

# Forward Momentum

The mass may be smaller and the velocity may be slower than desired, but the rock is rolling in the right direction.

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Editor-in-Chief

**M**omentum is sometimes hard to define. In sports, it may be a crucial play that changes the outcome of the game. In business, however, it might be something as simple as a sale that leads to an unexpected customer base. Often, it may seem like a small pebble, but once it starts rolling downhill—gaining mass and velocity along the way—its impact can be significant.

Movement alone, however, is not enough. Just look at the results of our forecast studies during the last eight years, and it's clear that not all momentum

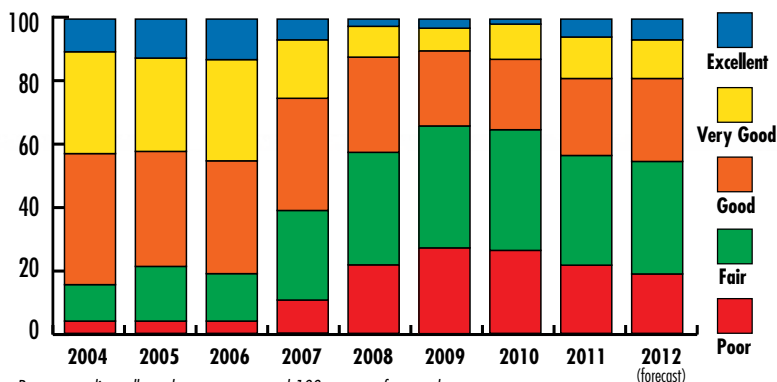
is good momentum. For example, consider the industry's historical response to business conditions. When answering our first forecast in 2004, 84.5 percent of respondents indicated positive business results (excellent, very good, or good). For a three-year window between 2008 and 2010, however, those numbers plummeted with an all-time low in 2009 when just one in three respondents (34 percent) reported favorable business ratings. Those numbers increased slightly in 2010, but 2011 respondents gave the most favorable business ratings (43.4 percent positive) since 2007.

Another favorable indication is the accuracy demonstrated in yearly predictions and the subsequent results. With the exception of those predicting a fair year, responses from last year's forecast results versus this year's actual results are all within 5 percent, and most forecast discrepancies erred toward being overly pessimistic.

- **Excellent:** 1.6 percent forecast; 5.7 percent actual (+4.1 percent difference);
- **Very Good:** 12 percent forecast; 13.2 percent actual (+1.2 percent difference);
- **Good:** 24.8 percent forecast; 24.5 percent actual (-0.3 percent difference);
- **Fair:** 44.0 percent forecast; 34.9 percent actual (-9.1 percent difference); and
- **Poor:** 17.6 percent forecast; 21.7 percent actual (+4.1 percent difference).

From a regional perspective, producers in the Northeast were the most likely to report positive

## 2011 Business Rating Trends

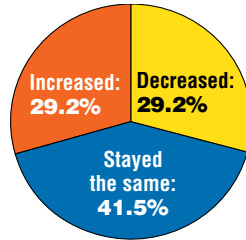


Due to rounding, all numbers may not equal 100 percent of respondents.

Looking forward, 6.6% of operators expect an excellent year in 2012; the highest number reported in this category since 2007. Those expecting a very good year dropped slightly from 2011 results (from 13.2 to 12.3%), but anticipated results are generally more favorable for 2012 following reports of a slightly improved year in 2011.

Source: Aggregates Manager Forecast Studies

## 2011 Production Volumes vs. 2010 Production Volumes



results with nearly six in 10 (58.3 percent) indicating positive business results in 2011, while approximately two-thirds (67.5 percent) of those in the South reported fair or poor results.

Small producers (under 500,000 tons per year) were the most likely to indicate positive business results, with the level of optimism diminishing in a direct correlation to increasing tonnage until hitting the large end of the spectrum with producers of more than 5 million tons per year. This group was slightly more inclined to report favorably, with one in three reporting favorable results, compared to three in four reporting fair or poor business results in the next largest production category (3 to 5 million tons per year).

In terms of operators experiencing changes in production quantities throughout 2011, an equal number said they'd increased and decreased production. It's worth noting that, of those reporting an increase, the average increase was 25 percent higher production. Among those indicating a decrease, the average decrease was 19 percent. The largest gains were had among producers of crushed stone and sand and gravel (30.8 percent reported an increase) and among those in the North Central region (43.5 percent indicated higher production levels).

### So what's next?

While gains appear evident within pockets of the industry, several years of inertia are challenging to reverse. Looking forward in 2012, small improvements are being predicted in most categories. Comparing forecast projections from 2012 to those from 2011, 6.6 percent expect an excellent

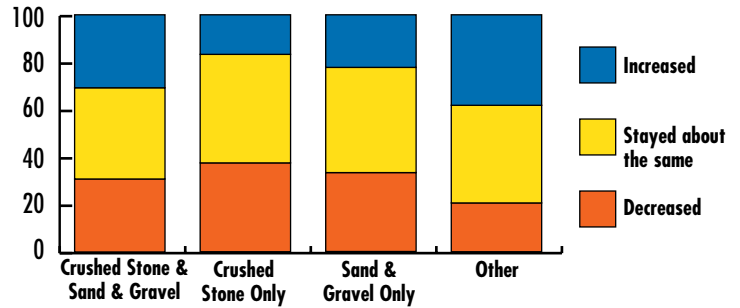


**Average increase: 25.0%**

**Average decrease: 19.0%**

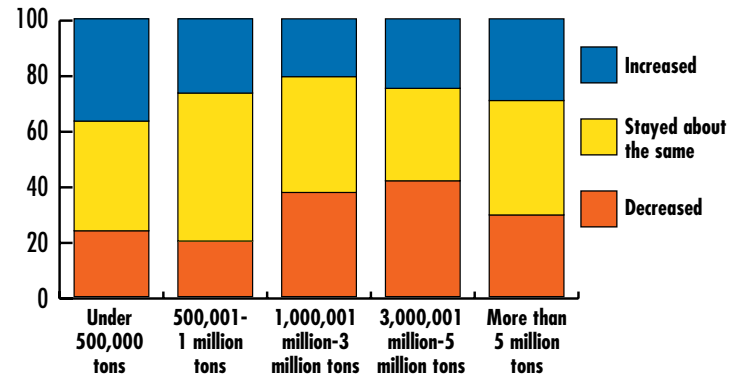
Source: Aggregates Manager 2012 Forecast Study

## By Primary Business



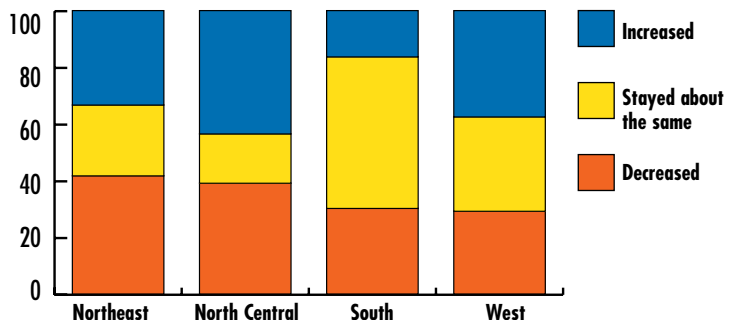
2011 production numbers showed some interesting trends. While half of crushed stone producers experienced an increase in production during 2010, they were the most likely to report decreased production in 2011. Producers of both crushed stone and sand and gravel showed greater stability with 14.4% more of respondents reporting consistent production levels in 2011 (38.5%) as compared to 2010 (24.1%). That same category had 8.1% fewer producers reporting a decrease in production between 2011 (30.8%) and 2010 (38.9%).

## By Annual Production



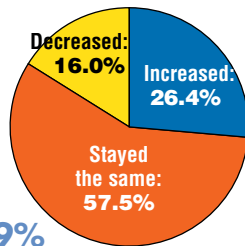
Based on size of operation, smaller operations appear to have fared better than their larger counterparts in 2011. Operators in the two smaller categories (under 1 million tons per year) were more likely to report an increase in production than a decrease. Mid-sized operators (1 to 5 million tons per year) were more likely to report decreased production rather than increased. The largest operators (more than 5 million tons per year) straddled the center with an equal number reporting increased and decreased production.

## By Region



Following a strong year in 2010, operators in the Northeast saw a reversal of fortunes with nearly 42% reporting decreased production in 2011. The South experienced a particularly challenging year in 2010, with more than half of operators (51.3%) reporting decreased production. This year, more than half (53.5%) report stable production, but more than one in three has still seen decreased production. The bright spot appears to be the North Central region, where 43.5% report increased production.

## 2012 Production Expectations vs. 2011 Results



**Average increase: 14.9%**  
**Average decrease: 11.6%**

*Source: Aggregates Manager 2012 Forecast Study*

year (+5 percent), 12.3 percent expect a very good year (+0.3 percent), and 26.4 percent expect a good year (+1.6 percent). In terms of negative expectations, 35.8 percent expect a fair year (-8.2 percent), while 18.9 percent expect a poor year (+1.3 percent) in 2012.

Sand and gravel producers are the most concerned looking forward. Nearly nine in 10 (88.9 percent) expect a fair or poor year in 2012. Those working in the Northeast and North Central regions are the most optimistic with 66.6 and 52.2 percent, respectively, calling for positive business results. In terms of size, small operators are the most hopeful, with 68.4 percent of those producing up to 500,000 tons per year and 53.3 percent of those producing 500,001 to 1 million tons per year calling for positive results.

In terms of production quantities, sand and gravel producers are the most upbeat. Twice as many anticipate an increase in production compared to those who expect tonnage to decline.

Consistency is key from a regional perspective. The majority of operators in all four regions expect production quantities to remain about the same. That said, operators in the North Central region were the most optimistic with 34.8 percent anticipating an increase compared to 13.0 percent calling for a decrease. Producers in the South are still skittish on demand; they were the only region with more respondents anticipating a decline (20.9 percent) than an increase (16.3 percent).

## Personnel matters

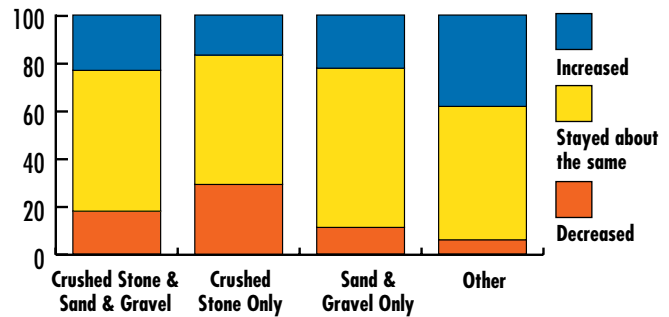
In 2011, employment levels were slightly more stable throughout much of the aggregate industry. Overall, 27.4 percent (9.6 percent fewer than in 2010) of respondents said the work force decreased throughout the year, while 20.8 percent said their work force grew.

Crushed stone and sand & gravel operators were the most likely to report having a smaller work force (41.0 percent), while sand and gravel operators were most inclined to boost their numbers (33.3 percent). Crushed stone only operators had the most stable work force segment with 58.3 percent indicating the size of their work force was about the same as during the previous year.

From a regional perspective, the South's declining production levels were reflected in its staffing; 46.5 percent of operators there reported work force declines. The most growth was seen in the North Central region where 26.1 percent of respondents' operations grew their numbers.

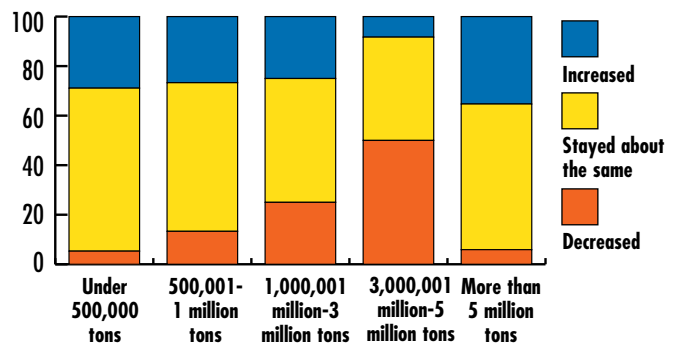
By worker category, other hourly labor was the category to

## By Primary Business



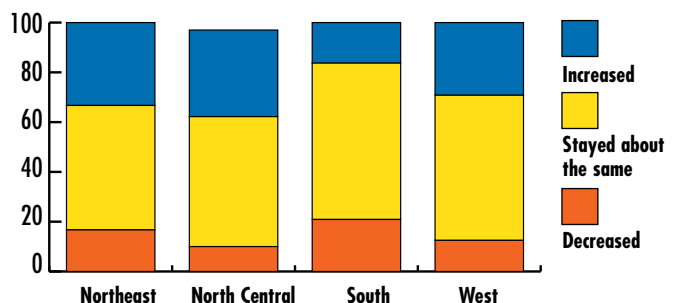
Looking toward 2012, the majority of operators — regardless of product category — expect production levels to remain the same, with two in three sand and gravel operators predicting stable production. After experiencing the largest negative impact in 2011, crushed stone operators offered the greatest variance in year-over-year expectations. The number expecting production to increase dropped from 25% last year to 16.7% this year while the number expecting production to decrease jumped from 6.4% last year to 29.2% this year.

## By Annual Production



In terms of size of operation, operators at both ends of the spectrum voiced generally positive expectations for 2012. More than a third of the largest operations (more than 5 million tons per year) expect production to increase, while only one in 20 (5.3%) of the smallest producers (under 500,000 tons per year) expect production to decrease. Mid-size producers (3 to 5 million tons per year) were the least optimistic with one in two forecasting a decrease in production.

## By Region



Throughout the nation, most operators are calling for fairly stable production levels in 2012. The most optimistic areas are in the Northeast and North Central where one in three expects an increase in production capacity. The South is the only region where more operators anticipate a decrease than an increase.



experience both the highest increase (13.2 percent) and the highest decrease (27.4 percent). The number of women in the workplace grew, as it was the only category to report more work force expansion (10.4 percent) than contraction (6.6 percent).

## Industry challenges

Competition for sales has dominated operator concerns during the last four years. While the number who ranked it as a major concern diminished this year (25.5 percent), nearly 60 percent more called it a minor problem. Taken as a combined total, almost 85 percent noted it as a challenge — 25 percent more than the next most widespread problem.

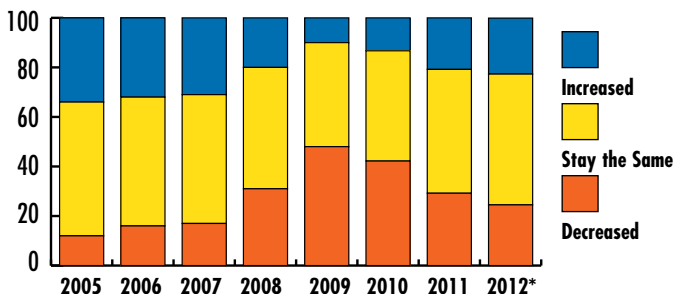
When asked how they were dealing with this issue, many respondents indicated that they have lowered prices to seal the deal, including break-even pricing. Some vertically integrated operators noted using package deals to streamline costs. Others say they are analyzing markets, implementing long-term strategic planning, and exploring new and growing markets. Customer service, customer contact, and a focus on quality are among the business strategies being employed to maintain customer loyalty.

Other concerns, such as regulatory compliance and aggregates availability, are increasingly important to this year's respondents, but the dominance of competitive sales indicates that the aggregate industry — while in a better place than recent years — remains intensely focused on each job and each customer.

Improvements may be modest and regional, but they do, indeed, appear to be real. If these results and those forecast for 2012 bear out, then the aggregate industry needs to ensure that objects in motion stay in motion. From there, it's a matter of increasing mass and velocity. **AM**

## Capital Equipment Budget Expectations

(Comparison of 2005-2012)

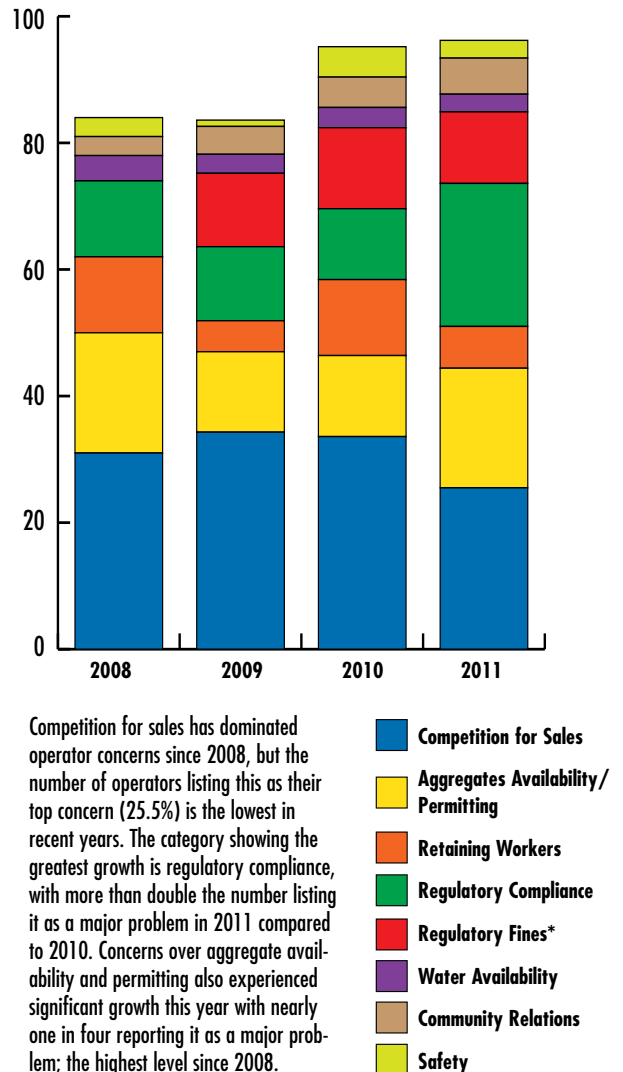


\* Forecast data

In 2012, more than one in five operators expects to increase capital expenditures. This anticipated level of increased equipment procurement is the highest since 2007. The number of those who expect to decrease capital investment levels continues to decline; this may be indicative of the aging equipment fleets in some operations.

## Major Problems Facing Aggregates Managers

(Four-Year Comparison)



Competition for sales has dominated operator concerns since 2008, but the number of operators listing this as their top concern (25.5%) is the lowest in recent years. The category showing the greatest growth is regulatory compliance, with more than double the number listing it as a major problem in 2011 compared to 2010. Concerns over aggregate availability and permitting also experienced significant growth this year with nearly one in four reporting it as a major problem; the highest level since 2008.

- Competition for Sales
- Aggregates Availability/Permitting
- Retaining Workers
- Regulatory Compliance
- Regulatory Fines\*
- Water Availability
- Community Relations
- Safety

\*New category for 2009.

Source: Aggregates Manager Forecast Studies

## Methodology, Objectives, and Sources

The objective of the 2012 Aggregates Manager Forecast Survey was to determine business, production volume, spending, and workforce trends. In November 2011, Aggregates Manager e-mailed questionnaires to a random selection of readers in the crushed stone and sand and gravel, crushed stone-only, and sand and gravel-only industries. A total of 106 useable surveys were completed.