

NACM Credit Manager's Index

Report for November 2003

Issued December 1, 2003
 National Association of Credit Management
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Nov '03	CMI-Total: 58.0	CMI-Manufacturing: 57.4	CMI-Service: 58.6
Oct '03	CMI-Total: 57.9	CMI-Manufacturing: 59.3	CMI-Service: 56.3
% Change	0.2%	-3.2%	4.1%

The combined NACM Credit Manager's Index of 58.0 is at an 18-month high. Although the rate of growth in the manufacturing sector slowed this month, growth in the service sector increased. Overall, both sectors show considerable strength and have for several months. Based on the results of managing and extending unsecured trade credit, there aren't any indications of the economy stalling in the near future.

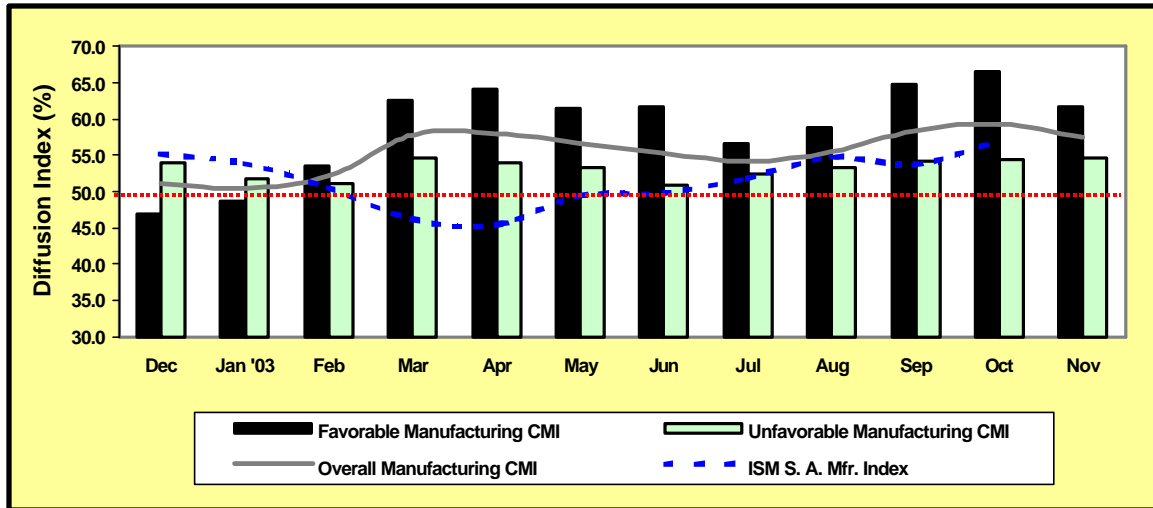
See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

The decline in the manufacturing index for November isn't surprising, given the strong gains recorded in each of the immediately preceding two months. The slowing in growth captured by favorable factors is not a concern. Each "favorable" factor is firmly entrenched at above the 50 level, indicating growth. There are fewer accounts being rejected, placed with collection agencies, and filing bankruptcy. Customer disputes have increased, but the reading is neutral.

The one potential negative factor is the slowing in "dollar collections" and the increase in "dollar amount beyond terms". These two factors, in combination, suggest some slowness in payments.

Manufacturing Sector												
(Not Seasonally Adjusted)												
	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	42.4	49.4	55.2	67.0	67.3	60.5	59.8	55.9	59.8	65.8	69.4	62.1
New credit applications	42.9	43.6	55.1	55.3	58.2	55.6	56.7	49.8	54.9	55.4	58.9	54.5
Dollar collections	50.0	52.2	45.6	65.3	66.4	68.2	64.5	60.0	61.2	68.3	69.4	65.2
Amount of credit extended	52.3	49.6	58.4	62.2	64.2	62.0	65.8	60.7	59.4	69.4	68.2	65.0
Index of favorable factors	46.9	48.7	53.6	62.5	64.0	61.6	61.7	56.6	58.8	64.7	66.5	61.7
Rejection of credit applications	53.3	54.3	50.7	51.8	52.3	54.1	51.7	54.1	53.4	55.0	54.4	55.9
Accounts placed for collections	57.7	53.2	53.3	55.6	56.3	54.1	53.3	54.7	54.6	55.0	52.0	53.5
Disputes	54.6	48.5	47.6	53.3	50.2	49.3	49.0	48.0	47.3	49.3	53.6	50.2
Dollar amount beyond terms	52.0	48.5	51.5	57.5	58.0	55.6	49.8	50.2	57.5	58.3	58.0	56.7
Dollar amount of customer deductions	50.3	48.5	48.4	52.0	49.8	51.7	45.4	48.0	48.4	49.5	51.7	51.4
Filings for bankruptcies	55.4	56.9	55.5	58.1	57.0	55.0	56.3	59.7	58.5	58.0	57.2	59.6
Index of unfavorable factors	53.9	51.7	51.2	54.7	53.9	53.3	50.9	52.5	53.3	54.2	54.5	54.6
NACM Manufacturing CMI	51.1	50.5	52.1	57.8	58.0	56.6	55.2	54.1	55.5	58.4	59.3	57.4
ISM Manufacturing PMI Not Seasonally Adjusted	50.4	51.2	51.0	48.7	48.6	52.0	51.7	51.0	54.1	54.5	55.3	
Seasonally Adjusted	55.2	53.9	50.5	46.2	45.4	49.4	49.8	51.8	54.7	53.7	57.0	

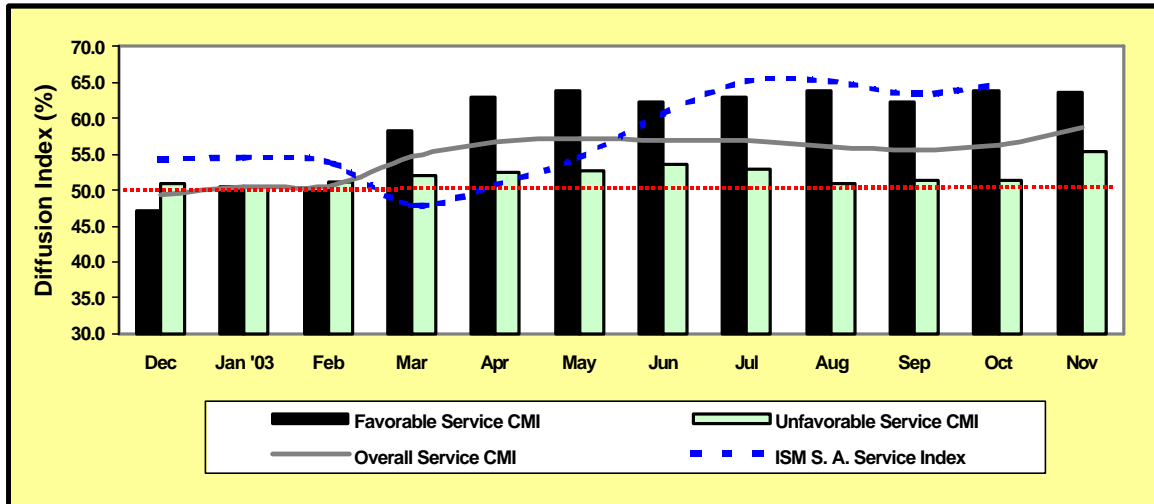


SERVICE SECTOR RESULTS

The service sector increased its growth momentum in November, after having slowed during the June-September period. The index has now shown significant gains two months in a row. For November, there was notable improvement in the “unfavorable factors”. Fewer credit applications were rejected, aging of accounts was better, and both customer deductions and bankruptcies declined.

The potential weakness for this sector is the decline in “new credit applications”. November’s reading is its lowest since March. It suggests some slowing of sales growth in the near future.

Service Sector												
(Not Seasonally Adjusted)												
	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	41.9	48.7	47.0	57.5	66.6	63.3	64.3	65.0	65.1	63.1	67.9	64.2
New credit applications	40.3	47.3	50.6	55.9	58.9	60.7	60.1	59.4	58.7	60.1	60.0	57.7
Dollar collections	52.8	52.3	47.6	60.6	59.6	64.1	58.9	58.2	65.2	61.2	60.0	62.9
Amount of credit extended	53.3	53.4	54.1	59.1	66.6	67.2	65.3	68.7	65.9	64.3	67.5	69.3
Index of favorable factors	47.1	50.4	49.8	58.3	62.9	63.8	62.2	62.8	63.7	62.2	63.9	63.5
Rejection of credit applications	55.2	53.2	51.6	50.2	50.6	47.2	52.8	49.3	49.4	50.5	50.6	55.1
Accounts placed for collections	48.4	50.0	50.0	53.3	50.6	52.4	53.4	52.2	48.4	49.5	48.7	50.8
Disputes	51.4	51.8	50.2	50.9	52.3	51.8	53.2	51.4	49.4	50.0	53.9	53.6
Dollar amount beyond terms	48.0	43.0	50.0	50.6	54.2	56.3	51.9	51.7	52.6	47.1	50.3	57.7
Dollar amount of customer deductions	51.9	51.8	49.8	52.4	52.7	53.6	54.1	54.1	49.6	50.7	50.3	53.6
Filings for bankruptcies	50.5	53.4	54.7	55.2	54.4	54.9	55.4	58.6	55.9	59.8	54.2	61.2
Index of unfavorable factors	50.9	50.5	51.1	52.1	52.5	52.7	53.5	52.9	50.9	51.3	51.3	55.3
NACM Service CMI	49.4	50.5	50.6	54.6	56.7	57.2	56.9	56.9	56.0	55.6	56.3	58.6
ISM Service Business Activity Index Not Seasonally Adjusted	51.5	49.5	54.5	49.5	54.5	56.5	63.5	63.0	62.5	64.5	63.0	
Seasonally Adjusted	54.2	54.5	53.9	47.9	50.7	54.5	60.6	65.1	65.1	63.3	64.7	

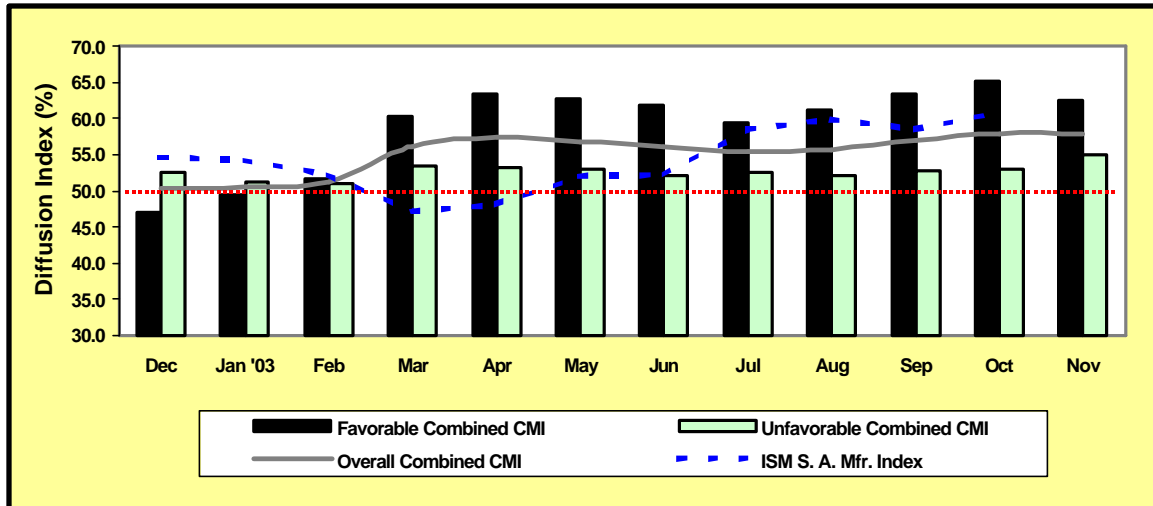


COMBINED SECTORS

November's index indicates that the overall economy's growth rate was the same as in October. However, the reading has been realized differently this month. Each favorable factor gave up some ground and five of the six unfavorable factors improved. The interpretation is that the strong growth recorded for the prior two months has abated somewhat, although is still very strong. The availability of trade credit has improved and is a resource to keep the growth engine going.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	42.2	49.1	50.9	62.2	67.0	61.9	62.1	60.1	62.4	64.5	68.7	63.1
New credit applications	41.7	45.3	52.7	55.6	58.5	58.1	58.4	54.2	56.8	57.9	59.4	56.0
Dollar collections	51.3	52.2	46.6	62.9	63.1	66.2	61.7	59.2	63.2	64.7	65.0	64.1
Amount of credit extended	52.8	51.3	56.2	60.6	65.4	64.6	65.5	64.4	62.6	66.8	67.9	67.1
Index of favorable factors	47.0	49.5	51.6	60.3	63.5	62.7	61.9	59.5	61.3	63.5	65.3	62.6
Rejection of credit applications	54.2	53.8	51.2	51.0	51.5	50.7	52.2	51.9	51.4	52.7	52.7	55.5
Accounts placed for collections	53.2	51.7	51.6	54.4	53.5	53.3	53.4	53.5	51.5	52.2	50.5	52.2
Disputes	53.1	50.0	48.9	52.1	51.2	50.5	51.1	49.6	48.4	49.6	53.8	51.9
Dollar amount beyond terms	50.1	46.0	50.7	54.0	56.1	55.9	50.8	50.9	55.1	52.6	54.5	57.1
Dollar amount of customer deductions	51.1	50.0	49.1	52.2	51.2	52.6	49.7	50.8	49.0	50.1	51.1	52.5
Filings for bankruptcies	53.1	55.3	55.1	56.6	55.8	54.9	55.8	59.2	57.2	58.9	55.8	60.4
Index of unfavorable factors	52.5	51.1	51.1	53.4	53.2	53.0	52.2	52.7	52.1	52.7	53.1	54.9
NACM Combined CMI	50.3	50.5	51.3	56.2	57.3	56.9	56.1	55.4	55.8	57.0	57.9	58.0
ISM Combined Sectors Index* Not Seasonally Adjusted	51.0	50.4	52.8	49.1	51.6	54.3	57.6	57.0	58.3	59.5	59.2	
Seasonally Adjusted	54.7	54.2	52.2	47.1	48.1	52.0	52.2	58.5	59.9	58.5	60.9	

*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

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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