Fed Minutes Caution, Factory Outlook Sours, and Jobs Postings Linger

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The minutes to the December FOMC meeting reiterated a point the markets had chosen to ignore: *Committee members don't intend to pivot to easing rates anytime soon.*

The minutes (released this afternoon) revealed that "no participants anticipated that it would be appropriate to begin reducing the federal funds rate target in 2023." Fed officials also expressed concern that premature and unwarranted easing by the markets could complicate and undermine the committee's efforts to lower inflation. All of the major points within the minutes had been mentioned by Powell at his post-meeting press conference three weeks ago. There were no surprises.

This morning, the ISM manufacturing index (a reliable leading indicator) slipped from 49.0 to 48.4 in December, as just two of 18 industry groups reported growth. It was the second straight month of contraction following 29 months of steady expansion in the factory sector. The current production and new orders indexes both fell further into contraction, while the prices paid index dropped from 43 to 39.4 as only a small percentage of purchasing managers experienced rising prices last month. Back in March, *this inflation index was reported at 87.1.*

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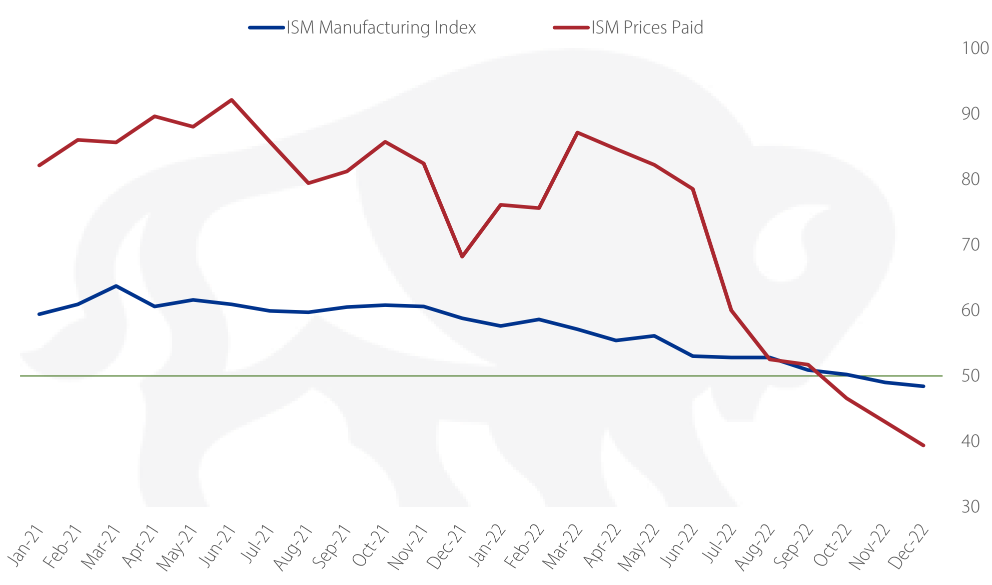
ISM Purchasing Managers Index



Source: Institute for Supply Management

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Although the overall ISM report clearly indicated weakening in the factory sector, it also contained some good news on the supply side. The supplier deliveries index dropped to its the lowest level in over 13 years, signaling a speedup in delivery times, while the order backlogs index remained well in contraction territory at 41.4, indicating that backlogs are normalizing.

Also released this morning, the Job Openings and Labor Turnover Survey (JOLTS) showed the number of posted job openings remained extremely elevated in November. The 10.46 million openings were well above forecast and will not be a welcome sight for Fed officials trying to achieve a better balance between available jobs and job-seekers.

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On Friday, the BLS will release the December employment report. The November labor report showed just six million unemployed Americans were actively seeking work. This obvious mismatch between jobs and job-seekers has pushed wages higher. Two of the primary numbers Fed officials will be watching on Friday are the labor force participation rate and average hourly earnings.

Market Indications as of 2:56 P.M. Central Time

DOW	Up 84 to 33,220 (HIGH: 36,800)
NASDAQ	Up 54 to 10,441 (HIGH: 16,057)
S&P 500	Up 6 to 3,830 (HIGH: 4,797)
1-Yr T-bill	current yield 4.69%; opening yield 4.65%
2-Yr T-note	current yield 4.36%; opening yield 4.38%
3-Yr T-note	current yield 4.13%; opening yield 4.16%
5-Yr T-note	current yield 3.85%; opening yield 3.90%
10-Yr T-note	current yield 3.69%; opening yield 3.75%
30-Yr T-bond	current yield 3.80%; opening yield 3.85%