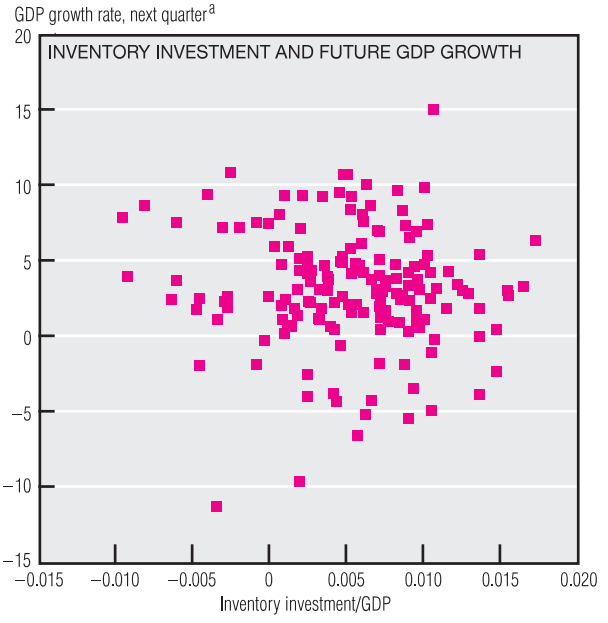
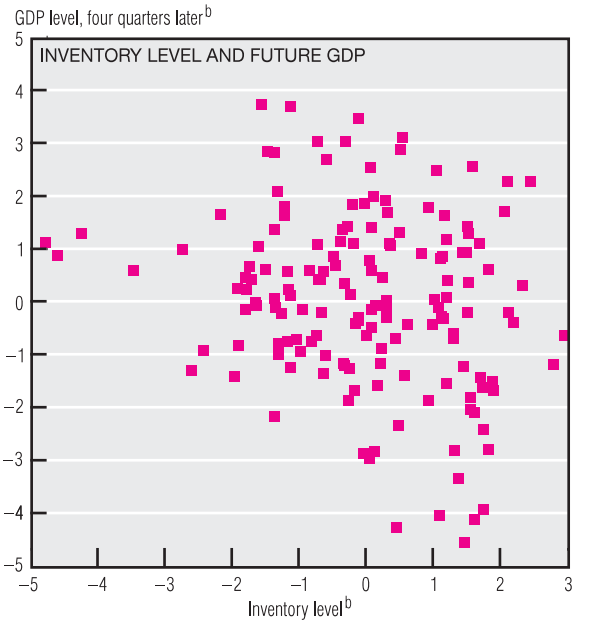
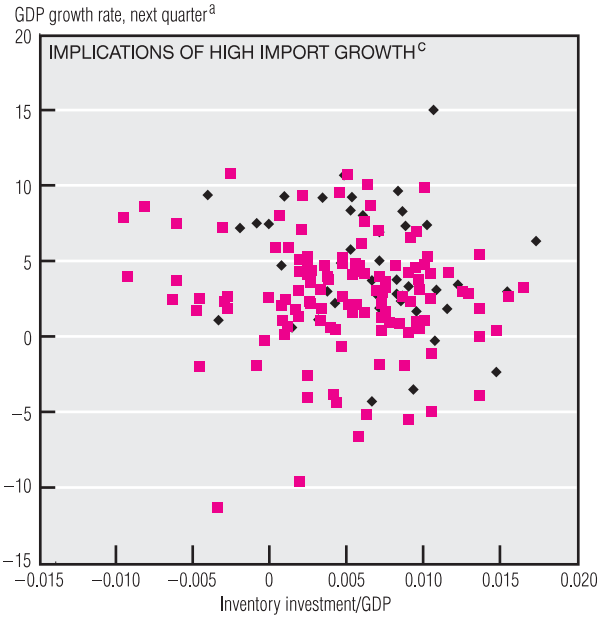
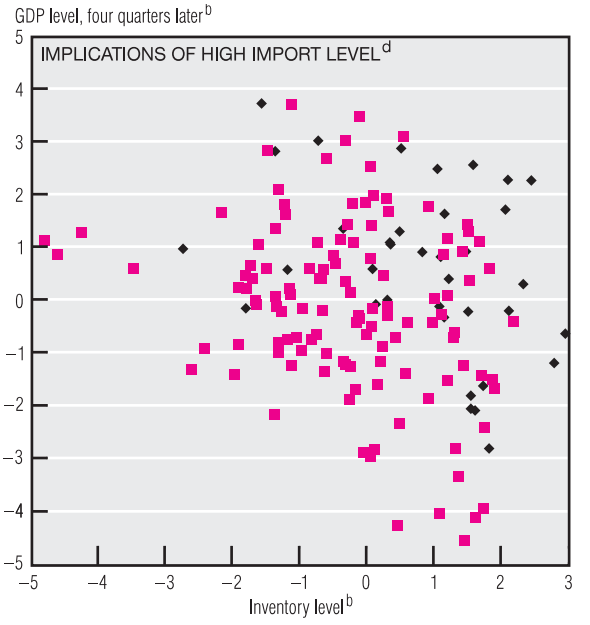
Inventories, Imports, and Output









a. Annual rate, percent
b. Deviations from trend, percent.
c. High import growth is defined as more than 12.6%, which is twice the sample mean.
d. High import levels are 3% above their trend.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Federal Reserve Bank of Cleveland.

Substantial inventory accumulation and a surge in imports have accompanied the strong GDP growth of the last two years. Throughout this period, some analysts have warned that the inventory buildup signals a substantial slowdown in output growth—perhaps even a recession—as firms respond to a perceived inventory "overhang" by cutting back production. Other commentators have suggested that if the buildup is largely composed of imported goods, then the implications for future output growth may be less dire, since a smaller overhang would exist for domestic firms.

A fundamental problem with this argument is that historical data do not support its basic premise: that high inventory investment consistently precedes slow—or negative—future output growth. In fact, the relationship between high inventory investment and future output growth is very cloudy, whether one looks at the next quarter or the next year.

Though unable to see a clear relationship between inventory investment and future output growth, we can still ask whether that relationship is influenced by a strong surge in imports. The answer is "not much." If anything, a surge in imports portends stronger output growth than occurs in periods with no such surge. Of course, high import growth does not imply that the inventory buildup is in imported goods. Examining how the import composition of inventories affects future output growth would require much more detailed data.