

Economic Analysis

February declines in wholesale trade reflect low commodity prices and somewhat weaker demand

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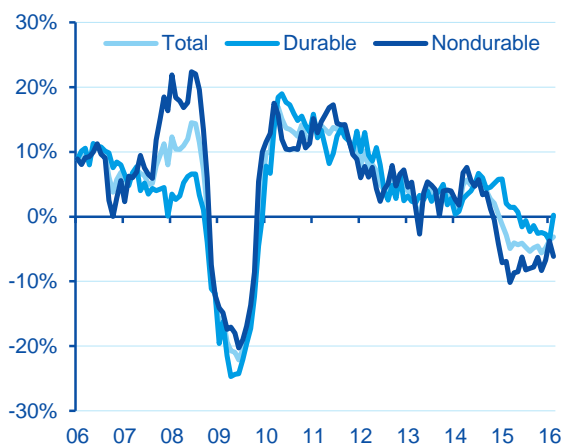
- Wholesale sales declined 0.2% MoM in February due to a drop in nondurable goods
- Wholesale inventories declined more than expected due to drugs and farm products
- Negative inventory data will weigh on GDP growth in 1Q16

According to the U.S. Census Bureau, wholesale sales in February fell 0.2% MoM, marking the fourth straight monthly decline. While sales of most product categories went up, petroleum sales declined 10.1% MoM and sales of farm products declined 2%. Groceries, which represent the largest product category, declined 0.3%. As the sales are adjusted for seasonal variation but not for price changes, some of the decline was a result of lower fuel and commodity prices. That said, the decline still points to some weakness in demand for goods. For example, sales of autos, which have been pretty strong recently, declined for the second month in a row.

Inventories declined more than expected, down 0.5% MoM following a downwardly revised January figure (from 0.3% increase to 0.2% decrease). Wholesale inventories have decreased on average by 0.25% in the last four months. The largest declines in February were in the drugs and farm product categories. The biggest declines on a YoY basis were in metals (19.6%), petroleum (9.1%), and farm products (7.3%), again pointing to the impact of low commodity prices on the end figures. The inventories-to-sales ratio declined to 1.36 in February, down from the 1.37 value in January which was a post-crisis high (the historical average is 1.25).

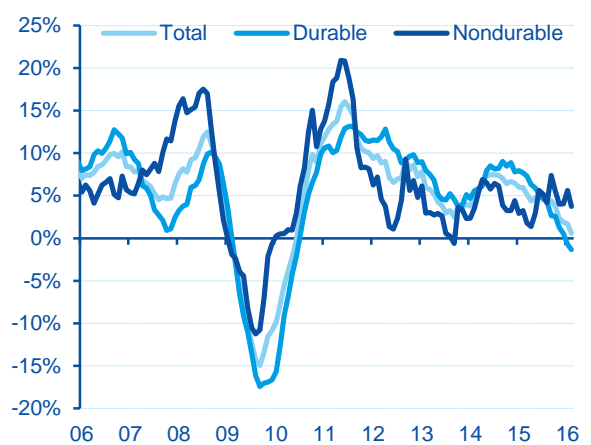
The inventory decline and January’s revision will weigh on 1Q16 GDP, adding to other downward pressures for the start of the year. Low commodity prices and weak figures on trade and consumer spending on goods suggest that the goods-producing sector is not going to contribute much to GDP growth in the first quarter, and maybe even in the first half of the year.

Chart 1
Wholesale Sales
YoY % Change



Source: Census Bureau & BBVA Research

Chart 2
Wholesale Inventories
YoY % Change



Source: Census Bureau & BBVA Research

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