U.S. Data Review

- International trade: strong goods exports; Olympic-related weakness in services
- Factory orders: manufacturing in track

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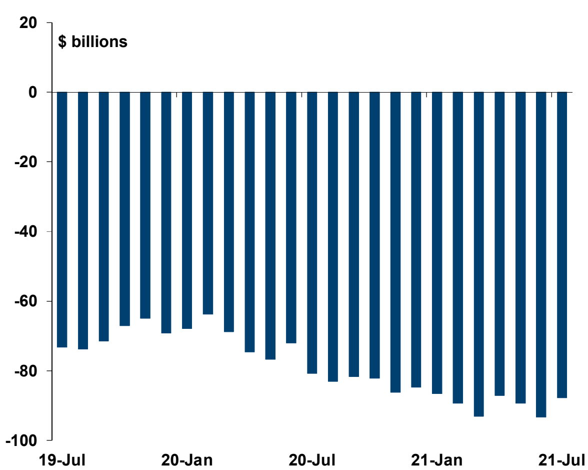
International Trade

The U.S. trade deficit in July totaled $70.1 billion, slightly better than the expected shortfall of $70.9 billion. While the size of the deficit was close to expectations, the monthly change of $3.2 billion was lighter than the expected improvement of $4.8 billion because of favorable revisions in June. In fact, results in the past six months were revised in favor of the U.S., with firmer exports of services accounting for nearly all of the revisions.

The deficit in July reflected noticeable improvement in trade of goods and slippage in service trade. The pickup in goods trade was the result of a jump of 1.8 percent in exports and a decline of 1.2 percent in imports. This composition represents a welcome break from the pattern of the past year or so, when imports of goods were noticeably stronger than exports. The changes on both sides of the goods trade ledger in July were broadly based rather driven by special factors in one or two areas. The slippage in service trade, in contrast, was heavily influenced by a special factor: a large payment to Japan for the broadcast rights to the summer Olympics. The surplus in service trade had deteriorated last year largely because of restricted international travel, but it was showing signs of stabilizing before July. The payment to Japan will be a one-time outlay, and thus we will most likely see noticeable improvement in August.

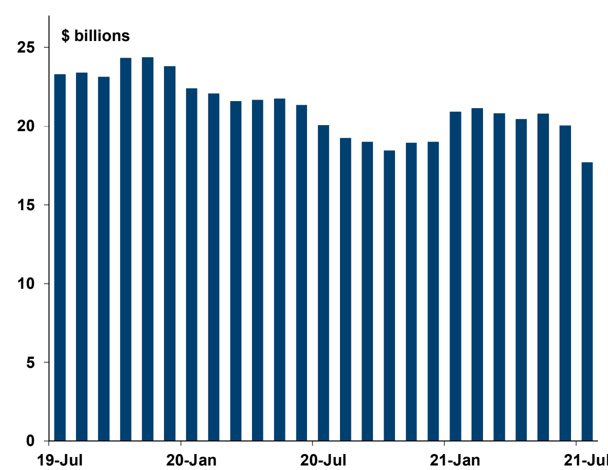
The implications of the July results for third quarter GDP are unclear. The improvement in goods trade was less pronounced after adjusting for inflation, and we wonder whether the softness in imports will be maintained. Thus, we are not optimistic about a meaningful boost from goods trade. At the same time, the slippage is service trade is most likely temporary. At this point, we view the effect of net exports on GDP growth to be about neutral. That is, a contribution to GDP growth of approximately zero.

U.S. Trade Balance: Goods



Source: Bureau of Economic Analysis via Haver Analytics

U.S. Trade Balance: Services



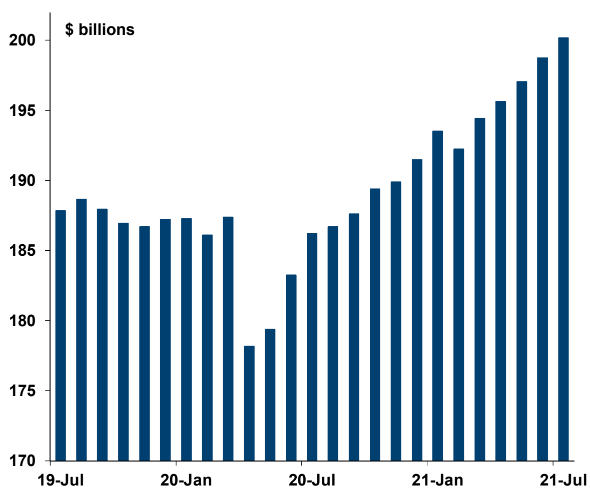
Source: Bureau of Economic Analysis via Haver Analytics

Factory Orders

New orders for manufactured goods rose 0.4 percent in July, a touch firmer than the expected gain of 0.3 percent. All of the advance occurred in the nondurable area, where bookings rose 0.9 percent. Some of this advance was the result of an increase of 1.6 percent in the petroleum and coal category, but orders elsewhere also were strong (up 0.7 percent excluding petroleum and coal). Orders ex-petrol have now increased in 14 of the past 15 months and have moved well above pre-pandemic totals (chart, left).

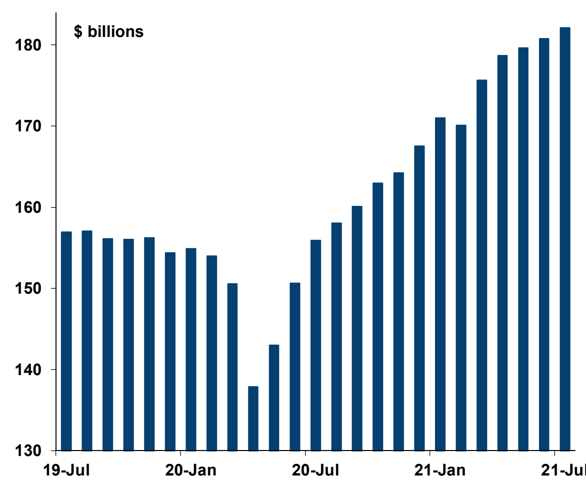
Orders for durable goods fell 0.1 percent, unrevised from the preliminary estimate published on August 25 (although results were marginally better if rounded to more than one decimal point: -0.099 percent versus a preliminary estimate of -0.141 percent). The decline in durable orders was not deeply disappointing because it was influenced by a drop of more than 48 percent in the volatile aircraft category. Durable orders excluding transportation rose 0.8 percent, continuing to move along an upward trend (up in 14 of the past 15 months, with the level of bookings far above the pre-pandemic norm; chart, right). Even the drop in the orders for commercial aircraft was not troubling. This sector is prone to sharp swings, and orders in the past six months have improved considerably from a dismal performance last year.

Nondurable Goods Ex. Petroleum and Coal



Source: U.S. Census Bureau via Haver Analytics

Durable Goods Excluding Transportation



Source: U.S. Census Bureau via Haver Analytics