

June 30, 2008

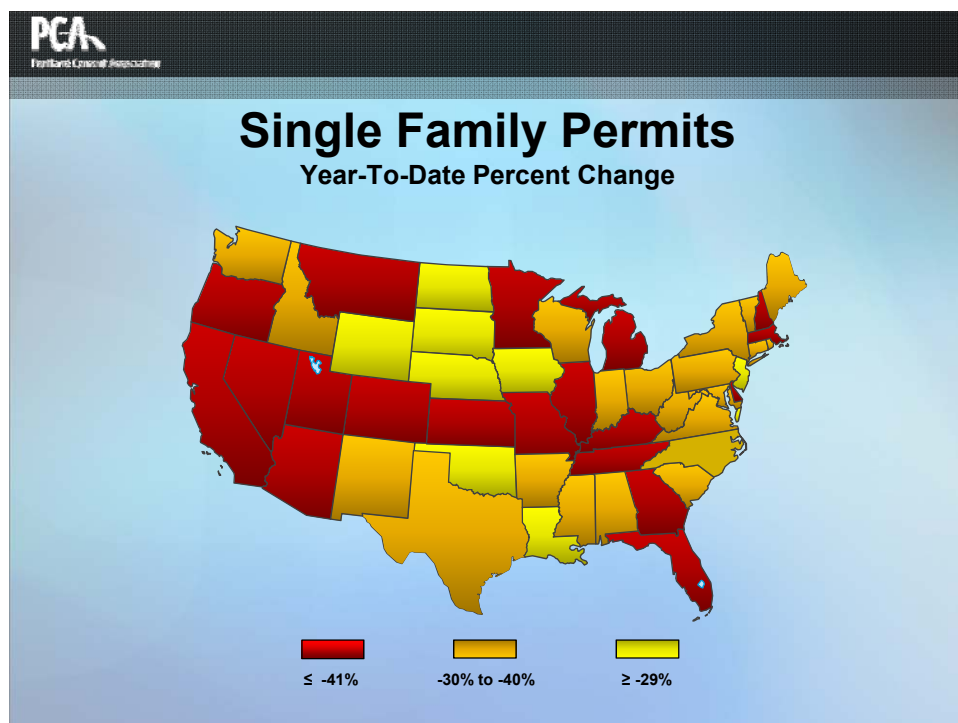
Housing Holding to PCA's Dismal Outlook

Overview

Year-to-date single family housing starts are down 40% from depressed 2007 levels. Inventories remain elevated reflecting a 10.5 month supply. Despite large home price declines and improved affordability, sales remain sluggish and offer little hope that the inventory glut will be worked off anytime soon. The economic environment remains weak – reinforcing the concept of a drawn out recovery in housing starts.

Despite upward revisions to first quarter real GDP growth, the economy remains weak. Since the first of the year, 325,000 jobs have been shed. In the context of high energy prices, consumer spending is expected to weaken – adding to job losses through the remainder of the year. The combination of weak employment fundamentals and tight credit conditions will work against a significant recovery in the pace of home sales. Keep in mind, the weaker the employment picture – the greater burden on home price declines is required to stimulate sales.

Lacking a significant recovery in the pace of home sales, inventories will remain elevated. Home builders typically do not accelerate starts activity until inventory reaches at least five months supply. Based on five months supply desired inventory, excess inventory is estimated at 2.1 million homes. Continued cutbacks in starts and marginal gains in sales are expected to be more than offset by increases in sub-prime foreclosures added to the market during 2008 and early 2009. As a result, inventory levels are expected to remain in excess of 10 month's supply during the remainder of the year. Desired month's supply is not expected to be reached until the second half of 2010.



The toxic mix of weak economic conditions, tight credit conditions, tepid sales and high inventories results in PCA's single family starts projection of a 36% decline for 2008 followed by an additional 1% decline in 2009. Many expect a recovery in housing to begin sooner. It is important to distinguish what "housing" means. A tepid housing **sales** recovery is expected by PCA by late 2008. Due to high inventories, a meaningful housing **starts** recovery is not expected until 2010. For the cement industry, starts activity is the critical metric to follow. The attached tables provide PCA's monthly, quarterly and annual projections.

The residential sector will act as a significant drag on cement consumption during 2008. Cement consumption declined by 11.5 million metric tons in 2007. Three quarters of that decline was attributed to the decline in single family housing starts (8.9 million metric tons). PCA expects cement consumption will decline by 12.1 million metric tons during 2008. Roughly half of that decline is attributed to continued weakness in single family construction (6.2 million metric tons). While the adverse impact of residential woes on cement consumption is expected to dissipate in 2009, the sector is not expected to become a significant contributor to growth until 2011.

National projections do not necessarily reflect the realities of the housing market at the regional level. According to PCA's projections, an earnest starts recovery does not begin until 2010. The onset of recovery will vary among regions and states. States that fully participated in the housing boom were typically characterized by a large presence of speculators. When home prices stalled, speculators retreated and building continued – generating huge inventory overhangs. In many of these states sales were heavily dependent on sub-prime/exotic mortgages. Defaults and foreclosures in these states are disproportionately high – adding to already high inventories. California, Arizona, Nevada and Florida are expected to be among the last to begin housing starts recoveries.



Portland Cement Association

THE Monitor

Flash Report

Breaking Analysis of the Economy, Construction and Cement Industries

Contact: > Ed Sullivan, Chief Economist 847.972.9006 > esullivan@cement.org

Tables

Residential Pulse

- United States: Single Family

	2008 January	2008 February	2008 March	2008 April	2008 May	2008 June	2008 July	2008 August	2008 September	2008 October	2008 November	2008 December	12 Month Average	3 Month Average	2008 Forecast	
Sales Activity																
Total Single Family	4,947	5,042	4,861	4,865	4,922	4,900	4,925	4,935	4,975	5,025	5,075	5,125	5,168	4,926	4,883	4,966
- Percent Change, Y-O-Y	-23.4%	-23.8%	-21.0%	-19.9%	-18.2%	-15.6%	-15.2%	-10.5%	-3.3%	-2.5%	0.7%	4.2%	-19.7%	-21.9%	-19.7%	-12.2%
- Percent Change, M-O-M	0.5%	1.9%	-3.6%	0.1%	1.2%	-0.4%	0.5%	0.2%	0.8%	1.0%	1.0%	1.0%	---	---	---	---
Existing Single Family	4,350	4,470	4,360	4,340	4,410	4,390	4,405	4,405	4,430	4,465	4,500	4,535	4,531	4,375	4,370	4,422
- Percent Change, Y-O-Y	-22.2%	-22.9%	-18.2%	-16.1%	-14.5%	-12.4%	-12.1%	-8.4%	-0.4%	0.8%	2.0%	5.0%	-17.5%	-19.4%	-16.3%	-9.8%
- Percent Change, M-O-M	0.7%	2.8%	-2.5%	-0.5%	1.6%	-0.5%	0.3%	0.0%	0.6%	0.8%	0.8%	0.8%	---	---	---	---
New Single Family	597	572	501	525	512	510	520	530	545	560	575	590	637	551	513	545
- Percent Change, Y-O-Y	-31.5%	-30.2%	-39.1%	-42.1%	-40.3%	-35.7%	-34.7%	-24.5%	-21.5%	-8.6%	-8.6%	-1.7%	-32.4%	-37.3%	-40.5%	-28.2%
- Percent Change, M-O-M	-0.5%	-4.2%	-12.4%	4.8%	-2.5%	-0.4%	2.0%	1.9%	2.8%	2.8%	2.7%	2.6%	---	---	---	---
Home Prices																
Total Single Family	\$208,275	\$206,594	\$206,115	\$205,066	\$208,114	\$203,889	\$209,108	\$207,280	\$199,078	\$196,937	\$202,973	\$198,557	\$211,925	\$206,992	\$206,432	\$204,332
- Percent Change, Y-O-Y	-6.4%	-8.0%	-9.6%	-8.2%	-7.2%	-8.2%	-6.4%	-6.2%	-6.5%	-5.3%	-5.1%	-4.4%	-5.3%	-7.8%	-8.4%	-6.8%
- Percent Change, M-O-M	0.2%	-0.8%	-0.2%	-0.5%	1.5%	-2.0%	2.6%	-0.9%	-4.0%	-1.1%	3.1%	-2.2%	---	---	---	---
Existing Single Family	\$205,462	\$202,648	\$203,587	\$201,350	\$205,057	\$201,403	\$205,769	\$205,495	\$194,934	\$194,316	\$198,110	\$195,884	\$208,342	\$203,870	\$203,332	\$201,168
- Percent Change, Y-O-Y	-5.8%	-8.8%	-8.6%	-9.0%	-6.9%	-8.0%	-6.0%	-6.0%	-6.0%	-5.0%	-5.0%	-4.5%	-5.4%	-7.7%	-8.2%	-6.6%
- Percent Change, M-O-M	0.2%	-1.4%	0.5%	-1.1%	1.8%	-1.8%	2.2%	-0.1%	-5.1%	-0.3%	2.0%	-1.1%	---	---	---	---
New Single Family	\$228,767	\$237,432	\$228,113	\$235,785	\$234,437	\$225,291	\$237,388	\$222,111	\$232,766	\$217,833	\$241,036	\$219,096	\$237,554	\$231,929	\$232,778	\$230,004
- Percent Change, Y-O-Y	-8.8%	-2.1%	-13.3%	0.4%	-5.7%	-7.0%	-6.0%	-6.0%	-6.0%	-5.0%	-4.0%	-3.5%	-3.1%	-6.2%	-6.5%	-5.6%
- Percent Change, M-O-M	0.8%	3.8%	-3.9%	3.4%	-0.6%	-3.9%	5.4%	-6.4%	4.8%	-6.4%	10.7%	-9.1%	---	---	---	---
Mortgage Rates																
30 Year Fixed Conventional	5.76	5.92	5.97	5.92	6.04	6.00	6.00	6.00	6.00	6.20	6.20	6.20	6.22	5.95	5.98	6.02
15 Year Fixed	5.29	5.44	5.42	5.47	5.60	5.70	5.70	5.70	5.70	5.90	5.90	5.90	5.82	5.49	5.50	5.64
1 Year ARM	5.23	5.03	5.12	5.19	5.24	5.40	5.40	5.40	5.40	5.60	5.60	5.60	5.43	5.22	5.18	5.35
Monthly Payments																
Fixed:																
Total	\$1,209	\$1,220	\$1,224	\$1,212	\$1,246	\$1,218	\$1,249	\$1,238	\$1,189	\$1,201	\$1,238	\$1,211	\$1,294	\$1,227	\$1,227	\$1,221
- Percent Change, Y-O-Y	-11.1%	-11.9%	-11.7%	-10.8%	-9.4%	-14.3%	-12.9%	-11.5%	-10.0%	-7.0%	-5.1%	-3.3%	-6.6%	-10.4%	-10.6%	-10.0%
- Percent Change, M-O-M	-3.5%	0.9%	0.3%	-1.0%	2.9%	-2.3%	2.5%	-0.9%	-4.0%	1.1%	3.0%	-2.2%	---	---	---	---
Adjustable:																
Total	\$1,148	\$1,113	\$1,122	\$1,125	\$1,148	\$1,145	\$1,174	\$1,164	\$1,118	\$1,131	\$1,165	\$1,140	\$1,195	\$1,139	\$1,131	\$1,141
- Percent Change, Y-O-Y	-8.8%	-12.9%	-12.8%	-10.8%	-10.0%	-11.0%	-9.6%	-8.9%	-9.1%	-6.2%	-3.8%	-3.4%	-6.5%	-10.4%	-11.2%	-8.9%
- Percent Change, M-O-M	-2.7%	-3.0%	0.8%	0.3%	2.1%	-0.3%	2.6%	-0.9%	-4.0%	1.1%	3.1%	-2.2%	---	---	---	---
Inventory																
Number of Homes on Market	4,378	4,110	4,147	4,283	4,124	4,386	4,405	4,403	4,377	4,350	4,353	4,348	4,172	4,209	4,184	4,305
- Change, Year Ago	571	196	223	224	-35	295	242	316	198	155	256	137	346	279	137	207
- Month's Supply of Homes on Market	10.0	9.3	9.8	10.7	10.5	10.8	10.8	10.7	10.6	10.4	10.3	10.2	9.7	9.9	10.3	10.3
Starts Activity																
Total Single Family	750	722	711	681	674	650	625	625	625	625	625	625	843	720	689	662
- Percent Change, Y-O-Y	-32.2%	-39.2%	-40.6%	-43.2%	-41.2%	-42.8%	-40.8%	-35.4%	-33.2%	-29.3%	-23.4%	-19.8%	-33.5%	-39.1%	-41.6%	-35.6%

Forecast

Residential Pulse

- United States: Single Family

	2008	2008	2008	2008	2009	2009	2009	2009	2009	2006	2007	2008	2009	2010
	I	II	III	IV	I	II	III	IV						
Sales Activity														
Total Single Family	4,950	4,896	4,945	5,075	5,225	5,392	5,725	6,142	6,753	5,659	4,966	5,529	6,445	6,445
- Percent Change, Y-O-Y	-22.8%	-17.9%	-9.6%	0.8%	5.6%	10.1%	15.8%	21.0%	-9.5%	-16.2%	-12.2%	11.3%	16.6%	16.6%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Existing Single Family	4,393	4,380	4,413	4,500	4,635	4,800	5,040	5,320	5,703	4,900	4,422	4,949	5,547	5,547
- Percent Change, Y-O-Y	-21.1%	-14.3%	-7.0%	2.6%	5.5%	9.6%	14.2%	18.2%	-7.7%	-14.1%	-9.8%	11.9%	12.1%	12.1%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
New Single Family	557	516	532	575	590	592	685	822	1,049	759	545	672	930	930
- Percent Change, Y-O-Y	-33.6%	-39.4%	-26.9%	-10.9%	6.0%	14.7%	28.8%	42.9%	-18.0%	-27.7%	-28.2%	23.4%	38.4%	38.4%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Home Prices														
Total Single Family	\$206,995	\$205,690	\$205,155	\$199,489	\$202,995	\$207,181	\$209,147	\$205,546	\$225,192	\$219,031	\$204,332	\$206,217	\$213,158	\$213,158
- Percent Change, Y-O-Y	-8.0%	-7.9%	-6.3%	-5.0%	-1.9%	0.7%	1.9%	3.0%	2.4%	-2.7%	-6.8%	0.9%	3.4%	3.4%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Existing Single Family	\$203,899	\$202,604	\$202,066	\$196,103	\$199,809	\$203,958	\$205,422	\$201,332	\$221,912	\$215,309	\$201,168	\$202,630	\$208,709	\$208,709
- Percent Change, Y-O-Y	-7.7%	-8.0%	-6.0%	-4.8%	-2.0%	0.7%	1.7%	2.7%	2.3%	-2.8%	-6.6%	0.8%	3.0%	3.0%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
New Single Family	\$231,437	\$231,837	\$230,755	\$225,988	\$227,962	\$233,370	\$236,524	\$232,768	\$243,075	\$243,206	\$230,004	\$232,656	\$239,636	\$239,636
- Percent Change, Y-O-Y	-8.1%	-4.1%	-6.0%	-4.2%	-1.5%	0.7%	2.5%	3.0%	3.8%	0.1%	-5.6%	1.2%	3.0%	3.0%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Mortgage Rates														
30 Year Fixed Conventional	5.88	5.99	6.00	6.20	6.27	6.43	6.51	6.67	6.41	6.35	6.02	6.47	6.70	6.70
15 Year Fixed	5.38	5.59	5.70	5.90	5.97	6.13	6.21	6.37	6.06	6.03	5.64	6.17	6.40	6.40
1 Year ARM	5.13	5.28	5.40	5.60	5.67	5.83	5.91	6.07	5.53	5.57	5.35	5.87	6.10	6.10
Monthly Payments														
Fixed:														
Total	\$1,217	\$1,225	\$1,225	\$1,217	\$1,247	\$1,296	\$1,318	\$1,316	1,402	1,357	1,221	1,294	\$1,369	\$1,369
- Percent Change, Y-O-Y	-11.5%	-11.5%	-11.5%	-5.1%	2.4%	5.7%	7.6%	8.1%	*****	-3.2%	-10.0%	6.0%	5.8%	5.8%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Adjustable:														
Total	\$1,127	\$1,139	\$1,152	\$1,145	\$1,174	\$1,220	\$1,242	\$1,241	1,283	1,254	1,141	1,219	\$1,292	\$1,292
- Percent Change, Y-O-Y	-11.5%	-10.6%	-9.2%	-4.5%	4.1%	7.1%	7.8%	8.4%	15.6%	-2.5%	-8.9%	6.9%	6.0%	6.0%
- Percent Change, M-O-M	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Inventory														
Number of Homes on Market	4,212	4,264	4,395	4,350	4,454	4,618	4,225	3,615	3,565	4,098	4,305	4,228	3,107	3,107
- Change, Year Ago	330	161	252	183	243	354	-170	-735	533	533	207	-77	-1,122	-1,122
- Month's Supply of Homes on Market	9.7	10.6	10.7	10.3	10.2	10.3	8.9	7.1	6.4	8.8	10.3	9.1	5.8	5.8
Starts Activity														
Total Single Family	728	668	625	625	625	625	650	717	1,474	1,027	662	654	902	902
- Percent Change, Y-O-Y	-37.3%	-42.4%	-36.5%	-24.2%	-14.1%	-6.5%	4.0%	14.7%	-14.3%	-30.3%	-35.6%	-1.1%	37.9%	37.9%