



## SPOTLIGHT

### Uncertainty and Opportunity in Mexico

UNCERTAINTY HAS SURROUNDED the Mexican economy since before the US presidential election. Talks of keeping manufacturing jobs from moving from the US to Mexico, renegotiating trade deals, and building a border wall have already had impacts on industries and companies with ties to Mexico. Ford Motor Company and the Carrier Corporation are two examples of companies who have curtailed efforts to move manufacturing production to Mexico. Mexico Industrial Production is declining, and cyclical decline in the Mexico Leading Indicator poses a risk to 2017 growth in Industrial Production. However, selected opportunities remain in areas such as Electrical Equipment, the auto industry, and HVAC Equipment, as low wages, low production costs, close proximity to US markets, and a strong consumer base are still appealing for companies.

Mexico Electrical Equipment & Appliances Production and Mexico Air Conditioning, Heating, and Industrial Refrigeration Equipment Production are in accelerating growth trends, up 4.2% and 18.9%, respectively. Expansion in these industries may provide growth opportunities during the near term. Rising Mexico Exports and Mexico Retail Sales also suggest cyclical rise for Industrial Production. The Mexico Stock Market is performing well, having recovered from a mild plunge after the US presidential election. The Mexico IPC Index is up 6.6% year to date. The cyclical rise in the stock market bodes well for corporate profits of Mexican firms and, in turn, the

Mexican economy. Headwinds from the Mining sector will keep production subdued during the first half of the year. The lack of definitive cyclical rise in the Mexico Purchasing Managers Index (PMI), which leads Industrial Production by eight months, suggests that growth in the industrial sector may be slow to take hold this year.

Despite Ford Motor Company's decision to back off from a plant in Mexico, Light Vehicle Production in Mexico is accelerating, up 3.8% from last year. Production in Mexico is significantly outpacing that of US Light Vehicle Production, which is down 0.2% from last year. Mexico Light Duty Truck Production ticked up in February and is 5.0% above the year-ago level. Accelerating Production growth suggests that the auto industry in Mexico will still be a viable market for near-term opportunity in spite of the long-term risk associated with the possibility of increased tariffs.

With negotiations regarding the North American Free Trade Agreement (NAFTA) possibly on the horizon, other countries are looking into Mexico for potential opportunity for trade. Mexico has announced interest in trade partnerships with China, Brazil, and Argentina in an effort to offset possible losses from NAFTA renegotiations. This may generate concern from Midwestern US farmers who have suffered in the past year due to low crop prices, as Mexico is the largest buyer of US corn (*accounting for more than 25% of annual US corn exports*).

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## CONTACT US

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Email us at [hotwire@iewc.com](mailto:hotwire@iewc.com) and let us know what's on your mind!



# GLOBAL ECONOMIC OVERVIEW



**NORTH AMERICA** US Industrial Production is nearing a transition to an accelerating growth trend. Production is rising, although it remains 0.8% below the year-ago level. Expect growth in the mining and manufacturing components of Production to yield 2.2% growth in 2017 Industrial Production as a whole. The utilities component, which saw Industry Utilization Rates fall to a record low in February, is likely to generally decline into the third quarter of 2017. Leading indicator evidence from cyclical rise in the US Purchasing Managers Index, US Corporate Profits, and the US Total Industry Capacity Utilization Rate indicates that sustained rise for the US macroeconomy in 2017 is likely.

Growth opportunities are present in US Communication and EnergyWire&Cable Production, which is up 4.1% from the year-ago level. One end market to avoid, however, is US Electrical Equipment New Orders. New Orders includes electric motors, electric generators, switchgear and switchboard apparatus, and industrial controls. New Orders are recovering, but remain 8.0% below the year-ago level. Electrical equipment utilization rates have yet to show definitive rise and the most recent rate (80.0%) is 0.9 percentage points below the five-year average. Expect a long recovery period in New Orders that extends into the second half of 2017. Better market conditions are present in the communications industry. US Nondefense Communications Equipment New Orders is in an accelerating growth trend, up 0.2% on a year over year basis, and further cyclical rise is likely to persist in at least the coming months.

Canada Industrial Production transitioned to an accelerating growth trend in January, up 0.1% compared to the previous year. Expect Production to remain in an accelerating growth trend into early 2018. Mexico Industrial Production is declining and remains an area of uncertainty. Despite cyclical decline in the Mexico Leading Indicator, Mexico Retail Sales and Manufacturing Production are accelerating and may support mild rise in the country's economy in 2017.

**SOUTH AMERICA** Annual average South America Industrial Production ticked up in December. Production in Brazil, Chile, and Peru are below year-ago levels. Recovery in Brazil and Peru will alleviate some of the downward pressure on the South American economy as 2017 progresses. Rise in both Brazil and Peru annual Mining Production will provide upward momentum for cyclical rise in their respective economies. Colombia Industrial Production is up 3.2% compared to last year, but generally slower growth in Colombia Real Retail Sales signals that the Colombian economy is in a cyclical declining trend. Expect opportunities in South America to be slow to arise through late 2017.

**EUROPE** The pace of growth in Europe Industrial Production is generally slowing. However, the rate of growth in Eastern Europe Industrial

BY THE  
NUMBERS  
(US)

**Conference  
Board Consumer  
Confidence Index**

**125.6%**

**March (2017)  
Unemployment**

**4.5%**

**Retail Sales  
(Feb to Mar change)**

**+0.3%**

**Mfg.'s New Orders  
for Durable Goods  
(Jan to Feb)**

**+1.7%**

Production (up 3.4% during the 12 most recent months) is outpacing growth in Western Europe Industrial Production (up 1.7%). The European employment rate is rising steadily and a stronger labor market will likely support growth in Europe Retail Trade, which is in an accelerating growth trend. Annual Europe Export Volume ticked up in December (most recent data) but remains 1.7% below the previous year. Plan for 2.0% growth in Europe Industrial Production this year.

**ASIA** Cyclical rise in China's economy is increasing regional demand and placing upward pressure on commodity prices. Rise in the China Leading Indicator rate-of-change suggests that cyclical rise in China Industrial Production is likely for at least the next three quarters. Southeast Asia Industrial Production, up 2.9% year over year, is benefitting from the positive business cycle momentum in China. Most countries within the region are in accelerating growth trends. One notable exception is Hong Kong Industrial Production, which is 0.5% below the year-ago level. Annual Japan Industrial Production rose for seven consecutive months and is up 1.2% compared to the year-ago level. India Industrial Production is up 0.4% from the year-ago level. Rise in the India Infrastructure Industrial Index suggests growth opportunities will be available during at least the next quarter.

**MIDDLE EAST / AFRICA**

Middle East and North Africa Industrial Production is up 2.8% compared to the year-ago level. Expect Oil Prices to generally rise in 2017, vacillating between the mid-to-high \$50 range throughout the year. Plan for 2.9% growth in the region as a whole during 2017.

\*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 1/1/2017	Change Since 4/1/2016
<b>Brazilian Real</b>	3.10	-0.15	-0.44
<b>Canadian Dollar</b>	1.34	0.00	0.04
<b>Chinese RMB</b>	6.88	-0.06	0.41
<b>Euro</b>	0.94	-0.01	0.06
<b>Mexican Peso</b>	18.49	-2.24	1.14
<b>Pound Sterling</b>	0.79	-0.02	0.09

Current values as of 4/18/2017

**Mfg.'s Shipments of Durable Goods**  
(Jan to Feb)

**+0.3%**

**Durable Goods Mfg.'s Inventories**  
(Jan to Feb)

**+0.2%**

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

**+0.3%**

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

**+0.7%**

**Purchasing Managers Index**  
(March)

**57.2%**

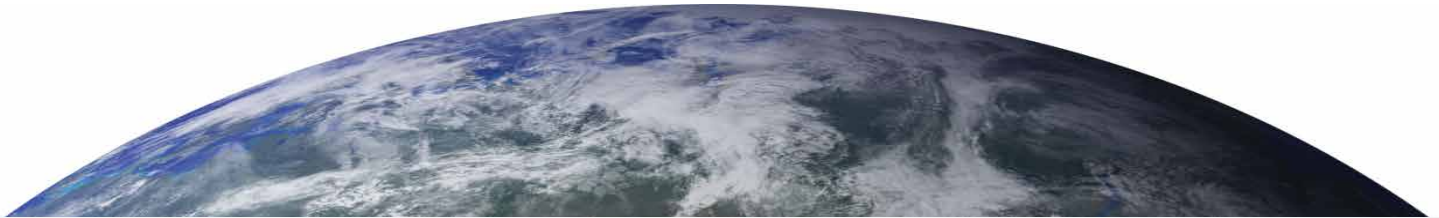
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Though decline in the Mexico Purchasing Managers Index and the Mexico Leading Indicator presents significant concern for the Mexican economy, rising Retail Sales and a relatively prominent auto industry suggest there may still be selected opportunities for companies seeking to expand production in the country.

Companies should continue to remain cautious, as potential trade agreement renegotiation and border wall construction keep Mexico's viability for international producers uncertain. However, look to capitalize on growth in selected sectors such as Electrical Equipment and HVAC.

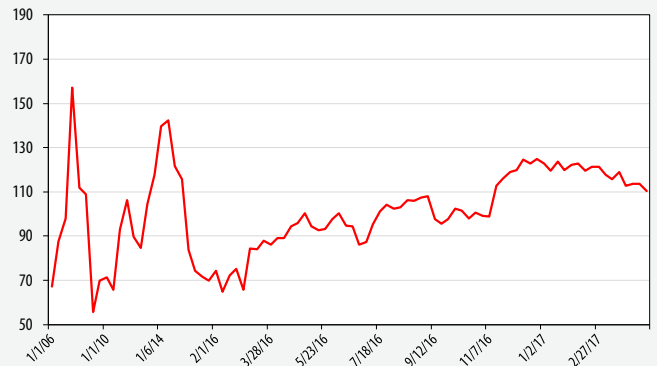
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## WIRE INDEX

The Wire Index fell by 6.4% since the beginning of March and now sits at 110. The Index is now down 10.2% for 2017 but is still up 16.9% over the past 12 months. All five tracked companies experienced stock price decreases since the beginning of March. Both Encore Wire & Houston Wire & Cable had stock price decreases of over 10% over that timeframe.

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 fell slightly since the beginning of March and sit at \$2.60 as of April 17th. Comex copper prices fell by 4.8% since the beginning March. However, copper is still up 4.6% year-to-date and up 20.1% over the past 12 months.

