

Economics Group

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Business Inventories: October Increase

The value of business inventories rose 0.2 percent in October, reversing a 13-month trend. Sales up 1.1 percent reflect improving demand, but remain down 8.2 percent on a year-over-year basis, ensuring a slow recovery.

Differences Among Sectors Apparent

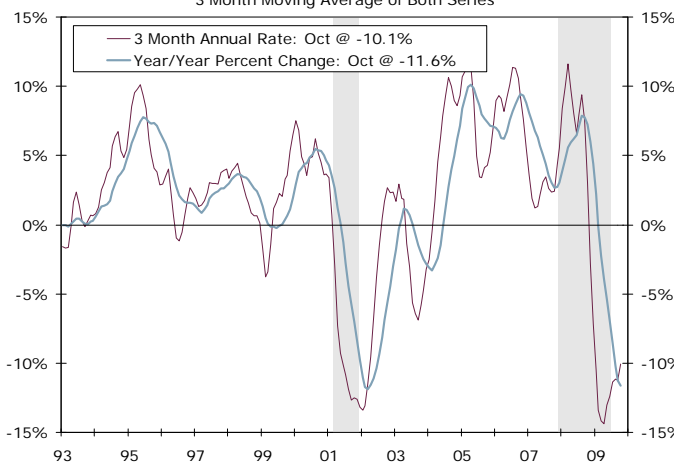
- Commodity price gains affected inventory increases for manufacturers and wholesalers, with petroleum and farm/food products leading the gains. Moderating prices in Nov. and Dec. may still allow for declines in inventories in coming months.
- Retailers did not contribute to the increase—ex-autos, retail inventories fell 0.2 percent on the month. As the cycle moderates inventory-to-sales ratios have slowed their decent.

Economic Growth and Inventory Changes

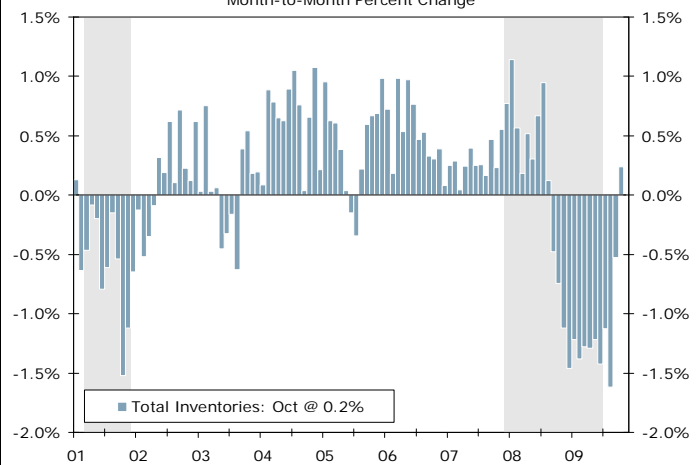
- We expect the change in real inventory growth in the economy to account for much of fourth quarter growth. Our current forecast calls for a 2.2 percentage point contribution from inventories for the 2.6 percent GDP growth rate in Q4. Significant upside risk exists to GDP in Q4. In addition to the next few months of inventory data, net exports will also likely add to growth, bringing the ceiling for GDP even higher.

Manufacturers' Inventories

3 Month Moving Average of Both Series

**Total Business Inventories**

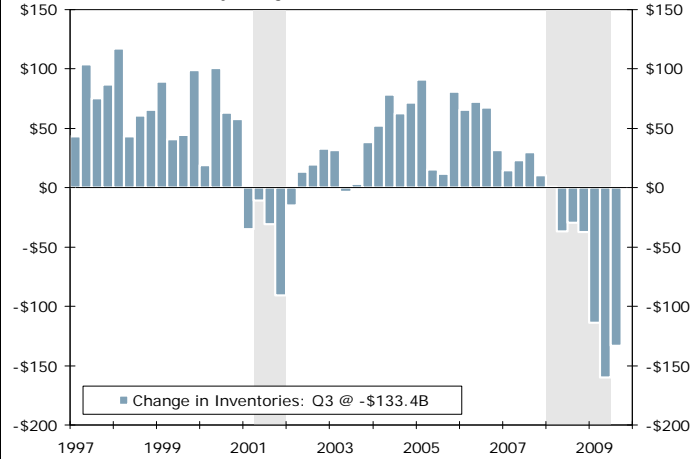
Month-to-Month Percent Change

**Inventory to Sales Ratios**

Retailers, Wholesalers, Manufacturers

**Inventory Change in GDP**

Quarterly Change, Annual Rate, Billions of Dollars



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

Wells Fargo Securities, LLC Economics Group

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