

**Economics Group**

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**Surprise Inventory Build in Wholesale Sector Begins Q4**

**Wholesalers increased inventories for the first time in 14 months, up 0.3 percent, to begin the fourth quarter. The drastic shift was preceded by several months of tentative sales growth which continued in October.**

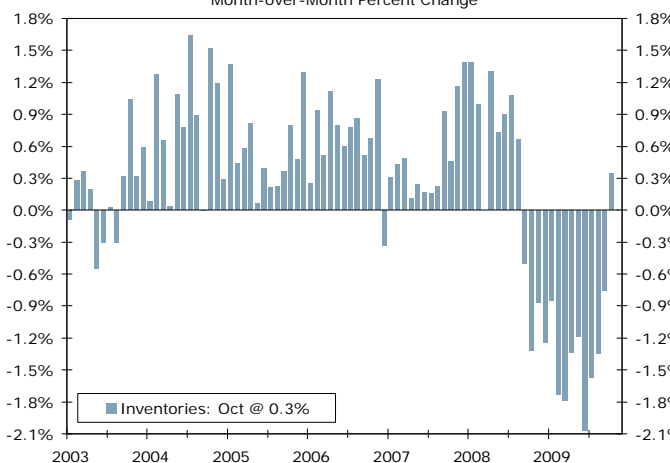
**Turn in the Inventory Cycle Could Be Imminent**

- The inventory build in the wholesale sector could mark the beginning of the end of the economy-wide drawdown. The possible turn gains credence from indications of building in the manufacturing sector in last week's factory orders report.
- A large contribution from farm products and petroleum can cloud data, potentially due to price volatility. Excluding these sectors we still saw unexpectedly higher numbers.

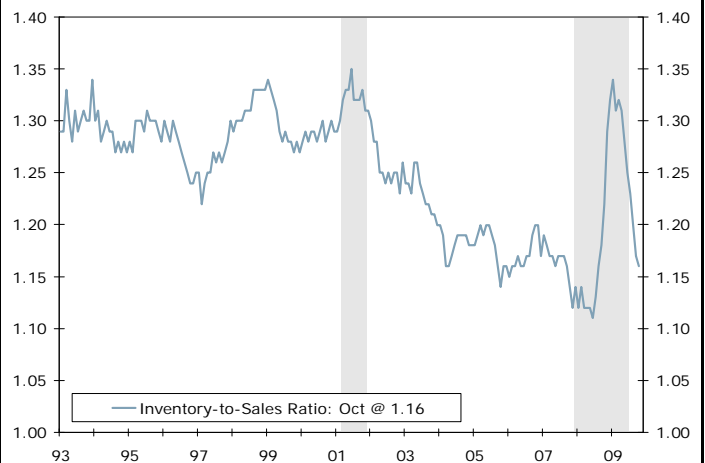
**Not Quite an "All Clear" Signal**

- The inventory-to-sales ratio has slowed its rapid decline, to be expected as wholesalers approach an acceptable balance. There is still room for improvement here, thus we expect businesses to remain cautious in their plans for production and hiring.
- Still, the recovery in sales, albeit slow, will allow businesses to feel more comfortable making new orders and hiring workers, a much needed step on the road to recovery.

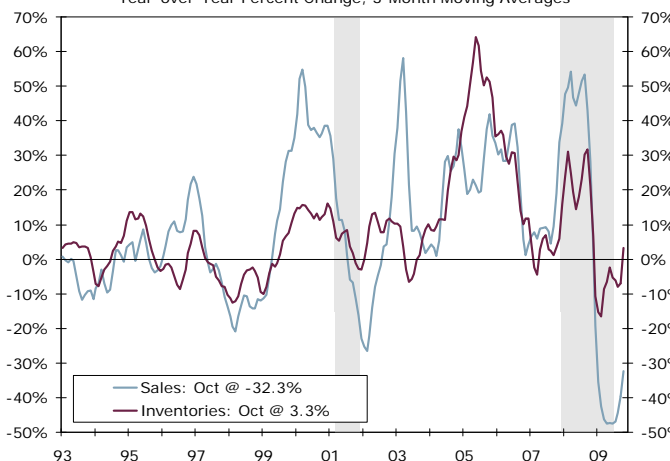
**Wholesale Inventories**  
 Month-over-Month Percent Change



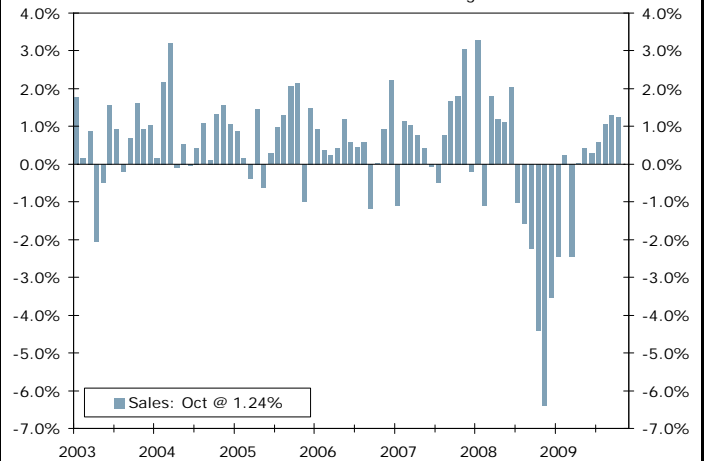
**Wholesalers' Inventory-to-Sales Ratio**



**Petroleum Wholesalers' Sales & Inventories**  
 Year-over-Year Percent Change, 3-Month Moving Averages



**Sales of Wholesalers**  
 Month-over-Month Percent Change



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

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