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

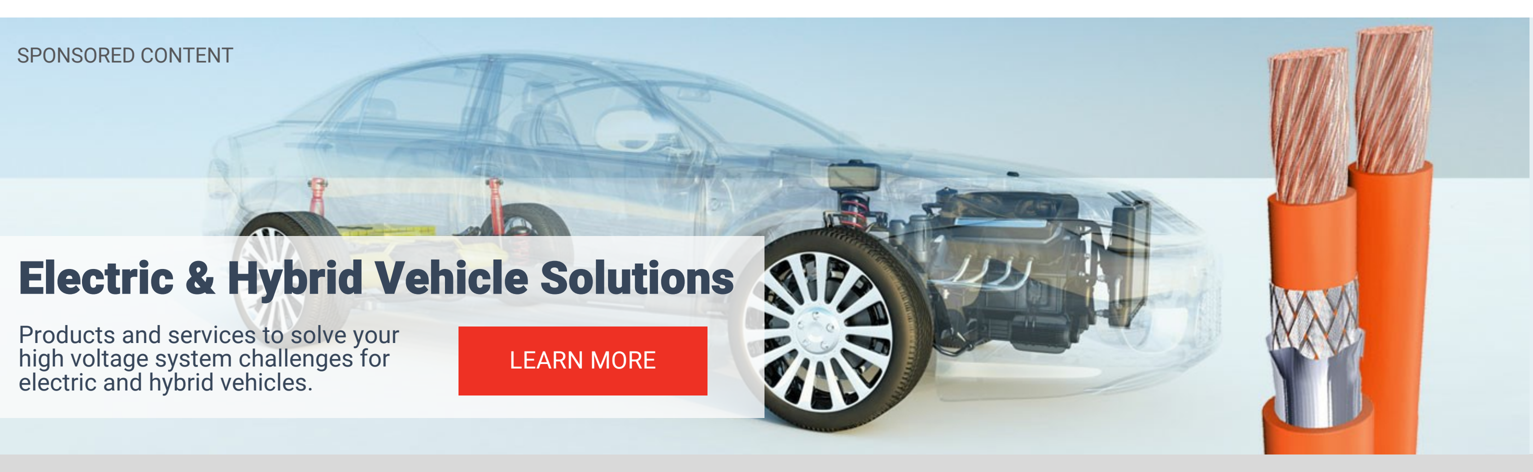
IN THE SPOTLIGHT

EV/Hybrid Segment Thriving Despite Weakness in Automotive Industry

Although consumer spending increased in recent years, lifting activity in much of the retail sector, activity in the automotive industry has been relatively flat recently. US light vehicle retail sales during the 12-months through March totaled 17.1 million units, up just 0.1% from the same period one year ago. Longer-lasting vehicles and ride-sharing services such as Uber and Lyft are allowing consumers to delay or altogether forego purchasing new automobiles. While this may be good news for consumers, it is bad news for manufacturers. US total retail sales recently transitioned to slowing growth, which is an ominous sign for the already lackluster automotive industry.

Despite weakness in the automotive industry, the alternative fuel vehicle segment is thriving. Retail sales of fuel cell, electric, and hybrid vehicles are up 23.5% year-over-year and growth is accelerating. Improved batteries are giving electric cars longer driving ranges, increasing their viability as an option for consumers and new models are giving consumers options across multiple price points. These developments are making alternative fuel vehicles more competitive. While alternative fuel vehicles currently make up only about 4% of total light vehicle retail sales, their share of the market is growing. Firms seeking growth opportunities in the automotive sector should look to increase their exposure to this relatively fast-growing segment.

The alternative fuel vehicle segment is not without risk. Automakers have benefited from a federal tax credit valued up to $7,500 (even higher in select states) that has incentivized the purchase of electric vehicles, but these credits fall in value after companies reach 200,000 vehicles sold. As more manufacturers reach this threshold, consumers will bear a larger share of the cost of their purchase. This shift in market dynamics may compel consumers to choose lower-cost traditional fuel vehicles instead. A bipartisan group of lawmakers in Congress introduced legislation to extend this credit, a position that President Trump opposes. Reduction, expiration, or repeal of these credits could hinder growth in the alternative fuel vehicle segment.



READERS' FORUM

We have seen oil prices rise over the last few months. Is this trend going to continue or will there be some relief?

US sanctions on Iran and Venezuela, as well as supply cuts organized by OPEC, have lifted oil prices in recent months. Rising production in the US is mitigating this impact somewhat, but not enough to keep prices from increasing. Due to the volatility of politics, it is unclear how long these political supply restraints will be in place. On the demand side, slowing growth for the global economy will provide some downward pressure and will likely keep prices from rising much above their current level. However, as long as the supply restraints remain in place, prices are not expected to fall much below their current level this year. With prices unlikely to provide much relief for consumers in the near term, look for ways to reduce consumption or increase efficiency to save on energy costs.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales ↗

- Up 4.6% during 12 months through February
- Retail sales will rise at a slowing pace into mid-2020
- A recession for retail sales is unlikely

Rotary Rig ↗

- Count up 12.9% from one year ago
- Rig count is slowing
- Oil rotary rig count (up 14.7%) & US natural gas rotary rig count (up 7.9%) growth is slowing

Wholesale Trade ↗

- Wholesale trade up 6.4% year-over-year
- Both durable goods (up 6.8%) and nondurable goods (up 6.0%) rising at slowing rates
- Wholesale trade of nondurable goods likely to contract late 2019

Capital Goods ↗

- Nondefense capital goods new orders up 5.3% from year-ago level
- New orders rise to slow through middle of year, then decline
- Defense capital goods new orders up 17.3%
- Defense spending will peak imminently before declining

Auto Production →

- N. America light vehicle production down 0.4% year-over-year
- Production likely to be flat first half of year before declining
- US heavy-duty truck production up 17.1%, but pace of rise slowing

Nonresidential Construction ↗

- Nonresidential construction up 5.1% from year-ago level
- Nonresidential construction growing at an accelerating pace
- Warehouse construction is an area of opportunity, benefiting from rapid growth in e-commerce

Manufacturing ↗

- Total manufacturing production up 2.7% from a year ago
- Production transitioning to slowing growth
- Manufacturing sector likely to contract mildly in the latter half of this year and in early 2020

Residential construction ↘

- Up 1.1% year over year
- Both single-unit housing starts and multi-unit housing starts currently declining
- Single-unit starts will recover later this year

US Joins the Rest of the World in a Slowing Growth Trend

What you need to know: *The US industrial economy transitioned to a slowing growth trend, in line with most other developed nations.*

The US Industrial Production Index, our barometer of activity for the domestic industrial economy, is expanding, up 3.8% from the year-ago level for the 12 months ending in March. However, industrial production is no longer rising at an accelerating pace, as it had been for 18 months. An annual data revision by the Federal Reserve Board now shows industrial production expanding at a slowing rate. We expect production will rise at a slowing pace into mid-2019 before contracting mildly later this year and into early 2020.

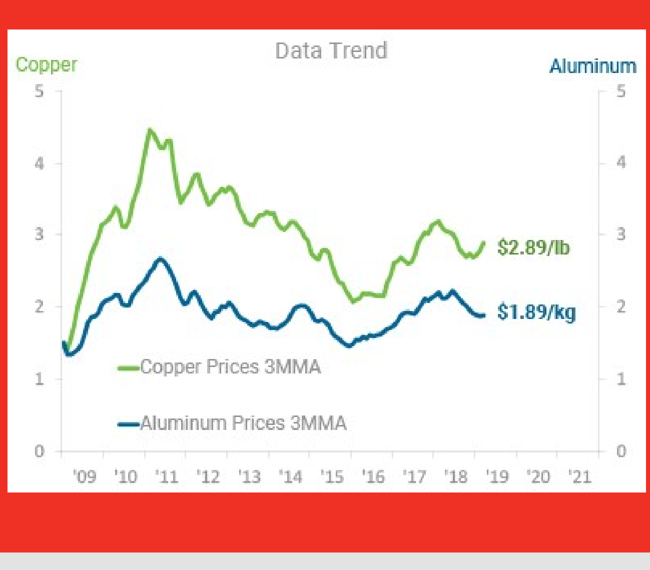
This shift to a slowing growth trend brings the US in line with many of the world's other major economies. The World Industrial Production Index has been rising at a slowing pace since May 2018, and most developed nations are now moving along the back side of the business cycle. Europe industrial production has declined in recent months, and leading indicators suggest further contraction in the region is likely. China industrial production through February was up 5.9% from the prior year, nowhere near the double-digit growth rates reached earlier this decade. Southeast Asia as a whole has been in a slowing growth trend since late 2017. Elsewhere in the world, both Canada and South America have been growing at a slowing pace since the first half of 2018. While some economies will contract mildly in late 2019 and early 2020, we do not expect a contraction in the overall World Industrial Production Index, which suggests that, on the whole, there will continue to be growth opportunities during this time.

As the US joins other nations on the back side of the business cycle, business leaders must be more cautious in their planning. Reconsider any major capital expenditure plans and ensure that they remain prudent. Global slowing growth is already reducing demand for exports of US goods. If your firm sells to foreign customers, consider your exposure market by market, and do not be caught off guard by waning demand from key regions. Above all, know where your business is in the business cycle and the degree to which decline in the global markets could impact you.

Copper & Aluminum Prices

US copper futures prices during the three months through March averaged $2.89 per pound, down 6.9% from the same period a year ago. Prices rose in the early months of this year after falling for much of 2018. However, slowing growth in China and the global industrial economy this year will likely limit demand for the metal and drive down prices.

US aluminum futures prices during the three months through March averaged $1.89 per kilogram, down 11.1% from one year ago. Macroeconomic trends supported by leading indicator evidence and recent price movements in related commodities signal that cyclical decline in prices will likely persist throughout 2019. Plan for prices to trend below the current level during this year.

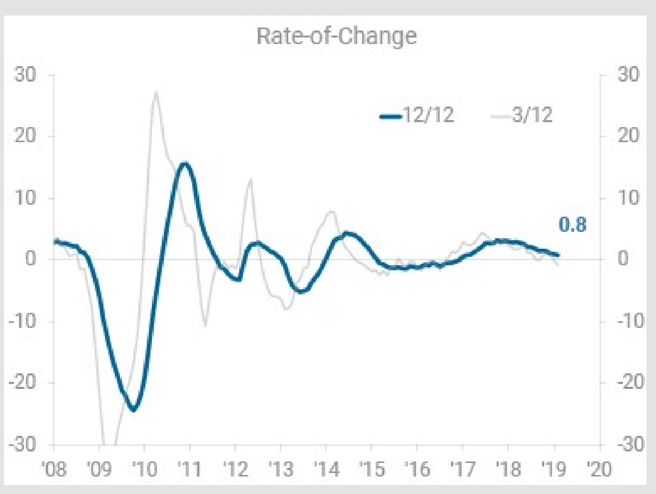


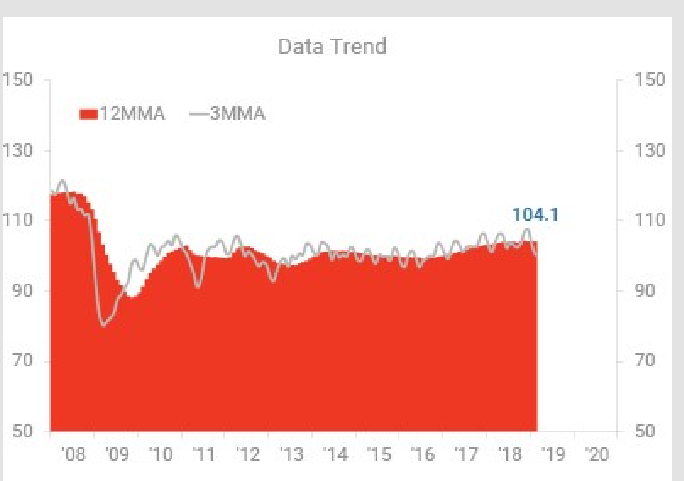
GLOBAL DEEP-DIVE

Japan Industrial Production

Japan industrial production during the 12-months ending in February was up a mere 0.8% from the same period one year ago. Production fell mildly in recent months. Several leading indicators suggest that business cycle decline will persist through much of 2019. These leading indicators include the Japan leading indicator, the Japan Purchasing Managers Index, and the Japan Business Confidence Index. This business cycle evidence, coupled with demographic issues, suggests that there will be few opportunities for growth in Japan's economy during this year.

Japan exports reached a tentative peak late last year and grew 4.1% for the year relative to the 2017 level. Our analysis indicates that exports are unlikely to grow during the next few quarters, which will place downward pressure on Japan industrial production during that time. Meanwhile, imports are up 9.7% from the year-ago level and rising. This suggests that there may be more opportunities to sell into Japan than from Japan in the near term.





Global Economic Outlook

	12-month Moving Avg	Chg. Over Prev. 12 Months	2019 YTD	2020 Projected	2021 Projected
Canada Industrial Production		2.6	0.5	0.2	2.8
Mexico Industrial Production Index		0.0	-0.4	2.4	0.6
Brazil Manufacturing and Mining Industrial Production Index		0.5	-1.0	2.8	0.7
Western Europe Industrial Production Index		0.6	-1.3	1.4	1.0
Eastern Europe Industrial Production Index		3.9	-1.3	4.3	3.2
India Industrial Production Index		4.7	3.3	5.5	4.5
China Industrial Production Index		5.9	5.2	6.1	5.9

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