



Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283
Michael Pugliese, Economic Analyst
michael.d.pugliese@wellsfargo.com • (704) 410-3156

Business Inventories Climb in May

Businesses added inventory in May, with the largest increase coming from retailers. Even our modest \$22 billion forecast for inventory build in Q2 would boost top-line real GDP growth by 0.5 percentage points.

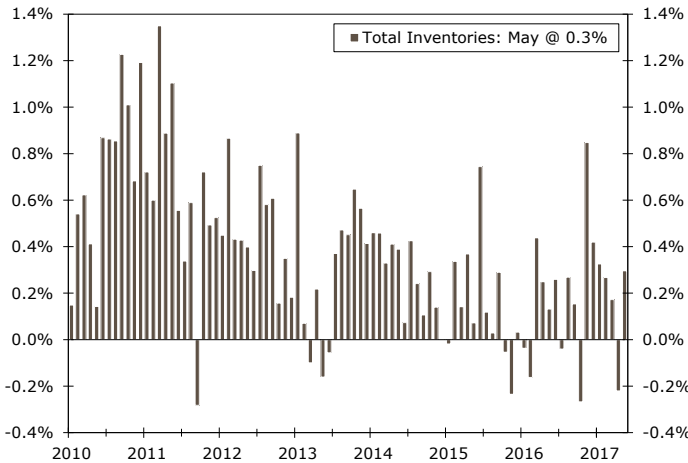
Business Inventories Bounce Back

- Business inventories rose 0.3 percent in May after a 0.2 percent decline in April.
- The small increase in inventories in Q1 shaved 1.1 percentage points off of real GDP growth, making the weak first quarter for economic growth look softer than real final sales would suggest. We expect a faster pace of inventory build in Q2 to bolster the headline growth figure released later this month.

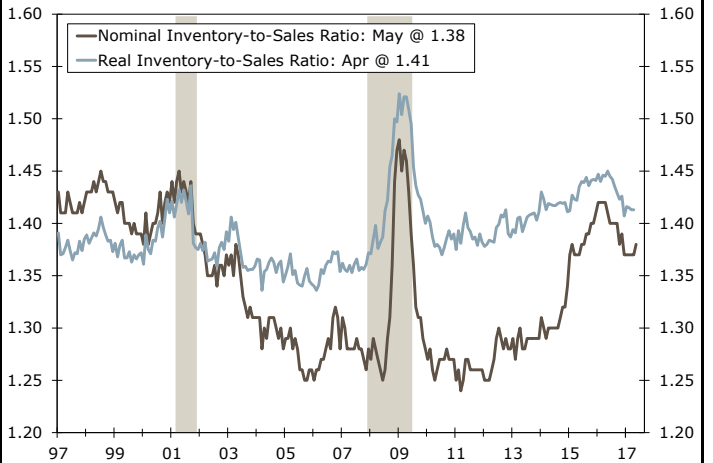
I-S Ratio Down, but Less So for Retailers

- Amid stronger total sales growth and a slow pace of inventory growth, both the nominal and real inventory-to-sales (I-S) ratios have come down in recent months.
- By sector, the inventory story is more divergent. Manufacturers and wholesalers have had more success bringing their I-S ratios down, while the ratio remains more elevated for retailers amid a challenging environment.

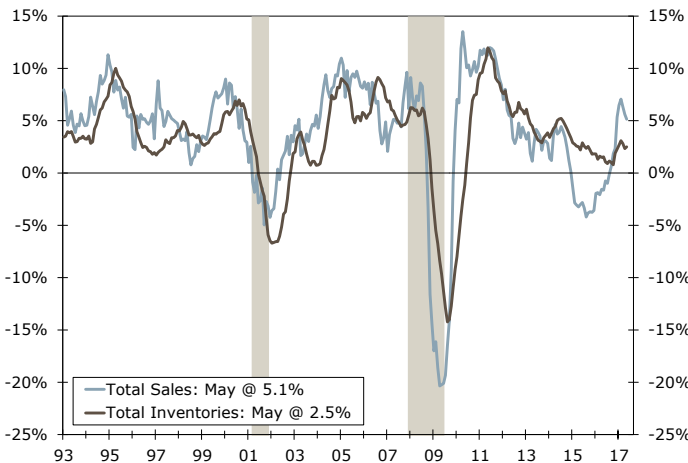
Total Business Inventories
 Month-over-Month Percent Change



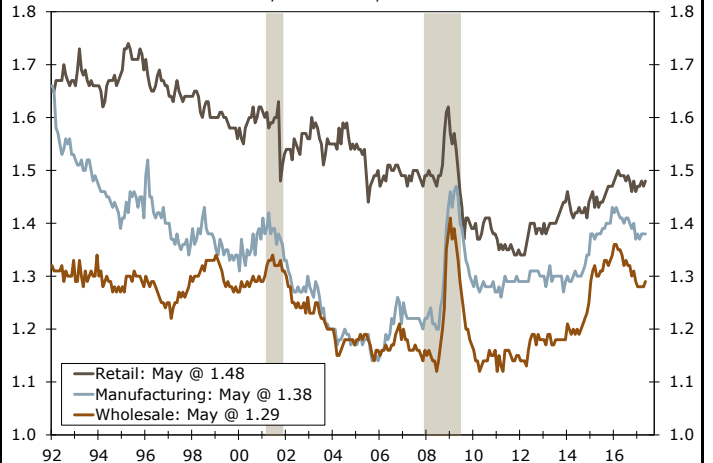
Real and Nominal I/S Ratios
 For All Manufacturing, Wholesale and Retail Businesses



Total Inventories vs. Sales
 Year-over-Year Percent Change



Inventory-to-Sales Ratios
 Retailers, Wholesalers, Manufacturers



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

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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