NACM Credit Manager's Index
Report for February 2003

Issued March 3, 2003 by
National Association of Credit Management
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February '03	**CMI-Total: 51.3**	**CMI-Manufacturing: 52.1**	**CMI-Service: 50.6**
January '03	**CMI-Total: 50.5**	**CMI-Manufacturing: 50.5**	**CMI-Service: 50.5**
% Change	**1.5%**	**3.2%**	**0.2%**

February results for the NACM Credit Manager's Index (CMI) indicate that overall improvement continues in the economy. The Index of 51.3% exceeds the levels attained in both December and January. Further, the overall Index has remained above the critical 50.0% level since its inception in February 2002. As noted above, there was significant improvement in the manufacturing sector during February. The 1.6-point gain more than offset the loss of 0.6 points recorded in January. There was marginal improvement in the service sector.

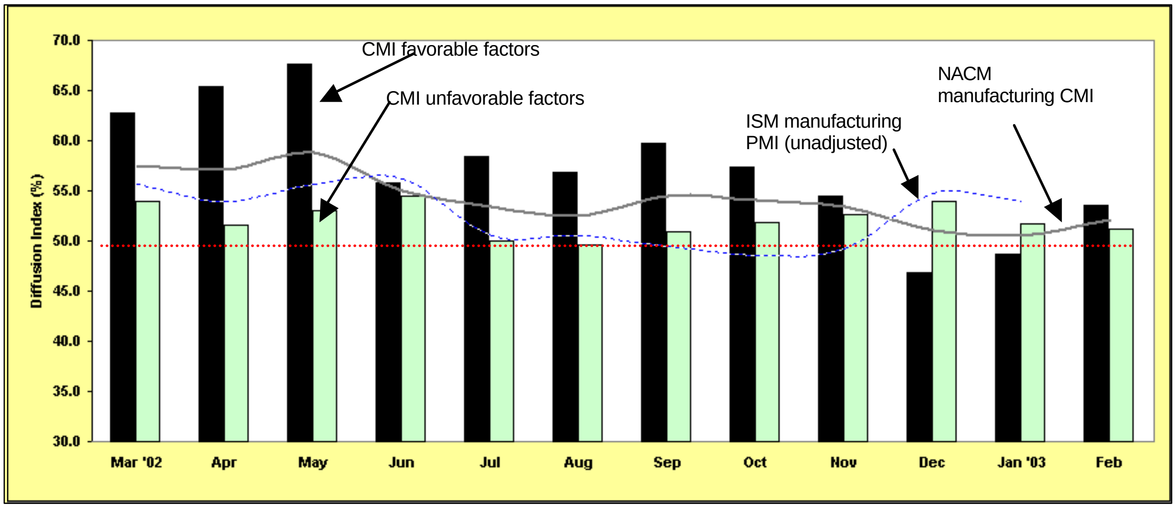
MANUFACTURING SECTOR RESULTS

The following table and graph depict performance in the manufacturing sector for the past 12 months. There is much to be pleased with about February performance. "Sales" and "new credit applications," after being below the critical 50%-level for two and three months, respectively, rebounded strongly. Further, there was significant improvement in the amount of credit extended in February. The decline in "dollar collections" shouldn't be a concern. It is the result of the declining "sales" during the prior two months. This indicator should improve with the March survey.

Manufacturing Sector
(Not Seasonally Adjusted)

	Mar '02	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb
Sales	69.7	73.7	74.4	53.4	59.1	56.7	63.5	55.0	53.4	42.4	49.4	55.2
New credit applications	57.7	53.9	57.6	50.0	40.9	52.5	54.8	50.0	48.7	42.9	43.6	55.1
Dollar collections	63.4	68.9	69.0	62.1	71.2	62.3	56.5	63.6	57.9	50.0	52.2	45.6
Amount of credit extended	60.0	64.9	69.4	57.8	62.5	55.9	64.4	60.9	58.0	52.3	49.6	58.4
Index of favorable factors	**62.7**	**65.4**	**67.6**	**55.8**	**58.4**	**56.9**	**59.8**	**57.4**	**54.5**	**46.9**	**48.7**	**53.6**
Rejection of credit applications	54.2	56.6	54.4	50.0	57.6	50.8	55.8	50.9	53.4	53.3	54.3	50.7
Accounts placed for collections	54.9	54.1	51.9	57.9	59.4	51.7	51.9	54.7	54.8	57.7	53.2	53.3
Disputes	51.4	46.1	48.1	52.6	32.8	51.7	49.0	49.6	49.0	54.6	48.5	47.6
Dollar amount beyond terms	61.4	57.1	60.1	56.0	51.6	49.2	43.3	51.0	54.4	52.0	48.5	51.5
Dollar amount of customer deductions	51.4	45.8	49.4	48.3	43.8	46.6	52.9	51.2	50.2	50.3	48.5	48.4
Filings for bankruptcies	50.7	50.0	54.5	62.1	54.7	47.9	52.9	53.6	54.0	55.4	56.9	55.5
Index of unfavorable factors	**54.0**	**51.6**	**53.1**	**54.5**	**50.0**	**49.7**	**51.0**	**51.8**	**52.6**	**53.9**	**51.7**	**51.2**
NACM Manufacturing CMI	**57.5**	**57.1**	**58.9**	**55.0**	**53.4**	**52.5**	**54.5**	**54.1**	**53.4**	**51.1**	**50.5**	**52.1**
ISM Manufacturing PMI	**55.6**	**53.9**	**55.7**	**56.2**	**50.5**	**50.5**	**49.5**	**48.5**	**49.2**	**54.7**	**53.9**	

The most concerning issue with the aggregate unfavorable manufacturing CMI indicator is the continuing decline the past two months. The reading is lower than any month since September 2002. However, it has beaten the 50%-level hurdle each month, thereby indicating improvement.



As the above chart shows, improvement in aggregate favorable factors is holding up the CMI for the manufacturing sector. Although not perfect, there is a strong relationship between the Purchasing Manager's Index (PMI) and the CMI—as expected. The PMI is primarily measuring inputs to production, whereas the CMI captures cash receipt factors associated with the sale of products.

SERVICE SECTOR RESULTS

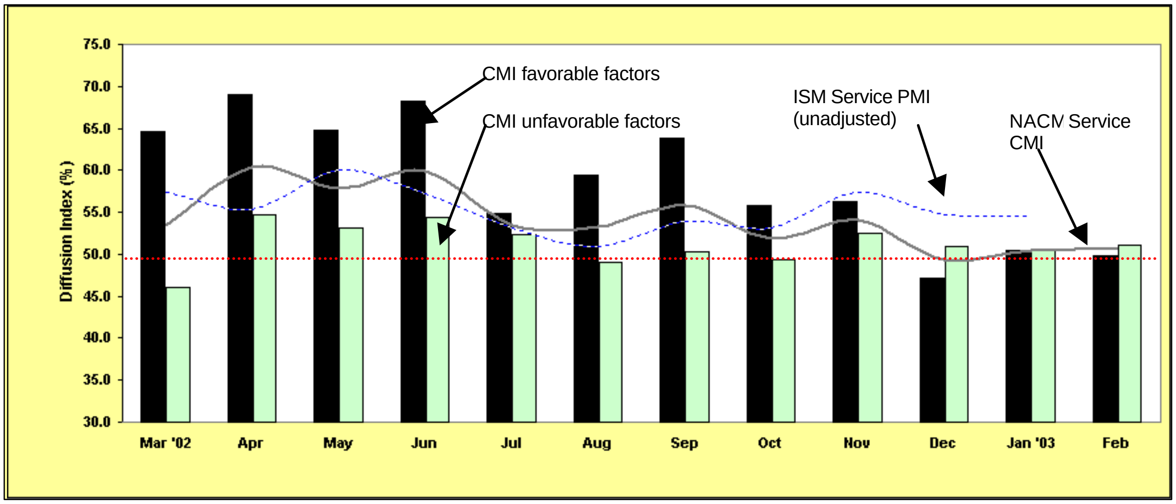
Very little changed in the service sector in February. The aggregate favorable service index fell a few points but this loss was offset by overall gains in the aggregate unfavorable factors. The biggest contributor to the loss in the favorable index was "dollar collections"—falling from 52.3% to 47.6%. However, this decline is a result of declining "sales" in the service sector during the past three months and not caused by slower payments.

Service Sector

(Not Seasonally Adjusted)

	Mar '02	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb
Sales	66.0	72.9	75.0	70.5	50.0	59.7	58.5	55.6	54.6	41.9	48.7	47.0
New credit applications	68.6	66.7	46.5	57.7	41.7	52.2	61.7	52.8	51.8	40.3	47.3	50.6
Dollar collections	65.4	67.1	66.7	74.2	66.0	67.4	64.9	55.4	59.1	52.8	52.3	47.6
Amount of credit extended	58.5	69.4	70.9	70.5	62.0	58.3	70.2	59.6	59.4	53.3	53.4	54.1
Index of favorable factors	**64.6**	**69.0**	**64.8**	**68.2**	**54.9**	**59.4**	**63.8**	**55.9**	**56.2**	**47.1**	**50.4**	**49.8**
Rejection of credit applications	45.2	56.9	48.2	50.8	46.0	52.7	51.1	49.2	50.8	55.2	53.2	51.6
Accounts placed for collections	40.6	54.2	46.5	55.3	50.0	49.5	50.0	48.3	54.7	48.4	50.0	50.0
Disputes	47.1	50.0	53.6	53.9	56.0	49.5	47.9	48.3	52.9	51.4	51.8	50.2
Dollar amount beyond terms	50.0	61.4	61.4	53.0	54.0	47.3	50.0	47.4	52.0	48.0	43.0	50.0
Dollar amount of customer deductions	45.3	48.6	52.7	54.7	52.1	48.3	51.1	50.8	51.1	51.9	51.8	49.8
Filings for bankruptcies	48.1	56.9	56.4	59.1	56.0	47.3	52.1	52.0	53.8	50.5	53.4	54.7
Index of unfavorable factors	**46.1**	**54.7**	**53.1**	**54.5**	**52.4**	**49.1**	**50.4**	**49.3**	**52.6**	**50.9**	**50.5**	**51.1**
NACM Service CMI	**53.5**	**60.4**	**57.8**	**60.0**	**53.4**	**53.2**	**55.8**	**51.9**	**54.0**	**49.4**	**50.5**	**50.6**
ISM Service PMI	**57.3**	**55.3**	**60.1**	**57.2**	**53.1**	**50.9**	**53.9**	**53.1**	**57.4**	**54.7**	**54.5**	

Confirmation for this conclusion is found in the significant 7-point improvement in "dollar amount beyond terms" indicator, shown in the unfavorable category.



Overall, the service sector appears to be closer to falling into a declining growth phase than does the manufacturing sector. If service revenues don't improve soon, the CMI for services can easily fall below the 50%-level. A positive indicator that this may not happen is the 3.3-point improvement in "new credit applications" in February. This improvement is on top of a 7-point gain in January.

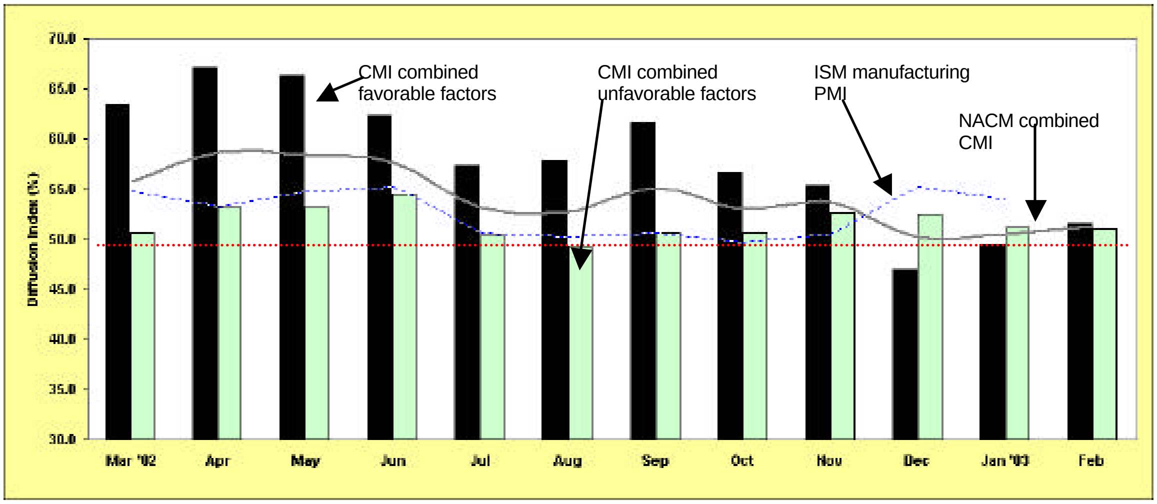
Combined Sectors

A simple combination of the two sectors—equal weight given to both—is shown in the following table and graph. The aggregate favorable factors continue to improve and stand at 51.6%—up from December's low of 47.0%. The single most important driver is improving "sales." The February index for the unfavorable factors stood constant at 51.1%. As opposed to last month, it is the manufacturing sector that has provided improvement in the overall CMI from 50.5% to 51.3%.

Manufacturing & Service Sectors

(Not Seasonally Adjusted)

	Mar '02	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb
Sales	68.1	73.3	74.6	62.5	55.2	58.0	61.1	55.3	54.0	42.2	49.1	50.9
New credit applications	62.3	60.1	52.9	54.1	41.2	52.4	58.1	51.4	50.3	41.7	45.3	52.7
Dollar collections	64.2	68.1	68.0	68.5	69.0	64.5	60.6	59.6	58.6	51.3	52.2	46.6
Amount of credit extended	59.3	67.1	70.0	64.5	64.0	56.9	67.2	60.3	58.7	52.8	51.3	56.2
Index of favorable factors	**63.5**	**67.2**	**66.4**	**62.4**	**57.4**	**58.0**	**61.8**	**56.7**	**55.4**	**47.0**	**49.5**	**51.6**
Rejection of credit applications	50.4	56.8	51.8	50.4	52.6	51.7	53.5	50.1	52.0	54.2	53.8	51.2
Accounts placed for collections	48.8	54.1	49.6	56.5	55.3	50.7	51.0	51.6	54.8	53.2	51.7	51.6
Disputes	49.6	48.0	50.4	53.3	43.0	50.7	48.5	48.9	51.0	53.1	50.0	48.9
Dollar amount beyond terms	56.5	59.3	60.7	54.4	50.9	48.3	46.5	49.2	53.2	50.1	46.0	50.7
Dollar amount of customer deductions	48.8	47.2	50.8	51.6	45.5	47.4	52.0	51.0	50.6	51.1	50.0	49.1
Filings for bankruptcies	49.6	53.4	55.3	60.5	55.3	47.6	52.5	52.8	53.9	53.1	55.3	55.1
Index of unfavorable factors	**50.6**	**53.1**	**53.1**	**54.5**	**50.4**	**49.4**	**50.7**	**50.6**	**52.6**	**52.5**	**51.1**	**51.1**
NACM Combined CMI	**55.8**	**58.7**	**58.4**	**57.6**	**53.2**	**52.8**	**55.1**	**53.0**	**53.7**	**50.3**	**50.5**	**51.3**
ISM Manufacturing PMI	**54.7**	**53.3**	**54.7**	**55.2**	**50.7**	**50.3**	**50.7**	**49.7**	**50.5**	**55.2**	**53.9**	



Like last month, it would be premature to conclude that the economy has found a bottom and is positioned for immediate improvement. War with Iraq continues to hang over the economy. However, it is reassuring to see the 1.6-point gain in the manufacturing sector and the service sector basically maintaining January's level. Since December, there has been modest gain in the combined CMI. Nonetheless, it is improvement.

METHODOLOGY APPENDIX

The CMI number is based on a survey of about 500 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 smaller ones, such as Vermont, Montana, and Idaho. It is important that you exercise caution in interpreting the CMI results as a meaningful economic indicator. The verdict must wait until more monthly surveys are conducted to judge how well it continues to track the economy—so far it seems to be 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. Following the initial CMI in January, Michael P. Niemira, an economist with the Bank of Tokyo-Mitsubishi in New York, wrote an article for the bank's publication *U.S. Business Conditions Weekly* stating: "The composite of (CMI) favorable factors might be viewed as a credit-opportunity indicator, while the unfavorable factors aggregate is a credit-crisis indicator. … Business cycle research … found that if a financial crisis develops after an economic slowdown, that will tend to make the slowdown longer and more pronounced. *Hence this credit-crisis indicator is likely to be a very important barometer to monitor over time*."

Table: Factors Making Up the Diffusion 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

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:

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

For the negative factors, the calculation is:

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

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.

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