hot wire
Feb 2019
news and economic outlook for the wire and cable industry
IEWC GLOBAL SOLUTIONS

IN THE SPOTLIGHT

Inflation Expectations

US consumer prices in November were 2.2% higher than the November 2017 level and prices are expected to rise through 2019. However, the rate of inflation will slow through the majority of the year. A slowing in the rise of transportation prices will likely contribute to slowing inflation rates throughout the consumer sector by reducing shipping costs. While we are not expecting deflation during this cycle, consider ensuring that your budgets reflect slowing in the pace of rise for prices. If your costs decline, use this opportunity to improve margins, but ensure that your prices remain competitive.

On the production side, US producer prices in November were up 1.6% from the same month in 2017. Inflation will persist through at least 2019. However, the rate of rise has begun to slow, and we expect further slowing in the pace of rise for prices throughout 2019. Falling metal prices are contributing to slowing the pace of rise in prices. The US Iron and Steel Scrap Producer Price Index, up 11.6%, is above the year-ago level, but falling from a June 2018 peak. Meanwhile, the US Copper and Brass Mill Shapes Producer Price Index was down 8.0%, and lead prices were down 21.1%. Ensure that your prices remain competitive as some input costs fall.

READERS' FORUM

Do you expect long-term economic impact from the government shutdown?

The economists that IEWC consults with have not adjusted any of their outlooks based on the partial government shutdown. While they do not wish to minimize the real financial impact that the shutdown will have on federal employees, they do not expect a lasting impact on the economy as a whole. They have examined past US shutdowns, and the economy has maintained its business-cycle trend through every one of them. Standard & Poor's estimated that the 16-day shutdown in 2013 cost the US economy about $24 billion. While no small sum, it amounted to just 0.1% of GDP. The current shutdown has been the longest on record, so it is not unreasonable to expect an atypical impact, but there is no precedent for a shutdown leaving significant lasting economic damage.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales

- Up 5.2% during 12 months through November
- Expected to rise in 2019, with slowing pace through year
- Consumer Prices will rise at a diminishing rate in 2019, which will contribute to slowing pace of growth for Retail Sales

Rotary Rig

- Count during previous 12 months up 17.9%
- Rig count is rising at a slowing pace
- Oil rotary rig count (up 20.4%) is outpacing natural gas (up 11.0%), but growth in both is slowing

Wholesale Trade

- Wholesale Trade up 8.3% year-over-year
- Both durable & nondurable goods will grow at a slowing rate in 2019
- Wholesale trade unlikely to enter recession during this business cycle

Capital Goods

- Nondefense capital goods orders up 6.7% 12 mos. through October
- Defense capital goods new orders up 13.8%
- Both sector rates of growth to slow during next few quarters, with contraction expected in nondefense sector by the end of 2019

Auto Production

- N. America light vehicle production 1.2% below the year-ago level
- N. America heavy duty truck production up 22.9% year-over-year
- Both sectors likely to contract this year

Nonresidential Construction

- Nonresidential construction up 3.9% 12-months through November
- Growth is expected through much of the nonresidential sector this year
- Water & sewer facility construction market will likely be weak in 2019

Manufacturing

- Total manufacturing production up 2.6% from year-ago level
- Contraction likely through much of manufacturing sector in 2019
- Civilian aircraft equipment production and medical equipment and supplies production will likely be areas of opportunity in 2019

Residential construction

- Residential construction up 5.6% during previous 12 months
- Pace of growth for construction is diminishing
- Single-unit and multi-unit housing starts will likely contract in 2019

The Stalling Dragon: An Analysis of the Slowdown in the Chinese Industrial Economy

What you need to know: *The China industrial production slowdown will extend into late 2019 or early 2020.*

At approximately 15% of global gross domestic product (GDP), China is the world's second-largest economy and a notable contributor to the global economic engine. According to data from the World Bank, China produces and consumes nearly half of all global steel and aluminum, as well as a large share of many other commodities. China's manufacturing sector is the envy of many up-and-coming economies around the globe, including Brazil and India.

Relatively accessible and inexpensive labor as well as large-scale infrastructure development are among the factors that have allowed China to rise to such heights during the last 30 years. For various reasons, the advantages derived from these factors have been waning in more recent years, and the Chinese economy has decelerated over the past decade from a peak growth rate in the high teens.

However, the current headwinds for the Chinese industrial economy extend beyond the changes in the mega trends. The deceleration currently occurring in China is a cyclical trend that was already shaping up in the leading indicators prior to the US introducing tariffs on $250 billion worth of Chinese goods. In fact, the tariffs did not prevent, and may have even encouraged, a record high of $481.3 billion in Chinese exports to the US in the 12 months ending in November, a 12.3% increase over the previous 12 months.

China industrial production, a key benchmark for economic activity in the country, was 6.3% above the year-ago level for the 12 months ending in November. This marks the slowest pace of expansion in more than 20 months and represents a noticeable cooling from an early-2018 peak rate of growth. Furthermore, the month-over-month and quarter-over-quarter growth rates are even weaker, at 5.4% and 5.7%, respectively. These negative indicators signal that Chinese industrial growth will decelerate further in the months to come. The forecast for China industrial production calls for the slowdown to extend into late 2019 or early 2020, with the next cyclical low at around 5.2%, roughly a full 100 basis points below the current growth rate.

Other metrics also point to a slowdown in the Chinese industrial economy. Measured on a rolling quarter-over-quarter basis, China power generation is up just 5.8% for the three months ending in November compared to the same three months from the previous year. This is a notable slowdown relative to the 10.3% peak growth rate that occurred last February. China power generation leads China industrial production by six months, and points to further deceleration in the first half of 2019. In simple terms, slower growth in power generation suggests slower growth in industrial output.

China railway freight carried, which represents the movement of goods within the country, is also pointing to weaker economic conditions. For the 12 months through November, freight was up 6.2% compared to the same time last year, less than half the most recent growth-rate peak of 15.7% that occurred in September of 2017.

A body of evidence indicating that the Chinese industrial economy will slow further in the coming months has clearly emerged. Plan accordingly.

Copper & Aluminum Prices

US Copper futures prices during the three months through December averaged $2.69 per pound, a 14.1% decline from the same period one year ago. Prices have hovered near $2.70 per pound in recent months. The slowing pace of growth expected for the global economy during 2019 will likely keep prices near or below their current level.

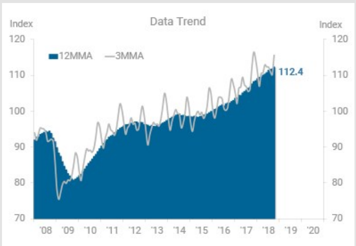
US aluminum futures prices during the three months through December averaged $1.92 per kilogram, 10.4% below the year-ago level. Our analysis suggests that prices are likely to decline further during at least the near term. Look to postpone purchases until later in the year when prices are expected to be lower.

GLOBAL DEEP-DIVE

Eastern Europe Industrial Production

Eastern Europe industrial production was up 4.4%% year over year as of the latest data through October. Poland industrial production (up 6.3%), Czech Republic industrial production (up 3.7%), and Hungary industrial production (up 3.1%) are all growing at a faster pace than any of the five major Western European economies. However, the pace of growth in these countries, as well as in both the Eastern region and overall Europe industrial production (up 2.5%), is slowing.

The takeaway here is twofold. First, you will need to be more selective in 2019 to find opportunities. Ask yourself what you can do -- to set your business apart, to enter new markets or new audiences of prospective customers, or to increase efficiencies -- so you can offset the effects of the slowing growth and subsequent mild recession we expect for Eastern Europe industrial production. The second takeaway is you must operate your business more conservatively at this juncture in the business cycle, so that your business can endure the period of business-cycle decline and subsequently capitalize on opportunities as the bottom of the business cycle forms around mid-2020.



Global Economic Outlook

	12-month Moving Avg	Chg. Over Prev. 12 Months	2019 YTD	2020 Projected	2021 Projected
Canada Industrial Production		3.0	0.5	0.2	2.8
Mexico Industrial Production Index		0.3	-0.4	2.4	0.6
Brazil Manufacturing and Mining Industrial Production Index		2.3	-1.0	2.8	0.7
Western Europe Industrial Production Index		1.9	-1.3	1.4	1.0
Eastern Europe Industrial Production Index		4.4	-1.3	4.3	3.2
India Industrial Production Index		6.2	3.3	5.5	4.5
China Industrial Production Index		6.3	5.2	6.1	5.9

Note: Forecast color represents market projection at end of year.
Accelerating growth Recovery Slowing growth Recession