U.S. Data Review

- International trade: light imports, narrower deficit
- ISM nonmanufacturing: sharp advance in business activity, but from a low level
- Factory orders: modest gain in nondurable partially offsets drop in durable

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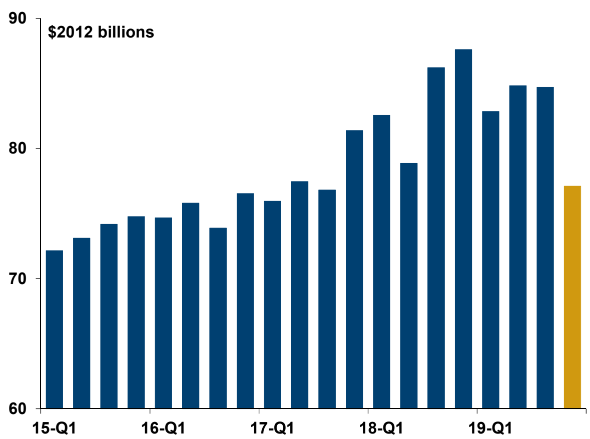
International Trade

The U.S. trade deficit totaled $43.1 billion in November, noticeably better than the reading of $46.9 billion in the prior month and the average of $52.5 billion in the third quarter. The deficit also was better than the expected shortfall of $43.6 billion. The surprise largely was the result of revisions to preliminary estimates for October and the initial estimate of the goods deficit for November, which was published last week.

The month-to-month improvement in November reflected changes on both sides of the trade ledger, as exports rose 0.7 percent while imports fell 1.0 percent. The November improvement followed noticeable narrowing of the deficit for October, leaving results so far in Q4 much improved from the performance in Q3 (chart, left). The results thus far suggest that net exports will make a sharp positive contribution to GDP growth in the final months of the year, perhaps totaling 1¾ percentage points. The improvement, while welcome, is a bit less encouraging than it might appear at first blush, as the narrowing reflected soft conditions. That is, both exports and imports have declined so far in Q4, with the drop in imports being larger. The drop in exports has been modest, with our estimate of real exports off approximately 0.5 percent (annual rate), while real imports appear to have declined approximately 10 percent. The decline in imports could be viewed as a softening in demand, but it also might reflect a shift of production to the U.S. as supply chains shift in response to tariffs.

Much of the drop in imports has occurred in trade with China, as purchases from China fell 4.8 percent in October and 2.2 percent in November, continuing a downward trend that began in early 2019 (chart, right). Exports to China also have weakened from results in 2018, and the drop has been larger than that for imports in percentage change terms. However, because imports are much larger than exports, the dollar value of the deficit with China has narrowed, with the shortfall of $25.6 billion in November well off the average of $35 billion per month in 2018.

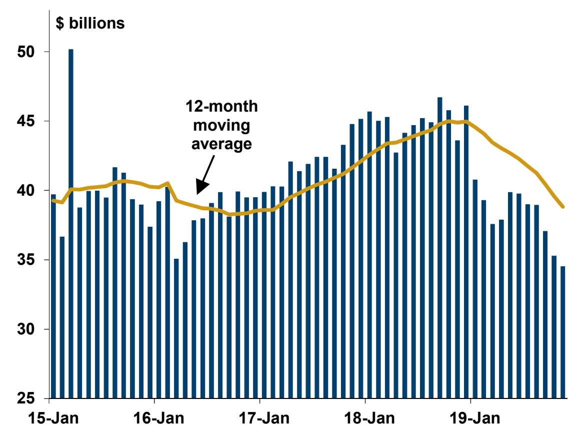
Real Goods Trade Deficit*



** Quarterly averages of monthly data. The reading for 2019-Q4 (gold bar) is the average of the real trade deficit in goods for October and November.*

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

Imports of Goods from China



Source: Bureau of Economic Analysis via Haver Analytics

ISM Nonmanufacturing Index

The ISM nonmanufacturing index rose 1.1 percentage points in December to 55.0 percent, slightly better than the expected reading of 54.5 percent. The latest observation was about in the middle of the range of the past few months, but it lagged the firmer results seen in the prior year (average of 58.9 percent in 2018).

The business activity index led the increase in the headline measure with a jump of 5.6 percentage points. The sharp month-to-month change occurred from a low level -- the lowest since November 2009, the early stage of the recovery -- and thus the current level was not especially impressive (chart, right). Other components were subdued. The new orders index fell 2.2 percentage points to 54.9 percent, a reading in the low portion of the recent range. The employment index eased 0.3 percentage point to 55.2 percent, continuing to hover in the middle of the recent range.

Although the business activity posted a striking increase and the headline index exceeded expectations, the report in total signaled moderate rather than brisk growth.

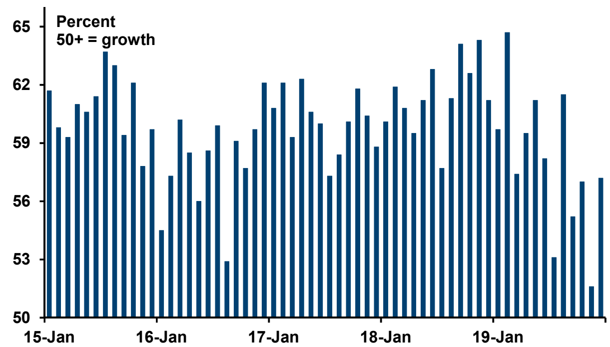
ISM Nonmanufacturing -- Monthly Indexes

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
ISM Nonmfg. Composite	56.4	52.6	54.7	53.9	55.0
Business activity	61.5	55.2	57.0	51.6	57.2
New orders	60.3	53.7	55.6	57.1	54.9
Employment	53.1	50.4	53.7	55.5	55.2
Supplier deliveries*	50.5	51.0	52.5	51.5	52.5
Prices	58.2	60.0	56.6	58.5	58.5

** 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

ISM Nonmanufacturing: Business Activity Index



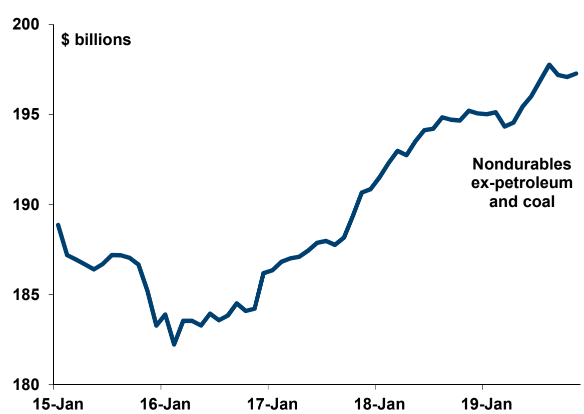
Source: Institute for Supply Management via Haver Analytics

Factory Orders

The decline of 0.7 percent in factory orders for November was in line with the expected drop of 0.8 percent. The retreat was concentrated in the durable component, which fell 2.1 percent (revised from the preliminary estimate of -2.0 percent published last week). Most of this decline reflected a drop of 35.5 percent in aircraft bookings (mostly defense related), but orders elsewhere lacked vigor (up only 0.1 percent ex aircraft). The November results outside of aircraft continued patterns of ups and downs that are tracing an essentially flat trend. Many commentators speak of a manufacturing recession. It is too strong to suggest recession in manufacturing, but durable orders certainly suggest slow activity.

Nondurable orders rose 0.6 percent, a touch firmer than the expected gain of 0.4 percent. Much of this increase occurred in the petroleum and coal category and was probably influenced to a degree by higher prices. Orders for nondurable goods other than petroleum and coal rose 0.1 percent in November. This area posted a firm advance during the late spring and summer before dipping in September and October. The increase in November offset a portion of the declines in the prior two months, but the trend has still softened in the past few months, with the nondurable area now matching the hesitation seen in durable manufacturing (chart).

Manufacturers' New Orders



Source: U.S. Census Bureau via Haver Analytics