

NACM Credit Manager's Index

Report for November 2005

Issued December 1, 2005
 National Association of Credit Management
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November '05	CMI-Total: 57.4	CMI-Manufacturing: 57.8	CMI-Service: 57.1
October '05	CMI-Total: 56.6	CMI-Manufacturing: 56.0	CMI-Service: 57.2
% Change	1.41%	3.21 %	-0.17%

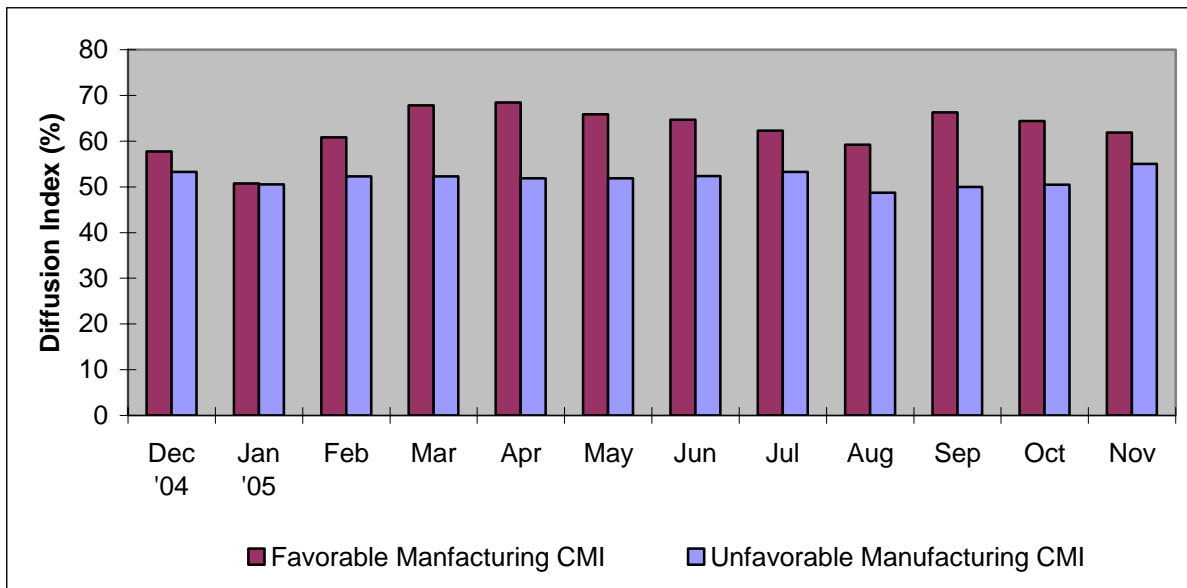
The Credit Manager's Index rose to 57.7 in November, above October's 56.6. The Index is now 1.2% higher than last November and represents solid economic growth. An improvement in bankruptcy filings of 9.6% in manufacturing and 8.2% in services contributed most to the gain—a result of the rush to file for bankruptcy before the October deadline introducing more creditor-friendly bankruptcy laws. However, Dan North, Chief Economist with EulerHermes ACI, notes that this improvement was offset by a sharp deterioration in November sales, a pattern likely to be repeated in December as orders typically plunge after the peak holiday season. Aside from these offsetting effects, Mr. North says "it is worthwhile to note that both dollar collections and dollar amount beyond terms improved significantly, both for the month and the year... this data suggests that buyers are able to make payments more easily and are likely to be in better financial health, and that business and economic conditions are looking up."

[See the last page of this report for information about the methodology and factors used to measure economic performance.](#)

MANUFACTURING SECTOR RESULTS

A drop in new sales was counter-balanced by a lower rate of bankruptcies for the month of November. Credit managers reported that sales dropped from 68.9 percent to 60.7 percent, or 280 basis points. However, lower numbers of customers filing for bankruptcy pushed the manufacturing CMI up 180 points, to finish at 57.8 percent. Fewer disputes coupled with less payments going beyond terms also contributed to the increase shown in the CMI.

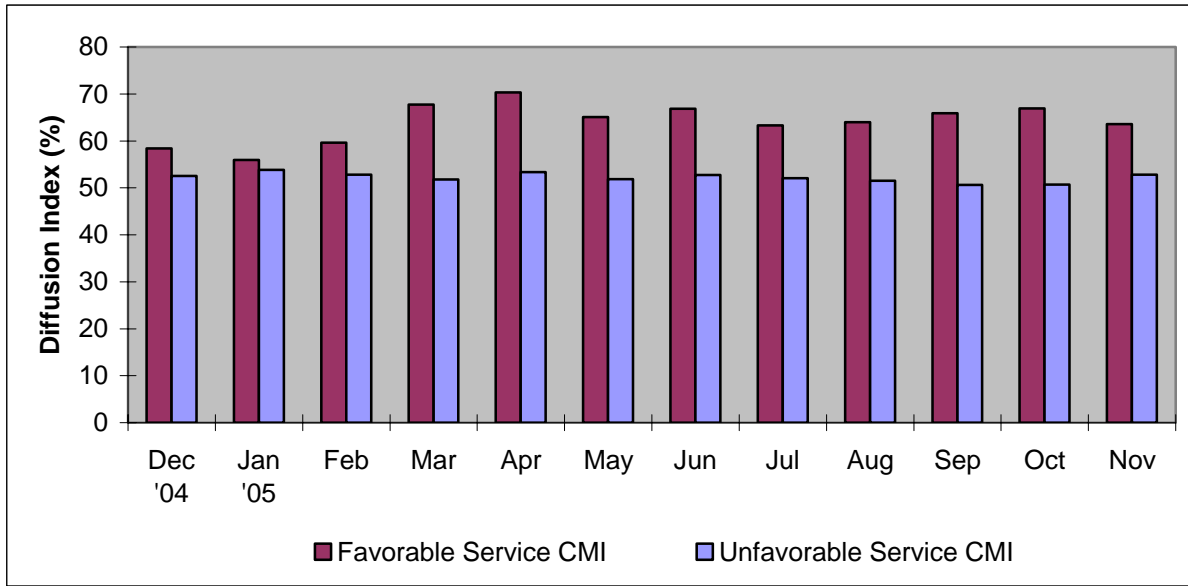
Manufacturing Sector (Not Seasonally Adjusted)	Dec '04	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	57.6	48.4	61.7	69.6	72.7	67.6	68.1	63.8	58.7	74.1	68.9	60.7
New credit applications	49.0	49.7	63.9	65.2	62.5	59.2	60.0	58.3	62.2	61.6	56.2	55.1
Dollar collections	61.5	49.2	53.6	66.8	69.1	65.9	63.1	63.7	55.2	61.1	63.4	66.7
Amount of credit extended	62.8	55.7	64.0	69.8	69.6	70.8	67.6	63.4	60.8	68.4	69.2	65.1
Index of favorable factors	57.7	50.8	60.8	67.9	68.5	65.9	64.7	62.3	59.2	66.3	64.4	61.9
Rejection of credit applications	55.1	54.1	49.2	48.9	50.5	52.2	51.8	52.1	50.3	52.2	54.2	55.6
Accounts placed for collections	57.1	50.0	54.4	52.3	47.7	54.9	51.8	54.0	49.4	51.9	52.7	57.4
Disputes	49.5	46.6	47.6	49.8	49.0	48.7	49.5	47.9	45.1	49.6	47.7	53.2
Dollar amount beyond terms	53.2	50.3	54.7	56.7	58.5	54.9	52.7	53.8	49.1	49.1	53.2	58.4
Dollar amount of customer deductions	47.0	43.8	49.4	49.5	49.5	46.7	50.7	53.0	46.3	46.9	48.9	50.0
Filings for bankruptcies	57.7	58.5	58.6	56.7	55.9	53.7	57.8	58.9	51.9	50.3	46.0	55.6
Index of unfavorable factors	53.3	50.6	52.3	52.3	51.9	51.9	52.4	53.3	48.7	50.0	50.5	55.0
NACM Manufacturing CMI	55.1	50.6	55.7	58.5	58.5	57.5	57.3	56.9	52.9	56.5	56.0	57.8
ISM Manufacturing PMI	57.3	56.4	55.3	55.2	53.3	51.4	53.8	56.6	53.6	59.4	59.1	NA



Service Sector Results

The overall service CMI remained virtually unchanged, decreasing slightly by 10 basis points. The service CMI ended November at 57.1 percent. Although there was little overall change in the CMI, fluctuation appeared in both the favorable and unfavorable factors. A drop in new sales and credit applications, down 550 and 640 points respectively, contributed to the slight decrease in favorable factors. Similar to the manufacturing sector, fewer numbers of bankruptcies, disputes and more customers paying within terms helped to improve the unfavorable factors.

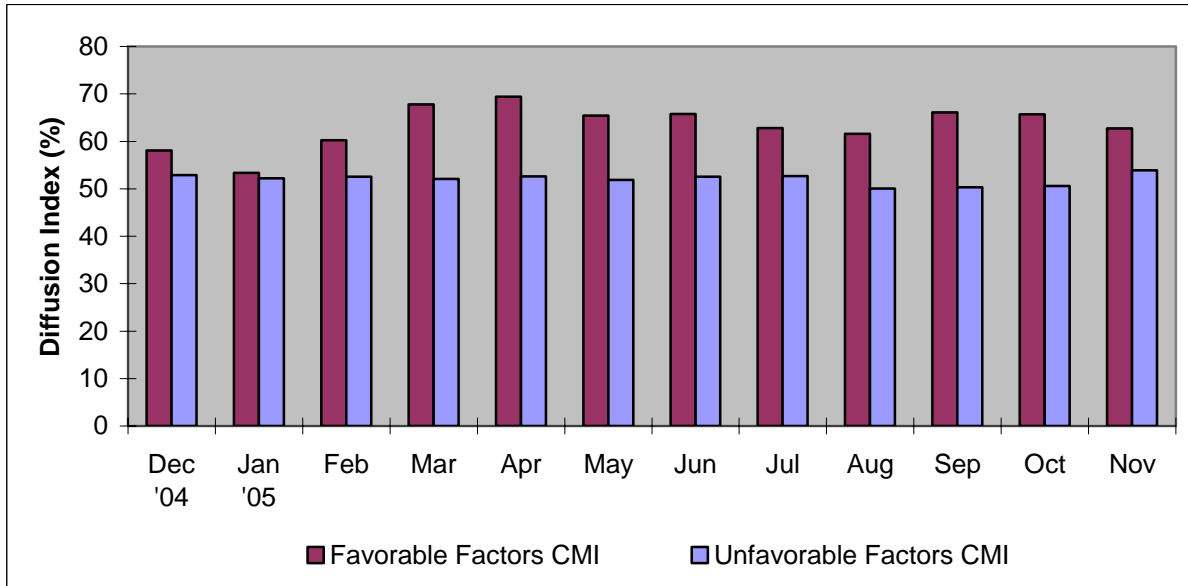
Service Sector (Not Seasonally Adjusted)												
	Dec '04	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	59.0	54.7	59.4	71.5	70.4	65.7	68.8	64.7	64.0	69.2	71.2	65.7
New credit applications	54.2	51.3	57.0	66.2	66.5	62.4	64.8	62.2	60.0	64.3	62.2	55.8
Dollar collections	60.8	59.2	59.4	60.3	71.3	63.6	64.7	60.7	61.7	61.1	63.6	66.6
Amount of credit extended	59.7	58.7	62.7	72.9	73.0	68.5	69.0	65.7	70.3	69.0	70.8	66.2
Index of favorable factors	58.4	56.0	59.6	67.7	70.3	65.1	66.8	63.3	64.0	65.9	67.0	63.6
Rejection of credit applications	54.9	54.5	51.5	49.6	49.5	51.1	49.8	52.5	51.1	52.2	52.5	53.8
Accounts placed for collections	48.2	52.9	54.2	49.4	53.2	51.4	53.2	49.5	50.0	51.0	53.1	50.2
Disputes	55.2	50.8	50.6	47.7	52.0	49.6	50.2	47.7	52.0	47.8	50.3	53.5
Dollar amount beyond terms	46.4	51.8	50.4	53.4	59.4	56.6	54.6	53.6	48.3	52.9	51.2	54.8
Dollar amount of customer deductions	51.0	51.6	52.7	50.4	50.2	51.8	52.3	50.3	51.1	49.0	51.0	50.3
Filings for bankruptcies	59.4	61.5	57.4	60.3	56.0	50.7	56.3	58.9	56.4	50.7	45.9	54.1
Index of unfavorable factors	52.5	53.9	52.8	51.8	53.4	51.9	52.7	52.1	51.5	50.6	50.7	52.8
NACM Service CMI	54.9	54.7	55.5	58.2	60.2	57.1	58.4	56.6	56.5	56.7	57.2	57.1
ISM Service Business Activity Index	63.9	59.2	59.8	63.1	61.7	58.5	62.2	60.5	65.0	53.3	60.0	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Dec '04	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Sales	58.3	51.6	60.6	70.6	71.6	66.7	68.5	64.3	61.4	71.7	70.1	63.2
New credit applications	51.5	50.5	60.5	65.7	64.5	60.8	62.4	60.3	61.1	63.0	59.2	55.5
Dollar collections	61.1	54.2	56.5	63.6	70.2	64.8	63.9	62.2	58.5	61.1	63.5	66.7
Amount of credit extended	61.3	57.2	63.4	71.4	71.3	69.7	68.3	64.6	65.6	68.7	70.0	65.7
Index of favorable factors	58.1	53.4	60.2	67.8	69.4	65.5	65.8	62.8	61.6	66.1	65.7	62.7
Rejection of credit applications	55.0	54.3	50.4	49.3	50.0	51.7	50.8	52.3	50.7	52.2	53.4	54.7
Accounts placed for collections	52.8	51.4	54.3	50.9	50.5	53.2	52.5	51.8	49.7	51.5	52.9	53.8
Disputes	52.3	48.7	49.1	48.8	50.5	49.2	49.9	47.8	48.6	48.7	49.0	53.4
Dollar amount beyond terms	49.9	51.0	52.6	55.1	59.0	55.8	53.7	53.7	48.7	51.0	52.2	56.6
Dollar amount of customer deductions	49.0	47.7	51.1	50.0	49.9	49.3	51.5	51.7	48.7	48.0	50.0	50.2
Filings for bankruptcies	58.5	60.0	58.0	58.5	56.0	52.2	57.1	58.9	54.2	50.5	46.0	54.9
Index of unfavorable factors	52.9	52.2	52.6	52.1	52.6	51.9	52.6	52.7	50.1	50.3	50.6	53.9
NACM Combined CMI	55.0	52.7	55.6	58.4	59.3	57.3	57.8	56.7	54.7	56.6	56.6	57.4
ISM Combined Sectors Index*	60.6	57.8	57.6	59.2	57.5	55.0	58.0	58.6	59.3	56.4	59.6	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 NOVEMBER 2005 TO NOVEMBER 2004

Looking back over the last year at NACM's CMI, we find a slight improvement. The overall CMI ended at 57.4 percent, compared to 56.2 percent in November 2004. Two factors that had a significant impact in the monthly analysis—a decrease in new sales and fewer bankruptcies—show the converse in the yearly analysis. There was an increase in new sales, up 70 points, and higher levels of customers filing for bankruptcy.

Comparison: November 2005 vs. November 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Nov '04	Nov '05	Nov '04	Nov '05	Nov '04	Nov '05
Sales	64.1	60.7	60.8	65.7	62.5	63.2
New credit applications	58.8	55.1	55.1	55.8	57.0	55.5
Dollar collections	61.0	66.7	59.0	66.6	60.0	66.7
Amount of credit extended	65.3	65.1	63.5	66.2	64.4	65.7
Index of favorable factors	62.3	61.9	59.6	63.6	61.0	62.7
Rejection of credit applications	54.8	55.6	54.5	53.8	54.7	54.7
Accounts placed for collections	56.5	57.4	50.5	50.2	53.5	53.8
Disputes	50.7	53.2	50.8	53.5	50.8	53.4
Dollar amount beyond terms	52.3	58.4	49.0	54.8	50.7	56.6
Dollar amount of customer deductions	47.9	50.0	48.0	50.3	48.0	50.2
Filings for bankruptcies	59.0	55.6	61.8	54.1	60.4	54.9
Index of unfavorable factors	53.5	55.0	52.4	52.8	53.0	53.9
NACM CMI	57.0	57.8	55.3	57.1	56.2	57.4

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 over 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.

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