

THE PARLIMENT PAGES

JANUARY, 2018

ANNUAL PREDICTION TIME -

Based on our feedback, this is THE issue that everyone really looks forward to, probably because of our great success in predicting the trends for the coming year. This past year of 2017 was definitely an interesting year and a year that could be a prelude for a volatile and prosperous 2018.

POLITICAL DIVIDE -

I would like you for a moment to think of dividing the country into three political categories. One would be the Conservative Republican, another would be the Liberal Democrat while the third would be the Centrist. In the year 2000, approximately 22% of the population described themselves as Conservative Republican while 26% labeled themselves Liberal Democrats. That left 52% of the population either not knowing who they were or more likely saying they were Centrists.

Today, the population of Conservative Republicans have skyrocketed to 42% while at the same time those calling themselves Liberal Democrats has also climbed to 44%. That leaves only 14% of the population in the middle category of Centrists.

Why is this relevant one might ask? Legislative and fiscal policy is a dirty game. I am sure you have all heard that there are two things you don't want to see - the making of sausage and the legislative process. Legislation and policy are determined by compromise. And that compromise typically will come from swaying the Centrist group to one way of thinking. When that Centrist group represented over 50% of the population, that meant there were a lot of opportunities to find enough willing to compromise to agree on a policy.

As this Centrist group has dramatically shrunk, it is becoming increasingly difficult to find the necessary support to reach necessary compromises. As a result, this country has become so polarized that it is becoming progressively more and more problematic in getting things done. Legislative agendas have stalled, (health care reform, immigration, welfare reform), important political appointments are not being made and/or confirmed. The bureaucracies are in chaos as no one really understands the likelihood of any consistent future vision or strategy.

In short, this country has not experienced this level of division in over 150 years. How bad is it? After all, there are many, myself included, who believe that maybe the best thing for our country is gridlock because historically no matter what the government did, it was botched. Keeping them in check may even be a good thing. (That brings to mind one of my favorite bumper stickers that said, "Thank God That We Are Not Getting All of the Government We Are Paying For.")

However, whether that is true or not is a matter subject to debate. One must clearly understand that this division has created a sense of anger in the populace that has not been seen for generations, if ever. This anger, by itself may be relatively benign. However, combined with the following...

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BUBBLES, POLITICAL, AND NATIONAL SECURITY -

In the last couple of weeks, it has been almost impossible to miss the news on the Bitcoin story. The value of Bitcoin had soared by late December to \$18,000 in one year. The stock market has increased over 20% in one year. Individual valuations of stocks have reached record highs. The money supply has increased exponentially over traditional balances of just a few years ago. Housing values are up higher than before the last great crash. There can be no doubt that Greenspan's once famous comment, "A period of irrational exuberance" may well be manifesting itself today.

There are presently in the world, over a dozen serious attempts at secession from the mother country. Even California tried to pave the way for a vote on leaving the United States. Political dissatisfaction is at its highest with political leaders being judged with the lowest approval ratings on record.

Meanwhile, "rocket man" in Korea is making what is becoming a realistic threat at nuclear war. Much of the country has lost faith in the FBI and the Pentagon is being seen as a weakling that doesn't have a clue how to successfully win any foreign conflict. We are all awaiting the next significant terrorist event on our shores and realize we are somewhat powerless to stop it.

THE POTENTIAL POWDER KEG OF 2018 -

Few can help but wonder how the combination of these factors can and will work together in 2018. Perhaps none of them will explode or burst. Maybe only one will come to fruition and we will soldier our way through. However, the combination of anger, financial bubbles, political chaos and national security is a true witches brew.

Not a single one of us can control any of this. What we can do is keep our eyes wide open and operate our businesses in a safe and conservative manner that will best protect us from the negative consequences of any of these events.

2018 INTEREST RATES -

Much has been written lately about the likelihood of further interest rate increases in 2018. In the past, the Federal Reserve has projected these increases and we have basically ignored them. The economy was not growing, there was no inflation and wage growth was stagnant. Any type of increase in interest rates could actually work negatively and therefore we discounted the Fed's posturing.

However, the situation is clearly reversing. The economy is now growing at a rapid pace, a pace in fact higher than anything in almost 20 years. While there still is no sign of real inflation, wage growth and employment are both strong. We will see at least three if not more interest rate increases in 2018.

A lot of critics are predicting doom for the housing industry if these rate increases take effect. We believe those alarm bells are not valid. First, these increases are already being priced into long-term mortgage instruments. Secondly, and we believe most importantly, people do not buy houses based upon a mortgage interest rate. In my lifetime, I have owned seven houses. Each of those purchases were made because of lifestyle decisions. Either I moved to a new location or decided to upgrade to a bigger house. In none of those instances did the then current mortgage interest rate drive a decision to buy or not.

True, it may have impacted the size of the house due to affordability issues, but it clearly did not weigh into the decision on whether to buy or not. Therefore, we do not think that rising interest rates will weigh on the number of homes bought.

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AFFORDABILITY -

While we are quite certain that interest rates will not affect the number of housing starts, we do believe overall affordability will be impacted. In previous editions of this newsletter we have talked about the impact of student loans, employment opportunities, and increased credit scrutiny. These factors are forcing homeowners into smaller and more affordable units. And with that background, here are our projections for 2018...

2018 HOUSING PROJECTIONS -

Our predictions last year called for 900,000 single family housing starts. It looks like the final tally will be right at 930,000. We said multi-family would come in around 400,000 and the actual number is 380,000. We believe the accuracy of that projection plus our bullseyes from prior years deserve a toot of the horn.

In 2018, we continue to see a shift from multi-family to single family, reversing the trends of a few years ago. However, overall, we do see housing slowing down a bit as the demographics are not working in our favor. We believe multi-family will drop to around 350,000 units. Single family will increase to a 950,000 number. However, the size of the single-family home will continue to decrease due to affordability and demographic changes.

GOAL SETTING -

I am certain that over the years you have heard of or read the studies that show the power of goal setting. And you also know this is the time of year that most people will set about that arduous task. Over the years I have found myself gravitating towards being goal oriented, to goal driven to now, goal obsessed. My wife asked me one day what my obsession with attainment of goals was all about.

It was after that question that I began to realize that what had started out as a “check the box assignment” had indeed progressed to an obsession. Of course, I needed to figure out why that progression had taken place.

Over the years, I have worked with numerous entrepreneurial owners. Probably 20 - 25 years ago, I discovered that much of the frustrations of growth and improvement experienced by business owners was due to a lack of focus. Accordingly, we began to work together to identify the most important priorities and to develop laser like focus on those priorities. Bingo, instead of having multiple pages of goals and action items, we reduced the business plan and goals to a simple one-page document. We found that one page document resulted in that focus that was needed. We also discovered that it was easier to communicate to others, developed consistent management and leadership, and showed significant progress by year-end.

Since that time, we have made minor revisions and refinements, but the concept of a one-page business plan coupled with a one-page personal plan continues to be the foundation of the annual planning and goal setting exercise. For years now, I have been able to look at not just mine, but also my clients and my friends to see that achievement of those goals averages around 90%. With that type of success, is there any question as to why I would be obsessed with this tool?

Do yourself and your business a big favor in 2018. Write down the 3 - 5 most important goals for your business and your personal life. Do not exceed 5. Communicate those business goals with your employees and those personal goals with your family. Keep that sheet on your desk or taped to your refrigerator and this time next year you will see that you have accomplished everything on that list. At that point, you will understand how easy it is to become obsessed with goal setting.

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MACRO TRENDS -

During the year, we make certain that our newsletter issues are directed at tactical and practical questions that our industry faces. However, once a year, we try to look at the bigger picture because, after all, it is the big picture that we live in. I once argued heatedly to a well renowned national economist when he was predicting dire straits for one of my other companies. I remember I said to him, “You don’t understand. I am in a unique business and after all, I am also in Florida.” Well, it wasn’t long before the national macro trends completely obliterated my local argument. What are these national macro trends?

First, “fewer, stronger companies” is the ethos being uttered by almost every industry. This is driven by:

- A demographical crisis of entrepreneurial baby boomer business owners who are nearing the point of selling their businesses.
- Customers and business practices are demanding more sophistication from personnel and technology interfacing. Investments in these are expensive and need to be spread over larger revenue companies.
- Today’s workforce is uncertain of their future working for a small entrepreneurial company. Instead they are looking for the career development and advancement that is more likely found in big organizations.

All of this has been and will on an increasingly rapid level lead to more consolidations.

STEEL -

Speaking of consolidation, a significant merger in the steel industry took place at the beginning of 2018. This merger effectively reduced the major players from three to two. Not unexpectedly, just days after the merger, large price increases were announced along with customer allocation formulas. This couldn’t be happening at a worse time for steel rebar.

The infrastructure bill which is a key component of the Trump administration is making its way through committees and will likely come to a vote shortly. Since it will benefit most everyone, it is expected to have broad bi-partisan appeal. The sheer volume of the construction is mind boggling and will consume massive amounts of building materials, especially domestic steel and concrete.

We expect this to drive major shortages during 2018 and will result in increasing price pressures. Not only will it be difficult to get, but it will be expensive. Hedging on a major steel buy now will probably turn out to be a wise investment.

PARLIMENT MOVES -

After ten great years at our North Jacksonville location, we have moved to new and better facilities on the Southside. Moving millions of dollars of product and thousands of SKUs has been a monumental task. What made it even more difficult was our determination to not let the move interfere with our brand mission of reliability to our customers. As a result, everyone in the company has been working tirelessly to make this transition as smooth as possible. We sincerely hope you will have an opportunity to visit us at our new facility.