Report for December 2022

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National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for December 2022 came in at 51.6 points, marking the third consecutive month of deterioration in the index. Respondents indicated worsening credit conditions, with rising delinquencies, more accounts being referred to collections and increased demand for higher credit limits, said NACM Economist Amy Crews Cutts, Ph.D., CBE®.

"The combined CMI lost 7.5 points since it peaked in April of this year and continues to record its lowest value since May of 2020. While the index technically remains on the expansionary side, the speed of decline in the index value toward the 50-point threshold indicates to me that a recession is on the horizon from the perspective of business activity," Cutts said.

"This month's survey is the first time this year that the majority of respondents have not indicated problems with supply chains or logistics. Instead, they cited troubling trends in payments, with a marked shift in accounts 1-30 days past due, increasing demands for higher credit limits due to inflation and difficulty with collections. Some respondents indicated that they believe their customers with new delinquencies may be pushing payments in to 2023 but are worried nonetheless that it indicates more financial distress building in the business sector."

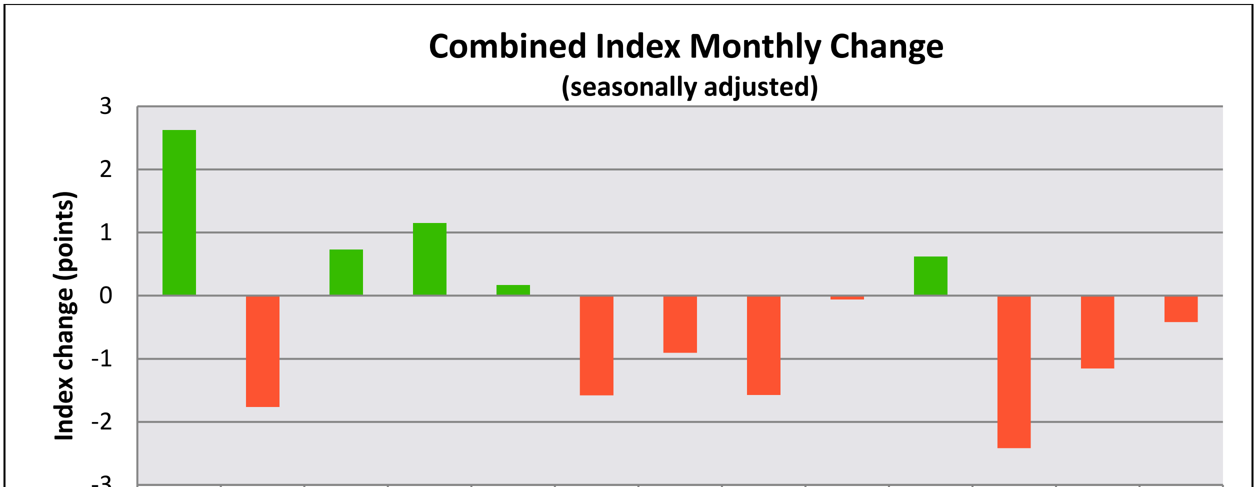
The CMI is centered on a value of 50, with values greater indicating expansion and values lower indicating economic contraction. The combined December CMI fell by 0.4 points to 51.6. The index of favorable factors deteriorated by 0.3 to 55.8, a level that is 13.6 points lower than a year ago and the lowest value since May of 2020. The index of unfavorable factors fell by 0.5 points to a reading of 48.8 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 December survey. The index for new credit applications leads the declining factors, shedding 1.5 points in this month's survey to 55.5, a value 12.1 points lower than a year ago. The index for the amount of credit extended dropped 2.1 points to 55.1, a value that is 16.6 points lower than in December 2021. The index for dollar collections gained 2.0 points to hit 57.7, a level that is 5.7 points lower than a year ago. The sales index gained 0.6 points to sit at 55.1, a full 20 points lower than it was a year ago.

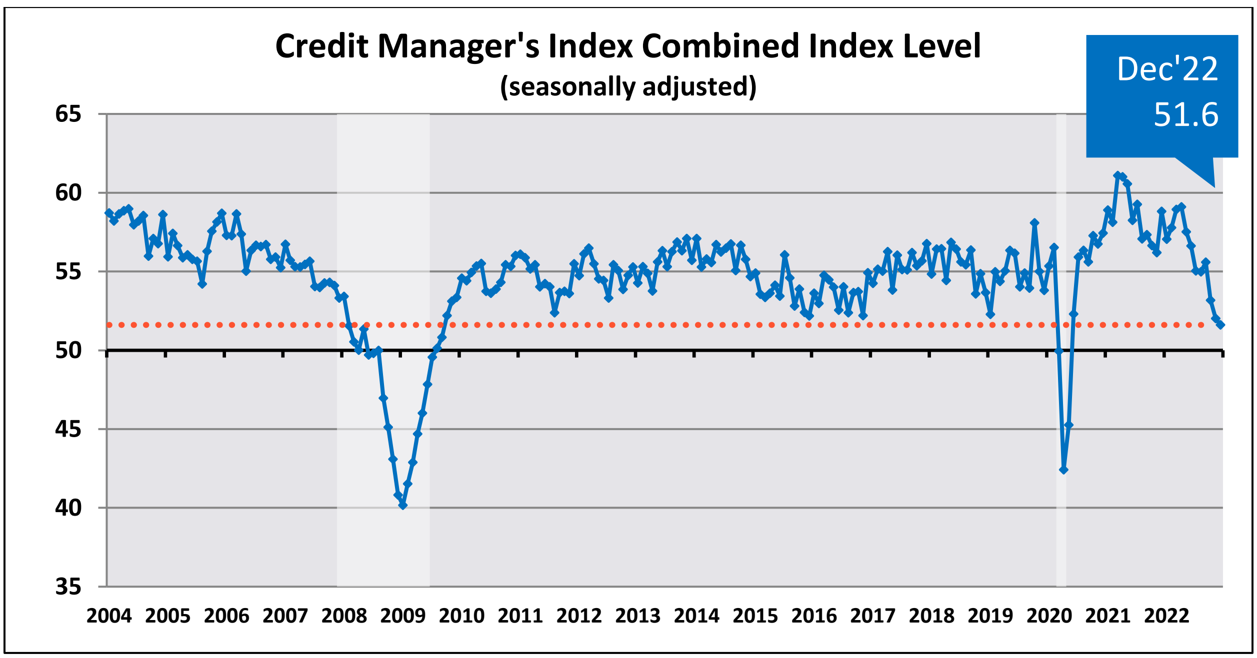
Four of the six unfavorable factor indexes for the combined CMI deteriorated in the December survey. The largest decline was recorded by the index for the dollar amount beyond terms, which fell 1.8 points to 45.8, a value that is 7.7 points lower than one year ago. The index for filings for bankruptcies dropped 1.5 points to 50.9, 4.8 points lower than a year ago. The accounts placed for collections index lost 0.5 points to reach 46.4, a level 5.7 points lower than a year ago. The rejections of credit applications fell 0.1 point to 51.2, which with rounding is unchanged from a month ago but 0.6 points lower than a year ago.

"The unfavorable factors indexes in the combined CMI have been relatively steady over the past year, with only a couple showing more than 5 points of deterioration. However, on the favorable factors side we have seen dramatic double-digit declines in three factors and the remaining index seeing a 5.7-point decline. Sales in particular have dropped sharply, which given the increase in prices that most respondents have implemented, means that unit sales have fallen even further. The Fed continues to fight against inflation with higher interest rates, which in turn dampens demand. The data are starting to show the effects of the monetary tightening, whether in the CMI, the retail sales figures or production statistics. Retail sales had their biggest decline this year in November and manufacturing output led the 0.2% decline in overall industrial production recorded last month."

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**	**Sep '22**	**Oct '22**	**Nov '22**	**Dec '22**
Sales	75.1	71.2	71.3	77.1	74.7	71.6	66.6	65.8	63.0	64.2	55.2	54.5	55.1
New credit applications	67.6	60.6	64.0	68.8	67.1	64.7	64.1	59.7	62.4	61.4	59.0	57.0	55.5
Dollar collections	63.5	62.5	63.2	67.0	65.9	65.5	60.9	61.2	57.7	63.3	54.7	55.7	57.7
Amount of credit extended	71.7	67.2	68.7	69.2	72.1	70.4	67.7	67.6	65.3	66.3	58.7	57.2	55.1
Index of favorable factors	**69.5**	**65.4**	**66.8**	**70.5**	**69.9**	**68.1**	**64.8**	**63.6**	**62.1**	**63.8**	**56.9**	**56.1**	**55.8**
Rejections of credit applications	51.7	51.5	52.3	51.9	51.3	50.7	50.2	50.8	49.4	52.2	52.2	51.2	51.2
Accounts placed for collection	52.1	51.1	52.7	51.5	50.6	51.0	49.7	47.4	49.6	49.4	47.6	46.9	46.4
Disputes	48.2	48.4	48.6	48.0	49.1	49.1	49.4	48.3	49.2	48.2	50.4	48.3	49.1
Dollar amount beyond terms	53.3	53.5	50.9	51.2	54.2	47.2	51.1	46.7	46.4	48.7	49.0	47.6	45.8
Dollar amount of customer deductions	49.3	49.5	49.9	49.0	50.5	48.7	50.7	49.3	49.2	49.1	51.3	49.4	49.4
Filings for bankruptcies	55.7	55.2	56.4	55.8	55.7	56.4	55.8	53.7	57.6	53.5	53.8	52.4	50.9
Index of unfavorable factors	**51.7**	**51.5**	**51.8**	**51.2**	**51.9**	**50.5**	**51.1**	**49.4**	**50.2**	**50.2**	**50.7**	**49.3**	**48.8**
NACM Combined CMI	**58.8**	**57.1**	**57.8**	**58.9**	**59.1**	**57.5**	**56.6**	**55.0**	**55.0**	**55.6**	**53.2**	**52.0**	**51.6**



	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22
+/-	2.6	-1.8	0.7	1.1	0.2	-1.6	-0.9	-1.6	-0.1	0.6	-2.4	-1.2	-0.4



Manufacturing Sector

The Manufacturing CMI declined in the December survey, losing 0.9 points to a reading of 51.4. This value is 7.3 points below a year ago and the lowest value recorded in the index since May of 2020. The index of favorable factors led the deterioration with a 1.7-point drop to 54.6, more than erasing the November gain in the index and finishing the year down 13.7 points. The Manufacturing index of unfavorable factors declined by 0.3 points to come in at 49.6, a 3.0-point decline from a year ago.

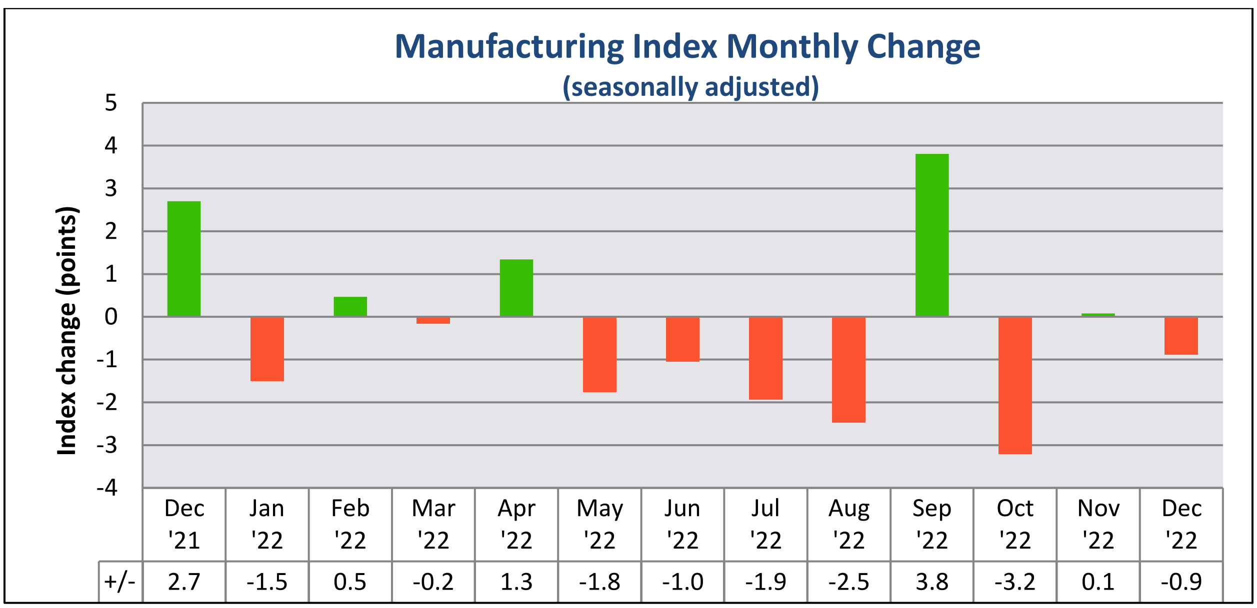
Four out of the 10 factor indexes showed improvement in December, but their strength was not enough to pull the overall Manufacturing CMI into the black. The index for dollar collections posted the largest gain for the second consecutive month with a 2.5-point improvement to 59.2 but it ended the year down a cumulative 5.1 points. Among the rest of the favorable factor indexes, sales recorded a 0.5-point decline to 53.5 and a 12-month loss of 22.8 points; new credit applications fell 5.5 points to 51.3 and a loss of 10.8 points from December 2021; and the amount of credit extended lost 3.6 points to 54.3, finishing the year down 15.9 points.

Among the unfavorable factor indexes, half posted improvements: the accounts placed for collections index gained 2.9 points to land at an even 50.0, a 12-month decline of 4.4 points; the index for rejections of credit applications gained 1.5 points to 53.0, a point higher than its level a year ago; and the disputes index rose 0.6 points month over month, but is 0.6 points lower than in December 2021. The index for the dollar amount of customer deductions deteriorated the most in the December survey, losing 3.4 points to 46.8, a point lower than it was a year ago. The index for the dollar amount beyond terms lost 1.9 points to finish the year at 46.6, almost 8 points lower than it was in December 2021. The index for filings for bankruptcies lost 1.5 points to 51.3, a value that is 5.1 points lower than a year ago.

"The CMI Manufacturing sector index is showing considerable weakness. Looking back to the pre-pandemic period, the CMI Manufacturing index value for December 2022 is lower now than it was in any month between October 2009 and February 2020. The declines in sales are noteworthy in that they are the earliest leading indicator of economic activity, and the loss of 22.8 points in the index, inclusive of the impacts of higher prices on total dollar sales, is astounding," Cutts said.

"The Industrial Production report for November from the Board of Governors of the Federal Reserve System showed that manufacturing declined 0.6% over the month while utilities production gained almost 4% and mining production fell 0.8%. The manufacturing output decline was about the same for durable and nondurable goods, but four sectors stood out: Furniture manufacturing fell 1.8%, plastic and rubber production fell 1.9%, electrical equipment, appliances and related components manufacturing fell 2.6%, and motor vehicles and parts production declined 3.1%. It's hard to tell in current conditions how much to attribute to parts and materials shortages and how much to demand from the report, but the NACM data suggest a large portion is likely due to lower demand."

Manufacturing Sector (seasonally adjusted)	**Dec '21**	**Jan '22**	**Feb '22**	**Mar '22**	**Apr '22**	**May '22**	**Jun '22**	**Jul '22**	**Aug '22**	**Sep '22**	**Oct '22**	**Nov '22**	**Dec '22**
Sales	76.3	72.8	73.1	74.1	73.6	71.1	64.9	61.7	52.9	61.4	52.8	54.0	53.5
New credit applications	62.1	60.2	63.4	65.9	66.7	62.8	62.5	57.7	57.0	58.4	57.5	56.8	51.3
Dollar collections	64.4	64.0	62.3	66.4	63.4	64.6	61.6	58.8	54.6	64.1	51.8	56.7	59.2
Amount of credit extended	70.2	67.6	68.2	66.5	70.6	70.8	67.1	65.4	59.4	65.0	58.3	57.9	54.3
Index of favorable factors	**68.2**	**66.2**	**66.7**	**68.2**	**68.6**	**67.3**	**64.0**	**60.9**	**56.0**	**62.2**	**55.1**	**56.3**	**54.6**
Rejections of credit applications	52.1	51.2	52.6	51.7	51.8	50.4	50.0	51.4	48.1	52.7	53.4	51.5	53.0
Accounts placed for collection	54.5	50.3	53.6	51.9	50.9	49.9	49.9	49.3	50.1	51.5	49.1	47.1	50.0
Disputes	48.4	47.7	47.9	45.8	48.6	48.9	48.7	47.2	47.1	47.2	49.5	47.3	47.9
Dollar amount beyond terms	54.6	55.2	50.7	51.4	57.8	46.9	50.7	46.7	43.2	51.8	46.8	48.5	46.6
Dollar amount of customer deductions	47.8	47.0	48.3	46.5	50.0	48.0	49.0	48.4	47.4	47.9	49.9	50.2	46.8
Filings for bankruptcies	56.4	55.7	56.4	54.6	54.9	57.1	55.7	54.0	56.4	54.2	53.0	52.8	51.3
Index of unfavorable factors	**52.3**	**51.2**	**51.6**	**50.3**	**52.3**	**50.2**	**50.7**	**49.5**	**48.7**	**50.9**	**50.3**	**49.6**	**49.3**
NACM Manufacturing CMI	**58.7**	**57.2**	**57.6**	**57.5**	**58.8**	**57.1**	**56.0**	**54.1**	**51.6**	**55.4**	**52.2**	**52.3**	**51.4**



Service Sector

The Service sector CMI was unchanged at 51.8 in December. The index of favorable factors improved by 1.2 points to 57.1 but ended the year down 13.6 points relative to last December. The unfavorable factors index posted a 0.8 point decline this month to 48.3, a level that is 2.9 points below that from a year ago. The unfavorable factors index remained within a 3-point range around 51.5 for 14 months, however, the December 2022 value is the first to break out of the range and caps a three month decline in the index.

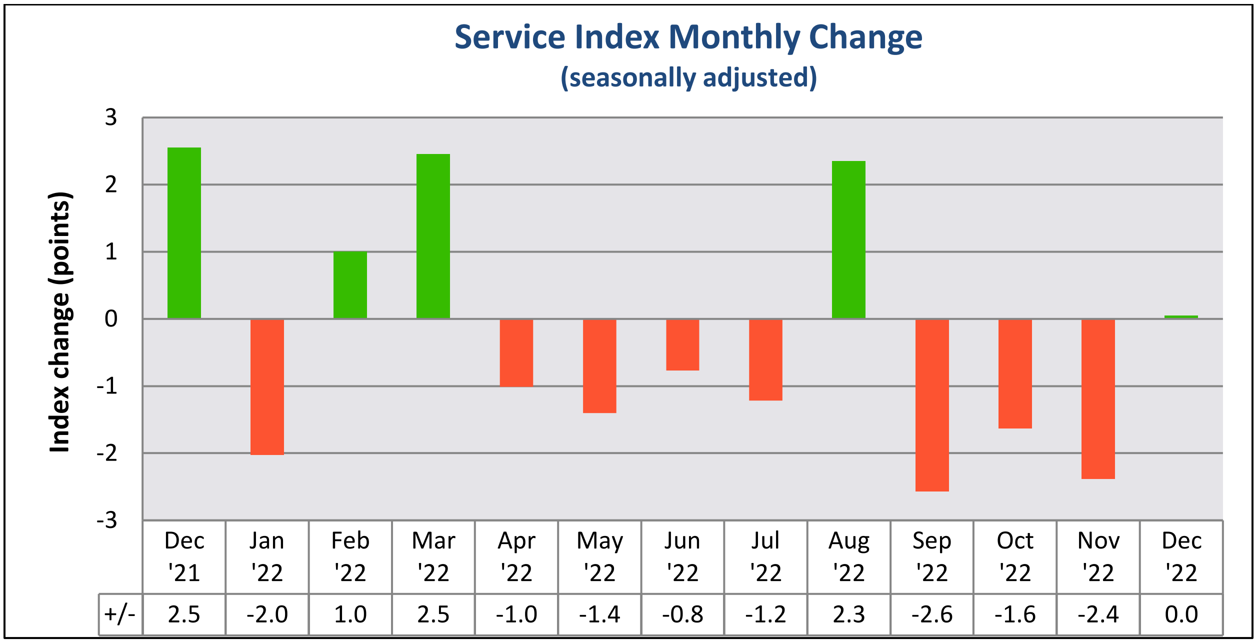
Three of the four favorable factor component indexes improved in the December survey. The new credit applications index rose 2.5 points to 59.6, ending the year down 13.4 points. The sales index improved 1.7 points to 56.7 but shed 17.3 points relative to December 2021. The dollar collections index added 1.5 points to record a value of 56.2, down 6.3 points over the last 12 months. The index for the amount of credit extended dropped 0.7 points to 55.9, a net loss of 17.4 points over the course of 2022.

Among service sector unfavorable factor indexes, only two factor indexes improved in the December survey. The dollar amount of customer deductions saw a 3.4-point improvement to hit a level of 52.0, a 1.2-point gain for the year. The disputes index also improved, marking a 1.0-point gain in December to 50.3 and a 2.3-point gain for the year. The accounts placed for collection index recorded the biggest decline, losing 4.1 points to sit at 42.7, a loss of 7.1 points in 2022. The dollar amount beyond terms index shed 1.9 points to 44.9 and a net loss of 7.2 points for the year. The index for rejections of credit applications dropped 1.6 points to end the year at 49.3, a 12-month loss of 2.1 points. The index for filings for bankruptcy also declined, losing 1.4 points in December and 4.4 points over the year to end at 50.6 points.

“The services sector CMI index showed resilience in December but ended the year down 7.2 points to a level of 51.8,” Cutts said. “To the extent that consumers moved toward services and away from goods purchases, it isn’t reflected in the CMI data. To have a net 17% of respondents report lower sales activity relative to December 2021 is not indicative of a rebound in services.

“Inflation is surely hurting consumers, but the rate of price increases is slowing markedly. Falling gasoline prices will give some relief immediately. According to the U.S. Energy Information Administration, the weekly national average price of gasoline peaked in June at $5.00 a gallon, but over the week ended December 19, the price had fallen to a new low for the year at $3.12 a gallon. But the stock and bond market losses over the year, along with increasing likelihood of a recession, even if mild, is weighing heavily on consumer spending. We have yet to see large impacts in employment data from the Fed’s monetary policy tightening, but surveys of consumers all agree that they are feeling less financially secure and are cutting back on discretionary spending.”

Service Sector (seasonally adjusted)	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22
Sales	73.9	69.7	69.6	80.0	75.7	72.1	68.2	69.9	73.2	66.9	57.6	55.0	56.7
New credit applications	73.0	60.9	64.7	71.6	67.4	66.7	65.8	61.7	67.9	64.3	60.5	57.1	59.6
Dollar collections	62.6	60.9	64.1	67.7	68.4	66.5	60.1	63.5	60.8	62.5	57.6	54.7	56.2
Amount of credit extended	73.3	66.7	69.3	71.9	73.6	69.9	68.4	69.7	71.2	67.6	59.1	56.6	55.9
Index of favorable factors	**70.7**	**64.6**	**66.9**	**72.8**	**71.3**	**68.8**	**65.6**	**66.2**	**68.2**	**65.3**	**58.7**	**55.9**	**57.1**
Rejections of credit applications	51.4	51.8	52.0	52.2	50.8	51.1	50.4	50.3	50.7	51.6	51.0	50.9	49.3
Accounts placed for collection	49.8	51.9	51.9	51.0	50.3	52.1	49.5	45.4	49.2	47.3	46.1	46.8	42.7
Disputes	48.0	49.2	49.3	50.3	49.6	49.3	50.1	49.4	51.2	49.1	51.2	49.3	50.3
Dollar amount beyond terms	52.1	51.8	51.0	51.0	50.6	47.4	51.5	46.6	49.6	45.6	51.2	46.8	44.9
Dollar amount of customer deductions	50.8	51.9	51.4	51.5	51.0	49.3	52.3	50.2	51.1	50.3	52.7	48.6	52.0
Filings for bankruptcies	55.0	54.6	56.4	56.9	56.5	55.6	56.0	53.4	58.7	52.8	54.5	52.0	50.6
Index of unfavorable factors	**51.2**	**51.9**	**52.0**	**52.2**	**51.5**	**50.8**	**51.6**	**49.2**	**51.8**	**49.4**	**51.1**	**49.1**	**48.3**
NACM Service CMI	**59.0**	**57.0**	**58.0**	**60.4**	**59.4**	**58.0**	**57.2**	**56.0**	**58.4**	**55.8**	**54.2**	**51.8**	**51.8**

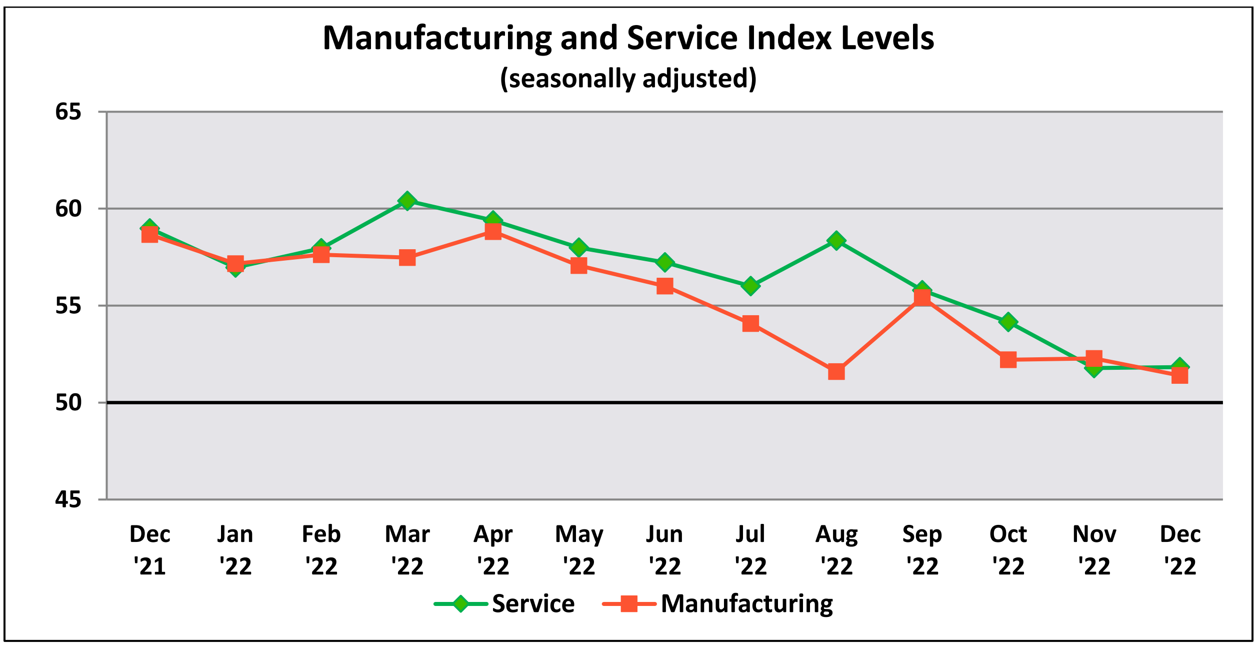

Service Index Monthly Change
(seasonally adjusted)
Index change (points)
3
2
1
0
-1
-2
-3
Dec '21
Jan '22
Feb '22
Mar '22
Apr '22
May '22
Jun '22
Jul '22
Aug '22
Sep '22
Oct '22
Nov '22
Dec '22
+/-
2.5
-2.0
1.0
2.5
-1.0
-1.4
-0.8
-1.2
2.3
-2.6
-1.6
-2.4
0.0

Manufacturing versus Services Sectors

The CMI indexes for service and manufacturing sectors remained close in this month's survey. The manufacturing index is once again lower than the service sector index, and both are at the lowest level recorded for the year.

"The CMI sector indexes are aligned in trend, declining to a new low for the year for the manufacturing index and maintaining the year's low for the service sector index," Cutts continued. "This puts to rest any doubt regarding the risk of recession—we are either in a recession now or about to be, from the perspective of business activity. From the NACM Member responses, business conditions are clearly slowing, and both the manufacturing and service sectors have seen massive declines in sales activity in recent months."

"NACM survey respondents are indicating rising delinquencies in their accounts receivables, but their comments suggest they are concentrated in the early stage, at 30 days or less, and hopefully we will see improvements in past due accounts once we cross into 2023. But early delinquencies now may easily translate into collections referrals down the road, so these trends are worth watching."



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

Source: National Association of Credit Management

Contacts: Annacaroline Caruso, 410-423-1837

Website: www.nacm.org

Twitter: @NACM_National

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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.

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