

NACM Credit Manager's Index

Report for November 2007

Issued December 3, 2007
 National Association of Credit Management
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Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell for the third consecutive month in November, losing 0.7% as both service and manufacturing sector indexes declined. Although the drop was relatively small, all six unfavorable factors components fell, leaving five below the 50 level, indicating economic contraction. "This is the first time that there has ever been more than four components indicating contraction since the inception of the CMI in 2002, and it could well be a harbinger of things to come," said Daniel North, chief economist with credit insurer Euler Hermes ACI.

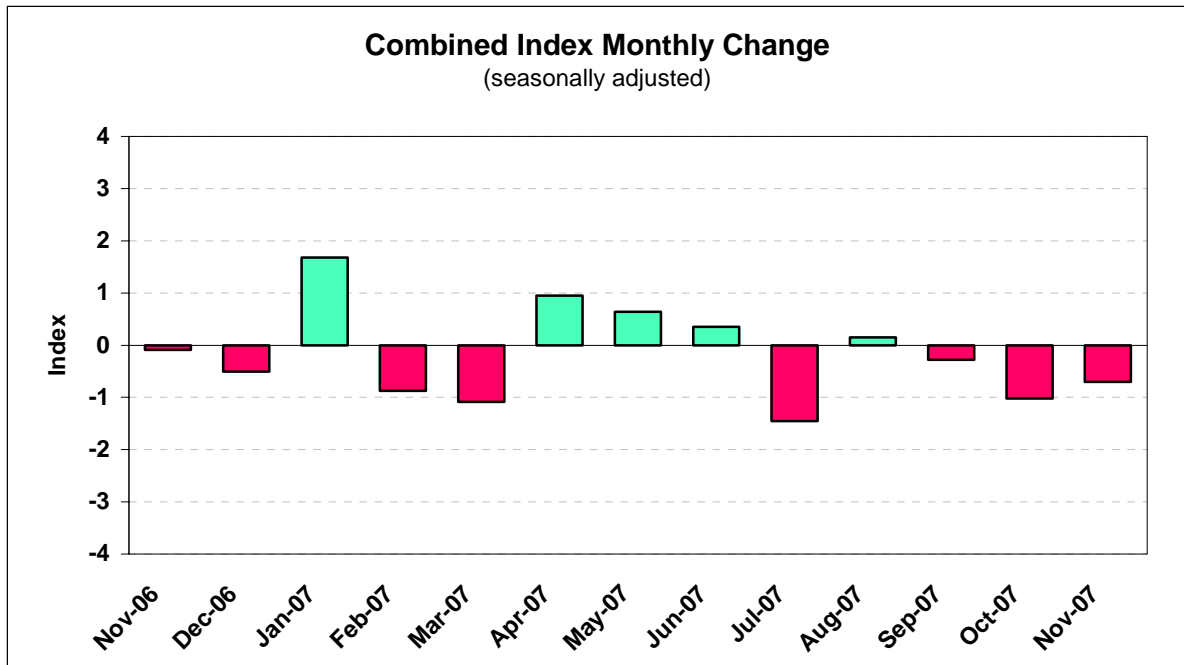
North listed current conditions: gasoline prices are high, housing prices are low, the dollar is crumbling, consumer confidence is plummeting, holiday sales have been mixed at best, credit is drying up, bankruptcies and foreclosures are on the rise, the employment situation is decaying and conditions in the housing industry are getting worse. "It is a potent combination which could lead the economy into a recession in the first half of next year, yet both the economy and the CMI have remained resilient so far," he said. "However, cracks are starting to show and the Fed will almost certainly cut the Fed Funds rate again at its December 11th meeting in an effort to forestall a recession. In all likelihood, the Fed will have to continue to cut the Fed Funds rate well into 2008, perhaps as low as 3.5%. Credit managers are facing tougher times ahead."

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)

	Nov '06	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '07
Sales	59.5	60.9	61.6	59.6	58.1	62.8	61.5	61.9	60.2	59.1	59.0	54.7	58.6
New credit applications	56.5	60.5	60.9	52.5	55.9	56.7	56.2	58.6	56.0	55.6	55.3	53.3	56.4
Dollar collections	62.6	59.5	64.8	66.2	58.4	61.5	61.9	61.0	60.2	60.1	60.0	60.0	61.2
Amount of credit extended	64.0	63.7	65.3	63.6	62.4	59.3	62.2	63.6	63.0	61.6	60.1	58.7	60.9
Index of favorable factors	60.6	61.2	63.2	60.5	58.7	60.1	60.5	61.3	59.9	59.1	58.6	56.7	59.2
Rejection of credit applications	51.7	50.1	51.6	52.7	51.9	52.4	52.7	52.6	53.4	51.1	51.8	52.0	49.9
Accounts placed for collection	50.7	47.8	50.2	50.3	48.4	54.0	51.5	52.0	49.8	50.7	49.0	49.6	47.4
Disputes	49.9	47.9	51.0	52.1	51.0	51.2	50.7	51.9	51.9	52.2	50.2	49.4	47.8
Dollar amount beyond terms	50.2	48.1	50.1	50.5	53.5	50.1	53.0	52.0	48.9	51.4	55.3	48.4	45.8
Dollar amount of customer deductions	51.3	49.2	51.7	52.0	49.3	49.3	53.3	53.0	48.8	52.2	49.9	51.5	49.6
Filings for bankruptcies	56.3	59.7	57.0	55.9	55.7	56.8	57.4	57.5	57.3	57.2	57.7	60.4	53.5
Index of unfavorable factors	51.7	50.5	51.9	52.3	51.6	52.3	53.1	53.2	51.7	52.4	52.3	51.9	49.0
NACM CMI	55.2	54.7	56.4	55.5	54.5	55.4	56.1	56.4	55.0	55.1	54.8	53.8	53.1
ISM Combined Sectors Index*	54.1	54.1	54.2	53.3	51.7	55.4	57.4	58.4	54.8	54.4	53.4	53.4	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.

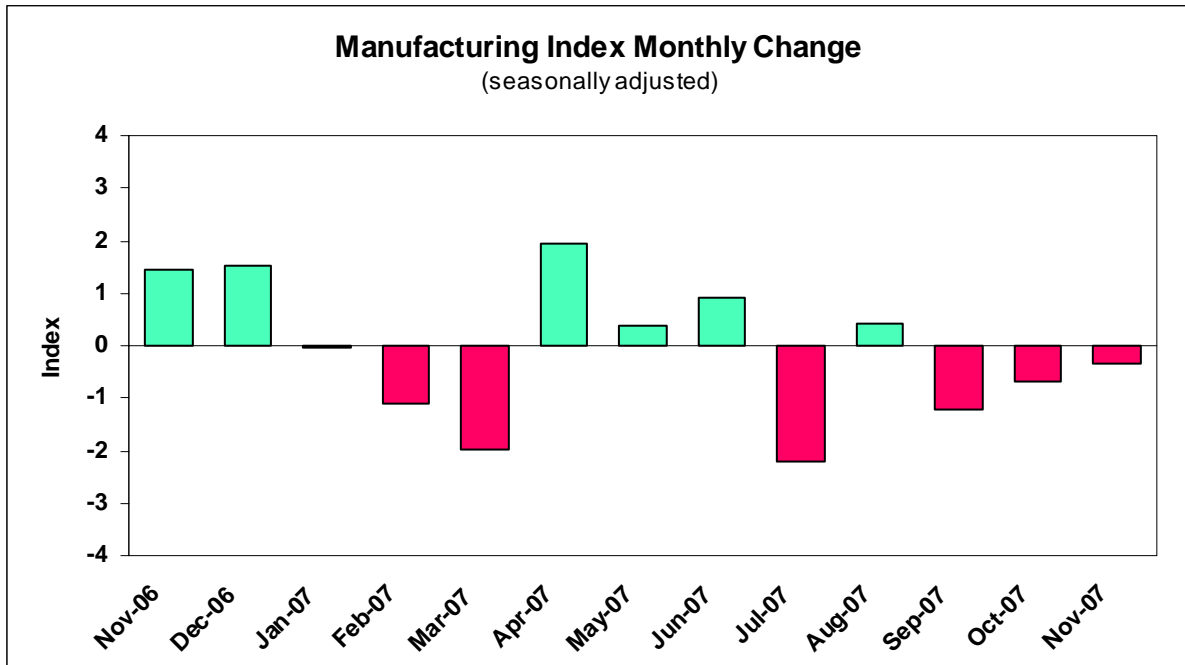


Manufacturing Sector

The manufacturing sector fell 0.3% in November to a seasonally adjusted 52.7. Five of the 10 components fell, with bankruptcies plummeting 7.9%, the second largest drop on record. "As has been the case for months now, comments from the survey participants were mostly about the terrible conditions in the housing market, but this month there are some unhappy comments from other industries as well indicating more widespread weakness," said North. Of note, a manufacturer of nuts, bolts, screws, etc. responded that manufacturing is cutting back to a four-day week. A petroleum refiner said, "We are seeing stress across industries due to rising energy and raw material costs." And a manufacturer of cookies and crackers commented how the housing crisis is now directly affecting even the food industry: "We're affected by the trauma of home builders, mortgage banks and title companies." North commented that the bright spot of the report was that the sales component erased all of last month's 5.2% fall.

Manufacturing Sector (seasonally adjusted)

	Nov '06	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '07
Sales	63.5	69.4	58.9	58.7	56.5	60.9	59.5	62.9	60.9	59.2	59.3	54.2	59.4
New credit applications	56.6	62.1	60.0	52.8	54.6	57.1	57.3	58.7	56.4	55.7	57.5	54.1	56.6
Dollar collections	62.6	59.9	64.6	65.3	55.3	60.3	60.2	59.5	61.3	60.4	59.8	57.6	60.8
Amount of credit extended	64.7	66.9	65.4	59.9	60.0	54.3	62.0	61.8	62.6	62.7	59.1	57.3	61.3
Index of favorable factors	61.9	64.6	62.2	59.2	56.6	58.1	59.7	60.7	60.3	59.5	58.9	55.8	59.5
Rejection of credit applications	51.1	50.7	52.6	54.1	53.1	51.9	51.8	52.6	53.4	50.8	50.7	51.6	49.9
Accounts placed for collection	48.9	51.0	51.9	52.6	47.7	55.6	51.0	52.7	48.3	50.8	46.4	50.7	46.3
Disputes	49.0	46.7	52.2	52.8	49.9	51.4	49.9	51.4	49.8	50.6	46.1	47.8	45.5
Dollar amount beyond terms	50.7	50.1	51.5	50.0	53.7	55.3	56.0	56.6	50.0	50.0	53.6	46.3	46.9
Dollar amount of customer deductions	49.8	49.3	52.5	52.2	48.5	49.2	53.2	53.3	47.4	50.8	47.2	48.7	45.9
Filings for bankruptcies	54.3	60.2	56.6	56.5	55.8	58.6	57.5	58.0	55.4	58.4	57.5	62.0	54.2
Index of unfavorable factors	50.6	51.3	52.9	53.0	51.5	53.7	53.2	54.1	50.7	51.9	50.3	51.2	48.1
NACM Manufacturing CMI	55.1	56.6	56.6	55.5	53.5	55.5	55.8	56.7	54.6	55.0	53.7	53.0	52.7
ISM Manufacturing PMI	49.9	51.4	49.3	52.3	50.9	54.7	55.0	56.0	53.8	52.9	52.0	50.9	NA

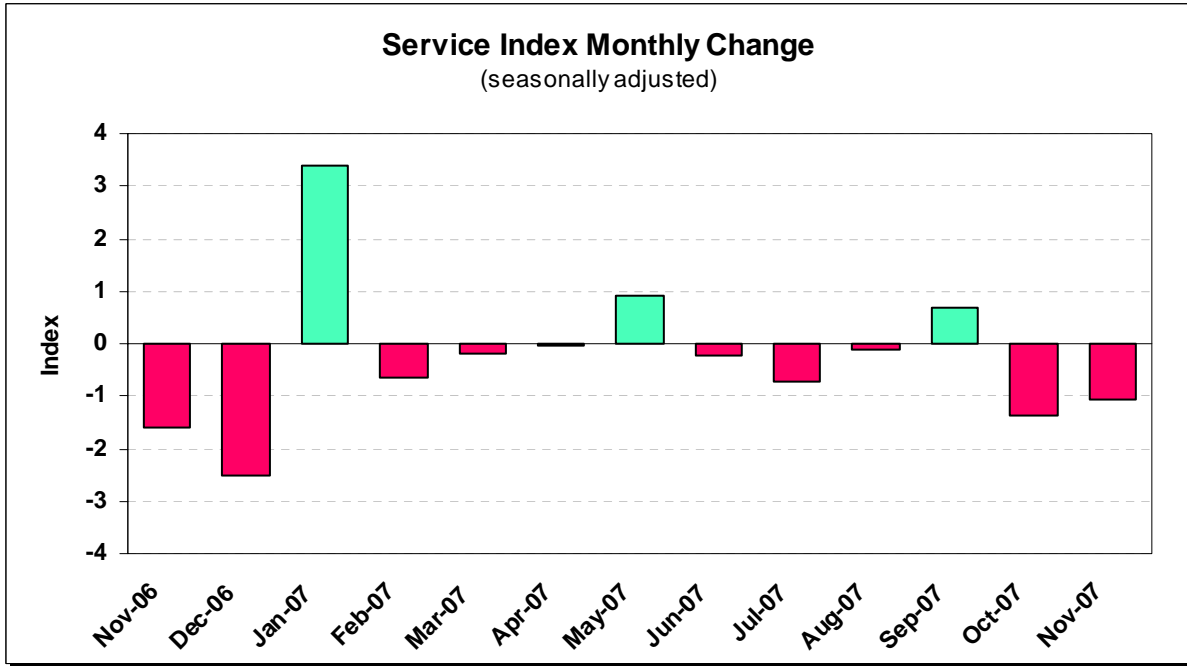


Service Sector

The service sector index fell 1.1% on a seasonally adjusted basis in November. The decline was widespread as six of the 10 components fell. "Like in the manufacturing sector, bankruptcies led the way down, falling 5.9%," North said. "Also like the manufacturing sector, most comments were negative ones about the housing industry, but downbeat comments from other industries are now ringing in." North summarized the responses, saying, "One participant from the photocopying industry replied, 'Even our best customers are paying beyond 100 days past due.' Another from the plastics industry, referring to the impact of higher oil prices, said, 'We have had several customers close their doors as a result.' Finally, another from the tire industry described the state of the economy perfectly: 'There appears to be no question that the economy is turning negative. With the housing industry in a slump and the price of gas over \$3.00 a gallon, individuals simply do not have the money they once had to make retail purchases.'"

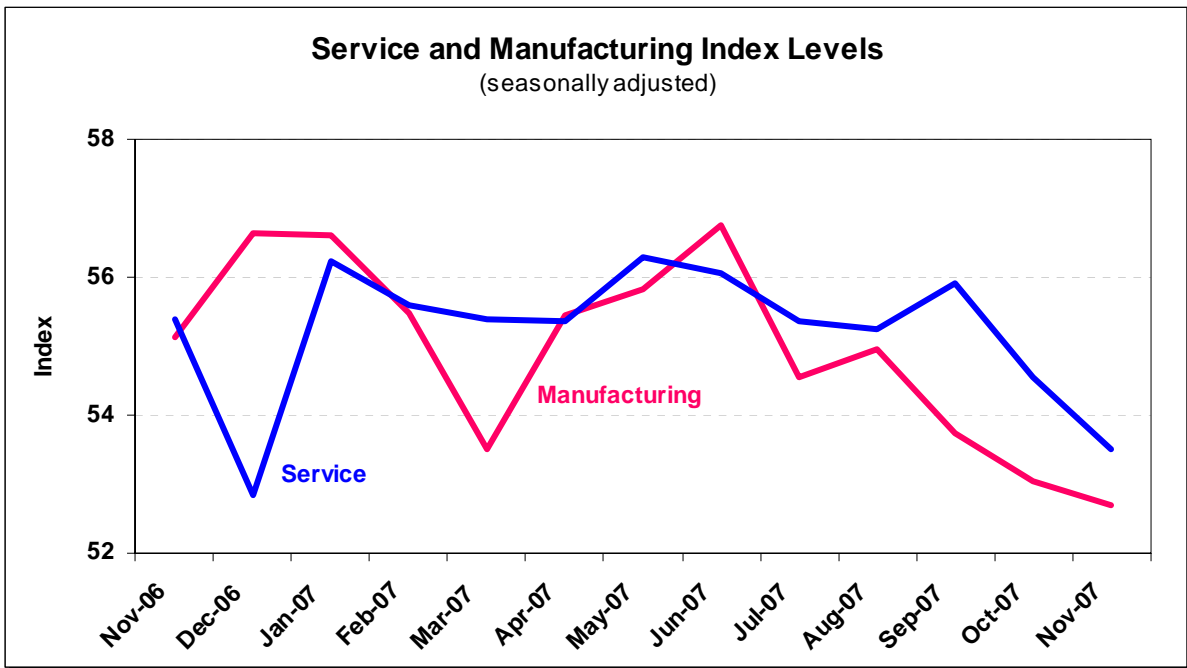
Service Sector (seasonally adjusted)

	Nov '06	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '07
Sales	55.5	52.4	64.3	60.5	59.8	64.8	63.5	60.9	59.5	59.0	58.6	55.1	57.7
New credit applications	56.3	58.9	61.9	52.3	57.1	56.3	55.2	58.5	55.5	55.5	53.1	52.4	56.1
Dollar collections	62.5	59.1	65.0	67.1	61.6	62.7	63.7	62.5	59.1	59.7	60.2	62.5	61.5
Amount of credit extended	63.4	60.5	65.2	67.3	64.7	64.2	62.4	65.5	63.5	60.5	61.1	60.2	60.4
Index of favorable factors	59.4	57.7	64.1	61.8	60.8	62.0	61.2	61.8	59.4	58.7	58.2	57.5	58.9
Rejection of credit applications	52.2	49.4	50.7	51.3	50.8	52.9	53.6	52.7	53.3	51.4	52.8	52.5	49.8
Accounts placed for collection	52.5	44.7	48.4	48.1	49.1	52.5	52.1	51.3	51.3	50.7	51.6	48.5	48.5
Disputes	50.8	49.1	49.8	51.4	52.1	50.9	51.5	52.4	54.0	53.7	54.2	51.0	50.1
Dollar amount beyond terms	49.7	46.1	48.7	51.1	53.2	44.8	50.1	47.3	47.9	52.7	57.0	50.4	44.8
Dollar amount of customer deductions	52.7	49.1	50.8	51.8	50.1	49.4	53.4	52.7	50.2	53.5	52.6	54.3	53.3
Filings for bankruptcies	58.3	59.2	57.5	55.2	55.6	55.0	57.4	57.0	59.2	55.9	57.9	58.8	52.9
Index of unfavorable factors	52.7	49.6	51.0	51.5	51.8	50.9	53.0	52.2	52.7	53.0	54.4	52.6	49.9
NACM Service CMI	55.4	52.9	56.2	55.6	55.4	55.4	56.3	56.1	55.4	55.3	55.9	54.6	53.5
ISM Service Business Activity Index	58.3	56.7	59.0	54.3	52.4	56.0	59.7	60.7	55.8	55.8	54.8	55.8	NA



November 2007 vs. November 2006

The Credit Manager's Index over the past 12 months has fallen 2.2%. North said, "Although there were no dramatic year-over-year movements in any of the components, the decline was widespread as all 10 components fell. Manufacturing fell 2.4% and service fell 1.9%. In both indexes, eight of the 10 components fell, supporting the notion of a pervasive but slow decline."



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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