

NACM Credit Manager's Index

Report for October 2003

Issued November 3, 2003
 National Association of Credit Management
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Oct '03	CMI-Total: 57.9	CMI-Manufacturing: 59.3	CMI-Service: 56.3
Sep '03	CMI-Total: 57.0	CMI-Manufacturing: 58.4	CMI-Service: 55.6
% Change	1.6%	1.5%	1.3%

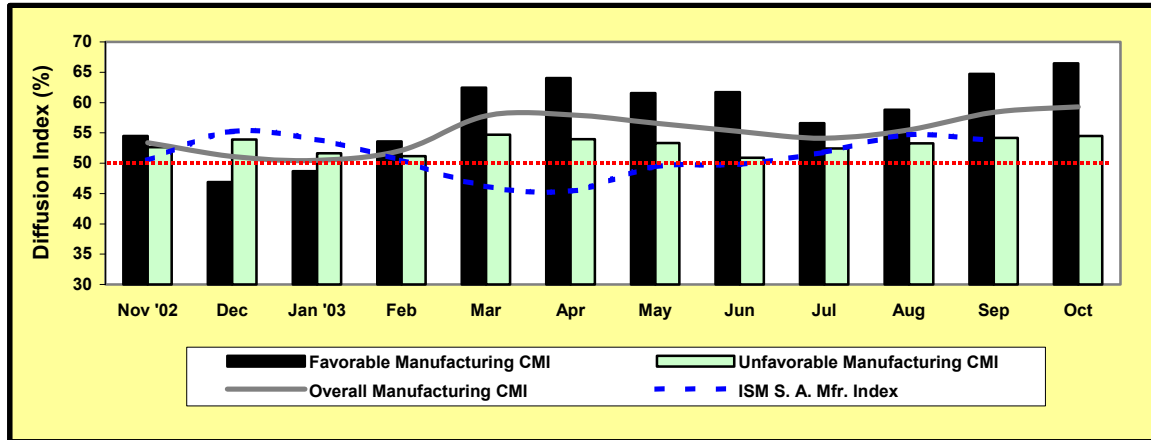
The combined NACM Credit Manager's Index of 57.9 is at its highest level since May 2002. This performance is primarily driven by the manufacturing sector, which reached its highest reading in its history, dating to February 2002. The service sector participated in the October gains. The service index reading of 56.3 is its first up-tick since May of this year. Hopefully, the service performance indicates continuing improvement in this sector for the fourth quarter of this year. Overall, the economy continues to strengthen.

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

MANUFACTURING SECTOR RESULTS

There isn't any negative news in this month's manufacturing survey. Both the "favorable" and "unfavorable" sub-indices are stronger. Any lower readings for the various factors are insignificantly lower. However, two factors to watch for next month are "accounts placed for collections" and "filings for bankruptcies". While these items are both emitting readings in excess of 50, indicating collection and bankruptcy problems are not increasing month-over-month, they have trended down since July. The negative trend means that the percentage of respondents indicating "better" performance for these two factors is moving closer each month to the percentage measuring "worse" performance.

Manufacturing Sector												
(Not Seasonally Adjusted)												
	Nov '02	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	53.4	42.4	49.4	55.2	67.0	67.3	60.5	59.8	55.9	59.8	65.8	69.4
New credit applications	48.7	42.9	43.6	55.1	55.3	58.2	55.6	56.7	49.8	54.9	55.4	58.9
Dollar collections	57.9	50.0	52.2	45.6	65.3	66.4	68.2	64.5	60.0	61.2	68.3	69.4
Amount of credit extended	58.0	52.3	49.6	58.4	62.2	64.2	62.0	65.8	60.7	59.4	69.4	68.2
Index of favorable factors	54.5	46.9	48.7	53.6	62.5	64.0	61.6	61.7	56.6	58.8	64.7	66.5
Rejection of credit applications	53.4	53.3	54.3	50.7	51.8	52.3	54.1	51.7	54.1	53.4	55.0	54.4
Accounts placed for collections	54.8	57.7	53.2	53.3	55.6	56.3	54.1	53.3	54.7	54.6	55.0	52.0
Disputes	49.0	54.6	48.5	47.6	53.3	50.2	49.3	49.0	48.0	47.3	49.3	53.6
Dollar amount beyond terms	54.4	52.0	48.5	51.5	57.5	58.0	55.6	49.8	50.2	57.5	58.3	58.0
Dollar amount of customer deductions	50.2	50.3	48.5	48.4	52.0	49.8	51.7	45.4	48.0	48.4	49.5	51.7
Filings for bankruptcies	54.0	55.4	56.9	55.5	58.1	57.0	55.0	56.3	59.7	58.5	58.0	57.2
Index of unfavorable factors	52.6	53.9	51.7	51.2	54.7	53.9	53.3	50.9	52.5	53.3	54.2	54.5
NACM Manufacturing CMI	53.4	51.1	50.5	52.1	57.8	58.0	56.6	55.2	54.1	55.5	58.4	59.3
ISM Manufacturing PMI Not Seasonally Adjusted	47.7	50.4	51.2	51.0	48.7	48.6	52.0	51.7	51.0	54.1	54.5	
Seasonally Adjusted	50.5	55.2	53.9	50.5	46.2	45.4	49.4	49.8	51.8	54.7	53.7	

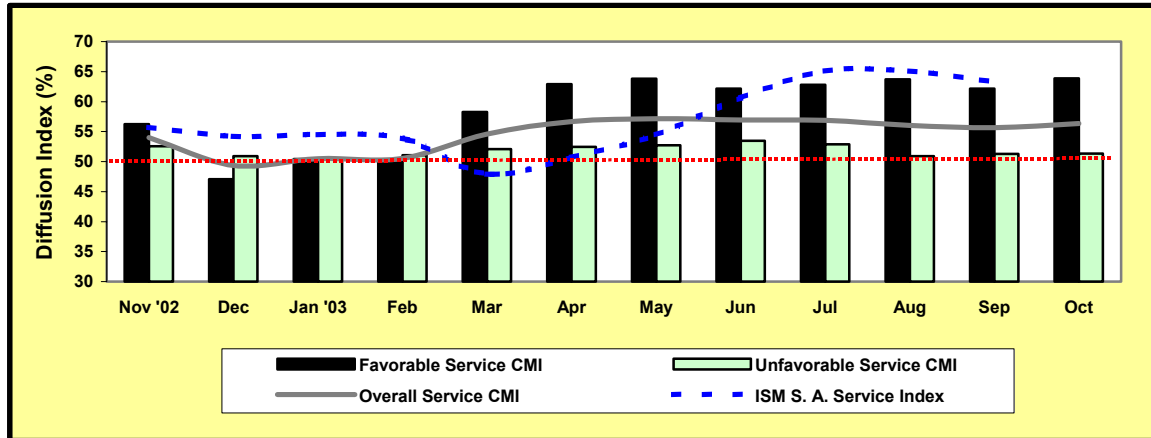


SERVICE SECTOR RESULTS

As mentioned at the outset, the service sector has strengthened, after recording four consecutive months of growth slowing month-over-month. The primary factors contributing to the improvement are higher “sales”, greater “credit extended”, fewer account “disputes”, and better aging of accounts, as captured by “dollar amount beyond terms”.

The negatives to watch for next month are more “accounts placed for collections” and increased “filings for bankruptcies”. Both of these factors suggest some weakness in customer payments. If negative performance continues, it would be a signal that the service sector has peaked.

Service Sector												
(Not Seasonally Adjusted)												
	Nov '02	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	54.6	41.9	48.7	47.0	57.5	66.6	63.3	64.3	65.0	65.1	63.1	67.9
New credit applications	51.8	40.3	47.3	50.6	55.9	58.9	60.7	60.1	59.4	58.7	60.1	60.0
Dollar collections	59.1	52.8	52.3	47.6	60.6	59.6	64.1	58.9	58.2	65.2	61.2	60.0
Amount of credit extended	59.4	53.3	53.4	54.1	59.1	66.6	67.2	65.3	68.7	65.9	64.3	67.5
Index of favorable factors	56.2	47.1	50.4	49.8	58.3	62.9	63.8	62.2	62.8	63.7	62.2	63.9
Rejection of credit applications	50.8	55.2	53.2	51.6	50.2	50.6	47.2	52.8	49.3	49.4	50.5	50.6
Accounts placed for collections	54.7	48.4	50.0	50.0	53.3	50.6	52.4	53.4	52.2	48.4	49.5	48.7
Disputes	52.9	51.4	51.8	50.2	50.9	52.3	51.8	53.2	51.4	49.4	50.0	53.9
Dollar amount beyond terms	52.0	48.0	43.0	50.0	50.6	54.2	56.3	51.9	51.7	52.6	47.1	50.3
Dollar amount of customer deductions	51.1	51.9	51.8	49.8	52.4	52.7	53.6	54.1	54.1	49.6	50.7	50.3
Filings for bankruptcies	53.8	50.5	53.4	54.7	55.2	54.4	54.9	55.4	58.6	55.9	59.8	54.2
Index of unfavorable factors	52.6	50.9	50.5	51.1	52.1	52.5	52.7	53.5	52.9	50.9	51.3	51.3
NACM Service CMI	54.0	49.4	50.5	50.6	54.6	56.7	57.2	56.9	56.9	56.0	55.6	56.3
ISM Service Business Activity Index Not Seasonally Adjusted	56.5	51.5	49.5	54.5	49.5	54.5	56.5	63.5	63.0	62.5	64.5	
Seasonally Adjusted	55.7	54.2	54.5	53.9	47.9	50.7	54.5	60.6	65.1	65.1	63.3	



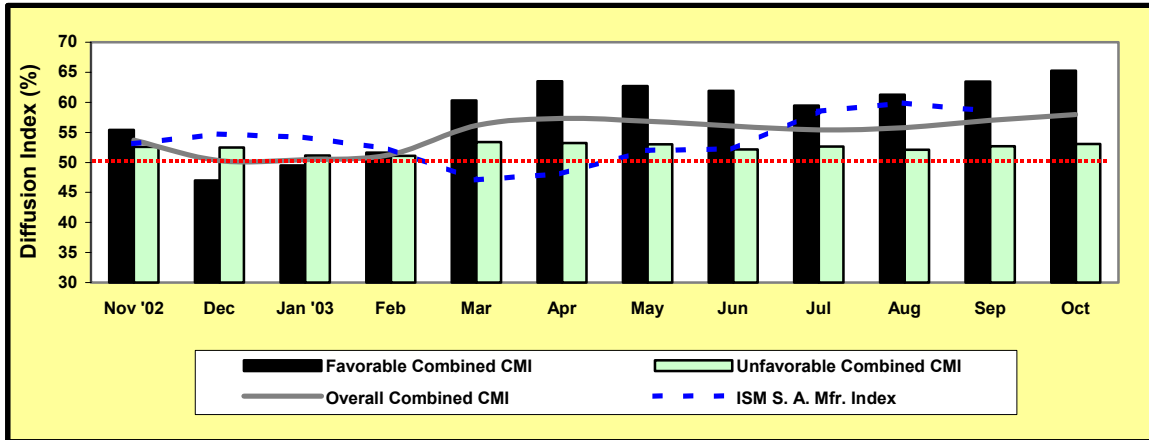
COMBINED SECTORS

Given the news stated for the manufacturing and service sectors, there is little to say about the combined sectors. The combined index has improved for three consecutive months. Eight of the 10 factors making up the index (shown in the table below) either improved or stayed the same relative to their September readings. "Accounts placed for collections" have declined to neutral territory and "filings for bankruptcies" have increased, although still providing a favorable reading of 55.8.

As stated last month, it appears the economy will continue its steady improvement during the fourth quarter. "New credit applications" and "amount of credit extended" got stronger in October, which bodes well for November.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Nov '02	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	54.0	42.2	49.1	50.9	62.2	67.0	61.9	62.1	60.1	62.4	64.5	68.7
New credit applications	50.3	41.7	45.3	52.7	55.6	58.5	58.1	58.4	54.2	56.8	57.9	59.4
Dollar collections	58.6	51.3	52.2	46.6	62.9	63.1	66.2	61.7	59.2	63.2	64.7	65.0
Amount of credit extended	58.7	52.8	51.3	56.2	60.6	65.4	64.6	65.5	64.4	62.6	66.8	67.9
Index of favorable factors	55.4	47.0	49.5	51.6	60.3	63.5	62.7	61.9	59.5	61.3	63.5	65.3
Rejection of credit applications	52.0	54.2	53.8	51.2	51.0	51.5	50.7	52.2	51.9	51.4	52.7	52.7
Accounts placed for collections	54.8	53.2	51.7	51.6	54.4	53.5	53.3	53.4	53.5	51.5	52.2	50.5
Disputes	51.0	53.1	50.0	48.9	52.1	51.2	50.5	51.1	49.6	48.4	49.6	53.8
Dollar amount beyond terms	53.2	50.1	46.0	50.7	54.0	56.1	55.9	50.8	50.9	55.1	52.6	54.5
Dollar amount of customer deductions	50.6	51.1	50.0	49.1	52.2	51.2	52.6	49.7	50.8	49.0	50.1	51.1
Filings for bankruptcies	53.9	53.1	55.3	55.1	56.6	55.8	54.9	55.8	59.2	57.2	58.9	55.8
Index of unfavorable factors	52.6	52.5	51.1	51.1	53.4	53.2	53.0	52.2	52.7	52.1	52.7	53.1
NACM Combined CMI	53.7	50.3	50.5	51.3	56.2	57.3	56.9	56.1	55.4	55.8	57.0	57.9
ISM Combined Sectors Index*												
Not Seasonally Adjusted	52.1	51.0	50.4	52.8	49.1	51.6	54.3	57.6	57.0	58.3	59.5	
Seasonally Adjusted	53.1	54.7	54.2	52.2	47.1	48.1	52.0	52.2	58.5	59.9	58.5	

*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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