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# THIS MONTH

IN CONSTRUCTION SUPPLY

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E-MAIL POLICY: 1) We do not share your email address. 2) If we ever do, my cell number is below so you can call and read me the riot act.

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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Direct Web links to market data, industry research, story sources, and background information.

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**COMPLIMENTARY**

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**DMSI** Software

The logo for DMSI Software, featuring a stylized 'D' with a yellow arrow pointing right, followed by 'MSI' in a bold, sans-serif font, and the word 'Software' in a smaller, regular font.

# THIS MONTH

IN CONSTRUCTION SUPPLY

NOV 2010

## THE BANANA REPUBLIC CRISIS



By Greg Brooks. Even in hard times there is always something to be thankful for at Thanksgiving. One thing I'm thankful for is that people are starting to realize there's something to be thankful for.

Positive economic data continues to pile up, to the point where the media is now mocking "zombie bears" who are ["still betting on economic doomsday – and still waiting."](#) Even the blogs are making an about face: ["13 Signs That the Double Dip is Toast,"](#) reads one headline. [Another is challenging readers](#) to "see if you can guess what economy produced the following year over year changes:

- GDP growth rate +56%
- Personal income +4.35%
- Savings rate +23.91%

- Fixed investment +5.37%
- Steel output +10.32%
- Business sales +8.86%
- Durable goods sales +12.2%
- Factory shipments +7.21%
- Retail store sales +7.31%
- Factory orders +17.18%
- Exports +12.58%

Yep, that's the year in review for the U.S. When you take a look at our new Vital Statistics section on pages 3 and 4, expanded to include economic as well as housing data, you'll see more positive indicators.

With two obvious exceptions: housing and employment. Housing is no mystery; lending needs to return to normal and that won't happen until banks know how big a hit they're going to take on foreclosures. The prevailing view is that 2011 will be slightly better and 2012 moderately better than that, and the real recovery will begin in 2013.

But both the timing and the nature of the recovery will depend heavily on how employment plays out. We added 159,000 private-sector jobs in October, the best monthly showing all year. That's still not good enough; it takes 125,000 new jobs per month just to account for growth in the workforce. Still, the pace should pick up as the recovery continues.

The long-range issue is the quality of those jobs, and that's where zombie bears are making their next stand. The issue is income inequality; the storyline goes like this:

From 1980 to 2005, says the [N.Y. Times](#), "more than four-fifths of the total increase in American incomes went to the top 1%." In 1976 the top 1% took a 9% share of U.S. income; last year they took 24%.

It's even worse when you look at the top 0.1%, the group [Slate](#) calls "the Stinking Rich. Their income share hasn't doubled; it's quadrupled" since the 70s.

Meanwhile, goes the story, middle- and lower-class workers have seen their wages stagnate as high-paying manufacturing jobs were shipped overseas. Eventually two wage earners became necessary to make ends meet, but even that was a stopgap. To continue to funnel wealth to the wealthy, the strategy in the 90s shifted to [easy credit and the promise of home ownership](#).

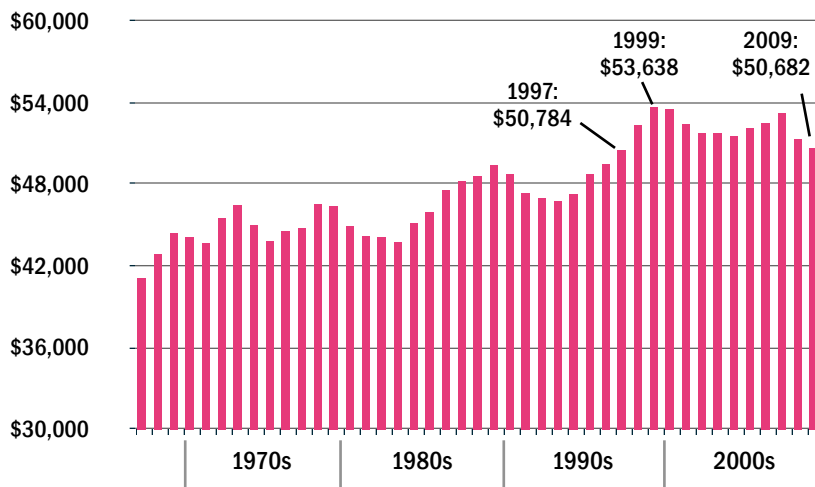
That created the housing bubble, which in turn led to the crash, and here we are, says NYT. "The United States now arguably has a more unequal distribution of wealth than traditional banana republics like Nicaragua, Venezuela, and Guyana."

Stay with me. Just because I'm paranoid doesn't mean someone isn't out to get me.

The numbers are accurate as far as they go. It's true that income disparity between the top 1% and everyone else is at its highest level since the Roaring 20s. The question is whether the rest of us really are

## MEDIAN HOUSEHOLD INCOME, 1967 - 2009 (2010 \$)

Census Bureau



on a slow train to serfdom.

Not according to the Census Bureau. While median household income has fallen 5.5% from its 1999 peak, it's still higher (adjusted for inflation) than at any point from 1967 through 1996.

Apparently the number of wage-earners was not a factor, either. In 1980, says the Census Bureau, 35.9% of U.S. households had one wage-earner while 44.1% had two or more. In 2008 those percentages were 36.9% and 41.8% respectively, which is to say virtually unchanged.

## YOU'RE INVITED...

**THISMONTH** in Construction Supply is working with FPInnovations, Canada's leading research firm specializing in the forest products sector, on a unique research study into the role of product brands in the building materials industry. This study will provide valuable insights into

- The importance of manufacturers' brands in four major product categories.
- Who drives the sale — the brand or the channel?
- What makes a brand valuable to a manufacturer's distribution channel partners?
- Do brands command loyalty within the distribution channel?

We invite you to participate in the survey, in exchange for a copy of the final report once the study is complete. It should take no more than 5 to 10 minutes and your responses will be completely anonymous.

To take the survey, [click here](#).

Thanks for your help! If you have any questions or comments, feel free to call me on my cell phone, 303 845 4880.

Greg Brooks, editor

**THISMONTH** in Construction Supply

# Agility Gives Harper Chambers Confidence

Five years ago, Steve Chambers, president of Harper Chambers Lumber Company in Tuscaloosa, AL, set out to find someone who wasn't happy with their DMSi Agility Software. At the time, he was unhappy with the Activant CSD system he was using and was skeptical of other packages. "I was doing a lot of due diligence when looking into DMSi," Chambers explained. "It became my mission to find someone who didn't like DMSi and I still can't find them."

Now Chambers feels secure about his company's business and accounting system, Agility. "On our old CSD system, I ran a ton of things outside of the system to make sure that my numbers were correct because I didn't trust their reports," Chambers described. "When we first got on Agility, I thought the system was wrong. Now I'm like, 'what did I do wrong?' because I know the system is right. It is always right."

Agility ensures Harper Chambers has an accurate inventory, which has greatly changed business processes. "I would rather have an inventory number that is 95% right everyday than 100% one time a year," Chambers explained. "So, we began a cycle counting procedure and do it every day. It is just standard."

When they started using Agility, Harper Chambers was surprised at the depth of inventory control functionalities. "For a long time, we didn't look at DMSi because we had pigeonholed them

as distribution/wholesaler operation software," Chambers said. "Once we got to looking at it, we were blown away by the level of inventory control. No one else is anywhere close to where Agility is. It is laughable how far ahead it is."

Harper Chambers runs Agility in a secure hosted format, or Software as a Service (SaaS). "Running Agility in the hosted environment is the best money I've spent," Chambers added. "I don't have to worry. This allows the company to eliminate servers and all of the associated maintenance costs. They have access to Agility from anywhere via a simple Internet connection. Harper Chambers is able to have confidence in the data and can access Agility's robust features with plenty of speed to serve their customers."

"Thank goodness we implemented Agility when we did because now that things have turned down in the market, it has made it much easier to manage our business," Chambers concluded.

## About DMSi

DMSi Software is a privately held company providing software to nearly 400 building materials companies in North America. Since 1976, DMSi Software has consistently empowered its users to become more productive, competitive and efficient. For more information on DMSi Software, please call 800-347-6720 or visit [dmsi.com](http://dmsi.com).



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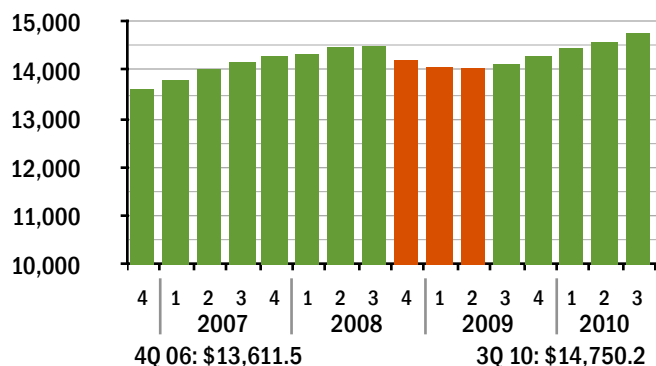


**DMSi** Software

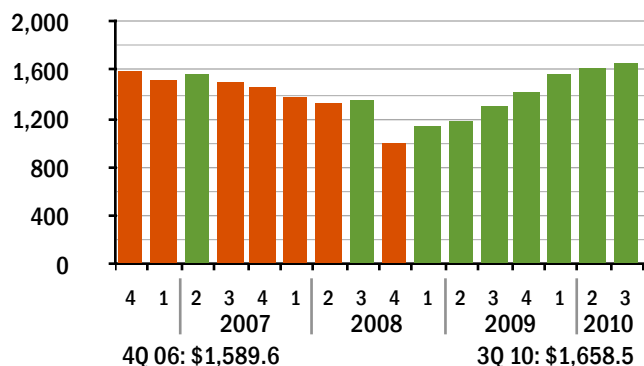
Run Better.

# VITAL STATISTICS: U.S. ECONOMY

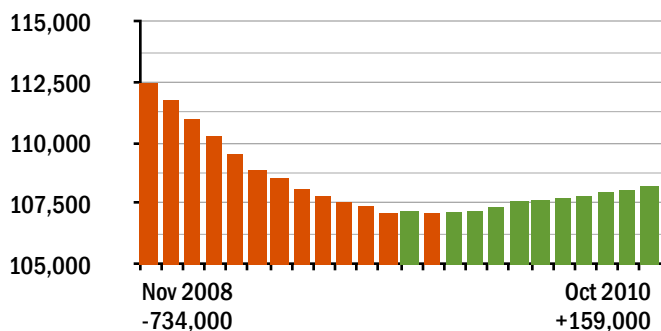
**GROSS DOMESTIC PRODUCT (\$ BIL)**



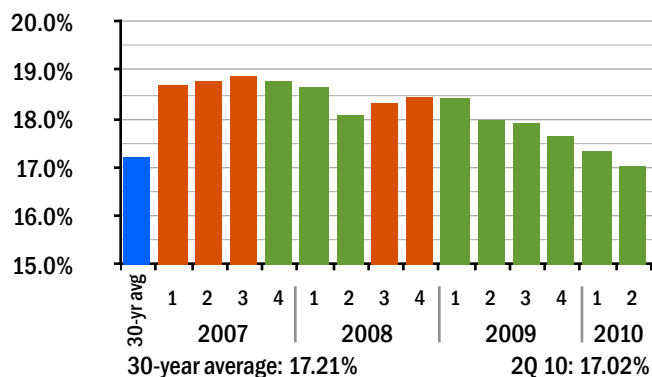
**ANNUALIZED CORPORATE PROFITS (\$ BIL)**



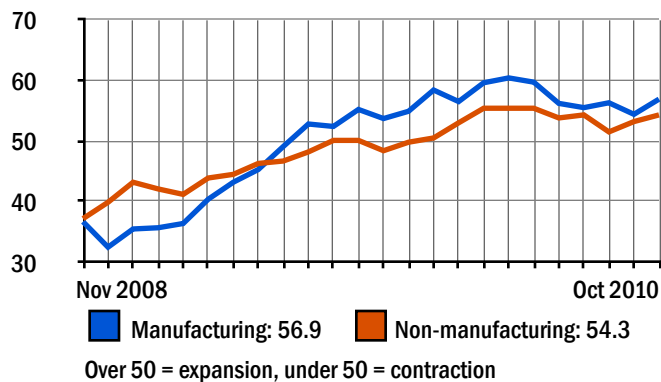
**PRIVATE-SECTOR EMPLOYMENT (000)**



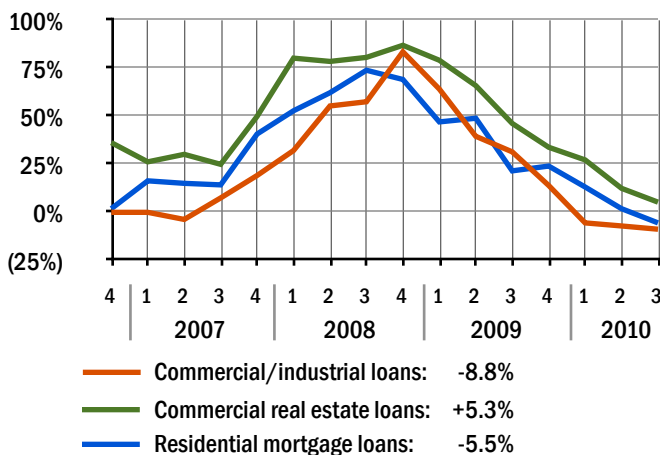
**HOUSEHOLD DEBT % OF DISPOSABLE INCOME**



**ISM PURCHASING MANAGERS' INDEX**



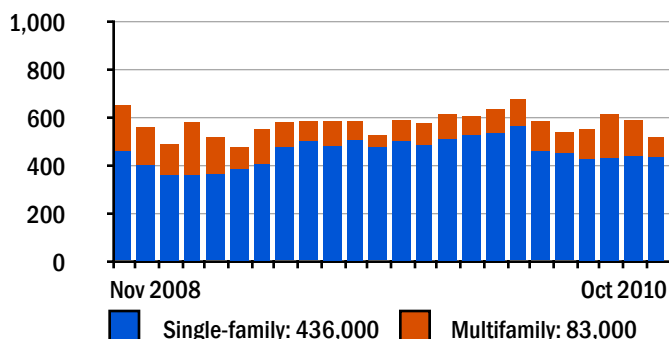
**% OF BANKS TIGHTENING LENDING STANDARDS**



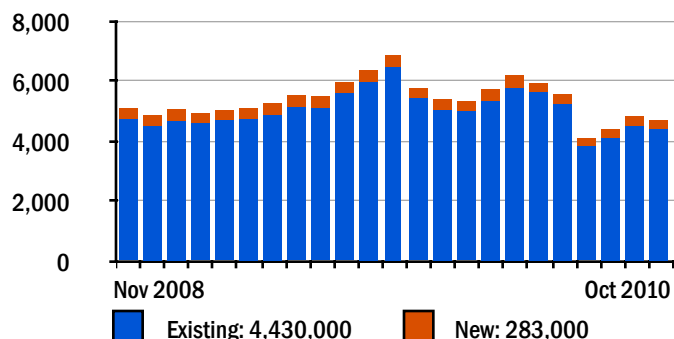
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board, Institute for Supply Management

# VITAL STATISTICS: HOUSING

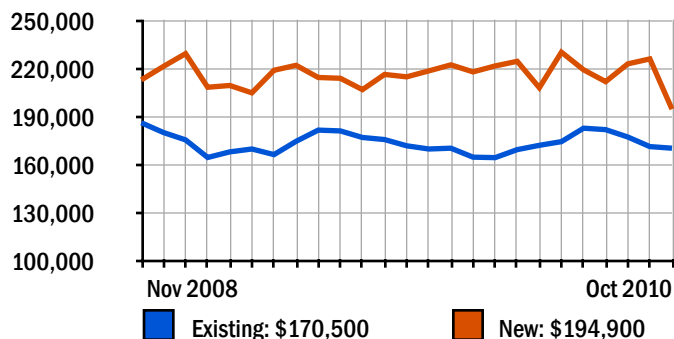
**ANNUALIZED HOUSING STARTS (000)**



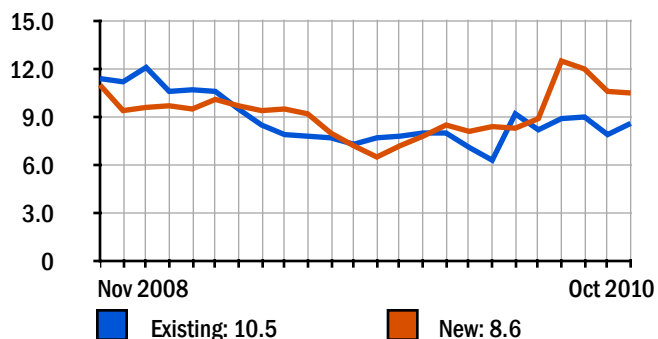
**ANNUALIZED HOME SALES (000)**



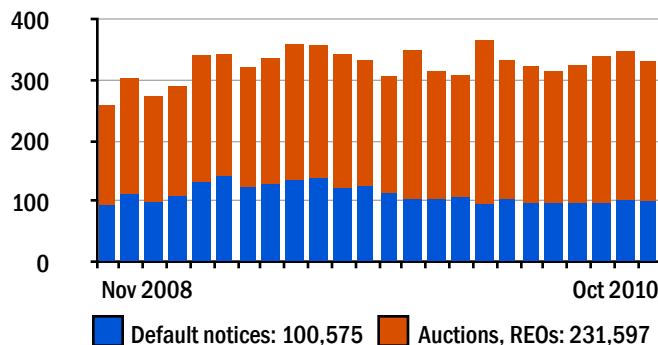
**MEDIAN HOME PRICES**



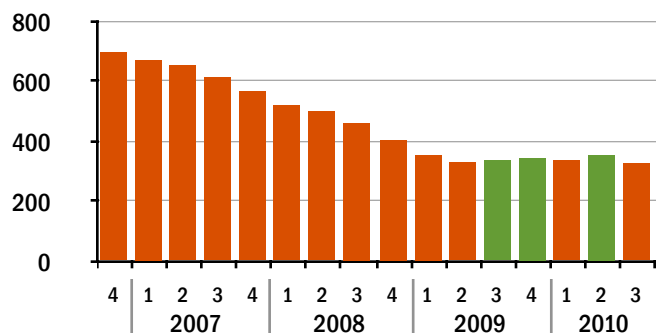
**UNSOLD INVENTORY (MONTHS)**



**FORECLOSURES (000)**



**RESIDENTIAL INVESTMENT (2010 \$ BIL)**



[Download current Econo-Matrix 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, RealtyTrac. EconoMatrix data compiled by:



Moreover, the breakdown between low- and high-income households is significantly better than it was 40 years ago. Adjusted for inflation, over 60% of households earned less than \$50,000 in 1968 versus 6.4% over \$100,000. In 2008, less than half were below the \$50,000 mark while over 20% earned six-figure incomes.

The reality is that median income always declines in a recession, and while there's no question a lot of people are struggling right now, the notion that the middle class is dying just doesn't hold water.

That bodes well for the next housing boom; it means the move-up market is likely to be alive and well, too. But it also means builders and suppliers will face a challenge from a different direction.

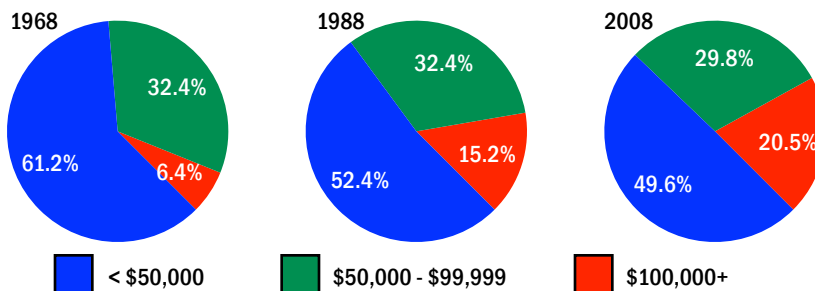
It's generally true that we're losing semi-skilled jobs for semi-educated workers, albeit more from productivity gains than offshoring. According to the [Bureau of Labor Statistics](#), the unemployment rate in October was 14.0% among high school dropouts, 9.2% among high school grads, and 4.5% among workers with a college degree.

A bachelor's degree has become the new high school diploma, and for the moment we'll set aside the question of why that doesn't seem to include spelling and grammar.

The fact is that construction and distribution have never been at the top of anyone's career list. Today's twentysomethings want to be actuaries or software engineers or systems

### PERCENTAGE OF HOUSEHOLDS BY INCOME BRACKET

Census Bureau, all 2008 \$



analysts; in one [job ranking](#), sewage plant operator outsourced sales rep, purchasing agent, forklift driver, and carpenter.

Given the length of the downturn, the industry has lost thousands of experienced people who will never be back. That probably means some severe recruiting and training challenges when the market turns.

The good news is that not everyone gets to be a sewage plant operator. There's at least a reasonable chance that living in Mom & Dad's basement for a year or two will make twentysomethings a little more flexible about their career choices.

Which could translate into an opportunity. While construction and construction supply may not be glamorous, they're among the handful of remaining industries in which you can make a good living without a college degree.

Just like all the other dire warnings, the angst over jobs for semi-skilled workers is probably vastly overstated. When the time comes, we've got two or three million of them right here.

Greg Brooks, editor of THIS-MONTH, 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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