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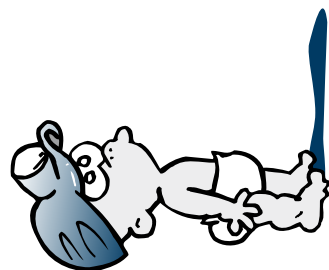
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JUNE 2006



The State of Steel

By Jim Stavis

Last month we attended the MSCI's (Metal Service Center Institute) annual meeting held in Boca Raton, Florida. It is always interesting to listen to what the industry chiefs have to say regarding the state of the industry versus what we see in the marketplace.

First off, the Institute's perspective is a national one which includes a variety of steel products ranging from structural, flat-rolled, ferrous and non-ferrous products. As a result it is difficult to come away with a consensus of opinions since many areas are up while others are down. For the most part, the industry was quite bullish on where things are headed with a view towards tightening supply and increased steel prices. There was a panel of steel experts speaking about important issues that affect the producing mills, larger users and steel distributors.

One of the primary issues was consolidation. In 2004 there was \$9 billion of consolidation and last year there was \$30 billion. It makes the mid-sized distributors appear smaller in the marketplace while

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The State of Steel

(Continued from Front)

smaller distributors may be at risk of falling off the map. What does this consolidation mean to customers in the marketplace? For one thing, it means less choice: fewer suppliers to play off of one another. Secondly, it means less supply. It used to be easy to find distributors who had large levels of inventory on hand awaiting customer's needs. Today, distributors are keeping less stock on hand and are seeking longer range commitments from their customers. Customers who use larger quantities of steel must do a better job of

forecasting so as not to be caught short in this tightening supply environment. Mill lead times are now being pushed out to two or three months which means that customers had better lock up their supply or they run the risk of running out. The mills, of course, like this scenario, because it serves to keep their order books full and prices high. We see no softening of prices in the marketplace unless demand were to soften. One mill salesman told us that in 2004 there was the scare of shortages in the marketplace that helped create a panic mentality which led to increased prices. This year the shortages will be real and the prices shall reflect that.

As with most companies today, the steel industry believes there are looming concerns with rising energy and health care costs. You don't have to look much further than your automobile gas bill to see where energy costs are heading. For companies that use energy to run their manufacturing facilities or even to deliver products, the rising cost of energy is significant. According to the National Coalition of Health Care, health care spending is projected to reach \$2.9 trillion in 2009. It is the fastest growing cost components for employers today. Unless something happens dramatically, health insurance will exceed profits by 2008. The

scary part is that companies have very little control over this cost, so what will they do to offset it?

Finally, the steel industry believes they have an image problem. Tired as perceived as dirty and low-tech, the industry has formulated an advertising campaign aimed at politicians and Congressional leaders to upgrade their image. It will focus on how innovation and technology has transformed the steel industry into one of the world's most competitive, sustainable and environmentally progressive industry anywhere. According to the American Iron and Steel Institute (AISI) the steel industry will spend \$1.4 million this year

and \$2 million next year to promote this campaign.

The conclusion, we believe, is for our customers to prepare for rising costs and then hope for the best. For the past five years it has been difficult to predict where the cost of steel would be six months

out. It is no different today. However, companies had better prepare themselves for the likelihood of continuous changes in their steel costs and how they can manage those changes.

Jim can be reached at jstavis@paragonsteel.com

Quote *of the* Month

"The tragedy of life doesn't lie in not reaching your goal. The tragedy lies in having no goal to reach."

Benjamin Mays

Wolfgang Puck: Opening of CUT and SIDEBAR



Paragon Steel was contracted to provide unique custom steel fabrication at a new Wolfgang Puck restaurant named CUT and renovated bar called SIDEBAR located at the famed Beverly Wilshire Hotel in Beverly Hills. The hotel made famous by the movie "Pretty Woman" has been a destination spot for royalty, dignitaries and celebrities for more than 80 years.

Wolfgang Puck's reputation speaks for itself. The design firm of Richard Meier & Partners led by Rick Irving, the architect, spent over two years creating the unique design of the restaurant.

Paragon Steel was contracted by Matt Construction for this extraordinary steel fabrication project. It will be highlighted on our web site (www.paragonsteel.com) in the projects section. Paragon Steel

manufactured and installed an elaborate 140-foot-long steel light valence accentuated with wood and glass that extends from the far west end of the restaurant, through the main entrance lobby ending in the far east end of the bar. Paragon Steel also supplied all the bead blasted stainless steel on the hand and foot rails, elevator doors and on the glass enclosures throughout the structure.

The painted carbon steel interior and exteriors trellises and skylight are strategically integrated into the entire design. The opening of the restaurant was attended by two ex-presidents (Clinton and Bush Sr.) as well as many notable celebrities. If the photos do not impress, we recommend a visit—if your budget permits.



CUT

The Regent Beverly Wilshire
9500 Wilshire Boulevard
Beverly Hills, CA 90212