

June 20, 2007

## Still Waiting: The Single-Family Recovery

### **Point 1: The single-family housing market has deteriorated beyond PCA's expectations.**

The single-family housing market has not yet stabilized. Single-family sales remain sluggish. Despite large cutbacks in single-family building activity, inventory conditions have not improved. Inventory of homes for sale is now at 8.0 months supply and are likely to increase further in the months ahead due to continued softness, increases in home foreclosures, and seasonal increases in inventory from existing homes. Home prices are declining and now stand 2.7% below year ago levels on a national basis. Year-to-date, single-family starts are off nearly 30% compared to 2006 levels. In addition, the weakness in single-family starts will likely extend deeper into 2008 than previously expected. The magnitude of the decline will play a significant role in determining the level of 2007 and 2008 cement consumption.

### **Point 2: Inventory conditions are not expected to improve as quickly as previously expected.**

Single-family inventories now stand at 4.1 million homes. Despite a 29% year-to-date reduction in single family starts activity, inventories are roughly 640,000 units above year ago levels. While single-family start activity has declined significantly, sales have also – diminishing the ability of homebuilders to improve inventories.

Existing home inventories will play an important role in the inventory correction process. Currently, nearly 87% of total home inventory is comprised of existing homes. During February through June, a bulge of existing homes is introduced for entry to the spring/summer selling season – adding to inventory on the market. This implies little near-term improvement in the number of homes on the market for sale. In addition to this seasonal phenomenon, foreclosure activity has increased significantly – adding even further to inventories. During 2006, roughly 400,000 homes went into foreclosure. Given the sub-prime woes and tighter lending standards, PCA expects foreclosures to double during 2007.

Although monthly data is highly volatile, PCA does not expect an improvement in inventory conditions to materialize until late in the third quarter or early in the fourth quarter of 2007. Even then, the improvement most likely will be modest. Inventory levels are expected to decline to 3.8 million homes by year-end, reflecting a 6.5 months supply.

# Home Inventory

Thousands of Homes for Sale



At a 5 months desired supply level, PCA's scenario suggests that 860,000 units in excess inventories will remain by year-end. The inventory correction process will most likely continue well into 2008. A desired level of inventory, assumed at 5 months supply, is not expected to materialize until the fourth quarter of 2008.

### **Point 3: Home sales activity is nearing a trough point. Improvement of the sales pace is expected to be gradual and modest.**

Single-family sales have been in decline for 17 months and now stand 19% below peak levels. Compared to year ago levels, single family sales are off 10% during the past three months – compared to 11% for a twelve month average. This may suggest that seasonally adjusted annual selling rates (SAAR) are nearing, but not at, trough levels.

High inventory levels will put additional downward pressure on home prices as will the higher proportion of repossessed homes entering the market since it is likely that lenders will be less interested in defending home prices than builders. PCA now expects home prices will decline by as much as 6% during 2007.

The improvement in new home affordability is expected to be partially offset by higher mortgage rates, tighter lending standards, and potentially slower income growth. Slow improvement in inflation, a modest tightening in global liquidity, and a reassessment of risk premiums have caused mortgage rates to rise faster than previously expected – and a 30-year conventional mortgage is now expected to average 6.7% during the remainder of 2007. Furthermore, a recent survey of lenders showed an increase in the reporting of tighter lending standards – the largest increase since 1990.

These conditions, coupled with the potential slowdown in job and income growth later this year, will partially offset the benefits to sales activity associated with improved affordability conditions via lower home prices. PCA expects home sales will reach a trough near a 6.1 million SAAR during the next few months and recover to a 6.5 million SAAR by year end. Depending on the rise in mortgage rates, even this modest projection may be optimistic.

**Point 4: Single-family housing starts activity is expected to stay depressed throughout the remainder of 2007 and well into 2008.**

The first quarter single-family starts came in at a 1.172 million SAAR – exactly in line with PCA year-end spring projections. Year-to-date, single-family starts are off nearly 30% compared to 2006 levels. Burdened by slow sales activity and the stubborn improvement in inventories, even this pace may not be maintained. PCA now expects single-family starts will remain near a 1 million SAAR for the remainder of 2007 and through the first quarter of 2008. For the year, PCA anticipates single-family starts will come in below 1.1 million starts (1.040 to 1.070 million starts) compared to a spring forecast of 1.172 starts. For 2008, single-family starts are expected to approach 1.15 million units – compared to a previous forecast of 1.28 million units.

**Point 5: The drag on cement consumption from the residential sector is expected to be greater for 2007 and 2008.**

PCA's spring forecast predicted single-family cement consumption would reach 21.4 million metric tons – reflecting a 5.5 million metric ton decline from estimated 2006 levels, or a 20.5% decline. Current conditions in the housing market now suggest that the decline in cement consumption arising from the single-family sector could reach 7.5 to 8 million tons, or roughly a 30% decline. This translates into a 6.5% drag on total United States' 2007 cement consumption compared to 2006 levels versus a 4.5% drag contained in the spring forecast. The weaker 2008 recovery in single-family starts now envisioned implies cement consumption will be roughly 3 million metric tons less than projected in the spring forecast.

# Residential Pulse

## United States: Single Family

	2006		2007				2005	2006	2007	12 Month Average	6 Month Average	3 Month Average
	Nov	Dec	Jan	Feb	Mar	Apr						
<b>Sales Activity</b>												
<b>Total Single Family</b>	<b>6,477</b>	<b>6,519</b>	<b>6,560</b>	<b>6,736</b>	<b>6,194</b>	<b>6,201</b>	<b>7,461</b>	<b>6,757</b>	<b>6,423</b>	<b>6,528</b>	<b>6,448</b>	<b>6,377</b>
Percent Change, Year Ago	-11.9%	-9.1%	-7.9%	-6.1%	-13.6%	-11.1%	--	-9.4%	-4.9%	-11.2%	-10.0%	-10.3%
Percent Change, Previous Month	0.1%	0.6%	0.6%	2.7%	-8.0%	0.1%	--	--	--	--	--	--
<b>Existing Single Family</b>	<b>5,490</b>	<b>5,500</b>	<b>5,670</b>	<b>5,880</b>	<b>5,350</b>	<b>5,220</b>	<b>6,182</b>	<b>5,708</b>	<b>5,530</b>	<b>5,555</b>	<b>5,518</b>	<b>5,483</b>
Percent Change, Year Ago	-10.6%	-7.3%	-4.5%	-3.4%	-11.4%	-11.2%	--	-7.7%	-3.1%	-9.3%	-8.1%	-8.7%
Percent Change, Previous Month	-0.5%	0.2%	3.1%	3.7%	-9.0%	-2.4%	--	--	--	--	--	--
<b>New Single Family</b>	<b>987</b>	<b>1,019</b>	<b>890</b>	<b>856</b>	<b>844</b>	<b>981</b>	<b>1,279</b>	<b>1,049</b>	<b>893</b>	<b>973</b>	<b>930</b>	<b>894</b>
Percent Change, Year Ago	-18.7%	-17.8%	-24.9%	-21.0%	-25.0%	-10.6%	--	-18.0%	-14.9%	-20.8%	-19.7%	-18.9%
Percent Change, Previous Month	3.7%	3.2%	-12.7%	-3.8%	-1.4%	16.2%	--	--	--	--	--	--
<b>Home Prices (\$)</b>												
<b>Total Single Family</b>	<b>221,397</b>	<b>223,969</b>	<b>223,012</b>	<b>224,536</b>	<b>228,086</b>	<b>222,479</b>	<b>220,213</b>	<b>225,177</b>	<b>224,528</b>	<b>224,135</b>	<b>223,913</b>	<b>225,034</b>
Percent Change, Year Ago	-3.1%	0.1%	-2.5%	-0.9%	0.7%	-2.7%	--	2.3%	-0.3%	-0.7%	-1.4%	-1.0%
Percent Change, Previous Month	-0.9%	1.2%	-0.4%	0.7%	1.6%	-2.5%	--	--	--	--	--	--
<b>Existing Single Family</b>	<b>217,853</b>	<b>220,246</b>	<b>218,161</b>	<b>222,222</b>	<b>223,237</b>	<b>222,823</b>	<b>217,309</b>	<b>221,904</b>	<b>221,611</b>	<b>220,865</b>	<b>220,757</b>	<b>222,761</b>
Percent Change, Year Ago	-3.8%	-0.3%	-3.4%	-0.8%	-0.4%	-1.0%	--	2.1%	-0.1%	-0.9%	-1.6%	-0.7%
Percent Change, Previous Month	-0.7%	1.1%	-0.9%	1.9%	0.5%	-0.2%	--	--	--	--	--	--
<b>New Single Family</b>	<b>241,110</b>	<b>244,065</b>	<b>253,918</b>	<b>240,434</b>	<b>258,821</b>	<b>220,645</b>	<b>234,231</b>	<b>243,036</b>	<b>243,455</b>	<b>243,103</b>	<b>243,166</b>	<b>239,967</b>
Percent Change, Year Ago	0.8%	2.6%	4.0%	-0.3%	7.9%	-10.9%	--	3.8%	0.2%	1.5%	0.6%	-1.2%
Percent Change, Previous Month	-2.3%	1.2%	4.0%	-5.3%	7.6%	-14.8%	--	--	--	--	--	--
<b>Mortgage Rates (%)</b>												
30 Year Fixed Conventional	6.24	6.14	6.22	6.29	6.16	6.18	5.87	6.41	6.21	6.38	6.20	6.21
15 Year Fixed	5.96	5.88	5.97	6.02	5.88	5.88	5.42	6.06	5.94	6.07	5.93	5.93
1 Year ARM	5.51	5.45	5.47	5.51	5.44	5.45	4.49	5.53	5.47	5.56	5.47	5.47
<b>Monthly Payments (\$)</b>												
<b>Fixed:</b>												
<b>Total</b>	<b>1,355</b>	<b>1,357</b>	<b>1,363</b>	<b>1,383</b>	<b>1,385</b>	<b>1,353</b>	<b>1,291</b>	<b>1,402</b>	<b>1,371</b>	<b>1,392</b>	<b>1,366</b>	<b>1,374</b>
Percent Change, Year Ago	-3.7%	-0.9%	-1.4%	-0.2%	-0.9%	-5.9%	--	8.6%	-2.2%	3.1%	-2.2%	-2.4%
Percent Change, Previous Month	-2.1%	0.1%	0.5%	1.5%	0.1%	-2.3%	--	--	--	--	--	--
Existing	1,340	1,340	1,339	1,374	1,361	1,362	1,285	1,390	1,359	1,379	1,353	1,366
New	1,439	1,445	1,517	1,445	1,532	1,306	1,318	1,468	1,450	1,468	1,447	1,427
<b>Adjustable:</b>												
<b>Total</b>	<b>1,258</b>	<b>1,265</b>	<b>1,261</b>	<b>1,276</b>	<b>1,286</b>	<b>1,256</b>	<b>1,116</b>	<b>1,283</b>	<b>1,270</b>	<b>1,281</b>	<b>1,267</b>	<b>1,273</b>
Percent Change, Year Ago	1.0%	3.2%	0.7%	1.0%	0.9%	-4.5%	--	15.0%	-1.0%	6.9%	0.3%	-0.9%
Percent Change, Previous Month	-1.3%	0.5%	-0.3%	1.2%	0.8%	-2.4%	--	--	--	--	--	--
Existing	1,238	1,244	1,234	1,263	1,259	1,258	1,101	1,264	1,254	1,262	1,249	1,260
New	1,371	1,378	1,436	1,367	1,460	1,246	1,187	1,385	1,377	6.7%	0.2%	-0.7%

# Residential Pulse

## United States: Single Family

	2006		2007				2005	2006	2007	12 Month Average	6 Month Average	3 Month Average
	Nov	Dec	Jan	Feb	Mar	Apr						
<b>Affordability</b>												
<b>Fixed:</b>												
Monthly Payment	1,355	1,357	1,363	1,383	1,385	1,353	1,291	1,402	1,371	1,392	1,366	1,374
Average Monthly Income	5,373	5,396	5,440	5,470	5,506	5,496	5,076	5,302	5,478	5,378	5,447	5,491
Percent of Household Income	25.2%	25.1%	25.1%	25.3%	25.1%	24.6%	25.4%	26.4%	25.0%	25.9%	25.1%	25.0%
<b>Adjustable:</b>												
Monthly Payment	1,258	1,265	1,261	1,276	1,286	1,256	1,116	1,283	1,270	1,281	1,267	1,273
Average Monthly Income	5,373	5,396	5,440	5,470	5,506	5,496	5,076	5,302	5,478	5,378	5,447	5,491
Percent of Household Income	23.4%	23.4%	23.2%	23.3%	23.4%	22.9%	22.0%	24.2%	23.2%	23.8%	23.3%	23.2%
<b>Mortgage Activity</b>												
<b>Total, Percent Change (%)</b>	<b>28.10</b>	<b>-39.90</b>	<b>22.30</b>	<b>11.30</b>	<b>-7.70</b>	<b>-45.80</b>	<b>-7.17</b>	<b>-1.19</b>	<b>-4.97</b>	<b>-5.27</b>	<b>-5.28</b>	<b>-14.07</b>
For Purchase, Percent Change	15.20	-35.70	23.90	5.90	-7.50	-43.10	-1.93	-0.65	8.87	-4.99	-6.88	-14.90
For Refinance, Percent Change	42.00	-43.70	20.80	16.80	-7.90	-48.30	-9.22	-1.30	7.44	-5.22	-3.38	-13.13
<b>Inventory</b>												
<b>Number of Homes on Market (000)</b>	<b>3,727</b>	<b>3,694</b>	<b>3,792</b>	<b>3,883</b>	<b>3,886</b>	<b>4,069</b>	<b>2,736</b>	<b>3,565</b>	<b>3,907</b>	<b>3,771</b>	<b>3,842</b>	<b>3,946</b>
Change, Year Ago	771	606	631	668	536	632	--	829	342	777	641	612
Month's Supply of Homes on Market	7.0	6.4	6.6	6.7	7.3	8.0	4.4	6.4	7.1	7.0	7.0	7.3
<b>Existing:</b>												
<b>Number of Single Family Homes on Market</b>	<b>3,185</b>	<b>3,159</b>	<b>3,256</b>	<b>3,338</b>	<b>3,340</b>	<b>3,531</b>	<b>2,269</b>	<b>3,012</b>	<b>3,366</b>	<b>3,218</b>	<b>3,301</b>	<b>3,403</b>
Months Supply of Homes on Market	7.10	6.40	6.50	6.50	7.20	8.30	4.4	6.4	7.1	7.0	7.0	7.3
Monthly Selling Rate, Seasonally Adjusted	449	494	501	514	464	425	515	476	476	463	474	468
<b>New:</b>												
<b>Number of Single Family Homes on Market</b>	<b>542</b>	<b>535</b>	<b>536</b>	<b>545</b>	<b>546</b>	<b>538</b>	<b>468</b>	<b>553</b>	<b>541</b>	<b>552</b>	<b>540</b>	<b>543</b>
Months Supply of Homes on Market	6.50	6.20	7.20	8.00	8.10	6.50	4.5	6.4	7.5	6.9	7.1	7.5
Monthly Selling Rate, Seasonally Adjusted	83	86	74	68	67	83	105	86	73	80	77	73
<b>Inventory Change (000)</b>												
<b>Change Total Inventory, Previous Month</b>	<b>-70</b>	<b>-321</b>	<b>132</b>	<b>142</b>	<b>29</b>	<b>362</b>	<b>42</b>	<b>46</b>	<b>166</b>	<b>53</b>	<b>46</b>	<b>178</b>
Change in Sales, Previous Month	-43	-7	-94	22	94	39	-1	-5	15	-4	2	52
Starts	92	82	75	83	101	114	143	122	93	110	91	99
Other Supply from Existing Homes	-205	-410	-37	81	22	287	-102	-81	88	-62	-44	130
Other Supply Percent of Inventory	-5.4%	-11.9%	-1.0%	2.2%	0.6%	7.0%	-3.7%	-2.3%	2.3%	-1.6%	-1.1%	3.3%
<b>Starts Activity</b>												
<b>Total Single Family</b>	<b>1,273</b>	<b>1,241</b>	<b>1,123</b>	<b>1,188</b>	<b>1,205</b>	<b>1,211</b>	<b>1,719</b>	<b>1,474</b>	<b>1,182</b>	<b>1,304</b>	<b>1,207</b>	<b>1,201</b>
Percent Change, Year Ago	-29.6%	-23.8%	-38.9%	-34.3%	-25.2%	-19.8%	--	-14.2%	-19.8%	-24.1%	-29.0%	-26.9%