

Business Inventories Gain 0.3 Percent in August

Business inventories continued to build in August, as sales slowed at the fastest rate in two years. While the increase in inventories may be a short-term positive for Q3 GDP growth, it may come at the expense of slower growth in the future as businesses scale back production to more accurately keep pace with softer demand.

Inventories Building as Sales Slow

- Business inventories grew slightly less than expected in August, up 0.3 percent, while sales fell 1.8 percent.
- The inventory-to-sales ratio measures how well businesses manage their stockpiles. Just-in-time inventory management has resulted in the downtrend seen in recent years. The recent increase is a troubling sign of an inventory build.

Three Tales of Inventories

- Earlier this year inventories at retailers and wholesalers seemed to be trending lower while inventories at factories climbed. But as worried consumers continue to tighten their purse strings the picture only gets worse for retail inventories, and eventually wholesalers as well. This morning's negative report for September retail sales doesn't offer much near-term hope.

