

NACM Credit Manager's Index

Report for July 2007

Issued August 1, 2007

National Association of Credit Management
8840 Columbia 100 Parkway
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Combined Sectors

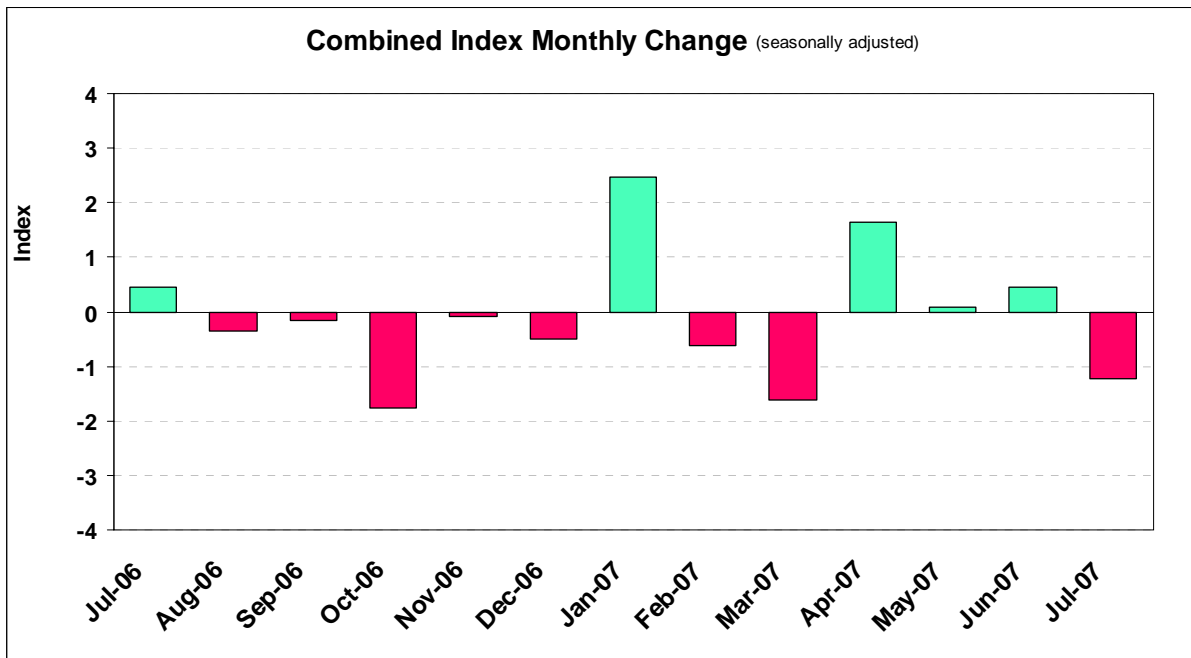
The seasonally adjusted Credit Manager's Index (CMI) fell 1.2% in July, the first decline in four months. While the drop-off was not dramatic, it was widespread as eight of the 10 components fell. "The housing market was once again a major drag on the respondents' businesses," said Dan North, chief economist with credit insurer Euler Hermes ACI, "and there appears to be little relief in sight as homebuilders continue to report bleak conditions." North said that housing starts, permits and unit sales are all down dramatically from last year while the supply of unsold homes is growing. "And large homebuilding firms are reporting losses and forecasting continued weakness," he noted, "However, commercial construction activity remains strong." Even though the report shows signs of erosion this month, North noted that 29 of the 30 total components are still above the 50 level, indicating economic expansion.

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)

	Jul '06	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul '07
Sales	67.8	62.8	63.5	56.3	59.5	60.9	61.6	59.6	58.1	62.8	61.5	61.9	60.2
New credit applications	59.0	62.5	57.9	56.2	56.5	60.5	60.9	52.5	55.9	56.7	56.2	58.6	56.0
Dollar collections	61.9	63.3	60.0	58.3	62.6	59.5	64.8	66.2	58.4	61.5	61.9	61.0	60.2
Amount of credit extended	69.9	66.4	62.4	63.2	64.0	63.7	65.3	63.6	62.4	59.3	62.2	63.6	63.0
Index of favorable factors	64.7	63.8	60.9	58.5	60.6	61.2	63.2	60.5	58.7	60.1	60.5	61.3	59.9
Rejection of credit applications	52.6	53.6	53.3	54.8	51.7	50.1	51.6	52.7	51.9	52.4	52.7	52.6	53.4
Accounts placed for collection	52.0	50.1	55.0	53.1	50.7	47.8	51.4	51.3	49.6	55.4	52.8	53.7	51.1
Disputes	51.1	50.4	52.3	49.7	49.9	47.9	52.7	53.5	51.9	53.0	52.0	53.7	53.4
Dollar amount beyond terms	52.2	51.3	55.8	52.2	50.2	48.1	50.9	52.6	55.0	54.2	55.0	52.9	50.9
Dollar amount of customer	50.5	51.7	50.6	50.5	51.3	49.2	53.2	54.5	50.2	51.5	54.6	53.9	51.0
Filings for bankruptcies	59.1	60.5	60.2	59.1	56.3	59.7	59.8	59.5	56.6	59.6	58.5	59.9	60.6
Index of unfavorable factors	52.9	52.9	54.5	53.2	51.7	50.5	53.3	54.0	52.5	54.4	54.2	54.5	53.4
NACM CMI	57.6	57.3	57.1	55.3	55.2	54.7	57.2	56.6	55.0	56.6	56.7	57.2	56.0
ISM Combined Sectors Index*	55.1	55.6	53.7	54.5	54.1	54.1	54.2	53.3	51.7	55.4	57.4	58.4	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.

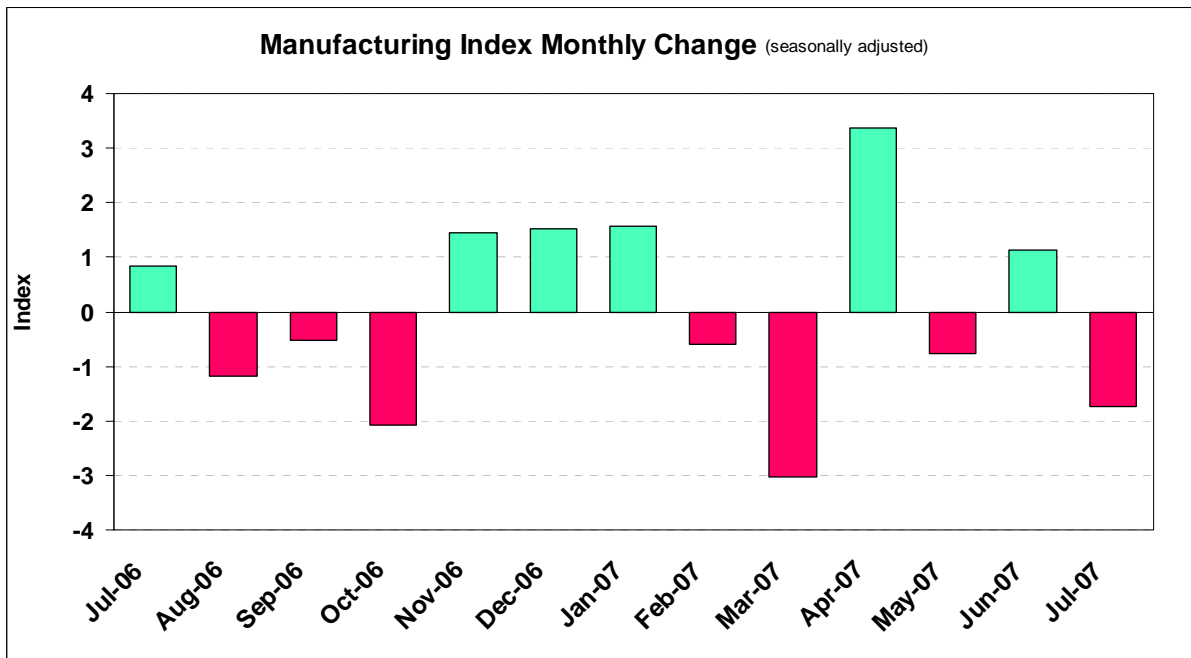


Manufacturing Sector

The manufacturing sector dropped 1.7% on a seasonally adjusted basis as seven of the 10 components of the index fell. "Sharp declines in the accounts placed for collections and dollar amounts beyond terms components accounted for much of the drop, suggesting cash flow difficulties," said North. Indeed, one respondent reported that "...customers are disputing more and slowing payments..." while another noted "...everyone is...taking longer terms without approval."

Manufacturing Sector (seasonally adjusted)

	Jul '06	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul '07
Sales	69.7	62.0	62.0	55.7	63.5	69.4	58.9	58.7	56.5	60.9	59.5	62.9	60.9
New credit applications	59.1	63.4	57.4	55.8	56.6	62.1	60.0	52.8	54.6	57.1	57.3	58.7	56.4
Dollar collections	59.4	60.1	61.0	54.8	62.6	59.9	64.6	65.3	55.3	60.3	60.2	59.5	61.3
Amount of credit extended	70.7	67.9	60.6	62.6	64.7	66.9	65.4	59.9	60.0	54.3	62.0	61.8	62.6
Index of favorable factors	64.7	63.4	60.2	57.2	61.9	64.6	62.2	59.2	56.6	58.1	59.7	60.7	60.3
Rejection of credit applications	52.8	53.2	52.5	55.1	51.1	50.7	52.6	54.1	53.1	51.9	51.8	52.6	53.4
Accounts placed for collection	51.7	48.5	54.8	50.6	48.9	51.0	54.4	54.5	50.0	58.3	53.6	56.1	51.0
Disputes	49.9	47.8	48.7	48.2	49.0	46.7	55.5	55.6	51.7	55.1	52.4	55.1	52.7
Dollar amount beyond terms	53.9	48.7	54.8	49.5	50.7	50.1	53.0	54.1	56.7	63.7	59.9	58.5	53.9
Dollar amount of customer deductions	48.6	51.7	46.4	48.2	49.8	49.3	55.5	57.2	50.4	53.7	55.7	55.1	51.8
Filings for bankruptcies	58.8	59.3	59.4	56.3	54.3	60.2	62.1	63.9	57.5	64.1	59.6	62.9	62.0
Index of unfavorable factors	52.6	51.5	52.8	51.3	50.6	51.3	55.5	56.6	53.2	57.8	55.5	56.7	54.1
NACM Manufacturing CMI	57.5	56.3	55.8	53.7	55.1	56.6	58.2	57.6	54.6	57.9	57.2	58.3	56.6
ISM Manufacturing PMI	54.4	54.3	52.7	51.5	49.9	51.4	49.3	52.3	50.9	54.7	55.0	56.0	NA

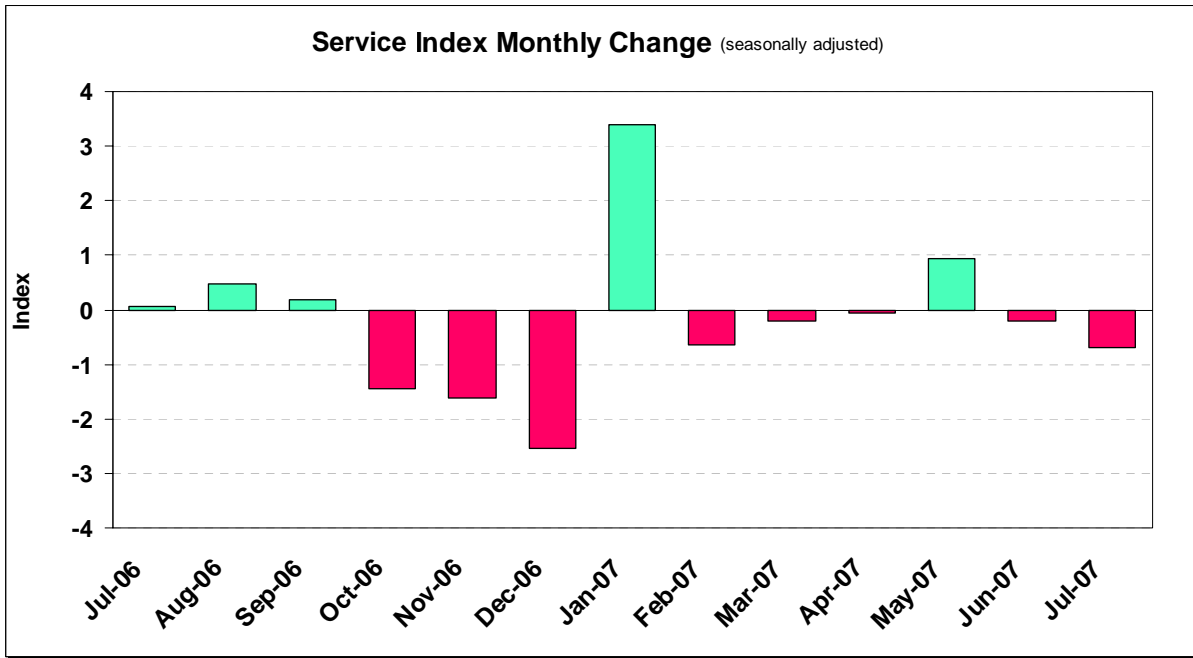


Service Sector

The service sector fell 0.7% on a seasonally adjusted basis as five of 10 components fell. Once again, survey respondents pointed to the housing sector as the major cause of their woes North said. One respondent's comments were typical: "The housing market continues to suffer from lack of building permits..." and the "...market is still flooded with existing homes." "However there were several comments about the continuing strength of commercial construction, a factor that is helping to maintain employment in the building industry," he continued. Interestingly, one respondent echoed the recent concern over inflationary pressures saying "Raw material cost(s) continue to rise." "Inflationary pressures are under careful scrutiny at the moment, because if rising material and labor costs result in accelerating consumer inflation, the Fed might be forced to start raising interest rates again," North commented. "And higher interest rates would put the health of the economy at significant risk."

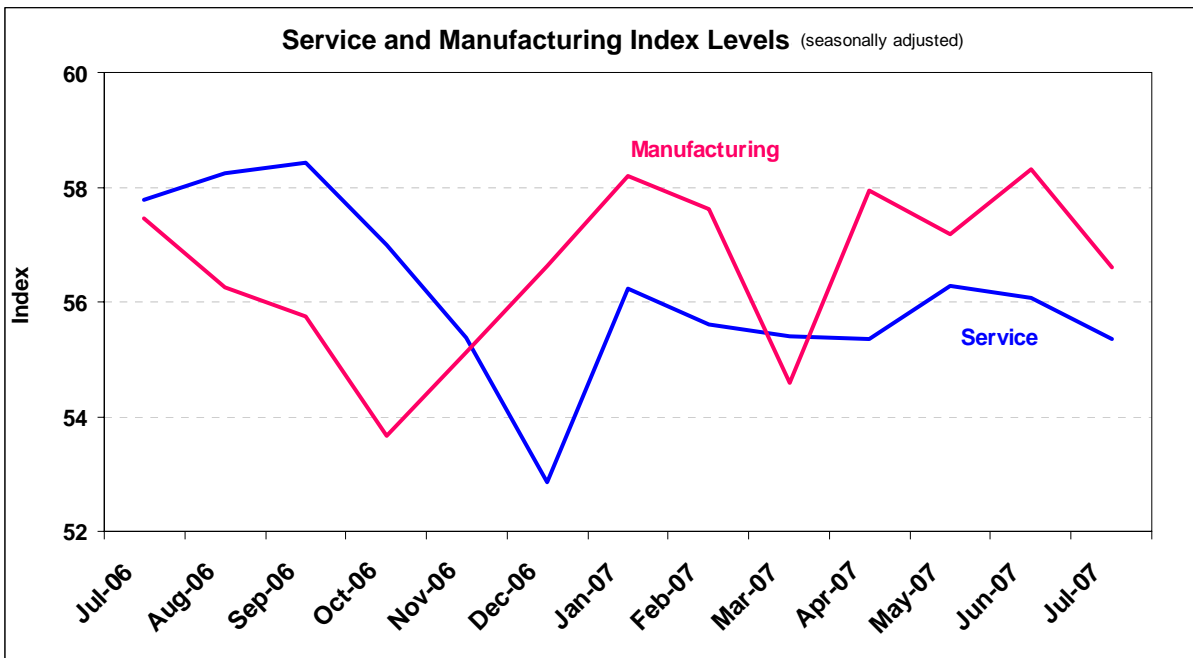
Service Sector (seasonally adjusted)

	Jul '06	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul '07
Sales	66.0	63.7	65.0	56.8	55.5	52.4	64.3	60.5	59.8	64.8	63.5	60.9	59.5
New credit applications	58.9	61.6	58.3	56.6	56.3	58.9	61.9	52.3	57.1	56.3	55.2	58.5	55.5
Dollar collections	64.4	66.6	59.0	61.9	62.5	59.1	65.0	67.1	61.6	62.7	63.7	62.5	59.1
Amount of credit extended	69.2	64.8	64.2	63.7	63.4	60.5	65.2	67.3	64.7	64.2	62.4	65.5	63.5
Index of favorable factors	64.6	64.1	61.6	59.8	59.4	57.7	64.1	61.8	60.8	62.0	61.2	61.8	59.4
Rejection of credit applications	52.3	53.9	54.2	54.5	52.2	49.4	50.7	51.3	50.8	52.9	53.6	52.7	53.3
Accounts placed for collection	52.4	51.7	55.1	55.7	52.5	44.7	48.4	48.1	49.1	52.5	52.1	51.3	51.3
Disputes	52.3	52.9	55.9	51.3	50.8	49.1	49.8	51.4	52.1	50.9	51.5	52.4	54.0
Dollar amount beyond terms	50.4	54.0	56.7	54.8	49.7	46.1	48.7	51.1	53.2	44.8	50.1	47.3	47.9
Dollar amount of customer deductions	52.5	51.6	54.8	52.8	52.7	49.1	50.8	51.8	50.1	49.4	53.4	52.7	50.2
Filings for bankruptcies	59.3	61.8	61.0	62.0	58.3	59.2	57.5	55.2	55.6	55.0	57.4	57.0	59.2
Index of unfavorable factors	53.2	54.3	56.3	55.2	52.7	49.6	51.0	51.5	51.8	50.9	53.0	52.2	52.7
NACM Service CMI	57.8	58.2	58.4	57.0	55.4	52.9	56.2	55.6	55.4	55.4	56.3	56.1	55.4
ISM Service Business Activity Index	55.7	56.9	54.6	57.4	58.3	56.7	59.0	54.3	52.4	56.0	59.7	60.7	NA



July 2007 vs. July 2006

On a year-over-year basis, the combined index fell 1.6% to 56.0. North noted, “Over the past 12 months, the manufacturing sector has outperformed the service sector. The manufacturing sector fell 0.9% as five of the 10 components fell, but the service sector fell 2.4% as eight of its 10 components fell. The housing market has consistently been cited as the major drag on building materials suppliers in the services sector.”



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:

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

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.

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