

# THE PARLIMENT PAGES

April, 2006

## Today's Headlines –

This great country of ours is great because of basic fundamental values that our founding fathers believed in. One of those was the freedom of press. While we should be eternally grateful for that freedom, I sure do wish they had also mandated that the reporting must be fair and accurate. But unfortunately, the press has for some time traded truthfulness for sensationalism. And that is exactly what seems to be happening in the residential construction world.

Nationally we are out of the soft landing and are moving upward at a very aggressive pace. Here are the facts. We had 10 consecutive quarters of national growth exceeding 3 ½%. That is the longest run ever. The 4th quarter of 05 came in at about 2% which was predicted as part of the soft landing. The good news is that the soft landing is over and the projections are for at least another 10 quarters, starting now, exceeding 3 ½% growth. So the macro economic environment could not be healthier.

However despite that great news, the talking heads are telling everyone how gloomy the economy is, especially the housing industry. They gravely announce that we have a “housing bubble” that could bring our economy to a screeching halt. Well let's look closely at that. First, of the top 75 housing markets in the country, there is perceived overpricing in 4 markets. Sure if you are in one of those 4 markets, you might see some price deflation. But how about the other 71 markets? What are the grand wizards saying about those?

And secondly, just how important is housing to our overall economy? According to the pretty boy news readers, housing is what has driven our economy for the past 8 years. The facts just don't support it. In fact housing accounts, today and in the past, for less than 10% of our economy. So housing is far less important than industrial production, retail spending, health care and a host of other major contributors.

So in short, thank you press for once again creating an illusion that a problem exists where it does not. The good news is be patient. Next month, they will find another crisis to focus on. Pretty soon the same expert news readers will again gravely be addressing the impending bankruptcy of General Motors and the devastation that it will have on the economy. But as Alan Beaulieu explained in our last economic seminar, “The US economy is like a battleship. When something like General Motors, 9/11, or Katrina hits, it is like a rowboat running full speed into this battleship. But folks, that doesn't sell papers!!!”

However, with all of that being said, this does deserve future scrutiny. The power of the press may have a counter-economic effect and we will experience a downturn. Our bets are not, but we would like to hedge just a smidge.

## Long-Range Economic Outlook –

We are so fortunate to be living and earning in an area of the country that has the very best fundamentals for our industry. First, as mentioned above, the overall economic environment couldn't be better. And most importantly, our population and job growth combined with demographic changes will keep the housing market in our area strong for many years to come. Will we see the growth continue at the same pace as the last 4 or 5 years? The answer is “no.” However, we believe we will continue to see growth in the 7% range for years to come. The public has to recover from the sensationalist reporting discussed above, but that will happen in short order once the news has something else to focus on. So we encourage you to design your business around a sustained growth rate of at least 7% per year compounded for many years.

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Think for a minute what that 7% represents. Can you name any industry that has sustained 7% or greater growth for 15 years in a row? Probably not. It sure is great to be an American, especially in the Southeast United States.

### **Interest Rates –**

It is beginning to appear that we will have two more ¼ point increases in the Fed Fund Rate at the next two Fed meetings. These increases will be used as a tool against potential inflation. While this will drive the cost of short-term borrowing higher, it probably won't have a dramatic impact on mortgage rates. The chances of further increases beyond this net ½ point are remote and we can look at rates flattening out for quite some time with some eventual pressure to start backing them off with some future decreases. This will hurt interest expenses but really shouldn't have much impact on the rest of your business.

### **Pricing Bubble –**

We have had some calls expressing concern in the market asking about the retail pricing bubble. Let's take a look at what caused the price increase. First, builders could not meet demand. As a result, much of the housing purchases went to the existing home market because new homes just weren't being built fast enough. This increase in existing home sales exacerbated by material and labor increases caused builders to comparatively increase their prices. They saw the opportunity and also cranked up their profit margins. Now inventories are starting to build, the demand between new and previously owned is equalizing and material and labor seems to be leveling out. Builders are cutting back their margins as demand eases so we have hit a pricing equilibrium which is healthy. Please understand that housing bubbles are caused by a slackening of demand. There really is no sign of a slowdown in demand as much as there is a shifting towards that equilibrium.

### **Materials Pricing –**

The materials pricing questions have been quite boring lately. We have had some spotty price increases, but so far the supply / demand equation seems to be steady. There doesn't seem to be a lot of demand for prices to increase much and there also doesn't seem to be much pressure causing prices to fall. So we predict a rather stable environment for the next several months as the public sorts out the conflict between the economic reality versus what they are being told.

However, we see this as a lull and not a trend. We still believe that the overall boom in the economy over the next couple of years will have to put some more inflationary pressure into the equation. While we projected those increases to happen by the 1<sup>st</sup> or 2<sup>nd</sup> quarter of 06, we now believe that it will be delayed by about a quarter. We will keep you posted as this evolves.

### **Flashing Yellow Light of Caution –**

One of our favorite phrases heard often in our hallways is, "A rising tide floats all ships." Let's not kid ourselves. Most of us have experienced over the past couple of years a level of prosperity that we never dreamed of. We have worked harder than ever and have successfully scrambled day after day servicing our customers. If we were particularly inefficient on a particular transaction, it was no big deal because our sales were growing so fast we didn't really have time to dwell on our mistakes. Well, let's not forget a lesson I learned long ago. Fast growth can hide a lot of fundamental problems in our companies. Of particular concern to me is that fast growth can hide a lot of problems with our customers.

You have customers today who are paying you today for foundation material invoices on houses long ago closed. We all know that term is called "float." This works as long as workload continues to increase. Remember the concept of "pyramids." But what happens when your customers experience a slow down. The float disappears and all of sudden you have a collection problem.

Please realize that a slowdown in business will put extra pressure on your accounts receivable. Look over your accounts closely and see where the float exists. Those builders who are not

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managing their businesses well, will start to drop by the wayside quickly. Be sure you are protected.

### **Parliment Seminar Series –**

We had a great turnout for the Alan Beaulieu presentation on the state of the economy. Virtually everyone there made us promise to tell them when Alan was going to return. As billed, he was a great presenter with lots of useful economic news.

On Thursday, April 20<sup>th</sup> we will have another great program on tap. GW Equities is the premier firm in the country specializing in the buying and selling of small and mid sized companies. One of the senior principals of GW will be talking to our customer group about business valuations, how to buy other companies and how to position your company for acquisition. In this period of consolidation, it really seems appropriate to have an expert address these issues. Unfortunately, because of the nature of the subject, we have to limit attendance to the first 12 respondents. So if you are interested in attending this program, you must call us immediately.

### **Employee Testing and Personality Profiling –**

We were blown away by the great response from you on our offer to take a free personality profile and the large number of you who have already used it during your hiring process. If you never got around to it, please feel free to give us a call and we will work you through the process and get you started on having this tool at your disposal.

### **Employee Hiring –**

As promised last quarter, we are continuing with our series on recruiting and hiring of employees. We want to continue this discussion because of the overwhelming comments we receive regarding the difficulty you all have in finding and hiring good people.

When you thoroughly analyze a company's hiring challenges, you will inevitably find that the real problem is not hiring, but, instead starts with poor recruiting. Simply stated, if all you have coming in the door are a bunch of "Ds," then you won't ever hire an "A" no matter how good your interviewing skills may be.

We all know that we need to do a better job of recruiting. So why don't we? Well, what we see is that recruiting becomes very reactive. In other words, we don't start the recruiting process until we have an opening. This will always put you behind the eight ball because what you now have is a "hole" in the organization that is screaming, "fill me, fill me." Until that hole is filled, everyone works overtime, things don't get done, and the organization suffers. So our natural reaction is to quickly move to fill the position, often times with someone far less capable than the person who just left. If you do this a number of times, it is not difficult to see that you will eventually undermine the entire quality structure of your employee base.

Ask yourself the following question. As we go into the March Madness basketball playoffs, you will note that all of the strong teams always have a bench. What does that bench do? Well, the first thing it does is give the team depth in case of injury or foul trouble. And the second thing is to put pressure on the starters to perform. Is there anything wrong with that scenario? So why do we take something that works so well in athletics and not use it in our businesses? After all, how many of you have a bench in your organization?

Now wait, some of you have stopped reading because you think how can we afford a bench of people sitting there? I would suggest that you can develop a bench and not have it cost you a dime. Start a list of people that you think would fit your company. Hopefully most of them will be employed and will be doing a good job. Next, meet that person and tell them that you are not hiring right now, but you would like to just keep their name on file. Now comes the horsepower. Call that person every month and just chat for a few minutes. I guarantee that you will start that employee thinking more and more about you. So when the time comes, pull out your file and start

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making calls. A number of those that you have maintained regular contact with will be ready to sit down and discuss working for you.

Recruiting needs to be constant and needs to be done throughout the organization. There are a number of benefits to this. The first and foremost is that you will always be looking at people who are already employed. While I don't want to suggest that unemployed people are bad, there must always be the question of why they are unemployed. Therefore, I suggest you add the following to your organization:

1. A disciplined method of looking for good candidates who are presently employed
2. A data base that keeps track of the candidates
3. A follow-up process that will ensure that you maintain contact with good candidates.
4. An incentive referral bonus to your existing employees for bringing people into the organization whether they are presently employed or not.

**Branded Products –**

We are convinced that one of the key elements of our success at Parliment can be attributed to our alignment with high quality branded products. Your customers are dealing with two primary issues: material acquisition; and labor deployment. While material acquisition is not easy, it is clearly the less dominate piece of their business model. The dominate portion and the portion that causes the most frustration is the labor side of construction. When a contractor does not utilize his labor properly, he loses money and conversely when the labor is properly deployed, he makes money.

So why should the contractor take a chance on untested or inferior products when product failure could cause additional labor deployment? The risk gained by saving a penny here or a nickel there is not worth it. Your job is to help your customer build his product to his quality standards at the lowest cost. Never stop pointing out to your customers that the lowest cost is made up of a small amount of material cost and a large amount of labor.

Some branded products we have and their corresponding labor benefits would be:

ProCell Decking – lighter weight, easier to install, no counter sinking, screws can be reversed if needed, never needs to be replaced  
Muro Screw Guns – larger ammunition capacity with fewer changes  
Durock – Clean installation with no little balls to pick up  
Simpson – Architecturally specified  
Weslock – All metal parts, easy to install  
Sharkskin and Titanium – Lighter and faster to lay than felt  
Window Wrap and Peel n Seal – Minimizes caulking time and expense  
Green Guard – Prevention of future repairs due to wrap failure  
Steeltex – Less material necessary for forming requirements

Are your salespeople conveying the importance of this to your customer?

For comments or questions on any of the topics addressed in this newsletter, please don't hesitate to contact us at 866-387-7601