



The Tradeshift Index of Global Trade Health

Q1
2022

A new chapter in the age of uncertainty

Tradeshift's Q4 Index offered some hope for a gradual easing of the bottlenecks which had hampered global trade throughout 2021.

But the world had other plans. Global supply chain activity dropped by 7 points compared to our forecast range in Q1 as Russia's aggression in Ukraine brought a fresh dimension to an already challenging global trading environment. China's zero-Covid policy, which has led to yet another round of lockdowns in major cities across the country, is also creating problems with port congestion once again reaching record levels. Our data shows supply chain activity in China fell by a further 3 points in Q1, the third successive quarter of lost trade momentum.

Manufacturers, particularly those in the industrial heartlands of Western Europe, have been hardest hit by the combination of sky-rocketing commodity prices, lengthening lead times, and a cost-of-living crisis that is harming consumer confidence and threatening to squeeze spending. Transaction volume growth across the Eurozone fell by an alarming 14 points with economists warning that heavily industrialized countries including Germany could be heading into a recession.

Our data suggests that demand has been softening for the past six months, but logistical snags are keeping output costs high. In such a challenging environment, it's no surprise buyers are reining back on new orders. Global order volume growth fell 16 points against our forecast range in Q1, not quite the 21 point fall we saw at the beginning of the pandemic, but not far off.

Order volumes may be falling, but invoice volumes on our platform remained relatively stable in Q1, suggesting there is still a backlog of orders for suppliers to work through. The real test for supply chains will likely come in Q2 and Q3. If orders continue to fall, then suppliers may have to dig into cash reserves in order to stay afloat.

In a perfect world buyers and suppliers would be working together to plan for and address such challenges as they arise. Unfortunately, our data suggests the opposite, with late payments to suppliers trending at almost double the rate we saw in the six months prior to the pandemic. Buyers seem to be focusing on building up cash reserves to offset challenging market conditions. As we learned early on in the pandemic, such acts of self-preservation on the part of buyers can quickly turn into acts of self-harm as cash flow pressures begin to take their toll on vital supply lines.

Commentators, including Blackrock CEO Larry Fink, believe that the war in Ukraine will prompt companies to pull back from their global supply chains. Interestingly, our own data suggests countries bordering the US, including Mexico and Canada are already benefiting from a push towards nearshoring. Reconfiguration on this scale will require buyers to identify, vet and onboard an entire ecosystem of new suppliers. Globalization may well be on the wane, but resilience will depend on supply chains becoming more connected, more diverse, and more collaborative than ever.



At a glance findings

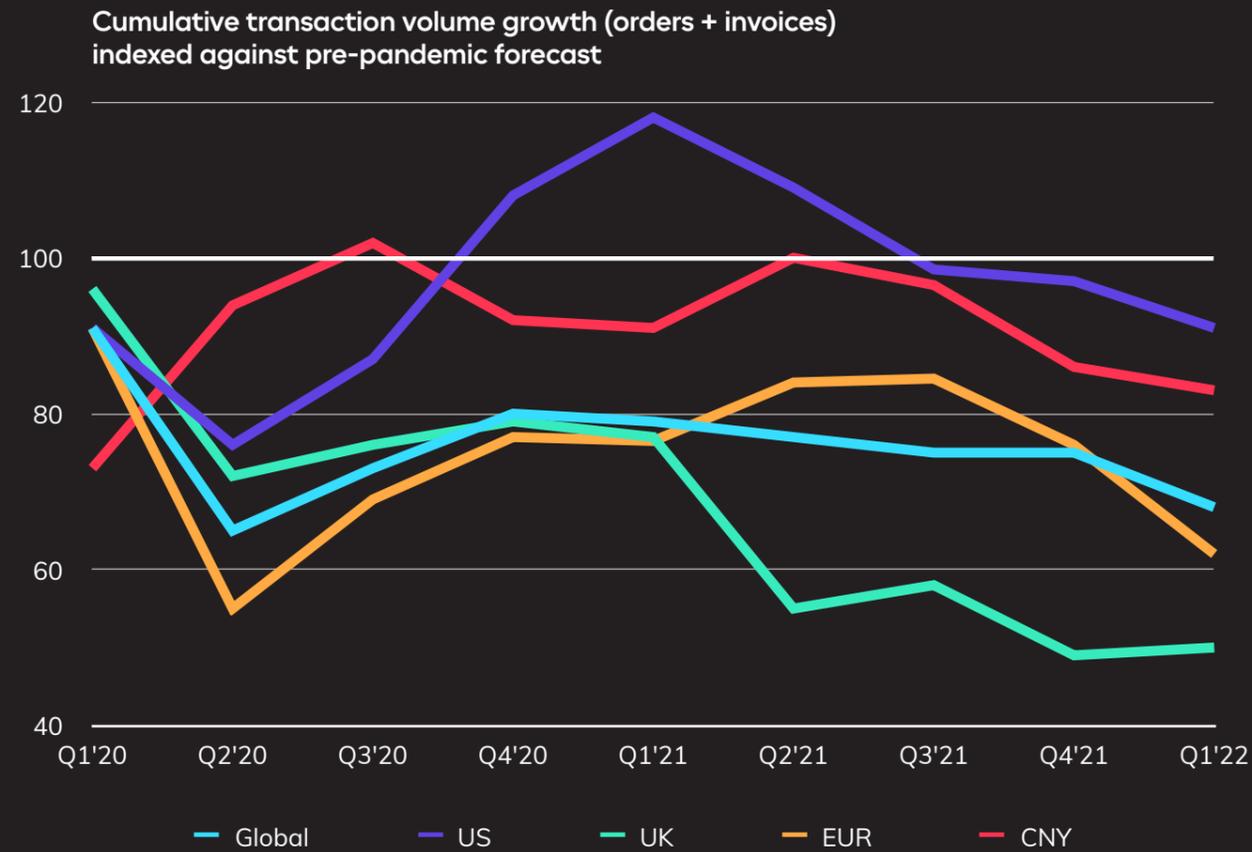
1. Global transaction volume growth dropped a further 7 points against the forecast range as the Ukraine crisis and lockdowns in China brought renewed pressure to bear on snarled supply chains. Order volumes fell by an alarming 16 points.
2. Buyers appear to be building up cash reserves by deferring payments to suppliers. Late supplier payments averaged 15.9% of the total volume over the past six months, nearly double the number in the six months prior to the pandemic.
3. US supply chain activity slipped into the red zone in Q1. Cumulative transaction volumes fell 6 points against the pre-pandemic forecast range. Falling invoice numbers suggest component shortages and long lead times are hitting fulfilment.
4. Countries bordering the US are benefiting from a 'nearshoring boom.' Invoice traffic from Mexican suppliers has risen at 4.1 times the global average over the past year. Canadian supplier invoices were 3.1 times higher than the average.
5. Supply chains across the Eurozone had the most challenging quarter. Order volumes fell by 28 points compared to the previous quarter as supply chain shortages and high inflation hit the region's manufacturers.
6. Global manufacturing supply chains have faced a challenging combination of supply chain shortages and rising commodities prices. Our data shows that transaction volumes in Q1 were 25% below the levels we would expect to see for the period.
7. In China, total transaction volume growth dropped by a further 3 points, the third successive quarter that we have seen momentum slip against our forecast range.
8. The UK was the only region where supply chain activity grew at a faster rate than expected. Total transaction growth was a point higher than the forecast range in Q1, but overall growth since the pandemic is still barely half the level it should be.



Volatility snapshot

Cumulative activity growth between
buyers and suppliers on the Tradeshift
platform since Q1 2020

A cocktail of fresh challenges and familiar problems hit global trade



Global transactions dropped a further 7 points against the forecast range, wiping out much of the recovery from the previous 18 months.

Across the Eurozone, supply chains already snarled by the pandemic were hit hard by the war in Ukraine, which has led to a growing shortage of key components. Tradeshift's data shows transaction volumes dropping a further 14 points in Q1, the steepest loss of momentum since the beginning of the pandemic.

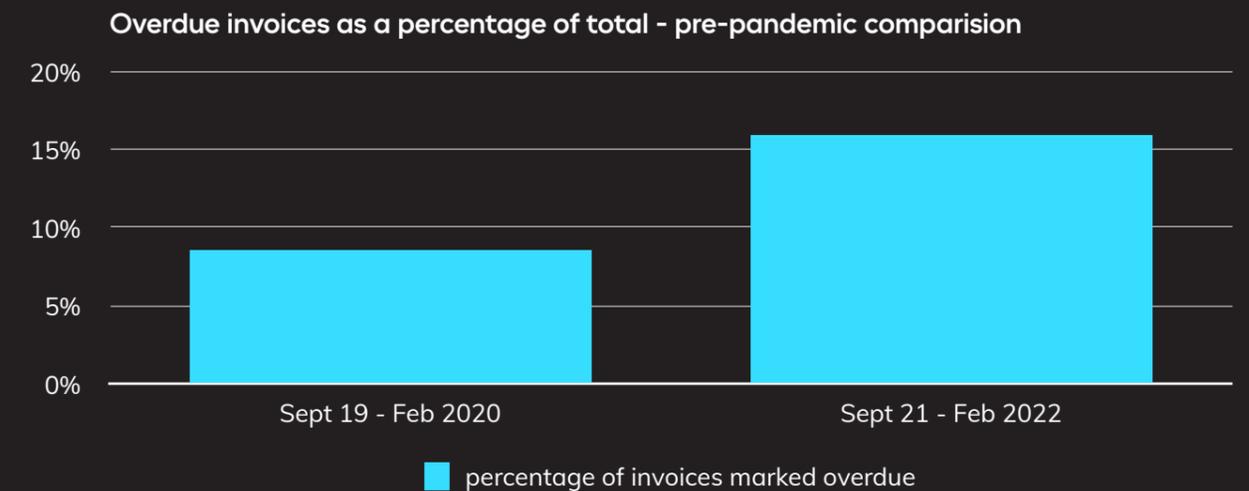
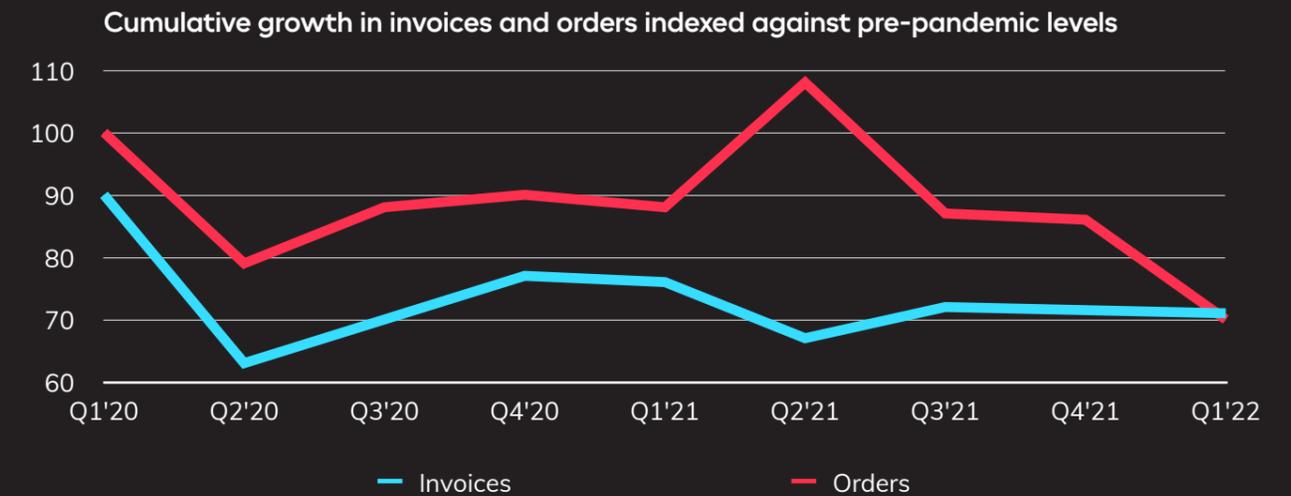
Our Q4 Index suggested trade activity in the US was starting to settle into a normal rhythm, with transaction volumes coming to within a whisker of pre-pandemic forecasts for cumulative growth. A 6 point loss of momentum in Q1 suggests the combination of rising inflation, cooling demand

and resurgent bottlenecks represent a sizeable "sneeze" from the world's largest economy.

Chinese port congestion hit a five month peak in March according to [Lloyds List](#). Our data shows trade activity in China slowed by a further 3 points after a 10 point fall in Q4. Q1 is typically a slow period in China because of the Lunar New Year holiday and our Index accounts for such seasonal variations. Nevertheless the continued loss of momentum raises difficult questions about China's zero-Covid approach.

The UK was the only country where trade activity rose against expected levels, albeit from a low base. Transaction volume growth inched up by a single point in Q1, but overall growth in activity since the pandemic is still only half the forecast range.

Orders drop like a stone while late payments continue to hurt suppliers



Order volume patterns act as a kind of early warning system for changes in the economic landscape. We saw a steep fall in orders at the beginning of 2020 when many businesses were predicting a long and painful recession. When consumer purchasing bounced back unexpectedly we saw a big spikes in order volumes as buyers rushed to fulfil demand.

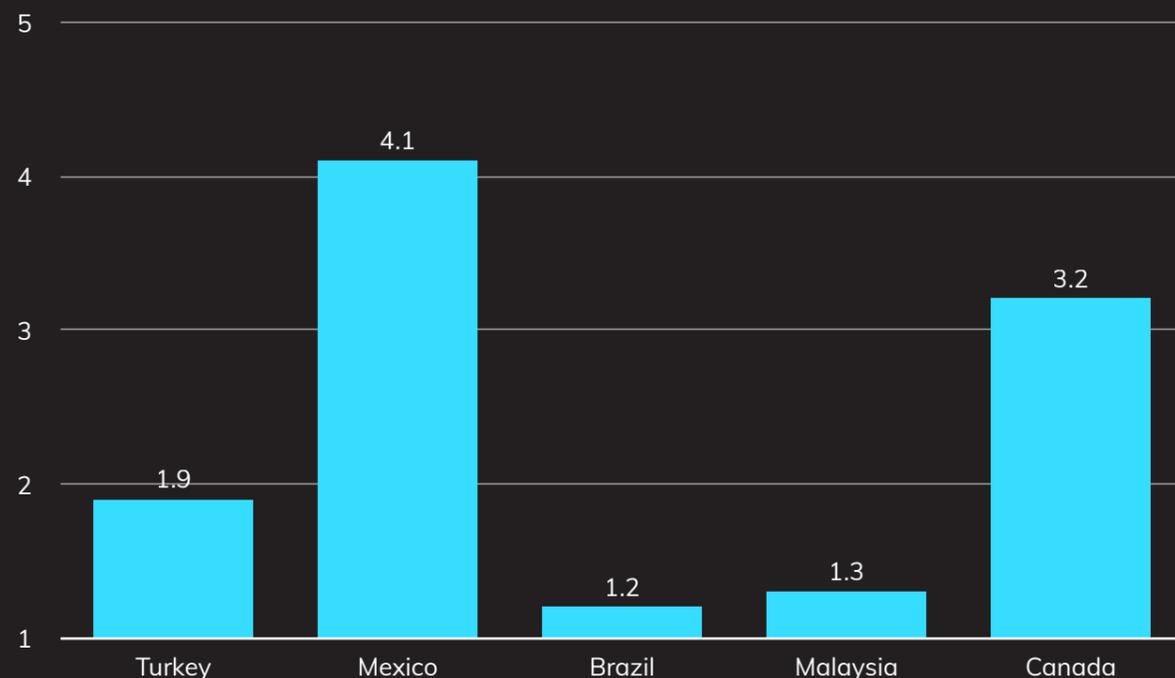
A 16 point fall in orders in Q1 is alarming and suggests buyers are once again bedding in for a challenging economic period. It also suggests an end to the 'demand-crunch' cycle of the past year,

and the return to a 'supply-crunch' triggered by geopolitical tension and lingering COVID restrictions

The fact that invoice traffic remains steady suggests suppliers are still working through an existing backlog. A drop off in orders could see suppliers having to dig into working capital reserves to make ends meet in coming quarters. That challenge will be far harder if buyers continue to squeeze supplier payments. Tradeshift's data suggests 15.9% were paid late in the six months leading up to February 2022, nearly double the level we saw in the six months leading up to the pandemic.

Activity across nearshoring hotspots is rising sharply

Transaction volumes - Year on year growth comparison against global growth average (Q1 '21 vs. Q1 '22)



In the next five years, reshoring and nearshoring will relocate up to 26% of world production according to [McKinsey Global Institute](#).

Tradeshift's data indicates that activity across a number of 'nearshoring hotspots' has risen at a far faster pace than the global average. For example, activity in countries bordering the US appear to have risen at the fastest pace. Invoice traffic from Canadian suppliers was 3.2 times higher in Q1 than during the same period a year ago. Mexican supplier invoices were 4.1 times higher.

It's not just suppliers close to the US that appear to be benefiting. European textile manufacturers are increasingly looking to [move operations to Turkey](#).

And in South-East Asia, politically unaligned countries such as Malaysia are benefiting from a growing '[friend-shoring](#)' trend, where businesses look to shift local supply away from areas of geopolitical tension and into more neutral and stable territories.

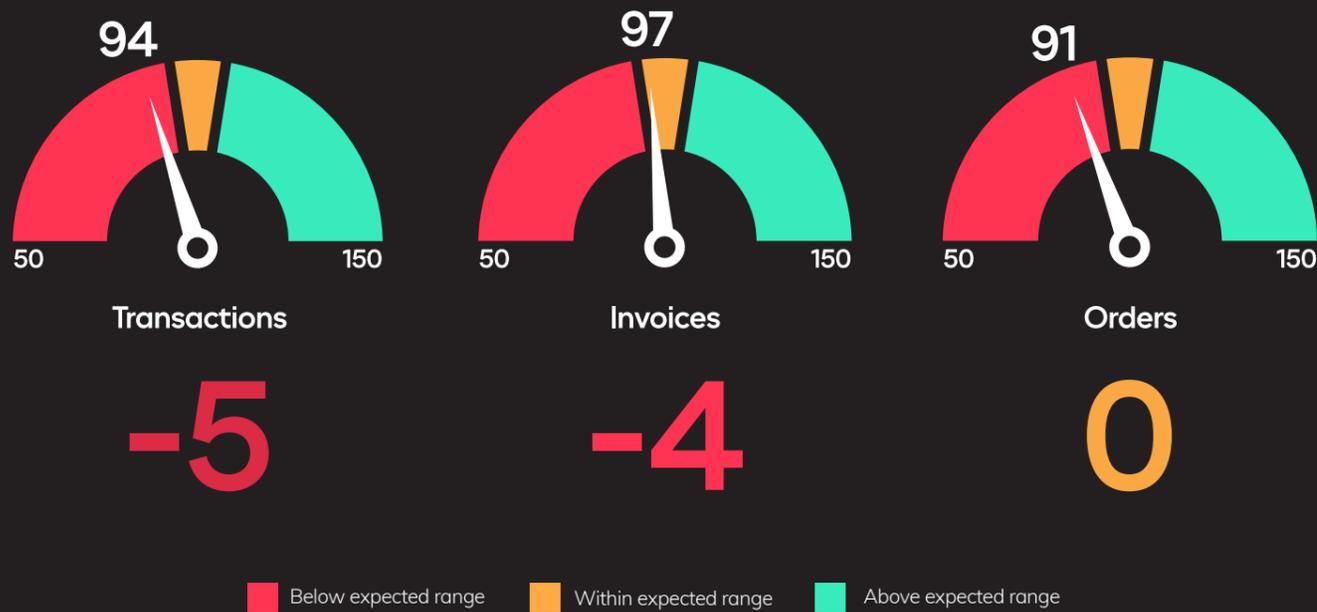
While we must caveat that the growth we're seeing is coming from a relatively low base, the trend appears consistent with the growing appetite for more localized supply lines. It will be interesting to see how factors such as the Ukraine conflict and growing focus on ESG among large corporates accelerate this trend in the months to come.

Q1 momentum deep-dive

Quarter on quarter performance across key territories

US: Still top of the class, but fading

US trade activity - quarter on quarter index scores



US transaction volumes tipped into the red zone in Q1, as rising inflation, cooling demand and fresh congestion at US ports hit supply chain activity across the region.

Some of the slowdown is seasonal. Businesses restocked inventories heavily in an effort to get ahead of supply chain issues for the winter holidays. US order volumes on our platform shot up by 21 points in Q4, but then flattened in Q1 at just below the normal range for the period.

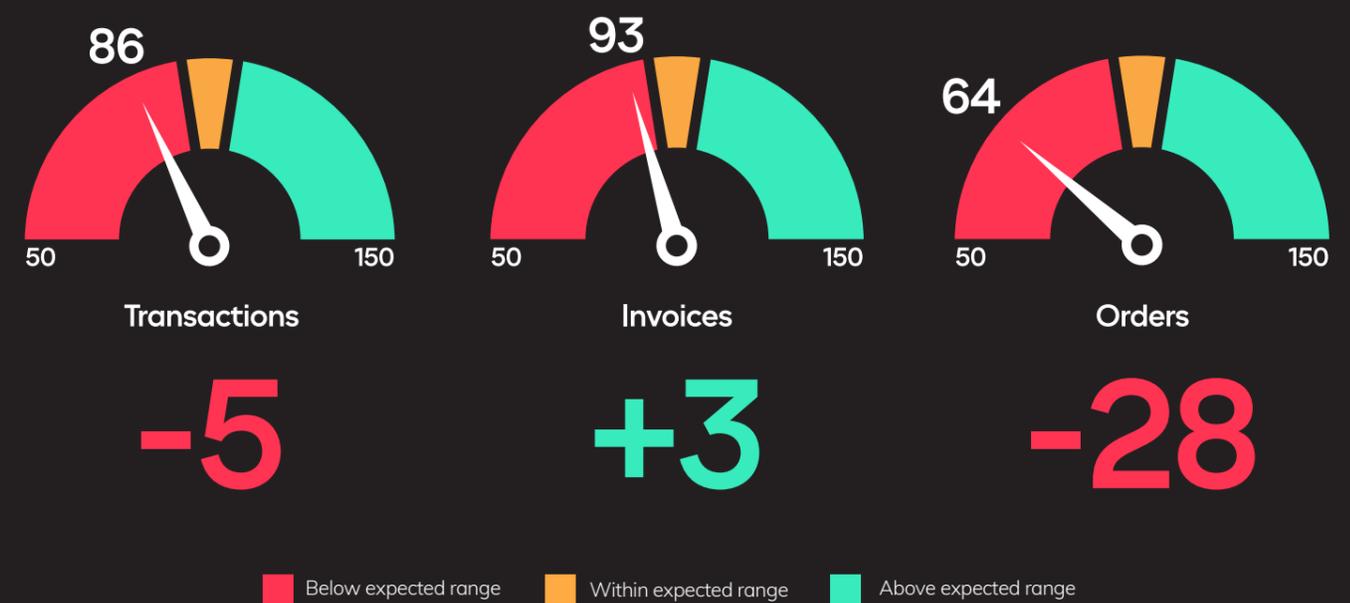
[Data from ISM](#) suggests COVID containment measures in Asia combined with rising energy costs are contributing to a softening in order volumes.

Invoice volumes remained in the normal range in Q1, but a 4-point drop compared to the previous quarter could be the first sign of a return to the capacity issues and supply chain bottlenecks that left suppliers struggling through much of 2020-21.

Economists [have warned](#) that GDP growth could slip into negative territory for the first three months of the year. But the consensus appears to suggest this will prove to be a short term hiccup. And while the picture may not be quite as rosy as it appeared at the end of 2021, US trade activity remain in relatively rude health compared to other territories.

Eurozone: Caught in the middle of converging crises

Eurozone trade activity - quarter on quarter index scores



Supply chains across the Eurozone had another tough quarter as overall transaction activity across the region fell a further 5 points below the expected range.

Order volumes across the region dropped by an alarming 28 points in Q1 as the Ukraine crisis turbocharged commodities prices and caused further disruption across key supply chains.

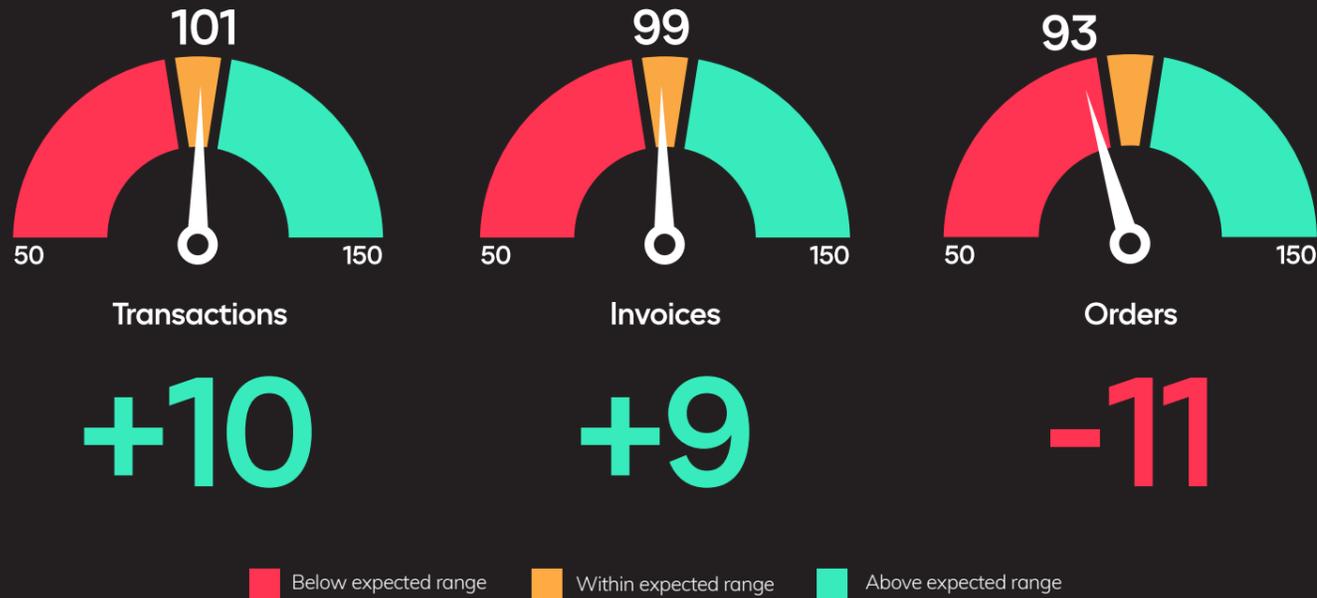
In Germany, 40% of industrial companies said they foresaw problems with a lack of supplies according to [think tank IWW](#). Automotive manufacturers have been closing assembly lines due to the [shortage of wiring harnesses](#) manufactured in Ukraine by the German company Leoni.

Invoice volumes remained relatively robust in Q1, suggesting suppliers are still working their way through a backlog of existing orders. Some bottlenecks may be easing, but the outlook suggests a tough few months ahead as fresh disruptions emerge.

According to [JP Morgan](#) Asia-Europe routes have been worst hit by issues including acute port congestion and cargo disruption due to the closure of Russian airspace. Given the rigidity / inflexible nature of most supply chains, it is likely to prove very difficult to find fast and workable solutions to these issues.

UK: Modest progress, but a long road ahead

UK trade activity - quarter on quarter index scores



UK supply chains activity had a relatively promising quarter with overall transaction activity rising ten points compared to the previous quarter.

Invoice volumes climbed back into the normal range having dropped sharply in Q4. Growth in real-terms remains unspectacular however, and an 11 point fall in order volumes suggests high inflation and the well-publicized cost-of-living crisis are hitting demand. Manufacturing sentiment scores compiled by [S&P Global](#) hit a 13-month low in March, citing escalating inflationary pressures as one of the driving factors.

Analysis from the [Economist Intelligence Unit](#) concludes that the conflict in Ukraine will hit UK supply

chains less severely than its European peers who are more dependent on Russia for energy and goods. While supply chain pressures appear to be less severe than in the Eurozone at present, our data shows UK supply chains continuing to trail other Western economies in terms of recovery since the pandemic.

According to [one report](#), UK exports fell 14 per cent in the three months to January compared with same period in 2020, prior to the pandemic. On current evidence, it may be a long road back.

Uncertain outlook hits manufacturing and tech

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



Geopolitical tension and renewed lockdowns in China are creating logistical challenges for supply chain operators. Our data shows transaction volumes across the transport and logistics industry continue to run at a higher than expected rate, suggesting fierce competition for limited capacity.

Manufacturing supply chains have faced a challenging combination of supply chain shortages and rising commodities prices. Our data shows that transaction volumes in Q1 were 25% below the levels we would expect to see for the period. Much of this slowdown is coming from a steep drop in fresh orders, which ended Q1 at their lowest level since the first COVID lockdown.

Software and technology purchasing was also lower than the expected range in Q1. Survey data

from [Enterprise Technology Research](#) shows some buyers have adopted a wait-and-see approach in Q1 given macroeconomic conditions.

This caution must be weighed against the pressure on businesses to digitize key operations as part of overall resilience measures. A separate study by [Bain & Company](#) found that 77% of large organizations plan to increase their IT spending in 2022 compared to the previous year.

Transactions across retail supply chains appear to have stabilized after a period of extreme volatility over the past two years. Activity remains slightly below the expected range however, with a combination of rising costs and waning consumer confidence likely factors.

A troubled world demands a new set of operating principles

Final thoughts from Christian Lanng, CEO and co-founder, Tradeshift

The time has long since passed when supply chain disruptions could be treated as one-off. Businesses used to extended periods of relative stability are now seeing crises begin to merge into one another.

Over the last five years the cumulative impact from ever-increasing costs in Asia, geopolitical tensions and trade tariffs, the pandemic's turbulence in global shipping and now the military conflict in Europe have exposed the profound interdependencies and inherent vulnerabilities in lean, globalized supply chains.

Business leaders are increasingly taking the long-term view, recognizing that the latest crisis is most likely to elevate still further the importance of the structural changes to global supply chains that were already accelerating as we emerge from the COVID-19 pandemic. We've come to recognize the reality that backlogs and breakdowns are the new normal. Connectivity, transparency and agility have become basic operating principles rather than vague ambitions.

Research by [Goldman Sachs](#) suggests US companies are ploughing ahead with efforts to diversify supply chains with a particular focus on moving manufacturing imports away

from China. Earnings call transcripts show a jump in the number of companies that plan to permanently increase inventories to protect against production disruptions. Such a shift will require a far deeper and more collaborative relationship between buyers and suppliers.

Resilient organizations will proactively drive down their costs while paying close attention to any impact their actions may have on the overall health of their supply chain. As buyers look to move away from single-sourcing models, the case for a dynamically connected ecosystem of buyers and suppliers is also becoming increasingly undeniable.

Cloud-based B2B marketplaces were already gaining momentum prior to the pandemic. Analyst firm [IDC believes](#) that this model, which connects multiple buyers with multiple suppliers, has a key role to play helping large organizations build resilience by offering easier access to suppliers and enabling far greater visibility all the way down the supply chain to source. For our own part, Tradeshift has seen huge demand for our marketplace offering over the past year, and we expect that trend to accelerate for the foreseeable future.

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 provide us with a unique awareness of trading activity between businesses.

Tradeshift's Index of Global Trade Health analyzes anonymized 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 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 new model compares business-to-business transaction volumes (orders processed from buyers and invoices processed from suppliers) submitted via the Tradeshift platform since Q1 2020 against a 'baseline' we have created by analysing medium-term seasonal trends in the transaction data that flows across our platform.

A reading of 100 indicates growth in line with expectation against historical trends. Readings greater than and below 100 indicate above-trend and below-trend growth.

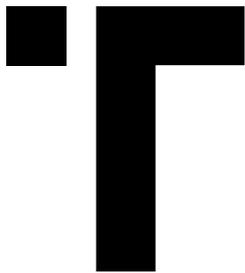
We consistently strive to improve and evolve the accuracy of our analysis. As a result it is possible that from time to time you may see small revisions to historical numbers reported in previous versions of the Index.

How to read the charts

On pages 7 to 8 we have expressed the index scores cumulatively from Q1'20 onwards. If the index score in Q1'20 is 90 this would indicate that activity was tracking at 10 points below the baseline for that period. If our index score for the next quarter is also 90, then the cumulative score in Q2 would appear as 80, suggesting activity is losing momentum against where we would expect it to have reached by that period.

Looking at the data in this ways helps show how much momentum transaction volumes lost during the early stages of the pandemic. It also gives us some clues as to how long it might take before cumulative growth normalizes against projections we made based on transaction flows prior to the pandemic.

On pages 11 to 13, we looked at how index scores are changing quarter on quarter. Looking at the data in this way provides a useful indication of how the level of activity is fluctuating across different sectors and geographies from one quarter to the next.



About Tradeshift

Tradeshift is a market leader in e-invoicing and accounts payable automation and an innovator in B2B marketplaces and providing access to supplier financing. Its cloud-based platform helps buyers and suppliers digitize invoice processing, automate accounts payable workflows and scale quickly. Headquartered in San Francisco, Tradeshift's vision is to connect every company in the world, creating economic opportunity for all. Today, the Tradeshift Network is home to a rapidly growing community of buyers and sellers operating in more than 190 countries. Find out more at: Tradeshift.com

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