



# Economics Group

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## Wholesale Inventories Fell off in December

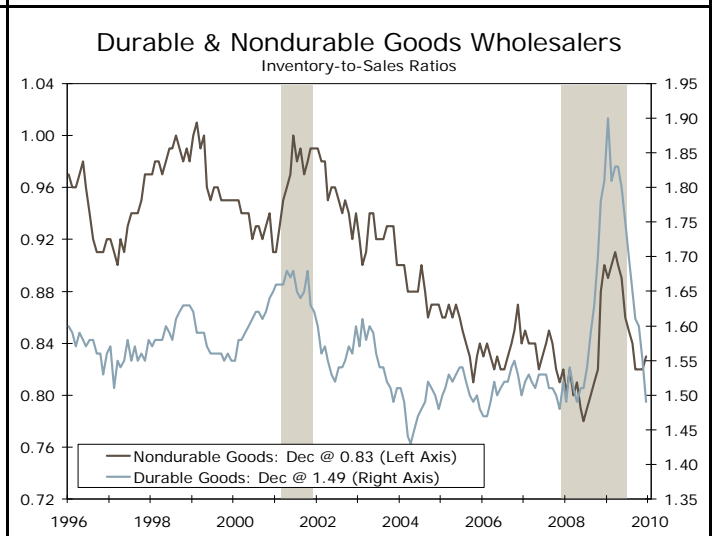
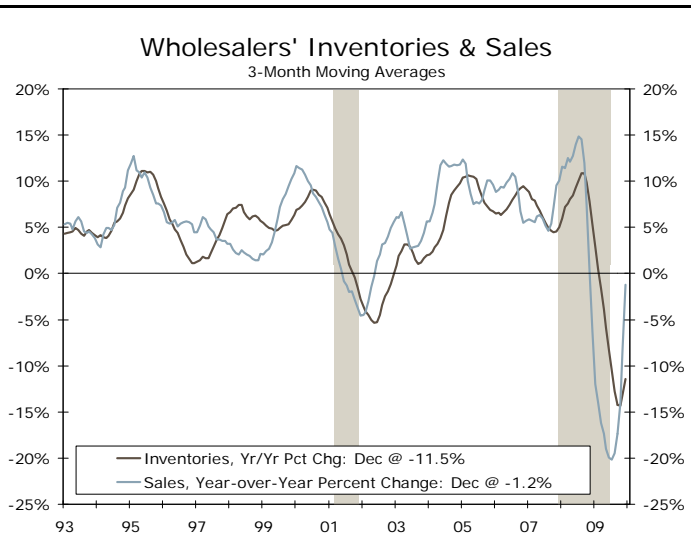
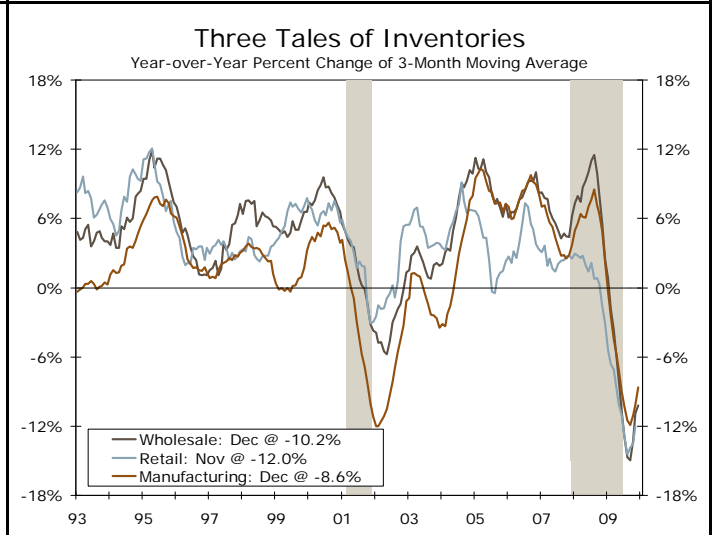
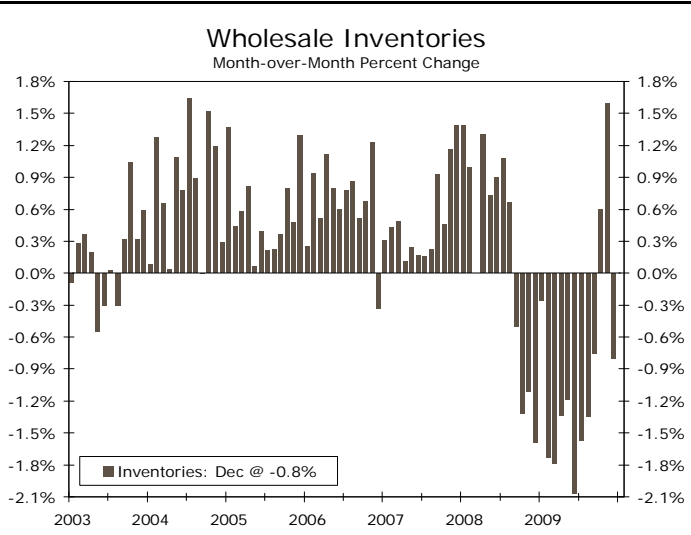
*Inventories of merchant wholesalers declined 0.8 percent in December in a reversal of the brief trend of inventory builds established during the first two months of Q4. Inventories will still support growth in 2010.*

### Inventories Swing Back to a Decline, Sales Still up

- A significant retracement in inventories in December was led by machinery and autos, but the same sectors also saw increases in sales where the headline was up 0.8 percent.
- The BEA estimated inventories declined by \$33.5 billion in Q4, which included an assumption of a December decline. We will likely see only a minor revision to the inventories component of GDP, which boosted the headline significantly.

### Inventories and Sales—When Will the Stars Align?

- The normalcy of the inventory-to-sales ratio varies across the different sectors of the economy, but in general the ratios are returning to trend. We estimate that inventories will grow throughout 2010 and add about 1.0 percent to annual growth.
- On the nondurable side, sales fell off faster than inventories were reduced, the same outcome seen during the recession. However, durable goods sales significantly outpaced the inventory decline.



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

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