

NACM Credit Manager's Index

Report for October 2007

Issued November 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) fell 1.0% in October as half of the 10 components fell. While the decrease was modest, it drove the CMI to its lowest level since February of 2003. Both the manufacturing and service sectors declined and in both, the largest single drop by far was in the dollar amount beyond terms component. For the combined index this component fell sharply by 6.9%.

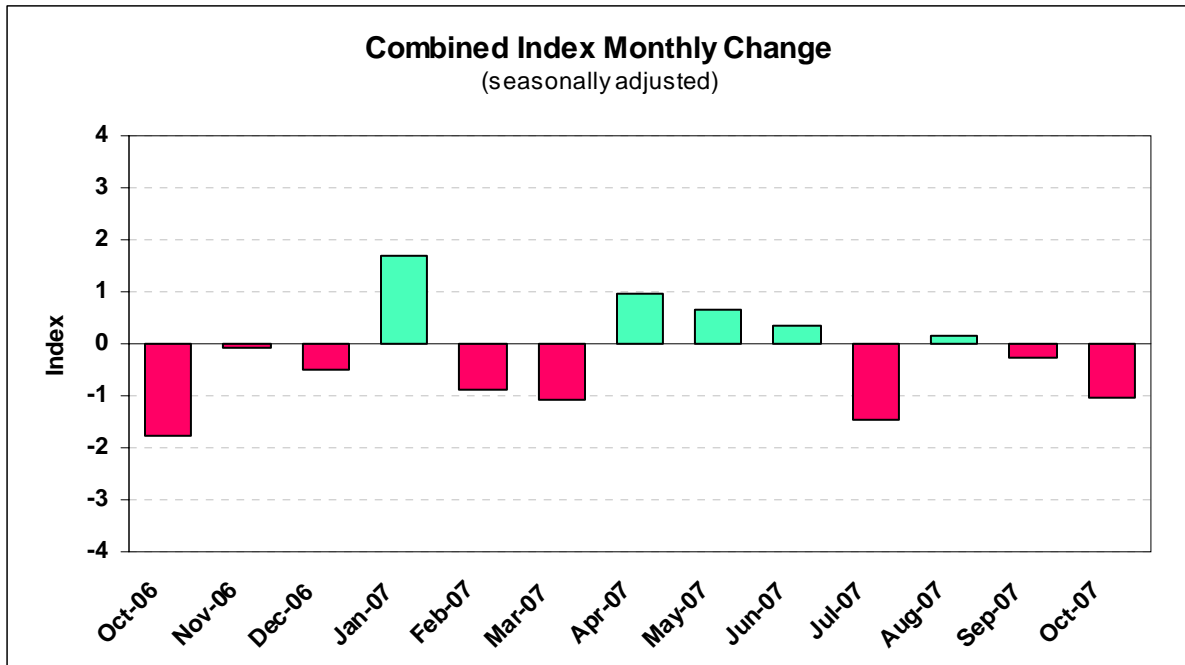
Euler Hermes ACI Chief Economist Daniel North summarized the results saying, "The data suggest that our respondents' customers are having difficulty coming up with enough cash to pay their bills on time. This condition could be a result either of their own customers' inability to pay on time, or perhaps because they have built up too much inventory which hasn't sold as quickly as planned. Whatever the origin of the problem, it probably reflects the weakness in the economy that is likely to turn worse over the next few quarters. So far, credit managers have been able to contain the triple threat of higher oil prices, the burst housing market bubble and the lingering effects of tightened monetary policy conditions. But the combination of falling indexes, and three of the 10 combined components dipping below the 50 level indicating contraction, suggests that the deterioration in the rest of the economy may be starting to catch up with them."

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)

	Oct '06	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '07
Sales	56.3	59.5	60.9	61.6	59.6	58.1	62.8	61.5	61.9	60.2	59.1	59.0	54.7
New credit applications	56.2	56.5	60.5	60.9	52.5	55.9	56.7	56.2	58.6	56.0	55.6	55.3	53.3
Dollar collections	58.3	62.6	59.5	64.8	66.2	58.4	61.5	61.9	61.0	60.2	60.1	60.0	60.0
Amount of credit extended	63.2	64.0	63.7	65.3	63.6	62.4	59.3	62.2	63.6	63.0	61.6	60.1	58.7
Index of favorable factors	58.5	60.6	61.2	63.2	60.5	58.7	60.1	60.5	61.3	59.9	59.1	58.6	56.7
Rejection of credit applications	54.8	51.7	50.1	51.6	52.7	51.9	52.4	52.7	52.6	53.4	51.1	51.8	52.0
Accounts placed for collection	53.1	50.7	47.8	50.2	50.3	48.4	54.0	51.5	52.0	49.8	50.7	49.0	49.6
Disputes	49.7	49.9	47.9	51.0	52.1	51.0	51.2	50.7	51.9	51.9	52.2	50.2	49.4
Dollar amount beyond terms	52.2	50.2	48.1	50.1	50.5	53.5	50.1	53.0	52.0	48.9	51.4	55.3	48.4
Dollar amount of customer deductions	50.5	51.3	49.2	51.7	52.0	49.3	49.3	53.3	53.0	48.8	52.2	49.9	51.5
Filings for bankruptcies	59.1	56.3	59.7	57.0	55.9	55.7	56.8	57.4	57.5	57.3	57.2	57.7	60.4
Index of unfavorable factors	53.2	51.7	50.5	51.9	52.3	51.6	52.3	53.1	53.2	51.7	52.4	52.3	51.9
NACM CMI	55.3	55.2	54.7	56.4	55.5	54.5	55.4	56.1	56.4	55.0	55.1	54.8	53.8
ISM Combined Sectors Index*	54.5	54.1	54.1	54.2	53.3	51.7	55.4	57.4	58.4	54.8	54.4	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.

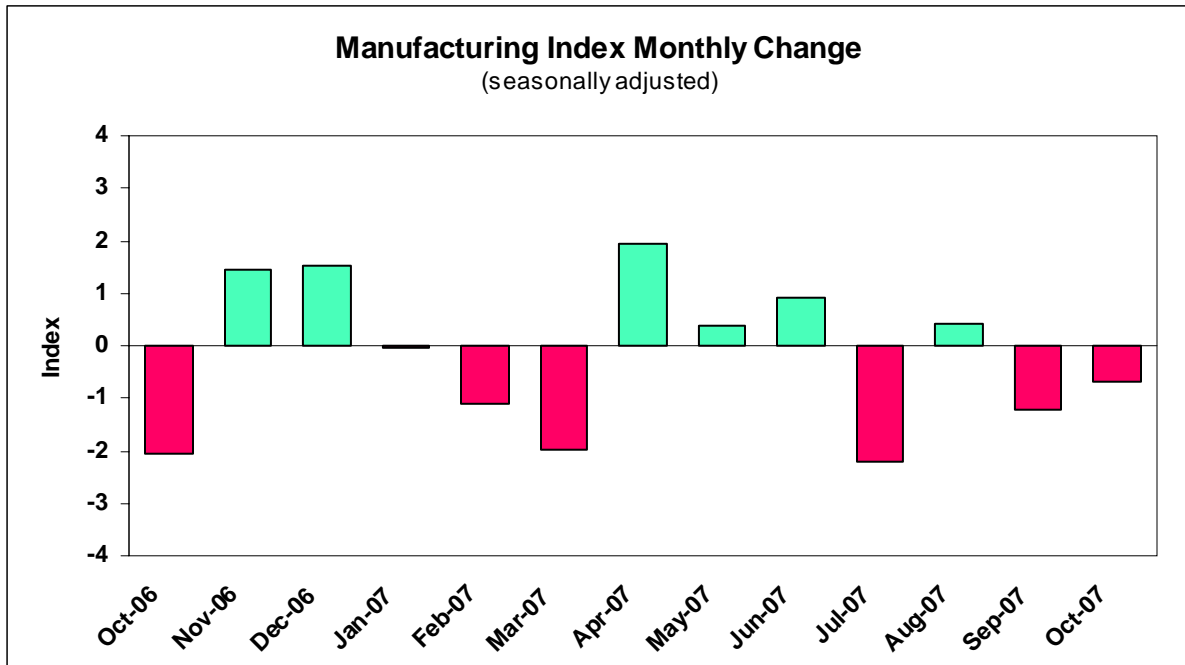


Manufacturing Sector

The manufacturing sector fell 0.7%, led by the dollar amount beyond terms component that fell a sharp 7.3%. Five of the 10 components fell. "While a large portion of the comments centered on the housing slump, there were comments from several other industries as well," said North. One respondent in the abrasives industry noted that they were "seeing some domestic slow down," and a participant from the newspaper industry wrote that "certain local industries continue to experience severe financial crisis (sic), citing cash flow problems, reduced sales and inability to get financing."

Manufacturing Sector (seasonally adjusted)

	Oct '06	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '07
Sales	55.7	63.5	69.4	58.9	58.7	56.5	60.9	59.5	62.9	60.9	59.2	59.3	54.2
New credit applications	55.8	56.6	62.1	60.0	52.8	54.6	57.1	57.3	58.7	56.4	55.7	57.5	54.1
Dollar collections	54.8	62.6	59.9	64.6	65.3	55.3	60.3	60.2	59.5	61.3	60.4	59.8	57.6
Amount of credit extended	62.6	64.7	66.9	65.4	59.9	60.0	54.3	62.0	61.8	62.6	62.7	59.1	57.3
Index of favorable factors	57.2	61.9	64.6	62.2	59.2	56.6	58.1	59.7	60.7	60.3	59.5	58.9	55.8
Rejection of credit applications	55.1	51.1	50.7	52.6	54.1	53.1	51.9	51.8	52.6	53.4	50.8	50.7	51.6
Accounts placed for collection	50.6	48.9	51.0	51.9	52.6	47.7	55.6	51.0	52.7	48.3	50.8	46.4	50.7
Disputes	48.2	49.0	46.7	52.2	52.8	49.9	51.4	49.9	51.4	49.8	50.6	46.1	47.8
Dollar amount beyond terms	49.5	50.7	50.1	51.5	50.0	53.7	55.3	56.0	56.6	50.0	50.0	53.6	46.3
Dollar amount of customer deductions	48.2	49.8	49.3	52.5	52.2	48.5	49.2	53.2	53.3	47.4	50.8	47.2	48.7
Filings for bankruptcies	56.3	54.3	60.2	56.6	56.5	55.8	58.6	57.5	58.0	55.4	58.4	57.5	62.0
Index of unfavorable factors	51.3	50.6	51.3	52.9	53.0	51.5	53.7	53.2	54.1	50.7	51.9	50.3	51.2
NACM Manufacturing CMI	53.7	55.1	56.6	56.6	55.5	53.5	55.5	55.8	56.7	54.6	55.0	53.7	53.0
ISM Manufacturing PMI	51.5	49.9	51.4	49.3	52.3	50.9	54.7	55.0	56.0	53.8	52.9	52.0	NA



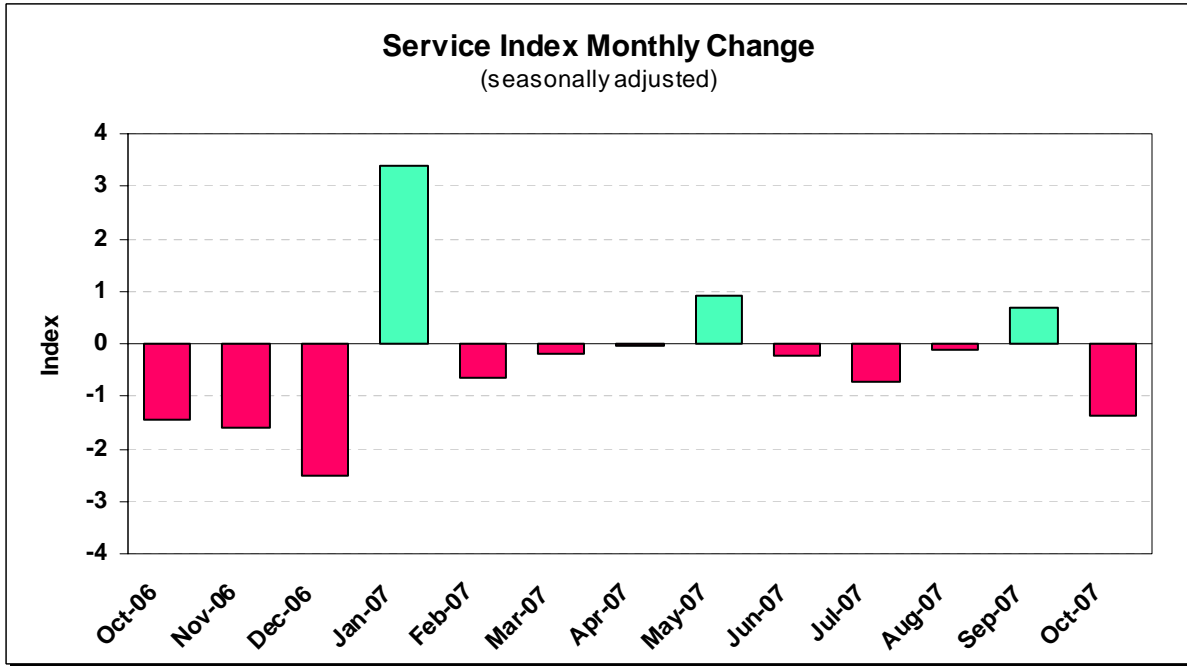
Service Sector

The service sector index fell 1.3% in October, led by a 6.6% decrease in the dollar amount beyond terms. "Respondents in the service sector had a lot to say about the economy in October, most of which was not good," North noted. He also added that the majority of comments predictably focused on the damage done by the housing market decline, but comments came from many other industries:

- Electrical equipment: "We're anticipating a slow down in sales for 2008."
- Trucking: "Delinquencies are increasing and potential bad debt is on the rise."
- Plastics: "We have had several companies closed due to their bank not renewing a loan."
- Food: "It is taking me at least 25% more time to collect the same money."
- Transportation: "Business is getting tougher, collections are much tougher and it looks like it will be this way for some time to come."
- Finally, from home furnishings came the simple, almost plaintive comment: "Sales are slow."

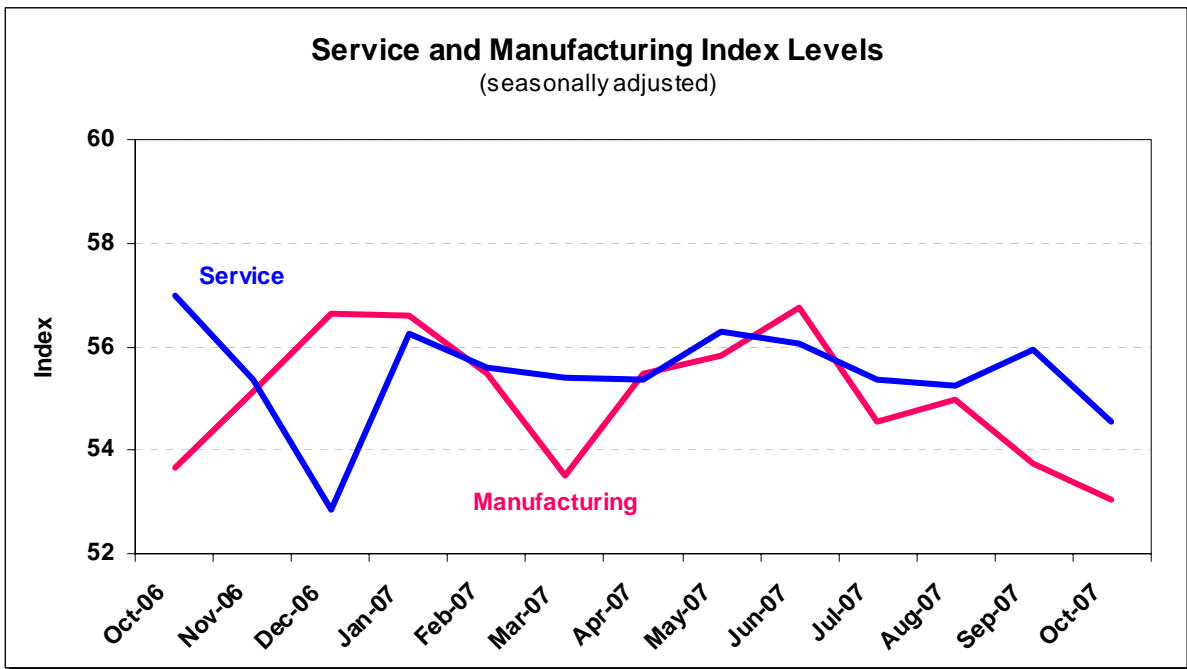
Service Sector (seasonally adjusted)

	Oct '06	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '07
Sales	56.8	55.5	52.4	64.3	60.5	59.8	64.8	63.5	60.9	59.5	59.0	58.6	55.1
New credit applications	56.6	56.3	58.9	61.9	52.3	57.1	56.3	55.2	58.5	55.5	55.5	53.1	52.4
Dollar collections	61.9	62.5	59.1	65.0	67.1	61.6	62.7	63.7	62.5	59.1	59.7	60.2	62.5
Amount of credit extended	63.7	63.4	60.5	65.2	67.3	64.7	64.2	62.4	65.5	63.5	60.5	61.1	60.2
Index of favorable factors	59.8	59.4	57.7	64.1	61.8	60.8	62.0	61.2	61.8	59.4	58.7	58.2	57.5
Rejection of credit applications	54.5	52.2	49.4	50.7	51.3	50.8	52.9	53.6	52.7	53.3	51.4	52.8	52.5
Accounts placed for collection	55.7	52.5	44.7	48.4	48.1	49.1	52.5	52.1	51.3	51.3	50.7	51.6	48.5
Disputes	51.3	50.8	49.1	49.8	51.4	52.1	50.9	51.5	52.4	54.0	53.7	54.2	51.0
Dollar amount beyond terms	54.8	49.7	46.1	48.7	51.1	53.2	44.8	50.1	47.3	47.9	52.7	57.0	50.4
Dollar amount of customer deductions	52.8	52.7	49.1	50.8	51.8	50.1	49.4	53.4	52.7	50.2	53.5	52.6	54.3
Filings for bankruptcies	62.0	58.3	59.2	57.5	55.2	55.6	55.0	57.4	57.0	59.2	55.9	57.9	58.8
Index of unfavorable factors	55.2	52.7	49.6	51.0	51.5	51.8	50.9	53.0	52.2	52.7	53.0	54.4	52.6
NACM Service CMI	57.0	55.4	52.9	56.2	55.6	55.4	55.4	56.3	56.1	55.4	55.3	55.9	54.6
ISM Service Business Activity Index	57.4	58.3	56.7	59.0	54.3	52.4	56.0	59.7	60.7	55.8	55.8	54.8	NA



October 2007 vs. October 2006

The Credit Manager's Index declined 1.5% over the past 12 months as seven of its 10 components fell. "The decline was led by the service sector, which lost 2.4% as seven of its components fell. The manufacturing sector fared better but still lost 0.6% as six of its components fell," North said. "Once again, the year-over-year data reflect a minor decline in the state of the economy compared to last year," he concluded.



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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