

NACM Credit Manager's Index

Report for December 2003

Issued January 5, 2004
National Association of Credit Management
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| | | | |
|----------|------------------------|--------------------------------|--------------------------|
| Dec '03 | CMI-Total: 54.2 | CMI-Manufacturing: 52.5 | CMI-Service: 56.0 |
| Nov '03 | CMI-Total: 58.0 | CMI-Manufacturing: 57.4 | CMI-Service: 58.6 |
| % Change | -6.6% | -8.5% | -4.4% |

The combined NACM Credit Manager's Index for December fell 6.6% to 54.2. While this is a significant decline, the positive factor to note is that the index is 410 basis points above its reading of a year ago. Both sectors contributed to the decline, with the manufacturing sector contributing the most. The bottom line is that growth continues in the economy, albeit at a slower pace.

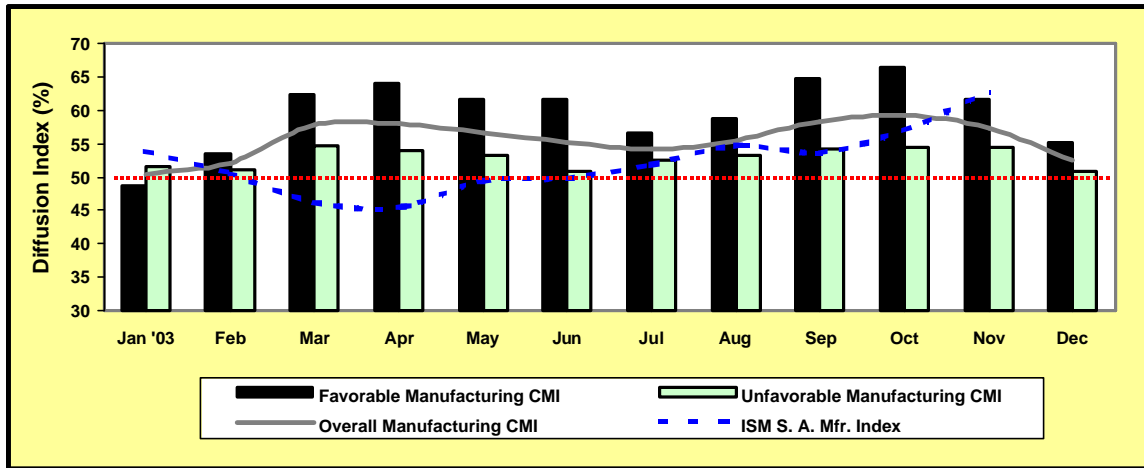
See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

The decline in the manufacturing index for December was expected, given the extraordinary strength of the index for the prior three months and the weakening of the "favorable factors" last month. With the exception of disputes, all measures are weaker this month. Four measures slipped below the critical 50% level: new credit applications, accounts placed for collections, dollar amount beyond terms, and dollar amount of customer deductions. Of further concern is the index of unfavorable factors. It is practically neutral and at its lowest level for the year. These results raise concern about the sustainability of high growth in the manufacturing sector. The most troublesome aspects are the significant decline in "new credit applications", the increase in "accounts placed for collections", and the increase in "dollar amount beyond terms". Each forebodes slowness.

Based on the overall results, January's reading is expected to be in the 50-52 range.

| Manufacturing Sector | | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| (Not Seasonally Adjusted) | | | | | | | | | | | | |
| | Jan '03 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Sales | 49.4 | 55.2 | 67.0 | 67.3 | 60.5 | 59.8 | 55.9 | 59.8 | 65.8 | 69.4 | 62.1 | 55.2 |
| New credit applications | 43.6 | 55.1 | 55.3 | 58.2 | 55.6 | 56.7 | 49.8 | 54.9 | 55.4 | 58.9 | 54.5 | 48.1 |
| Dollar collections | 52.2 | 45.6 | 65.3 | 66.4 | 68.2 | 64.5 | 60.0 | 61.2 | 68.3 | 69.4 | 65.2 | 59.9 |
| Amount of credit extended | 49.6 | 58.4 | 62.2 | 64.2 | 62.0 | 65.8 | 60.7 | 59.4 | 69.4 | 68.2 | 65.0 | 57.2 |
| Index of favorable factors | 48.7 | 53.6 | 62.5 | 64.0 | 61.6 | 61.7 | 56.6 | 58.8 | 64.7 | 66.5 | 61.7 | 55.1 |
| Rejection of credit applications | 54.3 | 50.7 | 51.8 | 52.3 | 54.1 | 51.7 | 54.1 | 53.4 | 55.0 | 54.4 | 55.9 | 53.9 |
| Accounts placed for collections | 53.2 | 53.3 | 55.6 | 56.3 | 54.1 | 53.3 | 54.7 | 54.6 | 55.0 | 52.0 | 53.5 | 47.5 |
| Disputes | 48.5 | 47.6 | 53.3 | 50.2 | 49.3 | 49.0 | 48.0 | 47.3 | 49.3 | 53.6 | 50.2 | 50.3 |
| Dollar amount beyond terms | 48.5 | 51.5 | 57.5 | 58.0 | 55.6 | 49.8 | 50.2 | 57.5 | 58.3 | 58.0 | 56.7 | 46.7 |
| Dollar amount of customer deductions | 48.5 | 48.4 | 52.0 | 49.8 | 51.7 | 45.4 | 48.0 | 48.4 | 49.5 | 51.7 | 51.4 | 49.7 |
| Filings for bankruptcies | 56.9 | 55.5 | 58.1 | 57.0 | 55.0 | 56.3 | 59.7 | 58.5 | 58.0 | 57.2 | 59.6 | 56.6 |
| Index of unfavorable factors | 51.7 | 51.2 | 54.7 | 53.9 | 53.3 | 50.9 | 52.5 | 53.3 | 54.2 | 54.5 | 54.6 | 50.8 |
| NACM Manufacturing CMI | 50.5 | 52.1 | 57.8 | 58.0 | 56.6 | 55.2 | 54.1 | 55.5 | 58.4 | 59.3 | 57.4 | 52.5 |
| ISM Manufacturing PMI Not Seasonally Adjusted | 51.2 | 51.0 | 48.7 | 48.6 | 52.0 | 51.7 | 51.0 | 54.1 | 54.5 | 55.3 | 58.8 | |
| Seasonally Adjusted | 53.9 | 50.5 | 46.2 | 45.4 | 49.4 | 49.8 | 51.8 | 54.7 | 53.7 | 57.0 | 62.8 | |



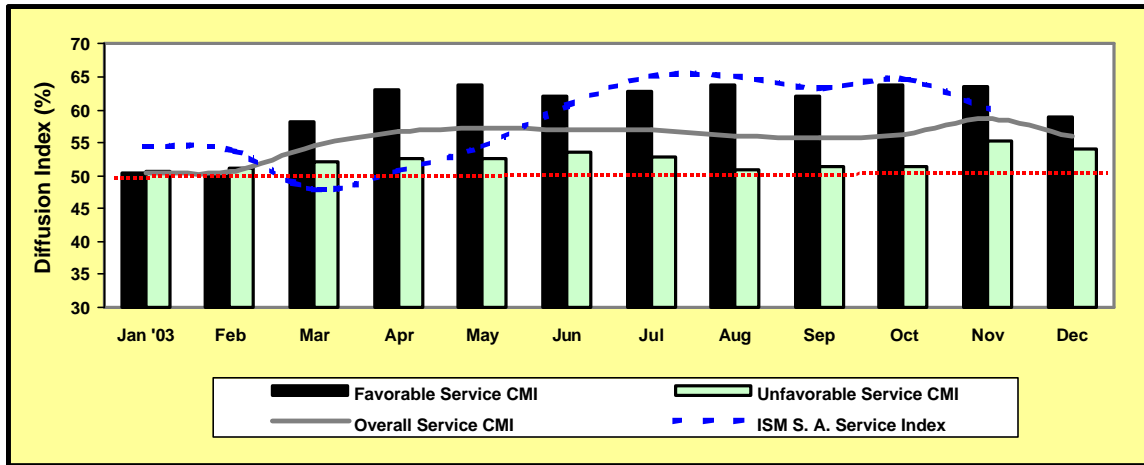
SERVICE SECTOR RESULTS

The service sector index, while declining 4.4% in December, is not much different than it was prior to November. However, there is much change occurring in the makeup of the index. Each of the favorable factors declined this month, with the most significant change being for “new credit applications”. New applications have now fallen for three consecutive months and are bordering on neutral. “Sales” growth, while still strong, has weakened for two consecutive months.

The index of unfavorable factors fell 130 basis points in December. The largest contributing factor is “dollar amount beyond terms”, which declined from 57.7 to 49.2. This reading indicates slowness in paying on open trade credit accounts. A positive influence, however, is fewer “accounts placed for collections”.

Based on December’s performance, January’s reading will probably realize a marginal decrease.

| Service Sector | | | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| (Not Seasonally Adjusted) | | | | | | | | | | | | |
| | Jan '03 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Sales | 48.7 | 47.0 | 57.5 | 66.6 | 63.3 | 64.3 | 65.0 | 65.1 | 63.1 | 67.9 | 64.2 | 60.7 |
| New credit applications | 47.3 | 50.6 | 55.9 | 58.9 | 60.7 | 60.1 | 59.4 | 58.7 | 60.1 | 60.0 | 57.7 | 51.4 |
| Dollar collections | 52.3 | 47.6 | 60.6 | 59.6 | 64.1 | 58.9 | 58.2 | 65.2 | 61.2 | 60.0 | 62.9 | 58.5 |
| Amount of credit extended | 53.4 | 54.1 | 59.1 | 66.6 | 67.2 | 65.3 | 68.7 | 65.9 | 64.3 | 67.5 | 69.3 | 64.9 |
| Index of favorable factors | 50.4 | 49.8 | 58.3 | 62.9 | 63.8 | 62.2 | 62.8 | 63.7 | 62.2 | 63.9 | 63.5 | 58.9 |
| Rejection of credit applications | 53.2 | 51.6 | 50.2 | 50.6 | 47.2 | 52.8 | 49.3 | 49.4 | 50.5 | 50.6 | 55.1 | 55.3 |
| Accounts placed for collections | 50.0 | 50.0 | 53.3 | 50.6 | 52.4 | 53.4 | 52.2 | 48.4 | 49.5 | 48.7 | 50.8 | 54.6 |
| Disputes | 51.8 | 50.2 | 50.9 | 52.3 | 51.8 | 53.2 | 51.4 | 49.4 | 50.0 | 53.9 | 53.6 | 52.9 |
| Dollar amount beyond terms | 43.0 | 50.0 | 50.6 | 54.2 | 56.3 | 51.9 | 51.7 | 52.6 | 47.1 | 50.3 | 57.7 | 49.2 |
| Dollar amount of customer deductions | 51.8 | 49.8 | 52.4 | 52.7 | 53.6 | 54.1 | 54.1 | 49.6 | 50.7 | 50.3 | 53.6 | 50.6 |
| Filings for bankruptcies | 53.4 | 54.7 | 55.2 | 54.4 | 54.9 | 55.4 | 58.6 | 55.9 | 59.8 | 54.2 | 61.2 | 61.6 |
| Index of unfavorable factors | 50.5 | 51.1 | 52.1 | 52.5 | 52.7 | 53.5 | 52.9 | 50.9 | 51.3 | 51.3 | 55.3 | 54.0 |
| NACM Service CMI | 50.5 | 50.6 | 54.6 | 56.7 | 57.2 | 56.9 | 56.9 | 56.0 | 55.6 | 56.3 | 58.6 | 56.0 |
| ISM Service Business Activity Index Not Seasonally Adjusted | 49.5 | 54.5 | 49.5 | 54.5 | 56.5 | 63.5 | 63.0 | 62.5 | 64.5 | 63.0 | 61.0 | |
| Seasonally Adjusted | 54.5 | 53.9 | 47.9 | 50.7 | 54.5 | 60.6 | 65.1 | 65.1 | 63.3 | 64.7 | 60.1 | |



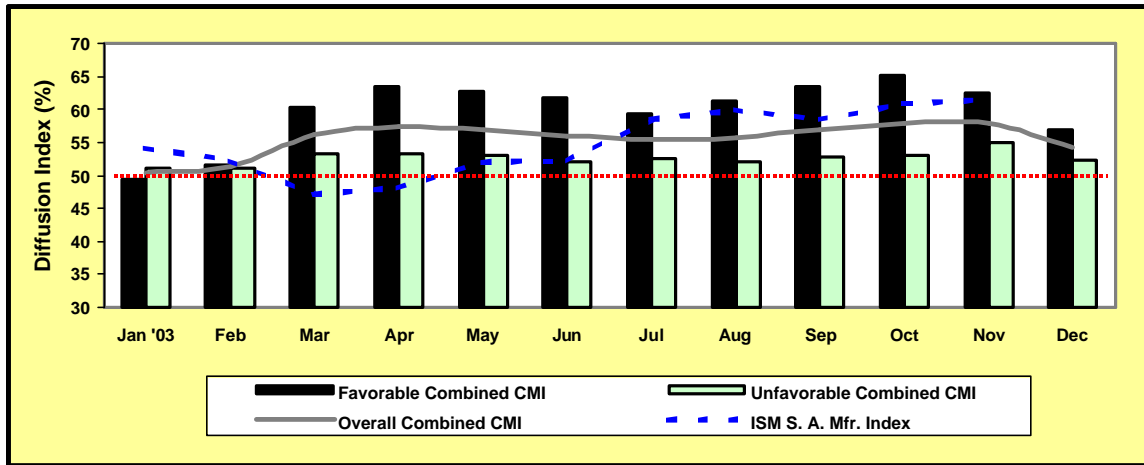
COMBINED SECTORS

There is a 380 basis point decline in December's index versus the prior month's. December's reading is the first decline in the overall index since August. Every indicator has a lower reading this month than realized in November. Indeed, month-over-month growth has fallen to the level of strength shown during the summer. More specifically, "new credit applications" deteriorated into negative growth territory and "dollar amount beyond terms" lengthened considerably.

The expectation is that next month will see the overall index falling further, while still exhibiting growth. This performance is consistent with other recent economic forecasts that the recent strong growth in the economy will continue, but at a slower pace.

| Combined Manufacturing & Service Sectors | | | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| (Not Seasonally Adjusted) | | | | | | | | | | | | |
| | Jan '03 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Sales | 49.1 | 50.9 | 62.2 | 67.0 | 61.9 | 62.1 | 60.1 | 62.4 | 64.5 | 68.7 | 63.1 | 58.0 |
| New credit applications | 45.3 | 52.7 | 55.6 | 58.5 | 58.1 | 58.4 | 54.2 | 56.8 | 57.9 | 59.4 | 56.0 | 49.7 |
| Dollar collections | 52.2 | 46.6 | 62.9 | 63.1 | 66.2 | 61.7 | 59.2 | 63.2 | 64.7 | 65.0 | 64.1 | 59.2 |
| Amount of credit extended | 51.3 | 56.2 | 60.6 | 65.4 | 64.6 | 65.5 | 64.4 | 62.6 | 66.8 | 67.9 | 67.1 | 61.0 |
| Index of favorable factors | 49.5 | 51.6 | 60.3 | 63.5 | 62.7 | 61.9 | 59.5 | 61.3 | 63.5 | 65.3 | 62.6 | 57.0 |
| Rejection of credit applications | 53.8 | 51.2 | 51.0 | 51.5 | 50.7 | 52.2 | 51.9 | 51.4 | 52.7 | 52.7 | 55.5 | 54.6 |
| Accounts placed for collections | 51.7 | 51.6 | 54.4 | 53.5 | 53.3 | 53.4 | 53.5 | 51.5 | 52.2 | 50.5 | 52.2 | 51.0 |
| Disputes | 50.0 | 48.9 | 52.1 | 51.2 | 50.5 | 51.1 | 49.6 | 48.4 | 49.6 | 53.8 | 51.9 | 51.5 |
| Dollar amount beyond terms | 46.0 | 50.7 | 54.0 | 56.1 | 55.9 | 50.8 | 50.9 | 55.1 | 52.6 | 54.5 | 57.1 | 47.9 |
| Dollar amount of customer deductions | 50.0 | 49.1 | 52.2 | 51.2 | 52.6 | 49.7 | 50.8 | 49.0 | 50.1 | 51.1 | 52.5 | 50.1 |
| Filings for bankruptcies | 55.3 | 55.1 | 56.6 | 55.8 | 54.9 | 55.8 | 59.2 | 57.2 | 58.9 | 55.8 | 60.4 | 59.0 |
| Index of unfavorable factors | 51.1 | 51.1 | 53.4 | 53.2 | 53.0 | 52.2 | 52.7 | 52.1 | 52.7 | 53.1 | 54.9 | 52.4 |
| NACM Combined CMI | 50.5 | 51.3 | 56.2 | 57.3 | 56.9 | 56.1 | 55.4 | 55.8 | 57.0 | 57.9 | 58.0 | 54.2 |
| ISM Combined Sectors Index* Not Seasonally Adjusted | 50.4 | 52.8 | 49.1 | 51.6 | 54.3 | 57.6 | 57.0 | 58.3 | 59.5 | 59.2 | 59.9 | |
| Seasonally Adjusted | 54.2 | 52.2 | 47.1 | 48.1 | 52.0 | 52.2 | 58.5 | 59.9 | 58.5 | 60.9 | 61.5 | |

*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.



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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