The Tradeshift Index of Global Trade Health Q4 2023

Global trade outlook remains predictably unpredictable

Economists, business leaders and governments all over the world have had their fair share of change to manage and decisions to make on how to navigate the year 2023. Rampant inflation, rising interest rates, ratcheting geopolitical tension and a series of extreme weather events impacting key trade routes, have all contributed to the overriding picture of uncertainty.

Though our report does not attempt to draw unequivocal links between all these macro-indicators, it does offer a useful snapshot of how large organizations are reacting to a variety of different pressures.

Though it's too early to be certain, our latest data shows an upward movement that may well point to a more positive 2024 in front of us. Growth in trade activity across the Tradeshift platform improved to 4 points below the baseline in Q4, having sunk to 6 points below anticipated levels in the previous quarter.

Order volumes that had been in freefall since the end of 2022 experienced a late surge in Q4, rising at 5 points above the expected range, marking the most significant quarterly performance swing in over two years.

In the US, trade activity has cooled of late, but seems to have stabilized at 3 points below the baseline. With orders exceeding expectations by 6 points in Q4, we should see invoice traffic follow suit in Q1 pushing overall transaction volumes back into growth territory.

The apparent rebound in new orders is surprising, especially in the face of the prevailing narrative of diminishing demand across global supply chains. Nevertheless, this pattern consistently played out not just in the US, but also across the Eurozone and, to a lesser extent, the UK.

Should the overall upswing in order volumes persist into the next quarter, it could signify the nascent stages of an upturn in global trade over the coming year. Alternatively, this could prove to be a one-off correction in an otherwise declining picture.

Another possibility is that businesses are restocking certain items in anticipation of potential disruptions to supply chains in the coming months. Global supply chains are grappling with disruptions at two vital trade corridors – the Panama Canal and the Suez Canal.

Carriers are rerouting ships, adding a week or more to transit times. The surge in order volumes may reflect a proactive response by supply chain operators aiming to avert a recurrence of the issues experienced during the pandemic.

Finally, it's important to note that while global trade activity did gain some momentum in Q4, the overall growth in ordering volumes and invoice traffic throughout 2023 remains significantly below the anticipated range.

This shortfall in demand is most evident in China. After a solid, if unspectacular start to the year, activity has fallen sharply over the past two quarters with transaction volume growth ending the year 5 points below the baseline.

Q4 may yet prove to be a turning point for global trade, but the balance of evidence suggests that we have some distance to travel before we can start making any predictions on the timing of a recovery.

James Stirk
CEO
Tradeshift

Key findings at a glance

1. Global trade activity **recovered to 4 points below the baseline** following a significant slump in the previous quarter.

2. A surge in orders fueled momentum in Q4, with the volume of **new orders rising by a remarkable 5 points above the expected range.**

3. The US continued to outperform other major economies. Order volumes tracked 6 points above the expected range in Q4. Overall transaction **volumes stabilized at 3 points below the anticipated levels.**

4. Trade activity across the Eurozone also recovered sharply following an alarming 9-point slump in Q3. **Trade activity tracked 4 points below the baseline** while order volumes rose at 5 points above the expected range.

5. In the UK, order volumes rose at a more modest 1 point above the expected range. Total trade activity remained consistent with previous quarters at **5 points below the expected range.**

6. Trade activity in China continued to suffer in Q4, finishing the year **5 points below the expected range.**

7. Demand across the transport and logistics sector **stabilized at 6 points below the baseline** in Q4. Activity across the manufacturing sector also remained 6 points below anticipated levels.

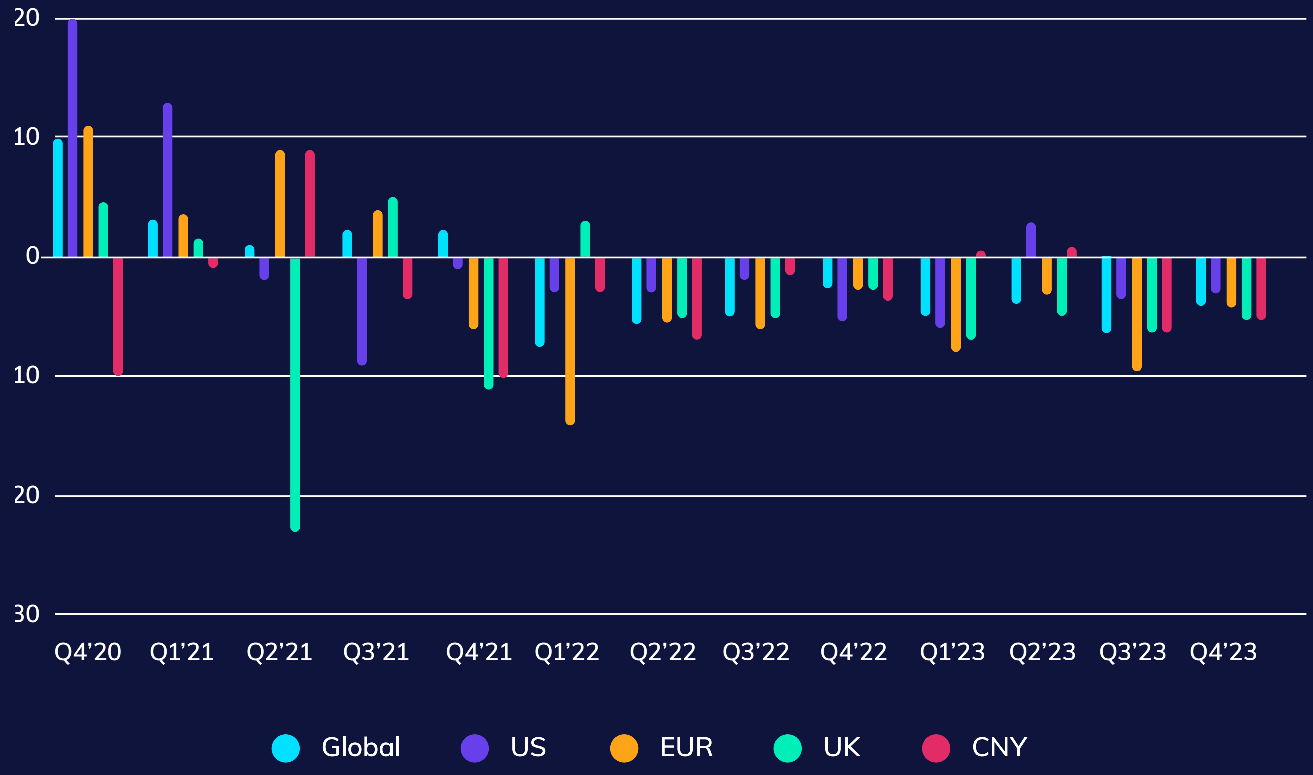
8. Spending on software and IT services continued to outperform other sectors. **Transactions across the sector rose at higher-than-expected** levels for the second successive quarter

Volatility snapshot

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

Global trade rebounds from its most recent slump

Transaction volumes - quarter on quarter growth indexed against historical trends



In Q4, global trade activity registered a modest improvement, standing 4 points below the anticipated range. This reflects an upturn in momentum from the previous quarter, during which transaction volumes plummeted to 6 points below the baseline. Much of this improvement stems from a significant surge in order volumes over the quarter.

Major Western economies seem to be mirroring the global trend. Transaction volumes across the Eurozone, which had declined to 9 points below expectations in Q3, recovered slightly in Q4 to conclude the year 4 points below the baseline. And while trade activity in the US has shown signs of cooling in recent quarters, the rate of decline appeared to level out in Q4 at 3 points below the expected level.

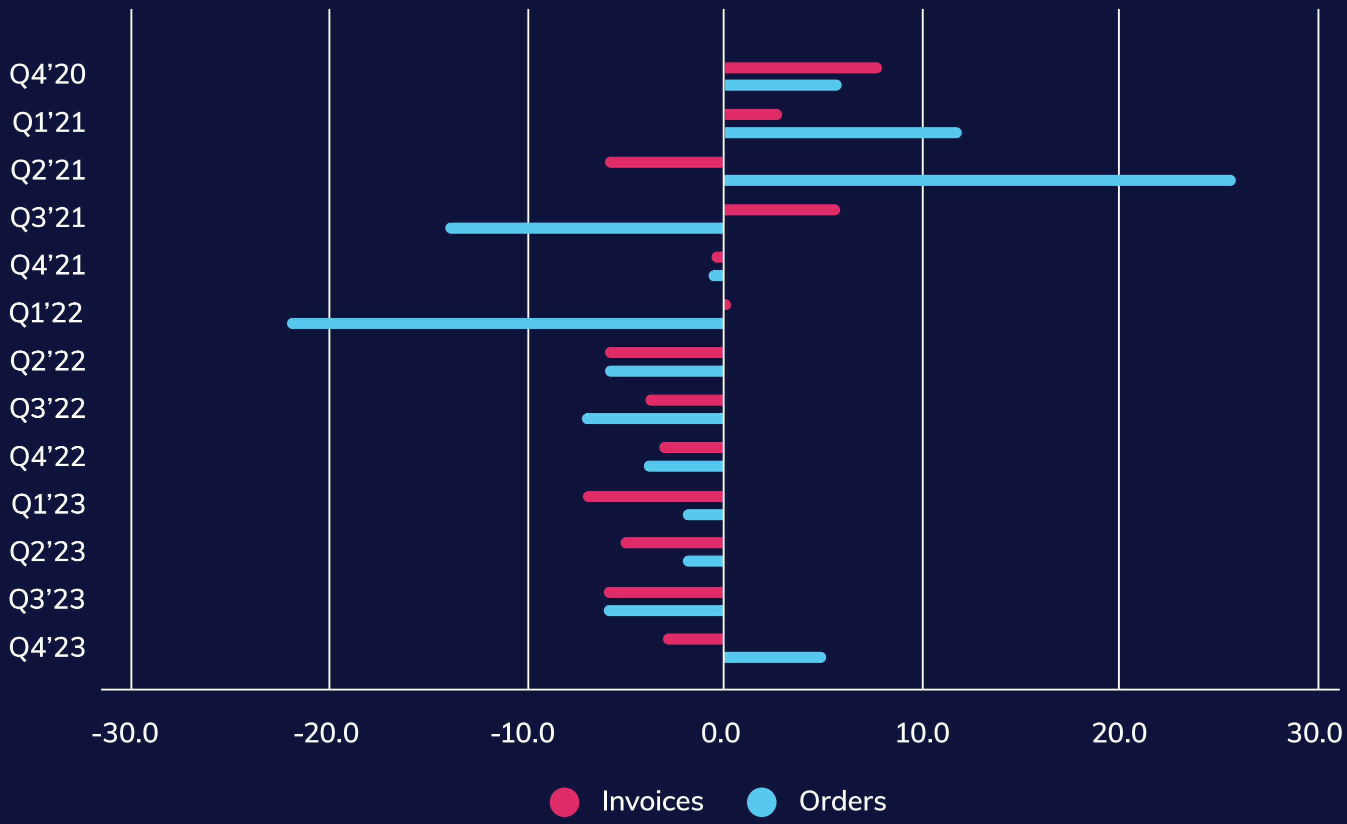
While Q4 brought relief to the recent slump in global trade activity, caution prevails. The overall subdued growth pattern observed is largely consistent with the picture that has emerged over the past two years – a return to real-term growth is unlikely in the near term.

Softened demand continues to weigh heavily on export-focused economies, including China, where the second half of the year has proven particularly challenging for local manufacturers. Official data[1] shows factory outputs across the territory suffered their worst contraction in six months in Q4. Our own data shows transaction volumes across the region remained firmly in the red zone in Q4, trailing 5 points below the expected range.

1 Bloomberg; 23/12/2023: China Factory Activity Posts Worst Contraction in Six Months

Order surge could prove a double-edged sword for suppliers

Invoice and order volumes - quarter on quarter comparison, indexed against expected growth



Order volumes have been tumbling since the beginning of 2022. We saw the first sign of a break in this pattern in Q4, as activity surged to a remarkable 5 points above the anticipated range.

Order volume patterns give us clues about how large organizations view the next six months. A big spike in activity is therefore potentially significant since it suggests large organizations are betting on an uptick in demand for goods over the coming year.

It’s too early to start drawing any firm conclusions based on the results of a single quarter’s data. But if order volumes do continue to trend in 2024, then the sustainability of this uptick will hinge on suppliers’ ability to ramp up activity to handle fresh demand. This presents a potential challenge, especially considering the diminished cash reserves of smaller suppliers following an extended period of reduced orders.

Extended payment terms, often reaching 120 days or more, also contribute to a lag of a quarter or more before suppliers reap any benefits of heightened ordering activity. In Q4, invoice volumes remained 3 points below the baseline, and the longer this delta persists, the more working capital will come under pressure.

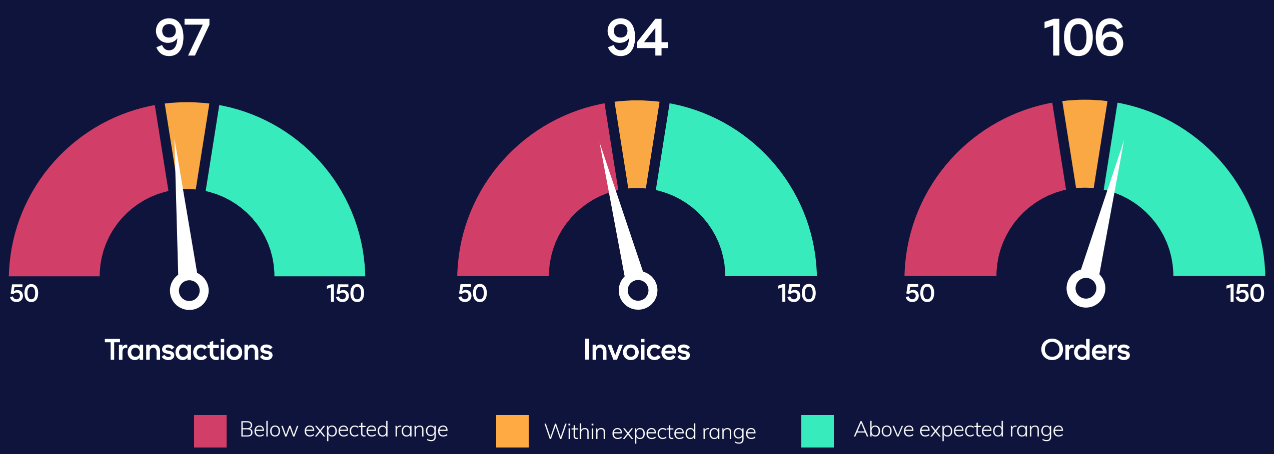
The true significance of the recent surge in order volumes on a broader recovery in global trade will only become evident in the next quarter. What is clear at this moment, however, is that any recovery must be accompanied by innovative financing mechanisms that expedite the flow of working capital to suppliers, so that they are equipped to react to an uptick in demand.

Q4 momentum deep-dive

Quarter-on-quarter world trade performance across key territories

US: Settling in for a soft-landing

US trade activity - quarter on quarter index scores



Swing vs previous quarter:

0 | **-3** | **+11**

A mid-year resurgence in activity across US supply chains petered out at the end of the year, as transaction volumes remained 3 points below the baseline. But, a sharp uptick in orders in Q4 suggests US businesses remain confident that domestic consumers will continue to spend freely in 2024.

Constituting roughly two-thirds of the US GDP, domestic consumer spending holds significant sway, and analysts at Bank of America[1] are among many who believe consumer spending will remain relatively strong in 2024.

The December report from the Conference Board[2] noted a five-month high in US consumer confidence, mirroring a nearly 14% surge in the University of Michigan's benchmark Consumer Sentiment Index[3] - the most substantial increase in over three decades.

This positive momentum aligns with lower inflation and a tapering of interest rate hikes.

Although Q3's sharp decline in orders contributed to a dip in invoice traffic during Q4, an anticipated rebound in Q1, fueled by fresh orders reaching suppliers, suggests a potential normalization. If this materializes, the mid-2023 surge starts to appear less as a momentary blip in a cooling outlook and more as an indication of underlying strength.

The sustainability of this momentum, however, hinges on various factors (including those listed above). The outcome of the upcoming election later this year will likely also play a pivotal role in determining the trajectory ahead.

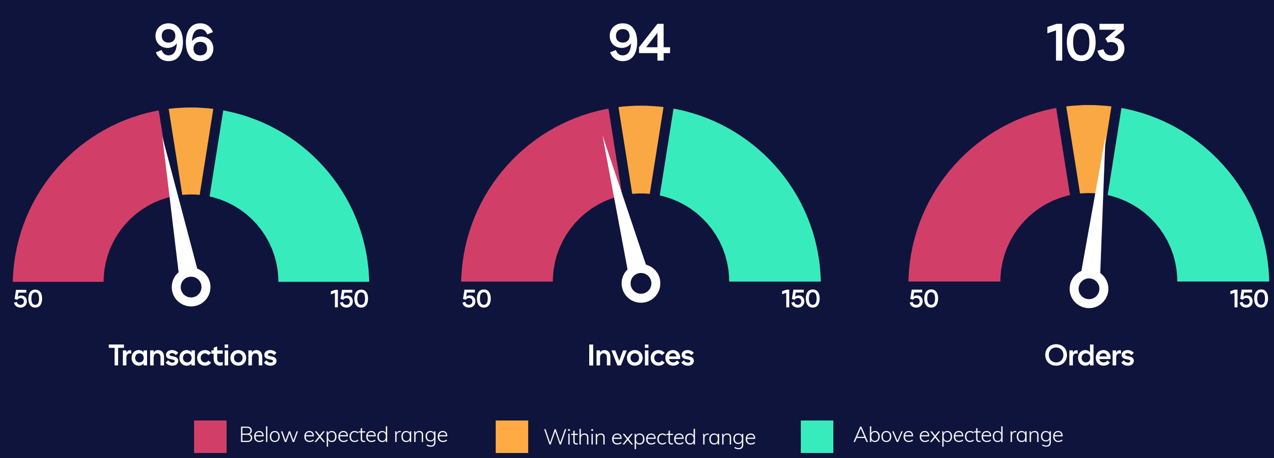
1 Investopedia; 02/01/2024: Analysts Expect Consumer Spending Will Support Soft Landing, Moderate Growth in 2024

2 The Conference Board; 20/12/2023: US Consumer Confidence Increased Again in December

3 University of Michigan; 22/12/2023: Sentiment soars as consumers expect easing of inflation

Eurozone: Order recovery helps steady the ship after Q3 slump

Eurozone trade activity - quarter on quarter index scores



Swing vs previous quarter:

Transactions	Invoices	Orders
+5	+4	+11

A minor recovery in Eurozone activity provided a positive sheen to an otherwise challenging trading landscape heading into 2024.

Transaction volumes crept back to within touching distance of the expected range in Q4, having plunged sharply in the previous quarter. The impetus for this momentum stemmed largely from a recovery in orders, mirroring a global pattern observed in the same period.

A rollercoaster second half of the year is symptomatic of the volatility that has defined the trade landscape for Europe's export-heavy economy over the past two years. While the latest data appears promising, the pattern of a significant decline in one quarter followed by a modest recovery in the next echoes what our data illustrated in the first half of the year.

Taking a broader perspective, the overarching trend reveals subdued growth from a low starting point. A more definitive assessment awaits in Q1. If order volumes remain elevated then Q4 may indeed mark the beginning of the end to the current downward cycle. The omens suggest otherwise, however.

A recent survey conducted by the Financial Times[1] found two-thirds of economists believe the EU is already in a recession. Sluggish demand continues to exact a toll on the region's manufacturers, with S&P's latest data[2] revealing a contraction in manufacturing activity across the region in December.

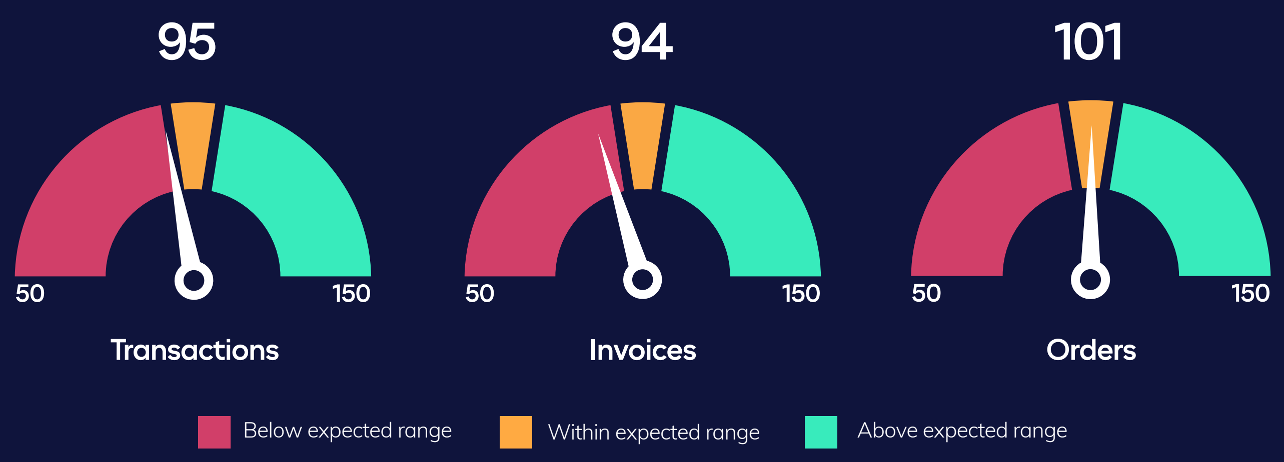
While the recent interest rate hike appears to have curbed inflation, the Eurozone confronts a delicate balance of challenges, hinting at another year of volatility ahead.

1 Financial Times; 26/12/2023: Eurozone set for weak growth next year, say economists

2 HCOB, Eurozone PMI; 02/01/2024: Eurozone manufacturing sector finishes 2023 with another strong reduction in output

UK: Still waiting for the tides to change

UK trade activity - quarter on quarter index scores



Swing vs previous quarter:

Transactions	Invoices	Orders
+1	0	+5

Order volumes have finally tipped back into growth territory after a two-year hiatus, but the year-end report card for UK trade activity reveals a lingering cloud of uncertainty.

In parallel with the Eurozone, the UK exhibits a case of low growth emanating from a low starting point. However, unlike the Eurozone's pattern of trade marked by peaks and troughs, the UK's landscape is notable for its relative lack of movement.

Transaction volumes nudged up by a point in Q4, concluding the year 5 points below the baseline, maintaining a steadfast position that has scarcely deviated for the past eighteen months. Correspondingly, invoice traffic remained static in Q4, resting 6 points below the anticipated level.

The stagnant trade atmosphere in the UK is mirrored in recent economic data, with the UK economy contracting in the third quarter of 2023. The Bank of England's[1] forecast of zero GDP growth in 2024 underscores the prevailing challenges.

Manufacturers, in particular, bear the weight of the current gloom, experiencing a 17th consecutive month of output decline, according to the latest Purchasing Managers' Index[2].

It's not all doom and gloom, however. Inflation is falling faster than many had anticipated, and economists expect that trend to accelerate further in 2024. The UK services sector is also well-placed to benefit from any uptick in the global macroeconomic environment. A General Election later on in the year also brings with it the potential for a change in direction.

1 Bloomberg; 2/11/2023: BOE's Bleak UK Outlook Lifts Bets on Sharp Rate Cuts in 202

2 The Guardian; 2/1/2024: UK factory output lower than expected after fall in domestic and export orders

Manufacturing slump spreads to logistics providers

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

	T&L	Manufacturing	Retail	Tech
Q3'22	92	89	91	98
Q4'22	89	93	97	101
Q1'23	91	99	88	99
Q2'23	98	97	93	87
Q3'23	94	91	94	101
Q4'23	94	94	96	102

significantly below expectation | below expectation | within expected range | above expectation | significantly above expectation

Demand for freight capacity levelled off at 6 points below the expected range in Q4. This suggests that the recent rise in orders observed at a macro-level is not yet significant enough to change the overall pattern of subdued demand over the past eighteen months.

Restrictions on capacity through the Panama Canal and geopolitical tension affecting transit routes in the Middle East have added an extra dimension to the sector's current challenges – a sector that had only just begun to find its footing following the pandemic.

The prospect of further volatility will be a bitter pill for the manufacturing sector. A slight uptick in momentum proved insufficient to pull it out of contraction territory. S&P data[1] indicates that manufacturing activity contracted in almost every major economy in December, underscoring the persistent challenges.

Trade activity across the retail sector performed slightly better with transaction volumes rising to just below the expected range in Q4. In the US, consumer spending over the vital Christmas season rose 3 per cent year on year[2].

In a noteworthy defiance of prevailing gloom, the technology sector continued its positive trajectory, with transaction volumes surpassing the anticipated range for a second consecutive quarter.

Gartner[3] anticipates this trend to gain momentum in 2024, projecting an 8 per cent increase in worldwide IT spending to $5.1 trillion. The surge is attributed to investments in cloud, cybersecurity, AI and automation, which are considered critical for enhancing operational efficiency and addressing IT talent gaps.

1 Reuters; 02/01/2024: Global factory activity ended 2023 on a soft note

2 Wall St. Journal; 26/12/2023: Shoppers Kept Spending This Holiday Season

3 Gartner; 18/10/2023: Gartner Forecasts Worldwide IT Spending to Grow 8% in 2024

Perspectives on the road ahead

FINAL THOUGHTS

Supply chains are heading back into choppy waters.

James Stirk
CEO
Tradeshift

Companies that crafted new supply chain strategies in response to the COVID-19 pandemic have found themselves compelled to implement those plans more swiftly than anticipated – driven by disruptions to critical trade corridors through Panama and the Red Sea.

A confluence of extreme weather events and geopolitical tensions typifies a period where the term ‘permacrisis’ has become part of the lexicon. Although rampant inflation may have peaked, 2024 is poised to be another year of upheaval, amplified by elections in major economies, including the US, fostering an overarching sense of unpredictability.

Amidst a growing set of variables, maintaining focus on the broader strategic picture becomes challenging. However, the foundational principles of resilience, notably agility, remain paramount in navigating such volatile scenarios.

Businesses need to look at how they increase the velocity of decision-making across their supply chain so that they can adjust their activities according to conditions that remain in a heavy state of flux. The only way they can do this is by becoming more digital.

By leveraging digital connectivity, companies can enhance their risk management strategies within the supply chain, moving beyond ‘best-guess’ policies to informed decision-making with visibility shared across all stakeholders.

Danone is a great example of a company utilizing the digital connectivity it has established across its supplier base through Tradeshift, to share vital inventory and forecasting information across the entire supply chain.

Ultimately, the most efficient and resilient supply chains manifest as digitally networked ecosystems encompassing suppliers, distributors, retailers and all other manufacturer partners. This model allows real-time information exchange, accurate demand forecasting and effective communication among partners.

Such initiatives are typically driven by buyers, but any attempt to force suppliers into adopting systems that have traditionally been designed solely for buyers is likely to fall flat. Digitizing the buyer-supplier relationship requires both parties to feel that they’re deriving real value from making the transition.

Tradeshift’s philosophy prioritizes the value proposition for suppliers, and it’s this approach that enables us to digitize entire supply chains at speed and scale. Our partnership with HSBC, a world-first in the provision of embedded fintech services, further bolsters the compelling value proposition for businesses joining the Tradeshift network.

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's 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 offers 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 B2B transaction volumes (orders processed from buyers and invoices processed from suppliers) submitted via the Tradeshift platform against a 'baseline' we've 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's 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 business commerce platform that redefines the way B2B buyers and suppliers connect, transact and grow. We're a leader in e-invoicing and AP automation, offering tools for compliant e-invoicing in 50+ countries, including China. We're an innovator in B2B marketplaces and embedded fintech services that bring value, opportunity and growth to any business that joins the network. 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 over 190 countries.

Find out more at: www.Tradeshift.com

©2024 Tradeshift Holdings Inc. or a Tradeshift affiliate company. All rights reserved.

The Tradeshift Global Health of Trade Index and this report are copyrighted works. This document is protected by U.S. and international copyright and intellectual property laws. It may be linked to and referenced with the following attribution: "Tradeshift © 2024 Tradeshift Holdings Inc."

Tradeshift is a registered trademark or trademark of Tradeshift Holdings Inc. in the United States and/or other jurisdictions. All other marks and names mentioned in this article may be trademarks of their respective companies.

This report is intended for information purposes only, is based on a segment of industry data, and may not prove to be an accurate representation of total trade volumes. Tradeshift makes no warranty or representation as to the accuracy of this information.