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Economics Group

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Inventories Set to Boost Q1 GDP

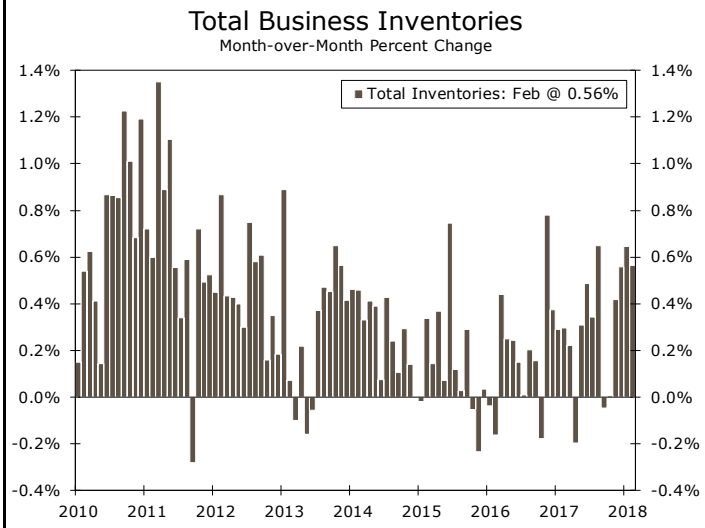
Business inventories rose 0.6 percent in February. The solid pace of stockpiling the past few months points to inventories making a sizeable contribution to what is likely to be a tepid print for Q1 GDP.

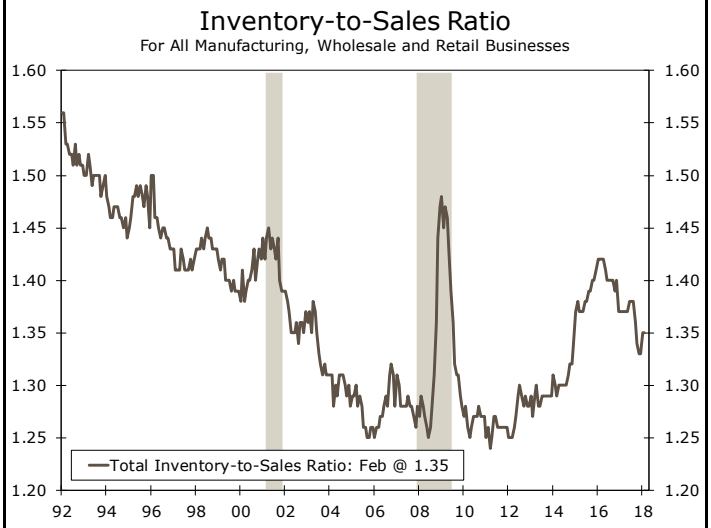
Q1 GDP to Get Help from Inventories

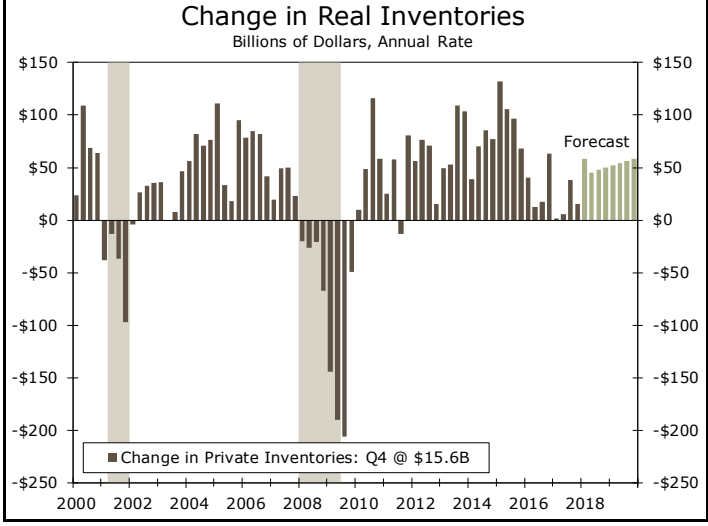
- Business inventories rose 0.6 percent for the third straight month in February. Over the past three months, inventories have growth at a 7.3 percent annualized pace, the fastest clip in five and a half years.
- Inventory growth has ramped up solidly compared to the Q4 average. We expect the pickup in inventory growth to add about one percentage point to Q1 GDP.

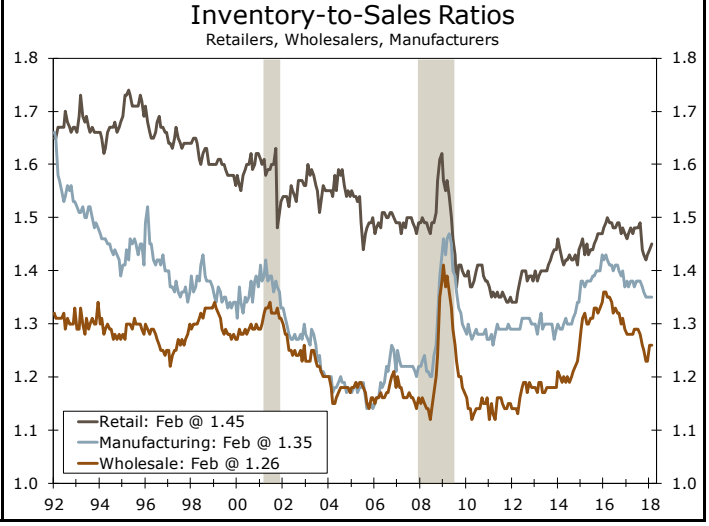
Inventories Backing-Up, but Likely Short-lived

- Sales rebounded 0.4 percent in February, but remain soft relative to inventories. The I-S ratio held at 1.35, but is up from 1.33 in December. The increase in the I-S ratio hints that the sharp rise in inventories may be unintended. However, it is likely a bit premature to be raising alarm bells. While consumption looks to have been weak in the first quarter, we expect activity to rebound in Q2 and bring inventories more in line with sales.









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

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