

NACM Credit Manager's Index

Report for November 2008

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

Combined Sectors

“The seasonally adjusted Credit Manager's Index (CMI) for November painted an even uglier portrait of the economy than it did last month, dropping 2.6 to a record low of 42.2, well below the 50 level indicating economic contraction,” reported Daniel North, chief economist with credit insurer Euler Hermes ACI, who evaluates the data and prepares the report for the National Association of Credit Management. “The amount of negative data was overwhelming, as eight of the 10 components fell and seven set record lows, leaving all 10 components below 50,” he said. On a year-over-year basis, four components and the total index itself fell record amounts. Both the manufacturing and service sectors set record lows.

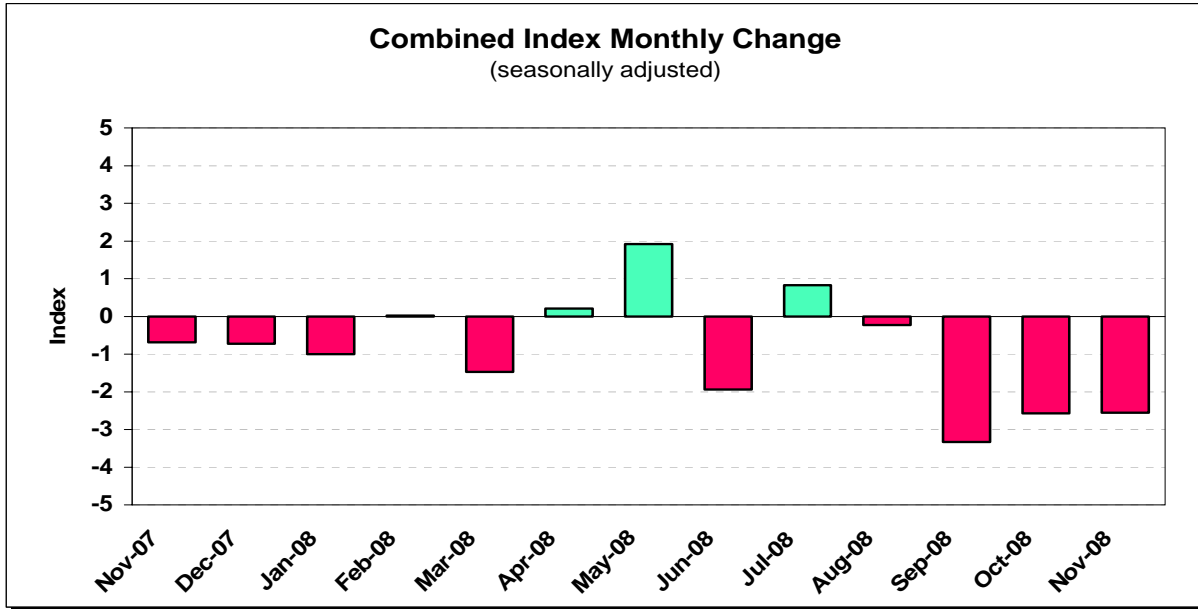
“The macroeconomic data continues to describe an economy which is in bad shape and which seems to be deteriorating,” said North. Unemployment is on the rise as hundreds of thousands of jobs are being lost every month, retail sales are falling dramatically, especially on an inflation-adjusted basis, third quarter GDP growth was negative and credit is still very difficult to get. “It's little wonder that credit managers are seeing so much demand for trade credit, but at the same time they are facing a very difficult business environment where their sales are deteriorating on the front end, and their customers can't re-pay them at the back end,” said North. “Unfortunately, the holiday shopping season is here, and the results are likely to be grim. It will be great news if they are only as bad as they are expected to be.”

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 '07	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '08
Sales	58.6	56.3	51.7	57.1	50.8	54.0	57.7	54.2	55.7	56.4	45.3	45.6	34.4
New credit applications	56.4	55.8	52.8	54.7	53.0	54.4	55.0	50.2	53.9	52.8	49.6	49.7	45.2
Dollar collections	61.2	57.2	56.8	60.5	55.1	54.8	61.3	56.4	60.4	57.1	54.6	50.9	49.9
Amount of credit extended	60.9	59.8	57.0	55.0	55.8	57.0	60.4	58.8	58.5	60.0	53.9	47.6	43.3
Index of favorable factors	59.2	57.3	54.5	56.8	53.7	55.0	58.6	54.9	57.1	56.6	50.8	48.4	43.2
Rejections of credit applications	49.9	50.0	50.9	48.4	49.0	48.9	48.1	49.1	48.1	48.5	47.8	44.6	45.0
Accounts placed for collection	47.4	46.2	47.1	42.5	45.2	45.8	43.0	44.5	43.4	45.6	41.6	36.4	36.1
Disputes	47.8	49.5	49.5	47.3	49.0	46.9	50.1	47.9	46.3	46.3	45.8	42.9	43.8
Dollar amount beyond terms	45.8	46.3	45.1	49.0	43.5	42.5	43.7	42.7	47.9	43.6	42.0	41.8	38.8
Dollar amount of customer deductions	49.6	50.3	50.3	47.4	49.0	47.5	49.9	48.1	47.8	48.5	46.6	45.8	45.4
Filings for bankruptcies	53.5	52.3	52.6	52.1	48.6	49.2	51.2	49.0	47.1	48.2	46.4	42.6	40.5
Index of unfavorable factors	49.0	49.1	49.3	47.8	47.4	46.8	47.6	46.9	46.8	46.8	45.0	42.4	41.6
NACM CMI	53.1	52.4	51.4	51.4	49.9	50.1	52.0	50.1	50.9	50.7	47.4	44.8	42.2
ISM Combined Sectors Index*	51.2	50.8	47.7	48.8	49.1	50.3	50.7	49.2	49.8	50.3	46.9	41.7	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.



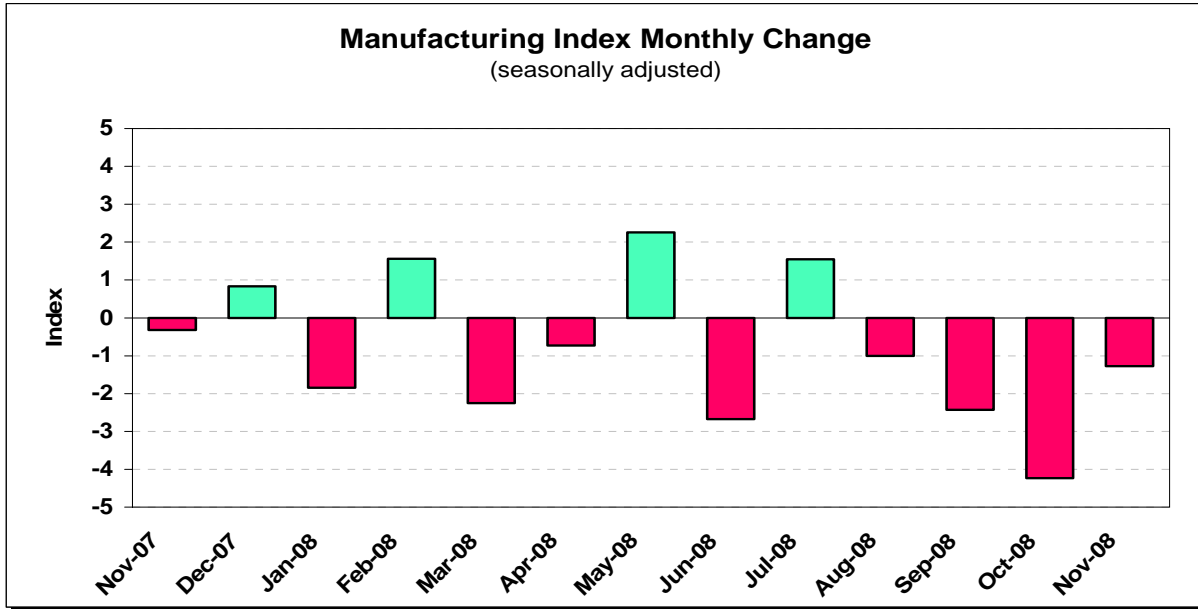
Manufacturing Sector

The seasonally adjusted manufacturing sector index fell 1.3 to a record low of 42.4. Six components fell, all 10 are below the 50 level and five set record lows. “Ominously, the sales component has taken a terrible beating, falling from a robust 57.4 in August to a sickly 38.5 in just three months,” said North. Survey participants from various industries describe the environment:

- Concrete: “Customers are having more difficulty in paying...We are sitting on a potential ‘perfect storm’ scenario”
- Fasteners: “Manufacturing demand way down—30%”
- Scales and balances: “Orders continue to slow, more customers have reduced purchase commitments or canceled orders”
- Manufacturing: “Ugly economy without historical precedent”

Manufacturing Sector (seasonally adjusted)

	Nov '07	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '08
Sales	59.4	61.9	53.0	56.2	53.1	54.0	59.9	54.4	56.5	57.4	45.2	46.1	38.5
New credit applications	56.6	58.0	54.2	53.5	55.6	55.5	54.9	51.1	55.0	53.0	50.9	49.2	45.5
Dollar collections	60.8	58.7	56.9	67.1	55.6	54.6	58.8	54.4	60.8	56.2	55.6	46.3	49.6
Amount of credit extended	61.3	61.8	57.3	57.4	56.5	57.7	58.6	57.9	58.8	62.0	56.2	48.1	42.8
Index of favorable factors	59.5	60.1	55.4	58.6	55.2	55.4	58.0	54.4	57.8	57.1	52.0	47.4	44.1
Rejections of credit applications	49.9	50.3	52.2	50.9	49.5	48.8	49.4	49.4	48.7	48.1	49.0	46.2	45.2
Accounts placed for collection	46.3	43.5	46.6	45.7	48.3	47.1	45.9	45.8	44.8	47.4	42.3	36.0	35.3
Disputes	45.5	49.8	50.0	52.1	47.0	46.3	48.8	46.9	45.2	43.8	45.5	41.3	44.4
Dollar amount beyond terms	46.9	47.4	42.7	46.3	46.0	44.0	45.7	41.8	47.7	41.8	43.1	38.6	40.0
Dollar amount of customer deductions	45.9	49.8	50.5	50.7	48.0	45.5	50.1	48.4	46.5	46.9	45.9	42.8	44.2
Filings for bankruptcies	54.2	54.1	53.2	52.4	50.2	48.7	53.0	48.2	49.7	47.2	45.6	42.6	38.7
Index of unfavorable factors	48.1	49.2	49.2	49.7	48.2	46.7	48.8	46.8	47.1	45.9	45.3	41.3	41.3
NACM Manufacturing CMI	52.7	53.5	51.7	53.2	51.0	50.2	52.5	49.8	51.4	50.4	47.9	43.7	42.4
ISM Manufacturing PMI	50.0	48.4	50.7	48.3	48.6	48.6	49.6	50.2	50.0	49.9	43.5	38.9	NA



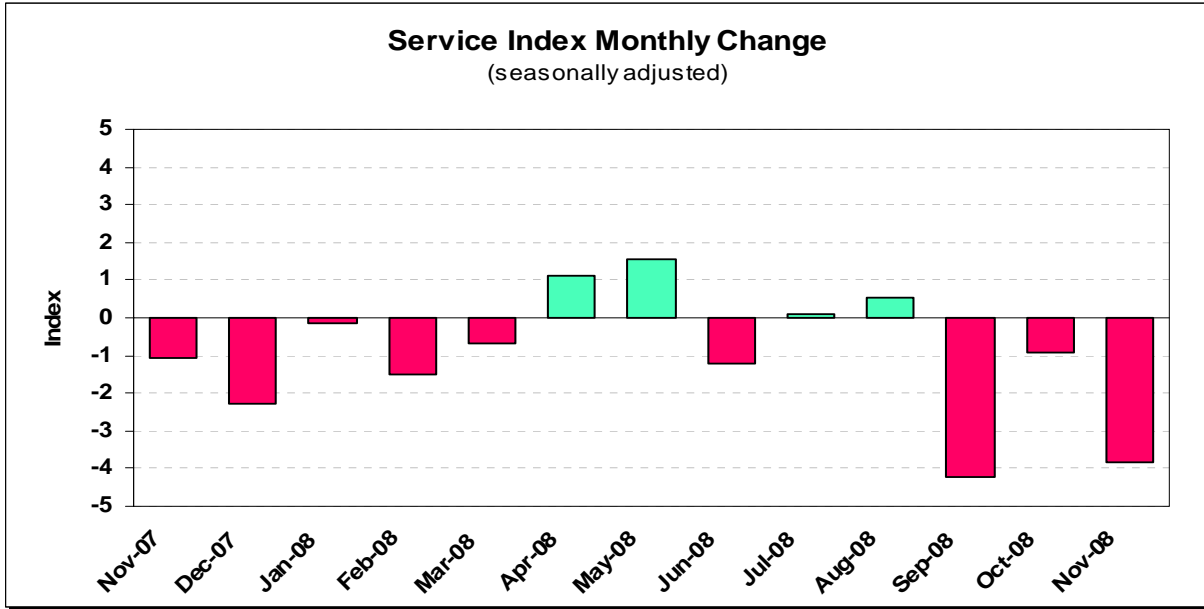
Service Sector

The seasonally adjusted service sector index fell 3.9 to a record low of 42.0. Eight components fell, five setting record lows. A record nine components are now below 50. "The sales component fared even worse in services than it did in manufacturing, dropping a gigantic 14.9 to 30.2," said North. "Three months ago, the sales component was at a healthy 55.5." Survey participants describe the carnage:

- Printing and paper: "cash is tight...customers being paid slower...banks have not started lending again"
- Equipment and supplies: "customers unable to pay and asking for payment plans"
- Hotels: "More people asking for 'payment plans' to pay off existing debt"
- Lumber: "...down by at least 50% compared to same time last year"
- Electrical equipment: "'little guys' without deep pockets...are going bankrupt. We have filed more liens within the last three months than...in the last 8 years"
- Industrial machinery; "we are tightening credit across the board...increasing down payments and lowering credit lines to squeeze out extra cash...preserve capital at all costs even if it negatively impacts sales."

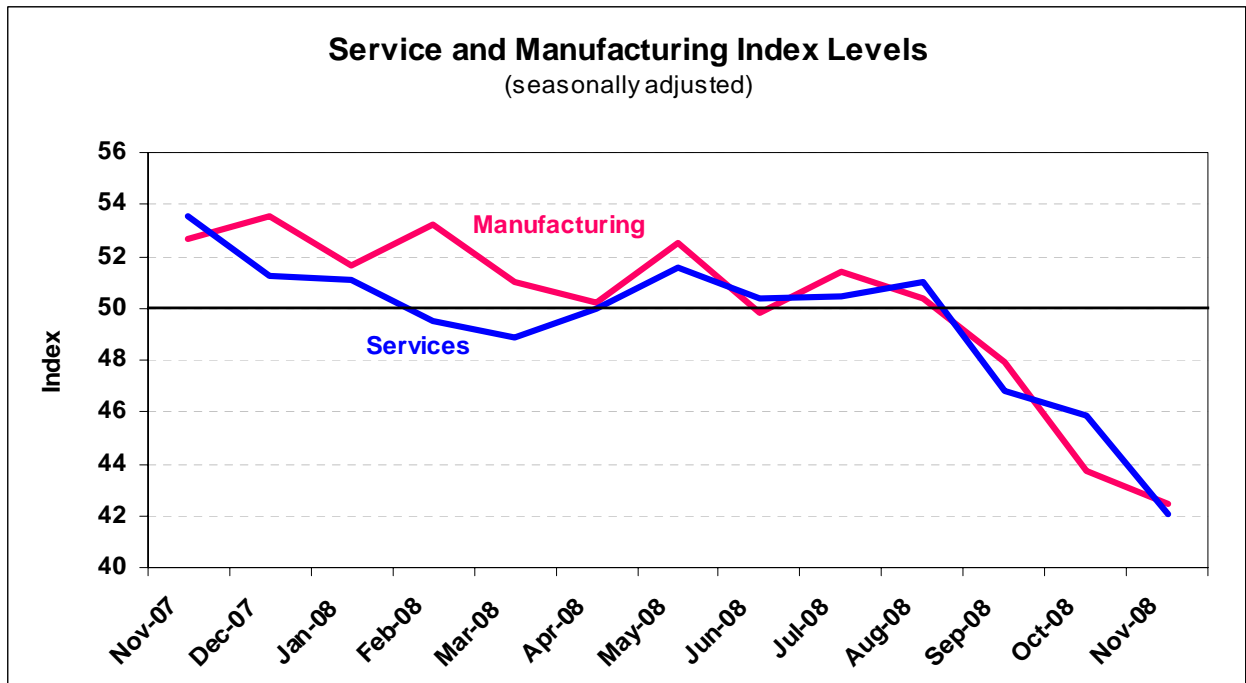
Service Sector (seasonally adjusted)

	Nov '07	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov '08
Sales	57.7	50.8	50.3	58.0	48.5	53.9	55.5	54.0	54.9	55.5	45.4	45.1	30.2
New credit applications	56.1	53.6	51.3	55.8	50.4	53.4	55.1	49.3	52.7	52.6	48.4	50.2	44.8
Dollar collections	61.5	55.8	56.6	53.9	54.6	55.0	63.8	58.4	60.1	58.0	53.6	55.5	50.3
Amount of credit extended	60.4	57.8	56.7	52.5	55.1	56.3	62.2	59.8	58.3	58.0	51.5	47.2	43.7
Index of favorable factors	58.9	54.5	53.7	55.1	52.1	54.7	59.2	55.4	56.5	56.0	49.7	49.5	42.2
Rejections of credit applications	49.8	49.7	49.7	45.9	48.5	49.0	46.7	48.7	47.5	48.8	46.5	43.0	44.7
Accounts placed for collection	48.5	48.8	47.6	39.3	42.2	44.4	40.1	43.2	42.1	43.8	41.0	36.7	36.9
Disputes	50.1	49.2	49.1	42.4	51.0	47.4	51.3	48.9	47.4	48.9	46.1	44.5	43.3
Dollar amount beyond terms	44.8	45.3	47.4	51.8	41.1	41.1	41.6	43.7	48.0	45.4	40.9	44.9	37.6
Dollar amount of customer deductions	53.3	50.8	50.1	44.1	50.0	49.5	49.6	47.8	49.0	50.0	47.3	48.8	46.6
Filings for bankruptcies	52.9	50.4	51.9	51.7	47.0	49.7	49.4	49.8	44.6	49.2	47.3	42.6	42.2
Index of unfavorable factors	49.9	49.0	49.3	45.9	46.6	46.8	46.5	47.0	46.4	47.7	44.8	43.5	41.9
NACM Service CMI	53.5	51.2	51.1	49.5	48.8	50.0	51.5	50.3	50.5	51.0	46.8	45.9	42.0
ISM Service Business Activity Index	52.4	53.2	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	50.2	44.4	NA



November 2008 vs. November 2007

“On a seasonally adjusted basis over the past 12 months, the Credit Manager’s Index has declined dramatically, falling a record 10.9 as four of the combined components set record declines,” reported North. “Much of the decline has come in just the past three months. The manufacturing index has fallen a record 10.3 from 52.7 to 42.4, and the service index has fallen a record 11.5 from 53.5 to 42.0. The largest single component to drop in each index was sales, falling 20.9 in manufacturing and a stunning 27.5 in services. It is a difficult environment when customers can’t pay back their bills, but it makes it even worse if they are not buying in the first place.”



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 800 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 creditworthy 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.

**Note: As these rise, the numbers reflected in the index do the inverse, reflecting worsening conditions.*

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