



## Report for July 2022

Issued July 29, 2022

### National Association of Credit Management

#### Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for July fell to 55.0 points, its lowest level since June 2020, driven by deterioration in both favorable and unfavorable factor indexes. Several respondents noted this month that higher fuel, labor and material prices were causing financial stress on their customers, and an unseasonal erosion of account performance, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"I think the CMI is nearing the tipping point between expansion and recession," Cutts said. "While the CMI remains five points above the contraction threshold, it has steadily declined over the past four months. Both factors' indexes are following this trend. The unfavorable factor index is at its lowest level since June 2020 and it has dipped below the critical 50-point threshold. The favorable factor index is at its lowest level since November 2020.

"We're in the thick of earnings announcements for the second quarter and many companies are noting the impact of inflation, delivery issues, materials and product shortages (or the opposite problem of too much inventory), and rising labor costs as hurting profitability over the past three months along with forward guidance that investors should expect these problems to continue. The CMI shows these same stresses. Some respondents noted that the sales values at their companies were up because of higher prices, not increased unit sales, and similarly that they're having to increase the amount of credit extended to cover higher costs rather than increased sales for their customers. A bright spot is that business bankruptcies are still very low."

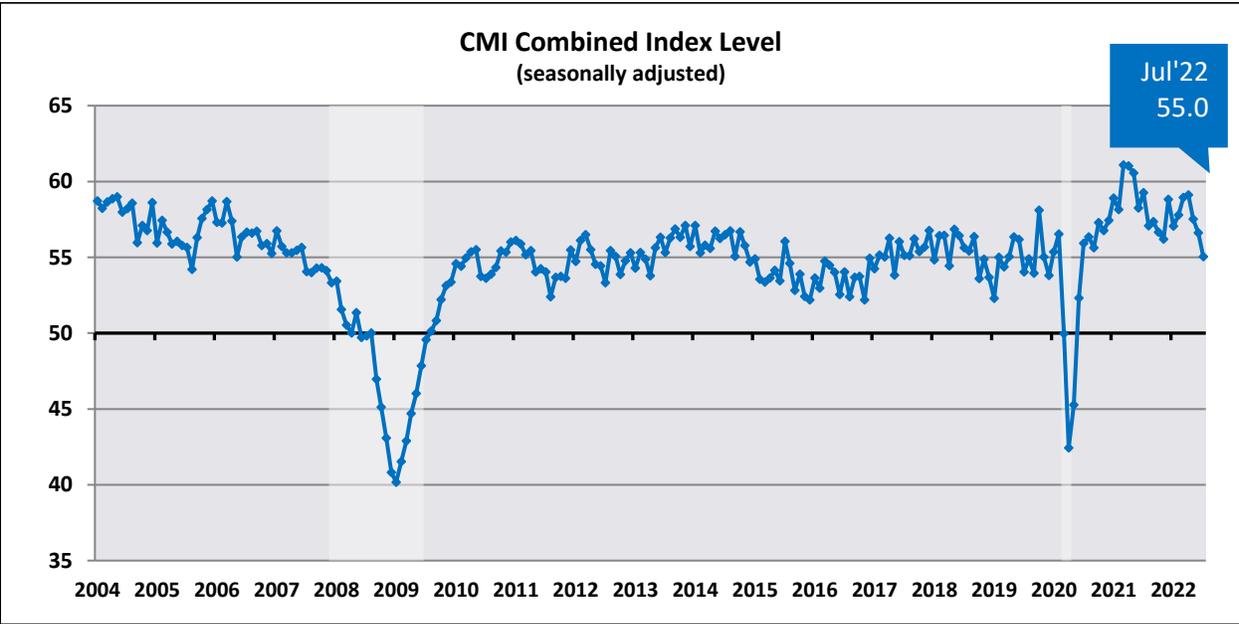
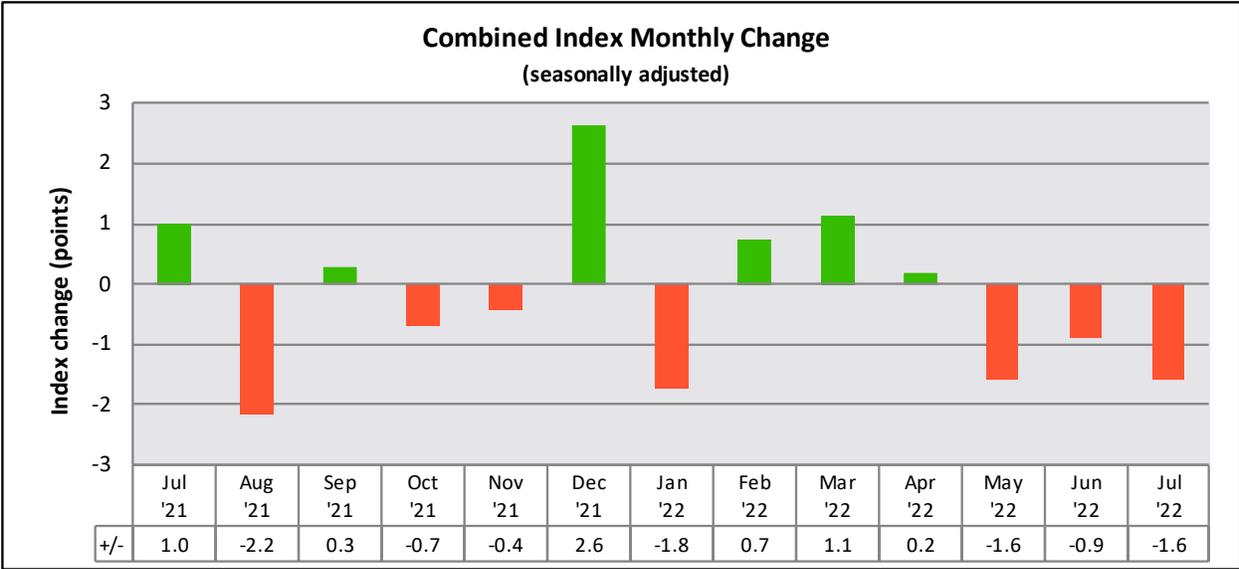
The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. The combined July CMI fell by 1.6 points from the June survey value of 56.6. The index of favorable factors slid 1.2 points in July to 63.6, a level that is 5.0 points lower than a year ago. The index of unfavorable factors deteriorated by 1.7 points to 49.4 points, 4.2 points lower than a year ago, and this index now sits in contraction territory.

Three of the four categories in the favorable factors list dropped for the fourth month in a row. New credit applications led the decline with a sharp 4.4-point drop to 59.7. The sales index fell 0.8 points to 65.8 and the amount of credit extended dropped one-tenth of a point to 67.6. The index for dollar collections improved by 0.3 points to 61.2, but several respondents noted that they are having to work harder to get these collections. The declines in the favorable factor indexes are notable but the levels of the indexes still indicate strong expansionary conditions.

Only one unfavorable factor index for the combined CMI improved in the July survey. Rejections of credit applications rose 0.6 points to 50.8. Note that the scale for unfavorable factors is inverted so that gains in the index align with improvements in those factors. Leading the declines in the unfavorable factors is the dollar amount beyond terms index, which fell 4.4 points to 46.7, now 10.2 points lower than a year ago. The index for accounts placed for collections lost 2.3 points to a reading of 47.4 and the filings for bankruptcies fell similarly, dropping 2.1 points to 53.7. The dollar amount of customer deductions index fell 1.4 points to 49.3 and the disputes index declined 1.1 points to 48.3 points.

“Looking for signs of recession in a volatile economic environment can sometimes be misleading, but it just feels like the economy is on weak footing,” Cutts said. “The Credit Managers Index is appearing to stabilize into a downward trend, not yet indicating a recession is occurring, but with all but two unfavorable factors in contraction territory and four to five months of declines in all favorable factors, I think we are definitely seeing conditions changing for the worse. Recent surveys of economists indicate that forecasts of recession risk are being revised higher, but none have yet reported a consensus value above 50% likelihood.”

<b>Combined Manufacturing and Service Sectors (seasonally adjusted)</b>	<b>Jul '21</b>	<b>Aug '21</b>	<b>Sep '21</b>	<b>Oct '21</b>	<b>Nov '21</b>	<b>Dec '21</b>	<b>Jan '22</b>	<b>Feb '22</b>	<b>Mar '22</b>	<b>Apr '22</b>	<b>May '22</b>	<b>Jun '22</b>	<b>Jul '22</b>
Sales	75.4	66.0	67.8	67.4	67.4	75.1	71.2	71.3	77.1	74.7	71.6	66.6	65.8
New credit applications	66.2	63.0	63.5	62.1	62.9	67.6	60.6	64.0	68.8	67.1	64.7	64.1	59.7
Dollar collections	64.4	61.5	60.4	61.3	59.2	63.5	62.5	63.2	67.0	65.9	65.5	60.9	61.2
Amount of credit extended	68.4	68.6	67.2	67.6	67.7	71.7	67.2	68.7	69.2	72.1	70.4	67.7	67.6
<b>Index of favorable factors</b>	<b>68.6</b>	<b>64.8</b>	<b>64.7</b>	<b>64.6</b>	<b>64.3</b>	<b>69.5</b>	<b>65.4</b>	<b>66.8</b>	<b>70.5</b>	<b>69.9</b>	<b>68.1</b>	<b>64.8</b>	<b>63.6</b>
Rejections of credit applications	52.0	52.2	52.1	52.3	53.2	51.7	51.5	52.3	51.9	51.3	50.7	50.2	50.8
Accounts placed for collection	51.5	51.4	51.4	52.1	52.0	52.1	51.1	52.7	51.5	50.6	51.0	49.7	47.4
Disputes	49.1	49.6	51.2	48.3	48.6	48.2	48.4	48.6	48.0	49.1	49.1	49.4	48.3
Dollar amount beyond terms	56.9	51.4	50.6	49.5	47.1	53.3	53.5	50.9	51.2	54.2	47.2	51.1	46.7
Dollar amount of customer deductions	51.8	49.9	51.9	49.4	48.2	49.3	49.5	49.9	49.0	50.5	48.7	50.7	49.3
Filings for bankruptcies	56.9	57.3	57.1	56.4	55.9	55.7	55.2	56.4	55.8	55.7	56.4	55.8	53.7
<b>Index of unfavorable factors</b>	<b>53.0</b>	<b>51.9</b>	<b>52.4</b>	<b>51.3</b>	<b>50.8</b>	<b>51.7</b>	<b>51.5</b>	<b>51.8</b>	<b>51.2</b>	<b>51.9</b>	<b>50.5</b>	<b>51.1</b>	<b>49.4</b>
<b>NACM Combined CMI</b>	<b>59.3</b>	<b>57.1</b>	<b>57.3</b>	<b>56.6</b>	<b>56.2</b>	<b>58.8</b>	<b>57.1</b>	<b>57.8</b>	<b>58.9</b>	<b>59.1</b>	<b>57.5</b>	<b>56.6</b>	<b>55.0</b>



### Manufacturing Sector

The Manufacturing CMI lost 1.9 points in the July survey to sit at 54.1. A year ago, the index read 59.1. The index of unfavorable factors lost 1.2 points to 49.5, while the index of favorable factors slid 3.1 points to 60.9. The favorable factor leading the decline in the July survey is the index for new credit applications with a 4.8-point loss to 57.7, which is 8.2 points lower than a year ago.

Among the other favorable factor indexes, sales declined 3.2 points, now sitting 14.5 points lower than this time last year. The index for dollar collections lost 2.8 points in July to sit at 58.8, and the index for the amount of credit extended dropped 1.7 points to 65.4.

Among unfavorable factor indexes, dollar amount beyond terms led the decline with a 4.0-point drop to a contractionary value of 46.7. This index is now 8.1 points lower than a year ago. Filings for bankruptcies lost 1.7 points to sit at a value of 54.0, and the disputes index declined 1.5 points to 47.2. The indexes for accounts placed in collections and the dollar amount of customer deductions both lost 0.6 points to come in at 49.3 and 48.4, respectively. The index for rejections of credit applications was the only unfavorable factor to improve this month, gaining 1.4 points to hit 51.4. All of the manufacturing sector factor indexes are below their values a year ago except for the disputes index which is 0.2 points higher.

“The CMI Manufacturing sector respondents indicated continuing problems with supply chains,” Cutts said. “Labor woes also are hampering operations, with many openings and few qualified applicants. These problems are showing up in the CMI through factors like customer deductions and disputes. The customers of manufacturers are demanding compensation for empty shelves and having to disappoint their own clients. A few respondents indicated that they are seeing some easing on the supply side with some materials that have been in short supply being more available now.

“The steady decline in the Manufacturing Sector CMI is worrying. The index is still strongly on the expansionary side, but the decline accelerated this month and its widespread across the component factors. Perhaps the most telling, the dollar amount beyond terms index, a clear indicator of economic stress, has dropped again below 50 and is down 11.1 points since April.”

<b>Manufacturing Sector (seasonally adjusted)</b>	<b>Jul '21</b>	<b>Aug '21</b>	<b>Sep '21</b>	<b>Oct '21</b>	<b>Nov '21</b>	<b>Dec '21</b>	<b>Jan '22</b>	<b>Feb '22</b>	<b>Mar '22</b>	<b>Apr '22</b>	<b>May '22</b>	<b>Jun '22</b>	<b>Jul '22</b>
Sales	76.2	65.2	69.2	66.3	69.4	76.3	72.8	73.1	74.1	73.6	71.1	64.9	61.7
New credit applications	65.9	62.4	63.3	60.7	60.9	62.1	60.2	63.4	65.9	66.7	62.8	62.5	57.7
Dollar collections	65.6	63.5	60.0	61.1	61.6	64.4	64.0	62.3	66.4	63.4	64.6	61.6	58.8
Amount of credit extended	68.3	68.0	67.6	67.8	67.5	70.2	67.6	68.2	66.5	70.6	70.8	67.1	65.4
<b>Index of favorable factors</b>	<b>69.0</b>	<b>64.8</b>	<b>65.0</b>	<b>64.0</b>	<b>64.9</b>	<b>68.2</b>	<b>66.2</b>	<b>66.7</b>	<b>68.2</b>	<b>68.6</b>	<b>67.3</b>	<b>64.0</b>	<b>60.9</b>
Rejections of credit applications	53.4	52.9	52.4	52.2	53.1	52.1	51.2	52.6	51.7	51.8	50.4	50.0	51.4
Accounts placed for collection	51.9	53.4	54.4	53.9	53.8	54.5	50.3	53.6	51.9	50.9	49.9	49.9	49.3
Disputes	47.1	48.3	49.7	47.4	46.4	48.4	47.7	47.9	45.8	48.6	48.9	48.7	47.2
Dollar amount beyond terms	54.8	50.6	48.4	48.2	46.7	54.6	55.2	50.7	51.4	57.8	46.9	50.7	46.7
Dollar amount of customer deductions	50.0	49.4	50.0	48.0	44.6	47.8	47.0	48.3	46.5	50.0	48.0	49.0	48.4
Filings for bankruptcies	57.3	56.1	56.3	55.8	55.6	56.4	55.7	56.4	54.6	54.9	57.1	55.7	54.0
<b>Index of unfavorable factors</b>	<b>52.4</b>	<b>51.8</b>	<b>51.8</b>	<b>50.9</b>	<b>50.0</b>	<b>52.3</b>	<b>51.2</b>	<b>51.6</b>	<b>50.3</b>	<b>52.3</b>	<b>50.2</b>	<b>50.7</b>	<b>49.5</b>
<b>NACM Manufacturing CMI</b>	<b>59.0</b>	<b>57.0</b>	<b>57.1</b>	<b>56.1</b>	<b>56.0</b>	<b>58.7</b>	<b>57.2</b>	<b>57.6</b>	<b>57.5</b>	<b>58.8</b>	<b>57.1</b>	<b>56.0</b>	<b>54.1</b>



## Service Sector

The service sector CMI index fell 1.2 points to 56.0 in the July survey. The index of unfavorable factors led the decline with a fall of 2.4 points which erased most of the gains from the June Survey. Similarly, the favorable factors index overcame the decline in the June survey by posting a 0.6-point gain this month.

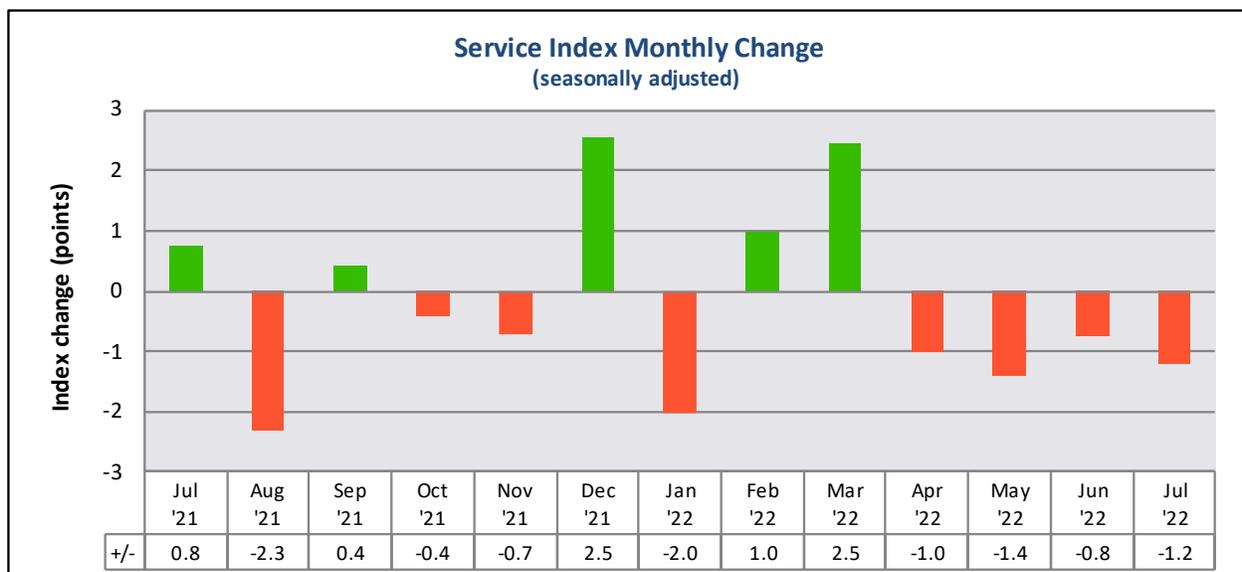
In the favorable factors category, the index for new credit applications posted the only decline in the group, losing 4.1 points to come in at 61.7, with a cumulative four-month decline of just under 10 points. Among improving factors, the dollar collections index led with a 3.4-point jump to 63.5; sales index rose 1.7 points to 69.9; and amount of credit extended gained 1.3 points to 69.7.

Among service sector unfavorable factor indexes, dollar amount beyond terms deteriorated the most with a 4.9-point decline to 46.6. This index is now 12.4 points lower than a year ago. The accounts placed for collections index lost 4.0 points to sit at 45.4 and the filings for bankruptcies index lost 2.6 points to a reading of 53.4. The dollar amount of customer deductions fell from 52.3 to 50.2, just above the threshold value of 50, while disputes fell into contraction at 49.4 with a 0.8-point loss. Rejections of credit applications index is nearly unchanged, losing 0.1 points to 50.3.

“The services sector CMI index has weakened over the past four months like the manufacturing sector CMI, but at a slower pace of deterioration,” Cutts said. “There was a rather abrupt shift by consumers away from goods purchases towards services, but we’re seeing less of a benefit of this shift into the business services sector. Importantly, the index for accounts placed for collection in the services sector CMI is in the contraction range and is the lowest valued of all CMI factor indexes, showing significant stress for the sector. This is most likely due to higher fuel prices affecting businesses in the services industry, and if that is the case then we might see some improvement in the next month or two.”

<b>Service Sector</b> <b>(seasonally adjusted)</b>	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22
Sales	74.6	66.8	66.4	68.5	65.3	73.9	69.7	69.6	80.0	75.7	72.1	68.2	69.9
New credit applications	66.6	63.5	63.8	63.5	64.8	73.0	60.9	64.7	71.6	67.4	66.7	65.8	61.7
Dollar collections	63.1	59.4	60.8	61.5	56.7	62.6	60.9	64.1	67.7	68.4	66.5	60.1	63.5

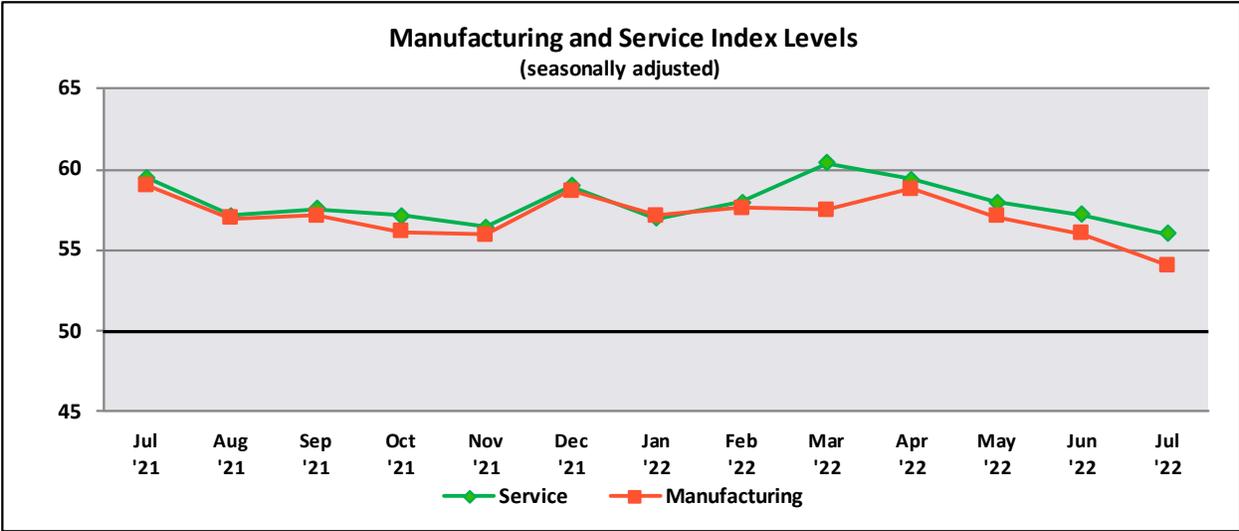
Amount of credit extended	68.5	69.1	66.9	67.4	67.9	73.3	66.7	69.3	71.9	73.6	69.9	68.4	69.7
<b>Index of favorable factors</b>	<b>68.2</b>	<b>64.7</b>	<b>64.5</b>	<b>65.2</b>	<b>63.7</b>	<b>70.7</b>	<b>64.6</b>	<b>66.9</b>	<b>72.8</b>	<b>71.3</b>	<b>68.8</b>	<b>65.6</b>	<b>66.2</b>
Rejections of credit applications	50.6	51.4	51.9	52.5	53.2	51.4	51.8	52.0	52.2	50.8	51.1	50.4	50.3
Accounts placed for collection	51.0	49.4	48.5	50.3	50.2	49.8	51.9	51.9	51.0	50.3	52.1	49.5	45.4
Disputes	51.2	50.8	52.8	49.1	50.9	48.0	49.2	49.3	50.3	49.6	49.3	50.1	49.4
Dollar amount beyond terms	59.0	52.2	52.8	50.8	47.6	52.1	51.8	51.0	51.0	50.6	47.4	51.5	46.6
Dollar amount of customer deductions	53.7	50.4	53.9	50.9	51.7	50.8	51.9	51.4	51.5	51.0	49.3	52.3	50.2
Filings for bankruptcies	56.5	58.4	57.8	57.0	56.1	55.0	54.6	56.4	56.9	56.5	55.6	56.0	53.4
<b>Index of unfavorable factors</b>	<b>53.7</b>	<b>52.1</b>	<b>53.0</b>	<b>51.8</b>	<b>51.6</b>	<b>51.2</b>	<b>51.9</b>	<b>52.0</b>	<b>52.2</b>	<b>51.5</b>	<b>50.8</b>	<b>51.6</b>	<b>49.2</b>
<b>NACM Service CMI</b>	<b>59.5</b>	<b>57.2</b>	<b>57.6</b>	<b>57.2</b>	<b>56.4</b>	<b>59.0</b>	<b>57.0</b>	<b>58.0</b>	<b>60.4</b>	<b>59.4</b>	<b>58.0</b>	<b>57.2</b>	<b>56.0</b>



## July 2022 versus July 2021

The CMI indexes for service and manufacturing sectors continue to show strength overall, but both are starting to reflect some of the fragility in the economy this month as supply chains and logistics remain problematic, staffing issues persist and inflation rages on, especially in commodities. Both the services sector and manufacturing sector CMIs are at their lowest levels since since June 2020.

“The component factor indexes of the CMI reversed most of the improvements we saw last month,” Cutts said. “The trend over the past few months is steadily down for most factors, even as the overall indexes remain mathematically in the expansion range. I don’t think we are truly in a recession at the moment, but the economic winds are pushing us in that direction. What we don’t yet know is how this recession will look. For example, due to the tightness of the labor market we could see firms let positions go unfilled rather than engage in layoffs. There is no playbook for a pandemic economy’s behavior.”



**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:

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

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.
<b>Unfavorable Factors*</b>	<b>Why Unfavorable</b>
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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