

ISM Factory Survey Indicates Highest Prices in Four Decades

The ISM manufacturing index slipped from 61.2 to 60.6 in June, still very strong historically, but down from a 38-year high in March. The Institute for Supply Management reported this morning the 13th straight month of factory expansion and a record fifth straight month of 60+ readings in the headline. U.S. factory managers continued to complain about inability of their companies and suppliers to meet strong demand, pointing to materials shortages, low customer inventories, elevated backlogs, rising input prices and record lead times for material orders. Factory managers are also struggling with worker absenteeism, factory stoppages due to part shortages and difficulties in filling open positions. Despite these lingering issues, ISM noted that sentiment remains strong, with positive comments outweighing the negatives 16-1.

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Notable sub-index readings:

- New Orders Index down from 67.0 to 66.0, still indicating solid forward demand.
- Employment Index down from 50.9 to 49.9, now showing mild *contraction* in factory hiring.
- Supplier Delivery Index down from 78.8 to 75.1, still very elevated, but delivery times are improving.
- Prices Paid up from 88.0 to 92.1, the highest level since 1979.

The ability of U.S. factories to produce enough to meet surging demand continues to be hamstrung by global supply shortages. Profit margins are likely to suffer as materials prices remain severely elevated.

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In other news this morning, weekly jobless claims for the week ending June 26th fell by 51k to 364k, *the lowest level in more than 16 months*, with fewer filings in states opting out of federal benefits early. In addition, layoff announcements for June, according to a report from outplacement firm *Challenger, Gray and Christmas*, dropped to their lowest level in 21 years. Both of these releases are consistent with a rapidly improving labor market. Tomorrow's release of the June employment report is likely to reflect a portion of recent improvement, although the July report should show more significant payroll gains.

Market Indications as of 11:30 A.M. Central Time

DOW	Up 68 to 34,570 (HIGH: 34,778)
NASDAQ	Down 20 to 14,484 (HIGH: 14,528)
S&P 500	Up 13 to 4,310 (NEW HIGH)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.25%; opening yield 0.25%
3-Yr T-note	current yield 0.47%; opening yield 0.46%
5-Yr T-note	current yield 0.90%; opening yield 0.89%
10-Yr T-note	current yield 1.48%; opening yield 1.47%
30-Yr T-bond	current yield 2.09%; opening yield 2.09%

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