

NACM Credit Manager's Index

Report for April 2005

Issued May 1, 2005
National Association of Credit Management
8840 Columbia 100 Parkway
Columbia, MD 21045-2158

April '05	CMI-Total: 59.3	CMI-Manufacturing: 58.5	CMI-Service: 60.2
March '05	CMI-Total: 58.4	CMI-Manufacturing: 58.5	CMI-Service: 58.2
% Change	1.54%	0.00%	3.44%

After a strong first quarter, NACM's CMI for April continues to show growth. The CMI rose for the third straight month to 59.3, strongly indicating a continued economic expansion, and mirroring the positive economic growth of Thursday's GDP report as well as today's better-than-expected reports on personal income and personal spending.

The CMI manufacturing sector was flat, but the services sector, boosted by a whopping 11-point increase in dollar collections, rose for the third straight month to 60.2, an overall change of 3.44 percent, indicating accelerating growth. Both the manufacturing and service sectors have recovered from January's plunge, but still remain below last April's peak.

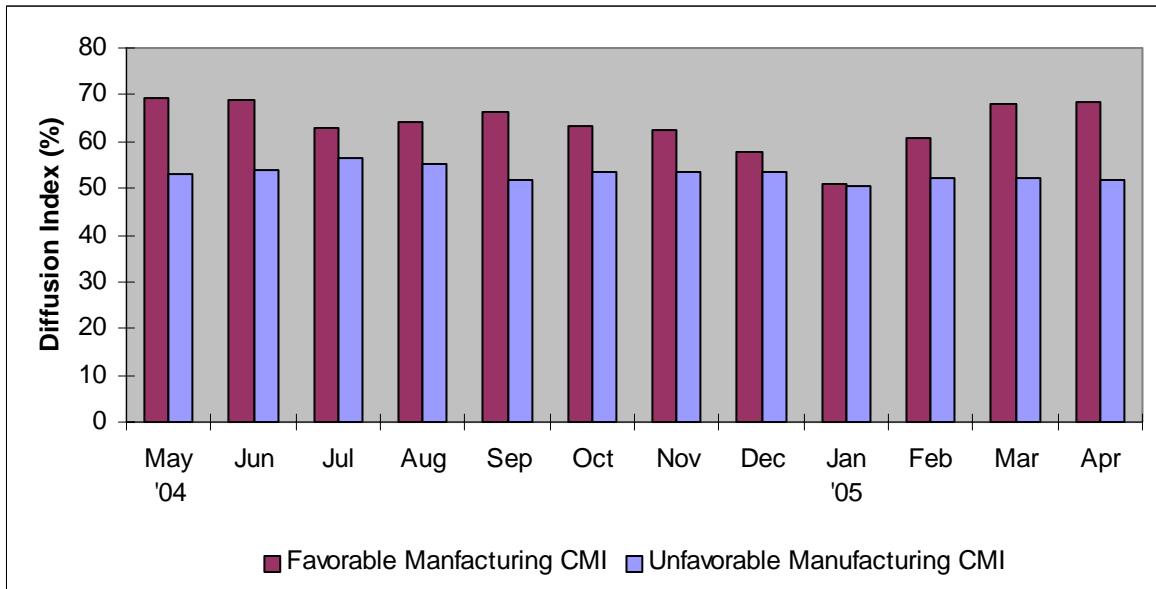
Dan North, Chief Economist with credit insurer Euler Hermes ACI, speculates that this may reflect the drag caused by high commodities prices, especially oil; and that these higher prices, combined with the likelihood of more interest rate hikes from the Fed, may put a drag on the economy in the coming months.

[See the last page of this report for information about the methodology and factors used to measure economic performance.](#)

MANUFACTURING SECTOR RESULTS

After posting three consecutive periods of growth, the manufacturing sector ended at the same point in April where it finished March, with an overall CMI of 58.5 percent. There were, however, several bright spots within the manufacturing sector. New sales continue to grow, posting a 310 basis point gain, up from 69.6 percent to 72.7 percent. Dollars collected also showed growth finishing at 69.1 percent, a 230 basis point gain over March 2005.

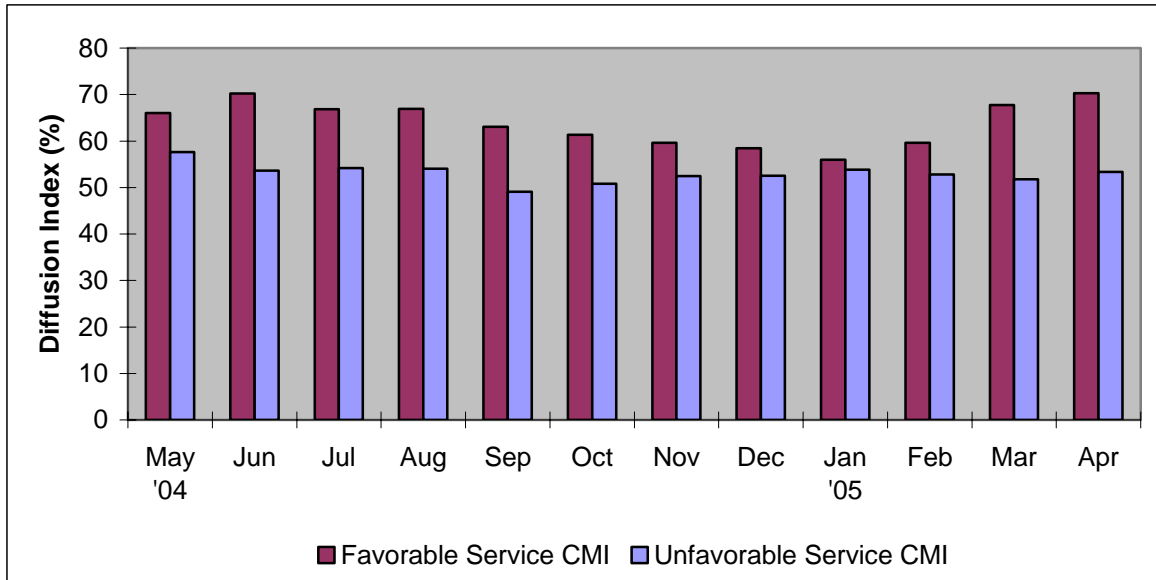
Manufacturing Sector (Not Seasonally Adjusted)	May '04	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr
Sales	75.2	71.7	64.5	69.3	68.8	64.8	64.1	57.6	48.4	61.7	69.6	72.7
New credit applications	59.4	60.8	56.4	55.9	61.3	59.7	58.8	49.0	49.7	63.9	65.2	62.5
Dollar collections	70.4	71.7	66.8	63.7	66.7	65.7	61.0	61.5	49.2	53.6	66.8	69.1
Amount of credit extended	71.6	71.3	64.4	67.9	69.1	62.3	65.3	62.8	55.7	64.0	69.8	69.6
Index of favorable factors	69.2	68.9	63.0	64.2	66.5	63.1	62.3	57.7	50.8	60.8	67.9	68.5
Rejection of credit applications	51.9	53.8	52.0	55.1	53.4	51.2	54.8	55.1	54.1	49.2	48.9	50.5
Accounts placed for collections	53.1	58.0	60.3	56.7	51.7	56.9	56.5	57.1	50.0	54.4	52.3	47.7
Disputes	49.3	49.4	51.5	49.4	46.9	50.0	50.7	49.5	46.6	47.6	49.8	49.0
Dollar amount beyond terms	56.2	51.8	60.6	58.0	52.6	55.2	52.3	53.2	50.3	54.7	56.7	58.5
Dollar amount of customer deductions	47.6	48.4	52.3	50.6	46.9	50.2	47.9	47.0	43.8	49.4	49.5	49.5
Filings for bankruptcies	59.2	62.0	63.4	60.7	58.4	57.9	59.0	57.7	58.5	58.6	56.7	55.9
Index of unfavorable factors	52.9	53.9	56.7	55.1	51.7	53.6	53.5	53.3	50.6	52.3	52.3	51.9
NACM Manufacturing CMI	59.4	59.9	59.2	58.7	57.6	57.4	57.0	55.1	50.6	55.7	58.5	58.5
ISM Manufacturing PMI	62.6	61.2	61.6	59.6	59.1	55.5	57.6	57.3	56.4	55.3	55.2	NA



Service Sector Results

Higher dollar collections along with lower dollar amounts beyond terms pushed the service sector to its highest level in 10 months. A lower number of disputes and fewer accounts placed for collection also helped to push the service sector higher, finishing up 200 basis points, to close at 60.2 percent. Of the 10 factors, nine posted levels at or above 50, indicating an expanding economy.

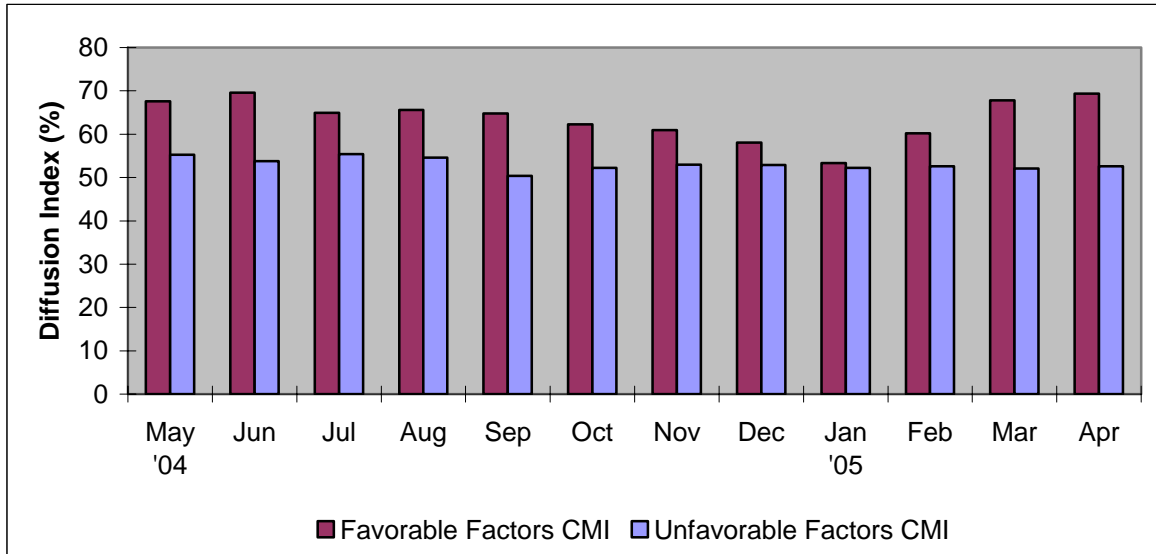
Service Sector (Not Seasonally Adjusted)	May											Jan
	'04	Jun	Jul	Aug	Sep	Oct	Nov	Dec	'05	Feb	Mar	Apr
Sales	71.0	72.9	67.1	68.9	64.0	61.8	60.8	59.0	54.7	59.4	71.5	70.4
New credit applications	61.2	64.9	57.7	63.4	60.1	54.9	55.1	54.2	51.3	57.0	66.2	66.5
Dollar collections	61.6	70.8	75.5	64.1	64.0	63.7	59.0	60.8	59.2	59.4	60.3	71.3
Amount of credit extended	70.2	72.4	67.2	71.4	64.2	65.1	63.5	59.7	58.7	62.7	72.9	73.0
Index of favorable factors	66.0	70.3	66.9	67.0	63.1	61.4	59.6	58.4	56.0	59.6	67.7	70.3
Rejection of credit applications	54.5	50.0	53.4	51.7	49.8	50.2	54.5	54.9	54.5	51.5	49.6	49.5
Accounts placed for collections	58.3	52.5	52.5	56.3	51.7	51.2	50.5	48.2	52.9	54.2	49.4	53.2
Disputes	56.6	51.9	51.2	49.6	47.8	51.9	50.8	55.2	50.8	50.6	47.7	52.0
Dollar amount beyond terms	58.8	53.2	54.0	55.6	45.8	45.2	49.0	46.4	51.8	50.4	53.4	59.4
Dollar amount of customer deductions	53.2	51.3	51.6	49.4	46.5	47.1	48.0	51.0	51.6	52.7	50.4	50.2
Filings for bankruptcies	64.2	62.8	62.4	61.7	53.0	59.4	61.8	59.4	61.5	57.4	60.3	56.0
Index of unfavorable factors	57.6	53.6	54.2	54.1	49.1	50.8	52.4	52.5	53.9	52.8	51.8	53.4
NACM Service CMI	61.0	60.3	59.3	59.2	54.7	55.1	55.3	54.9	54.7	55.5	58.2	60.2
ISM Service Business Activity Index	63.3	61.1	63.4	59.3	58.7	61.5	61.9	63.9	59.2	59.8	63.1	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	May '04	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr
Sales	73.1	72.3	65.7	69.1	66.2	63.3	62.5	58.3	51.6	60.6	70.6	71.6
New credit applications	60.3	62.8	57.0	59.8	60.7	57.3	57.0	51.5	50.5	60.5	65.7	64.5
Dollar collections	66.0	71.3	71.0	63.9	65.3	64.7	60.1	61.1	54.2	56.5	63.6	70.2
Amount of credit extended	70.9	71.8	65.7	69.7	66.5	63.7	64.4	61.3	57.2	63.4	71.4	71.3
Index of favorable factors	67.6	69.6	64.9	65.6	64.7	62.3	61.0	58.1	53.4	60.2	67.8	69.4
Rejection of credit applications	53.2	52.0	52.7	53.4	51.5	50.7	54.7	55.0	54.3	50.4	49.3	50.0
Accounts placed for collections	55.7	55.3	56.5	56.5	51.7	54.1	53.6	52.8	51.4	54.3	50.9	50.5
Disputes	53.0	50.6	51.3	49.5	47.3	51.0	50.7	52.3	48.7	49.1	48.8	50.5
Dollar amount beyond terms	57.5	52.5	57.3	56.8	48.9	50.2	50.7	49.9	51.0	52.6	55.1	59.0
Dollar amount of customer deductions	50.5	49.8	51.9	50.0	46.7	48.7	47.9	49.0	47.7	51.1	50.0	49.9
Filings for bankruptcies	61.6	62.4	62.9	61.2	55.5	58.6	60.4	58.5	60.0	58.0	58.5	56.0
Index of unfavorable factors	55.3	53.8	55.4	54.6	50.3	52.2	53.0	52.9	52.2	52.6	52.1	52.6
NACM Combined CMI	60.2	60.1	59.2	59.0	56.0	56.2	56.2	55.0	52.7	55.6	58.4	59.3
ISM Combined Sectors Index*	63.0	61.2	62.5	59.5	58.9	59.5	59.8	60.6	57.8	57.6	59.2	NA

*Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.



COMPARISON OF APRIL 2005 TO APRIL 2004

As we look at the current levels of favorable and unfavorable factors and compare these to just one year ago, we find both periods to be rather similar. A review of the favorable factors reveals that, although the April 2005 factors show an expanding economy, the level of new sales is 740 basis points lower than a year ago. This can be seen in both the service and manufacturing sectors. An analysis of the unfavorable factors shows that, within the manufacturing sector, accounts placed for collections accounted for the largest change. While in the service sector, the largest changes were found in dollar amounts of customer deductions and bankruptcy filings.

Comparison: April 2005 vs. April 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Apr '04	Apr '05	Apr '04	Apr '05	Apr '04	Apr '05
Sales	78.4	72.7	79.6	70.4	79.0	71.6
New credit applications	63.6	62.5	71.9	66.5	67.8	64.5
Dollar collections	70.9	69.1	72.8	71.3	71.9	70.2
Amount of credit extended	73.0	69.6	77.1	73.0	75.1	71.3
Index of favorable factors	71.5	68.5	75.4	70.3	73.4	69.4
Rejection of credit applications	51.7	50.5	49.4	49.5	50.6	50.0
Accounts placed for collections	54.0	47.7	54.1	53.2	54.1	50.5
Disputes	46.2	49.0	55.7	52.0	51.0	50.5
Dollar amount beyond terms	58.1	58.5	65.7	59.4	61.9	59.0
Dollar amount of customer deductions	48.3	49.5	57.6	50.2	53.0	49.9
Filings for bankruptcies	60.5	55.9	62.6	56.0	61.6	56.0
Index of unfavorable factors	53.1	51.9	57.5	53.4	55.3	52.6
NACM CMI	60.5	58.5	64.7	60.2	62.6	59.3

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 such as Vermont and Idaho.

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 credit worthy 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 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 means cash flow difficulties of customers are increasing.

As shown in the table above, 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.

A CMI reading in excess of 50 indicates the economy is expanding; a reading below 50 indicates a declining economy. The index is not seasonally adjusted because of lack of an historical record.

###

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. More information is available at www.nacm.org or by contacting Norma Heim at 410-740-5560.