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# THIS MONTH

IN CONSTRUCTION SUPPLY

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A handwritten signature in black ink, appearing to read "Greg Brooks".

Greg Brooks, editor | 303 845 4880 | [Greg@cs24.us](mailto:Greg@cs24.us)

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**DMSI** Software

The logo for DMSI Software features the letters "DMSI" in a large, bold, black sans-serif font. A yellow arrow-like shape points to the right, partially overlapping the letter "D". The word "Software" is written in a smaller, black sans-serif font to the right of "DMSI".

# THIS MONTH

IN CONSTRUCTION SUPPLY

AUG 2010

## WHISTLING PAST THE GRAVEYARD



By Greg Brooks. Okay, let's get this over with: [Existing home sales](#) (CS24.us sign-in required; [here's a passcode](#) if you need one) did an epic belly flop in July, falling 27% to an annualized rate of 3.83 million.

The icing on the cake was the revision of Q2 GDP growth from 2.4% down to 1.6%. A former Merrill Lynch economist (whose nickname, for what it's worth, is apparently "[Permabear](#)") is grabbing [headlines everywhere](#) with the claim that we're actually in a depression, not a recession. He says we don't realize it because it's been "[masked](#)" by GDP growth and other positive data.

I never thought about it that way. I suppose this means I'll need to put on

my overalls, throw away my shoes, and walk to California.

There's no denying that the recovery has slowed, but [the economy is still growing](#) at a pace that [does not suggest a double-dip recession](#) is imminent.

Q2 business investment in equipment and software was up 25% after a 20% gain in Q1. Personal consumption was up 2%, exports were up 9%, and residential fixed investment gained 27%. The reason for the downward revision was that imports, which get subtracted from GDP, rose 32.4%. That's the highest since 1Q 1984, and unlikely to continue at that level. Unemployment claims are up and down, but Gallup's [Job Creation Index](#) still shows a 10-point spread between companies hiring and companies laying off, as it has since mid-May.

Even the dismal home sales numbers don't justify another panic. Existing home sales are recorded at closing, not when the contract is signed. Since it takes about 60 days to get a mortgage, July numbers reflect sales made in May, the first month after the tax credit expired.

In fact, the panic just might help bring the logjam in the housing market to a head. Here's how:

*(Continued on page 2)*

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Home prices have been more or less stable since 2Q 2009. The [Case-Shiller Index](#) is up 4% while the Federal Housing Finance Agency's [Home Price Index](#) is down 1.6% (CS24.us sign-in req'd). If home sales don't bounce back from July's debacle – and so far the signs are not encouraging – analysts expect prices to fall another 10% or so.

If they do, the question is who gets hurt. [The press moans](#) about would-be sellers who won't "face the fact that his or her home is too richly priced," but in most cases, they're not selling – they're fishing. They can ride the market out and they will.

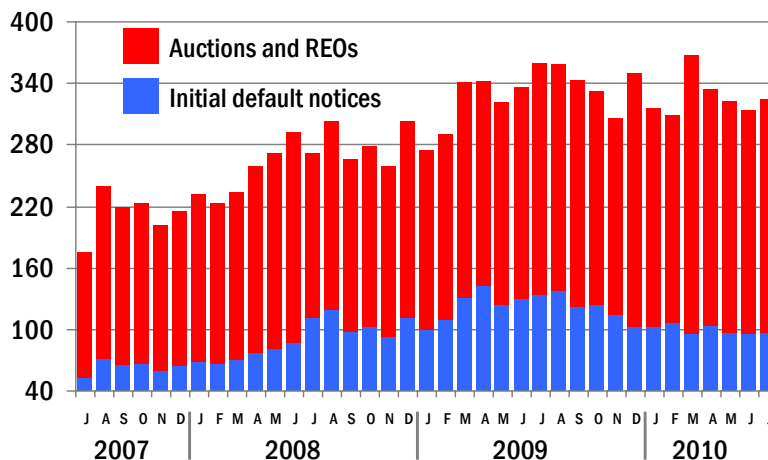
It's a different story for banks – especially the too-big-to-fail welfare queens who "hold the largest concentration of residential mortgages," says the [Wall Street Journal](#).

The first landmine is home equity loans. "Banks have largely accounted for loans that are already underwater. (Further) price declines could swamp a subset of home equity loans that are now just barely covered by their underlying properties." Plus, home equity loans are [all but uncollectible](#) since they're [subordinate loans](#).

Next, investors and the government are pushing banks to buy back their garbage, and "a drop in home prices means the bill for each bad mortgage goes up, since the underlying property covers fewer losses."

Third, the banks' strategy of dragging their feet on foreclosures may be about to backfire. "By postponing the date at which they lock in losses," says [American Banker](#), banks and investors hoped "to benefit from the slow mending of the real estate market."

Properties with foreclosure filings, past 36 months (000). RealtyTrac



Except it didn't mend. "With home prices expected to fall as much as 10% further, the refusal to foreclose quickly on and sell distressed homes at inventory-clearing prices may be contributing to the stall of the overall market seen in July sales data."

Speculators dominate the REO market. They buy in bulk, pay cash, and [account for nearly a third of existing home sales](#) these days. And they may be smelling blood.

Banks have ramped up to process foreclosures faster, but the backlog is still huge; the average time from default to repossession peaked at 538 days but still stood at 469 days as of July. So what happens if speculators stop buying in anticipation of lower prices just as banks get the shelves stocked?

Simple: Banks would be over a barrel. They can't afford to let repossessed homes sit and deteriorate. They'd have to sell at whatever price they could

(Continued on page 4)

## MARKETTRACKER

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[Federal Housing Finance Agency Home Price Index, 2Q 2010](#). The latest home price trends for all 50 states plus 330 MSAs.

[State of the Nation's Housing 2010](#). The Harvard Joint Center for Housing Studies' annual report on the state and future of housing.

[Case-Shiller Index](#). Seasonally-adjusted home price trends for the 20 major metro markets tracked by Case-Shiller.

# Agility Exceeds Hutchison Lumber's Expectations

For over 25 years, Hutchison Lumber has been run on solid business ethics based on customer service and now with DMSi's Agility Software, they are doing it better. "There are several systems built for back office or management, and Agility really drove that," says Bryan Hutchison, Hutchison Lumber's president. "It is really targeted at offering better customer service. The nice part about Agility is there doesn't seem like there is much we can't ask of it. It really listens to us."

Hutchison Lumber, which has three locations throughout Colorado, selected Agility for its speed and ability to track orders and inventories better. By using Agility SaaS (Software as a Service), Hutchison is still able to streamline their operations, but at a lower cost and without the hassles of an IT staff or on-site servers. With only an Internet connection, Hutchison is able to stay up-to-date and provide customers the real-time information. The software helps Hutchison increase fill rates while reducing inventory for increased turns and earns. "Agility allows us to see our real-time stocking levels and sales to know what we need to send out," Hutchison explains. "We run on quick turns and Agility allows us to hit and exceed them."

By using the BInformed functionality of Agility, Hutchison has discovered how easy viewing and interacting with business

data can be. It is a flexible, user-friendly business intelligence application that supports Hutchison Lumber's quick decision making and standardizes their reporting processes. "With just a couple of clicks, I can see where we are today or where we were yesterday," Hutchison says. "It is our fourth system in 30 years and it is by far the quickest. Before we were approximating and now we can see where we really are."

In just six months after implementing Agility, Hutchison Lumber is already seeing a noticeable difference in customer service and an improvement in sales. "I've experienced three systems personally, and it is easy for a sales person to come in and say this is what it does," Hutchison adds. "DMSi didn't overstate what the product is, but in saying that, it has exceeded my expectations."

## About DMSi

With 32 years in the business and nearly 400 customers ranging in sales from \$2 million to \$2 billion in over 1,500 physical yards/warehouses; DMSi is the nation's largest and longest standing independently owned and operated building products software firm. DMSi is time tested, industry proven, and poised to provide customers with a lifetime of partnership and technology leadership. To learn more, call DMSi at 800.347.6720 or visit us online at [dmsi.com](http://dmsi.com).



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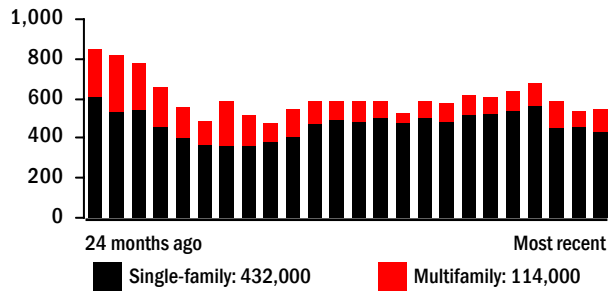


**DMSi** Software

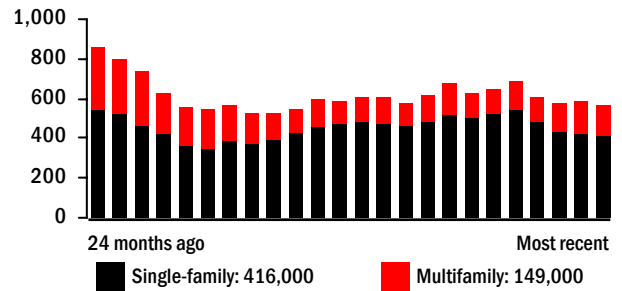
Run Better.

## VITAL STATISTICS

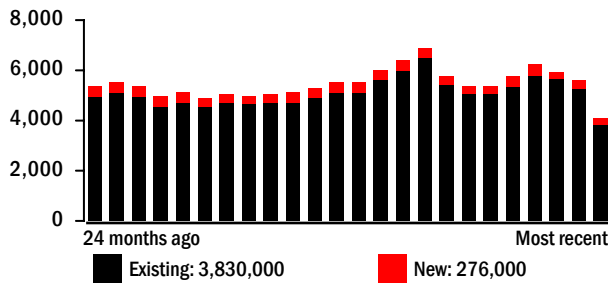
**ANNUALIZED HOUSING STARTS (000)**



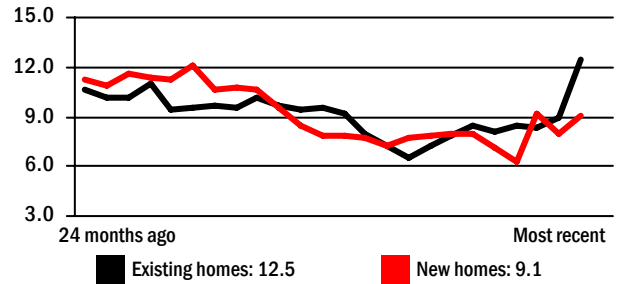
**ANNUALIZED BUILDING PERMITS (000)**



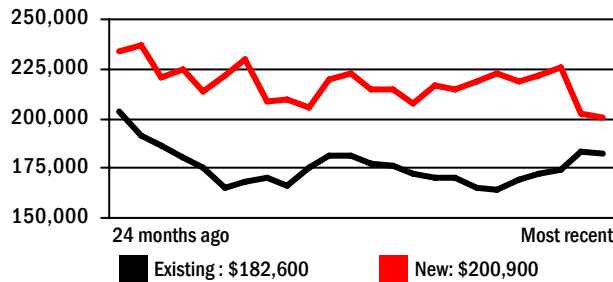
**ANNUALIZED HOME SALES (000)**



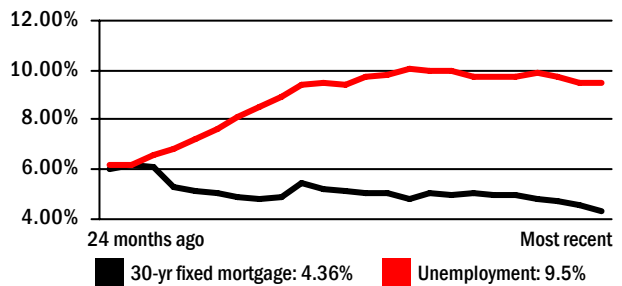
**MONTHS' UNSOLD INVENTORY**



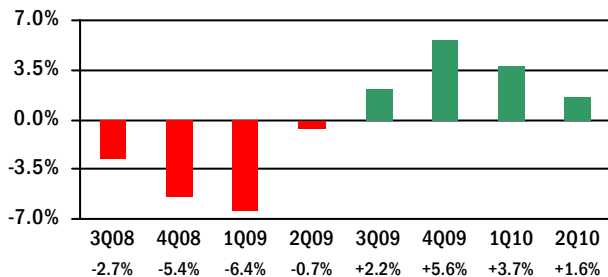
**MEDIAN HOME PRICES**



**MORTGAGE & UNEMPLOYMENT RATES**



**GDP CHANGE VS. PREVIOUS QUARTER**



[Download current spreadsheet at CS24.us](#)

Sources: U.S. Census Bureau, National Association of Realtors, Freddie Mac, U.S. Bureau of Economic Analysis, U.S. Department of Labor. Data compiled by



# EXPERIENCE = EXPERTISE

**“After 16 years in the business, I thought BSCi would be just a refresher. I learned something new from every course I took.”**

National Lumber, Mass.

**“I attended a full-day seminar, then saw a BSCi course on the topic. It had the same information, I could do it at my own pace, and it only took half an hour.”**

ProBuild North, Wis.

**“The courses are excellent. Compared with other training I’ve seen, BSCi is like graduate school vs. grade school.”**

Robert Bowden, Inc, Ga.

**“I like BSCi courses. They’re down and dirty and simple.”**

Woodinville Lumber, Wash.

Many times it does. But sometimes it doesn't and now is not the time to be guessing.

The BSCi Learning Management System is a flexible, cost-effective training solution that lets employees learn on the job during lulls in the workday. For one low monthly or annual fee, you get unlimited access for every employee at your location:

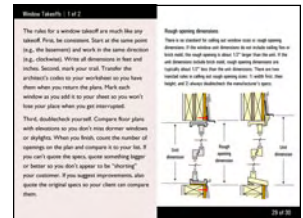
- **32 online training courses** teach critical skills in construction and estimating, sales, customer service, and load-building
- **Downloadable worksheets**, cheat sheets, and spreadsheets eliminate estimating and pricing mistakes
- **Direct Web links** to third-party technical resources cut time spent researching products and assemblies.
- **Over 150 articles** cover advanced techniques, best practices, and veterans' tricks of the trade
- **Automated reporting** eliminates recordkeeping and identifies individual strengths and weaknesses.

During my 20 years in the field, I logged plenty of hours in training sessions, some worthwhile and some not so much. I designed BSCi training with two things in mind: Give them real-world information and don't waste their time.

There's no obligation; if your people already know this stuff, you can quit anytime. But wouldn't you like to know for sure?



*Greg Brooks*  
Greg Brooks, BSCi



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## BSCi Learning Management System

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get and take the hit to their balance sheets. Weaker balance sheets may mean continued tight credit at banks with the greatest exposure, but lower prices would clear REO inventory faster.

Some claim it'll be 2013 before we're out of this mess. Maybe yes and maybe no, but if we take them at their word, the question is where we'll stand in 2013 if it does take that long. Let's do the math:

From 1981-2000 (excluding the bubble years), we averaged 5.7539 starts per 1,000 population. At that rate, demand would have been 10,074,601 starts from 2001-6 (see table below). Actual starts were 10,980,300, so at the end of 2006, we were overbuilt by roughly 900,000 units. We began underbuilding as the market sank in 2007-8, finishing 2008 with about 320,000 fewer units than the population justified.

We know foreclosures and job losses forced households to double up starting in 2008 and probably continuing until the job picture improves. Chances are all those people will move out (rent or buy) when they get back on their feet, but just to be safe, let's reduce the

demand rate 5%, to 5.4662 per 1,000, from 2009 forward.

Wells Fargo Securities (whose guess is as good as anyone's) is projecting 600,000 starts in 2010 and 810,000 in 2011. That's a 35% increase so we'll assume another 35% in 2012. Estimates of shadow inventory range from 2.5 million to 8 million, so let's be generous and use 5 million as the total.

Last but not least, let's assume the Census Bureau's immigration projections through 2020 are twice as high as what the numbers will really be.

On that basis, we'd start 2013 overbuilt by about 702,000 units. Through 2020, population growth will require another 14.3 million housing units, which means we'd need to build 13.6 million units just to catch up. That's 1.94 million units per year.

It's possible that after spending 75 years convincing the world capitalism is better than communism, we'll find that they all do it better than we do. But if you don't believe that, put a sign up on your office wall to remind yourself why you're hanging in there:

"The biggest housing boom in history is currently under construction." ☺



Greg Brooks, editor of THISMONTH, is a 41-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.

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Cumulative over/underbuilt, 2001-2020, based on a low immigration scenario . Census Bureau, Wells Fargo Securities

	2001-6	2007-8	2009	2010	2011	2012	2013-20
Housing starts	10,980,300	2,261,000	554,000	600,000	810,000	1,093,500	13,585,405
Demand based on population	- 10,074,601	- 3,486,610	- 1,678,165	- 1,691,854	- 1,700,272	- 1,715,558	- 14,287,145
Over (under) built	= 905,699	= (1,225,610)	= (1,124,165)	= (1,091,854)	= (890,272)	= (622,058)	= (701,740)
REO inventory	+ 0	+ 0	+1,000,000	+ 1,000,000	+ 1,500,000	+ 1,500,000	+ 0
Prior over (under)	+ 0	+ 905,699	+ (319,911)	+ (444,076)	+ (535,930)	+ (176,202)	+ 701,740
Cumulative over (under) built	= 905,699	= (319,911)	= (444,076)	= (535,930)	= 73,798	= 701,740	= 0