

NACM Credit Manager's Index

Report for February 2005

Issued March 1, 2005
National Association of Credit Management
8840 Columbia 100 Parkway
Columbia, MD 21045-2158

February '05	CMI-Total: 55.6	CMI-Manufacturing: 55.7	CMI-Service: 55.5
January '05	CMI-Total: 52.7	CMI-Manufacturing: 50.6	CMI-Service: 54.7
% Change	5.50%	10.08%	1.46%

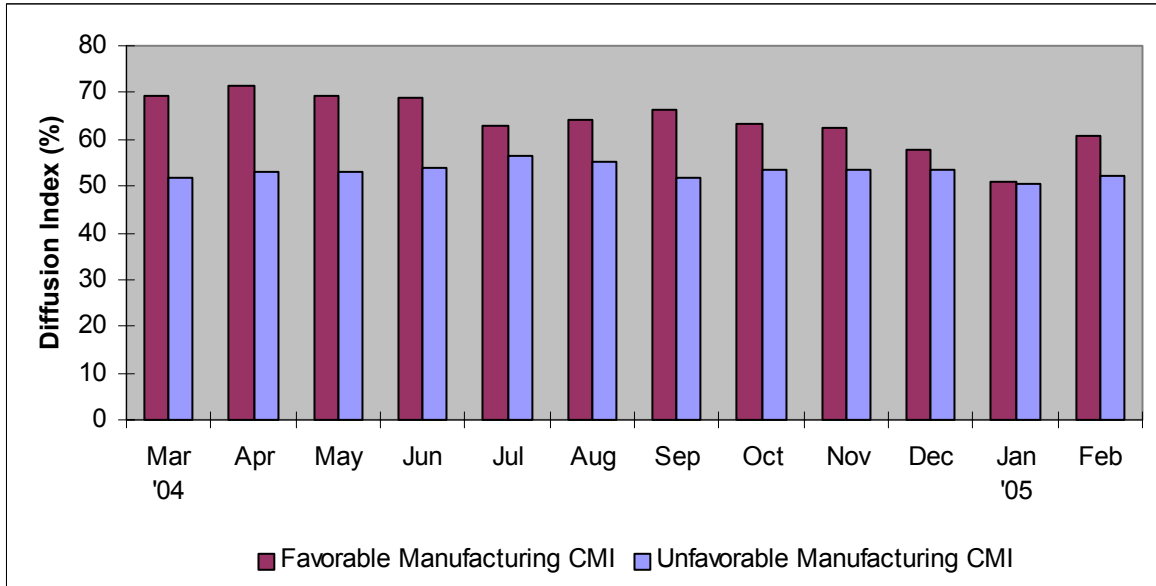
While the manufacturing sector exhibited significant gains—the single largest increase since March 2003—the service sector showed modest growth, compared to January results. Favorable factors within both sectors exhibited economic expansion.

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 recorded a 510 basis point improvement in February. This is the single largest increase since March 2003. New credit applications and new sales lead the way with increases of 1,420 and 1,330 basis points, respectively. However, rejection of credit applications appears to be growing—the only negative factor.

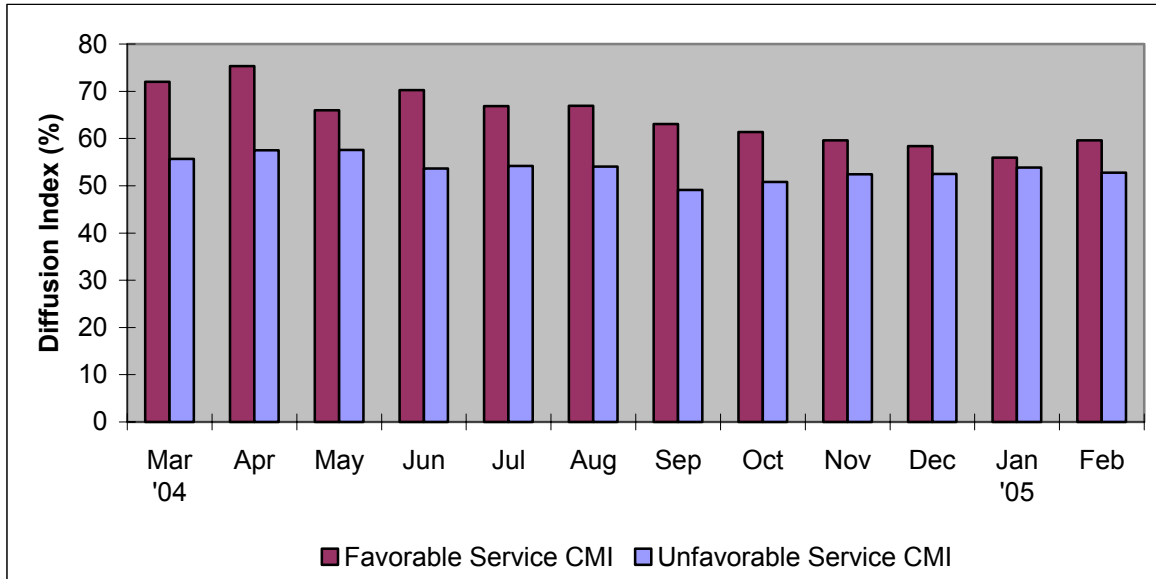
Manufacturing Sector (Not Seasonally Adjusted)	Mar '04	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb
Sales	75.5	78.4	75.2	71.7	64.5	69.3	68.8	64.8	64.1	57.6	48.4	61.7
New credit applications	63.8	63.6	59.4	60.8	56.4	55.9	61.3	59.7	58.8	49.0	49.7	63.9
Dollar collections	65.3	70.9	70.4	71.7	66.8	63.7	66.7	65.7	61.0	61.5	49.2	53.6
Amount of credit extended	72.9	73.0	71.6	71.3	64.4	67.9	69.1	62.3	65.3	62.8	55.7	64.0
Index of favorable factors	69.4	71.5	69.2	68.9	63.0	64.2	66.5	63.1	62.3	57.7	50.8	60.8
Rejection of credit applications	50.0	51.7	51.9	53.8	52.0	55.1	53.4	51.2	54.8	55.1	54.1	49.2
Accounts placed for collections	53.7	54.0	53.1	58.0	60.3	56.7	51.7	56.9	56.5	57.1	50.0	54.4
Disputes	49.5	46.2	49.3	49.4	51.5	49.4	46.9	50.0	50.7	49.5	46.6	47.6
Dollar amount beyond terms	51.6	58.1	56.2	51.8	60.6	58.0	52.6	55.2	52.3	53.2	50.3	54.7
Dollar amount of customer deductions	48.9	48.3	47.6	48.4	52.3	50.6	46.9	50.2	47.9	47.0	43.8	49.4
Filings for bankruptcies	58.0	60.5	59.2	62.0	63.4	60.7	58.4	57.9	59.0	57.7	58.5	58.6
Index of unfavorable factors	52.0	53.1	52.9	53.9	56.7	55.1	51.7	53.6	53.5	53.3	50.6	52.3
NACM Manufacturing CMI	58.9	60.5	59.4	59.9	59.2	58.7	57.6	57.4	57.0	55.1	50.6	55.7
ISM Manufacturing PMI	62.3	62.3	62.6	61.2	61.6	59.6	59.1	55.5	57.6	57.3	56.4	NA



Service Sector Results

The service sector showed slight improvement in February, increasing 80 basis points. Like the manufacturing sector, new credit applications and new sales contributed to the increase. Returning to November 2004 levels, all factors exhibit economic growth.

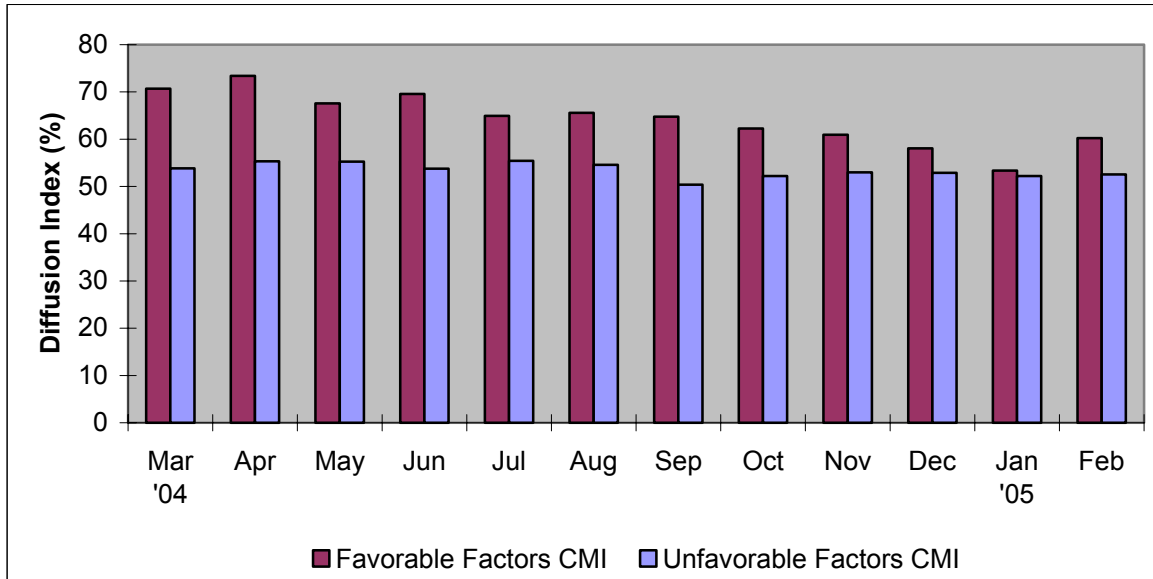
Service Sector (Not Seasonally Adjusted)		Mar '04	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb
Sales		79.6	79.6	71.0	72.9	67.1	68.9	64.0	61.8	60.8	59.0	54.7	59.4
New credit applications		68.0	71.9	61.2	64.9	57.7	63.4	60.1	54.9	55.1	54.2	51.3	57.0
Dollar collections		66.7	72.8	61.6	70.8	75.5	64.1	64.0	63.7	59.0	60.8	59.2	59.4
Amount of credit extended		73.7	77.1	70.2	72.4	67.2	71.4	64.2	65.1	63.5	59.7	58.7	62.7
Index of favorable factors		72.0	75.4	66.0	70.3	66.9	67.0	63.1	61.4	59.6	58.4	56.0	59.6
Rejection of credit applications		54.2	49.4	54.5	50.0	53.4	51.7	49.8	50.2	54.5	54.9	54.5	51.5
Accounts placed for collections		53.1	54.1	58.3	52.5	52.5	56.3	51.7	51.2	50.5	48.2	52.9	54.2
Disputes		53.4	55.7	56.6	51.9	51.2	49.6	47.8	51.9	50.8	55.2	50.8	50.6
Dollar amount beyond terms		58.4	65.7	58.8	53.2	54.0	55.6	45.8	45.2	49.0	46.4	51.8	50.4
Dollar amount of customer deductions		55.1	57.6	53.2	51.3	51.6	49.4	46.5	47.1	48.0	51.0	51.6	52.7
Filings for bankruptcies		59.9	62.6	64.2	62.8	62.4	61.7	53.0	59.4	61.8	59.4	61.5	57.4
Index of unfavorable factors		55.7	57.5	57.6	53.6	54.2	54.1	49.1	50.8	52.4	52.5	53.9	52.8
NACM Service CMI		62.2	64.7	61.0	60.3	59.3	59.2	54.7	55.1	55.3	54.9	54.7	55.5
ISM Service Business Activity Index		64.0	66.9	63.3	61.1	63.4	59.3	58.7	61.5	61.9	63.9	59.2	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Mar '04	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb
Sales	77.5	79.0	73.1	72.3	65.7	69.1	66.2	63.3	62.5	58.3	51.6	60.6
New credit applications	65.8	67.8	60.3	62.8	57.0	59.8	60.7	57.3	57.0	51.5	50.5	60.5
Dollar collections	65.9	71.9	66.0	71.3	71.0	63.9	65.3	64.7	60.1	61.1	54.2	56.5
Amount of credit extended	73.3	75.1	70.9	71.8	65.7	69.7	66.5	63.7	64.4	61.3	57.2	63.4
Index of favorable factors	70.6	73.5	67.6	69.6	64.9	65.6	64.7	62.3	61.0	58.1	53.4	60.2
Rejection of credit applications	52.0	50.6	53.2	52.0	52.7	53.4	51.5	50.7	54.7	55.0	54.3	50.4
Accounts placed for collections	53.4	54.1	55.7	55.3	56.5	56.5	51.7	54.1	53.6	52.8	51.4	54.3
Disputes	51.4	51.0	53.0	50.6	51.3	49.5	47.3	51.0	50.7	52.3	48.7	49.1
Dollar amount beyond terms	54.9	62.0	57.5	52.5	57.3	56.8	48.9	50.2	50.7	49.9	51.0	52.6
Dollar amount of customer deductions	51.9	53.0	50.5	49.8	51.9	50.0	46.7	48.7	47.9	49.0	47.7	51.1
Filings for bankruptcies	58.9	61.5	61.6	62.4	62.9	61.2	55.5	58.6	60.4	58.5	60.0	58.0
Index of unfavorable factors	53.8	55.4	55.3	53.8	55.4	54.6	50.3	52.2	53.0	52.9	52.2	52.6
NACM Combined CMI	60.5	62.6	60.2	60.1	59.2	59.0	56.0	56.2	56.2	55.0	52.7	55.6
ISM Combined Sectors Index*	63.2	64.6	63.0	61.2	62.5	59.5	58.9	59.5	59.8	60.6	57.8	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 FEBRUARY 2005 TO FEBRUARY 2004

In a year-to-year comparison, we find that half of the factors show positive or level growth. Within the manufacturing sector seven of the 10 factors show positive growth, while the service sector, nine of the 10 show some erosion.

Comparison: February 2005 vs. February 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Feb '04	Feb '05	Feb '04	Feb '05	Feb '04	Feb '05
Sales	63.2	61.7	66.3	59.4	64.7	60.6
New credit applications	58.9	63.9	62.1	57.0	60.5	60.5
Dollar collections	51.1	53.6	59.4	59.4	55.2	56.5
Amount of credit extended	63.8	64.0	63.7	62.7	63.2	63.4
Index of favorable factors	59.3	60.8	62.9	59.6	61.0	60.2
Rejection of credit applications	51.9	49.2	51.9	51.5	51.9	50.4
Accounts placed for collections	54.8	54.4	56.4	54.2	55.6	54.3
Disputes	45.4	47.6	57.0	50.6	51.2	49.1
Dollar amount beyond terms	49.2	54.7	54.3	50.4	51.8	52.6
Dollar amount of customer deductions	46.5	49.4	54.8	52.7	50.7	51.1
Filings for bankruptcies	58.4	58.6	59.9	57.4	59.2	58.0
Index of unfavorable factors	51.0	52.3	55.7	52.8	53.4	52.6
NACM CMI	54.3	55.7	58.6	55.5	56.5	55.6

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.

###

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. More information is available at www.nacm.org or by contacting Norma Heim at 410-740-5560.

[Click here](#) to view the CMI report archives.