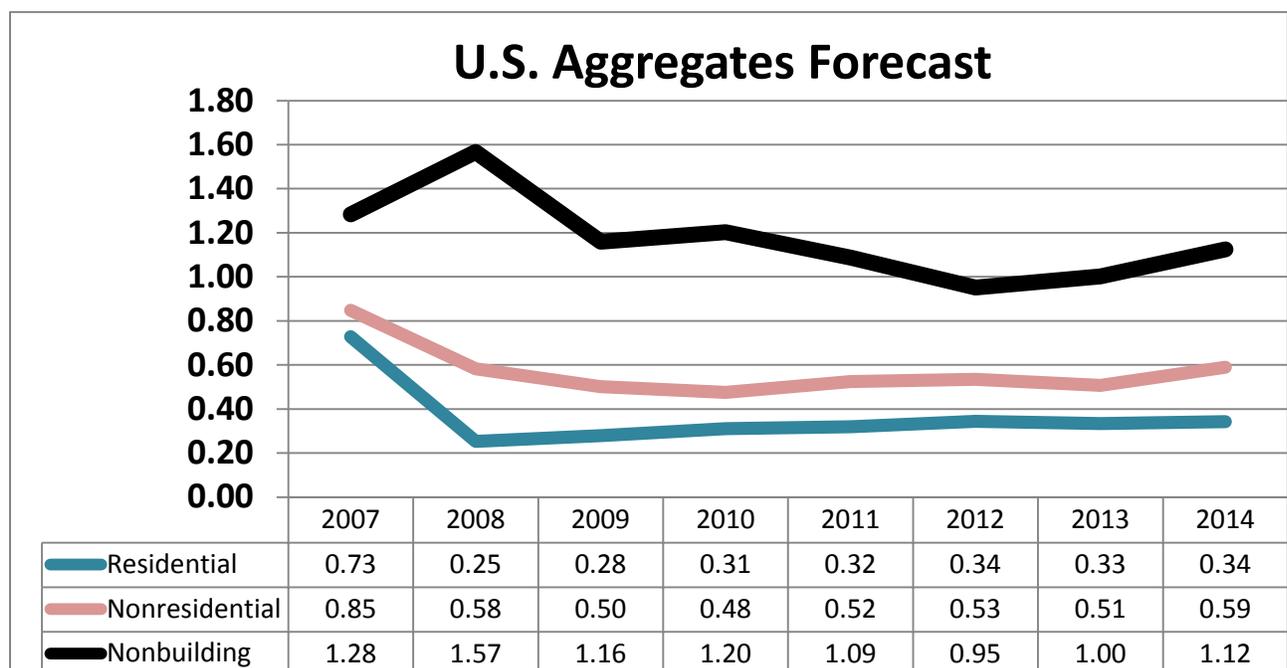


U.S. Construction Growth Prospects

Construction activity is about 30% below the 2005 peak level and is likely to remain bouncing along this trough for another two years. While each of the major segments of construction (residential, nonresidential, nonbuilding) is driven by different factors, they all ultimately depend on GDP and employment growth. As things stand now the path forward is approximately flat for years to come.

With residential activity down the most and for the longest, it stands the best chance of growing by over 50% in the next six years. With current building well below demographic demand levels, fixed mortgage rates near 4% and prices down by 30+%, the housing sector should be booming. We all know that foreclosures, negative equity and tough lending standards are preventing a boom. How long these headwinds continue depends on how fast the U.S. economy grows during the next five years (more on that later). Nonresidential building is doing better in 2011 but without an increase in monthly employment gains, the increase won't last. High vacancy rates and slow job growth mean low demand for new nonresidential space. However, just as in housing prices are down 30+% and financing costs are very low—but money is only going to well leased projects with substantial equity buy in by owners. Nonbuilding activity has until recently been strong. But tight state and local budgets and reduced federal money all point to several difficult years ahead.

All of us pretty much know the current state of affairs in construction and materials demand. What is hard to comprehend is that the current situation will last for many more years with our current policies. Whether you believe the stimulus program worked well or not there isn't going to be another big program. Europe will not be source of higher export demand for at least two to three years, maybe longer. Emerging markets are where new export demand will come from but the amounts will not be big enough to counter sluggish domestic growth. The debt-deficit commission and fiscal plans are not going to be a source of near term stimulus. So we are left with modest GDP growth for the next two+ years.



With slow growth baked into our near term future the question turns to our longer term potential. If pro-growth policies are implemented by the current administration or a new one, the U.S. can begin growing at over 4%/yr. for several years by 2014. The details of a pro-growth set of policies will be negotiated by Congress but the overall framework is clear: our corporate tax structure must be revised to be more globally competitive and companies must be able to allocate capital profitability.

Our baseline forecast assumes that pro-growth policies will be implemented by 2013 and begin to bear fruition by 2014.

Nov. 3, 2011: David Chereb, Ph.D.