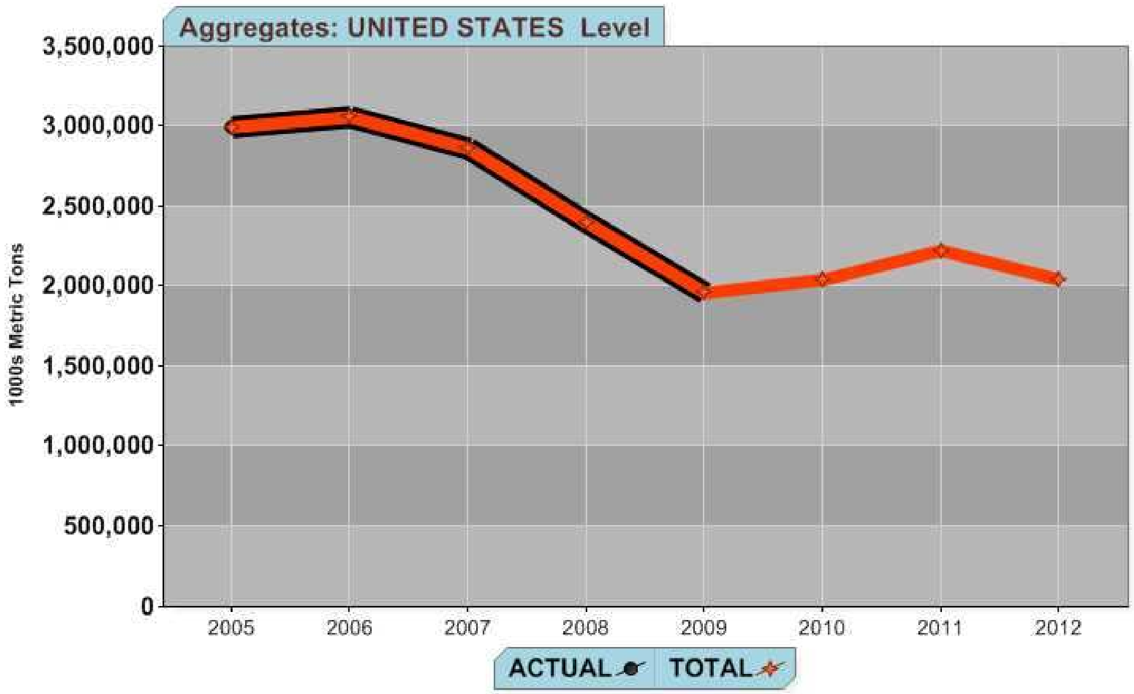
DCG, Inc. Aggregates Forecast

United States Aggregates Demand Forecast



The latest DCG, Inc. Aggregates forecast from our county based model shows smaller gains in 2010 and 2011 than a few months ago. The main causes of the moderation are the slow pace of job growth, the winding down of the stimulus spending and the failure of Congress to prevent investment tax hikes next year. Greece is a catalyst in reducing near term aggregates growth as the world begins to focus on debt burdens. This new focus prevents any new large spending bills.

The U.S. $860 billion stimulus bill was poorly designed in that it had too little for infrastructure funds, too much in transfer payments and not enough tax cuts to stimulate investment spending (such as eliminating the capital gains tax). The Keynesian model for growth works fairly well when the stimulus is mainly tax cuts, needed infrastructure spending, current deficits are low and the debt/GDP ratio is low. Keynesian stimulus doesn't work well when the stimulus is mainly transfer payments, existing deficits are already high and the debt/GDP ratio is high.

What now? Aggregates demand will be mainly supported by nonbuilding demand with nonresidential demand weak for another 12-24 months. Residential, unlike past recoveries, will provide only a modest boost to demand (we are at such low building levels that raw demographic demand will force homebuilding modestly higher). By 2012 aggregates demand declines—only new pro-growth policies will turn things around.

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