

# NACM Credit Manager's Index

## Report for December 2007

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 National Association of Credit Management  
 8840 Columbia 100 Parkway  
 Columbia, MD 21045-2158

### Combined Sectors

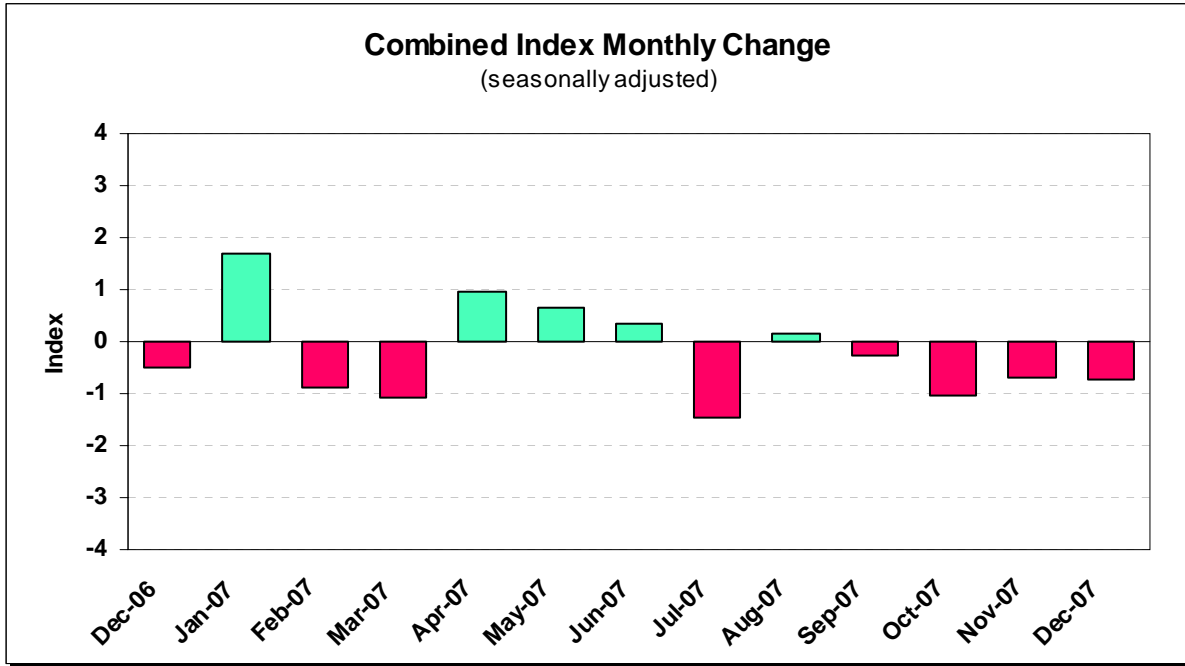
The seasonally adjusted Credit Manager's Index (CMI) fell for the fourth consecutive month in December. The index lost 0.7%, and dropped to a record low of 52.4%. Six of the 10 components fell, including a 4% drop in dollar collections. Daniel North, chief economist with credit insurer Euler Hermes ACI, said, "While the manufacturing index actually gained 0.8%, it was overshadowed by a loss of 2.3% in the service index. The deterioration in the combined index matches that of other major indicators in the macroeconomy, including disappointing holiday sales, a weakening employment market, accelerating declines in housing prices, downgrades of banks and insurers, plummeting consumer confidence, and a rapid increase in delinquencies and defaults on many types of credit. It would appear that trade credit managers are now encountering the same difficulty found in other credit markets, that is, the inability of debtors to pay bills due to insufficient cash flow."

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)

	Dec '06	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '07
Sales	60.9	61.6	59.6	58.1	62.8	61.5	61.9	60.2	59.1	59.0	54.7	58.6	56.3
New credit applications	60.5	60.9	52.5	55.9	56.7	56.2	58.6	56.0	55.6	55.3	53.3	56.4	55.8
Dollar collections	59.5	64.8	66.2	58.4	61.5	61.9	61.0	60.2	60.1	60.0	60.0	61.2	57.2
Amount of credit extended	63.7	65.3	63.6	62.4	59.3	62.2	63.6	63.0	61.6	60.1	58.7	60.9	59.8
<b>Index of favorable factors</b>	<b>61.2</b>	<b>63.2</b>	<b>60.5</b>	<b>58.7</b>	<b>60.1</b>	<b>60.5</b>	<b>61.3</b>	<b>59.9</b>	<b>59.1</b>	<b>58.6</b>	<b>56.7</b>	<b>59.2</b>	<b>57.3</b>
Rejection of credit applications	50.1	51.6	52.7	51.9	52.4	52.7	52.6	53.4	51.1	51.8	52.0	49.9	50.0
Accounts placed for collection	47.8	50.2	50.3	48.4	54.0	51.5	52.0	49.8	50.7	49.0	49.6	47.4	46.2
Disputes	47.9	51.0	52.1	51.0	51.2	50.7	51.9	51.9	52.2	50.2	49.4	47.8	49.5
Dollar amount beyond terms	48.1	50.1	50.5	53.5	50.1	53.0	52.0	48.9	51.4	55.3	48.4	45.8	46.3
Dollar amount of customer deductions	49.2	51.7	52.0	49.3	49.3	53.3	53.0	48.8	52.2	49.9	51.5	49.6	50.3
Filings for bankruptcies	59.7	57.0	55.9	55.7	56.8	57.4	57.5	57.3	57.2	57.7	60.4	53.5	52.3
<b>Index of unfavorable factors</b>	<b>50.5</b>	<b>51.9</b>	<b>52.3</b>	<b>51.6</b>	<b>52.3</b>	<b>53.1</b>	<b>53.2</b>	<b>51.7</b>	<b>52.4</b>	<b>52.3</b>	<b>51.9</b>	<b>49.0</b>	<b>49.1</b>
<b>NACM CMI</b>	<b>54.7</b>	<b>56.4</b>	<b>55.5</b>	<b>54.5</b>	<b>55.4</b>	<b>56.1</b>	<b>56.4</b>	<b>55.0</b>	<b>55.1</b>	<b>54.8</b>	<b>53.8</b>	<b>53.1</b>	<b>52.4</b>
<b>ISM Combined Sectors Index*</b>	<b>54.1</b>	<b>54.2</b>	<b>53.3</b>	<b>51.7</b>	<b>55.4</b>	<b>57.4</b>	<b>58.4</b>	<b>54.8</b>	<b>54.4</b>	<b>53.4</b>	<b>53.4</b>	<b>52.5</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.

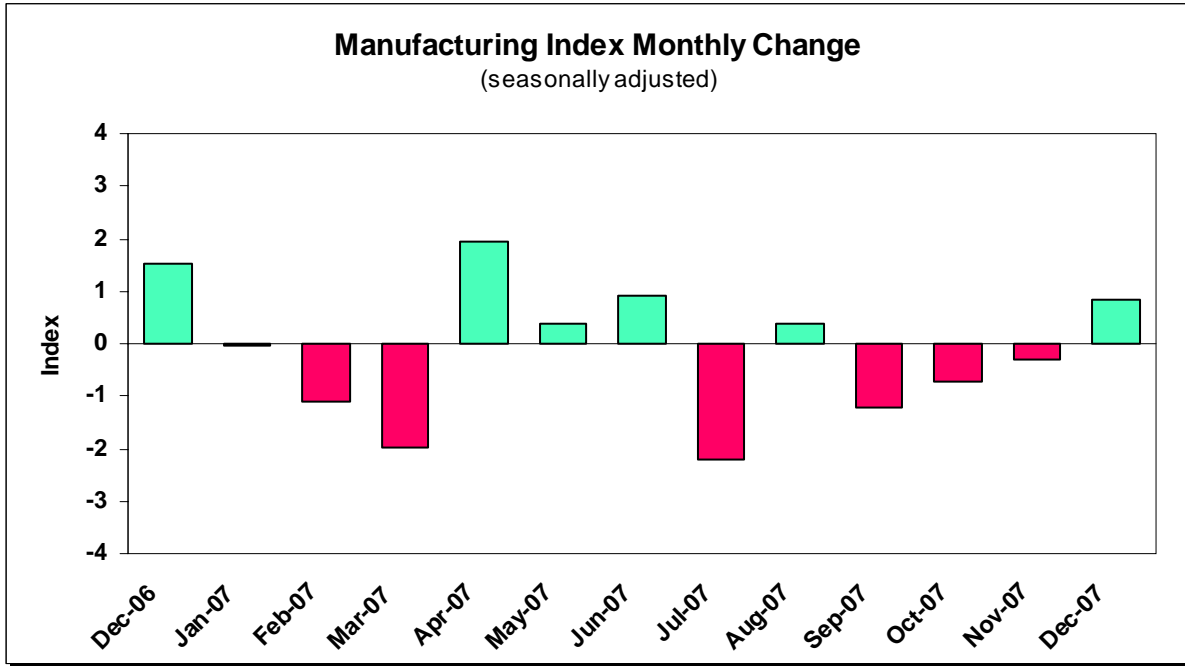


## Manufacturing Sector

For the first time in four months, the manufacturing sector actually gained ground, rising 0.8% to 53.5%. “Most of the increase came from significant improvements in disputes and the dollar amount of customer deductions,” North said. “The data suggest that at least for the month of December, manufacturers’ customers are being less aggressive about holding on to their cash,” he concluded.

### Manufacturing Sector (seasonally adjusted)

	Dec '06	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '07
Sales	69.4	58.9	58.7	56.5	60.9	59.5	62.9	60.9	59.2	59.3	54.2	59.4	61.9
New credit applications	62.1	60.0	52.8	54.6	57.1	57.3	58.7	56.4	55.7	57.5	54.1	56.6	58.0
Dollar collections	59.9	64.6	65.3	55.3	60.3	60.2	59.5	61.3	60.4	59.8	57.6	60.8	58.7
Amount of credit extended	66.9	65.4	59.9	60.0	54.3	62.0	61.8	62.6	62.7	59.1	57.3	61.3	61.8
<b>Index of favorable factors</b>	<b>64.6</b>	<b>62.2</b>	<b>59.2</b>	<b>56.6</b>	<b>58.1</b>	<b>59.7</b>	<b>60.7</b>	<b>60.3</b>	<b>59.5</b>	<b>58.9</b>	<b>55.8</b>	<b>59.5</b>	<b>60.1</b>
Rejection of credit applications	50.7	52.6	54.1	53.1	51.9	51.8	52.6	53.4	50.8	50.7	51.6	49.9	50.3
Accounts placed for collection	51.0	51.9	52.6	47.7	55.6	51.0	52.7	48.3	50.8	46.4	50.7	46.3	43.5
Disputes	46.7	52.2	52.8	49.9	51.4	49.9	51.4	49.8	50.6	46.1	47.8	45.5	49.8
Dollar amount beyond terms	50.1	51.5	50.0	53.7	55.3	56.0	56.6	50.0	50.0	53.6	46.3	46.9	47.4
Dollar amount of customer deductions	49.3	52.5	52.2	48.5	49.2	53.2	53.3	47.4	50.8	47.2	48.7	45.9	49.8
Filings for bankruptcies	60.2	56.6	56.5	55.8	58.6	57.5	58.0	55.4	58.4	57.5	62.0	54.2	54.1
<b>Index of unfavorable factors</b>	<b>51.3</b>	<b>52.9</b>	<b>53.0</b>	<b>51.5</b>	<b>53.7</b>	<b>53.2</b>	<b>54.1</b>	<b>50.7</b>	<b>51.9</b>	<b>50.3</b>	<b>51.2</b>	<b>48.1</b>	<b>49.2</b>
<b>NACM Manufacturing CMI</b>	<b>56.6</b>	<b>56.6</b>	<b>55.5</b>	<b>53.5</b>	<b>55.5</b>	<b>55.8</b>	<b>56.7</b>	<b>54.6</b>	<b>55.0</b>	<b>53.7</b>	<b>53.0</b>	<b>52.7</b>	<b>53.5</b>
<b>ISM Manufacturing PMI</b>	<b>51.4</b>	<b>49.3</b>	<b>52.3</b>	<b>50.9</b>	<b>54.7</b>	<b>55.0</b>	<b>56.0</b>	<b>53.8</b>	<b>52.9</b>	<b>52.0</b>	<b>50.9</b>	<b>50.8</b>	<b>NA</b>

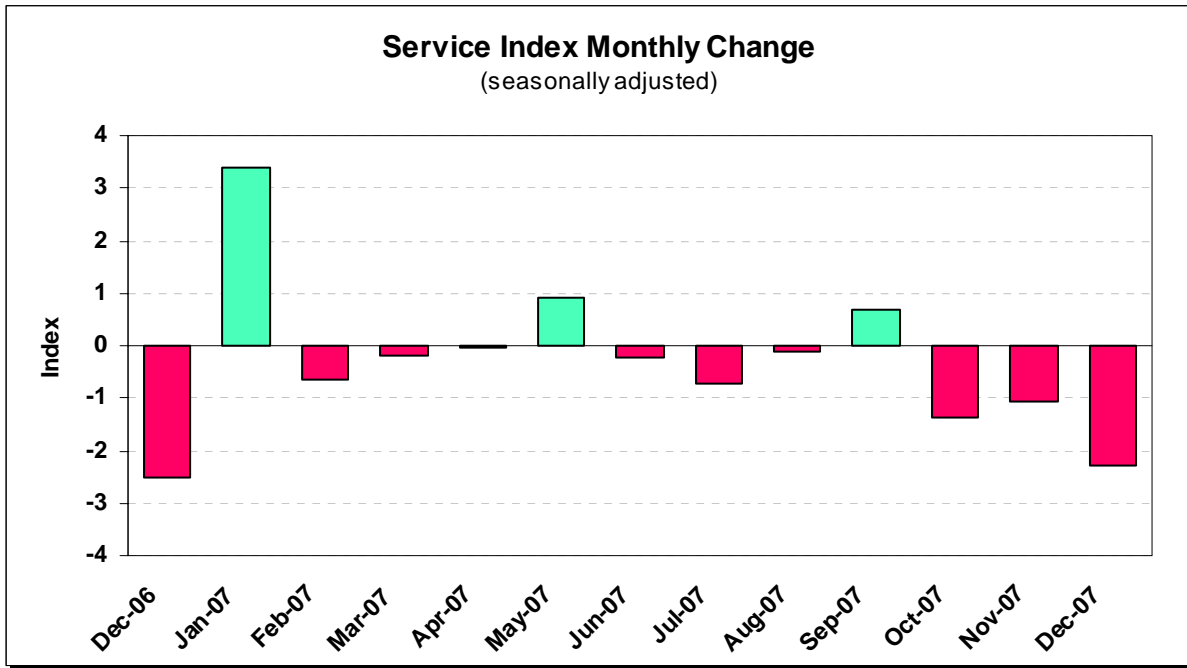


## Service Sector

The service sector index fell 2.3% in December on a seasonally adjusted basis, led by sharp downturns in sales and dollar collections. It was the seventh decline in sales in the past eight months. North said, "The data suggest that businesses are experiencing an unpleasant combination of slower cash flow and expectations of slower consumer demand. Once again, the housing market continues to wreak havoc in the service sector." North noted that of the survey responses, one participant described a "Residential housing crisis...(and)...a continuing problem of buyer walk-offs." Another reported that "Past dues are higher and customers that were robbing Peter to pay Paul are feeling the unavailability of cash." Finally, there was the almost plaintive comment from a construction material supplier that "It's been a tough year."

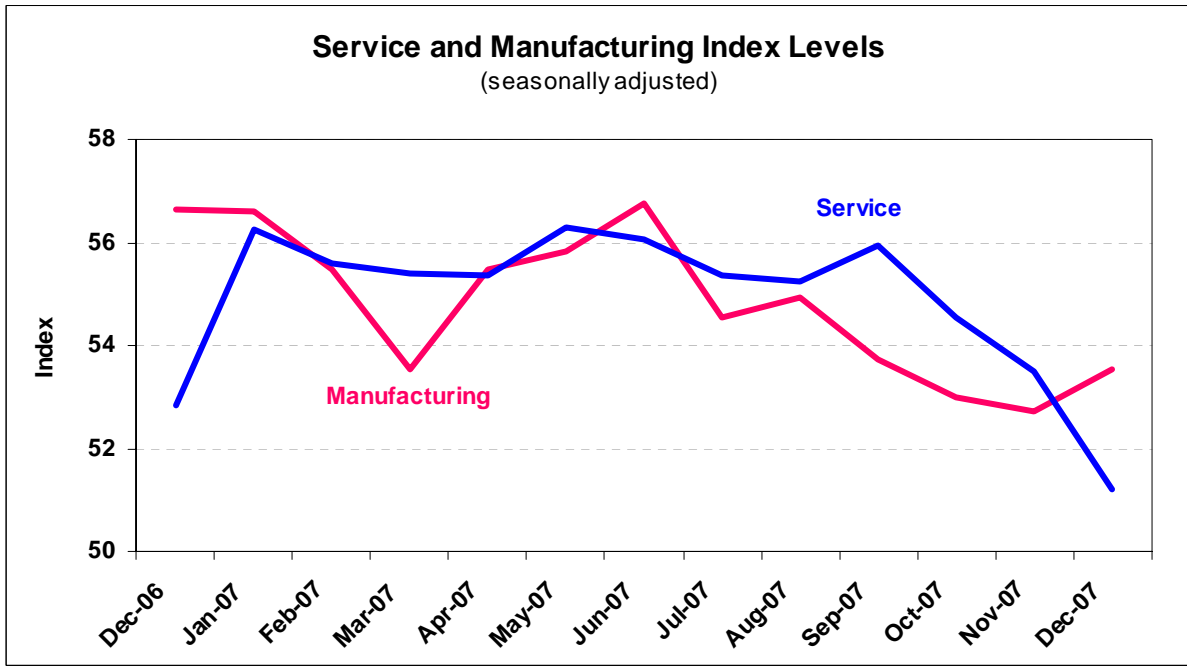
## Service Sector (seasonally adjusted)

	Dec '06	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '07
Sales	52.4	64.3	60.5	59.8	64.8	63.5	60.9	59.5	59.0	58.6	55.1	57.7	50.8
New credit applications	58.9	61.9	52.3	57.1	56.3	55.2	58.5	55.5	55.5	53.1	52.4	56.1	53.6
Dollar collections	59.1	65.0	67.1	61.6	62.7	63.7	62.5	59.1	59.7	60.2	62.5	61.5	55.8
Amount of credit extended	60.5	65.2	67.3	64.7	64.2	62.4	65.5	63.5	60.5	61.1	60.2	60.4	57.8
<b>Index of favorable factors</b>	<b>57.7</b>	<b>64.1</b>	<b>61.8</b>	<b>60.8</b>	<b>62.0</b>	<b>61.2</b>	<b>61.8</b>	<b>59.4</b>	<b>58.7</b>	<b>58.2</b>	<b>57.5</b>	<b>58.9</b>	<b>54.5</b>
Rejection of credit applications	49.4	50.7	51.3	50.8	52.9	53.6	52.7	53.3	51.4	52.8	52.5	49.8	49.7
Accounts placed for collection	44.7	48.4	48.1	49.1	52.5	52.1	51.3	51.3	50.7	51.6	48.5	48.5	48.8
Disputes	49.1	49.8	51.4	52.1	50.9	51.5	52.4	54.0	53.7	54.2	51.0	50.1	49.2
Dollar amount beyond terms	46.1	48.7	51.1	53.2	44.8	50.1	47.3	47.9	52.7	57.0	50.4	44.8	45.3
Dollar amount of customer deductions	49.1	50.8	51.8	50.1	49.4	53.4	52.7	50.2	53.5	52.6	54.3	53.3	50.8
Filings for bankruptcies	59.2	57.5	55.2	55.6	55.0	57.4	57.0	59.2	55.9	57.9	58.8	52.9	50.4
<b>Index of unfavorable factors</b>	<b>49.6</b>	<b>51.0</b>	<b>51.5</b>	<b>51.8</b>	<b>50.9</b>	<b>53.0</b>	<b>52.2</b>	<b>52.7</b>	<b>53.0</b>	<b>54.4</b>	<b>52.6</b>	<b>49.9</b>	<b>49.0</b>
<b>NACM Service CMI</b>	<b>52.9</b>	<b>56.2</b>	<b>55.6</b>	<b>55.4</b>	<b>55.4</b>	<b>56.3</b>	<b>56.1</b>	<b>55.4</b>	<b>55.3</b>	<b>55.9</b>	<b>54.6</b>	<b>53.5</b>	<b>51.2</b>
<b>ISM Service Business Activity Index</b>	<b>56.7</b>	<b>59.0</b>	<b>54.3</b>	<b>52.4</b>	<b>56.0</b>	<b>59.7</b>	<b>60.7</b>	<b>55.8</b>	<b>55.8</b>	<b>54.8</b>	<b>55.8</b>	<b>54.1</b>	<b>NA</b>



### December 2007 vs. December 2006

The combined Credit Manager's Index fell 2.4% over the past 12 months as eight of the 10 components fell. "The filings for bankruptcies component fared the worst, falling 7.4%," North said. The service sector fell 1.6%, also led by the bankruptcy component which declined 8.8%. In the manufacturing sector, eight of the 10 components fell resulting in an overall drop in the index of 3.1%. "Along with a drop in bankruptcies, declines of 7.6% in sales and 7.5% in accounts placed for collections weighed the index down," he said. "The data suggest that indeed more businesses than usual are having a tough time surviving in this environment as sales and cash flow dry up."



## 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:

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

<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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