

Dear Friends of IEWC, here is my account:

### Industry News

The Wire Index continued its freefall this month, closing at 33.2 on the 21st of this month. This represents a five-year low for the index, which tracks the stock value of six publicly traded wire and cable manufacturers and distributors. The continued decline corresponds to the looming financial threat of falling copper prices, as wire and cable manufacturers and distributors alike face significant valuation issues if higher cost inventories cannot be sold at a profit. Investors are well aware of this trauma and have priced stocks accordingly, fully anticipating the foul earnings reports that are likely to come in the following quarters. Click on the graph to the right for historical Wire Index data.

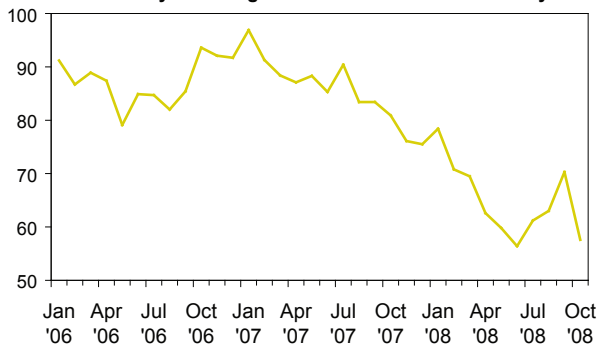
Despite the soured business environment, Atlanta based Southwire successfully completed its acquisition of CableTech Global L.P., a wholly-owned subsidiary of GenTek Inc., on November 14th. This acquisition complements Southwire's 2006 purchase of Cable Tech, CableTech Global's sister company in Canada. The addition adds to Southwire's existing product offering for original equipment manufacturers (OEMs) and is consistent with the company's strategy for growth in the OEM marketplace.

### US Economy

The deterioration of the world's largest economy accelerated in the past month and will almost certainly persist into next year. US GDP figures for the third quarter revealed a slight contraction in economic activity, and unemployment continues to grow with monthly job losses in excess of 200,000 during the previous two months. Retail Sales and indicators of the housing market are also down, telling of a much weakened consumer.

### Losing Confidence

University of Michigan Consumer Sentiment Survey



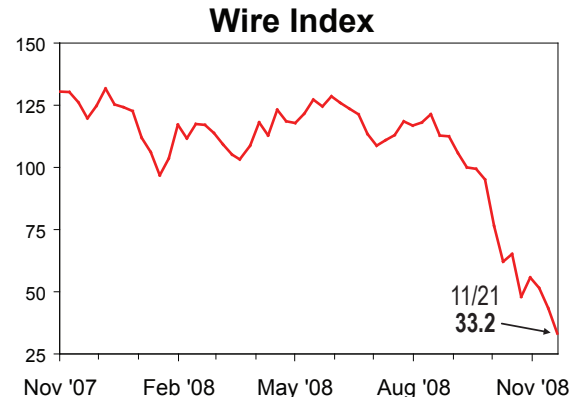
With an increasingly globalized economy, the economic recession with roots in the United States has now spread to affect most of the industrialized world as well. The economies of Britain, Germany, France, Canada and Japan all reported states of declining output in recent releases of GDP. China, a major driver in the global economy's previous growth trend, continues to grow, but at a much slower pace than in previous years. Mexico's GDP also slowed to anemic levels during the third quarter of this year, growing at the weakest pace in five years.

The road to recovery now requires, more than anything, less uncertainty. The declining housing industry also needs to turn around, though this is not a sufficient condition for economic resurgence. The menace of more bank failures continues to threaten market confidence. Investors, businesses and consumers have all tightened up with today's uncertainty. The stock market climbed more than 6% on Friday afternoon just with the announcement of President-elect Obama's pick for Treasury Secretary – one small, certain piece laid in place for a still uncertain future. Consumers are cutting back in fear that they may lose their job, and businesses have put off expansion without adequate knowledge of future demand. This type of fearful restriction can perpetuate itself, but will not continue indefinitely. At some point, bargains trump caution. In my opinion, we are in the worst of it now. The year end presents few opportunities for a rebound and will likely be the slowest of the recession. 2009 brings a new calendar, a new administration and a chance for renewed certainty.

### Big Three Bailout

The lobbying efforts of GM, Ford and Chrysler have gained much attention in the past couple of weeks. Choked by impossible obligations to labor and beaten by the diminished demand for passenger vehicles, Detroit has come looking for a bailout. The term bailout, as it is used here, and as it has been used throughout most of the year, really refers to a favorable loan that will be repaid with interest. But to the extent that the loan is made using funds and an interest rate that could not be secured in the private market, such a government loan is an effective subsidy to the industry in question.

A bailout of the Big Three is a dreadful idea. Government handouts for a specific industry have a bad track record and set a poor example for other struggling industries. The Detroit automakers are in big trouble for sure, but the industry has no one to blame but themselves. The United Auto Workers (UAW) union spent the past five decades slowly strangling the domestic automakers into the red. General Motors alone lost \$51 billion from 2005-2007. Exponential retiree obligations and an inflexible labor force have created a cost advantage for foreign automakers as much as \$2,000 per vehicle. No hardworking, 20-year veteran of the Detroit auto industry wants to take a pay cut, but it beats the alternative –



BY THE  
NUMBERS  
(US)

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

**+1.3%**

**October  
Unemployment**

**6.5%**

**Retail Sales**  
(Sept to Oct change)

**-3.1%**

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

**+0.9%**

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

**+3.7%**

eventual unemployment. The competitive forces of a globalized marketplace are unavoidable. Bailing out the Big Three will put a dying patient on life support.

Whether or not you support the recent financial bailout packages, one must recognize the difference between the financial bailouts and the rent-seeking efforts of the auto industry. The financial industry is intimately involved in the entire economic system, funneling Federal Reserve Notes (money) into circulation, providing loans, and generally matching up borrowers and savers for mutual benefit. The smooth operation of this system is critical for the rest of the economy to function correctly; a failure of the financial system presents systematic risk for the rest of the economy. Even if a Big Three bankruptcy destroyed every million plus jobs associated with the industry, the risk is not systematic. Many other industries will continue to flourish without a US-owned auto industry. Though in reality, even the job losses threatened by a Detroit bankruptcy are fictitious. Throughout domestic auto's gradual decline, foreign automakers like Toyota, Honda and BMW filled in the gaps, opening up multiple auto plants across the US South. As Detroit gives up its remaining market share, foreign-owned competitors will continue to pick up the slack with made-in-the-USA autos and parts, they just won't carry names like GM, Ford and Chrysler.

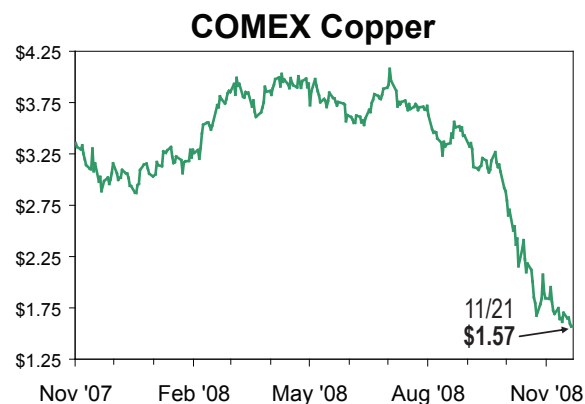
### Copper

Starting in late September, copper futures plummeted to levels unseen since the first half of 2005. On the 21st of this month, Comex copper closed at \$1.57/lb, more than 61% below the highs of this summer. These rapid declines are very disruptive to the industry as a whole. As discussed with the falling Wire Index, this commodity decline presents serious challenges for every wire and cable manufacturer, distributor and processor who maintains any more than a few days of inventory. The exchange price of copper is extremely fluid and highly publicized, but the actual price paid for shelf copper product in many facilities does not move so quickly and is still well above current market values. Unless each industry participant can simultaneously and rapidly rid themselves of higher-priced inventory, industry profitability will fall under great pressure. The next few months will be very difficult times for the weakest players in the industry.

The swift drop in copper prices (and most other commodities) is directly tied to the broader economic recession that currently inflicts the rest of the global economy. With a diversified base of consumers, the price of copper is most sensitive to overall economic performance. In addition, futures exchange prices, like those that determine market values for copper, are especially sensitive to changing expectations of future supply and demand. Even if demand has not yet slowed severely, the expectation that demand will drop dramatically in the coming year is enough to depress copper prices today. These changing expectations are the best explanation for the current volatility present in today's commodity markets.

Another contributing factor to the decline in dollar-denominated copper prices is a much stronger US dollar. During the same period of Comex copper's decline, the US dollar strengthened more than 25% against the Euro, the British Pound, the Canadian Dollar, the Mexican Peso, and the Australian Dollar. With renewed buying power, it now requires fewer dollars to purchase each pound of the globally-traded commodity. The opposite effect worked well towards inflating copper prices through the previous couple of years and is now reversed as the dollar strengthens.

The great question now is exactly how far copper will drop and how long it will stay there. As long as the current state of gloom and panic persists, copper will be punished. With so much expectation already tied into the price, however, a sentimental recovery in 2009 will go a long way to boost copper prices. In my view, these lower prices are mostly temporary. The upturn may not pan out in 2009, but an economic recovery will come, and copper will come with it. Just as the Dow will not remain below 10,000 in a couple of years, neither will copper remain below \$3.00/lb.



**"We have met the enemy and he is us." -Walt Kelly's Pogo**

**Look for my extended coverage of the fallout and its impact on the industry in the December edition of the *Wire Journal International*.**

Sincerely,

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