

# THE PARLIMENT PAGES

June, 2004

## ECONOMIC AND MARKET NEWS

**Overall Economic News** – If people truly vote their pocket book, George Bush will be a shoo-in come November. Consumer spending reached a 48 year high last month. Consumer confidence is at its highest level in years. The purchasing manager index is at its highest level in over 20 years. Inventories are very low for the level of consumption and the expectation is there will be considerable ordering of consumer products to stock the shelves. All of the indicators point to a sustained and strong recovery that will be coming into full bloom by election day.

**Interest Rates**– I recently had a conversation with one of the largest residential mortgage lenders in the SE USA. He obviously has a critical business interest in mortgage rates. Since he is continually buying future positions, he must be accurate in predictions in order to even stay in business. He believes that, barring a disastrous 9/11 type event, mortgage demand will remain at present levels. He believes the residential lending market will not adversely react to  $\frac{1}{4}$  and  $\frac{1}{2}$  point prime rate increases since the mortgage rates have already risen, driven by the increase in the bond market. A further increase in the short-term prime rate will have virtually no effect on long-term mortgage rates. He further sees all indications that the Fed will do whatever is necessary to keep increases in that moderate range so as to avoid spooking the market. That is one major indication that our businesses should remain strong for at least the next 12 months.

**Fuel Prices** – In our September, 03 newsletter, we predicted that fuel prices would reach record levels and stay there. Once again, we were right on target. What is amazing to us, however, is that there appears to be little distress over this fact. It seems that the population has just accepted this as the norm going forward. I am glad they have, because there is no indication whatsoever that fuel prices are going to substantially decrease. There is just too much demand and too little production. As the third world continues to develop, the demand will increase even further. While we may be in for a short-term price drop of a few cents, the long-term outlook is that gasoline will hover around \$1.90 to \$2.00 per gallon. What will be the impact of this? It will have a direct effect on petrochemical based products such as poly and any plastic derivative. It may slow some consumer spending somewhat and it will definitely add some cost to doing business. However, we believe we will dodge the major bullet as it has not injected fear into the economy. You know that consumers spend based upon how they feel. If consumers panicked over this fuel prices, and quit buying, we could have a whole different economy on our hands. As of now however, everyone seems cool.

**Housing Starts** – The last page of this newsletter is dedicated to a county by county study of new residential building permits. This is invaluable information as it gives you an idea of the activity in your market counties. It should be interesting to see if your sales increases are tracking consistent with the percentage increases in the market. We have seen an almost 30% increase in housing activity in the past 14 months. If your sales aren't up at least that, you should be asking yourself "why."

The good news continues to get better. Not only are we projected for another record year in housing construction, but the dreaded downturn does not appear that it is going to be severe for your market area. In fact, the most pessimistic are now projecting that the worst we will see will be a leveling off of present activity. Any downturn in the next 12 months will be insignificant. Beyond that, we believe our geographic location will keep us much stronger than the rest of the country.

**Cement Shortages** – It seems if it is not one thing, it will be another. There has been a severe cement shortage not just in the US but worldwide. China is gobbling up 50% of the world's production, leaving little for the rest of us to divide up. Couple that with an incredibly dry spring, and the local redi-mix yards are running out of product. Several of the large yards are actually closing one day per week to allocate their product. This is a short-term situation that will be cleared up by some rain that will delay some pours, and the increase in product availability which will start to hit in July. We do not see this as an ongoing threat.

## **PRODUCT PRICING**

**Long-term pricing trends** – At the end of last year we predicted that *2004 would be the year of the price increase*. Everyone now knows how prophetic that comment was. The good news is that there seems to be a leveling off. This present price stability is caused by: (a) A decrease in the pricing of scrap steel; (b) Increased sources of supply; (c) A small decrease in consumption by China. Unfortunately (a) and (c) are likely to reverse by the fourth quarter. When this happens *we will see another shot of price increases*. I don't think they will be as severe as what we have just experienced, but they will be with us for some time.

**Short-term pricing trends** – *There does not appear to be any indication that we will get a short-term price reduction*. Price reductions are generally caused by a build-up in inventories and the corresponding need to dump excesses. Because of the volatility of the past pricing and the shortages of materials, there has not been the inclination or the ability to build inventories. Therefore, we seem to have reached a point of equilibrium where supply is pretty close to demand. Therefore, we don't think you have to worry about being stuck with inventory with a sudden drop in market price.

## **INFLATION**

There are numerous indications that we will be entering an era of inflation that will probably last at least 20 years. There is no need to worry at this point about hyper inflation such as was experienced in the 70's. However, *inflation is something very few of us have lived with and therefore may not be prepared to make the necessary business decisions* that are consistent with that economic event. Some things you should look at: 1. Borrow as much fixed term financing as you can get; 2. Convert all variable rate loans to fixed rate; 3. Make all possible capital expenditures; 4. Purchase real estate

## **VALUE-ADDED DIFFERENTIATION**

Let's face it. By and large all of us are providing a commodity product. In order to compete in that type of world, we must add value to the transaction. A little over a year ago, we decided to add value to our customers, you, by offering quarterly meetings where we can help you improve your business. We have brought in a series of speakers from around the country to discuss specific topics that we know will be of interest to you.

Another of our predictions is that in a couple of years or less, *we all will be facing an employment crisis that will be far worse than what we went through a couple of years ago*. Let's face the facts, there will be too many of certain types of jobs available for too few applicants. We will all be scrambling to hire and retain the best employees. To help you prepare for this inevitability we are bringing in one of the nation's foremost experts in the demographics of the future workforce. She will be talking to you about *the necessities of creative recruiting and employee retention*.

Enclosed in this newsletter is an invitation for you to attend this session on Wednesday, July 21. We structure it very much as a workshop so there is plenty of opportunity for discussion and specific questions. As an added bonus, we are allowing each of you to bring a couple of your customers. This will give you the opportunity to spend some time with your most important customers and deliver a differentiated value added services to them. *Since we do have limited seating, please look over the invitation and RSVP right away.*

## **DO YOU KNOW YOUR BRAND?**

A couple of months ago, we brought in an expert on branding to talk to our customers. It was one of the most impactful presentations I have ever seen. He opened our eyes to the fact that a brand is far more than a label on a product. Instead, each of our companies can become a brand on to itself. *Understanding the specifics of the brand of your company is a very foundation block of your business model*. Once you understand your brand, you must develop the strategies and practices that support that brand and *deliver the brand's message at each and every touch point in the company*.

A brand creates an impression. Take for example some of the following brands: Southwest Airlines, Disney, Rubbermaid, Maytag, Nordstroms, Outback Steak House. Note that all of these companies offer different

products and yet we have an impression of what those products will deliver us just based on the name of the company.

For example, we have come to realize that one of the most important impressions of the Parliment Brand is the "ease of doing business with us and the level of inventory support we offer." We realized this after talking with many of our customers. Once we realized that brand impression, we began ensuring that that message is embedded in our internal and external points of touch. Do you know the impressions of your brand and are you consistently delivering that promise to your customers and employees?

If you need any assistance on this, let us know and we will gladly sit with you and discuss how we went through the process.

**Here is a simple branding opportunity –**

We have a large number of our customers who are beginning to realize the benefits of private labeling. The big boys do it and manage to actively promote their brand through it. We are seeing one of the biggest and easiest opportunities is for private labeling of house wrap. We can get your house wrap printed with either your name or even your customers name. Think of the brand recognition you build when that wrap with your name is installed and is visible for a couple of days. Think of how you can tie your customers to you if you offer them a private labeled product. The good news is aside from a nominal set-up charge, there is no additional cost to the product.

**SPECIFIC PRODUCT NEWS**

**Weslock** – We are delighted to formally announce that we have been appointed the exclusive distributor for Weslock. Many of you will recognize this name from days past when it was the premier door latch and lock company around. Unfortunately, through a series of buys and sells of the company, Weslock achieved new lows. They burned a lot of people in the market place and lost most of what they had achieved in reputation. Well, the good news is there are finally a group of responsible owners who are doing the right thing. These owners are former big time home builders who understand the business from the users point of view.

We have been looking at the product for many months and recently decided to pull the trigger and take on the line. We were influenced by the following factors:

- It is a superb quality product with modern design features;
- It is priced competitively;
- The product is easier to install than the competitors;
- Lead times on orders are about ½ of the others;
- The products are not offered in the big box stores so that you don't have the down-the-street price competition;
- They have a matching accessory line that allows you to match up towel bars, bathroom hardware and soon even hinges and other hardware items. This will give you a strong design advantage;
- They offer all of the various rebate programs to the builder to incent their buying decisions;
- They will call directly on the builder on your behalf to promote the product and offer special project incentives;
- And the best of all is that Parliment will stock the product to the extent necessary to give you the inventory support that you expect from us.

This is a winner all around and we see this as one of the most important product decisions we have ever made.

**Pressure treated products** – Thanks to Borate Lumber. The use of Borate products has minimized the impact of the connector and fastener problem with ACQ treated lumber. However, while this has helped with the interior construction, Borate is not a product that can be used in the weather. Therefore, the problem still exists with such structures as decks and such. We are seeing a dramatic increase in the composite decking products such as Rhino Deck. We are also see huge increases in the use of stainless hardware. Remember, you can't sell it if you don't stock and promote it.

**Simpson Strong-Tie** – Simpson has announced an 8% price increase on connectors and a 13% increase in nails. This price increase will be effective for all orders shipped after July 15. You know you are going to use, buy it now.