

NACM Credit Manager's Index

Report for October 2004

Issued November 1, 2004
 National Association of Credit Management
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October '04	CMI-Total: 56.2	CMI-Manufacturing: 57.4	CMI-Service: 55.1
September '04	CMI-Total: 56.0	CMI-Manufacturing: 57.6	CMI-Service: 54.7
% Change	0.4%	-0.4%	0.7%

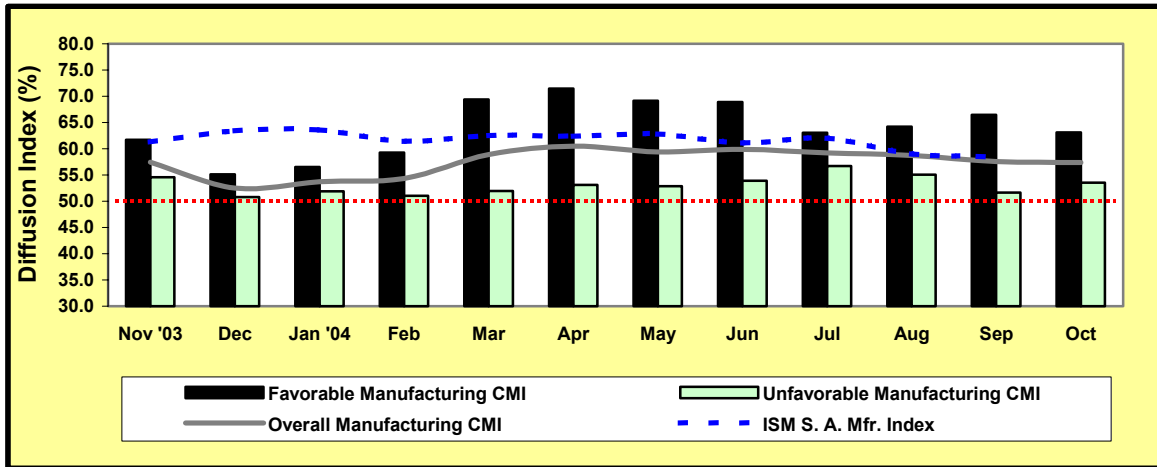
There is a small up-tick of 20 basis points in the overall CMI for October, a result of improvement in the service sector, which was partially offset by continuing slowness in the manufacturing sector. It appears that the declining month-over-month slowing in growth of the past few months may continue through November.

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 index shows minimal change from last month: 57.4 versus 57.6. However, the makeup of the current index is troublesome. Each of the favorable factors declined. Overall, the fall was 340 basis points. The erosion in "new credit applications" and "amount of credit extended" suggests continuing slowness in sales will occur in November. This forecast is supported by the increase in "rejection of credit applications"—more accounts being denied trade credit. There is some good news in these results, as evidenced by improvements with "disputes" and customer balances beyond terms. It appears that problem accounts are being closely managed.

Manufacturing Sector												
(Not Seasonally Adjusted)												
	Nov '03	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	62.1	55.2	56.8	63.2	75.5	78.4	75.2	71.7	64.5	69.3	68.8	64.8
New credit applications	54.5	48.1	53.5	58.9	63.8	63.6	59.4	60.8	56.4	55.9	61.3	59.7
Dollar collections	65.2	59.9	60.0	51.1	65.3	70.9	70.4	71.7	66.8	63.7	66.7	65.7
Amount of credit extended	65.0	57.2	55.9	63.8	72.9	73.0	71.6	71.3	64.4	67.9	69.1	62.3
Index of favorable factors	61.7	55.1	56.6	59.3	69.4	71.5	69.2	68.9	63.0	64.2	66.5	63.1
Rejection of credit applications	55.9	53.9	51.6	51.9	50.0	51.7	51.9	53.8	52.0	55.1	53.4	51.2
Accounts placed for collections	53.5	47.5	54.6	54.8	53.7	54.0	53.1	58.0	60.3	56.7	51.7	56.9
Disputes	50.2	50.3	47.7	45.4	49.5	46.2	49.3	49.4	51.5	49.4	46.9	50.0
Dollar amount beyond terms	56.7	46.7	51.1	49.2	51.6	58.1	56.2	51.8	60.6	58.0	52.6	55.2
Dollar amount of customer deductions	51.4	49.7	49.5	46.5	48.9	48.3	47.6	48.4	52.3	50.6	46.9	50.2
Filings for bankruptcies	59.6	56.6	56.8	58.4	58.0	60.5	59.2	62.0	63.4	60.7	58.4	57.9
Index of unfavorable factors	54.6	50.8	51.9	51.0	52.0	53.1	52.9	53.9	56.7	55.1	51.7	53.6
NACM Manufacturing CMI	57.4	52.5	53.8	54.3	58.9	60.5	59.4	59.9	59.2	58.7	57.6	57.4
ISM Manufacturing PMI												
Not Seasonally Adjusted	58.8	60.3	61.6	63.5	65.3	65.6	65.3	62.8	60.0	58.1	58.1	
Seasonally Adjusted, Reported	62.8	66.2	63.6	61.4	62.5	62.4	62.8	61.1	62.0	59.0	58.5	
Seasonally Adjusted, Revised	61.3	63.4										

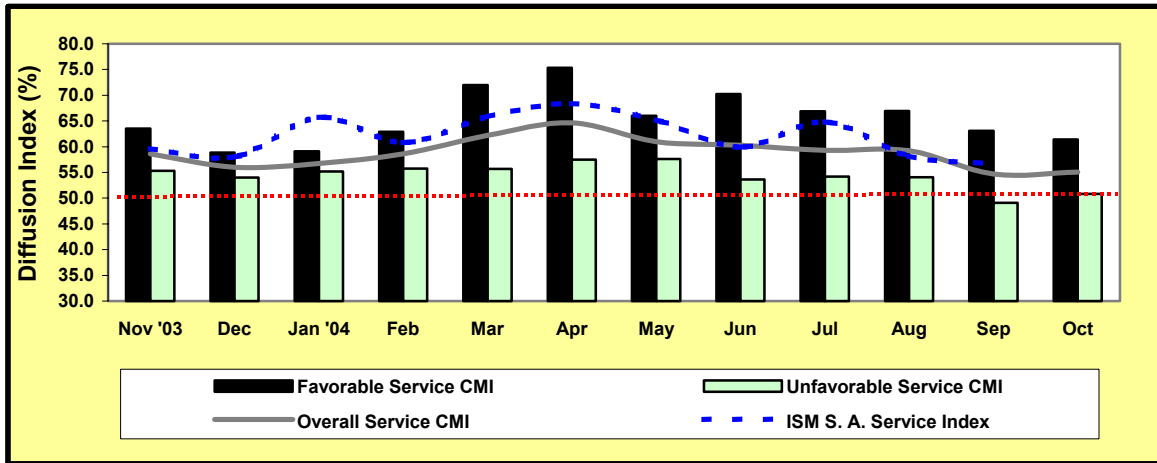


SERVICE SECTOR RESULTS

The service sector finally shows improvement after six months of declining performance. This is welcome news although it must be looked at cautiously. "Sales", "new credit applications" and "dollar collections" all show deterioration for October. "Disputes" and "bankruptcies" are less cause for concern this month, problem accounts are being resolved.

Overall, November is looking reasonably neutral in terms of direction for the service sector in the economy.

Service Sector												
(Not Seasonally Adjusted)												
	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	64.2	60.7	59.2	66.3	79.6	79.6	71.0	72.9	67.1	68.9	64.0	61.8
New credit applications	57.7	51.4	55.9	62.1	68.0	71.9	61.2	64.9	57.7	63.4	60.1	54.9
Dollar collections	62.9	58.5	58.9	59.4	66.7	72.8	61.6	70.8	75.5	64.1	64.0	63.7
Amount of credit extended	69.3	64.9	62.4	63.7	73.7	77.1	70.2	72.4	67.2	71.4	64.2	65.1
Index of favorable factors	63.5	58.9	59.1	62.9	72.0	75.4	66.0	70.3	66.9	67.0	63.1	61.4
Rejection of credit applications	55.1	55.3	51.8	51.9	54.2	49.4	54.5	50.0	53.4	51.7	49.8	50.2
Accounts placed for collections	50.8	54.6	52.5	56.4	53.1	54.1	58.3	52.5	52.5	56.3	51.7	51.2
Disputes	53.6	52.9	56.8	57.0	53.4	55.7	56.6	51.9	51.2	49.6	47.8	51.9
Dollar amount beyond terms	57.7	49.2	54.3	54.4	58.4	65.7	58.8	53.2	54.0	55.6	45.8	45.2
Dollar amount of customer deductions	53.6	50.6	54.1	54.8	55.1	57.6	53.2	51.3	51.6	49.4	46.5	47.1
Filings for bankruptcies	61.2	61.6	61.6	59.9	59.9	62.6	64.2	62.8	62.4	61.7	53.0	59.4
Index of unfavorable factors	55.3	54.0	55.2	55.7	55.7	57.5	57.6	53.6	54.2	54.1	49.1	50.8
NACM Service CMI	58.6	56.0	56.8	58.6	62.2	64.7	61.0	60.3	59.3	59.2	54.7	55.1
ISM Service Business Activity Index												
Not Seasonally Adjusted	61.0	56.0	60.0	61.0	66.4	68.7	69.7	59.1	64.0	57.0	59.5	
Seasonally Adjusted, Reported	60.1	58.6	65.7	60.8	65.8	68.4	65.2	59.9	64.8	58.2	56.7	
Seasonally Adjusted, Revised	59.6	58.0										



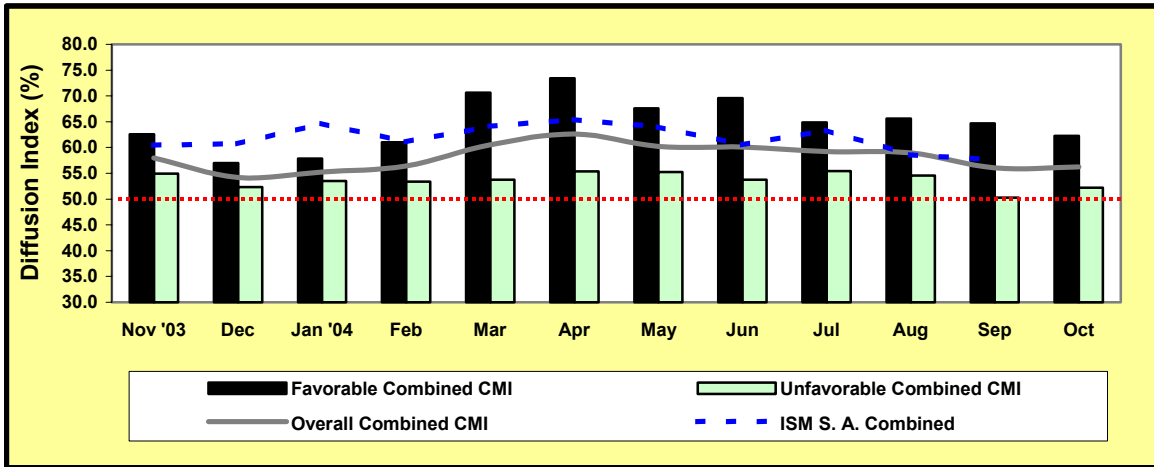
COMBINED SECTORS

Each of the favorable factors declined for October with the overall favorable index at its lowest level since February 2004. The decline is concerning. Sales and credit applications are down relative to the prior two or three months and firms are also extending less credit. This pattern suggests sales growth will continue to slow.

There is improvement with the unfavorable factors, nudging up almost 200 basis points from September's neutral reading. The most encouraging sign is the improvement in customer payments, as captured by "dollar amount beyond terms".

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Nov '03	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	63.1	58.0	58.0	64.7	77.5	79.0	73.1	72.3	65.7	69.1	66.2	63.3
New credit applications	56.0	49.7	54.7	60.5	65.8	67.8	60.3	62.8	57.0	59.8	60.7	57.3
Dollar collections	64.1	59.2	59.5	55.2	65.9	71.9	66.0	71.3	71.0	63.9	65.3	64.7
Amount of credit extended	67.1	61.0	59.1	63.7	73.3	75.1	70.9	71.8	65.7	69.7	66.5	63.7
Index of favorable factors	62.6	57.0	57.8	61.0	70.6	73.5	67.6	69.6	64.9	65.6	64.7	62.3
Rejection of credit applications	55.5	54.6	51.7	51.9	52.0	50.6	53.2	52.0	52.7	53.4	51.5	50.7
Accounts placed for collections	52.2	51.0	53.5	55.6	53.4	54.1	55.7	55.3	56.5	56.5	51.7	54.1
Disputes	51.9	51.5	52.3	51.2	51.4	51.0	53.0	50.6	51.3	49.5	47.3	51.0
Dollar amount beyond terms	57.1	47.9	52.7	51.8	54.9	62.0	57.5	52.5	57.3	56.8	48.9	50.2
Dollar amount of customer deductions	52.5	50.1	51.8	50.7	51.9	53.0	50.5	49.8	51.9	50.0	46.7	48.7
Filings for bankruptcies	60.4	59.0	59.2	59.2	58.9	61.5	61.6	62.4	62.9	61.2	55.5	58.6
Index of unfavorable factors	54.9	52.4	53.5	53.4	53.8	55.4	55.3	53.8	55.4	54.6	50.3	52.2
NACM Combined CMI	58.0	54.2	55.3	56.5	60.5	62.6	60.2	60.1	59.2	59.0	56.0	56.2
ISM Combined Sectors Index*												
Not Seasonally Adjusted	59.9	58.2	60.8	62.3	65.9	67.2	67.5	61.0	62.0	57.6	58.8	
Seasonally Adjusted, Reported	61.5	62.4	64.7	61.1	64.2	65.4	64.0	60.5	63.4	58.6	57.6	
Seasonally Adjusted, Revised	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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