



Canada: is the economic outlook really less gloomy?

Atradius Payment Practices Barometer





trading partners
Top 5

- United States
- China
- United Kingdom
- Japan
- Mexico

Source: WTEC

exports
Top 5

- Crude Petroleum
- Cars
- Refined Petroleum
- Vehicle Parts
- Petroleum
- Gas

Source: OEC

imports
Top 5

- Vehicles
- Machinery
- Electrical, electronic equipment
- Mineral fuels, oils
- distillation products
- Plastics

Source: www.census.gov

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.



David Huey, Atradius Regional Director for the U.S.A., Canada and Mexico commented on the report

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Despite expectations of slower growth this year, momentum in the Canadian economy should remain positive, contributing to levelling off the current insolvency rates in the country. However, the global economy is fraught with risks, and even indirect risks like the trade dispute between the United States and China, can have a significant impact on Canadian trade.

We are aware that Canadian companies strive to stay competitive and grow, while at the same time needing to protect themselves against payment default risks.

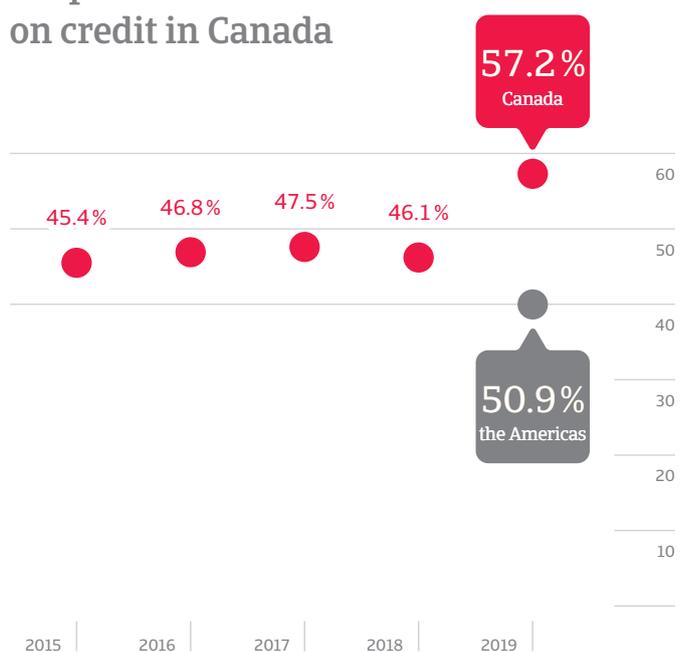
Therefore, we offer them the most valuable credit management solutions to compete more effectively in the current global trade environment and protect their financial flexibility.

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Canadian respondents are much more likely to sell on credit to B2B customers than last year

Consistent with what observed in the US, Canadian respondents have traditionally shown a greater preference for selling to their B2B customers on cash than on credit. However, current survey findings reveal a shift in preference to selling on credit this year. 57.2% of the total value of Canadian respondents' B2B sales was reported to be made on credit (up from 46.1% one year ago). This is the highest figure observed in the Americas (55.2% in the U.S., 45.4% in Mexico and 46.4% in Brazil) suggesting that respondents in Canada are offering trade credit more frequently to stimulate sales and particularly exports to the US, which have slowed this year. As survey findings reveal, the exports of respondents to the US decreased to 30% from 32% last year, exports to Mexico increased to 31% from 27%. When asked to explain the reasons for their decreased export activity to the US, most Canadian respondents (81%) said that this was due to reasons connected to both the economic environment and the government trade policies. The same opinion was expressed by 62% of respondents in regards to the more dynamic export trade relations with Mexico.

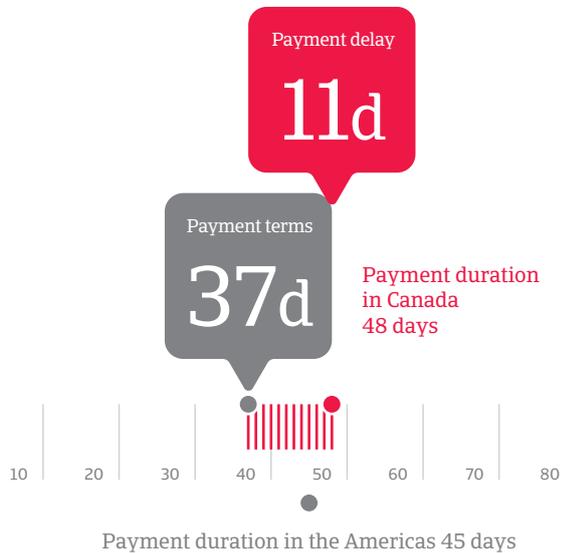
Proportion of total B2B sales made on credit in Canada



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



Payment duration in Canada



d = average days

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

Source: Atradius Payment Practices Barometer – June 2019

B2B customers of Canadian respondents are given much longer to pay invoices than last year

Beside being much more inclined to trade on credit with B2B customers than last year, Canadian respondents seem equally inclined to set much longer terms for settlement of invoices. On average, payment of invoices from B2B customers was requested within 37 days from the invoice date, which compares to the average of 25 days last year. These are the longest in the Americas, (24 days in the US down from 27 days last year and 27 days in Mexico down from 33 days one year ago) and one day less than in Brazil (average 38 days up from 32 days last year).

Reserving against bad debts is the basis of Canadian respondents' credit management policy

Consistent with the increased sales on credit observed in Canada, underpinned by more relaxed payment terms than in the past, Canadian respondents show themselves to be very focussed on reserving against bad debts. This is meant to ensure the financial stability of the business should the assessment of their buyers' creditworthiness prove inaccurate. Survey findings reveal that Canadian respondents (33%) use this credit management practice almost as frequently as their

peers in Brazil (34%), but more frequently than their peers in the US (28%) and Mexico (18%).

It takes respondents longer than last year to receive payment on overdue invoices

25% of the total value of the B2B invoices issued by respondents in Canada was reported to be still outstanding at the due date. This compares to 24% in the US, 27% in Mexico and 33% in Brazil. Compared to last year, the average time it took Canadian respondents to receive payment for outstanding invoices increased to 54 days from 49 days. This likely reflects the more relaxed payment terms mentioned earlier. Of note, in all the other countries surveyed in the Americas, average payment duration decreased over the past year. To manage cash shortfalls due to the lengthening of the cash conversion cycle, nearly 30% of respondents in Canada were forced to delay payment of invoices to their own suppliers. On average, respondents in Canada wrote 1.4% of the total value of their B2B receivables off as uncollectable (this compares to 1.5% last year).

Respondents in Canada will perform dunning much more often over the next months

Most Canadian respondents (52%) do not expect payment practices of B2B customers to change much over the coming months. 27% expect a worsening in the form of increased late payments (33% of respondents in the US, 27% in Mexico and 22% in Brazil share this opinion). For 38% of respondents in Canada the anticipated increase in late payments from their B2B customers would adversely affect their business, causing costs increases and a potential reduction of the workforce. In the USMCA region, this is the largest percentage of respondents expressing this opinion (compared to 17% in the US and 25% in Mexico). To protect their business against the risk of payment default by their B2B customers, 41% of respondents in Canada will increase dunning (outstanding invoices reminders) over the coming months. In the USMCA region, this will be the case for 37% of respondents in the US and for 29% in Mexico. 35% of Canadian respondents (compared to 32% in the US and 39% in Mexico) will monitor their B2B customers' credit risk more often.

50%

of Canadian respondents said that they will more often check their buyers' creditworthiness over the coming months.

Atradius Payment Practices Barometer – June 2019

Overview of payment practices in Canada

By business sector

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. At 22%, it is lowest in the services sector.

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 follows at 1.6%. At the lower end of the scale, is the services sector with 1.1%.

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The slowdown of the economy leads to decrease in revenue and increase in credit risk. With the support of Atradius we are able to stay ahead of these risks.

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**Sales manager - Large enterprise
- Chemicals sector**



Overview of payment practices in Canada

By business size

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 took the longest to be paid for overdue invoices

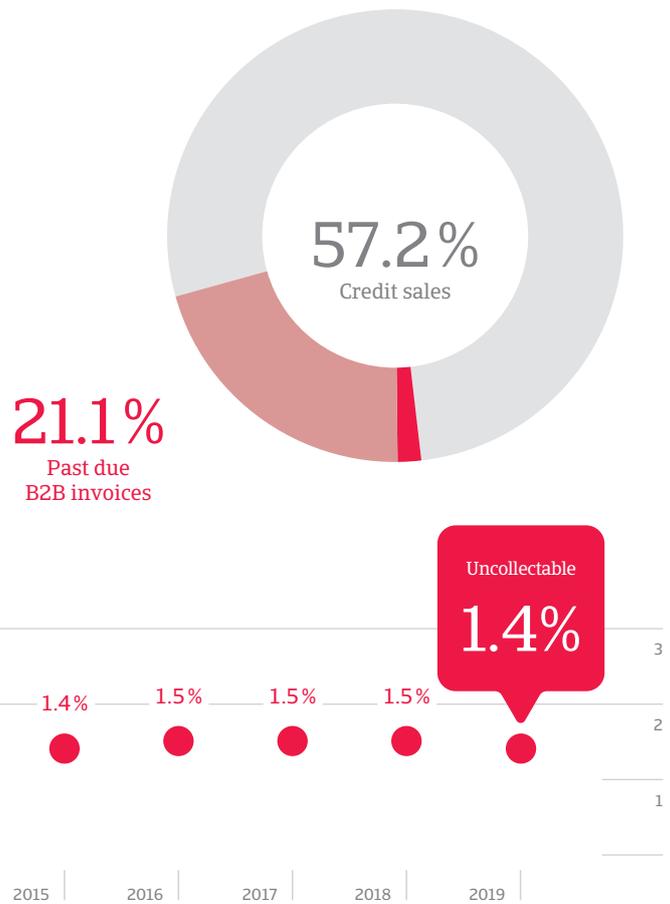
Over the past year, large enterprises in Canada recorded the highest increase in the proportion of B2B invoices paid on time (+16% on average). Due to this change, overdue invoices in large enterprises now account for 33.8% of the total value of B2B invoices. In contrast, on time payment of B2B invoices 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). The compares to 51 days for SMEs and to 39 days for micro enterprises.

Large enterprises have the highest rate of uncollectable receivables

Being the slowest to collect past due invoices, large enterprises in Canada recorded 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%.

Uncollectable B2B receivables in Canada

(% of total value of B2B receivables)



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

Atradius · Key Findings

In 2019, GDP in Canada is forecast to grow below 2% as export, household consumption and investment growth further ease.

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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 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 Canada** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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