

NACM Credit Manager's Index

Report for November 2004

Issued December 1, 2004
 National Association of Credit Management
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November '04	CMI-Total: 56.2	CMI-Manufacturing: 57.0	CMI-Service: 55.3
October '04	CMI-Total: 56.2	CMI-Manufacturing: 57.4	CMI-Service: 55.1
% Change	0.0%	-0.7%	0.4%

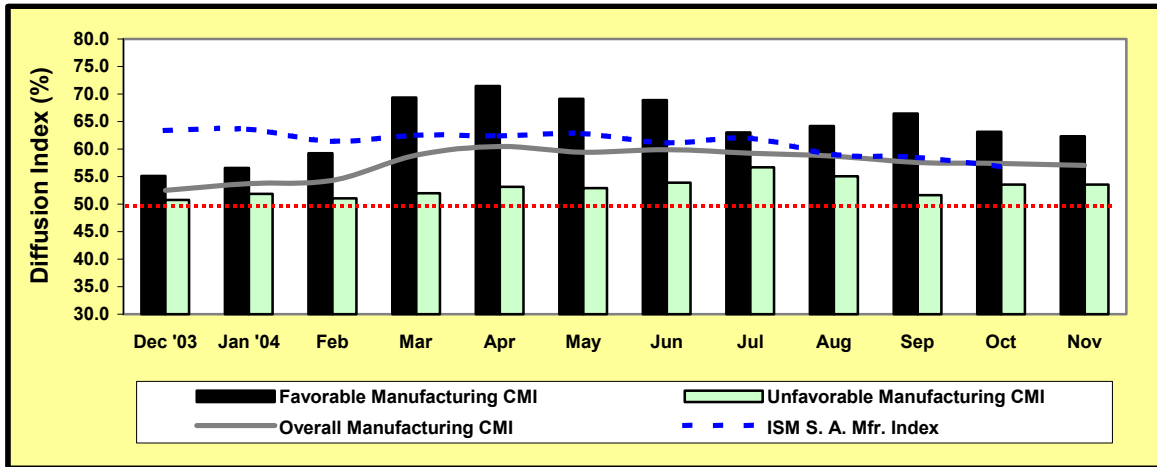
Overall, nothing changed in November. A slight slowing in the manufacturing sector growth was offset by a small gain in the service sector. There don't appear to be any major concerns as we head into December.

*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 manufacturing sector declined for the fifth consecutive month. However, this sector continues to grow, as evidenced by index readings greater than 50. The "amount of credit extended" improved, suggesting sales growth should continue to be strong next month. The weaknesses in the sector revolve around some slowing in payments (see "dollar collections" and "dollar amount beyond terms") and customers' issues about invoices (see "dollar amount of customer deductions"). This latter issue is often an excuse used by buyers to slow their payments.

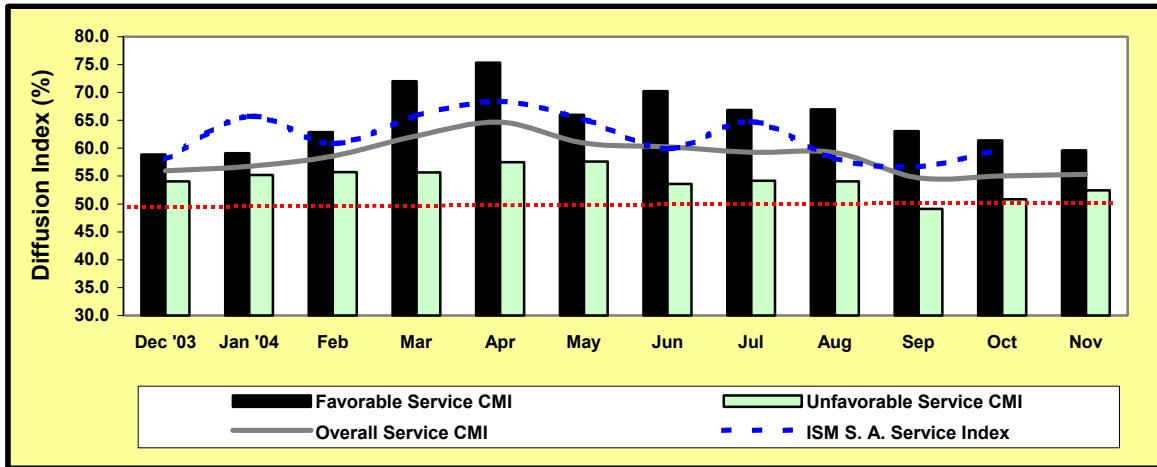
Manufacturing Sector (Not Seasonally Adjusted)	Dec '03	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	55.2	56.8	63.2	75.5	78.4	75.2	71.7	64.5	69.3	68.8	64.8	64.1
New credit applications	48.1	53.5	58.9	63.8	63.6	59.4	60.8	56.4	55.9	61.3	59.7	58.8
Dollar collections	59.9	60.0	51.1	65.3	70.9	70.4	71.7	66.8	63.7	66.7	65.7	61.0
Amount of credit extended	57.2	55.9	63.8	72.9	73.0	71.6	71.3	64.4	67.9	69.1	62.3	65.3
Index of favorable factors	55.1	56.6	59.3	69.4	71.5	69.2	68.9	63.0	64.2	66.5	63.1	62.3
Rejection of credit applications	53.9	51.6	51.9	50.0	51.7	51.9	53.8	52.0	55.1	53.4	51.2	54.8
Accounts placed for collections	47.5	54.6	54.8	53.7	54.0	53.1	58.0	60.3	56.7	51.7	56.9	56.5
Disputes	50.3	47.7	45.4	49.5	46.2	49.3	49.4	51.5	49.4	46.9	50.0	50.7
Dollar amount beyond terms	46.7	51.1	49.2	51.6	58.1	56.2	51.8	60.6	58.0	52.6	55.2	52.3
Dollar amount of customer deductions	49.7	49.5	46.5	48.9	48.3	47.6	48.4	52.3	50.6	46.9	50.2	47.9
Filings for bankruptcies	56.6	56.8	58.4	58.0	60.5	59.2	62.0	63.4	60.7	58.4	57.9	59.0
Index of unfavorable factors	50.8	51.9	51.0	52.0	53.1	52.9	53.9	56.7	55.1	51.7	53.6	53.5
NACM Manufacturing CMI	52.5	53.8	54.3	58.9	60.5	59.4	59.9	59.2	58.7	57.6	57.4	57.0
ISM Manufacturing PMI												
Not Seasonally Adjusted	60.3	61.6	63.5	65.3	65.6	65.3	62.8	60.0	58.1	58.1	55.0	
Seasonally Adjusted, Reported	66.2	63.6	61.4	62.5	62.4	62.8	61.1	62.0	59.0	58.5	56.8	
Seasonally Adjusted, Revised	63.4											



SERVICE SECTOR RESULTS

The service sector has improved for the past two months. This news is positive given the declining growth from May through September. The improvement in the index is from the “unfavorable factors”, largely from fewer rejections of credit applications and improved aging of accounts. A factor to watch is “accounts placed for collections”. This factor has deteriorated for the past three months and is now at its lowest level since October 2003. The improvement in “filing for bankruptcies” and “dollar amount beyond terms” suggests the “accounts placed for collections” problem is localized to a few accounts.

Service Sector												
(Not Seasonally Adjusted)												
	Dec '03	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	60.7	59.2	66.3	79.6	79.6	71.0	72.9	67.1	68.9	64.0	61.8	60.8
New credit applications	51.4	55.9	62.1	68.0	71.9	61.2	64.9	57.7	63.4	60.1	54.9	55.1
Dollar collections	58.5	58.9	59.4	66.7	72.8	61.6	70.8	75.5	64.1	64.0	63.7	59.0
Amount of credit extended	64.9	62.4	63.7	73.7	77.1	70.2	72.4	67.2	71.4	64.2	65.1	63.5
Index of favorable factors	58.9	59.1	62.9	72.0	75.4	66.0	70.3	66.9	67.0	63.1	61.4	59.6
Rejection of credit applications	55.3	51.8	51.9	54.2	49.4	54.5	50.0	53.4	51.7	49.8	50.2	54.5
Accounts placed for collections	54.6	52.5	56.4	53.1	54.1	58.3	52.5	52.5	56.3	51.7	51.2	50.5
Disputes	52.9	56.8	57.0	53.4	55.7	56.6	51.9	51.2	49.6	47.8	51.9	50.8
Dollar amount beyond terms	49.2	54.3	54.4	58.4	65.7	58.8	53.2	54.0	55.6	45.8	45.2	49.0
Dollar amount of customer deductions	50.6	54.1	54.8	55.1	57.6	53.2	51.3	51.6	49.4	46.5	47.1	48.0
Filings for bankruptcies	61.6	61.6	59.9	59.9	62.6	64.2	62.8	62.4	61.7	53.0	59.4	61.8
Index of unfavorable factors	54.0	55.2	55.7	55.7	57.5	57.6	53.6	54.2	54.1	49.1	50.8	52.4
NACM Service CMI	56.0	56.8	58.6	62.2	64.7	61.0	60.3	59.3	59.2	54.7	55.1	55.3
ISM Service Business Activity Index												
Not Seasonally Adjusted	56.0	60.0	61.0	66.4	68.7	69.7	59.1	64.0	57.0	59.5	59.5	
Seasonally Adjusted, Reported	58.6	65.7	60.8	65.8	68.4	65.2	59.9	64.8	58.2	56.7	59.8	
Seasonally Adjusted, Revised	58.0											

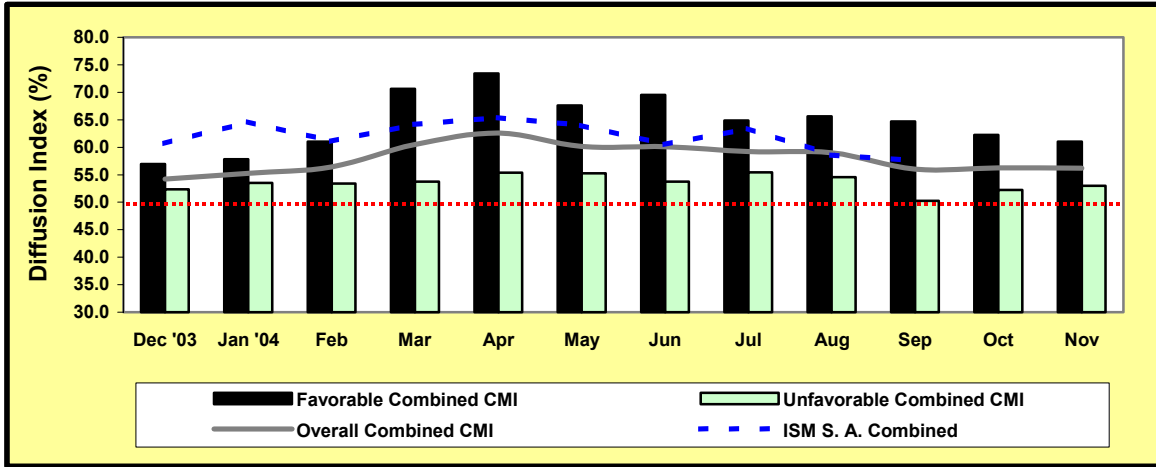


COMBINED SECTORS

From an overall perspective, it appears that month-to-month growth in the economy has found a bottom. The index has stayed around 56 for the past three months since falling from the 59-60 range experienced during the March to September period. Overall, there doesn't appear to be any significant concern.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Dec '03	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	58.0	58.0	64.7	77.5	79.0	73.1	72.3	65.7	69.1	66.2	63.3	62.5
New credit applications	49.7	54.7	60.5	65.8	67.8	60.3	62.8	57.0	59.8	60.7	57.3	57.0
Dollar collections	59.2	59.5	55.2	65.9	71.9	66.0	71.3	71.0	63.9	65.3	64.7	60.1
Amount of credit extended	61.0	59.1	63.7	73.3	75.1	70.9	71.8	65.7	69.7	66.5	63.7	64.4
Index of favorable factors	57.0	57.8	61.0	70.6	73.5	67.6	69.6	64.9	65.6	64.7	62.3	61.0
Rejection of credit applications	54.6	51.7	51.9	52.0	50.6	53.2	52.0	52.7	53.4	51.5	50.7	54.7
Accounts placed for collections	51.0	53.5	55.6	53.4	54.1	55.7	55.3	56.5	56.5	51.7	54.1	53.6
Disputes	51.5	52.3	51.2	51.4	51.0	53.0	50.6	51.3	49.5	47.3	51.0	50.7
Dollar amount beyond terms	47.9	52.7	51.8	54.9	62.0	57.5	52.5	57.3	56.8	48.9	50.2	50.7
Dollar amount of customer deductions	50.1	51.8	50.7	51.9	53.0	50.5	49.8	51.9	50.0	46.7	48.7	47.9
Filings for bankruptcies	59.0	59.2	59.2	58.9	61.5	61.6	62.4	62.9	61.2	55.5	58.6	60.4
Index of unfavorable factors	52.4	53.5	53.4	53.8	55.4	55.3	53.8	55.4	54.6	50.3	52.2	53.0
NACM Combined CMI	54.2	55.3	56.5	60.5	62.6	60.2	60.1	59.2	59.0	56.0	56.2	56.2
ISM Combined Sectors Index*												
Not Seasonally Adjusted	58.2	60.8	62.3	65.9	67.2	67.5	61.0	62.0	57.6	58.8	57.3	
Seasonally Adjusted, Reported	62.4	64.7	61.1	64.2	65.4	64.0	60.5	63.4	58.6	57.6	58.3	
Seasonally Adjusted, Revised	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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