

NACM Credit Manager's Index

Report for January 2009

Issued February 4, 2009
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell 0.4% to a record low of 39.7 in January, its sixth consecutive decline. All 30 components in the indexes are below the 50 level signaling economic contraction; 13 are even below 40, suggesting a powerful recession, and 13 are at record lows. Seven of 10 components fell in manufacturing sector, six of 10 in the service sector. "It was another grim report," said Daniel North, chief economist with credit insurer Euler Hermes ACI, who evaluates the data and prepares the CMI report for the National Association of Credit Management (NACM). "Similarly, much of the recent economic data has been worse than expected, suggesting that the economy's decline may actually be accelerating," he continued.

"There is some positive news however," said North. "Over the past few months the indexes have been subject to dramatic, almost sickening declines, like the 11.7% drop in manufacturing sales last month. This month's report seems almost sedate by comparison as the worst fall was only 4.4%. In addition, some of the respondents actually had some good news to report this month, apparently seeing a tiny glimmer of light in the darkness. There might also be the slightest hint of a bottom in the housing market, and there might also be some barely visible cracks in the frozen credit markets."

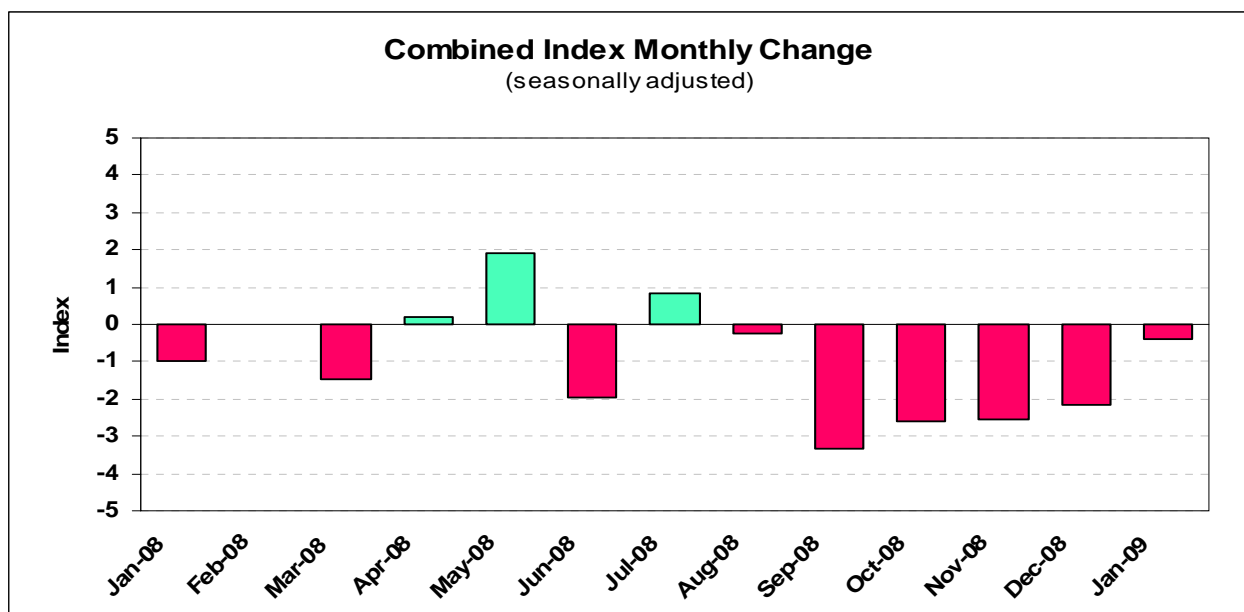
"Combine all this with super loose monetary policy, plummeting energy prices and some new ideas from a new administration, and the optimism expressed by a few of the credit managers might be justified," he said. "Bear in mind, though, that no matter what, it will be rough going until at least the second half of the 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)

	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09
Sales	51.7	57.1	50.8	54.0	57.7	54.2	55.7	56.4	45.3	45.6	34.4	27.2	29.4
New credit applications	52.8	54.7	53.0	54.4	55.0	50.2	53.9	52.8	49.6	49.7	45.2	44.7	42.7
Dollar collections	56.8	60.5	55.1	54.8	61.3	56.4	60.4	57.1	54.6	50.9	49.9	43.8	47.5
Amount of credit extended	57.0	55.0	55.8	57.0	60.4	58.8	58.5	60.0	53.9	47.6	43.3	42.1	40.5
Index of favorable factors	54.5	56.8	53.7	55.0	58.6	54.9	57.1	56.6	50.8	48.4	43.2	39.4	40.0
Rejections of credit applications	50.9	48.4	49.0	48.9	48.1	49.1	48.1	48.5	47.8	44.6	45.0	45.6	45.9
Accounts placed for collection	47.1	42.5	45.2	45.8	43.0	44.5	43.4	45.6	41.6	36.4	36.1	35.2	36.7
Disputes	49.5	47.3	49.0	46.9	50.1	47.9	46.3	46.3	45.8	42.9	43.8	44.5	43.3
Dollar amount beyond terms	45.1	49.0	43.5	42.5	43.7	42.7	47.9	43.6	42.0	41.8	38.8	31.6	30.5
Dollar amount of customer deductions	50.3	47.4	49.0	47.5	49.9	48.1	47.8	48.5	46.6	45.8	45.4	46.4	45.1
Filings for bankruptcies	52.6	52.1	48.6	49.2	51.2	49.0	47.1	48.2	46.4	42.6	40.5	39.7	35.4
Index of unfavorable factors	49.3	47.8	47.4	46.8	47.6	46.9	46.8	46.8	45.0	42.4	41.6	40.5	39.5
NACM CMI	51.4	51.4	49.9	50.1	52.0	50.1	50.9	50.7	47.4	44.8	42.2	40.1	39.7
ISM Combined Sectors Index*	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	50.2	44.4	37.3	40.6	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 index fell 0.6% in January to a record low of 40.4%. Seven components fell, all are below 50, half are below 40 and three set record lows, indicating very difficult conditions, reported North. "As always, slow payment seems to be the biggest problem," he said, providing these comments from survey participants:

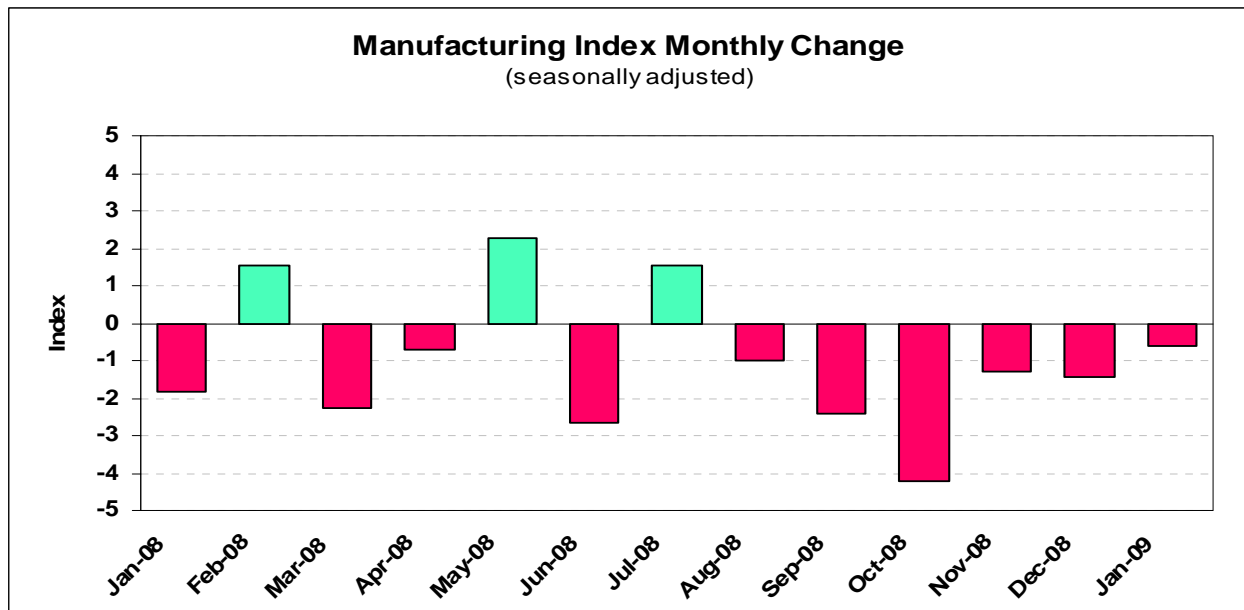
- Trade contracting: "Money is moving very slow(ly) and I have more customers 'hiding' from their obligations than in the past few years."
- Metal furnishings: "Cash flow unsteady. Mom and Pops are paying slower and give great reasons. The strong customers are paying later than the norm in the past."
- Steel: "Downward trending on sales and a slowing of payments."

But there was also a bit more positive commentary than usual, North reported:

- General contracting: "Problem accounts seem to have stabilized."
- Jewelry/precious metals: "We have seen a slight increase in sales."
- Sand and gravel: "Collections in December were exceptionally good."

Manufacturing Sector (seasonally adjusted)

	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09
Sales	53.0	56.2	53.1	54.0	59.9	54.4	56.5	57.4	45.2	46.1	38.5	26.8	31.6
New credit applications	54.2	53.5	55.6	55.5	54.9	51.1	55.0	53.0	50.9	49.2	45.5	48.8	44.8
Dollar collections	56.9	67.1	55.6	54.6	58.8	54.4	60.8	56.2	55.6	46.3	49.6	44.5	48.2
Amount of credit extended	57.3	57.4	56.5	57.7	58.6	57.9	58.8	62.0	56.2	48.1	42.8	44.0	39.6
Index of favorable factors	55.4	58.6	55.2	55.4	58.0	54.4	57.8	57.1	52.0	47.4	44.1	41.0	41.1
Rejections of credit applications	52.2	50.9	49.5	48.8	49.4	49.4	48.7	48.1	49.0	46.2	45.2	47.8	46.0
Accounts placed for collection	46.6	45.7	48.3	47.1	45.9	45.8	44.8	47.4	42.3	36.0	35.3	35.0	39.1
Disputes	50.0	52.1	47.0	46.3	48.8	46.9	45.2	43.8	45.5	41.3	44.4	44.7	42.6
Dollar amount beyond terms	42.7	46.3	46.0	44.0	45.7	41.8	47.7	41.8	43.1	38.6	40.0	31.8	30.8
Dollar amount of customer deductions	50.5	50.7	48.0	45.5	50.1	48.4	46.5	46.9	45.9	42.8	44.2	45.8	44.6
Filings for bankruptcies	53.2	52.4	50.2	48.7	53.0	48.2	49.7	47.2	45.6	42.6	38.7	40.6	36.4
Index of unfavorable factors	49.2	49.7	48.2	46.7	48.8	46.8	47.1	45.9	45.3	41.3	41.3	41.0	39.9
NACM Manufacturing CMI	51.7	53.2	51.0	50.2	52.5	49.8	51.4	50.4	47.9	43.7	42.4	41.0	40.4
ISM Manufacturing PMI	50.8	48.8	49.0	48.6	49.3	49.5	49.5	49.3	43.4	38.7	36.6	32.9	35.6



Service Sector

The seasonally adjusted service sector index edged down 0.1% in January to a record low of 39.1. Six components fell, all components are below 50, four are below 40 and five are at record lows. "The negative commentary is the same we have heard for months now," said North:

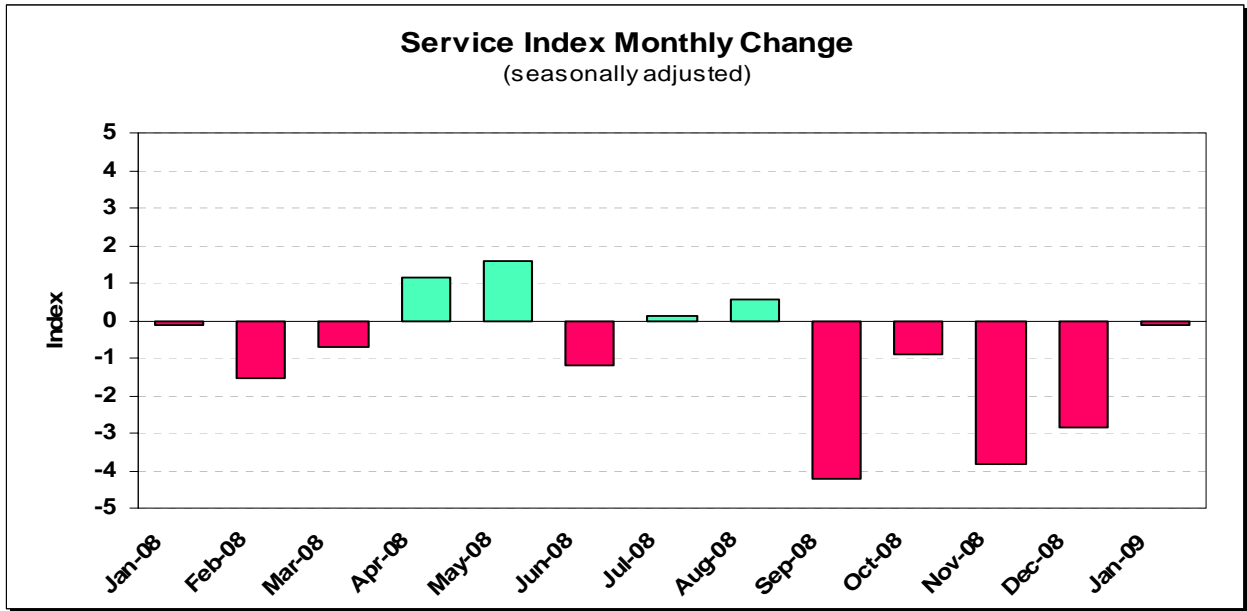
- Freight transportation: "Customer(s) are dragging their feet in paying their monthly statements."
- Electronic parts: "More cash flow issues cropping up."
- Groceries: "It is going to be a tough year."

North noted, as in manufacturing, there was some surprisingly good news too:

- Radio/TV: "No dollars in arrears...all clients are current."
- Employment agency: "Our collections continue to be strong."
- Home furnishings: "Sales are still up."
- Transportation equipment: "Slight upturn in business."
- Groceries: "Sales for last month compared to last year (were) up."

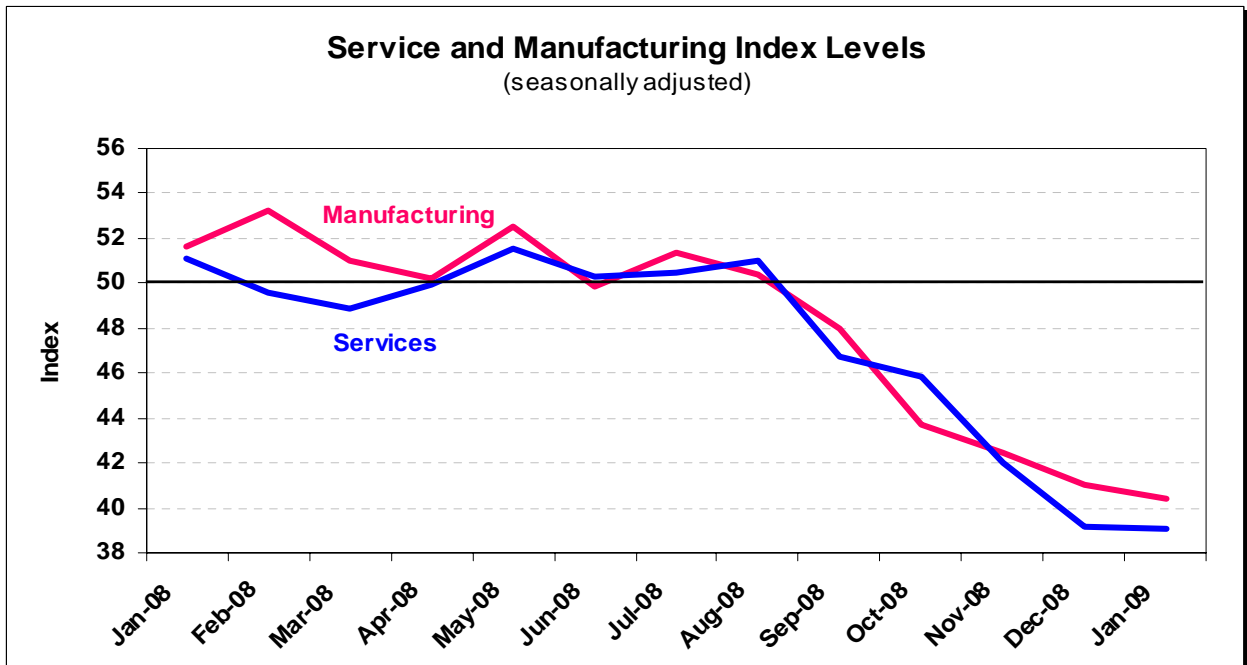
Service Sector (seasonally adjusted)

	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec '08	Jan '09
Sales	50.3	58.0	48.5	53.9	55.5	54.0	54.9	55.5	45.4	45.1	30.2	27.5	27.3
New credit applications	51.3	55.8	50.4	53.4	55.1	49.3	52.7	52.6	48.4	50.2	44.8	40.5	40.5
Dollar collections	56.6	53.9	54.6	55.0	63.8	58.4	60.1	58.0	53.6	55.5	50.3	43.2	46.8
Amount of credit extended	56.7	52.5	55.1	56.3	62.2	59.8	58.3	58.0	51.5	47.2	43.7	40.3	41.4
Index of favorable factors	53.7	55.1	52.1	54.7	59.2	55.4	56.5	56.0	49.7	49.5	42.2	37.9	39.0
Rejections of credit applications	49.7	45.9	48.5	49.0	46.7	48.7	47.5	48.8	46.5	43.0	44.7	43.4	45.7
Accounts placed for collection	47.6	39.3	42.2	44.4	40.1	43.2	42.1	43.8	41.0	36.7	36.9	35.4	34.4
Disputes	49.1	42.4	51.0	47.4	51.3	48.9	47.4	48.9	46.1	44.5	43.3	44.3	44.1
Dollar amount beyond terms	47.4	51.8	41.1	41.1	41.6	43.7	48.0	45.4	40.9	44.9	37.6	31.4	30.3
Dollar amount of customer deductions	50.1	44.1	50.0	49.5	49.6	47.8	49.0	50.0	47.3	48.8	46.6	47.0	45.7
Filings for bankruptcies	51.9	51.7	47.0	49.7	49.4	49.8	44.6	49.2	47.3	42.6	42.2	38.8	34.4
Index of unfavorable factors	49.3	45.9	46.6	46.8	46.5	47.0	46.4	47.7	44.8	43.5	41.9	40.1	39.1
NACM Service CMI	51.1	49.5	48.8	50.0	51.5	50.3	50.5	51.0	46.8	45.9	42.0	39.2	39.1
ISM Service Business Activity Index	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	50.2	44.4	37.3	40.6	NA



January 2009 vs. January 2008

On a seasonally adjusted basis over the past 12 months, the combined Credit Manager's Index has fallen 11.7%, the manufacturing index has fallen 11.3% and the service index has fallen a record-tying 12.0%. North said, "As can be seen on the chart below, most of the damage has been done since the harrowing months of last September and October. It is certainly too early to start pointing to an upturn, but the flattening in the year-over-year trend is certainly easier to look at."



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 800 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 creditworthy 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.

**Note: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

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