Record ISM Reading Signals Service Sector Improvement but Serious Challenges Along the Way

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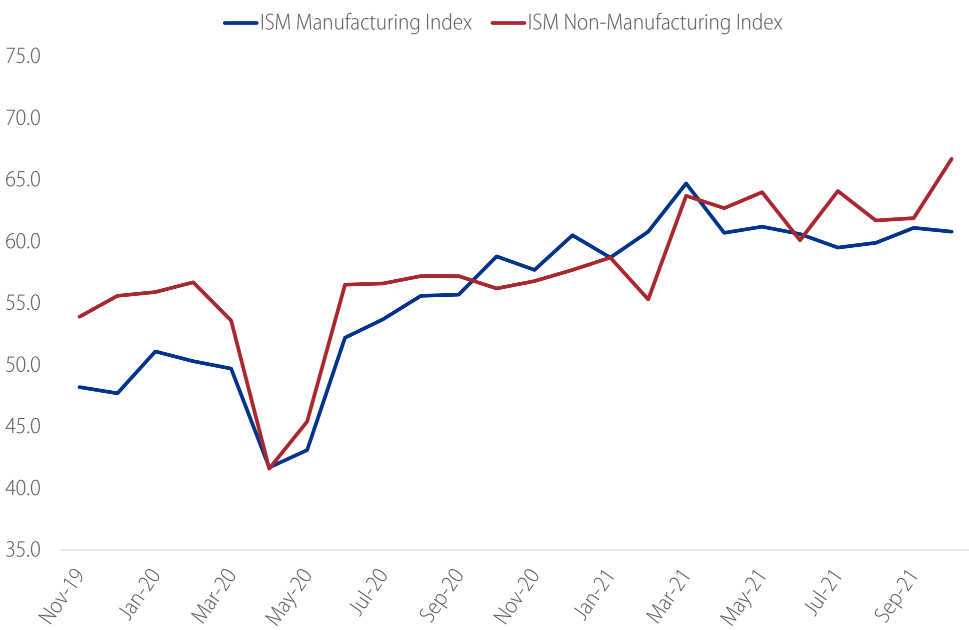
Economic activity in the service sector *appears* to be gaining significant momentum in the final months of the year as the non-manufacturing index from the Institute for Supply Management (ISM) jumped to its *highest level since the survey began 24 years ago*. The headline measure rose 4.8 points to 66.7 as two of four sub-indexes that feed the headline reached record highs. Any reading above 50 indicates expansion, below 50, contraction. Until this year, readings above 60 were rare. During the hyper-charged Covid recovery period, they've become commonplace.

ISM Purchasing Managers Index



Source: Institute for Supply Management.

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The business activity index climbed 7.5 points to 69.8, while the new orders index rose 6.2 points to 69.7. The employment index, although technically signaling expansion at 51.6, is weighed down by the simple fact that *hiring remains a major challenge for U.S. purchasing managers.*

The supplier delivery index increased 6.9 points to 75.7. However, unlike the other sub-indexes, a rise in supplier deliveries *isn't a positive* as it indicates bottlenecks are worsening. The order backlog index supports this narritive climbing from 5.4 points to 61.9, also a record. Predictably, this supply problem has resulted in rising costs as the prices paid index rose 5.4 points to 83.5, the second highest reading on record.

While it's probably a given at this point, this morning's report also warned that "fourth-quarter holiday peak sales are at risk for delayed supply."

Service manager comments shared by ISM indicate new opportunities and strong sales demand, but difficulty keeping up with orders, growing backlogs, shipment delays, labor shortages, and significant price increases resulting in reduced profits.

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Earlier this week, the overall ISM *manufacturing* index declined by just 0.3 to 60.8, but held above the lofty 60 mark, signaling factory strength and a positive outlook.

The factory production index slipped 0.1 to 59.3, while the new orders index fell 6.9 points to a 16-month low of 59.8 (still historically strong). The employment index climbed from 50.2 to 52.0 indicating factories expect/hope to hire more workers in the coming months. The supplier delivery index climbed 2.2 points to 75.6 as delays lengthened, and the prices paid index jumped 4.5 points to 85.7 as factory PMs were forced to pay more for materials.

The headline ISM report for the factory sector reflects "ever-increasing demand," but the comment section highlights "unprecedented obstacles." Monday's report from the Institute for Supply Management indicates "meeting demand remains a challenge, due to hiring difficulties and a clear cycle of labor turnover." This reoccuring theme makes the October employment report, due out Friday morning, even more important.

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Market Indications as of 10:19 A.M. Central Time

DOW	Down 64 to 35,989 (HIGH: 36,053)
NASDAQ	Up 13 to 15,662 (NEW HIGH)
S&P 500	Down 3 to 4,627 (HIGH: 4,631)
1-Yr T-bill	current yield 0.17%; opening yield 0.15%
2-Yr T-note	current yield 0.48%; opening yield 0.46%
3-Yr T-note	current yield 0.76%; opening yield 0.72%
5-Yr T-note	current yield 1.19%; opening yield 1.15%
10-Yr T-note	current yield 1.57%; opening yield 1.55%
30-Yr T-bond	current yield 1.95%; opening yield 1.94%