

NACM Credit Manager's Index

Report for April 2008

Issued May 1, 2008
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted combined Credit Manager's Index rose slightly to 50.1, barely above the critical 50 level indicating economic expansion. The increase of 0.2% was a result of the manufacturing sector falling 0.8% while the service sector rose 1.2%. Five of the 10 components in the combined index fell, but six are below 50. Eight components fell in the manufacturing sector, leaving six below 50, the most ever. "However, the service sector showed a rebound in April, breaking a six-month streak of decreases, which made it only the second month in the past 11 to show improvement," commented Daniel North, chief economist with credit insurer Euler Hermes ACI. "Finally, note the respective levels of the combined, manufacturing and service indexes—50.1, 50.2 and 50.0—all perilously close to showing economic contraction," he continued.

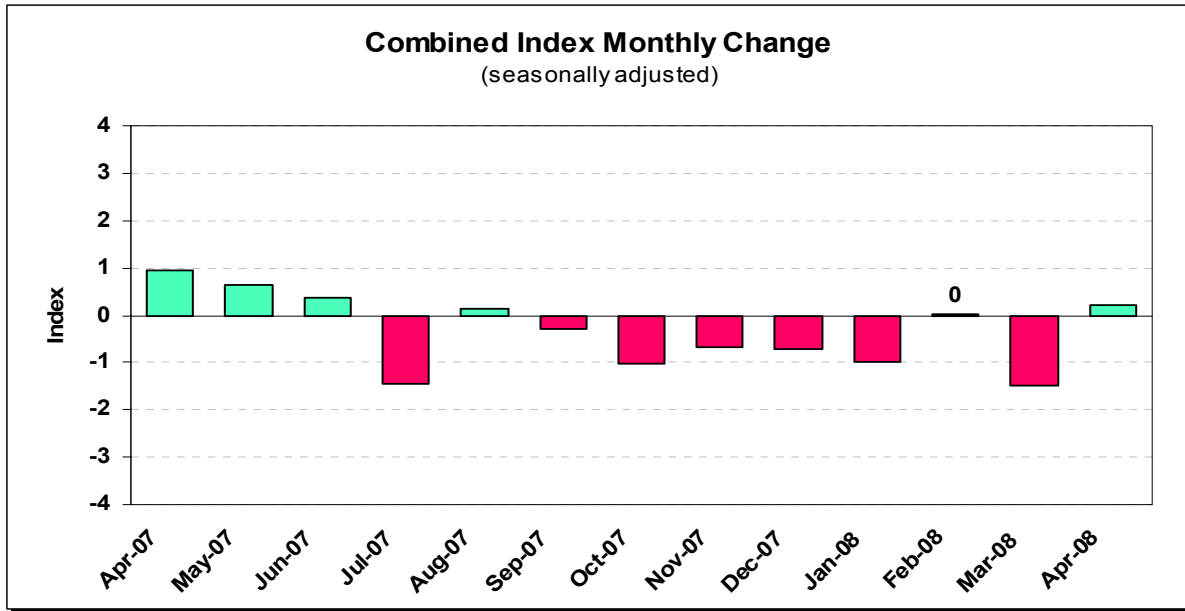
North said that comments from participants this month include the usual litany of slow paying customers and overall economic weakness, especially in businesses exposed to the housing industry. "However, there was a significant increase in comments about the negative effects of higher input costs, especially fuel," he said. "No doubt the Federal Reserve will cite these inflationary pressures as a concern when it signals to the financial markets that the cycle of monetary easing is about to end."

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 '07	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr '08
Sales	62.8	61.5	61.9	60.2	59.1	59.0	54.7	58.6	56.3	51.7	57.1	50.8	54.0
New credit applications	56.7	56.2	58.6	56.0	55.6	55.3	53.3	56.4	55.8	52.8	54.7	53.0	54.4
Dollar collections	61.5	61.9	61.0	60.2	60.1	60.0	60.0	61.2	57.2	56.8	60.5	55.1	54.8
Amount of credit extended	59.3	62.2	63.6	63.0	61.6	60.1	58.7	60.9	59.8	57.0	55.0	55.8	57.0
Index of favorable factors	60.1	60.5	61.3	59.9	59.1	58.6	56.7	59.2	57.3	54.5	56.8	53.7	55.0
Rejections of credit applications	52.4	52.7	52.6	53.4	51.1	51.8	52.0	49.9	50.0	50.9	48.4	49.0	48.9
Accounts placed for collection	54.0	51.5	52.0	49.8	50.7	49.0	49.6	47.4	46.2	47.1	42.5	45.2	45.8
Disputes	51.2	50.7	51.9	51.9	52.2	50.2	49.4	47.8	49.5	49.5	47.3	49.0	46.9
Dollar amount beyond terms	50.1	53.0	52.0	48.9	51.4	55.3	48.4	45.8	46.3	45.1	49.0	43.5	42.5
Dollar amount of customer deductions	49.3	53.3	53.0	48.8	52.2	49.9	51.5	49.6	50.3	50.3	47.4	49.0	47.5
Filings for bankruptcies	56.8	57.4	57.5	57.3	57.2	57.7	60.4	53.5	52.3	52.6	52.1	48.6	49.2
Index of unfavorable factors	52.3	53.1	53.2	51.7	52.4	52.3	51.9	49.0	49.1	49.3	47.8	47.4	46.8
NACM CMI	55.4	56.1	56.4	55.0	55.1	54.8	53.8	53.1	52.4	51.4	51.4	49.9	50.1
ISM Combined Sectors Index*	53.1	53.7	54.3	52.7	52.0	51.9	51.9	51.2	50.8	47.7	48.8	49.1	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.



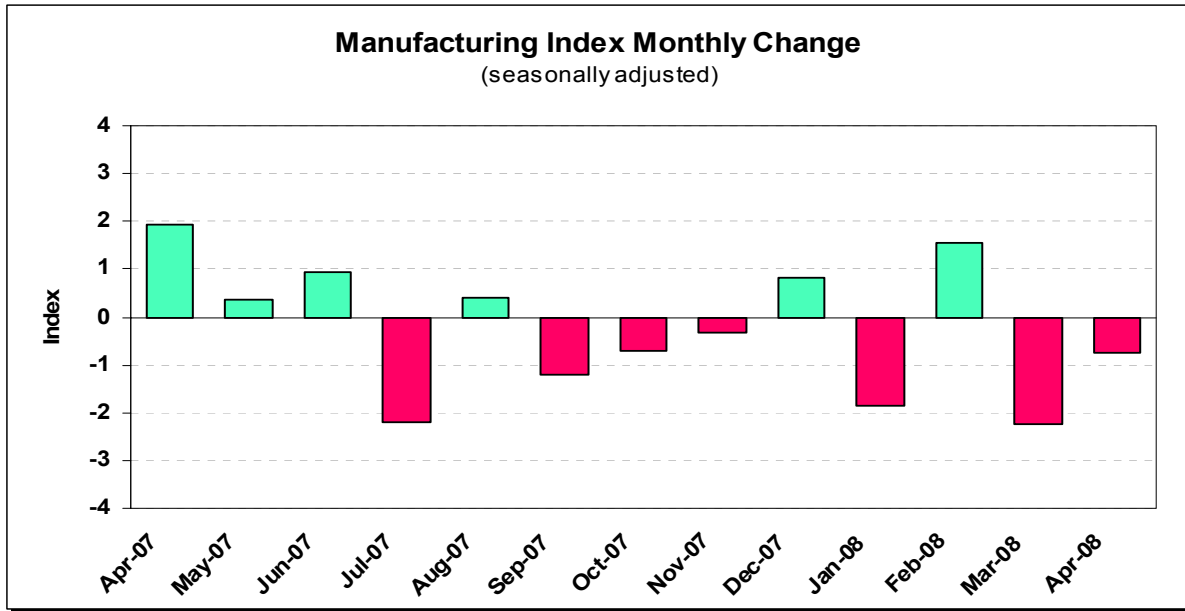
Manufacturing Sector

The seasonally adjusted manufacturing sector index fell for the second consecutive month as eight of its 10 components slid. Comments North provided from participants noted weak economic conditions: “laid off about quarter of our staff,” “sales very low,” “accounts finding more and more reasons not to pay within their times and are requesting extensions,” and “too much inventory.”

In addition to comments about the weak economy, however, this month saw a distinct increase in participants’ notes about rising prices, North said. A manufacturer of plumbing fixtures said they “just increased prices” while a food processor stated, “We had a price increase.” An operator of a steel works gave a more thorough assessment highlighting the dangers of inflation: “We continue to increase prices as our raw materials prices have drastically increased....Many (of our customers) cannot pass along price increases....if current economic conditions persist for the rest of 2008, then 2009 will be a much worse year as customers cannot hang on.”

Manufacturing Sector (seasonally adjusted)

	Apr '07	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr '08
Sales	60.9	59.5	62.9	60.9	59.2	59.3	54.2	59.4	61.9	53.0	56.2	53.1	54.0
New credit applications	57.1	57.3	58.7	56.4	55.7	57.5	54.1	56.6	58.0	54.2	53.5	55.6	55.5
Dollar collections	60.3	60.2	59.5	61.3	60.4	59.8	57.6	60.8	58.7	56.9	67.1	55.6	54.6
Amount of credit extended	54.3	62.0	61.8	62.6	62.7	59.1	57.3	61.3	61.8	57.3	57.4	56.5	57.7
Index of favorable factors	58.1	59.7	60.7	60.3	59.5	58.9	55.8	59.5	60.1	55.4	58.6	55.2	55.4
Rejections of credit applications	51.9	51.8	52.6	53.4	50.8	50.7	51.6	49.9	50.3	52.2	50.9	49.5	48.8
Accounts placed for collection	55.6	51.0	52.7	48.3	50.8	46.4	50.7	46.3	43.5	46.6	45.7	48.3	47.1
Disputes	51.4	49.9	51.4	49.8	50.6	46.1	47.8	45.5	49.8	50.0	52.1	47.0	46.3
Dollar amount beyond terms	55.3	56.0	56.6	50.0	50.0	53.6	46.3	46.9	47.4	42.7	46.3	46.0	44.0
Dollar amount of customer deductions	49.2	53.2	53.3	47.4	50.8	47.2	48.7	45.9	49.8	50.5	50.7	48.0	45.5
Filings for bankruptcies	58.6	57.5	58.0	55.4	58.4	57.5	62.0	54.2	54.1	53.2	52.4	50.2	48.7
Index of unfavorable factors	53.7	53.2	54.1	50.7	51.9	50.3	51.2	48.1	49.2	49.2	49.7	48.2	46.7
NACM Manufacturing CMI	55.5	55.8	56.7	54.6	55.0	53.7	53.0	52.7	53.5	51.7	53.2	51.0	50.2
ISM Manufacturing PMI	52.8	52.8	53.4	52.3	51.2	50.5	50.4	50.0	48.4	50.7	48.3	48.6	NA



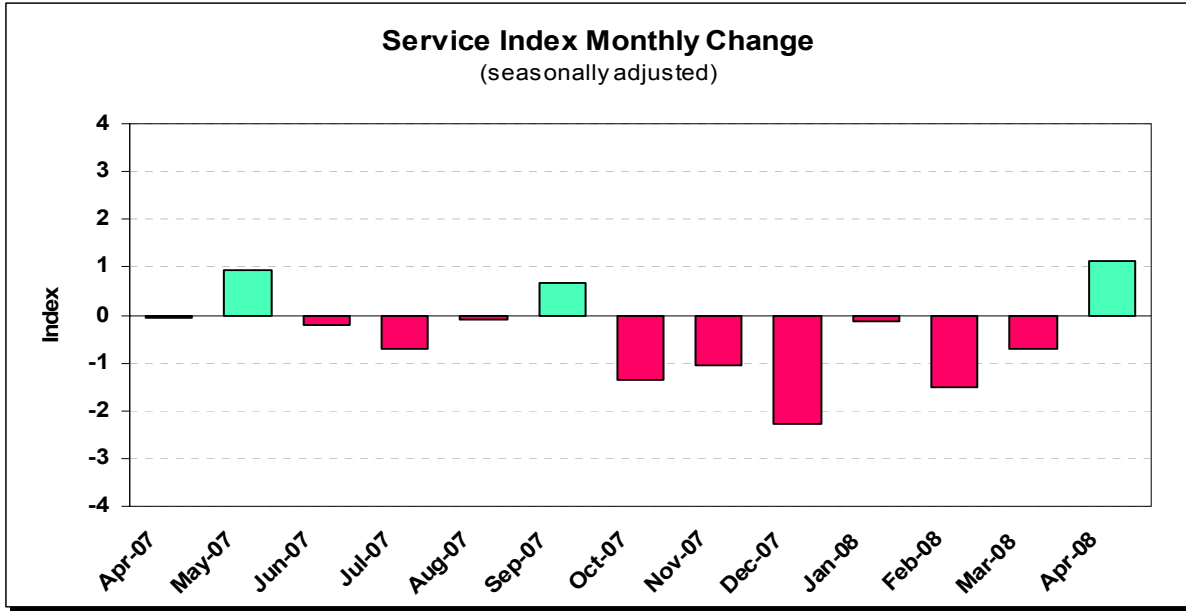
Service Sector

The seasonally adjusted service sector index rose 1.2%, the first increase in seven months, as seven of the 10 components rose. Comments from participants were mixed this month as some reported strength, others reported weakness and still others reported inflationary pressures, North noted. "Photographic and farm equipment, metals services and sporting goods industries all reported good business conditions," he said. "Lumber, home furnishing and transportation industries reported increases in NSF checks, slow pay, weak sales and cancellations."

North pointed out that, as with the manufacturing sector, inflationary pressures came to the forefront. Trucking and transportation equipment suppliers reported that higher fuel prices are causing "significant trouble." Other complaints reported were "cost of products sold has increased," "raw material cost(s) are up 30% from last year" and, finally, an angry "It's the fuel prices that (are) doing this!!"

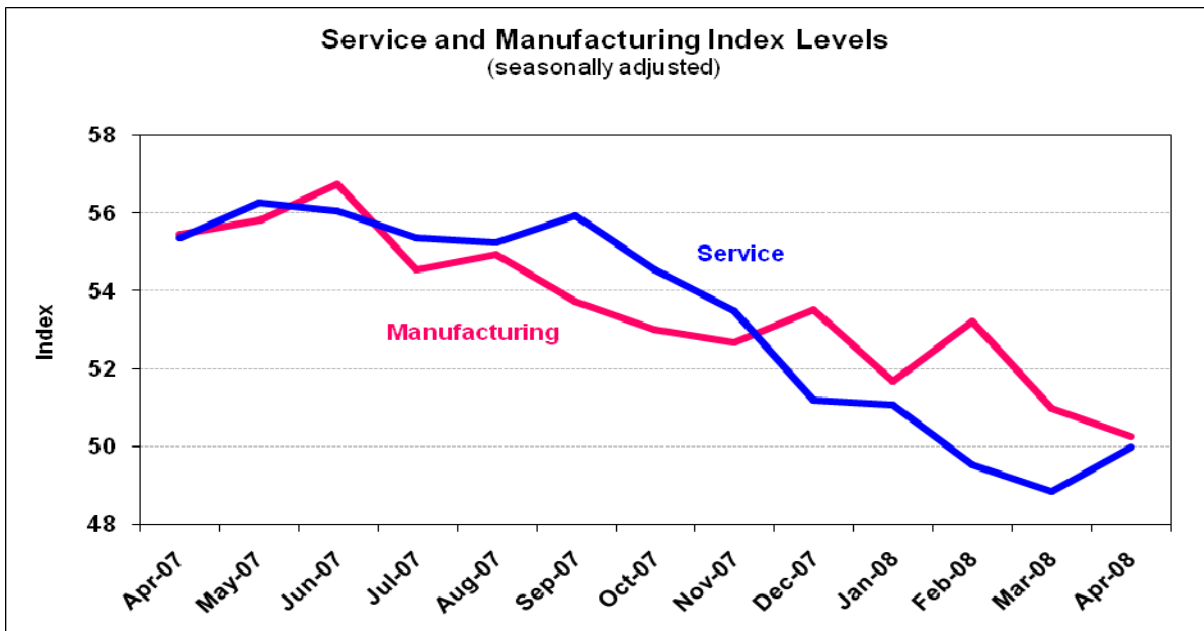
Service Sector (seasonally adjusted)

	Apr '07	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr '08
Sales	64.8	63.5	60.9	59.5	59.0	58.6	55.1	57.7	50.8	50.3	58.0	48.5	53.9
New credit applications	56.3	55.2	58.5	55.5	55.5	53.1	52.4	56.1	53.6	51.3	55.8	50.4	53.4
Dollar collections	62.7	63.7	62.5	59.1	59.7	60.2	62.5	61.5	55.8	56.6	53.9	54.6	55.0
Amount of credit extended	64.2	62.4	65.5	63.5	60.5	61.1	60.2	60.4	57.8	56.7	52.5	55.1	56.3
Index of favorable factors	62.0	61.2	61.8	59.4	58.7	58.2	57.5	58.9	54.5	53.7	55.1	52.1	54.7
Rejections of credit applications	52.9	53.6	52.7	53.3	51.4	52.8	52.5	49.8	49.7	49.7	45.9	48.5	49.0
Accounts placed for collection	52.5	52.1	51.3	51.3	50.7	51.6	48.5	48.5	48.8	47.6	39.3	42.2	44.4
Disputes	50.9	51.5	52.4	54.0	53.7	54.2	51.0	50.1	49.2	49.1	42.4	51.0	47.4
Dollar amount beyond terms	44.8	50.1	47.3	47.9	52.7	57.0	50.4	44.8	45.3	47.4	51.8	41.1	41.1
Dollar amount of customer deductions	49.4	53.4	52.7	50.2	53.5	52.6	54.3	53.3	50.8	50.1	44.1	50.0	49.5
Filings for bankruptcies	55.0	57.4	57.0	59.2	55.9	57.9	58.8	52.9	50.4	51.9	51.7	47.0	49.7
Index of unfavorable factors	50.9	53.0	52.2	52.7	53.0	54.4	52.6	49.9	49.0	49.3	45.9	46.6	46.8
NACM Service CMI	55.4	56.3	56.1	55.4	55.3	55.9	54.6	53.5	51.2	51.1	49.5	48.8	50.0
ISM Service Business Activity Index	53.4	54.5	55.1	53.1	52.8	53.2	53.3	52.4	53.2	44.6	49.3	49.6	NA



April 2008 vs. April 2007

“On a seasonally adjusted basis over the past 12 months, a weakening trend is very clear,” said North. Nine of 10 components in both the manufacturing and service sectors fell (all 10 fell for the combined index). Manufacturing fell 5.3% while services declined 5.4%. “The data show without doubt a weakening economy over the past year, and the trends toward the critical 50 level bode poorly for the future,” he concluded.



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.

###

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland supports more than 22,000 business credit and financial professionals worldwide with premier industry services, tools and information. NACM and its network of Affiliated Associations are the leading resource for credit and financial management information and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy. More information is available at www.nacm.org or by contacting Caroline Zimmerman at 410-740-5560.