

U.S. Data Review

- International Trade: imports outpace exports (again)
- ISM Services: firm pace of activity

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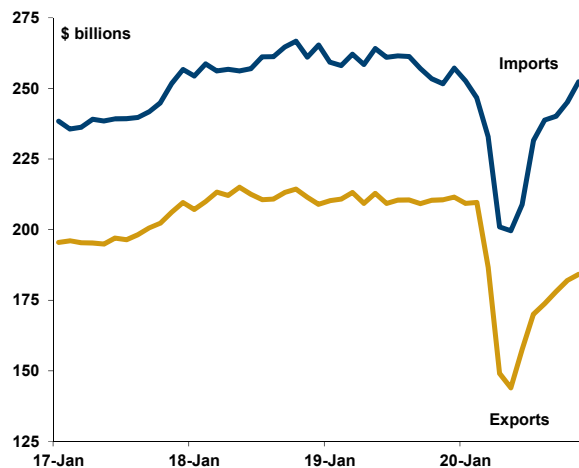
International Trade

Both exports and imports rose in November for the sixth consecutive month (chart, left). As in other recent months, the change in imports dominated, leading to a wider trade deficit. The latest reading on net exports totaled -\$68.1 billion, wider than the expected total of -\$67.3 billion and the -\$63.1 total in the prior month. Most of the deterioration occurred in the goods trade deficit, which widened by \$5.0 billion. The surplus in service trade eased slightly, continuing the erosion that has been in place throughout the year.

With imports improving more than exports in the past six months, the trade deficit has widened noticeably, with the shortfall \$68.1 billion in November dwarfing the average of \$48.1 billion from last year and the pre-pandemic average of \$42.2 in Q1. The deterioration resulted in net exports making a large negative contribution to GDP growth in the third quarter (subtracting 3.2 percentage points). The real goods deficit so far in the fourth quarter is wider than that in Q3 (chart, right), suggesting another drag in Q4. The results could change with the December report, but the data in hand point to a drag of three-quarters to a full percentage point.

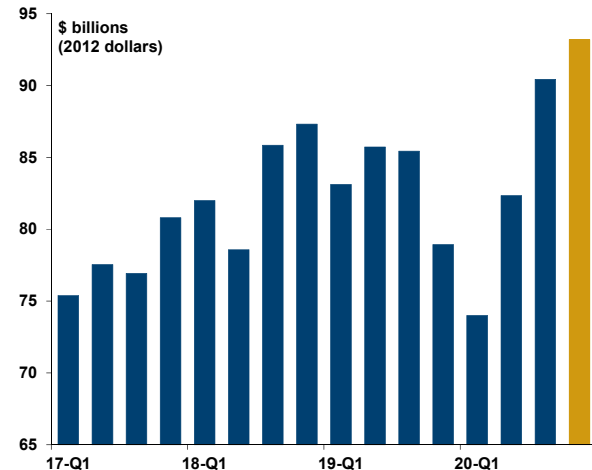
Today's report included data on trade by country. The pattern of trade with China has matched that of the overall figures: both exports and imports have improved from spring swoons, but imports have gained more ground, which has left a wider deficit. The shortfall with China in November was still narrower than it was before President Trump imposed tariffs, but it has retraced some of improvement registered in 2019.

Imports & Exports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Real Goods Trade Deficit*



* Quarterly averages of monthly data. The reading for 2020-Q4 (gold bar) is the average of monthly results for October and November.

Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

ISM Services

The service index published by the Institute for Supply Management rose 1.3 percentage points in December to 57.2 percent, noticeably better than the expected *decline* of 1.4 percentage points. The new level of the index was a bit shy of the best reading of the year (58.1 percent in July), and two other observations were marginally higher, but the better-than-expected total still represented a fine performance.

The supplier deliveries index led the overall advance with an increase of 5.8 percentage points to 62.8 percent (chart). This jump could be the result of pandemic-related disruptions to supply chains, but gains in new orders and business activity suggest that firm demand also played a role. Like the headline index, new orders and business activity did not move to new highs for the year, but they were elevated. The employment index disappointed with a drop of 3.3 percentage points. The decline pushed the measure below 50 percent after three consecutive months above this threshold. Even those three readings, which averaged 51.1 percent, were not impressive, as they trailed the average of 55.0 percent in 2019. Despite this disappointment, the report in total was favorable. Combined with impressive results in the manufacturing counterpart (up 3.2 percentage points to 60.7 percent), the ISM indexes suggest that economic activity is progressing despite a surge in Covid cases.

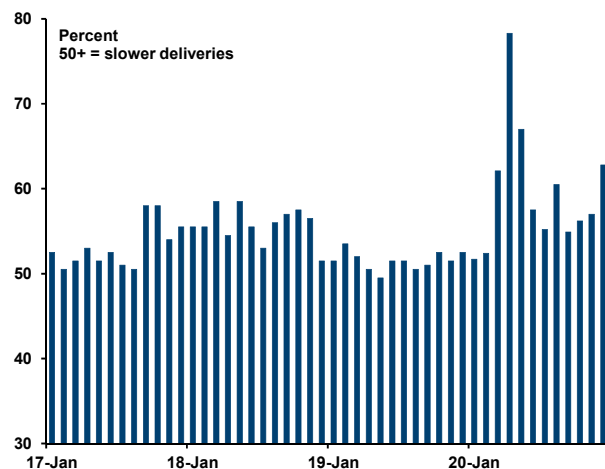
ISM Services -- Monthly Indexes

	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
ISM Nonmfg. Composite	56.9	57.8	56.6	55.9	57.2
Business activity	62.4	63.0	61.2	58.0	59.4
New orders	56.8	61.5	58.8	57.2	58.5
Employment	47.9	51.8	50.1	51.5	48.2
Supplier deliveries*	60.5	54.9	56.2	57.0	62.8
Prices	64.2	59.0	63.9	66.1	64.8

* 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 Services: Supplier Deliveries Index*



* 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