

NACM Credit Manager's Index

Report for May 2007

Issued June 1, 2007

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

Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) crept up 0.1% in May as a decline in the manufacturing sector of 0.7% was offset by a gain in the service sector of 0.9%. The report showed mostly small changes in the 10 components, with the number of increases and decreases evenly split. "The 0.1% increase for the combined index was hardly robust since it would have actually fallen 0.3% without the sharp increase in the amount of credit extended in the manufacturing sector," reported Dan North, chief economist with credit insurer Euler Hermes ACI.

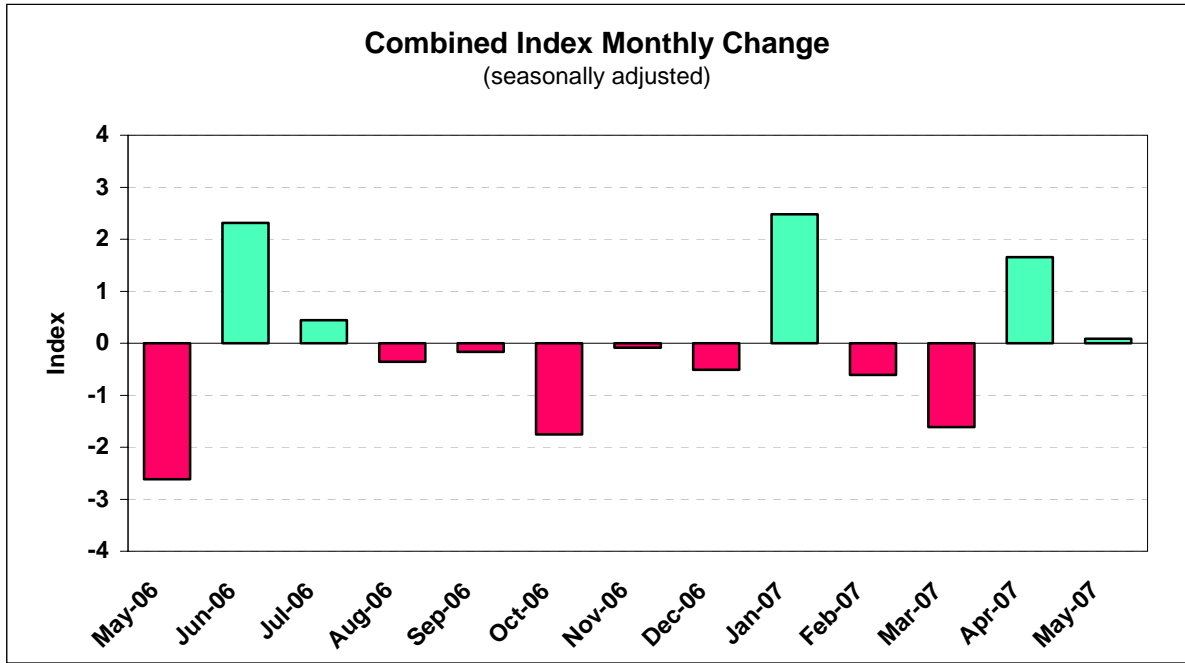
"Except for hints of improved cash flow in the service sector, the data suggest that conditions were only slightly improved from last month; however, the small improvement came off of a good base, pushing all of the components above the 50 level indicating economic expansion," he said. "Overall, credit managers are currently reporting good business conditions."

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)

	May '06	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May
Sales	61.5	65.4	67.8	62.8	63.5	56.3	59.5	60.9	61.6	59.6	58.1	62.8	61.5
New credit applications	55.7	55.7	59.0	62.5	57.9	56.2	56.5	60.5	60.9	52.5	55.9	56.7	56.2
Dollar collections	58.6	62.5	61.9	63.3	60.0	58.3	62.6	59.5	64.8	66.2	58.4	61.5	61.9
Amount of credit extended	65.5	64.8	69.9	66.4	62.4	63.2	64.0	63.7	65.3	63.6	62.4	59.3	62.2
Index of favorable factors	60.3	62.1	64.7	63.8	60.9	58.5	60.6	61.2	63.2	60.5	58.7	60.1	60.5
Rejection of credit applications	50.6	51.5	52.6	53.6	53.3	54.8	51.7	50.1	51.6	52.7	51.9	52.4	52.7
Accounts placed for collection	50.5	55.2	52.0	50.1	55.0	53.1	50.7	47.8	51.4	51.3	49.6	55.4	52.8
Disputes	49.3	51.1	51.1	50.4	52.3	49.7	49.9	47.9	52.7	53.5	51.9	53.0	52.0
Dollar amount beyond terms	48.5	56.5	52.2	51.3	55.8	52.2	50.2	48.1	50.9	52.6	55.0	54.2	55.0
Dollar amount of customer	49.0	49.7	50.5	51.7	50.6	50.5	51.3	49.2	53.2	54.5	50.2	51.5	54.6
Filings for bankruptcies	59.2	59.2	59.1	60.5	60.2	59.1	56.3	59.7	59.8	59.5	56.6	59.6	58.5
Index of unfavorable factors	51.2	53.9	52.9	52.9	54.5	53.2	51.7	50.5	53.3	54.0	52.5	54.4	54.2
NACM CMI	54.9	57.2	57.6	57.3	57.1	55.3	55.2	54.7	57.2	56.6	55.0	56.6	56.7
ISM Combined Sectors Index*	57.0	55.5	55.1	55.6	53.7	54.5	54.1	54.1	54.2	53.3	51.7	55.4	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.

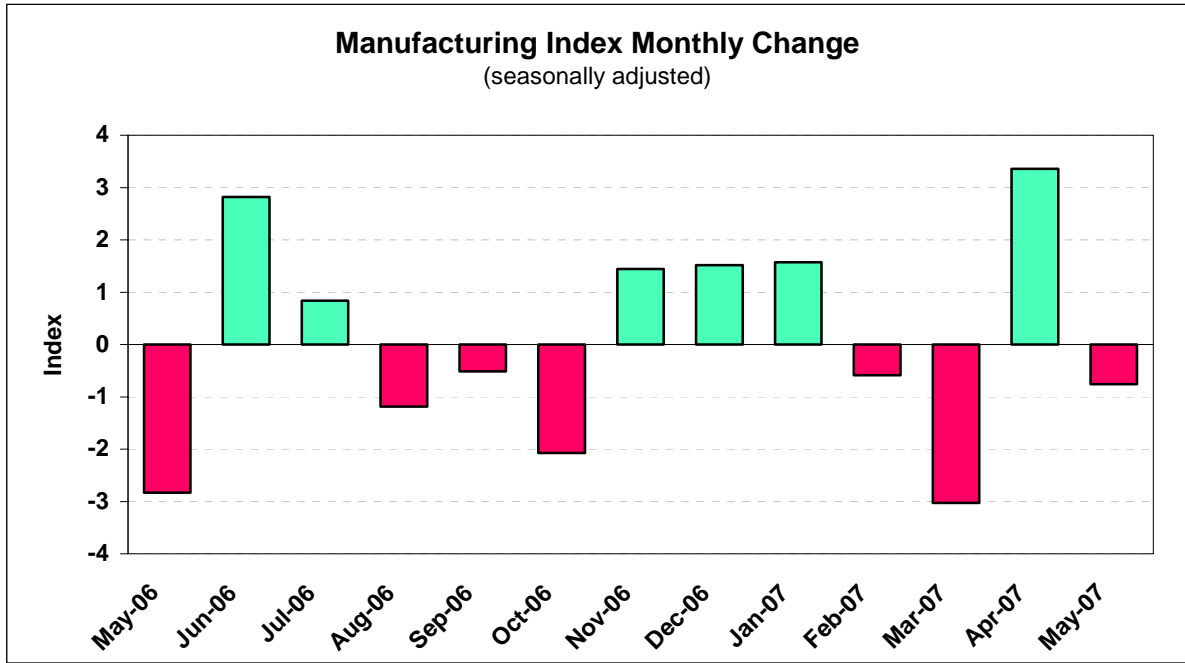


Manufacturing Sector

The manufacturing sector fell 0.7%, showing widespread but shallow weakness as seven of the 10 components fell. North noted, "The only offset to this weakness was a jump of 7.7% in the amount of credit extended. Without the gain in this single component, the entire manufacturing index would have fallen 1.7%." "Comments from respondents were mixed although several still pointed to continuing troubles in the housing market," he said.

Manufacturing Sector (seasonally adjusted)

	May '06	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May
Sales	59.4	63.9	69.7	62.0	62.0	55.7	63.5	69.4	58.9	58.7	56.5	60.9	59.5
New credit applications	53.5	55.0	59.1	63.4	57.4	55.8	56.6	62.1	60.0	52.8	54.6	57.1	57.3
Dollar collections	56.5	60.5	59.4	60.1	61.0	54.8	62.6	59.9	64.6	65.3	55.3	60.3	60.2
Amount of credit extended	64.4	61.1	70.7	67.9	60.6	62.6	64.7	66.9	65.4	59.9	60.0	54.3	62.0
Index of favorable factors	58.4	60.1	64.7	63.4	60.2	57.2	61.9	64.6	62.2	59.2	56.6	58.1	59.7
Rejection of credit applications	47.5	51.6	52.8	53.2	52.5	55.1	51.1	50.7	52.6	54.1	53.1	51.9	51.8
Accounts placed for collection	51.7	54.0	51.7	48.5	54.8	50.6	48.9	51.0	54.4	54.5	50.0	58.3	53.6
Disputes	48.4	52.4	49.9	47.8	48.7	48.2	49.0	46.7	55.5	55.6	51.7	55.1	52.4
Dollar amount beyond terms	49.4	59.0	53.9	48.7	54.8	49.5	50.7	50.1	53.0	54.1	56.7	63.7	59.9
Dollar amount of customer deductions	49.0	49.4	48.6	51.7	46.4	48.2	49.8	49.3	55.5	57.2	50.4	53.7	55.7
Filings for bankruptcies	58.2	59.3	58.8	59.3	59.4	56.3	54.3	60.2	62.1	63.9	57.5	64.1	59.6
Index of unfavorable factors	50.7	54.3	52.6	51.5	52.8	51.3	50.6	51.3	55.5	56.6	53.2	57.8	55.5
NACM Manufacturing CMI	53.8	56.6	57.5	56.3	55.8	53.7	55.1	56.6	58.2	57.6	54.6	57.9	57.2
ISM Manufacturing PMI	54.7	54	54.4	54.3	52.7	51.5	49.9	51.4	49.3	52.3	50.9	54.7	NA

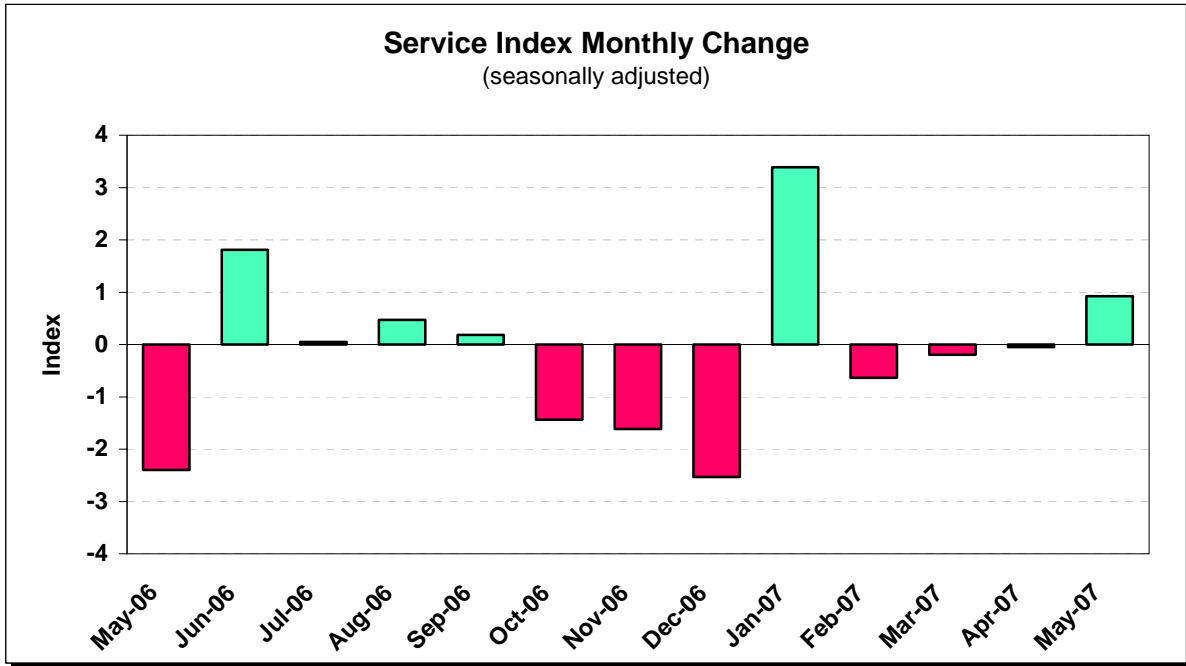


Service Sector

The service sector gained 0.9% as six of 10 components rose. There were significant improvements in the dollar amount beyond terms, which was up 5.3%, and the dollar amount of customer deductions, which gained 4.0%. Both components moved back above the 50% level indicating economic expansion. "The data suggest that buyers have experienced improved cash flow during the month and are taking the opportunity to clear out old payables," North said. "Like the manufacturing sector, comments from respondents in the service sector were mixed with several still reporting continued troubles in the housing market."

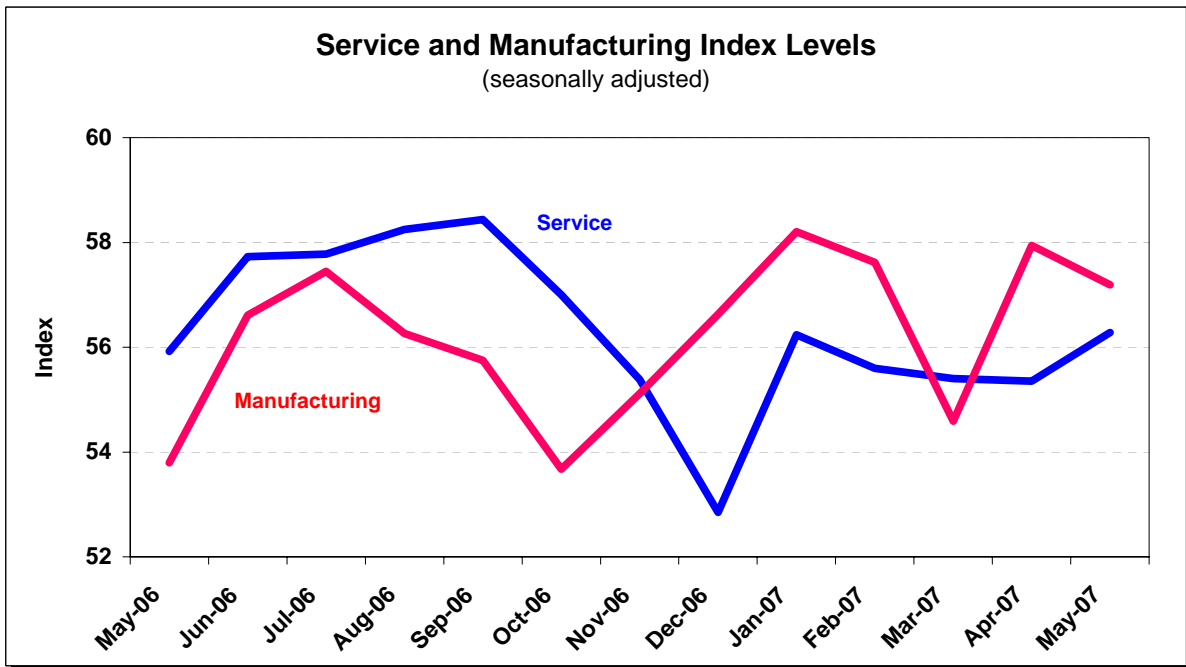
Service Sector (seasonally adjusted)

	May '06	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May
Sales	63.6	67.0	66.0	63.7	65.0	56.8	55.5	52.4	64.3	60.5	59.8	64.8	63.5
New credit applications	57.9	56.4	58.9	61.6	58.3	56.6	56.3	58.9	61.9	52.3	57.1	56.3	55.2
Dollar collections	60.7	64.6	64.4	66.6	59.0	61.9	62.5	59.1	65.0	67.1	61.6	62.7	63.7
Amount of credit extended	66.7	68.5	69.2	64.8	64.2	63.7	63.4	60.5	65.2	67.3	64.7	64.2	62.4
Index of favorable factors	62.2	64.1	64.6	64.1	61.6	59.8	59.4	57.7	64.1	61.8	60.8	62.0	61.2
Rejection of credit applications	53.7	51.5	52.3	53.9	54.2	54.5	52.2	49.4	50.7	51.3	50.8	52.9	53.6
Accounts placed for collection	49.4	56.4	52.4	51.7	55.1	55.7	52.5	44.7	48.4	48.1	49.1	52.5	52.1
Disputes	50.2	49.8	52.3	52.9	55.9	51.3	50.8	49.1	49.8	51.4	52.1	50.9	51.5
Dollar amount beyond terms	47.6	54.1	50.4	54.0	56.7	54.8	49.7	46.1	48.7	51.1	53.2	44.8	50.1
Dollar amount of customer deductions	49.1	50.0	52.5	51.6	54.8	52.8	52.7	49.1	50.8	51.8	50.1	49.4	53.4
Filings for bankruptcies	60.2	59.1	59.3	61.8	61.0	62.0	58.3	59.2	57.5	55.2	55.6	55.0	57.4
Index of unfavorable factors	51.7	53.5	53.2	54.3	56.3	55.2	52.7	49.6	51.0	51.5	51.8	50.9	53.0
NACM Service CMI	55.9	57.7	57.8	58.2	58.4	57.0	55.4	52.9	56.2	55.6	55.4	55.4	56.3
ISM Service Business Activity Index	59.2	56.9	55.7	56.9	54.6	57.4	58.3	56.7	59.0	54.3	52.4	56.0	NA



May 2007 vs. May 2006

“On a year-over-year basis, the service sector rose 0.4%, but a strong increase in the manufacturing sector of 3.4% pulled the combined index up 1.9%. Overall, the data suggest that the economy continues to expand at a modest pace despite the drag of tightened monetary policy, high energy prices and a devastated housing market,” summed 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.

###

The National Association of Credit Management (NACM), headquartered in Columbia, Maryland supports more than 22,000 business credit and financial professionals worldwide with premier industry services, tools and information. NACM and its network of Affiliated Associations are the leading resource for credit and financial management information and education, delivering products and services, which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy. More information is available at www.nacm.org or by contacting Caroline Zimmerman at 410-740-5560.