



Report for August 2023

Issued August 31, 2023

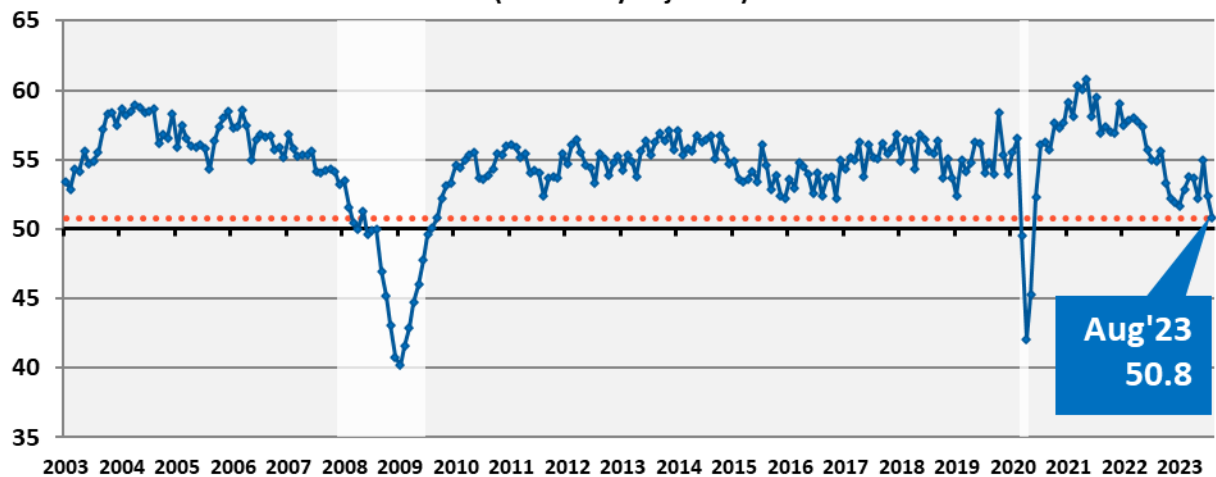
National Association of Credit Management

Credit Managers' Index Combined Sectors

The National Association of Credit Management's seasonally adjusted combined Credit Managers' Index (CMI) for August 2023 fell 1.6 points to 50.8—its lowest reading since May 2020. This drop once again revives the likelihood of a recession, especially on the business side, said NACM Economist Amy Crews Cutts, Ph.D., CBE.

"In January, given the bleak picture suggested by the CMI, I was ready to declare the recession had started, at least from the business perspective," Cutts said. "But then the CMI recovered and I changed my mind about how imminent the recession might be. But now we have had two successive months of deterioration, and this month we've approached the lowest level of the index outside of a declared recession. Consumers may be holding up the economy, but the many stresses on businesses—from higher interest rates to labor costs to supply chain shortages—are leaving deep marks."

Credit Managers' Index - Combined Sectors Index
(seasonally adjusted)



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) | Aug '22 | Sep '22 | Oct '22 | Nov '22 | Dec '22 | Jan '23 | Feb '23 | Mar '23 | Apr '23 | May '23 | Jun '23 | Jul '23 | Aug '23 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Sales | 62.9 | 63.7 | 56.0 | 55.3 | 55.9 | 51.2 | 57.6 | 57.0 | 59.0 | 54.1 | 62.0 | 55.6 | 49.5 |
| New credit applications | 63.1 | 61.3 | 59.0 | 57.2 | 55.6 | 56.9 | 58.5 | 58.9 | 58.5 | 57.7 | 58.3 | 56.8 | 56.2 |
| Dollar collections | 58.2 | 63.9 | 55.5 | 56.2 | 58.3 | 57.7 | 59.7 | 60.0 | 61.4 | 57.1 | 61.6 | 56.2 | 52.6 |
| Amount of credit extended | 64.5 | 65.6 | 59.0 | 57.6 | 56.1 | 57.9 | 58.6 | 58.2 | 58.6 | 56.5 | 60.2 | 56.8 | 54.9 |
| Index of favorable factors | 62.2 | 63.6 | 57.4 | 56.6 | 56.5 | 55.9 | 58.6 | 58.5 | 59.4 | 56.4 | 60.5 | 56.4 | 53.3 |
| Rejections of credit applications | 49.5 | 52.0 | 51.9 | 51.0 | 50.9 | 50.4 | 50.4 | 50.8 | 47.7 | 48.7 | 53.3 | 50.7 | 50.3 |
| Accounts placed for collection | 49.5 | 49.4 | 47.6 | 46.7 | 46.4 | 45.2 | 45.5 | 46.6 | 46.7 | 45.9 | 48.2 | 48.2 | 44.9 |
| Disputes | 49.2 | 48.4 | 50.3 | 48.4 | 49.0 | 48.9 | 48.4 | 50.6 | 49.6 | 48.4 | 51.1 | 50.3 | 49.8 |
| Dollar amount beyond terms | 45.7 | 49.4 | 49.3 | 48.2 | 46.5 | 47.9 | 51.4 | 53.0 | 53.8 | 51.4 | 51.8 | 46.1 | 48.9 |
| Dollar amount of customer deductions | 49.6 | 49.4 | 51.3 | 49.3 | 49.3 | 50.0 | 48.5 | 50.5 | 49.8 | 52.9 | 51.0 | 51.0 | 50.9 |
| Filings for bankruptcies | 57.1 | 53.3 | 53.5 | 52.3 | 51.0 | 50.8 | 50.1 | 51.8 | 51.4 | 49.7 | 52.4 | 52.3 | 50.2 |
| Index of unfavorable factors | 50.1 | 50.3 | 50.6 | 49.3 | 48.9 | 48.9 | 49.1 | 50.5 | 49.8 | 49.5 | 51.3 | 49.8 | 49.1 |
| NACM Combined CMI | 54.9 | 55.6 | 53.3 | 52.2 | 51.9 | 51.7 | 52.9 | 53.7 | 53.7 | 52.2 | 55.0 | 52.4 | 50.8 |

CMI Combined Sectors Factor Indexes

Key Findings:

- Six of the 10 factor indexes are at their lowest levels since May 2020. Two of the remaining four factor indexes are at their lowest levels since June 2020.
- The index for favorable factors is down 3.1 points to 53.3, led by a 6.1-point deterioration in the sales factor index to 49.5 points—its first time in contraction territory since May 2020. The sales factor index has declined 12.5 points in two months.
- The dollar collections factor index deteriorated for the second month in a row, slipping 3.6 points to 52.6. The level remains in expansion territory, meaning that even with the abrupt decline in the index, more than half of respondents said collections were the same or better than in the prior month.
- The index for unfavorable factors deteriorated by 0.7 to 49.1 and remained in the tight range around 50 that it has been in over the past year and a half. The index was last at this value in February 2023.
- Five of the six unfavorable factor indexes deteriorated in the August survey; the index for accounts placed for collections led with a decline of 3.3 to an index value of 44.9. This index has been in contraction levels since June of 2022, meaning in each of these months more than half of respondents have indicated that more accounts were referred to collections than the prior month.
- The index for the dollar amount beyond terms improved by 2.8 points to 48.9, yet August was the second consecutive month that the index was in contraction territory below 50.
- The index for filings for bankruptcies deteriorated 2.1 points to come in at 50.2, balancing on the threshold between contraction and expansion.

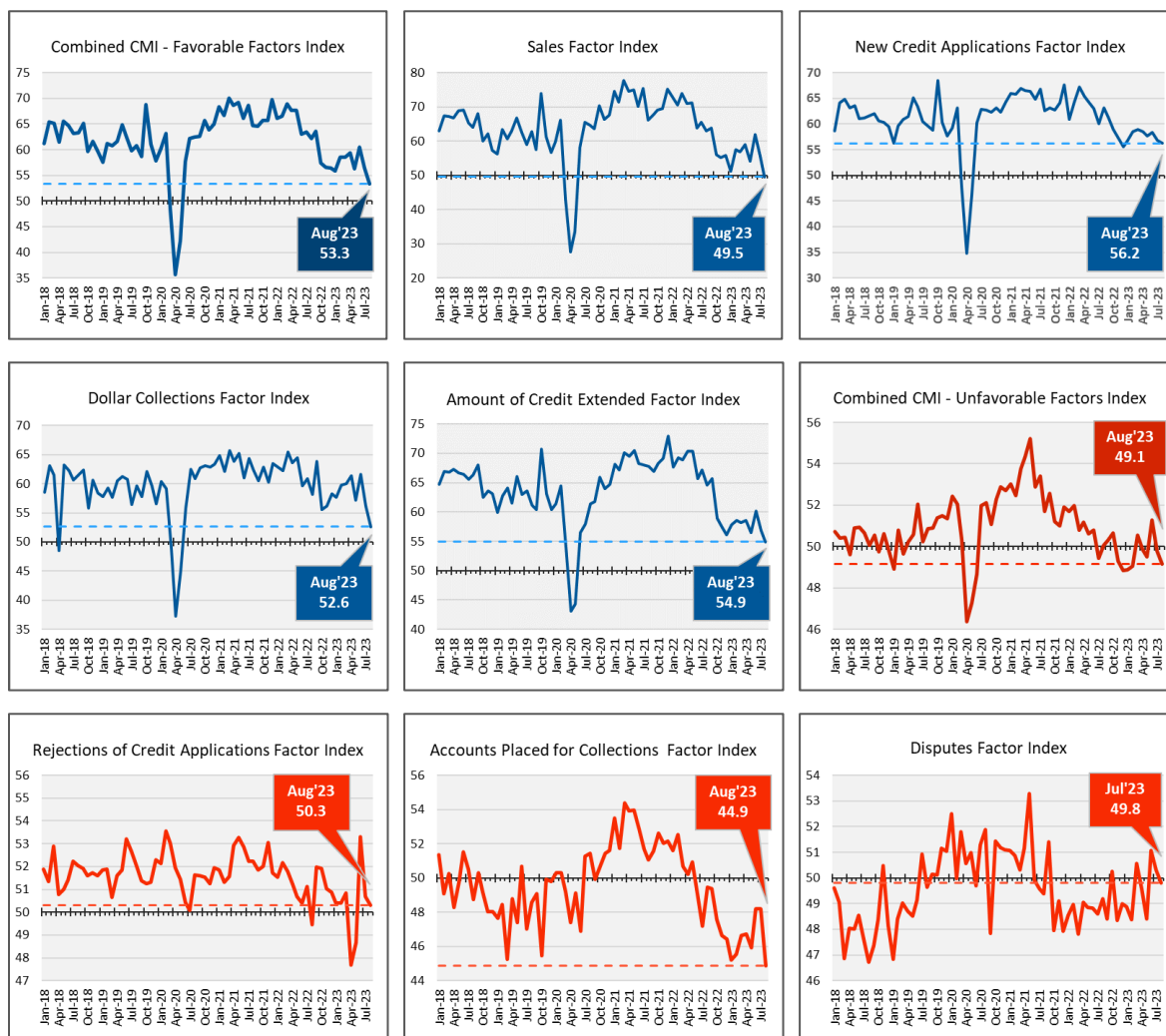
“Last month I stated that the Credit Managers’ Index has been see-sawing between ‘recession is about to start’ and ‘business is good’ levels since the start of the year, and that the factor indexes were aligning along similar

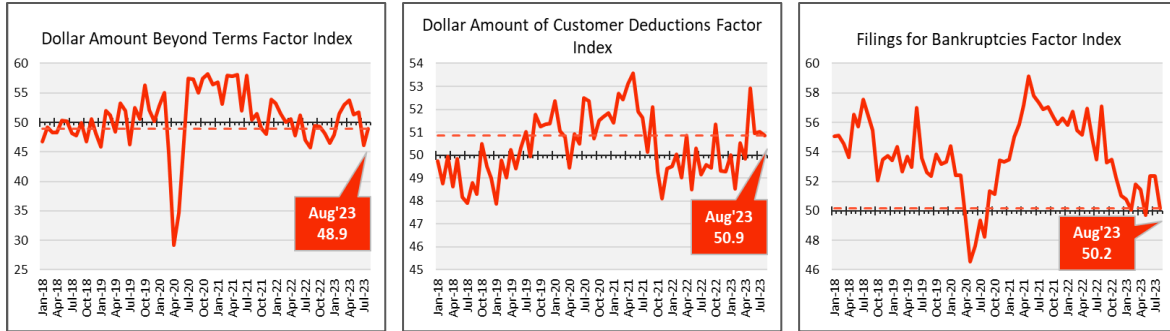
trends,” said Cutts. “This month, the factor indexes were also aligned, but the message now is quite clear that businesses are starting to break under current economic stresses. The sales factor index is now in contraction territory after a two-month dive. This bodes poorly for economic conditions going forward as more businesses are cutting back on orders now and that means fewer goods and services will be delivered in coming months.”

“Respondents in the CMI survey are indicating that supply chain issues remain a problem,” said Cutts. “But a new threat is coming from increased business identity fraud in new applications for credit. These new companies are seeking to buy products or services on credit from NACM member companies for which they have no intention to pay. They then disappear as fast as they came in. Just like in consumer credit, business identity theft is a big issue and tough to fight.”

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.

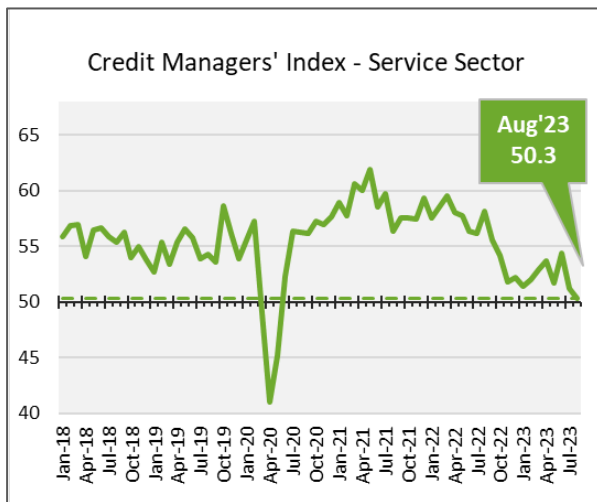
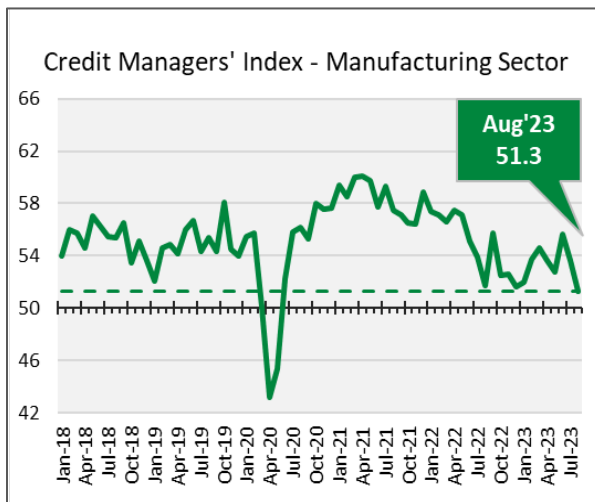




CMI Manufacturing versus CMI Service Sectors Indexes

The Manufacturing Sector CMI declined 2.4 points in the August survey to a level of 51.3. The Service Sector CMI deteriorated 0.9 this month to come in at 50.3, its lowest level since May 2020.

“As happened in the July CMI survey, weakening sales were strong drivers for the declines in both sectors,” Cutts said. “For both sectors, the sales factor index is at its lowest level since May of 2020. For the manufacturing sector, the index fell well into contraction territory while for the service sector, the sales factor index is barely on the expansion side. This is a drastic change from where the index has been all year. As the indexes are seasonally adjusted, these drops are not just late summer doldrums, however, the greater number of business weeks in June (five versus four in July) might be contributing to the perceived drop in sales in July, the month covered in the August CMI survey. But sales are not the only factor showing significant weakness.”



The data in the charts are seasonally adjusted.

CMI Manufacturing Sector Factor Indexes

Among the CMI Manufacturing Sector Factor Indexes, favorable factors declined 4.0 points to 51.5, marking a 5.1-point drop from a year ago. The unfavorable factor index fell this month by 1.3 points to 51.1. This index value is 1.7 points stronger than a year ago but the overall trend for the unfavorable factor index has been sideways, neither consistently improving nor deteriorating.

Key Findings:

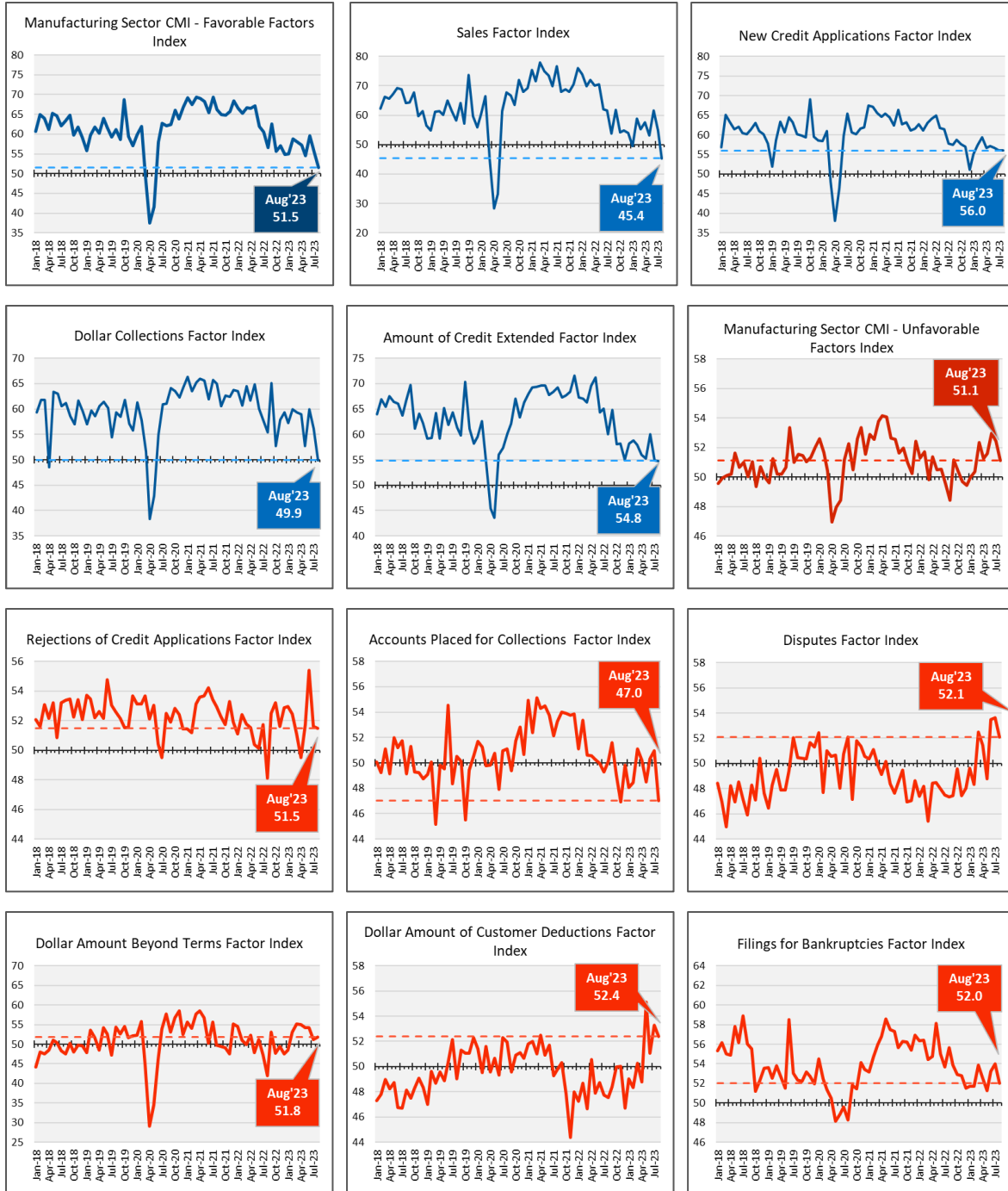
- Three of the favorable factor indexes declined this month, with the remaining factor index—new credit applications—unchanged from July.
- The index for sales deteriorated 9.5 points to 45.4, its lowest level since May 2020.
- Five of the six unfavorable factors deteriorated in the August survey. The index for the dollar amount beyond terms improved 0.6 points to 51.8. This index is 9.9 points higher than it was a year ago, but the August 2022 level seems to be anomalous as values immediately before and after were markedly higher. Compared to September 2022, the dollar amount beyond terms index is 1.3 points lower.
- The index for accounts placed for collections deteriorated by 3.9 points to 47.0 points, its lowest level since April 2020.

“In the manufacturing sector, it’s all about supply chains,” Cutts said. “Even if conditions are better and more parts and materials are being delivered on time and in the expected amounts, if one or more components for the manufacturing process is not available, the company cannot deliver its products. It must be frustrating that this far past the pandemic-related disruptions, manufacturers and end users are still having big challenges getting orders fulfilled. But while some shortages are due to lower availability of some materials due to global pressures, other issues are related to increased demand for certain products, like electrical transformers, which impact home building, data center construction, solar and wind generation facilities, and local electric power utilities. The demand for some products is far outpacing the ability of firms to make them.”

| Manufacturing Sector (seasonally adjusted) | Aug '22 | Sep '22 | Oct '22 | Nov '22 | Dec '22 | Jan '23 | Feb '23 | Mar '23 | Apr '23 | May '23 | Jun '23 | Jul '23 | Aug '23 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Sales | 53.7 | 61.8 | 54.2 | 54.9 | 54.1 | 49.5 | 58.9 | 55.2 | 57.6 | 53.1 | 61.7 | 54.9 | 45.4 |
| New credit applications | 57.4 | 58.7 | 57.6 | 57.0 | 51.1 | 55.0 | 57.5 | 59.4 | 56.6 | 57.1 | 56.7 | 56.0 | 56.0 |
| Dollar collections | 55.4 | 65.1 | 52.7 | 57.9 | 59.4 | 57.2 | 60.0 | 59.4 | 58.9 | 52.7 | 59.9 | 56.2 | 49.9 |
| Amount of credit extended | 60.0 | 64.8 | 58.1 | 58.2 | 55.0 | 58.2 | 58.8 | 57.9 | 55.9 | 55.2 | 60.0 | 54.8 | 54.8 |
| Index of favorable factors | 56.6 | 62.6 | 55.6 | 57.0 | 54.9 | 55.0 | 58.8 | 58.0 | 57.3 | 54.5 | 59.6 | 55.5 | 51.5 |
| Rejections of credit applications | 48.1 | 52.5 | 53.2 | 51.6 | 52.9 | 53.0 | 52.4 | 51.1 | 49.5 | 51.7 | 55.4 | 51.6 | 51.5 |
| Accounts placed for collection | 50.1 | 51.6 | 49.0 | 46.9 | 49.8 | 48.1 | 48.5 | 51.1 | 50.2 | 48.5 | 50.3 | 51.0 | 47.0 |
| Disputes | 47.3 | 47.4 | 49.6 | 47.4 | 48.0 | 49.6 | 48.3 | 52.5 | 51.5 | 48.8 | 53.5 | 53.6 | 52.1 |
| Dollar amount beyond terms | 41.9 | 53.1 | 47.7 | 49.4 | 47.6 | 48.5 | 53.0 | 55.1 | 55.1 | 54.2 | 54.2 | 51.3 | 51.8 |
| Dollar amount of customer deductions | 47.6 | 48.4 | 50.0 | 50.0 | 46.7 | 49.1 | 48.4 | 50.3 | 48.8 | 55.1 | 51.1 | 53.3 | 52.4 |
| Filings for bankruptcies | 55.7 | 53.9 | 52.9 | 52.8 | 51.5 | 51.7 | 51.7 | 53.9 | 52.5 | 51.3 | 53.2 | 54.0 | 52.0 |
| Index of unfavorable factors | 48.4 | 51.1 | 50.4 | 49.7 | 49.4 | 50.0 | 50.4 | 52.3 | 51.3 | 51.6 | 53.0 | 52.4 | 51.1 |
| NACM Manufacturing CMI | 51.7 | 55.7 | 52.5 | 52.6 | 51.6 | 52.0 | 53.7 | 54.6 | 53.7 | 52.8 | 55.6 | 53.7 | 51.3 |

CMI Manufacturing Sector 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 Service Sector Factor Indexes

The August CMI Service Sector Index marked a 2.1-point decline in the favorable factors index to 55.1, its lowest level since May 2020. The sector’s unfavorable factors index improved 0.1 to 47.2, and with the exception of the July survey value, is also at its lowest reading since May of 2020.

Key Findings:

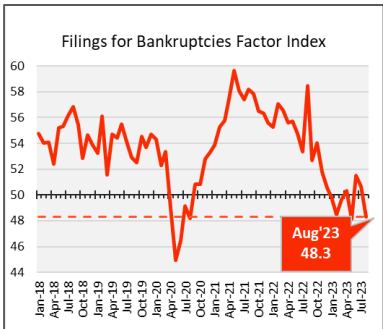
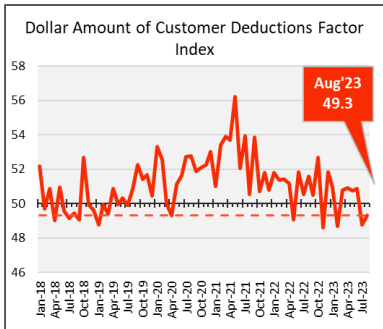
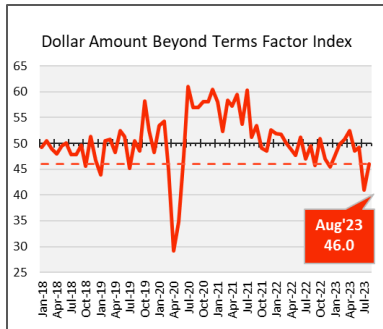
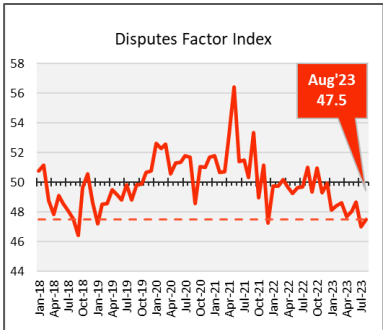
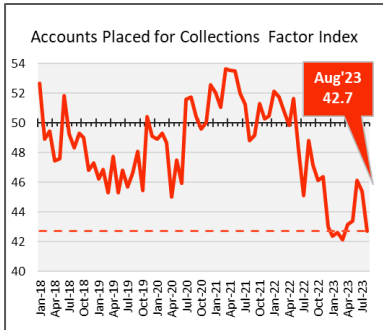
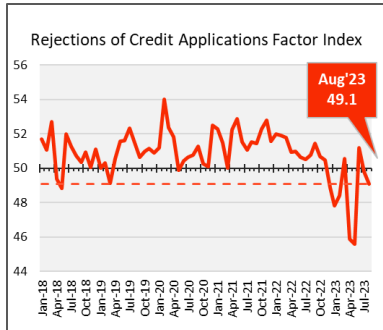
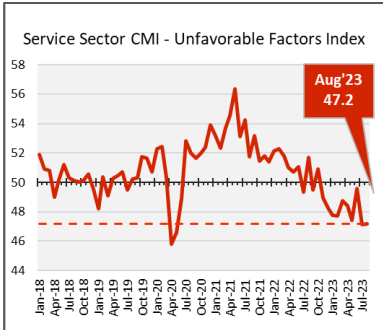
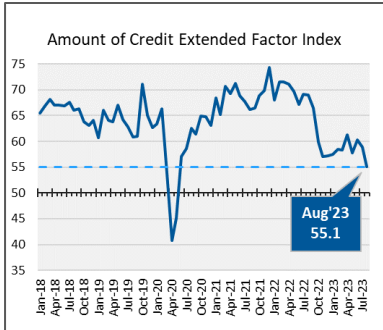
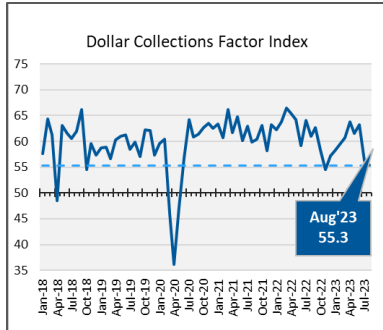
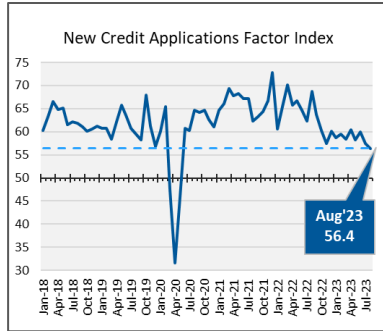
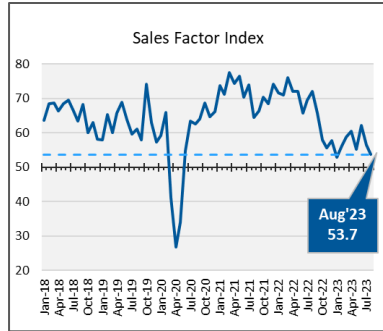
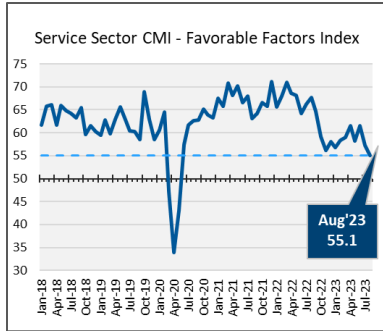
- Six of 10 factor indexes for the Service Sector CMI deteriorated in August and all factor indexes are lower than they were a year ago.
- The index for the amount of credit extended deteriorated the most in the August survey, losing 3.8 points to a level of 55.1 which is its lowest value since May 2020.
- The sales factor index lost 2.7 points to 53.7. This level is 18.4 points lower than a year ago. Importantly, the sales factor index for services, while losing momentum, is still in expansion territory.
- All of the unfavorable factor indexes for the sector are now at levels on the contraction side. The dollar amount beyond terms factor index gained 5.0 points to 46.0 and the accounts placed for collections index fell 2.7 points to 42.7.

“The Service Sector CMI index fell again for the second consecutive month, and while favorable factors are still indicating expansion, all of the unfavorable factor indexes are pointing just as strongly to contraction,” said Cutts. “Importantly, respondents are indicating that their customers are having more and more difficulties managing their cash flow. These experiences are consistent with the recent report by the Administrative Office of the U.S. Courts regarding a 23.3% rise in business bankruptcy filings over the 12 months ending June 30. Unfortunately, we are likely to see businesses under stress as long as borrowing costs remain high, especially if they have loans coming due or large fluctuations in demand.”

| Service Sector (seasonally adjusted) | Aug '22 | Sep '22 | Oct '22 | Nov '22 | Dec '22 | Jan '23 | Feb '23 | Mar '23 | Apr '23 | May '23 | Jun '23 | Jul '23 | Aug '23 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Sales | 72.1 | 65.7 | 57.8 | 55.7 | 57.7 | 52.9 | 56.3 | 58.7 | 60.4 | 55.2 | 62.2 | 56.4 | 53.7 |
| New credit applications | 68.8 | 63.8 | 60.3 | 57.4 | 60.1 | 58.7 | 59.5 | 58.5 | 60.5 | 58.3 | 60.0 | 57.5 | 56.4 |
| Dollar collections | 60.9 | 62.7 | 58.3 | 54.5 | 57.1 | 58.2 | 59.5 | 60.7 | 63.8 | 61.6 | 63.3 | 56.2 | 55.3 |
| Amount of credit extended | 69.0 | 66.5 | 59.9 | 57.0 | 57.2 | 57.5 | 58.4 | 58.4 | 61.3 | 57.7 | 60.4 | 58.9 | 55.1 |
| Index of favorable factors | 67.7 | 64.7 | 59.1 | 56.2 | 58.0 | 56.8 | 58.4 | 59.1 | 61.5 | 58.2 | 61.5 | 57.2 | 55.1 |
| Rejections of credit applications | 50.8 | 51.4 | 50.7 | 50.5 | 48.9 | 47.8 | 48.4 | 50.6 | 45.9 | 45.6 | 51.2 | 49.8 | 49.1 |
| Accounts placed for collection | 48.8 | 47.1 | 46.1 | 46.4 | 43.0 | 42.3 | 42.6 | 42.1 | 43.2 | 43.4 | 46.1 | 45.4 | 42.7 |
| Disputes | 51.0 | 49.4 | 51.0 | 49.3 | 49.9 | 48.1 | 48.4 | 48.6 | 47.7 | 48.0 | 48.7 | 47.0 | 47.5 |
| Dollar amount beyond terms | 49.5 | 45.8 | 51.0 | 47.0 | 45.5 | 47.4 | 49.8 | 50.8 | 52.5 | 48.6 | 49.3 | 41.0 | 46.0 |
| Dollar amount of customer deductions | 51.6 | 50.5 | 52.7 | 48.6 | 51.8 | 51.0 | 48.7 | 50.8 | 50.9 | 50.7 | 50.9 | 48.8 | 49.3 |
| Filings for bankruptcies | 58.5 | 52.7 | 54.0 | 51.8 | 50.5 | 49.8 | 48.5 | 49.7 | 50.3 | 48.2 | 51.5 | 50.7 | 48.3 |
| Index of unfavorable factors | 51.7 | 49.5 | 50.9 | 48.9 | 48.3 | 47.7 | 47.7 | 48.8 | 48.4 | 47.4 | 49.6 | 47.1 | 47.2 |
| NACM Service CMI | 58.1 | 55.6 | 54.2 | 51.8 | 52.2 | 51.4 | 52.0 | 52.9 | 53.7 | 51.7 | 54.3 | 51.2 | 50.3 |

CMI Service Sector 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.



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 first 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 factor activities, 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>.



