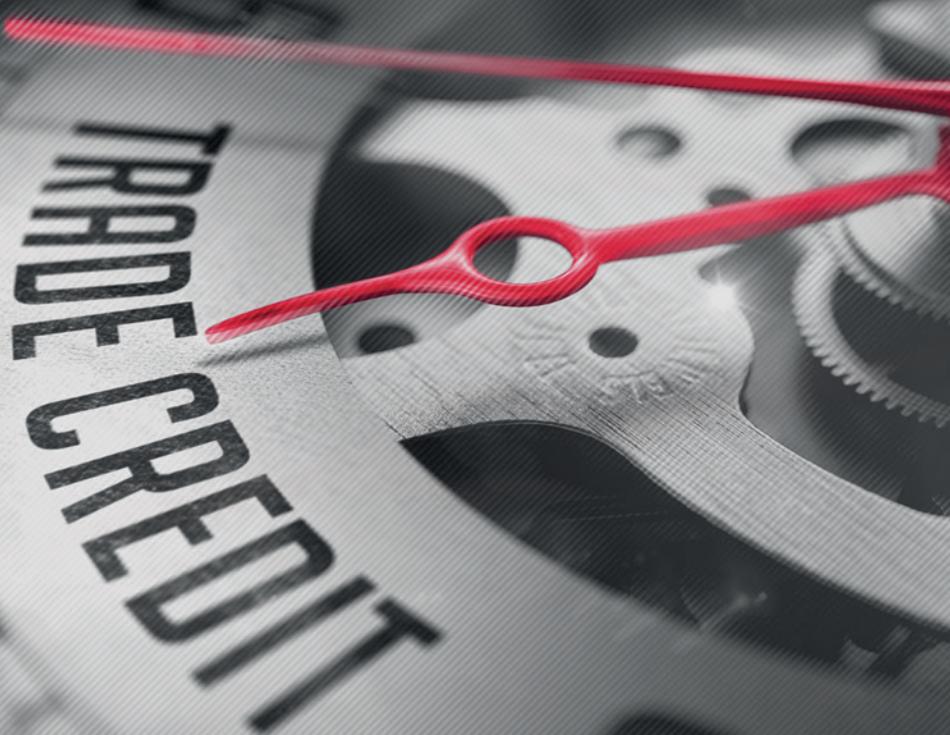




Mexico: weaker economic growth, stronger credit risk perception

Atradius Payment Practices Barometer



trading
partners

Top 5

United States
Canada
Germany
China
Spain

Source: WITS

exports

Top 5

Automobiles
Petroleum oils
Digital process unit
Telegraphic apparatus
Gas powered trucks

Source: www.census.gov

imports

Top 5

Petroleum oils
(excluding crude)
Monolithic integrate circuits
Automobiles
Telegraphic apparatus
Parts and accessories of
automatic data process

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 US, its main trading partner. Private consumption, however, remains the main engine of growth.



Karel van Laack, Country Director Mexico commented on the report

“

A very interesting outcome emerged from the payment practices survey conducted in Mexico. Respondents showed a greater preference for selling on a cash basis than on credit terms. Although cash sales ensure the utmost protection against payment default by customers, it might not be the best option for consistently winning businesses in today’s global marketplace.

Businesses can take advantage of commercial opportunities by giving their buyers time to pay, while at the same time mitigating the non-payment risk with credit management tools. With its wide sector and country based expertise, Atradius Mexico helps its clients manage their credit risk by insuring their receivables and helping them collect overdue invoices, giving them more control over their receivables and enabling them to grow safely and securely.

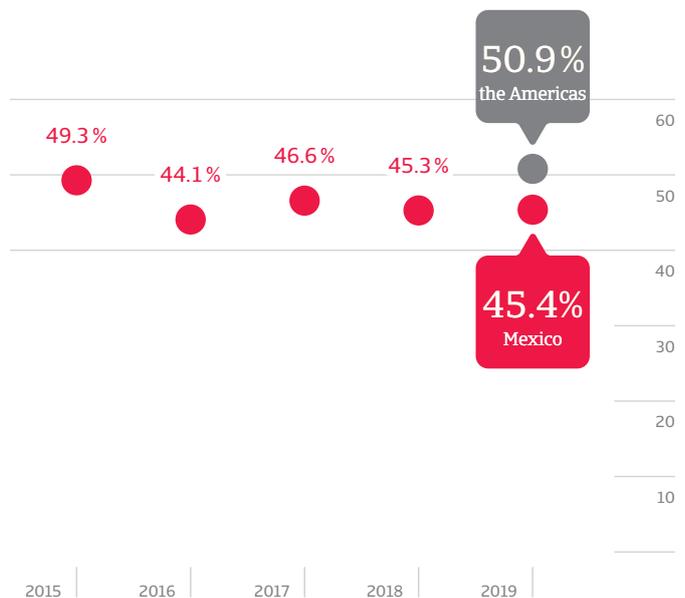
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Mexican respondents’ appetite for selling on credit notably lower than that of their USMCA peers

As part of various multilateral and regional trade agreements, Mexico is a key player in free trade in the global marketplace. You might therefore expect businesses in Mexico to be highly inclined to offer trade credit to their B2B customers to achieve a competitive advantage. To the contrary, current survey findings reveal that respondents prefer the safety of cash-based sales. On average, over the past year, 54.6% of the total value of respondents (domestic and export) B2B sales was on cash, and 45.4% on credit. It is worth mentioning that the percentage of credit-based sales recorded in Mexico is approximately the same as that recorded in Brazil (46.4%), and easily the lowest of the USMCA countries (55.2% in the US and 57.2% in Canada). This reflects the less developed economies of Mexico and Brazil compared to those of the US and Canada.

We have also seen a decrease in export flows from Mexico to Canada (down 7% on average) and to the US (averaging 3% less) over the past year, which according to 3 in 5 respondents in Mexico is due to both economic reasons and government trade policies.

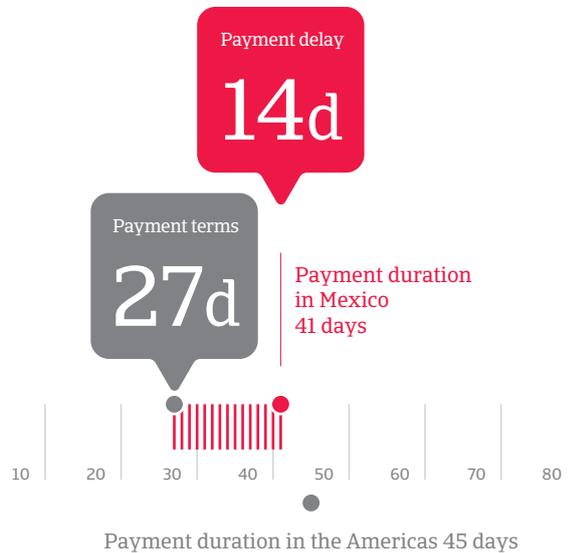
Proportion of total B2B sales made on credit in Mexico



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



Payment duration in Mexico



d = average days

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

Source: Atradius Payment Practices Barometer – June 2019

Credit policy of Mexican respondents more stringent than last year

While the aversion to selling on credit seems to be long embedded in the business practices of respondents from Mexico, it is also amplified by the risk prevalent during this period of renegotiation and ratification of the North American trade agreement. Uncertainty about trade relations with the US and Canada increased trade credit risk on multiple levels in 2018 resulting in more stringent payment terms for B2B customers than last year. Based on survey findings, most Mexican respondents (84%) requested their B2B customers pay invoices faster than one year ago, within 26 days on average (down from 33 days last year). In the USMCA region, these compare to an average of 37 days in Canada (up from 25 last year) and 24 days in the US (down from 27 one year ago). Payment terms recorded in Brazil average 38 days (up from 32 days last year).

Heavy focus on safe payment methods and quick cash conversion cycle

In all of the countries surveyed, assessing the creditworthiness of the buyer prior to any trade credit decision forms the basis of the credit decision. Mexican respondents (42%) do this more often than their peers in Brazil (39%) in the US (35%) and in Canada (30%). Furthermore, in line with their greater than average preference for risk free methods of payment

in B2B transactions, 32% of Mexican respondents reported to either request payment on a cash basis or another secured form of payment. In order to shorten the cash conversion cycle, Mexican respondents offer discounts for early payment of invoices almost as often as they request safe methods of payment. Of note, reserving against bad debts, which is done to offset potentially inaccurate screening of the buyer's creditworthiness, is performed notably less often by respondents in Mexico (18%), than by their peers in the US (28%) and in both Canada and Brazil (33%).

2 in 5 respondents covered liquidity needs by taking measures to correct cash flow

Over 25% of the total value of the invoices issued by respondents in Mexico was reported to be past due. 43 days was the average time it took Mexican respondents to turn these overdue invoices into cash (down from 66 days last year). Despite their strong focus on swiftly turning invoices into cash, most Mexican respondents (44%) reported they needed to take various measures to correct cash flow to manage liquidity constraints caused by late payment from B2B customers. This was the case for 29% of respondents in the US, 26% in Canada and 43% in Brazil. 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 and 39% in Brazil) needed to pay invoices to their own suppliers late. Collection of slow payments by Mexican respondents over the past year appeared to be efficient, keeping the average percentage of B2B receivables written-off as uncollectable to 2.0% (stable compared to one year ago). This compares to 1.4% in Canada, 1.3% in the US and to 2.5% in Brazil.

Payment practices of respondents' B2B customers expected to improve

Mexican respondents appear to have a very optimistic view about the outlook of their B2B customers' payment behaviour over the next months. 44% of respondents expect an improvement. 27% (compared to 33% in the U.S. and 21% in Canada) expect payment behaviour to worsen, having a negative impact on their cash flow. When asked to indicate the credit management tools and techniques they will use over the coming months, 63% of Mexican respondents said that they will request cash payment on B2B transactions more often. Requesting secured forms of payment, checking buyers' creditworthiness and an increased focus on collecting overdue invoices are measures that an almost equal number of Mexican respondents said they will do over the coming months.

54%

of Mexican respondents reported they will increase hedging against systematic exchange rate risk exposure to protect cash flow from adverse impacts of their currency volatility.

Atradius Payment Practices Barometer – June 2019

Overview of payment practices in Mexico

By business sector

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 35.0% of the total value of B2B invoices issued by Mexican respondents. The agri-food sector follows at 28.3. The chemicals sector recorded a low of 12%.

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

The ICT/electronics sector reported the highest proportion of B2B receivables written off as uncollectable (2.3%) in the country. The agri-food sector followed at 2.2%. At the lower end of the scale, the chemical sector reported a low of 1.1%.

“

Our business has periods of high peak exposure. Being credit insured, the risk of customers' payment default is transferred, exposure is reduced and risk capital is freed and can be used to grow the business.

”

**Credit manager - Large enterprise
- Machines sector**



Overview of payment practices in Mexico

By business size

Mexican SMEs set the longest average payment terms for B2B customers

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

SMEs took the longest to cash in overdue invoices....

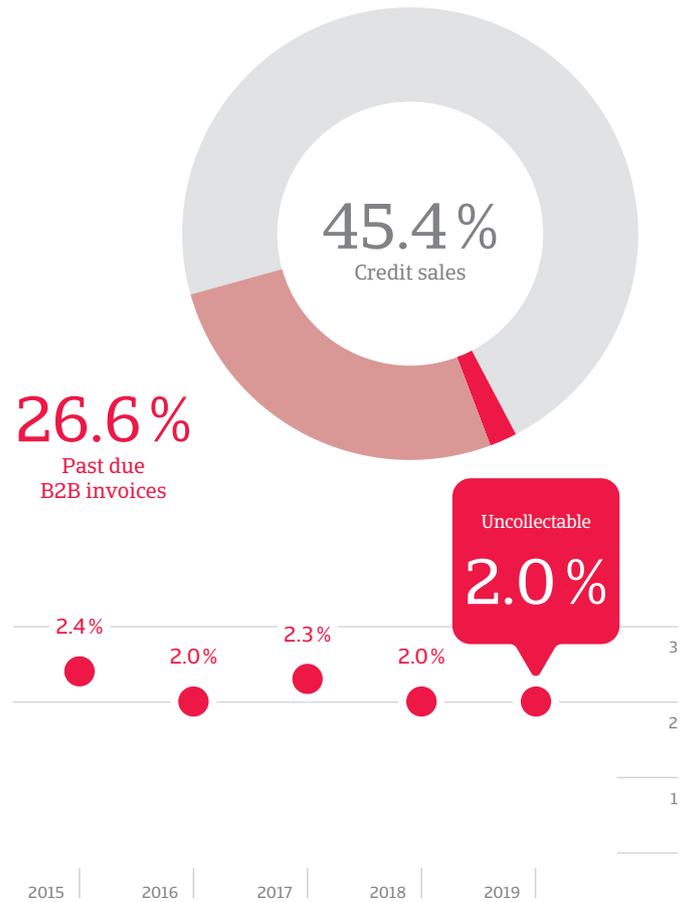
Over the past year, SMEs in Mexico recorded the highest increase in the proportion of B2B invoices paid on time (+26% on average). In contrast, on time payment of B2B invoices issued by micro enterprises decreased 23% on average. In large enterprises, it fell 18% resulting in an increase/decrease in the value of overdue invoices to 27.1% of the total value of B2B invoices. The average time it takes to get paid ranges from 39 days for large enterprises to 45 days from the invoice date for SMEs.

...and the highest rate of uncollectable receivables

SMEs in Mexico 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%.

Uncollectable B2B receivables in Mexico

(% of total value of B2B receivables)



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

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 U.S.) 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

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

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