



SPOTLIGHT | US Electrical Industry Outlook

US ELECTRICAL EQUIPMENT NEW ORDERS and US Electrical Industrial Apparatus Production are declining. Meanwhile, Annual US Wholesale Trade of Electrical and Electronic Goods is generally expanding. This is likely due to the inclusion of household-type electronic parts and supplies in Wholesale Trade, which are likely benefitting from a strong consumer. As discussed in January's topical article, "The US Consumer is King", 2017 is going to be a better year than 2016, driven by a strong labor market and consumer savings. This will also be largely true for the US electrical industry, although expect less-favorable conditions in the first half of 2017 for the industry than in the economy as a whole. Expect annual Production and annual New Orders to rise by mid-2017 to match the positive momentum in consumer demand happening throughout 2017 and early 2018.

US Electrical Equipment New Orders totaled \$35.1 billion during the 12 months through December. The pace of decline is easing. However, annual New Orders, down 9.5% compared to last year, are at the lowest level in over six years. Expect annual New Orders to rise from mid-2017 into late 2018, supported by increasing activity in US Industrial Production.

US Electrical Equipment Production Excluding Household Appliances during the 12 months through January is down 1.5% compared to last year. The addition of consumer-facing Electric Lighting Equipment kept the recession in Production

relatively mild. However, US Electrical Industrial Apparatus Production, a better representation of the industrial side of the industry, is down 7.3% compared to last year. The most recent three months of production are down 12.5% from the same three months last year, the lowest quarterly growth rate in over six years. Expect that the pace of decline in Production will ease in the second quarter of 2017 and cyclical rise will take hold into late 2018.

The nonferrous wire industry is trending differently from the electrical equipment industry. Average US Communication and Energy Wire & Cable Production during the 12 months through January is up 3.3% since the previous year. The most recent three months of Production are up 1.1% compared to the same three months one year ago. Production is generally slowing in its pace of rise. However, expected cyclical rise in US Electric Power Generation, Transmission, and Distribution Production, a five-month leading indicator, into early 2018 suggests that the current period of slower growth in Cable Production will likely give way to accelerating growth for much of 2017. Those involved in nonferrous wire production should seek to improve efficiencies in preparation for higher activity in the utilities market in 2017.

US Wholesale Trade of Electrical and Electronic Goods during the 12 months through December totaled \$561.6 billion, up 1.2% compared to the same 12 months last year. Wholesale

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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA Average US Industrial Production and average US Nondefense Capital Goods New Orders rose in the most recent 12 months. However, both indicators remain below their respective year-ago levels, down 0.8% and 3.3%. Leading indicator evidence from cyclical rise in the US Purchasing Managers Index, US Corporate Profits, and the US Total Industry Capacity Utilization Rate indicates sustained rise for the US macroeconomy in 2017 is likely.

Sectors of the economy that are already performing particularly well tend to be those tied to the consumer, such as housing. Retail Sales at Building Materials and Supplies Dealers are up 6.8% year-over-year while Wholesale Trade of Lumber and Other Construction Materials is up 6.3%. The positive business cycle momentum in the US macroeconomy will strain the labor market, as shortages of skilled labor become increasingly evident. US Private Sector Employment is up 1.9% year-over-year, but rising Employment leading indicators signal that the pace of Employment growth will pick up by mid-2017.

Canada Industrial Production is recovering, down 0.9% compared to last year, and will follow an accelerating growth trend into early 2018. Mexico's economy is behaving differently than the rest of North America. Mexico Industrial Production is even with the year-ago level. Expect Mexico to generally expand in 2017; however the Mexico Purchasing Managers Index and the OECD Mexico Leading Indicator suggest downward movement for Industrial Production. This, as well as the political uncertainty currently stemming from the US surrounding trade and immigration, poses a risk to growth for Mexico.

SOUTH AMERICA Average Brazil Industrial Production during the 12 months through December is down 6.6% from one year ago. Expect a slow recovery in Brazil Industrial Production, as the Brazil PMI indicates that the manufacturing sector is declining. Industrial Production is also declining in Argentina, Peru, and Chile, down 2.5%, 1.9%, and 1.1% on a year-over-year basis, respectively. Colombia is the regional leader, as 2016 Industrial Production grew 3.6% versus the 2015 level.

EUROPE Average Eastern Europe Industrial Production during the most recent 12 months is up 2.8% from the year-ago level. The pace of growth in Europe Industrial Production is generally slowing. However, the rate of growth in Eastern Europe Industrial Production is outpacing growth in Western Europe Industrial Production, up 1.1% during the 12 most recent months. Conversely, Western Europe Construction Production (up 2.1%) is outperforming Eastern Europe Construction Production, down 9.7% year-over-year. The Europe Employment Rate reached record levels in 2016 and Europe Wages are 2.0% above the year-ago level. Plan for mild growth in Europe in 2017.



BY THE
NUMBERS
(US)

**Conference
Board Consumer
Confidence Index**

111.8%

**January (2017)
Unemployment**

4.8%

**Retail Sales
(Dec to Jan change)**

-5.1%

**Mfg.'s New Orders
for Durable Goods
(Nov to Dec)**

-0.4%

ASIA

China Industrial Production during the 12 months through December is up 6.0% compared to last year. Cyclical rise in China's economy is increasing regional demand and is placing upward pressure on commodity prices. Cyclical rise in Southeast Asia Industrial Production, up 2.6% year-over-year, and Japan Industrial Production, down 0.5%, stems from trade opportunities as a tailwind of China's accelerating growth. The average of the most recent three months of the IMF Metals Price Index is up 31.7% compared to the same three months one year ago. Plan for commodity prices to generally rise over the next four quarters. The China Purchasing Managers Index is rising, suggesting increased activity from the manufacturing sector in 2017. India Industrial Production during the 12 months through December is 0.3% above the year-ago level. India Industrial Production tentatively entered a rising trend, as suggested by general rise in the Production quarterly growth rate and in the India Infrastructure Industrial Index.

MIDDLE EAST / AFRICA

Average Middle East and North Africa Industrial Production during the 12 months through November is up 2.8% from the same level one year ago. Expect the pace of growth in the region to slow in the second half of 2017, as the recent OPEC agreement to cut Oil Production is expected to be initiated in 2017. Expect oil prices to generally rise in 2017, vacillating between the mid-to-high \$50 range throughout the year.

*Source - IEWC contracts the services of a third party consultant to provide current insights on the economy.

CURRENCY TRENDS

	Current Value of \$1USD	Change Since 1/1/2017	Change Since 2/1/2016
Brazilian Real	3.09	-0.16	-0.90
Canadian Dollar	1.31	-0.03	-0.09
Chinese RMB	6.88	-0.06	0.30
Euro	0.94	-0.01	0.02
Mexican Peso	20.47	-0.26	2.16
Pound Sterling	0.80	-0.01	0.10

Current values as of 2/20/2017

Mfg.'s Shipments of Durable Goods
(Nov to Dec)

+1.4%

Durable Goods Mfg.'s Inventories
(Nov to Dec)

0.0%

CPI Inflation
(over prev. 12 months)

+0.6%

US Industrial Production Index
(over prev. 12 months)

+0.1%

Purchasing Managers Index
(January)

56.0%

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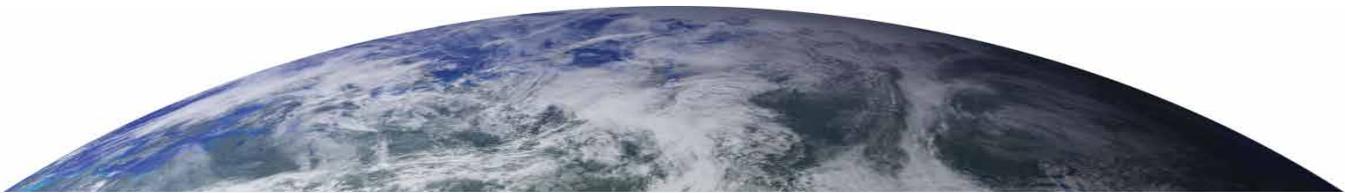
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Trade has generally been slowing in its pace of rise since mid-2015. However, the quarterly growth rate is above the annual growth rate and suggests the recent tentative transition to accelerating growth will persist into at least mid-2017. Evidence of the positive business cycle movement from the macroeconomy comes from rise in annual US Nondefense Capital Goods New Orders, US Corporate Profits, and commodity prices, such as oil and copper.

Expect 2017 to be a better year than 2016 for the US macroeconomy. Place emphasis on marketing targeted toward

the consumer-facing segments of the electrical industry in order to capture the windfalls of a strong US consumer in 2017 and 2018. The industrial side of the economy will also provide some opportunities as US Industrial Production generally expands into late 2018, spurring an increase in business-to-business activity and construction. However, be wary of rising commodity prices and plan your budgets accordingly.

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WIRE INDEX

The Wire Index dipped slightly, by 1.3%, since the beginning of 2017. It is still up 61.4% over the past 12 months. Encore Wire had the biggest increase (10.4%) in the last month, while General Cable's stock price fell by 16.8% in the past month.

The Index tracks the weighted stock price of five publicly-traded wire and cable manufacturers and distributors based in the US and is benchmarked such that the average value during the second half of 2006 equals 100. With the purchase of Coleman Cable by Southwire, the Wire Index now has five publicly traded wire and cable manufacturers and distributors.



COPPER FUTURES

Comex Copper rates continued to climb in January of 2017. Copper is at \$2.72, which is up 9.5% in 2017 and up 32.5% over the last 12 months.

