

NACM Credit Manager's Index

Report for August 2004

Issued September 1, 2004
National Association of Credit Management
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Columbia, MD 21045-2158

August '04	CMI-Total: 59.0	CMI-Manufacturing: 58.7	CMI-Service: 59.2
July '04	CMI-Total: 59.2	CMI-Manufacturing: 59.2	CMI-Service: 59.3
% Change	-0.3%	-0.8%	-0.2%

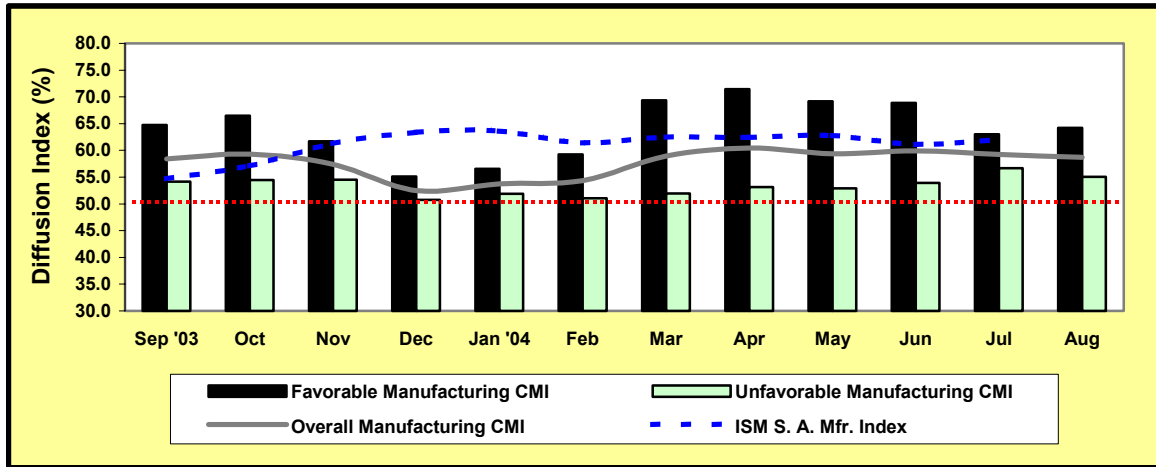
Slippage continues in the economy's rate of growth for the fourth consecutive month. Although growth continues, as evidenced by readings exceeding 50, it is slowing. The CMI-Total number is 360 basis points lower than the high recorded in April of this year. The composition of the decline since April is as follows: service sector down 550 basis points, manufacturing sector down 180 basis points.

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

There is additional slippage in manufacturing growth for August. The decline is driven by five of the six "unfavorable factors". The only unfavorable factor to improve is "rejection of credit applications"—meaning fewer accounts were rejected. The survey results indicate several negatives at work: growth in accounts placed for collection, growth in disputed invoices, growth in the aging of accounts, growth in unauthorized customer deductions, and growth in firms filing bankruptcy. The last time this many factors declined was December 2003. There are a couple of positive interpretations to take away from these results. The sales index shows a significant rebound and the overall manufacturing index of 58.7 is still quite bullish. The improvement in "amount of credit extended" suggests further sales improvement next month.

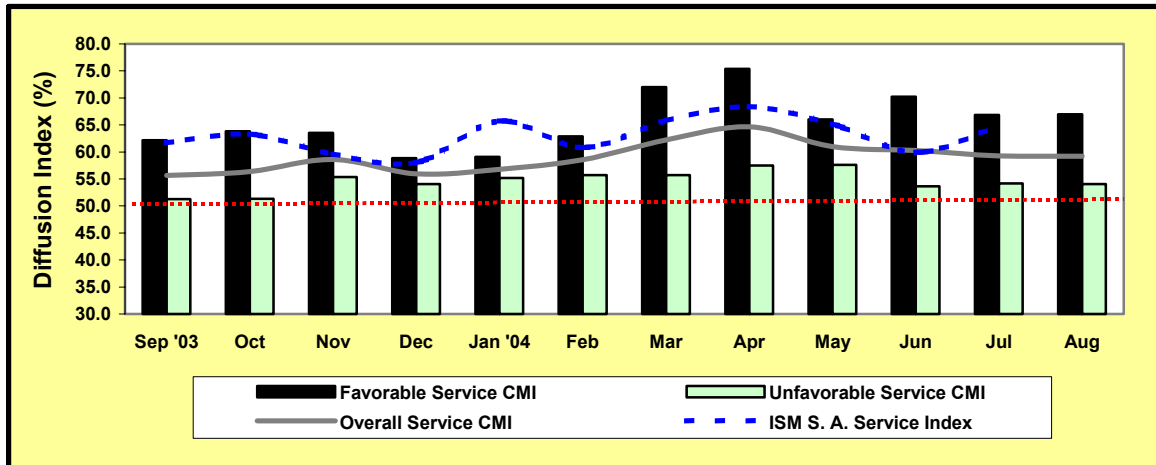
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Sep '03	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	65.8	69.4	62.1	55.2	56.8	63.2	75.5	78.4	75.2	71.7	64.5	69.3
New credit applications	55.4	58.9	54.5	48.1	53.5	58.9	63.8	63.6	59.4	60.8	56.4	55.9
Dollar collections	68.3	69.4	65.2	59.9	60.0	51.1	65.3	70.9	70.4	71.7	66.8	63.7
Amount of credit extended	69.4	68.2	65.0	57.2	55.9	63.8	72.9	73.0	71.6	71.3	64.4	67.9
Index of favorable factors	64.7	66.5	61.7	55.1	56.6	59.3	69.4	71.5	69.2	68.9	63.0	64.2
Rejection of credit applications	55.0	54.4	55.9	53.9	51.6	51.9	50.0	51.7	51.9	53.8	52.0	55.1
Accounts placed for collections	55.0	52.0	53.5	47.5	54.6	54.8	53.7	54.0	53.1	58.0	60.3	56.7
Disputes	49.3	53.6	50.2	50.3	47.7	45.4	49.5	46.2	49.3	49.4	51.5	49.4
Dollar amount beyond terms	58.3	58.0	56.7	46.7	51.1	49.2	51.6	58.1	56.2	51.8	60.6	58.0
Dollar amount of customer deductions	49.5	51.7	51.4	49.7	49.5	46.5	48.9	48.3	47.6	48.4	52.3	50.6
Filings for bankruptcies	58.0	57.2	59.6	56.6	56.8	58.4	58.0	60.5	59.2	62.0	63.4	60.7
Index of unfavorable factors	54.2	54.5	54.6	50.8	51.9	51.0	52.0	53.1	52.9	53.9	56.7	55.1
NACM Manufacturing CMI	58.4	59.3	57.4	52.5	53.8	54.3	58.9	60.5	59.4	59.9	59.2	58.7
ISM Manufacturing PMI												
Not Seasonally Adjusted	54.5	55.3	58.8	60.3	61.6	63.5	65.3	65.6	65.3	62.8	60.0	
Seasonally Adjusted, Reported	53.7	57.0	62.8	66.2	63.6	61.4	62.5	62.4	62.8	61.1	62.0	
Seasonally Adjusted, Revised	54.7	57.1	61.3	63.4								



SERVICE SECTOR RESULTS

The story for the service sector is that it held ground during August, losing only one-tenth of a point. "New credit applications" and the "amount of credit extended" sharply improved this month. However, "dollar collections" deteriorated. This latter result is driven by the decline in sales last month. Although fewer accounts were given to collection agencies, the number of disputes increased.

Service Sector												
(Not Seasonally Adjusted)												
	Sep '03	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	63.1	67.9	64.2	60.7	59.2	66.3	79.6	79.6	71.0	72.9	67.1	68.9
New credit applications	60.1	60.0	57.7	51.4	55.9	62.1	68.0	71.9	61.2	64.9	57.7	63.4
Dollar collections	61.2	60.0	62.9	58.5	58.9	59.4	66.7	72.8	61.6	70.8	75.5	64.1
Amount of credit extended	64.3	67.5	69.3	64.9	62.4	63.7	73.7	77.1	70.2	72.4	67.2	71.4
Index of favorable factors	62.2	63.9	63.5	58.9	59.1	62.9	72.0	75.4	66.0	70.3	66.9	67.0
Rejection of credit applications	50.5	50.6	55.1	55.3	51.8	51.9	54.2	49.4	54.5	50.0	53.4	51.7
Accounts placed for collections	49.5	48.7	50.8	54.6	52.5	56.4	53.1	54.1	58.3	52.5	52.5	56.3
Disputes	50.0	53.9	53.6	52.9	56.8	57.0	53.4	55.7	56.6	51.9	51.2	49.6
Dollar amount beyond terms	47.1	50.3	57.7	49.2	54.3	54.4	58.4	65.7	58.8	53.2	54.0	55.6
Dollar amount of customer deductions	50.7	50.3	53.6	50.6	54.1	54.8	55.1	57.6	53.2	51.3	51.6	49.4
Filings for bankruptcies	59.8	54.2	61.2	61.6	61.6	59.9	59.9	62.6	64.2	62.8	62.4	61.7
Index of unfavorable factors	51.3	51.3	55.3	54.0	55.2	55.7	55.7	57.5	57.6	53.6	54.2	54.1
NACM Service CMI	55.6	56.3	58.6	56.0	56.8	58.6	62.2	64.7	61.0	60.3	59.3	59.2
ISM Service Business Activity Index												
Not Seasonally Adjusted	64.5	63.0	61.0	56.0	60.0	61.0	66.4	68.7	69.7	59.1	64.0	
Seasonally Adjusted, Reported	63.3	64.7	60.1	58.6	65.7	60.8	65.8	68.4	65.2	59.9	64.8	
Seasonally Adjusted, Revised	61.7	63.3	59.6	58.0								



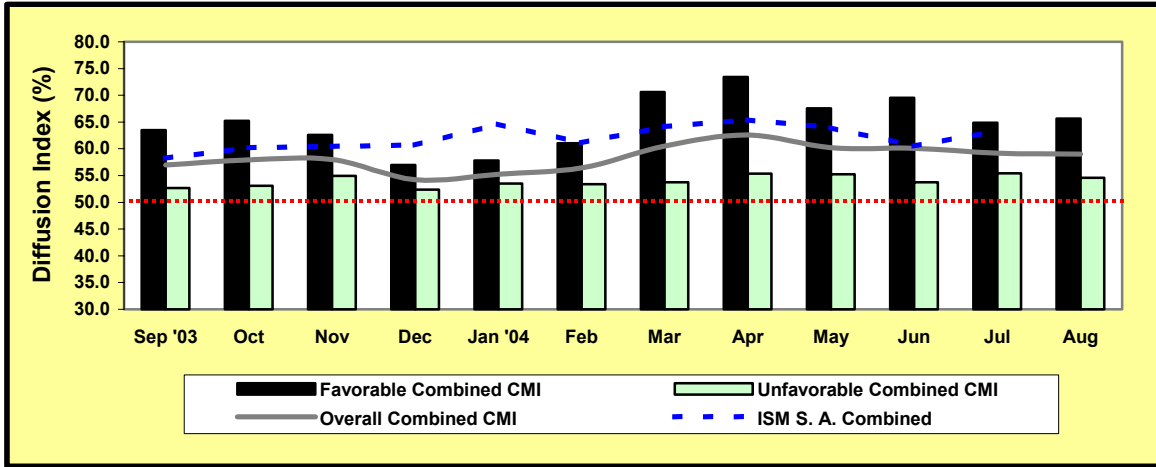
COMBINED SECTORS

The combined index has now fallen four consecutive months and is at its lowest level since February 2004. The erosion is caused by slowing of growth in both sectors. However, erosion in growth is more significant in the service sector (down 550 basis points) than in the manufacturing sector (down 180 basis points).

The improving indices for “sales” and “amount of credit extended” suggest the overall index has reached bottom, at least for the near term, and will probably show marginal improvement next month.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Sep '03	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	64.5	68.7	63.1	58.0	58.0	64.7	77.5	79.0	73.1	72.3	65.7	69.1
New credit applications	57.9	59.4	56.0	49.7	54.7	60.5	65.8	67.8	60.3	62.8	57.0	59.8
Dollar collections	64.7	65.0	64.1	59.2	59.5	55.2	65.9	71.9	66.0	71.3	71.0	63.9
Amount of credit extended	66.8	67.9	67.1	61.0	59.1	63.7	73.3	75.1	70.9	71.8	65.7	69.7
Index of favorable factors	63.5	65.3	62.6	57.0	57.8	61.0	70.6	73.5	67.6	69.6	64.9	65.6
Rejection of credit applications	52.7	52.7	55.5	54.6	51.7	51.9	52.0	50.6	53.2	52.0	52.7	53.4
Accounts placed for collections	52.2	50.5	52.2	51.0	53.5	55.6	53.4	54.1	55.7	55.3	56.5	56.5
Disputes	49.6	53.8	51.9	51.5	52.3	51.2	51.4	51.0	53.0	50.6	51.3	49.5
Dollar amount beyond terms	52.6	54.5	57.1	47.9	52.7	51.8	54.9	62.0	57.5	52.5	57.3	56.8
Dollar amount of customer deductions	50.1	51.1	52.5	50.1	51.8	50.7	51.9	53.0	50.5	49.8	51.9	50.0
Filings for bankruptcies	58.9	55.8	60.4	59.0	59.2	59.2	58.9	61.5	61.6	62.4	62.9	61.2
Index of unfavorable factors	52.7	53.1	54.9	52.4	53.5	53.4	53.8	55.4	55.3	53.8	55.4	54.6
NACM Combined CMI	57.0	57.9	58.0	54.2	55.3	56.5	60.5	62.6	60.2	60.1	59.2	59.0
ISM Combined Sectors Index*												
Not Seasonally Adjusted	59.5	59.2	59.9	58.2	60.8	62.3	65.9	67.2	67.5	61.0	62.0	
Seasonally Adjusted, Reported	58.5	60.9	61.5	62.4	64.7	61.1	64.2	65.4	64.0	60.5	63.4	
Seasonally Adjusted, Revised	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 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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