



ITEMS

NEWSLETTER

April 2008

Market update...

Commercial Construction Predicted to Slow Later This Year

	2004	2005	2006	2007	2008
Total Construction	593.0	668.9	682.5	626.7	614.1
Single Family Housing	282.7	315.5	272.4	204	197.8
Multifamily Housing	50.4	68.3	69.6	61.4	56.4
Commercial Buildings	67.2	72	91.4	97.3	91.1
Institutional Buildings	89.1	99.7	109.8	114.0	118.7
Manufacturing Buildings	8.0	10.0	13.3	18.6	16.5
Public Works	88.2	95.8	112.2	117.9	121.0
Electric Utilities	7.3	7.8	13.8	13.4	12.7

A leading construction forecasting company has predicted a mild slowdown for commercial construction during the second half of 2008. A tightening credit market and the dramatic decline in residential construction are being blamed for this spillover into the commercial sector.

These warnings were sounded by Robert Murray during the McGraw-Hill Construction Outlook Executive Conference in Washington, DC. Murray is vice president for economic affairs for McGraw-Hill.

Overall, Murray predicts a 6% decline on commercial building, from \$97.3 billion in 2007 to \$91.1 billion for 2008.

Not all players in the commercial segment will be affected the same. While commercial

building is expected to see about a 6% drop in dollar volume, institutional building is predicted to actually increase, from \$114 billion in 2007 to \$118.7 billion in 2008. Construction for manufacturing facilities is expected to drop, but public works projects should increase by a little over 3%.

Another bright spot in the commercial building picture is educational construction. Several states, including California, have passed school construction bond measures in recent years, freeing up capital for major improvements. In addition, major universities have upped their budgets for capital spending and expansion.

On the downside, hotel construction is expected to slow, though growth in certain

areas (e.g. Las Vegas) is expected to continue at a somewhat slower pace.

Murray predicts a drop in construction of retail buildings, owing largely to the downward adjustment in the plans of big-box retailers, some of which are shifting to smaller venues, known as "lifestyle centers."

Spending for healthcare facilities development is expected to decline by 4% in 2008, to 98 million square feet under construction.

"The McGraw-Hill report tracks pretty well with our own crystal ball," said AB&I's Kip Wixson. "We're meeting with our distributors and sharing our thinking on the balance of 2008 and 2009," he said.

While the remainder of 2008 may reflect a mild slowdown in overall commercial spending, this slowdown will be uneven across the market and across geographic regions. As always, planning is critical.

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Perspective

Would somebody please tell me, where does it say we have a constitutional right to low gas prices?

I keep hearing people and politicians yammering on about gasoline prices, how they are cutting into family budgets, contributing to our economic malaise, and just generally causing worldwide havoc. I've seen the cost of oil blamed for everything from the housing crisis to family breakups. Sometimes it seems like the only things they haven't tied to high energy costs are male pattern baldness and tooth decay, though I'm sure some college professor somewhere is working on those, too.

Most of this chatter I can just ignore, but what really gets my goat is when politicians start talking about "fixing" the problem. When they start prattling on about Washington getting involved in developing a "multi-pronged approach" to getting energy costs back in line, every cell in my body spits out that little fight-or-flight hormone that sharpens my senses and causes the hair on the back of my neck to stand up. Congress has done such a good job with Social Security and Medicare, why not trust them with the true life's blood of our economy - oil and energy?

The reason oil costs are so high is that there is what the economists call a "disequilibrium" between supply and demand. In other words, people want more oil than we can produce, so the price goes up.

Politicians react to this supply-demand inequality by attempting to change the demand side; in other words, regulate automotive fuel efficiency standards to lessen the demand-pull on gasoline prices. Other so-called "leaders" want to punish the suppliers by hitting them with a "windfall profits tax," which has the perverse effect of increasing prices. To offset this upward pressure on prices, other pols would have us invoke some kind of price control on energy. In this way, we would be pressing on the accelerator at the same time we're applying the brakes. I know that strategy works great in my car,

so it would probably be even better if applied to oil prices.

While the politicians are putting artificial upward pressure on prices, they're also refusing to consider anything that could actually work to moderate costs. Any notion of drilling or exploring for oil is quickly pounced on as anti-environmental and not to even be considered. Even the tiniest footprint on land or water is trotted out as sufficient reason to stop any drilling project. The costs to the environment are just too great, they say.

But what about the costs of NOT increasing our domestic energy supply. What about the dozen or so people a year who freeze to death in the Midwest because they cannot afford to heat their homes? What is the cost to them and their families? What about the human cost of keeping prices artificially high? How do these prices affect retail sales, construction, home improvements, and travel?

I guess my bottom line is that prices are what prices are. If we want to have an impact on energy costs, we've got to do more than just gripe and threaten to pass new laws, making it tougher on those companies charged with bringing energy to us. We've got to affect the supply side of the equation at the same time that we're moderating demand through common sense conservation efforts.

We have no constitutional right to low gas prices, but we do have a right to vote the bums out who won't act to do the right thing.

One of the reasons for high oil prices is the shrinking value of the dollar. Oil is paid for in dollars around the world, and with currency values down it takes more dollars to buy the same amount of oil. The Fed is walking a tightrope, lowering interest rates to stimulate the economy, while avoiding the unintended consequence of a dollar free-fall that would spur inflation and make all imports (including

oil) more expensive. I'm glad I just sell pipe for a living, and the folks at the Fed have my respect and admiration, except when I think they're wrong, in which case they'll get my "suggestions."

Fast forward 12 months. The economy, which sputtered along for a couple of quarters, will be back on track. There will be a new president in the White House, and she will do everything possible to make the economic picture pretty. The media will be cooperative, too, which will be a gigantic help, and people will be back in the mood for good times again.

The housing market will improve slowly. There will still be foreclosures in the news, but they won't occupy center stage any more. People will be buying again, cautiously at first, then full bore in the following year or two.

All in all, 2009 should be a pretty good year for business.

Scrap iron costs remain high, and growth in China and India continue to keep worldwide demand more than strong for this raw material.

It's no secret that, in order to keep pace with these costs, we have been forced to increase prices on certain products in specified parts of our market area. We didn't like doing it, but we quite simply had no choice.

As much as we didn't like raising prices, many of our customers liked it even less. We've gotten more than an earful from several customers who very clearly expressed their opinions about recent price increases.

We want you to know that we hear you, and we get it. While we try to give as much notice of price increases as possible, recent jumps in scrap prices have made it untenable to keep prices stable in those territories where we sell with relatively low margins. We have to stay in business, too. As usual, we'll try to be as transparent in our pricing as possible.

Featured Product**AB&I Silverspun™ Pipe: None Better , Worldwide**

While international competitors from all corners are attempting to sell their products by claiming to be "just as good as..." or "about the same as..." or "cheaper than..." AB&I cast iron DWV products, it's comforting to know that the pipe and fitting line that set the industry standard decades ago is still the industry leader, still performing as promised, and still a solid value.

AB&I pioneered the use of centrifugal pipe machines years ago, a manufacturing technique that not only sped the production of pipe, but produced an even, uniform wall thickness unattainable by older production methods. With this technique, molten iron is fed into a pipe-shaped rotating mold that literally "spins" it into shape. AB&I has dubbed its pipe, "Silverspun," in recognition of the way in which it is manufactured, and the painted silver ends that make it immediately recognizable as an AB&I product.

"Others have come and gone," says AB&I vice president for sales, Gary Wickham, "but our pipe has stood the test of time."



AB&I cast iron pipe and fittings have been the preferred choice among plumbers since first introduced in the 1960s.

"We have people tell us all the time how much easier and more cleanly our pipe cuts," said Wickham, "and, unlike some of our competitors' product, plumbers don't have to worry about contaminated shavings when working with our products."

All AB&I DWV carries the CISPI trademark, proving that our products meet all applicable standards and are approved for use in all jurisdictions and by all building codes.

"We're also pleased that our manufacturing processes meet all environmental standards," continued Wickham. "Our air and water programs have made us essentially a zero-emitter," said Wickham, "making us a pretty good neighbor."

For more information about AB&I and our complete line of no-hub and service weight cast iron pipe, fittings, and accessories, visit us at our website, www.abifoundry.com, or call us toll free at 800-GOT-IRON.

Always insist that your cast iron pipe and fittings carry the CISPI mark, your assurance that all products meet the standards and are Made in the USA.

Factories in China closing, as other Asian rivals offer lower costs

Thousands of small factories in the south of China are closing their doors in response to lower-cost competitors, including Chinese companies in other provinces, and even companies in places like Vietnam and Bangladesh.



These plant closures are due to increased production costs in China as the government enforces new regulations regarding worker safety and environmental pollution. Additionally, the falling U.S. dollar has made Chinese goods more expensive for Americans. Those companies seeking a lowest-cost advantage are moving to less developed countries. Experts predict this trend will continue.

UN sponsors World Water Day 2008 on Sanitation

facilities.

The United Nations celebrated World Water Day on March 20 to draw attention to the plight of literally billions of people around the world who have no access to clean drinking water, or even basic sanitation facilities.

The UN reports that, every year, 1.5 million children die from diseases associated with poor water quality and hygiene. The international agency has called upon its members to join in several programs, targeting the elimination of these conditions through the sustainable development of water resources for all.

CISPI Launches Ad Campaign Cautioning Against Imported Cast Iron DWV

The Cast Iron Soil Pipe Institute has been running a series of print advertisements in major industry publications, such as *The Wholesaler*, reminding the market that not all cast iron DWV materials are created equal.

In one ad, the headline reads, "Thanks to all the recent publicity for Chinese imports, made in America means something again." The ad points out that all pipe and fittings marked with the CISPI trademark meet all applicable standards and are made in the U.S.

Another ad shows a picture of a section of cast iron pipe marked with the word, "CHINA," and leads with the headline, "Just the word makes you wonder."



This ad asks the important questions: Does it conform to the specifications? Do the producers follow the necessary quality control requirements?

The third ad in the series shows that same piece of pipe, with the headline, "Value engineering is not what it used to be."

This ad recalls that it used to be possible to cut costs without necessarily cutting corners. But with imported material, there are just too many doubts about quality and standards compliance.

AB&I applauds these advertisements and the work of CISPI to educate the market about the differences in cast iron material.

Food for thought...

Our Tax System Explained: Bar Stool Economics

Ten guys go out for a beer, and the bill comes to \$100. If they paid their bill the way we pay our taxes, it would go something like this:

- The first four guys (the poorest) pay nothing;
- The fifth would pay \$1;
- The sixth would pay \$3;
- The seventh would pay \$7;
- The eighth would pay \$12;
- The ninth would pay \$18;
- The tenth guy, the richest, would be \$59.

They were all good with that arrangement, so that's how it went whenever they got together at the bar. Then, one day, the owner of the bar threw them a curve. "You've been such good customers," he said, "that I'm going to reduce the cost of your beer by \$20 for every \$100 you order." Drinks for the ten guys now cost just \$80.

The group still wanted to pay their bill the way we pay our taxes, so the first four men were unaffected; they still drink for free. But what about the other six men, the paying customers? How could they divide the \$20 windfall so that everyone would get his "fair share?"

They realized that \$20 divided by six is \$3.33. But if they subtracted that amount from everybody's share, the fifth and sixth man would each end up getting paid to drink beer. So the bar owner suggested that it would be fair to reduce each man's bill by roughly the same amount, and he proceeded to work out the amounts each should pay.

- The fifth man, like the first four, now paid nothing;
 - The sixth now paid \$2 instead of \$3 (33% savings);
 - The seventh now paid \$5 instead of \$7 (28% savings);
 - The eighth now paid \$9 instead of \$12 (25% savings);
 - The ninth now paid \$14 instead of \$18 (22% savings);
 - The tenth guy now paid \$49 instead of \$59 (16% savings);
- Each of the six was better off than before. And the first four

continued to drink for free. But once outside the bar, the men began to compare their savings.

"I only got a dollar out of the \$20," declared the sixth man. He pointed to the tenth man, "But he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar, too. It's unfair that he got ten times more than I got."

"That's true," shouted the seventh man. "Why should he get \$10 back when I only got \$2? The rich get all the breaks!"

"Wait a minute," yelled the first four men in unison. "We didn't get anything at all. The system exploits the poor!"

The nine men surrounded the tenth and beat him up.

The next night, the tenth man didn't show up for drinks, so the nine sat down and had beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half the bill!

And that, ladies and gentlemen, journalists and college professors, is how our tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. Tax them too much, tax them for being wealthy, and they just might not show up anymore. In fact, they might start drinking overseas, where the atmosphere is somewhat friendlier.

