

NACM Credit Manager's Index

Report for August 2007

Issued September 4, 2007
 National Association of Credit Management
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 Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) crept up 0.2% in August even though six of 10 components fell. The manufacturing sector rose 0.4 points, but the service sector slipped 0.1. "The data in the survey doesn't provide a compelling picture of current business conditions, which is backed by comments from the survey respondents," commented Dan North, chief economist with credit insurer Euler Hermes ACI.

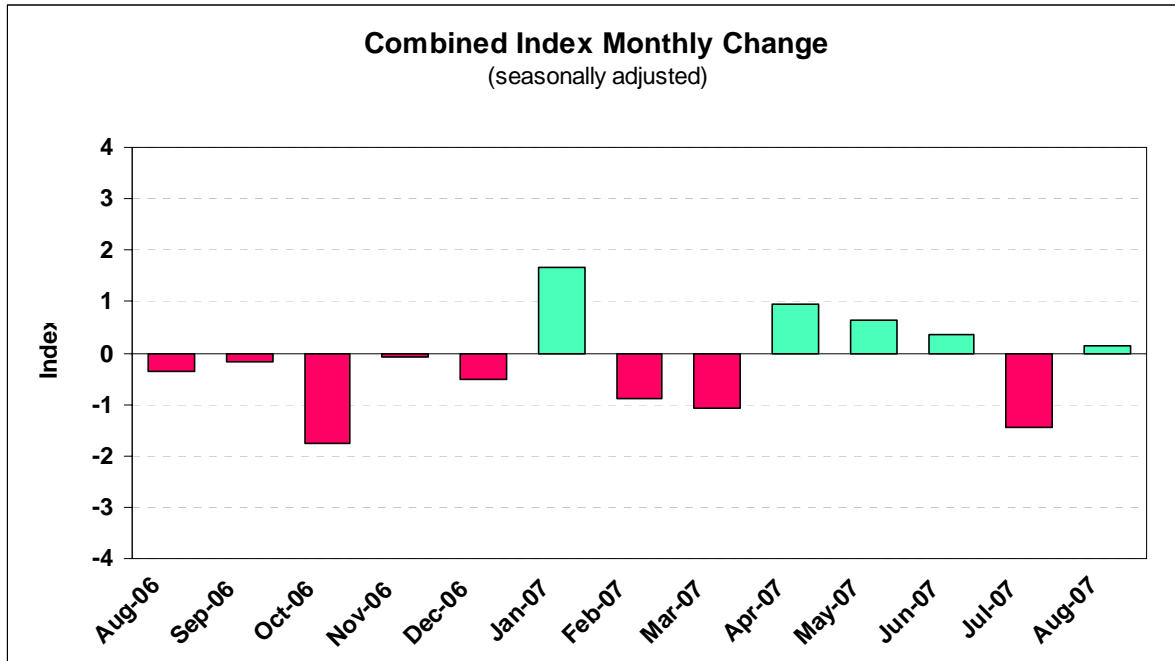
"Some trade credit managers seem to be experiencing the same difficulties currently seen in virtually all credit markets," North said. He noted that the rapid rise in delinquencies and defaults in the subprime mortgage market have sent a contagion of fear into other mortgage-backed securities, corporate bonds, leveraged buy-out financings and now even the safest of commercial paper markets. "If the highest quality credits are having difficulty securing financing, then smaller businesses will be even more strapped to find financing of any kind, including financing of trade credit as suggested by the respondents to this survey," he said. "Conditions in the credit markets are likely to force the Fed's hand at the September meeting when a new cycle of monetary easing is likely to begin."

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)

	Aug '06	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug '07
Sales	62.8	63.5	56.3	59.5	60.9	61.6	59.6	58.1	62.8	61.5	61.9	60.2	59.1
New credit applications	62.5	57.9	56.2	56.5	60.5	60.9	52.5	55.9	56.7	56.2	58.6	56.0	55.6
Dollar collections	63.3	60.0	58.3	62.6	59.5	64.8	66.2	58.4	61.5	61.9	61.0	60.2	60.1
Amount of credit extended	66.4	62.4	63.2	64.0	63.7	65.3	63.6	62.4	59.3	62.2	63.6	63.0	61.6
Index of favorable factors	63.8	60.9	58.5	60.6	61.2	63.2	60.5	58.7	60.1	60.5	61.3	59.9	59.1
Rejection of credit applications	53.6	53.3	54.8	51.7	50.1	51.6	52.7	51.9	52.4	52.7	52.6	53.4	51.1
Accounts placed for collection	50.1	55.0	53.1	50.7	47.8	50.2	50.3	48.4	54.0	51.5	52.0	49.8	50.7
Disputes	50.4	52.3	49.7	49.9	47.9	51.0	52.1	51.0	51.2	50.7	51.9	51.9	52.2
Dollar amount beyond terms	51.3	55.8	52.2	50.2	48.1	50.1	50.5	53.5	50.1	53.0	52.0	48.9	51.4
Dollar amount of customer deductions	51.7	50.6	50.5	51.3	49.2	51.7	52.0	49.3	49.3	53.3	53.0	48.8	52.2
Filings for bankruptcies	60.5	60.2	59.1	56.3	59.7	57.0	55.9	55.7	56.8	57.4	57.5	57.3	57.2
Index of unfavorable factors	52.9	54.5	53.2	51.7	50.5	51.9	52.3	51.6	52.3	53.1	53.2	51.7	52.4
NACM CMI	57.3	57.1	55.3	55.2	54.7	56.4	55.5	54.5	55.4	56.1	56.4	55.0	55.1
ISM Combined Sectors Index*	55.6	53.7	54.5	54.1	54.1	54.2	53.3	51.7	55.4	57.4	58.4	54.8	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. As well, revisions to the seasonal adjustments have been made in the manufacturing sector and the combined index from January 2007 on. The revisions do not result in any material differences in the data

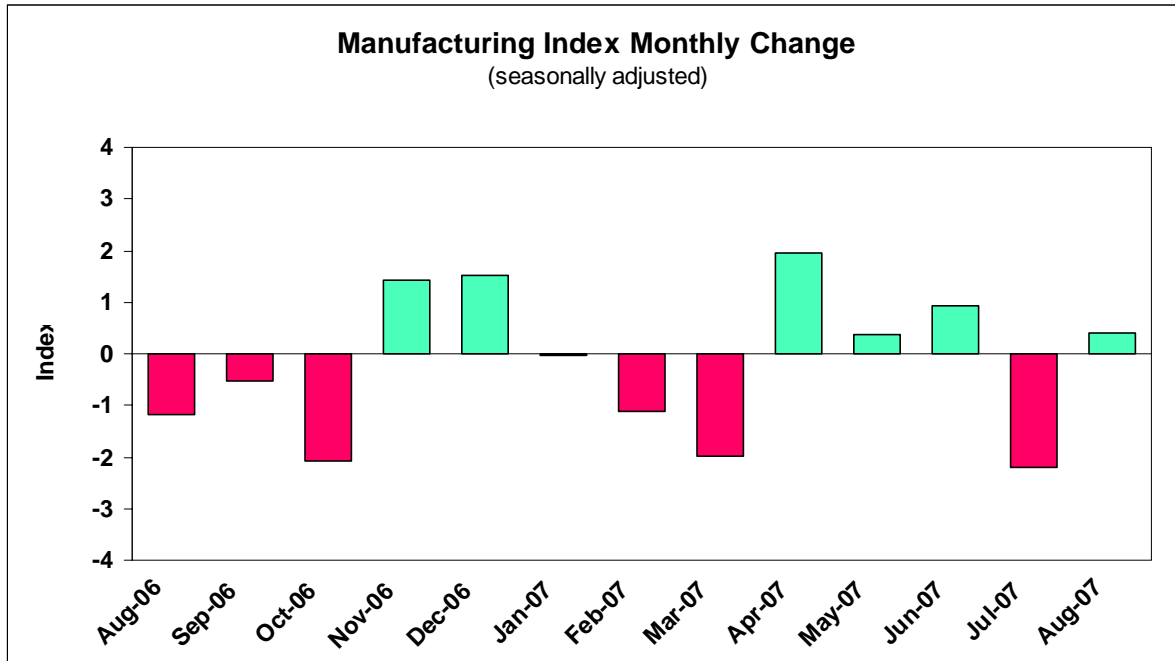


Manufacturing Sector

“The manufacturing sector rose 0.4 points (0.7%) in August, but a declining housing market combined with poor weather in parts of the country weighed heavily on the construction industry,” North said. “Bankruptcies in other industries such as the auto sector continue to take their toll,” he continued. As one respondent reported, “Customer’s (sic) just walking away from failed business...closing the door and letting the bank or secured creditor take it all.”

Manufacturing Sector (seasonally adjusted)

	Aug '06	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug '07
Sales	62.0	62.0	55.7	63.5	69.4	58.9	58.7	56.5	60.9	59.5	62.9	60.9	59.2
New credit applications	63.4	57.4	55.8	56.6	62.1	60.0	52.8	54.6	57.1	57.3	58.7	56.4	55.7
Dollar collections	60.1	61.0	54.8	62.6	59.9	64.6	65.3	55.3	60.3	60.2	59.5	61.3	60.4
Amount of credit extended	67.9	60.6	62.6	64.7	66.9	65.4	59.9	60.0	54.3	62.0	61.8	62.6	62.7
Index of favorable factors	63.4	60.2	57.2	61.9	64.6	62.2	59.2	56.6	58.1	59.7	60.7	60.3	59.5
Rejection of credit applications	53.2	52.5	55.1	51.1	50.7	52.6	54.1	53.1	51.9	51.8	52.6	53.4	50.8
Accounts placed for collection	48.5	54.8	50.6	48.9	51.0	51.9	52.6	47.7	55.6	51.0	52.7	48.3	50.8
Disputes	47.8	48.7	48.2	49.0	46.7	52.2	52.8	49.9	51.4	49.9	51.4	49.8	50.6
Dollar amount beyond terms	48.7	54.8	49.5	50.7	50.1	51.5	50.0	53.7	55.3	56.0	56.6	50.0	50.0
Dollar amount of customer deductions	51.7	46.4	48.2	49.8	49.3	52.5	52.2	48.5	49.2	53.2	53.3	47.4	50.8
Filings for bankruptcies	59.3	59.4	56.3	54.3	60.2	56.6	56.5	55.8	58.6	57.5	58.0	55.4	58.4
Index of unfavorable factors	51.5	52.8	51.3	50.6	51.3	52.9	53.0	51.5	53.7	53.2	54.1	50.7	51.9
NACM Manufacturing CMI	56.3	55.8	53.7	55.1	56.6	56.6	55.5	53.5	55.5	55.8	56.7	54.6	55.0
ISM Manufacturing PMI	54.3	52.7	51.5	49.9	51.4	49.3	52.3	50.9	54.7	55.0	56.0	53.8	NA

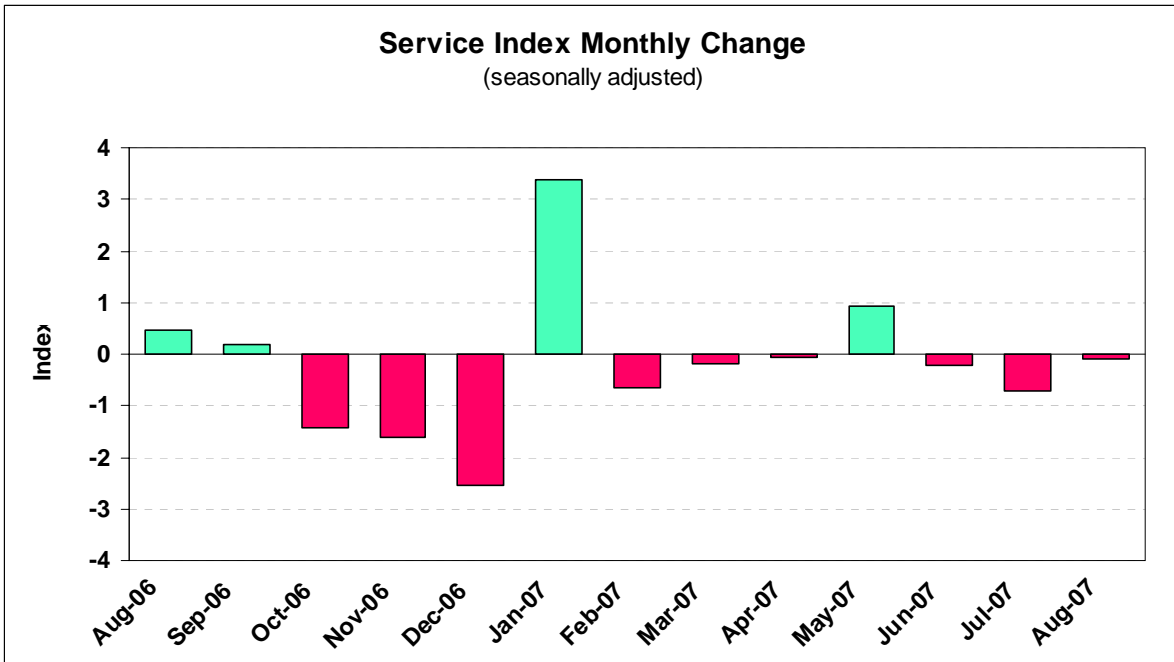


Service Sector

North noted that the service sector index fell 0.2% on a seasonally adjusted basis as six of 10 components fell. "Not surprisingly, the housing market continues to be the greatest source of pain," he noted. Respondents said that the housing and mortgage market woes are "killing residential subcontractors." North reported that survey participants from other industries made similar doleful observations, stating that credit demand appears to be weakening, money is still tight and hard to get, there's an increase in number of clients with cash flow problems and small customers are having problems with their bank loans. As well, lending conditions appear to be tightening in the trade credit market as much as in other credit markets and participants responded that the credit review process is tighter and lower credit limits are being established.

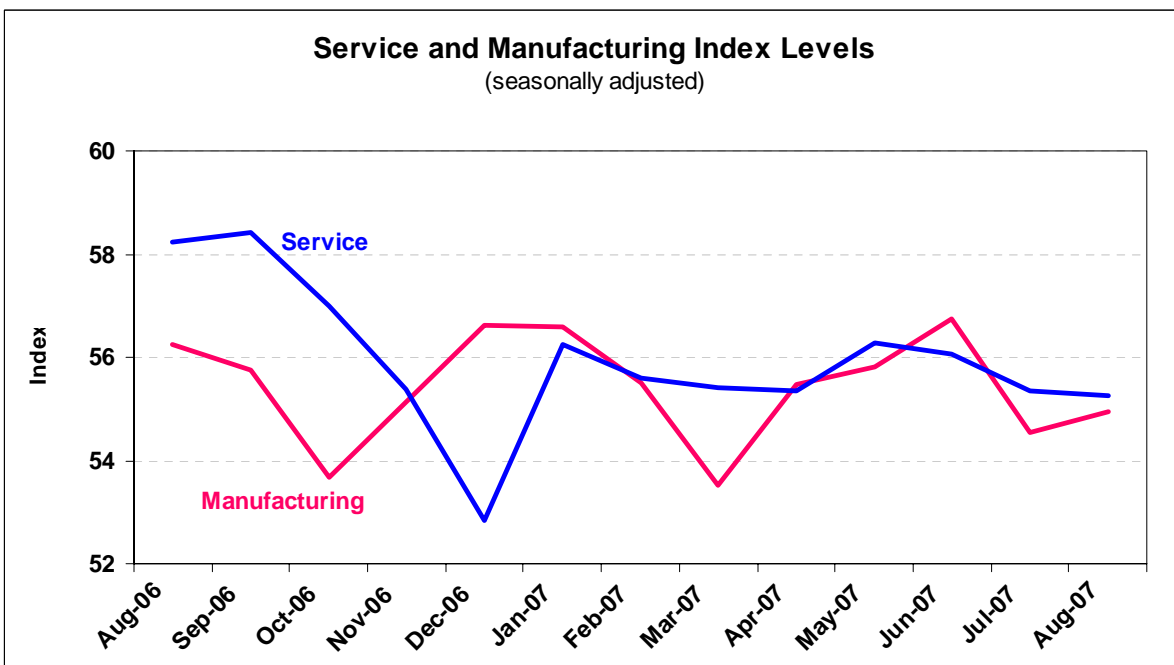
Service Sector (seasonally adjusted)

	Aug '06	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug '07
Sales	63.7	65.0	56.8	55.5	52.4	64.3	60.5	59.8	64.8	63.5	60.9	59.5	59.0
New credit applications	61.6	58.3	56.6	56.3	58.9	61.9	52.3	57.1	56.3	55.2	58.5	55.5	55.5
Dollar collections	66.6	59.0	61.9	62.5	59.1	65.0	67.1	61.6	62.7	63.7	62.5	59.1	59.7
Amount of credit extended	64.8	64.2	63.7	63.4	60.5	65.2	67.3	64.7	64.2	62.4	65.5	63.5	60.5
Index of favorable factors	64.1	61.6	59.8	59.4	57.7	64.1	61.8	60.8	62.0	61.2	61.8	59.4	58.7
Rejection of credit applications	53.9	54.2	54.5	52.2	49.4	50.7	51.3	50.8	52.9	53.6	52.7	53.3	51.4
Accounts placed for collection	51.7	55.1	55.7	52.5	44.7	48.4	48.1	49.1	52.5	52.1	51.3	51.3	50.7
Disputes	52.9	55.9	51.3	50.8	49.1	49.8	51.4	52.1	50.9	51.5	52.4	54.0	53.7
Dollar amount beyond terms	54.0	56.7	54.8	49.7	46.1	48.7	51.1	53.2	44.8	50.1	47.3	47.9	52.7
Dollar amount of customer deductions	51.6	54.8	52.8	52.7	49.1	50.8	51.8	50.1	49.4	53.4	52.7	50.2	53.5
Filings for bankruptcies	61.8	61.0	62.0	58.3	59.2	57.5	55.2	55.6	55.0	57.4	57.0	59.2	55.9
Index of unfavorable factors	54.3	56.3	55.2	52.7	49.6	51.0	51.5	51.8	50.9	53.0	52.2	52.7	53.0
NACM Service CMI	58.2	58.4	57.0	55.4	52.9	56.2	55.6	55.4	55.4	56.3	56.1	55.4	55.3
ISM Service Business Activity Index	56.9	54.6	57.4	58.3	56.7	59.0	54.3	52.4	56.0	59.7	60.7	55.8	NA



August 2007 vs. August 2006

“The Credit Manager’s index has crept lower over the past 12 months from 57.3 to 55.1,” said North. “The service sector fell from 58.2 to 55.3 as eight of its 10 components declined. The manufacturing sector also fell, but not as much, dropping from 56.3 to 55.0.” All three indexes still remain above the 50 level indicating economic expansion.



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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