



Signs of the Times for Industrial Steel Pipe and Fittings

All the industrial sectors that use steel pipe and fittings are feeling the effects of the economic downturn. "At the first of April, executives at companies ranging from a major tire maker and book retailer to a small producer of steel boasted how much they have managed to cut inventories in recent months" noted Sudeep Reddy in the Wall Street Journal. He went on to explain that some companies point to some signs that a turnaround in demand following inventory declines could prompt manufacturers to increase production just enough to slow the rate of contraction in the U.S. and get our economy moving again. If that happens during the second quarter of this year, it would coincide with the government's fiscal stimulus program kicking in. This could propel the economy out of recession. It is not for certain how much steel will be needed for projects funded by the federal Stimulus Package. Some industry sources estimate it is between 3 million to 4.4 million tons while others believe it will be triple that amount according to Ryerson's Customer Link March publication.

Steel makers have faced sharply lower demand since late 2008, when the global economic crisis undercut key customers in the construction, automotive and heavy equipment industries. The decline comes just months after surging orders from China and other countries helped fuel record profits for many U.S. steel companies.

Surcharges on stainless are going down. Nickel, moly, and chrome costs have reduced considerably since January causing surcharges on 304L to reduce about 59%. The surcharges drop is directly related to lack of demand in the flat roll stainless industry. For the last 4 to 5 months all global stainless flat roll producers have been suffering from poor order intake. Many companies are seeing reduced sales of 30% or more. Many flat roll producers have had significant lay offs and reduced work schedules. This has trickled down to the stainless pipe industry as well. The LME inventory of nickel today is 106,000 tons where 25 to 30,000 tons is considered a good level. Similar situations have occurred with moly and chrome. Until such time as the global demand for stainless improves, surcharges will stay at relatively lower levels. That may not occur until late this year. According to a major stainless steel manufacturer, the uncertainty of this economy is delaying many projects. People and companies do not want to part with their money. Companies are over stocked with inventory for two reasons. One is considerable quantities of import pipe was ordered and delivered on a contract basis. Two is when the pipe was delivered, it was overpriced and demand was falling. It may be another couple of months before inventories are in balance.

In the first week of March, U.S. mills poured 1,038,000 tons of raw steel, the best production in a month according to Ed Scott, editor of the ASA Materials Market Digest. Total output through the end of March was 11.692 tons, 34.4% less than in the preceding month. Even shipments of oil country tubular goods (OCTG), which have been strong for several months, fell 47% to 250,000 tons. Note below the average global rig count for the past 12 months:

Rig Count	March	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Last 12 Months	3552	3890	4162	4614	4945	5011	4977	4907	4806	4564	4358	4367
Prior 12 Months	4560	4710	4522	4498	4440	4369	4397	4421	4377	4168	3938	3953

As the rig counts declined, oil country tubular goods prices fell inexorably. According to Pipe Logix, the leading authority on OCTG pricing, prices of some fittings fell as much as 14%, and the average March drop for all OCTG fittings was close to 8%. High distributor inventories added to the pricing problem.

There could be a silver lining, some of the factory closures and shutdowns will result in more maintenance, which could in turn provide a boost for the pipe and fitting business. The cost cutting drive could also stimulate the development of new alloys as affordable alternatives to more expensive grades. U S stainless steel makers and research laboratories continue to come up with innovative products. One of the most successful of these has been Allegheny Technology's lean duplex grade AL 2003™. This can replace 316L in a number of applications and can be used in process equipment and on buildings wherever strength, pitting resistance and SCC resistance are needed. In February, Sandvik presented two new grades at Tube 2008, Sandvik SAF 2707HD® and Sandvik Sanicro®. SAF2707 is a hyperduplex stainless steel designed for highly corrosive conditions such as seawater-cooled heat exchangers and other aggressive, chloride-containing environments. It is aimed particularly at the chemical, petrochemical and refinery industries. Sanicro 25 is a creep-resistant austenitic designed for use in ultrasupercritical coal-fired steam boilers in next-generation power stations.

STAINLESS STEEL PIPE

Pricing ↕ Stainless Steel Pipe manufacturers forecast a decrease of 3% - 5% during the second quarter due to raw material costs, oversupply, lack of demand, competition, the financial crisis, and gas / oil prices.

Lead Times — Lead times are forecast for 4 – 8 weeks for material not shipping from factory stock. Fill rates are 40% - 50%. Inventories are building at the mill level, as service centers are moving as much higher priced metal out as possible. Replacement orders are few and far between and generally very small. Exotic alloys are especially hard hit

because of their higher price point.

Comments — One manufacturer comments that there should be dumping suits because pipe mills throughout the world are selling highly specialized material into the U.S. market at clearly predatory pricing. There is clearly an over-supply situation with most alloying elements despite significant cutbacks in production. The demand drop-off has been greater than the cutbacks. Please refer to the dumping suits listed under Carbon Steel Pipe section.

STAINLESS STEEL WELD FITTINGS, 150 & HI-PRESSURE FITTINGS

Pricing ⇔ One stainless steel fitting manufacturer indicates pricing to remain stable thru the 2nd Quarter of 2009, while another indicates a 3% - 5% decrease due to oversupply, foreign pressure, and supply. The industry is still experiencing soft demand and inventory is substantial.

Lead Times — Domestic fittings are shipping in 2 – 4 weeks with fill rates from inventory of 80% - 90%. Large OD and specialty items are forecast for 4 to 6 weeks or more.

Comments — Manufacturers comment that with the over capacity in the global markets, dumping is still occurring quite regularly in the U.S. 2009 will remain a cautious year for most as inventory balancing has affected prices and lead to a more conservative and cautious customer.

Activity is moderate to slow at this time. There is a large supply of material in stock at the distributor and master-distributor level in both import and domestic fittings. Projects are being downsized or cancelled altogether. Limited orders, but excessive quoting is taking place in today's market. Therefore, from a manufacturing standpoint, it will be the last quarter of 2009 before they expect any relief. They plan to pursue the specials and quick turnaround business until the situation improves.

Virtually all of the key global producers of nickel and the other key inputs of stainless steel have radically reduced production. Some producers continue to cut supplies to get more in line with demand levels and/or until the international prices become more favorable.

STAINLESS STEEL FLANGES

Pricing ↕ Stainless steel flange manufacturers forecast price decreases of approximately 5% on stainless and up to 10% down on special alloys. - 7% due to raw material costs, supply, demand, foreign pressure, competition, and the ongoing financial crisis.

Lead Times — Lead times are forecast for 3 – 4 weeks with fill rates of 30% to 50% shipping from inventory. High nickel or specialty items are forecast for 6 - 12 week deliveries.

Comments — One flange manufacturer indicates that sales are down considerably when compared to the average 2008 monthly sale as a result of diminished pricing and less demand. Consequently, quoting activity is good, but fewer quotes are turning into orders. It is a buying opportunity for end users, but they may be waiting for the bottom before placing the orders. The most volatile issues in the market remains the depressed economy, diminished pricing and high cost inventories.

CARBON STEEL PIPE - ERW AND CONTINUOUS WELD

Pricing Seamless ⇔ **Welded** ↕ Carbon Steel seamless pipe manufacturers are forecasting no change for this quarter. However, the bottom has dropped out on Carbon Steel ERW pipe with the price falling from \$2000 per ton to \$1350 per ton. Some mills have been closed and bookings are slim.

Lead Times — Fill rates for carbon steel is running about 40% - 50% with lead times up in the air due to lack of orders, but it is reasonable to see 8 - 12 weeks. We may be experiencing some holes in inventory because few orders have been placed with mills during the first quarter of 2009.

Comments — The steel industry is experiencing trouble in the overseas markets, as well as the domestic market. Raw steel production at U.S. mills has fallen to less than half of the 2008 weekly output. Ed Scott reported in the March ASA Materials Market Digest that the production for the first eight weeks of 2009 was 7.6 million tons, less than half of the comparable 2008 period. And this year's operating rate has yet to top

45% of capacity while last year American mills routinely functioned at 90% or better. U. S. Steel has padlocked the Lone Star Steel plant in Texas. TMK Ipsco announced significant cutbacks in its two OCTG plants in western Pennsylvania.

The Department of Commerce International Trade Commission unanimously found that Chinese pipe imports were injuring domestic producers of comparable products involving circular welded steel pipe, small diameter line pipe, light-walled rectangular tubing and most recently, stainless steel pipe. The manufacturers in the Oil Country Tubular filing listed below include United States Steel of Pittsburgh, Pennsylvania; Evraz Rocky Mountain Steel of Pueblo, Colorado; TMK Ipsco of Downers Grove, Illinois; V&M Steel and V&M TCO of Houston, Texas; and Wheatland Tube of Beachwood, Ohio. Investigations or Dumping Suits in progress are noted below:

Preliminary Phase	Investigation	Start Date	End Date
Oil Country Tubular Goods from China	701-TA-460-461	4/08/2009	6/02/2009
Final Phase	Investigation	Start Date	End Date
Circular Welded Carbon Steel Line Pipe from China and Korea	701-TA-455 and 731-TA-1149-1150	9/09/2008	1/07/2009 CVD 5/06/2009 AD
Steel Threaded Rod from China	731-TA-1145	10/08/2008	4/06/2009
Welded Stainless Steel Pressure Pipe from China	701-TA-454 and 731-TA-1144	7/10/2008	3/02/2009

CARBON STEEL WELD FITTINGS AND FLANGES

Pricing ⇄ Some Manufacturers indicate a forecast decrease in pricing of approximately 5% - 10% due to raw material costs and foreign competition. Others indicate pricing to remain stable thru the second quarter.

LeadTimes — Lead times for commodity material is forecast for 1 – 2 weeks with fill rates of 90% - 95%. Lead times for non-stock specials are forecast for delivery in 2 – 3 weeks.

Comments — The Asian foreign manufacturers, in conjunction with their master distributors and private labeling networks have continued to be an issue in the market place. The massive inventories complied with softening sales volumes have created a deflation scenario with the import fittings. By using price as a leading marketing tool to sustain inventory turns, deflation has occurred. These practices have prompted the reduction in domestic pricing.

Demand is softening somewhat yet raw material costs for seamless pipe and raw forgings have remained stable enough to hold current market levels. The market for commodity carbon steel fittings and forged steel flanges continues to remain at a steady pace while showing softness in various market places. This is due to a backlog of projects that have been initiated and that are funded through the 3rd quarter of 2009. Liquidity in the financial markets will be playing a significant role as to how the commercial construction market will respond in the 4th quarter of 2009 and into 2010. Government stimulus spending will be a factor as we move through the year and see how well the mechanical contractors will be impacted. The big issue is the ability to obtain adequate financing for projects that are planned and need to have the funds to proceed.

FORGED STEEL FITTINGS

Pricing ↓ Forged steel fitting manufacturers forecast reductions of 5% - 10% for the second quarter 2009 due to foreign pressure.

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

Comments - The continued decline in oil patch has restricted volume of forged steel fittings. The rig count has dropped from nearly 2,000 to a current level of 1,043. The depressed natural gas and oil prices, as a result of lower demand, are forecast to continue

through the third quarter of this year. The abrupt decline in the oil patch caught distributors with high inventories. The distributor continues to work these inventories down, reducing replenishment orders. The high inventories combined with depressed business levels have resulted in a 20% - 25 % decrease. Manufacturers report reduced production in an effort to decrease inventories and parallel manufacturing with the current level of demand. It is a continuous battle to adjust inventories and production rates to new demand levels.

STAINLESS STEEL GATES, GLOBES, CHECK VALVES

Pricing ⇄ Manufacturers of stainless steel gate, globe and check valves 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 remaining at 60% - 70%. Non-stock specials are forecast for 12—20 weeks or more.

Comments – The Producer Price Index Industry Data and

released by the Bureau of Labor Statistics has released the following data for 2008 thru February 2009 for Industrial Valve Manufacturing for Gates, globes, and checks: (*P indicates preliminary data subject to revision four months after original publication.*) Series ID: PCU3329113329111 / Industrial Valve Manufacturing

2008	Jan 208.0	Feb 214.7	Mar 214.9	Apr 215.0	May 215.6	Jun 218.3	Jul 222.0	Aug 219.9	Sep 219.1	Oct 219.3	Nov 223.4 P	Dec 223.1 P
2009	Jan 220.8 P	Feb 220.9 P										

BRONZE AND IRON GATES, GLOBES AND CHECK VALVES

Pricing ⇄ Bronze and Iron valve manufacturers forecast their pricing to remain stable thru the second quarter of 2009.

LeadTimes - Orders continue to ship in 4 – 6 weeks for bronze and iron valves. Fill rates remain constant for bronze valves at 60% - 70%, and iron valves at 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 on iron valves is stabilized in the market.

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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.

CAST STEEL GATES, GLOBE AND CHECK VALVES

Pricing ⇨⇩ Manufacturers of cast steel valves are forecasting a downward trend of 1% - 2% in pricing due to raw material costs and others indicate no change in pricing.

LeadTimes — Fill rates are 60% - 70% for commodity cast steel valves with deliveries forecast for 4 - 8 weeks on

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

Comments — See the Producers Price Index noted above for Stainless gate, globe and check valves. Those numbers include the cast steel commodity as well.

FORGED STEEL GATES, GLOBES AND CHECK VALVES

Pricing ⇨ Pricing is forecast to remain stable in the forged steel valves market for the 1st 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.

QUARTER TURN VALVES - BALL AND WAFER

Pricing ⇨ The steel quarter turn valve market is not forecast to change during the second quarter '09. Manufacturers comment that they are doing their best to protect the pricing situation in view of business being down in spite of the overwhelming factors presented to them such as the financial crisis, gas and oil prices, labor rate, capacity, and competition.

LeadTimes — Fill rates remain at 20% - 30% for commodity material with lead times of 2 - 3 weeks. Non-stock specials are forecast for 12 - 16 weeks or more depending on the material.

Comments — The ball valve manufacturers are dealing with the declines in day to day business in all market areas. The declining oil prices, reduction in the petro-chemical and chemical business, and a slump in the downstream industries are all factors concerning valve manufacturers. The Producer Price Index Industry Data and released by the Bureau of Labor Statistics has released the following data for 2008 thru February 2009 for Industrial Valve Manufacturing of ball valves (all metals, pressures, and types): (*P indicates preliminary data subject to revision four months after original publication.*) Series ID:PCU332911332911IC/IndustrialValve Manufacturing

2008	Jan 174.9	Feb 176.6	Mar 175.7	Apr 175.9	May 180.3	Jun 180.7	Jul 182.7	Aug 183.2	Sep 183.9	Oct 183.4	Nov 184.3 P	Dec 184.3 P
2009	Jan 184.3 P	Feb 183.4 P										



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