

# NACM Credit Manager's Index

## Report for September 2004

Issued October 1, 2004  
National Association of Credit Management  
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Columbia, MD 21045-2158

<b>September '04</b>	<b>CMI-Total: 56.0</b>	<b>CMI-Manufacturing: 57.6</b>	<b>CMI-Service: 54.7</b>
<b>August '04</b>	<b>CMI-Total: 59.0</b>	<b>CMI-Manufacturing: 58.7</b>	<b>CMI-Service: 59.2</b>
<b>% Change</b>	<b>-5.1%</b>	<b>-1.9%</b>	<b>-7.6%</b>

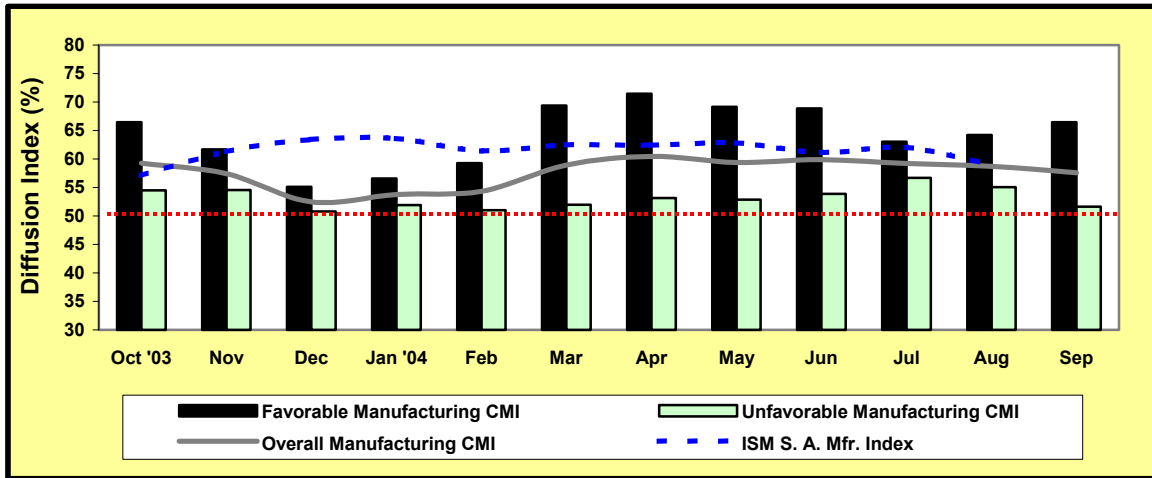
**There was a significant decline in the overall CMI for September, driven largely by the service sector. Although the total index and its sub-indices are each above 50, they indicate that the rate of growth in the economy continues to slow. This slowness has now entered its third month for the manufacturing sector and its fifth month for both the service and combined sectors.**

*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 latest survey data indicates that the problems with the manufacturing sector are on the "unfavorable factor" side. There was erosion in each indicator: greater rejection of credit applications, more accounts placed for collections, increased disputes, customers taking longer to pay, increased deductions, and greater bankruptcy filings. When these results are considered with the "favorable factors", it suggests that the higher credit risks in the receivable portfolios are the problem. It also suggests that the high levels of credit extended from March through June could now be problem accounts.

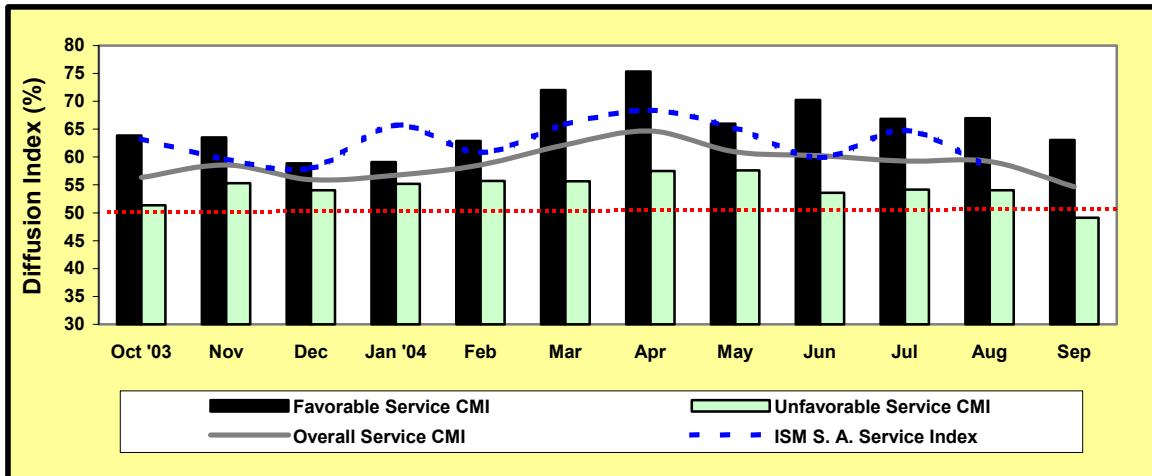
<b>Manufacturing Sector</b>												
(Not Seasonally Adjusted)												
	Oct '03	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	69.4	62.1	55.2	56.8	63.2	75.5	78.4	75.2	71.7	64.5	69.3	68.8
New credit applications	58.9	54.5	48.1	53.5	58.9	63.8	63.6	59.4	60.8	56.4	55.9	61.3
Dollar collections	69.4	65.2	59.9	60.0	51.1	65.3	70.9	70.4	71.7	66.8	63.7	66.7
Amount of credit extended	68.2	65.0	57.2	55.9	63.8	72.9	73.0	71.6	71.3	64.4	67.9	69.1
<b>Index of favorable factors</b>	<b>66.5</b>	<b>61.7</b>	<b>55.1</b>	<b>56.6</b>	<b>59.3</b>	<b>69.4</b>	<b>71.5</b>	<b>69.2</b>	<b>68.9</b>	<b>63.0</b>	<b>64.2</b>	<b>66.5</b>
Rejection of credit applications	54.4	55.9	53.9	51.6	51.9	50.0	51.7	51.9	53.8	52.0	55.1	53.4
Accounts placed for collections	52.0	53.5	47.5	54.6	54.8	53.7	54.0	53.1	58.0	60.3	56.7	51.7
Disputes	53.6	50.2	50.3	47.7	45.4	49.5	46.2	49.3	49.4	51.5	49.4	46.9
Dollar amount beyond terms	58.0	56.7	46.7	51.1	49.2	51.6	58.1	56.2	51.8	60.6	58.0	52.6
Dollar amount of customer deductions	51.7	51.4	49.7	49.5	46.5	48.9	48.3	47.6	48.4	52.3	50.6	46.9
Filings for bankruptcies	57.2	59.6	56.6	56.8	58.4	58.0	60.5	59.2	62.0	63.4	60.7	58.4
<b>Index of unfavorable factors</b>	<b>54.5</b>	<b>54.6</b>	<b>50.8</b>	<b>51.9</b>	<b>51.0</b>	<b>52.0</b>	<b>53.1</b>	<b>52.9</b>	<b>53.9</b>	<b>56.7</b>	<b>55.1</b>	<b>51.7</b>
<b>NACM Manufacturing CMI</b>	<b>59.3</b>	<b>57.4</b>	<b>52.5</b>	<b>53.8</b>	<b>54.3</b>	<b>58.9</b>	<b>60.5</b>	<b>59.4</b>	<b>59.9</b>	<b>59.2</b>	<b>58.7</b>	<b>57.6</b>
<b>ISM Manufacturing PMI</b>												
Not Seasonally Adjusted	55.3	58.8	60.3	61.6	63.5	65.3	65.6	65.3	62.8	60.0	58.1	
Seasonally Adjusted, Reported	57.0	62.8	66.2	63.6	61.4	62.5	62.4	62.8	61.1	62.0	59.0	
Seasonally Adjusted, Revised	57.1	61.3	63.4									



### SERVICE SECTOR RESULTS

What has happened to the service sector? Every indicator for September has declined! The survey readings for this sector have declined for five consecutive months. There is significant slowing in sales growth and amount of credit extended. This action is in response to increased placement of accounts for collections, increased lengthening of payments beyond the credit period, and increased bankruptcy filings. The service sector, while still growing, is rapidly seeing growth erosion and is approaching the neutral zone. The last time the service sector had a reading lower than 54.7 was March 2003, which came in at 54.6.

<b>Service Sector</b> (Not Seasonally Adjusted)												
	Oct '03	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	67.9	64.2	60.7	59.2	66.3	79.6	79.6	71.0	72.9	67.1	68.9	64.0
New credit applications	60.0	57.7	51.4	55.9	62.1	68.0	71.9	61.2	64.9	57.7	63.4	60.1
Dollar collections	60.0	62.9	58.5	58.9	59.4	66.7	72.8	61.6	70.8	75.5	64.1	64.0
Amount of credit extended	67.5	69.3	64.9	62.4	63.7	73.7	77.1	70.2	72.4	67.2	71.4	64.2
<b>Index of favorable factors</b>	<b>63.9</b>	<b>63.5</b>	<b>58.9</b>	<b>59.1</b>	<b>62.9</b>	<b>72.0</b>	<b>75.4</b>	<b>66.0</b>	<b>70.3</b>	<b>66.9</b>	<b>67.0</b>	<b>63.1</b>
Rejection of credit applications	50.6	55.1	55.3	51.8	51.9	54.2	49.4	54.5	50.0	53.4	51.7	49.8
Accounts placed for collections	48.7	50.8	54.6	52.5	56.4	53.1	54.1	58.3	52.5	52.5	56.3	51.7
Disputes	53.9	53.6	52.9	56.8	57.0	53.4	55.7	56.6	51.9	51.2	49.6	47.8
Dollar amount beyond terms	50.3	57.7	49.2	54.3	54.4	58.4	65.7	58.8	53.2	54.0	55.6	45.8
Dollar amount of customer deductions	50.3	53.6	50.6	54.1	54.8	55.1	57.6	53.2	51.3	51.6	49.4	46.5
Filings for bankruptcies	54.2	61.2	61.6	61.6	59.9	59.9	62.6	64.2	62.8	62.4	61.7	53.0
<b>Index of unfavorable factors</b>	<b>51.3</b>	<b>55.3</b>	<b>54.0</b>	<b>55.2</b>	<b>55.7</b>	<b>55.7</b>	<b>57.5</b>	<b>57.6</b>	<b>53.6</b>	<b>54.2</b>	<b>54.1</b>	<b>49.1</b>
<b>NACM Service CMI</b>	<b>56.3</b>	<b>58.6</b>	<b>56.0</b>	<b>56.8</b>	<b>58.6</b>	<b>62.2</b>	<b>64.7</b>	<b>61.0</b>	<b>60.3</b>	<b>59.3</b>	<b>59.2</b>	<b>54.7</b>
<b>ISM Service Business Activity Index</b>												
Not Seasonally Adjusted	63.0	61.0	56.0	60.0	61.0	66.4	68.7	69.7	59.1	64.0	57.0	
Seasonally Adjusted, Reported	64.7	60.1	58.6	65.7	60.8	65.8	68.4	65.2	59.9	64.8	58.2	
Seasonally Adjusted, Revised	63.3	59.6	58.0									

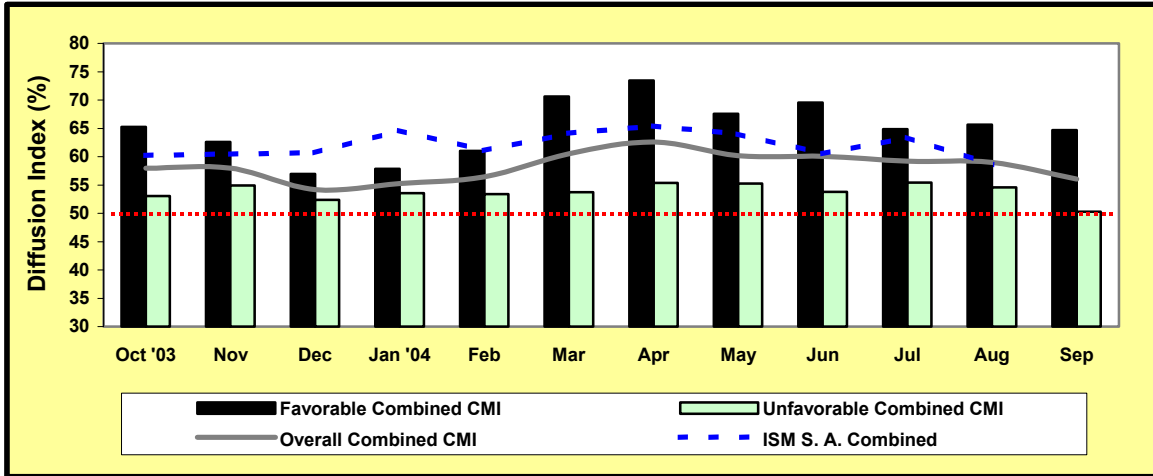


### COMBINED SECTORS

The combined index has now fallen five consecutive months and is at its lowest level since February 2004. Whereas the manufacturing sector pretty much held its ground in September, the service sector lost 450 basis points. The combined index of unfavorable factors (56.0) is at its lowest level since August 2002. Continuing deterioration in the “unfavorable factors” will lead to reduced sales as businesses become more selective in extending credit.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Oct '03	Nov	Dec	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	68.7	63.1	58.0	58.0	64.7	77.5	79.0	73.1	72.3	65.7	69.1	66.2
New credit applications	59.4	56.0	49.7	54.7	60.5	65.8	67.8	60.3	62.8	57.0	59.8	60.7
Dollar collections	65.0	64.1	59.2	59.5	55.2	65.9	71.9	66.0	71.3	71.0	63.9	65.3
Amount of credit extended	67.9	67.1	61.0	59.1	63.7	73.3	75.1	70.9	71.8	65.7	69.7	66.5
<b>Index of favorable factors</b>	<b>65.3</b>	<b>62.6</b>	<b>57.0</b>	<b>57.8</b>	<b>61.0</b>	<b>70.6</b>	<b>73.5</b>	<b>67.6</b>	<b>69.6</b>	<b>64.9</b>	<b>65.6</b>	<b>64.7</b>
Rejection of credit applications	52.7	55.5	54.6	51.7	51.9	52.0	50.6	53.2	52.0	52.7	53.4	51.5
Accounts placed for collections	50.5	52.2	51.0	53.5	55.6	53.4	54.1	55.7	55.3	56.5	56.5	51.7
Disputes	53.8	51.9	51.5	52.3	51.2	51.4	51.0	53.0	50.6	51.3	49.5	47.3
Dollar amount beyond terms	54.5	57.1	47.9	52.7	51.8	54.9	62.0	57.5	52.5	57.3	56.8	48.9
Dollar amount of customer deductions	51.1	52.5	50.1	51.8	50.7	51.9	53.0	50.5	49.8	51.9	50.0	46.7
Filings for bankruptcies	55.8	60.4	59.0	59.2	59.2	58.9	61.5	61.6	62.4	62.9	61.2	55.5
<b>Index of unfavorable factors</b>	<b>53.1</b>	<b>54.9</b>	<b>52.4</b>	<b>53.5</b>	<b>53.4</b>	<b>53.8</b>	<b>55.4</b>	<b>55.3</b>	<b>53.8</b>	<b>55.4</b>	<b>54.6</b>	<b>50.3</b>
<b>NACM Combined CMI</b>	<b>57.9</b>	<b>58.0</b>	<b>54.2</b>	<b>55.3</b>	<b>56.5</b>	<b>60.5</b>	<b>62.6</b>	<b>60.2</b>	<b>60.1</b>	<b>59.2</b>	<b>59.0</b>	<b>56.0</b>
<b>ISM Combined Sectors Index*</b>												
Not Seasonally Adjusted	59.2	59.9	58.2	60.8	62.3	65.9	67.2	67.5	61.0	62.0	57.6	
Seasonally Adjusted, Reported	60.9	61.5	62.4	64.7	61.1	64.2	65.4	64.0	60.5	63.4	58.6	
Seasonally Adjusted, Revised	60.2	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**

<b>FAVORABLE FACTORS</b>	<b>WHY FAVORABLE</b>
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.
<b>UNFAVORABLE FACTORS</b>	<b>WHY UNFAVORABLE</b>
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](http://www.nacm.org) or by contacting Norma Heim at 410-423-1842.

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