

NACM Credit Manager's Index

Report for September 2006

Issued October 2, 2006
 National Association of Credit Management
 8840 Columbia 100 Parkway
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Combined Sectors

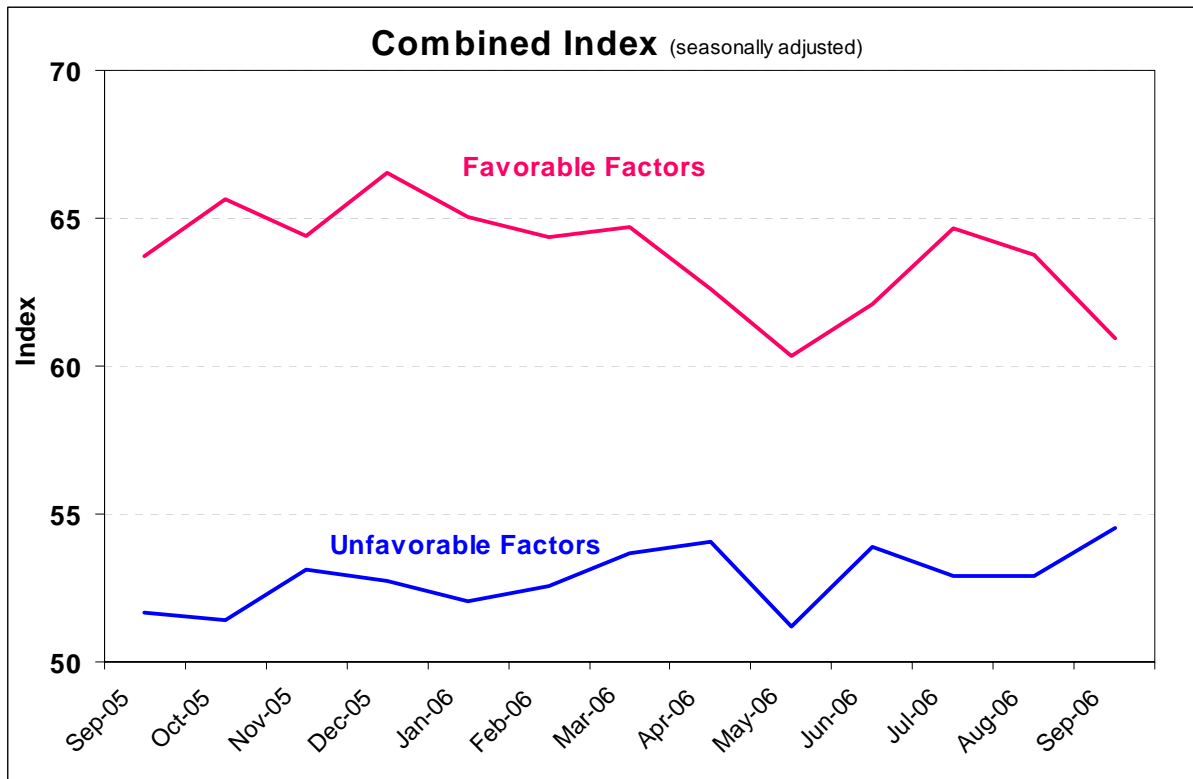
The seasonally adjusted Credit Manager's Index (CMI) took another small step down in September. The Index fell from 57.3 to 57.1 as six of the 10 components for the combined sectors fell. "However, all 10 components still remain above 50, indicating economic expansion," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. "The CMI continues to show an economy with good momentum, but one which is slowly trending downward, probably due to the combination of a plummeting housing market and tightened monetary conditions."

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)

	Sep '05	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	69.8	70.1	65.7	70.9	66.1	64.6	65.8	63.3	61.5	65.4	67.8	62.8	63.5
New credit applications	59.8	59.4	57.4	62.0	63.6	60.3	60.9	57.4	55.7	55.7	59.0	62.5	57.9
Dollar collections	59.8	62.9	68.1	63.6	63.6	66.2	64.6	63.5	58.6	62.5	61.9	63.3	60.0
Amount of credit extended	65.4	70.2	66.4	69.6	66.9	66.3	67.4	66.2	65.5	64.8	69.9	66.4	62.4
Index of favorable factors	63.7	65.6	64.4	66.5	65.0	64.3	64.7	62.6	60.3	62.1	64.7	63.8	60.9
Rejection of credit applications	52.0	54.5	52.7	50.8	50.7	53.1	53.9	53.8	50.6	51.5	52.6	53.6	53.3
Accounts placed for collection	52.8	54.1	53.3	53.8	52.6	50.3	52.7	52.0	50.5	55.2	52.0	50.1	55.0
Disputes	50.7	48.4	52.6	46.5	49.8	48.4	50.0	52.4	49.3	51.1	51.1	50.4	52.3
Dollar amount beyond terms	54.1	53.9	55.9	52.9	51.1	52.2	54.6	53.5	48.5	56.5	52.2	51.3	55.8
Dollar amount of customer	48.7	50.2	50.2	50.4	50.4	50.2	51.2	51.8	49.0	49.7	50.5	51.7	50.6
Filings for bankruptcies	51.8	47.3	54.1	61.9	57.8	61.3	59.7	60.8	59.2	59.2	59.1	60.5	60.2
Index of unfavorable factors	51.7	51.4	53.1	52.7	52.1	52.6	53.7	54.0	51.2	53.9	52.9	52.9	54.5
NACM CMI	56.5	57.1	57.7	58.3	57.2	57.3	58.1	57.5	54.9	57.2	57.6	57.3	57.1
ISM Combined Sectors Index*	56.4	59.6	58.3	57.0	57.6	58.4	57.9	60.2	57.3	55.4	54.8	55.8	N/A

* 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.

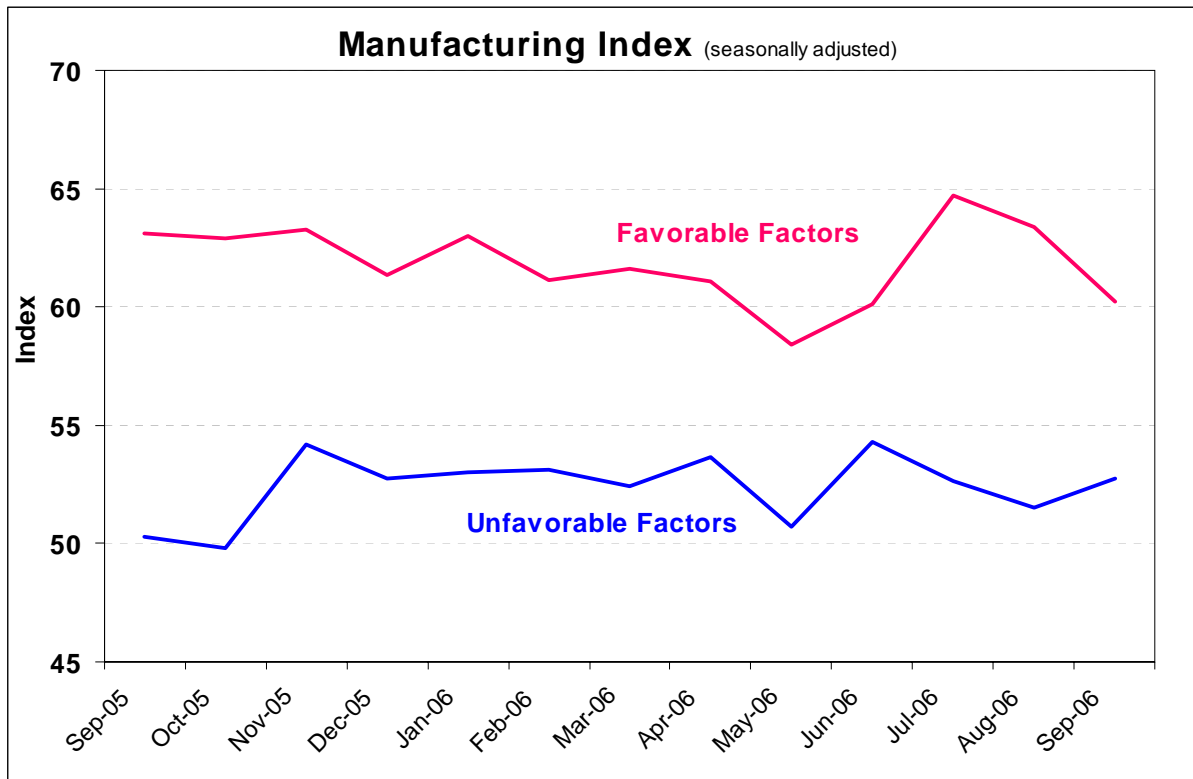


Manufacturing Sector

“The manufacturing sector index once again lagged the performance of the service sector, turning in a drop of 0.5% on a seasonally adjusted basis,” noted North. He continued, “In addition, two of the components—disputes and the amount of customer deductions—are now below 50, indicating contraction. The concrete, steel, electrical components and rubber manufacturers were particularly hard hit, no doubt because of the weakening housing and construction markets. New credit applications and the amount of credit extended suffered the largest drops, suggesting weakening demand on the buyers’ side.”

Manufacturing Sector (seasonally adjusted)

	Sep '05	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	69.8	68.1	63.1	64.0	64.0	61.3	62.7	62.4	59.4	63.9	69.7	62.0	62.0
New credit applications	59.1	55.2	56.5	56.1	61.7	55.0	59.7	54.9	53.5	55.0	59.1	63.4	57.4
Dollar collections	59.8	59.7	67.8	61.7	62.3	66.2	59.3	63.4	56.5	60.5	59.4	60.1	61.0
Amount of credit extended	63.7	68.6	65.7	63.6	64.0	62.1	64.9	63.6	64.4	61.1	70.7	67.9	60.6
Index of favorable factors	63.1	62.9	63.3	61.4	63.0	61.1	61.6	61.1	58.4	60.1	64.7	63.4	60.2
Rejection of credit applications	50.5	54.9	53.6	52.1	51.8	53.8	55.4	52.2	47.5	51.6	52.8	53.2	52.5
Accounts placed for collection	53.4	52.5	56.7	55.8	52.0	49.4	51.3	52.0	51.7	54.0	51.7	48.5	54.8
Disputes	50.4	46.0	52.4	44.1	50.5	49.0	45.7	52.4	48.4	52.4	49.9	47.8	48.7
Dollar amount beyond terms	50.2	51.7	57.7	53.3	56.0	55.2	54.5	52.3	49.4	59.0	53.9	48.7	54.8
Dollar amount of customer	46.3	47.1	49.3	49.3	50.8	51.4	49.0	52.7	49.0	49.4	48.6	51.7	46.4
Filings for bankruptcies	51.0	46.9	55.5	61.9	56.9	60.0	58.6	60.4	58.2	59.3	58.8	59.3	59.4
Index of unfavorable factors	50.3	49.8	54.2	52.7	53.0	53.1	52.4	53.7	50.7	54.3	52.6	51.5	52.8
NACM Manufacturing CMI	55.4	55.1	57.8	56.2	57.0	56.3	56.1	56.6	53.8	56.6	57.5	56.3	55.8
ISM Manufacturing PMI	59.4	59.1	58.1	54.2	58.4	56.7	55.2	57.3	54.4	53.8	54.7	54.5	N/A

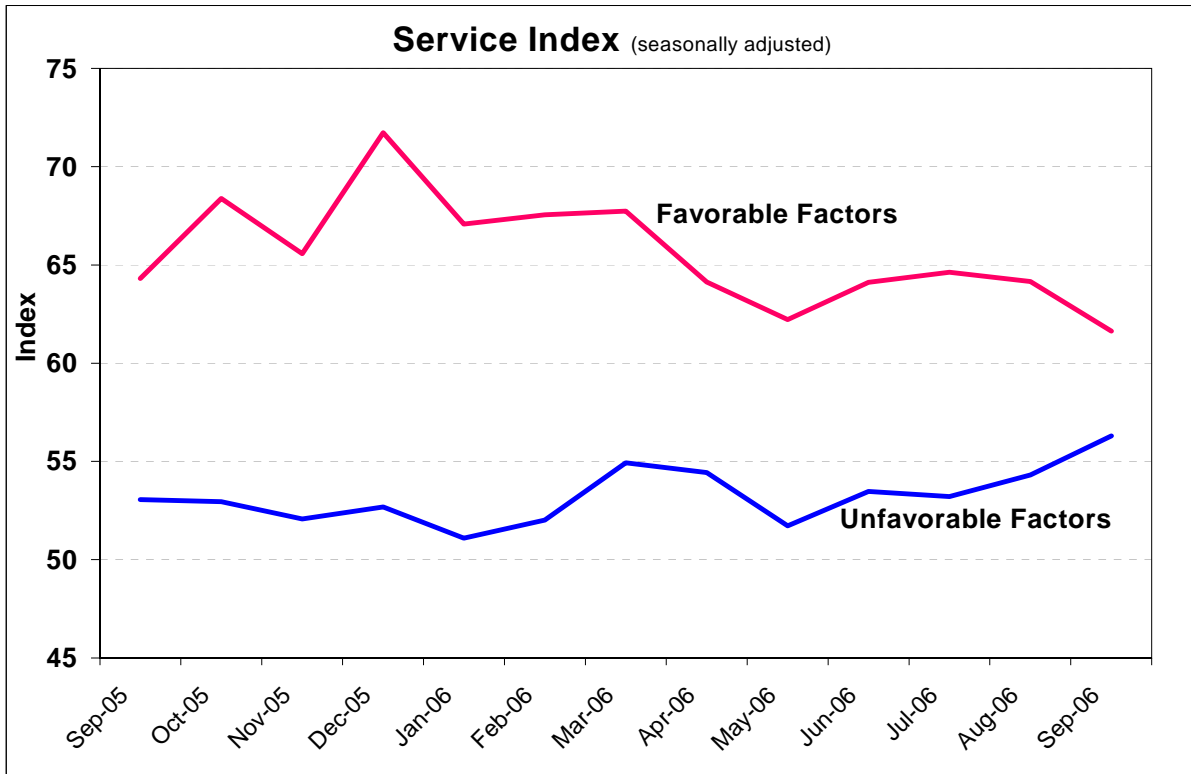


Service Sector

The service sector index rose 0.2% on a seasonally adjusted basis, as six of the 10 components rose, and all of the components remained above 50. "However, dollar collections took a sharp drop, suggesting slowing cash flow on the buyers' side," North observed. "Good conditions were spread across a variety of industries. The weakest industries were wholesalers of metals, electrical equipment, lumber and construction materials. The slump in housing and construction is clearly affecting services as well as manufacturing."

Service Sector (seasonally adjusted)

	Sep '05	Oct	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Sales	69.8	72.1	68.4	77.9	68.1	67.9	68.9	64.3	63.6	67.0	66.0	63.7	65.0
New credit applications	60.5	63.6	58.3	68.0	65.5	65.6	62.2	60.0	57.9	56.4	58.9	61.6	58.3
Dollar collections	59.8	66.1	68.4	65.5	64.8	66.2	69.9	63.5	60.7	64.6	64.4	66.6	59.0
Amount of credit extended	67.2	71.7	67.1	75.6	69.8	70.4	69.9	68.8	66.7	68.5	69.2	64.8	64.2
Index of favorable factors	64.3	68.4	65.6	71.7	67.1	67.5	67.7	64.1	62.2	64.1	64.6	64.1	61.6
Rejection of credit applications	53.4	54.2	51.8	49.4	49.5	52.3	52.4	55.4	53.7	51.5	52.3	53.9	54.2
Accounts placed for collection	52.3	55.7	50.0	51.7	53.2	51.2	54.0	52.1	49.4	56.4	52.4	51.7	55.1
Disputes	51.0	50.8	52.8	49.0	49.0	47.8	54.4	52.3	50.2	49.8	52.3	52.9	55.9
Dollar amount beyond terms	57.9	56.1	54.0	52.5	46.2	49.3	54.7	54.6	47.6	54.1	50.4	54.0	56.7
Dollar amount of customer	51.1	53.3	51.1	51.6	49.9	48.9	53.3	50.9	49.1	50.0	52.5	51.6	54.8
Filings for bankruptcies	52.7	47.7	52.6	61.9	58.8	62.6	60.9	61.2	60.2	59.1	59.3	61.8	61.0
Index of unfavorable factors	53.1	53.0	52.1	52.7	51.1	52.0	54.9	54.4	51.7	53.5	53.2	54.3	56.3
NACM Service CMI	57.6	59.1	57.5	60.3	57.5	58.2	60.1	58.3	55.9	57.7	57.8	58.2	58.4
ISM Service Business Activity Index	53.3	60.0	58.5	59.8	56.8	60.1	60.5	63.0	60.1	57.0	54.8	57.1	N/A



September 2006 vs. September 2005

North stated that on a year over year basis the CMI shows mostly good news, rising slightly from 56.5 to 57.1. Manufacturing rose 0.3% while the service sector rose 0.9%. “Two components were prominent in both sectors,” he said. “Bankruptcies dramatically improved because the change to more creditor-friendly laws in October of 2005 caused a surge of businesses to declare bankruptcy before that change, leaving an easy comparison. And sales dropped sharply in both sectors: manufacturing sales fell 7.7% and service sector sales fell 4.8%. This is a somewhat worrisome development as sales can lead other business conditions.”

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.

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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