U.S. Data Review

- Trade balance: nominal goods deficit widens, implying drag from net exports on GDP in Q4
- Revised nonfarm productivity: upward adjustment to already-firm Q3 data

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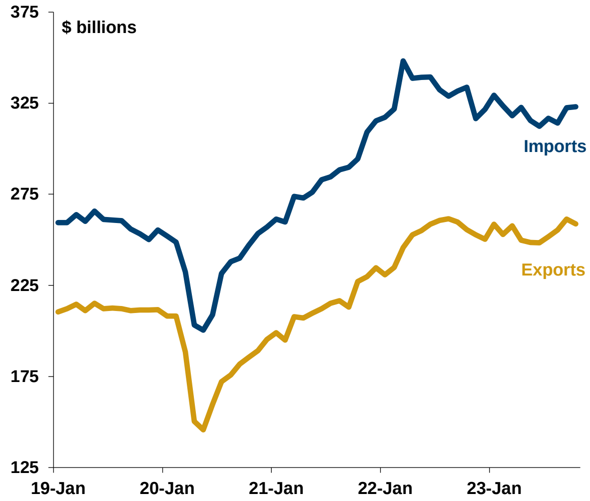
U.S. International Trade

- Imports rose modestly in October (+0.2 percent), while exports fell 1.0 percent (chart). The combined shifts led to a widening of $3.1 billion in the monthly trade deficit in goods and services to $64.3 billion. The deterioration was concentrated in the goods sector, where the deficit widened on both a nominal and real basis. In contrast, the service surplus widened.

- In the goods sector, nominal exports fell 1.8 percent after three consecutive months of sharp gains. Imports rose 0.1 percent after a jump of 2.7 percent in September. The deterioration in goods trade held up after adjusting for inflation, although the decline in exports was less pronounced (-0.2 percent). Real imports of goods increased 0.2 percent.

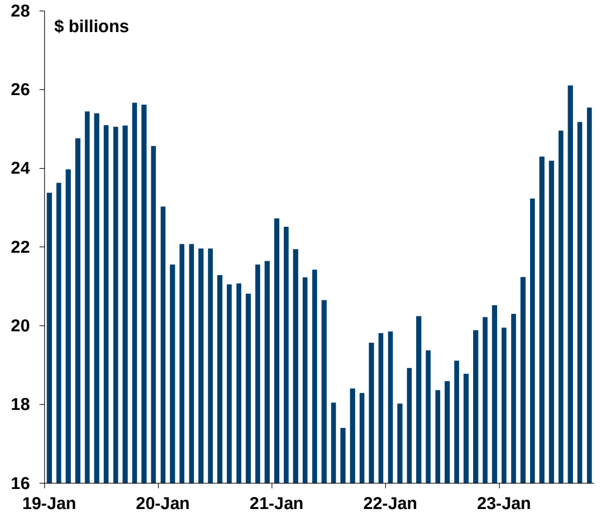
Exports & Imports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

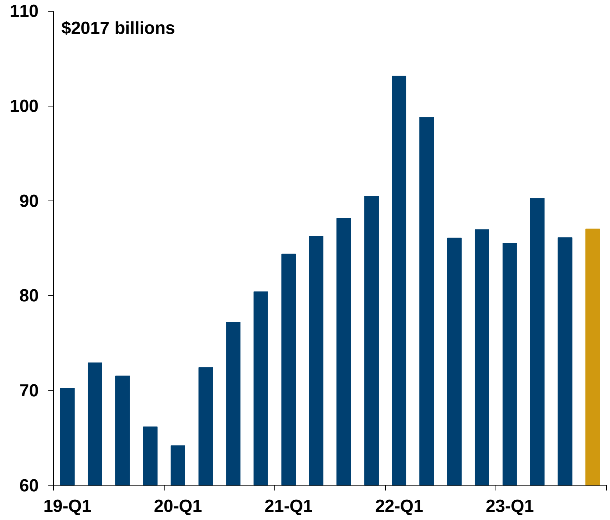
- The nominal service surplus increased by $0.37 billion to $25.5 billion after narrowing in September from the high of the current expansion of $26.1 billion in August. Exports of services rose 0.7 percent, while imports advanced 0.4 percent. The level of the service surplus is now comparable to those prior to the onset of COVID (chart below, left).

Trade Surplus in Services



Source: Bureau of Economic Analysis via Haver Analytics

Real Goods Trade Deficit*



** Quarterly averages of monthly data. The reading for 2023-Q4 (gold bar) is the real goods deficit for October 2023.*

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

- The real goods deficit for October of $87.0 billion was a bit wider than the average deficit of $86.1 billion in 2023-Q3, which would suggest a negative contribution from net exports to GDP growth in Q4 (chart, prior page, right). While the projection likely will evolve with the incorporation of trade data for November and December, current results for October suggest a drag of approximately one-quarter percentage point from net exports on GDP growth in the closing quarter of 2023.

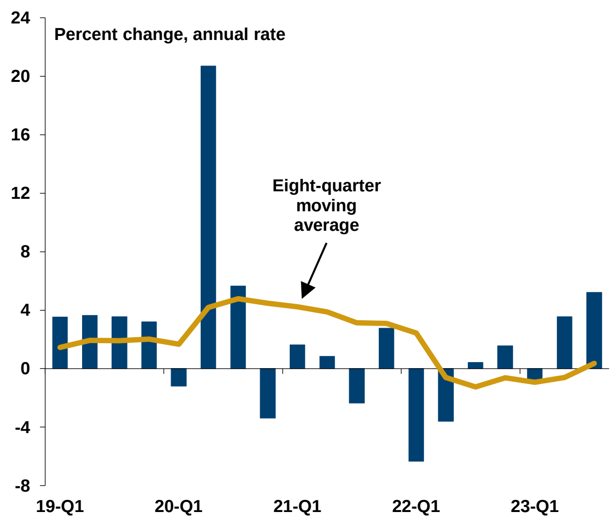
Revised Nonfarm Productivity

- The preliminary estimate of U.S. productivity growth in the third quarter was already strong at 4.7 percent (annual rate), but the revised tally was even more robust at 5.2 percent (chart, below left). The latest advance followed a brisk increase of 3.6 percent in Q3, suggesting a stirring in productivity growth after a disappointing performance for much of the current expansion. We encourage viewing productivity on an eight-quarter-average basis to smooth the marked volatility inherent in this series; recent observations moved decidedly above trend (chart, below left; the eight-quarter average in 23-Q3 totaled 0.3 percent, annual rate).

- In Q3, output was revised higher by 0.2 percentage point to 6.1 percent, while hours worked were adjusted lower (growth of 0.9 percent, annual rate, versus 1.1 percent). Hourly compensation growth was unrevised at 3.9 percent after bursts of 6.2 percent in Q2 and 6.5 percent in Q1.

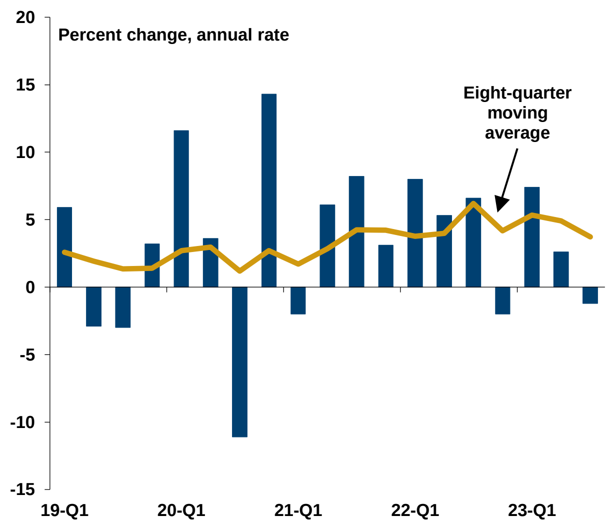
- The revision to productivity led to a downward adjustment to unit labor costs (-1.2 percent, annual rate, versus -0.8 percent initially published; chart, below right). The latest development was encouraging, but labor costs are still elevated (eight-quarter average of 3.7 percent, annual rate).

Nonfarm Productivity



Source: Bureau of Labor Statistics via Haver Analytics

Unit Labor Cost



Source: Bureau of Labor Statistics via Haver Analytics