

NACM Credit Manager's Index

Report for August 2005

Issued September 1, 2005
 National Association of Credit Management
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August '05	CMI-Total: 54.7	CMI-Manufacturing: 52.9	CMI-Service: 56.5
July '05	CMI-Total: 56.7	CMI-Manufacturing: 56.9	CMI-Service: 56.6
% Change	-3.53%	-7.03%	-0.18%

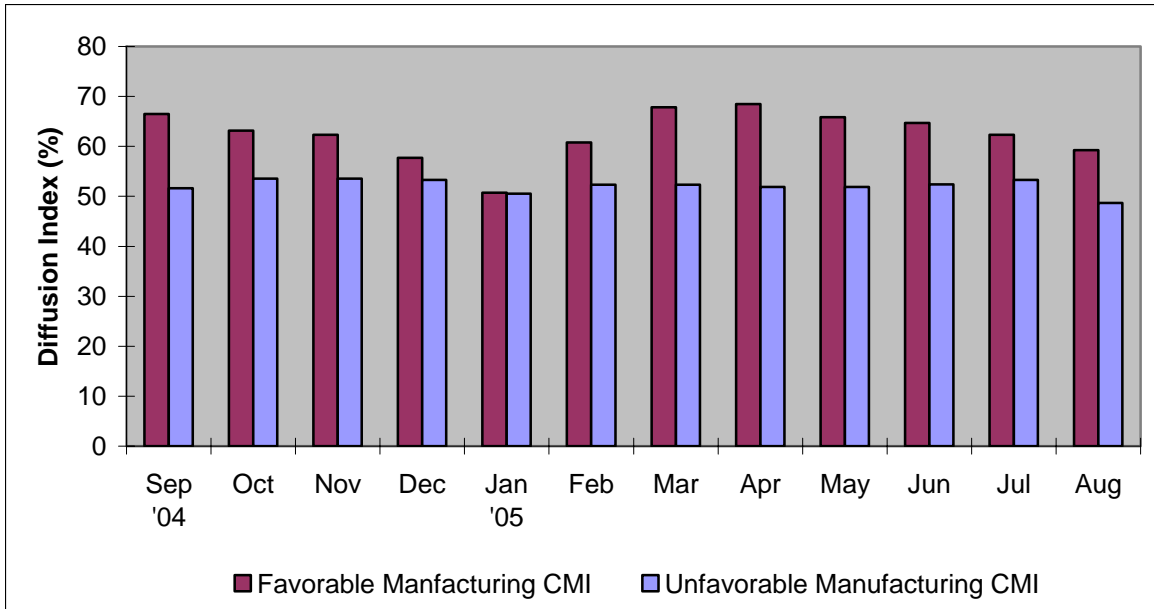
The Credit Manager's Index (CMI) for August finished at 54.7 percent, down 200 basis points from July 2005. Although there were many factors that contributed to the overall two percent decline, higher levels of receivables beyond terms and bankruptcies had significant impact.

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

MANUFACTURING SECTOR RESULTS

The manufacturing sector finished August at its lowest level since the beginning of the year. The decline was found in nine of the ten factors. Only new credit applications exhibited positive growth, increasing 390 basis points, to end at 62.2 percent. Four of the ten factors finished slightly below the 50 percent level, indicating some erosion.

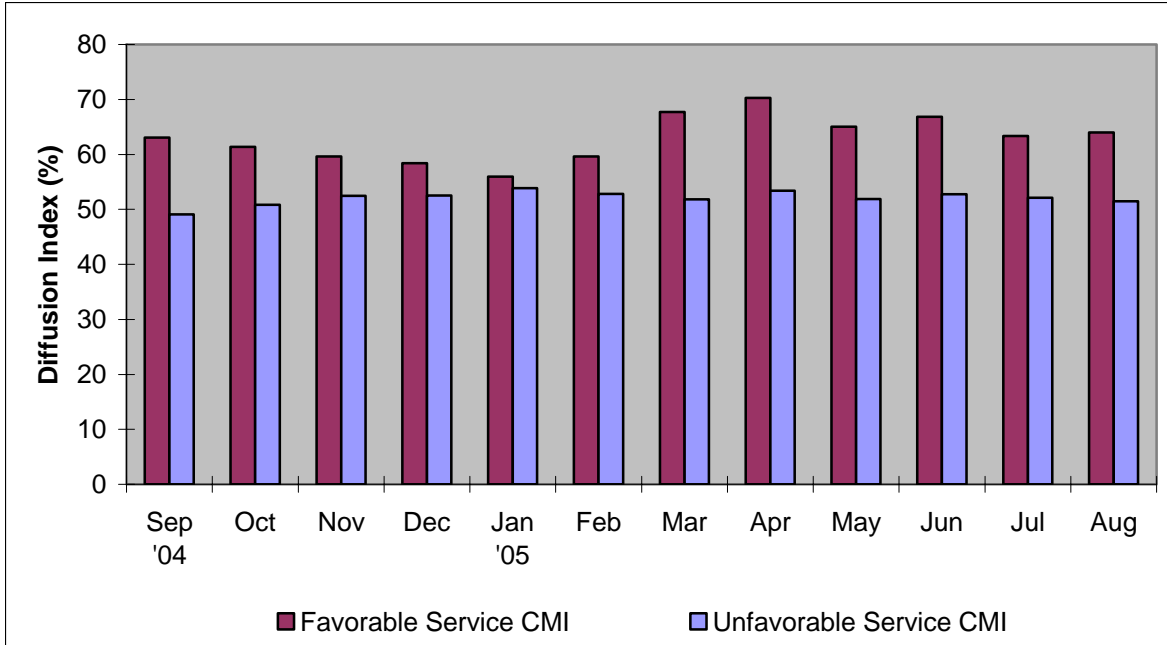
Manufacturing Sector (Not Seasonally Adjusted)	Sep '04	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	68.8	64.8	64.1	57.6	48.4	61.7	69.6	72.7	67.6	68.1	63.8	58.7
New credit applications	61.3	59.7	58.8	49.0	49.7	63.9	65.2	62.5	59.2	60.0	58.3	62.2
Dollar collections	66.7	65.7	61.0	61.5	49.2	53.6	66.8	69.1	65.9	63.1	63.7	55.2
Amount of credit extended	69.1	62.3	65.3	62.8	55.7	64.0	69.8	69.6	70.8	67.6	63.4	60.8
Index of favorable factors	66.5	63.1	62.3	57.7	50.8	60.8	67.9	68.5	65.9	64.7	62.3	59.2
Rejection of credit applications	53.4	51.2	54.8	55.1	54.1	49.2	48.9	50.5	52.2	51.8	52.1	50.3
Accounts placed for collections	51.7	56.9	56.5	57.1	50.0	54.4	52.3	47.7	54.9	51.8	54.0	49.4
Disputes	46.9	50.0	50.7	49.5	46.6	47.6	49.8	49.0	48.7	49.5	47.9	45.1
Dollar amount beyond terms	52.6	55.2	52.3	53.2	50.3	54.7	56.7	58.5	54.9	52.7	53.8	49.1
Dollar amount of customer deductions	46.9	50.2	47.9	47.0	43.8	49.4	49.5	49.5	46.7	50.7	53.0	46.3
Filings for bankruptcies	58.4	57.9	59.0	57.7	58.5	58.6	56.7	55.9	53.7	57.8	58.9	51.9
Index of unfavorable factors	51.7	53.6	53.5	53.3	50.6	52.3	52.3	51.9	51.9	52.4	53.3	48.7
NACM Manufacturing CMI	57.6	57.4	57.0	55.1	50.6	55.7	58.5	58.5	57.5	57.3	56.9	52.9
ISM Manufacturing PMI	59.1	55.5	57.6	57.3	56.4	55.3	55.2	53.3	51.4	53.8	56.6	NA



Service Sector Results

The service sector remained virtually unchanged for August, dropping a mere 10 basis points. Economic expansion was found in all four of the favorable factors, with the amount of credit extended increasing 460 basis points. Among the unfavorable factors, only one—dollar amount beyond terms—dropped below the 50 percent mark.

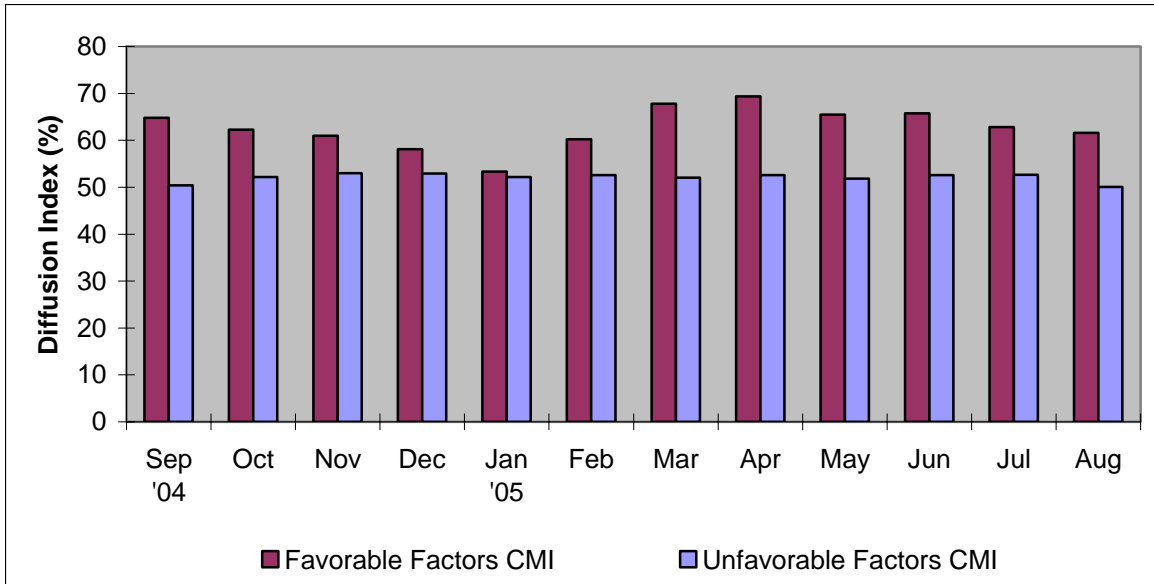
Service Sector (Not Seasonally Adjusted)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
	'04				'05							
Sales	64.0	61.8	60.8	59.0	54.7	59.4	71.5	70.4	65.7	68.8	64.7	64.0
New credit applications	60.1	54.9	55.1	54.2	51.3	57.0	66.2	66.5	62.4	64.8	62.2	60.0
Dollar collections	64.0	63.7	59.0	60.8	59.2	59.4	60.3	71.3	63.6	64.7	60.7	61.7
Amount of credit extended	64.2	65.1	63.5	59.7	58.7	62.7	72.9	73.0	68.5	69.0	65.7	70.3
Index of favorable factors	63.1	61.4	59.6	58.4	56.0	59.6	67.7	70.3	65.1	66.8	63.3	64.0
Rejection of credit applications	49.8	50.2	54.5	54.9	54.5	51.5	49.6	49.5	51.1	49.8	52.5	51.1
Accounts placed for collections	51.7	51.2	50.5	48.2	52.9	54.2	49.4	53.2	51.4	53.2	49.5	50.0
Disputes	47.8	51.9	50.8	55.2	50.8	50.6	47.7	52.0	49.6	50.2	47.7	52.0
Dollar amount beyond terms	45.8	45.2	49.0	46.4	51.8	50.4	53.4	59.4	56.6	54.6	53.6	48.3
Dollar amount of customer deductions	46.5	47.1	48.0	51.0	51.6	52.7	50.4	50.2	51.8	52.3	50.3	51.1
Filings for bankruptcies	53.0	59.4	61.8	59.4	61.5	57.4	60.3	56.0	50.7	56.3	58.9	56.4
Index of unfavorable factors	49.1	50.8	52.4	52.5	53.9	52.8	51.8	53.4	51.9	52.7	52.1	51.5
NACM Service CMI	54.7	55.1	55.3	54.9	54.7	55.5	58.2	60.2	57.1	58.4	56.6	56.5
ISM Service Business Activity Index	58.7	61.5	61.9	63.9	59.2	59.8	63.1	61.7	58.5	62.2	60.5	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Sep '04	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	66.2	63.3	62.5	58.3	51.6	60.6	70.6	71.6	66.7	68.5	64.3	61.4
New credit applications	60.7	57.3	57.0	51.5	50.5	60.5	65.7	64.5	60.8	62.4	60.3	61.1
Dollar collections	65.3	64.7	60.1	61.1	54.2	56.5	63.6	70.2	64.8	63.9	62.2	58.5
Amount of credit extended	66.5	63.7	64.4	61.3	57.2	63.4	71.4	71.3	69.7	68.3	64.6	65.6
Index of favorable factors	64.7	62.3	61.0	58.1	53.4	60.2	67.8	69.4	65.5	65.8	62.8	61.6
Rejection of credit applications	51.5	50.7	54.7	55.0	54.3	50.4	49.3	50.0	51.7	50.8	52.3	50.7
Accounts placed for collections	51.7	54.1	53.6	52.8	51.4	54.3	50.9	50.5	53.2	52.5	51.8	49.7
Disputes	47.3	51.0	50.7	52.3	48.7	49.1	48.8	50.5	49.2	49.9	47.8	48.6
Dollar amount beyond terms	48.9	50.2	50.7	49.9	51.0	52.6	55.1	59.0	55.8	53.7	53.7	48.7
Dollar amount of customer deductions	46.7	48.7	47.9	49.0	47.7	51.1	50.0	49.9	49.3	51.5	51.7	48.7
Filings for bankruptcies	55.5	58.6	60.4	58.5	60.0	58.0	58.5	56.0	52.2	57.1	58.9	54.2
Index of unfavorable factors	50.3	52.2	53.0	52.9	52.2	52.6	52.1	52.6	51.9	52.6	52.7	50.1
NACM Combined CMI	56.0	56.2	56.2	55.0	52.7	55.6	58.4	59.3	57.3	57.8	56.7	54.7
ISM Combined Sectors Index*	58.9	59.5	59.8	60.6	57.8	57.6	59.2	57.5	55.0	58.0	58.6	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 AUGUST 2005 TO AUGUST 2004

Looking back to just one year ago, in both the manufacturing and service sectors, the overall CMI posted lower. Among the favorable factors, most of which were below the previous year's level, all factors were well above the 50 percent level, indicating continued economic growth.

Comparison: August 2005 vs. August 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Aug '04	Aug '05	Aug '04	Aug '05	Aug '04	Aug '05
Sales	69.3	58.7	68.9	64.0	69.1	61.4
New credit applications	55.9	62.2	63.4	60.0	59.7	61.1
Dollar collections	63.7	55.2	64.1	61.7	63.9	58.5
Amount of credit extended	67.9	60.8	71.4	70.3	69.7	65.6
Index of favorable factors	64.2	59.2	67.0	64.0	65.6	61.6
Rejection of credit applications	55.1	50.3	51.7	51.1	53.4	50.7
Accounts placed for collections	56.7	49.4	56.3	50.0	56.5	49.7
Disputes	49.4	45.1	49.6	52.0	49.5	48.6
Dollar amount beyond terms	58.0	49.1	55.6	48.3	56.8	48.7
Dollar amount of customer deductions	50.6	46.3	49.4	51.1	50.0	48.7
Filings for bankruptcies	60.7	51.9	61.7	56.4	61.2	54.2
Index of unfavorable factors	55.1	48.7	54.1	51.5	54.6	50.1
NACM CMI	58.7	52.9	59.2	56.5	59.0	54.7

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.

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