

NACM Credit Manager's Index

Report for June 2007

Issued July 2, 2007

National Association of Credit Management
8840 Columbia 100 Parkway
Columbia, MD 21045-2158

Combined Sectors

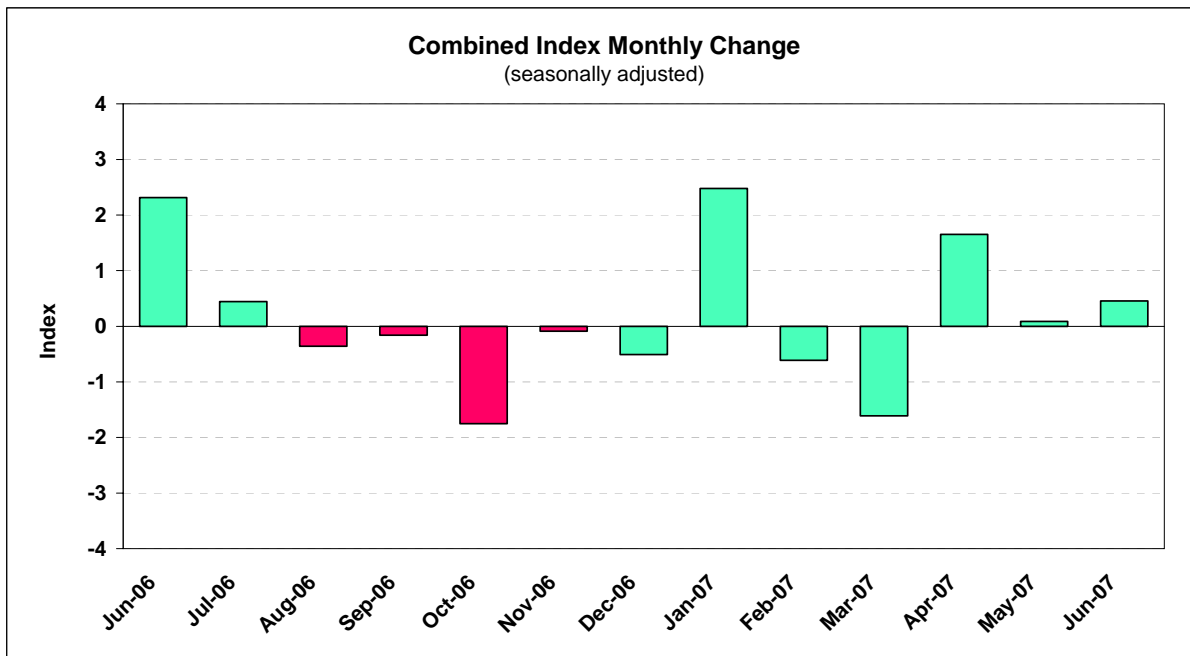
The seasonally adjusted Credit Manager's Index (CMI) rose a modest 0.5% in June as a 1.1% increase in the manufacturing sector offset a 0.2% decrease in the service sector. Results throughout the survey showed mostly small changes from the previous month. "The decimated housing market once again weighed heavily on suppliers of building materials in the service industry," said Dan North, chief economist with credit insurer Euler Hermes ACI. "This condition seems likely to continue, given an increasing supply of homes for sale, sharp declines in housing permits and starts and the unprecedented fall of median year-over-year house prices for 10 consecutive months. Somewhat surprisingly, the manufacturing sector continues to expand on the back of an economy which continues to grow, albeit slowly." Overall the report was moderately positive, reflecting the state of the economy as a whole.

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)

	Jun '06	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun '07
Sales	65.4	67.8	62.8	63.5	56.3	59.5	60.9	61.6	59.6	58.1	62.8	61.5	61.9
New credit applications	55.7	59.0	62.5	57.9	56.2	56.5	60.5	60.9	52.5	55.9	56.7	56.2	58.6
Dollar collections	62.5	61.9	63.3	60.0	58.3	62.6	59.5	64.8	66.2	58.4	61.5	61.9	61.0
Amount of credit extended	64.8	69.9	66.4	62.4	63.2	64.0	63.7	65.3	63.6	62.4	59.3	62.2	63.6
Index of favorable factors	62.1	64.7	63.8	60.9	58.5	60.6	61.2	63.2	60.5	58.7	60.1	60.5	61.3
Rejection of credit applications	51.5	52.6	53.6	53.3	54.8	51.7	50.1	51.6	52.7	51.9	52.4	52.7	52.6
Accounts placed for collection	55.2	52.0	50.1	55.0	53.1	50.7	47.8	51.4	51.3	49.6	55.4	52.8	53.7
Disputes	51.1	51.1	50.4	52.3	49.7	49.9	47.9	52.7	53.5	51.9	53.0	52.0	53.7
Dollar amount beyond terms	56.5	52.2	51.3	55.8	52.2	50.2	48.1	50.9	52.6	55.0	54.2	55.0	52.9
Dollar amount of customer	49.7	50.5	51.7	50.6	50.5	51.3	49.2	53.2	54.5	50.2	51.5	54.6	53.9
Filings for bankruptcies	59.2	59.1	60.5	60.2	59.1	56.3	59.7	59.8	59.5	56.6	59.6	58.5	59.9
Index of unfavorable factors	53.9	52.9	52.9	54.5	53.2	51.7	50.5	53.3	54.0	52.5	54.4	54.2	54.5
NACM CMI	57.2	57.6	57.3	57.1	55.3	55.2	54.7	57.2	56.6	55.0	56.6	56.7	57.2
ISM Combined Sectors Index*	55.5	55.1	55.6	53.7	54.5	54.1	54.1	54.2	53.3	51.7	55.4	57.4	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.

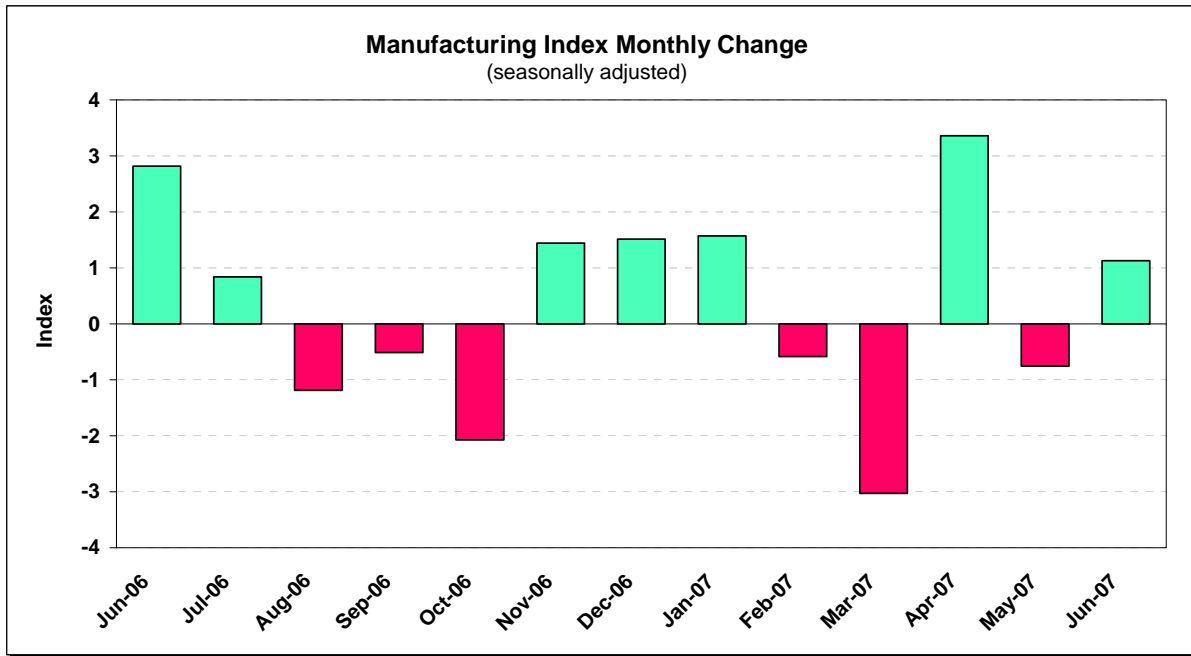


Manufacturing Sector

The manufacturing sector rose 1.1%, chiefly as a result of improvements in sales and bankruptcies. Indeed, one respondent noted that they “have had no customer bankruptcy...” and “...no...collections.” “However,” said North, “it is important to note that the data was mixed as only six of the 10 components rose, and that comments from respondents were somewhat more inconsistent than usual, indicating lack of a definitive consensus opinion.”

Manufacturing Sector (seasonally adjusted)

	Jun '06	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun '07
Sales	63.9	69.7	62.0	62.0	55.7	63.5	69.4	58.9	58.7	56.5	60.9	59.5	62.9
New credit applications	55.0	59.1	63.4	57.4	55.8	56.6	62.1	60.0	52.8	54.6	57.1	57.3	58.7
Dollar collections	60.5	59.4	60.1	61.0	54.8	62.6	59.9	64.6	65.3	55.3	60.3	60.2	59.5
Amount of credit extended	61.1	70.7	67.9	60.6	62.6	64.7	66.9	65.4	59.9	60.0	54.3	62.0	61.8
Index of favorable factors	60.1	64.7	63.4	60.2	57.2	61.9	64.6	62.2	59.2	56.6	58.1	59.7	60.7
Rejection of credit applications	51.6	52.8	53.2	52.5	55.1	51.1	50.7	52.6	54.1	53.1	51.9	51.8	52.6
Accounts placed for collection	54.0	51.7	48.5	54.8	50.6	48.9	51.0	54.4	54.5	50.0	58.3	53.6	56.1
Disputes	52.4	49.9	47.8	48.7	48.2	49.0	46.7	55.5	55.6	51.7	55.1	52.4	55.1
Dollar amount beyond terms	59.0	53.9	48.7	54.8	49.5	50.7	50.1	53.0	54.1	56.7	63.7	59.9	58.5
Dollar amount of customer deductions	49.4	48.6	51.7	46.4	48.2	49.8	49.3	55.5	57.2	50.4	53.7	55.7	55.1
Filings for bankruptcies	59.3	58.8	59.3	59.4	56.3	54.3	60.2	62.1	63.9	57.5	64.1	59.6	62.9
Index of unfavorable factors	54.3	52.6	51.5	52.8	51.3	50.6	51.3	55.5	56.6	53.2	57.8	55.5	56.7
NACM Manufacturing CMI	56.6	57.5	56.3	55.8	53.7	55.1	56.6	58.2	57.6	54.6	57.9	57.2	58.3
ISM Manufacturing PMI	54	54.4	54.3	52.7	51.5	49.9	51.4	49.3	52.3	50.9	54.7	55.0	NA

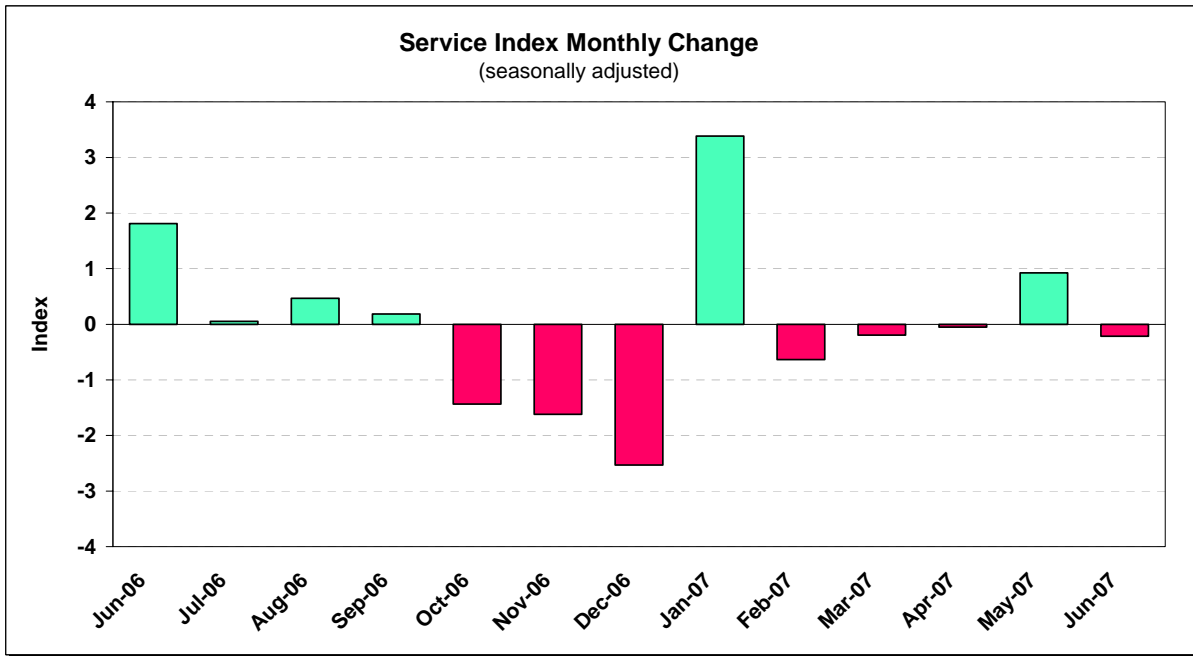


Service Sector

The service sector fell 0.2% as modest improvements in new credit applications and the amount of credit extended were outweighed by small decreases in seven of the other eight components. "Once again, the dismal housing market was cited by some respondents as the chief driver of weak performance," North noted. One respondent stated that, "The housing market is very soft, creating less demand for building materials." Another noted that, "Regional builders continue to suffer in the deflated housing market," while a third cited the housing market as the reason its "profits are down."

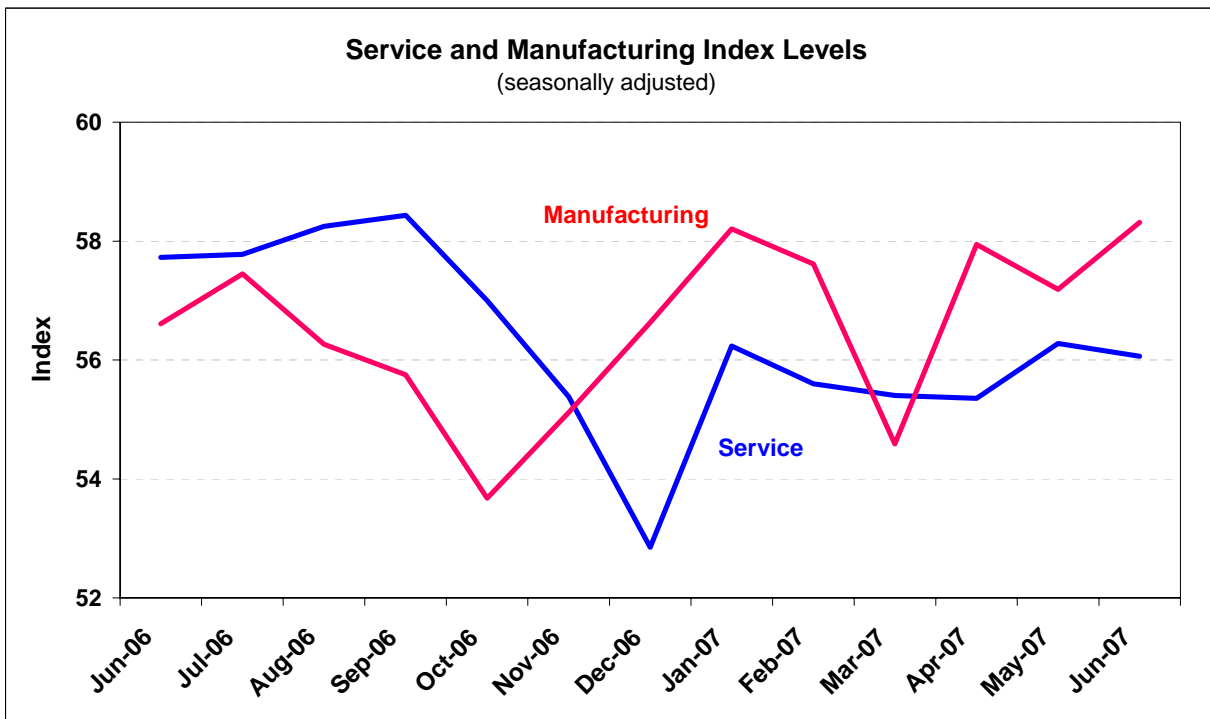
Service Sector (seasonally adjusted)

	Jun '06	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun '07
Sales	67.0	66.0	63.7	65.0	56.8	55.5	52.4	64.3	60.5	59.8	64.8	63.5	60.9
New credit applications	56.4	58.9	61.6	58.3	56.6	56.3	58.9	61.9	52.3	57.1	56.3	55.2	58.5
Dollar collections	64.6	64.4	66.6	59.0	61.9	62.5	59.1	65.0	67.1	61.6	62.7	63.7	62.5
Amount of credit extended	68.5	69.2	64.8	64.2	63.7	63.4	60.5	65.2	67.3	64.7	64.2	62.4	65.5
Index of favorable factors	64.1	64.6	64.1	61.6	59.8	59.4	57.7	64.1	61.8	60.8	62.0	61.2	61.8
Rejection of credit applications	51.5	52.3	53.9	54.2	54.5	52.2	49.4	50.7	51.3	50.8	52.9	53.6	52.7
Accounts placed for collection	56.4	52.4	51.7	55.1	55.7	52.5	44.7	48.4	48.1	49.1	52.5	52.1	51.3
Disputes	49.8	52.3	52.9	55.9	51.3	50.8	49.1	49.8	51.4	52.1	50.9	51.5	52.4
Dollar amount beyond terms	54.1	50.4	54.0	56.7	54.8	49.7	46.1	48.7	51.1	53.2	44.8	50.1	47.3
Dollar amount of customer deductions	50.0	52.5	51.6	54.8	52.8	52.7	49.1	50.8	51.8	50.1	49.4	53.4	52.7
Filings for bankruptcies	59.1	59.3	61.8	61.0	62.0	58.3	59.2	57.5	55.2	55.6	55.0	57.4	57.0
Index of unfavorable factors	53.5	53.2	54.3	56.3	55.2	52.7	49.6	51.0	51.5	51.8	50.9	53.0	52.2
NACM Service CMI	57.7	57.8	58.2	58.4	57.0	55.4	52.9	56.2	55.6	55.4	55.4	56.3	56.1
ISM Service Business Activity Index	56.9	55.7	56.9	54.6	57.4	58.3	56.7	59.0	54.3	52.4	56.0	59.7	NA



June 2007 vs. June 2006

On a year-over-year basis, the combined index was unchanged at 57.2%, remaining well above the 50 level indicating economic expansion. The service sector fell 1.7%, perfectly offsetting the rise in the manufacturing sector of 1.7%. “Certainly part of the relative weakness in the service sector stems directly from the decaying housing market which has dramatically affected suppliers of building materials,” North said. “The manufacturing sector index, standing at a solid 58.3%, has been supported by an economy which continues to expand, albeit at a slowing pace.”



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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