

NACM Credit Manager's Index

Report for May 2005

Issued June 1, 2005
 National Association of Credit Management
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May '05	CMI-Total: 57.3	CMI-Manufacturing: 57.5	CMI-Service: 57.1
April '05	CMI-Total: 59.3	CMI-Manufacturing: 58.5	CMI-Service: 60.2
% Change	-3.37%	-1.71%	-5.15%

The Credit Manager's Index (CMI) for May perfectly demonstrated the overall position of the U.S. economy: well-entrenched in solid territory but also recently encountering a minor "soft patch". The Total CMI dropped from 59.3 to 57.3, with the manufacturing sector falling 1.0 to 57.5, and the service sector, driven by deterioration in bankruptcies and dollar collections, falling 3.1 to 57.1. Despite the strong levels of virtually all the components of the Indices, it is useful to note some of the changes this month. The uptick in bankruptcy activity is especially noteworthy as it is 9.4 below last May's level, and could continue to be affected by troubles in the airline and auto industries. Certainly higher energy prices will continue to ripple through the economy. Dollar collections fell in both sectors as did manufacturing sales, and they suggest, like bankruptcies do, that businesses have somewhat less free cash flow available at the moment.

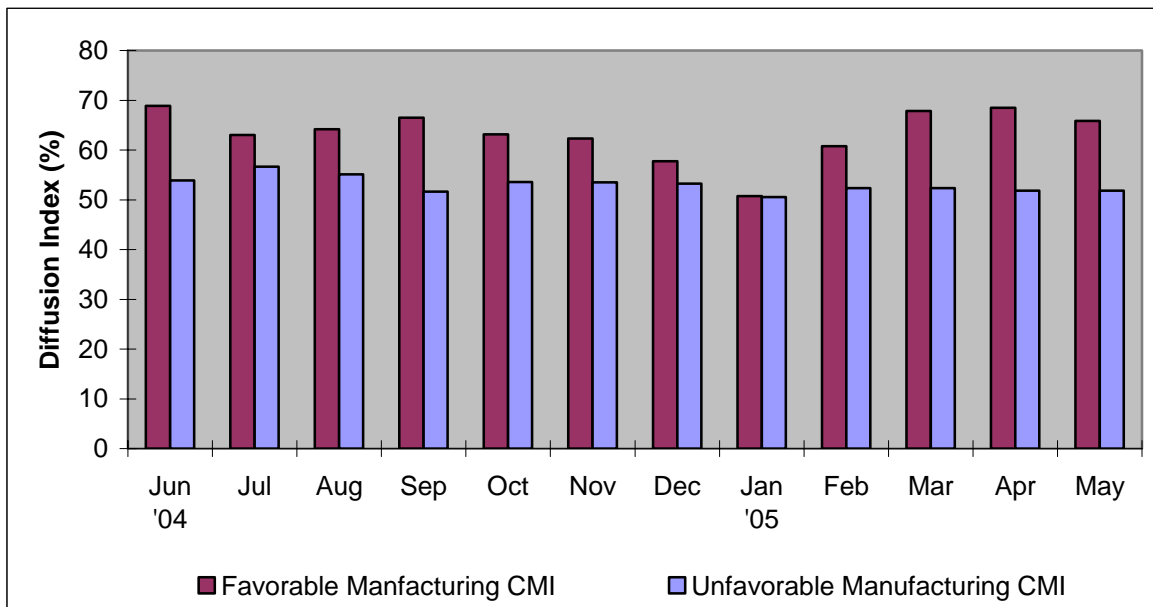
While the CMI survey reflects solid conditions overall, the economy will continue to face some headwinds in the form of higher energy prices, weakness in Europe, and continued interest rate hikes by the Federal Reserve.

[See the last page of this report for information about the methodology and factors used to measure economic performance.](#)

MANUFACTURING SECTOR RESULTS

For the month of May, the manufacturing sector took a small step back, with the CMI finishing 100 basis points down, to end at 57.5 percent. Favorable factors, although still exhibiting strong economic growth, show erosion in three of the four factors. Only credit extended shows positive growth when compared to April. In total, unfavorable factors remained unchanged finishing at 51.9 percent. One positive change was lower levels of accounts placed for collections.

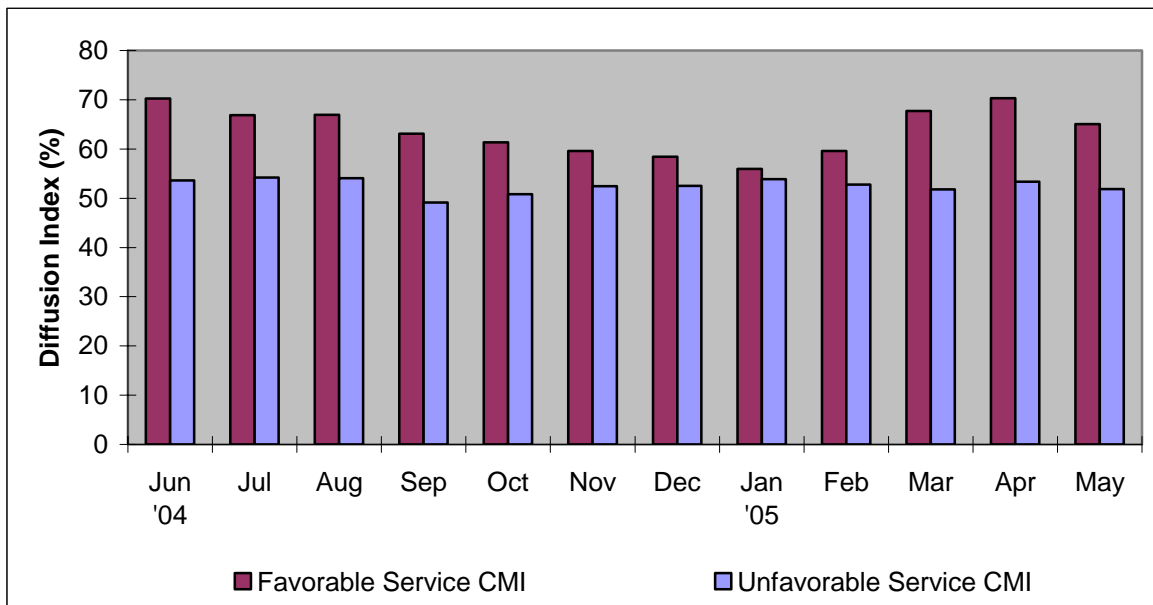
Manufacturing Sector (Not Seasonally Adjusted)	Jun '04	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May
Sales	71.7	64.5	69.3	68.8	64.8	64.1	57.6	48.4	61.7	69.6	72.7	67.6
New credit applications	60.8	56.4	55.9	61.3	59.7	58.8	49.0	49.7	63.9	65.2	62.5	59.2
Dollar collections	71.7	66.8	63.7	66.7	65.7	61.0	61.5	49.2	53.6	66.8	69.1	65.9
Amount of credit extended	71.3	64.4	67.9	69.1	62.3	65.3	62.8	55.7	64.0	69.8	69.6	70.8
Index of favorable factors	68.9	63.0	64.2	66.5	63.1	62.3	57.7	50.8	60.8	67.9	68.5	65.9
Rejection of credit applications	53.8	52.0	55.1	53.4	51.2	54.8	55.1	54.1	49.2	48.9	50.5	52.2
Accounts placed for collections	58.0	60.3	56.7	51.7	56.9	56.5	57.1	50.0	54.4	52.3	47.7	54.9
Disputes	49.4	51.5	49.4	46.9	50.0	50.7	49.5	46.6	47.6	49.8	49.0	48.7
Dollar amount beyond terms	51.8	60.6	58.0	52.6	55.2	52.3	53.2	50.3	54.7	56.7	58.5	54.9
Dollar amount of customer deductions	48.4	52.3	50.6	46.9	50.2	47.9	47.0	43.8	49.4	49.5	49.5	46.7
Filings for bankruptcies	62.0	63.4	60.7	58.4	57.9	59.0	57.7	58.5	58.6	56.7	55.9	53.7
Index of unfavorable factors	53.9	56.7	55.1	51.7	53.6	53.5	53.3	50.6	52.3	52.3	51.9	51.9
NACM Manufacturing CMI	59.9	59.2	58.7	57.6	57.4	57.0	55.1	50.6	55.7	58.5	58.5	57.5
ISM Manufacturing PMI	61.2	61.6	59.6	59.1	55.5	57.6	57.3	56.4	55.3	55.2	53.3	NA



Service Sector Results

Finishing at 57.1, down 310 basis points from April, the service sector continued to show strong signs of economic growth, with nine of the 10 factors finishing above the 50 percent level. Down 520 basis points, all favorable factors remained strong, finishing in the mid-60s; while unfavorable factors slipped 150 basis points, to end at 51.9.

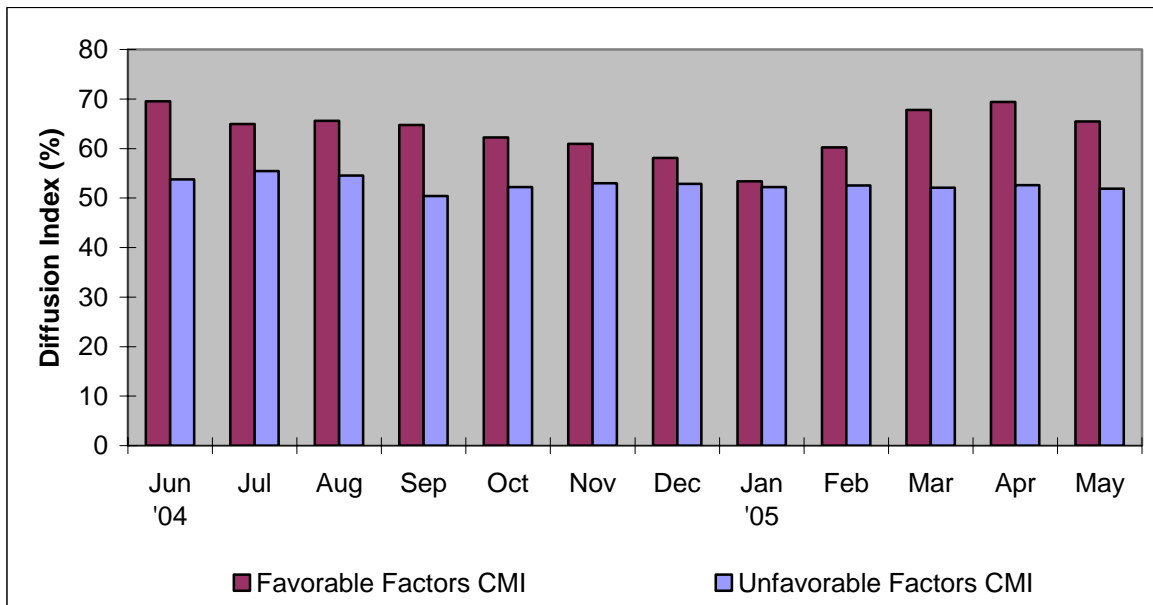
Service Sector (Not Seasonally Adjusted)		Jun '04	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May
Sales		72.9	67.1	68.9	64.0	61.8	60.8	59.0	54.7	59.4	71.5	70.4	65.7
New credit applications		64.9	57.7	63.4	60.1	54.9	55.1	54.2	51.3	57.0	66.2	66.5	62.4
Dollar collections		70.8	75.5	64.1	64.0	63.7	59.0	60.8	59.2	59.4	60.3	71.3	63.6
Amount of credit extended		72.4	67.2	71.4	64.2	65.1	63.5	59.7	58.7	62.7	72.9	73.0	68.5
Index of favorable factors		70.3	66.9	67.0	63.1	61.4	59.6	58.4	56.0	59.6	67.7	70.3	65.1
Rejection of credit applications		50.0	53.4	51.7	49.8	50.2	54.5	54.9	54.5	51.5	49.6	49.5	51.1
Accounts placed for collections		52.5	52.5	56.3	51.7	51.2	50.5	48.2	52.9	54.2	49.4	53.2	51.4
Disputes		51.9	51.2	49.6	47.8	51.9	50.8	55.2	50.8	50.6	47.7	52.0	49.6
Dollar amount beyond terms		53.2	54.0	55.6	45.8	45.2	49.0	46.4	51.8	50.4	53.4	59.4	56.6
Dollar amount of customer deductions		51.3	51.6	49.4	46.5	47.1	48.0	51.0	51.6	52.7	50.4	50.2	51.8
Filings for bankruptcies		62.8	62.4	61.7	53.0	59.4	61.8	59.4	61.5	57.4	60.3	56.0	50.7
Index of unfavorable factors		53.6	54.2	54.1	49.1	50.8	52.4	52.5	53.9	52.8	51.8	53.4	51.9
NACM Service CMI		60.3	59.3	59.2	54.7	55.1	55.3	54.9	54.7	55.5	58.2	60.2	57.1
ISM Service Business Activity Index		61.1	63.4	59.3	58.7	61.5	61.9	63.9	59.2	59.8	63.1	61.7	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Jun '04	Jul	Aug	Sep	Oct	Nov	Dec	Jan '05	Feb	Mar	Apr	May
Sales	72.3	65.7	69.1	66.2	63.3	62.5	58.3	51.6	60.6	70.6	71.6	66.7
New credit applications	62.8	57.0	59.8	60.7	57.3	57.0	51.5	50.5	60.5	65.7	64.5	60.8
Dollar collections	71.3	71.0	63.9	65.3	64.7	60.1	61.1	54.2	56.5	63.6	70.2	64.8
Amount of credit extended	71.8	65.7	69.7	66.5	63.7	64.4	61.3	57.2	63.4	71.4	71.3	69.7
Index of favorable factors	69.6	64.9	65.6	64.7	62.3	61.0	58.1	53.4	60.2	67.8	69.4	65.5
Rejection of credit applications	52.0	52.7	53.4	51.5	50.7	54.7	55.0	54.3	50.4	49.3	50.0	51.7
Accounts placed for collections	55.3	56.5	56.5	51.7	54.1	53.6	52.8	51.4	54.3	50.9	50.5	53.2
Disputes	50.6	51.3	49.5	47.3	51.0	50.7	52.3	48.7	49.1	48.8	50.5	49.2
Dollar amount beyond terms	52.5	57.3	56.8	48.9	50.2	50.7	49.9	51.0	52.6	55.1	59.0	55.8
Dollar amount of customer deductions	49.8	51.9	50.0	46.7	48.7	47.9	49.0	47.7	51.1	50.0	49.9	49.3
Filings for bankruptcies	62.4	62.9	61.2	55.5	58.6	60.4	58.5	60.0	58.0	58.5	56.0	52.2
Index of unfavorable factors	53.8	55.4	54.6	50.3	52.2	53.0	52.9	52.2	52.6	52.1	52.6	51.9
NACM Combined CMI	60.1	59.2	59.0	56.0	56.2	56.2	55.0	52.7	55.6	58.4	59.3	57.3
ISM Combined Sectors Index*	61.2	62.5	59.5	58.9	59.5	59.8	60.6	57.8	57.6	59.2	57.5	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 MAY 2005 TO MAY 2004

The level of favorable and unfavorable factors for the May 2005 CMI closely matches the level of just one year ago. In both the manufacturing and service sectors, we find similarities between all but a few factors. Among the favorable factors, erosion in sales was found in both sectors; a 760 and 530 point drop in the manufacturing and service sector, respectively. When compared to one year ago, in both the manufacturing and service sectors, higher levels of bankruptcy filings contributed to a decline in the index of unfavorable factors.

Comparison: May 2005 vs. May 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	May '04	May '05	May '04	May '05	May '04	May '05
Sales	75.2	67.6	71.0	65.7	73.1	66.7
New credit applications	59.4	59.2	61.2	62.4	60.3	60.8
Dollar collections	70.4	65.9	61.6	63.6	66.0	64.8
Amount of credit extended	71.6	70.8	70.2	68.5	70.9	69.7
Index of favorable factors	69.2	65.9	66.0	65.1	67.6	65.5
Rejection of credit applications	51.9	52.2	54.5	51.1	53.2	51.7
Accounts placed for collections	53.1	54.9	58.3	51.4	55.7	53.2
Disputes	49.3	48.7	56.6	49.6	53.0	49.2
Dollar amount beyond terms	56.2	54.9	58.8	56.6	57.5	55.8
Dollar amount of customer deductions	47.6	46.7	53.2	51.8	50.4	49.3
Filings for bankruptcies	59.2	53.7	64.2	50.7	61.7	52.2
Index of unfavorable factors	52.9	51.9	57.6	51.9	55.2	51.9
NACM CMI	59.4	57.5	61.0	57.1	60.2	57.3

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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