

NACM Credit Manager's Index

Report for October 2008

Issued November 3, 2008
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

“The seasonally adjusted Credit Manager's Index (CMI) for October revealed an increasing sense of doom among the participants, mirroring conditions in the rest of the economy,” said Daniel North, chief economist for credit insurer Euler Hermes ACI, who analyzes the data and prepares the CMI report for the National Association of Credit Management. The combined index fell 2.6% to a record low of 44.8%. Eight of the 10 components fell, nine are now below the 50 level, indicating economic contraction, and eight set record lows. “The misery was spread all around but manufacturing fared the worst, losing 4.2%, while services fell 0.9%,” said North. Both manufacturing and services were below 50% for the second consecutive month. “The ‘accounts placed for collection’ component was below 40% in both manufacturing and service sectors, suggesting that customers are trying their best to drag out terms in an effort to get credit in any form they can, because apparently banks aren't giving any,” said North.

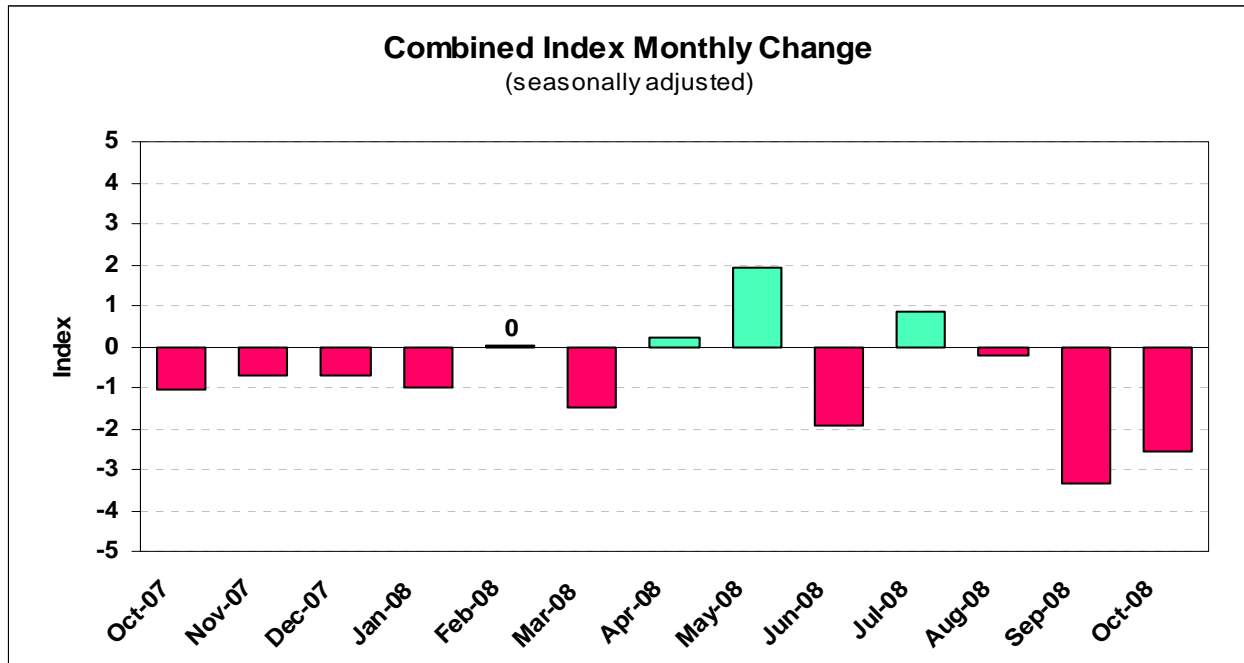
“Certainly the economy is in dismal shape after the effects of high energy prices and the housing market bubble burst have been dragging on for some time. Now the increasing number of job losses, shrinking GDP, negative real retail sales and a host of other indicators confirm that the recession has arrived. Perhaps most troubling though is the disruption in the financial markets which has severely curtailed the availability of credit. As a result, which credit managers are so clearly telling us, not only is the economy bad, but the credit situation is making it even worse,” said North.

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 '07	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '08
Sales	54.7	58.6	56.3	51.7	57.1	50.8	54.0	57.7	54.2	55.7	56.4	45.3	45.6
New credit applications	53.3	56.4	55.8	52.8	54.7	53.0	54.4	55.0	50.2	53.9	52.8	49.6	49.7
Dollar collections	60.0	61.2	57.2	56.8	60.5	55.1	54.8	61.3	56.4	60.4	57.1	54.6	50.9
Amount of credit extended	58.7	60.9	59.8	57.0	55.0	55.8	57.0	60.4	58.8	58.5	60.0	53.9	47.6
Index of favorable factors	56.7	59.2	57.3	54.5	56.8	53.7	55.0	58.6	54.9	57.1	56.6	50.8	48.4
Rejections of credit applications	52.0	49.9	50.0	50.9	48.4	49.0	48.9	48.1	49.1	48.1	48.5	47.8	44.6
Accounts placed for collection	49.6	47.4	46.2	47.1	42.5	45.2	45.8	43.0	44.5	43.4	45.6	41.6	36.4
Disputes	49.4	47.8	49.5	49.5	47.3	49.0	46.9	50.1	47.9	46.3	46.3	45.8	42.9
Dollar amount beyond terms	48.4	45.8	46.3	45.1	49.0	43.5	42.5	43.7	42.7	47.9	43.6	42.0	41.8
Dollar amount of customer deductions	51.5	49.6	50.3	50.3	47.4	49.0	47.5	49.9	48.1	47.8	48.5	46.6	45.8
Filings for bankruptcies	60.4	53.5	52.3	52.6	52.1	48.6	49.2	51.2	49.0	47.1	48.2	46.4	42.6
Index of unfavorable factors	51.9	49.0	49.1	49.3	47.8	47.4	46.8	47.6	46.9	46.8	46.8	45.0	42.4
NACM CMI	53.8	53.1	52.4	51.4	51.4	49.9	50.1	52.0	50.1	50.9	50.7	47.4	44.8
ISM Combined Sectors Index*	51.9	51.2	50.8	47.7	48.8	49.1	50.3	50.7	49.2	49.8	50.3	46.9	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.



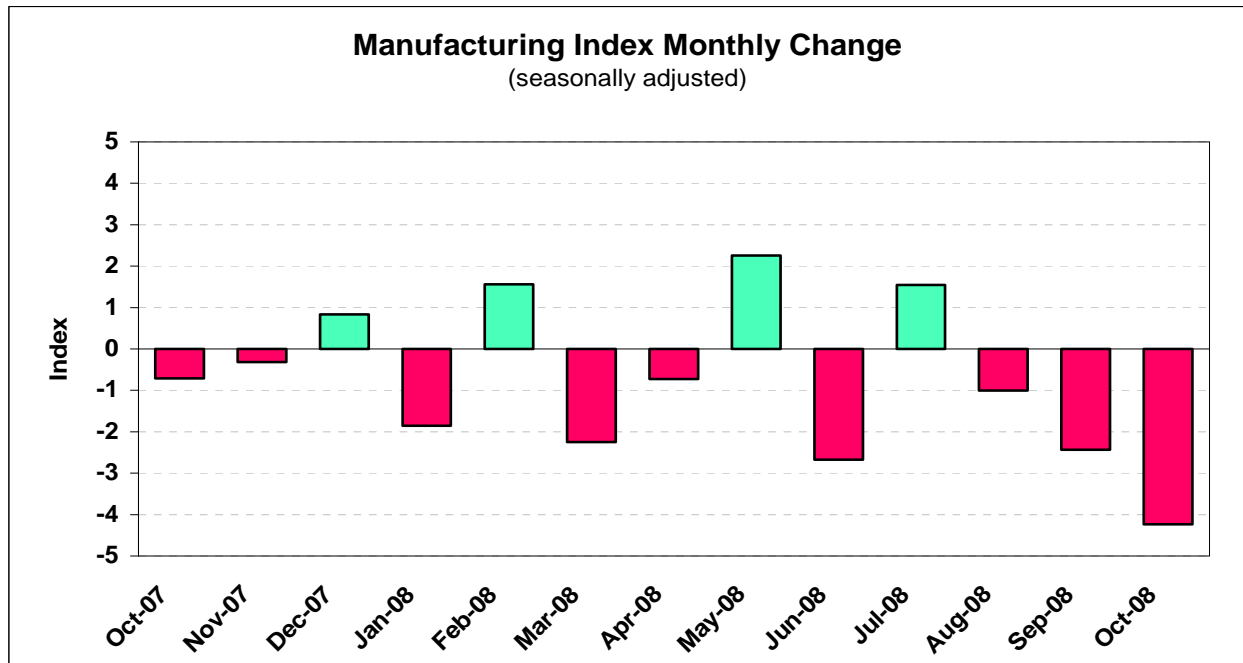
Manufacturing Sector

The seasonally adjusted manufacturing sector index fell 4.2% to a record low of 43.7%, North reported. Nine components fell, all 10 are below the 50% level and six set record lows. Weak collections, slow payment and tight credit bode poorly for the coming months as our participants from various industries tell us:

- “Tight, tight money and now a new worry is the customer's bank.” – Steel works
- “The number of final demand letters has increased, indicating probable future deterioration in receivables.” – Motor vehicle parts
- “Reviewing credit limits and deciding to lower quite a few as a precautionary measure.” – Fabricated rubber
- “Our market condition is continuing to decline. Our sales continue to shrink.” – Telephone equipment
- “Projecting slow growth...” – Glass works

Manufacturing Sector (seasonally adjusted)

	Oct '07	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '08
Sales	54.2	59.4	61.9	53.0	56.2	53.1	54.0	59.9	54.4	56.5	57.4	45.2	46.1
New credit applications	54.1	56.6	58.0	54.2	53.5	55.6	55.5	54.9	51.1	55.0	53.0	50.9	49.2
Dollar collections	57.6	60.8	58.7	56.9	67.1	55.6	54.6	58.8	54.4	60.8	56.2	55.6	46.3
Amount of credit extended	57.3	61.3	61.8	57.3	57.4	56.5	57.7	58.6	57.9	58.8	62.0	56.2	48.1
Index of favorable factors	55.8	59.5	60.1	55.4	58.6	55.2	55.4	58.0	54.4	57.8	57.1	52.0	47.4
Rejections of credit applications	51.6	49.9	50.3	52.2	50.9	49.5	48.8	49.4	49.4	48.7	48.1	49.0	46.2
Accounts placed for collection	50.7	46.3	43.5	46.6	45.7	48.3	47.1	45.9	45.8	44.8	47.4	42.3	36.0
Disputes	47.8	45.5	49.8	50.0	52.1	47.0	46.3	48.8	46.9	45.2	43.8	45.5	41.3
Dollar amount beyond terms	46.3	46.9	47.4	42.7	46.3	46.0	44.0	45.7	41.8	47.7	41.8	43.1	38.6
Dollar amount of customer deductions	48.7	45.9	49.8	50.5	50.7	48.0	45.5	50.1	48.4	46.5	46.9	45.9	42.8
Filings for bankruptcies	62.0	54.2	54.1	53.2	52.4	50.2	48.7	53.0	48.2	49.7	47.2	45.6	42.6
Index of unfavorable factors	51.2	48.1	49.2	49.2	49.7	48.2	46.7	48.8	46.8	47.1	45.9	45.3	41.3
NACM Manufacturing CMI	53.0	52.7	53.5	51.7	53.2	51.0	50.2	52.5	49.8	51.4	50.4	47.9	43.7
ISM Manufacturing PMI	50.4	50.0	48.4	50.7	48.3	48.6	48.6	49.6	50.2	50.0	49.9	43.5	NA



Service Sector

The seasonally adjusted service sector index fell 0.9% to 45.9%. Six components fell, eight are below 50% and five set record lows. “The climate in the service sector is decidedly more irritable than in manufacturing,” said North. “The manufacturing sector seems more focused on weak demand, but service sector credit managers are more concerned about getting their money back.”

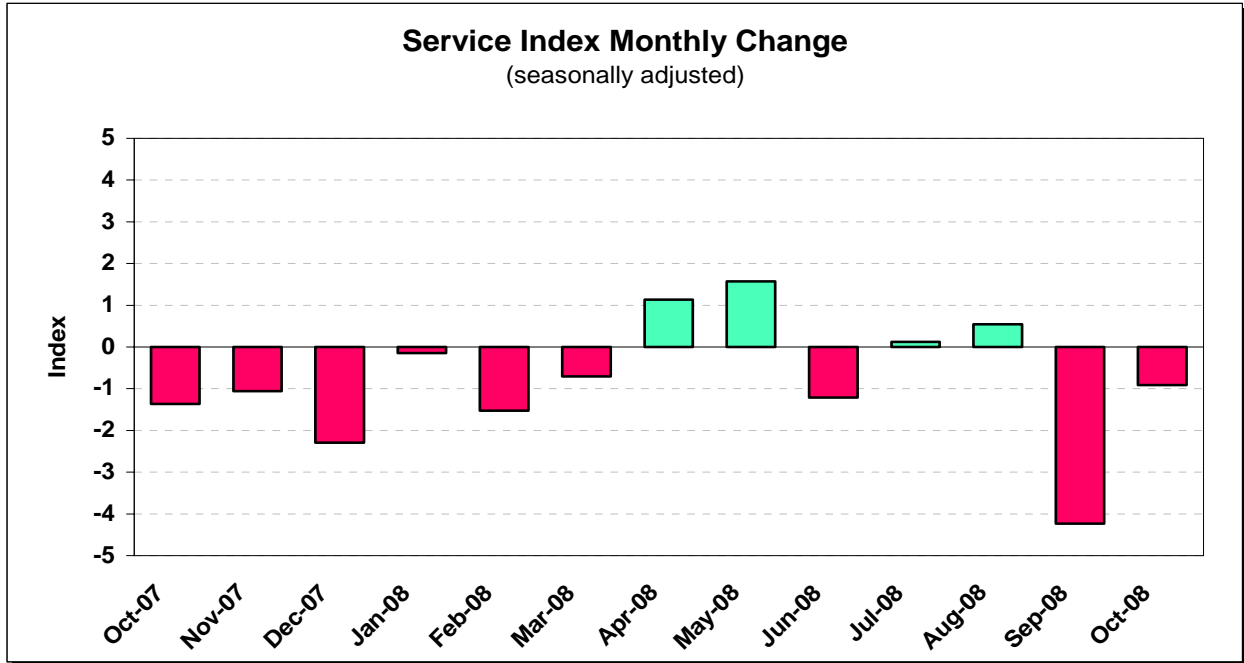
- Construction materials: “We are...filing more liens than we have ever done.”
- Electronic parts: “I fully expect bankruptcies and delinquencies to increase through 2009.”
- Seafood: “Our customers are seriously challenged by the current economic environment. Threatened credit cut-offs and actual credit cut-offs...are at an all time high.”
- Farm supplies: “Increase in the number of customers that are sending smaller weekly payments on account instead of paying invoices in full.”
- Metals service center: “We are beginning to see effects of economic downturn, i.e., slower payments, more unauthorized deductions, increased request for extended terms, request for price adjustment...”

“It’s not surprising then, in this environment, to see that one industry in particular is doing well—legal services,” said North. Said one respondent, “I expect this to be our best year in 25 years for new business and net revenue.”

Service Sector (seasonally adjusted)

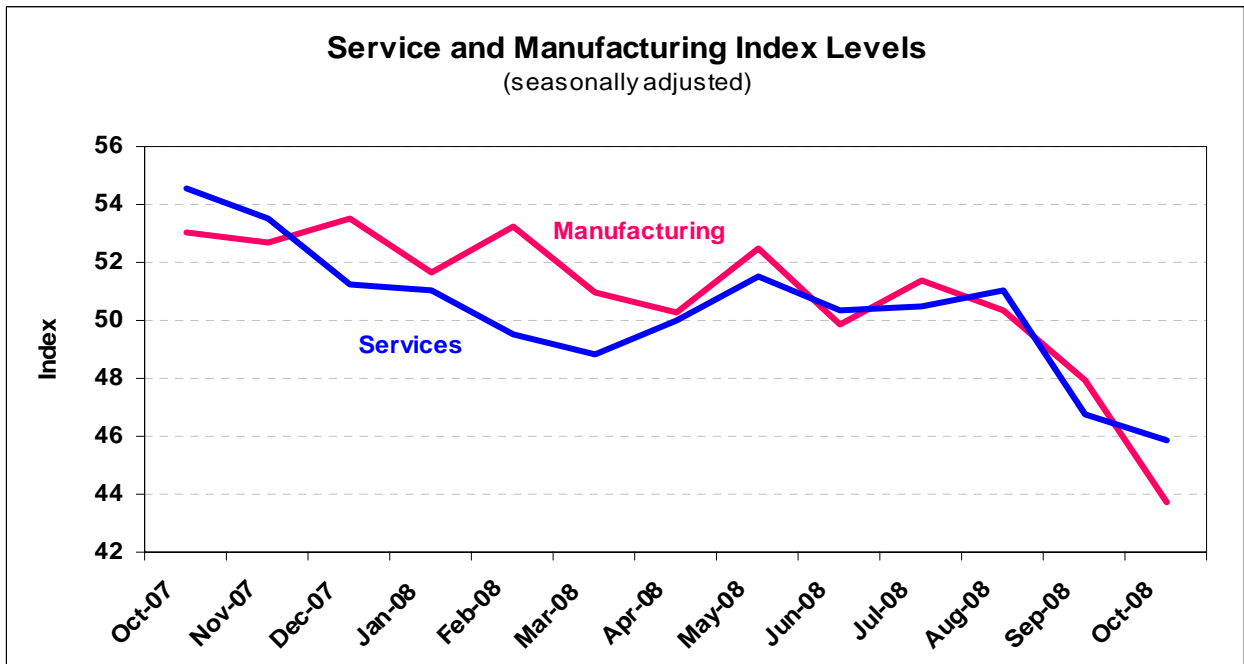
	Oct '07	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct '08
Sales	55.1	57.7	50.8	50.3	58.0	48.5	53.9	55.5	54.0	54.9	55.5	45.4	45.1
New credit applications	52.4	56.1	53.6	51.3	55.8	50.4	53.4	55.1	49.3	52.7	52.6	48.4	50.2
Dollar collections	62.5	61.5	55.8	56.6	53.9	54.6	55.0	63.8	58.4	60.1	58.0	53.6	55.5
Amount of credit extended	60.2	60.4	57.8	56.7	52.5	55.1	56.3	62.2	59.8	58.3	58.0	51.5	47.2
Index of favorable factors	57.5	58.9	54.5	53.7	55.1	52.1	54.7	59.2	55.4	56.5	56.0	49.7	49.5
Rejections of credit applications	52.5	49.8	49.7	49.7	45.9	48.5	49.0	46.7	48.7	47.5	48.8	46.5	43.0
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Disputes	51.0	50.1	49.2	49.1	42.4	51.0	47.4	51.3	48.9	47.4	48.9	46.1	44.5
Dollar amount beyond terms	50.4	44.8	45.3	47.4	51.8	41.1	41.1	41.6	43.7	48.0	45.4	40.9	44.9
Dollar amount of customer deductions	54.3	53.3	50.8	50.1	44.1	50.0	49.5	49.6	47.8	49.0	50.0	47.3	48.8

Filings for bankruptcies	58.8	52.9	50.4	51.9	51.7	47.0	49.7	49.4	49.8	44.6	49.2	47.3	42.6
Index of unfavorable factors	52.6	49.9	49.0	49.3	45.9	46.6	46.8	46.5	47.0	46.4	47.7	44.8	43.5
NACM Service CMI	54.6	53.5	51.2	51.1	49.5	48.8	50.0	51.5	50.3	50.5	51.0	46.8	45.9
ISM Service Business Activity Index	53.3	52.4	53.2	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	50.2	NA



October 2008 vs. October 2007

“On a seasonally adjusted basis over the past 12 months, the combined index has fallen 9.0%, with most of the decline coming in the most recent two months,” said North. Services fell 8.7% and manufacturing fell 9.3%. Bankruptcies led the way in all three indexes, dropping 16.2% in services and 19.4% in manufacturing.



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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