

NACM Credit Manager's Index

Report for September 2008

Issued October 1, 2008
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

When credit managers sent their responses in this month, they also sent along a message: "Welcome to the recession." The seasonally adjusted Credit Manager's Index (CMI) plummeted a record 3.3% to reach a historic low of 47.4, clearly indicating economic contraction. The survey resulted in numerous other negative records. All 10 components of the Combined Index fell, leaving eight below 50 and seven at record lows. The manufacturing index fell 2.5 to a record low of 47.9 as seven components fell, leaving a record seven components below 50 and three at their lowest levels ever. In the service sector, the index fell 4.2 to a record low of 46.8 as a record all 10 components fell, leaving a record eight below 50, and three of the components at their lowest levels ever. Sales were particularly hard hit in both manufacturing and service sectors, falling 12.2 and 10.1 respectively, both to historical lows and both below 50.

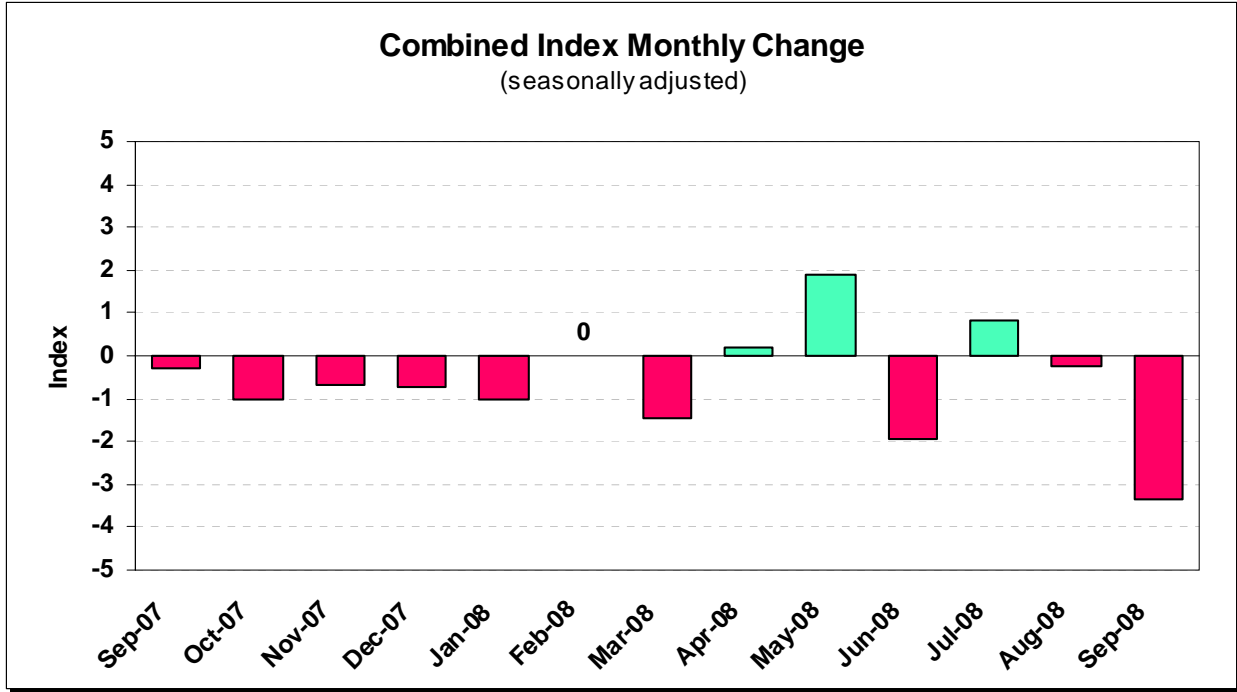
"While the economy has been deteriorating since the end of last year, its rate of decline is clearly increasing," said Daniel North, chief economist for credit insurer Euler Hermes ACI, who analyzes the data and prepares the CMI report for the National Association of Credit Management. "The combined weight of high energy prices and a ruined housing market is now being compounded by the ever-worsening conditions in the credit markets," he said. "In response, the Fed has cut interest rates and pumped hundreds of billions into the banking system, but no one will lend for fear that the financial system is on the verge of a meltdown. The credit markets need a big shot of confidence to be unclogged, or credit managers will become increasingly gloomy."

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 '07	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '08
Sales	59.0	54.7	58.6	56.3	51.7	57.1	50.8	54.0	57.7	54.2	55.7	56.4	45.3
New credit applications	55.3	53.3	56.4	55.8	52.8	54.7	53.0	54.4	55.0	50.2	53.9	52.8	49.6
Dollar collections	60.0	60.0	61.2	57.2	56.8	60.5	55.1	54.8	61.3	56.4	60.4	57.1	54.6
Amount of credit extended	60.1	58.7	60.9	59.8	57.0	55.0	55.8	57.0	60.4	58.8	58.5	60.0	53.9
Index of favorable factors	58.6	56.7	59.2	57.3	54.5	56.8	53.7	55.0	58.6	54.9	57.1	56.6	50.8
Rejections of credit applications	51.8	52.0	49.9	50.0	50.9	48.4	49.0	48.9	48.1	49.1	48.1	48.5	47.8
Accounts placed for collection	49.0	49.6	47.4	46.2	47.1	42.5	45.2	45.8	43.0	44.5	43.4	45.6	41.6
Disputes	50.2	49.4	47.8	49.5	49.5	47.3	49.0	46.9	50.1	47.9	46.3	46.3	45.8
Dollar amount beyond terms	55.3	48.4	45.8	46.3	45.1	49.0	43.5	42.5	43.7	42.7	47.9	43.6	42.0
Dollar amount of customer deductions	49.9	51.5	49.6	50.3	50.3	47.4	49.0	47.5	49.9	48.1	47.8	48.5	46.6
Filings for bankruptcies	57.7	60.4	53.5	52.3	52.6	52.1	48.6	49.2	51.2	49.0	47.1	48.2	46.4
Index of unfavorable factors	52.3	51.9	49.0	49.1	49.3	47.8	47.4	46.8	47.6	46.9	46.8	46.8	45.0
NACM CMI	54.8	53.8	53.1	52.4	51.4	51.4	49.9	50.1	52.0	50.1	50.9	50.7	47.4
ISM Combined Sectors Index*	51.9	51.9	51.2	50.8	47.7	48.8	49.1	50.3	50.7	49.2	49.8	50.3	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.

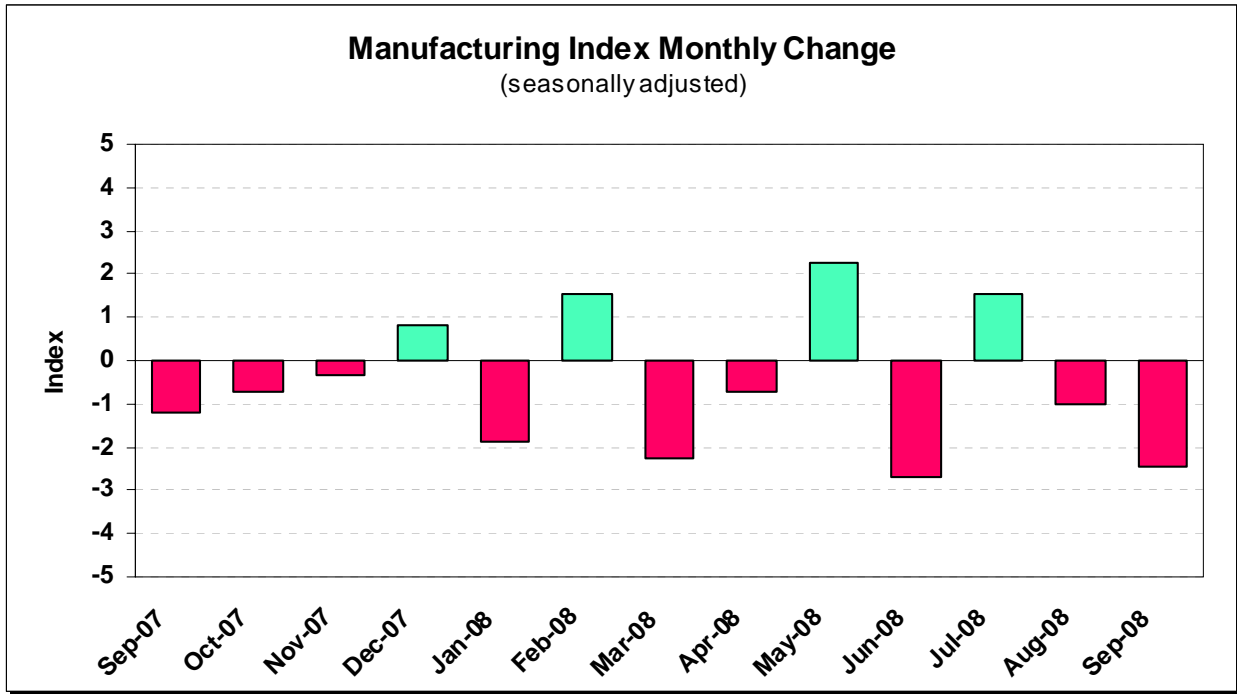


Manufacturing Sector

The seasonally adjusted manufacturing sector index fell to a record low of 47.9 in September. North said, “Despite continuing improvement in international business, manufacturers were once again hurt by the housing market.” Responses of note include a flooring business manager offering a real-life example of how the credit crunch is hurting the economy, stating that weakness in the construction market “is compounded by the fall of many lenders who supported the industry.” A manufacturer of telephone equipment said, “Times are tough both for ourselves and our customers. It’s a tough economic climate for everyone.” And a manager in the building materials industry made the economic landscape starkly clear, noting simply that the “marketplace is brutal.”

Manufacturing Sector (seasonally adjusted)

	Sep '07	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '08
Sales	59.3	54.2	59.4	61.9	53.0	56.2	53.1	54.0	59.9	54.4	56.5	57.4	45.2
New credit applications	57.5	54.1	56.6	58.0	54.2	53.5	55.6	55.5	54.9	51.1	55.0	53.0	50.9
Dollar collections	59.8	57.6	60.8	58.7	56.9	67.1	55.6	54.6	58.8	54.4	60.8	56.2	55.6
Amount of credit extended	59.1	57.3	61.3	61.8	57.3	57.4	56.5	57.7	58.6	57.9	58.8	62.0	56.2
Index of favorable factors	58.9	55.8	59.5	60.1	55.4	58.6	55.2	55.4	58.0	54.4	57.8	57.1	52.0
Rejections of credit applications	50.7	51.6	49.9	50.3	52.2	50.9	49.5	48.8	49.4	49.4	48.7	48.1	49.0
Accounts placed for collection	46.4	50.7	46.3	43.5	46.6	45.7	48.3	47.1	45.9	45.8	44.8	47.4	42.3
Disputes	46.1	47.8	45.5	49.8	50.0	52.1	47.0	46.3	48.8	46.9	45.2	43.8	45.5
Dollar amount beyond terms	53.6	46.3	46.9	47.4	42.7	46.3	46.0	44.0	45.7	41.8	47.7	41.8	43.1
Dollar amount of customer deductions	47.2	48.7	45.9	49.8	50.5	50.7	48.0	45.5	50.1	48.4	46.5	46.9	45.9
Filings for bankruptcies	57.5	62.0	54.2	54.1	53.2	52.4	50.2	48.7	53.0	48.2	49.7	47.2	45.6
Index of unfavorable factors	50.3	51.2	48.1	49.2	49.2	49.7	48.2	46.7	48.8	46.8	47.1	45.9	45.3
NACM Manufacturing CMI	53.7	53.0	52.7	53.5	51.7	53.2	51.0	50.2	52.5	49.8	51.4	50.4	47.9
ISM Manufacturing PMI	50.5	50.4	50.0	48.4	50.7	48.3	48.6	48.6	49.6	50.2	50.0	49.9	NA

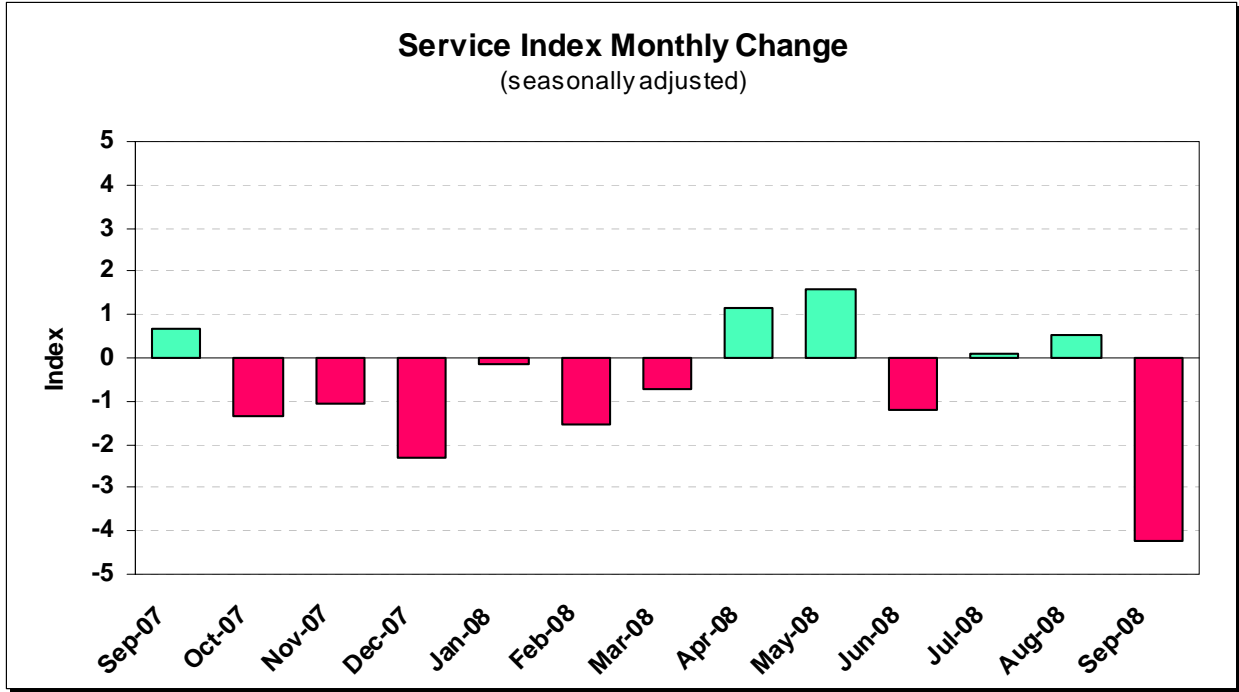


Service Sector

The seasonally adjusted service sector index fell to a record low of 46.8 in September. North reported a respondent in the repair shop industry asserted glumly that “It’s going to get worse before it gets better.” A respondent in the freight transportation arrangement business noted that there were “many more dispute(s), payment plans and slow payments.” And another in the same industry was a bit more blunt about the whole situation: “Bankruptcy reform forgot to include activating debtor prisons.”

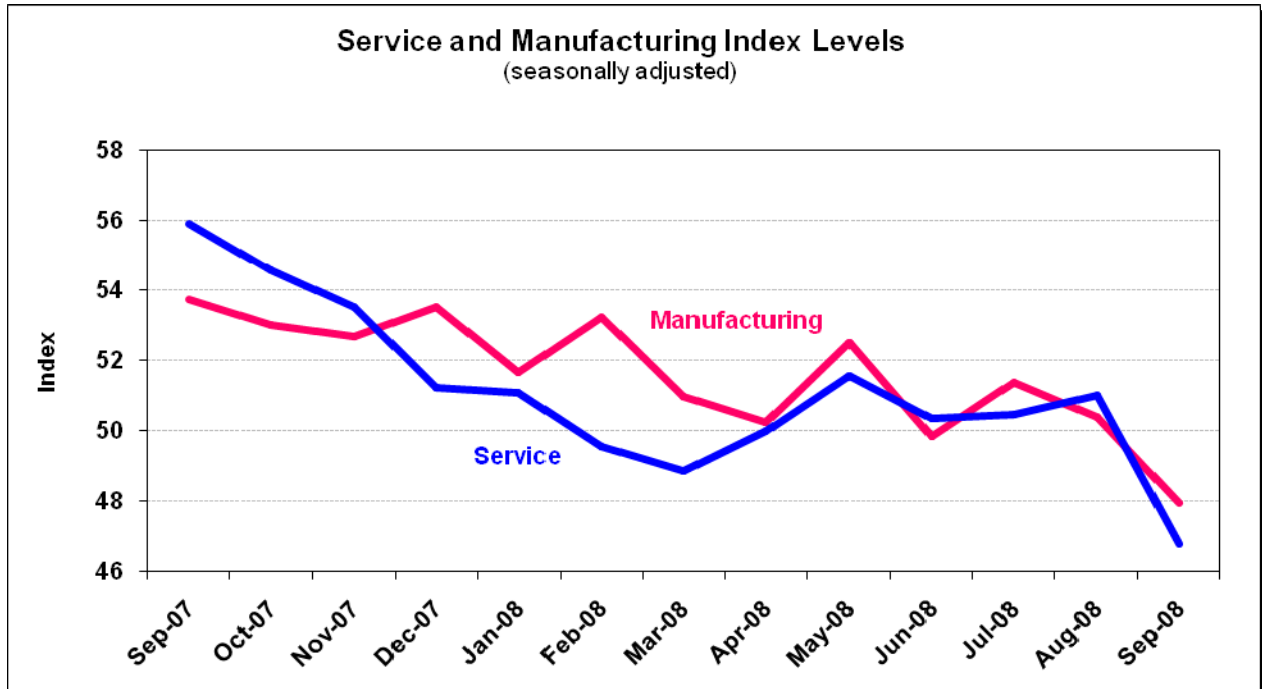
Service Sector (seasonally adjusted)

	Sep '07	Oct	Nov	Dec	Jan '08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep '08
Sales	58.6	55.1	57.7	50.8	50.3	58.0	48.5	53.9	55.5	54.0	54.9	55.5	45.4
New credit applications	53.1	52.4	56.1	53.6	51.3	55.8	50.4	53.4	55.1	49.3	52.7	52.6	48.4
Dollar collections	60.2	62.5	61.5	55.8	56.6	53.9	54.6	55.0	63.8	58.4	60.1	58.0	53.6
Amount of credit extended	61.1	60.2	60.4	57.8	56.7	52.5	55.1	56.3	62.2	59.8	58.3	58.0	51.5
Index of favorable factors	58.2	57.5	58.9	54.5	53.7	55.1	52.1	54.7	59.2	55.4	56.5	56.0	49.7
Rejections of credit applications	52.8	52.5	49.8	49.7	49.7	45.9	48.5	49.0	46.7	48.7	47.5	48.8	46.5
Accounts placed for collection	51.6	48.5	48.5	48.8	47.6	39.3	42.2	44.4	40.1	43.2	42.1	43.8	41.0
Disputes	54.2	51.0	50.1	49.2	49.1	42.4	51.0	47.4	51.3	48.9	47.4	48.9	46.1
Dollar amount beyond terms	57.0	50.4	44.8	45.3	47.4	51.8	41.1	41.1	41.6	43.7	48.0	45.4	40.9
Dollar amount of customer deductions	52.6	54.3	53.3	50.8	50.1	44.1	50.0	49.5	49.6	47.8	49.0	50.0	47.3
Filings for bankruptcies	57.9	58.8	52.9	50.4	51.9	51.7	47.0	49.7	49.4	49.8	44.6	49.2	47.3
Index of unfavorable factors	54.4	52.6	49.9	49.0	49.3	45.9	46.6	46.8	46.5	47.0	46.4	47.7	44.8
NACM Service CMI	55.9	54.6	53.5	51.2	51.1	49.5	48.8	50.0	51.5	50.3	50.5	51.0	46.8
ISM Service Business Activity Index	53.2	53.3	52.4	53.2	44.6	49.3	49.6	52.0	51.7	48.2	49.5	50.6	NA



September 2008 vs. September 2007

On a seasonally adjusted basis over the past 12 months, the manufacturing index fell 5.8 while the service index fell a record 9.1. “Clearly the significant downward trend reflects an economy which has been weakening for some time, and now seems to be on a somewhat steeper downward trajectory,” said North. “Certainly the clogged credit markets have contributed to this decline on top of high energy prices and the abysmal housing market.”



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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