

NACM Credit Manager's Index

Report for January 2004

Issued February 2, 2004
 National Association of Credit Management
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Jan '04	CMI-Total: 55.3	CMI-Manufacturing: 53.8	CMI-Service: 56.8
Dec '03	CMI-Total: 54.2	CMI-Manufacturing: 52.5	CMI-Service: 56.0
% Change	2.0%	2.5%	1.4%

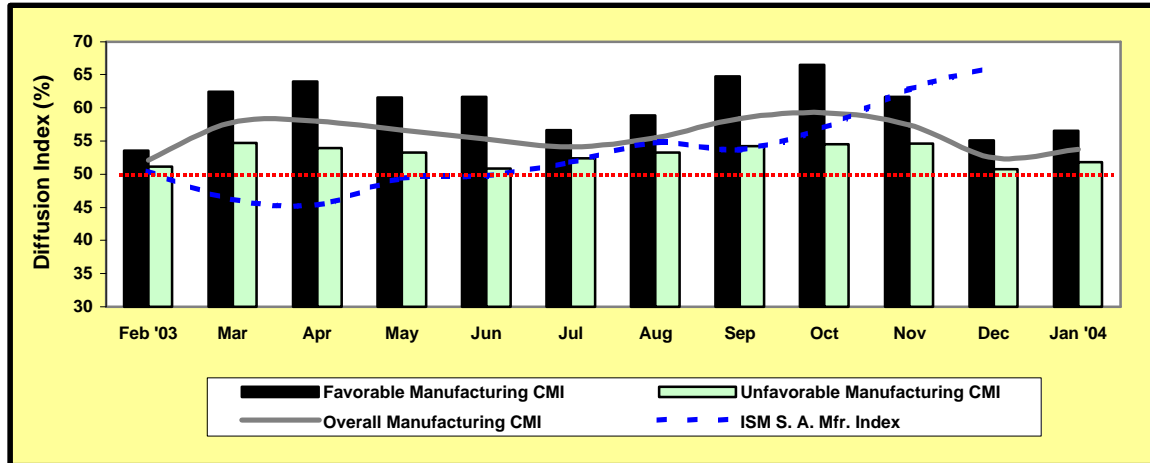
The NACM Credit Manager's Index for January shows marginal improvement over December's results. The manufacturing sector continues to grow, albeit at a rate slower than experienced during the past several months, excluding December. The service sector's month-to-month growth is consistent with rates realized in prior months, except for the high mark realized in November. There does not appear to be any sign of readings slipping below the level of 50. The expectation is for modest improvement next month.

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 is flashing both positive and negative signals. The improvement in the index of favorable factors is largely driven by higher "sales" and increased "credit applications". These are both positive for suggesting a higher reading next month. Another encouraging result is the improvement in "dollar amounts beyond terms". This means an improvement in the aging of accounts. There are factors offsetting these positive influences to some extent. "Disputes" have increased and more credit applications were rejected on a month-over-month basis. The net effect of the positive and negative influences should be continuing marginal improvement in this sector in February.

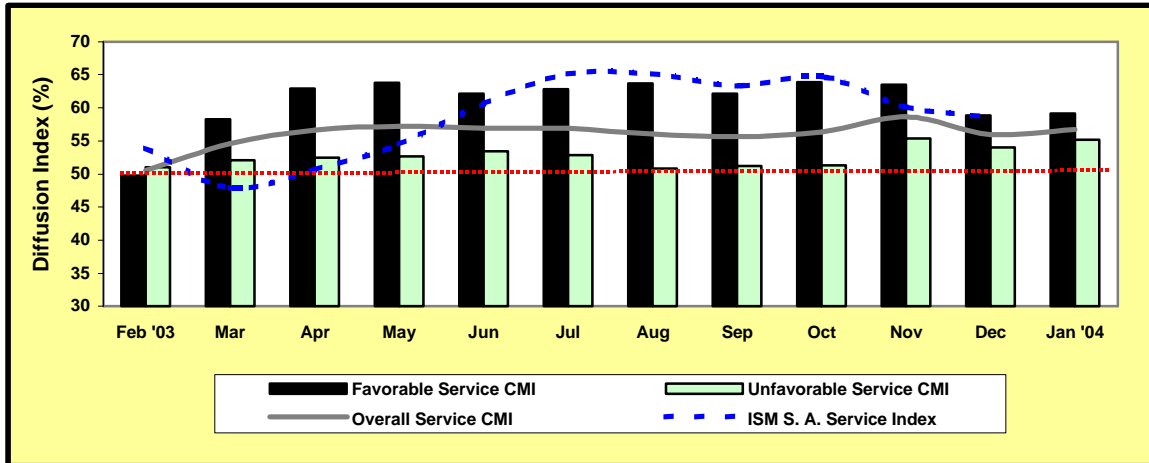
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Feb '03	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04
Sales	55.2	67.0	67.3	60.5	59.8	55.9	59.8	65.8	69.4	62.1	55.2	56.8
New credit applications	55.1	55.3	58.2	55.6	56.7	49.8	54.9	55.4	58.9	54.5	48.1	53.5
Dollar collections	45.6	65.3	66.4	68.2	64.5	60.0	61.2	68.3	69.4	65.2	59.9	60.0
Amount of credit extended	58.4	62.2	64.2	62.0	65.8	60.7	59.4	69.4	68.2	65.0	57.2	55.9
Index of favorable factors	53.6	62.5	64.0	61.6	61.7	56.6	58.8	64.7	66.5	61.7	55.1	56.6
Rejection of credit applications	50.7	51.8	52.3	54.1	51.7	54.1	53.4	55.0	54.4	55.9	53.9	51.6
Accounts placed for collections	53.3	55.6	56.3	54.1	53.3	54.7	54.6	55.0	52.0	53.5	47.5	54.6
Disputes	47.6	53.3	50.2	49.3	49.0	48.0	47.3	49.3	53.6	50.2	50.3	47.7
Dollar amount beyond terms	51.5	57.5	58.0	55.6	49.8	50.2	57.5	58.3	58.0	56.7	46.7	51.1
Dollar amount of customer deductions	48.4	52.0	49.8	51.7	45.4	48.0	48.4	49.5	51.7	51.4	49.7	49.5
Filings for bankruptcies	55.5	58.1	57.0	55.0	56.3	59.7	58.5	58.0	57.2	59.6	56.6	56.8
Index of unfavorable factors	51.2	54.7	53.9	53.3	50.9	52.5	53.3	54.2	54.5	54.6	50.8	51.9
NACM Manufacturing CMI	52.1	57.8	58.0	56.6	55.2	54.1	55.5	58.4	59.3	57.4	52.5	53.8
<u>ISM Manufacturing PMI</u>												
Not Seasonally Adjusted	51.0	48.7	48.6	52.0	51.7	51.0	54.1	54.5	55.3	58.8	60.3	
Seasonally Adjusted	50.5	46.2	45.4	49.4	49.8	51.8	54.7	53.7	57.0	62.8	66.2	



SERVICE SECTOR RESULTS

The service sector index continues to be a major strength of the economy. Other than the November reading of 58.6, the index has hovered around 56 for months. There do not appear to be any negative factors to be concerned about. Both sub-indices—favorable and unfavorable—made improvements in January. Further, all ten factors making up the sub-indices are performing favorably.

Service Sector												
(Not Seasonally Adjusted)												
	Feb '03	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04
Sales	47.0	57.5	66.6	63.3	64.3	65.0	65.1	63.1	67.9	64.2	60.7	59.2
New credit applications	50.6	55.9	58.9	60.7	60.1	59.4	58.7	60.1	60.0	57.7	51.4	55.9
Dollar collections	47.6	60.6	59.6	64.1	58.9	58.2	65.2	61.2	60.0	62.9	58.5	58.9
Amount of credit extended	54.1	59.1	66.6	67.2	65.3	68.7	65.9	64.3	67.5	69.3	64.9	62.4
Index of favorable factors	49.8	58.3	62.9	63.8	62.2	62.8	63.7	62.2	63.9	63.5	58.9	59.1
Rejection of credit applications	51.6	50.2	50.6	47.2	52.8	49.3	49.4	50.5	50.6	55.1	55.3	51.8
Accounts placed for collections	50.0	53.3	50.6	52.4	53.4	52.2	48.4	49.5	48.7	50.8	54.6	52.5
Disputes	50.2	50.9	52.3	51.8	53.2	51.4	49.4	50.0	53.9	53.6	52.9	56.8
Dollar amount beyond terms	50.0	50.6	54.2	56.3	51.9	51.7	52.6	47.1	50.3	57.7	49.2	54.3
Dollar amount of customer deductions	49.8	52.4	52.7	53.6	54.1	54.1	49.6	50.7	50.3	53.6	50.6	54.1
Filings for bankruptcies	54.7	55.2	54.4	54.9	55.4	58.6	55.9	59.8	54.2	61.2	61.6	61.6
Index of unfavorable factors	51.1	52.1	52.5	52.7	53.5	52.9	50.9	51.3	51.3	55.3	54.0	55.2
NACM Service CMI	50.6	54.6	56.7	57.2	56.9	56.9	56.0	55.6	56.3	58.6	56.0	56.8
ISM Service Business Activity Index												
Not Seasonally Adjusted	54.5	49.5	54.5	56.5	63.5	63.0	62.5	64.5	63.0	61.0	56.0	
Seasonally Adjusted	53.9	47.9	50.7	54.5	60.6	65.1	65.1	63.3	64.7	60.1	58.6	

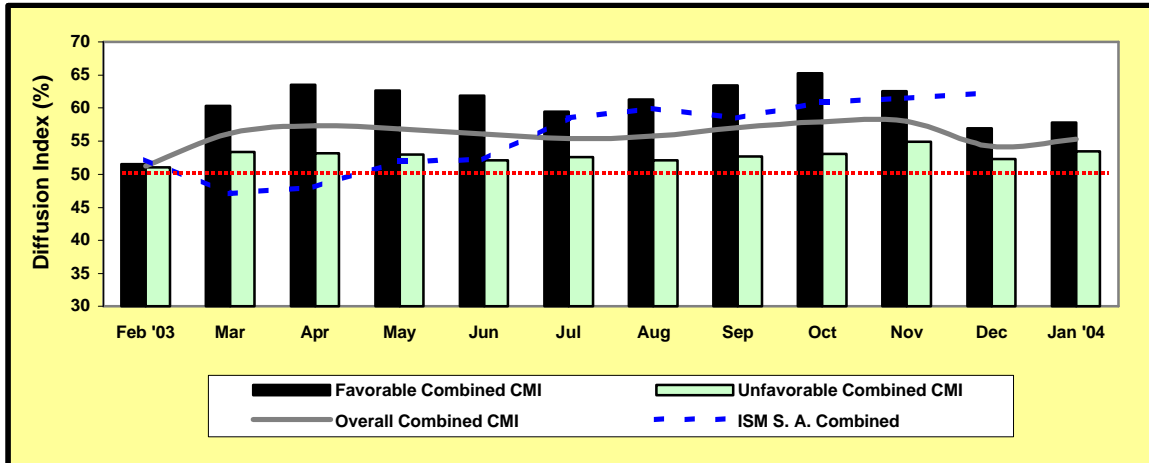


COMBINED SECTORS

Overall, the economy is doing well and continues to grow on a month-over-month basis. Sales remain strong, as do collections and the extension of credit. Five of the six factors capturing unfavorable influences improved in January. There do not appear to be any factors, as expressed by the survey questions, which suggest deterioration in growth as the economy heads into February.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Feb '03	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04
Sales	50.9	62.2	67.0	61.9	62.1	60.1	62.4	64.5	68.7	63.1	58.0	58.0
New credit applications	52.7	55.6	58.5	58.1	58.4	54.2	56.8	57.9	59.4	56.0	49.7	54.7
Dollar collections	46.6	62.9	63.1	66.2	61.7	59.2	63.2	64.7	65.0	64.1	59.2	59.5
Amount of credit extended	56.2	60.6	65.4	64.6	65.5	64.4	62.6	66.8	67.9	67.1	61.0	59.1
Index of favorable factors	51.6	60.3	63.5	62.7	61.9	59.5	61.3	63.5	65.3	62.6	57.0	57.8
Rejection of credit applications	51.2	51.0	51.5	50.7	52.2	51.9	51.4	52.7	52.7	55.5	54.6	51.7
Accounts placed for collections	51.6	54.4	53.5	53.3	53.4	53.5	51.5	52.2	50.5	52.2	51.0	53.5
Disputes	48.9	52.1	51.2	50.5	51.1	49.6	48.4	49.6	53.8	51.9	51.5	52.3
Dollar amount beyond terms	50.7	54.0	56.1	55.9	50.8	50.9	55.1	52.6	54.5	57.1	47.9	52.7
Dollar amount of customer deductions	49.1	52.2	51.2	52.6	49.7	50.8	49.0	50.1	51.1	52.5	50.1	51.8
Filings for bankruptcies	55.1	56.6	55.8	54.9	55.8	59.2	57.2	58.9	55.8	60.4	59.0	59.2
Index of unfavorable factors	51.1	53.4	53.2	53.0	52.2	52.7	52.1	52.7	53.1	54.9	52.4	53.5
NACM Combined CMI	51.3	56.2	57.3	56.9	56.1	55.4	55.8	57.0	57.9	58.0	54.2	55.3
ISM Combined Sectors Index*	52.8	49.1	51.6	54.3	57.6	57.0	58.3	59.5	59.2	59.9	58.2	
Not Seasonally Adjusted												
Seasonally Adjusted	52.2	47.1	48.1	52.0	52.2	58.5	59.9	58.5	60.9	61.5	62.4	

*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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