



Navigating Economic Resilience and Uncertainty: A Supplier Outlook for H1 2024



Introduction

Despite widespread predictions to the contrary, the global business climate has signaled resilience in the second half of 2023. Many global supply chains appear to have stabilized as inventory issues and delays have improved. While inflation is still well above target – particularly in Europe – it has eased considerably since the beginning of the year. This has prompted central banks in the U.S. and Europe to pause anticipated interest rate increases after 11 and 10 successive rate hikes, respectively.

Fears of a recession in 2023 have been avoided – although the margin varies. In some regions, economic growth has defied expectations. In the U.S., the economy expanded at an annual pace of 4.9% in the third quarter – more than double second quarter’s growth – and overall GDP increased at the fastest pace since late 2021. The euro zone economy’s gains have been more modest, however, and is expected to expand by just 0.8% in 2023.

As we head into 2024, there are growing concerns the resilience that defined 2023 may not persist into 2024. The headwinds are numerous. Long-term interest rates are rising. Commercial bank lending has dropped sharply – particularly for small and mid-sized companies. Economists predict central banks will keep interest rates high for a longer period and indicators suggest global trade will be suppressed for the next 1 to 2 years. There are also the impacts of heightened geopolitical unrest in Ukraine and the Middle East to consider. Combined, these headwinds are tempering economic optimism for global supply chains.



Key findings

To better understand how suppliers expect their businesses to perform heading into 2024, suppliers trading on the PrimeRevenue platform were recently surveyed on business demand, their biggest business challenges, and market outlook. Key findings include:

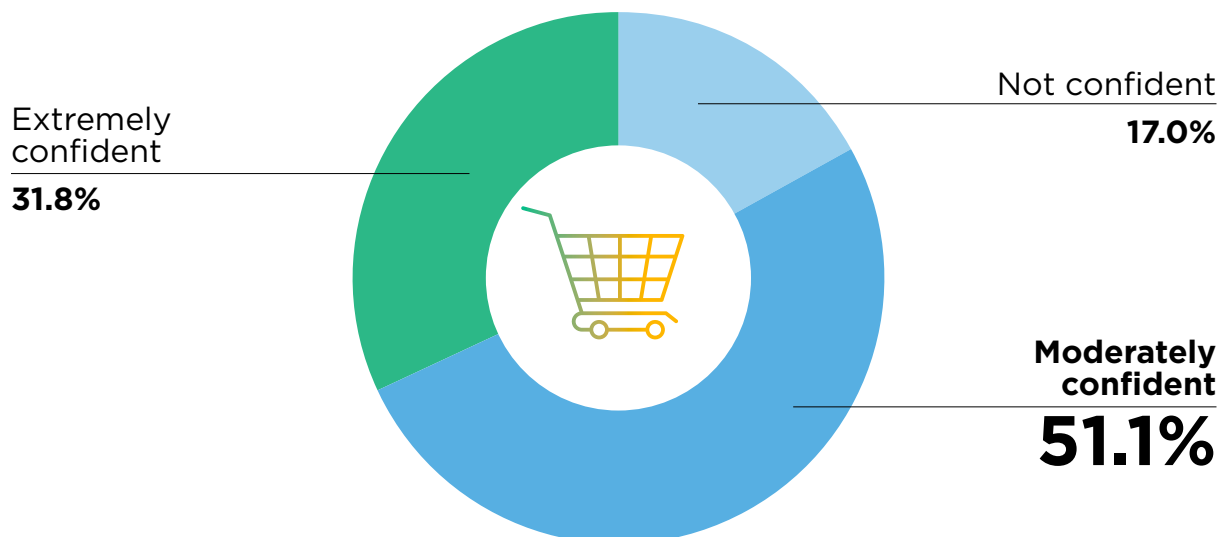
- **Business demand is expected to remain strong in the first half of 2024.** Nearly one-third of suppliers (31.8%) are extremely confident their customers will maintain their current purchasing volumes in the first half of 2024, while 51.1% are moderately confident. Only 17% of suppliers reported they were not confident their customers would maintain purchasing volumes in the first half of next year.
- **Cash flow and decreased market demand are top business challenges for suppliers.** Of the business challenges specified, suppliers reported cash flow (42.7%) was their biggest anticipated challenge over the next six months, while 31% cited decreased market demand as their top concern.
- **Most suppliers do not expect to be negatively impacted by market conditions heading into 2024.** Nearly half of suppliers (47.6%) say their business will not be impacted by deteriorating market conditions, while 20.4% expect market conditions to positively impact their business. However, one-third (32%) of suppliers predict market conditions will have a negative impact on performance heading into 2024.



DEMAND FORECAST:

How confident are you that customers will maintain current purchasing volumes in the first half of 2024?

Overall, suppliers remain confident their customers will maintain current purchasing volumes although there are notable variances in the degree of confidence from the first half of 2023 to now. The number of suppliers that are extremely confident their customers will maintain current purchasing volumes has held steady at 31.8% compared to 32% in H1. Just over half (51.1%) reported they were moderately confident versus 18.4%. The number of suppliers reporting they were not confident customers would maintain current purchasing volumes heading into 2024 grew from 13.6% in H1 to 17% in H2.

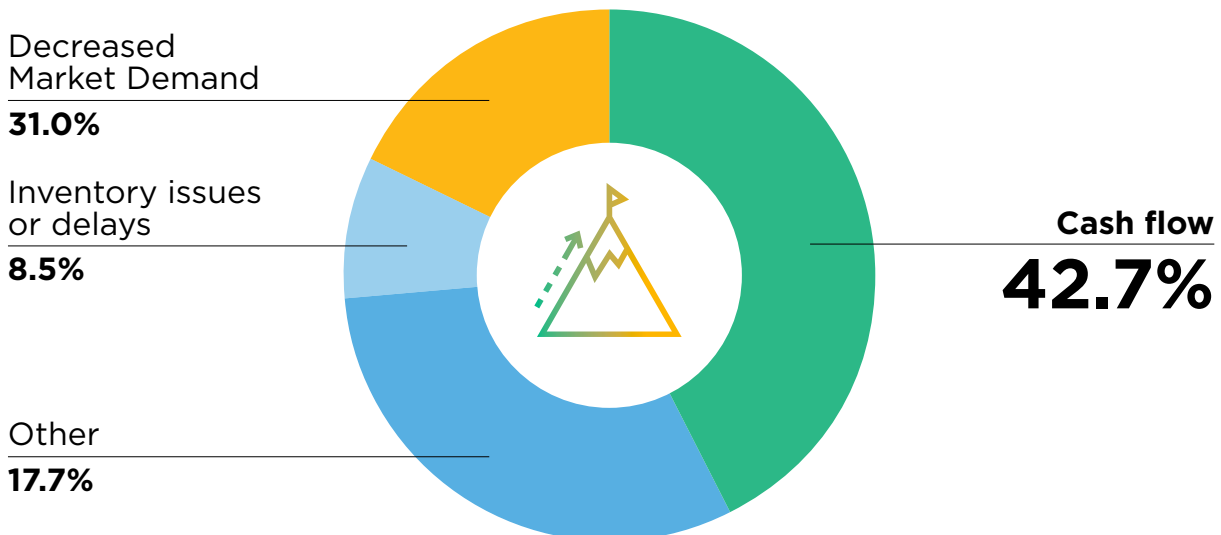




What is your biggest anticipated business challenge over the next six months?

Cash flow has been a pressing business concern for suppliers for some time. But that concern appears to be growing ahead of 2024. Nearly 43% (42.7%) of suppliers reported cash flow would be their biggest challenge over the next six months compared to 26.5% in H1. The second top business challenge, as reported by 31% of suppliers, was decreased market demand. Only 8.5% of suppliers reported inventory issues or delays as a top challenge – significantly less than the 18.1% reported in H1.

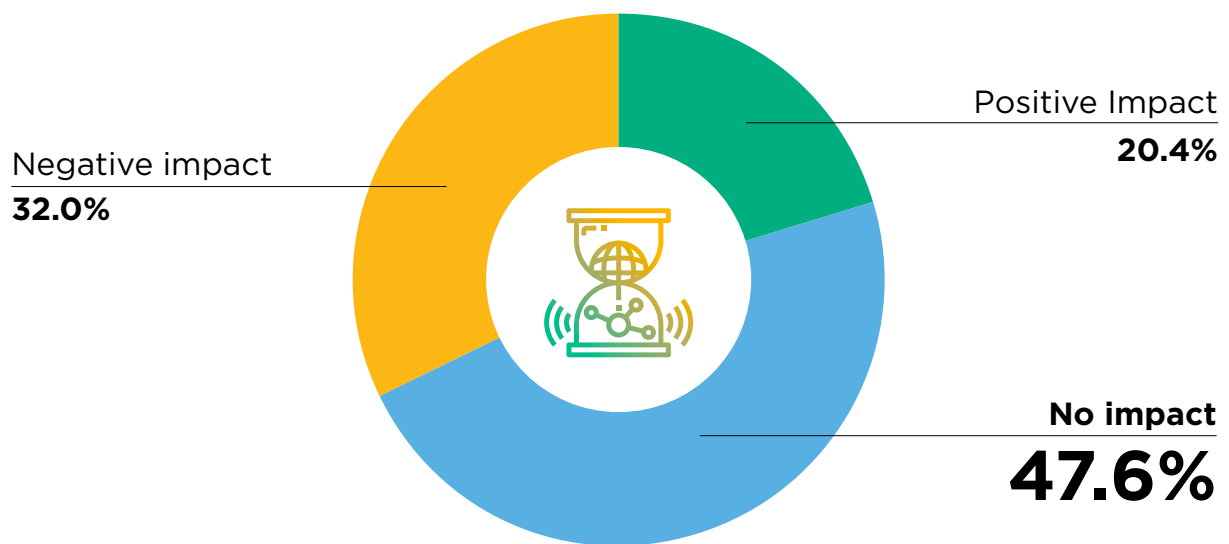
A meaningful number of suppliers – 17.7% – named “other” business challenges as their top concern heading into 2024. They included rising costs of raw materials, the lingering threat of a recession, and pressure to meet increasing market demand.



MARKET CONDITIONS:

Do you expect deteriorating market conditions to impact your business going into 2024?

Over two-thirds of suppliers anticipate deteriorating market conditions will either have no impact on their business (47.6%) or will have a positive impact (20.4%). However, nearly one-third (32%) of suppliers predict market conditions will negatively impact business performance heading into 2024.





Our perspective on what suppliers need to do now to prepare for 2024

Despite suppliers' optimism that business demand will remain steady, the financial health of many supply chains remains vulnerable. This vulnerability could grow if current economic predictions become reality in early 2024 – including a slowdown in consumer spending and GDP, sustained above-target inflation, suppressed global trade, and further interest rate increases.

The commercial lending environment will be a top concern for suppliers' finance and treasury teams going into 2024. Banks have become more selective, and the cost of capital has become more restrictive – neither trend shows signs of reversing any time soon. As a result, companies of all sizes (especially small and mid-sized businesses) will find it more difficult to access liquidity in the coming year.

Suppliers need to broaden their liquidity options so they can accomplish the following:

- Provide a financial buffer (or lifeline) against changing business conditions as the economy finds its footing in 2024
- Protect against known and unknown threats to cash flow – the threat landscape is evolving
- Decrease reliance on commercial lending
- Invest in strategic business initiatives (some long overdue) to sustain or grow competitive advantage

All factors considered, the bottom line is while there are valid reasons to be optimistic for the year ahead, there are also substantial challenges - including geopolitical instability along with broader economic uncertainty. For the foreseeable future, these challenges will continue to pose significant threats. For suppliers, working capital solutions such as supply chain finance, receivables finance, and dynamic discounting each play their role in providing much-needed cushion through uncertainty and volatility.

The reality is that no analyst or prognosticator knows what's in store for the months and year ahead. PrimeRevenue's advice to suppliers and other players in the supply chain: Be aware of economic conditions and make reasonable assessments – but do not be married to, or dependent on, any particular outcome. Continue to prioritize liquidity and resilience. At PrimeRevenue, that's our own plan – and the plan we recommend for suppliers, buyers, and funders in the supply chain.