Report for January 2023

Issued January 31, 2023

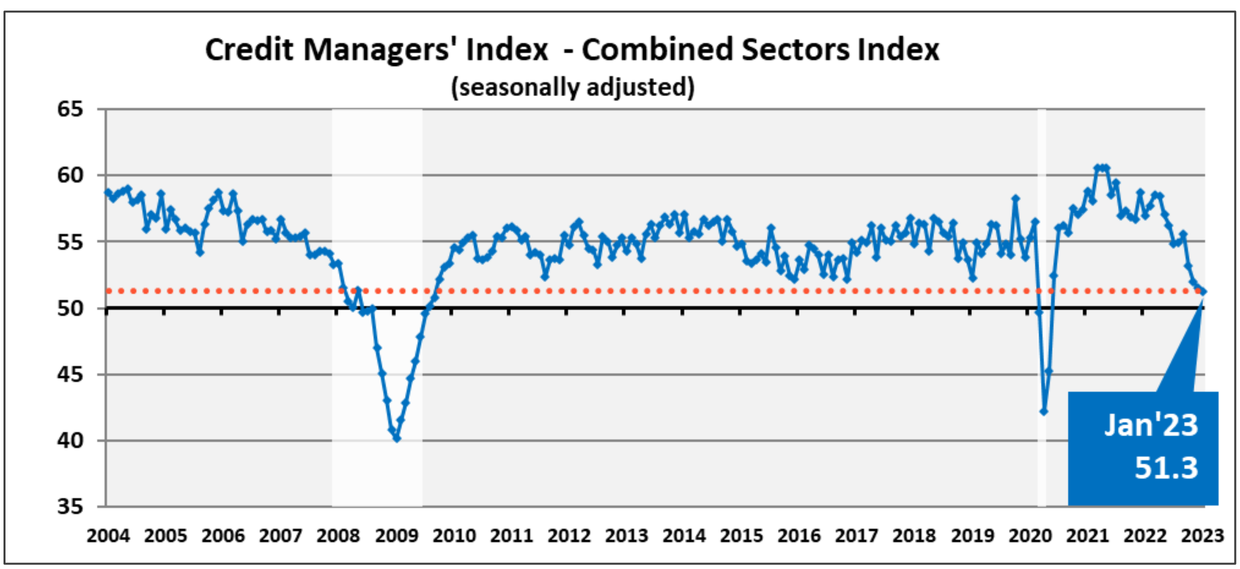
National Association of Credit Management

Credit Managers Index – Combined Sectors

The National Association of Credit Management's Credit Managers' Index (CMI) deteriorated in January for the fourth consecutive month, falling 0.3 of a point to 51.3. Respondents in the CMI survey expressed concern regarding collecting payments due to turnover in accounts payable departments and financial stress among clients, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The combined CMI has lost 9.3 points since it peaked in April of 2021 and continues to record its lowest value since May of 2020," Cutts said. "More importantly, the index is at its lowest value recorded outside of a recession or, in the case of the pandemic recession, its immediate aftermath. While the index technically remains on the expansionary side above the 50-point threshold, the weakness in the index indicates to me that a recession is on the horizon from the perspective of business activity.

"The first estimate of fourth quarter 2022 real Gross Domestic Product showed a slight slowing of economic growth but at a 2.9% annualized rate, the economy is doing well in aggregate. Looking deeper into the report, domestic private investment, also known as business investment, rose at an annualized rate of 1.4% during the quarter but is down 5.0% year-over-year. The GDP report confirms what credit professionals are reporting—there is considerable weakness on the business side. Economists surveyed by the *Wall Street Journal* put a 61% probability that the U.S. will enter a recession in 2023, but the consensus is that it would be both relatively short and mild."



The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. For this month's report, the seasonal adjustment factors have been re-estimated, which affects prior published values of the CMI indexes.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23
Sales	71.1	70.6	75.6	72.6	70.1	65.8	65.5	63.0	63.6	55.5	54.5	54.8	49.8
New credit applications	60.3	64.3	68.0	65.9	64.2	63.5	60.0	62.6	61.2	58.7	56.7	55.5	56.3
Dollar collections	62.3	62.9	66.3	64.6	64.2	60.5	60.3	58.0	63.4	54.9	56.2	57.8	57.3
Amount of credit extended	66.5	69.3	69.2	71.4	69.5	67.0	67.2	64.8	65.9	58.7	57.1	55.4	56.8
Index of favorable factors	**65.0**	**66.8**	**69.8**	**68.6**	**67.0**	**64.2**	**63.2**	**62.1**	**63.5**	**56.9**	**56.1**	**55.9**	**55.1**
Rejections of credit applications	51.6	52.2	51.6	51.2	50.5	50.4	51.0	49.5	52.1	52.0	51.1	51.0	50.5
Accounts placed for collection	51.4	52.3	50.9	50.3	50.7	49.6	47.3	49.5	49.3	47.6	46.5	46.2	45.0
Disputes	48.5	48.6	47.9	49.0	49.0	49.1	48.4	49.2	48.4	50.3	48.4	49.0	48.8
Dollar amount beyond terms	52.9	50.8	50.8	53.3	47.2	51.0	46.6	46.1	49.0	49.0	47.6	45.7	47.4
Dollar amount of customer deductions	49.7	49.9	49.0	50.7	48.6	50.4	49.2	49.4	49.4	51.3	49.3	49.3	50.2
Filings for bankruptcies	55.6	56.5	55.6	55.5	56.4	55.4	53.4	57.2	53.4	53.5	52.2	50.9	50.5
Index of unfavorable factors	**51.6**	**51.7**	**51.0**	**51.7**	**50.4**	**51.0**	**49.3**	**50.2**	**50.3**	**50.6**	**49.2**	**48.7**	**48.7**
NACM Combined CMI	**57.0**	**57.7**	**58.5**	**58.5**	**57.0**	**56.3**	**54.9**	**54.9**	**55.6**	**53.2**	**52.0**	**51.6**	**51.3**

Note: Seasonal adjustment factors were updated for the January 2023 report and which may affect previously published values.

CMI – Combined Sectors Factor Indexes

The index of favorable factors deteriorated by 0.8 points to 55.1, a level that is 9.9 points lower than a year ago. The favorable factor index had its most recent peak in March of last year at 69.8 points. The index of unfavorable factors held steady in the January survey at 48.7 points; 2.9 points lower than a year ago and the lowest value recorded since June of 2020.

Half of the categories in the favorable factors list declined in the January CMI survey. The index for sales leads the declining factors with a 5-point drop to 49.8, a value 25.7 points lower than its recent peak in March 2022 when the index stood at 75.6. This is the first time the value for the sales index fell into contraction territory since May 2020. The index for dollar collections dropped 0.5 points to 57.3, a value that is 5.0 points lower than in January 2022 and 9.0 points lower than its 12-month high of 66.3. The index for the amount of credit extended gained 1.4 points to hit 56.8, a level that is 9.7 points lower than a year ago and 14.6 points lower than its 2022 high. The new credit applications index gained 0.8 points to sit at 56.3, a full 4 points lower than it was a year ago and 11.7 points below its 12-month high.

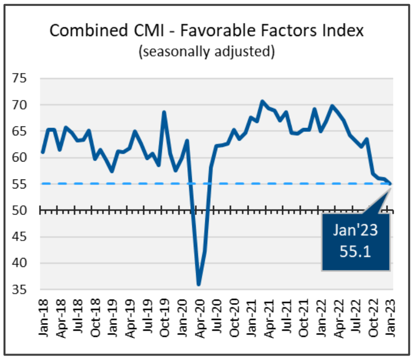
Four of the six unfavorable factor indexes for the combined CMI deteriorated in the January survey. The largest decline was recorded by the index for account placed for collection, which fell 1.2 points to 45.0, a value that is 6.4 points lower than one year ago and 7.3 points lower than in March 2022. The index for rejections of credit applications lost 0.5 points to 50.5, a level that is only 1.7 points lower than its 12-month high. Filings for bankruptcies declined for the third month in a row, losing 0.4 points to 50.5; in May of 2022 the index was at 56.4. The disputes index rounds out the list of declining factors with a loss of 0.2 points to 48.8, down 1.5 points since its 12-month high in August of 49.2.

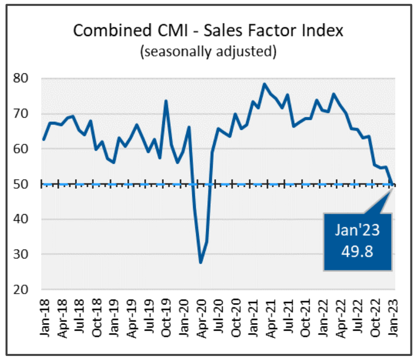
The index for dollar amount beyond terms with a 1.7-point jump to 47.4, nearly erasing the decline recorded in the December survey. The index for the dollar amount of customer deductions is up 0.9 from last month, crossing back to expansion territory with a value of 50.2.

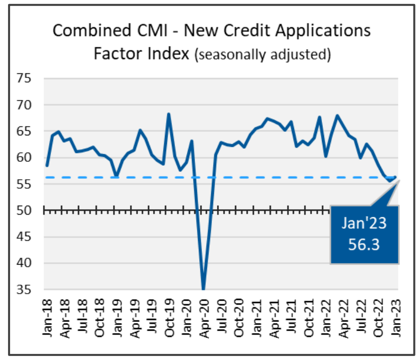
"The continued decline in the favorable factor index, and especially the decline in its component factor index for sales, is worrying," Cutts said. "When the rest of the economic data is suggesting the economy is just fine yet we have witnessed a 25-point drop in sales, which bodes poorly for the coming months."

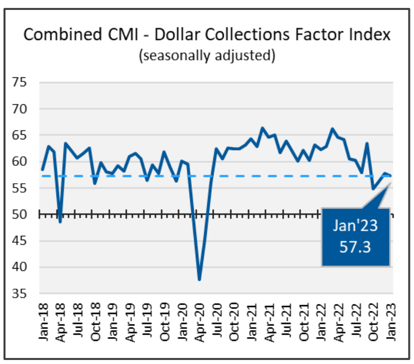
CMI – Combined Sectors Factor Indexes Charts

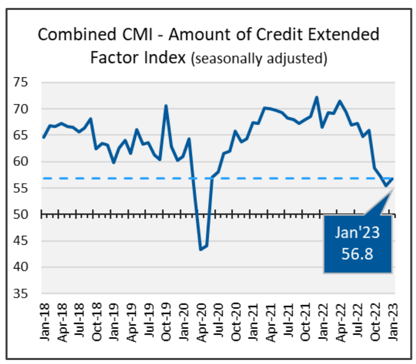
Beginning with this report, we are providing separate charts for each of the factor indexes dating back five years with a reference line for the most recent value. Note that scales on vertical axes are not held constant.

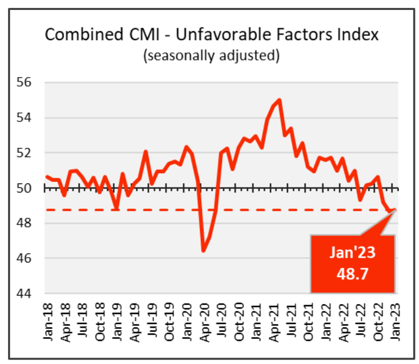


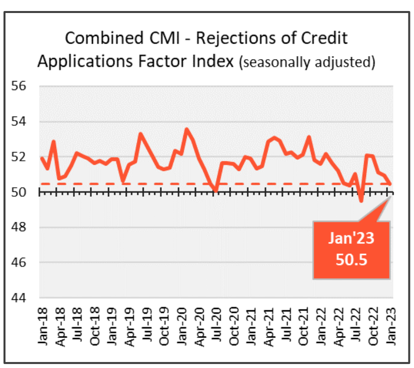


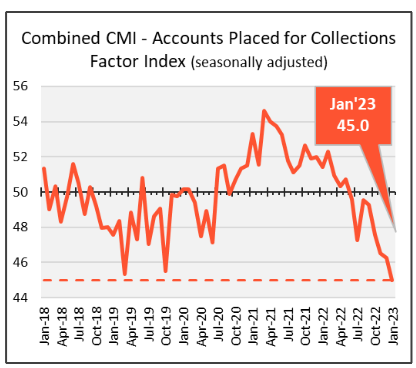


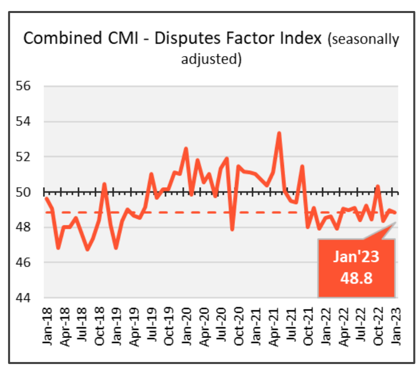


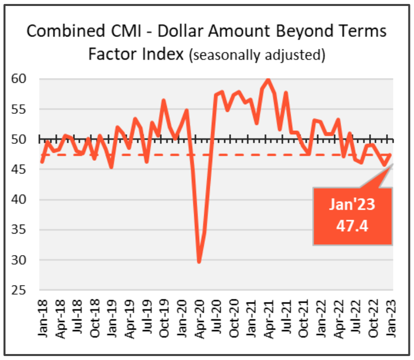


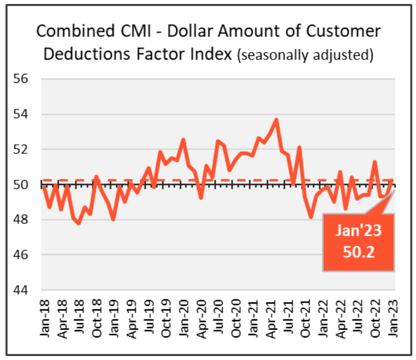


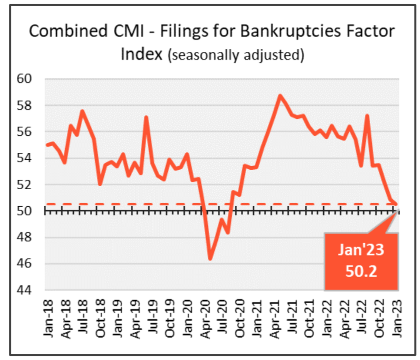










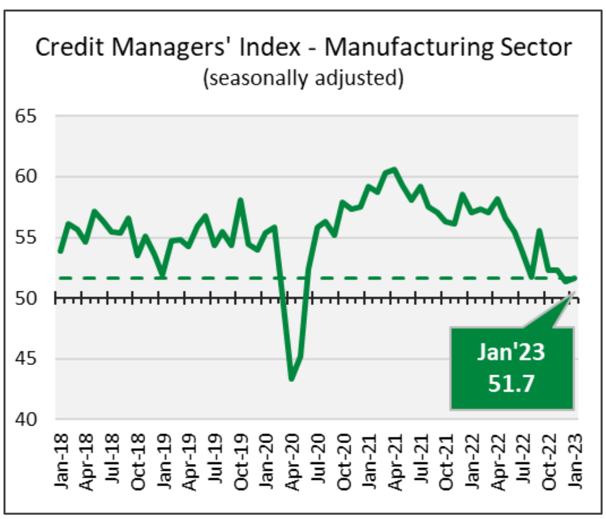


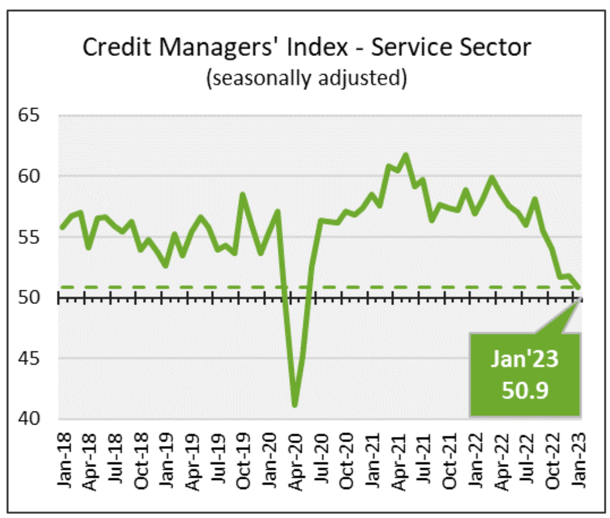
Manufacturing versus Service Sectors Indexes

The CMI index for manufacturing gained 0.3 points in the January survey to show a level of 51.7, but the index is down 5.4 points compared to a year ago and has lost 6.5 points since April. The service sector CMI lost 0.9 points this month to come in at 50.9 and has declined more sharply than the manufaturing index over the past year. The service index is down 6.1 points versus January 2022 and 9.1 points since March.

“Both sector CMI indexes have declined markedly since spring of last year,” Cutts said. “The manufacturing index has deteriorating more consistantly, while services had a later start in its deterioration. Both indexes remain above the 50-point threshold, meaning there is still growth overall, but it’s anemic.

“NACM survey respondents cited declining sales and worries about getting payment from overseas customers. The experiences of NACM members is corroborated by the U.S. Bureau of Economic Analysis report on Gross Domestic Product. Real (inflation adjusted) exports of goods fell 1.8% (not annualized) in the fourth quarter, while fixed investment in structures, equipment and itellectual property declined 1.7%. Consumer expenditures were strong in the fourth quarter, but not on consumption of durable goods, which rose only one-tenth of a percent.”





Manufacturing Sector Factor Indexes

The index of unfavorable factors led the gain in the manufacturing sector CMI with a 0.7-point improvement to 49.9, more than erasing the December decline in the index. The index is down 1.4 points from January 2022 and 2.2 points from its 12-month high of 57.8 in May. The manufacturing index of favorable factors declined by 0.2 points to come in at 54.4, an 11.4-point decline from a year ago and a loss of 13.2 points from its March peak of 67.5 points.

Six out of the 10 manufacturing factor indexes recorded improvement in the January survey. Leading the gain was the index for the amount of credit extended with a 3.1-point jump to 57.8. A year ago, this index stood at 66.8, which is 9.0 points higher than it is today. The gain in the new credit applications index came in second highest with a 2.7-point increase to 54.0 points. This index is down 6.1 points versus this time last year and 11.3 points since April.

The remaining improved factors are from the unfavorable group, led by the dollar amount of customer deductions rising 2.5 points to 49.2, putting it 1.8 points above its January 2022 level. The dollar amount beyond terms improved to 48.2 points with a gain of 1.7 points. This index is down 8.1 points since reaching a high of 56.3 in May. The disputes index rose 1.6 points in January, up 2.2 points from a year ago and sitting at its 12-month high.

Among the factor indexes showing deterioration, the index for filings of bankruptcies saw a drop of only 0.1 points to a level of 51.3. However, the index is down 6.5 points versus August's high. The index for accounts placed for collection fell 1.8 points to come in at 47.8, which is 5.3 points below the 12-month high from February. On the favorable factor side, dollar collections fell 1.9 points to 57.3, still a strong level but down 8.3 points from March.

The biggest deterioration was again recorded by the sales index, which lost another 4.7 points to come in 24.3 points below the March high of 72.6. This marks the first time the factor index has been below 50 since May of 2020 when it was at 33.1 points.

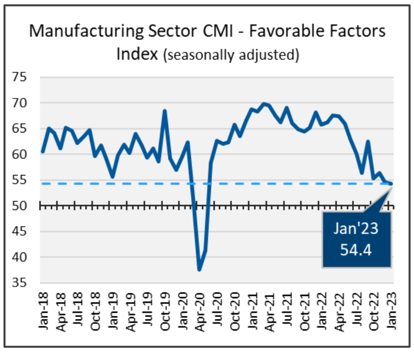
"The increase in amount of credit extended and the rise in new applications for credit have been cited by respondents as a concern rather than a positive," Cutts said. "Inflation is driving prices higher, which means customers are asking for more credit to cover regular purchases rather than because business is booming. Sales are actually declining now, so the demand for more credit is perhaps out of sync with the business activity it supports..

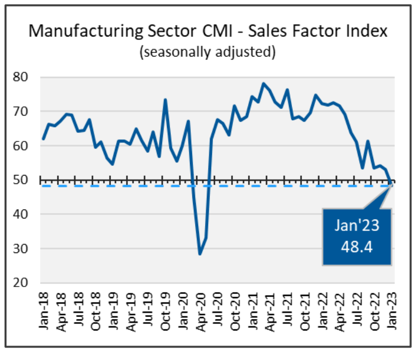
"The full implications of the CMI manufacturing factor indexes' levels are astounding. We have rising demand for credit and more credit approvals at a time when sales are declining. More respondents are reporting placing accounts for collection and more of their accounts are going beyond terms. The only bright side is that they are still having success at collecting on those past due accounts, but the accounts receivables managers are having to work hard to get those in. Regardless of whether an actual recession is declared soon, U.S. businesses are experiencing an economic contraction now."

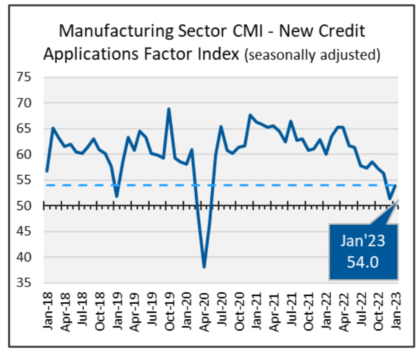
Manufacturing Sector (seasonally adjusted)	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23
Sales	72.4	71.8	72.6	71.7	69.2	63.8	61.1	53.5	61.4	53.6	54.2	53.1	48.4
New credit applications	60.1	63.5	65.3	65.3	61.7	61.4	57.8	57.4	58.6	57.3	56.4	51.3	54.0
Dollar collections	63.6	61.5	65.6	62.5	63.4	60.9	57.3	55.0	64.7	52.4	57.6	59.2	57.3
Amount of credit extended	66.8	68.2	66.6	70.1	69.6	65.6	64.6	59.9	65.1	57.8	57.7	54.7	57.8
Index of favorable factors	**65.7**	**66.3**	**67.5**	**67.4**	**66.0**	**62.9**	**60.2**	**56.5**	**62.4**	**55.3**	**56.5**	**54.6**	**54.4**
Rejections of credit applications	51.3	52.4	51.6	51.6	50.3	50.3	51.5	48.1	52.5	53.2	51.7	53.0	53.2
Accounts placed for collection	50.9	53.1	51.2	50.7	49.9	50.1	49.5	50.2	51.4	49.0	46.8	49.6	47.8
Disputes	47.3	47.8	45.6	48.6	48.7	48.2	47.4	47.3	47.5	49.5	47.4	48.0	49.5
Dollar amount beyond terms	54.6	50.4	50.8	56.3	46.8	50.6	46.5	42.6	52.2	47.3	48.5	46.5	48.2
Dollar amount of customer deductions	47.4	48.4	46.7	50.4	47.9	48.7	48.1	47.5	48.3	50.0	50.1	46.7	49.2
Filings for bankruptcies	55.9	56.3	54.6	54.9	57.8	55.4	54.0	55.9	54.0	52.9	52.6	51.2	51.3

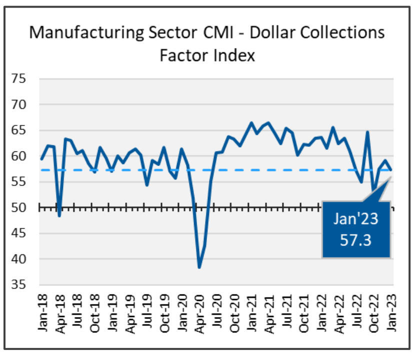
Index of unfavorable factors	**51.2**	**51.4**	**50.1**	**52.1**	**50.2**	**50.5**	**49.5**	**48.6**	**51.0**	**50.3**	**49.5**	**49.2**	**49.9**
NACM Manufacturing CMI	**57.0**	**57.3**	**57.1**	**58.2**	**56.5**	**55.5**	**53.8**	**51.7**	**55.6**	**52.3**	**52.3**	**51.3**	**51.7**

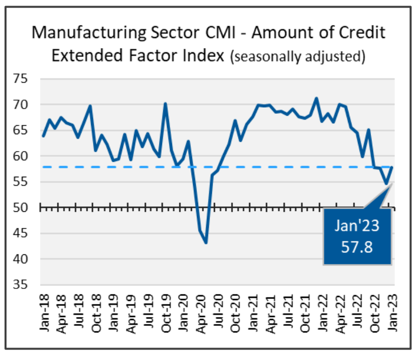
CMI – Manufacturing Sector Factor Indexes Charts

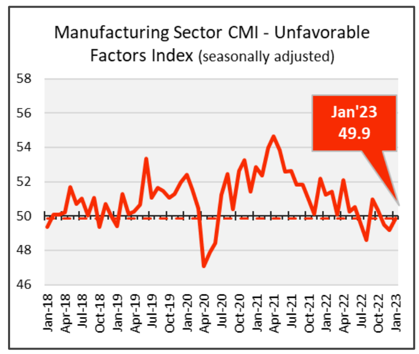


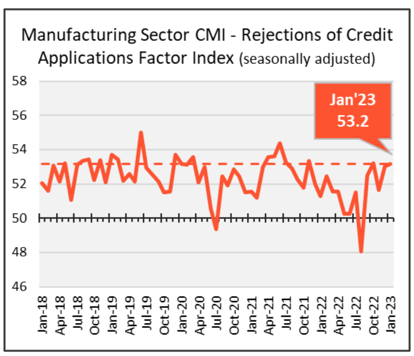


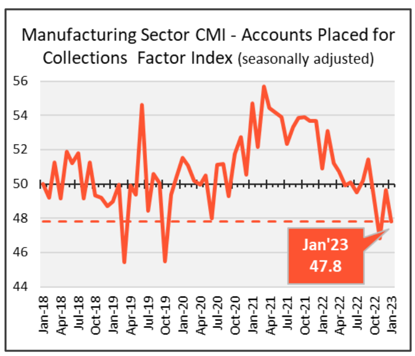


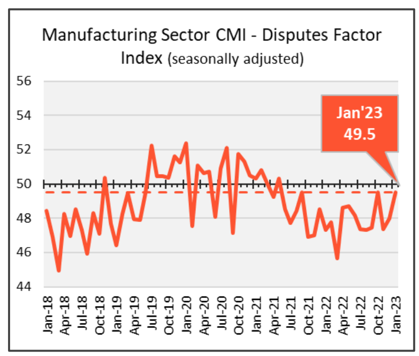


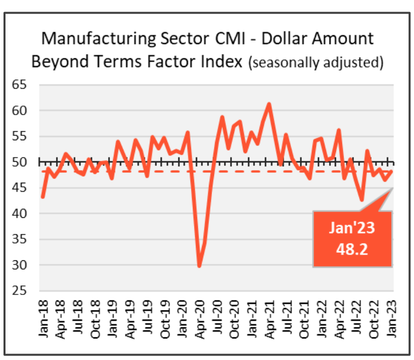


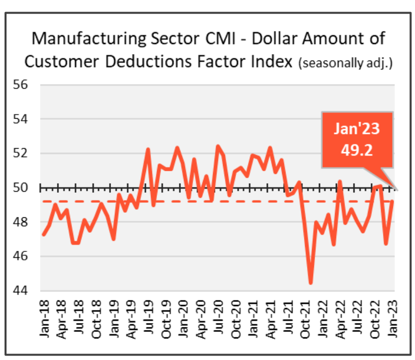


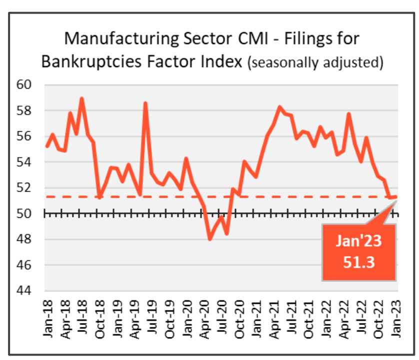












Service Sector Factor Indexes

The decline in the service sector index was led by the 1.5-point deterioration in the favorable factors index. This index sits at 55.7 points in this month's survey, a level that is 16.2 points below its 12-month high of 72.0 in March. The primary factor driving down the favorable factor index is the sales index, which recorded another 5.2-point decline to mark a whopping 27.2-point loss since March.

Two other favorable factor indexes fell this month. The index for new credit applications declined 1.2 points to 58.6, down 12.2 points from March, and the index for the amount of credit extended lost 0.3 points, 16.9 points below April's high.

The lone improving factor index in the favorable group was dollar collections which gained 0.8 points to 57.2 it remains 9.7 points below its high of 66.9 points from March.

The unfavorable factors index posted its fourth consecutive decline with a loss of 0.6 points 47.6, a level that is 9.1 points below its 12-month high in February. The largest decline for the unfavorable factor group was marked by the disputes index, which lost 1.8 points to fall to 48.1. The next largest decline was recorded by the index for rejections of credit applications with a loss of 1.1 points to 47.8. This index is also at its lowest point for the year and 4.2 points below its February high of 51.9. The indexes for accounts placed for collection, the dollar amount of customer deductions, and filings for bankruptcies each lost 0.7 points in the January survey. The accounts placed for collections index sits at 42.1, a level that is 9.8 points lower than its best reading for the year marked in January 2022. The index for the dollar amount of customer deductions is at 51.3, 1.4 points lower than its recent high in October and the index for filings for bankruptcies has reached a new low for the year at 49.8, 8.8 points below its August level.

Only one unfavorable factor index improved in January. The dollar amount beyond terms index rose 1.6 points to 46.6, a level that is 9.8 points below its 12-month high of 51.9 recorded in January 2022.

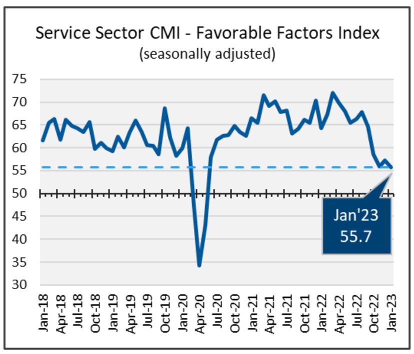
"The service sector CMI index continues its rapid deterioration this month," Cutts said. "Like the manufacturing sector CMI index, the service sector is seeing rising demand for credit through new applications and the amount of credit extended, but this sector is also seeing a reduction in applications being approved. The sector is seeing a greater share of respondents indicating more accounts being put into collections and more accounts going beyond terms. Sales continue to slow but as yet remain on the plus side, with respondents on net seeing some growth. But again, the story is one of great weakness and a steep downward trend.

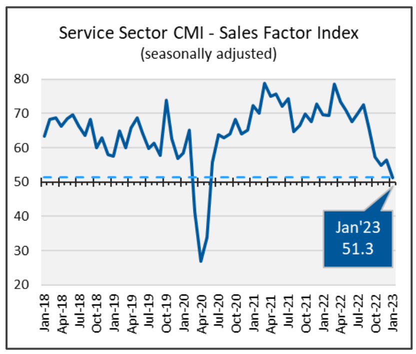
"Rising consumer expenditures on healthcare services, adjusting for inflation, were 42% of the increase in personal consumption expenditures on services, with spending on 'other services', comprising personal care, professional services, education, and telecom expenses, each making up another 20%. Although these metrics are adjusted for the general level of inflation, many factors are affecting consumer costs for services at an above average rate, such as home heating costs and childcare costs. The flip side of that, the providers of those services, are seeing their costs rise too and price increases are decreasing demand for those services."

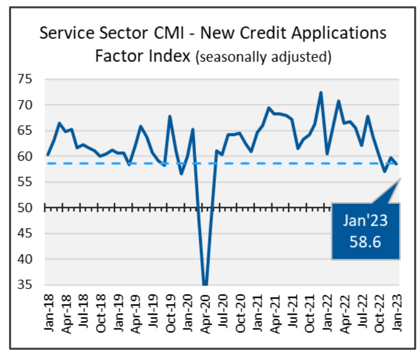
Service Sector (seasonally adjusted)	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23
Sales	69.7	69.4	78.5	73.5	70.9	67.7	70.0	72.5	65.7	57.4	54.9	56.5	51.3
New credit applications	60.5	65.2	70.8	66.5	66.7	65.6	62.2	67.8	63.8	60.1	57.1	59.8	58.6
Dollar collections	60.9	64.3	66.9	66.7	65.1	60.1	63.4	61.0	62.1	57.3	54.8	56.5	57.2
Amount of credit extended	66.1	70.5	71.7	72.7	69.3	68.4	69.8	69.7	66.6	59.7	56.6	56.1	55.8
Index of favorable factors	**64.3**	**67.4**	**72.0**	**69.9**	**68.0**	**65.4**	**66.3**	**67.8**	**64.6**	**58.6**	**55.8**	**57.2**	**55.7**

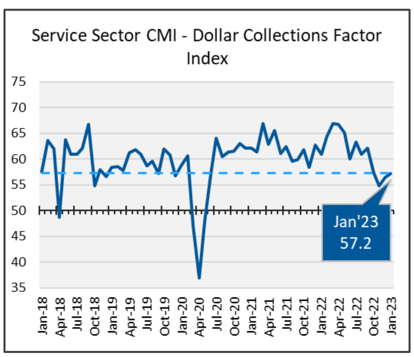
Rejections of credit applications	51.9	51.9	51.7	50.8	50.8	50.5	50.5	50.9	51.6	50.8	50.5	48.9	47.8
Accounts placed for collection	51.9	51.5	50.7	49.9	51.5	49.0	45.0	48.9	47.1	46.1	46.2	42.8	42.1
Disputes	49.7	49.5	50.2	49.5	49.2	50.0	49.4	51.1	49.4	51.1	49.3	50.0	48.1
Dollar amount beyond terms	51.2	51.2	50.9	50.4	47.5	51.4	46.8	49.6	45.8	50.7	46.7	45.0	46.6
Dollar amount of customer deductions	52.1	51.3	51.4	51.1	49.3	52.1	50.3	51.4	50.5	52.6	48.5	51.9	51.3
Filings for bankruptcies	55.2	56.6	56.7	56.0	55.0	55.5	52.8	58.6	52.9	54.1	51.8	50.5	49.8
Index of unfavorable factors	**52.0**	**52.0**	**51.9**	**51.3**	**50.6**	**51.4**	**49.1**	**51.7**	**49.5**	**50.9**	**48.9**	**48.2**	**47.6**
NACM Service CMI	**56.9**	**58.2**	**59.9**	**58.7**	**57.5**	**57.0**	**56.0**	**58.2**	**55.6**	**54.0**	**51.6**	**51.8**	**50.9**

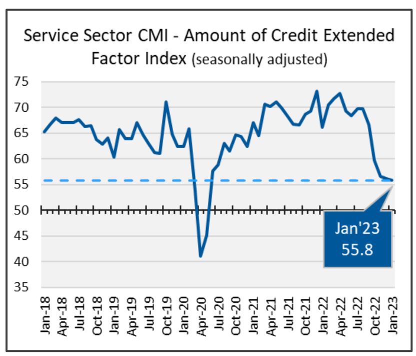
CMI – Service Sector Factor Indexes Charts

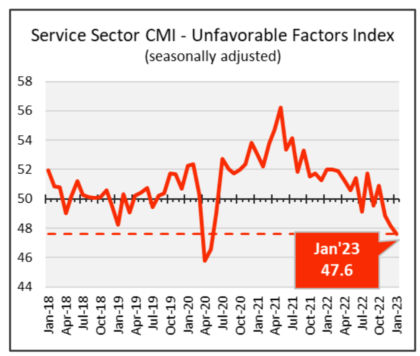


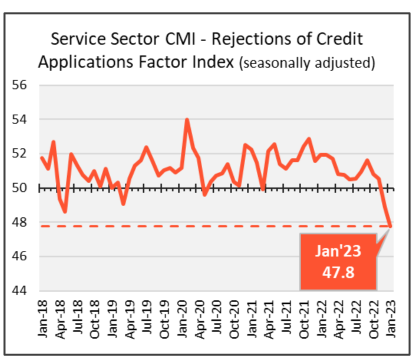


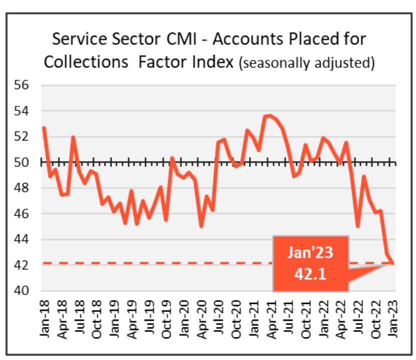


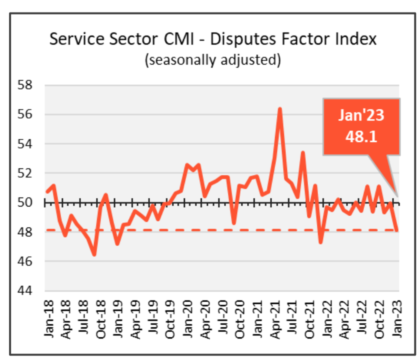


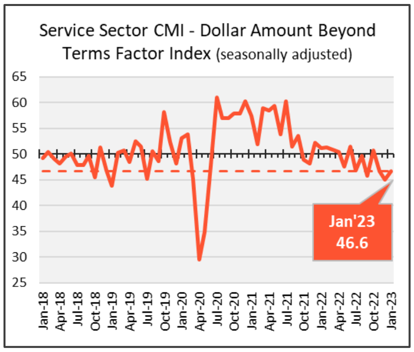


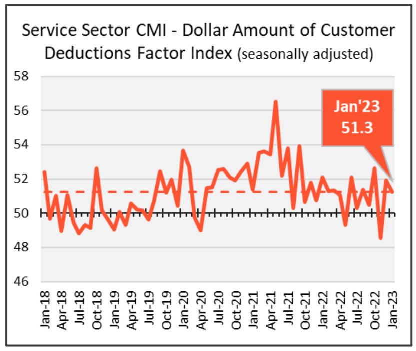


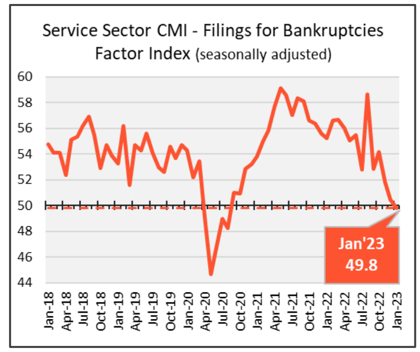












View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

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Website: www.nacm.org

Twitter: @NACM_National

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.

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