Yields Fall as ISM Surveys Signal Cooling Economic Growth

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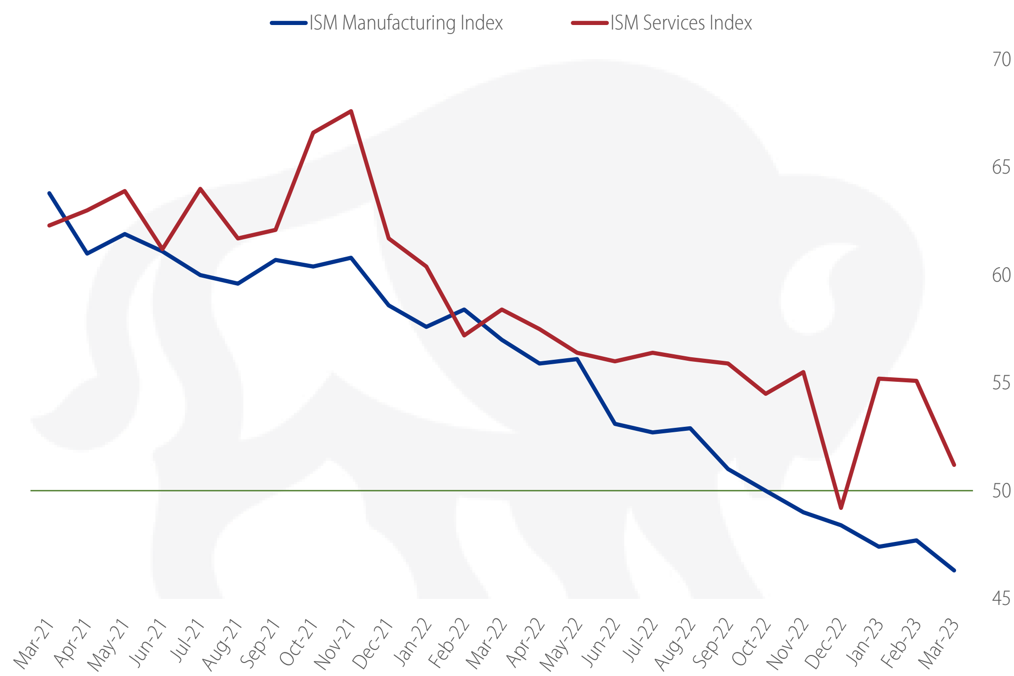
This morning, the ISM *non-manufacturing survey* indicated purchasing managers in the service sector became much less optimistic last month. The headline ISM Service Index dropped from 55.1 to 51.2 in March, well below the 54.4 median forecast, but still indicating moderate expansion. There were large (and revealing) declines in several key indexes, with new orders falling from 65.6 to a three-year low of 59.5, and employment from 54.0 to 51.3.

ISM Purchasing Managers Index



Source: Institute for Supply Management

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Perhaps the most eye-opening of the sub-indexes was prices paid, which tumbled from 62.6 (the highest on record) to 52.2 (the second lowest in nearly three years). Any number above 50 in this series indicates *expansion*, so a slight majority of service sector managers are still experiencing rising prices, but the magnitude of the drop suggests the inflation cloud might be lifting quicker than previously thought. Much of this price easing can be attributed to the continued supply chain progress.

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On Monday, the ISM *manufacturing* report indicated further cooling in the factory sector as the composite index moved further into contraction territory. All five factory sub-indexes were under 50 for the first time since the 2009 financial crisis, while the headline index slipped from 47.7 to 46.3.

The new orders index, a reliable leading indicator, fell from 47.0 to 44.3 as factory managers expressed caution in the midst of the developing banking crisis. Likewise, the employment index fell from 49.1 to 46.9, and the inventory index from 50.1 to 47.5 as purchasing managers adjust for an expected decline in future demand.

Yesterday, the JOLTS report showed U.S. job openings fell below 10 million in February *for the first time since May 2021*. The number of open positions dropped from a previously-reported 10.8 million in January to 9.9 million, well below the median forecast of 10.5 million. At this point, there are roughly 1.7 jobs available for every active jobseeker, still way too high, but down from 1.9 in January. Despite the huge decline, job postings remain roughly three million above pre-pandemic levels.

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The March employment report is scheduled for a quiet release on the Good Friday holiday.

The Treasury market is continuing a seven-day rally that has driven the 10-year yield to its lowest level since September 2022. Today's report suggesting service sector demand is fading, along with price pressures, is another reason to believe the Fed is done hiking rates. This morning, the futures market is indicating only a 40% chance of a final quarter point increase at the May FOMC meeting, while at the same time, pricing-in 100 basis points of easing over the next 10 months.

For what it's worth, Fed officials have yet to give any indication they'll be cutting rates in 2023.

Market Indications as of 10:23 A.M. Central Time

DOW	Up 32 to 33,494 (HIGH: 36,800)
NASDAQ	Down -161 to 11,966 (HIGH: 16,057)
S&P 500	Down -22 to 4,079 (HIGH: 4,797)
1-Yr T-bill	current yield 4.37%; opening yield 4.40%
2-Yr T-note	current yield 3.70%; opening yield 3.84%
3-Yr T-note	current yield 3.49%; opening yield 3.61%
5-Yr T-note	current yield 3.31%; opening yield 3.40%
10-Yr T-note	current yield 3.28%; opening yield 3.34%
30-Yr T-bond	current yield 3.57%; opening yield 3.60%