THE PARLIMENT PAGES

APRIL, 2016

IT'S THAT TIME OF THE YEAR –

This is not a good time of the year to hang around with me. I spent the better part of last weekend assembling all of the information necessary to get my tax return prepared. First, let's understand that I am a former CPA and yet, in spite of that training and experience, I do not feel qualified to do my own taxes. Therefore, just the vast complexity of my return and a 74,000 page tax code, requires me to hire and pay for outside assistance. That outside assistance is not cheap and is just one more example of the "hidden" cost of tax compliance.

In a week or so, I will get back my return and will undoubtedly have to write a check for not only my taxes due for 2015 but also a big prepayment for expected taxes in 2016. As I review the hundred or so pages of my return, I will see taxes for income, capital gains, foreign earnings, self-employment, excise (which I don't even know what that is) and maybe even some tax for health care. This will all add up to over 45% of my earnings from last year. Think about that. For every dollar I earn, I must give almost half of that to the Federal Government. And we are in a low tax state. If we lived in a state with state income taxes that number would probably be over half of my earnings.

However, that is just the start. There are other taxes that we pay that we sometimes don't even see: Taxes on airline travel, cigarettes, beer and alcohol, Medicare tax, unemployment tax (so that unemployed can receive almost 2 years of payments), social security tax, Obama care tax on the sale of a house, estate tax, corporate income tax, licenses for fishing, hunting, driving (and even dogs), property taxes, garbage collection taxes, gasoline taxes, hotel taxes, import taxes, rental car taxes, taxes on insurance premiums (bet you didn't know about that one), luxury taxes, marriage licenses (why?), tolls, sports stadium surtaxes, tanning bed tax (where did that one come from), cellphone tax, cable provider tax, new tire tax, workman's comp tax, and on and on and on.

All told, I would be afraid to add up how much more of my income is sucked into the tax system. But it is infuriating to look at some of these and ask the simple question, "Aren't these "services" supposed to be covered by our income taxes? And then, you must realize that despite all of these taxes, our combined local, state, and Federal Governments must still borrow almost 40% of the money they spend. Yes, that is correct. This country does not have an income problem. It has a spending problem.

Just think what our economy would be like if we had a portion of this money back in our pockets to invest in our businesses and spend on goods and services.

UPDATE ON PROJECTIONS –

While it is way too early in the year to compare results against our annual projections, it is reassuring that everything seems to be tracking as we thought it would. While we are not seeing anything spectacular, we do think we are going to reach the 1.25 million in housing starts for 2016. Most importantly the shift to single family from multi-family still seems to be holding. This shift will be responsible for more gross dollars in revenue coming into our industry.

INTEREST RATES –

In a world filled with acronyms, the people in the financial world have been throwing around a couple of terms that we would like to discuss. Those terms are ZIRPA and NIRPA. ZIRPA has been around for a few years while NIRPA is the new baby on the block. ZIRPA, zero interest rate policy, is the philosophy that the Federal Reserves of most of the Western World have been following for a number of years. That is why your Certificate of Deposit probably yields about .000000123% interest.

There are a number of theories behind ZIRPA. The most prevalent is that low interest rates will spur consumer spending. That has not worked at all. The other reason is a little more complicated and, in effect, is a governmental subterfuge designed to build the strength of the banking industry balance sheets. That has worked exceedingly well.

However, a new madness is creeping into the halls of the world's central banks. That madness is now called NIRPA, which stands for negative interest rates. Yes, that is correct, negative interest rates. This is not just a scheme that has been floated around as an idea. It already exists. You might think that something crazy like this might exist in Zimbabwe or Haiti. No, not there, but instead it presently is the policy in Japan (no surprise), Denmark, several of the Scandinavian countries and even Switzerland!

Mario Draghi is the top dog of the European Union's central bank. He is aggressively moving towards instituting NIRPA throughout the entire EU. Now let's clearly understand what NIRPA is for the consumer and the businessperson alike. You are "taxed" a rate of interest for having money in the bank. Currently that tax is ranging from .25% to .75% depending on the country. So, the higher your balances, the higher the tax you pay for accumulating cash. Again, the theory is that instead of putting money in the bank, you will instead go out and spend it, thus stimulating the economy.

Janet Yellen, the head of the US Federal Bank recently said, "Negative interest rates are something we should not take off the table but should instead consider." The concept of NIRPA is really gaining steam and unless something drastic changes in our economy, it is something we will probably have in place before too long. This seems to me to be so un-American that I can't even begin to talk about my disgust for this line of thinking.

Now, there are a lot of you that say I will just stuff my cash under the mattress. However, there is also a war on cash. The European Union has formally banned the printing of high denomination bills. Larry Summer, former Treasury Secretary in the US has called for a banning of the $100 bills. The ultimate goal of all of these philosophies is to force everything

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into an electronic format where it is easier for the governments to impose yet more taxes and control everyone's spending.

This is very serious and could change forever our capitalistic society.

AS SCARY AS THIS IS, THERE IS A BRIGHT SIDE TO IT –

I believe ZIRPA will result in two major changes in spending trends. More money will be spent on commodities, with real estate being at the top of the list. More money will also flow into the stock market, as people will be desperate for some return on their money. This will likely cause a burst of spending in both of these areas. Unfortunately, as history has proven over and over, a burst in spending in any one area will cause a bubble. And bubbles always burst.

So, we believe we will not see another interest rate boost by the Federal Reserve this year. We further believe that banks will start moving in a NIRPA policy. They may do it gradually through increasing fees, but sometime within the next couple of years, NIRPA will be the norm in the US banking system. As that happens, we will see a rapid increase in real estate construction along with rising profits in our industry. Enjoy the ride, because it will probably be spectacular as long as you get off before it crashes.

PRODUCT PRICING –

It looks like the bottom of steel pricing has come and gone. After a couple of years of flat pricing, we are starting to see signs of gradual increases. There are various causes for these increases. Some can be attributed to the rising cost of raw materials while other portions of the increase are due to supply and demand. On the supply side, there are several major importers who are curtailing production levels to try to force prices up. Demand is also rising as we saw an increase of over 10% in demand over the past twelve months.

So, we are predicting a gradual increase in pricing of all steel based products. That increase will start immediately and will pick up momentum during the summer. Again, this will be gradual, so there will be little need to make large buys in anticipation of future increases.

Other raw materials that are consumed by building products are the various petroleum related items. These can range from plastics to solvents to roofing shingles. With the price of oil recently hitting 10 year lows, it was a bit surprising that we did not see price reductions in those types of products. Evidently, the manufacturers were just taking advantage of that pricing with the belief that it would be temporary. While oil prices have started to rise again, the experts still believe that oil will remain low for quite some time. To better understand these trends, one must first realize the causes of the fall in price in the first place.

The United States has the largest reserves of oil in the world. Unfortunately, most of that oil requires the fracking process to bring the oil out of the ground. OPEC, led primarily by Saudi Arabia, was deathly afraid of American oil threatening their control over worldwide pricing. Therefore, OPEC, again primarily the Saudis, artificially dropped pricing to a point where fracking is no longer economical.

The American "frackers" continued to produce, even at a loss. However, there are a number of events that will take place throughout the balance of the year that will severely threaten the frackers. Frackers borrowed heavily to provide the funds for the high investment in equipment. They pledged their oil reserves as collateral against such loans. Starting in April, these reserves will be re-priced at the current market rates. These events will throw many of these loans into default and will cause chaos in the entire industry.

Oil prices will remain low while this chaos continues. However, as soon as the frackers are put out of business, you can expect those prices to shoot right back up.

We expect fairly level pricing on all petroleum-based products. Unless demand picks up dramatically, you can count on current pricing at least through 2016.

BUILDING ACTIVITY –

Parliment covers most of the state of Florida, Georgia, and South Carolina. For the first time in several years, we are seeing all markets doing well. With rare exception, all of our customers are reporting good activity. In some areas, particularly North Florida, new home inventories are at dangerously low numbers. While the builders feel comfortable with a 6 month supply, North Florida is currently less than 3 months. Keeping inventories at a comfortable level will help drive some growth in our market areas.

What is somewhat comforting is that the pace of building seems consistent as we seem to have moved away from the wild monthly fluctuations that we saw as recently as last year.

HERE AT PARLIMENT –

In our continuing efforts to better serve our customer base, we have continued to add to our already large line of building products. Latest to hit our shelves is the entire line of Polyglass products. This well-known brand is the industry leader in roofing and waterproofing systems. You will be hearing more about these products from our salespeople.

Last quarter we announced that we had shifted from the Simpson brand to USP. The conversion rate has been above our expectations. Many do not fully understand the differences between buying direct from a manufacturer instead of a distributor. There is the common and unsubstantiated belief that a direct buy from the manufacturer will always be at a lower price. This is hardly ever the truth. Manufacturers have minimum purchase levels, freight charges, return and restock charges and a host of other issues that simply makes buying from them difficult to nearly impossible.

A number of years ago, Parliment wrote the "bible" on distribution. We came up with a document that listed the 14 reasons why it was smart to buy from us. If you don't remember that list, ask your Parliment sales person to review that with you on their next visit. We have been in business for many years, growing every year and with a lot of very satisfied customers who understand the importance of those 14 reasons. Take a few minutes and look over those reasons to see why your decision to do business with us makes all of the sense in the world.