



SPOTLIGHT

The Impact of Federal Reserve Board Data Revisions

THE FEDERAL RESERVE BOARD compiles and releases production data covering nearly every segment of the economy. Production series are all based on a benchmark year; the most recent benchmark year used by the Federal Reserve Board is 2014. In April, the Federal Reserve Board issued their annual data revision. The two most notable changes were revised productivity estimates affecting data from 2015 onward and a change in the methodology for calculating historical Industrial Production data dating back to 1973.

The US Industrial Production Index was downward revised. Prior to the revision, Production growth in the 12 months through February had been stated at a 0.5% year-over-year growth rate but, post-revision, the data now shows that the US economy fell by 0.4% during that time. This change mainly reflects recent weaknesses in Mining and Utilities Production, and as a benchmark for the US economy it suggests a more negative outlook for the entirety of 2016. Expect headwinds from the industrial economy to persist through late 2016 as Production for the year as a whole is forecast to be below the 2015 level.

US Electrical Equipment Production was another series to undergo a downward revision. Previous data showed the 12 months through February up 5.8% from the prior year, whereas new data now indicates a decline of 4.6% in the same time period. A change of over 10 percentage points, this new data puts Production more in line with expectations based on data for Electrical

Equipment New Orders, which leads Production by three months, and Electrical Equipment Unfilled Orders, which leads by four months. These two series are provided by the US Census Bureau and, as such, were not affected by the data revision. Unfilled Orders are up 6.5%, although the rate of growth is slowing. The discrepancy between declining New Orders and growing Unfilled Orders suggests Production in this segment is being driven by backlogged orders instead of new demand. Businesses involved in this segment should expect further weakness in 2016 as the pool of Unfilled Orders to draw from dries up while demand for New Orders remains low.

US Communication and Energy Wire and Cable Production rose from 5.1% annual growth in February to 6.3% after the data revision. Companies involved in this segment of the economy should expect similar, if slightly higher, activity throughout 2016 than they were previously expecting. Growth in this sector is being driven, in part, by the widespread adoption and installation of fiber optic cabling. Consider expanding into this market, as demand will only increase as products using this technology become even more commonplace.

Motor Vehicle Parts Production, which includes electrical wiring and components, was downward revised from 8.7% to 7.5%. March data came in at 7.2% year-over-year growth, confirming that the same slower-growth trend still applies. In general, companies involved in the manufacture and sale of electrical

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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

US Industrial Production in the 12 months through March is down 0.8% on a year-over-year basis. However, the outlook for the US economy is not entirely grim; much of the present industrial weakness is due to low oil and commodity prices, which have shown improvement in recent months. Oil prices, which were down 23.0% in April compared to April 2015, have risen for the past three months. While prices are not expected to return to the 2014 level, recovery throughout 2016 will lessen headwinds against companies closely tied to the oil industry. The US dollar Trade Weighted Index has been falling since January, signaling a weaker dollar versus the currency's major trading partners. Expect the moderately weaker dollar to stimulate domestic consumption and rising exports as US-made products become relatively less expensive moving through 2016. The consumer side of the economy is the driving strength of the economy this year. After accounting for inflation US Retail Sales are up 2.1%, and both wages and employment are rising. Upward momentum in the Purchasing Managers Index, recovery in the business-to-business economy, and strong consumer trends suggest Industrial Production will recover in the second half of 2016 before expanding throughout 2017.

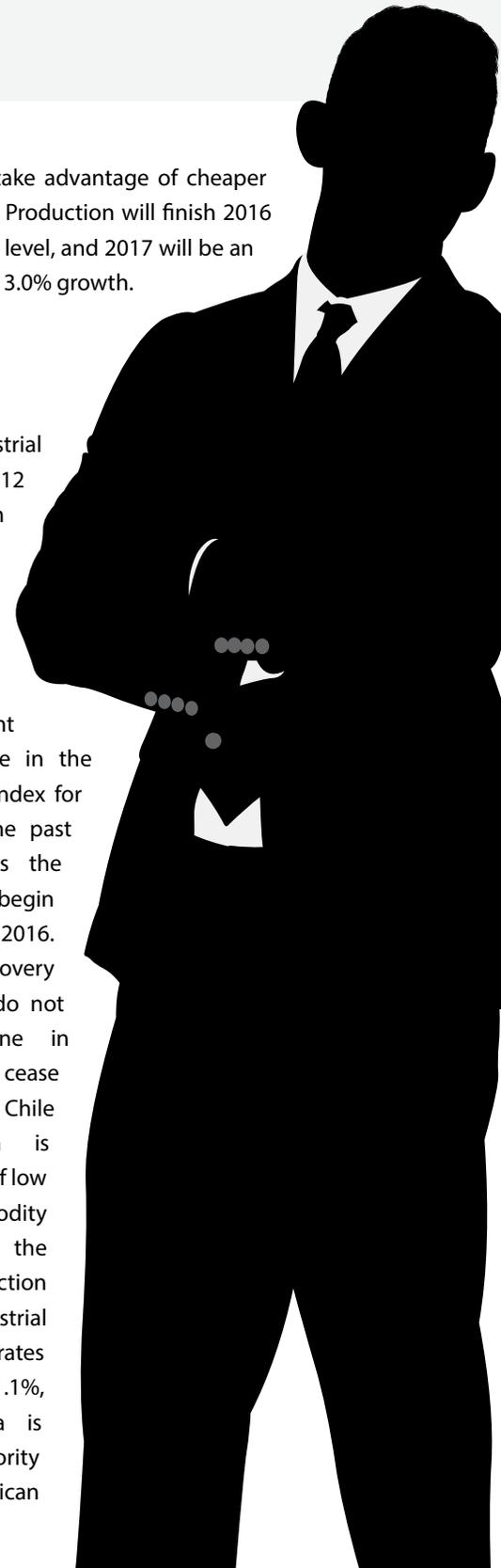
Canada Industrial Production is relatively more negative than the US with annual Production down 1.1% from the prior year. However, positive internal trends suggest further recover in the near term. Similarly to the US economy, the Canadian consumer is doing well. Canada Retail Sales, excluding automobiles, are up 1.0%, and Light Vehicle Production has reached the year-ago level after nearly a year of contraction. The loonie is strengthening against the US dollar, but will also slow the recovery in Canadian exports to the US, which were down 14.1% in 2015 compared to the 2014 level. Expect Canada Industrial Production to recover in the second half of 2016 alongside the US economy.

Comparatively, annual Mexico Industrial Production is up 1.0% on a year-over-year basis. Mexico Light Vehicle Production is up 2.4%, where growth in the Mexican auto industry is largely being fueled by American producers moving their manufacturing base

to Mexico in order to take advantage of cheaper labor. Mexico Industrial Production will finish 2016 2.4% ahead of the 2015 level, and 2017 will be an even stronger year with 3.0% growth.

SOUTH AMERICA

Annual Brazil Industrial Production in the 12 months through March was down 9.7% compared to the previous year. Internal trends are beginning to show signs of positive movement which, along with rise in the Purchasing Managers Index for Manufacturing over the past five months, suggests the Brazilian economy will begin to recover in late 2016. However, Brazil's recovery will be long and we do not anticipate the decline in Industrial Production to cease until late 2017. Chile Industrial Production is down 0.5% in the face of low oil and metal commodity prices, which dragged the Chile Mining Production Index and Peru Industrial Production growth rates down 2.3% and 1.1%, respectively. Colombia is outperforming the majority of South American



BY THE
NUMBERS
(US)

Conference
Board Consumer
Confidence Index

94.2

April (2016)
Unemployment

5.0%

Retail Sales
(Mar to Apr change)

+1.4%

Mfg.'s New Orders
for Durable Goods
(Feb to Mar change)

+0.8%



countries as Industrial Production grew 2.1% in the last 12 months. Growth is being driven by strong Retail sales (up 6.0%) and Residential Construction (up 3.2%).

EUROPE Eastern Europe Industrial Production was up 2.7% in February. Poland Industrial Production (up 4.2%) is a major growth driver in the region and is being bolstered by strong Passenger Car Production (up 9.9%). Ukraine is a weak spot in the region, down 3.0%. Growth in Eastern Europe Industrial Production will accelerate through late 2016, ending the year 3.3% ahead of the 2015 level. Western Europe is underperforming in comparison to Eastern Europe, up 1.7%. Spain (up 3.9%) and France (up 1.8%) are outperforming the total regional growth rate due to strong consumer trends (Retail Sales are up 1.9% and 1.5%, respectively).

ASIA The annual China Industrial Production growth rate ticked up to 6.0% after being in a slowing trend since early 2014. One month of acceleration is not enough to

confirm a trend; however, upward movement in the China Leading Indicator and the Purchasing Managers Index suggest faster growth in late 2016. Indonesia Industrial Production is up 4.8%. India Production is declining. Japan is down 1.4% as historically low interest rates failed to translate into economic growth. India Industrial Production is in a slower growth trend (up 2.4% year-over-year) after outperforming the region as a whole in 2015. Weak business-to-business activity is contributing to the slowdown.

MIDDLE EAST / AFRICA Middle East GDP was down 11.1% in 2015 compared to the year before. Saudi Arabia GDP is down 13.3% as low oil prices weigh on profits in one of the least diversified economies in the Middle East. Expect headwinds against Middle Eastern countries to diminish moving into 2017 as oil prices recover.

*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 5/1/2015	Change Since 1/1/2016
Brazilian Real	3.50	0.49	-0.46
Canadian Dollar	1.29	0.07	-0.10
Chinese RMB	6.52	0.31	0.01
Euro	0.88	-0.01	-0.04
Mexican Peso	18.14	2.58	0.94
Pound Sterling	0.69	0.03	0.01

Current values as of 5/16/2016

Mfg.'s Shipments of Durable Goods
(Feb to Mar change)

-0.5%

Durable Goods Mfg.'s Inventories
(Feb to Mar change)

0.0%

CPI Inflation
(over prev. 12 months)

+0.4%

US Industrial Production
(over prev. 12 months)

-1.1%

Purchasing Managers Index
(April)

50.8%

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wiring and components for the automotive industry should not significantly change their expectations for the year to come.

The annual growth rate for US Boat Building Production in February was downward revised 1.4 percentage points to 11.7% growth. This segment tracks the construction of all boats built outside of a shipyard and, in general, they are intended for personal use. US Ship Building and Repair Production, which comprises companies engaged in commercial shipyard activities, was downward revised 2.2 percentage points to show Production now contracting 5.1% from the prior year. The disparity between growing personal use watercraft production and declining commercial ship production highlights the effects of the current slowdown in the business-to-business economy. However, nascent signs of recovery suggest demand for commercial ships will improve in late 2016. Expect persistent demand for maritime and shipboard wire and cable products marketed toward the consumer economy throughout 2016. Demand for products

marketed toward commercial and industrial markets will pick up in late 2016 and into 2017.

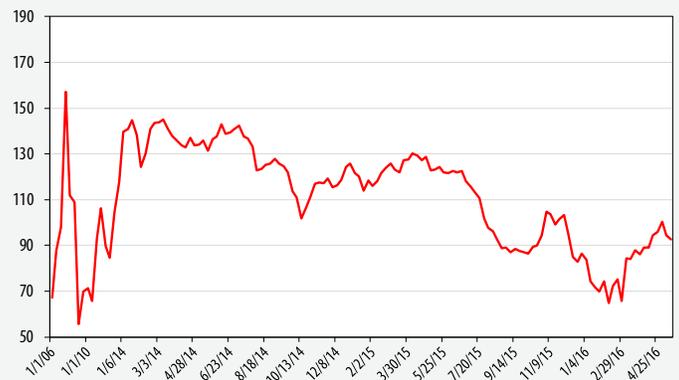
Companies involved in markets affected by this data revision should reevaluate their plans for the future. When assessing the impact of a data revision on your operations, consider both the magnitude and direction of the changes. Faster or slower growth in a market may afford you the opportunity to maintain your general plan, necessitating only that you modify your operational timing. Conversely, when a market shifts from growth to decline, or vice versa, it is often necessary to rethink your entire strategy. Most importantly, react to all data revisions objectively and in a timely manner; if you wait to see the impact of the revision on your company's performance you have lost an opportunity to get in front of the business cycle. ☒

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WIRE INDEX

The Wire Index continued its slow climb from its nadir in February 2016. The Index was up 3.8% from the beginning of April through May 13th. It is up 10.3% so far in 2016 but down 25.5% over the past twelve months. Results were mixed for individual companies over the past 6 weeks. Belden was up nearly 25% and Anixter up almost 10%. Meanwhile, Houston Wire & Cable was down almost 20%. 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 fell slightly by 3.7% since the beginning of April. It now stands at \$2.08 as of May 13th. Comex Copper is down 30% over the past 12 months and down 2.8% year-to-date.

