

NACM Credit Manager's Index

Report for May 2006

Issued June 2, 2006

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

May '06	CMI-Total: 54.9	CMI-Manufacturing: 53.8	CMI-Service: 55.9
April '06	CMI-Total: 57.5	CMI-Manufacturing: 56.6	CMI-Service: 58.3
% Change	-4.5%	-4.9%	-4.1%

Combined Sectors

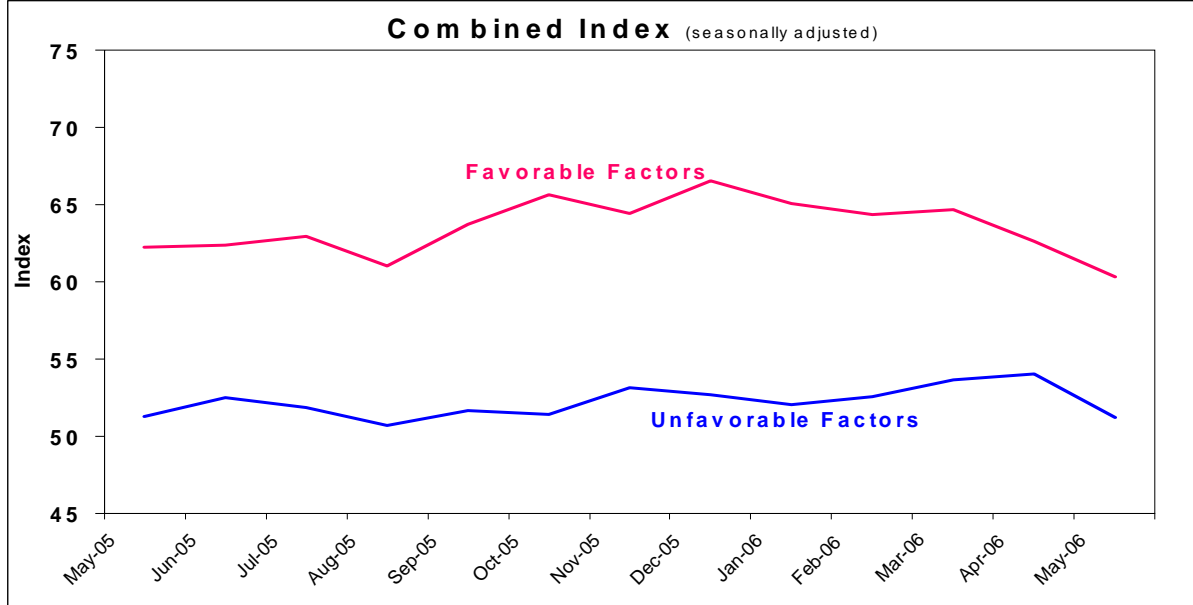
The Combined Credit Manager's Index (CMI) fell 2.6% for the month of May on a seasonally adjusted basis. While seven of the 10 components remain above the 50% mark, indicating economic expansion, the decline was relatively large and quite widespread. "Only twice in over four years has the combined index fallen more, and all 10 of the components in the combined index fell. The size and breadth of the decline suggests a definitive, structural change that outstrips any random month-to-month change," remarked Dan North, Chief Economist with credit insurer Euler Hermes ACI.

"Despite strength in recent government releases, it is likely that the combination of rising oil prices and interest rates continues to quietly erode the strength of the economy in the background," North continued. As predicted last month, the Fed raised the Fed Funds rate to 5% in May, and it now seems likely that the Fed will ratchet it up another 25 basis points at the end of June to continue slowing the economy. "In the meantime," he said, "crude oil continues to hover at near record prices, which also puts a significant drag on the economy."

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

Combined Manufacturing and Service Sectors (seasonally adjusted)

	May '05	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May
Sales	63.0	64.7	65.0	60.4	69.8	70.1	65.7	70.9	66.1	64.6	65.8	63.3	61.5
New credit applications	58.9	59.2	61.5	60.8	59.8	59.4	57.4	62.0	63.6	60.3	60.9	57.4	55.7
Dollar collections	61.1	60.6	60.5	56.7	59.8	62.9	68.1	63.6	63.6	66.2	64.6	63.5	58.6
Amount of credit extended	66.1	64.9	64.9	66.2	65.4	70.2	66.4	69.6	66.9	66.3	67.4	66.2	65.5
Index of favorable factors	62.3	62.4	63.0	61.0	63.7	65.6	64.4	66.5	65.0	64.3	64.7	62.6	60.3
Rejection of credit applications	52.0	51.4	52.3	50.8	52.0	54.5	52.7	50.8	50.7	53.1	53.9	53.8	50.6
Accounts placed for collections	52.1	51.7	50.8	49.8	52.8	54.1	53.3	53.8	52.6	50.3	52.7	52.0	50.5
Disputes	48.8	49.8	48.5	49.6	50.7	48.4	52.6	46.5	49.8	48.4	50.0	52.4	49.3
Dollar amount beyond terms	52.6	54.6	53.0	47.8	54.1	53.9	55.9	52.9	51.1	52.2	54.6	53.5	48.5
Dollar amount of customer deductions	48.9	51.5	50.4	50.2	48.7	50.2	50.2	50.4	50.4	50.2	51.2	51.8	49.0
Filings for bankruptcies	53.2	56.1	56.2	55.9	51.8	47.3	54.1	61.9	57.8	61.3	59.7	60.8	59.2
Index of unfavorable factors	51.3	52.5	51.9	50.7	51.7	51.4	53.1	52.7	52.1	52.6	53.7	54.0	51.2
NACM CMI	55.7	56.4	56.3	54.8	56.5	57.1	57.7	58.3	57.2	57.3	58.1	57.5	54.9
ISM Combined Sectors Index	55.0	58.0	58.6	59.3	56.4	59.6	58.3	57.0	57.6	58.4	57.9	60.2	NA



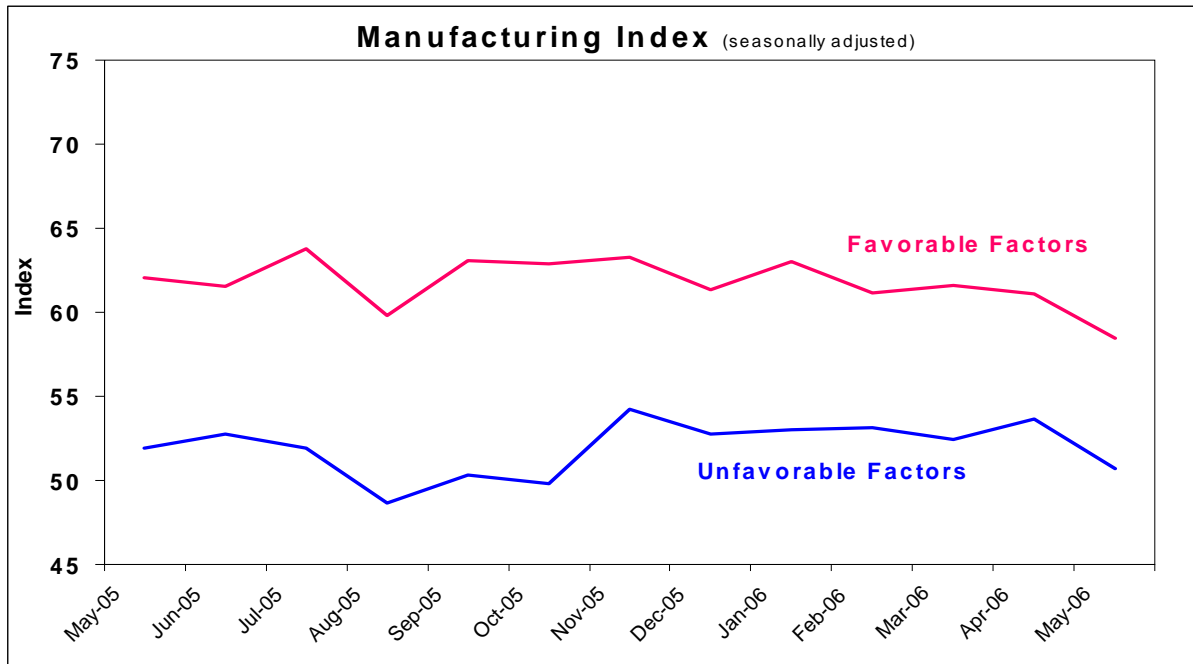
*Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.

Manufacturing Sector

The manufacturing sector index fell 2.8% in May on a seasonally adjusted basis. While nine of the 10 components fell, six still remain above the 50% mark indicating expansion. North noted "the other four components, rejection of credit applications, disputes, amount beyond terms and customer deductions suggest cash flow problems among customers."

Manufacturing (Seasonally adjusted)

Factor	May '05	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May
Sales	63.3	65.2	66.4	59.0	69.8	68.1	63.1	64.0	64.0	61.3	62.7	62.4	59.4
New credit applications	57.9	57.7	60.8	62.3	59.1	55.2	56.5	56.1	61.7	55.0	59.7	54.9	53.5
Dollar collections	60.1	59.3	62.7	55.1	59.8	59.7	67.8	61.7	62.3	66.2	59.3	63.4	56.5
Amount of credit extended	66.8	63.8	65.1	62.7	63.7	68.6	65.7	63.6	64.0	62.1	64.9	63.6	64.4
Index of favorable factors	62.0	61.5	63.8	59.8	63.1	62.9	63.3	61.4	63.0	61.1	61.6	61.1	58.4
Rejection of credit applications	52.1	52.0	52.0	50.3	50.5	54.9	53.6	52.1	51.8	53.8	55.4	52.2	47.5
Accounts placed for collections	54.7	51.4	51.6	49.5	53.4	52.5	56.7	55.8	52.0	49.4	51.3	52.0	51.7
Disputes	49.0	49.6	48.0	44.9	50.4	46.0	52.4	44.1	50.5	49.0	45.7	52.4	48.4
Dollar amount beyond terms	53.4	55.4	53.1	47.0	50.2	51.7	57.7	53.3	56.0	55.2	54.5	52.3	49.4
Dollar amount of customer deductions	47.2	51.8	51.0	46.9	46.3	47.1	49.3	49.3	50.8	51.4	49.0	52.7	49.0
Filings for bankruptcies	55.0	56.5	55.8	53.2	51.0	46.9	55.5	61.9	56.9	60.0	58.6	60.4	58.2
Index of unfavorable factors	51.9	52.8	51.9	48.6	50.3	49.8	54.2	52.7	53.0	53.1	52.4	53.7	50.7
NACM Manufacturing CMI	56.0	56.3	56.6	53.1	55.4	55.1	57.8	56.2	57.0	56.3	56.1	56.6	53.8
ISM Manufacturing PMI	51.4	53.8	56.6	53.6	59.4	59.1	58.1	54.2	58.4	56.7	55.2	57.3	NA

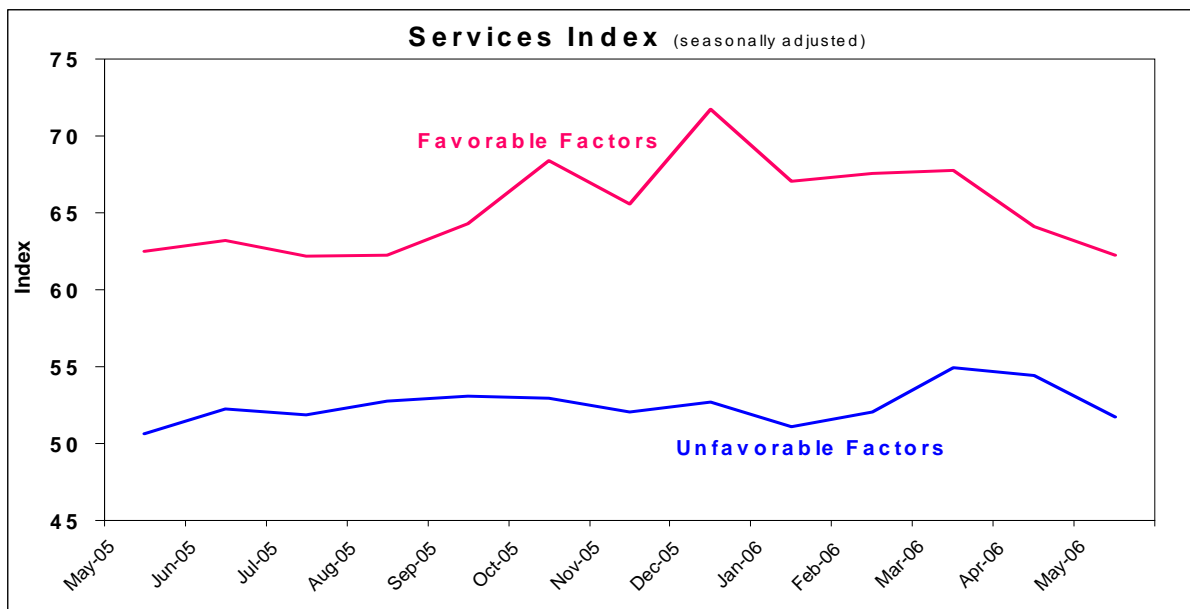


Service Sector

The service sector index fell 2.4% in April on a seasonally adjusted basis as all 10 components fell. However, only three of the 10 components are below 50%, including two in common with the manufacturing sector; amounts beyond terms and customer deductions. "Combined with the deterioration in collections, a pattern of cash flow problems emerges in the service sector as well, but overall growth remains positive," observed North.

Service Sector (seasonally adjusted)

	May '05	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May
Sales	62.6	64.2	63.6	61.8	69.8	72.1	68.4	77.9	68.1	67.9	68.9	64.3	63.6
New credit applications	59.9	60.8	62.1	59.3	60.5	63.6	58.3	68.0	65.5	65.6	62.2	60.0	57.9
Dollar collections	62.0	61.8	58.3	58.3	59.8	66.1	68.4	65.5	64.8	66.2	69.9	63.5	60.7
Amount of credit extended	65.5	66.1	64.7	69.6	67.2	71.7	67.1	75.6	69.8	70.4	69.9	68.8	66.7
Index of favorable factors	62.5	63.2	62.2	62.3	64.3	68.4	65.6	71.7	67.1	67.5	67.7	64.1	62.2
Rejection of credit applications	52.0	50.7	52.5	51.3	53.4	54.2	51.8	49.4	49.5	52.3	52.4	55.4	53.7
Accounts placed for collections	49.4	52.0	50.1	50.1	52.3	55.7	50.0	51.7	53.2	51.2	54.0	52.1	49.4
Disputes	48.6	50.0	49.0	54.3	51.0	50.8	52.8	49.0	49.0	47.8	54.4	52.3	50.2
Dollar amount beyond terms	51.7	53.7	52.9	48.6	57.9	56.1	54.0	52.5	46.2	49.3	54.7	54.6	47.6
Dollar amount of customer deductions	50.5	51.2	49.8	53.5	51.1	53.3	51.1	51.6	49.9	48.9	53.3	50.9	49.1
Filings for bankruptcies	51.4	55.6	56.7	58.6	52.7	47.7	52.6	61.9	58.8	62.6	60.9	61.2	60.2
Index of unfavorable factors	50.6	52.2	51.8	52.7	53.1	53.0	52.1	52.7	51.1	52.0	54.9	54.4	51.7
NACM Service CMI	55.4	56.6	56.0	56.5	57.6	59.1	57.5	60.3	57.5	58.2	60.1	58.3	55.9
ISM Service Business Activity Inde	58.5	62.2	60.5	65.0	53.3	60.0	58.5	59.8	56.8	60.1	60.5	63.0	NA



May 2006 vs. May 2005

The seasonally adjusted Combined Index fell 0.8% on a year-to-year basis. The decrease was widespread as seven of the 10 factors are at lower levels than the previous year in the combined index. Manufacturing fared worse than service as eight components fell for the former versus four for the latter. North noted “a decline in bankruptcy activity was the only bright spot in both sectors, most likely a result of bankruptcies falling off dramatically after a surge in activity caused by the change in bankruptcy law last October.”

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.

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 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.

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