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ASSUMPTIONS

The New Year is a time for reflection, for planning, for resolutions and many other efforts to take stock and to plan ahead. Underlying much of this activity are the many assumptions that motivate us all – the situations that we expect or hope will exist as we go forward.

After examining how our assumptions are developed and operate, one might wonder how solid our planning will be. Of course, there are as many sets of assumptions as there are people, so few real generalizations are likely to have universal or even wide-spread application. This being said, however, one can suggest some observations that seem to be true here in the United States.

Take, for example, our assumptions regarding our government:

- A broad swath of the population dislikes taxes and endorses virtually every proposal to reduce or eliminate them – from extracting “no new tax” pledges from candidates to voter initiatives preventing increases in tax rates. The rationalization is often an assumption that the private citizen can continue to benefit from government largesse without incurring any expense.

One might liken this assumption to calling upon a manufacturer to reduce his revenues by cutting his prices so that his customers will have more money to spend as they see fit. While manufacturers may be forced by competition to lower their prices, doing so solely to enrich buyers would be considered madness and is never done.

- Another assumption about government is that tax revenues are too often squandered on wasteful or inefficient projects; therefore, taxes should be reduced. Failed expensive efforts by the FBI and the IRS to computerize their operations are examples that are frequently used, along with the many doubtful projects required by congressional “earmarks”.

Criticisms of wasteful government spending are valid, but it is not valid to assume that the government is the only culprit. The corporate world is littered with ill conceived projects, abandoned after spending oceans of money on them. AT&T recently announced that it would be abandoning the “Cingular” brand name, which cost about a billion dollars to promote. Would customers expect to pay less for telephone service because of this decision?

- We are now engaged in very expensive military actions in Iraq and Afghanistan, costing about \$2 billion a week. Whatever the outcome of these ventures, they exist as calls upon our national treasury that must be met. Nonetheless, we have assumed that life can go on as usual, with no sacrifice in our standard of living; indeed, it appears that luxury buying is at an all-time high. Given that we are reducing our revenues by cutting taxes, how do we assume that we shall pay for the wars? Of course, by borrowing from our good friends abroad.

This is one area where our assumptions about the government and conduct in the private sector somewhat coincide. Personal credit has been growing and consumption is going up, even while personal income has remained fairly stagnant.

At some stage, our assumptions catch up with us. If they are well conceived, they can form the basis of sound planning. Unfortunately, our assumptions about our government have become a very large impediment to sensible governance.

Here are the specific data for last month:

- Scrap and Pig Iron. The prices of #1 dealer bundles and #1 busheling (Chicago) continued to rise last month, to \$2.62 and \$2.65 per mt respectively. These increases, more than 10% from the prior month, were driven in good part by high demand in the export market. Brazilian pig iron spot prices (cif New Orleans) were up by more than 15% to \$3.25 per mt. Pig iron is nearing the record high price levels of August, 2004 – January, 2005 and April – June, 2006.
- Natural Gas. The Nymex contract price for natural gas declined again last month to \$6.25 per mcf. This decline was expected in light of the warm winter (so far) and declining crude oil prices. Just a little over a year ago, in October and December, 2005, the price was over \$13.50 per mcf.

- Exchange Rates. As of this writing, the euro and the Canadian dollar were each down a penny, to \$1.29 and 85¢, respectively. The pound was up by two cents to \$1.97.

We are always interested in your comments and suggestions, so please share your thinking with us. This letter will be posted on our website, www.coreysteel.com and on the international site, www.steelonthenet.com.