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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

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THIS MONTH

IN CONSTRUCTION SUPPLY

ALL CLEAR – AT LEAST FOR NOW



By Greg Brooks. By late 2009 it was clear the economy had begun to heal. But experts warned that the recovery was extremely fragile and even a minor setback could land the world in a double-dip recession or worse.

Since January, we've seen two devastating earthquakes, five paralyzing blizzards, a volcano that shut down Europe, massive alleged fraud at Goldman Sachs (note to Lloyd Blankfein:

Iceland is [hauling bank execs to jail](#) these days), killer flooding in Nashville, a trillion-dollar bailout for Greece, a one-hour stock market meltdown no one can explain, the mother of all oil spills, and a fizzled terrorist attack on Times Square (for what it's worth, by the way, the street vendor who alerted police is a Muslim).

Also since January: GDP grew for the third straight quarter and the Bureau of Labor Statistics says employers added [573,000 jobs](#), half of them in April and [84% in the private sector](#). And those numbers may be too low. BLS surveys employers. The Department of Labor's [monthly survey of households](#) says 1.67 million job-seekers have found work so far this year.

The unemployment rate inched up to 9.9% in April, but only because 805,000 people who had stopped looking and were no longer counted as unemployed are now [hunting for jobs again](#). Last but not least, [foreclosure filings](#), [mortgage delinquencies](#), and the number of [under-water homeowners](#) all declined.

There'll be more ups and downs, but the danger of a [double-dip recession](#) is now receding. Just as downturns generate a vicious cycle of falling demand

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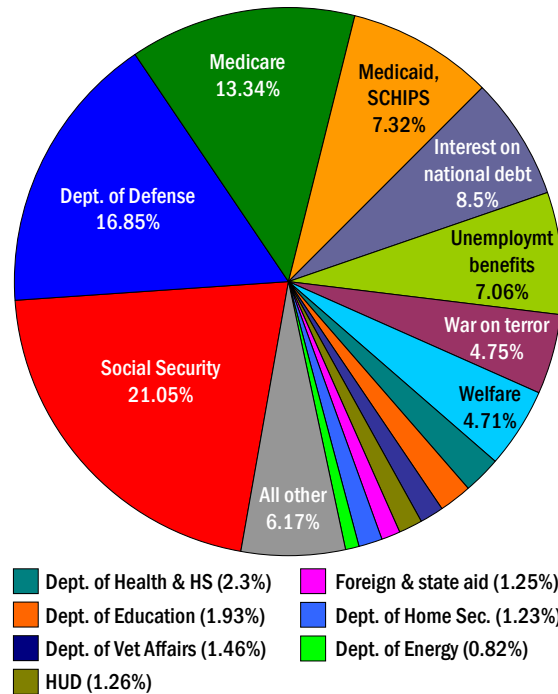
and job losses, recoveries also feed on their own momentum.

The question now is how much momentum. It's no secret that the national debt is the next looming challenge. The International Monetary Fund says that, based on current Congressional Budget Office projections, U.S. gross debt as a percentage of GDP will hit [109.7% by 2015](#) (sign-in required; [here's how](#)). That would put us fourth among the 56 countries IMF tracks, behind Japan, Italy, and Greece. Not so good.

Most Americans agree that the government needs to cut spending, but only in theory. When Pew Research asked where, there wasn't a single spending category the majority was willing to cut.

So what are the alternatives? First, Congress and the Obama administration could work together to eliminate waste

Where the money went: Federal spending in 2009. Source: Office of Management and Budget



"If you were making up the 2009 federal budget, how would you change spending on...?" Pew Research, June 2009

Category	Increase or Keep Same	Decrease	% of '09 Budget
Veterans' benefits	91%	2%	1.46%
Education	90%	6%	1.93%
Medicare	90%	6%	13.34%
Defense	87%	18%	16.85%
Health care	85%	10%	7.32%
Combat crime	82%	10%	0.87%
Unemployment benefits	80%	15%	7.06%
Environment	77%	16%	0.27%
Energy	76%	15%	0.82%
Scientific research	79%	14%	0.23%
Agriculture	76%	12%	0.68%
Anti-terrorism measures	76%	17%	4.75%
Foreign aid/State Dept.	59%	34%	1.25%

so government delivers the same services for less money. When you're done laughing, here are the other two: 1) Raise taxes or 2) grow the economy faster.

Just as a \$10,000 credit card bill is a big deal if you make \$25,000 per year but not if you make \$250,000, debt as a percentage of GDP matters more than the actual amount.

CBO projects 2.7% GDP growth in 2011, 4.4% average growth from 2012 through 2014, then 2.4% average growth from 2015 through 2020. This is purely a back-of-the-envelope calculation, but assuming government revenue rises proportionately to GDP, our debt as a percentage of GDP would

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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.

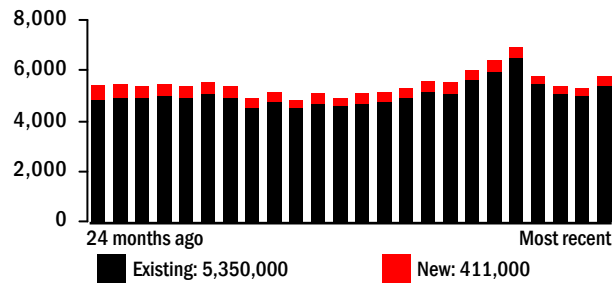
[Brookings Institution Metro Monitor](#).

The latest data on unemployment, gross metropolitan product, and home prices for 100 MSAs.

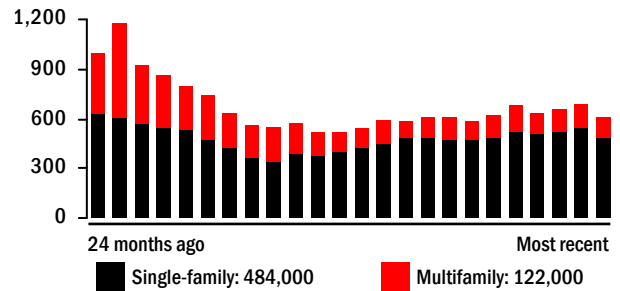
[Case-Shiller Index](#). Seasonally-adjusted home price trends for the 20 major metro markets tracked by Case-Shiller.

VITAL STATISTICS

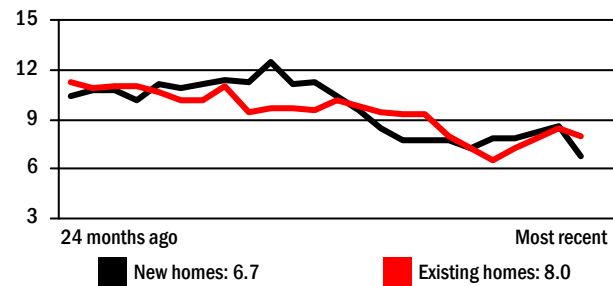
ANNUALIZED HOME SALES (000)



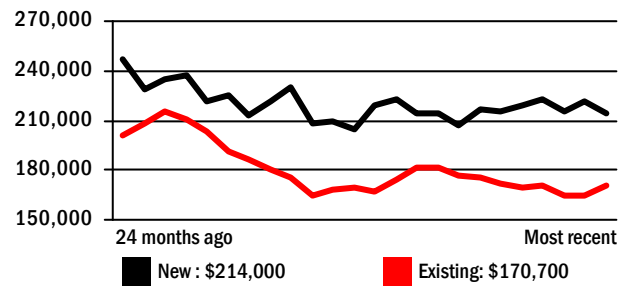
ANNUALIZED BUILDING PERMITS (000)



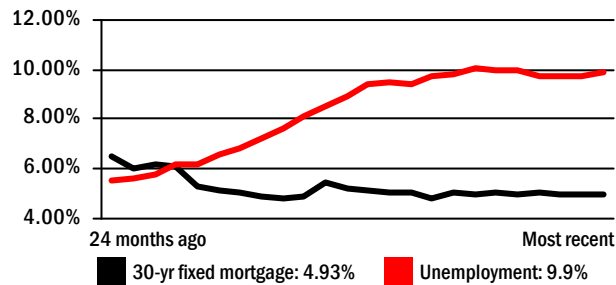
MONTHS' UNSOLD INVENTORY



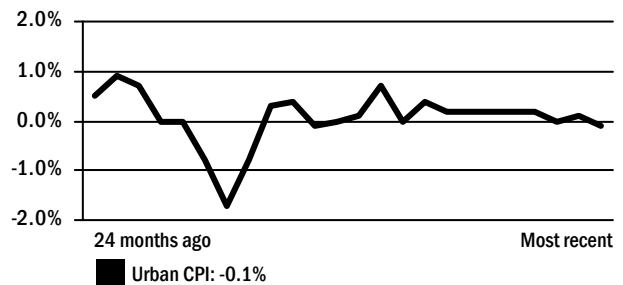
MEDIAN HOME PRICES



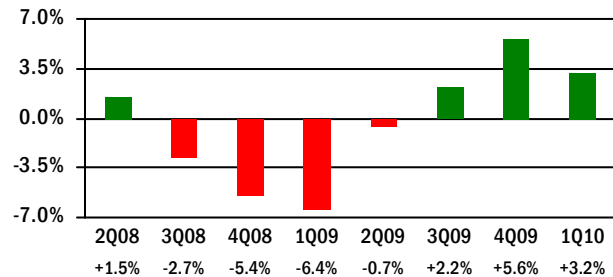
MORTGAGE & UNEMPLOYMENT RATES



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

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“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.”

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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.

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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.

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you can quit anytime. But wouldn’t you like to know for sure?

Greg Brooks, BSCi



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remain stable through 2020 even without spending cuts if annual GDP growth exceeds CBO's projections by 0.6%.

A [recent analysis from MIT](#) suggests that housing alone could generate that much additional growth. Residential investment typically accounts for only 3% to 4% of GDP. But a rising housing market has a ripple effect that MIT says added 0.4% to GDP growth from 1993 to 2005, and a full 1% during the 1976-77 and 1983-84 recoveries.

That's why it's interesting that the industry is ignoring the analysts these days. Most economists still say housing will be AWOL for a while due to REO inventories and tight credit. NAHB predicts a paltry [17% increase](#) in housing starts this year (sign-in required).

In April – too late to take advantage of the tax credit – annualized starts were [41% ahead of April 2009](#) (sign-in required). The [New York Times](#) reports

Quarterly GDP change from worst recession quarter, 1982 vs. 2009. Bureau of Economic Analysis

	Average Change (shaded)		Average Change (shaded)		
1Q 82	-6.4%		1Q 09	-6.4%	
2Q 82	+2.2%		2Q 09	-0.7%	
3Q 82	+1.5%		3Q 09	+2.2%	
4Q 82	+0.3%		4Q 09	+5.6%	
1Q 83	+5.1%	+0.5%	1Q 10	+3.2%	+0.8%
2Q 83	+9.3%				
3Q 83	+8.1%				
4Q 83	+8.5%				
1Q 84	+8.0%				
2Q 84	+7.1%				
3Q 84	+3.9%				
4Q 84	+3.3%	+6.9%			

that starts have nearly doubled in Las Vegas (with 74.7% of mortgages underwater), Phoenix (57.5%), and Tucson, are “soaring” in Florida (47.7%), and up 74% in California’s Inland Empire (53.5%). “Las Vegas is trying to recover by building what it does not need,” sniffs NYT. “We’re building them because we’re selling them,” replied one builder.

[Megabuilders are snapping up lots](#) as fast as they can, which suggests that they don’t think fire-sale prices will last much longer. The channel is showing similar optimism: ABC Supply’s recent purchase of Bradco Supply, Stock Building Supply’s purchase of Bison Building Materials, and the emergence of U.S. LBM in the Midwest.

As we reported last month, the sweet spot is energy-efficient homes priced to compete with foreclosures. *Professional Builder* says the strategy is catching on around the country – and working. If it continues, it could create the momentum we’re looking for.

The more new home sales eat into demand for foreclosures, the more motivated lenders should be to prevent them. Reduced REO inventory means more demand for new homes, which would encourage lending and create jobs. Jobs would entice twentysomethings out of Mom and Dad’s basement and into homes of their own, which means even more demand.

You’ve probably heard the old joke about the two tourists in Africa who encounter a lion in the bush. “What’ll we do?” says the economist. “We can’t outrun a lion!”

“I don’t have to,” says the builder. “I just have to outrun you.”

By the end of the summer, we should know who has stronger legs. ☺



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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