

THE PARLIMENT PAGES

October, 2016

A LITTLE PERSPECTIVE IS NEEDED -

Once again, all of the various economic reports are sending a lot of mixed messages. Some say numbers are down and trending negatively while yet others are saying we are maintaining a steady rate of growth. Overall, we tend to believe that we continue on the steady climb. However, we acknowledge that the growth isn't anything to be excited about. Let's put things in perspective.

While home building is clearly up from several years ago, it is still down substantially from the peak years. In June, we recognized that about 600,000 annualized new homes were built. While that is up from the 550,000 number from a year ago, it is still well short of the peak number of 1.8 million. Now, in retrospect, we all realize that the 1.8 million peak was a fluke, but the long term average is still in the 1.2 million range. Therefore, despite the comeback, we are still roughly 50% of where we should be. (In fact, the last time we were 600,000 was back in 1995. That was before the internet and email.) Since then we have added tens of millions of people to our population. Sure, the growth is impressive. We dropped to a low of 300,000 following the financial crisis and have now doubled that number. But to get back to a minimum norm, we must double again. That is a tough challenge.

This also has a huge impact on the overall economy. For years, residential construction contributed an average of about 6% to our economy. Today that number is barely above 3%. In addition, housing has always been a major contributor to middle income families as trade workers typically comprise a major segment of that demographic. As can be predicted, residential construction employment closely mirrors sales. At the peak, there were approximately 1.3 million people employed in residential construction. During the crash, that number dropped to 250,000. It has increased substantially and is now resting somewhere in the 650,000 range. But again, that is only half of what it was.

The big question that should be on everyone's mind is what does the future look like? In past issues, we have discussed some of the headwinds we face. Those were population demographics, student loans, and mobility of the new work force. Each of those is significant and in combination, they create substantial obstacles for a full recovery.

To add to those difficulties, we are once again seeing a rise in the cost of housing. The average house price has climbed to around \$300,000 for the first time since 2008.

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In just one year, that average has increased 11%. So, despite low interest rates, we are now entering a period of affordability issues.

Home ownership percentages are continuing to drop. At the peak, 68% of us owned our homes. That number has steadily decreased and is now hovering around 61%. Think about that for a moment. That is a 7% decrease on a population base of 350 million. My math says that is a decrease of about 24 million people not living in a house that is owned. Keep in mind that is the gross population. To be more accurate, you would have to assume that the average household has 3.2 individuals. With that calculation, we are about 7 million homes short of what has been a traditional average.

Can we recover from this or are we faced with a new normal where more and more people will never be home owners?

MACRO-ECONOMIC PICTURE -

To answer that question, we must first look at the overall economic environment under which we live. On September 27, the notes from the last Federal Reserve meeting were released. In those notes, there was a consensus opinion that the economic growth in the United States would not exceed 2% for at least the next 10 years. What is even more disturbing is the methodology for the calculation is also suspect and tends to favor an exaggerated rate of growth. In effect, we are going to look at continued stagnation for quite some time.

That lack of growth will have quantifiable results. Wage growth will continue to be non-existent. Entrepreneurial initiatives will be stymied. Career advancement opportunities will be curtailed. Supply will continue to surpass demand, resulting in lower profit margins. And one of the unintended and often overlooked consequences, will be the lack of capital formation and investment.

The average person looks at our low interest environment as a very favorable condition. One of the intentions of low interest rates is to spur borrowing. However, the banks have proven that despite these historically low rates, the borrowing has remained relatively flat. Growth comes from expansion and expansion comes from a vision of opportunity. To capitalize on that opportunity, entrepreneurs and big corporate executives must make a decision on investment. That investment is typically covered by a combination of investment dollars and bank financing.

The problem is that the overall economic situation is not motivating people to get excited about expansion. As a result, capital is not flowing into growth but is instead flowing into an overheated stock and bond market. Without capital investment, banks will not lend money, and therefore nothing happens.

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In short, our nation's economic policies have failed us.

DONALD OR HILLARY -

There is the expected speculation on what the election result impact will be. With two candidates that are so widely despised, the speculation has taken on new highs. An increasing number of ridiculous Hollywood stars are threatening to leave the country. I can't imagine what the departure of such icons as Rosie O'Donnell would do to the basic fabric of this country.

Once again, our political process has failed and regardless of who wins the election, we are destined to more divisiveness and negativity. In all likelihood we are again going to be faced with a Congress that is unable to act and a Presidency that will take more and more power into the Executive Branch.

This power grab by the Executive Branch will create great animosity and angst among a growing disillusioned and angry populace. None of this will result in a positive outcome and will further inhibit our ability to fix some of the core economic issues we are faced with.

So, to go with our previous statement, not only has our economic policy failed us, but it also looks like our political process is also on the path to failure. Such a sad commentary for what is still the greatest country in the World.

PRODUCT PRICING UPDATES -

Many have referred to our current economic situation as one of "stagflation." I think that is a very appropriate term and also one which accurately describes the current pricing in our market. With few exceptions, prices are stable, if not even down somewhat. There continues to be excess worldwide capacity that is likely to continue into the foreseeable future.

As you know, when prices are stable or dropping, it is best to purchase in smaller quantities. We have always believed that to be the prime value proposition that Parliment offers our customers. So many distributors and manufacturers are still requiring truckload, container load or full pallet purchases and once a week service. We typically can offer you the product in the quantities you want for quick inventory turnaround. We also offer twice a week service to a majority of our territory.

CONFUSION IN REBAR -

There are some selective efforts being made to enforce various countervailing or anti-dumping tariffs on particular foreign exporters of steel rebar. The countries include Turkey, Taiwan, and Japan. So, as we have seen so often, the most dependable, in quality and in pricing, remains to be good old American rebar. Your salesperson is

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well versed in all of these happenings and will gladly keep you up to date and safe in your buying decisions.

SECTION 179 DEPRECIATION -

In an effort to boost spending, Congress has once again raised the ceiling on Section 179 Depreciation. Quite simply, this provision allows you to deduct 100% of the cost of equipment purchases in the year of purchase. This is in effect for calendar year 2016 and, as of now, 2017. There is a limit of \$500,000.

This means that you can get a tax deduction for the full amount for any trucks, yard equipment, computers or any other product other than real estate and real estate improvements. This is not a tax credit, but rather an accelerated deduction that will help improve your cash flow.

INDUSTRY NEWS -

It looks like much of the consolidation that we have been talking about for years is slowing down a bit. Most of the manufacturing and distribution has either consolidated or staked out their positions of independence. We are still seeing some consolidation at the dealer level but that is to be expected. A great majority of the dealers remain family owned and it is only a natural occurrence that as the ownership ages, they will transfer ownership to other dealers or to other family members. This slowdown in consolidation will help stabilize the entire distribution channel.

With their attention off of the next acquisition, we are seeing a basic shift in focus on the part of many of the distributors. Instead of trying to be all things to all people, more and more distributors are moving away from entire product lines and narrowing their offerings that fit more of their core business.

We believe that strategy is erroneous and we will continue to grow and add product lines and strive to meet our customer's demand.

NEW PRODUCTS -

We continue to be very successful with our Poly Glass products. Most of you have recognized the demand for the brand. Besides adding Poly Glass to our line, we have also picked up the Smart Vent product which is used in off-grade homes to help fight flooding damages.

Our growth in the USP product has surpassed our goals as more and more of our customers are switching from the difficult policies and prices of Simpson and instead going with the alternative. We appreciate your faith and loyalty to us.