

NACM Credit Manager's Index

Report for April 2006

Issued May 1, 2006

National Association of Credit Management
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Columbia, MD 21045-2158

NACM is pleased to announce that the Credit Manager's Index now reflects seasonally adjusted numbers.

Combined Sectors

The Combined Credit Manager's Index (CMI) fell a modest 0.6% for the month of April on a seasonally adjusted basis. The decline was comprised of a 1.8% fall in the service sector index and an offsetting rise of 0.5% in the manufacturing sector index. "While there was no particular concentration of changes in the components, the surprising resilience of the economy continues to shine through," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. For the first time since July 2004, all of the components in all of the indexes are above the 50% mark indicating economic expansion. "As far as credit managers are concerned," said North, "the economy is firing on all cylinders."

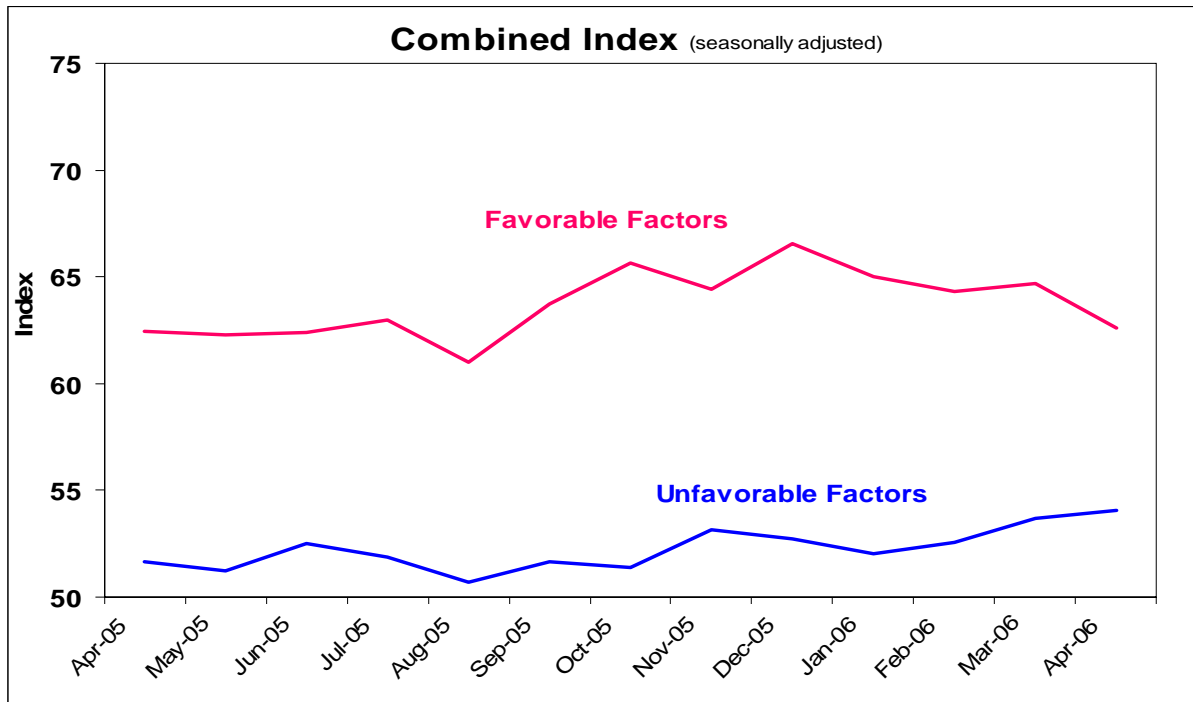
North continued, "Despite rising interest rates and high energy costs, the housing market is not cooling as quickly as expected, and consumer confidence remains strong. It is worth noting, however, that Fed Chairman Bernanke has openly cited rising energy prices as a threat to the economy, prompting the financial markets to forecast a greater than 50% chance of more tightening at the next Fed meeting on May 10th. That would be 16 increases over the past two years from 1% to 5%—a very significant tightening of monetary policy."

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

Combined Manufacturing and Service Sectors (seasonally adjusted)

	Apr '05	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr
Sales	62.3	63.0	64.7	65.0	60.4	69.8	70.1	65.7	70.9	66.1	64.6	65.8	63.3
New credit applications	58.6	58.9	59.2	61.5	60.8	59.8	59.4	57.4	62.0	63.6	60.3	60.9	57.4
Dollar collections	63.5	61.1	60.6	60.5	56.7	59.8	62.9	68.1	63.6	63.6	66.2	64.6	63.5
Amount of credit extended	65.4	66.1	64.9	64.9	66.2	65.4	70.2	66.4	69.6	66.9	66.3	67.4	66.2
Index of favorable factors	62.5	62.3	62.4	63.0	61.0	63.7	65.6	64.4	66.5	65.0	64.3	64.7	62.6
Rejection of credit applications	51.4	52.0	51.4	52.3	50.8	52.0	54.5	52.7	50.8	50.7	53.1	53.9	53.8
Accounts placed for collections	50.7	52.1	51.7	50.8	49.8	52.8	54.1	53.3	53.8	52.6	50.3	52.7	52.0
Disputes	50.1	48.8	49.8	48.5	49.6	50.7	48.4	52.6	46.5	49.8	48.4	50.0	52.4
Dollar amount beyond terms	53.1	52.6	54.6	53.0	47.8	54.1	53.9	55.9	52.9	51.1	52.2	54.6	53.5
Dollar amount of customer deductions	49.0	48.9	51.5	50.4	50.2	48.7	50.2	50.2	50.4	50.4	50.2	51.2	51.8
Filings for bankruptcies	55.6	53.2	56.1	56.2	55.9	51.8	47.3	54.1	61.9	57.8	61.3	59.7	60.8
Index of unfavorable factors	51.6	51.3	52.5	51.9	50.7	51.7	51.4	53.1	52.7	52.1	52.6	53.7	54.0
NACM CMI	56.0	55.7	56.4	56.3	54.8	56.5	57.1	57.7	58.3	57.2	57.3	58.1	57.5
ISM Combined Sectors Index	57.5	55.0	58.0	58.6	59.3	56.4	59.6	58.3	57.0	57.6	58.4	57.9	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.

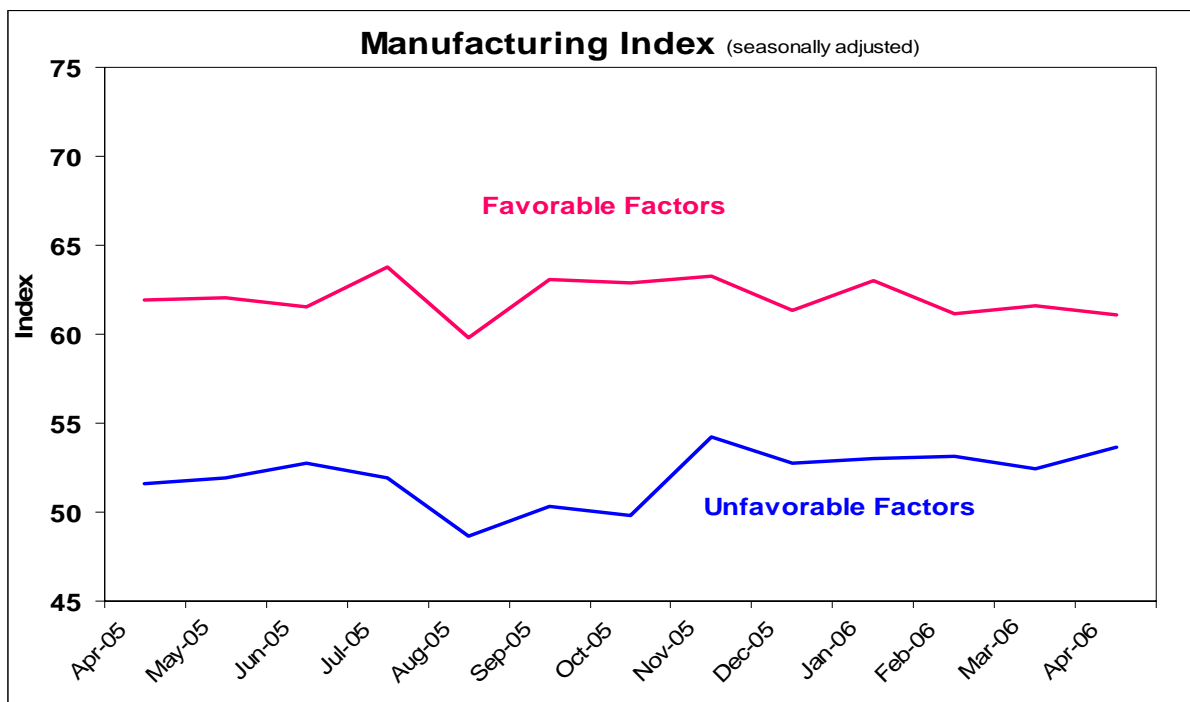


Manufacturing Sector

The manufacturing sector index rose 0.5% in April on a seasonally adjusted basis. “The increase was a result of an improvement in the unfavorable factors of 1.3% being offset by a deterioration of favorable factors of 0.5%,” said North. “Note that all of the 10 factors finished above 50, indicating economic growth—but there was little discernable pattern. Improvements in collections, disputes, and customer deductions were largely offset by declines in new credit applications and rejection of credit applications.”

Manufacturing (Seasonally adjusted)

Factor	Apr '05	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr
Sales	63.0	63.3	65.2	66.4	59.0	69.8	68.1	63.1	64.0	64.0	61.3	62.7	62.4
New credit applications	57.6	57.9	57.7	60.8	62.3	59.1	55.2	56.5	56.1	61.7	55.0	59.7	54.9
Dollar collections	62.3	60.1	59.3	62.7	55.1	59.8	59.7	67.8	61.7	62.3	66.2	59.3	63.4
Amount of credit extended	64.7	66.8	63.8	65.1	62.7	63.7	68.6	65.7	63.6	64.0	62.1	64.9	63.6
Index of favorable factors	61.9	62.0	61.5	63.8	59.8	63.1	62.9	63.3	61.4	63.0	61.1	61.6	61.1
Rejection of credit applications	51.5	52.1	52.0	52.0	50.3	50.5	54.9	53.6	52.1	51.8	53.8	55.4	52.2
Accounts placed for collections	48.8	54.7	51.4	51.6	49.5	53.4	52.5	56.7	55.8	52.0	49.4	51.3	52.0
Disputes	49.9	49.0	49.6	48.0	44.9	50.4	46.0	52.4	44.1	50.5	49.0	45.7	52.4
Dollar amount beyond terms	54.2	53.4	55.4	53.1	47.0	50.2	51.7	57.7	53.3	56.0	55.2	54.5	52.3
Dollar amount of customer deductions	49.6	47.2	51.8	51.0	46.9	46.3	47.1	49.3	49.3	50.8	51.4	49.0	52.7
Filings for bankruptcies	55.5	55.0	56.5	55.8	53.2	51.0	46.9	55.5	61.9	56.9	60.0	58.6	60.4
Index of unfavorable factors	51.6	51.9	52.8	51.9	48.6	50.3	49.8	54.2	52.7	53.0	53.1	52.4	53.7
NACM Manufacturing CMI	55.7	56.0	56.3	56.6	53.1	55.4	55.1	57.8	56.2	57.0	56.3	56.1	56.6
ISM Manufacturing PMI	53.3	51.4	53.8	56.6	53.6	59.4	59.1	58.1	54.2	58.4	56.7	55.2	NA



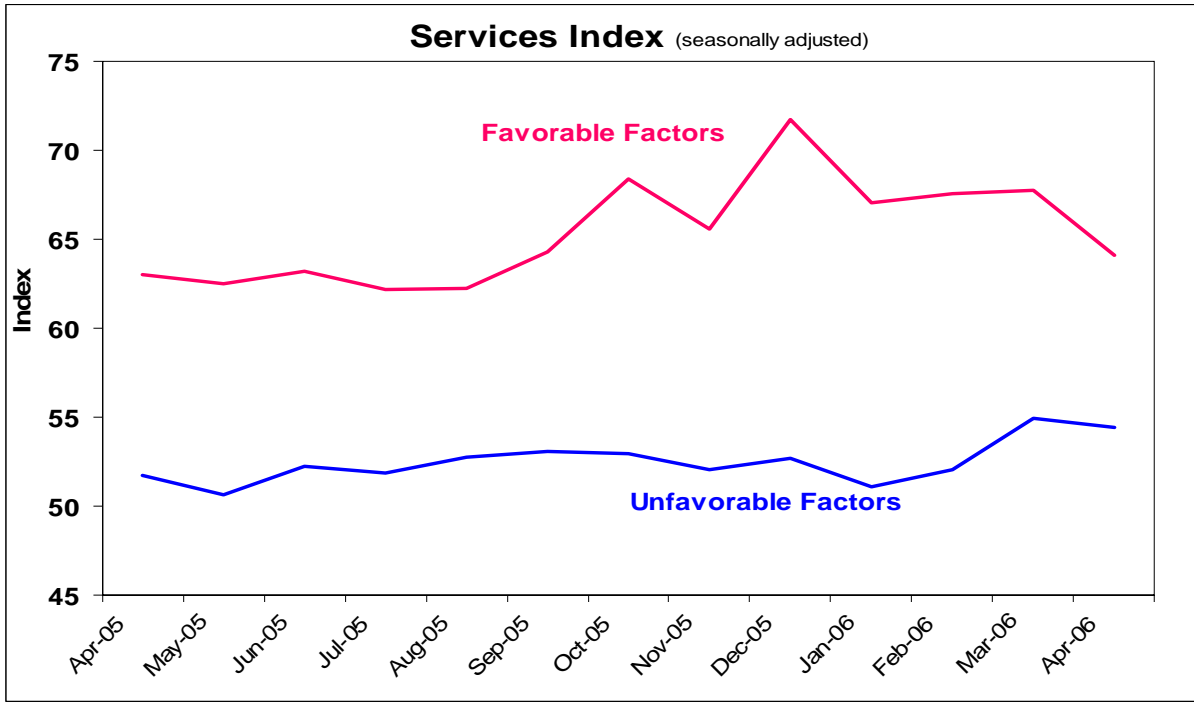
Service Sector

“In contrast to the manufacturing sector’s improvement, the service sector index fell 1.8% in April on a seasonally adjusted basis, as both the favorable and unfavorable components fell,” observed North. “Also in contrast to the manufacturing sector, collections deteriorated significantly. In addition, a sharp fall of 4.6% in the sales factor contributed to the overall decline.”

“However,” he continued, “like the manufacturing index and the combined index, all 10 of the factors in the service index finished above 50—again indicating sustained economic growth.”

Service Sector (seasonally adjusted)

	Apr '05	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr
Sales	61.7	62.6	64.2	63.6	61.8	69.8	72.1	68.4	77.9	68.1	67.9	68.9	64.3
New credit applications	59.6	59.9	60.8	62.1	59.3	60.5	63.6	58.3	68.0	65.5	65.6	62.2	60.0
Dollar collections	64.6	62.0	61.8	58.3	58.3	59.8	66.1	68.4	65.5	64.8	66.2	69.9	63.5
Amount of credit extended	66.1	65.5	66.1	64.7	69.6	67.2	71.7	67.1	75.6	69.8	70.4	69.9	68.8
Index of favorable factors	63.0	62.5	63.2	62.2	62.3	64.3	68.4	65.6	71.7	67.1	67.5	67.7	64.1
Rejection of credit applications	51.4	52.0	50.7	52.5	51.3	53.4	54.2	51.8	49.4	49.5	52.3	52.4	55.4
Accounts placed for collections	52.5	49.4	52.0	50.1	50.1	52.3	55.7	50.0	51.7	53.2	51.2	54.0	52.1
Disputes	50.2	48.6	50.0	49.0	54.3	51.0	50.8	52.8	49.0	49.0	47.8	54.4	52.3
Dollar amount beyond terms	52.0	51.7	53.7	52.9	48.6	57.9	56.1	54.0	52.5	46.2	49.3	54.7	54.6
Dollar amount of customer deductions	48.4	50.5	51.2	49.8	53.5	51.1	53.3	51.1	51.6	49.9	48.9	53.3	50.9
Filings for bankruptcies	55.7	51.4	55.6	56.7	58.6	52.7	47.7	52.6	61.9	58.8	62.6	60.9	61.2
Index of unfavorable factors	51.7	50.6	52.2	51.8	52.7	53.1	53.0	52.1	52.7	51.1	52.0	54.9	54.4
NACM Service CMI	56.2	55.4	56.6	56.0	56.5	57.6	59.1	57.5	60.3	57.5	58.2	60.1	58.3
ISM Service Business Activity Inde	61.7	58.5	62.2	60.5	65.0	53.3	60.0	58.5	59.8	56.8	60.1	60.5	NA



April 2006 vs. April 2005

“The seasonally adjusted Combined Index improved 1.5% on a year-to-year basis,” said North. “The increase was widespread—as eight of the 10 factors were better than the previous year in the combined and service indexes, while seven factors improved in the manufacturing sector. Declines in bankruptcy activity were the largest single contributor in both sectors, reflecting the resilience of the economy over the past year.”

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

As shown in the table below, 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.

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.

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