

THE PARLIMENT PAGES

July, 2008

A LITTLE HISTORICAL PERSPECTIVE –

Over the last month, my wife and I had time returning to our birthplaces and revisiting our past. Boy, what a shock! We retraced the paths that we walked to school, and sadly, we must admit it was not 10 miles and a 2 hour walk in the freezing snow and wind. No, instead it was a short 5 blocks that, now, I could walk in about 10 minutes.

We tried to find the house that I had grown up in before my high school years. My memory of that house was spacious with a huge front lawn that seemed to go on forever. I remember my Dad spending what seemed like hours mowing that lawn with an old fashioned reel push mower. We kept passing what should be the house and I kept telling my wife that wasn't it. Finally, after confirming the address, I realized that this spacious home that I remembered was about 1200 square feet. The front lawn that seemed to go on forever was smaller than the turnaround space in my current driveway.

Speaking of driveways, ours was used for the single car of the family, an old Volkswagen Beetle Bug. We would take family trips with me and my sister fighting with the huge family hunting dog for space in the un-air-conditioned back seat. We traveled from Michigan, south to visit our rich relatives who had retired, moved to Florida and had bought a mobile home. That was the middle class standard of living then.

Now let's look at today's middle class standard of living. First, most starter homes today are at least 2,500 square feet. Parked in the driveway will be at least two cars worth an aggregate of between \$75 k and \$100 k. Very likely a lawn service will take care of the yard while the family eats out at least 2 nights a week. No mobile home in Florida upon retirement. No, it is more likely a second home in Florida that is at least as big as the primary residence and is located on a golf course. The frequent trips south are in air-conditioned comfort in a SUV getting about 15 miles to the gallon. That is a snapshot of the middle class standard of living today. Let's see where this leads us...

THE PROSPERITY OF OUR BUSINESSES –

Each quarter I gather pages and pages of supporting research in an effort to do the very best I can on this newsletter. Our data is good and our analysis is sound and the predictive results have been extremely accurate. We have predicted price increases on materials, fuel costs, interest rates and product shortages. However, despite this success, sometimes I feel we get caught up in the "can't see the forest for the trees" syndrome. So this quarter, instead of poring through housing starts, building permits, inventory of unsold houses, interest rates, mortgage foreclosures, economic growth, household creation and a whole myriad of more statistics, I am going to look at our industry from a totally different perspective.

Many of our customers are second, third and in some cases fourth generation companies. Many of you remember the lumberyard or redi-mix plant that you took over from your father. The business that you are now running is, in many cases, is substantially bigger than when you started. Inventory quantities are huge compared to the "ole days." Sales are many multiples higher than your father or grandfather ever dreamed possible. And the fact is, much of this growth is due to the steady upward progression of the standard of living in this country. It's not due to our

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great business acumen. No, instead *it is a result of the prosperity that this country has experienced in the past several decades.*

Over the past 40 years, our businesses have been driven by the following factors:

- Unprecedented increases in the sizes of houses
- Rethinking of the standard amenities included in residential properties
- Countless people retiring to Florida and the Southeast
- Foreigners investing in second homes in the South
- Inflation in land and building costs
- Inexpensive and easy to get mortgage credit

And of course, the biggest of all is the *unbelievable wealth creation through prosperity and inheritance.*

Let's face the facts. *Our success has been driven primarily by the increase in the standard of living in this country and more specifically in our geographic areas.* So, as we gaze into the future and try to predict what will happen to the housing market, I think we must first look at the key macro element that will ultimately drive the bus - ***WILL OUR STANDARD OF LIVING CONTINUE TO INCREASE IN THE FUTURE?***

ARE WE AT A CROSSROADS IN OUR HISTORY? –

Most people have always felt that no matter how bad the economic situation might be today, it would improve tomorrow and the upward march of the standard of living would continue. I think that even today, most would still think that. However, we as an economy are absorbing some body blows that we have not had to endure in the past.

Health care, energy costs, rising food costs and government spending are taking billions of dollars out of our economy. In the past 6 years we have increased our national debt from \$3 trillion to over \$10 trillion which is over \$100,000 for every legal citizen of this country. *We are also at a critical point in our political history.* Both candidates have their arguments, positions and promises and the bottom line of all of their talk is to hopefully continue to increase the standard of living of their constituencies. Voters will have a clear choice. The conservative wing hopes that the standard of living will increase through the success of private industry and capitalism. The liberal wing thinks that standard of living will go up though more government intervention and more socialistic policies.

Who knows what the right direction is? So for now, *throw away all of the statistics and just watch very carefully – WHAT IS HAPPENING TO THE STANDARD OF LIVING IN OUR COUNTRY?*

THIS IS A TWO-FRONT WAR –

Our businesses operate on two fronts. First, we have the increasingly important global and macro economic environment and second, we have the localized competitive arena. *Of these two fronts, we control one and not the other.*

To be successful, we don't have to win on both fronts - just one. *A best-in-the-class company can thrive despite an overall economic downturn.* Many of you are examples of that now, as we are now seeing some of our customers having their very best years despite a horrid housing market. *A mediocre company can thrive during economic booms.* Again, look around and you will see examples of this as many poorly run companies made money during the heydays. *Either be the best-in-the-class or operate in a super strong market.* You can win at either, but unfortunately you can only control one.

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So, strategically this is the answer. *If the standard of living increases in this country, we will all make money as long as we can hold on long enough for the market to recover. If the standard of living decreases, we must be the best-in-the-class to survive and thrive.*

Have you built your business to be the best-in-the-class?

BEST-IN-THE-CLASS –

There are many attributes of those that qualify as best-in-the-class. Sound corporate values, superior sales organization, focus on the customer, efficient administration and operations, and prudent balance sheet management are just a few. I believe that *the future will be the brightest for those who begin this arduous time with strong balance sheet management.* In our industry, balance sheet management consists primarily of accounts receivables, inventory and accounts payable. Prudent management of those assets and liabilities can help subsidize weak sales performance caused by market conditions which are out of our control.

In today's market, inventory management can be one of the biggest challenges. On the one hand, slow sales would seem to dictate that inventories be reduced to absolute minimums. However the crazy rising price market dictates that high inventories will yield profits through inflationary pricing and controlled hedge buying.

We have many hundreds of customers that we see as often as weekly. A couple of years ago, most of our customers really looked pretty much alike. Everyone was busy, no one really had any spare time, sales walked in the door and management was really nothing more than reactionary. Today, we have seen our customer base divide into two camps. We have the "turtles" who have crawled in their shells and are just waiting for the good times to come back. They are not making any money and just hoping that they can hold on long enough for things to "get back to where they were." The other group is out hustling and wheeling and dealing. They are looking at new markets, new products and new selling techniques. They are continually experimenting with their businesses looking for an advantage. They are not afraid to hedge buy, get aggressive with their customers and are actually making money, even in this market. Many of those guys are having their best years ever. Which of these two best describes your business?

PAY ATTENTION TO THE WORLD ECONOMY –

We truly operate today in the context of a world economy. Events around the globe dictate the price and availability of many of the products that sit on your shelves. In the past we have seen the effects of this world economy make the difference in a couple of percentage points here and there. No longer is this just a couple of points.

Most of you are aware of the dramatic increases in steel product pricing. It does not appear that it is over. *Rebar prices continue to climb upward and Simpson has just announced a major price increase of approximately 12%* that will be effective September 1. Other steel based products are going up as well. You would have to be living under a rock to not know what is going on with our oil prices. Be aware, many of our products are derivatives of oil and/or natural gas. Poly products, plastic products and roofing felts are all derived from the petroleum industry. *Those price increases are right around the corner.* Our phone rings continuously with our customers expressing their frustrations over price increases with the market as slow as it is.

True, the market may be slow here, but it is hopping wild in other places of the world. Turkey, one of the major suppliers of imported steel rebar has just signed over most of this year's production to Dubai. China continues its building boom. Saudi Arabia will be out of oil in 50 years and is presently investing in their future with massive construction projects designed to drive their economy once the wells run dry.

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A couple of years ago, about 30% of all steel rebar sold in our area was imported. Virtually none of it today is imported. In addition the domestic producers have discovered that they are now price competitive on the foreign markets and are actually exporting product. China has been hit high and low with factory closings and the recent earthquake. Both events have *taken huge production levels out of the market.*

Besides a run up in prices, we are also seeing some signs of product shortages. The recent actions of our trade policies, the soaring world-wide demand, and the production issues, will most certainly combine *to lead to some major shortages in the last couple of quarters of this year.*

These facts are all ingredients for further upward pricing pressures and some scarcity on our products. *Much of that inventory that you have sitting on your shelves or in your yards will be worth more tomorrow than it is today.* Don't be afraid of inventory!

DON'T MISS THIS ONE –

One of our goals at Parliment is to help our customers succeed. Whether it is through our reliable service and inventory support, our market knowledge, or product specific help, *we continually strive to be the one “you can rely on.”*

On Thursday, November 6 we are having a special event for you, our customers, trusted vendors and support businesses. Kraig Kramers is an internationally known speaker and consultant. We have booked Kraig to give us all a presentation on his famous topic, “CEO Tool Kit.” Chuck and I have personally seen this program several times each and every time we see Kraig, we come out with invaluable information. *We can count at least a dozen of his “tools” that we use in the daily management of our company.*

The program will be a half-day presentation starting at 10 am on the 6th. We will have a short break for lunch with Kraig resuming right after that. He will finish around 2:30 in time to get everyone home.

Kraig's topic is a fast paced program that is designed to throw out to his audiences an incredible number of tools that we can use to better manage our businesses. Whether it is better financial analytical tools or people management tools or methods of improving operations, *Kraig's program is like a fire hose spitting out information.* I guarantee that you will walk out with at least 5 tools that you will immediately implement into the management of your company. This program is designed for the top level executive of the company and we are inviting you to attend at *no charge.* Seating will be very limited, so call us today with your reservation.

LOOK FORWARD TO THIS –

I would like to leave you with one more thought. We have been predicting the run-up in fuel prices for a couple of years. You may recall from a previous newsletter that the U.S. consumes 93 barrels of oil per year per person. China consumes 1 barrel per person per year. If China were to increase its usage to just 10 barrels per person, *every drop of oil produced would have to go to them.* Russia has some of the world's largest untapped oil reserves just across the border from China. China presently has 200 million more 20 – 30 year-old men than women. If you were China, needed more oil, had all of that manpower, and were facing a country that has basically shut down, what would you do? A pretty scary thought.