

1Q 2010 IPD COMMODITY REPORTS

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1Q 2010

CARBON STEEL PIPE

STEEL PIPE

After a year of de-stocking steel pipe, tube distributors have begun to buy again. The price bottom seems to have hit towards the end of 4th quarter 2009, and now, prices have begun to rise at a slow rate. The upward pricing pressure stems from quite a few directions, which are outlined below.

SUPPLY

The latest developments with Chinese seamless pipe mills have put pressure on the mill supply chains for ERW, and now, seamless pipe products as well. Dumping suits have effectively cut off most of the Chinese products for standard and line pipe. As demand increases, this gap will have to be filled by other producers.

The Korean mills have been inundated by down-hole tubular casing orders, which have put tremendous pressure on the mills to keep up with the production demands for tubing. This has caused lead times for standard and line pipe to extend further out than in normal years. As in years past when the tubing business is hot, standard and line pipe production becomes secondary.

HR COIL

Hot roll coil prices have continued to increase at a slow pace and are now at the highest point since May of 2009. The major Chinese mills have increased their prices from \$20 to \$70 per ton. The export prices are \$20 to \$50 higher than December at \$505 to \$515 per ton. The Japanese are also raising coil prices for export with prices from \$535 to \$540 per ton. The trend for coil prices and availability seems to be leading to higher prices at least in the short term.

- Posco will have tight supply due to a revamp of the HR lines. Output for coil will be reduced especially for high grade materials like API grade coil
- There is also a shortage of raw material such as iron ore and steel scrap

IRON ORE

The major component of steel, iron ore has seen a steady increase beginning in September of 2009.

September	October	November	December
\$81/MT	\$100/MT	\$110/MT	\$124/MT

The outlook for the near future is higher prices and slightly tighter supply. The decreases in OCTG inventory and subsequent restocking have caused an upturn in price. The pricing uptick started on December. The increase in rigs has been about 5% per month..

Rig Count	September	October	November	December
	1017	1069	1137	1189

The recovery in import line pipe demand is estimated to be in the 2nd quarter of 2010. There has been slow but steady upturn in pricing with demand estimated to follow.

Import /Ton	September	October	November	December
	\$795	\$796	\$821	\$848

Domestic welded mills have also increased prices on a fairly consistent basis with the latest increase in January 2010 of \$75 per ton for ERW. CW has seen an increase of approximately 8% this month. There may be some spot shortages as demand raises faster that production can catch up.

Seamless pipe mills reduced selling prices in the 3rd/4th quarter of 2009 and have not given any indication of potential increases. This is true for both import and domestic pipe mills.

ROUTE TO

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CARBON STEEL/IRON FITTINGS & FLANGES

CARBON FORGED STEEL FITTINGS & UNIONS

There is some optimism concerning good news as inventories were reduced by the end of 2009 that caused a slight uptick in production for the start of 2010. Also, reports from the North American oil-field services market is showing increased natural gas drilling activity, which is supported by increased wholesaler activity. The industrial sector has improved 10 to 15 percent from their lows of 2009 primarily from customers working off excess inventories. Even so, manufacturers are moving cautiously as they do not want to over produce or hire. Wholesalers have become dependent on excellent service and very high fill rates. Any significant surge in demand could disrupt this norm and cause a temporary short term supply issue. Even so, demand this year is expected to remain at low levels compared to 2008, and this affords the manufacturer to quickly adjust to increase orders. This allows the wholesaler to continue to reap the benefits of higher inventory turns that affords everyone in the supply chain better cash flow and a healthier financial situation.

There is a majority consensus that forged steel fittings & unions will not see any manufacturer price increase this quarter, but some manufacturers are expecting a price increase in the second quarter. The price increase would be in response to rising raw material costs. SBQ hot rolled steel and cold rolled bar primarily used in manufacturing forged steel fittings & unions have seen January base price increases with further announcements of another price increase in the works. In addition, scrap surcharges are going up in February with a possible further increase for March. As usual, there will be a continuous competitive vigilance to maintain market share so any price increases are expected to correlate with material increases.

CARBON WELDED & SEAMLESS PIPE NIPPLES

There is much uncertainty in the pipe nipple market. Welded pipe nipples price increase announcements during the fourth quarter 2009 are being dragged out due to the extreme competitiveness, excess inventories, and soft demand. Even if import price increases stick and domestic do not, it will have little impact on import versus domestic market share.

As for seamless pipe nipples, there are some in the industry that are anticipating that prices will go up shortly. Their reasoning is that the antidumping suit on Chinese pipe, the weak dollar, the reduction of excess inventories, and the increased cost of future pipe will coerce price increases by the end of the second quarter. Others only see stabilization of pipe nipple prices as domestic and import suppliers attempt to increase their market share.

It appears evident that there continues to be many competitors with various opinions for any type of forecast to be reasonably accurate.

CARBON STEEL WELD FITTINGS & FLANGES

Most manufacturers and master distributors alike took heavy losses in 2009 due to the crippling recession, causing prices to fall completely off the table. Large commercial and industrial projects throughout the country were tabled during this period adding more angst to the commodity fitting and flange market. Manufacturers and distributors have both reemerged in 2010 with much leaner inventories and the consensus is that the worst is behind them.

The domestic fitting market is still under tremendous pressure to hold pricing but smaller inventories coupled with current increases in seamless pipe will no doubt drive up pricing in the 2nd quarter of the year. Increases in raw materials such as scrap prices being up 30% and forging billets up 15% are costs that manufacturers can no longer absorb and will affect the domestic and import flange pricing in the near term.

Import fittings will see a modest increase this year, but overall demand still remains flat. Foreign manufacturers have also scaled back inventories only carrying a 3 – 4 month surplus compared to 2009 where inventories levels exceeded 12 months either on hand or on the water. Indenting of fittings and flanges will continue to be slow with master distributors holding pricing levels down.

GROOVED/MALLEABLE IRON FITTINGS

GROOVED FITTINGS AND VALVES

The commercial market should begin with a slower pace during the first half of the year with project starts being relatively flat. However, we expect to see a strong surge in the Healthcare, Government and Education market sectors in the second half of 2010. In comparison, the availability of financing in 2010 within the public sector will continue to remain stronger than the private sector where money remains to be tight and is not expected to change any time soon.

The Industrial, Power, Oil and Municipal markets are seeing an immediate increase in 2010 and expect to see increased activity through the end of the year. Overall, we should see growth in all markets in 2010 and increasing momentum during the 3rd and 4th quarters.

A manufacturer price increase of up to 8% is anticipated by the 2nd quarter of 2010.

DOMESTIC MALLEABLE FITTINGS

While the domestic foundries are producing at less than capacity due to the downturn in the economy, they are experiencing continued price increases from their suppliers. The costs of raw materials and scrap continue to escalate, and the price of Zinc used in the galvanizing process is rising at an alarming rate. There is speculation of a supplier price increase in the 6-7% range by the end of the first quarter.

IMPORT MALLEABLE FITTINGS

The manufacturers of import fittings have announced an approximate 6% increase effective March 1st as a result of rising costs. The global demand in the U.S. and China continues to be very soft. China is also struggling with depressed market conditions and the results of their economic stimulus package have been less effective than anticipated.

VALVES

Market demand was extremely weak in 2009, particularly in the industrial and commercial construction sectors, which reduced overall business volume by 20-30% when compared to 2008 levels. The outlook for 2010 is one of "cautious optimism" with a slow but gradual recovery from 2009 levels in the first six months and a stronger performance in the second half of the year.

This prediction of a slow recovery is being driven by several critical factors:

- 1) Quotation activity improved substantially in the fourth quarter of 2009 and that trend has continued in the first weeks of this year;
- 2) Weekly sales and order activity improved throughout the fourth quarter, and the latest Baird report on the PVF industry showed 70% of all respondents expect to achieve positive sales growth in 2010, with 34% anticipating 5%+ growth; and
- 3) Distributor inventory levels are beginning to recover from the "bleed out" that occurred in the first six months of 2009, and they are expected to remain stable or expand slightly throughout the entire year in 2010.

MAJOR MARKET ACTIVITY

The Power, Municipal Water/Wastewater, and Oil & Gas markets are the most promising markets for 2010.

The Power market will continue to be active in 2010 as there is a tremendous need for new energy infrastructure worldwide but particularly in the developing countries. The "new build" U.S. power market has slowed dramatically due to the uncertainty of the "Cap and Trade" legislation currently being debated in Congress, and we see no recovery in this area until there is a definitive answer (hopefully that it will be abandoned altogether) on this critical issue from our legislative body.

The outlook for Oil & Gas is definitely more positive than it was in 2009. With crude oil prices stable and at fairly attractive levels, we can expect project activity to reaccelerate in 2010, especially internationally.

The Municipal Water/Wastewater markets appear poised to have another strong year in 2010. With the short-term injection of stimulus funding, coupled with increased federal funding over the next 5 years, and the acceleration of the replacement cycle for our infrastructure. The outlook for these particular markets is very bright for the next 5 years.

The three markets that are showing little to no signs of growth in 2010 are Commercial Construction, Chemical Processing, and Residential Construction. The weakest of these markets will be Commercial Construction where the experts are predicting double-digit year-to-year declines in 2010. Chemical Processing and Residential Construction are both considered "wild cards" for 2010 with no definitive direction "up or down" being indicated by the multiple industry surveys we have reviewed.

PRICING

Price increases, if any, occurred very late in 2009 and were very selective almost to the point of being non-existent.

However, with the increase in some raw materials back to levels that are nearing 85% of their all-time high (copper for example), manufacturers whose products utilize a substantial amount of those products are feeling pricing pressure from their suppliers, and they have started selectively increase their market pricing. The pricing issue for manufacturers who are producing bronze valves for potable water service is being further impacted by California's new "lead free" law AB 1953, which requires these valves to be made of much higher cost raw materials, and has recently been adopted in Vermont as well. If this law/regulation spreads throughout the entire country, we will all see a significant increase in this particular product category.

Pricing in the other valve areas whose materials are not tied closely to either the copper or bronze are currently expected to remain flat or experience a slight uptick for the year with respect to material costs.

We must remember that although last year started on the down slope of the roller coaster ride when it came to raw material costs, by the end of the year, raw material costs had raised significantly. The manufacturers' "other" costs (health care, energy, insurance, freight, foreign exchange, etc.) have continued to rise each year, and now that those material costs have also continued to rise in 2010, there will likely be further price increases in 2010 should raw materials remain at or near their current levels (although with the exception of bronze valving, we do expect them to be moderate).

2010 MARKET FORECAST

In closing, the recession is technically over. Our forecast is that wholesale distribution will begin growing again in 2010, and valve sales will follow that trend. Having said that, we do feel this recovery will not feel as robust as previous turnarounds, which is why our recommendation to both manufacturers and distributors is one of "cautious optimism" in their business approach to 2010.

STAINLESS STEEL PIPE, FITTINGS & FLANGES

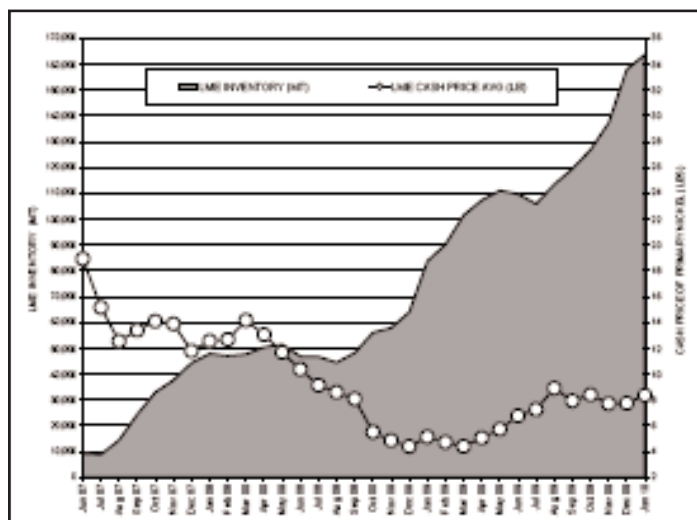
The Grateful Dead's iconic catchphrase, "what a long, strange trip it's been," serves as an appropriate characterization of the nickel and stainless steel PVF markets throughout the 2000's. Toward the end of the decade, extraordinarily rosy looking long-term fundamentals prompted four of the world's largest mining concerns to invest nearly \$50 billion dollars on high priced acquisitions of nickel mines. To say that these ventures have not turned out well is akin to suggesting that Tiger Woods's personal life has recently hit a rough patch.

Nickel is the world's fifth largest of all base metals in terms of mine output and undoubtedly the most volatile. One can make a reasonable case that it's been the most volatile commodity over the past 25 years. The mind-numbing crash from nearly \$25.00/lb. in mid-2007 to below \$5.00 at the end of 2008 would lend credence to that argument. Costs and prices of austenitic stainless steels are very tightly linked to nickel's confounding and erratic path. While primary nickel prices have exhibited some measure of volatility over the past six months, average price levels over that span of time have been flat. This may signal a more subdued stainless steel PVF price environment throughout 2010. The complexly interwoven reasons include:

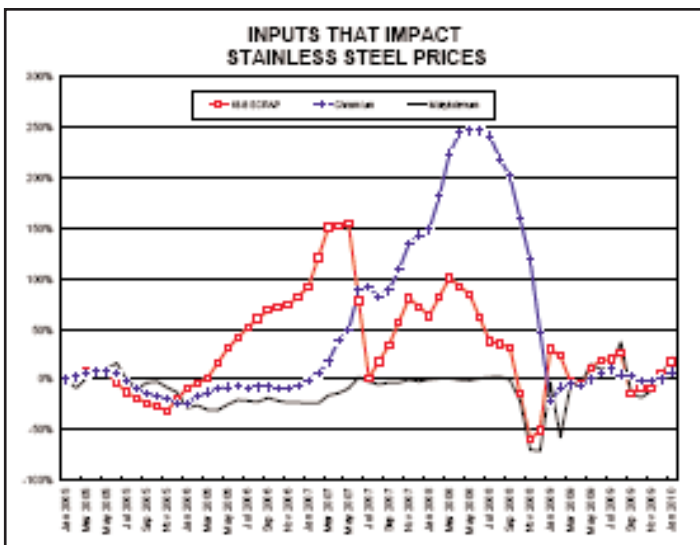
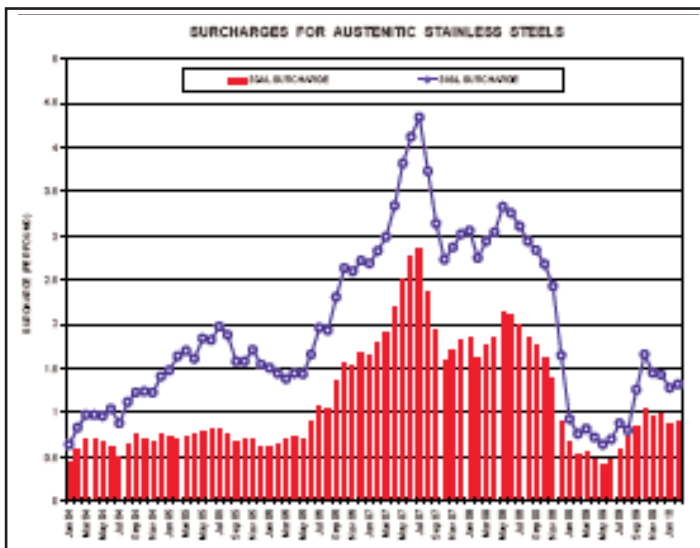
- Current inventory levels on the LME are at record levels and represent nearly 50 days of global demand. The enormous stock levels should serve to counterbalance the sustained restocking phase of stainless steel set to emerge due to the massive, unprecedented destocking that began in the second half of 2008 and continued through the first half of 2009.
- A divergence of key influences that impact stainless steel costs and market price levels, including rising and evidently sustaining costs of major inputs (molybdenum, chromium and iron ore) that, along with nickel, drive surcharges and determined attempts by major mills to implement mill base increases amid continued lackluster end-user demand levels, further complicates the outlook for the first half of the year.
- The fallout from the financial meltdown resulted in most base metals, including nickel, trading below their marginal costs of production. Nickel only bounced back after significant investment fund activity reemerged and muted the extraordinarily weak fundamentals. Nickel bulls assert that 80% of new nickel projects were delayed during 2009, but global mine capacity utilization rates have been under 80% since the end of 2008. Any significant increase in demand consumption should be easily filled and temper investor enthusiasm.
- Nickel's short-term price levels appear tied to the pace and manner by which the respective six and seven month-old Voisey Bay and Sudbury mine strikes are settled with Brazilian giant. The Canadian government is obviously monitoring these situations carefully. Nickel's mid- and long-term supply fundamentals will undoubtedly be impacted by the hotbed

country's legislative attitudes and actions relating to potential future acquisitions by foreign mining concerns attracted to the nation's stability and security and high quality mineral deposits. At the time of this writing, a last-minute deal was tentatively reached between Swiss-owned Xstrata and their Sudbury workers, averting a strike, which combined with the neighboring Vale mines, would have temporarily eliminated more than 10% of global supply and possibly touched-off price spikes.

- Depending on methods employed, China's production of nickel pig iron is estimated to cost between \$7.00 and \$8.00 per pound, which is expected to provide an ongoing cap to primary prices. As producers there execute expansions of facilities during the first half of 2010, it's important to understand that if primary nickel prices fall to a level at or below nickel pig iron's cost, production will be widely curbed and expansions halted. However, the highly respected consulting group, CRU, asserts that "roughly 80%" of the laterite ore imported by China during 2009 and stockpiled at ports for use in nickel pig iron is of "unacceptable quality," which presents an entirely new, perplexing dimension to the supply picture.
- China's industrial production was up an astonishing 18.3% in December helping boost their fourth quarter GDP to 10.7%. These results prompted the People's Bank of China (essentially their Federal Reserve Board) to try and fend off inflation by pressuring banks to slow their lending by raising reserve requirements. While this action, announced on January 21st, has initially hit commodities hard, it's unlikely that this normal "braking process" will precipitate any real setback in China's massive infrastructure development and continued enormous consumption of base metals. But, as the recovery gains steam in the U.S. and other industrialized nations, tighter monetary policies, a stronger dollar, or both will weigh on metal prices.



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World demand for nickel has fallen for three consecutive years, but it is widely anticipated that this trend will come to an end in 2010 as the global economic recovery ensues and nickel consumption increases by around 7%. In contrast, nickel demand from China, which has been buoyed by aggressive, speculative stockpiling from people of virtually all walks of life (including pig farmers not pig iron producers), began to wane towards the end of January, which is a traditionally slow period as producers and dealers work down inventories ahead of the extended Chinese New Year holidays.

There was a marked pick-up in global stainless steel production during the second half of 2009 or the aggregate 9.2% decline versus 2008 would have been worse. Still, the European Union (6 million/mt.) is expected to register a 15 year production low; Japan, a 26 year low (2.4 million/mt.); and the U.S., a 27 year low (1.5 million). Other key markets, including Taiwan, South Korea, South Africa and Brazil, will be flat or marginally lower. China's \$585 billion infrastructure-focused stimulus program had a major impact on 2009's stainless steel production levels, beating '08's record levels by 20%! The country's 8.6 million/mt. now represents 36% of the world's output. Nickel and stainless price optimists point to China's fourth quarter GDP topping 11% on the back of strong industrial production and forecasts for global stainless steel production increases of 8% during 2010. Pessimists contend that China's stainless steel sector has outpaced demand, and dramatic inventory increases of stainless steels in China - projected at 45% over the past six months - indicate that a de-stocking phase is imminent. A clearer view of their true 2010 levels for actual demand requirements won't come until after the end of the Chinese New Year holidays.

The International Monetary Fund recently released its Global Economic Update, and it projects that the global economy will grow by a hearty 3.9 percent during 2010. While China will remain the top consumer of all metals, including nickel, with the IMF expecting its economy to expand by 10 percent this year and next, the U.S. remains the head of the train from a macro-economic perspective, and sustained demand recovery from recession in developed countries is crucial to improving investment sentiment and maintaining healthy flows of funds into metals and other commodities.

Although a widespread increase in orders for stainless steel has been reported in January most analysts believe that this has been primarily triggered by nickel's impact on March surcharges and is not indicative of significant global demand improvement. Nonetheless, most analysts are in accord that compared to this time last year, the price and demand outlook for myriad stainless steel commodities has improved considerably, and prices are rising rather than falling. Welded pipe surcharges have increased sharply and March levels will be nearly 20% and 22% higher for 304/L and 316/L respectively as compared to January. Moreover, as indicated above, despite laggard demand, major mills have imposed base increases across a broad spectrum of stainless steel long products. It's important to note that these moves have coincided with significant increases in scrap prices, which combined, should establish a firmer tone through the first half of this year. The pace and degree by which major consumers and distributors restock depleted inventories will shed considerable light on what is (and what may always be) the conundrum that are the nickel and stainless steel PVF markets.

COPPER TUBE & FITTINGS

During 2009, the year can be best described as survival from the economic fallout created by the subprime mortgage toxic debt problems. In response the Fed, initiated major bailout programs, created the loosest monetary policy of modern times, and allowed interest rates to fall to an all-time low late in the year. Today the long-term interest rate picture is in a neutral position entering 2010. While this was going on in the U.S., it was also having its effect in other countries around the world. Most countries followed the same story line, and some just implemented stimulus programs faster than others did.

As a major commodity, the price of the red metal Copper is viewed as one of the major global economic strength measures. Copper experienced quite a run during 2009 by moving from a \$1.25 bottom when the feds collapsed interest rates to a price of \$3.25 at the end of the year in a triple digit gain. In the most recent months, however, the price velocity suggests more of a price that is running out of steam. Copper is minimally up in the past few months as opposed to the virtually straight up run of 2009. Copper's fastest rally on record may fall victim to inventories that have soared to a six-year high, slower sales to China, and the winding down of government stimulus programs.

WILL COPPER KEEP SHINING IN 2010?

There are mixed signals as to which way the metal may go during the year, but the one underlying theme is it remains an important metal to all the countries of the world when it comes to economic growth and value. There are several major factors that create pricing pressures on the metal: Chinese demand, supply inventories, the strength or weakness of the U.S. dollar, and demand. The biggest question to answer for 2010 is whether China will continue to acquire or import the metal at the run rate they have the past few months.

CHINA

The majority belief is that Chinese demand will remain strong. China is coming "back to trend," which is fundamental to long-term global economic growth. Unlike other resource sectors, such as gold, rare earths and coal, China does not produce much copper relative to its consumption, which means they are a big net importer of copper. They cannot distort the market like they have with other metals. "China's got an insatiable appetite for copper," said one analyst. India and Brazil are in growth modes, and while down from high-growth rates in the past several years, their need continues on the positive side. China, the world's largest metal consumer, will add to last year's record \$32 billion spending on resource acquisitions as demand for iron ore, copper and oil soars with the fastest economic growth since 2007.

Chinese companies will hunt for iron ore, coal, oil, copper and gold assets. Before the global recession last year, depressed asset prices, China's investments in overseas resources and energy companies rose every year but one from just \$578 million in 2004, according to Bloomberg data.

INVENTORIES/SUPPLY FUNDAMENTALS

Inventories are high, but they are not that much higher than they were a few years ago when copper prices were still rising. Stockpiles monitored by the exchanges in London, Shanghai and New York total 704,181 tons - the most since Feb. 3, 2004 when copper cost \$2,544 a ton.

Today, stockpiles are heading up. Copper inventories have climbed 52 percent since June 30 even as global inventories rose for six straight months. That's the longest supply increase since 2008, when prices collapsed by a record 54 percent as the recession slashed demand. Inventories monitored by the Shanghai Futures Exchange more than quadrupled last year, a sign the country may have overbought in the aftermath of a 4 trillion Yuan (\$586 billion) stimulus program. Inventory stockpiles may grow another 10 percent by March 31.

One way to evaluate the current situation is to compare it to where copper prices were the last time inventories were this high in 2004. Copper was in the midst of a six-year rally that sent prices up more than four-fold by the end of 2007. It gained 37 percent in 2004 because supply, monitored by the London Metal Exchange - the world's biggest metals bourse, was in the middle of an 89 percent plunge - the biggest drop since at least 1971.

In prior years, producers matched capital outlay to meet demand needs as they were increasing due to global consumer driven demand. Currently, there are only a limited number of new copper projects in the pipeline. Capital dollars remain somewhat mixed as most spending is on limited ore deposits throughout the world. Most projects that were on the drawing board and started are being completed but with cautious optimism. Add to that issues with labor negotiations at major producers around the world, and that means that the surplus for 2010 may be smaller than the consensus is thinking. Labor negotiations at major mines in Argentina and Chile along with others, coupled with other supply disruptions, have major impact on the current spot price.

SLOWING DEMAND

Declining purchases by the homebuilding industry and a slow global recovery will also hurt prices. For the seventh consecutive month ending in November, U.S. construction spending hit a 6-year low. Additionally, housing may weaken when the government's home-buyer incentives expire later this year. According to the Copper Development Association, builders use about 400 pounds of copper in the average American home and are the biggest consumers in the U.S., accounting for about 40 percent of the total.

DOLLAR

Any strength in the dollar would be bearish for copper prices. The dollar is currently trading at relatively low levels even given the recent run up against other currencies. The US dollar reached a six-month high against a basket of major currencies after a report showed the U.S. economy grew at the fastest pace in six years. Most

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recently, while copper in London fell to the lowest price in 10 weeks as the dollar's rally and China's limits on bank lending reduced the appeal of metals, China took steps to curb lending last month in an effort to control credit growth and prevent asset bubbles. The two countries are the largest users of copper. The dollar's rise and China's tightening are a double whammy to the copper market.

CONCLUSION

The copper markets will face a lot of uncertainty in 2010, and it appears copper is ripe for a pullback in early 2010; whether or not that is a correct forecast will depend on many variables. Many experts expect a deficit scenario in copper's fundamentals by 2011, which will add further upward pressure to the price, which is anticipated to average \$3.30 through 2011. Unfortunately, that doesn't mean that there will be no unraveling of the sector before then. The risk of a near-term correction is real for copper and other higher risk

metals. Nevertheless, long-term demand growth and higher prices is the majority outlook. In general, this would be positive for the economy in general and will lead to spin off effects in the broader economy, particularly in sectors such as telecommunications services and retail. Short-term, some predict copper dropping to at or about \$2 given the fundamentals translated to \$4,409 a ton. Speculative demand from investors is higher than demand from consumers as there is a lot of metal in inventories and demand is not justifying these current price levels. There is not sustainable growth to support higher copper prices. Like other market bubbles this is a situation where market fundamentals have become completely disconnected from the price. Chinese and developing world demand for copper should be seen as the main driver, but perhaps amazingly enough short-term growth from the U.S. could be an important factor driving the fundamentals. Over the next couple of quarters, the developed world will drive the commodity markets.

PLASTICS

All plastic materials are under pressure right now. The drivers are one in the same, generally downstream, with pressures coming on the feedstock end. On the PVC side, producers have been persistent in trying to get resin numbers up. Producers got some increases through late summer and early fall, but not to the extent they had hoped. By early/mid December, there were renewed signs that there would be new attempts to get through some additional increases. The level of seriousness towards these increases heightened by late-December given increasing pressures on feed stocks, the strength of some export opportunities, and the fact that PVC was getting a 15-20% premium in these markets.

In January, resin producers announced two increase of \$0.05/lb, which if successfully implemented, will represent an increase of more than 15%. We are monitoring the situation very closely. It is a very interesting time for resin to be potentially spiking. The PVC resin market is tied closely to construction activity. From a North American perspective, activity and demand for PVC remains weak, and right now, we are in the slow part of the construction season.

We are trying to understand to what degree the proposed increases are real, and how sustainable they will be going forward. Your guess is about as good as ours.

One thing is certain; you should be positioning your customers today that there is greater likelihood of prices going up, as opposed to going in the opposite direction.

HDPE

Although the pressure on pricing is also raw material driven rather than demand increase, recent increases on HDPE are sticking. There has been a 7% increase since January 1st, and 5 % additional slated for March 1st. Delivery remains relatively swift at 2-4 weeks for 24" and down and 4-6 weeks on larger sizes.

Again, this market is dominated by relatively few manufacturers, and shipping costs play a large role in competitiveness.