Report for September 2022

Issued September 30, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for September rose slightly to 55.6 points, with improvements in favorable factor indexes offsetting deterioration in unfavorable factor indexes. Respondents continue to note that supply constraints and logistics issues are problematic—affecting payment times and increasing customer dissatisfaction. Many respondents also indicated more issues with collections and one respondent indicated that several clients were advising of financial distress relating to cashflow and inflation pressures, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The CMI came in a bit stronger this month, up six-tenths of a point, but the comments from survey respondents have a more urgent tone regarding business conditions and worry that the economic tide is turning, even with marked improvements in some factors" Cutts said. "The data and the commentary seem to be in opposition, but they are in alignment. For example, sales, which are measured in dollars, are rising in value due to higher prices while the number of units sold is steady or falling for most of our respondents. Similarly, collections are up this month, but it is taking much more effort on the part of credit managers to get payments.

"The Treasury yield curve, which compares rates on Treasury bonds at different maturity terms, has inverted, meaning yields on shorter terms bonds are higher than on those with longer terms. This is often taken as a sign of imminent recession. The CMI is still on the side of economic expansion at this time from a number's standpoint, aligning with the healthy employment report that we had in August."

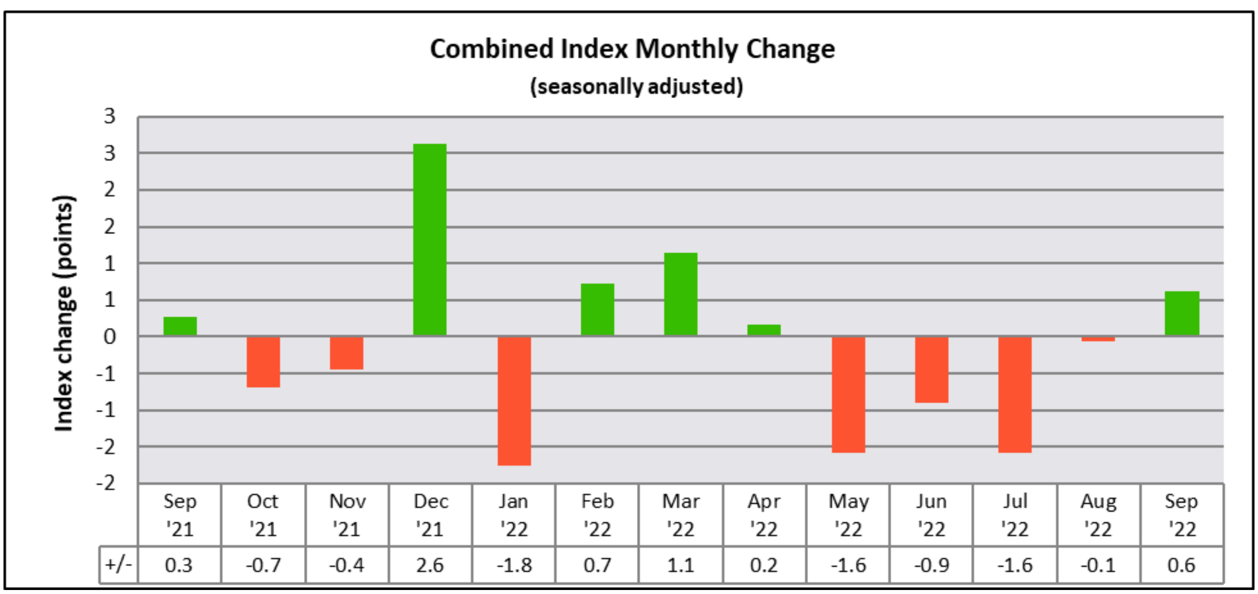
The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. The combined September CMI rose by 0.6 points to 55.6. The index of favorable factors improved 1.7 points in September to 63.8, a level that is 1.0 points lower than a year ago. The index of unfavorable factors fell by 0.1 points, but with rounding remained level at 50.2 points, 1.7 points lower than a year ago.

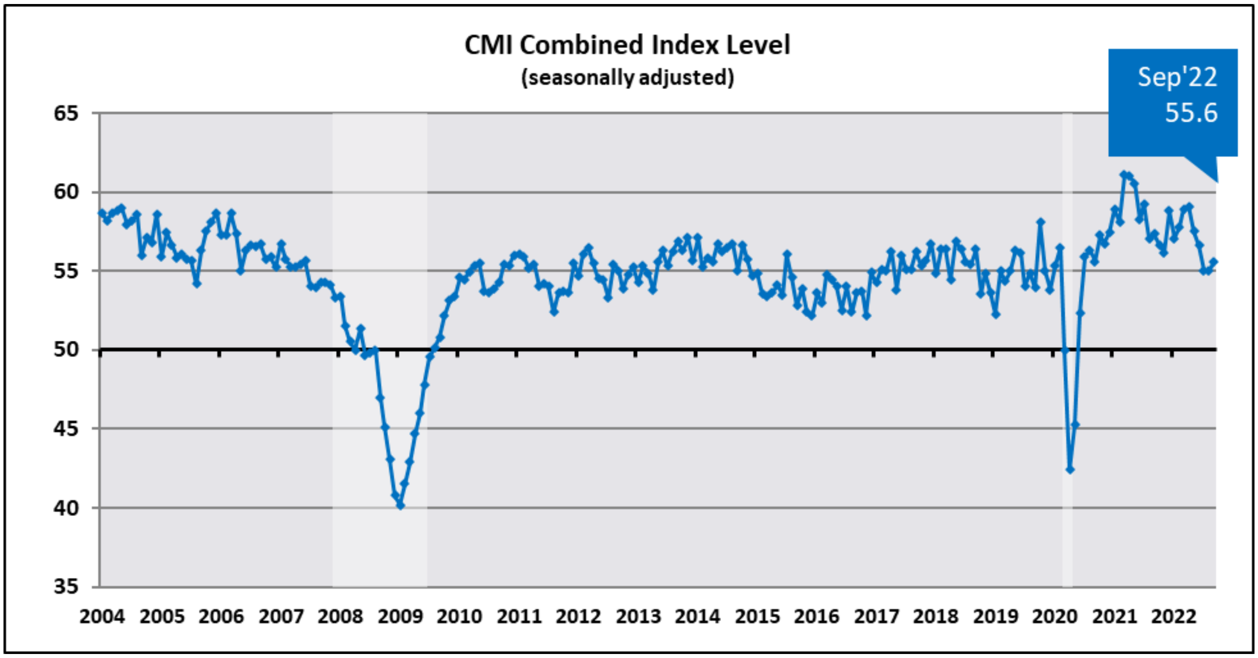
Three of the four categories in the favorable factors list increased the September survey, reversing their trends from the August survey. The dollar collections index led the rise with a sharp 5.6-point gain to 63.3, its best reading since May 2022. The sales index improved for the first time in six months, adding 1.2 points to 64.2, and the amount of credit extended index grew 1.0 points to 66.3. The index for new credit applications deteriorated by 1.0 points to 61.4.

All but two of the unfavorable factor indexes for the combined CMI deteriorated in the September survey. The index for dollar amount beyond terms improved 2.3 points to 48.7, which being below 50 still indicates that more respondents are seeing late payments than are being paid on time. The index for rejections of credit applications gained 2.8 points to put it back on the side of economic expansion with a reading of 52.2 points. The filings for bankruptcies index deteriorated the most, falling 4.1 points to 53.5, reversing all the gain recorded in the August survey. The disputes index lost 1.0 points, to come in at 48.2, its twelfth consecutive month below 50. The index for accounts placed for collections declined 0.2 points to 49.4, 2.1 points lower than a year ago. Lastly, the index for the dollar amount of customer deductions fell 0.1 points to 49.1.

“In the press briefing following the announcement by the Open Market Committee of the Federal Reserve, Fed Chairman Powell indicated that we will be seeing increases in the Fed funds target rate for as long as it takes to bring inflation down to the target range,” Cutts said. “The tone of this statement was sobering and a bit surprising, as it was a direct indication that they, the FOMC, valued fighting inflation over avoiding a recession.”

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**	**Sep '22**
Sales	67.8	67.4	67.4	75.1	71.2	71.3	77.1	74.7	71.6	66.6	65.8	63.0	64.2
New credit applications	63.5	62.1	62.9	67.6	60.6	64.0	68.8	67.1	64.7	64.1	59.7	62.4	61.4
Dollar collections	60.4	61.3	59.2	63.5	62.5	63.2	67.0	65.9	65.5	60.9	61.2	57.7	63.3
Amount of credit extended	67.2	67.6	67.7	71.7	67.2	68.7	69.2	72.1	70.4	67.7	67.6	65.3	66.3
Index of favorable factors	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**	**68.1**	**64.8**	**63.6**	**62.1**	**63.8**
Rejections of credit applications	52.1	52.3	53.2	51.7	51.5	52.3	51.9	51.3	50.7	50.2	50.8	49.4	52.2
Accounts placed for collection	51.4	52.1	52.0	52.1	51.1	52.7	51.5	50.6	51.0	49.7	47.4	49.6	49.4
Disputes	51.2	48.3	48.6	48.2	48.4	48.6	48.0	49.1	49.1	49.4	48.3	49.2	48.2
Dollar amount beyond terms	50.6	49.5	47.1	53.3	53.5	50.9	51.2	54.2	47.2	51.1	46.7	46.4	48.7
Dollar amount of customer deductions	51.9	49.4	48.2	49.3	49.5	49.9	49.0	50.5	48.7	50.7	49.3	49.2	49.1
Filings for bankruptcies	57.1	56.4	55.9	55.7	55.2	56.4	55.8	55.7	56.4	55.8	53.7	57.6	53.5
Index of unfavorable factors	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**	**50.5**	**51.1**	**49.4**	**50.2**	**50.2**
NACM Combined CMI	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**	**57.5**	**56.6**	**55.0**	**55.0**	**55.6**





Manufacturing Sector

The Manufacturing CMI gained 3.8 points in the September survey to sit at 55.4, and fully erasing the decline from the August reading. The index of favorable factors led the increase with a 6.2-point gain to 62.2, while the index of unfavorable factors gained 2.2 points to come in at 50.9.

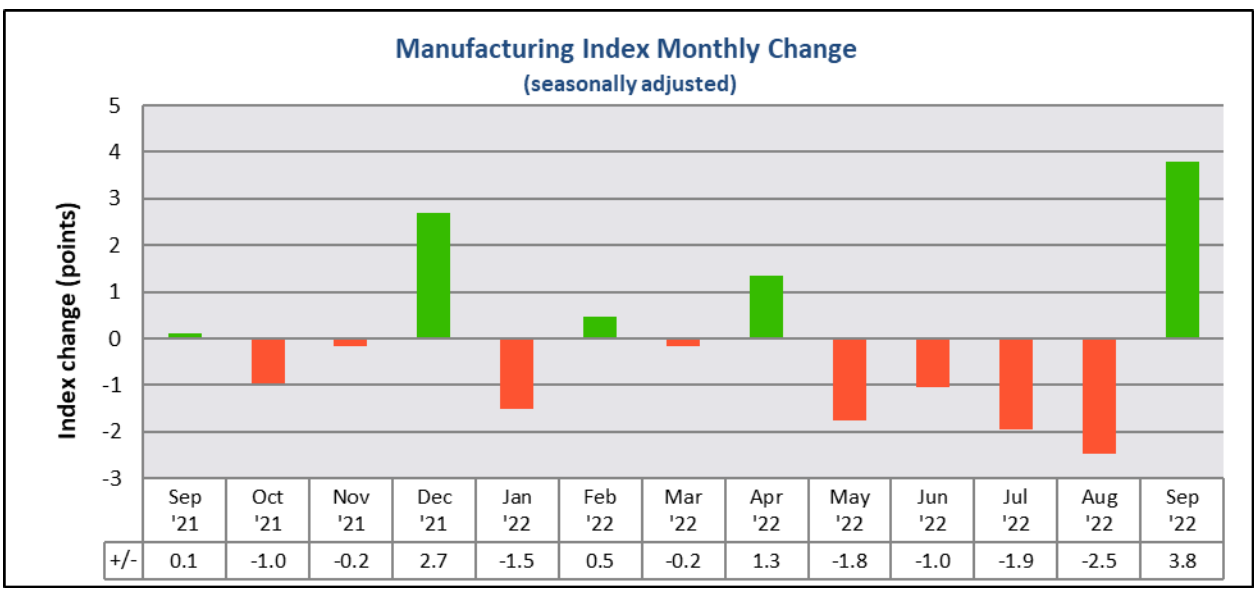
Only one out of the 10 factor indexes showed deterioration in September: the index for filings for bankruptcies, which dropped 2.2 points to 54.2. Among the other unfavorable factor indexes, the index for dollar amount beyond terms led the group's improvement with an 8.6-point rise to 51.8. This is the strongest reading in this factor index since April 2022. The rejections of credit applications index gained 4.6 points to 52.7, its highest reading since November 2021. The index for accounts placed for collection rose 1.4 points to 51.5, its best reading since March but it sits 2.9 points below the value a year ago. The index for the dollar amount of customer deductions improved 0.5 points to 47.9 but remains 2.1 points below the year ago value. The disputes index gained 0.1 points to 47.2 and it sits 2.5 points below the September 2021 value.

Among the favorable factor indexes, dollar collections rose 9.5 points to 64.1, making up for the cumulative three-month declines witnessed over the summer. The sales index also came in strong, posting an 8.5-point improvement to 61.4 in September's survey, but the index remains 7.8 points below the level a year ago. The amount of credit extended index rose 5.6 points to 65.0, nearly erasing the August survey decline. The index for new credit applications recorded a 1.4-point gain to 58.4. In September 2021 the index sat at 63.3.

"The CMI Manufacturing sector indexes rebounded strongly this month, with most factor indexes erasing many months of declines," Cutts said. "But at the same time, many respondents again noted that they are having supply chain problems that are hampering production. Others noted that labor shortages are affecting their business. These issues are proving more persistent and widespread than we were expecting at the start of the year. The shifts occurring globally as producers start to build redundancy into their supply chains or move them to more reliable sources are expensive and take time to integrate. They also contribute to short term inflation, but I am hoping we will soon see the benefits of these investments filter through the manufacturing sector."

"At the same time, we have efforts at global decarbonization, which also are expensive and take time. They put pressure on commodities prices. The war in Ukraine is wreaking havoc on the energy sector, not just in Europe but around the world. Manufacturers are hit not only with rising prices for materials used in production, but also the energy to make those products. Credit managers are on the front lines of the economy, feeling changes in direction in real time. I am relieved to see the strong improvements in the Manufacturing CMI this month as it indicates recession, if it comes, will be later rather than sooner."

Manufacturing Sector (seasonally adjusted)	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22
Sales	69.2	66.3	69.4	76.3	72.8	73.1	74.1	73.6	71.1	64.9	61.7	52.9	61.4
New credit applications	63.3	60.7	60.9	62.1	60.2	63.4	65.9	66.7	62.8	62.5	57.7	57.0	58.4
Dollar collections	60.0	61.1	61.6	64.4	64.0	62.3	66.4	63.4	64.6	61.6	58.8	54.6	64.1
Amount of credit extended	67.6	67.8	67.5	70.2	67.6	68.2	66.5	70.6	70.8	67.1	65.4	59.4	65.0
Index of favorable factors	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**	**67.3**	**64.0**	**60.9**	**56.0**	**62.2**
Rejections of credit applications	52.4	52.2	53.1	52.1	51.2	52.6	51.7	51.8	50.4	50.0	51.4	48.1	52.7
Accounts placed for collection	54.4	53.9	53.8	54.5	50.3	53.6	51.9	50.9	49.9	49.9	49.3	50.1	51.5
Disputes	49.7	47.4	46.4	48.4	47.7	47.9	45.8	48.6	48.9	48.7	47.2	47.1	47.2
Dollar amount beyond terms	48.4	48.2	46.7	54.6	55.2	50.7	51.4	57.8	46.9	50.7	46.7	43.2	51.8
Dollar amount of customer deductions	50.0	48.0	44.6	47.8	47.0	48.3	46.5	50.0	48.0	49.0	48.4	47.4	47.9
Filings for bankruptcies	56.3	55.8	55.6	56.4	55.7	56.4	54.6	54.9	57.1	55.7	54.0	56.4	54.2
Index of unfavorable factors	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**	**50.2**	**50.7**	**49.5**	**48.7**	**50.9**
NACM Manufacturing CMI	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**	**57.1**	**56.0**	**54.1**	**51.6**	**55.4**



Service Sector

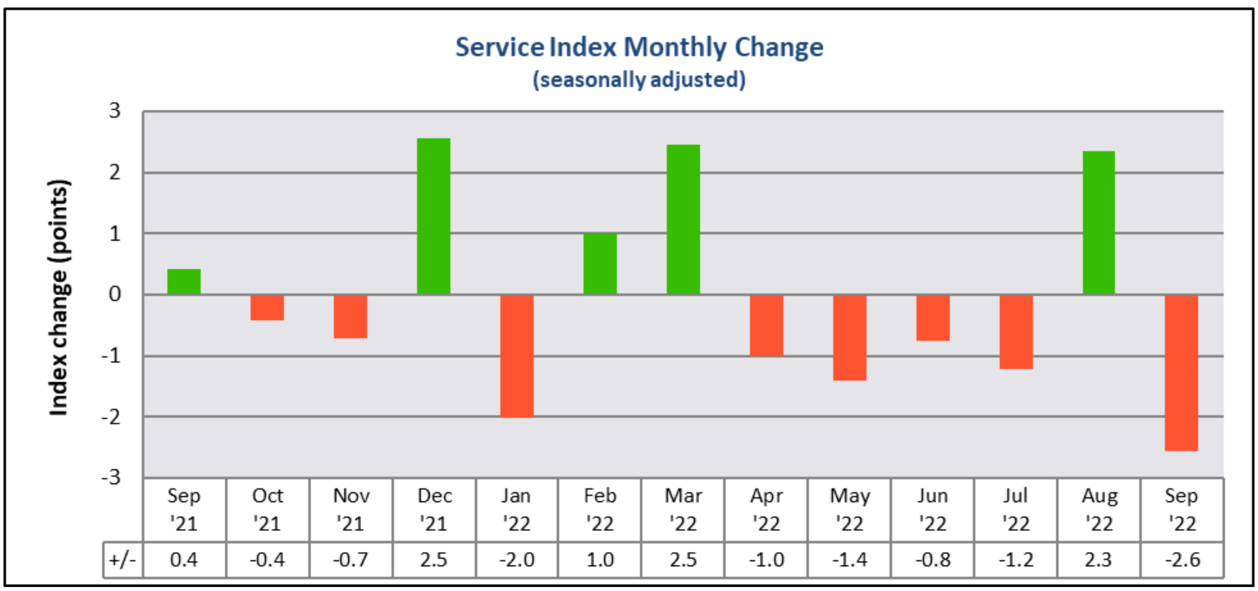
The service sector CMI index declined 2.6 points to 55.8 in the September survey and it now sits at its lowest level since June of 2020. The index of favorable factors led the fall with loss of 2.9 points to 65.3, erasing most of the gains over the past two months but not enough to take away all the gains over the past twelve months. In the September 2021 survey the favorable factor index was at 64.5. Similarly, the unfavorable factors index overrode the gains in the August survey by posting a 2.4-point drop this month to 49.4 but it has posted a 3.6-point decline over the September 2021 survey value.

All of the favorable factor indexes for the services sector are higher in this month's survey than they were a year ago. The index for dollar collections posted the only monthly improvement in the group, gaining 1.8 points to come in at 62.5, which is a 1.7-point improvement over a year ago. Among the other favorable factors, the sales index fell 6.3 points to 66.9, recording its lowest value since September 2021 when it stood at 66.4. The index for the amount of credit extended lost 3.6 points in this month's survey to 67.6 but it sits 0.7 points higher than last year at this time. New credit applications fell 3.6 points to 64.3. A year ago, it recorded a value of 63.8.

Among service sector unfavorable factor indexes, the index for bankruptcy filings showed the largest drop, losing 5.9 points to 52.8, 5.1 points below its value a year ago. The index for the dollar amount beyond terms fell 4.0 points to stand at 45.6. A year ago, the index registered a value of 52.8. The disputes index lost 2.1 points to 49.1, erasing all of the gains in last month's survey and recording a decline of 3.7 over the past twelve months.
The accounts placed for collections index marked a 1.9-point decline to 47.3 (a loss of 1.3 points year over year), and the dollar amount of customer deductions index dropped 0.8 points to 50.3 (a loss of 3.6 points year over year). The index for rejections of credit applications marked the only improvement in the unfavorable factor group, with a gain of 0.9 points to 51.6, just 0.3 points below its value a year ago.

"The services sector CMI index has again changed direction sharply in the September 2022 survey, reversing the gains made in August," Cutts said. "The logistics affecting manufacturers is also affecting the services side. If the parts aren't delivered on time the service cannot be provided. One respondent noted that the U.S. Postal Service's new longer delivery times for packages that were implemented May 1 was starting to be felt in their business. These delays in deliveries, regardless of delivery service, are affecting the willingness of customers to pay in full within terms."

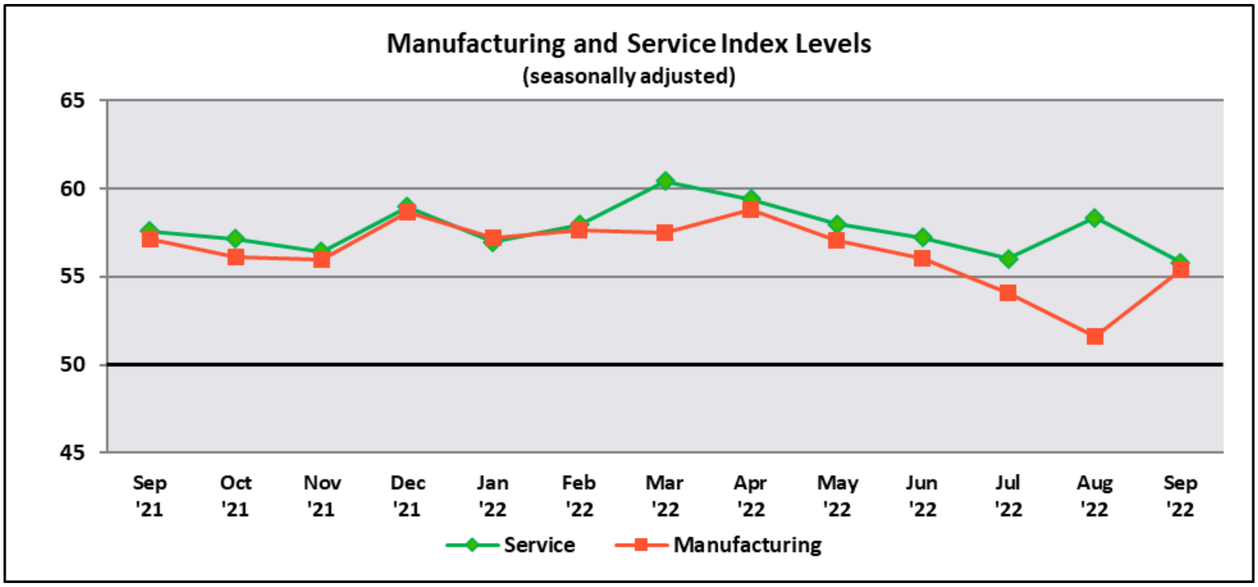
Service Sector (seasonally adjusted)	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22
Sales	66.4	68.5	65.3	73.9	69.7	69.6	80.0	75.7	72.1	68.2	69.9	73.2	66.9
New credit applications	63.8	63.5	64.8	73.0	60.9	64.7	71.6	67.4	66.7	65.8	61.7	67.9	64.3
Dollar collections	60.8	61.5	56.7	62.6	60.9	64.1	67.7	68.4	66.5	60.1	63.5	60.8	62.5
Amount of credit extended	66.9	67.4	67.9	73.3	66.7	69.3	71.9	73.6	69.9	68.4	69.7	71.2	67.6
Index of favorable factors	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**	**68.8**	**65.6**	**66.2**	**68.2**	**65.3**
Rejections of credit applications	51.9	52.5	53.2	51.4	51.8	52.0	52.2	50.8	51.1	50.4	50.3	50.7	51.6
Accounts placed for collection	48.5	50.3	50.2	49.8	51.9	51.9	51.0	50.3	52.1	49.5	45.4	49.2	47.3
Disputes	52.8	49.1	50.9	48.0	49.2	49.3	50.3	49.6	49.3	50.1	49.4	51.2	49.1
Dollar amount beyond terms	52.8	50.8	47.6	52.1	51.8	51.0	51.0	50.6	47.4	51.5	46.6	49.6	45.6
Dollar amount of customer deductions	53.9	50.9	51.7	50.8	51.9	51.4	51.5	51.0	49.3	52.3	50.2	51.1	50.3
Filings for bankruptcies	57.8	57.0	56.1	55.0	54.6	56.4	56.9	56.5	55.6	56.0	53.4	58.7	52.8
Index of unfavorable factors	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**	**50.8**	**51.6**	**49.2**	**51.8**	**49.4**
NACM Service CMI	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**	**58.0**	**57.2**	**56.0**	**58.4**	**55.8**



Manufacturing versus Services Sectors

The CMI indexes for service and manufacturing sectors have converged, with the services sector weakening and the manufacturing sector improving in the September survey.

"There is significant volatility in the CMI sector indexes at the moment, with the longer term trend being toward a weaker economy in both sectors. Neither is suggesting that we are in or near recession at the moment. However, over the past month interest rates have shot up. For example, mortgage rates have jumped from about 5.5% to over 6.75% since the end of August and are up more than three full percentage points since the start of the year. This is having a chilling effect on home sales, mortgage originations and home building, all major contributors to our economy. All businesses are paying significantly more for credit now, as well as for their labor and materials. This situation is not likely sustainable for long as noted by our respondent's comments."



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.
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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