NACM RELEASES FIRST CREDIT MANAGERS INDEX
New Economic Indicator will be Issued Monthly

COLUMBIA, MD, February 3, 2003 – The National Association of Credit Management has issued the first results of its new economic indicator, the Credit Managers Index (CMI). The CMI is a monthly survey of the business economy from the standpoint of credit and collections. It will be issued the first business day of each month.

Robin Schauseil, President of NACM said: "NACM developed this survey to provide businesses a benchmarking and forecasting tool that looks at the entire cycle of commercial business transactions. We hope that economists and the media will use this tool as a benchmark in their regular deliberations about the U.S. economy."

This index was created with the guidance of George W. Gallinger, Ph.D, an Associate Professor of Finance at Arizona State University, Tempe.

The CMI for January 2003 indicates the manufacturing sector suffered a loss of 0.6 points, whereas the service sector recorded a 1.1 point gain. The overall credit index improved 0.2 points in January and stands at 50.5, indicating continuing but modest growth in the economy.

The CMI survey asks credit managers to rate favorable and unfavorable factors in their monthly business cycle. Favorable factors include sales, new credit applications, dollar collections and amount of credit extended. Unfavorable factors include rejections of credit applications, accounts placed for collections, dollar amounts of receivables beyond terms and filings for bankruptcies.

A complete index including results from the manufacturing and service sectors, along with the methodology, is attached.

Columbia, Maryland-based National Association of Credit Management (NACM) provides industry groups, networking opportunities and education to over 25,000 business credit professionals nationwide. NACM and its network of Affiliated Associations are the leading resource for credit and financial management, delivering information, products and services designed to improve the management of business credit and accounts receivable.

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NACM Credit Managers Index
January 2003

January '03	*CMI-Total: 50.5*	*CMI-Manufacturing: 50.5*	*CMI-Service: 50.5*
December '02	*CMI-Total: 50.3*	*CMI-Manufacturing: 51.1*	*CMI-Service: 49.4*

THE NACM CREDIT MANAGER'S INDEX (CMI) FOR JANUARY INDICATES THE MANUFACTURING SECTOR SUFFERED A LOSS OF 0.6 POINTS, WHEREAS THE SERVICE SECTOR RECORDED A 1.1 POINT GAIN. THE OVERALL CREDIT INDEX IMPROVED 0.2 POINTS IN JANUARY AND STANDS AT 50.5, INDICATING CONTINUING BUT MODEST GROWTH IN THE ECONOMY.

MANUFACTURING SECTOR RESULTS

The following table depicts performance in the manufacturing sector for the past 12 months. At first glance it appears that the economy has slowed considerably since February 2002. However, the tragedy of September 11, 2001 resulted in a significant and immediate slowdown in many sectors of the economy. The terrorists attack of 9/11 pushed a slowing economy into an accelerated slowdown. Economic data indicate that by November 2001 a recovery was under way.

The high and improving numbers shown in the table below for February through May indicate survey respondents were seeing improvement relative to the prior month.

Table: Manufacturing Sector Survey Results

	2002 Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	2003 Jan
Sales	59.0	69.7	73.7	74.4	53.4	59.1	56.7	63.5	55.0	53.4	42.4	49.4
New credit applications	52.3	57.7	53.9	57.6	50.0	40.9	52.5	54.8	50.0	48.7	42.9	43.6
Dollar collections	54.5	63.4	68.9	69.0	62.1	71.2	62.3	56.5	63.6	57.9	50.0	52.2
Amount of credit extended	57.6	60.0	64.9	69.4	57.8	62.5	55.9	64.4	60.9	58.0	52.3	49.6
Index of favorable factors	**55.9**	**62.7**	**65.4**	**67.6**	**55.8**	**58.4**	**56.9**	**59.8**	**57.4**	**54.5**	**46.9**	**48.7**
Rejection of credit applications	54.5	54.2	56.6	54.4	50.0	57.6	50.8	55.8	50.9	53.4	53.3	54.3
Accounts placed for collections	54.5	54.9	54.1	51.9	57.9	59.4	51.7	51.9	54.7	54.8	57.7	53.2
Disputes	50.8	51.4	46.1	48.1	52.6	32.8	51.7	49.0	49.6	49.0	54.6	48.5
Dollar amount of AR beyond terms	56.1	61.4	57.1	60.1	56.0	51.6	49.2	43.3	51.0	54.4	52.0	48.5
Dollar amount of customer deductions	48.4	51.4	45.8	49.4	48.3	43.8	46.6	52.9	51.2	50.2	50.3	48.5
Filings for bankruptcies	50.7	50.7	50.0	54.5	62.1	54.7	47.9	52.9	53.6	54.0	55.4	56.9
Index of unfavorable factors	**52.5**	**54.0**	**51.6**	**53.1**	**54.5**	**50.0**	**49.7**	**51.0**	**51.8**	**52.6**	**53.9**	**51.7**
NACM's Manufacturing Index	**53.8**	**57.5**	**57.1**	**58.9**	**55.0**	**53.4**	**52.5**	**54.5**	**54.1**	**53.4**	**51.1**	**50.5**

When summer arrived the index dropped and languished around the same level until October. Since that point there has been moderate erosion each month, although it has not fallen below the critical 50-level. A favorable interpretation of the latest reading of 50.5 is that the change of –0.6 from December to January is a big improvement over the 2.3 point drop in the index's change from November to December. Hopefully, the series of declines in the manufacturing sector have found a bottom.

However, there are reasons to be concerned. Although not shown in the table, the average index across all months for "dollar amount of receivables beyond terms" is 53.4. The January reading is 48.5, which is 4.9 points below the average reading. The December reading of 52.0 points is also below the average. Customers are slowing their payments–indicating they may be starting to incur cash flow problems. This conclusion finds support in the "dollar collections" index. January's number is 52.2; however, the average across all months is 61.0. Collections managers need to be diligent and monitor accounts closely.

SERVICE SECTOR RESULTS

Overall interpretation of results for the service sector is similar to the manufacturing sector, with one exception. The January service sector index *improved* whereas the manufacturing sector saw a decline. The 1.1 point improvement for the service sector index pushed it back above 50.0, although only marginally to a score of 50.5.

Table: Service Sector Survey Results

	2002 Feb	**Mar**	**Apr**	**May**	**Jun**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**2003 Jan**
Sales	56.0	66.0	72.9	75.0	70.5	50.0	59.7	58.5	55.6	54.6	41.9	48.7
New credit applications	61.2	68.6	66.7	46.5	57.7	41.7	52.2	61.7	52.8	51.8	40.3	47.3
Dollar collections	51.0	65.4	67.1	66.7	74.2	66.0	67.4	64.9	55.4	59.1	52.8	52.3
Amount of credit extended	64.3	58.5	69.4	70.9	70.5	62.0	58.3	70.2	59.6	59.4	53.3	53.4
Index of favorable factors	**58.1**	**64.6**	**69.0**	**64.8**	**68.2**	**54.9**	**59.4**	**63.8**	**55.9**	**56.2**	**47.1**	**50.4**
Rejection of credit applications	46.9	45.2	56.9	48.2	50.8	46.0	52.7	51.1	49.2	50.8	55.2	53.2
Accounts placed for collections	47.0	40.6	54.2	46.5	55.3	50.0	49.5	50.0	48.3	54.7	48.4	50.0
Disputes	45.9	47.1	50.0	53.6	53.9	56.0	49.5	47.9	48.3	52.9	51.4	51.8
Dollar amount of AR beyond terms	51.0	50.0	61.4	61.4	53.0	54.0	47.3	50.0	47.4	52.0	48.0	43.0
Dollar amount of customer deductions	45.7	45.3	48.6	52.7	54.7	52.1	48.3	51.1	50.8	51.1	51.9	51.8
Filings for bankruptcies	45.9	48.1	56.9	56.4	59.1	56.0	47.3	52.1	52.0	53.8	50.5	53.4
Index of unfavorable factors	**47.1**	**46.1**	**54.7**	**53.1**	**54.5**	**52.4**	**49.1**	**50.4**	**49.3**	**52.6**	**50.9**	**50.5**
NACM's Service Index	**51.5**	**53.5**	**60.4**	**57.8**	**60.0**	**53.4**	**53.2**	**55.8**	**51.9**	**54.0**	**49.4**	**50.5**

Some positive indicators to glean from January's results are the significant improvement in the "sales" and "new credit applications" indices over the prior month: 6.8 and 7.0, respectively. A counter-weight to these positive influences is the 5.0-point decline in "dollar amount of receivables beyond terms". Similar to the manufacturing sector, customers' payments to the service sector are slowing.

Overall Assessment

Combining the results for the manufacturing and service sectors (not shown), the CMI improved in January to 50.5 from December's number of 50.3. To put this in perspective, readings for October and November were 53.0 and 53.7, respectively. The combined CMI improvement in January is due to the service sector. However, both sectors currently stand at 50.5–indicating very modest growth in each.

Consecutive declines in the manufacturing sector index for the past four months is troubling. The threat of war with Iraq continues to weigh heavily on perceptions about the economy's direction. This influence is clearly indicated by the daily changes in the Dow-Jones Industrial Index: the significant gains of early January have been wiped out.

Can we predict a turn-around for the year? The NACM credit index is not falling through the critical 50-level. The purchasing manager's indices–both national and regional–are showing improvement (through December; January's readings aren't available yet). The recently released Conference Board's leading economic indicator suggests stronger growth ahead. And finally, against heavy odds, Tampa Bay won the Super Bowl. History indicates that whenever the National Football Conference team wins the Super Bowl–Tampa Bay, in this case–the stock market has an up year. The indicator isn't foolproof, but it is as good or better than many "beat the market" systems.

METHODOLOGY APPENDIX

The CMI number is based on a survey of credit managers during the last 10 days of the month. The survey consists of about 500 participants, equally divided by manufacturing and service sectors and covers the 40 largest states. Please be cautious in interpreting the CMI as a meaningful economic indicator until more monthly surveys are conducted to judge how well it continues to track the economy–so far, it's doing well.

As shown in the table below, 10 equally weighted items determine the index. These items are classified into two categories: favorable factors and unfavorable factors.

Table: Factors Making Up the Index

Favorable Factor	Why Favorable
Sales	Greater sales are positive
New credit applications	More customers buying
Dollar collections	Improved cash flow
Amount of credit extended	Improved assessment of accounts
Unfavorable Factors	**Why Unfavorable**
Rejections of credit applications	Seeing more marginal accounts
Accounts placed for collections	Problem accounts more significant
Disputes	A sign of cash conservation by customers
Dollar amount of receivables beyond terms	Payments becoming slower
Dollar amount of customer deductions	A sign of cash conservation by customers
Filings for bankruptcies	Indicator of financial distress

An 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 the positive items, the calculation is:

$$\frac{\text{Number of “higher” responses} + \frac{1}{2} * \text{number of “same” responses}}{\text{Total number of responses}}$$

For the negative factors, the calculation is:

$$\frac{\text{Number of “lower” responses} + \frac{1}{2} * \text{number of “same” responses}}{\text{Total number of responses}}$$

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.

For questions concerning the index and stated results, please contact George Gallinger by e-mail at bac524@mainex1.asu.edu.

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