

Payrolls Disappoint in ADP Employment Report

This morning, ADP employment services reported just 330k jobs were added to company payrolls in July, less than half of the median forecast and down from a revised 680k June count. The rapid spread of the Delta variant seems like the obvious culprit, but the split between service- and goods-producing jobs argues otherwise. The service sector added a healthy +318k jobs last month to the ADP count, while the factory sector chipped in a mere +12k. This is more reflective of supply chain issues continuing to hamstring factory production, and the trend seems to be moving in the wrong direction. Although the monthly ADP report is a poor predictor of the Bureau of Labor Statistics payroll number, it's useful in predicting direction, suggesting Friday's payroll number could disappoint.

On a related note from yesterday afternoon, U.S. auto sales for July were reported at a lackluster 14.75 million annualized unit pace, the lowest in 12 months and down more than -20% from April. Like the housing market, surging vehicle demand has completely overwhelmed supply. Unfortunately, the microchip shortage story impacting auto production is still very much intact. General Motors announced just yesterday it was temporarily closing full-size pickup truck assembly plants in Flint, Fort Wayne and Silao Mexico due to the global semiconductor chip shortage.

On Monday, the ISM headline manufacturing index slipped from 60.6 to 59.5, still historically very strong, but trending lower. Seventeen of 18 industries reported growth, but purchasing manager comments were nearly identical to recent reports: *Trouble meeting demand due to persistent shortages of materials and labor.* There was some improvement in the employment index and the prices paid index moderated a bit, but the current production and new orders indexes moved lower.

The ISM *non-manufacturing* index (just released) surprised to the upside as the service sector outlook improved dramatically. The ISM Service Index climbed from 60.1 to 64.1 in July *to the highest level in its 24-year history.* Reopened restaurants and bars as well as a return to summer travel have boosted services, which aren't subject to the same degree of supply chain disruption as the factory sector.

Bonds rallied early this morning, with the 10-year Treasury-note yield dropping to a six-month low before completely reversing course, presumably in response to the unexpected service sector strength. Expect the volatility to continue.

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Market Indications as of 9:57 A.M. Central Time

DOW	Down 232 to 34,884 (HIGH: 35,144)
NASDAQ	Down 6 to 14,756 (HIGH: 14,841)
S&P 500	Down 12 to 4,411 (HIGH: 4,423)
1-Yr T-bill	current yield 0.06%; opening yield 0.06%
2-Yr T-note	current yield 0.19%; opening yield 0.17%
3-Yr T-note	current yield 0.34%; opening yield 0.32%
5-Yr T-note	current yield 0.68%; opening yield 0.65%
10-Yr T-note	current yield 1.20%; opening yield 1.17%
30-Yr T-bond	current yield 1.87%; opening yield 1.84%

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