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Will These Be The Good Ol' Days?

by Jim Stavis

Last week was the first time I got to experience what $4.00 a gallon of gas feels like at the pump. It wasn't a good feeling. Perhaps you've noticed: Living is getting more expensive every day. This year, we paid an average of 4 percent more for basics—the roof over our head, the food in our fridge, visits to the doctor—than we did a year ago. You see and hear about it every day. It makes you wonder if one day we will look back to this time as "the good ol' days" like we currently look to our past.

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(continued inside)

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Will These Be The Good Ol' Days?

(continued from front)

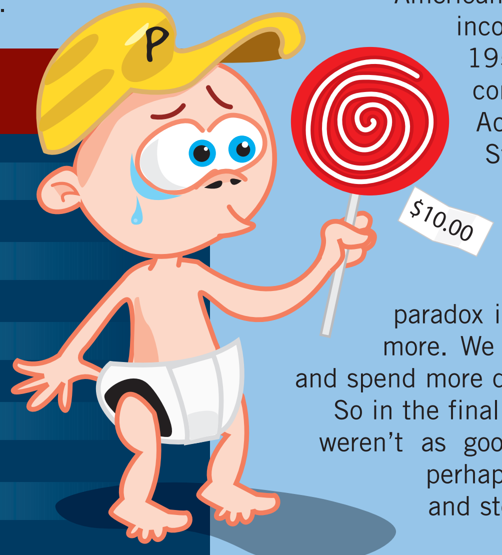
It is no different in the steel market. Raw materials have increased as have energy and transportation costs. And now we have a weakened dollar that is keeping cheap imports away from our markets, thus creating short supply and increased prices. Certainly the domestic mills are taking advantage of the situation. Every month we seem to eclipse the old 'highest price' we have ever seen for steel, stainless and aluminum products. Where will it end? And similar to the gas situation, there is little chance that there will be a reversal of prices. Fifty cent steel is here to stay—so get used to it.

The question is what can the steel user do to protect themselves against these escalating price hikes? When steel is a primary raw material in your operation or construction project how can you protect yourself? First off, you need to plan better—you cannot assume that when you bid a job well in advance of the start date that your raw material cost will be the same when you go to place your order for materials. So you need to build in a higher margin for cost escalation or have a clause in the contract to protect yourself. Secondly, you should assess your inventory and storage capabilities. If you can afford to maintain higher levels of inventory and you have the space to store it, it can be a hedge against rising prices. Many of our customers are storing more of their high usage items for longer periods of time. Thirdly, you should work closer with your current suppliers in providing them material forecasts so that they can be prepared with inventory and possibly lock in prices

as a protection against mill increases. As long as we have a commitment from a customer, we are very amenable to stocking inventory on their behalf. Finally, we would suggest throwing out your crystal ball. Playing the steel market can be similar to playing the stock market. It is hard to predict where prices are heading and it is better left to the steel distributors to take a major position with steel inventories. It is difficult enough to manage your own business without concerning yourself with where the steel market will be six months from now. If you like to gamble, there are plenty of ways to do it and have a lot more fun.

Soaring Prices (A Year Later)

Gasoline:	Up 26.9%
Automobile Maintenance	Up 25.8%
Bank Fees	Up 24.6%
Groceries	Up 7.1%
Rent	Up 5.1%
Carbon Steel	Up 12.7%
Aluminum	Up 15.4%
Stainless Steel	Up 20.5%
Precious Metals	Up 27.7%



So Before You Give Up

It's not as bad as you think. Really... Though all of these things are more expensive than last year, but adjusted for inflation, they cost about the same as they did in 1981. In fact, lots of things, such as clothing, electronics and restaurant meals are, by historical standards, cheap. It's the paradox of our new world order. Stuff is cheap, but the things that truly sustain us are not. Globalization and efficiencies in distribution and retailing have cut production costs and consumer prices. Americans now spend about 10 percent of their income on food, down from 18 percent in 1958. But while prices have dropped for consumer items, so have real wages. According to the Bureau of Labor Statistics wages are 15 percent less than they were in 1972. Along with falling wages, we are paying more for health benefits, retirement and education. The other side of the paradox is that as we are earning less, we want more. We live in bigger houses, drive nicer cars and spend more due to our easier access to credit.

So in the final analysis, perhaps those "good ol days" weren't as good as we remember them to be. Or perhaps we should simply rethink these days and stop comparing.