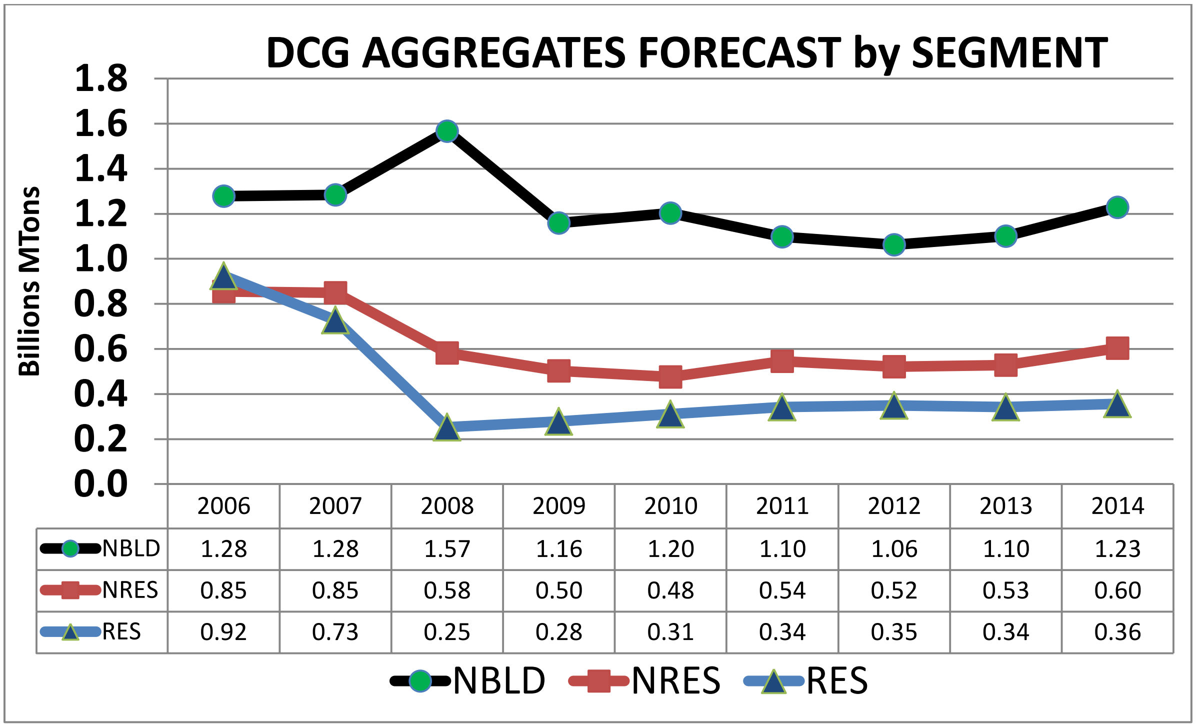
DCG Aggregates Forecast

Construction materials demand is much improved from last year as a mild winter and stronger residential demand is making the spring of 2012 the best in many years.



	2006	2007	2008	2009	2010	2011	2012	2013	2014
NBLD	1.28	1.28	1.57	1.16	1.20	1.10	1.06	1.10	1.23
NRES	0.85	0.85	0.58	0.50	0.48	0.54	0.52	0.53	0.60
RES	0.92	0.73	0.25	0.28	0.31	0.34	0.35	0.34	0.36

However, the economy is still on a slow upward path and the early gains will not be sustained throughout the year in most areas. As the chart and data shows, DCG expects relatively flat conditions for another 18 months—until a clear set of pro-growth policies are put in place sometime in 2013.

Even with the slow growing economy residential segment is improving. Some of the reasons for our expectations of continued improvements in residential demand are: low interest rates, low prices, slow but positive GDP growth and the extremely low level of homebuilding for the past four years. The burden of under-water homes is the main impediment preventing a boom in new housing.

The modest increase in jobs along with cheap financing is providing enough new demand to boost nonresidential activity in 2012. While total new nonresidential investment will be flat going forward into 2014, markets with strong employment growth, such as energy related areas, will do much better. Significant new volume cannot be sustained until GDP growth greater than 3% becomes common.

The slowdown in nonbuilding activity is the main reason aggregates demand is not much higher now. State spending tends to lag local conditions; i.e. it is slow to decline and slow to pick up. With the federal stimulus funds almost gone there is little near term new stimulus to boost nonbuilding aggregates. Even the new Congressional compromise on highway spending only prevents a disaster; it does not provide higher levels of funding.

When the segments are combined it means flat demand until pro-growth economic policies are enacted that stimulate new private investment.

July 5, 2012: David Chereb, Ph.D.