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DECEMBER 2006 NEWSLETTER

Forecast 2007 *What We Can Expect*

By Jim Stavis

I have a reputation at Paragon Steel of saying things and then they just seem to happen. Sometimes I'm not so sure if it is a gift or a curse. But the one rule that I follow is that I cannot foresee things for my own personal gain. My partner thinks I made this rule up, but it is what prevents me from picking winning lottery numbers or the Exacta at Hollywood Park. Therefore, I believe I am uniquely qualified to provide my forecast of the steel industry for 2007. But in case I'm wrong, don't hold me to it, because it might be deemed for personal gain.

It is difficult to predict what the future holds without looking at the immediate past to see current trends. First, let's talk price. There seems to be a direct correlation in the price of steel with that of oil and gas. Enron, once a symbol of success in

(Continued Inside)

Forecast 2007

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oil and gas made that same correlation when they were attempting to sell steel futures. They had graphed the prices of both commodities over a period of time and found there to be many pricing similarities. Based on that correlation, we can foresee prices in the decline mode for the first quarter of 2007 from where they presently are. They should stabilize in the second quarter and beyond.

At the end of 2006 there were some events that will have a significant impact on the steel industry. First was the election in November where the bonds to provide funding for California's aging infrastructure were approved. This will set into motion funding for road and bridge work, school building and a variety of other improvements. This will bolster the steel industry. Secondly, we are seeing the consolidation of the steel distribution industry itself. Just this past year

Construction Spending: Annual % Change	2005	2006	2007
Lodging, Office, Commercial			
Lodging	5%	47%	16%
Office	8%	9%	17%
Commercial (Retail)	8%	11%	8%
Institutional			
Healthcare	8%	14%	13%
Education	6%	8%	15%
Religious	-5%	8%	6%
Public Safety	11%	25%	10%
Amusement & Recreation	-5%	23%	12%
Manufacturing	31%	23%	7%
Heavy Construction			
Transportation	2%	12%	17%
Communication	9%	14%	5%
Power	-1%	13%	13%
Conservation	10%	8%	10%
Highway	9%	16%	7%
Water & Sewer	7%	16%	11%

Reliance Steel purchased Earle Jorgensen (EMJ) and recently agreed to purchase Crest Steel. Ryerson purchased Reynolds Aluminum, Mac Steel acquired Regal Steel and there are certain to be more deals to follow. This consolidation will change the distribution landscape

forever as there are fewer businesses controlling the field of play. This is not necessarily good news for the shrinking base of customers, but is a sign of the times.

The latest results from the National Association of Manufacturers (NAM) survey suggest that manufacturing expansion remains on track, but will shift into a lower gear in the year ahead. Manufacturers of all sizes reported a decline in optimism during the third and fourth quarters. Sales growth expectations for the next 12 months dropped for the fourth consecutive quarter to 4 percent for companies both large and small.

The global nature of our world today will have an effect on how U.S. companies do business. Clearly we are seeing the effect that China and soon India are having in the manufacturing sector. More and more companies are trying to lower costs by outsourcing their products overseas. This trend will continue. The factor that will fluctuate the most is price. Their price of inventory will dictate a company's position in

the marketplace. Should demand decline, it is critical that companies be conservative with their inventories. The worst position is to be holding high cost inventory as the market downshifts. The best analogy I've heard is that being a distributor is like surfing. If the prices rise, you have to rise with the prices. You can't let any air get in between you and the wave, nor can you be too far down or the wave will crash over your head. You're always rolling with the waves no matter how high or low the prices may be. The inventory has to turn, so keep on riding the wave and try to avoid a wipe out.

We have provided a product forecast for 2007 as excerpted from Modern Metals on our Web site, www.paragonsteel.com. It is broken down by the following categories: Carbon and alloy plate, Tubular products, Stainless products, Flat rolled sheet and coil, Bar products, Structural shapes and Aluminum. We encourage you to take a look. We also appreciate your feedback and opportunity to service your steel needs



Come On Now Santa: An Apology

Last month we wrote a tongue and cheek letter to Santa asking for his help for our drop off in business during the Christmas holiday period. It was an attempt at humor, but some took it quite literally as a sordid plea for business. They believed I was working out my frustration over the holiday drop in sales. I apologize for any offense taken, but it was intended to inspire our readers to give us an opportunity for their business. In some instances it worked and we wish to thank those that responded accordingly.

For those that thought it was sacrilege to use Santa in this manner, I again apologize. It was supposed to be fun. Isn't that what Santa is all about anyway? We wish for things and then they mysteriously come true. We hope that all your wishes come true this holiday season and we wish you a prosperous 2007.

Sincerely, Jim Stavis