

October 22, 2008

Regional Outlook

Overview

Downside risks exist in PCA's latest state forecast. The recent turmoil in the financial markets is expected to have a greater than anticipated adverse impact economic activity. No state is immune, financial tightness does not observe state borders, and even states that avoided the housing bubble will be adversely affected.

Rising foreclosures continue to fuel already high home inventories throughout much of the U.S. Tight credit, increased lending standards, and weak labor markets are hampering demand. A recovery of new home construction is not expected to begin materializing until 2010 with lagged recovery in regions such as the Southwest and Florida due to the excessively high inventories.

The nonresidential sector is expected to feel the brunt of the current financial troubles and contains the most downside risk in the forecast. Many nonresidential projects are heavily financed and leveraged. As credit conditions remain tight, these developments may be canceled or delayed. Even after the credit markets stabilize, this sector will be slow to recover. The planning and financial sourcing processes for commercial development have a long timeline. Even after financial liquidity is restored, it could take more than a year to see noticeable improvement in nonresidential construction. Even then, vacancy rates for retail, industrial, and office buildings are expected to be elevated into 2010 due to increased job losses as a result of the recent deterioration of credit markets.

A severe state fiscal crisis that is expected to rival that seen in 2001-02 is brewing. Stressed consumers will negatively affect retail tax revenues. Corporate income taxes will decline as capital gains are eroded by the weakened economic environment. Personal income tax receipts will also be lessened as job losses are expected to continue well into 2009. In addition, states and municipalities are expected to face higher borrowing cost through the issuance of new bonds. With lowered credit ratings, as well as lack of investor appetite for muni-bonds in light of the credit market uncertainty, issuers have been forced to pay higher yields on state and local debt. The fiscal recovery will be slow, and states such as Arizona, California, and Nevada, with the highest proportion of deficits relative to total expenditures, are expected to be the last states to recover from the fiscal crisis.

Economic

Twenty-two states are estimated to be in recession while 29 states have reported net job loss through August. Arizona, California, Nevada, and Florida are feeling the effects of the housing downturn spilling over into their broader economies. These states, which saw job loss confined to the construction and manufacturing sectors in 2006 and 2007, are now experiencing declines in the service sector as well — symptomatic of a recession. The manufacturing states of the East North Central region continue to see accelerating declines in manufacturing employment with weakness now extending south into the East South Central region.

New England and Mid Atlantic states have remained fairly resilient to the economic slowdown, but PCA expects this region to come under pressure in late 2008/2009 as layoffs in the financial sector continue to

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	2007	2008	2009	2010	2011	2012	2013	2014
Gross State Product & Income								
Gross State Product, Nominal (\$ Millions)	\$129,911							
- Annual Growth Rate, %	7.3%							
Gross State Product, Real (\$ Millions)	\$108,126							
- Annual Growth Rate, %	3.4%							
Disposable Income Real (\$ Millions)	\$106,504							
- Annual Growth Rate, %	6.0%							
Demographic Profile								
Total Population (000)	2,988							
- Change in Population,	15							
- Annual Change, %	0.5%							
Target 1st Time Home Buyers (000)	360							
- Annual Change, %	-0.1%							
- Share of Total Population	12.1%							
Target Apartment Population (000)	428							
- Annual Change, %	-0.1%							
- Share of Total Population	14.3%							
School Age Population (000)	574							
- Annual Change, %	0.0%							
- Share of Total Population	19.2%							
Retirement Age Population (000)	439							
- Annual Change, %	0.8%							
- Share of Total Population	14.7%							
Households (000)	1,178							
- Annual Change, %	0.7%							
- Persons Per Household	2.5							
Average Workers Per Household	1.41							
Labor Markets								
Labor Force (000)	1,664							
- Labor Force to Population Ratio	55.7%							
Employment Non-Agricultural (000)	1,602							
- Unemployment Rate, %	3.7%							
Retail Employment (000)	179							
- Share Total Employment	11.2%							
Manufacturing Employment (000)	230							
- Share of Total Employment	14.3%							
Office Employment (000)	461							
- Share of Total Employment	28.8%							
Office Employment Components:								
- Finance	103							
- Information	34							
- Professional & Business Services	121							
- Health & Education Services	203							

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Residential Construction

	2007	2008	2009	2010	2011	2012	2013	2014
Residential Total								
Total Housing Permits, Units	10,733							
- Annual Change, %	-16.4%							
Single Family Activity								
Single Family to Multi Family Ratio	3.57							
Single Family Permits	8,382							
- Annual Change, %	-16.4%							
Average Square Feet Per New SF	2,150							
- Annual Change, %	7.7%							
Single Family Square Footage	18,018,182							
- Annual Change, %	-10.0%							
Key Single Family Factors								
- Median Home Price (000)	\$123							
- Median Home Appreciation Rate, %	1.3%							
- Average Monthly Mortgage Payment, \$	\$763							
- Monthly Payment to Monthly Income, %	14.0%							
- Affordability Index, 1996=100	82							
Multi Family Activity								
Multi Family Permits	2,351							
- Annual Change, %	-16.3%							
Average Square Feet Per New MF	1,312							
- Annual Change, %	0.0%							
Multi Family Square Footage	3,084,067							
- Annual Change, %	-16.3%							
Key Multi Family Factors								
Mortgage to Rent Ratio	1.19							
Average Metro Fair Market Rent	\$640							
- Annual Change, %	3.0%							
Fair Market Rent Components, (\$):								
Ames	682							
Des Moines-West Des Moines	689							
Dubuque	542							
Davenport-Moline-Rock Island	592							
Sioux City	615							
Residential Improvements								
Housing Stock (000 units)	1,332							
- Annual Change, %	0.8%							
- Persons Per Housing Stock (Crowding)	2.2							
- Housing Stock Per Household	1.1							

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Nonresidential Construction

	2007	2008	2009	2010	2011	2012	2013	2014
Industrial Activity								
Industrial CIP Construction Index, 2000=100	187							
- Annual Change, %	115.1%							
Industrial Vacancy Rate Components								
Office Activity								
Office CIP Construction Index, 2000=100	128							
- Annual Change, %	0.9%							
Office Employment Index, 2000=100	109.9							
Metro Office Vacancy Rate Component								
Commercial Activity								
Commercial CIP Construction Index, 2000=100	103							
- Annual Change, %	35.2%							
Hotel/Motel CIP Construction Index, 2000=100	307							
- Annual Change, %	30.4%							
Other Commercial CIP Construction Index, 2000=100	91							
- Annual Change, %	36.2%							
Oil Rig Count	---							
- Annual Change, %	---							

Note: CIP=Cement Put-In-Place

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Public Construction

	2007	2008	2009	2010	2011	2012	2013	2014
Government Activity								
Nominal Personal Income	\$106,504							
- Implied Gross Tax Rate	19.6%							
State Fiscal Balance (\$ Million)	\$4,205							
Total Revenues (\$ Million)	\$22,306							
- Annual Change, %	13.4%							
Total Expenditures (\$ Million)	\$18,101							
- Annual Change, %	3.5%							
- GFE as Percent of GFR (t-1), %	92.0%							
Total Government CPIP, Index 2000=100	254							
- Annual Change, %	27.0%							
- Highway and Street CPIP Share, %	26.4%							
- Public Building CPIP Share, %	30.8%							
- Other Government CPIP Share, %	42.7%							
Total Government CPIP as % of Total Expenditures	35.5%							
Highway and Street Activity								
Total State Highway Expenditures (\$ Million)	\$1,584							
- Annual Change, %	8.4%							
- Share of Total Expenditures, %	12.1%							
SAFETEA-LU Highway Expenditures (\$ Million)	\$399							
- Annual Change, %	2.8%							
SAFETEA-LU Highway Apportionments (\$ Million)	\$411							
- Annual Change, %	3.8%							
Discretionary State Highway Spending (\$ Million)	\$1,185							
- Annual Change, %	10.5%							
- Share of Total Expenditures (%)	6.5%							
Building Activity								
Public Building CPIP, Index 2000=100	71							
- Share of Total State Expenditures, %	8.4%							
- Annual Change, %	-13.5%							
Other Public Construction Activity								
Other Public CPIP, Index 2000=100	796							
- Annual Change, %	57.5%							
- Share of Total Expenditures, %	4.9%							

Note: Discretionary state highway spending reflects ARRA funding

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Cement

	2007	2008	2009	2010	2011	2012	2013	2014
Total Portland Cement (Metric Tons)	1,803,008							
- Annual Change, %	-6.1%							
Cement Per Capita	0.603							
Residential Cement Consumption								
Total Residential Cement (MT)								
- Annual Change, %								
- Share of Total Cement								
Total Single Family Cement (MT)								
- Annual Change, %								
- Cement Tons Per SF Permit								
Total Multi Family Cement (MT)								
- Annual Change, %								
- Cement Tons Per MF Permit								
Maintenance & Repair Cement (MT)								
- Annual Change, %								
- Cement Tons Per Housing Stock								
Nonresidential Cement Consumption								
Total Nonresidential Cement (MT)								
- Annual Change, %								
- Share of Total Cement								
Industrial Cement Consumption								
Total Industrial Cement (MT)								
- Annual Change, %								
- Share of Total Nonresidential Cement								
Office Cement Consumption								
Total Office Cement (MT)								
- Annual Change, %								
- Share of Total Nonresidential Cement								
Commercial Cement Consumption								
Total Commercial Cement (MT)								
- Annual Change, %								
- Share of Total Nonresidential Cement								
Hotel/Motel Cement (MT)								
- Annual Change, %								
- Share of Total Commercial Cement								
Other Commercial Cement (MT)								
- Annual Change, %								
- Share of Total Commercial Cement								
Commercial Maintenance & Repair Cement (MT)								
- Annual Change, %								
- Share of Total Commercial Cement								

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Commercial Cement Consumption (cont'd)

	2007	2008	2009	2010	2011	2012	2013	2014
Oil Rig/Well Cement								
Agricultural Cement								
-Annual Change, %								
-Share of Total Commercial Cement								
Miscellaneous Cement (MT)								
-Annual Change, %								
-Share of Total Commercial Cement								
Government Cement Consumption								
Total Government Cement (MT)								
- Annual Change, %								
-Share of Total Cement								
Highway & Street Cement (MT)								
-Annual Change, %								
-Share of Total Government Cement								
Public Buildings Cement (MT)								
-Annual Change, %								
-Share of Total Government Cement								
Other Public Cement (MT)								
-Annual Change, %								
-Share of Total Government Cement								