

NACM Credit Manager's Index

Report for July 2008

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

Combined Sectors

The seasonally adjusted Credit Manager's Index rebounded slightly in July, gaining 0.8% as the manufacturing sector index rose 1.6% and the service sector index crept up 0.2%. All three indexes—combined, manufacturing and service—are hovering just above the crucial 50 value, indicating a slight degree of economic expansion. “There was little in the data to provide a compelling picture of credit conditions one way or another,” said Daniel North, chief economist for credit insurer Euler Hermes ACI. “For instance, for the combined index, six of the 10 components fell and six remain below 50, yet the index itself rose and remained above 50. Similarly, comments from the participants were a mix of good news, bad news and price increase news.”

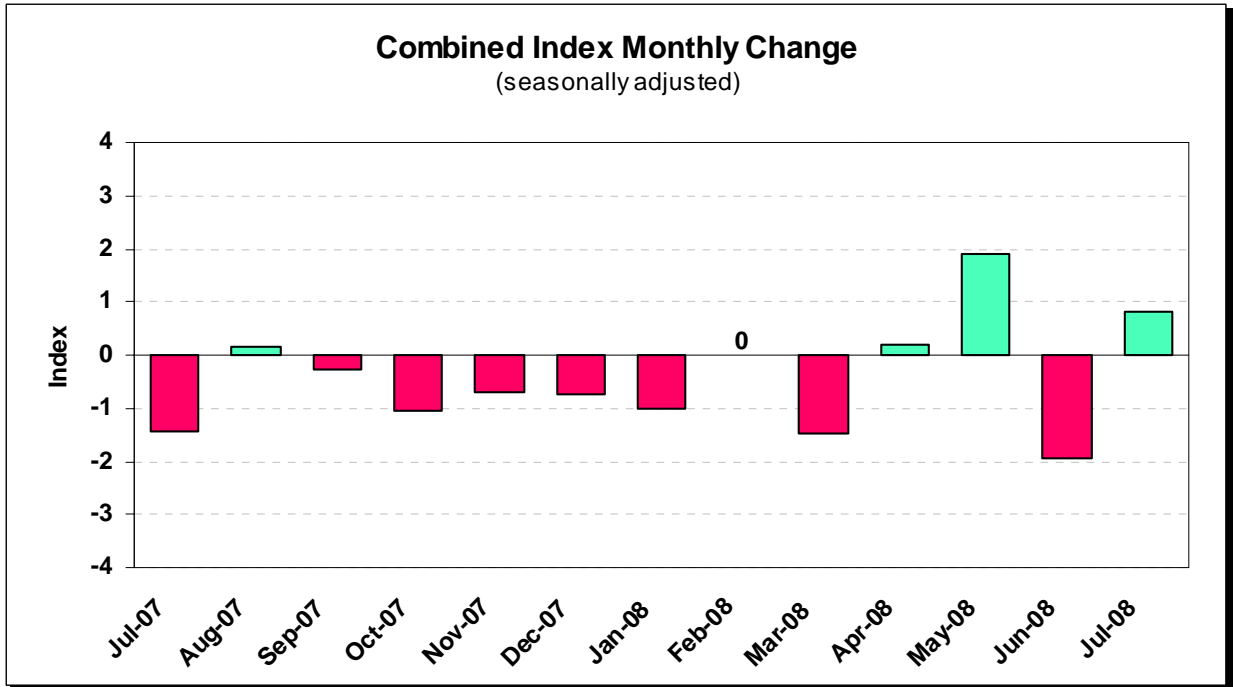
North said, “The report actually reflects very closely the state of the business cycle and the Federal Reserve's dilemma. The Fed faces six straight months (probably seven as of August 2nd) of job losses, but also faces consumer price inflation of 4.9%. Given that, either a rate cut or increase could easily be the wrong move. The Fed's assessment of the economy will probably be the same as those of credit managers as a whole; it's somewhere right in the middle. And the best choice for right now might be to sit tight.”

See page 6 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)

	Jul '07	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul '08
Sales	60.2	59.1	59.0	54.7	58.6	56.3	51.7	57.1	50.8	54.0	57.7	54.2	55.7
New credit applications	56.0	55.6	55.3	53.3	56.4	55.8	52.8	54.7	53.0	54.4	55.0	50.2	53.9
Dollar collections	60.2	60.1	60.0	60.0	61.2	57.2	56.8	60.5	55.1	54.8	61.3	56.4	60.4
Amount of credit extended	63.0	61.6	60.1	58.7	60.9	59.8	57.0	55.0	55.8	57.0	60.4	58.8	58.5
Index of favorable factors	59.9	59.1	58.6	56.7	59.2	57.3	54.5	56.8	53.7	55.0	58.6	54.9	57.1
Rejections of credit applications	53.4	51.1	51.8	52.0	49.9	50.0	50.9	48.4	49.0	48.9	48.1	49.1	48.1
Accounts placed for collection	49.8	50.7	49.0	49.6	47.4	46.2	47.1	42.5	45.2	45.8	43.0	44.5	43.4
Disputes	51.9	52.2	50.2	49.4	47.8	49.5	49.5	47.3	49.0	46.9	50.1	47.9	46.3
Dollar amount beyond terms	48.9	51.4	55.3	48.4	45.8	46.3	45.1	49.0	43.5	42.5	43.7	42.7	47.9
Dollar amount of customer deductions	48.8	52.2	49.9	51.5	49.6	50.3	50.3	47.4	49.0	47.5	49.9	48.1	47.8
Filings for bankruptcies	57.3	57.2	57.7	60.4	53.5	52.3	52.6	52.1	48.6	49.2	51.2	49.0	47.1
Index of unfavorable factors	51.7	52.4	52.3	51.9	49.0	49.1	49.3	47.8	47.4	46.8	47.6	46.9	46.8
NACM CMI	55.0	55.1	54.8	53.8	53.1	52.4	51.4	51.4	49.9	50.1	52.0	50.1	50.9
ISM Combined Sectors Index*	52.7	52.0	51.9	51.9	51.2	50.8	47.7	48.8	49.1	50.3	50.7	49.2	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 sector index rose above the 50% level in July, gaining 1.6%, but four of the 10 components fell and six remain below 50. Comments from survey participants were similarly mixed.

Good News:

- “In the last 30 days, have noticed an increased demand for our products.”
- “More jobs started.”
- “Sales and production still very strong.”
- “June was the first positive month in a long time. Our customers are finally re-ordering.”

Bad News:

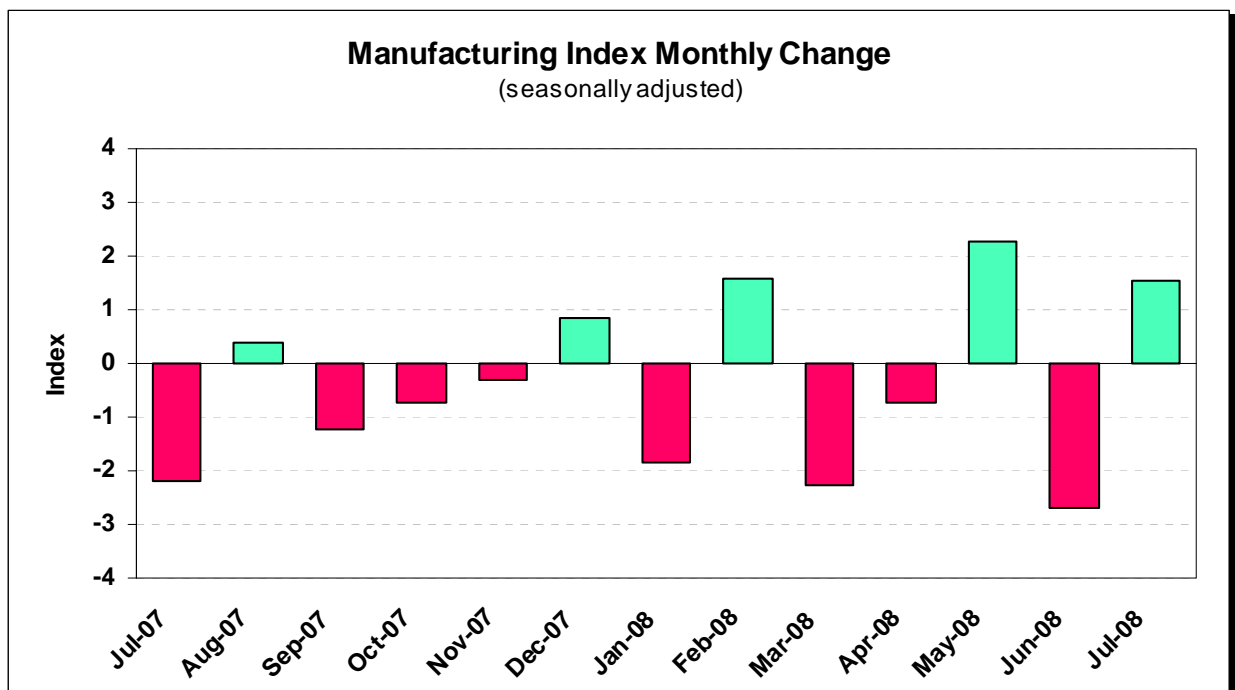
- “Smaller businesses are really struggling...”
- “This economy is scary, and there are no historical precedents to rely on.”
- “...customers...hold onto the funds longer”
- “lending institutions requiring much higher dollar commitments”

Price News:

- “Fuel prices are having a major impact on business decisions!”
- “Steel price inflation has raised the dollar amount (of sales, collections, etc.)”

Manufacturing Sector (seasonally adjusted)

	Jul '07	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul '08
Sales	60.9	59.2	59.3	54.2	59.4	61.9	53.0	56.2	53.1	54.0	59.9	54.4	56.5
New credit applications	56.4	55.7	57.5	54.1	56.6	58.0	54.2	53.5	55.6	55.5	54.9	51.1	55.0
Dollar collections	61.3	60.4	59.8	57.6	60.8	58.7	56.9	67.1	55.6	54.6	58.8	54.4	60.8
Amount of credit extended	62.6	62.7	59.1	57.3	61.3	61.8	57.3	57.4	56.5	57.7	58.6	57.9	58.8
Index of favorable factors	60.3	59.5	58.9	55.8	59.5	60.1	55.4	58.6	55.2	55.4	58.0	54.4	57.8
Rejections of credit applications	53.4	50.8	50.7	51.6	49.9	50.3	52.2	50.9	49.5	48.8	49.4	49.4	48.7
Accounts placed for collection	48.3	50.8	46.4	50.7	46.3	43.5	46.6	45.7	48.3	47.1	45.9	45.8	44.8
Disputes	49.8	50.6	46.1	47.8	45.5	49.8	50.0	52.1	47.0	46.3	48.8	46.9	45.2
Dollar amount beyond terms	50.0	50.0	53.6	46.3	46.9	47.4	42.7	46.3	46.0	44.0	45.7	41.8	47.7
Dollar amount of customer deductions	47.4	50.8	47.2	48.7	45.9	49.8	50.5	50.7	48.0	45.5	50.1	48.4	46.5
Filings for bankruptcies	55.4	58.4	57.5	62.0	54.2	54.1	53.2	52.4	50.2	48.7	53.0	48.2	49.7
Index of unfavorable factors	50.7	51.9	50.3	51.2	48.1	49.2	49.2	49.7	48.2	46.7	48.8	46.8	47.1
NACM Manufacturing CMI	54.6	55.0	53.7	53.0	52.7	53.5	51.7	53.2	51.0	50.2	52.5	49.8	51.4
ISM Manufacturing PMI	52.3	51.2	50.5	50.4	50.0	48.4	50.7	48.3	48.6	48.6	49.6	50.2	NA



Service Sector

The seasonally adjusted service sector index eked out a 0.2% gain to the 50.5% level, but half of the components fell, and six still remain below 50. Once again, the data is a mixed picture, just as the commentary is.

Good News:

- “Business...increasing dramatically during the past four months. Exports in particular have increased.”
- “Sales have increased over any previous year [’05 thru ’07] for the months of January through June.”

- “We continue to manufacture at 100% capacity.”
- “We have had excellent DSO over the last two months.”

Bad News:

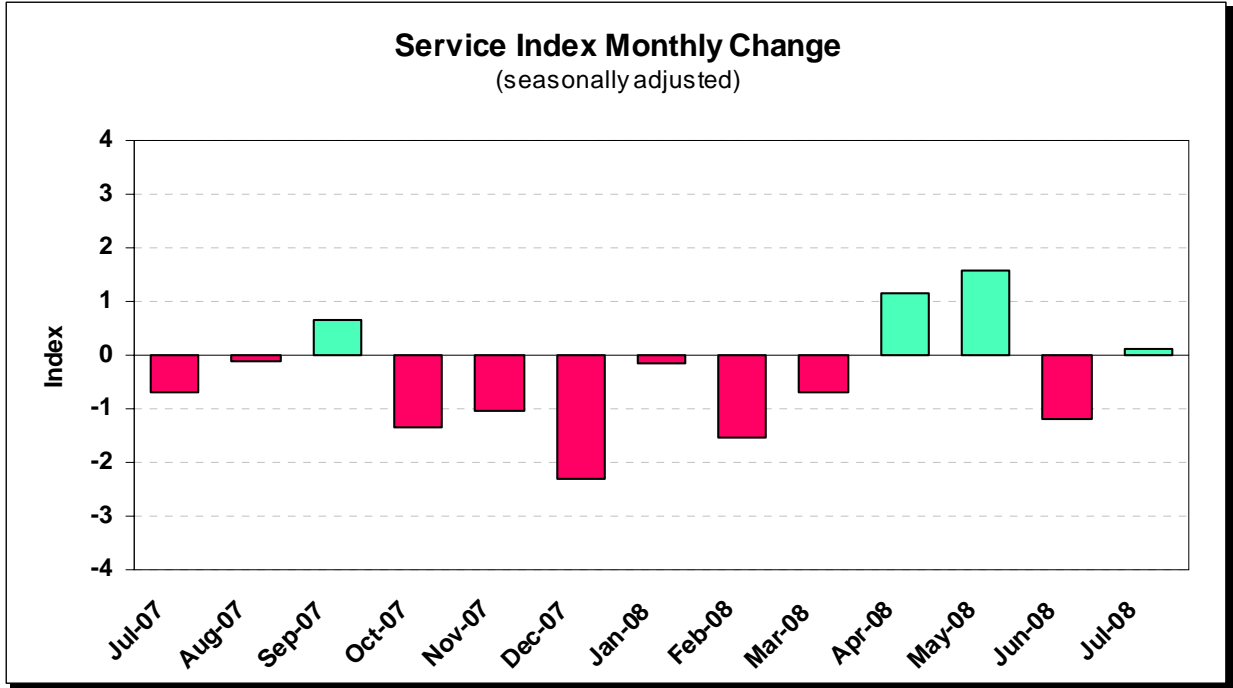
- “Be very careful in this economy as professional debtors seem to rise to the top when dollars get tight.”
- “We have a lot of companies paying off their accounts and closing their doors. Also a lot of customers with health problems (under too much stress). More verbal and actual fraud than ever before.”
- “More bankruptcies in last 3-4 months more that what I receive in a normal year.”
- “...number of returned checks has increased dramatically...the collection environment is worse than I have ever seen in my 20 years in collection!”

Price News:

- “The cost on some of our items has increased 60%.”
- “Petrochemical product pricing is up...logistics is challenging with rising fuel costs.”
- “Price increases are testing the limits of credit lines.”
- “Primary reason for higher sales continues to be high gasoline prices...”

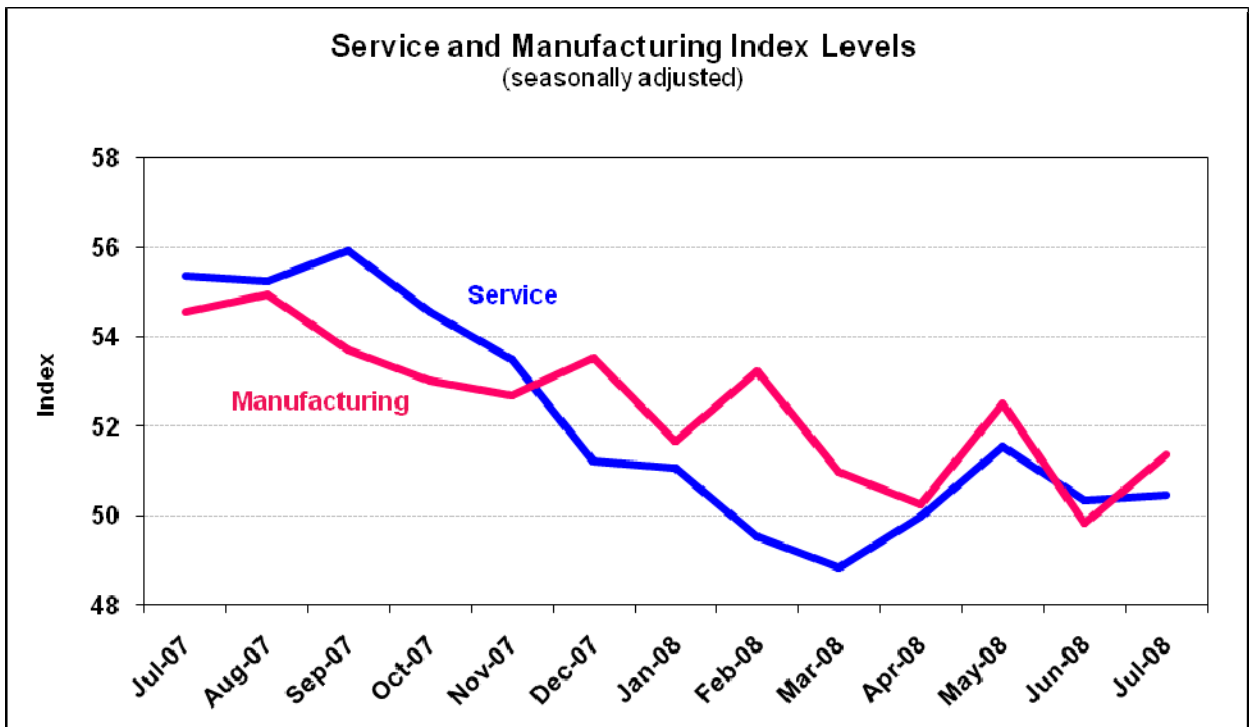
Service Sector (seasonally adjusted)

	Jul '07	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul '08
Sales	59.5	59.0	58.6	55.1	57.7	50.8	50.3	58.0	48.5	53.9	55.5	54.0	54.9
New credit applications	55.5	55.5	53.1	52.4	56.1	53.6	51.3	55.8	50.4	53.4	55.1	49.3	52.7
Dollar collections	59.1	59.7	60.2	62.5	61.5	55.8	56.6	53.9	54.6	55.0	63.8	58.4	60.1
Amount of credit extended	63.5	60.5	61.1	60.2	60.4	57.8	56.7	52.5	55.1	56.3	62.2	59.8	58.3
Index of favorable factors	59.4	58.7	58.2	57.5	58.9	54.5	53.7	55.1	52.1	54.7	59.2	55.4	56.5
Rejections of credit applications	53.3	51.4	52.8	52.5	49.8	49.7	49.7	45.9	48.5	49.0	46.7	48.7	47.5
Accounts placed for collection	51.3	50.7	51.6	48.5	48.5	48.8	47.6	39.3	42.2	44.4	40.1	43.2	42.1
Disputes	54.0	53.7	54.2	51.0	50.1	49.2	49.1	42.4	51.0	47.4	51.3	48.9	47.4
Dollar amount beyond terms	47.9	52.7	57.0	50.4	44.8	45.3	47.4	51.8	41.1	41.1	41.6	43.7	48.0
Dollar amount of customer deductions	50.2	53.5	52.6	54.3	53.3	50.8	50.1	44.1	50.0	49.5	49.6	47.8	49.0
Filings for bankruptcies	59.2	55.9	57.9	58.8	52.9	50.4	51.9	51.7	47.0	49.7	49.4	49.8	44.6
Index of unfavorable factors	52.7	53.0	54.4	52.6	49.9	49.0	49.3	45.9	46.6	46.8	46.5	47.0	46.4
NACM Service CMI	55.4	55.3	55.9	54.6	53.5	51.2	51.1	49.5	48.8	50.0	51.5	50.3	50.5
ISM Service Business Activity Index	53.1	52.8	53.2	53.3	52.4	53.2	44.6	49.3	49.6	52.0	51.7	48.2	NA



July 2008 vs. July 2007

“On a seasonally adjusted basis the year-over-year comparisons show an undeniable downtrend,” said North. “The manufacturing sector has lost 3.2% as all 10 of its components fell. The service sector fell 4.9% as eight of its components fell. Clearly the strength of the economy has fallen over the past year. After all, last August was when the subprime debacle started to really rattle the global credit markets.”



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 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.

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