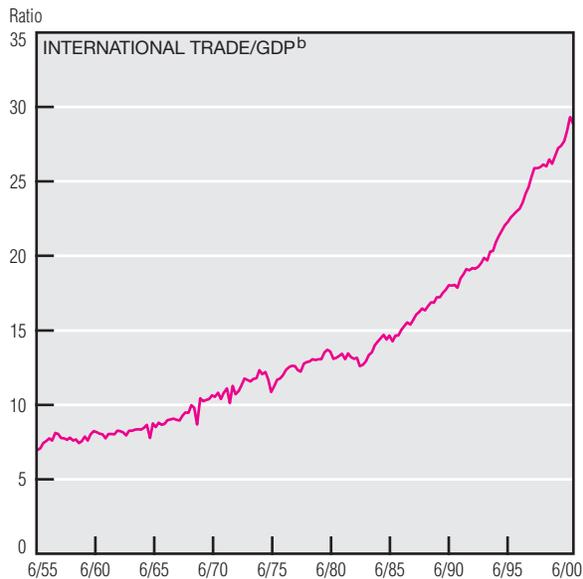
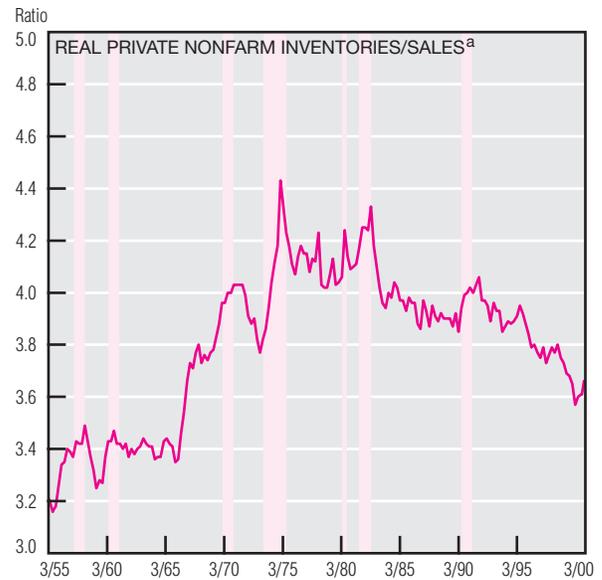


## Inventories and Imports

Real GDP and Components (Billions of chained 1996 dollars)			
	2000:IIIQ	2000:IVQ	Change
Real GDP	9,369.5	9,393.7	24.2
Personal consumption	6,329.8	6,373.3	43.5
Business fixed investment	1,438.8	1,438.3	-0.5
Residential investment	362.3	359.0	-3.3
Change in business inventories	72.5	55.7	-16.8
Government spending	1,578.2	1,589.6	11.4
Net exports	-427.7	-441.7	-14.0



### Percentage Change in Imports Resulting from a 1% Increase in Inventories<sup>c</sup>

	Point estimate	Confidence range	
		95%	90%
1956-79	1.3	0.3 to 2.3	0.5 to 2.1
1980-89	1.8	0.5 to 3.1	0.7 to 2.8
1990-2000	1.2	0.3 to 2.2	0.4 to 2.0

a. Shaded areas indicate recessions.

b. Real imports plus exports, divided by GDP.

c. Calculations are based on quarterly data for imports of goods and nonfarm inventories.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Many economists believe that the current cooling in economic activity largely reflects an inventory correction that will pass fairly quickly and painlessly. Two observations support this prognosis. First, businesses have managed their inventories closely, fostering a general decline in the ratio of inventories to sales since the early 1980s. Because manufacturers reacted quickly when the ratio began to rise last year, the necessary correction might be less extensive than it often has been in the past.

The second reason for optimism is the increasingly global nature of production. International trade (exports plus imports) equaled 29% of GDP in 2000, up from 7% in 1960. As businesses rely more heavily on imports to manage their inventories—so the story goes—corrections have less impact on their domestic production and employment than they had 20 or 30 years ago.

The relationship between inventories and imports is not wholly inconsistent with this account. Over

the past 10 years, a 1% increase in private nonfarm inventories has been associated with a 1.2% increase in goods imports. Nevertheless, the story falls short. After allowing for the inherent randomness of any such estimate, it appears that the relationship between inventories and imports has not changed in 45 years. Imports are no more an inventory escape valve today than they were in the past.