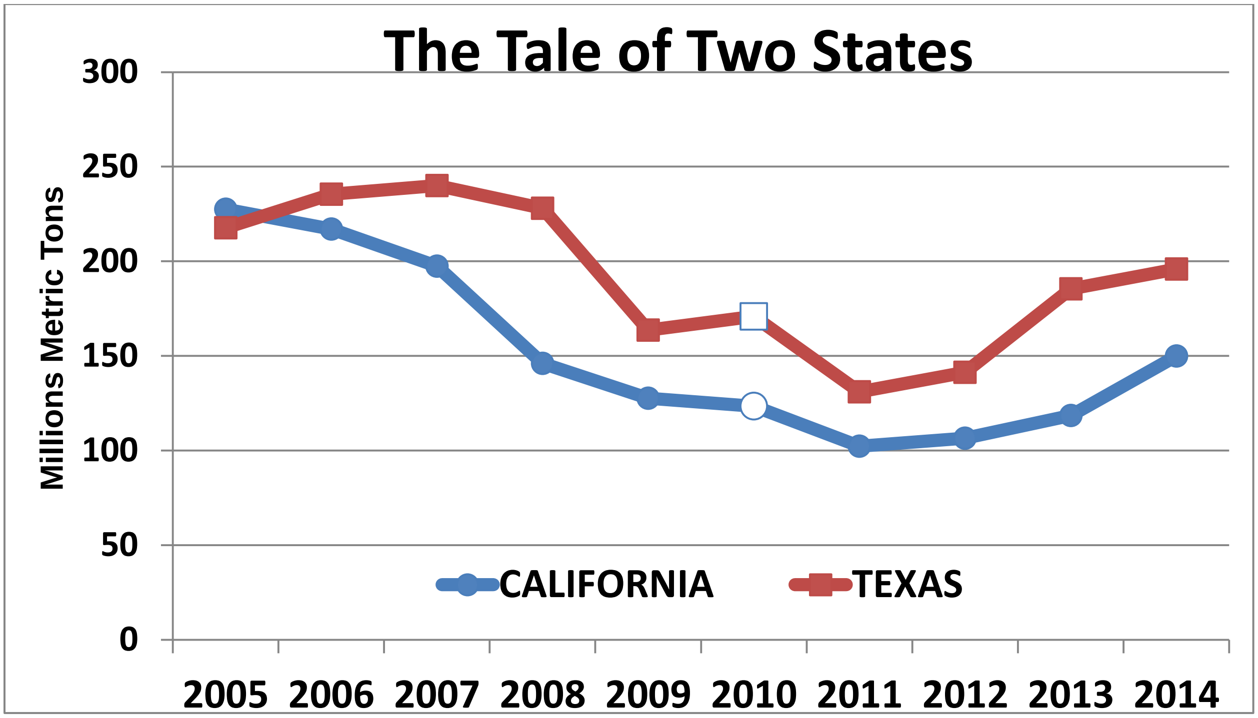
# DCG Aggregates Forecast




The chart shows the DCG County Based Aggregates forecast for two of the largest aggregates consuming states, California and Texas. Recent census data shows rapid growth in Texas during the last ten years while California grew at close to the national average. The construction impact of these two different paths also shows up in the path of aggregates demand.

In 2005 California aggregates consumption was 4% higher than Texas. By 2010 California consumption is 28% lower than Texas. Our projections show that the gap will continue into 2014 when California will still be 23% lower. For both states the long deep recession is the main cause of the declines. But other factors also account for the more severe drop in California. Job growth creates new construction and job destruction destroys aggregates demand. The usual suspects are at work here: high taxes, stringent regulations, difficult land use rules and a business unfriendly legal environment (all attributes for California).

By 2011 aggregates demand hits bottom for these states due mainly to a recovery in both residential and nonresidential demand. Public works continues to be a drag into 2012 as state budgets are not healthy enough to take on large new infrastructure projects and as Federal support wanes. Even so, both states begin a strong recovery in aggregates demand by 2013 as U.S. and state conditions improve, budget trajectories are sustainable and pent-up demand for housing leads to higher homebuilding. The basic assumption is that after 2012 the path of public spending is flat, deficit reduction becomes real and entitlement reform begins. If these actions do not occur the recovery in aggregates demand will be tepid.

Jan. 1, 2011. David Chereb, Ph.D.