



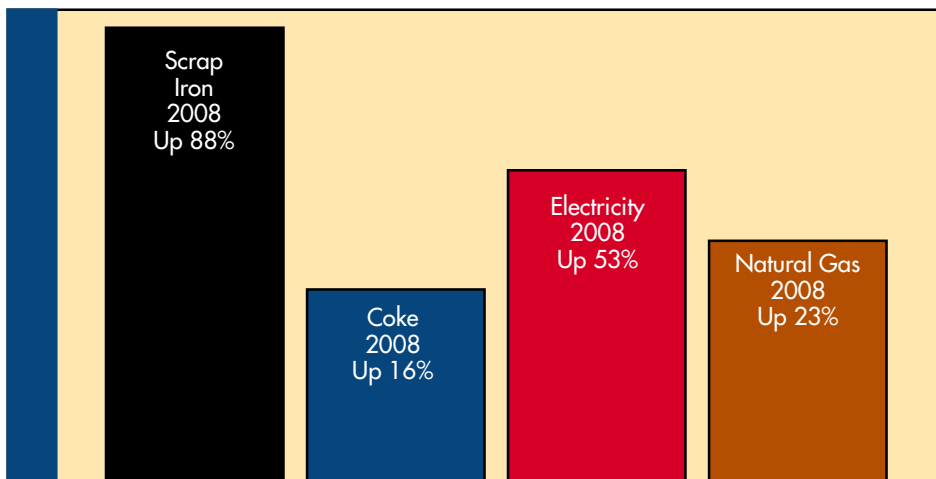
ITEMS

NEWSLETTER

May 2008

Market update...

Energy, iron costs put pressure on DWV supply chain



Cast iron pipe and fittings producers have seen their manufacturing costs jump dramatically over the past 6-12 months.

It comes as no surprise to anybody driving a car that energy costs have increased dramatically over the past twelve months, with the pace of acceleration seeming to increase every day. As gasoline prices rocket toward and past \$4/gallon, everybody filling a gas tank feels the pinch.

Likewise for heating a home. The cost to keep a home moderately warm last winter jumped to record highs, as costs for home heating oil, natural gas, and propane ticked up nearly every week. People responded by digging deeper into their pockets, or turning their thermostats down and throwing a blanket over themselves as they watched TV at night.

American factories feel the pinch, too, and

the foundry business is no exception. As gasoline prices increase at the pump, nearly every major cost component in the production of pipe and fittings increases, too. The costs of raw materials, mainly scrap iron, further their upward trend, as world demand for iron continues unchecked.

Foundries use a lot of energy to melt, pour and cast iron, and energy costs have skyrocketed in every category. From the coke used to fire furnaces, to the natural gas and electricity needed to keep the iron molten and the foundry powered up, no energy source has escaped higher costs. These higher costs have forced all produc-

ers of cast iron pipe and fittings to increase their prices in recent months to offset some of these added costs. While unpleasant and unwelcome in the market, these dramatic hikes in production costs have left producers no choice but to pass some of these increases on to the supply chain.

Everybody in the business understands the tremendous pressure this puts on contractors and distributors that have bid jobs well in advance of taking delivery. Fixed-price bids in an era of rapidly changing prices should be looked at by all as an outmoded way of doing business. Surcharges and other cost/price balancers will become more common in the months and years ahead, as the reality of unprecedented international growth takes its toll on resource availability. Until the supply and demand for energy and raw materials comes back into equilibrium, businesses around the globe will have to be creative in finding new ways to survive and prosper.

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Perspective

Why our tax code is death by a thousand cuts, and why stagflation is alive and well in the metals business.

I had a great surprise last year. I got a check in the mail from an old business deal for a little over \$20,000. Yahoo! I dutifully reported receipt of this check to my tax guy, and when he crunched all the numbers, I ended up paying \$19,000 of it in taxes. Why? Well, it seems it pushed me into a situation where I was subject to the Alternative Minimum Tax (AMT). I had heard people ranting about this AMT before, but I never really understood the nature of that snake until it bit me firmly in the hind regions. It could bite you, too.

Now, if I've got this straight, the AMT was put into place to nab rich guys with lots of deductions (like depreciation on investments or business property) and force them to pay at least SOME tax. After all, the rich get all the breaks, right? This AMT was designed to keep the wealthy from avoiding all taxation. The problem is, when Congress wrote the law, they didn't index the income minimums to keep pace with inflation, so as the years go by, more and more of us fall into the "rich" category and are, therefore, subject to this AMT. On the one hand, I'm glad to hear that I'm rich now, but on the other hand, I still can't afford all those things that rich people have.

In any case, I got caught in the AMT trap, which cost me almost all of my "windfall." It also got me thinking. How much economic activity is tamped down by the presence of these nuances in the tax code? If I had known I would be taxed like I was when I made that investment way back when, would I have made it anyway? Probably not. I most likely would have found some other use for that money. It hardly seems worth getting twenty grand back if you pay nineteen of it to Uncle Sam. I also wonder how many other traps there are in the tax code, and how many millions of people are caught in them every year. It seems like death by a thousand code provisions. I'm sure our next Congress will fix it...

If you buy anything made from metal, you know about inflation. Prices seem to be going up faster than producers can print their catalogs. We at AB&I are not immune to these increases, and have been forced to increase prices in the recent past to recover some of our costs. The temptation on everybody's part is to blame someone for these increases, to assume that greed is the culprit, and to think that if we could only find that greedy so-and-so who's jerking us around like this, we'd put an end to this price spiral once and for all.

Some at AB&I want to blame the scrap dealers. They've more than doubled their prices to us in recent times, and don't care one bit that we've been loyal and steady customers of theirs for decades. We can get all the scrap we need from them; we just have to pay through the nose for it. Same thing for our energy suppliers. We've been great customers of theirs for over 100 years, but to do they give us any slack at price increase time? No way. Again, we can get what we need, but we have to pay big time for it.

When we gripe to these suppliers, they blame the guy one or two steps up the supply chain from them. Their hands are tied, they say, and they are just passing on added costs so that they don't go broke before things settle down again.

The fact is that every metal being used on this planet is under tremendous price pressure, mainly because we're using more of it than we've been prepared to produce in the past. Rapid, unprecedented growth, mainly in China and India, have created demand for metal that is outstripping the world's ability to produce it cheaply.

The simple fact is that all companies associated with metal and energy MUST increase prices to keep up with their increased costs or they will simply cease to exist as a going concern. We can play the blame game all day long, but it won't solve

the problem of the basic inequality between supply and demand. At this stage of the cycle, supply has us where it hurts most, but this, too, will change. As more supply comes on line to meet the increased demand, the price pressure will ease, but it takes years, not months, to bring more metal or energy supply to the market. In the meantime, we adopt sound business practices and do what we can to deal with increased prices. Good management can usually find a way to weather a bad storm, but we all have to keep our business sails trimmed just right and make sure there's always another plan if things don't go as planned.

These past months have been difficult for everybody in the plumbing supplies business. I have yelled myself hoarse going around our offices shouting, "We can't do this (raise prices) to our customers," all the while knowing that we simply had no choice. I remember when raw iron costs were 35-45% of our selling price; now it's over 70% and climbing.

I suspect that, before this is over, commercial construction will see a significant slowdown. Unlike residential construction, commercial jobs must pencil out before they get started, and when costs can't be projected out more than a couple of months, developers will just wait out this phase of the cycle. They'll build when they know what their costs will be, and will just sit tight in the meantime.

This will force all of us on the materials side to develop policies that will enable us to ride out the cycle. Some in the metals business are already instituting surcharges to cover their unanticipated cost increases for raw materials and energy. If the entire chain would do something like this, it would take pressure off the producers, wholesalers and contractors, but put even more pressure on builders and owners, who would rightfully balk at starting a two-year project without a good idea of what their total costs would be.

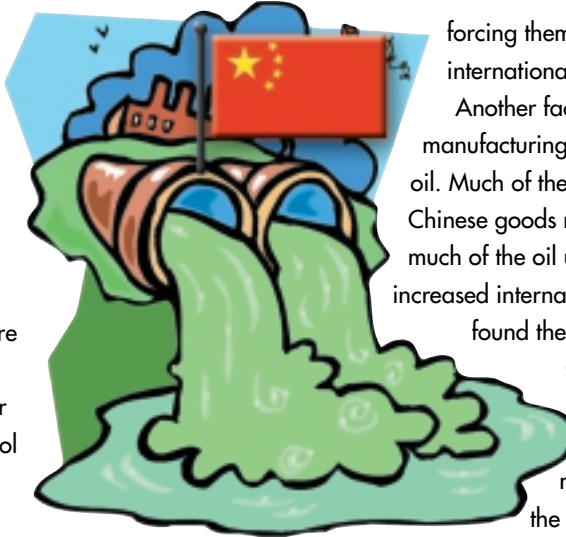
One thing is for certain; this dramatic cycle will one day come to an end, and we will all be smarter for having lived through it.

Market Update**Factories in Southern China Close Due to Stiff Competition**

The Wall Street Journal recently reported on the closure of thousands of factories throughout Southern China, as competition from other Asian countries, (and even other parts of China itself) tightens, and the business climate makes turning a profit more difficult than ever before.

The changes affecting these factories are likely to be permanent or, at least, very long lasting. The Chinese government, for example, is attempting to get better control over factory-generated pollution. New laws that have gone into effect in recent years have forced some of these factories to either comply with new environmental regulations for air and water quality, or close down. Some have closed for good, while others have sought greener pastures in other Asian countries, such as Vietnam, or other parts of China not yet subject to the stiff new regulations.

The Chinese central government has also dramatically reduced tax benefits and direct subsidies to many factories,



forcing them to compete more openly in the international marketplace.

Another factor that has impacted Chinese manufacturing is the rising cost of metals and oil. Much of the metal used in the production of Chinese goods must be imported, as well as much of the oil used by factories. As these costs increased internationally, Chinese producers found themselves unable to compete.

Compounding these added costs has been the strengthening of the Yuan, which has gained nearly 7% against the dollar in the past year, making Chinese

goods, from shoes to iron pipe, more expensive for consumers. The added cost to ship goods abroad has also increased dramatically, as the world price for oil has increased. These added costs sometimes make the goods produced in some Chinese factories simply too expensive.

The plumbing supplies business has already felt the effects of the changing business climate in China. Today, Chinese DWV material is often priced higher than comparable domestic material, a trend that is likely to continue.

Sheriff Gregg Carr Reminds Engineers to Verify Standards Compliance on Specified DWV

Special cards detailing the standards for DWV pipe and fittings are available free of charge by calling 800-GOT-IRON.

Plumbing engineers and specifiers are strongly encouraged to verify that any cast iron DWV material indicated for a specific job meets the requirements of CISPI 301 and ASTM A-888. Some material reaching jobsites has been found to be non-compliant with these standards. To simplify verification, AB&I has produced a handy reference card, detailing the requirements of these standards. For your free card(s), call AB&I at 800-GOT-IRON.

Get Your Copy of ITEMS Newsletter in Your Email Inbox

Did you know that you could be receiving your monthly AB&I newsletter, *ITEMS*, directly to your email inbox, instead of through the mail? Well, you could.

To get your electronic version of the newsletter, simply send an email to dori@abifoundry.com, with the message "send me electronic newsletter, please" in the subject line. Your email address will be added to our mailing list, and you will receive your electronic newsletter, beginning with the very next issue.



Featured Coupling

Husky SD-4000 Heavy Duty No-Hub Coupling

- ✓ Super Duty 304 Stainless Steel
- ✓ Extra Width for Lateral Support
- ✓ Additional Sealing Clamps for Better Load Distribution and a More Positive Seal
- ✓ Color Coded Orange Shield For Easy Identification
- ✓ Available in 1-1/2" to 10"



- ✓ Backed by AB&I Quality Guarantee
- ✓ Meets All Applicable Standards
- ✓ Meets Requirements of Factory Mutual 680
- ✓ Large Inventories for Immediate Delivery from Oakland or LA
- ✓ Call for Submittal or Data Sheet

Coupling consists of a patented neoprene gasket (ASTM-564) housed inside a 304 stainless steel 0.015" thick corrugated shield. Stainless steel clamps surround the shield and provide the sealing force. Screws are made from 305 stainless steel. Torque to 80 in-lbs.

Just for Fun...

How Well Do You Know AB&I?

Some of our long-term customers think they know us pretty well. See how much you know about AB&I by taking this little quiz. Fax your answers to Kip Wixson at 510/632-8035. The first entry to get 100% correct will win a free AB&I golf shirt. Hint: All answers can be found on our website.



1. What year was AB&I founded?
2. What was the name of our founder?
3. Name three ingredients that can be found in our cast iron pipe.
4. What is the trademark name for our no-hub pipe?
5. How many people work in the customer service department at AB&I?
6. What are the names of the AB&I customer service team members?
7. What is AB&I's web address?
8. How many pipe machines does AB&I have?
9. What type and class of iron does AB&I use for pipe and fittings?
10. What company purchased AB&I in November, 2006?



Not-So Famous Quotes

The secret to a good sermon is to have a good beginning and a good ending, and to have the two as close together as possible.

George Burns

Santa Clause has the right idea; visit people only once a year.

Victor Borge

By all means, marry. If you get a good wife, you'll become happy. If you get a bad one, you'll become a philosopher.

Socrates

I was married by a judge. I should have asked for a jury.

Groucho



Don't worry about avoiding temptation. As you grow older, it will avoid you.

Winston Churchill

The cardiologist's diet: If it tastes good, spit it out.

Anonymous

Lord make me good, but not yet.

Irish toast

Just Doing Our Bit for the Planet...

A recent study found the average golfer walks about 900 miles a year and drinks, on average, 22 gallons of alcohol. That means that the average golfer gets about 41 miles to the gallon. Kind of makes you proud...

