THE PARLIMENT PAGES

OCTOBER, 2014

THE LAW OF UNINTENDED CONSEQUENCES –

We, at Parliment are clearly believers in a free market society. We believe the natural movements of markets will eventually solve most problems that arise in commerce. Unfortunately, our government does not believe in free market and the leadership of this country for years has believed that they can fix the natural forces of a free market through laws, regulation, and incentives.

There are so many cases of this, it would be impossible to list them all. From a social perspective, look at what the war on poverty has accomplished. Under Lyndon Johnson's leadership, we were led to believe that government programs would forever solve poverty and give everyone a higher economic standard. Here we are almost 50 years later and our poverty is far worse and we have created a whole class of individuals who have never worked and probably never will. That class of individuals has become a cultural subset of our country where these beliefs and attitudes will pass from generation to generation.

In commerce, Burger King and Tim Hortons are in the process of a transaction known as inversion that is being forced on corporate America because of our high corporate tax rate. The United States is the only major country in the world that taxes worldwide earnings. It doesn't make any difference where the money was made, the corporation is still required to pay U.S. taxes on it. In some cases that money can be temporarily sheltered in certain countries, however once the money is repatriated to the United States, taxes are due at that time. So the intention was to increase tax revenues, however, companies are now leaving the U.S. and domiciling their headquarters elsewhere to avoid this confiscatory tax law.

This is not limited to one party or the other. In the late 1980's President Reagan forced the passage of a luxury tax to be paid by the wealthy when they bought planes, boats, luxury cars and expensive jewelry. The wealthy quit buying these products altogether or bought them in a different location. This tax raised a total of $8 million in tax revenues but cost over 250,000 jobs throughout those industry sectors.

The Affordable Health Care Act (ACA) is another example. Preliminary indications of this ridiculous law are just now being felt. While the intention may have been good, the end result will be an extraordinary increase in health care cost coupled with decreased quality of care. This will undoubtedly go down as one of the worst bills ever passed. And the consequences will be a major drain on our economy for decades to come.

No one can create unintended consequences as efficiently as our government. In fact, an argument can be made that is the only thing they do efficiently. Continue reading for an example that will have a major impact on our industry.

STUDENT LOANS –

Recognizing that advanced education was of paramount importance to the future success of our country, the Government decided it needed to help foster a program that would promote more affordable higher education. Accordingly, a massive program of federally guaranteed student loans was rolled out. There were little, if any, credit restrictions. There was no linkage between the cost of the education provided and the benefit that would accrue from it.

As this program hit its stride, the economy took a nosedive in 2007. Graduating high school and undergraduate students who would normally have entered the job market, found no jobs available. With little hope for employment, those students decided to enter college or stay longer for a post-graduate degree. Colleges and universities spent more money marketing their programs than ever and accordingly applications soared. Admissions officers were trained in various types of student loans and started handing them out like cotton candy at the summer fair.

Loan balances skyrocketed and now there are far more student loans than all credit cards combined. This is an unbelievable statistic and one that is brand new to modern economic thinking.

Now, let's look at the present times. Students are now coming out of these programs and the job market continues to be weak. So, on top of not being able to find a decent job, these young adults are also now saddled with huge debts. I have a young friend and he and his wife respectfully have a PhD and Law Degree. Between the two of them, they make about $80,000 a year but they have over $400,000 of student loan debt. I recently asked them when they were going to buy their first house and they just laughed. They said that type of purchase was so far down the road, they could not even imagine it.

WHAT THIS MEANS TO OUR INDUSTRY –

In 2012, home ownership in the 18-34-age bracket fell to 34% from a high pre-recession of 47%. This is an incredible headwind on the housing recovery and for the economy as a whole. The average house bought by this age group is around $200,000. On top of the purchase of the house goes all of the furniture, fixtures and appliances that are now needed. In addition, the vast majority of this amount is typically financed. When you finance a purchase like this, you add strength to the economy by creating value through leverage. As we know, housing is a labor intensive industry and the impact on the construction labor market is one of the biggest drivers of our economy.

This situation is not going to reverse itself overnight. Student loans continue to climb and the payoffs are long, long term. Until those loans are worked down to a reasonable level, that first time home buyer will become even more scarce. The loss of these first time sales, the ancillary purchases, the leverage of borrowing and the reduction of the construction labor force are not good news for a sustained housing recovery.

Just another example of an unintended consequence created by the buffoons in Washington.

THE OVERALL HEALTH OF THE INDUSTRY –

Macro statistics continue to be flat and uneventful. Just when a bright spot appears, the next monthly reporting dashes it. In our market, we hear some cautious optimism. Sales are increasing moderately but profits are harder to come by. That seems to be the story up and down the whole distribution line from manufacturer to distributor to dealer.

Rising raw material costs are squeezing manufacturers. This was something that we predicted would result from the cut back in capacity and the expensive nature of restoring capacity to the market demand. Most manufacturers are already announcing price increases that will be taking place between now and the end of the year. Distributors and dealers are feeling price pressures from “stupid” competition that chases deals all the way to the bottom of the price structure. By and large, we hear most of our customers tell us that they are making a living but not really making a profit.

We continue to believe our beginning of the year projections will be correct, however, the numbers will be heavier on the multi-family instead of the single family that we had hoped to see. On the distant horizon, we don’t see a lot of reason for optimism. Wages are flat, hours are flat, investment is lukewarm and regulation continues to impede the free market. As one of our economic sources says, “We are in a plough horse economy.” Nothing fast, just progressing along at a slow pace. While it could be worse, we believe we are in a status quo market with little chance of a major breakout.

IMPORT TARIFFS –

Last quarter we talked about the countervailing lawsuits surrounding bulk and collated nails. Those suits continue, as we expected, and the market is starting to feel the impact. The five countries involved in the suits provide over 33% of the total nails used in this country. This will continue to create a growing mess going forward. Watch your inventory levels closely as product shortages will most certainly appear and prices will go up.

As if countervailing action on nails was not enough, lawsuits were recently filed against Turkey and Mexico for price dumping of steel rebar. Turkey came out of this ok, but Mexico is getting hit with a whopping average of a 21% tariff. As Mexico has always been a big supplier of imported bar, the effects of this will be felt at many levels.

BUSINESS PLANNING –

This is the time of year that astute business people generally will start thinking about their business planning process. We are huge believers of a business plan for a number of reasons. One of the most important is that the planning process itself can be an invigorating event that will take you out of the day-to-day pressures. It creates a sense of proactive planning instead of reactive problem solving that generally occupies most of our time.

Once complete, the plan will provide you with the basis for accountability within your organization. Over and over we hear complaints that your employees are just not accountable. Quite simply, it is very difficult to create accountabilities unless you have a base-line plan from which to measure.

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A business plan is far more than a budget. A good plan will look at all aspects of your business and will help define changes that will need to be made. Just the simple act of recognizing these changes is a giant step forward.

Once complete, share the plan with your employees. They need to see what is on your agenda. You might even be surprised at how some of them will want to know how they can help you advance that agenda.

If you need a little assistance in going about this process, give us a call. We have had lots of very successful experience in this area and will gladly share with you some of the processes we use.

NEW PRODUCTS –

Successful new products are the very lifeblood of a distributor. We work diligently to insure that we bring in only the best products. As one of the few independent distributors in the SE United States, we are constantly put in front of all sorts of offerings. We study the product, the research, the support and the market to make sure we have something that will benefit your business.

Occasionally, we find that big-time winner. We are pleased to announce that we are now the distributors for Stego Wrap. We are sure most of you do not need an introduction to this well-known brand of a vapor moisture barrier material. Stego is used extensively in commercial applications and carries the brand leader reputation.

Recently they announced an expansion from their commercial footprint into a residential product. In many parts of the country, there has been growing concern over Radon, especially in off-grade houses. Stego has a product that is specifically designed for the residential market to help protect against this Radon issue.

Parliment has a complete inventory of the product and can help you expand your residential sales as well as get a stronger foothold into commercial sales.

Personal News -

My mother Anne Parliment passed away August 17th 2014. She was 91 years old and had a long and happy life. A lot of you that receive the "Parliment Pages" contacted me to offer your condolences. I thank you for your thoughts and prayers during this most trying of times for me.

Chuck

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