

NACM Credit Manager's Index

Report for April 2007

Issued May 1, 2007

National Association of Credit Management
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Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) rose 1.6% in April, recouping last month's losses as eight of the 10 components of the Index rose. The increase was driven by gains in the sales component and in both collections components.

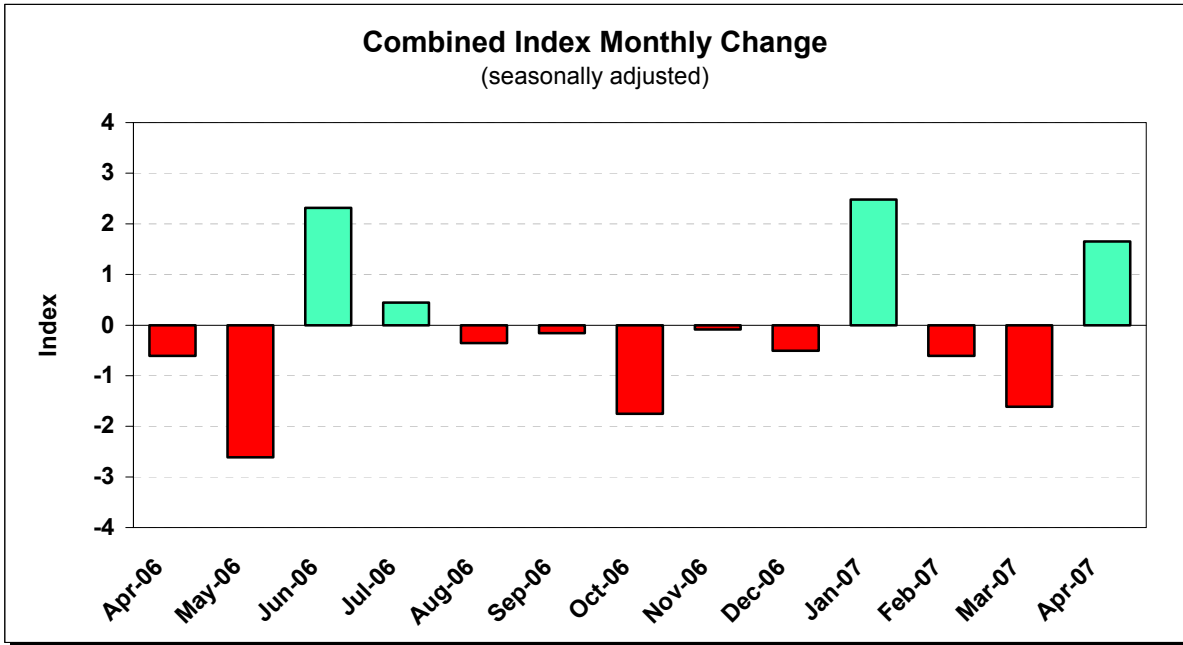
"While overall the report was positive, there was a disparity between the manufacturing sector, which rose 3.3%, and the service sector, which was unchanged," stated Dan North, chief economist with credit insurer Euler Hermes ACI. He noted that comments from the respondents echo a familiar refrain that the demise of the housing market has been a major drag on distributors of goods into that industry. "Median prices on existing homes have now fallen for eight consecutive months on a year-over-year basis," he noted. "This is an unprecedented event since house prices almost never fall, and they have never fallen for more than two months in a row in the 38 years that records have been kept." The continued deflation of the housing market bubble as seen in this data, combined with the lagged effects of monetary policy tightening and the prospect of higher gasoline prices, suggest that the economy will continue to slow throughout the year.

See page 5 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)

	Apr '06	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr
Sales	63.3	61.5	65.4	67.8	62.8	63.5	56.3	59.5	60.9	61.6	59.6	58.1	62.8
New credit applications	57.4	55.7	55.7	59.0	62.5	57.9	56.2	56.5	60.5	60.9	52.5	55.9	56.7
Dollar collections	63.5	58.6	62.5	61.9	63.3	60.0	58.3	62.6	59.5	64.8	66.2	58.4	61.5
Amount of credit extended	66.2	65.5	64.8	69.9	66.4	62.4	63.2	64.0	63.7	65.3	63.6	62.4	59.3
Index of favorable factors	62.6	60.3	62.1	64.7	63.8	60.9	58.5	60.6	61.2	63.2	60.5	58.7	60.1
Rejection of credit applications	53.8	50.6	51.5	52.6	53.6	53.3	54.8	51.7	50.1	51.6	52.7	51.9	52.4
Accounts placed for collection	52.0	50.5	55.2	52.0	50.1	55.0	53.1	50.7	47.8	51.4	51.3	49.6	55.4
Disputes	52.4	49.3	51.1	51.1	50.4	52.3	49.7	49.9	47.9	52.7	53.5	51.9	53.0
Dollar amount beyond terms	53.5	48.5	56.5	52.2	51.3	55.8	52.2	50.2	48.1	50.9	52.6	55.0	54.2
Dollar amount of customer	51.8	49.0	49.7	50.5	51.7	50.6	50.5	51.3	49.2	53.2	54.5	50.2	51.5
Filings for bankruptcies	60.8	59.2	59.2	59.1	60.5	60.2	59.1	56.3	59.7	59.8	59.5	56.6	59.6
Index of unfavorable factors	54.0	51.2	53.9	52.9	52.9	54.5	53.2	51.7	50.5	53.3	54.0	52.5	54.4
NACM CMI	57.5	54.9	57.2	57.6	57.3	57.1	55.3	55.2	54.7	57.2	56.6	55.0	56.6
ISM Combined Sectors Index*	59.0	57.0	55.5	55.1	55.6	53.7	54.5	54.1	54.1	54.2	53.3	51.7	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.

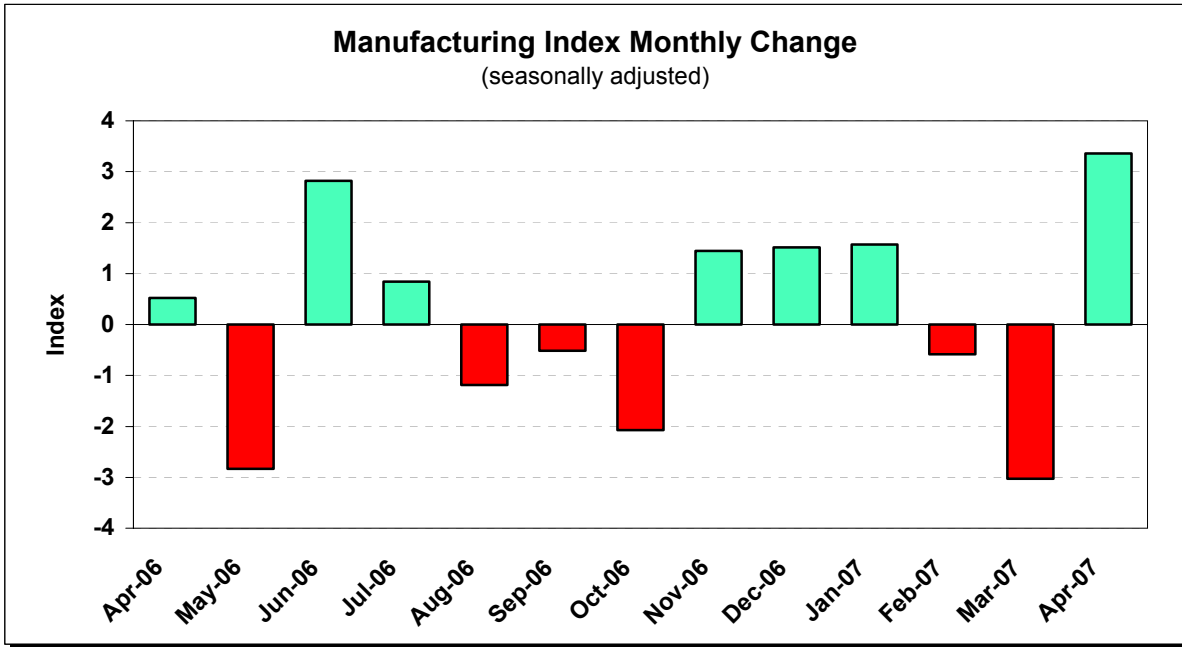


Manufacturing Sector

“The manufacturing sector rose 3.3% and enjoyed widespread gains as eight of the 10 components rose in April, more than recouping last month’s drop. Improvements in accounts placed for collections and dollar amount beyond terms were especially notable,” North noted. One survey respondent stated, “We have not placed any accounts for collection YTD. Our receivables are current and deductions are at an all-time low dollar amount open.” Another noted, “...record first quarter in sales.”

Manufacturing Sector (seasonally adjusted)

	Apr '06	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr
Sales	62.4	59.4	63.9	69.7	62.0	62.0	55.7	63.5	69.4	58.9	58.7	56.5	60.9
New credit applications	54.9	53.5	55.0	59.1	63.4	57.4	55.8	56.6	62.1	60.0	52.8	54.6	57.1
Dollar collections	63.4	56.5	60.5	59.4	60.1	61.0	54.8	62.6	59.9	64.6	65.3	55.3	60.3
Amount of credit extended	63.6	64.4	61.1	70.7	67.9	60.6	62.6	64.7	66.9	65.4	59.9	60.0	54.3
Index of favorable factors	61.1	58.4	60.1	64.7	63.4	60.2	57.2	61.9	64.6	62.2	59.2	56.6	58.1
Rejection of credit applications	52.2	47.5	51.6	52.8	53.2	52.5	55.1	51.1	50.7	52.6	54.1	53.1	51.9
Accounts placed for collection	52.0	51.7	54.0	51.7	48.5	54.8	50.6	48.9	51.0	54.4	54.5	50.0	58.3
Disputes	52.4	48.4	52.4	49.9	47.8	48.7	48.2	49.0	46.7	55.5	55.6	51.7	55.1
Dollar amount beyond terms	52.3	49.4	59.0	53.9	48.7	54.8	49.5	50.7	50.1	53.0	54.1	56.7	63.7
Dollar amount of customer deductions	52.7	49.0	49.4	48.6	51.7	46.4	48.2	49.8	49.3	55.5	57.2	50.4	53.7
Filings for bankruptcies	60.4	58.2	59.3	58.8	59.3	59.4	56.3	54.3	60.2	62.1	63.9	57.5	64.1
Index of unfavorable factors	53.7	50.7	54.3	52.6	51.5	52.8	51.3	50.6	51.3	55.5	56.6	53.2	57.8
NACM Manufacturing CMI	56.6	53.8	56.6	57.5	56.3	55.8	53.7	55.1	56.6	58.2	57.6	54.6	57.9
ISM Manufacturing PMI	56.9	54.7	54	54.4	54.3	52.7	51.5	49.9	51.4	49.3	52.3	50.9	NA

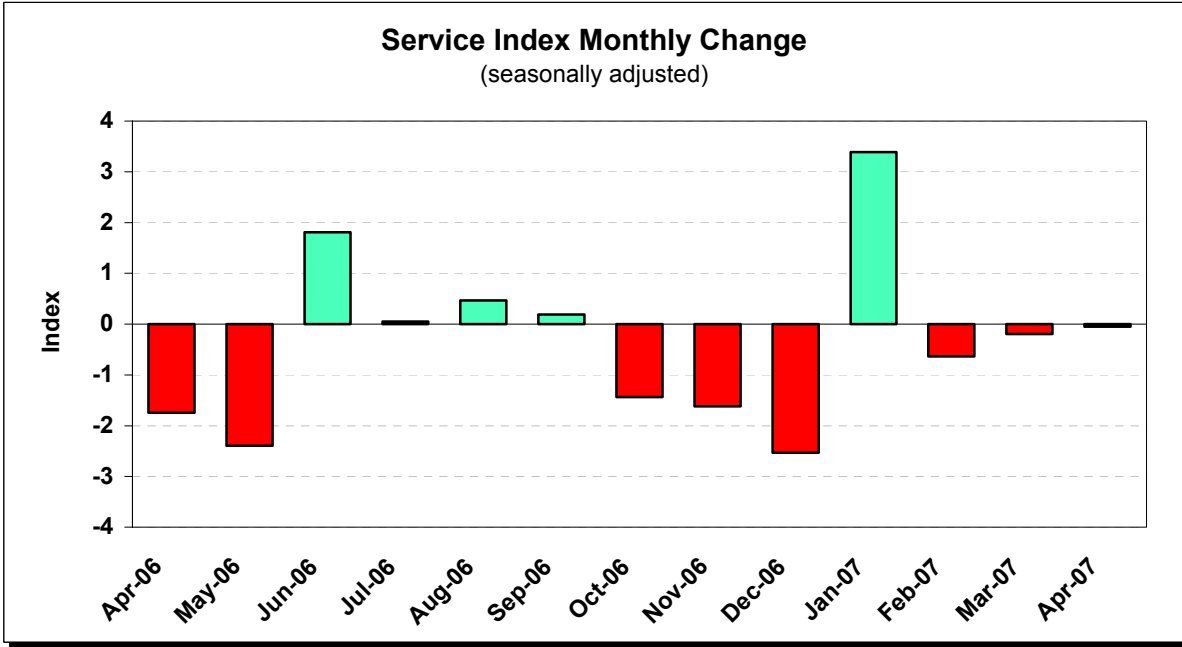


Service Sector

The service sector remained unchanged overall but six of the 10 components fell and two remain below the 50 level indicating economic contraction. "Once again, the demise of the housing market is the primary concern of the survey participants," North said. Distributors of home furnishings and building supplies note, "sales are down considerably," "housing market continues to cause problems" and "customers tell us they will 'pay when paid'." Other respondents cite a "slowdown within the housing market" and "higher than normal disputes...more liens filed."

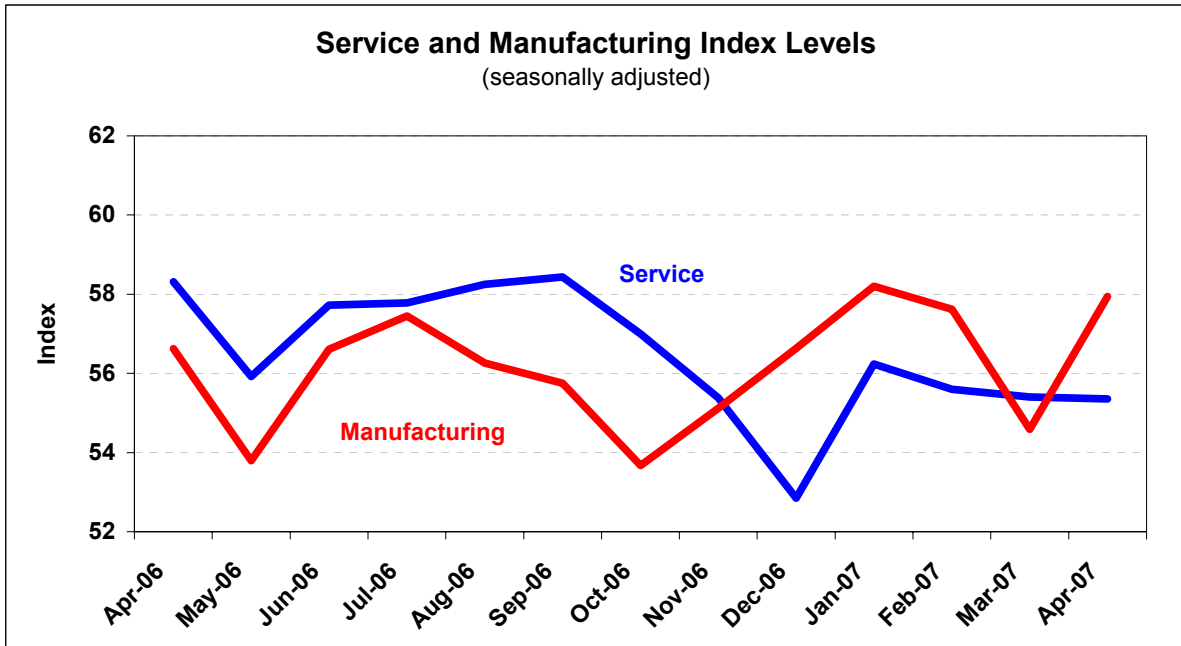
Service Sector (seasonally adjusted)

	Apr '06	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr
Sales	64.3	63.6	67.0	66.0	63.7	65.0	56.8	55.5	52.4	64.3	60.5	59.8	64.8
New credit applications	60.0	57.9	56.4	58.9	61.6	58.3	56.6	56.3	58.9	61.9	52.3	57.1	56.3
Dollar collections	63.5	60.7	64.6	64.4	66.6	59.0	61.9	62.5	59.1	65.0	67.1	61.6	62.7
Amount of credit extended	68.8	66.7	68.5	69.2	64.8	64.2	63.7	63.4	60.5	65.2	67.3	64.7	64.2
Index of favorable factors	64.1	62.2	64.1	64.6	64.1	61.6	59.8	59.4	57.7	64.1	61.8	60.8	62.0
Rejection of credit applications	55.4	53.7	51.5	52.3	53.9	54.2	54.5	52.2	49.4	50.7	51.3	50.8	52.9
Accounts placed for collection	52.1	49.4	56.4	52.4	51.7	55.1	55.7	52.5	44.7	48.4	48.1	49.1	52.5
Disputes	52.3	50.2	49.8	52.3	52.9	55.9	51.3	50.8	49.1	49.8	51.4	52.1	50.9
Dollar amount beyond terms	54.6	47.6	54.1	50.4	54.0	56.7	54.8	49.7	46.1	48.7	51.1	53.2	44.8
Dollar amount of customer deductions	50.9	49.1	50.0	52.5	51.6	54.8	52.8	52.7	49.1	50.8	51.8	50.1	49.4
Filings for bankruptcies	61.2	60.2	59.1	59.3	61.8	61.0	62.0	58.3	59.2	57.5	55.2	55.6	55.0
Index of unfavorable factors	54.4	51.7	53.5	53.2	54.3	56.3	55.2	52.7	49.6	51.0	51.5	51.8	50.9
NACM Service CMI	58.3	55.9	57.7	57.8	58.2	58.4	57.0	55.4	52.9	56.2	55.6	55.4	55.4
ISM Service Business Activity Index	61.1	59.2	56.9	55.7	56.9	54.6	57.4	58.3	56.7	59.0	54.3	52.4	NA



April 2007 vs. April 2006

North said, "On a year-over-year basis, the combined index fell 0.9%, reflecting a resilient yet slowly deteriorating economy. The disparity between the two sectors on a year-over-year basis was notable. The manufacturing sector gained 1.3% but the services sector fell 2.9% as the decline of the housing market weighed on suppliers to the home building and construction industries."



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:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

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 collection	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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