

# NACM Credit Manager's Index

## Report for August 2006

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 National Association of Credit Management  
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### Combined Sectors

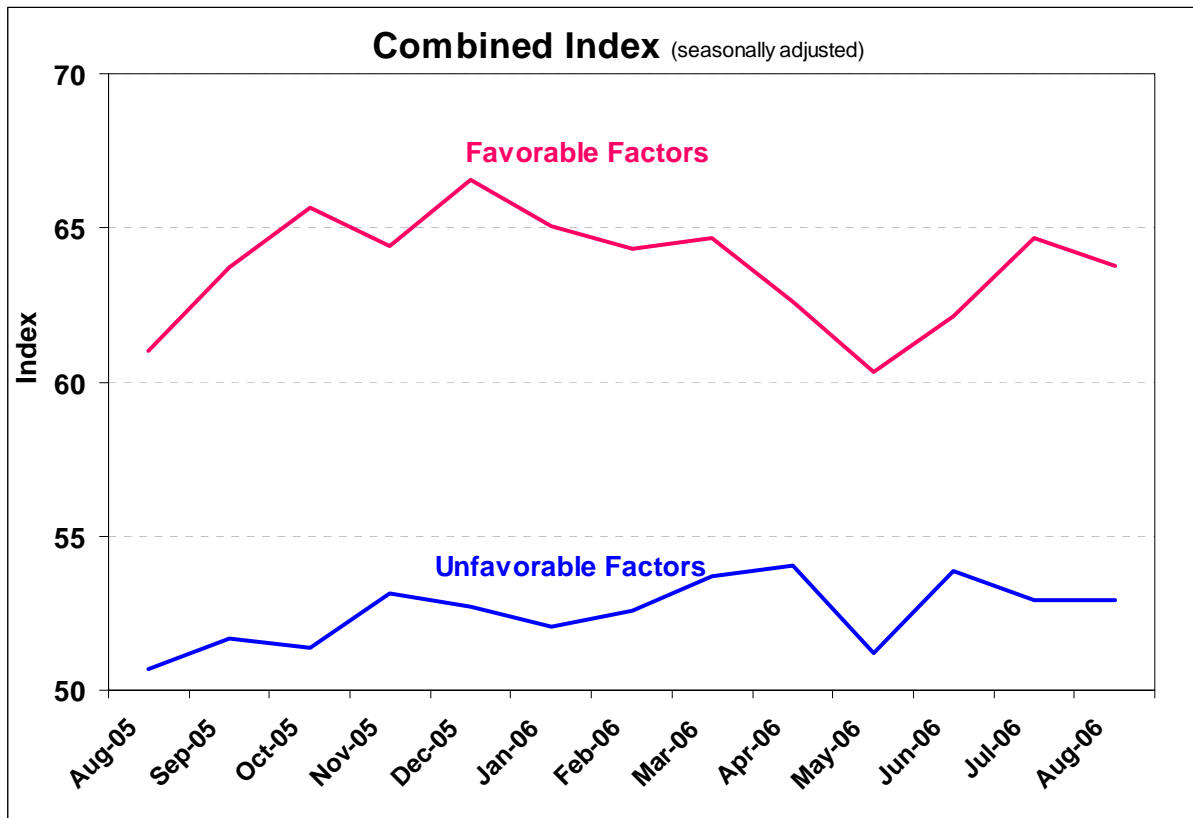
The seasonally adjusted Combined Credit Manager's Index (CMI) fell in August from 57.6 to 57.3. The index continued to indicate an economy with good momentum, but it also revealed some pockets of weakness. While the manufacturing, services and combined indexes were all above the 50 mark, indicating economic expansion, both the manufacturing and combined indexes fell from last month's levels. All three of the indexes experienced sharp drops in the sales and amount of credit extended components. Drops in these top-line oriented measures bode poorly for continued growth, and confirm other softening macroeconomic indicators such as a weak job market, sluggish retail sales, an easing of inflation, and a housing market that until recently had been widely described as "cooling" and might now be better characterized as frigid.

See page 4 of this report for information about the methodology and factors used to measure economic performance.

### Combined Manufacturing and Service Sectors (seasonally adjusted)

	Aug '05	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	60.4	69.8	70.1	65.7	70.9	66.1	64.6	65.8	63.3	61.5	65.4	67.8	62.8
New credit applications	60.8	59.8	59.4	57.4	62.0	63.6	60.3	60.9	57.4	55.7	55.7	59.0	62.5
Dollar collections	56.7	59.8	62.9	68.1	63.6	63.6	66.2	64.6	63.5	58.6	62.5	61.9	63.3
Amount of credit extended	66.2	65.4	70.2	66.4	69.6	66.9	66.3	67.4	66.2	65.5	64.8	69.9	66.4
<b>Index of favorable factors</b>	<b>61.0</b>	<b>63.7</b>	<b>65.6</b>	<b>64.4</b>	<b>66.5</b>	<b>65.0</b>	<b>64.3</b>	<b>64.7</b>	<b>62.6</b>	<b>60.3</b>	<b>62.1</b>	<b>64.7</b>	<b>63.8</b>
Rejection of credit applications	50.8	52.0	54.5	52.7	50.8	50.7	53.1	53.9	53.8	50.6	51.5	52.6	53.6
Accounts placed for collection	49.8	52.8	54.1	53.3	53.8	52.6	50.3	52.7	52.0	50.5	55.2	52.0	50.1
Disputes	49.6	50.7	48.4	52.6	46.5	49.8	48.4	50.0	52.4	49.3	51.1	51.1	50.4
Dollar amount beyond terms	47.8	54.1	53.9	55.9	52.9	51.1	52.2	54.6	53.5	48.5	56.5	52.2	51.3
Dollar amount of customer	50.2	48.7	50.2	50.2	50.4	50.4	50.2	51.2	51.8	49.0	49.7	50.5	51.7
Filings for bankruptcies	55.9	51.8	47.3	54.1	61.9	57.8	61.3	59.7	60.8	59.2	59.2	59.1	60.5
<b>Index of unfavorable factors</b>	<b>50.7</b>	<b>51.7</b>	<b>51.4</b>	<b>53.1</b>	<b>52.7</b>	<b>52.1</b>	<b>52.6</b>	<b>53.7</b>	<b>54.0</b>	<b>51.2</b>	<b>53.9</b>	<b>52.9</b>	<b>52.9</b>
<b>NACM CMI</b>	<b>54.8</b>	<b>56.5</b>	<b>57.1</b>	<b>57.7</b>	<b>58.3</b>	<b>57.2</b>	<b>57.3</b>	<b>58.1</b>	<b>57.5</b>	<b>54.9</b>	<b>57.2</b>	<b>57.6</b>	<b>57.3</b>
<b>ISM Combined Sectors Index*</b>	<b>59.3</b>	<b>56.4</b>	<b>59.6</b>	<b>58.3</b>	<b>57.0</b>	<b>57.6</b>	<b>58.4</b>	<b>57.9</b>	<b>60.2</b>	<b>57.3</b>	<b>55.4</b>	<b>54.8</b>	<b>N/A</b>

\* 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.

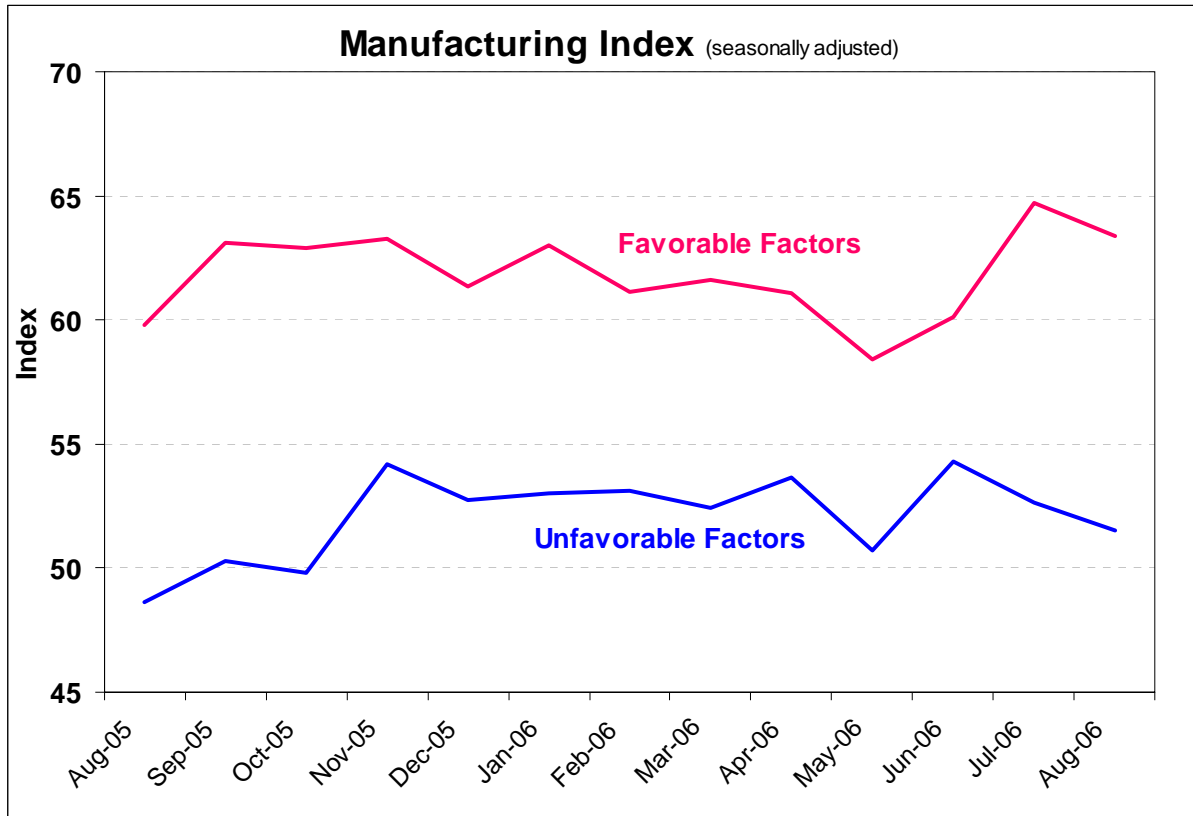


## Manufacturing Sector

The manufacturing sector index dropped 1.2% in August on a seasonally adjusted basis, as five of the 10 components fell. A 7.7 % drop in sales led the fall, along with deterioration in the amount of credit extended, accounts placed for collections, and dollar amounts beyond terms.

### Manufacturing Sector (seasonally adjusted)

	Aug '05	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	59.0	69.8	68.1	63.1	64.0	64.0	61.3	62.7	62.4	59.4	63.9	69.7	62.0
New credit applications	62.3	59.1	55.2	56.5	56.1	61.7	55.0	59.7	54.9	53.5	55.0	59.1	63.4
Dollar collections	55.1	59.8	59.7	67.8	61.7	62.3	66.2	59.3	63.4	56.5	60.5	59.4	60.1
Amount of credit extended	62.7	63.7	68.6	65.7	63.6	64.0	62.1	64.9	63.6	64.4	61.1	70.7	67.9
<b>Index of favorable factors</b>	<b>59.8</b>	<b>63.1</b>	<b>62.9</b>	<b>63.3</b>	<b>61.4</b>	<b>63.0</b>	<b>61.1</b>	<b>61.6</b>	<b>61.1</b>	<b>58.4</b>	<b>60.1</b>	<b>64.7</b>	<b>63.4</b>
Rejection of credit applications	50.3	50.5	54.9	53.6	52.1	51.8	53.8	55.4	52.2	47.5	51.6	52.8	53.2
Accounts placed for collection	49.5	53.4	52.5	56.7	55.8	52.0	49.4	51.3	52.0	51.7	54.0	51.7	48.5
Disputes	44.9	50.4	46.0	52.4	44.1	50.5	49.0	45.7	52.4	48.4	52.4	49.9	47.8
Dollar amount beyond terms	47.0	50.2	51.7	57.7	53.3	56.0	55.2	54.5	52.3	49.4	59.0	53.9	48.7
Dollar amount of customer	46.9	46.3	47.1	49.3	49.3	50.8	51.4	49.0	52.7	49.0	49.4	48.6	51.7
Filings for bankruptcies	53.2	51.0	46.9	55.5	61.9	56.9	60.0	58.6	60.4	58.2	59.3	58.8	59.3
<b>Index of unfavorable factors</b>	<b>48.6</b>	<b>50.3</b>	<b>49.8</b>	<b>54.2</b>	<b>52.7</b>	<b>53.0</b>	<b>53.1</b>	<b>52.4</b>	<b>53.7</b>	<b>50.7</b>	<b>54.3</b>	<b>52.6</b>	<b>51.5</b>
<b>NACM Manufacturing CMI</b>	<b>53.1</b>	<b>55.4</b>	<b>55.1</b>	<b>57.8</b>	<b>56.2</b>	<b>57.0</b>	<b>56.3</b>	<b>56.1</b>	<b>56.6</b>	<b>53.8</b>	<b>56.6</b>	<b>57.5</b>	<b>56.3</b>
<b>ISM Manufacturing PMI</b>	<b>53.6</b>	<b>59.4</b>	<b>59.1</b>	<b>58.1</b>	<b>54.2</b>	<b>58.4</b>	<b>56.7</b>	<b>55.2</b>	<b>57.3</b>	<b>54.4</b>	<b>53.8</b>	<b>54.7</b>	<b>54.5</b>

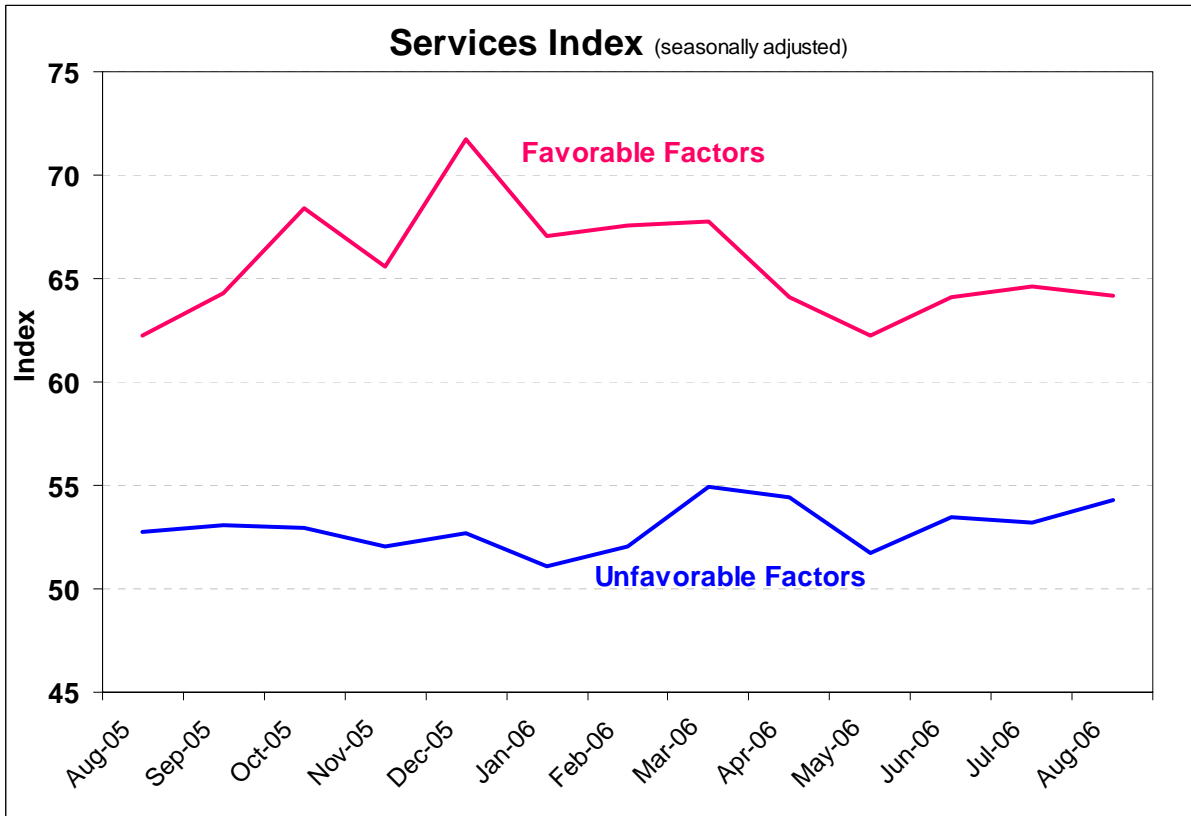


## Service Sector

The services sector index rose by 0.5% in August on a seasonally adjusted basis. Despite the increase, the services sector experienced significant erosion in two of the same components as the manufacturing sector; sales fell 2.3% and the amount of credit extended fell 4.4%. The sales component in the service sector has fallen in six of the past eight months.

### Service Sector (seasonally adjusted)

	Aug '05	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug
Sales	61.8	69.8	72.1	68.4	77.9	68.1	67.9	68.9	64.3	63.6	67.0	66.0	63.7
New credit applications	59.3	60.5	63.6	58.3	68.0	65.5	65.6	62.2	60.0	57.9	56.4	58.9	61.6
Dollar collections	58.3	59.8	66.1	68.4	65.5	64.8	66.2	69.9	63.5	60.7	64.6	64.4	66.6
Amount of credit extended	69.6	67.2	71.7	67.1	75.6	69.8	70.4	69.9	68.8	66.7	68.5	69.2	64.8
<b>Index of favorable factors</b>	<b>62.3</b>	<b>64.3</b>	<b>68.4</b>	<b>65.6</b>	<b>71.7</b>	<b>67.1</b>	<b>67.5</b>	<b>67.7</b>	<b>64.1</b>	<b>62.2</b>	<b>64.1</b>	<b>64.6</b>	<b>64.1</b>
Rejection of credit applications	51.3	53.4	54.2	51.8	49.4	49.5	52.3	52.4	55.4	53.7	51.5	52.3	53.9
Accounts placed for collection	50.1	52.3	55.7	50.0	51.7	53.2	51.2	54.0	52.1	49.4	56.4	52.4	51.7
Disputes	54.3	51.0	50.8	52.8	49.0	49.0	47.8	54.4	52.3	50.2	49.8	52.3	52.9
Dollar amount beyond terms	48.6	57.9	56.1	54.0	52.5	46.2	49.3	54.7	54.6	47.6	54.1	50.4	54.0
Dollar amount of customer	53.5	51.1	53.3	51.1	51.6	49.9	48.9	53.3	50.9	49.1	50.0	52.5	51.6
Filings for bankruptcies	58.6	52.7	47.7	52.6	61.9	58.8	62.6	60.9	61.2	60.2	59.1	59.3	61.8
<b>Index of unfavorable factors</b>	<b>52.7</b>	<b>53.1</b>	<b>53.0</b>	<b>52.1</b>	<b>52.7</b>	<b>51.1</b>	<b>52.0</b>	<b>54.9</b>	<b>54.4</b>	<b>51.7</b>	<b>53.5</b>	<b>53.2</b>	<b>54.3</b>
<b>NACM Service CMI</b>	<b>56.5</b>	<b>57.6</b>	<b>59.1</b>	<b>57.5</b>	<b>60.3</b>	<b>57.5</b>	<b>58.2</b>	<b>60.1</b>	<b>58.3</b>	<b>55.9</b>	<b>57.7</b>	<b>57.8</b>	<b>58.2</b>
<b>ISM Service Business Activity Index</b>	<b>65.0</b>	<b>53.3</b>	<b>60.0</b>	<b>58.5</b>	<b>59.8</b>	<b>56.8</b>	<b>60.1</b>	<b>60.5</b>	<b>63.0</b>	<b>60.1</b>	<b>57.0</b>	<b>54.8</b>	<b>N/A</b>



### August 2006 vs. August 2005

On a year over year basis, the combined CMI rose 2.4%, while the manufacturing sector rose 3.2% and the services sector rose 1.7%. Overall, the indices reflect the cumulative effect of a strong economy over the past several quarters.

### 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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors</b>	<b>Why Unfavorable</b>
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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