

NACM Credit Manager's Index

Report for April 2003

Issued May 1, 2003
 National Association of Credit Management
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April '03	CMI-Total: 57.3	CMI-Manufacturing: 58.0	CMI-Service: 56.7
March '03	CMI-Total: 56.2	CMI-Manufacturing: 57.8	CMI-Service: 54.6
% Change	2.0%	0.3%	3.8%

The NACM Credit Manager's Index (CMI) for April continues to show improvement in the nation's business activity, increasing from 56.2% to 57.3%. The manufacturing sector recorded 20-basis points (0.3%) improvement over March's performance, and now stands at 58.0%. However, the real strength in April was in the service sector, which realized a gain of 210-basis points (3.8%) relative to March. Both sectors' readings are at their highest levels since May/June 2002. The manufacturing sector has strengthened for three consecutive months, whereas the service sector has shown four straight months of improvement. Although the manufacturing sector only shows marginal gain relative to the March reading, it is important to note that this sector maintained the significant increase recorded last month when the index jumped from February's level of 52.1% to 57.8% in March.

See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

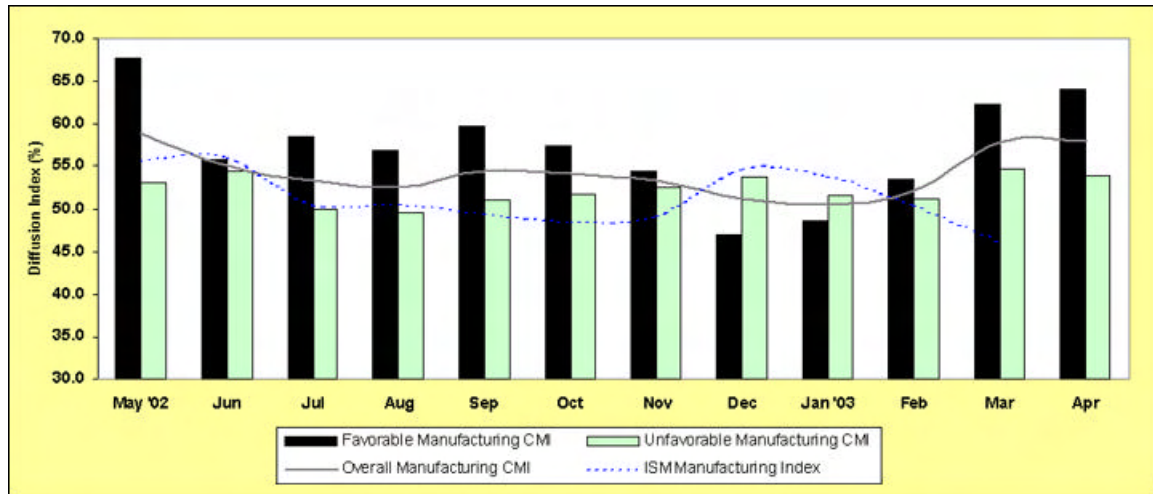
There continue to be encouraging signs of a sustained recovery in the manufacturing sector. Although April's performance, relative to March, was not as strong as March's performance relative to February, month-over-month improvement continues. Each favorable factor is better than the prior month's level. Sales continue to show improvement, and given the continuing strength in new credit applications and amount of credit extended, May's performance for these favorable factors should continue to indicate economic growth.

Manufacturing Sector

(Not Seasonally Adjusted)

	May '02	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr
Sales	74.4	53.4	59.1	56.7	63.5	55.0	53.4	42.4	49.4	55.2	67.0	67.3
New credit applications	57.6	50.0	40.9	52.5	54.8	50.0	48.7	42.9	43.6	55.1	55.3	58.2
Dollar collections	69.0	62.1	71.2	62.3	56.5	63.6	57.9	50.0	52.2	45.6	65.3	66.4
Amount of credit extended	69.4	57.8	62.5	55.9	64.4	60.9	58.0	52.3	49.6	58.4	62.2	64.2
Index of favorable factors	67.6	55.8	58.4	56.9	59.8	57.4	54.5	46.9	48.7	53.6	62.5	64.0
Rejection of credit applications	54.4	50.0	57.6	50.8	55.8	50.9	53.4	53.3	54.3	50.7	51.8	52.3
Accounts placed for collections	51.9	57.9	59.4	51.7	51.9	54.7	54.8	57.7	53.2	53.3	55.6	56.3
Disputes	48.1	52.6	32.8	51.7	49.0	49.6	49.0	54.6	48.5	47.6	53.3	50.2
Dollar amount beyond terms	60.1	56.0	51.6	49.2	43.3	51.0	54.4	52.0	48.5	51.5	57.5	58.0
Dollar amount of customer deductions	49.4	48.3	43.8	46.6	52.9	51.2	50.2	50.3	48.5	48.4	52.0	49.8
Filings for bankruptcies	54.5	62.1	54.7	47.9	52.9	53.6	54.0	55.4	56.9	55.5	58.1	57.0
Index of unfavorable factors	53.1	54.5	50.0	49.7	51.0	51.8	52.6	53.9	51.7	51.2	54.7	53.9
NACM Manufacturing CMI	58.9	55.0	53.4	52.5	54.5	54.1	53.4	51.1	50.5	52.1	57.8	58.0
ISM Manufacturing PMI	55.7	56.2	50.5	50.5	49.5	48.5	49.2	54.7	53.9	50.5	46.2	

With respect to the unfavorable factors, the index gave up 80 basis points in April. A review of the six factors comprising the unfavorable index reveals three improved while three deteriorated. The major reason for the net loss was caused by the increase in customer disputes about invoices—as evidenced by the erosion in the disputes index from 53.3% to 50.2%. The impact of this change on the unfavorable index was to lower it by 52 basis points. Overall, the unfavorable index is still at an attractive level when compared to prior months.



The above graph provides a visual perspective of the manufacturing sector. Favorable factors have made strong improvements from their December lows. When you couple this performance with the unfavorable factors sustaining readings above 50%—which are positive, as discussed in the methodology section—you have strength in the manufacturing sector that hasn't been seen since May 2002.

SERVICE SECTOR RESULTS

For a second consecutive month, the economy's service sector has realized significant improvements. Seven of 10 indicators improved in April. The strongest gains were for sales and amount of credit extended. Coupling these improvements with the gain exhibited by new credit applications, suggest that this sector will continue to show growth in May.

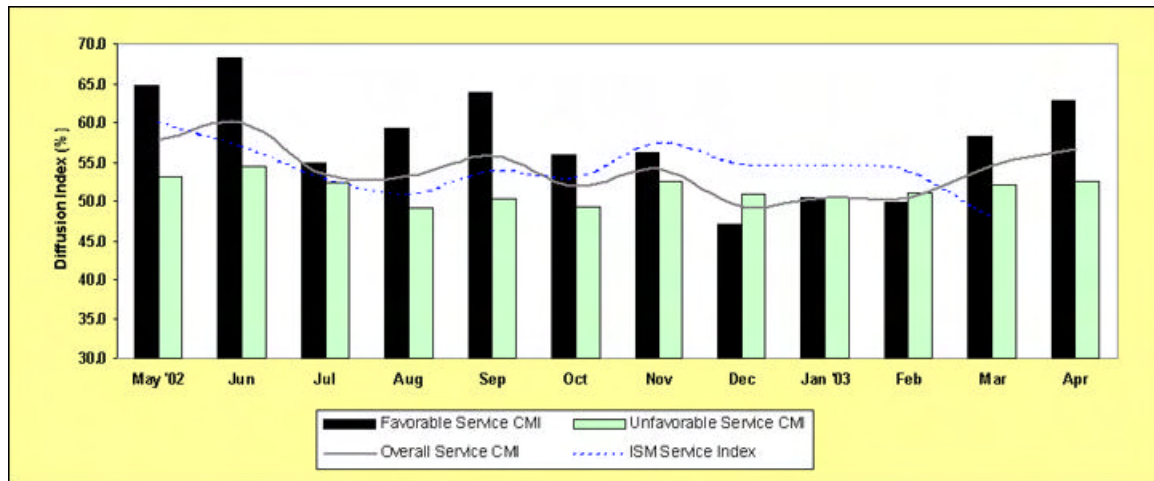
Service Sector

(Not Seasonally Adjusted)

	May '02	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr
Sales	75.0	70.5	50.0	59.7	58.5	55.6	54.6	41.9	48.7	47.0	57.5	66.6
New credit applications	46.5	57.7	41.7	52.2	61.7	52.8	51.8	40.3	47.3	50.6	55.9	58.9
Dollar collections	66.7	74.2	66.0	67.4	64.9	55.4	59.1	52.8	52.3	47.6	60.6	59.6
Amount of credit extended	70.9	70.5	62.0	58.3	70.2	59.6	59.4	53.3	53.4	54.1	59.1	66.6
Index of favorable factors	64.8	68.2	54.9	59.4	63.8	55.9	56.2	47.1	50.4	49.8	58.3	62.9
Rejection of credit applications	48.2	50.8	46.0	52.7	51.1	49.2	50.8	55.2	53.2	51.6	50.2	50.6
Accounts placed for collections	46.5	55.3	50.0	49.5	50.0	48.3	54.7	48.4	50.0	50.0	53.3	50.6
Disputes	53.6	53.9	56.0	49.5	47.9	48.3	52.9	51.4	51.8	50.2	50.9	52.3
Dollar amount beyond terms	61.4	53.0	54.0	47.3	50.0	47.4	52.0	48.0	43.0	50.0	50.6	54.2
Dollar amount of customer deductions	52.7	54.7	52.1	48.3	51.1	50.8	51.1	51.9	51.8	49.8	52.4	52.7
Filings for bankruptcies	56.4	59.1	56.0	47.3	52.1	52.0	53.8	50.5	53.4	54.7	55.2	54.4
Index of unfavorable factors	53.1	54.5	52.4	49.1	50.4	49.3	52.6	50.9	50.5	51.1	52.1	52.5
NACM Service CMI	57.8	60.0	53.4	53.2	55.8	51.9	54.0	49.4	50.5	50.6	54.6	56.7
ISM Service PMI	60.1	57.2	53.1	50.9	53.9	53.1	57.4	54.7	54.5	53.9	47.9	

Overall, the unfavorable indicators showed slight improvement in April. On the negative side, relative to March, there were a greater number of accounts placed with agencies for collection, and bankruptcy filings increased. However, in both cases, the 50% level was not broken. These results mean continuing improvement for these dimensions, albeit at a slower pace.

The following graph highlights the service sector's improvement during the past two months after relatively stable readings for the prior three months. It appears that the December/January readings represent the bottom as the service sector continues to grow.



COMBINED SECTORS

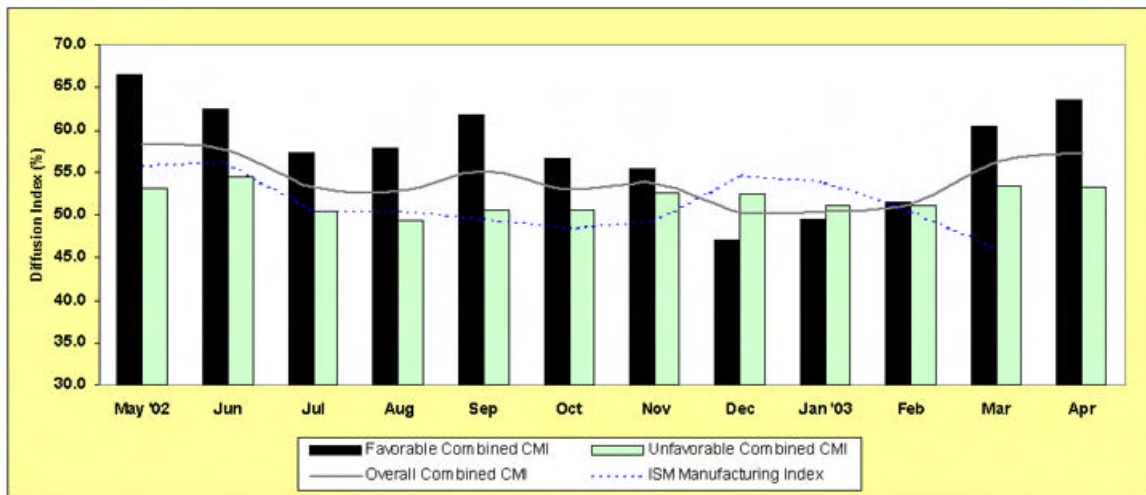
April's combined index of 57.3% is the highest reading since June 2002. More importantly, the combined CMI has recorded four consecutive months of growth. Most of this growth is a result of performance by the favorable factors—sales, credit applications, collections and credit extended. While these improvements have taken place, the unfavorable factors have remained relatively steady.

Manufacturing & Service Sectors

(Not Seasonally Adjusted)

	May '02	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr
Sales	74.6	62.5	55.2	58.0	61.1	55.3	54.0	42.2	49.1	50.9	62.2	67.0
New credit applications	52.9	54.1	41.2	52.4	58.1	51.4	50.3	41.7	45.3	52.7	55.6	58.5
Dollar collections	68.0	68.5	69.0	64.5	60.6	59.6	58.6	51.3	52.2	46.6	62.9	63.1
Amount of credit extended	70.0	64.5	64.0	56.9	67.2	60.3	58.7	52.8	51.3	56.2	60.6	65.4
Index of favorable factors	66.4	62.4	57.4	58.0	61.8	56.7	55.4	47.0	49.5	51.6	60.3	63.5
Rejection of credit applications	51.8	50.4	52.6	51.7	53.5	50.1	52.0	54.2	53.8	51.2	51.0	51.5
Accounts placed for collections	49.6	56.5	55.3	50.7	51.0	51.6	54.8	53.2	51.7	51.6	54.4	53.5
Disputes	50.4	53.3	43.0	50.7	48.5	48.9	51.0	53.1	50.0	48.9	52.1	51.2
Dollar amount beyond terms	60.7	54.4	50.9	48.3	46.5	49.2	53.2	50.1	46.0	50.7	54.0	56.1
Dollar amount of customer deductions	50.8	51.6	45.5	47.4	52.0	51.0	50.6	51.1	50.0	49.1	52.2	51.2
Filings for bankruptcies	55.3	60.5	55.3	47.6	52.5	52.8	53.9	53.1	55.3	55.1	56.6	55.8
Index of unfavorable factors	53.1	54.5	50.4	49.4	50.7	50.6	52.6	52.5	51.1	51.1	53.4	53.2
NACM Combined CMI	58.4	57.6	53.2	52.8	55.1	53.0	53.7	50.3	50.5	51.3	56.2	57.3
ISM Manufacturing PMI	55.7	56.2	50.5	50.5	49.5	48.5	49.2	54.7	53.9	50.5	46.2	

In summary, April's results indicate positive underlying performance continues in the economy—in both the manufacturing and service sectors. The Iraqi conflict has been resolved, at least from a war perspective. Thus, its outcome no longer is an excuse for assigning uncertainty to economic performance. NACM's CMI shows the economy is improving.



METHODOLOGY APPENDIX

The CMI data has been collected and tabulated monthly since February 2002. The index, published since January 2003, is based on a survey of about 500 trade credit managers during the last 10 days of the month, with about equal representation between manufacturing and service sectors. The survey asks respondents to comment on whether they are seeing improvement, deterioration, or no change for various favorable or unfavorable factors. There is representation from all States, except some of the less populated ones, such as Vermont, Montana and Idaho.

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 items, the calculation is:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

For the negative factors, the calculation is:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

Thus, greater "lower than a month ago" responses for negative factors signify improvement. Stated differently, a higher index score for an unfavorable factor represents an improvement.

Table: Factors Making Up the Diffusion Index

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 this month, 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 collections	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 is often 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 means cash flow difficulties of customers are increasing.

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland supports more than 25,000 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 and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy. George W. Gallinger, Ph.D., of the W. P. Carey School of Business, Arizona State University, Tempe, AZ prepared the index results and analysis. More information is available at www.nacm.org or by contacting Norma Heim at 410-423-1842.

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