



Dear Friends of IEWC, here is my account:

#### Industry News

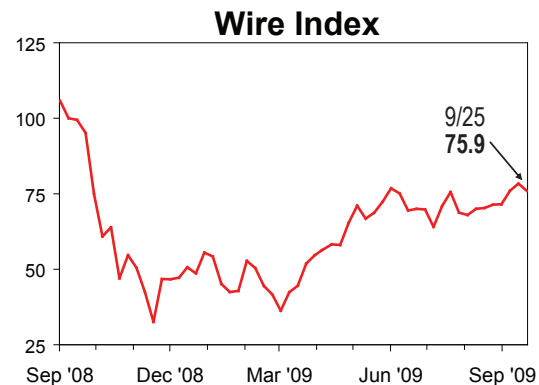
The stock market continued its bullish trend, pushing the Wire Index up to a 12-month high. Now a full year past the financial mayhem of September 2008, the index shows a clear valley between the sudden drop late last year and the continued climb since the start of this year. The index closed at 75.9 on the 25th of this month. For historical reference, the Wire Index first reached a value of 75 in February of 2006, on its way to a high of 160 in July of 2007. Click on the graph to the right for more information and historical data on the Wire Index.

#### 2009 Hot Wire Business Survey

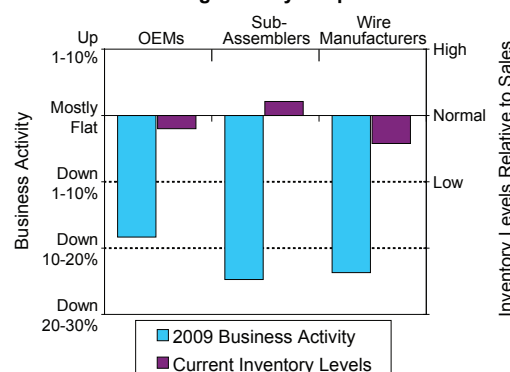
Many thanks to those of you who participated in last month's 2009 Hot Wire Business Survey. On the whole I received 60 complete responses – probably not a sample size large enough to publish statistically significant findings, but meaningful enough to uncover a handful of interesting trends.

To no one's surprise, most respondents reported a significant decline in business activity throughout the course of this year. On average, companies appear to be down about 20%, though the most frequent response was a decline of 30-40% against last year. Only 15% of respondents indicated that their company's business is flat or increasing this year. Answers around headcount and capacity changes indicate that on average industry participants reduced their workforce between 1-20%, though more than a quarter of the companies surveyed reported a cut above 20%. This picture of current business conditions becomes clearer when segmenting the data by type of business. As shown in the graph to the right, those respondents that identified themselves as original equipment manufacturers fared better this year than the wire manufacturers and sub-assemblers further up the supply chain, reporting an average decline of about 15-20%. Harness shops and sub-assemblers received the worst lot of the recession, seeing the largest declines in business activity and making the deepest cuts in their workforce. Reflecting the capital-intensive nature of their business, wire and cable manufacturers reduced capacity the least out of any group, a good indication of their ability to fulfill orders as demand picks up again. In measuring current inventory levels, sub-assemblers again appear to have received the short end of the stick. Where OEMs and wire manufacturers both reported relatively lean inventory levels, sub-assemblers described a slight excess in inventory levels relative to sales. Light OEM inventories suggest that sub-assemblers may see a quicker increase in business in the near future, but their excess inventories imply that the recovery for wire distributors and manufacturers may be slightly delayed.

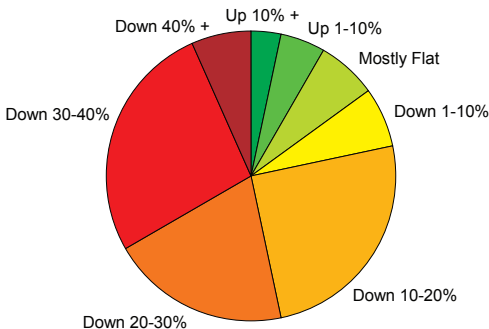
Although most survey respondents associated their companies with a number of different market verticals, analysis by individual segments still revealed some insights. Those companies involved in the automotive or natural resource industries fared the worst this past year, with below-average expectations for the coming year as well. As could be expected, companies with significant exposure to military and aerospace, medical, rail transit or wind energy markets reported milder declines this year. Companies involved in military, wind energy or solar all had the highest growth expectations for their industry next year, though the historical lagging recession in the military and aerospace sector hints that some of those expectations may come up short.



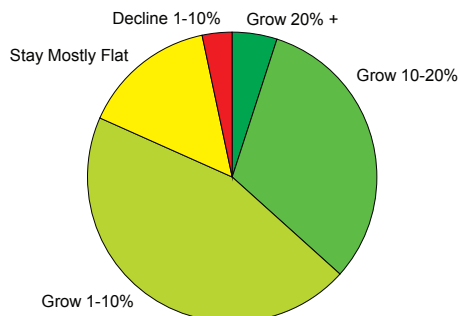
#### 2009 Sales & Inventory Levels Average Survey Response



#### 2009 Business Activity



#### 2010 Company Expectations



In the outlook for next year, more than 80% of respondents anticipate noticeable increases in business activity next year, with average expectations around a 10-15% increase. More than a third of the companies surveyed expect to hire next year, but most reflect plans to grow their business utilizing existing capacity and headcount, indicating another buyer's market year for those companies reaching out to hire. When asked about the timing of a sustained economic recovery, the responses leaned towards the latter half of 2010. Although the

BY THE  
NUMBERS  
(US)

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

**+0.8%**

**August  
Unemployment**

**9.7%**

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

**+3.0%**

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

**-2.4%**

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

**-1.5%**

current recession is almost certainly over on the technical scorecard, I would have to agree with most of you that "a normal pattern of growth" will not resume until sometime in 2010.

**Protectionism**

A troubling episode of protectionism is playing out in trade negotiations between the US and China, threatening the stability of the economic recovery. In a late Friday announcement on the 11th, the Obama administration imposed new import tariffs on Chinese tires, a move pushed through by the United Steelworkers Union, a large labor union representing the US tire industry, among others. On the 13th, China quickly retaliated by launching a case with the World Trade Organization to impose tariffs on American imports of poultry and car parts. Raising the barriers to trade on this eclectic basket of goods may appear harmless, but it sends a worrisome message and sets a dangerous precedent. By pacifying tire manufacturer unions, the US is opening the door for dozens of other industries to lobby for similar protections from their foreign counterparts. And as confirmed by China's quick response, any additional tariff measures from the US will not go unanswered in China.

From a very nationalist point of view, it is easy to make a case for import tariffs (or subsidies, etc.), but the effort is always shortsighted. When cheap, Chinese-made tires cause US manufacturers to lose domestic market share, there's no better way to keep domestic production competitive than by raising prices on imported tires via a tariff. The trouble with this logic is that economic progress is made by more efficient allocations of resources – even on a global scale. As trade barriers go up, countries are forced to get by on their own productive resources, even though it may be that China is better suited for making tires and America is better suited for raising chickens. It was a similarly myopic policy that helped turn recession into depression in the 1930s. The Smoot-Hawley Tariff Act originated as a narrow protection of US agriculture, but grew to raise import tariffs in all sectors of the economy by the time it passed congress in 1930. The new tariffs succeeded in reducing European imports by more than 70%, but the protectionist policy response abroad reduced US exports to Europe by 66% in a matter of three years. Surely neither continent was better off after erecting such barriers.

In the dispute between the US and China, there is no innocent party. China is credibly accused of subsidizing many of its exports, including tires, thus depressing market prices for such goods and hurting manufacturers in other countries. China's policy of tightly regulating the value of its currency also acts as a subsidy of its export industries, as the undervalued Yuan makes inexpensive Chinese goods even cheaper in foreign markets. US trade policy is problematic as well. The US heavily taxes lots of imports besides tires, and subsidizes many of its export industries – especially agriculture. The "Buy American" provision in the US stimulus bill was especially damaging, angering trade partners and slowing stimulus spending due to the complexities of the global supply chain. Both the US and China could improve their long-term growth potential by taking the lead in reducing barriers to trade. In trade policy, as in life, two wrongs don't make a right.

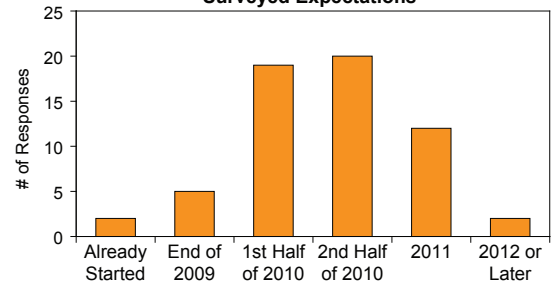
**Copper**

Comex copper futures held mostly flat in the last thirty days, closing slightly down at \$2.73/lb on the 25th of this month. As shown in the graph to the right, although copper prices have not bounced back as quickly as they fell late last year, it has been a steady climb upwards. With every increase in copper futures on the public exchanges, pressure builds for price increases in the industry. As market prices climb and wire and cable manufacturers and distributors bring in higher-cost inventory, end-users are sure to see similar price increases in the coming months.

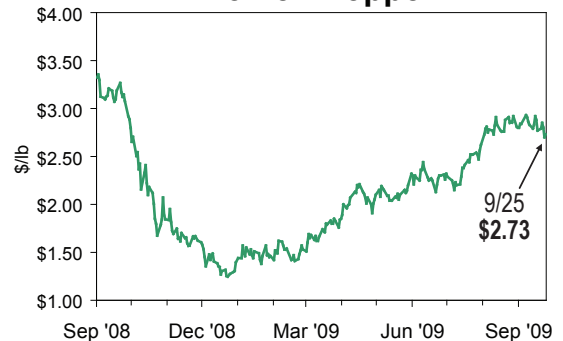
**Oil/Gas/Polymers**

Crude oil futures fell 9% from last month's high, roughly even with its average price over the last quarter. Nymex oil futures closed at \$66.02/bbl on the 25th. Natural gas rose to just short of \$4.00/mmbtu this past week, with its largest rally since the beginning of the recession. Although market prices for oil and gas have leveled off somewhat, increased costs are still making their way into polymer prices. Earlier this month Dow Wire & Cable announced just such a price increase for its insulation and jacketing compounds used throughout India, Middle East and Africa.

**Global Economic Recovery**  
Surveyed Expectations



**Comex Copper**



Sincerely,

*Brian Hirt*

Brian Hirt  
M.A. Economics  
IEWC Business Analyst  
BHirt@iewc.com  
262-957-1118



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