HOT WIRE®

OCTOBER 2017

NEWS AND ECONOMIC OUTLOOK FOR THE WIRE AND CABLE INDUSTRY

SPOTLIGHT

Get Ready For 2018 and Beyond

THE US ECONOMY IS EXPECTED TO EXPAND FURTHER IN 2018. If your business moves in tandem with the macroeconomy through business cycle highs and lows, plan on operating in an environment of slowing macroeconomic growth in 2018 and consider using 2018 to prepare for the expected mild decline in 2019. Factors behind the expected 2019 decline include the possibility of reduced stimulus from the Federal Reserve as it unwinds its post-Great Recession balance sheet, deceleration in the money supply, the possibility of less robust income growth, and the significant decline in savings rates.

The pace of growth in most US industries is likely to slow in 2018 — particularly in the second half of the year — as the US macroeconomy slows. US Electrical Equipment New Orders and North America Light Vehicle Production, which have endured difficulties throughout 2017 thus far, are two notable exceptions. Expect new orders and production to exceed their low 2017 levels slightly in 2018.

Due to expected macroeconomic slowing growth in 2018, beware of linear budgeting. Firms often become overly optimistic during periods of accelerating macroeconomic growth and assume they will be able to maintain their current rate of sales increases in subsequent years. A softer macroeconomic environment expected in 2018 makes such an outlook unlikely. Plan to gradually increase your cash position deeper into 2018 (assuming your company moves in concert with the macroeconomy), particularly in the second half of the year.

Employment will be an area on which to focus in 2018. US Total Nonfarm Job Openings are up 3.3% year over year while the September seasonally adjusted US Unemployment Rate is at 4.2%, the lowest level since 2001. Employment is expanding to record-high levels, which will likely make hiring qualified new workers more challenging. Construction and manufacturing companies, in particular, are having trouble finding workers with an average of 186,000 and 358,000 job openings respectively during the last 12 months. Focus on retaining your existing employees by offering competitive compensation packages. Ensure your training systems are efficient and up to date so productivity increases are commensurate with wage increases. Train leaders for new ventures and train others to justify higher labor costs. Be sure to budget for higher wages; lock in costs as soon as possible. Finally, analyze the source of where you find your most talented and scarce labor, and see if you can expand that pipeline through, for example, partnerships with local educational institutions.

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There are steps to consider taking in preparation for the mild decline in US Industrial Production expected in 2019. If possible, consider investing in the addition of new products that could contribute to profits and mitigate the effects of contraction in 2019. Note that lower-priced products are likely to be in demand at this time, as your customers may find themselves short on cash given the expected mild macroeconomic decline during this year. If new products or services are not applicable to your business, analyze the profitable segments of your business; if established business segments are no longer profitable during 2018, eliminate them. Last, adhere to the age-old advice of "cash is king;" ensure you have sufficient operating capital entering 2019 to withstand a mild macroeconomic recession.

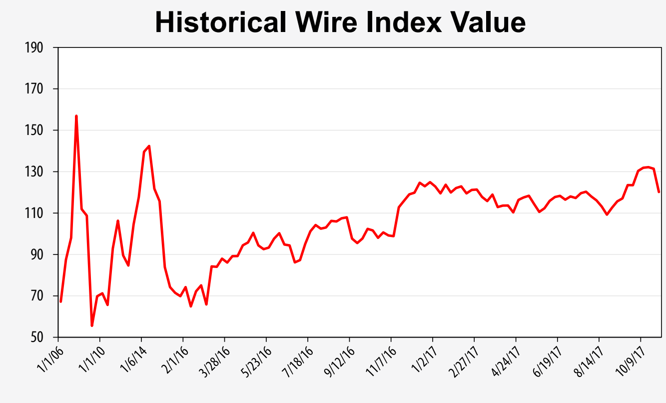
Decline in 2019 will be brief and mild, but still holds the potential for risk. Expansion in the macroeconomy in 2018 will provide the opportunities your business needs to minimize the effects of the anticipated mild recession. Take advantage of the current favorable economic environment to grow your business, while also securing yourself for the subsequent decline.

*Source - IEWC contracts the services of a third party consultant to provide current insights on the economy.

WIRE INDEX

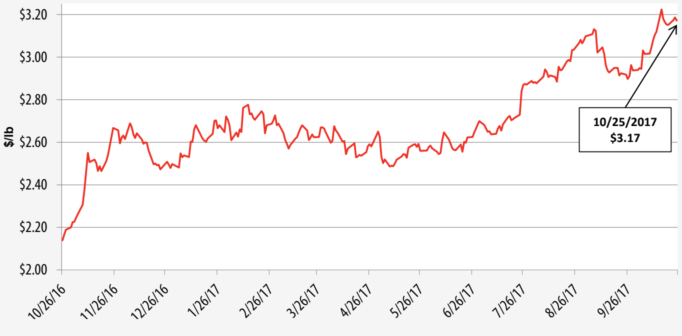
The Wire Index increased by 3.9% since the beginning of September. It is now down 2.2% year-to-date, and up 19.4% over the past 12 months. Both Anixter and Houston Wire & Cable experienced stock price decreases since the beginning of September. Meanwhile, General Cable is up 24.2% over the same time frame.

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 2.4% since the beginning of September and sit at $3.17/pound as of 10/25/17. For the year, Comex Copper is up 27.8%. It is up 48.7% over the last 12 months.



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GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA The US economy, as measured by Industrial Production, is growing. Average annual US Industrial Production was up 0.8% in August. Accelerating growth trends in the manufacturing sector *(up 1.0% year over year)* and the mining sector *(up 1.6%)* are contributing to the accelerating growth trend in US Industrial Production. However, US Electric and Gas Utilities Production is contracting *(down 0.6%)* and is expected to decline further in the coming months. Year-over-year rise in US Utilities Production will return by early 2018. Leading indicator evidence generally suggests that US Industrial Production will accelerate into early 2018. However, plan for a slower pace of growth in 2018 as a whole *(1.1%)* than in 2017 *(2.2%)*, particularly in the second half of the year. Declining savings rates corroborate an expectation of mild decline in 2019 Industrial Production. Expect Production to finish 2019 down 1.2% from the 2018 level.

US macroeconomic growth is having a positive impact on US Wholesale Trade of Electrical and Electronic Goods. The most recent 12 months of Wholesale Trade totaled $576.4 billion, a 4.9% increase from the year-ago level. However, nascent decline in the quarterly growth rate for Wholesale Trade signals that a period of slowing growth may be on the horizon. Avoid the temptation to assume that your 2018 and 2019 results will benefit from as strong of a macroeconomy as we are experiencing in 2017 if your business moves in tandem with the macroeconomy through cyclical highs and lows.

Average Canada Industrial Production during the 12 months through July was up 4.8% compared to the year prior (most recent data). Industrial Production is expected to rise into early 2019, albeit at a slowing pace of growth beginning in 2018. The current 4.8% annual growth rate in Canada Industrial Production is well above the five-year average of 1.1% as higher commodity prices in 2017 relative to their 2016 level support growth in Canada Mining and Oil & Gas Extraction Production, up 8.9% from one year ago. Canada Utilities Production *(up 3.6%)* and Canada Manufacturing Production *(up 2.4%)* are also in accelerating growth trends, although the rate of growth in these sectors is less robust than in the Canadian mining sector.

Average annual Mexico Industrial Production was down 0.4% compared to the previous year as of July (most recent data). Expect Industrial Production to transition to a rising trend by year-end 2017, with subsequent rise extending into the third quarter of 2018. Mexico Nonresidential Construction is accelerating *(up 3.2% year over year)*. However, decline in the quarterly rate of growth indicates a slowing growth trend is on the horizon. Despite the potential for slowing growth to take hold in the near term, Nonresidential Construction will likely yield growth opportunities moving into 2018. Similarly, Mexico Light Vehicle Production is up 11.0% year over year, but the pace of growth is slowing. However, Mexico Light Vehicle Production is outpacing that of Canada and the US *(down 5.0% and 4.6%, respectively)*. Look for opportunities in the Mexican automotive market during at least the near term while Canada and the US contract.

SOUTH AMERICA South American economies are beginning to benefit from the positive effects of relatively higher commodity prices and increased demand for exports as World Industrial Production accelerates. South America Industrial Production during the 12 months through June was down 1.6% compared to the year-ago level (most recent data). The annual average Industrial Production trends for Argentina, Brazil, Chile, and Peru are rising. However, Argentina, Brazil, and Chile Industrial Production remain below their respective year-ago levels. Brazil is expected to make an imminent transition to an accelerating growth trend. Rising Brazil Exports *(up 13.2%)* will contribute to upward momentum for Industrial Production. However, Production will not reach levels seen prior to 2015 during at least the next two years.

GLOBAL ECONOMIC OVERVIEW

EUROPE Average Europe Industrial Production during the 12 months through July was 2.3% above the previous year. Expect Industrial Production to rise into mid-2018. The rate of growth in Eastern Europe Industrial Production *(up 4.6% during the 12 most recent months)* is more than double the pace of growth in Western Europe Industrial Production *(up 1.7%)*. Expect better near-term macroeconomic conditions in countries such as Poland *(Industrial Production up 4.5%)*, Germany *(up 2.1%)*, and the Czech Republic *(up 5.0%)*. These countries are enjoying higher rates of Industrial Production growth than countries such as France *(up 0.8%)*, the UK *(up 1.0%)*, and Ukraine *(up 1.0%)*.

ASIA Average Southeast Asia Industrial Production during the 12 months through July was 3.5% above the year-ago level. Industrial Production is expected to generally rise into late 2018. Industrial Production indicators for most countries within the region are expanding. One notable exception is Hong Kong Industrial Production, which is 0.2% below the year-ago level (year-over-year basis). Hong Kong Retail Sales are down 2.2% year over year, likely contributing to the stagnation in annual average Hong Kong Industrial Production. Average China Industrial Production during the 12 months through August was up 6.6% year over year. China Automobile Production totaled 29.1 million units in the 12 months through August. Production is up 10.1% year over year. Expansion in the auto industry will provide upward momentum for the industrial sector. Increasing global demand for steel is supporting China Steel Production *(up 5.2%)* as higher Steel Prices during 2017 (relative to 2016) incentivize increased Steel Production. Japan Industrial Production was up 4.1% in the 12 months through August. Industrial Production will rise through 2018 before subsequently declining in the majority of 2019. Decline in the Japan Purchasing Managers Index rate-of-change is consistent with an expectation of generally slowing growth in Production during 2018. Average India Industrial Production for the 12 months through August was 3.1% 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 3.3% compared to the year-ago level. Expect Oil Prices to average around $50 per barrel into at least the third quarter of 2018. Expect limited upside to most oil-dependent economies in the region as a result.

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CURRENCY TRENDS

	Current Value of $1USD	Change Since 1/1/2017	Change Since 9/1/2016
Brazilian Real	0.33	-2.92	-2.93
Canadian Dollar	1.29	-0.05	-0.02
Chinese RMB	6.65	-0.29	-0.02
Euro	0.86	-0.09	-0.03
Mexican Peso	19.24	-1.49	-0.14
Pound Sterling	0.76	-0.05	-0.01

Current values as of 10/27/2017

BY THE NUMBERS (US)

Conference Board Consumer Confidence Index
119.8%

September (2017) Unemployment
4.2%

Retail Sales (August to September)
+1.7%

Mfg.'s New Orders for Durable Goods (July to August)
+1.7%

Mfg.'s Shipments of Durable Goods (July to August)
+0.3%

Durable Goods Mfg.'s Inventories (July to August)
+0.3%

CPI Inflation (over prev. 12 months)
+0.5%

US Industrial Production Index (over prev. 12 months)
+0.3%

Purchasing Managers Index (September)
60.8%