

# Economics Group

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## Business Inventory Slowdown Extends Through August

*Business inventories were flat for a second straight month in August after rising steadily in the second quarter. The slowdown in stock building suggests inventories will be a sizeable drag on headline GDP in Q3.*

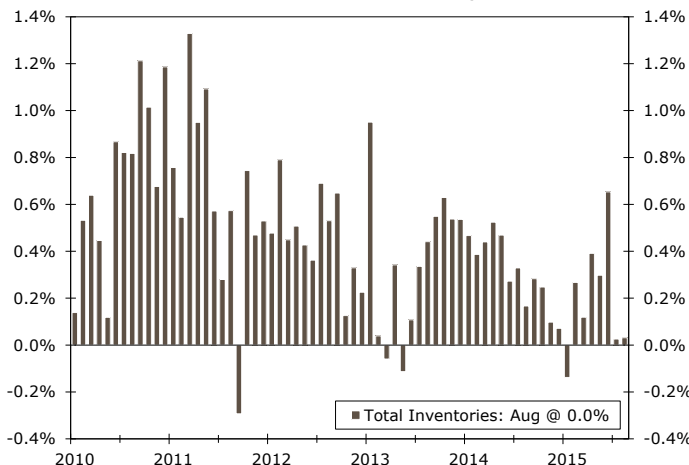
### Bracing for a Q3 Inventory Drag

- Inventories were flat in August as a decline at manufacturers offset modest increases at wholesale and retail firms.
- Over the past three months, inventories have grown at an annualized rate of \$51.1B, down from a \$96.2B three-month pace in June. With real inventories in the first half of the year increasing at the fastest pace on record, the recent slowdown is set to weigh heavily on Q3 GDP.

### Weak Sales Keeping Inventories Elevated

- A further moderation in stock building looks to be in store. Sales slowed even more than inventories in August, declining 0.6 percent and pushing the inventory-to-sales ratio up to 1.37.
- While part of the rise in the inventory-to-sales (I/S) ratio has been due to price dynamics, the real I/S ratio has also risen over the past year and suggests an unintended buildup in light of the soft sales environment.

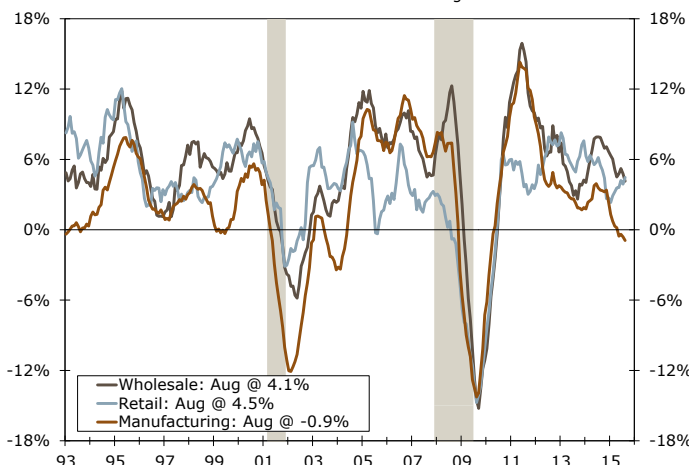
**Total Business Inventories**  
 Month-over-Month Percent Change



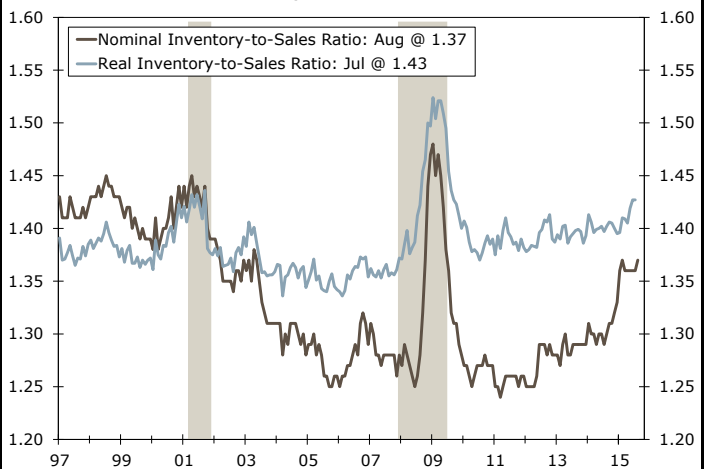
**Total Inventories vs. Sales**  
 Year-over-Year Percent Change



**Three Tales of Inventories**  
 Year-over-Year Percent Change



**Real and Nominal I/S Ratios**  
 For All Manufacturing, Wholesale and Retail Businesses



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