

Economics Group

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Cars the Main Driver of August Inventory Surprise

Inventories contracted at a 1.5 percent pace in August, compared to 1.1 percent in July. This is the fastest contraction since December of last year and was driven mainly by robust sales in the retail auto sector.

Inventory Declines in the Fast Lane

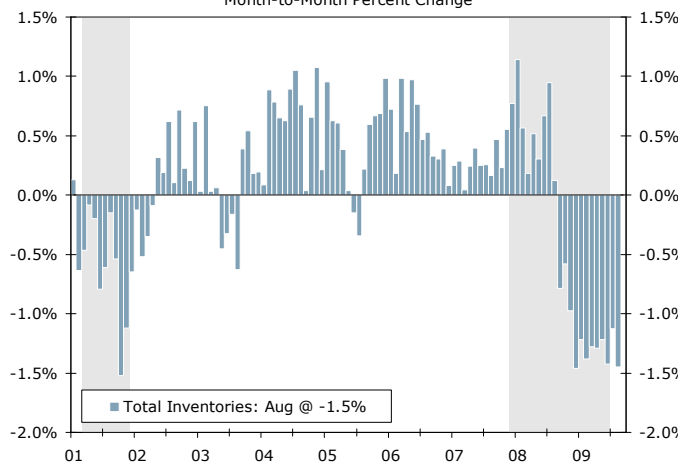
- Inventory declines accelerated in August, contrary to expectations for the rundown to hold steady. Declines at manufacturers and wholesalers slowed slightly, while retailers cut at a 2.3 percent pace relative to 1.0 percent in July.
- The pace of declines in retail inventory ex-autos also slowed, but motor vehicle and parts dealers saw a 7.9 percent drawdown. Cash for clunkers supported the auto sector in Q3.

Inventory Builds Remain Distant

- Businesses still have too much inventory, thus a supply build is not imminent—but each month's rundown improves the situation, allowing the pace to ease. Easing will quickly become evident once the cash-for-clunkers program support for autos goes away.
- A smaller decline in inventories will be additive to GDP, though it will not support the headline as much as hoped.

Total Business Inventories

Month-to-Month Percent Change



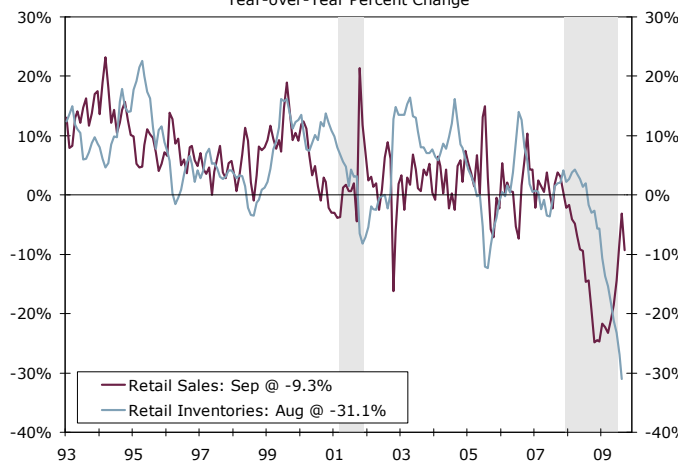
Business Inventories

Total Inventory-to-Sales Ratio



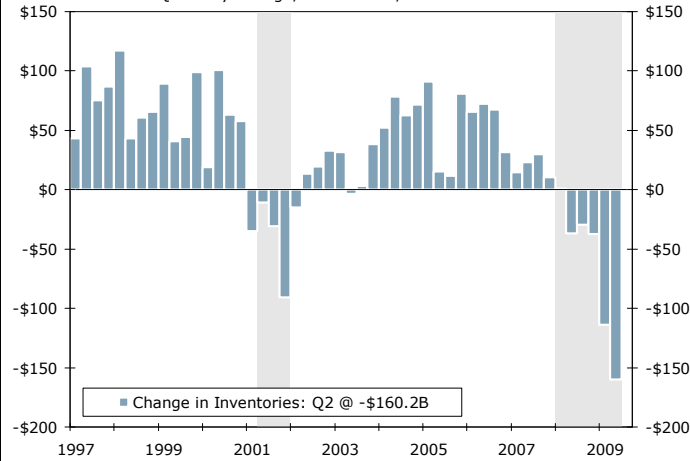
Motor Vehicles and Parts Dealers

Year-over-Year Percent Change



Inventory Change in GDP

Quarterly Change, Annual Rate, Billions of Dollars



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