HOT WIRE®
FEBRUARY 2018
NEWS AND ECONOMIC OUTLOOK FOR THE WIRE AND CABLE INDUSTRY

| SPOTLIGHT |

US Transportation Industry Outlook for 2018

WHAT CAN WE EXPECT IN THE US TRANSPORTATION INDUSTRY IN 2018 based on current trends? The rates of change for the various segments of the US transportation industry suggest that some of the outperforming segments of 2017 like **agricultural machinery** and **heavy-duty trucking** will falter in 2018, while some of the 2017 laggards — automotive and aerospace — are poised to make gains in 2018. Average US transportation equipment production during 2017 was 0.8% below 2016, but an increase in the quarterly rate of growth suggests that production rates will likely begin to recover this quarter and next. Consider taking advantage of these trends as you adjust 2018 business plans so that you capture the full benefits offered by rising auto and aerospace sectors.

While the **auto sector** has been generally contracting, it is expected to begin recovering by mid-2018. Another bright spot this year will be the **aerospace industry**: US civilian aircraft equipment production is expected to grow 7.6% in 2018. Growth in both **agricultural machinery** and **heavy trucking** industries is also accelerating, but that growth may begin to slow in 2018.

North American Light Vehicle Production Expected to Recover
North American light vehicle production in 2017 totaled 17.0 million units, 4.2% below 2016. Production is in a recession, but the nascent rising trend in the **US automobile and light duty motor vehicles** capacity utilization rate suggests that production will begin to recover by mid-2018. Activity will then expand mildly through the remainder of 2018 before declining through at least 2019. **US light vehicle** production *(down 8.5% on a year-over-year basis)* and **Canada light vehicle** production *(down 7.5%)* are in recession. However, analysis indicates that production will begin to recover early in 2018, providing increased opportunities in the US and Canada. Meanwhile, **Mexico light vehicle** production was up 12.9% from a year ago, but growth is slowing and expected to slow further in the next few quarters.

Civilian Aricraft Production Expected to Rise
US civilian aircraft equipment production throughout 2017 was down 3.1% year over year. Production is expected to rise through mid-2019 before declining into late 2020. Rising US crude oil futures prices, a 15-month leading indicator to production, will incentivize purchases of newer, more fuel-efficient aircraft throughout at least 2018. The recent accelerating growth in oil prices suggests that production

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will accelerate into early 2019. Consider strategies to capture a larger share of this market as it grows in 2018.

Heavy Duty Truck Production to Continue Growth

North America heavy duty truck production totaled 249,400 units in 2017, 10.1% higher than 2016. Production growth will accelerate into mid-2018. Expansion will persist into early 2019, but at a slowing rate. Increasing activity in the mining sector is fueling some of this growth. US mining production was up 6.5% from one year ago and is growing at an accelerating rate. However, production growth will slow for the majority of 2018. Mining activity typically leads heavy duty truck production by about one quarter, indicating that production growth will peak in mid-2018 before diminishing through the remainder of the year.

US agriculture, construction, and **mining machinery** production during 2017 increased 17.4% year over year and will continue to generally rise through 2018. Higher commodity prices are driving increased activity in this industry. However, price gains will be more mild in 2018 than in 2017. This suggests production will begin to grow at a slowing pace in the coming quarters. The growth of new orders of **US construction machinery and mining equipment** is expected to slow by mid-2018. **US farm machinery** shipments began accelerating in August. Shipments in 2017 were up 10.2% compared to 2016. Production will rise through mid-2018 before likely declining through the end of the year. John Deere and Caterpillar stock prices are rising, which suggests accelerating shipment growth may extend into the second half of 2018.

So what does this mean for electrical equipment suppliers?

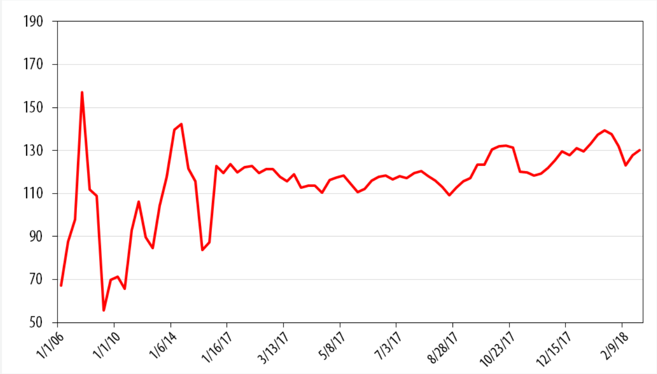
Firms in the electrical equipment industry should prepare to shift from targeting opportunities in transportation segments that tend to move in step with the macroeconomy and commodity prices — **agricultural machinery**, **construction machinery**, **mining machinery**, and **heavy-duty trucking** — to targeting segments that tend to lag the macroeconomy and commodity prices — **civilian aircraft equipment** — as 2018 progresses. The **automotive sector** may also offer some upside in 2018 in comparison to a difficult 2017 for the industry, but the poor fundamentals of the industry, including long-duration and subprime loans, limit the upside potential. Unless your business moves with the aerospace industry, take steps to prepare for slowing growth in the second half of 2018 as US industrial production and most transportation segments grow at a slowing pace. Focus on maintaining your profit margins through efficiency gains while eliminating unprofitable business segments to maximize your cash position heading into 2019, when US industrial production is expected to decline mildly before growth returns in 2020.

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

WIRE INDEX

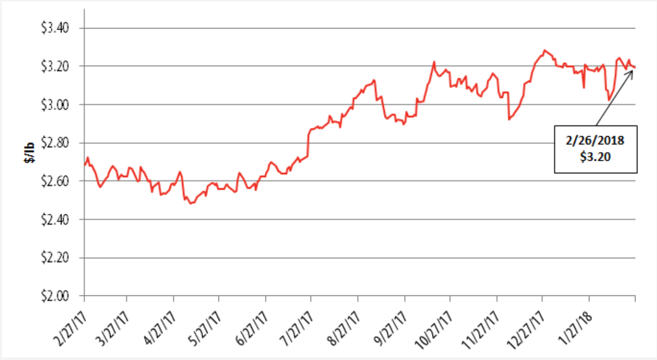
The Wire Index decreased by 2.4% since the beginning of the year. It is now up 7.4% over the past 12 months. The main driver of the decrease was a Belden stock price decrease of 11.3%. All other tracked companies had stock price increases, led by Encore Wire's 10.5% increase.

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 decreased by 1.8% since the beginning of January and sit at $3.20/pound as of 2/27/18. Prices are up 18.9% over the last 12 months.



GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

The US economy is surging forward at the start of 2018. US gross domestic product (GDP) ended the fourth quarter of 2017 2.5% above the previous year. US industrial production was up 1.8% year over year in December, with fourth quarter production up 3.4% compared to the final quarter of 2016. Rise in the Conference Board's US Leading Indicator rate-of-change through December suggests that US industrial production will maintain this upward momentum through at least the first half of the year. We can expect a strong macroeconomy in the first half of 2018, but beware of linear budgeting for the year. The rate of change of the ISM's US Purchasing Managers' Index® (PMI), which typically leads US industrial production by 12 months, transitioned to a declining trend in September 2017. This transition signals that slowing growth in production the latter half of the year is probable. Avoid committing yourself to long-term expenses, over-expanding at the top of the business cycle, and look for unprofitable business segments to eliminate as the back side of the business cycle sets in.

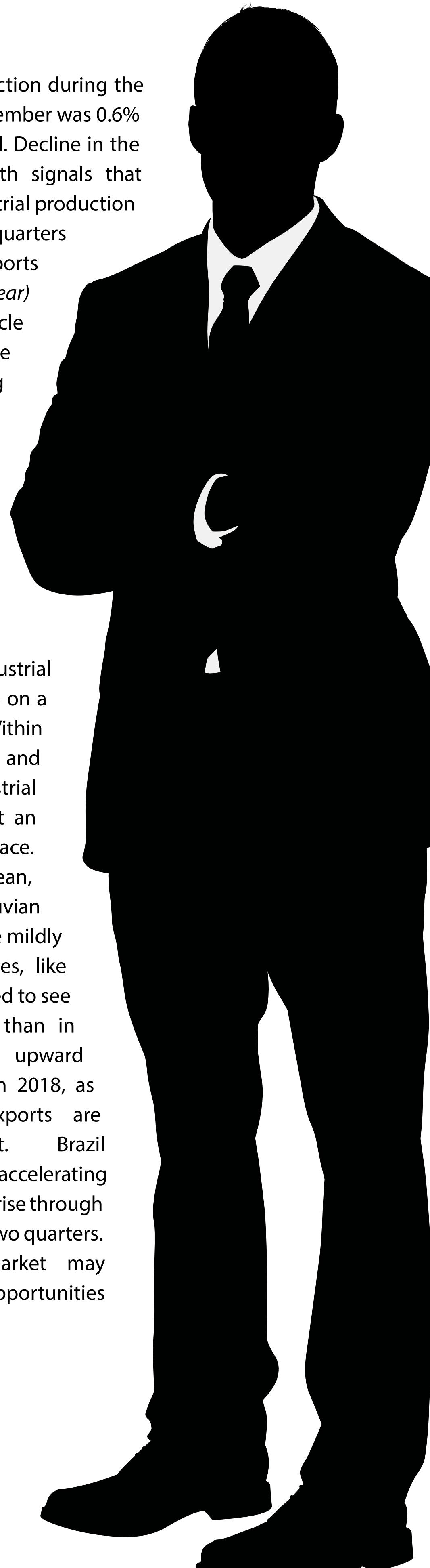
Average US electrical equipment new orders during 2017 were down 6.3% from one year ago. Annual average production began a rising trend in November and is expected to rise through year-end 2018. The US machinery manufacturing capacity utilization rate is generally rising. This suggests that industrial machinery is under increasing strain as the US economy accelerates. The growing demand for industrial machinery and the electrical motors and generators used in production bodes well for US electrical equipment production into the second half of 2018. US wholesale trade of electrical and electronic goods is in an accelerating growth trend, up 7.8% year over year.

Canadian industrial production during the 12 months through November was up 5.4% year over year. Decline in the Canadian Leading Indicator rate-of-change suggests that industrial production growth will imminently begin slowing. New orders of Canadian nondurable goods are decelerating in their ascent and will place downward pressure on industrial production in at least the next one to two quarters. Several segments within the Canadian economy are decelerating, with the notable exception of Canadian retail sales. Conseqquently, the consumer side of the economy should alleviate some of the downward pressure from the industrial sector.

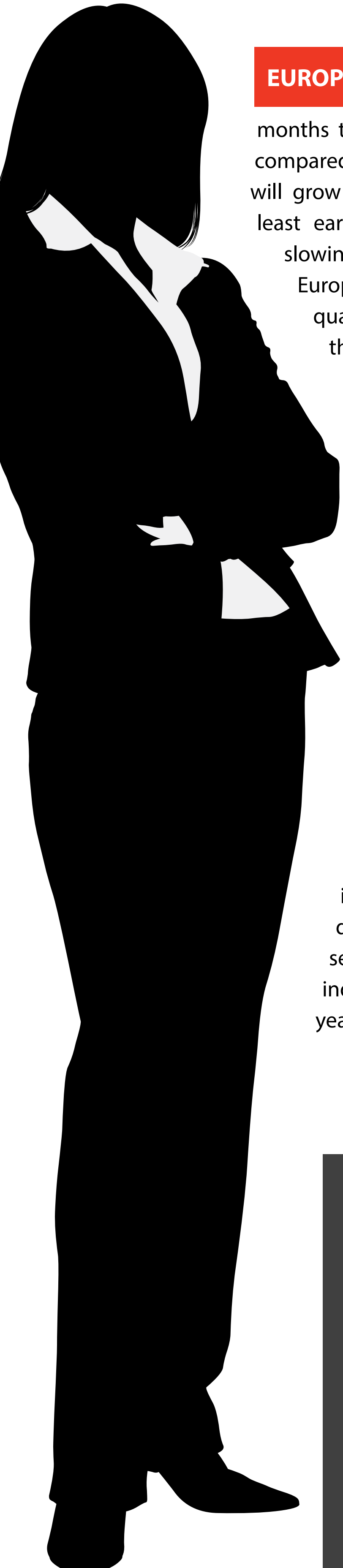
Mexico industrial production during the 12 months through December was 0.6% below the year-ago level. Decline in the quarterly rate of growth signals that further decline for industrial production in the next one to two quarters is likely. Mexico exports *(up 9.5% year over year)* and Mexico light vehicle production *(up 12.9%)* are two sectors withstanding the contraction in the macroeconomy. Look to these segments for opportunity during the upcoming mild recessionary period.

SOUTH AMERICA

South America industrial production was up 1.2% on a year-over-year basis. Within the region, Argentina and Brazilian industrial production are rising at an accelerating pace. Conversely, Chilean, Columbian and Peruvian industrial production are mildly contracting. Commodities, like copper steel, are expected to see higher prices in 2018 than in 2017 and will provide upward momentum for Brazil in 2018, as the country's top exports are commodities-dependent. Brazil vehicle production is accelerating *(up 17.2%)* and will likely rise through at least the next one to two quarters. Expansion in this market may provide growth opportunities during this time.



GLOBAL ECONOMIC OVERVIEW



EUROPE European industrial production during the 12 months through November was up 3.0% compared to the year-ago level. Production will grow at an accelerating pace into at least early 2018 before transitioning to slowing growth mid-year. Decline in the Europe Economic Sentiment Index quarterly rate-of-change supports this expectation for slowing growth to take hold in mid-2018.

ASIA China industrial production during 2017 was up 6.6% from one year ago. Industrial production is growing at an accelerating rate, but is expected to transition to a slowing growth trend imminently. China railway freight carried, a measure of economic activity in the Chinese economy, transitioned to a slowing growth trend in October. Decelerating railway freight carried signals that Chinese industrial production will likely decelerate through at least the second half of 2018. Southeast Asia industrial production is up 3.6% year over year. Most of the countries within the region are expanding, with the exception of the Philippines and Singapore. Indonesia and Malaysia, up 4.8% and 4.7% respectively, are growing at faster rates than the industrial production indicators in the other countries.

MIDDLE EAST / AFRICA Middle East and North Africa industrial production is up 1.9% compared to the year-ago level. Egyptian industrial production *(up 23.0%)* and Saudi Arabia GDP *(up 7.3%)* are in accelerating growth trends.

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CURRENCY TRENDS

	Current Value of $1USD	Change Since 1/1/2018	Change Since 2/1/2017
Brazilian Real	3.24	-0.07	0.13
Canadian Dollar	1.27	0.01	-0.04
Chinese RMB	6.32	-0.19	-0.55
Euro	0.82	-0.01	-0.12
Mexican Peso	18.78	-0.80	-1.05
Pound Sterling	0.72	-0.02	-0.08

Current values as of 2/27/2018

BY THE NUMBERS (US)

Conference Board Consumer Confidence Index
130.8%

January (2018) Unemployment
4.1%

Retail Sales
(December to January)
-0.3%

Mfg.'s New Orders for Durable Goods
(October to November)
-3.7%

Mfg.'s Shipments of Durable Goods
(November to December)
+0.2%

Durable Goods Mfg.'s Inventories
(November to December)
+0.3%

CPI Inflation
(over prev. 12 months)
+0.5%

US Industrial Production Index
(over prev. 12 months)
+3.6%

Purchasing Managers Index
(December)
59.1%