

# NACM Credit Manager's Index

## Report for March 2004

Issued April 1, 2004  
 National Association of Credit Management  
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<b>Mar '04</b>	<b>CMI-Total: 60.5</b>	<b>CMI-Manufacturing: 58.9</b>	<b>CMI-Service: 62.2</b>
<b>Feb '04</b>	<b>CMI-Total: 56.5</b>	<b>CMI-Manufacturing: 54.3</b>	<b>CMI-Service: 58.6</b>
<b>% Change</b>	<b>7.1%</b>	<b>8.5%</b>	<b>6.1%</b>

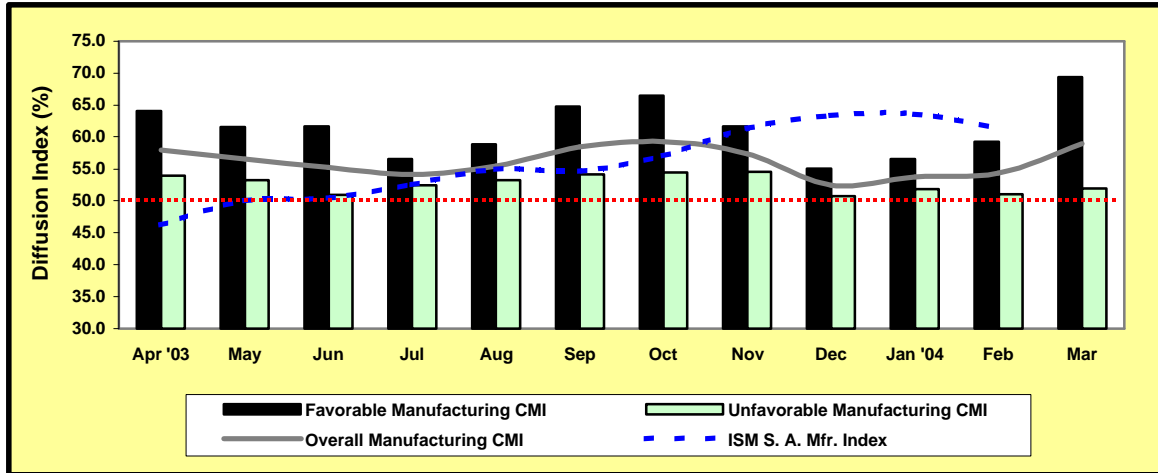
**What a difference a month makes! Any concerns expressed last month have been wiped away with strong performances in both the manufacturing and service sectors. In total, the CMI improved 7.1% over the February reading, with the improvement in the manufacturing sector being even stronger. As reported below, there was extraordinary improvement in the favorable factors, whereas the unfavorable factors basically maintained their February levels.**

*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 concerns expressed last month about this sector have been eradicated. The slowness in dollar collections has improved significantly, even though sales growth continues at a high level. The improvement of 410 basis points in disputes, with smaller improvements in "customer deductions" and "outstanding balances beyond terms" are encouraging signs. Higher sales growth and greater extension of credit did not result in slowness of payments by customers as indicated by improvement in "dollar amount beyond terms". Last month's results begged the question: "Are factories increasing output (indicated by the sales improvements) at the expense of declining quality of accounts?" The answer appears to be "no".

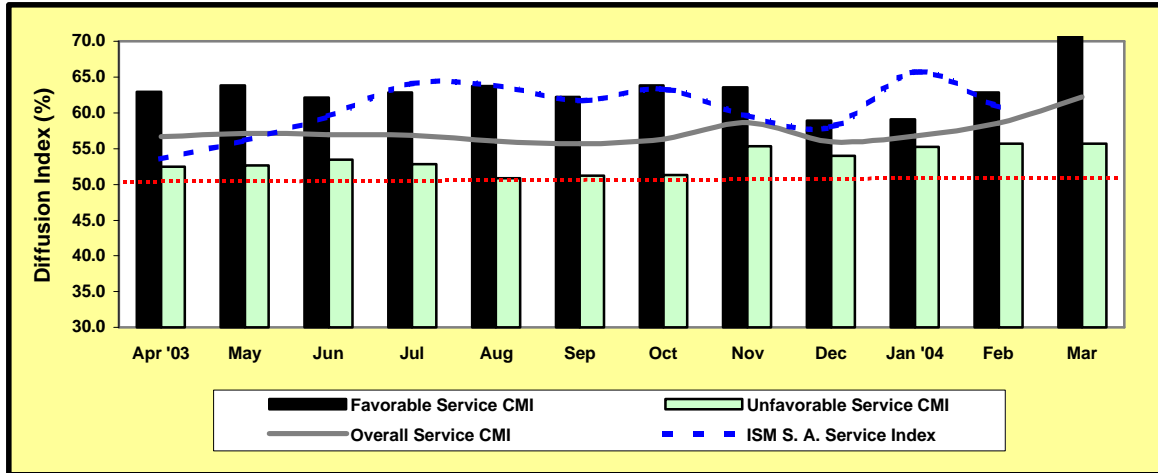
<b>Manufacturing Sector</b>												
(Not Seasonally Adjusted)												
	Apr '03	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar
Sales	67.3	60.5	59.8	55.9	59.8	65.8	69.4	62.1	55.2	56.8	63.2	75.5
New credit applications	58.2	55.6	56.7	49.8	54.9	55.4	58.9	54.5	48.1	53.5	58.9	63.8
Dollar collections	66.4	68.2	64.5	60.0	61.2	68.3	69.4	65.2	59.9	60.0	51.1	65.3
Amount of credit extended	64.2	62.0	65.8	60.7	59.4	69.4	68.2	65.0	57.2	55.9	63.8	72.9
<b>Index of favorable factors</b>	<b>64.0</b>	<b>61.6</b>	<b>61.7</b>	<b>56.6</b>	<b>58.8</b>	<b>64.7</b>	<b>66.5</b>	<b>61.7</b>	<b>55.1</b>	<b>56.6</b>	<b>59.3</b>	<b>69.4</b>
Rejection of credit applications	52.3	54.1	51.7	54.1	53.4	55.0	54.4	55.9	53.9	51.6	51.9	50.0
Accounts placed for collections	56.3	54.1	53.3	54.7	54.6	55.0	52.0	53.5	47.5	54.6	54.8	53.7
Disputes	50.2	49.3	49.0	48.0	47.3	49.3	53.6	50.2	50.3	47.7	45.4	49.5
Dollar amount beyond terms	58.0	55.6	49.8	50.2	57.5	58.3	58.0	56.7	46.7	51.1	49.2	51.6
Dollar amount of customer deductions	49.8	51.7	45.4	48.0	48.4	49.5	51.7	51.4	49.7	49.5	46.5	48.9
Filings for bankruptcies	57.0	55.0	56.3	59.7	58.5	58.0	57.2	59.6	56.6	56.8	58.4	58.0
<b>Index of unfavorable factors</b>	<b>53.9</b>	<b>53.3</b>	<b>50.9</b>	<b>52.5</b>	<b>53.3</b>	<b>54.2</b>	<b>54.5</b>	<b>54.6</b>	<b>50.8</b>	<b>51.9</b>	<b>51.0</b>	<b>52.0</b>
<b>NACM Manufacturing CMI</b>	<b>58.0</b>	<b>56.6</b>	<b>55.2</b>	<b>54.1</b>	<b>55.5</b>	<b>58.4</b>	<b>59.3</b>	<b>57.4</b>	<b>52.5</b>	<b>53.8</b>	<b>54.3</b>	<b>58.9</b>
<b>ISM Manufacturing PMI</b>												
Not Seasonally Adjusted	48.6	52.0	51.7	51.0	54.1	54.5	55.3	58.8	60.3	61.6	63.5	
Seasonally Adjusted, Reported	45.4	49.4	49.8	51.8	54.7	53.7	57.0	62.8	66.2	63.6	61.4	
Seasonally Adjusted, Revised	46.2	50.0	50.4	52.6	55.0	54.7	57.1	61.3	63.4			



### SERVICE SECTOR RESULTS

Although the March gains in the service sector were not as strong as exhibited by the manufacturing sector, the service sector still represents a stronger component of the economy. The latest service index of 62.2 is 330 basis points stronger than manufacturing. There do not appear to be any significant troubling signs revealed by the data.

Service Sector												
(Not Seasonally Adjusted)												
	Apr '03	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar
Sales	66.6	63.3	64.3	65.0	65.1	63.1	67.9	64.2	60.7	59.2	66.3	79.6
New credit applications	58.9	60.7	60.1	59.4	58.7	60.1	60.0	57.7	51.4	55.9	62.1	68.0
Dollar collections	59.6	64.1	58.9	58.2	65.2	61.2	60.0	62.9	58.5	58.9	59.4	66.7
Amount of credit extended	66.6	67.2	65.3	68.7	65.9	64.3	67.5	69.3	64.9	62.4	63.7	73.7
<b>Index of favorable factors</b>	<b>62.9</b>	<b>63.8</b>	<b>62.2</b>	<b>62.8</b>	<b>63.7</b>	<b>62.2</b>	<b>63.9</b>	<b>63.5</b>	<b>58.9</b>	<b>59.1</b>	<b>62.9</b>	<b>72.0</b>
Rejection of credit applications	50.6	47.2	52.8	49.3	49.4	50.5	50.6	55.1	55.3	51.8	51.9	54.2
Accounts placed for collections	50.6	52.4	53.4	52.2	48.4	49.5	48.7	50.8	54.6	52.5	56.4	53.1
Disputes	52.3	51.8	53.2	51.4	49.4	50.0	53.9	53.6	52.9	56.8	57.0	53.4
Dollar amount beyond terms	54.2	56.3	51.9	51.7	52.6	47.1	50.3	57.7	49.2	54.3	54.4	58.4
Dollar amount of customer deductions	52.7	53.6	54.1	54.1	49.6	50.7	50.3	53.6	50.6	54.1	54.8	55.1
Filings for bankruptcies	54.4	54.9	55.4	58.6	55.9	59.8	54.2	61.2	61.6	61.6	59.9	59.9
<b>Index of unfavorable factors</b>	<b>52.5</b>	<b>52.7</b>	<b>53.5</b>	<b>52.9</b>	<b>50.9</b>	<b>51.3</b>	<b>51.3</b>	<b>55.3</b>	<b>54.0</b>	<b>55.2</b>	<b>55.7</b>	<b>55.7</b>
<b>NACM Service CMI</b>	<b>56.7</b>	<b>57.2</b>	<b>56.9</b>	<b>56.9</b>	<b>56.0</b>	<b>55.6</b>	<b>56.3</b>	<b>58.6</b>	<b>56.0</b>	<b>56.8</b>	<b>58.6</b>	<b>62.2</b>
<b>ISM Service Business Activity Index</b>												
Not Seasonally Adjusted	54.5	56.5	63.5	63.0	62.5	64.5	63.0	61.0	56.0	60.0	61.0	
Seasonally Adjusted, Reported	50.7	54.5	60.6	65.1	65.1	63.3	64.7	60.1	58.6	65.7	60.8	
Seasonally Adjusted, Revised	53.6	56.1	59.5	64.1	63.8	61.7	63.3	59.6	58.0			

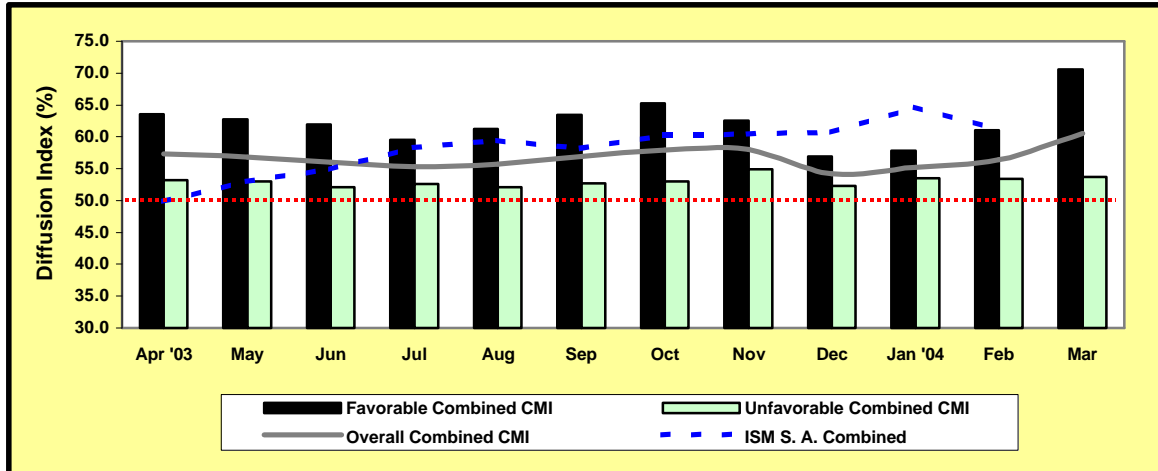


### COMBINED SECTORS

The combined index is at a record level this month, driven largely by three favorable factors: sales activity, new credit applications, and amount of credit extended. These are all indicators of a vibrant, growing economy. The unfavorable factors held ground this month.

<b>Combined Manufacturing &amp; Service Sectors</b>												
(Not Seasonally Adjusted)												
	Apr '03	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar
Sales	67.0	61.9	62.1	60.1	62.4	64.5	68.7	63.1	58.0	58.0	64.7	77.5
New credit applications	58.5	58.1	58.4	54.2	56.8	57.9	59.4	56.0	49.7	54.7	60.5	65.8
Dollar collections	63.1	66.2	61.7	59.2	63.2	64.7	65.0	64.1	59.2	59.5	55.2	65.9
Amount of credit extended	65.4	64.6	65.5	64.4	62.6	66.8	67.9	67.1	61.0	59.1	63.7	73.3
<b>Index of favorable factors</b>	<b>63.5</b>	<b>62.7</b>	<b>61.9</b>	<b>59.5</b>	<b>61.3</b>	<b>63.5</b>	<b>65.3</b>	<b>62.6</b>	<b>57.0</b>	<b>57.8</b>	<b>61.0</b>	<b>70.6</b>
Rejection of credit applications	51.5	50.7	52.2	51.9	51.4	52.7	52.7	55.5	54.6	51.7	51.9	52.0
Accounts placed for collections	53.5	53.3	53.4	53.5	51.5	52.2	50.5	52.2	51.0	53.5	55.6	53.4
Disputes	51.2	50.5	51.1	49.6	48.4	49.6	53.8	51.9	51.5	52.3	51.2	51.4
Dollar amount beyond terms	56.1	55.9	50.8	50.9	55.1	52.6	54.5	57.1	47.9	52.7	51.8	54.9
Dollar amount of customer deductions	51.2	52.6	49.7	50.8	49.0	50.1	51.1	52.5	50.1	51.8	50.7	51.9
Filings for bankruptcies	55.8	54.9	55.8	59.2	57.2	58.9	55.8	60.4	59.0	59.2	59.2	58.9
<b>Index of unfavorable factors</b>	<b>53.2</b>	<b>53.0</b>	<b>52.2</b>	<b>52.7</b>	<b>52.1</b>	<b>52.7</b>	<b>53.1</b>	<b>54.9</b>	<b>52.4</b>	<b>53.5</b>	<b>53.4</b>	<b>53.8</b>
<b>NACM Combined CMI</b>	<b>57.3</b>	<b>56.9</b>	<b>56.1</b>	<b>55.4</b>	<b>55.8</b>	<b>57.0</b>	<b>57.9</b>	<b>58.0</b>	<b>54.2</b>	<b>55.3</b>	<b>56.5</b>	<b>60.5</b>
<b>ISM Combined Sectors Index*</b>												
Not Seasonally Adjusted	51.6	54.3	57.6	57.0	58.3	59.5	59.2	59.9	58.2	60.8	62.3	
Seasonally Adjusted, Reported	48.1	52.0	52.2	58.5	59.9	58.5	60.9	61.5	62.4	64.7	61.1	
Seasonally Adjusted, Revised	49.9	53.1	55.0	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 ones, such as Vermont, Montana, and Idaho.

**Factors Making Up the Diffusion Index**

<b>FAVORABLE FACTORS</b>	<b>WHY FAVORABLE</b>
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.
<b>UNFAVORABLE FACTORS</b>	<b>WHY UNFAVORABLE</b>
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](http://www.nacm.org) or by contacting Norma Heim at 410-423-1842.

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