

# NACM Credit Manager's Index

## Report for June 2006

Issued July 3, 2006

National Association of Credit Management  
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### Combined Sectors

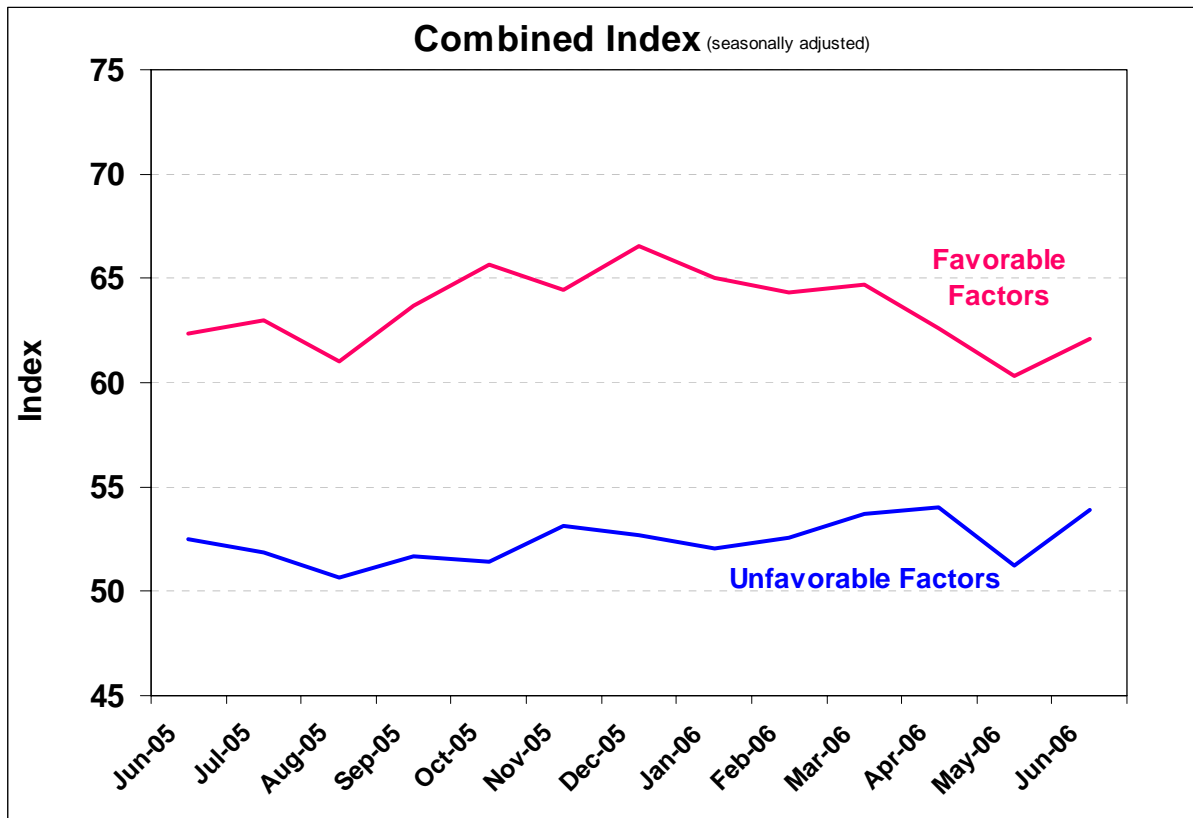
"The Combined Credit Manager's Index (CMI) rebounded sharply in the month of June, reversing much of May's precipitous losses," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. On a seasonally adjusted basis, the CMI rose 2.3% to 57.2%. "Dollar Amount Beyond Terms and Accounts Placed for Collection showed the strongest improvement," he added, "and suggest that customers have experienced an improvement in cash flow." While the CMI continues to indicate economic expansion, it is important to note that other than last month's trough of 54.9, the Index has not been lower than this since last October. "This data suggests that while the economy is still growing, the rate of that growth is declining," summarizes North.

Similarly, in its statement accompanying the 25 bps increase in the Fed Funds Rate on June 29<sup>th</sup>, the Federal Open Market Committee noted that "Recent indicators suggest that economic growth is moderating from its quite strong pace earlier this year; partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices." "In other words," said North, "as the Fed and the CMI indicate, the three major headwinds on the economy are starting to take effect."

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)

	Jun '05	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun
Sales	64.7	65.0	60.4	69.8	70.1	65.7	70.9	66.1	64.6	65.8	63.3	61.5	65.4
New credit applications	59.2	61.5	60.8	59.8	59.4	57.4	62.0	63.6	60.3	60.9	57.4	55.7	55.7
Dollar collections	60.6	60.5	56.7	59.8	62.9	68.1	63.6	63.6	66.2	64.6	63.5	58.6	62.5
Amount of credit extended	64.9	64.9	66.2	65.4	70.2	66.4	69.6	66.9	66.3	67.4	66.2	65.5	64.8
<b>Index of favorable factors</b>	<b>62.4</b>	<b>63.0</b>	<b>61.0</b>	<b>63.7</b>	<b>65.6</b>	<b>64.4</b>	<b>66.5</b>	<b>65.0</b>	<b>64.3</b>	<b>64.7</b>	<b>62.6</b>	<b>60.3</b>	<b>62.1</b>
Rejection of credit applications	51.4	52.3	50.8	52.0	54.5	52.7	50.8	50.7	53.1	53.9	53.8	50.6	51.5
Accounts placed for collection	51.7	50.8	49.8	52.8	54.1	53.3	53.8	52.6	50.3	52.7	52.0	50.5	55.2
Disputes	49.8	48.5	49.6	50.7	48.4	52.6	46.5	49.8	48.4	50.0	52.4	49.3	51.1
Dollar amount beyond terms	54.6	53.0	47.8	54.1	53.9	55.9	52.9	51.1	52.2	54.6	53.5	48.5	56.5
Dollar amount of customer deductions	51.5	50.4	50.2	48.7	50.2	50.2	50.4	50.4	50.2	51.2	51.8	49.0	49.7
Filings for bankruptcies	56.1	56.2	55.9	51.8	47.3	54.1	61.9	57.8	61.3	59.7	60.8	59.2	59.2
<b>Index of unfavorable factors</b>	<b>52.5</b>	<b>51.9</b>	<b>50.7</b>	<b>51.7</b>	<b>51.4</b>	<b>53.1</b>	<b>52.7</b>	<b>52.1</b>	<b>52.6</b>	<b>53.7</b>	<b>54.0</b>	<b>51.2</b>	<b>53.9</b>
<b>NACM CMI</b>	<b>56.4</b>	<b>56.3</b>	<b>54.8</b>	<b>56.5</b>	<b>57.1</b>	<b>57.7</b>	<b>58.3</b>	<b>57.2</b>	<b>57.3</b>	<b>58.1</b>	<b>57.5</b>	<b>54.9</b>	<b>57.2</b>
<b>ISM Combined Sectors Index</b>	<b>58.0</b>	<b>58.6</b>	<b>59.3</b>	<b>56.4</b>	<b>59.6</b>	<b>58.3</b>	<b>57.0</b>	<b>57.6</b>	<b>58.4</b>	<b>57.9</b>	<b>60.2</b>	<b>57.3</b>	<b>NA</b>



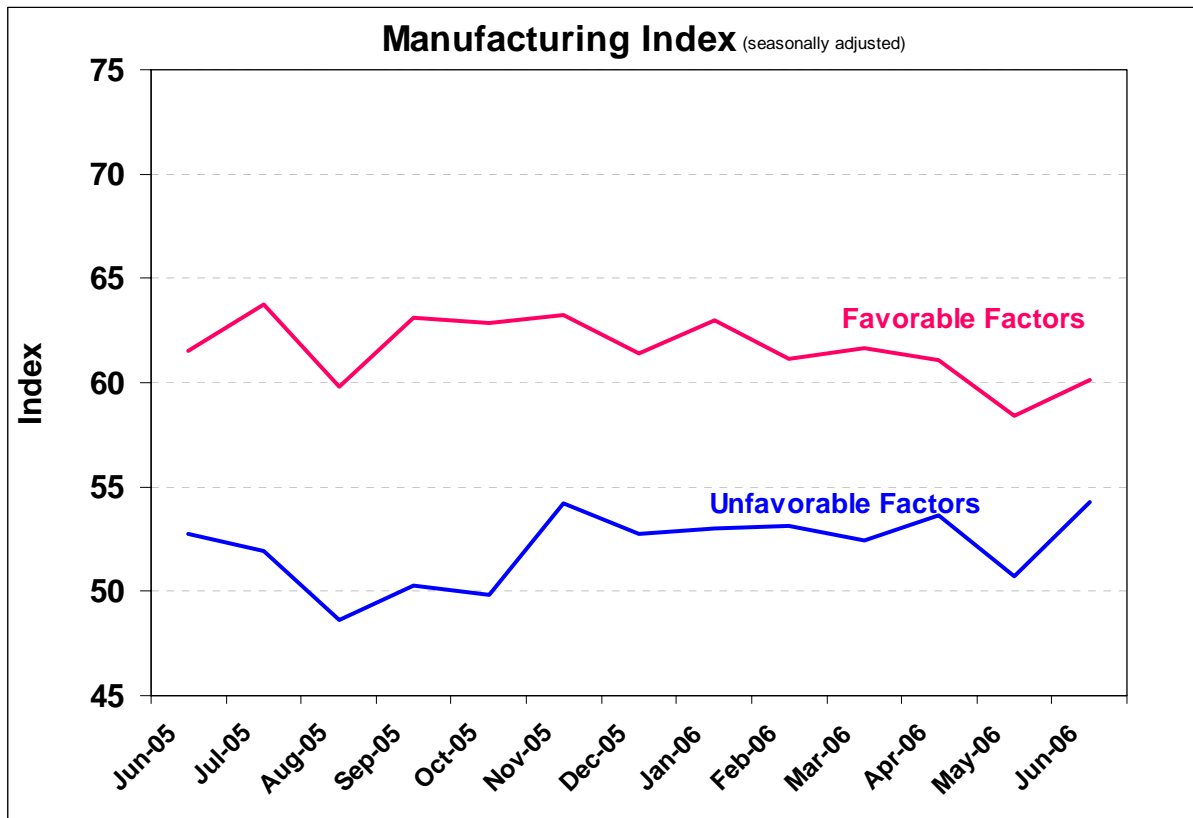
\*Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.

## Manufacturing Sector

"The manufacturing sector index completely reversed last month's losses and returned to the 56.6% level," observed North. "Dollar Amount Beyond Terms led the way with a huge 9.6% increase, easily beating the record change of an 8.0% drop in July 2002. However, the improvement was widespread as only one component out of the 10 fell, confirming a robust rebound."

### Manufacturing Sector (seasonally adjusted)

	Jun '05	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun
Sales	65.2	66.4	59.0	69.8	68.1	63.1	64.0	64.0	61.3	62.7	62.4	59.4	63.9
New credit applications	57.7	60.8	62.3	59.1	55.2	56.5	56.1	61.7	55.0	59.7	54.9	53.5	55.0
Dollar collections	59.3	62.7	55.1	59.8	59.7	67.8	61.7	62.3	66.2	59.3	63.4	56.5	60.5
Amount of credit extended	63.8	65.1	62.7	63.7	68.6	65.7	63.6	64.0	62.1	64.9	63.6	64.4	61.1
<b>Index of favorable factors</b>	<b>61.5</b>	<b>63.8</b>	<b>59.8</b>	<b>63.1</b>	<b>62.9</b>	<b>63.3</b>	<b>61.4</b>	<b>63.0</b>	<b>61.1</b>	<b>61.6</b>	<b>61.1</b>	<b>58.4</b>	60.1
Rejection of credit applications	52.0	52.0	50.3	50.5	54.9	53.6	52.1	51.8	53.8	55.4	52.2	47.5	51.6
Accounts placed for collection	51.4	51.6	49.5	53.4	52.5	56.7	55.8	52.0	49.4	51.3	52.0	51.7	54.0
Disputes	49.6	48.0	44.9	50.4	46.0	52.4	44.1	50.5	49.0	45.7	52.4	48.4	52.4
Dollar amount beyond terms	55.4	53.1	47.0	50.2	51.7	57.7	53.3	56.0	55.2	54.5	52.3	49.4	59.0
Dollar amount of customer deductions	51.8	51.0	46.9	46.3	47.1	49.3	49.3	50.8	51.4	49.0	52.7	49.0	49.4
Filings for bankruptcies	56.5	55.8	53.2	51.0	46.9	55.5	61.9	56.9	60.0	58.6	60.4	58.2	59.3
<b>Index of unfavorable factors</b>	<b>52.8</b>	<b>51.9</b>	<b>48.6</b>	<b>50.3</b>	<b>49.8</b>	<b>54.2</b>	<b>52.7</b>	<b>53.0</b>	<b>53.1</b>	<b>52.4</b>	<b>53.7</b>	<b>50.7</b>	54.3
<b>NACM Manufacturing CMI</b>	<b>56.3</b>	<b>56.6</b>	<b>53.1</b>	<b>55.4</b>	<b>55.1</b>	<b>57.8</b>	<b>56.2</b>	<b>57.0</b>	<b>56.3</b>	<b>56.1</b>	<b>56.6</b>	<b>53.8</b>	<b>56.6</b>
<b>ISM Manufacturing PMI</b>	<b>53.8</b>	<b>56.6</b>	<b>53.6</b>	<b>59.4</b>	<b>59.1</b>	<b>58.1</b>	<b>54.2</b>	<b>58.4</b>	<b>56.7</b>	<b>55.2</b>	<b>57.3</b>	<b>54.4</b>	NA

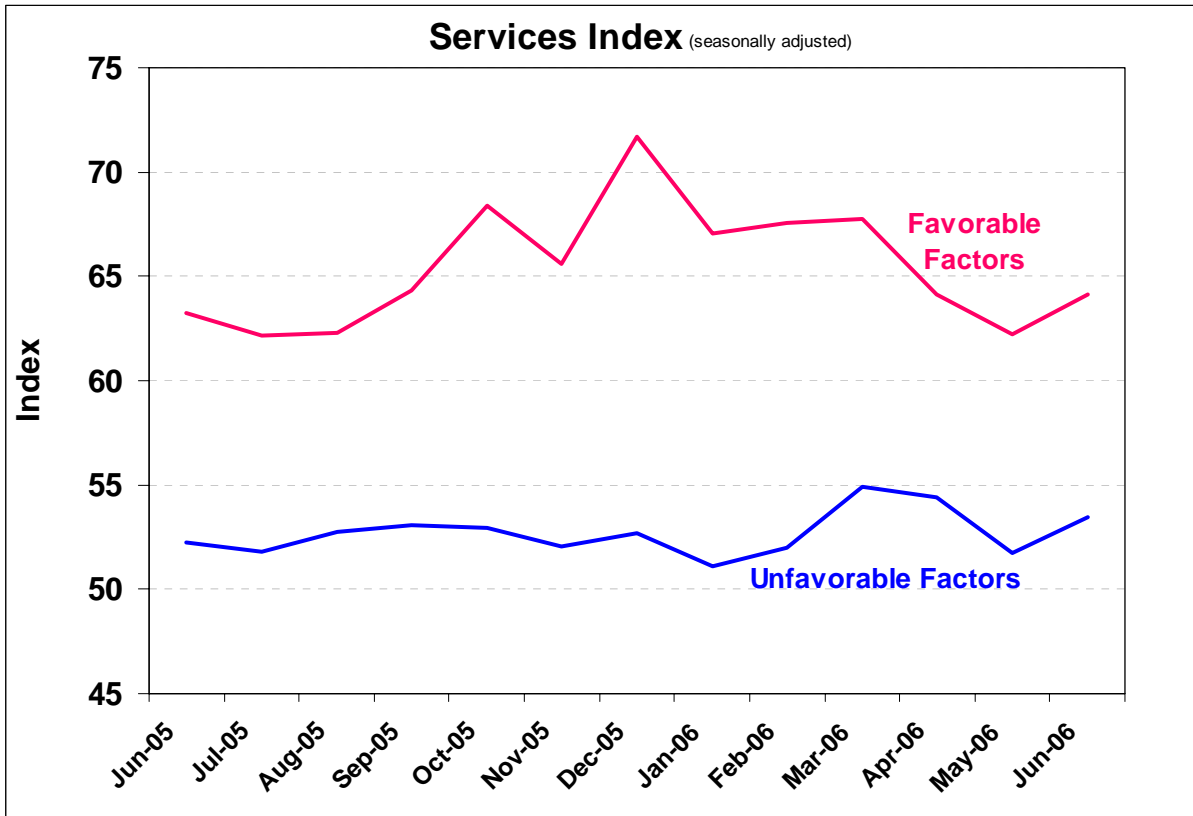


## Service Sector

“The service sector index also recovered much of last month’s losses, and like the manufacturing sector, it was led by an improvement in Dollar Amount Beyond Terms. While the service sector index continues to indicate expansion, the changes this month were somewhat less sanguine than those in the manufacturing sector, as four of the 10 components fell,” apprised North.

### Service Sector (seasonally adjusted)

	Jun '05	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun
Sales	64.2	63.6	61.8	69.8	72.1	68.4	77.9	68.1	67.9	68.9	64.3	63.6	67.0
New credit applications	60.8	62.1	59.3	60.5	63.6	58.3	68.0	65.5	65.6	62.2	60.0	57.9	56.4
Dollar collections	61.8	58.3	58.3	59.8	66.1	68.4	65.5	64.8	66.2	69.9	63.5	60.7	64.6
Amount of credit extended	66.1	64.7	69.6	67.2	71.7	67.1	75.6	69.8	70.4	69.9	68.8	66.7	68.5
<b>Index of favorable factors</b>	<b>63.2</b>	<b>62.2</b>	<b>62.3</b>	<b>64.3</b>	<b>68.4</b>	<b>65.6</b>	<b>71.7</b>	<b>67.1</b>	<b>67.5</b>	<b>67.7</b>	<b>64.1</b>	<b>62.2</b>	<b>64.1</b>
Rejection of credit applications	50.7	52.5	51.3	53.4	54.2	51.8	49.4	49.5	52.3	52.4	55.4	53.7	51.5
Accounts placed for collection	52.0	50.1	50.1	52.3	55.7	50.0	51.7	53.2	51.2	54.0	52.1	49.4	56.4
Disputes	50.0	49.0	54.3	51.0	50.8	52.8	49.0	49.0	47.8	54.4	52.3	50.2	49.8
Dollar amount beyond terms	53.7	52.9	48.6	57.9	56.1	54.0	52.5	46.2	49.3	54.7	54.6	47.6	54.1
Dollar amount of customer deductions	51.2	49.8	53.5	51.1	53.3	51.1	51.6	49.9	48.9	53.3	50.9	49.1	50.0
Filings for bankruptcies	55.6	56.7	58.6	52.7	47.7	52.6	61.9	58.8	62.6	60.9	61.2	60.2	59.1
<b>Index of unfavorable factors</b>	<b>52.2</b>	<b>51.8</b>	<b>52.7</b>	<b>53.1</b>	<b>53.0</b>	<b>52.1</b>	<b>52.7</b>	<b>51.1</b>	<b>52.0</b>	<b>54.9</b>	<b>54.4</b>	<b>51.7</b>	<b>53.5</b>
<b>NACM Service CMI</b>	<b>56.6</b>	<b>56.0</b>	<b>56.5</b>	<b>57.6</b>	<b>59.1</b>	<b>57.5</b>	<b>60.3</b>	<b>57.5</b>	<b>58.2</b>	<b>60.1</b>	<b>58.3</b>	<b>55.9</b>	<b>57.7</b>
<b>ISM Service Business Activity Index</b>	<b>62.2</b>	<b>60.5</b>	<b>65.0</b>	<b>53.3</b>	<b>60.0</b>	<b>58.5</b>	<b>59.8</b>	<b>56.8</b>	<b>60.1</b>	<b>60.5</b>	<b>63.0</b>	<b>60.1</b>	<b>NA</b>



### June 2006 vs. June 2005

“The seasonally adjusted Combined Index rose 0.7% on a year-over-year basis, with a 1.1% increase in the service sector and a 0.3% increase in the manufacturing sector,” said North. “Overall, seven of the 10 components rose for the year, suggesting modest improvement on top of already positive business conditions.”

### 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.

<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.

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