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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

JUN 2010

NOT-SO-GREAT EXPECTATIONS



By Greg Brooks. That sure didn't last long. This time last month, the crowd was going wild over the unstoppable recovery. Thirty days later, we're back on the brink of Great Depression 2.0 to hear some tell it.

From jobs to consumer spending to manufacturing output and existing home sales, May data disappointed economists and more often than not, sent the stock market running for cover. Yesterday was the crowning blow: Annualized new home sales were 300,000 in May, down 32.7%

from April. It was the lowest level since tracking began in 1963.

Yet the Dow Jones Industrial Average finished the day up, including public home builders' stocks.

Before we dig into the details, let's take a look at the big picture. As of May, [industrial production](#) was at 74.7% of capacity versus 68.5% in May 2009. We averaged 80.6% from 1972 to 2009 so we're about halfway back to normal.

[Household net worth](#) (CS24 sign-in required; if you aren't already registered, [here's a passcode](#)) stood at \$54.6 trillion in 1Q 2010 versus \$48.3 trillion at the low point in 1Q 2009 and \$64.4 trillion at the peak of the bubble in 2006.

Considering the severity of the crash plus the fact that it happened just 21 months ago, that seems like reasonable progress. So have you ever seen a headline that read, "Americans Recovering Wealth at a 13% Annual Pace, Net Worth Now Exceeds 2004?" On the contrary, all you see is hand-wringing over the fact that we dug ourselves a hole and now have to climb out. Even our allies are calling us the "[can't-do nation](#)."

Fortunately, the problem is not the nation. See if you can spot a pattern:

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The news that originally burst Wall Street's mood in May was the [jobs report](#). Here's the YTD scoreboard (jobs added minus jobs lost):

- Jan: +14,000
- Feb: +39,000
- Mar: +208,000
- Apr: +290,000
- May: +431,000

Doesn't look so bad. Two things [plunged the market into despair](#): All but 41,000 May jobs were temporary Census jobs, and "economists...had forecast employers would add 513,000 jobs."

Last week [new unemployment claims](#) rose to 472,000. Again the market went into a tailspin because "economists have been expecting claims to fall below 450,000 for some time now." Then [stocks fell](#) when an index of leading and regional indicators "came in below the...reading expected by economists."

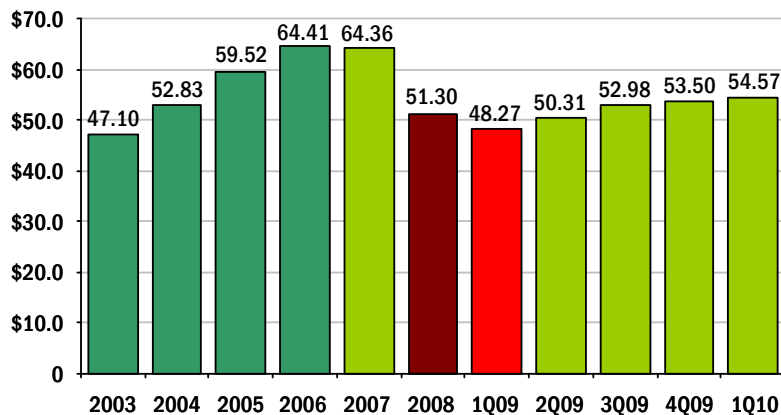
Next, [retail stocks lost ground](#) when retail sales fell 1.2% in May versus "the 0.2% gain...estimated by economists." On June 22nd came the news that existing home sales fell 2.2% in May. The stock market lost 149 points because "[economists...expected existing-home sales...to climb by 5.0%](#)."

The new home sales data may yet knock the market for a loop: "[Economists...had estimated sales would tank 20.6%](#)," not 37.2%.

Question: If you had an estimator who was that wrong that consistently, where would he be working now?

The good news is that Main Street has a different perspective. When retail sales dipped, economists said it meant "[a weaker underlying picture](#)" for consumers. Don't tell consumers. [Auto](#)

U.S. household net worth, 2003 - 1Q 2010 (end of each period, \$ trillions). Federal Reserve



[sales](#) were up 12.3% in May; the Reuters/University of Michigan [Consumer Sentiment Index](#) just hit its highest level since Jan 2008. Actually, May retail sales were up 0.1% excluding building materials, and it's no secret why LBM sales fell: Both housing starts and commodity prices are down. Consumers may not be buying homes right now, but they aren't running scared.

Likewise, it's no surprise that employers are cautious about hiring if they're reading the news. Yet Gallup's weekly [Job Creation Index](#) is at its highest point since Dec 2008. Gallup surveys employees directly; 32% say their companies are hiring while 19% say they're laying off.

BusinessWeek thinks economists may be looking at the wrong numbers. Versus lagging government and industry data, [secondary economic indicators](#) such as rail trash and scrap shipments, electric utility output, and diesel fuel sales gathered in real time from 7,000

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[State of the Nation's Housing 2010.](#)

The Harvard Joint Center for Housing Studies' annual report on the state and future of housing.

[FHFA Home Price Index.](#) The latest home price data in 300 markets from the Federal Housing Finance Agency.

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

Agility's Order Delivery Tracking Helps East Hardwoods Take Customer Service Efficiency to the Next Level

Getting your products to your customers efficiently and in a timely manner is an essential for maintaining customer service and operating a successful business. Over 80 years ago, building supply company, East Hardwoods, was built on those principles and recently enacted the DQ Technologies Order Delivery Tracking (ODT) interface to the Agility software system. This allows East Hardwoods to keep track of inventory across three locations and eliminates back orders by choosing the best locations to move products from.

"Agility added the ability to give a more accurate representation of our inventory and kept us from falling behind on customer orders," said Leonard Safrit, president and CEO of East Hardwoods. "With Agility, you can move your products and it all comes together."

East Hardwoods has been running on DMSi's Agility software for three years, but only recently started using the custom dispatch notification system. The system allows East Hardwoods' dispatcher to look at all customer tickets and compare that to inventory at the three locations. The software allows the dispatcher to move products from each location to get products to the customer faster. It has also had a big impact with the

company's sales staff. "If an item isn't available, our salespeople are notified when they write a ticket," Safrit said. "It has allowed our salespeople to focus on sales, rather than worrying about product availability."

Agility has made a big impact on East Hardwood's bottom line. The company has been able to measure how much each trip costs by using the reporting in their ODT. "Our trips with overall costs are 4.25 to 5 percent of the total sale, and that is our claim to fame." Safrit said. "It's amazing. We have learned how long the shipping process takes, what trucks are most efficient, what routes to take and more."

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.



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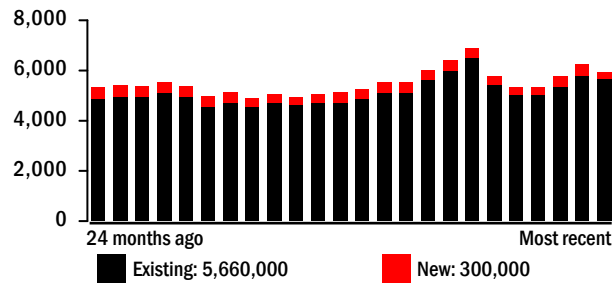


dmsi Software

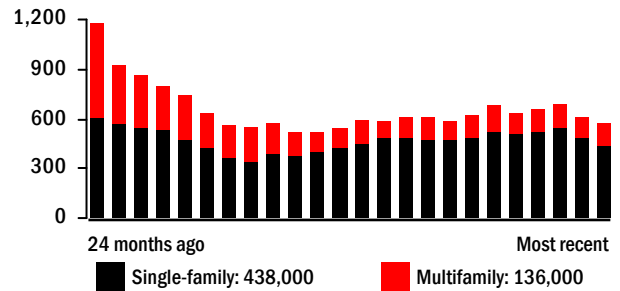
Run Better.

VITAL STATISTICS

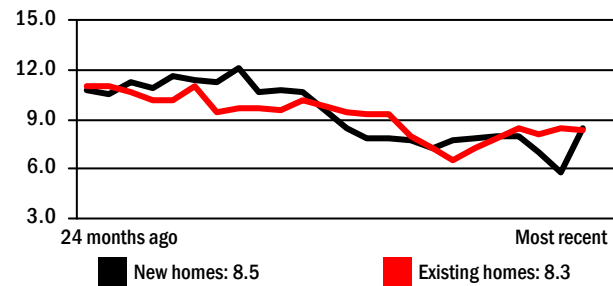
ANNUALIZED HOME SALES (000)



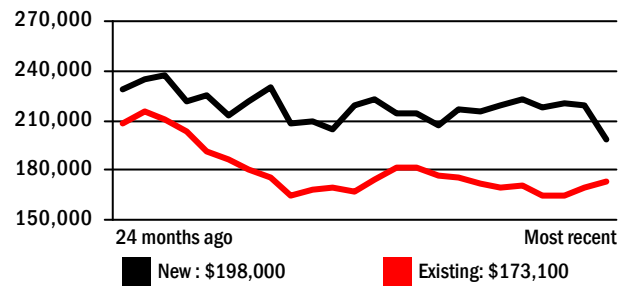
ANNUALIZED BUILDING PERMITS (000)



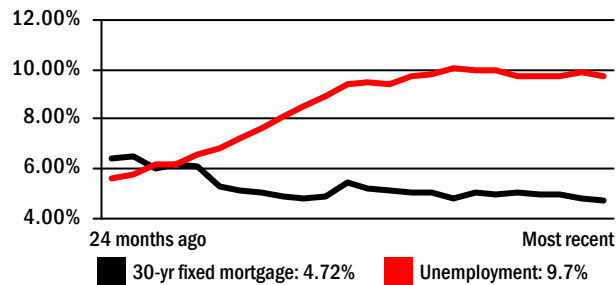
MONTHS' UNSOLD INVENTORY



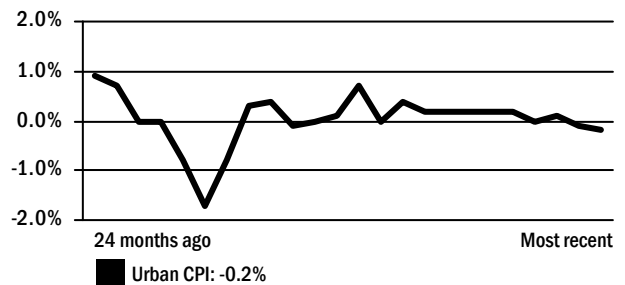
MEDIAN HOME PRICES



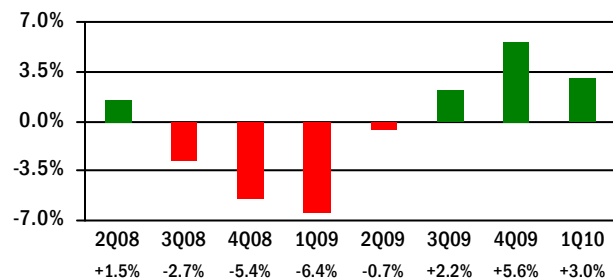
MORTGAGE & UNEMPLOYMENT RATES



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:

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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.

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



BSCi Learning Management System

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(Continued from page 2)

truck stops are not only more timely but proving to be more accurate. So far, they're pointing to "a stronger-than-expected recovery."

No doubt it will be. Everything else that has happened has surprised economists. Why not the recovery, too?

But one other thing is also not in doubt: The picture will change dramatically when housing finally does get traction. According to the Harvard Joint Center for Housing Studies, residential fixed investment has averaged 4.8% of GDP since 1947, but when you throw in rent, furnishings, and other housing-related activity, the total jumps to 21%. Since construction jobs can't be outsourced, they generate a boost in spending that puts the rest of the economy back to work.

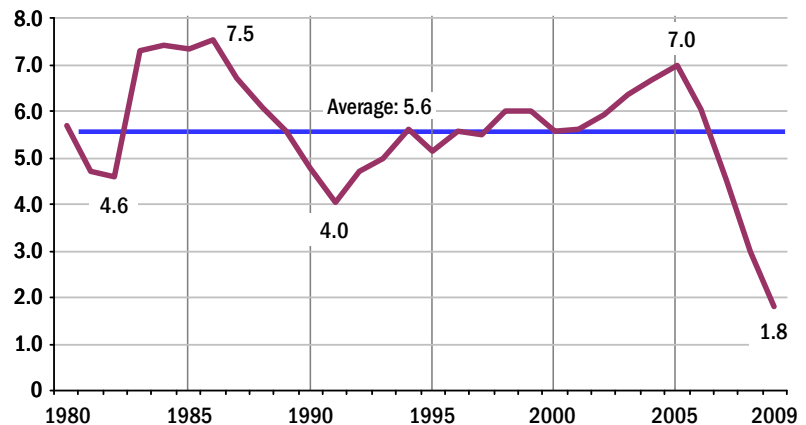
Moreover, there will be plenty of ground to make up. Housing starts per 1,000 population are at their lowest level since the Great Depression; the bounce will be just as big.

Waiting for it to happen is no fun, but it raises a question: Can anything can be done about it? Maybe.

Americans are paying down debt and rebuilding net worth, but we're poorer than we were. Median household income fell 5% during the 2000s and there are no immediate prospects for a surge in high-paying jobs.

When the tax credit was in effect, the action was in entry-level homes. [Some markets even saw shortages and bidding wars](#) – including Las Vegas, with the highest foreclosure rate, the greatest number of underwater homeowners, and as of May, the highest state unemployment rate in the nation. The end of the tax credit takes away

Housing starts per 1,000 population, 1980 - 2009. U.S. Census Bureau



what amounted to a 10% subsidy, which means home prices will probably fall a little further, which in turn means more underwater homeowners and more REO inventory. But builders also found they could compete with foreclosures if they were within 10% to 15% of the price.

Now throw in the demographics: 80 million Millennials with low-paying jobs and often in debt, plus 79 million downsizing Baby Boomers who can't sell their homes now but will probably get less than they hoped when they do.

Everything points to one solution: Build so you can sell at a price the market will bear – not 1% or 2% less, but 15% or maybe even 20%. It can't be done building the way we build now, but it has been done; 60 years ago, Levitt & Sons' tract homes undercut the median home price by more than 25%.

This may be the event that sparks the next round of innovation in home building, but just like 1950, most builders will miss it because they know the market will come back in the long run.

It will, but as economist John Maynard Keynes once noted, "In the long run we are all dead." ☺



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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