



Dear Friends of IEWC, here is my account:

Industry News

The Wire Index rose this past month, building on the momentum of the stock market as a whole. The Index still remains about 9% below the "recovery high" recorded in October of last year. The Wire Index closed at 72.3 on 3/22.

General Cable continues to increase its global presence, this time adding to its wire harness division. Already manufacturing wire and cable products in 19 countries around the world, General Cable has now expanded its harnessing business beyond North America with the acquisition of Beru SAS, an ignition wire harness manufacturer in La Ferte Mace, France. General Cable will operate the French business as General Cable Automotive Europe going forward. The move suggests General Cable's interest in greater vertical integration in the wire harness supply chain, as well as their geographic and horizontal expansion across different end-use markets. Read the press release from General Cable [here](#).

In a more consequential industry development, news broke late last month that the FBI, European Commission and Japanese authorities are investigating a handful of the world's largest automotive wire harness manufacturers on suspicion of anti-competitive practices. Trade authorities have involved many of the industry's biggest players in the investigation, including Leoni AG, SY Systems Technologies GmbH, Lear Corp, Denso, Tokai Rika, Yazaki, Sumitomo Electric Industries Ltd and Furukawa Electric Co. Public details of the investigation are sparse and most of the companies involved have stated their cooperation with the investigations. If convicted of price-fixing, companies face millions in punitive fines from trade authorities.

Mfg. Inventories

As the recession worsened in the summer of 2008, a predictable trend emerged among manufacturers. As sales of finished goods dropped off, shipments from suppliers kept pouring into receiving docks, increasing the ratio of inventories to sales. Given their inability to foresee the future, manufacturers usually don't reduce their orders to suppliers until their own business has declined. Even when that happens, there can be months worth of supplies already in the pipeline with a long lead time. Enterprise planning software has enhanced the industry's ability to manage leaner inventories in recent decades, but the inventory cycle is far from extinct.

At the beginning of 2009, durable goods manufacturers got a hold of their supplies and began reducing inventories at a rapid pace to put stocks more in line with demand.

This is visible in the peak of the green line in the graph to the right. As manufacturers drew down inventories, this exacerbated the already shrinking book of orders, forcing a cut in production (blue line) 17% worse than the actual decline in demand (red line).

With such deep cuts in output, as the inventory liquidation slowed over the last five months, increases in production outpaced actual demand growth, creating a potentially deceiving boost in new orders for component manufacturers and suppliers. Now that durable goods manufacturers have reached what seems to be a comfortable inventory/sales ratio, production should move more in line with actual end-user demand.

As long as the demand for manufactured goods continues to increase, supplier orders will continue to grow, but the month-over-month increases of the last few months should not be extrapolated in planning for the rest of the year.

As the inventory liquidation slowed over the last five months, increases in production outpaced actual demand growth, creating a potentially deceiving boost in new orders for component manufacturers and suppliers. Now that durable goods manufacturers have reached what seems to be a comfortable inventory/sales ratio, production should move more in line with actual end-user demand.

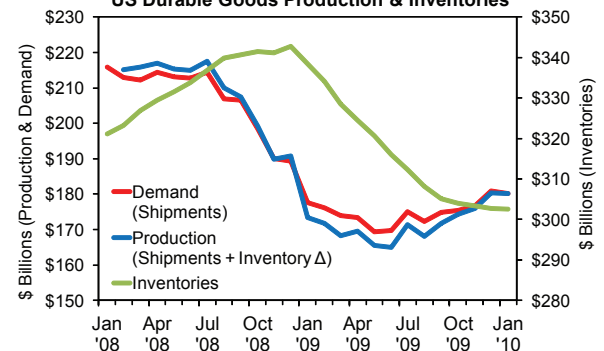
US Productivity

Recessions are ghastly things, but coming out the other end economies tend to be a little healthier. The benefits of last year's recession are becoming most evident in the quarterly productivity figures available for 2009. As of the fourth quarter, total output per hour in the US is up more than 10 percent over 2006. In other words, if the average worker produced 10 widgets for every hour of work in 2006, they're producing 11 widgets per hour today. As backward as it sounds, the surge in productivity is largely attributable to the hundreds of thousands of jobs lost over the last 18 months. Total output, employment and the average weekly hours worked all declined, but the decline in total hours worked fell faster than total output, proving the remaining employees' ability to produce more with fewer co-workers at their side.

This rise in productivity in the US can be explained by a few different trends, all of which surely have some validity. First is the idea that when firms have to reduce employment, they cut the least productive employees first. That is not to say that every employee laid off during the recession was an unproductive employee, but on the whole, any thinking manager will seek to retain their most productive employees during the cuts. Second is the idea that all of the remaining employees are just working longer hours without reporting it, making everyone look more productive. With the reporting methods used by the Bureau of Labor Statistics, employers only report those hours that employees were paid for. For hourly employees, this method is quite accurate, but for salaried employees that are technically compensated for only 40 hours of work per

Getting Back to Normal

US Durable Goods Production & Inventories



Industrial Production
(Jan to Feb change)

+0.1%

February Unemployment

9.7%

Retail Sales
(Jan to Feb change)

+0.3%

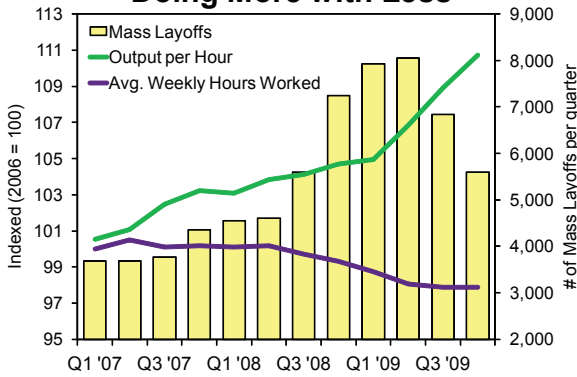
Mfg.'s New Orders for Durable Goods
(Dec to Jan change)

+2.6%

February CPI Inflation
(over prev. 12 months)

+2.1%

Doing More with Less



week, this statistical reporting doesn't factor in late nights and logging in from home on the weekends. You may feel like you've never worked longer hours, but the total explanatory effect for the jump in productivity is likely pretty small. With the data suggesting overall shorter work weeks and many firms forcing unpaid time-off, it still seems that organizations are doing more with less. Lastly, it could be that the most unsustainable (and unproductive) businesses are evaporating from the US altogether, pushing up the average. In the good times, many businesses can survive without maximizing productivity, but these are the first to go when a recession hits.

Rising productivity is one of the best things that can happen to an economy. As a side effect, increased productivity decreases the unit cost of labor. Workers can receive the same hourly wage, but producing 11 widgets instead of 10 decreases the labor costs

allocated to each manufactured product. This makes labor look cheap, increasing the demand for similarly productive workers and boosting employment. Additionally, with a more productive workforce, cost structures shrink, improving corporate profits. With the data available on the first three quarters of 2009, corporate profits were indeed up – climbing at a 28% annualized rate. A more valuable workforce and strong profits are the best combination for increasing real wages and living standards across the economy. A sustained rise in living standards takes years to develop and depends on a few other factors, but the productivity boom coming out of the recession foreshadows substantial economic progress in the years ahead.

US/Mexican Trucking

Twelve months ago, a large spending bill passed by Congress put an end to the pilot program that allowed select Mexican trucking companies to operate on US roads. The program was the first step in an effort by the US to make good on the NAFTA treaty which originally promised open trucking between the US, Mexico and Canada by the year 2000. The US and Canada share a porous border which benefits both countries, but the US never allowed Mexican truckers across its southern border, caving to a powerful labor lobby and dubious safety concerns.

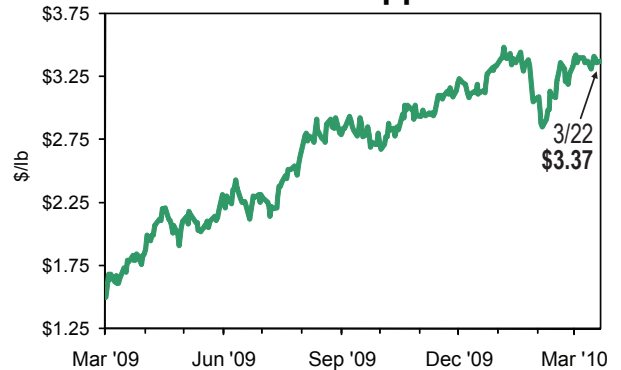
In retaliation for cancelling the pilot trucking program, Mexico issued new tariffs on \$2.4 billion in US exports, from frozen processed potatoes to Christmas trees, making their dissatisfaction with the US trade policy known. Now at the anniversary of the program cancellation and with no resolution in sight, many expect Mexico to expand its list of retaliatory tariffs. The current administration is keenly aware of the issues and claims to be working on it, but comments from Mexico suggest that they're looking for the US to open up border trade entirely, not just revive the pilot program.

Though still generally encouraging of international trade, relationships between the US and some of its trading partners seem to be deteriorating a bit. In addition to the dispute with Mexico, the US faces a long list of tariffs from Brazil if it doesn't reduce its cotton subsidies and ever-tenser relations with China as the debate over China's currency practices heats up. Though not a topic that grabs a lot of political attention, these trade issues are among the most important facing the administration today. The US would be wise to resolve the issues before dangerous protectionist battles really flare up.

Copper

Comex copper prices climbed early in March, breaching \$3.40/lb before falling back a few pennies. As shown in the graph above, futures prices are still down slightly from their highs of early this year, but the trend is still visibly bullish. Copper inventories at the major exchanges have climbed for eight consecutive months, putting downward pressure on the metal, but the corresponding growth in demand from investors kept prices up and suggests that copper prices will remain near their pre-recession highs in the near future.

Comex Copper



Sincerely,

Brian Hirt

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

