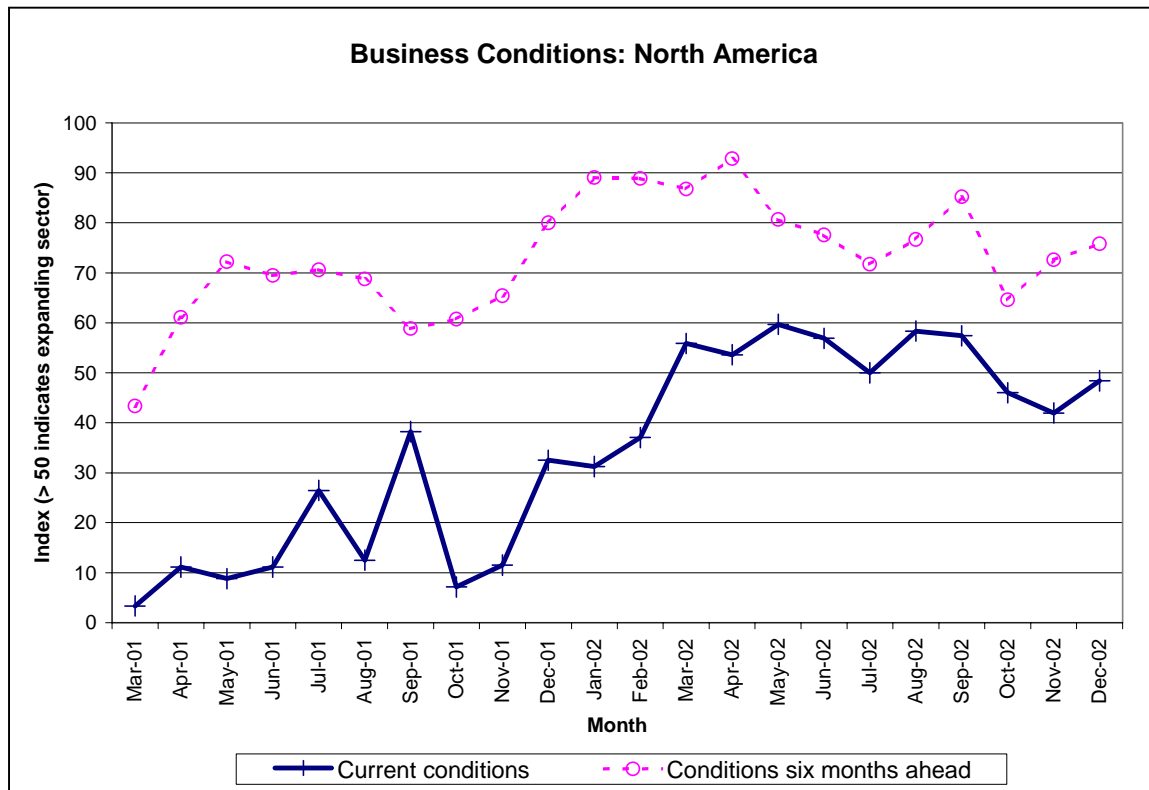


## December 2002 NEMA Electroindustry Business Confidence Index (EBCI) December 20, 2002

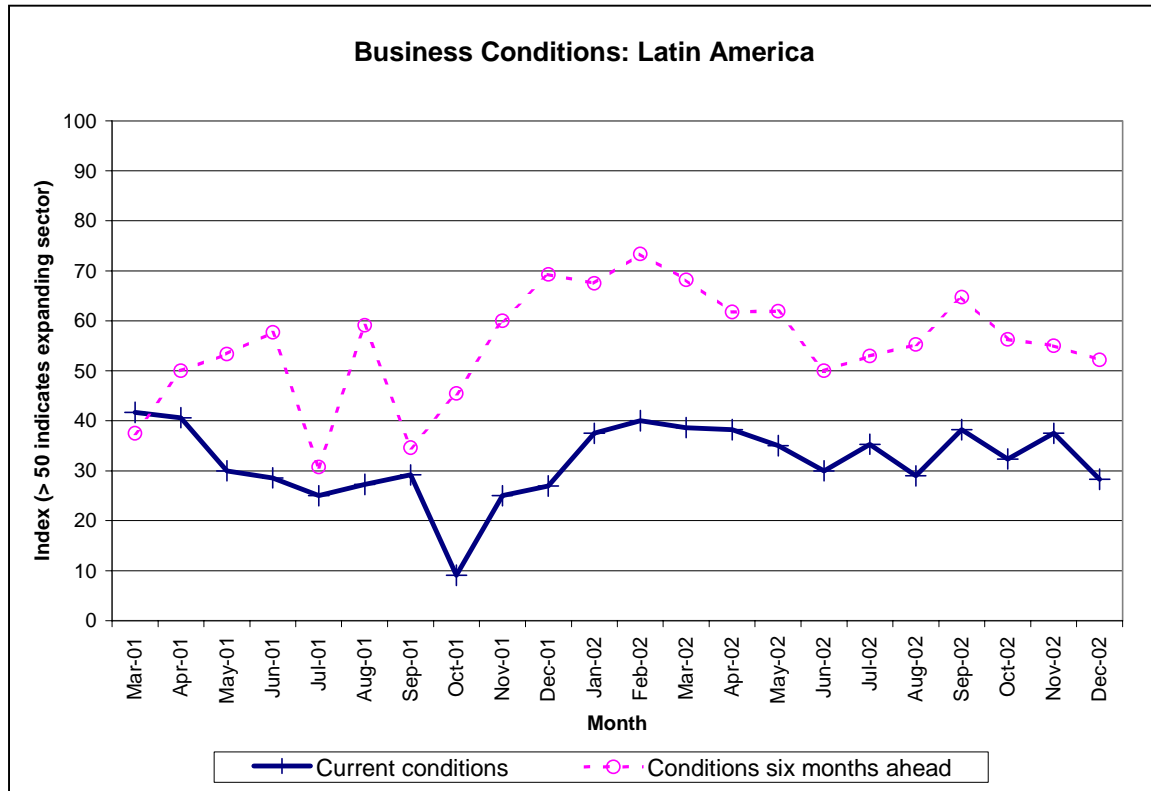
### SUMMARY:

*Confidence in business conditions remained below 50 for three of the four regions. For the third consecutive month Asia/Pacific was the only region to inspire broad confidence in current conditions. Conversely, considering business conditions six months out, the panel expressed confidence in all four regions. The breadth of confidence in future conditions expanded in three regions and nearly slipped over the line to pessimism for Latin America.*



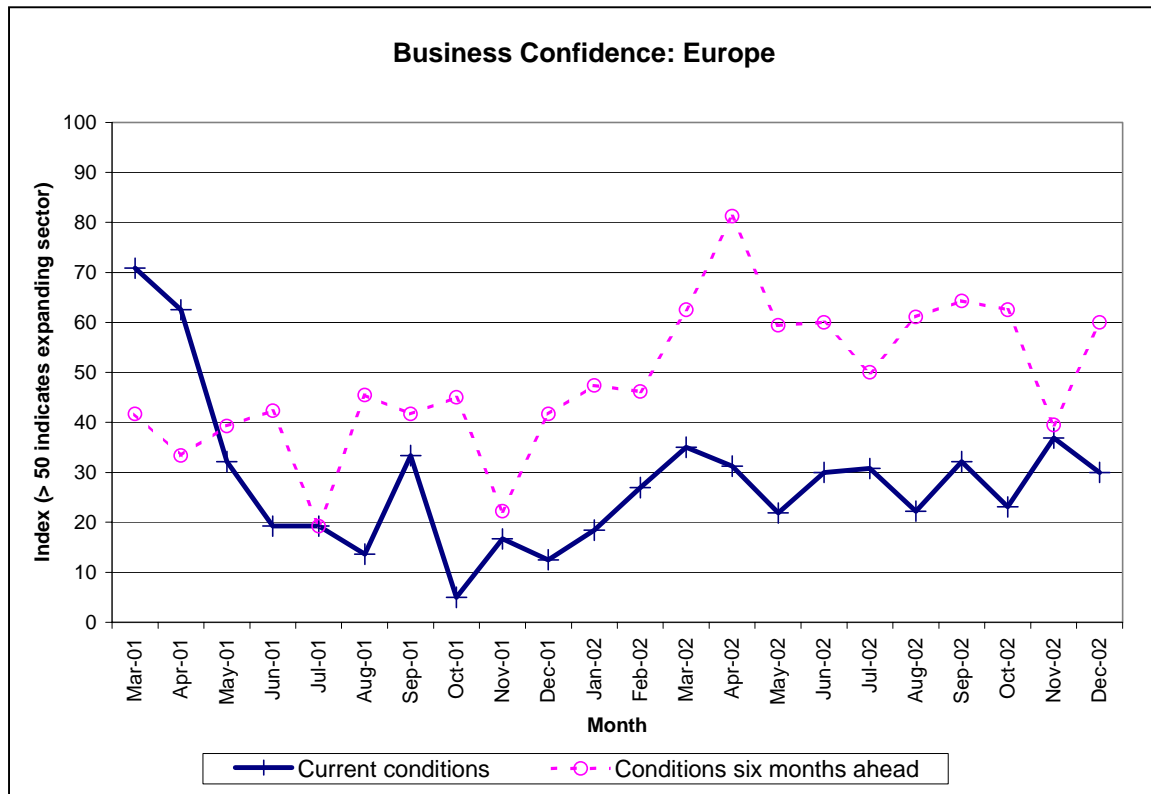
The December index of current conditions for North America registered a modest gain after declining for two months in a row. Although the index increased to 48 from 42 in November, it remains below the threshold level associated with economic conditions that are conducive to expansion. In addition, while the third quarter 2002 GDP growth rate was revised upward from 3.1 percent to 4.0 percent, the fourth quarter rate has nearly stalled and the unemployment rate jumped to 6.0 percent in November. One positive note is that strong demand for automobiles helped to drive manufacturing industrial production to a 0.1 percent gain in November following back-to-back declines for the previous two months. Moreover the residential construction market has remained strong with October new home sales registering just over one million for the third highest level ever. Housing starts also rebounded in November reaching almost 1.7 million units.

Despite the weakening employment and GDP data plus news of major oil supply disruptions and the increasing threat of war with Iraq, the index of conditions expected six months from now edged higher to 76 from 73 in November. The index indicates a fairly broad consensus that conditions affecting the electrical industry will favor expansion six months from now. Of course the index has been pointing to a rebound in the electroindustry since late 2001, which has so far failed to materialize. Even still, most private economists expect the general economy to strengthen in 2003, which eventually should help to lift the electroindustry. Continued easy money, anticipated tax cuts and increased spending for defense are expected to stimulate the economy.



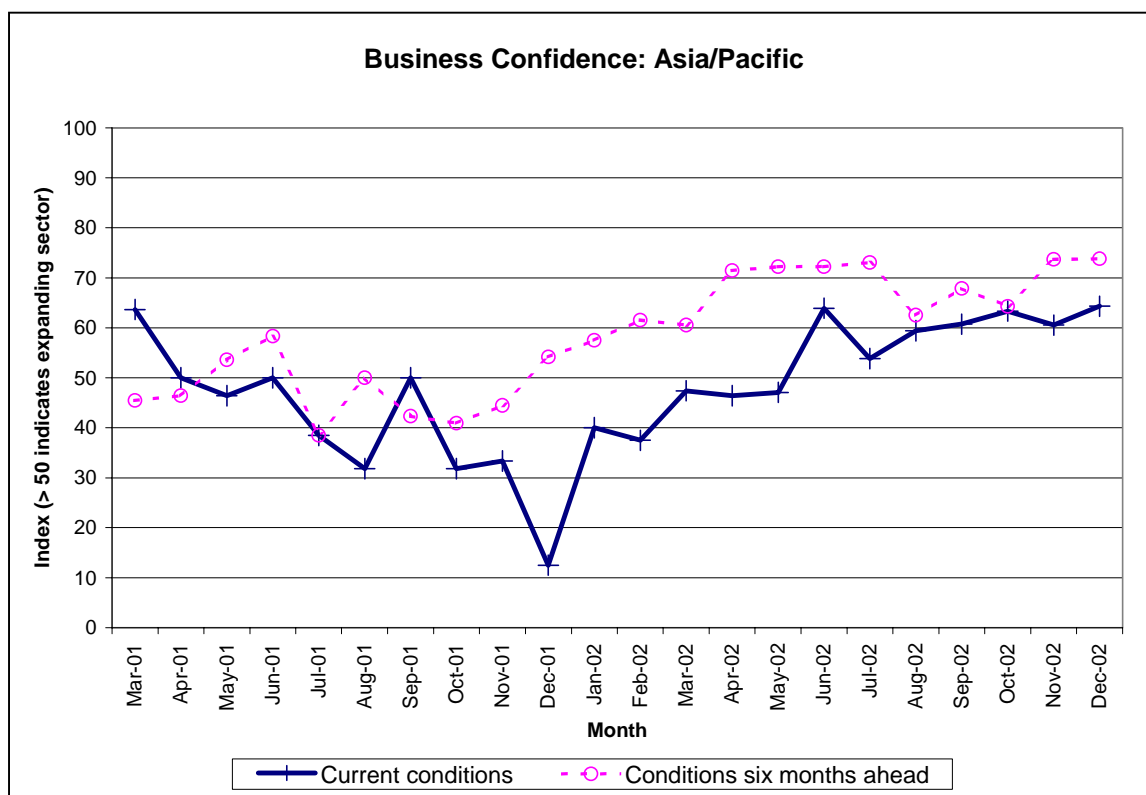
Political and economic uncertainty has plagued business confidence in Latin America throughout the nearly two-year history of the EBCI. Venezuela has been particularly unsettled of late, with mounting opposition to President Chavez's rule manifesting itself in a general strike against the government and a near shut down of the country's oil sector. Meanwhile Brazil is aggressively trying to head off inflation by raising interest rates, and the most recent adjustment moves the key overnight lending rate to 25 percent. That campaign has been cheered by the financial sector but is likely to hamper growth in an already slow-moving economy. The Mexican government is also battling inflation and trying to reverse a growing budget deficit. On the brighter side, even in the face of planned output reductions from state-owned copper mines, Chile still expects 3.5 to 4.5 percent growth next year. Additionally, Argentina, though mired in an ongoing series of disputes with the International Monetary Fund, is experiencing something of a recovery and is considering reducing its Value Added Tax to spur further growth.

Likely driven in large measure by the Venezuela situation, confidence in current conditions in Latin America slipped from nearly 38 in November to 28 this month. Although the breadth of confidence as measured by the future conditions index slipped from 55 last month to 52 in December, the potential for a quick economic turnaround following a political resolution of Venezuela's difficulties combined with signs of recovery in other countries have likely kept the index from slipping to a level suggesting contraction.



Having slipped back to a level of 30 in December, the current conditions index for Europe continued its now eleven-month long pattern of languishing within a range between 20 and 40 points. Suggesting that last month's reading of 37 was a momentary blip, the future conditions index bounced back to 60 points in December. Until that November drop, the index measuring conditions six months out had been above 50 for eight consecutive months, and the latest results pulled the index back up into the optimistic range.

Europe has been unable to pull out of its prolonged slump, and the European Central Bank's (ECB) tight restrictions on budget deficits have limited some governments' flexibility in dealing with anemic growth. Germany, for instance, is now considering a policy of tax hikes on corporations and high-income individuals to bring its deficit back under 3 percent of GDP, a limit mandated by the Stability and Growth Pact. Such a policy is, of course, unlikely to spur investment and growth. Although manufacturing continues to struggle, the U.K.'s economy remains relatively strong largely thanks to strong retail and service sectors.



Asia/Pacific is the one region where confidence in economic conditions affecting the electroindustry is widespread for both the current conditions index and the index of future conditions. The current conditions index increased to 64 in December from 61 in November for the seventh consecutive month above the 50 threshold. Once again this month, relatively strong growth in China and other middle-income Asian economies has created conditions that support expansion in the electroindustry. One indication of the growing Chinese economy is the 36 percent increase in car sales in the first 10 months of 2002 compared to the same period last year.

Looking forward, the confidence index for conditions six months from now remained unchanged at 74, which indicates broad consensus that conditions will be conducive to expansion for the electroindustry. This bright view of the future may dim in coming months if Japan's economy, which earlier this year had shown signs of strengthening, continues to lose momentum. Renewed recession in Japan, by far the largest economy in the region, would dampen growth prospects throughout the region. However, a strong U.S. recovery next year could partially offset the contractionary effect of a weakened Japanese economy.

## SURVEY RESULTS:

Region	Current Conditions (Compared to Six Months Ago)	Conditions Six Months From Now (Compared to Current Conditions)
North America	48.4	75.8
Latin America	28.3	52.2
Europe	30.0	60.0
Asia/Pacific	64.3	73.8

Number of Respondents =30

Values reflect the percentage of respondents expecting "Better" conditions, plus one-half of the percentage of respondents expecting "Unchanged" conditions.

A score of 50 or higher suggests conditions appropriate to expansion of the electroindustry sector.

## COMMENTS:

### *Current Conditions*

1. The 2002-2H recovery did not materialize. The most recent Wholesale Trade & Inventories report shows that Inventories of Electrical products (NAICS 4216) are rising while sales are flat to down leading to an increase in the I:S ratio - not a good sign for future sales.
2. Consolidation of manufacturers and distributors seems more likely now than six months ago as so many are in distress.
3. Things have flattened out. Still don't see any drivers for a meaningful pick-up in demand. See much more risk of downside than upside in '03. Metal prices seem to be starting to trend back down from their recent highs.
4. Seasonably weaker in addition to further inventory reduction initiatives by electrical distributors.
5. The financial baggage associated with the US utility industry is continuing to drag down their spending for needed infrastructure.
6. Iraq and now Venezuela are having a major effect on the international market!!
7. Our markets continue to be plagued by overcapacity in most steps of the supply chain, and the end markets. The US uncertainty index must remain high due to financial issues, and war concerns.

### *Conditions Six Months From Now*

1. 2002 is ending on a down note, and the first half of 2003 looks weak as well. The outlook for most market drivers is not promising. Only housing shows any strength; and it is almost certainly past its peak..
2. We need an appropriate energy bill to encourage transmission investment.
3. I expect more of what we have seen in the last half of '02 - i.e. every positive demand factor will be counter-balanced by a negative factor, thus leaving the overall market with little or no growth.
4. Traditional seasonal building cycle improvement plus inventory replenishment will lead to improved business late in the second and third quarters.

5. Even if the economy turns the corner and begins moving up, we expect the utility market not to see much of a turnaround before the beginning of '04
6. There is just too much uncertainty in the world wide market place.
7. Electroindustry will lag economic upturn as business investment will begin to improve after general economy begins leg up. Nonresidential construction will continue to hold down recovery of those electroindustry segments which are driven by this area of the economy. Information technology spending will rebound first, followed by investment and replacement in industrial equipment and parts, and finally (2004)nonresidential structures will begin to rise.
8. The factors effecting the past 6 months remain the same
9. Markets affected by commodities are showing signs of an upswing. We expect our businesses in L.A., A/P, and N.A. to pickup. We expect 2003 to be a year of growth in each of our business units in the range of 11% to 12%.

## **LIST OF MANUFACTURERS INVITED TO PARTICIPATE:**

ABB  
Acuity Lighting  
Advance Transformer  
AmerCable  
American Insulated Wire  
Bedford Materials  
Connector Manufacturing  
Cooper Industries  
Eaton  
Elektrisola  
Emerson Electric  
Emerson/EGS Electrical Group  
Fischer Imaging  
G&W Electric  
GE Industrial Systems  
General Cable  
Genlyte Thomas  
Hoffman Enclosures  
Hubbell  
Hypertherm  
ILSCO  
JJI Lighting  
Juno Lighting  
Lamson & Sessions  
Leviton Manufacturing  
Lincoln Electric  
Lutron Electronics Company  
MacLean Power Systems  
Nexans Canada Inc.  
OSRAM SYLVANIA  
Pass & Seymour/Legrand  
Philips Medical Systems  
Radix Wire  
Ranbar Electrical Materials  
Regal-Beloit  
Robroy Industries  
Rockwell Automation Control Systems  
Rockwell Automation Power Systems  
S & C Electric  
Siemens Energy & Automation  
Siemens Medical Solutions USA  
Southwire  
Square D  
Thomas & Betts  
United Copper Industries  
Universal Lighting Technologies

## **EBCI CONSTRUCTION DESCRIPTION:**

The EBCI indexes are based on the results of a monthly survey of senior managers at NEMA member companies, which together represent more than 80 percent of the electroindustry. They are designed to gauge the business confidence of the electroindustry in key world regions.

The survey contains the following two questions:

1. How would you rate current economic conditions in the following regions, as they affect your business, compared to six months ago?
2. How do you expect economic conditions in the following regions, as they affect your business, to have changed six months from now?

Respondents are asked to indicate whether conditions are better, worse or unchanged (or not available if their respective company does not do business in a particular region). The four regions are North America, Latin America, Europe and Asia/Pacific. The survey also provides space for respondents to comment on current conditions. These comments are included below the table containing the index levels.

The index value is the percentage of respondents expecting “Better” conditions, plus one-half of the percentage of respondents expecting “Unchanged” conditions, which follows the methodology used by the Institute for Supply Management (formerly the National Association of Purchasing Management) in the construction of their manufacturing index.