

# NACM Credit Manager's Index

## Report for August 2008

Issued September 2, 2008  
 National Association of Credit Management  
 8840 Columbia 100 Parkway  
 Columbia, MD 21045-2158

### Combined Sectors

The seasonally adjusted Credit Manager's Index has inched even closer to the neutral economic expansion/contraction point of 50%, creeping down 0.2% to hover at 50.7%. The manufacturing sector index slipped a full percentage point to 50.4%, as only four of its 10 components rose. The service sector index fared better, gaining half a percentage point, rounding out at 51.0% as six of its 10 components rose. All three indexes have six components at or below the 50% level.

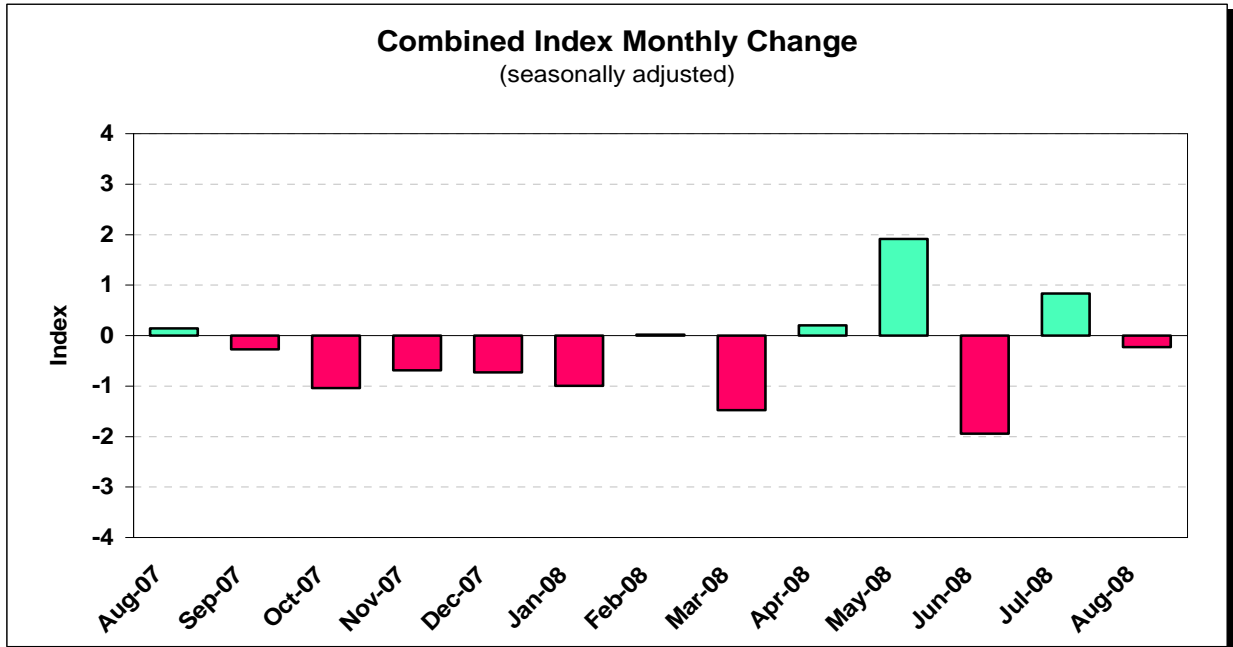
"Overall, there were no dramatic changes from July's report," said Daniel North, chief economist for credit insurer Euler Hermes ACI, who evaluates the data and prepares the report for the National Association of Credit Management. "However, in both manufacturing and service, dollar collections and the dollar amount beyond terms worsened," he continued. "The data suggest that tough economic conditions are strangling buyers' cash flow. Buyers are stretching their payment terms beyond normal and even after that, it appears that they still cannot pay their bills."

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 '07	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug '08
Sales	59.1	59.0	54.7	58.6	56.3	51.7	57.1	50.8	54.0	57.7	54.2	55.7	56.4
New credit applications	55.6	55.3	53.3	56.4	55.8	52.8	54.7	53.0	54.4	55.0	50.2	53.9	52.8
Dollar collections	60.1	60.0	60.0	61.2	57.2	56.8	60.5	55.1	54.8	61.3	56.4	60.4	57.1
Amount of credit extended	61.6	60.1	58.7	60.9	59.8	57.0	55.0	55.8	57.0	60.4	58.8	58.5	60.0
<b>Index of favorable factors</b>	<b>59.1</b>	<b>58.6</b>	<b>56.7</b>	<b>59.2</b>	<b>57.3</b>	<b>54.5</b>	<b>56.8</b>	<b>53.7</b>	<b>55.0</b>	<b>58.6</b>	<b>54.9</b>	<b>57.1</b>	<b>56.6</b>
Rejections of credit applications	51.1	51.8	52.0	49.9	50.0	50.9	48.4	49.0	48.9	48.1	49.1	48.1	48.5
Accounts placed for collection	50.7	49.0	49.6	47.4	46.2	47.1	42.5	45.2	45.8	43.0	44.5	43.4	45.6
Disputes	52.2	50.2	49.4	47.8	49.5	49.5	47.3	49.0	46.9	50.1	47.9	46.3	46.3
Dollar amount beyond terms	51.4	55.3	48.4	45.8	46.3	45.1	49.0	43.5	42.5	43.7	42.7	47.9	43.6
Dollar amount of customer deductions	52.2	49.9	51.5	49.6	50.3	50.3	47.4	49.0	47.5	49.9	48.1	47.8	48.5
Filings for bankruptcies	57.2	57.7	60.4	53.5	52.3	52.6	52.1	48.6	49.2	51.2	49.0	47.1	48.2
<b>Index of unfavorable factors</b>	<b>52.4</b>	<b>52.3</b>	<b>51.9</b>	<b>49.0</b>	<b>49.1</b>	<b>49.3</b>	<b>47.8</b>	<b>47.4</b>	<b>46.8</b>	<b>47.6</b>	<b>46.9</b>	<b>46.8</b>	<b>46.8</b>
<b>NACM CMI</b>	<b>55.1</b>	<b>54.8</b>	<b>53.8</b>	<b>53.1</b>	<b>52.4</b>	<b>51.4</b>	<b>51.4</b>	<b>49.9</b>	<b>50.1</b>	<b>52.0</b>	<b>50.1</b>	<b>50.9</b>	<b>50.7</b>
<b>ISM Combined Sectors Index*</b>	<b>52.0</b>	<b>51.9</b>	<b>51.9</b>	<b>51.2</b>	<b>50.8</b>	<b>47.7</b>	<b>48.8</b>	<b>49.1</b>	<b>50.3</b>	<b>50.7</b>	<b>49.2</b>	<b>49.8</b>	<b>NA</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.

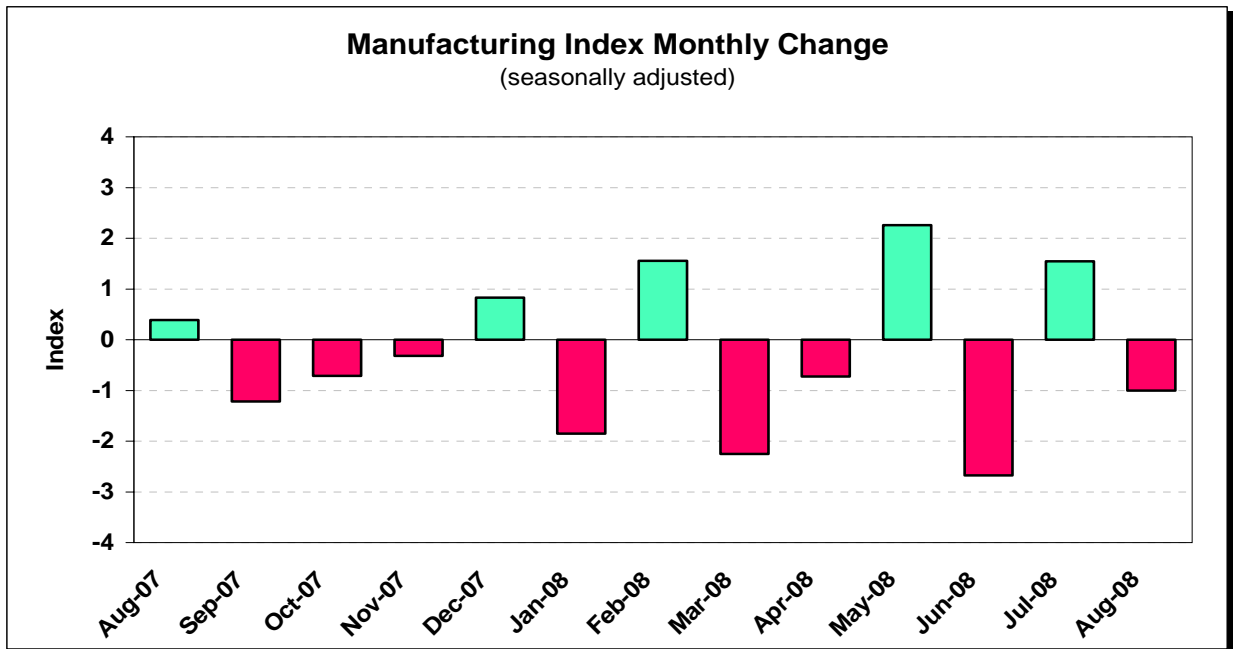


## Manufacturing Sector

The seasonally adjusted manufacturing sector index slipped 1.0% in August, leaving six of its 10 components below 50%. "Prices seem to be less of an issue this month in terms of hurting business, but instead they are inflating credit limits and sales," said North. "Slow pay seems to be the biggest problem." North noted that a manufacturer of valves and pipes reported, "Customers are looking for ways to slow payments." A plastics producer replied, "We are having to exert more effort to get payment for receivables," while a sheet metal firm reported, "We have some of the bigger customers attempting to extend terms." North said, "On the flip side, international business seems strong, probably due to the weaker dollar, which makes U.S. goods more competitive abroad." A food manufacturer responded that "international sales are increasing very fast," a furniture manufacturer noted, "Our sales are up on the international side," while a producer of carpeting reported, "...sales to Latin and South America...have increased."

## Manufacturing Sector (seasonally adjusted)

	Aug '07	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug '08
Sales	59.2	59.3	54.2	59.4	61.9	53.0	56.2	53.1	54.0	59.9	54.4	56.5	57.4
New credit applications	55.7	57.5	54.1	56.6	58.0	54.2	53.5	55.6	55.5	54.9	51.1	55.0	53.0
Dollar collections	60.4	59.8	57.6	60.8	58.7	56.9	67.1	55.6	54.6	58.8	54.4	60.8	56.2
Amount of credit extended	62.7	59.1	57.3	61.3	61.8	57.3	57.4	56.5	57.7	58.6	57.9	58.8	62.0
<b>Index of favorable factors</b>	<b>59.5</b>	<b>58.9</b>	<b>55.8</b>	<b>59.5</b>	<b>60.1</b>	<b>55.4</b>	<b>58.6</b>	<b>55.2</b>	<b>55.4</b>	<b>58.0</b>	<b>54.4</b>	<b>57.8</b>	<b>57.1</b>
Rejections of credit applications	50.8	50.7	51.6	49.9	50.3	52.2	50.9	49.5	48.8	49.4	49.4	48.7	48.1
Accounts placed for collection	50.8	46.4	50.7	46.3	43.5	46.6	45.7	48.3	47.1	45.9	45.8	44.8	47.4
Disputes	50.6	46.1	47.8	45.5	49.8	50.0	52.1	47.0	46.3	48.8	46.9	45.2	43.8
Dollar amount beyond terms	50.0	53.6	46.3	46.9	47.4	42.7	46.3	46.0	44.0	45.7	41.8	47.7	41.8
Dollar amount of customer deductions	50.8	47.2	48.7	45.9	49.8	50.5	50.7	48.0	45.5	50.1	48.4	46.5	46.9
Filings for bankruptcies	58.4	57.5	62.0	54.2	54.1	53.2	52.4	50.2	48.7	53.0	48.2	49.7	47.2
<b>Index of unfavorable factors</b>	<b>51.9</b>	<b>50.3</b>	<b>51.2</b>	<b>48.1</b>	<b>49.2</b>	<b>49.2</b>	<b>49.7</b>	<b>48.2</b>	<b>46.7</b>	<b>48.8</b>	<b>46.8</b>	<b>47.1</b>	<b>45.9</b>
<b>NACM Manufacturing CMI</b>	<b>55.0</b>	<b>53.7</b>	<b>53.0</b>	<b>52.7</b>	<b>53.5</b>	<b>51.7</b>	<b>53.2</b>	<b>51.0</b>	<b>50.2</b>	<b>52.5</b>	<b>49.8</b>	<b>51.4</b>	<b>50.4</b>
<b>ISM Manufacturing PMI</b>	<b>51.2</b>	<b>50.5</b>	<b>50.4</b>	<b>50.0</b>	<b>48.4</b>	<b>50.7</b>	<b>48.3</b>	<b>48.6</b>	<b>48.6</b>	<b>49.6</b>	<b>50.2</b>	<b>50.0</b>	<b>NA</b>

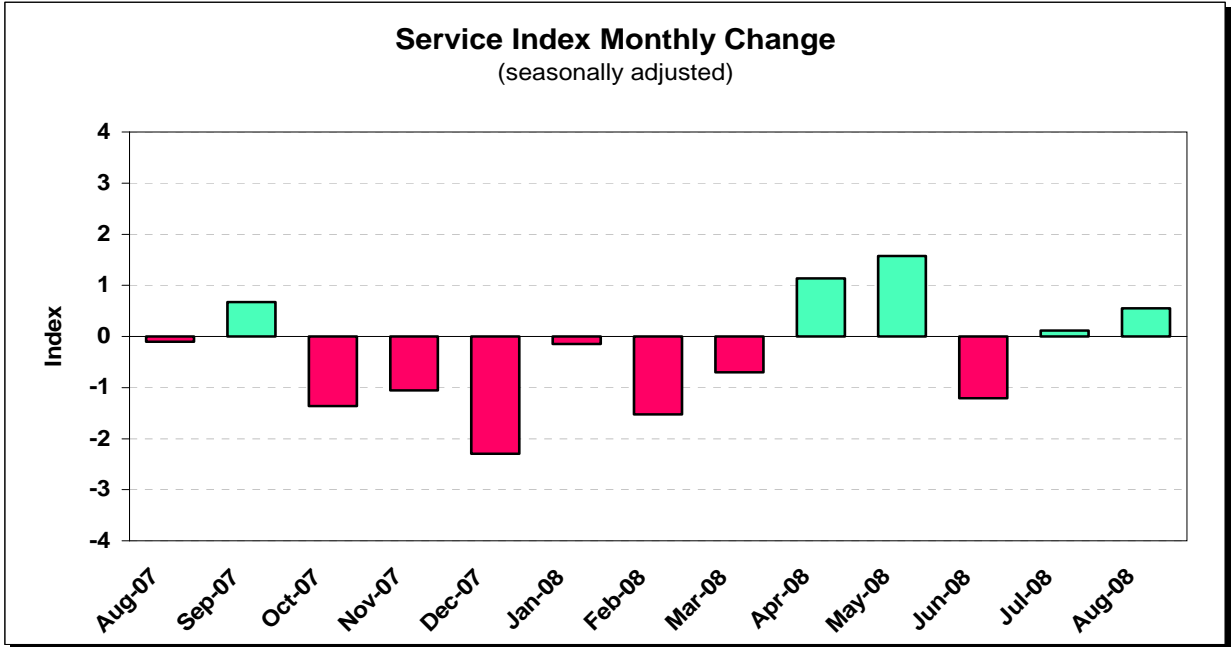


## Service Sector

The seasonally adjusted service sector inched up 0.5% to 51% as six of its 10 components rose. “However, the fact that six components are still at or below the critical 50% value seems to explain the more negative tone of the participants,” said North. “Providers of HVAC and electrical equipment services noted that they are seeing more NSF checks than ever before,” he said. Other survey responses that stood out include a supplier of transportation services that said, “Customers that have never been a problem are going beyond terms.” A repair service stated, “Many customers are expecting us to be their bank!” And reflecting on the “credit crunch,” a participant in the plastics industry reported, “We are seeing more companies close due to lack of bank funding.”

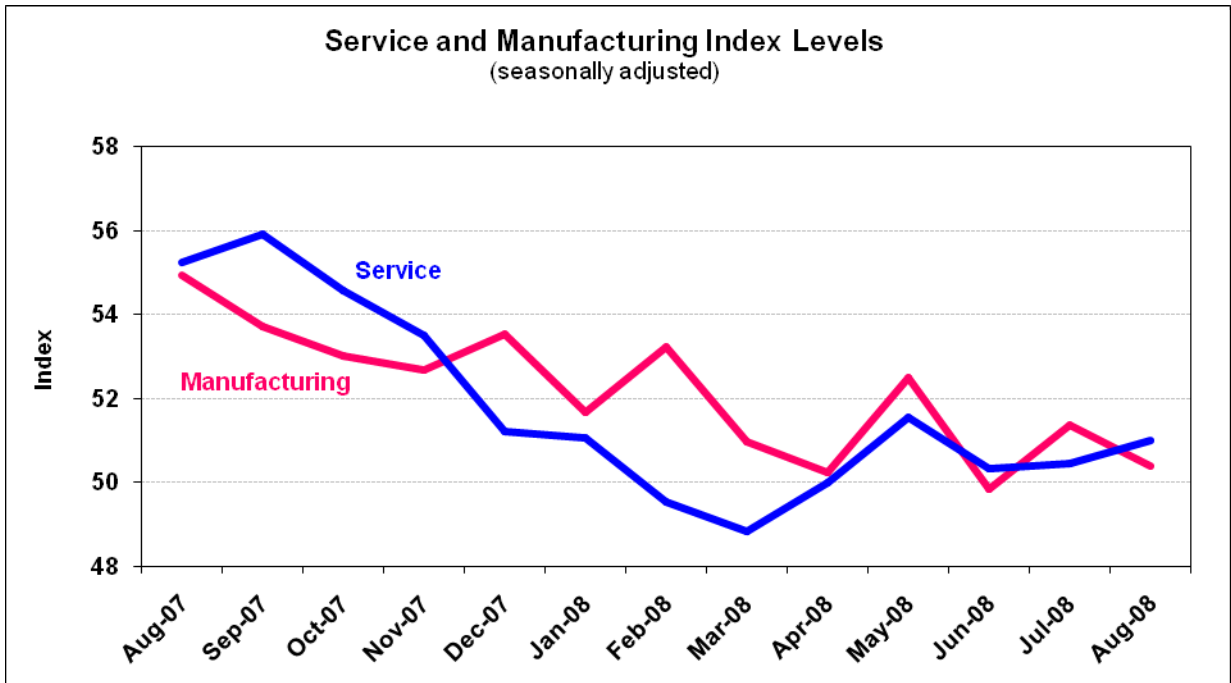
## Service Sector (seasonally adjusted)

	Aug '07	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug '08
Sales	59.0	58.6	55.1	57.7	50.8	50.3	58.0	48.5	53.9	55.5	54.0	54.9	55.5
New credit applications	55.5	53.1	52.4	56.1	53.6	51.3	55.8	50.4	53.4	55.1	49.3	52.7	52.6
Dollar collections	59.7	60.2	62.5	61.5	55.8	56.6	53.9	54.6	55.0	63.8	58.4	60.1	58.0
Amount of credit extended	60.5	61.1	60.2	60.4	57.8	56.7	52.5	55.1	56.3	62.2	59.8	58.3	58.0
<b>Index of favorable factors</b>	<b>58.7</b>	<b>58.2</b>	<b>57.5</b>	<b>58.9</b>	<b>54.5</b>	<b>53.7</b>	<b>55.1</b>	<b>52.1</b>	<b>54.7</b>	<b>59.2</b>	<b>55.4</b>	<b>56.5</b>	<b>56.0</b>
Rejections of credit applications	51.4	52.8	52.5	49.8	49.7	49.7	45.9	48.5	49.0	46.7	48.7	47.5	48.8
Accounts placed for collection	50.7	51.6	48.5	48.5	48.8	47.6	39.3	42.2	44.4	40.1	43.2	42.1	43.8
Disputes	53.7	54.2	51.0	50.1	49.2	49.1	42.4	51.0	47.4	51.3	48.9	47.4	48.9
Dollar amount beyond terms	52.7	57.0	50.4	44.8	45.3	47.4	51.8	41.1	41.1	41.6	43.7	48.0	45.4
Dollar amount of customer deductions	53.5	52.6	54.3	53.3	50.8	50.1	44.1	50.0	49.5	49.6	47.8	49.0	50.0
Filings for bankruptcies	55.9	57.9	58.8	52.9	50.4	51.9	51.7	47.0	49.7	49.4	49.8	44.6	49.2
<b>Index of unfavorable factors</b>	<b>53.0</b>	<b>54.4</b>	<b>52.6</b>	<b>49.9</b>	<b>49.0</b>	<b>49.3</b>	<b>45.9</b>	<b>46.6</b>	<b>46.8</b>	<b>46.5</b>	<b>47.0</b>	<b>46.4</b>	<b>47.7</b>
<b>NACM Service CMI</b>	<b>55.3</b>	<b>55.9</b>	<b>54.6</b>	<b>53.5</b>	<b>51.2</b>	<b>51.1</b>	<b>49.5</b>	<b>48.8</b>	<b>50.0</b>	<b>51.5</b>	<b>50.3</b>	<b>50.5</b>	<b>51.0</b>
<b>ISM Service Business Activity Index</b>	<b>52.8</b>	<b>53.2</b>	<b>53.3</b>	<b>52.4</b>	<b>53.2</b>	<b>44.6</b>	<b>49.3</b>	<b>49.6</b>	<b>52.0</b>	<b>51.7</b>	<b>48.2</b>	<b>49.5</b>	<b>NA</b>



### August 2008 vs. August 2007

“On a seasonally adjusted basis, the year-over-year comparisons for both the manufacturing and service sector indexes show a definitive downward trend, reflecting the deterioration in the overall economy,” said North. “All 10 of the components in the manufacturing sector index fell, pushing the index down 4.6% to 50.4%. The service sector hardly fared better as all 10 components fell, driving the index down 4.2% to 51.0%. Both indexes hover just above the 50% dividing line between economic expansion and contraction.”



## 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 800 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:

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

<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 creditworthy 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.

*\*Note: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

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