

# **USMCA: trade credit risk worries businesses more than trade wars**

**Atradius Payment Practices Barometer**





SURVEY RESULTS

SURVEY DESIGN

STATISTICAL APPENDIX



**David Huey, Atradius Regional Director for the USA, Canada and Mexico commented on the report**

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*As we write this report, tariffs on steel and aluminium imported from Canada and Mexico have been removed, paving the way for the ratification of the USMCA trade deal by the U.S. Congress. The USMCA agreement will update trade ties of the three largest and closely interwoven North American economies.*

*50% of USMCA exports are to other USMCA countries making the signing of this agreement more important for the region than the trade war between the USA and China. China's exports to USMCA amount to less than half of the intra-region imports. The outcome of the ratification process is still uncertain, as is the trade dispute between the USA and China.*

*All this, along with the expanding global economy, poses a growing number of challenges and risks to businesses, which have to adapt and evolve if they want to survive and grow.*



## Canada

The Canadian economy continues to operate near its potential and the composition of growth is more balanced. GDP is forecast to grow below 2% this year as export, household consumption and investment growth further ease. However, the Canadian economy should still experience positive momentum, with low unemployment, manageable inflation and rising, but historically low interest rates. Insolvencies are expected to level off this year.

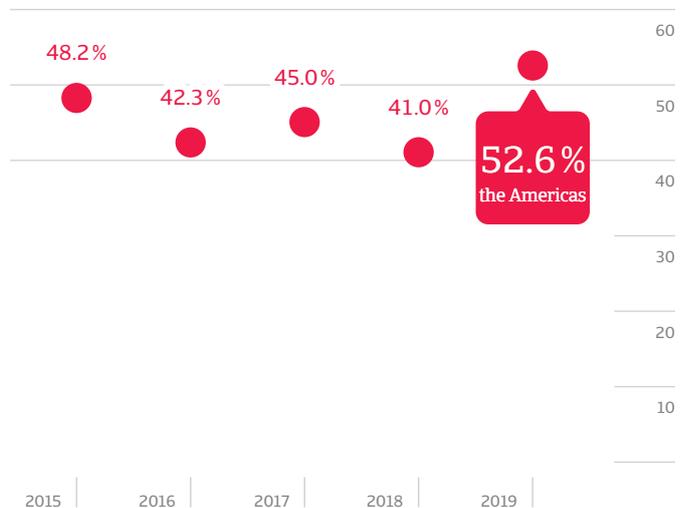
## Mexico

Although Mexico is well-positioned to withstand shocks, as its external finances remain strong, the country's economic outlook is weakening, with GDP growth forecasts being revised downward to 1.4% in 2019 and 1.9% in 2020. This was chiefly due to slower-than-expected growth in the USA, its main trading partner. Private consumption, however, will remain the main engine of growth.

## The USA

Despite solid fundamentals, underpinned by persistently strong household and business confidence, clouds are developing over the U.S. economy. Fiscal and trade policy risks have increased, posing a double threat to the strong domestic economy. There is still confidence that the next recession won't start in 2019, however the risk of a downturn occurring sooner than expected has increased.

## Proportion of total B2B sales made on credit in North America



Sample: companies interviewed (active in domestic and foreign markets)  
 Source: Atradius Payment Practices Barometer – June 2019



## Mexican respondents' are the least likely in the USMCA region to offer B2B customers credit terms

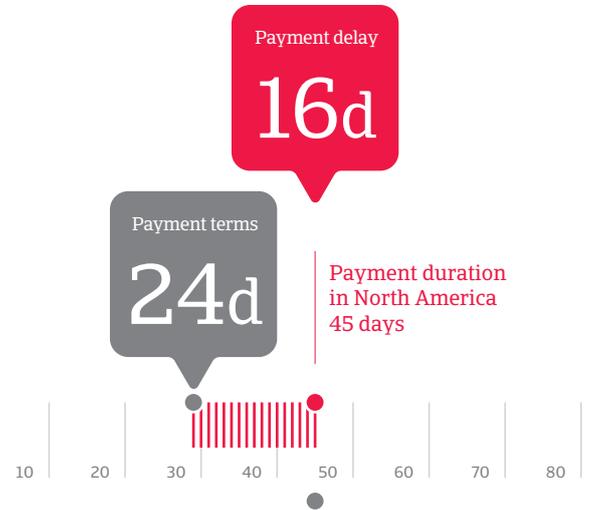
Survey respondents in both the U.S. and Canada have historically shown a preference for selling to their B2B customers on cash rather than on credit terms. However, current survey findings in both countries point to a shift in preference to selling on credit this year. In the US, 55.2% of the total value of respondents' B2B sales was reported to be made on credit (up from 44.6% last year). In Canada, this percentage reaches a high of 57.2% (up from 46.1% one year ago). Conversely, in Mexico respondents continued to show a preference for the safety of cash-based sales. On average, 45.4% of the total value of respondents B2B sales was on credit (no variation compared to last year). Following the USMCA agreement in 2018, 87% of the suppliers interviewed in Mexico (up from 81.5% last year) either increased or did not vary their trade volume with the U.S. over the past year. This is the case for 92% of the suppliers interviewed in Canada (up from 90% one year ago). On average, 7 in 10 respondents said that the change in exports to USMCA buyers was due to both economic reasons and government trade policies.

## U.S. and Mexican respondents request quicker payment of invoices compared to last year

In response to a heightened perception of the payment default risk arising from trading on credit with B2B customers, U.S. and Mexican respondents requested quicker payment of invoices than one year ago. Payment terms have dropped to an average of 24 days in the USA and 26 days in Mexico (last year 27 days and 33 days respectively). These terms compare to the average 37 days granted by Canadian respondents (up from a 25 days average last year).



## Payment duration in North America



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer - June 2019

## Checking buyers' creditworthiness and reserving against bad debts form the basis of USMCA respondents' credit management policies

Consistent with the heightened perception of the payment default risk commented on earlier, the credit policies of both U.S. and Mexican respondents revolves around the assessment of a prospective buyer's creditworthiness prior to any trade credit decision. 38% of respondents in Mexico and 35% in the U.S. regularly check creditworthiness. This percentage falls to 30% in Canada, where the most used credit management practice seems to be reserving against bad debts. 33% of Canadian respondents, compared to 28% of respondents in the U.S. and 18% in Mexico) maintain bad debt reserves. Of note, a sizeable percentage of Mexican respondents' (32%) reported they either sell on a cash basis or request secured forms of payment from B2B customers. In order to shorten the cash conversion cycle, they also offer discounts for early payment of invoices almost as often as they request payment on cash.

## One fourth of the total value of the B2B invoices issued by USMCA respondents is past due

On average, one fourth of the total value of the invoices issued by USMCA respondents to their B2B customers was not paid by the due date. To convert past due invoices into cash, Mexican respondents wait an average of 43 days (down from 66 days last year) and U.S. respondents 39 days (down from 51 days last year). In contrast, respondents in Canada now wait on average 54 days (up from 49 days last year). The 12 day increase in average payment terms only having a five day impact in payment duration. To alleviate the financial pressure on the business and protect the viability of the company, 39% of Mexican respondents (27% in the US, 29% in Canada) needed to pay invoices to their own suppliers late. In the U.S., 30% of respondents took measures to correct cash flow and one in four respondents needed additional financing from external sources. On average, in the U.S. 1.3% of the value of B2B receivables was written off as uncollectable (compared to 1.2% last year). This was 1.4% in Canada (1.5% last year) and 2.0% in Mexico (stable compared to one year ago).

## More respondents in the USA and Canada than in Mexico expect their customers' payment practices to worsen over the coming months

Most respondents in the USA and Canada (55% and 52% respectively) do not expect payment practices of B2B customers to change significantly over the coming months. However, 33% of U.S. respondents expect an increase in late payments and in the number of U.S. firms filing for bankruptcy this year, while 27% of respondents in Canada anticipate a worsening of their customers' payment habits in the form of increased late payments. Mexican respondents, in contrast, appear to have a very optimistic view about the outlook of their B2B customers' payment behaviour. 44% expect an improvement in the coming months. When asked to indicate the credit management tools and practices they will use over the coming months, respondents in Mexico and the U.S. (63% and 51% respectively) said they will sell on cash terms more often. Nearly half of U.S. respondents and 41% of respondents in Canada said they will increase dunning activities.

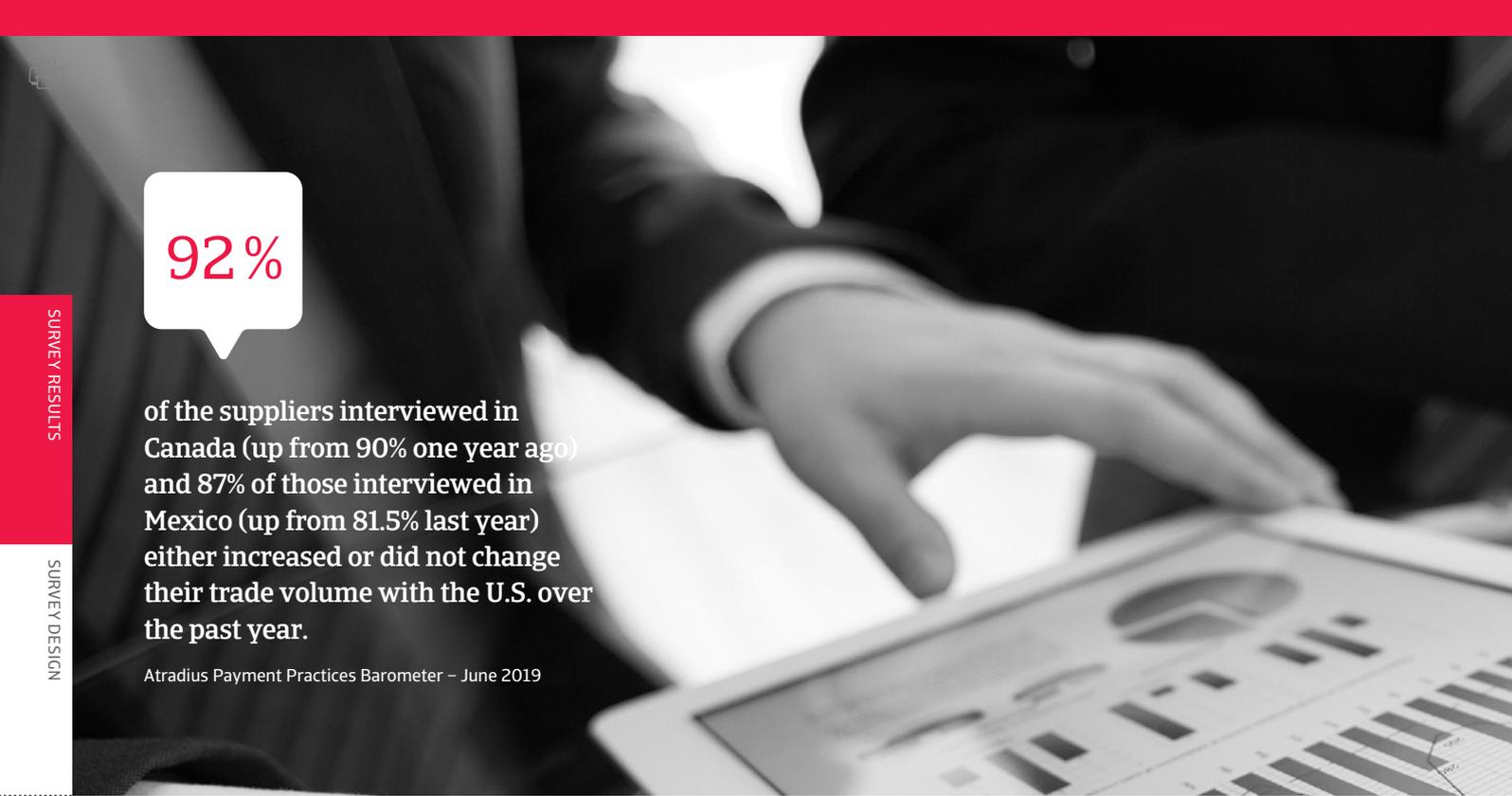


### David Huey, Atradius Regional Director for the USA, Canada and Mexico commented on the report

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*We at Atradius are perfectly aware of this. With our credit management solutions, we help businesses use their assets more effectively, protect their balance sheets from the risk of payment defaults by their customers and ensure the financial viability of their company.*

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92%

of the suppliers interviewed in Canada (up from 90% one year ago) and 87% of those interviewed in Mexico (up from 81.5% last year) either increased or did not change their trade volume with the U.S. over the past year.

Atradius Payment Practices Barometer – June 2019

## Overview of payment practices in the USMCA region

### By business sector

#### Canada

##### **Average payment terms longest in the ICT/electronics sector - shortest in the services sector**

Canadian respondents from the ICT/electronics and the construction sectors extended the longest average payment terms (averaging 37 days and 35 days from the invoice date respectively). The shortest average payment terms were set by respondents in the services sector (averaging 29 days).

##### **Trade credit risk is highest in the ICT/electronics sector and lowest in the services sector**

The value of overdue invoices is highest in the ICT/electronics sector at 34.4% of the total value of B2B invoices. The construction sector at 33% follows. The services sector is the lowest at 22%.

##### **Proportion of uncollectable receivables highest in the construction sector and lowest in the services sector**

The construction sector in Canada reported that 1.7% of their B2B receivables were written off as uncollectable, the highest proportion in the country. The consumer durables sector followed at 1.6%. At 1.1%, the services sector is at the low end of the scale.

#### Mexico

##### **Longest average payment terms in the ICT/electronics sector - shortest in the consumer durables sector**

Mexican respondents from the ICT/electronics and construction sectors extended the longest average payment terms (averaging 36 days and 33 days from the invoice date respectively). Respondents in the consumer durables sector set the shortest average payment terms (averaging 16 days).

##### **Trade credit risk is highest in the construction sector, and lowest in the chemicals sector**

The value of overdue invoices is highest in the construction sector at 35% of the total value of B2B invoices issued by Mexican respondents. The agri-food sector follows at 28.3%. The chemicals sector averaged a low of 12%.

##### **Proportion of uncollectable receivables highest in the ICT/electronics sector and lowest in the chemical sector**

The ICT/electronics sector in Mexico reported that 2.3% of their B2B receivables were written off as uncollectable, the highest proportion in the country. The agri-food sector follows at 2.2%. At the lower end of the scale, the chemicals sector reported a low of 1.1%.

## USA

### Average payment terms are longest in the chemicals sector and shortest in the agri-food sector

U.S. respondents from the chemicals and the machines sectors extended the longest average payment terms (averaging 38 days and 31 days from the invoice date, respectively). The shortest average payment terms were set by respondents in the agri-food sector (19 days), followed by the construction and transport sectors (averaging 20 days).

### Trade credit risk is highest in the USA metals sector and lowest in the transport sector

The value of overdue invoices is highest in the metals sector at 40.4% of the total value of B2B invoices. The ICT/electronics sector at 33% and the construction sector at 32% follow. The transport sector recorded a low of 11%.

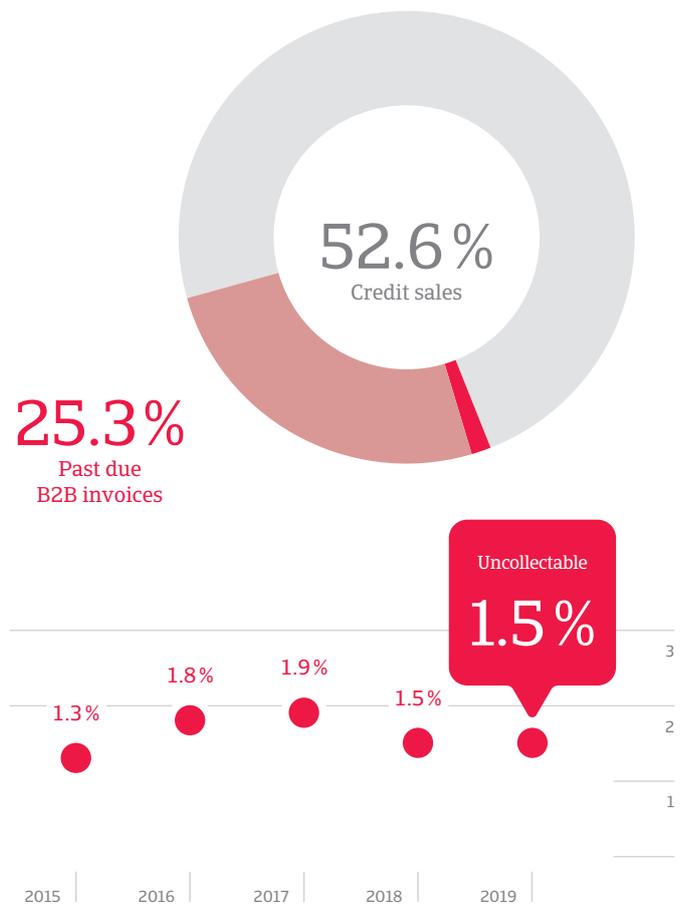
### Proportion of uncollectable receivables is highest in the ICT/electronics sector and lowest in the agri-food sector

The ICT/electronics sector in the U.S. reported that 1.9% of their B2B receivables were written off as uncollectable, the highest proportion in the country. The machines sector follows at 1.7%. At the lower end of the scale, the chemicals sector reported that an average of 1.1% of B2B receivables were written off as uncollectable and the agri-food sector less than 1%.



## Uncollectable B2B receivables in North America

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)  
Source: Atradius Payment Practices Barometer – June 2019



# Overview of payment practices in the USMCA region

## By business size

### Canada

#### Large enterprises set the longest average payment terms for B2B customers

Respondents from large enterprises in Canada extended the longest and those from SMEs and micro enterprises the shortest average payment terms to B2B customers (averaging 37 days and 30 days from the invoice date respectively).

#### Large enterprises wait the longest to be paid overdue invoices

Over the past year, large enterprises in Canada recorded the highest increase in the proportion of B2B invoices paid on time (+16% on average). Even with this improvement, overdue invoices in large enterprises still account for 33.8% of the total value of B2B invoices. In contrast, on-time payment of B2B invoices issued by SMEs decreased 13% on average. Despite these changes, large enterprises are still the slowest to collect payment of overdue invoices (on average after 55 days). This compares to 51 days for SMEs and to 39 days for micro enterprises.

#### Large enterprises record the highest rate of uncollectable receivables

Being the slowest in collecting past due invoices, large enterprises in Canada also logged the highest proportion (3.0%) of B2B receivables written off as uncollectable. The average for SMEs is 1.9% and for micro-enterprises less than 1%.

### Mexico

#### SMEs set the longest average payment terms for B2B customers

Respondents from SMEs in Mexico extended the longest and those from large enterprises the shortest average payment terms to B2B customers (averaging 27 days and 12 days from the invoice date respectively).

#### SMEs wait the longest to be paid overdue invoices...

Over the past year, SMEs in Mexico recorded the highest increase in the proportion of B2B invoices paid on time (+28% on average). Due to this change, overdue invoices in large enterprises now account for 27.1% of the total value of B2B invoices. In contrast, on-time payment of B2B invoices issued by micro enterprises decreased 23% on average. The average time it takes to convert invoices into cash ranges from 45 days from the invoice date for SMEs to 39 days for large enterprises.

#### ...and have the highest percentage of uncollectable receivables

SMEs recorded the highest proportion (2.3%) of B2B receivables written off as uncollectable. The average for micro enterprises is 1.6% and for large enterprises is 1.5%.

### USA

#### Large enterprises set the longest average payment terms

Respondents from large enterprises in the U.S. extended the longest and those from micro enterprises the shortest average payment terms to B2B customers (averaging 30 days and 21 days from the invoice date, respectively).

#### Large enterprises wait the longest to receive payment on overdue invoices.

Over the past year, large enterprises in the U.S. recorded the highest increase in the proportion of B2B invoices paid on time (+20% on average). Due to this change, overdue invoices in large enterprises now account for 27.4% of the total value of B2B invoices. In contrast, on-time payment of B2B invoices issued by SMEs decreased 13% on average. Despite these changes, large enterprises are still the slowest to collect payment of invoices. The average time it takes to convert invoices into cash is 51 days from the invoice date for SMEs and 69 days for large enterprises.

#### SMEs recorded the highest rate of uncollectable receivables.

Despite collecting payment of invoices faster, SMEs have a significantly worse track record when it comes to collecting payment. SMEs in the U.S. recorded the highest proportion (2.0%) of B2B receivables written off as uncollectable. The average for large enterprises is 1.3% and for micro-enterprises less than 1%.

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# Survey design for the Americas

## Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on the Americas, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from four countries (Brazil, Canada, Mexico and the USA) have been surveyed. Due to a change in research methodology for this survey, for some of the current results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 837 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

## Survey scope

- Basic population: companies from four countries (Brazil, Canada, Mexico and the U.S.) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=837 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q2 of 2019.

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## Sample overview – Total interviews = 837

Country	n	%
USA	205	24.4
Canada	210	25.2
Mexico	211	25.2
Brazil	211	25.2
Industry	n	%
Manufacturing	278	33.2
Wholesale trade/ Retail trade / Distribution	446	53.3
Services	113	13.5
Business size	n	%
Micro enterprises	281	33.5
SME (Small/Medium enterprises)	307	36.7
Large enterprises	249	29.8

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.



## Statistical appendix

Find detailed charts and figures in the Statistical Appendix for the Americas. This is part of the June 2019 Payment Practices Barometer of Atradius, available at [www.atradius.com/publications](http://www.atradius.com/publications)

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For more **insights into the B2B receivables collection practices in USMCA region** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on [www.atradiuscollections.com](http://www.atradiuscollections.com)

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