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37 YEARS

SPRING 2025 NEWSLETTER



By Jim Stavits



Paragon Steel's Digital Newsletter

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I've hesitated to write about the impact of the steel tariffs that were originally put into effect in March and imposed in April. They specifically affected steel coming in from Canada and Mexico. Since initiated, the subject has dominated headlines and policy changes are seemingly changing by the day. It has been hard to assess the actual impact that they have had on the steel-using industry thus far. The belief is that it will ultimately affect prices, push up inflation and pull down the economy—potentially into a recession. This could be the case, but not just yet.

In my opinion we need to let some time pass before we can make any predictions with any kind of accuracy. It seems in these times, we want to prepare for the funeral before we know if the patient will survive. I do believe that the economy is in a state of flux, but no one really knows how it will all shake out.

Tariffs have been around for a long time. They were common going back to the early part of the 20th century. So, we should know what effects they will have on trade and the economy. In the near term, rising tariffs will raise inflation, without increasing domestic production. As consumers expect inflation

to rise, they may frontload some spending in 2025. But, as rising prices hit purchasing power, consumer spending will likely slow down next year.

We have seen steady price increases from domestic steel mills. As less steel is allowed to come into America, the domestic producers see an opportunity to raise prices. This has a Domino effect on the marketplace. Ultimately, cars will cost more as will appliances and anything else made from metal. Construction costs have already gone up as projects are being fast tracked before the prices are raised even higher.

All of this uncertainty in the marketplace creates a sense of panic for businesses and consumers alike. I'm afraid it is going to be this way for a while. The best we can do is hope for smoother sailing once we get our big ship out to sea. The tariffs may seem to be big waves right now, but hopefully in the end they will smooth out and all be worth it.



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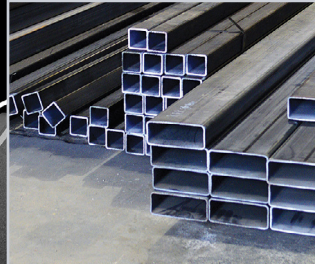
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WHAT'S GOING ON WITH U.S. MANUFACTURING?

There is a lot of doom and gloom these days about U.S. manufacturing with constant talk of how jobs only disappear, and we don't make anything here anymore. This trend happens to be true, but recently that trend has stopped.

Manufacturing employment as a percentage of total employment has been steadily declining since the mid-1950's. It peaked around 32% in 1953 and decreased to 9% as recently as 2010. In the 15 years since then, manufacturing's share of total employment dropped by just 1% to 8%. That is because the number of manufacturing jobs actually gained jobs for most of the past 15 years (with the exception of the Covid years). What is also interesting is the shift from where manufacturing has gone. In American history, manufacturing moved from the Northeast to the Midwest; now it is moving from the Midwest to the South.

Today, a manufacturing worker is slightly less productive than a U.S. manufacturing worker was in 2010.

Ultimately, American manufacturing needs more automation and technological advancement to create workers pay and quality of life. So when we speak of AI replacing workers, it may ultimately make them work more efficiently. But the big question is why has manufacturing share of overall employment fallen? The reason for that, in a word, is China.

China has filled the gap of what used to be American dominance. China, which is very much a poorer country than we, is better equipped to support the manufacturing community. Soon, India will be better equipped as they transition from an agricultural based economy to a commercial one. China is an upper-middle income country with 1.5 billion people. Of course it has the largest manufacturing output. When the U.S. was at a similar stage of economic development, it had the world's largest manufacturing output, too. Soon it will be India's turn. These things happen as countries become richer, and it's basically impossible to turn back the clock because people don't want to be poor.

Will the U.S. ever return to the glory days of manufacturing? If we do, it will not necessarily be a good thing. For now, we've transitioned to be a service based economy, for better or worse.