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THISMONTH

IN CONSTRUCTION SUPPLY

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THIS MONTH

IN CONSTRUCTION SUPPLY

A FEW REMAINING OBSTACLES...AND THEN WHAT?



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. No, it isn't Miller time yet. But encouraging news continues to pile up, and that's a whole lot better than the alternative.

In July, new and existing home sales both rose for the fifth straight month. Unsold inventory of new homes fell to 7.5 months in July, and

while existing home inventory held steady at 9.4 months, that's the lowest level since December – and prior to that, the lowest level since July 2007 ([click here](#) for the latest national data; go to the first page of this PDF for sign-in instructions).

New jobless claims in the week of Aug 31 - Sep 5 were initially reported at 576,000, which would have been an increase. But that turned out to be wrong; [according to Bloomberg](#); the revised number was 550,000, the lowest level since July.

Last but not least, the [Case-Shiller Index](#) (sign-in required) is finally stabilizing. Seasonally-adjusted prices in its 20-city composite rose in June

for the first time since May 2006.

Nationwide, home prices are now back to their historical level of 3.2 times median income. As one real estate exec told *The Economist* in an [Aug. 20 article](#), "We've finally found a level where people want to do deals."

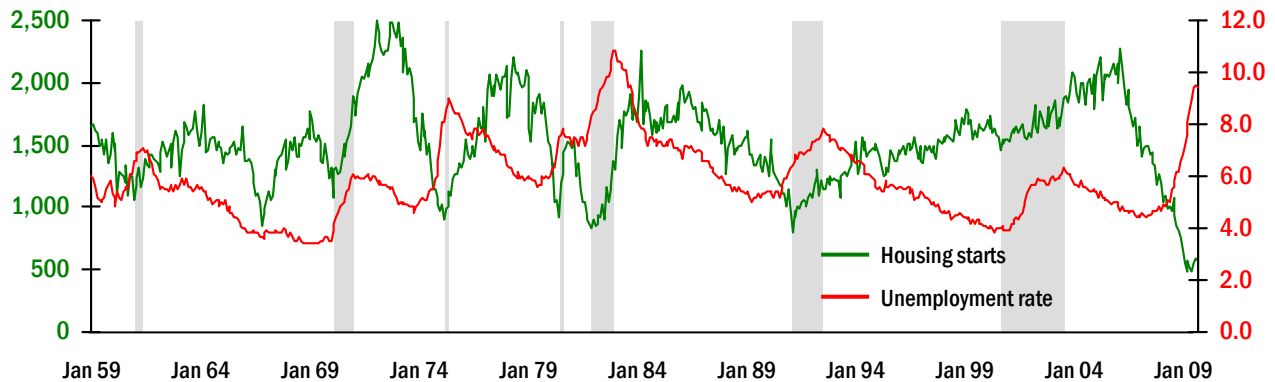
But "dig deeper," warns *The Economist*, and "the recovery's foundations look shaky." No question about it; the question is how shaky.

Everyone agrees that home sales have been propped up by the tax credit for first-time buyers. Those deals have to close by Nov. 30 to qualify, so we should see sales drop off soon. But that doesn't signal another

(Continued on page 2)

Single-family housing starts vs. unemployment rate by month, Jan 1959 - Dec 1998 Sources: U.S. Census Bureau, Bureau of Labor Statistics

Grey bars indicate the period from the beginning of each housing recovery to the peak unemployment rate.



(Continued from page 1)

crash – it's what we call "autumn." We all expect a lean winter, but if buyers are ready to do deals, next spring should bloom big-time.

The Economist is also concerned that "rising joblessness will...weigh on demand for homes." That's an eminently logical conclusion except for one thing: It doesn't jive with history.

Seven housing downturns since 1959 have been accompanied by rising unemployment (not including this one). Literally every single time, housing recovered while the

unemployment rate was still rising.

Next, the article worries that "credit is hard to come by" and "banks will remain tight-fisted for some time." Let's hope so; loose credit is what got us into this mess. It's a problem only if people who can't buy homes stop living in them. If not, we'll build more rentals.

Finally, there's the worry about "a glut of supply" due to foreclosures," that will "weigh on prices."

First, there is no glut. Most foreclosures are a wash – you move out of a home you owned and into one you don't. Some move in

with family or friends temporarily, but once they're on their feet, they'll be back in the market as renters if not buyers.

What about prices? Nationally, the Case-Shiller Index is down 32% from its peak, and experts expect another 5% to 10% decline. But not everywhere.

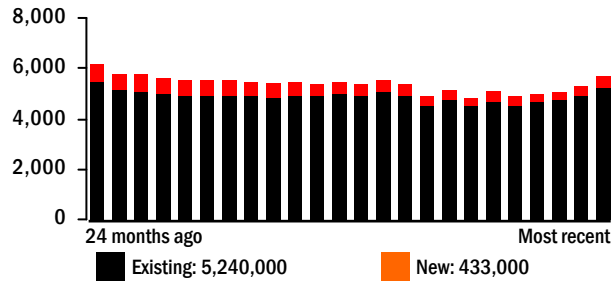
Even at the height of the panic in the first quarter, 31 of the top 100 markets saw home prices rise while 36 more declined less than 5%, according to the Brookings Institution's quarterly Metro Monitor.

Everyone knows some markets will recover

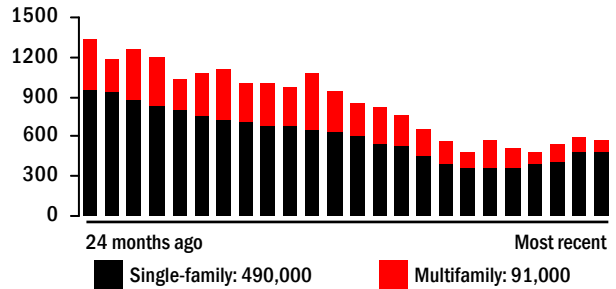
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VITAL STATISTICS

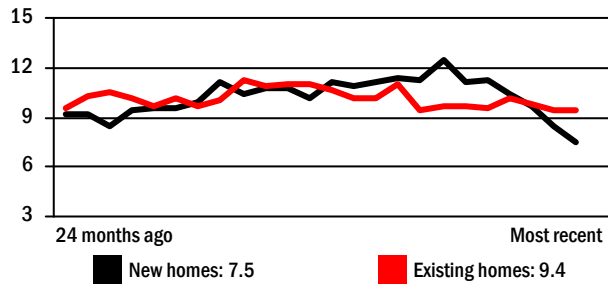
ANNUALIZED HOME SALES (000)



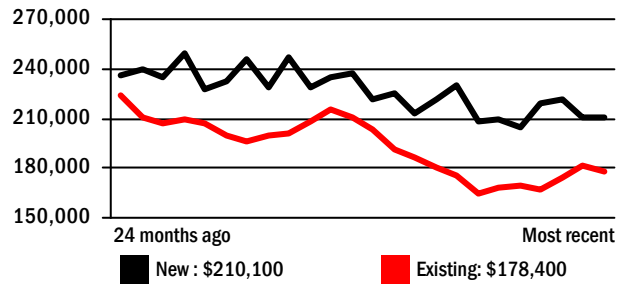
ANNUALIZED HOUSING STARTS (000)



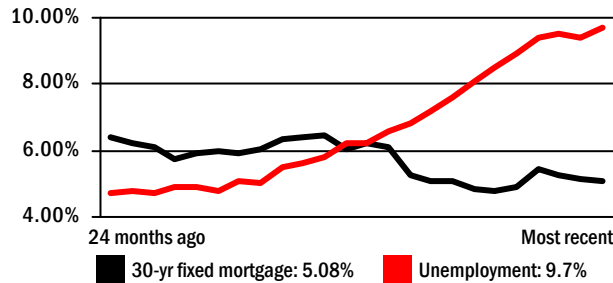
MONTHS' UNSOLD INVENTORY



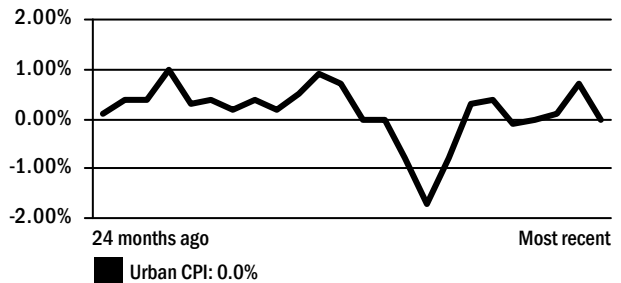
MEDIAN HOME PRICES



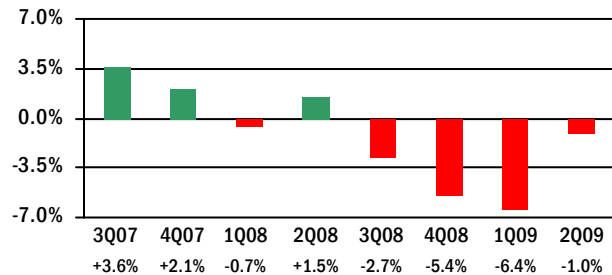
MORTGAGE & UNEMPLOYMENT RATES



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



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GREEN BUILDING IN THE REAL WORLD

- **How green building is evolving (and trust me, it isn't what you think)**
- **An in-depth tour of GBA Pro, your complete source for green building technical expertise**
- **How to establish yourself as the green building leader in your market**

September 18, 1:00 - 2:00 ET

**Contact Greg Brooks to register:
303 845 4880 or Greg@CS24.us**

If your customers are building green or even just curious about it, one thing you can count on is technical questions. And whoever can answer them is likely to get the business.

By far the best resource I've found is GreenBuildingAdvisor.com's GBA Pro Web site. Produced by Taunton Press (*Fine Homebuilding* magazine) and BuildingGreen (*Environmental Building News* and the *GreenSpec Guide to Green Building Products*), GBA Pro is an online encyclopedia that puts the building science and product knowledge you need at your fingertips.

Builders, remodelers, and architects pay \$149.95 per year to subscribe to GBA Pro, but we've negotiated a special supplier affiliate program: Just \$99.95 per year, plus a free subscription for every five customers you refer to GBA Pro.

This is not a trial offer, but it is available only for a limited time. Please join us Friday, September 18, 1:00 - 2:00 p.m. ET / 10:00 - 11:00 a.m. PT for an in-depth tour of GBA Pro plus a discussion of how to establish your company as the green building leader in your market. Thanks!

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(Continued from page 2)
before others; the Metro Monitor, which also tracks unemployment, wages, and gross metropolitan product, is a good gauge of how your market stacks up ([click here](#) for the latest edition; sign-in required).

The problem is that you can't do anything about when your market recovers. All you can do is prepare, so the more relevant question is what the next boom might look like. It's way too early for firm conclusions, but there are a few clues:

1. Old and young.

Two boom generations are in play right now, one on the verge of retirement and the other on the verge of entering the housing market. Baby Boomers have watched their 401(k)s become 201(k)s while the average Millennial graduates from college with \$22,000 of debt.

2. Scared sober. At least for the moment, conspicuous consumption is out. Americans are [paying down debt](#)

and saving at historic rates. The prospects of a Medicare meltdown should keep this pot boiling for a while.

3. Regulated sober.

Three quotes from "How Banking Will Change," *US Banker*, Aug 2009:

"U.S. (regulatory) agencies will get more hands-on...with bank balance sheets. We'll see...extremely rigorous, continuous measurement of risk."

"It's going to be a completely different type of industry. We're returning to old-fashioned spread lending."

"Pent-up demand for new homes will spark a surge in construction, with housing starts rising to 1.3 million by 2011."

In other words, don't worry about construction lending. When demand returns, so will banks.

4. Green gets teeth.

Green building is your best friend. Why? Because the cornerstone of green building is energy efficiency, the cornerstone of energy efficiency is quality

workmanship, and quality workmanship would eliminate most product claims.

It's true that home buyers won't pay for it. But buried in the [cap-and-trade bill](#) that just passed the House is a provision to [raise energy standards](#) for new homes 30% immediately and 50% by 2014. Mega-builders see the writing on the wall: Pulte's [LEED Platinum project](#) or KB Home's [Energy Star qualified homes](#), for example.

The conundrum is that the first three clues all scream for affordability, but higher energy standards mean higher costs. The only solution is to build more efficiently, and given the state of skilled labor (or lack thereof), you can play a major role: more components and prefab assemblies, more turn-key, and greater involvement in managing jobsites.

It's nice to be needed. Be sure and get paid for it. ⚡

UPCOMING

FREE WEBINAR: GREEN BUILDING IN THE REAL WORLD

Friday September 18
1:00 - 2:00 ET / 10:00
- 11:00 PT

Register:
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