

NACM Credit Manager's Index

Report for March 2003

Issued April 1, 2003
 National Association of Credit Management
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March '03	CMI-Total: 56.2	CMI-Manufacturing: 57.8	CMI-Service: 54.6
February '03	CMI-Total: 51.3	CMI-Manufacturing: 52.1	CMI-Service: 50.6
% Change	9.6%	10.9%	7.9%

The latest results for the NACM credit manager's index (CMI) indicate significant improvement in business activity for March, relative to February's performance. Overall, the economy continues to show improvement since the December-January period. The manufacturing sector has gotten stronger in each of the past two months, whereas the service sector has shown three consecutive months of improving performance. It has been a year since the NACM credit indices have seen month-over-month improvement of these magnitudes. It is also encouraging to note that each factor included in deriving the sector indices shows improvement from its level of last month.

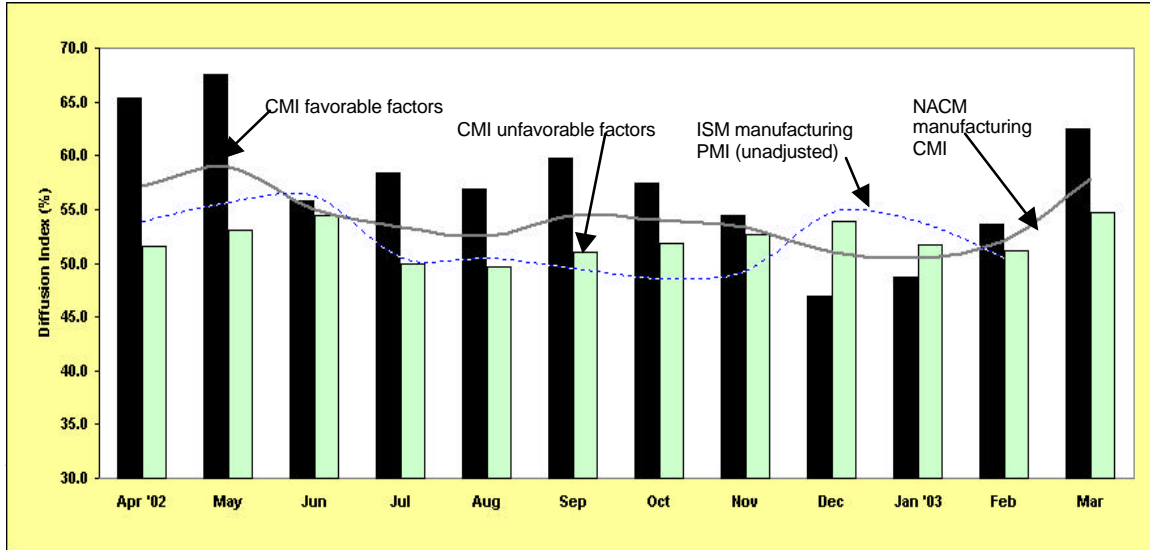
See the last page of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

There are several encouraging signs in this latest report for the manufacturing sector, as shown in the following table and graph. For three consecutive months, there has been improvement in the strength of month-over-month performance for sales and new credit applications. For two consecutive months, month-over-month improvements have been realized for the amount of credit extended, accounts placed for collections, disputes, and accounts receivable beyond terms. The indices are suggesting month-over-month strength that hasn't been seen since the May-June period of 2002.

Manufacturing Sector (Not Seasonally Adjusted)

	Apr '02	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar
Sales	73.7	74.4	53.4	59.1	56.7	63.5	55.0	53.4	42.4	49.4	55.2	67.0
New credit applications	53.9	57.6	50.0	40.9	52.5	54.8	50.0	48.7	42.9	43.6	55.1	55.3
Dollar collections	68.9	69.0	62.1	71.2	62.3	56.5	63.6	57.9	50.0	52.2	45.6	65.3
Amount of credit extended	64.9	69.4	57.8	62.5	55.9	64.4	60.9	58.0	52.3	49.6	58.4	62.2
Index of favorable factors	65.4	67.6	55.8	58.4	56.9	59.8	57.4	54.5	46.9	48.7	53.6	62.5
Rejection of credit applications	56.6	54.4	50.0	57.6	50.8	55.8	50.9	53.4	53.3	54.3	50.7	51.8
Accounts placed for collections	54.1	51.9	57.9	59.4	51.7	51.9	54.7	54.8	57.7	53.2	53.3	55.6
Disputes	46.1	48.1	52.6	32.8	51.7	49.0	49.6	49.0	54.6	48.5	47.6	53.3
Dollar amount beyond terms	57.1	60.1	56.0	51.6	49.2	43.3	51.0	54.4	52.0	48.5	51.5	57.5
Dollar amount of customer deductions	45.8	49.4	48.3	43.8	46.6	52.9	51.2	50.2	50.3	48.5	48.4	52.0
Filings for bankruptcies	50.0	54.5	62.1	54.7	47.9	52.9	53.6	54.0	55.4	56.9	55.5	58.1
Index of unfavorable factors	51.6	53.1	54.5	50.0	49.7	51.0	51.8	52.6	53.9	51.7	51.2	54.7
NACM Manufacturing CMI	57.1	58.9	55.0	53.4	52.5	54.5	54.1	53.4	51.1	50.5	52.1	57.8
ISM Manufacturing PMI	53.9	55.7	56.2	50.5	50.5	49.5	48.5	49.2	54.7	53.9	50.5	



The March results indicate a reversal in the decline for the aggregate CMI unfavorable factors. Stated differently, there has been improvement in negative factors, with all components contributing to this performance. It is particularly encouraging to see that the frequency of monthly bankruptcy filings in the manufacturing sector continue to decline, month-over-month, as indicated by the continuing strength in this component of the unfavorable index. A couple of other noteworthy factors are the significant improvements in disputes and customer deductions—there are fewer of both.

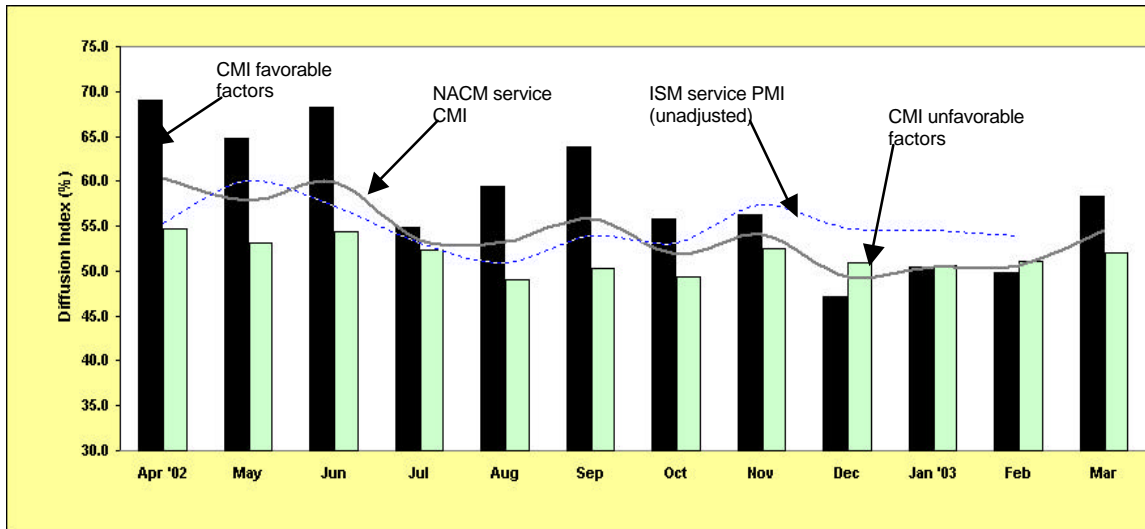
SERVICE SECTOR RESULTS

The service sector has also realized significant improvements this month, although not quite as strong as found in the manufacturing sector. The March sales index made a significant turnaround, jumping almost 10 points. However, more importantly, March's sales index pierced the 50% level, indicating real growth for the month. The prior three months had negative month-over-month sales growth. Another encouraging factor is three consecutive months of continuing improvement for new credit applications, amount of credit extended, accounts placed for collections, and filings for bankruptcies.

Service Sector

(Not Seasonally Adjusted)

	Apr '02	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar
Sales	72.9	75.0	70.5	50.0	59.7	58.5	55.6	54.6	41.9	48.7	47.0	57.5
New credit applications	66.7	46.5	57.7	41.7	52.2	61.7	52.8	51.8	40.3	47.3	50.6	55.9
Dollar collections	67.1	66.7	74.2	66.0	67.4	64.9	55.4	59.1	52.8	52.3	47.6	60.6
Amount of credit extended	69.4	70.9	70.5	62.0	58.3	70.2	59.6	59.4	53.3	53.4	54.1	59.1
Index of favorable factors	69.0	64.8	68.2	54.9	59.4	63.8	55.9	56.2	47.1	50.4	49.8	58.3
Rejection of credit applications	56.9	48.2	50.8	46.0	52.7	51.1	49.2	50.8	55.2	53.2	51.6	50.2
Accounts placed for collections	54.2	46.5	55.3	50.0	49.5	50.0	48.3	54.7	48.4	50.0	50.0	53.3
Disputes	50.0	53.6	53.9	56.0	49.5	47.9	48.3	52.9	51.4	51.8	50.2	50.9
Dollar amount beyond terms	61.4	61.4	53.0	54.0	47.3	50.0	47.4	52.0	48.0	43.0	50.0	50.6
Dollar amount of customer deductions	48.6	52.7	54.7	52.1	48.3	51.1	50.8	51.1	51.9	51.8	49.8	52.4
Filings for bankruptcies	56.9	56.4	59.1	56.0	47.3	52.1	52.0	53.8	50.5	53.4	54.7	55.2
Index of unfavorable factors	54.7	53.1	54.5	52.4	49.1	50.4	49.3	52.6	50.9	50.5	51.1	52.1
NACM Service CMI	60.4	57.8	60.0	53.4	53.2	55.8	51.9	54.0	49.4	50.5	50.6	54.6
ISM Service PMI	55.3	60.1	57.2	53.1	50.9	53.9	53.1	57.4	54.7	54.5	53.9	



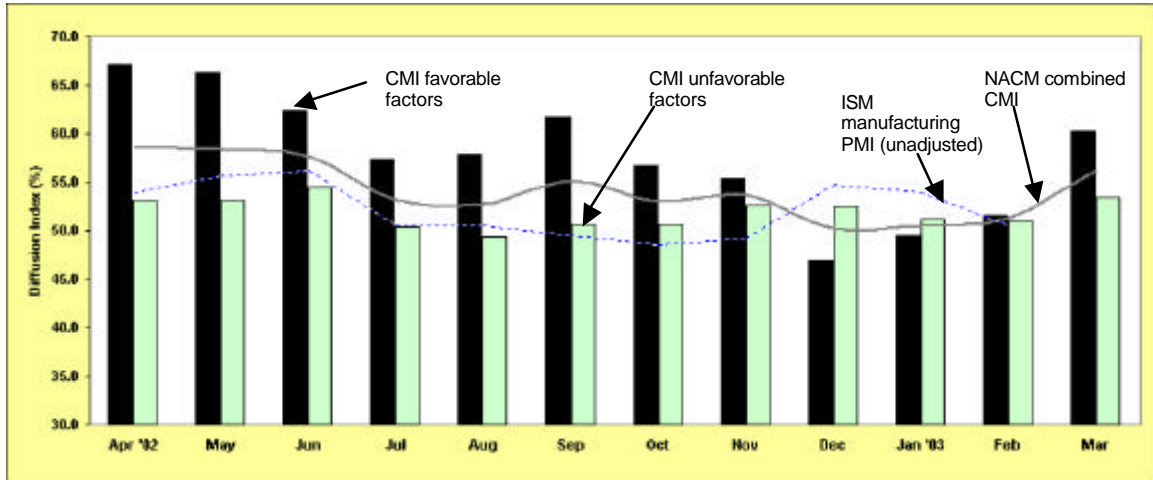
COMBINED SECTORS

The following table and graph depict results from an aggregation of the two sectors. The favorable factors continue to improve and stand at 60.3%—up 28% from December’s low of 47.0%. The single most important favorable factor continues to be improving sales. This level of month-over-month improvement was last realized in September 2002. The index for the unfavorable factors continues to show reasonably consistent performance each month.

Manufacturing & Service Sectors

(Not Seasonally Adjusted)

	Apr '02	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar
Sales	73.3	74.6	62.5	55.2	58.0	61.1	55.3	54.0	42.2	49.1	50.9	62.2
New credit applications	60.1	52.9	54.1	41.2	52.4	58.1	51.4	50.3	41.7	45.3	52.7	55.6
Dollar collections	68.1	68.0	68.5	69.0	64.5	60.6	59.6	58.6	51.3	52.2	46.6	62.9
Amount of credit extended	67.1	70.0	64.5	64.0	56.9	67.2	60.3	58.7	52.8	51.3	56.2	60.6
Index of favorable factors	67.2	66.4	62.4	57.4	58.0	61.8	56.7	55.4	47.0	49.5	51.6	60.3
Rejection of credit applications	56.8	51.8	50.4	52.6	51.7	53.5	50.1	52.0	54.2	53.8	51.2	51.0
Accounts placed for collections	54.1	49.6	56.5	55.3	50.7	51.0	51.6	54.8	53.2	51.7	51.6	54.4
Disputes	48.0	50.4	53.3	43.0	50.7	48.5	48.9	51.0	53.1	50.0	48.9	52.1
Dollar amount beyond terms	59.3	60.7	54.4	50.9	48.3	46.5	49.2	53.2	50.1	46.0	50.7	54.0
Dollar amount of customer deductions	47.2	50.8	51.6	45.5	47.4	52.0	51.0	50.6	51.1	50.0	49.1	52.2
Filings for bankruptcies	53.4	55.3	60.5	55.3	47.6	52.5	52.8	53.9	53.1	55.3	55.1	56.6
Index of unfavorable factors	53.1	53.1	54.5	50.4	49.4	50.7	50.6	52.6	52.5	51.1	51.1	53.4
NACM Combined CMI	58.7	58.4	57.6	53.2	52.8	55.1	53.0	53.7	50.3	50.5	51.3	56.2
ISM Manufacturing PMI	53.9	55.7	56.2	50.5	50.5	49.5	48.5	49.2	54.7	53.9	50.5	



The results captured by this latest survey, indicate positive underlying performance is happening in the economy—in both the manufacturing and service sectors. So, what are the negatives? A major concern continues to be the Iraqi conflict. Do these results capture a changing mood in the country? In an effort to address this question, March's responses were separated into two periods, prior to March 22/23 and after this period. The prior period was early in the conflict and a period of extremely positive news. Since then, there has been much attention to a long drawn out conflict. There are no significant differences in the results for the prior and post periods. Maybe the anxiety about a long conflict with Iraq, repeatedly being stated now by newscasts, will be captured by April's survey. It will be interesting to see how the economy reacts to the Iraqi war.

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 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, Idaho.

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. 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.

Table: Factors Making Up the Diffusion Index

Favorable Factor	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.

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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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