

NACM Credit Manager's Index

Report for July 2005

Issued August 3, 2005
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

July '05	CMI-Total: 56.7	CMI-Manufacturing: 56.9	CMI-Service: 56.6
June '05	CMI-Total: 57.8	CMI-Manufacturing: 57.3	CMI-Service: 58.4
% Change	-1.90%	-0.70%	-3.08%

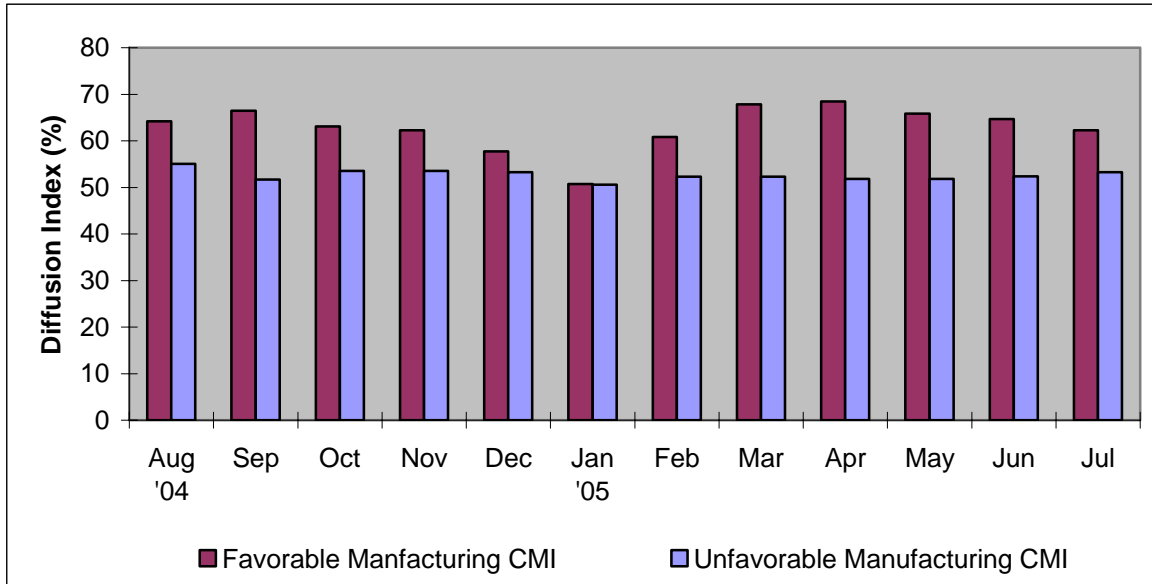
July's Credit Manager's Index (CMI) stood at 56.7 percent, firmly entrenched above the 50 percent level, which implies economic growth. Although the CMI did slip 1.1 percent from June, Dan North, Chief Economist with credit insurer Euler Hermes ACI, believes the decline was largely the result of two highly correlated components: the amount of credit extended, and sales, the component that shows the most monthly variation. "This data suggests that the decline was more related to volatile top-line growth as opposed to a more deeply rooted deterioration in credit conditions. While downward trends in many of the other components of the Index could represent headwinds arising from tightening monetary conditions, higher energy prices, and weakness in Europe, the overall Index continues to reflect reasonably strong economic growth," says North.

Note: 1 percent = 100 basis points. See the end of this report for information about the methodology and factors used to measure economic performance.

MANUFACTURING SECTOR RESULTS

The manufacturing sector continued its downward slide, ending the month of July at 56.9 percent, down 40 points from just one month ago. Lower sales and amount of credit extended pushed favorable factors down 240 points, while lower amounts of customer deductions and accounts placed for collections helped boost the unfavorable factors up 90 points.

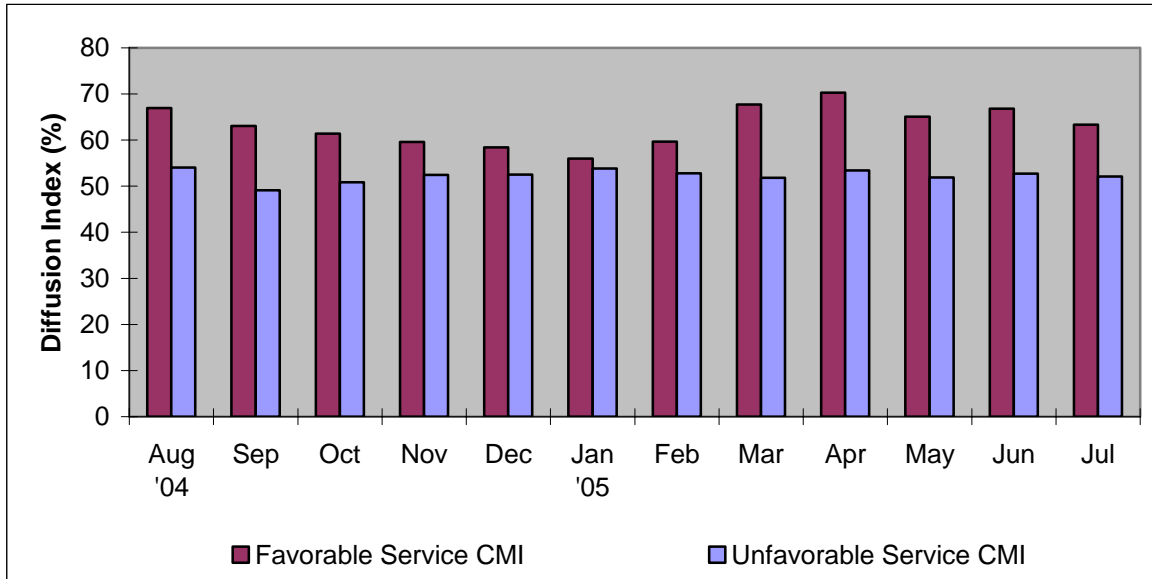
Manufacturing Sector (Not Seasonally Adjusted)												
	Aug '04	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul
Sales	69.3	68.8	64.8	64.1	57.6	48.4	61.7	69.6	72.7	67.6	68.1	63.8
New credit applications	55.9	61.3	59.7	58.8	49.0	49.7	63.9	65.2	62.5	59.2	60.0	58.3
Dollar collections	63.7	66.7	65.7	61.0	61.5	49.2	53.6	66.8	69.1	65.9	63.1	63.7
Amount of credit extended	67.9	69.1	62.3	65.3	62.8	55.7	64.0	69.8	69.6	70.8	67.6	63.4
Index of favorable factors	64.2	66.5	63.1	62.3	57.7	50.8	60.8	67.9	68.5	65.9	64.7	62.3
Rejection of credit applications	55.1	53.4	51.2	54.8	55.1	54.1	49.2	48.9	50.5	52.2	51.8	52.1
Accounts placed for collections	56.7	51.7	56.9	56.5	57.1	50.0	54.4	52.3	47.7	54.9	51.8	54.0
Disputes	49.4	46.9	50.0	50.7	49.5	46.6	47.6	49.8	49.0	48.7	49.5	47.9
Dollar amount beyond terms	58.0	52.6	55.2	52.3	53.2	50.3	54.7	56.7	58.5	54.9	52.7	53.8
Dollar amount of customer deductions	50.6	46.9	50.2	47.9	47.0	43.8	49.4	49.5	49.5	46.7	50.7	53.0
Filings for bankruptcies	60.7	58.4	57.9	59.0	57.7	58.5	58.6	56.7	55.9	53.7	57.8	58.9
Index of unfavorable factors	55.1	51.7	53.6	53.5	53.3	50.6	52.3	52.3	51.9	51.9	52.4	53.3
NACM Manufacturing CMI	58.7	57.6	57.4	57.0	55.1	50.6	55.7	58.5	58.5	57.5	57.3	56.9
ISM Manufacturing PMI	59.6	59.1	55.5	57.6	57.3	56.4	55.3	55.2	53.3	51.4	53.8	NA



Service Sector Results

NACM's Service CMI finished at 56.6 percent, a 180-point drop from June 2005. Although there was erosion in both factors, it was the drop in favorable factors that greatly impacted the overall decline in the service sector. All four favorable factors contributed equally to the 350-point drop in the favorable index. Overall, erosion was found in eight of the 10 service factors.

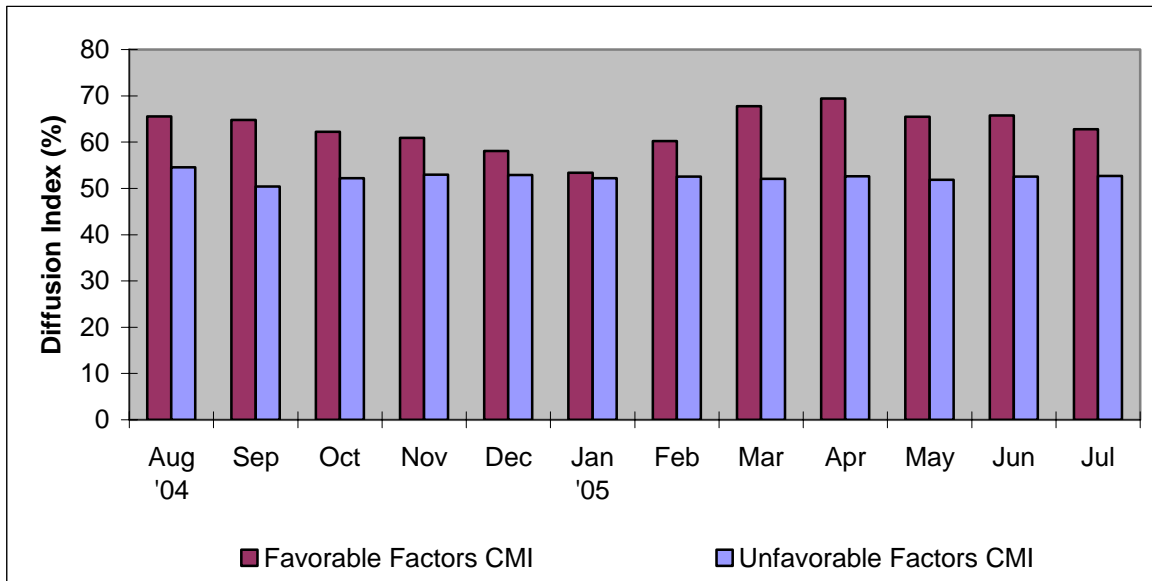
Service Sector (Not Seasonally Adjusted)	Aug	Aug	Aug	Aug	Aug	Jan	Jan	Jan	Jan	Jan	Jan	Jan	Jan
	'04	Sep	Oct	Nov	Dec	'05	Feb	Mar	Apr	May	Jun	Jul	Jul
Sales	68.9	64.0	61.8	60.8	59.0	54.7	59.4	71.5	70.4	65.7	68.8	64.7	64.7
New credit applications	63.4	60.1	54.9	55.1	54.2	51.3	57.0	66.2	66.5	62.4	64.8	62.2	62.2
Dollar collections	64.1	64.0	63.7	59.0	60.8	59.2	59.4	60.3	71.3	63.6	64.7	60.7	60.7
Amount of credit extended	71.4	64.2	65.1	63.5	59.7	58.7	62.7	72.9	73.0	68.5	69.0	65.7	65.7
Index of favorable factors	67.0	63.1	61.4	59.6	58.4	56.0	59.6	67.7	70.3	65.1	66.8	63.3	63.3
Rejection of credit applications	51.7	49.8	50.2	54.5	54.9	54.5	51.5	49.6	49.5	51.1	49.8	52.5	52.5
Accounts placed for collections	56.3	51.7	51.2	50.5	48.2	52.9	54.2	49.4	53.2	51.4	53.2	49.5	49.5
Disputes	49.6	47.8	51.9	50.8	55.2	50.8	50.6	47.7	52.0	49.6	50.2	47.7	47.7
Dollar amount beyond terms	55.6	45.8	45.2	49.0	46.4	51.8	50.4	53.4	59.4	56.6	54.6	53.6	53.6
Dollar amount of customer deductions	49.4	46.5	47.1	48.0	51.0	51.6	52.7	50.4	50.2	51.8	52.3	50.3	50.3
Filings for bankruptcies	61.7	53.0	59.4	61.8	59.4	61.5	57.4	60.3	56.0	50.7	56.3	58.9	58.9
Index of unfavorable factors	54.1	49.1	50.8	52.4	52.5	53.9	52.8	51.8	53.4	51.9	52.7	52.1	52.1
NACM Service CMI	59.2	54.7	55.1	55.3	54.9	54.7	55.5	58.2	60.2	57.1	58.4	56.6	56.6
ISM Service Business Activity Index	59.3	58.7	61.5	61.9	63.9	59.2	59.8	63.1	61.7	58.5	62.2	NA	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)													
	Aug '04	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	
Sales	69.1	66.2	63.3	62.5	58.3	51.6	60.6	70.6	71.6	66.7	68.5	64.3	
New credit applications	59.8	60.7	57.3	57.0	51.5	50.5	60.5	65.7	64.5	60.8	62.4	60.3	
Dollar collections	63.9	65.3	64.7	60.1	61.1	54.2	56.5	63.6	70.2	64.8	63.9	62.2	
Amount of credit extended	69.7	66.5	63.7	64.4	61.3	57.2	63.4	71.4	71.3	69.7	68.3	64.6	
Index of favorable factors	65.6	64.7	62.3	61.0	58.1	53.4	60.2	67.8	69.4	65.5	65.8	62.8	
Rejection of credit applications	53.4	51.5	50.7	54.7	55.0	54.3	50.4	49.3	50.0	51.7	50.8	52.3	
Accounts placed for collections	56.5	51.7	54.1	53.6	52.8	51.4	54.3	50.9	50.5	53.2	52.5	51.8	
Disputes	49.5	47.3	51.0	50.7	52.3	48.7	49.1	48.8	50.5	49.2	49.9	47.8	
Dollar amount beyond terms	56.8	48.9	50.2	50.7	49.9	51.0	52.6	55.1	59.0	55.8	53.7	53.7	
Dollar amount of customer deductions	50.0	46.7	48.7	47.9	49.0	47.7	51.1	50.0	49.9	49.3	51.5	51.7	
Filings for bankruptcies	61.2	55.5	58.6	60.4	58.5	60.0	58.0	58.5	56.0	52.2	57.1	58.9	
Index of unfavorable factors	54.6	50.3	52.2	53.0	52.9	52.2	52.6	52.1	52.6	51.9	52.6	52.7	
NACM Combined CMI	59.0	56.0	56.2	56.2	55.0	52.7	55.6	58.4	59.3	57.3	57.8	56.7	
ISM Combined Sectors Index*	59.5	58.9	59.5	59.8	60.6	57.8	57.6	59.2	57.5	55.0	58.0	NA	

*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 JULY 2005 TO JULY 2004

Compared to the levels of just one year ago, the overall CMI fell 260 points, finishing at 56.7 percent. Despite this decline, nine of the 10 factors still exhibited economic expansion, with levels above the 50-percent neutral mark. This same expansion can also be found in the manufacturing sector; while in the service sector, we find eight of the 10 factors above 50 percent.

Comparison: July 2005 vs. July 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	July '04	July '05	July '04	July '05	July '04	July '05
Sales	64.5	63.8	67.1	64.7	67.1	64.3
New credit applications	56.4	58.3	57.7	62.2	57.7	60.3
Dollar collections	66.8	63.7	75.5	60.7	75.5	62.2
Amount of credit extended	64.4	63.4	67.2	65.7	67.2	64.6
Index of favorable factors	63.0	62.3	66.9	63.3	66.9	62.8
Rejection of credit applications	52.0	52.1	53.4	52.5	53.4	52.3
Accounts placed for collections	60.3	54.0	52.5	49.5	52.5	51.8
Disputes	51.5	47.9	51.2	47.7	51.2	47.8
Dollar amount beyond terms	60.6	53.8	54.0	53.6	54.0	53.7
Dollar amount of customer deductions	52.3	53.0	51.6	50.3	51.6	51.7
Filings for bankruptcies	63.4	58.9	62.4	58.9	62.4	58.9
Index of unfavorable factors	56.7	53.3	54.2	52.1	54.2	52.7
NACM CMI	59.2	56.9	59.3	56.6	59.3	56.7

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 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.

###

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. More information is available at www.nacm.org or by contacting Norma Heim at 410-740-5560.