

NACM Credit Manager's Index

Report for January 2005

Issued February 1, 2005
 National Association of Credit Management
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January '05	CMI-Total: 52.7	CMI-Manufacturing: 50.6	CMI-Service: 54.7
December '04	CMI-Total: 55.0	CMI-Manufacturing: 55.1	CMI-Service: 54.9
% Change	-4.18%	-8.17%	-0.36%

The numbers for economic growth remain positive, although the month-over-month rate continues to decline. Readings for both the manufacturing and service sectors are at their lowest levels since December 2002 and February 2003, respectively.

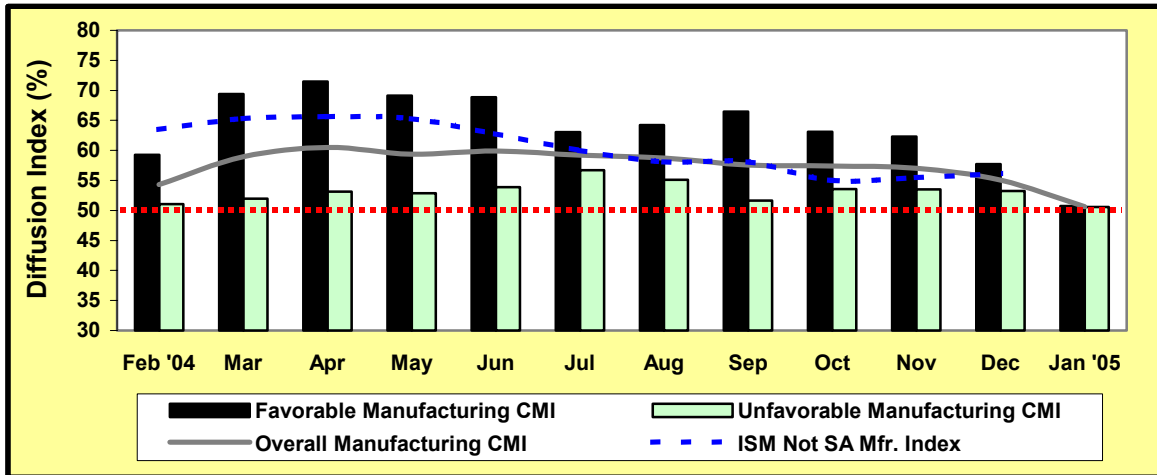
See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

The manufacturing sector index has declined for seven consecutive months and is now in neutral territory. The favorable factors, with one exception, realized steep declines in January. As shown later, the index of favorable factors is down 580 basis points relative to January 2004. The significant decline in sales activity over the past two months needs to turn around if the manufacturing index is to remain above 50 in February. The sales index for January is at its lowest level since December 2002, whereas the credit extended index is at its lowest level since January 2003.

The one positive factor in the survey is that filings for bankruptcies are not increasing as activity slows.

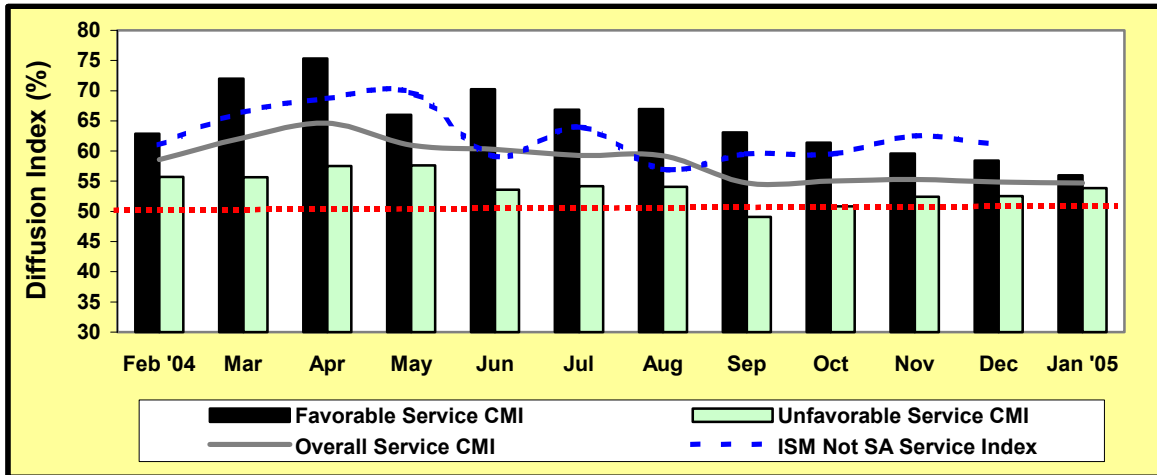
Manufacturing Sector (Not Seasonally Adjusted)	Feb '04	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05
Sales	63.2	75.5	78.4	75.2	71.7	64.5	69.3	68.8	64.8	64.1	57.6	48.4
New credit applications	58.9	63.8	63.6	59.4	60.8	56.4	55.9	61.3	59.7	58.8	49.0	49.7
Dollar collections	51.1	65.3	70.9	70.4	71.7	66.8	63.7	66.7	65.7	61.0	61.5	49.2
Amount of credit extended	63.8	72.9	73.0	71.6	71.3	64.4	67.9	69.1	62.3	65.3	62.8	55.7
Index of favorable factors	59.3	69.4	71.5	69.2	68.9	63.0	64.2	66.5	63.1	62.3	57.7	50.8
Rejection of credit applications	51.9	50.0	51.7	51.9	53.8	52.0	55.1	53.4	51.2	54.8	55.1	54.1
Accounts placed for collections	54.8	53.7	54.0	53.1	58.0	60.3	56.7	51.7	56.9	56.5	57.1	50.0
Disputes	45.4	49.5	46.2	49.3	49.4	51.5	49.4	46.9	50.0	50.7	49.5	46.6
Dollar amount beyond terms	49.2	51.6	58.1	56.2	51.8	60.6	58.0	52.6	55.2	52.3	53.2	50.3
Dollar amount of customer deductions	46.5	48.9	48.3	47.6	48.4	52.3	50.6	46.9	50.2	47.9	47.0	43.8
Filings for bankruptcies	58.4	58.0	60.5	59.2	62.0	63.4	60.7	58.4	57.9	59.0	57.7	58.5
Index of unfavorable factors	51.0	52.0	53.1	52.9	53.9	56.7	55.1	51.7	53.6	53.5	53.3	50.6
NACM Manufacturing CMI	54.3	58.9	60.5	59.4	59.9	59.2	58.7	57.6	57.4	57.0	55.1	50.6
ISM Manufacturing PMI												
Not Seasonally Adjusted	63.5	65.3	65.6	65.3	62.8	60.0	58.1	58.1	55.0	55.5	56.1	
Seasonally Adjusted, Reported	61.4	62.5	62.4	62.8	61.1	62.0	59.0	58.5	56.8	57.8	58.6	
Seasonally Adjusted, Revised	62.1	62.3	62.3	62.6	61.2	61.6	59.6	59.1	57.5	57.6	57.3	



Service Sector Results

The service sector held ground in January. A decrease in favorable factors—largely caused by sales and new credit applications—was offset by improvement in unfavorable factors—primarily fewer accounts placed for collection and an improvement in aging of accounts. However, as shown later, performance in January 2005 is down 210 basis points relative to January 2004. Growth is not as robust in the service sector as it was a year ago. Indeed, you need to go all the way back to February 2003 for growth in sales to be below the current reading.

Service Sector (Not Seasonally Adjusted)		Feb '04	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05
Sales		66.3	79.6	79.6	71.0	72.9	67.1	68.9	64.0	61.8	60.8	59.0	54.7
New credit applications		62.1	68.0	71.9	61.2	64.9	57.7	63.4	60.1	54.9	55.1	54.2	51.3
Dollar collections		59.4	66.7	72.8	61.6	70.8	75.5	64.1	64.0	63.7	59.0	60.8	59.2
Amount of credit extended		63.7	73.7	77.1	70.2	72.4	67.2	71.4	64.2	65.1	63.5	59.7	58.7
Index of favorable factors		62.9	72.0	75.4	66.0	70.3	66.9	67.0	63.1	61.4	59.6	58.4	56.0
Rejection of credit applications		51.9	54.2	49.4	54.5	50.0	53.4	51.7	49.8	50.2	54.5	54.9	54.5
Accounts placed for collections		56.4	53.1	54.1	58.3	52.5	52.5	56.3	51.7	51.2	50.5	48.2	52.9
Disputes		57.0	53.4	55.7	56.6	51.9	51.2	49.6	47.8	51.9	50.8	55.2	50.8
Dollar amount beyond terms		54.4	58.4	65.7	58.8	53.2	54.0	55.6	45.8	45.2	49.0	46.4	51.8
Dollar amount of customer deductions		54.8	55.1	57.6	53.2	51.3	51.6	49.4	46.5	47.1	48.0	51.0	51.6
Filings for bankruptcies		59.9	59.9	62.6	64.2	62.8	62.4	61.7	53.0	59.4	61.8	59.4	61.5
Index of unfavorable factors		55.7	55.7	57.5	57.6	53.6	54.2	54.1	49.1	50.8	52.4	52.5	53.9
NACM Service CMI		58.6	62.2	64.7	61.0	60.3	59.3	59.2	54.7	55.1	55.3	54.9	54.7
ISM Service Business Activity Index													
Not Seasonally Adjusted		61.0	66.4	68.7	69.7	59.1	64.0	57.0	59.5	59.5	62.5	61.0	
Seasonally Adjusted, Reported		60.8	65.8	68.4	65.2	59.9	64.8	58.2	56.7	59.8	61.3	63.1	
Seasonally Adjusted, Revised		60.8	64.0	66.9	63.3	61.1	63.4	59.3	58.7	61.5	61.9	63.9	

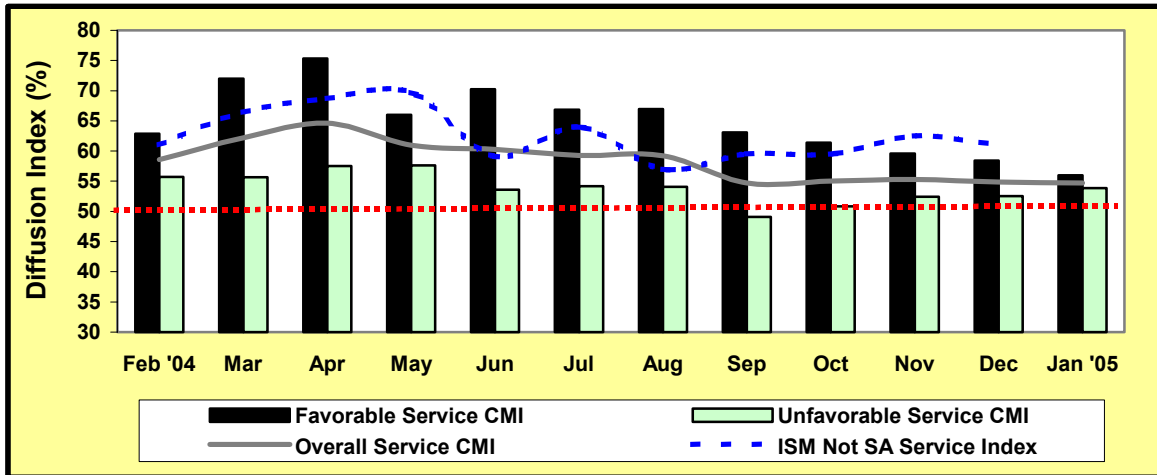


COMBINED SECTORS

The December decline in the index appears to be primarily caused by seasonal influences. The results compare favorably with those of a year ago (see the table on page 4). The only factors showing erosion from a year ago are deductions and bankruptcies, and neither of these exhibit significant declines. The survey results suggest continuing growth in the economy for 2005.

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Feb '04	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05
Sales	64.7	77.5	79.0	73.1	72.3	65.7	69.1	66.2	63.3	62.5	58.3	51.6
New credit applications	60.5	65.8	67.8	60.3	62.8	57.0	59.8	60.7	57.3	57.0	51.5	50.5
Dollar collections	55.2	65.9	71.9	66.0	71.3	71.0	63.9	65.3	64.7	60.1	61.1	54.2
Amount of credit extended	63.7	73.3	75.1	70.9	71.8	65.7	69.7	66.5	63.7	64.4	61.3	57.2
Index of favorable factors	61.0	70.6	73.5	67.6	69.6	64.9	65.6	64.7	62.3	61.0	58.1	53.4
Rejection of credit applications	51.9	52.0	50.6	53.2	52.0	52.7	53.4	51.5	50.7	54.7	55.0	54.3
Accounts placed for collections	55.6	53.4	54.1	55.7	55.3	56.5	56.5	51.7	54.1	53.6	52.8	51.4
Disputes	51.2	51.4	51.0	53.0	50.6	51.3	49.5	47.3	51.0	50.7	52.3	48.7
Dollar amount beyond terms	51.8	54.9	62.0	57.5	52.5	57.3	56.8	48.9	50.2	50.7	49.9	51.0
Dollar amount of customer deductions	50.7	51.9	53.0	50.5	49.8	51.9	50.0	46.7	48.7	47.9	49.0	47.7
Filings for bankruptcies	59.2	58.9	61.5	61.6	62.4	62.9	61.2	55.5	58.6	60.4	58.5	60.0
Index of unfavorable factors	53.4	53.8	55.4	55.3	53.8	55.4	54.6	50.3	52.2	53.0	52.9	52.2
NACM Combined CMI	56.5	60.5	62.6	60.2	60.1	59.2	59.0	56.0	56.2	56.2	55.0	52.7
ISM Combined Sectors Index* Not Seasonally Adjusted	62.3	65.9	67.2	67.5	61.0	62.0	57.6	58.8	57.3	59.0	59.0	
Seasonally Adjusted, Reported	61.1	64.2	65.4	64.0	60.5	63.4	58.6	57.6	58.3	59.6	59.6	
Seasonally Adjusted, Revised	61.5	63.2	64.6	63.0	61.2	62.5	59.5	58.9	59.5	59.8	60.6	

*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 JANUARY 2005 TO JANUARY 2004

Review the following table for a brief glimpse of year-over-year comparisons. Erosion appears in eight of the 10 factors capturing the manufacturing sector and for seven of the 10 factors for the service sector. Half of the manufacturing factors are below the neutral 50 level; in other words, they are showing unfavorable economic growth influencing the readings. A positive factor is that comments by many survey participants indicate slowness is caused by seasonal factors. However, the fact remains that growth isn't as strong now as it has been over the past couple of years.

Comparison: January 2005 vs. January 2004 (Not Seasonally Adjusted)						
	Mfrg.		Service		Total	
	Jan '04	Jan '05	Jan '04	Jan '05	Jan '04	Jan '05
Sales	56.8	48.4	59.2	54.7	58.0	51.6
New credit applications	53.5	49.7	55.9	51.3	54.7	50.5
Dollar collections	60.0	49.2	58.9	59.2	59.5	54.2
Amount of credit extended	55.9	55.7	62.4	58.7	59.1	57.2
Index of favorable factors	56.6	50.8	59.1	56.0	57.8	53.4
Rejection of credit applications	51.6	54.1	51.8	54.5	51.7	54.3
Accounts placed for collections	54.6	50.0	52.5	52.9	53.5	51.4
Disputes	47.7	46.6	56.8	50.8	52.3	48.7
Dollar amount beyond terms	51.1	50.3	54.3	51.8	52.7	51.0
Dollar amount of customer deductions	49.5	43.8	54.1	51.6	51.8	47.7
Filings for bankruptcies	56.8	58.5	61.6	61.5	59.2	60.0
Index of unfavorable factors	51.9	50.6	55.2	53.9	53.5	52.2
NACM CMI	53.8	50.6	56.8	54.7	55.3	52.7

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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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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