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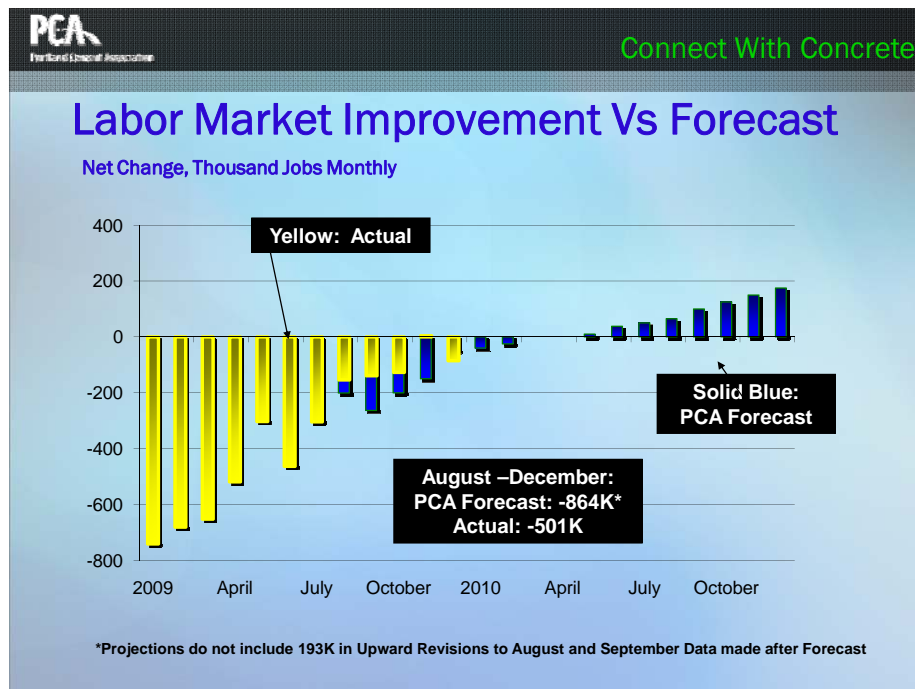
Labor Market Improvement Vs Forecast

Overview

The recovery in U.S. economic growth cannot be sustained without a stabilization in labor markets and job creation. Stabilization of labor markets is *the* critical ingredient that eventually leads to an improvement in the underlying fundamentals for each of the key sectors of construction activity (residential, nonresidential and public). Furthermore, PCA believes that an easing in lending standards will begin to materialize roughly six to nine months after labor markets stabilize.

Data Release

Today's data release by the Bureau of Labor Statistics (BLS) regarding December's labor market conditions has been widely anticipated with the hope that the data would reflect job creation. Unfortunately, payroll employment declined by 85,000. November payrolls were revised higher, recording a slim gain of 4,000. October payrolls saw a downward revision, with a loss of 127,000.



Impact on Cement Outlook

PCA's fall forecast expects job losses will stop in the first quarter of 2010, followed by a saddle point quarter characterized by minor monthly losses/gains essentially leaving quarterly job losses at zero. When all is totaled, more than 7.5 million jobs are expected to be lost during the recession that began in December 2007. Early in the third quarter, sustained job gains are expected to materialize followed by successive strengthening in labor markets. This period of strengthening yields between 350,000 to 500,000 net jobs created in 2010. Roughly three million net jobs are expected to be created in 2011 and 2012. While these net job gains may seem optimistic to some, PCA projections for year-end employment in 2012 remains below December 2007 levels (onset of the recession).

Despite the consensus of economists' disappointment in December's job market statistics, three month data suggests that labor market conditions are improving at a pace better than PCA's projections. While PCA had expected a job loss of 50,000 in December, compared to the 84,000 job loss, the combination of BLS upward data revisions and better than expected job market performance resulted in only 501,000 job losses versus 861,000 expected by PCA during August-December.

In addition, there is evidence that the job creation **process** has already begun. Typically, extended work hours, overtime and temporary hiring precede job creation. November's increase in the length of the average workweek (the first increase in 14 months) was unchanged in December at 33.2 hours. Furthermore, temporary employment continued to rise, as 47,000 positions were added in December.

The labor market's performance during the past three months has somewhat outperformed PCA's fall forecast projections. If sustained, this may suggest a quicker than expected healing in the underlying fundamentals surrounding construction.

Compared to PCA fall forecast projections, slightly stronger labor market projections could:

- Reduce state deficits in 2010 leading to smaller drags on public construction activity.
- Reduce the level of vacancy rates, soften the declines in leasing rates and reduce the declines in expected ROI's for commercial properties – leading to the potential of a quicker recovery in nonresidential construction.
- Improve the outlook for single family construction activity in 2010 and 2011.
- Shorten the period for an easing in lending standards.

Keep in mind, PCA's general vision regarding the timing and magnitude of a labor market recovery are on track. The degree to which the labor market has outperformed PCA's projections are small. At this time, PCA does not foresee any significant change to its forecast based on the latest data release.

Risks to Cement Outlook

Keep in mind, the entire process leading to job creation is based on modest and sustained increases in demand. It can be argued that the gains in demand realized during the past quarter are policy induced – resulting from the impacts from ARRA, cash for clunkers and housing incentives. Furthermore, White House economists suggest the stimulus' impact on economic activity will wane in 2010. Once these artificial demand factors wear off, there is concern whether there will be enough private sector momentum in the economy to sustain the job creation process. If not, the job creation process could be forestalled, increasing the likelihood of a double-dip recession.

To the extent, however, a more rapid recovery in the labor market materializes, the risk of a double-dip recession is reduced. If the labor market continues to outperform PCA's projections, the downside risks to our forecasts will gradually subside and contain upside risks to projections.