

NACM Credit Manager's Index

Report for September 2003

Issued October 1, 2003
National Association of Credit Management
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Sep '03	CMI-Total: 57.0	CMI-Manufacturing: 58.4	CMI-Service: 55.6
Aug '03	CMI-Total: 55.8	CMI-Manufacturing: 55.5	CMI-Service: 56.0
% Change	2.2%	5.2%	-0.7%

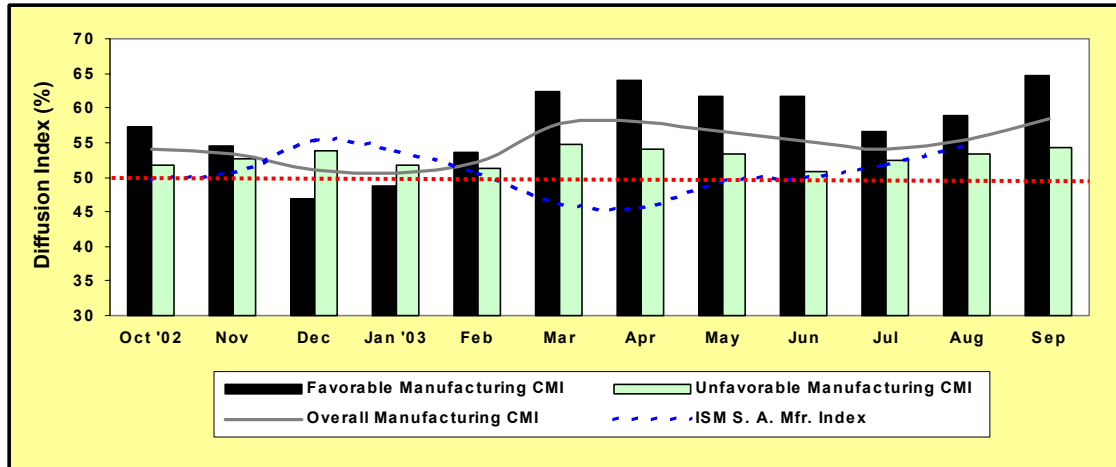
The NACM Credit Manager's Index total shows a strong gain of 2.2% (120 basis points) for September and is at its highest level since April of this year. The improvement is driven by the manufacturing sector, which jumped 5.2% (290 basis points) over its August level. The manufacturing reading of 58.4 is the highest it has been since May 2002. Last month's improvement in this index was its first up-tick since April 2003. It appears the manufacturing sector is well into recovery and renewed strength. The service sector, however, is showing signs of slowing growth. Although its growth remains strong, the service sector is slowing on a month-over-month basis. Last month, after showing seven consecutive months of improvement, the service sector index lost 90 basis points. This month, it lost another 40 basis points.

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

MANUFACTURING SECTOR RESULTS

Of the 10 indicators used to measure performance, nine show improvement. The only indicator that slipped a little was "filings for bankruptcies". However, it is still quite strong at 58.0, suggesting that bankruptcies are not an issue. Over the past two months, there have been significant gains in indices for "sales", "dollar collections", and "amount of credit extended". Product demand is strengthening, month-over-month.

Manufacturing Sector												
(Not Seasonally Adjusted)												
	Oct '02	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	55.0	53.4	42.4	49.4	55.2	67.0	67.3	60.5	59.8	55.9	59.8	65.8
New credit applications	50.0	48.7	42.9	43.6	55.1	55.3	58.2	55.6	56.7	49.8	54.9	55.4
Dollar collections	63.6	57.9	50.0	52.2	45.6	65.3	66.4	68.2	64.5	60.0	61.2	68.3
Amount of credit extended	60.9	58.0	52.3	49.6	58.4	62.2	64.2	62.0	65.8	60.7	59.4	69.4
Index of favorable factors	57.4	54.5	46.9	48.7	53.6	62.5	64.0	61.6	61.7	56.6	58.8	64.7
Rejection of credit applications	50.9	53.4	53.3	54.3	50.7	51.8	52.3	54.1	51.7	54.1	53.4	55.0
Accounts placed for collections	54.7	54.8	57.7	53.2	53.3	55.6	56.3	54.1	53.3	54.7	54.6	55.0
Disputes	49.6	49.0	54.6	48.5	47.6	53.3	50.2	49.3	49.0	48.0	47.3	49.3
Dollar amount beyond terms	51.0	54.4	52.0	48.5	51.5	57.5	58.0	55.6	49.8	50.2	57.5	58.3
Dollar amount of customer deductions	51.2	50.2	50.3	48.5	48.4	52.0	49.8	51.7	45.4	48.0	48.4	49.5
Filings for bankruptcies	53.6	54.0	55.4	56.9	55.5	58.1	57.0	55.0	56.3	59.7	58.5	58.0
Index of unfavorable factors	51.8	52.6	53.9	51.7	51.2	54.7	53.9	53.3	50.9	52.5	53.3	54.2
NACM Manufacturing CMI	54.1	53.4	51.1	50.5	52.1	57.8	58.0	56.6	55.2	54.1	55.5	58.4
ISM Manufacturing PMI Not Seasonally Adjusted	48.4	47.7	50.4	51.2	51.0	48.7	48.6	52.0	51.7	51.0	54.1	
Seasonally Adjusted	49.7	50.5	55.2	53.9	50.5	46.2	45.4	49.4	49.8	51.8	54.7	

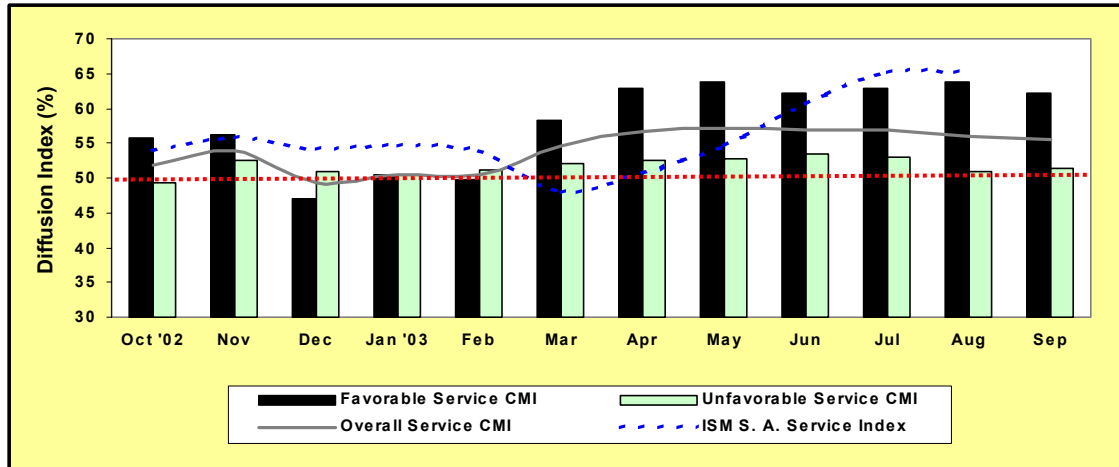


SERVICE SECTOR RESULTS

The service sector recorded its ninth consecutive month of growth. However, growth in this sector continues to slow, month-over-month. The service sector's 40 basis point decline for September is attributable to three factors: sales growth was not as strong as in August, collections slowed, and outstanding balances aged longer. Offsetting most of these negative influences were significant slowing in bankruptcy filings and improvement in new credit applications.

The overall loss in the service sector index is traced to the favorable factors, and largely to slowing in collections. The improvement in the index of unfavorable factors is positive and indicates that trade credit is available to help keep this sector growing, albeit at a slower pace than in recent months.

Service Sector												
(Not Seasonally Adjusted)												
	Oct '02	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	55.6	54.6	41.9	48.7	47.0	57.5	66.6	63.3	64.3	65.0	65.1	63.1
New credit applications	52.8	51.8	40.3	47.3	50.6	55.9	58.9	60.7	60.1	59.4	58.7	60.1
Dollar collections	55.4	59.1	52.8	52.3	47.6	60.6	59.6	64.1	58.9	58.2	65.2	61.2
Amount of credit extended	59.6	59.4	53.3	53.4	54.1	59.1	66.6	67.2	65.3	68.7	65.9	64.3
Index of favorable factors	55.9	56.2	47.1	50.4	49.8	58.3	62.9	63.8	62.2	62.8	63.7	62.2
Rejection of credit applications	49.2	50.8	55.2	53.2	51.6	50.2	50.6	47.2	52.8	49.3	49.4	50.5
Accounts placed for collections	48.3	54.7	48.4	50.0	50.0	53.3	50.6	52.4	53.4	52.2	48.4	49.5
Disputes	48.3	52.9	51.4	51.8	50.2	50.9	52.3	51.8	53.2	51.4	49.4	50.0
Dollar amount beyond terms	47.4	52.0	48.0	43.0	50.0	50.6	54.2	56.3	51.9	51.7	52.6	47.1
Dollar amount of customer deductions	50.8	51.1	51.9	51.8	49.8	52.4	52.7	53.6	54.1	54.1	49.6	50.7
Filings for bankruptcies	52.0	53.8	50.5	53.4	54.7	55.2	54.4	54.9	55.4	58.6	55.9	59.8
Index of unfavorable factors	49.3	52.6	50.9	50.5	51.1	52.1	52.5	52.7	53.5	52.9	50.9	51.3
NACM Service CMI	51.9	54.0	49.4	50.5	50.6	54.6	56.7	57.2	56.9	56.9	56.0	55.6
ISM Service Business Activity Index												
Not Seasonally Adjusted	52.5	56.5	51.5	49.5	54.5	49.5	54.5	56.5	63.5	63.0	62.5	
Seasonally Adjusted	53.9	55.7	54.2	54.5	53.9	47.9	50.7	54.5	60.6	65.1	65.1	



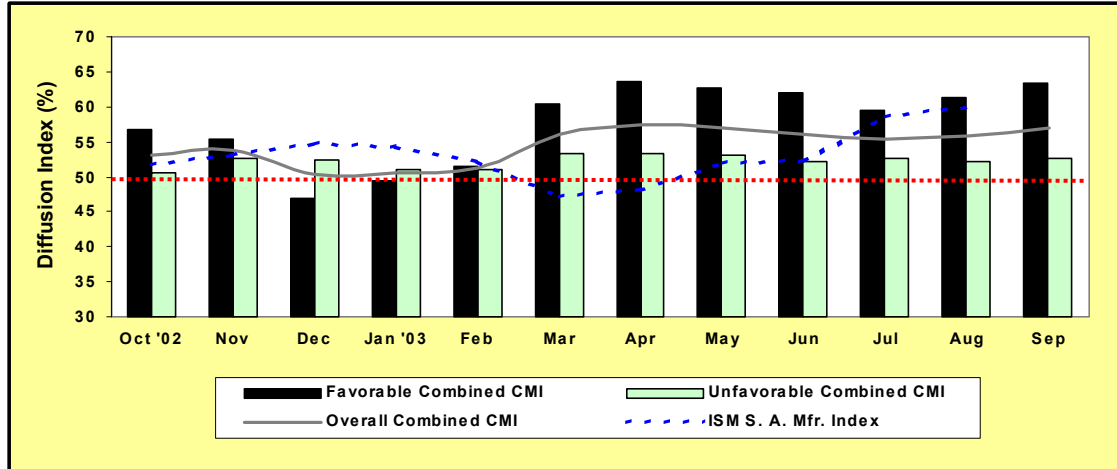
COMBINED SECTORS

There is little to say about the combined sectors, which hasn't already been said. Nine of the 10 factors shown in the table below improved over their August readings. "Dollar amount beyond terms" is the lone factor not improving. Although the reading of 52.6 indicates aging schedules for accounts are in good shape, the declining index number means accounts were outstanding longer in September than in August. Indeed, a few survey participants noted this concern.

Overall, it appears the economy will continue its steady improvement during the fourth quarter. There doesn't appear to be any threatening factors at this point.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Oct '02	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	55.3	54.0	42.2	49.1	50.9	62.2	67.0	61.9	62.1	60.1	62.4	64.5
New credit applications	51.4	50.3	41.7	45.3	52.7	55.6	58.5	58.1	58.4	54.2	56.8	57.9
Dollar collections	59.6	58.6	51.3	52.2	46.6	62.9	63.1	66.2	61.7	59.2	63.2	64.7
Amount of credit extended	60.3	58.7	52.8	51.3	56.2	60.6	65.4	64.6	65.5	64.4	62.6	66.8
Index of favorable factors	56.7	55.4	47.0	49.5	51.6	60.3	63.5	62.7	61.9	59.5	61.3	63.5
Rejection of credit applications	50.1	52.0	54.2	53.8	51.2	51.0	51.5	50.7	52.2	51.9	51.4	52.7
Accounts placed for collections	51.6	54.8	53.2	51.7	51.6	54.4	53.5	53.3	53.4	53.5	51.5	52.2
Disputes	48.9	51.0	53.1	50.0	48.9	52.1	51.2	50.5	51.1	49.6	48.4	49.6
Dollar amount beyond terms	49.2	53.2	50.1	46.0	50.7	54.0	56.1	55.9	50.8	50.9	55.1	52.6
Dollar amount of customer deductions	51.0	50.6	51.1	50.0	49.1	52.2	51.2	52.6	49.7	50.8	49.0	50.1
Filings for bankruptcies	52.8	53.9	53.1	55.3	55.1	56.6	55.8	54.9	55.8	59.2	57.2	58.9
Index of unfavorable factors	50.6	52.6	52.5	51.1	51.1	53.4	53.2	53.0	52.2	52.7	52.1	52.7
NACM Combined CMI	53.0	53.7	50.3	50.5	51.3	56.2	57.3	56.9	56.1	55.4	55.8	57.0
ISM Combined Sectors Index*												
Not Seasonally Adjusted	50.5	52.1	51.0	50.4	52.8	49.1	51.6	54.3	57.6	57.0	58.3	
Seasonally Adjusted	51.8	53.1	54.7	54.2	52.2	47.1	48.1	52.0	52.2	58.5	59.9	

*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.

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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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