NACM CMI CREDIT MANAGERS' INDEX

Report for April 2023

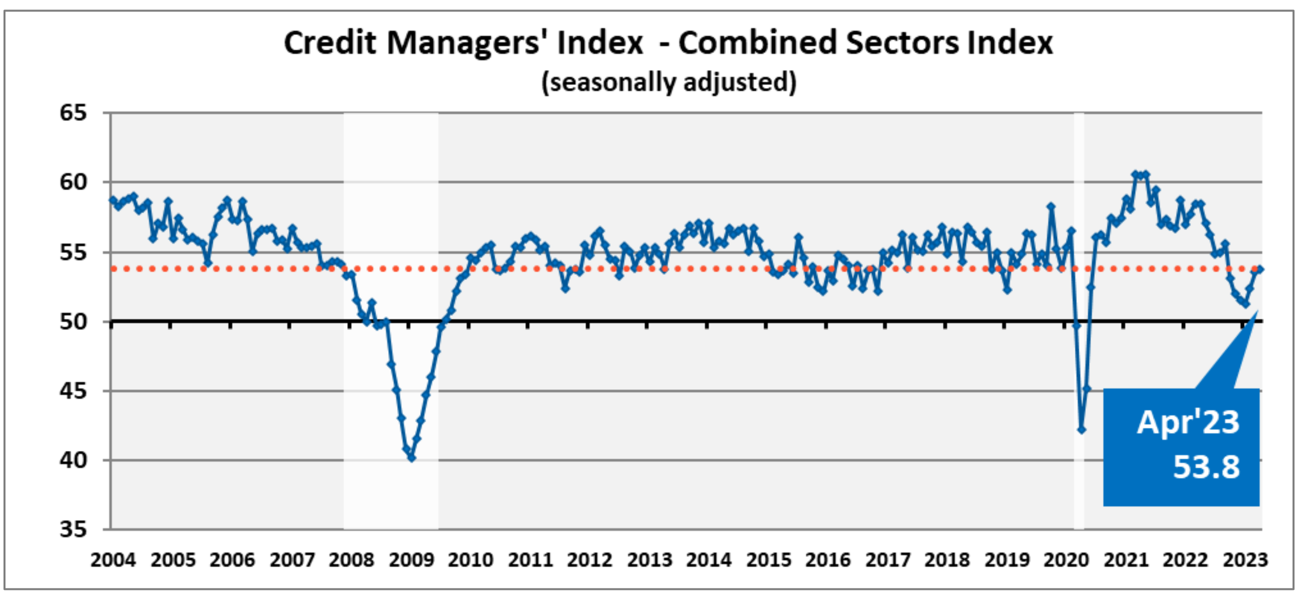
Issued April 28, 2023

National Association of Credit Management

Credit Managers' Index Combined Sectors

The National Association of Credit Management's seasonally adjusted combined Credit Managers' Index (CMI) for April 2023 came in at 53.8 points, up 0.3 points from March and the highest level of the index since September. The main driver for the improvement came from favorable factors, led by a large improvement in sales and dollar collections. However, several respondents in the CMI survey mentioned financial stress among their accounts, with one noting a sudden rise in bankruptcies and another citing more requests for extended or modified terms as banks have tightened credit, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"We are seeing the first signs of the banking crisis that erupted in March," Cutts said. "Although actions by the Fed, the FDIC and the Treasury Department have alleviated some of the stress, credit tightening is being felt throughout the economy. Respondents in the April NACM CMI Survey indicated that applications for new credit were up a bit from last month but approvals for new credit plummeted. Many accounts receivable managers were already concerned about customers hoarding cash and delaying payment until absolutely necessary, and the situation is getting worse now."



The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23
Sales	72.6	70.1	65.8	65.5	63.0	63.6	55.5	54.5	54.8	49.8	56.5	56.5	59.3
New credit applications	65.9	64.2	63.5	60.0	62.6	61.2	58.7	56.7	55.5	56.3	57.9	58.8	58.8
Dollar collections	64.6	64.2	60.5	60.3	58.0	63.4	54.9	56.2	57.8	57.3	59.8	59.7	61.8
Amount of credit extended	71.4	69.5	67.0	67.2	64.8	65.9	58.7	57.1	55.4	56.8	57.9	58.1	58.9
Index of favorable factors	**68.6**	**67.0**	**64.2**	**63.2**	**62.1**	**63.5**	**56.9**	**56.1**	**55.9**	**55.1**	**58.0**	**58.3**	**59.7**
Rejections of credit applications	51.2	50.5	50.4	51.0	49.5	52.1	52.0	51.1	51.0	50.5	50.4	50.6	47.9
Accounts placed for collection	50.3	50.7	49.6	47.3	49.5	49.3	47.6	46.5	46.2	45.0	45.3	46.4	46.5
Disputes	49.0	49.0	49.1	48.4	49.2	48.4	50.3	48.4	49.0	48.8	48.1	50.4	49.5
Dollar amount beyond terms	53.3	47.2	51.0	46.6	46.1	49.0	49.0	47.6	45.7	47.4	49.6	52.8	54.1
Dollar amount of customer deductions	50.7	48.6	50.4	49.2	49.4	49.4	51.3	49.3	49.3	50.2	48.5	50.4	49.6
Filings for bankruptcies	55.5	56.4	55.4	53.4	57.2	53.4	53.5	52.2	50.9	50.5	49.8	51.6	51.5
Index of unfavorable factors	**51.7**	**50.4**	**51.0**	**49.3**	**50.2**	**50.3**	**50.6**	**49.2**	**48.7**	**48.7**	**48.6**	**50.4**	**49.8**
NACM Combined CMI	**58.5**	**57.0**	**56.3**	**54.9**	**54.9**	**55.6**	**53.2**	**52.0**	**51.6**	**51.3**	**52.4**	**53.5**	**53.8**

CMI Combined Sectors Factor Indexes

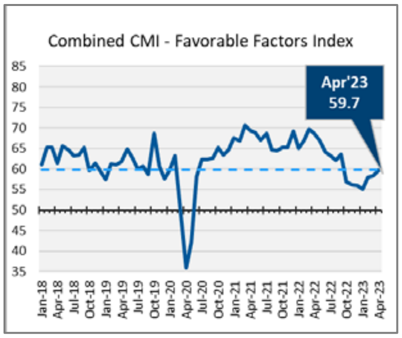
Key Findings:

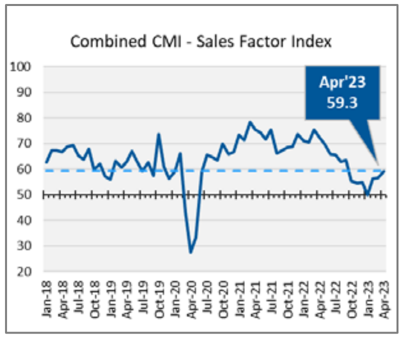
- The index for favorable factors was up 1.4 points to 59.7, led by a 2.8-point improvement in the sales factor index to 59.3 points and a 2.1-point gain by the dollar collections index to 61.8. The new credit applications factor index held steady at 58.8, meaning that, on net, applications are growing.
- The sales factor index again had its highest reading since September 2022 when it was at 63.6 points and importantly is signaling that the January lull was an anomaly.
- The index for unfavorable factors fell 0.6 to 49.8. This index has stayed in a tight range around 50, showing neither a steady improving nor declining trend over the past year.
- All but two of the unfavorable factor indexes deteriorated in the April survey; the index for dollar amount beyond terms improved by 1.3 points to 54.1 and the index for accounts placed for collection was essentially unchanged.
- Notably, rejections of new credit applications slid 2.7 points to 47.9, its lowest level since July 2009 during the great recession and financial crisis.

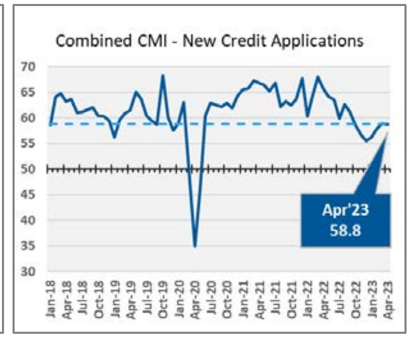
"The small change in the overall Credit Managers' Index is deceiving in its impact," said Cutts. "Sales improved, which is certainly a good sign relative to recession risk, but the steep deterioration in approvals of new credit applications is disheartening. Several respondents indicated that they are having to work with customers having cash flow problems due to capital being tied up in inventories, which requires them to be flexible on terms. But that can only go on so long, as these firms also have obligations that must be met."

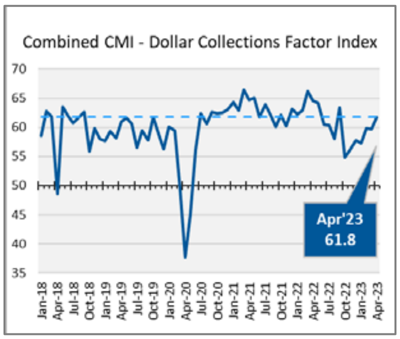
CMI Combined Sectors Factor Indexes Charts

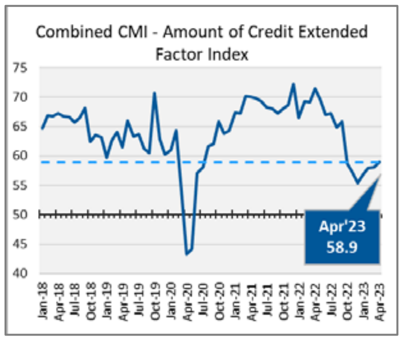
All charts contain seasonally adjusted data. Please note that the vertical axes are not scaled identically, and the dotted line represents the most recent value.

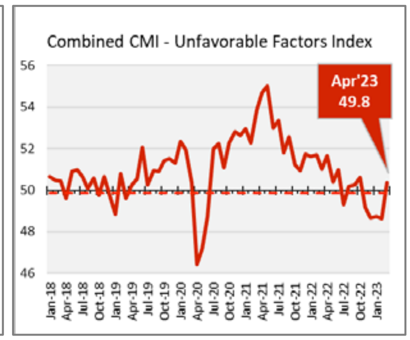


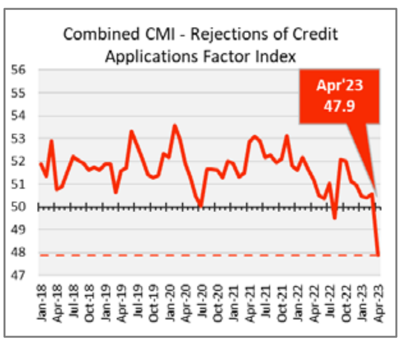


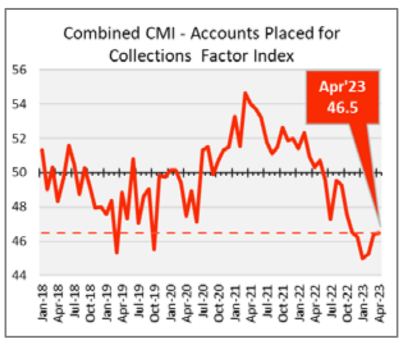


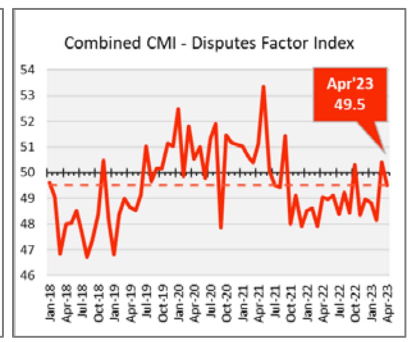


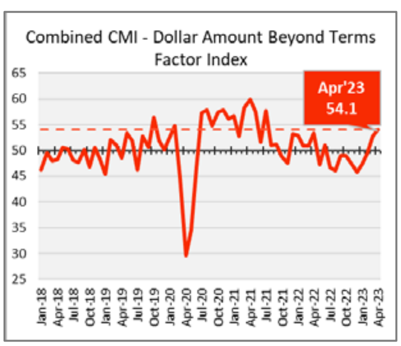


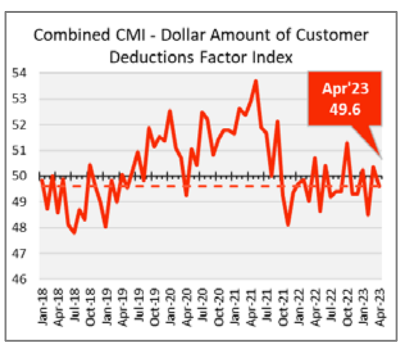


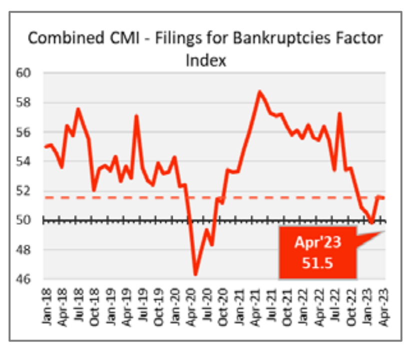








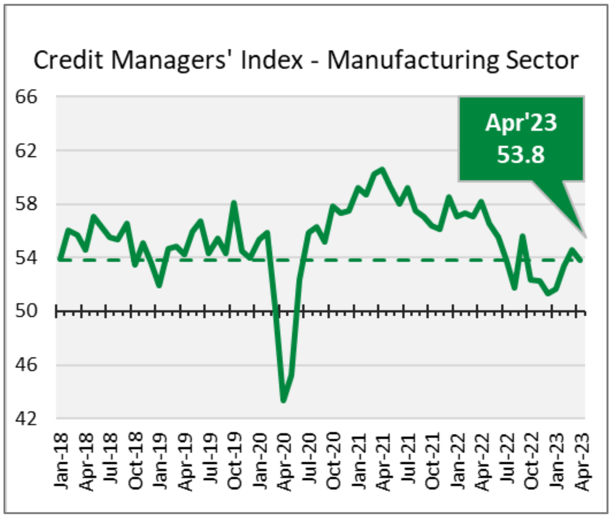


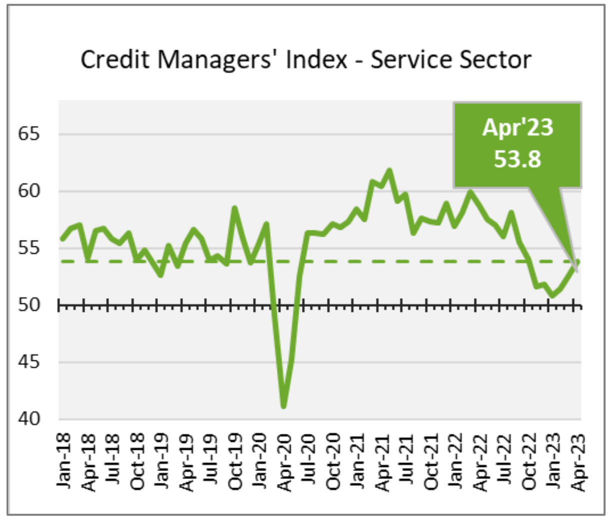


CMI Manufacturing versus CMI Service Sectors Indexes

The CMI index for manufacturing lost 0.8 points in the April survey to show a level 53.8, losing nearly all of the improvement in March. The service sector CMI improved 1.3 points this month to come in at 53.8, a sixth-month high.

“The service sector CMI continued its improving trend in this month’s survey, while the manufacturing CMI gave back some of its recent improvements,” Cutts said. “Both indexes are at 53.8, which means the financial side of these sectors, as measured by accounts receivables activity, is not showing signs of recession. But looking at the Institute for Supply Management Purchasing Managers' Index, which represents more the real side (actual goods and services activity) of the business economy, the manufacturing sector has been in contraction since the third quarter of last year and the service sector, while still expanding, has deteriorated sharply. These two measures tend to run in parallel generally, and the manufacturing sector decline is a bit worrying."





The data in the charts are seasonally adjusted.

CMI Manufacturing Sector Factor Indexes

Among the CMI Manufacturing Sector Factor Indexes, favorable factors deteriorated 0.5 points to 57.6, still retaining some of the gains made in February. Unfavorable factors declined this month by 0.9 points to 51.3, still in expansion territory and the second strongest reading over the past 12 months.

Key Findings:

- All the favorable factor indexes are above 56 points, indicating continued strength in manufacturing from sales, new credit applications, amount of dollars collected and the amount of credit extended.
- The sales factor index was the only favorable factor to improve, with a gain of 2.9 points to 57.8. The sales index is now down 13.9 points from April 2023.
- The rejections of new credit applications factor index declined another 1.2 points from the March CMI survey falling into contraction territory at 49.8.
- The index for dollar amount beyond terms was the only unfavorable CMI manufacturing factor index to post an improvement, gaining 0.3 points to 55.2. This index is now at a 12-month high.

"Although the Federal Reserve Bank of New York is reporting that its Supply Chain Stress Index is now indicating things are better than normal, respondents in the CMI survey are continuing to see some problems getting raw materials and parts outside of weather-related issues," Cutts said. "The credit crunch is affecting manufacturers a bit, but the amount of credit extended is still robust. For now, manufacturers seem to have avoided problems with credit availability."

Manufacturing Sector (seasonally adjusted)	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**	**Sep '22**	**Oct '22**	**Nov '22**	**Dec '22**	**Jan '23**	**Feb '23**	**Mar '23**	**Apr '23**
Sales	71.7	69.2	63.8	61.1	53.5	61.4	53.6	54.2	53.1	48.4	58.2	54.9	57.8
New credit applications	65.3	61.7	61.4	57.8	57.4	58.6	57.3	56.4	51.3	54.0	56.6	59.3	56.8
Dollar collections	62.5	63.4	60.9	57.3	55.0	64.7	52.4	57.6	59.2	57.3	60.4	59.8	59.4
Amount of credit extended	70.1	69.6	65.6	64.6	59.9	65.1	57.8	57.7	54.7	57.8	58.8	58.3	56.2
Index of favorable factors	**67.4**	**66.0**	**62.9**	**60.2**	**56.5**	**62.4**	**55.3**	**56.5**	**54.6**	**54.4**	**58.5**	**58.1**	**57.6**
Rejections of credit applications	51.6	50.3	50.3	51.5	48.1	52.5	53.2	51.7	53.0	53.2	52.6	51.0	49.8
Accounts placed for collection	50.7	49.9	50.1	49.5	50.2	51.4	49.0	46.8	49.6	47.8	48.2	51.1	50.2
Disputes	48.6	48.7	48.2	47.4	47.3	47.5	49.5	47.4	48.0	49.5	47.9	52.3	51.5
Dollar amount beyond terms	56.3	46.8	50.6	46.5	42.6	52.2	47.3	48.5	46.5	48.2	51.3	54.9	55.2
Dollar amount of customer deductions	50.4	47.9	48.7	48.1	47.5	48.3	50.0	50.1	46.7	49.2	48.2	50.1	48.5
Filings for bankruptcies	54.9	57.8	55.4	54.0	55.9	54.0	52.9	52.6	51.2	51.3	51.4	53.7	52.7
Index of unfavorable factors	**52.1**	**50.2**	**50.5**	**49.5**	**48.6**	**51.0**	**50.3**	**49.5**	**49.2**	**49.9**	**49.9**	**52.2**	**51.3**
NACM Manufacturing CMI	**58.2**	**56.5**	**55.5**	**53.8**	**51.7**	**55.6**	**52.3**	**52.3**	**51.3**	**51.7**	**53.4**	**54.6**	**53.8**

CMI Manufacturing Sector Factor Indexes Charts

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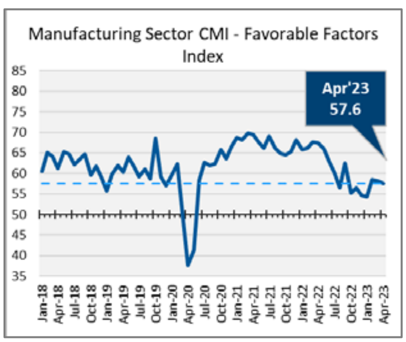

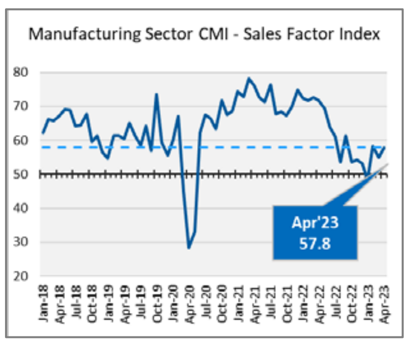

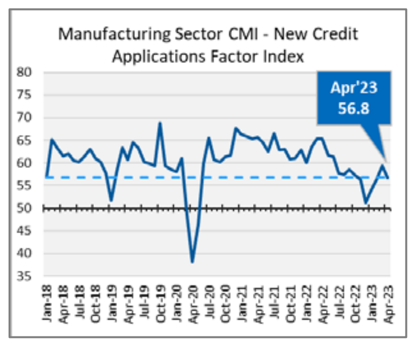

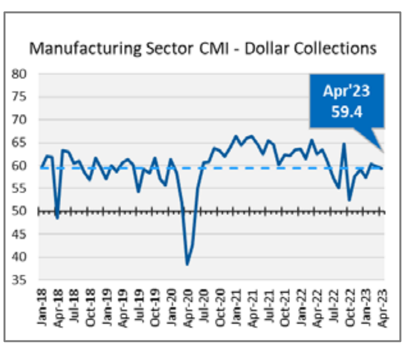

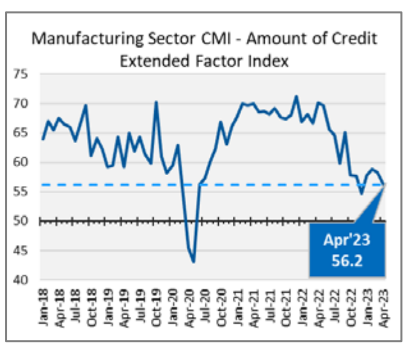

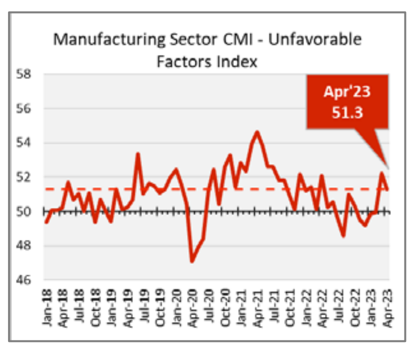

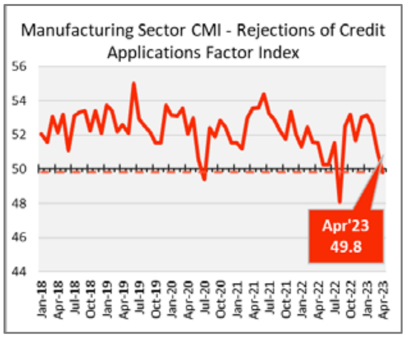

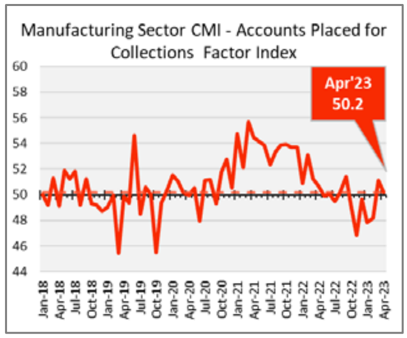

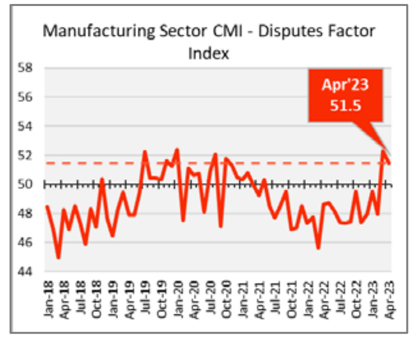

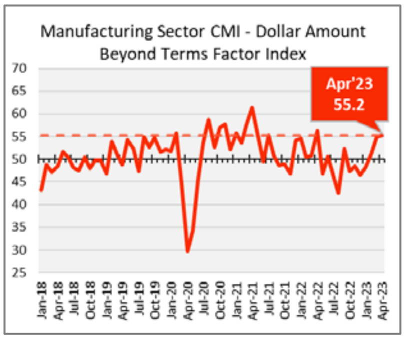

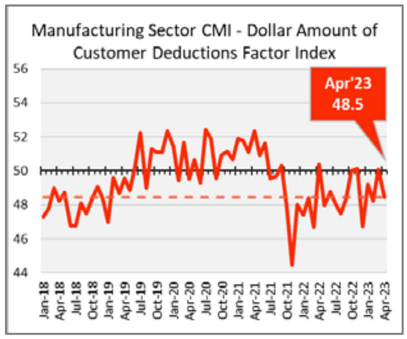

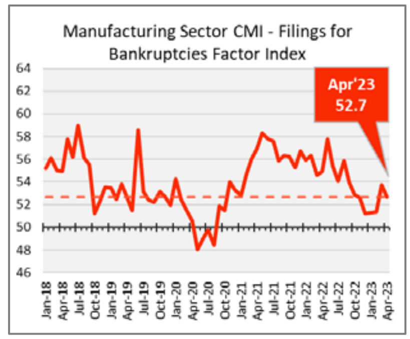

CMI Service Sector Factor Indexes

The April CMI service sector index saw improvement in the favorable factors index by 3.4 points, and deterioration in the unfavorable factors index by 0.1 points. Favorable factors have lost a combined 8.0 points over the past year, while unfavorable factors have remained steady, deteriorating by 2.9 points versus their level in April 2022.

Key Findings:

- All the favorable factor indexes made large improvements in April, led by the index for dollar collections, up 4.6 points, and the amount of credit extended, up 3.7 points.
- The index for new credit applications increased by 2.4 points to 60.8, its highest reading since September 2022.
- Only two factor indexes fell among the unfavorable group, but the decline in the index for rejections of new credit applications was so precipitous, at a loss of 4.2 points, that it pulled the entire group index down for the month. The index for rejection of new credit applications now sits at 45.9, its lowest level since March of 2009.

"The service sector CMI index improved again this month across nearly all factors, indicating a lot of strength in this part of the economy" said Cutts. "However, the sharp pull back in approvals of new credit applications is worrying. Customers are still seeking new credit, and the amount of credit extended is still very sound. But if you need credit, getting a new line approved is proving quite tough."

Service Sector (seasonally adjusted)	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23
Sales	73.5	70.9	67.7	70.0	72.5	65.7	57.4	54.9	56.5	51.3	54.7	58.1	60.9
New credit applications	66.5	66.7	65.6	62.2	67.8	63.8	60.1	57.1	59.8	58.6	59.2	58.4	60.8
Dollar collections	66.7	65.1	60.1	63.4	61.0	62.1	57.3	54.8	56.5	57.2	59.2	59.6	64.2
Amount of credit extended	72.7	69.3	68.4	69.8	69.7	66.6	59.7	56.6	56.1	55.8	57.1	57.9	61.6
Index of favorable factors	**69.9**	**68.0**	**65.4**	**66.3**	**67.8**	**64.6**	**58.6**	**55.8**	**57.2**	**55.7**	**57.5**	**58.5**	**61.9**
Rejections of credit applications	50.8	50.8	50.5	50.5	50.9	51.6	50.8	50.5	48.9	47.8	48.2	50.1	45.9
Accounts placed for collection	49.9	51.5	49.0	45.0	48.9	47.1	46.1	46.2	42.8	42.1	42.3	41.7	42.8
Disputes	49.5	49.2	50.0	49.4	51.1	49.4	51.1	49.3	50.0	48.1	48.4	48.6	47.6
Dollar amount beyond terms	50.4	47.5	51.4	46.8	49.6	45.8	50.7	46.7	45.0	46.6	47.9	50.6	52.9
Dollar amount of customer deductions	51.1	49.3	52.1	50.3	51.4	50.5	52.6	48.5	51.9	51.3	48.8	50.6	50.8
Filings for bankruptcies	56.0	55.0	55.5	52.8	58.6	52.9	54.1	51.8	50.5	49.8	48.2	49.4	50.4
Index of unfavorable factors	**51.3**	**50.6**	**51.4**	**49.1**	**51.7**	**49.5**	**50.9**	**48.9**	**48.2**	**47.6**	**47.3**	**48.5**	**48.4**
NACM Service CMI	**58.7**	**57.5**	**57.0**	**56.0**	**58.2**	**55.6**	**54.0**	**51.6**	**51.8**	**50.9**	**51.4**	**52.5**	**53.8**

CMI Service Sector Factor Indexes Charts

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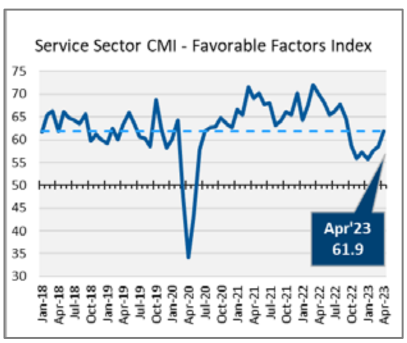

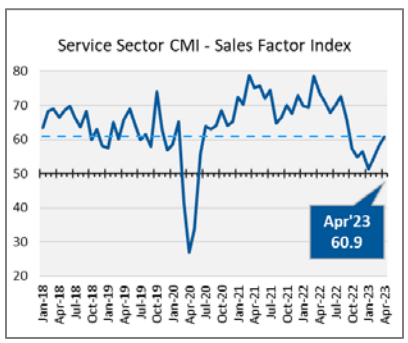

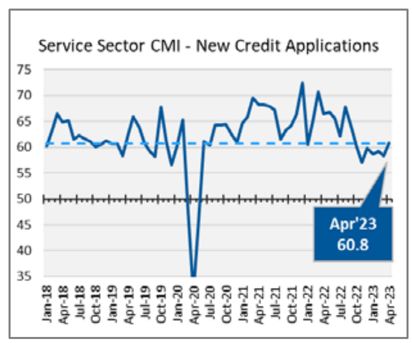

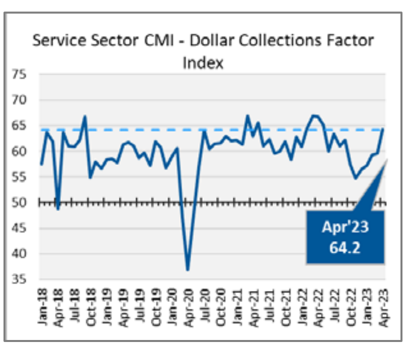

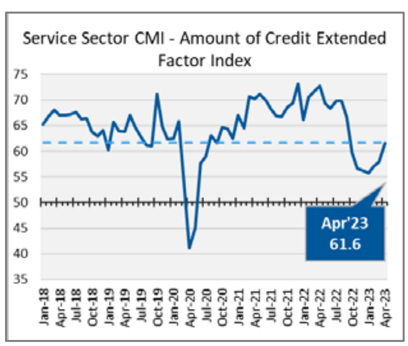

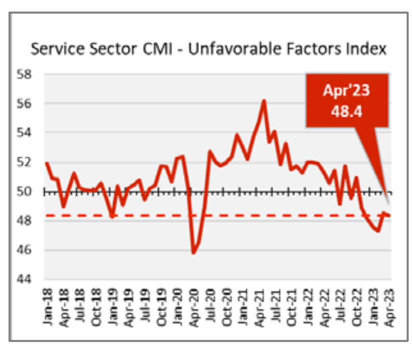

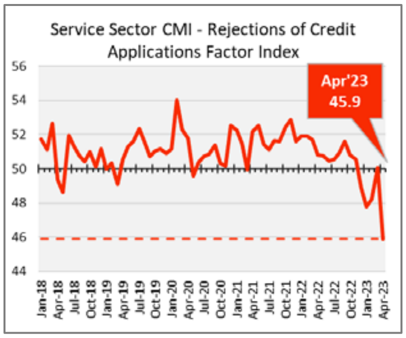

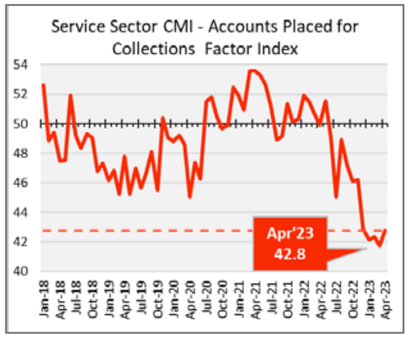

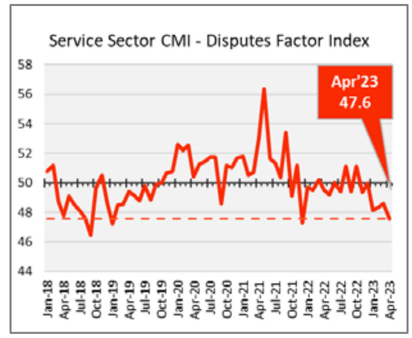

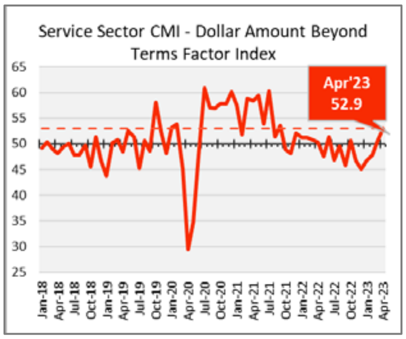

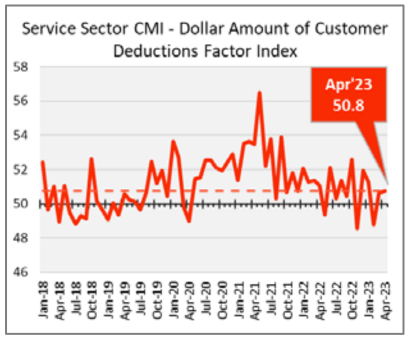

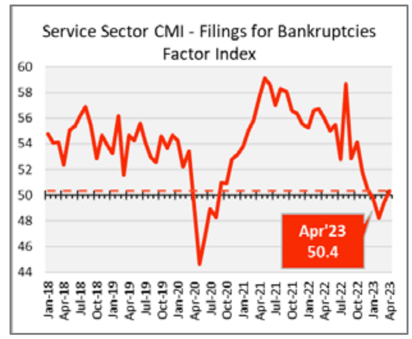

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

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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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