Report for February 2022

Issued February 28, 2022

National Association of Credit Management

Combined Sectors

The National Association of Credit Management's seasonally adjusted Credit Managers' Index (CMI) for February rose as the effects from the Omicron surge of COVID cases started to diminish, but many respondents indicated that supply chain issues were having a negative impact on their businesses with no end in sight. They also cited hoarding among some buyers, taking on more inventory than needed to ensure against possible supply issues in the future, which was hampering efforts to fulfill orders for other customers, said NACM Economist Amy Crews Cutts.

"Inflation also is remaining stubbornly high globally," Cutts said. "Whether it's prices for inputs to production like commodity prices, or the cost of shipping, or labor and capital inputs, businesses and their customers are all feeling it. This is not an easy problem to solve, and clearly economists and central bankers are considering many possible solutions. But then we have continued shocks to the system, like the rising tensions in the Ukraine over a possible military incursion by Russia that have led to a run up in crude oil prices. Or the trucker strike in Canada that stopped border traffic at the Ambassador Bridge that will have lasting effects on transportation and production on both sides, in addition to the inflationary forces already in place. Our CMI respondents also are indicating that they are having to raise prices.

"Despite these issues, the U.S. economy is expected to grow about 3.5% in 2022, which is an above average rate for real GDP. Responses in the CMI support a strong growth outlook, with consistently robust index levels. But with anticipated action by the Fed in March to increase interest rates and the geopolitical tensions rising, we will be looking to the CMI to indicate impacts on the economy.

For example, now that the revised payroll employment figures have been released by the U.S. Bureau of Labor Statistics, the CMI values from last summer make more sense, or rather the employment numbers are less confusing. The CMI indicated then that the economy was not as hot as we thought given the high jobs numbers. The employment revisions took out 1.7 million jobs from the second quarter counts, leaving a net gain that was half the original estimate. That the CMI indicated this good-but-not-great economic situation in real time shows just how valuable this index is."

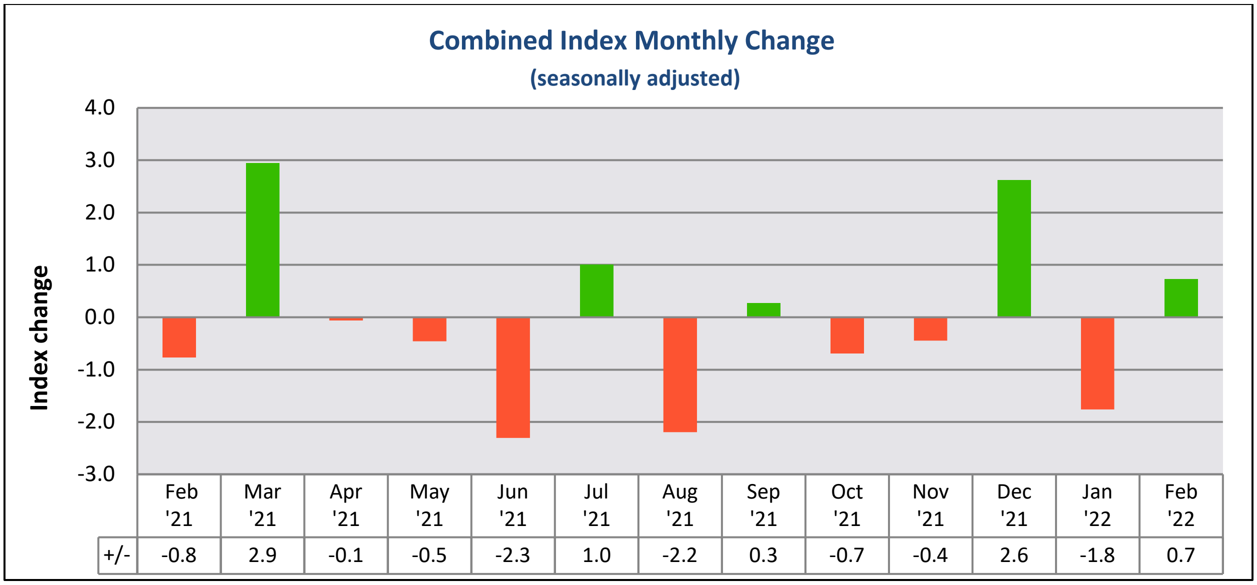
The combined February CMI rose by 0.7 points to an index value of 57.8. The gain is led by the rise in the index for favorable factors from 65.4 to 66.8, especially new credit applications which rose by 3.4 points to 64.0. Notably every factor in the combined CMI rose over the month except for the dollar amount beyond terms, which fell to 50.9 from 53.5 last month. Two factors remain in contraction territory, disputes with an index value of 48.9 and the dollar amount of customer deductions at 49.9, but both are higher than they were in January.

Among the other elements in the index of favorable factors, the amount of credit extended rose 1.5 points to 68.7, dollar collections gained 0.7 points pushing the index to 63.2, and sales grew 0.1 points hitting 71.3. Some respondents noted that while orders were remaining strong, actual sales were weaker than they'd like because of their inability to fulfill orders on time due to materials shortages or transportation problems.

The index of unfavorable factors improved 0.3 points to 51.8, the highest reading since September. Accounts placed for collection advanced 1.6 points to 52.7, the best reading since last June. Filings for bankruptcies improved to 56.4 from 55.2 and rejections of credit applications to 52.3 from 51.5.

"The rise in new credit applications (demand) and the reduction in denials of credit applications (supply) indicate good financial conditions for businesses," Cutts said. "At the same time, we are seeing the effects of supply constraints in production and transportation through the back end, as customers are disputing more accounts, demanding higher deductions and are less timely in payment. Hopefully these constraints will diminish over coming months."

Combined Manufacturing and Service Sectors (seasonally adjusted)	**Feb '21**	**Mar '21**	**Apr '21**	**May '21**	**Jun '21**	**Jul '21**	**Aug '21**	**Sep '21**	**Oct '21**	**Nov '21**	**Dec '21**	**Jan '22**	**Feb '22**
Sales	72.1	80.3	76.7	74.3	69.9	75.4	66.0	67.8	67.4	67.4	75.1	71.2	71.3
New credit applications	65.5	68.4	67.5	65.8	65.1	66.2	63.0	63.5	62.1	62.9	67.6	60.6	64.0
Dollar collections	63.0	67.6	65.2	65.4	61.2	64.4	61.5	60.4	61.3	59.2	63.5	62.5	63.2
Amount of credit extended	66.7	70.1	71.1	70.2	68.8	68.4	68.6	67.2	67.6	67.7	71.7	67.2	68.7
Index of favorable factors	**66.8**	**71.6**	**70.1**	**68.9**	**66.2**	**68.6**	**64.8**	**64.7**	**64.6**	**64.3**	**69.5**	**65.4**	**66.8**
Rejections of credit applications	51.4	51.9	53.0	53.1	52.1	52.0	52.2	52.1	52.3	53.2	51.7	51.5	52.3
Accounts placed for collection	51.9	55.0	54.1	54.1	52.8	51.5	51.4	51.4	52.1	52.0	52.1	51.1	52.7
Disputes	50.6	50.5	51.3	53.5	50.1	49.1	49.6	51.2	48.3	48.6	48.2	48.4	48.6
Dollar amount beyond terms	52.7	58.5	60.9	56.7	51.8	56.9	51.4	50.6	49.5	47.1	53.3	53.5	50.9
Dollar amount of customer deductions	52.6	52.2	52.9	53.6	52.4	51.8	49.9	51.9	49.4	48.2	49.3	49.5	49.9
Filings for bankruptcies	54.8	56.3	57.5	58.9	58.5	56.9	57.3	57.1	56.4	55.9	55.7	55.2	56.4
Index of unfavorable factors	**52.3**	**54.1**	**55.0**	**55.0**	**52.9**	**53.0**	**51.9**	**52.4**	**51.3**	**50.8**	**51.7**	**51.5**	**51.8**
NACM Combined CMI	**58.1**	**61.1**	**61.0**	**60.6**	**58.3**	**59.3**	**57.1**	**57.3**	**56.6**	**56.2**	**58.8**	**57.1**	**57.8**



Manufacturing Sector

The Manufacturing CMI rose 0.5 points to 57.6 led by improvements in new credit applications, up 3.2 points, among favorable factors and accounts placed for collections, up 3.3 points, among unfavorable factors. Headwinds in the February 2022 manufacturing CMI come from dollar collections, a favorable factor, which dropped 1.7 points to 62.3 and dollar amount beyond terms, an unfavorable factor, which declined from 55.2 to 50.7. On balance, the favorable factors index rose 0.6 points and the unfavorable factors index improved by 0.4 points.

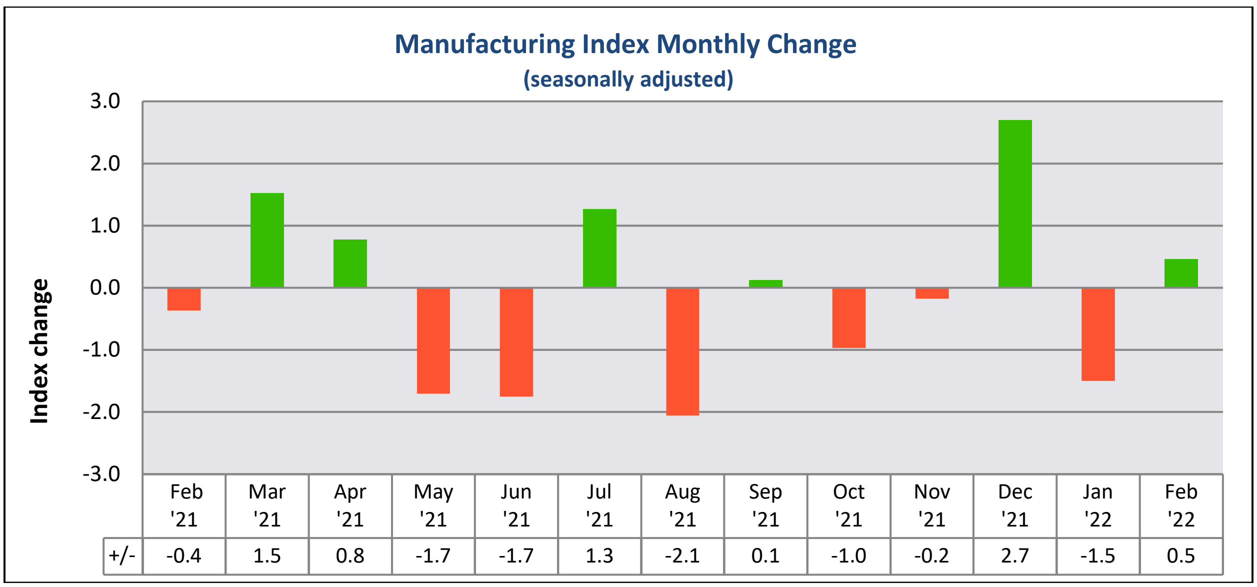
The remaining favorable factor indexes showed gains on top of already strong values. The amount of credit extended gained 0.6 points to 68.2 and sales rose 0.3 points to 73.1.

Rounding out the unfavorable factor side of the manufacturing CMI, disputes and the dollar amount of customer deductions remained below the 50-point mark denoting the boundary between contraction and expansion though both showed improvement in February. Disputes rose 0.2 points to 47.9 and the dollar amount of customer deductions hit 48.3, on a gain of 1.3 points. Rejections of credit applications improved 1.4 points to 52.6 and filings for bankruptcies advanced 0.7 points to 56.4.

“The CMI Manufacturing indexes show greater variance across factors than the Combined CMI because everything that is happening in the economy, from labor issues, supply problems, interest rates, etc. is hitting the manufacturing sector directly,” Cutts said. “Yet the credit performance of the sector is demonstrating remarkable resilience.”

Manufacturing Sector (seasonally adjusted)	Feb '21	Mar '21	Apr '21	May '21	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22
Sales	73.9	78.8	77.5	73.4	70.0	76.2	65.2	69.2	66.3	69.4	76.3	72.78	73.1
New credit applications	65.7	65.9	67.0	64.3	62.3	65.9	62.4	63.3	60.7	60.9	62.1	60.23	63.4
Dollar collections	65.1	66.9	66.4	65.3	62.1	65.6	63.5	60.0	61.1	61.6	64.4	63.98	62.3

Amount of credit extended	69.9	69.1	71.0	69.7	68.6	68.3	68.0	67.6	67.8	67.5	70.2	67.63	68.2
Index of favorable factors	**68.6**	**70.2**	**70.5**	**68.2**	**65.7**	**69.0**	**64.8**	**65.0**	**64.0**	**64.9**	**68.2**	**66.2**	**66.7**
Rejections of credit applications	51.3	53.3	53.9	53.4	53.4	53.4	52.9	52.4	52.2	53.1	52.1	51.2	52.6
Accounts placed for collection	52.5	55.9	54.2	53.8	53.5	51.9	53.4	54.4	53.9	53.8	54.5	50.3	53.6
Disputes	50.9	49.9	49.4	50.9	48.3	47.1	48.3	49.7	47.4	46.4	48.4	47.7	47.9
Dollar amount beyond terms	53.7	58.0	63.3	54.9	49.5	54.8	50.6	48.4	48.2	46.7	54.6	55.2	50.7
Dollar amount of customer deductions	51.6	50.7	52.5	51.0	52.2	50.0	49.4	50.0	48.0	44.6	47.8	47.0	48.3
Filings for bankruptcies	54.7	56.0	57.0	58.5	58.0	57.3	56.1	56.3	55.8	55.6	56.4	55.7	56.4
Index of unfavorable factors	**52.5**	**54.0**	**55.1**	**53.8**	**52.5**	**52.4**	**51.8**	**51.8**	**50.9**	**50.0**	**52.3**	**51.2**	**51.6**
NACM Manufacturing CMI	**58.9**	**60.5**	**61.2**	**59.5**	**57.8**	**59.0**	**57.0**	**57.1**	**56.1**	**56.0**	**58.7**	**57.2**	**57.6**



Service Sector

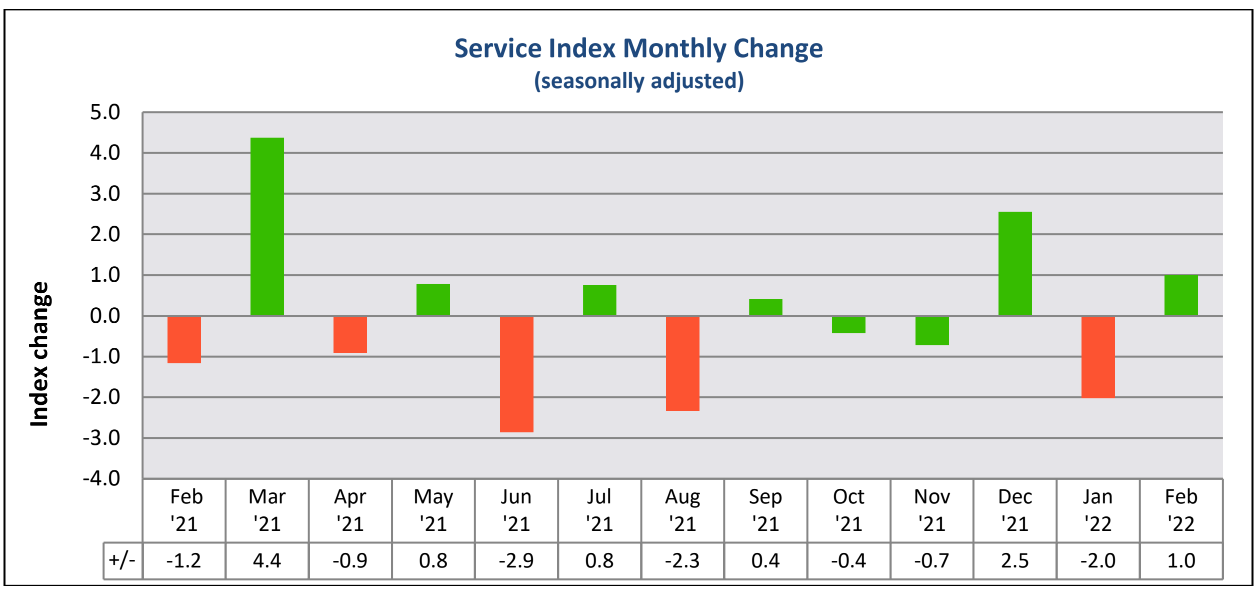
The service sector's combined index rose a full point to 58.0, a result driven by a 2.3-point gain in the index of favorable factors. The index of unfavorable factors improved 0.1 points to an even 52.0.

The sales index fell a tenth of a point to 69.6, but all other favorable factors showed large gains. New credit applications jumped 3.7 points to 64.7, dollar collections 3.1 points to 64.1 and the amount of credit extended 2.5 points to 69.3. Moreover, dollar collections are up over 4.1 points from a year ago and the index for amount of credit extended has expanded 5.8 points.

Among unfavorable factors in the services CMI, rejections of credit applications (+0.2 points), the number of accounts placed for collections (0.0 points) and disputes (+0.1 points) all show little to no gain for the month, like the reading for the overall unfavorable factor group. However, the dollar amount beyond terms fell for a second month, reaching 51.0 on a loss of 0.8 points, and the dollar amount of customer deductions lost 0.5 points to stand at 51.4 points. The improvement in accounts filing for bankruptcy balanced out these losses with a gain of 1.8 points pushing the index to 56.4.

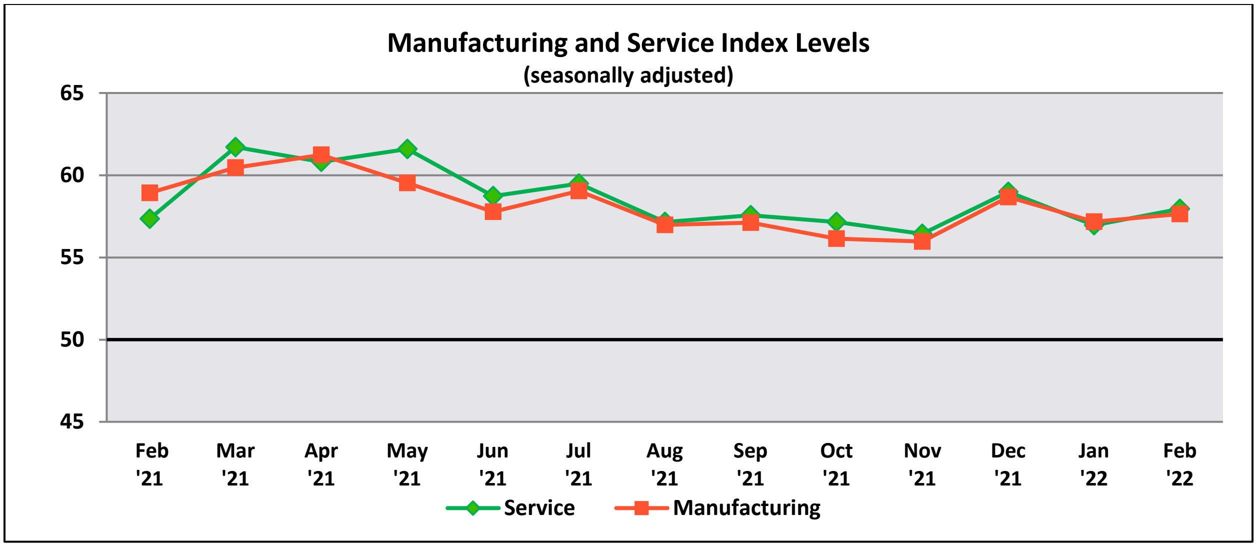
“The services CMI is showing robustness on the favorable factor side and stability on the unfavorable factors,” Cutts said. “Like we saw with manufacturing respondents, service-based businesses are feeling the pain of unhappy customers as they demand more deductions and fewer are paying timely. Labor shortages, especially of experienced and enthusiastic workers, are putting pressure on service providers to meet customer expectations.”

Service Sector (seasonally adjusted)	Feb '21	Mar '21	Apr '21	May '21	Jun '21	Jul '21	Aug '21	Sep '21	Oct '21	Nov '21	Dec '21	Jan '22	Feb '22
Sales	70.2	81.9	75.9	75.3	69.8	74.6	66.8	66.4	68.5	65.3	73.9	69.7	69.6
New credit applications	65.4	70.8	68.0	67.3	67.9	66.6	63.5	63.8	63.5	64.8	73.0	60.9	64.7
Dollar collections	61.0	68.2	63.9	65.6	60.2	63.1	59.4	60.8	61.5	56.7	62.6	60.9	64.1
Amount of credit extended	63.5	71.2	71.3	70.6	69.0	68.5	69.1	66.9	67.4	67.9	73.3	66.7	69.3
Index of favorable factors	**65.1**	**73.0**	**69.8**	**69.7**	**66.7**	**68.2**	**64.7**	**64.5**	**65.2**	**63.7**	**70.7**	**64.6**	**66.9**
Rejections of credit applications	51.5	50.5	52.2	52.8	50.9	50.6	51.4	51.9	52.5	53.2	51.4	51.8	52.0
Accounts placed for collection	51.3	54.0	53.9	54.3	52.2	51.0	49.4	48.5	50.3	50.2	49.8	51.9	51.9
Disputes	50.3	51.1	53.2	56.1	51.8	51.2	50.8	52.8	49.1	50.9	48.0	49.2	49.3
Dollar amount beyond terms	51.7	59.0	58.5	58.4	54.1	59.0	52.2	52.8	50.8	47.6	52.1	51.8	51.0
Dollar amount of customer deductions	53.6	53.8	53.3	56.1	52.6	53.7	50.4	53.9	50.9	51.7	50.8	51.9	51.4
Filings for bankruptcies	54.8	56.7	58.0	59.4	58.9	56.5	58.4	57.8	57.0	56.1	55.0	54.6	56.4
Index of unfavorable factors	**52.2**	**54.2**	**54.8**	**56.2**	**53.4**	**53.7**	**52.1**	**53.0**	**51.8**	**51.6**	**51.2**	**51.9**	**52.0**
NACM Service CMI	**57.3**	**61.7**	**60.8**	**61.6**	**58.7**	**59.5**	**57.2**	**57.6**	**57.2**	**56.4**	**59.0**	**57.0**	**58.0**



February 2022 versus February 2021

Over the past four months, the service and manufacturing sector CMI indexes have converged both in trend and levels. A year ago there was a a 1.6-point difference between them with the services index lagging manufacturing. For most of the rest of the year the services sector had better credit performance but importantly both indexes indicated continued solid credit condtions with values well above 50 points. The decline in the indices from June through November coincides with the downward revisions in the payroll employment report.



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:

Number of "higher" responses + ½ × number of "same" responses

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.

NACM
National Association of Credit Management

Source: National Association of Credit Management

Contacts: Diana Mota, 410-423-1837

Website: www.nacm.org

Twitter: NACM_National