MAY 2022

COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

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China Payment Survey 2022: Longer payment delays and rising credit risks in some sectors

The Coface China Corporate Payment Survey 2022, in which 1,000 companies participated, shows that fewer firms encountered payment delays in 2021, but those that did reported longer periods of overdue payments than in the previous year. The average payment delay rose from 79 days in 2020 to 86 days in 2021. Firms in 9 out of 13 sectors reported an increase in payment delays, led by agri-food, which recorded a large 43-day increase, followed by wood, transport, and textile. The top reason for payment delays was customers' financial difficulties, which were caused by competition-related pressures on margins, and, increasingly, by higher raw material prices and slowing domestic economic growth.

More firms with payment delays also noted that overdue had increased (36% to 42% in 2021), with the vast majority of them domestic-oriented. Reasons for payment delays in these cases were linked to a subdued domestic economic situation and customers' tight liquidity conditions.

There was also a higher share of companies reporting ultra-long payment delays (ULPDs), which are payments overdue by more than six months, rising from 15% to 19% in 2021. More worrying, there was notable increase in those facing ULPDs exceeding 10% of their annual turnover, jumping from 27% in 2020 to 40% in 2021. Coface's experience shows that 80% of ULPDs are never paid, suggesting that when ULPDs make up a sizeable share of annual turnover, the company's cash flow will be at risk. In this group, construction remained the sector with the largest share (56%) of firms with ULPDs exceeding 10% of turnover amid a property market downturn. Agri-food was ranked second with 47%, up sharply from 20% in 2020.

Average credit terms in China remained stable (77 days) in 2021, but there is variation across sectors. Agri-food and energy reported the strongest tightening, both cutting payment terms by 23 days, reflecting increasing credit risks linked to rising raw material prices. The ongoing pandemic and tight supply conditions kept companies cautious on credit management.

With China's economic growth projected to slow in 2022, the share of respondents expecting an improvement in sales and cash flow was lower. Companies highlighted macro risks such as rising raw material prices, weakening domestic market demand, and the continuation of the pandemic. The survey was conducted between November 2021 and January 2022.

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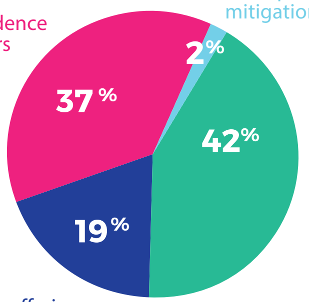
PAYMENT TERMS[1]: STABLE CREDIT TERMS, BUT LARGE VARIATIONS AMONG SECTORS

- **Two-thirds of respondents offered credit terms in 2021, a share that remained stable from the previous year (66.6% vs. 67.4% in 2020).** The main reason remained market competition, albeit to a slightly lesser extent with 42% of respondents mentioning it, down from 45% in 2020 **(Chart 1)**. Greater confidence in their customers (37% vs. 31% in 2020) was the second most common factor for offering credit terms. Meanwhile, a stable share did so on account of customers' tighter liquidity (19% vs. 18% in 2020).

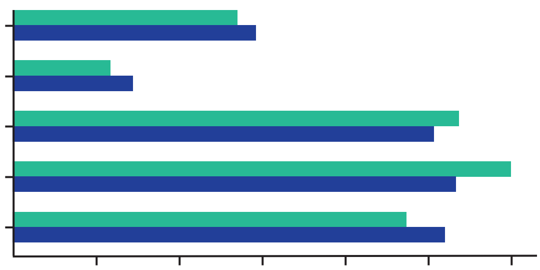
- **Credit terms remained tight in 2021 despite a recovery in the Chinese economy, as companies remained cautious due to the ongoing pandemic.** Growing global supply chain disruptions also added to business uncertainties. Having declined by nine days in 2020, the average payment terms remained unchanged in 2021 at 77 days. However, the distribution slightly skewed to both ends of the spectrum, with the proportion that offered terms of less than 30 days increasing from 24% to 26%, while the share of companies offering payment terms above 90 days grew to 22%, from 19% the previous year **(Chart 2)**, indicating variation across sectors.

Chart 1:
Reason for offering credits sales



Source: Coface Payment Survey

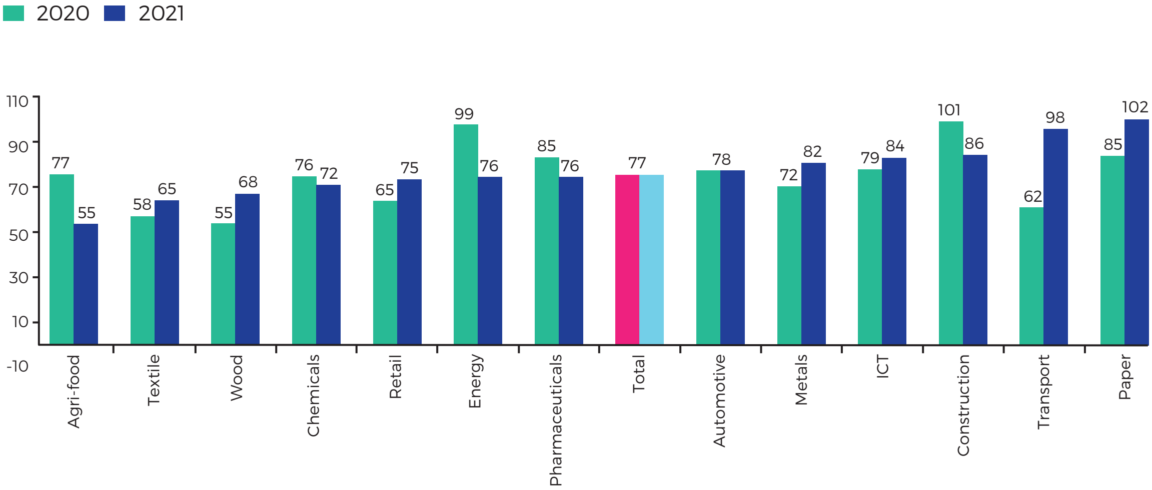
Chart 2:
Average credit terms in days



Source: Coface Payment Survey

1 Payment term – the time-frame between when a customer purchase a product or service, and when the payment is due.

Chart 3:
Average credit terms among sectors
in days



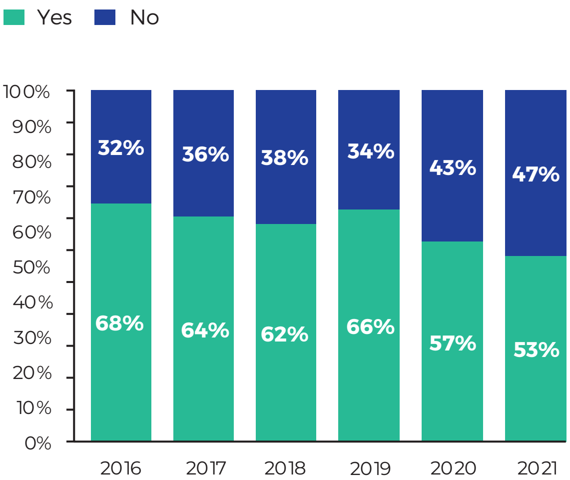
Source: Coface Payment Survey

- **Some sectors shortened their credit terms, with the biggest cuts observed in agri-food and energy (-23 days each), reflecting increasing credit risks linked to rising raw material prices.** Food prices rose by 28% in 2021, while energy prices doubled. **Construction** and **pharmaceuticals** also recorded a decline in average credit terms of 15 and 9 days, respectively. Conversely, sectors that suffered the most from strict lockdowns imposed in 2020 increased their credit terms last year, such as **transport** (+35 days), **retail** (+10) and **textile** (+7). Paper companies also lengthened their average credit terms by 17 days to 102, making the **paper** sector the most generous in terms of length of average credit terms **(Chart 3).**

- On the other hand, **agri-food** offered the shortest average payment term (55 days), with over half of agri-food respondents providing less than 30 days. Despite a lengthening of credit terms in 2021, textile, wood and retail (65, 68 and 75 days, respectively) remained below the average of 77 days.

2 PAYMENT DELAYS[2]
FEWER COMPANIES AFFECTED, BUT AVERAGE DELAYS LENGTHENED

Chart 4:
Overdue during the past year

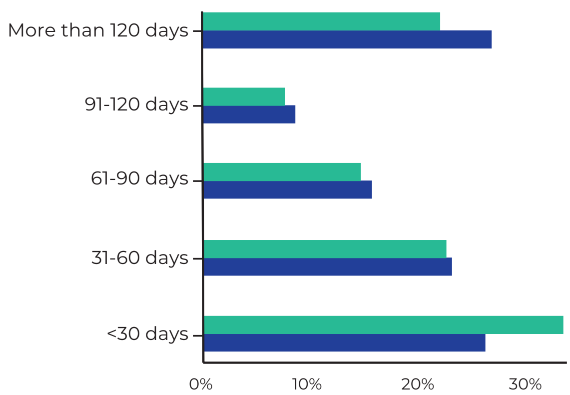


Source: Coface Payment Survey

- Coface's survey suggests that **fewer companies experienced payment delays in 2021**, with the proportion of respondents indicating overdue payments falling from 57% in 2020 to 53%, the smallest share in the past five years **(Chart 4)**. While encouraging, details from companies that experienced such delays showed a picture that is not as bright as expected.

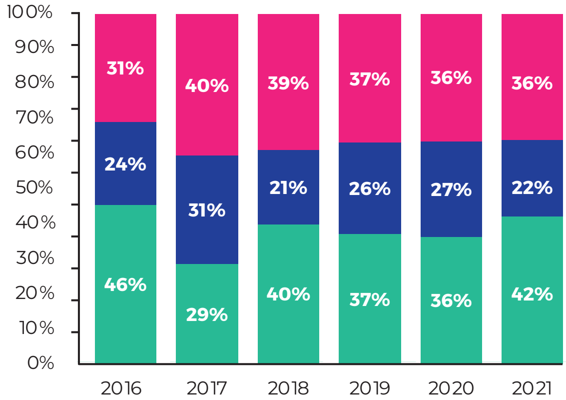
2 Payment delay – the period between the due date of payment and the date the payment is actually made.

Chart 5:
Average overdue days



Source: Coface Payment Survey

Chart 6:
Evolution of payment delays

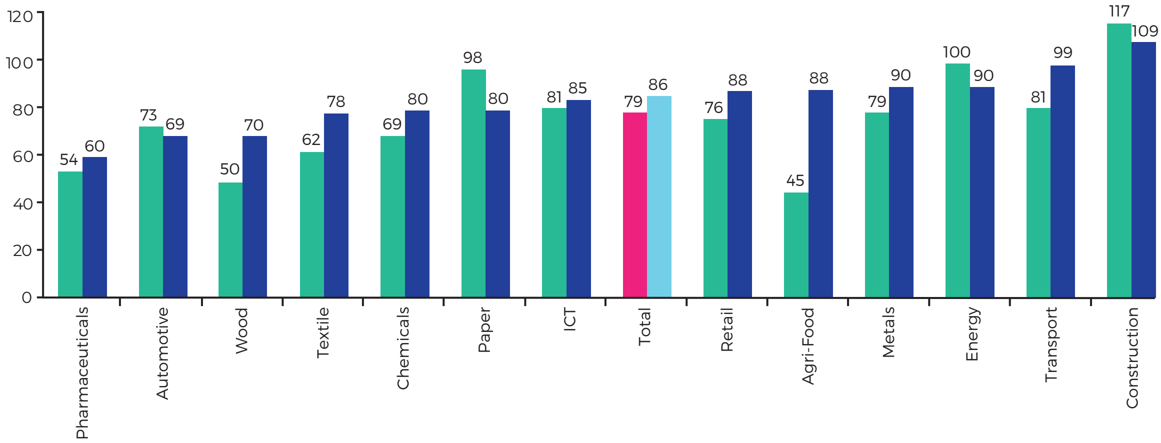


Source: Coface Payment Survey

- After having significantly dropped to 79 days in 2020, **the average payment delay rose to 86 days in 2021**, getting closer to its average over the five previous years of 87 days. This increase was driven by a higher proportion of respondents reporting payment delays in most time-periods, especially those above 120 days (27% vs. 22%). In contrast, there was a drop in payment delays that did not exceed 30 days **(Chart 5)**.

- Moreover, this was accompanied by a **rise in the proportion of respondents reporting that payment delays had increased, from 36% in 2020 to 42% in 2021**, the highest since 2016 **(Chart 6)**. This was particularly the case for companies that depended mostly on the domestic market for sales (86% of firms reporting higher payment delays), with anecdotal evidence of a weak local economic situation linked to the pandemic, as well as customers' tight liquidity conditions, highlighted as reasons for an increase in overdue payments.

Chart 7:
Average payment delays by sector in days

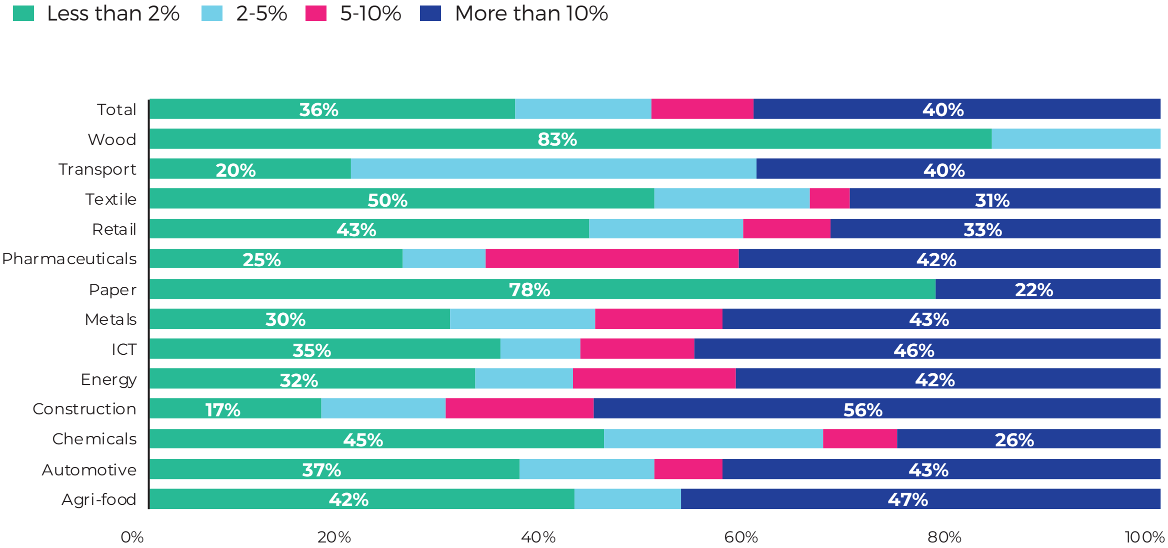


Source: Coface Payment Survey

- Most worrying, however, was the **notable rise in the share of respondents experiencing ultra-long payment delays (ULPDs) exceeding 2% of annual turnover**. This proportion expanded from 47% in 2020 to 64% in 2021, up 17 percentage points (pp), following a 5 pp decrease in 2020. According to Coface's experience, 80% of ULPDs are never paid. When they constitute a share of annual turnover above 2%, a company's cash flow could be at risk. Even more concerning, this trend was driven by a significant rise in the share of companies experiencing ULPDs of over 10% of annual turnover (from 27% in 2020 to 40% in 2021).

- **Sector-wise, agri-food reported the largest surge in average payment delays (43 days) to reach 88 days, which coincided with the sector tightening credit terms by the most, alongside energy**. This change not only placed the sector above the overall average (86 days), but also contrasted with the survey results in 2020 where agri-food experienced the shortest overdue payments. Upward trends were reported in **wood** (+20 days), **transport** (+18) and **textile** (+16). **Chemicals** and **metals** also reported that payment delays lengthened by 11 days in 2021, to 80 and 90 days respectively, amid significant increases in global energy and metals prices, and domestic policy priorities.

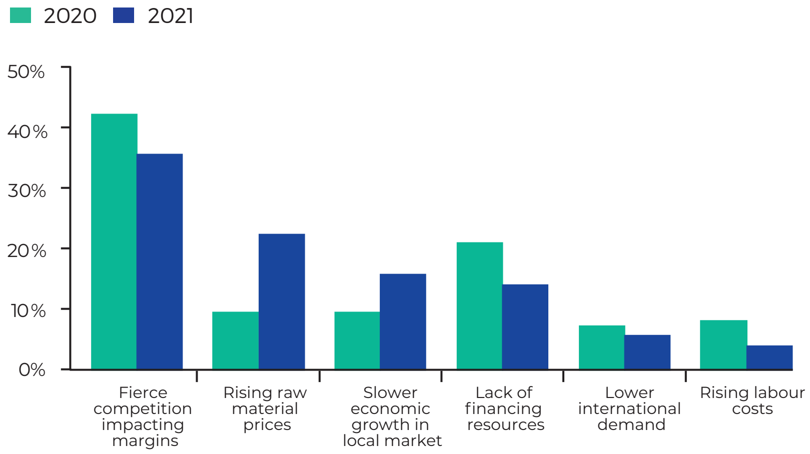
Chart 8:
Ratio of ultra-long payment delays as a percentage of turnover



Source: Coface Payment Survey

- **Construction continued experiencing the longest payment delays with 109 days, followed by transport with 99 days (Chart 7).** Furthermore, construction remained the sector with the highest share (56%) of respondents reporting ULPDs exceeding 10% of their annual turnover, albeit down from 67% in 2020 **(Chart 8)**. As another sign of deteriorating credit conditions in agri-food, 47% of companies of the sector reported ULPDs of over 10% of annual turnover, up sharply from 20% in 2020. Meanwhile, the financial health of the **pharmaceuticals** industry deteriorated in 2021. The survey shows that the share of respondents reporting higher amounts of overdue more than tripled from 20% in 2020 to 67% in 2021. Moreover, the proportion of pharmaceutical companies with ULPDs over 10% of annual turnover jumped from none to 42%. To explain the higher overdue, they often mentioned bad market environment and an overall sluggish economic situation due to the pandemic, as well as clients' tight financial conditions.
- The main reason behind those delays remains customers' financial difficulties, highlighted by nearly three-quarters of respondents that reported payment delays. Financial difficulties were caused mostly by fierce competition affecting margins (36%), but also - to a greater extent in 2021 - by rising raw materials prices (23% vs. 10% in 2020) and a slowdown in local market growth (16% vs. 10% in 2020). Supply chain constraints, linked to a mismatch between demand and supply, caused inputs prices to rise sharply in 2021, putting greater pressure on companies' finances. Other reasons for customers' financial difficulties included a lack of financing resources, lower foreign demand and rising labour costs **(Chart 9)**.

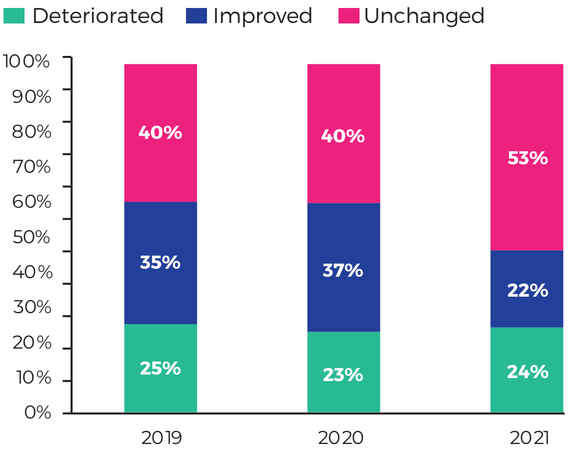
Chart 9:
Reasons for customer's financial difficulties



Source: Coface Payment Survey

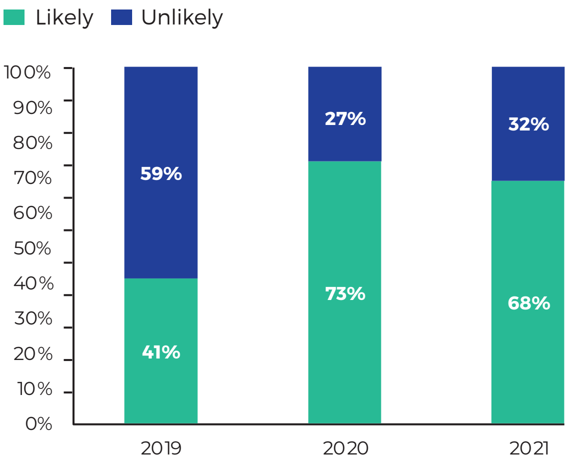
3 ECONOMIC EXPECTATIONS
HOPEFUL, BUT SIGNIFICANT RISKS TO GROWTH REMAIN

Chart 10:
Evolution of cash flow during the preceding year



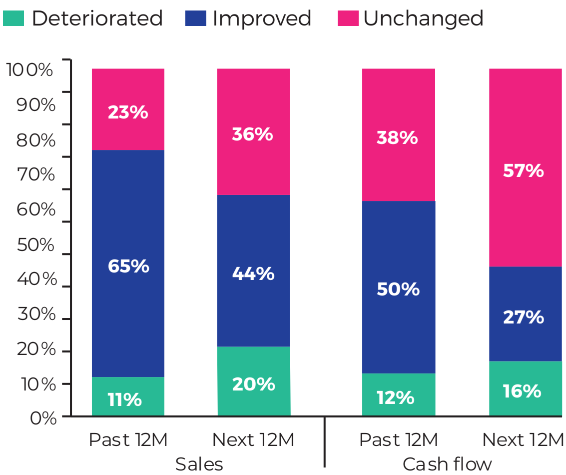
Source: Coface Payment Survey

Chart 11:
Economic growth will improve next year



Source: Coface Payment Survey

Chart 12:
Economic expectations



Source: Coface Payment Survey

- **Cash flow conditions stabilised over 2021, with just over half of firms (53%) indicating that cash flows were unchanged from the previous year (Chart 10),** up from 40% in 2020. Meanwhile, the proportion of respondents that mentioned a deterioration in cash flows was almost the same as the previous year (24% in 2021 vs. 23%). Likewise, for sales, the share of firms indicating a decline in sales was virtually unchanged (30% in 2021 vs. 31%), while a larger percentage of firms (32%) highlighted unchanged sales performance in 2021.
- **Looking ahead, the majority of respondents remained hopeful about economic prospects in the year ahead, although the share of optimists was down to 68%, from 73% the previous year (Chart 11).** Coface expects China's GDP growth to slow to 4,8% in 2022, following a strong 8.1% in 2021, as the Chinese economy continues to face significant headwinds to growth, including a property sector downturn, the pursuit of zero-COVID policies, subdued consumption recovery, and higher commodity prices.
- **Expectations about sales and cash flows were less sanguine, which may be connected to a tapering of recovery momentum as businesses move closer to pre-pandemic conditions.** The percentage of respondents anticipating improved sales performances in the coming year shrank from 65% in 2020 to 44% in 2021, while those forecasting better cash flow fell by nearly half from 50% in 2020 to 27% in 2021 **(Chart 12)**. Rising raw material prices, weakening market demand, and the ongoing pandemic were key factors highlighted by respondents that expected weaker sales performances.
- The highest share of firms expecting a deterioration of sales in 2022 was in **paper** (31%), followed by **construction** (30%), and **textile** (24%). Meanwhile, construction showed the largest percentage of respondents (31%) highlighting an expected deterioration of cash flow over 2022, followed by wood (24%) and paper (23%). Anecdotal evidence from respondents in the construction sector noted that financing difficulties and softening market conditions were the main reasons for projections of weaker sales and cash flow in 2022.

BOX:
GLOBAL SUPPLY CHAINS LIKELY TO REMAIN TIGHT

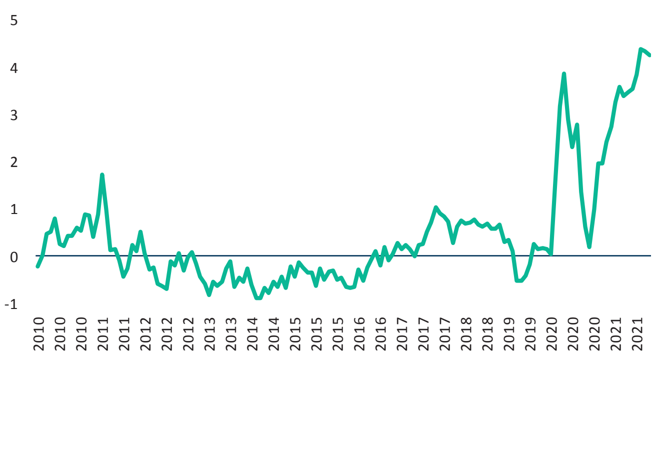
Following the U.S.-China trade tensions in 2018-19, global supply chains were given a further blow by the COVID-19 pandemic in 2020-21. Consequently, global supply chain pressures rose to their most intense level for over two decades, according to an index built by the Federal Reserve of New York, far surpassing that seen in April 2011, when the combination of Japan's Tōhoku earthquake and tsunami with floods in southern Thailand severely disrupted supply chains **(Chart 13)**. A series of factors compounded global supply chains issues in 2021, including disruptions to Chinese port operations, the Suez Canal blockage, strong global demand for durable goods, and prolonged semiconductor shortages. The stop-and-go easing of mobility restrictions across the world also delayed the recovery of international tourism and travel, as well as consumption of other services. This in turn deferred the anticipated demand shift to services, which contributed to a sustained and robust demand for goods.

The Global Supply Chain Pressure Index built by the New York Fed takes into account global transport costs, and manufacturing PMI data on delivery times, backlogs and inventories, with historical data going back to 1997. This index first spiked in April 2020, reflecting the global measures to contain the COVID-19 pandemic, before posting a fresh all-time high in December 2021. The start of 2022 saw the index drop from its record high, falling to a seven-month low in February 2022, reflecting an easing in world supply conditions. However, this trend could reverse in the coming months due to recent developments. The effects of the Russia-Ukraine crisis and China's zero-COVID measures are expected to deliver another hit to global supply chains, thereby extending the tight conditions in global supply.

With the prominent role played by both Russia and Ukraine in the global energy and food markets, the crisis is a significant risk to the supply of such commodities. Russia is the second- and third-largest producer of gas and oil globally, respectively. It is also a major producer of strategic metals, such as palladium, nickel and copper. These metals are used in the automotive and aircraft industries, while copper is an important metal for the construction sector. Both countries are important exporters of certain agricultural commodities, notably for sunflower and safflower oil (75% of global exports in 2019 combined), wheat (29%), coarse grain (20%) and corn (19%). Sanctions on Russian commodities, including an import ban on Russian crude and refined products by the United States, the United Kingdom, Canada and Australia, as well as the European Union (EU)'s import restrictions on Russian iron and steel, raised fears of the reduced availability for such products, resulting in rising prices. Financial sanctions on several Russian banks and restriction on access to U.S. dollars could affect agricultural trade flows. Disruptions to trade routes also added to concerns about higher prices and delivery delays. In response to several countries' decision to close their airspace to Russia, the Kremlin closed Russian airspace to airlines from 36 countries. Among these countries are the EU members, leading to consequences on airfreight links between Europe and Asia. Sanctions on Russia have been affecting rail freight routes linking the two continents, which will likely lead to longer delivery times. The outcome of the conflict remains highly uncertain, but a protracted situation should keep energy and commodity prices high, which would mean that input costs and transportation fees could stay at the current lofty levels.

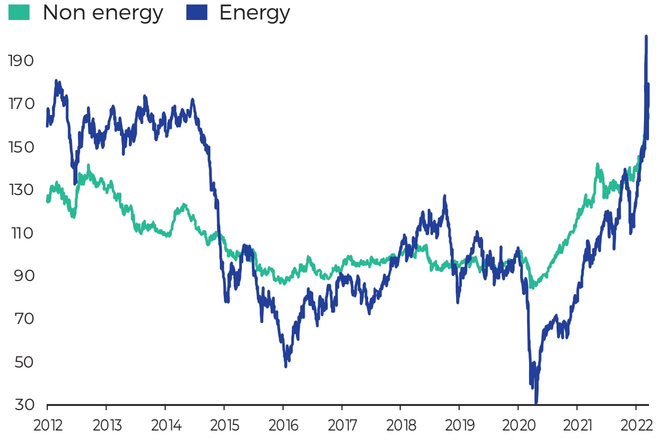
While China has shifted from a strict zero-COVID strategy to a 'dynamic' approach in order to minimise adverse impacts to the Chinese economy, negative effects, arising from measures implemented to contain outbreaks across the country, remain. The lockdowns in Shenzhen and Shanghai in March and April have impacted the normal operations of landside logistical and warehouse services, despite port operations continuing to function. This has already intensified pressure on supply chains during March. China PMI suppliers' delivery times index fell to a two-year low during March 2022, reflecting worsening delivery delays. Similarly, China's Logistics Industry Prosperity Index also declined to the lowest since February 2020, with the logistics sector affected by the spread of the pandemic in multiple parts of the country, where differentiated pandemic management measures disrupted cross-regional distribution and the ability to maintain a smooth flow.

Chart 13:
Global Supply Chain Pressure Index
Standard deviation to average value



Source: The Federal Reserve of New York, Coface

Chart 14:
Commodity prices
GSCI, 100 in Jan.2020



Source: S&P, Datastream, Coface

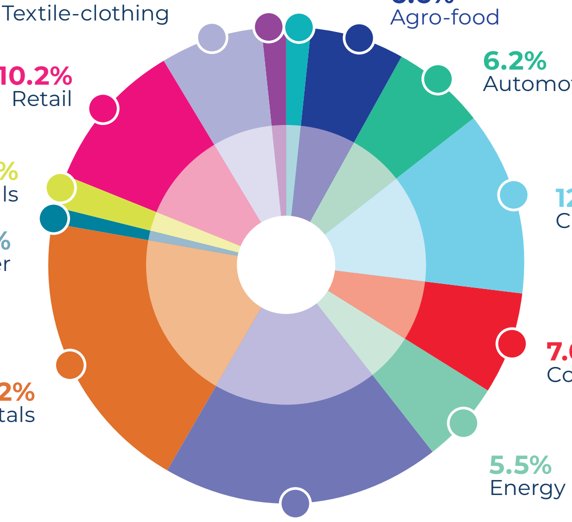
APPENDIX

A TOTAL OF

1,000

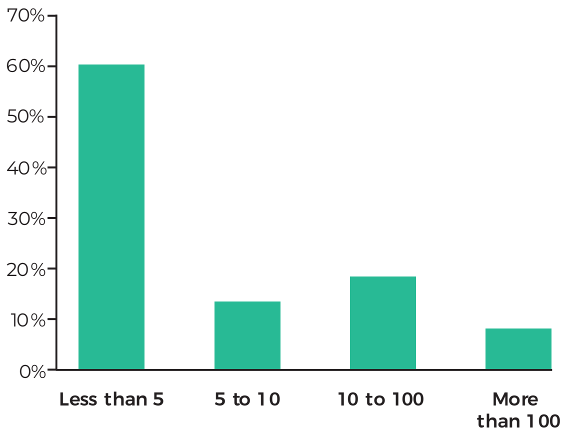
COMPANIES PARTICIPATED
IN THE PAYMENT SURVEY

Which of the following best describes your company's industry?



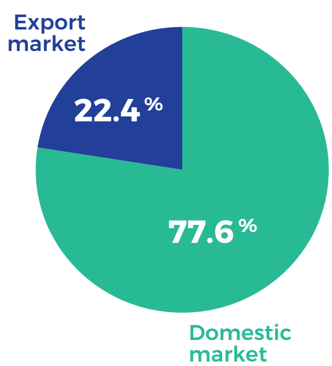
Source: Coface Payment Survey

For 2021, the total estimated sales revenue of your company will be (million RMB):



Source: Coface Payment Survey

Where is your major destination of sales?



Source: Coface Payment Survey

GLOSSARY

PAYMENT TERM
The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY
The period between the payment due date and the date the payment is made.

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