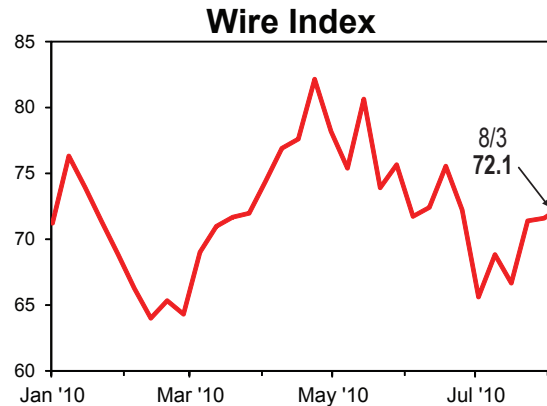


Dear Friends of IEWC, here is my account:

Industry News

The Wire Index inched upwards in the past month, closing at 72.1 on Aug 3. Despite a fair amount of volatility, the index remains essentially unchanged since the beginning of this year. While business conditions have improved against 2009 for all six of the companies listed in the index, such gains were captured by the index well before this year. In anticipation of improved profits for wire and cable players, the Wire Index more than doubled in value during the last 10 months of 2009.

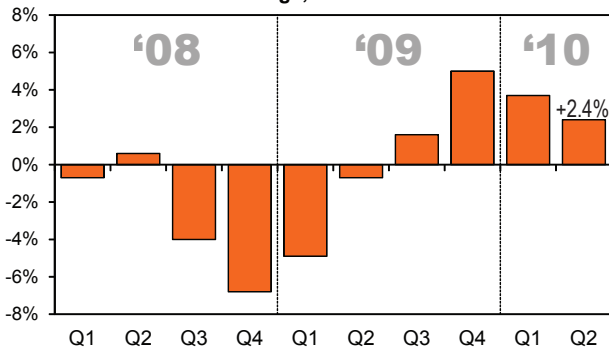
On the acquisition front, Carrollton, Georgia-based Southwire recently announced its purchase of Tappan Wire & Cable Inc. out of Blauvelt, New York. Tappan specializes in the manufacture of various types of electronic, control, fire alarm and security cable. The addition of this product line to Southwire's portfolio seems to fill a gap in Southwire's otherwise comprehensive offering. Southwire's acquisition of American Insulated Wire (AIW) back in January followed a similar strategy in part, as the AIW product line added to Southwire's market share in building wire while also expanding their offering of cord and lead wire products. Click [here](#) to read the full press release from Southwire.



US Economy

The most notable US economic news of the month came from the Bureau of Economic Analysis (BEA) in their advance estimate of US GDP growth for the second quarter of this year. Their headline number measured a 2.4% annualized growth rate in productive output in the US during the three months ending in June. This "advance" estimate from the BEA is part of their typical schedule for releasing and revising their estimates of growth over time. Following their first advance estimate of GDP, released about one month after the close of the quarter, the BEA issues second and third estimates of GDP for the same period with subsequent releases in monthly intervals. Even their third estimates are subject to revisions many years into the future. Such revisions are made as new data and estimation techniques become available.

Real US GDP
% change, annual rate



The 2.4% growth rate recorded in the second quarter was just below the consensus expectation. The smaller GDP figure was largely due to the government's preliminary estimate of the US trade balance during the period. The government estimated a large surge in imports during the period that subtracted a full four percentage points off of the total growth figure. As more reliable data on imports and exports for the quarter become available, this is one component of GDP that is likely to see revisions in the near future.

Looking at all of the statistics on US economic activity during the last couple of months, it is clear that business slowed on many fronts during May and June. Shipments and new orders for manufactured durable goods both declined in those two months, as did retail sales. On the other hand, the Fed's industrial production index and the ISM's Purchasing Managers Index (PMI) both showed expanding production in May and June, though the PMI suggested a slowing growth rate. The economy has clearly received its first major bounce after the recession and has now reached a pause. Look for the second bounce soon to get us closer to pre-recession levels of production.

Freight

The shipping industry is an opaque one, with few hard data points available for analysis. Given the thousands of transit lanes and many modes of transportation, there is no easy way to measure the comprehensive health of the world's supply chain network. The few bits of data available, however, suggest some strains on the network.

With the dramatic decline of output during the recession, freight activity also dropped off. As manufacturers and retailers worked off excess inventories, there were fewer shipments between supplier and customer, generating a lot of excess capacity along the supply chain. Now that business is picking up again, there seem to be a number of imbalances in the system.

The recent *State of Logistics Report* released by the Council of Supply Chain Management Professionals highlights a few pain points for the trucking sector. The current utilization rate for heavy trucks is only about 75%, according to the report. The extra capacity has driven down shipping rates and left little demand for new trucks. The recession put close to 2,000 trucking companies out of business in 2009. Despite the many used trucks on the market, some smaller companies are now having trouble getting the credit to buy them, leaving some of the extra

**Industrial
Production**
(May to June change)

+0.1%

**June
Unemployment**

9.5%

Retail Sales
(May to June change)

-0.6%

**Mfg.'s New Orders
for Durable Goods**
(May to June change)

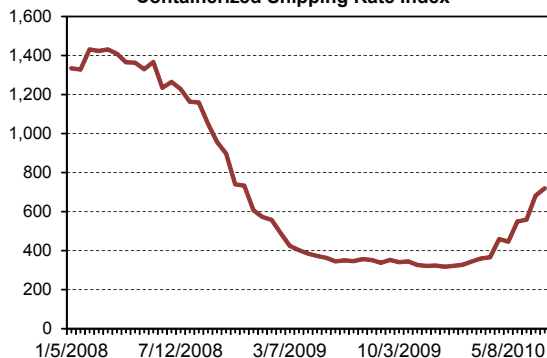
-1.2%

**June
CPI Inflation**
(over prev. 12 months)

+1.1%

HARPEX

Containerized Shipping Rate Index



suggests, trucking rates are poised to increase sharply in the coming years.

The ocean freight sector has also wrestled with some challenges in and coming out of the downturn. The supply of shipping equipment is notoriously inelastic, meaning that it doesn't adjust quickly to changes in price. In March of 2009, at the depths of the recession, 484 cargo ships laid idle, more than 11% of the world's fleet. This glut of supply sent charter shipping rates to new lows. Container makers also shut their doors, with plenty of the steel boxes already on the market. With shipping demand bouncing back stronger than expected, so are shipping rates. Industry analysts are now predicting a shortage of containers leaving Asia during the approach of the holiday season, leading to extra surcharges in those lanes. As shown in the graph above, the HARPEX, an obscure index of containerized rates, is rising quickly. Compiled by Harper Peterson & Co., a German-based ship broker, the HARPEX measures shipping rates for container shipments of various semi-finished and manufactured goods. A different measure of shipping rates is the more popular Baltic Dry Index (BDI), which measures shipping rates for solid raw materials around the world. The more volatile BDI has actually declined since the beginning of the year, contrasting the steady climb in the HARPEX, although the post-recession trend on the BDI is still positive.

Copper

Volatility has returned to the copper market with a vengeance. Starting the year at a 16-month high of \$3.48/lb, COMEX copper subsequently dropped to \$2.85, climbed to \$3.63, fell again to \$2.76, and is now on the rise, closing at \$3.39/lb on Aug 3.

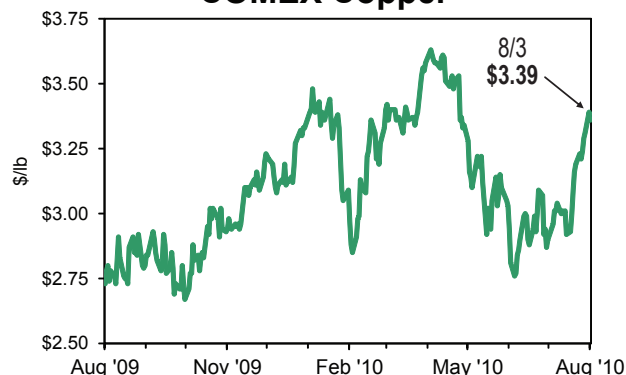
As many of you reading this will know, such volatility in the copper markets can be a source of pain and confusion on the order desk. With copper indices tied into the price of bulk wire and cable from many manufacturers, the cost of these products can vary greatly even within a single month. Meanwhile, distributors and end-users bear a significant amount of risk carrying the copper-based products on their shelf. The cost base on inventory held for more than a few weeks can quickly fall out of line with current vendor replacement costs. Fortunately, after dealing with such wild copper volatility in the years leading up to the recent recession, the industry has developed a number of coping tools to make business in this environment more bearable. One thing is for sure, volatility in the metals markets is the new norm. If there was ever any suspicion that post-recession prices would settle back into some stable price range, there isn't any more.

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capacity underutilized despite growing demand.

Besides the trouble with extra trucks, the report also predicts a growing shortage of drivers in the future. Like many industries, the retiring of baby boomers looms large, with about one in six truck drivers over the age of 54. The report estimated that the industry could use an extra 200,000 drivers with the rebound in 2010, with a need for another 200,000 additional drivers in 2011 as business picks up and older drivers retire. The driver shortage is compounded by the new driver safety standards issued by the Federal Motor Carrier Safety Administration which takes effect later this year. The new Comprehensive Safety Analysis 2010 regulation introduces a series of driver safety requirements that could force 5 to 10% of the current driver population out of the industry, estimates the report. If the shortage of drivers and available equipment proves as bad as the report

COMEX Copper



Sincerely,

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