U.S. Data Review

- International trade: data through February suggest modest drag on Q1 growth
- ISM services index: notable softening in March, but still on growth track

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U.S. International Trade

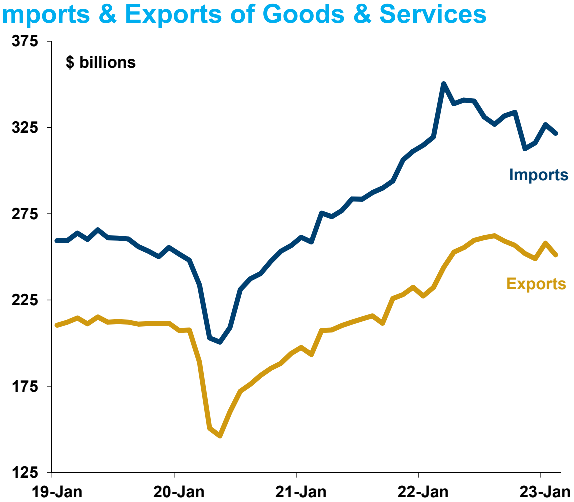
- Both U.S. exports and imports fell in February (off 2.7 percent and 1.5 percent, respectively; chart, left). The shifts led to a widening of $1.9 billion in the monthly trade deficit to $70.5 billion (versus the consensus expectation of a widening of $0.5 billion). In addition, the trade results for January were revised against the U.S., with new data showing a deficit of $68.7 billion rather than $68.3 billion. In the latest month (February), the deterioration was concentrated in the goods sector, where the deficit widened in both nominal and real terms. The nominal service surplus increased in February, offsetting a portion of a drop in the prior month.

- In the goods sector, both nominal exports and imports declined (off 4.8 percent and 2.2 percent, respectively). The contraction in the dollar volume of exports exceeded by a wide margin that in imports which led to a notable widening in the goods deficit (-$93.0 billion versus -$90.3 billion in January). The results were more pronounced than those in data published last week that showed a widening of $0.5 billion in the goods deficit (Census basis; revised to a widening of $0.7 billion in the latest report).

- Service trade improved in February, with the surplus increasing by $0.8 billion to $22.4 billion, a reading in the upper end of the range in the current expansion but below levels prior to the onset of COVID. The pickup followed a narrowing of $1.9 billion in January from the largest surplus of the current expansion in December 2022 ($23.5 billion). In the latest month, both exports and imports of services increased (up 2.1 percent and 1.4 percent, respectively).

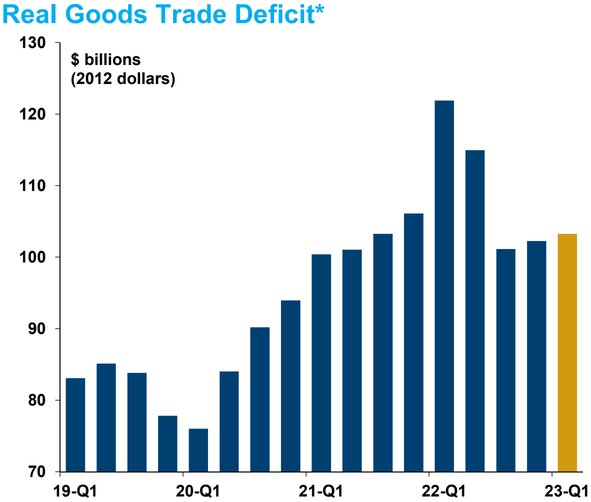
- The real goods deficit for February of $104.6 billion widened by $2.7 billion from the January result. Moreover, the average of -$103.2 billion for the first two months of Q1 exceeded the average deficit of $102.2 billion in 2022-Q4, which would suggest a modest drag from net exports on GDP growth -- perhaps less than one-quarter percentage point (chart, right). However, keep in mind that data for March could shift final assessments of the effects of trade on Q1 growth.

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 2023-Q1 is the average of the real goods deficits for January and February 2023.*

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

ISM Services Index

- The service sector index published by the Institute for Supply Management fell 3.9 index points in March to 51.2, softer than the consensus expectation of an easing to 54.4. The latest reading is well shy of robust results in 2021 (average of 62.4 for the year) and the solid performance last year (average of 56.1; chart, bottom left). Tight financial conditions and uncertainty about the outlook appear to have weighed on the views of survey respondents.
- The new orders component led the decline in March, falling 10.4 index points to 52.2. The latest reading, although still indicating that new orders were increasing, was among the softest of the current expansion (chart, below right).

ISM Services: Monthly Indexes

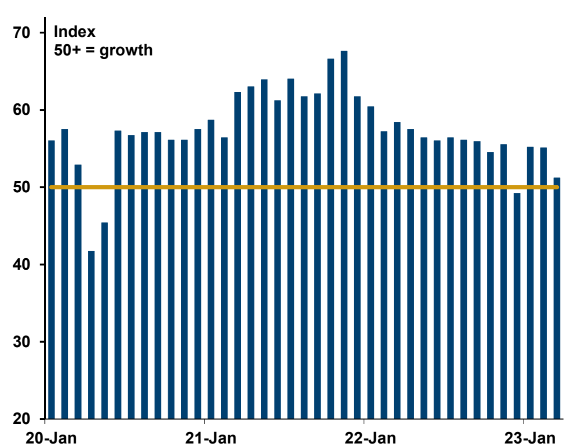
	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
ISM Nonmfg. Composite	55.5	49.2	55.2	55.1	51.2
Business activity	61.6	53.5	60.4	56.3	55.4
New orders	55.8	45.2	60.4	62.6	52.2
Employment	50.6	49.4	50.0	54.0	51.3
Supplier deliveries*	53.8	48.5	50.0	47.6	45.8
Prices	70.1	68.1	67.8	65.6	59.5

** 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

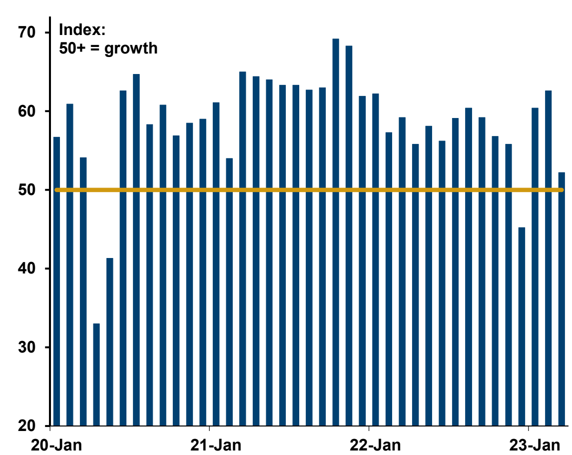
- The employment component slipped from 2.7 index points to 51.3 from an elevated reading in February. Prior to the reading of 54.0 last month, the employment index had hovered around the critical value of 50.0 for much of 2022. Comments from survey respondents indicated difficulty in maintaining current staffing levels and in filling open positions.
- The business activity index eased in March, but to a lesser degree than other key components (-0.9 index point to 55.4). The latest observation trailed the average of 57.9 last year, but it still implied a solid performance in current activity.
- The supplier deliveries index declined 1.8 index points to 45.8, the lowest observation since April 2009 and among the softest in the history of the series. The latest shift added an accent to the sharp drop since late 2021 (recent high of 75.5 in October/November 2021) and indicates that supply-chain issues from earlier in the pandemic have largely been resolved.
- The prices paid index fell 6.1 index points to 59.5, cooling further from the recent peak of 84.5 in December 2021. Labor rather than commodities is the dominant input in the service sector, and wage pressure likely remains amid still-tight tight labor market conditions. However, the drop in the prices paid index in the latest month hints at cooling.

ISM Services: Headline Index



Source: Institute for Supply Management via Haver Analytics

ISM Services: New Orders Index



Source: Institute for Supply Management via Haver Analytics