

NACM Credit Manager's Index

Report for February 2008

Issued March 3, 2008
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) remained unchanged in February, breaking a streak of five consecutive declines. A rise of 1.5% in the manufacturing index was offset by a decline of 1.6% in the service index. However, the dollar collections component in manufacturing distorted the totals, soaring 10.2%, the second highest jump ever. "Without that component," said Daniel North, chief economist for Euler Hermes ACI, "manufacturing would have only risen 0.6%, and the combined index would have actually fallen into negative territory at -0.4%." Five of the components in the combined index are now below the 50 level which would indicate economic expansion, tying the record set in November of last year. Six of the 10 combined components fell. "Perhaps most noteworthy," North added, "the service index has fallen below 50 for the first time."

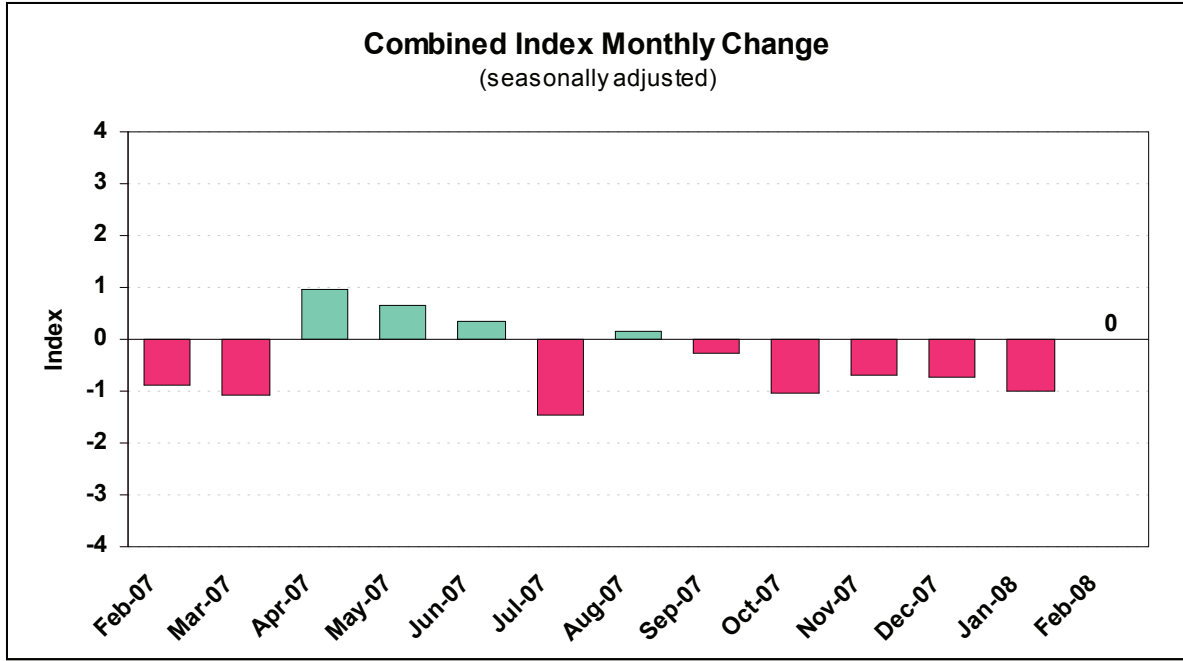
"Overall, the combined index tells a story similar to the one we have been seeing for some time: a slow erosion of the combined index with more weakness in services than in manufacturing," said North. "The performance of the macroeconomy continues to be dismal, and it is quite likely that a recession has already started." The 49.5% reading in the service index clearly shows contraction and reflects the weakness of the overall economy. "In response, the Federal Reserve has slashed interest rates and will continue to do so in order to stimulate the credit markets and the macroeconomy," said North. "However, Fed actions take six to 12 months to become fully effective, so this aggressive rate cutting is simply too late to prevent a recession, although it will help get the economy out of a recession sooner, perhaps as early as the end of this year."

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)

	Feb '07	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb '08
Sales	59.6	58.1	62.8	61.5	61.9	60.2	59.1	59.0	54.7	58.6	56.3	51.7	57.1
New credit applications	52.5	55.9	56.7	56.2	58.6	56.0	55.6	55.3	53.3	56.4	55.8	52.8	54.7
Dollar collections	66.2	58.4	61.5	61.9	61.0	60.2	60.1	60.0	60.0	61.2	57.2	56.8	60.5
Amount of credit extended	63.6	62.4	59.3	62.2	63.6	63.0	61.6	60.1	58.7	60.9	59.8	57.0	55.0
Index of favorable factors	60.5	58.7	60.1	60.5	61.3	59.9	59.1	58.6	56.7	59.2	57.3	54.5	56.8
Rejections of credit applications	52.7	51.9	52.4	52.7	52.6	53.4	51.1	51.8	52.0	49.9	50.0	50.9	48.4
Accounts placed for collection	50.3	48.4	54.0	51.5	52.0	49.8	50.7	49.0	49.6	47.4	46.2	47.1	42.5
Disputes	52.1	51.0	51.2	50.7	51.9	51.9	52.2	50.2	49.4	47.8	49.5	49.5	47.3
Dollar amount beyond terms	50.5	53.5	50.1	53.0	52.0	48.9	51.4	55.3	48.4	45.8	46.3	45.1	49.0
Dollar amount of customer deductions	52.0	49.3	49.3	53.3	53.0	48.8	52.2	49.9	51.5	49.6	50.3	50.3	47.4
Filings for bankruptcies	55.9	55.7	56.8	57.4	57.5	57.3	57.2	57.7	60.4	53.5	52.3	52.6	52.1
Index of unfavorable factors	52.3	51.6	52.3	53.1	53.2	51.7	52.4	52.3	51.9	49.0	49.1	49.3	47.8
NACM CMI	55.5	54.5	55.4	56.1	56.4	55.0	55.1	54.8	53.8	53.1	52.4	51.4	51.4
ISM Combined Sectors Index*	52.6	51.4	53.1	53.7	54.3	52.7	52	51.9	51.9	51.2	50.8	47.7	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.



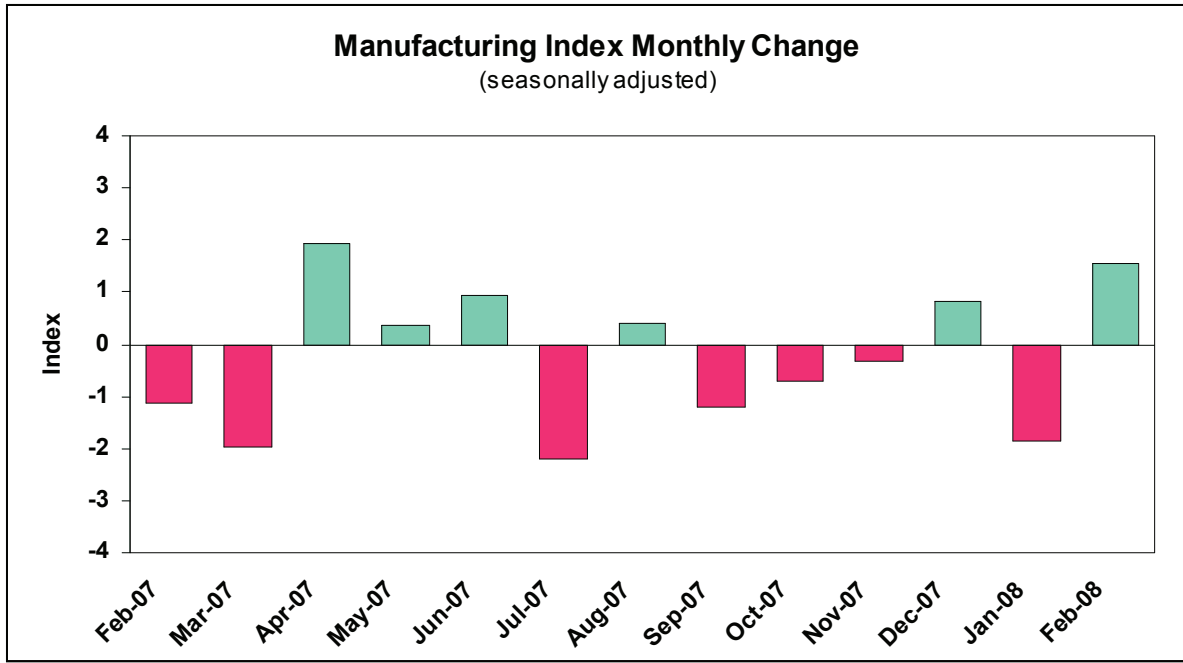
Manufacturing Sector

The seasonally adjusted manufacturing sector index eked out a gain of 1.5% in February, largely driven by a huge increase of 10.2% in the dollar collections component. Without that component, the total index would have risen only 0.6% suggesting somewhat weaker conditions than the headline number indicates.

“It’s no surprise that once again the housing market is held up as the cause of most respondent’s woes,” said North. But reports from other industries, such as sign makers, say, “We’re starting to see a downturn in new business... now looking for new work. We’ve had to start laying off workers...” A California participant wrote that the “number of businesses closing their doors is increasing in my area.” “But on the bright side, several food companies noted strong improvement in international business, no doubt due to the weaker dollar,” North added.

Manufacturing Sector (seasonally adjusted)

	Feb '07	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb '08
Sales	58.7	56.5	60.9	59.5	62.9	60.9	59.2	59.3	54.2	59.4	61.9	53.0	56.2
New credit applications	52.8	54.6	57.1	57.3	58.7	56.4	55.7	57.5	54.1	56.6	58.0	54.2	53.5
Dollar collections	65.3	55.3	60.3	60.2	59.5	61.3	60.4	59.8	57.6	60.8	58.7	56.9	67.1
Amount of credit extended	59.9	60.0	54.3	62.0	61.8	62.6	62.7	59.1	57.3	61.3	61.8	57.3	57.4
Index of favorable factors	59.2	56.6	58.1	59.7	60.7	60.3	59.5	58.9	55.8	59.5	60.1	55.4	58.6
Rejections of credit applications	54.1	53.1	51.9	51.8	52.6	53.4	50.8	50.7	51.6	49.9	50.3	52.2	50.9
Accounts placed for collection	52.6	47.7	55.6	51.0	52.7	48.3	50.8	46.4	50.7	46.3	43.5	46.6	45.7
Disputes	52.8	49.9	51.4	49.9	51.4	49.8	50.6	46.1	47.8	45.5	49.8	50.0	52.1
Dollar amount beyond terms	50.0	53.7	55.3	56.0	56.6	50.0	50.0	53.6	46.3	46.9	47.4	42.7	46.3
Dollar amount of customer deductions	52.2	48.5	49.2	53.2	53.3	47.4	50.8	47.2	48.7	45.9	49.8	50.5	50.7
Filings for bankruptcies	56.5	55.8	58.6	57.5	58.0	55.4	58.4	57.5	62.0	54.2	54.1	53.2	52.4
Index of unfavorable factors	53.0	51.5	53.7	53.2	54.1	50.7	51.9	50.3	51.2	48.1	49.2	49.2	49.7
NACM Manufacturing CMI	55.5	53.5	55.5	55.8	56.7	54.6	55.0	53.7	53.0	52.7	53.5	51.7	53.2
ISM Manufacturing PMI	51.5	50.7	52.8	52.8	53.4	52.3	51.2	50.5	50.4	50	48.4	50.7	NA



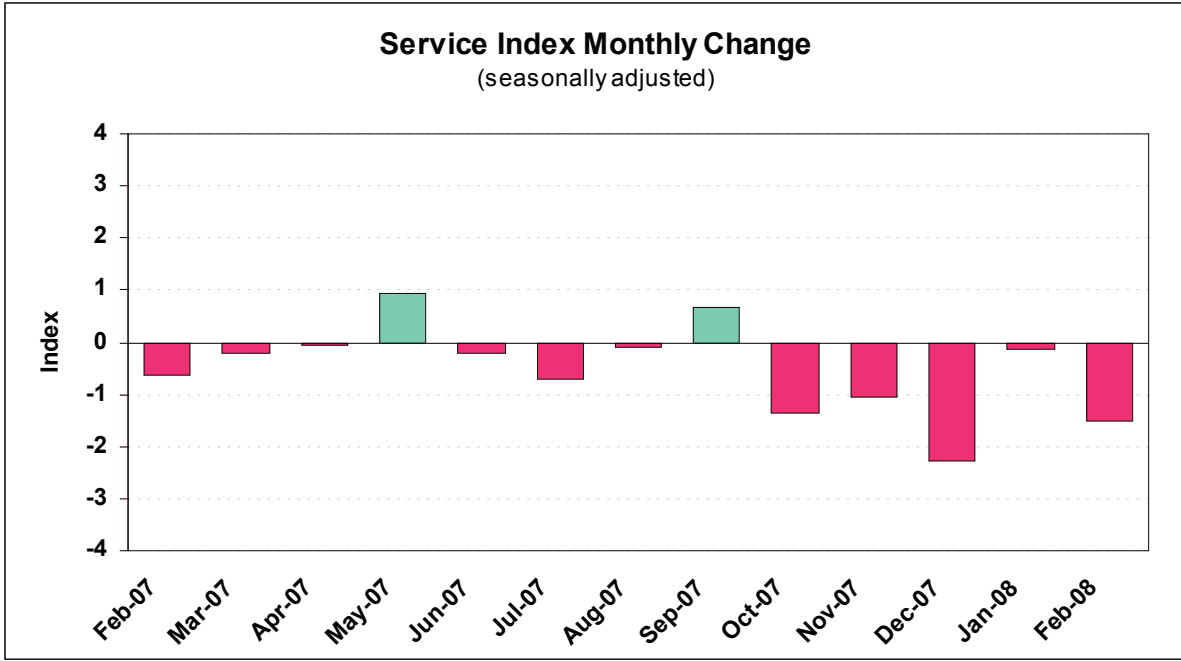
Service Sector

The seasonally adjusted service sector index fell 1.6% in February. Seven of the 10 components fell, suggesting widespread weakness, and the total index fell to 49.5%, below the 50% level, indicating economic contraction.

“As has been the case for months now, the majority of the respondents making comments pointed their fingers directly at the housing market as the source of their woes,” said North. Other industries are now chiming in as well. A provider of computer programming services reports that “payments have radically slowed.” A petroleum service provider said the “trucking industry is suffering due to high fuel prices...big slowing in payments this month.” Finally, a lumber mill manager noted, “I have filed more liens this last couple months than the whole five-and-a-half years I have worked here.”

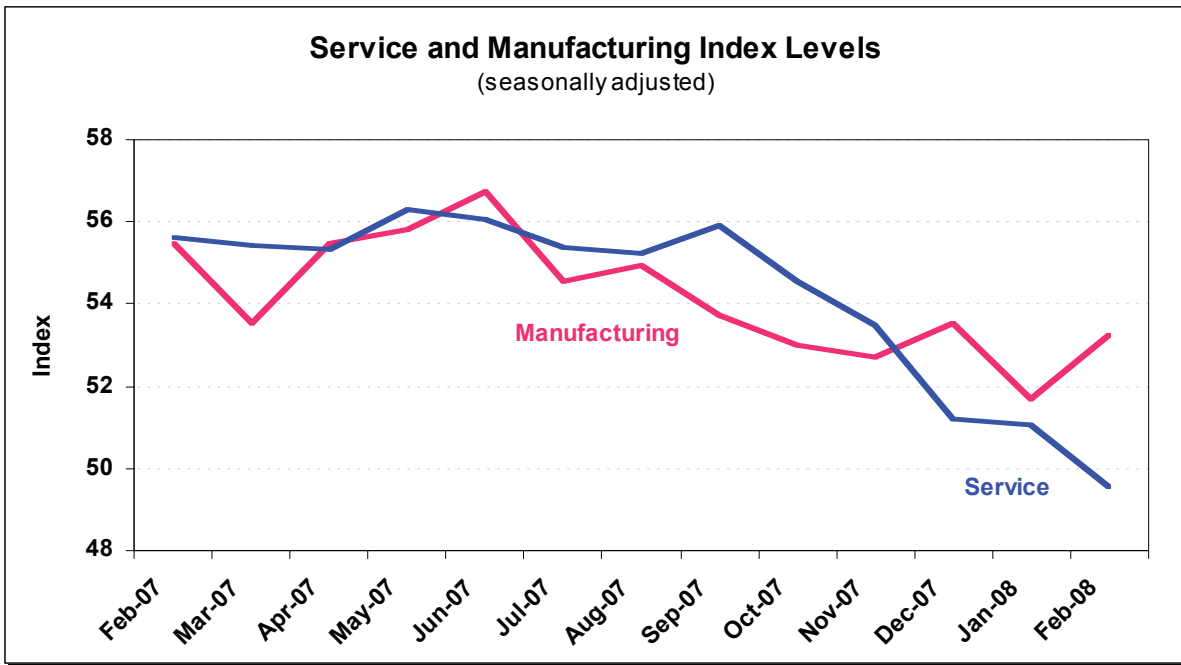
Service Sector (seasonally adjusted)

	Feb '07	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb '08
Sales	60.5	59.8	64.8	63.5	60.9	59.5	59.0	58.6	55.1	57.7	50.8	50.3	58.0
New credit applications	52.3	57.1	56.3	55.2	58.5	55.5	55.5	53.1	52.4	56.1	53.6	51.3	55.8
Dollar collections	67.1	61.6	62.7	63.7	62.5	59.1	59.7	60.2	62.5	61.5	55.8	56.6	53.9
Amount of credit extended	67.3	64.7	64.2	62.4	65.5	63.5	60.5	61.1	60.2	60.4	57.8	56.7	52.5
Index of favorable factors	61.8	60.8	62.0	61.2	61.8	59.4	58.7	58.2	57.5	58.9	54.5	53.7	55.1
Rejections of credit applications	51.3	50.8	52.9	53.6	52.7	53.3	51.4	52.8	52.5	49.8	49.7	49.7	45.9
Accounts placed for collection	48.1	49.1	52.5	52.1	51.3	51.3	50.7	51.6	48.5	48.5	48.8	47.6	39.3
Disputes	51.4	52.1	50.9	51.5	52.4	54.0	53.7	54.2	51.0	50.1	49.2	49.1	42.4
Dollar amount beyond terms	51.1	53.2	44.8	50.1	47.3	47.9	52.7	57.0	50.4	44.8	45.3	47.4	51.8
Dollar amount of customer deductions	51.8	50.1	49.4	53.4	52.7	50.2	53.5	52.6	54.3	53.3	50.8	50.1	44.1
Filings for bankruptcies	55.2	55.6	55.0	57.4	57.0	59.2	55.9	57.9	58.8	52.9	50.4	51.9	51.7
Index of unfavorable factors	51.5	51.8	50.9	53.0	52.2	52.7	53.0	54.4	52.6	49.9	49.0	49.3	45.9
NACM Service CMI	55.6	55.4	55.4	56.3	56.1	55.4	55.3	55.9	54.6	53.5	51.2	51.1	49.5
ISM Service Business Activity Index	53.7	52.1	53.4	54.5	55.1	53.1	52.8	53.2	53.3	52.4	53.2	44.6	NA



February 2008 vs. February 2007

On a seasonally adjusted basis, nine of the 10 components in the combined Credit Manager's Index have fallen, driving the index down 4.1%. The manufacturing sector dropped 2.3% as eight of its components fell, and the service sector also had eight components fall, sending the index down 6.1%. "Overall, on a year-over-year basis, the data clearly reflects the slowing business conditions experienced by the broader economy," said North.



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.

###

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland supports more than 22,000 business credit and financial professionals worldwide with premier industry services, tools and information. NACM and its network of Affiliated Associations are the leading resource for credit and financial management information and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy. More information is available at www.nacm.org or by contacting Caroline Zimmerman at 410-740-5560.