

NACM Credit Manager's Index

Report for June 2008

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

Combined Sectors

"The seasonally adjusted Combined Credit Manager's Index fell 0.9% in June, setting or tying a number of unpleasant records in the process," said Daniel North, chief economist with credit insurer Euler Hermes, ACI, who evaluates and issues the report for the National Association of Credit Management (NACM). "All three indexes tied their records for the most components below the critical 50 value indicating economic contraction: six for the combined and manufacturing indexes, and seven for the service index," he noted. A record nine components fell in the manufacturing index. The combined and manufacturing indexes reached their second lowest levels ever at 50.1 and 49.8, respectively.

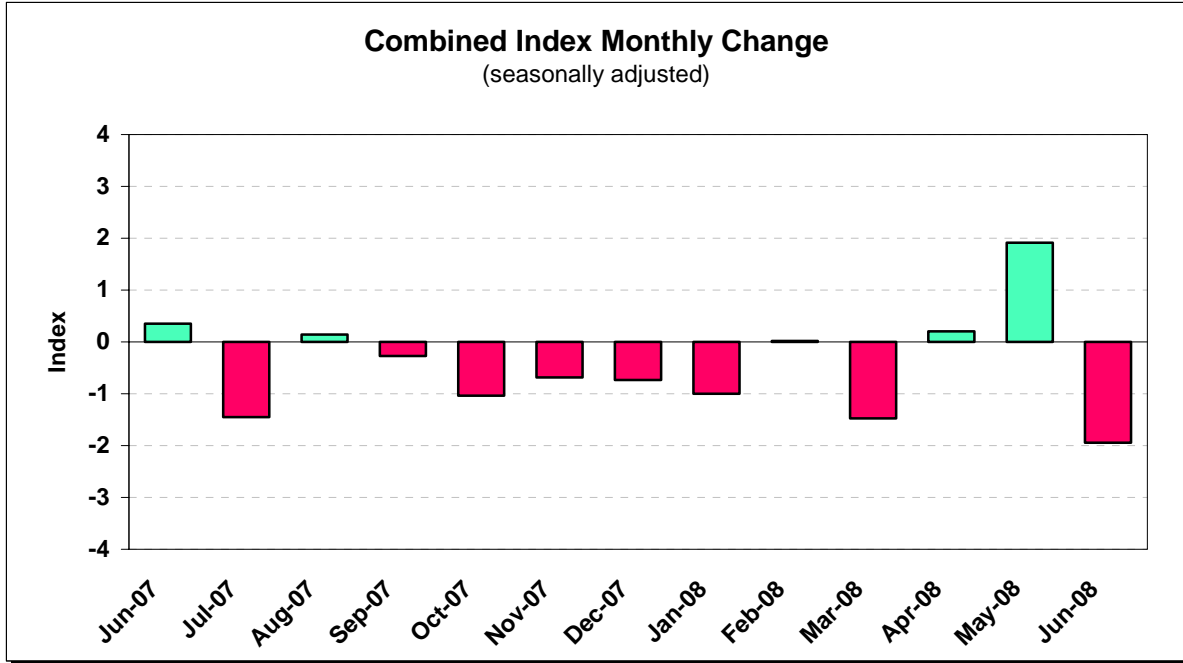
"What a difference a month makes. In contrast to last month's cheery tone, credit managers now seem downright depressed," North said and reported "UGH...rough month!" from one survey participant. "While the housing market used to be the single largest source of misery, fuel prices are starting to take over," he said. "As gasoline continues to set record inflation-adjusted levels, businesses from retailing to transportation to groceries are suffering. Given that May was the fifth straight month for job losses, real retail sales and wage growth are both negative year over year, foreclosures are at sky-high record levels and business bankruptcies continue to rise, it's no wonder that the majority of credit managers are seeing tough times."

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 '07	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun '08
Sales	61.9	60.2	59.1	59.0	54.7	58.6	56.3	51.7	57.1	50.8	54.0	57.7	54.2
New credit applications	58.6	56.0	55.6	55.3	53.3	56.4	55.8	52.8	54.7	53.0	54.4	55.0	50.2
Dollar collections	61.0	60.2	60.1	60.0	60.0	61.2	57.2	56.8	60.5	55.1	54.8	61.3	56.4
Amount of credit extended	63.6	63.0	61.6	60.1	58.7	60.9	59.8	57.0	55.0	55.8	57.0	60.4	58.8
Index of favorable factors	61.3	59.9	59.1	58.6	56.7	59.2	57.3	54.5	56.8	53.7	55.0	58.6	54.9
Rejections of credit applications	52.6	53.4	51.1	51.8	52.0	49.9	50.0	50.9	48.4	49.0	48.9	48.1	49.1
Accounts placed for collection	52.0	49.8	50.7	49.0	49.6	47.4	46.2	47.1	42.5	45.2	45.8	43.0	44.5
Disputes	51.9	51.9	52.2	50.2	49.4	47.8	49.5	49.5	47.3	49.0	46.9	50.1	47.9
Dollar amount beyond terms	52.0	48.9	51.4	55.3	48.4	45.8	46.3	45.1	49.0	43.5	42.5	43.7	42.7
Dollar amount of customer deductions	53.0	48.8	52.2	49.9	51.5	49.6	50.3	50.3	47.4	49.0	47.5	49.9	48.1
Filings for bankruptcies	57.5	57.3	57.2	57.7	60.4	53.5	52.3	52.6	52.1	48.6	49.2	51.2	49.0
Index of unfavorable factors	53.2	51.7	52.4	52.3	51.9	49.0	49.1	49.3	47.8	47.4	46.8	47.6	46.9
NACM CMI	56.4	55.0	55.1	54.8	53.8	53.1	52.4	51.4	51.4	49.9	50.1	52.0	50.1
ISM Combined Sectors Index*	54.3	52.7	52.0	51.9	51.9	51.2	50.8	47.7	48.8	50.3	50.7	NA	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.

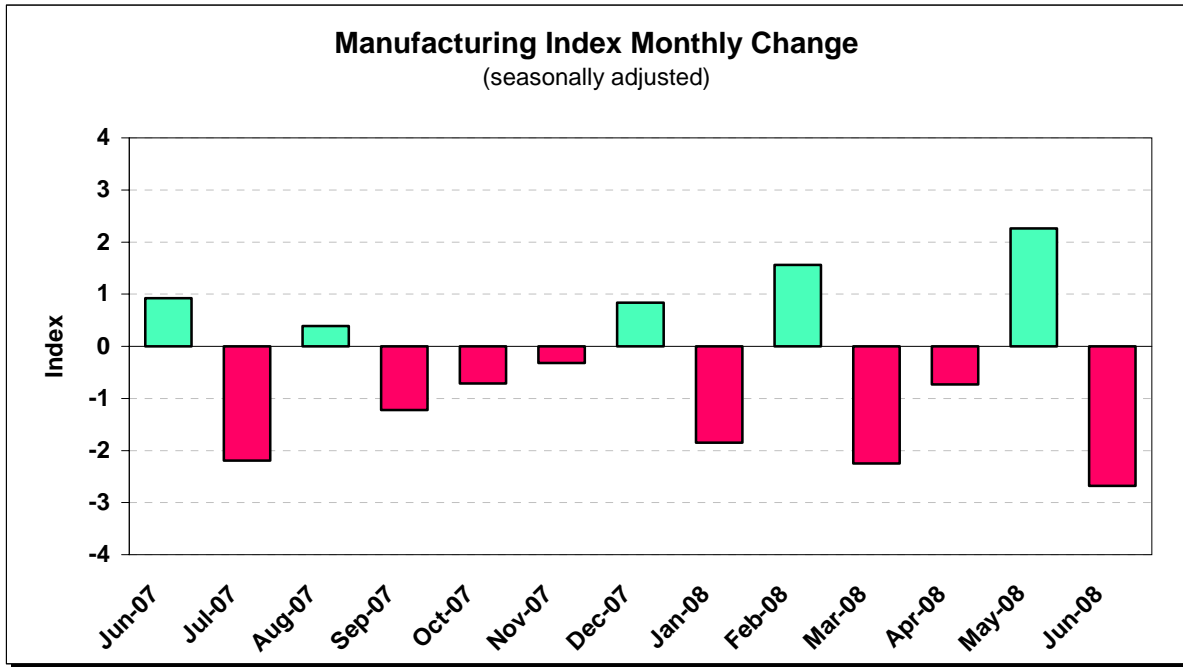


Manufacturing Sector

The seasonally adjusted manufacturing sector index fell 2.7% to 49.8%, only the second time that the index has dipped below 50, indicating economic contraction. Nine of the 10 components fell. Six are below 50. Two components, dollar collections and dollar amount beyond terms, set record lows. A manufacturer of audio tapes noted that their customers were "Going out of business at a very rapid rate!" and a sheet metal company reported, "Customers are attempting to stretch out their terms." North said, "Once again rising prices affected the survey as one participant reported that higher sales figures were due only to higher prices, not higher volume, and another explained that his increased sales were due to customers rushing to purchase goods before a price increase took effect."

Manufacturing Sector (seasonally adjusted)

	Jun '07	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun '08
Sales	62.9	60.9	59.2	59.3	54.2	59.4	61.9	53.0	56.2	53.1	54.0	59.9	54.4
New credit applications	58.7	56.4	55.7	57.5	54.1	56.6	58.0	54.2	53.5	55.6	55.5	54.9	51.1
Dollar collections	59.5	61.3	60.4	59.8	57.6	60.8	58.7	56.9	67.1	55.6	54.6	58.8	54.4
Amount of credit extended	61.8	62.6	62.7	59.1	57.3	61.3	61.8	57.3	57.4	56.5	57.7	58.6	57.9
Index of favorable factors	60.7	60.3	59.5	58.9	55.8	59.5	60.1	55.4	58.6	55.2	55.4	58.0	54.4
Rejections of credit applications	52.6	53.4	50.8	50.7	51.6	49.9	50.3	52.2	50.9	49.5	48.8	49.4	49.4
Accounts placed for collection	52.7	48.3	50.8	46.4	50.7	46.3	43.5	46.6	45.7	48.3	47.1	45.9	45.8
Disputes	51.4	49.8	50.6	46.1	47.8	45.5	49.8	50.0	52.1	47.0	46.3	48.8	46.9
Dollar amount beyond terms	56.6	50.0	50.0	53.6	46.3	46.9	47.4	42.7	46.3	46.0	44.0	45.7	41.8
Dollar amount of customer deductions	53.3	47.4	50.8	47.2	48.7	45.9	49.8	50.5	50.7	48.0	45.5	50.1	48.4
Filings for bankruptcies	58.0	55.4	58.4	57.5	62.0	54.2	54.1	53.2	52.4	50.2	48.7	53.0	48.2
Index of unfavorable factors	54.1	50.7	51.9	50.3	51.2	48.1	49.2	49.2	49.7	48.2	46.7	48.8	46.8
NACM Manufacturing CMI	56.7	54.6	55.0	53.7	53.0	52.7	53.5	51.7	53.2	51.0	50.2	52.5	49.8
ISM Manufacturing PMI	53.4	52.3	51.2	50.5	50.4	50.0	48.4	50.7	48.3	48.6	49.6	NA	NA

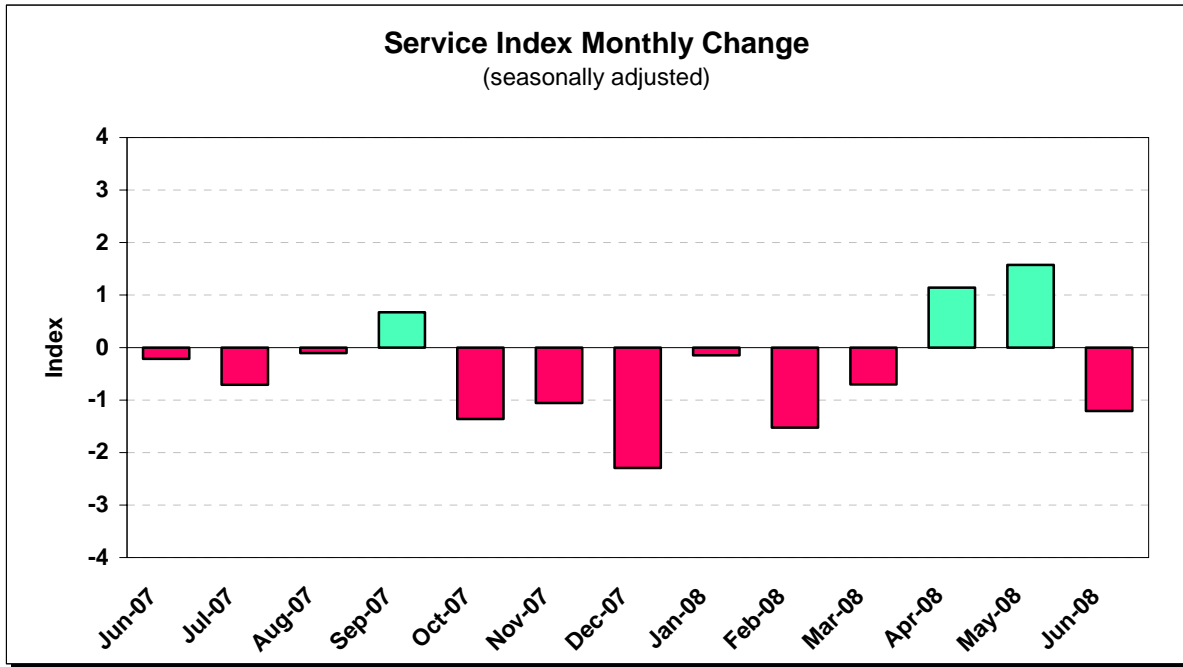


Service Sector

The seasonally adjusted service sector index fell 1.2% to 50.3% as six out of 10 components fell, leaving a total of seven components below 50. Norh said, "Once again survey participants noted difficulties caused by rising fuel prices, but customer payment patterns were the source of an unusual number of complaints: 'very slow pay for big jobs,' 'customers experiencing cash flow issues,' 'a rise in collection problems,' 'past-due accounts getting harder to collect,' 'significant spike of cash flow problems,' 'more customers extending out payment terms' and 'the number of accounts being placed for collections is rising.'"

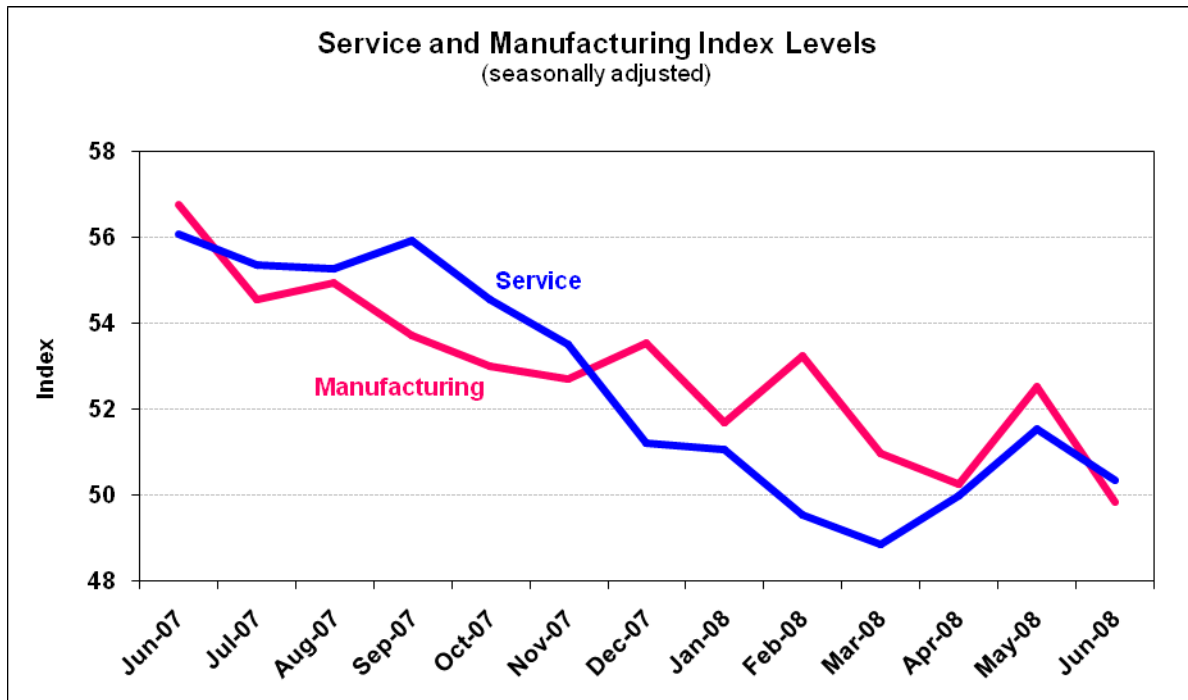
Service Sector (seasonally adjusted)

	Jun '07	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun '08
Sales	60.9	59.5	59.0	58.6	55.1	57.7	50.8	50.3	58.0	48.5	53.9	55.5	54.0
New credit applications	58.5	55.5	55.5	53.1	52.4	56.1	53.6	51.3	55.8	50.4	53.4	55.1	49.3
Dollar collections	62.5	59.1	59.7	60.2	62.5	61.5	55.8	56.6	53.9	54.6	55.0	63.8	58.4
Amount of credit extended	65.5	63.5	60.5	61.1	60.2	60.4	57.8	56.7	52.5	55.1	56.3	62.2	59.8
Index of favorable factors	61.8	59.4	58.7	58.2	57.5	58.9	54.5	53.7	55.1	52.1	54.7	59.2	55.4
Rejections of credit applications	52.7	53.3	51.4	52.8	52.5	49.8	49.7	49.7	45.9	48.5	49.0	46.7	48.7
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Dollar amount of customer deductions	52.7	50.2	53.5	52.6	54.3	53.3	50.8	50.1	44.1	50.0	49.5	49.6	47.8
Filings for bankruptcies	57.0	59.2	55.9	57.9	58.8	52.9	50.4	51.9	51.7	47.0	49.7	49.4	49.8
Index of unfavorable factors	52.2	52.7	53.0	54.4	52.6	49.9	49.0	49.3	45.9	46.6	46.8	46.5	47.0
NACM Service CMI	56.1	55.4	55.3	55.9	54.6	53.5	51.2	51.1	49.5	48.8	50.0	51.5	50.3
ISM Service Business Activity Index	55.1	53.1	52.8	53.2	53.3	52.4	53.2	44.6	49.3	52.0	51.7	NA	NA



June 2008 vs. June 2007

On a seasonally adjusted basis the year-over-year comparisons are grim. All 10 components in all three indexes fell. The combined index fell 6.3%, the manufacturing index fell 6.9%, and the services index fell 5.7%. The drop in the manufacturing and combined indexes set records.



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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