Tradeshift®

# The Tradeshift Index of Global Trade Health

## Q2 2023

# The current squeeze on working capital is the biggest threat to global trade's recovery

Global trade has faced significant challenges in adapting to the realities of an economy scarred by a vicious circle of rampant inflation, rising instability, and unpredictable consumer spending patterns.

Good news has been in short supply, but the modest uptick in momentum we've observed in our Q2 Index opens up the potential for a new narrative, particularly if you happen to be based in the United States.

Transaction volumes across supply chains in the world's largest economy grew at their fastest pace in more than two years in Q2. New orders appear to be flowing at a more consistent rate following a post-pandemic inventory glut. Supplier invoice volumes have also begun to recover after a long period of sluggish growth.

Consumer spending is fueling the recession-defying performance in the US. And that may well prove to be the case in China too, where transaction volumes have ramped up since the beginning of the year.

Trade activity within Chinese supply chains tracked 1 point above the expected range. However, while China's activity is growing, it's not growing as fast as many people hoped when the Chinese government first announced an end to Covid prevention measures. Global demand for its products is waning, and that's having an impact.

Globally, our data suggest that while conditions have improved slightly compared to Q1, the balance of risk remains towards the downside. Total transaction volumes were 4 points below the baseline in Q2, and there's little to suggest a breakout any time soon.

Activity levels in the UK and the Eurozone gained some momentum, but it's been more than two years since transaction volumes in either region have come close to surpassing the expected range. Instead, what we see is low growth from a low base.

Invoice volumes on our platform have started to drop as buyers settle into a pattern of lower ordering. For suppliers, a slowdown in orders isn't the end of the world as long as the pattern is predictable. Far more damaging is the restriction in access to financing that typically accompanies a period of economic uncertainty.

Many traditional financiers are either capping their capabilities or scaling back. In the case of SMEs, we see banks looking to add greater collateral or security for lending, which increases fixed costs.

Democratizing access to working capital is fundamental to our vision of a trade network that provides economic opportunity for all. We have already shown that embedding financial services into trading relationships can have a transformative impact on the growth prospects of small to medium enterprises. But we knew we could do more.

We now have the opportunity to expand and scale access to financial services available to businesses through our network, injecting much-needed agility into a global trading environment characterized by near-constant change. Be certain that this will be a key focus for us over the coming months.

# Key findings at a glance

1. Trade activity in the US is leaving the rest of the world in its wake. Transaction volumes were **3 points above the expected range in Q2.** Domestic consumer spending is driving growth.

2. Global transaction volumes improved slightly in Q2, but activity levels are still **4 points below the baseline** and appear to be settling at a lower growth rate.

3. Order volumes remained flat at **2 points below the expected range**. Invoice volumes continued their recent sharp decline putting supplier liquidity under pressure.

4. Demand for freight capacity also appears to have found its level following three consecutive quarters of steep decline. Activity climbed back into the expected range in Q2, but showed little sign of further acceleration.

5. Waning demand for manufactured goods has taken the shine off China's grand reopening. Transaction volumes rose to 1 **point above expectation** in Q2, but progress is more steady than spectacular.

6. Activity across the Eurozone recovered slightly in Q2 after a very shaky start to the year. Trade activity across the region rose **3 points below the expected range**, but the outlook remains volatile.

7. UK order volumes rebounded sharply, but overall activity levels remain lacklustre. Transaction volumes grew at **5 points below the expected level** in Q2 and are struggling to find another gear.

# Volatility snapshot

**Quarterly growth in world trade activity across the Tradeshift network indexed against historical trends.**

# Mixed signals: US shines, China steadies, global trade sees modest improvement

### Transaction volumes - quarter on quarter growth indexed against historical trends


A remarkable turnaround in the US was among the highlights in an uneven set of results to emerge from our Q2 data. US transaction volumes grew 3 points above the expected range as trade activity appeared to shrug off recent challenges, including the inventory glut, which weighed down ordering activity during the second half of 2022.

Trade activity in China held onto the momentum it had built in Q1 following the lifting of Covid prevention measures across the country. Transaction volumes grew at 1 point above the baseline in Q2.

China might be growing, but its grand reopening hasn't quite ignited as expected. Data from Caixin[1] shows manufacturing activity slowed rapidly in June. Our data points to a recovery that's steady rather than spectacular.

Globally, a more modest improvement in trade activity appears to align with the cautious tone that economic forecasters have struck this year. Total transaction volumes across the Tradeshift platform grew slightly faster in Q2 compared to the previous quarter. Nevertheless, overall growth remains low, at 4 points below the expected range.

The Eurozone and the UK followed the global trend, with trade activity in the Eurozone 3 points below expectations in Q2. Our Q1 Index showed trade activity across the region slumping to 8 points below the expected range. A less pronounced uptick in the UK saw transaction volumes improve to 5 points below the baseline in Q2 compared to a fairly dismal -7 points in Q1.

A glass-half-full assessment of this most recent quarter suggests an improving outlook. Current data from the ECB[2] shows that inflationary pressure is beginning to subside. But low consumer spending is having a significant impact on demand. Revised figures from Eurostat[3] show that the Eurozone fell into a mild recession at the beginning of the year and expects conditions to remain challenging in the second half of 2023. The forthcoming Q3 Index will provide a clearer picture of whether the Q2 improvement reflects tangible progress or merely a rebound from Q1's slump.

---

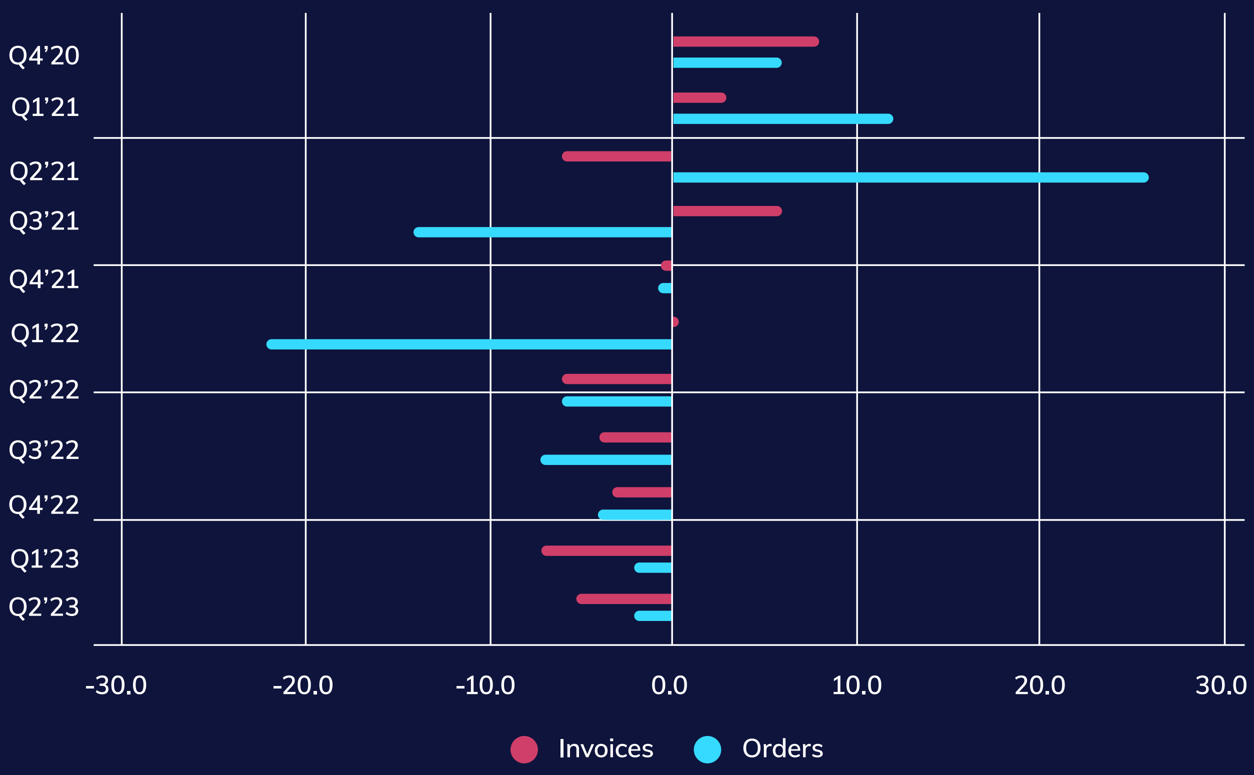
1 CNBC; 2nd July 2023: "China's factory activity grew more slowly in June, Caixin survey shows"

2 Reuters: 30th June 2023: "Euro zone inflation falls again in June as energy prices tumble"

3 Eurostat: 8th June 2023 "GDP down by 0.1% and employment up by 0.6% in the euro area"

# Ordering patterns stabilize, but suppliers will need support

**Invoice and order volumes - quarter on quarter comparison, indexed against historical trends**




Ordering activity across the Tradeshift platform remained 2 points below the expected range in Q2. On the one hand, the data shows a level of consistency returning to ordering patterns that have long been the subject of extreme volatility. On the other hand, the clouded economic outlook and consumer belt-tightening have left large buyers cautious.

Order volumes are not slumping in the same way as they did at the end of 2022. Instead, we're seeing them settle into a much lower rhythm. A large backlog of orders means it has taken time for this kind of correction to impact suppliers. The emerging gap between orders and invoices indicates that suppliers are now facing increased pressure on their order books and cash flow.

Suppliers may benefit from more stable ordering in the coming months if the current ordering pattern persists. However, their ability to capitalize on this stability is a separate concern.

Research by accountancy firm BDO[4] claims that nine in ten mid-sized businesses are halting growth plans due to difficulty accessing capital.

In a fragile economy, keeping liquidity flowing to small businesses is one of the most effective means to stave off a potentially painful recession that could tip many suppliers into bankruptcy. Buyers can contribute by ensuring that their systems and processes do not delay supplier payments. Suppliers who find themselves excluded from traditional capital arrangements should also explore the growing range of alternative financing methods emerging to bridge this gap.

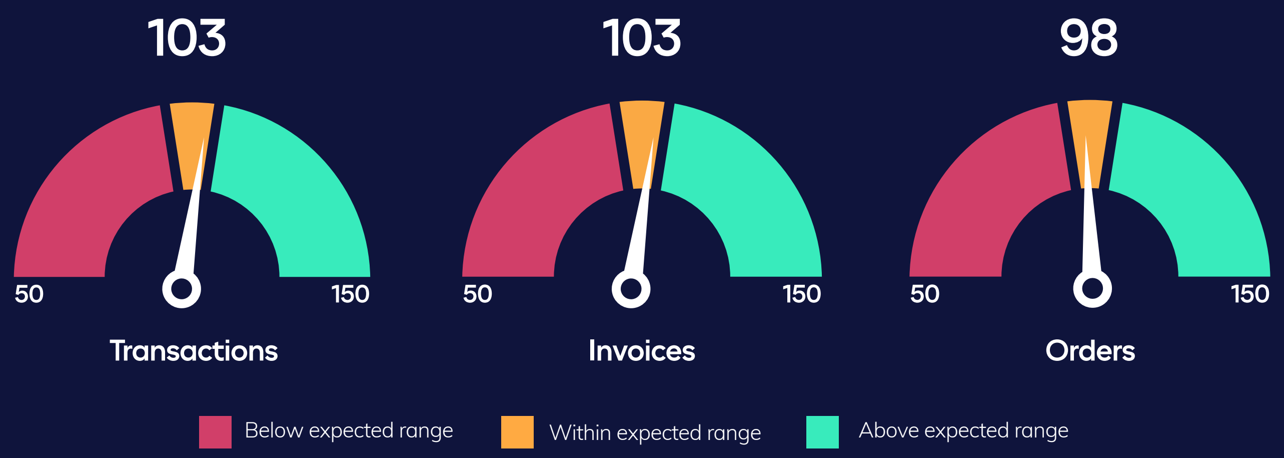
4 BDO; 26 June 2023: Nine in ten mid-sized businesses halting growth plans due to difficulty accessing capital

# Q2 momentum deep-dive

**Quarter-on-quarter world trade performance across key territories**

# US: Softer-landing beckons

### US trade activity - quarter on quarter index scores




### Swing vs previous quarter:

| Transactions | Invoices | Orders |
|---|---|---|
| +9 | +9 | -1 |

Consumer confidence improved in June[5] to its highest level since January 2022. That optimism is reflected in the robust growth in trade activity we've observed over the past quarter.

Order volumes remained steady, slightly below the expected range in Q2, indicating that supply chains are gradually finding a more regular rhythm after the recent bullwhip cycle.

Suppliers are reaping the benefits of these more consistent ordering patterns. As predicted in our Q1 Index, invoice traffic in the US recovered strongly, rising to 3 points above the expected range.

The resilience of the US economy has caught many forecasters by surprise. Economists at Goldman Sachs[6] now say there's a 25% chance of a US recession in the next 12 months, down from their earlier projection of 35% shortly following the failure of Silicon Valley Bank in March.

The outlook remains mixed, however. Consumer spending is beginning to slow according to the Commerce Department[7]. Manufacturing orders are also showing signs of weakness, with data from Markit Economics[8] posting a significant contraction in activity during June. Higher input costs and muted demand are weighing on exports. The US's ability to achieve a soft landing will likely depend on the sustained strength of its domestic market.

5 The Conference Board; 27th June 2023: "US Consumer Confidence Improved Substantially in June"

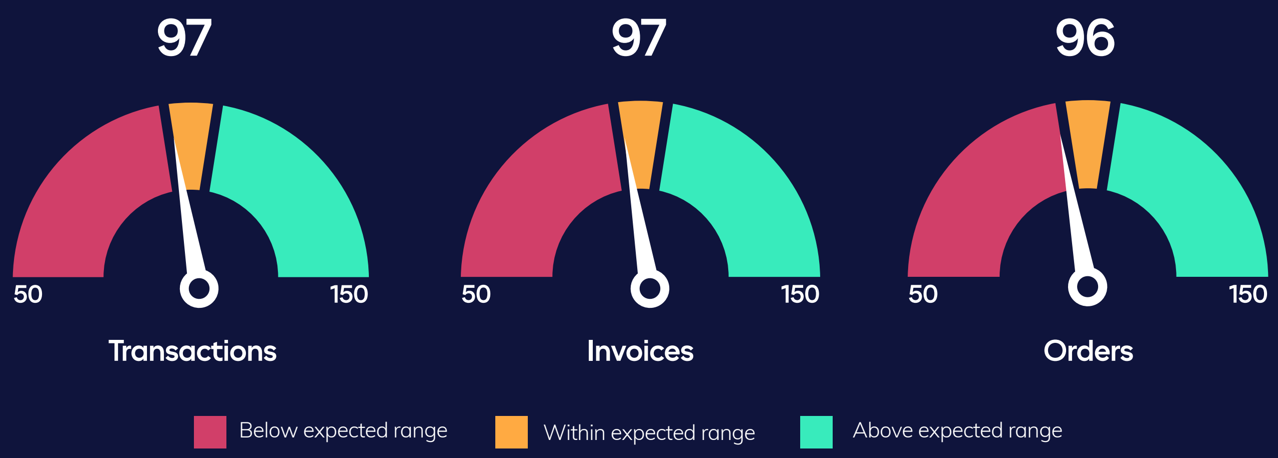
6 Goldman Sachs; 6th June 2023: "Why a US recession has become less likely"

7 New York Times; 30th June 2023: "Consumer Spending Stalled Last Month

8 Trading Economics; June 2023: "United States Manufacturing PMI"

# Eurozone: Modest improvements mask underlying volatility

### Eurozone trade activity - quarter on quarter index scores




### Swing vs previous quarter:

| Transactions | Invoices | Orders |
|---|---|---|
| +5 | +8 | +2 |

The Eurozone has been on something of a roller coaster ride in recent quarters. Trade activity rose sharply at the end of 2022. A new year brought with it a dose of reality. As we enter the second half of 2023, activity levels are showing signs of recovery, yet the future remains highly unpredictable.

Examining recent patterns in ordering activity provides some insight into what might unfold later this year. While order volumes in Q2 improved slightly compared to the previous quarter, they remained in the red zone after a significant slump in the preceding quarter.

Consecutive quarters of low ordering activity are poised to impact suppliers in the latter part of 2023. Considering that much of the growth observed in Q2 is derived from supplier invoices, we may see another dip next quarter.

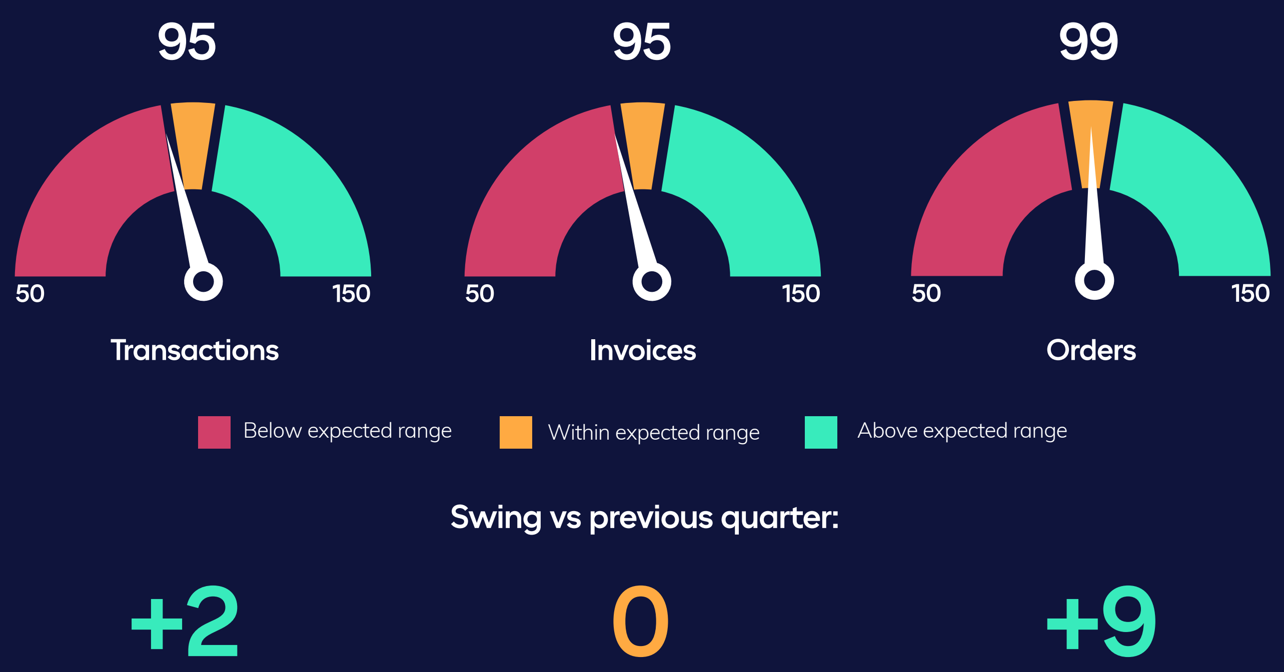
Europe's industrial heartlands are also suffering due to diminishing global demand for manufactured goods. In Germany, business sentiment has weakened significantly since May, according to a report by the IFO.[9]

The US and China have been able to call on the strength of their domestic markets, but consumer spending has faced a significant squeeze across Europe. This particular rollercoaster ride will likely have a few twists and turns in store before it comes to a halt.

9 IFO Institute; 26th June 2023: "ifo Business Climate Index declines"

# UK: Stuck in reverse gear

### UK trade activity - quarter on quarter index scores




UK trade activity appears to be stuck in a rut. Over the past two years, transaction volumes have remained at consistently low levels, with the most recent quarter showing only a modest improvement compared to Q1. Unfortunately, there are no clear signs of a breakthrough from the current malaise.

That's not to say there aren't some positives to take from the latest data. Order volumes experienced something of a return to form, finishing the quarter comfortably within the expected range. The firm caveat, however, is that this follows an alarming slump in Q1. What we're really observing is a pattern of orders that has now found its level.

Data from S&P Global[10] shows UK exports have been dropping steadily for the past 16 months. And much like the Eurozone, UK businesses don't have a strong enough domestic market to make up for the slump. Inflation also remains stubbornly high.

New customs checks due to come into force in July could make life even more difficult for Britain's exporters, who will face significant paperwork and enhanced transport checks. Although the UK has managed to avoid slipping into a recession thus far, the current evidence suggests that it needs to find another gear to maintain this record.

---

10 Sky News; 1st June 2023: "Manufacturing downturn deepens amid weak demand for UK goods"

# Transport and logistics sector finds a new rhythm

## Quarter-on-quarter transaction volumes - Index scores by sector

| | T&L | Manufacturing | Retail | Tech |
|---|---|---|---|---|
| Q1'22 | 101 | 75 | 94 | 86 |
| Q2'22 | 96 | 97 | 97 | 101 |
| Q3'22 | 92 | 89 | 91 | 98 |
| Q4'22 | 89 | 93 | 97 | 101 |
| Q1'23 | 91 | 99 | 88 | 99 |
| Q2'23 | 98 | 97 | 93 | 87 |

- significantly below expectation
- below expectation
- within expected range
- above expectation
- significantly above expectation

Our latest Index indicates that global trade is gradually adapting to a new rhythm characterized by lower demand. This shift is also reflected in the transport and logistics sector, where demand appears to align with the overall picture.

Demand for freight capacity has been in freefall for the past three quarters. This pattern leveled out in Q2 as transaction volumes across the sector tipped back into the expected range.

Similar adjustments can be seen in the manufacturing sector, which underwent a significant correction during the latter half of 2022. Since then, activity levels have largely stabilized, albeit from a lower base.

But while spending data provides a rosy picture, higher inflation often means consumers are simply spending more to get less. Volume sales are down[11], and this aligns with the lower-than-expected growth in activity we've seen across the sector over the past six months.

Demand fell sharply across the technology sector in Q2. There's certainly some evidence that organizations are starting to take a more considered and cautious approach to technology spend. According to research by Techtarget[12], cybersecurity, cloud, data management, and automation will remain the areas businesses are most likely to ring-fence for investment in the coming year.

---

11 Retail Week; 23rd June 2023: "Retail sales rise in May but volume declines"

12 Techtarget: 10th April 2023: IT spending priorities point to cyber, cloud and data

# Perspectives on the road ahead

FINAL THOUGHTS:

# Now is not the time to watch and wait


**James Stirk**

Chief Revenue Officer,
Tradeshift


There's a running joke that 'experts' correctly anticipated seven out of the last three macroeconomic events. Unfortunately, it's doubtful that their success rate will improve in the future.

Economists started the year predicting an inevitable and painful global recession. Consensus is now drifting, and predictions for the next six months are as good as a coin flip.

We must accept the reality of higher volatility in our business environment, but the core principles of resilience and agility remain as relevant as ever.

According to analysts at Gartner[13], businesses should adopt an offensive approach to their digital and IT strategy. Investing in the right digital initiatives can mitigate the negative effects of uncertainty. Gartner specifically highlights automation as a prime area for investment.

The advantages are apparent. For instance, e-invoicing solutions offer cost-saving potential, operational efficiency, and improved cash flow management, making them highly appealing during economic downturns.

By accelerating the invoice-to-payment cycle, businesses gain more opportunities to optimize their working capital. Better and more accurate data can be utilized for strategic decision-making across the business. Digital connectivity also supports more collaborative relationships with suppliers, many of whom may be experiencing financial pressures.

As CFOs seek ways to reduce costs, automation eliminates the need to scale resources up and down based on market conditions. However, Gartner's analysts are optimistic about digitalization for reasons beyond cost reduction. Recent events, such as the pandemic, have highlighted the importance of digital investments.

When the pandemic first hit, businesses that had already invested in digitalization projects found it far easier to adapt to an almost overnight shift in working conditions. Yet, that didn't mean that these companies coasted through the crisis relying on their past tech investments—quite the opposite.

According to a KPMG survey[14], digitally leading companies were more inclined than non-digital ones to increase their technology investments due to COVID-19. Organizations that were "very" or "extremely effective" at using digital technologies saw a 50% increase in spending between 21% and 50%.

In the short term, businesses that digitize will encounter fewer struggles. The most astute companies will also view this period of uncertainty as an opportunity to gain or extend their competitive advantage. Digitalization provides businesses with agility, offering them a range of options. And in challenging times, the business with the most options at its disposal typically emerges victorious.

With better insights, faster decision-making, agile sourcing, stronger partnerships, and the potential to explore new revenue streams, the true opportunity lies in seizing the moment. Businesses that are already ahead of the digital curve will now intensify their efforts. It's not the time to passively observe; it's the time to take action.

13 Gartner; June 2023: Recession Advice: Go on the Offensive With IT Investments

14 KPMG; 22 September 2020: "COVID-19 forces one of the biggest surges in technology investment in history"

# About Tradeshift's Index of Global Trade Health

# Purpose

Many of the world's largest buyers and their suppliers use Tradeshift's trade technology network to exchange digitized purchasing and invoicing information. The data these transactions yield provides us with a unique awareness of trading activity between businesses.

Tradeshift's Index of Global Trade Health analyzes anonymized world trade data flowing across our platform to reveal a timely perspective of how external events are impacting business-to-business commerce around the world.

We acknowledge that there are limits to how accurately our view of what is happening on our network can reflect how complex global supply chains are reacting to a variety of external factors.

What our world trade data does provide is a useful snapshot that provides clues as to what might be happening to the global economy. The patterns we see in our data become more valuable as we combine them with other third-party data and expert insight, something which you will see us draw on throughout this report.

# Methodology

The Index of Global Trade Health compares business-to-business transaction volumes (orders processed from buyers and invoices processed from suppliers) submitted via the Tradeshift platform against a 'baseline' we have created by analyzing medium-term seasonal trends in the transaction data that flows across our platform.

A reading that meets the baseline indicates growth in line with expectations against historical trends. Readings greater than and below the baseline indicate above-trend and below-trend growth.

Looking at the data in this way helps give a sense of how volatile activity is across different sectors and geographies. For example, a sudden rise in orders might trigger orders to jump at a rate that exceeds what we would consider normal. By contrast, waning demand might trigger volatility in the opposite direction.

We consistently strive to improve and evolve the accuracy of our analysis. As a result, it is possible that from time to time, you may see small revisions to historical numbers reported in previous versions of the Index.

## About Tradeshift

Tradeshift is the cloud-based supply chain platform that transforms the way B2B buyers and sellers connect, transact and trade. We're a leader in e-invoicing and AP automation, offering full international compliance in 50+ countries, including China. We're also an innovator in B2B marketplaces and embedded fintech services that bring value, opportunity, and growth to any business that joins the network. Headquartered in San Francisco, Tradeshift's vision is to connect every company in the world, creating economic opportunity for all. Today, the Tradeshift platform is home to a rapidly growing community of buyers and sellers operating in more than 190 countries. Find out more at: www.Tradeshift.com



Tradeshift®