

NACM Credit Manager's Index

Report for September 2005

Issued October 1, 2005
National Association of Credit Management
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September '05	CMI-Total: 56.6	CMI-Manufacturing: 56.5	CMI-Service: 56.7
August '05	CMI-Total: 54.7	CMI-Manufacturing: 52.9	CMI-Service: 56.5
% Change	1.03%	1.07%	1.00%

“Hurricanes Katrina and Rita unmistakably left their marks on September’s Credit Manager’s Index (CMI). The rapid increase in economic activity shortly after a natural disaster is well documented, and these hurricanes are no exception,” says Dan North, Chief Economist with credit insurer Euler Hermes ACI. “In particular, data from the manufacturing sector show a significant spike in demand. Manufacturing sales and the amount of credit extended were both up sharply, suggesting that customers are scrambling to snatch up goods as quickly as possible. In the service sector, sales and new credit applications also suggest a significant jump in demand.”

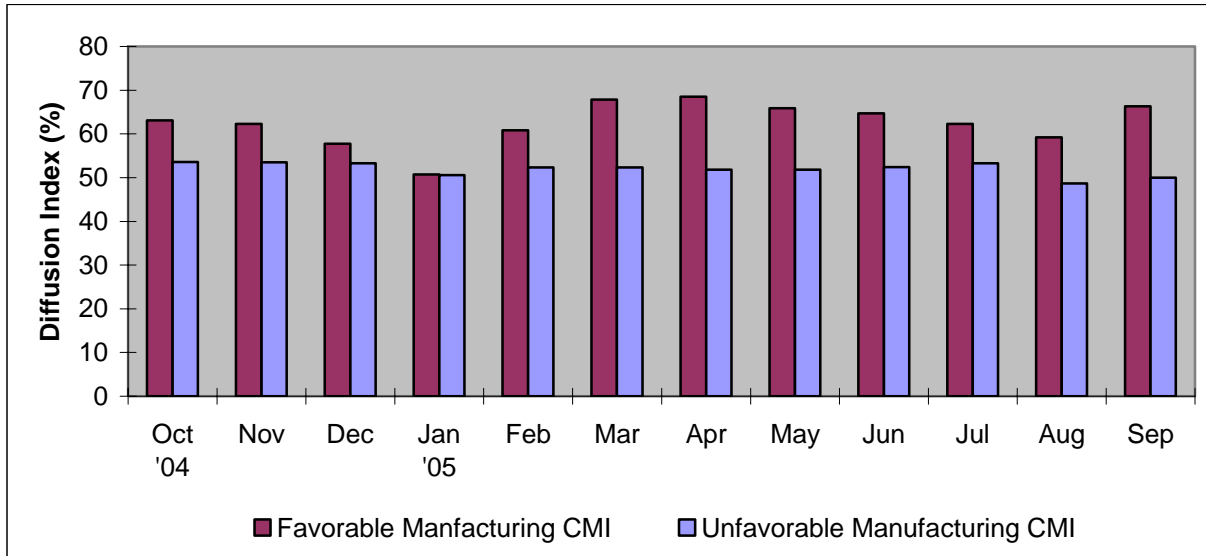
“The only downside shown in the report,” says North, “was the worsening in bankruptcy conditions, which were probably aided by the impending change (Oct. 17) to more creditor-friendly bankruptcy laws.”

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

MANUFACTURING SECTOR RESULTS

Sparked by increased sales and credit extended, the manufacturing sector CMI for September rose 370 basis points, to 56.6. New sales, which have been on a slight downward decline for the last five months, spiked to 74.1 percent in September, up 1,540 basis points from the previous month. This had been the highest level of new sales since May 2004, when sales reached 72.5 percent. This month also saw a rise in extended credit, up 760 basis points, from 60.8 percent to 68.4 percent.

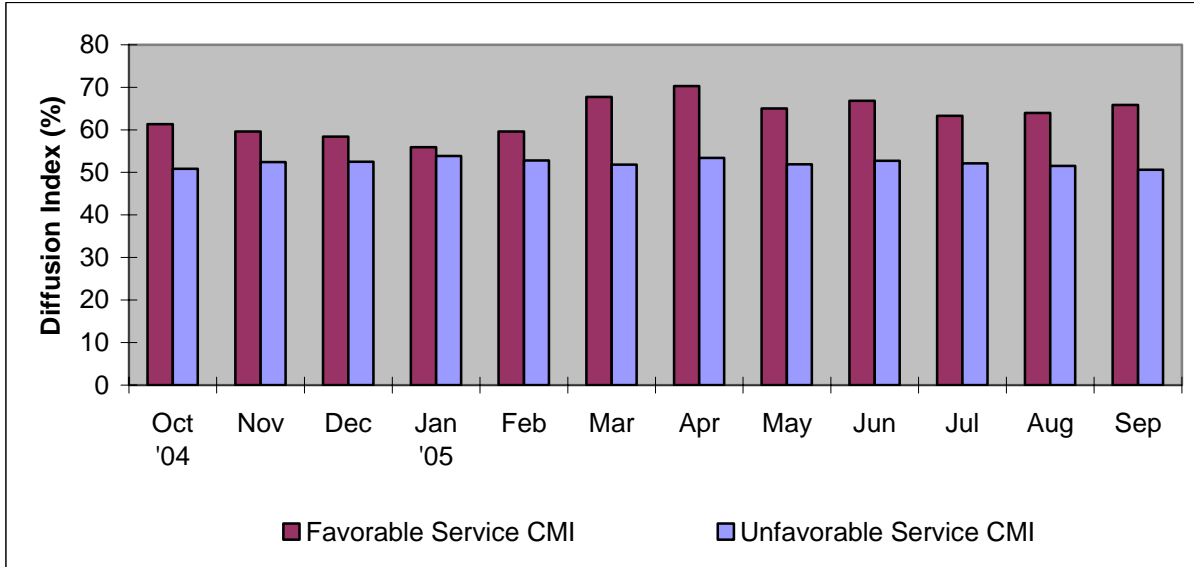
Manufacturing Sector (Not Seasonally Adjusted)												
	Oct '04	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	64.8	64.1	57.6	48.4	61.7	69.6	72.7	67.6	68.1	63.8	58.7	74.1
New credit applications	59.7	58.8	49.0	49.7	63.9	65.2	62.5	59.2	60.0	58.3	62.2	61.6
Dollar collections	65.7	61.0	61.5	49.2	53.6	66.8	69.1	65.9	63.1	63.7	55.2	61.1
Amount of credit extended	62.3	65.3	62.8	55.7	64.0	69.8	69.6	70.8	67.6	63.4	60.8	68.4
Index of favorable factors	63.1	62.3	57.7	50.8	60.8	67.9	68.5	65.9	64.7	62.3	59.2	66.3
Rejection of credit applications	51.2	54.8	55.1	54.1	49.2	48.9	50.5	52.2	51.8	52.1	50.3	52.2
Accounts placed for collections	56.9	56.5	57.1	50.0	54.4	52.3	47.7	54.9	51.8	54.0	49.4	51.9
Disputes	50.0	50.7	49.5	46.6	47.6	49.8	49.0	48.7	49.5	47.9	45.1	49.6
Dollar amount beyond terms	55.2	52.3	53.2	50.3	54.7	56.7	58.5	54.9	52.7	53.8	49.1	49.1
Dollar amount of customer deductions	50.2	47.9	47.0	43.8	49.4	49.5	49.5	46.7	50.7	53.0	46.3	46.9
Filings for bankruptcies	57.9	59.0	57.7	58.5	58.6	56.7	55.9	53.7	57.8	58.9	51.9	50.3
Index of unfavorable factors	53.6	53.5	53.3	50.6	52.3	52.3	51.9	51.9	52.4	53.3	48.7	50.0
NACM Manufacturing CMI	57.4	57.0	55.1	50.6	55.7	58.5	58.5	57.5	57.3	56.9	52.9	56.5
ISM Manufacturing PMI	55.5	57.6	57.3	56.4	55.3	55.2	53.3	51.4	53.8	56.6	53.6	NA



Service Sector Results

For the third month in a row, the service sector CMI remained virtually unchanged, up slightly to 56.7 percent. Among the favorable factors, we see a 520 basis point jump in new sales and a 430 point jump in credit applications. As the service sector continues to show economic growth, with eight of the 10 factors above the 50 percent level, the overall rate of growth remains flat.

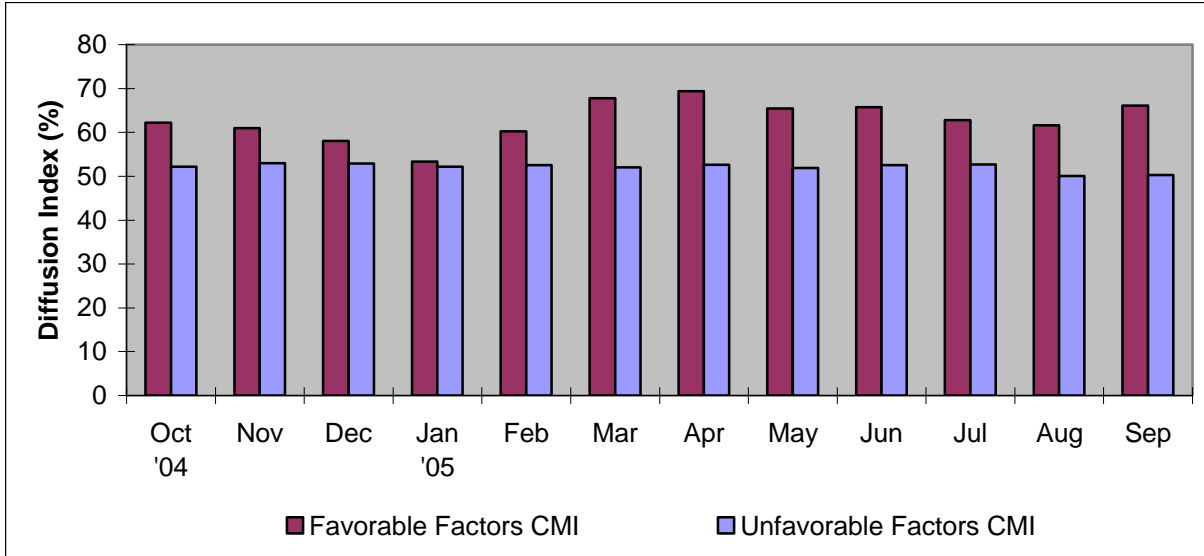
Service Sector (Not Seasonally Adjusted)		Oct '04	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales		61.8	60.8	59.0	54.7	59.4	71.5	70.4	65.7	68.8	64.7	64.0	69.2
New credit applications		54.9	55.1	54.2	51.3	57.0	66.2	66.5	62.4	64.8	62.2	60.0	64.3
Dollar collections		63.7	59.0	60.8	59.2	59.4	60.3	71.3	63.6	64.7	60.7	61.7	61.1
Amount of credit extended		65.1	63.5	59.7	58.7	62.7	72.9	73.0	68.5	69.0	65.7	70.3	69.0
Index of favorable factors		61.4	59.6	58.4	56.0	59.6	67.7	70.3	65.1	66.8	63.3	64.0	65.9
Rejection of credit applications		50.2	54.5	54.9	54.5	51.5	49.6	49.5	51.1	49.8	52.5	51.1	52.2
Accounts placed for collections		51.2	50.5	48.2	52.9	54.2	49.4	53.2	51.4	53.2	49.5	50.0	51.0
Disputes		51.9	50.8	55.2	50.8	50.6	47.7	52.0	49.6	50.2	47.7	52.0	47.8
Dollar amount beyond terms		45.2	49.0	46.4	51.8	50.4	53.4	59.4	56.6	54.6	53.6	48.3	52.9
Dollar amount of customer deductions		47.1	48.0	51.0	51.6	52.7	50.4	50.2	51.8	52.3	50.3	51.1	49.0
Filings for bankruptcies		59.4	61.8	59.4	61.5	57.4	60.3	56.0	50.7	56.3	58.9	56.4	50.7
Index of unfavorable factors		50.8	52.4	52.5	53.9	52.8	51.8	53.4	51.9	52.7	52.1	51.5	50.6
NACM Service CMI		55.1	55.3	54.9	54.7	55.5	58.2	60.2	57.1	58.4	56.6	56.5	56.7
ISM Service Business Activity Index		61.5	61.9	63.9	59.2	59.8	63.1	61.7	58.5	62.2	60.5	65.0	NA



COMBINED SECTORS

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Oct '04	Nov	Dec	Jan '05	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	63.3	62.5	58.3	51.6	60.6	70.6	71.6	66.7	68.5	64.3	61.4	71.7
New credit applications	57.3	57.0	51.5	50.5	60.5	65.7	64.5	60.8	62.4	60.3	61.1	63.0
Dollar collections	64.7	60.1	61.1	54.2	56.5	63.6	70.2	64.8	63.9	62.2	58.5	61.1
Amount of credit extended	63.7	64.4	61.3	57.2	63.4	71.4	71.3	69.7	68.3	64.6	65.6	68.7
Index of favorable factors	62.3	61.0	58.1	53.4	60.2	67.8	69.4	65.5	65.8	62.8	61.6	66.1
Rejection of credit applications	50.7	54.7	55.0	54.3	50.4	49.3	50.0	51.7	50.8	52.3	50.7	52.2
Accounts placed for collections	54.1	53.6	52.8	51.4	54.3	50.9	50.5	53.2	52.5	51.8	49.7	51.5
Disputes	51.0	50.7	52.3	48.7	49.1	48.8	50.5	49.2	49.9	47.8	48.6	48.7
Dollar amount beyond terms	50.2	50.7	49.9	51.0	52.6	55.1	59.0	55.8	53.7	53.7	48.7	51.0
Dollar amount of customer deductions	48.7	47.9	49.0	47.7	51.1	50.0	49.9	49.3	51.5	51.7	48.7	48.0
Filings for bankruptcies	58.6	60.4	58.5	60.0	58.0	58.5	56.0	52.2	57.1	58.9	54.2	50.5
Index of unfavorable factors	52.2	53.0	52.9	52.2	52.6	52.1	52.6	51.9	52.6	52.7	50.1	50.3
NACM Combined CMI	56.2	56.2	55.0	52.7	55.6	58.4	59.3	57.3	57.8	56.7	54.7	56.6
ISM Combined Sectors Index*	59.5	59.8	60.6	57.8	57.6	59.2	57.5	55.0	58.0	58.6	59.3	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 SEPTEMBER 2005 TO SEPTEMBER 2004

Comparing this September's overall CMI to that of one year ago, we find that the overall CMI for September 2005 finished slightly higher, up just 50 basis points. Growth in new sales, in both the manufacturing and service sectors, contributed to the gain. Among all the September 2005 factors, eight of 10 show economic growth, compared to seven of the 10 in September 2004.

Comparison: September 2005 vs. September 2004 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Sep '04	Sep '05	Sep '04	Sep '05	Sep '04	Sep '05
Sales	68.8	74.1	64.0	69.2	66.4	71.7
New credit applications	61.3	61.6	60.1	64.3	60.7	63.0
Dollar collections	66.7	61.1	64.0	61.1	65.4	61.1
Amount of credit extended	69.1	68.4	64.2	69.0	66.7	68.7
Index of favorable factors	66.5	66.3	63.1	65.9	64.8	66.1
Rejection of credit applications	53.4	52.2	49.8	52.2	51.6	52.2
Accounts placed for collections	51.7	51.9	51.7	51.0	51.7	51.5
Disputes	46.9	49.6	47.8	47.8	47.4	48.7
Dollar amount beyond terms	52.6	49.1	45.8	52.9	49.2	51.0
Dollar amount of customer deductions	46.9	46.9	46.5	49.0	46.7	48.0
Filings for bankruptcies	58.4	50.3	53.0	50.7	55.7	50.5
Index of unfavorable factors	51.7	50.0	49.1	50.6	50.4	50.3
NACM CMI	57.6	56.5	54.7	56.7	56.1	56.6

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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