

NACM Credit Manager's Index

Report for June 2003

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 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

June '03	CMI-Total: 56.1	CMI-Manufacturing: 55.2	CMI-Service: 56.9
May '03	CMI-Total: 56.9	CMI-Manufacturing: 56.6	CMI-Service: 57.2
% Change	-1.4%	-2.5%	- 0.5%

The NACM Credit Manager's Index (CMI) continues to indicate growth in the economy. June's combined manufacturing and service sector reading of 56.1% eroded 1.4% (80 basis points) from last month. Although the economy is still showing strong improvement, month-over-month gains have slowed the past two months. The manufacturing sector's index has declined two consecutive months from its April high of 58.0%. The current reading of 55.2% represents growth, although it is abating somewhat. It is interesting to note that June is the first month since last December that the service sector has not shown a month-over-month increase in its index. However, the reading of 56.9% indicates that this sector is still quite strong.

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

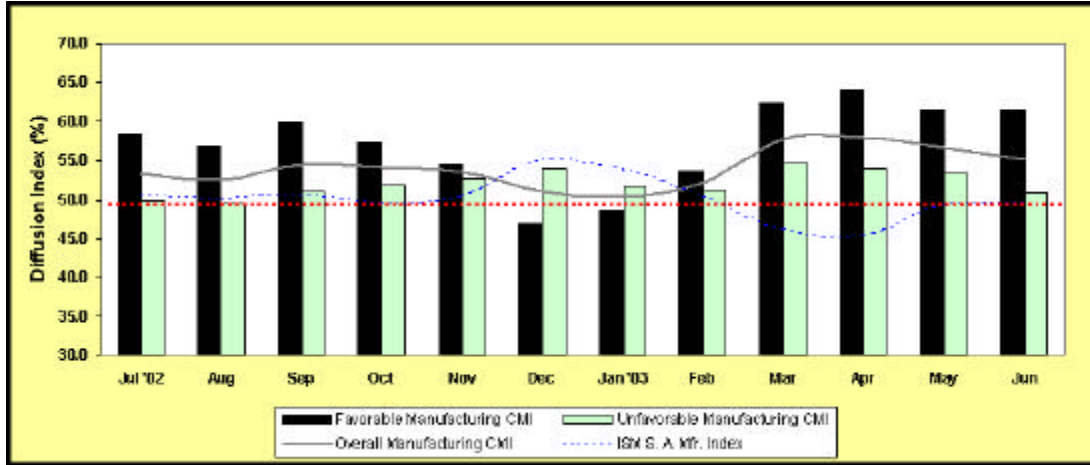
MANUFACTURING SECTOR RESULTS

Growth in the manufacturing sector continues, although at a slower pace than exhibited during the March through May period. The aggregate favorable manufacturing index was flat this month. Slowing in both sales growth and dollar collections was offset by improvements in new credit applications and amount of credit extended. Considering these factors together, it appears that the basis exists for continuing strength in July.

Table 1: Manufacturing Sector
 (Not Seasonally Adjusted)

	Jul '02	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun
Sales	59.1	56.7	63.5	55.0	53.4	42.4	49.4	55.2	67.0	67.3	60.5	59.8
New credit applications	40.9	52.5	54.8	50.0	48.7	42.9	43.6	55.1	55.3	58.2	55.6	56.7
Dollar collections	71.2	62.3	56.5	63.6	57.9	50.0	52.2	45.6	65.3	66.4	68.2	64.5
Amount of credit extended	62.5	55.9	64.4	60.9	58.0	52.3	49.6	58.4	62.2	64.2	62.0	65.8
Index of favorable factors	58.4	56.9	59.8	57.4	54.5	46.9	48.7	53.6	62.5	64.0	61.6	61.7
Rejection of credit applications	57.6	50.8	55.8	50.9	53.4	53.3	54.3	50.7	51.8	52.3	54.1	51.7
Accounts placed for collections	59.4	51.7	51.9	54.7	54.8	57.7	53.2	53.3	55.6	56.3	54.1	53.3
Disputes	32.8	51.7	49.0	49.6	49.0	54.6	48.5	47.6	53.3	50.2	49.3	49.0
Dollar amount beyond terms	51.6	49.2	43.3	51.0	54.4	52.0	48.5	51.5	57.5	58.0	55.6	49.8
Dollar amount of customer deductions	43.8	46.6	52.9	51.2	50.2	50.3	48.5	48.4	52.0	49.8	51.7	45.4
Filings for bankruptcies	54.7	47.9	52.9	53.6	54.0	55.4	56.9	55.5	58.1	57.0	55.0	56.3
Index of unfavorable factors	50.0	49.7	51.0	51.8	52.6	53.9	51.7	51.2	54.7	53.9	53.3	50.9
NACM Manufacturing CMI	53.4	52.5	54.5	54.1	53.4	51.1	50.5	52.1	57.8	58.0	56.6	55.2
ISM Manufacturing PMI												
Not Seasonally Adjusted	50.0	49.8	51.5	48.4	47.7	50.4	51.2	51.0	48.7	48.6	52.0	51.7
Seasonally Adjusted	50.7	50.3	50.7	49.7	50.5	55.2	53.9	50.5	46.2	45.4	49.4	49.8

There is a concern with the continuing deterioration in the aggregate unfavorable index. June's reading of 50.9% is practically neutral and is the third consecutive month of decline. Each factor included in the unfavorable index, except filings for bankruptcies, shows erosion from last month's reading. Balances beyond terms are longer and there is considerable increase in customer deductions. The unfavorable factors index—viewed as a credit crisis indicator—suggests that it is necessary for businesses to maintain close monitoring of accounts as the index slips towards neutral territory.



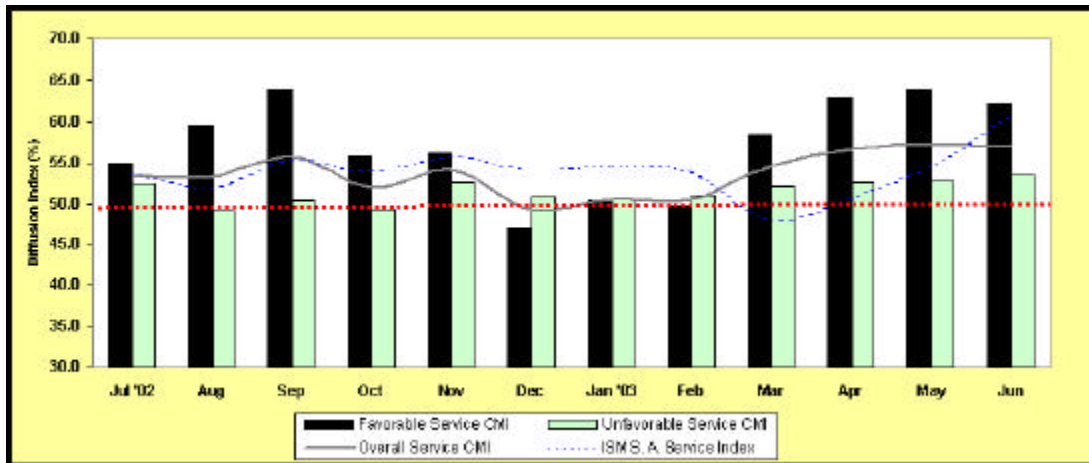
SERVICE SECTOR RESULTS

There appears to be little change in the economy's service sector for June, with the index falling 30 basis points. The major contributing factors were reduced dollar collections and increased aging of accounts. However, fewer rejections of credit applications, disputes and deductions soften the collection/terms effects. Five of the six unfavorable factors improved in June, indicating credit is readily available.

Table 2: Service Sector
(Not Seasonally Adjusted)

	Jul '02	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun
Sales	50.0	59.7	58.5	55.6	54.6	41.9	48.7	47.0	57.5	66.6	63.3	64.3
New credit applications	41.7	52.2	61.7	52.8	51.8	40.3	47.3	50.6	55.9	58.9	60.7	60.1
Dollar collections	66.0	67.4	64.9	55.4	59.1	52.8	52.3	47.6	60.6	59.6	64.1	58.9
Amount of credit extended	62.0	58.3	70.2	59.6	59.4	53.3	53.4	54.1	59.1	66.6	67.2	65.3
Index of favorable factors	54.9	59.4	63.8	55.9	56.2	47.1	50.4	49.8	58.3	62.9	63.8	62.2
Rejection of credit applications	46.0	52.7	51.1	49.2	50.8	55.2	53.2	51.6	50.2	50.6	47.2	52.8
Accounts placed for collections	50.0	49.5	50.0	48.3	54.7	48.4	50.0	50.0	53.3	50.6	52.4	53.4
Disputes	56.0	49.5	47.9	48.3	52.9	51.4	51.8	50.2	50.9	52.3	51.8	53.2
Dollar amount beyond terms	54.0	47.3	50.0	47.4	52.0	48.0	43.0	50.0	50.6	54.2	56.3	51.9
Dollar amount of customer deductions	52.1	48.3	51.1	50.8	51.1	51.9	51.8	49.8	52.4	52.7	53.6	54.1
Filings for bankruptcies	56.0	47.3	52.1	52.0	53.8	50.5	53.4	54.7	55.2	54.4	54.9	55.4
Index of unfavorable factors	52.4	49.1	50.4	49.3	52.6	50.9	50.5	51.1	52.1	52.5	52.7	53.5
NACM Service CMI	53.4	53.2	55.8	51.9	54.0	49.4	50.5	50.6	54.6	56.7	57.2	56.9
ISM Service Business Activity Index Not Seasonally Adjusted	52.0	50.0	56.5	52.5	56.5	51.5	49.5	54.5	49.5	54.5	56.5	63.5
Seasonally Adjusted	53.7	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. June's data suggests that the service sector should hover around its current level next month.



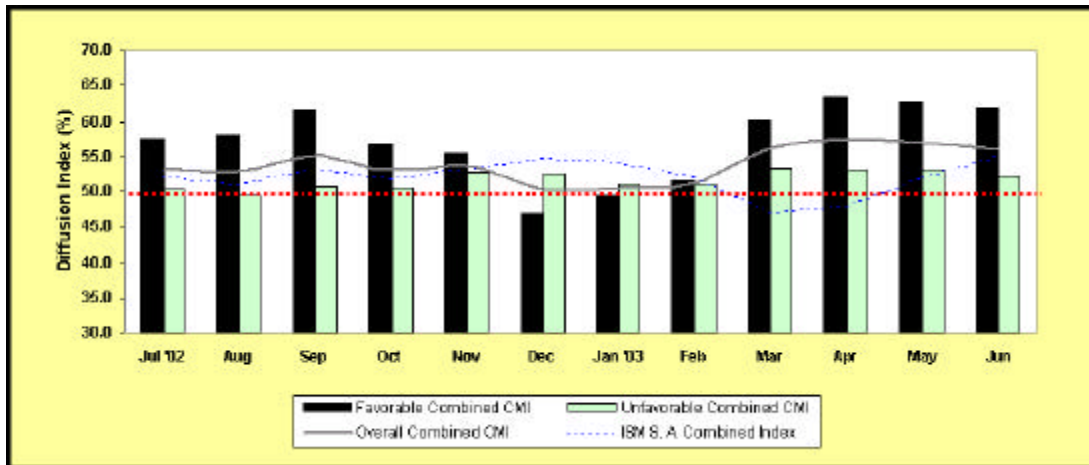
COMBINED SECTORS

June's equally weighted combined index declined 80 basis points to 56.1%. This is the second consecutive decline, indicating growth continues in the economy, but at a slower rate. Overall positive factors emerging in June are improvement in: sales, amount of credit extended and disputes. Negative factors are lower collections and a significantly increased aging of accounts.

Table 3: Combined Manufacturing & Service Sectors
(Not Seasonally Adjusted)

	Jul '02	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May	Jun
Sales	55.2	58.0	61.1	55.3	54.0	42.2	49.1	50.9	62.2	67.0	61.9	62.1
New credit applications	41.2	52.4	58.1	51.4	50.3	41.7	45.3	52.7	55.6	58.5	58.1	58.4
Dollar collections	69.0	64.5	60.6	59.6	58.6	51.3	52.2	46.6	62.9	63.1	66.2	61.7
Amount of credit extended	64.0	56.9	67.2	60.3	58.7	52.8	51.3	56.2	60.6	65.4	64.6	65.5
Index of favorable factors	57.4	58.0	61.8	56.7	55.4	47.0	49.5	51.6	60.3	63.5	62.7	61.9
Rejection of credit applications	52.6	51.7	53.5	50.1	52.0	54.2	53.8	51.2	51.0	51.5	50.7	52.2
Accounts placed for collections	55.3	50.7	51.0	51.6	54.8	53.2	51.7	51.6	54.4	53.5	53.3	53.4
Disputes	43.0	50.7	48.5	48.9	51.0	53.1	50.0	48.9	52.1	51.2	50.5	51.1
Dollar amount beyond terms	50.9	48.3	46.5	49.2	53.2	50.1	46.0	50.7	54.0	56.1	55.9	50.8
Dollar amount of customer deductions	45.5	47.4	52.0	51.0	50.6	51.1	50.0	49.1	52.2	51.2	52.6	49.7
Filings for bankruptcies	55.3	47.6	52.5	52.8	53.9	53.1	55.3	55.1	56.6	55.8	54.9	55.8
Index of unfavorable factors	50.4	49.4	50.7	50.6	52.6	52.5	51.1	51.1	53.4	53.2	53.0	52.2
NACM Combined CMI	53.2	52.8	55.1	53.0	53.7	50.3	50.5	51.3	56.2	57.3	56.9	56.1
ISM Combined Sectors Index* Not Seasonally Adjusted	51.0	49.9	54.0	50.5	52.1	51.0	50.4	52.8	49.1	51.6	54.3	57.6
Seasonally Adjusted	52.2	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.

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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