

Cement Outlook: 2007



Interce
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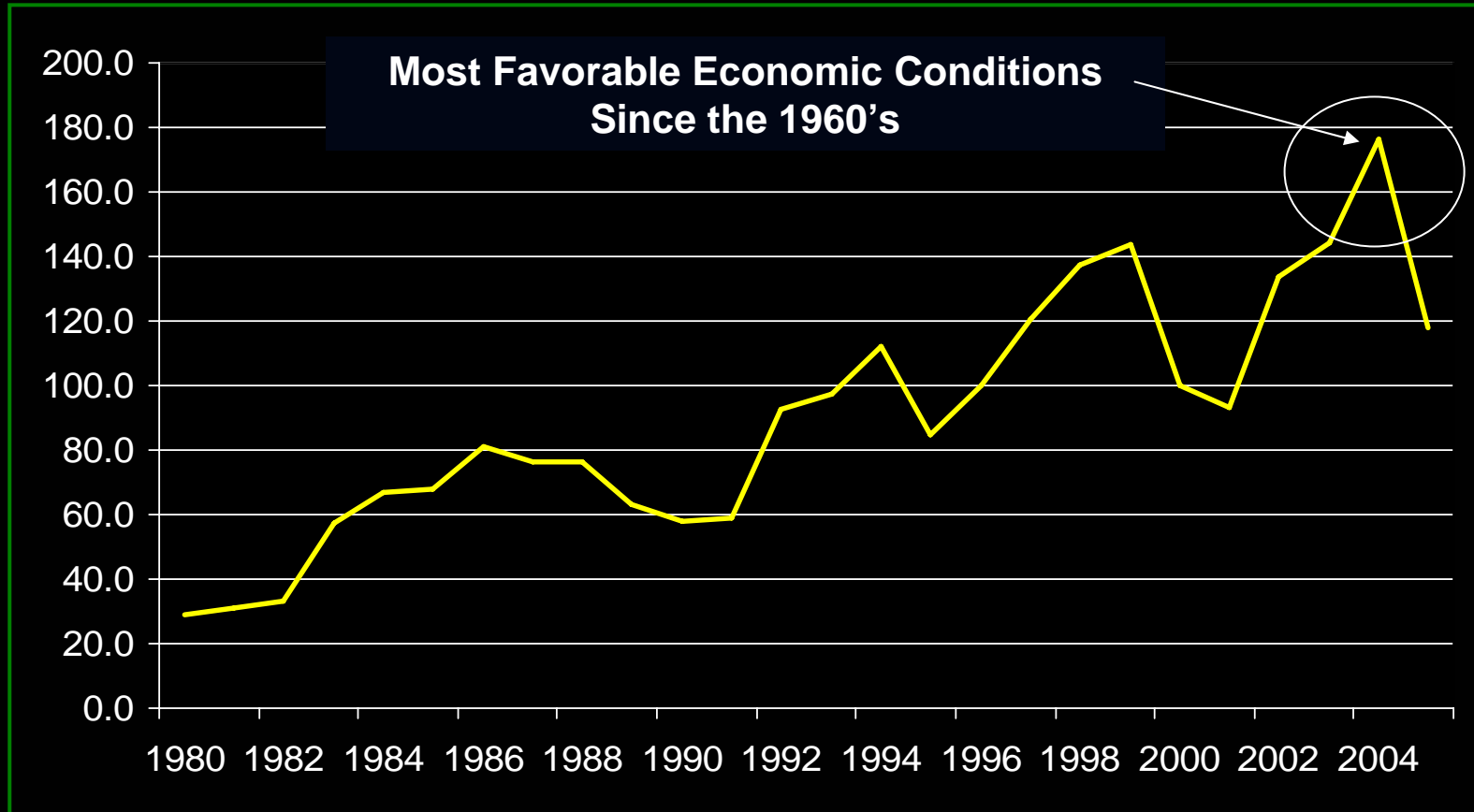
For the Second Straight Year Awarded Most Accurate Forecaster (GDP) by the Chicago Federal Reserve

Introduction



Economic Comfort Index *

1996=100



- Combines Real GDP Against the Levels Interest Rates, Inflation and Unemployment

Construction Market In Transition

- Slowing Economic Growth
 - Rising Inflation, Higher Interest Rates, High Energy Prices, Slower Job Creation
- Construction Market Flattening
 - Harsher Decline in Residential
 - Slower Nonresidential & Public Recoveries
 - Higher Material Costs
 - Potential for Market Contraction in 2007
- Cement Supply Slow to Adjust to Slower Growth Environment
 - Imports May Smash Last Year's Record
 - Could create a 6 MMT overhang by year-end.
 - Tight Market Conditions Dramatically Reduced
- Add Extra Dose of Conservatism to Forward Plans
 - Particularly true for states where total cement consumption is highly dependent on housing.
 - Prepare Contingency Plans Incorporating Downside Risks.

U.S. Economic Outlook



Key Near Term Economic Issues

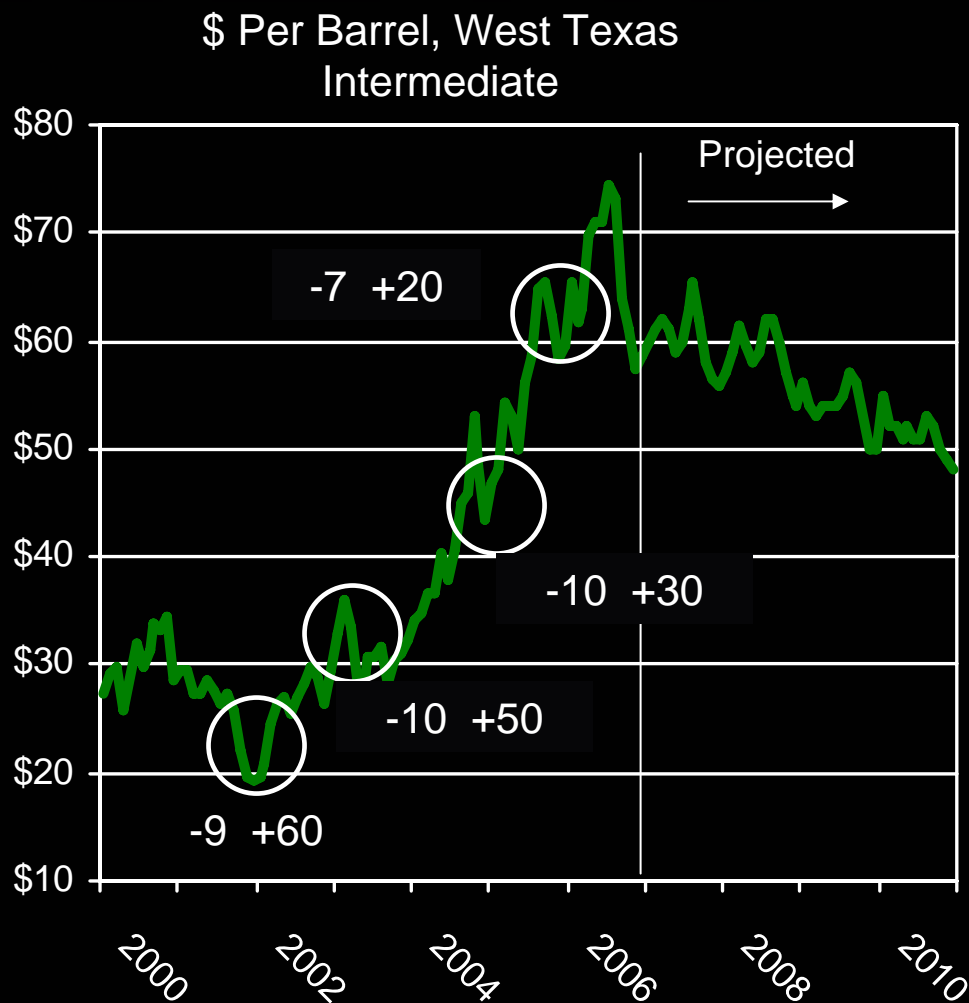
- Oil Prices:
 - Is the recent rundown sustainable?
- Inflation:
 - Supply side generated – will it subside enough to the Federal Reserve's criteria
- Interest Rates:
 - Resumption in increases?
- Housing Decline:
 - Hard landing or false read of data?
- Job Creation:
 - Can we maintain current level of unemployment?

Energy Outlook



Oil Price Outlook

- **Oil Prices are declining as projected.**
 - Retreat to 2002 levels not going to happen.
- **Strong International Demand**
 - Japan's Economic Recovery
 - Stronger Asian Demand: China & India
- **Supply Disruptions Continue**
 - Middle East Uncertainties, Nigeria, Venezuela
 - Iran & Uranium Enrichment
- **OPEC Actions**
 - \$60 per barrel target?
- **2006: \$65.85 per barrel WTI**
2007: \$60.30



Gasoline Price Impact

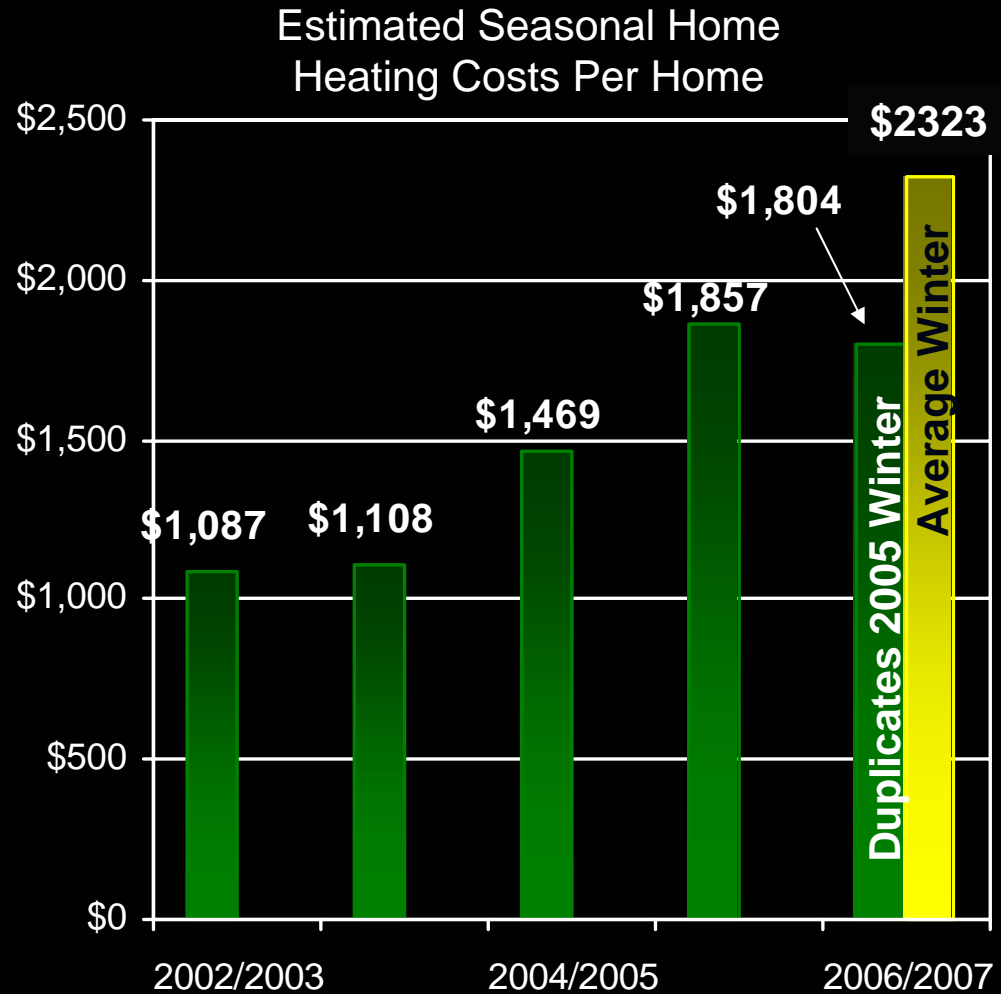
- **Gasoline Prices Topped \$3**
 - Seasonal patterns suggest September peak.
 - Declines incorporated.
- **Gasoline Purchases To Account for 5.3% of Total Consumption.**
 - 2005: 4.2%, 2004: 3.6%, 2003: 3.3%
- **Steals \$125 Billion from Consumer Spending Compared to 2005**
 - Rising gasoline prices stole \$75 Billion in 2005 and \$50 Billion in 2003

Estimated Annual Gasoline Spending Per Vehicle



Heating Oil Impact

- **Peak Heating Season Begins In November**
- **Slight Retraction from High 2005 Levels.**
 - \$700 increase over “normal” 2004 levels.
 - 2005 impacts minimized by mild winter conditions.
- **Assumes “Average” Winter.**
 - Adverse impact increases with severity of winter.



80% of Total Heating Bills Occur Nov - March

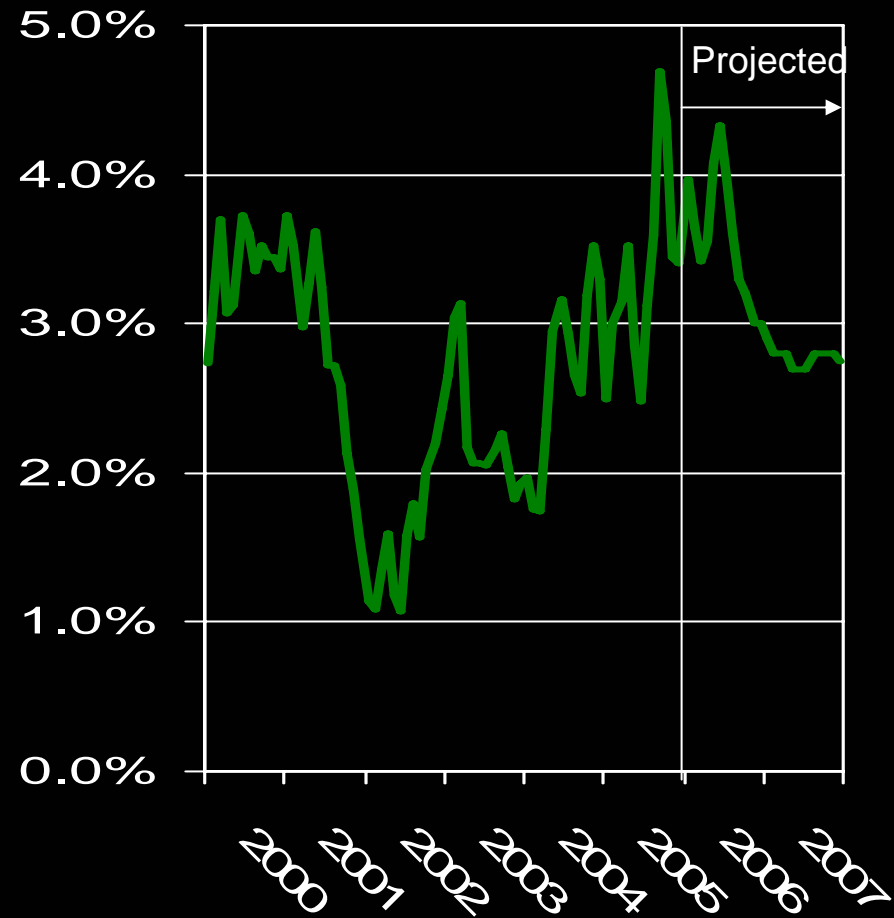
Inflation Outlook



Inflation Outlook

- **Higher Energy Prices Structure**
 - Still Cyclical...but...
 - Stronger Asian Demand: China & India
- **Labor Costs Rising**
 - Unemployment Rates Decline below 5%
 - Workers Cautious in Pushing for Increases
 - Productivity Growth Easing ?
- **Structurally Weaker Dollar**
 - Trade Deficit Widens
- **Structurally Higher Transportation Costs**
 - Energy & Logistical bottlenecks
- **2006: 3.4% 2007: 2.7%**
- **Supply Side Inflation:** Tougher to reduce.

Annual Percent Change, CPI Urban



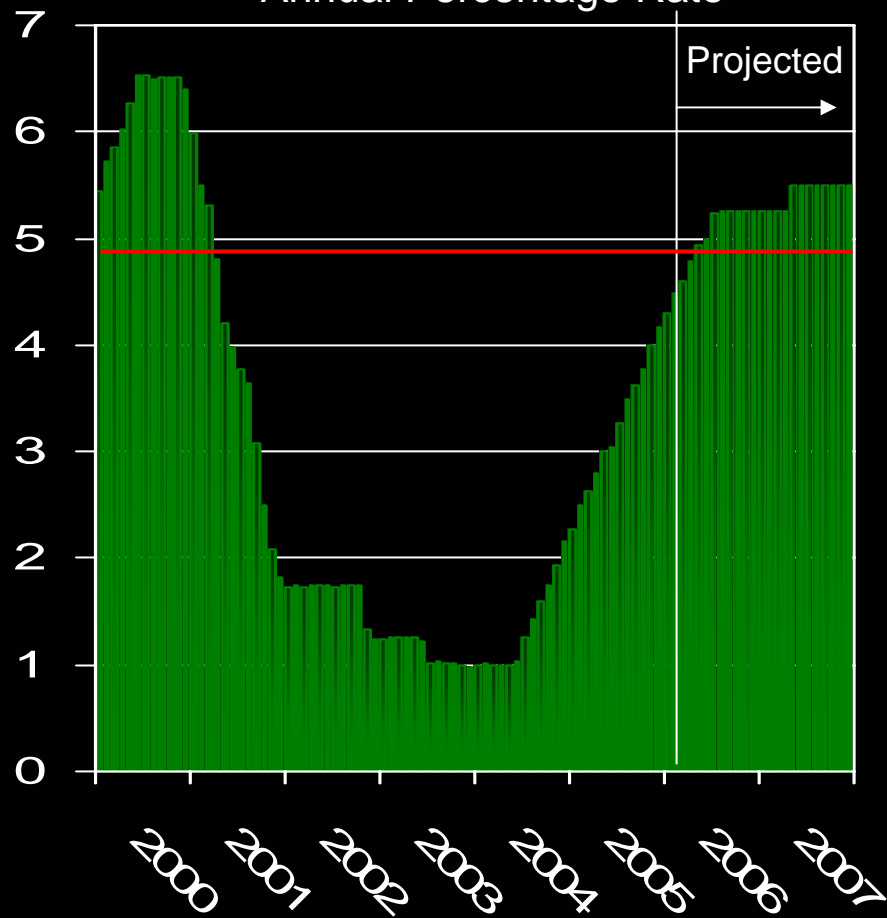
Interest Rate Outlook



Federal Reserve Policy Actions

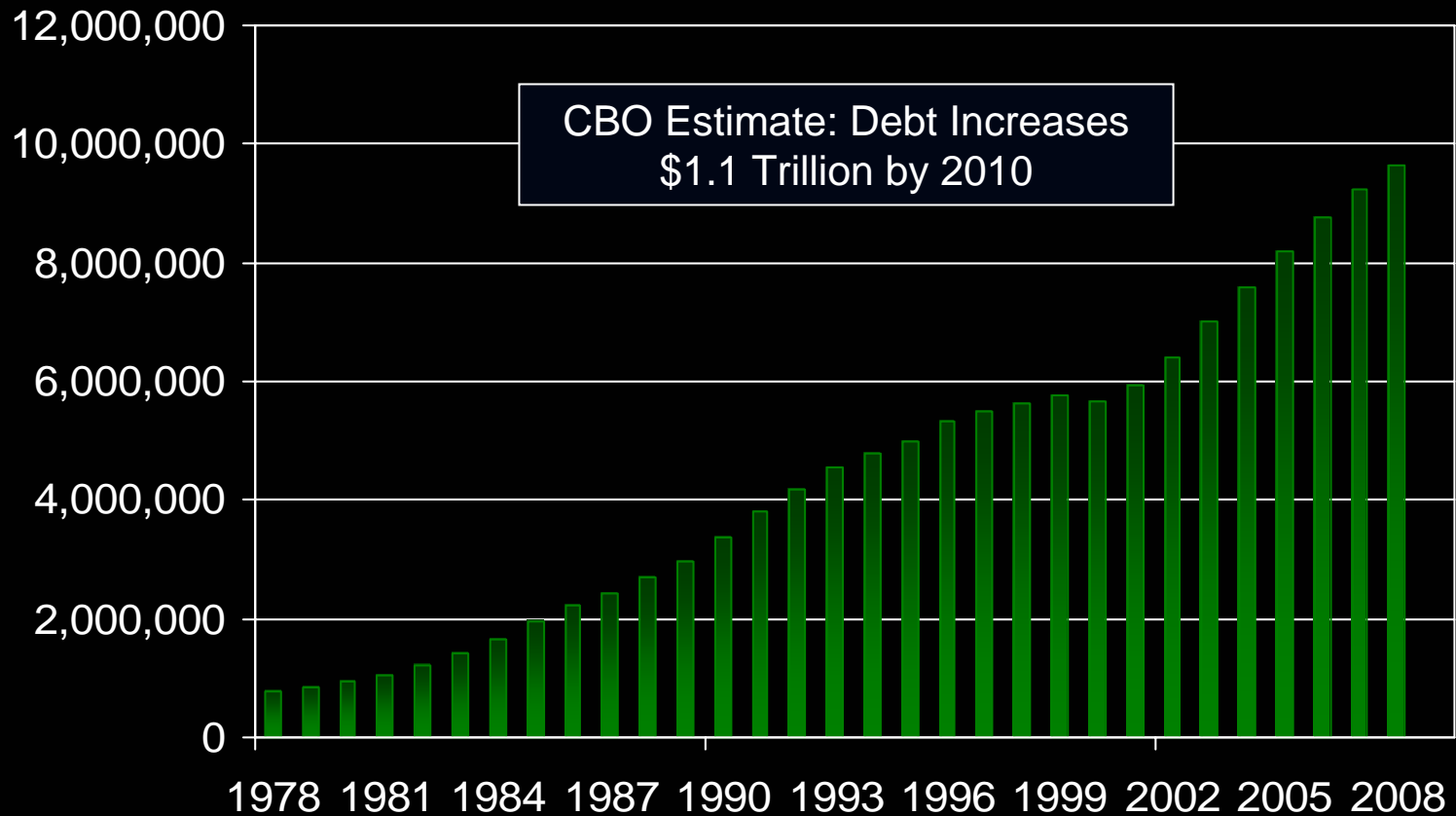
- Overall Economy & Job Growth Slowing.
- Inflation a growing concern.
 - Nature of inflation: Supply Side. Improvement may disappoint Fed Expectations.
 - Target rate = 2.0%
- Dilemma: Inflation or Growth?
- Do not count out further Fed Tightening.
 - One more rate hike anticipated during 2007 (May/June).
 - Federal Funds to 5.5%
- Risk of Fed over-reaction.

Federal Funds Interest Rate,
Annual Percentage Rate



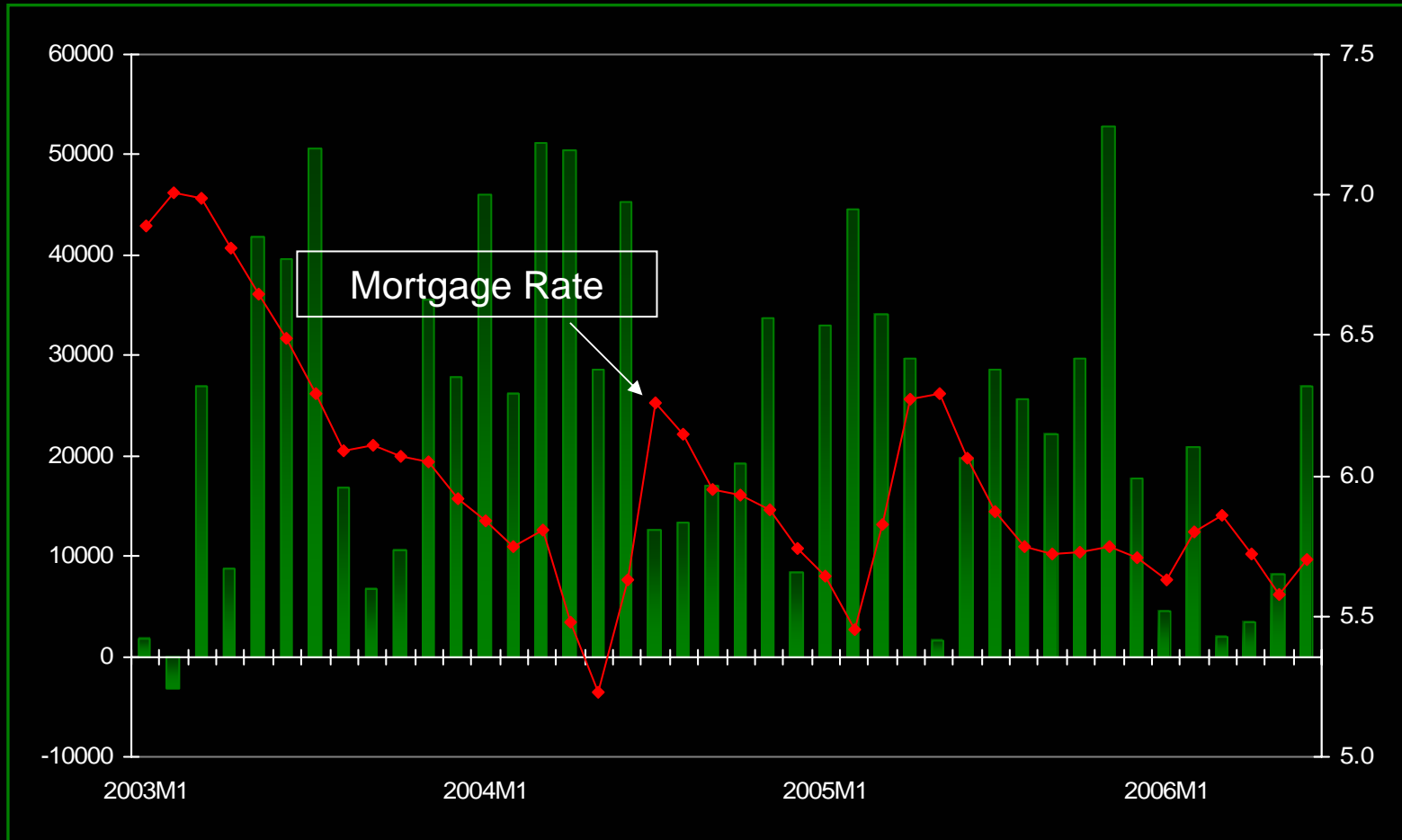
Total Public U.S. Debt Approaching \$10 Trillion

Total Public Debt, Million \$



Net Foreign Purchases: US Bonds & Notes

\$ Millions



China May Diversify its Portfolio Away from U.S.

Interest Rate Conclusions: 2007-2010

- **Higher Inflation Premiums**
 - Add to “Real” Rates
 -
- **Federal Reserve**
 - New Fed Chairman demonstrates resolve
 - Favors Inflation Targeting (2%)
- **Larger Public Demand for Funds**
 - Middle East
 - New Orleans
- **Private Demand for Funds Increase**
- **Foreign Supply Slows**
 - Weak Dollar lower foreign returns
 - Competing Investment Instruments
- **Strength in Equities Draws Funds from Bond Market**

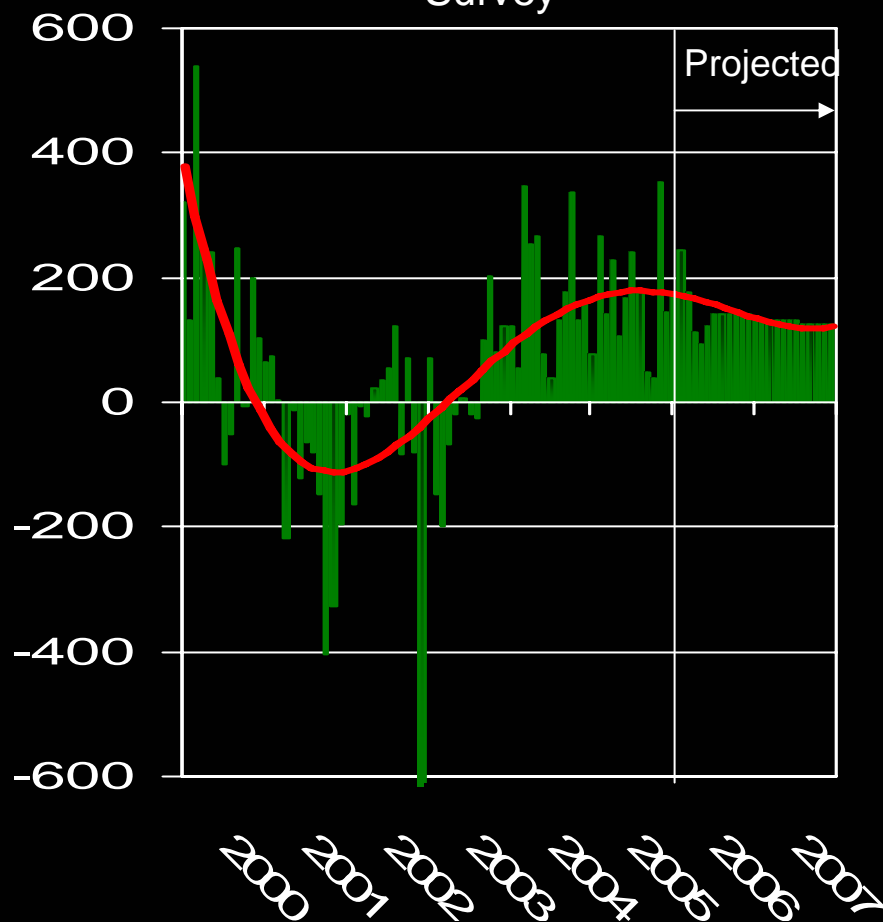
Employment Outlook



Labor Market Outlook

- Job growth slowing from 1st Quarter average of 176,000 net new jobs per month to 2nd Quarter averaging 110,000 net new jobs per month.
- 2006: 1.7 million 2007: 1.6 million net new jobs creation
- 2006-2008 Job creation: Estimated at 4.7 million jobs 2006-2008, compared to 6.1 million in Spring forecast.
- Unemployment rises to 4.8% year end. 2007: 5.2%
- Slow down in trend of accelerating wages by 2008.

Monthly Net Job Creation, Payroll Survey



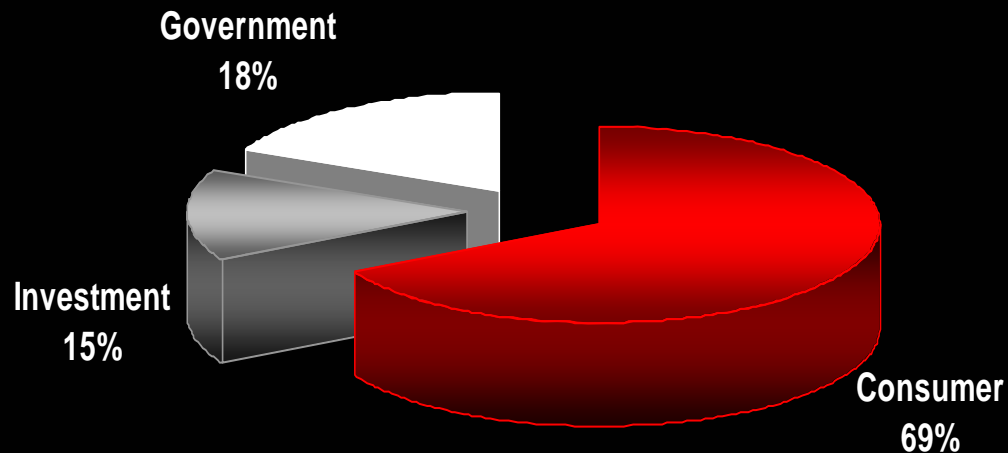
Economic Outlook



Consumer Worksheet

- **Pay Increase Averages 3.5%.**
- **Health Insurance Premiums Rise 7%-11%.**
- **State and Local Property Taxes Rise.**
 - Reassessments based on high home appreciation
- **Energy Prices Take a Large Bite.**
 - Even in context of recent improvement.
- **Inflation Running near 3%**
- **Interest Rates Rising in Context of Record Consumer Debt**
- **Tapping Home Equity Not as Viable As In the Past**
- **Slowdown in Job Creation**
- **Consumer Growth Rate Under Pressure**

Snap Shot of Economic Activity



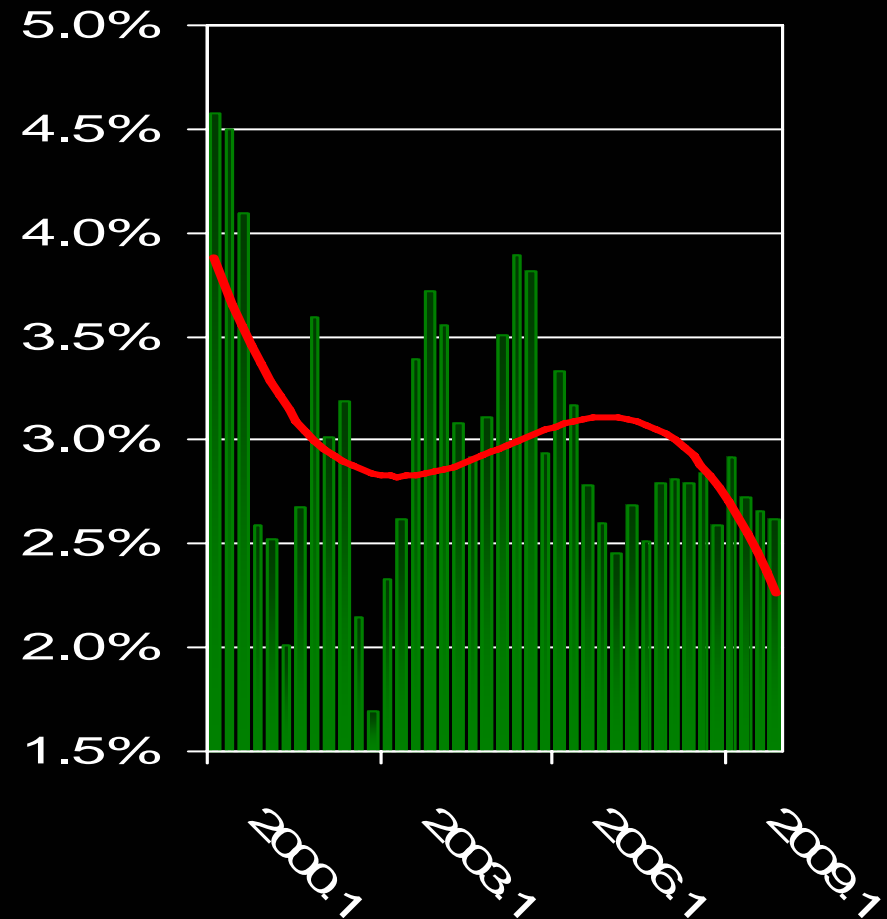
Consumption acts as the anchor for US economic activity.

Any retrenchment in consumer spending will lead to slower economy-wide growth rates

Consumer Spending

- Consumer spending accounts for more than 2 out of every 3 dollars created by U.S. economy.
- Slower Job & income growth implies slower growth in consumer spending.
- Higher Oil prices, inflation and rising interest rates dampen improvement in sentiment.
- Affordability erodes, but high from historical perspective.
- Less home refinancing activity & growth in mortgage ARMs dampen
- Slower Automotive Spending
- **Consumer Spending** Grows below 3.0% next two years. Downside risk.

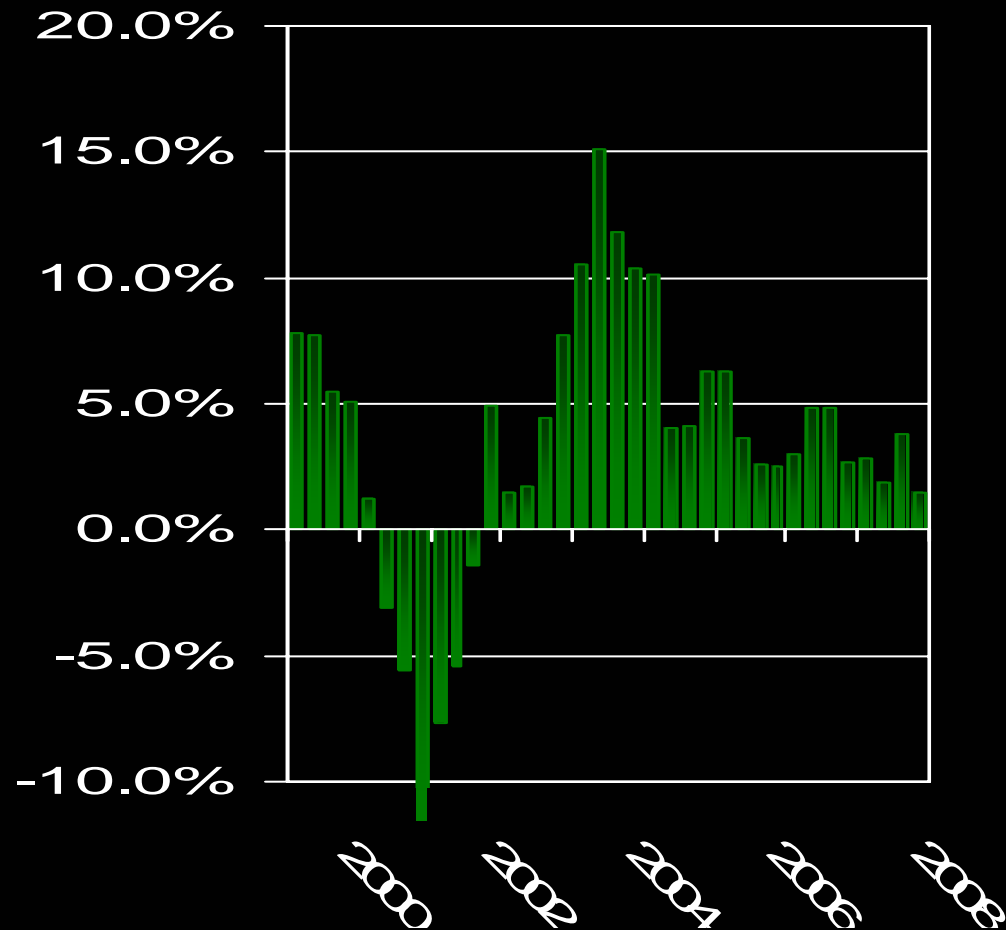
Consumer Spending Outlook



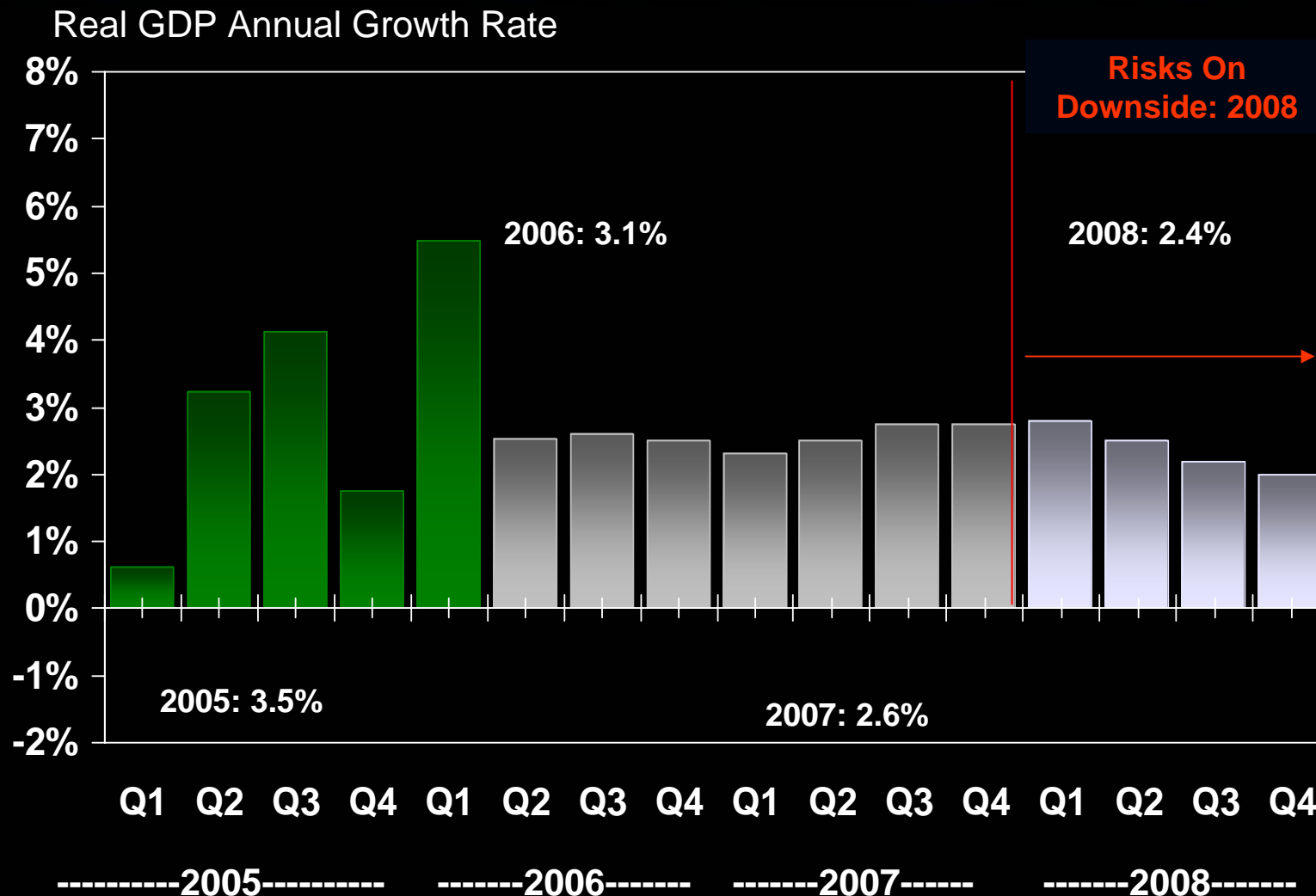
Investment Spending

- Near term outlook remains positive...but less so than six months ago.
- Fixed, Non-residential investment has recorded strong growth during last two years.
 - Economic growth improves expected return on investment.
 - Funds availability
 - Internal Funds: Profitability
 - External Funds: Favorable rate environment
 - Risk premiums reduced
 - Small borrowers – easier credit terms and conditions.
- **Going Forward:**
 - Slower economic growth, higher costs reduce expected ROI.
 - Slower profit environment adds extra does of caution in spending for investment.

Nonresidential Fixed Investment, Annual Percent Change



Economic Outlook : Real GDP Growth



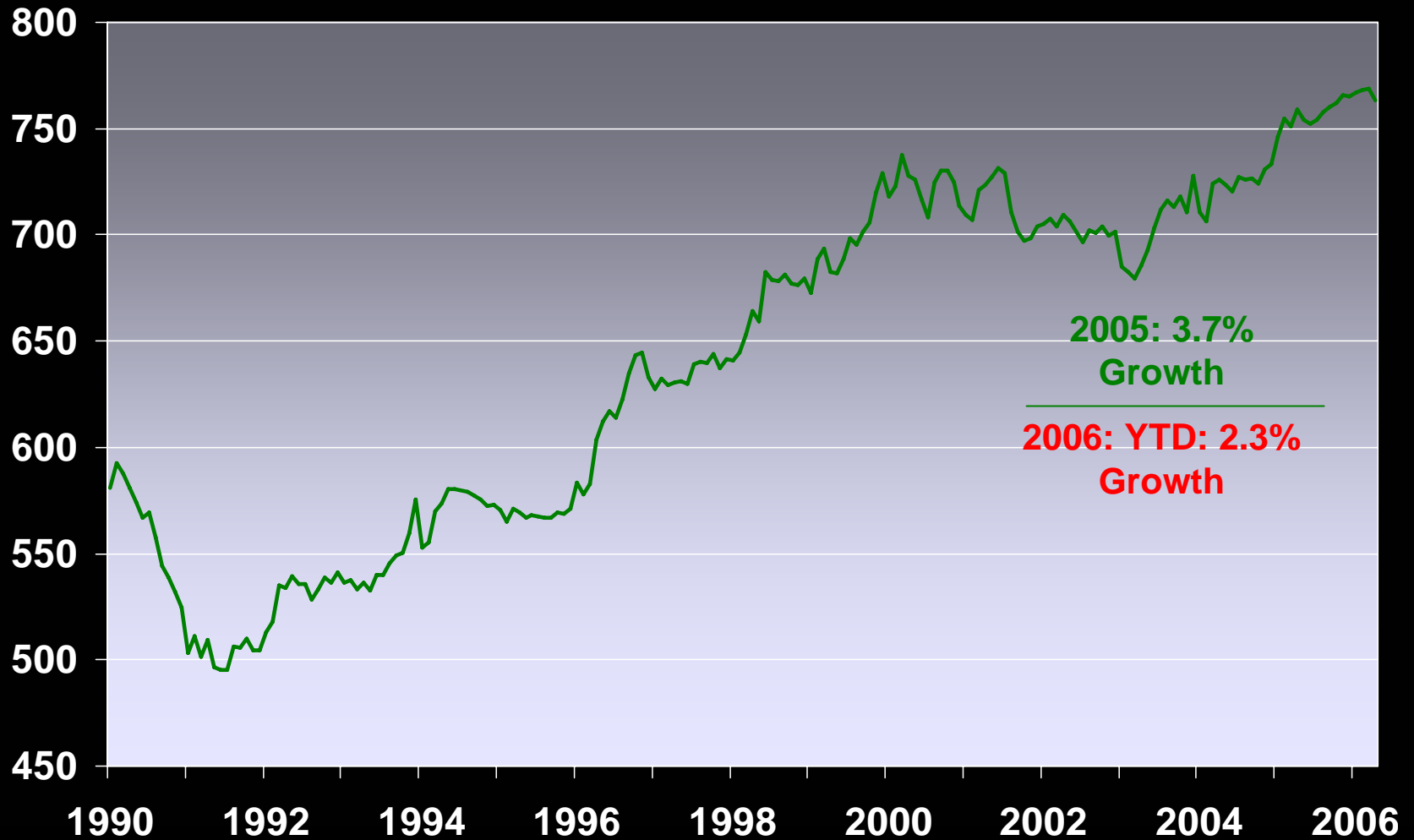
Construction & Cement Outlook

Overview



Total Construction

Billion 1996 \$



Changing Composition of Construction Spending

2001-2005

Low Interest Rates, Weak Economy

- Growth Leader: Residential
 - Low Interest Rates
- Public
 - State Tax Revenues Hurt by Anemic Economic Growth
- Growth Laggard: Nonresidential
 - Weak Economy

2006-2010

Rising Interest Rates, Strong Economy

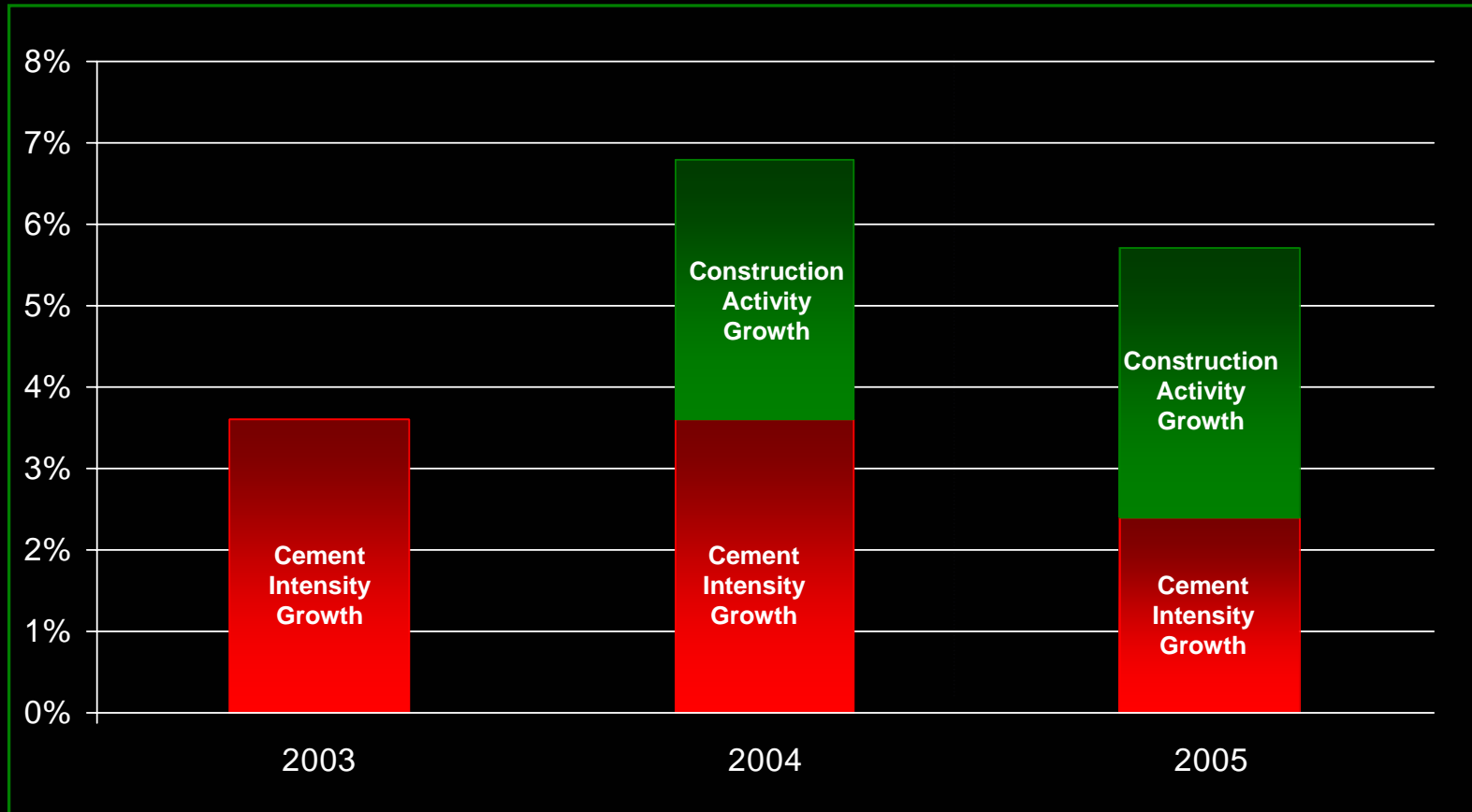
- Growth Leader : Nonresidential
 - Strong Economy
- Public
 - State Tax Revenues Recovery Due to Strong Economic Growth
- Growth Laggard : Residential
 - Rising Interest Rates

Cement Intensities

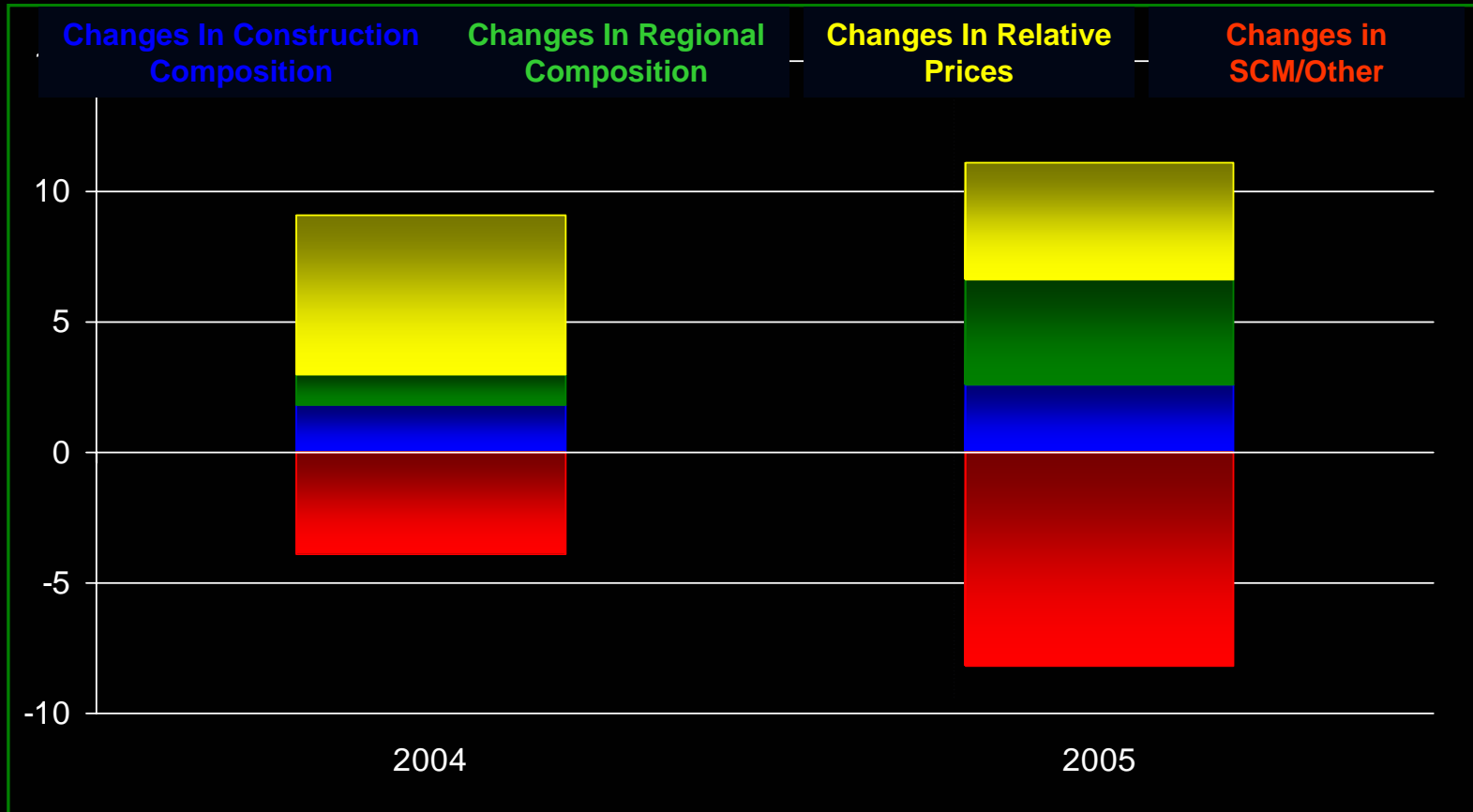


Composition Of Cement Growth: Construction Activity Vs Cement Intensity Growth

Annual Percent Change, Real Put-In-Place Construction & Cement Intensity



Composition Of Intensity Growth Preliminary Estimates*

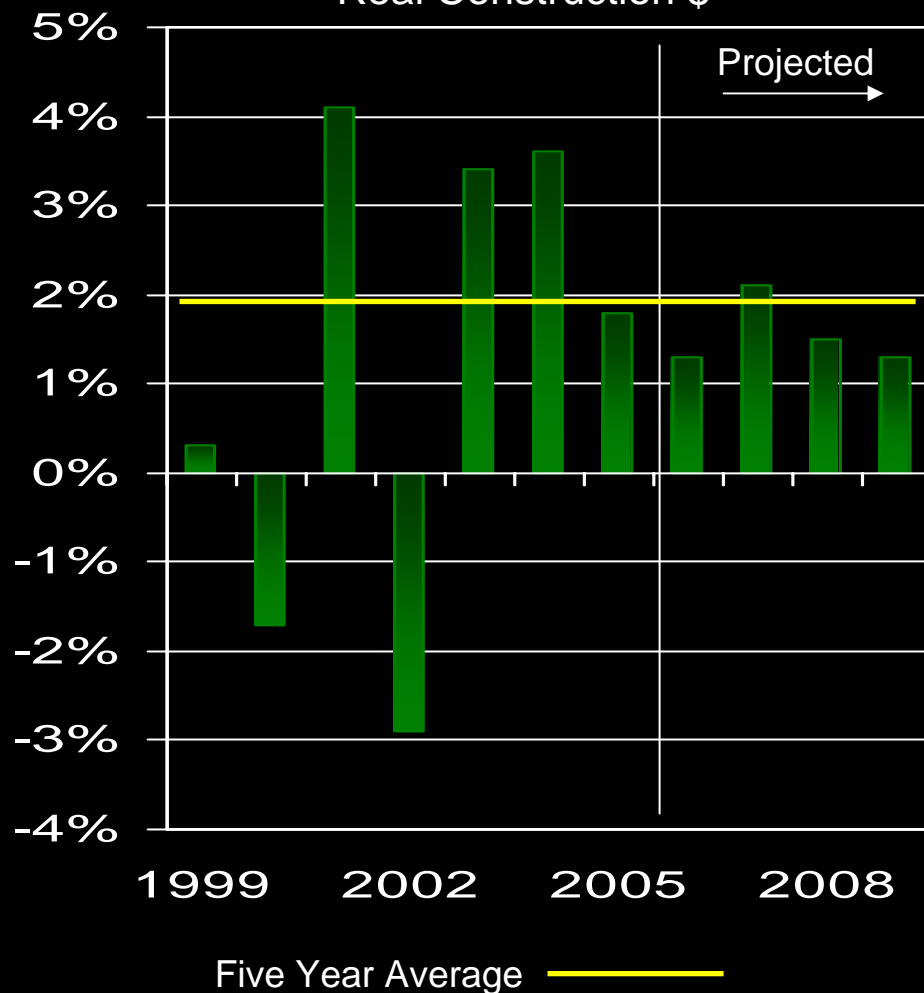


*Based on Forthcoming PCA Economics Report

Cement Intensity Outlook

- Competitive price position Vs other building materials
- Composition of construction
- Nonresidential intensities are cyclical
- Code changes: hurricane
- Green environment
- Product
- SCM's steal some intensity growth
- Fiscal healing: local roads higher portion of construction \$

Annual Growth Metric Tons Per Real Construction \$





Residential Construction

Single Family

Strength in Starts More Than Low Rates...

The Cyclical Upside: 2001 - 2005

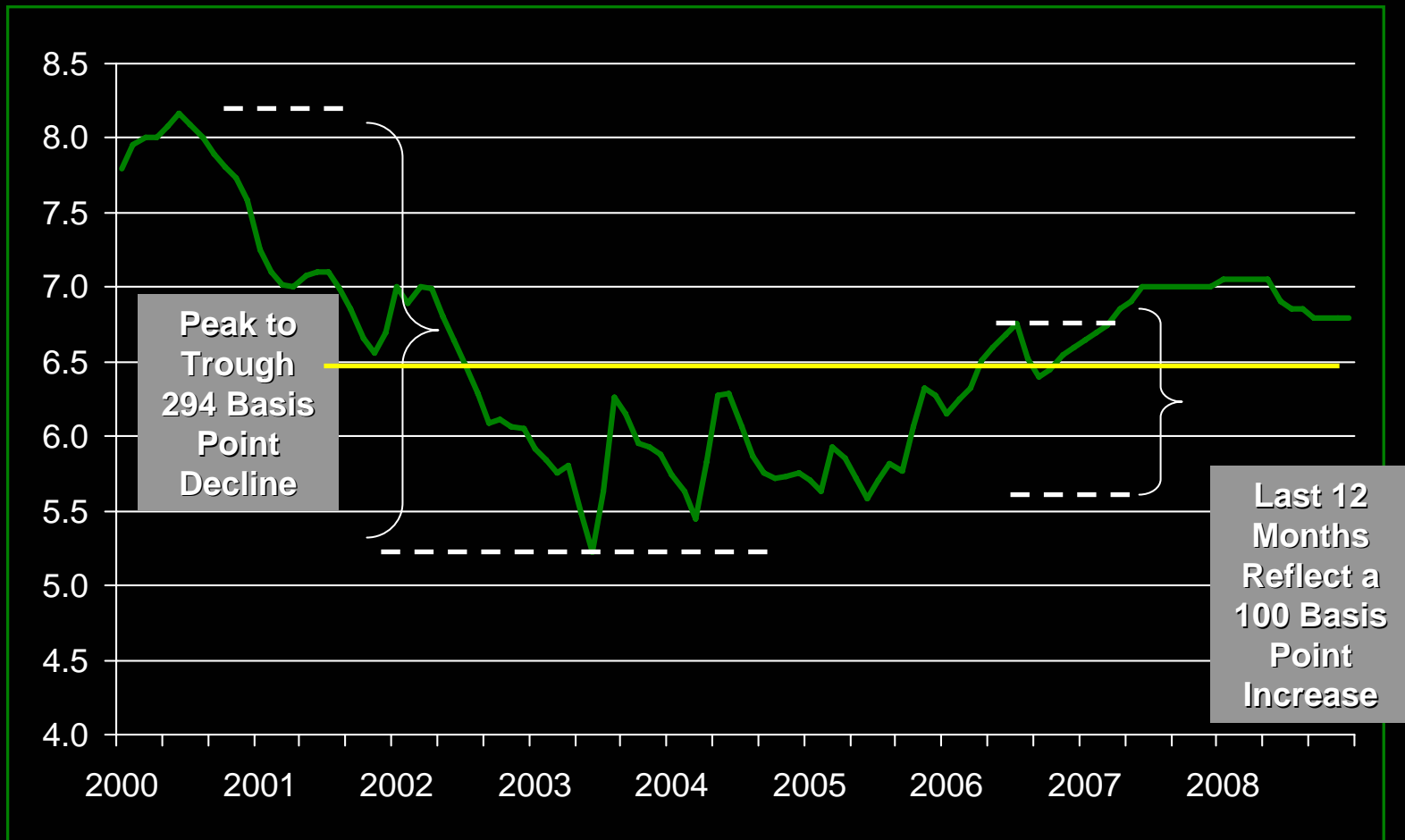
- Low mortgage rates key factor in single family starts over past few years.
- Emergence of exotic mortgages also a key factor...particularly in strong home appreciation environment.
- Easy credit conditions contributed to strong home-buying environment.
- Speculators add froth to market in light of strong appreciation rates.

The Cyclical Downside: 2006 - 2009

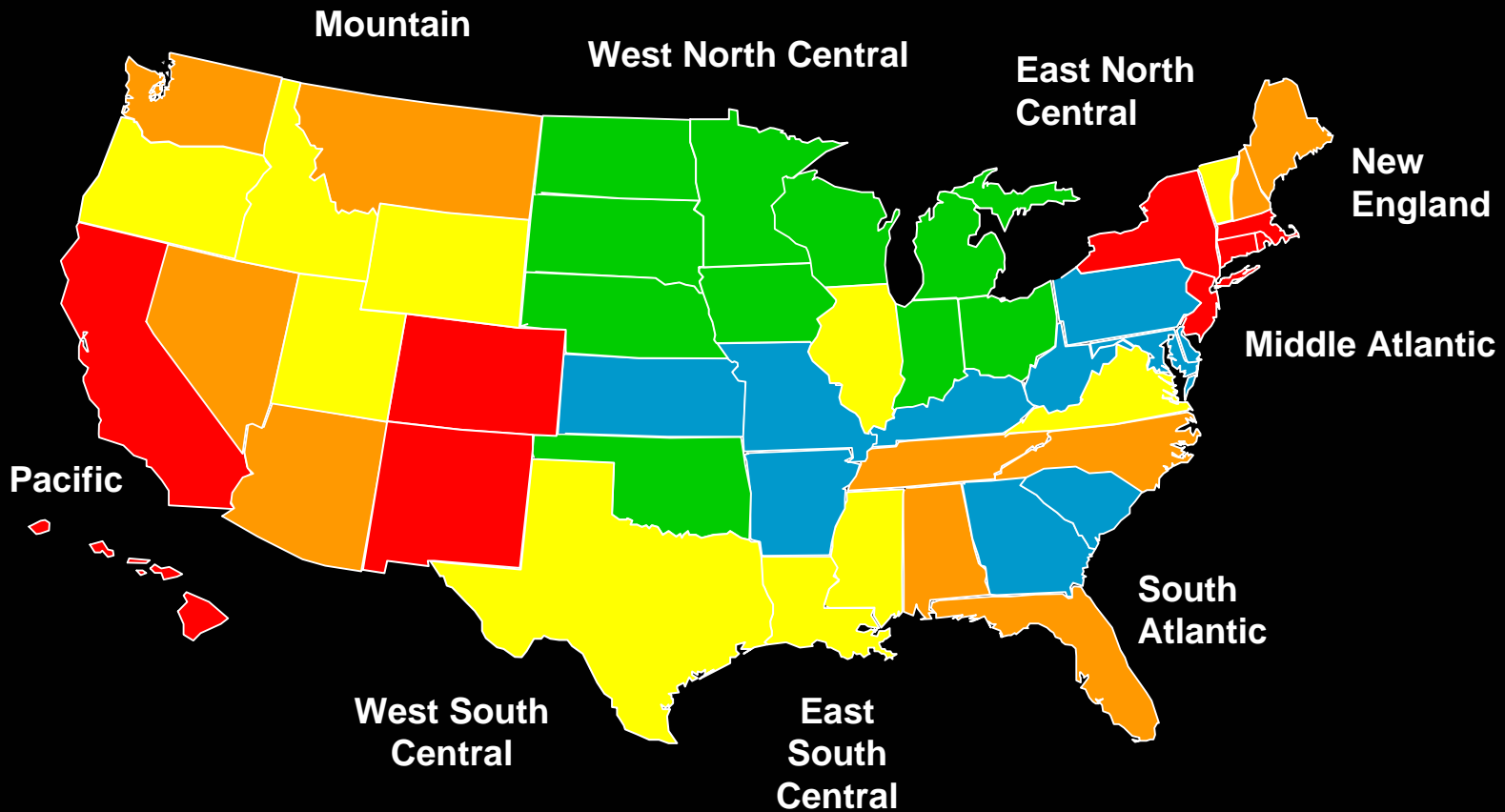
- Mortgage rates rising.
- Exotic mortgages losing favor.
- Defaults and delinquencies cause a deterioration in credit quality and a tightening of credit conditions
- Speculators reduced/disappear in lower appreciation rate environment

Mortgage Rates: 30 Year Conventional

Annual Growth Rate, 30 Year Conventional



Affordability Index



Affordability Ratio



Most
Affordable



2nd Tier



3rd Tier



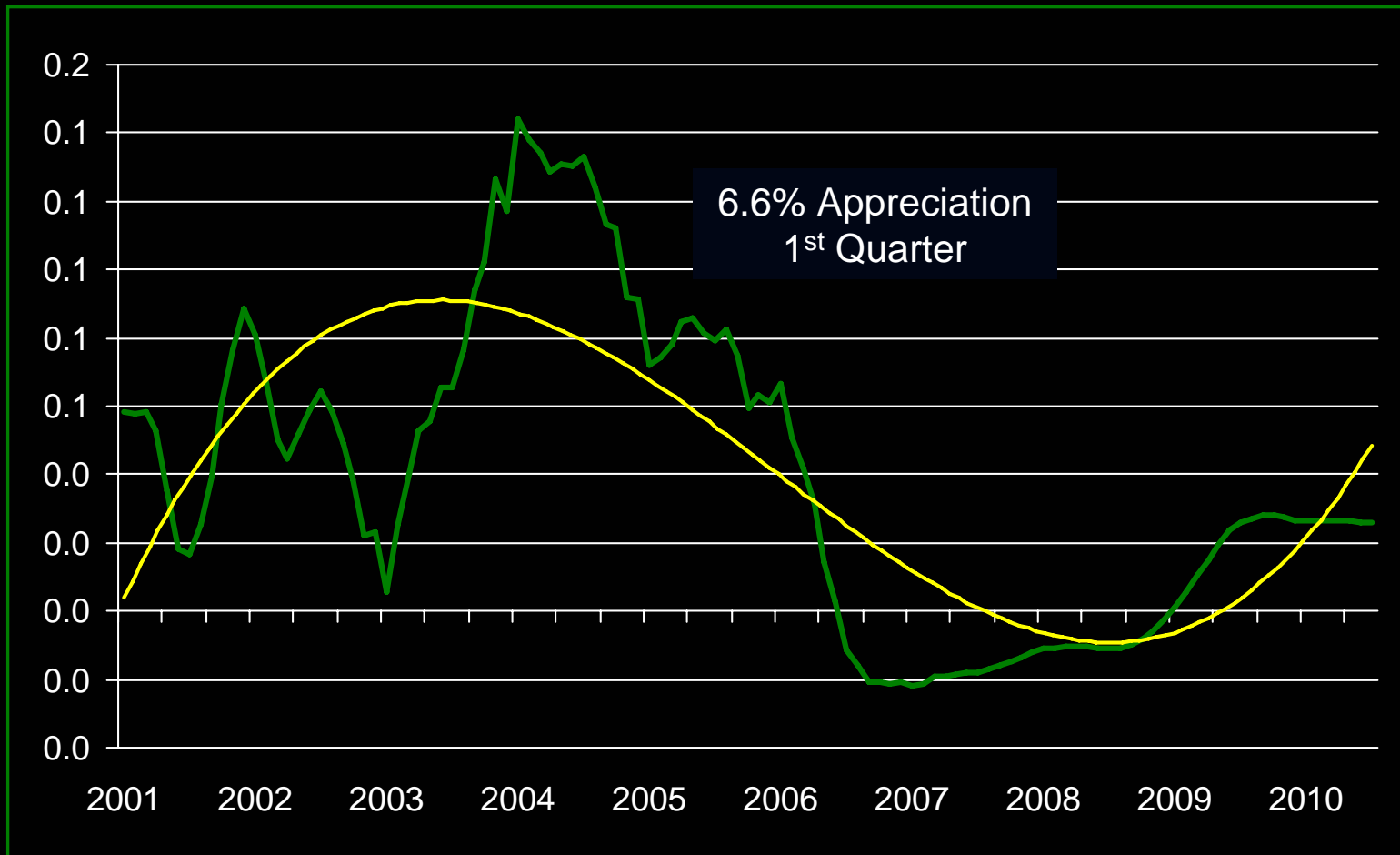
4th Tier



Least
Affordable

Home Appreciation Rate

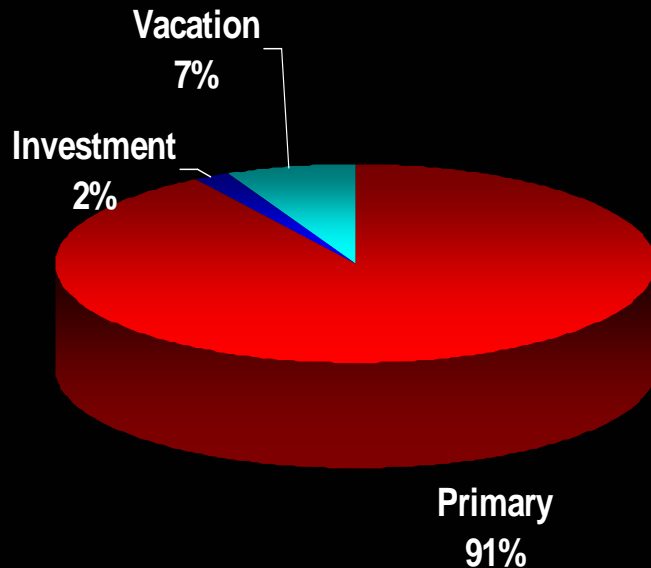
Annual Growth Rate, Median Home Price



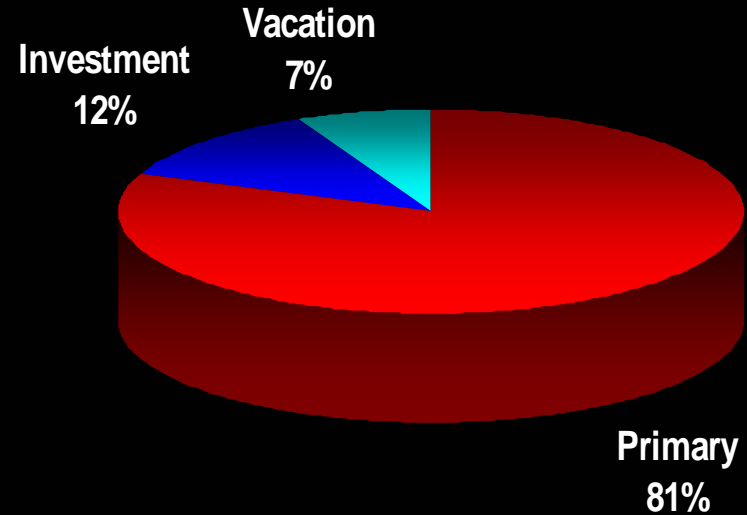
Improves Affordability: Stronger 2009/2010 Outlook

Profile: Single Family Buyer

2000



Estimated 2006

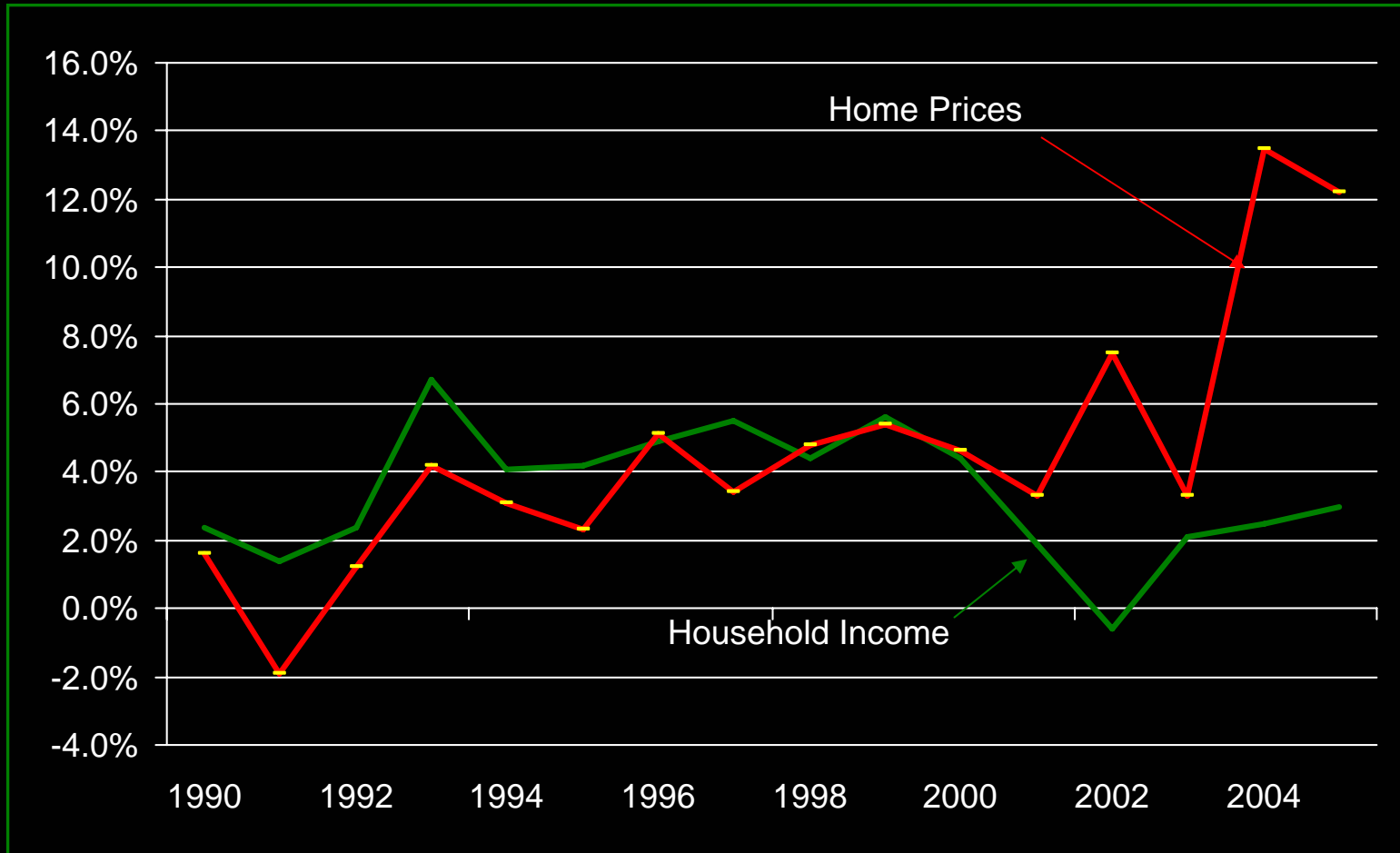


Coastal and Resort Areas: Double the National Average For Speculators

Note: Speculators Are 1st to Leave the Market

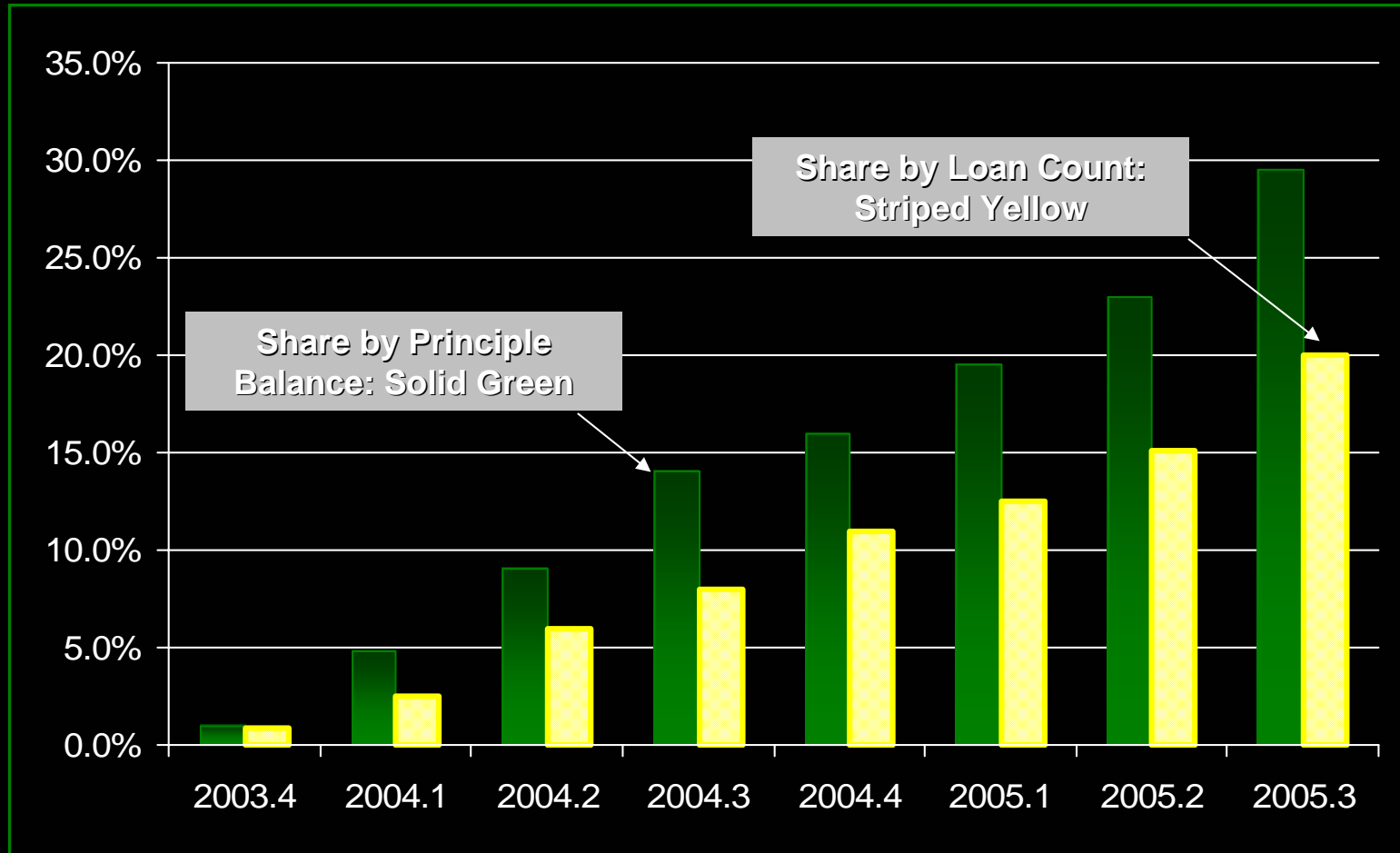
Growing Home Price & Income Gap

Annual Growth Rate Comparison



Emergence of Exotic Mortgages

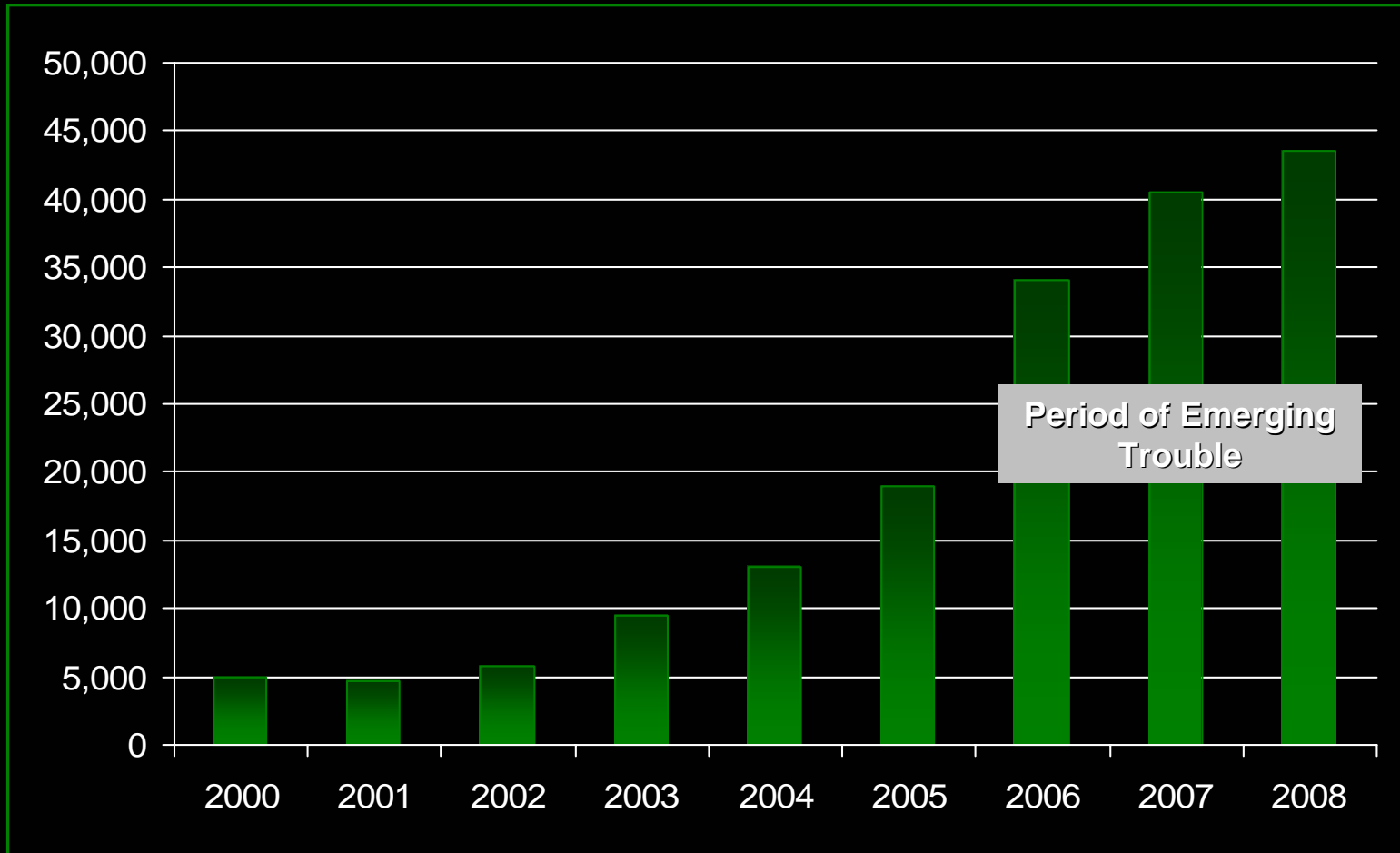
Interest Only Loan Share of Sub-Prime Market



Note: Sub-Prime accounts for 36% total mortgage market

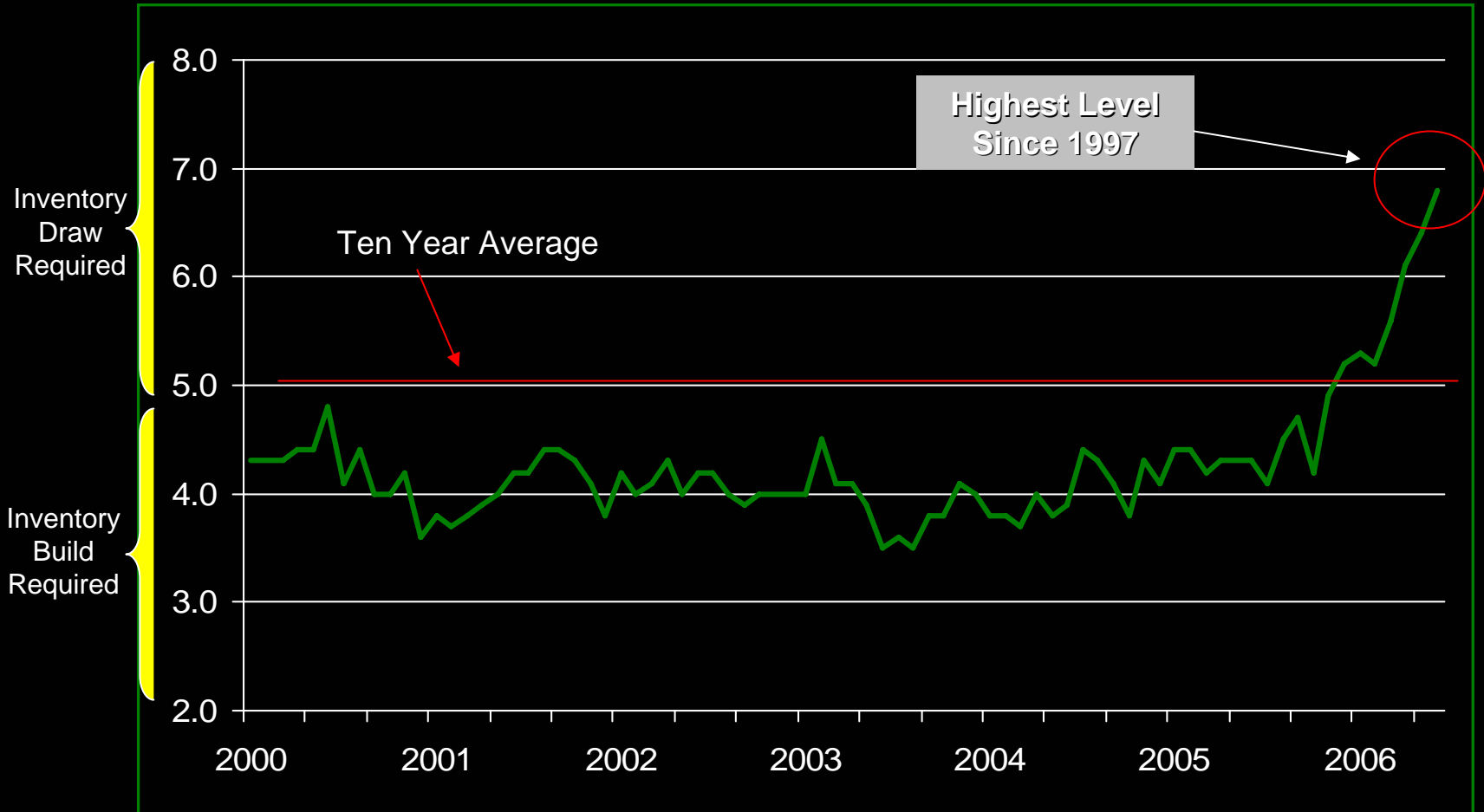
Sub-Prime Mortgage Resets

Total Loans Scheduled for Reset



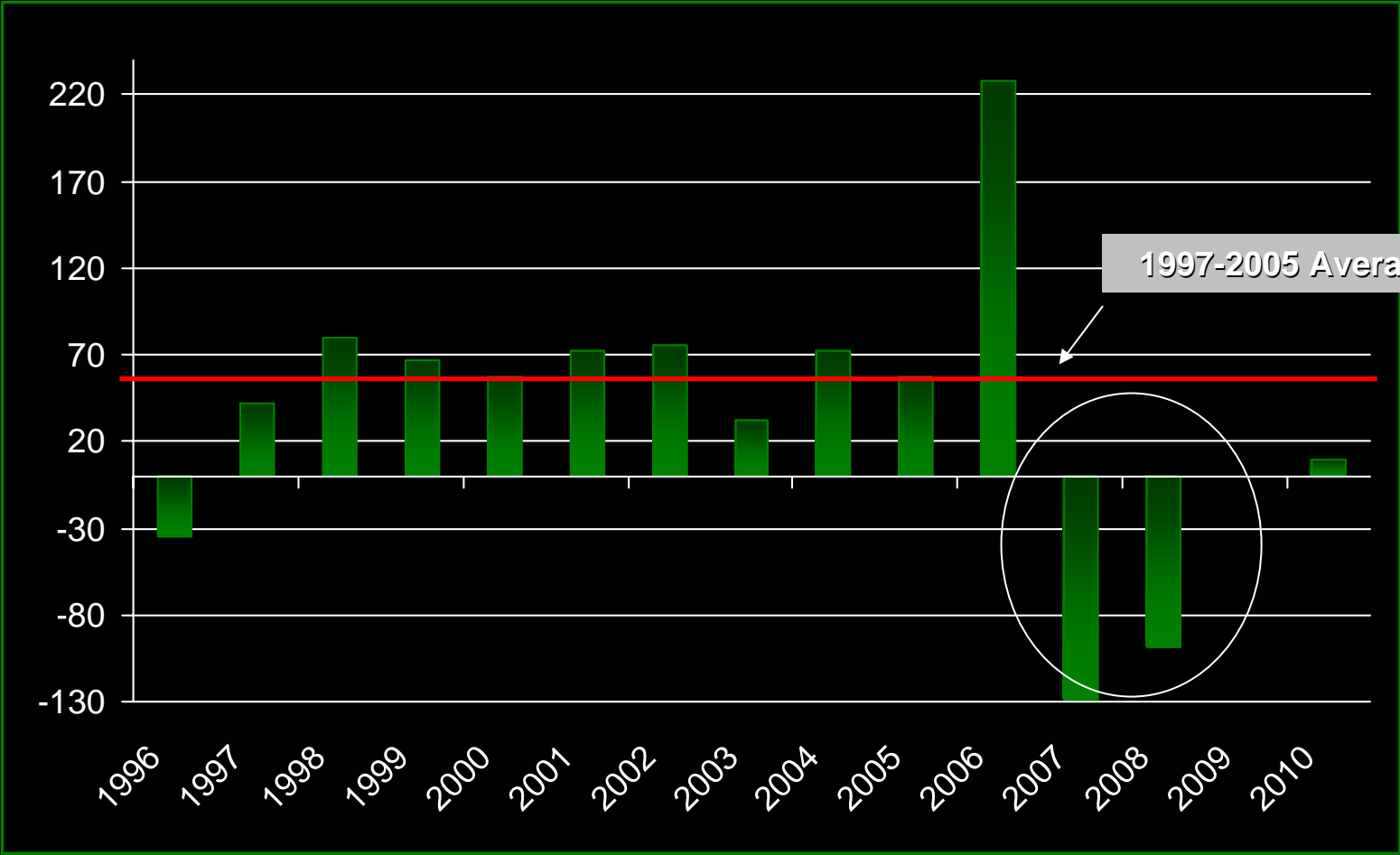
Inventory Draw Required

Homes on Market/Monthly Selling Rate



SF Inventory Adjustment Outlook

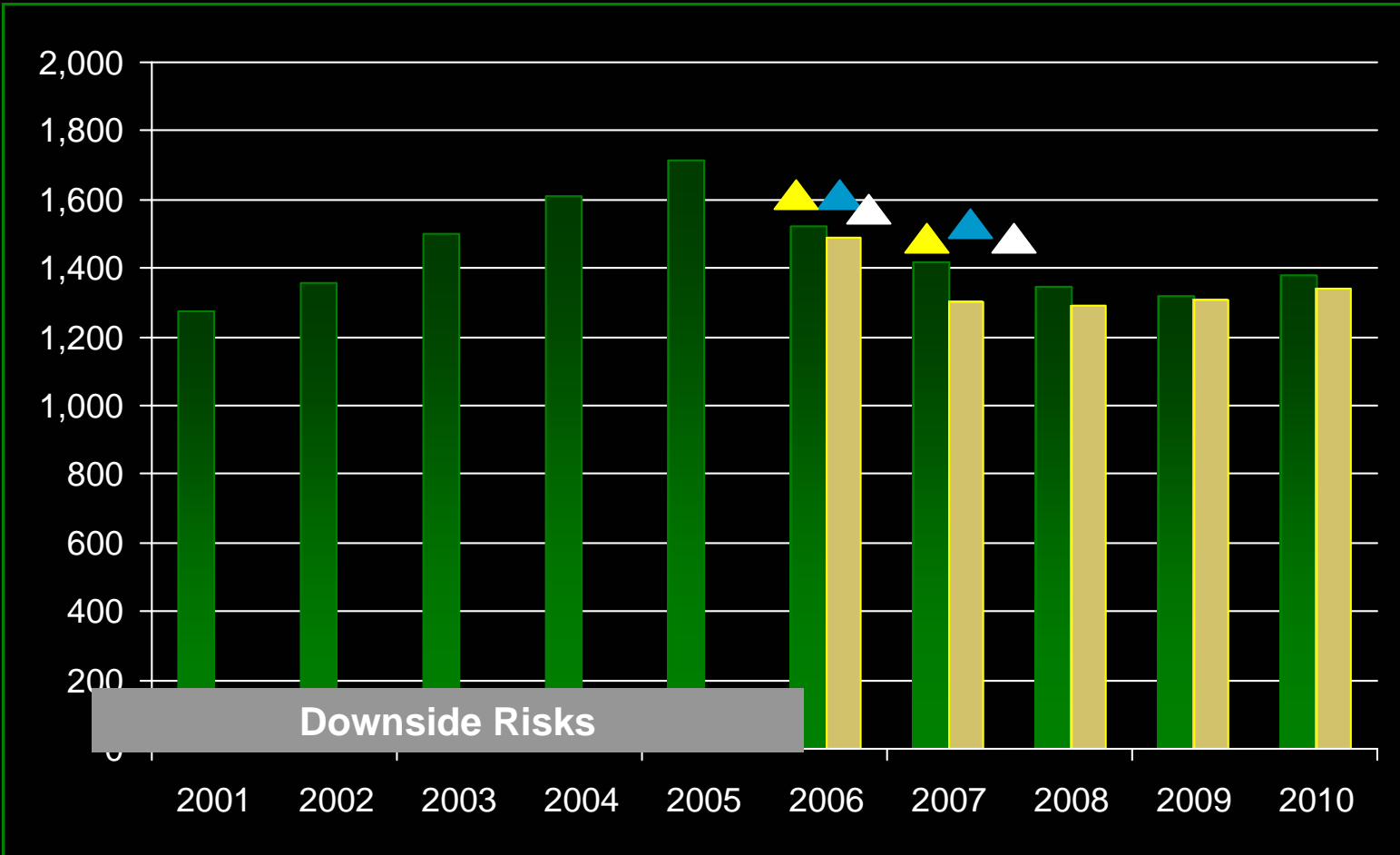
(000) Units



10 Years of Inventory Build Conditions Disappear

Single Family Housing Starts

(000) Units



▲ Mortgage Bankers Association

▲ National Association of Realtors

▲ NAHB

Nonresidential Construction



Overview

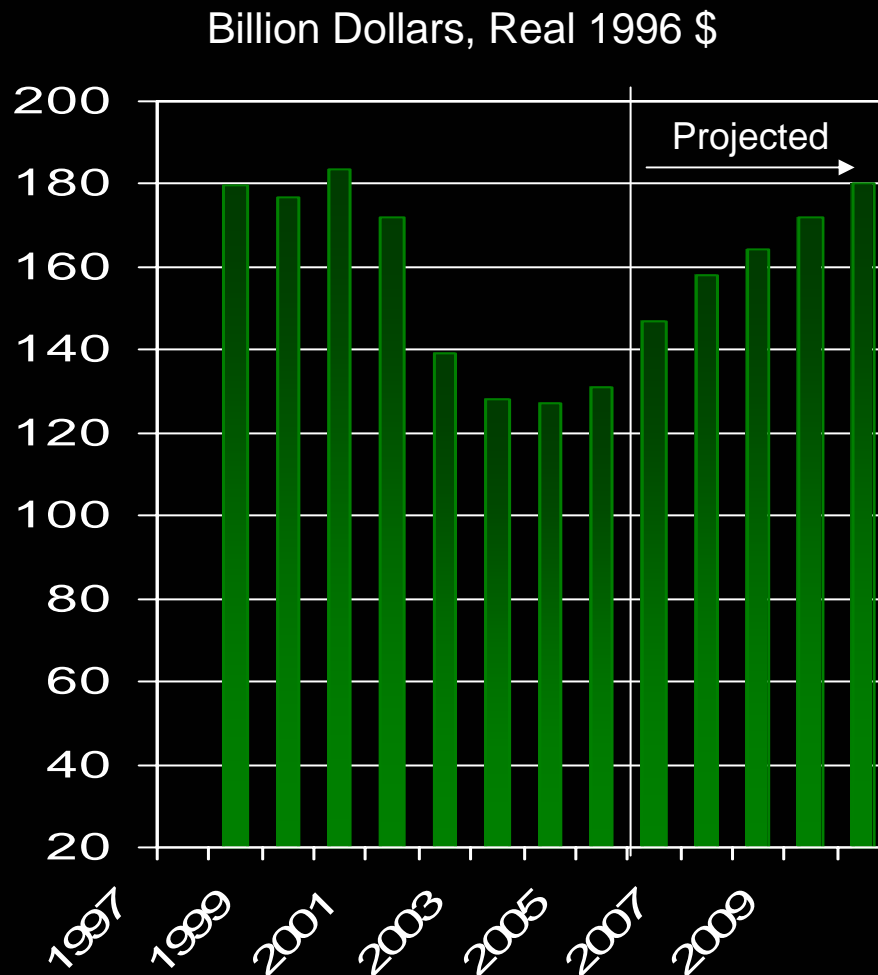
Nonresidential Construction

Annual Growth Rate



Nonresidential Outlook

- Underlying nonresidential drivers improving.
- Despite large percentage gains for 2006, most markets weak from historical perspective.
- Past cyclical peak not realized.
- Slower growth outlook depresses expected ROI and tempers recovery.
- High material costs reduce growth.
- Increasing cement intensities reinforce construction activity gains.
- Institutional nonresidential gaining momentum; less sensitive to slower growth environment

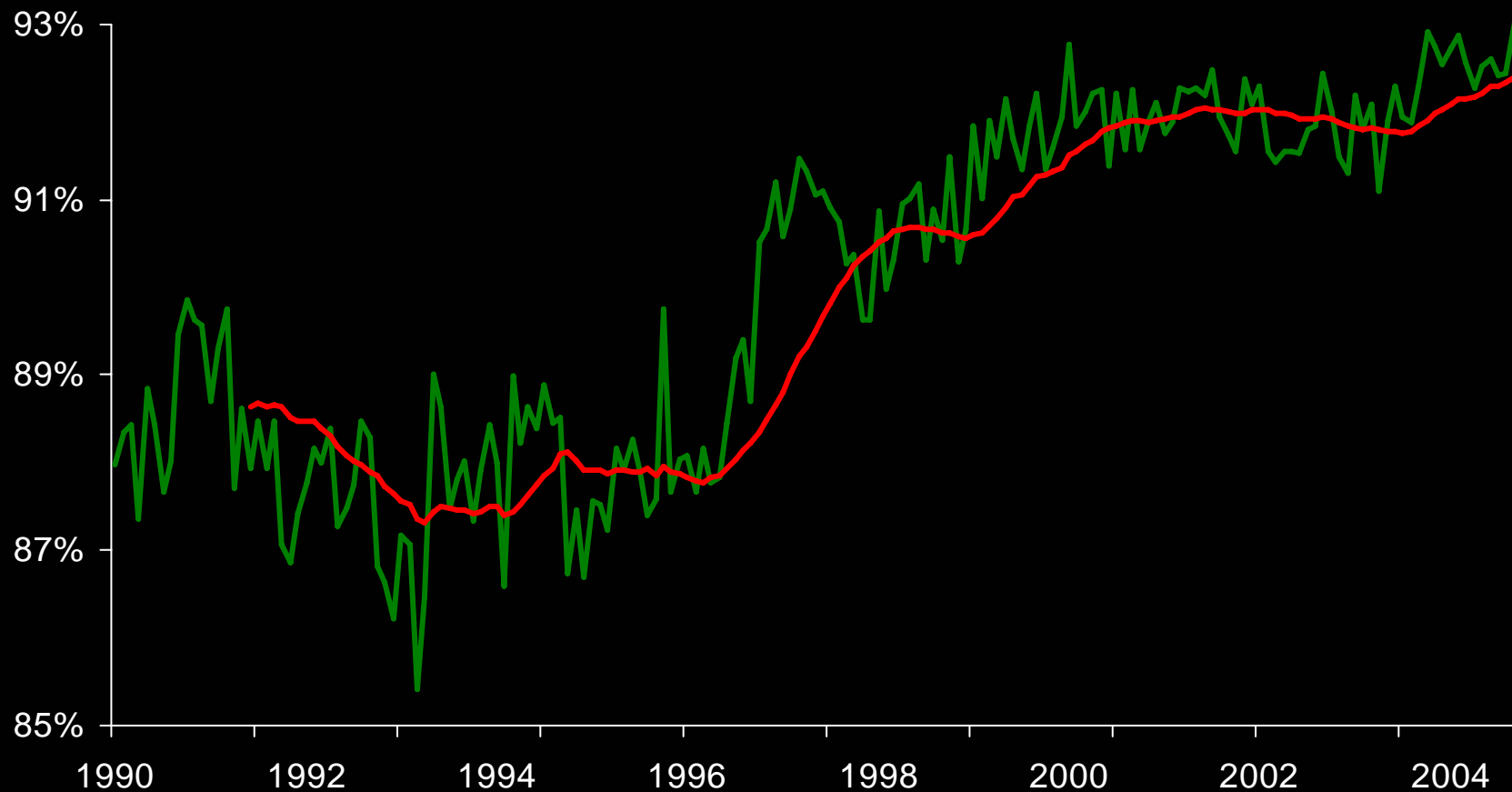


Public Construction



Public Construction Outlook: State & Local Share of Public Construction

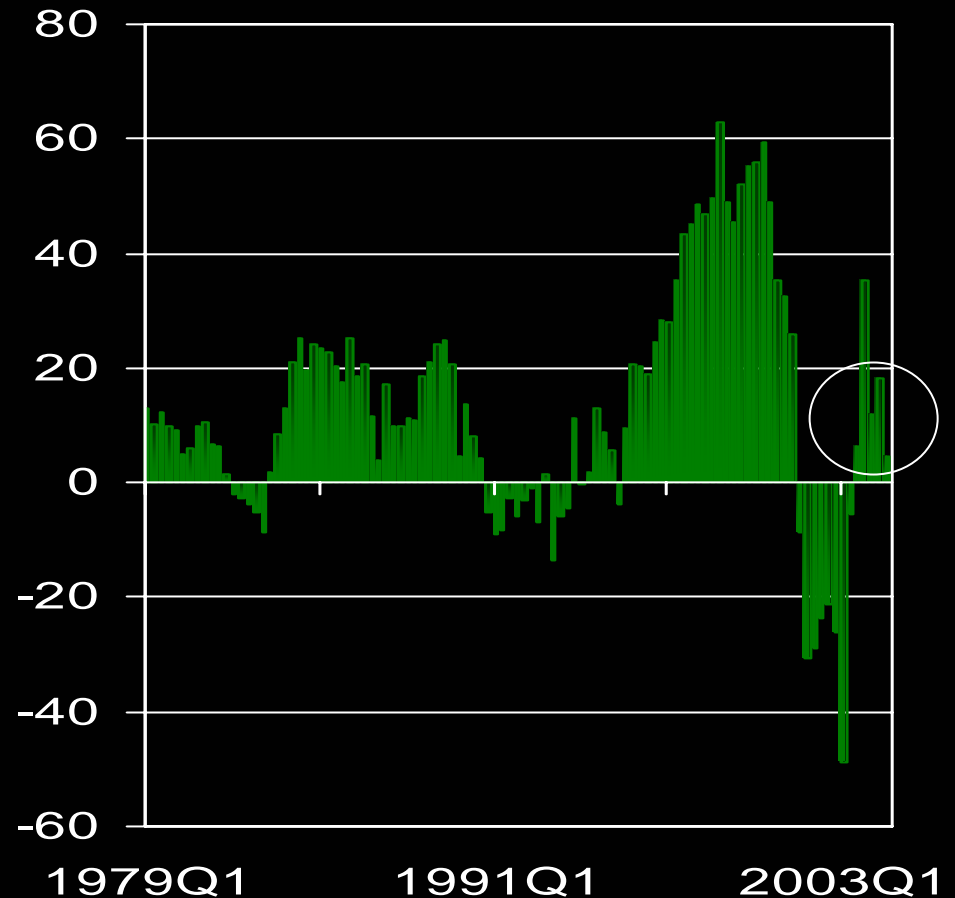
Percent of Total Public Construction Spending



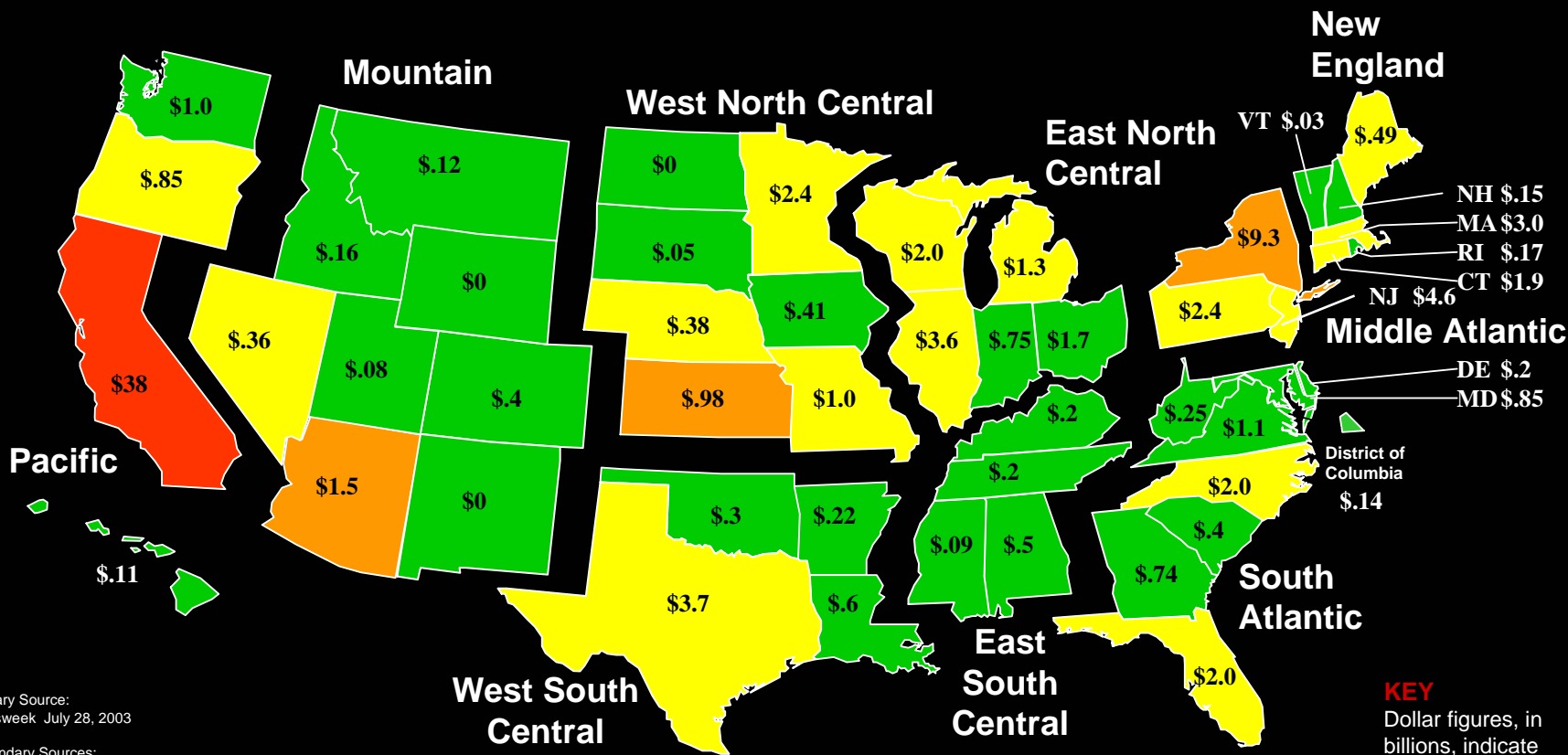
Public Construction Outlook

- 93% of public construction performed at state/local level.
- State/Local fiscal problems fading.
- Revenue growth improves with economy and job growth.
- Surpluses will re-emerge.
- Pent-up demand released.
- Highway Bill adds strength.
- **2006: +4.8% 2007: +5.5%**
- **Note: 2005: +1.9%**

Billion \$ State Surplus/Deficit, NIPA



Public Construction Outlook: State Deficit Estimates Fiscal Year 2004



Primary Source:
Newsweek July 28, 2003

Secondary Sources:
Nat'l Conf. of State Leg., Center on
Budget and Policy Priorities, Nat'l
Assn. of State Budget Officers,
Calif. Budget Project

KEY
Dollar figures, in
billions, indicate
amount states had to
save to balance
2004 budget.



0-9%



10-19%

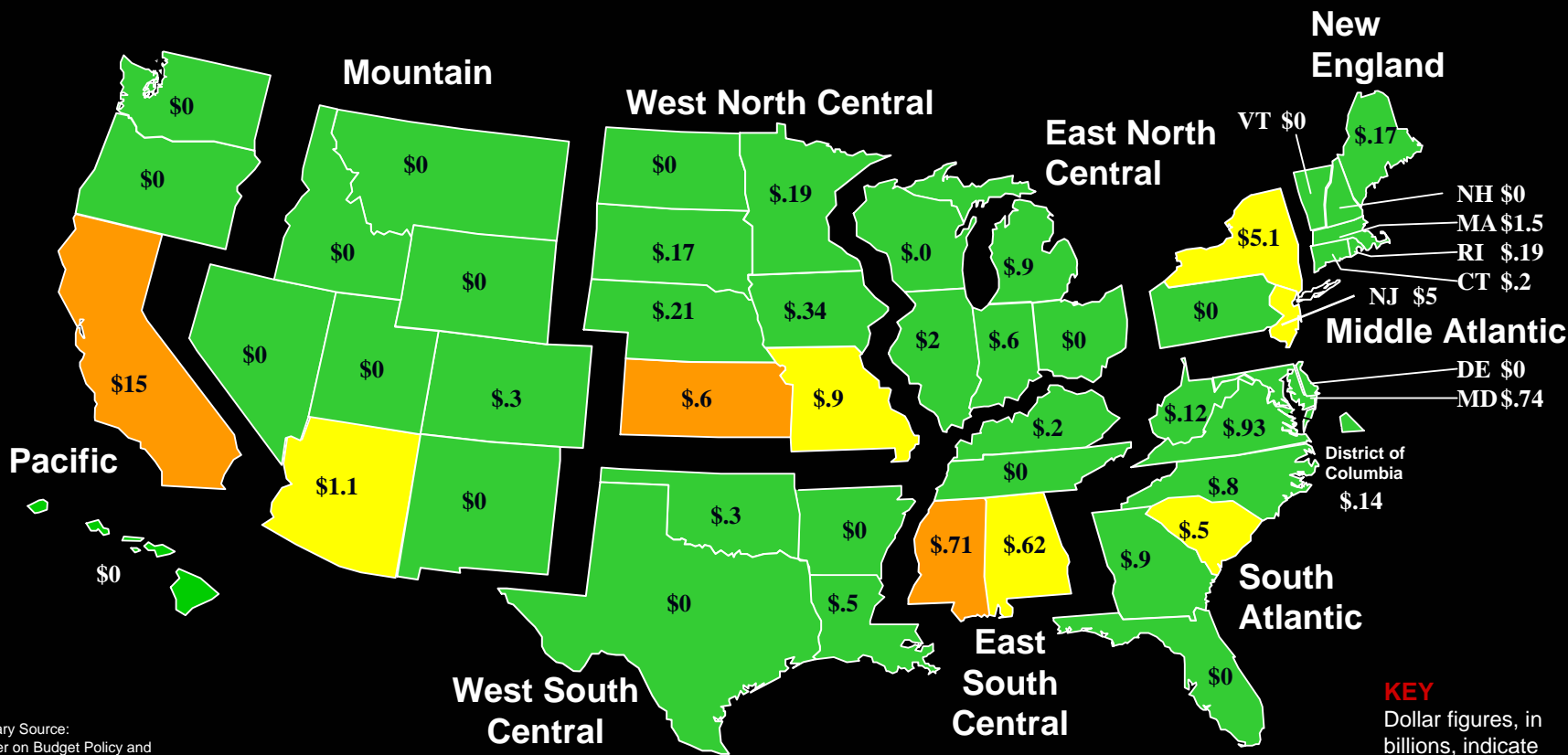


20-29%



30-39%

Public Construction Outlook: State Deficit Estimates Fiscal Year 2005

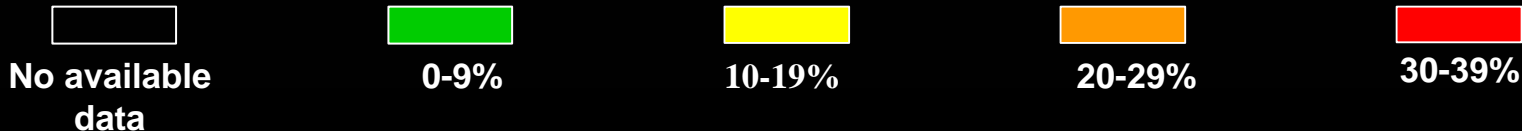


Primary Source:
Center on Budget Policy and
Priorities Feb / 04

Secondary Source:
National Association of Budget
Officers

KEY
Dollar figures, in
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Deficit as percentage of budget



Construction Costs

Annual Growth Rate

+7.2% 2006 First Half



Market Conditions



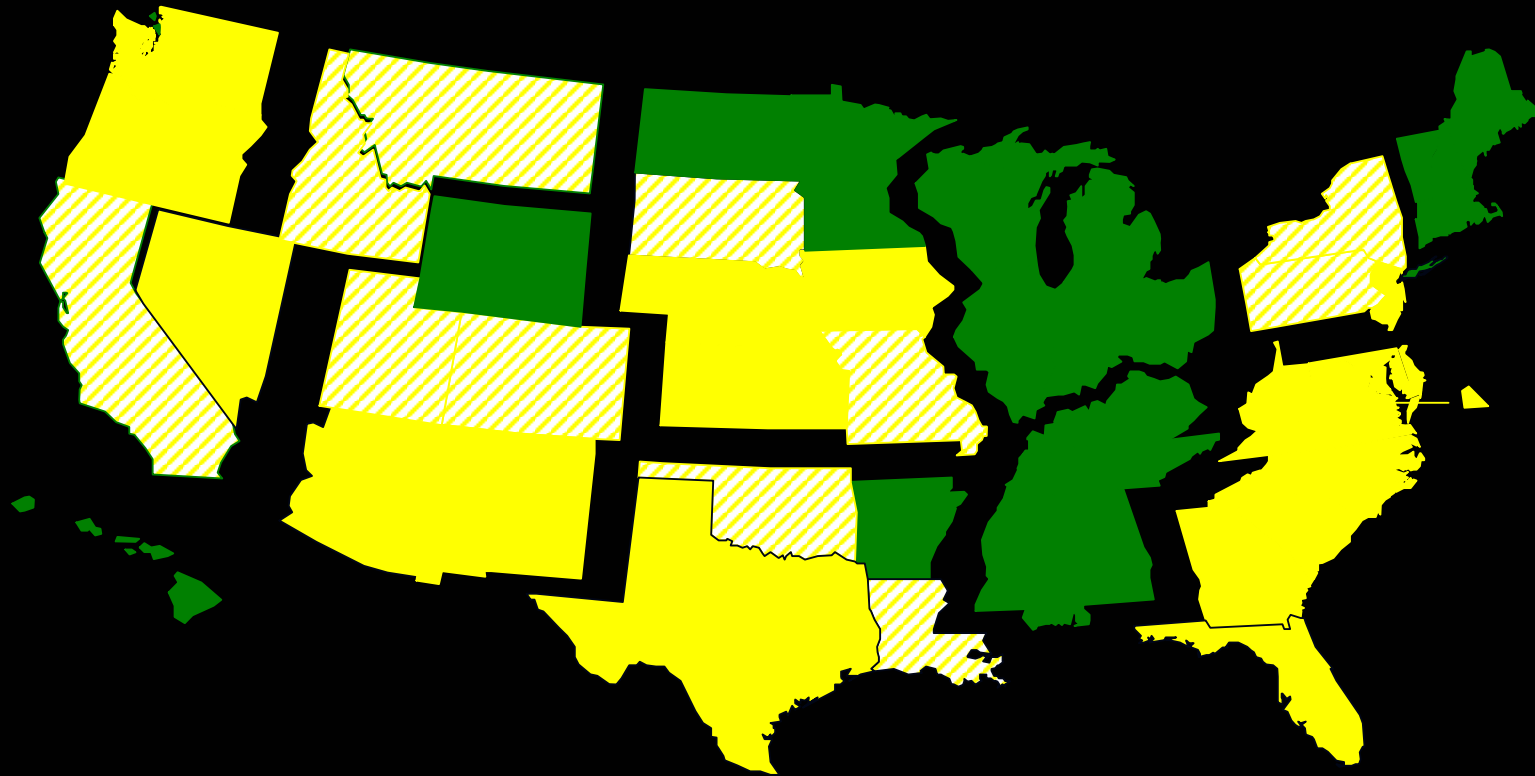
Portland Cement Outlook

Annual Percent Change
Growth Rate Yellow Line

Million Metric Tons
Volume, Green Bar



Cement Supply Survey Summer 2005



No Shortage



Tight Supplies

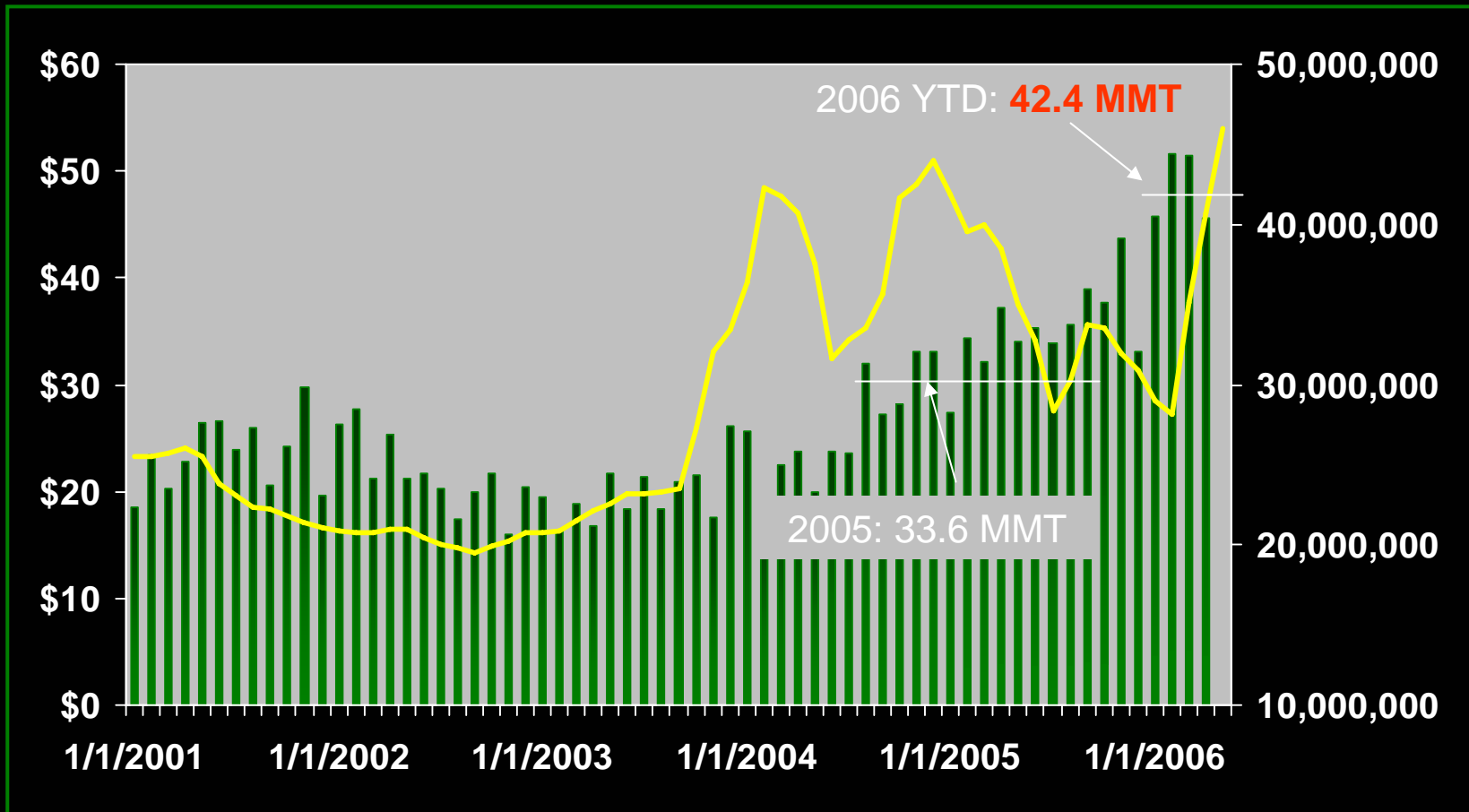


Spot Tight Supplies

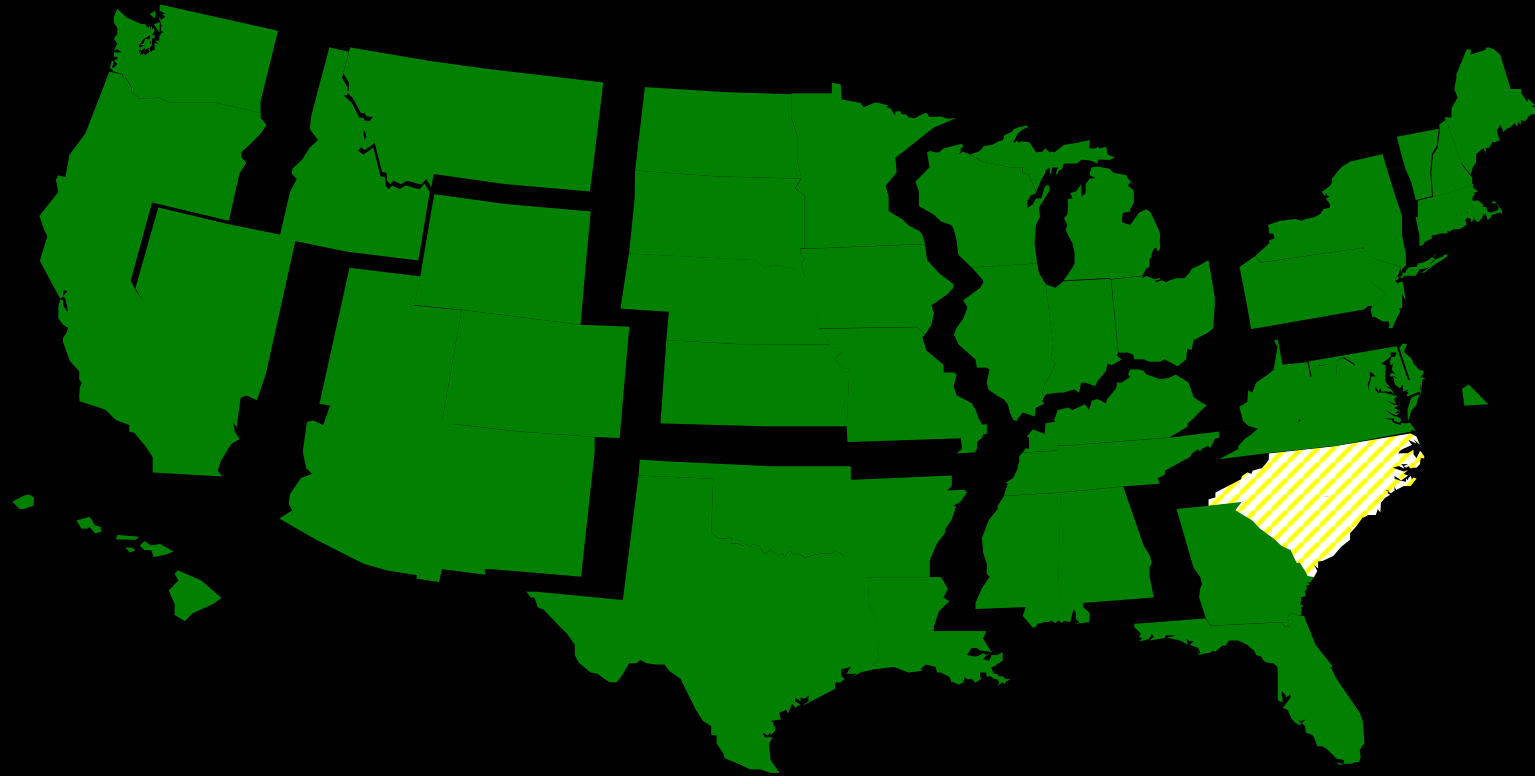
Import Volume & Freight Rates

Freight \$ Per Ton, Handymax, Asia-Gulf

Import Volume, Million Metric Tons



Cement Supply Survey Summer 2006



No Shortage



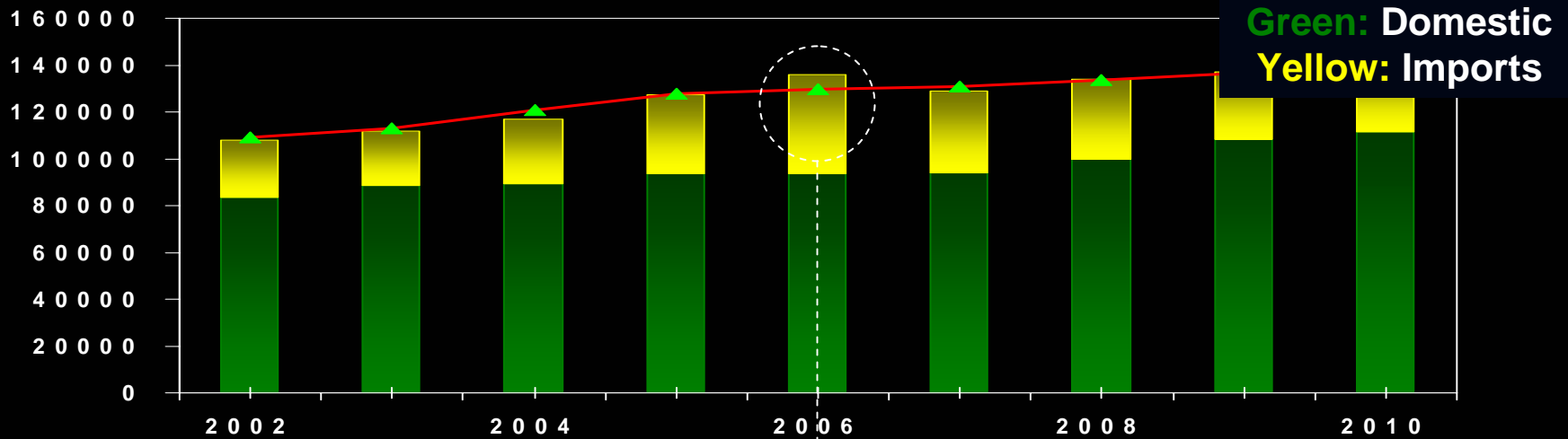
Tight Supplies



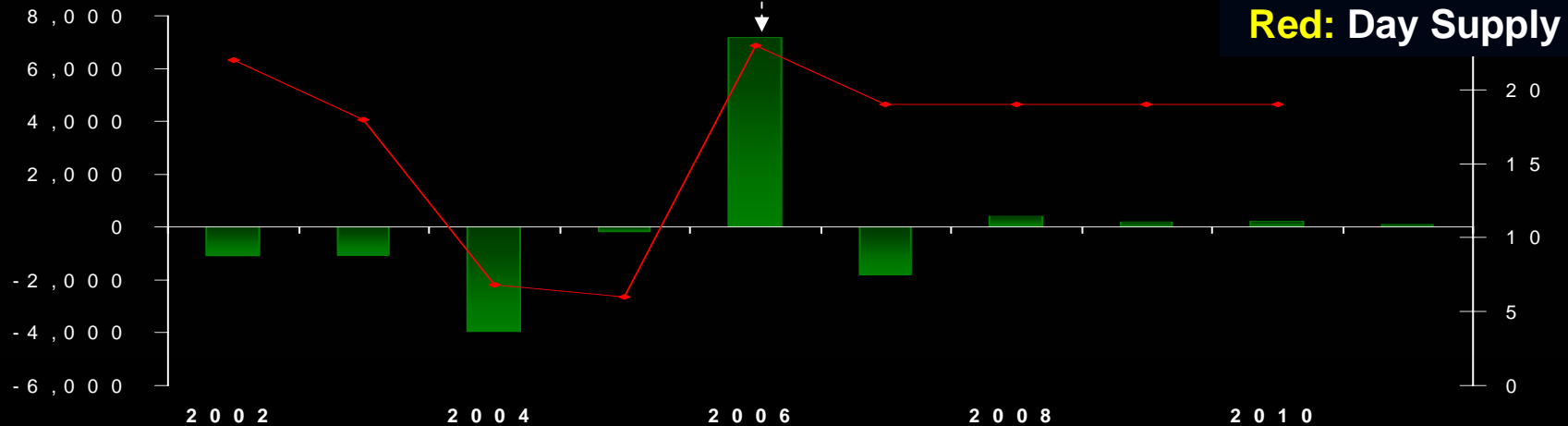
Spot Tight Supplies

Market Balances: Trend

Adjusted Supply Vs Consumption



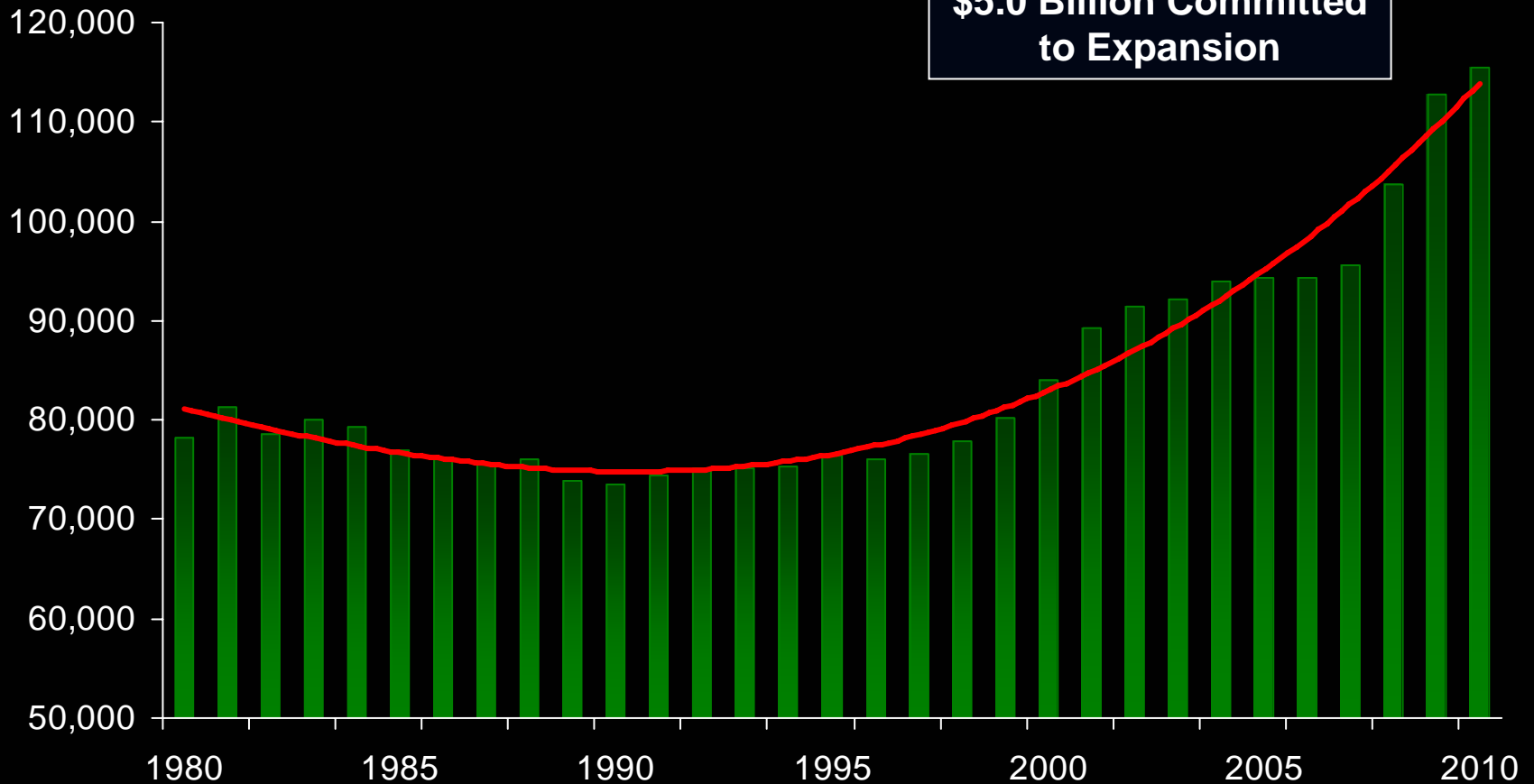
Inventory Adjustment



Cement Capacity Outlook

Thousand Metric Tons Clinker

\$5.0 Billion Committed to Expansion



Conclusions



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