hot wire March 2018
news and economic outlook for the wire and cable industry

IN THE SPOTLIGHT

The Anticipated Economic Impact of Steel and Aluminum Tariffs

Note: This analysis of US trade legislation is based on the economic merits of the policy itself, not the political party or politicians responsible for the legislation.

US President Donald Trump tweeted his latest thoughts recently on the rumored tariffs coming for steel and aluminum imports, apparently doubling down on his wish to see them come to fruition. The President announced at a conference with leading steel manufacturers that he is suggesting a 25% tariff on steel and a 10% tariff on aluminum. The application of tariffs is no doubt a response to foreign dumping of production into the US, but it is also a response to the commodity price downturn that hammered the US steel industry in 2015 and 2016 that left no raw material producers, domestic or global, unscathed. Steel industry leaders strongly support the President's proposal.

This announcement comes on the heels of import tariffs that were already imposed on washing machines and solar panels a few weeks ago. Some believe these protectionist moves pose a threat to consumers in through increased prices. Tariffs can provide short-term benefits to domestic providers of goods who have been dealing with dumping and, therefore, below-market pricing. However, importers of those goods will not see a benefit from tariffs and will have to maintain competitiveness with domestic providers through other means.

A Few Facts for Consideration

Domestic raw steel production in 2017 came in 5.8% above 2016, and the internal rates of change are suggesting more production gains ahead in the near term. Overall, steel production is up 36.2% from the September 2008 26-year low. Additionally, annual production in 2017 was higher than average annual production during the 2000s, the 1990s, and the 1980s.

The argument for tariffs as a means to protect jobs deserves examination. Annual employment in US steel mills averaged 169,000 individuals in 2017, the highest level since 1992 and up roughly 7.3% from 158,000 person annual average throughout the entire 1990s. For reference, average annual employment during the 27-year period from December 1990 through December 2017 is even lower, at 149,000. There are some heads of industry who have announced their concern that this tariff could negatively impact blue-collar workers. This is consistent with job losses seen in the solar panel industry after the 30% tariff imposed on imported solar panels. Only 14% of the 260,000 workers in the solar panel industry are in panel manufacturing, the remaining 86% work in installation. While tariffs may provide a boost for jobs on the raw production side of the steel and aluminum industries, there may be adverse effects on workers for whom steel and aluminum are input costs, such as the automotive industry.

Inflationary Risks

Protectionist tariffs may also create inflationary pressure. Inflation caused by these tariffs could affect the price of aluminum-canned foods and beverages you consume, the car you drive to work, the HVAC components heating and cooling your home, and countless other items we rely on for daily life. Inflation also means the Federal Reserve feels justified increasing interest rates, which increases the cost of doing business in a broader sense than just the cost of steel and aluminum. The macroeconomic challenge will be how the US consumer at large handles increased pricing pressures while nominal wage growth hovers near 3.0%. Prepare for the likelihood of higher prices and determine best to deal with likely cost increases.

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.

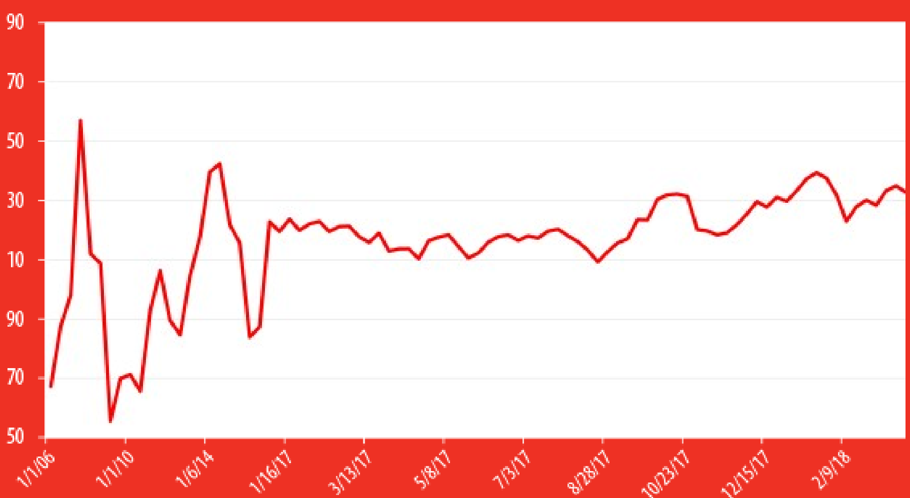
Shop J-1939 Cables Now

CHAMPLAIN CABLE

WIRE INDEX

The Wire Index decreased by 2.4% since the beginning of the year. It is now up 7.4% over the past 12 months. The main driver of the decrease was a Belden stock price decrease of 11.3%. All other tracked companies had stock price increases, led by Encore Wire's 10.5% increase.

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 decreased by 1.8% since the beginning of January and sit at $3.20/pound as of 2/27/18. Prices are up 18.9% over the last 12 months.

BY THE NUMBERS

130.8%
Conference Board Consumer Confidence Index

4.1%
February (2018) Unemployment

-0.1%
Retail Sales (January to February)

-3.7%
Mfg.'s New Orders for Durable Goods (November to December)

+0.2%
Mfg.'s Shipments of Durable Goods (November to December)

+0.3%
Durable Goods Mfg.'s Inventories (November to December)

+0.2%
CPI Inflation (over prev. 12 months)

+4.3%
US Industrial Production Index (over prev. 12 months)

60.8%
Purchasing Managers Index (January)

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

The US economy is growing. Average US industrial production during the 12 months through January was up 2.2% compared to one year ago. Leading indicators suggest that US industrial production could reach a business cycle peak in the middle of 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 mid-2018. Business cycle rise in retail sales through February 2018 is further good news for the economy, with retail sales for the 12 months through February 2018 4.4% higher than one year ago. Accelerating growth will persist into mid-2018 for US total retail sales. US industrial production will transition to the back side of the business cycle by the second half of 2018 with further slowing growth and eventual contraction expected in 2019. However, expect the upcoming recession to be mild; focus on retaining your key employees to mitigate hiring and training costs when the business cycle swings upward in 2020.

Canada industrial production is expanding at an accelerating pace, up 5.1% year over year. General decline in the Canada Purchasing Managers Index monthly rate of change suggests that Canada industrial production growth will begin slowing in the first half of 2018. Canada electrical equipment manufacturing production is recovering, down 2.5% year over year. In contrast to US industrial production and Canada industrial production, Mexico industrial production is contracting. Mexico industrial production during the 12 months through December is down 0.6% from the year-ago level. Rise in the Mexico leading indicator suggests industrial production will transition to a recovery trend by mid-2018. Rising Mexico light vehicle production *(up 12.9% year over year)* may provide growth opportunities through at least the next one to two quarters.

SOUTH AMERICA

South America industrial production during the 12 months through November was up 1.2% from last year. Within the region, Argentina and Brazil industrial production are in accelerating growth trends (up 1.5% and 2.7% year over year, respectively). Growth in these countries is mitigating decline in Colombia and Peru. However, leading indicator evidence suggests slowing growth is on the horizon for both Argentina and Brazil industrial production. Decline in the Argentina industrial production quarterly rate of growth suggests a transition to slowing growth is imminent. Brazil industrial production is also expected to transition to a decelerating pace of rise in the first half of 2018, as suggested by the tentative decline in the monthly growth rates of the Brazil Purchasing Managers Index and the Brazil manufacturing capacity utilization rate.

EUROPE

The European economy, as measured by industrial production, is expected to rise through late 2018, though the pace of rise may be slower relative to last year. Europe industrial production is up 3.2% from last year (annual average basis). The consumer sector of the European economy is accelerating upward as well (up 4.2% year over year, as measured by retail sales). Leading indicator evidence, such as the Europe Economic Sentiment Index, corroborates expectations for the European economy to rise at an accelerating pace through early 2018 before slowing growth takes hold in the second half of the year.

ASIA

Average China industrial production during the 12 months through December was up 6.6% from last year. Slowing growth in several China indicators, including China power generation, China automobile production, and China railway freight carried, suggests that China industrial production will grow at a slowing pace in at least the near term. Decline in the China Purchasing Managers' Index monthly growth rate suggests that the slowing growth trend in China industrial production will extend into at least the second half of 2018. Plan for production to grow at a slowing pace throughout 2018 into late 2019.

Japan industrial production was up 4.7% from one year ago. Decline in the quarterly rate of growth signals that Industrial production will transition to a slowing growth trend within the first half of 2018. India industrial production was up 3.9% compared to last year and tentatively transitioned to an accelerating growth trend. Expect the ensuing accelerating growth trend to extend into late 2018.

MIDDLE EAST/AFRICA

Average Middle East and North Africa industrial production during the 12 months through December was up 1.6% compared to last year. The pace of growth is slowing. The recent rise in crude oil futures prices, which ended February averaging $62.26, bodes well for further growth in the region in at least the near term.

CURRENCY TRENDS

	Current Value of $1USD	Change Since 1/1/2017	Change Since 9/1/2016
Brazilian Real	3.28	-0.03	-0.20
Canadian Dollar	1.30	0.04	-0.03
Chinese RMB	6.32	-0.19	-0.57
Euro	0.82	-0.01	-0.11
Mexican Peso	18.59	-1.07	-0.51
Pound Sterling	0.71	-0.03	-0.09

Current values as of 9/25/2017

IEWC GLOBAL SOLUTIONS