Purchasing Managers Indicate Inability to Meet Rising Demand

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The ISM purchasing managers indexes for April told similar stories of widespread supply shortages, increasing price pressure and challenges in attracting and retaining workers. Both the factory and service sector headline indexes declined from record levels last month, but the underlying reasons for the decrease weren't the result of waning demand. In fact, surging demand is far outpacing the ability to provide goods and services.

On Monday, the ISM headline manufacturing index unexpectedly declined from 64.7 to 60.7 in April with most major sub-indexes slipping a bit, but still signaling significant strength in the factory sector. *Any number in this series above 50 indicates expansion, while numbers above 60 are consistent with strong outlooks.* All 18 manufacturing sectors were expanding in April, and judging by factory manager comments within the survey, the sectors shared very similar issues and concerns. In particular, most industries cited an inability to meet rising demand as a result of widespread materials shortages and difficulty finding qualified workers. The factory shortages are contributing to higher prices and shipping delays and are a primary reason for the majority of the April declines. There's little indication that the supply/demand imbalance will be corrected anytime soon.

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- The current production index fell from 68.1 to 62.5.
- The forward-looking new orders index fell from 68 to 64.3.
- The employment index fell from 59.6 to 55.1.
- Customers inventory index fell from 29.9 to 28.4, *the lowest on record*.
- The orders backlog index actually rose from 67.5 to a new record high of 68.2. (A reading above 50 in this series *indicates slower deliveries*)
- The supplier deliver index, fell from 76.6 to 75, but remained extremely elevated.
- The prices paid index climbed from 85.6 to 89.6, *the highest level in 13 years*.

On a related note, the Wards Auto group reported on Monday that U.S. sales of cars and light trucks had climbed to an annualized unit pace of 18.5 million, the highest monthly reading since 2005. During the month of April 1,512,186 vehicles were sold, more than double the total from 12 months earlier despite widespread inventory shortages. Light trucks outsold cars at more than a three-to-one rate.

This morning, the ISM headline non-manufacturing index slipped from an all-time high of 63.7 in March to 62.7 in April. Although this appears to indicate deceleration in the service sector, the overall index and key sub-indexes remain *extremely elevated* with 17 of 18 industries reporting growth.

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Most of the sub-indexes were lower in April, but similar to the factory sector, still flashed significant strength.

- The current production index fell from 69.4 to 62.7.
- The forward-looking new orders index fell from 67.2 to 63.2.
- The employment index actually rose from 57.2 to 58.8, the fourth straight monthly increase.
- The orders backlog index rose from 50.2 to 57.2.
- The supplier deliver index rose from 61.0 to 66.1.
- The inventory index fell from 54.0 *into contraction territory* at 49.1.
- The prices paid index climbed from 74.0 to 76.8, *the highest reading since July 2008*.

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Service sector managers indicated robust business conditions, high optimism, increasing capacity, pent-up demand, but also expressed concerns over supply chain disruptions, inability to fill orders, difficulty in finding and retaining workers.

The ISM surveys are soft data, but the wide range of timely information is a good leading indicator of overall economic growth and inflationary pressure. The Fed seems determined that any price pressures will be temporary, but "temporary" may be more than a few months. Price increases are widespread, cash is in abundance and inventories are extremely low. This is the classic recipe for higher prices.

Market Indications as of 11:14 A.M. Central Time

DOW	Up 136 to 34,269 (NEW HIGH)
NASDAQ	Up 77 to 13,710 (HIGH: 14,139)
S&P 500	Up 22 to 4,187 (HIGH: 4,211)
1-Yr T-bill	current yield 0.05%; opening yield 0.05%
2-Yr T-note	current yield 0.16%; opening yield 0.16%
3-Yr T-note	current yield 0.32%; opening yield 0.32%
5-Yr T-note	current yield 0.81%; opening yield 0.82%
10-Yr T-note	current yield 1.60%; opening yield 1.59%
30-Yr T-bond	current yield 2.27%; opening yield 2.26%