

## News to Chew Before the Fed Announcement

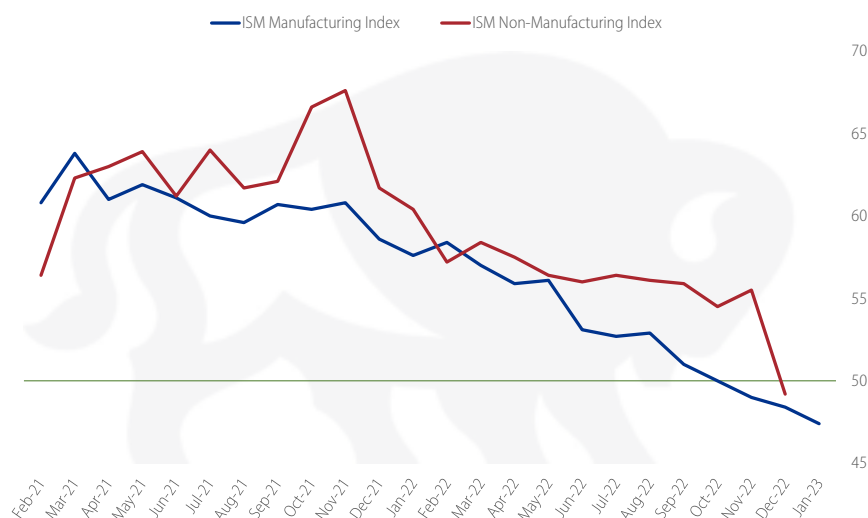
The FOMC is just over an hour away from announcing a quarter-point hike in the overnight funds rate. This morning's economic releases probably won't affect the decision, but were certainly included in the committee's final conversations. Overall, it was a mixed bag of data. The biggest head-scratcher was an unexpected spike in December job openings, which climbed from a revised 10.4 million to a five-month high of 11 million.

Since the Fed is desperately trying to slow demand in hopes of whittling down the number of available jobs, this surprise jump in postings suggests their work isn't complete. The ratio of job-openings to job-seekers is now approximately 1.9 to 1, back within a fraction of the historical high point.

The biggest increase in new postings was found in leisure and hospitality, followed by retail trade; both low-paying, labor-intensive occupations where employers have had trouble finding and retaining workers. In an effort to survive the lack of available service workers, McDonald's opened its first fully-automated restaurant in late December outside of Fort Worth, Texas.

In a counter-balance to the strong JOLTS report, the January ISM manufacturing index dropped from 48.4 to 47.4, a 32-month low and the third straight month of *contraction* in the factory sector. This composite manufacturing index, which reflects the outlook of U.S. purchasing managers, is considered a reliable leading indicator for the *direction* of the broad economy. It appears that purchasing managers see weakness on the horizon.

### ISM Purchasing Managers Index



Source: Institute for Supply Management

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Within the ISM report, the current production index dropped from 48.6 to 48, while the new orders index fell from 45.1 to 42.5. (In this series, numbers above 50 indicate *expansion*; below 50, contraction.) The employment index slipped from 50.8 to 50.6, suggesting that factory managers are still looking to add workers. Unfortunately, the supplier delivery time and order backlog indexes both rose, indicating lingering supply chain issues. And, the prices paid index climbed from 39.4 to 44.5. This still indicates a majority of factory managers are experiencing lower input prices, but the increase in the index is a bit unnerving.

*All the all, the Fed officials are likely frustrated with the jump in job openings, but should be pleased at the soft ISM and ADP weakness.*

Finally, the January ADP employment change report showed just 106k jobs were added to company payrolls last month, well below the 180k median forecast, and *the smallest increase since December 2020*. The ADP report has had poor month-to-month correlation with the closely-followed employment report from the Bureau of Labor Statistics, but the big ADP miss hints at downside for Friday's BLS release.

All in all, Fed officials are likely frustrated with the jump in job openings, but should be pleased at the soft ISM and ADP weakness.

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The bond market is in the midst of an insignificant rally and stocks are treading water. The Fed's rate announcement, at 1:00 pm Central, isn't expected to rattle the markets, but Chairman Powell's comments at the post-meeting press conference certainly could.

## Market Indications as of 10:51 A.M. Central Time

DOW	Down -260 to 33,826 (HIGH: 36,800)
NASDAQ	Down -19 to 11,565 (HIGH: 16,057)
S&P 500	Down -11 to 4,065 (HIGH: 4,797)
1-Yr T-bill	current yield 4.68%; opening yield 4.63%
2-Yr T-note	current yield 4.20%; opening yield 4.21%
3-Yr T-note	current yield 3.88%; opening yield 3.91%
5-Yr T-note	current yield 3.60%; opening yield 3.62%
10-Yr T-note	current yield 3.49%; opening yield 3.51%
30-Yr T-bond	current yield 3.62%; opening yield 3.64%

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