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Industry News

The Wire Index secured modest gains early this month before giving it all back during the third week. The Index closed at 112.8 on the 22nd, roughly even with Index value at the beginning of this year. With the delisting of Superior Essex this month following LS Cable's purchase of the company, the Wire Index now tracks six publicly traded wire and cable manufacturers and distributors. Click on the graph to the right for historical data and a complete listing of the Index's member companies.

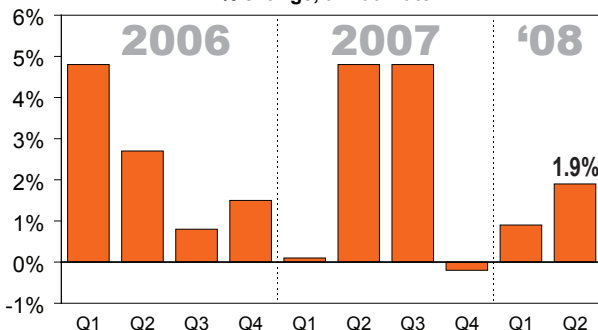
2008 Hot Wire Business Survey

While I continue to comment on and analyze the broader macro economy, I also want to take this chance to survey all of you as readers to gain a front-line view of business conditions and expectations in the wire and cable industry. With many of you as survey participants, I will analyze and publish the survey results in next month's Hot Wire in hopes of providing useful insights into your specific industry in time for the 2009 budgeting and planning process. Please take the time to complete the 2008 Hot Wire Business Survey by following [this link](#). The survey is completely anonymous and should take no longer than three minutes to complete.

US Economy

It has been 12 months now since the current crises in housing and credit markets began. Despite a noticeably soft business environment and significant downturns in certain sectors, the broader US economy continues to grow. The most recent GDP figures, measuring aggregate economic activity in the second quarter of this year, indicate that the economy grew at a 1.9% annual rate. On the whole, growth in this time of crunching credit remains positive. Recent revisions reveal slightly negative growth in the fourth quarter of last year, but with real growth in the preceding 6 months near a 5% annual rate, a slight contraction during that period is excusable. See the graph below for historical GDP growth rates through 2006.

Real GDP Growth
% change, annual rate



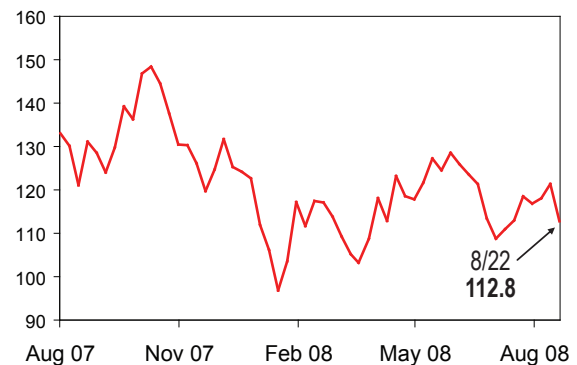
strength to the GDP numbers. Along with steady growth in government spending and the service sector, this significant decline in the trade deficit has done much to keep the US out of total recession.

Outside of the regularly scheduled statistical releases, the biggest story of the month is the strengthening of the US dollar. The appreciation from this time last month was very significant, with the dollar climbing 6% against the Canadian dollar and 8% against the Euro and British pound. While these changes may not sound like much, in the world of foreign exchange, these are huge movements for a single month. The stronger dollar came on the back of the idea that the problems associated with the US housing and banking industries may be hurting economies outside of the US. Japan, Canada, Britain and the Euro area all recorded zero or negative growth during the second quarter of this year. Falling oil prices and strong GDP numbers on the other hand, fueled modest optimism on the US economic outlook. The long-term trend for the US dollar is uncertain, but the dollar's recent punishing may have come to an end for now.

China

This month's Summer Olympics in Beijing have been a figurative coming-out party for the world's most populous country. Much has already been said of China in the last couple of decades, but if there was one event to mark the country's reentry to the world stage, this might be it. To most of us born after 1900, the idea of China as the world's leading economic powerhouse is rather foreign. For 18 of the last 20 centuries, however, China was the world's largest economy, also leading in technology and income per capita until around the 15th century. In 1820, China's relative economic size peaked at about one-third of world output. By strictly controlling international trade and

12 Month Wire Index



BY THE
NUMBERS
(US)

Conference Board
Leading Index
(June to July change)

-0.7%

June
Unemployment

5.7%

Retail Sales
(June to July change)

-0.1%

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

+0.8%

June
CPI Inflation
(over prev. 12 months)

+5.6%

technology while the West reaped the benefits of the Industrial Revolution, China's stifling government managed to shrink the economy to 9% of world GDP by the early 1900s. It was these destructive policies which created the familiarly backwards China that we generally associate with the twentieth century.

Needless to say, the economic status of this huge country is changing. The Chinese economy now grows at an annual rate close to 10%. Measured at current exchange rates, China's economy today is roughly one-fourth the size of US output. Accounting for changes in the cost of living and purchasing power, China's economy is about one half that of the US. Looking ahead, Chinese economic growth will have to slow from its current pace. As far as comparisons exist, the double-digit growth that China has churned out over the last 15 years is typical for a country newly reformed with economic freedom. Suddenly infused with property rights, deregulation, new technology and freer trade, China has had the benefit of breezing from the beginning of the Industrial Revolution to the Information Age in a matter of years. As the country gets up to speed with the rest of the world, though, China will have to settle for more mature growth rates in the single digits. Regardless of how much China's economic machine has to slow down in the coming years, the country's sheer size and relevance in today's global economy ensure that it will hold a prominent place on the world stage for the foreseeable future.

Copper

Copper fell below the \$3.50 floor this month for the first time since February. Concerns over future demand and a surge in dollar strength helped to lower prices for copper and most other commodities. COMEX copper reached as low as \$3.24/lb on the 12th before climbing back up to close at \$3.51 on the 22nd of this month. World copper inventories also contributed to the slump in prices, rising 3% over this time last month.

The relationship between commodity prices and the US dollar strength is a complex one. Any significant move in the foreign exchange market will inherently affect the dollar-denominated price of commodities, but commodity moves do not necessarily stir the currency markets. In the case of copper this month, metal prices declined sharply on the 4th, while the dollar did not gain significant ground until the end of that week. A simultaneous rise in US dollar strength might lead me to believe that the dollar is mostly responsible for declining prices, but the delay suggests the opposite. The fall in commodity prices that occurred early this month signaled to many investors that the bull market for commodities might be coming to an end. Fearful of further declines in prices, investors may have then switched back in to currency positions, propping up the dollar – which in turn may have pushed commodity prices down further. In a market with thousands of independently informed investors thinking and acting in real time, theorizations like this are mostly speculation, though I believe the underlying principles are true.

Oil/Gas/Polymers

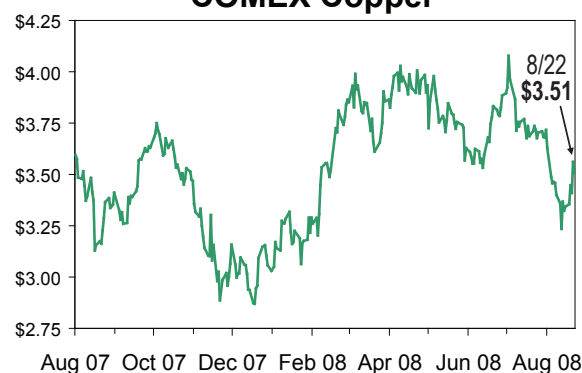
Crude oil prices made headlines again, this time declining more than 22% from the record high recorded back in July. Much as I have discussed in previous newsletters, I believe this decline reflects how unsustainable the recent run-up in oil truly is. Futures prices may still temporarily spike back towards the \$150 mark, and \$80+ oil is probably here to stay, but the overarching trend suggests that the last five months are more of an oil shock than a paradigm shift to permanent \$140/bbl oil.

NYMEX oil futures finished the month slightly above the month's low, closing at \$114.59/bbl on the 22nd. Natural gas prices recorded similar declines, closing at \$7.84/mmBtu on the 22nd.

This recent decline in oil and gas prices should alleviate some of the inflationary pressures associated with polymer costs, but price decreases are still far from the immediate horizon. Just as price increases were not passed on instantaneously with the jump in oil prices earlier this year, many of the products coming out of wire and cable mills are still using insulation compounds that were purchased at a \$140 oil base. Polymer suppliers and wire and cable manufacturers will want to be sure that the downward trend is lasting before giving up the price increases they fought so hard for earlier this year.

Please remember to complete the [survey](#) if you haven't done so already. Your participation is appreciated!

COMEX Copper



Sincerely,

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