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# THIS MONTH

IN CONSTRUCTION SUPPLY

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Greg Brooks, editor | 303 845 4880

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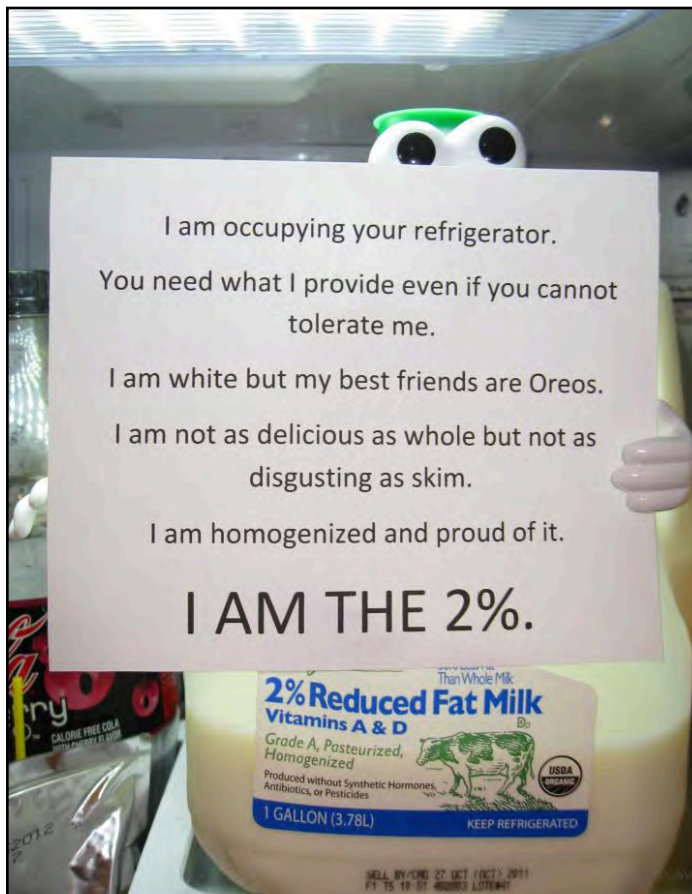


# THIS MONTH

IN CONSTRUCTION SUPPLY

NOV 2011

## OCCUPATIONAL HAZARDS



By Greg Brooks. You've probably noticed that Americans aren't particularly happy right now, and everyone knows that when we get unhappy, we occupy stuff.

But everyone also says Americans are deeply divided and that's not 100% true. Even if the only thing you've ever occu-

piated is your chair, chances are you're standing shoulder-to-shoulder with Occupy Wall Street when it comes to Congress.

A recent CBS News/New York Times poll found that only [9% of Americans](#) approve of the job Congress is doing, the lowest since CBS/NYT began asking 34 years ago.

To put it in perspective, other recent polls say 11% approve of polygamy, 11% would approve of a communist takeover in the U.S., 23% think big banks are doing a heckuva job, and 30% approve of pornography. On the bright side, Congress is more popular than Fidel Castro (5%).

But people have this all wrong. They're angry because they think Congress is too gridlocked to solve our problems, especially the national debt. Actually the debt crisis is on the verge of being solved specifically *because of* gridlock.

Back in August, when lawmakers were gridlocked over the debt ceiling, their solution was to kick the can to a bipartisan "super-committee." Its job was to find a formula to reduce the deficit by \$1.5 trillion over the next decade. To encourage compromise, the deal was that across-the-board spending cuts worth \$1.2 trillion would automatically be implemented if the committee couldn't reach an agreement by November 21st.

Guess what? [They couldn't do it](#). The impasse was over tax cuts due to expire

at the end of 2012: the Bush tax cuts of 2001 and 2003 plus Obama's 2009 and 2010 cuts. They were all originally intended to be temporary, but Republicans insisted on making them permanent for everyone. Democrats wanted to extend them only for lower- and middle-income taxpayers.

But here's the deal: If Congress can manage to stay gridlocked for another year (seems easy enough), not only will the automatic spending cuts be in effect, those tax cuts (along with a few other exemptions and giveaways) will expire for everyone. The result would be that the [deficit would fall by \\$7.1 trillion](#) over the next ten years. That's \$200 billion *more* than we need to balance the budget.

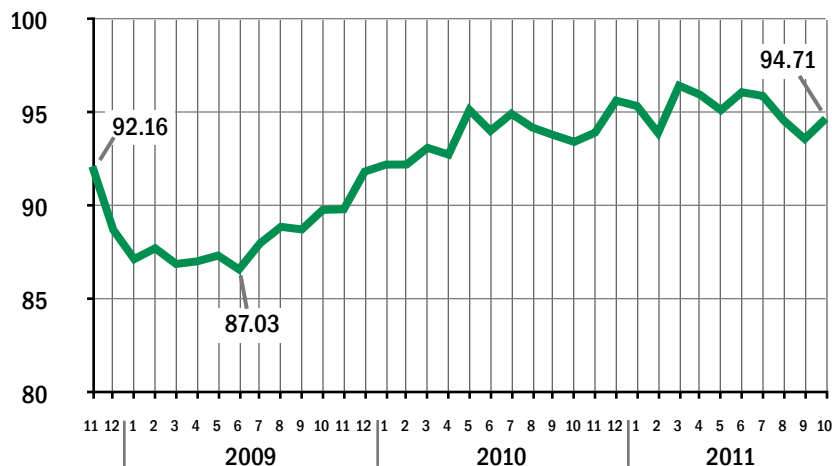
This is nothing short of genius. Lawmakers have figured out how to simultaneously do nothing, solve the problem, and preserve their ability to blame each other for anything we don't like. If Americans fully understood this, Congress would be as popular as pornography.

Well, maybe not quite. To be that popular, lawmakers would also have to figure out how to jumpstart the housing market while doing nothing. They're trying, but so far no luck.

Congress has had better luck doing nothing about the general economy. The private sector [added 104,000 jobs](#) in October. [Initial unemployment claims](#) are at a seven-month low, and have fallen below the all-important 400,000-per-week mark.

The [index of leading indicators](#) rose more than expected last month. The Ceridian-UCLA Pulse of Commerce Index, which tracks truckers' fuel

Ceridian-UCLA Pulse of Commerce Index. Ceridian, UCLA Anderson School of Management



purchases as an indicator of distribution activity, is rising again. Last but not least, GDP growth [accelerated in 3Q 2011](#); analysts now predict even faster growth in 4Q. So what could go wrong?

Europe.

If that seems unfair, you're in good company. Most Americans have never been to Europe. Many have no interest in going. More than a few don't even like Europe.

Yet [a new report](#) from the San Francisco Federal Reserve says that while the odds of a 2012 recession due to domestic factors are only 30%, chances are better

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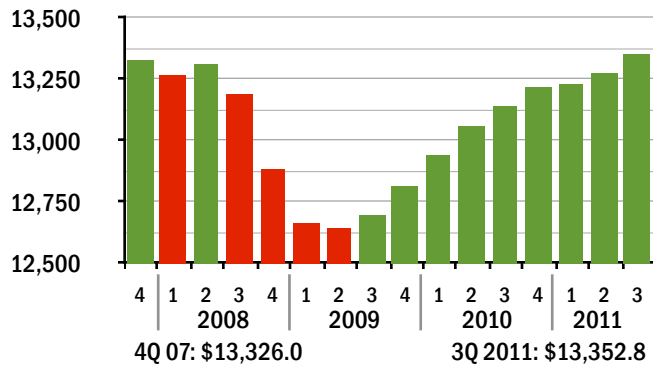
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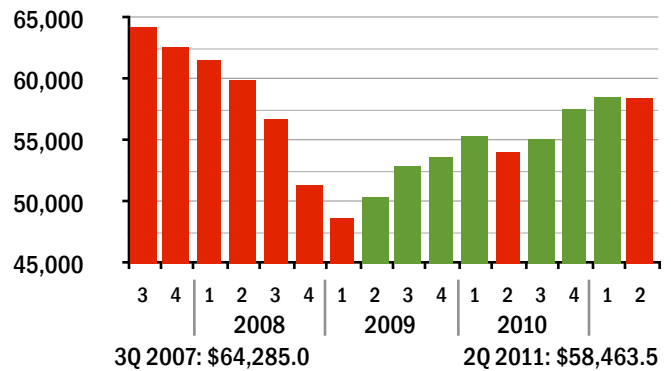
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## VITAL STATISTICS: U.S. ECONOMY

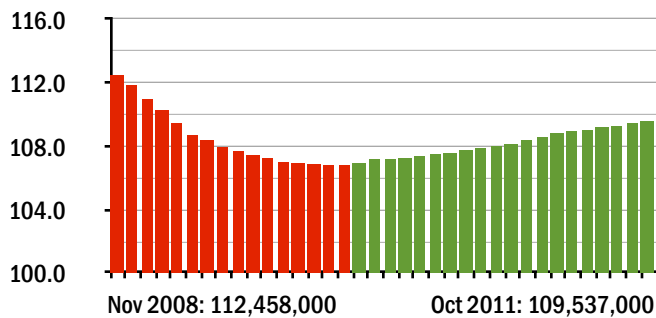
**REAL GDP (ALL 2005 \$, BILLIONS)**



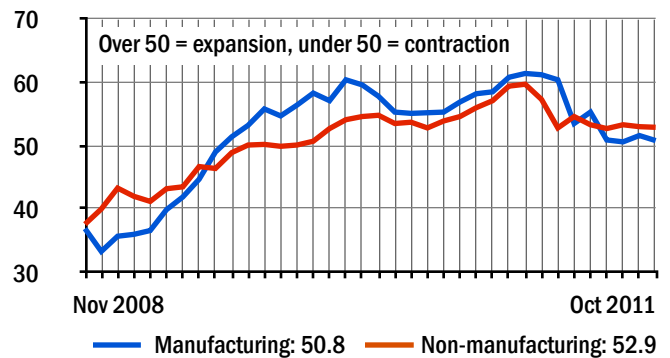
**HOUSEHOLD NET WORTH (\$ BILLIONS)**



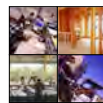
**PRIVATE-SECTOR EMPLOYMENT (MILLIONS)**



**ISM PURCHASING MANAGERS' INDEX**



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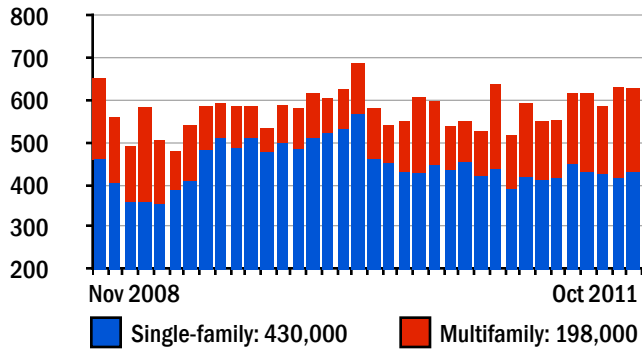


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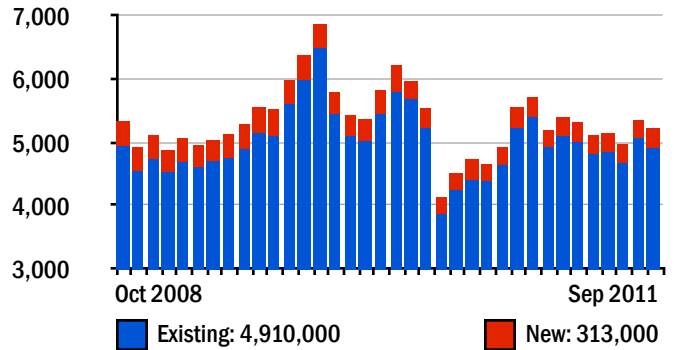
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# VITAL STATISTICS: HOUSING

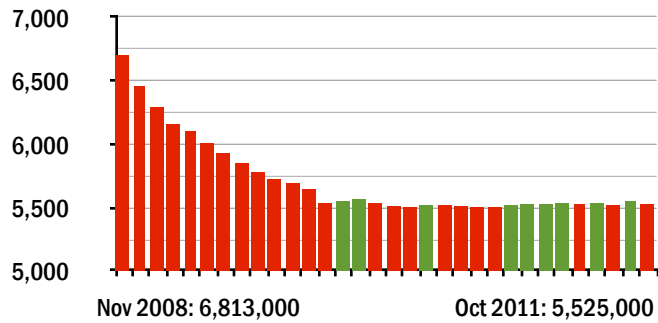
**ANNUALIZED HOUSING STARTS (000)**



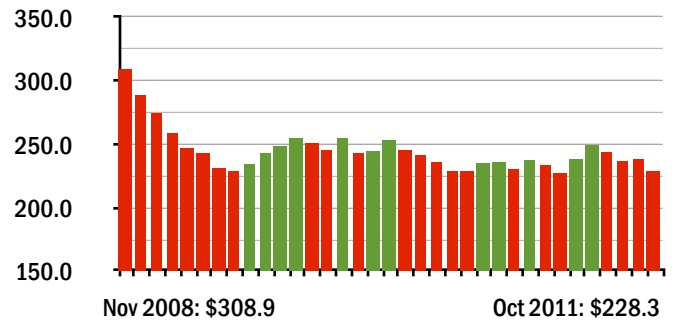
**ANNUALIZED HOME SALES (000)**



**CONSTRUCTION EMPLOYMENT (000)**



**RESIDENTIAL CONST. SPENDING (\$ BILLIONS)**



Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Federal Reserve, Institute for Supply Management, LPS Applied Analytics, National Association of Realtors, Freddie Mac, RealtyTrac. Housing and real estate data compiled by:



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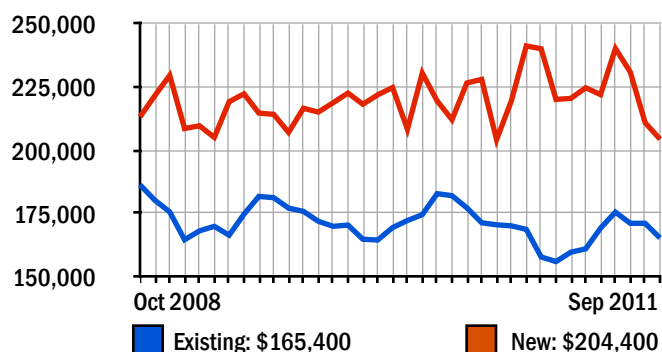
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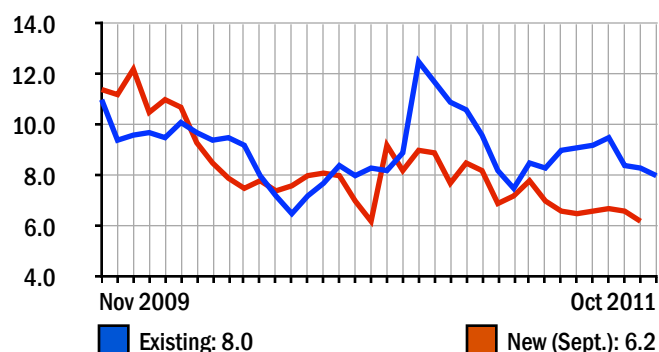


## VITAL STATISTICS: REAL ESTATE

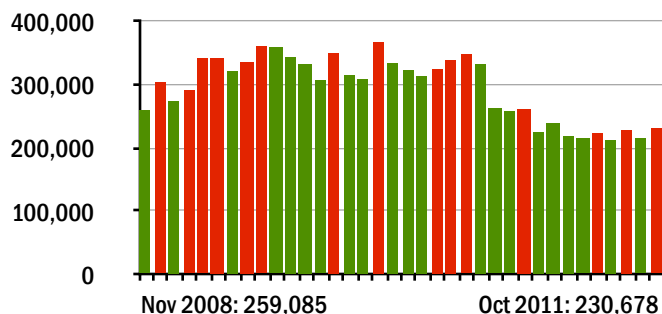
**MEDIAN HOME PRICES**



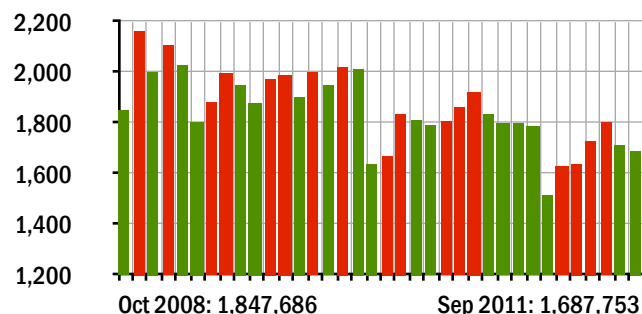
**UNSOLD INVENTORY (MONTHS)**



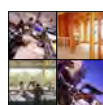
**FORECLOSURE FILINGS**



**30-DAY DELINQUENCIES (000)**



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than 50-50 that Europe's crisis will drag us into another recession next year. The issues are complex (if you want more, here's a [good explanation](#) by conservative pundit David Frum), but the upshot isn't: If European politicians turn out to be less adept than Congress at solving problems by doing nothing, their financial system may freeze up like ours did in 2008.

Just as our crisis spilled over onto them, theirs would spill over onto us. American banks would take another hit, which could make credit even tighter than it is now.

Hard to say whether the housing market would notice – it's already in a depression. But the LBM channel might.

The inability to borrow has already put more than a few dealers out of business. While some are now profitable and don't need money, those who do may find that equity financing is the only viable alternative.

Since the crash, a number of new equity groups have entered the LBM market. [BlackEagle Partners](#), which bought a chunk of Stock Building Supply in 2009 and formed [U.S. LBM](#), is actively seeking dealers who want (or need) to sell. [The Gores Group](#), which bought the rest of Stock (also in 2009), is in the hunt as well.

The newest player is [Kodiak Building Partners](#), headed by former Pro-

Build CEO Paul Hylbert. It seems to be a safe bet that more are on the way. ProBuild has lost most of the LBM veterans in its senior executive ranks; it's hard to imagine they'll all stay retired.

It's no secret why equity groups are jumping in. Everyone knows housing will eventually bounce back; now is the time to find bargains. If reports of "[investor fatigue](#)" are accurate, a new crop of VCs may also create an opportunity for Fidelity to jettison ProBuild in pieces.

Some independents worry that equity-backed chain competitors have an unfair advantage: They don't have to make a profit as long as they can keep investors convinced there's a pot of gold at the end of the rainbow.

That's true to a certain extent, and it does make them hard to compete with, especially when they're wounded.

But equity-backed chains are also a vital part of the business cycle. At the top of the market, they provide independents with a lucrative exit strategy. At the bottom, they provide a lifeline.

Maybe most important, they offer affirmation when a downturn seems like it'll never end:

Some very smart people with a lot of money believe you're in the right business. **TM**

Greg Brooks, editor of THIS MONTH, is a 43-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.

303 845 4880 | [Greg@CS24.us](mailto:Greg@CS24.us)

