

# NACM Credit Manager's Index

## Report for March 2006

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National Association of Credit Management  
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<b>March '06</b>	<b>CMI-Total: 60.2</b>	<b>CMI-Manufacturing: 58.4</b>	<b>CMI-Service: 62.0</b>
<b>February '06</b>	<b>CMI-Total: 55.3</b>	<b>CMI-Manufacturing: 54.2</b>	<b>CMI-Service: 56.5</b>
<b>% Change</b>	<b>9.04%</b>	<b>7.75%</b>	<b>9.73%</b>

### COMBINED SECTORS

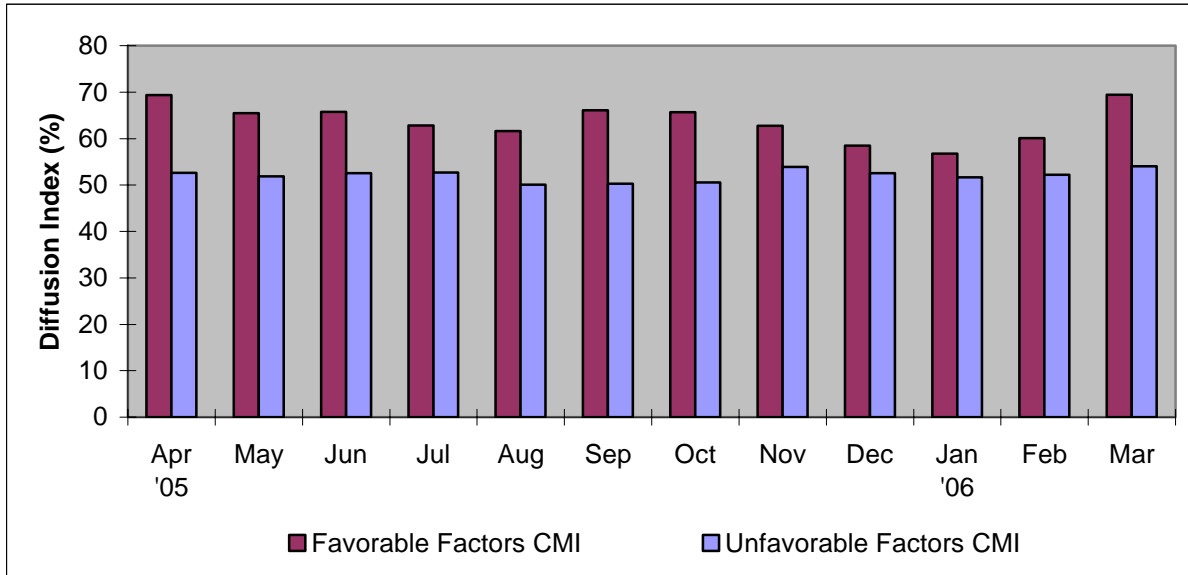
Following gains seen last month, the Credit Manager's Index (CMI) posted even stronger indicators for March. "While seasonal factors played a role in this increase," said Dan North, Chief Economist with credit insurer Euler Hermes ACI, "the underlying strength of the economy demonstrated in the first quarter continues to provide solid support for the Index and its components." The strength was widespread as the 4.9 percent monthly increase for the entire Index tied the record increase set three years ago. Record gains were also seen in four of the ten service sector components. "As in February, the bulk of the gains was in the four favorable factors: sales, new credit applications, dollar collections and credit extended—all factors which suggest a likelihood of continued growth," continued North. "Similarly, all of the components for the service sector and for the total Index are now above the 50 percent level, which indicates economic growth."

The manufacturing sector continues to lag a bit, as six of its ten components are still lower than they were a year ago, while none are lower in the service sector. "The strong overall tone of the Index and of the economy in general could be a mixed blessing, however," adds North, "as the Federal Reserve raised its benchmark interest rate to 4.75 percent and suggested that it may increase borrowing costs more this year. This will almost certainly have the affect of slowing the economy later in 2006 and into 2007."

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

Combined Manufacturing & Service Sectors (Not Seasonally Adjusted)												
	Apr '05	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar
Sales	71.6	66.7	68.5	64.3	61.4	71.7	70.1	63.2	60.0	56.1	60.5	73.3
New credit applications	64.5	60.8	62.4	60.3	61.1	63.0	59.2	55.5	52.1	56.0	60.7	66.0
Dollar collections	70.2	64.8	63.9	62.2	58.5	61.1	63.5	66.7	58.6	56.8	56.5	67.2
Amount of credit extended	71.3	69.7	68.3	64.6	65.6	68.7	70.0	65.7	63.3	58.3	62.8	71.3
<b>Index of favorable factors</b>	<b>69.4</b>	<b>65.5</b>	<b>65.8</b>	<b>62.8</b>	<b>61.6</b>	<b>66.1</b>	<b>65.7</b>	<b>62.7</b>	<b>58.5</b>	<b>56.8</b>	<b>60.1</b>	<b>69.4</b>
Rejection of credit applications	50.0	51.7	50.8	52.3	50.7	52.2	53.4	54.7	53.2	51.8	52.1	52.5
Accounts placed for collections	50.5	53.2	52.5	51.8	49.7	51.5	52.9	53.8	53.0	51.9	51.3	52.7
Disputes	50.5	49.2	49.9	47.8	48.6	48.7	49.0	53.4	48.3	49.6	47.6	50.3
Dollar amount beyond terms	59.0	55.8	53.7	53.7	48.7	51.0	52.2	56.6	49.3	48.1	51.0	56.4
Dollar amount of customer deductions	49.9	49.3	51.5	51.7	48.7	48.0	50.0	50.2	50.2	49.8	49.9	52.1
Filings for bankruptcies	56.0	52.2	57.1	58.9	54.2	50.5	46.0	54.9	61.5	58.7	61.3	60.4
<b>Index of unfavorable factors</b>	<b>52.6</b>	<b>51.9</b>	<b>52.6</b>	<b>52.7</b>	<b>50.1</b>	<b>50.3</b>	<b>50.6</b>	<b>53.9</b>	<b>52.5</b>	<b>51.6</b>	<b>52.2</b>	<b>54.0</b>
<b>NACM Combined CMI</b>	<b>59.3</b>	<b>57.3</b>	<b>57.8</b>	<b>56.7</b>	<b>54.7</b>	<b>56.6</b>	<b>56.6</b>	<b>57.4</b>	<b>54.9</b>	<b>53.7</b>	<b>55.3</b>	<b>60.2</b>
<b>ISM Combined Sectors Index*</b>	<b>57.5</b>	<b>55.0</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>NA</b>

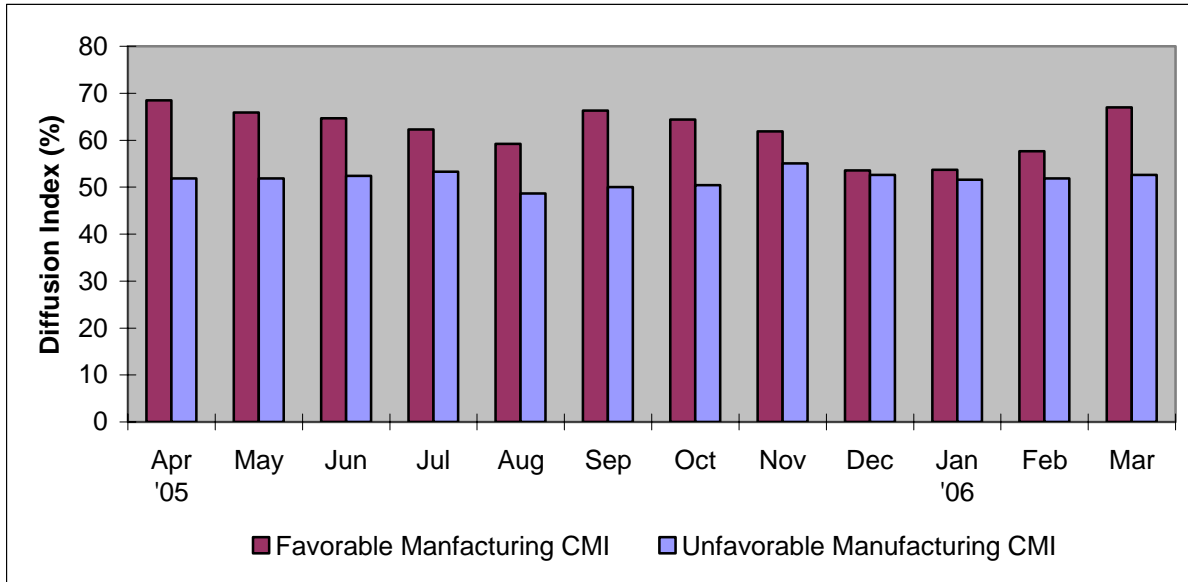
\*Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.



**MANUFACTURING SECTOR RESULTS**

“March saw significant growth among all four favorable manufacturing factors,” observed North. The largest growth is seen in sales, with 70.7 percent of credit managers reporting higher levels of new sales. Also reported was growth in dollars collected—up 960 points; amount of credit extended—up 880 points; and new credit applications—up 690 points. The overall manufacturing CMI rose 420 points, finishing at 58.4 percent.

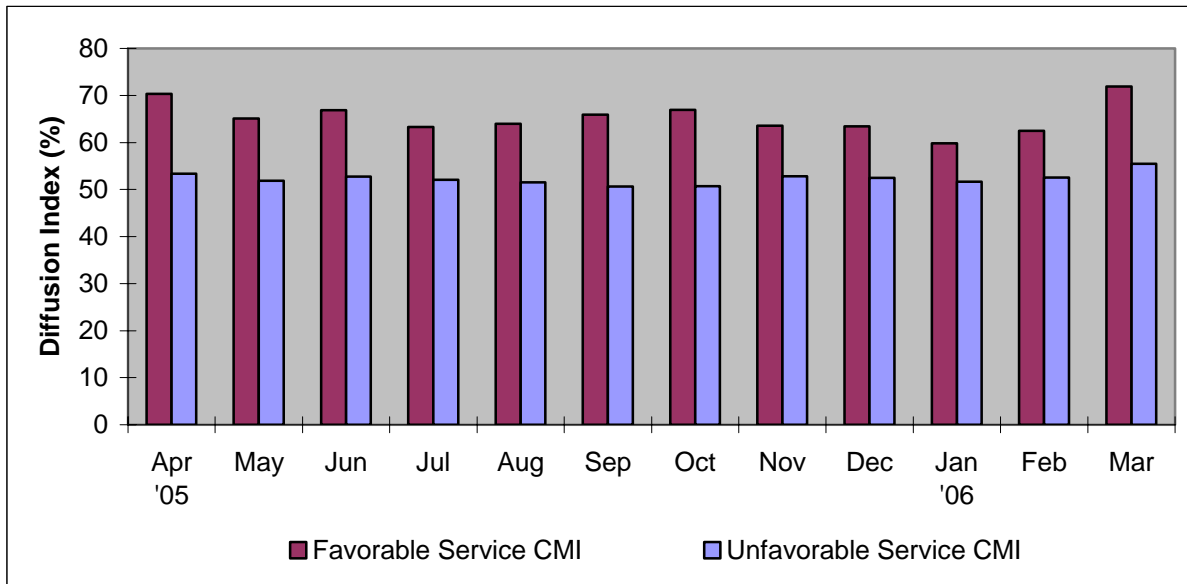
Manufacturing Sector (Not Seasonally Adjusted)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	'05									'06		
Sales	72.7	67.6	68.1	63.8	58.7	74.1	68.9	60.7	53.0	52.9	58.8	70.7
New credit applications	62.5	59.2	60.0	58.3	62.2	61.6	56.2	55.1	47.2	54.0	58.0	64.9
Dollar collections	69.1	65.9	63.1	63.7	55.2	61.1	63.4	66.7	56.5	53.8	53.4	63.0
Amount of credit extended	69.6	70.8	67.6	63.4	60.8	68.4	69.2	65.1	57.5	54.0	60.5	69.3
<b>Index of favorable factors</b>	<b>68.5</b>	<b>65.9</b>	<b>64.7</b>	<b>62.3</b>	<b>59.2</b>	<b>66.3</b>	<b>64.4</b>	<b>61.9</b>	<b>53.6</b>	<b>53.7</b>	<b>57.7</b>	<b>67.0</b>
Rejection of credit applications	50.5	52.2	51.8	52.1	50.3	52.2	54.2	55.6	53.5	52.5	51.8	53.0
Accounts placed for collections	47.7	54.9	51.8	54.0	49.4	51.9	52.7	57.4	55.7	50.6	49.6	51.3
Disputes	49.0	48.7	49.5	47.9	45.1	49.6	47.7	53.2	46.1	48.7	46.4	47.0
Dollar amount beyond terms	58.5	54.9	52.7	53.8	49.1	49.1	53.2	58.4	50.2	52.1	53.2	56.0
Dollar amount of customer deductions	49.5	46.7	50.7	53.0	46.3	46.9	48.9	50.0	49.1	48.7	50.0	49.8
Filings for bankruptcies	55.9	53.7	57.8	58.9	51.9	50.3	46.0	55.6	61.1	57.0	60.0	58.7
<b>Index of unfavorable factors</b>	<b>51.9</b>	<b>51.9</b>	<b>52.4</b>	<b>53.3</b>	<b>48.7</b>	<b>50.0</b>	<b>50.5</b>	<b>55.0</b>	<b>52.6</b>	<b>51.6</b>	<b>51.8</b>	<b>52.6</b>
<b>NACM Manufacturing CMI</b>	<b>58.5</b>	<b>57.5</b>	<b>57.3</b>	<b>56.9</b>	<b>52.9</b>	<b>56.5</b>	<b>56.0</b>	<b>57.8</b>	<b>53.0</b>	<b>52.4</b>	<b>54.2</b>	<b>58.4</b>
<b>ISM Manufacturing PMI</b>	<b>53.3</b>	<b>51.4</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>NA</b>



**Service Sector Results**

Favorable factors in the service sector also showed significant growth. Both sales and dollar collections posted growth over 1,000 basis points—1,380 and 1,170, respectively; and significant growth in the amount of credit extended is indicated. “For the first time since November 2005, all ten factors surpassed the 50.0 percent mark,” said North, “which indicates economic expansion in this sector.”

<b>Service Sector</b> (Not Seasonally Adjusted)												
	Apr '05	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar
Sales	70.4	65.7	68.8	64.7	64.0	69.2	71.2	65.7	67.0	59.2	62.1	75.9
New credit applications	66.5	62.4	64.8	62.2	60.0	64.3	62.2	55.8	57.0	58.0	63.3	67.0
Dollar collections	71.3	63.6	64.7	60.7	61.7	61.1	63.6	66.6	60.7	59.7	59.6	71.3
Amount of credit extended	73.0	68.5	69.0	65.7	70.3	69.0	70.8	66.2	69.0	62.5	65.0	73.3
<b>Index of favorable factors</b>	<b>70.3</b>	<b>65.1</b>	<b>66.8</b>	<b>63.3</b>	<b>64.0</b>	<b>65.9</b>	<b>67.0</b>	<b>63.6</b>	<b>63.4</b>	<b>59.9</b>	<b>62.5</b>	<b>71.9</b>
Rejection of credit applications	49.5	51.1	49.8	52.5	51.1	52.2	52.5	53.8	52.9	51.0	52.3	52.0
Accounts placed for collections	53.2	51.4	53.2	49.5	50.0	51.0	53.1	50.2	50.2	53.2	52.9	54.1
Disputes	52.0	49.6	50.2	47.7	52.0	47.8	50.3	53.5	50.4	50.5	48.8	53.5
Dollar amount beyond terms	59.4	56.6	54.6	53.6	48.3	52.9	51.2	54.8	48.3	44.0	48.8	56.7
Dollar amount of customer deductions	50.2	51.8	52.3	50.3	51.1	49.0	51.0	50.3	51.2	50.8	49.8	54.4
Filings for bankruptcies	56.0	50.7	56.3	58.9	56.4	50.7	45.9	54.1	61.8	60.4	62.6	62.0
<b>Index of unfavorable factors</b>	<b>53.4</b>	<b>51.9</b>	<b>52.7</b>	<b>52.1</b>	<b>51.5</b>	<b>50.6</b>	<b>50.7</b>	<b>52.8</b>	<b>52.5</b>	<b>51.7</b>	<b>52.5</b>	<b>55.5</b>
<b>NACM Service CMI</b>	<b>60.2</b>	<b>57.1</b>	<b>58.4</b>	<b>56.6</b>	<b>56.5</b>	<b>56.7</b>	<b>57.2</b>	<b>57.1</b>	<b>56.9</b>	<b>54.9</b>	<b>56.5</b>	<b>62.0</b>
<b>ISM Service Business Activity Index</b>	<b>61.7</b>	<b>58.5</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>NA</b>



### COMPARISON OF MARCH 2006 TO MARCH 2005

New sales recorded higher levels in both the manufacturing and service sector, compared to one year ago. Within the manufacturing sector, credit managers indicated fewer rejected credit applications and saw slightly lower levels of bankruptcy filings. This trend was repeated in the service sector; which also showed lower levels of disputes. "Lower levels of disputes likely indicates solid cash flow and companies rendering prompt payment of invoices," said North.

<b>Comparison: March 2006 vs. March 2005</b> (Not Seasonally Adjusted)						
	Mfg.		Service		Total	
	Mar '05	Mar '06	Mar '05	Mar '06	Mar '05	Mar '06
Sales	69.6	70.7	71.5	75.9	70.6	73.3
New credit applications	65.2	64.9	66.2	67.0	65.7	66.0
Dollar collections	66.8	63.0	60.3	71.3	63.6	67.2
Amount of credit extended	69.8	69.3	72.9	73.3	71.4	71.3
<b>Index of favorable factors</b>	<b>67.9</b>	<b>67.0</b>	<b>67.7</b>	<b>71.9</b>	<b>67.8</b>	<b>69.4</b>
Rejection of credit applications	48.9	53.0	49.6	52.0	49.3	52.5
Accounts placed for collections	52.3	51.3	49.4	54.1	50.9	52.7
Disputes	49.8	47.0	47.7	53.5	48.8	50.3
Dollar amount beyond terms	56.7	56.0	53.4	56.7	55.1	56.4
Dollar amount of customer deductions	49.5	49.8	50.4	54.4	50.0	52.1
Filings for bankruptcies	56.7	58.7	60.3	62.0	58.5	60.4
<b>Index of unfavorable factors</b>	<b>52.3</b>	<b>52.6</b>	<b>51.8</b>	<b>55.5</b>	<b>52.1</b>	<b>54.0</b>
<b>NACM CMI</b>	<b>58.5</b>	<b>58.4</b>	<b>58.2</b>	<b>62.0</b>	<b>58.4</b>	<b>60.2</b>

### 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**

<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 collections	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.

As shown in the table above, 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. The index is not seasonally adjusted because of lack of an historical record.

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