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### Industry News

The Wire Index posted a mild loss this past month, falling just over 1% from the end of last month to close at 69.7 on the 27th of November. The index significantly underperformed the broader market this past month, a puzzling trend given the continued rally in the copper market. This might be explained by the mostly flat returns of the Wire Index's two heaviest components, General Cable (BGC) and Belden (BDC).

### Global Economy

As countries around the world take stock of their economic performance over the last few months, it remains ever clearer that the global recession has come to an end. Third quarter GDP turned positive in the US, Canada, Mexico, Japan and throughout the Euro-area. Although the economies of Britain and Spain continued to decline last quarter, robust recoveries in Germany, Austria and Italy, among others, pushed the total region towards growth. While China's GDP never actually declined during the recession, current readings still reflect strengthening growth. One of the strongest recoveries is occurring in South Korea, where industrial production bottomed out much earlier than most other regions and the third quarter revealed a robust 12.3% annual growth rate. As unemployment remains elevated throughout most of North America and Europe, a sustained recovery depends largely on increased hiring in firms and businesses. With profits and productivity on the rise, hiring is the next logical stage, but such rise in employment has not yet materialized. In the US, where a fragile housing market and hesitant consumer have just started to show signs of life, quicker job creation would provide a much-needed boost.

### US Healthcare

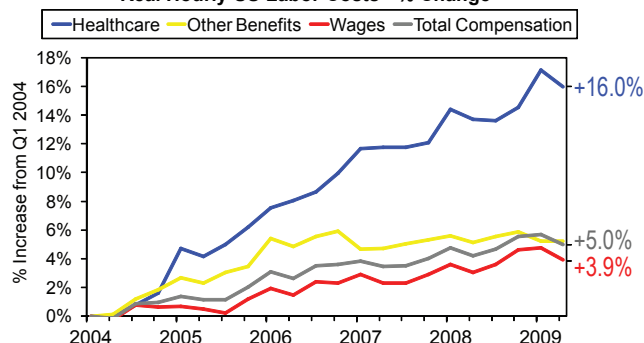
Healthcare in the United States is a messy issue, but one that affects virtually every American in their lifetime. And with 59% of Americans receiving private health insurance through their employer, healthcare issues are a deeply embedded part of most US businesses as well. As shown in the graph below, while employers are paying 5% more for each worker today than in 2004, hourly wages have increased only 3.9%. With all other employer benefits rising mostly in step with total compensation, it is the persistently rising cost of employer-provided healthcare which accounts for much of the US's stagnant wage growth. Employers continue to increase compensation to employees as profits and productivity increase, but rising healthcare costs are diverting much of this compensation away from employee raises.

Even if the United States weren't the only wealthy, industrialized country without some form of government-sponsored healthcare system, the current employer-based model is somewhat backward. Culturally, Americans have largely embraced the employer-based healthcare system, but it's difficult to find logical support to tie one's health insurance to a job. Employers typically do not provide their employees with shelter, clothes, groceries and transportation – why healthcare? The current model can be traced back to a handful of extreme circumstances and government policy side effects. In the early twentieth century, as medical care became more effective and expensive, group health insurance plans formed as a way to smooth health costs across time and across groups of people, allowing individuals to pay small amounts towards a benefit pool that is shared by the group. Labor unions and groups of workers were an obvious target for these early insurance providers, as those healthy enough to work were also the least likely to make use of their healthcare benefits. Employer-based healthcare plans expanded during World War II, when wage and price controls limited employers' methods of attracting and retaining workers. Without the flexibility to raise wages, employers expanded fringe benefits to include things like healthcare coverage. These sorts of benefits became institutionalized after the war, when the IRS tax code changed to make employer healthcare expenses a tax-free form of compensation. With the government then subsidizing employer-based plans over individual health insurance plans, it was only a number of years before most Americans received their health insurance through an employer-sponsored plan.

Americans spend a lot on healthcare, driving much of the industry's technological advances, but also creating a service that is generally unaffordable to those outside of the employer-based system. Even for employers, rising insurance premiums are limiting the benefits provided and dragging on company profitability. While rising healthcare costs can be attributed to a number of factors, the very structure of the US system has invited inflation. Health insurance, as it is usually sold in the US, does little to control costs. Instead of covering only the exceptional expenses, most health insurance plans are designed to cover virtually every health service, with only nominal co-pays and moderate deductibles. For each health service prescribed, consumers are often blind to the cost of service, only attentive to the co-pay that they are responsible for. Even when consumers face significant out-of-pocket costs for the less routine medical services, most procedures cost well more than the consumer's deductible, leaving the patient mostly indifferent to a \$5,000 or \$15,000 expense – as long as both are greater than their deductible. When consumers are removed from balancing the costs and benefits of their medical treatment, healthcare costs easily grow unchecked. Providers issue inflated bills to the insurance companies, and patients (and doctors) are quick to upgrade to higher cost procedures and services. In what other industry do consumers regularly receive a service with minimal knowledge of what the costs will be ahead of time? Imagine if your auto insurance expanded to cover routine fill-ups, carwashes and oil changes, and service stations negotiated prices directly with the insurance companies. With only a nominal co-pay for each service, why not splurge for the premium unleaded and undercarriage spray every time? Further hindering market forces in healthcare is the imbalance of information between patient and provider. The textbook efficient market assumes symmetric information between buyer and seller,

### Putting Wages in the Hospital

Real Hourly US Labor Costs - % Change



BY THE  
NUMBERS  
(US)

**Industrial  
Production**  
(Sept to Oct change)

**+0.1%**

**October  
Unemployment**

**10.2%**

**Retail Sales**  
(Sept to Oct change)

**+1.4%**

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

**-0.6%**

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

**-0.2%**

meaning that both parties are equally informed about the product or service in question. While perfect symmetry rarely occurs in the real world, most markets get pretty close. When buying your new flat panel TV, the electronics salesperson may know more about the product than you do, but a plethora of online resources will gladly educate you and review and compare the latest models. In healthcare, physicians study the best procedures and treatments for the body's ailments for the better part of a decade. The average consumer on the other hand, usually only knows what the doctor tells them. If the doctor orders an MRI to help diagnose my pain, who am I to suggest that the cheaper X-Ray scan should be sufficient? With the understanding of each medical service skewed so heavily towards medical practitioners, doctors and providers easily prescribe services unchecked and it is difficult for consumers to decide if the recommended treatment is worth what it costs.

With two separate bills still circulating around Congress, it's too early to say exactly what the final healthcare reform bill will look like. The House of Representatives passed a healthcare bill on November 7th, but there is a different bill still under debate in the Senate that has not yet been approved. The legislative process requires that the House and Senate eventually merge their bills and pass the same legislation before sending it to the President's desk for his seal of approval, leaving plenty of room for amendments to the bill between now and then. There are, however, a number of common aspects in the House and Senate bills that are likely to survive Congress' continued sausage packing. Both healthcare reform bills target increased coverage by mandating that all Americans obtain a minimum level of health insurance. By forcing all Americans – young and old, healthy and sick – to purchase insurance at comparable rates, such a mandate broadens the risk pool for insurers, presumably allowing them to reduce premiums and embrace all Americans, pre-existing conditions and all. The weight of such a mandate differs between the current House and Senate bills, with the House imposing a penalty of up to 2.5% of an individual's income, and the Senate assessing a fee of up to \$750 for individuals that fail to obtain coverage by 2017. Building on the current employer-based system, both bills lean heavily on businesses to make the health insurance mandate a reality. Under the House bill, companies with payrolls in excess of \$750,000 would be required to provide employees with an acceptable level of insurance or face a hefty penalty equal to 8% of total payrolls. The Senate bill has a much lighter hand for businesses, charging only a \$750 fine for each employee that receives government assistance to purchase health insurance, and excluding all companies with fewer than 50 workers. Both bills include the creation of a government-run insurance plan, but the public option may end up a fairly ordinary insurance provider in crowded state and national "exchanges." Both reform packages expand the reach of Medicaid and would provide health insurance subsidies for those families that fall slightly above the Medicare income limits. The bills resort to a mild form of price control to limit health insurance costs, mandating that premiums for the elderly are not more than two or three times standard young adult premiums, but do little to increase consumerism and price visibility in the doctor's office. Both bills significantly expand government health care spending and levy a number of new taxes to pay for it. The House bill directly targets high-earners with an additional tax of up to 5.4% on individuals earning more than \$500,000 and a small excise tax on the sale of medical devices. The Senate bill takes a more indirect approach, taxing the most expensive health insurance plans, and collecting substantial fees from health insurance companies, medical device manufacturers and drug makers.

The best solution for the US healthcare industry depends on one's personal preferences for what an optimal healthcare outcome looks like, evident in Americans' many polarized viewpoints on the issue. If you believe that a certain standard of healthcare is an unalienable right for every US citizen, then some form of government provision is in order. A trickier follow-up question for such a scenario is what standard of healthcare is everyone entitled to? If cost control and personal choice are most important, then government reform measures should limit themselves to changing the rules of the game to increase competition and price visibility for each health service. Any movement away from the employer-based model is probably a good idea, which could be started by eliminating the business tax deduction for employee healthcare premiums. I'm personally disappointed to see that neither branch of Congress has drafted a middle ground reform bill, providing bare-bones health care for all citizens and fostering a competitive market for the more expensive services which have inflated total costs throughout the system.

### Commodities

COMEX copper prices continued to climb this past month, closing at a 14-month high of \$3.17/lb on the 27th of November. Silver prices also continued in an upward trend, closing at \$18.30/oz on the same day. NYMEX crude oil futures fell back slightly during the month, closing at \$76.05/bbl on the 27th. Natural gas prices rallied at the end of this month climbing to close at \$5.19/mmBtu, though the trend over the last two months is mostly flat on average.

At the end of last November's newsletter, as commodity prices and stock values were in free-fall, I predicted optimistically that the Dow would again return to 10,000 and COMEX copper would rebound above \$3.00 "in a couple of years." What may have seemed like an overly rosy view of the future at the time has ultimately proved too pessimistic, with both indices reaching target in less than twelve months. While the economic recovery is still on loose footing, a retrospective look at the recent past shows well just how quickly emotions and outlooks can change.

Sincerely,



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