

NACM Credit Manager's Index

Report for February 2006

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

February '06	CMI-Total: 55.3	CMI-Manufacturing: 54.2	CMI-Service: 56.5
January '06	CMI-Total: 53.7	CMI-Manufacturing: 52.4	CMI-Service: 54.9
% Change	2.98%	3.44%	2.91%

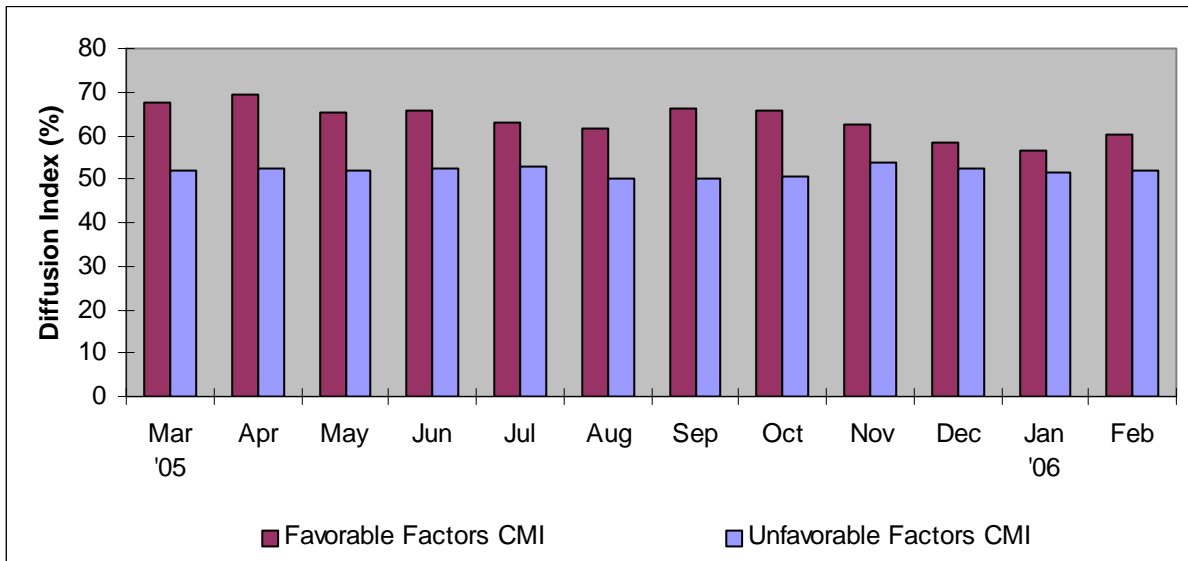
COMBINED SECTORS

The Credit Manager's Index (CMI) continues to mirror developments in the overall U.S. economy, rapid changes from month to month, comments Dan North, Chief Economist with credit insurer Euler Hermes ACI. The February CMI showed a strong snap back from January's weakness, led by sharp gains in sales, new credit applications, and amount of credit extended—all favorable items oriented towards the top line. Gains were solid in both the service and manufacturing sectors, with the latter benefiting the most. It was the first increase in the manufacturing sales component in five months, and only the second in eight months. "The recent volatility of the CMI is confirmed by the GDP data, which was much weaker than expected in 4Q05, but looks to be very strong in 1Q06, partially because the consumer held off purchases until the new year," says North. "Other data also indicates that while the economy is strong now, it is likely to weaken after the first quarter as the Fed's tightening takes hold. It takes about a year for Fed actions to work through the economy, so the effects of the tightening, which are reflected in the inverted yield curve, are only beginning to be felt. Similarly, a recent survey indicates widespread optimism for 2006 among CEOs, but at the same time earnings growth for the S&P 500 companies is likely to fall in 2006 to an estimated 6%-7% from 14% in 2005."

See the last page of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Mar '05	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb
Sales	70.6	71.6	66.7	68.5	64.3	61.4	71.7	70.1	63.2	60.0	56.1	60.5
New credit applications	65.7	64.5	60.8	62.4	60.3	61.1	63.0	59.2	55.5	52.1	56.0	60.7
Dollar collections	63.6	70.2	64.8	63.9	62.2	58.5	61.1	63.5	66.7	58.6	56.8	56.5
Amount of credit extended	71.4	71.3	69.7	68.3	64.6	65.6	68.7	70.0	65.7	63.3	58.3	62.8
Index of favorable factors	67.8	69.4	65.5	65.8	62.8	61.6	66.1	65.7	62.7	58.5	56.8	60.1
Rejection of credit applications	49.3	50.0	51.7	50.8	52.3	50.7	52.2	53.4	54.7	53.2	51.8	52.1
Accounts placed for collections	50.9	50.5	53.2	52.5	51.8	49.7	51.5	52.9	53.8	53.0	51.9	51.3
Disputes	48.8	50.5	49.2	49.9	47.8	48.6	48.7	49.0	53.4	48.3	49.6	47.6
Dollar amount beyond terms	55.1	59.0	55.8	53.7	53.7	48.7	51.0	52.2	56.6	49.3	48.1	51.0
Dollar amount of customer deductions	50.0	49.9	49.3	51.5	51.7	48.7	48.0	50.0	50.2	50.2	49.8	49.9
Filings for bankruptcies	58.5	56.0	52.2	57.1	58.9	54.2	50.5	46.0	54.9	61.5	58.7	61.3
Index of unfavorable factors	52.1	52.6	51.9	52.6	52.7	50.1	50.3	50.6	53.9	52.5	51.6	52.2
NACM Combined CMI	58.4	59.3	57.3	57.8	56.7	54.7	56.6	56.6	57.4	54.9	53.7	55.3
ISM Combined Sectors Index*	59.2	57.5	55.0	58.0	58.6	59.3	56.4	59.6	58.3	57.0	57.6	NA

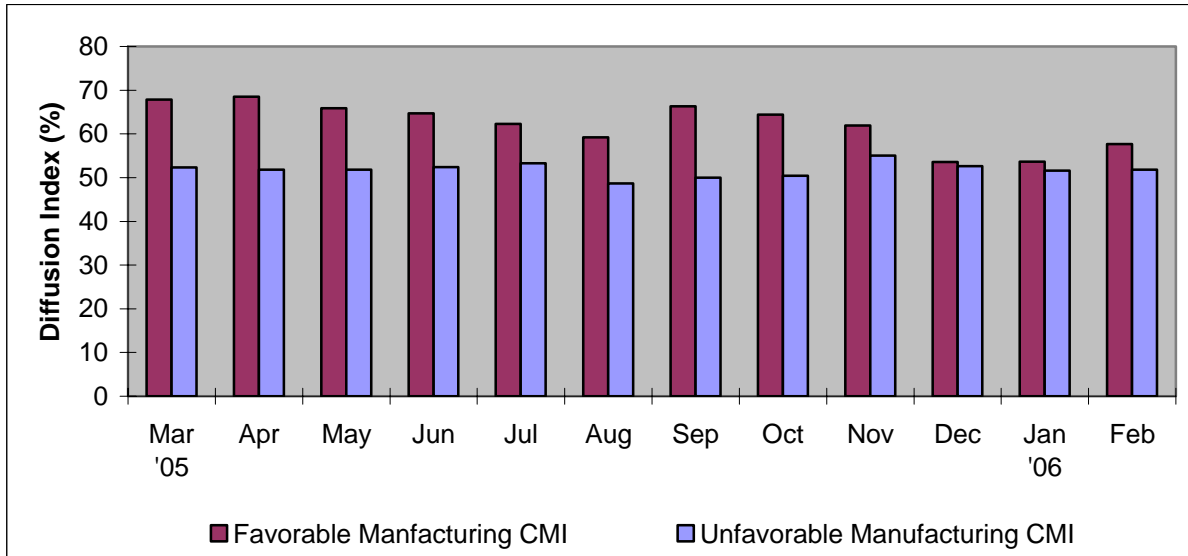
*Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.



MANUFACTURING SECTOR RESULTS

The manufacturing sector saw modest growth in February 2006. Sparked by an increase in three of the four favorable factors, the overall CMI increased 180 basis points from 52.4 to 54.2 percent. Amount of credit extended displayed the highest level of growth—increasing 650 basis points; followed by new sales, which jumped from 52.9 to 58.8—a 590-point increase.

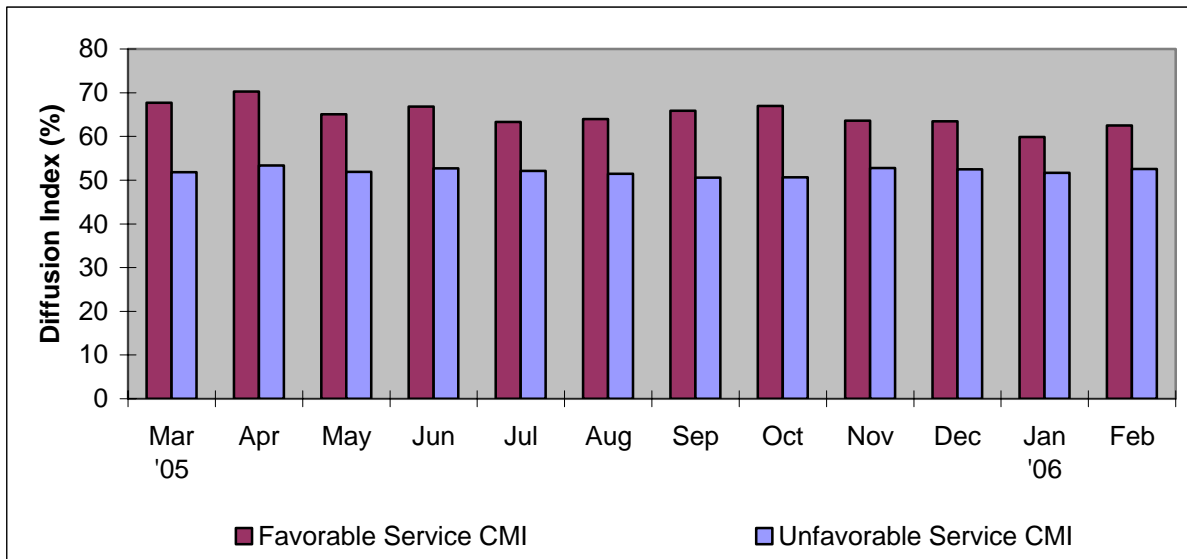
Manufacturing Sector (Not Seasonally Adjusted)		Mar '05	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb
Sales		69.6	72.7	67.6	68.1	63.8	58.7	74.1	68.9	60.7	53.0	52.9	58.8
New credit applications		65.2	62.5	59.2	60.0	58.3	62.2	61.6	56.2	55.1	47.2	54.0	58.0
Dollar collections		66.8	69.1	65.9	63.1	63.7	55.2	61.1	63.4	66.7	56.5	53.8	53.4
Amount of credit extended		69.8	69.6	70.8	67.6	63.4	60.8	68.4	69.2	65.1	57.5	54.0	60.5
Index of favorable factors		67.9	68.5	65.9	64.7	62.3	59.2	66.3	64.4	61.9	53.6	53.7	57.7
Rejection of credit applications		48.9	50.5	52.2	51.8	52.1	50.3	52.2	54.2	55.6	53.5	52.5	51.8
Accounts placed for collections		52.3	47.7	54.9	51.8	54.0	49.4	51.9	52.7	57.4	55.7	50.6	49.6
Disputes		49.8	49.0	48.7	49.5	47.9	45.1	49.6	47.7	53.2	46.1	48.7	46.4
Dollar amount beyond terms		56.7	58.5	54.9	52.7	53.8	49.1	49.1	53.2	58.4	50.2	52.1	53.2
Dollar amount of customer deductions		49.5	49.5	46.7	50.7	53.0	46.3	46.9	48.9	50.0	49.1	48.7	50.0
Filings for bankruptcies		56.7	55.9	53.7	57.8	58.9	51.9	50.3	46.0	55.6	61.1	57.0	60.0
Index of unfavorable factors		52.3	51.9	51.9	52.4	53.3	48.7	50.0	50.5	55.0	52.6	51.6	51.8
NACM Manufacturing CMI		58.5	58.5	57.5	57.3	56.9	52.9	56.5	56.0	57.8	53.0	52.4	54.2
ISM Manufacturing PMI		55.2	53.3	51.4	53.8	56.6	53.6	59.4	59.1	58.1	54.2	58.4	NA



Service Sector Results

The service sector displayed growth in the same three favorable factors as the manufacturing sector: new credit applications, which jumped 530 points; new sales, which posted a 290 point gain; and credit extended, up 250-points.

Service Sector (Not Seasonally Adjusted)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
	'05										'06	
Sales	71.5	70.4	65.7	68.8	64.7	64.0	69.2	71.2	65.7	67.0	59.2	62.1
New credit applications	66.2	66.5	62.4	64.8	62.2	60.0	64.3	62.2	55.8	57.0	58.0	63.3
Dollar collections	60.3	71.3	63.6	64.7	60.7	61.7	61.1	63.6	66.6	60.7	59.7	59.6
Amount of credit extended	72.9	73.0	68.5	69.0	65.7	70.3	69.0	70.8	66.2	69.0	62.5	65.0
Index of favorable factors	67.7	70.3	65.1	66.8	63.3	64.0	65.9	67.0	63.6	63.4	59.9	62.5
Rejection of credit applications	49.6	49.5	51.1	49.8	52.5	51.1	52.2	52.5	53.8	52.9	51.0	52.3
Accounts placed for collections	49.4	53.2	51.4	53.2	49.5	50.0	51.0	53.1	50.2	50.2	53.2	52.9
Disputes	47.7	52.0	49.6	50.2	47.7	52.0	47.8	50.3	53.5	50.4	50.5	48.8
Dollar amount beyond terms	53.4	59.4	56.6	54.6	53.6	48.3	52.9	51.2	54.8	48.3	44.0	48.8
Dollar amount of customer deductions	50.4	50.2	51.8	52.3	50.3	51.1	49.0	51.0	50.3	51.2	50.8	49.8
Filings for bankruptcies	60.3	56.0	50.7	56.3	58.9	56.4	50.7	45.9	54.1	61.8	60.4	62.6
Index of unfavorable factors	51.8	53.4	51.9	52.7	52.1	51.5	50.6	50.7	52.8	52.5	51.7	52.5
NACM Service CMI	58.2	60.2	57.1	58.4	56.6	56.5	56.7	57.2	57.1	56.9	54.9	56.5
ISM Service Business Activity Index	63.1	61.7	58.5	62.2	60.5	65.0	53.3	60.0	58.5	59.8	56.8	NA



COMPARISON OF FEBRUARY 2006 TO FEBRUARY 2005

The February 2006 CMI is down 30 points from one year ago; a drop reflected in the overall favorable and unfavorable factors. From a sector standpoint, more variation is displayed among the favorable factors: for example, the favorable factors for the February 2006 service sector showed increases in 75 percent of the factors—while a decrease in 75 percent of the favorable factors was true for the manufacturing sector.

Comparison: February 2006 vs. February 2005 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Feb '05	Feb '06	Feb '05	Feb '06	Feb '05	Feb '06
Sales	61.7	58.8	59.4	62.1	60.6	60.5
New credit applications	63.9	58.0	57.0	63.3	60.5	60.7
Dollar collections	53.6	53.4	59.4	59.6	56.5	56.5
Amount of credit extended	64.0	60.5	62.7	65.0	63.4	62.8
Index of favorable factors	60.8	57.7	59.6	62.5	60.2	60.1
Rejection of credit applications	49.2	51.8	51.5	52.3	50.4	52.1
Accounts placed for collections	54.4	49.6	54.2	52.9	54.3	51.3
Disputes	47.6	46.4	50.6	48.8	49.1	47.6
Dollar amount beyond terms	54.7	53.2	50.4	48.8	52.6	51.0
Dollar amount of customer deductions	49.4	50.0	52.7	49.8	51.1	49.9
Filings for bankruptcies	58.6	60.0	57.4	62.6	58.0	61.3
Index of unfavorable factors	52.3	51.8	52.8	52.5	52.6	52.2
NACM CMI	55.7	54.2	55.5	56.5	55.6	55.3

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

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 collections	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.

As shown in the table above, 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. The index is not seasonally adjusted because of lack of an historical record.

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