PDM Steel Service Centers, Inc.

Market Notes

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(14th In A Series)

Steel Industry Braces

As Raw Material Prices Increase Globally

Most industry experts were surprised when the dramatic seasonal scrap price increase experienced during the third and fourth quarters of 2007 led to an unprecedented price increase rather than the traditional late spring decreases. Global demand for steel and the ongoing decline in the dollar continue to influence raw material costs for every component of steel making including iron ore, coking coal, ferroalloys, transportation, energy and scrap. The published price for auto shred scrap increased from $295 per ton in October 2007 to $408 per ton in March 2008. This was followed by an additional sharp increase bringing the price to $555 per ton in early April. Furthermore, recent reports of scrap transactions at $655 per ton indicate continual price increases ahead.

Steel Demand

Domestic demand for steel remains steady in many sectors of the economy. Running counter to the decline in residential construction, demand in non-residential and industrial construction projects continues to be steady. Recently updated forecasts predict strong growth in hospitals and long-term care facilities at sixteen percent, schools at five percent and a decrease in non-residential construction of only one percent.

Additionally, demand in the industrial sector continues to be strongly driven by communication, energy, oil, gas and water transmission, and infrastructure rebuilding. Forecasts indicate power and energy spending will move up twenty-seven to forty percent, and communication construction will increase by twenty-one percent. It appears that these conditions are likely to continue throughout the year.

Strong global demand spurred by increased infrastructure building in developing nations, combined with the weak dollar have contributed to a sharp decrease in import offers to the United States. This has placed significant pressure on domestic supplies and it appears that these dynamics are likely to continue throughout the year.

In a fevered effort to keep ahead of increased raw material costs, all domestic steel producers have increased prices at a rate heretofore unseen. This has left many steel consumers confused and unprepared. Some product lines have experienced as many as six price increases since January, with more expected in the near term. Even with the recent price increases, prices for domestically produced material remain significantly lower than global prices in every category, suggesting the opportunity for exports of finished steel products.

It is our view that this volatility will continue for both the raw materials used in steel making as well as pricing for finished goods for the foreseeable future.

Steel Products Forecast

Wide Flange: Since January, domestic beam producers have increased published prices five times, resulting in an overall increase of 28%. Demand for wide flange remains strong and no change is expected. The lack of import offers is applying additional pressure on domestic producers, who are already running at or near capacity. The larger sections remain on a 16-week cycle with some sizes sold-out through mid-September. The smaller sections are on a 10-week rolling cycle with some producers having some open rollings. Mill floor stocks are non-existent.

While Service Center purchases at the beginning of the year reflected a reluctance to build inventory because of the emerging credit crisis, Service Center inventories now appear to be in line with current demand which will continue to keep current projects on track.

Bar Products: Similar to wide flange beams, bar producers have had five price increases since January resulting in a 38% increase. Demand is strong and longer lead times are required for product availability. Prices are expected to remain high through year's end and there are no import offers. Mill floor stocks are extremely limited or non-existent. Service Center inventories, however, are in line with current demand.

Plate and Sheet Products: Hot rolled sheet products have experienced their largest price increase in history. These products have now increased over sixty-two percent since December of 2007. Because slabs for the West Coast are typically import, extremely strong global demand, coupled with the weak dollar has resulted in a slab shortage. This has forced some mills to cut capacity as much as twenty-five percent.

Domestic demand for HR sheet has been very strong and is outpacing production capacity on the West Coast. This is resulting in spot shortages, extended delivery dates and increased prices. Service Center inventories may not keep pace if there is a sharp increase in demand.

HSS or Tube products: Since January, tube producers have pushed through six price increases resulting in an over-all increase of forty-eight percent. Additional increases are planned for the end of April. This trend will continue for the near term as flat rolled feedstock continues to be in short supply.

Most mills have rolling cycles continuing right at 30 days. Service Center inventories are in line with current demand however, availability will become an issue if demand increases sharply. Projects with long lead-times will be able to secure material if commitments are made well in advance of delivery dates.

Moving Ahead

Increasing raw material prices, strong demand, a weak dollar, and the absence of import material will continue to drive price volatility. Some experts forecast increased global activity through the remainder of 2008 which will most likely result in increased pricing for the reminder of the year. As domestic consumption stays strong through the next two quarters, it is our belief that pricing will continue to trend upward for all products.

We cannot over emphasize to our customers the importance of discussing material price and availability issues ***prior*** to making commitments for any project or extended delivery contracts.

At PDM Steel Service Centers, we remain committed to doing everything we can to help you, our customers, be aware of the dynamics of these ever-changing material costs. While we cannot control every aspect of the supply chain, we will use the control and influence we have to provide the best service in the industry at competitive prices with consistency that you have come to know from PDM.

We thank you for your support and look forward to any thoughts or concerns you would wish to share with us.