

NACM Credit Manager's Index

Report for March 2007

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National Association of Credit Management
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Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell in March for the seventh time in eight months, losing 1.6%. The decline was driven by the dollar collections component, which fell a record 7.8%, but the weakness was widespread. "Even without the drag of the dollar collections component, the combined index would have fallen, as a total of eight out of the 10 components fell," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. "Collections problems also appeared in the accounts placed for collection component, which is now below the 50 level, signaling economic contraction," he noted. "The weakness in collections suggests that businesses are having cash flow problems, reflecting the erosion of the economy as a whole."

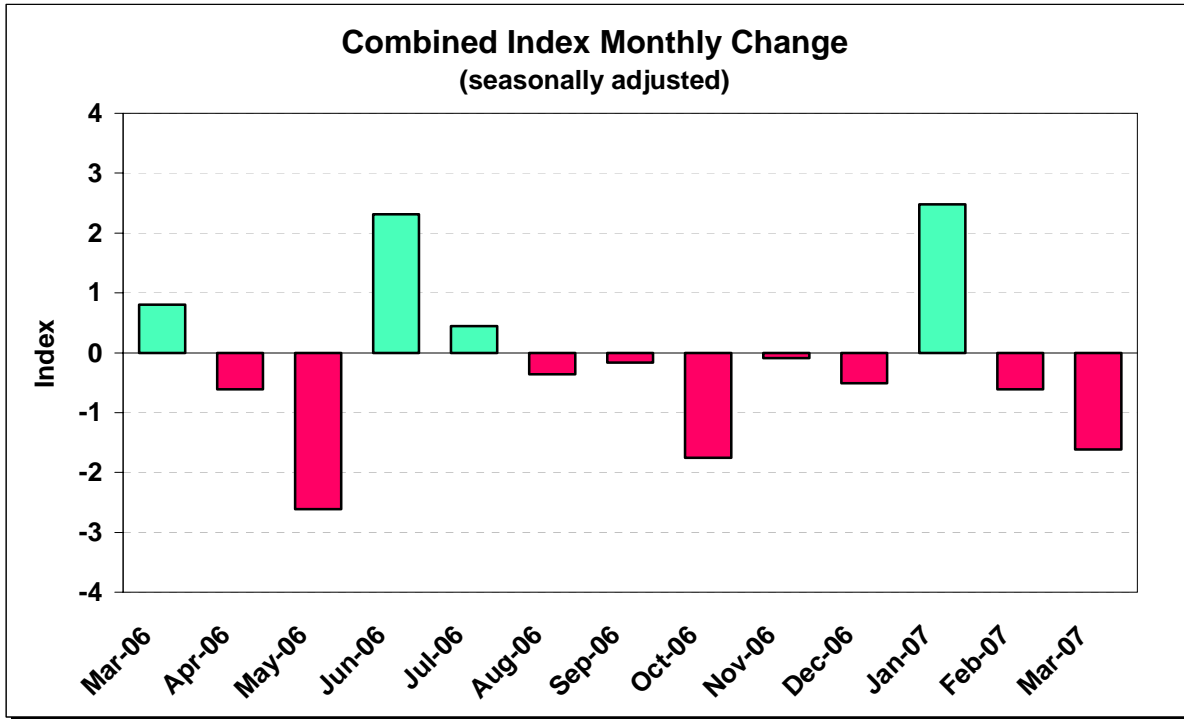
"Certainly credit managers are starting to feel the effects of a deflating housing bubble and a slowdown in the economy caused by the Fed's tightening," North continued. "Businesses in both services and manufacturing have been particularly hard hit by the slowdown in construction spending and the dramatic fall-off in the demand for building materials. With the median price of existing homes falling for seven consecutive months on a year-over-year basis, it would appear that the effects of the bursting housing market bubble will continue for some time. In the meantime, the plethora of negative data from the first two months of 2007, such as weak job growth, a dramatic fall in durable goods orders, slack retail sales, and of course deteriorating conditions in the sub-prime mortgage market, all reflect an economy sure to continue in slowing."

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)

	Mar '06	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar
Sales	65.8	63.3	61.5	65.4	67.8	62.8	63.5	56.3	59.5	60.9	61.6	59.6	58.1
New credit applications	60.9	57.4	55.7	55.7	59.0	62.5	57.9	56.2	56.5	60.5	60.9	52.5	55.9
Dollar collections	64.6	63.5	58.6	62.5	61.9	63.3	60.0	58.3	62.6	59.5	64.8	66.2	58.4
Amount of credit extended	67.4	66.2	65.5	64.8	69.9	66.4	62.4	63.2	64.0	63.7	65.3	63.6	62.4
Index of favorable factors	64.7	62.6	60.3	62.1	64.7	63.8	60.9	58.5	60.6	61.2	63.2	60.5	58.7
Rejection of credit applications	53.9	53.8	50.6	51.5	52.6	53.6	53.3	54.8	51.7	50.1	51.6	52.7	51.9
Accounts placed for collection	52.7	52.0	50.5	55.2	52.0	50.1	55.0	53.1	50.7	47.8	51.4	51.3	49.6
Disputes	50.0	52.4	49.3	51.1	51.1	50.4	52.3	49.7	49.9	47.9	52.7	53.5	51.9
Dollar amount beyond terms	54.6	53.5	48.5	56.5	52.2	51.3	55.8	52.2	50.2	48.1	50.9	52.6	55.0
Dollar amount of customer deductions	51.2	51.8	49.0	49.7	50.5	51.7	50.6	50.5	51.3	49.2	53.2	54.5	50.2
Filings for bankruptcies	59.7	60.8	59.2	59.2	59.1	60.5	60.2	59.1	56.3	59.7	59.8	59.5	56.6
Index of unfavorable factors	53.7	54.0	51.2	53.9	52.9	52.9	54.5	53.2	51.7	50.5	53.3	54.0	52.5
NACM CMI	58.1	57.5	54.9	57.2	57.6	57.3	57.1	55.3	55.2	54.7	57.2	56.6	55.0
ISM Combined Sectors Index*	57.5	59.0	57.0	55.5	55.1	55.6	53.7	54.5	54.1	54.1	54.2	53.3	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.

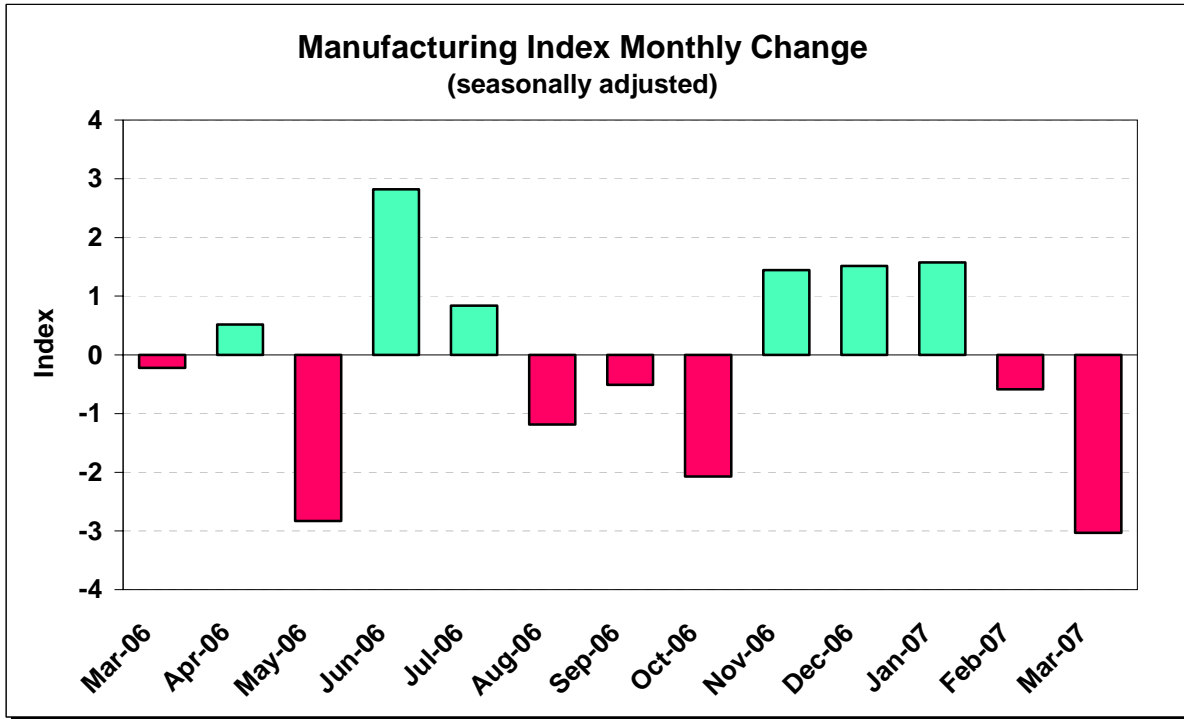


Manufacturing Sector

The manufacturing sector fell 3.0% driven by a massive fall in dollar collections of 10%. “However, the weakness was also pervasive as seven of the 10 components fell, and even without the fall in dollar collections, the index would have fallen 2.2%, North said. “Comments from survey respondents point to an ‘economic slowdown in (the) homebuilding industry,’ ‘customers...demanding longer payments terms,’ and businesses ‘affected by Housing Starts downturn.’”

Manufacturing Sector (seasonally adjusted)

	Mar '06	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar
Sales	62.7	62.4	59.4	63.9	69.7	62.0	62.0	55.7	63.5	69.4	58.9	58.7	56.5
New credit applications	59.7	54.9	53.5	55.0	59.1	63.4	57.4	55.8	56.6	62.1	60.0	52.8	54.6
Dollar collections	59.3	63.4	56.5	60.5	59.4	60.1	61.0	54.8	62.6	59.9	64.6	65.3	55.3
Amount of credit extended	64.9	63.6	64.4	61.1	70.7	67.9	60.6	62.6	64.7	66.9	65.4	59.9	60.0
Index of favorable factors	61.6	61.1	58.4	60.1	64.7	63.4	60.2	57.2	61.9	64.6	62.2	59.2	56.6
Rejection of credit applications	55.4	52.2	47.5	51.6	52.8	53.2	52.5	55.1	51.1	50.7	52.6	54.1	53.1
Accounts placed for collection	51.3	52.0	51.7	54.0	51.7	48.5	54.8	50.6	48.9	51.0	54.4	54.5	50.0
Disputes	45.7	52.4	48.4	52.4	49.9	47.8	48.7	48.2	49.0	46.7	55.5	55.6	51.7
Dollar amount beyond terms	54.5	52.3	49.4	59.0	53.9	48.7	54.8	49.5	50.7	50.1	53.0	54.1	56.7
Dollar amount of customer deductions	49.0	52.7	49.0	49.4	48.6	51.7	46.4	48.2	49.8	49.3	55.5	57.2	50.4
Filings for bankruptcies	58.6	60.4	58.2	59.3	58.8	59.3	59.4	56.3	54.3	60.2	62.1	63.9	57.5
Index of unfavorable factors	52.4	53.7	50.7	54.3	52.6	51.5	52.8	51.3	50.6	51.3	55.5	56.6	53.2
NACM Manufacturing CMI	56.1	56.6	53.8	56.6	57.5	56.3	55.8	53.7	55.1	56.6	58.2	57.6	54.6
ISM Manufacturing PMI	55.3	56.9	54.7	54	54.4	54.3	52.7	51.5	49.9	51.4	49.3	52.3	NA

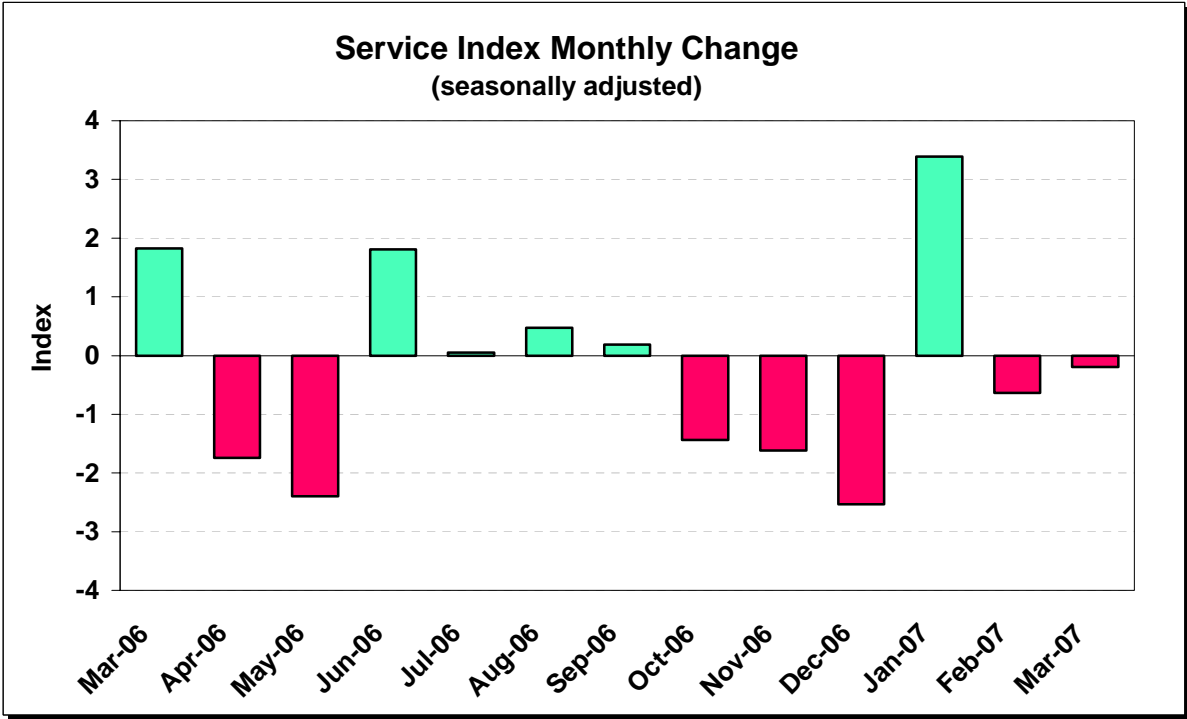


Service Sector

The service sector fell 0.2%, also driven by a steep drop in dollar collections of 5.5%. North commented that suppliers of building materials seem to be particularly hard-hit. One respondent stated that the decline in the housing market has reduced "our volume 50%." And another is engaging in the somewhat risky practice, which started the woes in sub-prime mortgages, stating "We are starting to take on credit for people that are less creditworthy than we have before."

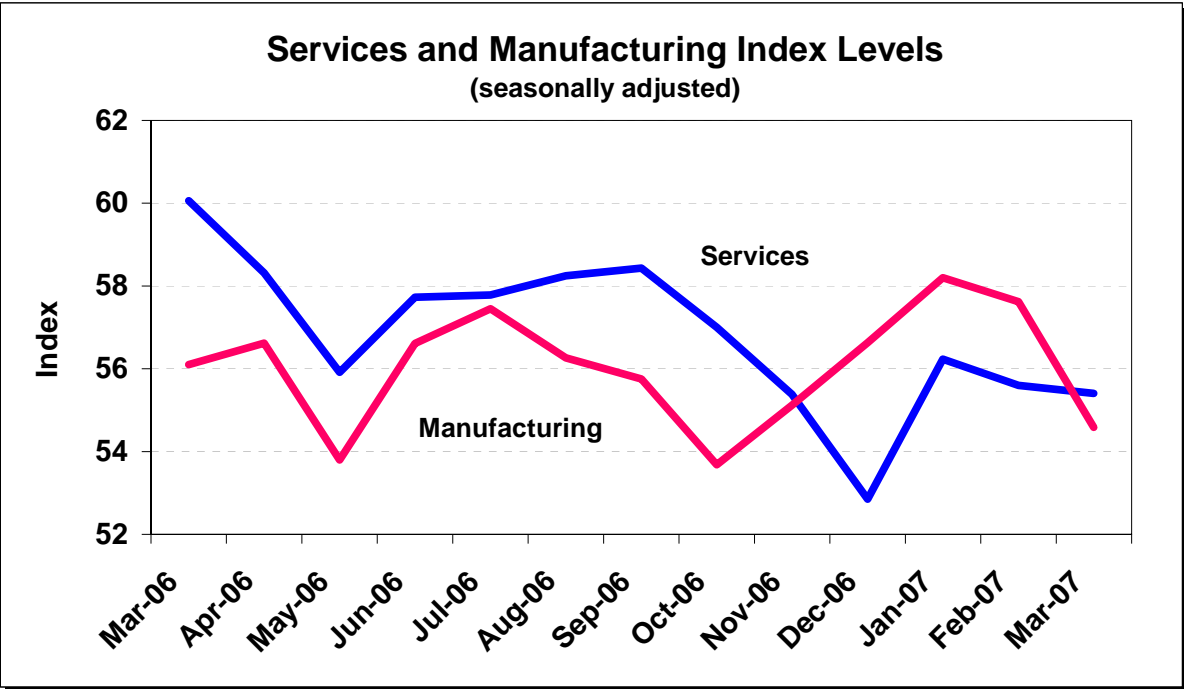
Service Sector (seasonally adjusted)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar
Sales	68.9	64.3	63.6	67.0	66.0	63.7	65.0	56.8	55.5	52.4	64.3	60.5	59.8
New credit applications	62.2	60.0	57.9	56.4	58.9	61.6	58.3	56.6	56.3	58.9	61.9	52.3	57.1
Dollar collections	69.9	63.5	60.7	64.6	64.4	66.6	59.0	61.9	62.5	59.1	65.0	67.1	61.6
Amount of credit extended	69.9	68.8	66.7	68.5	69.2	64.8	64.2	63.7	63.4	60.5	65.2	67.3	64.7
Index of favorable factors	67.7	64.1	62.2	64.1	64.6	64.1	61.6	59.8	59.4	57.7	64.1	61.8	60.8
Rejection of credit applications	52.4	55.4	53.7	51.5	52.3	53.9	54.2	54.5	52.2	49.4	50.7	51.3	50.8
Accounts placed for collection	54.0	52.1	49.4	56.4	52.4	51.7	55.1	55.7	52.5	44.7	48.4	48.1	49.1
Disputes	54.4	52.3	50.2	49.8	52.3	52.9	55.9	51.3	50.8	49.1	49.8	51.4	52.1
Dollar amount beyond terms	54.7	54.6	47.6	54.1	50.4	54.0	56.7	54.8	49.7	46.1	48.7	51.1	53.2
Dollar amount of customer deductions	53.3	50.9	49.1	50.0	52.5	51.6	54.8	52.8	52.7	49.1	50.8	51.8	50.1
Filings for bankruptcies	60.9	61.2	60.2	59.1	59.3	61.8	61.0	62.0	58.3	59.2	57.5	55.2	55.6
Index of unfavorable factors	54.9	54.4	51.7	53.5	53.2	54.3	56.3	55.2	52.7	49.6	51.0	51.5	51.8
NACM Service CMI	60.1	58.3	55.9	57.7	57.8	58.2	58.4	57.0	55.4	52.9	56.2	55.6	55.4
ISM Service Business Activity Index	59.6	61.1	59.2	56.9	55.7	56.9	54.6	57.4	58.3	56.7	59.0	54.3	NA



March 2007 vs. March 2006

On a year-over-year basis, the combined CMI fell 3.1% as both the services and manufacturing sectors declined. "Although all of the indexes remain above the 50 level indicating economic expansion, their erosion over the past twelve months reflects an economy which has been on the wane, and one which is now likely to weaken even more rapidly," said North.



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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