

NACM Credit Manager's Index

Report for July 2006

Issued August 2, 2006
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

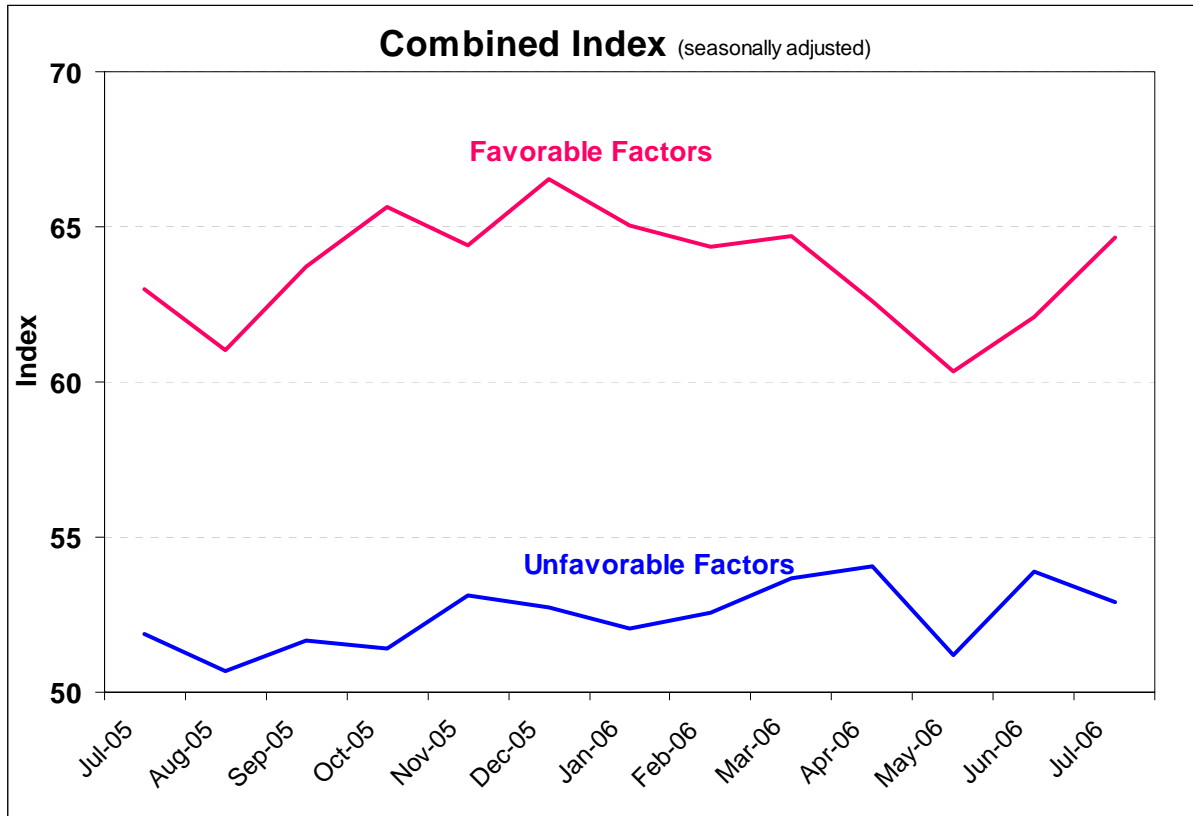
Combined Sectors

"The seasonally adjusted Combined Credit Manager's Index (CMI) for July was virtually all good news," comments Dan North, Chief Economist with credit insurer Euler Hermes ACI. "All three of the major indices were up on both a month-to-month and a year-over-year basis. In addition, all three major indices stand well above the 50 mark indicating economic expansion. And, out of the 30 total components, only two are below 50," he summed. "There were few dramatic swings in the indices this month except for the 4.6% increase in the favorable components of the manufacturing sector. The survey once again describes an economy that has had enough strength and momentum to overcome the obstacles of a tightening Fed, inflation fears, high energy prices, a weak stock market and a wobbly consumer."

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)

	Jul '05	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul
Sales	65.0	60.4	69.8	70.1	65.7	70.9	66.1	64.6	65.8	63.3	61.5	65.4	67.8
New credit applications	61.5	60.8	59.8	59.4	57.4	62.0	63.6	60.3	60.9	57.4	55.7	55.7	59.0
Dollar collections	60.5	56.7	59.8	62.9	68.1	63.6	63.6	66.2	64.6	63.5	58.6	62.5	61.9
Amount of credit extended	64.9	66.2	65.4	70.2	66.4	69.6	66.9	66.3	67.4	66.2	65.5	64.8	69.9
Index of favorable factors	63.0	61.0	63.7	65.6	64.4	66.5	65.0	64.3	64.7	62.6	60.3	62.1	64.7
Rejection of credit applications	52.3	50.8	52.0	54.5	52.7	50.8	50.7	53.1	53.9	53.8	50.6	51.5	52.6
Accounts placed for collection	50.8	49.8	52.8	54.1	53.3	53.8	52.6	50.3	52.7	52.0	50.5	55.2	52.0
Disputes	48.5	49.6	50.7	48.4	52.6	46.5	49.8	48.4	50.0	52.4	49.3	51.1	51.1
Dollar amount beyond terms	53.0	47.8	54.1	53.9	55.9	52.9	51.1	52.2	54.6	53.5	48.5	56.5	52.2
Dollar amount of customer	50.4	50.2	48.7	50.2	50.2	50.4	50.4	50.2	51.2	51.8	49.0	49.7	50.5
Filings for bankruptcies	56.2	55.9	51.8	47.3	54.1	61.9	57.8	61.3	59.7	60.8	59.2	59.2	59.1
Index of unfavorable factors	51.9	50.7	51.7	51.4	53.1	52.7	52.1	52.6	53.7	54.0	51.2	53.9	52.9
NACM CMI	56.3	54.8	56.5	57.1	57.7	58.3	57.2	57.3	58.1	57.5	54.9	57.2	57.6
ISM Combined Sectors Index	58.6	59.3	56.4	59.6	58.3	57.0	57.6	58.4	57.9	60.2	57.3	55.4	NA



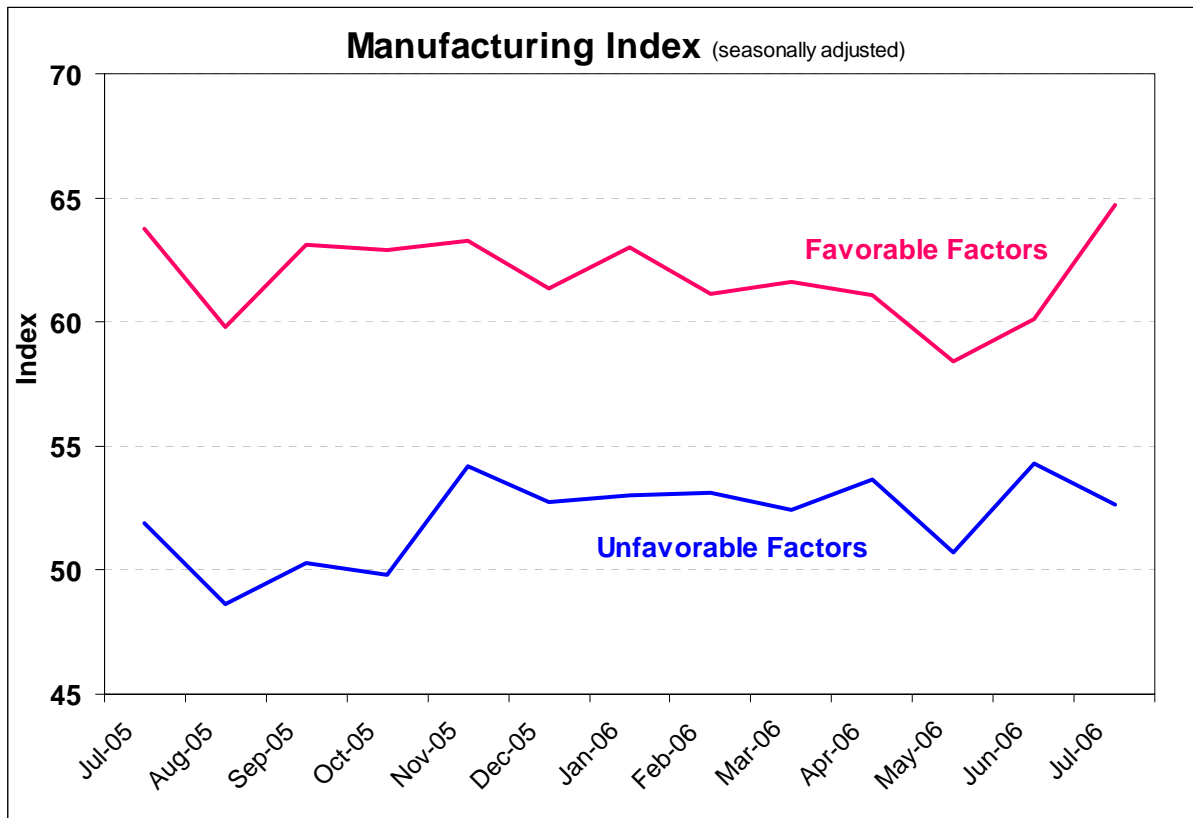
*Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.

Manufacturing Sector

The manufacturing sector index for July rose 0.9% on a seasonally adjusted basis. The rise was driven mostly by an increase of 5.8% in the sales component and an increase of 9.6% in the amount of credit extended. "Both of these top-line oriented indices bode well for future growth," said North.

Manufacturing Sector (seasonally adjusted)

	Jul '05	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul
Sales	66.4	59.0	69.8	68.1	63.1	64.0	64.0	61.3	62.7	62.4	59.4	63.9	69.7
New credit applications	60.8	62.3	59.1	55.2	56.5	56.1	61.7	55.0	59.7	54.9	53.5	55.0	59.1
Dollar collections	62.7	55.1	59.8	59.7	67.8	61.7	62.3	66.2	59.3	63.4	56.5	60.5	59.4
Amount of credit extended	65.1	62.7	63.7	68.6	65.7	63.6	64.0	62.1	64.9	63.6	64.4	61.1	70.7
Index of favorable factors	63.8	59.8	63.1	62.9	63.3	61.4	63.0	61.1	61.6	61.1	58.4	60.1	64.7
Rejection of credit applications	52.0	50.3	50.5	54.9	53.6	52.1	51.8	53.8	55.4	52.2	47.5	51.6	52.8
Accounts placed for collection	51.6	49.5	53.4	52.5	56.7	55.8	52.0	49.4	51.3	52.0	51.7	54.0	51.7
Disputes	48.0	44.9	50.4	46.0	52.4	44.1	50.5	49.0	45.7	52.4	48.4	52.4	49.9
Dollar amount beyond terms	53.1	47.0	50.2	51.7	57.7	53.3	56.0	55.2	54.5	52.3	49.4	59.0	53.9
Dollar amount of customer	51.0	46.9	46.3	47.1	49.3	49.3	50.8	51.4	49.0	52.7	49.0	49.4	48.6
Filings for bankruptcies	55.8	53.2	51.0	46.9	55.5	61.9	56.9	60.0	58.6	60.4	58.2	59.3	58.8
Index of unfavorable factors	51.9	48.6	50.3	49.8	54.2	52.7	53.0	53.1	52.4	53.7	50.7	54.3	52.6
NACM Manufacturing CMI	56.6	53.1	55.4	55.1	57.8	56.2	57.0	56.3	56.1	56.6	53.8	56.6	57.5
ISM Manufacturing PMI	56.6	53.6	59.4	59.1	58.1	54.2	58.4	56.7	55.2	57.3	54.4	53.8	54.7

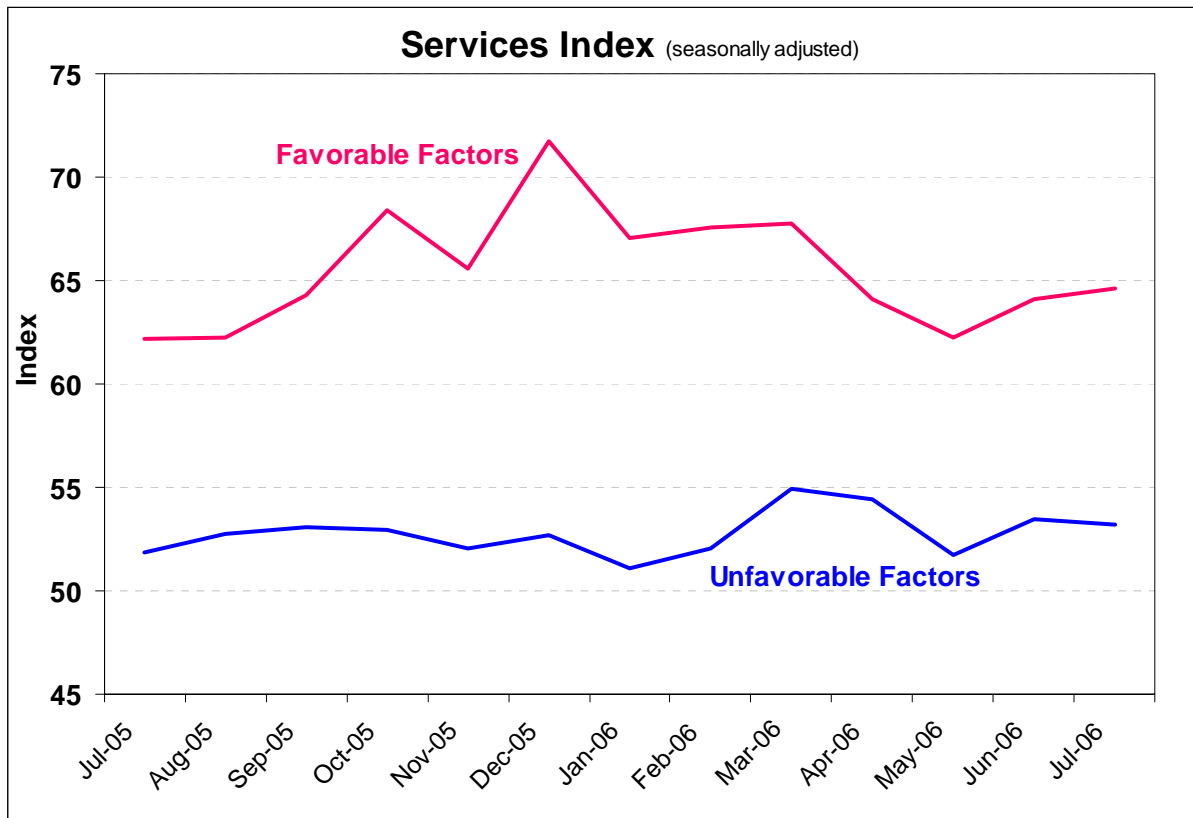


Service Sector

The July service sector index rose only 0.1% on a seasonally adjusted basis. North comments, "There were no particularly notable movements that would suggest a significant shift or pattern, but six of the 10 components rose."

Service Sector (seasonally adjusted)

	Jul '05	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul
Sales	63.6	61.8	69.8	72.1	68.4	77.9	68.1	67.9	68.9	64.3	63.6	67.0	66.0
New credit applications	62.1	59.3	60.5	63.6	58.3	68.0	65.5	65.6	62.2	60.0	57.9	56.4	58.9
Dollar collections	58.3	58.3	59.8	66.1	68.4	65.5	64.8	66.2	69.9	63.5	60.7	64.6	64.4
Amount of credit extended	64.7	69.6	67.2	71.7	67.1	75.6	69.8	70.4	69.9	68.8	66.7	68.5	69.2
Index of favorable factors	62.2	62.3	64.3	68.4	65.6	71.7	67.1	67.5	67.7	64.1	62.2	64.1	64.6
Rejection of credit applications	52.5	51.3	53.4	54.2	51.8	49.4	49.5	52.3	52.4	55.4	53.7	51.5	52.3
Accounts placed for collection	50.1	50.1	52.3	55.7	50.0	51.7	53.2	51.2	54.0	52.1	49.4	56.4	52.4
Disputes	49.0	54.3	51.0	50.8	52.8	49.0	49.0	47.8	54.4	52.3	50.2	49.8	52.3
Dollar amount beyond terms	52.9	48.6	57.9	56.1	54.0	52.5	46.2	49.3	54.7	54.6	47.6	54.1	50.4
Dollar amount of customer	49.8	53.5	51.1	53.3	51.1	51.6	49.9	48.9	53.3	50.9	49.1	50.0	52.5
Filings for bankruptcies	56.7	58.6	52.7	47.7	52.6	61.9	58.8	62.6	60.9	61.2	60.2	59.1	59.3
Index of unfavorable factors	51.8	52.7	53.1	53.0	52.1	52.7	51.1	52.0	54.9	54.4	51.7	53.5	53.2
NACM Service CMI	56.0	56.5	57.6	59.1	57.5	60.3	57.5	58.2	60.1	58.3	55.9	57.7	57.8
ISM Service Business Activity Index	60.5	65.0	53.3	60.0	58.5	59.8	56.8	60.1	60.5	63.0	60.1	57.0	NA



July 2006 vs. July 2005

“On a year-over-year basis, the combined CMI rose 1.3%, while the manufacturing sector rose 0.8% and the services sector rose 1.8%,” said North. “Eight out of 10 components for the combined CMI rose, while seven of 10 rose in both the manufacturing and services sectors. Overall, the indices reflect the strong economy of the past several quarters.”

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.

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 25,000 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 Norma Heim at 410-740-5560.