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news and economic outlook for the wire and cable industry

IEWC GLOBAL SOLUTIONS

IN THE SPOTLIGHT

Tax Law Changes Extend Increase in US B2B Activity Longer Than Expected

New orders of US non-defense capital goods reached a record-high in August, which followed on the heels of an atypically strong July, the strongest on a month-to-month basis since 1988. This rising trend of new orders has persisted longer than in normal business cycles, due in part to the long recovery of commodity prices coming out of the last low business-cycle in the US industrial sector in 2016. Changes to US tax laws are likely contributing to this longer-than-anticipated rise in new orders.

However, the same tax-law-change boost that is encouraging business-to-business activity in 2018 makes it more likely that B2B activity in 2019 and possibly 2020 will show less-robust growth or mild contraction relative to 2018. Forecasts call for 7.4% growth in 2018 new orders as a whole. By comparison, 2019 new orders are expected to come in virtually even with the 2018 total (0.6% below), and 2020 new orders are expected to grow 4.4%. Tariffs pose a threat to the B2B sector and are a downside risk to this updated outlook.

How to Prepare for Slowing Growth

If your business depends on US B2B activity, enjoy the good times now, but avoid straight-line thinking and budgeting as you prepare for 2019. Increasingly keep an eye on your cash position as the calendar turns to 2019 and look to phase out marginal opportunities to preserve your profit margins.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales

- Up 5.5% during 12-months through August
- Growth will accelerate into early 2019, then slow
- Inflation driving up the dollar-denominated value

Rotary Rig

- Count during 12-months through September up 25.6%
- Rig count growth is slowing
- Oil prices to fall later this year, suggesting rig count will face downward pressure

Wholesale Trade

- Durable & nondurable goods growth accelerating
- Will rise in 2019 at a slower pace than in 2018
- Total wholesale trade will not enter recession this business cycle; some segments may contract

Capital Goods

- New orders during 12-months through August up 8.3%
- Activity to rise first half of 2019 before declining

Auto Production

- N. America light vehicle production down 3.2% 12-months through August
- Production will recover; any growth will be mild
- United States-Mexico-Canada Agreement may shift automotive activity into N. America, likely raising costs

Nonresidential Construction

- Nonresidential construction during 12-months through August up 1.9%
- Construction to rise into early 2020
- Warehouse buildings construction, up 21.6% YOY, is area of opportunity

Manufacturing

- Total manufacturing during 12-months through August up 2.3%
- Activity is above the year-ago level through much of manufacturing sector
- Contraction expected for majority of segments in 2019

Residential construction

- Residential construction during 12-months through August up 7.7%
- Construction growth is slowing
- Rising mortgage rates will discourage potential buyers, likely driving down housing purchases

Trade Deficit is Growing, but Determining Winners & Losers is Not Simple

At $846.477 billion, the US Trade Deficit with the rest of the world (goods only) is the highest it has been since the record was established about 10 years ago. The rates-of-change suggest today's trade imbalance will grow and likely challenge September 2008's record deficit of $855.207 billion. The current trade imbalance with China is at a record-high $397.2 billion, and the monthly deficit has been increasing during the last five months. So far, US tariffs have stanched neither the overall flow of goods from China, nor from the world at large into the US.

However, foreign retaliatory tariffs -- or a shift in the global business cycle -- are dulling US exports. It is too early to know conclusively which is the culprit.

The US has exported an impressive $1.640 trillion in goods to the rest of the world during the latest 12 months. That is 8.9% of US GDP -- a significant factor in the country's ability to grow. There is a slight slowing in the rate of rise for US exports, which is consistent with forecasts that call for a slowing rise for GDP quarterly percent change is at 8.9% and appears poised to downward pass the annual percent change. The data over the last three months highlights the deceleration trend: The May-to-June rise was mildest of the last four years, the July drop was the steepest of the last six years, and the August rise was the weakest of the last three years.

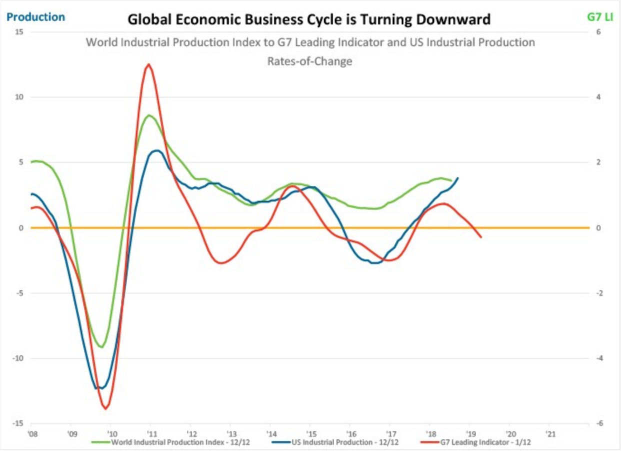
Some Particulars

The tariffs began with steel. Consequently, US steel exports are feeling more pain than US steel imports. Both are moving lower, but domestic exports are declining at faster.

US trading partners have been faring better than domestic exporters over the last three months, with the EU, Canada, and China all posting stronger numbers than the US.

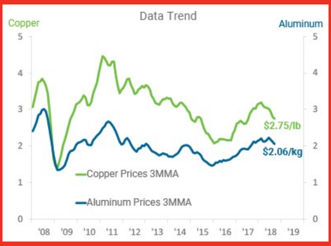
There are always winners and losers when it comes to tariffs and shifts in economic momentum. For now, US trading partners are winning in the sense that the country is continuing to import their goods into the US at a faster pace than it is exporting goods to them.

in 2019. Declining from a May 2018 high, exports



Copper & Aluminum Prices

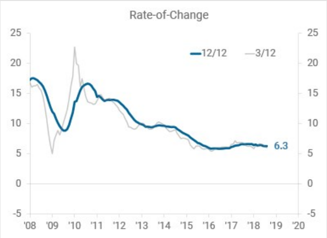
The most recent three months of US copper futures prices averaged $2.75 per pound, down 13.8% from a tentative three-month moving average peak of $3.19 in February 2018. Declining prices reflect the impact of a stronger US dollar and slowing growth in China, the world's largest consumer of copper. When these demand factors coincide with a three-year high in Chilean total copper production (the world's largest copper producer), the result is lower copper futures prices. The quarterly growth rate for the US Trade-Weighted Exchange Rate Index suggests the US copper futures prices annual growth rate is likely to decline further, at least into early 2019. US aluminum futures prices during the most recent three months averaged $2.06 per kilogram, a 7.6% decline from the tentative June 2018 peak of $2.23. Movement in Alcoa stock prices suggests aluminum futures prices will be on the back side of the business cycle into at least early 2019.

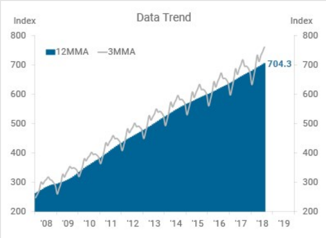


GLOBAL DEEP-DIVE

China Industrial Production

The world's second-largest economy is growing at a slowing place. Average production during the 12 months through August was up 6.3% from one year ago. The slowing growth trend is consistent with trends in other industrial-activity metrics such as China railway freight carried (up 6.2%) and the China production utilization rate (up 9.3%). The leading indicators associated with China industrial production are mixed; the China Purchasing Managers Index monthly growth rate suggests the slowing growth trend in Production is likely to extend into at least mid-2019, while the China Leading Indicator monthly growth rate suggests business cycle rise in production could take hold in early 2019. The China indicators that foreshadowed the 2015/2016 commodity price declines are showing more positivity in the current business cycle. Plan for slowing growth in China industrial production in 2019 and be conservative in your business dealings there during that time. However, expect any corresponding movements in commodity prices in 2019 to be more muted than they were in 2015 and 2016.





Global Economic Outlook

	12-month Moving Avg	Chg. Over Prev. 12 Months	2018 YTD	2019 Projected	2020 Projected
Canada Industrial Production		4.1	3.6	-1.2	2.5
Mexico Industrial Production Index		-0.1	1.7	-0.4	2.4
Brazil Manufacturing & Mining Industrial Production Index		3.1	2.2	-1.0	2.8
Western Europe Industrial Production Index		2.5	1.1	-1.3	1.4
Eastern Europe Industrial Production Index		5.0	3.5	-1.3	4.3
India Industrial Production Index		5.6	5.0	3.3	5.5
China Industrial Production Index		6.3	5.8	5.4	7.1

Note: Forecast color represents market projection at end of year.

Accelerating growth Recovery Slowing growth Recession

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