



Legislative CONFERENCE



"People in government only know what they see on TV or on the Internet. They don't know about our industry and our concerns unless we bring them to their attention. That's why I go; I love it."

**—Chris Lambert,
Southeastern Materials, Inc.**

by Sean D. Shields

During Bill Clinton's 1992 Presidential campaign, James Carville (who we happened to see at the Palm restaurant on Wednesday evening—May 14) turned a phrase that would not only get the Democratic candidate elected to the White House, but would continue to be used by political pundits today: "It's the economy, stupid!"

With the general election in November fast approaching, almost every lawmaker, bureaucrat and political pundit in Washington, DC is considering that well worn quotation closely, trying to figure out who has the upper hand in ultimately controlling our federal government once the election is over.

Within this context, component manufacturers and suppliers from 22 states visited our nation's capital last week to discuss one of the most critical aspects of our faltering economic condition, the housing crisis. Annual single-family housing starts have fallen from their peak of 1.84 million in January 2006 to 954,000 in April 2008, representing a 52 percent decline in just two years. According to the National Association of Realtors, the national housing inventory has climbed to 4.1 million units, representing a 9.9 month supply.

During the WTCA Legislative Conference, the structural components industry conducted 97 individual meetings with members of Congress to remind them how bad the housing economy is, and provided perspective on what lawmakers can do to provide relief. It was timed perfectly, as both the Senate and House were currently debating the merits of the "American Housing Rescue and Foreclosure Prevention Act" (HR 3221). This omnibus housing measure contained a little bit of everything to help out various aspects of the housing industry, from builders to current homeowners.

The only real question on most lawmaker's minds when our industry members visited them was what could remain in the bill and still have enough votes to pass both the House and Senate and receive approval by the White House. Some of the key elements of the bill that our industry supported and pushed for were:

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2008 Legislative Conference Recap

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- A first-time homebuyer tax credit (of up to \$7,500), enabling potential homebuyers to make a purchase and thereby eliminate excess inventory.
- A \$10 billion temporary increase in mortgage revenue bonds (MRB) to be used for either home purchase or debt refinancing on existing homes that will help financially struggling homeowners refinance mortgages.
- An extension of the net operating loss carry-back for losses occurring in tax years 2008 and 2009. These losses could be carried back (to profitable years where taxes were paid) from two years to four years (back to 2004 and 2005, respectively).
- Modernization of the Federal Housing Administration (FHA), which would enable the FHA to better provide affordable down payment mortgages to millions of homeowners who otherwise couldn't qualify for conventional loans.
- Reforming the housing "government-sponsored entities" or GSEs (Fannie Mae, Freddie Mac and the Federal Home Loan Banks), which are a vital part of America's housing finance system. These reforms would allow Fannie Mae and Freddie Mac to provide loans above the conforming loan caps in areas of the country where high home prices have made it impossible to utilize GSE funding sources.

In addition to the housing crisis, component manufacturers and suppliers also spoke to their lawmakers about the following issues:

Green Building Standards

The structural building components industry supports the concepts of green building, sustainable development and energy efficiency. Our industry supports congressional efforts to promote and enhance all credible green building standards that are voluntary and consensus-based as methods to accomplish green building goals. According to the National Association of Home Builders (NAHB), green built homes will account for up to 10 percent of new construction by 2010—and two thirds of all home builders expect to be involved in green building to some degree by the end of 2008.

Congress has considered numerous proposals in the past year that would require the use of green building standards in new residential construction. However, green building design and construction is still a relatively new science and market practice, and there is a great deal that has not been researched or quantified with regard to the factors that constitute "green building."

Our industry believes it would be unwise for Congress to enact legislation that would mandate the use of any single green building standard because this would immediately define and limit implementation of green building and create a green building monopoly for the standard that Congress

enacts. It would also reduce the effectiveness of alternative green building standards development that would allow for greater marketplace adoption of green technologies.

Immigration

In addressing the enormous challenges confronting our nation's immigration system, the structural building components industry believes Congress, not states or local governments, should be the one to establish employer obligations. Our industry supports comprehensive immigration reform that will provide tools for employers that are easy to use to ensure compliance with the law, and avoid unfairly penalizing employers

The Census Bureau estimates a net increase of 500,000 illegal immigrants annually. For example, in 1999 Immigration and Naturalization Service (the INS has since been rolled into the Department of Homeland Security) estimated that 968,000 new illegal immigrants settled in the U.S. that year alone. In addition, the increased availability of forged citizenship documents makes illegal immigration a more significant problem for employers because it is so difficult to determine who is eligible for legal employment.

Congress, as well as state and local governments, are considering proposals requiring employers to utilize the Department of Homeland Security's E-Verify program, which allows employers to verify a person's work authorization online. However, the structural components industry has some serious concerns regarding the accuracy of this program and the federal government's current ability to keep its databases updated. Our industry believes that if Congress decides to make this program mandatory, it should ensure that the E-Verify system is capable of handling requests from the nation's seven million employers, as opposed to the 30,000 who currently utilize it on a voluntary basis.

Trade

The structural components industry supports efforts to promote free trade. An unfortunate aspect of current U.S. trade policy is, in the two cases that affect our raw material supply — steel and lumber — countervailing and anti-dumping duties have been imposed with no consideration of the adverse impact on component manufacturer consumers or on the overall housing market.

Our industry believes Congress should enhance current U.S. trade law to require an analysis of the total impact of any decision on the overall economy. An analysis should always be performed that addresses "downstream" market impacts. This analysis should allow U.S. trade representatives to predict and proactively resolve potential unintended supply-demand consequences to consuming industries. Unintended cost increases, like the ones our industry has experienced, can easily create an economic hardship on businesses that need raw materials and other imported goods to transact



Eleven conference participants toured Shelter Systems Limited in Westminster, MD before the conference kicked off Wednesday evening.

business. Any changes to U.S. trade law should allow industrial consumers of a product to have an equal standing with domestic producers and importers in trade cases.

Energy

In considering various proposals to reduce the emission of greenhouse gases to address global climate change issues, the structural building components industry believes Congress should closely consider how legislation to implement a cap and trade system will:

- Impact U.S. jobs
- Affect the U.S. economy
- Alter where U.S. housing is built
- Create new regulatory requirements at a significant cost to business that must be passed on to consumers.
- Create a new cap and trade economy that will be ripe for speculation, fraud and abuse.

Under a "cap and trade" system, lawmakers would set a limit on emissions and allow companies to buy and sell rights to emit carbon dioxide. Carbon dioxide is produced primarily from fossil fuel combustion, which currently provides 85 percent of America's energy, and 98 percent of transportation

fuel. Independent firms like Charles Rivers Associates (CRA), have estimated that the cap and trade system will significantly increase energy prices by 36 to 65 percent by 2015 and 80 to 125 percent by 2050.

Net job losses are estimated by CRA to be between 1.2 million and 2.3 million by 2015, directly caused by implementation of this type of legislation. Skyrocketing fuel and energy costs will likely alter the make up of urban construction due to rising transportation costs, and move buyers away from single-family residences to more urban high-rise/high-density homes. These higher costs will also make homes more costly to produce and maintain, making it harder for the average American family to buy a home.

Conclusion

Several component manufacturers and suppliers reported that they were pleasantly surprised and encouraged by how many of their lawmakers were supportive of the industry's positions on the issues outlined above. Yet, given the realities of the election year, it remains unlikely Congress will tackle much more this year than a comprehensive bill to address the housing crisis. For they truly are focused on the economy, which will likely help them the most in their efforts to get elected in 2008.

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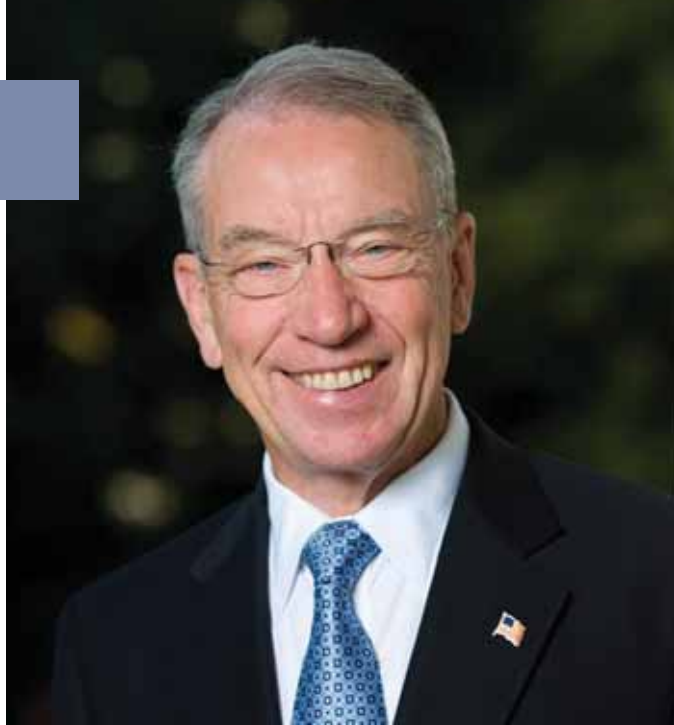
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Senator Grassley's Perspective Exclusively for the SBC Industry



With the U.S. Senate poised to debate possibly the largest, most expensive agricultural omnibus legislation—fondly referred to as “The Farm Bill”—in our nation’s history, the senior Senator from one of the United States’ most important farm states entered our meeting room in the Washington Court Hotel to talk to the component manufacturing industry. The fact Senator Charles “Chuck” Grassley (R-IA) was willing to take time to speak with the industry at such a crucial moment speaks volumes about the value of relationships.

Senator Grassley has done a lot for the structural building components industry over the years. When component manufacturers first started going to Washington, Rick Parrino (Plum Building Systems, Des Moines, IA) helped the industry forge a relationship with one of the Senator’s top legal counsels, Everett Eissenstat. Eissenstat and Senator Grassley were instrumental in helping manufacturers raise awareness of the negative impact of softwood lumber dispute on U.S. component manufacturers and all downstream lumber purchasers.

The Senator helped to successfully repeal the Byrd Amendment, a trade law that was making the dispute much more difficult to resolve.

The relationship built with Mr. Eissenstat has proved invaluable, particularly after he assumed his present position as Assistant U.S. Trade Representative for the Americas in the White House. In this position, he has kept the structural

building components industry well informed of developments in the softwood lumber issue (see this year’s recap of the meeting with Eissenstat on page 48).

Senator Grassley began by talking about the first economic stimulus package passed by Congress last year as a way to boost domestic consumer spending. He felt only time would tell whether it would be effective at staving off a recession. Grassley stated the United States was currently not experiencing a recession because first quarter growth was positive, although he conceded the country’s economic growth is very weak. He also touched upon the idea that the negative drumbeat we all hear every day and the consequent negative public perception is a key factor driving the economy toward a possible recession (a topic discussed on p. 52-53).

Then he turned to the massive housing bill (H.R. 3221) currently being considered by Congress (the details of this legislation are discussed on p. 54). Grassley said he felt a lot had gone wrong in the housing industry over the past six years, from over-construction to unscrupulous lending. He blamed a breakdown of the checks and balances that should have prevented the current situation from occurring.

Grassley then touched upon one provision in the upcoming Farm Bill offered by Senator Max Baucus (D-WY), who took over for Grassley as Chairman of the Senate Finance Committee in 2006, that would create a mechanism to ensure

“I want to thank WTCA staff for bringing in Senator Charles Grassley to speak with us at the conference. He did a wonderful job going over key bills and I loved his assessment of the Liberal Movement. He is quite an impressive lawmaker, to say the least.”

—Ron Groom, General Manager/Finance, Stark Truss Co., Inc.

Bio: Senator Grassley

When it comes to making public policy, Senator Grassley is known as a workhorse, not a show horse. He’s earned a reputation as an honest broker and has achieved great legislative success.

Senator Grassley is the Ranking Member of what he calls the “Quality of Life” committee because it’s responsible for the issues affecting virtually every American from cradle to grave. The Finance Committee is responsible for tax policy, Social Security, Medicare, Medicaid, welfare policy, pensions, worker’s compensation, and job-generating international trade. Senator Grassley also uses his other key committee assignments -- Agriculture, Judiciary and Budget — to gain the best advantage for Iowans.

While Chairman of the Senate Finance Committee in 2001 and from 2003 to 2007, Senator Grassley guided through Congress seven international trade agreements covering 12 countries and nine major tax bills, including the biggest income tax cut in a generation, which Alan Greenspan said was key to helping the economy recover after 9-11. The 2001 Grassley tax

cut made the tax code more progressive by creating a 10-percent marginal rate for the lowest-income worker, expanding the child tax credit, and reducing the marriage penalty. By spurring economic activity, the tax policy also resulted in record-breaking revenues collected by the federal Treasury.

As Chairman, Grassley succeeded in making tax-free savings plans for college a permanent part of the tax code, creating the deduction for tuition, and securing the tax deductibility of interest on student loans. In 2006, he shepherded through Congress the first major overhaul of pension guarantee legislation that was enacted in 1974. It is designed to prevent Enron-type scandals from happening again and includes broad new incentives to help Americans save more for retirement. Chairman Grassley made sure that millions of American families were held harmless from the unintended consequences of the Alternative Minimum Tax. And, Grassley fought for tax fairness by shutting down tax shelters and closing tax loopholes used by corporations and wealthy individuals to avoid taxes owed.

that the export charges on softwood lumber from Canada would be enforced. The export charges are part of the quota system included in the current softwood lumber agreement that is a point of contention between the two countries currently (this issue is also discussed further in the meeting with Eissenstat, p. 48)

After his formal remarks, Senator Grassley answered a number of questions asked by conference attendees. His passion for many of the topics was evident as he mixed humor, experience and facts in response to many of the questions.

On of these questions was a legislative topic that is little known, but very important aspect of our constitution and Congressional structure—the “Rule of 41.” In the U.S. Senate, it takes the vote of 60 Senators to force consideration of a bill. The Republicans currently have 49 Senators, and Senate Minority Leader, Mitch McConnell (R-KY) was quoted in the Wall Street Journal recently saying, “the good news is that 49 is not a bad number in a body that requires 60. The United States Senate is the only legislative body in the world where a majority is not enough.” McConnell also said in that article, “Really bad ideas die in the Senate, and in that sense it has protected America from extremes throughout our history.”

Grassley expounded upon these sentiments as he talked about the internal workings of the current Congress, the upcoming election and how essential it is for the minority party to retain at least 41 Senators in order to preserve this vital check on actions that can prevent unintended public policy consequences. The last thing he noted is that he expects the Rule of 41 to be maintained in the 2009 Congress. Senator Grassley noted, “The fact that our minority voice can still be heard is the greatest comfort we all can have going into the November elections.”

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Agency Meetings

United States Trade Representative (USTR) Office of the Americas

Everett Eissenstat, Assistant U.S. Trade Representative
John Melle, Deputy Assistant U.S. Trade Representative

Representatives from the structural building components industry have visited with Mr. Eissenstat each of the last three years to discuss trade issues facing the industry. The first topic discussed was the status of the current softwood lumber agreement with Canada. At issue is the fact that U.S. softwood lumber producers alone cannot meet current domestic demand. Today, Canadian softwood lumber imports account for approximately 36 percent of the entire supply available in the U.S.

In the midst of its second year, the current 5-year agreement is already showing signs of wear. From USTR's perspective, there remain serious concerns regarding the Canadian government's subsidization of their softwood lumber industry, primarily due to the fact that the forest products industry is a significant source of employment in Canada. When combined with the extensive beetle kill harvesting in British Columbia, imports into the United States remain at a high level given the very low market prices for lumber today.

Per the agreement, imports at a given price or above a provincial quota are subject to a Canadian tax. Apparently, collection of these taxes and the entire Canadian tax collection process has not gone as efficiently as the U.S. had originally hoped. The U.S. had argued before the London Court of International Arbitration (the dispute resolution body created by the agreement) that Canada was violating the 2006 treaty by not imposing a so-called "surge tax" on Canadian lumber companies during the first six months of 2006 when lumber shipments to the U.S. were strong.

This perceived noncompliance has apparently spurred Senator Max Baucus (D-WY) to add an amendment to the Farm Bill that would create an improved mechanism to ensure that the export charges on softwood lumber from Canada would be collected. The amendment would require lumber importers to declare that their U.S.-bound shipments meet the terms of the agreement. It would also require the U.S. government to verify compliance with the agreement and impose penalties on importers who knowingly violate the trade rules.

Before the current agreement was signed, price volatility in the lumber market made it difficult for component manufacturers to successfully bid jobs over a month out and remain accurate in their cost estimates for raw materials.

Once the current agreement ends, there will again be marketplace uncertainty if no enduring resolution is created in the meantime. Fortunately, the negotiators at USTR recognize that only a long-term solution will allow U.S. companies the ability to compete in their marketplaces on a fair and equi-

table basis. Based on the comments made by Eissenstat and Melle at this meeting, it appears that both countries are committed to reaching a long term agreement. The real question remains: what will that agreement look like? The details will likely be subject to heavy scrutiny by lumber producers on both sides of the border.

The conversation then switched to the domestic supply of steel. Since early 2004, connector plate prices have escalated on average 50 percent, just to cover the rising cost of steel, and by as much as 200 percent for some specialty products. The components industry delegation explained to USTR that the continued and frequent price increases for steel has made it difficult to manage costs in a time when demand for structural components is remaining low.

Eissenstat and Melle explained that U.S. steel prices have risen due to continuing high demand here and abroad, and higher prices for steel raw materials. U.S. steel production is at high levels and new steelmaking capacity is coming online soon due to market demand. However, they expressed concern that some foreign government actions to restrain exports of the raw materials needed for domestic steelmaking are contributing to high prices and reduced availability of steel. In some cases, measures such as export quotas and export duties have been placed on raw material by foreign governments.

They said the USTR is working with Japan and the EU in the Doha non-tariff barrier talks on industrial goods to improve transparency when members use these measures, to ensure they are consistent with GATT norms. They are also working through the WTO to reduce export duties on key globally-traded raw materials such as ferrous scrap from Russia and Ukraine.

Finally, they addressed China, which maintains restrictive export quotas on 13 key raw materials used in steel production and many other industries including coke, antimony, bauxite, fluorspar, manganese, silicon carbide, tin and tungsten. They assured us that USTR has raised concern about these measures bilaterally with the Chinese government, at the WTO and will do so again in late May at the WTO Trade Policy Review of China.

U.S. Department of Labor (DOL) Employee Benefits Security Administration

Alice Joe, Deputy Assistant Secretary for Policy
Thomas Alexander, Assistant Secretary's Chief of Staff

The structural building components industry has visited with the DOL's Office of Employee Benefits Security Administration each of the last three years arguing that unless the high costs of health insurance premiums are quickly brought under control, many manufacturers within the structural building

components industry will be unable to provide their employees with adequate health benefits, and may be faced with the difficult choice of dropping health benefits entirely.

This year, we argued that the ongoing increase in medical and insurance premium costs in this country is continuing to create a significant barrier to high-quality, accessible health care. While Congress appears less than willing to address this complex issue in an election year, unfortunately the situation is only getting worse. According to several government studies, health care spending in America has increased from 5 percent of GDP in 1960 to 16 percent in 2004, and is expected to increase to 18.7 percent in 2014.

Approximately 75 percent of the structural building component industry is made up of small business owners who average less than \$5 million in annual sales and have less than 50 employees. Nationally, small businesses are less than half as likely as large employers to offer health benefits to their workers. While 95 percent of employers with more than 50 employees offer health benefits, only 43 percent of employers with fewer than 50 employees do so. In addition, Small businesses pay as much as 30 percent more than large employers for similar health benefits.

In this context, a group of component manufacturers met with Assistant Secretary Joe to discuss what measures Congress may be considering to address this serious problem. Unfortunately, the short answer was: not much. The one issue that Congress does appear close to passing is a strengthening of the Employee Retirement Income Security Act (ERISA) law, which establishes federal standards for health coverage and helps create uniform health coverage between the states. Due to past Congressional inaction, many state legislatures have passed their own health coverage plans that are inconsistent with ERISA.

However, even though Congress is not tackling this issue this year, the representatives at the meeting did learn something very valuable about a statistic we have referred to in the past. One commonly used statistic in reference to the uninsured is: forty-seven million Americans do not have health insurance. This statistic is very misleading. This figure comes from the U.S. Census Bureau. What most people don't know, however, is that the Bureau counts anyone who went without health insurance during any part of the previous year as "uninsured." So if you weren't covered for just one day in 2007, you're one of the 47 million.

That figure also includes 10.2 million illegal immigrants, and about 14 million people who are eligible for public health-care programs like Medicaid or the State Children's Health Insurance Program but haven't enrolled. And nearly 10 million of the "uninsured" have household incomes of more than \$75,000, meaning they can probably afford to buy health insurance but consciously choose not to. So to say that 47 million Americans do not have health insurance because of the cost is not an accurate assessment of the situation. It does not take away from the fact that there still are roughly 13

million people who cannot get coverage in the current environment and still need it. This is an issue Congress cannot afford to ignore for much longer.

U.S. Dept. of Housing & Urban Development (HUD)

Dr. Darlene Williams,
Assistant Secretary, Policy Development & Research

The first thing we learned at HUD was that they have a really nice view of the FedEx Field, the new home of the Washington Nationals baseball team. The second thing we learned was that HUD, and the Bush Administration, was not in support of the way in which the "American Housing Rescue and Foreclosure Prevention Act" (HR 3221) aimed at modernizing the Federal Housing Administration (FHA). The third thing we learned was that the Policy Development & Research Office at HUD has a new senior management team committed to affordable housing and bringing better technology to bear on home construction.

During this meeting, representatives of the structural building components industry spent a great deal of time discussing the Partnership for Advancing Technology in Housing (PATH) program. Many members of the new senior management team, including Assistant Secretary Williams, was not aware of how intimately WTCA has been involved in this program in the past.

The PATH program's mission is to accelerate the development and use of technologies that radically improve the quality, durability, energy efficiency, environmental performance and affordability of homes constructed in America. It is primarily intended to be a conduit for private-public partnerships for the federal government to leverage the innovations of private enterprise to build better houses

Discussion ranged from exploring the PATH Industry Steering Committee structure, including past performance and current expectations; the direction the Structural Building Components industry is headed in, including areas of common interest such as affordable housing through optimum value engineering; the testing being done at the Structural Building Components Research Institute (SBCRI), and, how that will affect industry engineering concepts; as well as areas of HUD interest that align with structural building component industry interests.

Everyone in attendance benefited from the frank and open discussions on industry issues that took place, and there is great potential for meaningful collaboration in the very near future. Industry representatives also gave the senior management of HUD an open invitation to take a tour of the SBCRI whenever their schedule would allow.



Capitol Hill Calls

At the Eighth Annual SBC Legislative Conference, component manufacturers and suppliers from 22 states conducted 97 visits with their members of Congress in a little less than eight hours! Armed with state maps, talking points and extensive knowledge of their businesses, these members ensure that the concerns of our industry had a voice in the process of lawmaking. As the summaries below illustrate, in some cases these meetings were simply a refresher, in others they were a confirmation, and in others still, they were an important eye opener on issues the lawmaker may have previously been unaware.

The lawmaker visits are the bread and butter of each Legislative Conference. These meetings open up a dialogue that not only gives our industry an opportunity to voice its concerns, but it also fosters local connections, allows participants to gather good information about governance from the source, and may result in better understanding of our industry through a truss plant tour. Of course, discussing the issues is very important, but in actuality lawmaker visits are really simply tools to help component manufacturers and suppliers begin building relationships with the most well-connected individuals in their communities.

Bob Becht, Florida: I felt that all my meetings went really well, and I felt they were productive. My meeting with Sen. Bill Nelson was a really positive experience, and Rep. Tim Mahoney is a blue dog Democrat, so he was in full support of our industry's views.

Clyde Bartlett, Kentucky: I strongly pushed my lawmakers to take a tour of our facility. We've had to lay off a number of employees over the past year, and many of our production employees left are ex-convicts. When I told them that, their ears perked up; these are individuals who would have a hard time finding a job somewhere else in the district if we had to close.

Joe Kannapell, Virginia: I was impressed that Rep. Virgil Goode, Jr. knew about the truss plant that had recently closed in his district. My congressman is pretty conservative, and

he explained that the Republicans don't want to do anything with the housing issue that will reward those who made bad decisions.

Glenn McClendon, Nevada: I've been coming here for years, and I don't remember it ever being so hectic in my lawmakers' offices. My lawmakers, both Democrats and Republicans, supported the housing bill, but they all thought the extension of the net operating loss carrybacks would be too expensive.

Tawn Simons, California: My lawmakers expressed sympathy with our position and were impressed with the statistics we provided to them. We were also able to tentatively set up a tour of our facility with our representative.

Dave Motter, Washington: The entire Washington legislative delegation seemed in tune and supported our position on the housing bills. The funny thing was that both my senators and representative expressed frustration at the other chamber for not working faster on the housing legislation. Overall, it was really nice to be in tune with them.

Steve Cabler, Missouri: Rep. Todd Akin knows our industry very well. He's extremely conservative, however, and subsequently is not in favor of anything that would bail out the housing industry.

Rick Parrino, Iowa: When I talked to Rep. Steve King, his office really seemed to respond to how bad our numbers were. They were thinking housing was off by only 25 percent, but when they found out it was more like 60 percent [for my company], that made quite an impression. Rep. Tom Latham didn't like the idea of a bailout to bankers or lenders, but more importantly, he didn't want Congress to make a mistake and create an even bigger problem down the road.

Scott Arquilla, Illinois: When I met with Sen. Richard Durbin's office, his aide said the Senator was very engaged in housing, so much so that he was thinking of adding his own amendments to the housing bill (HR 3221). My next meeting was with Rep. Bobby Rusch's office, where the aide recognized me and was familiar with our issues.

Armed with state maps, talking points and extensive knowledge of their businesses, these members ensure that the concerns of our industry had a voice in the process of lawmaking.

Jim Finkenhofer, Georgia: I met with the aides for both of my senators, and they seemed to think that the housing legislation would ultimately not pass. I did have an excellent meeting with my congressman, though. After seven years of coming to the Legislative Conference, I was finally able to meet with him; we realized we have mutual friends! I feel like through that 45-minute meeting I have a new relationship with him now.

Keith Azlin, Arizona: I met my congresswoman, and aides of my two senators. My congresswoman initially had to leave for a vote, but her office called and asked me to come back an hour later. We ended up having a great conversation, and she committed to taking a tour of our truss plant when she is back home.

Mike Karczeski, Illinois: I talked with Rep. Donald Manzullo, and he is very proud of what they have been able to put together in the housing bill (HR 2331). We also talked about the price of steel, which he believes is a global issue.

Dean DeHoog, Michigan: I started off meeting with Rep. Peter Hoekstra's aide, but in the end I got to meet with Hoekstra briefly. He is spending a lot of time on fuel prices and trying to find a solution. I also met with Rep. Vernon Ehlers, who is really engaged in the green building and energy issues.

Carl Schoening, Texas: Most of the Texas legislative delegation seemed to agree there would be no significant legislation passed before the election. Our lawmakers also didn't really want to support the housing bill because they saw it as a bailout.

Chris Lambert, North Carolina: I had a great meeting with Rep. Robin Hayes. Being from North Carolina, fuel and steel were big issues with him. We had a great conversation.

David Horne, North Carolina: My meetings with my members of Congress went really well, even if it was a little like preaching to choir on most of the issues [because their views are in line with our industry]. However, Sen. Richard Burr does not support the mortgage revenue bonds because he sees too much ability for abuse, but he did support the FHA modernization and GSE reforms.

Keith Lindemulder, Texas: I had a great meeting with Rep. Michael Burgess, who is on the House Energy and Commerce Committees. Rep. Burgess invited us to participate in an industry advisory committee to help him craft language to amend the cap and trade portion of the Global Warming bill being sponsored by Senator Joe Lieberman. He also just recently went to China, which now produces as much steel as the rest of the world combined, and he feels that the rising cost is a real problem.

Michael Schwitter, Texas: This was my first Legislative Conference, and I must say it was much better than I expected. I was impressed with the talking points, and I think it will be very interesting to see what happens after the election.

Brian Johnson, Virginia: In my meeting with Rep. Eric Cantor, he agreed to take a tour of our plant. I was surprised by how little was known about the green building issues, because this is big issue for us.



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Perception versus Reality

By Sean Shields & Joe Kannapell, P.E.

Perception and reality. One would argue that these are two different things. Perception is created by the events or actions we can observe, and we make assumptions about the rest to create our own view of reality. Reality is the more elusive true nature of things: "It is what it is." However, in our world where electronic information is at the tips of our fingers, 24-hour news cable channels inundate us with data and commentary, and every interest group and governmental agency polls the populous regularly, one could begin to argue that our perception of things is what drives and determines reality.

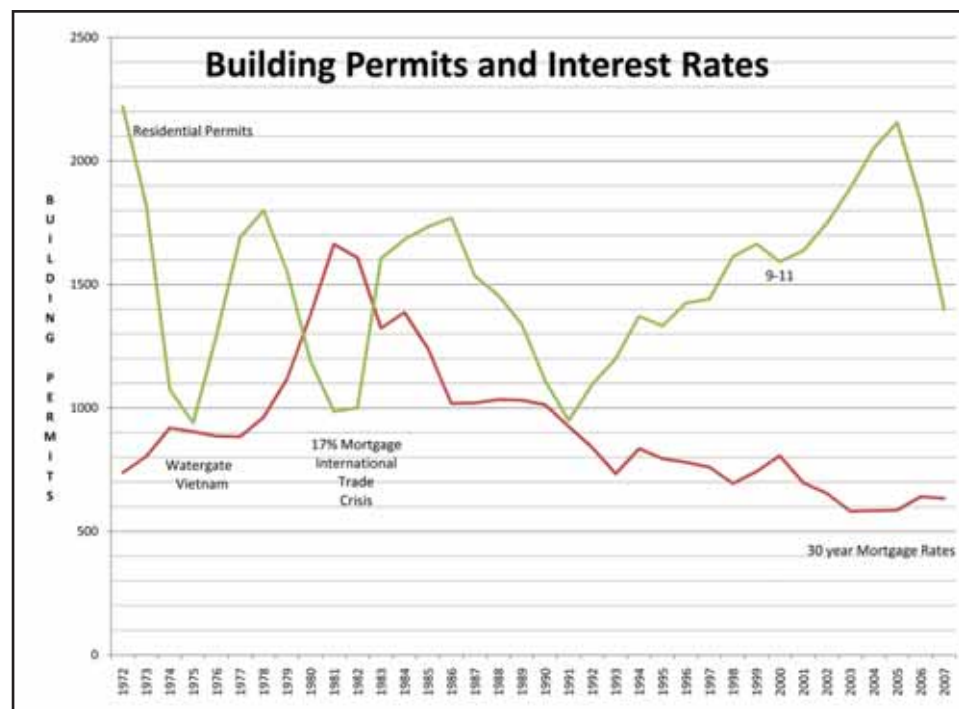
The reality of housing construction is that it has been subject to an up and down cycle, clearly illustrated above. From 1972 to 1986, young component businesses rode a roller-coaster or W-shaped curve, with uncomfortable valleys coinciding with the post-Vietnam malaise and sky-high interest rates. Component manufacturers may have enjoyed the surge of the mid-80s, but they had been conditioned by nine down years out of the previous 15 to expect that it wouldn't last. Those who correctly perceived the next difficult five years had to survive a housing market that reached the lowest level (1991) in the previous 20+ years.

In retrospect, 1970 to 1990 was a difficult period for most component manufacturers. The largest manufacturers, National Homes, Boise Cascade (Kingsberry) Homes, and Wickes closed dozens of plants. Many lumber yards who dabbled in components as a sideline got out of the business. In slow growth areas of the country, there was considerable attrition as the market continued to adjust.

To put this in the context of our current national economy (and the housing market), after the tragedy of September 11th, 2001, the national perception of national security and strength diminished significantly. This change in perception burst the high-tech stock bubble, which had a negative impact on markets worldwide. However, even as fear and this negative perception

of the future inundated the populous from media outlets and governmental spokespeople, annual housing permits began a steep climb upward.

By the end of 2001, approximately 1.5 million building permits were issued, but in 2005 almost 2.2 million permits were granted. The last time permits saw such a meteoric rise over such a short time period was 1982-1985, two decades earlier. This boom in housing starts was driven in part by historically low mortgage interest rates, combined with a perception that real estate was a much better investment than the highly volatile stock market after the tech bubble burst.



During the first half of this decade, home builders couldn't buy land fast enough for development, component manufacturers couldn't build trusses fast enough, and mortgage lenders were falling all over themselves to offer loans to anyone with a pulse interested in buying a home. Life was good for the structural building components industry. Practically everyone knew it couldn't last, but no one knew when it would stop, and virtually no one could sit on the sidelines while times were so good.

The end came, on a national scene, during the last quarter of 2005 and first quarter of 2006. Single-family housing starts fell from their peak of 1.84 million to just 680,000 in March 2008. We all knew it would end, but almost no one expected the decline to be as rapid and deep as it has been. As Senator Charles Grassley (R-IA) told component manufacturers in a speech during the 2008 SBC Legislative Conference, the cause of this contraction was due in large part to the failure of several checks and balances in government and the marketplace that should have arrested the building frenzy that preceded the fall.

The virtual collapse of the housing credit market has only served to exacerbate the situation, causing the decline to sharpen further. As the waves of foreclosures gained momentum, more and more financial institutions capsized. Those that remained severely tightened their lending restrictions, making it that much more difficult for the average homeowner to buy a house.

We now find ourselves in a situation where the reality is bad, but the perception is worse.

In technical terms, our country is not in a recession (signified by two consecutive quarters of negative GDP growth). According to the U.S. Dept. of Commerce, Gross Domestic Product (GDP) grew at a meager 0.6% annual rate in the first quarter of this year. However, while this equaled 2007 fourth quarter performance, the reasons behind the first quarter growth were considered to be less favorable. As a result, most national economists perceive that negative GDP growth is likely to emerge in the second quarter of the year.

The reality is that growth has been, and will likely continue to be slow. Very slow. Bart van Ark, Chief Economist of The Conference Board, recently stated, "[The 0.6% GDP growth] is far from the worst headline in this continuing period of bad news, but it still doesn't signal any rapid recovery underway."

The Conference Board, which publishes the Consumer Confidence Index, indicated that the April CCI fell 3.6 points to 62.3, deepening into its lowest point since a 71.3 low in 1993. While the Expectations component was virtually unchanged, the Present Situation component declined sharply (from 90.6 in March to 80.7 in April), van Ark noted: "This suggests there may be even further economic softening to come." The reality is that growth is occurring; the perception is that the economy is probably going to get worse.

This perception is reflected in the attitudes of home builders. Home builders remained considerably downbeat, according to the NAHB/Wells Fargo Housing Market Index (HMI), released in mid-May. The 23-year-old HMI fell a single point to 19, bringing it within one point of the record low 18 set in December 2007. "With the HMI hovering in the historically low two-point range that's prevailed over the past nine months, the message is very clear: The single-family housing market is still deteriorating and Congress and the Administration must move immediately to enact legislation that will help reverse the trend," said NAHB President Sandy Dunn.

NAHB's Chief Economist David Seiders, echoed this senti-

ment, saying, "The latest HMI shows that even fewer builders now foresee market conditions improving over the next six months compared with our April survey, and builder ratings of buyer traffic through model homes also have dropped off over the past month on a seasonally adjusted basis."

As the perception of a poor economy and a potential or actual recession permeates the airwaves, consumer and builder confidence has eroded, driving a reality where no one wants to buy a home, and no one wants to build one either. Driving this condition is another reality: there are far too many empty homes. The National Association of Realtors reported in April the national housing inventory had climbed to 4.1 million units, representing a 9.9 month supply.

The bad news is the imbalance in housing markets between supply and demand appears to be worsening. The heavy excess supply is also putting strong downward pressure on house prices, driving national expectations of further price declines. According to the Department of Commerce, the median price of a home dropped 13.3% in March compared to a year ago. In reality, this decline in home prices is eroding the actual wealth of millions of Americans who have sunk their worth into their houses.

In reality, Residential Fixed Investment contracted at a 26.7% annual rate in the first quarter and reduced the overall GDP growth rate by 1.23 percentage points just by itself. According to the NAHB, employment in residential construction (builders and specialty trade contractors) decreased again in April, recording a loss of 33,100 jobs for the month and a cumulative loss of 477,900 thousand from its height in early 2006. It has also led to significant layoffs and approximately 180 manufacturing plant closures in the structural building components industry.

Regardless of whether the economy's poor performance or the housing crisis is perception or reality, the good news is that it doesn't really matter to Congress which it is. As long as the perception exists, in an election year no less, swift action must be taken. Consequently, Congress passed an economic stimulus package early in the year to help spur consumer spending and hopefully encourage overall growth. Now Congress is putting the finishing touches on a measure to help out the housing industry (see page 44) and create more security in the credit markets.

Their actions will likely give Americans more financial incentives to buy a home and a better ability to find and qualify for a mortgage loan (reality), while simultaneously giving greater confidence to home builders and mortgage lenders (perception). Historical trends point to a recovery that is swifter than current estimates and an unwavering population growth will also continue to drive the need for housing. However, it is likely that the perceptions of hope and growth will likely be the greatest factors in driving the reality of recovery in the housing market. **SBC**

*For more graphical representation of the concepts discussed in this article, go to **Support Docs** at www.sbcmag.info.*

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