

NACM Credit Manager's Index

Report for January 2006

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National Association of Credit Management
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January '06	CMI-Combined: 53.7	CMI-Manufacturing: 52.4	CMI-Service: 54.9
December '05	CMI-Combined: 54.9	CMI-Manufacturing: 53.0	CMI-Service: 56.9
% Change	-2.19%	-1.13%	-3.51%

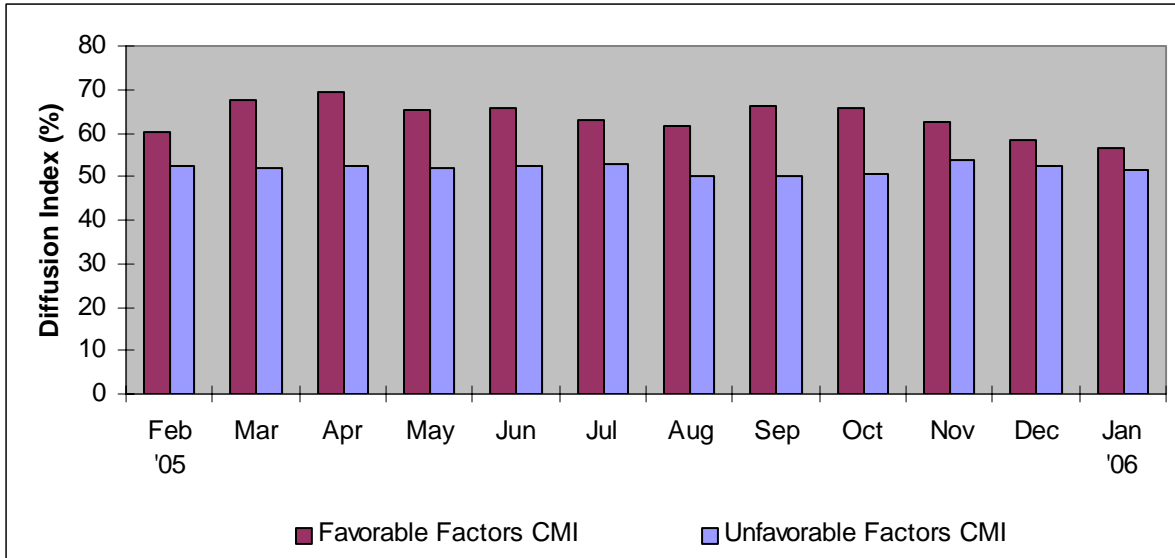
January's Credit Manager's Index continues to suggest that the economy is reasonably strong, but it also shows a worrisome downward trend, advises Dan North, Chief Economist with credit insurer Euler Hermes ACI. While the Index now stands at 53.7, indicating modest economic growth, it is also down substantially from November's 57.4, and three of the Index's ten components are now below 50. The manufacturing sector has fallen for seven of the last nine months—six out of nine for services—and in January, seven of ten components fell in both the manufacturing and services sectors. This data reflects trends in some of the most recent macroeconomic data: weak fourth quarter GDP of 1.1 percent, a faltering housing market, and below expectations reports for both December job growth and from the Institute of Supply Management (ISM) Index. "Once again, high energy costs, rising interest rates, a flat yield curve, and a weakening housing market are the major drags on the economy," says North. "The consumer has been the offsetting factor, which has kept the economy growing and the CMI above 50, but consumers could hit a rough patch if their two sources of funding dry up—financing from home equity and credit cards, and incomes, which are falling below consumption. The overall picture suggests that business conditions could weaken in the spring, given the possibility of a consumer slowdown and the trends in the CMI."

[See the last page of this report for information about the methodology and factors used to measure economic performance.](#)

COMBINED SECTOR RESULTS

Combined Manufacturing & Service Sectors												
(Not Seasonally Adjusted)												
	Feb '05	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06
Sales	60.6	70.6	71.6	66.7	68.5	64.3	61.4	71.7	70.1	63.2	60.0	56.1
New credit applications	60.5	65.7	64.5	60.8	62.4	60.3	61.1	63.0	59.2	55.5	52.1	56.0
Dollar collections	56.5	63.6	70.2	64.8	63.9	62.2	58.5	61.1	63.5	66.7	58.6	56.8
Amount of credit extended	63.4	71.4	71.3	69.7	68.3	64.6	65.6	68.7	70.0	65.7	63.3	58.3
Index of favorable factors	60.2	67.8	69.4	65.5	65.8	62.8	61.6	66.1	65.7	62.7	58.5	56.8
Rejection of credit applications	50.4	49.3	50.0	51.7	50.8	52.3	50.7	52.2	53.4	54.7	53.2	51.8
Accounts placed for collections	54.3	50.9	50.5	53.2	52.5	51.8	49.7	51.5	52.9	53.8	53.0	51.9
Disputes	49.1	48.8	50.5	49.2	49.9	47.8	48.6	48.7	49.0	53.4	48.3	49.6
Dollar amount beyond terms	52.6	55.1	59.0	55.8	53.7	53.7	48.7	51.0	52.2	56.6	49.3	48.1
Dollar amount of customer deductions	51.1	50.0	49.9	49.3	51.5	51.7	48.7	48.0	50.0	50.2	50.2	49.8
Filings for bankruptcies	58.0	58.5	56.0	52.2	57.1	58.9	54.2	50.5	46.0	54.9	61.5	58.7
Index of unfavorable factors	52.6	52.1	52.6	51.9	52.6	52.7	50.1	50.3	50.6	53.9	52.5	51.6
NACM Combined CMI	55.6	58.4	59.3	57.3	57.8	56.7	54.7	56.6	56.6	57.4	54.9	53.7
ISM Combined Sectors Index*	57.6	59.2	57.5	55.0	58.0	58.6	59.3	56.4	59.6	58.3	57.0	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.

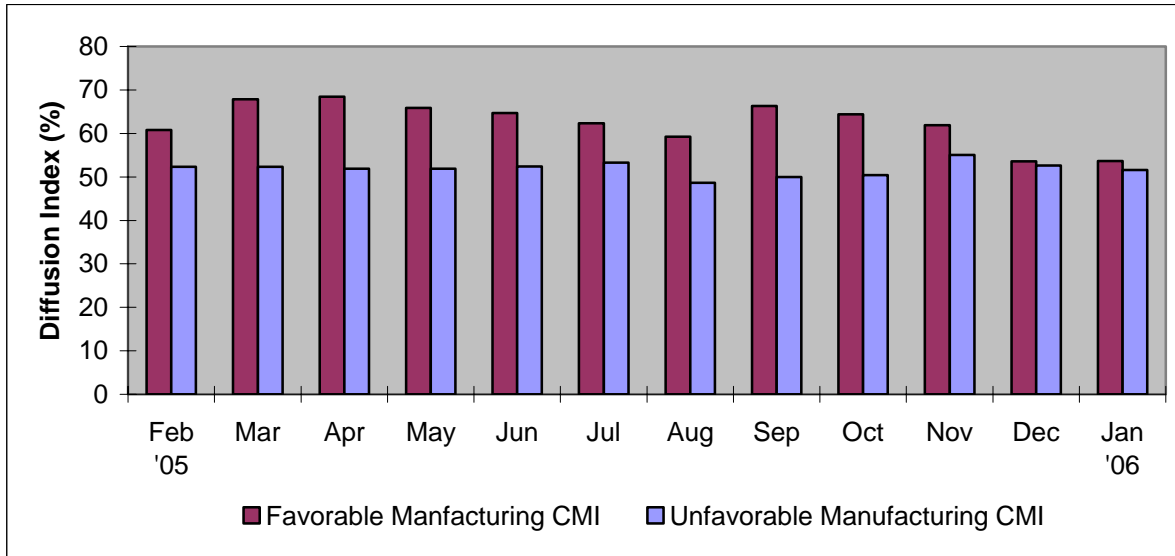


MANUFACTURING SECTOR RESULTS

The first month of the new year saw little change to the manufacturing sector. The CMI ended January 2006 just slightly below the December 2005 level, down 60 basis points, to end at 52.4 percent. A look at the favorable factors shows all levels above 50, reflecting some economic growth. Although there was negative growth in three of the four factors, positive growth was seen in new credit applications, which increased 680 basis points.

The index of unfavorable factors fell 60 basis points to 52.4, down from 53 percent. Four of the six factors finished above 50, while disputes and amount of customer deductions finished somewhat below this mark.

Manufacturing Sector (Not Seasonally Adjusted)		Feb '05	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06
Sales		61.7	69.6	72.7	67.6	68.1	63.8	58.7	74.1	68.9	60.7	53.0	52.9
New credit applications		63.9	65.2	62.5	59.2	60.0	58.3	62.2	61.6	56.2	55.1	47.2	54.0
Dollar collections		53.6	66.8	69.1	65.9	63.1	63.7	55.2	61.1	63.4	66.7	56.5	53.8
Amount of credit extended		64.0	69.8	69.6	70.8	67.6	63.4	60.8	68.4	69.2	65.1	57.5	54.0
Index of favorable factors		60.8	67.9	68.5	65.9	64.7	62.3	59.2	66.3	64.4	61.9	53.6	53.7
Rejection of credit applications		49.2	48.9	50.5	52.2	51.8	52.1	50.3	52.2	54.2	55.6	53.5	52.5
Accounts placed for collections		54.4	52.3	47.7	54.9	51.8	54.0	49.4	51.9	52.7	57.4	55.7	50.6
Disputes		47.6	49.8	49.0	48.7	49.5	47.9	45.1	49.6	47.7	53.2	46.1	48.7
Dollar amount beyond terms		54.7	56.7	58.5	54.9	52.7	53.8	49.1	49.1	53.2	58.4	50.2	52.1
Dollar amount of customer deductions		49.4	49.5	49.5	46.7	50.7	53.0	46.3	46.9	48.9	50.0	49.1	48.7
Filings for bankruptcies		58.6	56.7	55.9	53.7	57.8	58.9	51.9	50.3	46.0	55.6	61.1	57.0
Index of unfavorable factors		52.3	52.3	51.9	51.9	52.4	53.3	48.7	50.0	50.5	55.0	52.6	51.6
NACM Manufacturing CMI		55.7	58.5	58.5	57.5	57.3	56.9	52.9	56.5	56.0	57.8	53.0	52.4
ISM Manufacturing PMI		55.3	55.2	53.3	51.4	53.8	56.6	53.6	59.4	59.1	58.1	54.2	NA

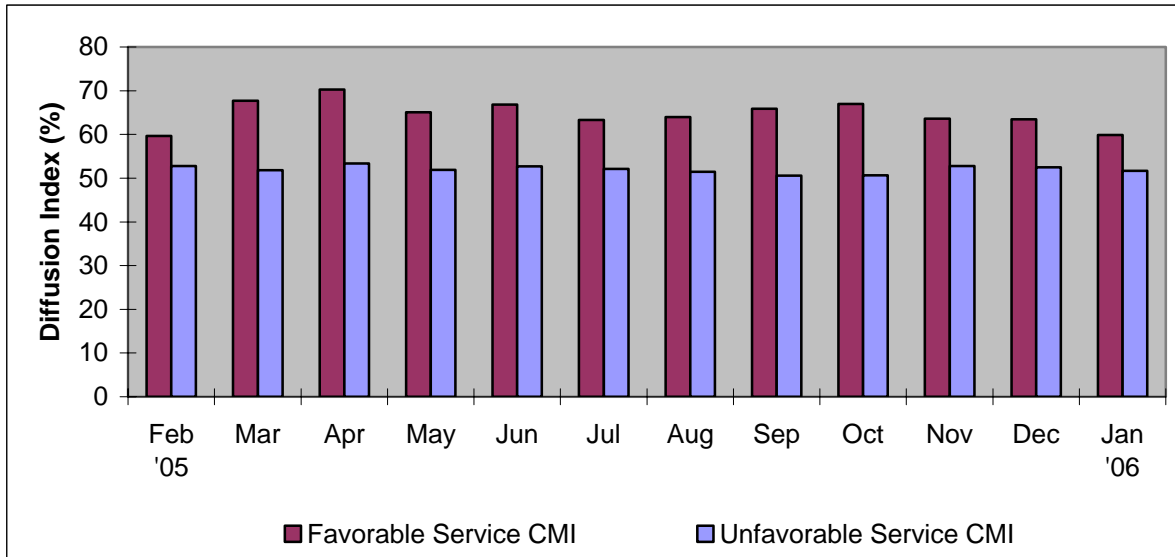


Service Sector Results

The service sector ended January 200 points below year-end 2005. Much of the decline can be seen in the favorable factors—where there were lower levels of sales and amount of credit extended—down 780 and 650 points, respectively. At 54.9 percent, favorable factors recorded its lowest level in ten months.

Overall, unfavorable factors dropped 80 points, to end at 51.7 percent. Lower levels of accounts placed for collections were offset by dollar amount beyond terms. Five of the six factors showed some economic growth, posting levels higher than the 50 percent mark.

Service Sector (Not Seasonally Adjusted)		Feb '05	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06
Sales		59.4	71.5	70.4	65.7	68.8	64.7	64.0	69.2	71.2	65.7	67.0	59.2
New credit applications		57.0	66.2	66.5	62.4	64.8	62.2	60.0	64.3	62.2	55.8	57.0	58.0
Dollar collections		59.4	60.3	71.3	63.6	64.7	60.7	61.7	61.1	63.6	66.6	60.7	59.7
Amount of credit extended		62.7	72.9	73.0	68.5	69.0	65.7	70.3	69.0	70.8	66.2	69.0	62.5
Index of favorable factors		59.6	67.7	70.3	65.1	66.8	63.3	64.0	65.9	67.0	63.6	63.4	59.9
Rejection of credit applications		51.5	49.6	49.5	51.1	49.8	52.5	51.1	52.2	52.5	53.8	52.9	51.0
Accounts placed for collections		54.2	49.4	53.2	51.4	53.2	49.5	50.0	51.0	53.1	50.2	50.2	53.2
Disputes		50.6	47.7	52.0	49.6	50.2	47.7	52.0	47.8	50.3	53.5	50.4	50.5
Dollar amount beyond terms		50.4	53.4	59.4	56.6	54.6	53.6	48.3	52.9	51.2	54.8	48.3	44.0
Dollar amount of customer deductions		52.7	50.4	50.2	51.8	52.3	50.3	51.1	49.0	51.0	50.3	51.2	50.8
Filings for bankruptcies		57.4	60.3	56.0	50.7	56.3	58.9	56.4	50.7	45.9	54.1	61.8	60.4
Index of unfavorable factors		52.8	51.8	53.4	51.9	52.7	52.1	51.5	50.6	50.7	52.8	52.5	51.7
NACM Service CMI		55.5	58.2	60.2	57.1	58.4	56.6	56.5	56.7	57.2	57.1	56.9	54.9
ISM Service Business Activity Index		59.8	63.1	61.7	58.5	62.2	60.5	65.0	53.3	60.0	58.5	59.8	NA



COMPARISON OF JANUARY 2006 TO JANUARY 2005

Comparing January 2006 to January 2005, we find an improvement in the overall CMI: the CMI finished 100 basis points higher than just one year ago. This modest growth was fueled by higher levels of sales and new credit applications. However, these positive signs were offset by a higher level of dollars beyond terms and rejection of credit applications.

Comparison: January 2006 vs. January 2005 (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Jan '05	Jan '06	Jan '05	Jan '06	Jan '05	Jan '06
Sales	48.4	52.9	54.7	59.2	51.6	56.1
New credit applications	49.7	54.0	51.3	58.0	50.5	56.0
Dollar collections	49.2	53.8	59.2	59.7	54.2	56.8
Amount of credit extended	55.7	54.0	58.7	62.5	57.2	58.3
Index of favorable factors	50.8	53.7	56.0	59.9	53.4	56.8
Rejection of credit applications	54.1	52.5	54.5	51.0	54.3	51.8
Accounts placed for collections	50.0	50.6	52.9	53.2	51.5	51.9
Disputes	46.6	48.7	50.8	50.5	48.7	49.6
Dollar amount beyond terms	50.3	52.1	51.8	44.0	51.1	48.1
Dollar amount of customer deductions	43.8	48.7	51.6	50.8	47.7	49.8
Filings for bankruptcies	58.5	57.0	61.5	60.4	60.0	58.7
Index of unfavorable factors	50.6	51.6	53.9	51.7	52.2	51.6
NACM CMI	50.6	52.4	54.7	54.9	52.7	53.7

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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