Building the Case for Another Hike

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The results of the Job Openings and Labor Turnover Survey (JOLTS) were much better than expected in August as job openings surged from a revised 8.92 million to 9.61 million. This *good-news-is-bad-news* report reversed a welcomed downtrend and brought U.S. job openings back to their highest level since May. The ratio of posted jobs to jobseekers remained at 1.5 to 1, thanks to a late summer surge in labor force participation, but continues to be extremely elevated.

The persistent mismatch is expected to narrow in the coming months as demand for services declines, but with the next FOMC meeting just four weeks away, Fed officials will find no comfort in this morning's surprise increase. *An overabundance of jobs is inconsistent with desired wage moderation.*

Yesterday, the ISM Manufacturing Index registered *contraction* in the factory sector (sub-50) for the 11th consecutive month, although September's reading was *the highest since November 2022*. The overall index climbed from 47.6 to 49.0, while several key sub-indexes signaled improvement in the factory sector. The current production index increased from 50.0 to 52.5, while the new orders index experienced its 13th straight month of contraction, but managed to rise from 46.8 to 49.2.

Job Opening and Labor Turnover Survey (JOLTS)

Source: Bureau of Labor Statistics

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The ISM employment index moved from 48.5 *into expansion territory* at 51.2, while the prices paid index dropped from 48.4 to 43.8 as more purchasing managers reported lower prices. The customer inventory index decreased from 48.7 to 47.1 as businesses further positioned themselves for an expected slowdown in future demand, while the order backlog index slipped from 44.1 to 42.4 indicating that industry supply chain delays are over.

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The ISM survey was better than expected, but the overall index continues to signal contraction, and *just five of 18 industry groups reported growth last month*. It's also worth noting that apparent factory improvement doesn't consider the effect of a lingering autoworker strike.

The ISM headline improvement was counter-balanced by the decline in the price index. The mixed report it shouldn't affect Fed policy. As of this morning, the futures market is signaling roughly a 50% probability of another 25 basis point rate hike occurring on or before the end of January. After the January FOMC meeting, the markets reflect gradual easing. The biggest change that has taken place over the past several months is the expectation that these eventual rate cuts won't begin until the third quarter of next year.

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Market Indications as of 2:00 P.M. Central Time

DOW	Down -460 to 32,973 (HIGH: 36,800)
NASDAQ	Down -259 to 13,039 (HIGH: 16,057)
S&P 500	Down -62 to 4,226 (HIGH: 4,797)
1-Yr T-bill	current yield 5.49%; opening yield 5.47%
2-Yr T-note	current yield 5.15%; opening yield 5.10%
3-Yr T-note	current yield 4.95%; opening yield 4.88%
5-Yr T-note	current yield 4.80%; opening yield 4.71%
10-Yr T-note	current yield 4.80%; opening yield 4.68%
30-Yr T-bond	current yield 4.93%; opening yield 4.79%