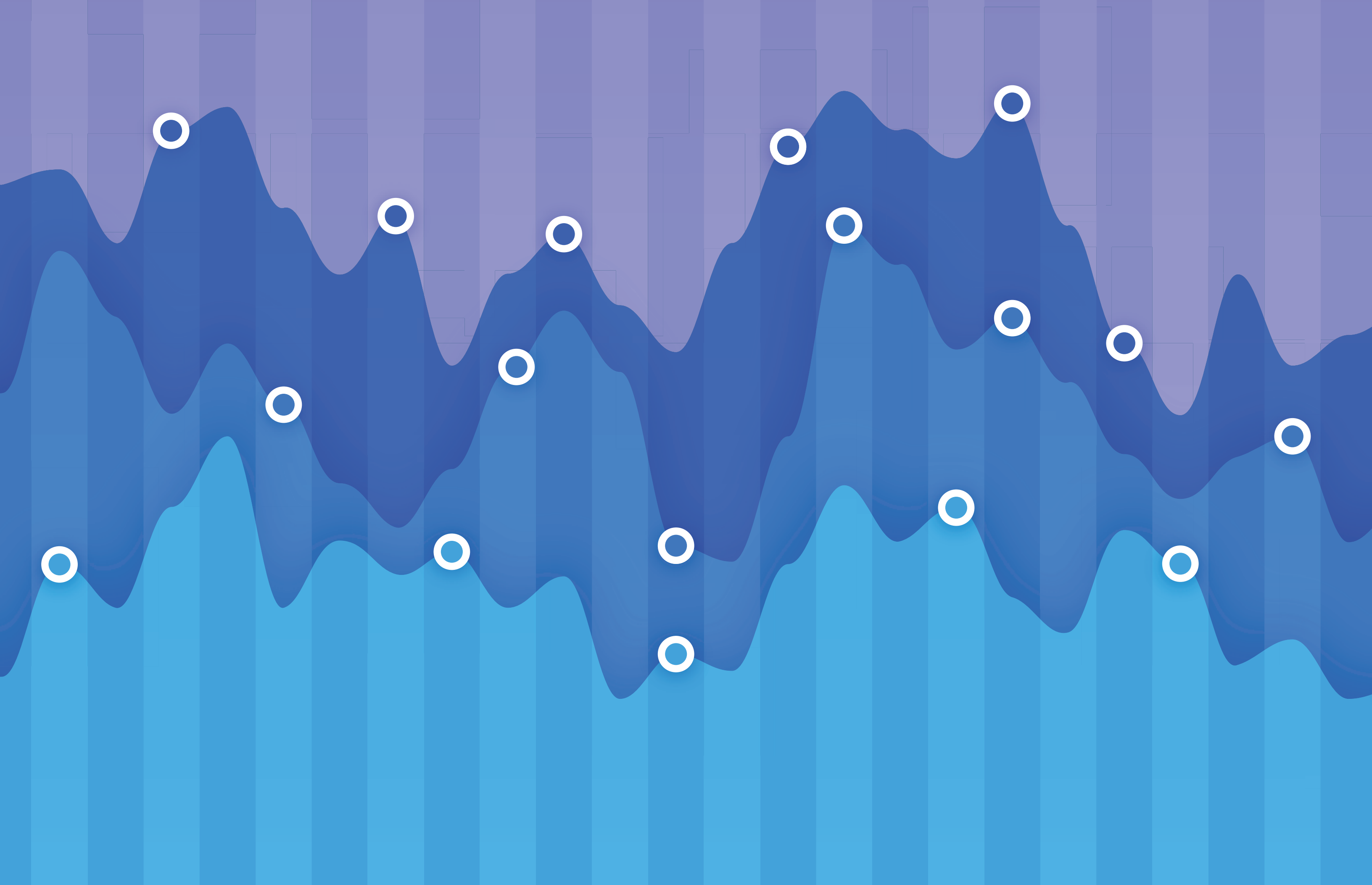
FEATURE STORY

Factoring Industry Remains Resilient Amid Economic Shifts

BY SFNET'S DATA COMMITTEE

The U.S. economy wrapped up 2023 on a robust note, buoyed by resilient consumer spending and a solid labor market.

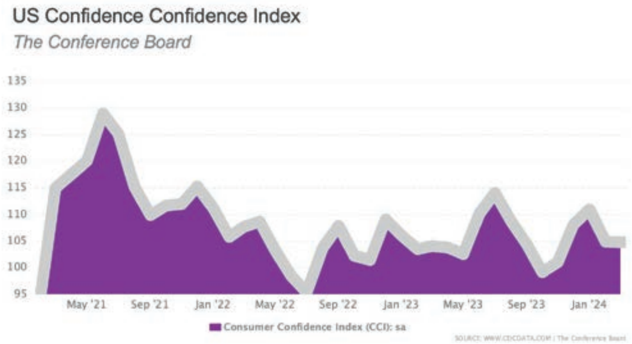


As we progress through 2024, the economic landscape reveals both challenges and opportunities for the factoring industry. A recent webinar hosted by the Secured Finance Network (SFNet) provided valuable insights into the state of the factoring industry, as gleaned from the 2023 SFNet Annual Factoring survey. Panelists included Marc Grossman of Wells Fargo Commercial Services Group; Michael Hudgens of CIT Commercial Services, a subsidiary of First Citizens Bank; and Paul Schuldiner of Rosenthal & Rosenthal. Here, we distill the key discussions and projections shared by the expert panel.

Economic Context and Its Impact on Factoring

The U.S. labor market has shown remarkable strength, with an average of 276,000 jobs added monthly through March 2024. However, signs of consumer strain are emerging, marked by a low savings rate and rising credit card delinquency rates. Inflation remains a pressing concern, hovering above the Federal Reserve's 2% target, particularly in the service sector. Although the Fed is anticipated to cut interest rates in 2024, the number of cuts is likely to be fewer than previously expected and may occur later in the year.

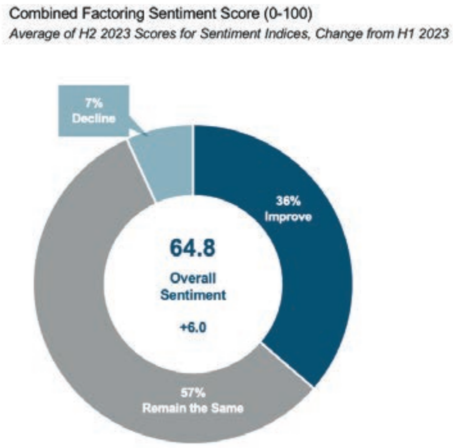
In this economic environment, factors report subdued demand as consumer retail spending remains soft, and retailers manage their inventories cautiously. The trucking industry has also faced challenges due to weaker spending on durable goods, limiting factoring demand from transportation clients. Despite these hurdles, overall portfolio performance remains solid, with some optimism for improved demand in the latter half of 2024.



Factoring Sentiment and Performance Metrics

Overall factoring sentiment, as measured by the average of four sentiment indices, rose to 64.8, indicating a slightly optimistic outlook for the industry. Expectations for business conditions and portfolio performance improved significantly, while new business demand and employee headcounts remained relatively unchanged.

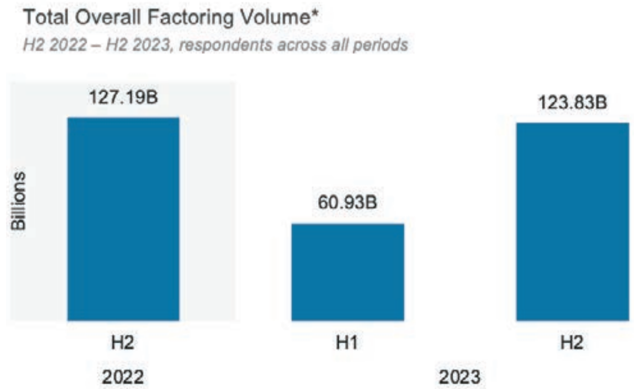
One panelist commented that it's encouraging to see improved expectations for business conditions and portfolio performance. This optimism is reflective of the feedback factors are receiving from clients, particularly in the retail sector, where there is a cautious yet positive outlook for 2024.

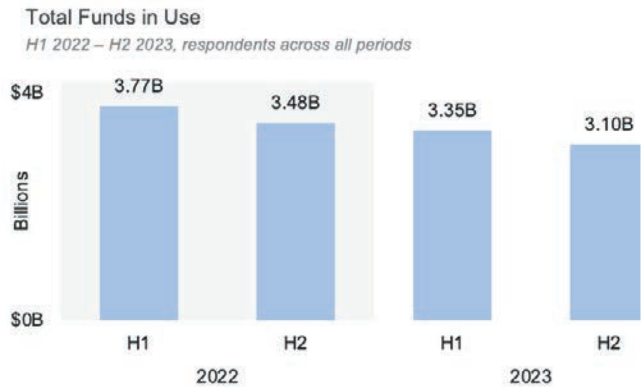


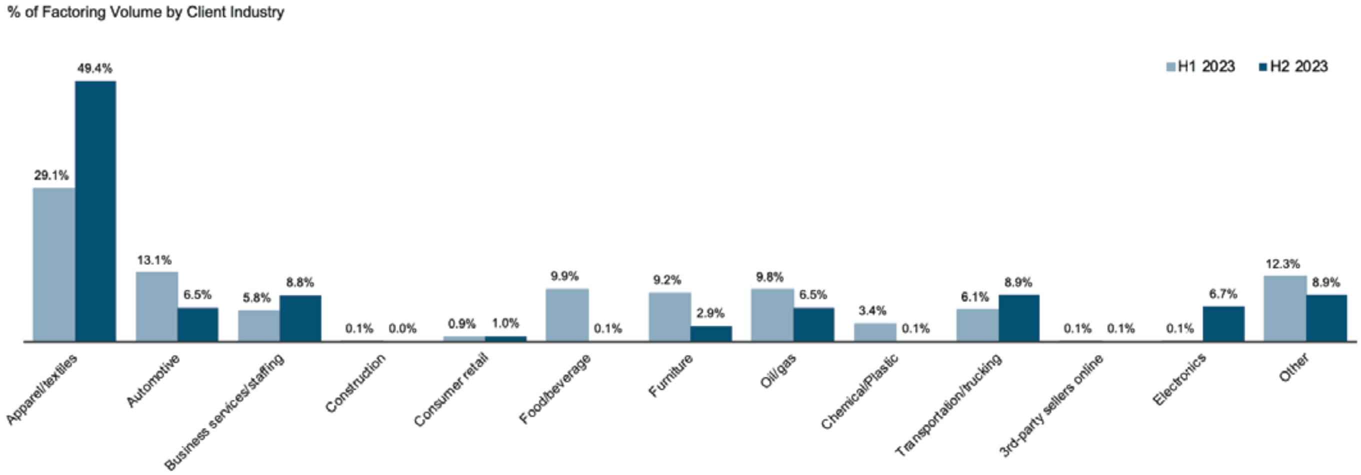
Factoring Volume and Client Dynamics

Factoring volume decreased by 2.6% year-over-year, with U.S. volume dropping by 1.6% and international volume by a substantial 28.2%. The apparel and textiles industry saw an increase in its share of factoring volume, comprising nearly half of the total. In contrast, the number of factoring clients declined by 5.2%, with both U.S. and international clients showing reductions.

It was noted that the decline in the number of factoring clients is largely due to industry consolidation and a shift from traditional factoring to asset-based lending structures among larger clients.







Sector-Specific Trends

The retail sector experienced a notable downturn, especially in furniture and home furnishings, as consumer spending shifted towards experiences like travel and dining. This shift has impacted the trucking and transportation sectors as well, reducing demand for related factoring services. Conversely, the apparel and textiles sector has shown resilience, maintaining a significant share of the factoring volume.

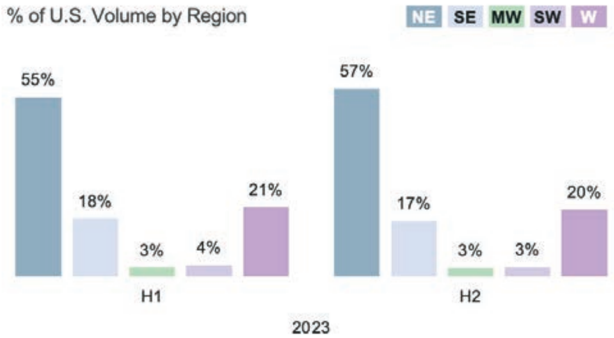
According to the panel, retailers are increasingly optimistic about the latter part of 2024. This optimism is driven by expectations of interest rate cuts and a potential uptick in consumer spending.

Regional Insights

The Northeast continues to dominate U.S. factoring volume, comprising 57% in the second half of 2023, while the Southeast holds the highest share of clients at 26%. This regional distribution underscores the concentration of factoring activity in certain economic hubs, reflective of broader economic patterns and industry concentrations.

Notification vs. Non-Notification Factoring

Non-notification factoring accounted for over half of all volume in H2 2023, reflecting a shift from traditional notification factoring. This trend is attributed to larger clients preferring the confidentiality of non-notification arrangements and the rise of hybrid financing structures.



Financial Performance and Outlook

Revenues in the factoring industry decreased by 4.4% from H1 to H2 2023, with net interest revenue increasing its share of total revenue. Direct expenses also saw a slight dip, but pre-tax income as a share of volume declined. Average loan turnover and days sales outstanding both decreased, indicating more efficient collection cycles.

The efficiency in loan turnover and collection cycles is a positive sign, suggesting that factors and their clients are adapting well to the current economic conditions.

Conclusion

The factoring industry faces a complex landscape as it navigates the economic shifts of 2024. While challenges persist, particularly in consumer retail spending and the trucking sector, there is cautious optimism for improvement later in the year. Factors continue to adapt, leveraging efficiencies and exploring new financing structures to meet evolving client needs.

The insights from SFNet's 2023 year-end survey and the expert panel discussion highlight the industry's resilience and strategic adaptability. As the year progresses, the factoring industry will play a crucial role in supporting businesses through economic fluctuations, demonstrating its enduring value in the financial ecosystem.

For details on participating in SFNet's ABL and Factoring Surveys, please contact Aydan Savaser at asavaser@sfnet.com.