

NACM Credit Manager's Index

Report for December 2004

Issued January 3, 2005
National Association of Credit Management
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December '04	CMI-Total: 55.0	CMI-Manufacturing: 55.1	CMI-Service: 54.9
November '04	CMI-Total: 56.2	CMI-Manufacturing: 57.0	CMI-Service: 55.3
% Change	-2.14%	-3.33%	-0.72%

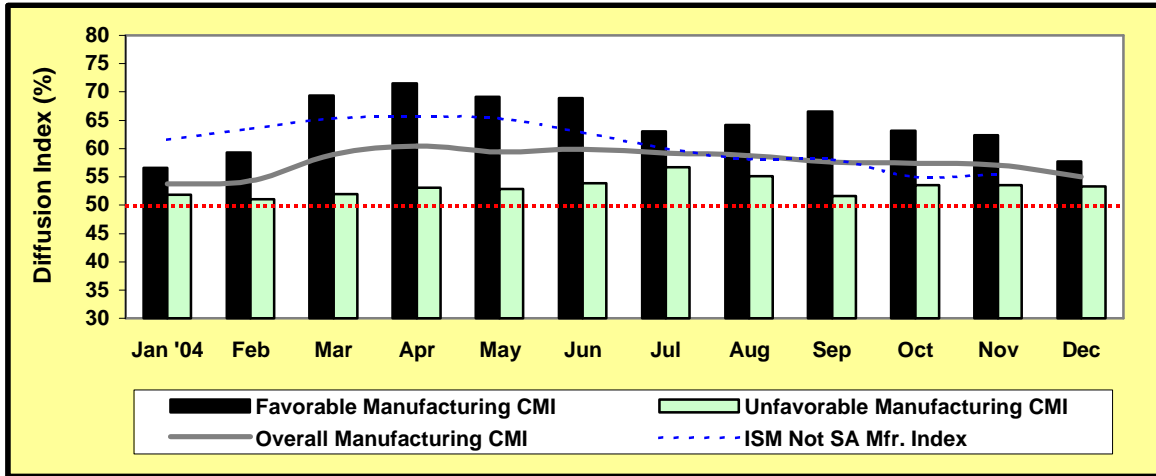
There continues to be slight erosion in month-over-month growth; however, the economy continues to grow. To provide a year-over-year perspective, review the table on page 4. It shows a comparison of December 2004 data to that of December 2003. The results reveal stronger December performance this year in the manufacturer sector and slightly weaker results for the service component.

This month, the plots for ISM indices have been changed from seasonally adjusted to not seasonally adjusted to have a better comparison of the NACM and ISM indices. 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 index has declined for six consecutive months. The most significant causes of the almost two point decline in the index for December are from "sales" falling from 64.1 to 57.6 and "new credit applications" falling from 58.8 to 49.0. However, these declines are not reason for alarm. They appear to be seasonal effects. December's month-over-month growth in manufacturing is stronger than it was at this time one year ago (see the table on page 4). Growth is also stronger than it was during January and February of this year, as shown in the following table. The bottom line is that this sector is expected to continue its growth in 2005, at least during the early months.

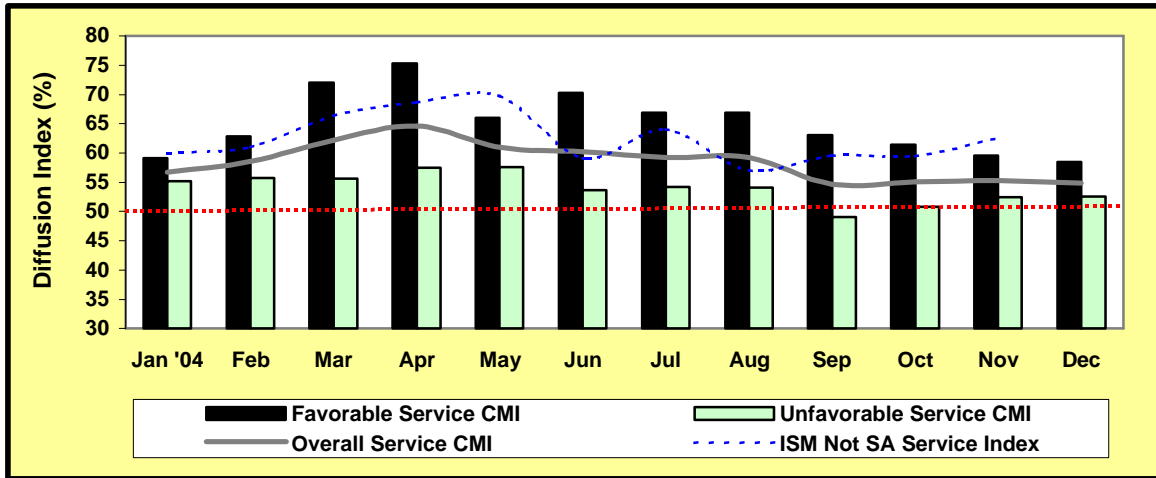
Manufacturing Sector												
(Not Seasonally Adjusted)												
	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	56.8	63.2	75.5	78.4	75.2	71.7	64.5	69.3	68.8	64.8	64.1	57.6
New credit applications	53.5	58.9	63.8	63.6	59.4	60.8	56.4	55.9	61.3	59.7	58.8	49.0
Dollar collections	60.0	51.1	65.3	70.9	70.4	71.7	66.8	63.7	66.7	65.7	61.0	61.5
Amount of credit extended	55.9	63.8	72.9	73.0	71.6	71.3	64.4	67.9	69.1	62.3	65.3	62.8
Index of favorable factors	56.6	59.3	69.4	71.5	69.2	68.9	63.0	64.2	66.5	63.1	62.3	57.7
Rejection of credit applications	51.6	51.9	50.0	51.7	51.9	53.8	52.0	55.1	53.4	51.2	54.8	55.1
Accounts placed for collections	54.6	54.8	53.7	54.0	53.1	58.0	60.3	56.7	51.7	56.9	56.5	57.1
Disputes	47.7	45.4	49.5	46.2	49.3	49.4	51.5	49.4	46.9	50.0	50.7	49.5
Dollar amount beyond terms	51.1	49.2	51.6	58.1	56.2	51.8	60.6	58.0	52.6	55.2	52.3	53.2
Dollar amount of customer deductions	49.5	46.5	48.9	48.3	47.6	48.4	52.3	50.6	46.9	50.2	47.9	47.0
Filings for bankruptcies	56.8	58.4	58.0	60.5	59.2	62.0	63.4	60.7	58.4	57.9	59.0	57.7
Index of unfavorable factors	51.9	51.0	52.0	53.1	52.9	53.9	56.7	55.1	51.7	53.6	53.5	53.3
NACM Manufacturing CMI	53.8	54.3	58.9	60.5	59.4	59.9	59.2	58.7	57.6	57.4	57.0	55.1
ISM Manufacturing PMI												
Not Seasonally Adjusted	61.6	63.5	65.3	65.6	65.3	62.8	60.0	58.1	58.1	55.0	55.5	
Seasonally Adjusted, Reported	63.6	61.4	62.5	62.4	62.8	61.1	62.0	59.0	58.5	56.8	57.8	



SERVICE SECTOR RESULTS

A comparison of December's results to November's reveals slight erosion in month-over-month growth in the service sector. The decline is insignificant. A more interesting comparison is December 2004 to December 2003 (see the table on page 4). The overall growth index for December 2004 is down 110 basis points relative to last year. The reasons are: an increase in accounts placed for collections, an increase in account balances beyond terms and slower growth in extension of credit. In combination, it appears that the service sector is looking at increasingly less creditworthy (i.e., more marginal) accounts to increase growth.

Service Sector												
(Not Seasonally Adjusted)												
	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	59.2	66.3	79.6	79.6	71.0	72.9	67.1	68.9	64.0	61.8	60.8	59.0
New credit applications	55.9	62.1	68.0	71.9	61.2	64.9	57.7	63.4	60.1	54.9	55.1	54.2
Dollar collections	58.9	59.4	66.7	72.8	61.6	70.8	75.5	64.1	64.0	63.7	59.0	60.8
Amount of credit extended	62.4	63.7	73.7	77.1	70.2	72.4	67.2	71.4	64.2	65.1	63.5	59.7
Index of favorable factors	59.1	62.9	72.0	75.4	66.0	70.3	66.9	67.0	63.1	61.4	59.6	58.4
Rejection of credit applications	51.8	51.9	54.2	49.4	54.5	50.0	53.4	51.7	49.8	50.2	54.5	54.9
Accounts placed for collections	52.5	56.4	53.1	54.1	58.3	52.5	52.5	56.3	51.7	51.2	50.5	48.2
Disputes	56.8	57.0	53.4	55.7	56.6	51.9	51.2	49.6	47.8	51.9	50.8	55.2
Dollar amount beyond terms	54.3	54.4	58.4	65.7	58.8	53.2	54.0	55.6	45.8	45.2	49.0	46.4
Dollar amount of customer deductions	54.1	54.8	55.1	57.6	53.2	51.3	51.6	49.4	46.5	47.1	48.0	51.0
Filings for bankruptcies	61.6	59.9	59.9	62.6	64.2	62.8	62.4	61.7	53.0	59.4	61.8	59.4
Index of unfavorable factors	55.2	55.7	55.7	57.5	57.6	53.6	54.2	54.1	49.1	50.8	52.4	52.5
NACM Service CMI	56.8	58.6	62.2	64.7	61.0	60.3	59.3	59.2	54.7	55.1	55.3	54.9
ISM Service Business Activity Index												
Not Seasonally Adjusted	60.0	61.0	66.4	68.7	69.7	59.1	64.0	57.0	59.5	59.5	62.5	
Seasonally Adjusted, Reported	65.7	60.8	65.8	68.4	65.2	59.9	64.8	58.2	56.7	59.8	61.3	

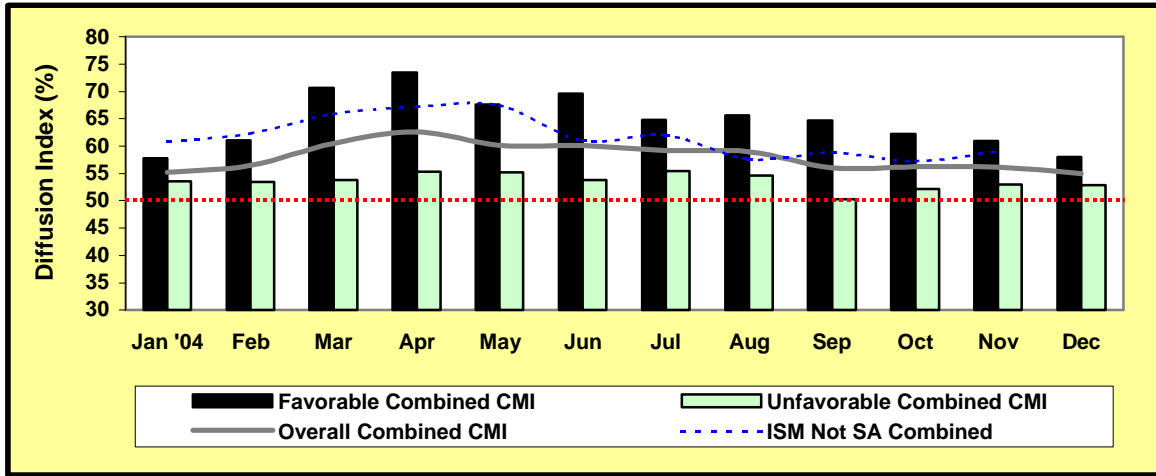


COMBINED SECTORS

The December decline in the index appears to be primarily caused by seasonal influences. The results compare favorably with those of a year ago (see the table on page 4). The only factors showing erosion from a year ago are deductions and bankruptcies, and neither of these exhibit significance declines. The survey results suggest continuing growth in the economy for 2005.

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Jan '04	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	58.0	64.7	77.5	79.0	73.1	72.3	65.7	69.1	66.2	63.3	62.5	58.3
New credit applications	54.7	60.5	65.8	67.8	60.3	62.8	57.0	59.8	60.7	57.3	57.0	51.5
Dollar collections	59.5	55.2	65.9	71.9	66.0	71.3	71.0	63.9	65.3	64.7	60.1	61.1
Amount of credit extended	59.1	63.7	73.3	75.1	70.9	71.8	65.7	69.7	66.5	63.7	64.4	61.3
Index of favorable factors	57.8	61.0	70.6	73.5	67.6	69.6	64.9	65.6	64.7	62.3	61.0	58.1
Rejection of credit applications	51.7	51.9	52.0	50.6	53.2	52.0	52.7	53.4	51.5	50.7	54.7	55.0
Accounts placed for collections	53.5	55.6	53.4	54.1	55.7	55.3	56.5	56.5	51.7	54.1	53.6	52.8
Disputes	52.3	51.2	51.4	51.0	53.0	50.6	51.3	49.5	47.3	51.0	50.7	52.3
Dollar amount beyond terms	52.7	51.8	54.9	62.0	57.5	52.5	57.3	56.8	48.9	50.2	50.7	49.9
Dollar amount of customer deductions	51.8	50.7	51.9	53.0	50.5	49.8	51.9	50.0	46.7	48.7	47.9	49.0
Filings for bankruptcies	59.2	59.2	58.9	61.5	61.6	62.4	62.9	61.2	55.5	58.6	60.4	58.5
Index of unfavorable factors	53.5	53.4	53.8	55.4	55.3	53.8	55.4	54.6	50.3	52.2	53.0	52.9
NACM Combined CMI	55.3	56.5	60.5	62.6	60.2	60.1	59.2	59.0	56.0	56.2	56.2	55.0
ISM Combined Sectors Index*												
Not Seasonally Adjusted	60.8	62.3	65.9	67.2	67.5	61.0	62.0	57.6	58.8	57.3	59.0	
Seasonally Adjusted, Reported	64.7	61.1	64.2	65.4	64.0	60.5	63.4	58.6	57.6	58.3	59.6	

*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.



COMPARISON OF DECEMBER 2004 TO DECEMBER 2003

Review the following table for a brief glimpse of year-over-year comparisons. The manufacturing sector is stronger on all dimensions except disputes and deductions. However, the differences aren't large enough to be concerned that they portend significant future problems. An opposite situation exists with the service sector. Improvement is evident with only four factors: new credit applications, dollar collections, disputes and deductions. As mentioned above, it appears that this sector could be positioned to realize somewhat slower growth for 2005.

Comparison: December 2004 vs. December 2003						
(Not Seasonally Adjusted)						
	Mfrg.		Service		Total	
	Dec '03	Dec '04	Dec '03	Dec '04	Dec '03	Dec '04
Sales	55.2	57.6	60.7	59.0	58.0	58.3
New credit applications	48.1	49.0	51.4	54.2	49.7	51.5
Dollar collections	59.9	61.5	58.5	60.8	59.2	61.1
Amount of credit extended	57.2	62.8	64.9	59.7	61.0	61.3
Index of favorable factors	55.1	57.7	58.9	58.4	57.0	58.1
Rejection of credit applications	53.8	55.1	55.3	54.9	54.6	55.0
Accounts placed for collections	47.5	57.1	54.6	48.2	51.0	52.8
Disputes	50.3	49.5	52.9	55.2	51.5	52.3
Dollar amount beyond terms	46.7	53.2	49.2	46.4	47.9	49.9
Dollar amount of customer deductions	49.7	47.0	50.6	51.0	50.1	49.0
Filings for bankruptcies	56.6	57.7	61.6	59.4	59.0	58.5
Index of unfavorable factors	50.8	53.3	58.9	52.5	52.4	52.9
NACM CMI	52.5	55.1	56.0	54.9	54.2	55.0

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 and Idaho.

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.

A CMI reading in excess of 50 indicates the economy is expanding; a reading below 50 indicates a declining economy. The index is not seasonally adjusted because of lack of an historical record.

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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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