

NACM Credit Manager's Index

Report for May 2008

Issued June 9, 2008
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

The seasonally adjusted combined Credit Manager's Index rose for the second consecutive month in May, gaining 1.9% to 52.0, its highest level since December 2007. Eight of the 10 components rose, indicating a broad-based upswing. There are now six components above the critical 50 level indicating expansion as compared to only four last month. Both the manufacturing and service sector indexes rose, and 15 of the 20 components in the two indexes gained ground. Like last month, there were reports of increasing price pressure by the survey participants.

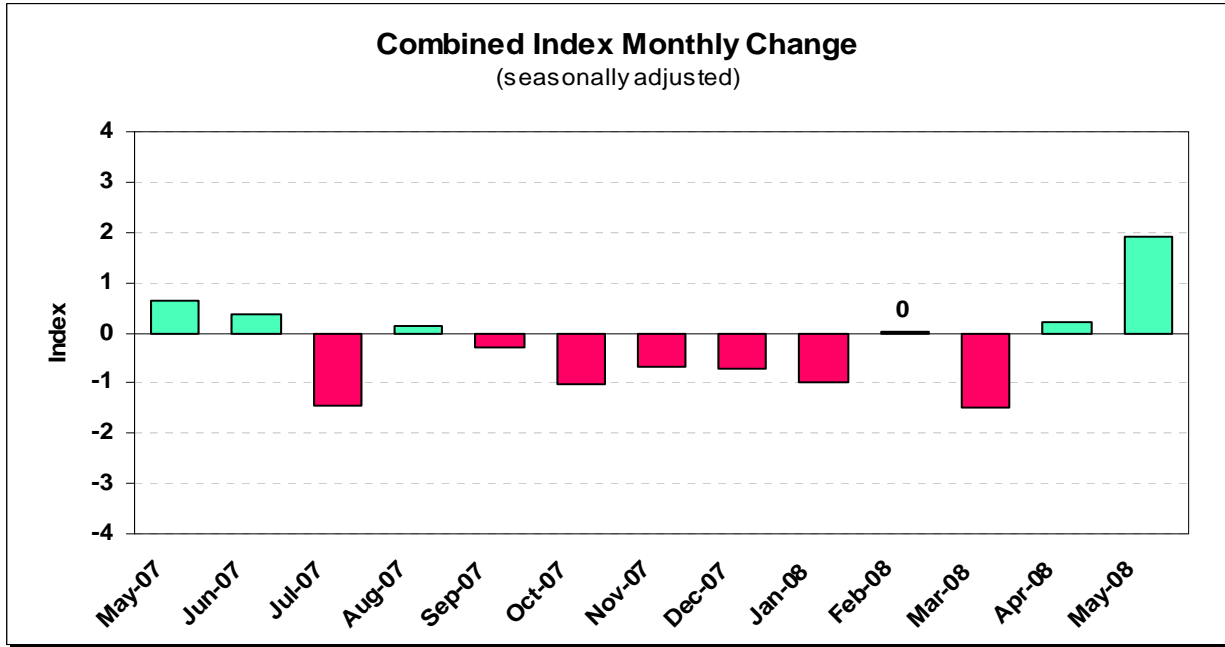
"The data in the report overall was certainly positive, and matched the tone of many other recent macro-economic reports," said Daniel North, chief economist with credit insurer Euler Hermes ACI. "But it would appear that after months of rain and bad economic news, perhaps some unwarranted euphoria might be responsible for a little extra boost in the numbers beyond the normal seasonal adjustments. For instance, one survey participant, a supplier of industrial equipment, happily noted that 'warm weather = business = cash flow.' A freight transportation arranger cheerily announced that 'Things are perking up!' But it is a bit early to declare that the downturn in the macro economy is over. The economy has lost jobs for five straight months, an almost certain sign of a recession. And record-high gasoline prices, even adjusted for inflation, are taking its toll. Highway miles driven fell in March at a record -4.3% pace and they have fallen for five consecutive months. The last time highway miles driven fell was during the 1979-80 energy crisis and prior to that, the 1974 energy crisis. Both of those events coincided with recessions. Certainly an improvement in credit conditions is a positive development, but it's probably worthwhile to remain cautious."

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 '07	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May '08
Sales	61.5	61.9	60.2	59.1	59.0	54.7	58.6	56.3	51.7	57.1	50.8	54.0	57.7
New credit applications	56.2	58.6	56.0	55.6	55.3	53.3	56.4	55.8	52.8	54.7	53.0	54.4	55.0
Dollar collections	61.9	61.0	60.2	60.1	60.0	60.0	61.2	57.2	56.8	60.5	55.1	54.8	61.3
Amount of credit extended	62.2	63.6	63.0	61.6	60.1	58.7	60.9	59.8	57.0	55.0	55.8	57.0	60.4
Index of favorable factors	60.5	61.3	59.9	59.1	58.6	56.7	59.2	57.3	54.5	56.8	53.7	55.0	58.6
Rejections of credit applications	52.7	52.6	53.4	51.1	51.8	52.0	49.9	50.0	50.9	48.4	49.0	48.9	48.1
Accounts placed for collection	51.5	52.0	49.8	50.7	49.0	49.6	47.4	46.2	47.1	42.5	45.2	45.8	43.0
Disputes	50.7	51.9	51.9	52.2	50.2	49.4	47.8	49.5	49.5	47.3	49.0	46.9	50.1
Dollar amount beyond terms	53.0	52.0	48.9	51.4	55.3	48.4	45.8	46.3	45.1	49.0	43.5	42.5	43.7
Dollar amount of customer deductions	53.3	53.0	48.8	52.2	49.9	51.5	49.6	50.3	50.3	47.4	49.0	47.5	49.9
Filings for bankruptcies	57.4	57.5	57.3	57.2	57.7	60.4	53.5	52.3	52.6	52.1	48.6	49.2	51.2
Index of unfavorable factors	53.1	53.2	51.7	52.4	52.3	51.9	49.0	49.1	49.3	47.8	47.4	46.8	47.6
NACM CMI	56.1	56.4	55.0	55.1	54.8	53.8	53.1	52.4	51.4	51.4	49.9	50.1	52.0
ISM Combined Sectors Index*	53.7	54.3	52.7	52.0	51.9	51.9	51.2	50.8	47.7	48.8	50.3	50.7	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.

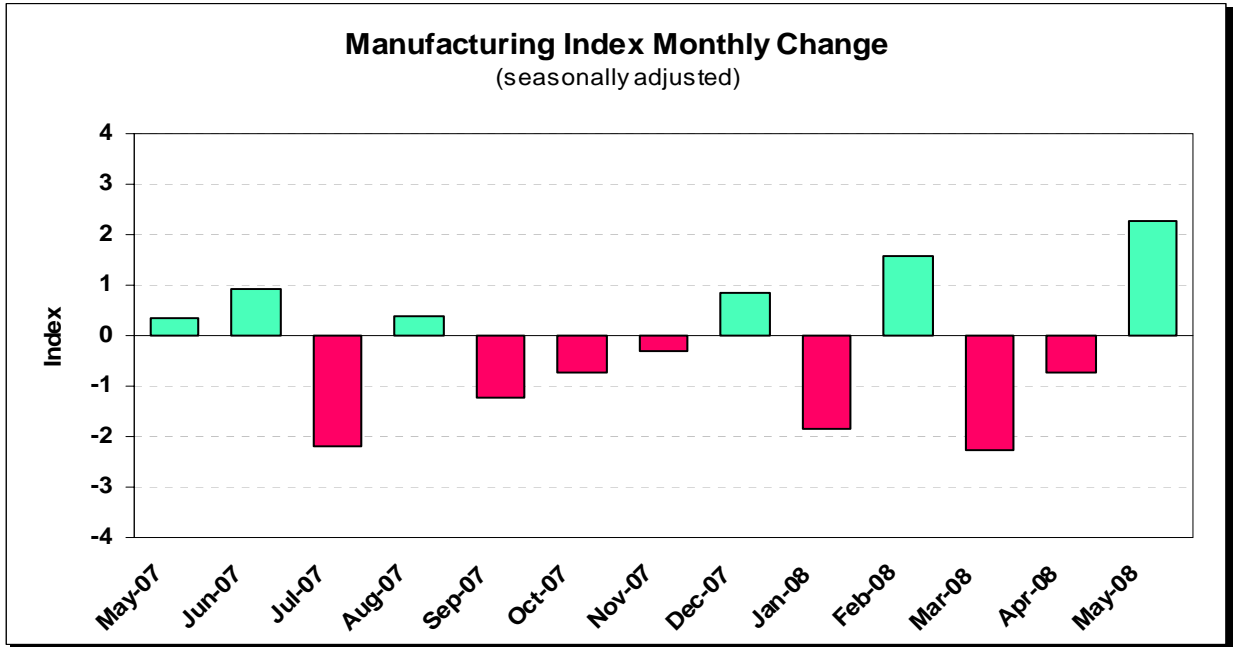


Manufacturing Sector

The seasonally adjusted manufacturing sector index gained 2.3% as eight of the 10 components rose. “Like last month,” North noted, “participants in particular commented on the effects of rising input costs.” A metal container manufacturer noted that a large reason for the increase in sales dollars is the “price increases passed to our customer due to significantly higher cost for steel.” Similarly, a participant in the food industry said “part of our increased sales dollars is due to pricing increases.” North said that perhaps these inflationary pressures explain in part the increase of the sales component from 54.0 in April to 59.9 in May.

Manufacturing Sector (seasonally adjusted)

	May '07	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May '08
Sales	59.5	62.9	60.9	59.2	59.3	54.2	59.4	61.9	53.0	56.2	53.1	54.0	59.9
New credit applications	57.3	58.7	56.4	55.7	57.5	54.1	56.6	58.0	54.2	53.5	55.6	55.5	54.9
Dollar collections	60.2	59.5	61.3	60.4	59.8	57.6	60.8	58.7	56.9	67.1	55.6	54.6	58.8
Amount of credit extended	62.0	61.8	62.6	62.7	59.1	57.3	61.3	61.8	57.3	57.4	56.5	57.7	58.6
Index of favorable factors	59.7	60.7	60.3	59.5	58.9	55.8	59.5	60.1	55.4	58.6	55.2	55.4	58.0
Rejections of credit applications	51.8	52.6	53.4	50.8	50.7	51.6	49.9	50.3	52.2	50.9	49.5	48.8	49.4
Accounts placed for collection	51.0	52.7	48.3	50.8	46.4	50.7	46.3	43.5	46.6	45.7	48.3	47.1	45.9
Disputes	49.9	51.4	49.8	50.6	46.1	47.8	45.5	49.8	50.0	52.1	47.0	46.3	48.8
Dollar amount beyond terms	56.0	56.6	50.0	50.0	53.6	46.3	46.9	47.4	42.7	46.3	46.0	44.0	45.7
Dollar amount of customer deductions	53.2	53.3	47.4	50.8	47.2	48.7	45.9	49.8	50.5	50.7	48.0	45.5	50.1
Filings for bankruptcies	57.5	58.0	55.4	58.4	57.5	62.0	54.2	54.1	53.2	52.4	50.2	48.7	53.0
Index of unfavorable factors	53.2	54.1	50.7	51.9	50.3	51.2	48.1	49.2	49.2	49.7	48.2	46.7	48.8
NACM Manufacturing CMI	55.8	56.7	54.6	55.0	53.7	53.0	52.7	53.5	51.7	53.2	51.0	50.2	52.5
ISM Manufacturing PMI	52.8	53.4	52.3	51.2	50.5	50.4	50.0	48.4	50.7	48.3	48.6	49.6	NA

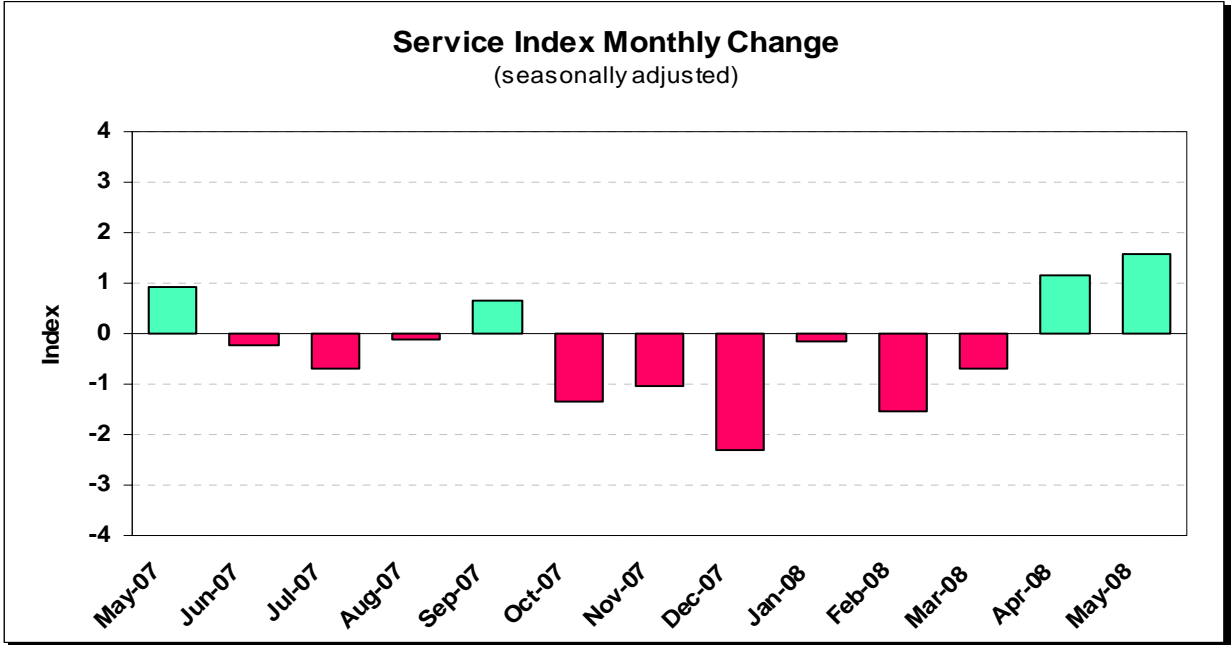


Service Sector

The seasonally adjusted service sector index rose 1.5%, as seven of the 10 components rose, but five components are still below the 50 level indicating economic contraction. North said that, as in manufacturing, comments on prices were prevalent. A grocer commented, “cost(s) have arisen with the fuel cost for the fleet.” A supplier of transportation equipment noted that “railroads are picking up more business due to high fuel/trucking costs.” One petroleum wholesaler said that, “with today’s fuel prices, collections are tougher and dollar amounts higher” while another wrote that “much of (the) increase in new orders, sales, AR and collections is linked to price of oil.”

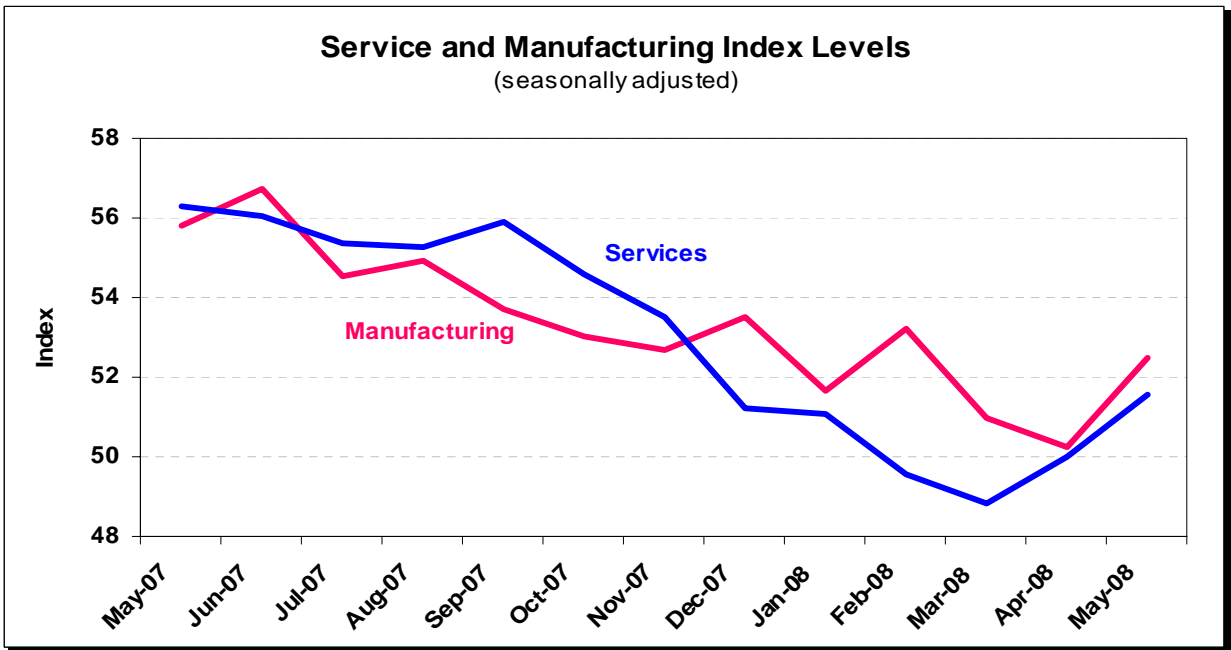
Service Sector (seasonally adjusted)

	May '07	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May '08
Sales	63.5	60.9	59.5	59.0	58.6	55.1	57.7	50.8	50.3	58.0	48.5	53.9	55.5
New credit applications	55.2	58.5	55.5	55.5	53.1	52.4	56.1	53.6	51.3	55.8	50.4	53.4	55.1
Dollar collections	63.7	62.5	59.1	59.7	60.2	62.5	61.5	55.8	56.6	53.9	54.6	55.0	63.8
Amount of credit extended	62.4	65.5	63.5	60.5	61.1	60.2	60.4	57.8	56.7	52.5	55.1	56.3	62.2
Index of favorable factors	61.2	61.8	59.4	58.7	58.2	57.5	58.9	54.5	53.7	55.1	52.1	54.7	59.2
Rejections of credit applications	53.6	52.7	53.3	51.4	52.8	52.5	49.8	49.7	49.7	45.9	48.5	49.0	46.7
Accounts placed for collection	52.1	51.3	51.3	50.7	51.6	48.5	48.5	48.8	47.6	39.3	42.2	44.4	40.1
Disputes	51.5	52.4	54.0	53.7	54.2	51.0	50.1	49.2	49.1	42.4	51.0	47.4	51.3
Dollar amount beyond terms	50.1	47.3	47.9	52.7	57.0	50.4	44.8	45.3	47.4	51.8	41.1	41.1	41.6
Dollar amount of customer deductions	53.4	52.7	50.2	53.5	52.6	54.3	53.3	50.8	50.1	44.1	50.0	49.5	49.6
Filings for bankruptcies	57.4	57.0	59.2	55.9	57.9	58.8	52.9	50.4	51.9	51.7	47.0	49.7	49.4
Index of unfavorable factors	53.0	52.2	52.7	53.0	54.4	52.6	49.9	49.0	49.3	45.9	46.6	46.8	46.5
NACM Service CMI	56.3	56.1	55.4	55.3	55.9	54.6	53.5	51.2	51.1	49.5	48.8	50.0	51.5
ISM Service Business Activity Index	54.5	55.1	53.1	52.8	53.2	53.3	52.4	53.2	44.6	49.3	52.0	51.7	NA



May 2008 vs. May 2007

“On a seasonally adjusted basis over the past 12 months, the overall trend of business conditions experienced by credit managers is still down, but the increases in manufacturing this month and in services over the past two months have certainly mitigated some of the downturn,” North noted. “But as gasoline prices continue to take their toll, the upswing could be short-lived.”



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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