U.S. Data Review

- ISM services: broad-based slippage, but still elevated
- International trade for November: a reversal of surprising improvement in October
- Factory orders: trending upwards, at least in nominal terms

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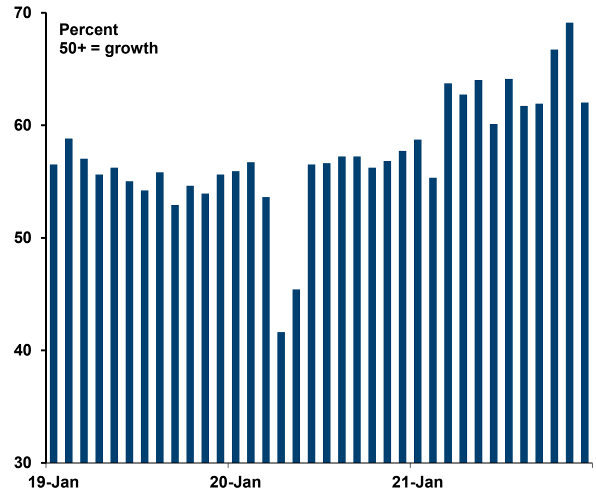
ISM Services Index

The service sector index published by the Institute for Supply Management tumbled 7.1 percentage points in December to 62.0 percent, noticeably lower than the expected reading of 67.0 percent. However, the change occurred from a record reading in November, and the new tally remained comfortably within the recent range and elevated relative to historical standards (chart).

The retreat was broadly based, with all four components easing. The supplier delivery index posted the sharpest change, dropping 11.8 percentage points to 63.9 percent. This shift could be viewed as a positive development for the economy, as it suggests progress in correcting supply-chain disruptions. The new orders and business activity components also fell noticeably (off 8.2 and 7.0 percentage points respectively), but the declines occurred from record levels in November and the new readings remained consistent with firm activity. The employment component fell only slightly, off 1.6 percentage points to a still-respectable reading of 54.9 percent. The price index (not a component of the headline measure) did not give any ground, as it inched 0.2 percentage point higher to 82.5 percent, just shy of the recent high of 82.9 percent in October and the record reading of 83.5 percent in September 2005.

ISM Nonmanufacturing Index

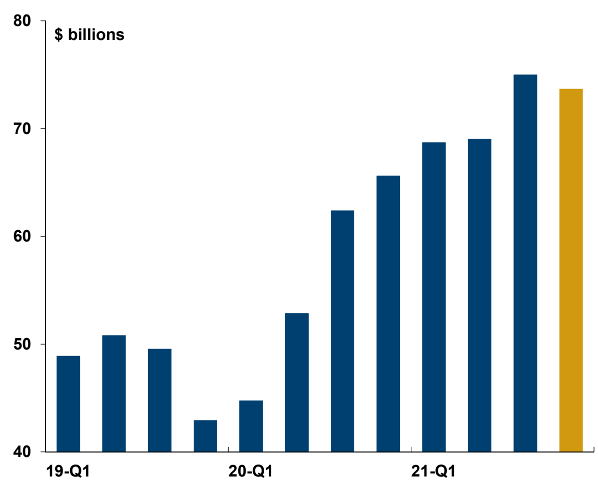


Source: Institute for Supply Management via Haver Analytics

International Trade

The U.S. trade deficit widened by $13.0 billion in November to $80.2 billion, slightly narrower than the expected shortfall of $81.0 billion. The increase reversed the surprising improvement of the deficit in October and pushed the shortfall close to the sizeable September deficit. The average so far in the fourth quarter is slightly narrower than that in Q3 (chart), but price-adjusted results on goods trade suggest slippage in real terms and therefore a negative contribution from net exports to GDP growth in the final months of the year. The drag, though, is not likely to be pronounced. If December's results were to match those for November, the negative contribution would total approximately one-quarter percentage point.

Nominal Trade Deficit in Goods & Services*



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

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

The widening in November primarily reflected a jump of 4.6 percent in imports, with goods and services both advancing (5.1 percent and 2.3 percent, respectively). Imports of goods are far above pre-pandemic levels, while imports of services are close to the best readings in 2019. Exports rose only slightly (0.2 percent), as foreign shipments of goods gave back a portion of their surge in October (off 1.8 percent after a jump of 11.1 percent in October). Exports of services rose 5.0 percent, driven by a pickup in transportation and travel.

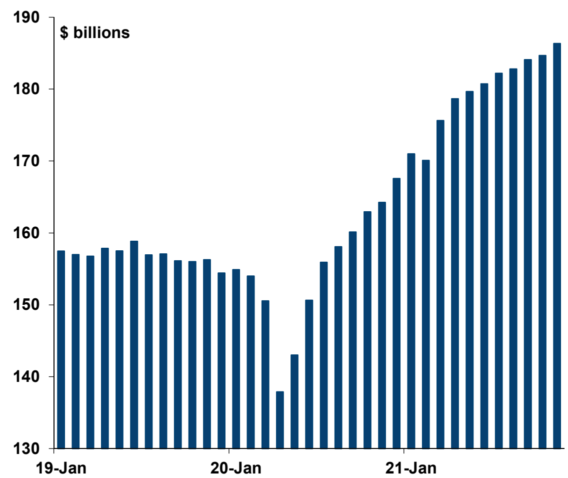
Factory Orders

Total factory orders rose 1.6 percent in November, nearly identical to the expected increase of 1.5 percent. The durable component rose 2.6 percent, a touch firmer than the preliminary estimate of 2.5 percent released last week. This jump was led by the volatile aircraft component (commercial and defense combined rose 23.7 percent), but durable orders ex-transportation also performed well, advancing 0.9 percent (chart, left).

Orders for nondurable goods rose 0.7 percent. The petroleum and coal category made a sizable contribution with an increase of 1.2 percent. The advance was especially impressive because petroleum-related prices started to edge lower in November, suggesting that much of the gain reflected a pickup in real terms. Orders excluding petroleum and coal also rose, increasing 0.5 percent and marking the ninth consecutive increase and the 18th in the past 19 months (chart, right).

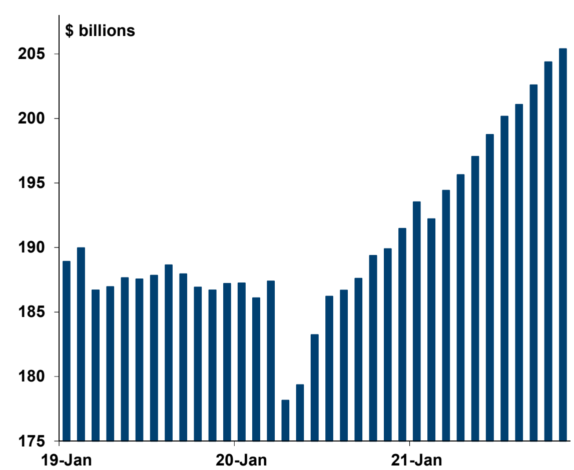
Bookings for both durable goods ex-transportation and nondurable goods ex-petroleum and coal are well above pre-Covid levels, although some of the advance in the past year or so is the result of higher prices rather than gains in real terms.

Durable Goods Orders Ex. Transportation



Source: U.S. Census Bureau via Haver Analytics

Nondurable Goods Orders Ex. Petroleum



Source: U.S. Census Bureau via Haver Analytics