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Presented by  **FERGUSON**[®]

On March 8, 2018 President Trump acted on the recommendation of the Department of Commerce to impose a 25 percent tariff on carbon and stainless steel imports into the U.S. This tariff impacts all commodity carbon and stainless steel pipe with very few exceptions.

Since this announcement, there have been adjustments to the tariff to allow shipments of products listed in the Department of Commerce's report from Canada, Mexico, Australia, Argentina, Brazil, South Korea, and member countries of the European Union. Most import pipe sources remain covered by the tariff and will incur a 25 percent tariff that took effect with all pipe arrivals beginning March 23, 2018.

Purchasing activity as well as pricing continues to increase rapidly as wholesaler and master distributors begin to price to the market based on future cost of goods. Ferguson continues to expect further price increases as well as possible shortness of supply as the industry adjusts to the changes in the supply chain.

Import finished fittings are not impacted by the tariff, however many of these product lines have been hit hard by supply disruptions and antidumping suits over the last 6-12 months leading to stressed inventories and increasing pricing from overseas sources.

The tariff will impact the cost of raw material for many U.S. made goods that use the products listed in the report as feedstock for their production. Many fitting and flange manufacturers have announced or will be announcing price increases to their product lines due to raw material increases.

Ferguson continues to monitor the news coming out of Washington, D.C., and will update you as we gain more clarity on the final details of the executive order. Please work closely with our sales associates to understand your upcoming pipe and fitting needs so that we can work together to mitigate any disruption to your jobs.

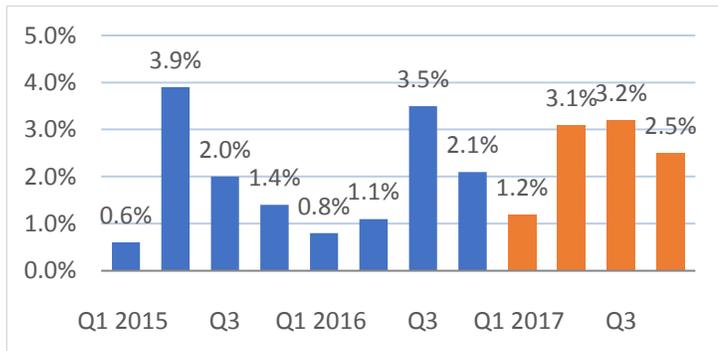


Thank you for your continued partnership.

Economic Summary

Fourth quarter GDP stands at 2.5%

U.S. Real GDP Annualized Growth

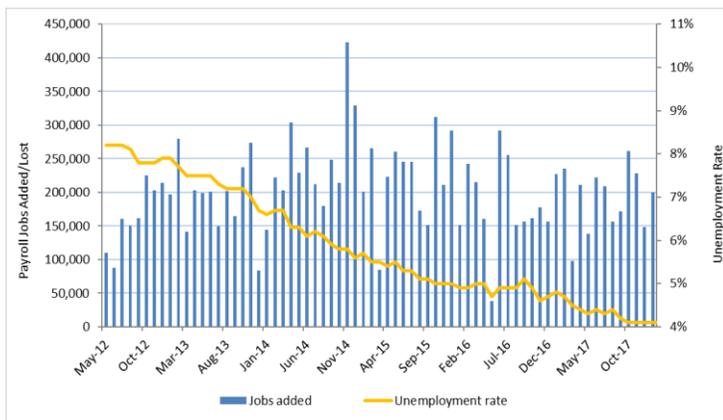


Recent Trend: ↑

Real GDP increased at an annual rate of 2.5% in the second estimate for the fourth quarter. This increase in GDP growth reflected an increase in exports, personal consumption expenditures, both non-residential and residential fixed investment, state and local government spending and federal government spending.

U.S. job growth remains solid in February

Jobs Added and Unemployment Rate

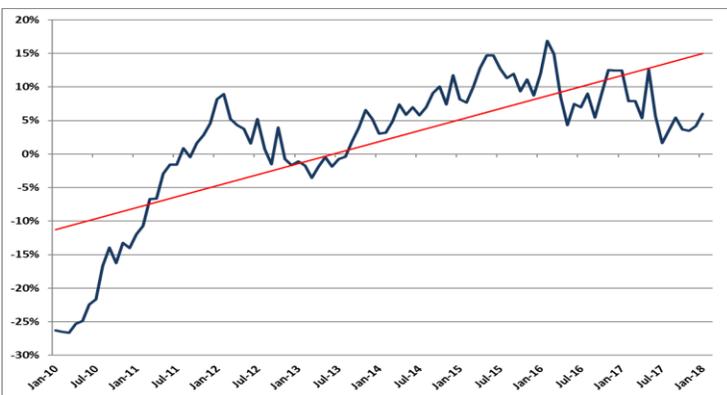


Recent Trend: ↑

Job growth remains solid in the U.S., with 313,000 jobs being added in February, while the unemployment rate remained at 4.1% for the fifth straight month. This increase can be attributed to increases in construction, retail, mining, manufacturing and services. The labor force participation rate increased slightly to 63%.

Commercial & Institutional construction spend

continued to experience growth in December



Recent Trend: ↑

Commercial & Institutional construction spend continued to experience single-digit year over year growth in December, increasing by 6.0%. This increase can be attributed in part to a 11% increase in health care construction spend.

Commodity Pipeline

Domestic and Import Carbon Steel Pipe

The domestic and import carbon steel pipe markets have been very active in March 2018. Market pricing for carbon steel has been shifting upward swiftly due to the announcements regarding the Section 232 investigation and the resulting 25% tariff that took effect on March 23, 2018. Since the Presidential proclamation of the tariff's signing, exceptions have been given to Australia, Argentina, Brazil, Mexico, Canada, South Korea, and member countries of the European Union. The majority of all import carbon steel pipe into the United States remains subject to the tariff even with these carve-outs. Pricing has moved up dramatically over the last 60 days in anticipation of the tariff with more increases expected for both import and domestic.

Carbon Steel Weld Fittings and Flanges

Domestic

Domestic carbon steel weld fitting and flange pricing is increasing. Multiple manufacturers (Weldbend, Tube Forgings of America, Hackney-Ladish & Mills Iron Works) have all announced increases without price protection. This is the first big shift in market pricing in almost 10 years (the last occurring in 2009). Flange pricing was first adjusted in mid-February as Boltex increased their flange pricing, Weldbend's shift to a new sheet on March 18th brought them in line on flanges as well as fittings. Pricing will be closely monitored for this category moving forward as further adjustments are expected.

Import

Market pricing for import/global carbon steel weld fittings and flanges is also beginning to shift upward. While FINISHED goods, such as fittings and flanges are NOT directly affected by the steel tariff, market pricing is being driven higher due to high demand and increasing material costs overseas. The landed cost of fittings and flanges arriving into the United States has been steadily rising over the past few months. Further market increases are expected.

Plastic Pipe and Fittings:

PVC pipe prices increased twice, totaling 12.5%, in February due to rising resin costs. ABS pipe priced increased 12% in March. Ferguson expects additional increases in the coming months. Prior to this, manufacturers were discounting the prices based on recovering supply and normal demand decreases in the winter months. Last year, prior to the Hurricane related pricing increases, manufacturers of PVC solvent weld pipe unsuccessfully attempted several increases based on stable raw material costs. After the Hurricane resin prices began to climb based on the supply interruption. Regarding fittings, ABS and PVC fitting prices increased on March 19th. With the start of warmer spring and summer months, resulting construction related demand should increase and support additional attempts by manufacturers to increase pipe and fitting prices.

Stainless Steel Pipe:

Import and Domestic Stainless Steel Pipe prices increased 10% in February and 15% in March due to a combination of higher raw material prices and the Section 232 Tariff. Import stainless steel welded and seamless pipe were directly impacted by the 25% tariff that went into effect March 23rd. Domestic stainless steel coil producers have announced increases effective April 1st. Commodity Nickel prices on March 28th were \$5.86 per pound. For the last 12 month's nickel prices averaged \$5.05, fluctuating between \$3.95 and \$6.42, 304L coil \$1.27, and 304L scrap \$.57. In 2018, nickel prices have averaged \$6.00 per pound fluctuating between \$5.49 and \$6.42. The average Nickel price in 2017 was \$4.73, 2016 \$4.36, 2015 \$5.37, and 2014 \$7.65. As of March 28, 2018 the Stainless Steel 304L coil price is \$1.32, and 304L scrap \$.59. Both Global/Import Pipe and Domestic Pipe pricing will continue to increase in 2018. Nickel demand in 2018 is forecast to grow with steady to increasing prices resulting in finished goods pipe pricing also being steady to increasing.

Copper Tube Comex- 3/27/18 \$2.99/lb.

Pricing on March 1st began at \$3.10/lb. and as of March 27th pricing was down to 2.99/lb. On average compared to the previous month, pricing was down 3%. Several factors appear to have had an impact on copper pricing for the month. Section 232 legislation, along with a strong dollar, had a negative impact, while signs of improved US – China trade relations, signs of improved US – North Korea relations, and recent compromised tariff reliefs have all had positive effects. According to Edward Meir with INTL-FCStone, “ferrous and nonferrous metals sank to multi-month lows as they are considered to be prime casualties in a trade war.” The workers at the world's largest copper mine located in Chile have agreed to begin early negotiations on a new collective bargaining agreement in hopes to avoid a strike like they did in March 2017.