

NACM Credit Manager's Index

Report for May 2003

Issued June 2, 2003
National Association of Credit Management
8840 Columbia 100 Parkway
Columbia, MD 21045-2158

May '03	CMI-Total: 56.9	CMI-Manufacturing: 56.6	CMI-Service: 57.2
April '03	CMI-Total: 57.3	CMI-Manufacturing: 58.0	CMI-Service: 56.7
% Change	-0.7%	-2.4%	0.9%

NACM Credit Manager's Index (CMI) continues to indicate that growth is occurring in the economy. The latest result of 56.9%, although down 40 basis points from last month's result, is still stronger than any reading during the period July 2002 to March 2003. The small decline was due to slower growth in the manufacturing sector, which saw its index fall by 140 basis points, or 2.4%. However, a reading over 50% indicates an economy that is generally expanding and the manufacturing index of 56.6% certainly meets the expansion criterion. The service sector improved for the fifth consecutive month. Since its December 2002 low of 49.4%, the service index has increased 780 basis points and now stands at 57.2%. For this same period of time, the manufacturing sector has increased 550 basis points.

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

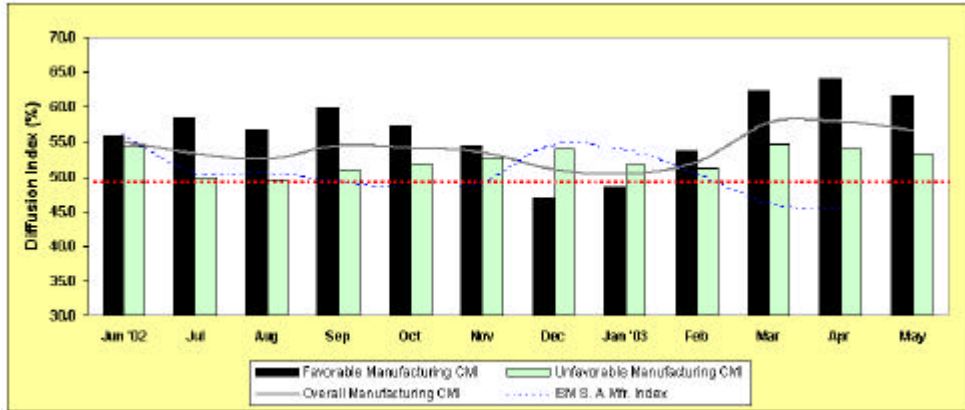
MANUFACTURING SECTOR RESULTS

The manufacturing sector continues to exhibit underlying strength with a score of 56.6%, although growth in May was less robust than occurred during the prior two months. The decline in the index is primarily attributable to erosion in the sales index. It fell 680 basis points in May—a 10.1% decrease. However, it is still quite strong at 60.5%. A reason for lack of alarm about the sales index decline is there is underlying strength in new credit applications and amount of credit extended. Both indices maintained or beat their growth levels realized in February and March.

	Jun '02	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May
Sales	53.4	59.1	56.7	63.5	55.0	53.4	42.4	49.4	55.2	67.0	67.3	60.5
New credit applications	50.0	40.9	52.5	54.8	50.0	48.7	42.9	43.6	55.1	55.3	58.2	55.6
Dollar collections	62.1	71.2	62.3	56.5	63.6	57.9	50.0	52.2	45.6	65.3	66.4	68.2
Amount of credit extended	57.8	62.5	55.9	64.4	60.9	58.0	52.3	49.6	58.4	62.2	64.2	62.0
Index of favorable factors	55.8	58.4	56.9	59.8	57.4	54.5	46.9	48.7	53.6	62.5	64.0	61.6
Rejection of credit applications	50.0	57.6	50.8	55.8	50.9	53.4	53.3	54.3	50.7	51.8	52.3	54.1
Accounts placed for collections	57.9	59.4	51.7	51.9	54.7	54.8	57.7	53.2	53.3	55.6	56.3	54.1
Disputes	52.6	32.8	51.7	49.0	49.6	49.0	54.6	48.5	47.6	53.3	50.2	49.3
Dollar amount beyond terms	56.0	51.6	49.2	43.3	51.0	54.4	52.0	48.5	51.5	57.5	58.0	55.6
Dollar amount of customer deductions	48.3	43.8	46.6	52.9	51.2	50.2	50.3	48.5	48.4	52.0	49.8	51.7
Filings for bankruptcies	62.1	54.7	47.9	52.9	53.6	54.0	55.4	56.9	55.5	58.1	57.0	55.0
Index of unfavorable factors	54.5	50.0	49.7	51.0	51.8	52.6	53.9	51.7	51.2	54.7	53.9	53.3
NACM Manufacturing CMI	55.0	53.4	52.5	54.5	54.1	53.4	51.1	50.5	52.1	57.8	58.0	56.6
ISM Manufacturing PMI Not Seasonally Adjusted	57.3	50.0	49.8	51.5	48.4	47.7	50.4	51.2	51.0	48.7	48.6	
Seasonally Adjusted	55.2	50.7	50.3	50.7	49.7	50.5	55.2	53.9	50.5	46.2	45.4	

The unfavorable factors index fell 60 basis points. The index has declined for two consecutive months. However, its reading of 53.3% is 100 basis points better than the average for the past 12-month period.

Overall, the level of dollar collections remains excellent—reaching its highest level since July 2002. There are some minor issues to monitor. Aging of accounts, while still favorable, has lengthened, as shown by the decline in the index from 58.0% to 55.6% for dollar amount beyond terms. Customer disputes have increased, reflected by the index changing from 50.2% to 49.3%. However, offsetting this latter decline is the 190 basis points improvement in customer deductions.



The above graph provides a visual perspective of the manufacturing sector. The favorable factors index, which can be viewed as a credit opportunity indicator, continues to sustain its strong improvement over its December low. When you couple this performance with the strength exhibited by the unfavorable factors index, which can be viewed as a credit crisis indicator, you have strength in the manufacturing sector that hasn't been seen since May 2002.

SERVICE SECTOR RESULTS

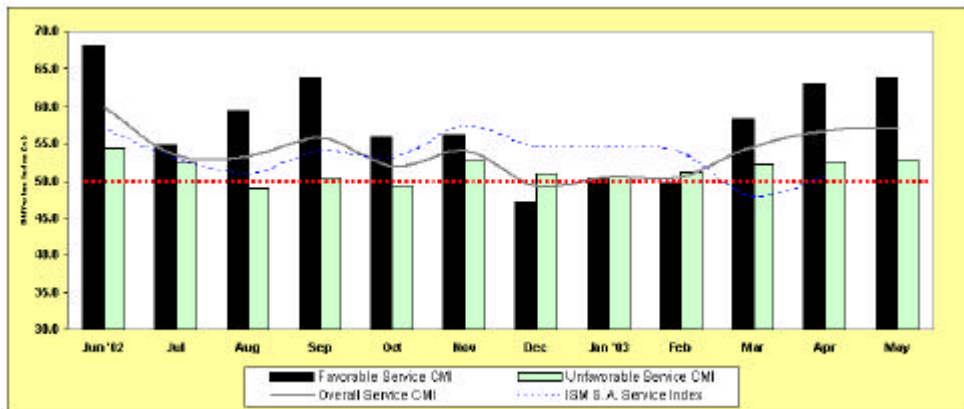
The economy's service sector has had five consecutive months of improvement, advancing 780 basis points since the December low of 49.4%, to now stand at 57.2%. Similar to April's performance, seven of 10 indicators improved in May. The result was that both the favorable and unfavorable indicators showed improvement. The service sector continues to be a growth engine for this economy.

The sales index fell 330 basis points, but is still at a very strong level of 63.3%. This decline was more than offset by improving dollar collections. Rejection of credit applications increased, as evidenced by the decline in the index from 50.6% to 47.2%. More marginal customers are seeking credit, which leads to higher rejections. Favorable improvements are noted for accounts placed for collections (fewer were) and a decrease in accounts with balances beyond terms.

The graph found on the next page highlights the service sector's improvement since its December low. Given the decrease in the growth rate for sales, the service index is expected to level off or decline slightly next month.

Table 2: Service Sector
(Not Seasonally Adjusted)

	Jun '02	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May
Sales	70.5	50.0	59.7	58.5	55.6	54.6	41.9	48.7	47.0	57.5	66.6	63.3
New credit applications	57.7	41.7	52.2	61.7	52.8	51.8	40.3	47.3	50.6	55.9	58.9	60.7
Dollar collections	74.2	66.0	67.4	64.9	55.4	59.1	52.8	52.3	47.6	60.6	59.6	64.1
Amount of credit extended	70.5	62.0	58.3	70.2	59.6	59.4	53.3	53.4	54.1	59.1	66.6	67.2
Index of favorable factors	68.2	54.9	59.4	63.8	55.9	56.2	47.1	50.4	49.8	58.3	62.9	63.8
Rejection of credit applications	50.8	46.0	52.7	51.1	49.2	50.8	55.2	53.2	51.6	50.2	50.6	47.2
Accounts placed for collections	55.3	50.0	49.5	50.0	48.3	54.7	48.4	50.0	50.0	53.3	50.6	52.4
Disputes	53.9	56.0	49.5	47.9	48.3	52.9	51.4	51.8	50.2	50.9	52.3	51.8
Dollar amount beyond terms	53.0	54.0	47.3	50.0	47.4	52.0	48.0	43.0	50.0	50.6	54.2	56.3
Dollar amount of customer deductions	54.7	52.1	48.3	51.1	50.8	51.1	51.9	51.8	49.8	52.4	52.7	53.6
Filings for bankruptcies	59.1	56.0	47.3	52.1	52.0	53.8	50.5	53.4	54.7	55.2	54.4	54.9
Index of unfavorable factors	54.5	52.4	49.1	50.4	49.3	52.6	50.9	50.5	51.1	52.1	52.5	52.7
NACM Service CMI	60.0	53.4	53.2	55.8	51.9	54.0	49.4	50.5	50.6	54.6	56.7	57.2
ISM Service Business Activity Index Not Seasonally Adjusted	60.0	52.0	50.0	56.5	52.5	56.5	51.5	49.5	54.5	49.5	54.5	
Seasonally Adjusted	57.4	53.7	51.9	55.4	53.9	55.7	54.2	54.5	53.9	47.9	50.7	

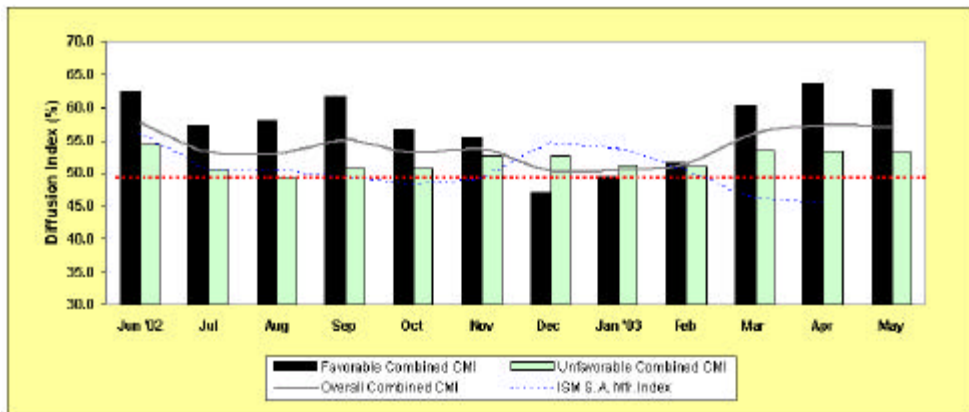


COMBINED SECTORS

The equally weighted combined index for May declined 40 basis points to 56.9%. Other than April's reading of 57.3%, May's result represents the highest level attained since June 2002. It also indicates positive underlying performance continues in the economy—in both the manufacturing and service sectors. The bottom line is that the economy is improving.

Table 3: Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Jun '02	Jul	Aug	Sep	Oct	Nov	Dec	Jan '03	Feb	Mar	Apr	May
Sales	62.5	55.2	58.0	61.1	55.3	54.0	42.2	49.1	50.9	62.2	67.0	61.9
New credit applications	54.1	41.2	52.4	58.1	51.4	50.3	41.7	45.3	52.7	55.6	58.5	58.1
Dollar collections	68.5	69.0	64.5	60.6	59.6	58.6	51.3	52.2	46.6	62.9	63.1	66.2
Amount of credit extended	64.5	64.0	56.9	67.2	60.3	58.7	52.8	51.3	56.2	60.6	65.4	64.6
Index of favorable factors	62.4	57.4	58.0	61.8	56.7	55.4	47.0	49.5	51.6	60.3	63.5	62.7
Rejection of credit applications	50.4	52.6	51.7	53.5	50.1	52.0	54.2	53.8	51.2	51.0	51.5	50.7
Accounts placed for collections	56.5	55.3	50.7	51.0	51.6	54.8	53.2	51.7	51.6	54.4	53.5	53.3
Disputes	53.3	43.0	50.7	48.5	48.9	51.0	53.1	50.0	48.9	52.1	51.2	50.5
Dollar amount beyond terms	54.4	50.9	48.3	46.5	49.2	53.2	50.1	46.0	50.7	54.0	56.1	55.9
Dollar amount of customer deductions	51.6	45.5	47.4	52.0	51.0	50.6	51.1	50.0	49.1	52.2	51.2	52.6
Filings for bankruptcies	60.5	55.3	47.6	52.5	52.8	53.9	53.1	55.3	55.1	56.6	55.8	54.9
Index of unfavorable factors	54.5	50.4	49.4	50.7	50.6	52.6	52.5	51.1	51.1	53.4	53.2	53.0
NACM Combined CMI	57.6	53.2	52.8	55.1	53.0	53.7	50.3	50.5	51.3	56.2	57.3	56.9
ISM Combined Sectors Index* Not Seasonally Adjusted	58.7	51.0	49.9	54.0	50.5	52.1	51.0	50.4	52.8	49.1	51.6	
Seasonally Adjusted	56.3	52.2	51.1	53.1	51.8	53.1	54.7	54.2	52.2	47.1	48.1	

*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 approximately 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.

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 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.

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