U.S. Data Review

- U.S. trade balance: wider deficit in November
- ISM services: indicating expansion for the sixth consecutive month; concerning jump in prices
- JOLTS: suggestive of ongoing rebalancing in the labor market but not marked deterioration in underlying conditions

Lawrence Werther
Brendan Stuart
Daiwa Capital Markets America
lawrence.werther@us.daiwacm.com
brendan.stuart@us.daiwacm.com

U.S. International Trade

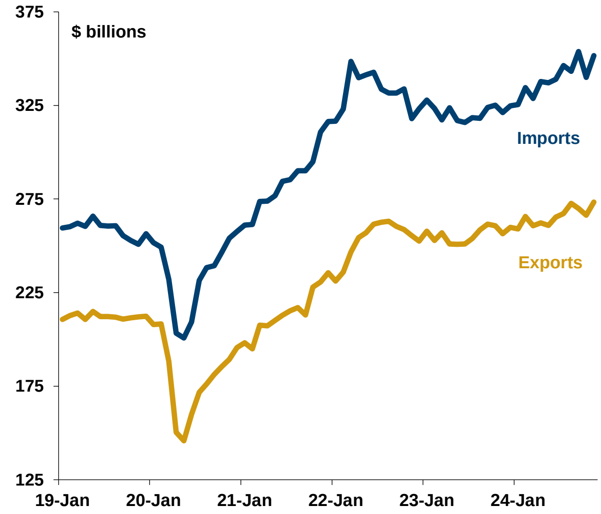
- Both foreign imports and U.S. exports rose briskly in November (up 3.4 percent and 2.6 percent, respectively; chart, below left), although the dollar volume of imports exceeded that of exports and thus the trade deficit widened by $4.6 billion to $78.2 billion. The deterioration was concentrated in the goods sector, where the deficit widened both in nominal and real terms. Service trade, in contrast, improved.

- The nominal service surplus widened by $0.9 billion in November to $25.2 billion after a narrowing in the prior month from the from the 2024 high in September. In the latest month, an advance of 0.9 percent in service exports exceeded a pickup of 0.1 percent in imports.

- In the goods sector, both nominal imports and exports rose (up 4.3 percent and 3.6 percent, respectively), with the jump in imports leading to a widening in the goods deficit (-$103.4 billion versus -$97.9 billion in October). Moreover, the deterioration in goods trade remained after adjusting for inflation.

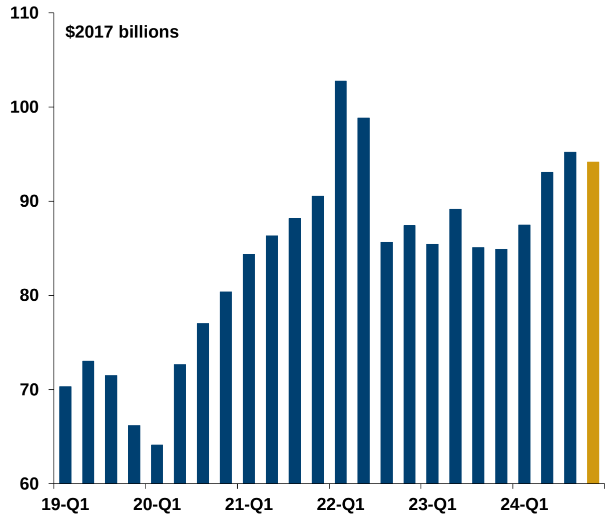
- With regard to GDP effects, the real goods deficit of $96.5 billion was wider than the $91.8 billion shortfall in October, although the average of -$94.2 billion for Q4 thus far lagged the -$95.2 billion average in Q3 (chart, below right). The results suggest a modest positive contribution to GDP growth in Q4 (current house estimate of +0.1 percentage point contribution), which would contrast to notable drags in the previous three quarters (including -0.4 percentage point in 24-Q3).

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 2024-Q4 (gold bar) is an average of the deficits for October and November 2024.*

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

ISM Services Index

- The Institute for Supply Management's services index rose 2.0 percentage points in December to 54.1 percent (a bit firmer than the Bloomberg median expectation of a pickup of 1.4 percentage points to 53.5 percent). The latest reading, which was in the upper end of the range for 2024 (although a bit below the high of 56.0 in September), indicated that the service sector remained in growth territory for the sixth consecutive month (and for the 22nd time in the past 24 months) after showing signs of hesitation in Q2.

ISM Services: Monthly Indexes*

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
ISM Nonmfg. Composite	51.5	54.9	56.0	52.1	54.1
Business activity	53.3	59.9	57.2	53.7	58.2
New orders	53.0	59.4	57.4	53.7	54.2
Employment	50.2	48.1	53.0	51.5	51.4
Supplier deliveries*	49.6	52.1	56.4	49.5	52.5
Prices	57.3	59.4	58.1	58.2	64.4

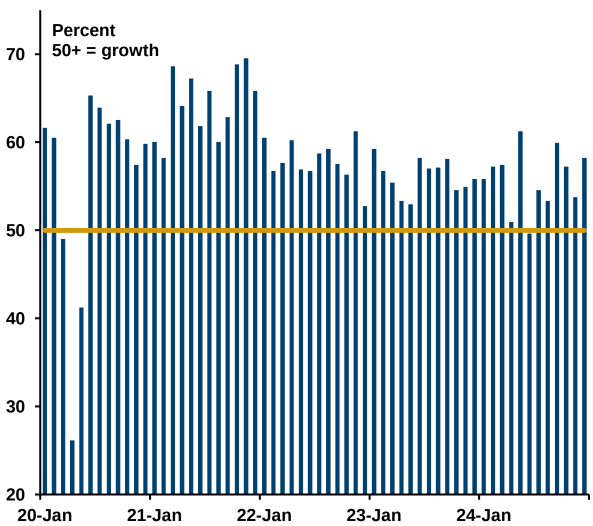
** The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.*

Source: Institute for Supply Management via Haver Analytics

- All four indexes that contribute to the composite measure registered above-50 readings in December. The business activity index posted the strongest performance (+4.5 percentage points to 58.2), with the latest reading the 54th expansionary observation in the past 55 months and the third firmest of 2024 (high of 61.2 in May; chart, below left). Additionally, new orders recorded its sixth consecutive month above the critical threshold (+0.5 percentage point to 54.2). The employment index dipped (-0.1 percentage point to 51.4), but remained in growth territory for the third month in a row. The supplier deliveries component (i.e. vendor performance) rose 3.0 percentage points to 52.5 percent – a reading suggesting "slower" rather than "faster" deliveries. The measure, however, is in line with historical norms and implies that supply chains are functioning well.

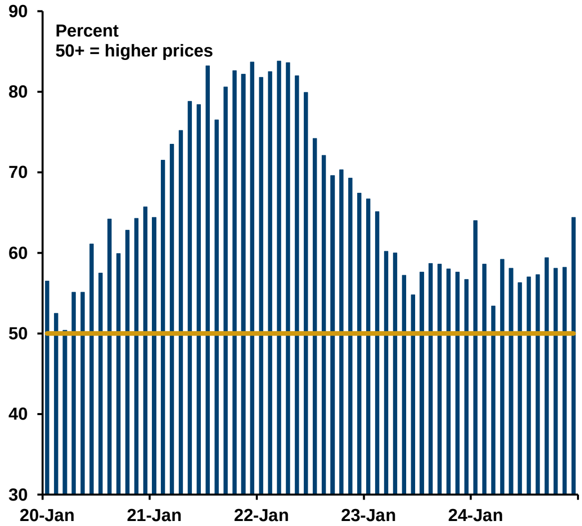
- The prices index was perhaps the most notable aspect of the latest report, with 15 of 18 industries surveyed reporting increases in prices paid. On the point, the index surged 6.2 percentage points 64.4 – the highest level since February 2023. However, the latest reading lagged the elevated average of 76.4 percent in 2022, a period characterized by acute price pressure. Moreover, the measure is volatile from month-to-month. That said, this index bears watching as it may suggest that improvement in service-sector inflation could stall (chart, below right).

ISM Services: Business Activity Index



Source: Institute for Supply Management via Haver Analytics

ISM Services: Prices Index



Source: Institute for Supply Management via Haver Analytics

Job Openings and Labor Turnover

- Job openings, a proxy for labor demand, increased 259,000 in November to 8.098 million from an upwardly revised reading in the prior month (openings of 7.839 million in October versus a preliminary estimate of 7.744 million), its second consecutive increase after reaching a cycle low of 7.372 million in September. That said, job openings are 4.084 million below the record high of 12.182 million in March 2022 and are only moderately above the pre-pandemic record of 7.594 million in November 2018. In essence, the broad easing in demand for labor, recent pickup aside, is consistent with balanced labor market conditions which are no longer generating unsustainable wage pressure (chart, below left).

- For another view on labor demand, the job opening rate (job openings as a share of the sum of total employment and job openings) increased 0.1 percentage point to 4.8 percent – a reading also far below the record high of 7.4 percent in March 2022. Additionally, there are currently 1.1 job openings per unemployed person, down from the record of 2.0 in March 2022 and within the range in 2018-2019 (1.0 to 1.2 openings per unemployed) – a period when labor market conditions were favorable (but not overly tight).

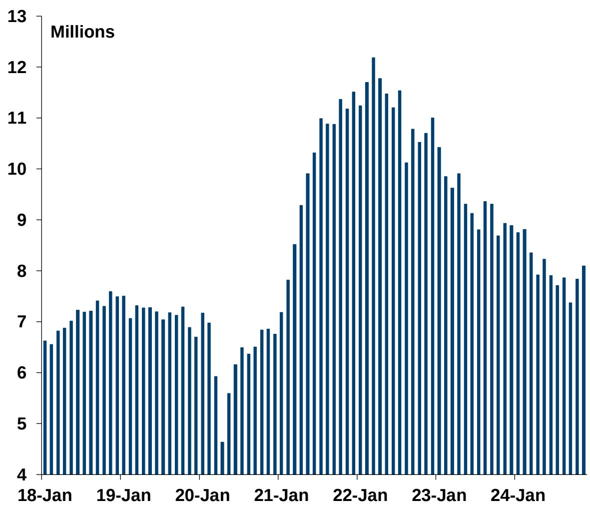
- Layoffs and discharges rose in November (+17,000 to 1.765 million), but remained contained. The layoff and discharge rate held at 1.1 percent for the third consecutive month, a reading within the 2018-2019 range of 1.1 to 1.3 percent. To date, easing in labor demand has been generated by previous declines in job openings rather than a jump in layoffs.

- Hires, on the other hand, softened again in November, decreasing by 125,000 to 5.269 million. Resultantly, the hires rate fell 0.1 percentage point to 3.3 percent (versus a cycle high of 6.1 percent in May 2020 and a range of 3.7 to 4.0 percent in the two years prior to the onset of COVID).

- Quits, which give insight to employee views on the strength of the labor market by indicating willingness to leave current positions to seek better opportunities elsewhere, eased in the latest month. Total quits declined by 218,000 to a new cycle low 3.065 million in November, a result well off the record high of 4.515 million in April 2022 and somewhat below pre-pandemic observations. The quits rate, in turn, dropped 0.2 percentage point to 1.9 percent (versus the record of 3.0 percent posted in November 2021, January 2022, and April 2022; chart, below right). In context, workers appear less confident in their ability to secure more lucrative employment in the open market – a development that may portend further slowing in wage growth.

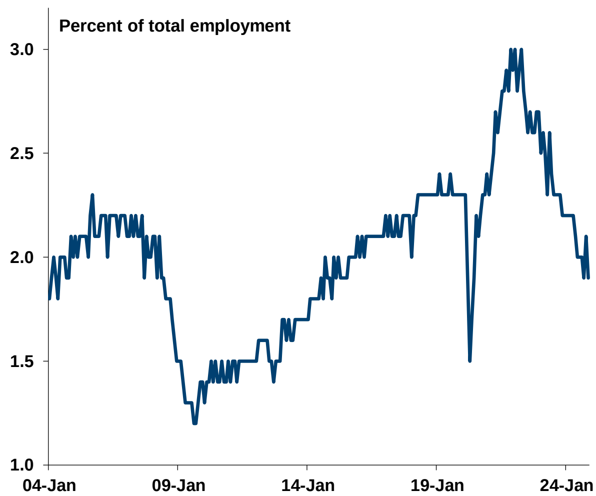
- All told, moderation in the labor market is ongoing. Supply and demand have come into balance and wage growth has eased from an unsustainable pace. With that in mind, we will be watching closely Friday's employment report. Data therein will hopefully ratify Fed views that the labor market is in a good place currently, but we will remain on the lookout for hints of undesirable deterioration.

Job Openings



Source: Bureau of Labor Statistics via Haver Analytics

Quits Rate



Source: Bureau of Labor Statistics via Haver Analytics