

NACM Credit Manager's Index

Report for March 2005

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

March '05	CMI-Total: 58.4	CMI-Manufacturing: 58.5	CMI-Service: 58.2
February '05	CMI-Total: 55.6	CMI-Manufacturing: 55.7	CMI-Service: 55.5
% Change	5.04%	5.03%	4.86%

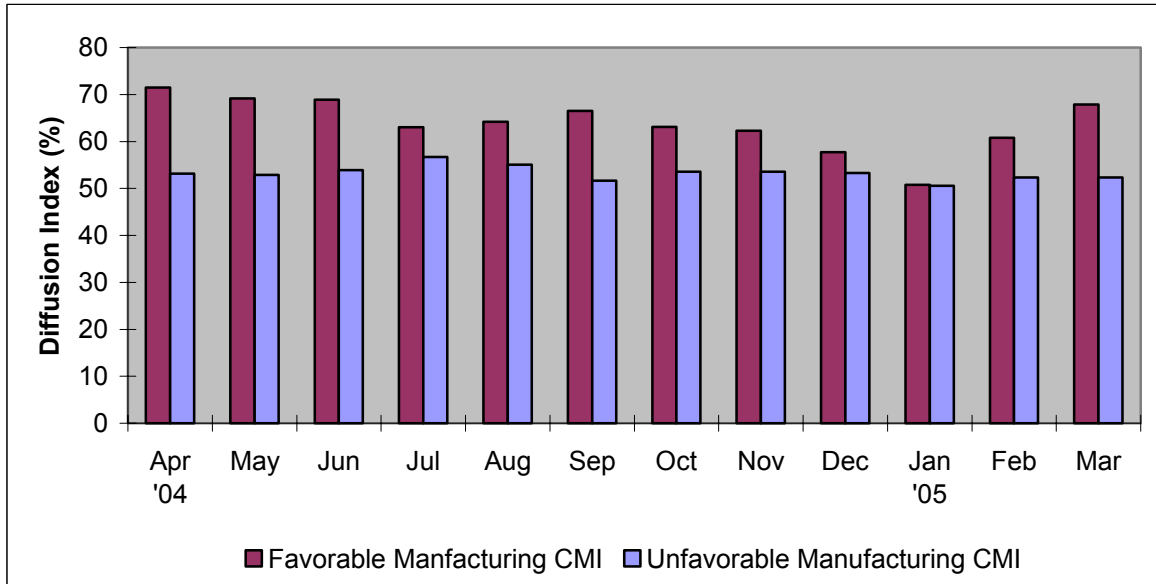
As the first quarter of 2005 comes to an end, significant growth is made in both the manufacturing and service sectors. Across the board, there was economic growth in every favorable factor.

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

MANUFACTURING SECTOR RESULTS

Fueled by a 1,320 basis point jump in "dollar collections", the manufacturing sector recorded its third consecutive period of economic growth, finishing at 58.5, up from 55.7 in February 2005. This is the highest level since August 2004. Significant gains in "sales" and "amount of credit extended" also helped push the manufacturing CMI higher.

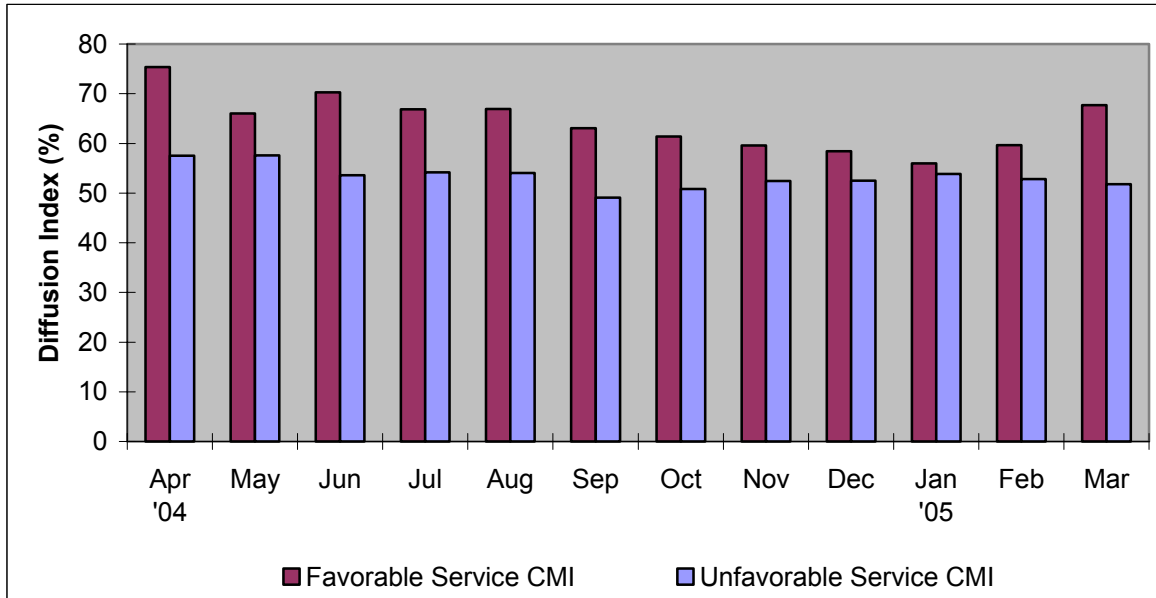
Manufacturing Sector (Not Seasonally Adjusted)	Apr '04	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar
Sales	78.4	75.2	71.7	64.5	69.3	68.8	64.8	64.1	57.6	48.4	61.7	69.6
New credit applications	63.6	59.4	60.8	56.4	55.9	61.3	59.7	58.8	49.0	49.7	63.9	65.2
Dollar collections	70.9	70.4	71.7	66.8	63.7	66.7	65.7	61.0	61.5	49.2	53.6	66.8
Amount of credit extended	73.0	71.6	71.3	64.4	67.9	69.1	62.3	65.3	62.8	55.7	64.0	69.8
Index of favorable factors	71.5	69.2	68.9	63.0	64.2	66.5	63.1	62.3	57.7	50.8	60.8	67.9
Rejection of credit applications	51.7	51.9	53.8	52.0	55.1	53.4	51.2	54.8	55.1	54.1	49.2	48.9
Accounts placed for collections	54.0	53.1	58.0	60.3	56.7	51.7	56.9	56.5	57.1	50.0	54.4	52.3
Disputes	46.2	49.3	49.4	51.5	49.4	46.9	50.0	50.7	49.5	46.6	47.6	49.8
Dollar amount beyond terms	58.1	56.2	51.8	60.6	58.0	52.6	55.2	52.3	53.2	50.3	54.7	56.7
Dollar amount of customer deductions	48.3	47.6	48.4	52.3	50.6	46.9	50.2	47.9	47.0	43.8	49.4	49.5
Filings for bankruptcies	60.5	59.2	62.0	63.4	60.7	58.4	57.9	59.0	57.7	58.5	58.6	56.7
Index of unfavorable factors	53.1	52.9	53.9	56.7	55.1	51.7	53.6	53.5	53.3	50.6	52.3	52.3
NACM Manufacturing CMI	60.5	59.4	59.9	59.2	58.7	57.6	57.4	57.0	55.1	50.6	55.7	58.5
ISM Manufacturing PMI	62.3	62.6	61.2	61.6	59.6	59.1	55.5	57.6	57.3	56.4	55.3	NA



Service Sector Results

The service sector also recorded its third consecutive period of economic growth finishing at 58.2. However, unlike the manufacturing sector, "new sales" and "credit extended" pushed the service CMI to its highest level since August 2004. These two favorable factors, new sales and credit extended, posted gains of 1,210 and 1,020 basis points, respectively. One area of concern is that erosion appears in four of the six unfavorable factors, with "accounts placed for collections" showing a 480 basis point decline.

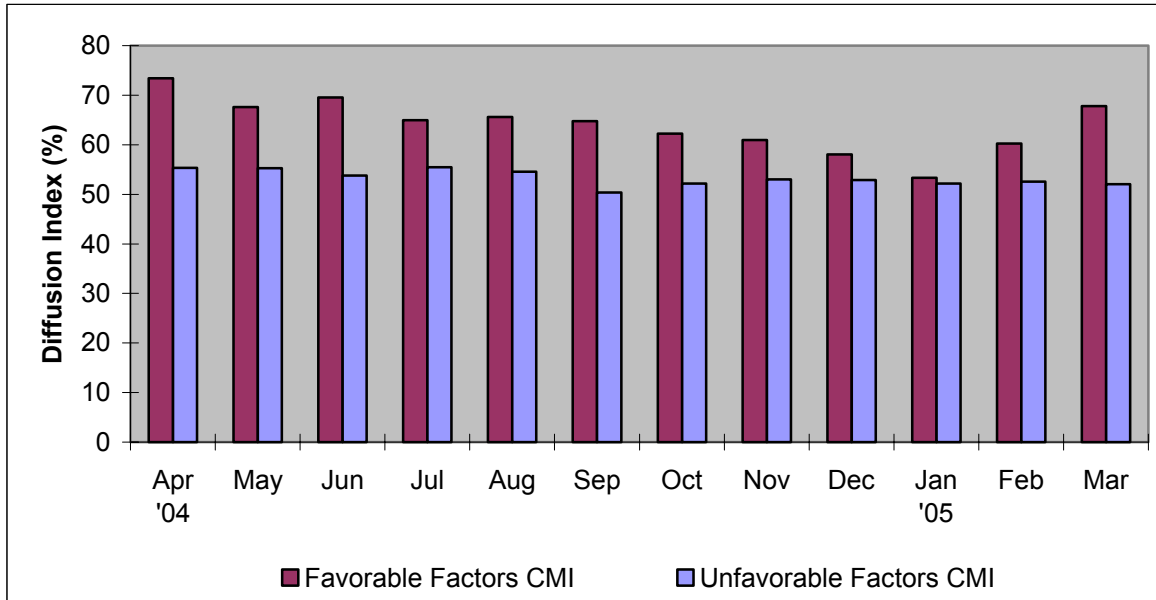
Service Sector (Not Seasonally Adjusted)		Apr '04	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar
Sales		79.6	71.0	72.9	67.1	68.9	64.0	61.8	60.8	59.0	54.7	59.4	71.5
New credit applications		71.9	61.2	64.9	57.7	63.4	60.1	54.9	55.1	54.2	51.3	57.0	66.2
Dollar collections		72.8	61.6	70.8	75.5	64.1	64.0	63.7	59.0	60.8	59.2	59.4	60.3
Amount of credit extended		77.1	70.2	72.4	67.2	71.4	64.2	65.1	63.5	59.7	58.7	62.7	72.9
Index of favorable factors		75.4	66.0	70.3	66.9	67.0	63.1	61.4	59.6	58.4	56.0	59.6	67.7
Rejection of credit applications		49.4	54.5	50.0	53.4	51.7	49.8	50.2	54.5	54.9	54.5	51.5	49.6
Accounts placed for collections		54.1	58.3	52.5	52.5	56.3	51.7	51.2	50.5	48.2	52.9	54.2	49.4
Disputes		55.7	56.6	51.9	51.2	49.6	47.8	51.9	50.8	55.2	50.8	50.6	47.7
Dollar amount beyond terms		65.7	58.8	53.2	54.0	55.6	45.8	45.2	49.0	46.4	51.8	50.4	53.4
Dollar amount of customer deductions		57.6	53.2	51.3	51.6	49.4	46.5	47.1	48.0	51.0	51.6	52.7	50.4
Filings for bankruptcies		62.6	64.2	62.8	62.4	61.7	53.0	59.4	61.8	59.4	61.5	57.4	60.3
Index of unfavorable factors		57.5	57.6	53.6	54.2	54.1	49.1	50.8	52.4	52.5	53.9	52.8	51.8
NACM Service CMI		64.7	61.0	60.3	59.3	59.2	54.7	55.1	55.3	54.9	54.7	55.5	58.2
ISM Service Business Activity Index		66.9	63.3	61.1	63.4	59.3	58.7	61.5	61.9	63.9	59.2	59.8	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Apr '04	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar
Sales	79.0	73.1	72.3	65.7	69.1	66.2	63.3	62.5	58.3	51.6	60.6	70.6
New credit applications	67.8	60.3	62.8	57.0	59.8	60.7	57.3	57.0	51.5	50.5	60.5	65.7
Dollar collections	71.9	66.0	71.3	71.0	63.9	65.3	64.7	60.1	61.1	54.2	56.5	63.6
Amount of credit extended	75.1	70.9	71.8	65.7	69.7	66.5	63.7	64.4	61.3	57.2	63.4	71.4
Index of favorable factors	73.5	67.6	69.6	64.9	65.6	64.7	62.3	61.0	58.1	53.4	60.2	67.8
Rejection of credit applications	50.6	53.2	52.0	52.7	53.4	51.5	50.7	54.7	55.0	54.3	50.4	49.3
Accounts placed for collections	54.1	55.7	55.3	56.5	56.5	51.7	54.1	53.6	52.8	51.4	54.3	50.9
Disputes	51.0	53.0	50.6	51.3	49.5	47.3	51.0	50.7	52.3	48.7	49.1	48.8
Dollar amount beyond terms	62.0	57.5	52.5	57.3	56.8	48.9	50.2	50.7	49.9	51.0	52.6	55.1
Dollar amount of customer deductions	53.0	50.5	49.8	51.9	50.0	46.7	48.7	47.9	49.0	47.7	51.1	50.0
Filings for bankruptcies	61.5	61.6	62.4	62.9	61.2	55.5	58.6	60.4	58.5	60.0	58.0	58.5
Index of unfavorable factors	55.4	55.3	53.8	55.4	54.6	50.3	52.2	53.0	52.9	52.2	52.6	52.1
NAACM Combined CMI	62.6	60.2	60.1	59.2	59.0	56.0	56.2	56.2	55.0	52.7	55.6	58.4
ISM Combined Sectors Index*	64.6	63.0	61.2	62.5	59.5	58.9	59.5	59.8	60.6	57.8	57.6	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 MARCH 2005 TO MARCH 2004

Even though the NACM CMI continued its positive growth in 2005, increasing from 55.6 (February 2005) to 58.4 (March 2005), a year-to-year comparison shows erosion in all but one factor. With the exception of "sales", the 2005 manufacturing sector recorded factor levels that were very similar to its 2004 level, while in the service sector, nine of the 10 factors showed some level of erosion.

Comparison: March 2005 vs. March 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Mar '04	Mar '05	Mar '04	Mar '05	Mar '04	Mar '05
Sales	75.5	69.6	79.6	71.5	77.6	70.6
New credit applications	63.8	65.2	68.0	66.2	65.9	65.7
Dollar collections	65.3	66.8	66.7	60.3	66.0	63.6
Amount of credit extended	72.9	69.8	73.7	72.9	73.3	71.4
Index of favorable factors	69.4	67.9	72.0	67.7	70.7	67.8
Rejection of credit applications	50.0	48.9	54.2	49.6	52.1	49.3
Accounts placed for collections	53.7	52.3	53.1	49.4	53.4	50.9
Disputes	49.5	49.8	53.4	47.7	51.5	48.8
Dollar amount beyond terms	51.6	56.7	58.4	53.4	55.0	55.1
Dollar amount of customer deductions	48.9	49.5	55.1	50.4	52.0	50.0
Filings for bankruptcies	58.0	56.7	59.9	60.3	59.0	58.5
Index of unfavorable factors	52.0	52.3	55.7	51.8	53.8	52.1
NACM CMI	58.9	58.5	62.2	58.2	60.6	58.4

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.