



Dear Friends of IEWC, here is my account:

#### Industry News

The Wire Index recorded more gains early this past month before falling back, closing at 73.6 on the 29th. As with most other equities, wire and cable industry stocks have appreciated significantly as the world economy rebounds from the depths of the recession. Although financial performance in the industry has still proved fairly weak this year, the higher stock values reflect investors' expectations of a stronger economy and better performance in the quarters ahead. Click on the graph to the right for more information and historical data on the Wire Index.

Merger and acquisition activity in the industry has been fairly sparse this year given the dreadful and uncertain economic situation. With weaker players in bad financial shape and others looking to gain market share, I expect to see more strategic transactions in the coming year.

#### US Economy

Economic indicators in the US continue to improve in most areas, while data on manufacturing activity relevant to the wire and cable industry has really only stabilized at this point. The Fed's Industrial Production Index has bounced back heartily in the past three months, as have aggregate manufacturing and trade sales, but employment and durable goods manufacturing have yet to exhibit a sustained bounce. Inventory ratios remain an important measure for the industry, as excess inventories soften the effect of increasing end-user demand. As long as original equipment manufacturers hold excess inventories, the upstream benefits of any increase in orders will be partially absorbed by their ability to consume existing stocks, limiting the stimulus for component suppliers. On the whole, manufacturing and trade inventories have declined quickly relative to sales, falling from a high of 1.46 during the recession to 1.33 in August – not far above the historical average of 1.28 at the end of 2007. In the narrower durable segment, however, the inventory/sales ratio has been slower to improve. After peaking at 1.91 this past May, the durable goods industry inventory/sales ratio has declined to only 1.77 in September. With this ratio still well above the historical norm of about 1.48, it will likely be another few months before suppliers in the industry receive a noticeable increase in business.

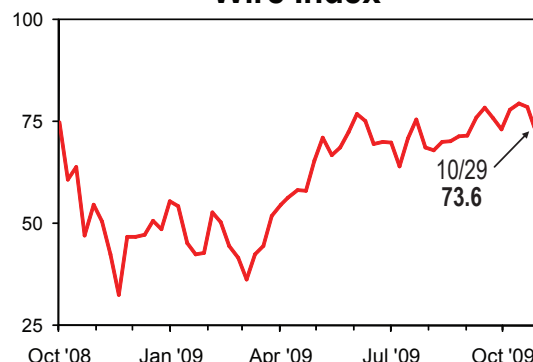
Most importantly, immediate and leading indicators of economic health continue to improve, suggesting that the small improvements in manufacturing figures are not temporary blips but the beginnings of a sustained recovery. The Institute of Supply Management's Purchasing Managers Index, for example, reported a strong rebound in buying activity in their August and September surveys (watch for the October report on Nov. 2nd). And the Conference Board's Leading Economic Index has shown continued month-over-month improvement since April, predicting stronger economic performance in the months ahead.

#### Auto Industry

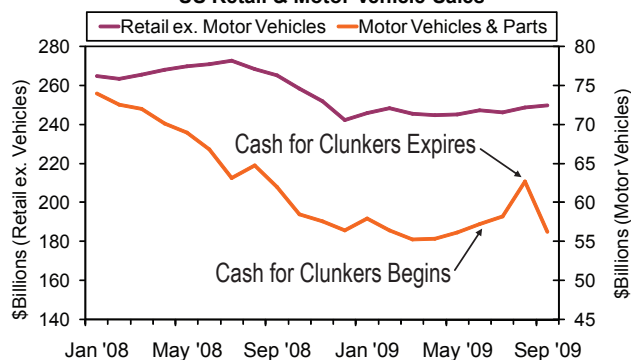
In 2003, motor vehicle output in the US accounted for 3.4% of Gross Domestic Product, a sizeable industry by any measure. As of Q3 2009, this figure has fallen to only 2%. This protracted decline of US motor vehicle production might be attributed to three major trends. First, was the steady climb in gasoline prices that slowed demand for the Big Three's best-selling trucks and SUVs. With average retail gasoline prices breaching \$1.75/gallon in 2003 and climbing to more than \$4.00 in 2008, the ongoing cost of driving low gas mileage vehicles rose significantly. On top of this was continued competition from Japanese and Korean manufacturers importing a wide selection of more fuel efficient and often higher quality vehicles to displace Big Three market share. Further crippling the competitiveness of US auto production, the Big Three's growing obligations to pensions and healthcare for union retirees made for total labor costs that far exceeded the foreign competition. Foreign auto companies setting up factories across the American south offset some of the decline in domestic production and employment, but the aggregate decline has been devastating. Total employment in US auto production declined from more than 260,000 in 2003 to 137,700 in the most recent August figure.

Although the government's Cash for Clunkers stimulus program did produce the expected jump in auto sales, the benefits to the industry are far from lasting. With many planned auto purchases brought forward a number of months to take advantage of the subsidy before its August 24th expiration, the spike in auto sales shown in the graph above will delay the more sustainable increase in vehicle sales that will likely begin next

### Wire Index



### Subsidy in Action US Retail & Motor Vehicle Sales



**Q3 GDP**  
(annualized growth)

**+3.5%**

**September  
Unemployment**

**9.8%**

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

**-1.7%**

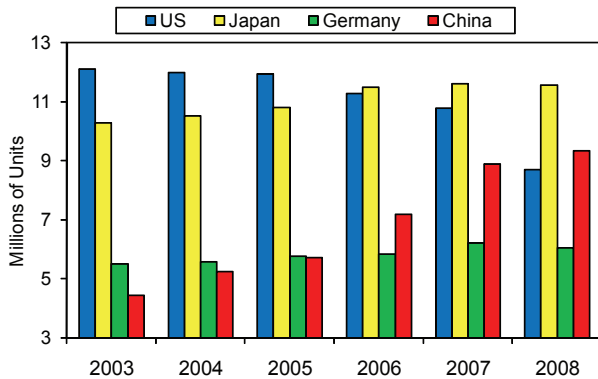
**Mfg.'s New Orders  
for Durable Goods**  
(Aug to Sept change)

**+1.0%**

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

**-1.3%**

**Annual Vehicle Production**



year. If Congress allows the current first-time homeowner tax credit to end as planned on December 1st, we can expect to see a similar rise and fall in new and existing homes during the last quarter of this year as potential buyers rush to take advantage of the subsidy.

With US auto production on a steady downward trajectory for the last five years, Japan and China have already outpaced annual unit production according to the latest figures from the French-based Organisation Internationale des Constructeurs d'Automobiles (International Organization of Motor Vehicle Manufacturers). Measuring not the nationality of the brand but the location of the production facility, annual vehicle production in the US declined more than 28% from 2003 to 2008. Incomplete data on the current year suggest that the number of vehicles produced in the US fell another 25-50% against 2008. Meanwhile, on the 20th of this month, Chinese auto

producers celebrated the completion of the country's 10 millionth vehicle this year, a milestone previously passed only by the US and Japan. On track to assemble more than 12 million vehicles before the end of the year, China will likely surpass Japan's 2009 auto production as well.

While the shifting leadership of global vehicle production may be unsettling, it should not be surprising. As China progresses through its own industrial revolution and branches out into increasingly more complex manufacturing disciplines, a robust and innovative automotive industry in China should not be far away. Although it will likely be many years before Chinese auto imports make their way to North America, China has a huge market of its own to fuel production. An article in *The Economist* this month suggests that year-to-date light-vehicle sales in China have already surpassed those in the US for the first time in history. As the new Chinese middle class take up American-style driving habits, there are plenty of new cars to be sold. Even General Motors doubled their sales in China in August over the previous year.

**Copper**

Comex copper futures broke the \$3.00 mark this month for the first time since September of 2008. After prices plummeted to \$1.25 late last year in the grips of the recession, it was hard to imagine a return to \$3.00 in only 13 months, but the surprisingly bullish commodities market has created just such a bounce. Some of the continued rise in copper prices stems from the weakening US dollar and threats of future inflation. Although the dollar is still stronger than it was at the beginning of 2008, the greenback has fallen steadily against other currencies ever since global market conditions began to improve earlier this year. Comex copper for November delivery closed at \$3.02 on the 29th of this month.

**Comex Copper**



The dominant US exchange for copper futures is well known as the New York Mercantile Exchange (NYMEX), with the Commodity Exchange (COMEX) division handling futures for gold, silver, copper and aluminum. The formally independent COMEX company merged with NYMEX under the single NYMEX name back in 1994. With a 2008 agreement, the NYMEX exchange was purchased by the CME Group, the parent company of the Chicago Mercantile Exchange and the Chicago Board of Trade. The combined CME Group now hosts trading on a wide range of option and futures derivatives in New York and Chicago – everything from foreign exchange to weather predicting contracts. Fully integrated under the CME Group, the primary source for current pricing on Comex copper is now available at [www.cmegroup.com](http://www.cmegroup.com).

Look for my article in next month's newsletter as I weigh in on the US healthcare industry.

The Hot Wire® is free! Email me to sign up.

Sincerely,

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