U.S. Data Review

- International trade: sharply narrower deficit thus far in Q3
- ISM services: a solid performance amid slowing growth

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International Trade

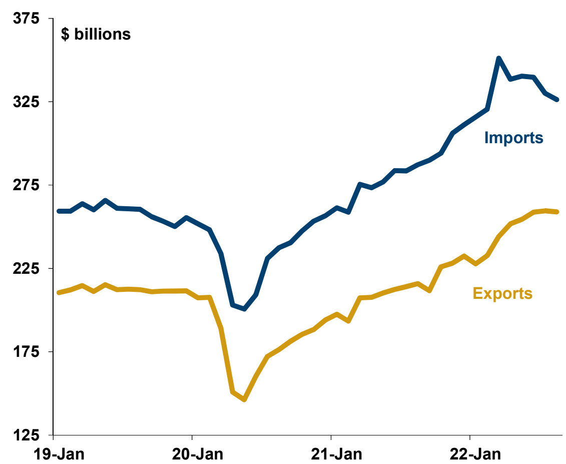
- The U.S. international trade deficit in goods and services narrowed by $3.1 billion in August, nearly equal to consensus view of $3.0 billion. Results in the prior month were revised in favor of the U.S. (deficit of $70.5 billion versus $70.7 billion first reported), leaving the level of the deficit slightly narrower than projected ($67.4 billion versus $67.7 billion expected).

- Both exports and imports fell in August, with imports showing the larger change (-1.1 percent versus -0.3 percent for exports; chart, left). Total exports have shown little net change in the past two months, breaking from an upward trend in the prior two years; imports have fallen sharply in the past three months after surging late last year and the early months of this year, most likely reflecting noise generated by supply chain disruptions.

- Most of the improvement in the trade deficit in August occurred in the goods sector, where imports were notably softer than exports (-1.5 percent versus -0.4 percent for exports). The surplus in service trade slipped a bit, as imports rose 0.7 percent while export were unchanged.

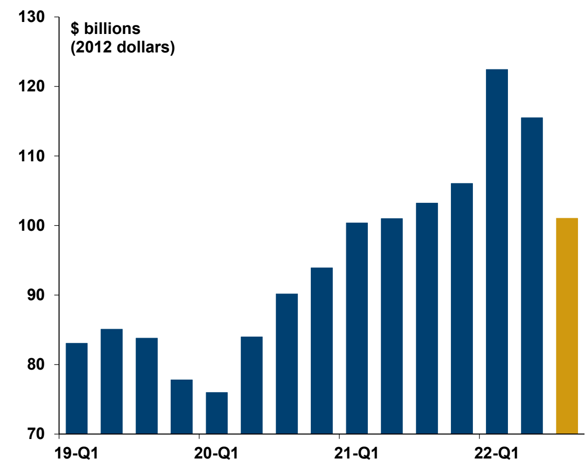
- The real goods deficit thus far in Q3 is sharply narrower than that for Q2, raising the prospect of a large positive contribution from net exports to GDP growth – more than three percentage points if trade does not collapse in September (chart, right). The expected increase would follow a positive contribution of 1.2 percentage points in Q2, although net exports subtracted 3.1 percentage points from growth in Q1 and an average of 0.8 percentage point per quarter in the prior two years.

Exports & Imports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Real Goods Trade Deficit*



** Quarterly averages of monthly data. The reading for 2022-Q3 (gold bar) is the average of the real goods deficits for July and August.*

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

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ISM Services Index

- The services index released by the Institute for Supply Management dipped 0.2 index point in September to 56.7, a better performance than the expected decline of 0.7 index point. The measure is down sharply from the record high of 68.4 in November of last year, but has held up relatively well despite a tightening in financial conditions and slower growth.

- The business activity component slipped 1.8 index points in September to 59.1, and the new orders component declined 1.2 index points to 60.6. Both trailed the firm averages for 2021 (64.5 for business activity and 63.4 for new orders), but they remained on solid footing, The ISM report noted that “production was higher to support sales,” and that firms were adding new customers.

- The employment component rose 2.8 index points to 53.0, the third consecutive improvement after a recent low of 47.4 in June (chart, right). Comments in the report indicated that firms were hiring, but that finding qualified applicants remained challenging.

- The supplier deliveries component declined 0.6 index point to 53.9, a drag on the headline index but indicating further normalization of supply chains. The measure has continued to ease from readings of 75.7 in October/November of last year (and a record high of 78.3 in April 2020), but labor disputes and supply chain difficulties were still noted in the September report.

- The price index slipped 2.8 index points to 68.7, the fifth consecutive decline from a record of 84.6 in April; however, the measure is still elevated from a longer-term perspective. The price index in the manufacturing survey (published earlier this week) has fallen more sharply (51.7 in September, versus an average of 81.8 in Q2 and readings ranging from 68.2 to 92.1 last year), as commodity prices play a more prominent role and have fallen more than costs in the service sector.

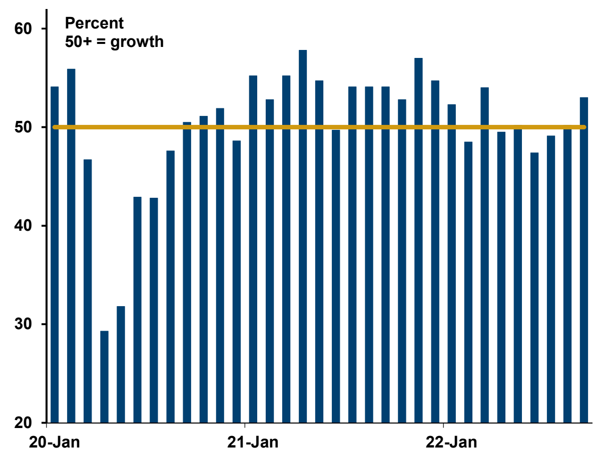
ISM Services: Monthly Indexes

	May-22	Jun-22	Jul-22	Aug-22	Sep-22
ISM Nonmfg. Composite	55.9	55.3	56.7	56.9	56.7
Business activity	54.5	56.1	59.9	60.9	59.1
New orders	57.6	55.6	59.9	61.8	60.6
Employment	50.2	47.4	49.1	50.2	53.0
Supplier deliveries*	61.3	61.9	57.8	54.5	53.9
Prices	82.1	80.1	72.3	71.5	68.7

** 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: Employment Index



Source: Institute for Supply Management via Haver Analytics