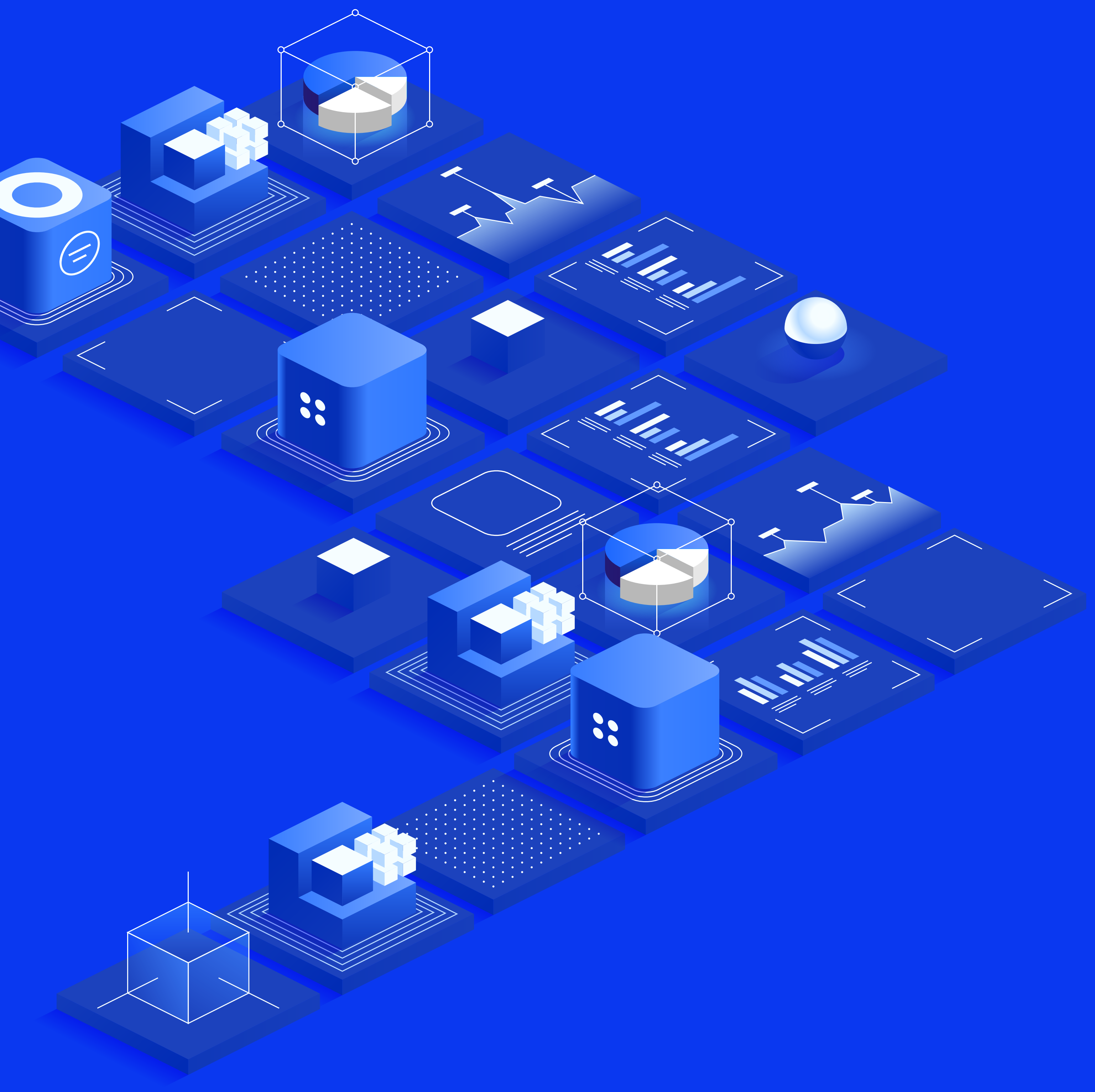
Tradeshift®

The Tradeshift Index of Global Trade Health Q1 2024



Fueling global trade's nascent recovery

We've been deliberately cautious about making any predictions over the timing of a global trade recovery, especially given numerous false dawns amidst four years of intense macroeconomic volatility. So whisper it for now, but the outlook appears to be getting a little brighter.

After two years of dwindling demand and tepid growth, our data showed order volumes surging upwards at the end of 2023. This trend persisted into Q1, with the number of new orders processed through the Tradeshift network continuing to exceed expectations.

China stands to benefit greatly from any uptick in global goods demand. Despite its anticipated recovery faltering in 2023, Q1 witnessed a turnaround in trade activity, with transaction volumes rising at their swiftest pace in over two and a half years.

Government subsidies[1] geared towards the manufacturing sector are helping stimulate the recovery in China. Something similar is also happening in the US, where we saw trade activity begin to move into a higher gear in Q1. Order volumes rose at 7 points above expected levels while total trade activity rose by its highest margin in nine months.

Even the Eurozone, battered by a combination of rising energy markets and weak demand, is beginning to build momentum, with trade activity climbing to within a hair's breadth of the expected range in Q1.

We're not the only ones to observe a potential changing of the tides. A recent report by the UN[2] predicts a rebound in global trade in 2024, while Oxford Economics [3]puts the risk of a global recession in 2024 at 7.2%, less than half of what it was at the end of 2023.

So why aren't we shouting from the rooftops? Every recovery is fragile and external factors like the ongoing Red Sea crisis, disrupting supply chains, pose a threat. Economists warn that this crisis could reignite inflation and impede growth.

It's also important to understand that ramping up capacity to meet fresh demand may prove challenging for businesses that have been forced to run down cash reserves to compensate for the recent downturn.

Liquidity remains a concern across the supplier base, with the rate of cash reaching suppliers crucial for supply chain resilience. Although payment times have decreased from their 2022 peak, suppliers still face prolonged waiting periods compared to pre-Covid times.

For supply chains, cash is akin to fuel. The steadier it flows, the better the engine will run. Keeping cash flowing through supply chains is one of the key areas we are addressing through our joint venture with HSBC and which will play a vital role in ensuring there is sufficient fuel in the tank for global trade to hit the accelerator pedal.

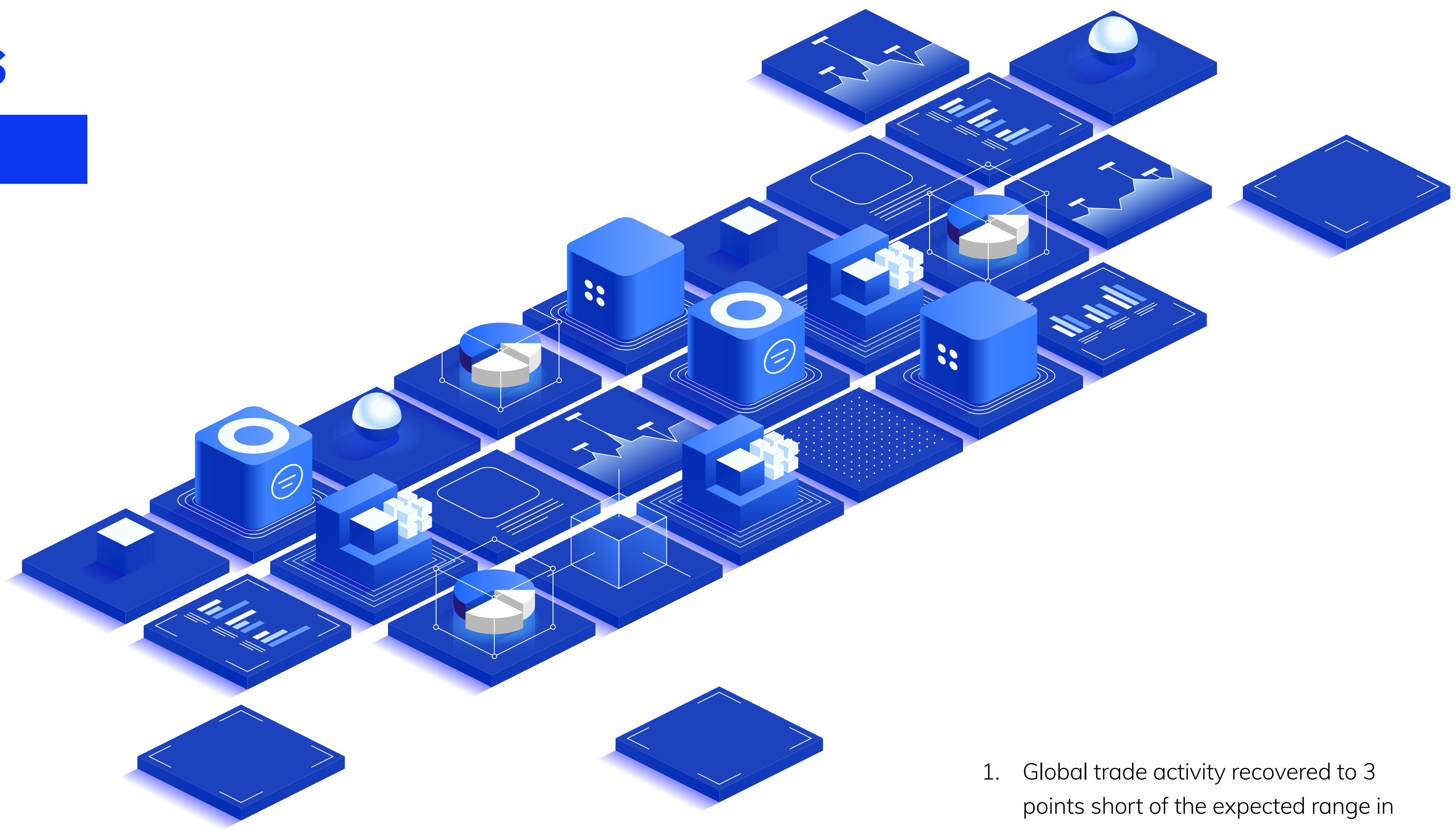
James Stirk
CEO
Tradeshift

1 The National, 16th September 2023: How China is incentivising production of electric vehicles

2 UNCTAD, March 2024: Global Trade Update

3 Grant Thornton, March 2024: Analysis: Risk of global recession falls substantially

Key findings at a glance



1. Global trade activity recovered to 3 points short of the expected range in Q1, the highest level in five quarters.

2. Order volumes tracked 1 point above the expected range, maintaining the high momentum they achieved following a surge in activity during Q4

3. China's economic recovery sprang into life with trade activity growing at 2 points above the expected level.

4. The US gained further momentum in Q1 as total trade activity rose at 1 point above the baseline. Order surged to 7 points above the expected level.

5. Trade activity across the Eurozone is benefiting from improvements to global demand. Order volumes grew at 6 points above anticipated levels, lifting total trade activity across the region to within touching distance of the baseline range.

6. As global order volumes rise, cashflow pressure on suppliers is also beginning to ease. New analysis shows invoice payment times falling steadily from their peak in Q3 2022. Suppliers are still waiting 6% longer to receive payment on their invoices than they did prior to the pandemic, however.

7. Transaction growth within the manufacturing sector climbed back into the expected range for the first time in a year. Demand across the transport and logistics industry rose at a similar pace.

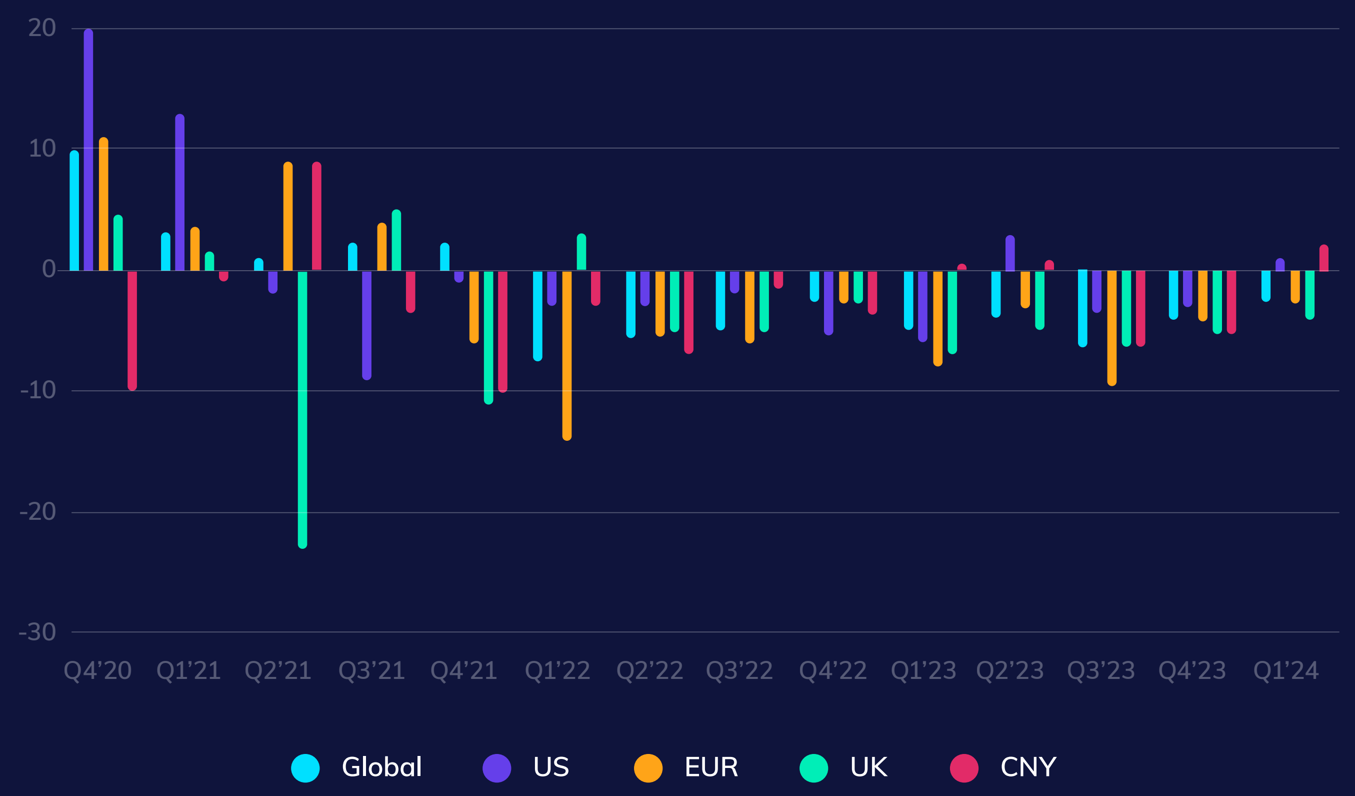
8. The UK was the only territory where order volumes lost momentum in Q1, dipping 5 points below the baseline. Total transaction volume growth tracked 4 points below the anticipated level.

Volatility snapshot

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

US and China benefit most from rebound in global demand

Transaction volumes - quarter on quarter growth indexed against historical trends



Global trade appears to be inching closer to a recovery, buoyed by robust growth in both China and the US, alongside indications of a rebound in global demand for manufactured goods. Total transaction volumes across the Tradeshift network rose slightly, landing 3 points below the anticipated range in Q1.

While this marks the ninth consecutive quarter of growth below expectations, it also signifies the third consecutive quarter of improving momentum after a prolonged period of sluggish activity. China's long-awaited economic recovery appears to be gathering a head of steam having petered out alarmingly in the second half of 2023. Trade activity exceeded anticipated levels by 2 points in Q1, the highest quarterly growth rate in two and a half years. China's official purchasing managers index[1] for the manufacturing sector moved out of contraction territory in March for the first time in six months.

The US had its strong domestic market to thank for relatively robust growth in trade activity in 2023. A fresh surge in activity at the beginning of 2024 suggests businesses are now gearing up for a broader recovery in demand beyond US borders. Transaction volumes across US supply chains grew at 1 point above the expected range in Q1 thanks in no small part to a sustained surge in fresh orders over the past six months.

Europe's factories are also beginning to hum again, albeit not at quite the same velocity as those in the US and China. Trade activity across the region finished Q1 3 points below the expected range, having sunk as low as 9 points below that level just six months ago. Data from Eurostat[2] shows the Eurozone's trade surplus rose to a record high in January with export-focused Germany accounting for much of the improvement.

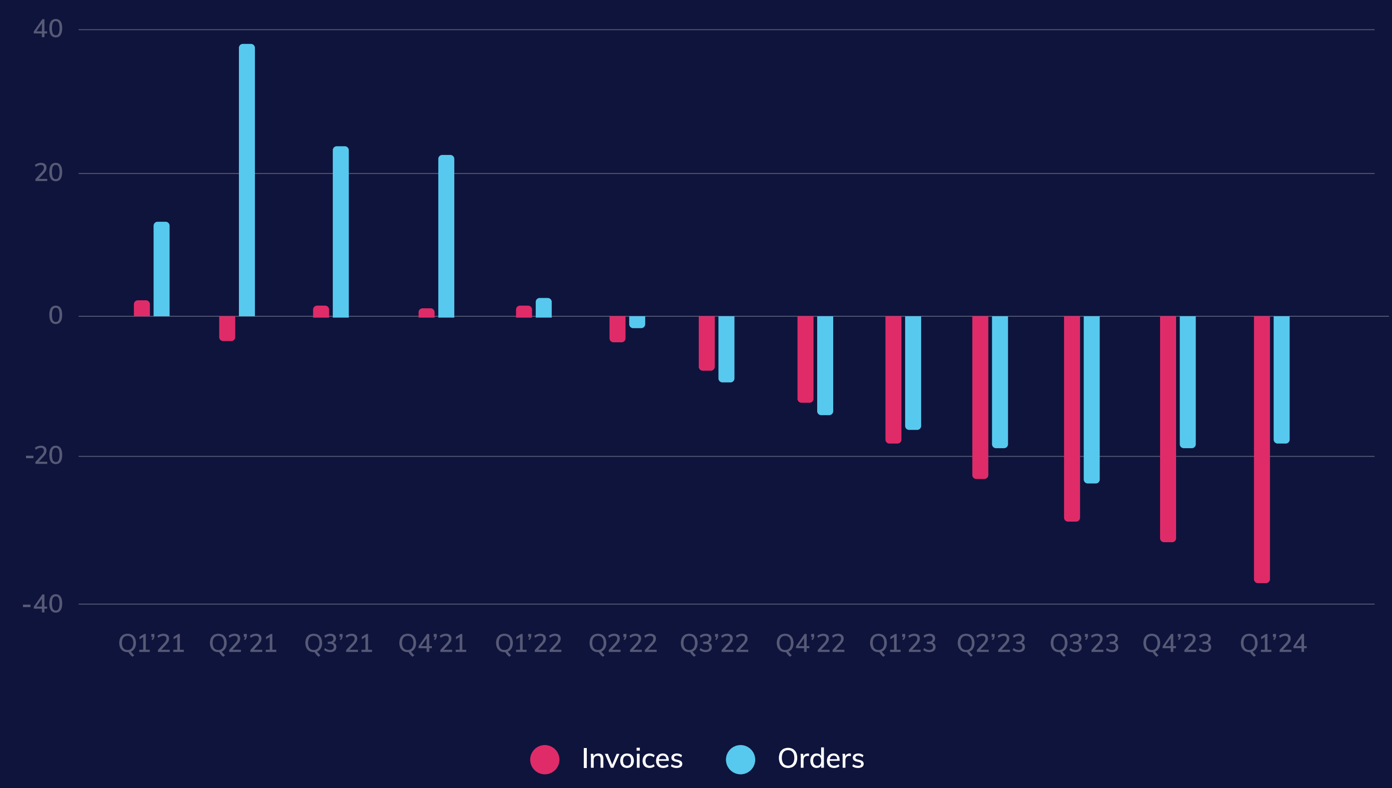
The UK, which is less heavily weighted towards the export of manufactured goods, posted the weakest growth in Q1. Transaction volumes were 4 points below the baseline, a marginal improvement on the previous quarter and largely consistent with the subdued growth patterns we've observed over the past year.

1 Bloomberg, 31st March 2024: China Factory Activity Expands for First Time in Six Months

2 Eurostat; 18th March, 2024: Euro area international trade in goods surplus €11.4 bn

Order recovery holds its ground

Invoices and orders, global - cumulative performance (QoQ, indexed against expected growth



Order volume patterns serve as a leading indicator for the trajectory of global trade in the coming six months. Order growth had appeared to be in freefall for much of 2023, but regained significant momentum in Q4, surpassing expected levels by 7 points compared to the previous quarter. Order volumes subsequently maintained this higher growth rate in Q1 2024, providing a strong indication that businesses are optimistic demand levels will continue to climb in the coming months.

If order volumes illuminate the path ahead, then invoice volumes act like a rearview mirror, reflecting the challenging macroeconomic conditions that have shaped the prevailing narrative thus far. Changes to ordering patterns take time to filter through supply chains with factors such as fulfillment times and payment terms creating a lagging effect on invoice traffic of up to six months.

Invoice traffic fell by a further 5 points in Q1 as a result of the dearth of fresh orders during the first nine months of 2023. A second successive quarter of strong orders should begin to filter through to suppliers over the next quarter, but the loss of momentum over the past two years has left supply chains with a mountain to climb before activity begins to normalise.

Liquidity pulse

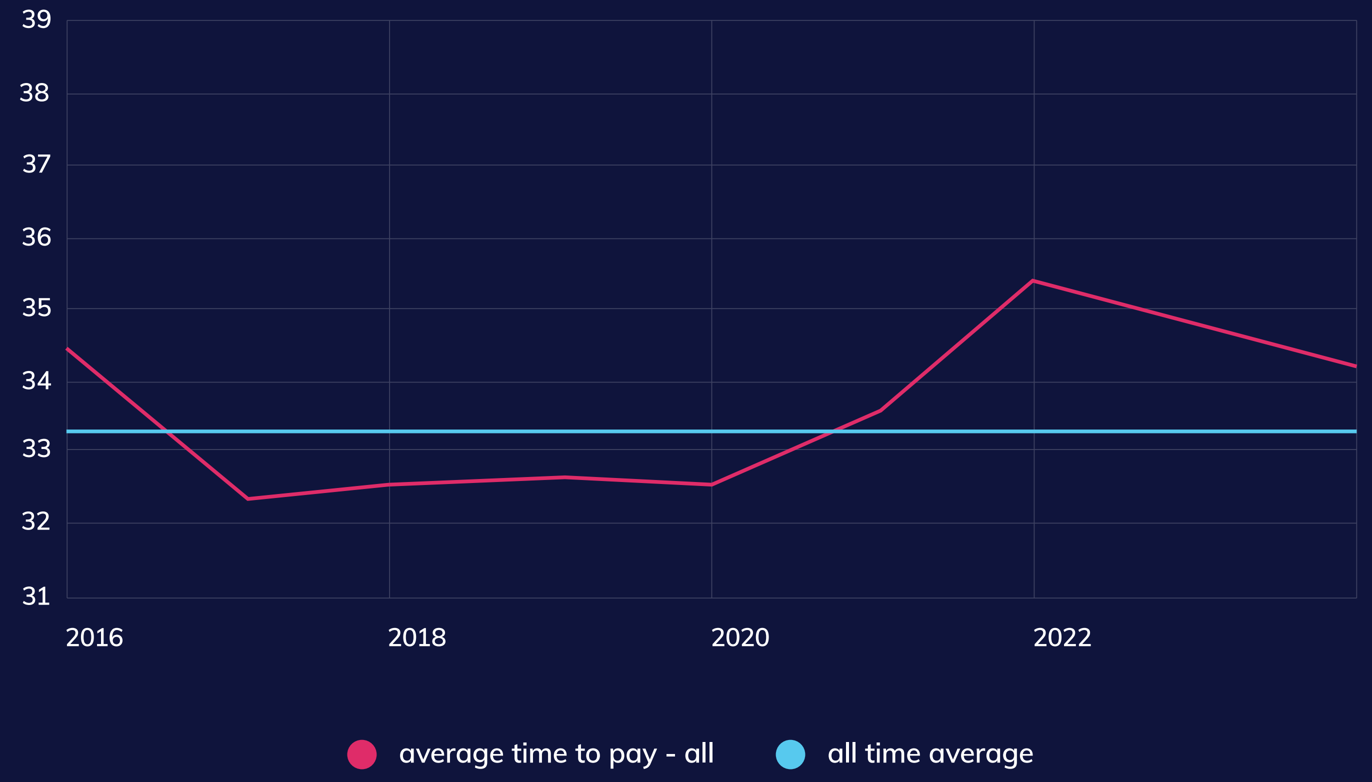
Analysing how external pressures impact the average time to pay an invoice.

Pressure on cashflow could slow the pace of recovery

Extending or delaying payments to suppliers are common strategies large organisations employ to safeguard their working capital during challenging and uncertain times.

Since the onset of Covid and the imposition of worldwide lockdown restrictions in Q1 2020, the average time taken to settle supplier invoices has steadily increased. This trend seemingly peaked in Q3 2022, with the average time to pay a supplier standing 16% higher than the all-time average.

Average days to pay - yearly comparison versus all-time average time to pay



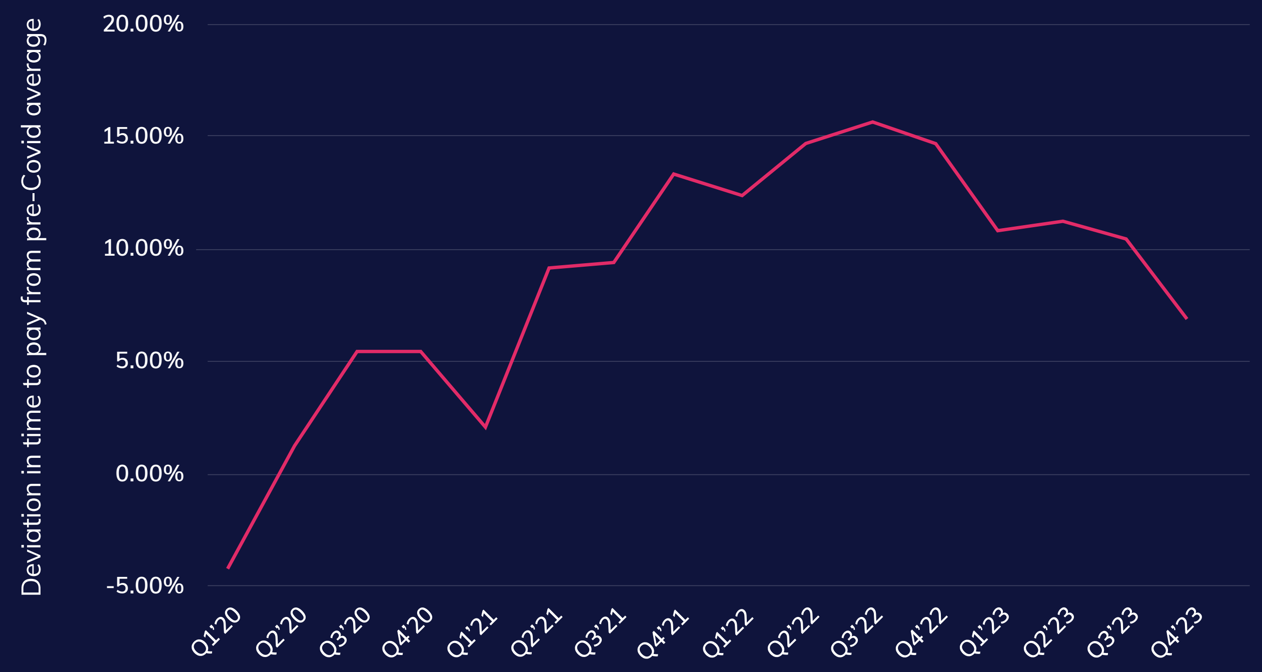
Faced with a combination of low orders and lengthy payment periods, many suppliers have been forced to dig deep into existing cash reserves just to make ends meet. As order volumes show signs of recovering, the good news is that the time businesses are taking to settle outstanding invoices is also coming down. Nevertheless, businesses still take an average of 6% longer to pay suppliers than before the pandemic. The genuine risk here is that the influx of new orders could outpace the availability of working capital to meet demand.

Recent trends suggest that the time to settle payments should continue to decrease over the next six months. However, this may not be fast enough to prevent fulfillment issues from hindering the overall pace of recovery.

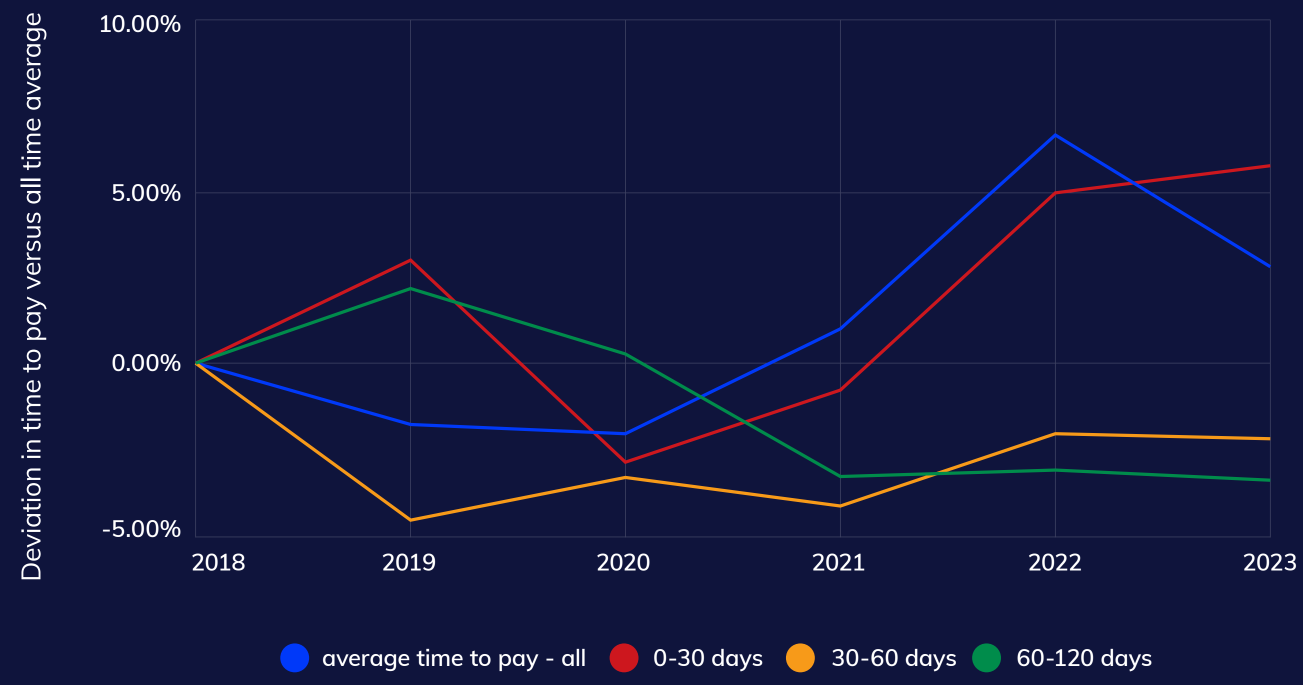
With high interest rates and ongoing restrictions on bank lending, businesses' options to finance new orders are severely restricted. Pressuring large organisations to pay their suppliers quicker may seem rational, but the reality is that businesses rarely pay their suppliers late out of choice.

Our analysis indicates organisations that typically settle payments the fastest - 30 days or less - have faced the greatest challenges in adhering to these limits. Businesses in this category (40% of total) took 5% longer to pay in 2023 compared to the all-time average. Conversely, businesses paying suppliers in 60-120 days (21% of total) have managed to reduce payment times by 3%.

Quartely increase/decrease in time to pay versus pre-Covid average = shown cumulatively



Changes in average time to pay within different payment segments



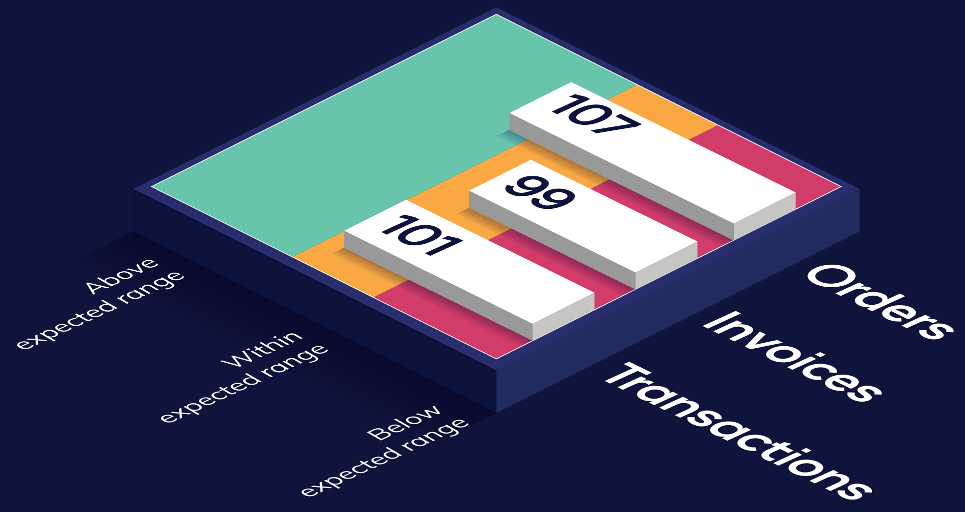
Accelerating cash flow necessitates a solution that meets the needs of both suppliers and buyers in any transaction. Traditional supply chain financing methods have struggled to fill the gap, particularly for smaller businesses. A new wave of innovative financial services offers a solution, leveraging data derived from transactions between businesses and their customers to make access to financing options faster and far more inclusive.

Q4 momentum deep-dive

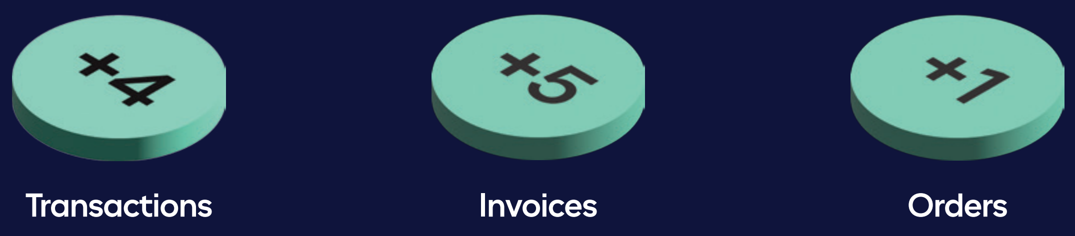
Quarter-on-quarter world trade performance across key territories

US: Setting the pace for global recovery

US trade activity - quarter on quarter index scores



Swing vs previous quarter:



A robust domestic market has shielded the US economy from macroeconomic turbulence seen elsewhere globally. Supply chains across the nation now appear to be revving up in anticipation of higher demand for US-manufactured goods in overseas markets.

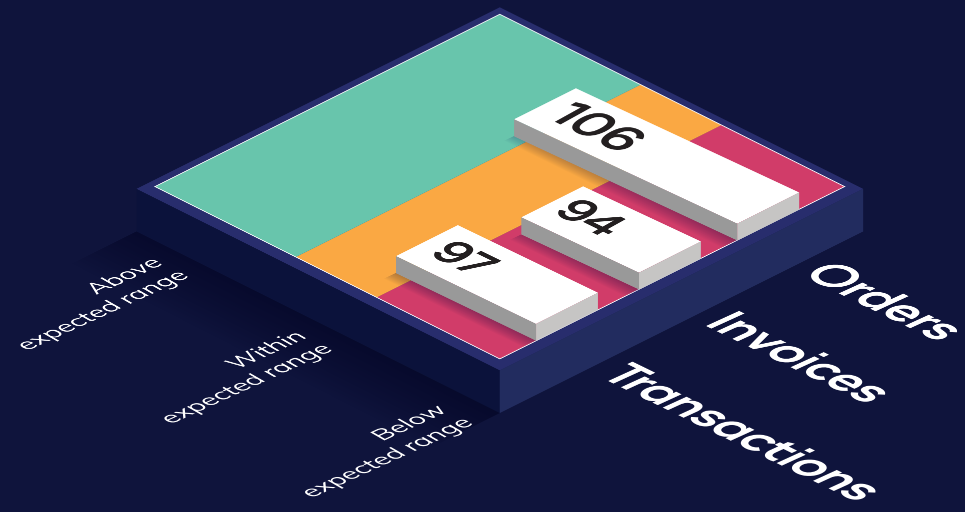
Apart from a minor hiccup in Q3, US order volumes have been growing at just below expected levels for much of the past year. This stands in stark contrast to export-dependent markets like the Eurozone, where order volumes remained low for much of the same period. In Q4 2023, we saw a notable shift as ordering activity within the US surged to 6 points above the baseline.

This momentum continued into Q1, with ordering activity accelerating further, climbing by 7 points above the anticipated level.

Suppliers are reaping the rewards of the relative stability in US ordering activity compared to most other nations. Invoice volumes, which experienced a slight dip following the Q3 decline in orders, returned to the expected range in Q1. With a significant influx of fresh orders now reaching suppliers, invoice volumes are poised to grow even higher next quarter, leaving supply chains well-positioned to profit from a wider resurgence in global trade.

Eurozone: Firmer ground in sight

Eurozone trade activity - quarter on quarter index scores



Swing vs previous quarter:

A second successive quarter of strong orders saw trade activity across the Eurozone inching ever closer to normalisation.

Order volumes tracked at their highest rate of growth in three years during Q1, outpacing an already impressive performance in the previous quarter by 3 points.

Relatively low invoice volumes suggest that the recent resurgence in orders has yet to trickle down into the wider supply chain.

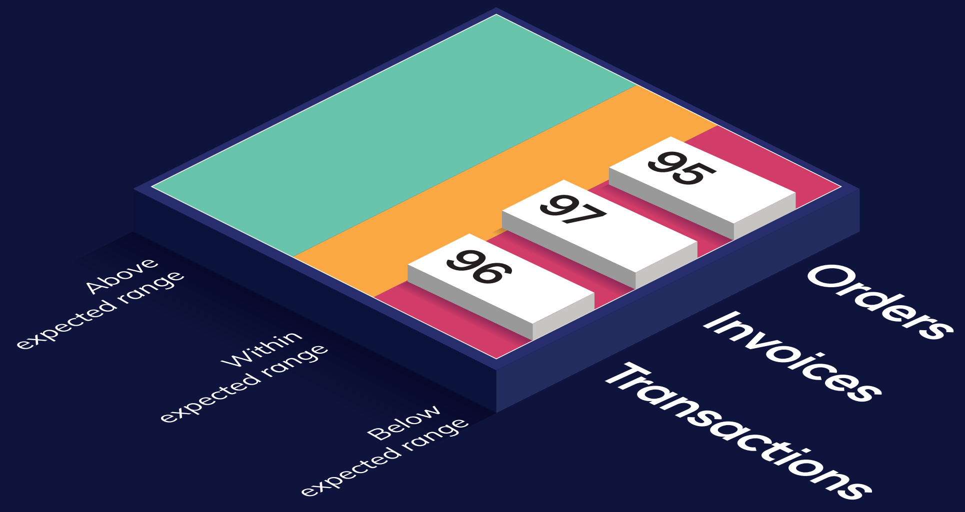
Recent heavy declines in invoice traffic across the Eurozone did appear to stabilise in Q1 however, and should start to trend upwards in the coming months provided order growth remains strong.

An upswing in global demand will be welcomed by key industrial heartlands across the Eurozone, which have been hammered by a combination of rising energy prices and stagnant exports. Data from S&P[1] shows manufacturing activity contracted for the 11th consecutive month in March, but the rate of contraction is showing signs of slowing

1 S&P Global, 07th March, 2024: Trade downturn continues to ease in February

UK: Still waiting for the tides to change

UK trade activity - quarter on quarter index scores



Swing vs previous quarter:

Transactions Invoices Orders

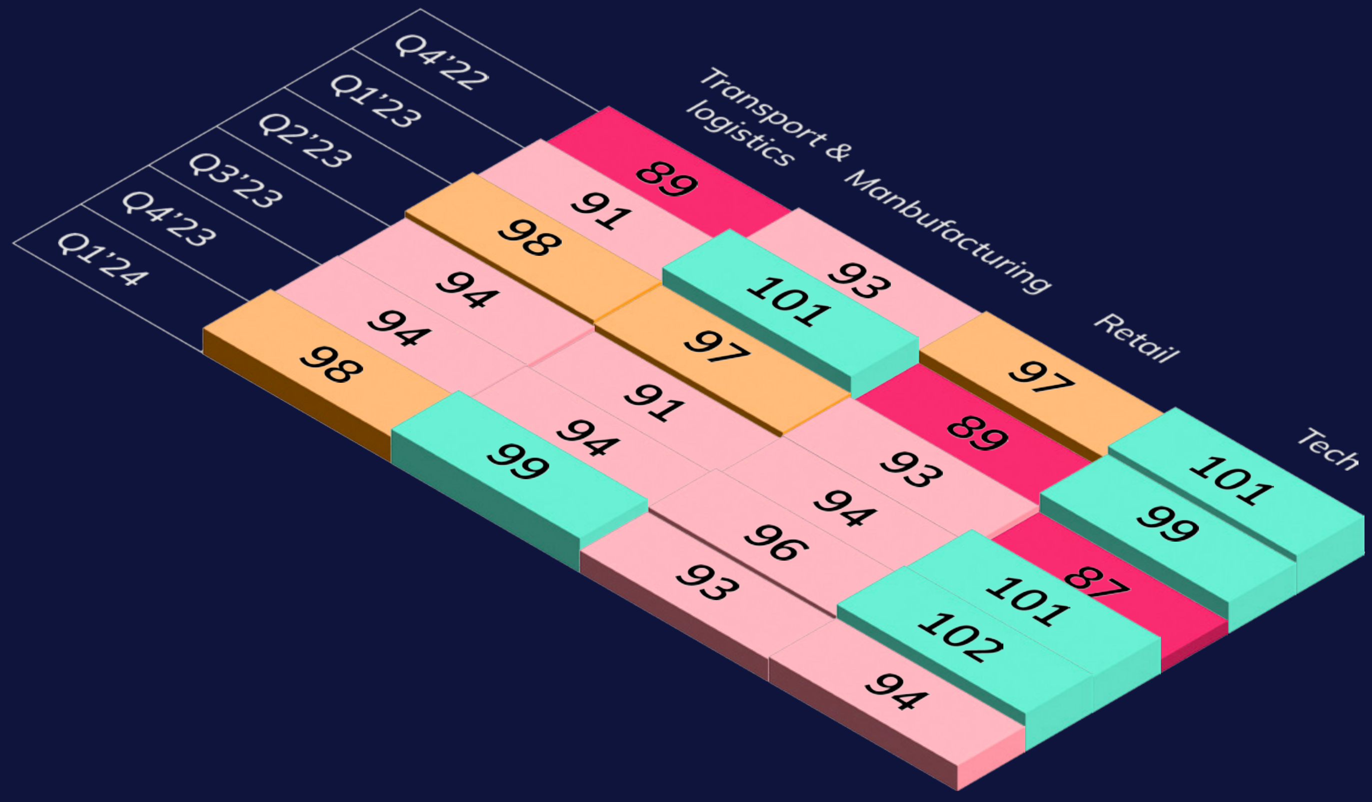
The UK has long been the outlier in our analysis of global trade trends. Unlike the US, China, and even the Eurozone, UK businesses failed to reap the same dividends of the brief post-pandemic rebound. Based on our latest data, they may be about to miss out again as the world gears up for a recovery in global demand.

While Q4 showed some encouraging signs with order volumes surpassing expectations, mirroring global trends, Q1 2024 presented a different narrative. The UK emerged as the sole region where orders grew below the anticipated range.

It's never wise to draw firm conclusions from a single quarter's data. The subdued ordering activity in Q1 may yet prove to be a blip. Moreover, there are silver linings within the latest UK data. Despite lower-than-expected order volumes, invoice volumes are on the rise, indicating swift transaction movement through the supply chain and bolstering supplier cash flow. If orders do begin to rise again then suppliers should be comparatively well equipped to handle the additional volume.

Trade recovery lifts manufacturing and logistics sectors

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



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

Manufacturing grew at its fastest rate in a year, as both the US and China continued to pour significant investment into the sector in a bid to stimulate economic growth. Broader signs of an uptick in global demand for manufactured goods are also emerging, with February's worldwide manufacturing Purchasing Managers' Index[1] edging closer towards expansion territory.

The rise in goods rolling off production lines and destined for overseas markets is one of the key factors contributing to the recovery in demand for freight capacity we observed in Q1.

Demand for goods may be rising again on a global level, but everyday consumers are still feeling the pinch from a protracted cost of living crisis. Retailers are bearing the brunt of reduced consumer spending power with trade activity across the sector sinking further into contraction territory in Q1.

Technology spend dipped in Q1 having grown at above-expected levels for the previous six months. This mirrors a similar pattern we saw over the preceding nine months, and we interpret this latest data to be more of a one-off correction than the beginning of a wider slowdown in demand across the sector.

1 S&P Global, 07th March, 2024: Trade downturn continues to ease in February

FINAL THOUGHTS

Volatility hasn't gone away, but businesses are learning to adapt

James Stirk
CEO
Tradeshift

War in Ukraine, snarled supply chains, geopolitical tension and a trade war between the world's two largest economies. That was the picture two years ago when we started to observe a steep decline in trade activity. Fast-forward to the present day and the landscape has barely changed.

And yet, while the macroeconomic picture bears more than a passing resemblance to the one we described two years ago, the prevailing narrative within business and across global trade is markedly more positive. What's changed?

Economists may attribute the current recovery to factors like cooling inflation and declining energy prices. Speaking to customers and partners on the front lines of global trade however, it's clear that something more fundamental has shifted, and that businesses are beginning to plot a path back to growth amid a familiar set of variables.

A positive interpretation of this quarter's positive results is that they reflect systemic improvements in global supply chains undertaken in response to the trauma of the pandemic. Looking back to the dark days of 2020, it was remarkable how quickly supply chains began to unravel. Businesses learnt valuable lessons about the opacity and fragility of linear supply chain models whose function relied heavily on a patchwork of manual and paper-based processes.

Changing these models is complex and requires time, so it's no surprise that the quarter-by-quarter progress we've seen has been fitful and slow. At the same time, adversity is a great motivator of creativity. The pandemic proved a catalyst for the most significant and sustained period of supply chain recalibration and renewal we have seen since the introduction of containerisation.

Resilience has become the yardstick by which successful organizations are measured. Investment in digitalizing previously disconnected supply chain ecosystems is enabling organizations to identify and react to emerging challenges in real time.

Automation of heavily manual processes is eliminating potential pinch points, enabling businesses to accelerate and scale operational processes that would otherwise begin to break down when faced with a sudden change in trading or other macroeconomic conditions.

The long-delayed revolution in supply chain models is not just a matter of technology, though; just as important is a change in mindset. To optimize resilience and efficiency, global enterprises are now prioritizing their the health and diversity of supplier relationships. Single-sourcing models have given way to a much more networked set of relationships between large organizations and diverse groupings of suppliers. Technology has of course played its part in facilitating this transition, enabling businesses to identify, vet, onboard and manage suppliers on a scale that would have been impossible just a few years ago.

Today, next-generation technologies like AI and machine learning are poised to further enhance the transition towards resilient supply chains. Their impact goes far beyond improving processes, transformative though this is, and extends into the realm of organizational strategy. The most valuable applications of new technology in the supply chain are when they contribute to the shift from static or reactive models to ones that identify or even anticipate emerging risks, based on real-time insight between the participants of all-digital trading networks. There is still some way to go before global trade gets an 'early warning system' that would eliminate all but the most cataclysmic events - but at the same time, that's clearly the direction of travel.

What does such a future look like? Imagine a scenario where emerging risks or long-term vulnerabilities would trigger an interactive dashboard to display alternative sourcing options in different geographies. The AI would pre-vet selected suppliers according to pre-set criteria using data collected from various sources. Organizations that engage in complex manufacturing may establish controls for product quality and design specifications. In light of the heightened scrutiny that businesses face regarding sustainability in their supply chains, many may also opt to select vendors based on verified ESG credentials.

We're already seeing this becoming a reality in digitalized environments like B2B marketplaces, where there's ample clean, structured data on factors like cost, quality, reliability, and carbon footprint. AI also has enormous potential in embedded finance, analyzing vast data sets to identify issues that may impact supplier cash flow and offer financing options to vulnerable suppliers.

While the backdrop remains fraught with uncertainty and complexity, the metamorphosis underway in global supply chains is unmistakable. Technologies like generative AI promise to take this to another level entirely. Adaptation, resilience, and digitalization are not just buzzwords but imperatives for survival and sustainable growth.

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