ACA MARKET INTELLIGENCE

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Summer Forecast Update

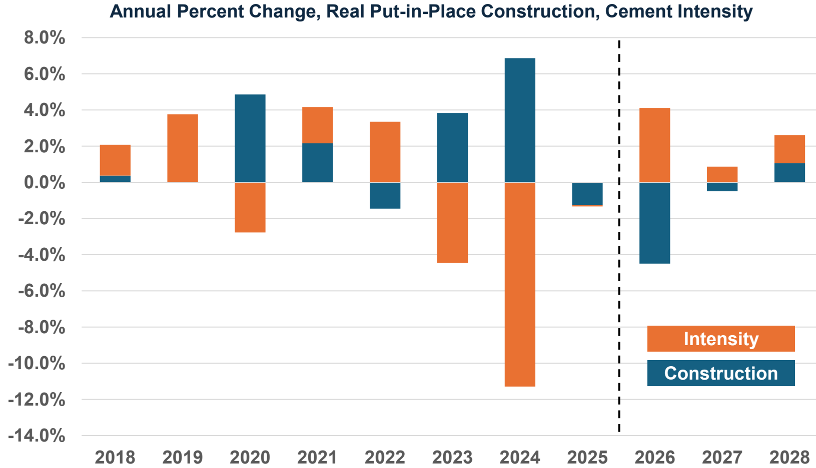
Introduction

For the past several years, the cement industry has been awaiting a recovery in demand. Lower interest rates were anticipated to unleash greater private construction activity around the same time Congress authorized a new surface transporation bill. While that narrative is still likely to eventually unfold, it will not happen in the near term. Instead, a state of malaise is expected to continue for a protracted period.

This environment, while not ideal, does not necessarily imply further contraction in U.S. cement consumption. Interest rates remain restriticve. Yet they have been prohibitive for four years – depressing construction activity for nearly as long. In other words, there are base effects in some private markets and even with sustained high interest rates, volumes are not expected to decline further. Other recent growth markets, like data centers, are relatively immune to rates. Morever, cement intensities – the amount of cement consumed per real dollar of construction spending – cratered to their lowest level since the Great Recession in 2025 and are now projected to record mild improvement over the next several years. To that effect, ACA has upwardly revised its cement consumption outlook for 2026 relative to the Spring forecast, while downwardly revising real construction spending.

Composition in Changes in Cement Consumption

Annual Percent Change, Real Put-in-Place Construction, Cement Intensity



Iran Conflict Developments

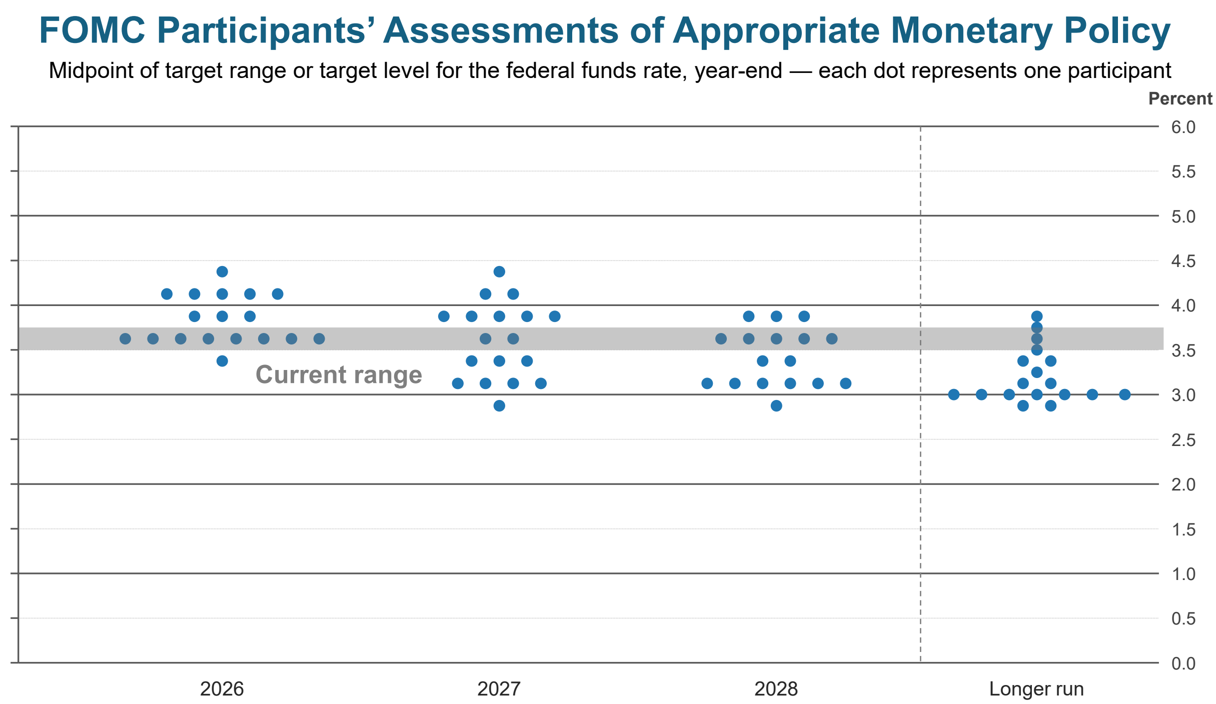
Until recently, the events in the Middle East unfolded in the vein of ACA's Spring baseline scenario. On June 17, the U.S. and Iran signed a memorandum of understanding (MOU), which represented a 60-day period of cessation of hostilities to negotiate a permanent resolution to the conflict. Yet scarcely over a week later, Iran launched a drone attack against a ship in the Strait of Hormuz. Tanker traffic in the Strait of Hormuz has once again been essentially frozen as tension is the region remains high.

Future control over the Strait of Hormuz is the most immediate and critical aspect of the war for both the U.S. and Iran. ACA's baseline assumption is that full scale escalation is less likely than some sort of settlement.

Economic Outlook

The U.S. economy has remained surprisingly resilient despite facing significant headwinds. Consumer spending has continued to show resiliency, but is largely driven by high earners. Given healthy aggregate demand, in turn, the labor market has held steady. Even after a significant reduction in the federal workforce, stricter immigration enforcement, and the potential disruptive technology AI poses, the job market has exhibited a great deal of resiliency. However, even if layoffs remain low, hiring activity is subdued and ACA expects this to continue into 2027.

Unfortunately, inflation has become a significant threat to the macroeconomic outlook again. Since the beginning of the war, the CPI has risen to over 3%, reaching a high of 4.2% in May. Energy prices are the main contributor to inflation, but the longer the conflict persists, it could percolate more broadly throughout the economy.



The above chart displays participants of the FOMC's view of appropriate interest rate levels. According to the dot plot, many members think the current federal funds rate range should be higher. ACA does not expect the Fed to raise rates. It assumes the FOMC decides to hold rates throughout this year and most of next – not voting to cut rates until September 2027.

In ACA's view, the economy is strong enough to continue to weather higher inflation and rates in the near term. However, there are a lot of downside risks along the way to the expected growing economic traction during the back half of 2027.

Construction Overview

There were fairly large revisions to the Census' monthly put-in-place construction spending series for 2025. Topline spending was adjusted higher for 2025, settling at -1.2% compared to -3.0% originally published. This means that cement intensities bottomed out in 2025, reflecting their lowest levels since the construction collapse of the Great Recession. ACA projects cement intensities will continue to improve throughout forecast horizon. This translates to cement consumption outpacing construction spending.

ACA relies on cement tonnage as reported by the U.S. Geological Survey (USGS) for its national and state forecasts. Due to a new reporting format, USGS' release schedule has been delayed, and January

2026 is the latest publication available. However, ACA uses reported member volumes to estimate monthly tonnage in the interim. Cement volumes through June remain positive. However, it's important to put these gains into context. The first half of 2025 was relatively weak with a seasonally adjusted annual rate (SAAR) of 97.7 million metric tons. The third quarter of 2025, on the other hand, was strong, posting a 103.5 million metric ton SAAR. Volumes are expected to record weakness against these strong comparison months.

Private Construction

The largest update to ACA's outlook for private construction since the Spring is that now there are no interest rate cuts expected until September 2027. In the Spring, mortgage rates were forecast to average below 6% in 2027. In light of interest rates remaining higher for longer, ACA has downwardly revised its single family starts outlook for 2027-2028 relative to the Spring forecast. Even in 2028, single family starts are not expected to break one million units. The housing market continues to be constrained by poor affordability, with the lingering "lock-in effect" playing an important role.

Nonresidential construction over the past several years has been a dichotomy between the traditional cyclical commercial markets and the dynamic growth markets. Unfortunately, the bulk of the nonresidential sector's cement volumes reside in the traditional cyclical markets, which remain anemic. Besides religious buildings, every nonresidential subsector tracked in ACA's forecast is expected to finish 2026 with negative real construction spending. Of the dynamic growth markets of recent years, only data center construction remains red hot. ACA has upwardly adjusted its growth expectations for data center construction through 2028.

Both residential and nonresidential cement consumption are projected to turn positive in 2027, offsetting a decline in public construction. The mild growth anticipated in 2027 is expected to be led by a nascent rebound in single family construction.

Public Construction

The largest question looming over public construction for the past few years has been what the next reauthorization of surface transportation funding will look like in terms of size and scope. In the Spring, it appeared that more clarity had been provided when the House Transportation and Infrastructure Committee passed the BUILD America 250 Act. Since then, progress toward passing the bill through Congress has stalled. In ACA's full Summer Forecast the impacts of act have been evaluated at face value, though these do not reflect ACA's baseline public forecast.

ACA's baseline public forecast assumes an extension is authorized this fall and that Congress revisits the specifics of BA250 sometime next year. However, the size of the package gets scaled back from the current topline dollar figures the bill suggest. As such, street & highways real construction spending and cement consumption are projected to decline in 2027 before returning to growth in 2028. Without a large enough funding mechanism to replace the outsize spending dedicated to sewer and water systems in IIJA, both markets are expected to record sizable declines in 2027-2028.

Summary Outlook

U.S. cement volumes are no longer expected to retreat. Yet, there remains no clear driver of growth. For the next 12 months, inflation is expected to linger at stubbornly high levels, and interest rates will continue to be restrictive. Consumer spending and the labor market should have enough strength to weather the storm. With a future resolution to the conflict with Iran, uncertainty should fade and inflation is expected to cool, giving the Federal Reserve more leeway to start reducing interest rates again. The economy is expected to gain steam during the second half of 2027. While this is only projected to produce small growth in cement consumption in 2027, it will symbolize the beginning of a recovery in cement volumes. Larger year-over-year gains are expected in 2028 as all three construction sectors contribute to growth.