DCG, Inc. Aggregates Forecast

What makes the economy grow? Is it the Fed?

The economy needs a certain amount of liquidity; i.e. money to keep it going. A truck needs a certain amount of oil to keep it lubricated. But adding ever greater amounts of oil do not make the engine run better and can be harmful. The economy is similar. Lately we have become liquidity junkies. No matter what the long term impact we just want more money now.

But just like a truck engine, beyond a certain amount more money does not help the economy to grow. Real sustained growth comes from capital investment, innovation, hard work and sound financial planning. This is why our forecast shows flat demand for the next two years. We have become too focused on the Federal Reserve and not the 'real' economy. Specifically our forecast shows a modest but growing recovery in residential demand as all the drivers of homebuilding begin to provide a tailwind; low mortgage rates, low home prices, low building levels. When the logjam of foreclosures is cleared sometime in the next 24 months, the conditions will be ripe for stronger homebuilding.

	2010	**2011**	**2012**	**2013**	**2014**
Residential	.31	.32	.36	.37	.42
Nonresidential	.48	.52	.53	.51	.57
Nonbuilding	1.20	1.11	.96	.96	1.06
Total	**1.99**	**1.96**	**1.85**	**1.84**	**2.05**
Yr/Yr %Ch	*2.5%*	*-1.5%*	*-5.6%*	*-.5%*	*11.4%*

Nonresidential is already recovering but will be mainly flat for the next two years as slow job growth and modestly high vacancy rates keep a lid on any new boom for now. States with rapid job growth such as Tennessee and Texas will add substantial new nonresidential capacity during this period.

The weak link going forward is nonbuilding. Despite a large backlog of infrastructure needs this segment relies heavily on new public financing which is not likely to be forth coming. As the Federal Stimulus ends and Congress fights over spending, taxes and debt levels, federal money will remain flat to slightly lower. At the state and local level there is little appetite for more public works vs. other spending priorities; education, pension costs and medical benefits come first.

The forecast shows strong gains in 2014 when new pro-growth policies are assumed to take hold in our baseline scenario. These policies, passed in 2013, will focus on driving GDP growth to the 4%-5% range instead of our current 0%-3% range. Higher tax receipts at all levels of government will follow from this strong growth and help to fund new aggregates demand.

Dec., 2011. David Chereb, Ph.D.