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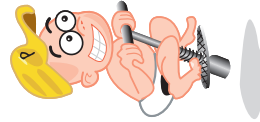
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What Goes Up Must Come Down

Some Words on Steel Pricing

By Jim Stavis

If you are a user of steel, you have seen some dramatic price shifts over the course of the past year. As a distributor, it is hard to keep up between the huge upswings of last summer to the return to earthly pricing in 2009. Obviously, it is even more challenging as a user of steel trying to anticipate where the market will be months from now.

(continued inside)

PARAGON STEEL

Newsletter • May 2009

What Goes Up Must Come Down

There are basically four factors that impact the price of steel. First and foremost are raw materials. Last year the big run-up in prices was caused by the high cost of scrap, iron ore, coke, etc.—the base materials that steel is made of. This was caused by a worldwide shortage of these items, which is no longer the case today.

The second variable is the amount of imported steel that flows into our country. This is also affected by world supply, because exporters of steel will ship into markets where they can generate the most amount of profit. When the dollar is weak, exports are hard to find. When foreign markets are booming (China, as an example), then world shipments will flow into those markets. This has an effect on U.S. pricing. The export steel prices have a direct effect on the third variable, which is domestic pricing.

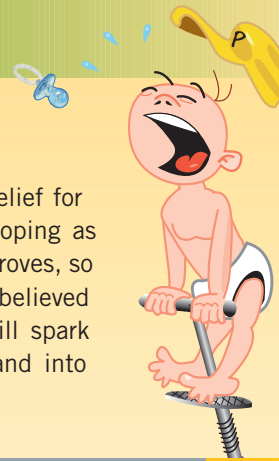
The U.S. mills have learned since 2003 that they will not operate at a loss and would rather limit supply and maintain prices than to compete with cheap imports and operate at a loss. So as a result, steel producers love allocation markets and choose to make steel scarce, thereby ensuring that price levels will be maintained. This is a lesson learned from the oil producers.

The last variable and perhaps the most important is demand. Because the recession has impacted the demand for steel worldwide, inventories have swelled and prices have tumbled over the course of 2009. This should change. You cannot liquidate inventories forever. We are seeing many distributors who have reduced their inventory levels, which is now causing some shortages in the marketplace and



(continued from front)

some firming of prices. Ultimately, these are signs that the steel environment is improving—a welcome relief for many steel distributors. Plus, we are hoping as the country's economic environment improves, so will the need for steel products. It is believed that the economic stimulus package will spark demand towards the end of this year and into 2010. Only time will tell.



Beyond the Doom and Gloom

It is really hard to understand the world at this particular point in time. I start here because everything flows from the fact that the rules have changed and so has the game. Joshua Ramo, a writer, put it best when he said, "It's worth noting that all the insanity around us notwithstanding, there will be a time when this age will start to make sense again: That brave new world will look very different than it does now."

I began writing this editorial as a somewhat reflective response to what I see going on around me. I'm not sure if it is the economic upheaval that has been so shocking to our senses or the media's sensationalizing of the events we are all witnessing. Either way, there truly is nowhere to hide, and many questions with few answers. Every business, and every individual on the planet,

has been affected in one manner or another—some more so than others. We are witnessing a time that might be unique in all of our history. We live in an age where the improbable has somehow become the inevitable—where the world's most solid-looking financial systems have tumbled into chaos within a year's time, where countries we thought were pleasant have turned dangerous, where our own lives seem constantly assailed by fresh risks. The old rules just do not matter anymore. But optimism and an innovative spirit now matter a great deal.

This should come as no surprise. In a world of constant advances in science, technology and media, why should we believe that politics and economics should be immune to change any more than the way we search for information? In case you haven't noticed, the world is changing and quickly. If you don't believe it, just ask your kids. I have a teenage son who just completed his first year of college, so I asked him what his life goals are. He said, "I would like to change the world." It's a modest goal for an idealistic child, but it shows what the next generation has in mind. My generation wanted to tear down the establishment; the next generation wants to create something quite new and different. How exciting...

This newsletter that is rooted in steel distribution has many dimensions. I see our company not simply as a business—a purveyor of steel products—but more as a link to our customers and their needs, to their community and business endeavors. We strive to be more to our customers than simply a beam or channel supplier. We see our role in a much grander way. After all, there are many places to source your steel needs. Yet there is only one Paragon Steel. Thank you for giving us the opportunity to have your business. And thank you, readers, for giving me a forum to express my thoughts.