Report for April 2022

Issued April 30, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for April increased again, buoyed by improvements in unfavorable factors that overcame deterioration in favorable ones. The impact of the Russian incursion into Ukraine appears be negligible on US businesses thus far except for keeping the pressure on prices, especially commodities. Respondents indicated that supply chain issues are persisting, especially in the transportation, manufacturing and retail sectors, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The decision by the Open Market Committee of the Federal Reserve Board (FOMC) to raise its target range for the Federal Funds rate by 25 basis points is symbolically important but will have little effect on demand now. The FOMC has indicated that several further increases are planned over the course of the year, and in aggregate these could eventually slow consumer and business activity," Cutts said. "However, the yield on the constant maturity 10-year Treasury bond, often used as the benchmark rate for business and consumer loans, is up more than five-fold since hitting its historical low in August of 2020 and is up more than 1.25 percentage points since the start of the year. The financial markets should have a greater immediate impact on credit costs and demand, though I haven't seen this show up in the expenditures data yet."

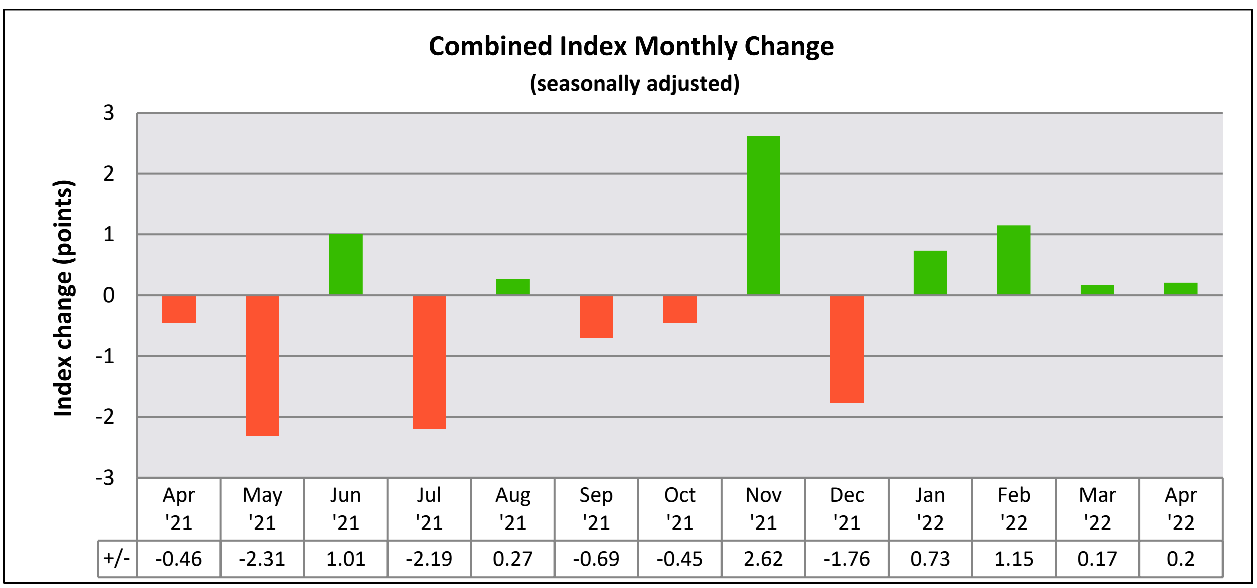
"The CMI is indicating steady conditions overall despite the supply and logistical problems that continue to plague businesses as well as the uncertainty of the war in Ukraine. While the other factors have me thinking recession sooner than later, the CMI indicates the risk is more balanced."

The combined April CMI rose by 0.2 points to an index value of 59.1. The gain is led by the rise in the index for unfavorable factors from 51.2 to 51.9. Three unfavorable factors indicated strongly improving conditions, with the dollar amount beyond terms rising 3.0 points, the dollar amount of customer deductions rising 1.5 points and disputes gaining 1.1 points. Disputes are the only factor in contraction territory with a value of 49.1. Three unfavorable factors declined during the month: accounts placed for collection lost 0.9 points, rejections of credit applications fell 0.6 points and filings for bankruptcy slid one-tenth a point.

The index of favorable factors lost 0.6 points in the month, moving from 70.5 to 69.9. The amount of credit extended was the only favorable factor to improve, gaining 2.9 points, but this was more than offset by the declines of 2.4 point in sales, 1.7 points in new credit applications and 1.1 points in dollar collections.

"If businesses can get the goods made, transportation logistics are another nightmare. Like the small butterfly wing thought to cause a hurricane, seemingly small missteps in the delivery chain are wreaking havoc," Cutts said. "In some cases that means ruined product while in others it means disgruntled recipients who demand concessions from the transporter or the manufacturer. Higher gasoline prices are also hitting hard and will make profits more elusive in early 2022 for this segment and many others."

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '21	May '21	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22
Sales	76.7	74.3	69.9	75.4	66.0	67.8	67.4	67.4	75.1	71.2	71.3	77.1	74.7
New credit applications	67.5	65.8	65.1	66.2	63.0	63.5	62.1	62.9	67.6	60.6	64.0	68.8	67.1
Dollar collections	65.2	65.4	61.2	64.4	61.5	60.4	61.3	59.2	63.5	62.5	63.2	67.0	65.9
Amount of credit extended	71.1	70.2	68.8	68.4	68.6	67.2	67.6	67.7	71.7	67.2	68.7	69.2	72.1
Index of favorable factors	**70.1**	**68.9**	**66.2**	**68.6**	**64.8**	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**
Rejections of credit applications	53.0	53.1	52.1	52.0	52.2	52.1	52.3	53.2	51.7	51.5	52.3	51.9	51.3
Accounts placed for collection	54.1	54.1	52.8	51.5	51.4	51.4	52.1	52.0	52.1	51.1	52.7	51.5	50.6
Disputes	51.3	53.5	50.1	49.1	49.6	51.2	48.3	48.6	48.2	48.4	48.6	48.0	49.1
Dollar amount beyond terms	60.9	56.7	51.8	56.9	51.4	50.6	49.5	47.1	53.3	53.5	50.9	51.2	54.2
Dollar amount of customer deductions	52.9	53.6	52.4	51.8	49.9	51.9	49.4	48.2	49.3	49.5	49.9	49.0	50.5
Filings for bankruptcies	57.5	58.9	58.5	56.9	57.3	57.1	56.4	55.9	55.7	55.2	56.4	55.8	55.7
Index of unfavorable factors	**55.0**	**55.0**	**52.9**	**53.0**	**51.9**	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**
NACM Combined CMI	**61.0**	**60.6**	**58.3**	**59.3**	**57.1**	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**



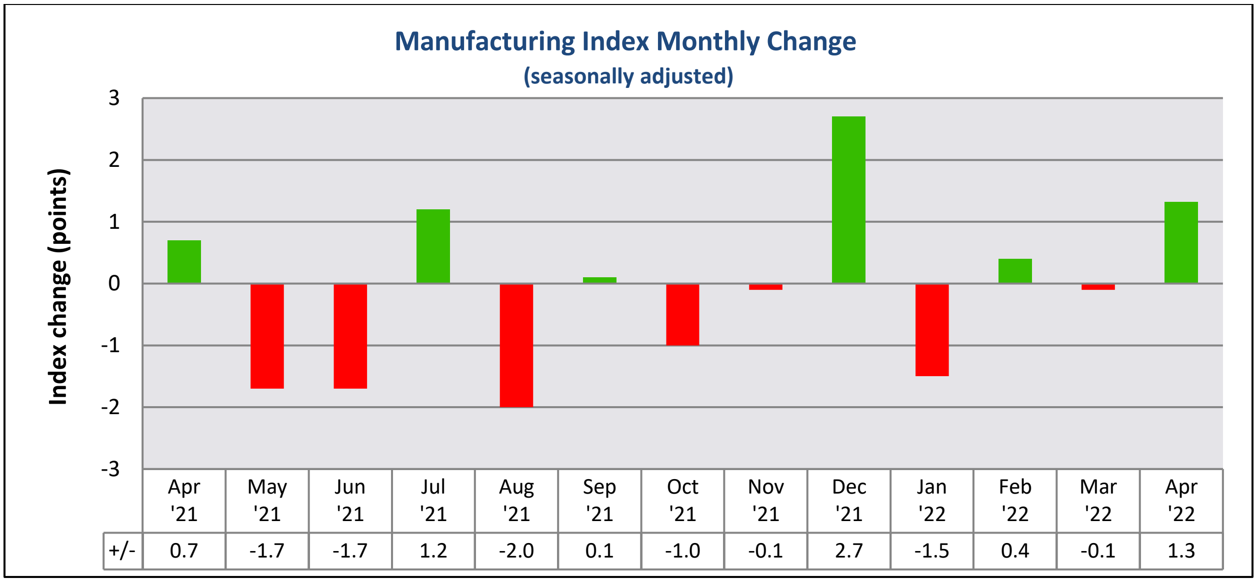
Manufacturing Sector

The Manufacturing CMI gained 1.3 points in April after falling slightly in the March Survey. The index of unfavorable factors grew by 2.0 points overshadowing the four-tenths of a point gain in the index of favorable factors. The factor dollar amount beyond terms was the leader, gaining 6.4 points, followed by the dollar amount of customer deductions which improved 3.5 points. Among the rest of the unfavorable factors, improvements were seen in disputes (2.8 points), filings for bankruptcy (0.3 points) and rejections of credit applications (0.1 points). Accounts placed for collection is the only unfavorable category that declined this month, losing 1.0 point.

Among favorable factors, the amount of credit extended rose robustly by 4.1 points. New credit applications gained 0.8 points. These improvements were offset by deterioration in dollar collections (3.0 points) and sales (0.5 points). All factors remain within the 2-month index ranges and only disputes remain on the contraction side with a value of 48.6.

"Respondents are indicating a diverging economy within the manufacturing group," Cutts said. "Several respondents stated that they were having higher than expected sales and a corresponding rosy outlook while just as many indicated that they were having trouble getting parts or materials, that prices for those inputs were causing them hardship, and if they've raised prices to customers in response, their customers are then incensed at the new higher prices. They are left with few good options at the moment."

Manufacturing Sector (seasonally adjusted)	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**
Sales	77.5	73.4	70.0	76.2	65.2	69.2	66.3	69.4	76.3	72.8	73.1	74.1	73.6
New credit applications	67.0	64.3	62.3	65.9	62.4	63.3	60.7	60.9	62.1	60.2	63.4	65.9	66.7
Dollar collections	66.4	65.3	62.1	65.6	63.5	60.0	61.1	61.6	64.4	64.0	62.3	66.4	63.4
Amount of credit extended	71.0	69.7	68.6	68.3	68.0	67.6	67.8	67.5	70.2	67.6	68.2	66.5	70.6
Index of favorable factors	**70.5**	**68.2**	**65.7**	**69.0**	**64.8**	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**
Rejections of credit applications	53.9	53.4	53.4	53.4	52.9	52.4	52.2	53.1	52.1	51.2	52.6	51.7	51.8
Accounts placed for collection	54.2	53.8	53.5	51.9	53.4	54.4	53.9	53.8	54.5	50.3	53.6	51.9	50.9
Disputes	49.4	50.9	48.3	47.1	48.3	49.7	47.4	46.4	48.4	47.7	47.9	45.8	48.6
Dollar amount beyond terms	63.3	54.9	49.5	54.8	50.6	48.4	48.2	46.7	54.6	55.2	50.7	51.4	57.8
Dollar amount of customer deductions	52.5	51.0	52.2	50.0	49.4	50.0	48.0	44.6	47.8	47.0	48.3	46.5	50.0
Filings for bankruptcies	57.0	58.5	58.0	57.3	56.1	56.3	55.8	55.6	56.4	55.7	56.4	54.6	54.9
Index of unfavorable factors	**55.1**	**53.8**	**52.5**	**52.4**	**51.8**	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**
NACM Manufacturing CMI	**61.2**	**59.5**	**57.8**	**59.0**	**57.0**	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**



Service Sector

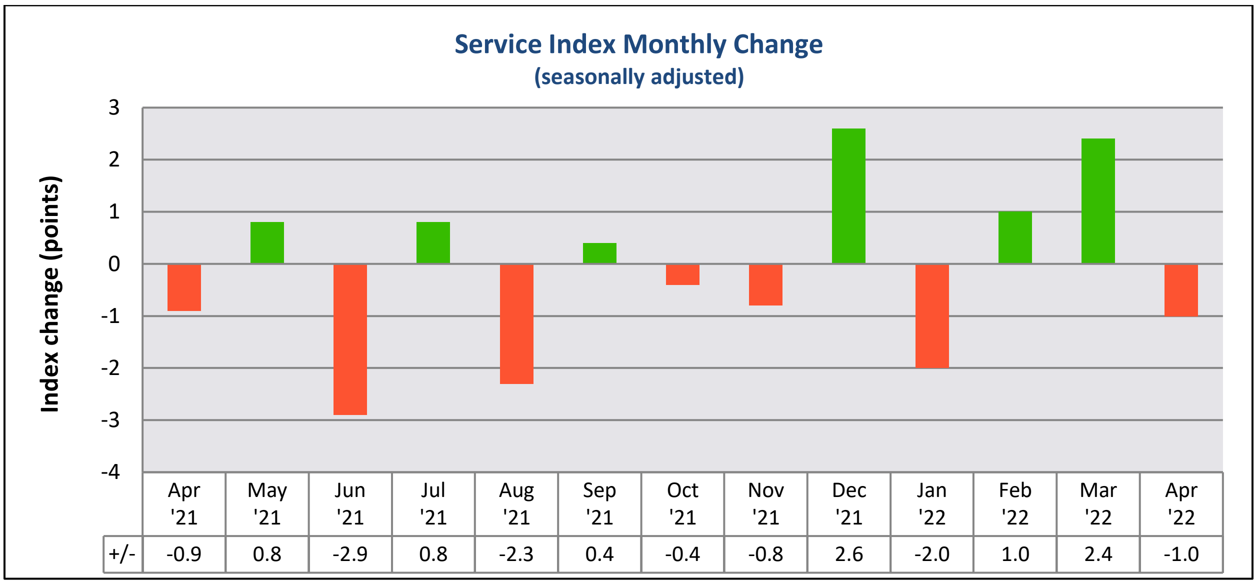
The service sector CMI index fell 1.0 point to 59.4. Favorable factors lead the decline, with a fall of 1.5 points, while unfavorable factors also lost ground, posting a 0.7-point fall. In the favorable factors category, sales fell 4.3 points to 75.7 after hitting a recent high of 80.0 in March, and new credit applications declined 4.2 points to 67.4. The remaining two factors in the group, dollar collections and amount of credit extended experienced gains of 1.7 and 0.7 points, respectively. Both factors broke out of the 12-month range with these gains, and dollars collected posted its highest index value since August 2006 and the amount of credit extended posted its second highest level, coming in just behind the December 2005 value.

All of the unfavorable factor indexes showed declines in the April survey. The largest decline was in rejections of credit applications, which dropped 1.4 points to a value of 50.8. Accounts placed for collection and disputes indexes both fell 0.7 points, but accounts placed for collection remained on the expansionary side at 50.3 while disputes continue to indicate further weakness by falling below the 50-point threshold. The indexes for dollar amount beyond terms and filings for bankruptcies both declined 0.4 points, to 50.6 and 56.5, respectively. The dollar amount of customer deductions index came in at 51.0, a decline of half a point from the March survey value.

“Although the services CMI is performing within recent ranges, factors in the favorable index are hitting values near record highs. Last month the services sales index was light while this month we are seeing extraordinary strength in the indexes for dollars collected and the amount of credit extended which are at their highest levels in more than 15 years,” Cutts said. “In context of the pandemic’s effect on businesses, these index values do not necessarily mean that businesses are doing better in an absolute sense than prior to the pandemic, but the improvements we’re seeing indicate that the services sector is getting firmly back on its feet.”

Service Sector (seasonally adjusted)	Apr '21	May '21	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22
Sales	75.9	75.3	69.8	74.6	66.8	66.4	68.5	65.3	73.9	69.7	69.6	80.0	75.7
New credit applications	68.0	67.3	67.9	66.6	63.5	63.8	63.5	64.8	73.0	60.9	64.7	71.6	67.4
Dollar collections	63.9	65.6	60.2	63.1	59.4	60.8	61.5	56.7	62.6	60.9	64.1	67.7	68.4
Amount of credit extended	71.3	70.6	69.0	68.5	69.1	66.9	67.4	67.9	73.3	66.7	69.3	71.9	73.6

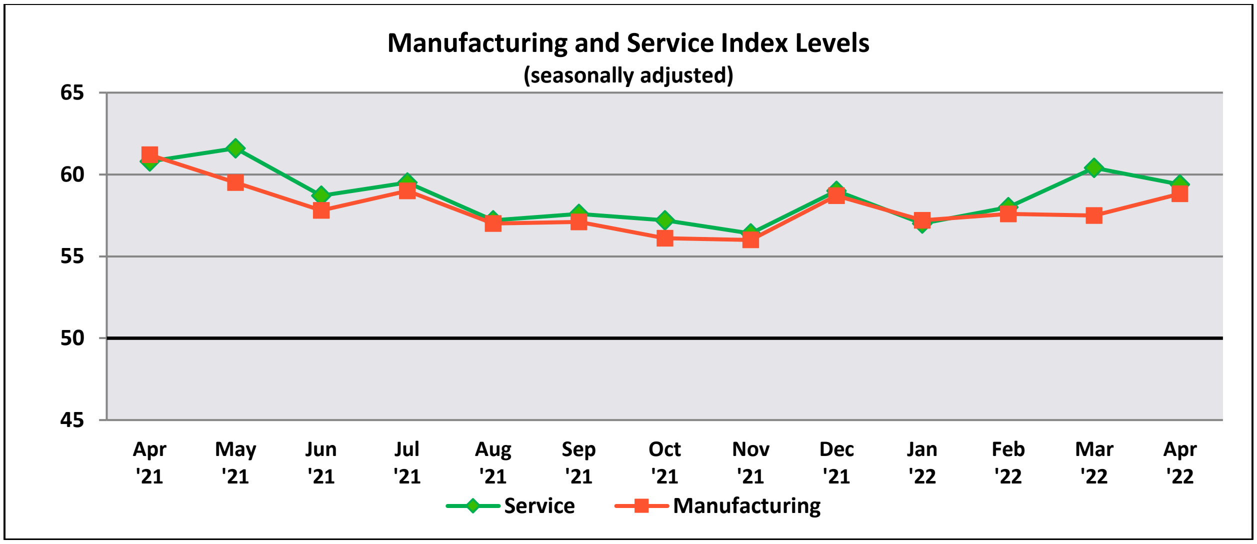
Index of favorable factors	**69.8**	**69.7**	**66.7**	**68.2**	**64.7**	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**
Rejections of credit applications	52.2	52.8	50.9	50.6	51.4	51.9	52.5	53.2	51.4	51.8	52.0	52.2	50.8
Accounts placed for collection	53.9	54.3	52.2	51.0	49.4	48.5	50.3	50.2	49.8	51.9	51.9	51.0	50.3
Disputes	53.2	56.1	51.8	51.2	50.8	52.8	49.1	50.9	48.0	49.2	49.3	50.3	49.6
Dollar amount beyond terms	58.5	58.4	54.1	59.0	52.2	52.8	50.8	47.6	52.1	51.8	51.0	51.0	50.6
Dollar amount of customer deductions	53.3	56.1	52.6	53.7	50.4	53.9	50.9	51.7	50.8	51.9	51.4	51.54	51.0
Filings for bankruptcies	58.0	59.4	58.9	56.5	58.4	57.8	57.0	56.1	55.0	54.6	56.4	56.9	56.5
Index of unfavorable factors	**54.8**	**56.2**	**53.4**	**53.7**	**52.1**	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**
NACM Service CMI	**60.8**	**61.6**	**58.7**	**59.5**	**57.2**	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**



April 2022 versus April 2021

Both the service and manufacturing CMI are below their year-ago levels, with the service index sitting higher than the manufacturing index. The indices have also converged, separated by only 0.6 points versus the almost 3-point separation we saw in March.

"The servive sector is starting to rebound with the subsidence of COVID restrictions and the reduction in the severity of symptoms due to vaccinnation," Cutts said. "People are ready to get back out to whatevert he new normal looks like. On the manufacturing side, businesses are struggling to meet demand and this problem looks like it will be with us for quite a while. I would argue that while demand is solid, it is not extraodinarily so, but the ability of manufacturers globally to meet that demand with reliable supplies is a major impediment and the key driver of inflation. Manufacturers are having to choose what products to make, what features to tweak if possible to still deliver a quality product and which customers to serve given that they can't get the raw materials or critical parts they need. I estimate a little over 3 million new light vehicles were not manufactured in 2021 due to chip shortages and of those that were delivered came without certain noncritical features as a workaround."



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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