U.S. Data Review

- International trade: export-led improvement in October
- Revised productivity: sharper decline in Q3

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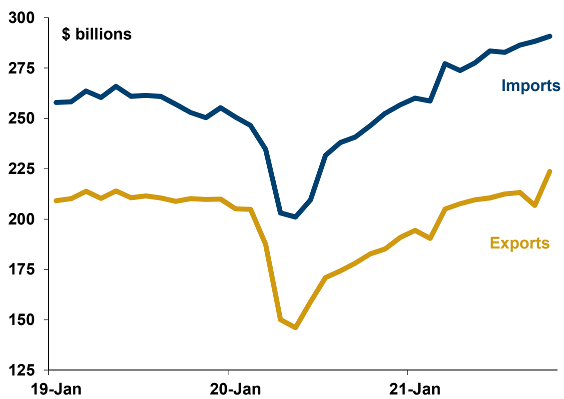
International Trade

The U.S. trade deficit narrowed by $14.3 billion in October, moving to $67.1 billion. The results were close to expectations, as preliminary results on the goods deficit published on November 24 showed a marked improvement. The narrowing of $14.0 billion in the goods trade deficit was joined by an improvement of $0.3 billion in the surplus on trade in services.

A surge of 11.1 percent in exports drove the improvement in the goods trade deficit. The jump seemed to contain a strong element of noise, as the change followed a drop of 4.7 percent in September. We suspect that problems with shipping delays and port congestion account for the September-October fluctuations. While random volatility played a role in recent results, the average for September and October shows a solid net pickup in exports, suggesting fundamental improvement. The surplus in service trade also improved, marking the second consecutive pickup. The recent improvement in service trade, however, occurred from a low level in August, and the size of the surplus still trails observations in earlier months of the year, and the trend in the past few years remained downward.

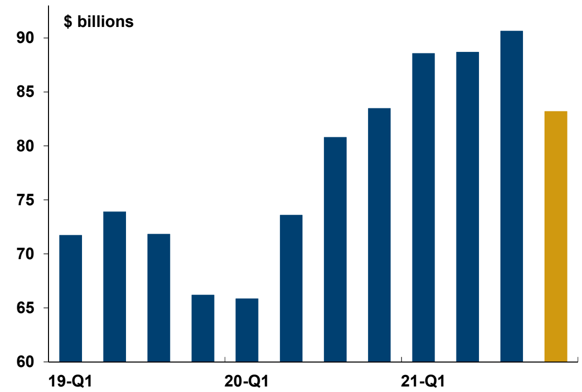
Given the random shifts in goods trade in the past two months, the results for October probably overstate the degree of fundamental improvement. Still, the data in hand suggest that the trade deficit in Q4 will be narrower than shortfalls in prior quarters. Also, the changes in goods trade held up after adjusting for price changes (chart, right), raising the possibility that real net exports will make a positive contribution to GDP growth in Q4, which would break a string of five consecutive negative contributions.

Imports & Exports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Real Trade Deficit in Goods*



** Quarterly averages of monthly data. The reading for 2021-Q4 (gold bar) is the monthly deficit for October.*

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

Revised Productivity

Nonfarm productivity fell 5.2 percent (annual rate) in the third quarter, a touch weaker than the initial estimate of -5.0 percent. Output in the nonfarm business sector was revised upward, but hours worked were revised by a larger amount, offsetting the positive effect of output on productivity. Productivity often changes sharply from quarter-to-quarter, and thus the soft results are not necessarily alarming, but the change in the past year also was weak (-0.5 percent) and the average advance of 2.3 percent in the past six quarters is not especially impressive for the early stages of a business expansion.

Compensation per hour rose at a solid pace (3.9 percent, revised from 2.9 percent). This advance, combined with the drop in productivity, led to a jump of 9.6 percent in unit labor costs. In addition, unit labor costs in the prior quarter were revised noticeably higher with growth now totaling 5.9 percent rather than 1.1 percent.