

NACM Credit Manager's Index

Report for December 2008

Issued January 5, 2009
National Association of Credit Management
8840 Columbia 100 Parkway
Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell 2.1 in December to a record low 40.1. It was the fourth consecutive record low. All 10 components are below the 50 level, representing economic contraction, and six of the components are at record lows. "The carnage was widespread as both the service and manufacturing indexes fell to record lows, and all 20 of their collective components' fell below 50," said Daniel North, chief economist with credit insurer Euler Hermes ACI, who evaluates the data and prepares the CMI report for the National Association of Credit Management (NACM). "Credit managers delineated in nauseating detail the business conditions of an economy which has lost almost two million jobs in the last year, and one whose prospects are dismal," North continued. "Deteriorating sales and payment patterns are the credit managers' main complaints, and those complaints are likely to strain cash flow and put businesses at risk."

"It's no wonder things look so grim," said North. "Retailers had abysmal holiday sales which are likely to contribute to a wave of bankruptcies in 2009. Continuing difficulties in both the auto industry and the financial markets are putting a severe drag on the economy. The housing market is still in decline."

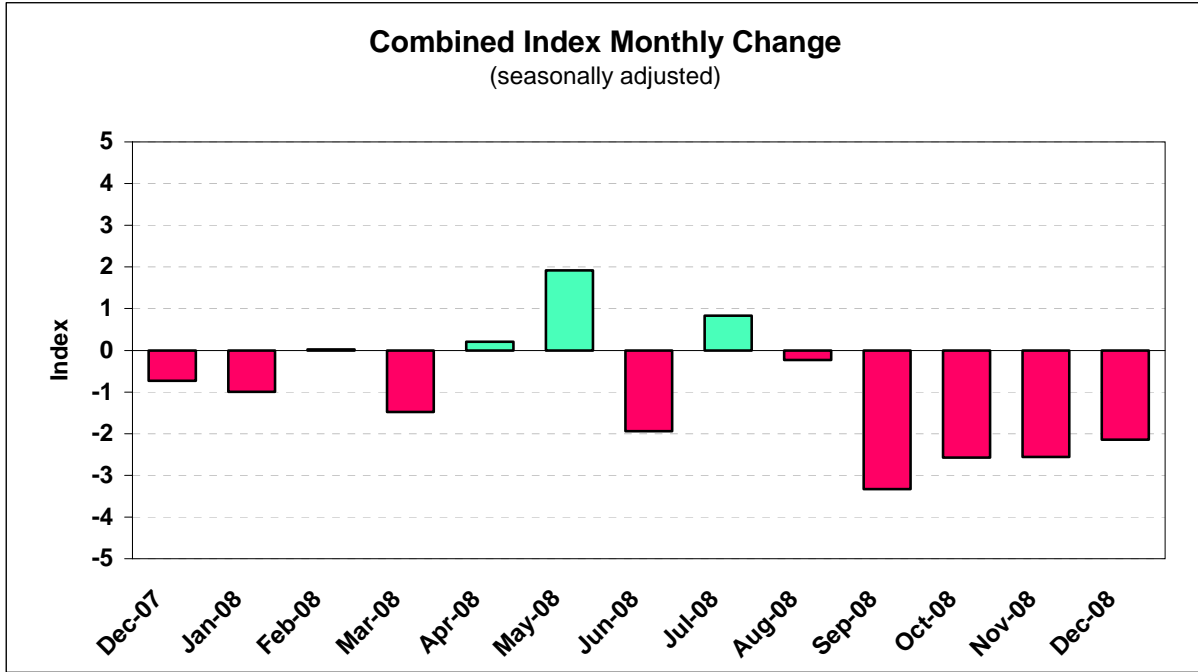
North surmises that it's possible, however, that a change in administration, super loose monetary policy and a new stimulus package will help bring the U.S. out of the recession next year. "But according to credit managers, it's going to be a rough ride until then," he said.

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 '07	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08
Sales	56.3	51.7	57.1	50.8	54.0	57.7	54.2	55.7	56.4	45.3	45.6	34.4	27.2
New credit applications	55.8	52.8	54.7	53.0	54.4	55.0	50.2	53.9	52.8	49.6	49.7	45.2	44.7
Dollar collections	57.2	56.8	60.5	55.1	54.8	61.3	56.4	60.4	57.1	54.6	50.9	49.9	43.8
Amount of credit extended	59.8	57.0	55.0	55.8	57.0	60.4	58.8	58.5	60.0	53.9	47.6	43.3	42.1
Index of favorable factors	57.3	54.5	56.8	53.7	55.0	58.6	54.9	57.1	56.6	50.8	48.4	43.2	39.4
Rejections of credit applications	50.0	50.9	48.4	49.0	48.9	48.1	49.1	48.1	48.5	47.8	44.6	45.0	45.6
Accounts placed for collection	46.2	47.1	42.5	45.2	45.8	43.0	44.5	43.4	45.6	41.6	36.4	36.1	35.2
Disputes	49.5	49.5	47.3	49.0	46.9	50.1	47.9	46.3	46.3	45.8	42.9	43.8	44.5
Dollar amount beyond terms	46.3	45.1	49.0	43.5	42.5	43.7	42.7	47.9	43.6	42.0	41.8	38.8	31.6
Dollar amount of customer deductions	50.3	50.3	47.4	49.0	47.5	49.9	48.1	47.8	48.5	46.6	45.8	45.4	46.4
Filings for bankruptcies	52.3	52.6	52.1	48.6	49.2	51.2	49.0	47.1	48.2	46.4	42.6	40.5	39.7
Index of unfavorable factors	49.1	49.3	47.8	47.4	46.8	47.6	46.9	46.8	46.8	45.0	42.4	41.6	40.5
NACM CMI	52.4	51.4	51.4	49.9	50.1	52.0	50.1	50.9	50.7	47.4	44.8	42.2	40.1
ISM Combined Sectors Index*	50.8	47.7	48.8	49.1	50.3	50.7	49.2	49.8	50.3	46.9	41.7	36.8	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.



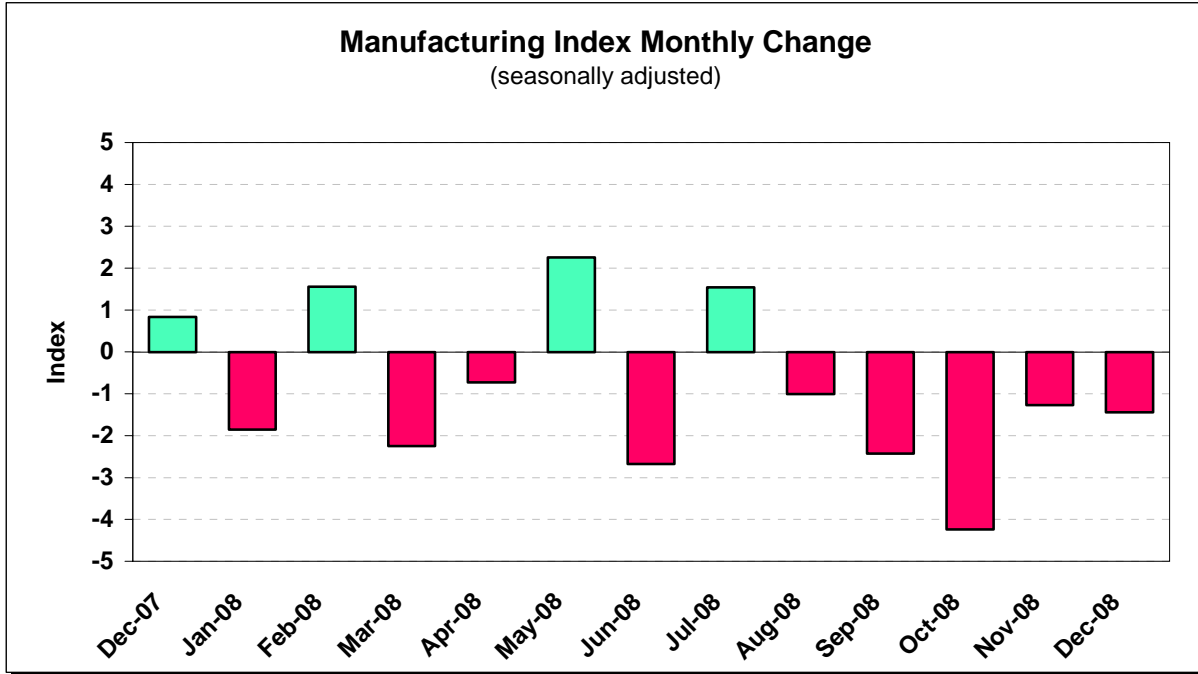
Manufacturing Sector

North reported that the seasonally adjusted manufacturing index fell 1.4 to 41.0, its fourth consecutive record low. Sales fell a dramatic 11.7 to a record low 26.8, while dollar amount beyond terms fell a record 8.2 to a record low 31.8. Comments from the participants confirm the data:

"Customers are claiming they can't get work and don't have money to pay. Some are inviting us to 'go ahead and shut them off' since they aren't working anyway. Also, many customers traditionally 'excellent pay' are now paying a month slow." "In previous years I sent out about three lien/bond notices a year. Currently I am having to send about three notices a month." "...manufacturing demand down 30%+; orders down 18%." "Times are tough. We are waiting for them to get harder."

Manufacturing Sector (seasonally adjusted)

	Dec '07	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08
Sales	61.9	53.0	56.2	53.1	54.0	59.9	54.4	56.5	57.4	45.2	46.1	38.5	26.8
New credit applications	58.0	54.2	53.5	55.6	55.5	54.9	51.1	55.0	53.0	50.9	49.2	45.5	48.8
Dollar collections	58.7	56.9	67.1	55.6	54.6	58.8	54.4	60.8	56.2	55.6	46.3	49.6	44.5
Amount of credit extended	61.8	57.3	57.4	56.5	57.7	58.6	57.9	58.8	62.0	56.2	48.1	42.8	44.0
Index of favorable factors	60.1	55.4	58.6	55.2	55.4	58.0	54.4	57.8	57.1	52.0	47.4	44.1	41.0
Rejections of credit applications	50.3	52.2	50.9	49.5	48.8	49.4	49.4	48.7	48.1	49.0	46.2	45.2	47.8
Accounts placed for collection	43.5	46.6	45.7	48.3	47.1	45.9	45.8	44.8	47.4	42.3	36.0	35.3	35.0
Disputes	49.8	50.0	52.1	47.0	46.3	48.8	46.9	45.2	43.8	45.5	41.3	44.4	44.7
Dollar amount beyond terms	47.4	42.7	46.3	46.0	44.0	45.7	41.8	47.7	41.8	43.1	38.6	40.0	31.8
Dollar amount of customer deductions	49.8	50.5	50.7	48.0	45.5	50.1	48.4	46.5	46.9	45.9	42.8	44.2	45.8
Filings for bankruptcies	54.1	53.2	52.4	50.2	48.7	53.0	48.2	49.7	47.2	45.6	42.6	38.7	40.6
Index of unfavorable factors	49.2	49.2	49.7	48.2	46.7	48.8	46.8	47.1	45.9	45.3	41.3	41.3	41.0
NACM Manufacturing CMI	53.5	51.7	53.2	51.0	50.2	52.5	49.8	51.4	50.4	47.9	43.7	42.4	41.0
ISM Manufacturing PMI	48.4	50.7	48.3	48.6	48.6	49.6	50.2	50.0	49.9	43.5	38.9	36.2	NA



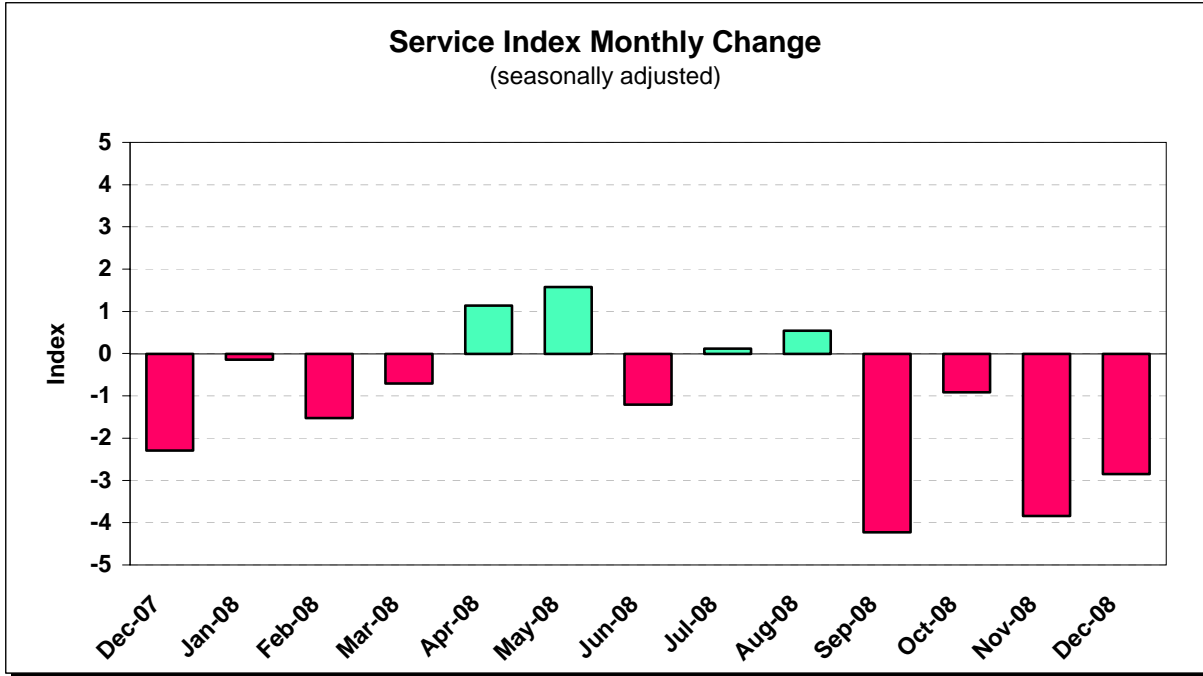
Service Sector

The seasonally adjusted service sector index fell 2.8 to a record low 39.2 “For the first time since its inception in February 2002, all 10 components of the index are below the 50 level, indicating economic contraction,” said North. Like in the manufacturing index, sales and dollar amount beyond terms are the worst components. Similarly, North noted that comments from the service sector participants focus on bad payment conditions.

“Customers tell us flat out, ‘we do not have the money to pay more often.’” “Signs of the times...sales and collections are slowing even from solid, long-term customers.” “Many customers who have paid very well in the past are dropping in the 60- to 90-day column.” “Receivable(s) over 90 days past due continue to increase.” And finally, one pithy comment sums it all up: “Dismal.”

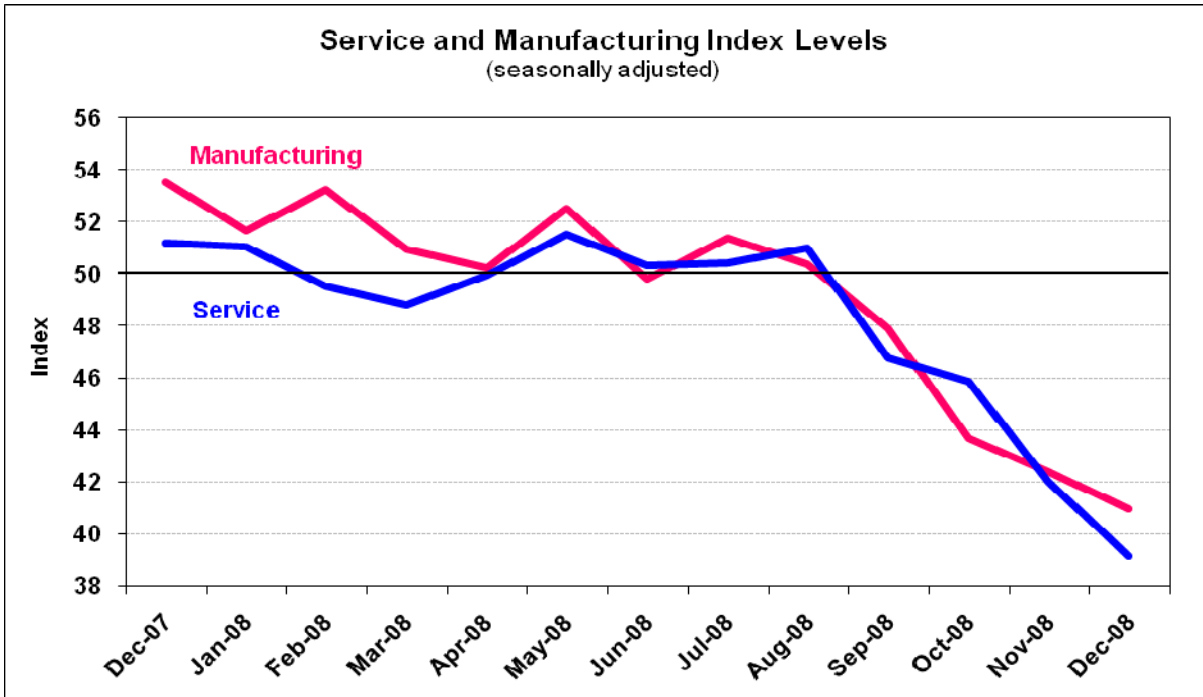
Service Sector (seasonally adjusted)

	Dec '07	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08
Sales	50.8	50.3	58.0	48.5	53.9	55.5	54.0	54.9	55.5	45.4	45.1	30.2	27.5
New credit applications	53.6	51.3	55.8	50.4	53.4	55.1	49.3	52.7	52.6	48.4	50.2	44.8	40.5
Dollar collections	55.8	56.6	53.9	54.6	55.0	63.8	58.4	60.1	58.0	53.6	55.5	50.3	43.2
Amount of credit extended	57.8	56.7	52.5	55.1	56.3	62.2	59.8	58.3	58.0	51.5	47.2	43.7	40.3
Index of favorable factors	54.5	53.7	55.1	52.1	54.7	59.2	55.4	56.5	56.0	49.7	49.5	42.2	37.9
Rejections of credit applications	49.7	49.7	45.9	48.5	49.0	46.7	48.7	47.5	48.8	46.5	43.0	44.7	43.4
Accounts placed for collection	48.8	47.6	39.3	42.2	44.4	40.1	43.2	42.1	43.8	41.0	36.7	36.9	35.4
Disputes	49.2	49.1	42.4	51.0	47.4	51.3	48.9	47.4	48.9	46.1	44.5	43.3	44.3
Dollar amount beyond terms	45.3	47.4	51.8	41.1	41.1	41.6	43.7	48.0	45.4	40.9	44.9	37.6	31.4
Dollar amount of customer deductions	50.8	50.1	44.1	50.0	49.5	49.6	47.8	49.0	50.0	47.3	48.8	46.6	47.0
Filings for bankruptcies	50.4	51.9	51.7	47.0	49.7	49.4	49.8	44.6	49.2	47.3	42.6	42.2	38.8
Index of unfavorable factors	49.0	49.3	45.9	46.6	46.8	46.5	47.0	46.4	47.7	44.8	43.5	41.9	40.1
NACM Service CMI	51.2	51.1	49.5	48.8	50.0	51.5	50.3	50.5	51.0	46.8	45.9	42.0	39.2
ISM Service Business Activity Index	53.2	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	50.2	44.4	37.3	NA



December 2008 vs. December 2007

“On a seasonally adjusted basis over the past 12 months, the Credit Manager’s Index has fallen a record 12.3 as both the manufacturing and service sectors have fallen record amounts of 12.5 and 12.0 respectively,” said North. “All 20 components in both indexes fell over the 12-month period. For both indexes, the sales component dropped the most: 23.3 for services, and a huge, record 35.1 for manufacturing. Certainly, if sales have deteriorated that much while payment problems are on the rise, cash flow will be severely strained—a very dangerous condition which threatens businesses’ survival.”



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:

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

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 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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