ASA
IPD COMMODITY REPORT

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

Conflict in the Middle East has created a volatile petroleum sector, and one that is difficult to forecast. Crude oil prices were fluctuating in October, largely on different geopolitical events as were reported. West Texas Intermediate (WTI) was sharply lower at $83.73 in late October ($90.03 a barrel in last month's report) largely because of weak European economic data. Brent was also lower at $88.09, down from $95 a barrel earlier in the month in the days following the Oct. 7 attack.

However, U.S. petroleum inventories were still slipping headed into the end of the year and remained at the lower end of the five-year average through October. Inventories measured by the EIA at Cushing, Oklahoma were the lowest since October of 2014 (WTI at the time was $107 a barrel). This is obviously not total U.S. petroleum inventories, but as a key measuring point for petroleum, suggests that inventories are at the lower end of the long-term range. Prior to the 2014 low point in inventories, we must go back to the 2008/2009 period to find a lower inventory level (WTI touched $144.96 a barrel at the time). A strong U.S. dollar, weaker global demand, and no real disruption in oil supplies currently are creating a lid on oil prices.

Fuel prices were lower at the time of writing. Diesel prices were $4.51 a gallon at the time of writing ($4.57 a gallon in the last briefing) (Source: AAA), which was $.81 cents per gallon lower than last year. Gasoline, in comparison, was at a national level of $3.55 a gallon ($3.85 per gallon in last month's briefing), which is now 25 cents a gallon lower than it was a year ago. Diesel is of significant concern as global supplies are being impacted by conflicts and difficulties in distribution throughout Europe. Refinery capacity is also still low, but inventories are stable but remain at the bottom of the five-year average.

Economy: Third quarter GDP is estimated to come in at 3.5% for the quarter, well ahead of expectations earlier in the quarter. Much like last month's brief, the economy is still growing on top of good consumer spending, nonresidential construction, and government spending.

All eyes are on the conflict in the Middle East, and of course there is significant human tragedy that can't be understated, but thus far it is not creating changes in the macroeconomic environment. Although, some concerns are mounting that U.S. operations in the region could ultimately create some mild increases in inflation as defense appropriations will likely increase. Relative to the overall economy, it will be small in comparison.

Here is the key: if the conflict remains contained to the Gaza Strip and mild exchanges in northern and eastern Israel, the impact will ultimately be mild. However, if it expands to include more of the region and affects petroleum supply (and ultimately prices), it could create the mechanism for a reversal in the 2024 economic outlook.

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Not to be understated, domestic issues are also still looming. The continuing autoworkers strike is the most impactful of those and will continue to reduce automotive output until a settlement is reached. The total impact on the industry is still unclear. At the time of writing, estimates suggested that OEMs have lost nearly $10 billion in operational losses and nearly 40% of suppliers were considering (or had already taken steps) furloughing workers until the strike was over. To a lesser extent, resuming student loan payments and a potential government shutdown could add to macroeconomic volatility.

The Federal Reserve is approaching the peak in its interest rate hike cycle. Inflation is cooling and over the past 6 months, a key Fed inflation indicator showed average inflation at just 3.1%. This was directionally a great reading and is within distance of its 2% target rate. More importantly, it was well below the national wage growth rate of 4.2%, which is ultimately the Fed's objective (keep household wages growing faster than inflation). Current Fed forecasts show the potential for easing interest rates late in 2024 and early in 2025 – ultimately it will head back to its target long-term rate of 2%-3%.

Inflation-adjusted retail sales were higher by 0.3% in September M/M and were marginally flat against September 2022, rising by 0.1% (latest available and down by 0.8% in last month's report). However, the robust spending trend continued, total inflation-adjusted retail spending is still running 13.5% above pre-pandemic spending levels from September 2019. In addition, e-commerce retail sales are 8.4% higher Y/Y and are 82.7% higher vs. their pre-pandemic levels.

Home improvement sales were lower in September with sales falling by 0.2% month-over-month (+0.1% in the last report); however, they were 4% lower year-over-year (4.9% lower in the last report). Retail sales in the home improvement category were $35.8 billion in September (well ahead of the $27.2 billion posted in September of 2019).

Total residential construction spending was down 3% year-over-year on $889 billion in spending (which is still strong historically). Single-family construction spending was down 10.6% on $396.4 billion in spending and multi-family was up 24.0% on $134.5 billion.

Total new housing starts rose in September by 7% month-over-month (latest available but down 12.5% last month). Starts came in at an annualized rate of 1.358-million-unit rate (1.283M adjusted rate last month). Starts were down 7.2% Y/Y (-14.8% last month) on a national basis.

Single-family starts were higher in September, rising by 3.2% month-over-month (-4.3% in the last report) but are up 8.6% Y/Y (+2.4% in the last report). Once again, lower inventories are still a factor for affordable single-family home sales, but home builder sentiment softened slightly again month-over-month in September on fears that consumers are not pursuing new homes. Open house attendance is down, for qualified true buyers.

Multi-family starts can be volatile based on large project starts month to month, they were sharply lower in September by 31.5% Y/Y (-42.2% Y/Y last month) but were higher by 17.1% M/M (-28.0% in the last report). The total number of multi-family units was at an annual rate of 383,000 (334,000 in last month's adjusted annual rate).

Looking forward, total permits for new home construction were down in September by 7.2% Y/Y (-2.8% in the last update). Single-family permits, however, were up 11.6% Y/Y and were up by 1.8% M/M, which is a continuation of a strong near-term trend. Volatile multi-family permits were lower; they were down 31.6% Y/Y; and they were down 14% sequentially M/M in September.

Total nonresidential construction spending (both commercial and public) was still very strong in August (latest available). Spending was marginally higher by 0.5% M/M (0.1% last month); and it was up sharply by 7.4% Y/Y (16.5% last month). Total nonresidential construction spending came in at an annual rate of roughly $1.09 trillion in August and a new high (heavily impacted by inflationary pressures).

Manufacturing construction activity was up 65.5% Y/Y on $198 billion in annualized spending (an average year is $60 billion). Once again, infrastructure spending was rising by double-digits year-over-year as the bipartisan Infrastructure Bill funds continue to flow into the economy. The CHIPs Act and Inflation Reduction Act (IRA) funds will start flowing next year in greater volumes. Many other nonresidential areas of construction were growing strong year-over-year, including lodging (motels) +15.8%, commercial +4.5% and healthcare +12.1%.

Cast Iron

McWane (Tyler, AB&I Foundry) and Charlotte Pipe & Foundry both reported that on Jan. 1, 2024, there will be List Price and Multiplier changes producing an overall 5% price increase for the market. Included in the change will be service weight/no-hub pipe and fittings, specialties, and plugs, and XH pipe/fittings. There was no mention of price changes for service weight gaskets or no-hub couplings.

Stainless Steel Pipe & Fittings

Stainless pricing remains flat within most domestic segments of materials as we start to end the year. There remains a caution regarding near-term economic reports as there are signs that the aggressive raising of interest rates is hitting some sectors of consumer spending harder than others. Industries that rely on infrastructure spending, such as clean air, and semi-conductors, still are showing strength. The next year of 2024 is being looked at optimistically as a year of falling rates and increased activity as the climate of raising rates dissipates.

Thermoplastics

Over the last few months, the gradual market slowdown has resulted in improved stability and predictability for most thermoplastic PVF products. Common vinyl products have noticed the most drastic slowdown with CPVC leading the way. Manufacturer inventory levels are high and should remain that way with manageable production schedules for the foreseeable future. Expect vinyl products to maintain constant pricing through 2023.

The HDPE market is showing signs of a more gradual softening. Pipe suppliers are monitoring activity and production while expecting pricing stability through Q4. The current backlog and quoting activity remain strong enough to expect relative stability through the end of Q4. Fabricated HDPE fittings should continue to realize improved lead times as project work continues to slow. Polypropylene and PPR have led the group in predictability. Strong inventory and supply chain coupled with steady growth is creating stability in project support. This should continue through 2023. PVDF is steadily improving while the supply chain remains vulnerable to disruption tied to the potential for demand spikes. Manufacturers are carefully monitoring activity and supply expectations on a project-by-project basis.

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 bar 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

The last month has seen hot-rolled coil (HRC) prices increase by just over 20%. Lead times have also increased that amount. What is unknown is how much of this increase is self-imposed, nor how long these increases will last. Interesting to note that domestic HRC pricing is once again higher than import. This month-over-month increase ends a slide that began in July of this year.

Domestic steel pipe pricing has seen two price increases in as many weeks.

Malleable Iron

A Jan. 2, 2024, increase of 5-6% for malleable iron is driven by energy, labor and healthcare costs. Capacity levels remain stable.

Copper

Copper prices rebounded from an 11-month low following an announcement by China that it plans to increase fiscal support in an effort to revitalize its slowing economy and struggling property sector. Nevertheless, copper prices continue to face pressure due to a stronger U.S. dollar and elevated interest rates. Currently, copper is trading at about $3.58/lb., marking a nearly 3% decrease month-over-month.

PVF Update: From the Distributor Side

**"I would say we are seeing a significant slowdown in our customers at this point. Not exactly sure why, but I am guessing end-of-year budgets are depleted, interest rates are high for projects and not able to get financing? We have had a great last three years, but slower, for sure since August.

We are also still seeing some price increases for commodity items and valves."