HOT WIRE®
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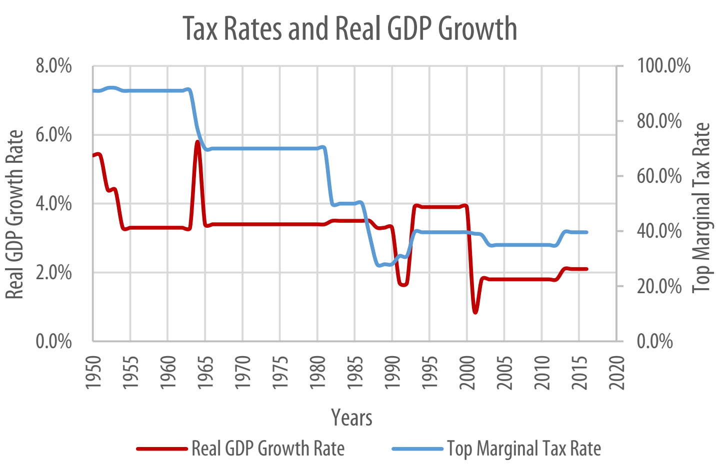
NEWS AND ECONOMIC OUTLOOK FOR THE WIRE AND CABLE INDUSTRY

# | SPOTLIGHT |

## Tax Reform: Quick Fix or Key to Long-Term Growth?

TAX CUTS PER SE ARE NOT A SURE AND PROVEN WAY TO STIMULATE GDP GROWTH. There are too many real world factors to consider that preclude us from saying that tax cuts (measured by changes in the top marginal tax rate) increase economic growth. Factors such as the definition of the tax bracket(s), monetary policy, the financing of the tax cuts (revenue neutral; spending cuts; growing the national debt), and where the tax cuts are aimed (lower incomes; middle incomes; higher incomes; and their respective marginal propensity to consume) all come into play. No one knows what the final form of a tax cut bill passed by Congress, and signed by the President, would look like. As of the first half of November, the reform bills presented by the House and the Senate to date have notable differences. For example, while the House bill moves to compress the current seven tax brackets into four, the Senate bill leaves the number of tax brackets unchanged. Another key difference between the two plans is the corporate tax. The House bill would cut the top corporate tax rate from 35 percent to 20 percent in 2018. The Senate bill would do the same, but the change would not take hold until 2019. This shift could make a significant difference for corporate planning.




Many argue that a cut in taxes will lead to an increase in economic growth. Something so commonly assumed to be true should be something that is easily discernible. It is a lot more complex than a simple cause and effect relationship. The chart to the left shows what the top marginal tax rate was in the post-WWII period. The top marginal tax rate is used as a proxy for the overall aggressiveness of the tax structure. The chart looks at the average rate of GDP growth, adjusted for inflation, during the period in question. The chart shows that lowering the top marginal tax rate is not a panacea for initiating sustained, superior growth in the economy. The table on the next page provides the detailed numbers.

When using the Real GDP growth rate per annum instead of averaged over the period between tax rate changes, lowering the top marginal tax rate has more often than not led to an increase in real GDP growth. However, the effect is a temporary shot in the arm instead of an enduring real GDP growth trend following the lowering of the tax rate.

Whether or not the GOP tax plan, if implemented, will have any particular stimulating effects on the consumer sector is unclear. For now, firms should base plans for 2018 and 2019 on more tangible evidence, such as the decline in the US Personal

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| Year | Rate | Year | Year | Year | Year |
|---|---|---|---|---|---|
| 2016 | 39.60% | 1993 | 39.6% | 1970 | 70.0% |
| 2015 | 39.60% | 1992 | 31.0% | 1969 | 70.0% |
| 2014 | 39.60% | 1991 | 31.0% | 1968 | 70.0% |
| 2013 | 39.60% | 1990 | 28.0% | 1967 | 70.0% |
| 2012 | 35.0% | 1989 | 28.0% | 1966 | 70.0% |
| 2011 | 35.0% | 1988 | 28.0% | 1965 | 70.0% |
| 2010 | 35.0% | 1987 | 38.5% | 1964 | 77.0% |
| 2009 | 35.0% | 1986 | 50.0% | 1963 | 91.0% |
| 2008 | 35.0% | 1985 | 50.0% | 1962 | 91.0% |
| 2007 | 35.0% | 1984 | 50.0% | 1961 | 91.0% |
| 2006 | 35.0% | 1983 | 50.0% | 1960 | 91.0% |
| 2005 | 35.0% | 1982 | 50.0% | 1959 | 91.0% |
| 2004 | 35.0% | 1981 | 70.0% | 1958 | 91.0% |
| 2003 | 35.0% | 1980 | 70.0% | 1957 | 91.0% |
| 2002 | 38.6% | 1979 | 70.0% | 1956 | 91.0% |
| 2001 | 39.1% | 1978 | 70.0% | 1955 | 91.0% |
| 2000 | 39.6% | 1977 | 70.0% | 1954 | 91.0% |
| 1999 | 39.6% | 1976 | 70.0% | 1953 | 92.0% |
| 1998 | 39.6% | 1975 | 70.0% | 1952 | 92.0% |
| 1997 | 39.6% | 1974 | 70.0% | 1951 | 91.0% |
| 1996 | 39.6% | 1973 | 70.0% | 1950 | 91.0% |
| 1995 | 39.6% | 1972 | 70.0% | 1949 | 91.0% |
| 1994 | 39.6% | 1971 | 70.0% | | |

Savings as a Percentage of Disposable Income (the "Savings Rate"). The annual average Savings Rate (3.7%) is declining and is at the lowest level since 2008. The current decline in the Savings Rate is an indication of slowing growth for the consumer side of the economy in the second half of 2018. This Savings Rate decline supports the expectation of a mild recession during 2019, given the roughly two-year lead time from the time changes in the Savings Rate are reflected in the business cycle trends of the US economy.

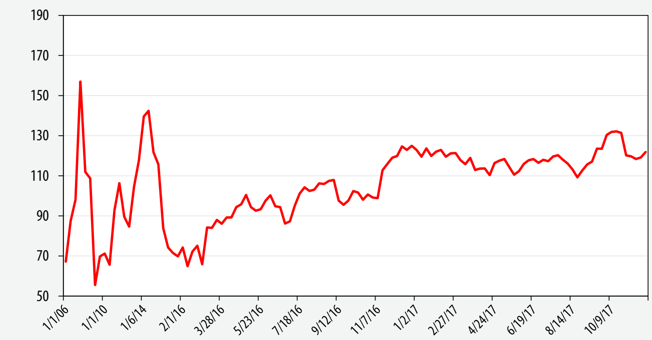
It comes back to making the right decisions at the right time for your business based on where we are in the business cycle right now and where we are headed. Tax reform may help (or hurt) you personally. However, from a macroeconomic perspective, stick to knowing where your business is in the context of the business cycle and where that cycle is taking your company.

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

## WIRE INDEX

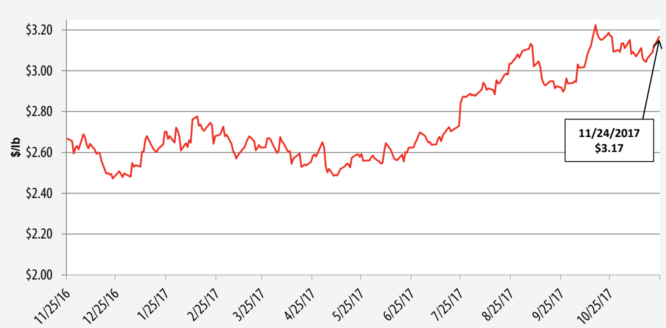
The Wire Index decreased by 6.5% since the beginning of October. It is now down a slight 0.8% year-to-date, and up 5.1% over the past 12 months. Individual company results were mixed. Anixter was down 23.7% since the beginning of October, while Houston Wire & Cable was up 20.6%.

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 increased by 7.7% since the beginning of October and sit at $3.17/pound as of 11/24/17. For the year, Comex Copper is up 27.6%. It is up 18.7% over the last 12 months.



# GLOBAL ECONOMIC OVERVIEW

**NORTH AMERICA** The US economy is accelerating. US Real GDP grew at an annual rate of 2.3% in the third quarter while annual average US Industrial Production in September was up 0.9% compared to the year-ago level. Trends in US leading indicators suggest that we can expect further accelerating growth in the US economy for the remainder of this year and into at least early 2018. Trends in the ISM's US Purchasing Managers Index and the Conference Board's US Leading Indicator signal that the US economy is likely to grow at a slowing pace beginning in mid-2018. Plan for growth in the US economy during 2018, but expect the first half of the year to be stronger than the second half.

The growth in the US economy is translating to growth in the electrical equipment industry as well, as measured by US Wholesale Trade of Electrical and Electronic Goods. Annual Wholesale Trade was up 5.6% compared to the year-ago level. General decline in the quarterly growth rate suggests that Wholesale Trade will transition to a slowing growth trend in the near term. Not all end-use markets of electrical equipment are experiencing growth. North America Light Vehicle Production is declining. With relatively low gasoline prices, consumers are trending toward larger, less fuel-efficient vehicles. This has provided a relative benefit to North America Light Truck Production *(up 2.1% year over year)*, which accounts for nearly two-thirds of North America Light Vehicle Production, at the expense of North America Passenger Car Production *(down 10.7%)*. High inventories relative to retail sales in the passenger car segment suggest auto firms will need to change their mix of production away from cars toward light trucks and SUVs. This may create opportunities for firms involved in production process changes.

The average of the most recent 12 months of Canada Industrial Production was up 5.4% compared to the year-ago level. Trends in the Canada Purchasing Managers Index suggest Canada Industrial Production will transition to a slowing growth trend around early 2018. Annual Canada Durable Goods New Orders, which includes electrical equipment, are up 3.3% compared to the year-ago level. Annual average Mexico Industrial Production is down 0.3% compared to the year-ago level. Mexico Manufacturing Production is accelerating, driven in part by growth in Mexico Light Vehicle Production *(up 11.9%)*. However, Mexico Mining Production *(down 9.3%)* is placing downward pressure on overall Industrial Production. The Mexico Purchasing Managers Index for Manufacturing fell to the lowest level in over eight years in October. Opportunities are likely to be more prevalent in Canada and the US than in Mexico in at least the coming quarters.

**SOUTH AMERICA** Average South America Industrial Production during the 12 months through August was down 0.5% compared to the year-ago level. The Brazil Industrial Production annual growth rate *(0.4%)* broke above the zero line in September for the first time since May 2014. Brazil Vehicle Production is up 12.7% compared to the year-ago level (annual average basis), and rising annual Brazil Exports *(up 17.4% year over year)* are supporting the rising trend in Brazil Industrial Production. However, general decline in the Brazil Leading Indicator and Brazil Purchasing Managers Index monthly growth rates signals that the period of growth in Industrial Production will be relatively short-lived. Plan for growth in annual average Industrial Production into mid-2018, but do not expect levels in the next few years to reach pre-2015 heights. Firms should exercise caution concerning business dealings in the country. Industrial Production annual averages are virtually flat on a year-over-year basis in Colombia *(up 0.3%)*, Chile *(down 0.6%)*, and Argentina *(down 0.3%)*.

**EUROPE** Average Europe Industrial Production during the 12 months through August was up 2.5% year over year. Expect annual average Production to rise through mid-2018. Eastern Europe Industrial Production *(up 4.5%)* is expanding at a greater pace than Western Europe Industrial Production *(up 1.6%)*. Romania Industrial Production and Poland Industrial Production, up 6.4% and 4.7%, respectively, are growing at some of the fastest rates within Eastern Europe's industrial sector. In

# GLOBAL ECONOMIC OVERVIEW

Western Europe, Germany Industrial Production *(up 1.7%)* and Italy Industrial Production *(up 2.5%)* are growing at a faster pace than Spain Industrial Production *(up 1.5%)*, UK Industrial Production *(up 1.2%)*, and France Industrial Production *(up 0.6%)*.

**ASIA** Average China Industrial Production during the 12 months through September was up 6.6% compared to the year-ago level. Production is accelerating. Decline in the China Purchasing Managers Index monthly growth rate signals slowing growth in 2018 Production is likely. China's residential construction sector is outpacing the nonresidential construction sector. China Floor Space of Residential Buildings Started is up 12.8% in contrast to Nonresidential Buildings Started, which is down 0.7%. However, the Floor Space of Residential Buildings Started is in a slowing growth trend. General decline in the quarterly growth rate signals that further slowing growth in this sector is likely in at least the near term. Opportunities in the Chinese construction market are likely to become more limited in the coming months. Average Japan Industrial Production during the 12 months through September was up 4.3% year over year. Production is accelerating, but nascent decline in the Japan Purchasing Managers Index rate-of-change is consistent with an expectation of generally slowing growth in production during 2018. South Korea Industrial Production is up 3.5%. However, be wary of the South Korea marine industry, as South Korea Shipbuilding Production is in recession, down 18.6% from the year-ago level. India Industrial Production is growing at a slowing pace, up 3.0% year over year.

**MIDDLE EAST / AFRICA** Middle East and North Africa Industrial Production is up 3.3% compared to the year-ago level. Egypt Industrial Production *(up 15.8% year over year)* and Saudi Arabia GDP *(up 5.6%)* are in accelerating growth trends.

*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 8/1/2016 |
|---|---|---|---|
| Brazilian Real | 3.22 | -0.03 | -0.01 |
| Canadian Dollar | 1.27 | -0.07 | -0.07 |
| Chinese RMB | 6.60 | -0.34 | -0.17 |
| Euro | 0.84 | -0.11 | -0.07 |
| Mexican Peso | 18.55 | -2.18 | -0.55 |
| Pound Sterling | 0.75 | -0.06 | -0.07 |

*Current values as of 11/27/2017*

## BY THE NUMBERS (US)

**Conference Board Consumer Confidence Index**
**125.9%**

**October (2017) Unemployment**
**4.1%**

**Retail Sales**
(September to October)
**+0.9%**

**Mfg.'s New Orders for Durable Goods**
(August to September)
**+2.2%**

**Mfg.'s Shipments of Durable Goods**
(August to September)
**+1.0%**

**Durable Goods Mfg.'s Inventories**
(August to September)
**+0.6%**

**CPI Inflation**
(over prev. 12 months)
**+2.0%**

**US Industrial Production Index**
(over prev. 12 months)
**+1.7%**

**Purchasing Managers Index**
(October)
**58.7%**