The Tradeshift Index of Global Trade Health
U.S. trade slump takes the shine off tentative global recovery.

For a year that held the promise of a return to normality, 2022 threw plenty of curve balls. Heading into 2023, we’re seeing the beginnings of a new cycle for global trade.

Whisper it, but the overall picture is looking a little less catastrophic than it did just a few months ago. Global supply chain activity continued to fall against expectations in Q4, ending the year 3 points below the baseline. But the rate at which activity is declining has tapered significantly compared to the beginning of the year when order volumes across Europe appeared to go into freefall.

Trade activity across the Eurozone fell to 14 points below expected levels in Q2 and was 6 points below the baseline in Q3. In a normal year, the 3-point deficit in activity we saw in Q4 might be cause for alarm. In this ‘age of abnormal’, however, it’s a minor victory against a fresh wave of disruption.

A number of leading indicators appear to support this. In Germany, for example, manufacturers are reporting fewer shortages of parts and materials. Inflation across the Eurozone is also starting to cool.

Keep the champagne on ice for now, though. A modest improvement to trading conditions in the Eurozone came in contrast to the US, where trade activity suffered its first major reversal of the year. Throughout the life of the Tradeshift Index, the US had always provided something of a bright spot amid the gloom, a testament to the power of its domestic economy and self-reliance.

Yet this quarter, transaction volumes fell to 6 points below the expected range as ordering activity appeared to run out of steam. What we’re seeing in the US could be the tail-end of the massive bullwhip, which saw US buyers stockpiling inventory during a particularly volatile demand cycle. It could also be the first hint of the recession economists have long been forecasting.

The collapse in demand across the worldwide transport and logistics sector provides the strongest indicator of a looming downturn. Transaction volumes across the sector finished the year 11 points below the baseline, having fallen steadily since the beginning of the year.

China’s much-awaited ‘Great Economic Reopening’ has the potential to lift global trade activity dramatically over the next year. For now, it faces a painful transition. Our data shows trade activity fell to 4 points below expected levels in Q4 as a huge surge in Covid cases threatens to overwhelm the country.

For more reasons than one, this quarter’s Index feels like the economic equivalent of ‘long Covid.’ The initial sickness seems to have passed, but the lingering after-effects can often be just as painful as the acute phase. All the indications are that 2023 provides a strong possibility of relapse.
1. Global trade activity ended the year **3 points below the expected range**, the best figures we have seen all year, suggesting modestly improving trading conditions overall.

2. A sharp decline in order volumes in the US came in stark contrast to the improving activity globally. **Total transaction volumes fell to 6 points below the expected range** while order volumes slumped to 9 points below the baseline, the most significant reversal since lockdown.

3. Transaction volumes across the Eurozone and the UK both followed the global trend, **with activity 3 points below the baseline in Q4**. There are increasing signs that supply chains are stabilizing following another year of significant disruption.

4. Supply chains across China had a tougher quarter, having ended Q3 just 1 point below the baseline. **Activity levels slipped to 4 points below the expected level in Q4** as the end to ‘zero-Covid’ measures led to a huge surge in infections across the country.

5. Activity across the transport and logistics sector fell for the third consecutive quarter, providing the strongest indication yet of an impending recession. **Transaction volumes across the sector were 11 points below the baseline in Q4.**

6. Manufacturing transaction volumes improved slightly compared to the previous quarter but remained in contraction territory at **5 points below the baseline.**

7. Retail trade activity had a relatively solid Q4. Transaction volumes climbed back into the normal range, **just 2 points shy of the baseline** following a more challenging Q3.

8. The technology sector **beat expectations by 1 point in Q4 after a relatively strong 2022**. Analysts, including Gartner, predict that technology spending will continue to rise in 2023.
Volatility snapshot

Quarterly growth in activity across the Tradeshift network indexed against historical trends
Europe avoids the worst of winter, but US and China suffer sharp reversals

Global trade activity tracked at 3 points below the expected range in Q4, a modest improvement on the previous quarter when transaction volumes were 5 points below the expected range.

The Eurozone and the UK mirrored the global trend, with transaction volumes finishing 3 points below the expected range in Q4. The latest data suggests that conditions remain choppy for local supply chains, with overall activity remaining in contraction territory. But a slight uptick in momentum compared to the rest of 2022 could also be a sign that the current cycle of supply chain disruption, price pressures, and waning demand may be passing its peak.

Conversely, trade activity in the US had a more difficult Q4. Transaction volumes were 6 points below the expected range compared to the previous quarter. This represents the steepest quarterly loss of momentum since the end of 2021.

The reversal in fortunes in the US contrasts sharply with the pattern we saw globally in Q4. US supply chains were more resilient to factors such as the high energy prices that have hit Europe hardest. Domestic consumer spending had also remained relatively robust, but according to the US Department of Commerce, consumers are now beginning to tighten their belts. Recent reports also suggest that US supply chains are grappling with unusually large stockpiles of inventory accumulated during the volatile demand cycles of the past eighteen months. Supply chain operators now face a tricky rebalancing act against a souring economic picture.

China also faces a difficult transition as it emerges from the strict ‘zero-Covid’ restrictions of the past two years. The Chinese media outlet Caixin reported that factory output in China contracted in December amid spiraling Covid infections across major cities.

Adding to the pressure on suppliers, large organizations carrying high volumes of excess inventory may start to cancel or pause existing orders to rebalance their own cash flow. Finally, recent history suggests companies are also likely to start looking at paying vendors more slowly, often by extending payment terms. This needs to be done carefully and only when appropriate measures can be taken to ensure suppliers are not starved of liquidity.

Order volumes have been tumbling since the beginning of 2022. Q4 gave us the first hint that this correction cycle may be bottoming out. Buying activity tracked 4 points below the baseline in Q4, compared to the 7-point fall we observed in Q3.

Order volume patterns give us clues about how large organizations view the next six months. Our latest data shows much shorter or ‘bullish’ outlooks: order volumes remained in contraction territory throughout Q4. Instead, the data suggests that supply chain operators are starting to get a handle on inventory and remain hopeful of a soft landing to the global recession many now view as a near-certainty.

Where does this leave suppliers? Invoice volumes were 3 points below the expected range in Q4 and appear to be settling. On the one hand, the return to a more predictable trading pattern, albeit one which is reflective of lower demand, may provide some short-term relief to suppliers strained to their breaking point by the turbulence of the past two years. On the other hand, the darkening economic picture could put further strain on supplier cash flow.

Inflation may have passed its peak, but it will likely remain stubbornly high in 2023. At the same time, rising interest rate hikes have made the cost of traditional borrowing increasingly prohibitive for smaller companies.

Bonfire of orders bottoms out, but relief for suppliers may be fleeting
Quarter-on-quarter performance across key territories
US: Order volumes slump to the lowest level since lockdown

US trade activity tipped into the red zone for the first time in over a year as order volumes sank to 9 points below the expected range in Q4, the steepest quarterly decline since lockdown. The average dollar value per invoice in Q4 was also 6 percent lower than the previous quarter suggesting falls in both the volume and value of trade filtering through the supply chain over the quarter.

US supply chains profited most from the post-lockdown recovery and suffered the least from the disruption that followed in 2022. The drop in activity experienced in Q4 could be attributed to a simple recalibration, as overstocked buyers 4 cut back on fresh orders and consumer buying patterns shift away from goods to services. 5

Nevertheless, more pessimistic indicators suggest we may be seeing the first signs of a more protracted slowdown. Data from ISM 6 showed that U.S. manufacturing activity contracted for the first time in 2½ years in November as higher borrowing costs weighed on demand for goods. Consumer confidence also appears to be on the slide, with IPSOS Mori reporting 7 a significant decline in purchasing confidence at the end of the year.

With a strong US dollar putting pressure on exports, US supply chains have relied heavily on domestic spending to power them through the past two years. That well is now threatening to run dry.

Eurozone: Forecast remains mixed despite better-than-expected winter

Trade activity across the Eurozone came within touching distance of the expected range in Q4, the first time it has come anywhere close to this level in nearly 18 months.

Supply chains across the EU trading bloc have borne the brunt of the energy crisis and disruption stemming from the war in Ukraine. None of these issues have gone away, but the relatively robust Q4 data suggests supply chain operators have been more successful in adapting to these conditions than many had initially expected.

Order volumes, which had been in free-fall over the past three quarters, bounced back sharply in Q4. Invoice volumes also recovered to near-normal levels, while the average value per invoice was up by 8% compared to the previous quarter.

The combined data suggests a reduction in bottlenecks and fulfillment delays that have continued to plague manufacturers across the Eurozone in 2022. A recent report from Germany’s ifo Institute 8 found that the proportion of companies reporting material shortages fell to 50.7 percent in December from 59.3 percent in November, the third consecutive monthly drop.

Trade activity may have picked up momentum in Q4, but in reality, the figures represent modest progress from a low base after quarter-upon-quarter of bad news. The Eurozone may have survived the worst of winter, but supply chains across the region still have a fair few challenges ahead of them.

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4 12/01/2022: Supply Chain Dive, A tidal wave of inventory wallop retailers in 2022
5 07/15/2022: Morning Star, Spending Is Shifting Back to Services; Here’s Where to Invest Now
6 12/01/2022: Reuters, U.S. manufacturing sector contracts in November - ISM
7 12/15/2022: Ipsos, Year ends with consumer sentiment below the 50-point mark
8 01/03/2023: ifo Institute, Noticeably Fewer Material Shortages in German Manufacturing
UK: Solid Q4 masks underlying issues as order volumes head into reverse

Similar to the Eurozone, UK supply chain activity had a better Q4 than many might have anticipated. Transaction volumes didn’t quite reach the baseline in Q4 but crept into the ‘normal’ range for only the second time in a year.

Invoices volumes moved further into the normal range following a significant uptick in new orders from the previous quarter. Dollar spend per invoice was also up by 2% in Q4 compared to the previous quarter. On the surface, at least, UK supply chain activity appears to be stabilizing. Business sentiment is reacting accordingly. According to the most recent data from Lloyds Bank, business confidence continues to improve, with 49% of companies reporting an increase in confidence.

Dig a little deeper, however, and the outlook appears gloomier. After an erratic year, order volumes slipped back into the red zone in Q4, and according to ISM®, UK manufacturing activity ended 2022 at its lowest level in more than two years. UK supply chains have had the worst recovery of any region since the pandemic.

Activity across manufacturing supply chains improved slightly compared to the previous quarter. The continued easing of supply chain bottlenecks may have contributed to the slight improvement we saw in Q4. But waning demand means the activity across the sector remained firmly in contraction territory at 7 points below the baseline.

Retail trade activity had a relatively solid Q4, with transaction volumes climbing back into the normal range after a difficult Q3. Early holiday results have been better than some economists and retailers feared. Sales from Nov. 1 to Dec. 24 rose 7.6%, according to data from MasterCard SpendingPulse.

Technology spending continued to outperform other sectors in Q4. Transaction volumes tracked 1 point above the baseline in Q4. Economic uncertainty may have hammered tech stocks on the public markets, but businesses are still plowing investment into much-needed digital transformation projects. Gartner predicts worldwide IT spending will grow by 5.1% in 2023.

The slowdown across the transport and logistics sector deepened still further in Q4, ending the year 11 points below the level of activity expected for the period. Several external reports support what we see in our data. The Logistics Managers’ Index, produced by academics at Colorado State University, fell to 53.6 in November, the lowest since April 2020 - and the second lowest overall reading in the history of that index.

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We spoke to Rob van Ipenburg, Co-founder & Managing Partner at Quyntess.

He gave us his perspective on why orders are dropping across supply chains and why he expects digitalization projects to accelerate this year.

When we last spoke to you in June 2021, supply chains were struggling to cope with enormous demand volatility. What are you seeing now?

We are seeing normalization to 2019 levels if we compare apples with apples. In part, this is a reaction to lower levels of demand for finished products. But conversations we’re having with customers suggest that they are also starting to relax the high levels of inventory many had built up as a buffer against shortages during the volatility and demand spikes of the past 18 months.

It might look like the numbers are going down very sharply, but I’d caution against reading a crisis into this. The reality is that, at least partially, the reduction in orders is a result of companies flattening their inventories again as volatility begins to subside.

The majority of customers we’re talking to are pretty positive. The more agile among them have been able to turn volatility to their advantage in order to gain market share from competitors who were less able to remain collaborative with their suppliers in areas such as forecasting and inventory.

We’ve seen a pretty steady decline in activity across the T&L sector in the past year. To what extent do you see that as normalization, or is it a sign of something more profound?

I’m not sure it’s quite that simple. Prices might be lower today than they were a year ago, but historically speaking, they remain very high. We still see a lot of “planes over trains” as well to counter the effects of supply disruption. With rising energy prices and labor shortages, however, the likelihood of a quick return to cheap transportation for global supply chains is small even as demand starts to soften.

What we see as a trend is that our customers on the Tradeshift platform have great interest in our new Carrier Collaboration app, which brings the triangle of Buyer-Supplier-Carrier or Buyer-Customer-Carrier together. Connecting the two worlds of material and transportation logistics, which is basically a service, means we can tackle a lot of potential disruption upfront. It also means we can tighten transport costs which is always a big hassle for companies.

When we last spoke, we looked at the wave of digitalization taking place across the supply chain. What have you seen since then?

The rich got richer. If we look at our existing customers who are on the Tradeshift platform, they increased the pace of their digital transformation, conducted further roll-outs across their supply chain, added additional processes, and expanded into other departments.

By contrast, businesses that were a little later in their transformation cycle have often found it difficult to make the changes they want to. It’s a little bit of a vicious circle where these businesses recognize the need for change, but they’re finding that the internal resource tasked with driving such change is simply overwhelmed by the day-to-day operational requirements of reacting to issues as they arise.
When you’re under that kind of pressure, it can be very difficult to zoom out and look at the bigger, strategic picture of what you need to do in order to achieve better outcomes.

**Resilience has been one of the buzzwords of the past 18 months. Are you seeing evidence that businesses are taking this seriously?**

As I alluded to earlier, there’s a split between businesses that are already invested and those that are a little further behind in their journey. Looking ahead to 2023 and 2024, we see a strong pipeline of customers who already see the benefits of supply chain digitalization in terms of resilience but need to give themselves some breathing space to make that change happen.

We’re definitely seeing more sophistication in terms of how customers want to use our solutions in areas such as forecasting and collaboration with suppliers over inventory. Businesses are also keen to get more insight into key performance indicators around supply stability versus just pricing.

Dual sourcing is another area where we see significant interest. Solutions like our Planner Workbench app can help organizations reduce a lot of the practical complexities of dual-sourcing and supplier switch capabilities rather than trying to manage this through their ERP system.

Do the same rules apply when it comes to building resilience in the face of a recession that many now see as likely?

If we do see a significant slowdown in real terms (and that’s still not a given), then priorities will inevitably start to shift toward sales and operational areas in order to accommodate this change. That said, the basic principles of resilience, including agility, remain fundamental in any given scenario. Businesses need to be looking at how they increase the clock speed of their supply chain so that they can adjust their activities in a much more timely manner. The only way they can do this is by becoming more digital.

Digitalization enables businesses to be savvier about how they manage risk through the supply chain as opposed to applying crude financial policies to such decisions. It may well make a lot of sense to maintain three months of inventory in one area of the supply chain where the risk of disruption remains high, but in other areas keeping three months’ worth of inventory is just an unnecessary overhead.

**Coming out of the pandemic, we saw a lot of people calling the death of ‘just-in-time.’ Is that still a valid argument?**

Just-in-time makes a lot of sense in supply chains that have strong physical proximity between buyer and supplier.

If you look at supply chains that rely on outsourcing big chunks of their manufacturing to areas such as China, you could never really call that model just-in-time.

The problems with just-in-time supply chains rarely came at the first layer, where suppliers were typically in fairly close proximity to the customer. Where disruptions to this model did occur, it was because 1st tier suppliers were waiting for parts that had a longer lead time. Just-in-time definitely isn’t dead, but businesses are certainly going to want a deeper view of their supply chain beyond the first tier to ensure they aren’t going to face any more surprises. We’re already seeing this among our customers who are taking a much more proactive stance on supply chain visibility.

The Great Resignation will have the most profound effect on digital supply chains in 2023 and 2024. Automation and AI-guided decision-making are unavoidable: Companies understand that this is no longer about cutting jobs but cutting vacancies from their job boards and making sure the business continues to operate.

The other trend I’m seeing is that “Service” is becoming Material. What I mean by this is that 20-30% of the Purchase Orders we see going through the platform contain a certain level of services and not just physical products or materials. Companies are trying to focus on core competencies on the one hand, but suppliers are also seeking to add more value to their products through the addition of services. Supply chain systems are completely ignorant of this. MRP systems have been the de facto management tool for more than 30 years; warehouse management systems follow parts, as do transportation management systems. Services are a complete blind spot.

We’ve designed our Service Collaboration app to fill this white space and give customers much better visibility over the type, quantity, and quality of services they are paying for.

**And finally, getting your crystal ball out for a minute – do you have a prediction or two you’d like to share for the year ahead?**

The Great Resignation will have the most profound effect on digital supply chains in 2023 and 2024. Automation and AI-guided decision-making are unavoidable; Companies understand that this is no longer about cutting jobs but cutting vacancies from their job boards and making sure the business continues to operate.
Final Thoughts: Lessons from the pandemic can help supply chains build resilience in a downturn

Recessions often take everyone by surprise. That’s extremely unlikely to be the case next time around. Economists at Bloomberg have put the chance of a severe global recession at nearly 65% in 2023.14

Various factors will determine how hard a landing supply chain operators could face over the coming year. On the plus side, some factors that fuelled inflation early in 2022 have started to fade. Prices of consumer goods have declined as supply chains have returned to something approximating normality. Material costs could also fall as consumers tighten their belts.

Energy prices are likely to remain stubbornly high for the foreseeable future, however. At the same time, China’s ‘great reopening’ will likely push commodity demand higher in the second half of the year.

There is very little that any individual company can do to influence the current chessboard of macroeconomic pressures that threaten the global economy. There are, however, several ways large organizations can protect themselves and their supply chains so that they are able to weather the coming storm successfully and bounce back faster as trading conditions brighten again.

As economic conditions sour, effective working capital management and cost control will become the top priority for finance teams. Lack of data and a reliance on manual processes means finance teams have long been forced to make important decisions regarding their supply chain based on a patchwork of static and disconnected information. Low visibility and limited collaboration between the finance department and suppliers put a huge strain on the financial integrity of the entire ecosystem.

Onshoring and nearshoring of supply lines could also lead to significant reductions in shipping that are a considerable cost center in highly globalized supply chains. One study by McKinsey15 found that adjusting transportation modes and routes and distribution footprints around trade tensions, tariffs, possible customs-clearance problems, and likely disruptions can lower transportation costs by some 25 percent.

Resilience became the mantra of supply chain best practices in the wake of the pandemic. The same principles will help organizations survive and even thrive in a downturn. Companies categorized as more resilient have performed consistently better than less-resilient peers across the entire life cycle of the major economic shocks of the past two decades, including the financial crisis of 2007–09 and the COVID-19 pandemic.

The pandemic brought about a sea change in attitudes; a recent study of finance leaders conducted by Tradeshift in partnership with CFO Dive found that 75% of respondents plan to increase budgets allocated to technology investment over the next year.

Restructuring supply chains can also help organizations reduce costs and hedge against uncertainty. Recessions make even dependable suppliers unreliable. Moving away from single-source supply chains towards more network-based models ensures businesses have alternatives available if a key supplier starts to struggle. Increasing visibility across the supply chain also allows organizations to step in and potentially support a key supplier in financial difficulty.

14  01/03/2023: Bloomberg, Here’s (Almost) Everything Wall Street Expects in 2023
15  12/16/2022: McKinsey, Supply chain network reconfiguration for resilience
About Tradeshift’s Index of Global Trade Health

Purpose

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

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

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

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

Methodology

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

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

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

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

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

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