



Economics Group

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Retailers Stocking Up Amid Slow Inventory Build Elsewhere

March inventories nudged higher as a slow build in Q1 inventories creates a low base for Q2 growth. Retailers in particular are adding to store inventories perhaps as a strategy to keep online competition at bay.

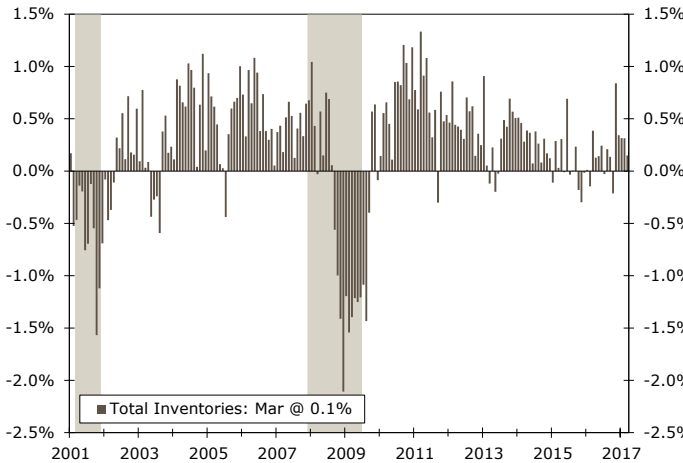
Inventories Were a Drag on Q1 GDP Growth

- Inventories increased 0.2 percent in March, which was what consensus had expected, but February’s increase was revised to a slightly smaller increase.
- In the first estimate of GDP, the change in inventories was just \$10.3 billion—a significant slowing that subtracted almost a full percentage point from the Q1 growth rate. The silver lining is that even a modest re-stocking will boost growth in Q2.

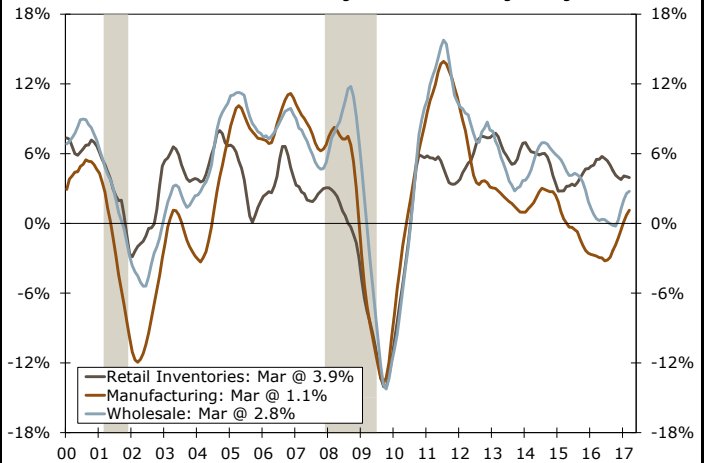
Retailers Stocking Up

- One of the few advantages brick and mortar retailers have over online competitors is having product when the consumer needs it “now!” That may be a factor in why retailers are stocking up more than wholesalers and manufacturers.
- The inventory-to-sales ratio for retailers is elevated relative to earlier in this cycle but not far from levels in the prior expansion. Today’s report of a pick-up in April store sales should help.

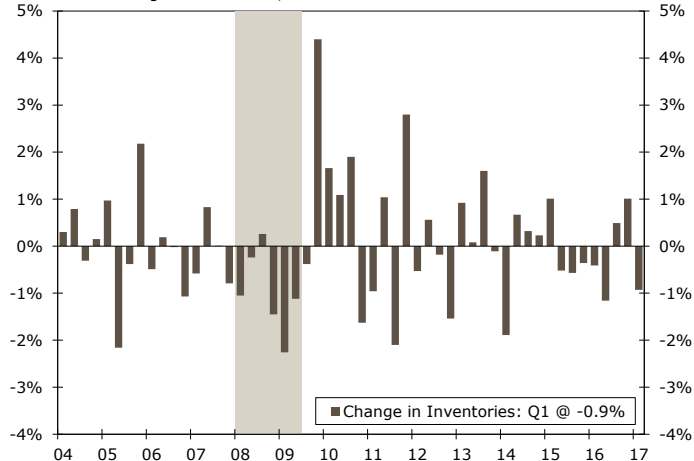
Total Business Inventories
 Month-over-Month Percent Change



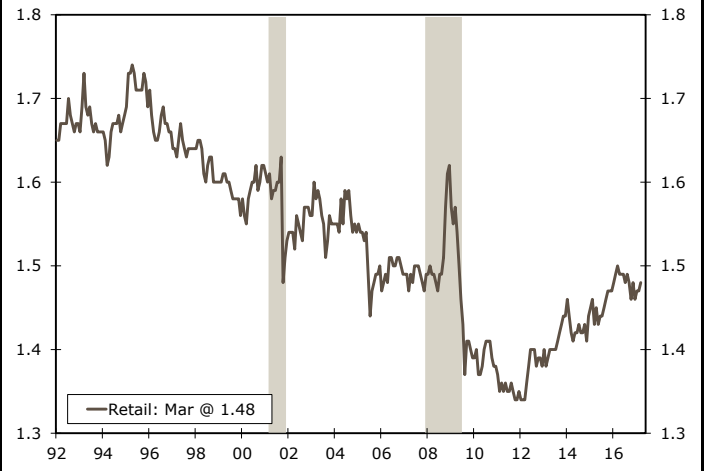
Three Tales of Inventories
 Year-over-Year Percent Change of 3-Month Moving Average



Real Gross Private Domestic Investment
 Chg. in Inventories, Pct. Pt. Contribution to GDP Growth



Retail Inventory-to-Sales Ratio



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

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