ISM Hints at Easing Bottlenecks

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The headline ISM Manufacturing Index climbed from 60.8 to 61.1 in the November survey, continuing to indicate historically strong factory demand, while the underlying details suggest the supply knot may be untangling a bit. *All-in-all, an encouraging report.*

The current production index rose from 59.3 to 61.5, while the new orders index increased from 59.8 to 61.8. (Any reading above 50 indicates expansion, while the 60 level is historically very strong.) The employment index climbed from 52.0 to 53.3 as more factory managers hope to hire workers in the coming months. The customer inventory index (already extremely low) slipped from 31.7 to 25.1. *Rebuilding these inventories, whenever conditions allow, will add to future GDP growth.*

On the supply side, the supplier delivery index declined from 75.6 to 72.2, and the order backlog index from 63.6 to 61.9, *the lowest since January*. In this case, a decline is good. As delivery times decreased and backlogs eased, prices followed. The prices paid index remains extremely elevated, but has turned downward, moving from 85.7 to 82.4 in November.

A single report doesn't make a trend, but the ISM manufacturing survey is arguably the timeliest of the monthly economic releases and taps directly into the minds of factory managers. As a result, indications that bottlenecks may be clearing faster than expected, input prices may have already peaked and the labor outlook has brightened, are relevant.

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The narrative in the ISM release was balanced, with "strong sector expansion" counterbalanced by "record-long raw materials and capital equipment lead times, continued shortages of critical lowest-tier materials, high commodity prices and difficulties in transporting products." It also mentioned that absenteeism, shortage-related shutdowns, hiring difficulties and supply chain problems were limiting growth potential. Despite the frustrations, purchasing manager sentiment showed significant improvement with a 10-to-1 ratio of positive-to-negative growth comments, up from 4-to-1 in October.

Of course, most of the economic data set to be released in December, including this ISM report, won't reflect the sudden emergence of the Omicron variant. And as Fed Chair Powell and Treasury Secretary Yellen implied yesterday, the virus is a wildcard.

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Please see disclosure starting on page 2.

Market Indications as of 12:09 P.M. Central Time

DOW	Up 149 to 34,632 (HIGH: 36,432)
NASDAQ	Up 55 to 15,545 (HIGH: 16,057)
S&P 500	Up 58 to 4,625 (HIGH: 4,705)
1-Yr T-bill	current yield 0.25%; opening yield 0.23%
2-Yr T-note	current yield 0.57%; opening yield 0.60%
3-Yr T-note	current yield 0.85%; opening yield 0.87%
5-Yr T-note	current yield 1.17%; opening yield 1.20%
10-Yr T-note	current yield 1.44%; opening yield 1.44%
30-Yr T-bond	current yield 1.79%; opening yield 1.82%