

# NACM Credit Manager's Index

## Report for January 2008

Issued February 1, 2008  
 National Association of Credit Management  
 8840 Columbia 100 Parkway  
 Columbia, MD 21045-2158

### Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell for the fifth consecutive month in January, slipping 1.0 point to a record low of 51.4. The previous record had been set last month at 52.4. "Five of the index's 10 components fell, and both the manufacturing and service indexes declined, indicating that the weakness was widespread although not terribly deep," said Daniel North, chief economist with credit insurer Euler Hermes ACI. "The CMI's steady decline has mirrored other macroeconomic data which suggests a sharp slowdown. For instance, fourth quarter GDP grew at an annualized rate of only 0.6%, well under expectations of 1.1% and the long-term average of 3.5%. The GDP report showed the economy as perilously close to the beginning of a recession."

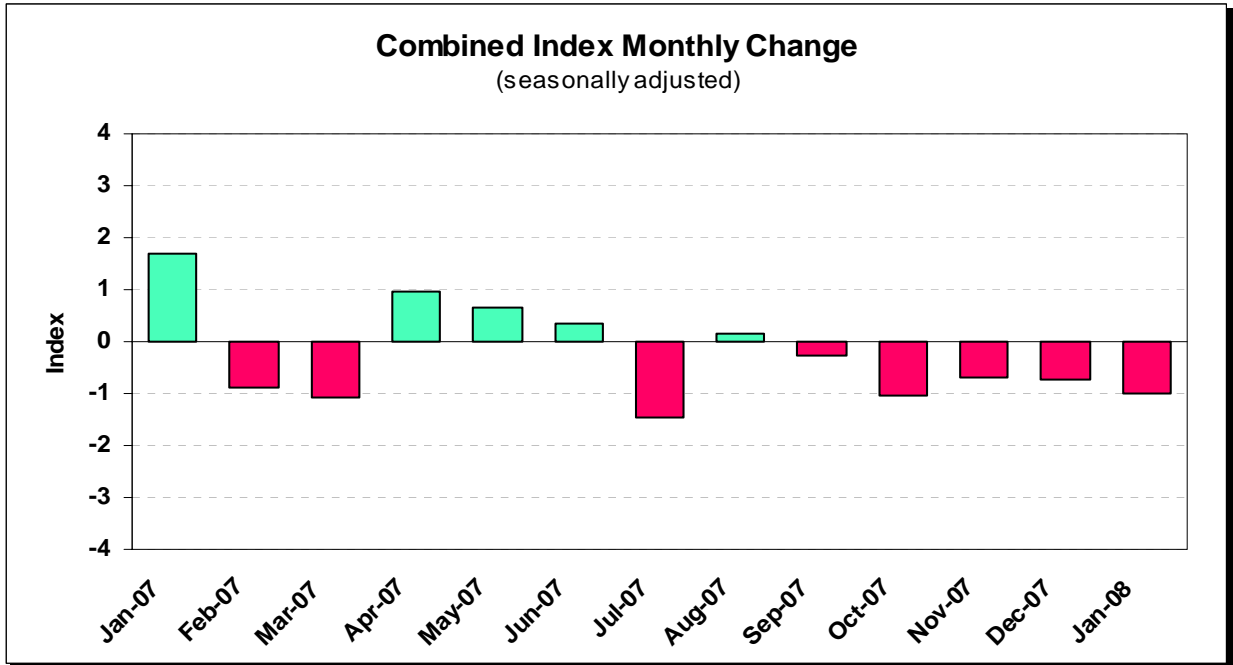
"Signs of the downturn are everywhere: terrible holiday sales, massive job losses in housing and in financial services, downtrends in volatile global financial markets, downgrades of bond insurers and many debt instruments, the Fed overreacting with cuts of 1.25% in eight days and an emergency stimulus plan in the works," North said. "Clearly, these unpleasant trends in the macroeconomy are now well reflected in credit managers' experience."

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)

	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '07	Jan '08
Sales	61.6	59.6	58.1	62.8	61.5	61.9	60.2	59.1	59.0	54.7	58.6	56.3	51.7
New credit applications	60.9	52.5	55.9	56.7	56.2	58.6	56.0	55.6	55.3	53.3	56.4	55.8	52.8
Dollar collections	64.8	66.2	58.4	61.5	61.9	61.0	60.2	60.1	60.0	60.0	61.2	57.2	56.8
Amount of credit extended	65.3	63.6	62.4	59.3	62.2	63.6	63.0	61.6	60.1	58.7	60.9	59.8	57.0
<b>Index of favorable factors</b>	<b>63.2</b>	<b>60.5</b>	<b>58.7</b>	<b>60.1</b>	<b>60.5</b>	<b>61.3</b>	<b>59.9</b>	<b>59.1</b>	<b>58.6</b>	<b>56.7</b>	<b>59.2</b>	<b>57.3</b>	<b>54.5</b>
Rejection of credit applications	51.6	52.7	51.9	52.4	52.7	52.6	53.4	51.1	51.8	52.0	49.9	50.0	50.9
Accounts placed for collection	50.2	50.3	48.4	54.0	51.5	52.0	49.8	50.7	49.0	49.6	47.4	46.2	47.1
Disputes	51.0	52.1	51.0	51.2	50.7	51.9	51.9	52.2	50.2	49.4	47.8	49.5	49.5
Dollar amount beyond terms	50.1	50.5	53.5	50.1	53.0	52.0	48.9	51.4	55.3	48.4	45.8	46.3	45.1
Dollar amount of customer deductions	51.7	52.0	49.3	49.3	53.3	53.0	48.8	52.2	49.9	51.5	49.6	50.3	50.3
Filings for bankruptcies	57.0	55.9	55.7	56.8	57.4	57.5	57.3	57.2	57.7	60.4	53.5	52.3	52.6
<b>Index of unfavorable factors</b>	<b>51.9</b>	<b>52.3</b>	<b>51.6</b>	<b>52.3</b>	<b>53.1</b>	<b>53.2</b>	<b>51.7</b>	<b>52.4</b>	<b>52.3</b>	<b>51.9</b>	<b>49.0</b>	<b>49.1</b>	<b>49.3</b>
<b>NACM CMI</b>	<b>56.4</b>	<b>55.5</b>	<b>54.5</b>	<b>55.4</b>	<b>56.1</b>	<b>56.4</b>	<b>55.0</b>	<b>55.1</b>	<b>54.8</b>	<b>53.8</b>	<b>53.1</b>	<b>52.4</b>	<b>51.4</b>
<b>ISM Combined Sectors Index*</b>	<b>54.2</b>	<b>53.3</b>	<b>51.7</b>	<b>55.4</b>	<b>57.4</b>	<b>58.4</b>	<b>54.8</b>	<b>54.4</b>	<b>53.4</b>	<b>53.4</b>	<b>52.5</b>	<b>50.8</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.

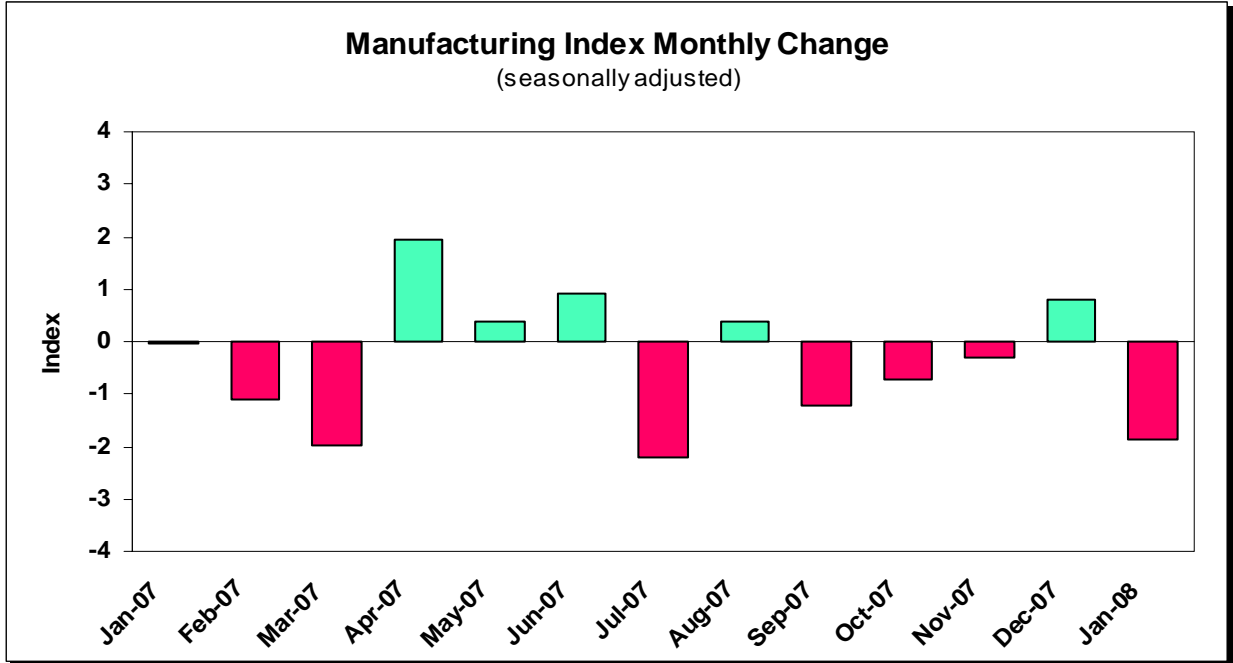


## Manufacturing Sector

The seasonally adjusted manufacturing sector index fell for the fourth time in five months, dropping 1.8 points to 51.7, the second lowest level in the index's history. Six of the 10 components fell, including a sharp decline in the sales component of 8.9 points. "A decline in the sales component of this magnitude is often a harbinger of decay in the overall manufacturing index in the coming months," North said. "It's no surprise that the housing market is the biggest culprit." North also explained how one survey respondent noted that their increased past dues were coming from one of the largest national chains of building supplies. Another noted that terrible business conditions in residential construction is now rather ominously "beginning to affect commercial jobs as well." Finally, one participant, a concrete and stone supplier to the housing industry, painfully summed up business conditions as, "By far worse this year than past years."

## Manufacturing Sector (seasonally adjusted)

	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '07	Jan '08
Sales	58.9	58.7	56.5	60.9	59.5	62.9	60.9	59.2	59.3	54.2	59.4	61.9	53.0
New credit applications	60.0	52.8	54.6	57.1	57.3	58.7	56.4	55.7	57.5	54.1	56.6	58.0	54.2
Dollar collections	64.6	65.3	55.3	60.3	60.2	59.5	61.3	60.4	59.8	57.6	60.8	58.7	56.9
Amount of credit extended	65.4	59.9	60.0	54.3	62.0	61.8	62.6	62.7	59.1	57.3	61.3	61.8	57.3
<b>Index of favorable factors</b>	<b>62.2</b>	<b>59.2</b>	<b>56.6</b>	<b>58.1</b>	<b>59.7</b>	<b>60.7</b>	<b>60.3</b>	<b>59.5</b>	<b>58.9</b>	<b>55.8</b>	<b>59.5</b>	<b>60.1</b>	<b>55.4</b>
Rejection of credit applications	52.6	54.1	53.1	51.9	51.8	52.6	53.4	50.8	50.7	51.6	49.9	50.3	52.2
Accounts placed for collection	51.9	52.6	47.7	55.6	51.0	52.7	48.3	50.8	46.4	50.7	46.3	43.5	46.6
Disputes	52.2	52.8	49.9	51.4	49.9	51.4	49.8	50.6	46.1	47.8	45.5	49.8	50.0
Dollar amount beyond terms	51.5	50.0	53.7	55.3	56.0	56.6	50.0	50.0	53.6	46.3	46.9	47.4	42.7
Dollar amount of customer deductions	52.5	52.2	48.5	49.2	53.2	53.3	47.4	50.8	47.2	48.7	45.9	49.8	50.5
Filings for bankruptcies	56.6	56.5	55.8	58.6	57.5	58.0	55.4	58.4	57.5	62.0	54.2	54.1	53.2
<b>Index of unfavorable factors</b>	<b>52.9</b>	<b>53.0</b>	<b>51.5</b>	<b>53.7</b>	<b>53.2</b>	<b>54.1</b>	<b>50.7</b>	<b>51.9</b>	<b>50.3</b>	<b>51.2</b>	<b>48.1</b>	<b>49.2</b>	<b>49.2</b>
<b>NACM Manufacturing CMI</b>	<b>56.6</b>	<b>55.5</b>	<b>53.5</b>	<b>55.5</b>	<b>55.8</b>	<b>56.7</b>	<b>54.6</b>	<b>55.0</b>	<b>53.7</b>	<b>53.0</b>	<b>52.7</b>	<b>53.5</b>	<b>51.7</b>
<b>ISM Manufacturing PMI</b>	<b>49.3</b>	<b>52.3</b>	<b>50.9</b>	<b>54.7</b>	<b>55.0</b>	<b>56.0</b>	<b>53.8</b>	<b>52.9</b>	<b>52.0</b>	<b>50.9</b>	<b>50.8</b>	<b>47.7</b>	<b>NA</b>

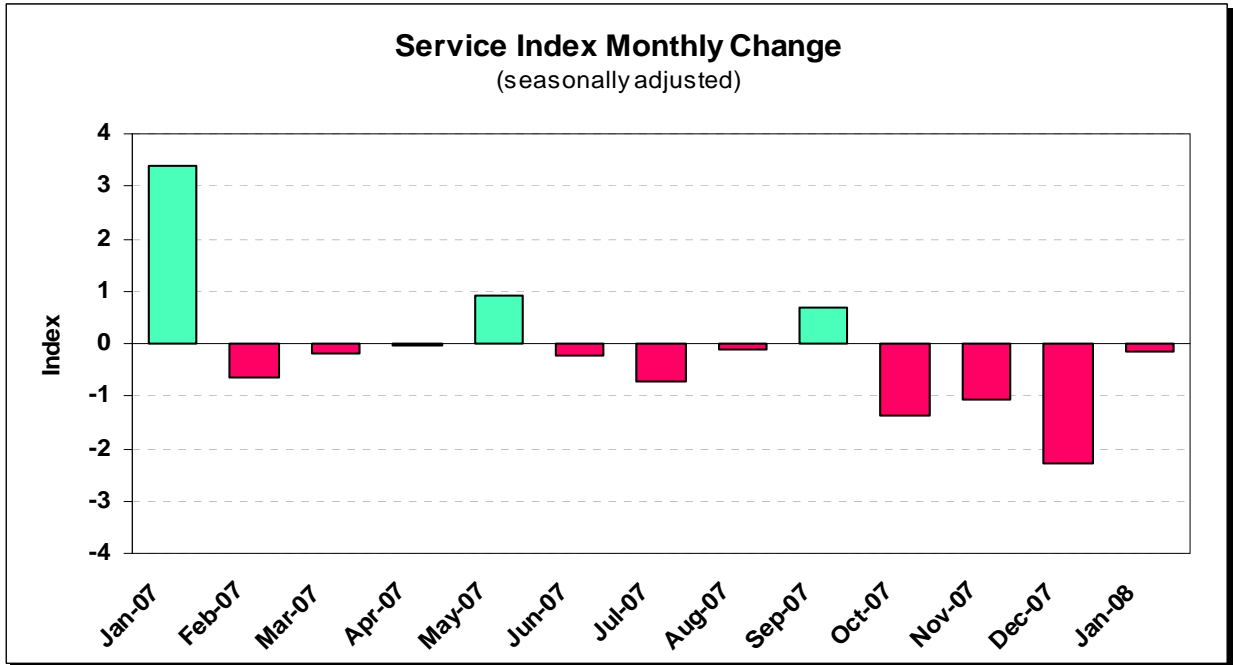


## Service Sector

The seasonally adjusted service sector index fell for the fourth consecutive month in January, sliding 0.1 points to 51.1. "In addition, six of the 10 components fell, indicating a broad-based and more pervasive decay recently," North said. "Negative commentary from the survey participants is of course mostly about the housing industry, but participants from other industries are now chiming in with their comments about deteriorating conditions as well." According to one participant in farm and garden machinery and equipment, they have had "more bankruptcies in one month than ever before," and a participant in plastics also noted that bankruptcies are up. A packing and crating industry respondent noted their former good paying customers are having trouble, telling them "I can't pay you until I get paid." Another participant in the motor vehicle supplies and new parts industry noted a tough couple of months for many of their customers, and another in freight transportation summed it up by saying, "Things are slow."

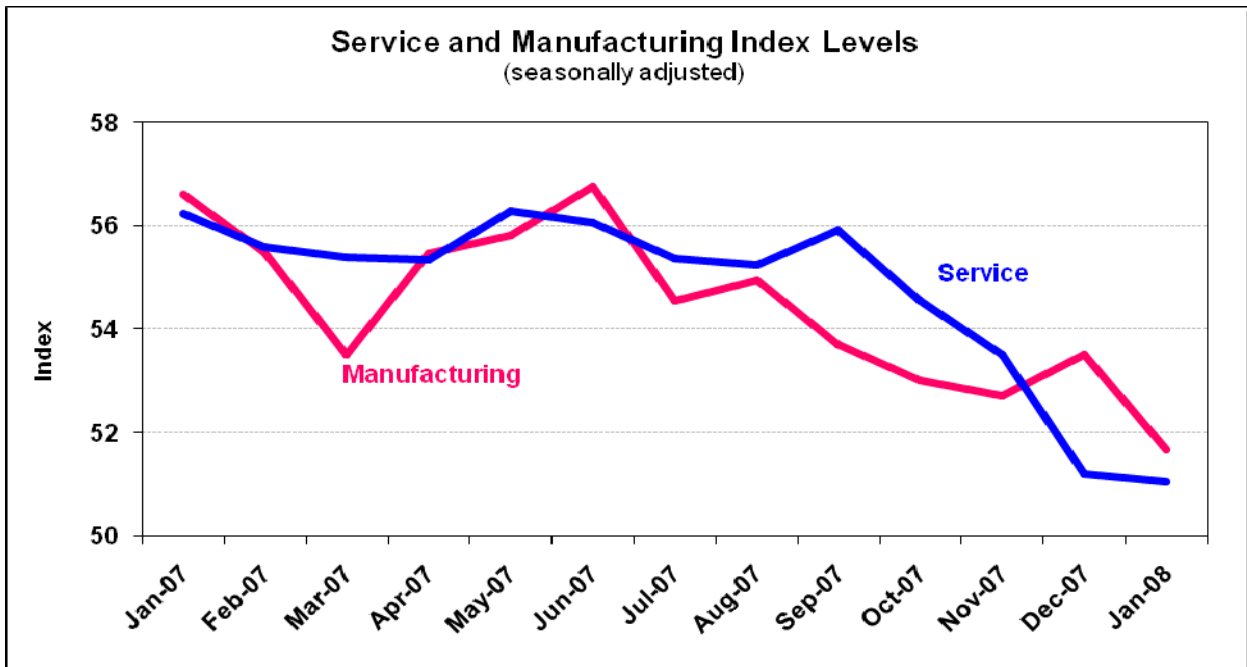
## Service Sector (seasonally adjusted)

	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '07	Jan '08
Sales	64.3	60.5	59.8	64.8	63.5	60.9	59.5	59.0	58.6	55.1	57.7	50.8	50.3
New credit applications	61.9	52.3	57.1	56.3	55.2	58.5	55.5	55.5	53.1	52.4	56.1	53.6	51.3
Dollar collections	65.0	67.1	61.6	62.7	63.7	62.5	59.1	59.7	60.2	62.5	61.5	55.8	56.6
Amount of credit extended	65.2	67.3	64.7	64.2	62.4	65.5	63.5	60.5	61.1	60.2	60.4	57.8	56.7
<b>Index of favorable factors</b>	<b>64.1</b>	<b>61.8</b>	<b>60.8</b>	<b>62.0</b>	<b>61.2</b>	<b>61.8</b>	<b>59.4</b>	<b>58.7</b>	<b>58.2</b>	<b>57.5</b>	<b>58.9</b>	<b>54.5</b>	<b>53.7</b>
Rejection of credit applications	50.7	51.3	50.8	52.9	53.6	52.7	53.3	51.4	52.8	52.5	49.8	49.7	49.7
Accounts placed for collection	48.4	48.1	49.1	52.5	52.1	51.3	51.3	50.7	51.6	48.5	48.5	48.8	47.6
Disputes	49.8	51.4	52.1	50.9	51.5	52.4	54.0	53.7	54.2	51.0	50.1	49.2	49.1
Dollar amount beyond terms	48.7	51.1	53.2	44.8	50.1	47.3	47.9	52.7	57.0	50.4	44.8	45.3	47.4
Dollar amount of customer deductions	50.8	51.8	50.1	49.4	53.4	52.7	50.2	53.5	52.6	54.3	53.3	50.8	50.1
Filings for bankruptcies	57.5	55.2	55.6	55.0	57.4	57.0	59.2	55.9	57.9	58.8	52.9	50.4	51.9
<b>Index of unfavorable factors</b>	<b>51.0</b>	<b>51.5</b>	<b>51.8</b>	<b>50.9</b>	<b>53.0</b>	<b>52.2</b>	<b>52.7</b>	<b>53.0</b>	<b>54.4</b>	<b>52.6</b>	<b>49.9</b>	<b>49.0</b>	<b>49.3</b>
<b>NACM Service CMI</b>	<b>56.2</b>	<b>55.6</b>	<b>55.4</b>	<b>55.4</b>	<b>56.3</b>	<b>56.1</b>	<b>55.4</b>	<b>55.3</b>	<b>55.9</b>	<b>54.6</b>	<b>53.5</b>	<b>51.2</b>	<b>51.1</b>
<b>ISM Service Business Activity Index</b>	<b>59.0</b>	<b>54.3</b>	<b>52.4</b>	<b>56.0</b>	<b>59.7</b>	<b>60.7</b>	<b>55.8</b>	<b>55.8</b>	<b>54.8</b>	<b>55.8</b>	<b>54.1</b>	<b>53.9</b>	<b>NA</b>



### January 2008 vs. January 2007

On a seasonally adjusted basis, the combined Credit Manager's Index has fallen 5.0 points to 51.4. The manufacturing sector index has fallen 4.9 points and the service sector index has fallen 5.1 points. "In all three indexes, all of the 10 components have fallen, giving a very clear signal that the indexes are in a strong and pervasive downtrend," 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:

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

<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.

###

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](http://www.nacm.org) or by contacting Caroline Zimmerman at 410-740-5560.