June 2023

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 slightly lower again at the time of writing. Concerns over the economy kept prices for West Texas Intermediate (WTI) lower; WTI was trading at $70.27 in late June (down slightly from $71.59 a barrel in last month's report). U.S. petroleum inventories were slipping and are now in the lower end of 5-year average through late June (oil markets were "adequately" supplied with oil going into the heavy summer travel season but production will need to continue to ramp up to keep inventories stable). The EIA continues to forecast a balanced supply/demand environment through 2024, but replenishment of the Strategic Petroleum Reserves will eventually start to impact inventories. And, on a global basis, OPEC+ cuts in production have yet to sufficiently push the price of oil higher.

Fuel prices are also slightly weaker at the time of writing. Diesel prices were $3.89 a gallon at the time of writing (Source: AAA), which was $1.91 per gallon lower than last year. Gasoline in comparison was $3.58 at a national level, which is now 1.37 a gallon lower than it was a year ago.

**Economy:** Second quarter GDP was stronger than expected at the time of writing. The Atlanta Fed's GDPNow tracker was showing economic growth of 1.9% through mid-June. Consumer spending and construction activity continue to prop up the economy and keep it out of recession. Many metrics still show broader economic pressure and some of those are still throwing off recession signals, but conditions in large portions of the ASA industry continue to be resilient.

Actions by the Federal Reserve continue to be a limiting factor, and the Fed is likely to continue to hike rates in the second half of the year. But why? Average inflation (measured in the Trimmed Mean Personal Consumption Expenditures data) was still at 4.7% in April (the latest available) and this has been flat since August of last year. Wages are growing at 4.3% annually, which creates a net income deficit for many households and puts nearly 75 million households at greater risk of "not making it." Historically, annual wage growth averaged 2.5% for nearly the entire decade prior to the pandemic, which is why the Fed continues to set 2% as its target inflation rate. Two more quarter-point hikes are possible before the end of the year if these conditions do not improve faster.
U.S. corporate spending (measured as capex) rebounded in April (latest available). Capex increased by 1.3% month-over-month (down 1.1% last month) and it was stronger on a year-over-year basis by 2.5% (up 1.2% last month) on $73.9B in annualized spending.

Inflation-adjusted retail sales were higher in May M/M but were down against May of 2022 by 2.4% (latest available and down by 3.2% in last month's report). However, the robust spending trend continued, total inflation-adjusted retail spending is still running 12.7% above pre-pandemic spending levels.

Home improvement sales were slightly higher in May with sales rising by 2.2% month-over-month (-0.5% in the last report); but they were 0.9% lower year-over-year (3.7% lower in the last report). Spending on large home improvement projects has slowed, but spending on a variety of smaller projects remains stable.

Total new housing starts surged in May and were up by 21.7% month-over-month (latest available and +2.2% last month). Starts came in at an annualized rate of 1.631-million-unit rate (1.401M adjusted rate last month). Starts were up 5.7% Y/Y (-22.3% last month) on a national basis. Single-family starts were up again in May, rising by 18.5% month-over-month (1.6% in the last report) but were down by 6.6% Y/Y (-28.1% in the last report).

Once again, lower inventories are still a factor for affordable single-family home sales, but home builder sentiment shot up month-over-month in May as many markets still saw stable demand (despite higher interest rates). Multi-family starts can be volatile based on large project starts month to month, they surged in May by 39.6% Y/Y (down 11.7% Y/Y last month) and were up 28.1% M/M. Based on the range of total number of units started (624,000 annual rate), multi-family starts were once again the highest since 1985.

Looking forward, total permits for new home construction were down in May by 12.7% Y/Y (-21.1% in the last update). Single-family permits were still down 13.2% Y/Y but were up by 4.8% M/M, which is a great near-term trend. Multi-family permits were lower; they were down 11.9% Y/Y; but they were 7.8% higher sequentially M/M in May.

Total nonresidential construction spending (both commercial and public) was higher again in April (latest available). It was up by 1.9% M/M (+0.7% last month); and it was up sharply by 25.3% Y/Y (18.8% last month).

Total nonresidential construction spending came in at an annual rate of roughly $1.05 trillion in April and a new high (heavily impacted by inflationary pressures). Manufacturing construction activity was up 103.8% Y/Y on $189 billion in annualized spending (an average year is $60 billion).

Once again, infrastructure spending was rising year-over-year with water supply +26.6%, sewage and waste disposal +22.7%, conservation +31.0%, and highway and street construction +21.4%. Many other nonresidential areas of construction were growing at double-digit percentages year-over-year including lodging (motels) +40.8%, commercial +23.7%, amusement/recreation +12.1%, and health care +14.0%.

## Carbon Steel Fittings and Flanges

**Overview:** Sales are still strong, although quote activity has been declining, which is not uncommon for June; however, aggressive pricing and inventory concerns continue to drive the market down, especially for larger orders.

**Prices:** Domestic flange and fitting prices are stabilized, with no new price changes being announced. Imported product costs continue to decrease in the range of 10% - 15%.

**Shipping costs:** Shipping containers have become more readily available and are driving costs down in the range of 2k – 4k. Domestic freight has also come down and seems to be stable.

**Deliveries:** Generic import flanges have lower lead times now in the 4–6-month range, with generic import fittings in that same time frame. Domestic flanges and fittings have come down as well in the 4–6-week delivery range. High yield continues to have very long lead times 12-14 weeks range.

**Looking forward**: Although quote activity has come down slightly, the market is still healthy and with Q3 ahead, it usually proves to be one of the stronger quarters of the year. Also, the continuation of refinery turnarounds, plant upgrades and new ventures, the last half of the year looks to remain stable and slightly up.

## Carbon Steel

The last month has seen carbon steel pricing stay relatively flat. Technically, Hot Rolled Coil saw a less than 1% increase after a slide over the first 2/3 of June, while scrap prices have fallen a small amount.

Currently, inventories are very low, as are transactions. This is important because a small flurry of activity or rush pf buying could stress the market causing pricing to rise quickly.

One recent development is the decision to allow Indian steel imports for the first time since 2018, when Section 232 tariffs and associated restrictions were put in place.

## Copper

The copper market has displayed mixed trends recently, with the July futures contract hitting a two-month high before retracing slightly and closing at $3.808/lb. for the fourth week in June.

While the past month has shown positive momentum (+4.6%), the metal experienced a decline over the previous three months (-7.2%). Throughout the year, copper's performance has remained relatively flat, with a marginal decrease (-0.7%).

The interplay between a stronger U.S. dollar, China's stimulus hopes, hawkish comments from the Federal Reserve, and speculations surrounding future interest rate hikes will continue to shape the copper commodity market in the coming months. Traders and investors in this sector will closely monitor these factors as they assess the market's future direction in the second half of 2023.

## Stainless Steel Pipe & Fittings

The market pricing for stainless fittings remains stable with plenty of inventory available. There is some softness showing for raw material coming from U.S. mills, which may end up affecting future pricing. Activity remains strong with both quoting and orders. The year has been overall positive.

It looked as if nickel, which has been the worst performer among all base metals this year, was pulling itself off the mat in the middle of June, but the nearly 10% gain in prices that week was nearly all wiped away the following week.

Mid-June’s spike prompted words of optimism in terms of demand and price increases from Taiwanese stainless steel welded pipe producers, which at the moment, appear to be more hopeful than realistic. But as we’ve learned, things can change very quickly with nickel and austenitic stainless-steel prices.

July surcharges declined by roughly 7 1/2 (304/L) and 5% (316/L) vs. June, respectively. While LME warehouse levels are lower than they’ve been since 2007, there is an increasing surplus of nickel pig iron and ferronickel (class 2), which is the key reason analysts assert nickel’s fundamentals have weakened.

While the LME has decided against initiating a Class 2 nickel contract since there is such a wide variety of options, instead the LME will work with its sister company Qianhai Mercantile Exchange (QME) to begin trading nickel matte and sulphate later this year or early next year.

## Forged Steel Fittings

Forged steel fittings prices remain flat for domestic manufacturers as A105 bar and 304L, 316L bar prices have remained stable. The availability of raw material remains good. Finished forged steel fittings remain available with deliveries stock to 2 weeks. There have been no price increase announcements from any of the domestic fitting’s manufacturers.

## 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 months of May and June 2023.

## Malleable iron fittings and pipe nipples

Nothing to report since earlier year noted price increases.

## Grooved product

Industry-wide 8% weighted increase end of first quarter. Several factors contributed to the increase, including rising raw material, labor, and energy costs.