

# Parliment "ONE PAGE"

## 2004 – THE YEAR OF THE PRICE INCREASE      Q2-2004

As we mentioned in last quarter's newsletter, the year 2004 was going to be a tumultuous year in product pricing and availability. Unfortunately, our projections have been correct and then some. First some background...



### What is going on in China

For those of us in the construction industry, let me give you two unbelievable statistics from 2003. The good ole' US of A last year consumed slightly over 9 million metric tons on steel rebar. Not a bad year and on par with previous years. However, the projection for 2004, with the increased activity in housing and commercial construction (finally) is that we will need about 14 – 16% more. Doesn't sound too unreasonable. However, as the same time we need that, let's understand that in 2003 China consumed over 45 million metric tons of rebar. That's 5 times the construction activity of our whole country. We also are now learning that the China economy grew at an astounding 19% last year. The Chinese government has been trying to keep that number under wraps because they are afraid of the world economic ramifications. All year long they were claiming a growth of 7%-8%. No one knows what they intend to consume in 2004 but it is reasonable to assume that it will be substantially more than in 2003.

As further proof of this level of consumption, we are also now learning that China grabbed over 35% of world's cement production. Put all of this together and it is easy to see that China will continue to consume more and more of the construction materials and resources.

There are also some signs that the economy in India is about to go on a phenomenal construction boom. Between China and India you have two countries that have a combined 27% of the world's population who are all thinking of moving into the consumptive stages of middle class. Think of the tremendous amounts of construction and other raw materials that will be consumed by a factor that did not really exist less than a decade ago.



### Product Allocations

Virtually every one of the products we are selling are either in allocation status from the manufacturers or, at the very least, in short supply. This situation has far reaching consequences. Most distributors, such as us, have traditionally purchased a large part of their product from overseas sources, primarily China. Now with China using most of their own productions internally, see above, the distributors that used to purchase their product are now forced to find other sources. This has put an unbelievable pressure onto primarily the American producers. Every manufacturer we talk to is either working 24/7 or working to the capacity of the availability of raw materials.

The American producers now have to try to fill a steadily growing demand from their previous customers while at the same time being deluged with all of the prior import buyers who now are begging for American product. Something has to give. The result: most American suppliers are giving their previous loyal customers the lion share of their production and giving the import buyers whatever they can spare. Fortunately, Parliment never was big into the imports and instead developed very good relations with the American manufacturers. While we are limited to some extent in our supply, we have been allocated enough to take care of our existing business plus a small amount for growth.

## **Price Increases**

This is the place in the letter where we generally tell you of specific price increases. Unfortunately, we don't have the space to tell you everything and it would not be meaningful information. Here are the facts: For many products today, there does not appear to be any set price schedule that will last out the week. We have major suppliers telling us of weekly or bi-weekly increases. We have other producers telling us that they will quote no price until we have taken delivery of the product. In over 30 years of business, we have never seen a situation like this. Let me give you an example. Steel rebar has had over a 68% increase in price in the last 60 days. They have announced 3 more price increases to take effect within the next 45 days. While they are telling us how much the increase is expected to be, we have seen that no projection in the past has been correct and we must just wait for the day of the increase to see how much it is. We saw one supplier of pipe increase his price on the same load over 40% within 8 weeks. Mind you – that is the same load of pipe. His cost did not go up one penny.

There is some gouging going on, some unscrupulous practices, and a mad frenzy to grab whatever one can get.



## **How do you protect yourself**

We have five very specific suggestions. These are the same suggestions we are following in the operation of our business.

1. Take care of your loyal customers. You probably will not be able to receive enough product to do much else.
2. Never give firm price quotes that extend beyond your inventory or one week, whichever is shorter.
3. Increase your pricing at least every two weeks. You should always be looking at replacement cost and just not your average inventory cost.
4. Exercise patience and proper attitude with your customers and suppliers. There will many times in the next few months when you are going to hear or have to tell a good customer that you don't have a product and don't know when you will get it. This will cause some temper flare-ups. Train your people to be cool and give them the information necessary to defuse these difficult times.
5. Do a better job of anticipating inventory needs. Our salespeople will help you with that.

One of the biggest ironies of this situation is that we will see some companies go out of business in a boom time. The reasons: they didn't follow the above rules.

## **How long will this last?**

Our projections are that this situation will last at least into the 4<sup>th</sup> quarter of 2004. It could last a lot longer. While we believe the China situation is here to stay for many years, we also believe they cannot sustain the rate of growth they are currently experiencing. We think there will be a temporary shift in the market and prices will level. We think this will be short term and will not happen before fall. Therefore, despite all of the shortages, we believe there will be a short window when prices level. The problem will be anticipating when it will occur and for how long it will be sustained.

### **Are there some opportunities?** ?

The limited supply is going to keep most everyone from being able to “hoard” product and make money off of speculation. You can rest assured that everyone is feeling the same pinch. You will have competitors claim they can deliver only to have your customer bitterly disappointed to learn later that the commitment can be fulfilled.

We are also noticing that the producers are starting to back away from their commitments to the big box boys. The manufacturers are concerned about placing all of their limited production in the hands of so few. So we predict that you will see big shortages on the big box shelves. This will give you the opportunity to solidify relationships that may have been shaky and remind your customers of the importance of loyalty and long-standing service relationships.

### **Does this apply only to steel products?**

There is no question that the steel products are what are under the most pressure. This is caused not only by the consumption but also from production. Environmentalists have, over the years, successfully stopped the production of new ore mines. Combine that with an increasing price and shortages of scrap steel and you now have raw production material shortages. Furthermore, there has been little production of new manufacturing facilities because of the shortage of materials and the incredible cost of putting a production facility on line.

However, steel is not the only product that is causing problems. The price of oil is continuing to rise and it is expected that there will be no slowdown in this rate of increase. The weak dollar is not helping the situation either. Therefore, fuel derivative products, such as poly and plastics, are also starting to move up. While not as dramatic as the steel products, we foresee a long gradual increasing of price in those areas.

### **Specific product news**

The disastrous and almost comical situation with pressure treated wood products is starting to play out. It appears the winner will be borate lumber. OOPs, hold on a minute. While borate seems to be the answer to the connector problems, we are now hearing that there is not the supply of that product that everyone thought and lumber yards are not receiving the quantity they need to fill their demand. So we are right back in the pickle - Same ole problems in the connector world. No one has it figured out yet, but we will keep you posted as it develops.

A word of caution – There is no such thing as a hot dipped collated nail. Some are claiming to have one, but it is not a fact. Hot dipped cannot be collated in the first place and even if it could, it would jam the gun because of the dimensional irregularity. Hence there will be an increase in stainless collated nails and hand driven nails.

We are extremely pleased to announce that we have been appointed the exclusive Weslock distributor for our market area. Weslock has been known for years as a premier contractor lock. Several years ago, the company went through a series of acquisitions that literally destroyed the company and their customer base. They have reorganized, resold and now have a focus that excites us. This is another example of our dedication to handle premier branded products. We will keep you posted as this relationship develops.

### **This is the time to call upon resources**

With very few exceptions, most of our customer base has never lived through a situation similar to what we are now experiencing. Let's not be too proud to seek the advice and counsel of others. Whether it is your CPA, local business advisor or some of the consulting expertise that we have at Parliment, pick up the phone and review your ideas.