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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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# THIS MONTH

## IN CONSTRUCTION SUPPLY

### HANDICAPPING THE RECOVERY



By Greg Brooks. Last month's issue dug into the dynamics of foreclosures and came to what was probably a blinding-flash-of-the-obvious conclusion: With strategic defaults rising, it won't be long before lenders decide it's better to bite the bullet and reduce the principal than to foreclose and let vandals trash the property.

Just two weeks later, [Bank of America](#) announced that it would "reduce mortgage balances as much as 30% for some troubled borrowers," reported the Wall

Street Journal, "in what could presage a wider government effort to encourage banks to offer debt reduction to ease the mortgage crisis."

WSJ had it pegged. Within days, the [Obama administration](#) announced a program to encourage lenders to reduce the loan principal for underwater borrowers who are behind on their payments.

The next bold prediction came true so fast, there wasn't time to predict it. Homeowners who have kept up with their payments [pitched a holy fit](#):

"No need for responsibility anymore, folks. Parasites and losers who squandered all their resources are getting their needs met while those out busting their butts are getting the shaft."

"Again we look like fools for actually buying a home we could afford and making the payments, while people who jumped in over their heads and mismanaged their budgets are REWARDED."

"I am an idiot. I live within my means. If I was smart...I would have bought a Harley, a big boat, and a shiny new truck to haul everything, and let my mortgage go."

That has lenders worried, and for good reason. At the end of 2009, 11.3 million mortgage holders owed more than

*(Continued on page 2)*

(Continued from page 1)

their homes were worth, according to First American CoreLogic. Since then, the [Case-Shiller Index](#) has risen 0.3%. Yet [27 million homeowners](#) now believe they are underwater – and around 10% of them say it's [okay to default](#) if you are. By comparison, there were around 1,000,000 strategic defaults in 2009.

When home prices were in free fall, poll after poll found that homeowners believed their homes were still gaining value. Now they appear to have swung too far the other direction.

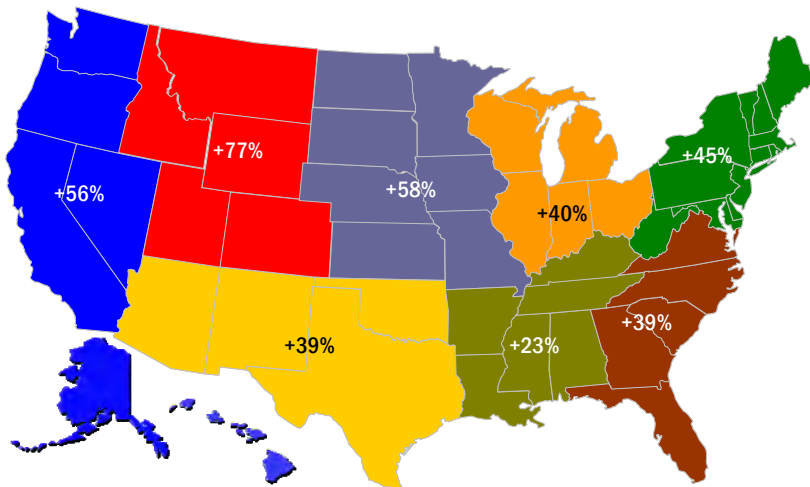
Which may not be bad. When expectations are low enough, anything short of catastrophe can be a pleasant surprise.

And pleasant surprises continue to pile up. Retail sales rose [9.1% in March](#). [Household net worth](#), which fell from \$65.9 trillion to \$48 trillion at the low point, is back up to \$54.2 trillion. [Industrial production](#) is rising steadily, and according to Morningstar, the [inventory-to-sales ratio](#) is at its lowest point since 1990 when the Federal Reserve first began measuring it. That means manufacturing output will probably continue to rise.

March also saw [job growth](#) to the tune of 162,000. It's true that 48,000 of them were temporary positions related to the census. But jobs are jobs, and even if you take away that 48,000, it was still the biggest gain since November 2007.

Housing was a notable exception; starts were weak enough that the government [lowered its 10 GDP projections](#). "Previous improvements...may have largely reflected transitory effects from the first-time homebuyer tax credit rather than a fundamental strengthening of housing activity."

Single-family building permits by region, Feb 2010 vs. Feb 2009. Source: Price-Log Systems tabulations of U.S. Census Bureau data



Maybe. But the latest numbers are for February, when the East Coast and much of the South were slammed by [record snowfalls](#): Four feet in Pittsburgh, Baltimore, and Washington, D.C., three in New York City, and a foot in Dallas. Even Mississippi, Alabama, and the Florida Panhandle got six inches.

February building permits were up dramatically throughout the U.S. Some argue that a permit doesn't guarantee a start, and that was true 30 years ago when permits were dirt cheap. Today the correlation between permits and starts is nearly 100%, and starts are apparently on their way. Even in some of the worst markets, dealers are reporting double-digit sales gains in March vs. March 2009.

The biggest piece of the puzzle is turning the poor, pitiful public mood around, and the solution is no secret: Get people back to work.

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## MARKETTRACKER

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[Permits Plus FREE SAMPLE](#). Single- and multifamily building permits and permit values for every MSA and county in the U.S., Feb 2010 vs. Feb 2009.

[Brookings Institution Metro Monitor](#). The latest data on nonemployment, gross metropolitan product, and home prices for 100 MSAs.

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

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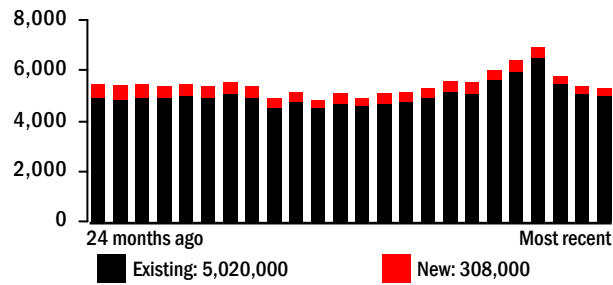
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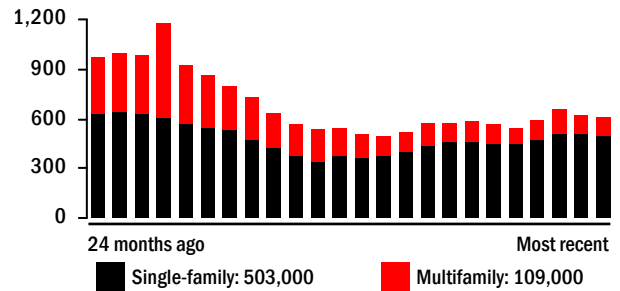
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## VITAL STATISTICS

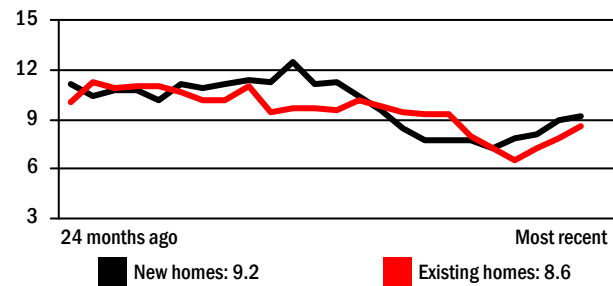
**ANNUALIZED HOME SALES (000)**



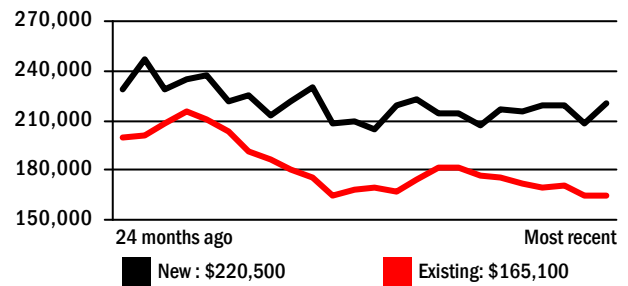
**ANNUALIZED BUILDING PERMITS (000)**



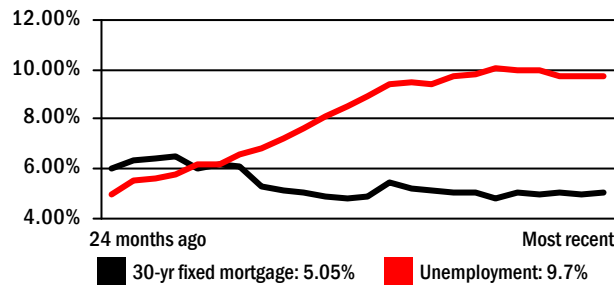
**MONTHS' UNSOLD INVENTORY**



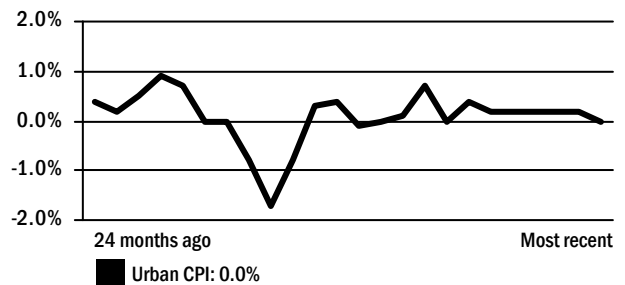
**MEDIAN HOME PRICES**



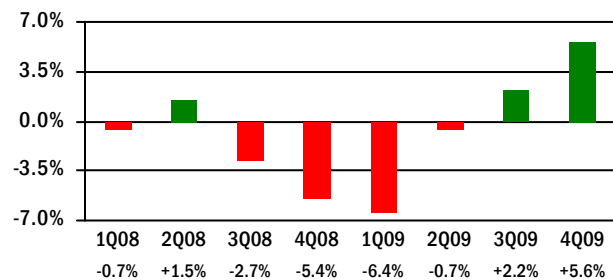
**MORTGAGE & UNEMPLOYMENT RATES**



**INFLATION RATE**



**GDP CHANGE VS. PREVIOUS QUARTER**



[Download current spreadsheet at CS24.us](http://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.”**

Boston, 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.”**

Green Bay, Wis.

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

Atlanta, Ga.

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

Seattle, 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 just \$59 per month, 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.

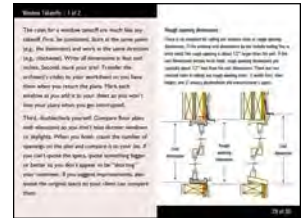
During my 20 years in the field, I logged plenty of hours in training sessions, some worthwhile and some not so much. I designed BSCi training with two things in mind: Give them real-world information and don’t waste their time.

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, BSCi



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## BSCi Learning Management System

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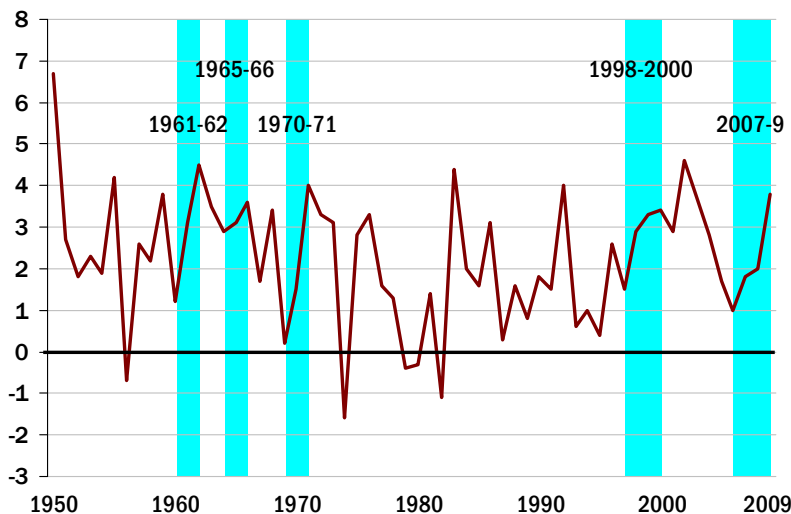
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But some insist even that won't help. You've heard the storyline: Income fell through the 2000s as all the good jobs went offshore. Now it takes two incomes to survive, and even then, the middle class is struggling to make ends meet.

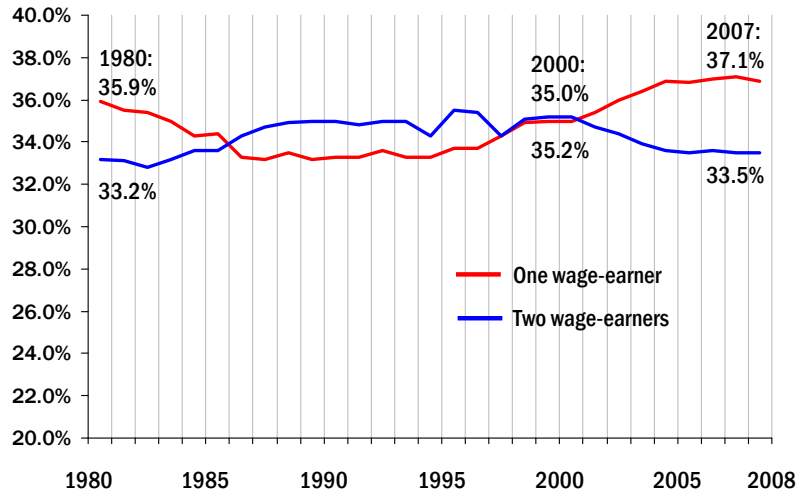
Good story, except it's not true. From 2000 to 2007 - i.e., before the recession - median household income fell 0.6% adjusted for inflation while personal income fell 0.4%. But as a percentage of total households, those with a single wage-earner rose 2.1% while dual-income households fell 1.7%. The percentages today are barely different than in 1980.

If jobs aren't coming back as fast as people expect, one reason is that productivity has risen dramatically: 6.9% in 4Q 2009 and 3.8% for the year. Since 1980, the annual gain has been higher just three times: 1983, 1992, and 2002. What do they have in common? Each was the year the economy recovered from a recession.

Annual percentage change in productivity, 1950-2009 (blue bars = consecutive YoY gains)  
Source: Bureau of Labor Statistics



U.S. households with one or two wage-earners as a percentage of total households, 1980 - 2008.  
Source: U.S. Census Bureau



Moreover, 2009 was the third consecutive year of productivity gains. Since 1950, we've had just one other three-year run and only three two-year runs. That suggests it won't be long before productivity plateaus, and if demand continues to rise, employers will be hiring sooner rather than later.

That's not to say unemployment won't be elevated for a while, but even 9.7% isn't necessarily a market-killer. In 1983, housing took off like a rocket with unemployment at 10.8%.

When it happens this time, we'll pretend we knew all along that it would. ☺



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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