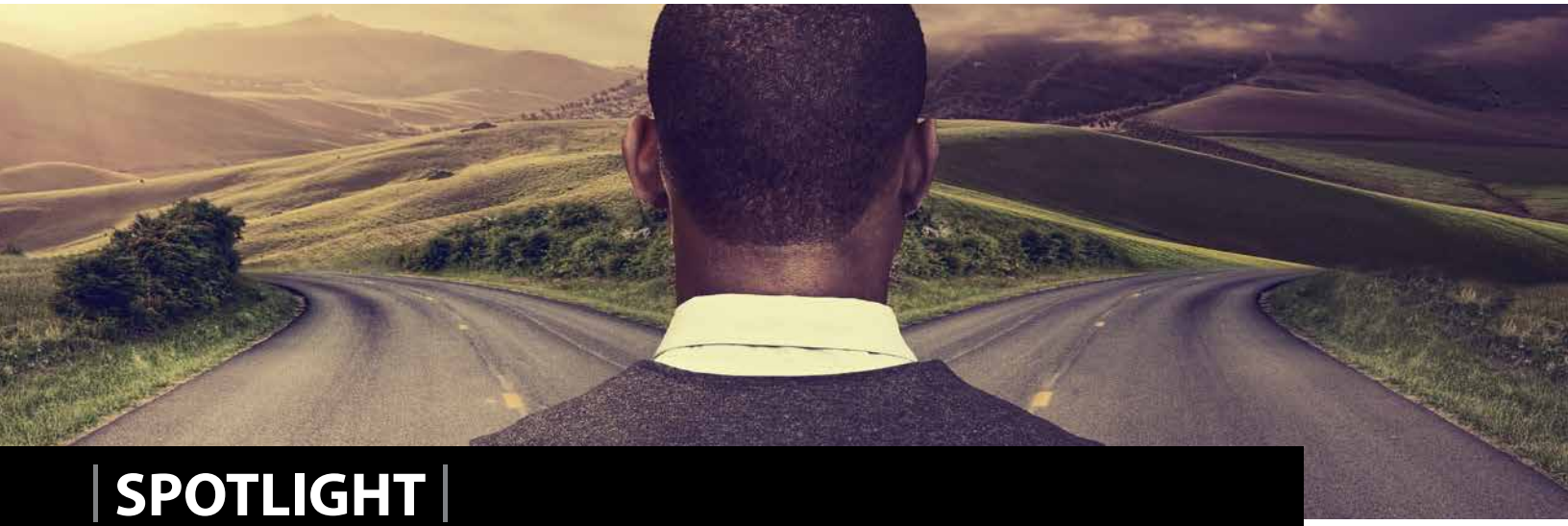
HOT WIRE®
MARCH 2016
News and Economic Outlook for the Wire and Cable Industry



SPOTLIGHT

Diverging Trends within US Industrial Production

THE 12-MONTH MOVING AVERAGE of US Industrial Production is declining. However, the decline is not felt across all of its subcomponents. Components primarily tied to commodities and utilities are experiencing decline. In contrast, industrial segments tied to consumers such as automotive, material handling and medical equipment are expanding. It is important to be aware of diverging trends to mitigate risk in depressed markets and to capitalize on opportunities within expanding markets.

US Industrial Production is comprised of three main subcomponents: manufacturing, mining, and utilities. Manufacturing accounts for 73.1% of total US Industrial Production while mining (16.6%) and utilities (10.3%) make up the remainder. As of January, the most recent 12 months of US Total Manufacturing Production were up 1.9% from one year ago. The decline in US Industrial Production can then be attributed primarily to the smaller mining and utilities components. The most recent three months of US Mining Production is down 9.5% from the same three months one year ago, the lowest quarterly rate of growth in nearly 29 years. Further, US Electric and Gas Utilities Production is down 5.9% over the last three months *(year-over-year basis)*, which is the steepest quarterly contraction in nearly four years.

Segments related to mining and utilities are exhibiting signs of distress, particularly in recent months. The quarterly growth rate for US Engines & Turbines Production is -7.4% while the quarterly growth rate for US Mining & Oil Field Machinery Production is -27.8%. US Machinery Production is also in recession, with a quarterly growth rate of -4.7%. To examine when these trends might improve, consider the drivers behind the downturns in mining, utilities, and machinery.

The mining downturn is related to persistently low commodity prices. The IMF Metals Index, which leads Mining Production by 12 months, fell 20.7% from February 2015 to February 2016 (monthly basis). China's slowdown has reduced demand for many commodities. However, there are positive signals for mining in 2017. The China Leading Indicator rate-of-change has risen for four consecutive months. Further, the IMF Metals Index rate-of-change has risen for three consecutive months. This suggests that Mining Production will enter a recovery in the second half of 2016. A warm El Niño winter reduced demand for utilities across much of the US. While forecasting the weather is an exercise in futility, it is reasonable to suppose that the El Niño effect is temporary and we will see the utilities transition to recovery in the second half of 2016. Finally, although Machinery Production is in recession, Machinery New Orders *(two month lead time to Machinery Production)* is already in recovery. Improvement in these three pain points in

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IEWC® GLOBAL SOLUTIONS

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

Industrial Production is declining in the United States and Canada, while it is stagnating in Mexico. Average annual US Production is up 0.9% in January from the year-ago level, and Mexico is up 1.0%. Expect cyclical decline to persist as low oil and commodity prices weigh on mining and manufacturing. Canada Industrial Production is in recession, falling 1.3% in 2015 compared to the 2014 level. Weaknesses in each country are primarily contained within business-to-business industries. The annual rate-of-change in US Nondefense Capital Goods New Orders, a benchmark for business-to-business activity, is -4.1%. In contrast to the faltering industrial economy, the consumer economy in North America is robust; Retail Sales, adjusted for inflation, are up 1.8% in the US while nominal Retail Sales are up 2.2% in Canada and 5.1% in Mexico. However, these figures are not showing the full strength of consumer activity, as they don't account for savings on gas due to low oil prices. Excluding sales at gas stations, annual US Retail Sales are up 4.6%. Expect US Industrial Production to be relatively flat in 2016, growing 0.2% compared to the 2015 level. Mexico Industrial Production will contract 0.4%, and Canada will contract 1.2%. In general, consumer-facing industries will outperform the industrial economy in 2016.

SOUTH AMERICA

There are no imminent signs of relief for the Brazilian economy as Brazil Industrial Production for the 12 months through January is 9.0% below the year-ago level. The Brazil Purchasing Managers Index for Manufacturing is down 10.3% in February compared to last year, and Light Vehicle Production is down 26.9% over the same period. However, despite weaknesses in various industrial segments, there are tentative signs of recovery in the Brazil Leading Indicator. If these trends persist, it will signal upward pressure on the Brazilian Economy through 2016. Colombia is outperforming much of South America, as Industrial Production is up 0.9% in 2015 compared to the 2014 level. Colombia is enjoying strong consumer activity, with annual Retail Sales growing 6.5%.

EUROPE

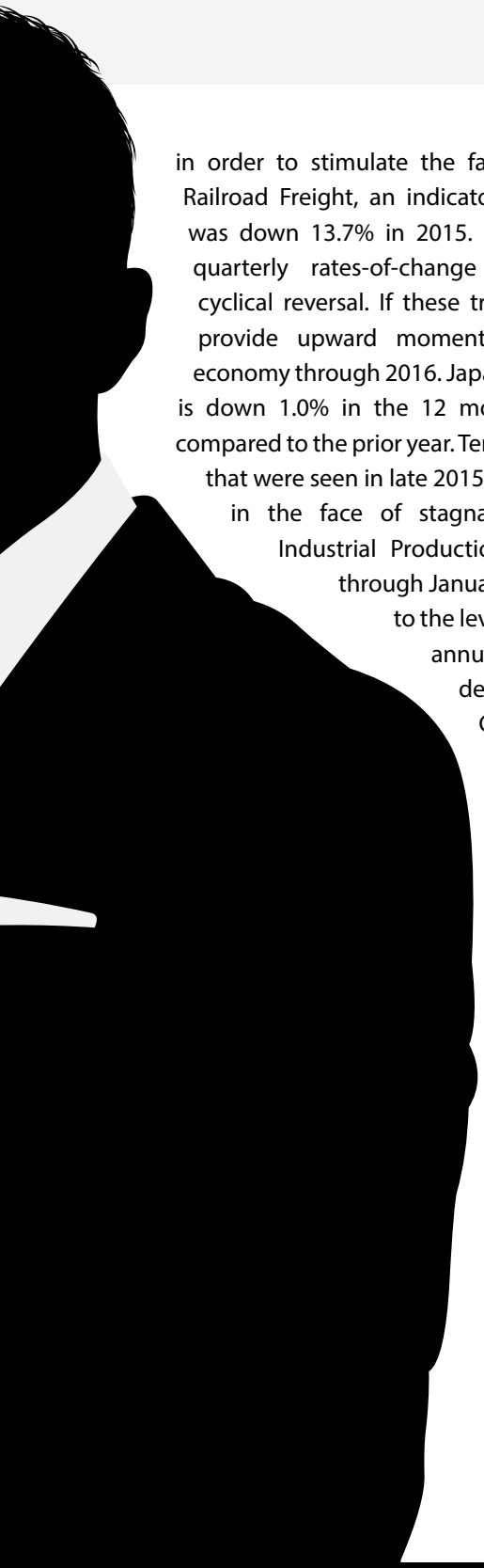
Eastern Europe Industrial Production is outperforming Western Europe, with annual growth rates of 2.3% and 1.4% respectively. Eastern Europe is showing signs of acceleration, as the quarterly growth rate rose to 3.3% in December. Poland Industrial Production is enjoying stronger growth than most of Europe, up 4.8% year-over-year. Poland's automotive sector is a growth driver, up 13.1% in 2015 compared to 2014. High growth rates will provide opportunities for expansion in Poland through at least the first half of 2016. Eastern Europe Industrial Production will grow 3.3% in 2016 from the 2015 level, and Western Europe will grow 1.1% in 2016. The European consumer is driving growth in Retail Sales, which are up 1.6% on a year-over-year basis in the 12 months through January. Poland (up 4.2%), Germany (up 2.8%), and Spain (up 1.8%) are of particular interest to consumer-facing businesses. Retail Sales growth rates in these countries are higher than the annual growth rate in Europe.

ASIA

Annual China Industrial Production growth slowed to 6.2% on a year-over-year basis in December as many segments of the Chinese economy are in decline. Annual Automobile Production is on the rise, and quarterly trends signal expansion for this industry into 2016. Growth is being driven by government tax cuts and incentives, which were introduced in mid-2015

BY THE NUMBERS (US)

Conference Board Consumer Confidence Index	February (2016) Unemployment	Retail Sales (Jan to Feb change)	Mfg.'s New Orders for Durable Goods (Dec to Jan change)
92.2	4.9%	-0.3%	+4.9%



in order to stimulate the faltering industry. China Railroad Freight, an indicator of industrial activity, was down 13.7% in 2015. However, monthly and quarterly rates-of-change suggest a tentative cyclical reversal. If these trends persist, they may provide upward momentum to the industrial economy through 2016. Japan Industrial Production is down 1.0% in the 12 months through January compared to the prior year. Tentative signs of recovery that were seen in late 2015 appear to have faltered in the face of stagnant Retail Sales. India Industrial Production for the 12 months through January is up 2.8% compared to the level one year ago, but the annual data trend is declining. Average Capital Goods Production for the three months through January was down 21.3% from the same three months one year ago. Annual India Total Exports fell to $263.4 billion in January, the lowest level since 2011. Falling exports, along with decelerating Capital Goods Production, will present headwinds for the Indian industrial economy through 2016.

MIDDLE EAST / AFRICA

Middle East and North Africa Industrial Production grew 1.8% in 2015 on a year-over-year basis. Saudi Arabia Gross Domestic Product for the 12 months through September is down 13.5% as low oil prices weigh on the oil and gas industry. Despite low prices, annual Saudi Arabia Oil Production is up 6.0% as the nation maintains Production in an attempt to push higher-cost producers out of the market. Spending cuts, in response to budgetary pressures, will couple with decreased oil revenue to hinder Saudi Arabian economic recovery in 2016. Expect weak annual growth of 1.0% in Middle East and North Africa Industrial Production.

*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 3/1/2015	Change Since 1/1/2016
Brazilian Real	3.63	0.79	-0.33
Canadian Dollar	1.31	0.06	-0.08
Chinese RMB	6.48	0.21	-0.03
Euro	0.89	0.00	-0.03
Mexican Peso	17.39	2.44	+0.19
Pound Sterling	0.69	0.04	+0.01

Current values as of 3/21/2016

Mfg.'s Shipments of Durable Goods (Dec to Jan change)	Durable Goods Mfg.'s Inventories (Dec to Jan change)	CPI Inflation (over prev. 12 months)	US Industrial Production (over prev. 12 months)	Purchasing Managers Index (February)
+1.9%	-0.1%	-0.2%	-1.0%	+49.5

SPOTLIGHT | Diverging Trends within US Industrial Production

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US Industrial Production suggest that 2017 will be a stronger year than 2016 for the industrial side of the US economy.

In contrast to the downtrodden mining and utilities segments of US Industrial Production, the manufacturing component of Production is rising. Growth is seen across consumer-related segments including US Computer & Electronic Products Production, US Light Vehicle Production, US Food Production, and US Household & Institutional Furniture and Kitchen Cabinet Manufacturing Production Index. The US economy added 242,000 new jobs in February, the eighth month in the last year with at least 200,000 jobs added. This has brought the unemployment rate below five percent. Further, US Overall Wage Growth is at 3.1% at a time when inflation is minimal and interest rates remain low. Consumer strength will keep US Real GDP out of recession through at least the next three years. Plan for US Industrial Production to grow 2.8% in 2017 as the mining and utilities headwinds subside, allowing the consumer-related manufacturing segments' strength to shine through.

To best benefit from the current cyclical downturn, focus your short-term marketing efforts and long-term product development efforts on consumer-centric markets. At the same time, be on the lookout for opportunistic purchases at "fire sale" prices within the depressed utilities, mining, and machinery segments. Carefully examine *(and throughout the year)* your 2016 budget to see if you are able to withstand a weak 2016 if you are tied to mining, utilities, or machinery. If your projections show cash running tight, take aggressive action; be mindful of carrying excess inventory. Finally, the first half of 2016 is the time to lock in commodity prices if you haven't already done so. Copper Prices, for example, are expected to rise in the second half of 2016.

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WIRE INDEX

The Wire Index rallied over the last six weeks. As of March 14th it stands at 84.05 after gaining 13.2% since the beginning of February. The Index is now up 0.2% for 2016, but is still down 31% over the past twelve months. Belden and Houston Wire and Cable were the big gainers, up 39% and 19% respectively. 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 has also rallied since the beginning of February. It stands at $2.28 as of March 18th. That is a 6.5% increase since the beginning of 2016 and an 11.2% increase since the beginning of February. Comex Copper is still down 12% over the past 12 months.