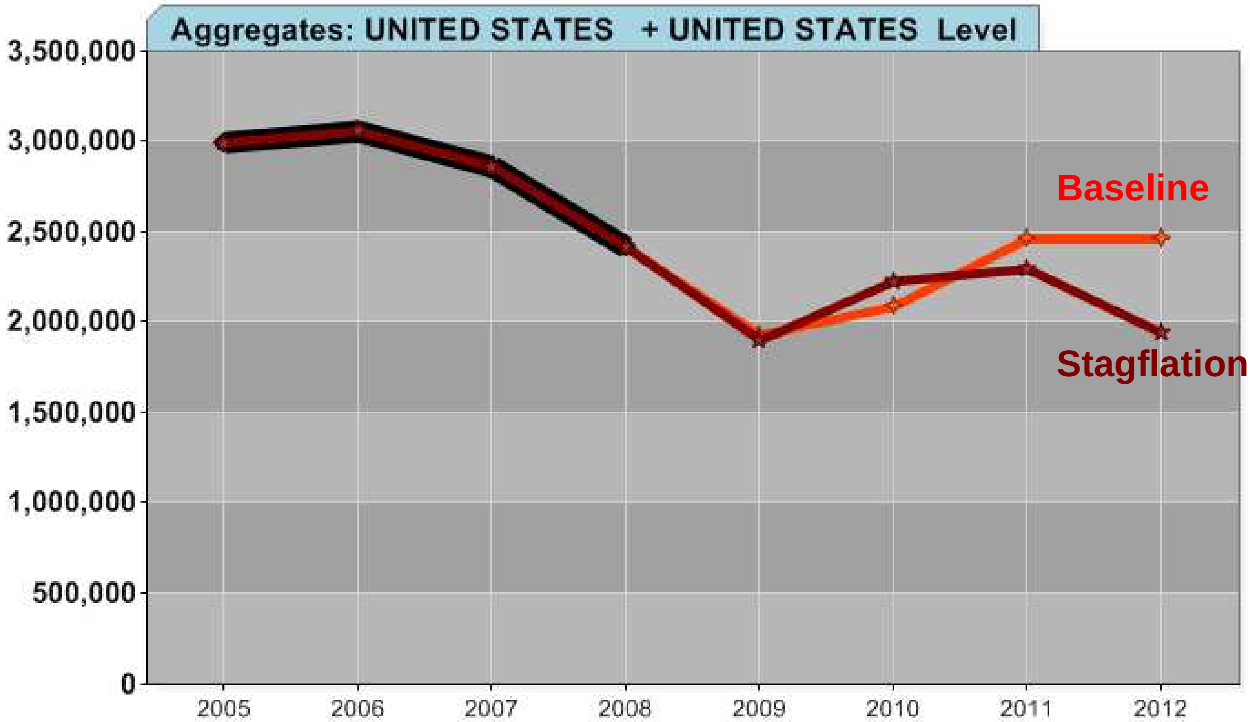
DCG, Inc. Aggregates Forecast



There is very little change in the DCG Baseline Aggregates Forecast: growth resumes in 2010 and continues into 2011. By late 2011 demand begins to level off making 2012 a flat year. These changes are driven by continued low interest rates, government stimulus and higher investment activity by entrepreneurs and businesses. The alternative scenario from our model shown above is labeled the Stagflation Scenario. In this alternative scenario, with a somewhat lower probability of occurring, demand grows strongly in 2010 but then changes course as the economy begins to unravel. The unraveling of the economy is caused by excessive debt, excessive monetary stimulus, poor private job creation and a falling U.S. dollar. These factors combine to drive interest rates much higher by 2012 to finance the deficit and to counter a surge in inflation caused mainly by the higher price of imported goods, including oil.

The result is slow growth and higher inflation, hence the term stagflation. Unfortunately 2012 is the beginning of the downturn, not its end and 2013 is much worse. While the materials demand impact of the stagflation scenario doesn't begin to show up until 2011, its seeds are sown this fall. Before the end of 2009 we will all know what path we are on as Congress debates new spending bills and higher taxes. If new trillion dollar programs are enacted on top of the $1+ trillion deficits, then we are headed toward the Stagflation Scenario.

David Chereb, Ph.D.
September 29, 2009