Report for January 2022

Issued January 31, 2022

National Association of Credit Management

Combined Sectors

Kicking off the new year, the National Association of Credit Management's seasonally adjusted combined Credit Managers' Index is continuing to reflect some of the best credit conditions of the past two decades. The year 2021 ended with the strongest December reading for the index since its inception.

The combined reading for the CMI fell to 56.9 in January from the 58.7 seen in December. The January index is about two-tenths of a point better than the average for September through November, a level that would be the best since the early years of the index absent the higher readings earlier in the pandemic period, said NACM Economist Amy Crews Cutts, Ph.D., CBE, based on her analysis of the January CMI. For reference, the January 2020 combined CMI was 55.3.

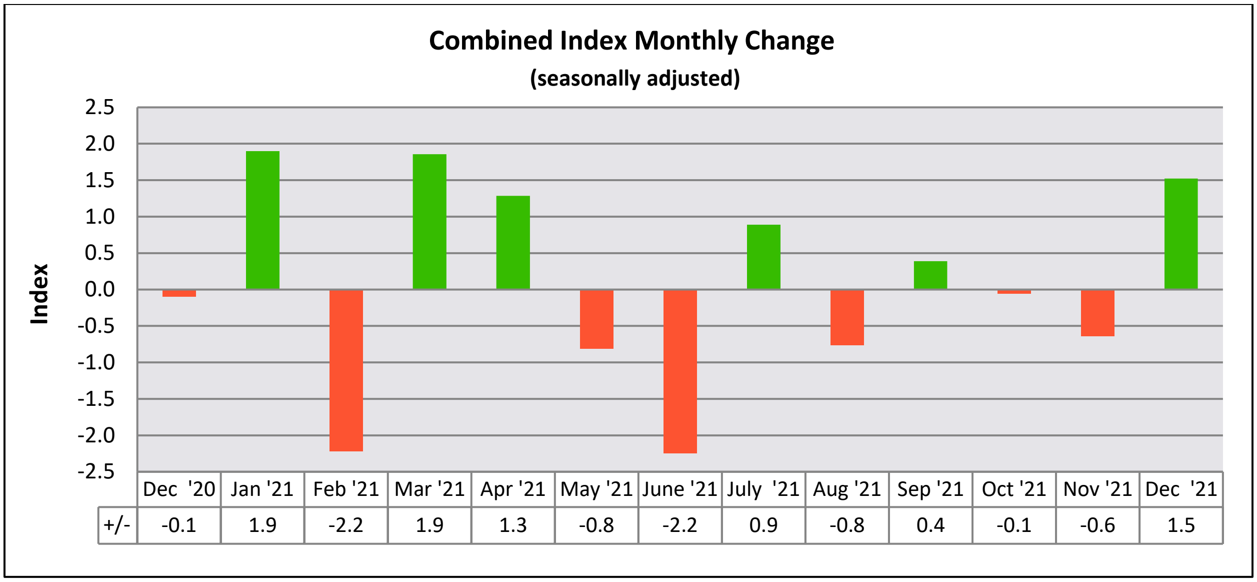
The monthly volatility in the index reflects global supply-chain and logistics issues that continue to plague commerce and the spike in COVID cases arising from the Omicron variant affecting labor supply. "None of these issues has easy or quick solutions, and thus 2022 is likely to be another wild ride for businesses," Crews Cutts, said. "Inflation is rearing its ugly head as insufficient supply is up against strong demand and those who are willing are paying high prices to get desired goods or services today.

"Producers are having to choose which items to deliver, and the choice seems to be tilting more and more to higher-margin, higher-priced lines, exacerbating inflation perceptions among consumers," Crews Cutts explained. "In addition, high demand globally is driving up input commodity prices, leading to pricing uncertainty in the delivery of finished goods. The Federal Reserve Board of Governors may feel compelled to reverse some of the monetary easing done in the early months of the pandemic, but this is unlikely to have a material impact on inflation or demand, at least initially. However, we may soon start to see effects from the ending of the child tax credit advance payments in December, one of the last large fiscal stimuli directed at households."

This robustness, and volatility, in the combined CMI is dominated by contributions from favorable factors in the index—which fell this month to 65.2 from 69.2. The readings for the unfavorable factors also declined, but by a smaller margin, from 56.9 from 57.8. Among favorable factors, the combined sales index remains high at 71.3, down from 75.1 at the end of the year. The index for new credit applications fell sharply in the January survey with a 7.2-point decline to 60.2, its lowest reading since May 2020. The index for dollar collections had a modest decline of 1.1 points to 62.4, in line with recent months. The index for amount of credit extended also shows a notable decline, falling 4.7 points to 67.0, just a bit below the autumnal average.

The combined CMI unfavorable factors index had a mixed showing in January, with some factor indexes improving and others declining, with a resulting small decline in January to 51.4 from 51.6. Noting that a value above 50 for a negative factor index means more than half of respondents are seeing a lower incidence in this part of their business, two indexes stand out due to values below 50 for the last four months: customer disputes and the dollar amount of customer deductions. These may be driven by delivery issues relating to supply-chain and labor supply issues (for example, goods not arriving on time or delayed services) driving clients to demand concessions. The January disputes index improved to 48.5, three-tenths of a point higher than in December, and the deductions index, at 49.5, rose to its highest level since September. Among the other unfavorable factors indexes, accounts placed for collections fell a full point to 51.1, filings for bankruptcy fell 0.6 points to 55.0, and rejections of credit applications fell 0.2 points to 51.5. A slightly stronger reading was reported in the dollar amount beyond terms index, now at 53.0 from 52.9 in December.

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Jan '21**	**Feb '21**	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**
Sales	73.7	71.2	80.6	76.8	74.4	69.9	75.5	65.9	67.8	67.4	67.4	75.1	71.3
New credit applications	65.1	65.9	68.5	67.6	65.9	65.1	66.3	63.0	63.6	62.2	62.8	67.4	60.1
Dollar collections	64.3	62.2	67.7	65.2	65.4	61.2	64.5	61.6	60.5	61.5	59.2	63.5	62.4
Amount of credit extended	67.6	67.0	70.1	71.1	70.1	68.8	68.4	68.5	67.2	67.5	67.6	71.7	67.0
Index of favorable factors	**67.7**	**66.6**	**71.7**	**70.2**	**69.0**	**66.3**	**68.7**	**64.8**	**64.8**	**64.7**	**64.3**	**69.4**	**65.2**
Rejections of credit applications	51.8	51.6	51.9	53.0	53.1	52.1	52.0	52.1	52.1	52.3	53.1	51.7	51.5
Accounts placed for collection	53.0	51.9	54.9	54.0	54.1	52.8	51.5	51.4	51.4	52.1	52.0	52.1	51.1
Disputes	51.0	50.7	50.6	51.2	53.5	49.9	49.1	49.6	51.2	48.3	48.6	48.2	48.5
Dollar amount beyond terms	56.5	53.0	58.6	60.9	56.5	51.9	57.0	51.4	50.8	49.7	47.2	52.9	53.0
Dollar amount of customer deductions	51.5	52.8	52.2	52.9	53.5	52.4	51.8	49.9	51.8	49.4	48.2	49.3	49.5
Filings for bankruptcies	52.9	55.3	56.3	57.5	58.9	58.4	56.8	57.2	57.0	56.4	55.8	55.6	55.0
Index of unfavorable factors	**52.8**	**52.6**	**54.1**	**54.9**	**54.9**	**52.9**	**53.0**	**52.0**	**52.4**	**51.4**	**50.8**	**51.6**	**51.4**
NACM Combined CMI	**58.8**	**58.2**	**61.1**	**61.0**	**60.6**	**58.3**	**59.3**	**57.1**	**57.3**	**56.7**	**56.2**	**58.7**	**56.9**



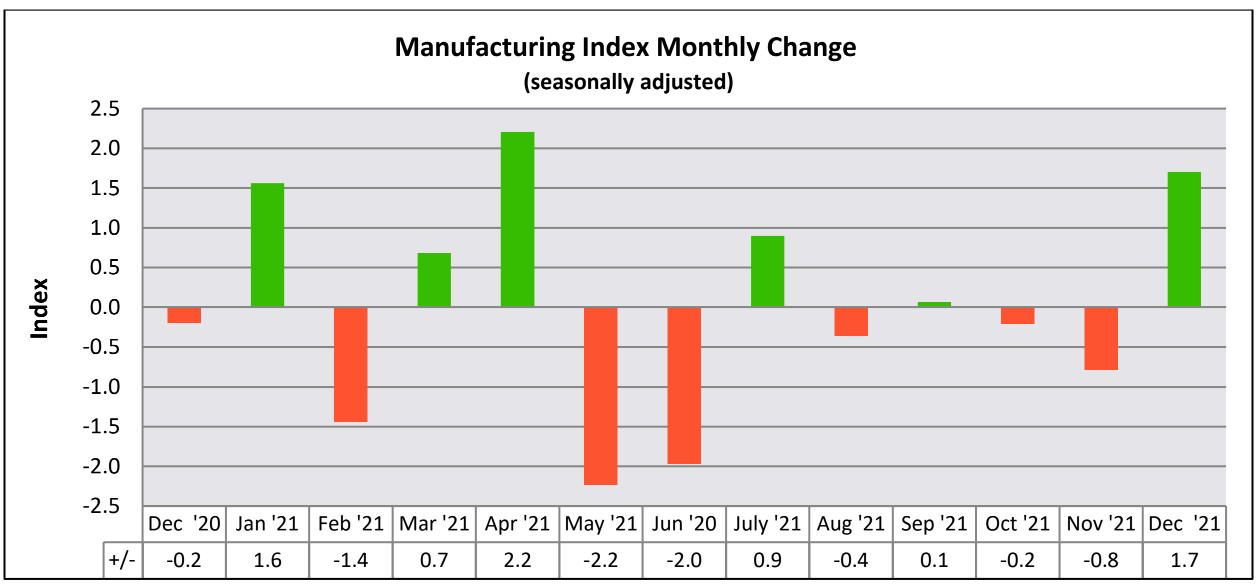
Manufacturing Sector

The manufacturing sector is enjoying robust demand for its products, and as a result, credit mangers are reporting strong performance in the CMI manufacturing indexes. The patterns of the index movements are the same as for the combined CMI, except with greater dispersion because the labor, logistics and supply-chain problems are most apparent in goods production. The CMI Manufacturing Index fell 1.5 points to 57.1 in January, just two-tenths of a point lower than the index average for the second half of 2021, and an historically strong level. The favorable factor index fell more than two points to 66.1, while the unfavorable index fell by one point to 51.1. Relative to January 2020, just before the start of the pandemic, the current CMI Manufacturing index is 1.8 points higher driven by improvements in the favorable factors index, which are 6.3 points better than two years ago.

The CMI manufacturing sales index had the largest swing over the past month among favorable factors, dropping from 76.4 in December to 72.9 in January, indicating that despite supply-chain issues and labor-supply shortages U.S. manufacturers are doing quite well. It is worth noting that the January 2022 sales index is almost 13 points higher than the January 2020 index when the supply chain was in full operation and labor was plentiful. The new credit applications index fell below 60 for the first time since June 2020 with January's 59.9, and the amount of credit extended index fell to 67.7 from 70.2. These two factors are complements, highlighting that many manufacturers have sufficient credit or can get what they need if they seek new credit. Rounding out the favorable factors indexes is dollar collections, which continue to come in strong with 64.1 percent of respondents indicating improving amounts. In December, the collections index was 64.5.

Unfavorable factors paint a less optimistic trend for manufacturers than the combined index. The CMI manufacturing dispute index and the dollar amount of customer deductions index not only came in below 50—at 47.6 and 46.9, respectively—but they also declined from December's values. Meanwhile the dollar amount beyond terms index rose from 53.9 to 54.9, its best level since July. The remaining unfavorable factors remained on the expansion side but fell back from December's highs. Accounts placed for collections came in at 50.3, the lowest level since September 2020, and filings for bankruptcy were reported at 55.6, down 0.8 from December.

Manufacturing Sector (seasonally adjusted)	**Jan '21**	**Feb '21**	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**
Sales	74.9	73.4	79.1	77.7	73.4	69.9	76.1	65.0	69.2	66.3	69.5	76.4	72.9
New credit applications	66.1	66.2	65.9	67.0	64.3	62.3	65.9	62.4	63.3	60.7	60.9	61.9	59.9
Dollar collections	66.8	63.2	67.0	66.4	65.4	62.2	66.0	63.7	60.1	61.3	61.8	64.5	64.1
Amount of credit extended	68.2	69.9	69.1	71.0	69.7	68.5	68.2	68.0	67.6	67.7	67.5	70.2	67.7
Index of favorable factors	**69.0**	**68.2**	**70.3**	**70.5**	**68.2**	**65.7**	**69.1**	**64.8**	**65.0**	**64.0**	**64.9**	**68.3**	**66.1**
Rejections of credit applications	51.5	51.4	53.3	53.9	53.4	53.4	53.4	52.9	52.4	52.2	53.1	52.0	51.1
Accounts placed for collection	54.2	52.5	55.8	54.2	53.8	53.5	51.8	53.4	54.4	53.9	53.8	54.5	50.3
Disputes	50.5	51.1	49.9	49.4	50.9	48.4	47.0	48.4	49.5	47.5	46.3	48.3	47.6
Dollar amount beyond terms	56.0	53.4	58.0	63.4	54.7	49.3	54.9	50.9	48.7	48.6	46.9	53.9	54.9
Dollar amount of customer deductions	51.5	51.9	50.7	52.5	51.0	52.2	50.1	49.5	49.8	48.0	44.6	47.7	46.8
Filings for bankruptcies	52.7	55.0	56.0	57.1	58.5	58.0	57.2	56.0	56.2	55.8	55.5	56.4	55.6
Index of unfavorable factors	**52.7**	**52.6**	**54.0**	**55.1**	**53.7**	**52.5**	**52.4**	**51.8**	**51.8**	**51.0**	**50.1**	**52.1**	**51.1**
NACM Manufacturing CMI	**59.2**	**58.8**	**60.5**	**61.3**	**59.5**	**57.8**	**59.1**	**57.0**	**57.1**	**56.2**	**56.0**	**58.6**	**57.1**



Service Sector

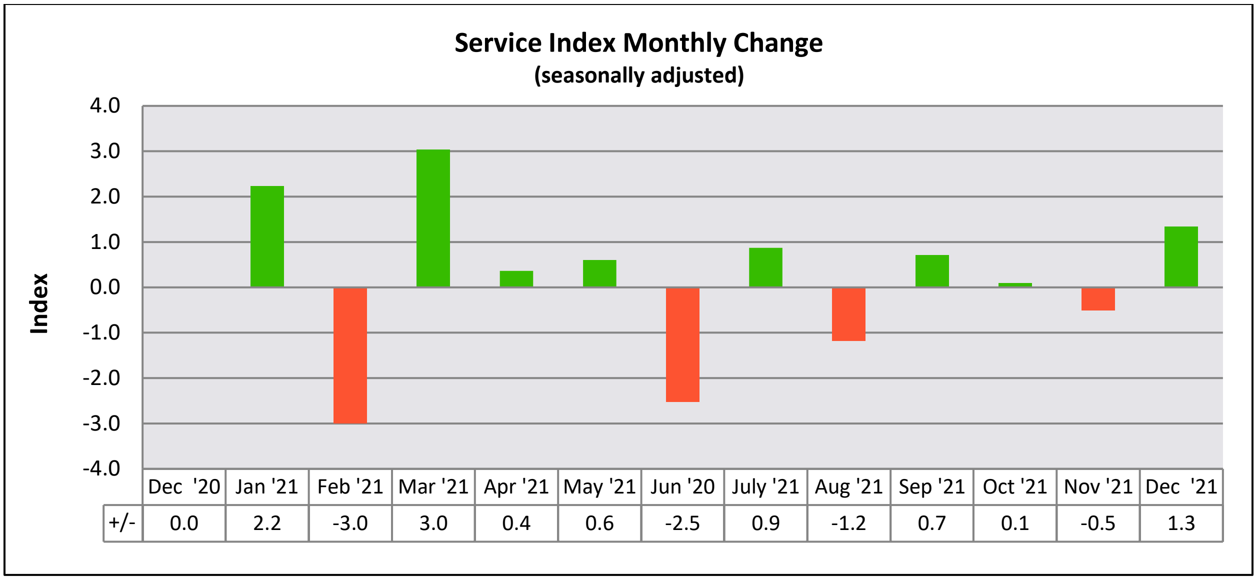
We can easily get caught up in the details of monthly movements in the indexes, failing to see the broader picture. In the case of the CMI service index, the big takeaway is that the level for January 2022 is nearly two points higher than the index average over the four years just prior to the pandemic. The CMI service index stands at 56.8, a decline from December's level of 58.9. The 2016-19 average for the index was 55.1. For all the pressures in the labor markets, especially in the service sector, the CMI is indicating little effect on the credit performance of service-based businesses.

The CMI service index of favorable factors declined from December's read by 6.3 points to 64.3, while the unfavorable factors index improved 0.7 points to 51.8. These are in line with the strong responses from the latter part of 2021 except for the very high level from December.

Among the components of the CMI Service index favorable factors, the new credit applications index at 60.5 had the largest swing, declining 12.4 points to the lowest level since July 2020. The amount of credit extended fell 6.8 points to 66.4, the lowest level since last February. The sales index came in at 69.8, down from December's level but better than all other months in the second half of 2021. The dollar collections index also fell, marking 60.7 for the month. Despite the large declines in the favorable components of the CMI service favorable factors, these are still very strong readings, indicative of the resilience of the sector.

On the unfavorable side for the CMI service index, the changes were mostly for the better. The index for rejections of credit applications rose 0.4 points to 51.8, and the index for dollar amount of customer deductions improved to 52.0 from the December level of 50.8. The disputes index remained in contraction territory but improved by more than a point to 49.1, while the accounts placed for collection index crossed back over to the expansion side at 51.9. Two components declined by 0.4 points in January, dollar amounts beyond terms to 51.5 and filings for bankruptcies to 54.4.

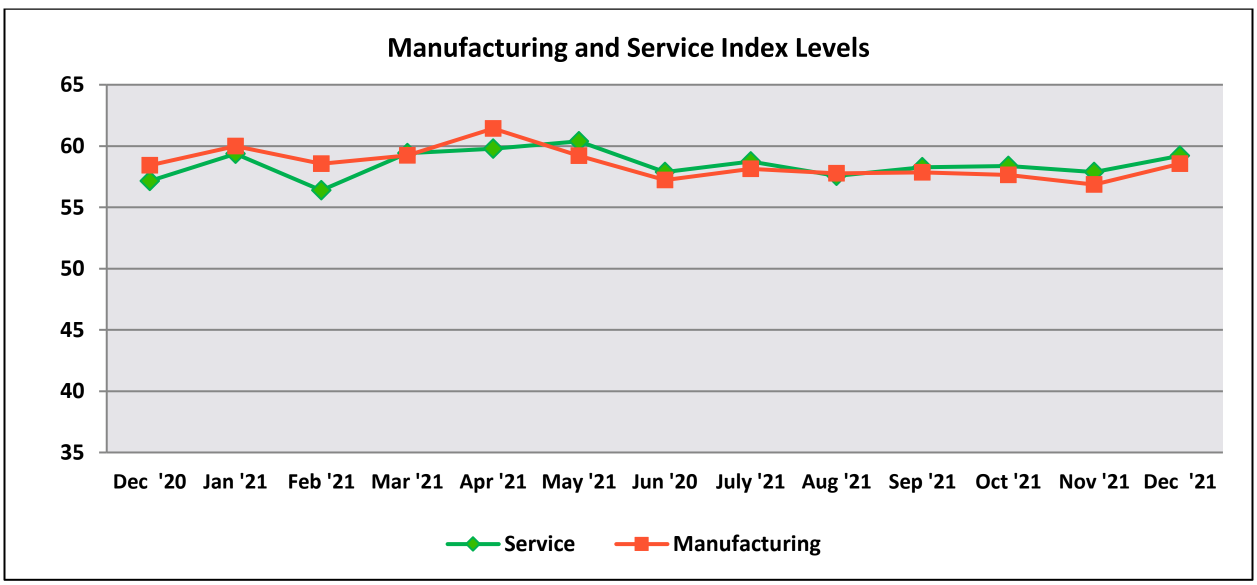
Service Sector **(seasonally adjusted)**	**Jan '21**	**Feb '21**	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**
Sales	72.4	69.0	82.2	76.0	75.5	70.0	74.9	66.8	66.3	68.5	65.4	73.9	69.8
New credit applications	64.8	65.3	70.9	68.1	67.4	68.0	66.6	63.6	63.9	63.6	64.8	72.9	60.5
Dollar collections	61.9	61.0	68.3	64.0	65.7	60.2	63.1	59.4	60.8	61.5	56.7	62.4	60.7
Amount of credit extended	67.1	64.0	71.2	71.2	70.6	69.0	68.5	69.1	66.9	67.4	67.8	73.2	66.4
Index of favorable factors	**66.5**	**64.9**	**73.1**	**69.8**	**69.8**	**66.8**	**68.3**	**64.7**	**64.5**	**65.3**	**63.6**	**70.6**	**64.3**
Rejections of credit applications	52.2	51.7	50.5	52.2	52.8	50.9	50.6	51.4	51.9	52.4	53.1	51.4	51.8
Accounts placed for collection	51.8	51.4	54.1	53.9	54.3	52.2	51.0	49.4	48.5	50.3	50.1	49.8	51.9
Disputes	51.4	50.3	51.1	53.2	56.1	51.9	51.3	50.8	52.8	49.1	50.8	48.0	49.1
Dollar amount beyond terms	57.6	52.3	59.0	58.5	58.4	54.1	59.0	52.2	52.8	50.7	47.5	51.9	51.5
Dollar amount of customer deductions	51.3	53.7	53.8	53.3	56.1	52.6	53.6	50.4	53.8	50.8	51.7	50.8	52.0
Filings for bankruptcies	53.2	55.5	56.6	58.0	59.3	58.8	56.4	58.4	57.8	57.0	56.1	54.8	54.4
Index of unfavorable factors	**52.9**	**52.5**	**54.2**	**54.8**	**56.2**	**53.4**	**53.7**	**52.1**	**52.9**	**51.7**	**51.6**	**51.1**	**51.8**
NACM Service CMI	**58.4**	**57.4**	**61.8**	**60.8**	**61.6**	**58.8**	**59.5**	**57.1**	**57.5**	**57.1**	**56.4**	**58.9**	**56.8**



	Dec '20	Jan '21	Feb '21	Mar '21	Apr '21	May '21	Jun '20	July '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21
+/-	0.0	2.2	-3.0	3.0	0.4	0.6	-2.5	0.9	-1.2	0.7	0.1	-0.5	1.3

January 2022 versus January 2021

There is considerable strength showing in the CMI indexes though there are modest declines in most components relative to a year ago. While there is no end in sight for supply-chain issues, and labor shortages will continue as well, the CMI is demonstrating that these impediments are coming from tremendous strength in the economy.



Methodology Appendix

CMI data has been collected and tabulated monthly since February 2002. The index, published since February 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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