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America's Cement Manufacturers™

Fall Cement Outlook Briefing

October 10th, 2020

Ed Sullivan, SVP & Chief Economist

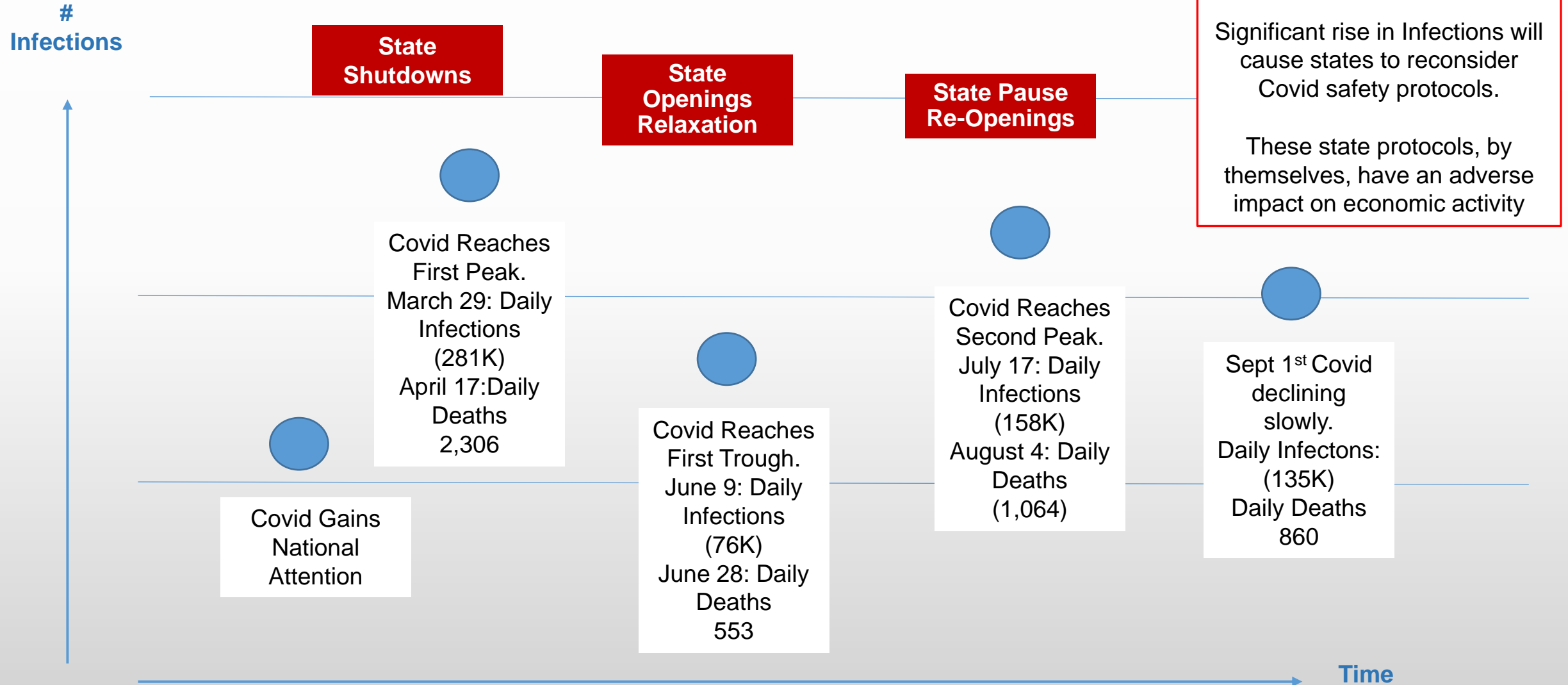
Presentation Focus

1. Macroeconomic & Covid Data
2. Macroeconomic, Construction, & Cement Outlook
3. Longer Term Considerations

Macroeconomic & Covid Data

Covid-19 Timeline

IHME Data



Are you Comfortable Going to.....

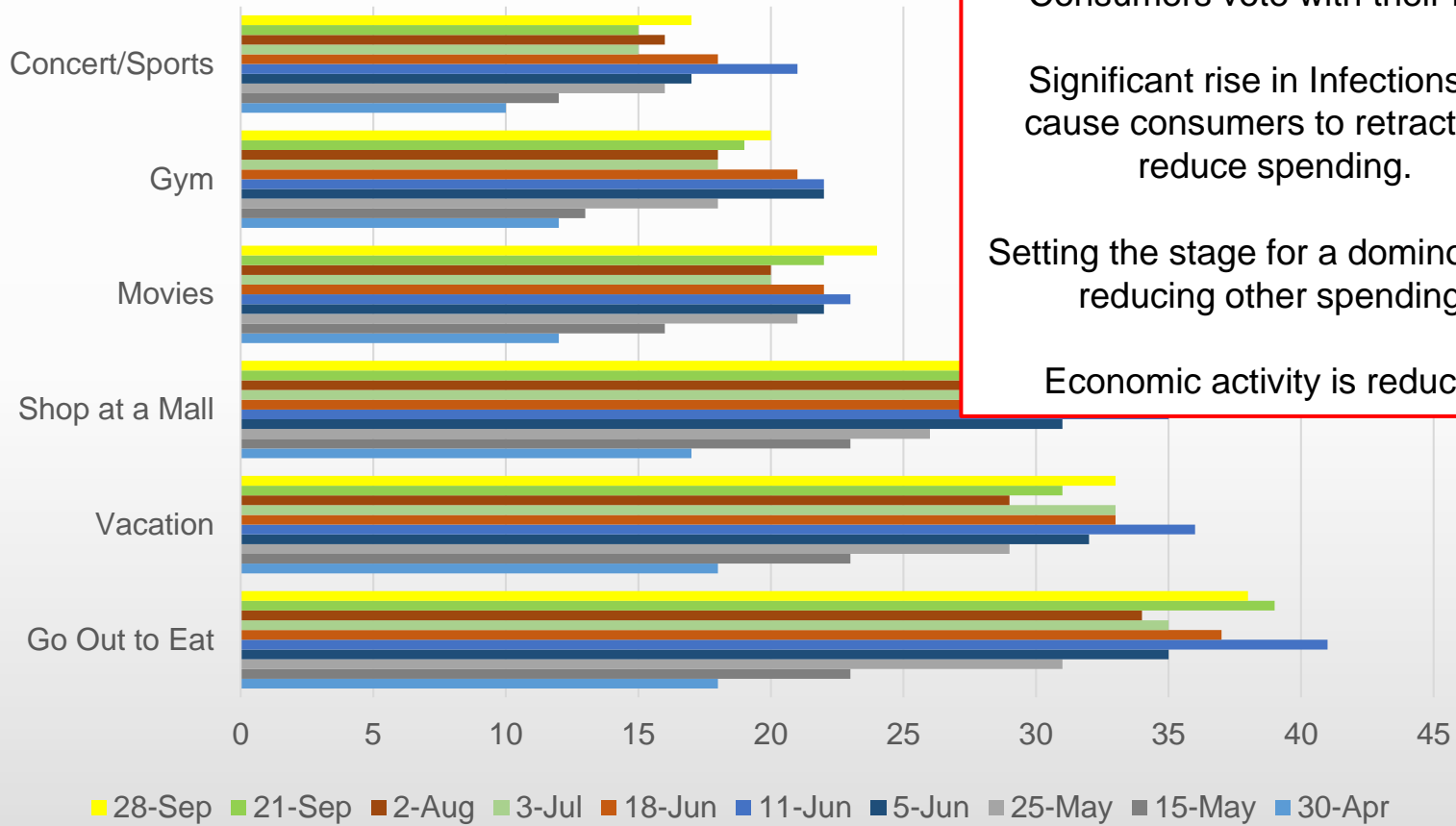
Point 2.

Consumers vote with their feet.

Significant rise in Infections will cause consumers to retract and reduce spending.

Setting the stage for a domino effect reducing other spending.

Economic activity is reduced.



- As Covid infections increase, consumer confidence in returning to their “normal” spending activity reverses.
- Recent months showed a stabilization from early August levels – neither improving nor worsening.
- When consumers return to “normal” spending activity will play a key role in the speed at which the economy recovers.
- Consumer spending accounts for 70% of overall economic activity. The slower return to “normal” suggests slower than expected interim growth.

Scarring: Business Closures

Point 3.

The recovery is proceeding.

The longer sub-normal conditions remain in place, more scarring occurs.

Economy's problems evolve from Covid to economic fundamentals.

Restaurants and Retail Continue to Struggle

Number of businesses marked closed* on Yelp that were open March 1

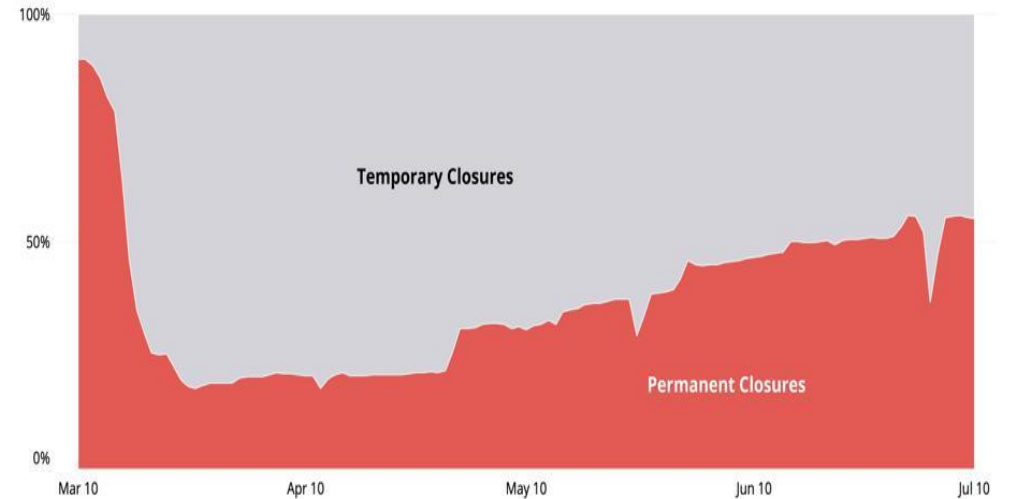


*Among U.S. businesses that were open on March 1. A business was counted as closed if it was marked as permanently or temporarily closed, changed its hours to mark itself as closed for entire days, or included the word "closed" in the COVID-19 business updates section of its Yelp page. Closures updated through July 10. Data may lag actual closures because of time taken to report and verify closures.

Source: Yelp
Chart: The DataFace

The Share of Per

Share of business closures* on Yelp that were temporary vs. permanent



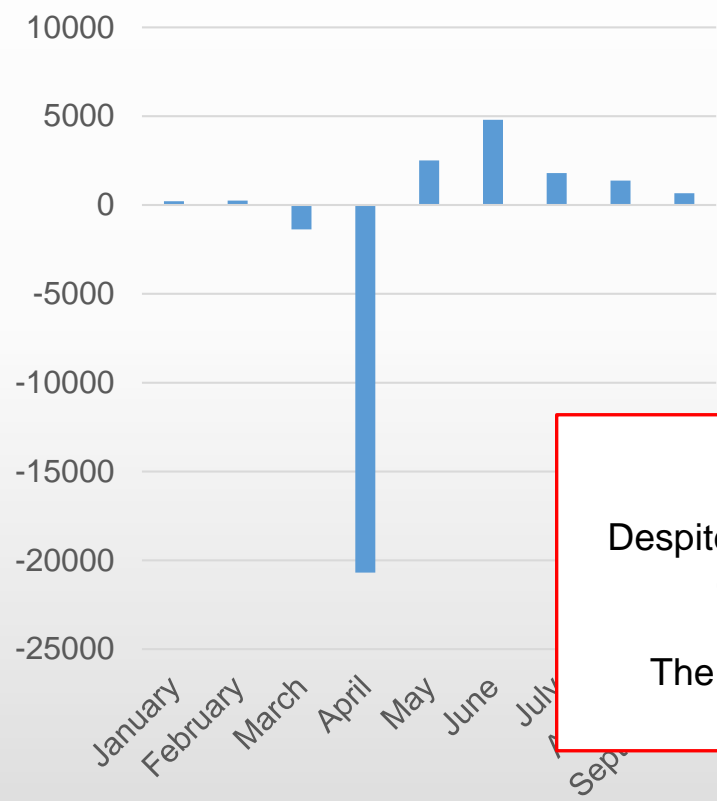
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Economic Crossroads: An Inflection Point

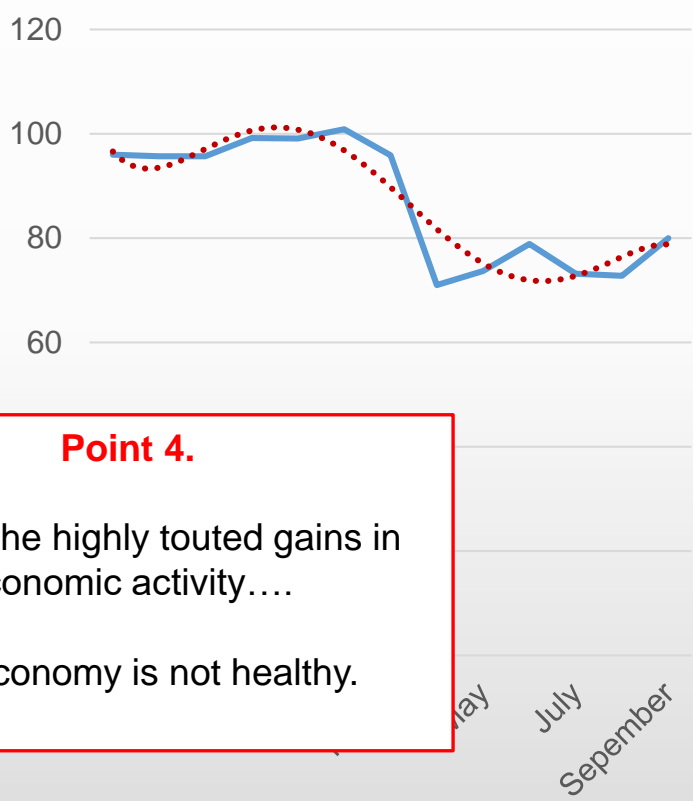
Change In Employment

- Millions



Consumer Confidence

Composite Conference Board



Point 4.

Despite the highly touted gains in economic activity....

The economy is not healthy.

- By any measure, economic activity crashed during the second half of March through April. GDP suffered a 32% decline. 20 million jobs were lost overnight.
- With the states re-opening business, the economy has shown significant growth. That growth is becoming less robust over the past several months.
- September's job report reinforced this trend. Sector re-openings (hospitality & retail) played key role in the improvement but can not be counted as a longer term driver of jobs.
- Government shed 216,000 jobs. A trend that could grow larger.
- The economy may be at a crossroads.
- With the gradual expiration of the CARES act, in the context of weak economic conditions – risks exist that the recent momentum of the recovery could be lost.

Back to Normal Index

Moody's-CNN Survey 100=March 1st

Point 4.

Federal Support has been spectacularly successful in preventing a deeper and more prolonged decline.

Insufficient federal support over the next two quarters could hinder the recovery.




37 monthly & high frequency variables included in the index from home prices, rail traffic, business confidence, seated diners, etc.

Covid-19 Timeline

IHME Data & Projections

Point 5.
 According to IHME, the worst of Covid lies ahead.


 Third Peak Projected
 January 1 Daily Deaths (3,050)
 Note: High Case January 1st = 6,430

Infections

State Shutdowns

State Openings Relaxation

State Pause Re-Openings

Covid Reaches First Peak.
 March 29: Daily Infections (281K)
 April 17: Daily Deaths 2,306

Covid Reaches First Trough.
 June 9: Daily Infections (76K)
 June 28: Daily Deaths 553

Covid Reaches Second Peak.
 July 17: Daily Infections (158K)
 August 4: Daily Deaths (1,064)

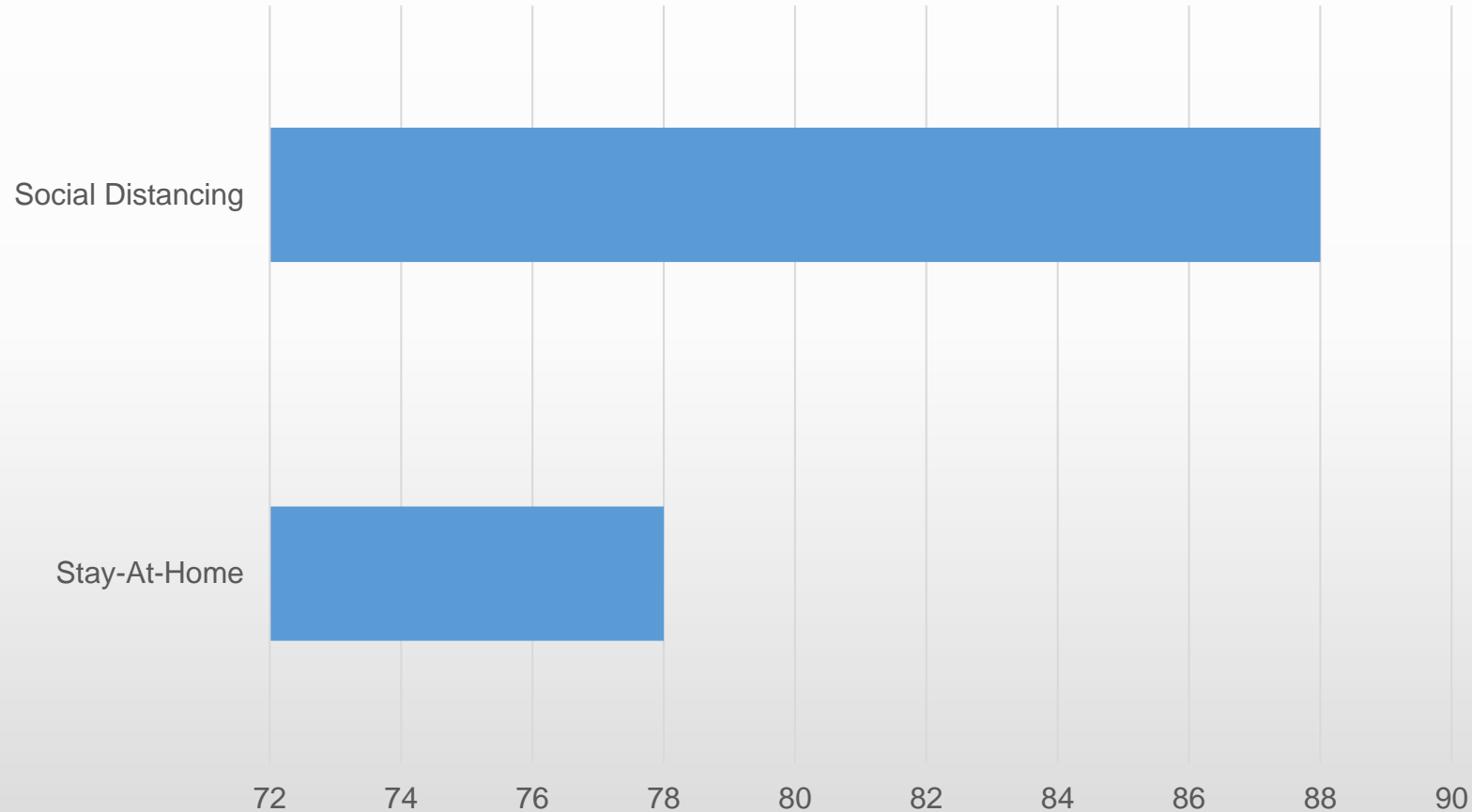
Sept 1st Covid declining slowly.
 Daily Infections: (135K)
 Daily Deaths 860

Covid Gains National Attention

Time

If the Virus Returns with Aggression...

- What policies would you support to fight it.

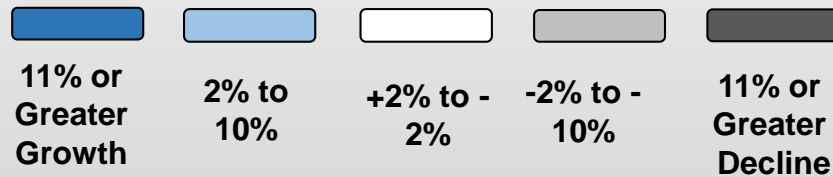
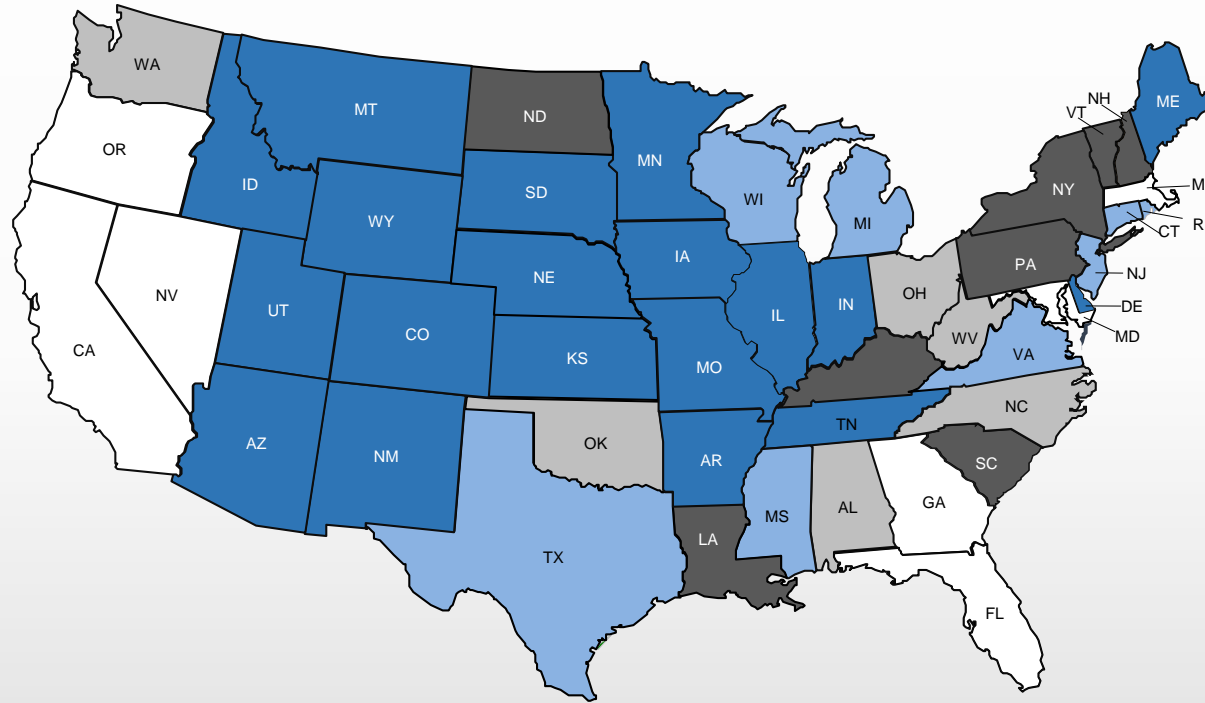


- Surprisingly, 78% of those surveyed say that they would support another round of shutdowns to fight an aggressive return of the virus later this year or early next.
- This surprising result cuts across political lines with 69% of Republicans in support of state shut downs as a policy response.

Construction & Cement Outlook

Regional Cement Trends

August year-to-date

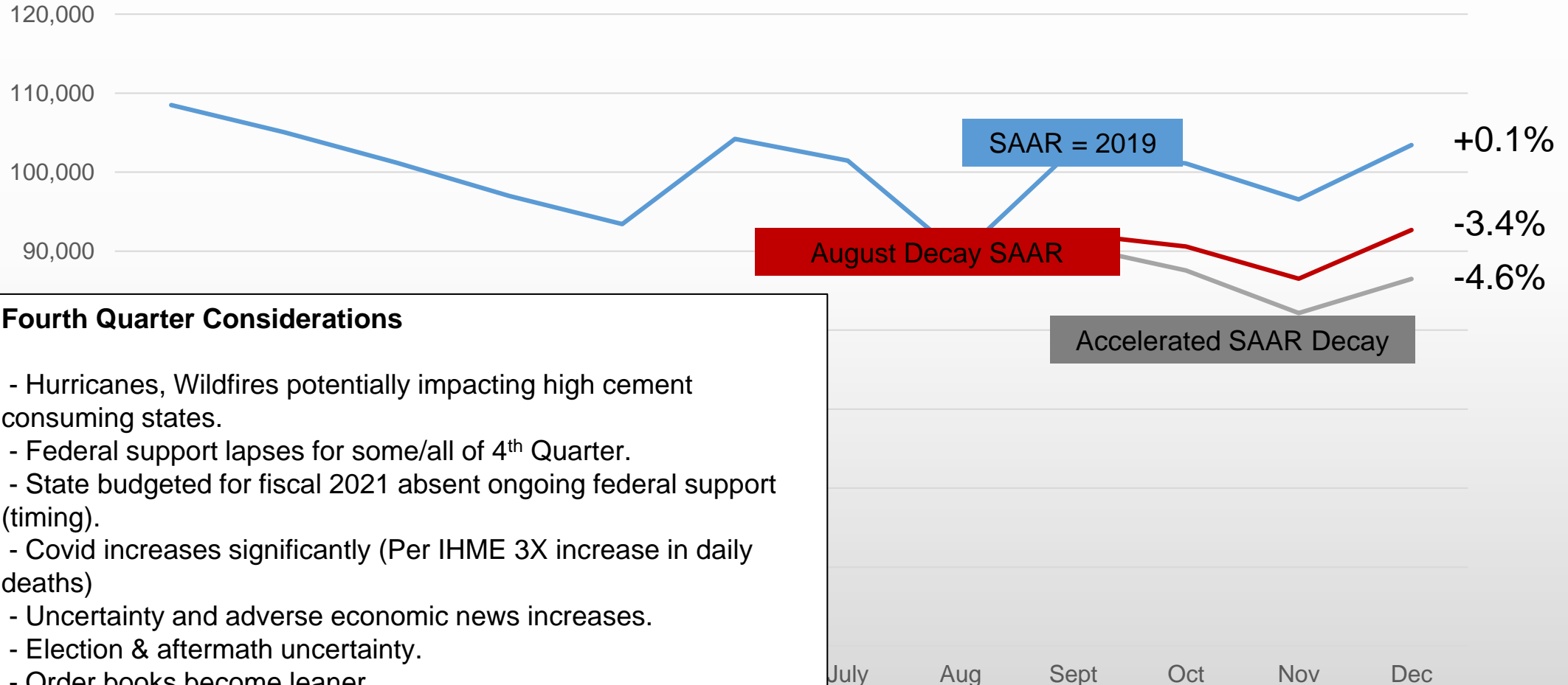


West North Central	8.3%
West South Central	-2.3%
New England	5.7%
East North Central	1.7%
Middle Atlantic	-5.7%
South Atlantic	-1.9%
East South Central	0.6%
Pacific	-3.9%
Mountain	9.2%
United States	0.1%

Source: USGS/PCA

Cement Consumption Scenarios: 2020

Thousand Metric Tons



Fourth Quarter Considerations

- Hurricanes, Wildfires potentially impacting high cement consuming states.
- Federal support lapses for some/all of 4th Quarter.
- State budgeted for fiscal 2021 absent ongoing federal support (timing).
- Covid increases significantly (Per IHME 3X increase in daily deaths)
- Uncertainty and adverse economic news increases.
- Election & aftermath uncertainty.
- Order books become leaner.

Macroeconomic Risks & Assumptions

The Alphabets of Recovery

U

A Sharp deep decline, followed by a period of slow recovery.

- Some scarring.
- Many business foreclosures. Consumer spending is hurt by debt, and lacks confidence .
- Economic growth is enhanced by relaxation of state policies aimed at restraining the spread of the virus.
- After initial reopening phase, jobs come back slowly reflecting modest growth.
- Fourth quarter increase in Covid (IHME Base Case) – 3,059 daily death rate January 1st compared to 730 currently.
- Federal Support continues. \$1.5 trillion additional funding. \$500 billion to states.
- Consumer confidence slowly improves as Covid deaths ebb throughout 2021.
- Growth slows/pauses in 4th quarter. A slow process of gradual & sustained recovery thereafter.

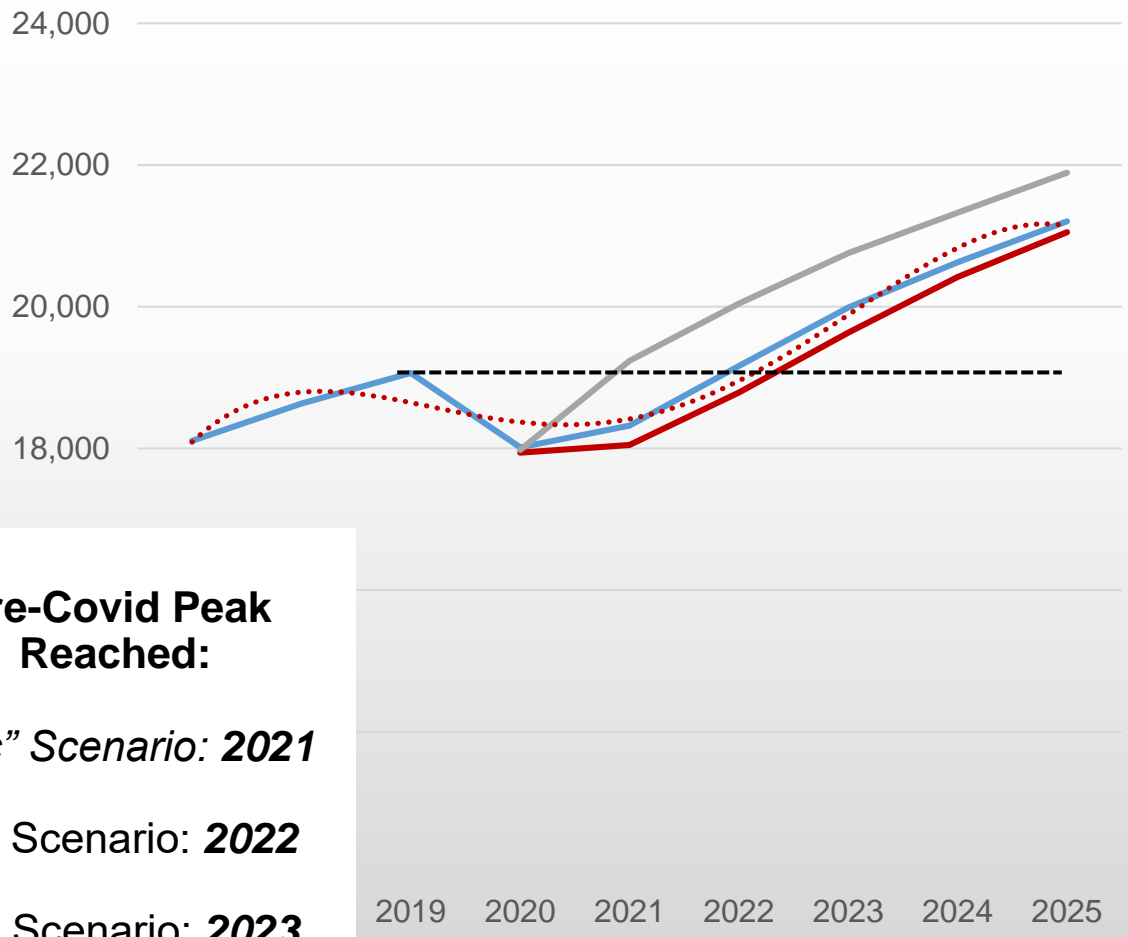
W

A Sharp deep decline, followed by a slow recovery and a slide back into recession due to a significant rise in infections, limited Federal support & pause in state re-openings

- **More scarring, particularly in 2021.**
- More business foreclosures. More building space is vented into the market. Consumer spending is hurt. Consumers lacks confidence .
- Initially, economic growth is initially enhanced by relaxation of state policies aimed at restraining the spread of the virus.
- Consumer fear and uncertainty re-appear.
- **Substantial fourth quarter increase in Covid (IHME High Case) – 6,430 daily death rate January 1st.**
- **Some state re-opening retrenchment. Some state pausing of re-opening schedule.**
- **Federal Support continues, but at a lower level. \$1 trillion added in further support in early 2021. \$333 billion to states.**
- The slow shallow process of recovery is interrupted, followed by a two quarter retrenchment in 1st half 2021 GDP growth.

GDP – “U, W & Vaccine” Scenarios

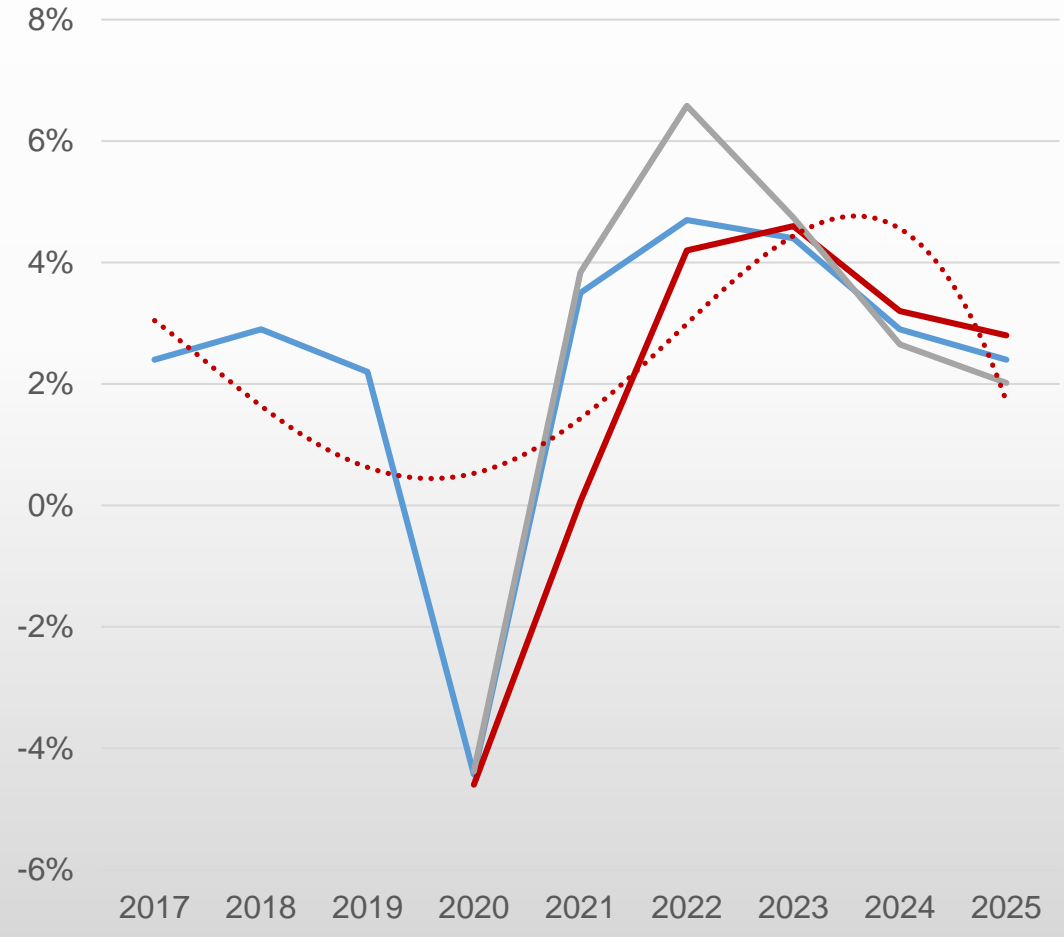
Real GDP
1985=100



Pre-Covid Peak Reached:

- “Vac” Scenario: **2021**
- “U” Scenario: **2022**
- “W” Scenario: **2023**

Real GDP Growth
Annual, Y-O-Y

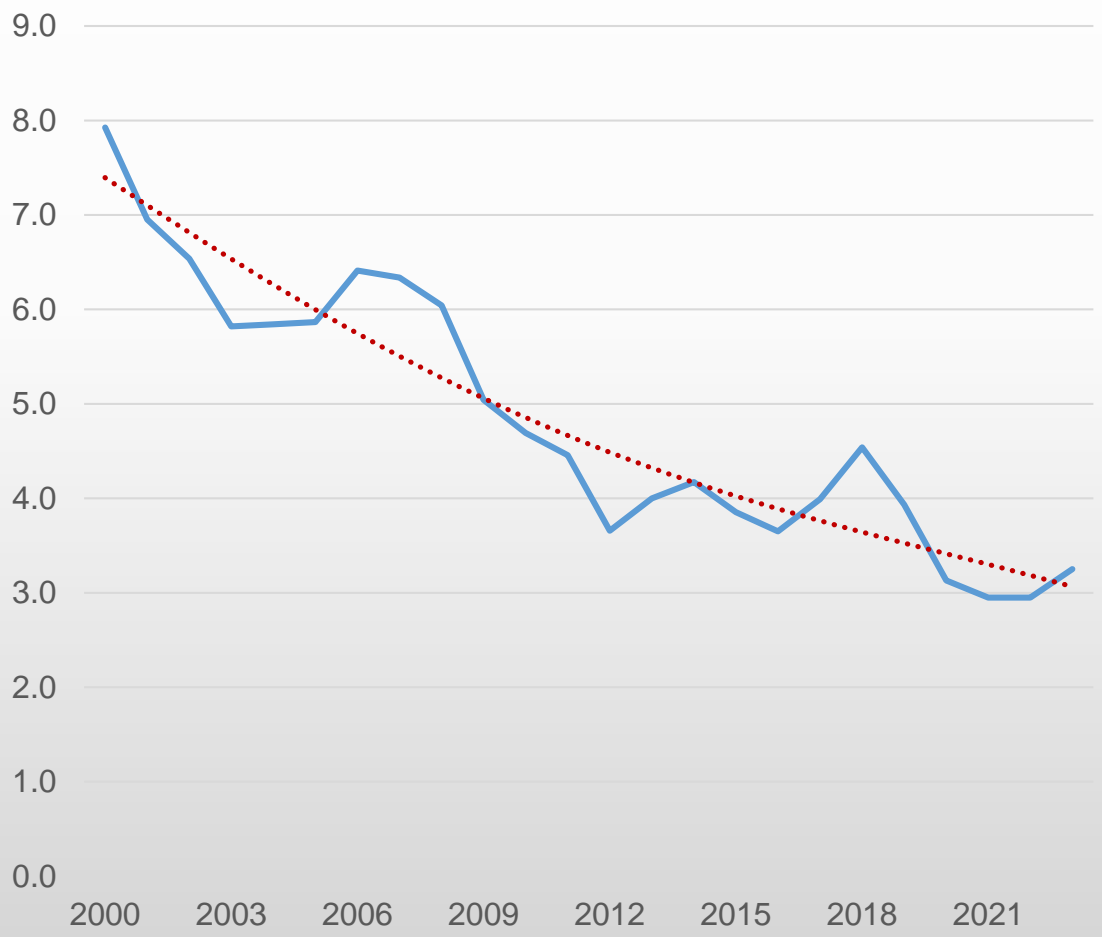


Residential

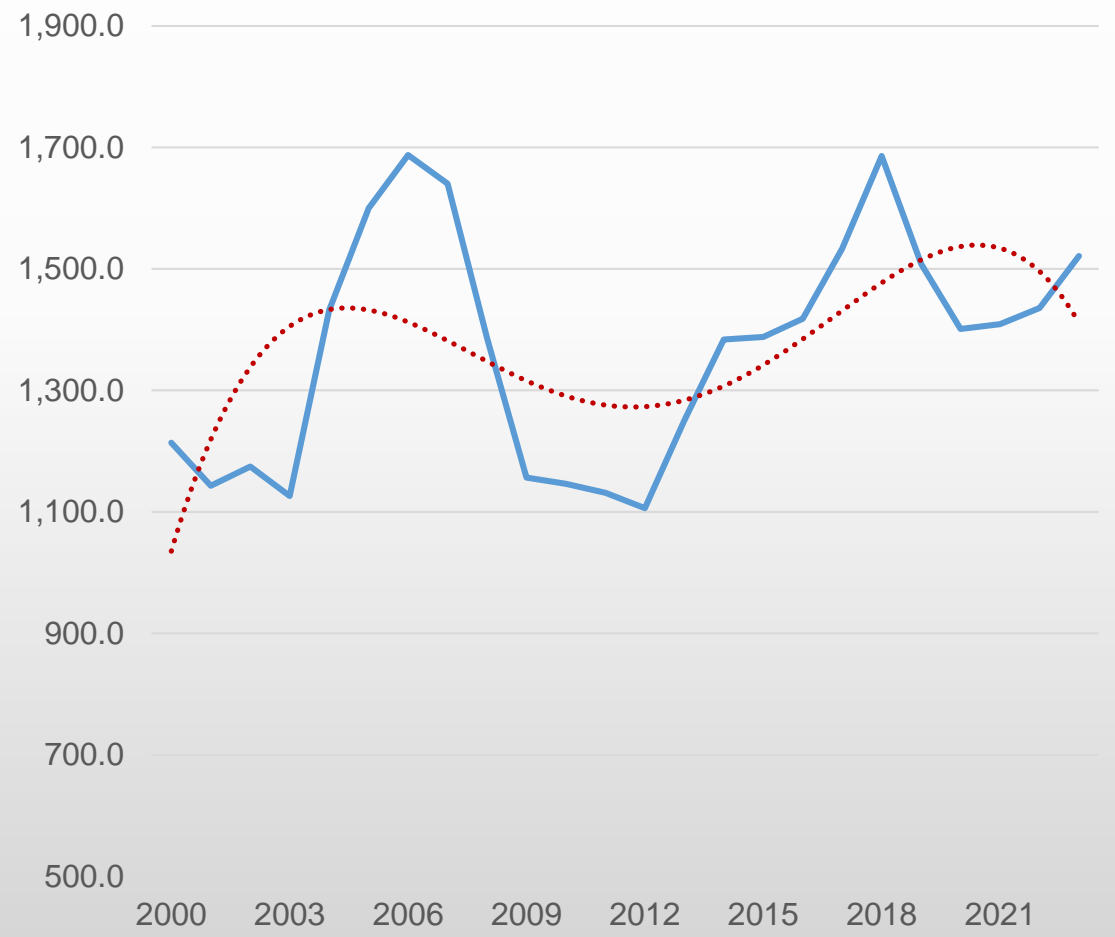
Housing – “U, W & Vaccine” Scenarios

Mortgage Rates Remain Low

Thousand Units



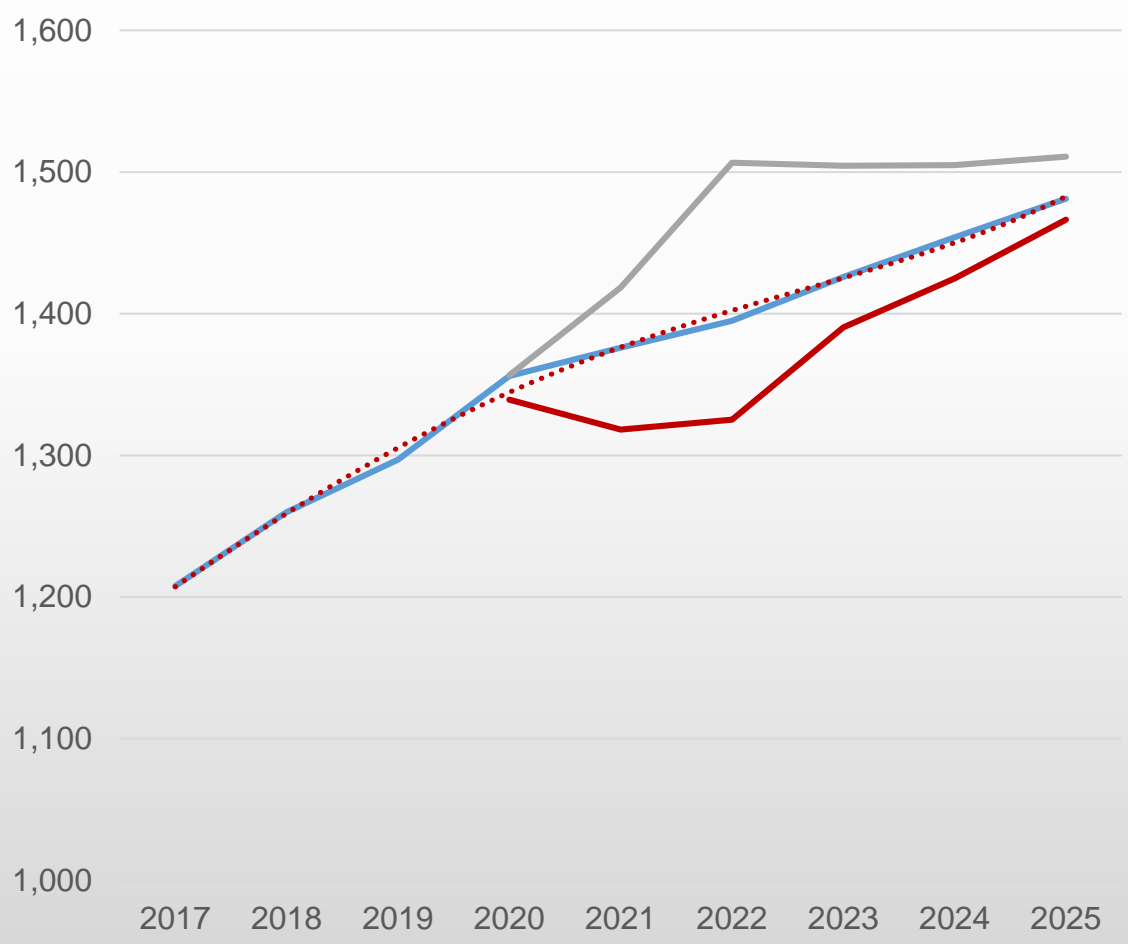
Average New Home Monthly Payment



Housing – “U, W & Vaccine” Scenarios

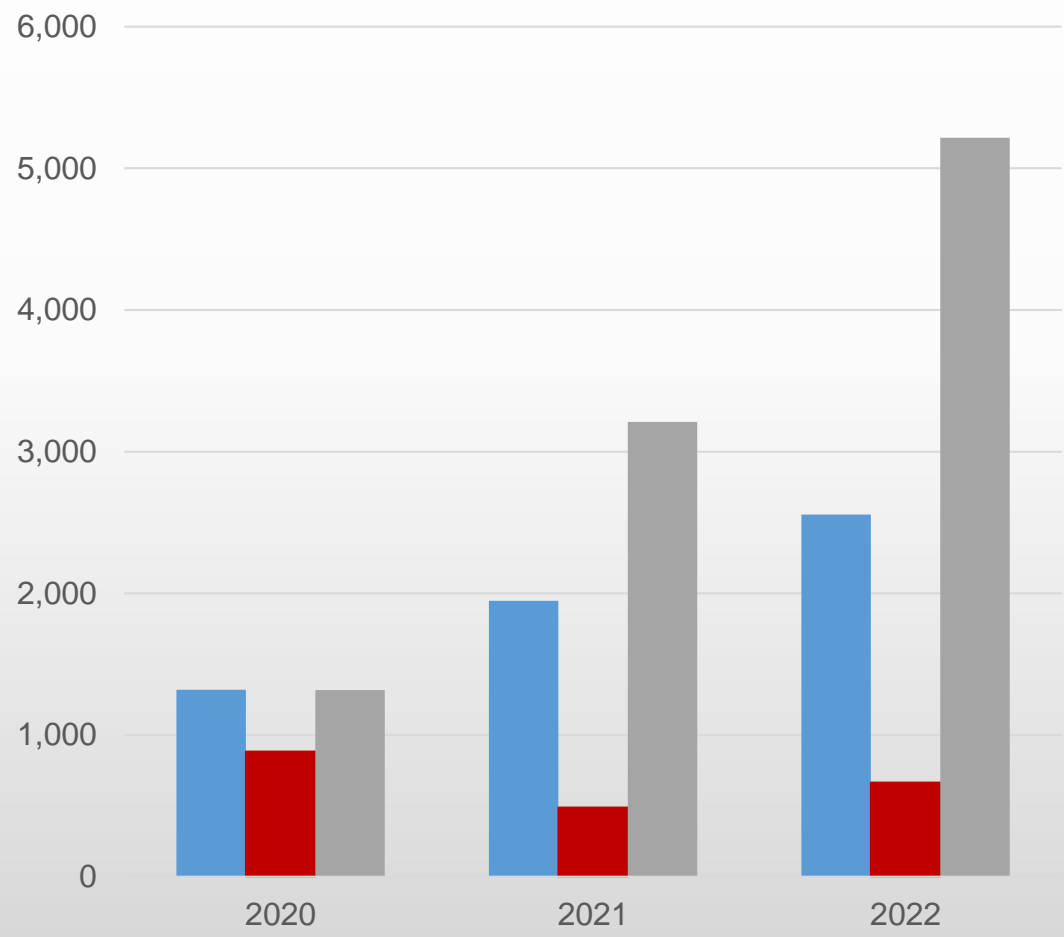
Housing Starts

Thousand Units



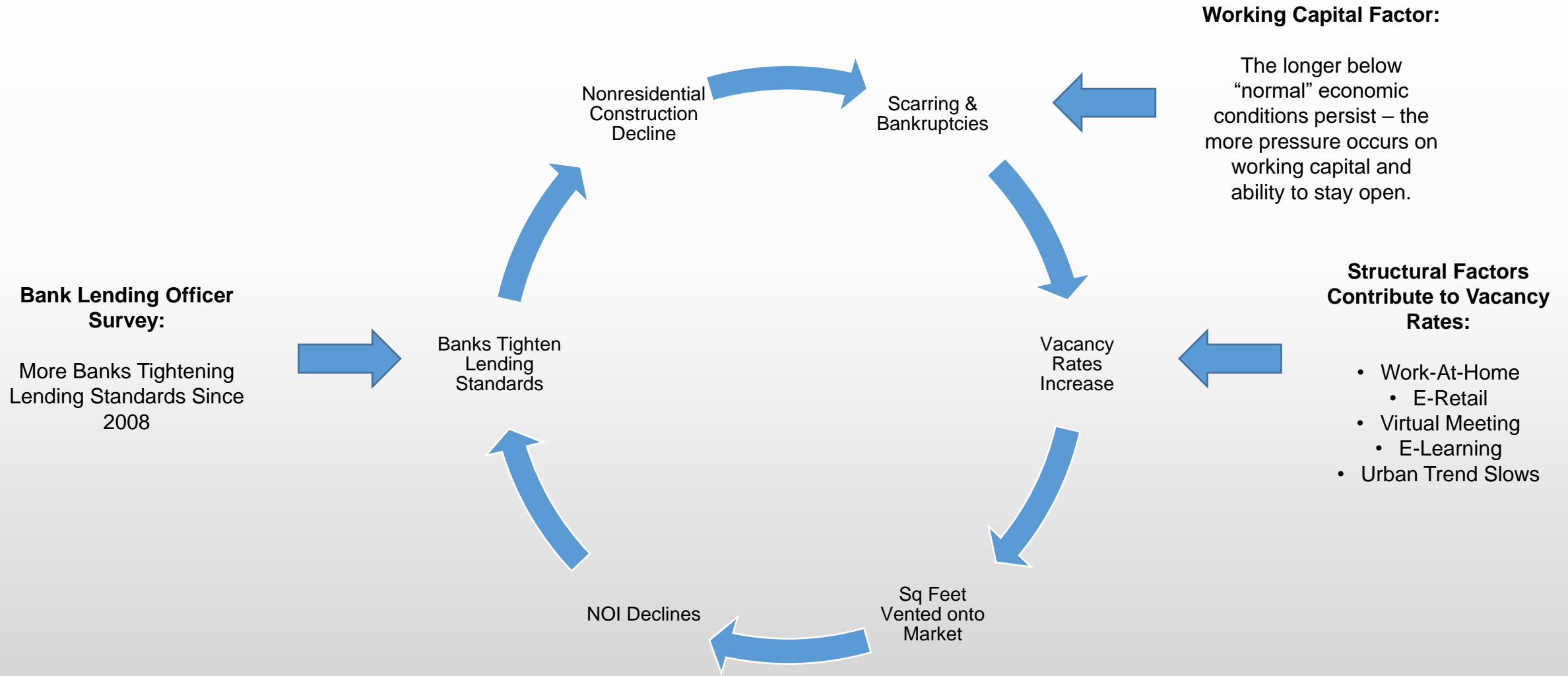
Tonnage Change from Pre-Covid

Annual Volume



Nonresidential

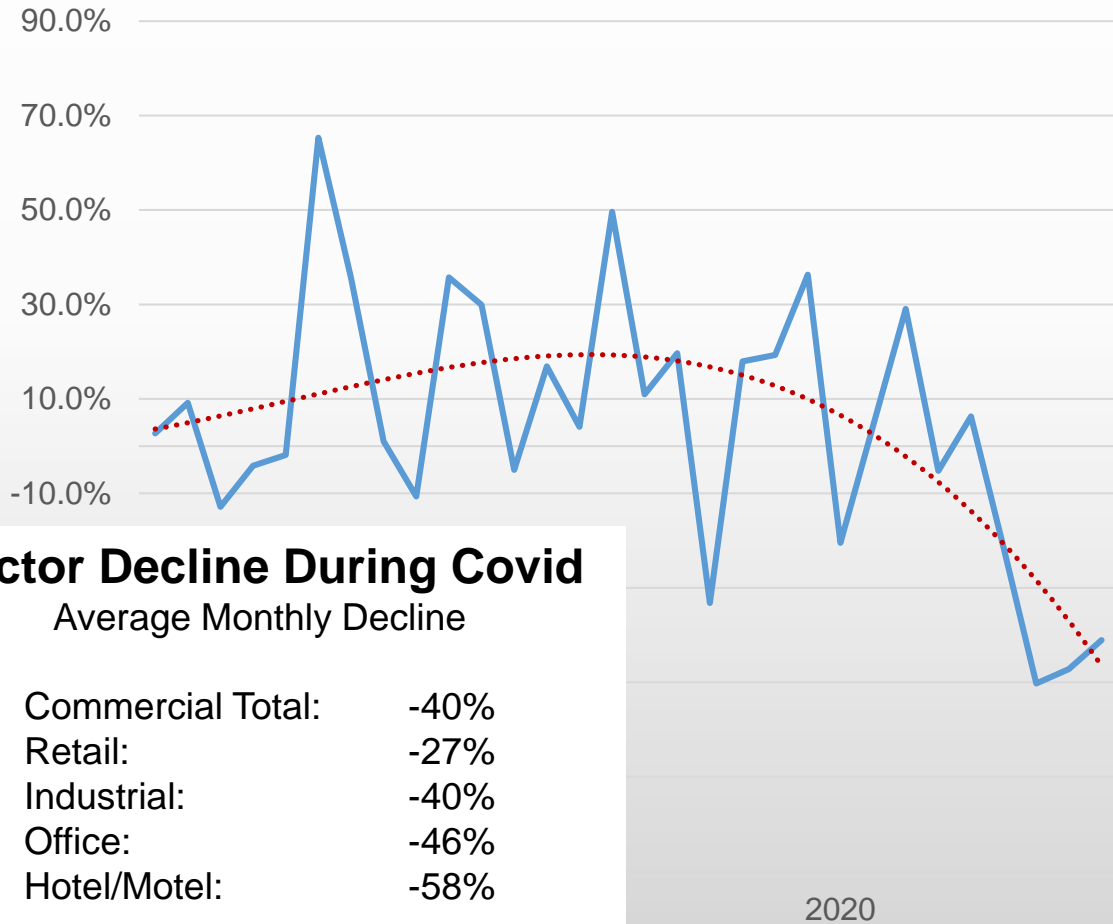
Nonresidential: A Long Recovery



Nonresidential Order Books

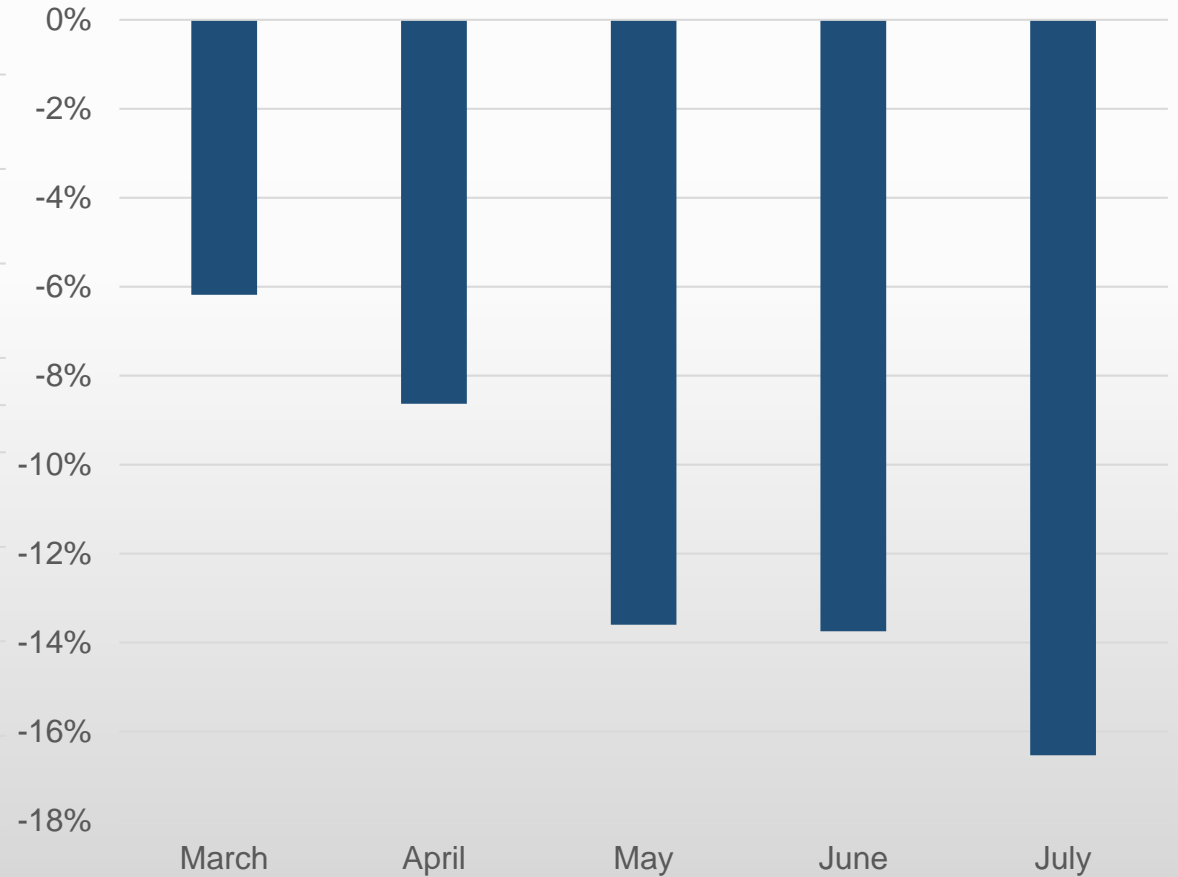
Commercial Contract Awards

Y-O-Y % Change



Nonresidential Construction

Multi-Retail Nonresidential PIP Millions, SAAR



Sector Decline During Covid

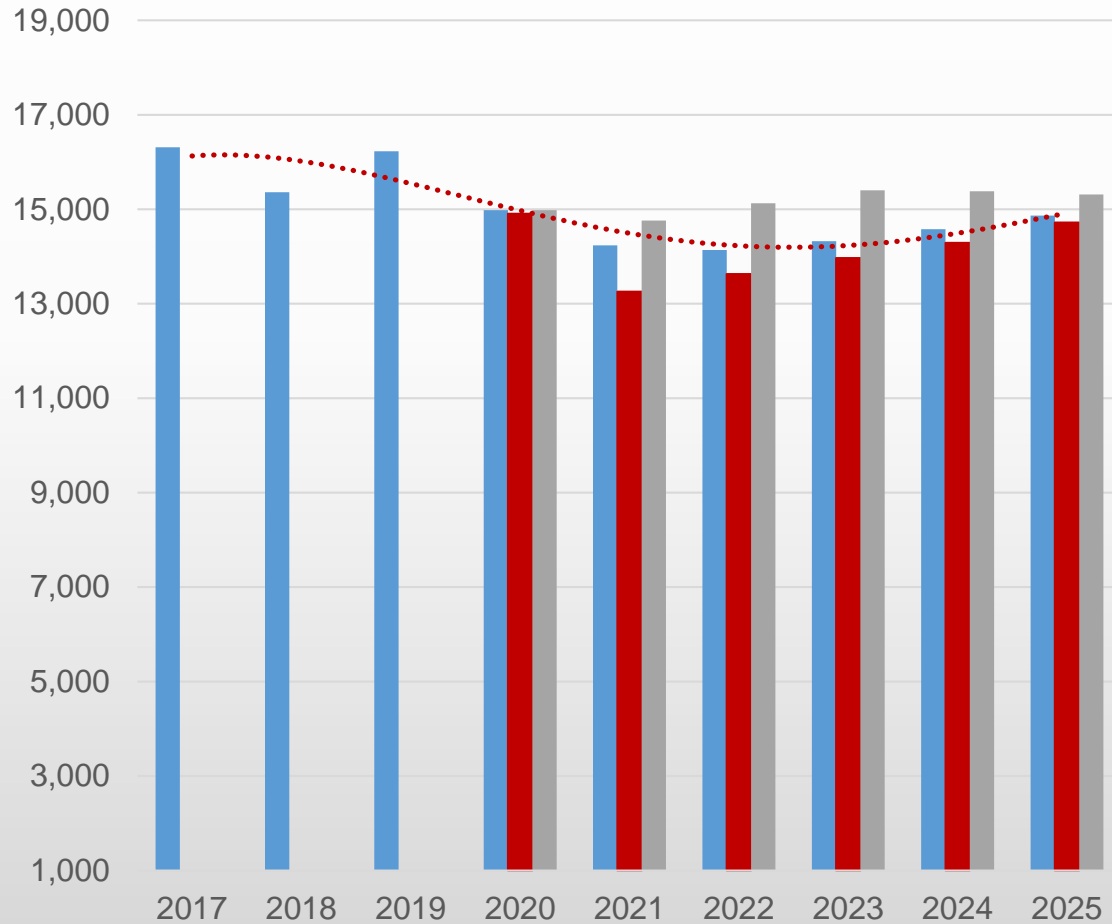
Average Monthly Decline

Commercial Total:	-40%
Retail:	-27%
Industrial:	-40%
Office:	-46%
Hotel/Motel:	-58%

Nonresidential – “U, W & Vaccine” Scenarios

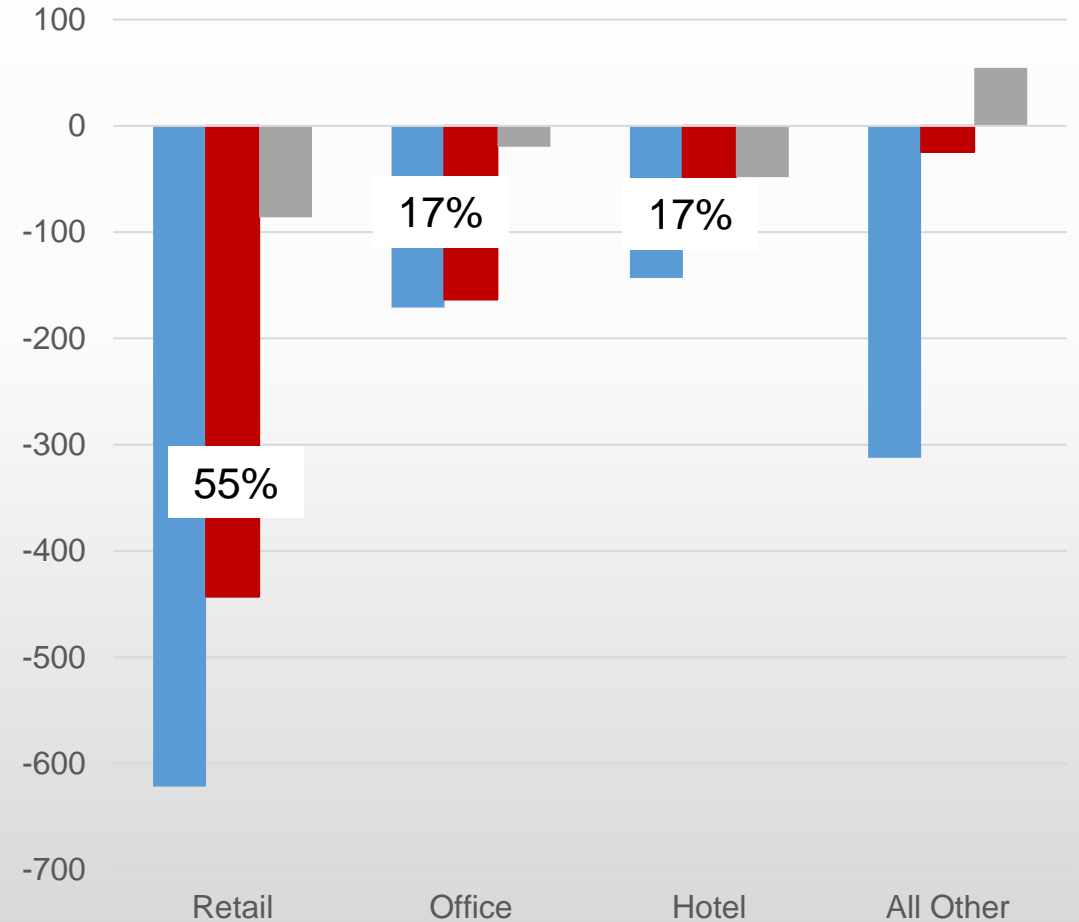
Nonresidential Cement Consumption

Thousand Metric Tons



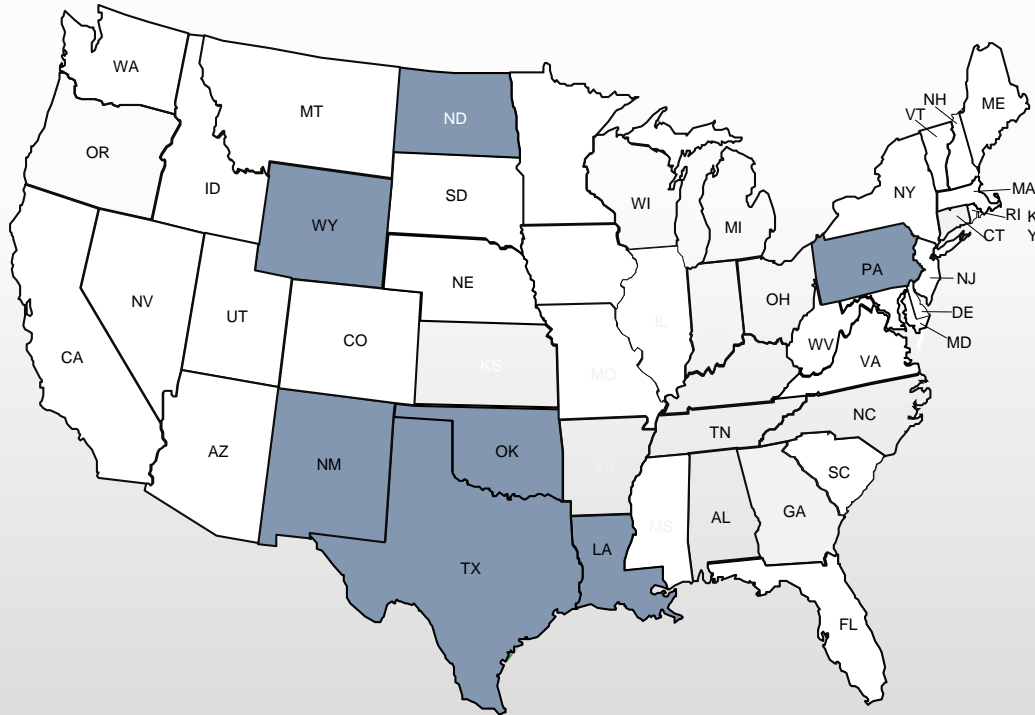
Composition of the Decline

Metric Tons

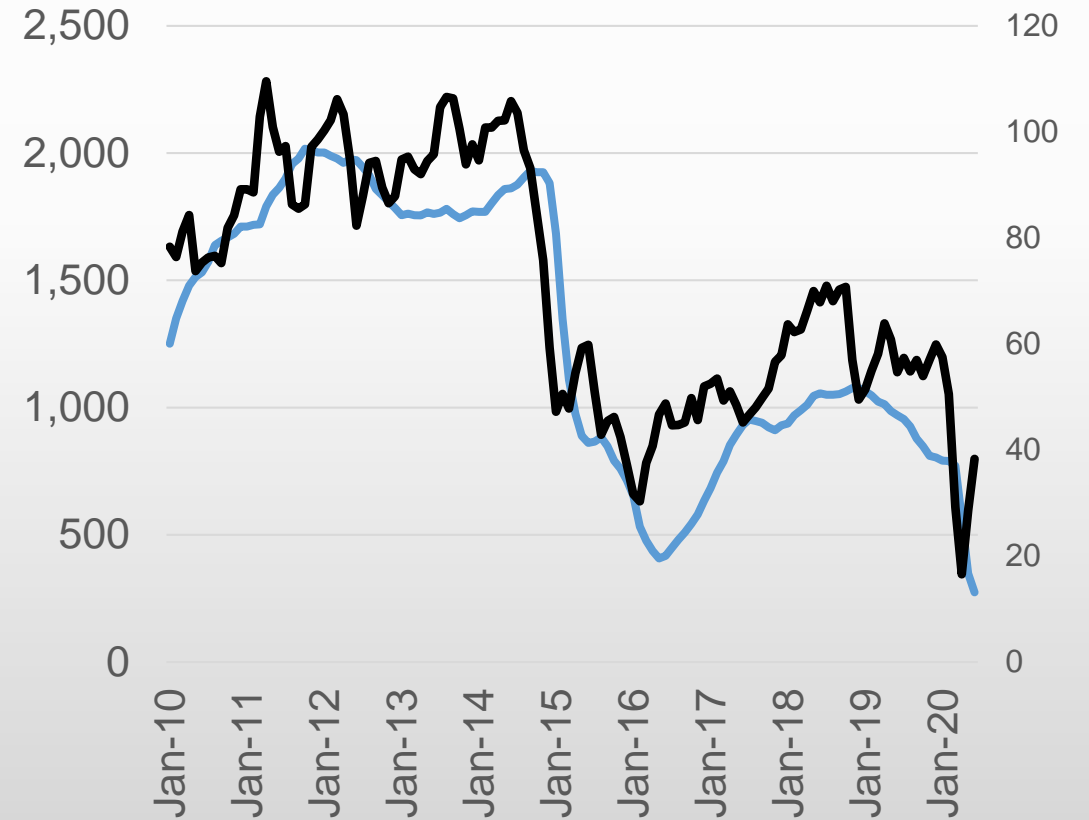


Energy Exposure

Energy Intensive States



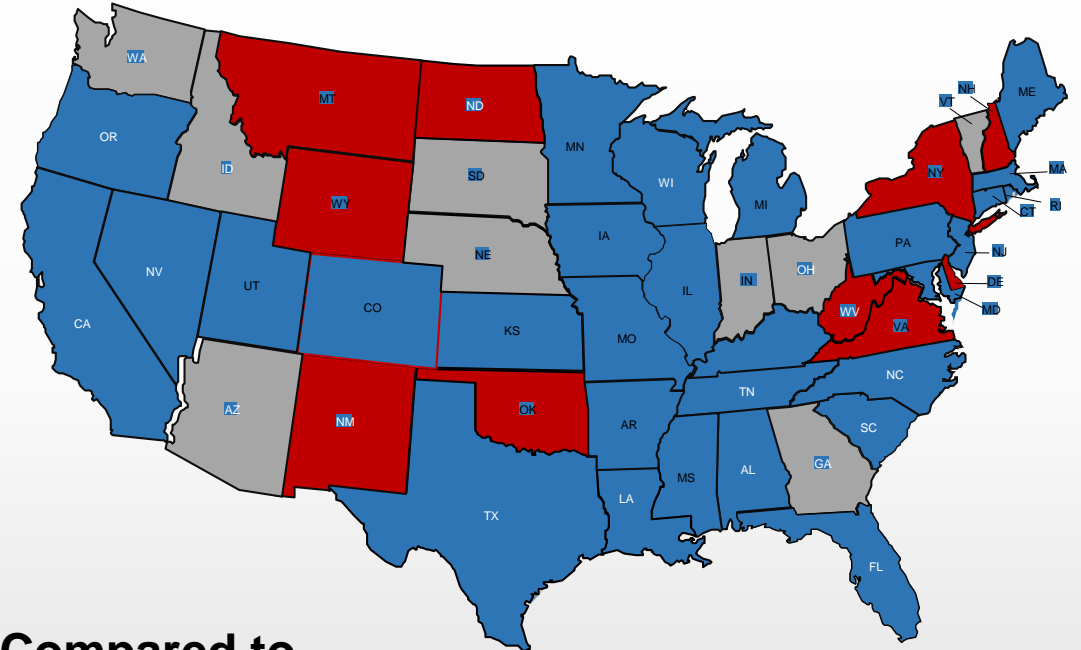
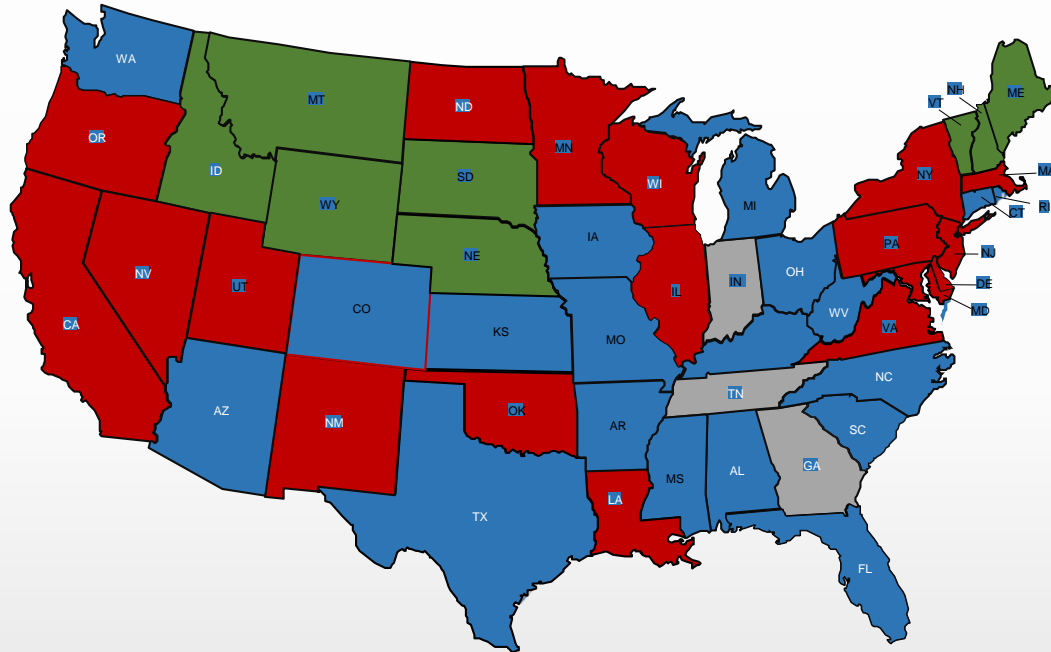
Oil & Gas Drilling



Public

State Revenues: 2020

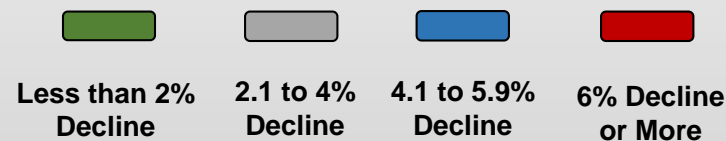
State Revenues: 2021



Revenue Decline Compared to 2019 Levels

Given our Macroeconomic Projection

- Estimate Income by State
- Consumer Spending by State
- VMT By State
- Real Estate Values

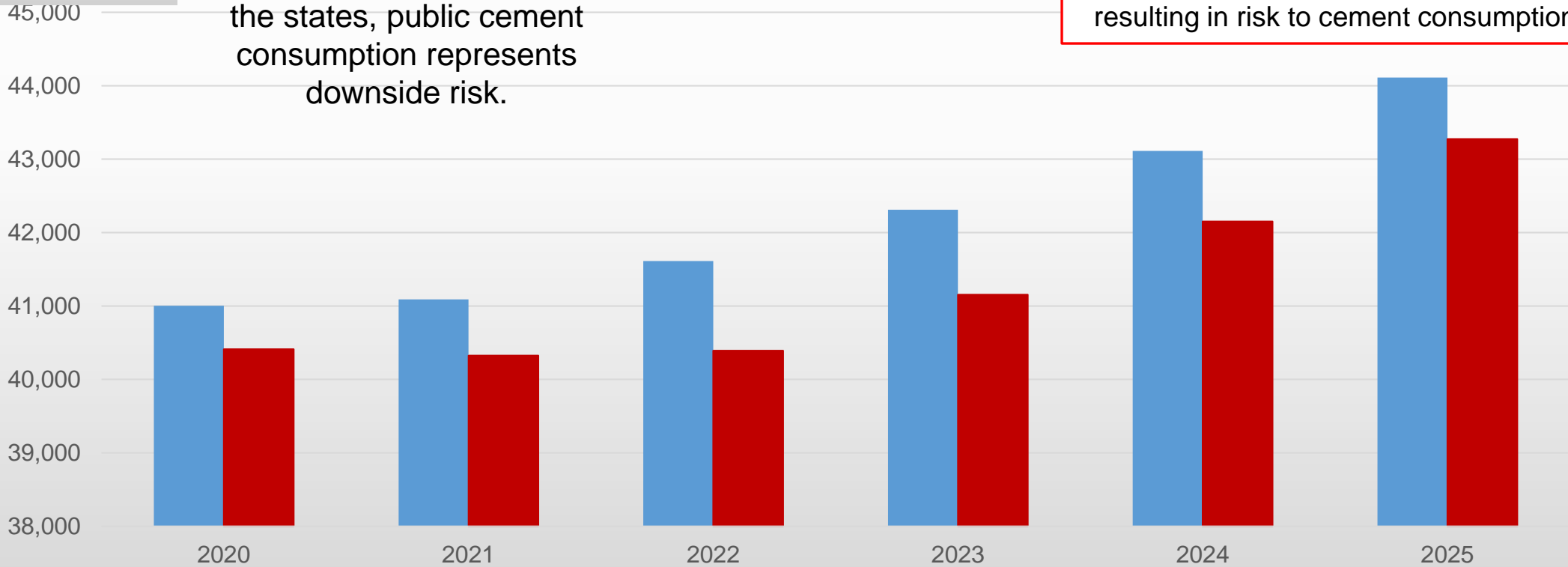
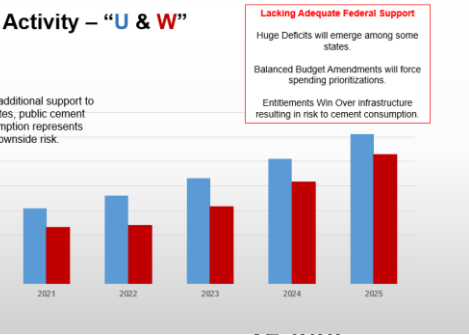


We Calculate State Revenues

- Individual & Corporate Income Taxes
- Sales Taxes
- Fuel Taxes
- Property & All Other
- Add CARES
- Assume drawdown of rainy day fund

Construction Activity – “U & W”

Activity – “U & W”



Lacking additional support to the states, public cement consumption represents downside risk.

Lacking Adequate Federal Support

Huge Deficits will emerge among some states.

Balanced Budget Amendments will force spending prioritizations.

Entitlements Win Over infrastructure resulting in risk to cement consumption.

Total

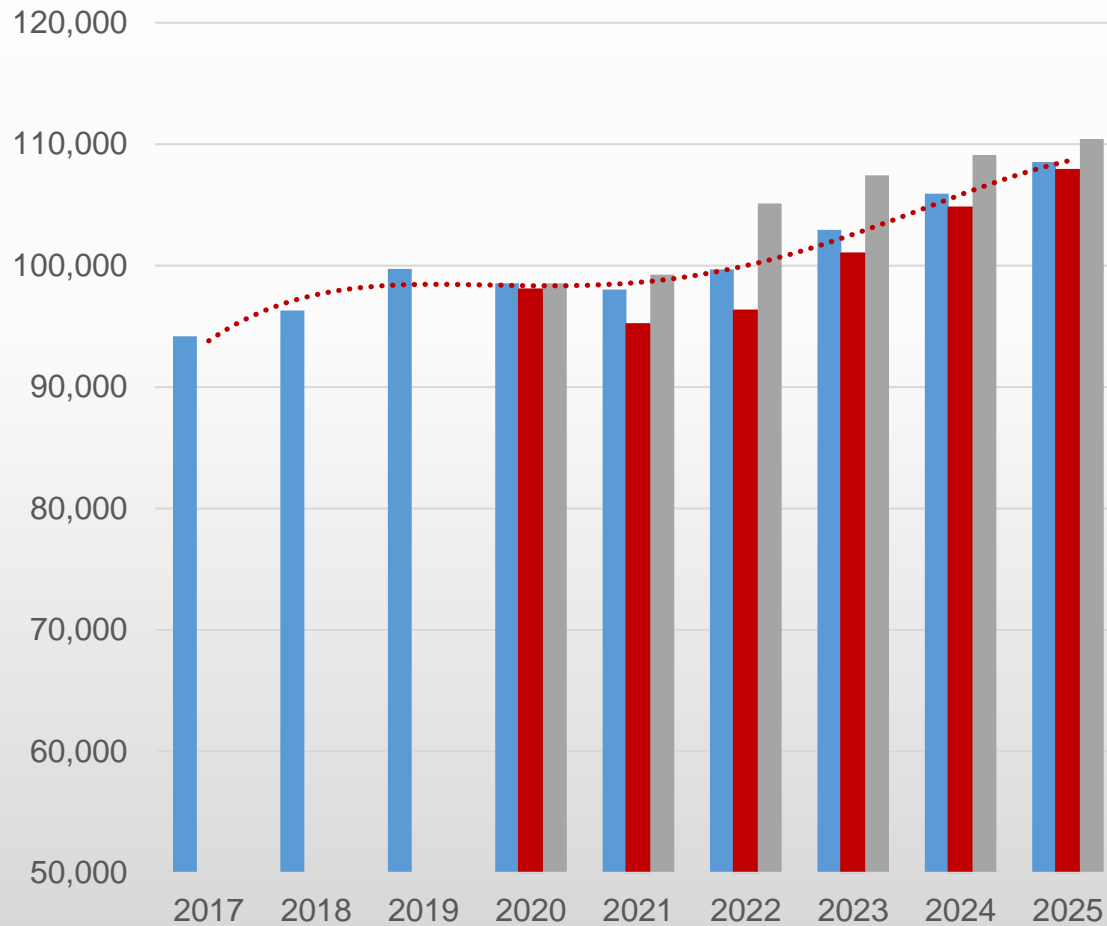
Scenario Probabilities

- **Gradual & Sustained Recovery (“U”) – 40%**
 - Covid-19 infections rise, economic growth slows/pauses, but does not turn negative.
- **Growth Interrupted (“W”) – 25%**
 - Covid-19 infections rise dramatically, states & consumers react, economic growth turns negative.
- **Vaccine Scenario – 35%**
 - A vaccine with at least 70% effectiveness widely distributed beginning Q3 2021.

Cement Consumption– “U, W & Vaccine” Scenarios

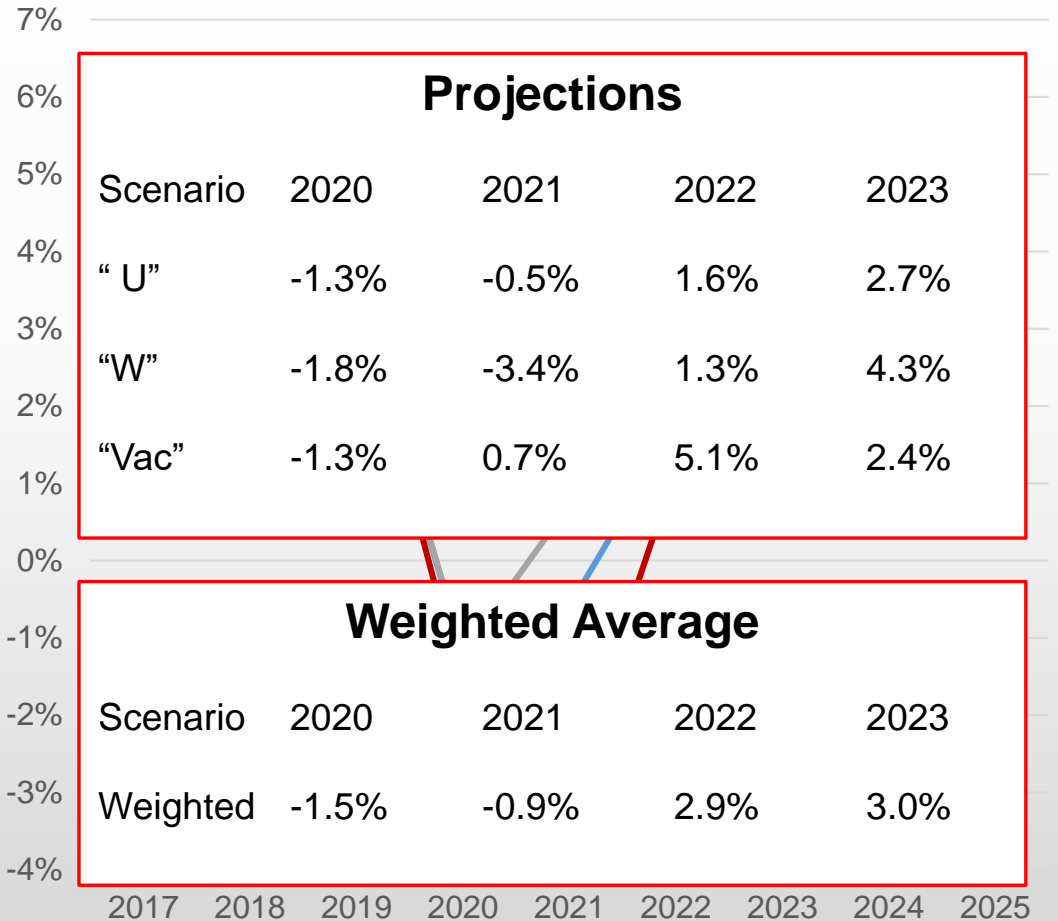
Cement Consumption

Metric Tons



Cement Consumption Growth

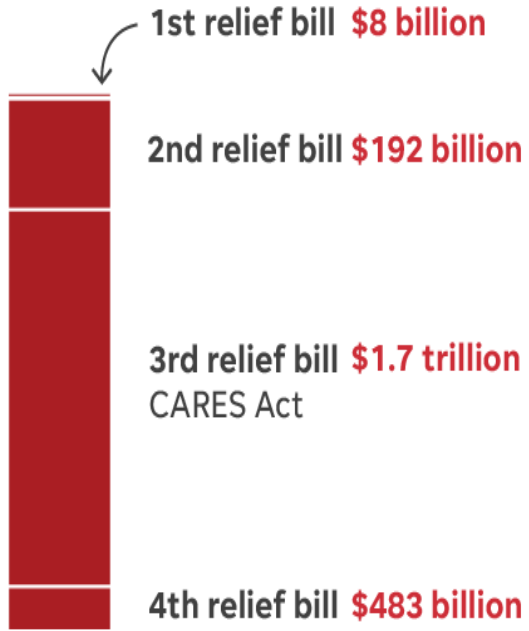
%, Y-O-Y



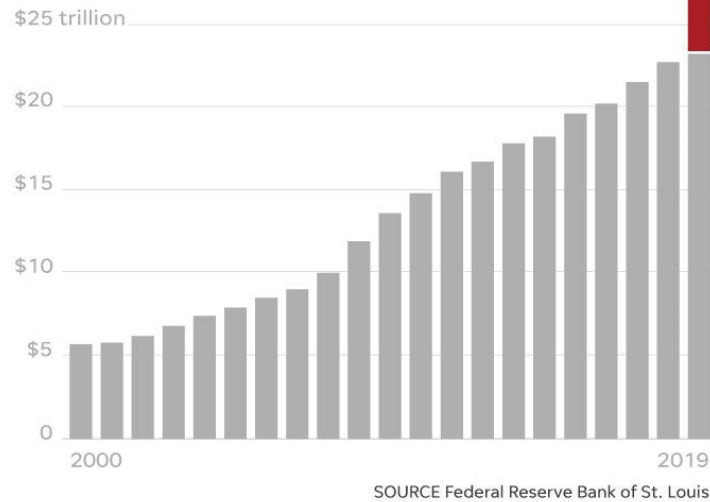
Beyond the Near Term Outlook

Federal Deficit

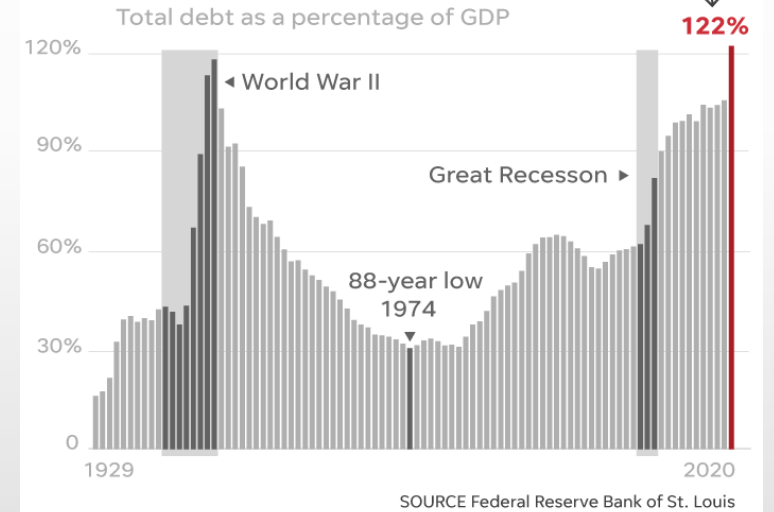
\$2.4 trillion
How much the federal government has committed to **coronavirus relief**



That **\$3.5 trillion** deficit would have a noticeable effect on the **total national debt**



A **\$3.5 trillion** increase in the debt would push it to levels not seen since World War II



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