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THISMONTH

IN CONSTRUCTION SUPPLY

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Greg Brooks, editor
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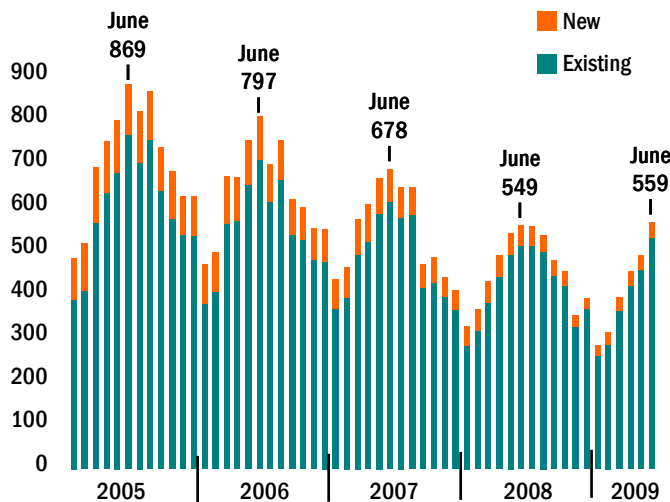
THIS MONTH

IN CONSTRUCTION SUPPLY

AUG 09

IRRESISTIBLE FORCE MEETS IMMOVABLE OBJECT

U.S. home sales, January 2005 - June 2009 (000)



Sources: U.S. Census Bureau, National Association of Realtors



Greg Brooks, president of the Building Supply Channel, Inc. and editor of THISMONTH, is a 40-year veteran of the construction supply business with 20 years experience in the field. He 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.

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By Greg Brooks. This is about the weirdest turn of events anyone could have imagined. One day we're on a fast track to global economic collapse and the next day – POOF! – everyone's declaring the recession is over.

It's not just the [Good News Economist](#) saying so, either. The [Wall Street Journal](#)

says so. [Bloomberg](#) says so. Even New York University economist [Nouriel Roubini](#), better known as Dr. Doom (and famous for predicting four of the past two recessions), made a U-turn in July. A week after publishing an op-ed piece in *Forbes* titled, "[Brown Manure, Not Green Shoots](#)," Roubini declared that the [crisis had passed](#) and the recession would end by the end of the year.

He even had kind words for Federal Reserve chairman [Ben Bernanke](#).

Then came the Bureau of Economic Analysis's quarterly report that [GDP fell only 1.0%](#) in 2Q 2009 versus 5.4% in 4Q 2008 and 6.4% in 1Q 2009. [WSJ](#) says the latest numbers suggest manufacturers "have moved about as far as

they can go to pare inventories. Now with stocks running bare, firms could be in a position to increase production again."

Even the housing market is looking up. Both new and existing [home sales](#) posted their third straight monthly gain in June. July numbers won't be in until late August, but early returns from [local markets](#) indicate yet another increase last month.

Not surprisingly, some are scrambling to find a cloud in the silver lining. Crisis junkies dismiss the uptick as a seasonal bounce, which it is. It's also the first time since 2005 that June sales bounced higher than the previous June.

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(Continued from page 1)

Others worry that the economy won't recover until Americans are willing to go back to maxing out their credit cards: "[Latest Threat is Thrift](#)," reads one headline. Maybe, but it's a little like waterfront muggers complaining that the sailors are too sober to sneak up on.

Still others agonize over a [massive "shadow inventory"](#) about to hit the market. A new Zillow survey says [32% of homeowners](#) are "somewhat" to "very" likely to sell in the next 12 months if the market turns around. According to Census, there are 130.4 million U.S. homes so that's 41.7 million ready to sell out.

Scary? Hardly. Those folks aren't planning to live under a freeway overpass. If they can sell, they'll move to other homes; if not, they'll continue to sit tight. If anything, this is a measure of pent-up demand.

But there are legitimate concerns, too: A recent [J.D. Power survey](#) says first-time buyers have accounted for 56% of home sales so far in 2009 versus 44% in 2008. That suggests the \$8,000 tax credit for first-timers is juicing up the market, and it ends December 1st.

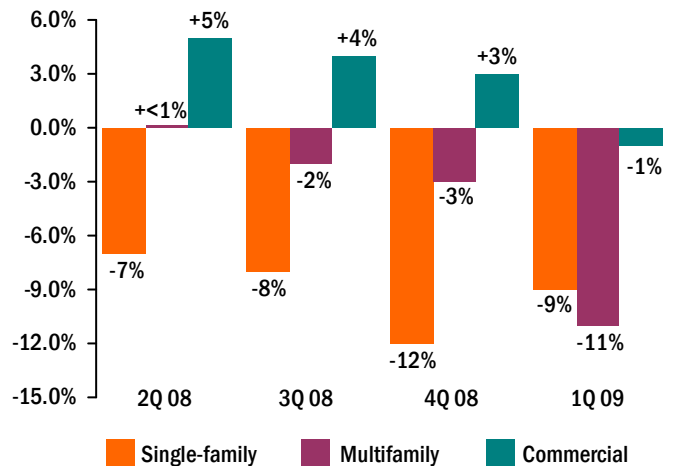
We'll find out soon. With all the turmoil over [new appraisal rules](#), realtors say buyers need to be under contract by September 1st to close by the deadline.

Or maybe we won't. Three House Republicans and two Democrats are co-sponsoring a bill to [offer the \\$8,000 credit to all home buyers](#) – not just first-timers – and extend the program through 2010.

If this bill goes through and the Zillow survey is even close to accurate, forget the LBM business – you need to get your real estate license NOW.

Foreclosures are also a problem, but again, the government

Construction lending activity Source: Foresight Analytics



may change the rules. The House just [passed a bill](#) allowing lenders to lease fore-closed homes. Most say that'd go a long way toward reducing unsold inventory.

Production is an obvious third concern. McGraw-Hill projects a 30% increase in housing starts in 2010. In any number of critical categories, manufacturers would be hard-pressed to ramp up production that fast. A recovery in the new home market could get derailed by shortages.

But credit is the 800-lb. gorilla, and not necessarily in the

(Continued on page 6)

DMSi's Software as a Service (SaaS) option provides numerous benefits to building material businesses

As business owners are pressured to stay up to date with fast changing technology and increasingly complex hardware, software, communication, and network infrastructures, DMSi's SaaS (Software as a Service) or hosted solution is quickly gaining attention. The SaaS option eliminates on-site servers and only requires an internet connection to access Agility's complete Microsoft Windows-based accounting system located at secure Tier I data centers. Although hosting Agility is an 'option' (you can still opt for on-premise equipment) it is now selected 90% of the time by new customers due to its many benefits.

Agility SaaS . . . simplicity you can trust.

- Far less dependency on IT staff and/or services
- No purchase of servers usually requiring
- 5 year replacement
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- No server maintenance contracts includes geographical redundancy between data centers
- No costly server environment systems (cooling, electrical, racking, etc.)
- Disaster recovery is inherent, including the option for geographical redundancy between data centers
- Backups and software updates are done for you

Agility SaaS . . . big savings.

In contrast to conventional financial models of software vendors who depend upon up front software license fees to support their P&Ls, DMSi adopted the SaaS (Software as a Service) model. Instead of prepaying for the rights to use software, SaaS allows you to pay for only what is utilized during a given period. Much like your utility bill, with Agility SaaS, you only pay for what you consume vs. pre-paying for 10 years of consumption. This model provides the following cost benefits:

- **Preserves cash flow**
 - Only pay for license rights as you utilize
 - Lowers software maintenance fees during housing troughs
Agility software maintenance is tied to user counts, as companies have reduced their employee count, user counts have been reduced accordingly. As such, companies using Agility have been able to easily reduce IT expense during the current downturn.
 - Never again pay for an upgrade or "new version" as the current monthly fee is for the most current product

- **License Fees treated as an operating expense** as incurred vs. a liability on the balance sheet which could impact your ability to borrow money for inventory, trucks, etc. during these tough times
- **DMSi, as your software provider, is highly motivated** to always provide satisfactory products and services since revenue is earned every month
- **No long-term contracts** or prepaid software licenses.
- **SaaS is the future.** A recent survey by Ziff Davis Enterprises showed that 73% of IT executives plan to expand their company's use of hosted applications
- **You can concentrate on business** instead of software maintenance and large IT hardware infrastructure

Agility SaaS . . . customers are talking.

"I love it! For our size company, it is ideal. I don't have time to be updating. With SaaS, all the updates are kept current automatically."

~Judy Tlumac, Benbilt

"By eliminating the need for on-premise servers, DMSi's Agility Software as a Service (SaaS) helped us stay focused to grow from entrepreneurial start-up to market leader."

~Van Isley, Professional Builder's Supply

"Despite transitioning from a complete paper run company when installing, we were running live after only three months after purchasing Agility. The SaaS model helped make the process easy."

~Chris Jones, Framing Square Lumber

"Selecting DMSi to handle our technology needs is one of the best decisions I have ever made."

~ Steve Chambers, Harper Chambers Lumber

About DMSi

With 32 years in the business and nearly 400 customers ranging in sales from \$2 million to \$2 billion in over 1,500 physical yards/warehouses; DMSi is the nation's largest and longest-standing independently owned and operated building products software firm. DMSi is time tested, industry proven, and poised to provide customers with a lifetime of partnership and technology leadership. To learn more, call DMSi at 800.347.6720 or visit us online at dmsi.com.



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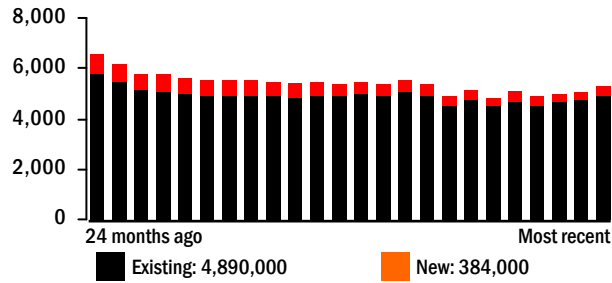
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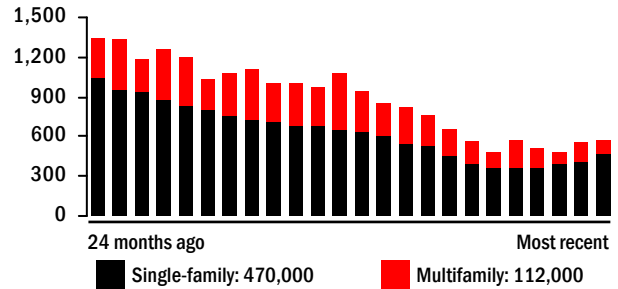
Run Better.

VITAL STATISTICS

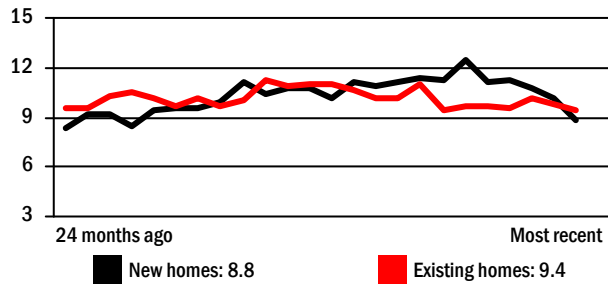
ANNUALIZED HOME SALES (000)



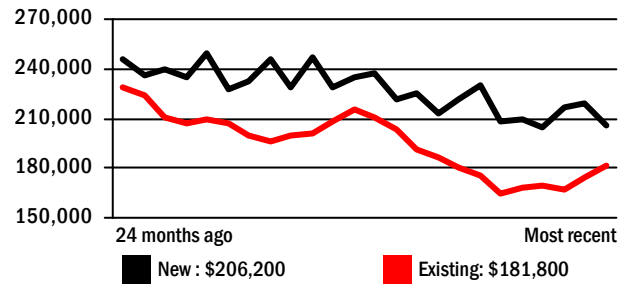
ANNUALIZED HOUSING STARTS (000)



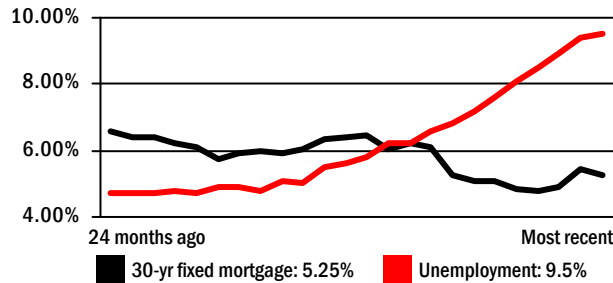
MONTHS' UNSOLD INVENTORY



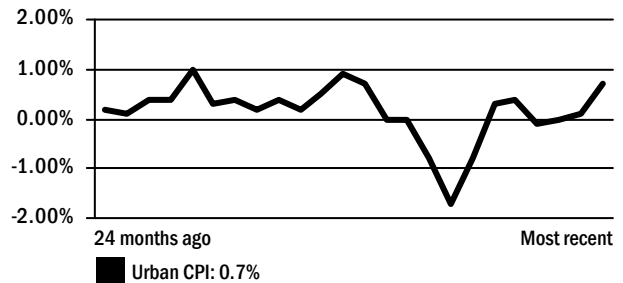
MEDIAN HOME PRICES



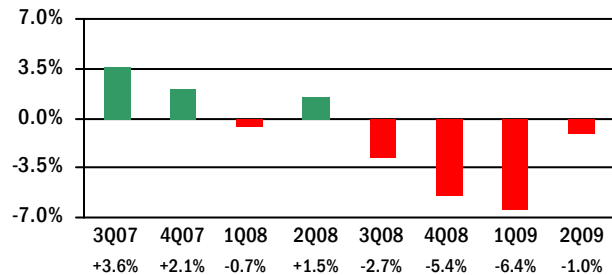
MORTGAGE & UNEMPLOYMENT RATES



INFLATION RATE



GDP CHANGE VS. PREVIOUS QUARTER



[Download current spreadsheet at CS24.us](http://CS24.us)

Sources: U.S. Census Bureau, National Association of Realtors, Freddie Mac, U.S. Bureau of Economic Analysis, U.S. Department of Labor. Data compiled by



(Continued from page 2) mortgage market; a 20% down payment and a steady job will get you a loan even now, assuming the appraisal comes in okay.

The bigger question is what it'll take for builders to get construction loans once they demand picks up. Data from Foresight Analytics says single-family construction lending fell 43% between 3Q 2006 and 1Q 2009 – and more important, nearly a third of single-family AD&C loans are currently delinquent.

That could keep the industry in lockdown for some time. One Midwest dealer says banks in his market are making construction loans only on a 50% loan-to-value basis, and only to their best customers.

Like everything else related to this crash, conditions in individual markets vary dramatically. While there isn't a lot of public data on AD&C, PMI Mortgage Insurance publishes a quarterly

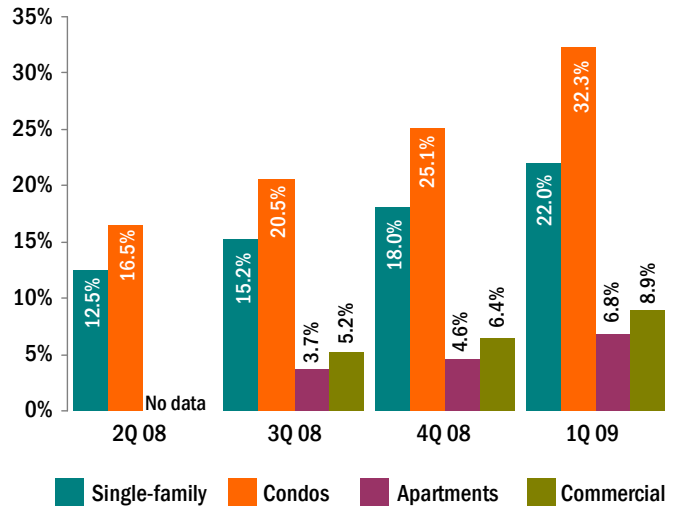
assessment of mortgage risk for 357 markets throughout the U.S.; the two are probably closely tied. [Click here](#) to download PMI's latest report and see how your market ranks (CS24.us sign-in required; press the Home key on your keyboard for instructions and your password).

So how long is the credit market likely to be squirrely? In a [June 2009 presentation](#), real estate consultant John Burns – who has been one of the reasonable voices – said four years. He figures it like this:

In 2002, before the mortgage market went off the rails, total equity in the banking industry was 6% of its balance sheet. Today the industry has \$1.3 trillion in assets but will record an estimated \$1.8 trillion in losses before all is said and done.

It needs \$500 billion in equity to get back to 6%, which means four years of \$250 billion profits. Assuming the money

Construction loan delinquency rate Source: Foresight Analytics



doesn't all disappear in bonuses, of course.

But barring some new catastrophe, it looks like we're through the last crisis and on to the next one: money (the immovable object) vs. demand (the irresistible force).

It's a no-brainer to bet on demand over the long run, and the next market may well hold some big surprises that we'll discuss in detail next month.

But for now, please keep your seatbelts on. Turbulence may be unexpected on an airplane, but in the LBM business, we all know better. ☺