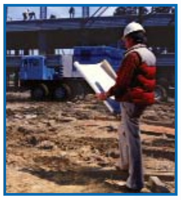

U.S. CONSTRUCTION QUARTERLY BRIEFING—EXECUTIVE SUMMARY

FOURTH-QUARTER 2010

The construction market continues to suffer from an excess of inventory and little demand. Continued tightness in the credit markets will keep spending down for a little while longer. In 2009, spending on construction (in real terms) declined 14.9% from one year earlier, and a further slip is expected in 2010, as spending levels fall by 8.3%. Construction spending is expected to make positive gains in the second half of 2011, which will result in a flat growth rate for the year. The gains in 2011 will come from both the residential and commercial markets as they begin to move up from the historic lows of the recent past. The residential market will see gains in 2010 as continued weakness in multifamily is offset by single-family and improvement expenditures. The non-residential side of the market, excluding infrastructure, will see significant improvement in 2011, although spending on manufacturing structures will lag into 2012. Infrastructure spending will continue to post small declines over the near-term as declines in spending on power projects will negate the gains coming from highway and sewer projects.

Residential Overview

Residential construction put-in-place, which contracted by 27.7% in 2009, will see modest gains in 2010. The first half of the year saw a boost in sales and a moderation in price declines as a result of the homebuyers' tax credit. The setback for housing after the expiration of the homebuyers' tax credit has proven severe. New home sales remain close to record lows, while existing home sales are only gradually recovering from a post-tax-credit collapse. This picture suggests a weak market that was temporarily brought to life by the tax credit. House prices were also propped up by the homebuyers' tax credit, and they are expected to resume their downward slide. It is expected that the FHFA house price index (purchase only) will drop 8.0% from the second quarter of 2010 to the second quarter of 2011.

The near-term prospects for residential construction are muted as several factors dampen the market. The inventory of homes for sale will remain elevated as several banks opted to freeze the foreclosure process after the media reported that lenders had cut corners in processing documents. As a result, the flow of foreclosures will slow for a period of time, but then pick back up. Another factor depressing the market is record low levels of household formation. New data from the Census Bureau show that between March 2009 and March 2010, the number of households rose by 357,000-the smallest increase since comparable data began in 1947.Additionally,, households increased by only 398,000 the previous year, the third-smallest increase on record. This largely explains why the housing glut remains stubbornly high, despite the plunge in housing starts in recent years.

The outlook for real spending on residential construction calls for a 1.7% gain in 2010, and a smaller 0.4% gain in 2011. The muted 2011 number is coming from lower spending on improvements. During the housing boom, improvements expenditures were very strong as homes were spruced up for sale. Then, as the market began to collapse, homeowners realized they were going to have to stay put longer and they spent money to make their homes more comfortable. With the uncertainty in the market (less demand and significantly lower equity values) spending will decline in 2011 to a level not seen since the late 1990's.

Multifamily construction-put-in-place remains at all time lows, and with nowhere to go but up, will see a slow rebound with spending levels not expected to reach those of the boom over the current forecast horizon.

Beginning in 2012 growth will become more steady and consistent as the market corrects itself.

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Non-residential Overview

On the business structures side, the outlook remains poor, although the steepest declines should now be behind us. Companies continue to cut back sharply on spending on structures. Conditions in the commercial real-estate market continue to deteriorate. Nonresidential construction put-in-place spending was unchanged in September from August, but down 12.4% over the year. September numbers continued to show broad-based declines, with lodging (down 53%), office (down 24.5%), commercial (down 21.3%), and manufacturing (down 35.5%) posting the largest year-on-year (y/y) declines. The American Institute of Architect's (AIA) Billings Index climbed above the 50 threshold in September-after months of steady improvements-only to slip back down nearly 2 points in October, to 48.7. The index is volatile, but appears generally headed above the 50 threshold. Indeed, the indexes for the Northeast and Midwest are now above 50, as are the Institutional and Commercial/Industrial indexes. If one applies the AIA index as a leading indicator, assuming the index climbs back above 50 by the end of the year, then real spending on buildings should turn around in late 2011. In IHS Global Insight's November forecast, real spending on nonresidential building construction turns upward in the second half of 2011.

Infrastructure spending, which was a focal point in the American Recovery and Reinvestment Act (ARRA), will see spending levels decline in 2010 by 3.5%, as spending on highways/streets and sewer projects will be offset by lower expenditures on power projects. This uneven dynamic will carry over into 2011, as spending is expected to decline by 6.4% with highway and streets being the only segment to see gains in spending over the year.