Purchasing Managers Expect Better Days

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This morning, the non-manufacturing ISM report showed rising optimism among service sector purchasing managers. The overall index rose from 57.7 to 58.7 in January, *well above expectations*. (Any number in this series above the 50 mark indicates expansion.) Several key subcomponents were even stronger with current business activity climbing from 59.4 to 59.9 and the forward-looking new orders index rising from 58.5 to 61.8. Perhaps the most encouraging sign suggesting the services sector might be getting healthier is the employment index, which moved from a contractionary reading of 49.2 into solid expansionary territory at 55.2.

Although the ISM survey is "soft data," which won't necessarily translate into future action, the apparent increase in optimism among purchasing managers is consistent with expected improvement later this year.

Some of the manager comments mentioned on the ISM site were revealing:

- "Many of our restaurant locations remain completely shut down to on-site dining. We remain optimistic about business trends beyond April/May 2021. [We] have a very challenging few months to go." - Food service
- "Business outlook for 2021 looks better. Companies are optimistic that conditions will start improving by the end of the second quarter." - Retail

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Earlier this week, the ISM manufacturing survey indicated some moderation in the factory sector, but the levels remained elevated. The ISM manufacturing index slipped from 60.5 to 58.7 in January, although many subcomponents hint at significant strength in the coming months. In particular, the customer inventories index fell to an 11-year low, while the order backlog index reached the highest level in a decade. Restocking inventories and filling backorders would obviously boost future production. Although the current production and new orders indexes backtracked in January, both remained above 60, a level historically consistent with strength.

The ISM prices paid index, an inflationary measure, jumped from 77.6 to 82.1 in January, the highest in nine years. This indicates only that a majority of factory managers are experiencing higher prices; it shouldn't imply a price level.

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Factories have made the required adjustment necessary to produce, and inventory levels are lean, a combination that hints at stronger future growth. PMI surveys don't factor into the GDP calculation, but the January outlook, for both manufacturing and the service sector suggests a better start to 2021 than previously thought.

Market Indications as of 12:08 P.M. Central Time

DOW	Up 6 to 30,694 (HIGH: 31,188)
NASDAQ	Up 60 ro 13,672 (NEW HIGH)
S&P 500	Up 14 to 3,840 (HIGH: 3,855)
1-Yr T-bill	current yield 0.07%; opening yield 0.07%
2-Yr T-note	current yield 0.11%; opening yield 0.11%
5-Yr T-note	current yield 0.46%; opening yield 0.44%
10-Yr T-note	current yield 1.13%; opening yield 1.10%
30-Yr T-bond	current yield 1.91%; opening yield 1.87%