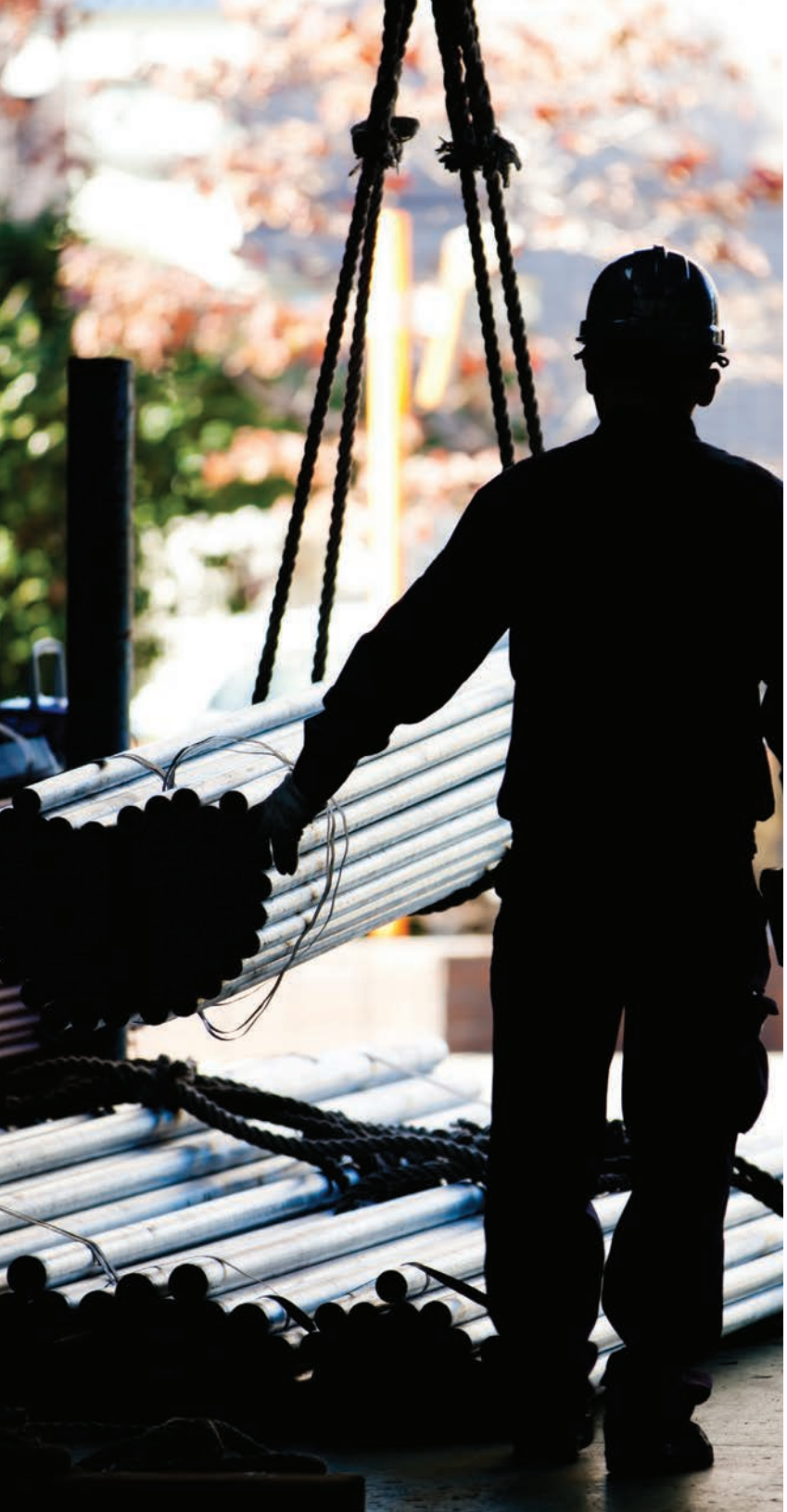
STEEL YOURSELF: TARIFFS WILL INCREASE VOLATILITY OF STEEL PIPE PRICES

Uncertainty and volatility are rarely positives in business. However, uncertainty and volatility are what contractors and their customers face when steel pipe is selected for use in mechanical HVAC and plumbing systems. This volatility has been particularly evident recently because of the tariffs on steel and aluminum.

Steel is a global commodity, which means its price varies on a daily basis. Steel prices can be influenced by many factors, including:

- Worldwide supply and demand.
- Natural disasters.
- The strength of the American dollar.
- The general condition of the world economy.



These factors are constantly changing, and contractors bidding for projects that use steel pipe must realize that the price they are bidding today may not be the price of steel pipe tomorrow. This has a real-world impact on contractors and building owners.

In fact, a 2017 study published in PM World Journal **notes that the volatility of steel prices and international currency "considerably" affects actual commercial project costs.**

THE CHINA FACTOR

As the world's leader in steel production, China has a strong influence on the steel industry.

General Steel Corp., in its annual steel building price forecast, noted that Chinese officials have stated that they will decrease steel production by more than 20% (165 million tons) by 2020. This will cause demand to outweigh supply for the first time in more than a decade.

CHINA WILL DECREASE STEEL PRODUCTION BY MORE THAN 20% (165 MILLION TONS) BY 2020.

"This is expected to cause a sharp rise in steel prices during 2018 and lasting through at least 2020," the forecast stated.

In a recent *Financial Times* article, Seth Rosenfeld, an analyst at Jefferies, a global investment banking firm, added that as China's steel exports decline, Western countries can expect to experience "robust" steel prices.

TARIFFS ADD TO THE UNCERTAINTY

Adding to all this uncertainty, steel prices can be affected by global events, and can even become political tools.

For example, the U.S. has imposed a 25% tariff on foreign steel and a 10% tariff on aluminum.

Countries granted an exemption from the tariffs on steel and aluminum imports face an import quota and other restrictions.

The tariffs and quotas were implemented under Section 232 of the Trade Expansion Act of 1962. Section 232 investigations help to determine the effects of imports on America's national security, and give the president the ability to address any threats to national security by restricting imports through tariffs. Although a Section 232 investigation is the official impetus behind the tariffs, they may also be a bargaining chip in an attempt by the United States government to reduce the trade deficit with China.

IN 2018, THE U.S. GOODS TRADE DEFICIT WITH CHINA REACHED A NEW RECORD OF $419 BILLION, UP FROM $375 BILLION IN 2017.

U.S. EXPORTS TO CHINA WERE $120 BILLION, WHILE CHINESE EXPORTS TO THE U.S. WERE $539 BILLION.

WHAT ARE THE TARIFFS DESIGNED TO DO?

Tariffs are basically a tax imposed on imported products. They are designed to raise revenue for the government and also to protect domestic industries from foreign competition.

Tariffs are typically charged as a percentage of the transaction price that a buyer (in this case, a buyer in America) pays a foreign seller. They are designed to increase the price of an imported product and thus (at least in theory) make a domestically produced product more competitive and attractive. They also can be used to "punish" foreign countries that may be committing unfair trade practices.

The Associated Press notes that tariffs have been used throughout history, and many countries still impose tariffs on a wide range of products. However, in recent years, the formation of the World Trade Organization and the advent of trade deals, such as the North American Free Trade Agreement, have led to the reduction or elimination of many tariffs.

UNITED STATES' TARIFFS AMONG WORLD'S LOWEST

According to the Pew Research Center, the average U.S. tariff is **1.6%**, making it one of the **LOWEST IN THE WORLD**. In a typical fiscal year, tariffs account for about 1% of total federal revenue.

Increasing tariffs drives up the cost of imported materials, and in the process takes some competitive pricing pressure off of domestic manufacturers of those materials. However, those rising costs can hurt companies that rely on imported components to make their products. And, of course, when manufacturing costs rise, consumers always ultimately foot the bill in the form of higher prices. In the case of steel, some U.S. companies that buy imported steel say the tariffs mean their rivals in other countries can now buy steel more cheaply than they can.

TARIFFS RAISE PRICING CONCERNS

The tariffs add further volatility to an already unpredictable steel market.

Members of the World Steel Association (worldsteel) represent approximately 85% of the world's steel production, national and regional steel industry associations, and steel research institutes. Al Remeithi, Chairman of the worldsteel Economics Committee, said that although global steel demand is expected to grow in 2019 and 2020, "Uncertainty over the trade environment and volatility in the financial markets . . . could pose downside risks to this forecast." General Steel Corp. called its 2019 steel building price forecast "one of the most difficult projections in years, as trade tensions between the U.S. and China add a significant amount of uncertainty to the mix."

The outcome of the tariffs and quotas remains uncertain, but the move immediately raised concerns of an adverse effect on steel and aluminum prices. The American Institute of Architects issued a statement saying, "The administration's announcement of new tariffs on steel and aluminum imports threatens to drastically increase the prices of many building materials specified by architects." The Associated General Contractors of America warned that the tariffs "could wreck the budgets for numerous infrastructure projects and private nonresidential investments."

‘UNPRECEDENTED’ INCREASES IN STEEL PIPE PRICES

The American Supply Association’s (ASA’s) Industrial Piping Division notes that carbon steel pipe experienced “unprecedented” increases during the weeks following the initial announcement of a tariff on imported steel in March 2018. “[The announcement] caused an immediate increase of at least 25% on all imported steel pipe,” the ASA reports.

Supply House Times, the official publication of the ASA, quotes Central States Group President and CEO Todd Ford as saying the tariffs have many customers “scrambling,” as most job quotes are now invalid.

“DOMESTIC PRODUCT HAS SEEN INCREASES RANGING FROM 22% TO 60%, DEPENDING ON SIZE.”

"That means both the customer and us have to rebid," Ford said. Although he expects that issue to work itself out, the longer-term effect will be how this affects raw materials and scrap used in other materials that distributors are purchasing both domestically and globally.

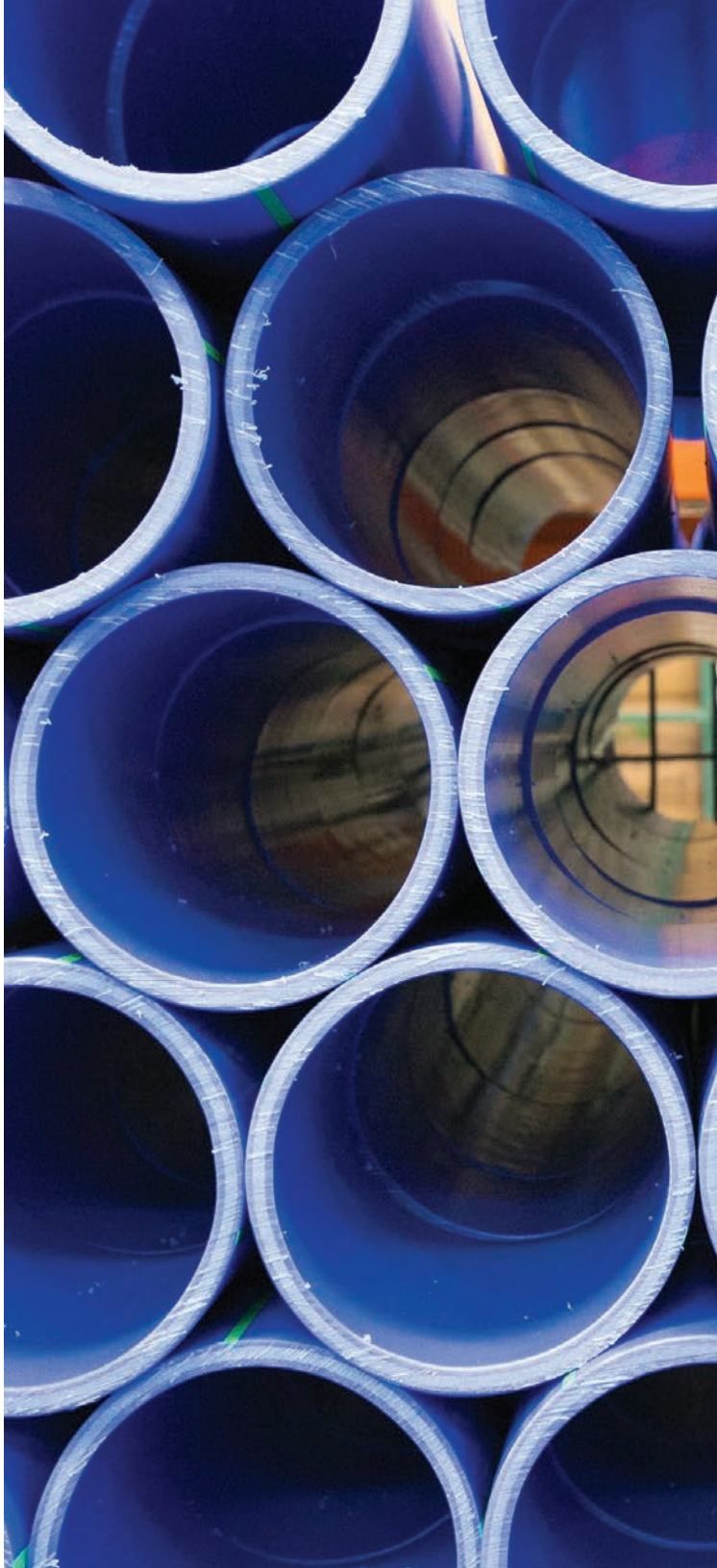
"We could see steep price escalation that could significantly delay construction projects," Ford said.

In a report to the ASA, Brian Beaulieu, CEO of the research and consulting firm ITR Economics, was asked how the tariffs might affect commercial construction. He responded: “We don’t think the tariffs will slow commercial construction. The price increases will be appreciable but not enough to deter demand. Your big challenge may be passing through price increases to the customer to protect your bottom line.”

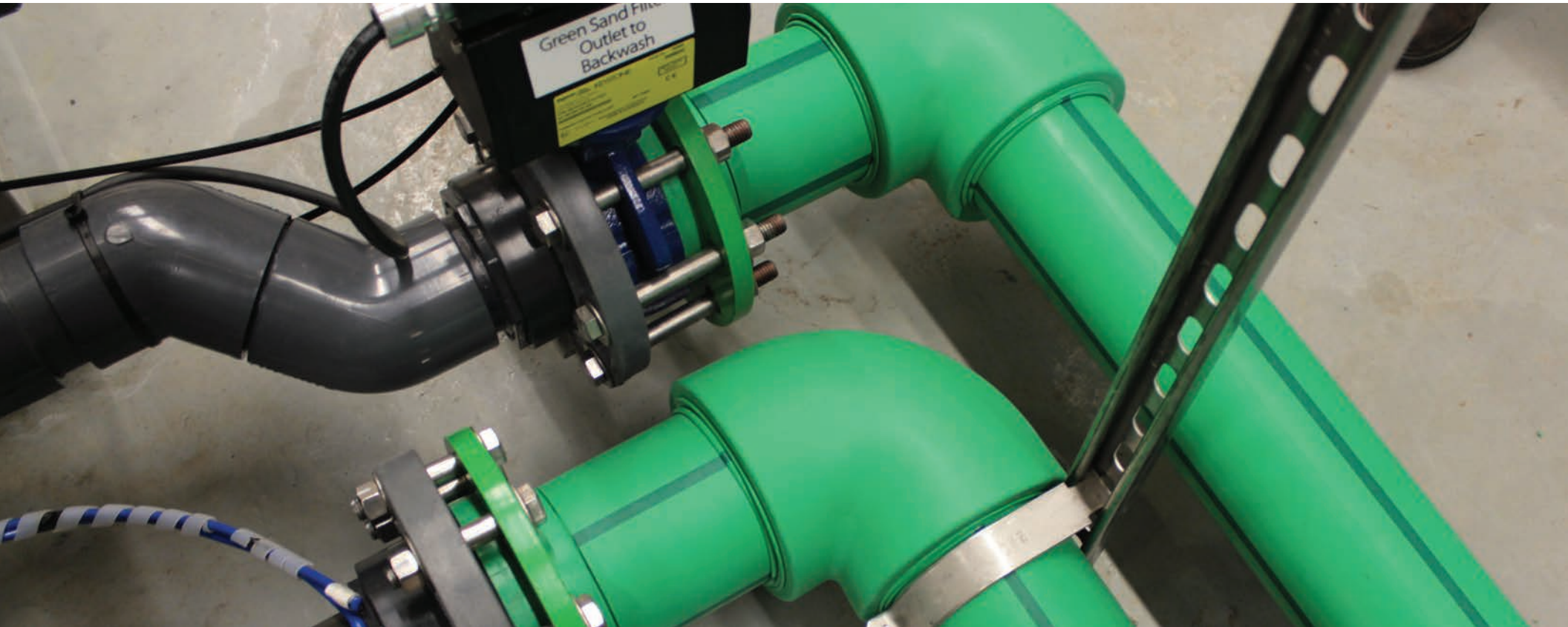
AVOID UNCERTAINTY WITH POLYPROPYLENE PIPE

Given the uncertainty and volatility of the steel pipe market, polypropylene-random (PP-R) pipe stands as a better option than ever for large-diameter mechanical piping systems.

The price of PP-R pipe has remained remarkably stable and predictable over the years. Engineers planning mechanical systems, and contractors bidding on them, can be assured the price of PP-R pipe will not fluctuate based on any tariffs or other upheavals in the commodities markets.



In an era in which the hallmarks of steel pipe are tariffs, unpredictability, and volatility, predictable total installed cost is a major benefit. However, stable pricing is just one of the benefits PP-R pipe offers over steel. Other benefits include much lighter weight, a much longer expected life span, and, with properly executed heat fusion, virtually leak-free connections that do not require any flame or welding. In addition, unlike metal pipe, PP-R pipe will not scale or corrode.



TURN TO THE INDUSTRY LEADER

When considering PP-R pipe as a better alternative to steel, it's important to remember that not all PP-R pipe is created equal. Savvy contractors and engineers will turn to the industry leader: Aquatherm. Aquatherm introduced North America to PP-R pipe more than a decade ago and worked with regulatory bodies to secure the code approvals for its use in the United States.

AQUATHERM HAS EDUCATED AND TRAINED THE INDUSTRY ON PP-R PIPE; IT HAS ALWAYS BEEN AND REMAINS THE INDUSTRY STANDARD.

In an ever-changing business climate where metal piping system prices rise and fall and newbie competitors come and go, Aquatherm is consistently helping contractors, engineers, facility managers, and building owners keep their competitive edge by offering a superior piping system backed by unparalleled supply, support, service, training, and a 10-year, multi-million dollar warranty.

aquatherm.com

aquatherm
state of the pipe