

Dear Friends of IEWC, here is my account:

### Industry News

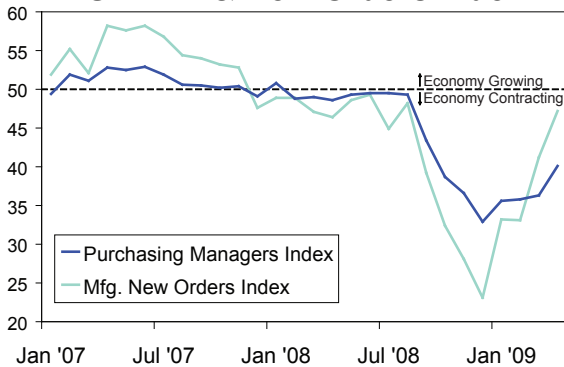
The Wire Index recorded another strong increase this month, rising 22% from the value quoted in my last issue to close at 70.9 on the 28th.

At the end of last month, Alcoa announced an agreement to sell its wire harness division, part of AFL Automotive, to California-based Platinum Equity. The acquisition includes operations in 13 countries with 17,500 employees and is expected to close by the middle of this year. The sale is part of Alcoa's many efforts to address the economic downturn, specifically the divestiture of its non-core business units, a strategy announced back in January. The wire harness and electrical distribution division is heavily involved in the automotive and commercial vehicle industry. Click [here](#) to read Alcoa's full press release.

### US Economy

The economy is declining more slowly; things are getting less bad. Or if you like finding applications for calculus in everyday life – the economy's second derivative has turned positive while the first derivative remains negative. It is unlikely that we have already reached the technical bottom of the current recession, but the end is clearly in sight.

### ISM PMI & New Orders Index



The Institute of Supply Management's (ISM) Purchasing Managers Index (PMI) is a good example of this current trend. The PMI takes a monthly survey of purchasing executives from around the country and compiles a single index based on reported changes in buying habits. Although somewhat qualitative in nature, the index's quick release at the end of each month makes for a timely reading of current economic conditions. For the PMI, an index over 50 indicates an expanding manufacturing industry while anything below 50 signals contraction. By assigning a number to the economy's current pace of growth or decline, the index is in itself a sort of first derivative of the economy. By this measure, the PMI's April reading of 40.1 indicates that the manufacturing sector is still contracting, but the strong up-tick from March and small increases in the preceding three months show that the pace of economic decline is slowing significantly. Adding in the even stronger increase in the ISM's Manufacturing

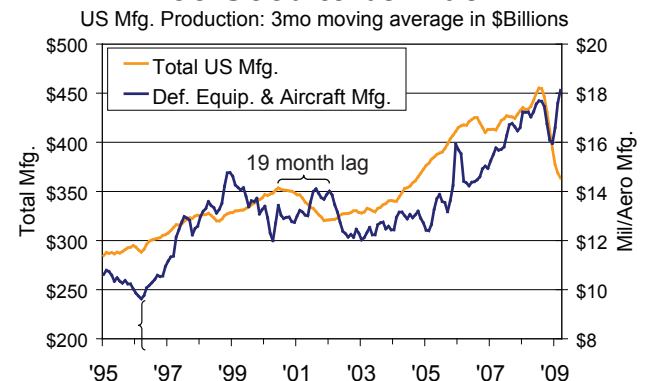
New Orders Index in the graph above, the case for a pending turnaround is quite convincing.

### Mil/Aero

The US military and aerospace industry has grown significantly over the past six years making it a gainful sector for those companies involved. From January 2003 to March of this year, production of aircraft and defense equipment increased a full 60% while total US manufacturing increased only 9% including the recent decline. In the wire and cable industry, military and aerospace manufacturers demand specific and stringent requirements for their electronic components, usually calling out Mil-spec products specified uniquely for that market. With exclusive products, fewer players, large contracts and significant exposure to geopolitical and government affairs, the industry often moves in different cycles from the overall economy.

Given the nature of defense and aircraft contracts, production lead times in the military and aerospace industry are fairly long. Quite famously, the government often invests years or even decades into the latest defense programs, and orders for large aircraft from Boeing and Airbus are placed years in advance. Because of the extended time from order to delivery, the trends in the industry typically lag broader economic developments by one year or more. As economic activity tails off, actual production can hold its own for a period as the industry works off of existing contracts. As shown in the graph to the right, this lag is evident in the recession of 2001. Even though aircraft and defense production remained strong through the first quarter of this year, given the sharp decline in broader economic activity that has already occurred, a corresponding decline in the mil/aero sector is likely to begin later this year. Also predicting such a decline, new orders for defense equipment and aircraft for the first three months of this year are down almost 45% from the same period of 2008 (though the bulk of the decline stems from commercial aircraft orders).

### Too Good to be True?



**Industrial Production**  
(Mar to Apr change)

**-0.5%**

**April Unemployment**

**8.9%**

**Retail Sales**  
(Mar to Apr change)

**-0.4%**

**Mfg.'s New Orders for Durable Goods**  
(Mar to Apr change)

**+1.9%**

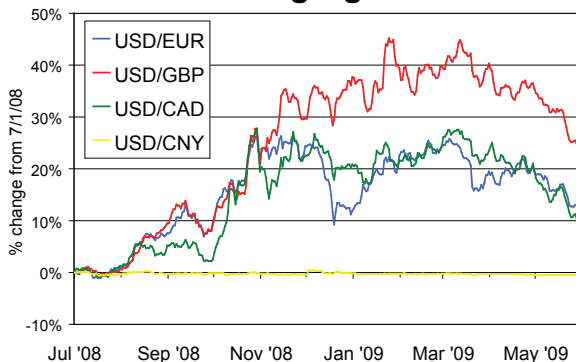
**April CPI Inflation**  
(over prev. 12 months)

**-0.7%**

**Foreign Exchange**

After strengthening significantly from the middle of last year, the US dollar has weakened notably against most major currencies in the past 11 weeks. Leading up to the recession, the dollar was also on a weakening trend. This downward trend in 2007 partially stemmed from increased threats of inflation, as well as the beginning of a series of interest rate cuts by the Federal Reserve. As the recession took hold, as is evident in the graph below, the dollar then strengthened against the euro, British pound and Canadian dollar. With the recession, inflation fears subsided and US securities and assets became a safe haven for wealth around the globe. As demand for dollar-denominated assets increased to weather the storm, so then did demand for dollars, driving up the cost of US dollars relative to other currencies. The recent change in course towards a weaker US currency now seems driven by renewed inflation risks and certain governmental actions. The threat of inflation is increased by the extremely low federal funds rate controlled by the Fed, as well as the US government's decision to increase spending against a growing deficit. As the government's debt ratio increases, the risk of holding US Treasuries also increases, making these assets less attractive to investors. There have even been rumors that the US government could lose its AAA bond rating. As unlikely as this is, the sentiment accurately reflects the fear that is driving away some investors and their demand for US currency. Higher deficits also increase speculation that the government will embrace a longer-term inflation trend as a way to inflate its way out of debt, thus devaluing its currency.

**Falling Again**

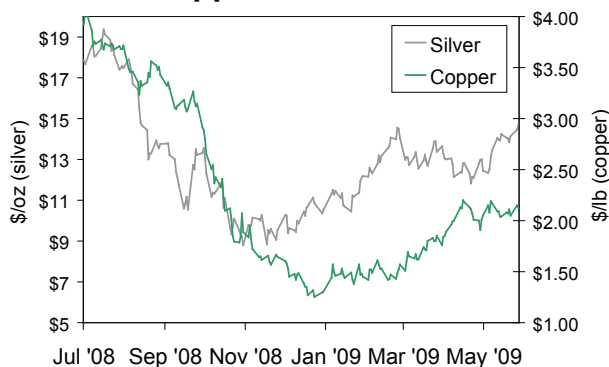


Although generally not a positive sign for an economy, a weak currency does have the advantage of making domestic goods more cost competitive abroad. This has the potential to boost US exports and subtract from the already shrinking trade deficit, ultimately contributing to economic growth. This scenario does, however, make for expensive summer vacations abroad.

**Silver**

Used extensively as a plating metal for Mil-spec wire and cable products, silver remains an expensive adder in the production of high-performance wire and cable products. As shown in the graph to the right, where commodities like copper declined substantially in the last quarter of 2008, the recession's effect on silver has been weaker than other metals, leading to an overall softer decline. Silver has a very volatile price history with strong demand in many industrial applications. With the recent decline and recovery in commodity prices, silver prices remains only 24% below last summer's high compared to a 47% decline in copper during the same period. Both metals continue to find price support from investors hedging the risks of future inflation. Silver futures closed at \$15.15/oz on the 28th.

**Comex Copper & Silver Price Index**



**Oil/Gas/Polymers**

Largely because of the weaker US dollar, prices for crude oil, natural gas and polymer compounds are on the rise again. Nymex oil futures in particular are showing big gains, closing at \$65.08/bbl on the 28th of May, up 62% from the beginning of March. The oil rally has also found support from improvements in various economic reports which indicate more economic growth in the near term.

Nymex natural gas closed at \$3.96 on the 28th, up slightly from the beginning of the month, but still down significantly from the beginning of the year. While oil futures and other commodities hit a relative bottom near the end of last year, natural gas continued to decline towards its more long term average up until the recent bounce.

For those of you that are attending, I look forward to seeing you at the 3rd World Wire & Cable Conference June 7-9 in Rome.

Sincerely,

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