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

IN THE SPOTLIGHT

NAFTA 2.0: North American Businesses Await Resolution

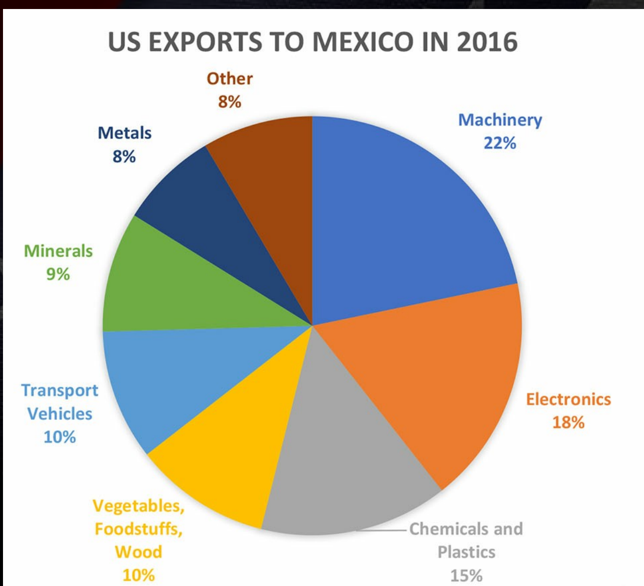
Since 1994, the North American Free Trade Agreement (NAFTA) has played a vital role in expanding trade between the US, Canada, and Mexico. NAFTA immediately eliminated tariffs on a large portion of goods, with many remaining tariffs phased out during the 14-year following. The reduction in tariffs and increase in competition is credited with mitigating price inflation, ultimately benefiting consumers. The agreement also reduced non-tariff barriers, established environmental and labor commissions, and increased protection of intellectual property. During the first 24 years of NAFTA US exports to Canada and Mexico increased 270.1% while American exports to rest of the world increased 215.9%, suggesting that the US export sector also benefited from NAFTA.

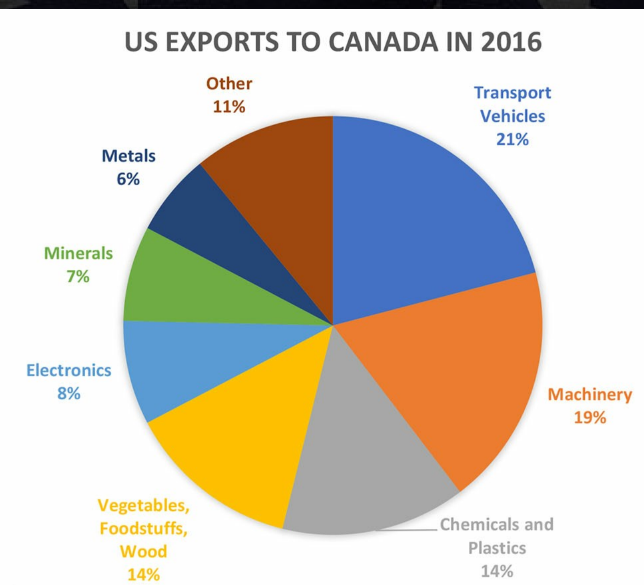
Any changes to NAFTA as it is renegotiated in 2018 could have significant consequences for the US economy, given the importance of regional trade. Canada and Mexico are the US' two largest export markets -- 18.2% and 16.0% respectively -- accounting for 34.2% of all exports based on data through July. Meanwhile, Mexico and Canada are also the US' second- and third-largest import partners, comprising 13.6% and 12.9% of total 2018 US imports, respectively.

Mexico's importance as a trading partner has increased significantly since NAFTA was enacted; trade with Mexico as a percentage of US exports and of imports has increased by 7.0 points and 6.7 points, respectively. Trade with Canada as a percentage of US exports and of imports has generally declined during that time, down 3.4% and 6.3%. If negotiations are ultimately unsuccessful, the negative impacts will be felt on all sides of the borders.

Many Markets at Risk

Many large US industries are impacted by North American trade relations. The following charts provide a quick glimpse at the primary US exports to Canada and Mexico by industry. Machinery, electronics, and transport vehicles accounted for approximately 48% of US exports to Canada and 50% of US exports to Mexico in 2016.





Failure to enact the USMCA could cause:

- Higher import prices
- Rising inflation
- Increasing inefficiencies that push end-markets downward

Successful enactment would likely:

- Reduce uncertainty among businesses
- Increase investment within industries with complex, cross-country supply chains (i.e., automotive industry)

NAFTA 2.0: United States-Mexico-Canada Agreement (USMCA)

The Mexican/US portion of the trade agreement was successfully renegotiated and announced on August 27, 2018. The primary sticking point between the two nations involving the automotive industry was ultimately worked out and the trade pact approved. Subsequent negotiations with Canada through September were successfully concluded on September 30 and "NAFTA 2.0," or the USMCA, was unveiled.

Canadian Challenges

Renegotiating Canada's portion of NAFTA was complicated by three key topics:

- Dairy importation: Canada currently maintains a quota on imports and imposes 270% tariffs on milk from the U.S.
- Chapter 19 in NAFTA: Ottawa wants to retain this dispute resolution mechanism. This re-negotiation clause allows the trade agreement to be updated and provides a mechanism to file complaints against other members for unfair trade practices including tariffs.
- Media importation: Canada wants to impose limits on U.S. media that favor domestically produced content. Canadians want to maintain a cultural protection clause that limits the quantity of American music, films, and television that can be brought into the Canadian market. Canada argues that these limits are necessary to preserve its unique culture.

All three parties want a written agreement presented to Congress by October 1 so that a deal can be reached by December 1. President Trump, Canadian Prime Minister Justin Trudeau, and Mexican President Enrique Peña Nieto must sign the agreement, which they plan to do before the end of November. However, the USMCA must still be ratified by all three governments. Both Canada and Mexico are expected pass the agreement, however the U.S. Congress likely won't consider it until 2019.

How might this impact IEWC customers?

Should Congress not approve the USMCA in its current form, ensuing trade disruptions or new protectionist policies could fuel inflation and inefficiencies as markets adapt to new rules. Although some specific groups could benefit from insulation from competition, they do so at the cost of the broader economy. For IEWC and its customers, most wire and cable products shipping from the US to Canada are duty-free regardless of NAFTA or USMCA, meaning that any change to current agreements will not affect customers. However, there are other products, such as cable ties, that could be subject to new 6.5% duties. Similarly, products from Canada to the U.S. might be dutiable at rates from 2 - 5.3%, depending on the item. We won't know until a conclusive resolution is announced, at which time IEWC will reach out to customers with updates and mitigation strategies if necessary.

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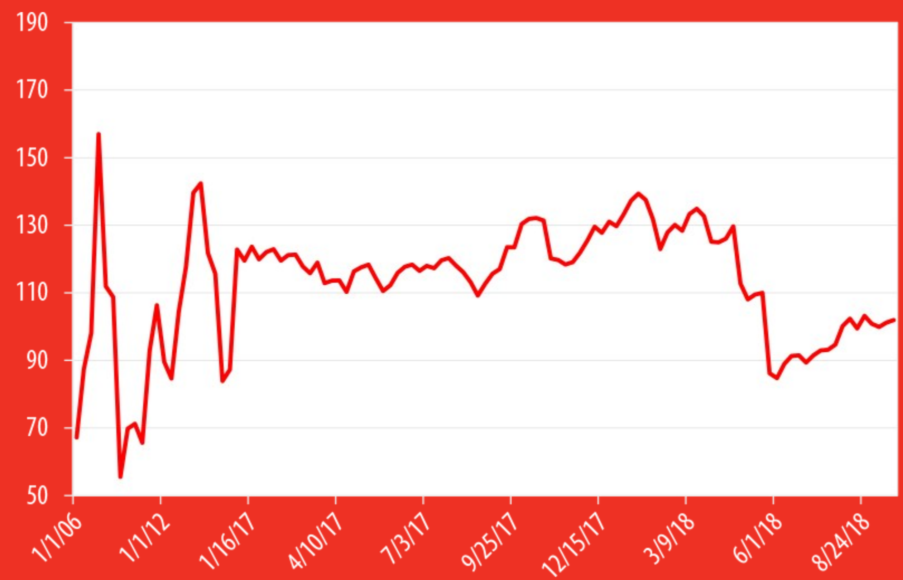
WIRE INDEX

The *Wire Index* increased slightly in August and September by 1.8% and is now at 101.9. The increase was primarily the result of increases at Belden (3.4%) and Anixter (2.6%) since the beginning of August. Due to the removal of General Cable, the Index is still down 23.5% YTD and down 17.4% over the past twelve months.

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* is comprised of four publicly traded wire and cable manufacturers and distributors.



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COPPER FUTURES

Comex Copper rebounded slightly August and the first part of September. As of September 24, the price stands at $2.82, which is up 3% since the beginning of August. Comex Copper is down 13.5% year-to-date and down 3.5% over the last twelve months.

BY THE NUMBERS

138.4% Conference Board Consumer Confidence Index	**3.9%** August 2018 Unemployment	**0.2%** Retail Sales (July to August)
-1.7% Mfr's New Orders for Durable Goods (June to July)	**-0.2%** Mfr's Shipments of Durable Goods (June to July)	**1.3%** Durable Goods Mfr's Inventories (June to July)
0.2% CPI Inflation (over prev. 12 months)	**4.8%** US Industrial Production Index (over prev. 12 months)	**53.1%** Purchasing Managers Index (August)

GLOBAL ECONOMIC OVERVIEW

World industrial production (up 3.8% year-over-year) growth is beginning to slow, as foreshadowed by movements in leading indicators such as the OECD Plus Six Non-member Economies Leading Indicator and the JPM Global Purchasing Managers Index monthly rates-of-change. The growth trend in industrial production indicators for many major economies has begun to slow including Canada, Brazil, China, Japan, and the European Union as a whole. Growth in US industrial production is expected to begin to slow by the end of the year. Leading indicators point to a slower pace of growth or mild recession for most major economies next year, so be cautious in considering straight-line budgeting as you plan for 2019.

NORTH AMERICA

Annual average US industrial production in August reached a record high, up 3.4% from the year-ago level. US business-to-business activity, as measured by US nondefense capital goods new orders (excluding aircraft), is rising at an accelerating pace, up 8.0% year-over-year with data through July. Tax law changes may be temporarily boosting capital expenditures. However, slowing growth in the US Business Confidence Index and rate-of-change descent in the monthly growth rate of the ISM's US Purchasing Managers Index (PMI®) suggest business-to-business activity growth will begin to slow by the end of the year. Furthermore, appreciation of the US dollar (trade-weighted) and recent tariffs may inhibit US export activity, hindering business-to-business activity and overall US industrial production. Plan for 2019 US industrial production to be 1.2% below the 2018 level.

The US Bureau of Economic Analysis recently updated its US personal savings data. Revised data suggests US consumers are in better shape to drive economic growth moving forward than was previously indicated; the annual average percentage of disposable income being saved has been generally rising since mid-2017, whereas the data previously indicated overt decline. This suggests consumers are better prepared to withstand rising consumer price inflation. US consumer markets such as US total retail sales will likely experience slowing growth next year, avoiding recession.

Canada industrial production during the 12 months through June is up 4.3% from the year-ago level. The pace of year-over-year rise is down one percentage point from the tentative April peak of 5.3%. The Canada Capacity Utilization Rate monthly growth rate is declining from a mid-2017 peak, suggesting the recent transition to slowing growth in industrial production is likely to hold, and rate-of-change descent in production will likely extend through at least the end of this year. Downward trajectories in the Canada leading indicator and Canada Purchasing Managers Index rates-of-change suggest industrial production will remain on the back side of the business cycle (slowing growth or recession) into at least early 2019. NAFTA renegotiations pose a potential downside risk to Canada's macroeconomy if negotiations stall and additional protectionist policies are enacted instead.

Average Mexico industrial production during the 12 months through June was down 0.3% from the prior year. However, Mexico imports and exports are both growing at a double-digit pace. The tentative trade agreement between the US and Mexico and expected growth in US industrial production bode well for Mexico industrial production through at least the end of the year. Upward momentum in the Mexico leading indicator suggests Mexico industrial production may rise above the year-ago level to close the year. Although growth in Mexico manufacturing production is slowing, at 2.1% growth, this sector will likely provide better near-term opportunities than mining or utilities production (down 8.0% and up 0.4%, respectively).

SOUTH AMERICA

Average Brazil industrial production during the 12 months through July was 3.2% above the year-ago level. The pace of growth peaked in April at 3.9% and has since generally edged downward. Lower Brazil manufacturing capacity utilization relative to the same time last year is indicative of further rate-of-change decent in Brazil industrial production in the near term. Argentina industrial production (up 3.2% year-over-year in May) has tentatively transitioned to a slowing growth trend, as indicated by the Argentina leading indicator. Industrial production in Chile is up 1.8% year-over-year, and chile's leading indicator suggests further accelerating growth is possible in the near term. Colombia (up 1.2% year-over-year) is trending counter-cyclically to several other South American countries and is currently in an accelerating growth trend. Trends in Colombia capacity utilization suggest this trend will persist for at least the next two quarters.

EUROPE

Western and Eastern European industrial production have both entered slowing growth trends, up 2.5% and 5.0% year-over-year, respectively. Leading indicators such as the Europe Business Confidence Index and Europe Manufacturing Purchasing Managers Index rates-of-change suggest Europe industrial production will remain on the back side of the business cycle (slowing growth or recession) for at least the next two quarters. Tentatively, of the 28 countries in the European Union, only Poland (up 6.8% year-over-year), Austria (up 6.0%), Luxembourg (up 4.9%), and Ireland (up 1.0%) are in accelerating growth trends. Plan for the pace of growth in Europe industrial production to slow through the end of the year.

ASIA

China industrial production is up 6.3% year-over-year, but the pace of growth is slowing. Negativity coming from China's mining sector, down 22.2% from the year-ago level, is likely due to environmental regulations. China's manufacturing sector is faring better, with manufacturing exports up 10.0% from one year ago. However, downward momentum in the China Production Utilization Rate growth rate, a six-month leading indicator, suggests further slowing growth ahead for China industrial production. Nascent rise in the China leading indicator rate-of-change suggests that we could see accelerating growth in production resume by year-end 2018. However, the imposition of US tariffs on Chinese exports tempers this optimism. Be conservative in your business dealings with China in late 2018 and early 2019.

Annual Japan industrial production was up 2.9% in July. The pace of growth has diminished since a peak of 4.5% in late 2017. Further downward momentum is suggested by Japan housing starts, which are down 3.5% from the year-ago level, and rate-of-change descent in the Japan Business Confidence Index. India industrial production is up 5.3% year-over-year, and the pace of growth is rising. Within Southeast Asia, industrial production in Thailand (up 4.3%) and the Philippines (up 6.5%) are rising at accelerating rates. Although the pace of growth is slowing, Singapore industrial production is rising at a double-digit pace (up 11.3%).

MIDDLE EAST/AFRICA

Annual average Middle East and North Africa industrial production was up 1.2% from the year-ago level in June. The pace of growth is generally slowing, as oil production in the region during the 12 months through May was 0.5% below the year-ago level.

CURRENCY TRENDS

	Current Value of $1USD	Change Year-to-Date	Change Last 12 Months
Brazilian Real	4.13	0.82	3.29
Canadian Dollar	1.29	0.03	0.06
Chinese RMB	6.87	0.36	0.28
Euro	0.85	0.02	0.01
Mexican Peso	19.00	-0.66	1.25
Pound Sterling	0.76	0.02	0.02

Current values as of 9/24/2018

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