

NACM Credit Manager's Index

Report for February 2004

Issued March 1, 2004
 National Association of Credit Management
 8840 Columbia 100 Parkway
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Feb '04	CMI-Total: 56.5	CMI-Manufacturing: 54.3	CMI-Service: 58.6
Jan '04	CMI-Total: 55.3	CMI-Manufacturing: 53.8	CMI-Service: 56.8
% Change	2.2%	0.9%	3.2%

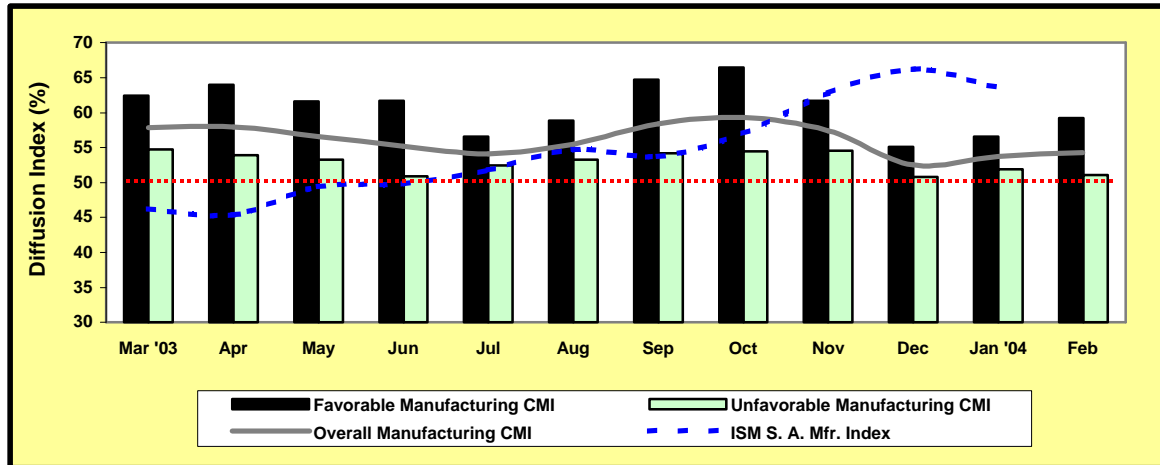
All sectors of the NACM Credit Manager's Index for February improved relative to January's results. The manufacturing sector continues to grow, although the rate of growth has slowed compared to levels seen during the latter part of 2003. There are some troubling signs in the manufacturing sector. On the other hand, the service sector had a huge increase in February and appears trouble free.

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 shows a 50 basis point improvement in February. However, there are several worrisome factors emerging. "Dollar collections" have fallen to the worst reading in over a year on increased sales, and also greater "credit extended". The result is that "dollar amount beyond terms" has increased—customers are slower to pay—as have "disputes" with customers and unauthorized "deductions". "Rejection of credit applications" is hovering near the level of 50 and indicates an increase in marginal customers seeking trade credit and being denied. The question is: Are factories increasing output (indicated by the "sales" improvements) at the expense of declining quality of accounts?

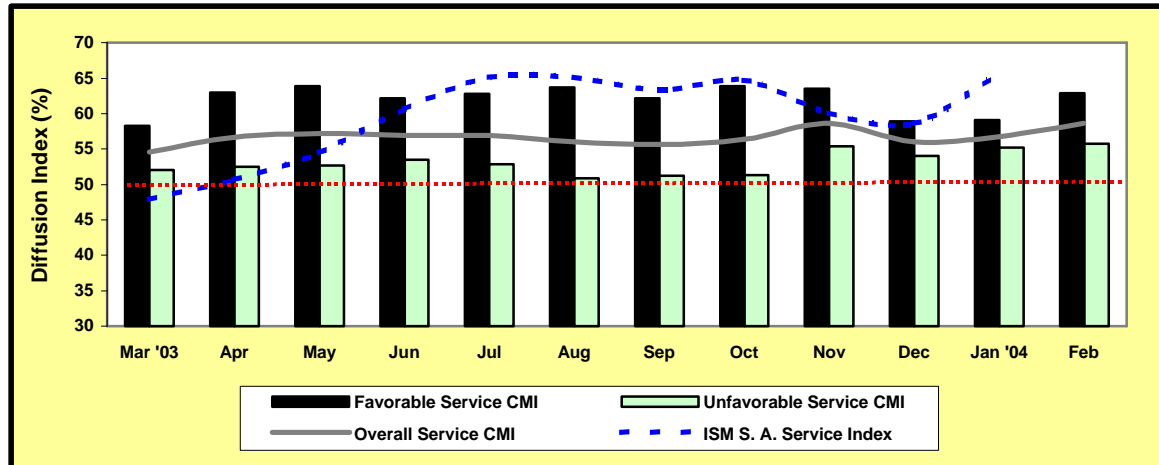
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Mar '03	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb
Sales	67.0	67.3	60.5	59.8	55.9	59.8	65.8	69.4	62.1	55.2	56.8	63.2
New credit applications	55.3	58.2	55.6	56.7	49.8	54.9	55.4	58.9	54.5	48.1	53.5	58.9
Dollar collections	65.3	66.4	68.2	64.5	60.0	61.2	68.3	69.4	65.2	59.9	60.0	51.1
Amount of credit extended	62.2	64.2	62.0	65.8	60.7	59.4	69.4	68.2	65.0	57.2	55.9	63.8
Index of favorable factors	62.5	64.0	61.6	61.7	56.6	58.8	64.7	66.5	61.7	55.1	56.6	59.3
Rejection of credit applications	51.8	52.3	54.1	51.7	54.1	53.4	55.0	54.4	55.9	53.9	51.6	51.9
Accounts placed for collections	55.6	56.3	54.1	53.3	54.7	54.6	55.0	52.0	53.5	47.5	54.6	54.8
Disputes	53.3	50.2	49.3	49.0	48.0	47.3	49.3	53.6	50.2	50.3	47.7	45.4
Dollar amount beyond terms	57.5	58.0	55.6	49.8	50.2	57.5	58.3	58.0	56.7	46.7	51.1	49.2
Dollar amount of customer deductions	52.0	49.8	51.7	45.4	48.0	48.4	49.5	51.7	51.4	49.7	49.5	46.5
Filings for bankruptcies	58.1	57.0	55.0	56.3	59.7	58.5	58.0	57.2	59.6	56.6	56.8	58.4
Index of unfavorable factors	54.7	53.9	53.3	50.9	52.5	53.3	54.2	54.5	54.6	50.8	51.9	51.0
NACM Manufacturing CMI	57.8	58.0	56.6	55.2	54.1	55.5	58.4	59.3	57.4	52.5	53.8	54.3
ISM Manufacturing PMI												
Not Seasonally Adjusted	48.7	48.6	52.0	51.7	51.0	54.1	54.5	55.3	58.8	60.3	61.6	
Seasonally Adjusted, Reported	46.2	45.4	49.4	49.8	51.8	54.7	53.7	57.0	62.8	66.2	63.6	
Seasonally Adjusted, Revised	46.6	46.2	50.0	50.4	52.6	55.0	54.7	57.1	61.3	63.4		



SERVICE SECTOR RESULTS

Once again, the service sector index continues to show it to be the major strength of the economy. With one exception, “filings for bankruptcies”, every factor shows improvement over its January reading. And the reading for bankruptcies is not of any concern.

Service Sector												
(Not Seasonally Adjusted)												
	Mar '03	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb
Sales	57.5	66.6	63.3	64.3	65.0	65.1	63.1	67.9	64.2	60.7	59.2	66.3
New credit applications	55.9	58.9	60.7	60.1	59.4	58.7	60.1	60.0	57.7	51.4	55.9	62.1
Dollar collections	60.6	59.6	64.1	58.9	58.2	65.2	61.2	60.0	62.9	58.5	58.9	59.4
Amount of credit extended	59.1	66.6	67.2	65.3	68.7	65.9	64.3	67.5	69.3	64.9	62.4	63.7
Index of favorable factors	58.3	62.9	63.8	62.2	62.8	63.7	62.2	63.9	63.5	58.9	59.1	62.9
Rejection of credit applications	50.2	50.6	47.2	52.8	49.3	49.4	50.5	50.6	55.1	55.3	51.8	51.9
Accounts placed for collections	53.3	50.6	52.4	53.4	52.2	48.4	49.5	48.7	50.8	54.6	52.5	56.4
Disputes	50.9	52.3	51.8	53.2	51.4	49.4	50.0	53.9	53.6	52.9	56.8	57.0
Dollar amount beyond terms	50.6	54.2	56.3	51.9	51.7	52.6	47.1	50.3	57.7	49.2	54.3	54.4
Dollar amount of customer deductions	52.4	52.7	53.6	54.1	54.1	49.6	50.7	50.3	53.6	50.6	54.1	54.8
Filings for bankruptcies	55.2	54.4	54.9	55.4	58.6	55.9	59.8	54.2	61.2	61.6	61.6	59.9
Index of unfavorable factors	52.1	52.5	52.7	53.5	52.9	50.9	51.3	51.3	55.3	54.0	55.2	55.7
NACM Service CMI	54.6	56.7	57.2	56.9	56.9	56.0	55.6	56.3	58.6	56.0	56.8	58.6
ISM Service Business Activity Index												
Not Seasonally Adjusted	49.5	54.5	56.5	63.5	63.0	62.5	64.5	63.0	61.0	56.0	60.0	
Seasonally Adjusted, Reported	47.9	50.7	54.5	60.6	65.1	65.1	63.3	64.7	60.1	58.6	65.7	
Seasonally Adjusted, Revised	49.1	53.6	56.1	59.5	64.1	63.8	61.7	63.3	59.6	58.0		

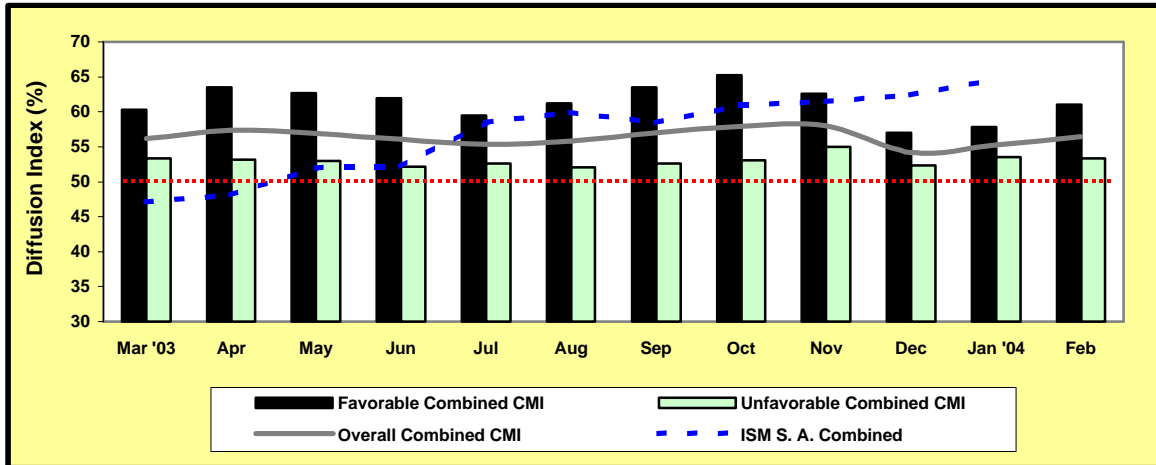


COMBINED SECTORS

Overall, the economy continues to grow on a month-over-month basis. Sales remain strong but collections and aging of accounts have shown slippage in the past three months. There has been a noticeable increase in "rejection of credit applications" relative to the November-December period in 2003. This factor has the potential to cause a slowdown in sales.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Mar '03	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb
Sales	62.2	67.0	61.9	62.1	60.1	62.4	64.5	68.7	63.1	58.0	58.0	64.7
New credit applications	55.6	58.5	58.1	58.4	54.2	56.8	57.9	59.4	56.0	49.7	54.7	60.5
Dollar collections	62.9	63.1	66.2	61.7	59.2	63.2	64.7	65.0	64.1	59.2	59.5	55.2
Amount of credit extended	60.6	65.4	64.6	65.5	64.4	62.6	66.8	67.9	67.1	61.0	59.1	63.7
Index of favorable factors	60.3	63.5	62.7	61.9	59.5	61.3	63.5	65.3	62.6	57.0	57.8	61.0
Rejection of credit applications	51.0	51.5	50.7	52.2	51.9	51.4	52.7	52.7	55.5	54.6	51.7	51.9
Accounts placed for collections	54.4	53.5	53.3	53.4	53.5	51.5	52.2	50.5	52.2	51.0	53.5	55.6
Disputes	52.1	51.2	50.5	51.1	49.6	48.4	49.6	53.8	51.9	51.5	52.3	51.2
Dollar amount beyond terms	54.0	56.1	55.9	50.8	50.9	55.1	52.6	54.5	57.1	47.9	52.7	51.8
Dollar amount of customer deductions	52.2	51.2	52.6	49.7	50.8	49.0	50.1	51.1	52.5	50.1	51.8	50.7
Filings for bankruptcies	56.6	55.8	54.9	55.8	59.2	57.2	58.9	55.8	60.4	59.0	59.2	59.2
Index of unfavorable factors	53.4	53.2	53.0	52.2	52.7	52.1	52.7	53.1	54.9	52.4	53.5	53.4
NACM Combined CMI	56.2	57.3	56.9	56.1	55.4	55.8	57.0	57.9	58.0	54.2	55.3	56.5
ISM Combined Sectors Index* Not Seasonally Adjusted	49.1	51.6	54.3	57.6	57.0	58.3	59.5	59.2	59.9	58.2	60.8	
Seasonally Adjusted, Reported	47.1	48.1	52.0	52.2	58.5	59.9	58.5	60.9	61.5	62.4	64.7	
Seasonally Adjusted, Revised	47.9	49.9	53.1	55.0	58.4	59.4	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, 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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