

# NACM Credit Manager's Index

## Report for December 2006

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 National Association of Credit Management  
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### Combined Sectors

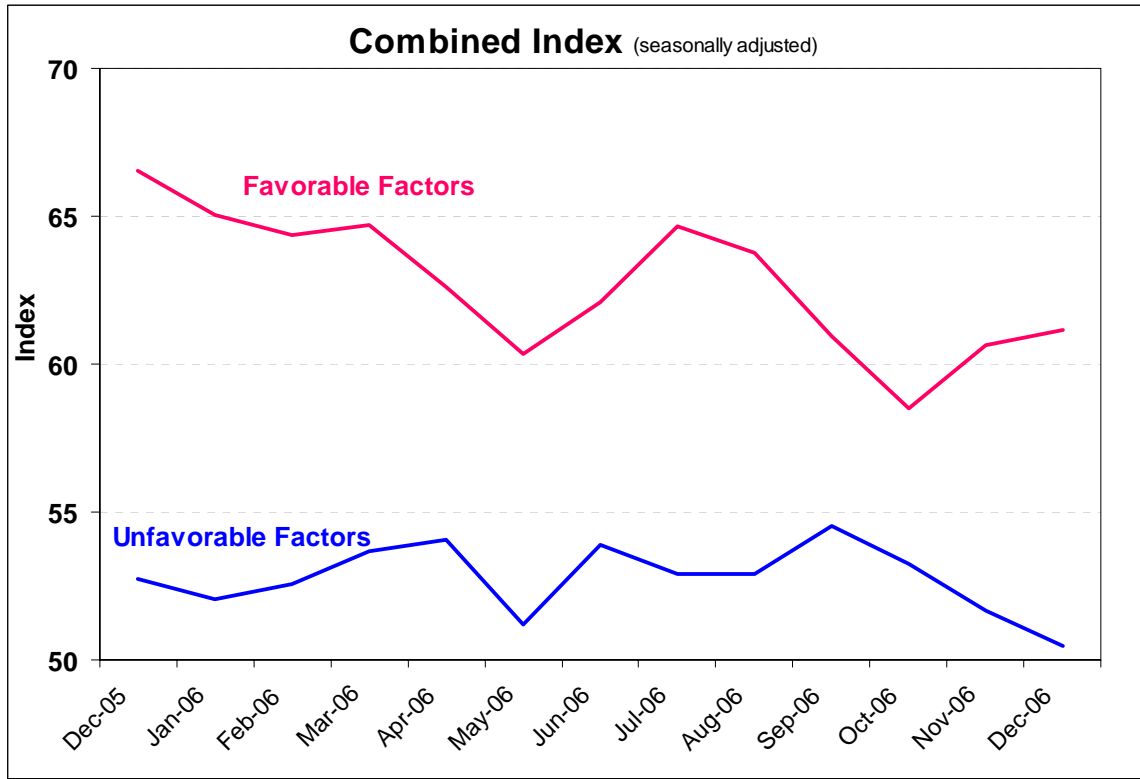
The seasonally adjusted Credit Manager's Index (CMI) fell for the fifth consecutive month in December, and now stands at its lowest level since April 2003. "The Index fell 0.5% as seven of the 10 components declined," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. "Four of the components are now under the 50 level signaling contraction, the most since March of 2002." The CMI data strongly suggests a slowing economy, and remains consistent with data from the rest of the macroeconomy indicating a slowdown: weak GDP growth for two consecutive quarters, durable goods orders (ex-transportation) falling for two second consecutive months, modest holiday sales and signs of weakness in the labor markets.

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)

	Dec '05	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	70.9	66.1	64.6	65.8	63.3	61.5	65.4	67.8	62.8	63.5	56.3	59.5	60.9
New credit applications	62.0	63.6	60.3	60.9	57.4	55.7	55.7	59.0	62.5	57.9	56.2	56.5	60.5
Dollar collections	63.6	63.6	66.2	64.6	63.5	58.6	62.5	61.9	63.3	60.0	58.3	62.6	59.5
Amount of credit extended	69.6	66.9	66.3	67.4	66.2	65.5	64.8	69.9	66.4	62.4	63.2	64.0	63.7
<b>Index of favorable factors</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>	<b>60.9</b>	<b>58.5</b>	<b>60.6</b>	<b>61.2</b>
Rejection of credit applications	50.8	50.7	53.1	53.9	53.8	50.6	51.5	52.6	53.6	53.3	54.8	51.7	50.1
Accounts placed for collection	53.8	52.6	50.3	52.7	52.0	50.5	55.2	52.0	50.1	55.0	53.1	50.7	47.8
Disputes	46.5	49.8	48.4	50.0	52.4	49.3	51.1	51.1	50.4	52.3	49.7	49.9	47.9
Dollar amount beyond terms	52.9	51.1	52.2	54.6	53.5	48.5	56.5	52.2	51.3	55.8	52.2	50.2	48.1
Dollar amount of customer deductions	50.4	50.4	50.2	51.2	51.8	49.0	49.7	50.5	51.7	50.6	50.5	51.3	49.2
Filings for bankruptcies	61.9	57.8	61.3	59.7	60.8	59.2	59.2	59.1	60.5	60.2	59.1	56.3	59.7
<b>Index of unfavorable factors</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>54.5</b>	<b>53.2</b>	<b>51.7</b>	<b>50.5</b>
<b>NACM CMI</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>57.1</b>	<b>55.3</b>	<b>55.2</b>	<b>54.7</b>
<b>ISM Combined Sectors Index*</b>	<b>58.3</b>	<b>55.8</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>55.8</b>	<b>52.9</b>	<b>54.2</b>	<b>54.2</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.

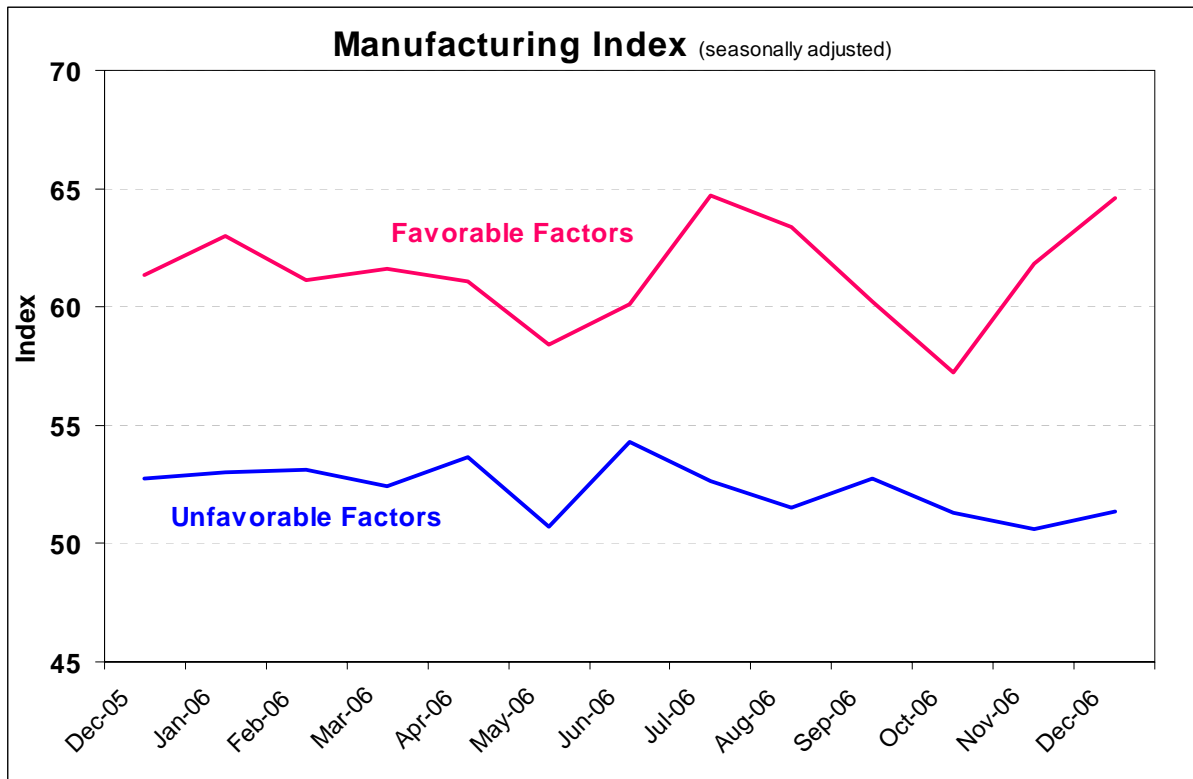


## Manufacturing Sector

The manufacturing sector has shown an increase in the past two months, primarily on sales, boding well for the future months. But comments from survey participants and a closer look at the data still show signs of weakness. "Five of the 10 components fell, but they were offset by relatively large increases in just three components: sales, new credit applications and filings for bankruptcies," said North. "Without these three, the manufacturing index would have fallen 0.3%." Indeed, one participant describes an increase in "customers who 'cannot pay'" while another labels the residential housing sector as "almost at a standstill."

### Manufacturing Sector (seasonally adjusted)

	Dec '05	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	64.0	64.0	61.3	62.7	62.4	59.4	63.9	69.7	62.0	62.0	55.7	63.5	69.4
New credit applications	56.1	61.7	55.0	59.7	54.9	53.5	55.0	59.1	63.4	57.4	55.8	56.6	62.1
Dollar collections	61.7	62.3	66.2	59.3	63.4	56.5	60.5	59.4	60.1	61.0	54.8	62.6	59.9
Amount of credit extended	63.6	64.0	62.1	64.9	63.6	64.4	61.1	70.7	67.9	60.6	62.6	64.7	66.9
<b>Index of favorable factors</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>	<b>60.2</b>	<b>57.2</b>	<b>61.9</b>	<b>64.6</b>
Rejection of credit applications	52.1	51.8	53.8	55.4	52.2	47.5	51.6	52.8	53.2	52.5	55.1	51.1	50.7
Accounts placed for collection	55.8	52.0	49.4	51.3	52.0	51.7	54.0	51.7	48.5	54.8	50.6	48.9	51.0
Disputes	44.1	50.5	49.0	45.7	52.4	48.4	52.4	49.9	47.8	48.7	48.2	49.0	46.7
Dollar amount beyond terms	53.3	56.0	55.2	54.5	52.3	49.4	59.0	53.9	48.7	54.8	49.5	50.7	50.1
Dollar amount of customer deductions	49.3	50.8	51.4	49.0	52.7	49.0	49.4	48.6	51.7	46.4	48.2	49.8	49.3
Filings for bankruptcies	61.9	56.9	60.0	58.6	60.4	58.2	59.3	58.8	59.3	59.4	56.3	54.3	60.2
<b>Index of unfavorable factors</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>52.8</b>	<b>51.3</b>	<b>50.6</b>	<b>51.3</b>
<b>NACM Manufacturing CMI</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>55.8</b>	<b>53.7</b>	<b>55.1</b>	<b>56.6</b>
<b>ISM Manufacturing PMI</b>	<b>55.6</b>	<b>54.8</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>	<b>52.9</b>	<b>51.2</b>	<b>49.5</b>	<b>N/A</b>

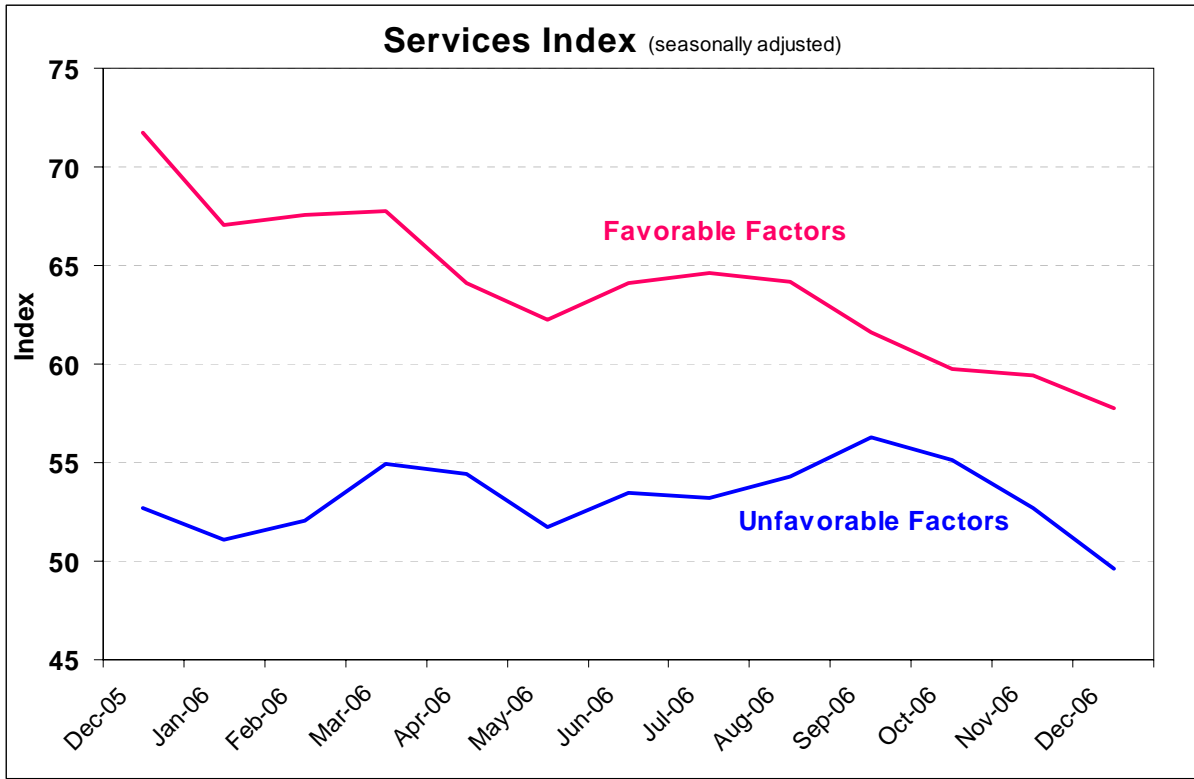


## Service Sector

The service sector fell for the third consecutive month, dropping 2.5% as eight of the 10 components fell. "It is worthwhile noting that five of the 10 components are now below the 50 level, indicating a contraction in activity," he said. There have not been this many components below 50 since March of 2002, and the total services index has not been this low since March of 2003.

### Service Sector (seasonally adjusted)

	Dec '05	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	77.9	68.1	67.9	68.9	64.3	63.6	67.0	66.0	63.7	65.0	56.8	55.5	52.4
New credit applications	68.0	65.5	65.6	62.2	60.0	57.9	56.4	58.9	61.6	58.3	56.6	56.3	58.9
Dollar collections	65.5	64.8	66.2	69.9	63.5	60.7	64.6	64.4	66.6	59.0	61.9	62.5	59.1
Amount of credit extended	75.6	69.8	70.4	69.9	68.8	66.7	68.5	69.2	64.8	64.2	63.7	63.4	60.5
<b>Index of favorable factors</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>	<b>61.6</b>	<b>59.8</b>	<b>59.4</b>	<b>57.7</b>
Rejection of credit applications	49.4	49.5	52.3	52.4	55.4	53.7	51.5	52.3	53.9	54.2	54.5	52.2	49.4
Accounts placed for collection	51.7	53.2	51.2	54.0	52.1	49.4	56.4	52.4	51.7	55.1	55.7	52.5	44.7
Disputes	49.0	49.0	47.8	54.4	52.3	50.2	49.8	52.3	52.9	55.9	51.3	50.8	49.1
Dollar amount beyond terms	52.5	46.2	49.3	54.7	54.6	47.6	54.1	50.4	54.0	56.7	54.8	49.7	46.1
Dollar amount of customer deductions	51.6	49.9	48.9	53.3	50.9	49.1	50.0	52.5	51.6	54.8	52.8	52.7	49.1
Filings for bankruptcies	61.9	58.8	62.6	60.9	61.2	60.2	59.1	59.3	61.8	61.0	62.0	58.3	59.2
<b>Index of unfavorable factors</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>56.3</b>	<b>55.2</b>	<b>52.7</b>	<b>49.6</b>
<b>NACM Service CMI</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>58.4</b>	<b>57.0</b>	<b>55.4</b>	<b>52.9</b>
<b>ISM Service Business Activity Index</b>	<b>61.0</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>57.0</b>	<b>52.9</b>	<b>57.1</b>	<b>58.9</b>	<b>N/A</b>



### December 2006 vs. December 2005

On a year-over-year basis, the total CMI Index has fallen 3.6 from 58.3 to 54.7 as nine of the 10 components fell. “The fall was driven mostly by deterioration in the services sector which fell 7.5, again as nine of 10 components fell,” said North. In the manufacturing sector, five components fell but the index did manage to seek out a 0.4% gain. “Overall, the year-over-year data continues to suggest an economy slowly weakening under the strain of tightened monetary policy and a decimated housing market,” he added.

### 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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