

NACM Credit Manager's Index

Report for October 2005

Issued November 1, 2005
National Association of Credit Management
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October '05	CMI-Total: 56.6	CMI-Manufacturing: 56.0	CMI-Service: 57.2
September '05	CMI-Total: 56.6	CMI-Manufacturing: 56.5	CMI-Service: 56.7
% Change	0.00%	-0.01%	0.01%

The Credit Manager's Index remained unchanged in October. Sharp deteriorations in bankruptcy filings, sales, and new credit applications were offset by modest increases in the other seven components of the Index. "As noted previously, the worsening in bankruptcy conditions was quite likely driven by the switch to more creditor-friendly bankruptcy laws on October 17th," says Dan North, Chief Economist with credit insurer Euler Hermes ACI.

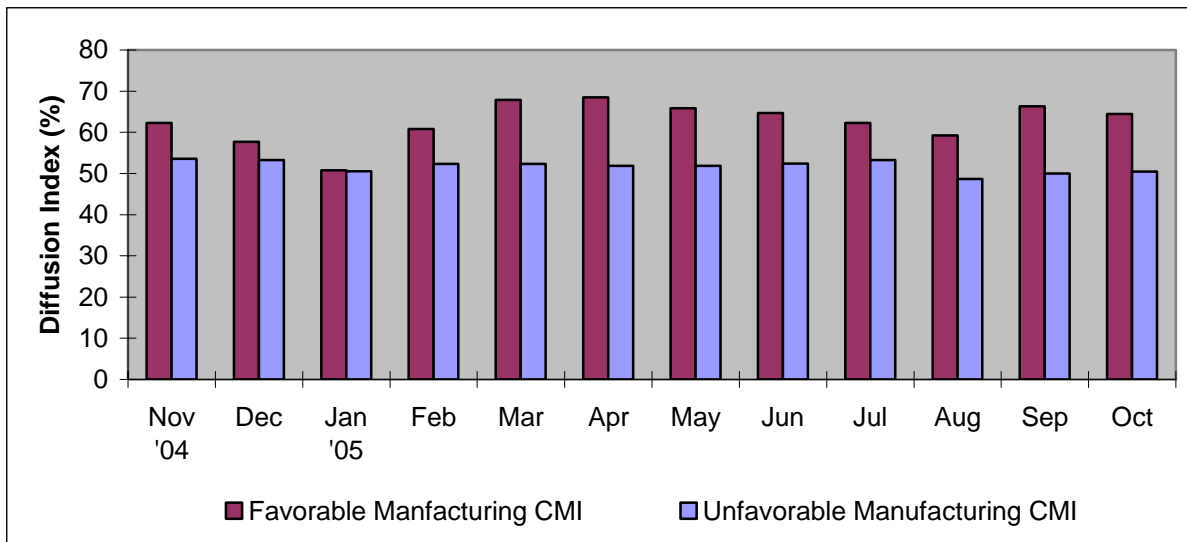
"In the manufacturing sector, sales took a steep fall of 5.2 percent, however this fall appears to be seasonal in nature, since orders for the holiday season have almost certainly peaked. This erosion in sales is often seen in November and December as well," adds North. "New credit applications worsened in both sectors, suggesting, like the fall in sales does, a seasonal drop off in demand. Overall, the CMI remains at 56.6 versus 56.4 last year, demonstrating solid, if unexciting growth."

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

MANUFACTURING SECTOR RESULTS

The NACM Manufacturing CMI remained virtually unchanged for October 2005. The overall CMI dropped 50 basis points, to finish at 56.0 percent. After a record high in September, sales ended at 68.9 percent, or down 520 points. There was also a comparable drop in new credit applications, which fell 540 points.

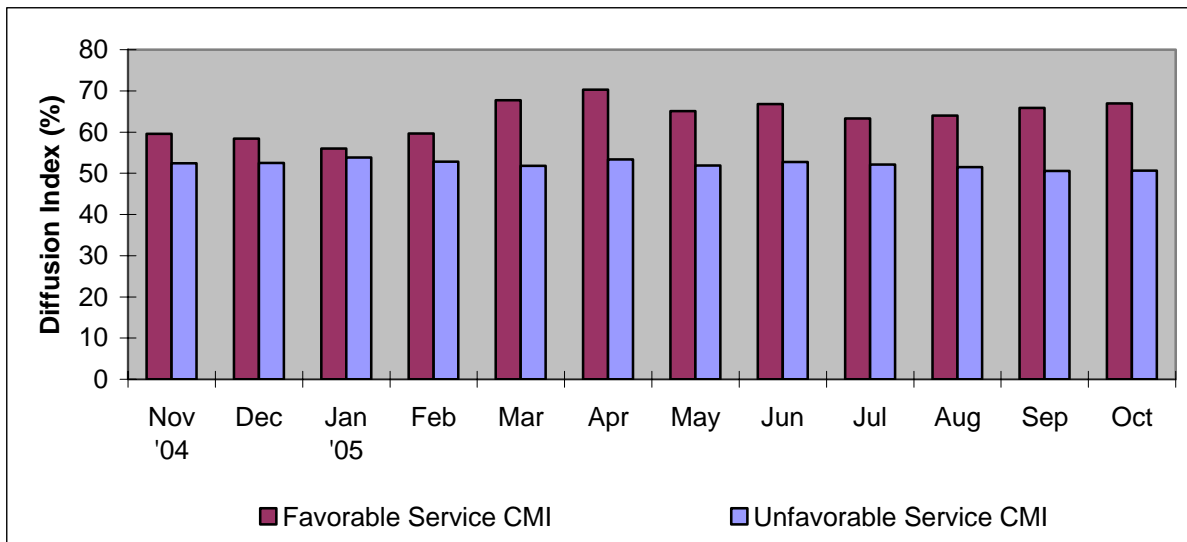
Manufacturing Sector (Not Seasonally Adjusted)												
	Nov '04	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	64.1	57.6	48.4	61.7	69.6	72.7	67.6	68.1	63.8	58.7	74.1	68.9
New credit applications	58.8	49.0	49.7	63.9	65.2	62.5	59.2	60.0	58.3	62.2	61.6	56.2
Dollar collections	61.0	61.5	49.2	53.6	66.8	69.1	65.9	63.1	63.7	55.2	61.1	63.4
Amount of credit extended	65.3	62.8	55.7	64.0	69.8	69.6	70.8	67.6	63.4	60.8	68.4	69.2
Index of favorable factors	62.3	57.7	50.8	60.8	67.9	68.5	65.9	64.7	62.3	59.2	66.3	64.4
Rejection of credit applications	54.8	55.1	54.1	49.2	48.9	50.5	52.2	51.8	52.1	50.3	52.2	54.2
Accounts placed for collections	56.5	57.1	50.0	54.4	52.3	47.7	54.9	51.8	54.0	49.4	51.9	52.7
Disputes	50.7	49.5	46.6	47.6	49.8	49.0	48.7	49.5	47.9	45.1	49.6	47.7
Dollar amount beyond terms	52.3	53.2	50.3	54.7	56.7	58.5	54.9	52.7	53.8	49.1	49.1	53.2
Dollar amount of customer deductions	47.9	47.0	43.8	49.4	49.5	49.5	46.7	50.7	53.0	46.3	46.9	48.9
Filings for bankruptcies	59.0	57.7	58.5	58.6	56.7	55.9	53.7	57.8	58.9	51.9	50.3	46.0
Index of unfavorable factors	53.5	53.3	50.6	52.3	52.3	51.9	51.9	52.4	53.3	48.7	50.0	50.5
NACM Manufacturing CMI	57.0	55.1	50.6	55.7	58.5	58.5	57.5	57.3	56.9	52.9	56.5	56.0
ISM Manufacturing PMI	57.6	57.3	56.4	55.3	55.2	53.3	51.4	53.8	56.6	53.6	59.4	NA



Service Sector Results

Like manufacturing, the service sector also remained virtually unchanged in October 2005. Although small, there was positive growth in three of the four favorable factors, pushing the index of favorable factors up slightly to 67 percent. Unfavorable factors increased, but only faintly. Overall, the sector continued to remain strong, economically, with nine of the 10 factors above 50 percent.

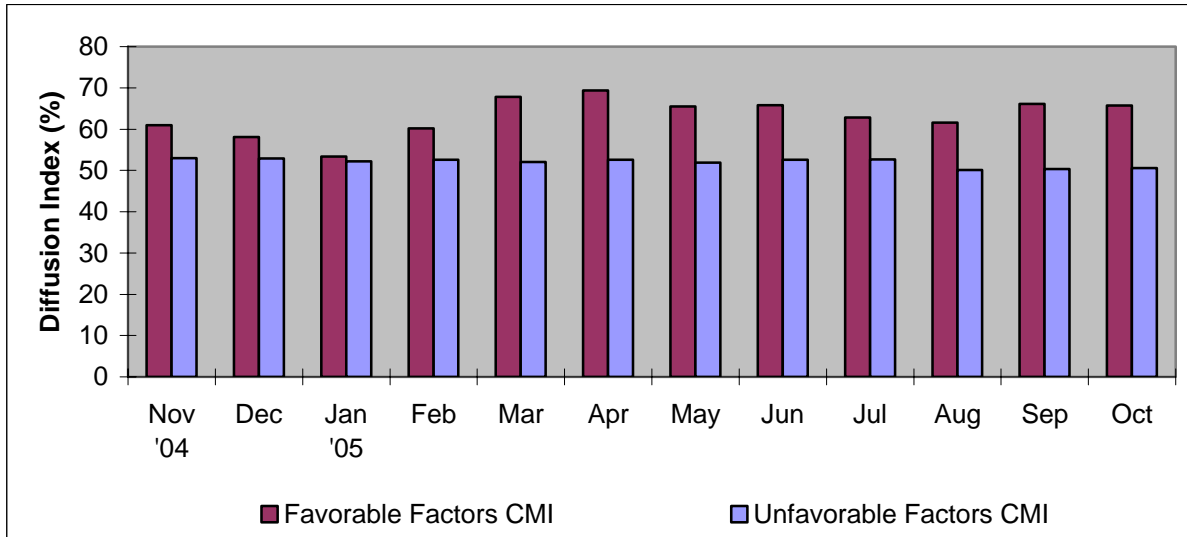
Service Sector (Not Seasonally Adjusted)												
	Nov '04	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	60.8	59.0	54.7	59.4	71.5	70.4	65.7	68.8	64.7	64.0	69.2	71.2
New credit applications	55.1	54.2	51.3	57.0	66.2	66.5	62.4	64.8	62.2	60.0	64.3	62.2
Dollar collections	59.0	60.8	59.2	59.4	60.3	71.3	63.6	64.7	60.7	61.7	61.1	63.6
Amount of credit extended	63.5	59.7	58.7	62.7	72.9	73.0	68.5	69.0	65.7	70.3	69.0	70.8
Index of favorable factors	59.6	58.4	56.0	59.6	67.7	70.3	65.1	66.8	63.3	64.0	65.9	67.0
Rejection of credit applications	54.5	54.9	54.5	51.5	49.6	49.5	51.1	49.8	52.5	51.1	52.2	52.5
Accounts placed for collections	50.5	48.2	52.9	54.2	49.4	53.2	51.4	53.2	49.5	50.0	51.0	53.1
Disputes	50.8	55.2	50.8	50.6	47.7	52.0	49.6	50.2	47.7	52.0	47.8	50.3
Dollar amount beyond terms	49.0	46.4	51.8	50.4	53.4	59.4	56.6	54.6	53.6	48.3	52.9	51.2
Dollar amount of customer deductions	48.0	51.0	51.6	52.7	50.4	50.2	51.8	52.3	50.3	51.1	49.0	51.0
Filings for bankruptcies	61.8	59.4	61.5	57.4	60.3	56.0	50.7	56.3	58.9	56.4	50.7	45.9
Index of unfavorable factors	52.4	52.5	53.9	52.8	51.8	53.4	51.9	52.7	52.1	51.5	50.6	50.7
NACM Service CMI	55.3	54.9	54.7	55.5	58.2	60.2	57.1	58.4	56.6	56.5	56.7	57.2
ISM Service Business Activity Index	61.9	63.9	59.2	59.8	63.1	61.7	58.5	62.2	60.5	65.0	53.3	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Nov '04	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	62.5	58.3	51.6	60.6	70.6	71.6	66.7	68.5	64.3	61.4	71.7	70.1
New credit applications	57.0	51.5	50.5	60.5	65.7	64.5	60.8	62.4	60.3	61.1	63.0	59.2
Dollar collections	60.1	61.1	54.2	56.5	63.6	70.2	64.8	63.9	62.2	58.5	61.1	63.5
Amount of credit extended	64.4	61.3	57.2	63.4	71.4	71.3	69.7	68.3	64.6	65.6	68.7	70.0
Index of favorable factors	61.0	58.1	53.4	60.2	67.8	69.4	65.5	65.8	62.8	61.6	66.1	65.7
Rejection of credit applications	54.7	55.0	54.3	50.4	49.3	50.0	51.7	50.8	52.3	50.7	52.2	53.4
Accounts placed for collections	53.6	52.8	51.4	54.3	50.9	50.5	53.2	52.5	51.8	49.7	51.5	52.9
Disputes	50.7	52.3	48.7	49.1	48.8	50.5	49.2	49.9	47.8	48.6	48.7	49.0
Dollar amount beyond terms	50.7	49.9	51.0	52.6	55.1	59.0	55.8	53.7	53.7	48.7	51.0	52.2
Dollar amount of customer deductions	47.9	49.0	47.7	51.1	50.0	49.9	49.3	51.5	51.7	48.7	48.0	50.0
Filings for bankruptcies	60.4	58.5	60.0	58.0	58.5	56.0	52.2	57.1	58.9	54.2	50.5	46.0
Index of unfavorable factors	53.0	52.9	52.2	52.6	52.1	52.6	51.9	52.6	52.7	50.1	50.3	50.6
NACM Combined CMI	56.2	55.0	52.7	55.6	58.4	59.3	57.3	57.8	56.7	54.7	56.6	56.6
ISM Combined Sectors Index*	59.8	60.6	57.8	57.6	59.2	57.5	55.0	58.0	58.6	59.3	56.4	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 OCTOBER 2005 TO OCTOBER 2004

A review of the table below shows a slightly higher CMI compared to just one year ago. Finishing up 40 points over its October 2004 level, October 2005 ended at 56.6 percent. When comparing today's favorable factors to just one year ago, two areas of interest emerge. First, 70.1 percent of credit manager said that sales were higher, compared to only 63.3 percent a year ago; this is an increase of 680 points. Another area of interest was the higher level of credit extended. In October 2004, credit managers reported 63.7 percent, compared to 70 percent for October 2005.

Comparison: October 2005 vs. October 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Oct '04	Oct '05	Oct '04	Oct '05	Oct '04	Oct '05
Sales	64.8	68.9	61.8	71.2	63.3	70.1
New credit applications	59.7	56.2	54.9	62.2	57.3	59.2
Dollar collections	65.7	63.4	63.7	63.6	64.7	63.5
Amount of credit extended	62.3	69.2	65.1	70.8	63.7	70.0
Index of favorable factors	63.1	64.4	61.4	67.0	62.3	65.7
Rejection of credit applications	51.2	54.2	50.2	52.5	50.7	53.4
Accounts placed for collections	56.9	52.7	51.2	53.1	54.1	52.9
Disputes	50.0	47.7	51.9	50.3	51.0	49.0
Dollar amount beyond terms	55.2	53.2	45.2	51.2	50.2	52.2
Dollar amount of customer deductions	50.2	48.9	47.1	51.0	48.7	50.0
Filings for bankruptcies	57.9	46.0	59.4	45.9	58.7	46.0
Index of unfavorable factors	53.6	50.5	50.8	50.7	52.2	50.6
NACM CMI	57.4	56.0	55.1	57.2	56.2	56.6

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 approximately 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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