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

SPOTLIGHT

Brexit's Impact on US and Global Economics

THE BREXIT VOTE HAS SHAKEN the exchange markets in the short-term, but in macroeconomic terms, signs of a slowing UK economy were present before the vote. Prior to the Brexit vote, UK Industrial Production has been in a slower growth trend through the first two quarters of 2016. Business confidence in the UK is likely to rebound once the exchange markets stabilize and the details surrounding the path to withdrawal from the EU become clearer. Much in the same way Europe's macroeconomy has been able to shrug off the Volkswagen emissions scandal, the reaction to Brexit is likely to dissipate over time.

Britain's impending exit from the EU could suggest that the London financial market will diminish in importance. However, it's worth noting that several of the benefits that led London to become a financial center in the first place *(first and foremost, a large highly educated, English-speaking labor pool)* will not suddenly disappear with Brexit. Rather, it's more likely that on the margin some financial activity will shift from London to other financial centers, much as it did when other financial centers such as New York City and Hong Kong experienced short-term setbacks from the 9/11 attacks and Asian Financial Crisis, respectively.

The impact of Brexit on US economic growth is likely to be negligible. The UK share of the European Union's GDP is approximately 15.0%. Although the UK is an important strategic and economic partner for the US, the US economy is primarily a domestic consumption-based economy, not an export-based economy; US Personal Consumption Expenditures account for 68.4% of GDP, while the US Trade Balance accounts for 4.5% of GDP. As noted in the global economic overview, US consumers remain in position to drive Real GDP growth through at least 2018. Indeed, US Exports are already down 7.9% year-over-year as weak global demand from economies in East Asia and South America weigh on Exports. Even if the European economy stumbles in response to Brexit more than financial indicators *(such as the DAX)* suggest, rising leading indicators in East Asia *(most notably, the China Leading Indicator)* and South America suggest that a weakened United Kingdom is likely to be offset by stronger business conditions in East Asia and South America.

The British pound helps make potential separation from the EU easier to achieve. So far, exchange markets have exhibited the most marked reaction to Brexit. The UK Pound-to-Euro is down 11.6%, the UK pound-to-US dollar is down 9.2%, and the Euro-to-US dollar is down 2.6% as of July 12th, 2016, from the June 23rd Brexit vote. Other financial indicators suggest that any adverse reaction to Brexit is temporary. The Standard and Poor's 500 Stock Index and the DAX were volatile in the days following the vote, but have normalized and as of July 12th are above pre-Brexit levels. The CBOE Volatility Index suggested

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IEWC® GLOBAL SOLUTIONS

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

US Real Gross Domestic Product (GDP) is growing at a seasonally-adjusted annual rate of 2.1%. US Real GDP is currently in a slower growth phase, but plan for an imminent accelerating growth trend to take hold, persisting through the end of 2017. US Industrial Production is down 1.0% on a year-over-year basis. Rising commodity prices and rise in leading macroeconomic indicators such as the US Purchasing Managers Index rate-of-change *(12-month lead time to Production)* suggest that US Industrial Production will reach a low in the second half of 2016. Annual US Nondefense Capital Goods New Orders in May totaled $773.5 billion, 3.7% below the year-ago level. Oil Prices are recovering as cutbacks in North American Crude Oil Production and healthy consumer demand for gasoline point toward a closer alignment of supply and demand. Rise in the annual growth rate for Oil Prices suggests that the New Orders annual growth rate will rise imminently. These signs point to recovery for New Orders, an indicator of business-to-business activity, in the second half of this year. Plan for a better 2017 as the headwinds on the industrial side of the US economy subside, allowing positive consumer trends to drive growth.

The consumer sector is supporting Real GDP growth, with annual Personal Consumption Expenditures reaching a record $12.7 trillion. Consumer spending is being driven by rising wages *(up 3.5%)* that outpace inflation *(1.0%)*, and higher levels of Private Sector Employment. Second quarter employment averages were up 2.0% compared to last year. Hiring bounced back in June, with 287,000 new jobs created versus 11,000 in the previous month *(May was downward-revised from an initially reported 38,000)*. These figures underscore the importance of focusing on longer-term trends in Employment, as a single month of data is inherently volatile. Normal conditions in the US labor market should help to alleviate some concern caused by Brexit as consumers are the backbone of the US economy.

The Canadian economy is behaving similarly to the US in that GDP is in a slower growth trend while Industrial Production is below the year-ago level. However, the slowdown in GDP is more pronounced in Canada than in the US. Canada GDP is growing at a seasonally-adjusted annual rate of 1.5%. Canada faces more volatility in Industrial Production as they are heavily reliant on commodities. Canada Mining & Gas Extraction is down 2.2% and Canada Utilities is down 1.4%, both on a year-over year basis. Canada's labor market is showing less robust growth than the US and inflationary pressures are higher: Wages are up 2.0%, Inflation is at 1.5%, and Employment increased 0.8% from the year-ago level.

Mexico presents opportunities for growth in manufacturing and economic development. Seasonally adjusted GDP is up 6.6% compared to last year, and Industrial Production is growing after a tentative low in April 2016. Mexico Light Duty Truck Production is up 7.3% year-over-year, but annual Mexico Light Vehicle Production is declining. Consumers are buying trucks as oil prices remain relatively low, while passenger car sales suffer. The Mexico Retail Trade Index is up 5.9%, and annual Foreign Direct Investment is up 23.8%, contributing to Mexico's rising GDP.

SOUTH AMERICA

Average Brazil Industrial Production for the 12 months through May is 9.5% below the year-ago level. Brazil's PMI for Manufacturing is 7.1% below last year but is in a recovery trend. These are early signs that Brazil's economy will enter recovery later this year. However, annual

BY THE NUMBERS (US)

Conference Board Consumer Confidence Index	June (2016) Unemployment	Retail Sales (May to June change)	Mfg.'s New Orders for Durable Goods (Apr to May change)
98.0%	4.9%	0.2%	-2.2%

Brazil Industrial Production is at its lowest level in over 11 years, so be wary of business operations in Brazil. Industrial Production in Columbia is up 3.3% from one year ago, while Chile and Argentina are both down 0.2% and 0.3% on respectively.

EUROPE The June Eurozone Composite PMI is down 2.0% compared to the June 2015 level. Uncertainty across Europe's changing economic landscape as the UK prepares to depart the EU is likely to make businesses more reluctant to undertake capital expenditures. However, growth in consumer industries will keep the European economy out of recession. The European Retail Trade Index is up 1.7% year-over-year while the European Union Exports Value Index is up 1.4% compared to the year-ago level. Industrial Production is in an accelerating growth trend in Spain (up 4.0%), Germany (up 2.3%), and France (up 2.4%) while the rate of growth in UK Industrial Production (up 1.1%) is slowing.

ASIA Average China Industrial Production for the 12 months through May is up 5.9% from one year ago, but the rate of growth is slowing. However, rise in the China Leading Indicator (nine-month lead time to Production) suggests Production will reach a low in the second half of 2016. Annual Southeast Asia Industrial Production is up 0.1% compared to the level from one year ago, but the quarterly Production increased 1.3% compared to the same three months last year. This indicates further growth in annual Production ahead. Japan remains in recession. Industrial Production is not expected to see year-over-year growth until mid-2017. The annual growth rate for India Industrial Production fell to 2.1%.

MIDDLE EAST / AFRICA Geopolitical instability and slower growth in World Industrial Production have hampered economic activity in the Middle East and North Africa, where Industrial Production is up 1.7% compared to one year ago. Low commodity prices are also contributing to the slowdown. Annual South Africa Mining Production, for example, is down 2.9% compared to the year-ago level.

*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 6/1/2015	Change Since 1/1/2016
Brazilian Real	3.26	0.09	-0.70
Canadian Dollar	1.29	0.04	-0.10
Chinese RMB	6.71	0.51	0.20
Euro	0.90	-0.02	-0.02
Mexican Peso	18.39	2.92	1.19
Pound Sterling	0.75	0.09	0.07

Current values as of 7/18/2016

Mfg.'s Shipments of Durable Goods (Apr to May change)	Durable Goods Mfg.'s Inventories (Apr to May change)	CPI Inflation (over prev. 12 months)	US Industrial Production Index (over prev. 12 months)	Purchasing Managers Index (June)
-0.2%	-0.3%	0.2%	-0.8%	53.2%

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25.7% volatility in market activity during the immediate aftermath of the Brexit vote, but is below 13% as of July 12th. Gold is selling at $1,333.80 per ounce, a 7.8% increase in the futures price since the vote as investors sought safety from exchange rate gyrations. This uncertainty for the UK and global economies have impacted financial markets in the short term, but the rebound in equity markets suggests that the financial risks of separation are muted in the long term.

The risks of Brexit are whether it portends similar breakups in other EU countries and whether it acts as a harbinger of protectionist trends in other countries. This is an inherently unpredictable and fluid political situation. From an economic perspective, it bears monitoring for further shocks. However, keep in mind that during periods of cyclical decline such as the current period *(World Industrial Production is slowing)*, people are often overly quick to be pessimistic. Avoid taking such a tact, lead with cautious optimism, and you may find opportunities where others see only risk. US and global macroecnomic indicators such as the US Purchasing Managers Index and the OECD Plus Six Non-Member Economies Leading Indicator are rising. These signals point toward stronger US and global economies in 2017. Focus on these trends and pay attention to the facts behind Brexit, but do your best to tune out the noise.

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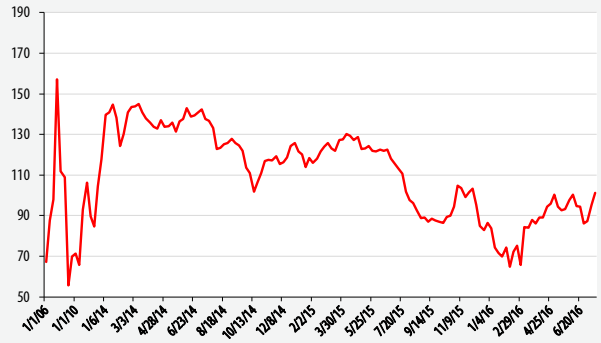
WIRE INDEX

The Wire Index got off to a strong start this summer, increasing by 3.7% since the beginning of June. It is now up 20.6% year-to-date. Four of the five tracked companies experienced stock price increases since the beginning of June. Houston Wire & Cable led the way with an increase of 10%, while Anixter's stock price fell 4.1%.

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 prices have been trending in a positive direction recently. Prices were up 4.2% from June 1st through July 15th. Pricing is up 7.8% year-to-date, but is still down 11.8% over the past 12 months.