

## ISM Survey Shows Service Sector Improvement

This morning, the ISM non-manufacturing index for March indicated the U.S. service sector is growing more optimistic after a sharp decline in new COVID cases. The composite non-manufacturing index rose from 56.5 to 58.3, the first increase since November.

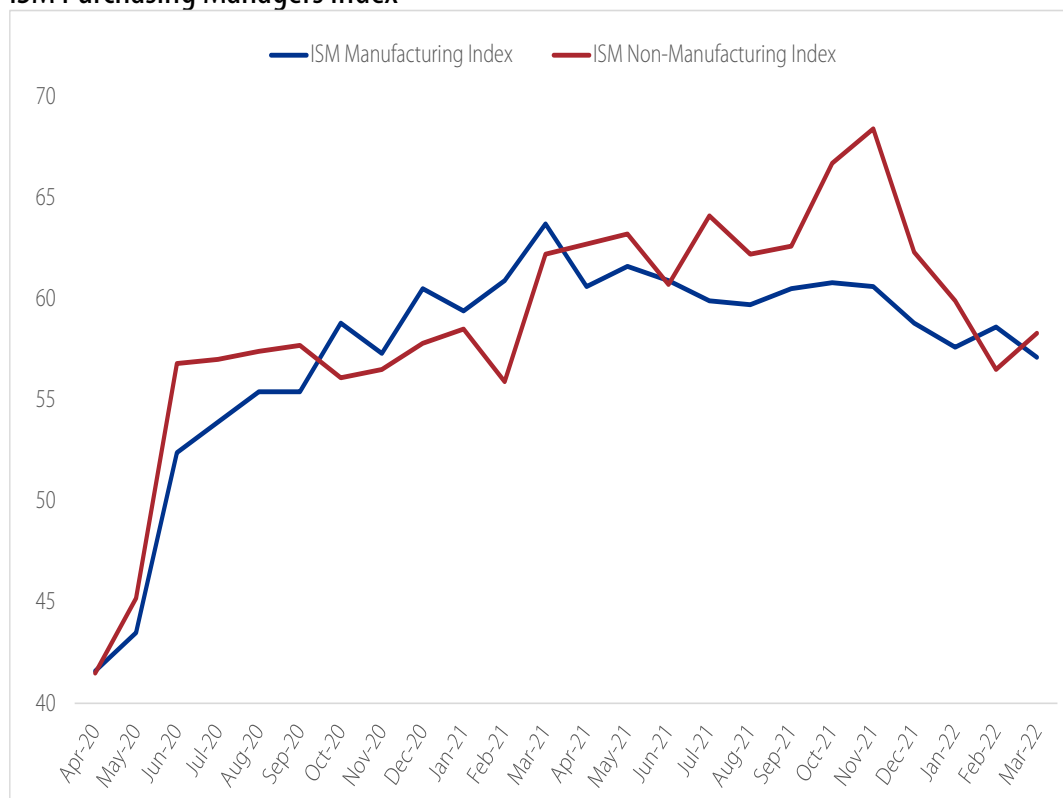
In this report, any index number above the 50 mark indicates expansion. This expansion was wide-ranging last month, with 17 of 18 service industries reporting growth. Within the composite, the forward-looking *new orders index* climbed from 56.1 to a healthy 60.1, and the current production index rose from 55.1 to 55.5.

The inventory index rose from 50.8 to 51.7 as businesses work to gradually build back too-lean supplies, although the inventory sentiment index plunged from 55.3 to 40.2, indicating an increasing number of purchasing managers see inventories as too low to meet current demand.

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### ISM Purchasing Managers Index



Source: Institute for Supply Management

The supplier delivery index declined from 66.2 to 63.4, showing a majority of service sector managers are experiencing slightly shorter (but still lengthy) delays. These persistent bottlenecks contributed to a 0.7 percentage point rise in the prices paid index, which at 83.8, was the second highest on record.

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Comments from survey participants focused on continued supply chain disruptions, supply shortages and uncomfortably high labor and materials prices. Managers noted progress in hiring as the virus retreats, while restaurant managers have experienced a pick-up as mask mandates are dropped.

All-in-all, it was an upbeat report from a sector of the economy that has struggled to fully rebound from pandemic lows. The idea that the service sector is showing significant improvement suggests that the overall economy is better equipped to withstand Fed tightening.

Last Friday, the ISM manufacturing survey showed a concerning decline in both the new orders and current production indexes, along with an unwelcome jump in the prices paid index. On the bright side, factory managers also seem to be having an easier time finding workers.

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The production index slipped from 58.5 to 54.5, while the new orders index dropped from 61.7 to 53.8. The prices paid index jumped from 75.6 to a worrisome 87.1, while the employment index rose from 52.9 to 56.3. There were indications of relief on the supply side, with both a higher inventory index and shorter supplier delivery times. *It would be a surprise if this trend continues.*

The monthly ISM surveys represent an early glimpse of business conditions across the nation. Clearly, the war in Ukraine, along with recent virus-related shutdowns in Chinese manufacturing regions will have a negative impact on factory managers. The primary reason why the factory survey continues to signal expansion (albeit, at a slower rate) is that demand is so strong. The Fed's goal, as it increases interest rates this year, will be to slow demand enough to curb inflation without completely stalling economic growth.

The Atlanta Fed's GDPNow measure for the first quarter of 2022 is currently showing +1.5% growth with data input through April 1st, well below the +6.9% GDP reading from the previous quarter.

Bond yields are up again this morning and stocks are lower after a comment by Fed Governor Lael Brainard indicating the Fed could begin rapidly shrinking its balance sheet as soon as next month. The minutes to the March FOMC meeting are scheduled for release tomorrow afternoon. Market participants will be focused on committee discussions surrounding balance sheet reduction. Governor Brainard's comment this morning suggests those discussions may be further along than investors had imagined.

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## Market Indications as of 10:50 A.M. Central Time

DOW	Down -57 to 34,865 (HIGH: 36,800)
NASDAQ	Down -242 to 14,290 (HIGH: 16,057)
S&P 500	Down -18 to 4,565 (HIGH: 4,797)
1-Yr T-bill	current yield 1.74%; opening yield 1.64%
2-Yr T-note	current yield 2.52%; opening yield 2.41%
3-Yr T-note	current yield 2.73%; opening yield 2.59%
5-Yr T-note	current yield 2.71%; opening yield 2.54%
10-Yr T-note	current yield 2.56%; opening yield 2.39%
30-Yr T-bond	current yield 2.60%; opening yield 2.46%

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