



# Market Condition & Activity Bulletin

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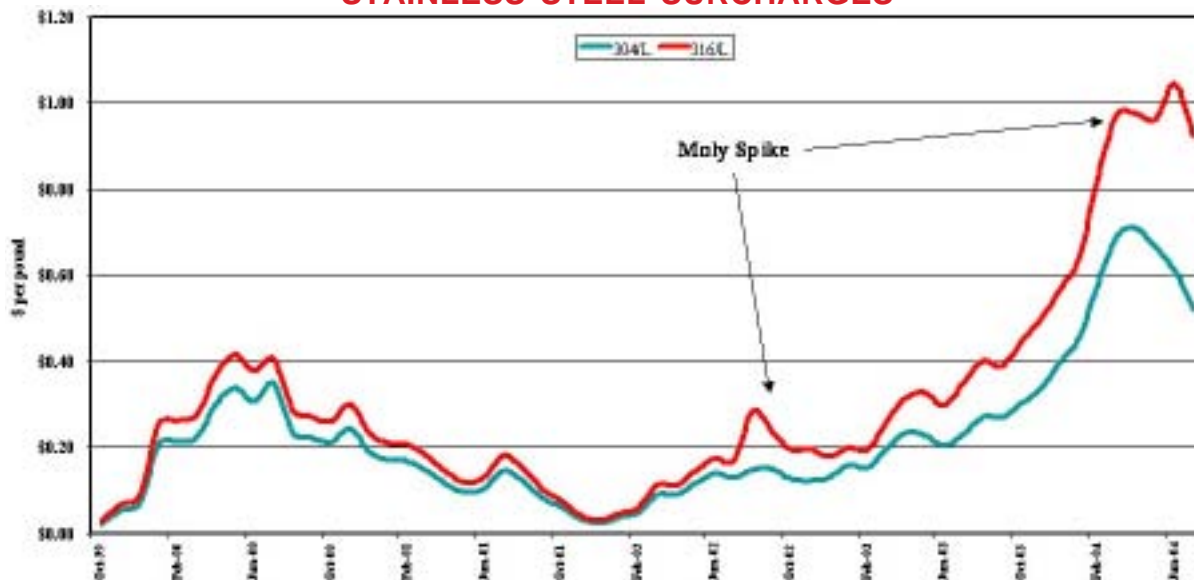
July • August • September 2004

## STEEL INDUSTRY VOLATILE

Following a sharp surcharge decline in July, the August surcharges are the highest they have been. In addition, there are rumors that two copper mines were closed and Moly is a by-product of the copper mines, so Moly will go even higher. September surcharges will be even higher. Nickel prices are expected to continue to rise through July 2006 and then should slow down as more nickel mines are into production. New mine supplies will be less than expected in 2006, with the Goro nickel project in New Caledonia not starting up until mid-2007. Newfoundland and Labrador's Voisey's Bay nickel project remains on schedule for mid-2006, but the additional 60,000 ton output may be offset by declining head grades at mines in Sudbury and Manitoba.

After pushing up LME nickel prices to a spectacular US \$8.06 per pound in early January (the highest since 1989), investment funds and speculators reduced their positions, leading to a gradual unwinding of prices to an average of US \$5.04 in May, with June 2004 closing at \$6.86 /lb. and mid-July back over \$7.00 / lb. The price trend for stainless appears to continue on the upside.

## STAINLESS STEEL SURCHARGES



Since the beginning of the year, stainless mills have implemented a series of price hikes ranging from 3% to 10%, as well as raw material surcharges that add 20 to 50 percent more to the cost of some grades. The tight supply of stainless scrap, largely due to exports to China, and the high cost of inputs such as nickel and chrome, continue to put upward pressure on stainless prices. With the cost of scrap at around \$1200 per gross ton in mid-June— compared to about \$760 a ton last year— surcharges will remain a factor says industry analyst Christopher Plummer, managing director of Metal Strategies Inc., West Chester, PA.

Estimates from the International Stainless Steel Forum are projecting a 6.8% increase in global melt output in 2004. They also report that worldwide shipments of stainless steel in the first quarter of 2004 rose 6.3% from the same period a year ago. There are reports that US stainless inventories are at a record high, which means stainless production should slow in the later half of 2004 and that the bonanza for stainless producers earlier this year could be coming to an end. Bloomberg is reporting two of China's three largest stainless steel producers may be forced to cut back production because of power shortages. The dollar is at a three month low against the Euro, which is making metals more attractive to investors. As expected, the Fed raised interest rates  $\frac{1}{4}$  of 1% on June 30, 2004.

*(continued on page 4)*

## STAINLESS STEEL PIPE

**Pricing** ↑ Several manufacturers indicate price increases of 3% to 7½% for the third quarter of 2004 due to raw material costs, supply and demand. Flat-rolled mills are keeping to their base price increases. Nickel and moly have been on a roller-coaster ride.

**Lead Times** – Fill rates for commodity stainless pipe are reported to be from 50% to 70% depending on size. Lead times are running from 12 to 20 weeks for commodity material not in stock. Forecast lead times for non-stock

specials are forecast for 16 to 20 weeks. Manufacturers are concerned over lead times for raw materials.

**Comments** – August surcharges are the highest they have been, following a sharp decline in July that appears to be a fluke. Manufacturers indicate special projects are improving and backlogs are increasing. The stainless pipe market is seeing short quotation validities and limited options for hedging or setting firm project pricing.

## STAINLESS STEEL WELD FITTINGS

**Pricing** ⇔ Unless demand picks up, one manufacturer indicates they may drop discounts to get an order. However, several manufacturers are forecasting additional increases of 10% or more due to supply and raw material costs, while still another manufacturer forecasts pricing to be stable through the third quarter with a slight increase in September or October.

**Lead Times** – Lead times on fittings are running 4 – 6 weeks for commodity items with fill rates of 70% – 80%. Non-stock specials are forecast for 6 – 12 weeks. Raw material lead times continue to stretch out.

**Comments** – Manufacturers indicate that MRO business is good while projects are flat. Fulfilling order backlogs kept most manufacturers busy in June. They are hustling to book orders to keep their shops active. Poor bookings this quarter could cause a problem. They see some indicators that project nickel will climb to \$8.00 / lb. before year-end. The surcharges continue to effect raw material costs (pipe, plate, and bar). Even with moderate activity, another butt weld fitting increase will be on the horizon before year-end comments one manufacturer.

## STAINLESS 150 AND HI-PRESSURE FITTINGS

**Pricing** ↑ Manufacturers indicate 150 and Hi-Pressure fitting prices will increase by 10% to 12% during the third quarter due to raw material costs.

**Lead Times** – Lead times for commodity material are 3 – 4 weeks with fill rates of 80% to 90%. Raw forgings continue to be an issue as Ideal, the major domestic supplier, shut

their doors. Phoenix Forge has assumed the operation after a delay while they “tooled” up for these products.

**Comments** – Import fittings have increased in price, but the price delta remains consistent according to one manufacturer. The larger issue is end-users allowing import product as a way to keep costs from escalating.

## STAINLESS STEEL FLANGES

**Pricing** ⇒ Several manufacturers indicate that no price changes are forecast for the third quarter of 2004 for stainless flanges.

**Lead Times** – Stainless steel flange lead times are running 2 – 4 weeks for commodity items with fill rates remaining

at 50% to 80%. Non-stock special items are forecast for 6 – 8 weeks.

**Comments** – Manufacturers are watching rising raw material costs, but hope to hold pricing until the fourth quarter.

## CARBON STEEL PIPE (CONTINUOUS WELD, ERW & SEAMLESS)

**Pricing** ↑ Manufacturers of seamless and continuous weld pipe are increasing prices by 8% to 10% and more. ERW manufacturers increased 3% – 5% during the second quarter and should hold pricing through the third quarter.

**Lead Times** – Lead times are forecast for 3 – 4 weeks. Fill rates are 60% – 80%.

**Comments** – One manufacturer comments that the market is summed up in one word . . . “VOLATILE.”

## CARBON STEEL WELD FITTINGS AND FLANGES

**Pricing** ↑ Carbon steel weld fittings are forecast to increase 8% to 10% during the third quarter '04. Raw material costs are pushing this industry wide increase.

**Lead Times** – Fill rates are strong for commodity material in the range of 80% – 90% with lead times forecast for 2 to 3 weeks.

**Comments** – Manufacturers comment that carbon steel

seamless pipe and plate has increased about \$200 / ton—and some items considerably more. One manufacturer comments that the pricing of raw material is very unsettled with availability a hit and miss for manufacturers. Foreign competition is noted as increasing from Mexico, Europe, China, Indonesia, Viet Nam, and Thailand reports manufacturers.

*Please note that arrows inserted after pricing is only a “Best Guess” of pricing direction after compiling information from select suppliers. It does not reflect input from all mgfs. nor does it include study of national economic indicators.*

## FORGED STEEL FITTINGS

**Pricing** ↑ Manufacturers report a 14% weighted average increase for forged steel fittings this quarter. Responses from manufacturers indicate their raw material costs have increased over 70% since August of 2003. This follows an approximate 8% increase during the second quarter of '04.

**Lead Times** – Forecast lead times for commodity materials is 4 – 6 weeks. Fill rates are approximately 80%. Raw material continues to be an issue as allocations remains on forging bar. If the item is not in stock, delivery on particular shapes has been drawn out an additional two weeks from last quarter.

**Comments** – Manufacturers comment that the import

pressures are decreasing as the strong dollar has closed the price delta to 10% – 13%. One domestic manufacturer has new private labeled forged steel fittings from Taiwan. This will increase the availability and potentially open new target markets for the product. The forged steel industry needs the current price increase to offset the tremendous amount of raw material costs comments one manufacturer. Allocations of forging bar have forced the sourcing of steel service centers in some cases. The industrial market remains soft, but showing signs of optimism. The energy sector is presently consuming large amounts of forged steel.

## STAINLESS GATES, GLOBES, CHECKS

**Pricing** ↑ An increase of 3% – 5% is forecast for stainless gate, globe, and check valves due to raw material costs.

**Lead Times** – Fill rates of 60% – 70% with 6 – 8 week

lead times on commodity items that are not in stock. Exotic specialty stainless items are forecast for 16 – 20 weeks or more delivery.

## BRONZE AND IRON GATES, GLOBES, CHECKS

**Pricing** ↑ Manufacturers predict increases of 3% – 5% on bronze and iron valves due to raw material costs.

**Lead Times** – Lead times are 4 – 6 weeks for commodity bronze and iron with fill rates of 50% – 60% on the bronze and 70% – 80% on the iron valves. Non-stock specials are forecast for 6 – 12 weeks.

**Comments** – One manufacturer comments that bronze

ingot costs have increased 20% since the beginning of the year. Bronze ingot is expected to continue to rise due to raw material demand. Though there is a consistent supply of bronze valves, rising ingot costs will continue to put pressure on to increase pricing. There are indications of an increase in mechanical contracts in the domestic market.

## CAST STEEL GATES, GLOBES, CHECKS

**Pricing** ↑ The pricing on cast steel valves is forecast to increase 3% – 5% for the third quarter of 2004 due to raw material and labor costs.

**Lead Times** – Fill rates have dropped to 60% – 70% with lead times of 6 – 12 weeks for cast steel valves. Lead time for special cast steel valves is forecast for 16 – 20 weeks.

**Comments** – One manufacturer indicates the cast carbon steel and corrosion alloy market is regaining momentum after industry downturns. These products go into all industrial end user applications, and today, demand for these products has increased due to an increased mix of capital projects in the market.

## FORGED STEEL GATES, GLOBES, CHECKS

**Pricing** ⇔ One manufacturer forecasts an increase of 1% – 2½% on forged steel valves due to raw material costs and demand. Another manufacturer forecasts no change for the third quarter.

**Lead Times** – Commodity forged steel valves are shipping in 4 – 6 weeks, with fill rates for stock items at 60% – 70%. Non-stock specials are forecast for lead times of

10 – 20 weeks.

**Comments** – One manufacturer indicates they have been steadily growing their forged steel valve line to include more exotic forged steel valves. Their target customers include power, chemical, refining and the petro-chemical industries.

## QUARTER TURN VALVES – BALL AND WAFER

**Pricing** ⇒ Manufacturers have forecast no price increase for the third quarter following an approximate 4% increase implemented in the second quarter.

**Lead Times** – Commodity material is forecast for 2 – 3 week lead times with special engineered products forecast

for 8 – 12 weeks, with the exception of some casting problems delaying shipments on some specific valves. Fill rates are running 40% – 50% for commodity items.

**Comments** – Foreign competition for ball and wafer sphere valves is seen as increasing from India and Asia.

## STEEL INDUSTRY VOLATILE (continued from page 1)

China reports the fourth consecutive month of slowing industrial growth, which is evidence that their attempt to slow the economy without crashing, is working. With China's temporary exit from the market, worldwide demand for alloy steels is not reaching the hectic level that characterized this year's first quarter.

Exports of finished steel to China are up 20 percent this year as well, adding to the tight supply situation and high prices in North America. Since the Chinese have reined in their stainless purchases noticeably since March, it is predicted that they will be back in the market by late summer or early fall. High demand for stainless in overseas markets, and the weak dollar, have discouraged imports to the United States, but that situation may change. Service centers are forced to pass along the higher prices each month and try to soften the blow to end-users. Metal Strategies forecasts a normal seasonal slowdown in the third quarter, followed by a renewed pace of growth later in the year. They predict a couple of years of fairly solid recovery across the board for all the major carbon and stainless steel sectors.

The Census Bureau reports that total U.S. imports of finished steel products in April topped the year-ago level by 33%. But the volume of incoming standard steel pipe fell by 23%.

The Institute for Supply Management (ISM) monthly report (June '04) on economic activity in the manufacturing sector found it growing, and strongly, for the 12<sup>th</sup> consecutive month. Order backlogs were growing steadily, and comments from ISM indicate demand is strong in most manufacturing industries. However, they expressed major concern about rising material prices and the cost of energy. Thomas Regional.com indicates supply levels of raw materials are expected to remain low. One of the major factors is the offshore migration of U.S. manufacturing jobs. Robert Stevens, CEO of Impact Forge Inc. of Columbus, IN., stated, "When a manufacturer moves abroad, that means scrap steel generated from that factory moves abroad as well. So when our manufacturing economy lost 2.8 million jobs in the last three years, part of the related cost was a loss of future steel scrap and other recyclables."

## INDUSTRIAL VALVE MARKET

The Valve Manufacturers Association of America expects a 0.6% increase in industrial valve shipments during 2004 over last year. The dollar volume is projected at \$3.18 billion. Since the data is in current dollars, there is little or no gain. The industrial market share for industrial valves is as follows:

Water and Wastewater .....	17.9%	Commercial Construction .....	05.3%
Chemical .....	16.2%	Other (mining & textiles) .....	03.8%
Petroleum Production .....	12.4%	Food and Beverage .....	02.4%
Petroleum Refining .....	11.4%	Gas Distribution .....	02.4%
Power Generation .....	11.0%	Co-generation .....	01.8%
Pulp and Paper .....	06.3%	Iron and Steel .....	01.8%
Oil and Gas Transmission .....	05.7%	Marine .....	01.5%

Have a happy Labor Day!

Monday, September 6th



## PIPING & EQUIPMENT, INC. WAREHOUSES

www.pipingequipment.com

<b>ALABAMA</b> .....	1015 McEntire Lane • Decatur, Alabama 35603 • (256) 340-2081 • Fax (256) 340-2086 4210 Halls Mill Rd. • Mobile, AL 36693 • (251) 666-6770 • Fax (251) 666-7073
<b>FLORIDA</b> .....	3448 E. Business 98 • Panama City, FL 32401 • (850) 785-7733 • Fax (850) 785-9741
<b>LOUISIANA</b> .....	2030 South Phillipe Ave. • Gonzales, LA 70737 • (225) 644-5330 • Fax (225) 647-0282
<b>TEXAS</b> .....	110 N. 13th St. • Beaumont, TX 77702 • (409) 838-6775 • Fax (409) 838-6671 9100 Canniff St. • Houston, TX 77017 • (713) 947-9393 • Fax (713) 947-9202 or 948-9595 2730 FM 523 • Oyster Creek, TX 77541 • (979) 233-6500 • Fax (979) 233-7265
<b>TRANSPORTATION PRODUCTS GROUP</b> ....	9100 Canniff St. • Houston, TX 77017 • 1-800-364-9384 • (713) 947-9393 • Fax (713) 948-9594
<b>IT &amp; FINANCE</b> ....	8781 Paul Starr Dr. • Ellyson Industrial Park • Pensacola, FL 32514 • (850) 484-3994 • Fax (850) 474-0552 or 484-8378
<b>FOR COMMENTS CONTACT</b> .....	Gary J. Cartright, President • gcartright@pipingequipment.com 9100 Canniff St. • Houston, TX 77017 • (713) 947-9393 • Fax (713) 948-9559

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