

# THE VIEW

Economic Research

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## IN LINE WITH THE ECONOMIC SLOWDOWN, COMPANIES PREEMPTIVELY REDUCED PAYMENT DELAYS, EXCEPT FOR MEDITERRANEAN COUNTRIES

04 Declining DSO to mirror self-discipline of companies alongside global growth deceleration

05 China tops the list once again

06 A North – South divide emerges when looking at the change in DSO

08 B2C and B2B sectors have to deal with diverging DSO destiny; retail is an outlier

# EXECUTIVE SUMMARY



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- After hitting a 10-year high in 2017, global average Days Sales Outstanding (DSO), a measure of how long it takes companies to collect cash from customers, fell by -1 day to 65 days in 2018, a sign of caution in line with the economic slowdown. As world GDP growth slows further this year, we expect DSO to reach 64 days in 2019.
- In China, one in four companies is paid after four months. While Chinese companies managed to reduce their DSO by -1 day in 2018, they still recorded the longest average payment term at 92 days, mirroring their important role as “invisible banks” at a domestic level and for the rest of Asia as well. Mediterranean countries are back to their bad habit of paying late: Italy, France, Greece and Spain saw their average DSO lengthen by +5 days, +2 days, +2 days and +1 day, respectively, in 2018.
- Companies in sectors closer to consumers experienced longer payment terms in 2018: household goods (+1 day), agrifood (+1 day), transportation (+1 day), pharmaceuticals (+1 day) and telecom (+1 day). On the contrary, in industrial sectors where DSO is already high, such as construction (-3 days), electronics (-2 days), technology (-2 days), machinery (-1 day), energy (-2 days) and chemicals (-1 day), companies’ fears of not being paid on time by clients pushed them to reduce payment terms.

Summary Heatmap<sup>1</sup>

2018	Retail	Other services	Agrifood	Transportation	Telecom	Metals	Leisure goods	Household goods	Energy	Utilities	Paper	Business services	Chemicals	Automotive	Technology	Aerospace	Pharmaceuticals	Construction	Machinery	Electronics	Country average
New Zealand	28	24	59	39	52	-	42	51	39	29	-	40	-	-	56	-	76	52	72	99	47
South Africa	35	39	49	48	38	32	-	-	21	-	47	58	63	-	73	-	61	48	56	62	48
Austria	-	42	60	49	-	40	31	-	82	58	-	55	-	28	-	-	-	50	45	51	49
Switzerland	20	37	39	22	-	52	40	46	-	67	-	58	83	-	54	-	69	50	62	60	50
Finland	17	28	34	39	75	33	68	46	-	-	46	51	-	-	69	-	36	59	56	51	51
U.S.	22	43	38	36	43	47	43	38	54	50	44	57	52	57	60	54	69	58	58	62	51
Denmark	24	32	41	42	-	-	40	32	65	47	-	63	-	-	77	-	52	63	64	54	52
Canada	23	54	48	51	47	37	38	48	62	51	28	59	73	66	64	58	63	63	60	51	52
United Kingdom	18	43	49	52	43	34	47	31	55	52	61	55	74	86	70	48	69	50	69	72	52
Netherlands	15	79	48	35	-	-	37	44	53	-	-	64	77	-	65	-	40	53	61	53	53
Norway	6	29	41	37	35	33	63	-	70	-	-	70	52	-	64	-	54	15	58	63	53
Germany	28	45	44	50	38	61	48	45	56	54	-	62	49	63	63	77	72	48	58	67	54
Australia	28	43	50	44	45	52	44	51	63	40	55	61	67	64	66	64	67	54	64	75	55
Russia	22	17	39	31	-	46	76	79	49	62	60	34	24	72	87	74	108	59	70	79	56
Sweden	24	35	48	27	54	40	43	46	47	51	44	64	69	50	76	73	67	59	61	70	57
Poland	35	51	52	43	36	43	40	53	34	30	65	69	47	36	63	-	93	69	82	90	59
Belgium	40	50	51	61	60	68	42	55	-	130	-	68	47	-	66	-	49	61	66	67	59
Chile	73	38	58	55	-	53	78	65	-	67	-	54	88	-	-	-	-	58	86	-	61
Hong Kong	35	40	43	52	30	55	56	56	91	63	72	75	73	75	74	-	107	67	97	84	63
South Korea	34	54	47	43	55	65	56	49	59	66	57	47	59	68	64	69	91	62	71	66	63
Bulgaria	64	31	63	-	-	43	76	73	50	-	57	22	72	59	134	-	-	82	73	40	63
Brazil	59	35	42	34	86	40	99	92	68	65	66	79	43	55	87	51	112	76	79	-	64
Romania	30	21	87	49	-	47	49	58	73	60	54	96	40	99	-	58	134	82	78	72	66
India	42	57	36	64	50	60	62	59	66	55	46	72	75	64	94	149	83	81	78	89	67
Singapore	39	38	47	65	40	75	80	59	83	124	54	71	87	55	77	98	71	78	87	79	69
Japan	24	37	55	51	72	91	63	67	57	43	93	58	101	69	70	100	100	109	109	101	71
Portugal	15	60	-	100	-	-	-	-	-	48	48	120	-	-	109	-	-	90	-	-	73
France	35	80	57	54	75	56	44	66	107	81	56	85	69	66	93	76	64	64	87	81	73
Taiwan	38	32	47	40	37	55	58	59	70	39	51	68	74	87	71	102	74	67	97	98	74
Saudi Arabia	31	47	46	94	85	76	101	89	-	102	-	99	72	-	80	-	-	96	95	174	77
Spain	29	75	73	52	42	43	42	60	122	50	57	55	-	33	93	-	95	113	103	-	78
Turkey	24	81	68	33	102	63	68	73	35	56	87	66	80	85	120	-	130	102	108	91	79
Morocco	49	71	62	107	-	86	-	-	43	83	-	-	-	-	133	-	90	88	-	-	84
Italy	62	96	60	66	75	-	69	81	100	102	-	104	87	54	95	47	87	92	96	75	86
Greece	48	68	103	38	-	89	79	94	17	142	-	97	79	-	119	-	-	102	114	-	90
China	26	64	40	55	83	72	66	68	93	64	90	92	81	110	114	146	103	119	128	135	92
<b>Sector average</b>	<b>30</b>	<b>47</b>	<b>47</b>	<b>49</b>	<b>54</b>	<b>57</b>	<b>58</b>	<b>58</b>	<b>61</b>	<b>61</b>	<b>61</b>	<b>65</b>	<b>72</b>	<b>72</b>	<b>73</b>	<b>74</b>	<b>82</b>	<b>82</b>	<b>86</b>	<b>89</b>	<b>65</b>

Source: Euler Hermes

<sup>1</sup> A greener color indicates a lower average country or sector DSO; hence a customer base paying faster, consolidating one’s cash balance. Conversely, a more red color indicates a lengthening country or sector DSO that usually brings on troubles, especially in case of poor cash balance. Historical data of DSO are available on the website app [MindYourReceivables](#) and on our [Open Data](#) platform.





Photo by Andrew Neel on Unsplash

# MIND YOUR RECEIVABLES

USE OUR TOOL TO ANALYSE KEY PAYMENT AND  
INSOLVENCY INDICATORS THAT ARE CRITICAL FOR COMPANIES

CHECK OUR WEB APP: [MindYourReceivables](#)

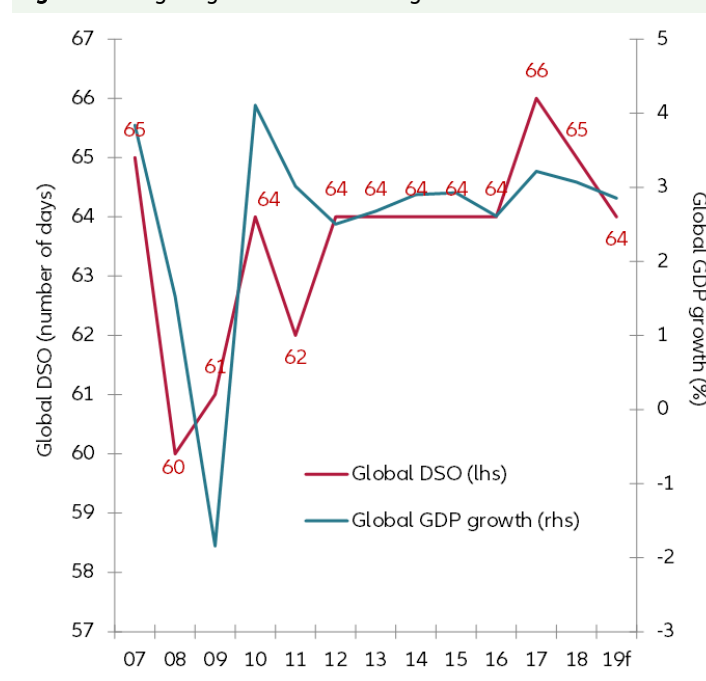
# DECLINING DSO TO MIRROR SELF-DISCIPLINE OF COMPANIES ALONGSIDE GLOBAL GROWTH DECELERATION

In 2017, the re-acceleration of world economic growth led to a noticeable rise (+2 days) in global average Days Sales Outstanding (DSO<sup>2</sup>) to a 10-year record high, which we attributed to companies placing greater trust in customers, supported by a better economic and financial background. Phases of global growth acceleration are generally accompanied with a relaxation in payment discipline, which can be associated with an easing of credit conditions. Yet the

world economy registered a significant shock of uncertainty in 2018 as the US government initiated a wave of protectionist policies. As a result, global growth started to decelerate and DSO dropped by -1 day to 65 days in 2018, a sign of companies taking a cautious approach to their clients' payment behavior. Figure 1 shows that when GDP growth is sound, companies are less worried about their DSO as they see their revenue rise and therefore face less stringent conditions in

terms of cash being available for their activity. Conversely, B2B credit conditions usually tighten when global growth weakens, re-activating the need for payment discipline. We expect global growth to decelerate in 2019 to +2.9% y/y compared with +3.1% y/y in 2018. As a result, DSO is likely to continue its downward trend to hit 64 days on average in 2019.

**Figure 1: Change in global DSO and GDP growth**



Sources: Global Insight, Euler Hermes forecasts

<sup>2</sup> The Day Sales Outstanding (DSO) calculation, also called the days' sales in receivables, measures the number of days it takes a company to collect cash from its credit sales. The ratio is calculated by dividing the accounts receivable by the total revenue of a company on one year and then multiplying it by 360. Our calculations are made out of a sample of 25,000 listed companies across 20 sectors and 36 countries extracted from the Bloomberg database.

# CHINA TOPS THE LIST ONCE AGAIN

**Figure 2:** DSO level and dispersion by country in 2018



Sources: Bloomberg, Euler Hermes

In China, one in four companies is paid only after four months. While it managed to reduce its DSO (by -1 day in 2018 vs. 2017), China has once again recorded the longest average payment term in the world, at 92 days. This high level of DSO reflects the role of Chinese companies as “invisible banks” at a domestic level and also for major trade partners. This is consistent with a less mature and less open financial system, a higher weight of shadow banking and

higher difficulties for small- and medium-sized companies in the private sector in accessing credit. Two other important Asian countries, Japan and India, also saw their DSO rise above the world average to 71 and 67 days, respectively. This kind of pattern could reflect a regionalization of the economic cycle in Asia, better insulated from global growth deceleration.

China is followed by Mediterranean countries, including Greece (91 days), Italy (86 days), Morocco (84 days), Turkey (79 days), Spain (78 days) and France (73 days).



# A NORTH-SOUTH DIVIDE EMERGES WHEN LOOKING AT THE CHANGE IN DSO

North America has succeeded in shortening its DSO, meaning that its companies have performed very well, especially in Canada. Looking at changes in DSO between 2017 and 2018, we identify two clear clusters:

**Mediterranean countries, which are lagging behind** (Figure 3, top right): DSO in Italy, France, Greece and Spain must be watched carefully as the trend is clearly heading down the wrong path. Domestic companies are back in the bad habit of getting paid late by their customers. This is a worrying signal as both public and private debt fundamentals remain deteriorated, while global growth and trade are decelerating. This could be another illustration of the delay traditionally taken by European economic actors in adapting to new trends in the global economic cycle.

**Nordic countries and North America, which are ahead** (Figure 3, bottom left): Canada and the U.S. have registered a decline of their DSO in 2018 despite levels being structurally lower compared with the rest of the world. This reflects cultural preferences, the fact that companies are cash rich and possibly the fact that companies are much more forward-looking compared to their European partners. Meanwhile, Norway, Sweden, the UK, Germany, Poland and Belgium have got away with shorter DSO in spite of weakening economic conditions. They have succeeded in maintaining the payment discipline of their customers, anticipating an upcoming deceleration of growth and adapting to rising difficulties in the car industry.

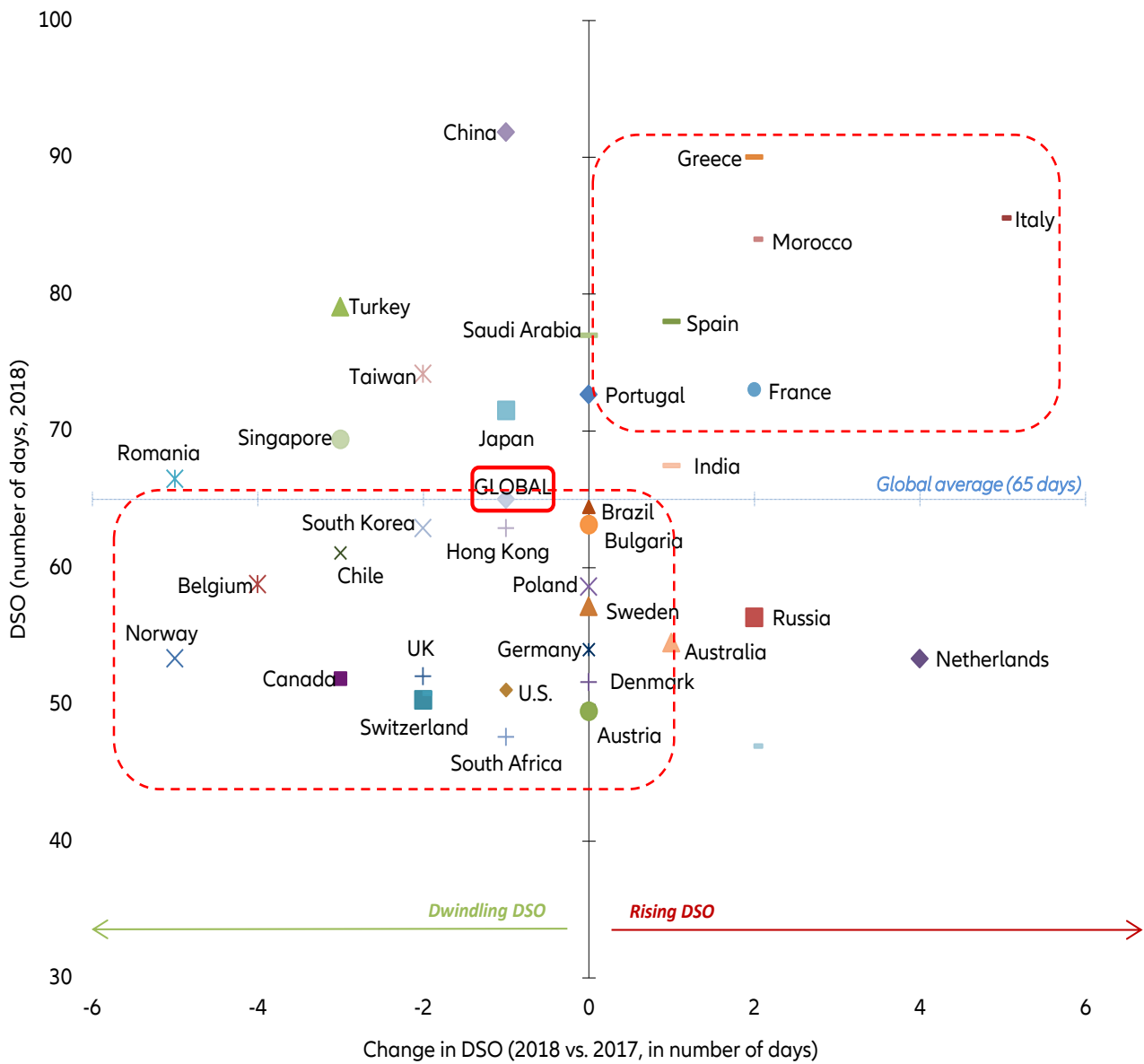
Outside these clusters, the Netherlands saw a noticeable deterioration of its DSO (+4 days in 2018) but stayed under the global average. Australia also had DSO lower than the global average as a result of the drop in most commodity prices over the last year. Meanwhile, the economic slump in Turkey shortened DSO by -3 days.

Turkish companies are clearly trying to secure their cash balances by getting paid quickly. Both in the UK and Turkish cases, the decline of DSO is in line with tightening credit conditions, which traditionally accompany macroeconomic contexts being characterized by an extremely high level of uncertainty.



Photo by Jonathan Binkhorst on Unsplash

**Figure 3: DSO and change in DSO by country (36 countries)**



Sources: Bloomberg, Euler Hermes

# B2C AND B2B SECTORS HAVE TO DEAL WITH DIVERGING DSO DESTINY; RETAIL IS AN OUTLIER

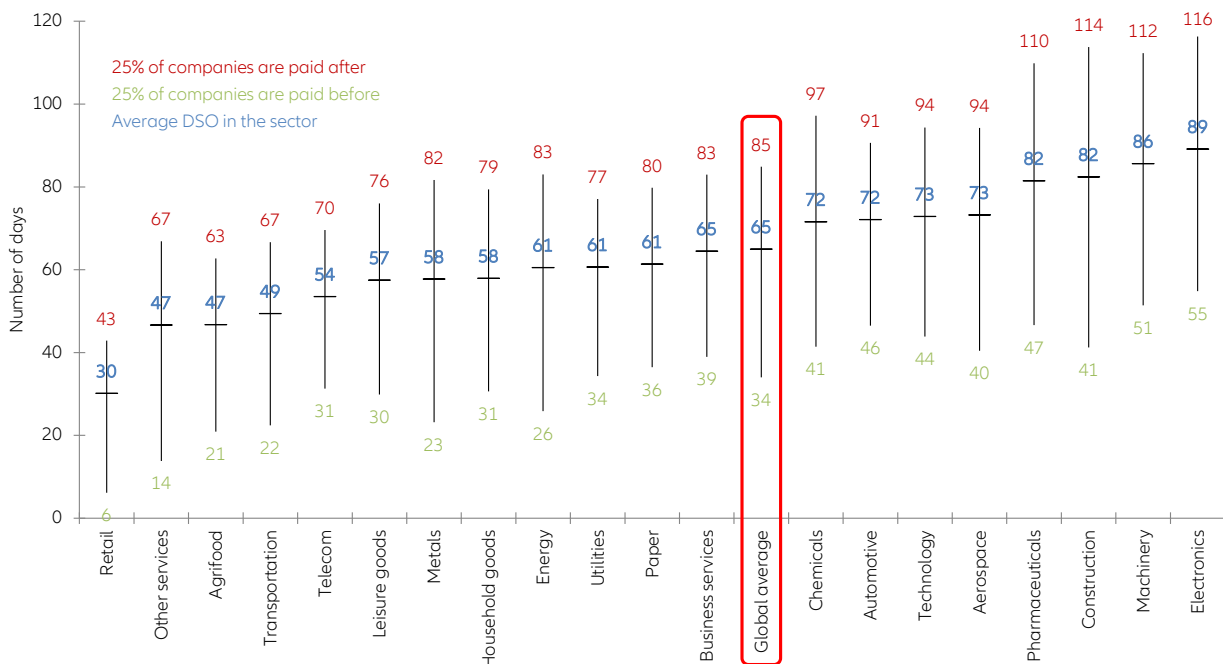
In 2018, the electronics, machinery and construction sectors continued to suffer from the longest DSO with 89 days, 86 days and 82 days, respectively, on a yearly average, well above the global average of 65 days.

The construction sector is currently experiencing difficulties at a global level as evidenced by the multiplication of major in-

solvenencies (51 in 2018). Looking at the level of DSO, electronics is also at a high level as the size of investment in a context of rising competition and the domination of B2C business models oblige companies to be more lenient with their economic partners. High DSO are also visible in the machinery sector as their clients have to take a longer time in generating revenues in

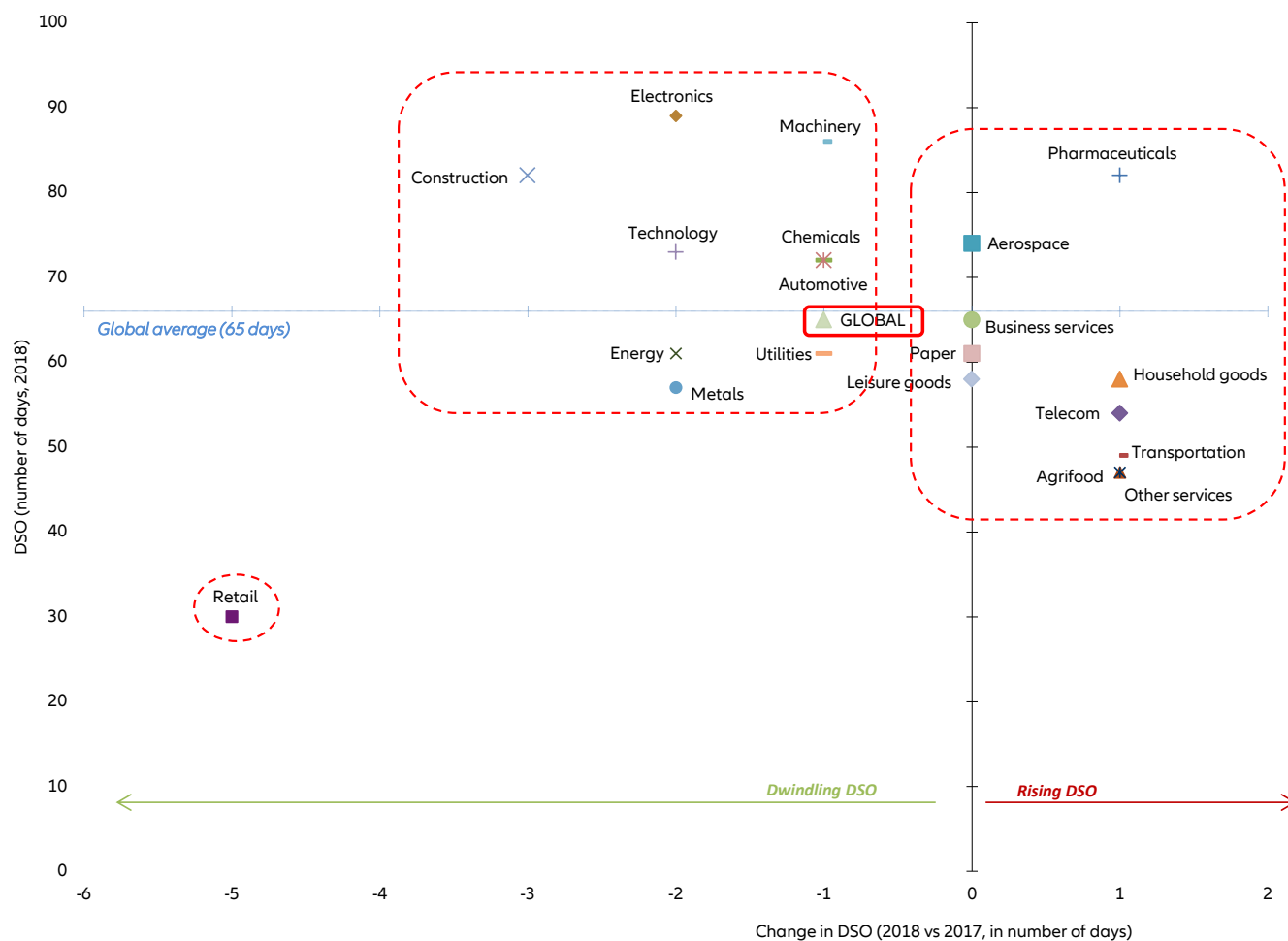
order to repay large size types of investment.

Figure 4: DSO level and dispersion by sector in 2018



Sources: Bloomberg, Euler Hermes



**Figure 5: DSO and change in DSO by sector (20 sectors)**

Sources: Bloomberg, Euler Hermes

Looking at the change in DSO, we again identify two clusters:

**B2C industries show DSO changes being above the global average** (Figure 5, right): Companies in the transportation, household goods, agrifood and telecom sectors have a higher capacity, compared with B2B, to impose new terms of payments when needed. So they are more likely to grant longer terms of payments for commercial reasons if they consider the cycle as not being too deteriorated. Indeed, in a macroeconomic perspective, as we are in a late phase of the cycle, and as they are exposed with a delay to economic fluctuations, B2C companies can be incited to continue proposing laxer terms of payment. The case of pharmaceuticals is a little spe-

cific. Drug makers often suffer from high level of DSO but this situation is linked to their customer base dealing mainly with public health insurance systems. Fortunately, laboratories are usually awash with large cash hoards and can afford an extended length in DSO level accordingly.

**B2B industries have DSO changes being below the global average** (Figure 5, left): Construction, machinery, metals and energy, as well as electronics are more directly and in an earlier manner impacted by the fluctuation of the economic cycle. Those kinds of companies and sectors are more cyclical by nature. They have already observed a global deceleration of growth, meaning upcoming economic hardship; as a result,

companies fearful of being paid too late shortened their DSO in 2018. Chemicals and automotive have got away with stable DSO levels in spite of accumulating hurdles for car makers dealing with tightening new pollution standards.

**An outlier:** Retail has to be watched carefully even though it shows the lowest DSO level compared to all other sectors. Retail's DSO plummeted by -5 days on average last year. As the sector's business model is turning upside down, it has strongly tightened up its overdraft facilities. This tightening might go upstream to affect the main supplying sectors by possibly forcing them into granting higher DPO to retailers.

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