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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 the information and resources you need to be successful. Learn more at www.asa.net.

ECONOMIC SUMMARY

Oil and Fuel Outlook

Despite the conflict in the Middle East, crude oil prices have softened because of weaker global demand and lack of interrupted supply. A weaker outlook for crude oil demand plus some commodity selling at the end of the year by mutual fund holders has led to a sharper drop in prices. Crude oil prices were lower in late November, West Texas Intermediate (WTI) was sharply lower again this month at $75.28 ($83.73 a barrel in last month's report). Brent was also lower at $80.36, down from $88 a barrel last month.

However, as reported last month, U.S. petroleum inventories were still lower headed into the end of the year and remained at the lower end of the 5-year average through November. Inventories measured by the EIA at Cushing, Oklahoma improved slightly over the past month. 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. Inventories have moved up to 25.9 million barrels in the week of Nov. 17. This is down from the prior post-pandemic peak of 61.6 million barrels hit in the week of Nov. 13 in 2020.

Fuel prices were lower again at the time of writing. Diesel prices were $4.23 a gallon at the time of writing ($4.51 a gallon in the last briefing) (Source: AAA), which was $1 per gallon lower than last year. Gasoline in comparison was at a national level of $3.25 a gallon ($3.55 per gallon in last month's briefing), which is now 30 cents a gallon lower than it was a year ago. Coming out of the Thanksgiving travel holiday, prices could slip even further as inventories stabilize and demand softens. Diesel inventories remain tight, and uncertain demand in Europe could create more demand for U.S. exports (with the ongoing conflict in Ukraine).

Macroeconomic Outlook

Fourth quarter GDP is currently running at 2.1%, estimates call for growth of just 1% in the quarter after posting a 4.9% growth rate in the third quarter. The third quarter was boosted by inventory building activity. For the fourth quarter, consumer spending, nonresidential construction and government spending will still be leading contributors to GDP.

With the UAW strike over, assembly plant operations are back, and production has resumed. There is some concern that inventories are starting to rebuild faster as consumer spending has softened. The industry was selling vehicles at a rate of 15.5 million through October against pre-pandemic averages of nearly 17 million. Once inventories have reached "normal" levels and production has resumed to normal output levels, the real demand figures will be clearer. For now, anecdotes from dealers suggest that some markets are slowing quickly while others are still struggling to keep new vehicles in stock.

As mentioned last month, 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 3.2%. 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 4.1%, 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 lower by 0.2% in October M/M (latest available) and were lower against October 2022, falling by 0.7% (latest available and up 0.1% in last month's report). Total retail spending was still stable and initial readings on holiday sales showed record online retail volumes with growth of nearly 9% by some estimates. Retail sales on Black Friday were also up 2.5% year-over-year. For the full season, sales are expected to be in line with last year.

Home improvement sales were lower again in October with sales falling by 0.3% month-over-month (+0.2% in the last report); however, they were 5.6% lower year-over-year (4% lower in the last report). Preliminary estimates on retail sales in the home improvement category were $42.1 billion in October (vs. $43.5 billion last year).

Total residential construction spending was down 2.1% year-over-year on $882 billion in spending (which is still strong historically). Single-family construction spending was down 5.9% on $402.3 billion in spending and multi-family was up 22.3% on $135.7 billion.

Total new housing starts rose in October by 1.9% month-over-month (latest available and up 3.1% last month). Starts came in at an annualized rate of 1.372-million-unit rate (1.346M adjusted rate last month). Starts were down 4.2% Y/Y (-7.2% last month) on a national basis.

Single-family starts were marginally higher in October, rising by 0.2% month-over-month (2.1% in the last report) but are up 13.1% Y/Y (+9.1% in the last report). Home prices are falling and are 22% lower than their post-pandemic peaks. Efforts to offset higher interest rates are bringing home prices down, despite inventories in most markets remaining balanced. The national monthly supply of new homes was 7.8 months of supply (6 months is normally considered to be balanced).

Multi-family starts can be volatile based on large project starts month to month — they were sharply lower again in October by 31.8% Y/Y (-31.5% Y/Y last month) but were higher by 4.9% M/M (+4% in the last report). The total number of multi-family units was at an annual rate of 382,000 (364,000 in last month's adjusted annual rate).

Looking forward, total permits for new home construction were down in October by 3.7% Y/Y (-7.4% in the last update). Single-family permits were up 14% Y/Y (11.3% last month) and were up by 0.6% M/M, which is a continuation of a strong near-term trend. Volatile multi-family permits were still lower; they were down 26% Y/Y (-31.6% last month); but they were up 4.8% sequentially M/M in October.

Total nonresidential construction spending (both commercial and public) was still very strong in September (latest available). Spending was marginally higher by 0.3% M/M (+0.5% last month); and it was up sharply by 19.0% Y/Y (7.4% last month). Total nonresidential construction spending came in at an annual rate of roughly $1.11 trillion in September and a new high (heavily impacted by inflationary pressures). Manufacturing construction activity was up 61.9% Y/Y on $199 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 still growing at double-digit rates year-over-year including:

- Conservation and Development +27.6%
- Sewage and Waste Disposal +26.3%
- Education +18.8%
- Power Systems +15.6%
- Health Care +15.2%
- Amusement and Recreation +15.0%
- Lodging (Motels) +14.6%
- Water Supply +11.7%
- Highway and Street +10.4%

Carbon Steel

Carbon steel prices have increased significantly since September of this year. The end of the UAW strike saw steel service centers place large immediate orders of HRC, driving prices up and most likely inflating steelmakers' profits. This contrasts with the end of Q3/beginning of Q4, which saw HRC pricing hover around $700. Some producers are now planning for a $1,000 or even $1,100 price per ton. The price of carbon steel pipe has not been resistant to these HRC increases and has increased significantly with no relief expected.

High-Pressure Forged Steel Fittings and Branch Connections

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. Raw material pricing has remained stable. Finished high-pressure forged steel fittings and branch connections are available for delivery from stock to 2 weeks.

Malleable Iron

Nothing new to report on the malleable front beyond the October report where a Jan. 2, 2024 malleable iron price increase of 5-6% driven by energy, labor and healthcare costs.

Cast-Iron

As noted last month, 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

As we come to the close of another exciting year in the stainless world, we are happy to report that 2023 will be remembered as a stabilizing year for pricing in the market. The peaks of the nickel and supply chain crisis of 2022 are in the distant mirror.

Unfortunately, pricing has been softer more recently, which has caused some delays in stock buys, but projects have remained resilient even with the higher interest rates. The realization that the green energy era is not yet ready for prime time has bolstered demand for the fossil fuel industry rebuilds. Additionally, infrastructure projects are funded and on course to help rebuild these much-needed upgrades. Looking forward to solid 2024 for stainless weld fittings.

The stainless-steel fitting market has largely stabilized over the past few months. Lead times for finished goods were somewhat extended but as they've returned to normal, modest pricing pressure has been observed. Raw material prices have remained exceptionally volatile and nickel prices recently fell to 16-month lows on the Shanghai Futures Exchange. But, SHFE prices have rebounded fairly sharply this week amid reports Indonesian officials will soon establish a new nickel prices index that is not tied to LME (Class one) nickel.

The Distributor Says

Notes from ASA member distributors doing business in the industrial/mechanical PVF sector:

"Unlike at the end of 2022 where business conditions really tailed off towards the end of the year, we have seen solid activity, including quoting and shipments, as we head into December. All segments have been performing relatively well with optimism that this will carry over into Q1 2024. Price increases from suppliers scheduled to take effect at the start of next year, assuming they stick, should also provide a small boost that we did not encounter in 2023."

"Sales continue to be strong in our region. Multi-family, commercial and MRO business remain strong. There is a lot of engineering activity, and we think 2024 will see modest growth. There is a stadium being built in our area so there are concerns about enough skilled labor to man that plus other projects. Margins are tighter and a cold start to winter certainly would be a help."