The line shown on the chart portrays the "norm" by which inventory and sales movements may be gaged, based on this type of relationship and the experience over the period 1953–65. If the point representing a particular quarter is appreciably above the line, inventories may be regarded as high relative to the corresponding sales; if the point is well below the line, the inventories may be viewed as low.

Over the years 1953–65 inventory changes were directly proportional to changes in sales except for significant departures in the recession periods and since the first quarter of last year. On the basis of this relation, total business inventories at the end of April 1967 were roughly $10 billion higher than they would have been if they had conformed with their relation to sales in prior years—a relationship using end-of-current-quarter inventories against the preceding quarter sales gives a slightly higher correlation and also shows a sizable inventory excess in April 1967. This is a large excess, representing approximately 7 percent over the "normal" level. An adjustment of the high inventories could take place without an actual liquidation, if sales were to increase substantially in the coming months.

As I shall indicate later, the inventory picture is mixed, and, therefore, the situation cannot be judged adequately by the use of global figures. It is necessary to examine inventory developments by categories.

Inventory Position by Major Groups

Using a procedure similar to that described above for the total, I have analyzed inventory-sales relationships for selected manufacturing market categories, other manufacturing industries, and the major trade lines. I have also examined the inventory-sales ratios for these groups; they are depicted in charts 6 and 7. Both the inventory-sales ratios and the linear relations show that at the end of April inventories held by most groups were exceptionally high.

(Charts 6 and 7 follow:)