



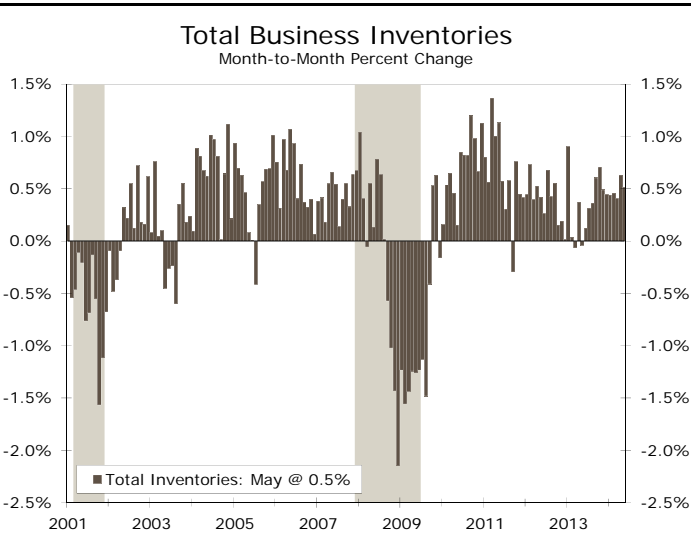
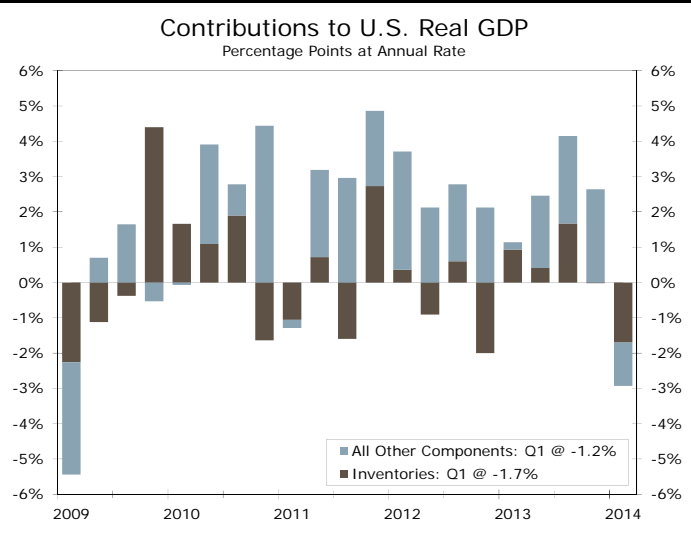
Economics Group

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Inventory Drag? That Is SO First Quarter

Today's report on May business inventories provides the next piece of the puzzle for Q2 GDP. With two months of accumulating stockpiles, we are on track for inventories to boost growth in the second quarter.

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| <p>Role Reversal</p> <ul style="list-style-type: none"> In the latest revision from the BEA, we learned that GDP contracted at a larger-than-estimated rate of 2.9 percent in the first quarter. A slower pace of inventory building was largely to blame, exerting a 1.7 percentage point drag on GDP, which accounted for more than half the decline for the period. On that basis, the 0.5 percent increase for business inventories following a similar gain in April suggests a role reversal in Q2. | <p>Stockpiling Appears Justified Given Sales Pace</p> <ul style="list-style-type: none"> This is the last business inventories report before BEA's first look at second quarter GDP at the end of this month, which means that they too will be estimating June figures. A brisk pace of sales has helped keep measures of unintended inventory building, such as the inventory-to-sales ratio, in check. In a separate release this morning we learned that retail sales in June increased for the fifth-straight month. |
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