

IN THE SPOTLIGHT

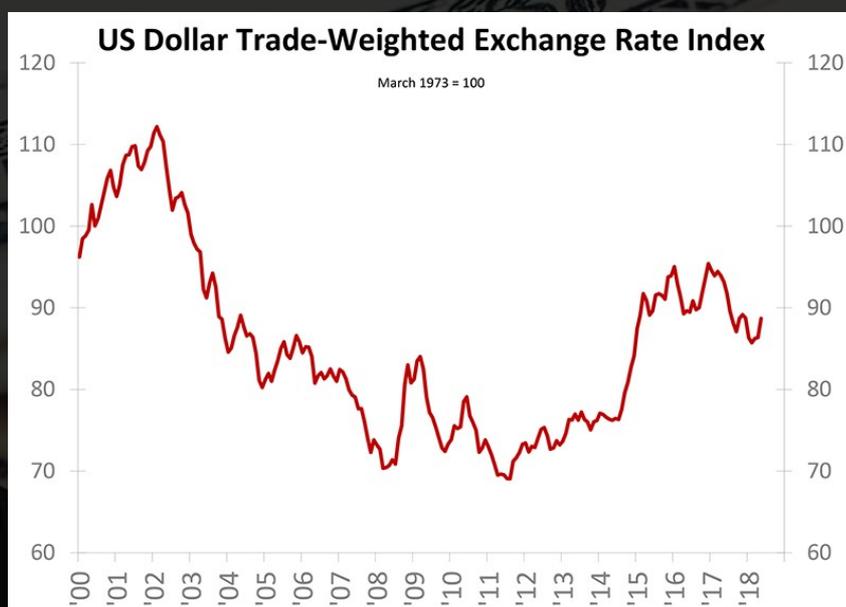
How Much Value Should We Assign Recent Gains By The US Dollar?

The US dollar has made headlines lately as it gained value relative to other currencies including the euro and the Canadian dollar in recent months. Articles have used terms like “huge comeback” and “better start liking a strong dollar” to characterize the greenback’s ascent. This discussion places the recent appreciation of the dollar into the appropriate historical context, discusses implications of exchange rate fluctuations on the US economy at large and the electrical equipment industry specifically, and concludes with suggestions for businesses on how to manage this fluctuation.

Greenback Gains

The greenback gained 6.1% against the euro, rising from a three-year low of 0.806 euros per dollar in January to 0.855 in May (month-end data). While this is a significant rise, the 0.855 euros per dollar is a slim 1.1% above the five-year average exchange rate of 0.846 EUR/1 USD, during which time the exchange rate fluctuated from 0.721 to 0.951 EUR/1 USD. The magnitude of the jump in the US dollar relative to its Canadian counterpart is similar to the change in the euro to US dollar exchange rate. The greenback gained 5.2% versus the loonie, from 1.231 to 1.296 CAD per USD over the January-to-May timeframe. However, the May value of 1.296 compares to a range of 1.028 to 1.398 during the last five years.

When charted, the degree of severity in the appreciation in the dollar becomes clearer. The chart below plots the value of the US dollar from 2000 to present against a trade-weighted basket of currencies. Rise in the red line represents a stronger dollar; decline represents a weaker dollar. The chart shows that even with the recent uptick in the dollar, the average value of the greenback during the first six months of 2018 was 4.4% lower than the 2017 average and 4.9% lower than the 2016 average.



How much do exchange rate fluctuations impact business and what should be done?

The relevant question to business owners is how much are exchange rate fluctuations impacting my business,

and what should I do about it? Research shows that the strong dollar in recent years relative to the immediate aftermath of the Great Recession has had a significant impact on certain segments of the US B2B sector, including the electrical equipment industry. In the most recent five years through the first quarter of 2018, Europe Electrical Equipment Production grew 12.8% while the US dollar appreciated 9.2% against the euro (annual average basis). US Electrical Equipment Production, which includes manufacturing power, distribution, and specialty transformers, electric motors, generators, and motor generator sets, switchgear and switchboard apparatus, relays, and industrial controls, declined 14.5% over this same time period. During this time, US customers turned to imports, leading to a 20.3% rise in annual total US Imports of Electrical Equipment from March 2013 to March 2018.

The positive short-term news for US manufacturers involved in the electrical equipment industry is that the weaker dollar in 2018 relative to the previous two years means some of this business is returning to the US; annual total US Exports of Electrical Equipment are at the highest level in 20 months. Plan for annual total US Electrical Equipment New Orders to rise through the third quarter of 2018. However, the mild 2019 recession expected in US Industrial Production and associated decline in B2B activity means you should expect annual total New Orders to subsequently decline into early 2020 before rising through at least the remainder of 2020.

Don't Lose the Forest for the Trees

While public press articles are quick to jump to gloom or optimism with the latest day of economic data, business owners should heed caution to avoid overreacting to short-term fluctuations in volatile indicators such as exchange rates. Focus instead on reliable long-term leading indicators of the US industrial sector, which are pointing toward a transition to slowing growth late in 2018 followed by mild decline during 2019. Take steps to conserve cash while watching inventory levels carefully the deeper we get into this year and especially during next year. Build up a backlog of work in the second half of 2018 to keep yourself busy next year. A mild recession does not need to be cause for doom and gloom if you plan for it carefully, as inputs can become available at a discount while you may be able to utilize the brief downturn to train employees in preparation for likely growth in 2020.

WIRE INDEX

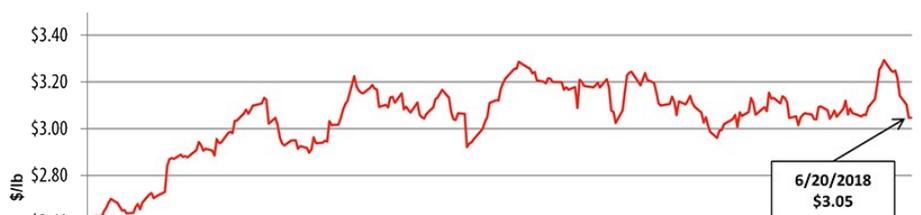
General Cable has been removed from the Wire Index due to their recent sale. As a result, the Wire Index has decreased by 31.3% since the beginning of the year and decreased by 22.6% since the beginning of May. It is now down 22.6% over the past 12 months. Outside of General Cable, the other companies tracked had strong results since the beginning of May. Anixter (11.6%), Belden (4.7%), Houston Wire & Cable (25.7%) and Encore Wire (7.2%) all had stock price increases.

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. The Wire Index has five publicly traded wire and cable manufacturers and distributors.

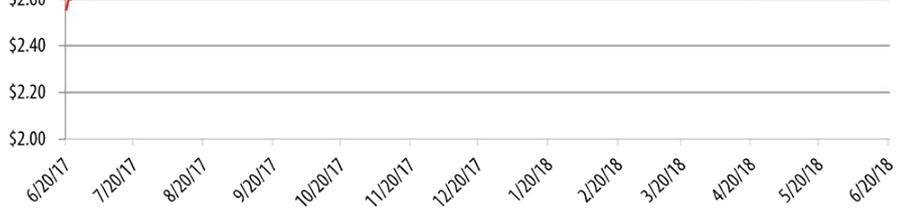


COPPER FUTURES

Comex copper prices increased by 1.0% since the beginning of May and sits at \$3.05/pound as of 6/20/18. Year to date copper is down 6.4%, but is up 17.7% over



the last 12 months.



BY THE NUMBERS

128.0%

Conference Board Consumer Confidence Index

3.8%

May 2018 Unemployment

0.8%

Retail Sales (April to May)

-1.7%

Mfr's New Orders for Durable Goods (March to April)

-0.1%

Mfr's Shipments of Durable Goods (March to April)

0.3%

Durable Goods Mfr's Inventories (March to April)

0.2%

CPI Inflation (over prev. 12 months)

3.5%

US Industrial Production Index (over prev. 12 months)

58.7%

Purchasing Managers Index (May)

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA



The North American economy is exhibiting strength thanks to the US and Canada, while Mexico lags behind. Annual average US industrial production and Canada industrial production are growing at accelerating rates, but Mexico industrial production is declining mildly. Trends in leading indicators for US industrial production suggest that the period of accelerating growth is likely to extend into the third quarter of 2018 before the pace of growth slows late in the year. Leading indicators for Canada industrial production portend an imminent transition to slowing growth. Rising leading indicators suggest Mexico industrial production will bounce back somewhat in the second half of 2018 to end the year as a whole higher than the 2017 annual average.

The upward momentum in the US economy has translated to robust growth in US wholesale trade of electrical and electronic goods, which was growing at the fastest pace (9.6% year over year) in nearly five years. However, expectations for mild 2019 recessions in US industrial production and US non-defense capital goods new orders (excluding aircraft) suggest you should avoid over-expansion at the top of the business cycle to remain profitable during 2019. Canada electrical equipment manufacturing is also growing at an accelerating pace, up 2.3% year over year as first-quarter manufacturing was up 13.2% over the first quarter of 2017.

Mexico industrial production, down 1.0% on a year-over-year basis, is under-performing the industrial sectors of its neighbors to the north. Annual average Mexico oil & gas mining production is declining as it faces aging infrastructure and undergoes a transition from state-owned control to private investors. Compounding matters, first quarter Mexico manufacturing production came in 0.2% below the first quarter of 2017. Trends in the quarterly rates-of-change for the Mexico Purchasing Managers Index and the Mexico Manufacturing Business Confidence Index support an expectation of mild growth in 2018 Mexico Industrial Production relative to 2017. However, 10-year Mexico bond yields are above 8% and at post-Great Recession highs; exercise caution in your business dealings in Mexico.

SOUTH AMERICA



South America industrial production was up 2.2% on a year-over-year basis as of March. Brazil industrial production is outpacing the region as a whole, up 3.9% year over year. However, general rate-of-change descent in the Brazil manufacturing capacity utilization rate and the Brazil Purchasing Managers Index suggests that Brazil industrial production will transition to a slowing growth trend imminently. Plan for decline in annual average production to take hold during the second half of this year and persist into late 2019. Argentina industrial production, up 3.6%, and Chile industrial production, up 1.6%, are in accelerating growth trends while Colombia industrial production (down 0.7%) stagnates.

EUROPE

The Europe industrial production annual growth rate, 3.5%, is nearly three times the five-year average of



1.3%, buoyed by demand from both at home (Europe retail sales up 3.7% year over year, double the five-year average) and abroad (Europe export volume up 3.3%). However, signs are pointing toward the likelihood of slowing growth in production during the second half of 2018. The Europe leading indicator and the Eurozone Composite Purchasing Managers Index rates-of-change are declining while the imposition of tariffs by the US against the EU could hinder the export sector moving forward. Expect a mild 2019 recession in Europe industrial production as the global economy stumbles.

ASIA



Average China industrial production during the 12 months through April was up 6.5% from one year ago. The slowing growth trends in China railway freight carried and China power generation signal that the Chinese economy is growing at a slowing pace. Japan industrial production (up 3.7%) is also growing at a decelerating rate, but annual total Japan exports are approaching a four-year high. Annual average South Korea industrial production has edged down in recent months although it is still 1.5% above the year-ago level. Declining Japan leading indicator and South Korea leading indicator rates-of-change suggest opportunities are likely to become increasingly limited in the industrial sectors of these two countries heading into 2019. Expect more favorable conditions if you do business within India, as India industrial production is growing at an accelerating pace during its ascent. Capital equipment and motor vehicles are two bright spots within India's economy; India capital goods production during the first quarter was 9.0% above the first quarter of 2017 while the most recent three months of India motor vehicle production were 21.0% above the same three months one year ago. Plan for the accelerating growth trend in India industrial production to extend into the fourth quarter before the pace of growth moderates into early 2020.

MIDDLE EAST/AFRICA



Middle East and North Africa industrial production is in a tentative accelerating growth trend, but the pace of year-over-year growth, 1.1%, is nearly identical to the five-year average. Higher oil prices this year compared to last year bode well for the economic growth prospects of the region.

CURRENCY TRENDS

	Current Value of \$1USD	Change Year-to-Date	Change Last 12 Months
Brazilian Real	3.74	0.43	0.42
Canadian Dollar	1.33	0.07	0.00
Chinese RMB	6.47	-0.04	-0.36
Euro	0.86	0.03	-0.04
Mexican Peso	20.36	0.70	2.25
Pound Sterling	0.76	0.02	-0.03

Current values as of 6/20/2018



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