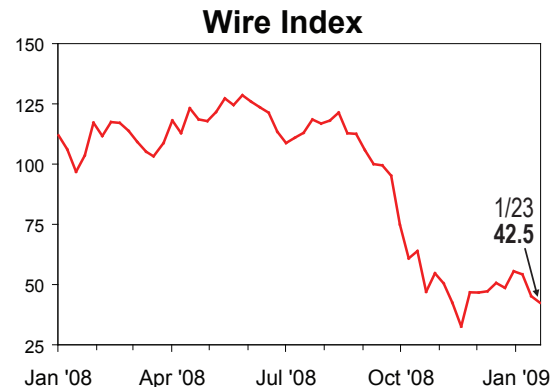


Dear Friends of IEWC, here is my account:

Industry News

The Wire Index slumped again this past month, dropping 16% from the value recorded in last month's *Hot Wire*™. Despite the market's continued day-to-day volatility, the past couple of months of data suggest that the deep plunge that started this past September may have leveled off for now. Finding a close correlation with a similar leveling off in the price of copper futures, the index now stands at the same level as it did in mid-November, closing at 42.5 on the 23rd of this month. Barring another major and unexpected financial disruption, the Wire Index may have already seen its lowest value for the current cycle. Click on the graph to the right for more information and historical data on the Wire Index.



Fiscal Stimulus

There are some things in economics that are fairly straightforward and generally accepted principles. Open trade generates wealth for both parties involved. Printing too much money creates inflation. Increased demand raises prices; increased supply lowers prices. One can reasonably debate the merits or the fairness of these principles, but the basic relationship is undeniable. Fiscal stimulus, unfortunately, is not one of these principles.

Fiscal policy refers to the government's budgetary policy tools: spending and taxes. With the global economy gasping for air, governments around the world are springing into action, throwing together fiscal stimulus plans with price tags into the hundred of billions of dollars. The idea here is to stimulate aggregate demand. By lowering taxes, businesses and consumers have more money to spend, ramping up demand for goods and services and thus increasing economic output. When the government spends, money flows directly into the economy to pay for new jobs and contracts, also increasing demand. If only it were that simple.

The effects of fiscal stimulus are very difficult to measure, creating a variety of opinions about the correct way to implement, or not implement, the policy tool. This is evident in the US Congress' current debate over whether Obama's stimulus plan should be \$100 billion, \$1 trillion or anything at all. In theory, fiscal policy is an effective and appropriate way to help stem an economic decline. A well timed and efficient government spending package does much to get the wheels of the economy turning again, especially in conditions where normal monetary policy tools are impotent behind banks that are unwilling to lend. In practice, however, the timing most certainly comes too late and the real economic value of the projects selected for the bill may be marginal. Robbing Peter to pay Paul to dig a hole does not generate economic wealth unless the hole is part of a valuable public works project that eventually benefits both people. Though many of these spending projects have wonderful intentions and sound great on paper, the Federal Government has an uncanny ability to spend on projects that ultimately come up short. Tax cuts aren't much better. In the long term, low tax rates are a critical condition for a productive private sector and a healthy economy, but short term "stimulus checks" are not quite as effective. On the whole, individuals tend to spend based on their expected lifetime income. If taxpayers receive credible evidence that a new administration's tax cuts will generate a permanent \$1,000 increase in annual income, the money will be spent, creating the desired stimulus for the economy. If taxpayers believe the tax cuts are only temporary, however, as history suggests they are, consumers are likely to spend that extra \$1,000 over the course of their lifetime, dropping it in the bank for now.

There is no silver bullet to end the current recession. A mix of spending and tax cuts may help, or perhaps the simple idea of government action will help lift the psychological cloud that keeps some businesses and consumers from spending. The US and most other modern economies will almost certainly implement significant fiscal stimulus plans if they haven't already, and the recession will soon abate. But the question will remain – did it really work, or was the economy just running its course as it would have otherwise?

Deflation

When I was a freshman in college and I first heard the word "deflation" with the intent to understand it, I had a hard time grasping the problem. Deflation essentially means falling prices, and as a student without any loan payments, an irregular income and a modest savings, I could not imagine anything better. A deflationary environment would allow the little bit of money I had to go further, as prices for key purchases like movie tickets and cheeseburgers declined. Plus, the longer I saved for a purchase, the cheaper it would become.

As I now understand, what is good for college freshmen is not necessarily good for the economy. Deflation occurs when there is either not enough money in the system to accommodate all that is being produced or when demand for goods and services declines, making it a bad economic symbol. More than just a symptom, however, deflation can be dangerous in its own right. When prices fall, businesses and consumers have incentive to put off purchases and investments that they might otherwise make today. Knowing that the cost of their purchase might be lower next month, potential buyers wait and see. At a time when aggregate demand is already depressed, enough wait-and-see consumers can compound the problem and create a period of sudden contraction. Besides this delaying effect, deflation unevenly punishes borrowers. Even

BY THE
NUMBERS
(US)

**Industrial
Production**
(Nov to Dec change)

-2.0%

**December
Unemployment**

7.2%

Retail Sales
(Nov to Dec change)

-2.7%

**Mfg.'s New Orders
for Durable Goods**
(Oct to Nov change)

-1.5%

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

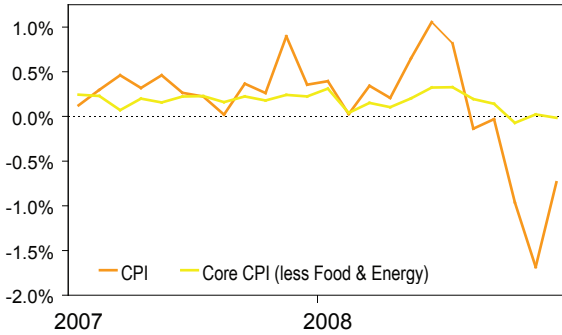
+0.1%

as prices and eventually wages decline, loan payments do not. As many of you have likely negotiated with a bank to pay a set amount each month in exchange for their purchase of your home, car or tuition, deflation causes these loan payments to become more and more expensive relative to your income and other expenses. In the world's advanced economies, where most people tend to be net debtors, deflation's positive effect on college freshmen and other net lenders is quickly overcome by the negative effect on the rest of us.

Fortunately, despite the renewed presence of the word in the media and other reports, true deflation is unlikely to set in. As displayed in the

Letting the Air Out

US Consumer Price Index Monthly % Change



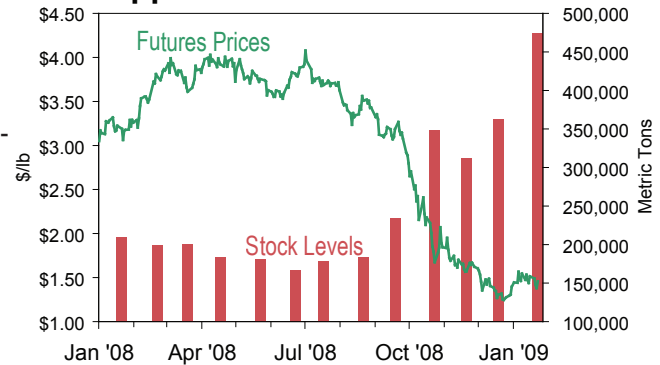
graph to the left, monthly changes to the Consumer Price Index have become severely negative, though this collapse is attributed primarily to declines in prices for food and energy – the same commodities that inflated significantly throughout most of the last two years. Stripping out changes in food and energy costs, the core CPI depicted in yellow has mostly flat-lined in past months, and is unlikely to dip much further. Lower costs for commodities like copper and polymers lend themselves to cheaper wire and cable products, lowering production costs for the many products that use cable and harness assemblies, but the effect of deflated commodities alone will not be enough to drive down prices across the board. With all that the Federal Government is doing to increase the money supply and inject liquidity into the markets, these excess funds will quickly renew the threat of inflation once more normal economic conditions resume.

Copper

Copper's spectacular tumble stabilized in recent weeks, holding fast between about \$1.25 and \$1.60/lb for the last 36 trading days. As shown in the graph to the right, this decline generally corresponds to a significant rise in global copper stocks, as aggregated from the London Metal Exchange, the Shanghai Futures Exchange and the New York Mercantile Exchange. With weakening demand around the world, excess supplies mount and prices fall in reaction.

Although represented in only a single measurement of data, my most recent calculation of global stock levels presents an interesting scenario. While copper prices actually rose \$0.15 in the month, copper stocks jumped more than 30%, bucking the usual inverse relationship. A similar surge in copper stocks in October oversaw a \$1.50 fall in futures prices. The fact that copper prices were sustained and even lifted amidst this most recent climb in stock levels is a positive signal that demand may be holding its own and the market is unwilling to drive prices much lower. Comex copper closed at \$1.46/lb on the 23rd of this month.

Copper Prices & Stock Levels



Oil/Gas/Polymers

Although the decline in crude oil prices was more severe than commodities like copper, the recent stabilization looks very much the same. After dropping more than \$100, crude prices remained between \$35 and \$50/bbl since the beginning of December, levels unseen since the beginning of 2005. Oil prices closed at \$46.47/bbl on the 26th.

Unlike most other commodities, natural gas failed to stabilize in recent weeks. Continuing to fall more than 65% from its summer high, Nymex futures closed at \$4.52/mmBtu on the 26th of this month. Natural gas is used heavily throughout industry, both as a feeder stock for the production of polymers used in applications like wire and cable insulation, and as an energy source for various industrial processes. With industrial production waning around the world, demand for this versatile commodity is severely damaged, pushing prices to two year lows.

Though calmer commodity price movements have now taken over, the extreme volatility of the past few months did not pass without taking any casualties. LyondellBasell, a multinational plastics, petrochemicals and fuel company, cited financial difficulties associated with volatile commodity costs and delayed orders from many customers trying to draw down inventories, leading to Chapter 11 bankruptcy for its US operations and one of its European holding companies. Although the results may not be the same, the pressures of falling commodity costs and customers drawing down inventory are challenges known to companies throughout the supply chain for wire and cable.

Sincerely,

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