

NACM Credit Manager's Index

Report for August 2003

Issued September 2, 2003
 National Association of Credit Management
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Aug '03	CMI-Total: 55.8	CMI-Manufacturing: 55.5	CMI-Service: 56.0
July '03	CMI-Total: 55.4	CMI-Manufacturing: 54.1	CMI-Service: 56.9
% Change	0.7%	2.6%	-1.6%

The NACM Credit Manager's Index (CMI) shows modest improvement this month relative to last month's reading, gaining 40 basis points. The manufacturing sector, which realized a 140 basis point increase (2.6%), has driven the overall gain. This manufacturing improvement is the first up-tick in its sector index since April 2003. On the other hand, the service sector, after showing seven consecutive months of improvement, lost 90 basis points. The service reading, however, is still quite strong.

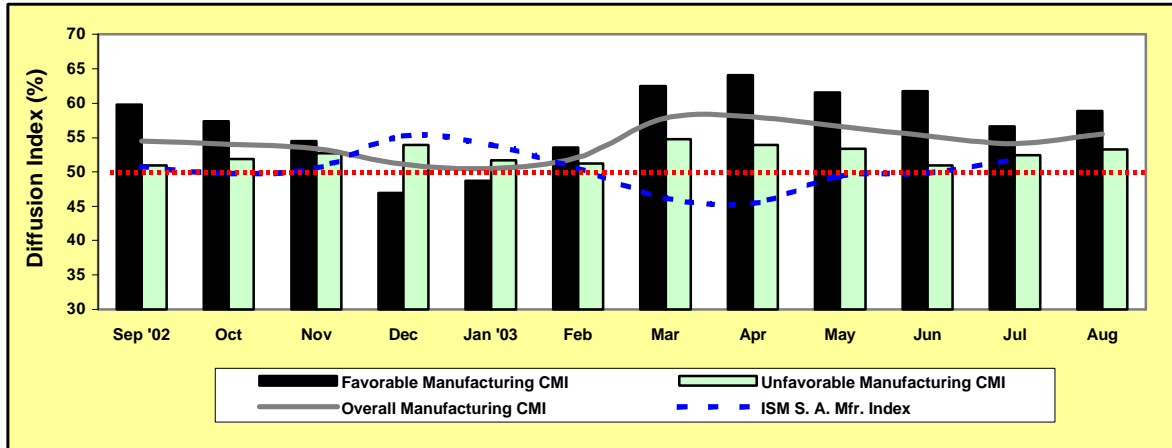
See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

It is encouraging to see a positive reversal in the manufacturing data. Three of four favorable factors improved in August relative to July: "sales", "new credit applications", and "dollar collections". The only factor declining was "amount of credit extended". Its rate of erosion was much slower in August than in July, suggesting that the month-to-month proportion of firms denying credit is abating.

Improvement in the manufacturing sector is also attributable to gains in the unfavorable factors. Although there were more "rejections of credit applications", and both "disputes" and "filings for bankruptcies" increased, the changes were minor. The significant improvement in aging of accounts, as captured by "dollar amount beyond terms", offset these other factors.

Manufacturing Sector													
(Not Seasonally Adjusted)													
	Sep '02	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	
Sales	63.5	55.0	53.4	42.4	49.4	55.2	67.0	67.3	60.5	59.8	55.9	59.8	
New credit applications	54.8	50.0	48.7	42.9	43.6	55.1	55.3	58.2	55.6	56.7	49.8	54.9	
Dollar collections	56.5	63.6	57.9	50.0	52.2	45.6	65.3	66.4	68.2	64.5	60.0	61.2	
Amount of credit extended	64.4	60.9	58.0	52.3	49.6	58.4	62.2	64.2	62.0	65.8	60.7	59.4	
Index of favorable factors	59.8	57.4	54.5	46.9	48.7	53.6	62.5	64.0	61.6	61.7	56.6	58.8	
Rejection of credit applications	55.8	50.9	53.4	53.3	54.3	50.7	51.8	52.3	54.1	51.7	54.1	53.4	
Accounts placed for collections	51.9	54.7	54.8	57.7	53.2	53.3	55.6	56.3	54.1	53.3	54.7	54.6	
Disputes	49.0	49.6	49.0	54.6	48.5	47.6	53.3	50.2	49.3	49.0	48.0	47.3	
Dollar amount beyond terms	43.3	51.0	54.4	52.0	48.5	51.5	57.5	58.0	55.6	49.8	50.2	57.5	
Dollar amount of customer deductions	52.9	51.2	50.2	50.3	48.5	48.4	52.0	49.8	51.7	45.4	48.0	48.4	
Filings for bankruptcies	52.9	53.6	54.0	55.4	56.9	55.5	58.1	57.0	55.0	56.3	59.7	58.5	
Index of unfavorable factors	51.0	51.8	52.6	53.9	51.7	51.2	54.7	53.9	53.3	50.9	52.5	53.3	
NACM Manufacturing CMI	54.5	54.1	53.4	51.1	50.5	52.1	57.8	58.0	56.6	55.2	54.1	55.5	
<u>ISM Manufacturing PMI</u>													
Not Seasonally Adjusted	51.5	48.4	47.7	50.4	51.2	51.0	48.7	48.6	52.0	51.7	51.0		
Seasonally Adjusted	50.7	49.7	50.5	55.2	53.9	50.5	46.2	45.4	49.4	49.8	51.8		



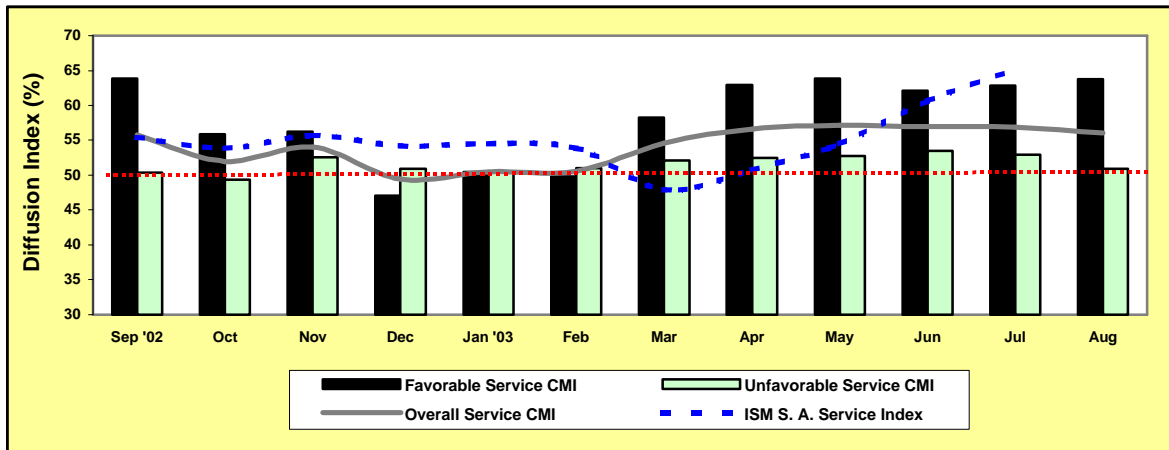
SERVICE SECTOR RESULTS

As reported in prior months, the service sector has been the strength of the economy. It still is—however, the service index declined 90 basis points in August. Given that the index was flat last month, relative to June’s reading of 56.9, the decline this month suggests a slowing of growth in the service sector. Although the favorable index improved 90 basis points from 62.8 to 63.7, both “new credit applications” and “amount of credit extended” declined. The overall improvement for the favorable factors index is because of a significant gain in “dollar collections”. Given the month-over-month improvement in “sales”, the improvement in “dollar collections” is significant and suggests customers have sufficient cash flows to meet trade credit obligations.

Service Sector												
(Not Seasonally Adjusted)												
	Sep '02	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	58.5	55.6	54.6	41.9	48.7	47.0	57.5	66.6	63.3	64.3	65.0	65.1
New credit applications	61.7	52.8	51.8	40.3	47.3	50.6	55.9	58.9	60.7	60.1	59.4	58.7
Dollar collections	64.9	55.4	59.1	52.8	52.3	47.6	60.6	59.6	64.1	58.9	58.2	65.2
Amount of credit extended	70.2	59.6	59.4	53.3	53.4	54.1	59.1	66.6	67.2	65.3	68.7	65.9
Index of favorable factors	63.8	55.9	56.2	47.1	50.4	49.8	58.3	62.9	63.8	62.2	62.8	63.7
Rejection of credit applications	51.1	49.2	50.8	55.2	53.2	51.6	50.2	50.6	47.2	52.8	49.3	49.4
Accounts placed for collections	50.0	48.3	54.7	48.4	50.0	50.0	53.3	50.6	52.4	53.4	52.2	48.4
Disputes	47.9	48.3	52.9	51.4	51.8	50.2	50.9	52.3	51.8	53.2	51.4	49.4
Dollar amount beyond terms	50.0	47.4	52.0	48.0	43.0	50.0	50.6	54.2	56.3	51.9	51.7	52.6
Dollar amount of customer deductions	51.1	50.8	51.1	51.9	51.8	49.8	52.4	52.7	53.6	54.1	54.1	49.6
Filings for bankruptcies	52.1	52.0	53.8	50.5	53.4	54.7	55.2	54.4	54.9	55.4	58.6	55.9
Index of unfavorable factors	50.4	49.3	52.6	50.9	50.5	51.1	52.1	52.5	52.7	53.5	52.9	50.9
NACM Service CMI	55.8	51.9	54.0	49.4	50.5	50.6	54.6	56.7	57.2	56.9	56.9	56.0
ISM Service Business Activity Index Not Seasonally Adjusted	56.5	52.5	56.5	51.5	49.5	54.5	49.5	54.5	56.5	63.5	63.0	
Seasonally Adjusted	55.4	53.9	55.7	54.2	54.5	53.9	47.9	50.7	54.5	60.6	65.1	

A troubling aspect of August’s performance is that the unfavorable factors lost 200 basis points. The reading of 50.9 is only marginally positive. Four of the six factors have readings below 50—there was an increase in

“rejection of credit applications”, “accounts placed for collections”, “disputes” and the “dollar amount of customer deductions”.



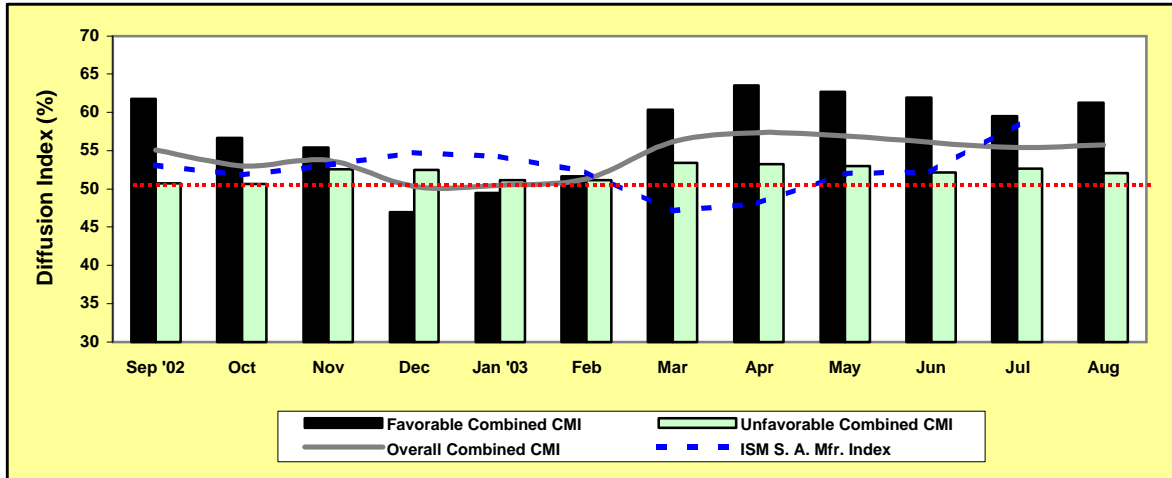
COMBINED SECTORS

August's equally weighted combined index of 55.8% is a 40 basis point improvement over July. The interpretation is that the economy continues to grow. However, as mentioned earlier, the growth in August has been driven by the manufacturing sector and not the service sector, which represents a role reversal.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Sep '02	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	61.1	55.3	54.0	42.2	49.1	50.9	62.2	67.0	61.9	62.1	60.1	62.4
New credit applications	58.1	51.4	50.3	41.7	45.3	52.7	55.6	58.5	58.1	58.4	54.2	56.8
Dollar collections	60.6	59.6	58.6	51.3	52.2	46.6	62.9	63.1	66.2	61.7	59.2	63.2
Amount of credit extended	67.2	60.3	58.7	52.8	51.3	56.2	60.6	65.4	64.6	65.5	64.4	62.6
Index of favorable factors	61.8	56.7	55.4	47.0	49.5	51.6	60.3	63.5	62.7	61.9	59.5	61.3
Rejection of credit applications	53.5	50.1	52.0	54.2	53.8	51.2	51.0	51.5	50.7	52.2	51.9	51.4
Accounts placed for collections	51.0	51.6	54.8	53.2	51.7	51.6	54.4	53.5	53.3	53.4	53.5	51.5
Disputes	48.5	48.9	51.0	53.1	50.0	48.9	52.1	51.2	50.5	51.1	49.6	48.4
Dollar amount beyond terms	46.5	49.2	53.2	50.1	46.0	50.7	54.0	56.1	55.9	50.8	50.9	55.1
Dollar amount of customer deductions	52.0	51.0	50.6	51.1	50.0	49.1	52.2	51.2	52.6	49.7	50.8	49.0
Filings for bankruptcies	52.5	52.8	53.9	53.1	55.3	55.1	56.6	55.8	54.9	55.8	59.2	57.2
Index of unfavorable factors	50.7	50.6	52.6	52.5	51.1	51.1	53.4	53.2	53.0	52.2	52.7	52.1
NACM Combined CMI	55.1	53.0	53.7	50.3	50.5	51.3	56.2	57.3	56.9	56.1	55.4	55.8
ISM Combined Sectors Index*												
Not Seasonally Adjusted	54.0	50.5	52.1	51.0	50.4	52.8	49.1	51.6	54.3	57.6	57.0	
Seasonally Adjusted	53.1	51.8	53.1	54.7	54.2	52.2	47.1	48.1	52.0	52.2	58.5	

*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.

In summary, the economy continues to improve with the emergence of some rotation from the service sector to the manufacturing sector to sustain economic growth.



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.

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