

# THE PARLIMENT PAGES

*April, 2017*

## A LITTLE POLITICAL OVERVIEW -

Whatever your political persuasion, it is very sad to see the polarization that is now taking place in this country. TV journalism has turned into nothing but paid political commentary. I think a result of this is that, I fear, there is no place where we can now go to get legitimate news that is not colored and slanted by a network or reporter's interest. If we cannot trust our news sources, we will continue to be ill-informed.

In my almost 70 years on this planet, I cannot believe the venom and hatred that is now engulfing this country. There is absolutely no desire to compromise or lead but is instead an atmosphere of "winner takes all." Even in the darkest days of the 1960s there was a genuine interest in our political leaders bringing people together instead of creating the vast chasm that now exists between the two political parties.

The staunch right and left have picked their positions and are uncompromisingly unwavering in their desire to move to the center. The center is becoming a bigger factor but has also become an enigma. Recent polls show Trump's approval rating at a very low 37%. However, one must question whether the poll itself is legitimate. Remember, these same pollsters are the ones that predicted an easy victory for Hillary. In addition, you need to question whether or not the pollster's themselves have an agenda they are trying to promote.

In addition, I think we now have a group coming into play that Richard Nixon once called the silent majority. These are the people who got Trump elected. These are the people that typically sit in the middle of the political spectrum and historically have always been the ones that can swing an election in one direction or the other. Recent history has shown they are hesitant to publically voice their support for Trump and yet did not hesitate to pull the election lever for him. One must ask if this segment of the population was even included in the pollster's data and if so, were they honest in the answers?

## EVIDENCE -

Consumer confidence, as measured by the University of Michigan, is at its highest level since 2005. Business leader's confidence is also at its highest level since 2008. Where does this rising level of confidence come from if it is not from a populace that has confidence in the nation's leadership and direction? How does this support a 37% approval rating? Something just doesn't add up.

The stock market has gained over 8% since the election. This gain is the largest gain in such a period since 2004. Mergers and acquisitions are setting records in number and volume. Initial public offerings have exceeded those for similar periods since 2008. Wages are rising and people are spending. The wealthy and the middle class control our economy and those two

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**3031 Westside Blvd. Jacksonville, FL 32209**

**Ph. # 904-387-8444 Toll Free – 866-387-7601 fax 904-387-8465**

**[www.parlimentbuildingproducts.com](http://www.parlimentbuildingproducts.com)**

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classes are once again feeling good and continuing to spend. Does all of this sound supportive of a 37% approval rating? I wonder if the pollsters forgot to contact these people.

**THE TRUMP EFFECT -**

One thing that can be said for certain is that Trump is doing exactly what he said he would do in his campaign. It has probably been generations since we had a President actually do what he promised.

In the days following the election, the world leaders and the world economy watched closely to see if Trump was going to remain true to his word. Within the first 10 days in office, it became clear that Trump was 100% behind the “America First” theme. As soon as this realization settled in, we began to see concrete evidence of a change in behavior from overseas.

Our prices on all imported products started to rise and have continued to rise since. While we had been predicting price increases, we thought it would be more in selected products. Instead, we are seeing broad based price increases in all foreign goods. The more we look and the more we talk and analyze, we believe these price increases are being driven by the desire to take preemptive action hoping to thwart import duties or tariffs. We believe the hope is that if the import prices gain parity with domestically produced prices, there will be less punitive desire to slap duties on those products. Even if they are unable to stop the duty in its entirety, there is hope the duty will be an insignificant amount that is meant more as a political statement than an economic punitive action.

On another front, the jury is still out on two big questions that are of paramount importance to business leaders - Affordable Health Care Act and Corporate/Personal Income Taxes. The one conclusion that we can draw already is that the direction of both of these will result in lower taxes. Already the health care debate is stripping out many of the hidden taxes that were buried in the detail. Trump has made it abundantly clear that he will lower corporate taxes to make us more competitive in the overseas markets. Any time money is shifted from the government coffers back into the private enterprise system, it benefits the economy.

We have also seen immediate action towards lessening of regulation. Major industries such as power, pharma’s, tech, and farming have already had significant regulatory hurdles removed. Trump has also demanded of his cabinet that for every new regulation created, two old ones must go. The reduction of regulations could conceivably throw an extra \$1 trillion into the free market economy.

In all, we believe there are legitimate reasons behind this surge in confidence regardless of what the pollsters say.

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**SINGLE FAMILY HOUSING -**

As we predicted in our annual issue, single family housing is on a tear. There is the organic growth that we foresaw and there is also a huge segment of growth coming from the slow-down in multi-family projects. We believe starts will be around 1.1 million to 1.2 million for the year. However, we are shifting the composition of those starts more heavily into single family and away from multi-family. That will be quite significant in our industry because of the differences in square foot per unit and square foot construction cost. Hang onto your hats because we think the balance of the year is going to be gang busters.

**INTEREST RATES -**

Rates increased last month and guidance was issued that there will likely be three more increases in 2017. Remember, these same people promised four raises in 2016 and yet only delivered one. We think 2017 will probably see two increases of a quarter point each. Most of these increases have already been priced into the market so we do not see any appreciable impact on housing. While increasing inflation and improved job markets would put pressure for bigger increases, it just is not politically feasible.

The USA presently collects about \$2 trillion per year in revenue. In 2016, approximate interest costs of the country's debt was \$400 billion or roughly 25% of the collected revenues. (Note collected revenues are not the same as the budget because we overspend our collected revenues by about \$1 trillion per year.)

If the Federal Reserve were to increase interest rates by 1%, the interest bill would be about \$600 billion. If the rates were to go up by 3%, interest cost alone would account for 60% of collected revenues and would basically shut down the country's ability to operate. For this reason alone, you should not expect any significant rate increases for a number of years.

**PRODUCT AVAILABILITY -**

After a couple of years of relative stagnation in pricing, we are seeing firm evidence of rising prices and future product shortages. One of the key success models at Parliment has always been to correctly anticipate inventory needs of our customers. As we have said so often, if you have a customer that has to go to one of your competitors because you are out-of-stock, you face the possibility of totally losing that customer, maybe forever. That is why our fill rate consistently beats our competition.

Knowing that we are going to be facing product shortages, we have increased our inventory by over 25%. That is an extraordinary and unprecedented decision on our part and it is driven by our firm belief in future shortages and increased business improvement.

With these shortages will also come price increases because of the simple economic law of supply and demand. Pay close attention to your inventories and don't be afraid of a little overstock situation as it will be temporary and will give you a cushion to protect your customer base.

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**INDUSTRY CONSOLIDATION -**

For many years, we have been talking about the consolidation that has been taking place at the dealer, distributor and manufacturing levels. Most of that consolidation was being driven by similar companies gobbling each other up in attempts to increase market share and reduce overhead expenses.

However, suddenly there is appearing a new class of buyers. These are the private equity guys who have recently shown a high level of interest in our business segment. Their arrival signals a couple of meaningful conclusions. First, anytime there is more money attracted to a business segment that business segment valuations will rise. After years of seeing the values of our companies fall, we are now on the cusp of seeing some significant increases. Secondly, these private equity and hedge fund guys are very diligent in their investments. They first will examine any one of several dozen different segments before selecting the ones most attractive. Once they have selected a segment, they tend to jump in with both feet.

They don't select a segment unless they see a growth pattern that will likely last about 5 years as that is typically the time they will want to exit and move to something else. So, while this is not a sure thing, it is clear that a lot of very smart people are now seeing a pretty clear growth path for the next 5 or so years.

**NEW PRODUCT -**

At the most recent STAFDA show in Atlanta, we found our newest product addition. It is the well branded and well known line of wedge anchors Toggler/Wej-it. We are certain you have all heard this brand and we are proud to say that we are full line distributors. The products come in zinc finish, HDG (not mechanically galvanized) with a stainless clip, and of course stainless steel. Ask your Parliment sales rep for more details.

Our packaged nail business continues to grow exponentially. We are proud of the market share we have captured and are serious about future growth. If you are not already using our packaged nail program, give us a chance to explain how it works. We have the ability to private label upon your request.

Another growth area has been in painted, galvanized, and punched angle iron. This is a value add that we have found the builder's really appreciate as it is one less task they need to perform or pay for. The more labor you can save the builder, the bigger friend he will become.

**CONCLUSION -**

We are clearly in the most interesting period of our country over the past 75 years. We are at a tipping point that could launch into another extended period of unprecedented prosperity.

Stay cool, stay current and most importantly stay nimble.