The American Supply Association (ASA) and its Industrial Piping Division (IPD) is the national organization serving wholesaler-distributors and their suppliers in the industrial and mechanical pipe-valve-fitting industry. As a powerful alliance of channel partners, we provide a forum for your upstream trading partners to exchange critical information and address key issues.

In particular, ASA's IPD members constantly check the pulse of the materials and commodities they proudly supply to you. ASA's IPD members are knowledgeable industry leaders, and those who volunteer their service on the IPD Executive Council compile and prepare the *IPD Commodity Reports.* The *Reports* contain some of the most current and qualified market data and information available from the industry's leading manufacturers and distributors about emerging trends and other price-influencing actions and events.

This information is an example of how ASA's IPD manufacturer and distributor members are constantly looking ahead to ensure you have information and resources you need to be successful. Learn more at www.asa.net.

ECONOMIC SUMMARY

Oil and Gas

Crude oil prices were stable month-over-month at the time of writing. Concerns over supply pressures and weaker inventory levels were offset by some softening demand concerns. This kept West Texas Intermediate (WTI) at $78.97 in late August ($79.32 a barrel in last month's report). U.S. petroleum inventories were slipping and are still in the lower end of the 5-year average through mid-August (oil markets were "adequately" supplied with oil headed into the fall back-to-school season, but production will need to continue to ramp up to keep inventories stable).

The EIA's latest outlook continues to show a net draw of inventories over the next 16 months. Some spot replenishments of the Strategic Petroleum Reserves (SPR) were evident in mid-August, but there are no immediate plans to increase replenishment more aggressively.

On a global basis, OPEC+ cuts in production are still expected to continue through September and into October.

Fuel prices were mixed at the time of writing. Diesel prices were $4.36 a gallon at the time of writing ($3.90 a gallon in the last briefing) (Source: AAA), which was $.61 cents per gallon lower than last year. Gasoline in comparison was $3.85 per gallon at a national level, which is now just 3 cents a gallon lower than it was a year ago. The U.S. dollar is fluctuating more wildly and that could push dollar-denominated commodities like oil higher, even if production remains unchanged.

Hurricane activity in the Atlantic is beginning to show some signs of activity. Some of the factors that were holding back storm formation have largely eased (Saharan Dust and upper-level wind shear) and Atlantic waters remain largely heated which adds fuel for storm formation.

Economy: Third-quarter GDP was coming in hot through mid-August with growth of 5.8% according to the Atlanta Fed's GDPNow tracker. This is expected to adjust downward by the end of the quarter, but growth is expected to still approach 1%-2% in Q3. Economic growth drivers last quarter were driven largely by nonresidential investment and construction, consumer spending and government expenditures. The nonresidential construction component of GDP continues to be hot well into Q3 and consumer spending is stable.

The Federal Reserve followed through with a quarter-point hike in July but is expected to pause at the next meeting in September. With strong economic growth, a stable job market and inflation still slightly higher than Fed targets, one more quarter-point hike is possible in the November meeting. If the Fed follows through on that plan, it will push the Fed Effective Funds rate to its highest levels since the year 2000. Average inflation continued to show some positive deceleration with rates at 4.1% over the past six months and just 2.5% over the past 30 days. The trend is positive, but the inflation rate is still too high, and we need several more months of this downtrend to see if it will hold.

U.S. corporate spending (measured as capex) remained stable in June (latest available). Capex increased by 0.1% month-over-month (up 0.7% last month) and it was stronger on a year-over-year basis by 1.7% (up 2.3% last month) on $73.9B in annualized spending.

Inflation-adjusted retail sales were higher by 0.6% in July M/M, but were essentially flat against July 2022, slipping marginally by just 0.1% (latest available and down by 1.6% in last month's report). However, the robust spending trend continued, total inflation-adjusted retail spending is still running 13% above pre-pandemic spending levels from July of 2019. For comparison, e-commerce retail sales are 10.3% higher Y/Y and are 84.7% higher vs. their pre-pandemic levels.

Home improvement sales were slightly higher in July with sales rising by 0.7% month-over-month (-1.5% in the last report); however, they were 3.3% lower year-over-year (3.2% lower in the last report). Spending on large home improvement projects in the past month has shown some renewed interest as existing home inventories remain very low, and spending on a variety of smaller home improvement projects remains stable. When adjusting for inflation, home improvement retail sales are roughly $1.95 billion higher between pre-pandemic and post-pandemic periods. Total sales volumes are still running high on a historical basis, which could explain why some manufacturing firms are still posting strong production levels.

Total new housing starts increased in July by 3.9% month-over-month (latest available but down -8% last month). Starts came in at an annualized rate of 1.452-million-unit rate (1.434M adjusted rate last month).
Starts were up 5.9%% Y/Y (-8.1% last month) on a national basis. Single-family starts sharply rebounded in July, rising by 6.7% month-over-month (-7% in the last report) and are now up 9.5% Y/Y (-7.4% in the last report).

Once again, lower inventories are still a factor for affordable single-family home sales, but homebuilder sentiment softened slightly month-over-month in July but was in-line year-over-year. Many markets were still experiencing stable demand (despite higher interest rates).

Multifamily starts can be volatile based on large project starts month to month, they were slightly higher in July by 0.4% Y/Y (+11.2% Y/Y last month) and were flat M/M (down 11.6% in the last report). The total number of multifamily units was at an annual rate of 460,000 (unchanged from last month's adjusted annual rate).

Looking forward, total permits for new home construction were down in July by 13% Y/Y (-15.3% in the last update). Single-family permits, however, were up 1.3% Y/Y and were up by 0.6% M/M, which is continuation of a strong near-term trend. Volatile multifamily permits were lower; they were down 31.9% Y/Y; and they were 0.2% lower sequentially M/M in July.

Total nonresidential construction spending (both commercial and public) was still very strong in June (latest available). Spending was marginally higher by 0.1% M/M (-0.2% last month); and it was up sharply by 18.1% Y/Y (17.3% last month).

Total nonresidential construction spending came in at an annual rate of roughly $1.07 trillion in June and a new high (heavily impacted by inflationary pressures).

Manufacturing construction activity was up 79.9% Y/Y on $196 billion in annualized spending (an average year is $60 billion). Once again, infrastructure spending was rising year-over-year as the bipartisan Infrastructure Bill funds continued to flow into the economy. Many other nonresidential areas of construction were growing strong year-over-year including lodging (motels) +20.0%, commercial +4%, and health care +10.7%.

Stainless Steel Pipe & Fittings

This has been a stable year for pricing on stainless fittings. Inventories remain sufficient to cover the market demand.

There continues to be solid activity in some of the industry sectors such as oil and gas, chemical and petrochemical. The overall raw materials remain a bid softer as nickel continues to hover at or near $9.00 per pound as the China market remains stagnant. The domestic industries will continue to see positive movement for the foreseeable future, unless the economy takes a turn toward recession.

Nickel prices have remained choppy since our last report, and August surcharges are expected to be down slightly compared to July. Recent news from Macquarie Group, Ltd., forecasts a large influx of Class One (battery grade) nickel will hit LME warehouses next year. Much of that volume is anticipated to come from new plants in China expected to successfully convert intermediate, raw products (e.g., ferronickel) into Class One nickel.

Presuming the technology to process the intermediate products is sound and the carbon-intense methods of extracting the laterite ores then processing them are acceptable to Indonesian lawmakers, a significant surplus may ensue next year.

In fact, one Chinese company (Huayou) has received approval to deliver that metal to the LME. Other analysts are projecting that China, which consumes roughly 70% of global nickel supply, will see demand for industrial materials rebound in the second half of this year as more stimulus measures are put in place.

Interestingly, spot nickel prices on the Shanghai Metal Exchange (SHFE) are at the highest level since early May and 304 (18-8) scrap prices are also rising, which is indicative of increasing demand.

Cast Iron

McWane (Tyler, AB&I Foundry) and Charlotte Pipe & Foundry reported there were no price changes for cast iron pipe, fittings, and/or service weight gaskets-couplings for the month of July 2023. ASA will keep a close watch on the market for possible increases in the next few months.

High-pressure Forged Steel Fittings & Branch Connections Update

High-pressure forged steel fittings and branch connections have had no price increase announcements throughout the summer months. Both carbon and stainless-steel bars remain readily available. Deliveries on stainless bar have improved from the mills. Raw material pricing has remained stable. Finished high-pressure forged steel fittings and branch connections are available for delivery from stock to 2 weeks.

Carbon Steel Pipe

From a mid-July high of $983.00, hot-rolled coil carbon steel pricing has fallen below $730.00 per ton. A few factors go into this precipitous fall. First, the inflation of steel pricing due to the Russian invasion of Ukraine has been corrected as Russian exports of both steel and iron ore products have been supplanted by other nations. A big factor is that supply fears have all but disappeared even with a near-global slowdown of steel production. China's demand is also slowing. Currently, China is the world's leading consumer of steel.

A potential energy shortage could have an impact on steel prices if it becomes to cost prohibitive to produce steel. That is likely a far-off scenario.

Steel Update: From the Distributor Side

With steel products softening, it puts the wholesaler in a bit of a pickle. Smaller wholesalers with little inventory can broker their way into projects. The question is when is the right time to change the price? Some customers are going along purchasing products at a fair number based on owned inventory. If you pull the trigger too soon you will lose money on purchased inventory. If you wait too long, you will lose orders from customers because you are not adjusting to market conditions.