

THE PARLIMENT PAGES

September, 2004

ECONOMIC AND MARKET NEWS

Overall Economic News – It never ceases to amaze me how the information that we hear through the media is so contrary to the reality of the facts. If you tune into the national network and news stations, you will hear nothing but doom and gloom. Yet, these are the facts: 1. We have created more new jobs in the past two years than at any time in our history; 2. Over 75% of the jobs lost were not lost to offshoring, but were lost instead to increased domestic productivity; 3. Our manufacturing economy is stronger than it has been since World War II; 4. We export more than 3 times the total exports of China; 5. The USA produces over 1/3 of the worlds production with less than 10% of the population; 6. Unemployment rates and the stock market have no overall effect on the economy; 7. *The Economy of the SE USA (Southeast being defined as any state with either an ACC or SEC football team) would be, on its own, the 4th largest economy in the world and is growing faster than all economies. 60% of the growth in the US is from the SE.*

Soft Landing – For the past two years, our newsletters have contained nothing but upward predictions of the future. While things couldn't be better now, there is also some definitive talk of a soft-landing in the latter part of 2005. *The projections are that for the next 10 – 12 months, we will be on an economic high that will be one of the best we have seen.* However, now comes the tough part of predictions. Predictions are easy when all indicators point the same direction, but when they start to go in different directions, it takes some more intuitive thinking. All experts are clearly foreseeing a slowdown next year. Most see it as a mild slowdown that will be characterized by a slowing growth rate of about 2% as compared to the 4.5% we are presently experiencing. However, we have decided to go out on a limb and project that we are going to be different. We think the difference will result from the billions of dollars that will be pumped into our local economies to repair and replace all of the construction due to the hurricanes. That artificial and unexpected influx of spending will tide us over until the economy recovers from the soft landing and again soars upward in late 2006. *While housing starts may slow, we believe construction dollars will continue to grow.*

Interest Rates– No one who is credible sees anything earth shattering in interest rate increases. Most everyone agrees that we will see rates climb about a point a year for the next two years. *That will have virtually no negative impact on the economy as a whole, the short-term lending demand, or the all important mortgage business.*

Fuel Prices – As we predicted in the last 3 newsletters, fuel prices have remained stubbornly high. Don't expect it to change anytime in the near-term future. We believe \$1.85 - \$2.00 per gallon gas is here to stay. In fact, long-term, we believe we will be lucky if it stays in the \$2.00 range. *This will have far reaching impact on our operating costs and the costs of fuel derivative products such as poly and other plastics.*

Hurricanes Galore – Let there be no doubt that we now understand what it is like to have a bulls eye painted on us. After 4 direct hits, enough is enough. However let's understand that these storms will have an incredible effect on all of our businesses. Let's talk about each of the different aspects. First, we all know that our sales will lag while everyone gets back open and operational. However, immediately following the "Open For Business" signs, we should see a spike as people buy emergency stuff. At last count, *after 4 storms, it is estimated that over 250,000 roofs will have to be repaired or replaced in Florida alone.* That is a lot of nails. This is where it could get interesting. Some counties are talking about limiting new building construction for as long as 6 months. Some have already done it while some have tried it and already rescinded it. Why a moratorium? There appears to be great concern that the limiting factor on rebuilding will be labor. (Should be no surprise.) County officials are worried that the labor will go to new construction instead of repair work unless they step in and stop it. Don't know how this will play out.

What we do know for certain is that the *central part of Florida and Georgia learned that hurricanes are not just a coastal problem.* In fact, it looks like more damage was done inland than on the coast. This will raise a whole new level of awareness amongst a population that never worried about storms. Now that they are worried, you will see additional product sales and a *new level of interest in building code enforcement.* The last storm impact will come from inflationary pressure on products. *You cannot put billions of dollars of product into an economy without some upward pricing pressures.* We will talk about that later in this letter.

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Housing Starts – There is absolutely no doubt that there is a projection for a soft landing in housing starts in mid to late 2005. Being the contrary-devils-advocate that I normally am, I pressed our economic expert on this issue claiming that our market was different and I thought it would stay strong with no soft landing. He patiently explained to me that everyone in Florida thinks they are different but historically, we have followed the national trends almost exactly. However, the wild card is the impact that we discussed earlier from all of the hurricanes. It really is too early to tell and after all, we are talking about 12 months from now. We will keep you posted as we gain a little clarity.

For now however, take a peek at the back page. From July, 03 to August 04, our market area has seen a rolling annual average increase of over \$260,000,000 in housing construction. Even IF that number softens somewhat, it is still spectacular numbers.

PRODUCT PRICING

Long-term pricing trends – It appears this paragraph can remain virtually the same as last quarter. We were proven correct in our predictions early last fall. 2004 will go down as a year of incredible price increases. Many products increased over 30% in cost with an overall average in our product mix well in excess of 20%. What will 2005 bring? We are ready to go on record for our predictions for 2005. Most of the increases in 2004 were caused by the confluence of 3 factors (remember the Perfect Storm). There was unprecedented consumption by China; scrap prices skyrocketed at that the same time that domestic production was slow off the market; the world economic recovery created unexpected demand. Fortunately the sun is now shining and two of those three have moved off. We do not see a great re-emergence of the China demand. We believe most of the Chinese demand will be handled by their own domestic production. It appears the Chinese government is saying “too much prosperity for our population may not be good.” Therefore, we see the brakes being applied as there is an intentional effort to slow down their economy. As a result, much of the import product that theretofore had gone to China will now be coming here. Next, scrap steel has stabilized in pricing and we do not see that going bonkers again. The good news is that the economic recovery is healthy and will continue to consume. With all of that said, we do not see any great price increases or decreases in 2005. There may be some periodic shifts and certain products may be subject to other pressures. Our salespeople will keep you posted regularly on all pricing situations.

Short-term pricing trends – We do see a short-term correction on some bar pricing. However, that will be absorbed by the market very quickly and is a painful lesson to many importers who ended up bringing in some bar at prices higher than domestic. They will not be so quick on the trigger in the future, so rest assured, we don't believe you will see huge oversupply anytime soon.

Some more bad news on the supply side. Georgetown Steel has reopened out of bankruptcy. However, they have decided to produce high carbon wire rod which is not used in the construction industry. Therefore, no relief in sight on wire rod products.

Overall, our advice is no need to build or reduce inventories because of pricing. Keep your normal levels and you will be ok.

VALUE-ADDED DIFFERENTIATION

After talking with numerous customers and seeing pages of research, I have come to the conclusion that there is a definite shift in the demographics of your customers. It seems that most builders are either “older” or “younger” with not many in between. We also are hearing that the older builders typically took great pride in the knowledge and ability whereas the younger builder are depending more on their suppliers for the knowledge. Take a look at your customer base and see if it fits that pattern. If so, which I bet it does, you have a great opportunity to provide value-added differentiation.

The younger builders are going to look to you for more answers and suggestions. Consider the following for your business:

- Are you spending enough time with your builders to better understand their strengths and weaknesses?
- Are your sales people properly trained so that they can pass on knowledge?
- Do you encourage or discourage your customers from seeking your help?
- Are your customers aware that you are willing to help and how do you PROACTIVELY promote that message?

You Can Rely on Us
155 Edgewood Ave. S. Jacksonville, FL 32254
Ph# 904-387-8444 Toll Free – 866-387-7601 fax 904-387-8465

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- Are your customers asking for a product or are you suggesting? (HINT- If your customer is asking for a product, you are subject to commoditization whereas if you are suggesting something to your customer, you become a source of solutions.)

It is interesting to me that the big box boys typically fail miserably on most of these points. With their failure, comes great opportunity for you.

SALES, MANAGEMENT AND TECHNICAL TRAINING OPPORTUNITIES

The sales staff at Parliment Steel has a combined 250 years of experience or an average of over 24 years each. One of the owners has an international reputation as one of the best sales trainers and management consultants, as well as a best selling author of 3 books ("Let's Get Results, not Excuses," "When the Other Guy's Price is Lower" and the latest, "Knockdown.") *We can add to your regular sales meeting or your annual planning sessions in any of the following:*

1. Technical product training
2. Sales training
3. Building a brand for your company
4. New product introduction
5. Value-added selling
6. Creating a winning culture
7. Facilitation of business planning meetings

All you have to do is ask and we will be there to help. Call now and reserve a date.

SPECIFIC PRODUCT NEWS

Weslock – *We are astounded by the quick response we are having to our lock and door latch line. We expected it to slowly build and instead are finding customers that are clamoring to be stocking dealers. We are committed to not overstocking geographic areas, so we encourage you to look seriously at our Weslock product line before it is not available to you. In making their decision to stock the product, our customers are finding the following:*

- It is a superb quality product with modern design features;
- It is priced competitively;
- The product is easier to install than the competitors;
- Lead times on orders are about ½ of the others;
- The products are not offered in the big box stores so that you don't have the down-the-street price competition;
- They have a matching accessory line that allows you to match up towel bars, bathroom hardware and soon even hinges and other hardware items. This will give you a strong design advantage;
- They offer all of the various rebate programs to the builder to incent their buying decisions;
- They will call directly on the builder on your behalf to promote the product and offer special project incentives;
- They have a dedicated full-time sales person in our area who will meet jointly with you and your builder to explain their various programs. This sales person is also scheduled to meet with design houses and architects to build specification demand.
- And the best of all is that Parliment will stock the product to the extent necessary to give you the inventory support that you expect from us.

This is a winner all around and we see this as one of the most important product decisions we have ever made.

Package Nails – Once again we have hit upon a winner. We now have nails in 1# and 5# clear **PLASTIC** re-sealable containers. The builders love them. No more wet soggy cardboard containers full of rusted nails. No more peering through some plastic window to see what product is inside. And you have the opportunity to **PRIVATE LABEL** them with your name, location and telephone number. *Great way to build your brand and develop loyalty with a product package that no one else has.*

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