



SPOTLIGHT |

Current State of US Electrical Industry

Currently there is an interesting puzzle going on in the US electrical industry. Wholesale Trade and Production are expanding while New Orders are in a deepening recession. Let's examine the current status of the electrical industry as well as what to expect for 2016 and 2017.

US Wholesale Trade of Electrical and Electronic Goods totaled \$583.5 billion over the 12 months through November, the 64th consecutive month of setting a new all-time record high. US Electrical Equipment Production is also positive; Production is in an accelerating growth trend, and the most recent 12 months of Production are the highest in over six years.

US Electrical Equipment New Orders are showing a different story. The most recent 12 months of New Orders totaled \$38.7 billion, down 4.5% from one year ago. The most recent three months of New Orders are down 11.8% from the same three months one year earlier. This is the lowest quarterly growth rate in nearly six years and suggests that annual New Orders are likely to experience a deepening recession through at least the first quarter of 2016.

The question becomes, "Why are Production and Wholesale Trade showing resiliency in the face of recession in New Orders?" At least part of the answer lies in the considerable backlog of US Electrical Equipment Unfilled Orders. Unfilled

Orders over the 12 months through November reached \$114.7 billion, up 9.6% from one year ago. Businesses have turned to drawing down their backlog in the face of weakening New Orders. Be prepared to compete for limited new business once their existing backlog of orders is depleted.

The annual growth rate for New Orders will decline through the first half of 2016 before rising in the second half of the year. Business-to-business activity in the US is expected to remain in recession through the first half of 2016 (*due to the negative impact of low commodity prices and a strong US dollar*) before rebounding in the second half of the year as US Industrial Production accelerates. Plan for the 12-month moving total of New Orders to remain below its current level throughout 2016 and possibly into early 2017. Expect New Orders to reach \$38.1 billion for 2016 as a whole, nearly even with the \$38.0 billion expected for 2015. New Orders of \$39.5 billion will make 2017 a better year than 2016; this is 3.9% above the expectation for 2016.

The impact of the New Orders recession on Wholesale Trade and Production is less certain. In the past 20 years, there have been three recessionary periods in New Orders. The case when New Orders were below their year-ago level for most of April 1998 through October 1999 has some similarities to the

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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

Low commodity prices are having a negative impact on the industrial sides of each of the three North American economies. The most recent three months of US Industrial Production are 0.9% below the same three months one year earlier. The quarterly growth rate in Mexico Industrial Production is modest (0.8%) while average Canada Industrial Production over August, September, and October is 2.3% below the same three months in 2014.

Consumer behavior is exhibiting strength throughout the region. Excluding sales at gas stations, nominal Retail Sales are up 4.6% on a year-over-year basis in the US and up 4.8% in Canada. This is above the 3.4% average annual growth rate of Retail Sales Excluding Gas Stations in Canada and only slightly below the US five-year average of 5.0%. Mexico Retail Sales, including at gas stations, is up 4.6%. This is nearly double the five-year average of 2.3%. Adjusting the nominal Retail Sales figures for the low inflation rates in all three countries would make the comparison even more favorable to consumers.

Plan for the larger consumer side of the North American economy to generally outweigh the negatives seen on the industrial side in 2016, especially in the second half of the year. Expect the highest year-over-year growth in Mexico Industrial Production (approximately 3.8%), followed by the US (2.5%). Canada Industrial Production will not escape recession in 2016 but will end the year up 0.9%.

SOUTH AMERICA

Recession is deepening in Brazil, the region's largest economy. The most recent three months of Brazil Industrial Production are 11.5% below one year ago. This will put further downward pressure on the annual growth rate of -7.7%. IEWC members should be wary of any exposure to the Brazilian economy. We expect Brazil Industrial Production to remain below its current level through at least 2017. Industrial Production figures elsewhere in the region (Argentina, Colombia, Chile) are nearly flat on a

year-over-year basis. However, Colombia has a brighter outlook than much of the region; the most recent three months of Colombia Real Retail Sales are up 7.8% from one year ago.

EUROPE

The period of accelerating growth in Exports that boosted the European economy over the summer is showing signs of ending. The quarterly growth rate of Exports is declining in Germany, the United Kingdom, France, and Poland. Slower growth in Exports has contributed to declines in the quarterly growth rates for Western Europe Industrial Production and Eastern Europe Industrial Production over the last two months. EU Retail Trade is up 1.5% on a year-over-year basis, the highest rate in over three years. However, internal trends suggest that the annual growth rate is unlikely to edge much higher. Expect Europe Industrial Production to grow 1.1% in 2016.

ASIA

Slower growth in China Industrial Production extended into November. While average China Industrial Production over

BY THE
NUMBERS
(US)

**Conference
Board Consumer
Confidence Index**

96.5

**December (2015)
Unemployment**

5.0%

**Retail Sales
(Oct to Nov change)**

-0.2%

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

+0.0%

the 12 months through November is 6.3% higher than one year ago, many data series within China are below their year-ago level. Examples of these include China Railway Freight Carried (down 14.1% on a year-over-year basis), China Cement Production (down 4.7%), and China Exports (down 1.6%). However, some China data series are taking early tentative steps toward recovery. The quarterly growth rate has risen for two consecutive months for both

China Automobile Production and China Power Generating Equipment. In addition, the rate-of-change in the China Leading Indicator (nine month typical lead time to China Industrial Production) has been rising since June. This suggests that China Industrial Production could begin improving as early as the second quarter of 2016. However, the recent stock market plunge in China suggests sustainable improvement will not occur until later in the year. An improvement in economic conditions in the second half of the year within China would likely raise commodity prices and increase demand for imported goods. This will have a positive impact on a global economy that is currently suffering from depressed commodity prices.

Japan's economy, as measured by Industrial Production, is in a tentative recovery period. The most recent 12 months of Japan Industrial Production are down 0.9% from one year ago. South Korea is outperforming the rest of the region, with South Korea Industrial Production in an accelerating growth trend. Plan for accelerating growth to begin in mid-2016 and extend into early 2017 for Southeast Asia Industrial Production (currently nearly flat compared to its year-ago level) and Japan Industrial Production.

MIDDLE EAST / AFRICA

Middle East and North Africa Industrial Production is growing but at a slowing pace. Industrial Production is below its year-ago level in Egypt and Jordan. The economy is being hurt by concerns of political instability and terrorism, which can be seen in the most recent three months of Egypt Tourism Production (down 16.5% from one year ago). Saudi Arabia GDP is down 8.4% as of June. Low oil prices are squeezing budgets and raising the possibility of austerity measures, which would hurt economic growth. Expect 2016 to be a weaker year for the region (1.0% annual growth).

*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 1/1/2015	Change Since 1/1/2016
Brazilian Real	4.04	1.38	+0.08
Canadian Dollar	1.45	0.29	+0.06
Chinese RMB	6.58	0.38	+0.07
Euro	0.92	0.10	+0.00
Mexican Peso	18.24	3.50	+1.04
Pound Sterling	0.70	0.06	+0.02

Current values as of 1/18/2016

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

+0.9%

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

-0.3%

CPI Inflation
(over prev. 12 months)

+0.5%

US Industrial Production
(over prev. 12 months)

-1.7%

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present scenario in duration and severity. However, Production and Wholesale Trade were not showing the positivity in the 1998 case that they are today, and the backlog of Unfilled Orders had already been more heavily depleted. This suggests it is less likely that Wholesale Trade or Production will enter recession during the first half of 2016.

Of comfort is that US Communication and Energy Wire & Cable Production is in an accelerating growth trend. The quarterly growth rate of 9.8% is the highest in over four years and is well above the 5.2% annual growth rate. This suggests that the period of accelerating growth is likely to extend into at least the second quarter of 2016.

Plan for the second half of 2016 to be better for the US macro economy. Focus marketing efforts on consumer-facing segments, such as the automotive industry and residential construction, to take advantage of the strength of the US consumer. US consumers are benefitting from declining unemployment, low inflation, low interest rates, and rising wages. However, be prepared for weak new business activity on the industrial side of the US economy, especially those areas hurt by low commodity prices and/or a strong US dollar. ☐

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WIRE INDEX

The Wire Index fell by 28.2% since the beginning of December. It is down 11.5% since the beginning of January and is down 38.3% over the past 12 months. Encore Wire is the only company in the Index that has experienced a stock price increase over the past 12 months. Every company's stock price in the Index has decreased since the beginning of December. 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

Comex copper prices decreased by 6.3% since the beginning of December and now stands at \$1.94 as of January 15th. Comex copper prices are down 23.9% over the last 12 months and down 9.3% since the beginning of 2016.

