

Dear Friends of IEWC, here is my account:

### 2009 Hot Wire Business Survey

As most companies begin the process of budgeting, forecasting and planning for next year, I want to take the opportunity to survey all of you as industry participants in order to gain a real-time view of business conditions and expectations for the coming year. Based on the responses that you all provide, I will analyze and publish the results in next month's *Hot Wire* in hopes of providing meaningful insights that your company can use to better plan for the coming year. Please take the time to complete the 2009 Hot Wire Business Survey by following [this link](#). Note that the survey is anonymous and should take no longer than three minutes to complete. Your participation is greatly appreciated!

### Industry News

The Wire Index closed slightly lower this month at 71.4 on the 28th, leaving a mostly flat performance in the last three months.

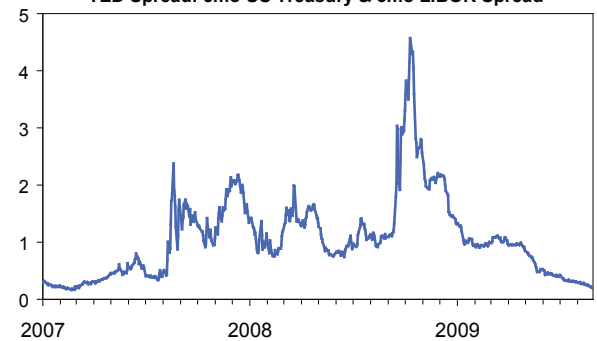
On August 3rd, General Cable successfully completed the acquisition of Gepco International, Inc. and Isotec, Inc., sister companies headquartered in Des Plaines, Illinois, USA. Gepco International specializes in the manufacture and distribution of audio and video cable products while Isotec manufactures electronic cable for a variety of specialty markets. These acquisitions add to General Cable's existing Carol Brand line of electronics products. News of the acquisition first boosted General Cable's share price, though the following days oversaw an 18% decline in the stock with the announcement of a below-estimate Q3 corporate earnings forecast. Click [here](#) to read a copy of General Cable's press release on the acquisitions.

### US Economy

Economic indicators for the US continue to improve, painting the picture of an economy in recovery. New and existing home sales have climbed steadily since April, revealing much-needed momentum in a dire sector of the economy. New orders for durable goods climbed 4.9% in July after holding flat for most of the year, the largest single-month increase in two years. The Fed's Industrial Production Index also increased in July for the first time this year. Measures of financial health are improving as well, with the TED spread declining steadily since April. Calculated as the spread between risk-free US Treasury rates and LIBOR average lending rates, the TED spread measures bankers' perceived risk in lending to businesses and consumers. The shrinking spread shows that the hysteria around last year's banking crisis has eased and that normal bank lending activities can again grease the wheels of the economy. On the down side, sore spots remain in the consumer sector with unemployment high, personal income down, and retail sales largely flat. The current excess in the supply of labor will likely keep wages in check for the next year, limiting the consumer's contributions to the economic recovery. That said, with the balance of economic statistics turned convincingly positive in the last couple of months, it appears that the general economy is over the hump. When the National Bureau of Economic Research looks back at the economic trends of this summer, they will likely declare the official bottom of the recession in one of the past couple of months.

### Over the Hill

TED Spread: 3mo US Treasury & 3mo LIBOR Spread



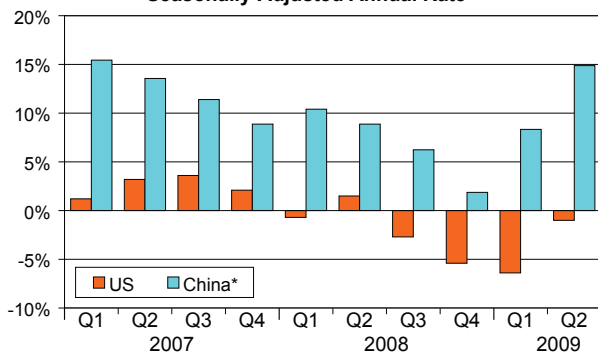
### Chinese Economy

For comparison, the population of China is roughly 4.3 times that of the US but Chinese economic output is less than a third the size of US production when measured at current exchange rates. Thus, even though China's economy is now the world's third largest, it is still small relative to the potential production capabilities of its massive population. It is this "smallness" that allows

China to grow much faster than most of the world's other large economies. Just as most cars will accelerate from 0-60 mph faster (and with much higher % increases in mph every second) than the push from 60-100 mph, economies grow faster when they are smaller relative to their potential. Think of China driving at 30 mph and just now shifting into third, while the US is at 80 mph and already in top gear.

As shown in the graph to the left, while the recession has had a clear effect on China's growth rate, recent data from the second quarter suggest that the economy is picking up speed again. Where the US contracted at a seasonally-adjusted annual rate of -1% from April to June of this year, China expanded at a rate of almost 15%. Numbers for China, however, deserve some qualification. If you've paid attention to the news in July, you might remember hearing that China grew 7.9% in the second quarter. The data I've included in the graph are not China's official government

### US & China GDP Growth Seasonally-Adjusted Annual Rate



\*SAAR Estimates from JPMorgan Chase Bank

BY THE  
NUMBERS  
(US)

**Industrial  
Production**  
(June to July change)

**+0.5%**

**July  
Unemployment**

**9.4%**

**Retail Sales**  
(June to July change)

**-0.1%**

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

**+4.9%**

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

**-2.1%**

numbers but estimates published by JPMorgan Chase Bank. GDP statistics for China often differ for a couple of reasons. First, China publishes the GDP percentage change from the same quarter last year (7.9%), where the US publishes GDP growth at a seasonally-adjusted annual rate – essentially measuring the pace of growth within the quarter's three months and extrapolating it to an annual rate. Since the National Bureau of Statistics of China does not publish figures in this way, many forecasting institutions like JPMorgan adjust the numbers themselves to allow like-kind comparisons with the US data. The second reason there is not a single, agreed-upon GDP number for China is the skepticism surrounding their official statistics. While the US Department of Commerce waits a full month after the end of a quarter before publishing "advance" estimates of GDP, the Chinese bureau waited a mere 16 days after the close of the most recent quarter to release their numbers. The speed with which they estimate the output of their 1.3 billion residents is a dubious feat. Even then, GDP numbers released by the Chinese statistical bureau reveal only the headline growth number without any supporting calculations or details, leaving analysts like me scratching their head and institutions like JPMorgan to come up with their own estimates.

Whatever China's actual growth rate, the country's rapid pace of economic expansion is sure to have significant effects on the world economy for the foreseeable future. As the world's largest consumer of copper, for example, it is easy to relate China's return to double-digit growth in the second quarter to the continued rise in copper prices. Although the recession did slow China for a period of time, the current trend suggests that the recession's long-term impact on the Asian power will be limited.

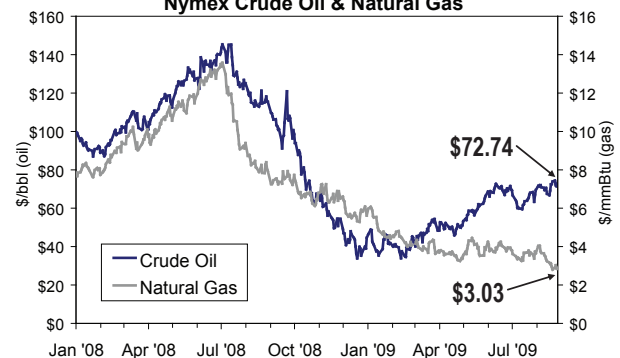
**Copper** Comex copper prices climbed again this past month, closing at \$2.92/lb on the 28th. The metal's steady climb upwards from the lows of this past winter has proved surprisingly quick. When prices declined so rapidly at this time last year, it was easy to picture the end of \$3.00+ copper and a return to lower historical averages. The persistent recovery of futures prices, however, suggests that the fundamentals of the copper market have not changed all that much from a few years ago. Global copper inventories are up significantly from the boom days of 2007 and 2008, but the supply constraints that once forced copper above \$4.00 against rising global demand have not yet been resolved. As global output gets up to speed again in the coming years, it appears ever more likely that higher copper prices will again become a structural fact of the industry.

**Oil/Gas/Polymers** Oil prices climbed higher this past month, reaching a ten-month high of \$74.37 on the 24th. Diverging from the pattern set in the past couple of years, natural gas prices remain significantly depressed after the recession, continually falling to new lows after most commodities bounced back. Much of this trend is explained by technological advances around the drilling and storing of natural gas, creating new efficiencies in the market that have now given way to a significant excess of supply and lower prices. The economics of lower prices have forced many natural gas drilling rigs to shut down, but the coincident decline in global demand has maintained the surplus and depressed prices just the same.

As a product that can be derived from either crude oil or natural gas, polymer prices haven't fallen somewhere between the diverging trend of gas and oil. Where oil prices are up more than 100% from recession lows, and natural gas is down more than 40% in the same period, polymer prices as traded on the London Metal Exchange (LME) are up 40 - 60% depending on which type of plastic you look at. On the 28th of August, Nymex crude oil closed at \$72.74/bbl, natural gas closed at \$3.03/mmBtu, and LME global contracts for Polypropylene and LLD Polyethylene both closed at \$1,040/tonne.

Please remember to fill out the [2009 Hot Wire Business Survey](#) if you have not done so already. If you are reading a hard copy of this document and would like to participate in the survey, send me an email and I will forward you the link to the survey. I appreciate your participation!

### Falling Out of Line Nymex Crude Oil & Natural Gas



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