

NACM Credit Manager's Index

Report for June 2005

Issued July 1, 2005
National Association of Credit Management
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June '05	CMI-Total: 57.8	CMI-Manufacturing: 57.3	CMI-Service: 58.4
May '05	CMI-Total: 57.3	CMI-Manufacturing: 57.5	CMI-Service: 57.1
% Change	0.87%	-0.35%	2.28%

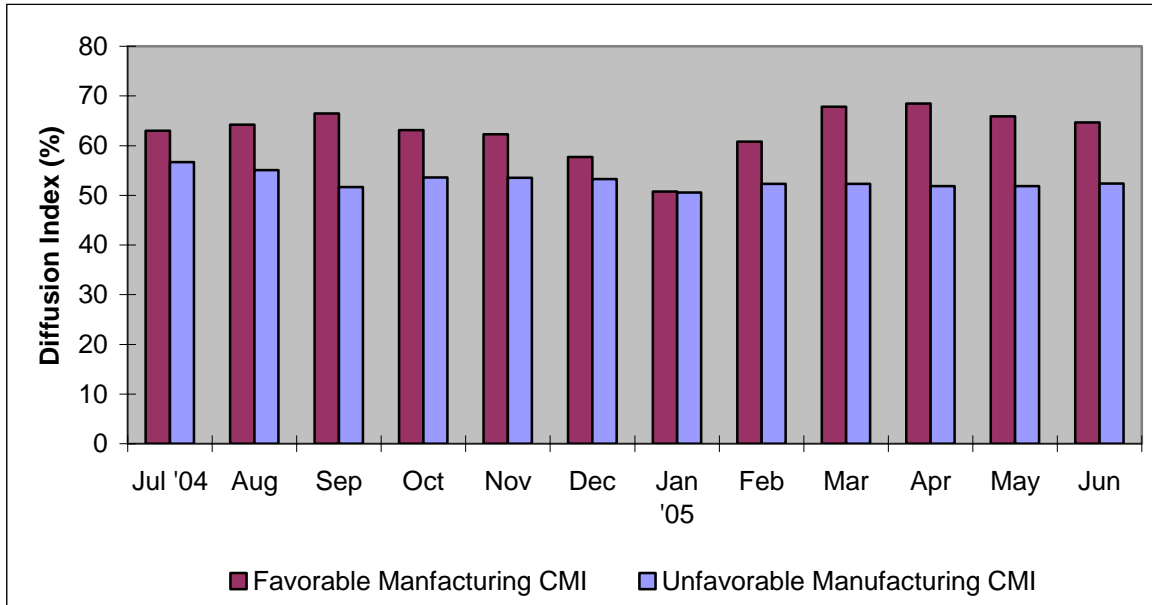
The Credit Manager's Index (CMI) rose 0.5% in June to 57.8%, continuing to paint a picture of reasonably strong economic growth. The increase was driven by the service sector, whose 1.3% increase overcame the 0.2% fall the manufacturing sector suffered. Although the manufacturing sector remains in positive territory at 57.3%, it has fallen for two consecutive months and remains 2.6% below last June's level. Dollar collections and accounts placed for collection both fell. Each remains significantly below last year's levels and, like last month, suggest that free cash flow remains a problem in the manufacturing sector, especially in the auto industry. Conversely, eight out of ten components in the service sector rose, led by a 5.6% improvement in bankruptcies, wiping out last month's loss. Overall, the index rose 0.5% to 57.8%, mirroring the macroeconomy's state of reasonably strong growth, and perhaps a rebound from last month's "soft patch." Nonetheless, continued interest rate hikes, a return to sharply rising energy prices, and weakness in Europe all represent significant headwinds.

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

MANUFACTURING SECTOR RESULTS

The Manufacturing CMI remained virtually unchanged for June 2005, finishing at 57.3 percent, or 20 basis points down from May 2005. Lower dollar collections and credit extended resulted in a 120 basis point loss for favorable factors, however, all favorable factors continue to show strong economic growth.

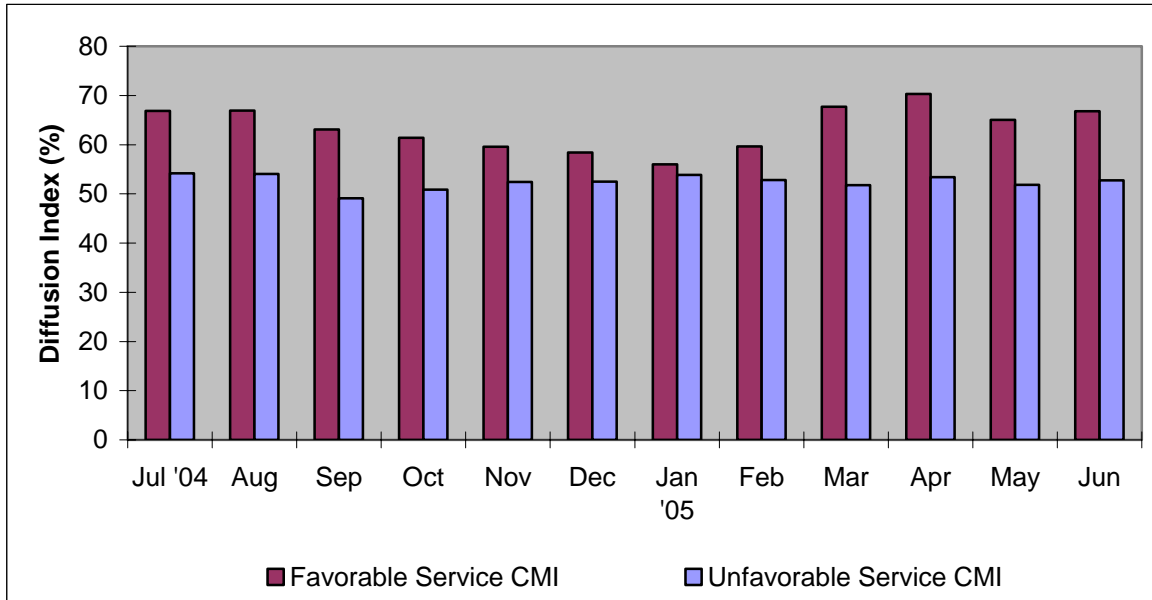
Manufacturing Sector (Not Seasonally Adjusted)	Jul '04	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun
Sales	64.5	69.3	68.8	64.8	64.1	57.6	48.4	61.7	69.6	72.7	67.6	68.1
New credit applications	56.4	55.9	61.3	59.7	58.8	49.0	49.7	63.9	65.2	62.5	59.2	60.0
Dollar collections	66.8	63.7	66.7	65.7	61.0	61.5	49.2	53.6	66.8	69.1	65.9	63.1
Amount of credit extended	64.4	67.9	69.1	62.3	65.3	62.8	55.7	64.0	69.8	69.6	70.8	67.6
Index of favorable factors	63.0	64.2	66.5	63.1	62.3	57.7	50.8	60.8	67.9	68.5	65.9	64.7
Rejection of credit applications	52.0	55.1	53.4	51.2	54.8	55.1	54.1	49.2	48.9	50.5	52.2	51.8
Accounts placed for collections	60.3	56.7	51.7	56.9	56.5	57.1	50.0	54.4	52.3	47.7	54.9	51.8
Disputes	51.5	49.4	46.9	50.0	50.7	49.5	46.6	47.6	49.8	49.0	48.7	49.5
Dollar amount beyond terms	60.6	58.0	52.6	55.2	52.3	53.2	50.3	54.7	56.7	58.5	54.9	52.7
Dollar amount of customer deductions	52.3	50.6	46.9	50.2	47.9	47.0	43.8	49.4	49.5	49.5	46.7	50.7
Filings for bankruptcies	63.4	60.7	58.4	57.9	59.0	57.7	58.5	58.6	56.7	55.9	53.7	57.8
Index of unfavorable factors	56.7	55.1	51.7	53.6	53.5	53.3	50.6	52.3	52.3	51.9	51.9	52.4
NACM Manufacturing CMI	59.2	58.7	57.6	57.4	57.0	55.1	50.6	55.7	58.5	58.5	57.5	57.3
ISM Manufacturing PMI	61.6	59.6	59.1	55.5	57.6	57.3	56.4	55.3	55.2	53.3	51.4	NA



Service Sector Results

For June 2005, the service sector recorded a 130 point gain, ending at 58.4 percent. Fueled by growth in new sales and credit applications, favorable factors finished at 66.8 percent; up from 65.1 percent in May 2005. Like the manufacturing sector, the service sector continued to show strong economic gains in all favorable factors. There was positive news among the unfavorable factors as well, with a lower number of bankruptcy filings.

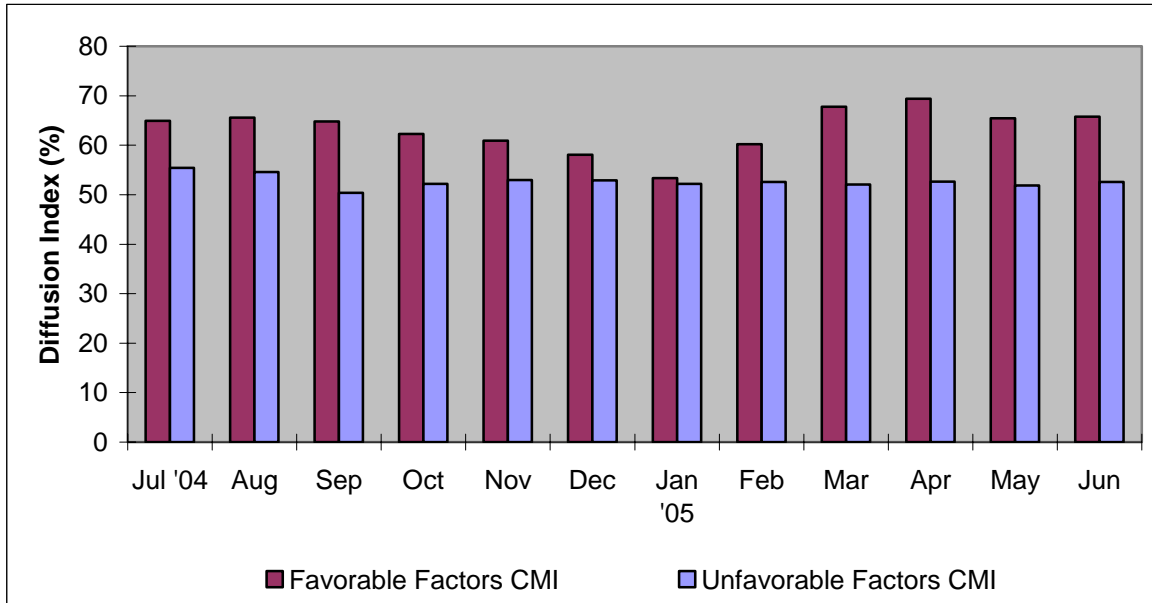
Service Sector (Not Seasonally Adjusted)													
	Jul '04	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	
Sales	67.1	68.9	64.0	61.8	60.8	59.0	54.7	59.4	71.5	70.4	65.7	68.8	
New credit applications	57.7	63.4	60.1	54.9	55.1	54.2	51.3	57.0	66.2	66.5	62.4	64.8	
Dollar collections	75.5	64.1	64.0	63.7	59.0	60.8	59.2	59.4	60.3	71.3	63.6	64.7	
Amount of credit extended	67.2	71.4	64.2	65.1	63.5	59.7	58.7	62.7	72.9	73.0	68.5	69.0	
Index of favorable factors	66.9	67.0	63.1	61.4	59.6	58.4	56.0	59.6	67.7	70.3	65.1	66.8	
Rejection of credit applications	53.4	51.7	49.8	50.2	54.5	54.9	54.5	51.5	49.6	49.5	51.1	49.8	
Accounts placed for collections	52.5	56.3	51.7	51.2	50.5	48.2	52.9	54.2	49.4	53.2	51.4	53.2	
Disputes	51.2	49.6	47.8	51.9	50.8	55.2	50.8	50.6	47.7	52.0	49.6	50.2	
Dollar amount beyond terms	54.0	55.6	45.8	45.2	49.0	46.4	51.8	50.4	53.4	59.4	56.6	54.6	
Dollar amount of customer deductions	51.6	49.4	46.5	47.1	48.0	51.0	51.6	52.7	50.4	50.2	51.8	52.3	
Filings for bankruptcies	62.4	61.7	53.0	59.4	61.8	59.4	61.5	57.4	60.3	56.0	50.7	56.3	
Index of unfavorable factors	54.2	54.1	49.1	50.8	52.4	52.5	53.9	52.8	51.8	53.4	51.9	52.7	
NACM Service CMI	59.3	59.2	54.7	55.1	55.3	54.9	54.7	55.5	58.2	60.2	57.1	58.4	
ISM Service Business Activity Index	63.4	59.3	58.7	61.5	61.9	63.9	59.2	59.8	63.1	61.7	58.5	NA	



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)													
	Jul '04	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	
Sales	65.7	69.1	66.2	63.3	62.5	58.3	51.6	60.6	70.6	71.6	66.7	68.5	
New credit applications	57.0	59.8	60.7	57.3	57.0	51.5	50.5	60.5	65.7	64.5	60.8	62.4	
Dollar collections	71.0	63.9	65.3	64.7	60.1	61.1	54.2	56.5	63.6	70.2	64.8	63.9	
Amount of credit extended	65.7	69.7	66.5	63.7	64.4	61.3	57.2	63.4	71.4	71.3	69.7	68.3	
Index of favorable factors	64.9	65.6	64.7	62.3	61.0	58.1	53.4	60.2	67.8	69.4	65.5	65.8	
Rejection of credit applications	52.7	53.4	51.5	50.7	54.7	55.0	54.3	50.4	49.3	50.0	51.7	50.8	
Accounts placed for collections	56.5	56.5	51.7	54.1	53.6	52.8	51.4	54.3	50.9	50.5	53.2	52.5	
Disputes	51.3	49.5	47.3	51.0	50.7	52.3	48.7	49.1	48.8	50.5	49.2	49.9	
Dollar amount beyond terms	57.3	56.8	48.9	50.2	50.7	49.9	51.0	52.6	55.1	59.0	55.8	53.7	
Dollar amount of customer deductions	51.9	50.0	46.7	48.7	47.9	49.0	47.7	51.1	50.0	49.9	49.3	51.5	
Filings for bankruptcies	62.9	61.2	55.5	58.6	60.4	58.5	60.0	58.0	58.5	56.0	52.2	57.1	
Index of unfavorable factors	55.4	54.6	50.3	52.2	53.0	52.9	52.2	52.6	52.1	52.6	51.9	52.6	
NACM Combined CMI	59.2	59.0	56.0	56.2	56.2	55.0	52.7	55.6	58.4	59.3	57.3	57.8	
ISM Combined Sectors Index*	62.5	59.5	58.9	59.5	59.8	60.6	57.8	57.6	59.2	57.5	55.0	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 JUNE 2005 TO JUNE 2004

High levels of economic expansion are found in both the manufacturing and service sector favorable factors. In a year-to-year comparison, only dollar collections are considerably lower than just one year ago. The index of favorable factors closed at 65.8 percent, down 360 basis points from June 2004.

The index of unfavorable factors also showed economic growth with five of the six factors above the 50 percent level and one right at the neutral level, 49.9 percent for "Disputes". This growth can be seen in both the manufacturing and service sectors.

Comparison: June 2005 vs. June 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	June '04	June '05	June '04	June '05	June '04	June '05
Sales	71.7	68.1	72.9	68.8	72.3	68.5
New credit applications	60.8	60.0	64.9	64.8	62.9	62.4
Dollar collections	71.7	63.1	70.8	64.7	71.3	63.9
Amount of credit extended	71.3	67.6	72.4	69.0	71.9	68.3
Index of favorable factors	68.9	64.7	70.3	66.8	69.6	65.8
Rejection of credit applications	53.8	51.8	50.0	49.8	51.9	50.8
Accounts placed for collections	58.0	51.8	52.5	53.2	55.3	52.5
Disputes	49.4	49.5	51.9	50.2	50.7	49.9
Dollar amount beyond terms	51.8	52.7	53.2	54.6	52.5	53.7
Dollar amount of customer deductions	48.4	50.7	51.3	52.3	49.9	51.5
Filings for bankruptcies	62.0	57.8	62.8	56.3	62.4	57.1
Index of unfavorable factors	53.9	52.4	53.6	52.7	53.8	52.6
NACM CMI	59.9	57.3	60.3	58.4	60.1	57.8

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.

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