

# NACM Credit Manager's Index

## Report for January 2007

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 National Association of Credit Management  
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### Combined Sectors

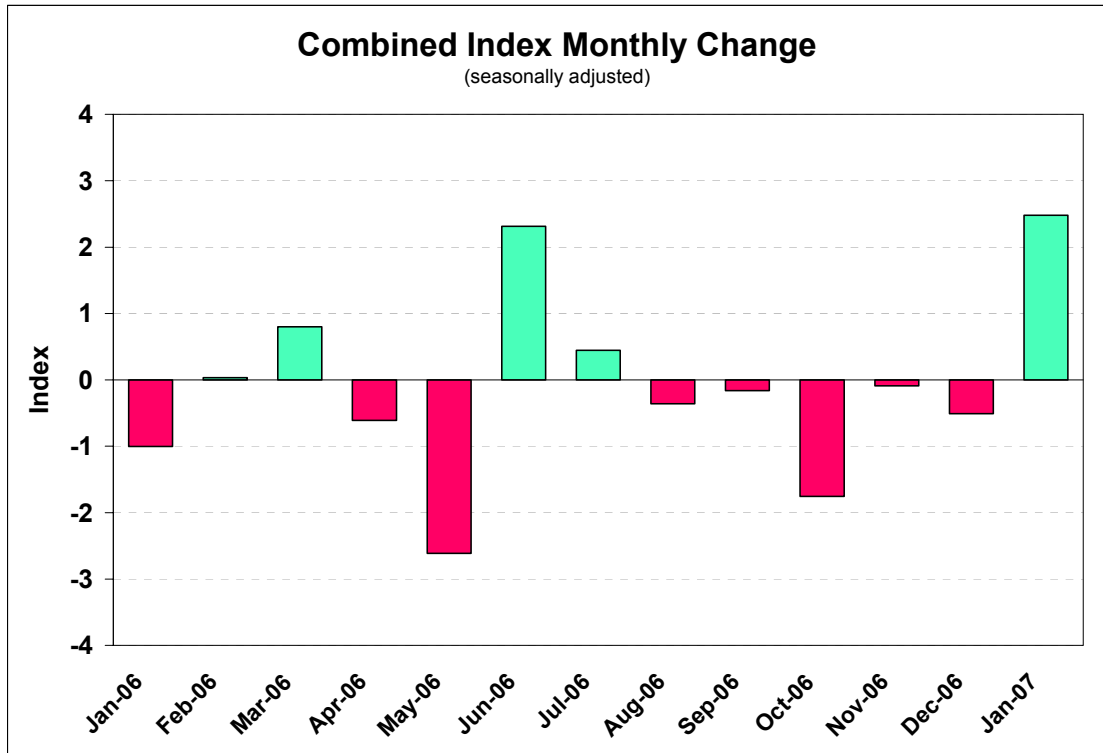
The seasonally adjusted Credit Manager's Index (CMI) rose 2.5% from 54.7 in December to 57.2 in January, erasing all losses from the previous four months. All 10 of the combined index components rose, indicating economic expansion — none are currently below the 50 level. “The service sector led the way in January, rising 3.4%, while the manufacturing sector rose 1.6%,” said Dan North, Chief Economist with credit insurer Euler Hermes ACI. “The CMI gives a similar impression to much of the other better-than-expected economic news, painting a picture of a resilient economy that has so far weathered the headwinds of a tightening monetary policy and a decimated housing market,” he continued. “It is quite likely, however, that the unusually warm weather in the densely populated East gave an extra boost to most recent economic indicators, including the CMI.”

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

### Combined Manufacturing and Service Sectors (seasonally adjusted)

	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07
Sales	66.1	64.6	65.8	63.3	61.5	65.4	67.8	62.8	63.5	56.3	59.5	60.9	61.6
New credit applications	63.6	60.3	60.9	57.4	55.7	55.7	59.0	62.5	57.9	56.2	56.5	60.5	60.9
Dollar collections	63.6	66.2	64.6	63.5	58.6	62.5	61.9	63.3	60.0	58.3	62.6	59.5	64.8
Amount of credit extended	66.9	66.3	67.4	66.2	65.5	64.8	69.9	66.4	62.4	63.2	64.0	63.7	65.3
<b>Index of favorable factors</b>	<b>65.0</b>	<b>64.3</b>	<b>64.7</b>	<b>62.6</b>	<b>60.3</b>	<b>62.1</b>	<b>64.7</b>	<b>63.8</b>	<b>60.9</b>	<b>58.5</b>	<b>60.6</b>	<b>61.2</b>	<b>63.2</b>
Rejection of credit applications	50.7	53.1	53.9	53.8	50.6	51.5	52.6	53.6	53.3	54.8	51.7	50.1	51.6
Accounts placed for collection	52.6	50.3	52.7	52.0	50.5	55.2	52.0	50.1	55.0	53.1	50.7	47.8	51.4
Disputes	49.8	48.4	50.0	52.4	49.3	51.1	51.1	50.4	52.3	49.7	49.9	47.9	52.7
Dollar amount beyond terms	51.1	52.2	54.6	53.5	48.5	56.5	52.2	51.3	55.8	52.2	50.2	48.1	50.9
Dollar amount of customer deductions	50.4	50.2	51.2	51.8	49.0	49.7	50.5	51.7	50.6	50.5	51.3	49.2	53.2
Filings for bankruptcies	57.8	61.3	59.7	60.8	59.2	59.2	59.1	60.5	60.2	59.1	56.3	59.7	59.8
<b>Index of unfavorable factors</b>	<b>52.1</b>	<b>52.6</b>	<b>53.7</b>	<b>54.0</b>	<b>51.2</b>	<b>53.9</b>	<b>52.9</b>	<b>52.9</b>	<b>54.5</b>	<b>53.2</b>	<b>51.7</b>	<b>50.5</b>	<b>53.3</b>
<b>NACM CMI</b>	<b>57.2</b>	<b>57.3</b>	<b>58.1</b>	<b>57.5</b>	<b>54.9</b>	<b>57.2</b>	<b>57.6</b>	<b>57.3</b>	<b>57.1</b>	<b>55.3</b>	<b>55.2</b>	<b>54.7</b>	<b>57.2</b>
<b>ISM Combined Sectors Index*</b>	<b>55.8</b>	<b>58.4</b>	<b>57.9</b>	<b>60.2</b>	<b>57.3</b>	<b>55.4</b>	<b>54.8</b>	<b>55.8</b>	<b>52.9</b>	<b>54.2</b>	<b>54.2</b>	<b>54.3</b>	<b>NA</b>

\* 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.

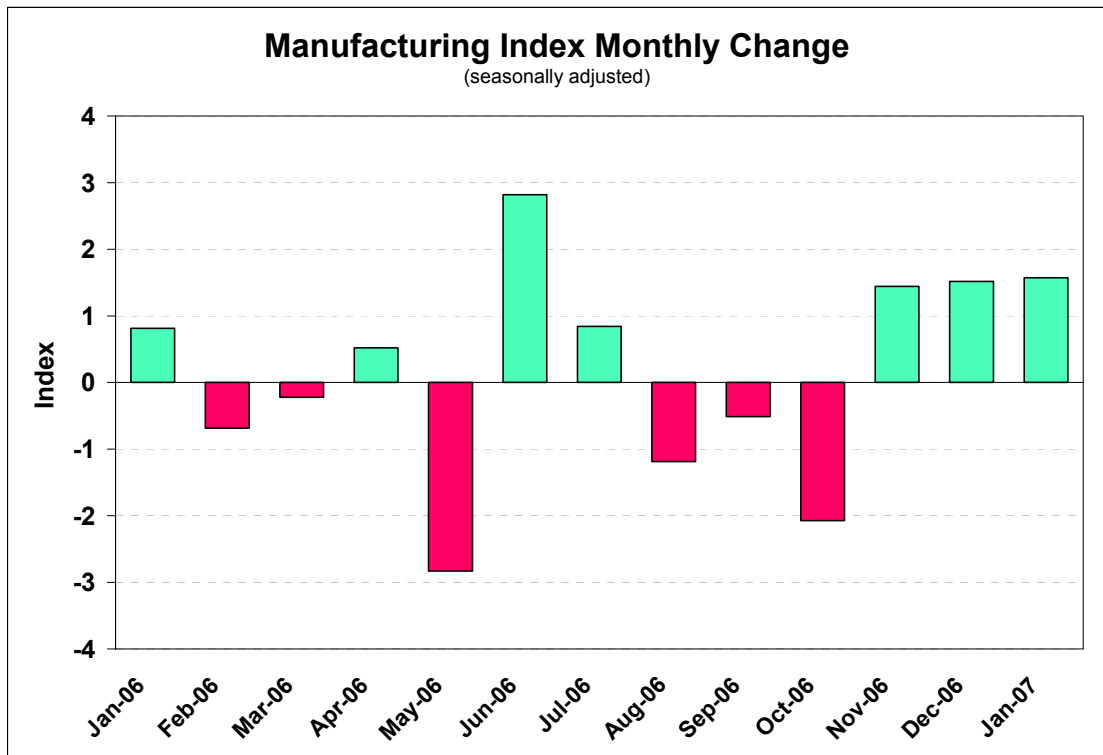


## Manufacturing Sector

North noted, "The manufacturing sector rose 1.6% as seven of the 10 components increased. All 10 components are above the 50 level, indicating expansion in the manufacturing sector."

### Manufacturing Sector (seasonally adjusted)

	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07
Sales	64.0	61.3	62.7	62.4	59.4	63.9	69.7	62.0	62.0	55.7	63.5	69.4	58.9
New credit applications	61.7	55.0	59.7	54.9	53.5	55.0	59.1	63.4	57.4	55.8	56.6	62.1	60.0
Dollar collections	62.3	66.2	59.3	63.4	56.5	60.5	59.4	60.1	61.0	54.8	62.6	59.9	64.6
Amount of credit extended	64.0	62.1	64.9	63.6	64.4	61.1	70.7	67.9	60.6	62.6	64.7	66.9	65.4
<b>Index of favorable factors</b>	<b>63.0</b>	<b>61.1</b>	<b>61.6</b>	<b>61.1</b>	<b>58.4</b>	<b>60.1</b>	<b>64.7</b>	<b>63.4</b>	<b>60.2</b>	<b>57.2</b>	<b>61.9</b>	<b>64.6</b>	<b>62.2</b>
Rejection of credit applications	51.8	53.8	55.4	52.2	47.5	51.6	52.8	53.2	52.5	55.1	51.1	50.7	52.6
Accounts placed for collection	52.0	49.4	51.3	52.0	51.7	54.0	51.7	48.5	54.8	50.6	48.9	51.0	54.4
Disputes	50.5	49.0	45.7	52.4	48.4	52.4	49.9	47.8	48.7	48.2	49.0	46.7	55.5
Dollar amount beyond terms	56.0	55.2	54.5	52.3	49.4	59.0	53.9	48.7	54.8	49.5	50.7	50.1	53.0
Dollar amount of customer deductions	50.8	51.4	49.0	52.7	49.0	49.4	48.6	51.7	46.4	48.2	49.8	49.3	55.5
Filings for bankruptcies	56.9	60.0	58.6	60.4	58.2	59.3	58.8	59.3	59.4	56.3	54.3	60.2	62.1
<b>Index of unfavorable factors</b>	<b>53.0</b>	<b>53.1</b>	<b>52.4</b>	<b>53.7</b>	<b>50.7</b>	<b>54.3</b>	<b>52.6</b>	<b>51.5</b>	<b>52.8</b>	<b>51.3</b>	<b>50.6</b>	<b>51.3</b>	<b>55.5</b>
<b>NACM Manufacturing CMI</b>	<b>57.0</b>	<b>56.3</b>	<b>56.1</b>	<b>56.6</b>	<b>53.8</b>	<b>56.6</b>	<b>57.5</b>	<b>56.3</b>	<b>55.8</b>	<b>53.7</b>	<b>55.1</b>	<b>56.6</b>	<b>58.2</b>
<b>ISM Manufacturing PMI</b>	<b>54.8</b>	<b>56.7</b>	<b>55.2</b>	<b>57.3</b>	<b>54.4</b>	<b>53.8</b>	<b>54.7</b>	<b>54.5</b>	<b>52.9</b>	<b>51.2</b>	<b>49.5</b>	<b>51.4</b>	

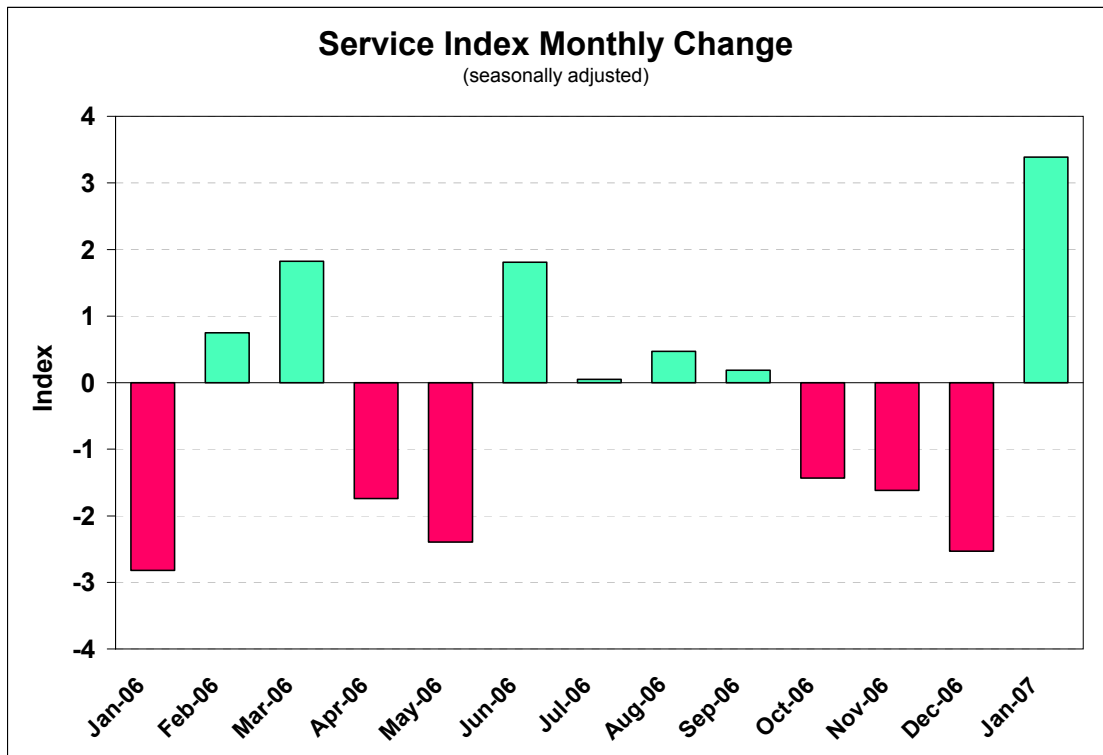


## Service Sector

“There was strength throughout the service sector data as a total of nine out of 10 components rose, but the sector was driven largely by a dramatic increase in the sales component, which rose 11.9%,” commented North. “The positive sales data was concentrated in the large number of construction and housing materials suppliers who reported increased sales over the previous month, even after seasonal adjustments. This surprising increase is also reflected in other recent data such as December’s 4.5% increase in housing starts and a 5.5% increase in building permits, which broke a string of 10 consecutive monthly drops.”

### Service Sector (seasonally adjusted)

	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07
Sales	68.1	67.9	68.9	64.3	63.6	67.0	66.0	63.7	65.0	56.8	55.5	52.4	64.3
New credit applications	65.5	65.6	62.2	60.0	57.9	56.4	58.9	61.6	58.3	56.6	56.3	58.9	61.9
Dollar collections	64.8	66.2	69.9	63.5	60.7	64.6	64.4	66.6	59.0	61.9	62.5	59.1	65.0
Amount of credit extended	69.8	70.4	69.9	68.8	66.7	68.5	69.2	64.8	64.2	63.7	63.4	60.5	65.2
<b>Index of favorable factors</b>	<b>67.1</b>	<b>67.5</b>	<b>67.7</b>	<b>64.1</b>	<b>62.2</b>	<b>64.1</b>	<b>64.6</b>	<b>64.1</b>	<b>61.6</b>	<b>59.8</b>	<b>59.4</b>	<b>57.7</b>	<b>64.1</b>
Rejection of credit applications	49.5	52.3	52.4	55.4	53.7	51.5	52.3	53.9	54.2	54.5	52.2	49.4	50.7
Accounts placed for collection	53.2	51.2	54.0	52.1	49.4	56.4	52.4	51.7	55.1	55.7	52.5	44.7	48.4
Disputes	49.0	47.8	54.4	52.3	50.2	49.8	52.3	52.9	55.9	51.3	50.8	49.1	49.8
Dollar amount beyond terms	46.2	49.3	54.7	54.6	47.6	54.1	50.4	54.0	56.7	54.8	49.7	46.1	48.7
Dollar amount of customer deductions	49.9	48.9	53.3	50.9	49.1	50.0	52.5	51.6	54.8	52.8	52.7	49.1	50.8
Filings for bankruptcies	58.8	62.6	60.9	61.2	60.2	59.1	59.3	61.8	61.0	62.0	58.3	59.2	57.5
<b>Index of unfavorable factors</b>	<b>51.1</b>	<b>52.0</b>	<b>54.9</b>	<b>54.4</b>	<b>51.7</b>	<b>53.5</b>	<b>53.2</b>	<b>54.3</b>	<b>56.3</b>	<b>55.2</b>	<b>52.7</b>	<b>49.6</b>	<b>51.0</b>
<b>NACM Service CMI</b>	<b>57.5</b>	<b>58.2</b>	<b>60.1</b>	<b>58.3</b>	<b>55.9</b>	<b>57.7</b>	<b>57.8</b>	<b>58.2</b>	<b>58.4</b>	<b>57.0</b>	<b>55.4</b>	<b>52.9</b>	<b>56.2</b>
<b>ISM Service Business Activity Index</b>	<b>56.8</b>	<b>60.1</b>	<b>60.5</b>	<b>63.0</b>	<b>60.1</b>	<b>57.0</b>	<b>54.8</b>	<b>57.0</b>	<b>52.9</b>	<b>57.1</b>	<b>58.9</b>	<b>57.1</b>	



### January 2007 vs. January 2006

On a year-over-year basis, the total CMI was flat as five components rose and five fell. The manufacturing sector rose 1.2%, outperforming the service sector, which fell 1.2%. North said, "Perhaps most importantly, the two sectors and the combined index are all well above the 50 level, showing an economy which seems to be progressing quite well despite the weight of a tightening Fed and a frozen housing market." (See corresponding graph on the 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.

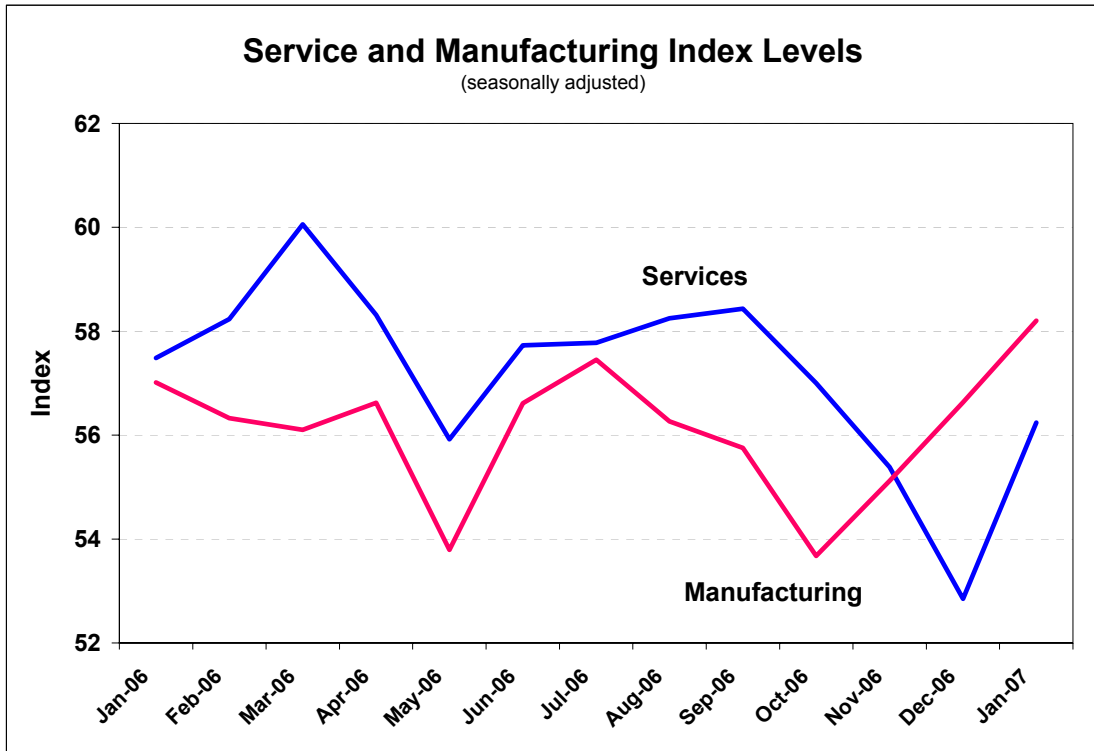
#### Factors Making Up the Diffusion Index

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:

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



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.

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors</b>	<b>Why Unfavorable</b>
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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