U.S. and Nebraska Construction Materials Forecast

Presented to:

Nebraska Concrete and Aggregate Association

February 9, 2001
Columbus, Nebraska

The Greystone Group LLC
Investment Banking

Presentation Outline

I. Introduction

Introduction

Christian G. Holmsen
The Greystone Group LLC

- Investment banking firm with offices in San Diego, California and Denver, Colorado.
- Corporate finance advisory services to middle market companies.
- Primary focus on the U.S. construction materials industry.
(cement, aggregates, ready mix concrete, asphalt, concrete products, gypsum, etc.)
- Performs significant research on construction activity and construction materials production and consumption.

Introduction

- Greystone principals have managed more than 35 construction materials related transactions, with valuations exceeding $1.3 billion.
- Set forth below is a list of Greystone clients:

• **Amaya Curiel Y CIA, S.A.**	• **Geneva Pipe Company**	• **P.W. Gillibrand Co., Inc.**
• **Caribbean Cement Co. Limited**	• **Glacier Northwest, Inc.**	• **Pioneer USA, Inc.**
• **Cemex USA, Inc., formerly Southdown, Inc.**	• **Hotmix, Inc.**	• **Riverside Cement Company**
• **Centex Construction Products, Inc.**	• **John Hancock Mutual Life Insurance Co.**	• **Scancem International ANS**
• **Columbia River Sand & Gravel, Inc.**	• **Jones Sand Co. & Olin Jones Sand Co.**	• **Stable Air, Inc.**
• **CZS Corporation**	• **Knife River Corporation**	• **Ssangyong Corporation**
• **Deschutes Ready Mix, Sand & Gravel Co.**	• **MDU Resources Group, Inc.**	• **Taiheiyo Cement Corporation**
• **Enable Incorporated**	• **Moe Sand Company**	• **Tidewater Sand & Gravel, Inc.**
• **Enron Corp.**	• **Nelson Holding Company d/b/a Nelson & Sloan**	• **Western Salt Company**

II. U.S. Macro Economic Overview

U.S. Macro Economic Overview

- The current economic expansion has now run for 117 consecutive months (December 2000), and has become the longest period of economic growth in U.S. history.

- However, it is also becoming increasingly clear that the fantastic period of economic growth we have experienced during the decade of the 1990s has begun to slow.

- As a number of economic indicators attest, the growth in the domestic economy started to decelerate during the third quarter of 2000, and continued to moderate during the fourth quarter.

U.S. Macro Economic Overview

- Productivity, corporate profitability and inflationary pressures have eased, as have interest rates.
- However, notwithstanding a significant correction in the market value of the technology industry, the overall economy is still healthy and resilient.
- The U.S. post a very low unemployment rate (4.0 percent as of December 2000), price pressures remain subdued, loan quality remains strong despite tightening standards, and interest rates are favorable.

U.S. Macro Economic Overview

- Moreover, a general economic slowdown has been overdue in our opinion, in order to establish a more sustainable pace of long-term economic growth.

- With the apparent slowdown in the Gross Domestic Product (GDP) during the second half of 2000, the average growth rate for 2000 appears to decline to 3.5 percent after three consecutive years of growth above the 4.0 percent mark.

- The historical performance is impressive when recalling that economists typically view a 2.5 - 3.0 percent average annual GDP growth rate as the sustainable long-term trend.

U.S. Macro Economic Overview

- Accordingly, once again do we see proof that our national economy expands in a cyclical fashion, with several years of growth (typically 5-10) followed by a a few years of moderation (typically 1-3).

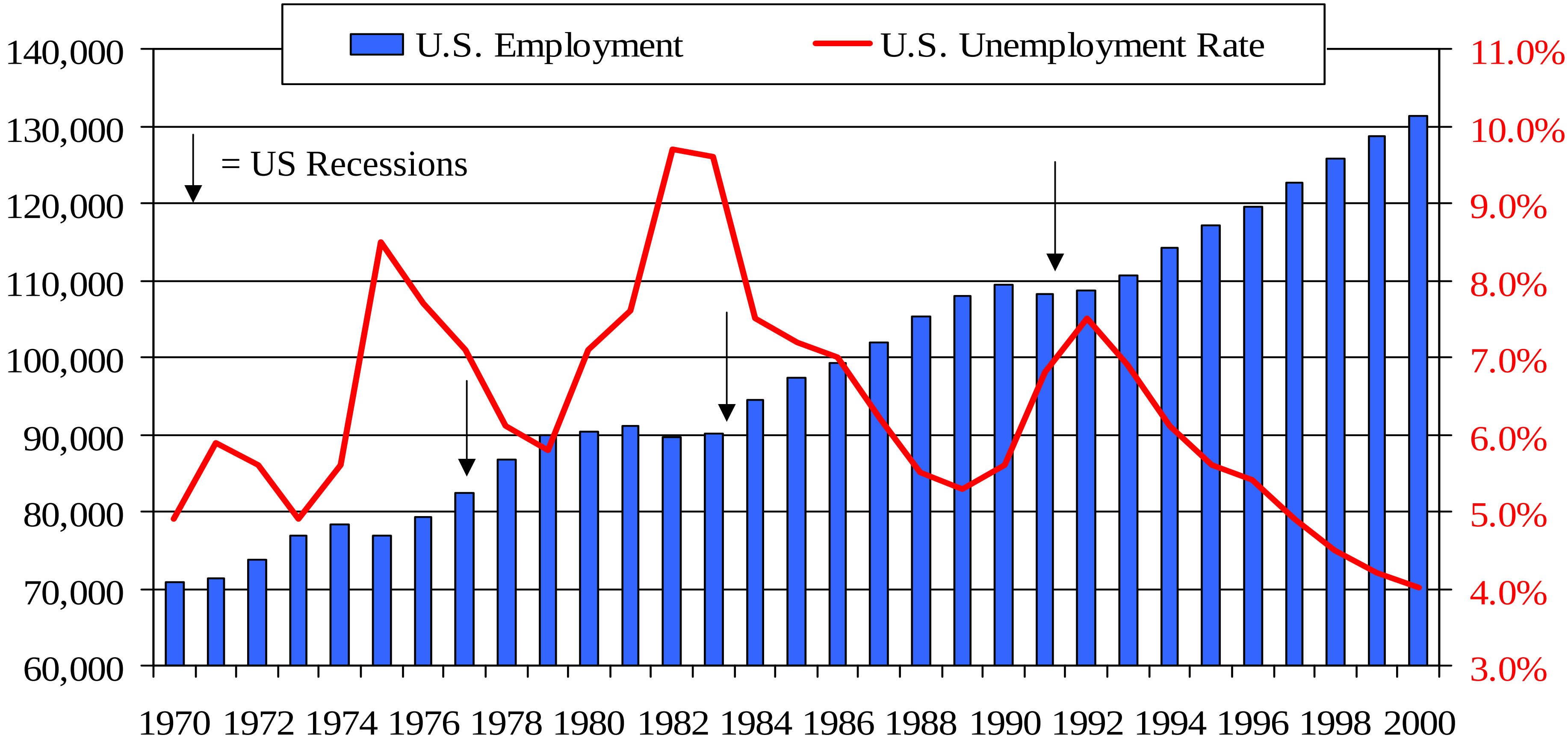
- This “old school” economic thought had seen some challenge during the last few years, as select economists argued that continued increases in productivity and technological improvements could support long-term linear growth at above historical average rates.

- A brief look at past U.S. employment figures and unemployment rates offer some insight to the cyclical history of the U.S. economy.

U.S. Macro Economic Overview

Employment & Unemployment Rate

1970-2000



U.S. Macro Economic Overview

- As it appears that the U.S. economy is transitioning to moderate to slow growth, or perhaps even negative growth, we are currently closing the chapter on the fourth and strongest period of economic growth since the 1960s.

- But a correction and realignment in certain industries, stock markets, local metropolitan economies, political policies, tax laws and employment trends does not pose a threat to the long-term health of our economy.

- In fact, it is this slowdown that the Federal Open Market Committee (FOMC), headed by Chairman Alan Greenspan, has tried to foster through its conservative interest rates policies.

U.S. Macro Economic Overview

- After maintaining the target federal funds rate at 6.5 percent during the last six meetings, the Feds dropped the target rate by 50 basis points on January 3, 2001, and another 50 basis points on January 31, 2001.

- The Fed's two significant moves were clear indications that the risks of inflation and price pressure has subsided, and that the Fed is now trying to architect the "soft landing."

- According to the Federal Reserve's Beige Book for January 17, an economic slowdown has been recorded through January 10, 2001.

U.S. Macro Economic Overview

- The report confirms that retail sales have slowed, inventories are beginning to rise, manufacturing activity is weakening, and some pressure is beginning to ease in labor markets.

- The report, however, is by no means completely negative. It reports continued robust economic activity in the Northeast and the West, still vibrant tourism-related activity, an expanding energy sector, and stable credit quality.

- Most likely, we are experiencing a short and mild slowdown, followed by an economy aligned for future long-term growth.

III. U.S. Construction Activity

U.S. Construction Activity

- So what does this mean for the construction industry?

- Driven by strong economic and demographic growth, the U.S. construction industry had a record year in 1999 with continued growth in population, housing starts, construction employment, construction spending and construction materials consumption.

- Additionally, the construction industry continued to record advances in most indicators during 2000 based on the most recent numbers available.

U.S. Construction Activity

- Accordingly, construction spending and construction materials consumption will once again outperform the prior year in terms of total numbers, although growth rates appear to be moderating in line with the overall economy.

- Just like the U.S. economy has gone through periods of fast growth, followed by periods of moderation or correction, the U.S. construction industry has been predictably cyclical.

- The current expansion has been particularly favorable given its consistent strong growth compared to the prior three cycles which either saw a shorter and more aggressive growth curve (75-82 and 82-91), or a longer but less consistent expansion (64-75).

U.S. Construction Activity

- The current expansion has sustained this long, and we think will see less modulation in the next construction dip, because:

  1. it started more moderately,

  2. is seeing moderation affected by varying regional pacing,

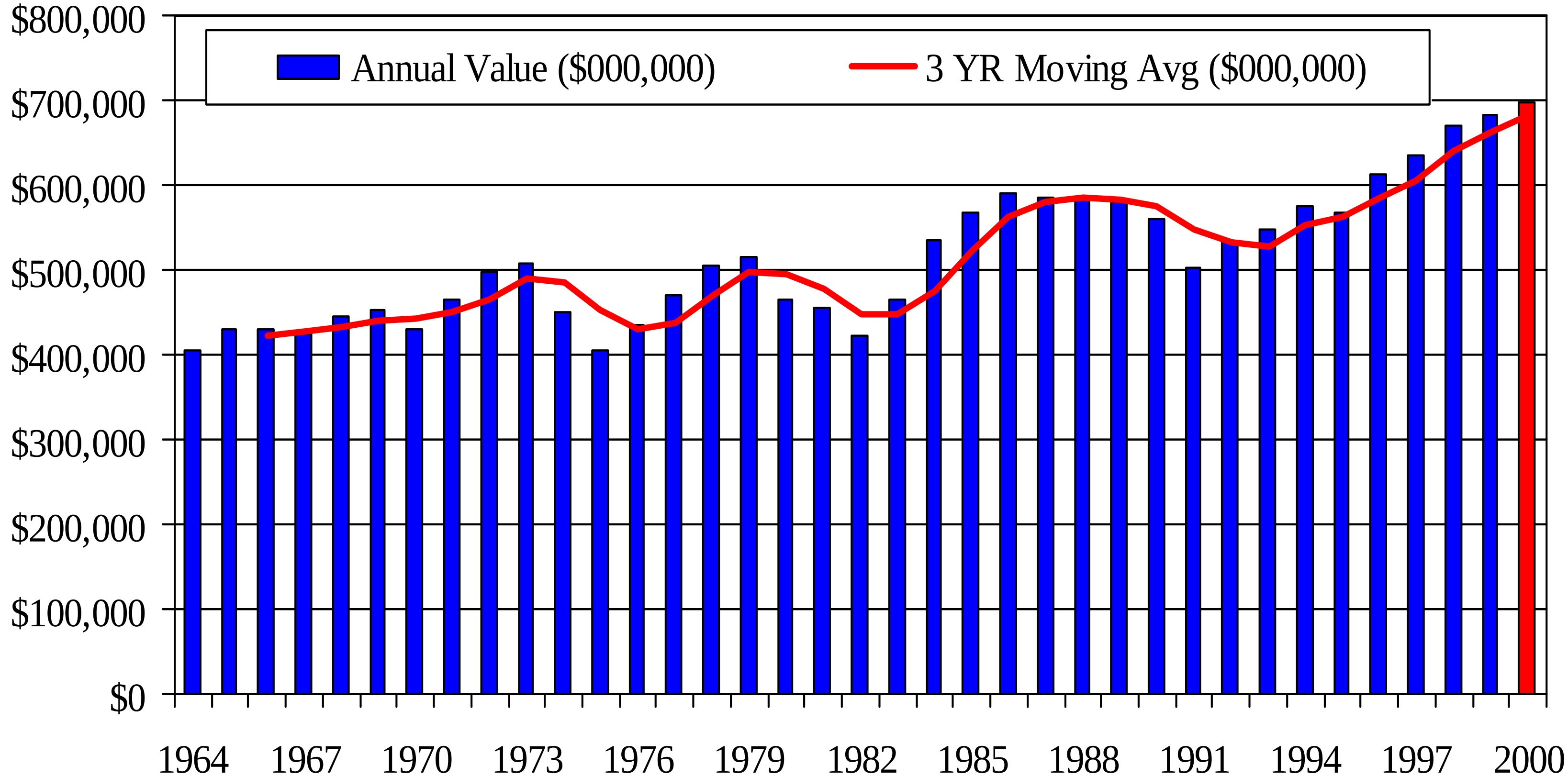
  3. will continue to benefit from a strong and diversified economy driven by improved productivity and smarter fiscal policy, and

  4. will enjoy smoothing due to new federal spending programs (i.e. TEA-21).

U.S. Construction Activity

Construction Cycles

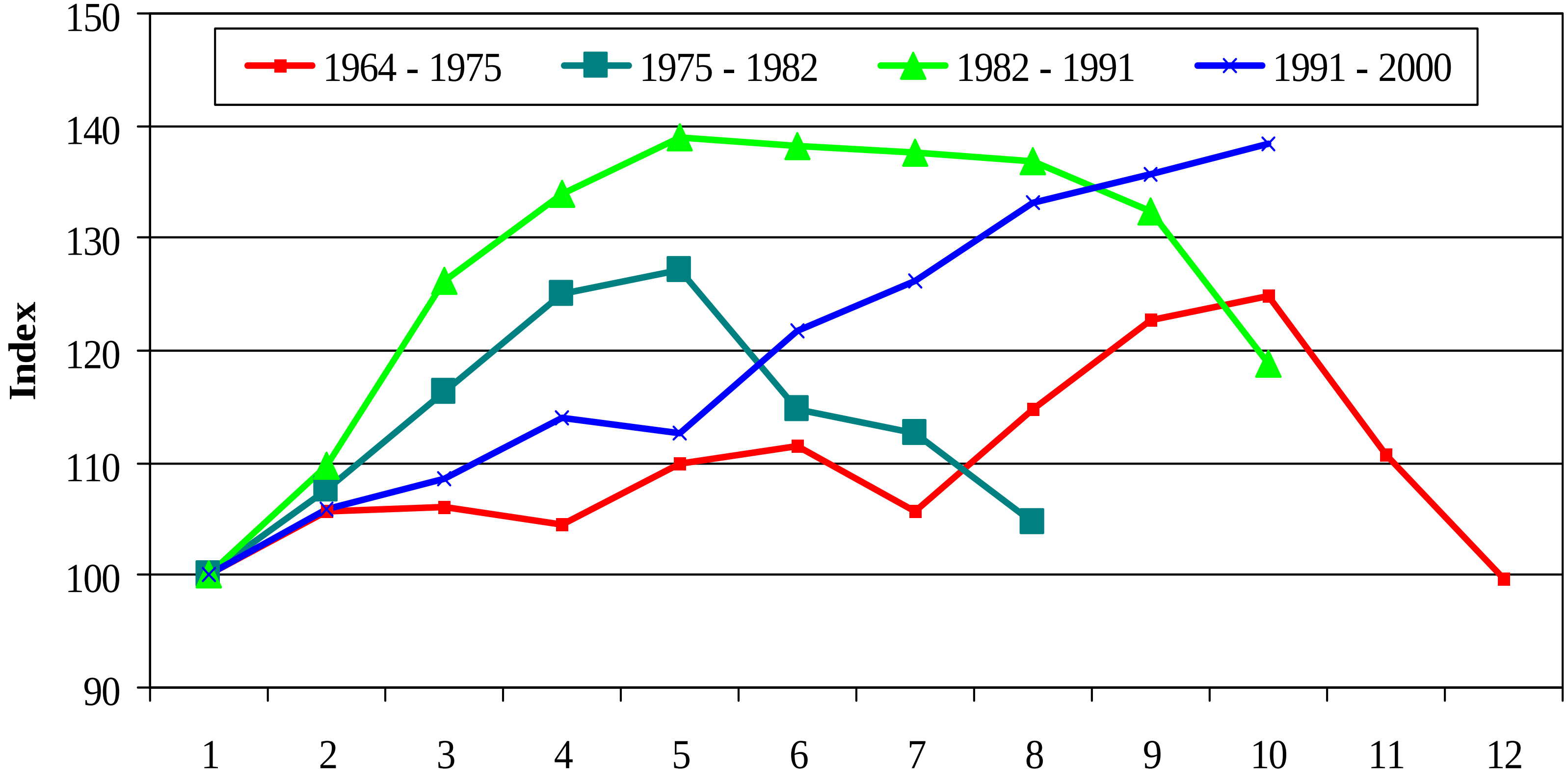
Total Value Put in Place - Constant 1996 Dollars



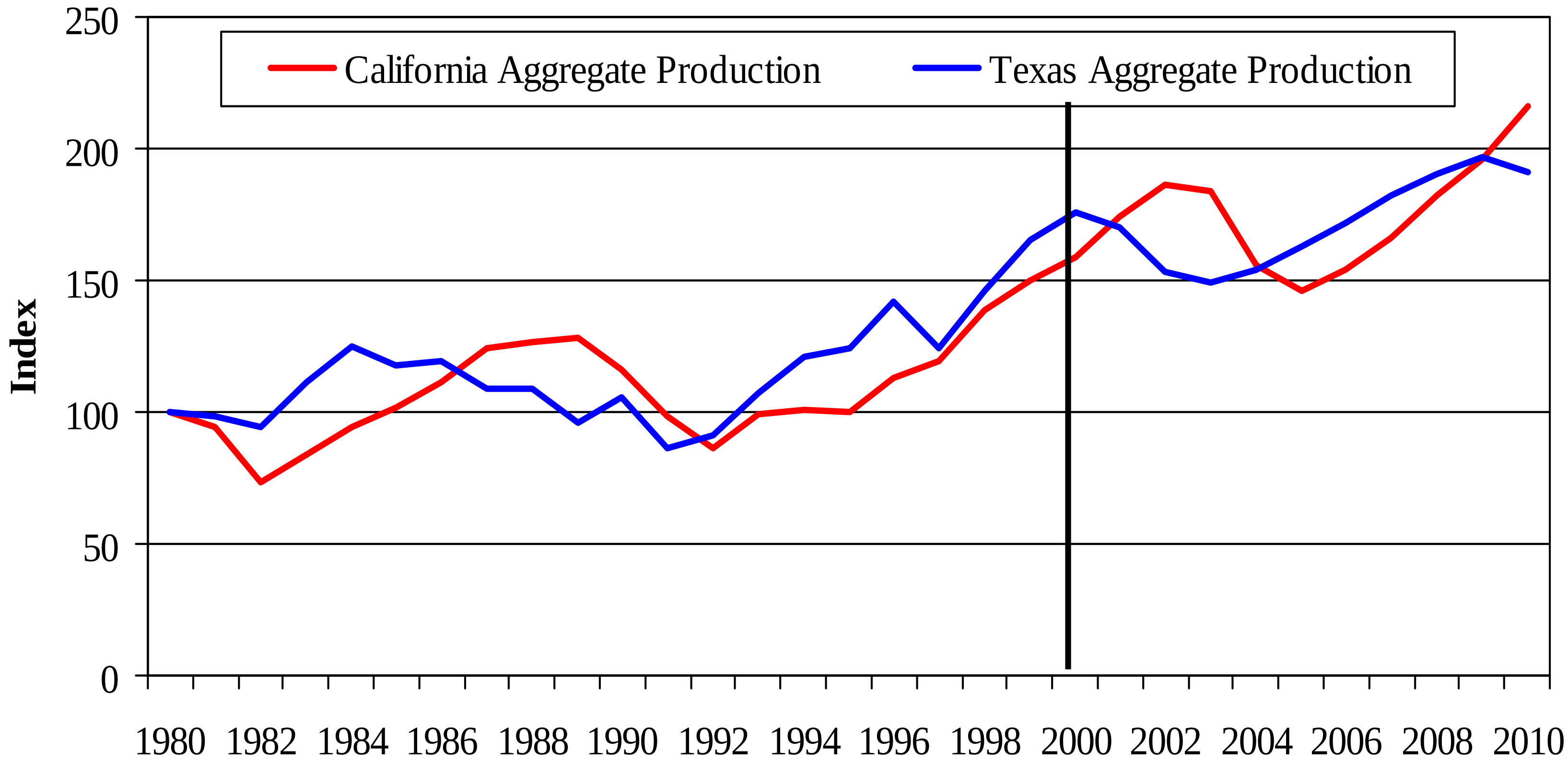
U.S. Construction Activity

Construction Cycles

Total Value Put in Place - Indexed Cycle Comparisons



U.S. Construction Activity
Construction Cycles
Example of Regional Smoothing



U.S. Construction Activity

- Currently, the United States is home to an estimated 275 million residents filling 131 million jobs. Approximately 6.7 million, or 5. percent, are employed in the construction industry, an all time high for the sector.

- During the past twenty years, U.S. construction employment has recorded overall positive and cyclical growth, averaging a compound annual growth rate (CAGR) of 2.2 percent per year.

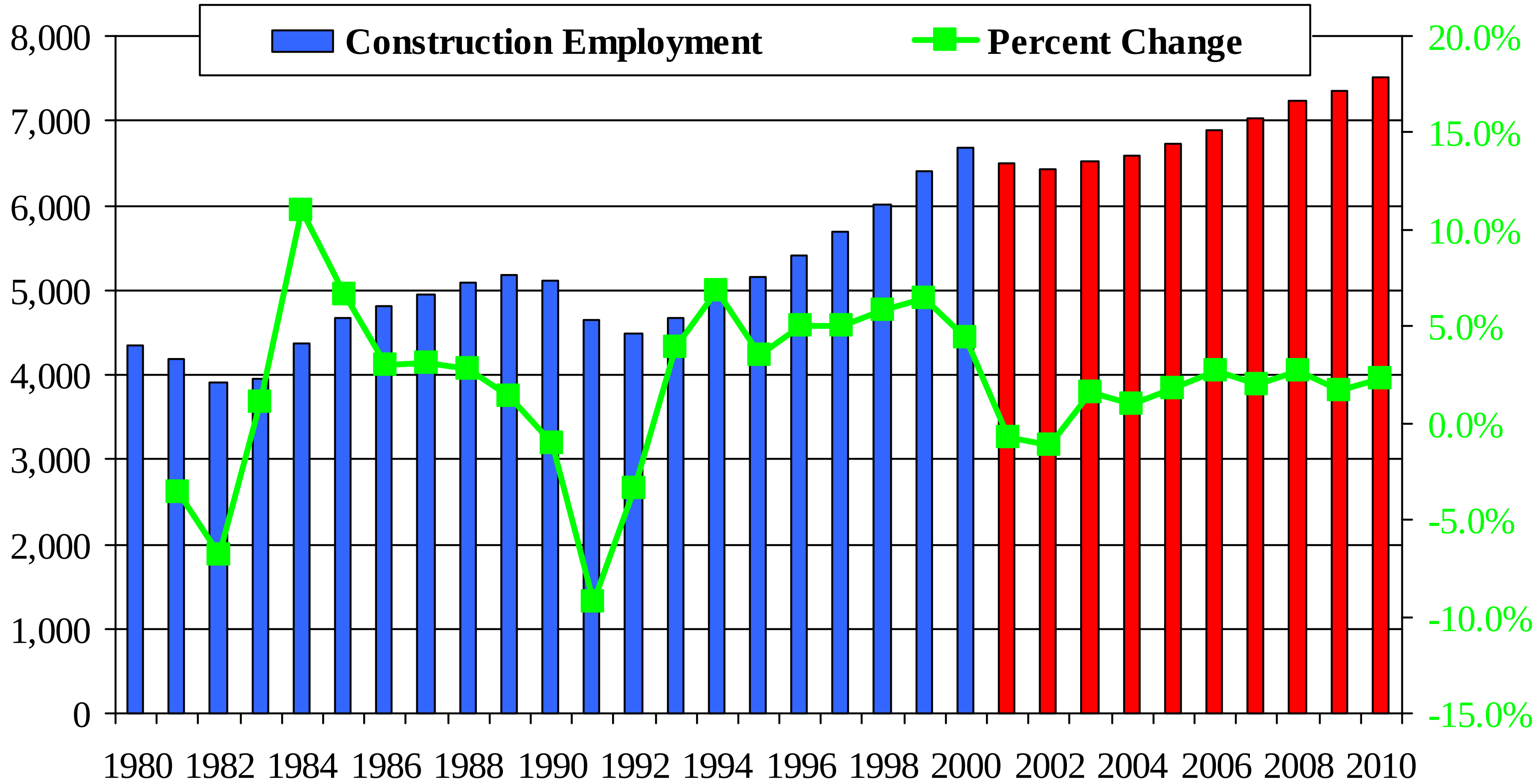
- The 1990s, with a CAGR of 2.7 percent, grew somewhat faster than the 1980s with a 1.7 percent growth rate.

- The next decade is cast to record a 1.4 percent CAGR, bringing construction employment to a record high 7.5 million employees by 2010. A more tempered growth rate reflects today's current high levels of activity.

U.S. Construction Activity

Construction Employment

(000 Persons)



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U.S. Construction Activity

- In the 1999 residential sector, housing starts remained exceptionally strong at nearly 1.7 million units, the highest level since 1986, which is particularly significant considering that the nation also recorded three interest rate hikes during that year.

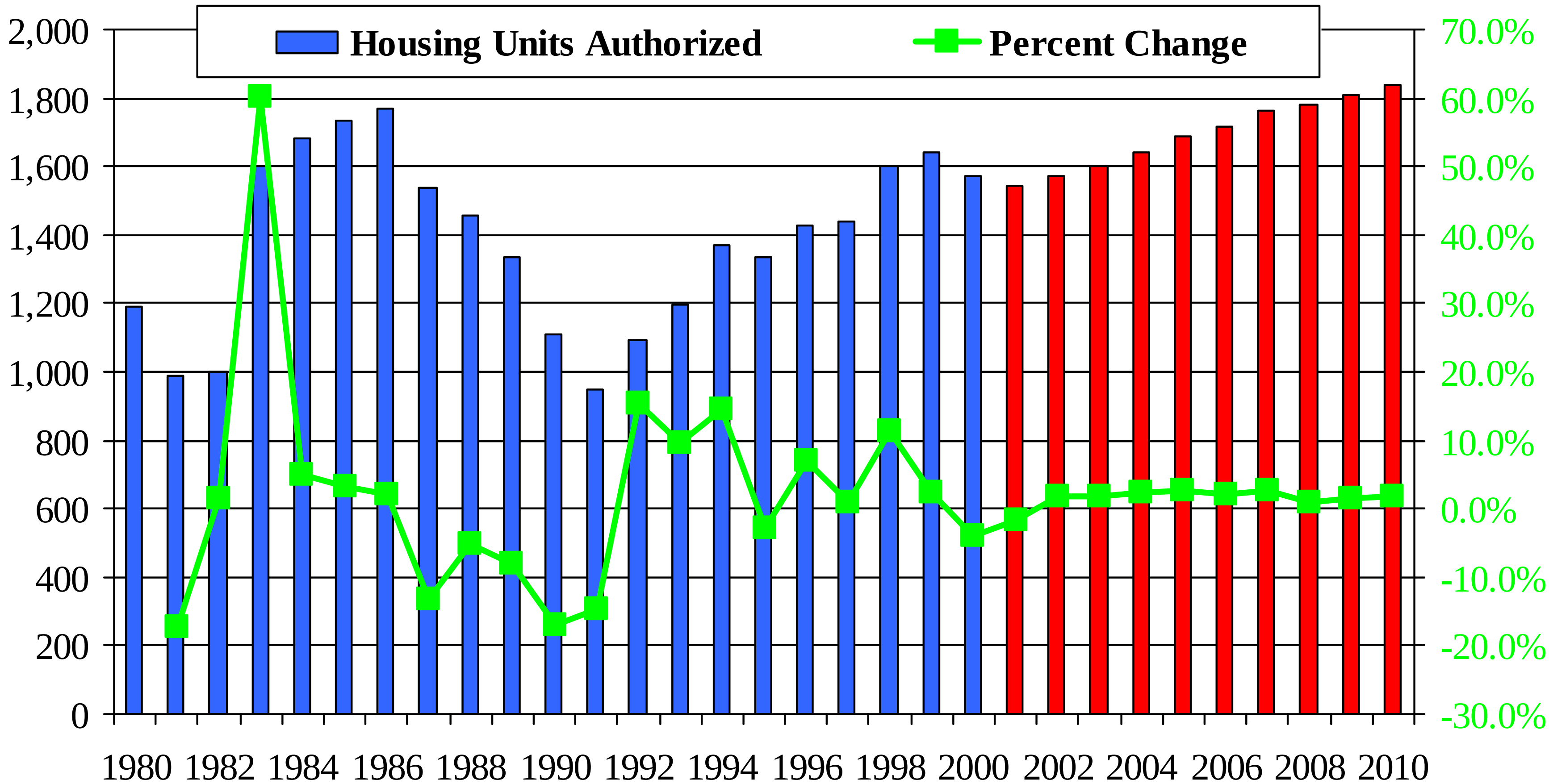
- However, with the added increases in lending rates during 2000, residential activity showed a moderating trend. Based on new home permits authorized during the first three quarters of 2000, total home permits are cast to decline by 4.0 percent from 1999 levels.

- Despite a short-term decline in home building, new home permits are expected to expand at an average annual compound rate of 1.6 percent during the next ten years to exceed 1.8 million units by 2010.

U.S. Construction Activity

Housing Permits

(000 Units)



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Investment Banking

U.S. Construction Activity

- Total construction measured by value put in place is also at an all time high. During 1999 the industry recorded $692.5 billion of construction laid in place (constant 1996 dollars), a 3.3 percent increase over the 1998 total.

- As of November 2000, the annual rate was at $702.5 billion (constant 1996 dollars), up another 1.25 percent over 1999.

- Private construction accounts for 77.6 percent of all spending, with residential building representing nearly two-thirds of all private building.

- During the first three quarters of 2000, both residential construction and public construction was on par with 1999 levels. However, commercial construction for the same period was up 6.4 percent from the prior year.

U.S. Construction Activity

- With continued growth in population, households and residential, commercial and public building during the next decade, construction services and construction materials will continue to be in high demand.

- And while the forecast period will continue to see cyclical growth in construction activity, the gyrations during the forthcoming decade should be less modulated than they have been in the past.

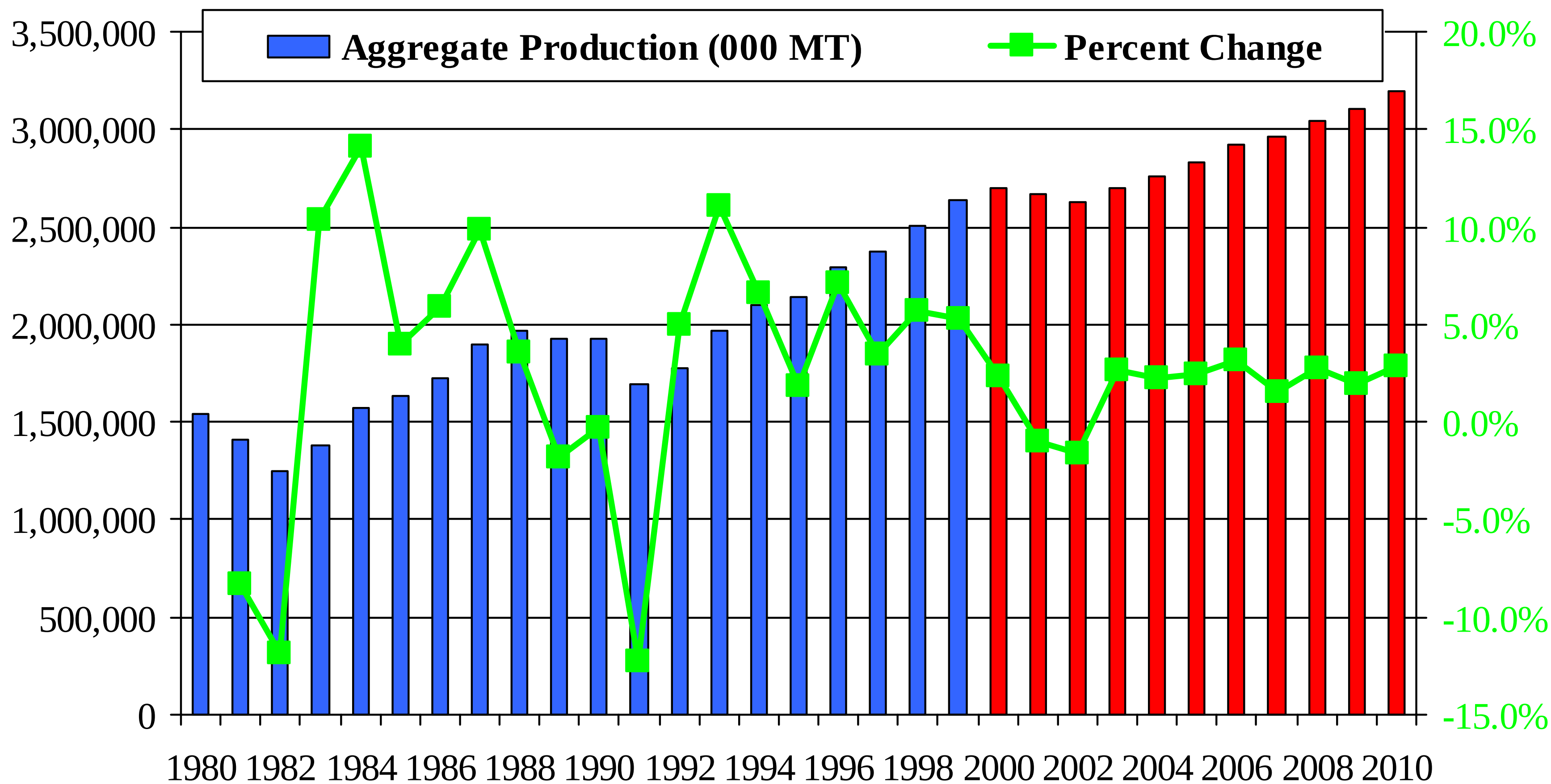
- Aggregate production is cast grow to 3.2 billion tons by 2010, recording an average annual compound growth rate of 1.7 percent.

- In the same fashion, the demand for cement and ready mix concrete is estimate to grow at an average annual compound growth rate of 1.3 percent and 1.4 percent respectively.

U.S. Construction Activity

Aggregate Production

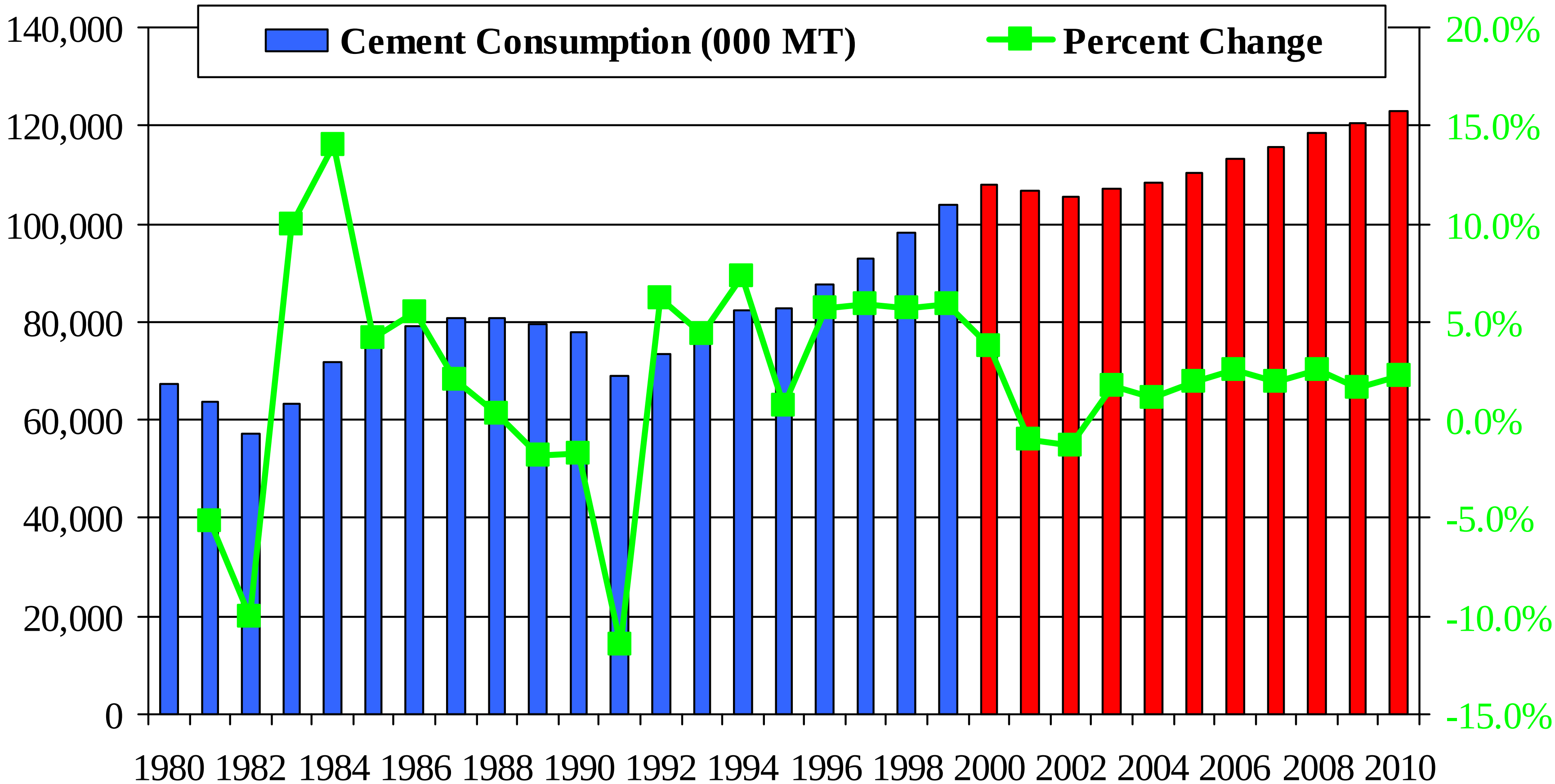
(000 Metric Tons)



U.S. Construction Activity

Cement Consumption

(000 Metric Tons)



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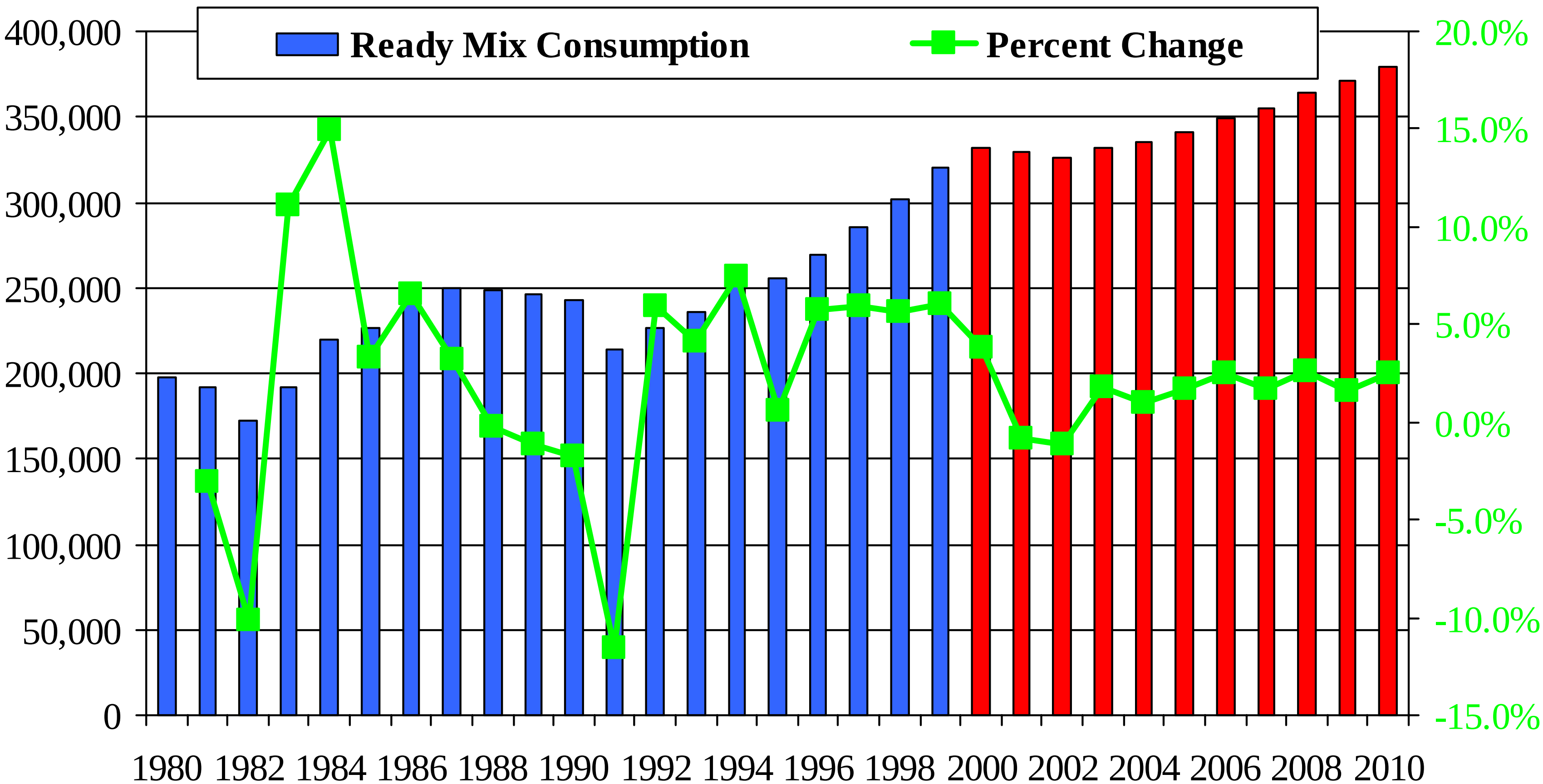
U.S. Construction Activity

Ready Mix Concrete Consumption

(000 Cubic Yards)



U.S. Construction Activity

- In summary, construction materials companies will experience record consumption levels during the next decade, well above any previous ten-year period.

- However, we don't think 2001 will be as strong as 1999 and 2000 because of last year's incredible growth on top of an already long expansion period.

- Despite a smoothing effect on the national level, regional and local materials consumption will continue to record modulations from year to year.

- Additionally, we believe that construction activity in certain key states, such as California, Texas and Florida will continue to grow at above national average rates as these states offer a series of economic advantages.

IV. Nebraska Economic Overview

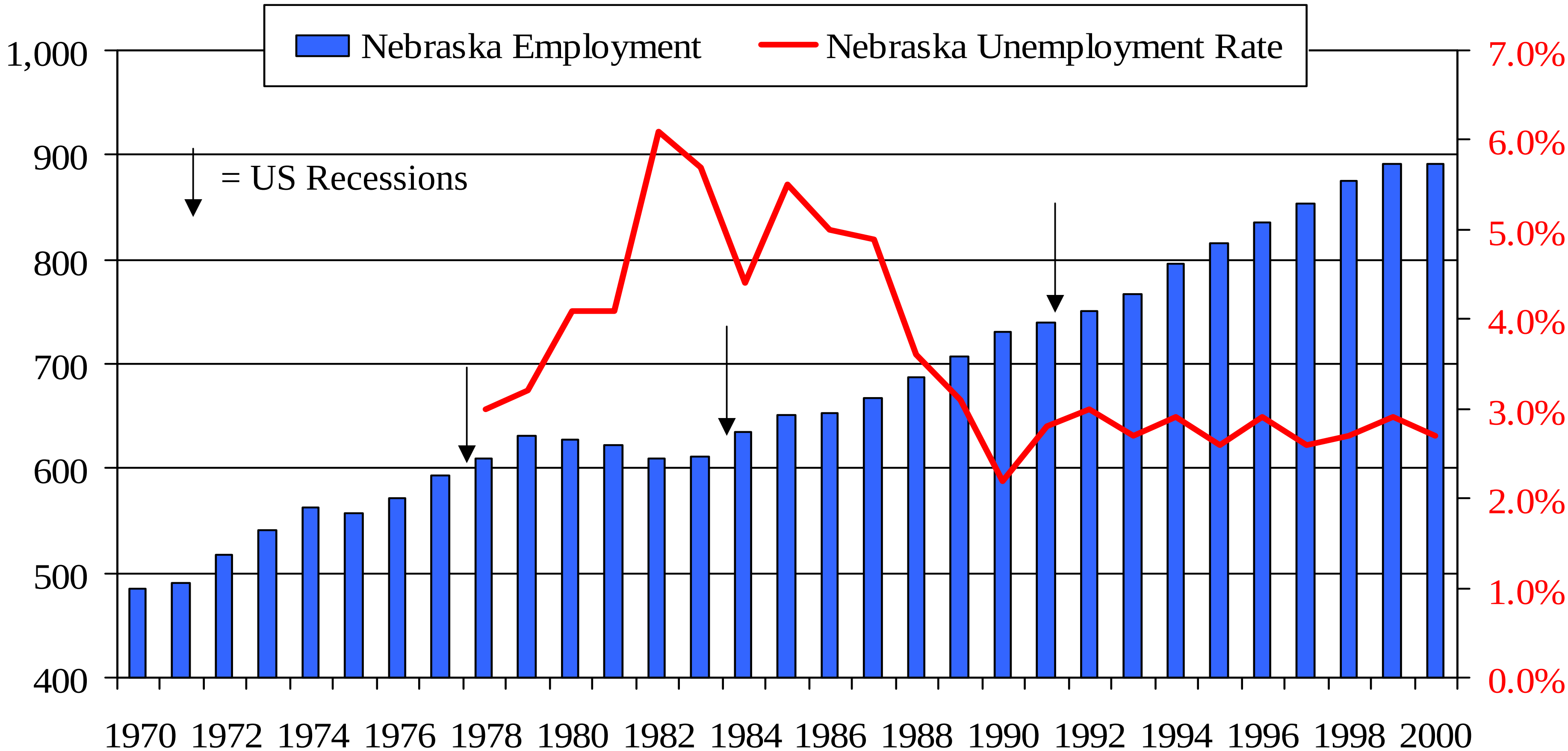
Nebraska Economic Overview

- One of the economic success stories among the Plains States, Nebraska is home to nearly 1.7 million people and supports 891,000 non-farm workers (2000).
- A solid anchor in agriculture, manufacturing and tourism has allowed the state stable growth in employment levels during the last two decades.
- In fact, the state even saw job growth during 1990-1991 when the nation experienced a recession.
- During the 1980s the state's employment levels grew at an average of 1.5 percent. During the 1990s, this growth rate jumped to 2.0 percent.

Nebraska Economic Overview

Employment & Unemployment Rate

1970-2000



Nebraska Economic Overview

- However, Nebraska has seen a recent slowdown in job growth, and will likely record a meager 0.1 percent growth in 2000 compared to a 2.0 percent increase for the nation.

- The current halt to Nebraska's job growth is a direct result of Nebraska's tight labor market. During 2000, the unemployment rate was at a low of 2.7 percent compared to 4.0 percent for the nation.

- The below average jobless rate in the state is not surprising as Nebraska's unemployment rate has been the lowest or the second lowest in the nation for he last nine years.

Nebraska Economic Overview

- Accordingly, the cure for continued growth in Nebraska's employment and economy is an expansion of the current labor force.

- The state's natural population growth adds about 1.0 percent per year to its working age population. Therefore, a more rapid expansion of the labor force must rely on workers being attracted to the state.

- Typically, the task of creating quality jobs that will attract and retain a well-paid workforce falls on the state's employers, with some support from local and state economic development agencies.

Nebraska Economic Overview

- Future growth, therefore, will likely be the result of blending traditional industries with cutting edge research and development to establish new industrial niches.

- Back-office service centers and call centers, such as the new U.S. West Center for Customer Experience in Omaha, is one example of these new and growing industries/employers in Nebraska.

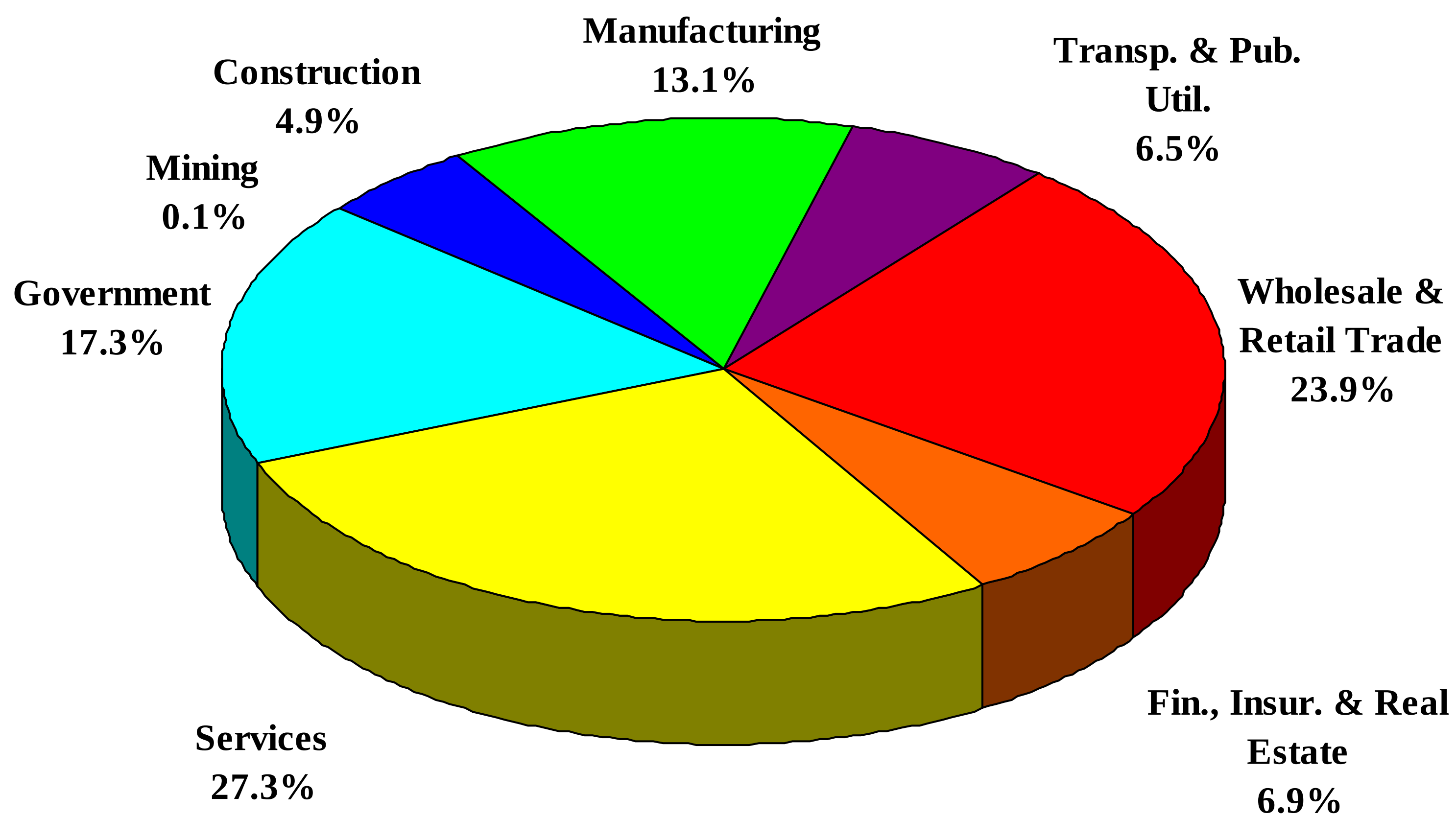
- The state also needs to diversify its agricultural based communities and spread its economic growth across the state.

- Therefore, economic development will rely on the commitment from smaller communities to upgrade their infrastructure and provide economic incentives.

Nebraska Economic Overview

- Additionally, small businesses are critical to the economic well being of Nebraska.
- An estimated 97 percent of all businesses are considered small businesses (less than 500 employees), and small businesses account for more than half of all private sector non-farm jobs.
- Accordingly, small businesses are paramount to create new jobs, bring new and innovative services and products to the marketplace, and provide business ownership opportunities to diverse groups.
- Thus, the state must continue to support growth among its small businesses through a small-business friendly environment.

Nebraska Economic Overview
2000 Non-Farm Employment Distribution



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Nebraska Economic Overview

- Large businesses typically are found in Omaha and a few other larger metropolitan areas, and the state will continue to rely upon these business centers for employment creation as well.
- Omaha has successfully grown during the past decade and has attracted companies and employment growth in financial services, business services, transportation and construction.
- These sectors are expected to be among the state's expanding industries during the next decade.
- Corporate headquarters for large growing corporations, such as Berkshire Hathaway and Peter Kiewit and Sons, continue to support the expansion of ancillary service firms in Omaha.

Nebraska Economic Overview

- In summary, because of a very tight labor market and a slowing U.S. economy, job growth will remain slow during the next few years.
- Some economic expansion will still take place due to rising wage rates, and corresponding growth in incomes and consumer spending.
- On the long-term horizon, Nebraska should see continued economic growth with moderate cycles if the state remains successful at:
  - attracting new businesses in a variety of industries
  - cater to expansion opportunities for large businesses
  - support the development of new small businesses, and
  - spread economic development to rural communities

V. Nebraska Construction Activity

Nebraska Construction Activity

- Several demographic/econometric data series are central to interpreting construction activity cycles; population, residential building permits, commercial and public construction spending, and construction employment.

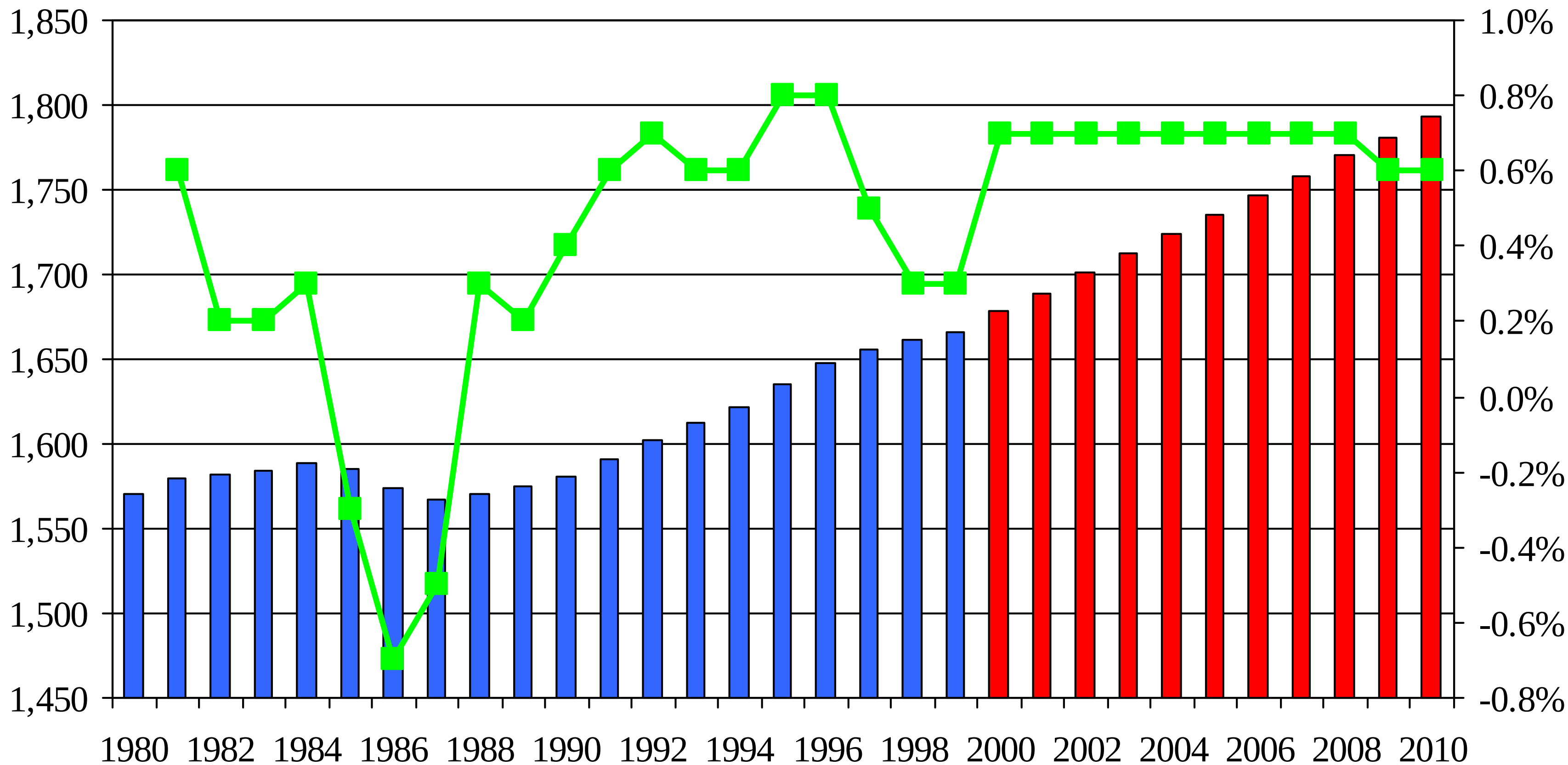
- From a population base of less than 1.6 million people in 1980, the state has added approximately 100,000 new residents during the past 20 years.

- However, the state experienced net out-migration during the 1980s, followed by net in-migration during the 1990s. Additionally, during the 1990s, 34 out of 93 counties recorded population growth compared to only 10 during the 1980s.

Nebraska Construction Activity

Population

(000 Persons)



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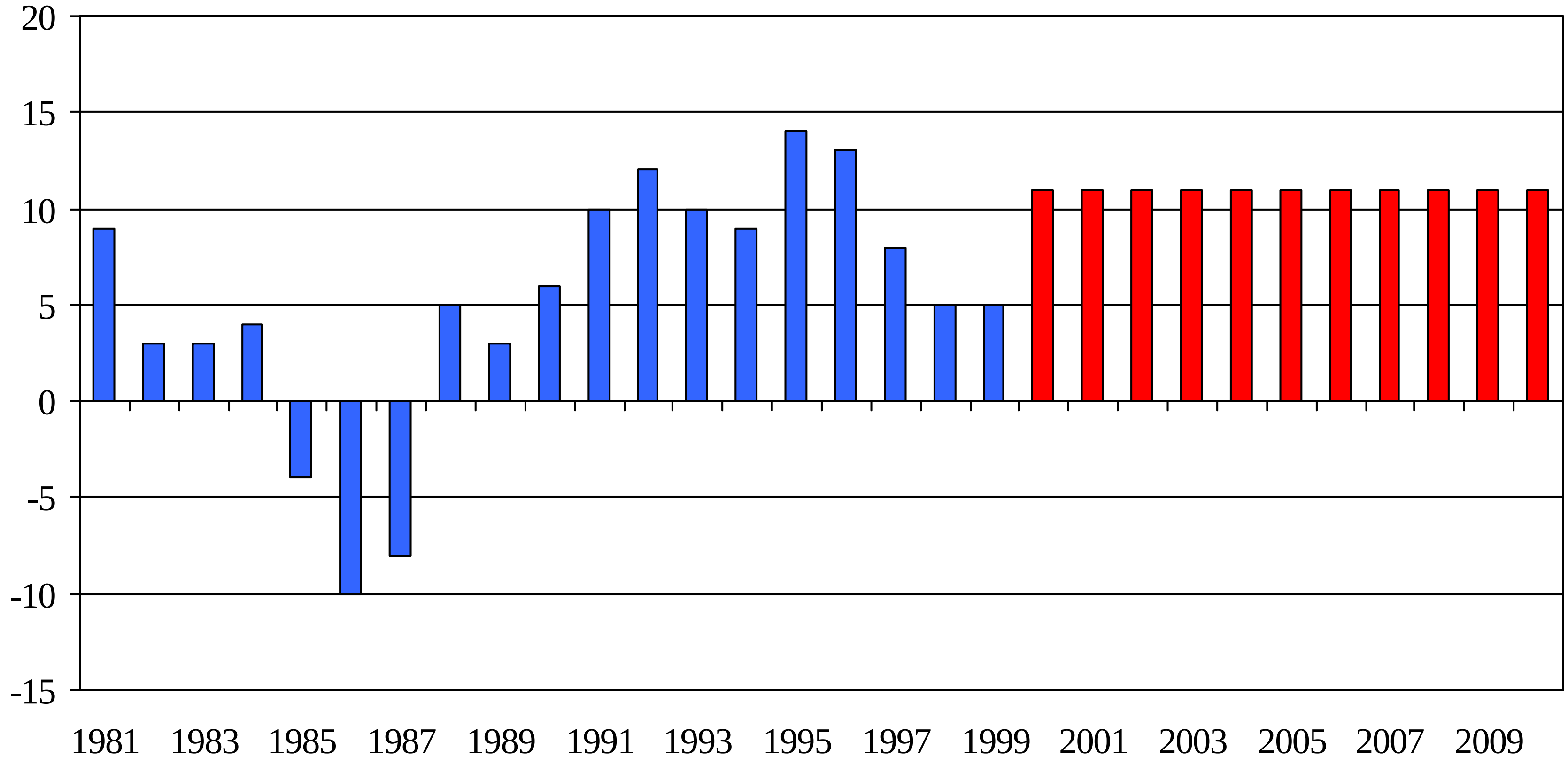
Nebraska Construction Activity

Net Population Change

(000 Persons)



Nebraska Construction Activity

- Residential construction activity increased in Nebraska in 1999 with the number of new contracts increasing 11.2 percent.

- However, a cooling in residential permits during 1998 and 1999 finally impacted home building activity in 2000.

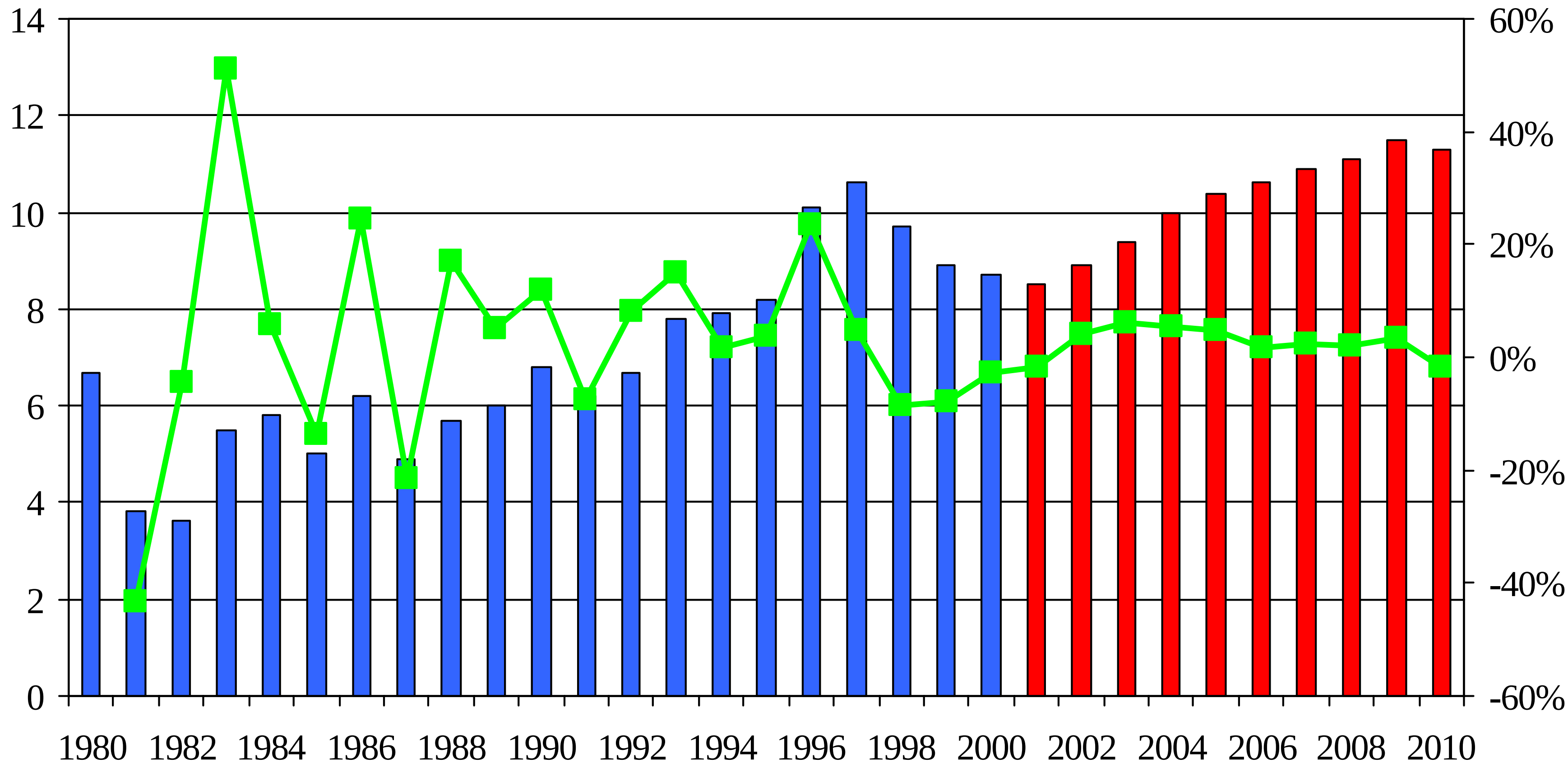
- A further decline in permits in 2000 will probably put downward pressure on home building once again in 2001.

- Conversely, the recent drop (and expected continued declines) in interest rates, combined with additional jobs and an expanding population, is likely to bring a recovery to the home building market in another year or two.

Nebraska Construction Activity

Housing Permits

(000 Authorized Units)



Nebraska Construction Activity

- Offsetting the softness in the residential sector, construction activity remains concentrated in commercial and public building, with Omaha dominating the action.

- The reconstruction of the downtown business district continues at a furious pace as substantial projects are ongoing coupled with new projects being in the planning or ground clearing stages.

- Examples include Gallup's newly announces headquarters and the new civic building. Nebraska's tallest building is still under construction in Omaha and Union Pacific Railroad recently announced plans for a new headquarters building in downtown.

Nebraska Construction Activity

- Nebraska's highway construction activity is mostly in the form of rebuilding and updating, and should remain level as the gasoline tax (the basic funding for highway construction) has not been lowered despite the recent increases in oil prices.

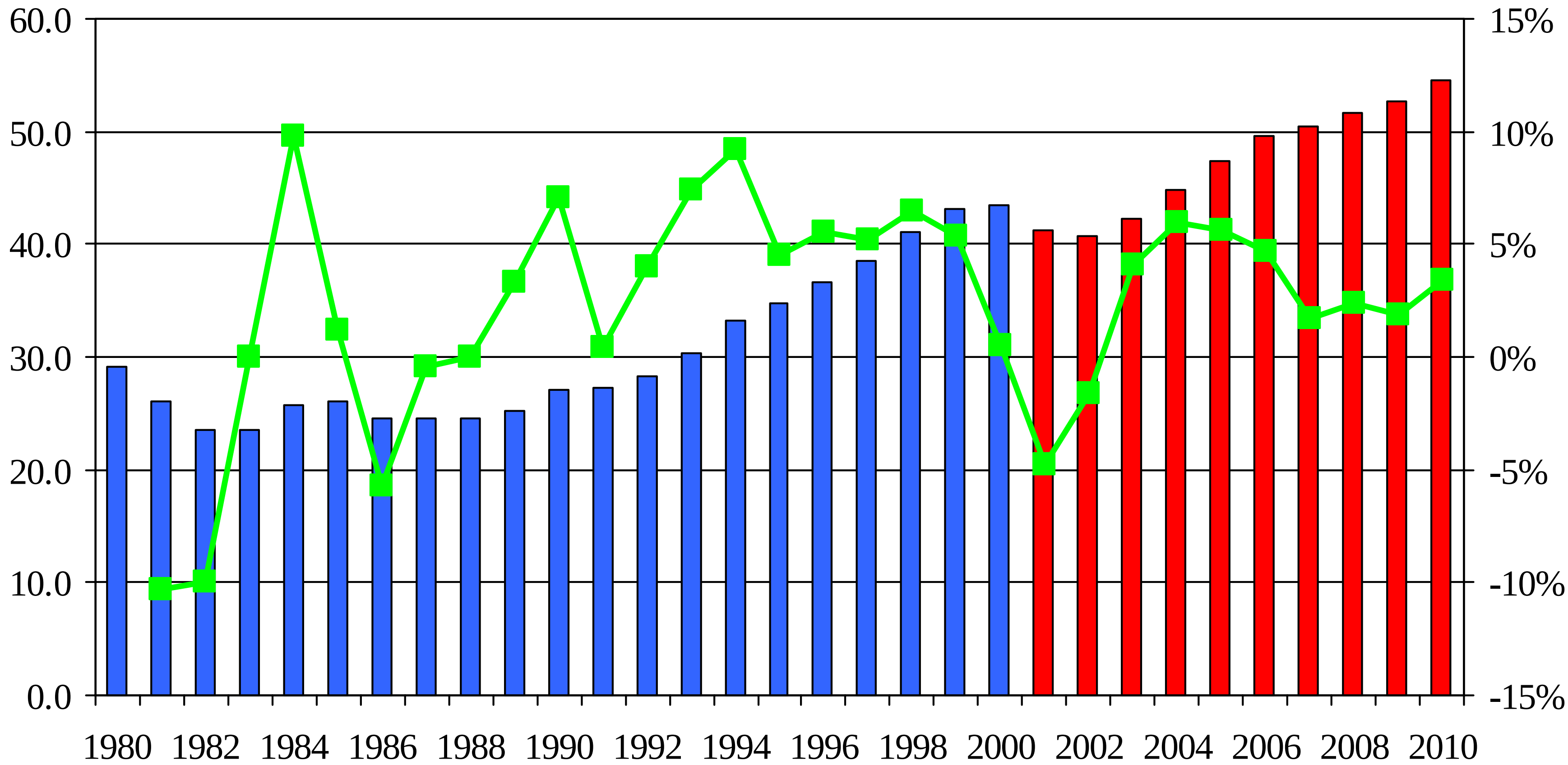
- Finally, as a basic measure of construction activity and overall construction materials consumption, construction employment has expanded rapidly during the 1990s.

- However, growth in construction jobs virtually stagnated in 2000, and is assumed to moderate during 2001 and 2002 before the next growth spurt.

Nebraska Construction Activity

Construction Employment

(000 Persons)



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VI. Nebraska Construction Materials Forecast

Nebraska Construction Materials Forecast

- A cooling in residential activity during the past two years appears to have impacted materials consumption some, although overall construction employment remains high.

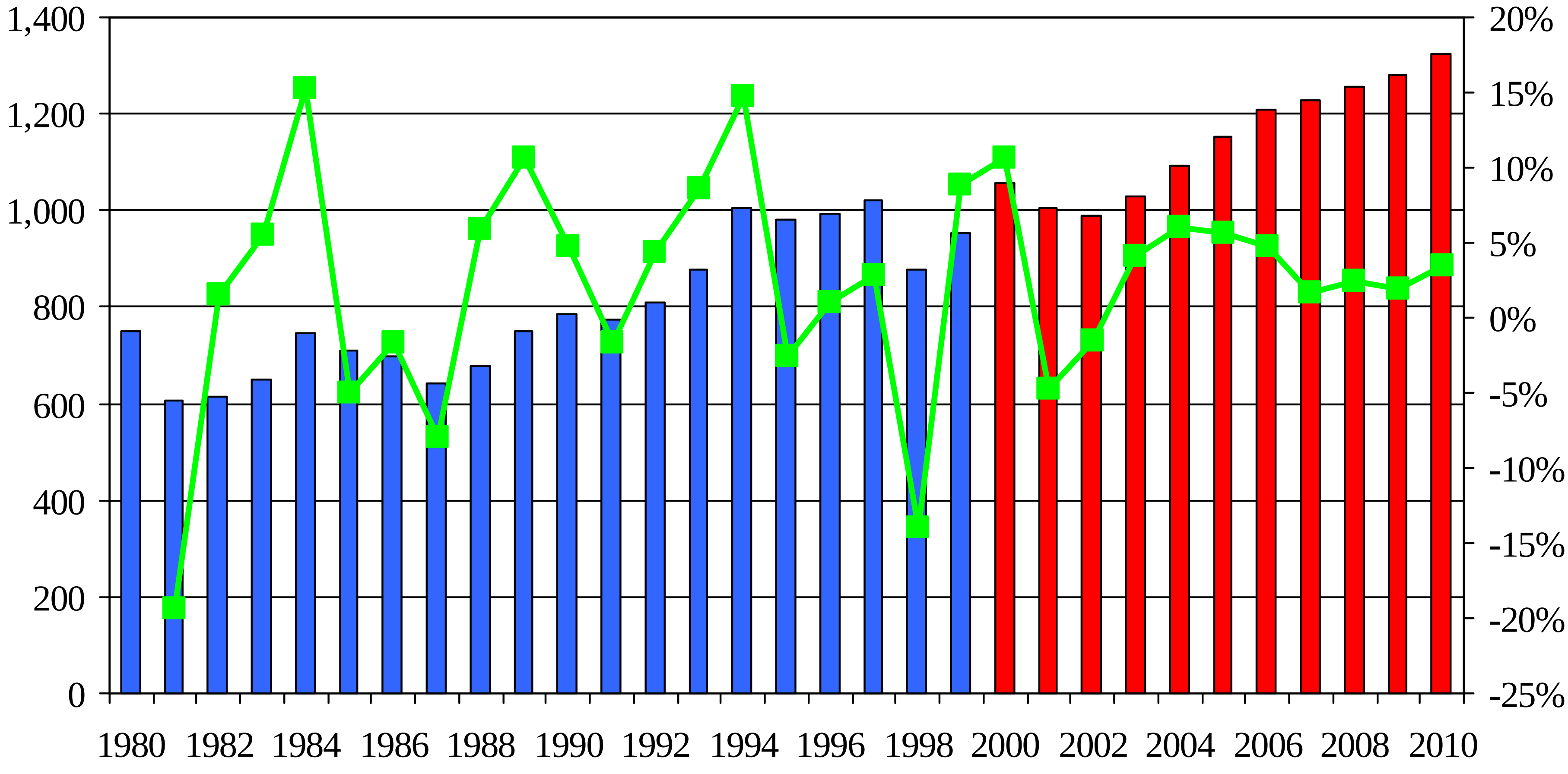
- For example, cement consumption grew by 282,000 tons during the 1990s, from 774,000 in 1991 to nearly 1.1 million tons in 2000 based on reported numbers through October 2000.

- During the next two years, cement consumption is cast at approximately 1.0 million tons, slightly below the 2000 level, followed by an up-surge during the remainder of the decade.

Nebraska Construction Materials Forecast

Cement Consumption

(000 Metric Tons)



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Nebraska Construction Materials Forecast

Cement Consumption

(000 Metric Tons)

	1991-2000	2001-2010	Avg. Annual % Change
High	1,056	1,325	2.5%
Low	774	989	2.8%
Average	935	1,157	2.4%

Nebraska Construction Materials Forecast

- During the past twenty years, ready mix concrete consumption has escalated from 1.9 million yards in 1981 to almost 3.6 million yards in 2000.

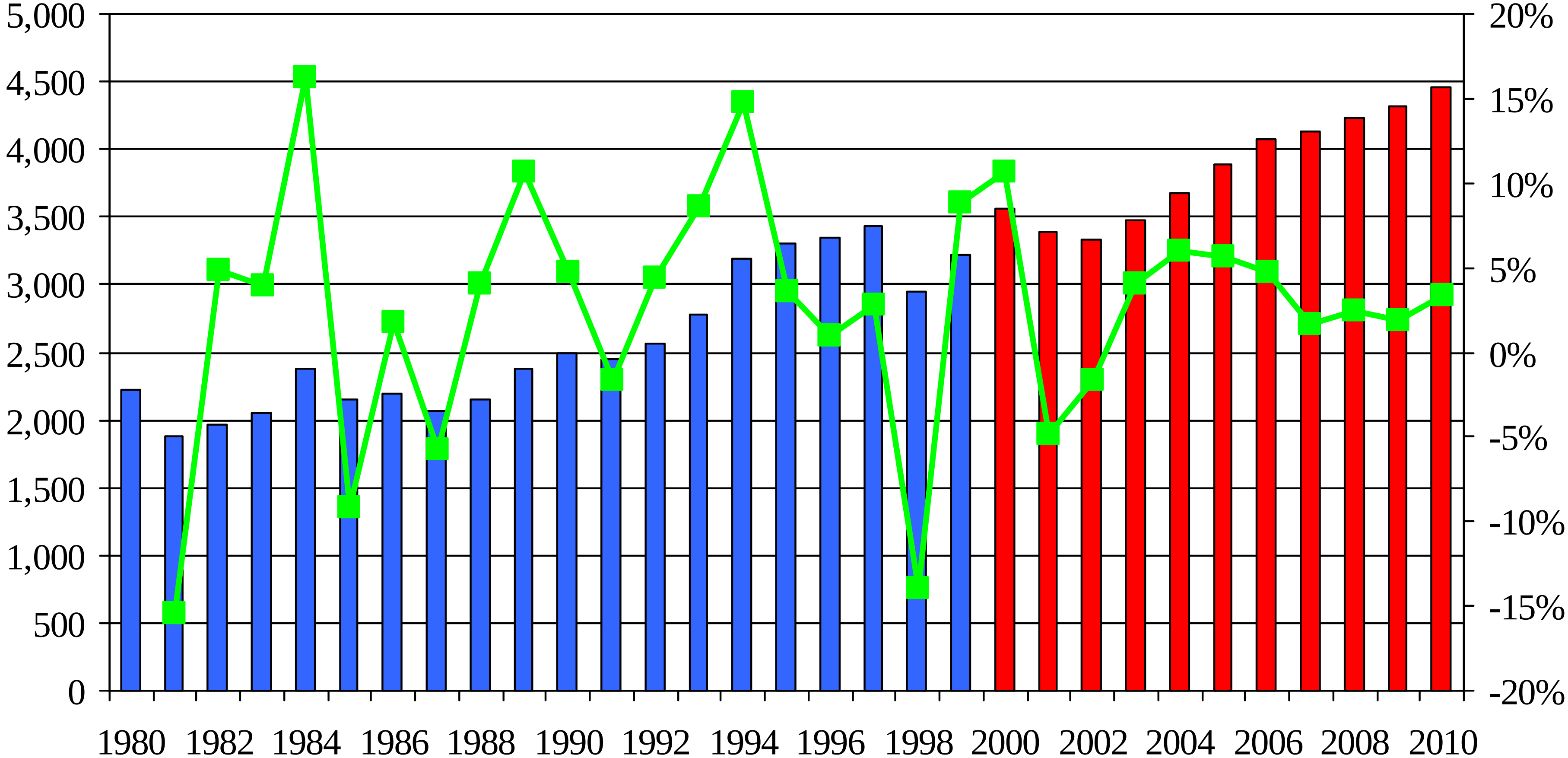
- The majority of the gain was realized during the 1990s, as growth in consumption averaged 3.6 percent annually compared to a 1.2 percent average annual growth during the 1980s.

- During the forecast period, ready mix concrete consumption is expected to average 3.9 million cubic yards per year, up from an average of 3.1 million cubic yards per year during the past decade.

Nebraska Construction Materials Forecast

Ready Mix Concrete Consumption

(000 Cubic Yards)



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Nebraska Construction Materials Forecast

Ready Mix Concrete Consumption

(000 CYD)

	1991-2000	2001-2010	Avg. Annual % Change
High	3,556	4,463	2.6%
Low	2,453	3,331	3.6%
Average	3,080	3,897	2.7%

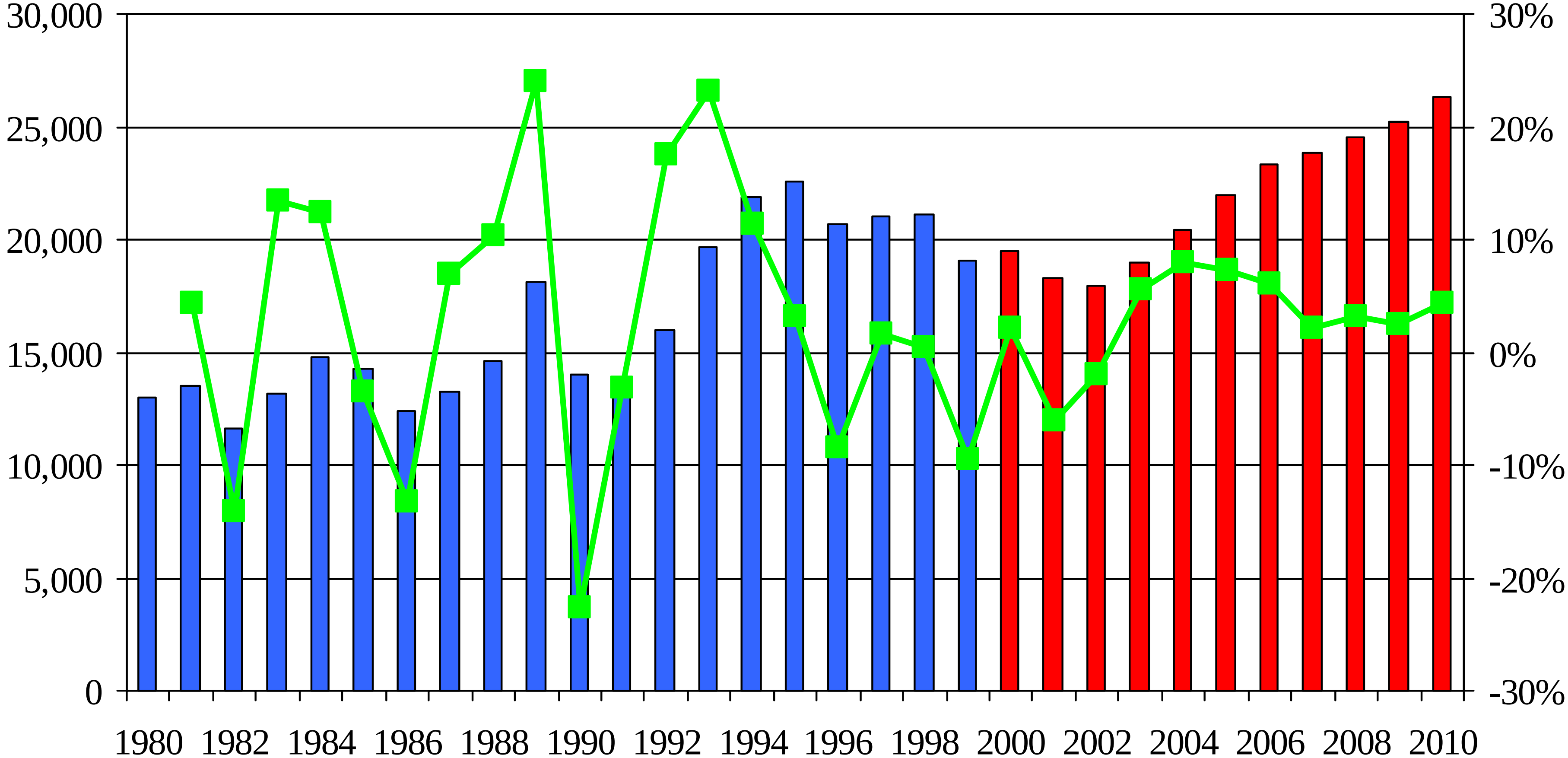
Nebraska Construction Materials Forecast

- Aggregate production saw even greater improvements between the 1980s and the 1990s.
- During the past ten years, aggregate production averaged 19.5 million tons compared to only 14.0 million tons during the 1980s.
- Due to today's already high levels of construction activity and materials production and consumption, the next decade will likely record a more moderate escalation in production than we experienced during the 1990s.

Nebraska Construction Materials Forecast

Aggregate Production

(000 Metric Tons)



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Nebraska Construction Materials Forecast

Ready Mix Concrete Consumption

(000 CYD)

	1991-2000	2001-2010	Avg. Annual % Change
High	22,590	26,287	1.6%
Low	13,570	17,967	3.2%
Average	19,505	22,083	1.3%

VII. Conclusion

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