

# NACM Credit Manager's Index

## Report for September 2007

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 National Association of Credit Management  
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### Combined Sectors

The seasonally adjusted Credit Manager's Index (CMI) fell 0.3 points in September to 54.8. Dan North, chief economist with credit insurer Euler Hermes ACI pointed out that while the loss was small, it was definitive as seven of the 10 components fell. "The data showed mixed conditions since small gains in the service sector were offset by modest losses in the manufacturing sector," he said.

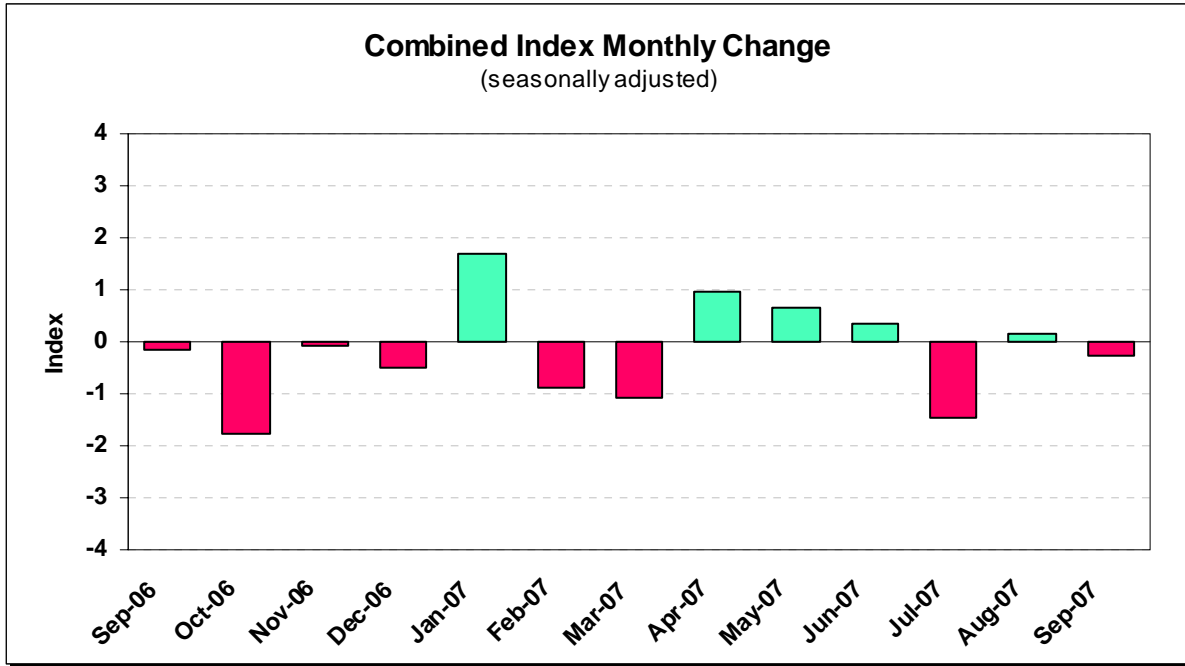
"While this month's data does indicate a slight decay, only two components have slipped below the 50 level indicating expansion," he continued. "So far, trade credit conditions seemed to have weathered the storm which recently roiled the public debt markets. The turmoil has been only one of several indicators which have many economists starting to feel increasing discomfort about the economy's future." North notes that slower growth and more difficult business conditions almost certainly lie ahead. "The credit managers who have done so well keeping problems to a minimum up until now might find a more challenging environment in the rest of 2007 and into 2008," he concluded.

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)

	Sep '06	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '07
Sales	63.5	56.3	59.5	60.9	61.6	59.6	58.1	62.8	61.5	61.9	60.2	59.1	59.0
New credit applications	57.9	56.2	56.5	60.5	60.9	52.5	55.9	56.7	56.2	58.6	56.0	55.6	55.3
Dollar collections	60.0	58.3	62.6	59.5	64.8	66.2	58.4	61.5	61.9	61.0	60.2	60.1	60.0
Amount of credit extended	62.4	63.2	64.0	63.7	65.3	63.6	62.4	59.3	62.2	63.6	63.0	61.6	60.1
<b>Index of favorable factors</b>	<b>60.9</b>	<b>58.5</b>	<b>60.6</b>	<b>61.2</b>	<b>63.2</b>	<b>60.5</b>	<b>58.7</b>	<b>60.1</b>	<b>60.5</b>	<b>61.3</b>	<b>59.9</b>	<b>59.1</b>	<b>58.6</b>
Rejection of credit applications	53.3	54.8	51.7	50.1	51.6	52.7	51.9	52.4	52.7	52.6	53.4	51.1	51.8
Accounts placed for collection	55.0	53.1	50.7	47.8	50.2	50.3	48.4	54.0	51.5	52.0	49.8	50.7	49.0
Disputes	52.3	49.7	49.9	47.9	51.0	52.1	51.0	51.2	50.7	51.9	51.9	52.2	50.2
Dollar amount beyond terms	55.8	52.2	50.2	48.1	50.1	50.5	53.5	50.1	53.0	52.0	48.9	51.4	55.3
Dollar amount of customer deductions	50.6	50.5	51.3	49.2	51.7	52.0	49.3	49.3	53.3	53.0	48.8	52.2	49.9
Filings for bankruptcies	60.2	59.1	56.3	59.7	57.0	55.9	55.7	56.8	57.4	57.5	57.3	57.2	57.7
<b>Index of unfavorable factors</b>	<b>54.5</b>	<b>53.2</b>	<b>51.7</b>	<b>50.5</b>	<b>51.9</b>	<b>52.3</b>	<b>51.6</b>	<b>52.3</b>	<b>53.1</b>	<b>53.2</b>	<b>51.7</b>	<b>52.4</b>	<b>52.3</b>
<b>NACM CMI</b>	<b>57.1</b>	<b>55.3</b>	<b>55.2</b>	<b>54.7</b>	<b>56.4</b>	<b>55.5</b>	<b>54.5</b>	<b>55.4</b>	<b>56.1</b>	<b>56.4</b>	<b>55.0</b>	<b>55.1</b>	<b>54.8</b>
<b>ISM Combined Sectors Index*</b>	<b>53.7</b>	<b>54.5</b>	<b>54.1</b>	<b>54.1</b>	<b>54.2</b>	<b>53.3</b>	<b>51.7</b>	<b>55.4</b>	<b>57.4</b>	<b>58.4</b>	<b>54.8</b>	<b>54.4</b>	<b>NA</b>

\* 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.

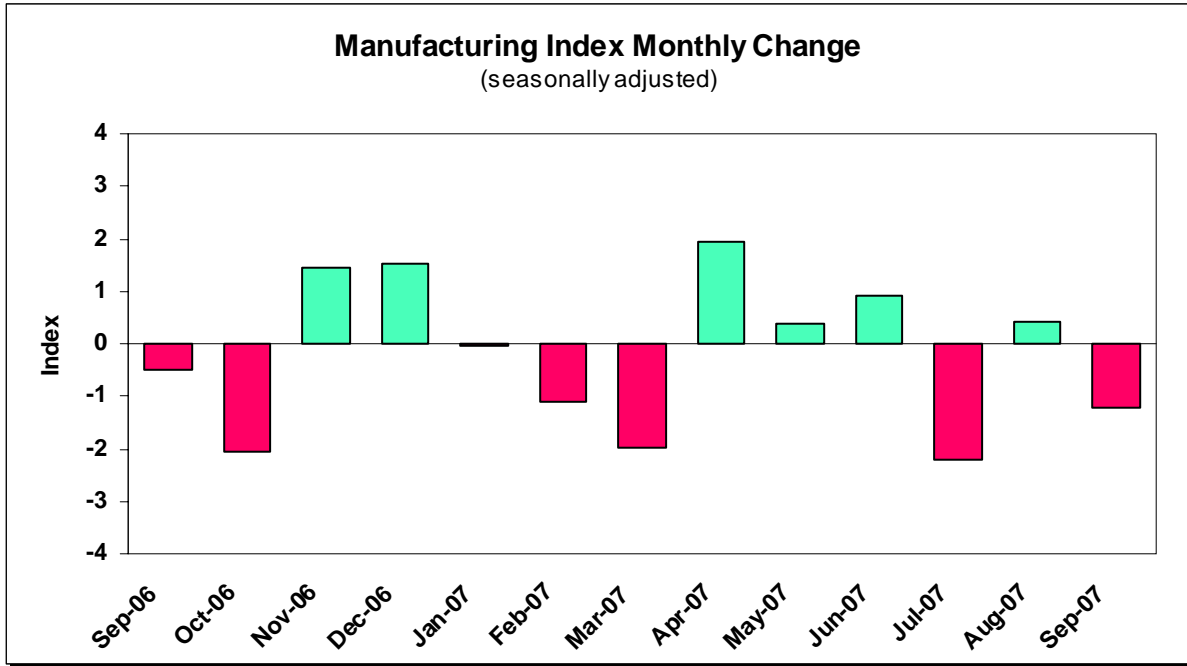


## Manufacturing Sector

The manufacturing sector fell 1.3 points as seven of 10 components fell. The two largest drops were the accounts placed for collection component and the disputes component. North said, "Indeed, one respondent from the machinery industry seems to be encountering particularly bleak conditions by the comments, 'Had more companies just closing their doors and walking away. No assets to recover.' And another reported, 'Orders are being canceled or modified after the initial order.'"

### Manufacturing Sector (seasonally adjusted)

	Sep '06	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '07
Sales	62.0	55.7	63.5	69.4	58.9	58.7	56.5	60.9	59.5	62.9	60.9	59.2	59.3
New credit applications	57.4	55.8	56.6	62.1	60.0	52.8	54.6	57.1	57.3	58.7	56.4	55.7	57.5
Dollar collections	61.0	54.8	62.6	59.9	64.6	65.3	55.3	60.3	60.2	59.5	61.3	60.4	59.8
Amount of credit extended	60.6	62.6	64.7	66.9	65.4	59.9	60.0	54.3	62.0	61.8	62.6	62.7	59.1
<b>Index of favorable factors</b>	<b>60.2</b>	<b>57.2</b>	<b>61.9</b>	<b>64.6</b>	<b>62.2</b>	<b>59.2</b>	<b>56.6</b>	<b>58.1</b>	<b>59.7</b>	<b>60.7</b>	<b>60.3</b>	<b>59.5</b>	<b>58.9</b>
Rejection of credit applications	52.5	55.1	51.1	50.7	52.6	54.1	53.1	51.9	51.8	52.6	53.4	50.8	50.7
Accounts placed for collection	54.8	50.6	48.9	51.0	51.9	52.6	47.7	55.6	51.0	52.7	48.3	50.8	46.4
Disputes	48.7	48.2	49.0	46.7	52.2	52.8	49.9	51.4	49.9	51.4	49.8	50.6	46.1
Dollar amount beyond terms	54.8	49.5	50.7	50.1	51.5	50.0	53.7	55.3	56.0	56.6	50.0	50.0	53.6
Dollar amount of customer deductions	46.4	48.2	49.8	49.3	52.5	52.2	48.5	49.2	53.2	53.3	47.4	50.8	47.2
Filings for bankruptcies	59.4	56.3	54.3	60.2	56.6	56.5	55.8	58.6	57.5	58.0	55.4	58.4	57.5
<b>Index of unfavorable factors</b>	<b>52.8</b>	<b>51.3</b>	<b>50.6</b>	<b>51.3</b>	<b>52.9</b>	<b>53.0</b>	<b>51.5</b>	<b>53.7</b>	<b>53.2</b>	<b>54.1</b>	<b>50.7</b>	<b>51.9</b>	<b>50.3</b>
<b>NACM Manufacturing CMI</b>	<b>55.8</b>	<b>53.7</b>	<b>55.1</b>	<b>56.6</b>	<b>56.6</b>	<b>55.5</b>	<b>53.5</b>	<b>55.5</b>	<b>55.8</b>	<b>56.7</b>	<b>54.6</b>	<b>55.0</b>	<b>53.7</b>
<b>ISM Manufacturing PMI</b>	<b>52.7</b>	<b>51.5</b>	<b>49.9</b>	<b>51.4</b>	<b>49.3</b>	<b>52.3</b>	<b>50.9</b>	<b>54.7</b>	<b>55.0</b>	<b>56.0</b>	<b>53.8</b>	<b>52.9</b>	<b>NA</b>

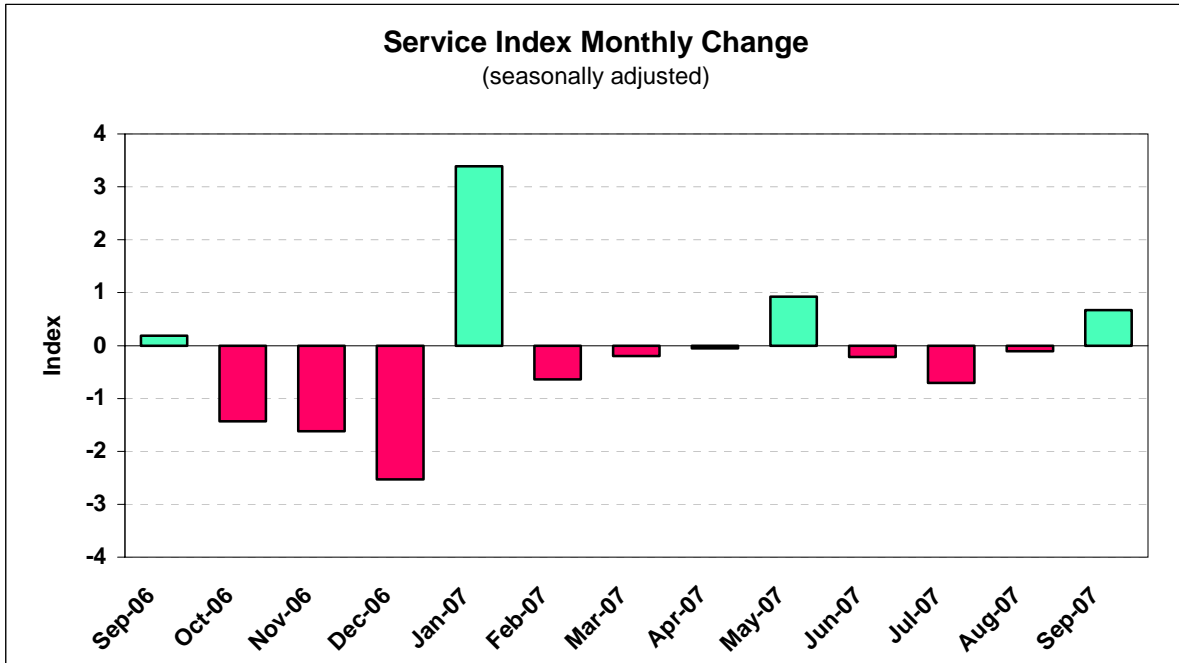


## Service Sector

The service sector index gained by 0.6 as seven of 10 components rose. All of the components are above the 50 level indicating expansion, and the declines were very modest. "Once again, despite mostly positive results, the few negative comments received centered on the housing industry," said North.

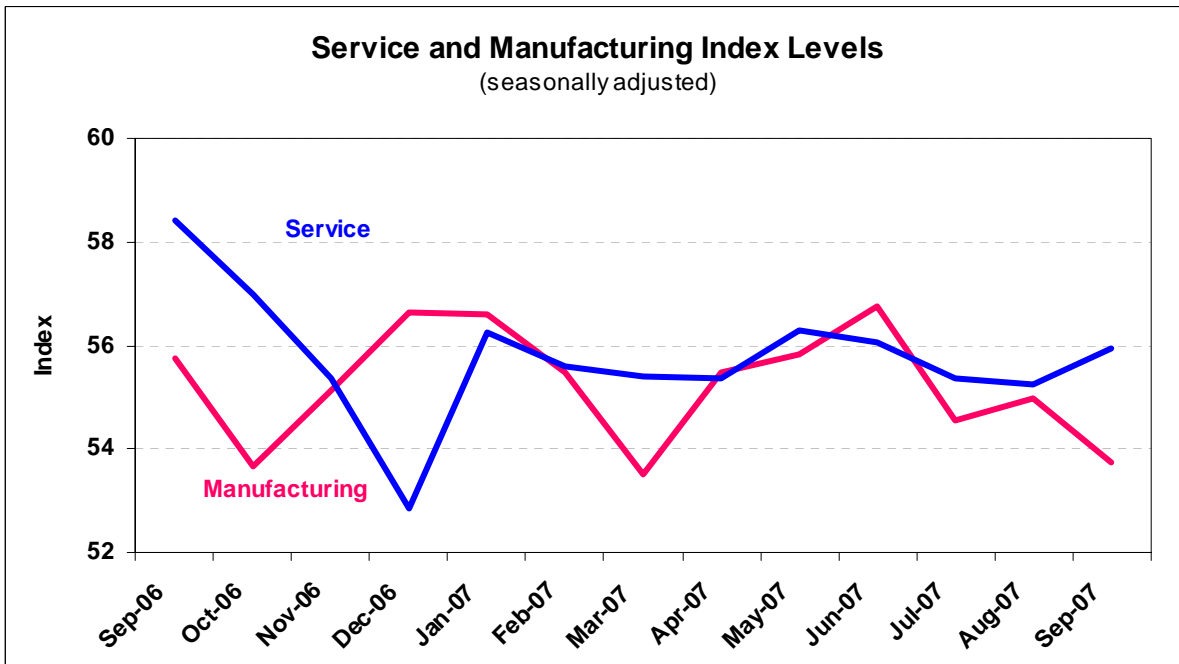
### Service Sector (seasonally adjusted)

	Sep '06	Oct	Nov	Dec	Jan '07	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '07
Sales	65.0	56.8	55.5	52.4	64.3	60.5	59.8	64.8	63.5	60.9	59.5	59.0	58.6
New credit applications	58.3	56.6	56.3	58.9	61.9	52.3	57.1	56.3	55.2	58.5	55.5	55.5	53.1
Dollar collections	59.0	61.9	62.5	59.1	65.0	67.1	61.6	62.7	63.7	62.5	59.1	59.7	60.2
Amount of credit extended	64.2	63.7	63.4	60.5	65.2	67.3	64.7	64.2	62.4	65.5	63.5	60.5	61.1
<b>Index of favorable factors</b>	<b>61.6</b>	<b>59.8</b>	<b>59.4</b>	<b>57.7</b>	<b>64.1</b>	<b>61.8</b>	<b>60.8</b>	<b>62.0</b>	<b>61.2</b>	<b>61.8</b>	<b>59.4</b>	<b>58.7</b>	<b>58.2</b>
Rejection of credit applications	54.2	54.5	52.2	49.4	50.7	51.3	50.8	52.9	53.6	52.7	53.3	51.4	52.8
Accounts placed for collection	55.1	55.7	52.5	44.7	48.4	48.1	49.1	52.5	52.1	51.3	51.3	50.7	51.6
Disputes	55.9	51.3	50.8	49.1	49.8	51.4	52.1	50.9	51.5	52.4	54.0	53.7	54.2
Dollar amount beyond terms	56.7	54.8	49.7	46.1	48.7	51.1	53.2	44.8	50.1	47.3	47.9	52.7	57.0
Dollar amount of customer deductions	54.8	52.8	52.7	49.1	50.8	51.8	50.1	49.4	53.4	52.7	50.2	53.5	52.6
Filings for bankruptcies	61.0	62.0	58.3	59.2	57.5	55.2	55.6	55.0	57.4	57.0	59.2	55.9	57.9
<b>Index of unfavorable factors</b>	<b>56.3</b>	<b>55.2</b>	<b>52.7</b>	<b>49.6</b>	<b>51.0</b>	<b>51.5</b>	<b>51.8</b>	<b>50.9</b>	<b>53.0</b>	<b>52.2</b>	<b>52.7</b>	<b>53.0</b>	<b>54.4</b>
<b>NACM Service CMI</b>	<b>58.4</b>	<b>57.0</b>	<b>55.4</b>	<b>52.9</b>	<b>56.2</b>	<b>55.6</b>	<b>55.4</b>	<b>55.4</b>	<b>56.3</b>	<b>56.1</b>	<b>55.4</b>	<b>55.3</b>	<b>55.9</b>
<b>ISM Service Business Activity Index</b>	<b>54.6</b>	<b>57.4</b>	<b>58.3</b>	<b>56.7</b>	<b>59.0</b>	<b>54.3</b>	<b>52.4</b>	<b>56.0</b>	<b>59.7</b>	<b>60.7</b>	<b>55.8</b>	<b>55.8</b>	<b>NA</b>



### September 2007 vs. September 2006

The Credit Manager's Index fell 2.3 points (4%) over the past 12 months. Nine of the 10 components fell and the other one was unchanged. Both the service and manufacturing sectors declined as eight components fell in each of the sectors. North concluded, "The data indicate that as far as the credit managers are concerned, the economy is definitely deteriorating, but not by much, and at a rather slow pace."



## 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:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

<b>Favorable Factors</b>	<b>Why Favorable</b>
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.
<b>Unfavorable Factors</b>	<b>Why Unfavorable</b>
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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