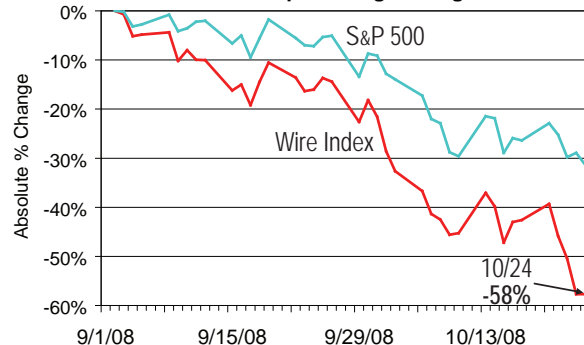


Dear Friends of IEWC, here is my account:

Industry News

The Wire Index took a major tumble this past month, even when compared to the broader markets. See the graph to the right for the two-month relative performance of the Wire Index versus the S&P 500. While a portion of the Index's abrupt 58% decline is certainly a reflection of the worsened economic outlook and a larger bear market, the additional decline of wire and cable stocks is clearly a reaction to tanking copper prices. By nature of their business, wire and cable manufacturers and distributors carry a large inventory of copper material, making their short-term profitability sensitive to dramatic shifts in copper asset prices. For manufacturers, these materials range from pure copper cathode awaiting conversion to rod stock to freshly stranded wire running through the extruder. Downstream channel distributors inventory many months worth of product in distribution centers, readily available to service the JIT needs of the end-users. With these existing levels of inventory in the system, it can take upwards of 3-4 months before copper cathode and rod stocks find their way to market, creating a significant lag between Comex pricing and actual market prices for copper wire and cable products.

Wire Index vs. S&P 500
two-month percentage change



US Economy

During the past 40 days, the US economy has taken the turn from a stagnant economy to an economy in recession. While overall economic activity remained relatively resilient up through the first half of this year, the recent financial crisis has created a damaging state of panic. Across the board, major indicators have deteriorated further, signaling a decline in economic activity. The primary cause of this sudden economic descent is the restriction of credit in the marketplace, as banks hoard cash in fear of writing additional bad loans and in protection of their own solvency. This breakdown in credit facilities decreases the number of banks willing to lend money and thus greatly increases the cost of borrowing. Without adequate access to credit, many individuals have to delay consumption, decreasing aggregate demand. Similarly, businesses have greater difficulty financing expansion, capital investments and job creation, hurting output and consumption alike.

TED Spread
2008



This limitation in available credit is best evidenced in the recent increase in the TED spread, the difference between the three-month LIBOR rate for US dollars and the yield on US Treasuries. Since Treasuries are generally considered a risk-free investment and the LIBOR reflects the average cost of lending between banks, the difference (spread) between these figures works as a close proxy for the level of perceived credit risk in the economy. As shown in the graph above, this indicator spiked upward in the past few weeks and still sits dangerously high by historical standards. Since the onset of the panic, the Federal Reserve and US Treasury have concocted almost daily interventions designed to shake the economy from its current state of hysteria, though success has been minimal so far. Things will likely calm down after the pending election, but much of the harm is already done.

2008 US Presidential Election

America's Presidential Election is now only days away. For those of you that are US citizens (and not convicted felons), I urge you to vote. While we often take it for granted today, the regular, peaceful transition of power in the US is still rather remarkable by historical standards. Unfortunately, with all of the noise and finger-pointing around the election, determining what the candidates actually stand for is a difficult (and sometimes moving) target. Since the candidates are not required to publish their specific plans for the country, voters are often left to digest a series of sound bytes and campaign promises to try and determine what the next President will really do. Below is my attempt at summarizing the policy positions of the Democratic and Republican Presidential candidates as it relates to the wire and cable industry and business in general, in hopes that you can make a more informed decision on November 4th.

To be sure, Industrial Electric Wire & Cable does not endorse a 2008 Presidential candidate. This article is intended to inform – not sway.

On taxes, McCain and Obama hold predictable positions on the appropriate level of taxes for the country. In general, McCain offers lower taxes across the board, with marginally smaller tax burdens for the lowest income brackets and generous tax cuts for the wealthiest members of the country. While this classic strategy at first seems like a shockingly inequitable short stick for the lower and middle class, it is important to note

BY THE
NUMBERS
(US)

**Industrial
Production**
(Aug to Sept change)

-2.8%

**September
Unemployment**

6.1%

Retail Sales
(Aug to Sept change)

-1.2%

**Mfg.'s New Orders
for Durable Goods**
(July to Aug change)

-4.8%

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

+4.9%

that the wealthiest are really the ones paying the most taxes to start with. As of this year, the wealthiest 20% of Americans are carrying 69% of the tax burden. McCain's plan also offers decreased taxes over time on corporations (25%) and long-term capital gains (7.5%), with a temporary allowance for immediate, full deductions of companies' 3-5 year equipment purchases. This tax-cut platform is based on the idea that lower taxes increase the marginal benefits of investment, innovation and working harder, encouraging such behaviors. Without drastic spending cuts, however, such a plan would also add to the growing mound of Federal debt. Obama's plan is a net tax increase designed to bring greater income equality to one of the most unequal countries on the planet. Under the Obama tax plan, American families earning less than \$250,000/yr will see a modest decrease in taxes, while the country's highest earners will see a significant increase in both income and capital gains tax rates. This tax plan is primarily designed to increase the middle class' effective incomes as well as overall Federal tax revenues, enabling expanded social programs, debt reduction, or both.

On healthcare, Obama aims to increase coverage by proposing a national exchange service where individuals and businesses can chose from a mix of federally-funded and private insurance plans at subsidized rates. The plan does not mandate health insurance for adults but seeks to attract old and young alike with the more affordable premiums enabled by heavy subsidies. Obama's healthcare plan will require all but the smallest companies to either provide comprehensive health coverage for its employees or pay penalties in support of the national insurance pool. McCain's health care plan seeks primarily to increase competitiveness in the industry by eliminating the tax advantage of employer-sponsored health care, and instead directing those funds towards refundable credits for individuals to purchase plans from health insurers nationwide.

On trade, the choice is between freer and fairer. McCain is a fairly straight forward supporter of free trade, consistently supporting NAFTA, as well as additional free trade deals with South Korea, Columbia and Central American countries. McCain also has a history of opposing trade-restricting tariffs and the ever contentious, subsidy-rich farm bill. Obama favors free trade, but only when the agreements secure equal labor and environmental standards on both sides. Because of his desire for a more level playing field, Obama has voted against opportunities for new free trade deals and has criticized the current NAFTA, vowing to renegotiate the agreement once in office.

On immigration, the Presidential candidates offer relatively similar positions. While immigration is often considered more of a domestic issue, it can have a significant effect on the supply of low-skill (and high-skill) workers available to US businesses. Where manual processes are used in many cable assembly and wire harness operations, a larger supply of low-skill, legal workers, will do much to bring down the cost of doing business. On this issue, both candidates cite the need for a more secure border, as well as reform measures opening up a clear path to citizenship for the many illegal aliens currently living in the United States. Neither plan contains specific goals for increasing the number of guest workers allowed into the country, but Senate records suggest that McCain would be much more liberal in his guest worker allowances than Obama might. McCain's plan also differs from Obama's in that border security is noted as a specific prerequisite to broader immigration reform.

On energy and environmental issues, the candidates are also more alike than different. Obama proposes a series of government mandates and subsidies to promote a more environmentally friendly and energy independent country, including upgrades to the electricity grid, advancing research on plug-in hybrids and biofuel, and a cap-and-trade scheme to limit carbon emissions. Obama generally opposes more nuclear power plans and offshore drilling in favor of greater environmental protections. McCain also supports increased government involvement in the path towards a greener America, but offers up more tax credits than direct subsidies to support the programs. Specifically, the McCain plan also supports a cap-and-trade system, but in contrast to Obama, would increase investments in nuclear and offshore drilling as well. With broad support for various green initiatives, it is likely that both candidates would push for an extension of the current renewable energy production tax credit (set to expire at the end of 2009), or similar legislation, which would help to maintain demand for wire and cable products in the renewable energy sector for the immediate future.

Sincerely,



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