	59.0	58.5	58.4	54.1	59.0	52.2	52.8	50.8	47.6	52.1	51.8	51.0	51.0
Dollar amount of customer deductions	53.8	53.3	56.1	52.6	53.7	50.4	53.9	50.9	51.7	50.8	51.9	51.4	51.54
Filings for bankruptcies	56.7	58.0	59.4	58.9	56.5	58.4	57.8	57.0	56.1	55.0	54.6	56.4	56.9
Index of unfavorable factors	**54.2**	**54.8**	**56.2**	**53.4**	**53.7**	**52.1**	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**
NACM Service CMI	**61.7**	**60.8**	**61.6**	**58.7**	**59.5**	**57.2**	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**



March 2022 versus March 2021

After nine months of the service and manufacturing CMI indexes moving in close proximity, the March 2022 values not only separated, they recorded the largest divergence since April 2016.

“Given all of the events that have happened since the start of the Russia-Ukraine war, I think it will be even harder for manufacturers to get needed materials in the near term, and, even if they can get them, the sharp increase in commodities prices will be a hard pill to swallow after the increases we have already seen,” Cutts said. “The robustness of sales in both sectors is a positive sign of resiliency, along with the index values remaining well into expansion territory, but I do worry about the impacts of these headwinds."



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.

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