

Interpreting Tariffs and Stock Market Movement

After steadily climbing through late January, US stock prices have stumbled in recent months. As of the writing of this article, the recent decline in the Dow and S&P 500 tied, in part, to escalating tensions around the President’s tariffs imposed on Chinese goods and the subsequent response from China. After the President announced the \$3 billion tariffs on Chinese goods in March, China announced that they would impose a reciprocal \$3 billion tariff on US goods. This ratcheted up to an additional \$50 billion on imports of Chinese goods, which China reciprocated with an additional \$50 billion on imports of US goods. Since then, the President has asked for an additional \$100 billion in tariffs on Chinese products.

The Relative Importance of the Stock Market as a Leading Indicator

Stock market participants attributed declines in US equities to this fledgling trade dispute. However, business owners should be cautious of placing too much emphasis on stock market movements when planning for the future. While the stock market gives some indication as to the direction of corporate profits, the volatility can result in false signals that disrupt business planning. Leading indicators such as the ISM’s Purchasing Managers’ Index (PMI®) or the US Savings Rate give a much longer outlook for the macro economy, while indicators such as the Conference Board’s US Leading Indicator or the OECD’s US Leading Indicator are much less volatile leading indicators than the stock market. If your business runs cyclically with the macro economy, ensure you track a variety of leading indicators and avoid ascribing too much importance to the day-to-day volatility within the stock market.

Declining US stock prices could be a signal that the US macro economy will transition to the back side of the business cycle this year. It is also consistent with disappointing fourth-quarter US corporate profits data for domestic nonfinancial industries, which showed fourth-quarter profits were 9.5% below the fourth quarter of 2016. However, stock prices and corporate profitability are just a few pieces of the economic puzzle. There are now at least a dozen leading indicators and metrics that suggest 2019 will be a weaker year for the US economy than 2018, including the PMI, US savings as a percent of disposable personal income, the OECD US Leading Indicator, and the US Small Business Optimism Index, to name a few. Most of these indicators started to turn over in 2017, which gives businesses a more advanced signal of the upcoming period of slowing economic growth than the recent disruption in the stock market. The US PMI, JP Morgan Global PMI, OECD US Leading Indicator, US corporate profits, and the rates-of-change for the S&P 500 are in general agreement regarding the likelihood of slowing growth in US industrial production by late 2018, with subsequent mild decline in 2019.

Escalating Tariff Tension

The recent tariff dispute between the US and China has other implications for the economy as we progress through 2018. China’s proposed list of goods on which to impose 25% tariffs includes several of the top 10 largest exports from the US to China. See the [March issue of Hot Wire for our in-depth examination](#) of possible economic consequences including price increases, decreased profitability, and downward stock market corrections.

Prepare for Slowing Growth

The stock market reaction to recent trade policy changes is not insignificant, but declining US stock prices are not an isolated signal for the upcoming period of slowing growth and subsequent mild decline in US industrial production. Leading indicator evidence tells us that slowing growth will take hold in late 2018. Businesses that are involved in any of the industries affected by the proposed tariffs will likely need to consider price increases this year. However, profit margin erosion may still occur. This is normal when you are forced to pay higher prices because of the basic laws of supply and demand. Devise strategies and tactics for passing along the price increases to consumers as fast as possible and ensure your budget reflects the likelihood of a mild decline in US industrial sector activity next year.



Need Rugged, Quality Connectivity?

Standard & Custom J-1939 CAN-Bus Cables from Champlain & IEWC

J-1939 CAN-bus cables ensure constant, reliable communication between multiple vehicle data systems. Champlain Cable and IEWC have partnered to stock a variety of high quality J-1939 cables.

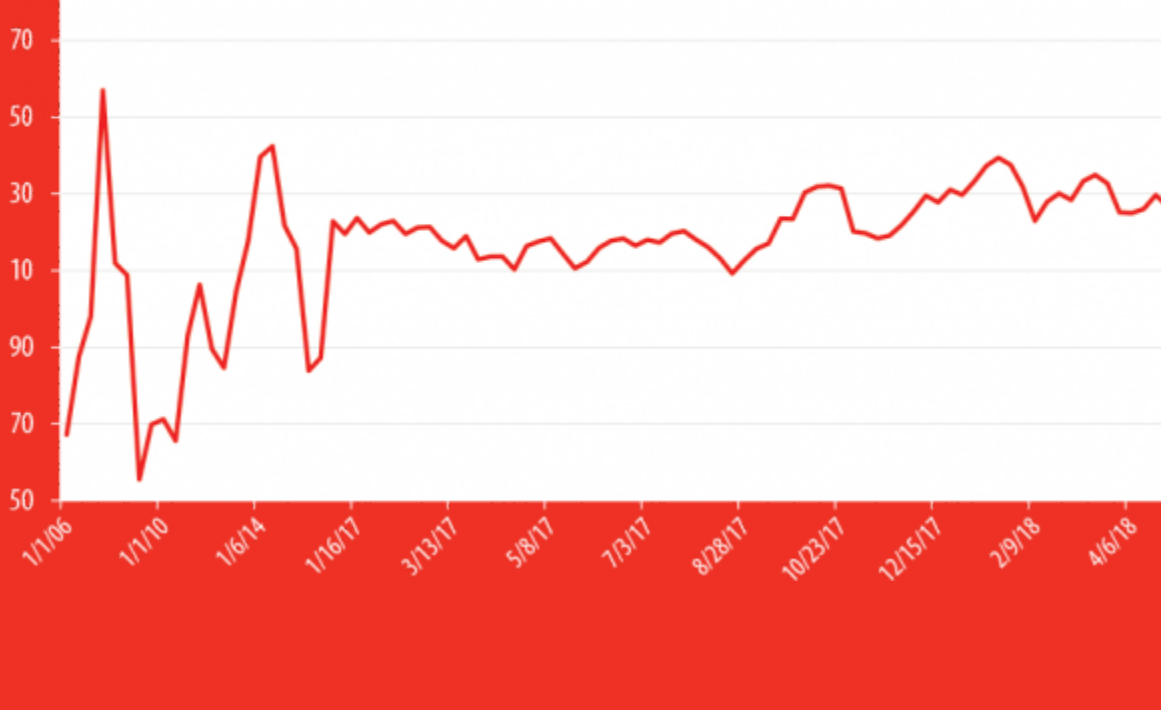
Champlain’s 20 years of CAN-bus design and production experience make them an industry leader. J-1939 cables feature irradiated primaries and jackets, making them some of the toughest and longest-lasting cables on the market. They also meet or exceed impedance, return loss, and attenuation requirements of the network system.



WIRE INDEX

The Wire Index has decreased by 5.0% since the beginning of the year and since the beginning of March. It is now up 8.9% over the past 12 months. Houston Wire & Cable increased by 8.8% since the beginning of March and Encore Wire increased by 4.9% over the same period. Belden’s stock priced decreased by 8.8% in 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. The Wire Index has five publicly traded wire and cable manufacturers and distributors.



COPPER FUTURES

Comex copper prices increased by 1.3% since the beginning of March and sit at \$3.14/pound as of 4/24/18. Year to date, copper is down 3.6% but is up 21.6% over the last 12 months.



BY THE NUMBERS

128.7%

Conference Board Consumer Confidence Index

4.1%

March (2018)
Unemployment

0.6%

Retail Sales
(February to March)

2.6%

Mfg.’s New Orders for Durable Goods
(February to March)

0.3%

Mfg.’s Shipments of Durable Goods
(February to March)

0.1%

Durable Goods Mfg.’s Inventories
(February to March)

-0.1%

CPI Inflation
(over prev. 12 months)

4.4%

US Industrial Production Index
(over prev. 12 months)

59.3%

Purchasing Managers Index
(March)

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

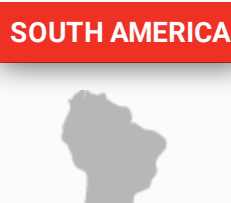


The US economy maintained an accelerating pace of rise into the first quarter of 2018, with February US industrial production up 2.3% on a year over year basis. Expect US industrial production to accelerate into the third quarter of 2018 before transitioning to a slowing growth trend late in the year. The manufacturing, mining, and utilities components are all expanding. US real gross domestic product and US nondefense capital goods new orders will also grow at accelerating rates into the middle of 2018. Growing demand from abroad is contributing to rising production. Exports are expanding at a generally accelerating pace, up 6.1% from one year ago as they benefit from a weakening US dollar and an accelerating growth trend in world industrial production. US industrial production is expected to decline in 2019. However, expect the upcoming recession to be mild; focus on retaining key employees to mitigate hiring and training costs when the business cycle recovers in 2020.

Business cycle rise in retail sales through February 2018 is further good news for the economy. Retail sales during the 12 months through February were up 4.4% year over year. Expansion on the consumer and industrial sides of the US economy is boosting the US electronic goods and electronics sector, US wholesale trade of electrical and electronic goods is up 8.4% on a year-over-year basis.

Canada industrial production during the 12 months through January was up 5.0% from last year. Decline in the Canadian leading indicator rate-of-change suggests that industrial production will grow at a slowing pace into at least early 2019. Canada nondurable goods new orders are declining in their ascent and will place downward pressure on industrial production in at least the next one to two quarters. Mexico industrial production is down 0.3% year over year. Mexico exports (*up 10.0% year over year*) and Mexico light vehicle production (*up 12.6%*) are two sectors withstanding the contraction in the macroeconomy. Look to these segments for areas of opportunity in at least the near term.

SOUTH AMERICA



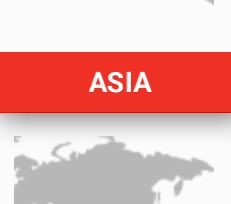
South America industrial production was up 1.2% on a year-over-year basis. Within the region, Argentina industrial production, Chile industrial production, and Brazil industrial production are rising at accelerating rates. Conversely, Colombia industrial production and Peru industrial production are slightly below their respective year-ago levels. Nascent decline in the Brazil Purchasing Managers Index and Brazil manufacturing capacity utilization rate monthly growth rates suggests that slowing growth may take hold in the region’s largest economy by the middle of 2018.

EUROPE



Average Europe industrial production during the 12 months through January was up 3.4% from one year ago. Production will rise through 2018, albeit likely at a slowing pace during the second half of the year. Production will then decline in 2019. The consumer sector of the European economy is the accelerating, up 4.0% year over year as measured by retail sales. Leading indicator evidence, such as the European Economic Sentiment Index, corroborates expectations for the European economy to transition to a slowing growth trend in the middle of 2018.

ASIA



China industrial production during the 12 months through February was up 6.6% from one year ago. The production quarterly growth rate (most recent three months relative to the same three months one year ago) is generally declining, signaling that slowing growth in the world’s second-largest economy is likely in 2018. This slowing growth expectation is corroborated by the trend in the China Purchasing Managers Index monthly growth rate. China’s residential construction sector is outpacing the nonresidential construction sector. China floor space of residential buildings started is up 12.5% while nonresidential buildings started are down 1.2%. Opportunities in China’s nonresidential construction market are likely to become more limited in the coming months. The rate of growth in the residential sector is likely to slow in the near term, but residential will still be a stronger market than nonresidential. Southeast Asia industrial production is up 3.4% year over year. Singapore industrial production, up 11.4% year over year, is outpacing the industrial production indicators in the rest of the region.

MIDDLE EAST/AFRICA



Middle East and North Africa industrial production is up 1.6% compared to the year-ago level. Egypt industrial production (*up 23.0%*) and Saudi Arabia GDP (*up 5.9%*) are in accelerating growth trends.

CURRENCY TRENDS

| | Current Value of \$1USD | Change Year-to-Date | Change Last 12 Months |
|-----------------|-------------------------|---------------------|-----------------------|
| Brazilian Real | 3.51 | 0.20 | 0.35 |
| Canadian Dollar | 1.29 | 0.03 | -0.07 |
| Chinese RMB | 6.32 | -0.19 | -0.57 |
| Euro | 0.82 | -0.01 | -0.09 |
| Mexican Peso | 19.02 | -0.64 | 0.09 |
| Pound Sterling | 0.72 | -0.02 | -0.06 |

Current values as of 4/25/2017