

NACM Credit Manager's Index

Report for December 2005

Issued January 2, 2006
 National Association of Credit Management
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December '05	CMI-Total: 54.9	CMI-Manufacturing: 53.0	CMI-Service: 56.9
November '05	CMI-Total: 57.4	CMI-Manufacturing: 57.8	CMI-Service: 57.1
% Change	-4.36%	-8.30 %	-0.35%

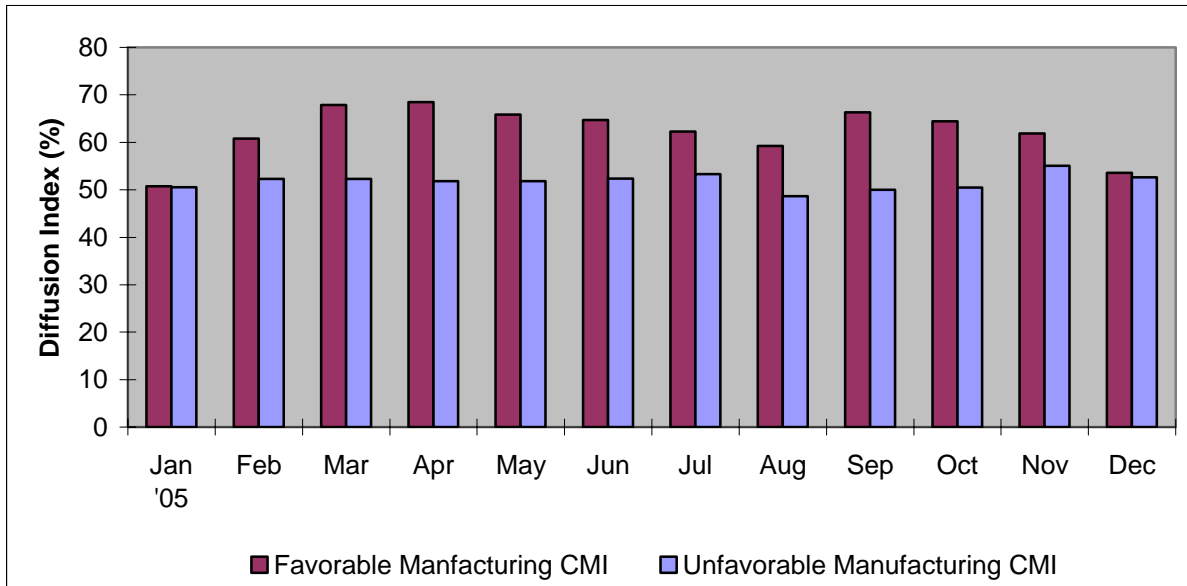
December's Credit Manager's Index fell 2.5 percent to 54.9, a level still associated with economic expansion. But the manufacturing sector took a sharp plunge of 4.8 percent, while the services sector slipped only 0.2. The only positive component in the manufacturing report was the improvement in bankruptcy activity. Dan North, Chief Economist with EulerHermes ACI, notes that otherwise, manufacturing was weak all around, particularly in the Index of favorable factors where all four components fell at least 7.6 percent, amounts that were not entirely attributable to seasonality. The total Manufacturing Index is down 2.1 percent from last year, three of the manufacturing components are now below the 50 percent level, which indicates a slowdown, and the sales component for the manufacturing sector is down 21.1 percent since September. By contrast, five of the ten components in the Service Index rose, pushing it up 0.2 percent from last month and up 2.0 percent from last year, while only one component is below 50 percent. "However," North says, "in both sectors, dollar collections and dollar amount beyond terms fell the most, easily wiping out last month's gain, suggesting that customers might be short on cash flow. Higher energy costs, interest rates, and labor rates are likely culprits. November's drop in fuel price may help ease the situation next month."

[See the last page of this report for information about the methodology and factors used to measure economic performance.](#)

MANUFACTURING SECTOR RESULTS

With the onset of the holiday season, the manufacturing sector dropped to 53 percent, a 480 points drop over November, credit managers reported decreases in nine of ten factors. All four of the favorable factors had substantial decreases, with the largest decline coming from Dollar Collections, which dropped 1,020 points. Unfavorable factors also showed decline, with erosion in five of the six factors: the largest of which were in Dollars Beyond Terms and Disputes, down 820 and 710 points, respectively. One positive note was the decline credit managers reported in the number of bankruptcies.

Manufacturing Sector (Not Seasonally Adjusted)												
	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	48.4	61.7	69.6	72.7	67.6	68.1	63.8	58.7	74.1	68.9	60.7	53.0
New credit applications	49.7	63.9	65.2	62.5	59.2	60.0	58.3	62.2	61.6	56.2	55.1	47.2
Dollar collections	49.2	53.6	66.8	69.1	65.9	63.1	63.7	55.2	61.1	63.4	66.7	56.5
Amount of credit extended	55.7	64.0	69.8	69.6	70.8	67.6	63.4	60.8	68.4	69.2	65.1	57.5
Index of favorable factors	50.8	60.8	67.9	68.5	65.9	64.7	62.3	59.2	66.3	64.4	61.9	53.6
Rejection of credit applications	54.1	49.2	48.9	50.5	52.2	51.8	52.1	50.3	52.2	54.2	55.6	53.5
Accounts placed for collections	50.0	54.4	52.3	47.7	54.9	51.8	54.0	49.4	51.9	52.7	57.4	55.7
Disputes	46.6	47.6	49.8	49.0	48.7	49.5	47.9	45.1	49.6	47.7	53.2	46.1
Dollar amount beyond terms	50.3	54.7	56.7	58.5	54.9	52.7	53.8	49.1	49.1	53.2	58.4	50.2
Dollar amount of customer deductions	43.8	49.4	49.5	49.5	46.7	50.7	53.0	46.3	46.9	48.9	50.0	49.1
Filings for bankruptcies	58.5	58.6	56.7	55.9	53.7	57.8	58.9	51.9	50.3	46.0	55.6	61.1
Index of unfavorable factors	50.6	52.3	52.3	51.9	51.9	52.4	53.3	48.7	50.0	50.5	55.0	52.6
NACM Manufacturing CMI	50.6	55.7	58.5	58.5	57.5	57.3	56.9	52.9	56.5	56.0	57.8	53.0
ISM Manufacturing PMI	56.4	55.3	55.2	53.3	51.4	53.8	56.6	53.6	59.4	59.1	58.1	NA

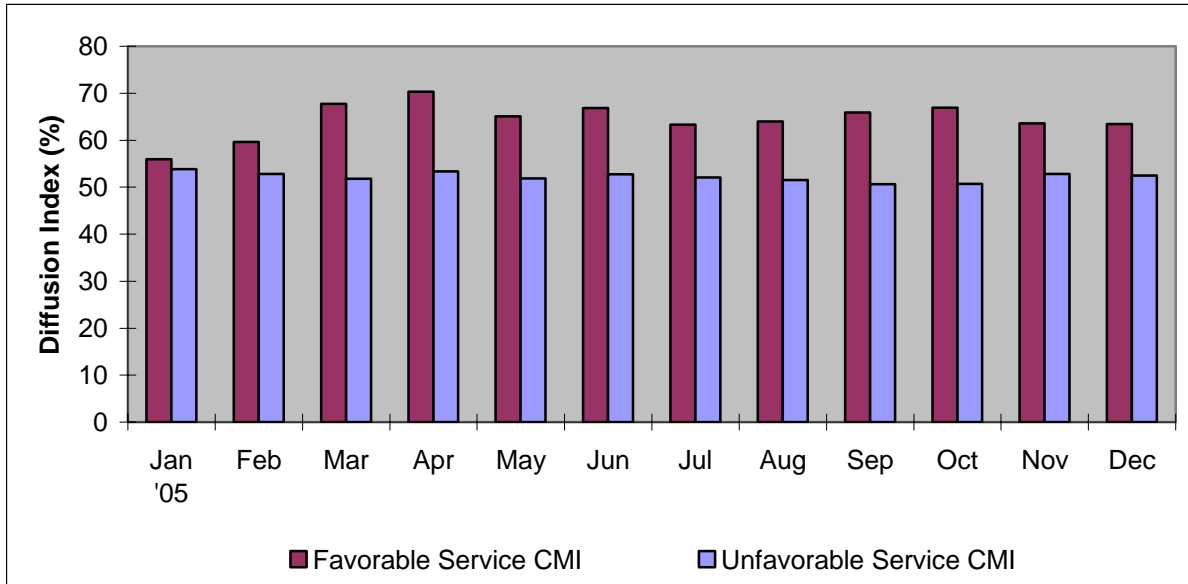


Service Sector Results

The service sector fared slightly better than the manufacturing sector, reporting only a 20-point drop in the overall CMI. Despite minor improvement in three of the four factors, a 590-point drop in Dollar Collections caused an overall decline.

Looking at unfavorable factors, we see a pattern very similar to the one seen in the manufacturing sector: erosion in both Dollars Beyond Terms and Disputes, with a much lower level of bankruptcy filings.

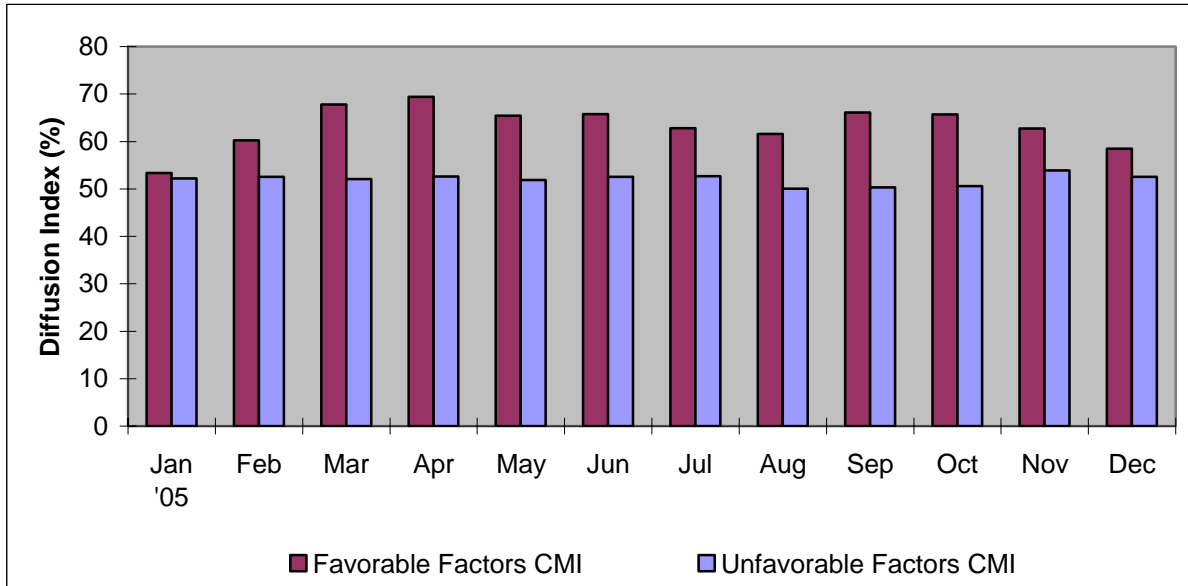
Service Sector (Not Seasonally Adjusted)		Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales		54.7	59.4	71.5	70.4	65.7	68.8	64.7	64.0	69.2	71.2	65.7	67.0
New credit applications		51.3	57.0	66.2	66.5	62.4	64.8	62.2	60.0	64.3	62.2	55.8	57.0
Dollar collections		59.2	59.4	60.3	71.3	63.6	64.7	60.7	61.7	61.1	63.6	66.6	60.7
Amount of credit extended		58.7	62.7	72.9	73.0	68.5	69.0	65.7	70.3	69.0	70.8	66.2	69.0
Index of favorable factors		56.0	59.6	67.7	70.3	65.1	66.8	63.3	64.0	65.9	67.0	63.6	63.4
Rejection of credit applications		54.5	51.5	49.6	49.5	51.1	49.8	52.5	51.1	52.2	52.5	53.8	52.9
Accounts placed for collections		52.9	54.2	49.4	53.2	51.4	53.2	49.5	50.0	51.0	53.1	50.2	50.2
Disputes		50.8	50.6	47.7	52.0	49.6	50.2	47.7	52.0	47.8	50.3	53.5	50.4
Dollar amount beyond terms		51.8	50.4	53.4	59.4	56.6	54.6	53.6	48.3	52.9	51.2	54.8	48.3
Dollar amount of customer deductions		51.6	52.7	50.4	50.2	51.8	52.3	50.3	51.1	49.0	51.0	50.3	51.2
Filings for bankruptcies		61.5	57.4	60.3	56.0	50.7	56.3	58.9	56.4	50.7	45.9	54.1	61.8
Index of unfavorable factors		53.9	52.8	51.8	53.4	51.9	52.7	52.1	51.5	50.6	50.7	52.8	52.5
NACM Service CMI		54.7	55.5	58.2	60.2	57.1	58.4	56.6	56.5	56.7	57.2	57.1	56.9
ISM Service Business Activity Index		59.2	59.8	63.1	61.7	58.5	62.2	60.5	65.0	53.3	60.0	58.5	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	51.6	60.6	70.6	71.6	66.7	68.5	64.3	61.4	71.7	70.1	63.2	60.0
New credit applications	50.5	60.5	65.7	64.5	60.8	62.4	60.3	61.1	63.0	59.2	55.5	52.1
Dollar collections	54.2	56.5	63.6	70.2	64.8	63.9	62.2	58.5	61.1	63.5	66.7	58.6
Amount of credit extended	57.2	63.4	71.4	71.3	69.7	68.3	64.6	65.6	68.7	70.0	65.7	63.3
Index of favorable factors	53.4	60.2	67.8	69.4	65.5	65.8	62.8	61.6	66.1	65.7	62.7	58.5
Rejection of credit applications	54.3	50.4	49.3	50.0	51.7	50.8	52.3	50.7	52.2	53.4	54.7	53.2
Accounts placed for collections	51.4	54.3	50.9	50.5	53.2	52.5	51.8	49.7	51.5	52.9	53.8	53.0
Disputes	48.7	49.1	48.8	50.5	49.2	49.9	47.8	48.6	48.7	49.0	53.4	48.3
Dollar amount beyond terms	51.0	52.6	55.1	59.0	55.8	53.7	53.7	48.7	51.0	52.2	56.6	49.3
Dollar amount of customer deductions	47.7	51.1	50.0	49.9	49.3	51.5	51.7	48.7	48.0	50.0	50.2	50.2
Filings for bankruptcies	60.0	58.0	58.5	56.0	52.2	57.1	58.9	54.2	50.5	46.0	54.9	61.5
Index of unfavorable factors	52.2	52.6	52.1	52.6	51.9	52.6	52.7	50.1	50.3	50.6	53.9	52.5
NACM Combined CMI	52.7	55.6	58.4	59.3	57.3	57.8	56.7	54.7	56.6	56.6	57.4	54.9
ISM Combined Sectors Index*	57.8	57.6	59.2	57.5	55.0	58.0	58.6	59.3	56.4	59.6	58.3	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 DECEMBER 2005 TO DECEMBER 2004

NACM's December 2005 CMI remained fairly consistent with the level credit managers reported just one year ago. The CMI ended 2005 at 54.9 percent compared to 55 percent at year-end 2004. Of the ten factors, eight were at or above the 50 percent neutral mark, indicating economic expansion. The two remaining factors—Dollars Beyond Terms and Disputes—were just slightly below the 50 percent mark, at 49.3 and 48.3 percent, respectively.

Comparison: December 2005 vs. December 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Dec '04	Dec '05	Dec '04	Dec '05	Dec '04	Dec '05
Sales	57.6	53.0	59.0	67.0	58.3	60.0
New credit applications	49.0	47.2	54.2	57.0	51.6	52.1
Dollar collections	61.5	56.5	60.8	60.7	61.2	58.6
Amount of credit extended	62.8	57.5	59.7	69.0	61.3	63.3
Index of favorable factors	57.7	53.6	58.4	63.4	58.1	58.5
Rejection of credit applications	55.1	53.5	54.9	52.9	55.0	53.2
Accounts placed for collections	57.1	55.7	48.2	50.2	52.7	53.0
Disputes	49.5	46.1	55.2	50.4	52.4	48.3
Dollar amount beyond terms	53.2	50.2	46.4	48.3	49.8	49.3
Dollar amount of customer deductions	47.0	49.1	51.0	51.2	49.0	50.2
Filings for bankruptcies	57.7	61.1	59.4	61.8	58.6	61.5
Index of unfavorable factors	53.3	52.6	52.5	52.5	52.9	52.5
NACM CMI	55.1	53.0	54.9	56.9	55.0	54.9

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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