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Bond Yields Retreat on Signs of Economic Softening

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A flurry of data releases on Tuesday and Wednesday suggest the U.S. economy, although still expanding, is slowing in the first quarter of 2024. Most of this week's numbers came in below forecast.

The composite ISM Services Index for February (released yesterday) slipped from 53.4 to 52.6, *although the subindexes were mixed*.

- The employment index, expected to rise, actually fell from 50.5 *into contraction territory* at 48.0 as purchasing managers expect to hire fewer workers in the coming months.
- The prices paid index retreated from 64.0 to 58.6. Because this inflation measure is still substantially above the 50 mark, companies in general are still experiencing rising prices, but the lower index reading indicates recent softening.
- The forward looking new orders index actually rose from 55.0 to 56.1 indicating an increased number of purchasing managers reported a rise in orders.

This morning, the Job Openings and Labor Turnover Survey (JOLTS) showed a slight, but welcome decrease in U.S. job openings for January. At just over 8.8 million, the number of open positions is now well below the 11.5 million peak in 2022, but still exceeds the number of active job seekers (6.1 million) by roughly a 1.4 to 1 margin.

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Also this morning, the ADP employment change report showed +140k jobs were added to company payrolls in February, slightly below the +150k median forecast. Over the last six months, ADP payroll gains have averaged +120k. Although poorly correlated with the closely-watched BLS nonfarm payroll number, the ADP release hints at downside risk to Friday's employment report.

Other less important data releases this week have been consistent with slower Q1 growth. Factory orders fell -3.6% following a revised -0.3% December decline. When the volatile transportation component is removed, orders fell -0.8%, and when defense orders are excluded, orders were down -4.1%.

The final measure of durable goods orders for January declined -6.2% after slipping -0.3% in December.

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Bond market yields rose substantially in early February in response to warmer-than-expected January inflation numbers and expectations for brisker Q1 growth. This week's softer data supports the idea that some of the January strength may prove an outlier. As a result, yields have gradually receded.

Fed Chairman Jay Powell is in the midst of his semi-annual report to Congress. So far, nothing new has been revealed.

Market Indications as of 12:33 P.M. Central Time

DOW	Up 130 to 38,715 (HIGH: 39,312)
NASDAQ	Up 138 to 16,076 (HIGH: 16,275)
S&P 500	Up 43 to 5,122 (HIGH: 5,137)
1-Yr T-bill	current yield 4.94%; opening yield 4.93%
2-Yr T-note	current yield 4.53%; opening yield 4.55%
3-Yr T-note	current yield 4.30%; opening yield 4.33%
5-Yr T-note	current yield 4.10%; opening yield 4.14%
10-Yr T-note	current yield 4.10%; opening yield 4.15%
30-Yr T-bond	current yield 4.24%; opening yield 4.30%