

Persistent Labor Challenges to Test Fed Resolve

This morning, the ADP employment change report showed just +374k jobs added to company payrolls in August, well short of the +625k median forecast. This marks the second straight disappointing ADP report after +326k jobs were added in July. There is very little monthly correlation between the second tier ADP count and the widely-anticipated Bureau of Labor Statistics payroll report, which is scheduled for release on Friday morning. However, with the Fed hyper-focused on jobs, this morning's report takes on added significance. Clearly, the much-anticipated summer hiring boom has been delayed. If Friday's payroll number indicates continued weakness, Fed officials may be hard-pressed to enact policy action intended to apply a brake on the economy.

In other news this morning, the August ISM manufacturing survey was a mixed bag of interesting numbers. The overall manufacturing index, at 59.9, was stronger-than-anticipated and slightly above the July reading. The employment index fell from 52.9 into mild contraction territory at 49.9, reinforcing the fact that skilled factory workers remain in short supply. The prices paid index dropped for the second month in a row from 85.7 to 79.4, the first sub-80 reading since last December. This still elevated level indicates the vast majority of U.S. purchasing managers are experiencing rising prices, but the August measure has cooled from a record high of 92.1 two months earlier.

The current production index climbed from 58.4 to 60, while the new orders index rose from 64.9 to 66.7, both indicating strengthening demand. However, *demand isn't the problem; it's the ability (or inability) for companies to meet that demand.*

Timothy Fiore, the Chairman of the ISM Business Survey Committee summed up the challenges, saying "...companies and suppliers continue to struggle at unprecedented levels to meet increasing demand. All segments of the manufacturing economy are impacted by record-long raw-materials lead times, continued shortages of critical basic materials, rising commodities prices and difficulties in transporting products. The new surges of COVID-19 are adding to pandemic-related issues — worker absenteeism, short-term shutdowns due to parts shortages, difficulties in filling open positions and overseas supply chain problems — that continue to limit manufacturing-growth potential. However, optimistic panel sentiment remained strong, with eight positive comments for every cautious comment."

None of this comes as a surprise. What's becoming apparent is that it will take much longer-than-expected to remedy labor and production imbalances, and a shift in Fed policy isn't likely to help.

Yesterday, the Conference Board's measure of consumer confidence dropped more than -11 points to 113.8, the lowest reading since February. The present situation component fell -9.9 points, while the future expectations component fell -12.4 to a seven-month low. Survey participants expressed concerns over the Delta variant as well as rising food and gasoline prices.

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The S&P/Case-Shiller National Home Price Index climbed +18.6% year-over-year in June, the biggest annual gain in 33 years of record-keeping. The 20-city index was led by Phoenix (+29.3%), San Diego (+27%), Seattle (+25%), San Francisco (+22%), Tampa (+21.5%), Dallas (+21.3%) and Miami (+20.1%). Recent reports from the National Association of Realtors and the Census Bureau have indicated that the supply of available homes has increased, but demand is still overwhelming supply.

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Market Indications as of 10:15 A.M. Central Time

DOW	Down 36 to 35,324 (HIGH: 35,625)
NASDAQ	Up 100 to 15,360 (NEW HIGH)
S&P 500	Up 9 to 4,532 (NEW HIGH)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.21%; opening yield 0.21%
3-Yr T-note	current yield 0.42%; opening yield 0.41%
5-Yr T-note	current yield 0.79%; opening yield 0.78%
10-Yr T-note	current yield 1.31%; opening yield 1.31%
30-Yr T-bond	current yield 1.93%; opening yield 1.93%

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