

NACM Credit Manager's Index

Report for July 2003

Issued August 1, 2003
National Association of Credit Management
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July '03	CMI-Total: 55.4	CMI-Manufacturing: 54.1	CMI-Service: 56.9
June '03	CMI-Total: 56.1	CMI-Manufacturing: 55.2	CMI-Service: 56.9
% Change	-1.2%	-2.0%	0.0%

The NACM Credit Manager's Index (CMI), while showing growth in the economy, has fallen for the third consecutive month. It has lost 190 basis points since April's reading of 57.3%, indicating slower growth on a month-over-month basis. The manufacturing sector is the reason for the slowing. The manufacturing index has declined 390 basis points since its April high of 58.0%. Growth in the service sector this month was unchanged from June. This performance is positive in the sense that the index didn't decline as it did in June. The service index of 56.9% is the second highest reading in the past 12 months for this sector, indicating that growth is still quite strong.

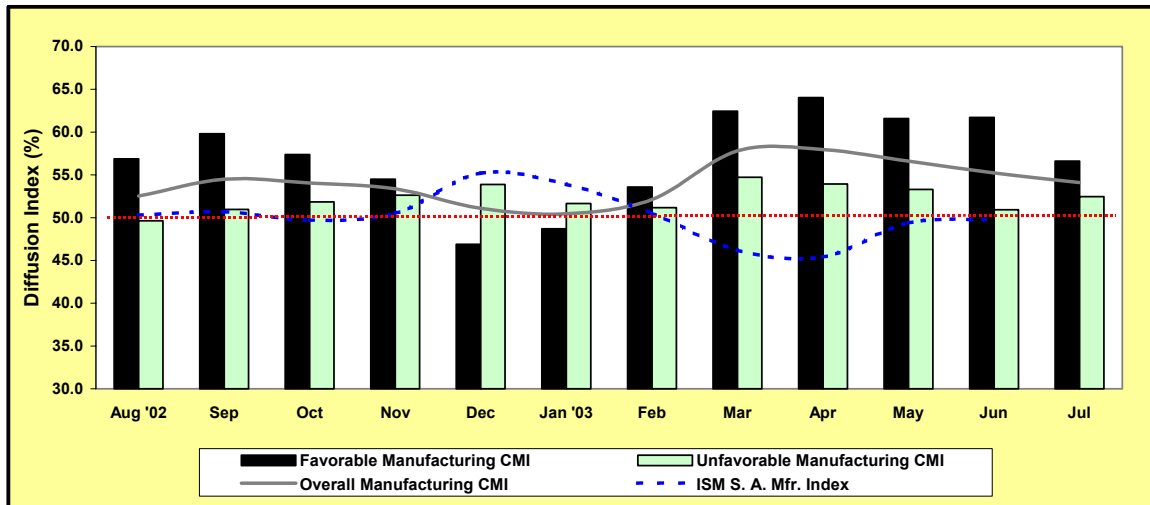
See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

There is definitely a slowing of growth in the manufacturing sector. While July's index of 54.1% is well above its 12-month low of 50.5% in January 2003, it is 390 basis points below April 2003's high of 58.0%. All of the favorable factors experienced significant declines in July relative to June, whereas the unfavorable factors—with one exception—improved. This latter result indicates that producers are not restricting trade credit. The most troubling aspect of the manufacturing numbers is the decline in "new credit applications". This result can cause serious slowness in future sales, particularly if current customers cut back on their purchases.

Table 1: Manufacturing Sector												
(Not Seasonally Adjusted)												
	Aug '02	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul
Sales	56.7	63.5	55.0	53.4	42.4	49.4	55.2	67.0	67.3	60.5	59.8	55.9
New credit applications	52.5	54.8	50.0	48.7	42.9	43.6	55.1	55.3	58.2	55.6	56.7	49.8
Dollar collections	62.3	56.5	63.6	57.9	50.0	52.2	45.6	65.3	66.4	68.2	64.5	60.0
Amount of credit extended	55.9	64.4	60.9	58.0	52.3	49.6	58.4	62.2	64.2	62.0	65.8	60.7
Index of favorable factors	56.9	59.8	57.4	54.5	46.9	48.7	53.6	62.5	64.0	61.6	61.7	56.6
Rejection of credit applications	50.8	55.8	50.9	53.4	53.3	54.3	50.7	51.8	52.3	54.1	51.7	54.1
Accounts placed for collections	51.7	51.9	54.7	54.8	57.7	53.2	53.3	55.6	56.3	54.1	53.3	54.7
Disputes	51.7	49.0	49.6	49.0	54.6	48.5	47.6	53.3	50.2	49.3	49.0	48.0
Dollar amount beyond terms	49.2	43.3	51.0	54.4	52.0	48.5	51.5	57.5	58.0	55.6	49.8	50.2
Dollar amount of customer deductions	46.6	52.9	51.2	50.2	50.3	48.5	48.4	52.0	49.8	51.7	45.4	48.0
Filings for bankruptcies	47.9	52.9	53.6	54.0	55.4	56.9	55.5	58.1	57.0	55.0	56.3	59.7
Index of unfavorable factors	49.7	51.0	51.8	52.6	53.9	51.7	51.2	54.7	53.9	53.3	50.9	52.5
NACM Manufacturing CMI	52.5	54.5	54.1	53.4	51.1	50.5	52.1	57.8	58.0	56.6	55.2	54.1
ISM Manufacturing PMI Not Seasonally Adjusted	49.8	51.5	48.4	47.7	50.4	51.2	51.0	48.7	48.6	52.0	51.7	
Seasonally Adjusted	50.3	50.7	49.7	50.5	55.2	53.9	50.5	46.2	45.4	49.4	49.8	

There are two positive factors in the manufacturing numbers. First, the decline in the index of 110 basis points this month was smaller than the 140-point drops in each of the prior two months. Second, the aggregate unfavorable factors trend has reversed its decline. The turnaround is because: fewer applications being rejected, suggesting better quality; fewer accounts sent to collection agencies; better aging of outstanding balances; fewer invoice deductions; and fewer bankruptcies.

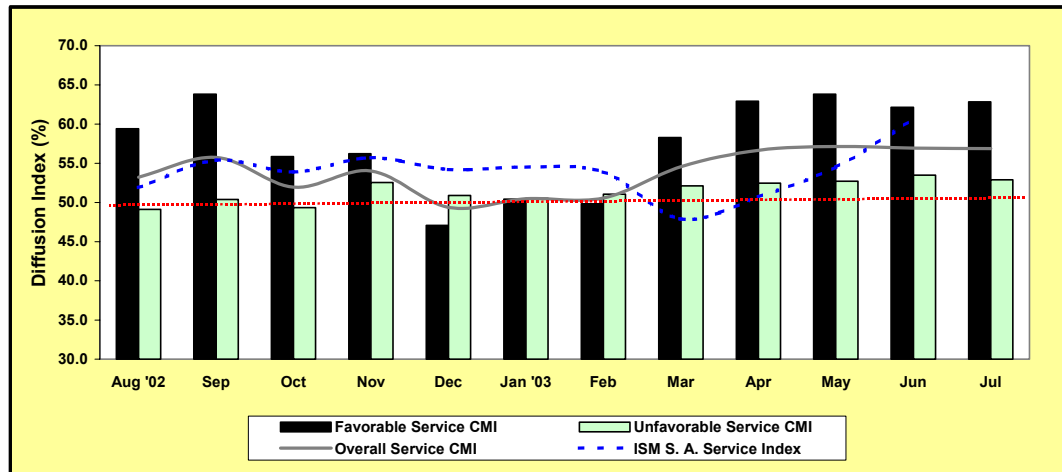


SERVICE SECTOR RESULTS

The service sector continues to be the strength of the economy. The “no change” in the index for July is a positive reading since June’s reading had declined versus May. Ignoring May’s number, June and July’s indices are the highest readings in the past 12 months. The data reveals a potential weakness for this sector. The index for “rejection of credit applications” is down, relative to both June and several prior months. Given that this is an unfavorable index, the interpretation is that July shows a greater proportion of rejections for trade credit relative to June, than June showed relative to May.

	Aug '02	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul
Sales	59.7	58.5	55.6	54.6	41.9	48.7	47.0	57.5	66.6	63.3	64.3	65.0
New credit applications	52.2	61.7	52.8	51.8	40.3	47.3	50.6	55.9	58.9	60.7	60.1	59.4
Dollar collections	67.4	64.9	55.4	59.1	52.8	52.3	47.6	60.6	59.6	64.1	58.9	58.2
Amount of credit extended	58.3	70.2	59.6	59.4	53.3	53.4	54.1	59.1	66.6	67.2	65.3	68.7
Index of favorable factors	59.4	63.8	55.9	56.2	47.1	50.4	49.8	58.3	62.9	63.8	62.2	62.8
Rejection of credit applications	52.7	51.1	49.2	50.8	55.2	53.2	51.6	50.2	50.6	47.2	52.8	49.3
Accounts placed for collections	49.5	50.0	48.3	54.7	48.4	50.0	50.0	53.3	50.6	52.4	53.4	52.2
Disputes	49.5	47.9	48.3	52.9	51.4	51.8	50.2	50.9	52.3	51.8	53.2	51.4
Dollar amount beyond terms	47.3	50.0	47.4	52.0	48.0	43.0	50.0	50.6	54.2	56.3	51.9	51.7
Dollar amount of customer deductions	48.3	51.1	50.8	51.1	51.9	51.8	49.8	52.4	52.7	53.6	54.1	54.1
Filings for bankruptcies	47.3	52.1	52.0	53.8	50.5	53.4	54.7	55.2	54.4	54.9	55.4	58.6
Index of unfavorable factors	49.1	50.4	49.3	52.6	50.9	50.5	51.1	52.1	52.5	52.7	53.5	52.9
NACM Service CMI	53.2	55.8	51.9	54.0	49.4	50.5	50.6	54.6	56.7	57.2	56.9	56.9
ISM Service Business Activity Index Not Seasonally Adjusted	50.0	56.5	52.5	56.5	51.5	49.5	54.5	49.5	54.5	56.5	63.5	
Seasonally Adjusted	51.9	55.4	53.9	55.7	54.2	54.5	53.9	47.9	50.7	54.5	60.6	

The following graph highlights the service sector's strong performance since the December low. With the exception of the increased rejections of trade credit applications, there is nothing in the data to suggest much change for the service sector in August.

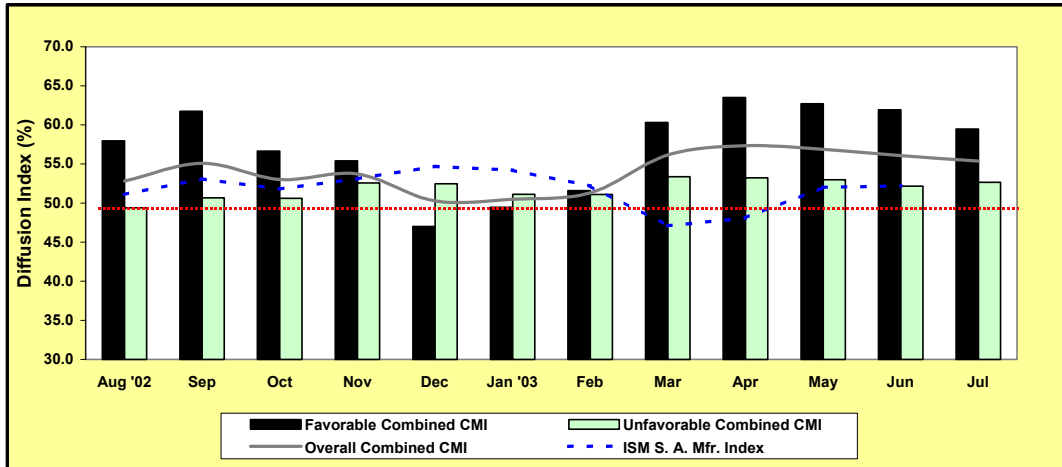


COMBINED SECTORS

July's equally weighted combined index is 55.4%, indicating economic growth. However, the index declined 70 basis points from June's level and is down 190 basis points since April's high. The index has declined for three consecutive months—due to slowing growth in the manufacturing sector, as discussed above.

(Not Seasonally Adjusted)		Aug '02	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun	Jul
Sales		58.0	61.1	55.3	54.0	42.2	49.1	50.9	62.2	67.0	61.9	62.1	60.1
New credit applications		52.4	58.1	51.4	50.3	41.7	45.3	52.7	55.6	58.5	58.1	58.4	54.2
Dollar collections		64.5	60.6	59.6	58.6	51.3	52.2	46.6	62.9	63.1	66.2	61.7	59.2
Amount of credit extended		56.9	67.2	60.3	58.7	52.8	51.3	56.2	60.6	65.4	64.6	65.5	64.4
Index of favorable factors		58.0	61.8	56.7	55.4	47.0	49.5	51.6	60.3	63.5	62.7	61.9	59.5
Rejection of credit applications		51.7	53.5	50.1	52.0	54.2	53.8	51.2	51.0	51.5	50.7	52.2	51.9
Accounts placed for collections		50.7	51.0	51.6	54.8	53.2	51.7	51.6	54.4	53.5	53.3	53.4	53.5
Disputes		50.7	48.5	48.9	51.0	53.1	50.0	48.9	52.1	51.2	50.5	51.1	49.6
Dollar amount beyond terms		48.3	46.5	49.2	53.2	50.1	46.0	50.7	54.0	56.1	55.9	50.8	50.9
Dollar amount of customer deductions		47.4	52.0	51.0	50.6	51.1	50.0	49.1	52.2	51.2	52.6	49.7	50.8
Filings for bankruptcies		47.6	52.5	52.8	53.9	53.1	55.3	55.1	56.6	55.8	54.9	55.8	59.2
Index of unfavorable factors		49.4	50.7	50.6	52.6	52.5	51.1	51.1	53.4	53.2	53.0	52.2	52.7
NACM Combined CMI		52.8	55.1	53.0	53.7	50.3	50.5	51.3	56.2	57.3	56.9	56.1	55.4
ISM Combined Sectors Index*	Not Seasonally Adjusted	49.9	54.0	50.5	52.1	51.0	50.4	52.8	49.1	51.6	54.3	57.6	
	Seasonally Adjusted	51.1	53.1	51.8	53.1	54.7	54.2	52.2	47.1	48.1	52.0	52.2	

*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.

Table 4: 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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