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

The bulk of the energy sector has started to inflate once again. Crude oil prices were sharply higher month-over-month at the time of writing. Concerns over supply pressures and weaker inventory levels are driving this worry.

West Texas Intermediate (WTI) was sharply higher at $90.03 in late September ($78.97 a barrel in last month's report). U.S. petroleum inventories were slipping and are still at the lower end of the 5-year average through mid-September.

The EIA's latest outlook continues to show a balanced relationship between supply and demand over the next 16 months, but inventories largely will remain within the 5-year average range. Some spot replenishments of the Strategic Petroleum Reserves (SPR) were not enough to change inventory levels — they remain at 1982 levels and there are no immediate plans to increase replenishment more aggressively. On a global basis, OPEC+ cuts in production are the bigger story and are now expected to run through the end of the year.

Fuel prices were mixed at the time of writing. Diesel prices were $4.57 a gallon at the time of writing ($4.36 a gallon in the last briefing) (Source: AAA), which was $0.33 per-gallon lower than last year. Gasoline, in comparison, was $3.85 per gallon at a national level, which is now 14 cents a gallon higher than it was a year ago.

The U.S. dollar rebounded and is stronger, which is helping keep a lid on petroleum prices. Typically, when the dollar softens, oil prices rise. Analysts expect the dollar to remain slightly stronger in the near term, but longer-term pressures are more likely to push it lower over time.

Economy: Third quarter GDP was still trending stronger than expected, current GDP growth for the quarter was estimated to be 4.9% according to the Atlanta Fed's GDPNow tracker. Most analysts are still expecting slightly cooler growth of just under 3% but remaining ahead of expectations. The economy is growing on top of strong consumer spending, nonresidential construction and government expenditures.

Headwinds are coming in the fourth quarter across at least three events including the UAW strike, ending of student loan payment deferments and a possible government shutdown. The continuing autoworkers strike is the most impactful of the three, and for every 10 days that they continue, it could cost the U.S. economy an estimated $6 billion to $10 billion in lost wages, productivity and ripple effects through supplier markets.

To a lesser extent, resuming student loan payments could strip as much as $6 billion off consumer spending which is small in comparison to total consumer spending of about $16.8 trillion. But some segments of the economy could feel this impact and default rates on student loans will increase. Lastly, a government shutdown would have only a mild impact on the macro economy and are typically short in duration. In addition, once the government reopens, payments of lost wages have historically allowed the economy to recover much of the lost momentum that took place during the shutdown.

The Federal Reserve left rates unchanged in September but allowed the door for more hikes in November or next year to stay on the table. The Fed remained hawkish, saying that inflation was still too high and far from its target 2% rate. With energy prices rising, that could send inflation in the wrong direction and force the Fed to take more action soon.

U.S. corporate spending (measured as capex) remained stable in July (latest available). Capex increased by 0.1% month-over-month (also up 0.1% last month) and it was stronger on a year-over-year basis by 0.8% (up 1.7% last month) on $73.6B in annualized spending.

Inflation-adjusted retail sales were lower by 0.1% in August M/M and were lower against August 2022, slipping by 1.2% (latest available and down by 0.1% in last month's report). However, the robust spending trend continued, total inflation-adjusted retail spending is still running 11.9% above pre-pandemic spending levels from August of 2019. In addition, e-commerce retail sales are 7.2% higher Y/Y and are 81.4% higher vs. their pre-pandemic levels.

Home improvement sales were slightly higher in August with sales rising by 0.1% month-over-month (+0.7% in the last report); however, they were 4.9% lower year-over-year (3.3% lower in the last report). Spending on large home improvement projects continued while existing home inventories remain very low, and many homeowners are in sub-3% interest rates (reducing their interest in purchasing a new home) 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 residential construction spending was down 5.5% year-over-year on $878 billion in spending (which is still strong historically). Single-family construction spending was down 15.2% on $389.9 billion in spending and multi-family was up 24.6% on $133.4 billion.

Total new housing starts fell in August by 11.3% month-over-month (latest available but up 5.5% last month). Starts came in at an annualized rate of 1.283-million-unit rate (1.452M adjusted rate last month). Starts were down 14.8% Y/Y (-8.1% last month) on a national basis. Single-family starts fell in August, dropping by 4.3% month-over-month (+6.7% in the last report) but are up 2.4% Y/Y (+9.5% in the last report). Once again, lower inventories are still a factor for affordable single-family home sales, but home builder sentiment softened slightly month-over-month in August on fears that consumers are starting to hold off on new purchases. Multi-family starts can be volatile based on large project starts month to month, they were sharply lower in August by 41.0% Y/Y (+0.4% Y/Y last month) and were sharply lower by 26.3% M/M (flat in the last report).

The total number of multi-family units was at an annual rate of 334,000 (453,000 in last month's adjusted annual rate).

Looking forward, total permits for new home construction were down in August by 2.7% Y/Y (-13.0% in the last update). Single-family permits, however, were up 7.2% Y/Y and were up by 2.0% M/M, which is a continuation of a strong near-term trend. Volatile multi-family permits were lower; they were down 17.7% Y/Y; but they were 14.8% higher sequentially M/M in August.

Total nonresidential construction spending (both commercial and public) was still very strong in July (latest available). Spending was marginally higher by 0.1% M/M (also 0.1% last month); and it was up sharply by 16.5% Y/Y (18.1% last month). Total nonresidential construction spending came in at an annual rate of roughly $1.08 trillion in July and a new high (heavily impacted by inflationary pressures). Manufacturing construction activity was up 70.8% Y/Y on $201 billion in annualized spending (an average year is $60 billion).

Once again, infrastructure spending was rising by double-digits year-over-year as the bi-partisan Infrastructure Bill funds continue to flow into the economy. Many other nonresidential areas of construction were growing strong year-over-year including lodging (motels) +19%, commercial +2.2%, and health care +10.9%.

Stainless Steel Pipe & Fittings

The market continues to show some softness in pricing, but project activity remains strong. The markets have pockets of strength especially for semiconductor chip production, and infrastructure projects. We expect the business levels to be steady through the end of the year.

Expectations of higher interest rates from major central banks and a stronger U.S. dollar have weighed on the "paper" nickel market while the "physical" market is telling a bit of a different story.
There were widespread reports one week before this writing that amid falling LME nickel prices, stainless steel commodities were remaining stable.
While LME nickel prices have continued to fall near two-year lows, there are reports this week that upstream producers in Taiwan may announce their third consecutive month of price increases for 300-series stainless in October. Their reasons include increased costs of nickel pig iron (NPI) and other alloys and a weakening New Taiwan dollar. In short, the price gap between LME nickel and Class 2 nickel continues to widen. Reports persist regarding significant shortages of NPI in Indonesia, but the present market impact has been somewhat muted in the face of declining market sentiment driven primarily by the aforementioned macro-economic issues and China's struggling property and construction sectors.

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

Hot-rolled coil carbon steel pricing has continued downward during the past month. We have seen pricing fall from around $730 per ton, to $704 per ton. The current quote is the lowest price since December of 2022.

On the mergers and acquisition front, both Cleveland-Cliffs and Esmark Steel Group have made offers for US Steel in recent months. Neither deal has been accepted, but a resulting deal would have major effects on the carbon steel producing world, especially as it relates to the supply of iron ore.

On the global market, Chinese prices have risen slightly, while Korean prices have closely mirrored the fall we are seeing in the U.S.

Copper

Copper continues to trade within a triangle pattern, characterized by lower highs and higher lows, which has been prevalent throughout much of 2023. As we enter the final week of September, copper is hovering around the $3.67/lb. mark. Lackluster demand from China, along with a stronger dollar, has exerted downward pressure on copper prices, leading it to drop to its lowest levels in four months.

PVF Update: From the Distributor Side

**"Commodities continue to be soft. Rising interest rates and slowing multi-residential starts are hurting PVC and small-bore steel pipe sales; Compound that with reduced prices due to deflation and it puts you in a shrinking topline situation. The gravy train of the last few years is over! There is still plenty of business out there, but salespeople will have to work on the orders and not be complacent or risk losing them to other suppliers."

**"The situation you described on steel products softening, and how it has put the wholesaler in a bit of a pickle is not only happening in steel pipe, but also plastic pipe, and to a certain extent copper tubing. To combat that we try to keep enough inventory to satisfy our customers while not over investing in a product that changes price frequently. We buy most of our piping from master distributors to limit our exposure. We work a lot on our sales pricing based on the price the product was bought for. As it decreases in price, we may formulate our sales cost based on moving average cost. When it gets to the point where we are non-competitive in the market, we bite the bullet and base our pricing on replacement cost for larger jobs. This kind of is the offset for all the money we made during previous supply chain inflationary pressures.

To expand on being optimistic or concerned about our market conditions and observations, we are still semi optimistic in Western New York. The Bills are building a new stadium, there are plans being drawn for a new VA Hospital and there may be a large semiconductor manufacturer coming to Syracuse. If all this happens at once, there may not be enough labor in the western part of the state to accommodate all of these projects. I think we will see an influx of contractors and distributors from around the county vying for some of this business. New York is also a very liberal state so there are a ton of minority requirements, WBA Requirements, that the local companies are probably not going to handle. This will again lead to out-of-state contractors and suppliers moving into the area. Sales on these projects have the potential to be large, but so do the headaches. There are penalty clauses that are extremely punitive if the stadium is not completed on time. If we are smart, we should get some of this work and hopefully make some money. The biggest impact for us is more likely a year to a year and a half down the road.

In the last several months our invoicing has decreased a bit, by about 10 percent. Future orders continue to be strong, and backlog is good with a lot of multifamily work still happening."

**"Regarding copper, the Comex continues to fluctuate in a pretty narrow range in September, hitting a high of $3.85/lb earlier in the month and we are now at our low, hitting $3.67/lb. There is speculation that Copper could go lower by the end of 2023 ($3.50/lb range), with higher interest rates, value of USD, demand in China, etc. all factoring in. However, there are reasons to believe that the price of copper will increase in 2024 due to increased EV production, expected increase in overall demand as well as a possible pullback in supply."