



## SPOTLIGHT

### The Industrial Production / GDP Paradox

Industrial Production in the US, Canada, and Mexico is declining on an annual basis. In contrast, the GDP figures for all three countries paint a rosier picture. Nominal GDP is growing at 5.6% in Mexico. Real GDP is growing at a seasonally adjusted annual rate of 1.8% in the US and is virtually flat in Canada. This is not typical behavior; normally, US Industrial Production and US GDP track along with one another closely. This atypical behavior indicates that consumers are doing well while industrial producers are not.

GDP for domestic consumption-based economies like the US, Canada, and (to a lesser extent) Mexico, is primarily driven by services, not industry; the CIA Factbook estimates that the percentage of 2014 GDP attributed to services is 77.8% for the US, 69.7% for Canada, and 62.7% for Mexico. The reason for the current discrepancy between GDP and Industrial Production is that consumers are significantly outperforming the industrial sectors of the three North American economies in a way captured by GDP but not by Industrial Production.

Reading the news, especially during a US presidential election cycle, may give an unnecessarily pessimistic view of the economy. The US major media sources noted that 2015 was the “weakest” year for retail sales since 2009. This sounds very ominous and is factually correct: US Total Retail Sales grew 2.1% in 2015, lower than any calendar year from 2010 to 2014.

However, a deeper dive into the data reveals a different picture. Retail Sales at gas stations are down 19.4% on a year-over-year basis due to low prices at the pump. Excluding Retail Sales at gas stations, which are up in volume of gasoline consumed but down significantly overall due to the large drop in gasoline prices, raises the growth rate to 4.6% growth in the US. This puts 2015 on par with growth rates in any of the three previous years.

Further, the analysis of nominal retail sales ignores that US consumers have benefitted from negligible inflation. Adjusting Retail Sales Excluding Gas Stations for inflation, 2015 was the best year of growth since 1999. Unlike in 1999 when debt-fueled spending drove retail sales (ultimately contributing to a recession), US consumers have been able to increase their savings; US Personal Savings as a Percentage of Disposable Personal Income averaged 5.2% in 2015, up from 4.8% in 2014 and well above the 4.4% average in 1999. This suggests that consumers are able to maintain their current level of spending without jeopardizing future spending.

Add low interest rates, low unemployment, and rising wages to the mix, and it is evident that US consumers are in a solid position to help drive GDP growth in 2016 and beyond. Positive consumer trends are also evident in Mexico and, to a lesser extent, in Canada.

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#### CONTACT US

Have a question, comment or suggestion? We'd love to hear from you!  
Email us at [hotwire@iewc.com](mailto:hotwire@iewc.com) and let us know what's on your mind!



# GLOBAL ECONOMIC OVERVIEW

## NORTH AMERICA

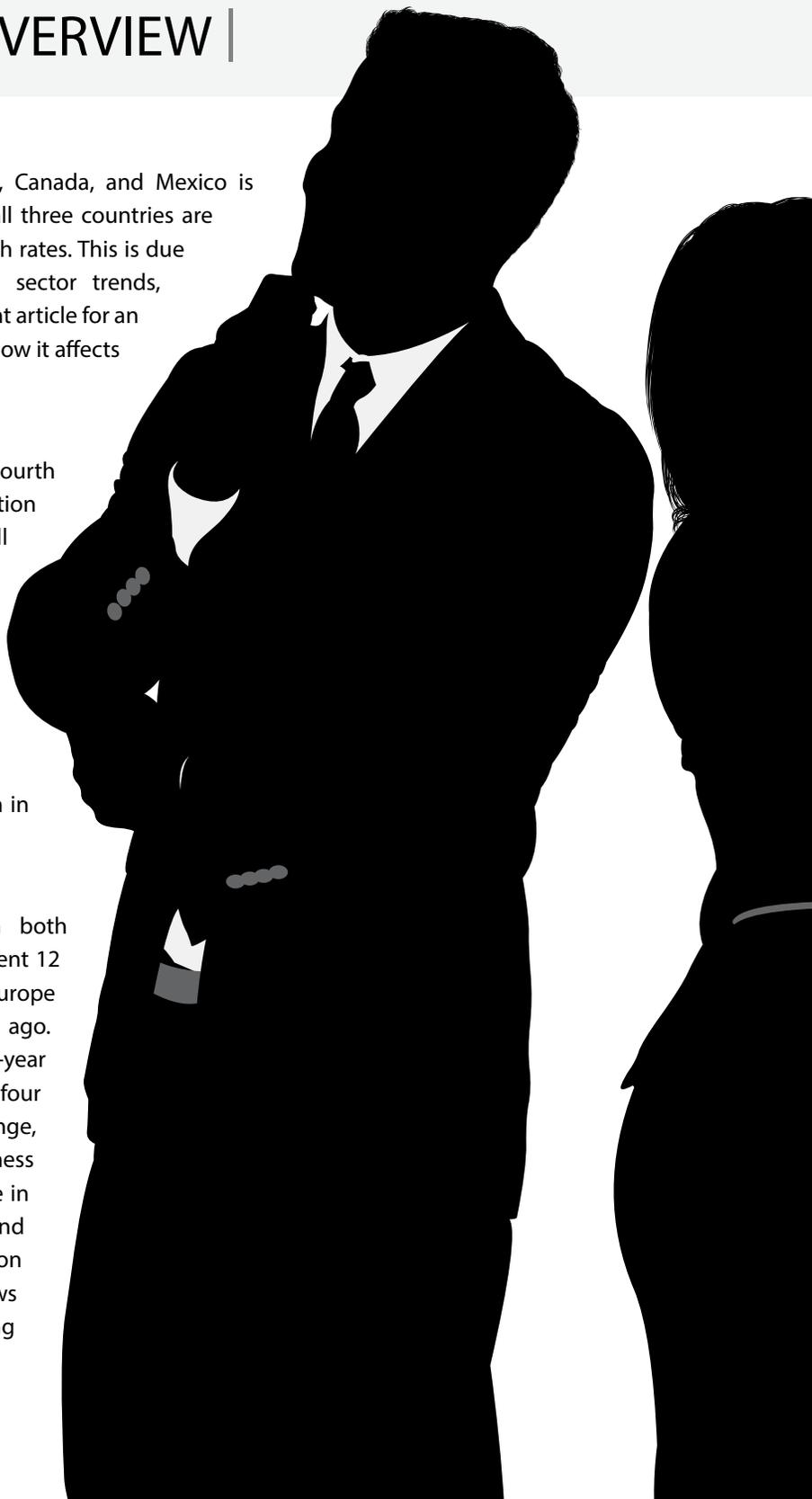
Industrial Production in the US, Canada, and Mexico is declining. GDP growth rates in all three countries are higher than their respective Industrial Production growth rates. This is due to stronger consumer trends and weaker industrial sector trends, particularly in mining and utilities. Please see the spotlight article for an extended analysis of the North American economy and how it affects the 2016 outlook.

## SOUTH AMERICA

Recession is deepening in Brazil. Fourth quarter Brazil Industrial Production was 11.8% below the fourth quarter of 2014, which will put further downward pressure on the annual growth rate of -8.3%. Interest rates on Brazil 10-Year Government Bonds are over 16%. This is higher than rates paid by the governments of any other major economy (*Russia is 2nd, at about 10%*). Be extremely conservative in any business transactions in Brazil. Elsewhere in the region, Colombia Industrial Production is in an accelerating growth trend. Industrial Production in Argentina, Chile, and Peru is stagnant.

## EUROPE

Industrial Production is accelerating in both Western and Eastern Europe. The most recent 12 months of Industrial Production are up 1.4% in Western Europe and up 2.1% in Eastern Europe compared to one year ago. France Industrial Production is up 2.0% on a year-over-year basis. This is the highest annual growth rate in nearly four years. Further, the France Leading Indicator rate-of-change, which leads France Industrial Production through business cycle highs and lows by nine months, suggests that rise in the annual growth rate will extend into mid-2016. Poland Industrial Production is another bright spot. Production grew 4.8% in 2015 compared to the 2014 level, and shows additional accelerating growth ahead in the coming months.



BY THE  
NUMBERS  
(US)

**Conference  
Board Consumer  
Confidence Index**

**98.1**

**January (2016)  
Unemployment**

**4.9%**

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

**+0.3%**

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

**-5.1%**

Consumer confidence in Europe is high. The average of the most recent 12 months of the Europe Economic Sentiment Index reached its highest level in over seven years. Consumer confidence is reflected in areas such as automotive (*accelerating growth in Europe Passenger Car Registrations*) and housing (*accelerating growth in Europe Building Permits for Residential Construction*). Consumer trends will keep Western and Eastern Europe Industrial Production expanding over the next three years, with higher growth rates in Eastern Europe.

**ASIA** Growth in China Industrial Production is slowing. Production finished 2015 up 6.2% compared to the 2014 level, marking the lowest growth rate in a calendar year since 1998. Signs of improvement in China's leading indicators and a few primary data series, such as China Automobile Production, hint at an improving Chinese economy in the second half of 2016. This should help commodity prices rise, which in turn will help US Industrial Production reverse its decline.

South Korea Industrial Production is in an accelerating growth trend. South Korea Retail Sales for September, October, and November are up 6.3% from the same three months in 2014. This is the highest quarterly growth rate in over four years. However, the South Korea Leading Indicator rate-of-change is declining, suggesting that the period of accelerating growth in South Korea's economy will be short-lived. Japan Industrial Production is stagnating. Inflation (*as measured by the Japan Consumer Price Index*) is negligible, causing the Bank of Japan to introduce negative interest rates in an effort to spur aggregate demand in the economy.

**MIDDLE EAST / AFRICA**

Middle East and North Africa Industrial Production is up 1.8% on a year-over-year basis. Internal trends suggest slower growth will persist into at least the second quarter of 2016. There are few positive signs in the region, which has been hurt by low oil prices and geopolitical instability. Egypt's economy, as measured by Industrial Production, has entered a recessionary period. While Jordan Industrial Production is still above its year-ago level, the most recent three months of Production are down 0.5% from one year ago. Saudi Arabia GDP is down 13.5% on a year-over-year basis as low oil prices hinder the Saudi economy.

\*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 2/1/2015	Change Since 1/1/2016
<b>Brazilian Real</b>	4.04	1.36	+0.08
<b>Canadian Dollar</b>	1.39	0.12	+0.00
<b>Chinese RMB</b>	6.52	0.27	+0.01
<b>Euro</b>	0.90	0.03	-0.02
<b>Mexican Peso</b>	18.81	3.83	+1.61
<b>Pound Sterling</b>	0.70	0.04	+0.02

Current values as of 2/16/2016

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

**-2.2%**

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

**+0.5%**

**CPI Inflation**  
(over prev. 12 months)

**-0.1%**

**US Industrial Production**  
(over prev. 12 months)

**-1.7%**

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Canada Total Retail Sales are growing at a 2.3% pace and Mexico Retail Trade is up 4.6%. Low inflation and low interest rates are also benefits to consumers in these nations. Consumer strength is reflected in the residential housing market in all three countries. US Private Residential Construction Including Home Improvements is up 12.6%, Mexico Residential Construction is up 9.7%, and Canada Residential Construction is up 3.2% (year-over-year basis).

In contrast, Industrial Production in North America has been hurt by low commodity prices, which is dragging on the mining component of Industrial Production in all three countries. China's slowdown is hurting agricultural and metals commodities while a supply glut has depressed oil prices and crippled the North American oil & gas sector. In addition, a strong El Niño has resulted in warmer than usual weather across much of the continent. This has suppressed demand for electricity, hurting the utilities component of Industrial Production for the US and Canada. Finally, manufacturing in the region has been hurt by a weak global economy. The

strong US dollar has hurt the competitiveness of US exports, further hampering US manufacturing. US Exports for 2015 as a whole are down 7.1% from their 2014 level, including a 10.1% drop in fourth quarter exports relative to one year earlier. In short, there have not been many positive developments on the industrial side of the North American economy in 2015 outside of the automotive sector. Further, low commodity prices will drag on Industrial Production through at least the first half of 2016.

Look for stronger performance in 2016 for consumer-focused segments such as automotive, consumer appliances, material handling equipment, residential HVAC, medical equipment, and recreational and marine vehicles. Expect ongoing challenges in industrial segments, particularly mining, through at least the first half of this year. Business-to-consumer sales will outperform business-to-business opportunities in 2016. 📉

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## WIRE INDEX

The Wire Index stands at 64.9 as of February 8th as the downward trend continues. The Index is down 23% so far in 2016 and is down 45% over the past twelve months. Belden (-19.8%), General Cable (-22.3%) and Anixter (-33.9%) have all seen significant share price drops since the beginning of 2016. 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 is \$2.03 as of February 12th. Comex Copper is down 5.1% YTD and is down 20.4% over the past twelve months.

