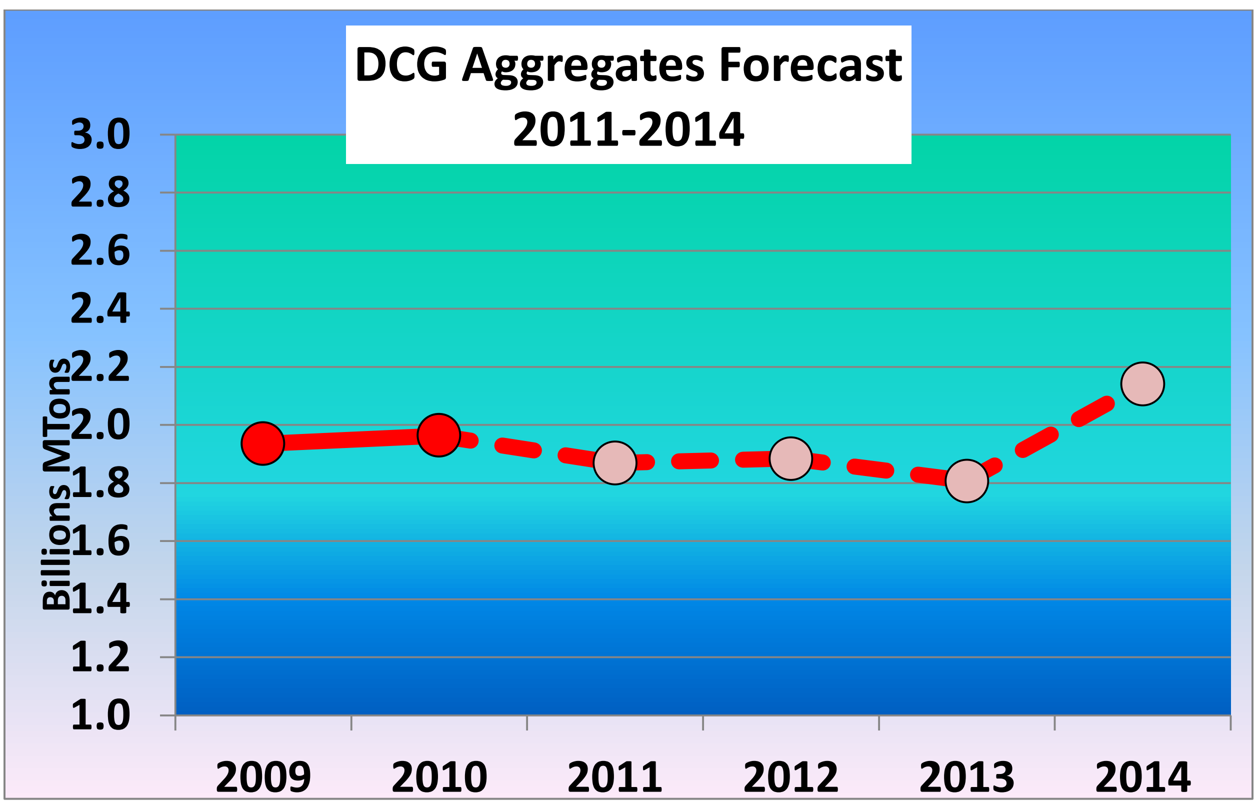
DCG Aggregates Analysis and Forecast

Recent disappointing economic results confirm our outlook for slow growth and no increase in aggregates demand. The reasons for the flat outlook for the 2011-2013 period are due to three factors.

1. The stimulus money is gone and quantitative easing is over (for now). The stimulus money did not contain much infrastructure money anyway but it did contain billions of dollars for the states. Now that the states are not getting this money, they need to fund Medicare and Medicaid from other buckets of money; frequently from money that would have funded infrastructure work. Even if there is a wall between transportation funds and general funds Politians will find a way to divert money into education and health care.
2. Private investment and new business startups remain subdued due to more command and control policies from Washington, D.C. These policies range from new financial regulations which are impeding the flow of funds to small business to new energy regulations which make electricity production more difficult and expensive. In addition higher health care costs and higher taxes or reduced tax write-offs may be around the corner. These all work together to make 'fat cats' hesitant to invest in America.
3. The above two points work together to produce slow growth and continued high unemployment. Private construction cannot thrive in this situation and public construction is starved for new funds which will not be available as long as we have high deficits.



However, there is a bright side to all of this. In our base case scenario there are major policy changes by 2013 that stimulate private investment and begin a multi-year period of above average aggregates demand growth. While we cannot know these policy changes will occur, the winds are turning in their favor. Once the war on capitalism subsides, strong economic growth will return. If the war continues slow growth will continue and aggregates demand will remain near 2 billion MTons/yr for a long, long time.

7-8-2011: David Chereb, Ph.D.