



Message from the Executive Vice President

by Angelo Gangone, CEM

As many of us know, California has always been a trend setter. As the home of our number one export, American film and television programming, the state is our nation's most famous (and infamous) influence on people's perception of Americans worldwide. One trend that the state is not proud of, however, is a trend that has gripped the world from an economic perspective and sent it reeling - the housing slump. At the time of the 2007 AWFS®Fair, the western portion of the U.S. was already well into the current housing recession. Soon thereafter, it began to spread like a wildfire throughout the rest of the country. We are all too well aware of the outcome. Anyone that has watched, listened to or read the news in the last few months is well aware that,

according to "our friends" in the media, we are once again heading for another Great Depression.

I, on the other hand, cannot help to feel a bit more optimistic lately because of one thing that the media is not reporting. Home sales in California have been downright on fire! Okay, okay, "on fire" may be a bit of an exaggeration because sales are still below the normal monthly average. Nonetheless, according to the Orange County Register, home demand in Orange County (the cradle of the dreaded sub-prime loan), is up a staggering 98% from a year ago for the month of October and early estimates of November sales are in the +70% range. That's in addition to a 62% increase in September (all "financial crisis months" for those keeping track). Better yet, inventories of unsold homes have plummeted from a year ago throughout the state. In the O.C., which I am using as a point of reference since it is where I have resided since 2003, it would currently take 5.19 months to sell all of the existing homes at the current pace that deals are being made. That is the lowest point in 18 months and down from 14.06 month's worth of inventory a year ago.

The best news of all is that 92% of the loans for the homes purchased were conventional, fixed loans. This is significant for two reasons. First of all, people are still getting approved for home loans, regardless of what the general consensus may be. Secondly, lending institutions are acting in a responsible manner when it comes to making loans that won't come back to bite them as homeowners purchasing "distressed" (short sales and foreclosed) properties are starting to form a solid foundation that will continue to support a rebounding real estate market. Want more encouraging news? Many of the county's distressed properties that are on the market and in good condition are getting multiple offers, similar to the activity during the height of the housing boom, causing the homes to go for far more than the initial "distressed" asking price. In addition, mortgage rates are now the lowest they've been in the last three years and rumor has it that future government actions may result in bringing rates on conventional 30 year mortgages down into the 4.5-5% range. Although nothing has been finalized, any movement in this direction could potentially have a very significant impact in bringing buyers back into the marketplace, full-force.

Housing aside, there are other factors that are also giving me optimism about an impending economic rebound. Let's start with oil. It has moved down from a nonsensical, speculation-induced price of \$147 in July, to a more realistic level of under \$50 per barrel as of this writing. This in itself is huge, as the reduction in gas prices alone should have a major positive impact on discretionary spending. The financial markets are finally starting to show some signs of stability as they have already priced in a "worst case scenario" throughout the months of September and October, taking a great deal of market risk out of the equation. In fact, the argument can easily be made that anyone who has any money left, whatsoever, would be well rewarded in a few short years, simply by buying some of the world's best companies at "fire sale" prices. I have also been impressed at the (recent) actions of our Federal Reserve. Ben Bernacke, the Federal Reserve Chairman, is a noted scholar of the Great Depression and is determined NOT to make the same critical policy errors that led to those devastating economic times. Additionally, Barack Obama has shown this country that reviving the economy is currently, and will continue to be, his number one priority. At first glance, it appears that he has already assembled a solid economic team. He has also vowed to have a fiscal stimulus plan in place shortly after he takes office on January 20th. Most importantly, Obama has hit the ground running and displayed the leadership that this country so badly needs at this moment in history.

Don't get me wrong, I'm not saying that tomorrow we are all going to wake up and it's going to be 2005 all over again. What I am saying, however, that the groundwork has been put in place that could possibly contribute to a substantial rebound much sooner than anyone has anticipated. Remember this. Economic rebounds, for the most part, begin when things look the very bleakest. After this past quarter, it's hard to fathom a time in our recent history that has looked any bleaker. Think about this. It has been estimated that as much as \$3 trillion over the next two years worth of economic stimulus will be hitting the economy in one form or another. That is a staggering number in itself. The question is. Are you going to be in the position to take advantage of the inevitable economic rebound that may materialize much sooner than many of us would have ever anticipated?

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