

NACM Credit Manager's Index

Report for June 2004

Issued July 1, 2004
 National Association of Credit Management
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June '04	CMI-Total: 60.1	CMI-Manufacturing: 59.9	CMI-Service: 60.3
May '04	CMI-Total: 60.2	CMI-Manufacturing: 59.4	CMI-Service: 61.0
% Change	-0.2%	0.8%	-1.1%

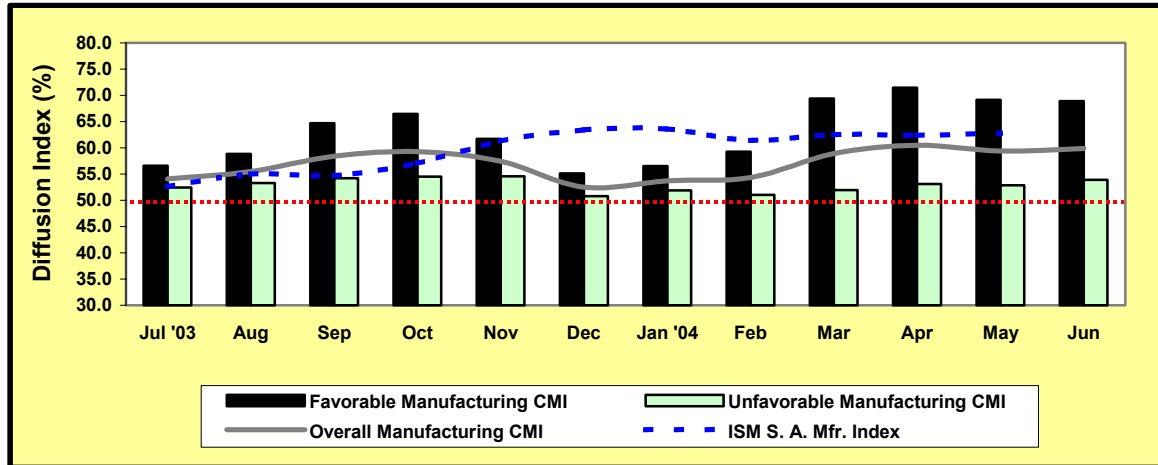
Overall, there was very little change in June's aggregate readings for the CMI and its subcomponents. The CMI-Total Index fell 0.1, the manufacturing component rose 0.5, and the service sector dropped 0.7. The bottom line is that the economy continues to grow at a good clip.

*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

Not much has changed in the manufacturing sector's performance this month. The improvement in the overall index from 59.4 to 59.9 is a result of a strengthened set of unfavorable factors, rising 100 basis points. This improvement helped offset the slowing sales growth momentum. The improvement in "accounts placed for collections" was offset by the lengthening aging schedule for accounts, as evidenced by the decline in the index for "dollar amount beyond terms". As mentioned last month, this item needs to be watched carefully. The decline this month is 440 basis points and "aging" has fallen 630 basis points over the past two months. The question is: Are customers beginning to experience cash flow problems? If so, it will have an unfavorable impact on the economy in future months as suppliers become more restrictive in granting trade credit.

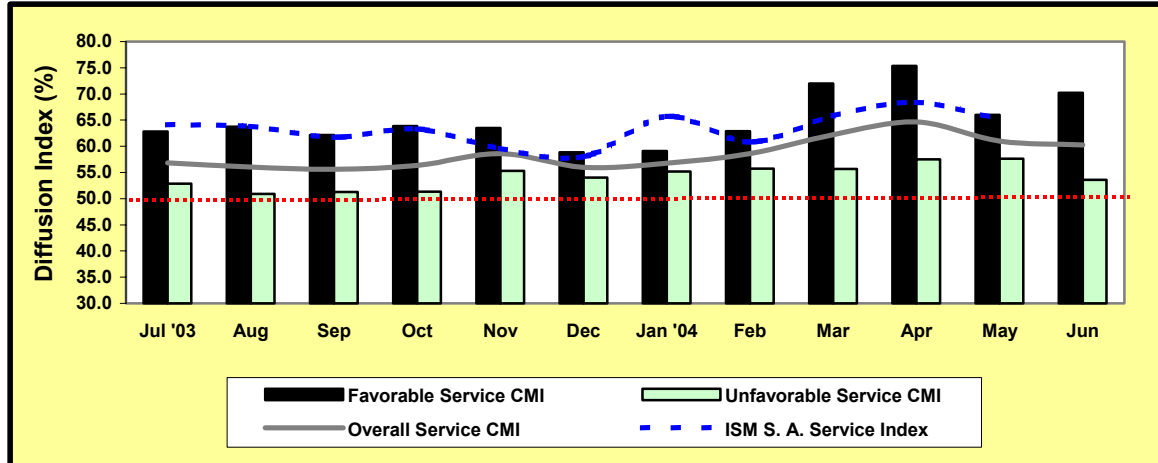
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Jul '03	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun
Sales	55.9	59.8	65.8	69.4	62.1	55.2	56.8	63.2	75.5	78.4	75.2	71.7
New credit applications	49.8	54.9	55.4	58.9	54.5	48.1	53.5	58.9	63.8	63.6	59.4	60.8
Dollar collections	60.0	61.2	68.3	69.4	65.2	59.9	60.0	51.1	65.3	70.9	70.4	71.7
Amount of credit extended	60.7	59.4	69.4	68.2	65.0	57.2	55.9	63.8	72.9	73.0	71.6	71.3
Index of favorable factors	56.6	58.8	64.7	66.5	61.7	55.1	56.6	59.3	69.4	71.5	69.2	68.9
Rejection of credit applications	54.1	53.4	55.0	54.4	55.9	53.9	51.6	51.9	50.0	51.7	51.9	53.8
Accounts placed for collections	54.7	54.6	55.0	52.0	53.5	47.5	54.6	54.8	53.7	54.0	53.1	58.0
Disputes	48.0	47.3	49.3	53.6	50.2	50.3	47.7	45.4	49.5	46.2	49.3	49.4
Dollar amount beyond terms	50.2	57.5	58.3	58.0	56.7	46.7	51.1	49.2	51.6	58.1	56.2	51.8
Dollar amount of customer deductions	48.0	48.4	49.5	51.7	51.4	49.7	49.5	46.5	48.9	48.3	47.6	48.4
Filings for bankruptcies	59.7	58.5	58.0	57.2	59.6	56.6	56.8	58.4	58.0	60.5	59.2	62.0
Index of unfavorable factors	52.5	53.3	54.2	54.5	54.6	50.8	51.9	51.0	52.0	53.1	52.9	53.9
NACM Manufacturing CMI	54.1	55.5	58.4	59.3	57.4	52.5	53.8	54.3	58.9	60.5	59.4	59.9
ISM Manufacturing PMI												
Not Seasonally Adjusted	51.0	54.1	54.5	55.3	58.8	60.3	61.6	63.5	65.3	65.6	65.3	
Seasonally Adjusted, Reported	51.8	54.7	53.7	57.0	62.8	66.2	63.6	61.4	62.5	62.4	62.8	
Seasonally Adjusted, Revised	52.6	55.0	54.7	57.1	61.3	63.4						



SERVICE SECTOR RESULTS

The story with the service sector is a repetitious one—the service sector continues to grow, and at a stronger rate than the manufacturing sector. However, the index is 70 basis points below last month’s reading of 60.3 and is converging with the manufacturing sector’s reading. What is interesting to note is that each of the favorable factors shown in the table below improved in June, and each of the unfavorable factors deteriorated. The strong improvement in “dollar collections” is minimized by the increase in the aging schedule (see “dollar amount beyond terms”) and the increase in disputes. Taken together, these three items suggest that if disputes are resolved, the aging of accounts should improve. Overall, there doesn’t appear to be any significant concern.

Service Sector (Not Seasonally Adjusted)												
	Jul '03	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun
Sales	65.0	65.1	63.1	67.9	64.2	60.7	59.2	66.3	79.6	79.6	71.0	72.9
New credit applications	59.4	58.7	60.1	60.0	57.7	51.4	55.9	62.1	68.0	71.9	61.2	64.9
Dollar collections	58.2	65.2	61.2	60.0	62.9	58.5	58.9	59.4	66.7	72.8	61.6	70.8
Amount of credit extended	68.7	65.9	64.3	67.5	69.3	64.9	62.4	63.7	73.7	77.1	70.2	72.4
Index of favorable factors	62.8	63.7	62.2	63.9	63.5	58.9	59.1	62.9	72.0	75.4	66.0	70.3
Rejection of credit applications	49.3	49.4	50.5	50.6	55.1	55.3	51.8	51.9	54.2	49.4	54.5	50.0
Accounts placed for collections	52.2	48.4	49.5	48.7	50.8	54.6	52.5	56.4	53.1	54.1	58.3	52.5
Disputes	51.4	49.4	50.0	53.9	53.6	52.9	56.8	57.0	53.4	55.7	56.6	51.9
Dollar amount beyond terms	51.7	52.6	47.1	50.3	57.7	49.2	54.3	54.4	58.4	65.7	58.8	53.2
Dollar amount of customer deductions	54.1	49.6	50.7	50.3	53.6	50.6	54.1	54.8	55.1	57.6	53.2	51.3
Filings for bankruptcies	58.6	55.9	59.8	54.2	61.2	61.6	61.6	59.9	59.9	62.6	64.2	62.8
Index of unfavorable factors	52.9	50.9	51.3	51.3	55.3	54.0	55.2	55.7	55.7	57.5	57.6	53.6
NACM Service CMI	56.9	56.0	55.6	56.3	58.6	56.0	56.8	58.6	62.2	64.7	61.0	60.3
ISM Service Business Activity Index Not Seasonally Adjusted	63.0	62.5	64.5	63.0	61.0	56.0	60.0	61.0	66.4	68.7	69.7	
Seasonally Adjusted, Reported	65.1	65.1	63.3	64.7	60.1	58.6	65.7	60.8	65.8	68.4	65.2	
Seasonally Adjusted, Revised	64.1	63.8	61.7	63.3	59.6	58.0						

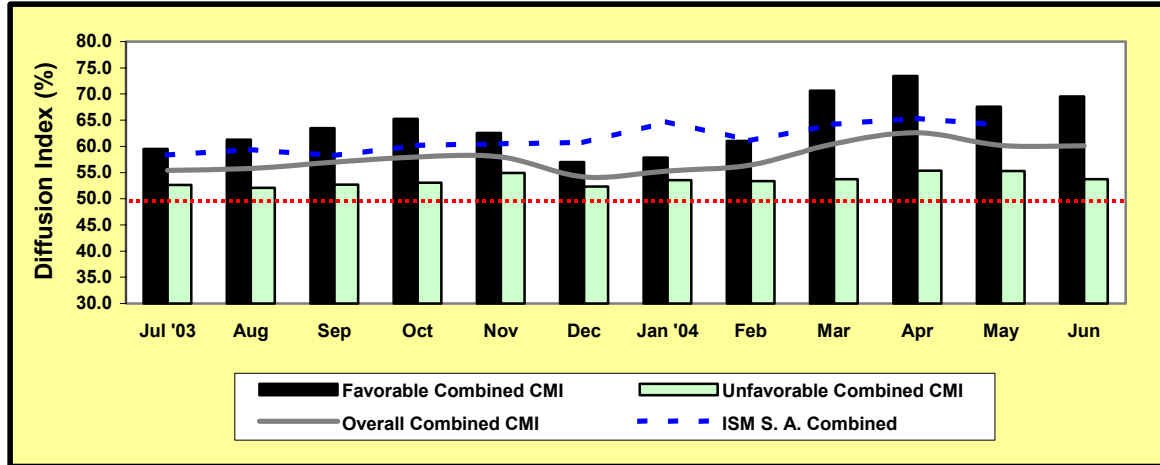


COMBINED SECTORS

The status quo has been maintained for the overall equally-weighted combined index. Improvements this month in “new credit applications” and “dollar collections” have been negated by slippage in “disputes” and aging of accounts (i.e., “dollar amount beyond terms”). The readings are still quite strong; the economy continues to grow.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Jul '03	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun
Sales	60.1	62.4	64.5	68.7	63.1	58.0	58.0	64.7	77.5	79.0	73.1	72.3
New credit applications	54.2	56.8	57.9	59.4	56.0	49.7	54.7	60.5	65.8	67.8	60.3	62.8
Dollar collections	59.2	63.2	64.7	65.0	64.1	59.2	59.5	55.2	65.9	71.9	66.0	71.3
Amount of credit extended	64.4	62.6	66.8	67.9	67.1	61.0	59.1	63.7	73.3	75.1	70.9	71.8
Index of favorable factors	59.5	61.3	63.5	65.3	62.6	57.0	57.8	61.0	70.6	73.5	67.6	69.6
Rejection of credit applications	51.9	51.4	52.7	52.7	55.5	54.6	51.7	51.9	52.0	50.6	53.2	52.0
Accounts placed for collections	53.5	51.5	52.2	50.5	52.2	51.0	53.5	55.6	53.4	54.1	55.7	55.3
Disputes	49.6	48.4	49.6	53.8	51.9	51.5	52.3	51.2	51.4	51.0	53.0	50.6
Dollar amount beyond terms	50.9	55.1	52.6	54.5	57.1	47.9	52.7	51.8	54.9	62.0	57.5	52.5
Dollar amount of customer deductions	50.8	49.0	50.1	51.1	52.5	50.1	51.8	50.7	51.9	53.0	50.5	49.8
Filings for bankruptcies	59.2	57.2	58.9	55.8	60.4	59.0	59.2	59.2	58.9	61.5	61.6	62.4
Index of unfavorable factors	52.7	52.1	52.7	53.1	54.9	52.4	53.5	53.4	53.8	55.4	55.3	53.8
NACM Combined CMI	55.4	55.8	57.0	57.9	58.0	54.2	55.3	56.5	60.5	62.6	60.2	60.1
ISM Combined Sectors Index*												
Not Seasonally Adjusted	57.0	58.3	59.5	59.2	59.9	58.2	60.8	62.3	65.9	67.2	67.5	
Seasonally Adjusted, Reported	58.5	59.9	58.5	60.9	61.5	62.4	64.7	61.1	64.2	65.4	64.0	
Seasonally Adjusted, Revised	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 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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