

NACM Credit Manager's Index

Report for February 2007

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

Combined Sectors

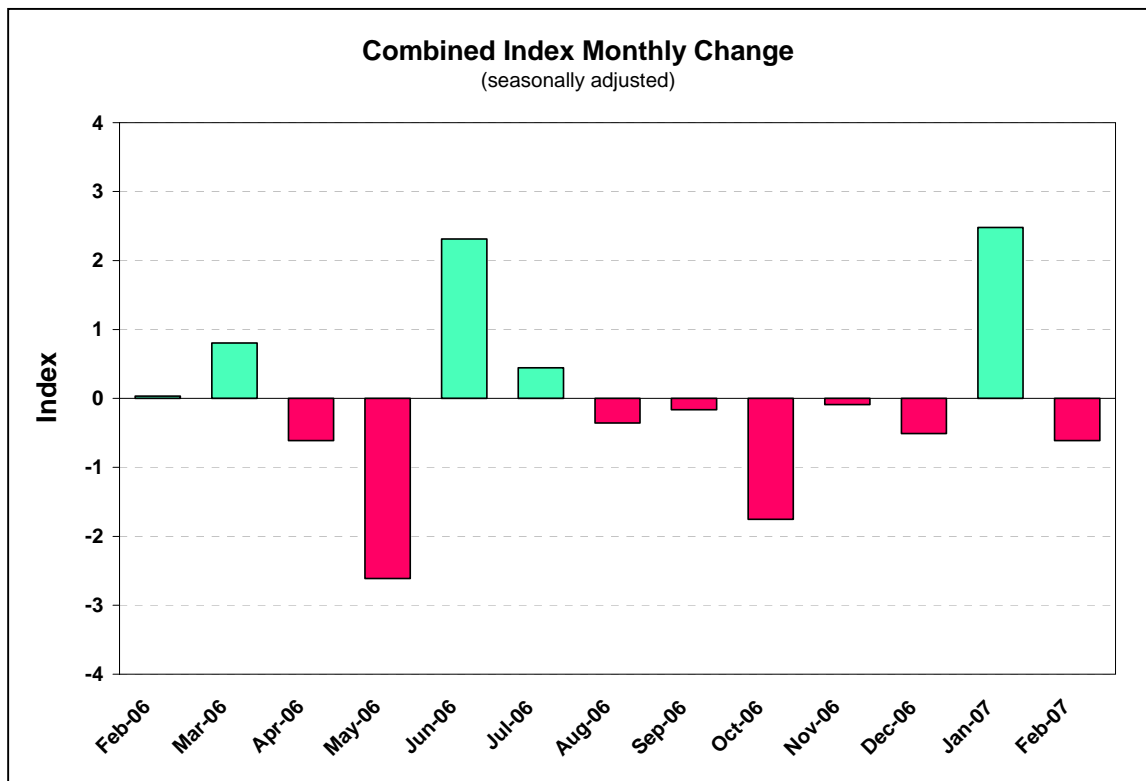
The seasonally adjusted Credit Manager's Index (CMI) crept 0.6% lower in February. It was the sixth decline in seven months, and five of the Index's 10 components fell. Much of the fall was driven by sharp decreases in the new credit applications component of all three indexes. "Indeed, without the slide in new credit applications, the combined index would have risen 0.3%. The data suggests that businesses are curtailing their spending in anticipation of an economic slowdown, a notion confirmed by January's durable goods orders report, which showed that business orders for items meant to last more than a year dropped sharply last month," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. He noted that the combined sectors' results reflect conditions found throughout the economy: continued economic momentum accompanied by stubborn signs of deterioration; the Institute of Supply Management's (ISM) manufacturing index fell below 50 for the second time in three months; median housing prices have fallen for six consecutive months (an unprecedented event); and the U.S. Treasury yield curve has become increasingly negative, a strong indicator of a future slowdown.

See page 4 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Services Sectors (seasonally adjusted)

	Feb '06	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb
Sales	64.6	65.8	63.3	61.5	65.4	67.8	62.8	63.5	56.3	59.5	60.9	61.6	59.6
New credit applications	60.3	60.9	57.4	55.7	55.7	59.0	62.5	57.9	56.2	56.5	60.5	60.9	52.5
Dollar collections	66.2	64.6	63.5	58.6	62.5	61.9	63.3	60.0	58.3	62.6	59.5	64.8	66.2
Amount of credit extended	66.3	67.4	66.2	65.5	64.8	69.9	66.4	62.4	63.2	64.0	63.7	65.3	63.6
Index of favorable factors	64.3	64.7	62.6	60.3	62.1	64.7	63.8	60.9	58.5	60.6	61.2	63.2	60.5
Rejection of credit applications	53.1	53.9	53.8	50.6	51.5	52.6	53.6	53.3	54.8	51.7	50.1	51.6	52.7
Accounts placed for collection	50.3	52.7	52.0	50.5	55.2	52.0	50.1	55.0	53.1	50.7	47.8	51.4	51.3
Disputes	48.4	50.0	52.4	49.3	51.1	51.1	50.4	52.3	49.7	49.9	47.9	52.7	53.5
Dollar amount beyond terms	52.2	54.6	53.5	48.5	56.5	52.2	51.3	55.8	52.2	50.2	48.1	50.9	52.6
Dollar amount of customer deductions	50.2	51.2	51.8	49.0	49.7	50.5	51.7	50.6	50.5	51.3	49.2	53.2	54.5
Filings for bankruptcies	61.3	59.7	60.8	59.2	59.2	59.1	60.5	60.2	59.1	56.3	59.7	59.8	59.5
Index of unfavorable factors	52.6	53.7	54.0	51.2	53.9	52.9	52.9	54.5	53.2	51.7	50.5	53.3	54.0
NACM CMI	57.3	58.1	57.5	54.9	57.2	57.6	57.3	57.1	55.3	55.2	54.7	57.2	56.6
ISM Combined Sectors Index*	58.3	57.5	59.0	57.0	55.5	55.1	55.6	53.7	54.5	54.1	54.1	54.2	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.

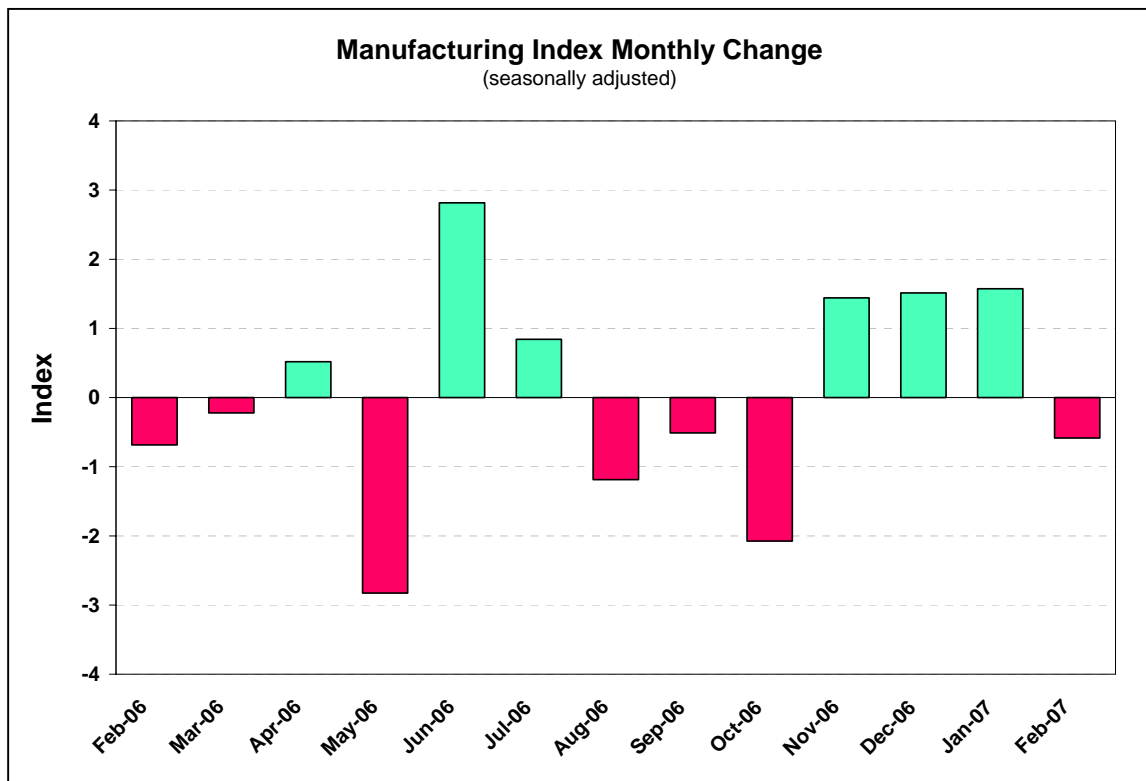


Manufacturing Sector

The manufacturing sector fell 0.6%, largely as a result of a 7.2% drop in new credit applications. North said, "Without that component, the index would have risen slightly by 0.1%. Survey respondents say they are 'Definitely seeing a slowdown in manufacturing and sales,' and that their 'large customers are demanding longer payments terms be built into their contracts.'"

Manufacturing Sector (seasonally adjusted)

	Feb '06	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb
Sales	61.3	62.7	62.4	59.4	63.9	69.7	62.0	62.0	55.7	63.5	69.4	58.9	58.7
New credit applications	55.0	59.7	54.9	53.5	55.0	59.1	63.4	57.4	55.8	56.6	62.1	60.0	52.8
Dollar collections	66.2	59.3	63.4	56.5	60.5	59.4	60.1	61.0	54.8	62.6	59.9	64.6	65.3
Amount of credit extended	62.1	64.9	63.6	64.4	61.1	70.7	67.9	60.6	62.6	64.7	66.9	65.4	59.9
Index of favorable factors	61.1	61.6	61.1	58.4	60.1	64.7	63.4	60.2	57.2	61.9	64.6	62.2	59.2
Rejection of credit applications	53.8	55.4	52.2	47.5	51.6	52.8	53.2	52.5	55.1	51.1	50.7	52.6	54.1
Accounts placed for collection	49.4	51.3	52.0	51.7	54.0	51.7	48.5	54.8	50.6	48.9	51.0	54.4	54.5
Disputes	49.0	45.7	52.4	48.4	52.4	49.9	47.8	48.7	48.2	49.0	46.7	55.5	55.6
Dollar amount beyond terms	55.2	54.5	52.3	49.4	59.0	53.9	48.7	54.8	49.5	50.7	50.1	53.0	54.1
Dollar amount of customer deductions	51.4	49.0	52.7	49.0	49.4	48.6	51.7	46.4	48.2	49.8	49.3	55.5	57.2
Filings for bankruptcies	60.0	58.6	60.4	58.2	59.3	58.8	59.3	59.4	56.3	54.3	60.2	62.1	63.9
Index of unfavorable factors	53.1	52.4	53.7	50.7	54.3	52.6	51.5	52.8	51.3	50.6	51.3	55.5	56.6
NACM Manufacturing CMI	56.3	56.1	56.6	53.8	56.6	57.5	56.3	55.8	53.7	55.1	56.6	58.2	57.6
ISM Manufacturing PMI	56.1	55.3	56.9	54.7	54	54.4	54.3	52.7	51.5	49.9	51.4	49.3	

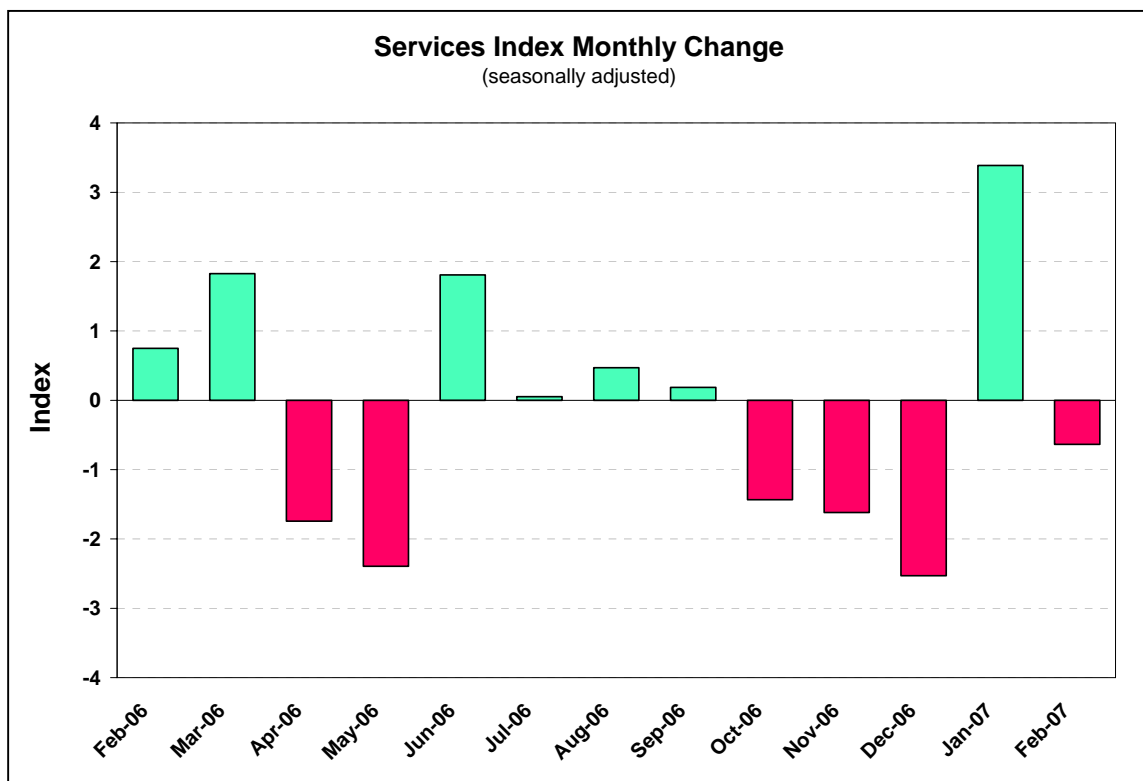


Services Sector

The services sector fell 0.6% in February, again resulting from the number of new credit applications, which fell a sharp 9.6%. The index without that component would have risen 0.4%. "The services sector has fallen in four of the past five months and has underperformed the manufacturing sector over that period," commented North. "Survey participants in the home building and furnishing supply business industries seem to have been hit the hardest, citing a housing market which has '...tankd...large amounts of unsold 'spec' homes...' with 'receivables...more at risk now than in the past couple of years' and a 'reduction in volume of 50%,'" he said.

Services Sector (seasonally adjusted)

	Feb '06	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb
Sales	67.9	68.9	64.3	63.6	67.0	66.0	63.7	65.0	56.8	55.5	52.4	64.3	60.5
New credit applications	65.6	62.2	60.0	57.9	56.4	58.9	61.6	58.3	56.6	56.3	58.9	61.9	52.3
Dollar collections	66.2	69.9	63.5	60.7	64.6	64.4	66.6	59.0	61.9	62.5	59.1	65.0	67.1
Amount of credit extended	70.4	69.9	68.8	66.7	68.5	69.2	64.8	64.2	63.7	63.4	60.5	65.2	67.3
Index of favorable factors	67.5	67.7	64.1	62.2	64.1	64.6	64.1	61.6	59.8	59.4	57.7	64.1	61.8
Rejection of credit applications	52.3	52.4	55.4	53.7	51.5	52.3	53.9	54.2	54.5	52.2	49.4	50.7	51.3
Accounts placed for collection	51.2	54.0	52.1	49.4	56.4	52.4	51.7	55.1	55.7	52.5	44.7	48.4	48.1
Disputes	47.8	54.4	52.3	50.2	49.8	52.3	52.9	55.9	51.3	50.8	49.1	49.8	51.4
Dollar amount beyond terms	49.3	54.7	54.6	47.6	54.1	50.4	54.0	56.7	54.8	49.7	46.1	48.7	51.1
Dollar amount of customer deductions	48.9	53.3	50.9	49.1	50.0	52.5	51.6	54.8	52.8	52.7	49.1	50.8	51.8
Filings for bankruptcies	62.6	60.9	61.2	60.2	59.1	59.3	61.8	61.0	62.0	58.3	59.2	57.5	55.2
Index of unfavorable factors	52.0	54.9	54.4	51.7	53.5	53.2	54.3	56.3	55.2	52.7	49.6	51.0	51.5
NACM Service CMI	58.2	60.1	58.3	55.9	57.7	57.8	58.2	58.4	57.0	55.4	52.9	56.2	55.6
ISM Service Business Activity Index	60.5	59.6	61.1	59.2	56.9	55.7	56.9	54.6	57.4	58.3	56.7	59.0	



February 2007 vs. February 2006

On a year-over-year basis, the overall CMI fell 0.7%, as the drop in the services component of 2.6% more than outweighed the manufacturing component's rise of 1.3%. North summed that while all of the indexes remain above the 50 level, indicating expansion, "the survey continues to suggest that ingrained weakness caused by the decimated housing market and tightening monetary policy continues to chip away at the economy's considerable momentum." (See chart on next page.)

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.

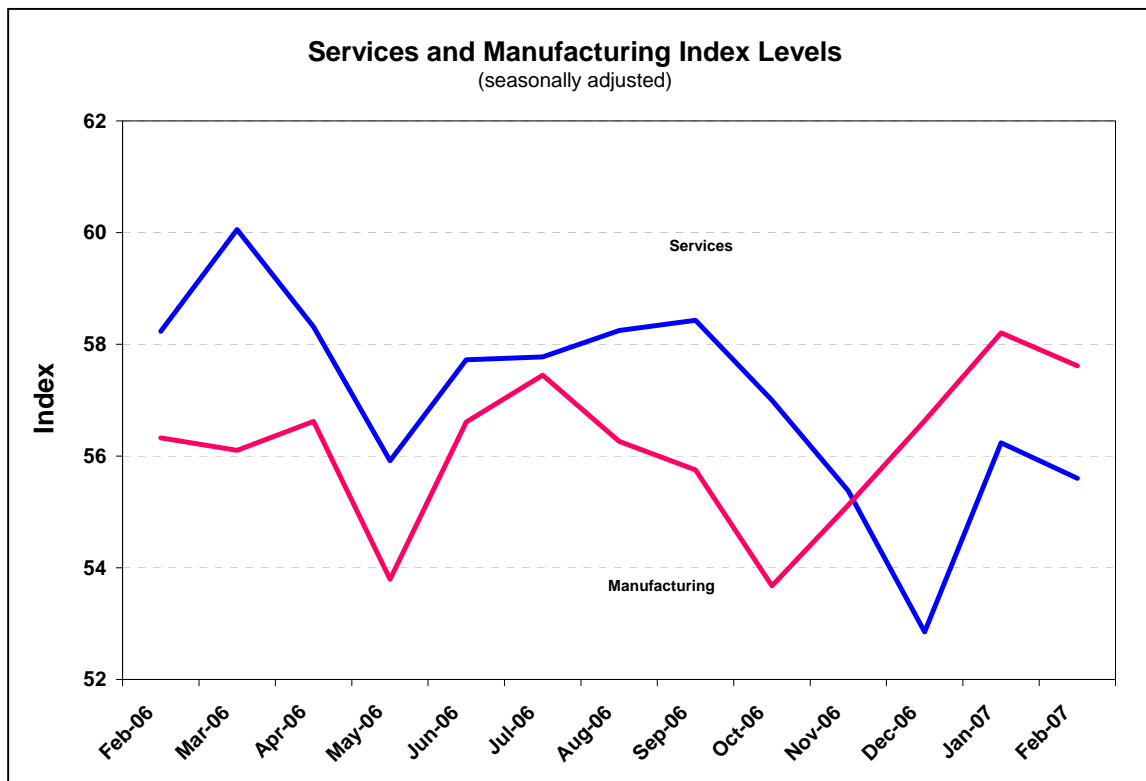
Factors Making Up the Diffusion Index

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:

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



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 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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