engineering and construction contracting association

The Perfect Storm

Navigating Through the Turbulence of Risk and Change

41st Annual ECC Conference

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

Panelist

Fabrication Market Update

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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