

NACM Credit Manager's Index

Report for March 2008

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

Combined Sectors

For the first time since the seasonally adjusted Credit Manager's Index (CMI) was calculated in February 2002, the combined index has fallen below the crucial 50 level, indicating an economic contraction. It was the sixth decline in seven months, and a record six of 10 components fell. The service sector fell below 50 for the second consecutive month, while the manufacturing sector tied a record low of 51.0. "It was an unhappy report," said Daniel North, chief economist for credit insurer Euler Hermes ACI.

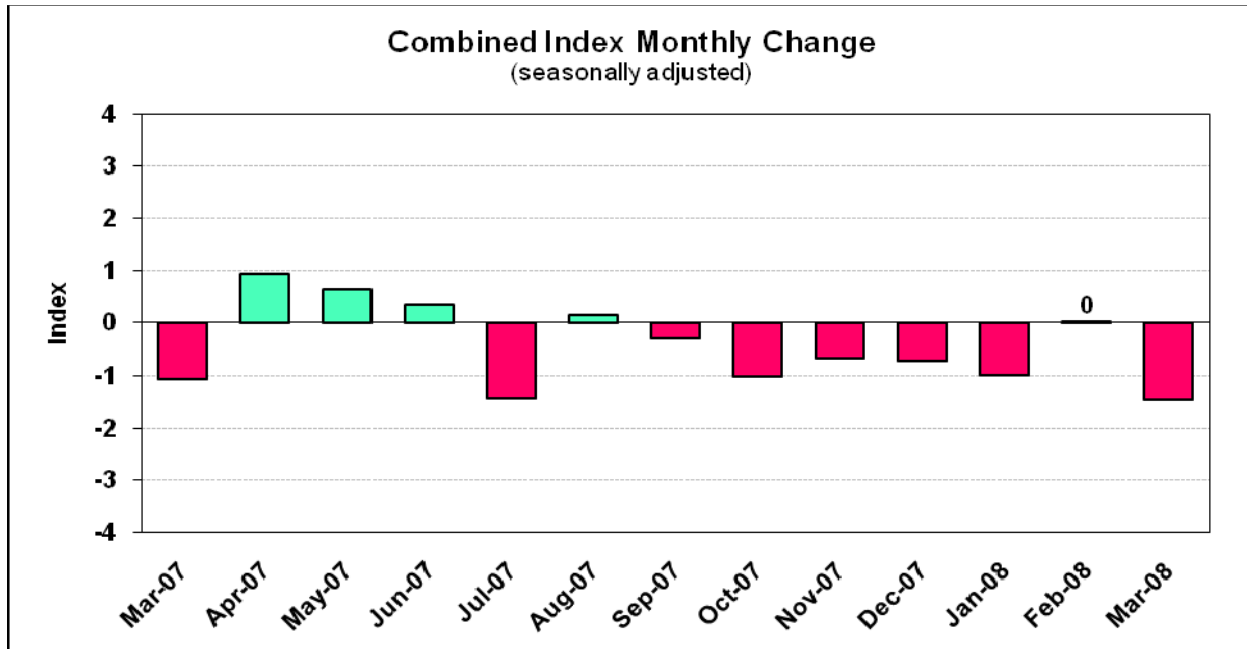
"The information in the report confirms other national data, such as negative growth in non-farm payrolls, record home foreclosures and real retail sales falling year over year, which indicate that the economy is almost certainly in recession," North said. While the Federal Reserve Bank has reacted quickly to soothe the turbulent financial markets, it takes up to a year for Fed interest rate cuts to have their full effect. "When that happens, and when the housing market finally regains its footing, then the economy will begin to recover, perhaps by the end of 2008 or the beginning of 2009," 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)

	Mar '07	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar '08
Sales	58.1	62.8	61.5	61.9	60.2	59.1	59.0	54.7	58.6	56.3	51.7	57.1	50.8
New credit applications	55.9	56.7	56.2	58.6	56.0	55.6	55.3	53.3	56.4	55.8	52.8	54.7	53.0
Dollar collections	58.4	61.5	61.9	61.0	60.2	60.1	60.0	60.0	61.2	57.2	56.8	60.5	55.1
Amount of credit extended	62.4	59.3	62.2	63.6	63.0	61.6	60.1	58.7	60.9	59.8	57.0	55.0	55.8
Index of favorable factors	58.7	60.1	60.5	61.3	59.9	59.1	58.6	56.7	59.2	57.3	54.5	56.8	53.7
Rejections of credit applications	51.9	52.4	52.7	52.6	53.4	51.1	51.8	52.0	49.9	50.0	50.9	48.4	49.0
Accounts placed for collection	48.4	54.0	51.5	52.0	49.8	50.7	49.0	49.6	47.4	46.2	47.1	42.5	45.2
Disputes	51.0	51.2	50.7	51.9	51.9	52.2	50.2	49.4	47.8	49.5	49.5	47.3	49.0
Dollar amount beyond terms	53.5	50.1	53.0	52.0	48.9	51.4	55.3	48.4	45.8	46.3	45.1	49.0	43.5
Dollar amount of customer deductions	49.3	49.3	53.3	53.0	48.8	52.2	49.9	51.5	49.6	50.3	50.3	47.4	49.0
Filings for bankruptcies	55.7	56.8	57.4	57.5	57.3	57.2	57.7	60.4	53.5	52.3	52.6	52.1	48.6
Index of unfavorable factors	51.6	52.3	53.1	53.2	51.7	52.4	52.3	51.9	49.0	49.1	49.3	47.8	47.4
NACM CMI	54.5	55.4	56.1	56.4	55.0	55.1	54.8	53.8	53.1	52.4	51.4	51.4	49.9
ISM Combined Sectors Index*	51.4	53.1	53.7	54.3	52.7	52	51.9	51.9	51.2	50.8	47.7	48.8	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.

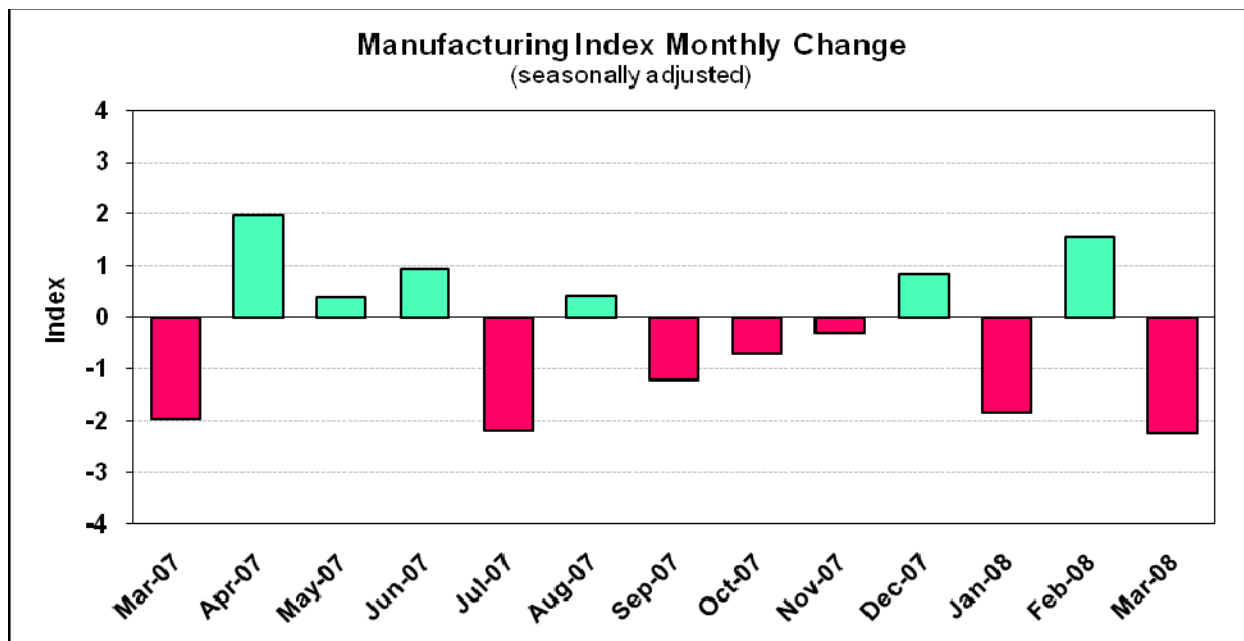


Manufacturing Sector

The seasonally adjusted manufacturing sector index fell 2.2% in March to 51.0%. “It was the second lowest reading ever after April 2002,” North said. Eight out of 10 components fell, and there are now five components below 50. “It’s no surprise that the housing market is the main culprit, but some respondents are pointing towards the economy in general,” he said. A manufacturer of steel pipe reported that “Companies are asking for extended terms...,” while a packaging manufacturer noted a “Higher number of accounts being converted to cash-in-advance payment.” North said, “It would appear that trade credit conditions in the manufacturing sector are beginning to succumb to the weight of the economy.”

Manufacturing Sector (seasonally adjusted)

	Mar '07	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar '08
Sales	56.5	60.9	59.5	62.9	60.9	59.2	59.3	54.2	59.4	61.9	53.0	56.2	53.1
New credit applications	54.6	57.1	57.3	58.7	56.4	55.7	57.5	54.1	56.6	58.0	54.2	53.5	55.6
Dollar collections	55.3	60.3	60.2	59.5	61.3	60.4	59.8	57.6	60.8	58.7	56.9	67.1	55.6
Amount of credit extended	60.0	54.3	62.0	61.8	62.6	62.7	59.1	57.3	61.3	61.8	57.3	57.4	56.5
Index of favorable factors	56.6	58.1	59.7	60.7	60.3	59.5	58.9	55.8	59.5	60.1	55.4	58.6	55.2
Rejections of credit applications	53.1	51.9	51.8	52.6	53.4	50.8	50.7	51.6	49.9	50.3	52.2	50.9	49.5
Accounts placed for collection	47.7	55.6	51.0	52.7	48.3	50.8	46.4	50.7	46.3	43.5	46.6	45.7	48.3
Disputes	49.9	51.4	49.9	51.4	49.8	50.6	46.1	47.8	45.5	49.8	50.0	52.1	47.0
Dollar amount beyond terms	53.7	55.3	56.0	56.6	50.0	50.0	53.6	46.3	46.9	47.4	42.7	46.3	46.0
Dollar amount of customer deductions	48.5	49.2	53.2	53.3	47.4	50.8	47.2	48.7	45.9	49.8	50.5	50.7	48.0
Filings for bankruptcies	55.8	58.6	57.5	58.0	55.4	58.4	57.5	62.0	54.2	54.1	53.2	52.4	50.2
Index of unfavorable factors	51.5	53.7	53.2	54.1	50.7	51.9	50.3	51.2	48.1	49.2	49.2	49.7	48.2
NACM Manufacturing CMI	53.5	55.5	55.8	56.7	54.6	55.0	53.7	53.0	52.7	53.5	51.7	53.2	51.0
ISM Manufacturing PMI	50.7	52.8	52.8	53.4	52.3	51.2	50.5	50.4	50.0	48.4	50.7	48.3	NA

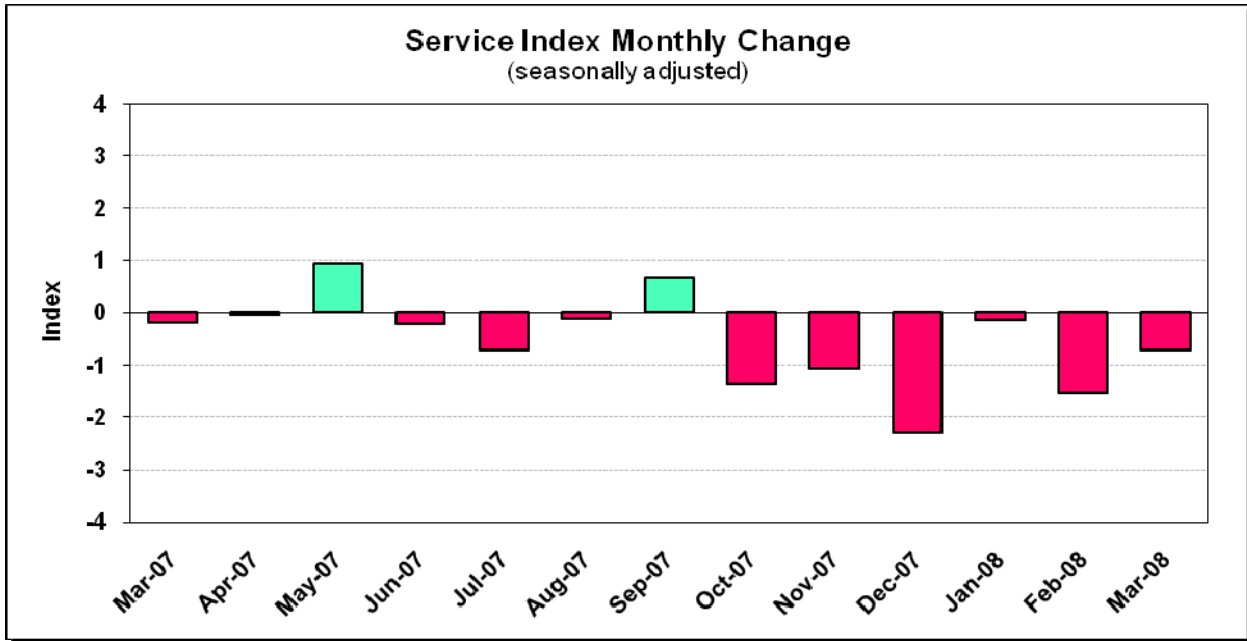


Service Sector

The seasonally adjusted service sector index fell 0.7% in March to 48.8%. “The index is at its lowest level since it began in February 2002, and is below the 50% level indicating economic contraction,” said North. Five of the 10 components are also below 50%. “It was the sixth consecutive decline, and in fact the service sector has declined 15 times in the past 18 months as the virtual depression in the housing market has driven the index steadily down. While only four components declined this month, they more than outweighed those that rose,” he said. Of the survey responses, a supplier of heating and plumbing equipment reported “Sending more notice letters and filing more liens,” a furniture vendor noted that “...collecting receivables is becoming more and more difficult!” and a grocery supplier simply said “Customers just don’t want to pay current bills.”

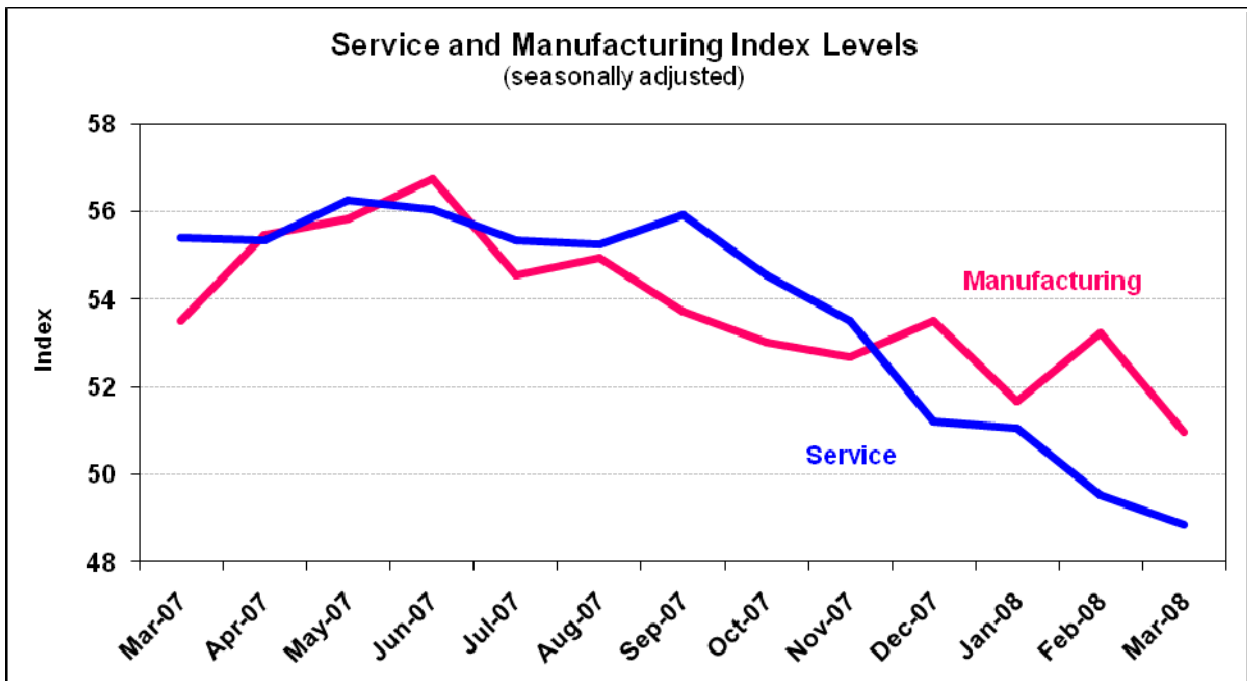
Service Sector (seasonally adjusted)

	Mar '07	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan '08	Feb	Mar '08
Sales	59.8	64.8	63.5	60.9	59.5	59.0	58.6	55.1	57.7	50.8	50.3	58.0	48.5
New credit applications	57.1	56.3	55.2	58.5	55.5	55.5	53.1	52.4	56.1	53.6	51.3	55.8	50.4
Dollar collections	61.6	62.7	63.7	62.5	59.1	59.7	60.2	62.5	61.5	55.8	56.6	53.9	54.6
Amount of credit extended	64.7	64.2	62.4	65.5	63.5	60.5	61.1	60.2	60.4	57.8	56.7	52.5	55.1
Index of favorable factors	60.8	62.0	61.2	61.8	59.4	58.7	58.2	57.5	58.9	54.5	53.7	55.1	52.1
Rejections of credit applications	50.8	52.9	53.6	52.7	53.3	51.4	52.8	52.5	49.8	49.7	49.7	45.9	48.5
Accounts placed for collection	49.1	52.5	52.1	51.3	51.3	50.7	51.6	48.5	48.5	48.8	47.6	39.3	42.2
Disputes	52.1	50.9	51.5	52.4	54.0	53.7	54.2	51.0	50.1	49.2	49.1	42.4	51.0
Dollar amount beyond terms	53.2	44.8	50.1	47.3	47.9	52.7	57.0	50.4	44.8	45.3	47.4	51.8	41.1
Dollar amount of customer deductions	50.1	49.4	53.4	52.7	50.2	53.5	52.6	54.3	53.3	50.8	50.1	44.1	50.0
Filings for bankruptcies	55.6	55.0	57.4	57.0	59.2	55.9	57.9	58.8	52.9	50.4	51.9	51.7	47.0
Index of unfavorable factors	51.8	50.9	53.0	52.2	52.7	53.0	54.4	52.6	49.9	49.0	49.3	45.9	46.6
NACM Service CMI	55.4	55.4	56.3	56.1	55.4	55.3	55.9	54.6	53.5	51.2	51.1	49.5	48.8
ISM Service Business Activity Index	52.1	53.4	54.5	55.1	53.1	52.8	53.2	53.3	52.4	53.2	44.6	49.3	NA



March 2008 vs. March 2007

On a seasonally adjusted basis over the past 12 months, North reported that all 10 components in the combined Credit Manager's Index have fallen, driving the index down 4.6%. Similarly, all 10 service sector components fell, pulling the index down 6.6%. The manufacturing sector fared only slightly better as only seven of 10 components fell, bringing the index down 2.5%. "Both the service and combined indexes are below the 50 level indicating economic contraction," North said. "The data tell a definitive story of a shrinking economy and the significant challenges facing credit managers."



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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