



SPOTLIGHT

Auto Industry: The Good, The Bad and the Ugly

THE US AND CANADIAN AUTO SECTORS are lagging behind their global competitors. Annual US Light Vehicle Production (*down 1.4%*) and Canada Light Vehicle Production (*down 2.8%*) are in recessionary trends, while Mexico Light Vehicle Production is accelerating (*up 9.0% year over year*). Annual Europe Motor Vehicles Production (*up 3.5%*), Japan Passenger Cars, Buses, and Trucks Production (*up 0.6%*), and South Korea Motor Vehicles, Trailers, and Semitrailers Production (*down 1.8%, but most recent three months up 3.7%*) are generally rising. There are multiple industry trends that you should be aware of, including:

- The impact of low oil prices on passenger car and light truck sales
- Excess inventories of passenger cars in North America
- Fundamental issues with the US industry, including declining used car values, the prevalence of long-term (*72 or 84 month*) and subprime loans, and rising auto loan delinquency rates
- Movement in the industry toward self-driving vehicles

US Light Vehicle Retail Sales during the 12 months through May were down 0.8% compared to last year. With gasoline prices remaining low, consumers are trending toward larger, less fuel-efficient vehicles. This has benefited North America Light Truck Production (*up 3.7% during the last 12 months*), which accounts for nearly two thirds of North America Light

Vehicle Production. In contrast, North America Passenger Car Production is down 4.9% from the year-ago level. Although US Crude Oil Futures Commodity Prices are expected to generally rise into at least early 2018, prices at the pump are likely to remain well below their 2013 and 2014 levels, suggesting Light Truck Production growth rates are likely to be higher than Passenger Car Production during at least the next four quarters. High passenger car inventories, relative to the current volume of passenger car sales, are likely to further hamper the North American passenger car market. Manufacturers will likely need to offer significant incentives to move new passenger cars off dealer lots in the face of limited demand. In addition, a glut of used cars coming off of leases has contributed to declines in used car values. This will make it more expensive for consumers to trade in their current vehicle for a new vehicle.

Rising US Auto Loan Delinquency Rates also provide some cause for concern. The Delinquency Rate was 3.82% during the first quarter of 2017, up 0.30 percentage points from the first quarter of 2016. An estimated 107 million Americans have auto loans, a record high that represents approximately 43% of the adult population of the country. Of the 107 million with auto loans, six million are 90 days or more behind on car payments. Further cause for concern is the Moody's Investors Services report, which has revealed that auto lenders may not

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GLOBAL ECONOMIC OVERVIEW

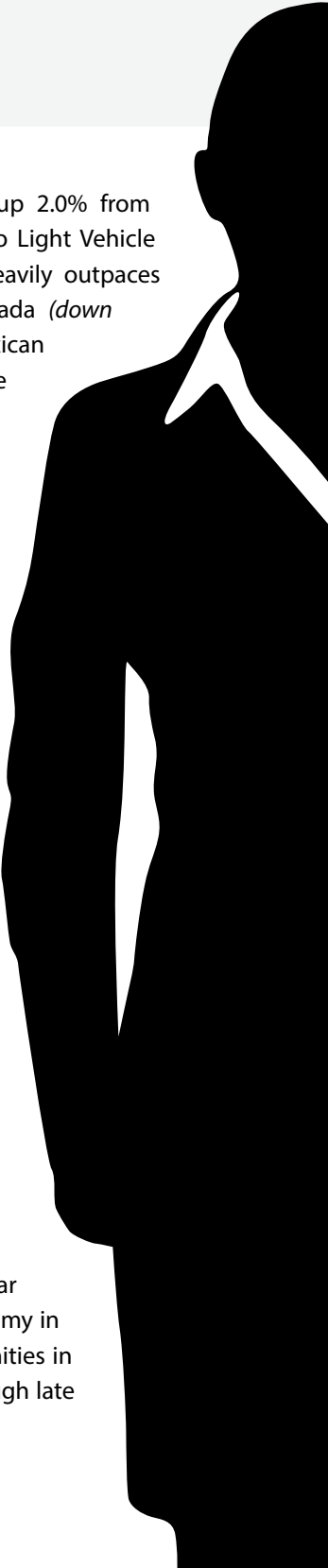
NORTH AMERICA The US economy, as measured by US Real Gross Domestic Product (“US Real GDP”), is in an accelerating growth trend. US consumers are benefiting from increasing purchasing power as nominal wage growth (3.5%) outpaces inflation (2.2%). Expect the pace of US Retail Sales (*deflated*) growth to be faster in the second half of 2017 than the first half of the year, leading to further acceleration in US Real GDP. On the industrial side of the US economy, average US Manufacturing Production during the 12 months through April was up 0.4% from the year-ago level. The previous period of rise in the US Purchasing Managers Index growth rate, which leads Manufacturing Production by approximately one year, suggests that Manufacturing Production is likely to accelerate into early 2018 before the pace of growth slows later during 2018. Growth on both the consumer and industrial sides of the US economy is yielding rising Employment, with US Private Sector Employment averaging a record 122.9 million individuals for the 12 months through May. Firms will need to compete in an increasingly competitive environment for scarce labor resources, particularly among skilled workers. Examine your capital and labor needs in light of the expected growth in the US economy into late 2018.

Canada Industrial Production is accelerating, up 1.0% during the 12 months through March. Positive business cycle momentum in the US, Canada’s largest trading partner, is resulting in growth in Canada Exports to the US; the most recent three months of Exports are up 4.3% from the same three months one year ago. The Canada Leading Indicator rate-of-change (*11-month lead time*) is in a nascent declining trend. This suggests Canada Industrial Production is likely to accelerate into early 2018 before subsequently transitioning to a slower growth trend in mid-2018.

Mexico Industrial Production is at the lowest level in nearly two years as a recession in Mexico Mining Production (*down 8.9% year over year*) hinders Mexico’s industrial sector. Annual

Mexico Manufacturing Production is up 2.0% from the year-ago level as growth in Mexico Light Vehicle Production (*up 9.0% year over-year*) heavily outpaces that of the US (*down 1.4%*) and Canada (*down 2.8%*). Seek opportunities in the Mexican auto industry in the near term, but be conservative in Mexico long term, given the current cyclical declining trend in the Mexico Leading Indicator (*10-month lead time to Mexico Industrial Production*).

SOUTH AMERICA Average South America Industrial Production during the 12 months through March was down 2.8% compared to the year-ago level, but it is recovering. General recovery trends in Brazil, Argentina, and Peru Industrial Production are providing upward business cycle momentum for the region’s industrial sector. Rise in annual Brazil Mining Production is providing upward momentum for the region’s largest economy. Chile is a notable exception to the general recovery in South American economies. Recession in the Mining and Manufacturing segments of Chile Industrial Production, down 1.8% year over year, will hinder the Chilean economy in at least the near term. Expect opportunities in South America to be slow to arise through late 2017.



BY THE
NUMBERS
(US)

**Conference
Board Consumer
Confidence Index**

117.9%

**May (2017)
Unemployment**

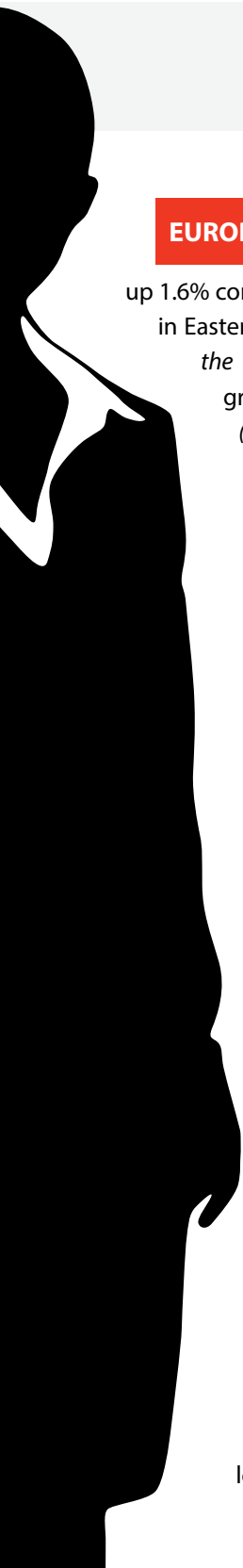
4.3%

**Retail Sales
(Apr to May change)**

+6.6%

**Mfg.’s New Orders
for Durable Goods
(Mar to Apr)**

-0.7%



EUROPE

Average Europe Industrial Production during the 12 months through March was up 1.6% compared to the previous year. The rate of growth in Eastern Europe Industrial Production (*up 3.8% during the 12 most recent months*) is double the pace of growth in Western Europe Industrial Production (*up 1.9%*). Seek opportunities in countries such as Poland (*Industrial Production up 3.9%*), Germany (*Industrial Production up 2.1%*), and Spain (*Industrial Production up 2.5%*). The European employment rate, which averaged 66.7% during the most recent 12 months, is at a record high level. A strong labor market will likely support further growth in Europe Retail Trade, which is in an accelerating growth trend and is growing at the fastest pace in over eight years.

ASIA

China Industrial Production during the 12 months through April was up 6.4% compared to the year-ago level and is in an accelerating growth trend. The China Purchasing Managers Index (“PMI”) fell below 50 in May for the first time in nearly a year. Cyclical decline in the PMI suggests the current accelerating growth trend in Production is unlikely to extend into 2018. Southeast Asia Industrial Production, up 3.5% year over year, is benefitting from the positive business cycle momentum in China. Most countries within the region are expanding. One notable exception is Hong Kong Industrial Production, which is 0.5% below the year-ago level. Annual Japan Industrial Production is accelerating, up 2.3% compared to the year-ago level. Accelerating growth in World Industrial

Production is having a positive impact on Japan Exports, which are up 5.8% on a year-over-year basis. India Industrial Production data was recently revised and is up 0.4% from the year-ago level. India Passenger Vehicle Sales are accelerating (*up 10.9% year over year*) as the India middle class expands.

MIDDLE EAST / AFRICA

Middle East and North Africa Industrial Production is up 3.5% compared to the year-ago level. Expect Oil Prices to generally rise over the next four quarters, reaching the mid-to-high \$50 range by late 2017 and early 2018. Plan for 2.2% growth in the region during 2017 as a whole.

*Source - IEWC contracts the services of a third party consultant to provide current insights on the economy.

CURRENCY TRENDS

	Current Value of \$1USD	Change Since 1/1/2017	Change Since 6/1/2016
Brazilian Real	3.31	0.06	-0.29
Canadian Dollar	1.32	-0.02	0.01
Chinese RMB	6.82	-0.12	0.24
Euro	0.89	-0.06	-0.01
Mexican Peso	17.96	-2.77	-0.59
Pound Sterling	0.78	-0.03	0.09

Current values as of 6/19/2017

Mfg.'s Shipments of Durable Goods
(Mar to Apr)

-0.3%

Durable Goods Mfg.'s Inventories
(Mar to Apr)

+0.1%

CPI Inflation
(over prev. 12 months)

+1.9%

US Industrial Production Index
(over prev. 12 months)

+1.3%

Purchasing Managers Index
(May)

54.9%

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have been adequately vetting applicants before awarding loans. This is reminiscent of lax home mortgage lending requirements preceding the 2007-2008 housing market crash. However, please note that from a macroeconomic perspective a downturn in the auto industry is unlikely to have the same magnitude of ripple effects due to the significantly smaller side of auto loan debt (\$1.17 trillion as of the first quarter of 2017, versus \$8.63 trillion for mortgage debt). Proceed with caution in the US and Canadian auto industries. Expect new vehicle production to suffer in 2019 in particular, as many consumers find themselves with negative equity in their loan due to the prevalence of long-term (72 or 84 month) loans and holders of subprime auto loans experience rising defaults.

Look outside the US and Canada for opportunities in the auto

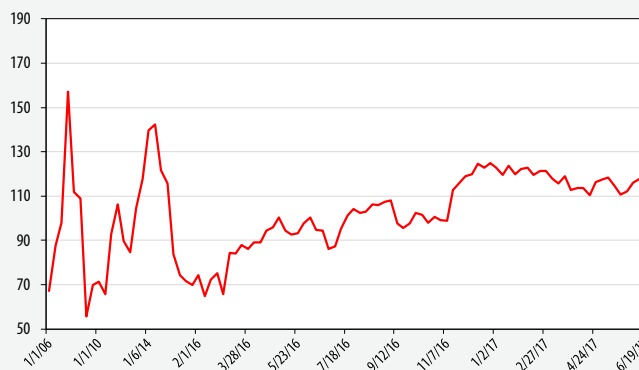
industry during the near term. Although Europe is expanding high-speed rail networks, Europe Total Registrations of Passenger Cars were up 8.2% during the first quarter of 2017 compared to the first quarter of 2016. This bodes well for further growth in Europe Motor Vehicle Production. Germany has recently approved a law allowing companies to test self-driving cars on its roads. This new law will make it easier for local automakers to test their new technologies and will provide opportunities for related industries to dip into the expanding market. Japan Passenger Car Production, up 6.6% and in an accelerating growth trend, is also a positive sector to consider targeting.

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WIRE INDEX

The Wire Index increased by 0.7% since the beginning of May. It is now down 3.7% year-to-date, but is still up 25.4% over the past 12 months. Belden's stock price increased by 9.3% since the beginning of May to lead the index. However, the remainder of the tracked companies had stock price decreases. The biggest fall was from General Cable, who was down 9.4%.

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. With the purchase of Coleman Cable by Southwire, the Wire Index now has five publicly traded wire and cable manufacturers and distributors.



COPPER FUTURES

Comex copper prices fell by 3.3% since the beginning of May and now sit at \$2.56/pound. For the year, Comex Copper is up 3.3%. It is up 25% over the last 12 months.

