Tradeshift

The Tradeshift Index of Global Trade Health

Q3 2021

Introducing a new model for the Index of Global Trade Health

For our Q3 Trade Index, we're rolling out a new model that closely mirrors other globally recognized indices including the WTO's Goods Trade Barometer. We've made these changes to give our readers some clearer clues as to how quickly trade activity is recovering since COVID started to take hold and the extent to which activity is stable or volatile compared to activity levels we would typically expect to see on our platform during a given period.

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.

How to read the charts

On pages 7 and 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 10 to 14, 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.

World trade gets a reality check

Opening remarks from Christian Lanng, CEO and co-founder, Tradeshift

Economists headed into the summer optimistic about the speed of recovery. Many are now wondering if the engines of growth are losing steam.

Ordering activity on our platform has been rising at a phenomenal rate since the beginning of 2021. In Q3, order volumes on the Tradeshift platform fell back by 24 points. This is the most significant drop we've seen since the height of the first lockdown. Some level of correction had always seemed inevitable given the huge spike in ordering activity we saw in Q2. What we've seen in Q3 suggests something more significant than a natural cooling-off.

Business surveys from the US, UK and Eurozone suggest that activity has slowed as delivery times lengthen, bottlenecks deepen, and commodity prices rise. With order volumes dropping in every territory, buyers may well be starting to question the wisdom of putting fresh orders into a system that already buckling under the weight of an enormous backlog.

Invoicing volumes on our platform picked up momentum in Q3, but the upward trajectory is flatter than anticipated given the huge spike in orders we've seen since the beginning of 2021. Our data suggests it may be some time before order volumes start to align with invoice flows. The longer this gap persists, the more likely it becomes that the cooling off we've seen in Q3 could turn into a more prolonged and general slowdown. Such a slowdown could unleash fresh volatility on supply chains already struggling to navigate a very bumpy road.

Businesses have adapted remarkably well to a period of unprecedented challenges, but the systems which underpin the relationships across supply chains have changed very little. Heavily manual and paper-based, there are points of friction baked in at almost every stage, from the antiquated payment processes that govern the flow of working capital, to the mounds of documents required in the movement of physical goods. Individually, these points of friction might seem inconsequential to the problems businesses are facing today. Combined with the kind of velocity we've seen in recent quarters however, we should not be surprised when fires start to break out.

The companies that will see the most immediate and long-term improvements will be the ones focused on addressing these points of friction at source. A recent study by Mckinsey showed over half of executives had already accelerated their investment in technology while 75 per cent expect to increase investments over the next three years. Looking at ways to use AI/machine learning, data and more to empower their supply chain processes and teams will pay off handsomely in the long run.

At a glance findings

1. Global order volumes suffered the biggest loss of momentum since the first lockdown. A fall of **24** points in Q3 meant ordering activity dropped below the expected level compared to medium term trends.

2. Invoice volumes climbed by a slower than expected **5** points, suggesting suppliers are struggling to fulfil a significant backlog in orders.

3. US transaction volumes, which had been growing at at higher than expected velocity since the end of 2020, dipped **2** points below the expected level in Q3. Order volumes dropped by **40** points compared to the previous quarter.

4. Trade activity across the Eurozone recovered by **0.5** points thanks to a sharp uptick in supplier invoicing. But a **55** point fall in ordering activity suggests supply chain issues are hitting buyer confidence.

5. UK trade activity rose by **4** points in Q3 thanks to a sharp increase in invoice submissions from suppliers. But a cumulative index score of just **52** leaves the UK with a mountain still to climb before it recovers momentum lost over the past year.

6. China's index score of **96** puts trade activity slightly below the expected range. But the undulating pattern in activity over the past three quarters suggests a volatile operating environment.

7. Manufacturing transaction volumes tracked **10** points above the expected range in Q3. Invoices spiked **20** points while orders were flat.

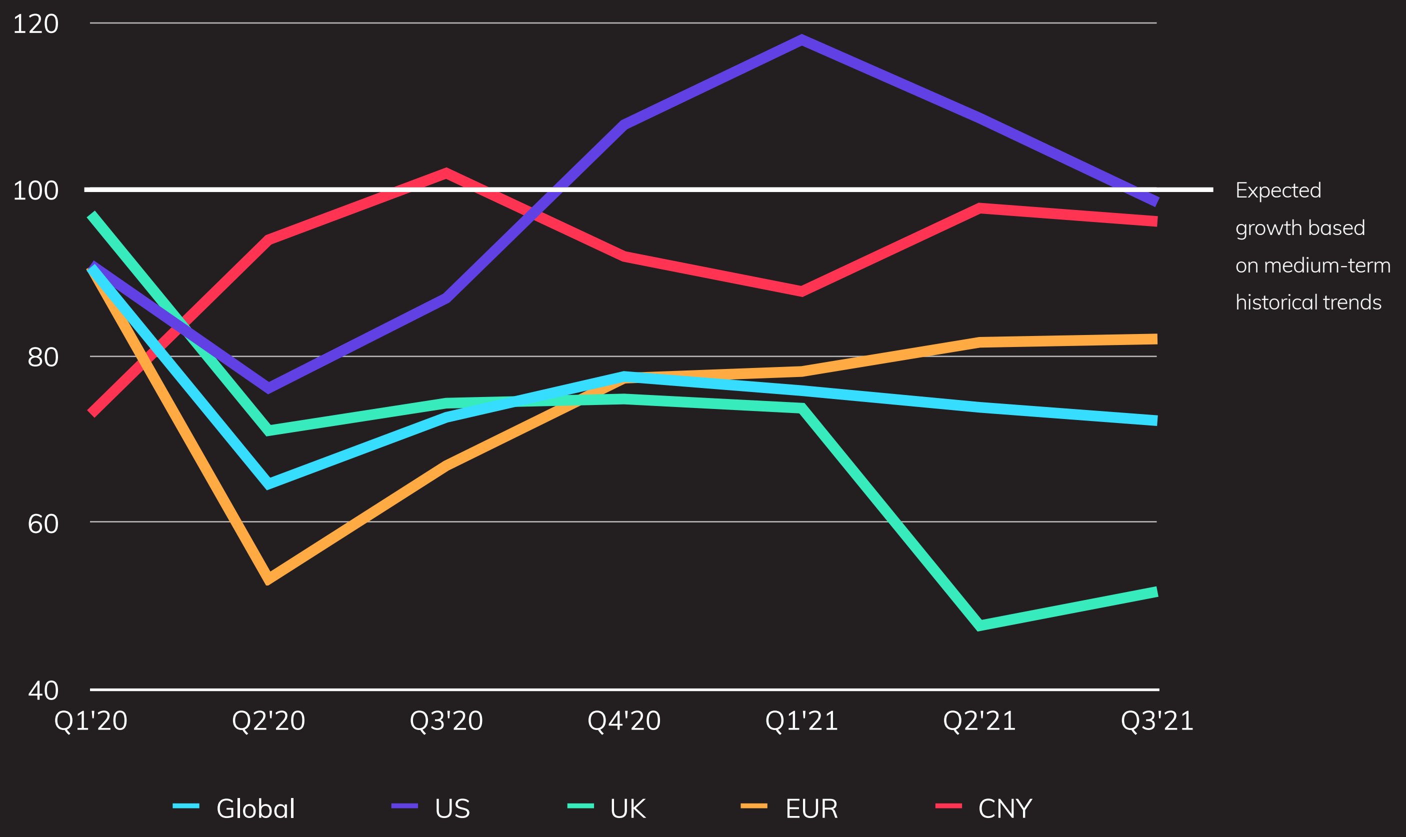
8. Technology spending picked up pace in Q3, rising **16** points compared to the previous quarter. The suggestion here is that businesses are now accelerating their digital transformation plans.

Charting the recovery

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

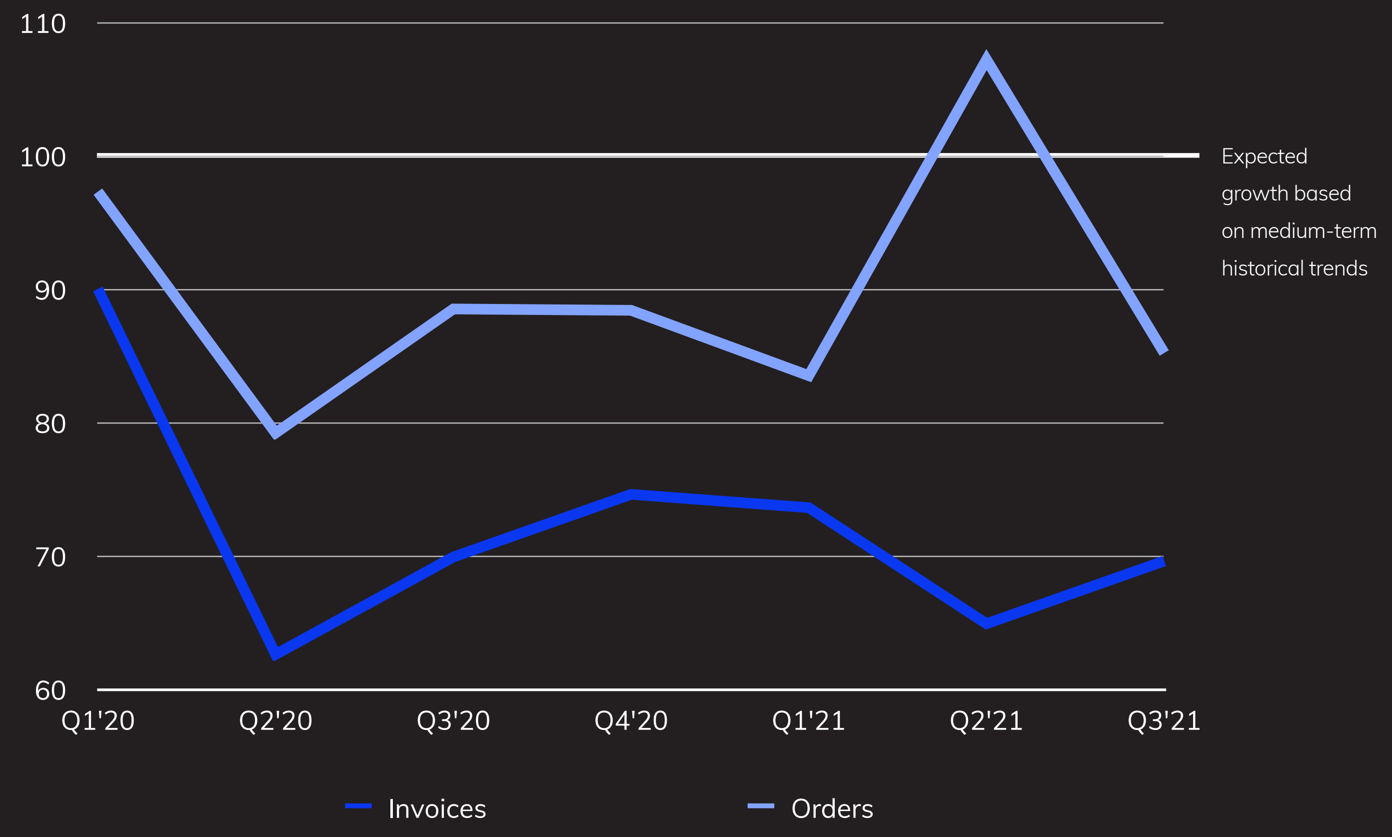
Global recovery stalls on supply chain issues

Transaction volumes - Index score expressed cumulatively



Global order volumes face a massive correction

Invoices and order volumes - Index score expressed cumulatively



Could the post-pandemic recovery have already peaked?

Growth in global transaction volumes remained flat in Q3 after momentum dipped two points in Q2. A cumulative score of **72** means global transaction volumes are **28** points below the level we had forecast for the period prior to the pandemic.

In the US, transaction volumes had been tracking **8.5** points above the forecast range in Q1. But a drop of **10** points in Q3 puts cumulative activity just below the expected level.

China appears to have run into choppy waters recently since its earlier recovery. A score of **96** means supply chain activity remains close to the expected range, but the undulating pattern we see in China suggests a fairly volatile trade environment.

Activity across the Eurozone rose **0.5** points to **82**, a slightly slower rate of recovery than the previous quarter, but enough to narrow the gap with China and the US.

UK trade activity rose by **4** points in Q3 against the pre-pandemic forecast, but this follows a fairly dismal Q2 when activity dropped alarmingly. A cumulative index score of just **52** suggests UK supply chain activity is recovering at a far slower pace than other major economies.

Order volumes provide clues about fluctuating demand levels. Invoice volumes provide a useful indicator as to how quickly suppliers are able to fulfill orders.

It's normal that order volumes track slightly above invoice volumes. Varying lead times mean that fulfilment is spread out over a fairly long time period. But the enormous delta that emerged in Q2 is significant. A spike in orders of the magnitude we saw in Q2 is highly unusual on the Tradeshift platform.

Global invoice volumes rose by **5** points in Q3, suggesting that suppliers are reacting to the spike in orders. Given that order volumes leapt by **24** points in Q2, the rate of invoicing growth is considerably lower than we would anticipate.

The pattern we observe through our data suggests a significant backlog of orders remain stuck in supply chains. A short period of reduced ordering activity could provide supply chains with the respite they need to reset. We expect invoice volumes to continue rising in Q4.

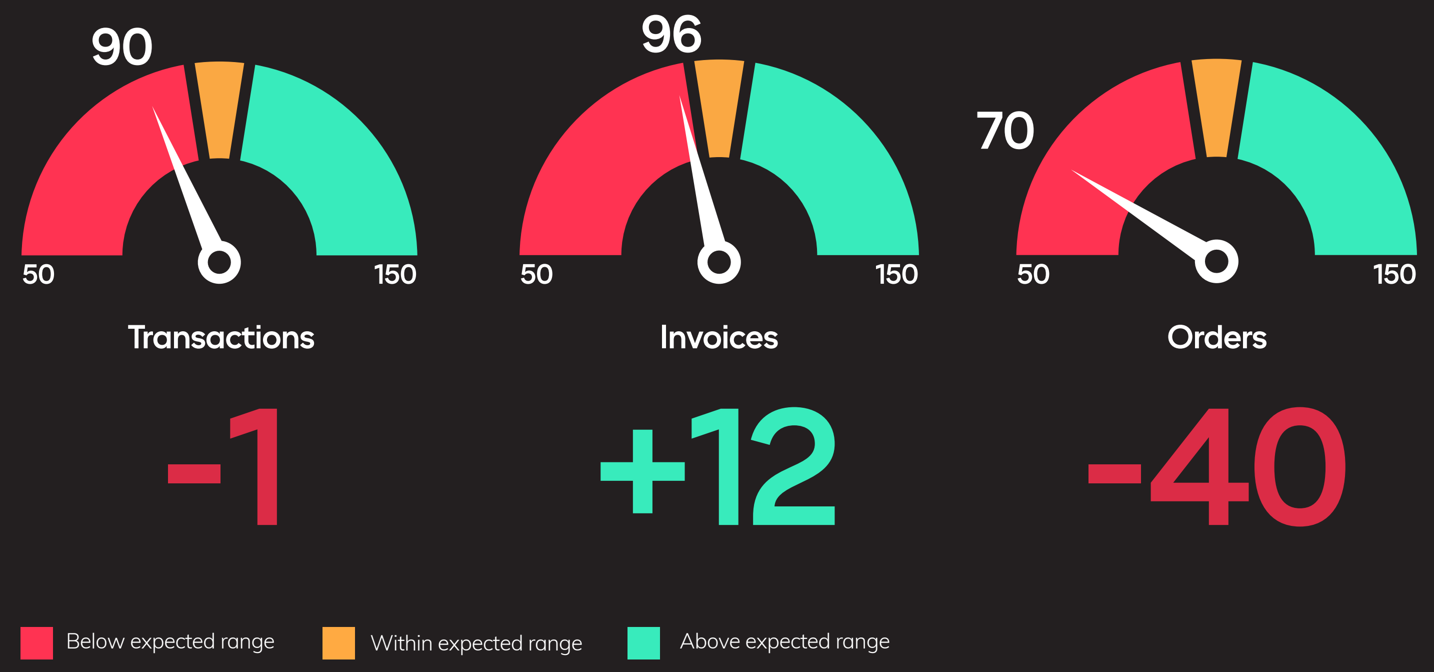
But with order volumes losing **22** points of their momentum in Q3 we may yet see a more general cooling off heading into 2022. A prolonged slowdown could add further volatility to supply chains seeking to reestablish the predictable rhythm they are designed to follow.

Q3 momentum deep-dive

Quarter on quarter performance across key territories

US recovery on a downward trend

US trade activity - quarter on quarter index scores



US supply chain activity was running red hot at the start of 2021. Things began to cool in Q2 when transaction volumes dropped by nearly **20** points quarter on quarter. A modest drop in Q3 transaction growth means activity across US supply chains on the Tradeshift platform remains below expected levels for the second consecutive quarter.

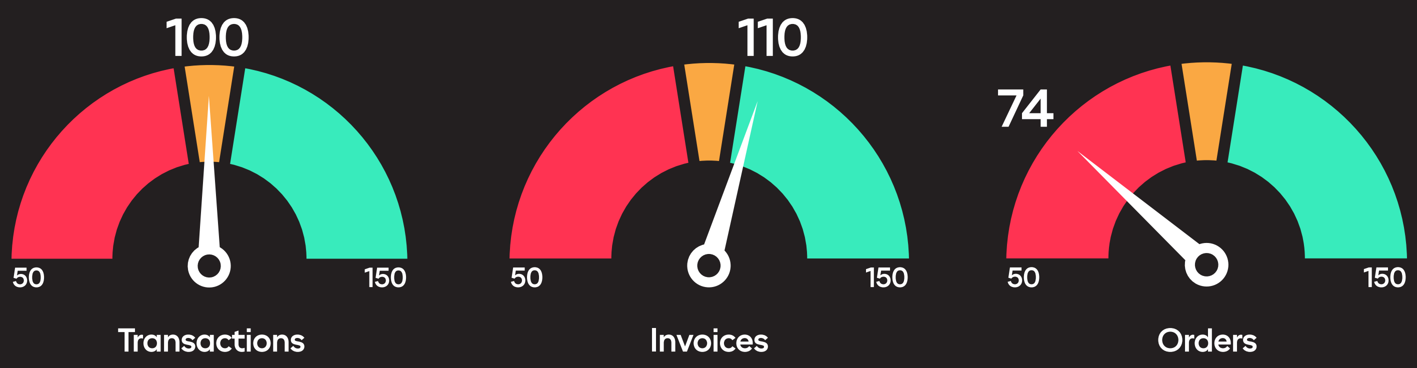
Quarterly order volume growth has sunk to its lowest level since the first lockdown after falling **40** points compared to the previous quarter. A score of **70** in Q3 means order volumes are tracking well below expected levels and suggests buyers are putting the brakes on new orders as a result of fulfilment issues within the supply chain.

Invoice volumes jumped 12 points in Q3, but remain below the expected range. The relatively modest rise in invoice volumes in Q3 lends further weight to the theory that US suppliers are struggling to fulfil orders at sufficient pace to address the backlog.

Right now the fluctuations in activity we're seeing in the US are more suggestive of fulfilment issues within supply chains than they are of a broader slowdown. That picture could change rapidly however should rising Delta variant cases trigger new restrictions. Close communication between buyers and suppliers will be vital when it comes to navigating what is likely to remain a bumpy road ahead.

Volatility: the new normal for Eurozone?

Eurozone trade activity - quarter on quarter index scores



-5 | +24 | -56

Below expected range | Within expected range | Above expected range

Data from IHS Markit suggests Eurozone business growth slowed markedly in September as demand peaked and supply chain problems affected production and deliveries.

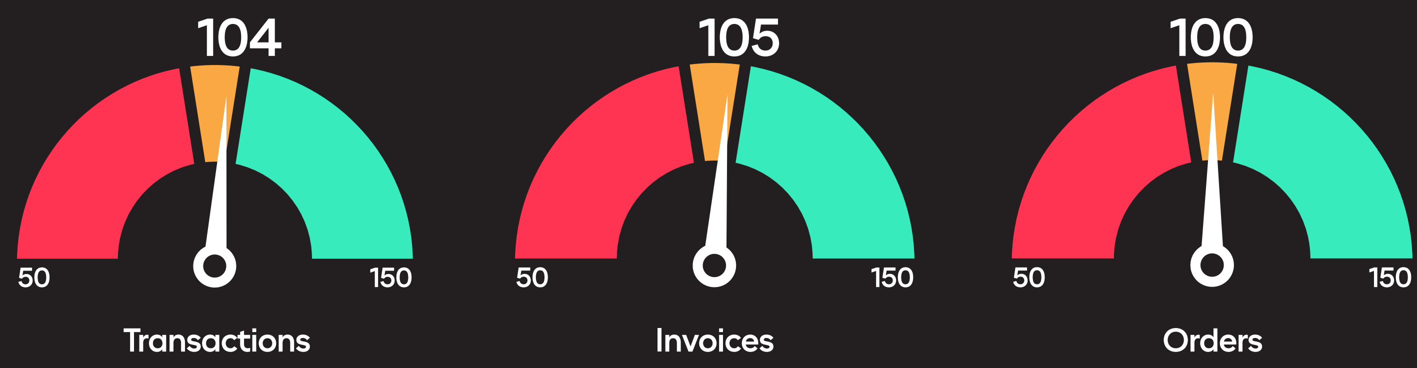
Our data shows that the number of new orders across Eurozone supply chains dropped off alarmingly in Q3. A score of **74** means that order volumes are tracking at well below the expected range heading towards the end of 2021.

Invoice volumes rose sharply in Q3 as a consequence of the large uplift in orders during Q2. If this trend continues then supply chain bottlenecks could begin to ease. But the delta between invoices and orders, currently the widest of any region, provides an indication of the issues supply chains will need to overcome before the situation begins to normalize.

Total transaction activity across Eurozone supply chains was tracking at slightly above the expected range in Q2. A **-5** point swing in Q3 meant activity levels still sit comfortably within the expected range, but the fact the indicator has recently turned downwards suggests expansion may start to proceed along a lower trajectory.

UK: Fragile optimism

UK trade activity - quarter on quarter index scores



+30 | +42 | -14

Below expected range | Within expected range | Above expected range

The UK was one of the countries worst hit by the pandemic. Then in January the country pushed ahead with a Hard Brexit, placing supply chains under added pressure.

Our analysis of cumulative transaction activity on page 7 suggests UK supply chain activity has lost significant momentum over the past year. An index score of **52** indicates a mountain to climb before trade activity growth in the UK begins to normalise against the pre-pandemic range.

A closer look at how trade activity levels have risen in Q3 offers some encouragement, albeit from a very low base. Total transaction volumes rose above the expected range for the first time in 2021 following a **30** point upswing in activity compared to the previous quarter.

Momentum is coming from invoice flows which jumped by a remarkable **42** points in Q3. This suggests suppliers are starting to address fulfilment issues. Order volumes cooled in Q3, but unlike other territories they remain within the expected range.

The alignment between invoices and orders in Q3 contrasts with other regions we analyse and suggests local supply chains may at last be finding some sort of rhythm. The sooner that happens the better.

UK supply chain activity needs to kick up a gear and remain there for some time in order build momentum back towards pre-pandemic levels. This could prove challenging given the chronic shortage of HGV drivers impacting the delivery of everything from fuel to food.

Quarter on quarter transaction volume trends heatmap— sector view

Manufacturing maintains a high gear, but are goods moving?

	T&L	Manufacturing	Retail	Business services	Tech
Q4'19	99	99	141	100	104
Q1'20	90	85	70	59	83
Q2'20	81	60	49	65	95
Q3'20	106	112	145	102	103
Q4'20	102	112	110	97	114
Q1'21	104	104	86	83	93
Q2'21	91	92	83	86	89
Q3'21	97	110	95	72	105

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

Manufacturing supply chains have been running on overdrive since the end of the first lockdown. By the beginning of 2021, it appeared the sector had reached its limit. But our data suggests manufacturers found a higher gear in Q3 with transaction volumes tracking **10** points above the expected level.

Activity across retail supply chains had dipped significantly following an incredible post-lockdown resurgence in the second half of 2020. Transaction volumes rose **13** points quarter on quarter putting activity just below the expected range and suggesting a degree of stability is returning to the sector's supply chains.

Rising shipping costs are a growing cause of concern among supply chain operators. Nevertheless, transaction volumes across the T&L sector have remained relatively constant on our platform throughout the pandemic. One possible explanation for this is that the sector is already operating to its limit. Prices might be rising, but the actual volume of goods being shipped isn't.

Businesses are increasingly seeing technology as a way to address some of these challenges. Companies that have invested in digitalization are more equipped to identify and exploit pockets of spare logistics capacity. Technology spending picked up pace in Q3, rising **16** points compared to the previous quarter.

What's next?

Perspectives on the road ahead

The chains that bind us

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

Lean manufacturing processes have given us cheap goods and happy shareholders, but they have reduced competition to a point where a single factory closure in Asia unleashes global chaos. The antiquated systems that govern relationships across supply chains have further stymied progress. Lack of connectivity between buyers and suppliers has left businesses blind to potential issues and incapable of reacting in time to avoid crises.

Politicians are often keen to suggest that supply chain shortages and rocketing prices are the short-term consequences of a global economy awakening from an enforced period of slumber. But such a narrow view of current challenges ignores deep structural issues in supply chains that will cause regular breakdowns in the future if left unchecked.

Linear supply chains that favour cost control over agility have become a shackle on international trade. In their place, we need to think of global trade as a community, like a city... or a network. A place where every business, regardless of its size or location has the same opportunity to engage and participate. Such networks depend on digital technologies to forge connections between businesses, bringing agility to buyers and wider market access to suppliers.

I recently joined global business leaders in signing an open letter calling on governments across the world to accelerate reforms designed to help embed greater resiliency, sustainability and inclusivity within the global trading system. Connectivity that delivers transparency and facilitates access to global markets will be a vital component in the creation of more sustainable global trade. The kind of flexibility this engenders can act a pressure valve for global supply chains by unlocking pockets of spare capacity among groups of suppliers and matching these with areas of high demand.

The principles of free and equal access to global markets are closely linked to the vision myself, Gert and Mikkel had when we first decided to quit our jobs and start Tradeshift. Rather than copying our peers and building static systems for buyers, we knew that the only way to create a genuine change in supply chains was to build a network that would allow any business, buyer or seller, to participate and derive value from it.

Our vision is to connect every company in the world digitally, creating economic opportunity for all. Recent events have shown us that a growing number of businesses understand the importance of achieving that vision and are ready to come on that journey with us.

About Tradeshift's Index of Global Trade Health

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.

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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