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

IN THE SPOTLIGHT

Freight Costs Keep On Truckin' Upward

The growth in world industrial production and the implementation of tariffs are putting upward pressure on inflation. The July US Producer Price Index (PPI) increased 4.2% (and 9.2% for nonferrous wire and cable) from the July 2017 level. However, while inflation is far from a one-size-fits-all number, one component that impacts virtually all businesses is the rising cost of transporting goods by truck. No matter what you buy or sell, there is a good chance it will be transported by truck at some point. American Trucking Associations estimates that trucks transport 71% of US freight by weight. This article will examine trends in trucking freight as well as reasons behind the rise in cost of shipping items by truck.

The average rate per mile (excluding fuel) charged by dry van trailers rose from $1.666 per mile in May 2017 to $1.810 one year later, an 8.6% increase. This is a record high monthly average cost, and the pace of growth is the highest in more than six years. Taking the fuel surcharge into account, even given today's relatively modest prices at the pump, we are still reaching record-high trucking costs; the total-charge rate per mile rose from $1.906 in May 2017 to $2.160 in May 2018, an increase of 13.3%.

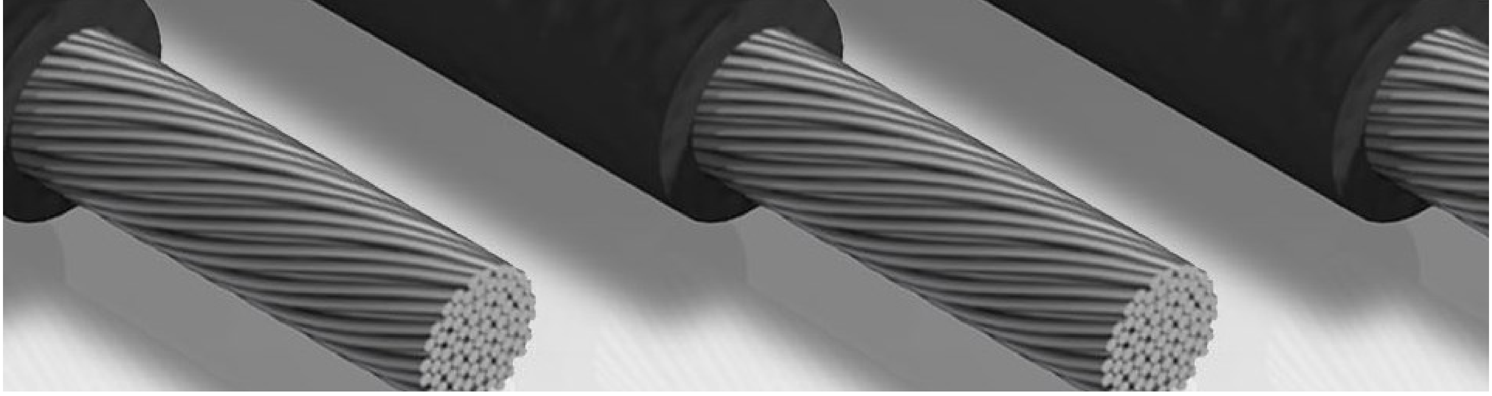
Supply & Demand Pushing Prices Higher

The reason for the rise in costs stems from issues on both the demand side and the supply side. On the demand side, the story is straightforward: US and global economies are doing well, and growing economies require transportation of more items and consumption of more commodities such as oil, pushing up prices at the pump as well. The problem is that both the supply of truckers and the supply of oil relative to demand have tightened, which is leading to rising trucking costs as well as rising prices at the pump. The annual average US ATA Truck Tonnage Index reached a record high in June and was up 7.2% from one year ago. This is the fastest pace of growth since 1999. Meanwhile, Employment of Long Distance General Freight Trucking is up a modest 0.7% year over year, an insufficient rate to keep pace with demand. The story at the pump is similar. Prices in 2018 were higher than 2017 -- which were in turn higher than in 2016 -- due to a tightening supply-demand gap. In the second quarter of 2016, oil was oversupplied by 1.2 million barrels; that number was 0.3 million in 2017. In the second quarter of 2018, the market was undersupplied by 0.2 million barrels.

How to Mitigate Increases

These factors make it clear that firms will need to budget for increased freight costs during the near term if they transport by truck. Look for innovative ways to manage logistics and limit cost increases, such as consolidating to ship from your vendors only once per week. If you are not already shipping on a calendar day, this is a way to disperse freight cost over larger volumes and can help to drive down your overall cost per pound expenditure. Another option to look into is having vendors like IEWC manage shipments using their freight programs. As a distributor, IEWC receives deep discounts from carriers due to the volume of shipments sent out each year. Reach out to your sales rep if you are interested in having IEWC provide a comparison of the cost of us prepaying your shipments using our contracted pricing, and breaking it out as a line item on the invoice.

Firms will need to be creative in combating cost increases -- by increasing efficiencies and/or passing along costs to customers -- or risk margin squeeze. Review your business operations for inefficiencies and utilize data to clearly articulate to customers why you are raising prices.



Alternatives to 200°C UL/CSA Fluorinated Ethylene Propylene (FEP) Wires

FEP-insulated lead wire (commonly known by the brand name Teflon®) has been used in many applications for over 50 years. While it is a very useful material for insulating lead wire due to its outstanding physical attributes, this performance comes at a cost.

So what are your options if your application doesn't need such a wide performance range? What other options offer similar size and functionality in a UL/CSA recognized wire?

Read more

Courtesy of CHAMPLAIN CABLE

WIRE INDEX

The Wire Index increased in July and August by 12.7% and is now at 103.1. The increase was primarily the result of Belden's stock price increasing by 17.8% and Anixter's price increasing by 11.2% since the beginning of July. Due to the removal of General Cable, the Index is still down 23% YTD and down 6% over the past twelve months.

The Index tracks the weighted stock price of four 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 includes four publicly traded wire and cable manufacturers and distributors.

COPPER FUTURES

Comex Copper prices fell again in July and August. As of August 24, the price stands at $2.70, which is down 7.9% since the beginning of July. Comex Copper is down 17% year-to-date and down 11% over the last twelve months.

BY THE NUMBERS

127.4%
Conference Board Consumer

3.9%
July 2018

0.4%
Retail Sales

Confidence Index

Unemployment

(June to July)

-1.7%
Mfr's New Orders for Durable Goods
(May to June)

-0.2%
Mfr's Shipments of Durable Goods
(May to June)

1.3%
Durable Goods Mfr's Inventories
(May to June)

0.2%
CPI Inflation
(over prev. 12 months)

4.2%
US Industrial Production Index
(over prev. 12 months)

58.1%
Purchasing Managers Index
(July)

GLOBAL ECONOMIC OVERVIEW

World Industrial Production was up 3.8% year over year in May, the latest month for which data was available. That's more than a full percentage point above the 20-year average of 2.7%. However, rate-of-change descent in leading indicators such as the JP Morgan Global Purchasing Managers Index, the OECD's G7 Leading Indicator, and the Wilshire Total Market Cap signal that Production will end the year in a slowing growth trend. When conducting your 2019 budgeting, ask yourself if you are able to operate profitably given the likelihood of a slower pace of growth in most developing countries and mild recession in many industrialized countries next year. Firms that are right-sized and offer plentiful options for budget-conscientious customers in 2019 are likely to outperform those that over-expand at the top of the business cycle and neglect to offer such products.

NORTH AMERICA

Average US Industrial Production during the 12 months through July was up 3.2% from one year ago, the fastest pace of growth in nearly seven years. Annual average Production reached a record high level; the US industrial sector's recovery from the Great Recession is complete. All three components of US Industrial Production are growing at accelerating rates, led by US Mining Production (up 10.6% year over year). US Utilities Production was up 2.8%, and US Manufacturing Production was up 2.2%, but the quarterly rates-of-change for these components have edged down in recent months, signaling slowing growth ahead. A number of US leading indicators—including the rates-of-change for the ISM's US Purchasing Managers Index and the US Total Industry Capacity Utilization Rate—are declining. The leading indicator evidence suggests that US Industrial Production will transition to a slowing growth trend around the fourth quarter of 2018; plan accordingly.

Canada Industrial Production tentatively transitioned to a slowing growth trend in May, the latest month for which data was available. Production was up 4.8% on a year-over-year basis. As with the US, Canada's mining sector is growing at a faster pace (up 7.0% year over year) than its utilities (up 3.8%) or manufacturing (up 3.4%) sectors. Canada Durable Goods New Orders are one industrial indicator still growing at an accelerating rate, up 5.0% on a year-over-year basis. Trends in the Canada Leading Indicator and the Canada Purchasing Managers Index suggest Canada Industrial Production will be on the back side of the business cycle (slowing growth or recession) into at least early 2019.

Annual average Mexico Industrial Production is rising from a tentative March 2018 low, although it remains 0.3% below the year-ago level as of June. Expect modest year-over-year growth for Production during 2018 as a whole, but avoid being overly optimistic about Mexico's prospects for 2019, as the rates-of-change for the Mexico Manufacturing Business Confidence Index (9-month lead time to Production) and the Mexico Purchasing Managers Index (12-month lead time to Production) are declining.

SOUTH AMERICA

South America industrial production was up 2.3% on a year-over-year basis through March. The quarterly rate-of-change edged down during the last two months, signaling that slowing growth will take hold around the third quarter of 2018. Annual average Brazil industrial production ticked down in May. Plan for further decline during the second half of 2018, as suggested by rate-of-change descent in the Brazil Purchasing Managers Index and the Brazil manufacturing capacity utilization rate. Industrial production in Argentina (up 3.2% year over year), Colombia (up 0.9%), and Chile (up 1.6%) were above their respective year-ago levels.

EUROPE

Average Europe Industrial Production during the 12 months through June was 3.4% above the year-ago level, but the pace of growth is slowing. The impact of tariffs on Europe's export-based economy is beginning to manifest. Europe Export Volume was up 3.6% year over year through June, down from a peak of 4.9% year-over-year growth established in November 2017. Leading indicator evidence suggests you should plan for slowing growth in Production through at least year-end 2018. Within the three largest

economies, Germany Industrial Production (up 3.1% year over year) and France Industrial Production (up 2.2%) are outpacing UK Industrial Production, which was up 1.7% year over year. Relatively higher growth rates are evident in Poland Industrial Production (up 6.8% year over year).

ASIA

Slowing growth characterizes the industrial sectors of much of the region's major economic powers, including China (Industrial Production up 6.3%), Japan (Industrial Production up 3.2%), and South Korea (Industrial Production up 1.2%). India Industrial Production, up 5.3% year over year, is an exception. The pace of growth is picking up, as Production is growing at the fastest rate in a year-and-a-half. The Philippines (up 5.0%) and Indonesia (up 5.8%) are also growing at accelerating rates.

One silver lining out of China is the China Railway Freight Carried quarterly growth rate, which has edged up in recent months; second-quarter Freight Carried was up 7.5% from one year ago. This metric is important to watch; in the previous business cycle, sharp rate-of-change descent in Freight Carried corresponded with a sharp drop in commodity prices, as reduced Freight Carried was indicative of a significant step-back within China's economy. The more stable conditions this time around are a positive sign, supporting an expectation for likely less severe commodity-price declines during the upcoming period of business-cycle decline.

MIDDLE EAST/AFRICA

Overall Middle East/North Africa Industrial Production was up 1.3% year over year, supported by higher oil prices in 2018 than in 2017. One notable performer in the region is Egypt, where Industrial Production was up 20.2% year over year. Conversely, Jordan Industrial Production is mired in a recession.

CURRENCY TRENDS

	Current Value of $1USD	Change Year-to-Date	Change Last 12 Months
Brazilian Real	4.10	0.79	0.96
Canadian Dollar	1.30	0.04	0.05
Chinese RMB	6.81	0.30	0.15
Euro	0.86	0.03	0.01
Mexican Peso	18.82	-0.84	1.11
Pound Sterling	0.78	0.04	0.00

Current values as of 8/24/2018

IEWC
GLOBAL SOLUTIONS