



COMMENTS ON THE PVF MARKET

The released data showing the second year in a row, shipments for the U.S. and Canadian industrial valve industry growing to about \$3.91 billion in 2011. That is a rise of about 1.5% from 2010 levels of \$3.85 billion and within reach of the industry's 10-year peak in 2008 of about \$4 billion. The VMA Chairman Max Mitchell states that "although the rise is slight compared to some year-to-year increases early in this decade, the fact that we've managed to maintain steady momentum through a difficult economy shows how strong the valve industry is. We expect the gains to continue at even faster rates over the next few years." The interesting factor that has contributed to this steady performance is that while domestic shipments have remained about the same during the last few years, exports of valves have grown - in 2009, exports were about \$710 million, in 2010, they grew to \$750 million, and 2011 is forecast at more than \$760 million.

Of the 15 markets tracked by VMA in 2010, Water & Wastewater had the largest share at about 18%, followed by Chemical (17%), Petroleum Production and Petroleum Refining (each about 12%), and Power Generation (11%). Automated valves accounted for the biggest share among valve types (\$1.2 billion), followed by ball valves (\$706 million), and gate, globe and check valves (\$567 million).

In an article for Industry Week, Jonathan Katz comments that U.S. steel shipments will rise 14% in 2011 to approximately 95 million tons as the industry continues to rebound from the recession as noted by Nucor Chairman and CEO Daniel DiMicco during the state of the industry report May 2. Steel executives expressed their optimism for the remainder of 2011, but reiterated their concerns regarding U.S. trade and energy policies. In March finished steel imports into the U.S. rose to their highest level since January 2009, said DiMicco, who is also the AISI chairman. DiMicco said, "We are urging the government to remain vigilant against any surges of unfair trade that could harm recovery."

Commercial and residential construction remains weak. Increased demand from infrastructure construction projects has the potential to create up to 3 million jobs over the next several years according to comments from Mario Longhi, president and CEO of Gerdau Ameristeel Corp. and AISI director. The energy sector also offers growth opportunities for the steel industry, Longhi said, since steel products are used

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STAINLESS STEEL PIPE

Pricing --> Stainless Steel pipe pricing is expected to remain stable with lower surcharges offset by base price increases.

Lead Times - Delivery lead times are running 8 - 12 weeks, with fill rates of 20% - 30%. Non-standard material delivery is out to 12 - 16 weeks.

Comments - Inventories are intentionally being kept lower due to price volatility. One manufacturer noted that deliveries move out slightly, then come back in after a week or two showing a very inconsistent order pattern. Some nickel alloy "remelt" grades are booked thru the end of the year. Some industries are busier than others, leading to overall inconsistency in activity and pricing levels.

Stainless Steel Surcharges Based on Allegheny Distributor Published Figures

SS Sur-charge per LB	Apr 2010	May 2010	Jun 2010	July 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	April 2011	May 2011
304/L	1.19	1.44	1.67	1.41	1.25	1.23	1.33	1.42	1.48	1.44	1.52	1.64	1.79	1.71
316/L	1.64	1.94	2.20	1.89	1.65	1.62	1.77	1.78	1.87	1.91	2.00	2.15	2.34	2.23

STAINLESS STEEL WELD FITTINGS, 150 & HI-PRESSURE FITTINGS

Pricing - ↗ (Weld Fitting 150#) (SS Pressure Fittings) Manufacturers report increased prices from 3% - 7-1/2%. Nickel prices are up significantly and inventories reduced thus causing increased prices. Allegheny has gone up 7% - 9% on strip for pipe. Surcharges for May will probably go back down to the March numbers; otherwise, the prices may have increased further. Labor and material costs have drastically risen in China and India with both countries having rapid growth and accompanied inflation.

Lead Times - Fill rates are running 75% to 85% with lead times of 4 - 6 weeks for commodity domestic material and 8 - 12 weeks for import material not in stock. Look for deliveries to go out further due to pipe extended deliveries. Some mills over-booked at low prices and are now suffering from extended lead times. Nickel was on a steady rise, but then has dropped off a little. Due to the crisis in Japan, we may see another increase.

Comments - One manufacturer comments that commodity prices have remained at elevated levels with greater global demand than expected. PVF markets should be much stronger this year due to increased demand, higher prices, and oil prices soaring. There is too much capacity for both manufacturing and distribution. The master distributor has re-shaped the market structure and will continue to move into closer distribution channels with end-users. **Another notes** that it appears that business has improved slightly. Hopefully, this will continue. As prices rise, demand normally increases due to the fear of how high they may go. Pipe prices and the availability of plate and strip are the big issues effecting the stainless fitting and flange market. Everyone wants everything yesterday.

STAINLESS STEEL FLANGES

Pricing - ↗ Manufacturers forecast price increases averaging 5% for stainless steel flanges. Labor and material costs have drastically risen in China and India. Both countries have rapid growth and accompanied inflation.

Lead Times - Fill rates are forecast for 60% - 75% with lead times of 4-6 weeks domestic and 8 - 12 weeks foreign. Specialty flanges are out 12 - 16 weeks.

Comments - Rising costs for raw materials, supply, demand and reduced on hand inventories are causing increased prices. Nickel prices have risen significantly in the past year reflecting higher raw material prices.

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing - ↗ One manufacturer predicts pricing will remain stable through the second quarter on carbon steel fittings and forged steel flanges and another indicates an 8%-10% increase in carbon flanges. However, due to the unstable world conditions unexpected changes could occur.

Lead Times - Fill rates are running 90% - 100% or more for fittings and flanges. Deliveries for material not in stock is forecast for 3 - 4 weeks. Non-stock specials are forecast for 6 - 8 weeks.

Comments - Demand and stable costs of raw materials have kept pricing stable or only rising slightly. While prices for raw forgings have risen somewhat, the rise has not precipitated an increase in pricing as of this writing. The 2011 market is expected to see demands similar to that of 2010. Most of the major construction projects will be funded by some form of government funding either at the local, state or federal level. The extension of the Bush Tax Rates has given some

relief to the uneasiness in the market place. Large privately funded projects will be a small percentage of the construction market due to the extension of the tax rates terminating at the end of 2012 and the difficulty in securing financing.

Regulations issued or that are in the process of being issued will have a negative impact on the fossil fuel power industry, nuclear power industry, oil and gas shale projects and deep water drilling for oil. The PVF market is struggling with the current state of instability in the world arena and their effects on the cost of energy. Demand continues to be the driving force for the PVF industry. EPA regulations, the political posturing on a domestic energy policy and in increasing concern about the debt are all issues that affect the volatility of the PVF market.

Stephen Letko of Weldbend quotes " an increase in the attention to the need for energy development in nuclear, clean coal, solar, gas turbine power plants, shale oil and gas development will be the driving forces during 2011 - 2012."

CARBON STEEL PIPE - SEAMLESS, ERW AND CONTINUOUS WELD

Pricing - ↗ Welded pipe has increased 28% since January and seamless may be increasing soon.

Lead Times - Fill rates are running at 75% - 90% with lead times of 8 - 12 weeks.

Comments - Recently more than a dozen US Senators called for trade relief for US steel producers, saying the industry is hurt by unfair practices by steelmakers in places such as Brazil, Japan and Russia. The senators are calling for relief for the US steel industry sending a letter to the chairman of the US International Trade Commission in advance of an April 6th, 2011 hearing to determine whether hot rolled steel

imports from Brazil, Japan and Russia are having a negative impact on the domestic hot rolled steel industry. The senators claim several Ohio steel producers will be affected by the commission's decision including AK Steel Holding and Arcelor Mittal, steel pipe and tube producers that rely on US hot rolled steel as their input to make pipe and tube. Among the other large US steel producers are Pittsburgh based United State Steel Corporation and Charlotte based Nucor Corporation. The current steel market has been much more stable than in recent months. Manufacturers indicate it is unclear whether real demand will improve in the second quarter, or if destocking will offset any gains.

FORGED STEEL FITTINGS

Price - ↑ Forged steel fittings are forecast to increase approximately 8% - 10% due to raw material costs.

Lead Times - Material shipment fill rates remain at 80% - 90% with lead times for commodity material not in stock running 3 - 6 weeks.

Comments - The forged steel fitting industry has experienced a "spike" in business resulting from the energy business segment. The increase demand as resulted in slightly longer lead times. Forged steel fittings and unions are manufactured from "special bar quality steel". The 2010 calendar year has seen a 42% - 45% increase in SBQ prices. The industry increase, the first since 2008 has been adopted by domestic and import manufacturers alike. The energy business segment remains brisk with continued emphasis on oil drilling. The rig count has shifted from a majority of natural gas wells to

oil exploration. The number of drilling rigs seeking oil has hit a twenty year high in the United States. The focus has moved from natural gas in shale to liquids found in shale formations; Eagle Ford in South Texas and the Bakken in North Dakota. The advent of these oil plays, along with \$100 barrel oil have sparked heightened activity. The oil and gas business overshadows the industrial business segment. The industrial segment continues to gain ground, but at a subdued rate. Manufacturers continue to view the government's fiscal policies and regulations as factors attributing towards the sluggish economy. They are concerned with new power to regulate emissions possessed by the EPA. The manufacturers hope is the 112 Congress will curtail the EPA's perceived desire to regulate emissions and essentially enact a form of "cap and trade". If the EPA is not curtailed it will have a large and negative impact on the PVF industry.

STAINLESS STEEL GATES, GLOBES, CHECK VALVES

Price ↑ - Pricing for stainless steel gate, globe and check valves are up 10% or more due to raw material costs, demand and competition.

Lead Times - Fill rates for commodity valves remain at 75% - 85%. Lead times for commodity valves not in stock are forecast for 8 - 10 weeks and non-stock specials 16 - 20 week lead times.

Comments - Very strong growth opportunities are expected over the next five years for this commodity.

BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

Price ↑ - Bronze and iron valves are forecasting increases of 5% - 7% during this first quarter 2011 due to raw material costs.

Lead Times - Fill rates for Bronze and Iron valves remains at 70% - 80%. Lead times for Bronze and Iron valves are forecast for 4 - 8 weeks.

Comments - Overall demand for bronze and iron is relatively flat. Raw material costs continue to increase - the bronze ingot has increased greatly and expected to continue.

CAST STEEL GATES, GLOBE AND CHECK VALVES

Price ↑ - Cast steel valve manufacturers indicate pricing increases of 5% - 10% due to raw materials, demand and competition.

Lead Times - Fill rates still running at 70% - 80% with forecast delivery in 4 - 8 weeks. Non-commodity valves are shipping in 16 - 20 weeks.

Comments - Raw material costs, fuel costs and transportation costs have all increased greatly in the past six months. Available inventory in the market place has decreased.

FORGED STEEL GATES, GLOBES AND CHECK VALVES

Price ↗ - Manufacturer's pricing for forged steel valves is up 2% - 5% due mostly to raw material costs.

Lead Times - Lead times remain at 6 - 8 weeks for forged steel valves with fill rates of 50% - 60% for commodity valves. Specials are running 8 - 12 weeks.

Comments - Sales for forged steel valves were up 30% in 2010 over 2009 levels. The first quarter of 2011 has been very strong and is tracking at 2008 levels, which was a record year for one manufacturers. The most volatile issue in the forged steel valve market is the price pressure from foreign manufacturers. The continuing consolidation of valve manufacturers is still effecting the market. With less manufacturing done in the U.S., most companies have moved to lower cost countries.

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This report is published as a service to the PVF Industry indicating the direction of prices, lead times, and market conditions reported by various domestic and import manufacturers as they believe the direction the market is heading each quarter.

QUARTER TURN VALVES - BALL AND WAFER

Price ↗ - Quarter turn valves are up 3% - 5% with posted price increases in effect this quarter. The material surcharges have been rising over the past six to eight months. However, May is slightly lower.

Lead Times - Fill rates for quarter turn valves are running 60% - 70% with lead times forecast for 4 - 6 weeks. Non-commodity specials continue to run 12 - 16 weeks with slight improvement.

Comments - The Valve Manufacturers Association released historical data on past valve shipments by product category and total shipments, as well as its annual breakdown of valve shipments by end-user markets. In 2010, automated valves accounted for the biggest share among valve types (\$1.2 billion), followed by ball valves (\$706 million), and gate, globe and check valves (\$567 million). Of the 15 markets tracked by VMA in 2010, Water & Wastewater had the largest share at about 18%, followed by Chemical (17%), Petroleum Production and Petroleum Refining (each at about 12%), and Power Generation (11%).

The following information is provided by the Bureau of Labor Statistics from the U. S. Government concerning the industrial valve industry data. Please note that the * asterisk indicates preliminary information. All indexes are subject to revision four months after original publication.

Producer Price Index Industry Data for Industrial Valves

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Series ID: PCU3329 I Industrial Valve Manufacturing												
2010	186.5	186.9	187.2	187.2	187.2	187.9	187.7	187.2	187.3	187.3	187.3	187.3*
2011	193.1*	194.0*	197.3*									
Series ID: PCU3329 C Industrial Ball Valves (all metals, pressures, and types) manual and power operated												
2010	186.1	186.5	186.5	186.8	187.2	187.4	187.8	187.8	187.8	187.8	189.5	190.2*
2011	190.6*	200.4*	214.6*									
Series ID: PCU3329 I4 Industrial Butterfly Valves (all metals, pressures, and types) manual and power operated												
2010	154.8	155.4	153.4	154.5	161.3	165.1	162.0	162.2	163.4	165.2	166.2	167.1*
2011	167.5*	165.1*	168.6*									
Series ID: PCU3329 I1 Gates, Globes, Angles, Straightway (Y-type) Checks, Stop & Check												
2010	221.5	222.1	223.0	224.5	224.6	224.9	225.9	225.7	225.6	225.8	226.6	226.8*
2011	225.6*	226.8*	228.0*									



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