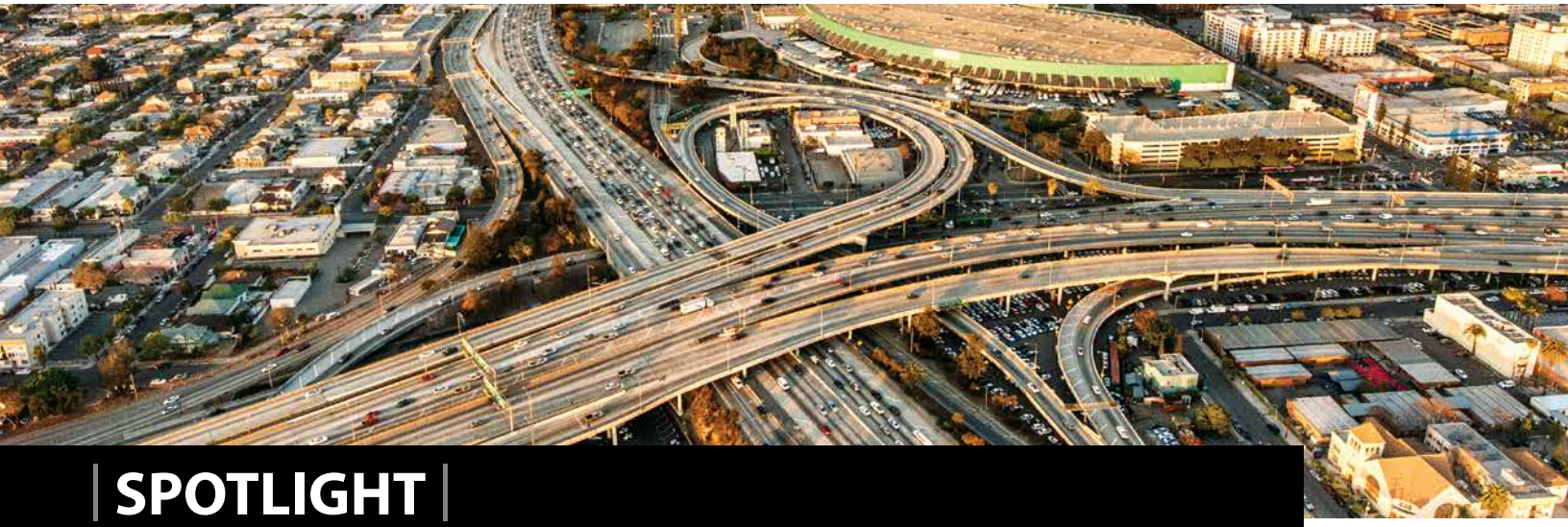
HOT WIRE®
APRIL 2016
News and Economic Outlook for the Wire and Cable Industry



SPOTLIGHT

The North American Transportation Industry

THE OVERARCHING TREND of the past year in the North American macroeconomy is that US consumers are in position to drive growth in consumer-related markets while industrial-facing markets face headwinds including a strong dollar, weak global demand from slowing World Industrial Production, and low commodity prices. The impact of this trend is evident in the trends in the North American transportation industry. Annual North America Production is rising for Light Duty Vehicles and Medium Duty Trucks, but it is declining for Heavy Duty Trucks as well as for US Rail Freight Carloads.

US Light Vehicle Retail Sales totaled 17.6 million vehicles in the 12 months through March, a 5.2% increase from the previous 12 months. Internal trends in Retail Sales suggest slower growth ahead in the coming months. However, expect Retail Sales to expand over at least the next three years given the expected strength of the US labor market. The US has created an average of 233,500 new non-farm jobs per month over the last 12 months. This is an impressive track record, especially given the low unemployment rate (5.0%). Although lower than ideal wage growth of 3.2% gets a lot of public press, with low inflation (0.9%) consumers are seeing real wage increases. This is allowing them to save for future purchases while maintaining spending. US Personal Savings as a Percentage of Disposable Personal Income is at 5.4%, which is above the 20-year average of 4.9%. Further, US Total Retail Sales (deflated) are up 2.1% year-over-year, with 4.2% year-over-year growth when excluding Retail Sales at Gas Stations. Rising wages, low unemployment, reasonable interest rates, and above average savings rates will create positive conditions for North America Light Duty Vehicles Production. Plan for North America Light Duty Vehicles Production to grow 5.1% in 2016, 5.7% in 2017, and 3.6% in 2018.

North America Medium Duty Truck Production is also expected to avoid recession over at least the next three years due to its ties to US consumers. Many of these trucks get used in consumer-related applications such as the construction industry and delivery trucks for items purchased online, which is one of the fastest growing segments of overall Retail Sales. US Medium Duty Truck Retail Sales are in an accelerating growth trend, up 10.2% year-over-year. Expect North America Medium Duty Truck Production to grow 10.1% in 2016, 12.4% in 2017, and 4.2% in 2018.

North America Heavy Duty Truck Production has a weaker relationship to consumers, as measured by US Total Retail Sales (deflated), than either Light Duty Vehicles or Medium Duty Trucks. Instead, Production is tied more closely to indicators such as US Surface Trade with Canada & Mexico

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IEWC® GLOBAL SOLUTIONS

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

Annual US Industrial Production is declining. The most recent 12 months of Production is 0.8% below the year-ago level. US Real GDP is expanding at an annual growth rate of 2.0%, although the pace of rise is slowing. The good news for the US economy is that several macroeconomic leading indicators are suggesting that the US macroeconomy will see an upturn by the end of 2016.

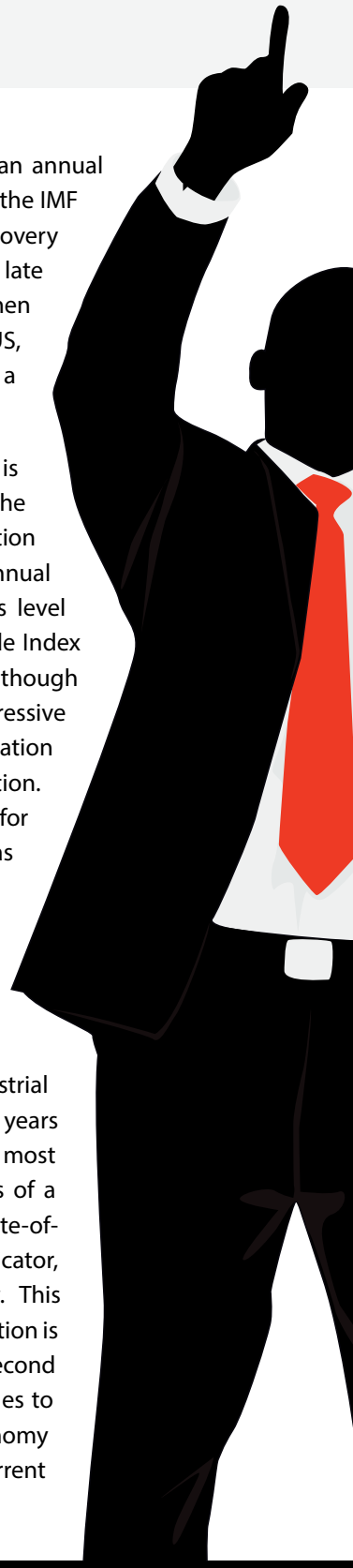
The US Purchasing Managers Index, which leads US Industrial Production by 12 months, has risen since a November 2015 low. This suggests that US Industrial Production will reach a low around the fourth quarter of 2016. However, nascent rise in the annual growth rate for US Nondefense Capital Goods New Orders Excluding Aircraft and 2.1% year-over-year growth in US Total Retail Sales (deflated) suggests the low in US Industrial Production is likely occur earlier in 2016. Plan for a third quarter low in the annual growth rate for US Industrial Production, followed by a subsequent rising trend that extends into the fourth quarter of 2017. Expect to see more positivity in consumer-based segments than in industrial-facing sectors in 2016 as US consumers benefit from wage growth (3.2%) outpacing inflation (0.9%). Also, be aware that a data revision by the Federal Reserve Board now shows that US Electrical Equipment Production is down 4.6% year-over-year as of March. However, the quarterly and annual growth rates are rising, suggesting improved market conditions ahead.

The Canadian economy is exhibiting similar trends to the US economy, but the contraction in Canada Industrial Production (down 1.3%) is more severe while the annual growth rate in Canada Real GDP (0.5%) is less robust than in the US. Canada's economy is weaker than the US economy in part because of its larger mining industry; Canada Mining and Oil & Gas Extraction accounts for approximately 8% of Canada Real GDP, compared to around 1.6% in the US. The slowdown in China, the world's largest consumer of many commodities, has resulted in significant commodity price declines. This has contributed to contraction in Canada Mining and Oil & Gas Extraction, which is down 3.2% on an annual basis. However, Crude Oil Prices and the IMF Metals Price Index are in tentative recovery trends. A stronger US economy in late 2016 and 2017 will also strengthen demand for Canada Exports to the US, which are currently down 12.2% on a year-over-year basis.

The Mexican economy is outperforming its neighbors to the north. Mexico Industrial Production is up 1.0% year-over-year while annual Mexico GDP is 5.1% higher than its level one year ago. The Mexico Retail Trade Index is in an accelerating growth trend, although the annual rate of 5.1% is not as impressive after taking Mexico's higher inflation rate (currently 2.9%) into consideration. Mexico is a promising destination for further economic development, as it offers close proximity to US and Canada consumers as well as low wages.

SOUTH AMERICA

Annual Brazil Industrial Production is at its lowest level in 10 years and is currently 12.9% below its most recent peak in February 2014. Signs of a future recovery are evident in the rate-of-change for the Brazil Leading Indicator, which has risen since a July low. This suggests that Brazil Industrial Production is likely to begin recovering in the second half of 2016. However, major obstacles to growth in Latin America's largest economy remain, as is evident by the current



BY THE NUMBERS (US)

Conference Board Consumer Confidence Index	March (2016) Unemployment	Retail Sales (Feb to Mar change)	Mfg.'s New Orders for Durable Goods (Jan to Feb change)
96.2	5.0%	-0.2%	-2.8%

corruption scandal. Annual Industrial Production elsewhere in the region is mostly flat (Argentina) or down year-over-year (Peru and Chile). The South American currencies are beginning to appreciate mildly against the US dollar and euro, which should help curb inflationary pressures evident in Brazil (10.4% inflation), Argentina (14.3% inflation), and Colombia (7.6% inflation). Higher commodity prices in 2017 will also help the South American mining industry.

EUROPE Industrial Production in Eastern Europe is accelerating, up 2.4% year-over-year. Western Europe Industrial Production is growing at an annual rate of 1.5%, but the pace of rise has begun to slow. Like in North America, consumer trends in Europe appear more favorable than European industrial trends. For example, growth in the annual Europe Retail Trade Index (up 1.9%) is accelerating while European Union Exports (up 5.1%) and the Europe Capital Goods New Orders Index (up 7.3%) are slowing. The rates-of-change in the Leading Indicators for Germany, the UK, and France are declining along with the leading indicators for Poland and the Czech Republic. This suggests ongoing slower growth in Western Europe Industrial Production and a transition to slower growth in Eastern Europe Industrial Production for the second half of 2016.

ASIA Average China Industrial Production for the 12 months through February is up 5.9% from its year-ago level. Growth is currently slowing, but there are tentative signs that suggest a transition to accelerating growth in China Industrial Production in the second half of 2016. The China Purchasing Managers Index and the China Leading Indicator rate-of-change have generally risen since September 2015 lows. Rising trends in these nine month leading indicators to China Industrial Production suggest the second half of 2016 will be stronger than the first half of the year. Economic improvement in China in the second half of 2016 and in 2017 will be welcome news for commodity prices and related industries across the globe. Elsewhere in the region, Japan Industrial Production (down 1.3% year-over-year) is in recession. Industrial Production is expanding in India (up 2.6% year-over-year) and South Korea (up 1.9%). Plan for India Industrial Production to slow further in 2016, ending the year 0.5% higher than the 2015 level. The South Korea Leading Indicator rate-of-change has fallen for six consecutive months. This suggests that South Korea Industrial Production will transition from its current accelerating growth trend to a slower growth phase by mid-2016.

MIDDLE EAST / AFRICA Middle East GDP is down 10.0% year-over-year as of September while annual Africa GDP is 5.0% below its level from one year ago. Geopolitical instability and low commodity prices continue to hamper economies in the Middle East and Africa. Rising Crude Oil Prices should help stabilize oil-dependent countries later this year and especially in 2017.

*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 4/1/2015	Change Since 1/1/2016
Brazilian Real	3.54	0.9	-0.42
Canadian Dollar	1.26	0.00	-0.13
Chinese RMB	6.46	0.26	-0.05
Euro	0.88	-0.05	-0.04
Mexican Peso	17.30	2.20	0.10
Pound Sterling	0.69	0.02	0.01

Current values as of 4/19/2016

Mfg.'s Shipments of Durable Goods (Jan to Feb change)	Durable Goods Mfg.'s Inventories (Jan to Feb change)	CPI Inflation (over prev. 12 months)	US Industrial Production (over prev. 12 months)	Purchasing Managers Index (March)
-0.9%	-0.3%	+0.1%	-2.0%	+51.8

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(down 5.7% year-over-year) and the US Crude Oil Futures Prices (down 41.2%). The good news is that the monthly and quarterly rates-of-change in Surface Trade, which leads Heavy Duty Truck Production by three months, have begun to rise. Oil Prices are also beginning to recover, which will help increase demand for Production as trucking companies invest in newer, more fuel-efficient models. The internal trend in Surface Trade and Oil Prices are early signals supporting the expectation of a recovery in Production beginning in late 2016. Plan for Production to end 2016 14.0% lower than its 2015 level, followed by 26.7% growth in 2017 and 3.8% contraction in 2018.

Those involved in the transportation industry should ensure they are prepared for growth over the next three years if they are on the consumer side of the industry. Invest in new capital equipment and in your employees. Expand your distribution network. Make sure you have adequate access to capital. Members involved in heavy trucking should be more conservative. Take steps to conserve cash, such as limiting nonessential capital expenditures and reducing overhead, but do not lose sight of the potential for growth in 2017.

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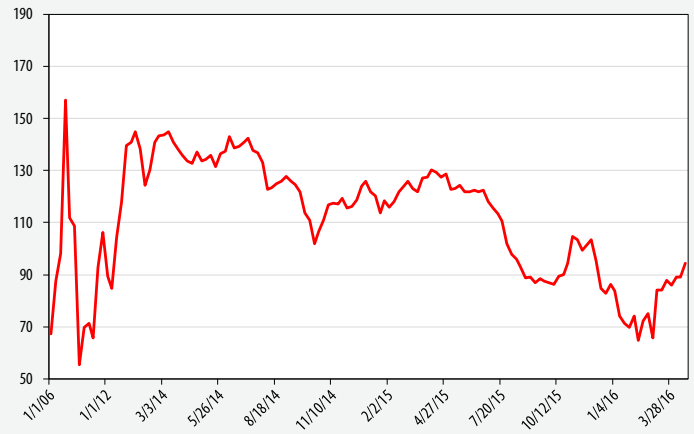
WIRE INDEX

The Wire Index continued to climb in recent weeks and is up 12.1% since the beginning of March. The Index is now up 12.5% so far in 2016, though, it is still down 26% over the past twelve months. All tracked companies had stock price increases, led by a 33% increase for General Cable. Visit **http://iewc.info/wireindex** for more information and historical data.

The Index tracks the weighted stock price of six 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.



COPPER FUTURES

The spot price for Comex Copper remained flat through March and the first half of April. It stands at $2.16 as of April 19th, a modest 0.9% increase since both the beginning of 2016 and the beginning of February. Comex Copper is still down 21% over the past 12 months.