MARKETPLACE® Economy

GDP growth slows as inventories fall

by Mitchell Hartman
Thursday, October 29, 2015

The Commerce Department reports that gross domestic product — the total of all goods and services the U.S. economy produces — rose at a 1.5 percent annual rate in the third quarter of 2015. The preliminary estimate represents a significant decline from GDP growth in the second quarter of 2015 of 3.9 percent.

Declining private business inventories dragged down third-quarter GDP by approximately 1.4 percentage points. Business inventories are parts, supplies and products that are in the production and supply chain and haven't been sold to a final consumer or business purchaser yet.

Randy Dellwo is CEO of RBD Instruments, a small company in Bend, Oregon, that makes precision scientific instruments for industry, government and university labs.

"We pay very close [attention] to our inventory when we order parts from vendors that we use to assemble products like sputter ion guns or analyzers," said Dellwo.

Dellwo said he wants to run a tight financial ship and keep parts-supplies from getting out ahead of upcoming orders, which would be costly.

Bernie Baumohl at the Economic Outlook Group said that during the third quarter, many U.S. businesses let inventories fall.

“What companies decided to do was fill orders from consumers and businesses by drawing down from the existing inventory,” **Baumohl** said.

But **Baumohl** doesn’t believe that is because they are convinced that the economy is slowing down, and they don’t want expensive supplies sitting on their shelves. Rather, he said, inventories piled up in the second quarter after a port strike and bad winter weather caused bottlenecks in the supply chain in the first quarter. All that is now past, and going forward **Baumohl** said both consumers and businesses are relatively optimistic.

“The very fact that we’ve had this draw-down in inventories does set the stage for companies to start filling up their stockrooms and backlots, and that should add to GDP growth in the fourth quarter,” said **Baumohl**.

Eric Wiegand, senior portfolio manager at US Bank’s private client reserve, said the pullback in inventories in the third quarter is balanced by continued strength in final sales to domestic purchasers, which he considers a better predictor of growth going forward.

“We don’t view the decline in inventories as something that’s likely to be repeated in the fourth quarter,” Wiegand said. “Final sales to domestic purchasers was reasonably high, up 2.9 percent, showing favorable underlying trends in terms of consumption.”

RBD Instruments CEO Dellwo sees just this trend in his own business. He said the negative impacts of the high U.S. dollar on his company’s exports (especially to Europe) appear to be fading. In the past several months, he’s been building up inventory in anticipation of higher sales in 2016.

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