Report for June 2022

Issued June 30, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for June fell to its lowest level since November driven by declines in favorable factors. These changes are consistent with the reported shifts in consumer buying patterns from goods to services as Covid-related restrictions and fear have abated, businesses react to overbuilt inventories and inflation takes a bite out of everyone's pocketbook, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The Fed's Open Market Committee decided to raise the Fed Funds Target Rate by 75 basis points last week, taking a firm stance against inflation," Cutts said. "This will take some time to affect the economy as monetary policy is a rather blunt and slow-impact instrument. But the comments made by committee members, notably Chairman Jerome Powell, indicate that the Fed is worried about a recession and is cognizant of the potential for these rate hikes to bring it on faster or to make it deeper than it otherwise may be. However, the impact of higher than desired inflation is worse in their view.

"We've been hearing quite a bit in the news recently of companies having excess inventories after months of empty warehouses. This should be good news for consumers as retailers are likely to offer discounts again, but food and fuel inflation may limit demand even if TVs and toys become much cheaper. The Fed's goal is to weaken demand in order to take pressure off prices. Market forces are already doing some of that with mortgage rates coming close to 6%, a rise of nearly 3% over the past six months, which is impacting home purchase demand, falling new light vehicle sales and the advance retail sales data indicating a slowing in May."

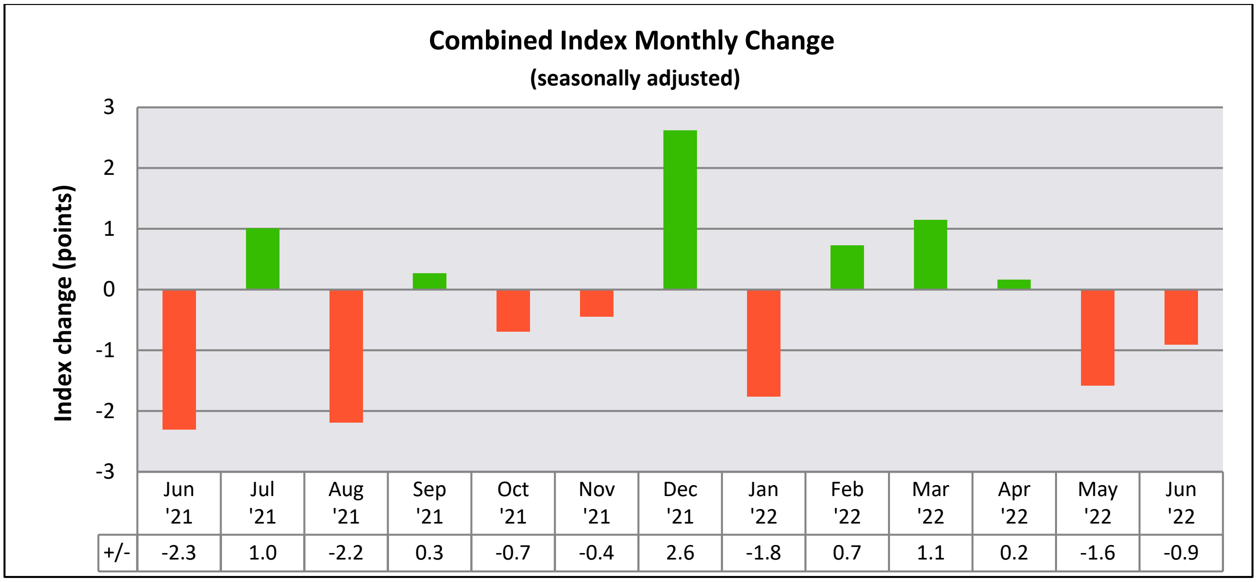
The combined March CMI fell by 0.9 points to an index value of 56.6. The index of favorable factors slid 3.3 points in June to 64.8, a level that is 1.4 points lower than a year ago. All categories in the favorable factors list dropped for the third month in a row and fell at a faster rate in June. Sales led the decline with a dramatic 5-point drop to 66.6, and dollar collections dropped 4.6 points to 60.9. The amount of credit extended recorded an index value that was 2.7 points lower than in May while new credit applications lost a more modest 0.6 points. The declines in the favorable factor indexes are notable but the levels of the indexes still indicate strong expansionary conditions. The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction.

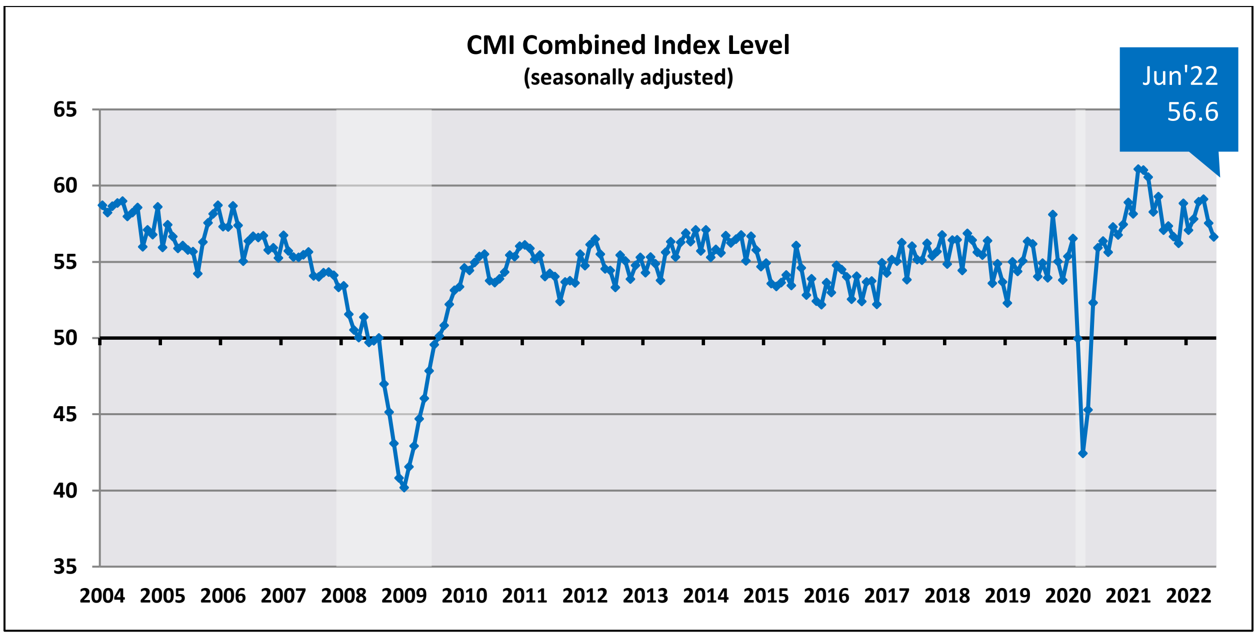
The CMI component factors are indicating some important early signs of a turn, but the favorable and unfavorable factor subindexes both remain in solid expansionary territory with values well above the 50-point threshold

Reversing the downward trend recorded in May, the combined CMI index for unfavorable factors rose 0.6 points in the June CMI Survey. Note that the scale for unfavorable factors is inverted so that gains in the index align with improvements in those factors. Half of the unfavorable factors recorded deterioration: rejections of credit applications lost 0.5 points to register an index value of 50.2; accounts placed for collections lost 1.3 points to fall back into contraction territory with a reading of 49.7; and filings for bankruptcies dropped 0.6 points to 55.8. Disputes gained 0.3 points but remains in contraction territory with a value of 49.4. The dollar amount of customer deductions improved by 2.0 points, enough to push the factor into the expansion side at 50.7. This factor has danced around the 50-point threshold all year, but the June survey reading is the strongest since September 2021. The surprise reading for the month is the factor dollar amount beyond terms, which declined sharply in the May survey, regained more than half the difference in June by rising 3.9 points to 51.1.

"On the one hand, the fact that favorable factors remain so solidly in the expansion column suggests continued strength in the economy yet the widespread deterioration in the indexes, especially sales, suggests that we may have passed the peak," Cutts said. "Many survey respondents noted that they are still having significant issues with the supply chain and logistics. For example, as has been reported by trade newsletters, one respondent indicated that companies that use cement are having to find alternatives due to severe shortages of materials or truck drivers or both, which impacts infrastructure investments and construction. Respondents also noted that they did not think these supply chain problems would improve much in the near term."

Combined Manufacturing and Service Sectors **(seasonally adjusted)**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**
Sales	69.9	75.4	66.0	67.8	67.4	67.4	75.1	71.2	71.3	77.1	74.7	71.6	66.6
New credit applications	65.1	66.2	63.0	63.5	62.1	62.9	67.6	60.6	64.0	68.8	67.1	64.7	64.1
Dollar collections	61.2	64.4	61.5	60.4	61.3	59.2	63.5	62.5	63.2	67.0	65.9	65.5	60.9
Amount of credit extended	68.8	68.4	68.6	67.2	67.6	67.7	71.7	67.2	68.7	69.2	72.1	70.4	67.7
Index of favorable factors	**66.2**	**68.6**	**64.8**	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**	**68.1**	**64.8**
Rejections of credit applications	52.1	52.0	52.2	52.1	52.3	53.2	51.7	51.5	52.3	51.9	51.3	50.7	50.2
Accounts placed for collection	52.8	51.5	51.4	51.4	52.1	52.0	52.1	51.1	52.7	51.5	50.6	51.0	49.7
Disputes	50.1	49.1	49.6	51.2	48.3	48.6	48.2	48.4	48.6	48.0	49.1	49.1	49.4
Dollar amount beyond terms	51.8	56.9	51.4	50.6	49.5	47.1	53.3	53.5	50.9	51.2	54.2	47.2	51.1
Dollar amount of customer deductions	52.4	51.8	49.9	51.9	49.4	48.2	49.3	49.5	49.9	49.0	50.5	48.7	50.7
Filings for bankruptcies	58.5	56.9	57.3	57.1	56.4	55.9	55.7	55.2	56.4	55.8	55.7	56.4	55.8
Index of unfavorable factors	**52.9**	**53.0**	**51.9**	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**	**50.5**	**51.1**
NACM Combined CMI	**58.3**	**59.3**	**57.1**	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**	**57.5**	**56.6**





Manufacturing Sector

The Manufacturing CMI lost 1.1 points in the June survey to sit at 56.0. A year ago, the index read 57.8. The index of unfavorable factors gained 0.5 points to 50.7 while the index of favorable factors slid 3.3 points to 64.0. The favorable factor leading the decline in the June survey is sales with a 6.2-point loss to 64.9. This is the third consecutive decline in the sales index, and it is now 5.1 points lower than a year ago.

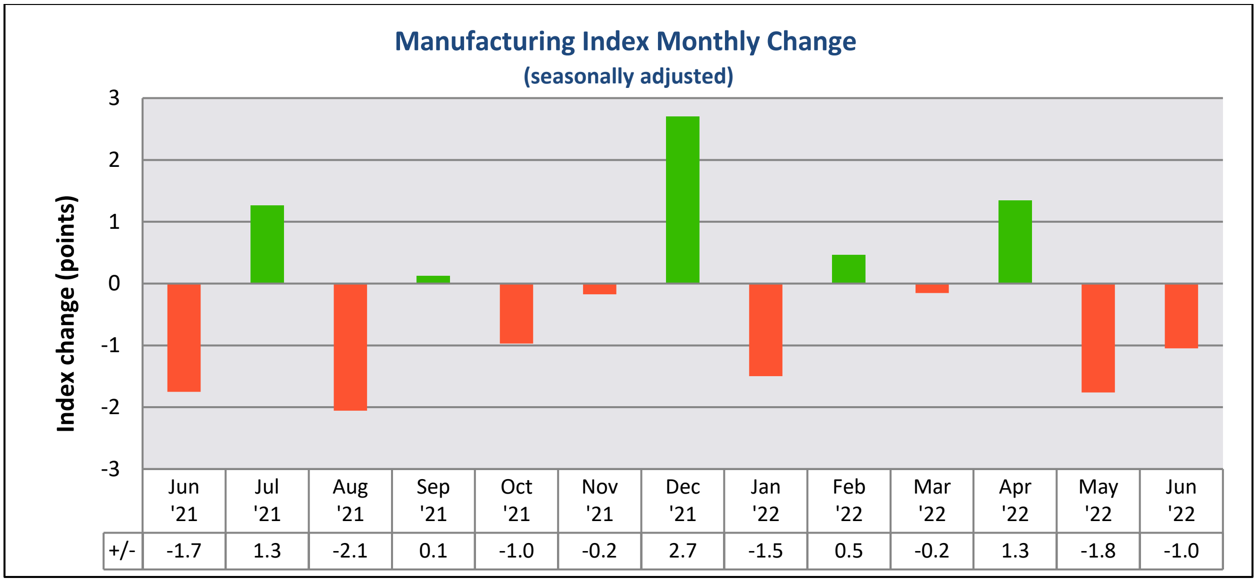
Among the other favorable factor indexes, the amount of credit extended fell 3.7 points to 67.1, and dollar collections lost 3.0 points to a new reading of 61.6. The index for new credit applications lost 0.3 points and is the only favorable factor index to fall above its year ago value.

Among unfavorable factor indexes, the index for dollar amount beyond terms was the leader gaining 3.8 points to a value of 50.7, erasing about a third of the May survey decline. For the manufacturing sector, this factor is the most improved over the past 12 months with a 1.2-point gain. Its value in June 2021 was 49.5. The other unfavorable factor to improve in the June survey is the dollar amount of customer deductions, which posted a 1.0-point gain, but it was not enough to pull it out of the contraction zone with a value of 49.0. The index for accounts placed in collection was unchanged over the month at 49.9, but is down 3.6 points year over year, the largest drop for the manufacturing sector. The filings for bankruptcies index posted the largest decline in June, falling 1.4 points to 55.7. This index remains the strongest among unfavorable factors. The index for rejections of credit applications lost 0.4 points and is sitting on the threshold between contraction and expansion. The disputes index continues to post the lowest value among unfavorable factors, and it lost another 0.2 points in the June survey to post a value of 48.7 points.

“The CMI Manufacturing sector respondents indicated a divergence in experiences this month. Many are struggling with fulfilling customer orders as supply issues continue and they stated that they did not foresee improving conditions soon,” Cutts said. “One resorted to having weekend shifts to reduce backlogs in addition to making some capital improvements to increase capacity. But several others indicated that they are seeing a marked decline in new orders. Another indicated that sales look robust because with higher input prices being passed through, the dollar amount of sales has stayed steady but the number of orders is down significantly.

“While the CMI manufacturing sector index is strong enough for optimism, our respondent comments have shifted towards pessimism. Earlier in the year they indicated that some customers were overordering so that they could build inventories and increase their customer satisfaction. We now see that they were successful, maybe too much so. The decline in sales momentum is consistent with the buildup of inventories and is not necessarily cause for worry economically speaking, especially since the CMI sales index is still robust at 64.9 points. But the shift in participant comments does indicate a growing uneasiness among respondents.”

Manufacturing Sector (seasonally adjusted)	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**
Sales	70.0	76.2	65.2	69.2	66.3	69.4	76.3	72.8	73.1	74.1	73.6	71.1	64.9
New credit applications	62.3	65.9	62.4	63.3	60.7	60.9	62.1	60.2	63.4	65.9	66.7	62.8	62.5
Dollar collections	62.1	65.6	63.5	60.0	61.1	61.6	64.4	64.0	62.3	66.4	63.4	64.6	61.6
Amount of credit extended	68.6	68.3	68.0	67.6	67.8	67.5	70.2	67.6	68.2	66.5	70.6	70.8	67.1
Index of favorable factors	**65.7**	**69.0**	**64.8**	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**	**67.3**	**64.0**
Rejections of credit applications	53.4	53.4	52.9	52.4	52.2	53.1	52.1	51.2	52.6	51.7	51.8	50.4	50.0
Accounts placed for collection	53.5	51.9	53.4	54.4	53.9	53.8	54.5	50.3	53.6	51.9	50.9	49.9	49.9
Disputes	48.3	47.1	48.3	49.7	47.4	46.4	48.4	47.7	47.9	45.8	48.6	48.9	48.7
Dollar amount beyond terms	49.5	54.8	50.6	48.4	48.2	46.7	54.6	55.2	50.7	51.4	57.8	46.9	50.7
Dollar amount of customer deductions	52.2	50.0	49.4	50.0	48.0	44.6	47.8	47.0	48.3	46.5	50.0	48.0	49.0
Filings for bankruptcies	58.0	57.3	56.1	56.3	55.8	55.6	56.4	55.7	56.4	54.6	54.9	57.1	55.7
Index of unfavorable factors	**52.5**	**52.4**	**51.8**	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**	**50.2**	**50.7**
NACM Manufacturing CMI	**57.8**	**59.0**	**57.0**	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**	**57.1**	**56.0**



Service Sector

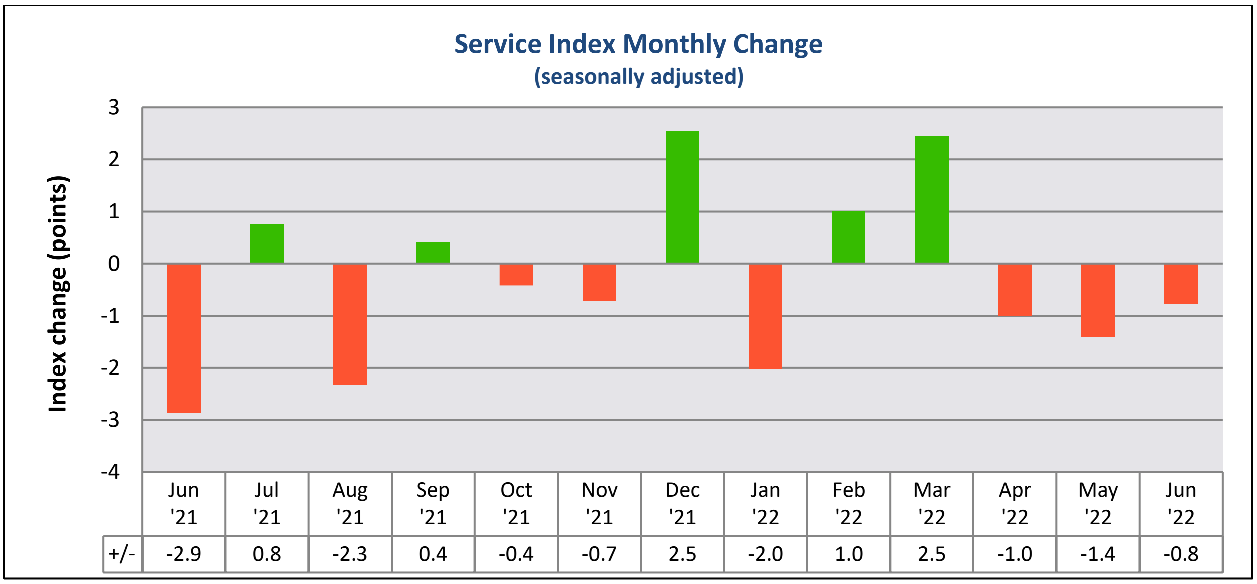
The service sector CMI index fell 0.8 points to 57.2 in the June survey. Favorable factors led the decline, with a fall of 3.2 points, while unfavorable factors improved, posting a 0.8-point gain. In the favorable factors category, the dollar collections index led the decline with a 6.4-point drop to 60.1; the sales index fell 3.9 points to 68.2 after hitting a recent high of 80.0 in March; the index for the amount of credit extended dropped 1.5 points to 68.4; and the index for new credit applications fell 0.9 points to 65.8. All of the favorable-factor indexes are still strongly indicating expansionary conditions in the services sector despite these declines.

Among service sector unfavorable factor indexes, factors that showed gains in the May survey showed deterioration in the June survey and vice versa. The index for dollar amount beyond terms was most improved with a 4.1-point increase to 51.5, a full recovery from the large drop in the May survey. The index for dollar amount of deductions gained 3.0 points to 52.3; the disputes index posted a 0.8-point gain; and the filings for bankruptcies index improved by 0.4 points. Two unfavorable factor indexes showed deterioration: rejections of credit applications, down 0.7 points to 50.4, and accounts placed for collections, down 2.6 points to 49.5.

“The services sector CMI index is indicating a strong economy, which is consistent with the move by consumers towards services and away from goods in recent months,” Cutts said. “I do still believe we will see a recession start within the next 6 to 12 months, as the Fed’s policy actions take effect and the full bite of inflation is felt. Respondents in the CMI survey are indicating that they are working harder to get payments in on time and though they are seeing some improvement in getting the backlog of orders filled, they worry that delays on shipments from Asia will continue for some time.”

Service Sector (seasonally adjusted)	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22
Sales	69.8	74.6	66.8	66.4	68.5	65.3	73.9	69.7	69.6	80.0	75.7	72.1	68.2
New credit applications	67.9	66.6	63.5	63.8	63.5	64.8	73.0	60.9	64.7	71.6	67.4	66.7	65.8
Dollar collections	60.2	63.1	59.4	60.8	61.5	56.7	62.6	60.9	64.1	67.7	68.4	66.5	60.1
Amount of credit extended	69.0	68.5	69.1	66.9	67.4	67.9	73.3	66.7	69.3	71.9	73.6	69.9	68.4

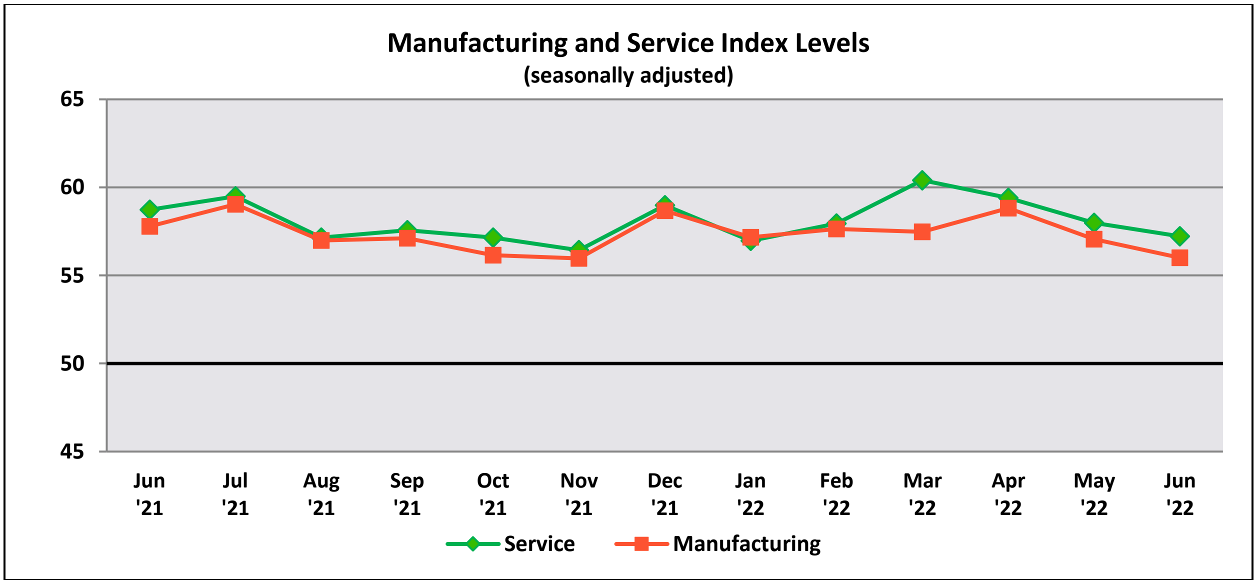
Index of favorable factors	**66.7**	**68.2**	**64.7**	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**	**68.8**	**65.6**
Rejections of credit applications	50.9	50.6	51.4	51.9	52.5	53.2	51.4	51.8	52.0	52.2	50.8	51.1	50.4
Accounts placed for collection	52.2	51.0	49.4	48.5	50.3	50.2	49.8	51.9	51.9	51.0	50.3	52.1	49.5
Disputes	51.8	51.2	50.8	52.8	49.1	50.9	48.0	49.2	49.3	50.3	49.6	49.3	50.1
Dollar amount beyond terms	54.1	59.0	52.2	52.8	50.8	47.6	52.1	51.8	51.0	51.0	50.6	47.4	51.5
Dollar amount of customer deductions	52.6	53.7	50.4	53.9	50.9	51.7	50.8	51.9	51.4	51.5	51.0	49.3	52.3
Filings for bankruptcies	58.9	56.5	58.4	57.8	57.0	56.1	55.0	54.6	56.4	56.9	56.5	55.6	56.0
Index of unfavorable factors	**53.4**	**53.7**	**52.1**	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**	**50.8**	**51.6**
NACM Service CMI	**58.7**	**59.5**	**57.2**	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**	**58.0**	**57.2**



June 2022 versus June 2021

The CMI indexes for service and manufacturing sectors have been resilient despite the headwinds of supply shortages, logistics and staffing issues, inflation, and Fed policies. The manufacturing CMI lost a little over 1 point in the June survey and now sits at 56.0, its lowest value since November, while the services CMI has dropped 0.8 points to 57.2. In the May survey, the factor index for dollar amount beyond terms detiorated sharply for both the services and manufacturing CMIs but that drop was fully reversed in the June survey and the factor indexes again point to improving credit conditions.

“Last month I was worried about the sharp deterioration in accounts going beyond terms as a signal that maybe businesses were starting to see a turn in the economy,” Cutts said. “This month the situation reversed, so that signal proved to be just noise. However, even with the robust readings in the levels of the CMIs, the comments of respondents are getting more pessimistic, as they note sales are up by dollar amount due to higher prices being passed on their customers, but the actual units sold are lower, collections are holding up only because they are working harder to get payments in on time, etc. With the Fed’s aggressive monetary tightening I will be looking to the CMI to indicate when we are heading into a recession. The June CMI survey indicates that time is not now.”



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.

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