



Economics Group

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Inventory Rebuilding Sets Up a Boost to Q3 GDP

Business inventories rose for a third consecutive month in July and look poised to add to third quarter GDP. The inventory-to-sales ratio was unchanged, suggesting businesses are not overzealous in their stockpiling.

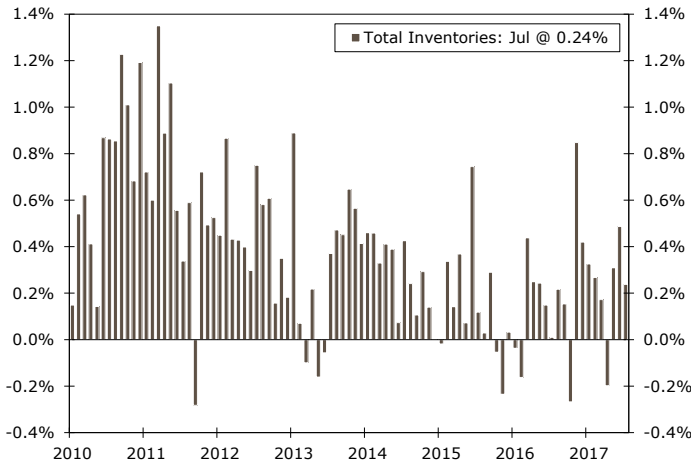
Moderate Inventory Building Continues

- Building on top of a solid rise in June, business inventories rose 0.2 percent in July. Inventories rose at manufacturers and wholesalers, but edged down in the retail sector as non-auto retailers pared back stocks.
- With sales also rising 0.2 percent, the inventory-to-sales (I-S) ratio held steady in July. Auto inventories at the retail level remain elevated, while ex-autos the retail I-S ratio ticked down.

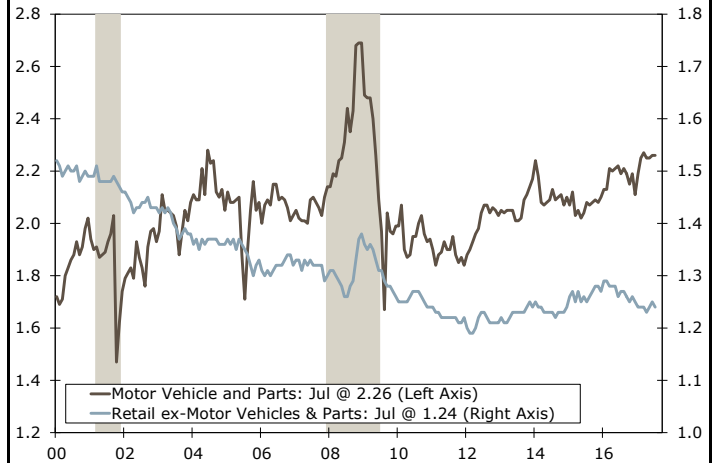
Meaningful Lift to GDP in the Offing

- Although only the first month of the quarter, today's report supports our call that inventories will be additive to GDP in Q3. As we have previously highlighted, it would not take much of an increase in real inventories to provide a significant boost to GDP following two quarters of scant stock building. We are currently penciling in a \$30 billion annualized increase, which would add 0.7 percentage points to topline GDP growth.

Total Business Inventories
 Month-over-Month Percent Change



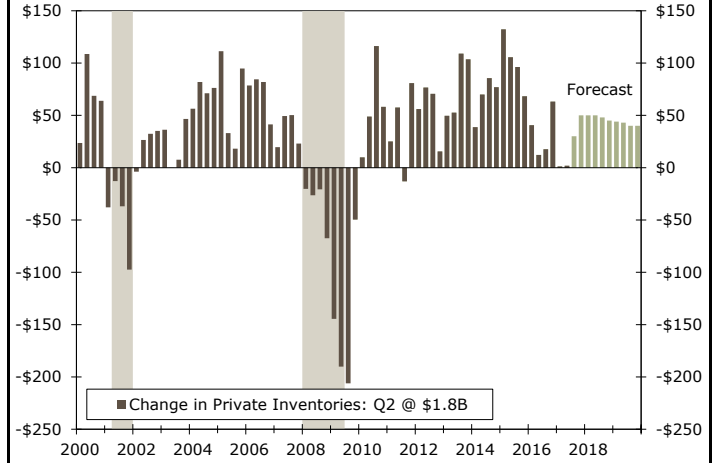
Inventory-to-Sales Ratio
 Retailers



Inventory-to-Sales Ratio
 For All Manufacturing, Wholesale and Retail Businesses



Change in Real Inventories
 Billions of Dollars, Annual Rate



Source: U.S. Department of Commerce and Wells Fargo Securities

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