

U.S. Data Review

- International trade: exports and imports continue to improve, imports more so
- ISM services: up slightly from an already elevated level

Michael Moran

Daiwa Capital Markets America
 212-612-6392
michael.moran@us.daiwacm.com

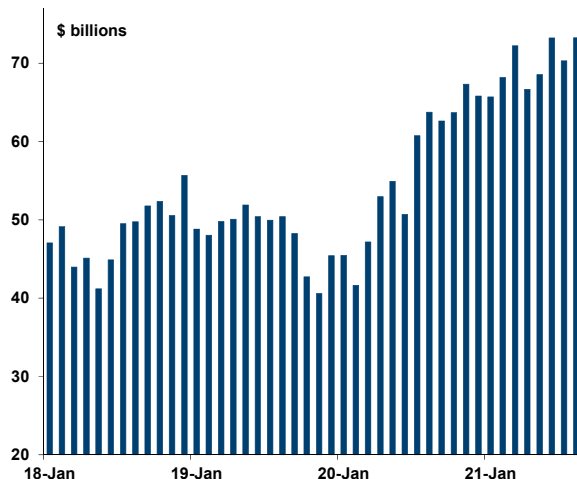
International Trade

Both exports and imports rose in August, but as in many other recent months, the change in imports was larger (1.4 percent versus 0.5 percent for exports), which led to a widening in the trade deficit. The August shortfall of \$73.3 billion exceeded the consensus estimate of \$70.8 billion and reinforced the widening trend seen since the onset of the pandemic (chart, left).

Both goods and services contributed to the surprising slippage in the trade deficit. The goods deficit widened by \$1.6 billion, exceeding the shift of \$0.78 billion reported in the preliminary report published last week. That preliminary figure was not revised, but today's report included so-called balance-of-payments adjustments, which involve exports and imports through channels other than the normal customs route. The service surplus fell by \$1.4 billion, which marked the second consecutive sizeable change and reinforced the downward trend that began in 2018 and intensified last year (chart, right). The slippage this year has been driven primarily by a pickup in international travel, with U.S. citizens venturing abroad (service imports) more so than foreign individuals coming to the U.S. (service exports). The U.S. also made a hefty payments to Japan for broadcast rights to the summer Olympics. That payment seemed to be spread over both July and August, as imports of intellectual property were elevated in both months.

Today's report carried negative implications for third quarter GDP. The real trade deficit in goods so far in the third quarter shows slight improvement from the shortfall in Q2, which would boost GDP all else equal. However, the slippage in the service surplus seems likely to more than offset the positive influence from goods trade, which would leave a negative contribution to GDP growth from net exports. The figures in hand do not suggest a pronounced drag (probably less than one-half percentage point), but Q3 would mark the fifth consecutive quarter with a negative contribution from net exports to GDP growth.

Nominal U.S. Trade Deficit in Goods & Services



ISM Services

The service index published by the Institute for Supply Management rose 0.2 percentage point in September to 61.9 percent. The change was modest, but it occurred from an elevated level and left the measure in the upper portion of its historical range. Only five observations in the history of the series were higher, and four of them have occurred in the current expansion (the other was from August 1997 and was only one tick higher at 62.0).

The business activity index led the advance in September with an increase of 2.2 percentage points to 62.3 percent. The latest reading was not a record, but it was in the upper reaches of the historical range. The strength in business activity was supported by a firm order flow, as this component rose 0.3 percentage point to 63.5 percent. The employment index disappointed with a dip of 0.7 percentage point to 53.0 percent.

The supplier delivery index fell 0.8 percentage point, with the drop hinting at some improvement in supply chain disruptions. However, drop was modest, almost inconsequential, and the index remained in the upper portion of its historical range (chart). Continued problems with supply chains also were evident in the price index, which rose 2.1 percentage points to 77.5 percent. Six observations in the price series were higher than the latest reading -- three in the current expansion and three more than 10 years ago (2005 and 2008).

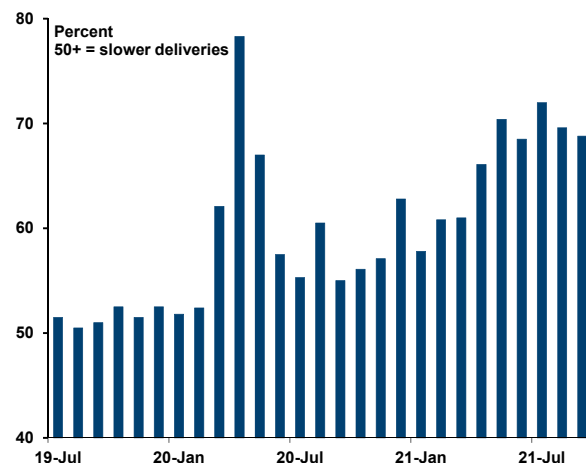
ISM Services: Monthly Indexes

	May-21	Jun-21	Jul-21	Aug-21	Sep-21
ISM Nonmfg. Composite	64.0	60.1	64.1	61.7	61.9
Business activity	66.2	60.4	67.0	60.1	62.3
New orders	63.9	62.1	63.7	63.2	63.5
Employment	55.3	49.3	53.8	53.7	53.0
Supplier deliveries*	70.4	68.5	72.0	69.6	68.8
Prices	80.6	79.5	82.3	75.4	77.5

* 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 Services: Supplier Deliveries Index*



* An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics