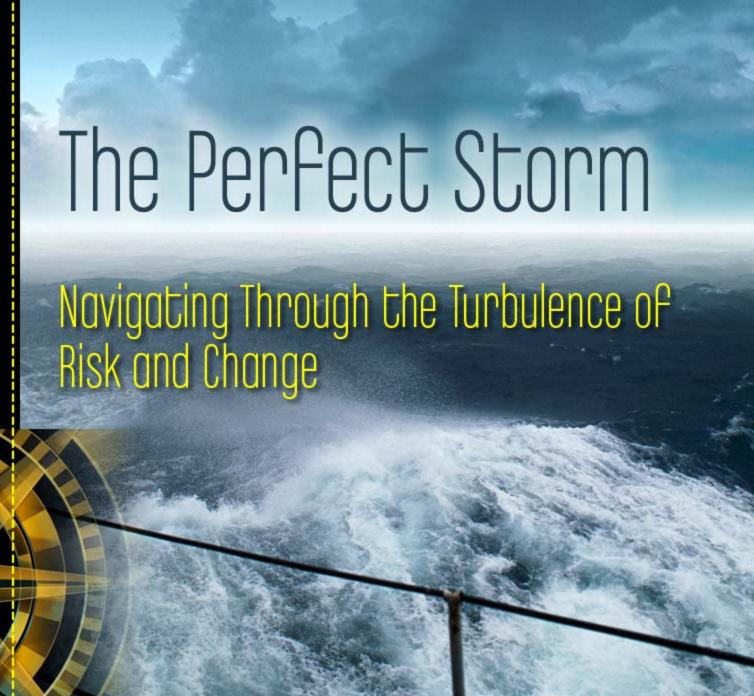


engineering and construction contracting association

41st Annual **ECC** Conference

September 9 - 12, 2009 Hyatt Lost Pines Resort Bastrop, Texas



Steel Materials Forum



Fabrication Market Update

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41st Annual ECC Conference, September 9-12, 2009, Bastrop, Texas



The Perfect Storm

Navigating Through the Turbulence of Risk and Change

Fabricated Structural Steel Supply & Demand

- Demand likely reached bottom in Q2 2009 after peaking in Q3 2008
- Global steel mills countered weak demand in 2009 with production cut-backs
 - -Mills have been at 40 60% capacity
 - Successful measure as inventory control but have added to the economic strife
- Gradual recovery expected during the 2nd half of 2009



Fabricated Structural Steel Pricing

- Steel mill production decreases have been relatively successful in keeping prices from falling further
 - Production equals demand at the current state
- Market to remain subdued with gradual price rise of 2 -5% forecasted for rest of 2009
- Chinese mills have increased pricing to offset large losses during the 1st half of 2009
 - Chinese government has increased export rebates to encourage increased mill production
- European prices seem to have bottomed out
 - Strong Euro and competitive foreign material kept prices steady



Fabricated Structural Steel Lead Times & Shop Loads

- Lead times at mills have greatly shortened since the peak of 2008
 - As short as 1 2 months lead times currently
- Shop loads at fabricators have lightened considerably
- Fabricators are aggressively pursuing work to book in shops
 - Exploring different markets to maximize the potential to book work
- Overhead, capital expenditures, and profit margins have all been reduced to stay competitive in current market



Static Mechanical Supply & Demand

- Delayed mega-projects resulted in delayed / cancelled mechanical equipment orders
- Steel mills have cut production to maintain plate prices
- Real demand for finished products is returning, as opposed to speculative price manipulation
- Unlike in 80's, end users are still investigating new capital projects



Static Mechanical Pricing

- Material Prices tumbled
 - CS Plate prices dropped by 55%
 - -LAS, SS and Clad prices were down by 35%
 - Cr Mo plates were below 20% compared to Jun 08 prices
- Steel mills have cut production to maintain plate prices
- Prices of steel plates and hence finished equipment shall reach a bottom and stabilize in Q3 of 2009



Static Mechanical Lead Times & Shop Loads

- Lead times have dropped 30 50%
 - New shop capacity added in Korea, the Middle East,
 and Canada now operating at less than 50% capacity
- Spare shop capacities are well supported by steel mill's production capacities
 - This combination implies improved deliveries (8-10 weeks)



Pipe, Fittings, Flanges & Shop Fab. Pipe Demand

- U.S. market hit the hardest and recovery has been stagnating
 - European and Asian markets are also still struggling to recover
- Demand in the U.S. for seamless C.S. pipe down drastically with no near term work to spark resurgence
- Demand for stainless steel piping is soft
- Booked orders for low chrome alloy keeping mill production steady but expected to fall
- Demand for shop fabricated pipe spools has decreased severely
 - Forecasted shortages of shop capacity did not materialize



Pipe, Fittings, Flanges & Shop Fab. Pipe Supply

- Production has been slashed across the board for all products and materials
- Many large stocking distributors with hundreds of millions of U.S. dollars in inventory
- Manufacturers have scaled back production, reduced staff, implemented shorter weeks
- Improved operations, efficiency and cost optimization to prepare for return of strong demand



Pipe, Fittings, Flanges & Shop Fab. Pipe Pricing

- Welded carbon steel pipe pricing down significantly since the beginning of the year
 - Could drop another 5 15% by the end of the year for North America.
 - Europe and Asia may see prices drop 3 8% further
- Stainless steel prices appear to have bottomed out and is trending upwards
- Prices for HDPE piping have been trending down and appear to have reach bottom
 - Down approximately 50% from the his of Q3 2008
- Shop fabricated pipe spool prices are not expected to rise by the end of 2009
 - Shops with excess capacity, falling PFF prices will keep prices from rising



Pipe, Fittings, Flanges & Shop Fab. Pipe Lead Times & Shop Loads

- Seamless pipe mills in North America hit particularly hard
 - Seamless C.S. steel mills operating at 10 30% capacity
 - Seamless and welded stainless mills operating at 30 60% capacity
- Many shop pipe spool fabricators are running at less than 50% capacity
- C.S. pipe lead times are 12 20 weeks
- Low alloy steel pipe lead times are 20 40 weeks
- Commodity stainless steel pipe lead times are 12 14 weeks

