

U.S. Data Review

- ISM nonmanufacturing index: strong orders support firm activity
- International trade: exports and imports improve, although still shy of pre-virus totals

Michael Moran

 Daiwa Capital Markets America
 212-612-6392
 michael.moran@daiwacm.com

ISM Nonmanufacturing Index

The ISM nonmanufacturing rose 1.0 percentage point in July to 58.1 percent. The change, while moderate in an absolute sense, occurred from an already firm level and was noticeably better than the expected decrease of 2.1 percentage points. The new level of the index was better than the average of 55.5 percent in 2019 and was only slightly below the average of 59.0 percent in 2018, which was the best year for this indicator in the latest expansion. Thus, a strong report for the nonmanufacturing sectors of the economy.

A jump of 6.1 percentage points in the new orders component led the advance in July. The new level of this index (67.7 percent) represented a record high (chart). Given robust order flows, business activity also was strong. The monthly change in the activity component was moderate at 1.2 percentage points, but the change occurred from an already strong level of 66.0 percent in June. The new level of the business activity index (67.2 percent) was the second strongest in the history of the series and only slightly below the record of 67.7 percent in January 2004.

While the report overall was strong, the employment component disappointed. This measure fell 1.0 percentage point and remained decidedly below 50 percent at 42.1 percent. The supplier deliver component also fell, dropping 2.3 percentage points to 55.2 percent. However, this drop was not surprising, as virus-related disruptions to supply chains had driven the measure to a record level in April. Adjustment by firms have brought the index back to within the normal historical range (although still in the upper portion of that range).

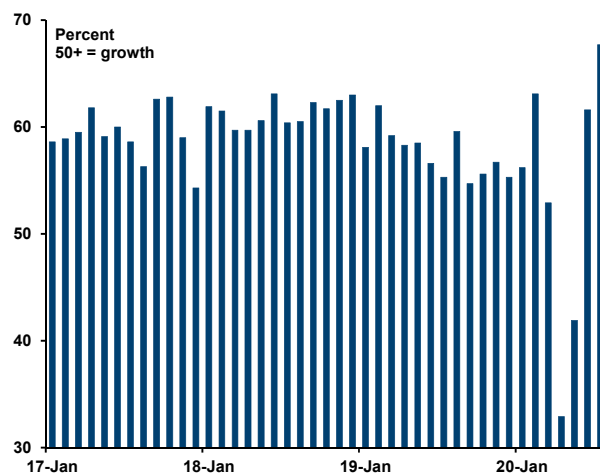
ISM Nonmanufacturing -- Monthly Indexes

	Mar-20	Apr-20	May-20	Jun-20	Jul-20
ISM Nonmfg. Composite	52.5	41.8	45.4	57.1	58.1
Business activity	48.0	26.0	41.0	66.0	67.2
New orders	52.9	32.9	41.9	61.6	67.7
Employment	47.0	30.0	31.8	43.1	42.1
Supplier deliveries*	62.1	78.3	67.0	57.5	55.2
Prices	50.0	55.1	55.6	62.4	57.6

* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics

ISM Nonmanufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

International Trade

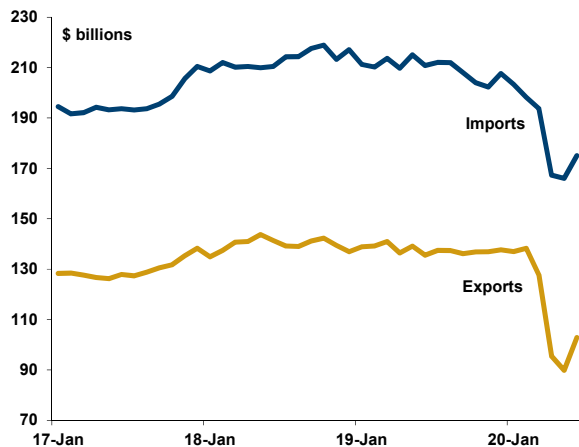
Both exports and imports rose in June, partly offsetting marked declines in prior months driven by the coronavirus. Exports jumped 9.4 percent, easily exceeding the increase of 4.7 percent in imports and reducing the trade deficit by \$4.1 billion (\$50.7 billion in June versus \$54.8 in May). The new trade figures were close to the assumptions in the initial estimate of Q2 GDP, thus today's report will not have a meaningful influence on revised economic growth.

Trade in goods accounted for most of the improvement, as a surge of 14.5 percent in exports (stronger than the increase implied by preliminary figures released last week) offset an increase of 5.4 percent in imports (also stronger than the preliminary read). The increase in goods exports was broadly based, although the auto components stood out on both sides of the trade ledger, with both exports and imports more than doubling from totals in the prior month.

The trade surplus in services improved slightly in June, ending a slide in the prior three months. Both exports and imports of services increased, although the changes were modest relative to swoons in prior months. Exports rose 1.0 percent, minuscule relative to the cumulative drop of more than 25 percent in the prior three months. The increase of 1.4 percent in imports of services provided only the slightest of offsets to the cumulative drop of more than 30 percent from March through May. The slippage in service trade during the spring reflected primarily declines in travel and transportation, obviously because of the coronavirus.

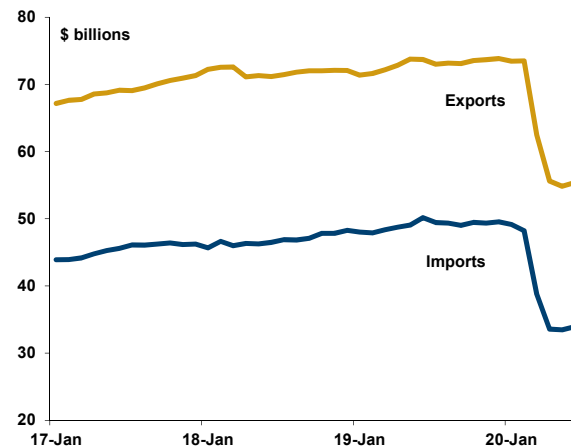
Both exports and imports with China fell in June, but the shifts occurred from elevated readings in May and the new totals were still firm relative to most readings in 2019 and early 2020. The changes led to a modest improvement in the trade deficit with China. The monthly shortfall of \$26.7 billion was narrower than it was in 2018 (before tariffs started to constrain trade), but it was about in the middle of the range of observations from last year.

Imports & Exports of Goods



Source: Bureau of Economic Analysis via Haver Analytics

Imports & Exports of Services



Source: Bureau of Economic Analysis via Haver Analytics