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IN CONSTRUCTION SUPPLY

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Greg Brooks, editor | 303 845 4880

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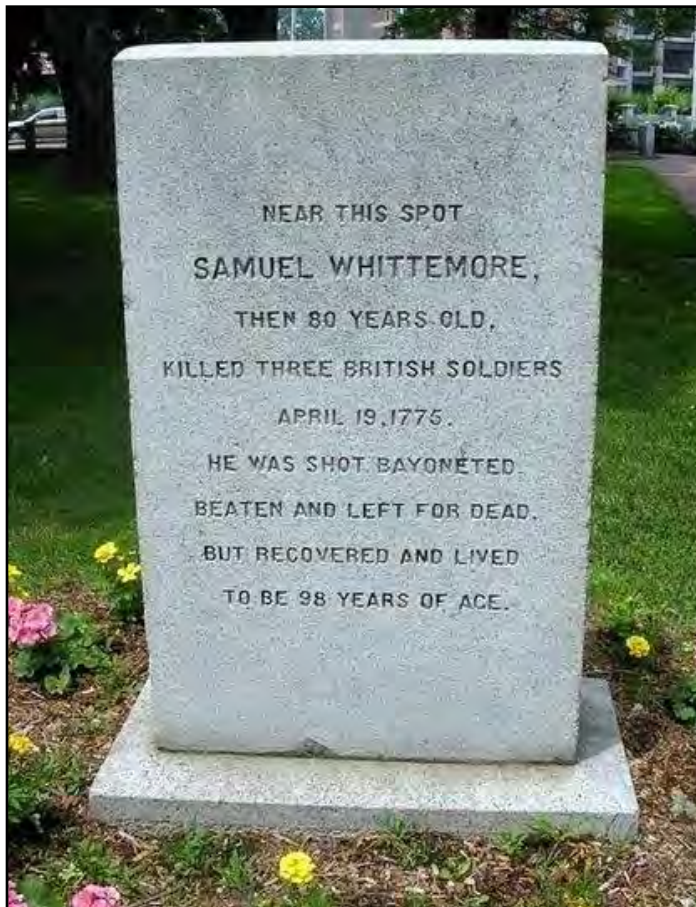


THIS MONTH

IN CONSTRUCTION SUPPLY

DEC 2011

TOUGH ENOUGH



By Greg Brooks. You know it's a lean year when everyone gets the same Christmas present, but no one who has anything to do with housing will mind: 2011 is almost over and that's as good a present as we could ask for.

Certainly the National Association of Realtors is ready for the new year. NAR just acknowledged that its monthly existing home sales reports have been [inadvertently overstated](#) for years now [by about 15%](#). NAR has published revised sales data from 2007 forward, and insists [the revisions don't affect](#) median home prices or unsold inventory.

Time's headline summed up the reaction of the mainstream media: "Housing Downturn Was Worse Than We Thought." Maybe worse than *you* thought.

It's a safe bet Builders FirstSource won't mind seeing this year end, either. 2011 was supposed to be the year housing bounced back. It didn't, and after losing [\\$375 million](#) (pretax) from 2007 through 2010, the company lost another [\\$46 million](#) in the first three quarters of 2011.

In early December, BFS took out a [\\$160 million loan](#) "secured by a first lien on substantially all of the Company's assets." CEO Floyd Sherman said the deal "positions us to take full advantage of the expected recovery in housing."

No doubt the recovery will come. The question is whether it'll come quickly enough.

But nobody – guaranteed, nobody – will be happier to put 2011 in the rear-view mirror than big box retailer Lowe's. It all began innocently enough when Lowe's,

along with a dozen-odd other companies, bought ad time on a reality show called *ALL-American Muslim*.

The falafel hit the fan when the [Florida Family Association](#) (FFA) decided that televising the daily lives of middle-class Muslims from Dearborn, Mich. was propaganda designed “to manipulate Americans into ignoring the threat of jihad.” FFA called for a boycott of the show’s advertisers, which caused Lowe’s to promptly [cancel its ads](#).

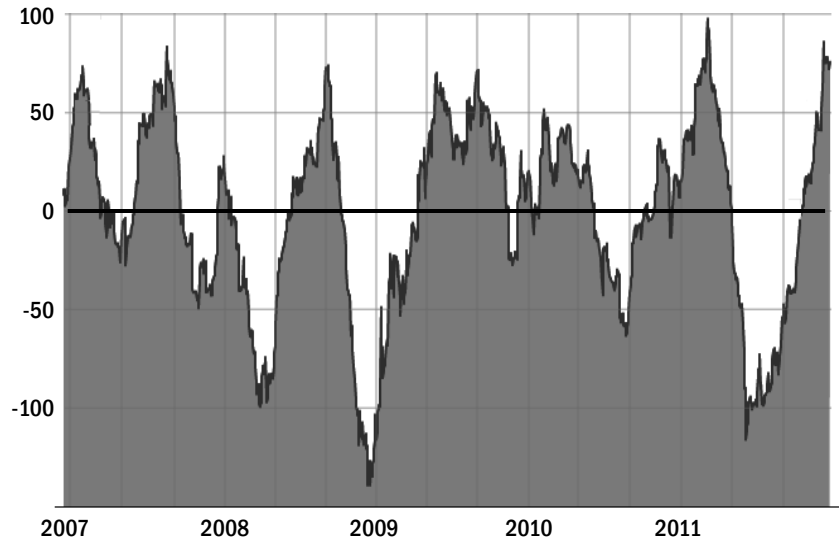
Which promptly sparked a second backlash from [Muslim, Christian, and Jewish religious leaders](#); [activist groups](#); and [32 members of Congress](#). Outraged that Lowe’s rolled over for what they believe is an extremist [hate group](#), they’ve gathered [200,000 signatures demanding an apology](#) – and they’re calling for their own [boycott](#). Meanwhile, ad time on *ALL-American Muslim* is [sold out](#).

For its part, Lowe’s has remained steadfastly [in the fetal position](#), waiting for the next shoe to drop. Will pro- and anti-Muslim groups get together to boycott us? Will they buy furring strips for protest signs from Depot? Would they buy from us if we gave them a discount? (They’d save gas and time, too.)

Here’s shoe No. 1: Turns out the Florida Family Association isn’t a hate “group” after all. It’s apparently [one guy with a Web site](#) and a 35,000-name email list who made his living stirring up outrage over gay people on TV until he realized jihad was sexier.

Shoe No. 2: FFA’s founder and sole card-carrying member has an unlikely ally in a Muslim-American columnist

Citigroup Economic Surprise Index, 2007 - current. Bloomberg.com



for the liberal news blog [The Daily Beast](#). She says advertisers should boycott *ALL-American Muslim*, but not because of Islamophobia. “We need a *Cosby Show* for Muslims, but we ended up with something more like a *Muslim Jersey Shore*. It’s simply a terrible program.”

Go to the dictionary and look up the word “punked.” You will find the Lowe’s logo.

So will 2012 will be better than 2011? Citigroup publishes what it calls an [Economic Surprise Index](#), which is basically a report card on economists. When the index



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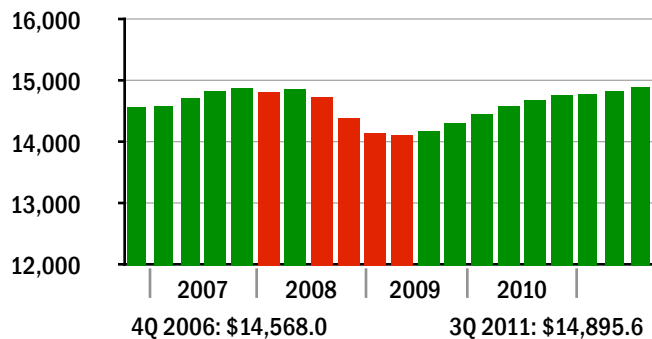
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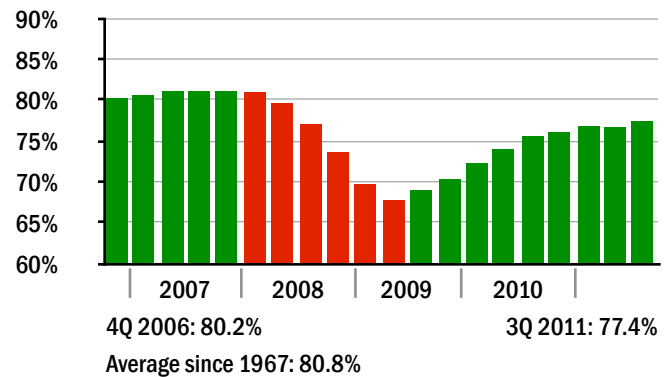
Run better.

VITAL STATISTICS: U.S. ECONOMY

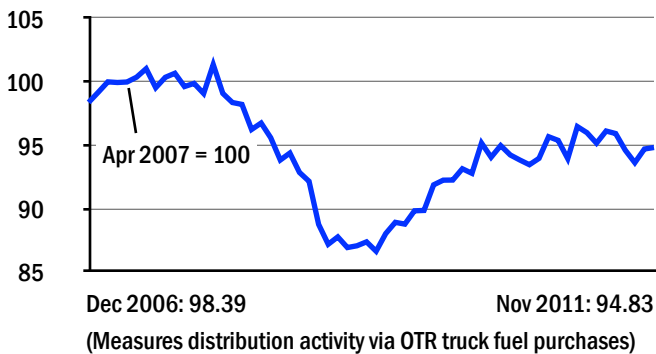
REAL GDP (2011 \$, BILLIONS)



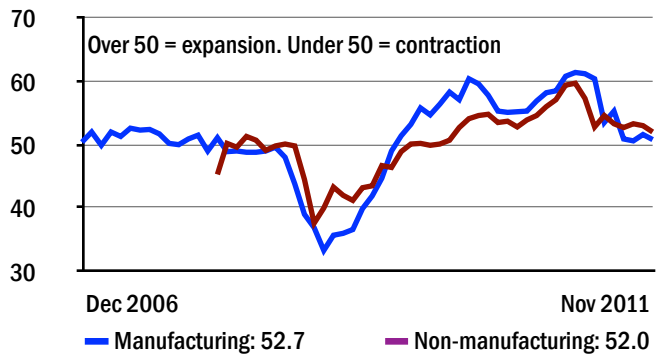
% OF INDUSTRIAL CAPACITY UTILIZED



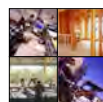
CERIDIAN-UCLA PULSE OF COMMERCE INDEX



ISM PURCHASING MANAGERS' INDEX



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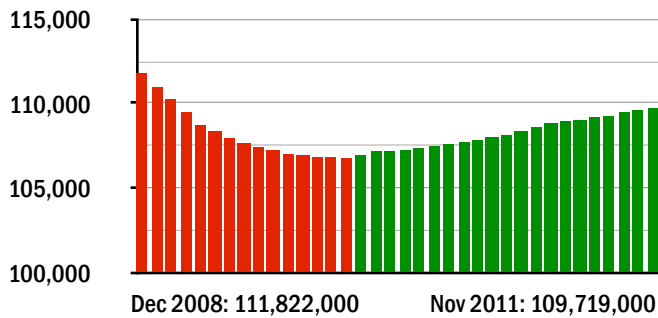


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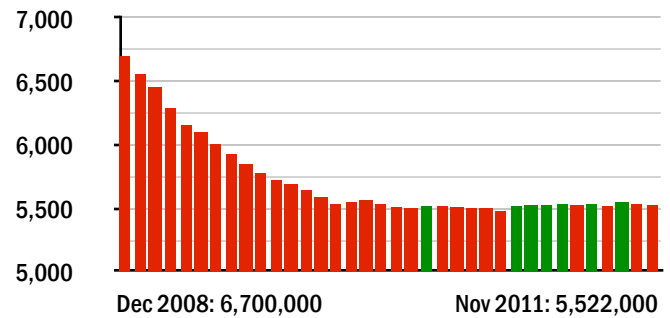
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VITAL STATISTICS: U.S. HOUSEHOLDS

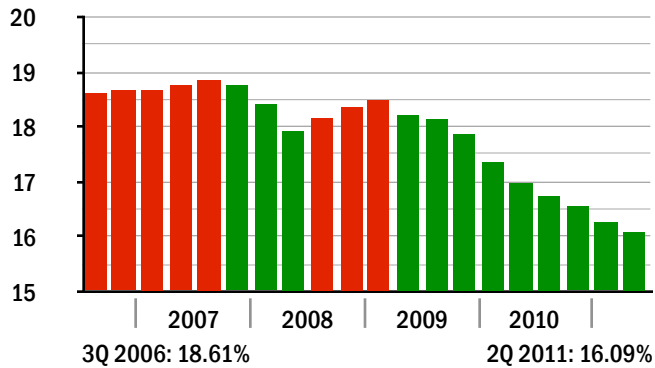
PRIVATE SECTOR EMPLOYMENT (000)



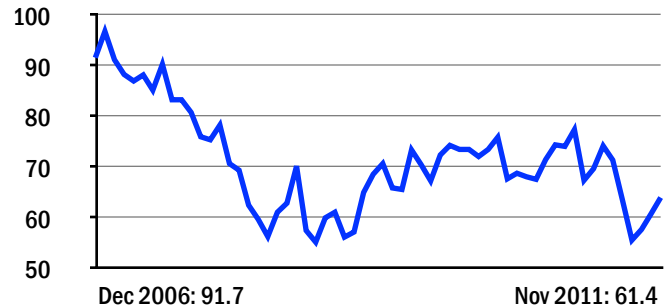
CONSTRUCTION EMPLOYMENT (000)



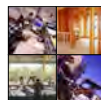
HOUSEHOLD DEBT % OF DISPOSABLE INCOME



UNIV. OF MICH. CONSUMER SENTIMENT INDEX



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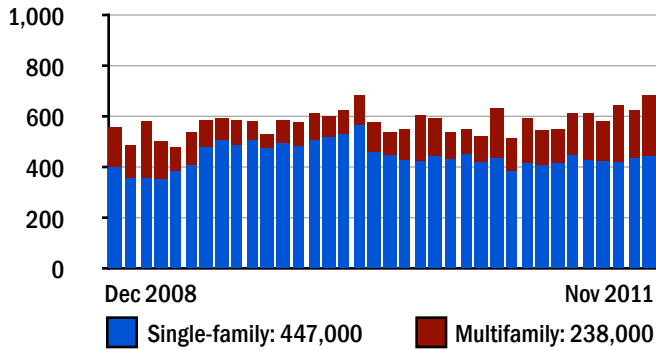
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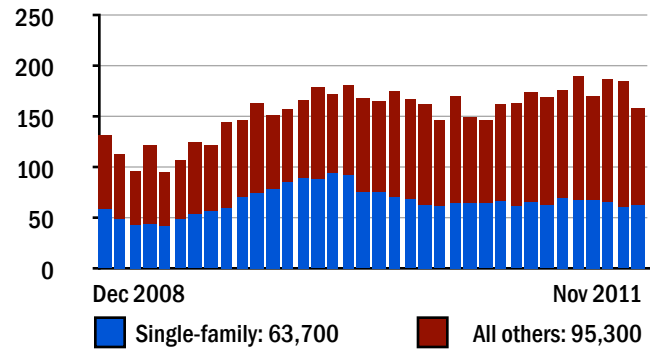


VITAL STATISTICS: HOUSING

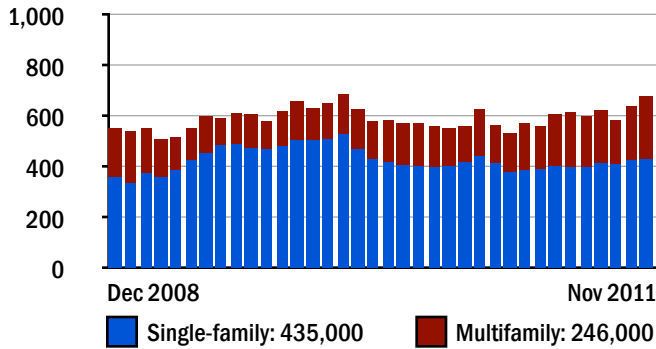
U.S. HOUSING STARTS (SAAR, 000)



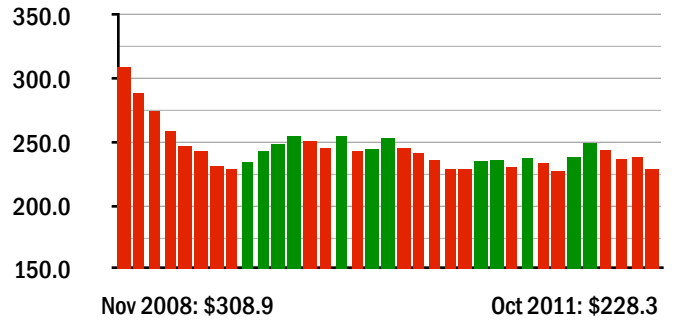
CANADA HOUSING STARTS (SAAR, 000)



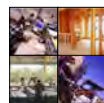
U.S. BUILDING PERMITS (SAAR, 000)



U.S. RESIDENTIAL CONST. SPENDING (\$ BIL)



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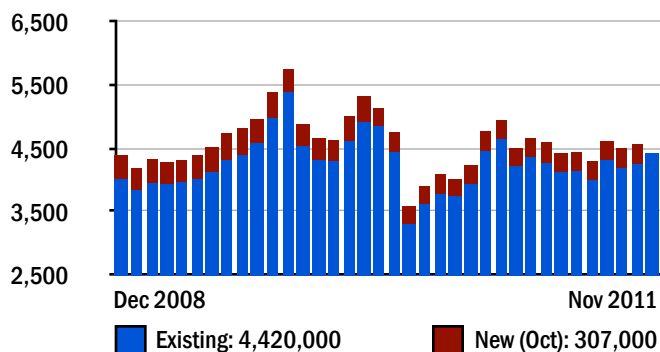
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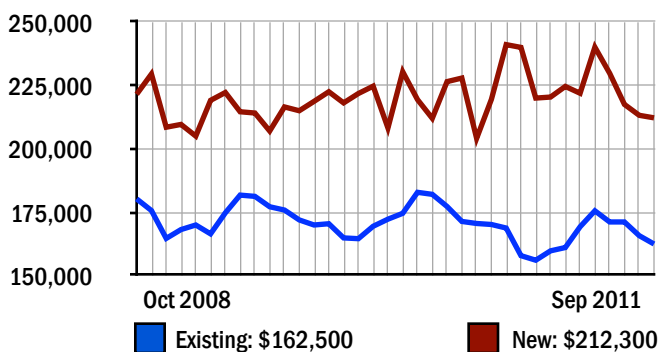
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VITAL STATISTICS: U.S. REAL ESTATE

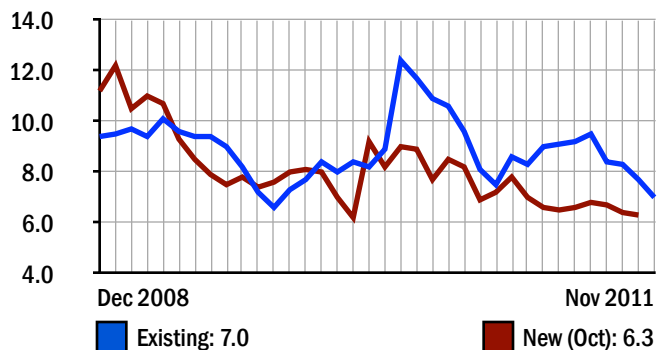
ANNUALIZED HOME SALES (000)



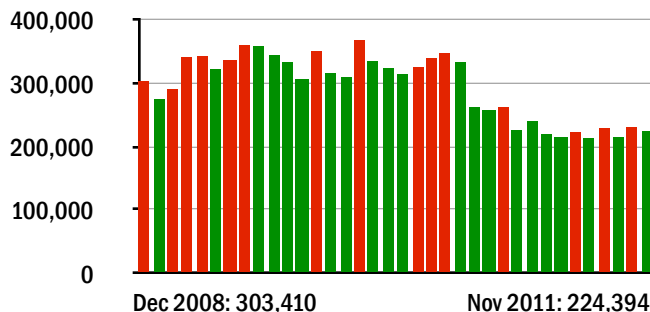
MEDIAN HOME PRICES



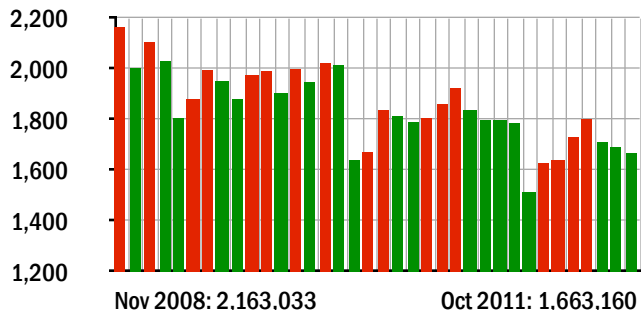
UNSOLD INVENTORY (MONTHS)



FORECLOSURE FILINGS



30-DAY MORTGAGE DELINQUENCIES (000)



Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Canada Mortgage and Housing Corporation, Ceridian/UCLA Anderson School of Management, Federal Reserve, Freddie Mac, Institute for Supply Management, LPS Applied Analytics, National Association of Realtors, RealtyTrac, U.S. Census Bureau.

U.S. housing data compiled by:



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is zero it means economic conditions turned out exactly as predicted. Positive numbers mean things were better than economists thought they would be and negative numbers mean they turned out worse.

Looking at the five-year index (p. 2), the only conclusion you can draw is that literally everything comes as a surprise to economists.

Including this month's surge in housing starts. Most of the first half of 2011 sucked, but YoY starts in September, October, and November were up 10.9%, 17.0%, and 27.6% respectively.

Yes, we could still get pantsed by Europe. Everyone is [worried about China](#) now, too. But barring that, lending should continue to normalize and unemployment should continue to fall. Home sales and housing starts should grow as a result.

So far so good, but some dealers seem to be wondering when the market will recover to a point where the pressure goes away. Chances are it never will. Instead, those extraordinary measures you took to survive the downturn will become the new baseline.

Here's one example: [ProSales](#) is distributing a white paper by consultant [Ruth Kellick-Grubbs](#) on what she calls OTIF – “on time in full” order fulfillment. Measuring your OTIF percentage (not to mention improving it) indisputably makes sense, but it's a little like showing up for work sober: Customers won't give you extra credit for it.

It's a competitive weapon to the extent that you can use it to cast

doubt on your competitors' performance. That puts pressure on them to measure OTIF, and like drug-testing, eventually everyone has to do it.

Rising standards make life more difficult but they also create opportunities. Builders have their own equivalents of OTIF, and if you can identify them, you know what the hot buttons will be.

Two possibilities keep popping up. The first is energy efficiency. [One in four new homes](#) built in 2010 was Energy Star-qualified, and you can't read an article about a [hot new sub-division](#) or a [top-10 trend](#) without bumping up against [net zero energy homes](#) (that produce as much energy as they consume).

The [2012 energy code](#) mandates 15% greater efficiency than IECC 2009, the biggest increase yet. While it'll take time for states to adopt it, no one believes the rules will ever get looser. It's time to start boning up on [building science](#).

The second is [Lean construction](#). Lean building guru [Scott Sedam](#) can find builders [\\$5,000 extra profit](#) on every home just by eliminating waste – and [without squeezing suppliers' margins](#). You can, too, if you know where to look.

The recovery may be as challenging as the recession, but most dealers (or their parents or grandparents) have been through it multiple times. If you're tough enough to have survived this long, you're tough enough to go the distance.

Happy Holidays and here's to a successful 2012 – regardless of the numbers. **TM**

Greg Brooks, editor of THIS MONTH, is a 43-year veteran of the construction supply business with 20 years' experience in the field. Brooks is a former editor of ProSales, a steering committee member at the Harvard Joint Center for Housing Studies, and author of Scope of the LBM Industry, published by the National Lumber & Building Material Dealers Association.



303 845 4880 | Greg@CS24.us