The Tradeshift Index of Global Trade Health Q2 2024

Navigating the uneven path to global trade recovery

Global trade's path to recovery was never going to be easy. After two straight quarters of solid upward momentum, the results of our Q2 Index of Global Trade Health inject a dose of reality into the overall improving outlook.

Transaction volumes across the Tradeshift network have been inching closer to normalization against expected levels over the past six months. However, trade activity remains three points shy of the anticipated level in Q2, so the champagne will have to stay on ice for another quarter.

A steep reversal in ordering activity dashed hopes of ending an eighteen-month sequence of lower-than-expected growth. Order volumes fell six points below the expected range in Q2, having peaked at five points above the expected range at the end of 2023.

Is global trade about to slip back into reverse gear? We believe this is unlikely. It's more probable that ordering activity is levelling off after accelerating at a rate that would never be healthy or sustainable in the long term. Supply chains may benefit from this cooling off, giving suppliers time to adapt to a new rhythm.

This quarter's report highlights a widening performance gap between the US, where activity levels exceeded expectations, and Europe, where trade activity remains three points below the baseline. Europe continues to feel the effects of price pressures triggered by the war in Ukraine and weakened demand for manufactured goods. Conversely, a robust domestic economy has been the United States' secret weapon. High consumer confidence underpins this, though another four years of uncertainty now seems assured, whoever wins the presidential election, given the unpredictability of Trump's decision-making and Biden's health, could disrupt domestic and international stability.

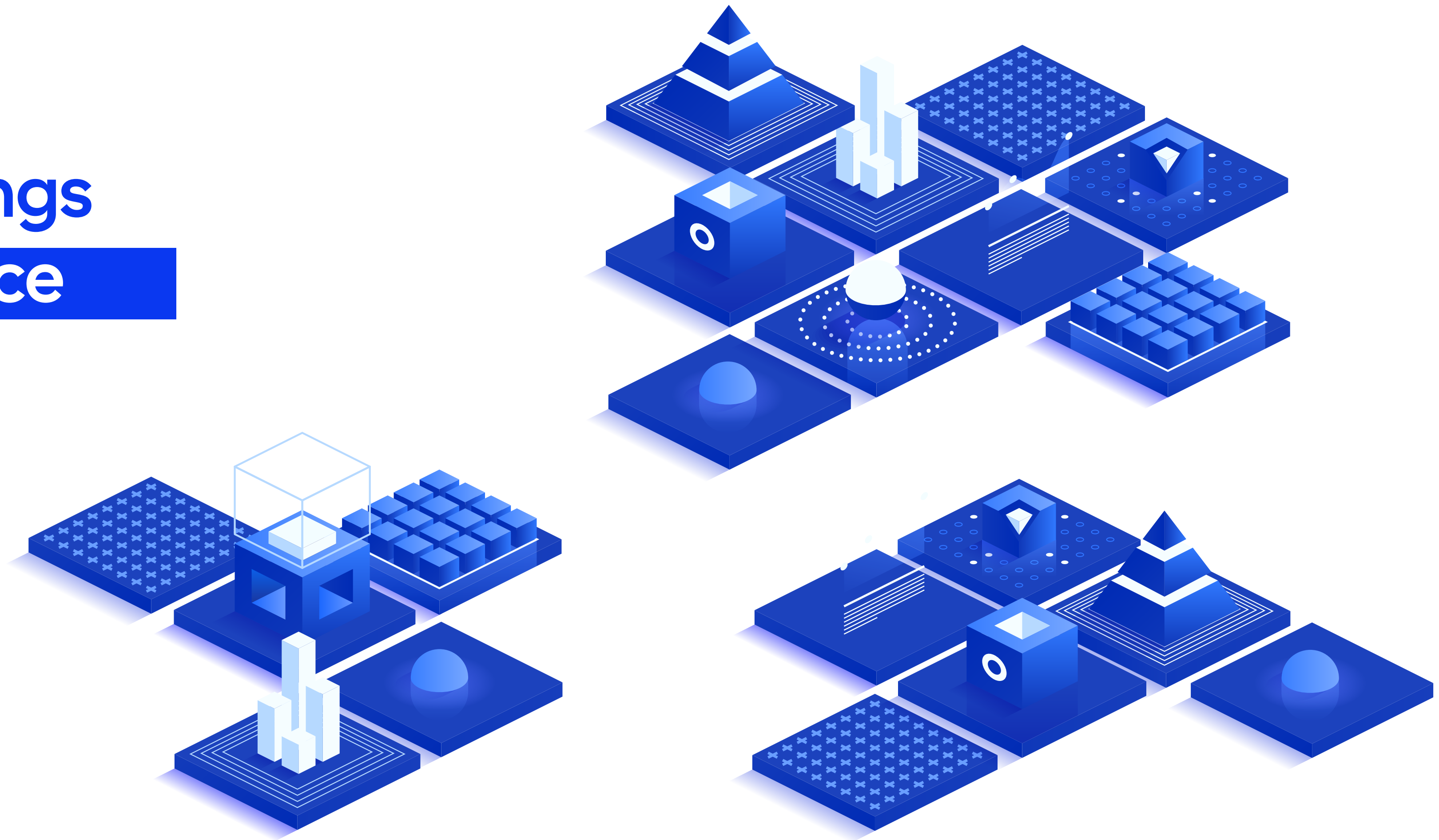
China is also at a critical juncture. Transaction volumes grew above expected levels for the second successive quarter. Unlike the US, where trade activity has been stable, China's recent growth follows a turbulent two years of sharp declines and false dawns. To maintain its position as the world's leading manufacturing hub, the country must accelerate its trade volumes amidst rising competition from new players.

The US-China trade war has highlighted the risks of over-reliance on China, prompting businesses to diversify their supply chains. Countries like Vietnam, Malaysia, and India are benefiting from this shift. Our data shows transaction volume growth in these countries is outpacing the global average.

The increasing competition among global powers is fragmenting the global economy, with clear winners and losers emerging. At the business level, success will depend on how quickly organizations can establish new trading relationships without getting entangled in a web of tariffs, taxes, and regulations. Despite formidable challenges, significant opportunities await those who navigate this transition successfully.

James Stirk
CEO
Tradeshift

Key findings at a glance



1. **Global Trade Activity:** Total transactions remained three points below anticipated levels in Q2, indicating that the recent recovery in global trade activity is leveling out.

2. **Order Volumes:** Order volume growth cooled significantly in Q2, dropping 6 points below the baseline after peaking at five points above expected levels at the end of 2023.

3. **Two-Speed Recovery:** Recovery is not being spread equally, with differences between regional winners and losers becoming more pronounced. Trade activity in the US exceeded expectations, while the Eurozone remained three points below the baseline.

4. **UK Trade Activity:** Trade activity in the UK reversed, with transaction volumes ending Q2 five points below anticipated levels.

5. **China's Recovery:** Transaction volumes in China grew slightly above expected levels, suggesting a recovery that may be steady rather than spectacular.

6. **Emerging Market Winners:** Vietnam, Malaysia, India, and Mexico are emerging as winners from Western companies' accelerated push to diversify supply chains and reduce reliance on China.

7. **Sector-level Performance:** Demand for freight capacity remains elevated despite a slight decline in manufacturing activity, while growth in the retail sector remains subdued.

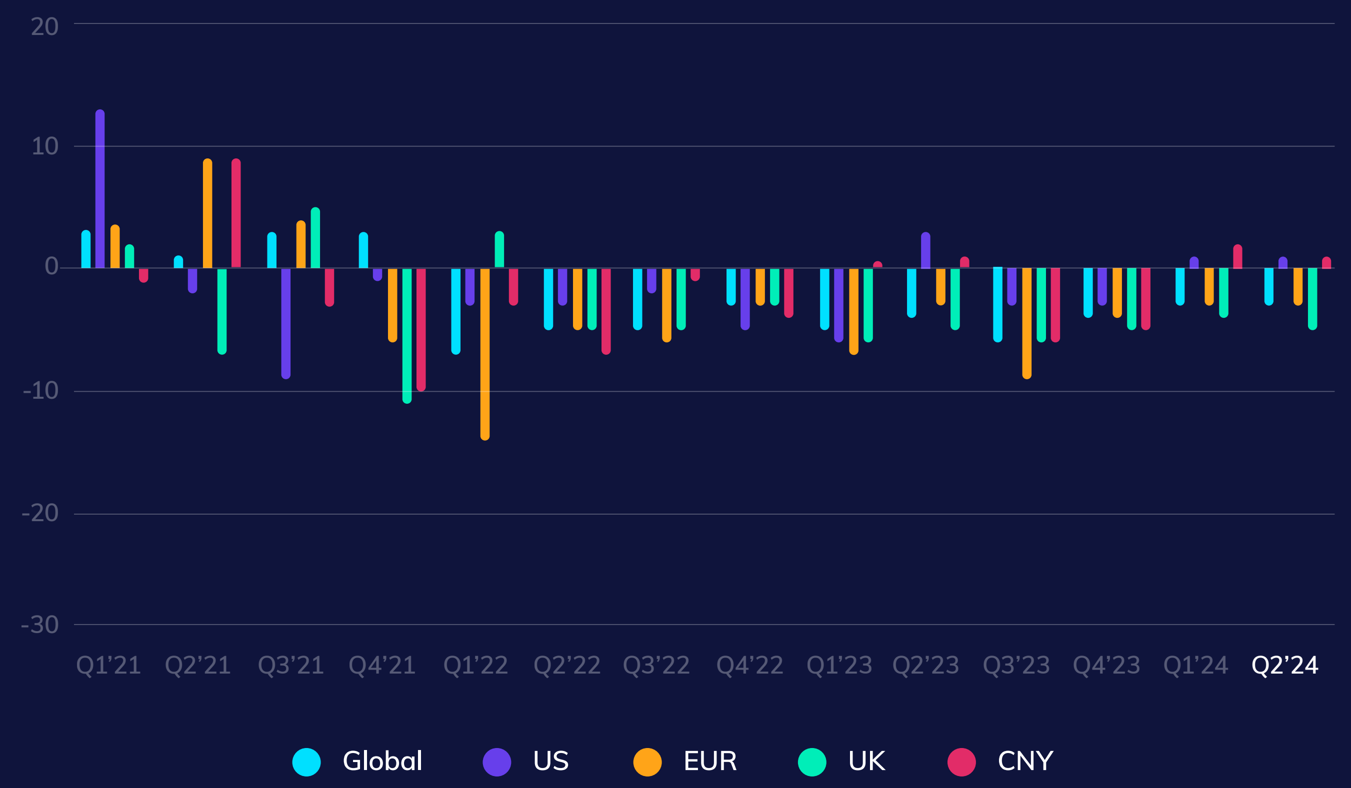
8. **Supplier Cashflow:** Cashflow pressure on suppliers has continued to ease, but buyers still take an average of 5% longer to pay invoices compared to pre-pandemic periods.

Volatility snapshot

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

Global trade activity shows signs of stabilizing amid mixed recovery

Transaction volumes - quarter on quarter growth indexed against historical trends



Despite strong beginnings, global trade activity failed to sustain its recent momentum, ending three points below the anticipated range in Q2. Activity levels started the quarter robustly but waned in June due to a sharp decline in order volumes. This latest data halts a six-month growth streak, suggesting that the recent acceleration in global trade activity may be leveling out.

Evidence of a two-speed recovery is becoming more pronounced. In the US, trade activity continued to exceed expectations, rising one point above the baseline for the second consecutive quarter. Conversely, Europe's recovery is struggling to gain further traction, with trade activity remaining three points below the expected range—a level it has not surpassed for over two years.

In China, transaction volume growth mirrored the pattern seen in the US this year. Trade activity exceeded anticipated levels by one point in Q2, following a two-point rise above expectations in the previous quarter. However, China needs to accelerate after its initial recovery attempt faltered in the second half of 2023. While the latest figures are encouraging, progress remains steady rather than spectacular.

Additionally, signs are emerging that China's factories are not yet operating at pre-pandemic levels. China's official purchasing managers' index[1] indicates that the manufacturing sector fell back into contraction in May.

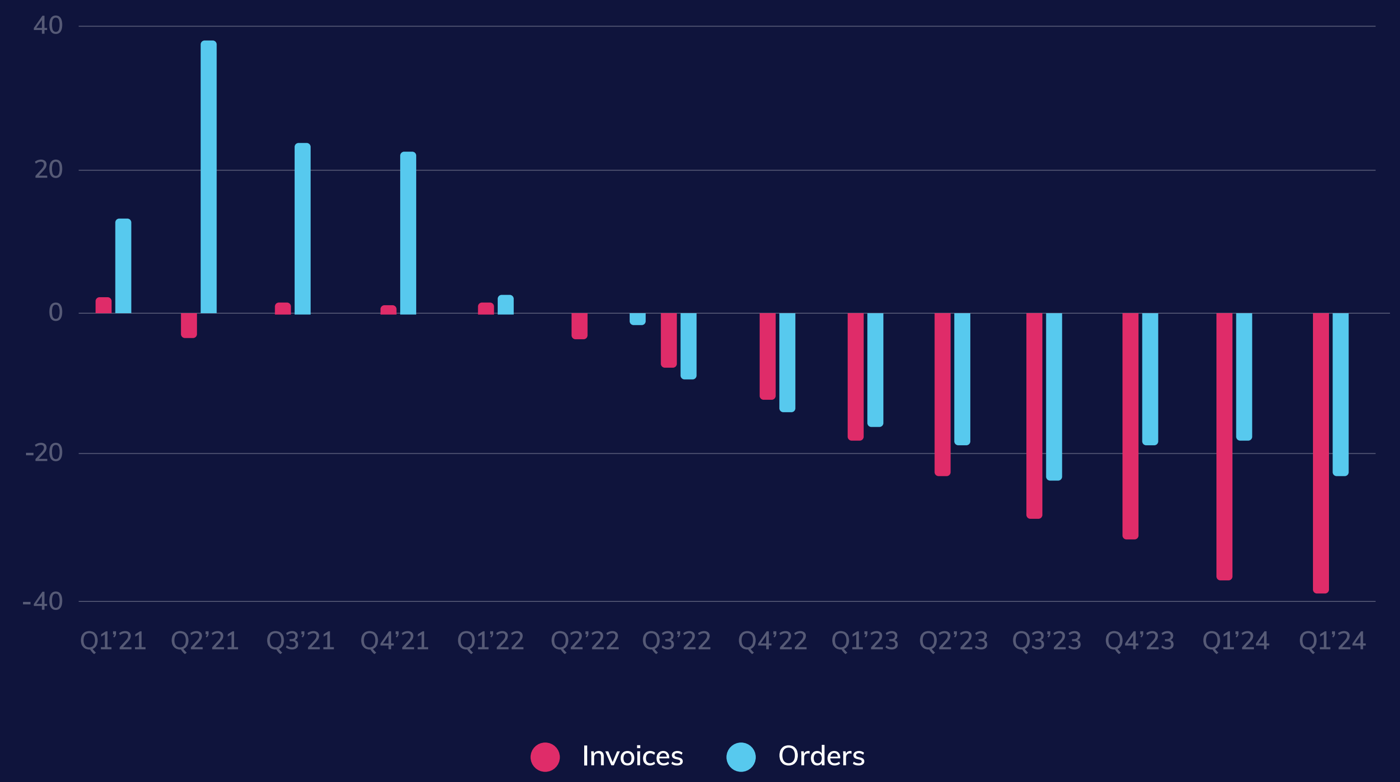
The World Bank anticipates[2] that the global economy will stabilize in 2024 for the first time in three years, albeit at a historically weak level. This quarter's data could be an early indication that global trade is finding its equilibrium.

[1] 06/01/2024: National Bureau of Statistics of China; Purchasing Managers' Index, May 2024

[2] 06/11/2024: World Bank Group; Global Growth Is Stabilizing for the First Time in Three Years

Order slowdown may be a blessing in disguise

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



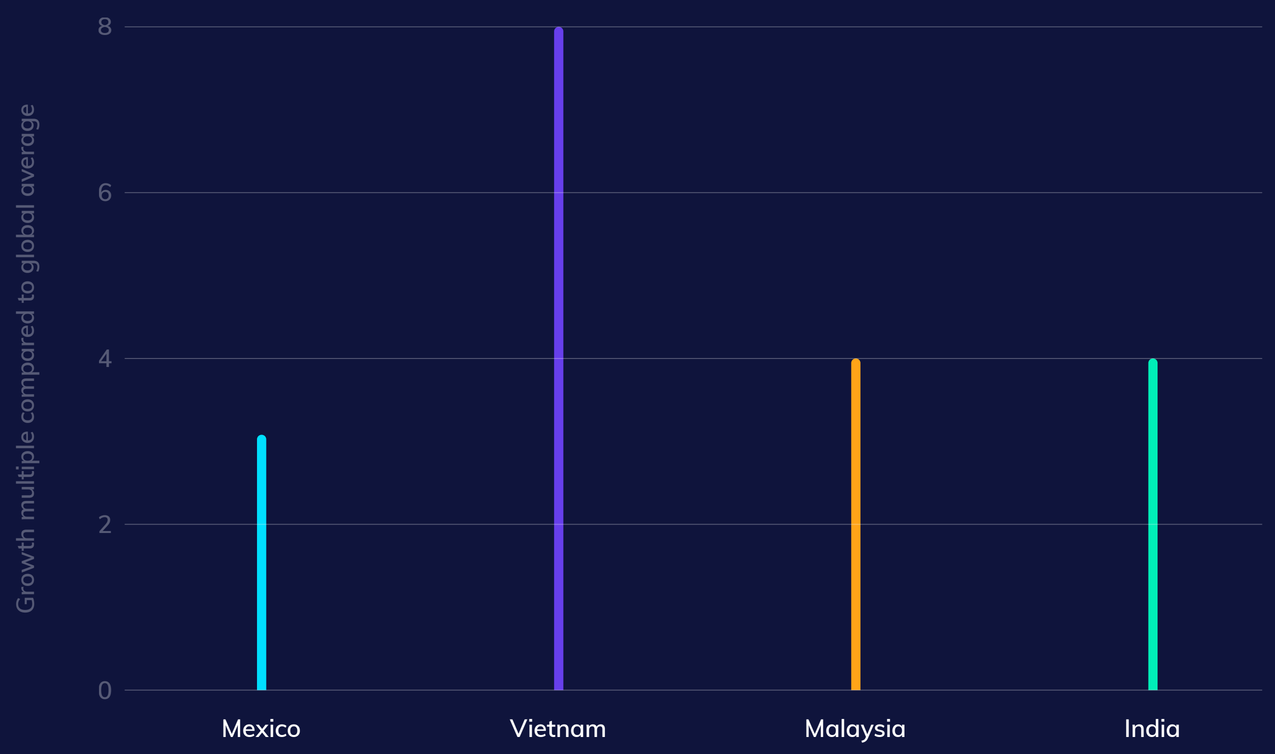
Order volumes dropped six points below the baseline in Q2, ending six months of frenetic growth that peaked at five points above anticipated levels in Q4 2023. Alarming though this may seem, it may not necessarily be such a bad thing over the longer term.

The recent surge in order volumes has left suppliers struggling to meet demand. Recent history reveals the consequences of an uncontrolled rise in orders. In 2021, the lifting of lockdown restrictions triggered a consumer spending spree. As companies rushed to replenish inventory, this placed immense pressure on suppliers who were already stretched thin. This phenomenon, known as the bullwhip effect, describes how small increases in demand can cause significant disruptions further down the supply chain.

Last quarter, a significant gap emerged between order volumes and invoices, indicating that suppliers were struggling to keep pace with demand. Attacks on shipping on the strategic Red Sea route have further complicated matters, leading to delays and rising freight costs. If left unchecked, these issues could recreate the bottlenecks that plagued supply chains throughout 2022. The current decrease in orders may reflect buyers' efforts to prevent a recurrence of such disruptions.

Geopolitical tension prompts shift to diversified supply chains

Transaction volume growth - year on year comparison across selected markets, benchmarked against the rate of growth globally



Increasing geopolitical tensions and economic considerations are accelerating the shift towards reshoring, nearshoring, and what some call 'friendshoring' of production.

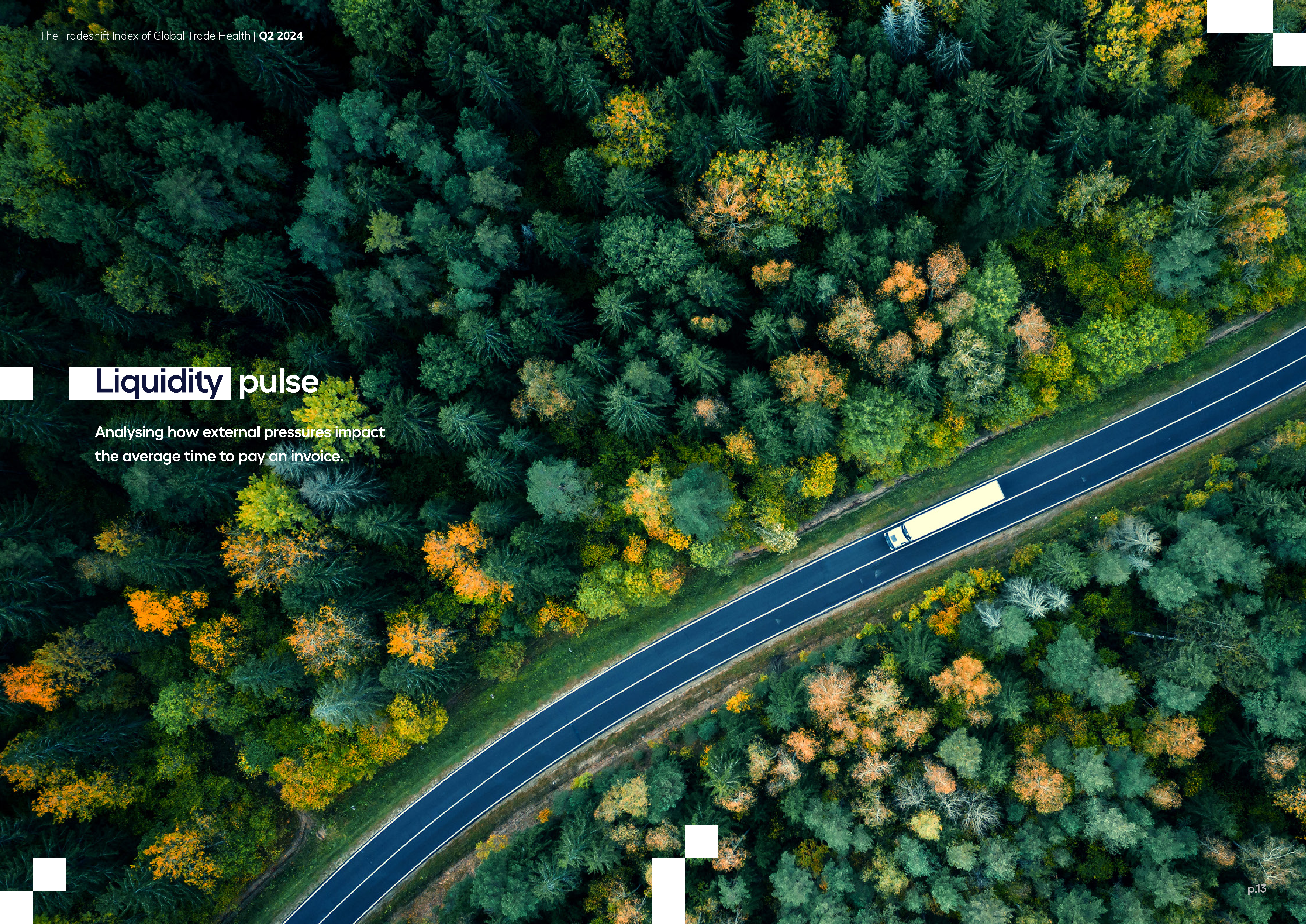
Nearshoring and reshoring present significant challenges for companies in Europe and the US due to cost issues and the availability and quality of local suppliers. Consequently, many companies are increasingly adopting a strategy known as 'China Plus One' to diversify their supply chains.

Vietnam has been a major beneficiary of multinational companies' efforts to diversify their manufacturing hubs. Our data shows that trade activity in Vietnam has been growing at a remarkable rate, eight times faster than the global average over the past year. Notably, Apple has invested more than $16 billion[3] in establishing manufacturing facilities in Vietnam.

Other Southeast Asian countries are also reaping the benefits. Our data indicates that trade activity in Malaysia is growing at four times the global rate over the past year. India, with the world's largest pool of English-speaking STEM graduates, is quickly establishing itself as a significant player in the global electronics market. U.S.-based semiconductor companies Micron, AMD, and Applied Materials have all announced substantial investments in India.

Mexico has also emerged as a key China Plus One market, offering competitive labor costs, low distribution expenses for North American brands, and streamlined logistics by avoiding Pacific Ocean routes.

[3] 04/18/2024: CNN Business; Apple plans to spend more in Vietnam as it looks beyond China



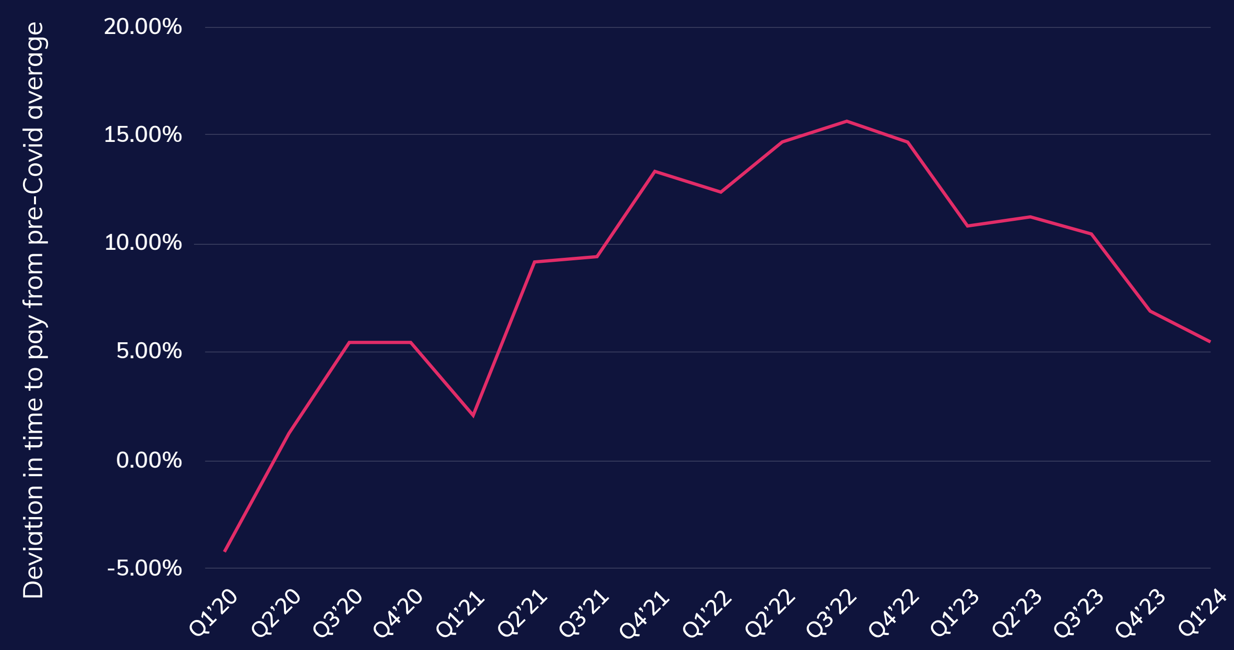
Liquidity pulse

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

Shortened payment times signal recovery, but challenges remain

The time suppliers wait to get paid has shortened over the past quarter, continuing a positive trend observed in recent periods. This improvement in payment times signals enhanced liquidity and financial stability across supply chains.

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



Faster payments enable suppliers to invest in production, hire more workers, and meet demand more effectively, especially as order volumes begin to stabilize. However, suppliers are still waiting an average of 5% longer to get paid compared to pre-pandemic times. This lingering delay reflects the financial strains and disruptions businesses endured during the pandemic. Many companies continue to manage cash flow cautiously, extending payment cycles as they navigate ongoing supply chain issues, geopolitical tensions, and demand fluctuations.

For small and mid-sized enterprises (SMEs), which often operate with tighter cash reserves, these extended payment periods can strain working capital, hinder investment, and increase vulnerability to financial instability.

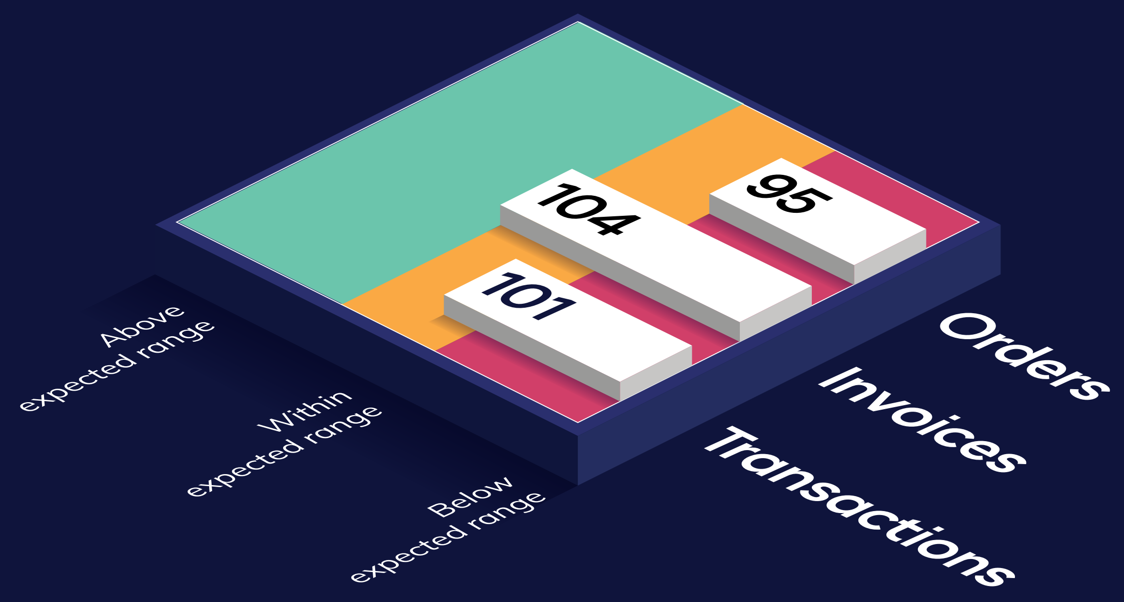
To sustain the momentum of economic recovery, it is crucial that payment cycles return to pre-pandemic norms, ensuring suppliers' financial stability. Buyers must prioritize faster payment processes, leveraging technology to streamline transactions, while financial institutions can provide crucial financing support with solutions like supply chain finance programs.

Q2 momentum deep-dive

Quarter-on-quarter world trade performance across key territories

US: In the driving seat

US trade activity - quarter-on-quarter index scores



Swing vs previous quarter:

US trade activity remained remarkably consistent in Q2, thanks in no small part to a steep rise in the volume of invoices from suppliers.

Suppliers are reaping the rewards of the relative stability in US ordering activity compared to most other nations. While our Q2 data shows a notable softening in order volume growth over the past quarter, it's important to recognize that this follows several quarters of rapid acceleration. Orders might be cooling, but overall volumes remain healthy and broadly sustainable.

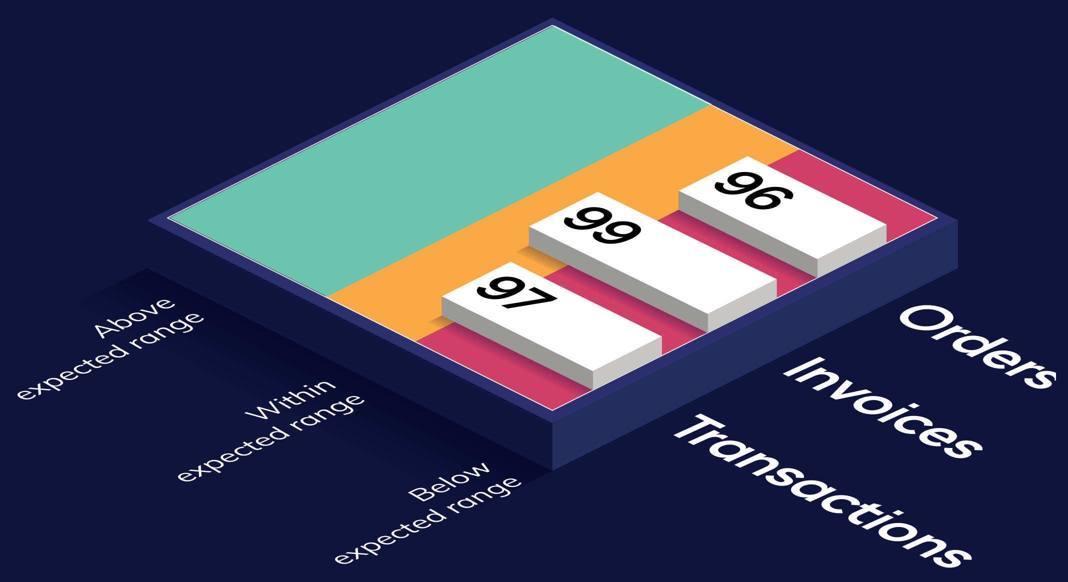
The American economy started the year relatively slowly but grew at a 1.4% annual pace from January through March. Most economists believe growth has accelerated in Q2, fueled in part by continued spending among American consumers.

With the US increasingly the key driver of global economic recovery, many will wonder how much gas is left in the tank. Although consumer confidence[4] saw a slight dip in June, it remains relatively strong. The big question is what will happen in November when America goes to the polls.

[4] 06/25/2024: The Conference Board; US Consumer Confidence Weakens Slightly in June

Eurozone: Trade activity hits a plateau

Eurozone trade activity - quarter-on-quarter index scores



Swing vs previous quarter:

Trade activity across the Eurozone started the year brightly but has now settled into a more pedestrian rhythm, ending the quarter three points short of the expected range.

However, it wasn't all bad news. Invoice volumes climbed to within anticipated levels for the first time in two years as the recent resurgence in orders worked its way through supply chains. Yet, this may be as good as it gets, as the volume of new orders dropped back into contraction territory in Q2.

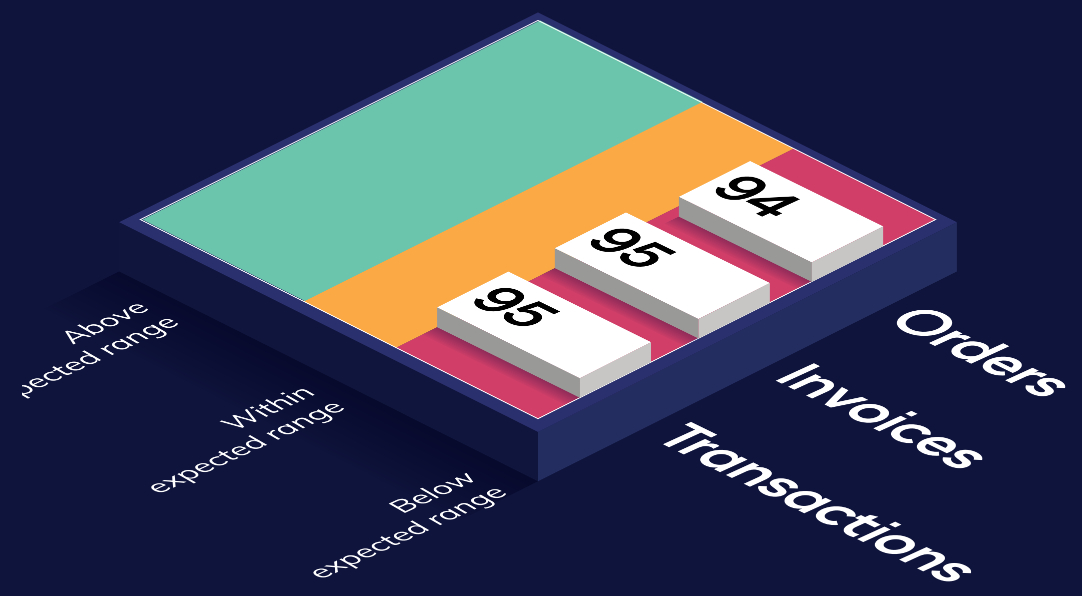
Factory output[5] across the region fell to its lowest level in six months in June, with new orders, purchasing activity, and employment all declining sharply. Political uncertainty in France has significantly impacted local businesses, leading many to delay placing new orders. Meanwhile, Germany is struggling to gain momentum as it faces stiff competition from China in the automotive sector.

Most forecasters still predict a recovery for the Eurozone in 2024, albeit at a level weak by historical standards. As the axis of global trade increasingly pivots to the global South, the Eurozone must find its place in this evolving landscape.

[5] 07/01/2024: HCOB Eurozone Manufacturing PMI June 2024

UK: In need of a new plan

UK trade activity - quarter-on-quarter index scores



Swing vs previous quarter:

When it comes to assessing the UK, we risk sounding like a stuck record. Much like the Eurozone, trade activity has failed to establish anything close to the momentum we're seeing in other markets, such as the US or new players in Vietnam, India, or Malaysia.

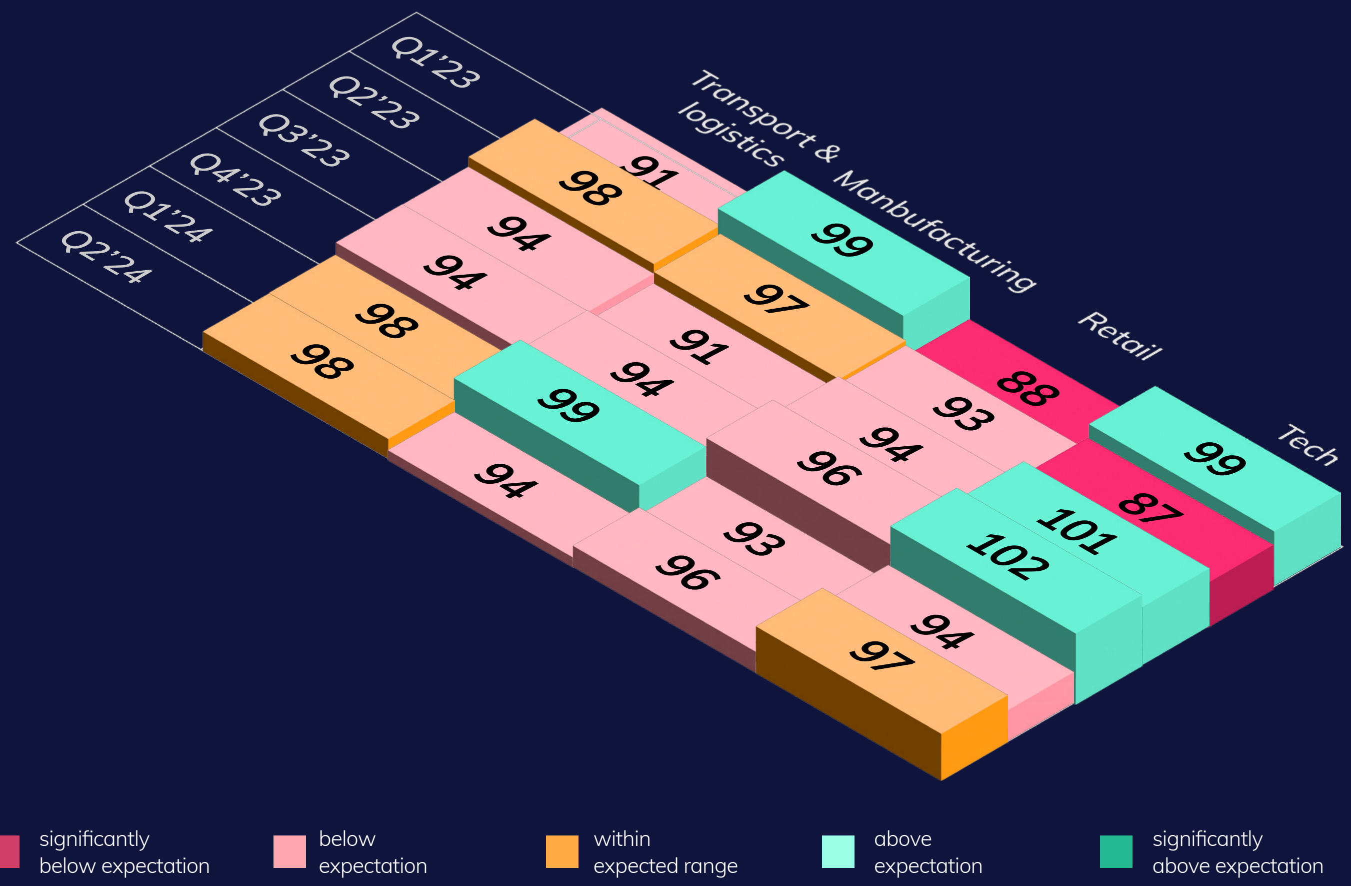
Q2 gave us more of the same—not quite terrible, but not very good either. Order volumes had already started to weaken in Q1, contributing to a slight fall in invoice traffic over the quarter.

If there are positives to take away, then the UK certainly gets the award for the most consistency shown over the past two years. Total trade activity finished the quarter slightly below the level it had reached the previous quarter, a level from which it has scarcely budged for two years.

The precipitous decline in Britain's post-Brexit trade is one of the biggest challenges in the new Labour government's agenda. Fresh economic approaches are clearly needed to break the UK's current cycle of mediocrity, but something more drastic may still be needed. Please send answers on a postcard.

Manufacturing declines amid consistent transport demand

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



Manufacturing activity decreased in the second quarter due to a general reduction in order volumes across most major markets. The most notable decline occurred in the Eurozone, where forecasts indicate a relatively muted recovery in the second half of the year.

Despite the decrease in orders, demand in the transport and logistics sector remained consistent with the previous quarter. High demand for freight capacity and disruptions in the Red Sea have caused a sharp increase in container prices[6]. Some analysts suggest that the crunch on shipping capacity is approaching levels last seen during the pandemic.

The upcoming holiday rush is expected to add more pressure to already stretched supply chains. That said, demand in the retail sector continues to lag behind expected levels, showing little indication of breaking the slow growth pattern that has persisted for over eighteen months.

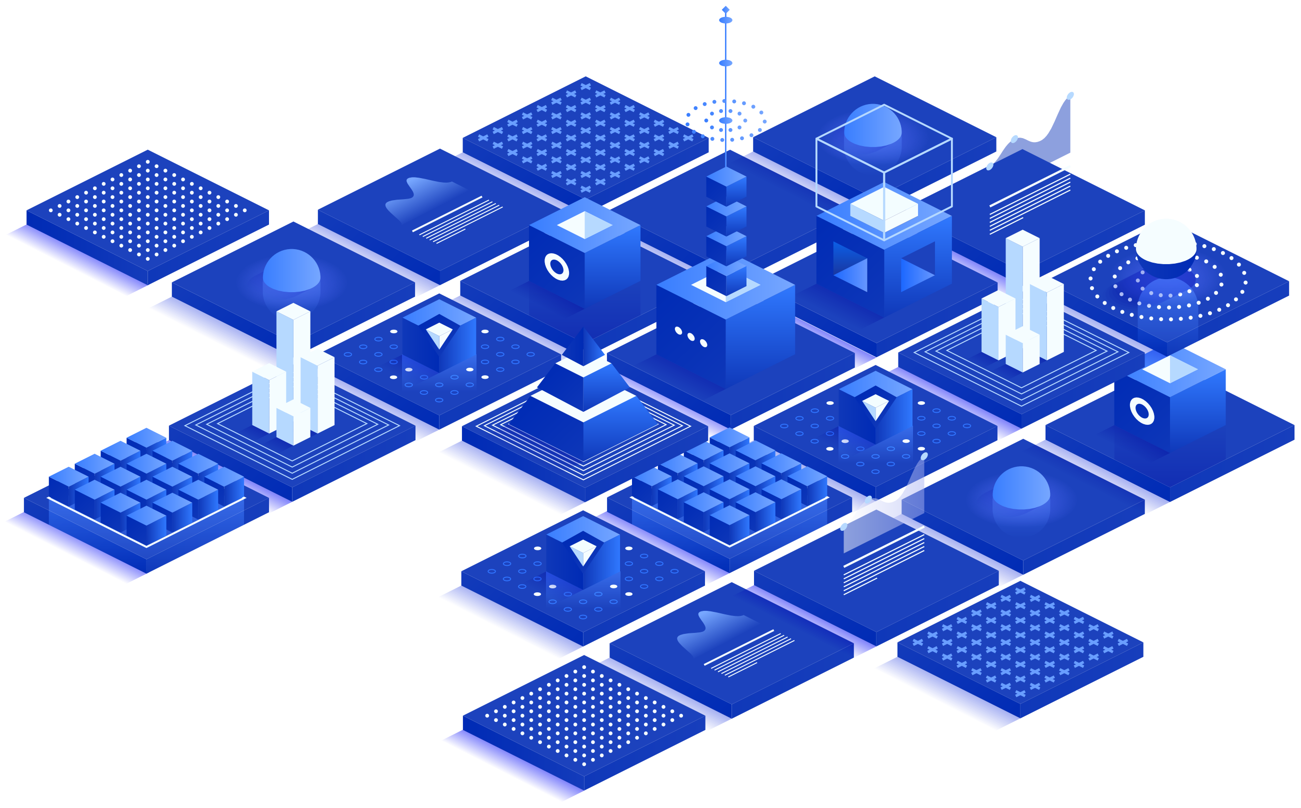
On a positive note, spending on technology increased back to the anticipated range in Q2 after declining in the previous quarter. According to Gartner[7], global IT spending is projected to reach $5.06 trillion in 2024, marking an 8% increase from 2023. This growth is largely driven by companies preparing to implement AI-supported systems, an area in which Tradeshift has a particularly strong track record.

[6] 06/27/2024: The Economist; Boom times are back for container shipping

[7] 04/17/2024: Gartner; Planning for GenAI Initiatives is Helping to Drive IT Spending in 2024 and Beyond

FINAL THOUGHTS

Bridging the P2P Tech Gap in B2B Trade



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Free trade has largely defined the global economy in recent decades. Today, however, geopolitical tensions and economic fragmentation have placed new demands on the finance, procurement, and supply chain management functions of large, global businesses.

The ability to react quickly to changing circumstances is often the difference between success and failure. Pivoting, making informed decisions, finding alternative suppliers, or adjusting production based on real-time, predictive data can—and does—significantly impact bottom-line performance.

Executives are increasingly focused on removing latency and friction from the procurement process to speed up decision-making and improve response times in the face of the myriad forces shaping global business today.

Procurement teams recognize the need to rethink their sourcing approach, aiming to build supply chains that are more resilient to geopolitical tensions and potential disruptions. This shift requires buyers to develop and manage a significant expansion in their trading relationships. However, this transition is fraught with challenges. Many organizations are experiencing firsthand the difficulties of scaling existing processes to accommodate an increasingly diverse range of suppliers.

One critical hurdle lies in technology, particularly integrating procurement and finance systems that underpin key aspects of relationships between large organizations and their extended supplier bases.

These systems and processes, long overlooked during periods of growth and stability, have become outdated and inadequate. The resulting disconnect between procurement and finance functions creates inefficiencies, increases the risk of errors, and hampers swift responses to supply chain changes.

Such challenges are particularly acute among mid-market and upper-mid-market organizations. Rapid growth often results in a patchwork of disparate software and processes struggling to keep pace with expanding needs. According to a recent study, 84% of mid-market organizations report outgrowing their existing processes, while 75% claim their technology is not adequately enabled for their business size.

The technological gap in Purchase to Pay (P2P) systems is a significant issue in an environment where agility and precision are crucial. The benefits of getting this right are clear, however. Integrating procurement and finance effectively can automate routine tasks and speed up transaction cycles. Real-time data and analytics provide comprehensive insights into procurement activities, spending patterns, and supplier performance, allowing businesses to make informed decisions and anticipate disruptions. Timely and reliable payments facilitated by an integrated P2P system help maintain strong supplier relationships. Advanced P2P solutions are scalable and adaptable, essential in a dynamic global market. Additionally, P2P systems streamline compliance with procurement policies and regulatory requirements, reducing the risk of fraud and legal issues.

Transitioning to new systems is often seen as a big investment, requiring lengthy integrations and a complex change management process. This can be daunting for many organizations, especially those in the mid-market, where resources are limited. At Tradeshift, we are committed to ensuring that every business can access technology and tools to handle change. With this goal in mind, we have developed a dedicated purchase-to-pay offering for mid-market organizations, delivering all the benefits of a fully digitized P2P environment within 90 days.

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 anonymised 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 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 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 analysing medium-term seasonal trends in the transaction data that flows across our platform. This methodology enables us to evaluate quarterly trends against the expected range

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 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

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