



SPOTLIGHT

Opportunities in East Asia

EXPANSION IN THE US AND CHINESE economies is generating opportunities within East Asian countries. Southeast Asia GDP rose 3.3% in 2016 compared to the 2015 level. Cyclical rise in the Major Five Asia Leading Indicator indicates further expansion in Southeast Asia in 2017. The majority of countries within Southeast Asia are in accelerating growth trends. Indonesia and the Philippines are growing, but at decelerating rates. Both the US and China rely heavily on East Asian exports, particularly for electronics and electronic components that are a niche market in several East Asian countries. Rising levels of manufacturing production, and the machinery and equipment used in the production process, will contribute to expansion in the electronics and electronic components markets. Positive consumer trends will also contribute to growth within the electronics market.

China industrial production is up 6.4% year over year and is expected to accelerate into late 2017. However, production is not expected to return to double-digit growth rates through at least 2019. The deceleration in the Chinese economy in recent years can be attributed, in part, to a transition from an export-and-investment-based economy to one of increasing domestic consumption. Expansion in the consumer sector of the economy is coupled with accelerating industrial production, driving cyclical rise in both exports and imports. Hong Kong, Japan, and South Korea are amongst the top export destinations of Chinese goods. Most Chinese imports

come from East Asian countries, as well as the US and Germany. China imports (*up 23.3% during the first quarter of 2017 compared to the first quarter of 2016 level*) are outpacing exports (*up 4.2% during the first quarter*). Accelerating growth in Chinese imports will boost East Asian economies, especially those tied to electronics production. Electronics are the number one import into China, ranging from integrated circuits (*or semiconductor chips*) and electrical transformers to telephones and computers. Integrated circuits alone accounted for 7.5% of all Chinese imports in 2015.

This bodes particularly well for South Korea, whose top export happens to be integrated circuits. South Korea industrial production managed to avoid recession during the past business cycle and is up 3.2% year over year. Rise in the South Korea Leading Indicator (*up 0.4%*) corroborates expectations of further rise in South Korea's economy as growing demand from China boosts industrial production levels during the coming quarters.

Japan will be a second area of opportunity in East Asia. Japan industrial production transitioned to an accelerating growth trend in March, up 1.5% from the year-ago level. Expect Japan industrial production to generally rise into late 2018. The industrial production growth rate is outpacing inflation, contributing to our optimistic outlook for Japan during the next year and a half. The yen exchange rate averaged 111.9 yen

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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA The US economy, as measured by Real Gross Domestic Product (GDP), is expanding. US consumers are benefiting from wage growth and low interest rates, which are contributing to GDP growth. Average US manufacturing production during the 12 months through March was up 0.4% from the year-ago level, as the consumer is keeping overall manufacturing out of recession. The industrial side of the economy is recovering after low commodity prices and weak demand pushed the mining component of US industrial production into recession in 2015. There are still some segments of manufacturing, such as mining and electrical equipment, that have not yet recovered entirely from recent low commodity prices. However, we expect these segments to contribute to overall growth in manufacturing once more, as the macroeconomy accelerates in the coming quarters.

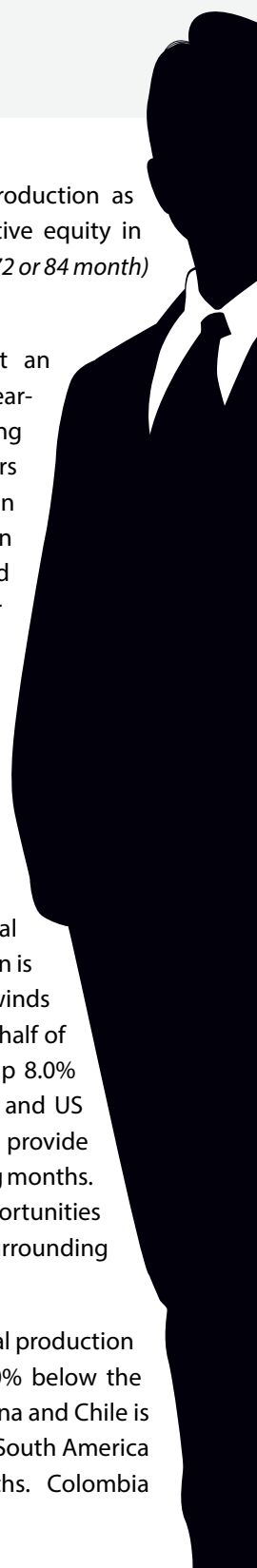
Opportunities in the aircraft production sector of the economy will emerge in the second half of the year. US Aircraft and Parts Production is down 2.0% compared to the year-ago level and is expected to decline further through mid-2017 before transitioning to a rising trend. US Defense Aircraft and Parts New Orders suggests production will begin rising in the near term, as demand for aircraft increases. The cost of fuel is expected to rise during the long term. Rising fuel costs may incentivize aircraft producers to purchase newer, more fuel-efficient aircraft in the coming years and could contribute to rising US Aircraft and Parts Production. The 3D printing industry is expanding into aircraft production. Consider tapping into this market to gain market share as producers seek to reduce production costs by using advanced technologies.

Higher wages and larger disposable personal incomes are supporting rising consumer spending, which suggests there will be growing demand for North America Light Vehicle Production into late 2018. However, rising US Auto Loan Delinquency Rates provide some cause for concern. This

presents a downside risk to Light Vehicle Production as many consumers find themselves with negative equity in their loan due to the prevalence of long-term (72 or 84 month) loans.

Canada industrial production is growing at an accelerating rate, up 0.5% compared to the year-ago level. Cyclical rise in the Canada Leading Indicator and the Canada Purchasing Managers Index suggests Canada industrial production will accelerate into early 2018. Rising Canadian Average Residential Home Prices (up 8.1%) and Canada Total Retail Sales excluding Motor Vehicles and Parts (up 3.7%) illustrate the strength of the Canadian consumer. These sectors will contribute to expanding Canada industrial production in the coming quarters. Communicate competitive advantages to potential customers in Canada to capture available market share in the country as opportunities grow along with industrial production. Meanwhile, Mexico industrial production is in a recessionary trend. Production is expected to begin rising imminently as headwinds from the mining sector dissipate after the first half of the year. Mexico Light Vehicle Production is up 8.0% year over year and is outpacing both Canada and US Light Vehicle Production. This market may provide growth opportunities during at least the coming months. Be selective and conservative in pursuing opportunities in Mexico given the political uncertainty surrounding trade between Mexico and the US.

SOUTH AMERICA South America industrial production is recovering but is 3.0% below the year-ago level. Industrial production in Argentina and Chile is contracting and will hinder recovery in overall South America industrial production in the coming months. Colombia



BY THE
NUMBERS
(US)

**Conference
Board Consumer
Confidence Index**

120.6%

**April (2017)
Unemployment**

4.4%

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

+0.4%

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

+0.7%



industrial production is declining and further hindering South America industrial production. Colombia Total Construction is contracting and is contributing to the slowdown. Cyclical rise in the residential construction sector may alleviate some of the downward pressure in the near term. Brazil industrial production is recovering and production will rise through early 2018, though production will not return to the same levels seen in 2015. Changes in the Brazilian economy suggest there will be fewer growth opportunities in the country compared to those seen in the years before the Great Recession. However, Brazil Total Electricity Consumption is rising on an annual basis. Look to target potential opportunities in this sector, as available market share will be limited.

EUROPE

Europe industrial production during the 12 months through February was up 1.4% compared to the year-ago level. Production is rising on an annual average basis and may provide growth opportunities into 2018. Eastern Europe industrial production is expanding at a greater pace than Western Europe industrial production, which are up 3.1% and 1.2% year over year, respectively. While European and global markets are normalizing after post-Brexit volatility, Western Europe remains an area of ambiguity as election season continues. Brexit negotiations will begin after the UK General Election concludes in June.

ASIA

Average China industrial production during the 12 months through March was up 6.4% compared to the year-ago level. Cyclical rise in the China Leading Indicator suggests production will accelerate into at least late 2017. Increasing global demand for

steel will boost China Steel Production (up 3.1%), and higher steel prices during the coming year will further incentivize increased production. The residential sector of Chinese construction is outpacing nonresidential construction. China Floor Space of Residential Buildings Started is up 12.6% in contrast to the nonresidential sector, which is up 1.9%. Look for opportunities in the residential sector as demand increases to meet rising city populations. Expansion in the Chinese auto industry will contribute to growth in the manufacturing sector as well. China automobile production totaled 28.1 million units in 2016, up 11.3% compared to the 2015 level. Expansion in the Chinese economy will provide growth opportunities during at least 2017.

MIDDLE EAST / AFRICA

Middle East and North Africa industrial production is up 3.3% compared to the year-ago level. Mild rise in oil prices is helping oil-dependent economies, such as Saudi Arabia, whose GDP is down 1.9% from one year ago, recover. Egypt industrial production is also recovering, down 3.8% from the year-ago level. Opportunities in this region will be scarce in the near term.

*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 5/1/2016
Brazilian Real	3.10	-0.15	-0.33
Canadian Dollar	1.36	0.02	0.10
Chinese RMB	6.89	-0.05	0.42
Euro	0.91	-0.04	0.04
Mexican Peso	18.66	-2.07	1.48
Pound Sterling	0.77	-0.04	0.09

Current values as of 5/15/2017

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

+0.2%

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

+0.1%

CPI Inflation
(over prev. 12 months)

+0.2%

US Industrial Production Index
(over prev. 12 months)

+0.7%

Purchasing Managers Index
(April)

54.8%

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per USD in the three months through April. The current value of the yen is weaker than the 10-year average of 99.3 yen per USD. Plan for the yen to stay relatively weak versus the dollar over the next four quarters. A relatively weak yen compared to the dollar will keep pressure on US manufacturers facing competition from Japanese imports that benefit from a weak yen.

Japan's export activity is supporting rise in Japan's industrial production. Japan exports are accelerating, up 5.8% year over year. Japan is the world's dominant supplier of industrial robots and accounts for 34.5% of total industrial robot exports (2015 level). Japan Industrial Robots Production was up 34.2% in the

first quarter of 2017 compared to the 2016 level. Expansion in the automation industry will provide long-term growth opportunities for this thriving Japanese market.

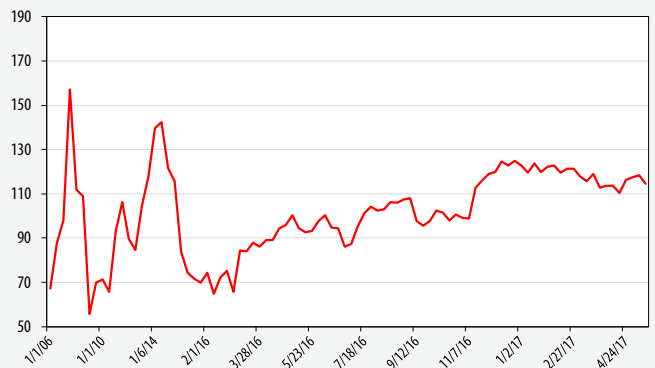
To take full advantage of this growth period, differentiate yourself from your competition and communicate competitive advantages to potential customers in order to gain market share in this region during the robust growth expected through 2018. Expand your distribution network and make sure you have adequate access to capital.

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WIRE INDEX

The Wire Index increased slightly by 0.7% since the beginning of April and now sits at 114. The Index is down 6.9% for 2017 but is still up 23.6% over the past 12 months. Belden (up 6.1%) and Anixter (up 0.4%) saw stock price increases since the beginning of April. General Cable was down 8.7% over the sales 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 by 3.7% since the beginning of April and sit at \$2.50 as of May 11th. Comex Copper is up 0.8% year-to-date and up 19.1% over the past 12 months.

