

# NACM Credit Manager's Index

## Report for November 2006

Issued December 1, 2006  
 National Association of Credit Management  
 8840 Columbia 100 Parkway  
 Columbia, MD 21045-2158

### Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell for the fourth consecutive month in November. "While the decline was small at 0.1 percent, the CMI continues to indicate an economy slowly weakening under the weight of monetary tightening by the Fed and a decimated housing market," noted Dan North, Chief Economist with credit insurer Euler Hermes ACI. He noted that other recent economic data confirm the CMI's message: uneven holiday sales, plunging durable goods orders, falling consumer confidence and below-trend GDP growth. "In addition, the median sales price for existing homes has fallen on a year-over-year basis for an unprecedented three straight months, the latest of which was the largest decline ever."

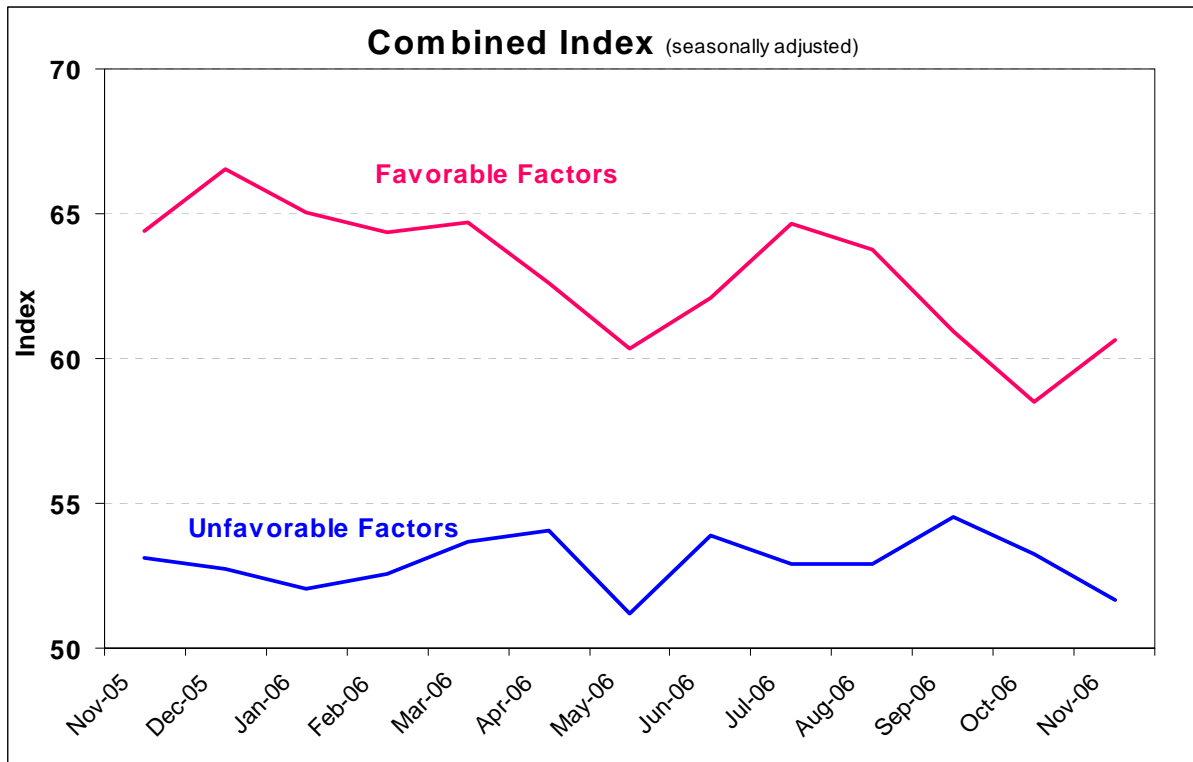
"In contrast, Fed Chairman Bernanke and the Fed Governors have been predictably banging the drum about the risks of inflation and how the deteriorating housing market will not hurt the economy. It is difficult to read much into this 'jawboning' because, no matter what the economic circumstances might be, the Fed must continue to build credibility and present a clear, uniform message: 'We are inflation fighters,'" North stated. However, if the slowing economy does fail to quell inflation, the Fed will continue to raise rates to reduce the risk of inflation, and by so doing, increase the risk of seriously hampering the economy. "Given the deteriorating trends in the CMI, that scenario could be a most 'unwelcome' one," he remarked.

See page 4 of this report for information about the methodology and factors used to measure economic performance.

### Combined Manufacturing and Service Sectors (seasonally adjusted)

|                                      | Nov '05     | Dec         | Jan '06     | Feb         | Mar         | Apr         | May         | Jun         | Jul         | Aug         | Sep         | Oct         | Nov         |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales                                | 65.7        | 70.9        | 66.1        | 64.6        | 65.8        | 63.3        | 61.5        | 65.4        | 67.8        | 62.8        | 63.5        | 56.3        | 59.5        |
| New credit applications              | 57.4        | 62.0        | 63.6        | 60.3        | 60.9        | 57.4        | 55.7        | 55.7        | 59.0        | 62.5        | 57.9        | 56.2        | 56.5        |
| Dollar collections                   | 68.1        | 63.6        | 63.6        | 66.2        | 64.6        | 63.5        | 58.6        | 62.5        | 61.9        | 63.3        | 60.0        | 58.3        | 62.6        |
| Amount of credit extended            | 66.4        | 69.6        | 66.9        | 66.3        | 67.4        | 66.2        | 65.5        | 64.8        | 69.9        | 66.4        | 62.4        | 63.2        | 64.0        |
| <b>Index of favorable factors</b>    | <b>64.4</b> | <b>66.5</b> | <b>65.0</b> | <b>64.3</b> | <b>64.7</b> | <b>62.6</b> | <b>60.3</b> | <b>62.1</b> | <b>64.7</b> | <b>63.8</b> | <b>60.9</b> | <b>58.5</b> | <b>60.6</b> |
| Rejection of credit applications     | 52.7        | 50.8        | 50.7        | 53.1        | 53.9        | 53.8        | 50.6        | 51.5        | 52.6        | 53.6        | 53.3        | 54.8        | 51.7        |
| Accounts placed for collection       | 53.3        | 53.8        | 52.6        | 50.3        | 52.7        | 52.0        | 50.5        | 55.2        | 52.0        | 50.1        | 55.0        | 53.1        | 50.7        |
| Disputes                             | 52.6        | 46.5        | 49.8        | 48.4        | 50.0        | 52.4        | 49.3        | 51.1        | 51.1        | 50.4        | 52.3        | 49.7        | 49.9        |
| Dollar amount beyond terms           | 55.9        | 52.9        | 51.1        | 52.2        | 54.6        | 53.5        | 48.5        | 56.5        | 52.2        | 51.3        | 55.8        | 52.2        | 50.2        |
| Dollar amount of customer deductions | 50.2        | 50.4        | 50.4        | 50.2        | 51.2        | 51.8        | 49.0        | 49.7        | 50.5        | 51.7        | 50.6        | 50.5        | 51.3        |
| Filings for bankruptcies             | 54.1        | 61.9        | 57.8        | 61.3        | 59.7        | 60.8        | 59.2        | 59.2        | 59.1        | 60.5        | 60.2        | 59.1        | 56.3        |
| <b>Index of unfavorable factors</b>  | <b>53.1</b> | <b>52.7</b> | <b>52.1</b> | <b>52.6</b> | <b>53.7</b> | <b>54.0</b> | <b>51.2</b> | <b>53.9</b> | <b>52.9</b> | <b>52.9</b> | <b>54.5</b> | <b>53.2</b> | <b>51.7</b> |
| <b>NACM CMI</b>                      | <b>57.7</b> | <b>58.3</b> | <b>57.2</b> | <b>57.3</b> | <b>58.1</b> | <b>57.5</b> | <b>54.9</b> | <b>57.2</b> | <b>57.6</b> | <b>57.3</b> | <b>57.1</b> | <b>55.3</b> | <b>55.2</b> |
| <b>ISM Combined Sectors Index*</b>   | <b>58.3</b> | <b>58.3</b> | <b>55.8</b> | <b>58.4</b> | <b>57.9</b> | <b>60.2</b> | <b>57.3</b> | <b>55.4</b> | <b>54.8</b> | <b>55.8</b> | <b>52.9</b> | <b>54.2</b> | <b>N/A</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.

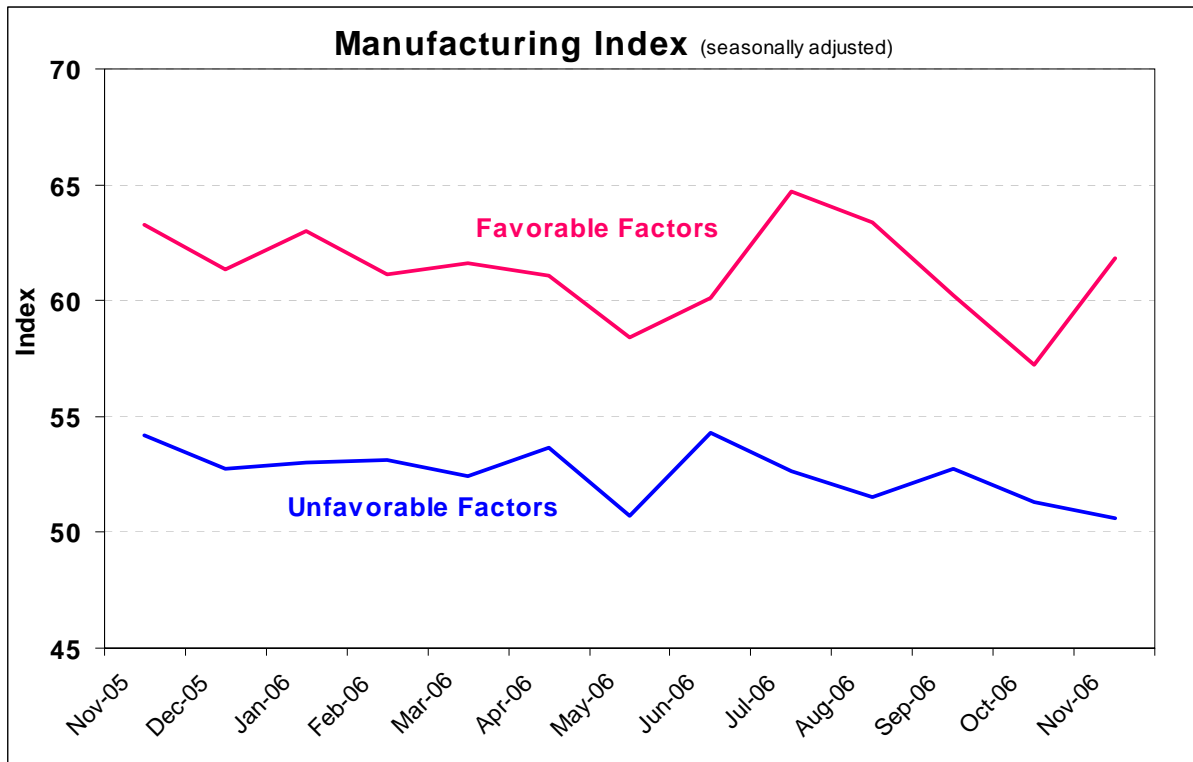


## Manufacturing Sector

The manufacturing sector showed a surprising 1.4 percent upturn, breaking a three-month string of losses. “While the results are unarguably positive, it is important to note that the improvement was due to large increases in just two components, sales and dollar collections. Without those two components, the manufacturing sector index would have fallen 0.1 percent,” North said. Respondents focused on the housing industry as the main source of weakness, citing an increase in payment terms and a slowing payment trend. “One respondent is even extending ‘higher credit... to build up new product orders’,” he commented.

### Manufacturing Sector (seasonally adjusted)

|                                      | Nov '05     | Dec         | Jan '06     | Feb         | Mar         | Apr         | May         | Jun         | Jul         | Aug         | Sep         | Oct         | Nov         |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales                                | 63.1        | 64.0        | 64.0        | 61.3        | 62.7        | 62.4        | 59.4        | 63.9        | 69.7        | 62.0        | 62.0        | 55.7        | 63.5        |
| New credit applications              | 56.5        | 56.1        | 61.7        | 55.0        | 59.7        | 54.9        | 53.5        | 55.0        | 59.1        | 63.4        | 57.4        | 55.8        | 56.6        |
| Dollar collections                   | 67.8        | 61.7        | 62.3        | 66.2        | 59.3        | 63.4        | 56.5        | 60.5        | 59.4        | 60.1        | 61.0        | 54.8        | 62.6        |
| Amount of credit extended            | 65.7        | 63.6        | 64.0        | 62.1        | 64.9        | 63.6        | 64.4        | 61.1        | 70.7        | 67.9        | 60.6        | 62.6        | 64.7        |
| <b>Index of favorable factors</b>    | <b>63.3</b> | <b>61.4</b> | <b>63.0</b> | <b>61.1</b> | <b>61.6</b> | <b>61.1</b> | <b>58.4</b> | <b>60.1</b> | <b>64.7</b> | <b>63.4</b> | <b>60.2</b> | <b>57.2</b> | <b>61.9</b> |
| Rejection of credit applications     | 53.6        | 52.1        | 51.8        | 53.8        | 55.4        | 52.2        | 47.5        | 51.6        | 52.8        | 53.2        | 52.5        | 55.1        | 51.1        |
| Accounts placed for collection       | 56.7        | 55.8        | 52.0        | 49.4        | 51.3        | 52.0        | 51.7        | 54.0        | 51.7        | 48.5        | 54.8        | 50.6        | 48.9        |
| Disputes                             | 52.4        | 44.1        | 50.5        | 49.0        | 45.7        | 52.4        | 48.4        | 52.4        | 49.9        | 47.8        | 48.7        | 48.2        | 49.0        |
| Dollar amount beyond terms           | 57.7        | 53.3        | 56.0        | 55.2        | 54.5        | 52.3        | 49.4        | 59.0        | 53.9        | 48.7        | 54.8        | 49.5        | 50.7        |
| Dollar amount of customer deductions | 49.3        | 49.3        | 50.8        | 51.4        | 49.0        | 52.7        | 49.0        | 49.4        | 48.6        | 51.7        | 46.4        | 48.2        | 49.8        |
| Filings for bankruptcies             | 55.5        | 61.9        | 56.9        | 60.0        | 58.6        | 60.4        | 58.2        | 59.3        | 58.8        | 59.3        | 59.4        | 56.3        | 54.3        |
| <b>Index of unfavorable factors</b>  | <b>54.2</b> | <b>52.7</b> | <b>53.0</b> | <b>53.1</b> | <b>52.4</b> | <b>53.7</b> | <b>50.7</b> | <b>54.3</b> | <b>52.6</b> | <b>51.5</b> | <b>52.8</b> | <b>51.3</b> | <b>50.6</b> |
| <b>NACM Manufacturing CMI</b>        | <b>57.8</b> | <b>56.2</b> | <b>57.0</b> | <b>56.3</b> | <b>56.1</b> | <b>56.6</b> | <b>53.8</b> | <b>56.6</b> | <b>57.5</b> | <b>56.3</b> | <b>55.8</b> | <b>53.7</b> | <b>55.1</b> |
| <b>ISM Manufacturing PMI</b>         | <b>57.3</b> | <b>55.6</b> | <b>54.8</b> | <b>56.7</b> | <b>55.2</b> | <b>57.3</b> | <b>54.4</b> | <b>53.8</b> | <b>54.7</b> | <b>54.5</b> | <b>52.9</b> | <b>51.2</b> | <b>N/A</b>  |

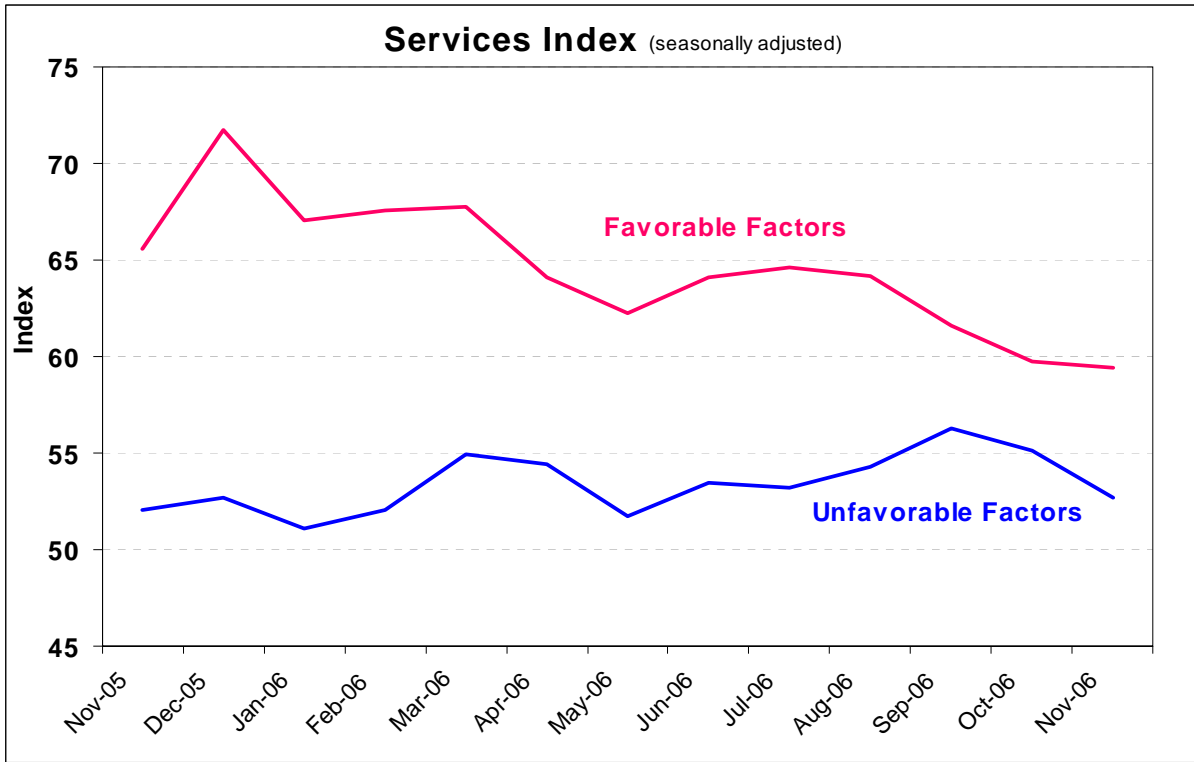


## Service Sector

The service sector suffered its largest decline since May of this year, as nine out of the 10 components fell. North said, "The index has not been lower than the current 55.4 in three and one-half years." He continued, "Once again, the deteriorating housing market has affected many respondents such as building materials suppliers and contractors, one of whom cited customers who, like in the manufacturing sector, were 'holding onto their money longer'." Indeed the 5.1 percent drop in dollar amount beyond terms was the single largest decline in the index.

### Service Sector (seasonally adjusted)

|  | Nov '05     | Dec         | Jan '06     | Feb         | Mar         | Apr         | May         | Jun         | Jul         | Aug         | Sep         | Oct         | Nov         |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales                                      | 68.4        | 77.9        | 68.1        | 67.9        | 68.9        | 64.3        | 63.6        | 67.0        | 66.0        | 63.7        | 65.0        | 56.8        | 55.5        |
| New credit applications                    | 58.3        | 68.0        | 65.5        | 65.6        | 62.2        | 60.0        | 57.9        | 56.4        | 58.9        | 61.6        | 58.3        | 56.6        | 56.3        |
| Dollar collections                         | 68.4        | 65.5        | 64.8        | 66.2        | 69.9        | 63.5        | 60.7        | 64.6        | 64.4        | 66.6        | 59.0        | 61.9        | 62.5        |
| Amount of credit extended                  | 67.1        | 75.6        | 69.8        | 70.4        | 69.9        | 68.8        | 66.7        | 68.5        | 69.2        | 64.8        | 64.2        | 63.7        | 63.4        |
| <b>Index of favorable factors</b>          | <b>65.6</b> | <b>71.7</b> | <b>67.1</b> | <b>67.5</b> | <b>67.7</b> | <b>64.1</b> | <b>62.2</b> | <b>64.1</b> | <b>64.6</b> | <b>64.1</b> | <b>61.6</b> | <b>59.8</b> | <b>59.4</b> |
| Rejection of credit applications           | 51.8        | 49.4        | 49.5        | 52.3        | 52.4        | 55.4        | 53.7        | 51.5        | 52.3        | 53.9        | 54.2        | 54.5        | 52.2        |
| Accounts placed for collection             | 50.0        | 51.7        | 53.2        | 51.2        | 54.0        | 52.1        | 49.4        | 56.4        | 52.4        | 51.7        | 55.1        | 55.7        | 52.5        |
| Disputes                                   | 52.8        | 49.0        | 49.0        | 47.8        | 54.4        | 52.3        | 50.2        | 49.8        | 52.3        | 52.9        | 55.9        | 51.3        | 50.8        |
| Dollar amount beyond terms                 | 54.0        | 52.5        | 46.2        | 49.3        | 54.7        | 54.6        | 47.6        | 54.1        | 50.4        | 54.0        | 56.7        | 54.8        | 49.7        |
| Dollar amount of customer deductions       | 51.1        | 51.6        | 49.9        | 48.9        | 53.3        | 50.9        | 49.1        | 50.0        | 52.5        | 51.6        | 54.8        | 52.8        | 52.7        |
| Filings for bankruptcies                   | 52.6        | 61.9        | 58.8        | 62.6        | 60.9        | 61.2        | 60.2        | 59.1        | 59.3        | 61.8        | 61.0        | 62.0        | 58.3        |
| <b>Index of unfavorable factors</b>        | <b>52.1</b> | <b>52.7</b> | <b>51.1</b> | <b>52.0</b> | <b>54.9</b> | <b>54.4</b> | <b>51.7</b> | <b>53.5</b> | <b>53.2</b> | <b>54.3</b> | <b>56.3</b> | <b>55.2</b> | <b>52.7</b> |
| <b>NACM Service CMI</b>                    | <b>57.5</b> | <b>60.3</b> | <b>57.5</b> | <b>58.2</b> | <b>60.1</b> | <b>58.3</b> | <b>55.9</b> | <b>57.7</b> | <b>57.8</b> | <b>58.2</b> | <b>58.4</b> | <b>57.0</b> | <b>55.4</b> |
| <b>ISM Service Business Activity Index</b> | <b>59.3</b> | <b>61.0</b> | <b>56.8</b> | <b>60.1</b> | <b>60.5</b> | <b>63.0</b> | <b>60.1</b> | <b>57.0</b> | <b>54.8</b> | <b>57.0</b> | <b>52.9</b> | <b>57.1</b> | <b>N/A</b>  |



**November 2006 vs. November 2005**

“Over the past 12 months, all three indexes have fallen,” North noted. “While all of the indexes remain above the 50 level indicating expansion, there has also been a steady erosion similar to that of the macroeconomy as a whole. The manufacturing sector has dropped 2.7 percent, the services sector 2.1 percent and the combined index 2.4 percent.”

**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.

| <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 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 25,000 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](http://www.nacm.org) or by contacting Caroline Zimmerman at 410-740-5560.