



# Market Condition & Activity Bulletin

PIPING & EQUIPMENT, INC. - Affiliated Distributors Member

January - February - March 2009

## The Steel Outlook

The American Iron and Steel Institute recently reported that Steel Imports ended 2008 down 3.2 percent. The AISI President and CEO Thomas J. Gibson said that, "While overall imports have been fairly stable, imports from China surged in the second half. Of particular concern is that the China import surge in the fourth quarter took place at a time when U.S. end-use market demand and domestic steel production were both down significantly. We are therefore very alert to the possibility that, in 2009, there could be further surges of direct and indirect steel imports from China - a country with enormous overcapacity in steel and related industries, and whose own economy is slowing dramatically. This is why we urge the next Administration to insist that China play by the rules, comply with all of its WTO obligations and not try to export its way out of the current crisis through surging exports of dumped and subsidized steel and other manufactured goods."

Country	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	% Increase First 3 Qtr 4th Qtr	2008 Annual	2007 Annual	% Increase '08 vs '07
China	751	838	1,416	1,800	79.7%	4,806	4,597	4.5%
South Korea	542	581	670	502	-16.0%	2,294	2,004	14.5%
Japan	356	411	450	374	-7.8%	1,591	1,481	7.4%
Germany	263	344	271	237	-19.0%	1,115	1,083	3.0%
India	301	256	292	245	-13.4%	1,095	784	39.7%
Turkey	172	198	158	213	21.0%	740	569	30.1%
Australia	155	162	192	119	-29.9%	628	515	21.9%
Brazil	153	103	78	187	68.0%	521	1,203	-56.7%
Netherlands	70	111	109	171	76.9%	460	538	-14.5%
Russia	45	57	116	200	175.2%	418	370	13.0%
All Other	3,437	3,337	2,999	2,297	-29.5%	12,071	13,443	-10.2%
<b>TOTAL</b>	<b>6,245</b>	<b>6,398</b>	<b>6,751</b>	<b>6,345</b>	<b>-1.9%</b>	<b>25,739</b>	<b>26,587</b>	<b>-3.2%</b>

The world produced 6.3 million metric tons of stainless steel in the third quarter of 2008, 6.8% higher than for the same quarter of 2007 according to the International Stainless Steel Forum. Growth came mainly from Europe and the Americas. Asian production remained flat with China showing a decline in stainless steel production compared to both the previous quarter and, for the first time, when compared to the same quarter in the previous year. The quarter by quarter figures have shown a clear upward direction in stainless steel production. This trend is unlikely to be sustained in the final quarter of 2008 given the current global economic climate. Below is the stainless crude steel production in '000 metric tons sourced from the ISSF (International Stainless Steel Forum):

Region	Year 2006	Year 2007	% Change	9 Months 2007	9 Months 2008	% Change
Western Europe & Africa	10,000	8,669	-13.3%	6,459	6,774	4.9%
Central & Eastern Europe	376	364	-3.3%	276	283	2.2%
The Americas	2,951	2,604	-11.8%	1,985	1,943	-2.1%
Asia	15,074	16,200	7.5%	12,203	12,075	-1.0%
<b>World Total</b>	<b>28,400</b>	<b>27,836</b>	<b>-2.0%</b>	<b>20,923</b>	<b>21,074</b>	<b>0.7%</b>

## STAINLESS STEEL PIPE

**Pricing** ⇔ ↘ Stainless Steel Pipe manufacturers are forecasting either no change or a decrease of 3% - 5% during the first quarter. January and February surcharges continue to drop, but may have hit bottom for a while because March is trending higher at the moment.

**Lead Times** — Lead times are forecast for 4 – 8 weeks for material not shipping from factory stock. First quarter inventories at the mill level will be reduced and lead times may increase slightly over the next few months. Large scale de-stocking is still occurring at the mill and distribution levels.

**Comments** — One manufacturer comments that the economic slowdown is now bringing additional import material into the U.S. market. Germany, Italy and Brazil are taking orders at predatory price levels according to one manufacturer. Everyone is competing for little new business. A significant number of new projects have been put on hold.

However, it is also noted that this first quarter will be better than expected, and business should improve in the second half of 2009. New orders and mill backlogs fell off significantly in the second half of 2008 following recorder numbers in the first 2 quarters of '08. There may be a bright side if service centers ultimately begin to replace reduced inventories, but this may take several months to gain momentum. The mill output curbs should soon bring supply and demand nearer into balance. Prices are expected to bottom out during January or February. Comments from one manufacturer concerning surcharges: "The method in which surcharges are calculated causes severe demand spikes when nickel and alloying ingredients move up and severe demand downturns when nickel and alloying ingredients move down. This surcharge method breeds severe volatility and should be changed to better synchronize supply and demand for all nickel bearing stainless products!"

## STAINLESS STEEL WELD FITTINGS, 150 & HI-PRESSURE FITTINGS

**Pricing** ↘ Stainless fitting manufacturers indicate pricing will drop 5% - 7% during this first quarter. The abundance of material both import and domestic is causing prices to spiral downward. The lack of demand in this current economic situation in both the domestic and global markets is forcing prices down. All manufacturers will follow the market trend because they must retain their market share. One manufacturer remarks that demand is going to control pricing for quite some time.

**Lead Times** — Domestic fittings are shipping in 3 – 6 weeks with fill rates from inventory of 70% - 80%. Large OD and specialty items can ship anywhere from 6 to 12 weeks or more.

**Comments** — Activity levels in the stainless market have continued to drop since September '08. Everything has affected the business:

economy, imports, gas prices, raw material prices. One manufacturer notes that 2009 will be a year to remember around the globe! Heavy inventories and slowing demand bring uncertainty to price levels though a sharp jump in nickel prices recently is stirring some caution for long term price declines. Many people are predicting that both moly and nickel prices will rise. Mines are being shut down in order to cause a false supply factor. One leading manufacturer predicts surcharges to rise by April. Many projects have already been shelved. The chemical industry may have the most problems. Power and refinery will continue to be somewhat strong. Watch for transmission project to slow down. China materials continue to become less acceptable in the market; however, China, Korea, India and Taiwan are leading the way toward dumping product to satisfy their production capacities.

## STAINLESS STEEL FLANGES

**Pricing** ↘ Stainless steel flange manufacturers forecast price decreases of 5% - 7% due to raw material costs, supply, and demand.

**Lead Times** — Lead times are forecast for 3 – 4 weeks with fill rates of 40% to 70% shipping from inventory. High nickel or specialty items are forecast for 8 - 12 week deliveries.

**Comments** — One flange manufacturer indicates that several projects have been shelved due to the economy, but not eliminated. Nickel, moly, energy costs, exchange rate, import price competition, and economic conditions continue to be factors in the stainless market.

## CARBON STEEL PIPE - SEAMLESS, ERW AND CONTINUOUS WELD

**Pricing Seamless** ⇔ **Welded** ↘ Pricing for carbon steel seamless pipe is forecast to trend downward for 2" thru 8" and remain stable on 10" and above. With demand flat, the financial crisis, economic factors, gas and oil prices are all forcing companies to make tough decisions concerning prices and production.

**Lead Times** — Fill rates for carbon steel is running 60 – 70%. Commodity material is shipping in 8 – 12 weeks for welded pipe and 2 – 3 months for seamless pipe.

**Comments** — Carbon steel welded pipe from China is decreasing due to a dumping suit. ERW prices are falling, scrap and energy is cheaper. In fact, scrap dealers have stopped taking scrap. US OCTG imports have increased in the past quarter averaging about 375,100 tons per month – 150 percent increase from the previous nine-month period when OCTG imports average 187,700 tons per month. China is by far the largest exporter of OCTG to the U.S. and their shipments have jumped in the past three months, averaging 232,500 tons compared to 91,000 tons in the prior nine months according to import data by the U.S. government. The Chinese imported 750,000 tons of OCTG into the Port of Houston in October according to one manufacturer.

## CARBON STEEL WELD FITTINGS AND FLANGES

**Pricing Fittings** ⇔ **Flanges** ↘ Flange manufacturers indicate pricing to be reduced to meet competitive pricing from 8% - 10% reflective of the softening in the carbon steel forging market. Butt weld fittings to remain stable reflecting the continued strong demand for A106 seamless pipe.

**Lead Times** — Lead times for commodity material is forecast for 2 – 3 weeks with fill rates of 80% - 95%. Lead times for non-stock specials are forecast for delivery in 4 – 6 weeks.

**Comments** — The 2009 market for commodity carbon steel fitting and flanges will remain strong for the first three quarters based on funded backlogs in the commercial construction market according to one manufacturer. The fourth quarter performance and forecast for 2010 remain uncertain due to uncertainties of the incoming administration fiscal and regulatory policies. The pricing and availability of raw materials for both fittings and flanges is linked to the global market activity and the responses to the various stimulus package being implemented globally.

## FORGED STEEL FITTINGS

**Pricing** ⇒ Pricing from manufacturers is forecast to continue to see no change for the forged steel market.

**Lead Times** — Fill rates remain in the area of 90% - 95% with deliveries forecast for 1 - 3 weeks for commodity forged steel material not in stock. Specials are forecast for 2 - 4 weeks.

**Comments** - One manufacturer notes that demand for forged steel fittings remained brisk thru the 4<sup>th</sup> quarter of 2008, but has slowed since the first of the 2009. One major business concern is the oil and gas industry. The rig count has decreased for the last five weeks with a reduction of approximately 300 working rigs.

This will effect forged steel, seamless nipple and swage nipple demand in the coming weeks. Deflation continues to be a concern in the PVF market. For example, flange pricing has been reduced. However, the forged steel market has not realized price deflation nor is it projected. The forged steel industry instituted a 15% increase during the 3<sup>rd</sup> quarter of 2008 to cover unprecedented steel increases. The recent reduction in special bar quality steel, the raw material utilized in forged steel production prevented an additional increase during the 4<sup>th</sup> quarter. This is one factor preventing deflation in the forged steel markets.

## STAINLESS STEEL GATES, GLOBES, CHECK VALVES

**Pricing** ⇨ Pricing for stainless steel gate, globe and check valves is forecast for a 1% - 2% decrease due to raw material costs.

**Lead Times** — Deliveries for commodity items continues to be forecast for 6 - 12 weeks with fill rates of 60% - 70%. Non-stock

specials are forecast for 16—20 weeks or more.

**Comments** – Over the next six months raw material pricing is expected to decrease.

## BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

**Pricing** ⇒ Bronze and Iron valves are forecast to remain stable thru the first quarter of 09.

**Lead Times** - Orders are shipping in 4 - 6 weeks for bronze and iron valves. Fill rates for bronze valves are running 60% - 70%, and iron valves are running 80% - 90%. Non-stock specials are

forecast for 12 - 20 weeks for iron valves and 8 - 16 weeks for bronze valves.

**Comments** - The scrap raw material costs which drove pricing up on iron valves has stabilized in the market. Demand and competition is the significant issue for bronze and iron valves.

## CAST STEEL GATES, GLOBE AND CHECK VALVES

**Pricing** ⇨ Manufacturers of cast steel valves are sending out mixed signals. One manufacturer indicates a downward trend of 1% - 2% in pricing due to raw material costs, while another indicated a 5% - 7% increase due to raw materials, scrap and the labor dollar in the country of origin.

**Lead Times** — Fill rates are 60% - 90% for commodity cast steel valves with deliveries forecast for 6 - 12 weeks on commodity cast

steel with specialty cast steel valves running 16 —20 weeks or more.

**Comments** – Volatility in raw material costs have stabilized and should subside over the next six months. Current economic conditions, project cut backs and the economy going forward are major concerns in the market.

## FORGED STEEL GATES, GLOBES AND CHECK VALVES

**Pricing** ⇒ Pricing is forecast to remain stable in the forged steel valves market for the 1<sup>st</sup> quarter of 2009.

**Lead Times** - Forged steel valves are shipping in 4 - 8 weeks. Fill rates are running 60% - 70%. Deliveries of special non-stock forged valves are forecast for 12 - 20 weeks or more.

**Comments** – Like forged steel fittings, the forged steel valve market continues to remain steady. The pricing in this market has not seen any change since September '08.

## QUARTER TURN VALVES - BALL AND WAFER

**Pricing** ⇒ The stainless steel quarter turn valve market may drop 1% - 2% during the first quarter of 2009; however, the carbon steel quarter turn valves are holding steady.

**Lead Times** – Fill rates are running 20% - 30% for commodity material with lead times of 2 - 3 weeks. Non-stock specials are forecast for 6 - 8 weeks or more depending on the material.

**Comments** – The oil prices are limiting refining industry spending. The auto and housing industry has impacted the petrochemical and chemical producer spending. Raw material costs are coming down as demand softens. The trends are completely unpredictable.

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The quarter by quarter figures have shown a clear upward direction in stainless steel production. This trend is unlikely to be sustained in the final quarter of 2008 given the current global economic climate.

Basemetals.com analyst William Adams said in a research note on January 12th that production cutbacks had thus far failed to curb the rise in stocks, highlighting hefty rises in aluminum, copper and zinc. However, he added: "Nickel's uptrend in stocks has slowed, so is the trend starting to turn? If so then it should underpin prices, although with very high stocks there seems little reason for prices to rally other than on the back of bouts of short-covering." A further major production cutback could be on the cards for nickel with rumors emerging over the past week that Anglo-Australian mining giant BHP Billiton might close its \$1.49 billion Ravensthorpe nickel laterite mine in Western Australia due to depressed nickel prices.

According to Bloomberg, inventory tonnes and metal prices for LME PM close on Friday 1/16/09 are as follows:

LME Inventory	Tonnes	Change	Weekly	30 Day	3 Month %	1 Year %	Days
Copper	391,525	27,950	7.7%	20.8%	46.0%	116.4%	8.0
Nickel	78,714	120	0.2%	7.9%	29.4%	70.5%	20.4
Lead	45,950	775	1.7%	4.4%	-29.7%	-4.4%	2.0
Zinc	273,800	14,025	5.4%	17.1%	37.9%	159.5%	8.6
Aluminum	2,485,275	79,050	3.3%	20.1%	40.4%	161.8%	26.8

Base Metals	Last US \$	Last Week Chg US\$	Change %	52 Week High	52 Week Low	30 Day %	1 Year %
Copper	1.51	- 0.02	- 1.3%	4.04	1.27	6.3%	-52.9%
Nickel	4.89	- 0.59	- 10.8%	15.05	4.05	6.8%	-60.4%
Lead	0.53	- 0.02	- 4.1%	1.55	0.38	14.2%	-54.6%
Zinc	0.56	- 0.02	- 3.4%	1.27	0.47	15.7%	-46.4%
Aluminum	0.65	- 0.05	- 6.8%	1.48	.65	-1.6%	-40.0%

The following has been published by the US Department of Labor Bureau of Labor Statistics concerning Industrial Valve Manufacturers:

Industrial Valve Mfg.

P indicates preliminary data, subject to change

PPI Commodity Date	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual
PCU332911 2008	177.3	181.1	179.9	180.8	181.5	183.3	185.1	184.7	P 185.2	P 185.4	P 186.0	P 186.4	P 183.1
2007	166.8	169.0	169.2	170.0	171.5	172.6	174.4	175.2	175.4	176.1	176.5	177.3	172.8



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