

NACM Credit Manager's Index

Report for May 2004

Issued June 1, 2004
 National Association of Credit Management
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May '04	CMI-Total: 60.2	CMI-Manufacturing: 59.4	CMI-Service: 61.0
Apr '04	CMI-Total: 62.6	CMI-Manufacturing: 60.5	CMI-Service: 64.7
% Change	-3.8%	-1.8%	-5.7%

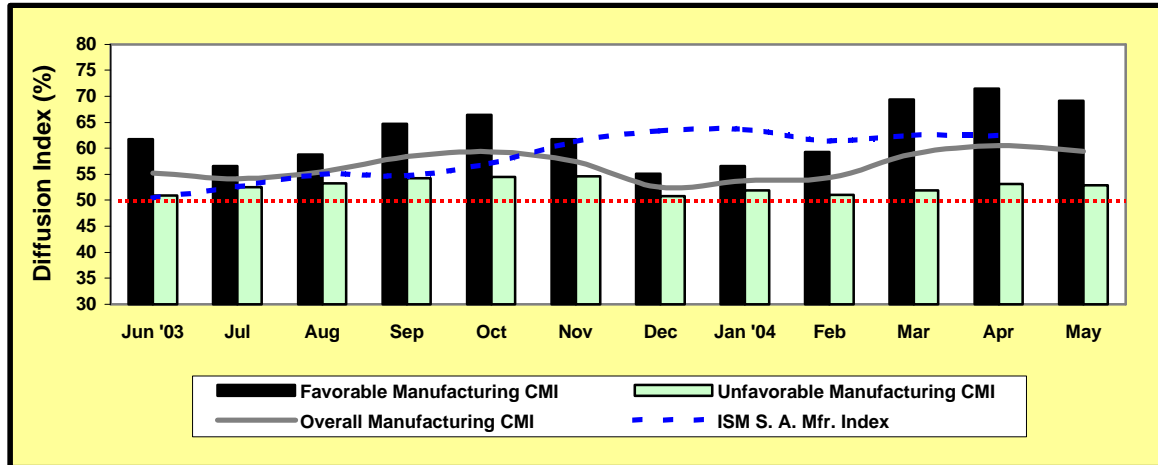
Once again the economy shows strong growth in May, with an overall reading of 60.2%. This reading has fallen from its record high registered last month, as have those for both the manufacturing and service sectors. The readings indicate that although growth continues to be strong in each sector, the rate of change in May relative to April slowed with greater deceleration in the service sector. However, the charts and graphs below show both sectors have current readings higher than months preceding March 2004. The economy continues to do well!

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

Again this month, the numbers suggest little problem exists with the manufacturing sector. Although growth in sales and new credit applications are not as strong as last month, they are still very strong. The number of disputes with customers declined; offsetting this favorable factor is the slightly increased aging of accounts. However, the "dollar amount beyond terms" doesn't appear to be a problem. It needs to be watched for further deterioration in future months since it would indicate increasing customer cash flow problems.

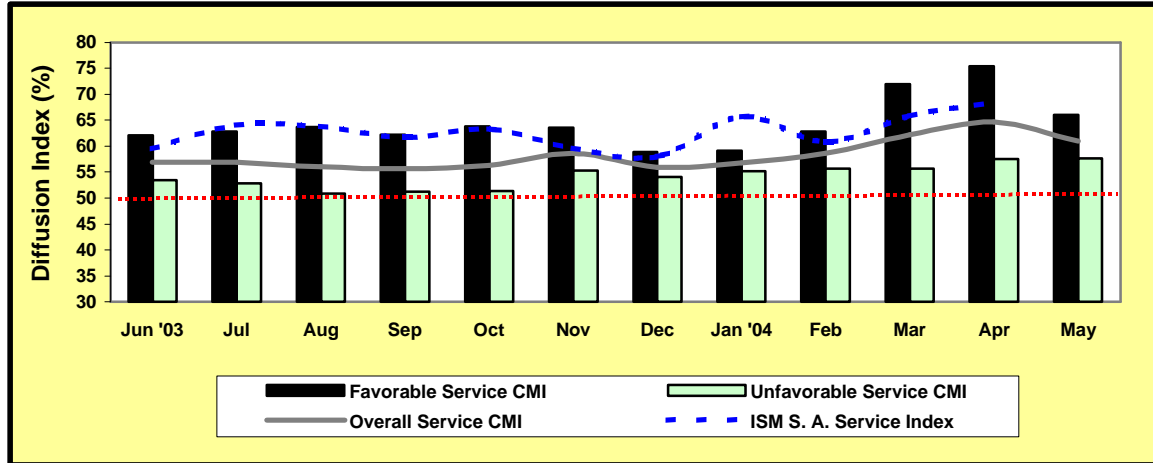
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Jun '03	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May
Sales	59.8	55.9	59.8	65.8	69.4	62.1	55.2	56.8	63.2	75.5	78.4	75.2
New credit applications	56.7	49.8	54.9	55.4	58.9	54.5	48.1	53.5	58.9	63.8	63.6	59.4
Dollar collections	64.5	60.0	61.2	68.3	69.4	65.2	59.9	60.0	51.1	65.3	70.9	70.4
Amount of credit extended	65.8	60.7	59.4	69.4	68.2	65.0	57.2	55.9	63.8	72.9	73.0	71.6
Index of favorable factors	61.7	56.6	58.8	64.7	66.5	61.7	55.1	56.6	59.3	69.4	71.5	69.2
Rejection of credit applications	51.7	54.1	53.4	55.0	54.4	55.9	53.9	51.6	51.9	50.0	51.7	51.9
Accounts placed for collections	53.3	54.7	54.6	55.0	52.0	53.5	47.5	54.6	54.8	53.7	54.0	53.1
Disputes	49.0	48.0	47.3	49.3	53.6	50.2	50.3	47.7	45.4	49.5	46.2	49.3
Dollar amount beyond terms	49.8	50.2	57.5	58.3	58.0	56.7	46.7	51.1	49.2	51.6	58.1	56.2
Dollar amount of customer deductions	45.4	48.0	48.4	49.5	51.7	51.4	49.7	49.5	46.5	48.9	48.3	47.6
Filings for bankruptcies	56.3	59.7	58.5	58.0	57.2	59.6	56.6	56.8	58.4	58.0	60.5	59.2
Index of unfavorable factors	50.9	52.5	53.3	54.2	54.5	54.6	50.8	51.9	51.0	52.0	53.1	52.9
NACM Manufacturing CMI	55.2	54.1	55.5	58.4	59.3	57.4	52.5	53.8	54.3	58.9	60.5	59.4
ISM Manufacturing PMI												
Not Seasonally Adjusted	51.7	51.0	54.1	54.5	55.3	58.8	60.3	61.6	63.5	65.3	65.6	
Seasonally Adjusted, Reported	49.8	51.8	54.7	53.7	57.0	62.8	66.2	63.6	61.4	62.5	62.4	
Seasonally Adjusted, Revised	50.4	52.6	55.0	54.7	57.1	61.3	63.4					



SERVICE SECTOR RESULTS

Although the service sector continues to grow, the amount of slowing in May's growth rate is somewhat surprising. There were significant decreases in each of the "favorable factors" with the sub-index falling 940 basis points. The one positive to take away from this performance is that the index still exceeds readings posted prior to March 2004. Overall, the sub-index of "unfavorable factors" held its ground, with one significant negative change: erosion in "dollar amount beyond terms". This increased aging of accounts may simply be a return to more normal levels from the extremely favorable April reading of 65.7%.

Service Sector												
(Not Seasonally Adjusted)												
	Jun '03	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May
Sales	64.3	65.0	65.1	63.1	67.9	64.2	60.7	59.2	66.3	79.6	79.6	71.0
New credit applications	60.1	59.4	58.7	60.1	60.0	57.7	51.4	55.9	62.1	68.0	71.9	61.2
Dollar collections	58.9	58.2	65.2	61.2	60.0	62.9	58.5	58.9	59.4	66.7	72.8	61.6
Amount of credit extended	65.3	68.7	65.9	64.3	67.5	69.3	64.9	62.4	63.7	73.7	77.1	70.2
Index of favorable factors	62.2	62.8	63.7	62.2	63.9	63.5	58.9	59.1	62.9	72.0	75.4	66.0
Rejection of credit applications	52.8	49.3	49.4	50.5	50.6	55.1	55.3	51.8	51.9	54.2	49.4	54.5
Accounts placed for collections	53.4	52.2	48.4	49.5	48.7	50.8	54.6	52.5	56.4	53.1	54.1	58.3
Disputes	53.2	51.4	49.4	50.0	53.9	53.6	52.9	56.8	57.0	53.4	55.7	56.6
Dollar amount beyond terms	51.9	51.7	52.6	47.1	50.3	57.7	49.2	54.3	54.4	58.4	65.7	58.8
Dollar amount of customer deductions	54.1	54.1	49.6	50.7	50.3	53.6	50.6	54.1	54.8	55.1	57.6	53.2
Filings for bankruptcies	55.4	58.6	55.9	59.8	54.2	61.2	61.6	61.6	59.9	59.9	62.6	64.2
Index of unfavorable factors	53.5	52.9	50.9	51.3	51.3	55.3	54.0	55.2	55.7	55.7	57.5	57.6
NACM Service CMI	56.9	56.9	56.0	55.6	56.3	58.6	56.0	56.8	58.6	62.2	64.7	61.0
ISM Service Business Activity Index												
Not Seasonally Adjusted	63.5	63.0	62.5	64.5	63.0	61.0	56.0	60.0	61.0	66.4	68.7	
Seasonally Adjusted, Reported	60.6	65.1	65.1	63.3	64.7	60.1	58.6	65.7	60.8	65.8	68.4	
Seasonally Adjusted, Revised	59.5	64.1	63.8	61.7	63.3	59.6	58.0					

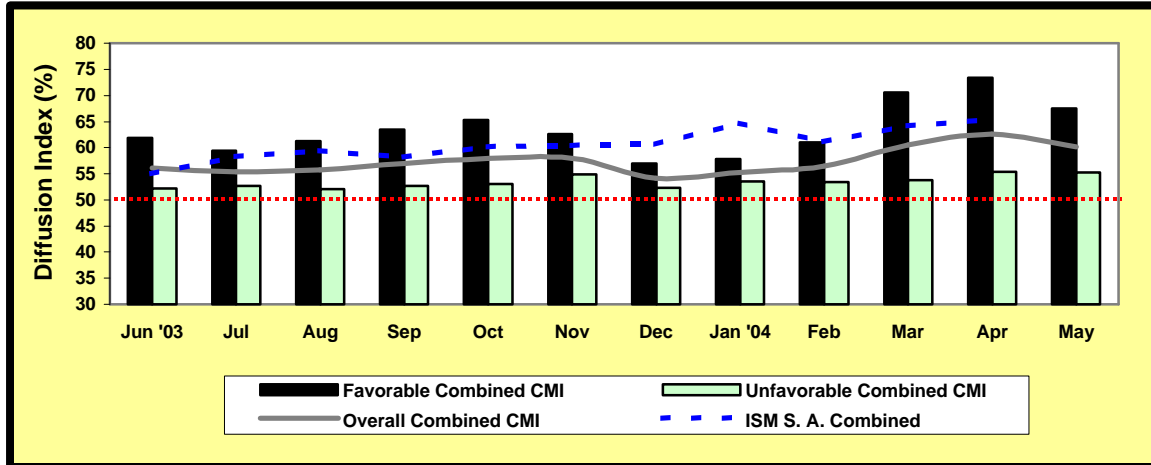


COMBINED SECTORS

The overall equally-weighted combined index gave up 240 basis points in May. The largest contributors to the decline are slower growth in the favorable factors—sales, new credit applications, dollar collections and amount of credit extended. In total, these items fell 590 basis points, largely caused by declines in the service sector. The results do not appear to be reason for alarm. The readings are still quite strong, indicating a vibrant economy.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Jun '03	Jul	Aug	Sep	Oct	Nov	Dec	Jan '04	Feb	Mar	Apr	May
Sales	62.1	60.1	62.4	64.5	68.7	63.1	58.0	58.0	64.7	77.5	79.0	73.1
New credit applications	58.4	54.2	56.8	57.9	59.4	56.0	49.7	54.7	60.5	65.8	67.8	60.3
Dollar collections	61.7	59.2	63.2	64.7	65.0	64.1	59.2	59.5	55.2	65.9	71.9	66.0
Amount of credit extended	65.5	64.4	62.6	66.8	67.9	67.1	61.0	59.1	63.7	73.3	75.1	70.9
Index of favorable factors	61.9	59.5	61.3	63.5	65.3	62.6	57.0	57.8	61.0	70.6	73.5	67.6
Rejection of credit applications	52.2	51.9	51.4	52.7	52.7	55.5	54.6	51.7	51.9	52.0	50.6	53.2
Accounts placed for collections	53.4	53.5	51.5	52.2	50.5	52.2	51.0	53.5	55.6	53.4	54.1	55.7
Disputes	51.1	49.6	48.4	49.6	53.8	51.9	51.5	52.3	51.2	51.4	51.0	53.0
Dollar amount beyond terms	50.8	50.9	55.1	52.6	54.5	57.1	47.9	52.7	51.8	54.9	62.0	57.5
Dollar amount of customer deductions	49.7	50.8	49.0	50.1	51.1	52.5	50.1	51.8	50.7	51.9	53.0	50.5
Filings for bankruptcies	55.8	59.2	57.2	58.9	55.8	60.4	59.0	59.2	59.2	58.9	61.5	61.6
Index of unfavorable factors	52.2	52.7	52.1	52.7	53.1	54.9	52.4	53.5	53.4	53.8	55.4	55.3
NACM Combined CMI	56.1	55.4	55.8	57.0	57.9	58.0	54.2	55.3	56.5	60.5	62.6	60.2
ISM Combined Sectors Index*												
Not Seasonally Adjusted	57.6	57.0	58.3	59.5	59.2	59.9	58.2	60.8	62.3	65.9	67.2	
Seasonally Adjusted, Reported	52.2	58.5	59.9	58.5	60.9	61.5	62.4	64.7	61.1	64.2	65.4	
Seasonally Adjusted, Revised	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 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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