

NACM Credit Manager's Index

Report for April 2004

Issued May 3, 2004
 National Association of Credit Management
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Apr '04	CMI-Total: 62.6	CMI-Manufacturing: 60.5	CMI-Service: 64.7
Mar '04	CMI-Total: 60.5	CMI-Manufacturing: 58.9	CMI-Service: 62.2
% Change	3.5%	2.7%	4.0%

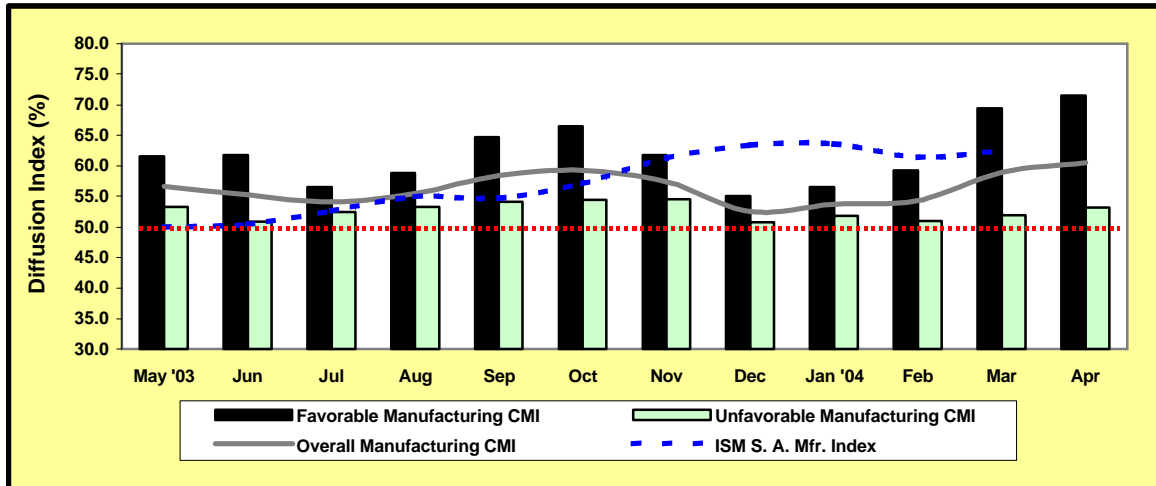
This economy continues to grow! Gains registered in March continued through April, albeit at a slower rate. The combined CMI picked up 210 basis points, whereas the manufacturing and service sectors rose 160 and 250 points, respectively. These are all record highs for these indices since the inception of the CMI in February 2002.

*See the last page of this report for information about the methodology and factors used to measure economic performance.
 Note that ISM has revised its seasonally-adjusted PMI readings for 2003.*

MANUFACTURING SECTOR RESULTS

The numbers in the table below suggest few problems exist with the manufacturing sector. Sales are up, new credit applications and credit extended remain strong, dollar collections are excellent, and aging of accounts has improved. There appear to be fewer financially distressed customers as indicated by the improved reading for bankruptcies. The one area with negative performance is disputes. They have increased over most readings for prior months.

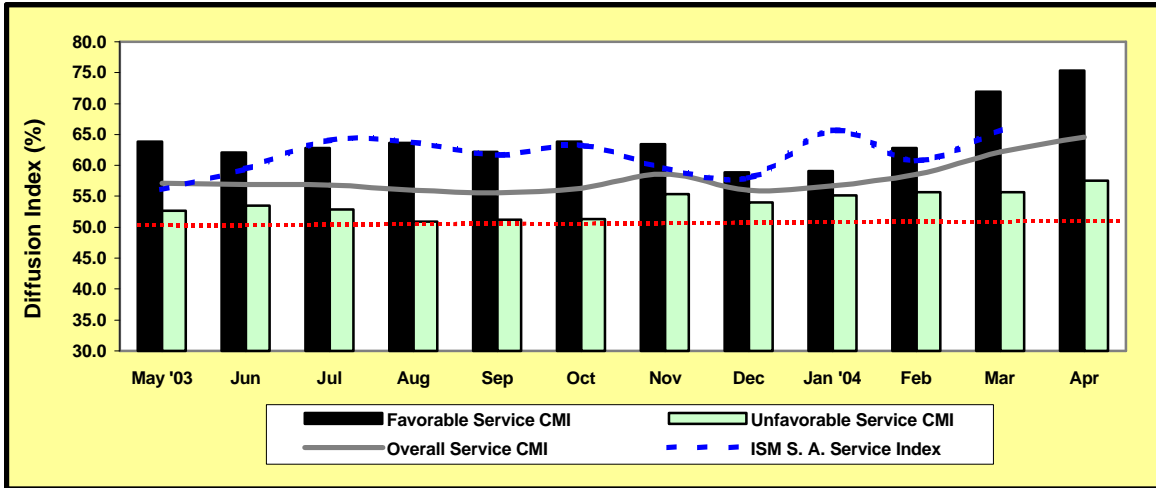
Manufacturing Sector												
(Not Seasonally Adjusted)												
	May '03	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr
Sales	60.5	59.8	55.9	59.8	65.8	69.4	62.1	55.2	56.8	63.2	75.5	78.4
New credit applications	55.6	56.7	49.8	54.9	55.4	58.9	54.5	48.1	53.5	58.9	63.8	63.6
Dollar collections	68.2	64.5	60.0	61.2	68.3	69.4	65.2	59.9	60.0	51.1	65.3	70.9
Amount of credit extended	62.0	65.8	60.7	59.4	69.4	68.2	65.0	57.2	55.9	63.8	72.9	73.0
Index of favorable factors	61.6	61.7	56.6	58.8	64.7	66.5	61.7	55.1	56.6	59.3	69.4	71.5
Rejection of credit applications	54.1	51.7	54.1	53.4	55.0	54.4	55.9	53.9	51.6	51.9	50.0	51.7
Accounts placed for collections	54.1	53.3	54.7	54.6	55.0	52.0	53.5	47.5	54.6	54.8	53.7	54.0
Disputes	49.3	49.0	48.0	47.3	49.3	53.6	50.2	50.3	47.7	45.4	49.5	46.2
Dollar amount beyond terms	55.6	49.8	50.2	57.5	58.3	58.0	56.7	46.7	51.1	49.2	51.6	58.1
Dollar amount of customer deductions	51.7	45.4	48.0	48.4	49.5	51.7	51.4	49.7	49.5	46.5	48.9	48.3
Filings for bankruptcies	55.0	56.3	59.7	58.5	58.0	57.2	59.6	56.6	56.8	58.4	58.0	60.5
Index of unfavorable factors	53.3	50.9	52.5	53.3	54.2	54.5	54.6	50.8	51.9	51.0	52.0	53.1
NACM Manufacturing CMI	56.6	55.2	54.1	55.5	58.4	59.3	57.4	52.5	53.8	54.3	58.9	60.5
ISM Manufacturing PMI												
Not Seasonally Adjusted	52.0	51.7	51.0	54.1	54.5	55.3	58.8	60.3	61.6	63.5	65.3	
Seasonally Adjusted, Reported	49.4	49.8	51.8	54.7	53.7	57.0	62.8	66.2	63.6	61.4	62.5	
Seasonally Adjusted, Revised	50.0	50.4	52.6	55.0	54.7	57.1	61.3	63.4				



SERVICE SECTOR RESULTS

Most of what was mentioned for the manufacturing sector can be applied to the service sector here. Performance in April was very positive. Nine of the 10 indicators either stayed the same or improved. The only measure to falter was "rejection of credit applications". The consequences of this may be a slowing of sales growth next month. However, given the strength in sales the past two months, a slight pull-back wouldn't be unexpected.

Service Sector												
(Not Seasonally Adjusted)												
	May '03	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr
Sales	63.3	64.3	65.0	65.1	63.1	67.9	64.2	60.7	59.2	66.3	79.6	79.6
New credit applications	60.7	60.1	59.4	58.7	60.1	60.0	57.7	51.4	55.9	62.1	68.0	71.9
Dollar collections	64.1	58.9	58.2	65.2	61.2	60.0	62.9	58.5	58.9	59.4	66.7	72.8
Amount of credit extended	67.2	65.3	68.7	65.9	64.3	67.5	69.3	64.9	62.4	63.7	73.7	77.1
Index of favorable factors	63.8	62.2	62.8	63.7	62.2	63.9	63.5	58.9	59.1	62.9	72.0	75.4
Rejection of credit applications	47.2	52.8	49.3	49.4	50.5	50.6	55.1	55.3	51.8	51.9	54.2	49.4
Accounts placed for collections	52.4	53.4	52.2	48.4	49.5	48.7	50.8	54.6	52.5	56.4	53.1	54.1
Disputes	51.8	53.2	51.4	49.4	50.0	53.9	53.6	52.9	56.8	57.0	53.4	55.7
Dollar amount beyond terms	56.3	51.9	51.7	52.6	47.1	50.3	57.7	49.2	54.3	54.4	58.4	65.7
Dollar amount of customer deductions	53.6	54.1	54.1	49.6	50.7	50.3	53.6	50.6	54.1	54.8	55.1	57.6
Filings for bankruptcies	54.9	55.4	58.6	55.9	59.8	54.2	61.2	61.6	61.6	59.9	59.9	62.6
Index of unfavorable factors	52.7	53.5	52.9	50.9	51.3	51.3	55.3	54.0	55.2	55.7	55.7	57.5
NACM Service CMI	57.2	56.9	56.9	56.0	55.6	56.3	58.6	56.0	56.8	58.6	62.2	64.7
ISM Service Business Activity Index												
Not Seasonally Adjusted	56.5	63.5	63.0	62.5	64.5	63.0	61.0	56.0	60.0	61.0	66.4	
Seasonally Adjusted, Reported	54.5	60.6	65.1	65.1	63.3	64.7	60.1	58.6	65.7	60.8	65.8	
Seasonally Adjusted, Revised	56.1	59.5	64.1	63.8	61.7	63.3	59.6	58.0				

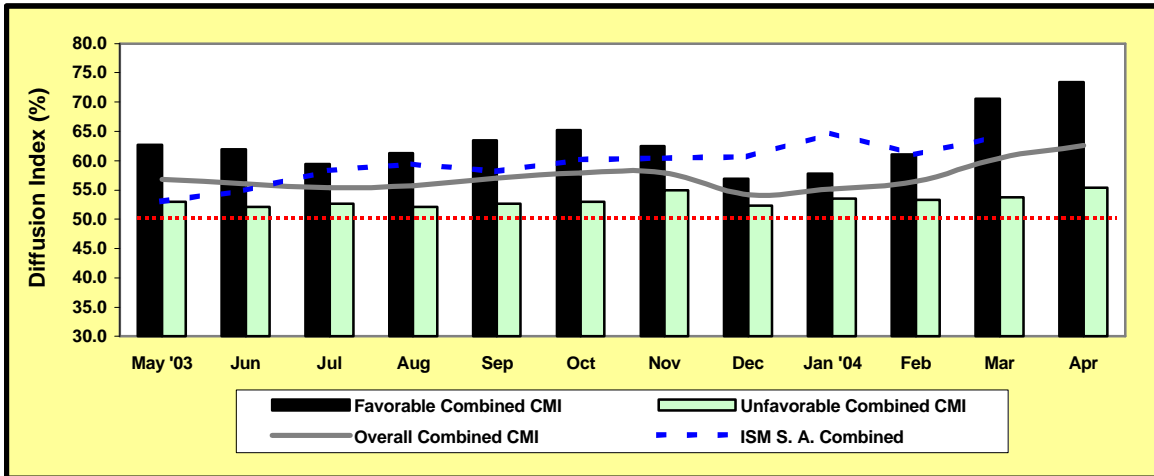


COMBINED SECTORS

The combined index attained a new record level this month. Several factors contributed to the improved April reading, the most notable being “dollar collections” and “dollar amount beyond terms”. The improvement in both indicators says that aging of accounts is more current, thus reducing collection problems. These are indicators of a vibrant, growing economy with customers paying in a timely manner.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	May '03	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr
Sales	61.9	62.1	60.1	62.4	64.5	68.7	63.1	58.0	58.0	64.7	77.5	79.0
New credit applications	58.1	58.4	54.2	56.8	57.9	59.4	56.0	49.7	54.7	60.5	65.8	67.8
Dollar collections	66.2	61.7	59.2	63.2	64.7	65.0	64.1	59.2	59.5	55.2	65.9	71.9
Amount of credit extended	64.6	65.5	64.4	62.6	66.8	67.9	67.1	61.0	59.1	63.7	73.3	75.1
Index of favorable factors	62.7	61.9	59.5	61.3	63.5	65.3	62.6	57.0	57.8	61.0	70.6	73.5
Rejection of credit applications	50.7	52.2	51.9	51.4	52.7	52.7	55.5	54.6	51.7	51.9	52.0	50.6
Accounts placed for collections	53.3	53.4	53.5	51.5	52.2	50.5	52.2	51.0	53.5	55.6	53.4	54.1
Disputes	50.5	51.1	49.6	48.4	49.6	53.8	51.9	51.5	52.3	51.2	51.4	51.0
Dollar amount beyond terms	55.9	50.8	50.9	55.1	52.6	54.5	57.1	47.9	52.7	51.8	54.9	62.0
Dollar amount of customer deductions	52.6	49.7	50.8	49.0	50.1	51.1	52.5	50.1	51.8	50.7	51.9	53.0
Filings for bankruptcies	54.9	55.8	59.2	57.2	58.9	55.8	60.4	59.0	59.2	59.2	58.9	61.5
Index of unfavorable factors	53.0	52.2	52.7	52.1	52.7	53.1	54.9	52.4	53.5	53.4	53.8	55.4
NACM Combined CMI	56.9	56.1	55.4	55.8	57.0	57.9	58.0	54.2	55.3	56.5	60.5	62.6
ISM Combined Sectors Index*												
Not Seasonally Adjusted	54.3	57.6	57.0	58.3	59.5	59.2	59.9	58.2	60.8	62.3	65.9	
Seasonally Adjusted, Reported	52.0	52.2	58.5	59.9	58.5	60.9	61.5	62.4	64.7	61.1	64.2	
Seasonally Adjusted, Revised	53.1	55.0	58.4	59.4	58.2	60.2	60.5	60.7				

*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.



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.

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.

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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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