



SPOTLIGHT | World Industrial Production

IN GOOD ECONOMIC TIMES it is easy to become complacent and assume growth will persist indefinitely. Firms routinely make straight-line budget projections that turn out to be overly optimistic when the business cycle turns negative. Conversely, at the bottom of the business cycle it's rare to find the CEO willing to commit precious resources to investing in the growth to come as the business cycle turns positive. Making the appropriate business decisions in advance of changes in the business cycle is critical to maximizing your firm's profitability and minimizing risk. In this feature article we are going to explore what the leading indicator evidence says we should expect for World Industrial Production as well as several major economies in the coming years, and consider some planning steps you should begin now in preparation for the slowing macroeconomic growth to come during 2018 and the mild recession expected for 2019.

World Industrial Production is up 2.4% year over year. Rise in the OECD Plus Six Non-Member Economies Leading Indicator monthly growth rate through May suggests that World Industrial Production will accelerate into at least early 2018, given the 10-month lead time from the Leading Indicator to Production. However, nascent decline in the JP Morgan Global PMI suggests 2018 will be, primarily, a year of slowing growth for World Industrial Production. Expect World Industrial Production to rise 3.2% in 2017 compared to the 2016 level, and 1.8% in 2018 compared to the 2017 level. Plan for mild

decline in most major developed countries' industrial sectors during 2019 as building inflationary pressures, rising interest rates, and the rising cost of labor sap consumer purchasing power and corporate profitability.

The overall macroeconomic expectations of accelerating growth during 2017, slowing growth during 2018, and mild recession during 2019 apply to US Industrial Production, Canada Industrial Production, Europe Industrial Production, Japan Industrial Production, and Southeast Asia Industrial Production. China Industrial Production is a notable exception, as it is expected to avoid overt negativity through at least 2019. China's expansionary fiscal policy is driving national growth in infrastructure and housing investment as well as consumption. Cyclical rise in China's economy is supporting the rising trend in many commodity prices. China Imports are accelerating (up 4.3% year over year), boosting industrial activity for its top trading partners, including the US, Hong Kong, Japan, South Korea, and Germany. Expect China Industrial Production to rise 6.9% in 2017 and 5.8% in 2018. However, IMF estimates suggest that Chinese debt surpassed 300% of GDP (\$162 billion) in June, and the rate of household borrowing is rising. Rising levels of debt, combined with macroeconomic expectations for contraction in 2019, will place downward pressure on China Industrial Production growth rates in 2018 and 2019. Expect Production to decelerate to 5.4% growth in 2019. Note

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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA US Industrial Production transitioned to an accelerating growth trend in May. Average Production during the 12 months through May was up 0.04% compared to the year-ago level. Rising leading indicators suggest the period of accelerating growth in Production is likely to extend into early 2018. Decline in the US Purchasing Managers Index rate-of-change, however, signals that 2018 is likely to predominantly be a year of slower growth for the US economy. If your business' cyclical trends move contemporaneously with the macroeconomy, now is the time to prepare for slower US macroeconomic growth during 2018. The US Unemployment Rate is at a seasonally adjusted 4.4%, 1.6 percentage points below the five-year average of 6.0%. Many firms will find it difficult for firms to obtain low-cost, qualified labor as US Overall Wage Growth (3.4%) rises in response to the increasing scarcity of labor. However, expect this trend to have a positive effect on consumer spending and US Retail Sales, as consumers will have more income this year.

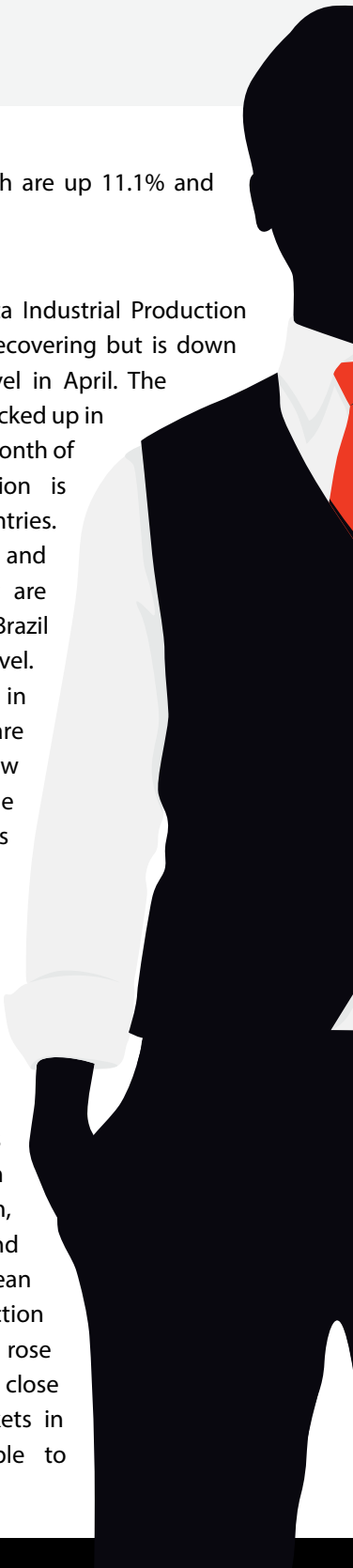
Canada Industrial Production is up 1.6% compared to the year-ago level in April. Cyclical rise in the Canada Leading Indicator suggests Canada Industrial Production will accelerate into early 2018. Canada Nondurable Goods New Orders and Canada Utilities Production & Distribution are accelerating, which are up 3.2% and 2.3%, respectively. Accelerating growth in these sectors illustrates the strength of the Canadian manufacturing sector. Communicate competitive advantages to potential customers in Canada to capture available market share in the country as opportunities grow along with Industrial Production.

Mexico Industrial Production is virtually flat compared to the year-ago level, down 0.3% year over year. Mexico Manufacturing Production is accelerating. However, year-over-year decline in Mexico Mining Production (down 8.9%) is placing downward pressure on overall Industrial Production. Look for opportunities in Mexico Light Vehicle Production and

Mexico Total Truck Production, which are up 11.1% and 10.7%, respectively.

SOUTH AMERICA South America Industrial Production is generally recovering but is down 2.8% compared to the year-ago level in April. The Industrial Production annual trends ticked up in Argentina and Brazil with the latest month of data, although Industrial Production is below the year-ago level in both countries. Generally rising commodity prices and increasing global industrial activity are providing upward momentum for Brazil Exports, up 8.4% from the year-ago level. Exports will support the recovery in Brazil's economy. However, be aware that opportunities are likely to be slow to arise in most segments of the Brazilian economy during this business cycle.

EUROPE Europe Industrial Production is up 1.6% year over year. Expect annual average Production to rise into the second half of 2018. Eastern Europe Industrial Production (up 3.2%) is expanding at a greater pace than Western Europe Industrial Production, which is up 1.0% year over year. Poland will be a bright spot in the European economy; Poland Industrial Production during the 12 months through May rose 3.9% year over year. Low wages and close proximity to major consumer markets in Western Europe make Poland able to



BY THE NUMBERS (US)

Conference Board Consumer Confidence Index

118.9%

June (2017) Unemployment

4.4%

Retail Sales (May to June change)

-3.1%

Mfg.'s New Orders for Durable Goods (Apr to May)

-1.1%

compete with relatively cheap labor in Asia. In Western Europe Germany Industrial Production (up 1.7%) is growing at a faster pace than UK Industrial Production (up 0.9%). The depreciating value of the pound has pushed up on inflation, which is at the highest rate (2.9%) in nearly four years. Decline in the value of the sterling may hinder consumer spending in the UK, while uncertainty regarding Brexit negotiations could hinder business investment. Focus instead on opportunities within Germany, where the Purchasing Managers Index reached its highest level in over six years.

ASIA Average China Industrial Production during the 12 months through May was up 6.5% compared to the year-ago level. Tentative decline in the China Purchasing Managers Index signals that China Industrial Production may transition to a slower growth trend during 2018. The residential sector of Chinese construction is outpacing nonresidential construction. China Floor Space of Residential Buildings Started is up 11.7% in contrast to the Nonresidential sector, which is down 1.6%. Look for opportunities in the residential sector as demand increases to meet rising city populations. Average Japan Industrial Production during the 12 months through May was up 2.8% year over year. Production is accelerating, but nascent decline in the Japan

Purchasing Managers Index rate-of-change is consistent with an expectation of generally slowing growth in production during 2018. South Korea Industrial Production is accelerating and is up 2.0%. However, be wary of the South Korea marine industry, as South Korea Shipbuilding Production is in recession, down 14.9% from the year-ago level. India Industrial Production is growing at a slower pace, but is up 4.1% year over year. Rise in the Production quarterly growth rate signals that the period of slowing growth is likely to transition to accelerating growth by year-end.

MIDDLE EAST / AFRICA

Middle East and North Africa Industrial Production is up 3.3% compared to the year-ago level. Year over year growth in Oil Prices is helping oil-dependent economies, such as Saudi Arabia, recover. However, the recent slide in monthly Oil Prices suggests 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 7/1/2016
Brazilian Real	3.17	-0.08	-0.07
Canadian Dollar	1.26	-0.08	-0.03
Chinese RMB	6.75	-0.19	0.10
Euro	0.86	-0.09	-0.04
Mexican Peso	17.53	-3.20	-0.86
Pound Sterling	0.77	-0.04	0.02

Current values as of 7/18/2017

Mfg.'s Shipments of Durable Goods
(Apr to May)

+0.8%

Durable Goods Mfg.'s Inventories
(Apr to May)

+0.2%

CPI Inflation
(over prev. 12 months)

+1.6%

US Industrial Production Index
(over prev. 12 months)

+1.0%

Purchasing Managers Index
(June)

57.8%

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that this pace of growth is below the 5.9% annual growth rate low during June 2016, and so will feel like a recession to many firms doing business with and within China.

If your business' sales move at the same time as the macroeconomy, you should likely budget for expansion through 2018, but be sure to plan for the mild macroeconomic recession in 2019. Take advantage of relatively low interest rates and make investments to increase process efficiencies by upgrading machinery and equipment, but avoid the temptation to over-expand given the likelihood of a weaker business cycle in 2018 and especially 2019. As 2019 approaches, be sure to analyze all business segments for profitability: drop segments that will be a burden to production and consider adding new segments in response to changing market trends to help insulate your sales from the effects of business

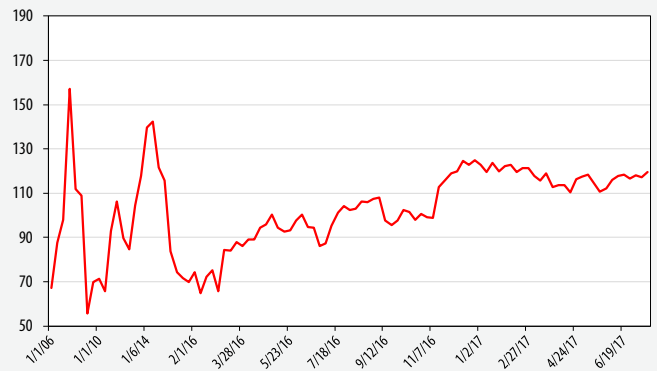
cycle decline. Ensure you have lower price-point products available, as consumers and businesses will likely be more price-sensitive. Prepare for the labor market to tighten and for labor costs to rise further. Employee preferences are trending toward non-monetary compensation, such as training programs and flexible hours. Invest in training and retention programs in order to reduce employee turnover. Train leaders for new ventures and increase worker efficiency through training programs to counteract rising labor costs. Business cycle decline is normal and does not mean that your business cannot minimize its impact on profitability with careful planning; take the time to prepare now in order to be ready to act appropriately to mitigate the impact of slowing economic growth in 2018 and a mild recession in 2019.

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WIRE INDEX

The Wire Index increased by 3.2% since the beginning of June. It is now down 2.6% year-to-date, but is still up 18.2% over the past 12 months. General Cable's stock price rebounded with a 7.7% increase since the beginning of June. Belden's stock price also increased by 3.4%. Houston Wire & Cable's stock price decreased by 9.6% in the same 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 increased by 5.1% since the beginning of June and now sit at \$2.72/pound. For the year, Comex Copper is up 9.5%. It is up 21.6% over the last 12 months.

