

The U.S. Construction Outlook

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IHS Global Insight

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Cross-Currents in the 2011 Economy

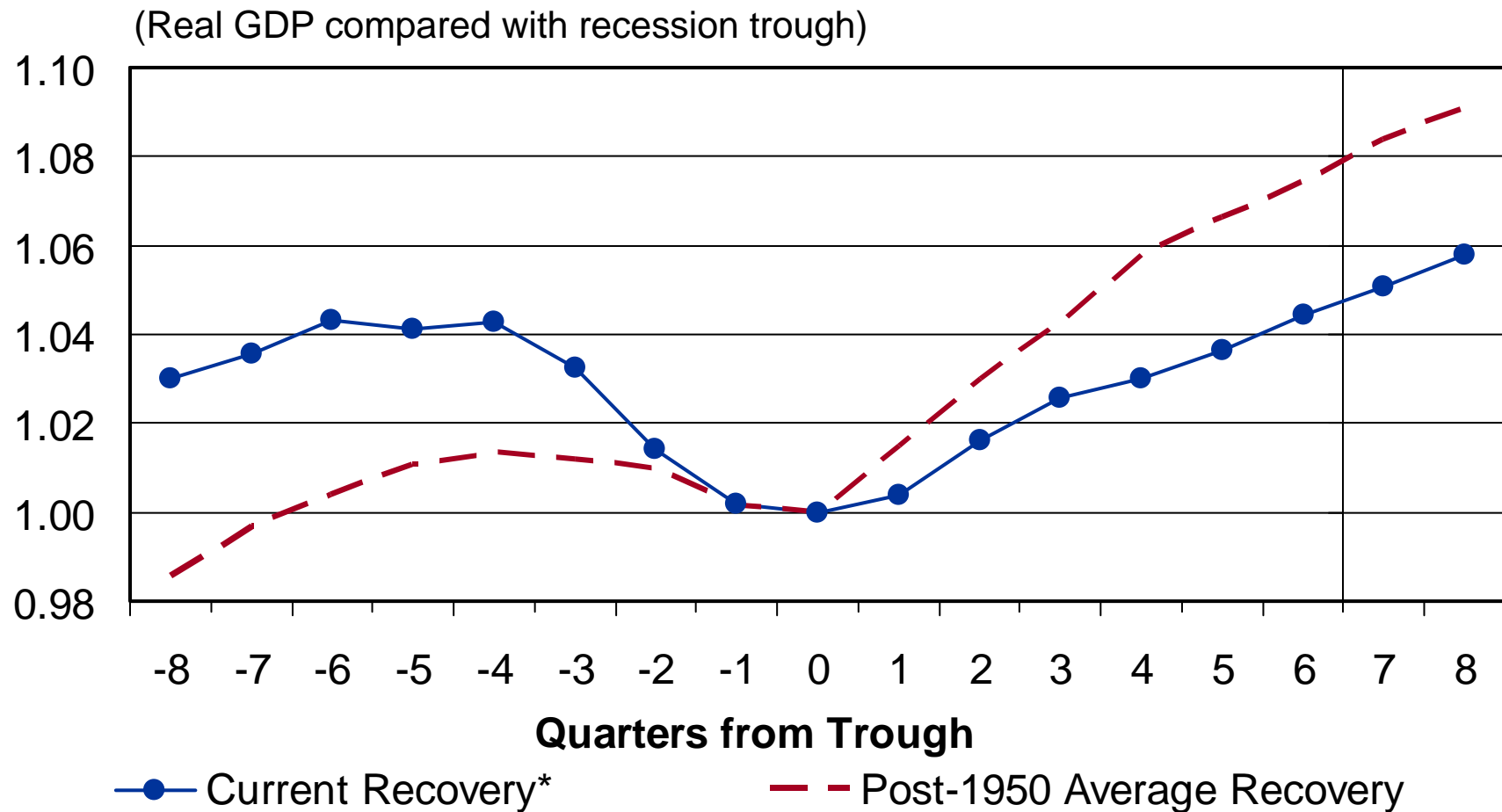
Positive Forces

- Strong manufacturing growth
- Financial markets healing
- Corporations flush with cash
- Labor market improving
- Stimulus from tax package

Negative Forces

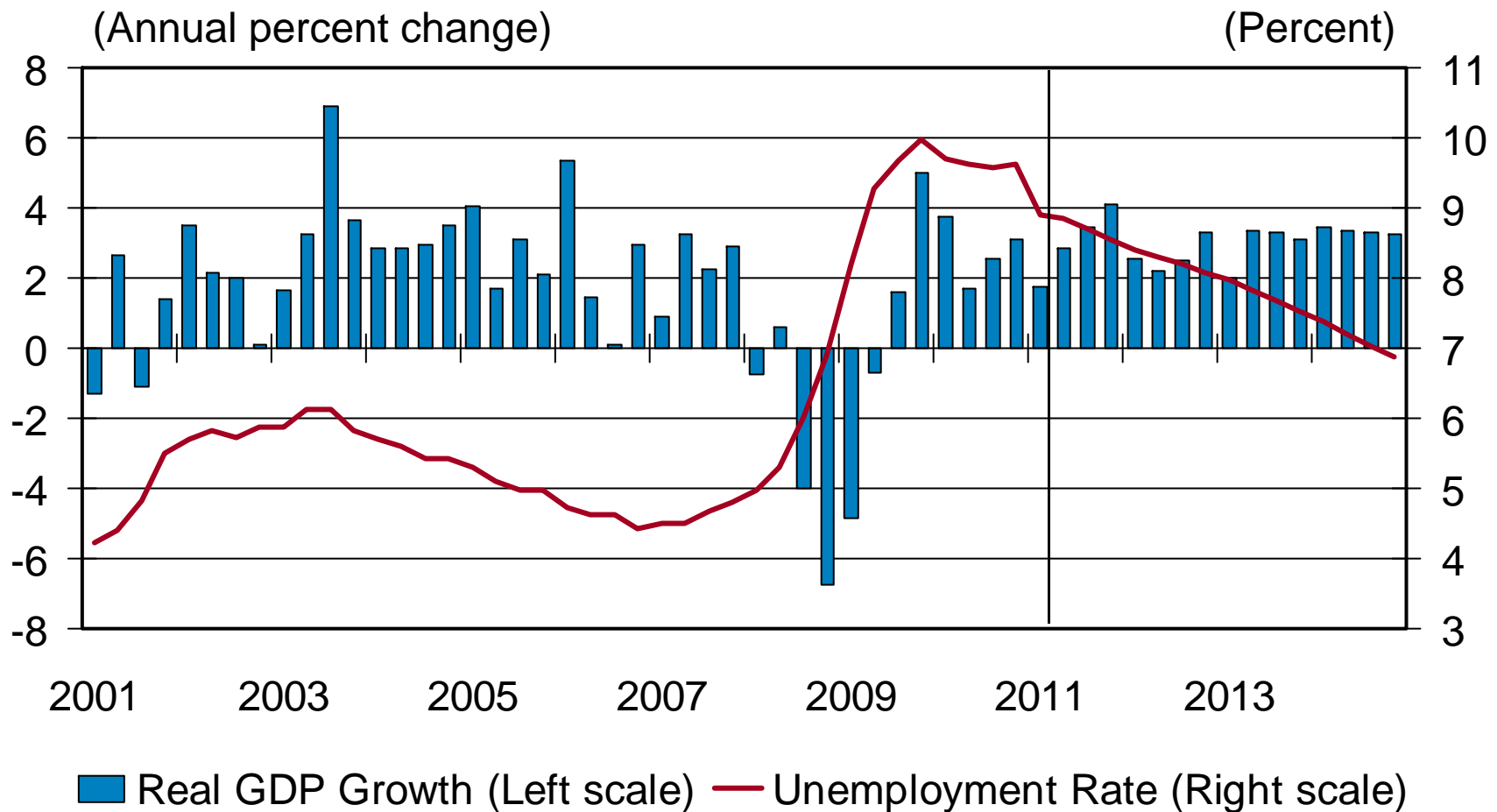
- Consumers and businesses remain cautious
- No housing recovery
- Rising commodity prices
- Japan's earthquake disrupting the automotive industry
- State & local budget cuts
- Federal fiscal tightening ahead

Deep Recession, Slower Recovery



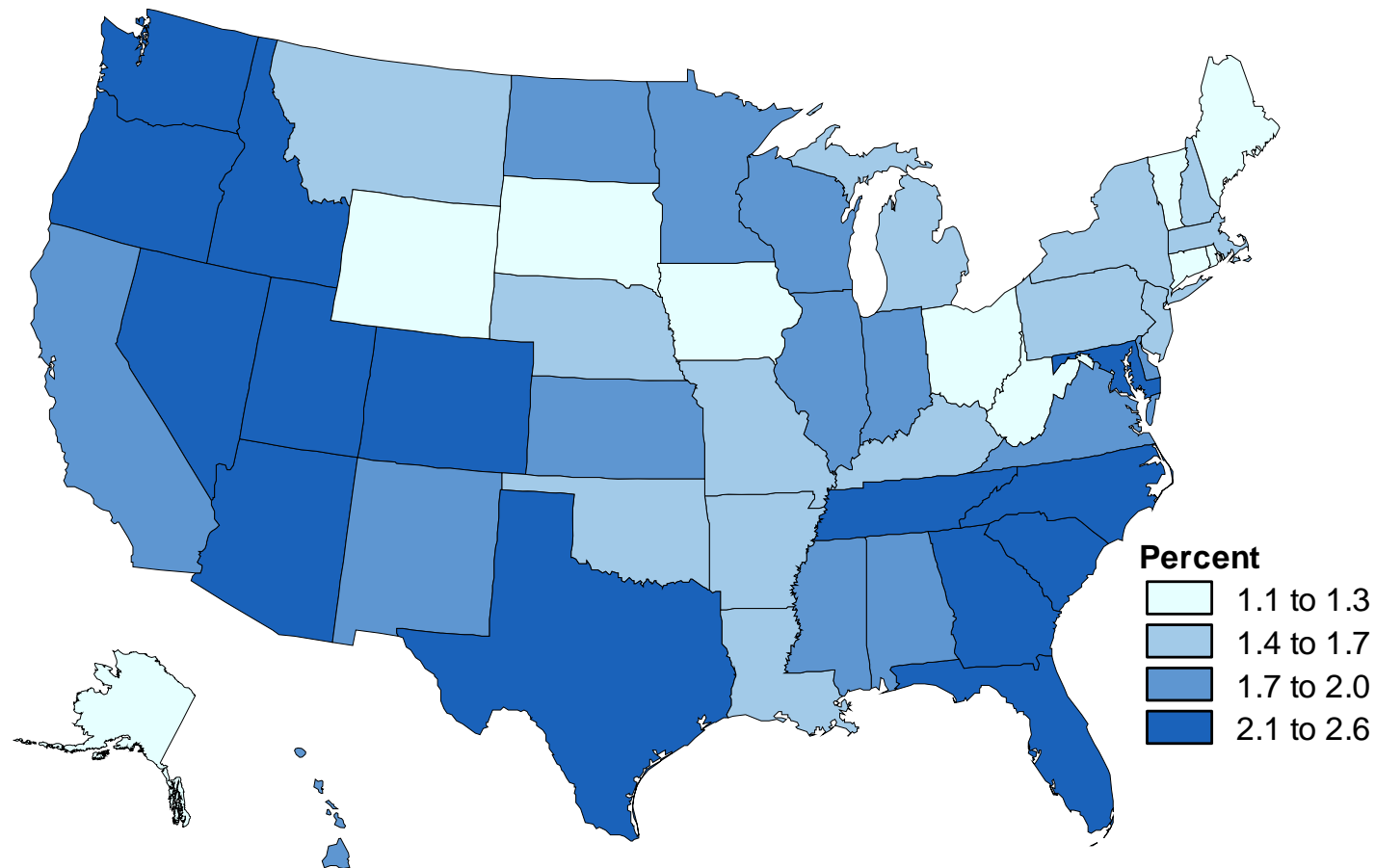
* 2009Q2 trough

A Growing US Economy Will Cut Unemployment



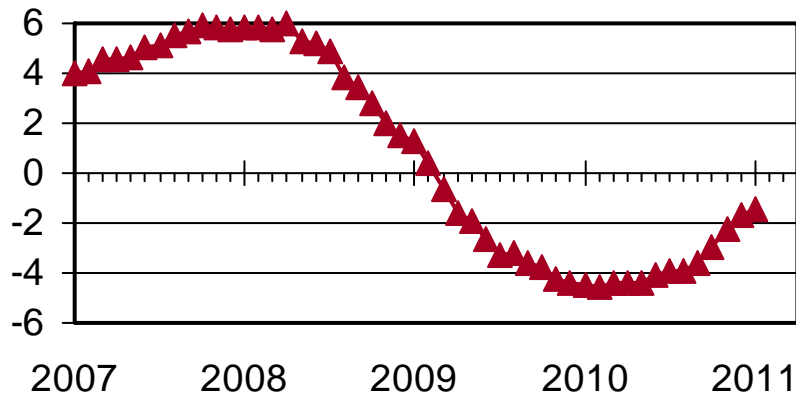
Southern and Western States Will Lead in Employment Growth

(Annual percent change, 2010-16)

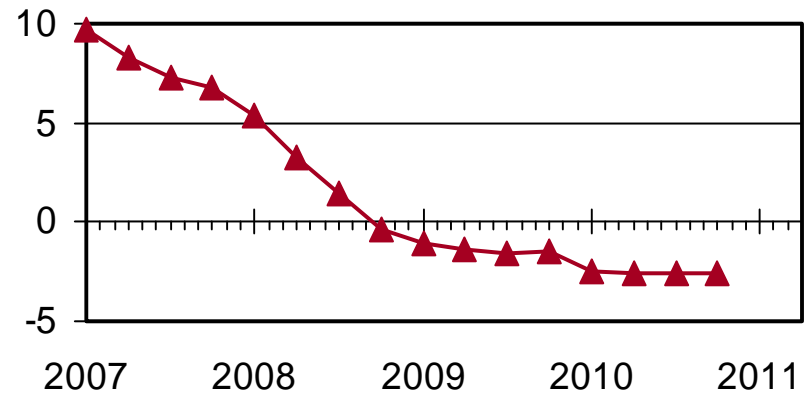


Household Credit Conditions: Beginning To Loosen

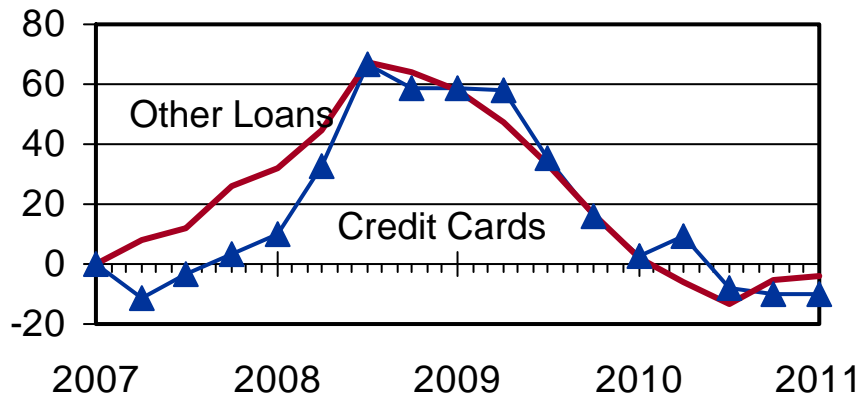
Consumer Credit Growth*



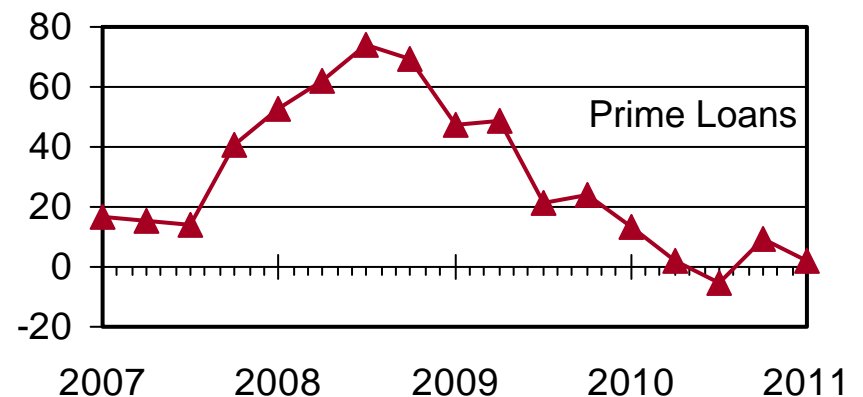
Home Mortgage Credit Growth*



Banks Tightening Cons. Credit**

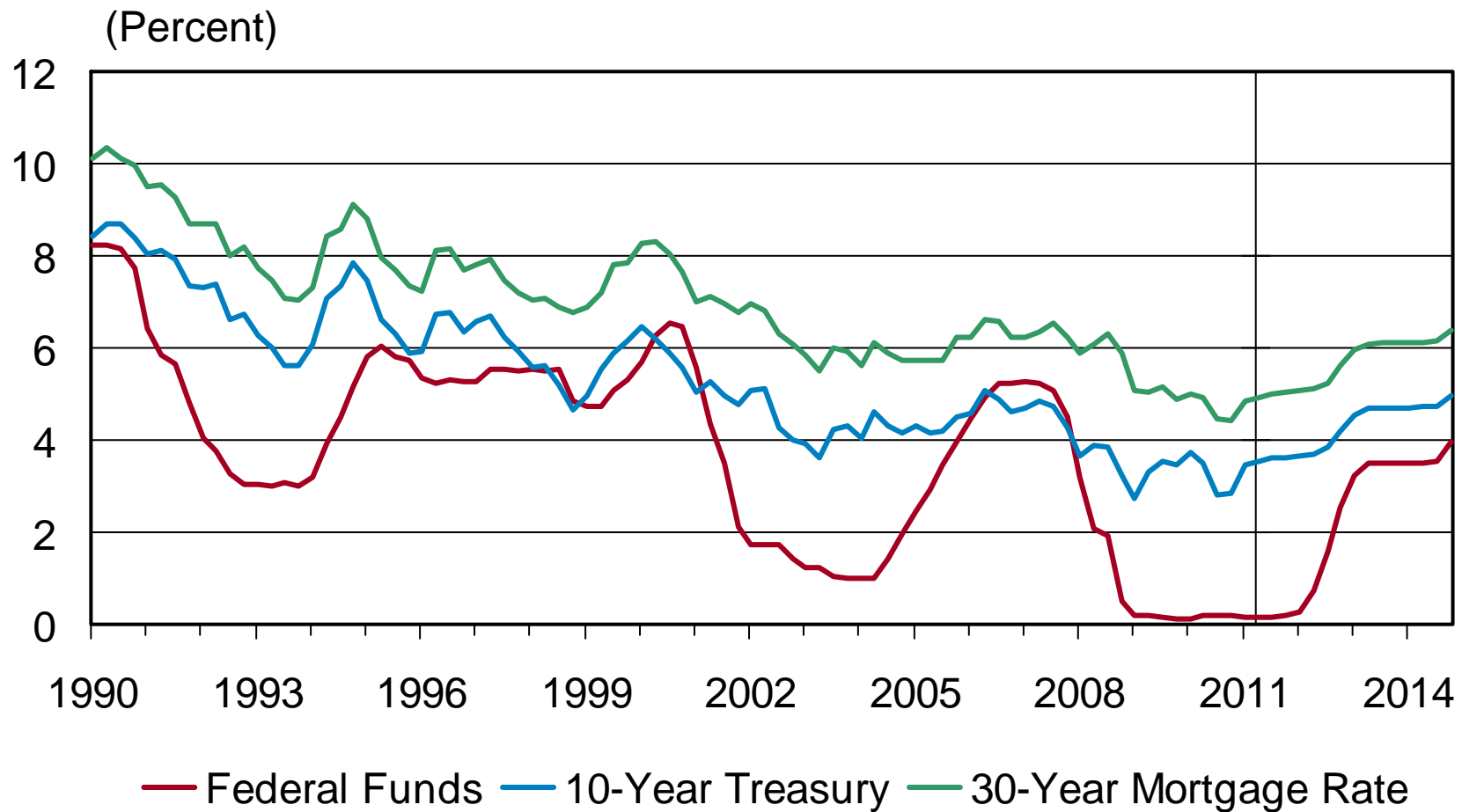


Banks Tightening Mortgage Credit**



*% change y/y; **Percent of banks tightening less percent loosening

Interest Rates Will Stay Low Through 2011, and Then Rise as Monetary Policy Tightens



Mixed News For Consumer Finances

Negative Forces

- High Unemployment
- Heavy Wealth Loss
- Tight Credit Conditions
- High Debt Burdens
- Saving Rate Was Low
- Rising Prices – esp. Gasoline, Food

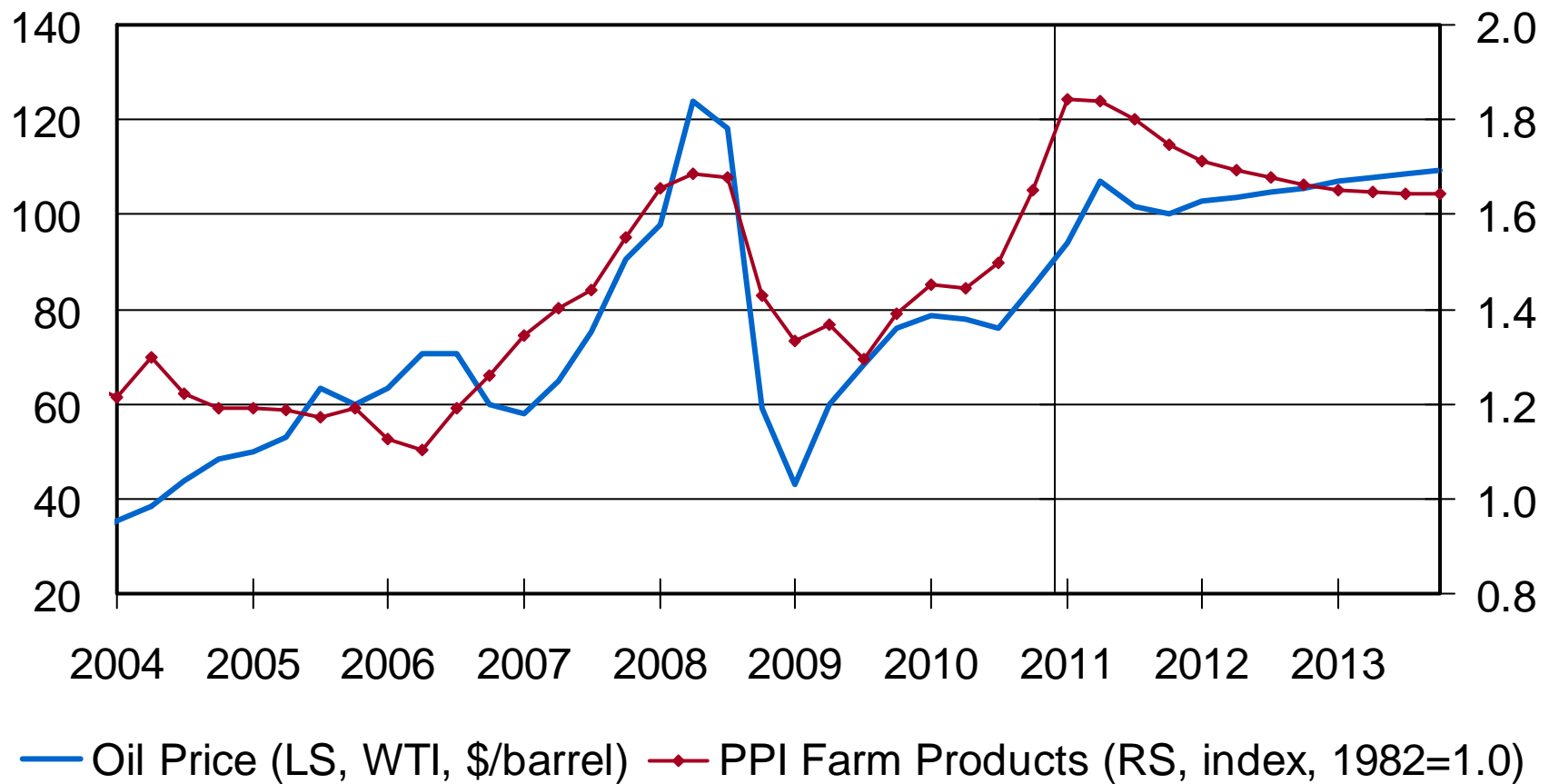
Positive Forces

- Employment Beginning To Rise
- Stock Market Off the Floor
- Fiscal Stimulus
- Pent-Up Demand

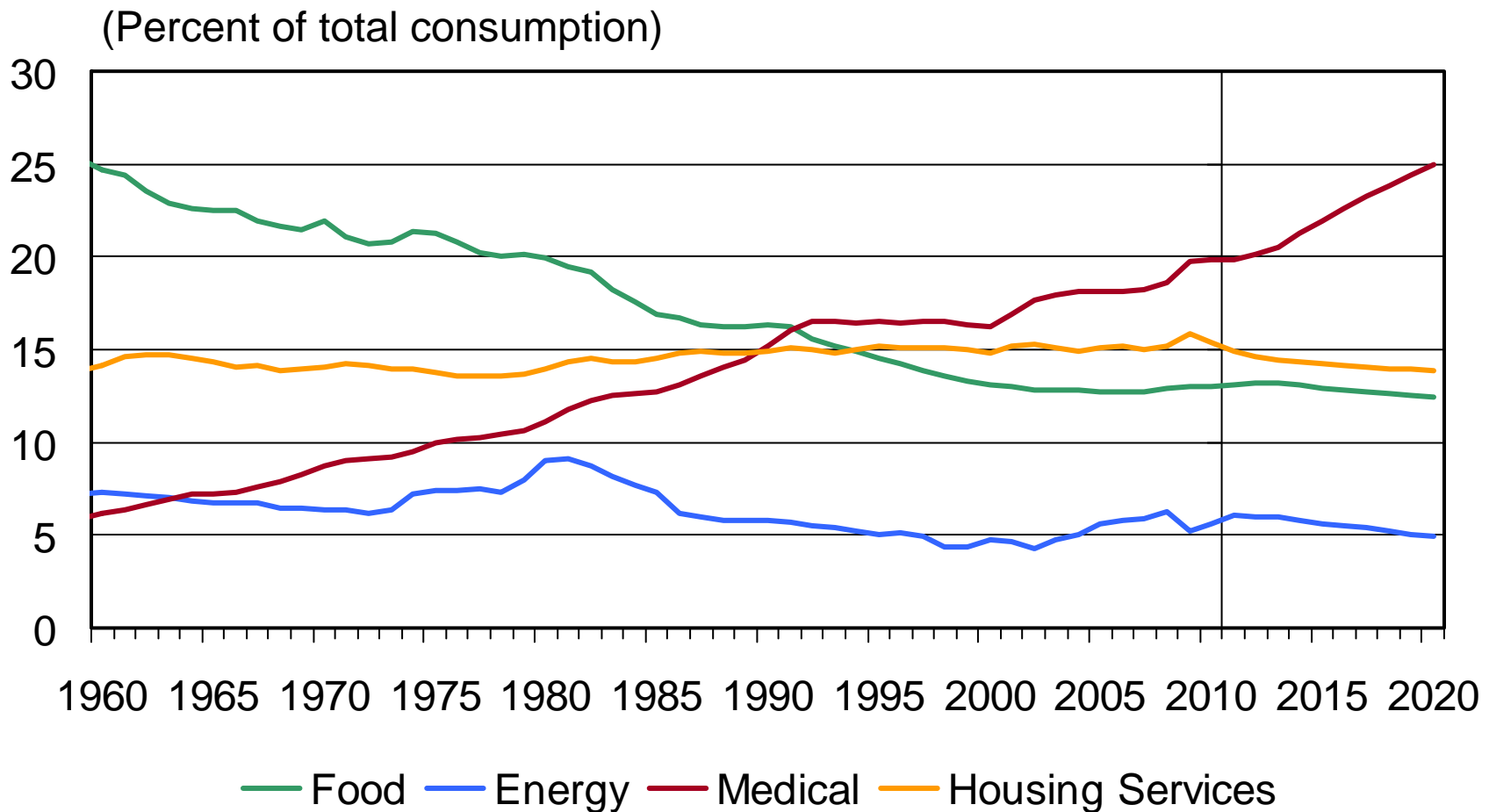
Household Net Worth Supports Spending

- From early 2009 to the end of 2010, household net worth recovered by \$8.1 trillion as the stock market rebounded.
- Yet, net worth was \$8.8 trillion below its spring 2007 peak.
- Each year, consumers spend about 3% of their wealth, so the recovery in net worth is an encouraging development.
- Vehicles, electronics, home furnishings, and other big-ticket items are most affected by changes in wealth.
- Real household net worth will regain its 2007 peak in 2017.

Energy and Food Prices Are Climbing...



Shifts in Consumer Spending on Essentials: Healthcare Takes a Rising Share of Budgets



What If Oil Is \$10 Higher than Our Baseline?

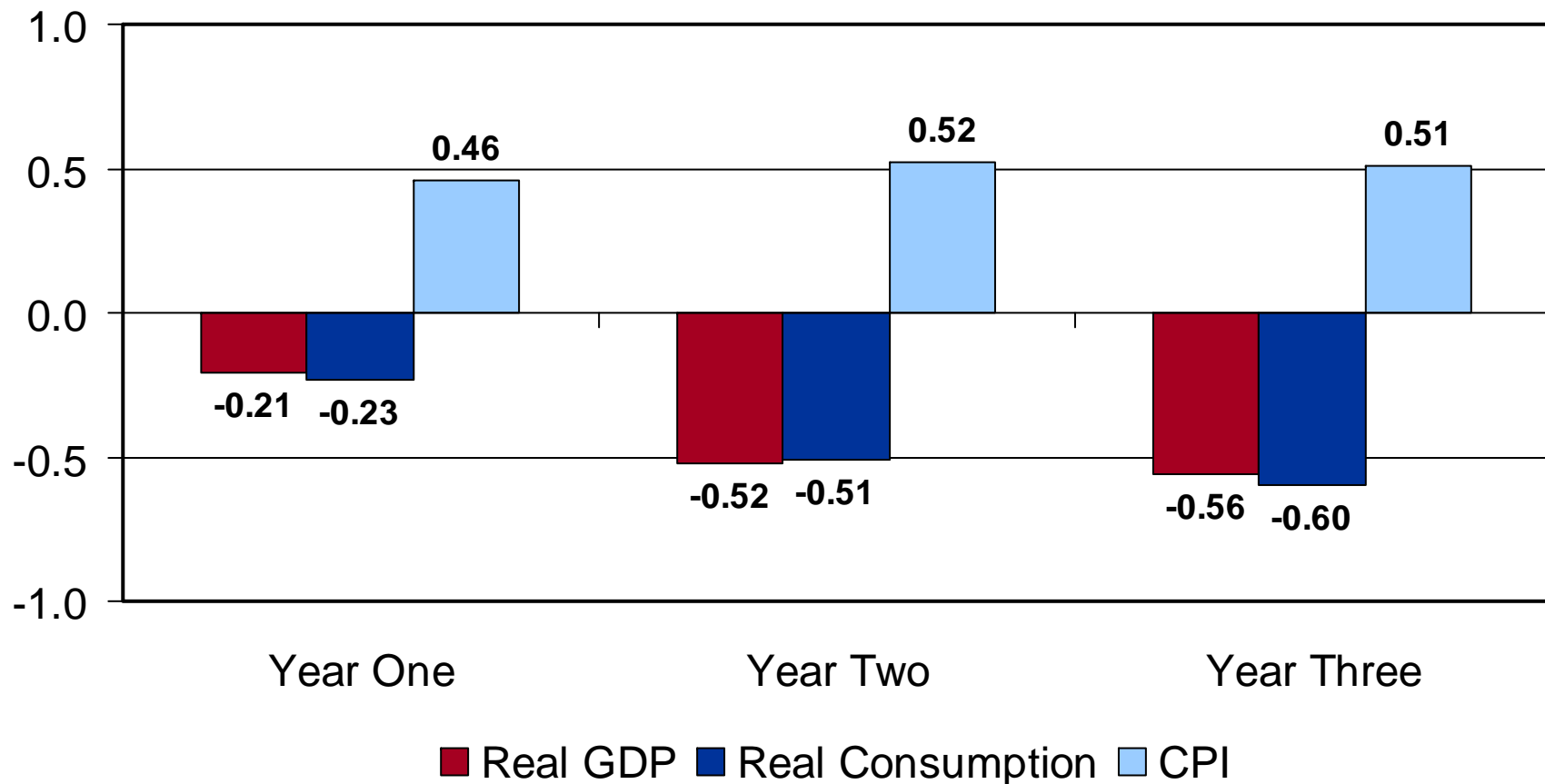
	Changes from baseline, full year
Real GDP	-0.2%
Real Disposable Income	-0.4%
Real Consumer Spending	-0.2%
Gasoline Prices	+24 cents/gall
CPI	+0.5%
Employment	-120,000
Light Vehicle Sales	-180,000

Source: Global Insight U.S. Model Simulation, January 2011

Impact of a \$10 Rise in Oil Prices on the U.S. Economy in the IHS Global Insight Model

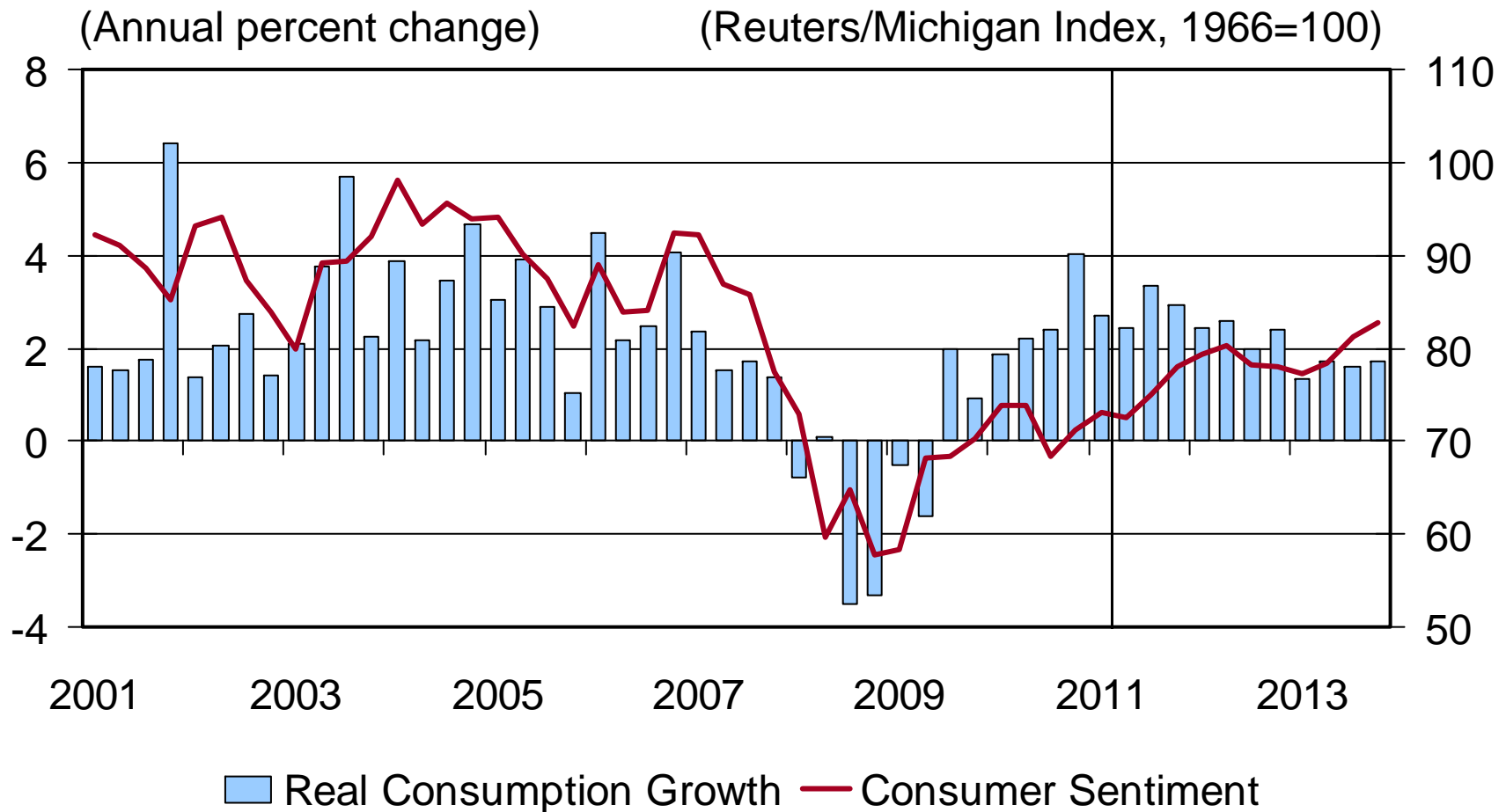
Simulation assumes a supply shock; assumes lower rest-of-world GDP

(Percent deviation from baseline)

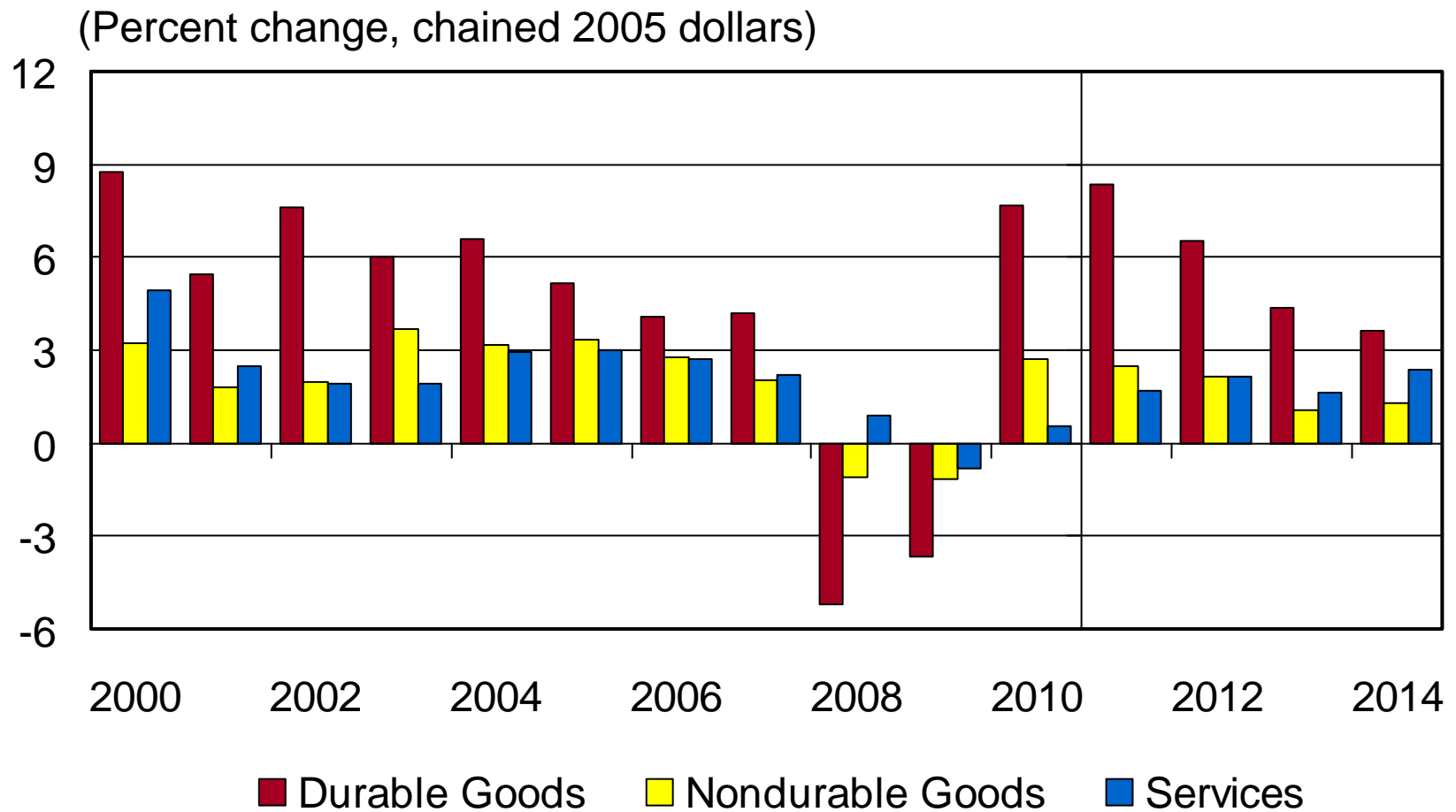


Source: IHS Global Insight U.S. Model Simulation, January 2011

Consumers Are Cautious: Real Spending Growth



US Consumer Spending Growth: Durable Goods Lead the Ups and Downs



The Housing Cycle: Still At The Bottom



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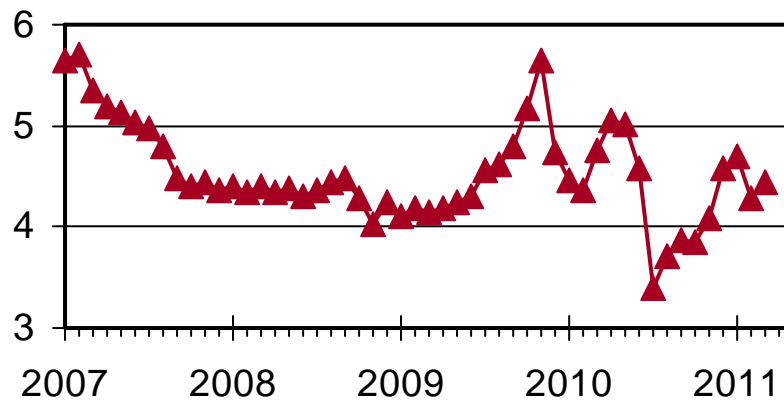
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More Negatives than Positives

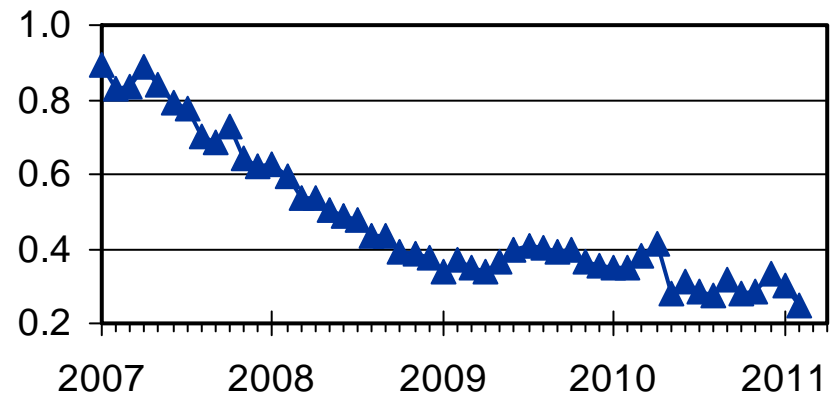
- Positives
 - Housing affordability is at record highs
 - Supply excess is unevenly distributed
- Negatives
 - Big sales payback after homebuyers' credit expired
 - New home sales near an all-time low
 - High mortgage foreclosure rates adding to excess supply and depressing prices
 - Overhang of empty homes
 - Prices probably haven't hit bottom
 - Lack of employment support so far
 - The recession led to a drop-off in household formation

Key Single-Family Housing Indicators: No Underlying Improvement Yet

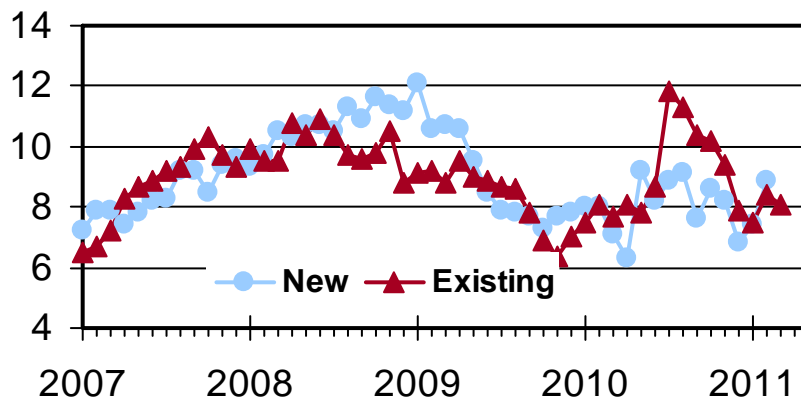
Existing Home Sales*



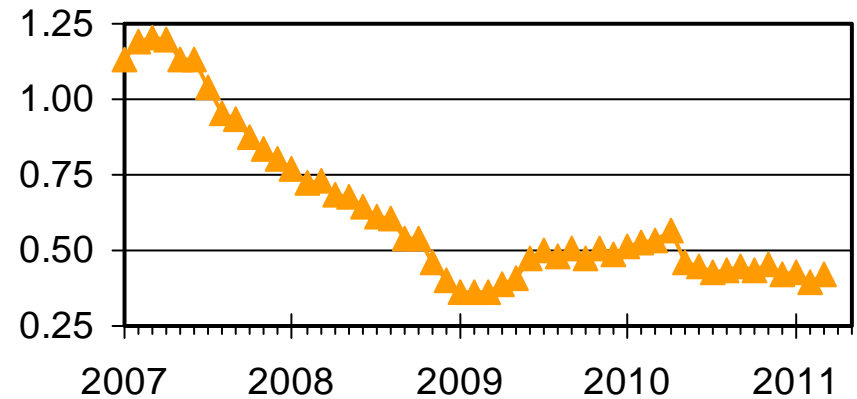
New Home Sales*



Months' Supply of Homes**

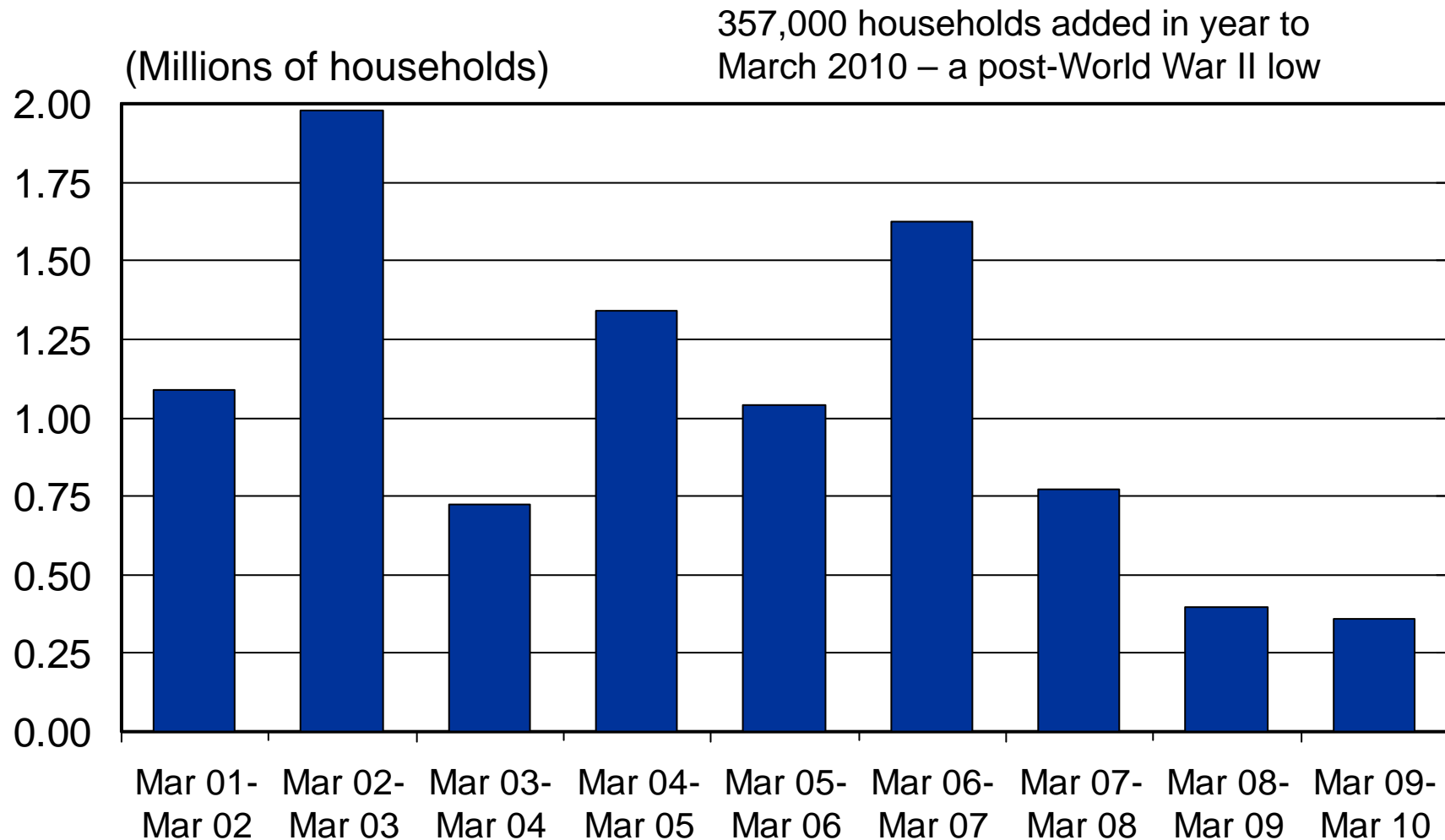


Housing Starts*



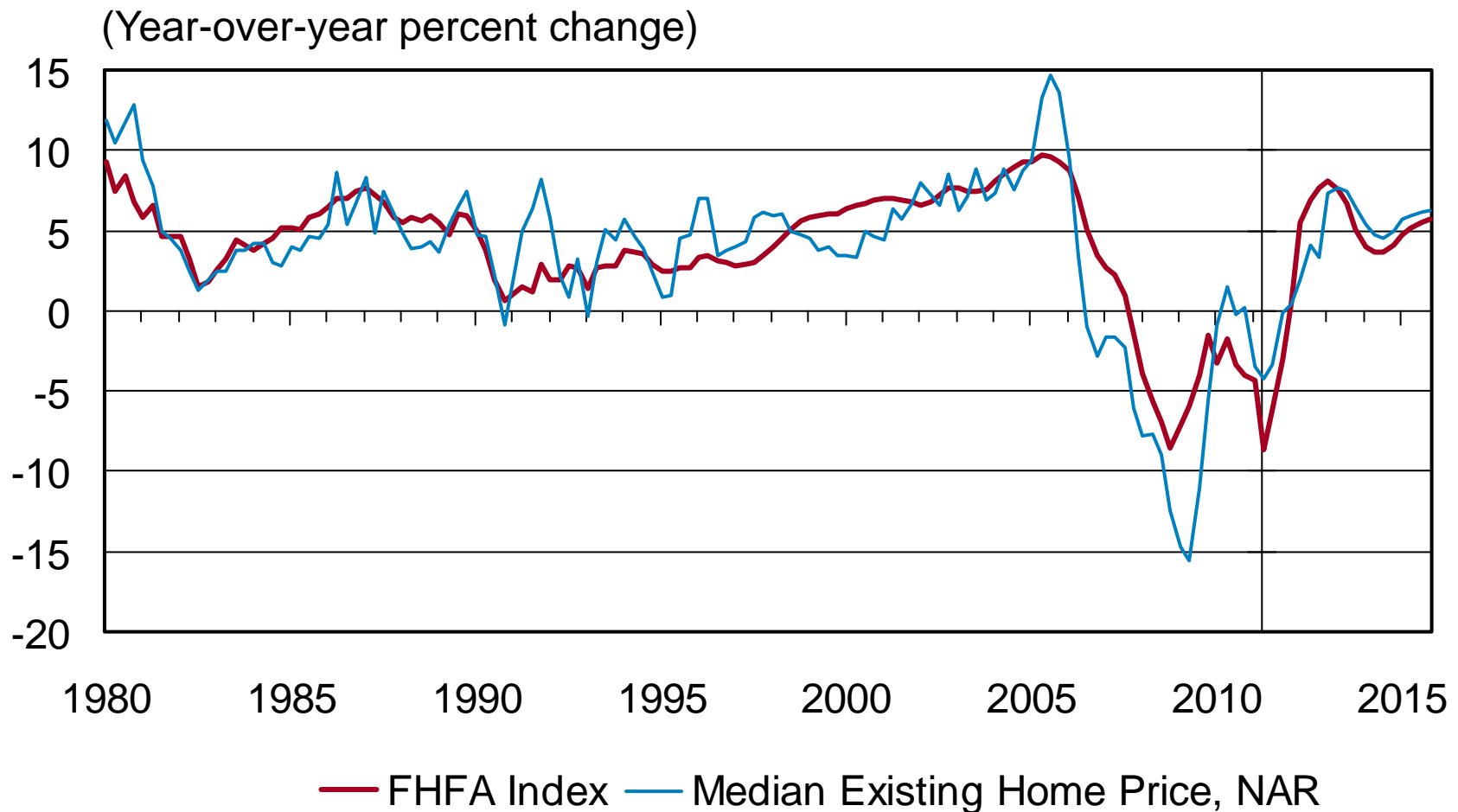
*Millions, SA; **Single-Family Homes for sale divided by monthly selling rate

Demand Shortfall: Household Formation Has Plunged



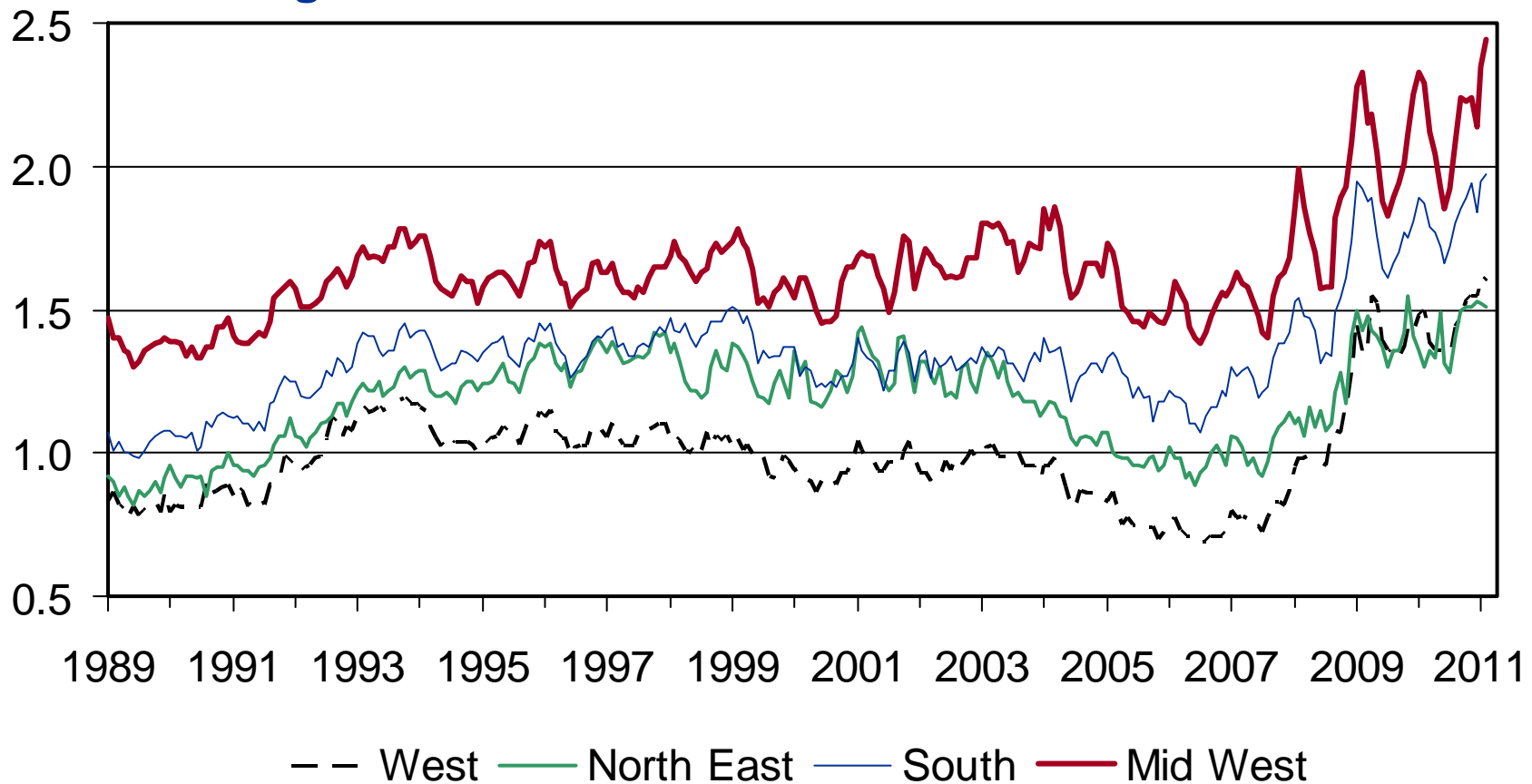
Source: Census Bureau

Home Prices Have Not Yet Hit Bottom



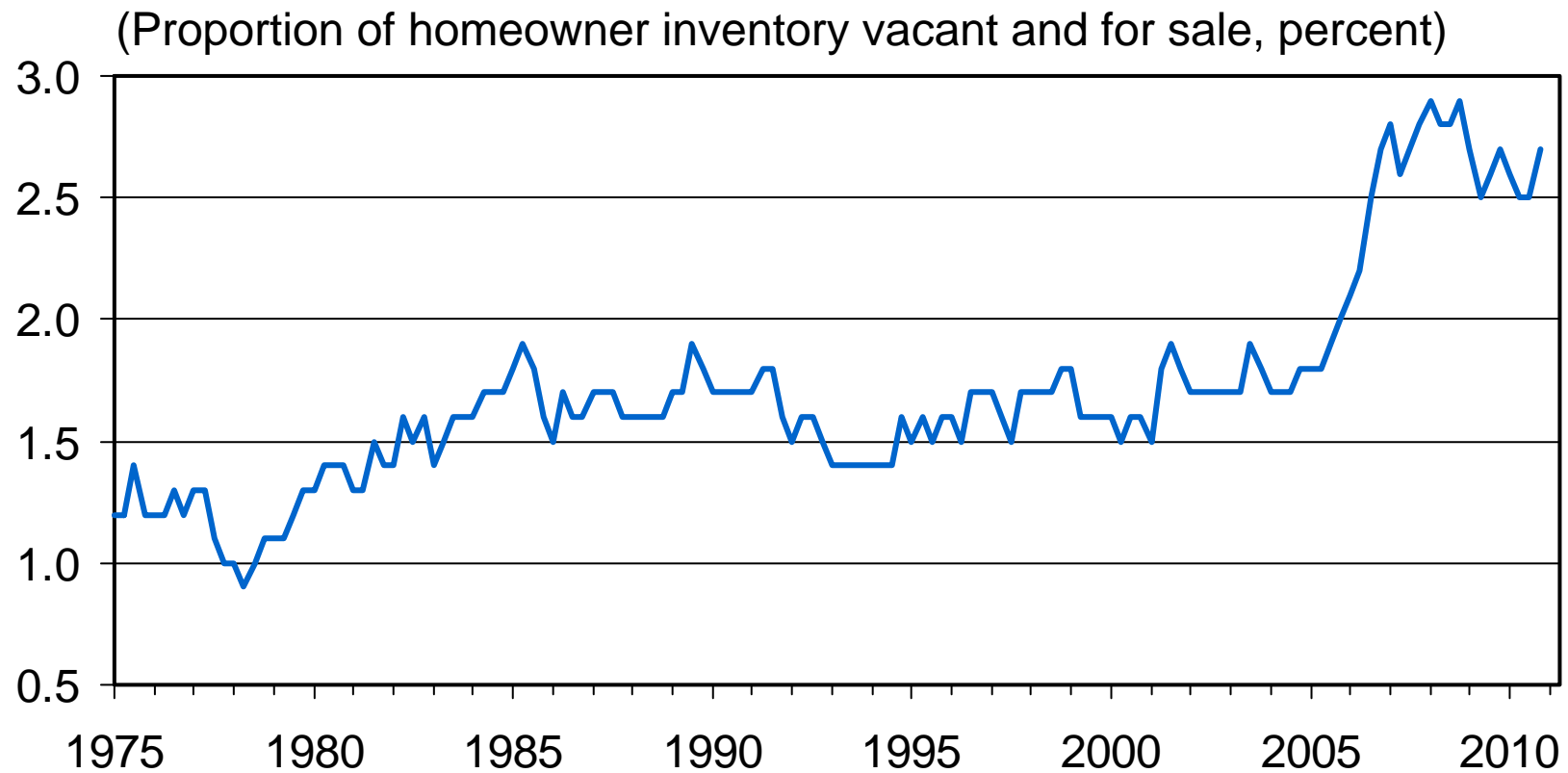
Affordability Varies Across Regions

A higher index means homes are more affordable.



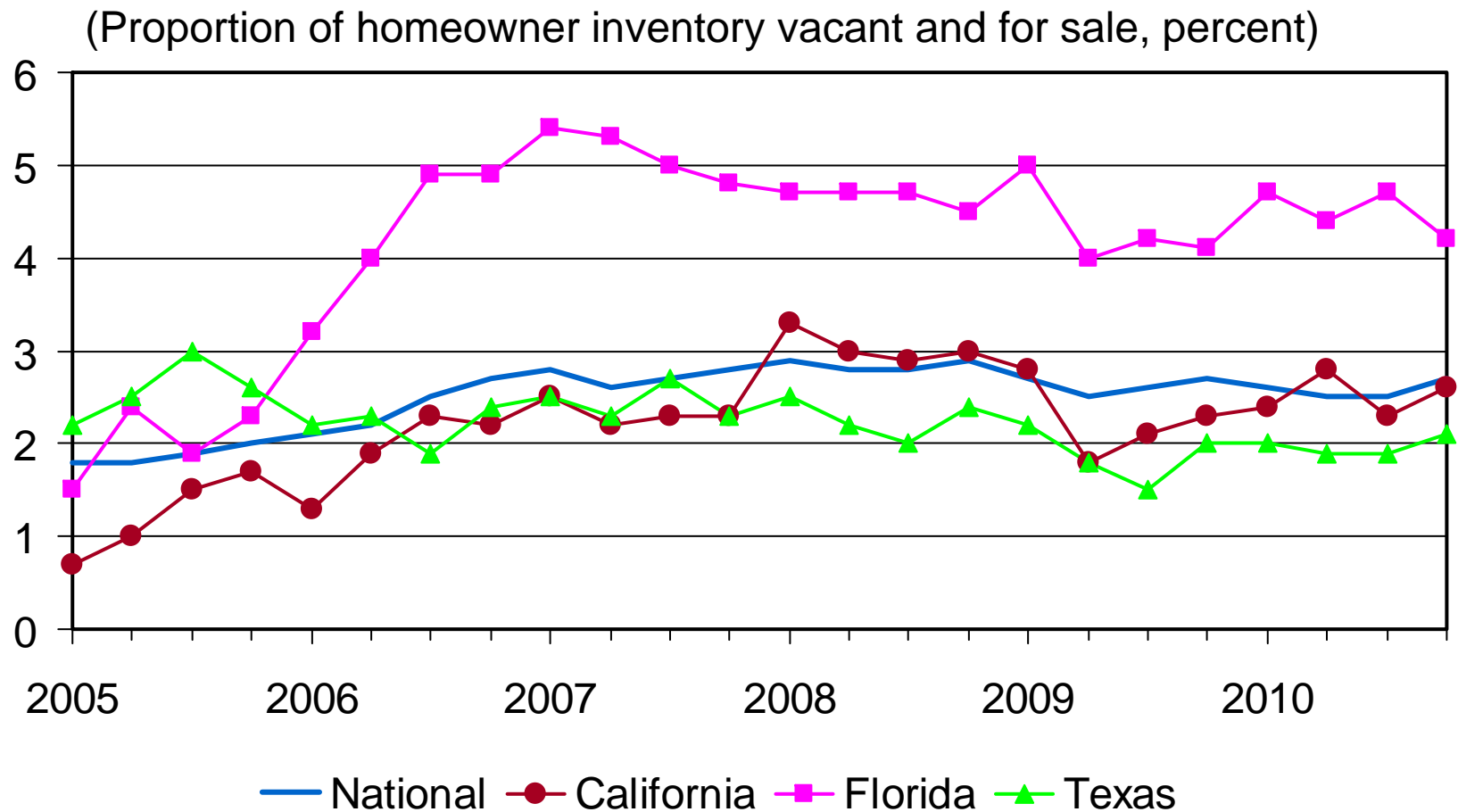
Source: National Association of Realtors

Supply Excess: The Housing Overhang



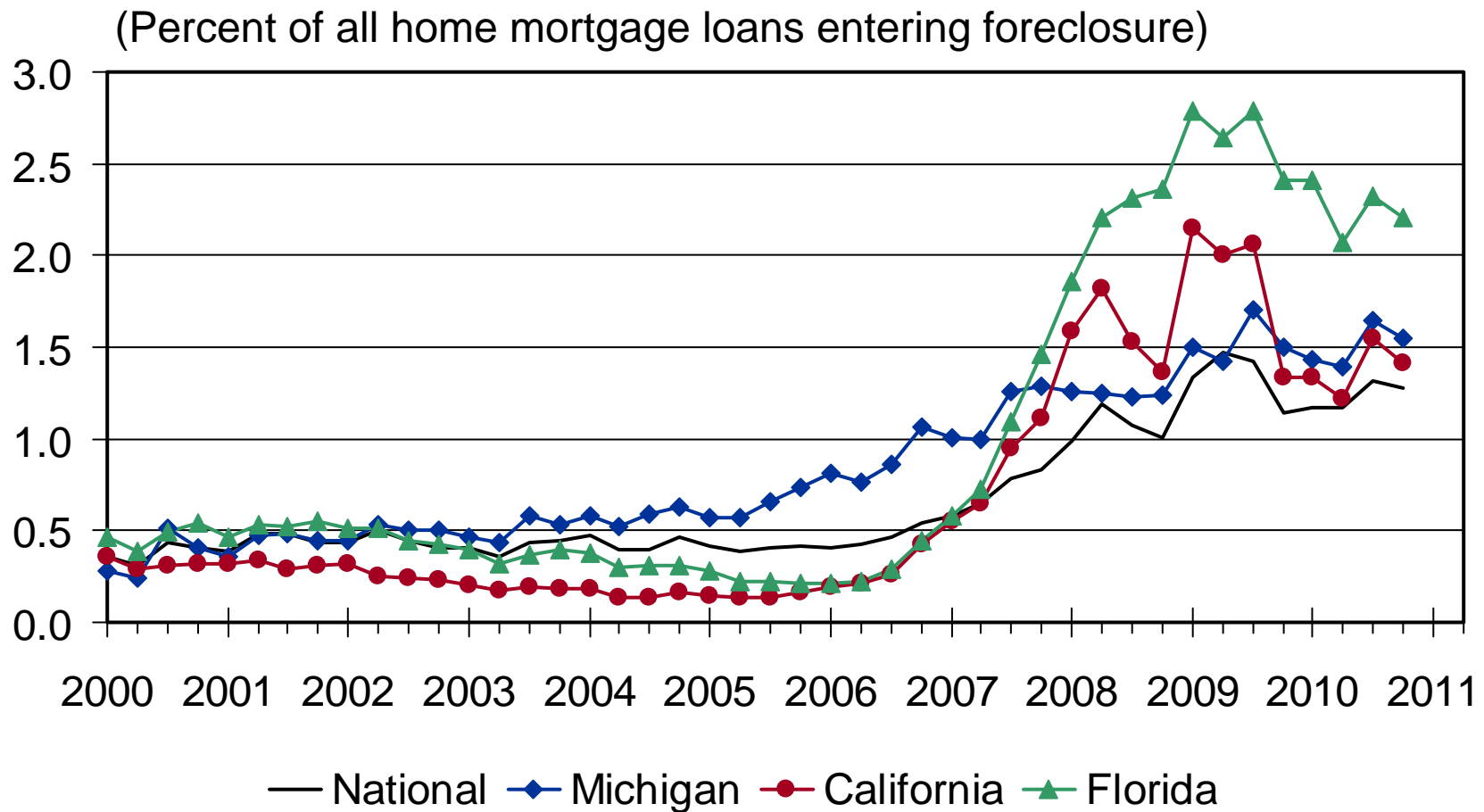
Source: Census Bureau

The Housing Overhang Is Not Evenly Distributed



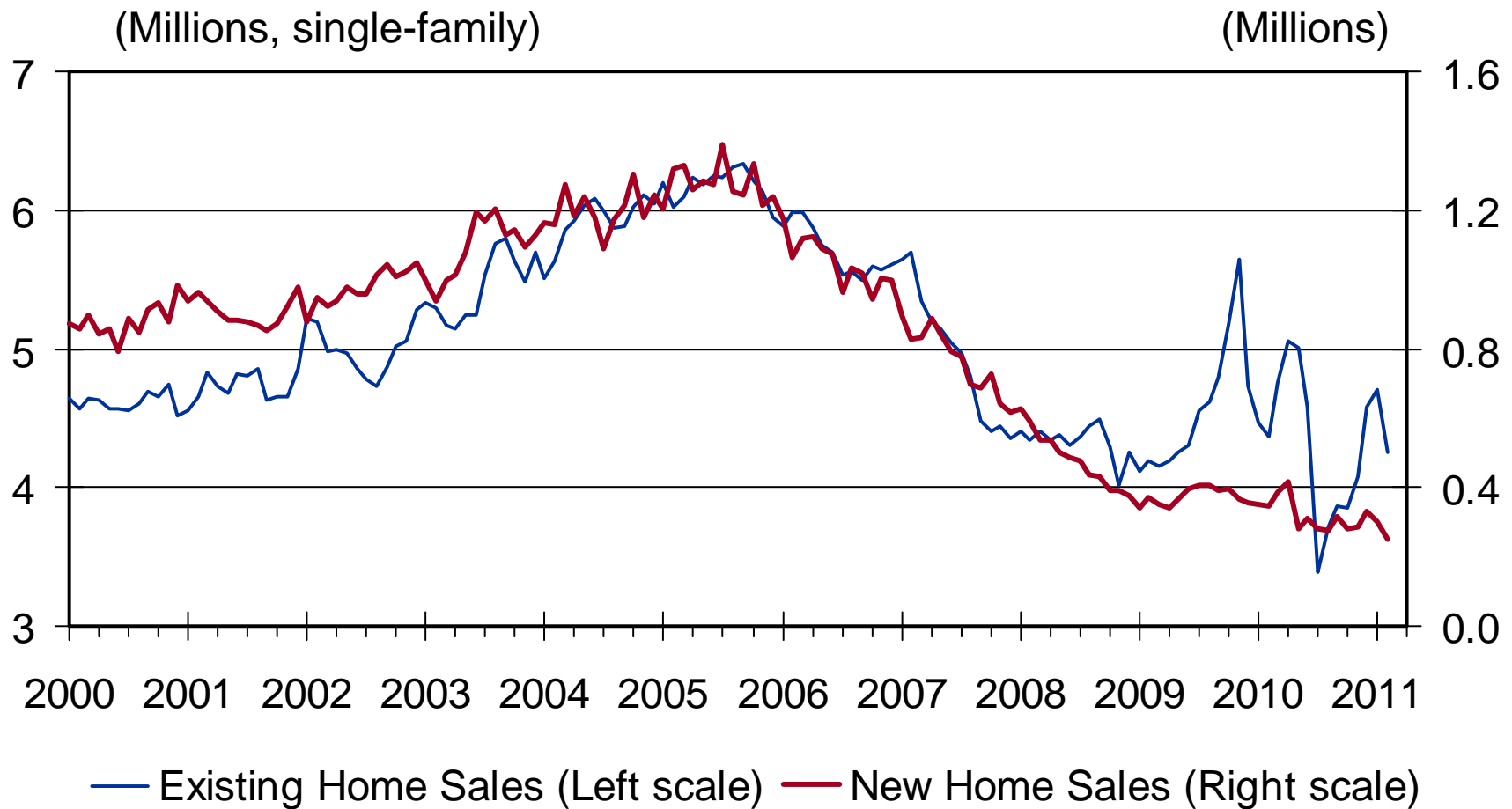
Source: Census Bureau

Key State Foreclosure Variations



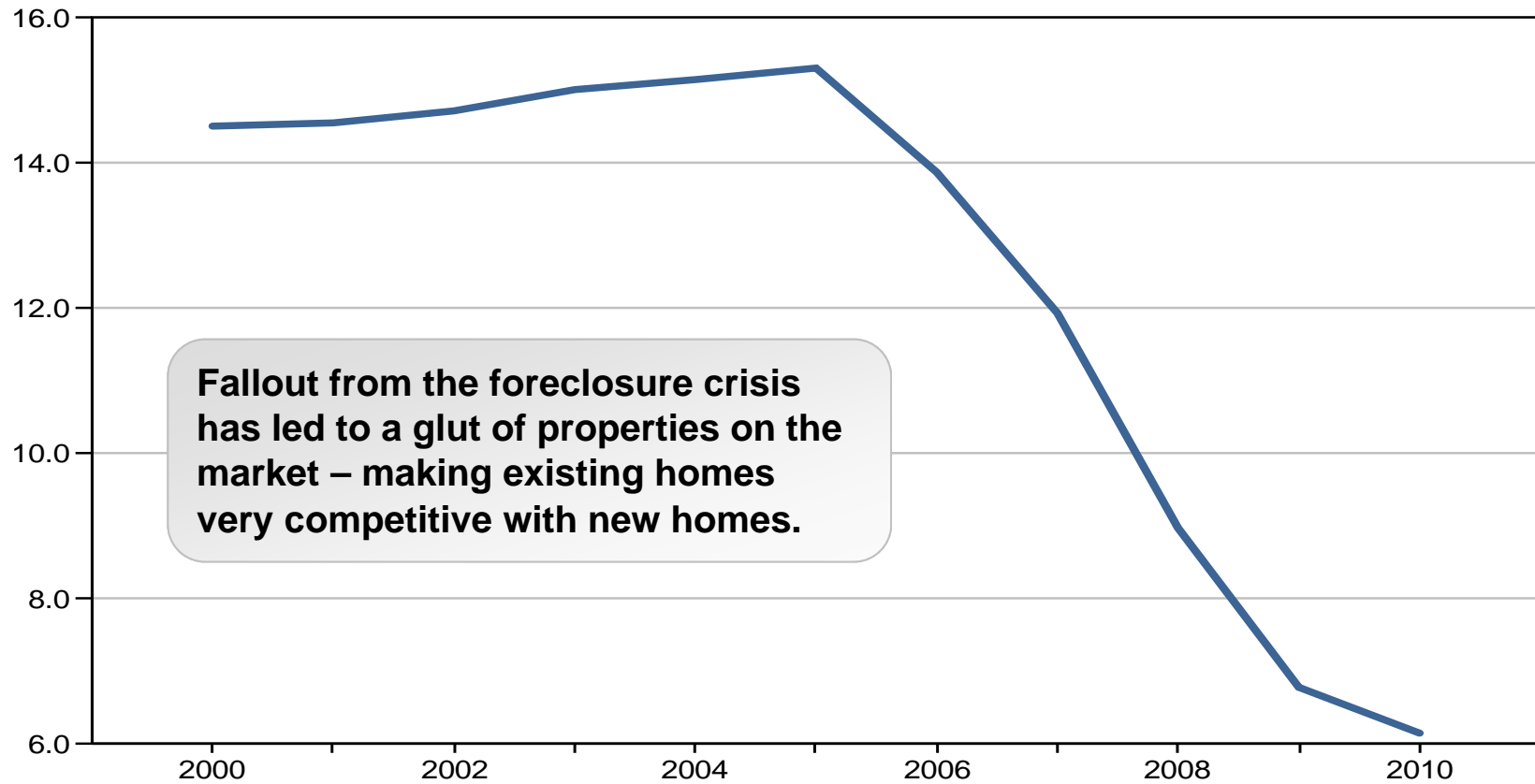
Source: Mortgage Bankers Association

Existing and New Home Sales Have Parted Company

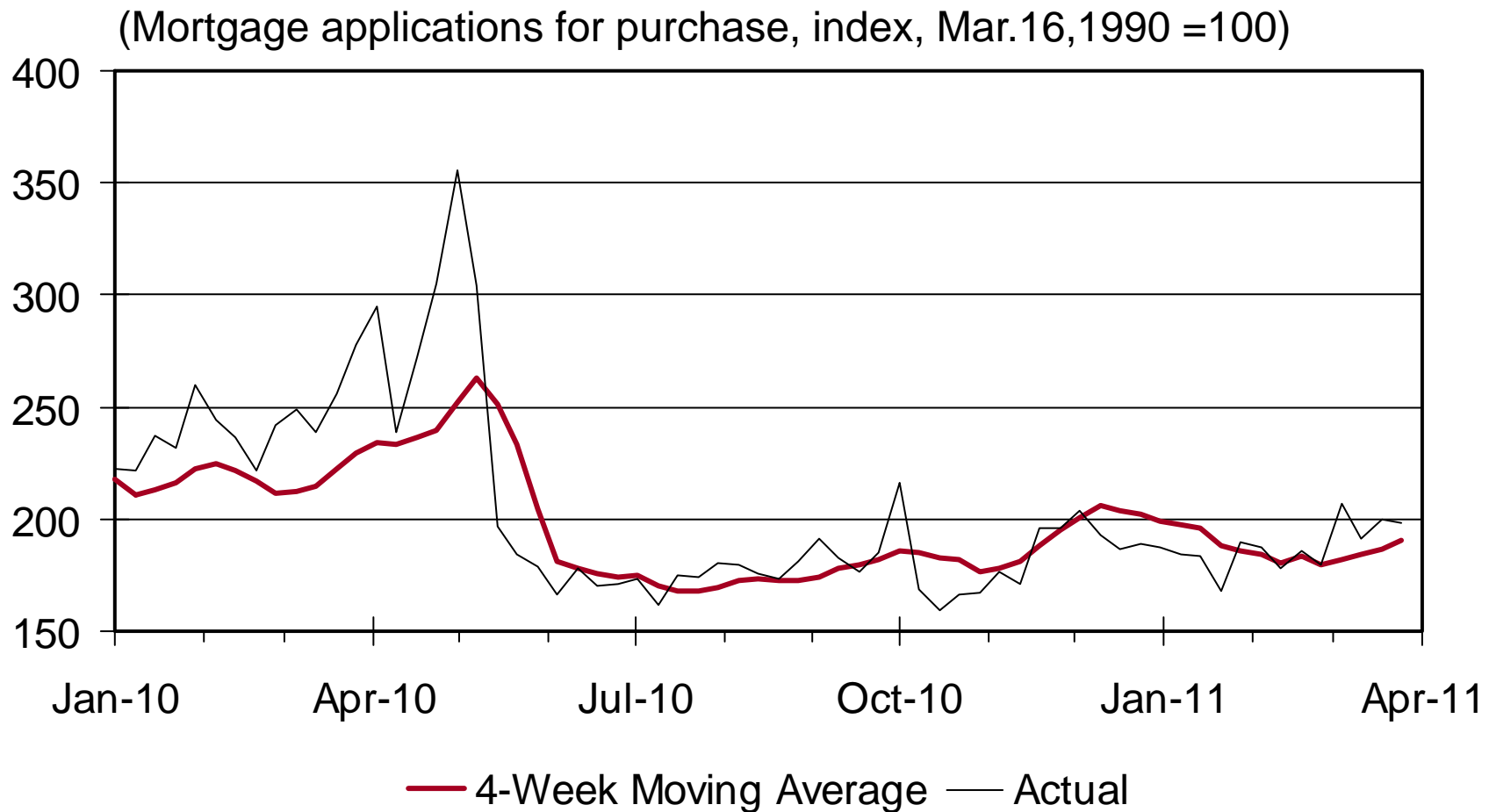


United States: Residential

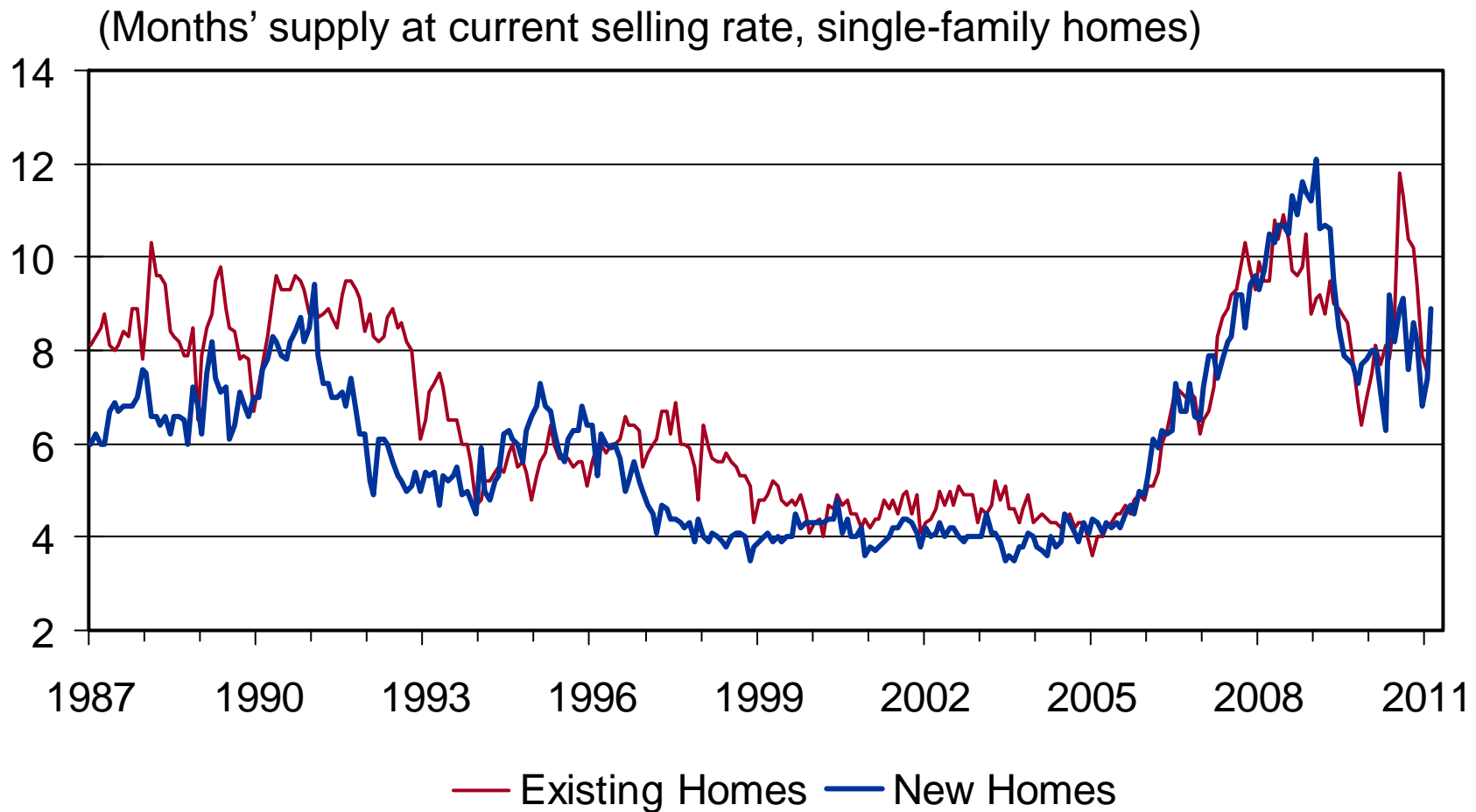
New Home Sales as a Percentage of Total Sales



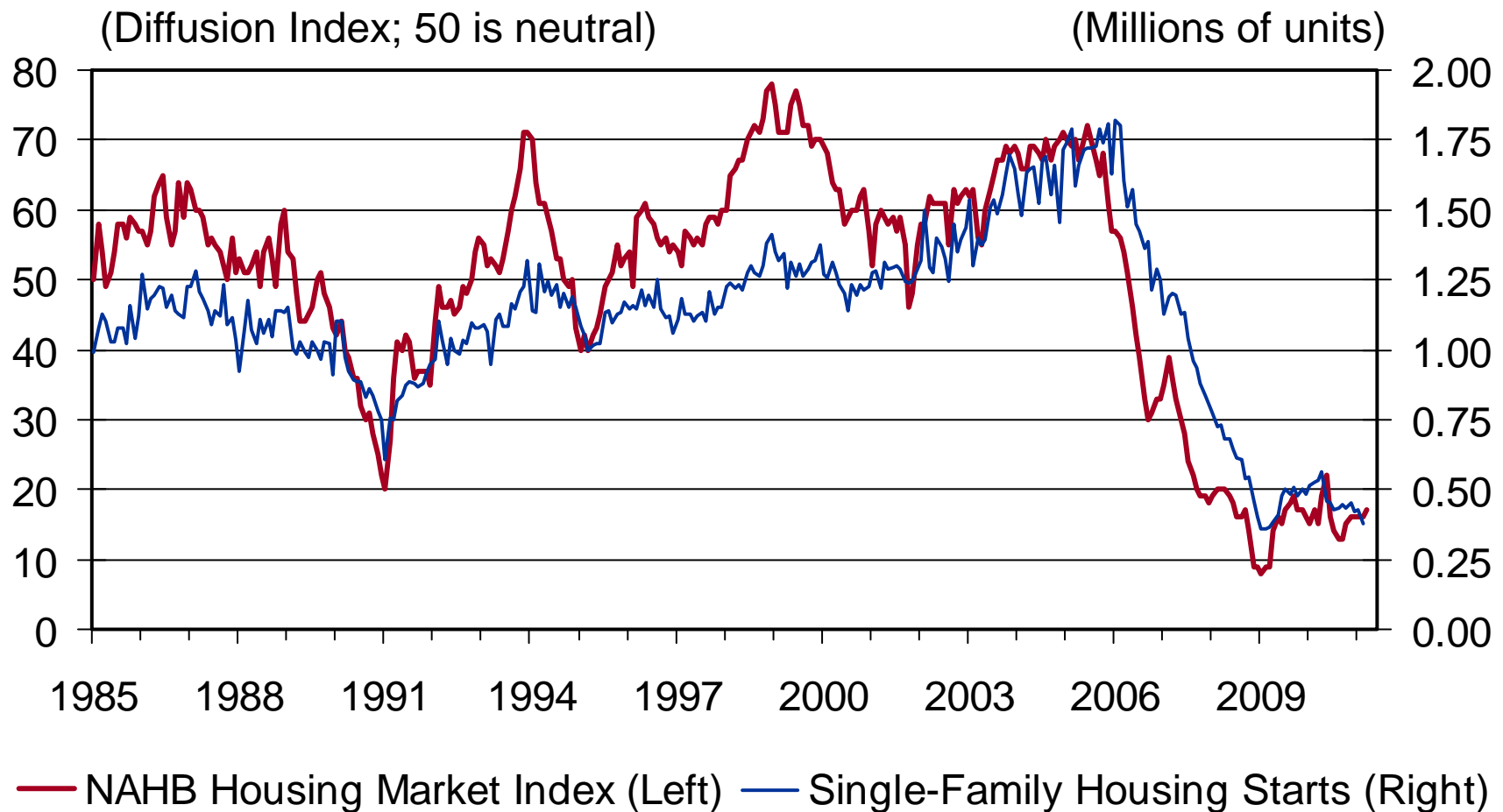
No Upturn In Mortgage Applications for House Purchase



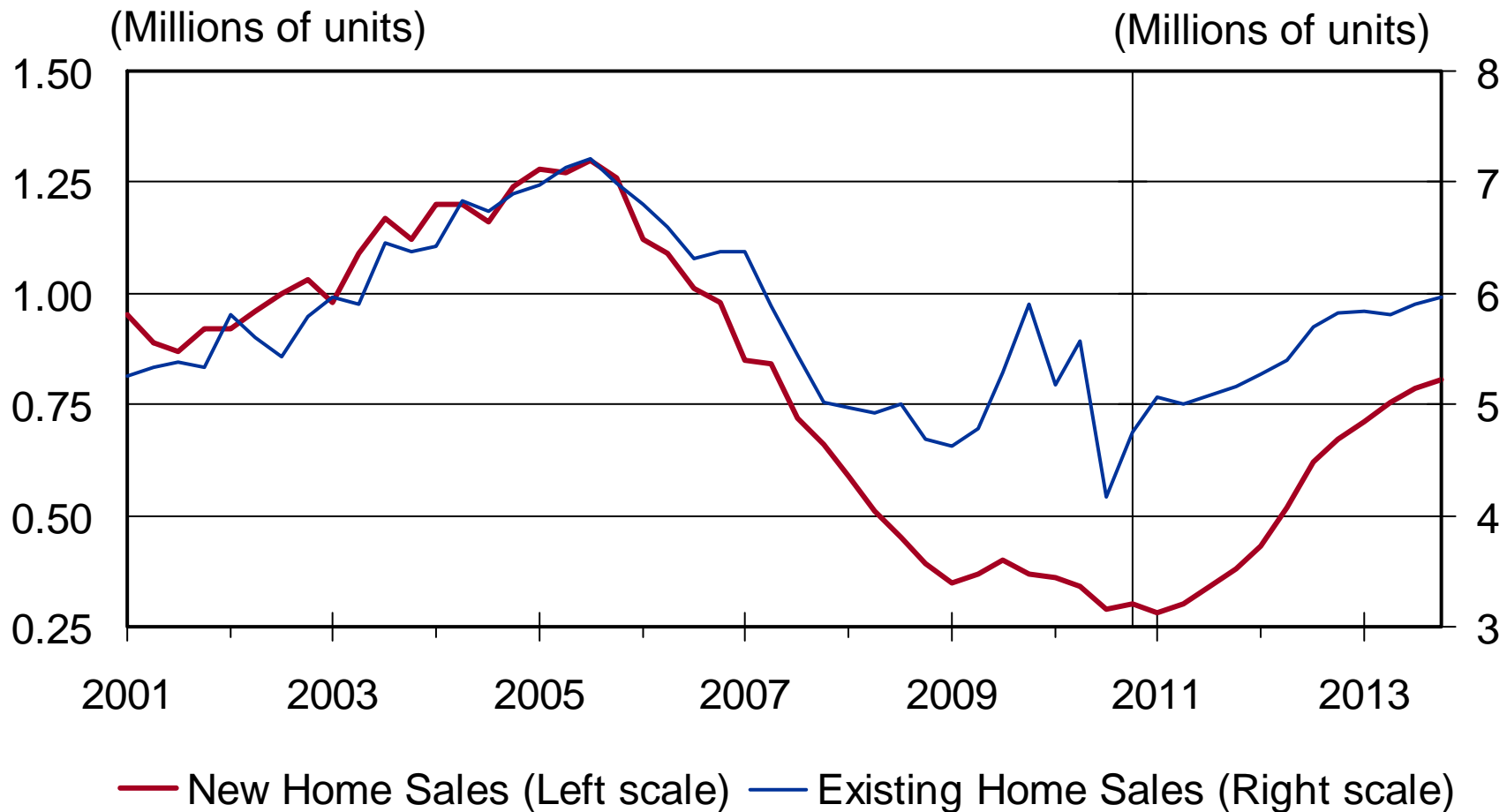
Still Bloated Supplies of Homes for Sale



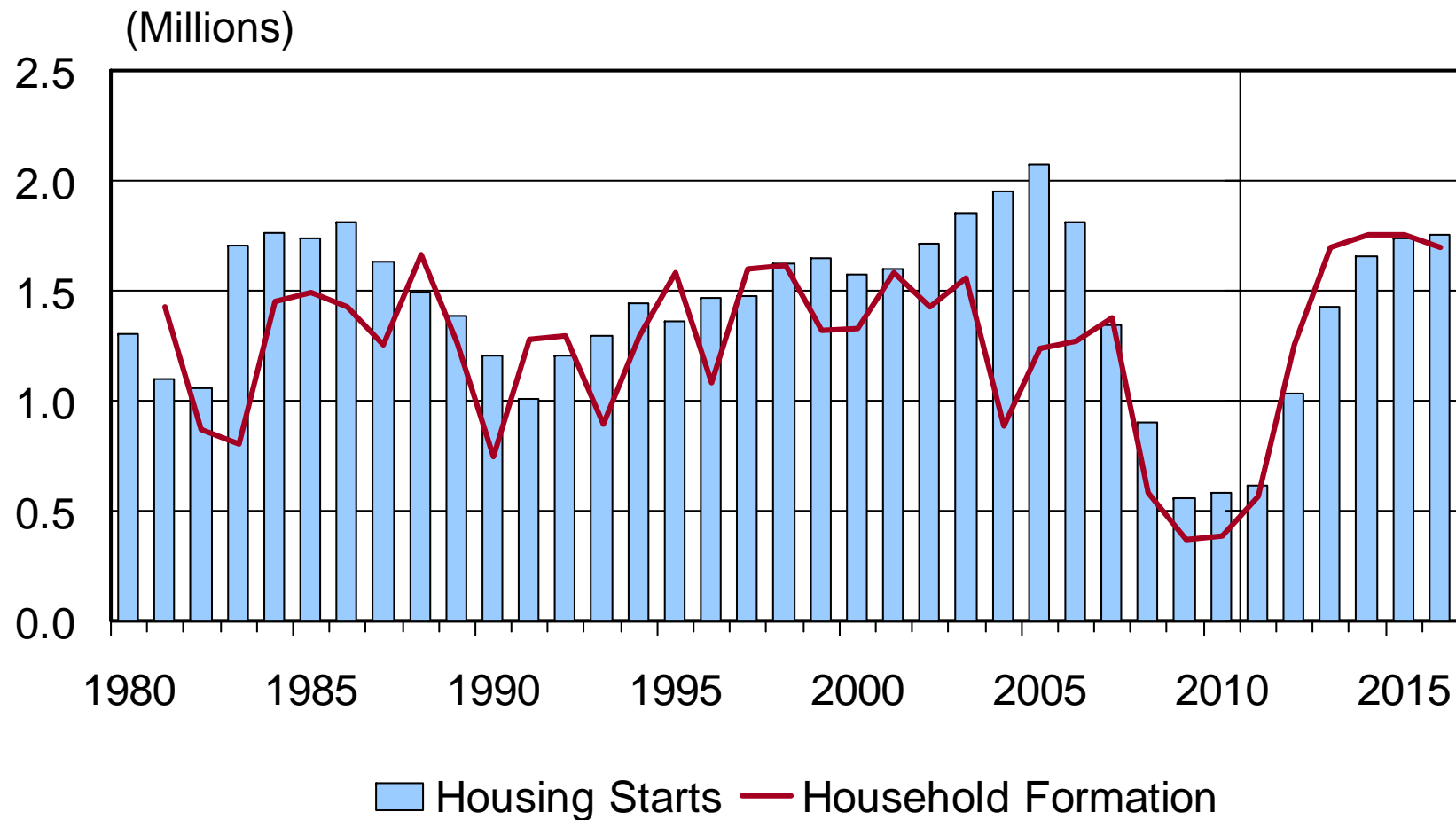
Home Builders' Optimism Up From Rock Bottom – But Barely So



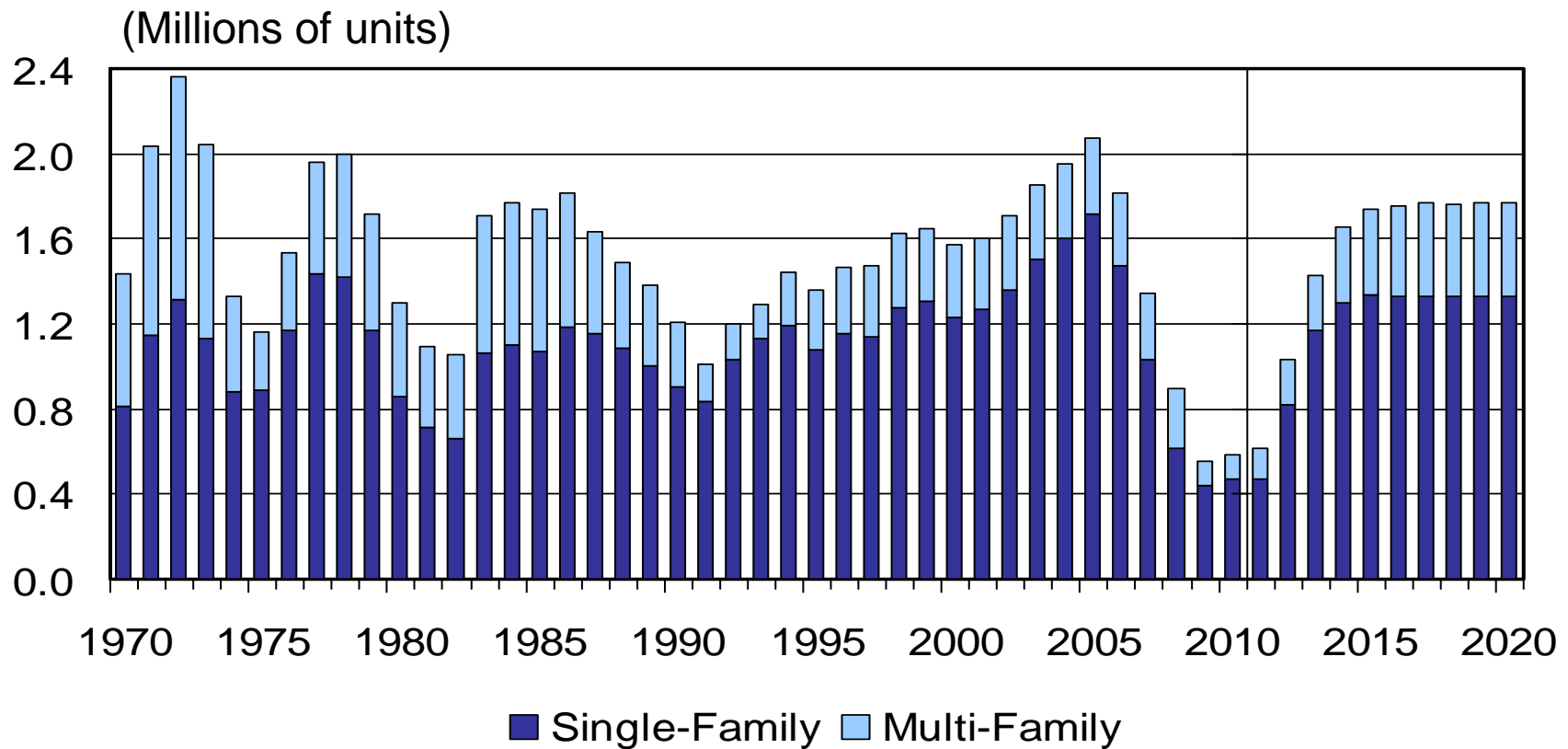
Home Sales Bottoming Out – But Swung Up and Down by the Homebuyers' Tax Credit



Household Formation and Housing Starts Will Recover from Exceptionally Low Levels

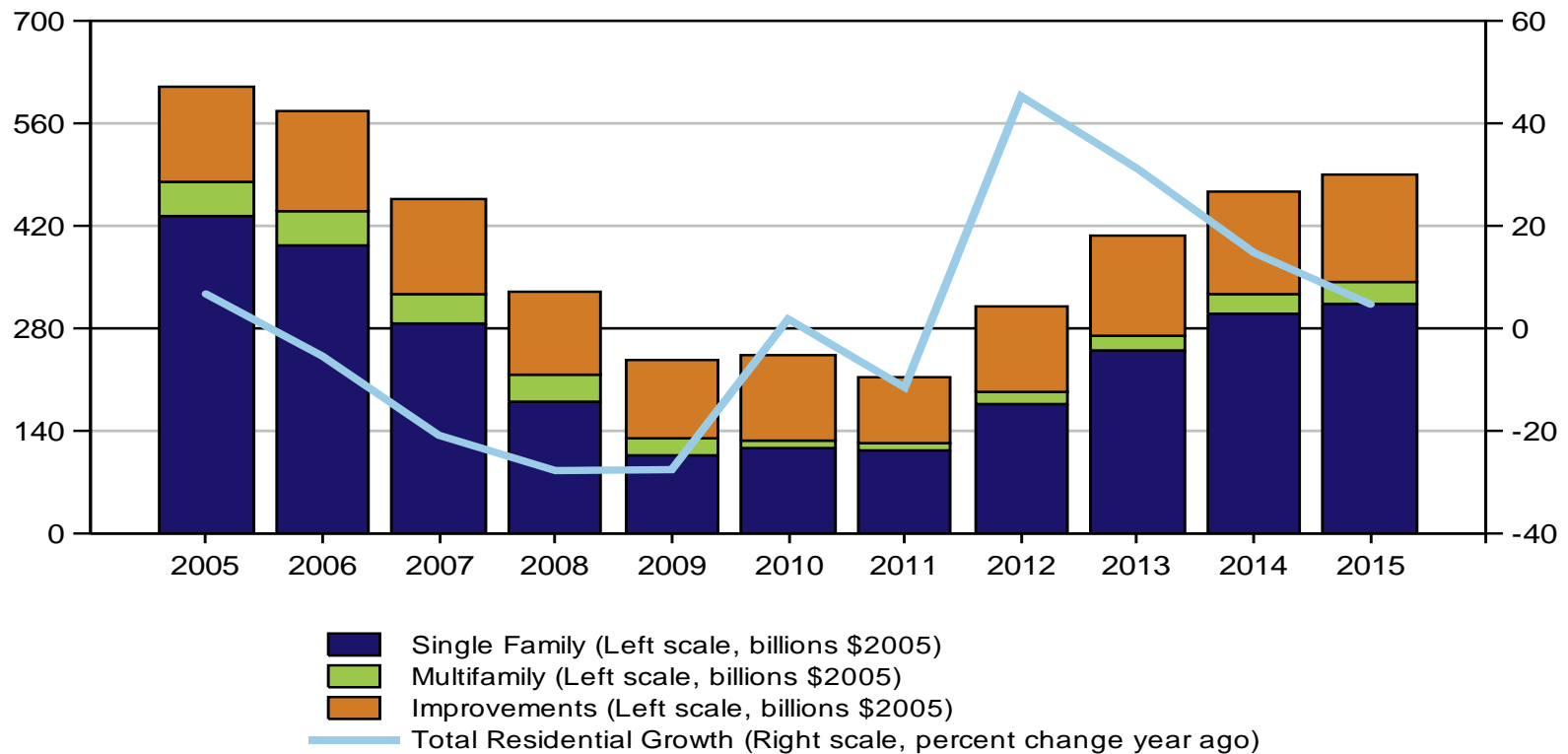


The Recovery in Housing Starts Will Gain Momentum in 2012



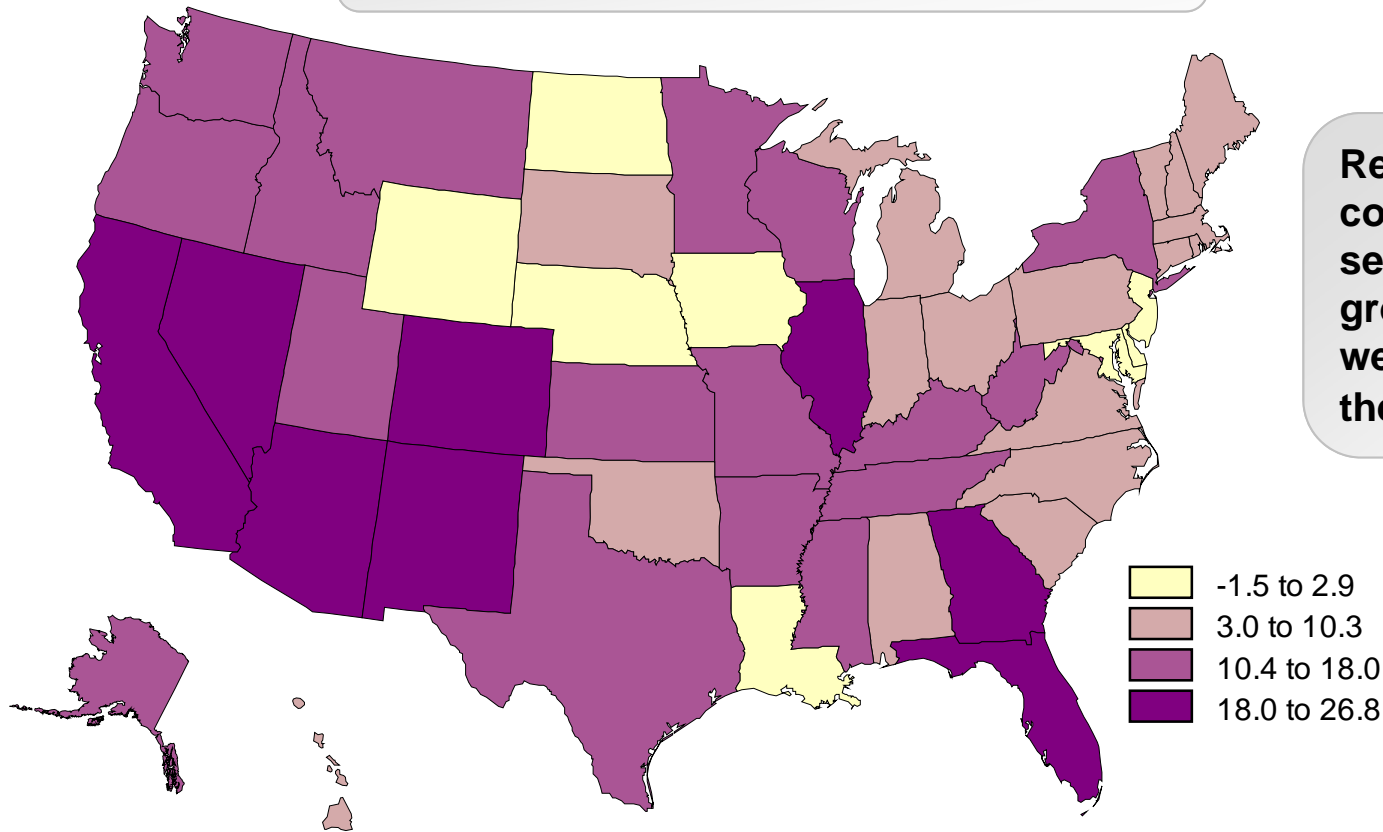
- Multifamily units' share of starts will rise from 20% in 2010 to 25% in 2020.

Looking Ahead: Residential Construction



Looking Ahead: Residential Construction

Residential construction growth, 2010-15
(Compound Annual Rate of Growth, Percent)



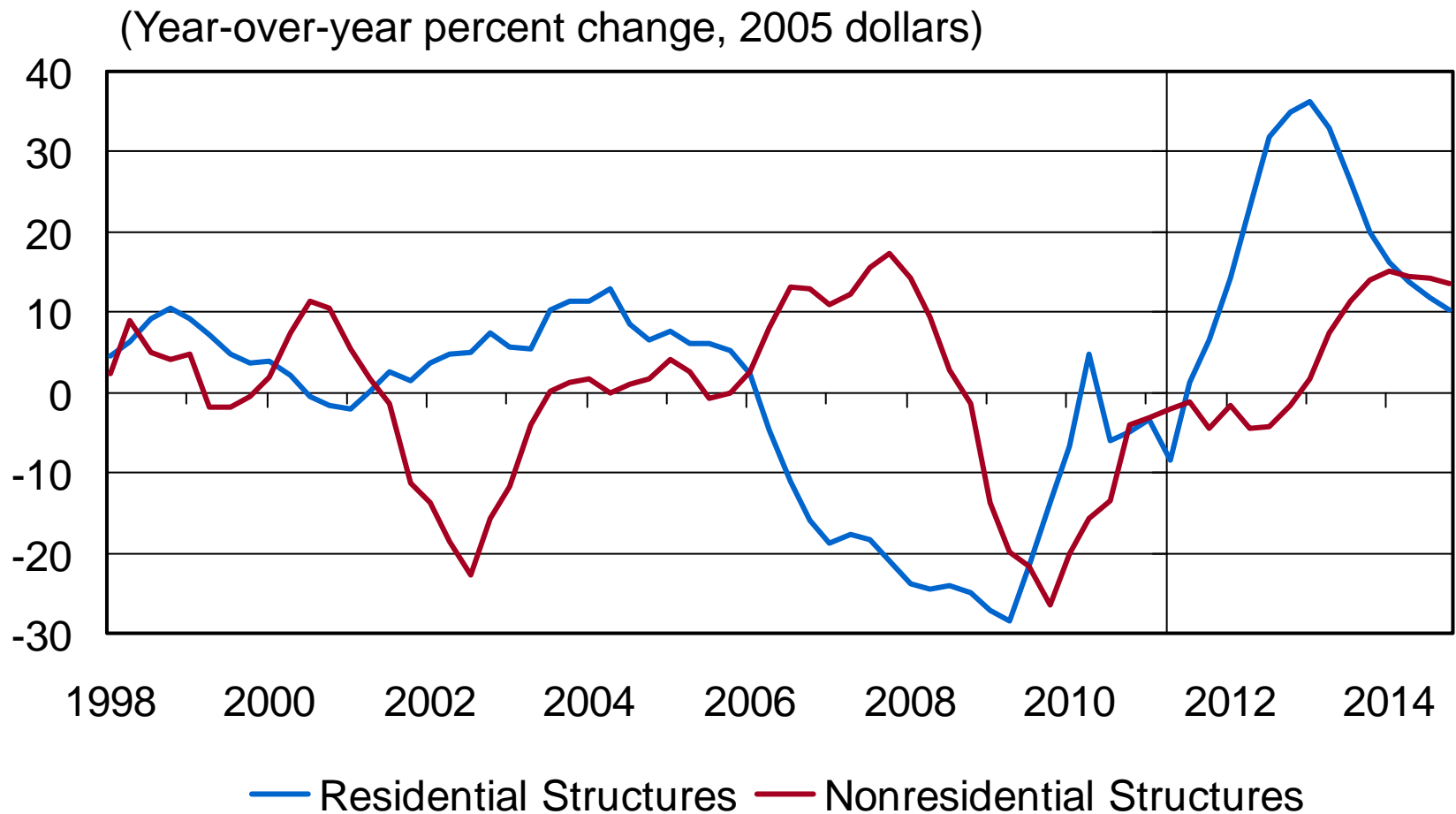
Residential construction will see the strongest growth in areas that were hardest hit by the crisis.

Looking Ahead: Residential Construction

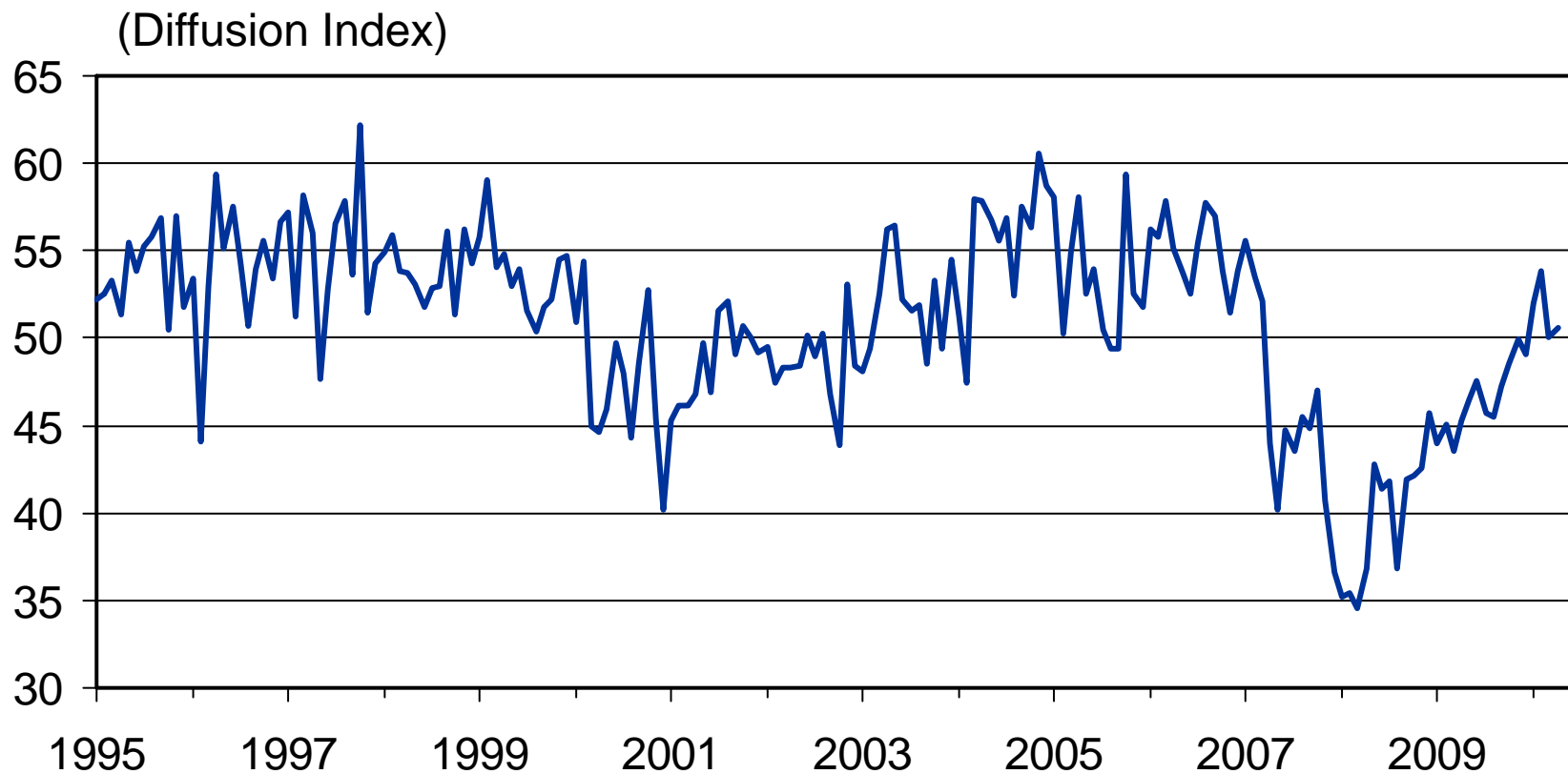
Fastest Growing Residential Markets	2010-2015 CAGR
Merced, CA	52.0%
Yuba City, CA	50.3%
Bend, OR	42.3%
Gainesville, GA	41.6%
Madera-Chowcilla, CA	40.8%
Palm Coast, FL	40.8%
Santa Rosa-Petaluma, CA	40.2%
Santa Cruz-Watsonville, CA	39.5%
Oxnard-Thousand Oaks-Ventura, CA	38.5%
Ocala, FL	38.1%

Slowest Growing Residential Markets	2010-2015 CAGR
Jacksonville, NC	-8.3%
Lake Charles, LA	-4.2%
Johnstown, PA	-3.5%
Shreveport-Bossier City, LA	-3.2%
Casper, WY	-2.3%
Monroe, LA	-1.9%
Alexandria, LA	-1.9%
Waterloo-Cedar Falls, IA	-1.8%
Pittsburgh, PA	-1.8%
Dubuque, IA	-1.7%

The US Home-Building Cycle Leads the Nonresidential Construction Cycle



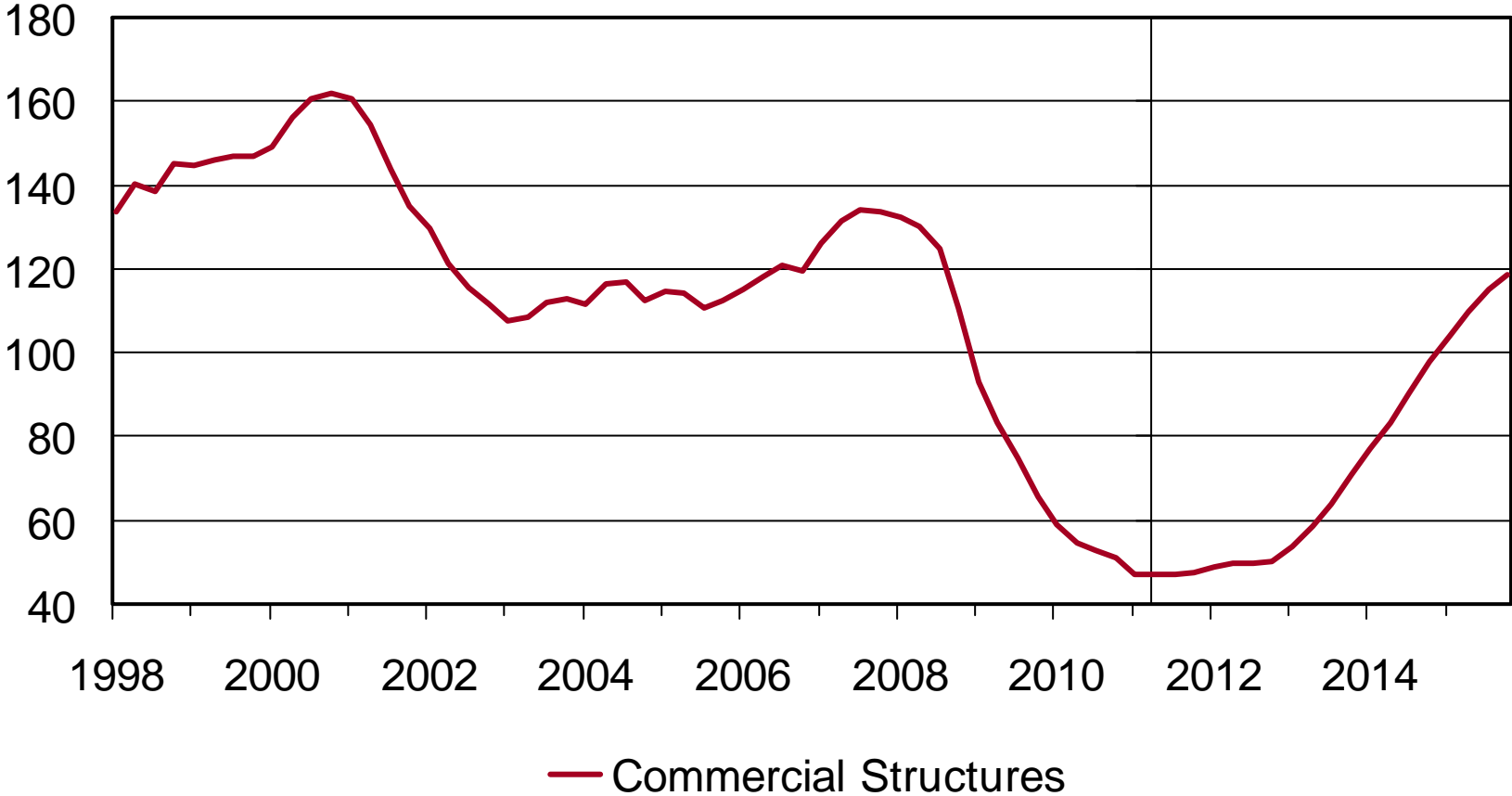
Nonresidential Construction: Architects' Billings Back Above Neutral



* Source: American Institute of Architects

Real Investment in Commercial Structures

(Billions of 2005 dollars)



US Construction Growth in Key Sectors

(Percent change, 2005 dollars)

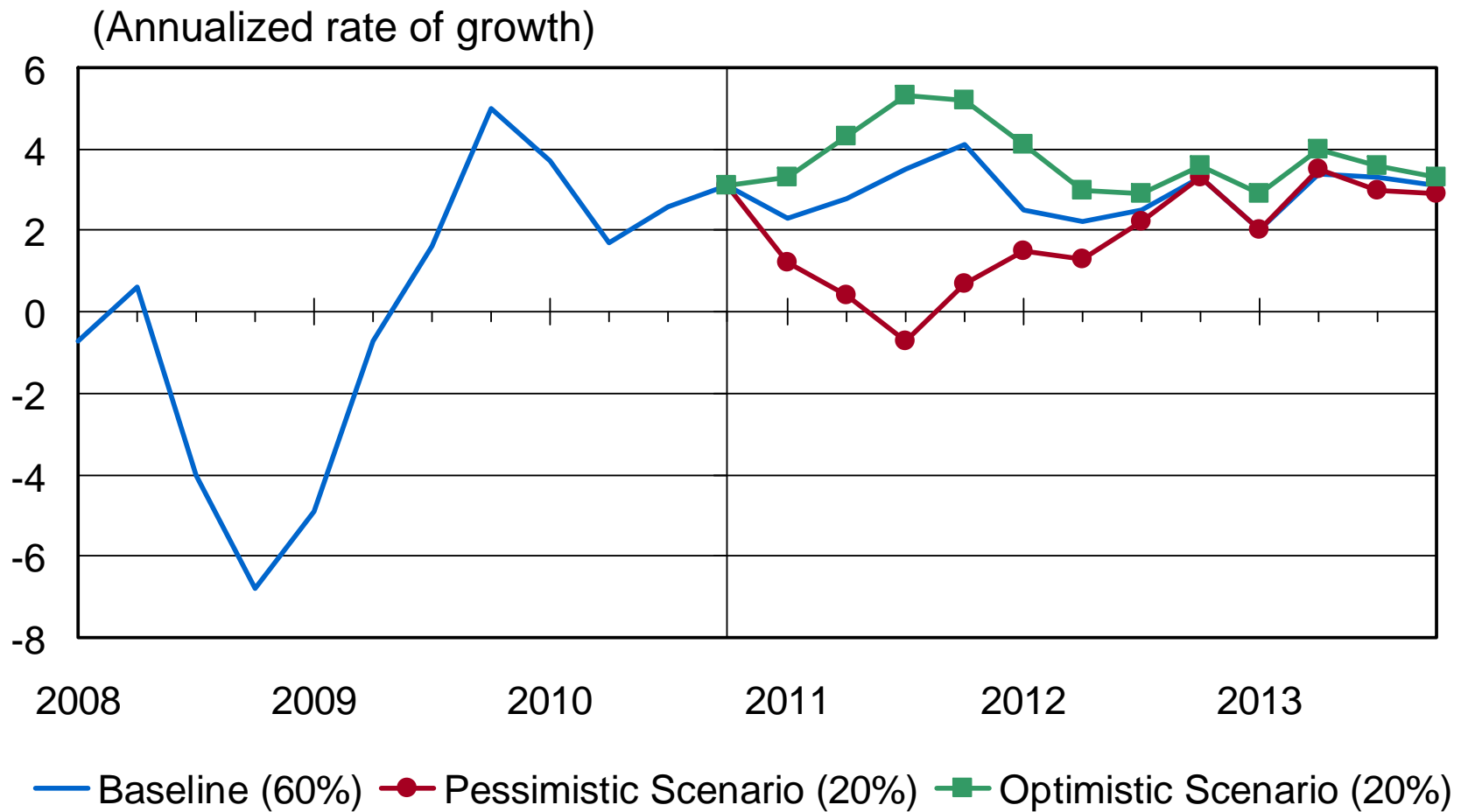
	2009	2010	2011	2012
Total Construction	-21.6	-9.1	-2.0	10.5
Residential	-23.2	-3.3	-1.2	26.2
Commercial	-36.4	-31.3	-13.5	5.3
Manufacturing	7.6	-32.2	-24.2	6.8
Mines & Wells	-35.5	26.5	21.1	-12.1
Health Care	0.3	-5.6	-13.0	4.6
Public Utilities	1.5	-9.1	-0.9	-5.7
Highways & Streets	-1.0	1.9	-0.8	-2.2
Public Education	-7.5	-17.1	-10.2	0.6

Upside and Downside Risks

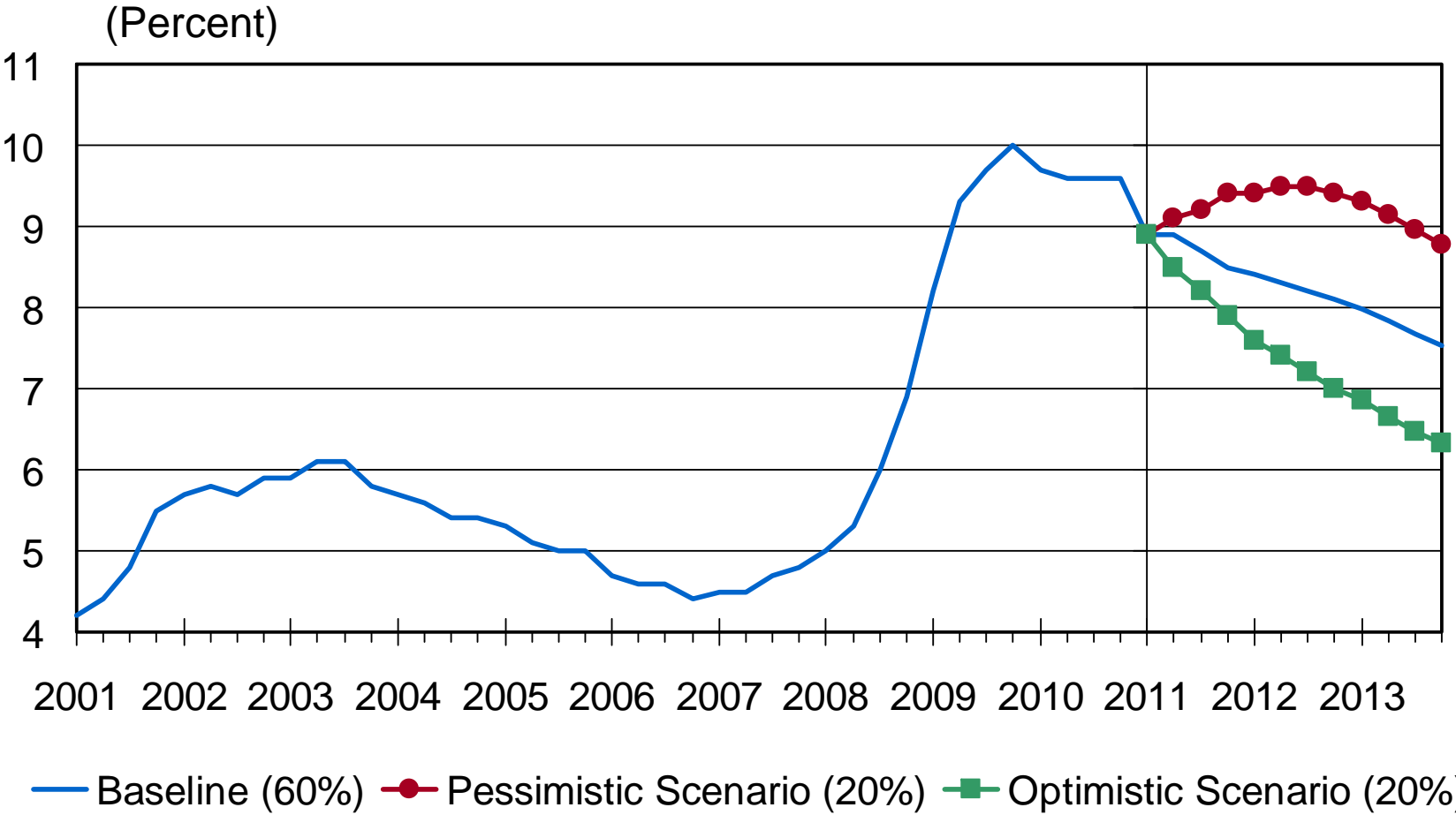


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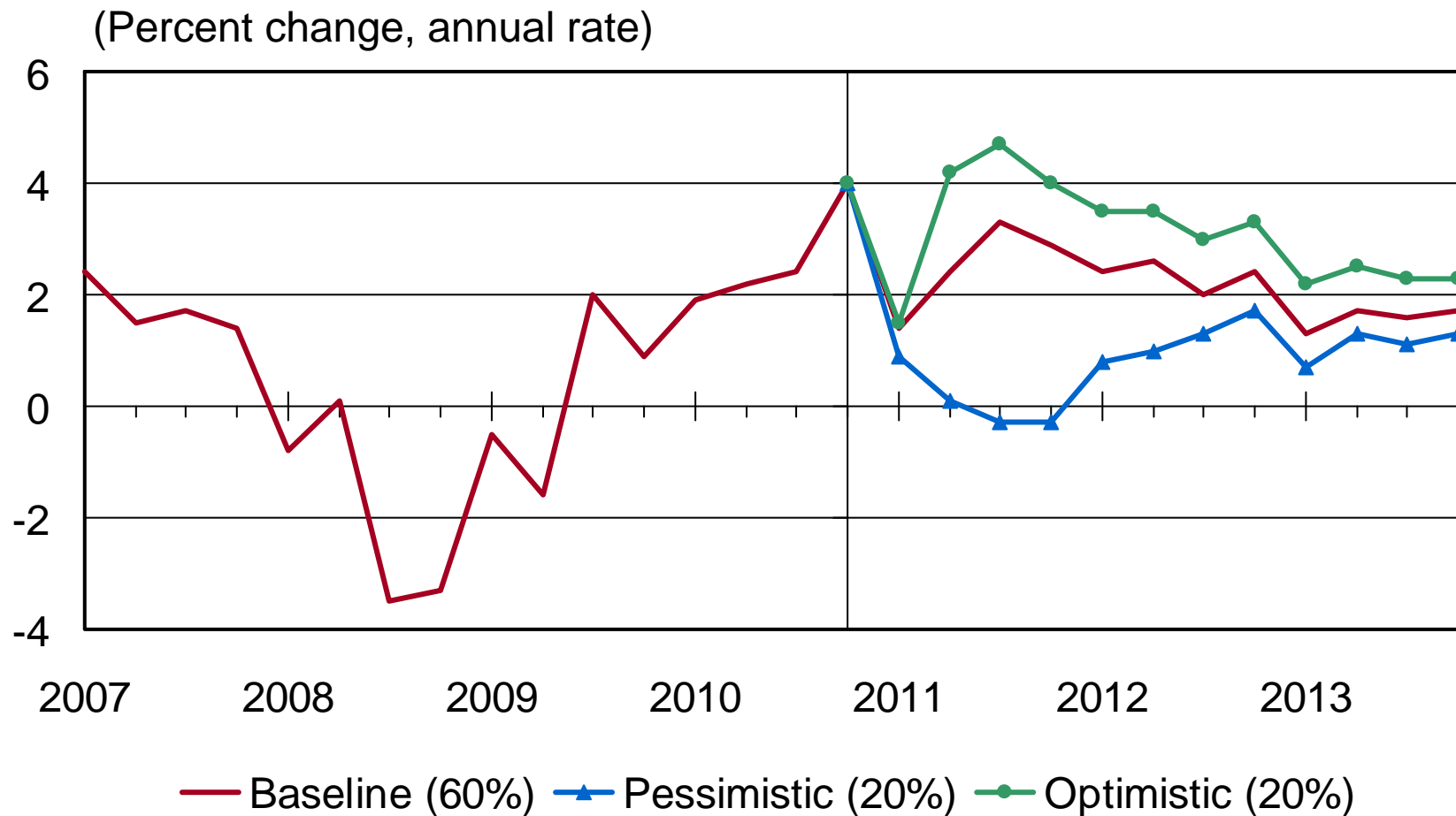
GDP Growth Outlook



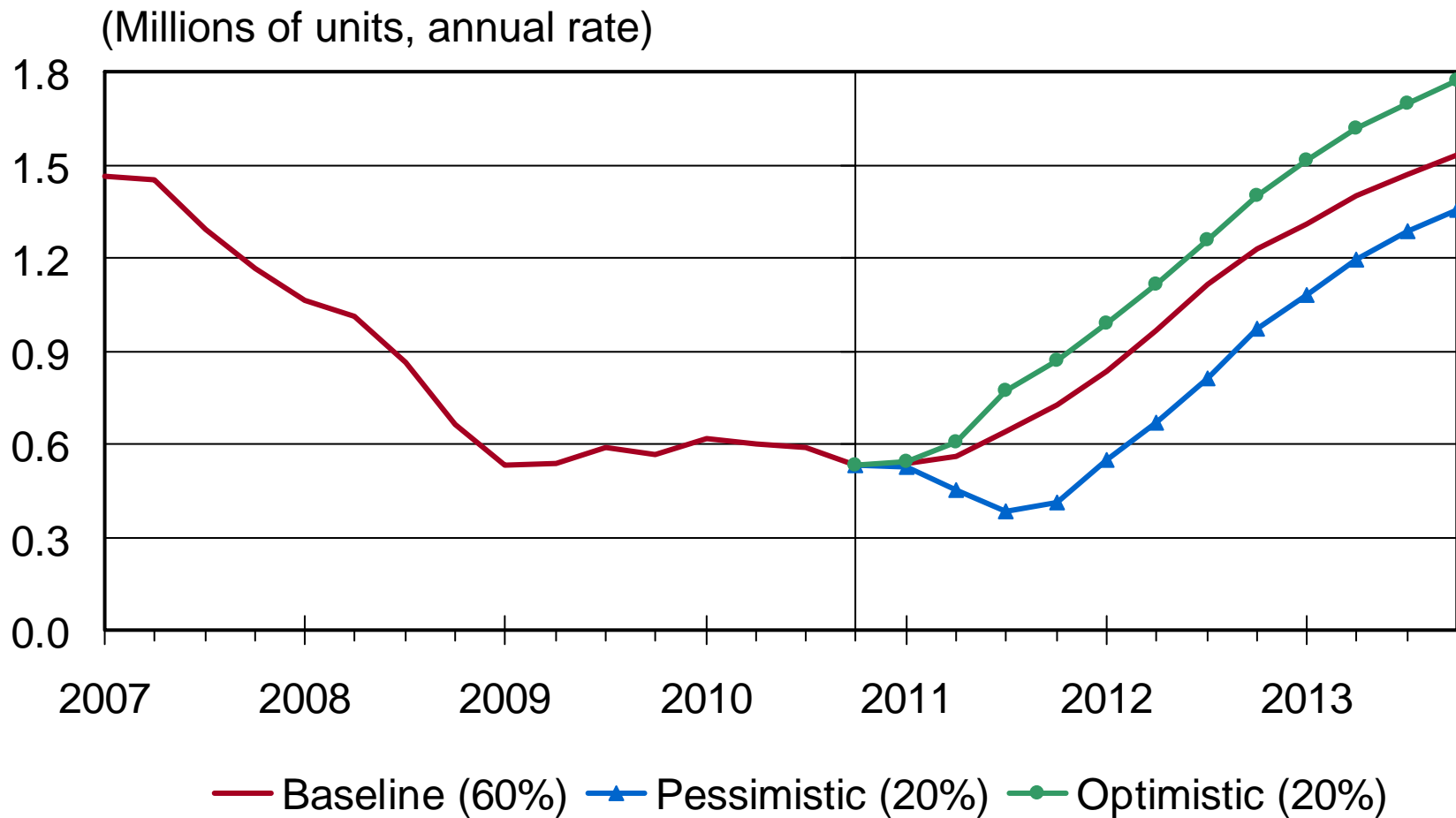
Unemployment Outlook



Real Consumer Spending Growth in Alternative Scenarios



Housing Starts in Alternative Scenarios



Bottom Line

- The economic recovery is on a self-sustaining course, barring a major oil market disruption.
- Financial restrictions are loosening, but the forecast will not see “easy money”.
- Federal Reserve policy statements suggest interest rates will begin to rise.
- Existing home sales are outpacing new home sales – a boon for improvements, if the new homeowner can afford it.
- The housing industry has hit bottom, but strong growth remains at least a year away.

Thank you!

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