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Purchasing Managers Upbeat in July Despite Labor Uncertainty

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This morning, the ISM non-manufacturing index surprised to the upside, as optimism rose among U.S. service sector purchasing managers. The 58.1 July reading was well above the 55 median forecast and the highest since February 2019. The new orders index surged from 61.6 to 67.7, the highest level since record keeping began in 1997, while the business activity index flashed its strongest reading since 2004. Service sector managers reported concern about the virus, but were quite positive on business conditions going forward. Although the ISM survey represents "soft data," strong anecdotal evidence from companies on the ground indicate much-needed resilience in the face of uncertainty. One troubling aspect of the report was the employment index, which slipped from 43.1 to 42.1, hinting that additional service sector layoffs are more likely than rehires at the present time. The lifeline afforded by the Paycheck Protection Program (PPP) has kept employees on company payrolls for months, but if demand is slow to return, some of those workers will eventually be let go.

Earlier this week, the ISM manufacturing index also continued to signal expansion in July rising from 52.6 to 54.2, the highest reading in 16 months. Factory optimism was broad-based as 13 of 18 industries indicated expansion last month. With both new orders and production climbing above the 60 mark, the factory outlook has definitely improved in recent weeks. As was the case in the service sector, the employment index remained entrenched in contraction territory. The 44.3 reading suggests additional factory layoffs are possible in the coming months.

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On a related note, U.S. car sales climbed from a 13 million unit annualized pace to 14.5 million in July, well above forecast. Apparently, sales to individuals were solid while fleet sales were predictably weak (the rental car market has fizzled). The fact that vehicle sales have risen for three consecutive months after bottoming-out in March at a 8.6 million pace is a big positive, but the current level is still a far cry from the 17 million in annual sales experienced from 2015 to 2019.

Also this morning, in a preview of Friday's July employment release, the ADP employment change report showed just 167k jobs (re)added to business payrolls in July. This small increase fell well short of the 1.2 million Bloomberg median forecast, but the more surprising news was a recalculation of the June data. Previously reported up 2.4 million, the prior month revision hoisted June payroll gains up to 4.3 million, bringing the ADP report more in line with the June BLS tally. The takeaways from this morning's ADP release are that the jobs revival seems to have stalled, and that economists are still struggling mightily with their forecasts. With the important BLS labor market report just two days away, the Bloomberg median forecast suggests 1.5 million jobs were (re)added to company payrolls last month, an unwelcomed slide from the 4.8 million jobs (re)added in June.

With most inflation measures retreating, and the Fed indicting it will do *whatever it takes* to support the economy, bond yields continue to fall. Yesterday, the five-year Treasury yield dipped below 0.20% for the first time ever, while the 10-year closed at a record low of 0.51%.

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Stocks have ignored virus concerns and weakening employment numbers to rally big this morning on renewed hopes of additional support by congress.

Please see disclosure on page 2.

Market Indications as of 11:10 A.M. Central Time

DOW	Up 313 to 27,141 (HIGH: 29,551)
NASDAQ	Up 40 to 10,981 (NEW HIGH)
S&P 500	Up 18 to 3,325 (HIGH: 3,386)
1-Yr T-bill	current yield 0.12%; opening yield 0.11%
2-Yr T-note	current yield 0.12%; opening yield 0.11%
5-Yr T-note	current yield 0.22%; opening yield 0.19%
10-Yr T-note	current yield 0.55%; opening yield 0.51%
30-Yr T-bond	current yield 1.24%; opening yield 1.19%