

Subject: ABC Producer Price Index Update

July 15, 2008



CONSTRUCTION ECONOMIC UPDATE

Construction Inputs Soar in June

	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08
Construction Inputs PPI (1-mth % change)	0.7%	0.6%	2.1%	1.2%	2.6%	1.8%

Summary

Construction input prices in June jumped 10.4 percent over the past 12 months, making it the largest year-over-year increase in more than 20 years, according to U.S. Labor Department's producer price index. Monthly data show inputs to construction industries rose 1.8 percent since May, and were up 5.7 percent over the three-month period from April to June.

Prices for fabricated structured metal products continued to grow, rising 1.6 percent in June and 11.4 percent over the past 12 months. Plumbing fixtures and fittings inched up 1.4 percent in June, slightly higher than in May when prices increased by 0.4 percent. Nonferrous wire and cable continued its rollercoaster ride as prices fell 2.8 percent in June after being up 2.2 percent in May and down 3.1 percent in April. Fabricated ferrous wire products increased 3.2 percent from May to June, and a staggering 17.7 percent since June 2007. Prices for softwood lumber edged up 1.8 percent in June after an increase of 7.1 percent in May. Asphalt felts and coatings prices were up 3.6 percent from May and up 15.3 percent since June 2007.

Prices for crude energy materials rose 5.4 percent in June at a seasonally-adjusted rate, after an increase of 13.1 percent in May. In addition, natural gas prices rose 5.2 percent in June after a 17 percent jump a month earlier. In the past six months, crude energy materials are up 132.7 percent, at a seasonally-adjusted rate. Intermediate energy goods are up 48.9 percent, while finished energy goods are up 38.1 percent over the same six month period.

What's New

According to Associated Builders and Contractors, the most recent data indicate that there will be additional upward pressure on construction input prices in the month ahead as suppliers race to keep up with rising raw material costs. Commodity prices worldwide continue to surge due to a confluence of factors including continued weakness in the U.S. dollar, geopolitical tensions, stock market speculation and continued rapid growth among emerging markets in Asia, Latin America and even portions of Africa.

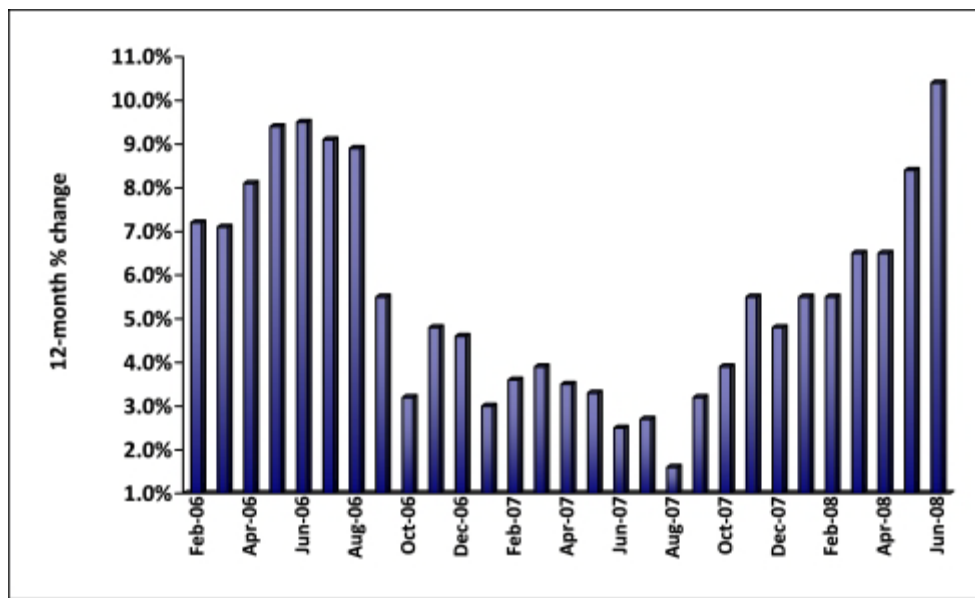
For commercial contractors and developers, this comes as negative news for two reasons; first,

developers faced with rising construction costs are finding it increasingly difficult to generate stable materials price estimates that support moving projects ahead. As a result, the industry can expect far fewer nonresidential construction starts in the year ahead. Secondly, the Federal Reserve's monetary policy, which has thus far been focused on the alleviation of the nation's credit crunch and on supporting economic expansion, may have to refocus its attention on combating inflation, leading to higher interest rates and stunting the momentum of the commercial and industrial construction sector.

This notion is supported by the fact that producer price inflation often precedes consumer price inflation. Given that producer price increases are as elevated as they have been in recent memory, the implication is that consumer prices are also set to accelerate, and that could prompt substantial monetary tightening as the Federal Reserve looks to sop up excess liquidity.

With energy prices continuing to soar, construction related to America's production of energy generating facilities is likely to accelerate, particularly in light of recent decisions by policy makers to fast track energy-related investment. The weak dollar will also likely induce significant manufacturing-related construction in the quarters ahead as American goods producers gain market share overseas and continue to expand their export base.

Producer Price Index, Inputs to Construction Industries, Feb 2006 through June 2008



Source: Bureau of Labor Statistics