HOT WIRE®

AUGUST 2017

News and Economic Outlook for the Wire and Cable Industry

SPOTLIGHT

Employment Trends in the US

THE US UNEMPLOYMENT RATE has averaged a seasonally adjusted 4.3% during the most recent three months, representing the lowest three-month moving average in over 16 years. As a result, employers are finding it difficult to fill position openings, especially as the US economy accelerates and the need for additional employees grows. US Total Nonfarm Job Openings during the 12 months through May averaged 5.7 million openings, up 2.5% from one year ago. Aging demographics are a key component of increasing labor shortages; baby boomers are retiring, leaving the Generation X and millennials, products of a time period during which people were choosing to have fewer children, to make up an increasing percentage of the labor force. Employee preferences are shifting along with the shifting generational composition of the workforce, most notably away from labor-intensive jobs such as manufacturing and construction. In addition, employers are finding a mismatch of skills needed for position openings. It will be imperative to adapt to this new hiring environment in order to maintain a qualified workforce capable of meeting the demands stemming from accelerating growth in the US economy into early 2018, and slowing growth for the remainder of 2018.

Approximately 10,000 baby boomers retire per day. The remaining pool of workers are in a good position, given the combination of continuing decline in the US Unemployment Rate and rising wages *(US Overall Wage Growth at 3.2%)*. With low unemployment and a high number of job openings, employees who find themselves dissatisfied with their current job are easily able to transition from one job to the next. This confidence is reflected in the high rate at which employees quit their existing jobs. The US Total Private Quit Rate averaged 2.4% during the 12 months through May, the highest level since the before the Great Recession.

US Total Manufacturing Employment is stagnating, averaging 12.4 million people during the 12 months through July. While the rising availability of automated technology for the manufacturing sector is certainly having an impact on jobs, evidence also points toward a shift in worker preferences away from manufacturing jobs. New workers have ranked manufacturing as one of the least desirable options of employment, while more experienced workers do not want to recommend it. An increasing number of entry workers are opting for more white-collar jobs. The net result is that US Total Manufacturing Job Openings averaged 353,000 openings during the 12 months through May, a level not seen since before the Great Recession and a 9.4% increase from one year ago. Construction companies are having trouble finding workers as well, with an average of 182,000 Job Openings in the construction sector during the last 12 months. This is 37.6% higher than the five-year average of 132,000 Job Openings. One solution to this problem is to change the perception of

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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA US Real Gross Domestic Product (GDP) grew at an annualized rate of 2.1% during the second quarter. Accelerating growth trends in Industrial Production *(up 0.2%)* and US Retail Sales *(up 3.5%)* are contributing to the positive momentum in the US macroeconomy. Leading indicator evidence suggests that accelerating growth will persist during at least the second half of 2017 and likely into early 2018. Recent decline in the US Purchasing Managers Index growth rate signals that slowing growth is likely to characterize US Industrial Production during the majority of 2018.

Average Canada Industrial Production during the 12 months through May was up 2.9% compared to the year-ago level. Trends in the Canada Leading Indicator suggest that Canada Industrial Production will accelerate through at least late 2017 before a slowing growth trend takes hold in early 2018. Canada Nondurable Goods New Orders and Canada Mining and Oil & Gas Extraction are accelerating, up 3.1% and 4.8% on a year-over-year basis, respectively. Accelerating growth in these indicators illustrates the strength of the Canadian economy. Be prepared for growth in Production to persist into early 2019.

Mexico Industrial Production is virtually flat compared to the year-ago level. Mexico Manufacturing Production is accelerating. Growth is evident in sectors such as Mexico Automotive Production *(up 11.8%)* and Mexico Machinery & Equipment Production, up 4.1%. However, decline in Mexico Mining Production *(down 9.2%)* is placing downward pressure on overall Industrial Production. The Mexico Leading Indicator growth rate has yet to definitively reach a business cycle low. This signals that businesses are likely to find relatively better opportunities elsewhere in North America moving into 2018, given the 10-month lead time from the Leading Indicator to Mexico Industrial Production.

SOUTH AMERICA Brazil annual average Production is stagnating near levels not seen since 2004. Production will stabilize and then generally rise into early 2019. Rising Brazil Exports *(up 11.0%)* will contribute to upward momentum for Industrial Production. Despite the recovery in Industrial Production, Production is unlikely to return to 2015 levels of Production during at least the next two years. Peru Industrial Production, up 2.3% year over year, is outpacing Industrial Production in Chile *(down 1.0%)*, Colombia *(up 1.1%)*, and Argentina *(down 3.1%)*.

EUROPE Average Europe Industrial Production during the 12 months through May was up 1.9% compared to the year-ago level. The rate of growth in Eastern Europe Industrial Production *(up 3.7% during the 12 most recent months)* is more than double the pace of growth in Western Europe Industrial Production *(up*

BY THE NUMBERS (US)

Conference Board Consumer Confidence Index	July (2017) Unemployment	Retail Sales (June to July)	Mfg.'s New Orders for Durable Goods (May to June)
121.1%	4.3%	-0.9%	+6.5%

1.1%). Seek opportunities in countries such as Poland *(Industrial Production up 3.7%)*, Germany *(Industrial Production up 1.7%)*, and the Czech Republic *(Industrial Production up 3.7%)*.

ASIA Southeast Asia Industrial Production was up 3.5% on a year-over-year basis in May. Most countries within the region are expanding. One notable exception is Hong Kong Industrial Production, which is 0.4% below the year-ago level. China Industrial Production during the 12 months through June was up 6.6% compared to the year-ago level. Trends in the China Purchasing Managers Index suggest that Production will accelerate into the second half of 2017. China Automobile Production totaled 28.9 million units in the 12 months through June. Production is up 12.9% year over year. Expansion in the auto industry will provide upward momentum for the industrial sector. Increasing global demand for steel will boost China Steel Production *(up 3.9%)* as higher Steel Prices during 2017 *(relative to 2016)* incentivize increased Steel Production. Japan Industrial Production during the 12 months through June was up 3.3% 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. Japan Exports are accelerating, up 8.9% year over year. Average India Industrial Production for the 12 months through May was 4.1% above the year-ago level. India Capital Goods Production is generally declining, contributing to the slowing growth trend in overall Industrial Production.

MIDDLE EAST / AFRICA The average of the most recent 12 months of Middle East and North Africa Industrial Production was up 3.0% compared to the year-ago level. Expect Oil Prices to generally rise over the next four quarters, reaching the upper $50/barrel to low $60/barrel range in the first half of 2018.

*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 8/1/2016
Brazilian Real	3.14	-0.11	-0.13
Canadian Dollar	1.26	-0.08	-0.05
Chinese RMB	6.67	-0.27	0.03
Euro	0.85	-0.10	-0.04
Mexican Peso	17.65	-3.08	-1.19
Pound Sterling	0.78	-0.03	0.02

Current values as of 8/21/2017

Mfg.'s Shipments of Durable Goods (May to June)	Durable Goods Mfg.'s Inventories (May to June)	CPI Inflation (over prev. 12 months)	US Industrial Production Index (over prev. 12 months)	Purchasing Managers Index (July)
+0.0%	+0.4%	+1.7%	+1.0%	56.3%

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the job. Engage in STEM education programs and work with community colleges and trade schools in the area. Sending representatives to these educational outlets will help tap into the up-and-coming workforce. It can also help to mold perceptions before the current workforce is able to.

One study has shown that it can take up to 24 days to fill one manufacturing position. This indicates that there needs to be a more streamlined process to fill these positions. Try to start by in-sourcing your search; often times your own employees will know someone with the skillset and attitude desired for the job. Furthermore, look into the use of online assessment programs. These online assessments have been found to monitor personality as well as a formal, in-person interview, but take much less time. This can also help fill positions from a wider range of applicants: rather than scheduling an in-person interview, which often eliminates the possibility of currently employed people being able to apply for the position, an online assessment program can be done conveniently at home. This will expand your pool of applicants from just the 4.3% of currently unemployed workers.

The skilled labor shortage will be faced across multiple industries and across countries, and is only in the beginning stages as many developed economies face aging demographic trends. However, it is possible to take steps to mitigate the effects of the shortage. Be sure to make investments in the workforce already available; consider cross-training employees to reduce the need for workforce expansion. Consider offering alternative forms of compensation to retain key employees. Investment in hiring and retention will be key during the next two years; worker efficiency and workforce stability will be crucial to maintaining profitability as businesses become squeezed from rising wages on the one hand and slowing or declining sales in 2018 and 2019 *(as the business cycle turns)* on the other hand.

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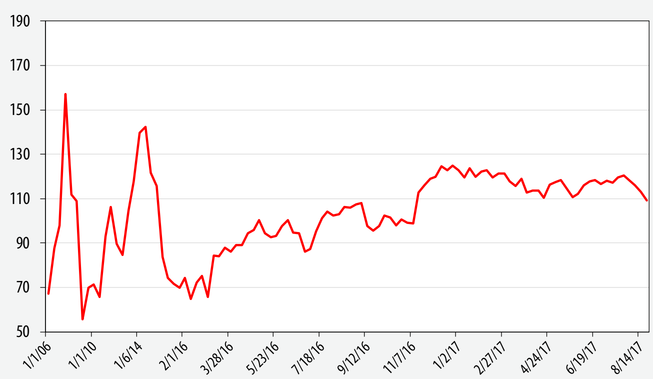
| WIRE INDEX |

The Wire Index decreased by 7.4% since the beginning of July. It is now down 11.1% year-to-date, but is still up 3.1% over the past 12 months. All tracked companies experienced stock price decreases since the beginning of July. Encore Wire *(-11.8%)*, Anixter *(-9.0%)* and Houston Wire & Cable *(-7.4%)* had the biggest decreases.

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 14.3% since the beginning of July and now sit at $3.07/pound. For the year, Comex Copper is up 23.5%, and is up 47.9% over the last 12 months.