



## **SPOTLIGHT** Market Opportunities and Risks Within Germany

OUT OF THE THREE MAJOR ECONOMIES in Western Europe — France, the UK, and Germany — Germany's industrial sector displays particular strength and is poised for continued growth. Increasing retail sales, low unemployment, low interest rates, and expanding exports to meet demand from rising global economic momentum are key drivers of this thriving economy and indicators point to continued growth. A notable exception, the automotive industry, is one of the few weak spots in an overall rosy picture. For global players, now is the time to invest in order to capture a larger share of this growing market.

### **Industrial Production and Consumer Sectors Up**

Average German industrial production was up 1.7% during the 12 months through September compared to one year ago, and above the five-year average growth rate of 0.7%. And in November the German Purchasing Managers Index (PMI®) reached the highest level in more than six years, which signals additional growth for the German economy in 2018. This trend provides confidence that Germany will be a country of opportunity in 2018. However, while economic indicators are largely positive, growth in industrial production is expected to slow later in 2018 as the pace of global economic growth slows overall.

Manufacturing and consumer sectors are the backbone of the German economy. German manufacturing production

and German retail sales are up 1.9% and 4.6% year over year, respectively. Inflation is holding steady just below 2%, the German unemployment rate (3.7%) is the lowest of the major economies in Western Europe, and average gross monthly earnings are rising. This year-over-year rise in the consumer and industrial sectors and make Germany an attractive European business partner during 2018.

### **Electrical Equipment Production on Upswing**

German electrical equipment production, which leads German total construction by five months, is up 3.2% compared to last year. The average of the most recent three months of production was up 4.7% from the same three months one year ago, suggesting there is more upside left in Germany's electrical equipment industry in at least the near term. German residential and nonresidential construction is rising, up 10.9% and 20.4% year over year, respectively. The majority of segments of nonresidential construction are rising, with the notable exception of German institutional construction, which includes schools and hospitals.

### **Slowing Automotive Market**

Not all markets within Germany's economy are on the upswing. One market of concern is the German auto market. Annual average German motor vehicle production is stagnating. The stall in upward momentum is due to exports, not German consumers, as German total registrations of passenger cars

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are rising mildly (up 1.6% compared to one year ago). Exports of cars and vehicle parts account for approximately 15% of all German exports, but have declined approximately 0.3% during the 12 months through April (most recent data). The low value of the sterling and contracting US light vehicle retail sales (down 1.1% year over year) are inhibiting German car exports. Weak demand from the US and the UK will hinder growth in this industry during at least the near term. Be conservative in your projections of the German automotive market.

## The Bottom Line

The German economy, as a whole, is on the upswing. Steady growth in the industrial sector and strong consumer trends make it an attractive target for investors and firms looking to

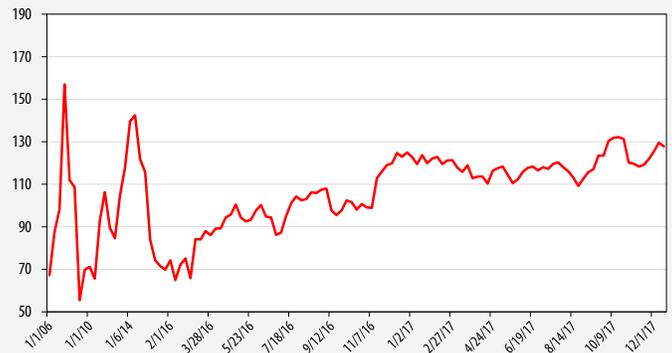
expand market share. Pursue business growth opportunities in this country, while remaining cautious within the German automotive sector. Firms looking to capture a larger market share in Germany would be well served to allocate additional resources to sales and marketing, particularly within the construction market. Take advantage of this favorable environment to expand your German business in 2018.

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

## WIRE INDEX

The Wire Index increased by 6.7% since the beginning of November. It is now up 4.0% year-to-date, and up 4.0% over the past 12 months. The increase since the beginning of November was led by a General Cable stock price jump of 43.9% and an increase at Houston Wire & Cable of 22.4%. However, Belden's stock price fell by 3.4% since the beginning of November.

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 1.2% since the beginning of November and sit at \$3.17/pound as of 12/20/17. For the year, Comex Copper is up 27.8%. It is up 26.8% over the last 12 months.



# GLOBAL ECONOMIC OVERVIEW

## NORTH AMERICA

As 2017 comes to a close, the economic evidence suggests that 2018 will be a growth year for the US economy, but signs are beginning to develop suggesting the economy will transition to a slowing growth trend by mid-year. Annual average US industrial production is accelerating, 1.3% above one year ago. The manufacturing and mining components of US industrial production are expanding on a year-over-year basis. Annual average US electric and gas utilities production is currently trending below the year-ago level but is expected to rise in 2018. Several leading indicators to US industrial production suggest that the period of accelerating growth could extend through the first half of 2018. However, decline in the ISM's US Purchasing Managers' Index® monthly growth rate and the annual average US personal savings rate suggests that the pace of production growth will slow in the latter half of 2018. Just as you had to fight the pessimism of 2015 and 2016 to see the potential economic growth in 2017 and 2018, now is the time to fight the optimism of today and begin your preparations for slowing US industrial production growth in the second half of 2018.

US total retail sales are accelerating (*up 4.1% year over year*). US nonstore retail sales, which include online shopping, are growing at a double-digit pace (*up 10.6%*) while US building materials & supplies dealers retail sales are up 6.1%. If you sell into the residential housing or remodeling sectors, look for growth opportunities as US building materials & supplies dealers retail sales expand. Plan for slowing growth in US retail sales in the second half of 2018 and throughout 2019.

Plan for accelerating growth in many construction markets next year in response to the current trend of accelerating economic growth. Nonresidential construction markets expected to grow in 2018 include warehouse, office, power, and multi retail buildings construction. In the residential sector, single-unit housing starts are up 8.1% year over year and are expected to rise into the second half of 2018. Conversely, US multi-unit housing starts are declining, 8.1% below the year-ago level. Starts are expected to decline through late 2018 before rising mildly in 2019.

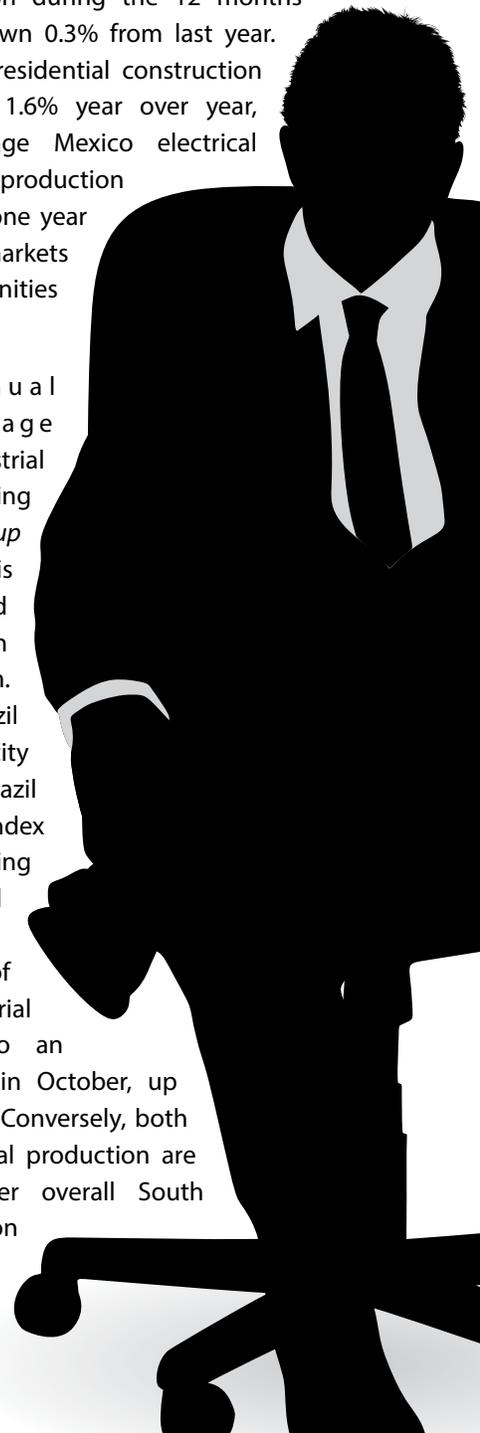
Canada industrial production is expanding (*up 4.9% year over year*). Production is expected to rise through 2018, albeit at a slowing pace of growth. Canada mining production, Canada utilities production, and Canada manufacturing production have each transitioned to a slowing growth

trend. Declining Canada light vehicle production (*7.6% below one year ago*) is blunting the momentum of the Canadian manufacturing sector. While the auto industry contracts, look for opportunities in Canada's residential construction market. Investment in Canada's residential construction sector was up 9.1% in the third quarter of 2017 compared to the third quarter of 2016, the largest gain in nearly five years. Leading indicator evidence suggests that Canada residential construction (*up 4.2% year over year*) will accelerate in at least the near term.

Mexico industrial production during the 12 months through September was down 0.3% from last year. Mexico residential and nonresidential construction are rising, up 12.3% and 1.6% year over year, respectively. Annual average Mexico electrical equipment and appliances production was up 2.8% compared to one year ago. Expansion in these markets will provide growth opportunities during at least the near term.

## SOUTH AMERICA

Annual average South America industrial production is rising. Expanding Brazil industrial production (*up 1.5% year over year*) is providing upward momentum for South America industrial production. Rise in both the Brazil manufacturing capacity utilization rate and the Brazil Purchasing Managers Index suggests that the accelerating growth trend in Brazil industrial production will extend into the first half of 2018. Argentina industrial production transitioned to an accelerating growth trend in October, up 0.8% compared to last year. Conversely, both Colombia and Peru industrial production are declining and may temper overall South America industrial production rise in the near term.



# GLOBAL ECONOMIC OVERVIEW

## EUROPE

Europe industrial production was up 2.7% year over year in September. Rise in the Europe Business Confidence Index signals industrial production growth will extend through at least the first half of 2018. Eastern Europe industrial production continues to outpace Western Europe (up 4.5% and 1.6% year over year, respectively). The European consumer is driving growth in Europe's economy. The European unemployment rate (7.5%) is near a post-Great Recession low while European retail sales are up 4.0% year over year, more than double the five-year average of 1.5%. The positivity extends beyond the consumer sector to B2B activity; Europe capital goods production is accelerating (up 3.3% year over year). See the feature article on Germany for further details on opportunities and risks within this country.

## ASIA

China industrial production is accelerating, but the pace of growth is likely to slow in 2018 as suggested by the decline in the China Purchasing Managers Index® (PMI® from Institute for Supply Management) and the China railway freight carried quarterly growth rate. China exports to the United States are at a record-high level. China is vying to become a "market economy," and negotiations over this issue may cause some near-term waves between China and its top trading partners, the US and the EU. Japan industrial production is also accelerating, 4.6%

above the year-ago level, but nascent decline in the Japan leading indicator rate-of-change signals that 2018 is likely to be a year of slowing growth. Southeast Asia industrial production is up 3.9% compared to one year ago. The majority of countries within the region are expanding, as measured by industrial production, with the exception of the Philippines and Hong Kong. India industrial production is up 3.0% from one year-ago but is decelerating.

## MIDDLE EAST / AFRICA

Middle East and North Africa industrial production was up 3.3% in the 12 months through September. Accelerating growth in Saudi Arabia GDP is contributing to upward momentum (up 5.6% year over year). OPEC has announced that cuts to oil production will extend through 2018, which could impact GDP for the country (the petroleum sector accounts for 42% of GDP).

\*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
<b>Brazilian Real</b>	3.31	0.06	-0.16
<b>Canadian Dollar</b>	1.27	-0.07	-0.06
<b>Chinese RMB</b>	6.58	-0.36	-0.31
<b>Euro</b>	0.84	-0.11	-0.10
<b>Mexican Peso</b>	19.32	-1.41	-1.42
<b>Pound Sterling</b>	0.75	-0.06	-0.04

Current values as of 12/21/2017

Conference Board Consumer Confidence Index  
**129.5%**

Mfg.'s New Orders for Durable Goods (September to October)  
**+0.9%**

CPI Inflation (over prev. 12 months)  
**+2.2%**

November (2017) Unemployment  
**4.1%**

Mfg.'s Shipments of Durable Goods (September to October)  
**+0.1%**

US Industrial Production Index (over prev. 12 months)  
**+2.1%**

Retail Sales (October to November)  
**+5.8%**

Durable Goods Mfg.'s Inventories (September to October)  
**+0.1%**

Purchasing Managers Index (November)  
**58.2%**

BY THE NUMBERS (US)