

Outlook

by Daryl Delano



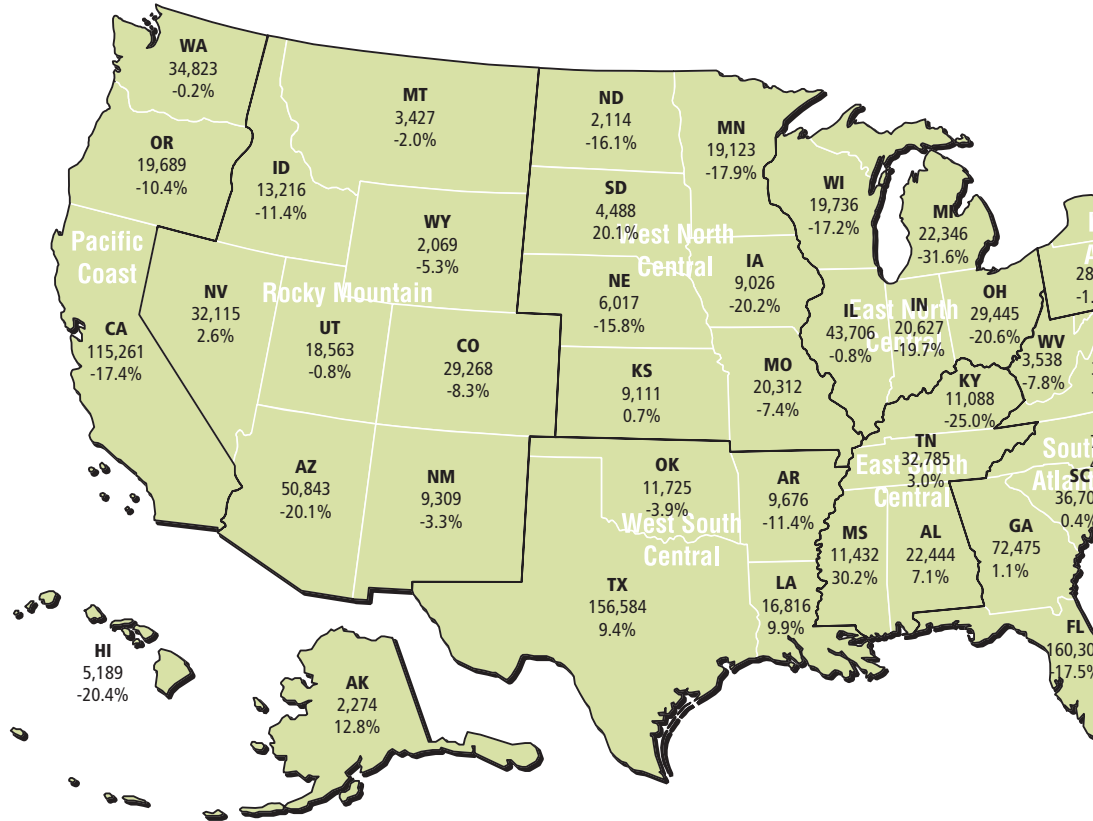
Daryl Delano has more than 25 years of professional experience in construction economics, labor economics, and macroeconomics. He has worked as a senior economist with Dodge Analytics, the research and consulting unit within McGraw-Hill Construction/Dodge.

State Building Permit Trends

Through the first eight months of 2006, there were 8.2-percent fewer permits issued nationwide for the future construction of new housing (units in apartment buildings, condo, and co-ops, as well as single-family homes) than during the first two-thirds of 2005. All of the broad quadrants of the country (Northeast, Midwest, South, and West) have recorded fewer permits this year than last, with the declines being especially severe in the Midwest (-15.0 percent, on a year-to-date measure of comparison) and West (-11.7 percent).

The housing decline that we're in the midst of at present is far from uniform, however. Some sub-regions (especially the South Central area) and several states have so far managed to "buck" the prevailing trend and have recorded some increase in total housing permits through the first two-thirds of a challenging 2006.

Building Permit Trends by State



Construction market slowdown confined mostly to housing

The long-anticipated "correction" in residential construction activity is proceeding pretty much as expected. Housing starts are declining at about a 10 percent annual rate; home sales are dropping at an even steeper rate; and average house prices are essentially flat (versus a year ago) nationwide while showing some signs of declining in markets that had become particularly unaffordable during the last couple years.

On the supply side, we're seeing clear evidence of a response to these dramatically

changing conditions in market demand. Building permits have fallen sharply compared to 2004 and 2005 levels and at a magnitude even larger than the drop in actual housing starts. The closely scrutinized index of builder confidence and expectations compiled monthly by the National Association of Home Builders has fallen like a rock — particularly since late spring — and now stands at its lowest level since the recession of 1991.

All of this is a sensible response by builders to continually rising levels of both

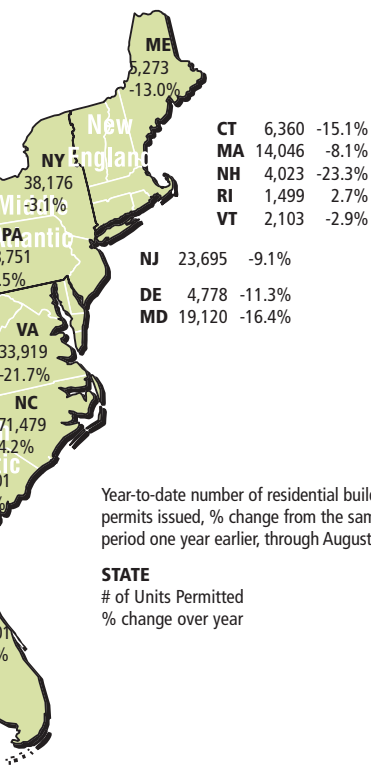
new and existing homes on the market; inventory levels have set all-time records in each of the last three months.

Fortunately, against this backdrop of a housing market that's growing inexorably weaker is a construction market that, in most other sectors, is doing very well. At the most "macro" of levels — components of gross domestic product (GDP) — we saw nationwide activity in residential construction markets decline at an annualized rate of 11.1 percent during the second quarter of 2006. At the same time, total

activity in non-residential markets soared by an annualized pace of 20.3 percent.

The U.S. Department of Commerce's monthly survey on the value of new construction completed shows that just about all market sectors, with the exception of housing and remodeling, have been "winners" during 2006. And many of these sectors are coming off good performances in 2005 as well. Highway construction spending has been growing at about a 16-percent annual rate this year versus 9.0 percent during 2005, while

*Year-to-date production totals for sand, gravel, and crushed stone through the first six months of each year, and over-year percentage change through the first half of 2006. Source: USGS



Year-to-date number of residential building permits issued, % change from the same period one year earlier, through August.

STATE
of Units Permitted
% change over year

spending for shopping malls (+55 percent) and hotels (+45 percent) has far-exceeded earlier expectations. Spending for health care facilities (+14 percent this year vs. 7.5-percent growth in 2005), airport terminals and runways (+15 percent vs. a 4.9-percent decline in 2005), and water supply facilities (+12 percent vs. a 5.9-percent increase in 2005) has also expanded at double-digit rates through the first two-thirds of this year.

About the only noteworthy exceptions to this overwhelmingly positive trend in

Crushed Stone*

Sold or Used by Producers in the U.S.

| By Region (in thousands of metric tons) | First-Half | First-Half | % |
|---|------------|------------|-------|
| | 2005 | 2006 | |
| New England | 17,360 | 15,700 | -9.6% |
| Mid Atlantic | 83,100 | 84,100 | 1.2% |
| East N. Cent. | 118,000 | 120,900 | 2.5% |
| West N. Cent. | 75,800 | 75,000 | -1.1% |
| S. Atlantic | 205,600 | 241,300 | 17.4% |
| East S. Cent. | 78,500 | 79,200 | 0.9% |
| West S. Cent. | 108,200 | 103,900 | -4.0% |
| Rocky Mtn. | 27,100 | 29,600 | 9.2% |
| Pacific Coast | 40,000 | 39,100 | -2.2% |
| Total U.S. | 773,000 | 771,000 | -0.3% |

Nationwide mining of crushed stone was little changed (measured in terms of total volume) between the first half of last year and the first six months of 2006. Offsetting a plunge in New England were solid production gains in the South Atlantic and Rocky Mountain states.

Sand & Gravel*

Sold or Used by Producers in the U.S.

| By Region (in thousands of metric tons) | First-Half | First-Half | % |
|---|------------|------------|--------|
| | 2005 | 2006 | |
| New England | 18,020 | 17,960 | -0.3% |
| Mid Atlantic | 31,250 | 32,100 | 2.7% |
| East N. Cent. | 95,700 | 95,900 | 0.2% |
| West N. Cent. | 48,760 | 49,800 | 2.1% |
| S. Atlantic | 45,700 | 47,200 | 3.3% |
| East S. Cent. | 21,280 | 19,170 | -10.0% |
| West S. Cent. | 65,500 | 66,900 | 2.1% |
| Rocky Mtn. | 123,700 | 129,800 | 4.9% |
| Pacific Coast | 99,200 | 100,500 | 1.3% |
| Total U.S. | 560,000 | 571,000 | 2.0% |

Mining of sand and gravel increased a modest 2.0 percent over the first six months of 2006 when compared with the volume of tonnage mined nationwide from January-to-June of 2005. Over-the-year changes in the various regions were relatively small.

2006 construction spending for non-residential buildings and infrastructure include freestanding (vs. mall/shop-ping center) general merchandise retail stores, convention centers, sports stadiums/arenas, and mini-storage facilities.

Consequently, although there's every reason to expect for the housing market correction to continue into the spring and early summer of next year, the opportunities for those diversified companies serving almost all other sectors of the construction market will remain plentiful.

Building Permit Trends by Metro Area

Year-to-date number of residential building permits issued, and % change from the same period one year earlier, through August.

Employment nationwide increased by 1.3 percent between July 2005 and July 2006, while the national unemployment rate (not seasonally adjusted) this July stood at 5.0 percent.

Over-the-year employment gains were 5 percent or better in five of the 96 distinct major metropolitan areas that we regularly track on this page. McAllen-Edinburg, Texas, was at the top of this list, recording over-the-year job growth of 7.2 percent, while at the same time having one of the nation's highest unemployment rates with 7.8 percent of its rapidly expanding labor force without a job during this July. The other metro markets that saw total jobs growth by more than 5 percent between July 2005 and July of this year were Las Vegas; Tucson, Ariz.; Boise, Idaho; and Phoenix. Employment was lower this July than during July 2005 in the New Orleans; Newark, N.J.; Detroit; Indianapolis; and Ann Arbor, Mich., metropolitan areas.

| | # of Units Permitted | % change over year | # of Units Permitted | % change over year |
|----------------------------------|----------------------|--------------------|---------------------------|--------------------|
| NEW ENGLAND | | | | |
| Boston, MA | 10,194 | -5.2% | Grand Rapids, MI | 1,954-27.4% |
| Worcester, MA | 1,499 | -9.5% | Akron, OH | 1,121-18.4% |
| Manchester-Nashua, NH | 804 | -26.1% | Cincinnati, OH | 7,187-17.5% |
| Portland, ME | 1,880 | -15.7% | Columbus, OH | 5,647-32.5% |
| Providence, RI | 2,305 | -9.9% | Cleveland, OH | 3,551-20.4% |
| Brdgprt-Stmfdr-Norwalk, CT | 1,217 | -15.9% | Toledo, OH | 1,238-33.3% |
| Hartford, CT | 2,075 | -9.8% | Dayton, OH | 1,282-36.5% |
| | | | Indianapolis, IN | 8,443-14.4% |
| | | | Fort Wayne, IN | 1,147-37.9% |
| | | | Evansville, IN | 1,825-37.3% |
| | | | Rockford, IL | 1,463 -7.2% |
| | | | Chicago, IL | 34,485 -0.1% |
| MID-ATLANTIC | | | | |
| NY-Newark-L. Island, NY-NJ41,618 | -4.3% | | NORTHERN PLAINS | |
| Poughkeepsie-Newburgh, NY | 921 | -15.0% | Minneapolis, MN | 11,364-20.2% |
| Albany-Schenectady-Troy, NY | 967 | -35.7% | Fargo, ND | 1,084-36.8% |
| Rochester, NY | 968 | -10.2% | Des Moines, IA | 3,423-15.3% |
| Buffalo-Niagara Falls, NY | 1,174 | 9.4% | Wichita, KS | 2,386 21.5% |
| Atlantic City, NJ | 1,417 | 3.9% | Omaha, NE | 3,571-21.6% |
| Philadelphia, PA | 12,526 | -7.8% | Lincoln, NE | 933 -8.6% |
| Pittsburgh, PA | 3,654 | -5.0% | St. Louis, MO | 8,739-19.6% |
| | | | Springfield, MO | 2,283-15.1% |
| | | | Kansas City, MO | 9,689 -6.6% |
| SOUTH ATLANTIC | | | | |
| Baltimore, MD | 5,912 | -22.6% | SOUTHERN PLAINS | |
| Washington, DC | 20,669 | -22.2% | Little Rock, AR | 2,669-20.5% |
| Richmond, VA | 6,027 | -17.1% | New Orleans, LA | 3,276-20.4% |
| Virginia Beach-Norfolk, VA | 5,184 | -29.5% | Baton Rouge, LA | 4,874 34.8% |
| Raleigh-Cary, NC | 12,464 | 23.5% | Oklahoma City, OK | 5,655-10.7% |
| Charlotte, NC | 16,970 | 15.1% | Tulsa, OK | 3,750 4.7% |
| Greensboro-High Point, NC | 4,748 | 11.0% | Austin, TX | 18,999 32.3% |
| Asheville, NC | 2,549 | -6.4% | Dallas-Ft. Worth, TX | 42,074 4.0% |
| Wilmington, NC | 5,300 | -21.9% | Houston, TX | 50,688 15.9% |
| Charleston, SC | 6,600 | -6.4% | Killeen-Temple, TX | 2,705 29.5% |
| Atlanta, GA | 51,252 | 4.2% | San Antonio, TX | 14,402 -8.5% |
| Fort Walton Beach-Destin, FL | 998 | -44.2% | El Paso, TX | 2,603-23.5% |
| Daytona Beach, FL | 2,983 | -38.0% | Lubbock, TX | 881-28.2% |
| Jacksonville, FL | 13,466 | -24.8% | | |
| Orlando, FL | 22,964 | -5.9% | MOUNTAIN | |
| Naples-Marco Island, FL | 3,487 | -18.5% | Denver, CO | 13,345 -5.7% |
| Cape Coral-Fort Myers, FL | 15,405 | -21.2% | Colorado Springs, CO | 3,651-27.9% |
| Port St. Lucie-Fort Pierce, FL | 4,754 | -38.1% | Fort Collins-Loveland, CO | 1,638-19.2% |
| Sarasota, FL | 6,664 | -32.6% | Boise, ID | 6,693-16.8% |
| Ocala, FL | 5,675 | 18.9% | Salt Lake City, UT | 5,343 -7.9% |
| Pensacola, FL | 1,717 | -33.5% | Albuquerque, NM | 4,333-11.2% |
| Tallahassee, FL | 2,909 | 11.4% | Las Vegas, NV | 27,329 6.0% |
| Panama City, FL | 2,807 | -34.1% | Reno, NV | 3,400-14.4% |
| Tampa-St. Petersburg, FL | 17,932 | -26.8% | Phoenix, AZ | 33,635-22.4% |
| Miami-Ft. Lauderdale, FL | 25,827 | -15.1% | Tucson, AZ | 6,487-20.5% |
| | | | | |
| SOUTH CENTRAL | | | | |
| Nashville, TN | 11,170 | -8.0% | PACIFIC | |
| Memphis, TN | 7,519 | 4.5% | Anchorage, AK | 1,378 7.2% |
| Knoxville, TN | 3,400 | 10.5% | Seattle-Tacoma, WA | 18,144 6.5% |
| Louisville, KY | 4,149 | -29.7% | Portland, OR | 11,229 -3.0% |
| Lexington-Fayette, KY | 2,700 | -22.7% | Honolulu, HI | 1,622-45.5% |
| Birmingham, AL | 5,487 | 3.7% | Fresno, CA | 2,963-18.5% |
| Mobile, AL | 1,691 | 26.0% | Sacramento, CA | 8,410-37.1% |
| Jackson, MS | 2,395 | 7.4% | Modesto, CA | 1,925-32.4% |
| | | | Stockton, CA | 2,583-39.8% |
| NORTH CENTRAL | | | LA-Orange County, CA | 22,725 2.5% |
| Milwaukee, WI | 2,851 | -27.6% | San Diego, CA | 6,892-37.8% |
| Madison, WI | 2,616 | -16.8% | San Francisco-Oakland, CA | 9,940 11.9% |
| Green Bay, WI | 1,306 | -13.5% | | |
| Ann Arbor, MI | 415 | -45.2% | | |
| Detroit, MI | 6,823 | -41.8% | | |

Unless otherwise indicated, historical data courtesy of U.S. Dept. of Commerce or the U.S. Census Bureau. Forecast data: Daryl Delano