

NACM Credit Manager's Index

Report for July 2004

Issued August 2, 2004
 National Association of Credit Management
 8840 Columbia 100 Parkway
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July '04	CMI-Total: 59.2	CMI-Manufacturing: 59.2	CMI-Service: 59.3
June '04	CMI-Total: 60.1	CMI-Manufacturing: 59.9	CMI-Service: 60.3
% Change	-1.5%	-1.2%	-1.7%

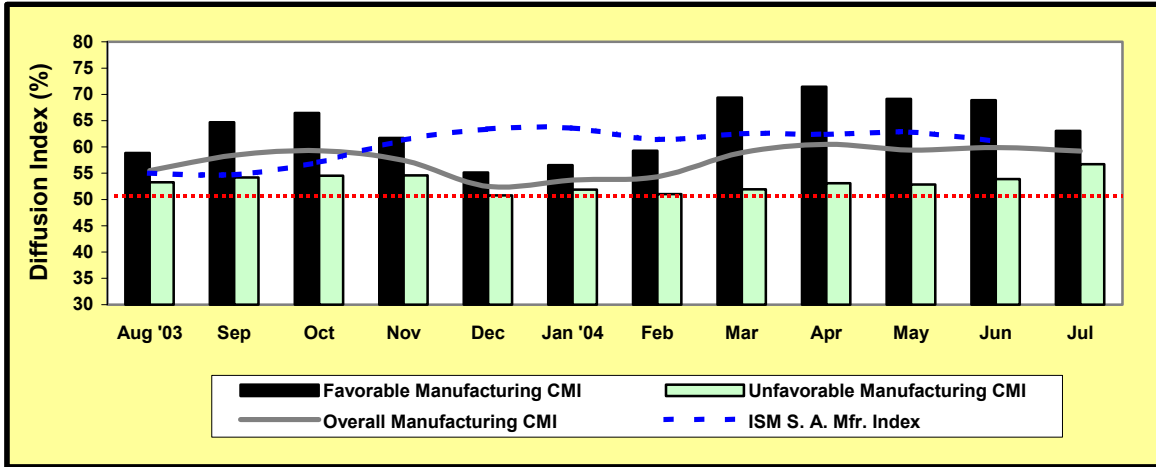
Some minor slippage in economic growth occurred in both the manufacturing and service sectors in July. However, growth continues in the economy as evidenced by readings persistently above 50. On a month-over-month basis, growth is still stronger than recorded during the fourth quarter of 2003 and into the first quarter of 2004. August will probably see some further erosion.

See the last page of this report for information about the methodology and factors used to measure economic performance. Note that ISM has revised its seasonally-adjusted PMI readings for 2003.

MANUFACTURING SECTOR RESULTS

The overall manufacturing index continues to hover around 59 to 60, as it has since March 2004, indicating growth in the sector. However sales readings show growth at slower rates during the last three months and the amount of credit extended continues to weaken. These factors, when coupled with the 440 basis points decline in new credit applications, suggest that August will continue the slowing trend for sales and probable decline in the overall manufacturing index. There is an encouraging factor that offsets these negative influences: the aging of accounts appears to be in excellent shape, as revealed by dollar amount beyond terms. July also saw marginal improvements in the number of disputed accounts, accounts placed for collection, and customer deductions.

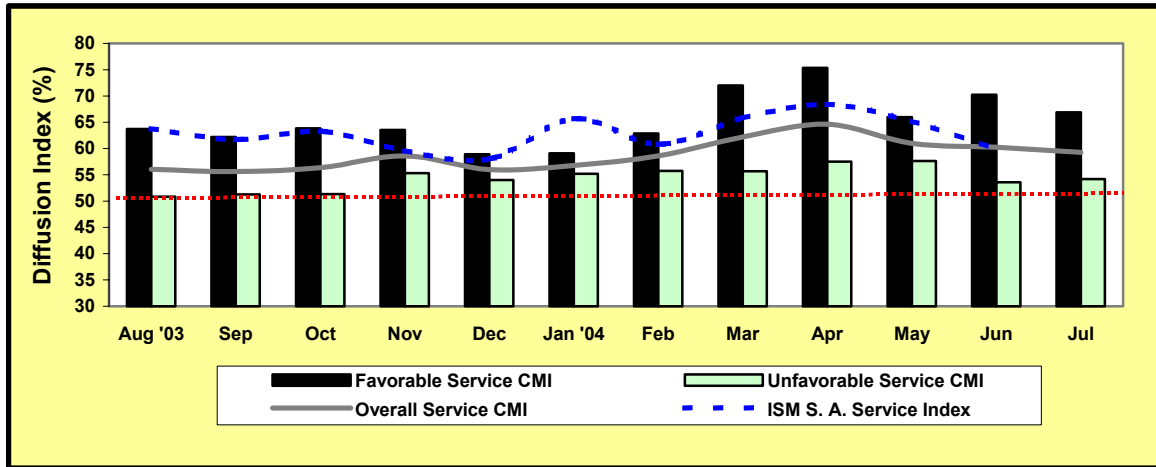
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Aug '03	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul
Sales	59.8	65.8	69.4	62.1	55.2	56.8	63.2	75.5	78.4	75.2	71.7	64.5
New credit applications	54.9	55.4	58.9	54.5	48.1	53.5	58.9	63.8	63.6	59.4	60.8	56.4
Dollar collections	61.2	68.3	69.4	65.2	59.9	60.0	51.1	65.3	70.9	70.4	71.7	66.8
Amount of credit extended	59.4	69.4	68.2	65.0	57.2	55.9	63.8	72.9	73.0	71.6	71.3	64.4
Index of favorable factors	58.8	64.7	66.5	61.7	55.1	56.6	59.3	69.4	71.5	69.2	68.9	63.0
Rejection of credit applications	53.4	55.0	54.4	55.9	53.9	51.6	51.9	50.0	51.7	51.9	53.8	52.0
Accounts placed for collections	54.6	55.0	52.0	53.5	47.5	54.6	54.8	53.7	54.0	53.1	58.0	60.3
Disputes	47.3	49.3	53.6	50.2	50.3	47.7	45.4	49.5	46.2	49.3	49.4	51.5
Dollar amount beyond terms	57.5	58.3	58.0	56.7	46.7	51.1	49.2	51.6	58.1	56.2	51.8	60.6
Dollar amount of customer deductions	48.4	49.5	51.7	51.4	49.7	49.5	46.5	48.9	48.3	47.6	48.4	52.3
Filings for bankruptcies	58.5	58.0	57.2	59.6	56.6	56.8	58.4	58.0	60.5	59.2	62.0	63.4
Index of unfavorable factors	53.3	54.2	54.5	54.6	50.8	51.9	51.0	52.0	53.1	52.9	53.9	56.7
NACM Manufacturing CMI	55.5	58.4	59.3	57.4	52.5	53.8	54.3	58.9	60.5	59.4	59.9	59.2
ISM Manufacturing PMI												
Not Seasonally Adjusted	54.1	54.5	55.3	58.8	60.3	61.6	63.5	65.3	65.6	65.3	62.8	
Seasonally Adjusted, Reported	54.7	53.7	57.0	62.8	66.2	63.6	61.4	62.5	62.4	62.8	61.1	
Seasonally Adjusted, Revised	55.0	54.7	57.1	61.3	63.4							



SERVICE SECTOR RESULTS

The service sector is much the same as the manufacturing sector. Sales and amount of credit extended, while continuing to grow each month, are realizing slower growth month-over-month. New credit applications are at their lowest level since January 2004. Taken together, these factors portend slower sales growth next month and probable weakening of the index.

Service Sector (Not Seasonally Adjusted)												
	Aug '03	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul
Sales	65.1	63.1	67.9	64.2	60.7	59.2	66.3	79.6	79.6	71.0	72.9	67.1
New credit applications	58.7	60.1	60.0	57.7	51.4	55.9	62.1	68.0	71.9	61.2	64.9	57.7
Dollar collections	65.2	61.2	60.0	62.9	58.5	58.9	59.4	66.7	72.8	61.6	70.8	75.5
Amount of credit extended	65.9	64.3	67.5	69.3	64.9	62.4	63.7	73.7	77.1	70.2	72.4	67.2
Index of favorable factors	63.7	62.2	63.9	63.5	58.9	59.1	62.9	72.0	75.4	66.0	70.3	66.9
Rejection of credit applications	49.4	50.5	50.6	55.1	55.3	51.8	51.9	54.2	49.4	54.5	50.0	53.4
Accounts placed for collections	48.4	49.5	48.7	50.8	54.6	52.5	56.4	53.1	54.1	58.3	52.5	52.5
Disputes	49.4	50.0	53.9	53.6	52.9	56.8	57.0	53.4	55.7	56.6	51.9	51.2
Dollar amount beyond terms	52.6	47.1	50.3	57.7	49.2	54.3	54.4	58.4	65.7	58.8	53.2	54.0
Dollar amount of customer deductions	49.6	50.7	50.3	53.6	50.6	54.1	54.8	55.1	57.6	53.2	51.3	51.6
Filings for bankruptcies	55.9	59.8	54.2	61.2	61.6	61.6	59.9	59.9	62.6	64.2	62.8	62.4
Index of unfavorable factors	50.9	51.3	51.3	55.3	54.0	55.2	55.7	55.7	57.5	57.6	53.6	54.2
NACM Service CMI	56.0	55.6	56.3	58.6	56.0	56.8	58.6	62.2	64.7	61.0	60.3	59.3
ISM Service Business Activity Index												
Not Seasonally Adjusted	62.5	64.5	63.0	61.0	56.0	60.0	61.0	66.4	68.7	69.7	59.1	
Seasonally Adjusted, Reported	65.1	63.3	64.7	60.1	58.6	65.7	60.8	65.8	68.4	65.2	59.9	
Seasonally Adjusted, Revised	63.8	61.7	63.3	59.6	58.0							



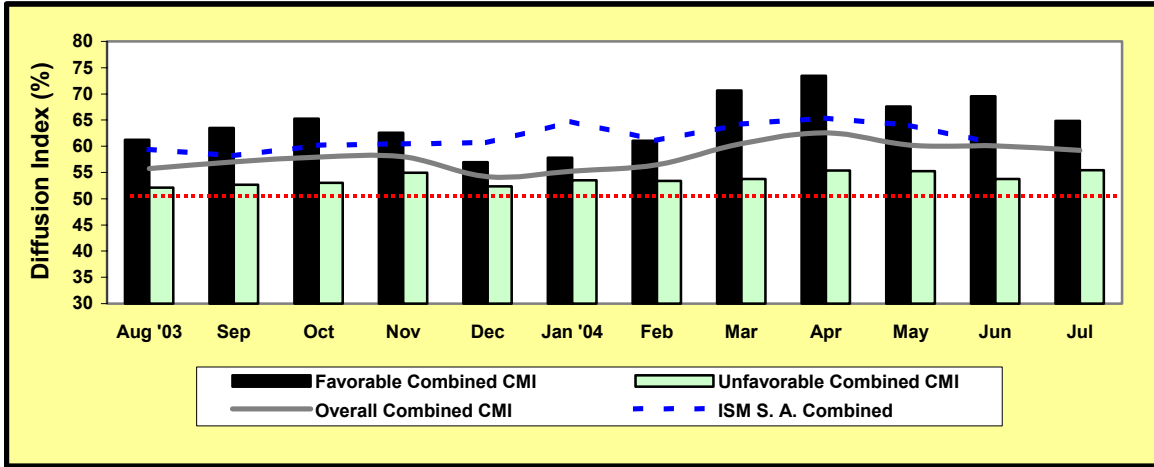
COMBINED SECTORS

The combined index has fallen for three consecutive months and is at its lowest level since February 2004. This erosion has been largely caused by sales growth slowing month-over-month. However, there don't appear to be cash flow problems in the system. The indicators—dollar collections, dollar amount beyond terms and filings for bankruptcies—provide strong positive readings.

These results are consistent with comments from several respondents who indicated the seasonal nature of their businesses. A few respondents also mentioned the shortage of concrete and/or steel negatively affecting their sales.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Aug '03	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul
Sales	62.4	64.5	68.7	63.1	58.0	58.0	64.7	77.5	79.0	73.1	72.3	65.7
New credit applications	56.8	57.9	59.4	56.0	49.7	54.7	60.5	65.8	67.8	60.3	62.8	57.0
Dollar collections	63.2	64.7	65.0	64.1	59.2	59.5	55.2	65.9	71.9	66.0	71.3	71.0
Amount of credit extended	62.6	66.8	67.9	67.1	61.0	59.1	63.7	73.3	75.1	70.9	71.8	65.7
Index of favorable factors	61.3	63.5	65.3	62.6	57.0	57.8	61.0	70.6	73.5	67.6	69.6	64.9
Rejection of credit applications	51.4	52.7	52.7	55.5	54.6	51.7	51.9	52.0	50.6	53.2	52.0	52.7
Accounts placed for collections	51.5	52.2	50.5	52.2	51.0	53.5	55.6	53.4	54.1	55.7	55.3	56.5
Disputes	48.4	49.6	53.8	51.9	51.5	52.3	51.2	51.4	51.0	53.0	50.6	51.3
Dollar amount beyond terms	55.1	52.6	54.5	57.1	47.9	52.7	51.8	54.9	62.0	57.5	52.5	57.3
Dollar amount of customer deductions	49.0	50.1	51.1	52.5	50.1	51.8	50.7	51.9	53.0	50.5	49.8	51.9
Filings for bankruptcies	57.2	58.9	55.8	60.4	59.0	59.2	59.2	58.9	61.5	61.6	62.4	62.9
Index of unfavorable factors	52.1	52.7	53.1	54.9	52.4	53.5	53.4	53.8	55.4	55.3	53.8	55.4
NACM Combined CMI	55.8	57.0	57.9	58.0	54.2	55.3	56.5	60.5	62.6	60.2	60.1	59.2
ISM Combined Sectors Index*												
Not Seasonally Adjusted	58.3	59.5	59.2	59.9	58.2	60.8	62.3	65.9	67.2	67.5	61.0	
Seasonally Adjusted, Reported	59.9	58.5	60.9	61.5	62.4	64.7	61.1	64.2	65.4	64.0	60.5	
Seasonally Adjusted, Revised	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 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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