THE PARLIMENT PAGES

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ANNUAL PREDICTION TIME -

It's amazing, but this issue marks the 12th time we have put our annual industry predictions out there. Obviously, it is always with a little bit of trepidation that we pull out last year's issue and see just how we did. Well, we are pleased to report that we were spot on with what actually happened. In fact, with the exception of the crash, which we as well as many others missed, we have pretty much been on target every year.

Does that make us super economic gurus? Not really. We really work hard at reading and listening to others. It was once said that a good artist copies others and a great artist steals from others. Well, I think we are somewhere in between. At last count, we have over 20 sources of published information that we read and study diligently. Add to that the numerous conversations that we have over the course of every day with our customers, suppliers and manufacturers.

In the end, all we do is take all of that information, steal a little here and little there and draw our conclusions from this vast pool of knowledge. It has served us well and we think will continue to help guides us, and you, on the future trends of the industry.

HOW ABOUT 2015? -

One of our regular sources of data has consistently over the past 3 years referred to our economy as a "plow horse economy." As you know, a plow horse moves slowly and steadily, not setting any records, not creating any "flash," but just diligently getting the job done. Despite everything other descriptor you could come up with, we think that terminology says it best.

On the whole, nothing earth-shattering happened in the economy in 2015. Most all indices were either flat or showed marginal improvement. Aside from the recent crash in oil and a couple of other less significant sectors, everything just seemed to move along at the plow horse pace.

Our predictions for 2015 called for total housing starts of around 1.2 million with about 500,000 to 600,000 of them being single family with the balance being multi-family. It looks like that total number is going to be spot on with the actual results for 2015. However, the multi-family component will end up slightly higher than we predicted. This is somewhat mitigated by the fact that in the closing months of 2015 multi-family has dropped off quite dramatically, while the single family numbers have picked up the slack and are showing a strong end-of-the year performance.
A year ago we predicted that the Federal Reserve would finally act on raising interest rates and that such a raise would be insignificant. That is exactly what did happen with the quarter point increase being met with a big yawn.

We talked about consolidation at all levels within the distribution chain and once again, we were proven correct on that. Significant consolidation did take place at the manufacturing level, the distribution level and on down to the dealer networks. Several headline moves highlighted this trend. While many in the industry expressed surprise, our writings had predicted these well in advance.

We discussed how the growing student debt obligation would hamper first time buyers. That, along with significant demographic shifts, did manifest itself in the product mix that came to market.

All in all, we are pretty proud of our predictions and hope that we can repeat this level of success in 2016.

LET'S HEAR A DRUMROLL FOR THE 2016 PREDICTIONS –

Keeping in the theme of a plow horse economy, we see 2016 as just being another version of the same old plowed 2015 field. Housing starts will be somewhere in the 1.25 million range. However, single family will outperform multi-family by a 2 to 1 margin. This will be the first time in many years that single-family starts have significantly outperformed multi-family. So, look for around 800,000 single and 400,000 multi in 2016.

There has been quite a bit of background chatter about a new housing bubble. I think the evidence of such a bubble is compelling and I also think that bubble has a good likelihood of bursting in 2016. However, and this is important, that bubble is not broad-based but is instead concentrated in just a few large markets. In the Southeast, the only market that we believe could suffer from a bubble burst would be Miami, where prices are up over 70% from their lows of a few years ago. While this "burst bubble" will have some impact on mortgages and other forms of financing, it will not be severe and we do not believe it will have any overall significance to our projection.

2016 INTEREST RATES –

We believe there will be some additional interest rate increases announced by the Federal Reserve. They could amount to as much as .5% throughout the year. These increases will not be driven by the market, but rather by the message that the Fed wants to promote of a healthy economy. Because of the small amount of these increases, there is no practical effect to the economy but really is more about the psychological message. Additionally, we believe the Fed is, in effect, reloading its gun in case of another major downturn in the future. In the past several years, with rates at an effective rate of zero, the Fed did not have any tools to employ. By gradually raising rates now, they will have the tools necessary to lower them again in the future.

A CATASTROPHIC EVENT –

We must face the fact that world politics and economies are unhinged right now. China, parts of Europe, Brazil and several other economic powerhouses are on the verge of significant problems. With all of the economic interconnectivity that currently exists, a major failure by any of those economies could create a domino effect on the rest of the world.

The political uncertainty that presently exists along with the ongoing threat of terrorism is again adding a high degree of risk. Major terrorism events, coupled with poor political leadership could escalate into a war where lines of allegiance are extremely blurred.

The majority of financial experts believe the stock market is overvalued and has been for a number of years. The reasons for the overvaluation are not important, but the question must be asked as to when a correction may take place, and to what extent that correction may look like. A major 30%-40% correction is possible and that level of wealth diminishment would likely cause a severe negative ripple throughout our economy.

Any one of these catastrophic events could totally negate our predictions. However, we are hopeful and believe that we will somehow stumble through 2016 without any of these negatives.

2016 PRICING –

In 2015 we actually saw many products decrease in prices. In fact, our tonnage volume for 2015 was up while the sales dollars remained somewhat flat. We expect this to continue into 2016 and maybe even a little beyond.

This deflation of pricing can be attributed to a slower worldwide demand, primarily China, and an abundance of resources that are used in manufacturing, along with major currency devaluations. For instance, scrap steel inventories are extremely high with price erosion as a consequence.

For the business owner, deflation requires careful management in order to maintain bottom line profitability. Managing inventories in a deflationary environment can help avoid inventory write-downs. Increasing profit margins is critical, as you will have fewer sales dollars to handle the same operational costs. In short, 2016 is a year to watch inventory and gross profit margins.

OPERATING COSTS –

For many in our industry, two of our biggest operating costs are personnel and fuel. Labor costs have remained steady for the past 7 years. While there is a small uptick in effective hourly pay rates, there is little expectation that 2016 is going to see any type of meaningful increase. Despite the drop in the unemployment rate, the labor participation rate is still at a historic low. That combined with the lack of consumer confidence just doesn't incentivize employees to ask for more money or seek employment elsewhere.

The dramatic fall in the price of oil surprised many. The USA has the largest oil reserves in the world, albeit fracked oil. Saudi Arabia and the other Mid East oil cartel members clearly did not like that competition. By lowering the price, they have effectively ended the fracking industry in this country. The price needs to remain low for another couple of years to put the final nail in coffin, so we can expect that our fuel costs will continue at the present rate easily through 2016 and probably even beyond that.

HOUSE SIZE –

The student loan debt will continue to inhibit the growth of the starter home market. If that market alone would pick up, we would see the housing industry on a rocket ship upward. That is not to be in 2016. However, the good news is that much of our prediction for 2016 is in the second step-up home market where we see some dramatic growth. These second step-up homes are typically larger and for the first time in several years we are seeing predictions for square footage to increase by at least 15%. More materials means more sales.

DISTRIBUTION CHANNEL CHANGES –

Consolidation at all levels will continue. There are several major changes on the horizon that likely will be announced in the first quarter of 2016. Locally, in our market, one of the biggest changes has taken place here at Parliment. After a 20-year plus relationship with Simpson Strong Tie, we got a telephone call informing us that they were cancelling our distributorship agreement and were going with a total direct sales effort. Parliment was their biggest customer, by far, in the Southeast. This type of move is very typical as manufacturers are constantly going back and forth between distributors and direct sales.

While we were shocked at the way it was handled, we actually had anticipated this change for a number of years and are well prepared for this change by taking on the USP product line. As you know USP is a spitting image duplicate of the Simpson products. In fact, all USP boxes have numerical cross-referencing to Simpson codes. USP has all of the same code approvals that attach to Simpson and the product is well recognized by builders and inspectors. While we can’t speak for Simpson, if they continue their current polices, I t will be difficult for much of our customer base to meet minimum purchase and credit requirements.

The USP product is manufactured in Largo, Florida and has excellent customer service. Warren Buffett’s Berkshire Hathaway owns USP. Buffett has recently invested heavily in other building material manufacturing. His purchases of Shaw Carpet, Benjamin Moore Paints, Dur-O-Wall, Acme Brick and several other well-known brands attest to his belief that the housing starts will continue to improve. We are proud to add USP to our branded supplier list.

Conclusion –

Happy New Year to all. It should be an exciting year that will deliver good profits to the smart operators. We thank all of you for your loyalty in the past and promise you the same continued attention to detail and service in the future. ***You Can Rely On Us!***