



The Outlook for Construction Machinery

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Dealer Reported Retail Statistics - Machines

Weakness in
North America.

Change from
Year Earlier

Asia/Pacific	+21%
Europe/Africa ME/CIS	+31%
Latin America	+4%
North America	-5%
World	+7%

Source: Changes computed using dealer reported deliveries of machines to end users in constant dollars; posted by Caterpillar Investor Relations on www.cat.com.

Caterpillar Machinery Sales, 2005

Over ½ outside
North America.

	<u>Million Dollars</u>
North America	12,822
Europe/Africa Middle East/CIS	5,222
Asia/Pacific	2,905
Latin America	1,982
Outside North America	10,109

Source: Caterpillar Inc. 2005 Annual report, p. 32.



New Machine Distribution to End Users

Construction and mining are main drivers.

	<u>% Share</u>
Heavy Construction	32
General Construction	27
Mining	18
Quarry & Aggregates	8
Industrial	4
Forestry	3
Waste	3
Paving / Other	5

Source: Caterpillar Inc. 2005 Annual report, p. 32.

Preliminary Outlook for 2007

Significant
change from
last 4 years.

Slower world economic growth: 3.5% (vs. nearly 4% in 2006)

- Significant slowing in the U. S., to about 2.5%
- Generally good growth elsewhere

Interest rate trends vary

- Expect rate cuts in the United States (50 – 100 basis points)
- Increases in other countries, but from low rates

Company sales and revenues up 0 to 5%

- Market demand down modestly; largely U. S.
- Dealers cut inventories

Source: Caterpillar SEC 10-Q, filed 11/2/2006, pp. 58-73.

2007 Market Risks

Major concerns
are in the U. S.

U. S. risks

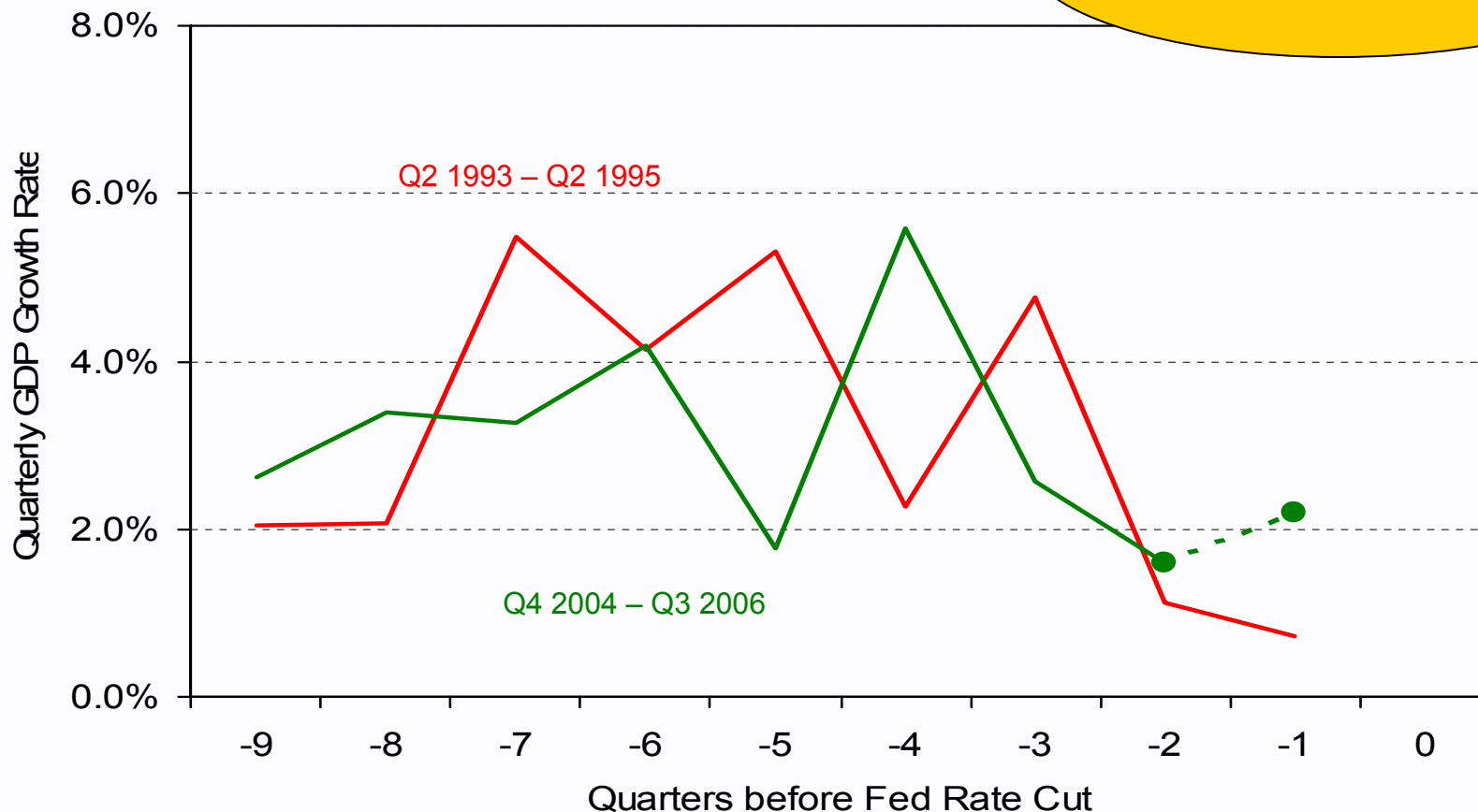
- Housing
- New truck emission standards
- Replacement buying (impact of interest rates)
- Most areas of construction and mining look healthy
- Long-term fundamentals are positive
- Slowdown most likely outcome

Areas outside the United States are generally strong

Source: Caterpillar SEC 10-Q, filed 11/2/2006, pp. 58-73.

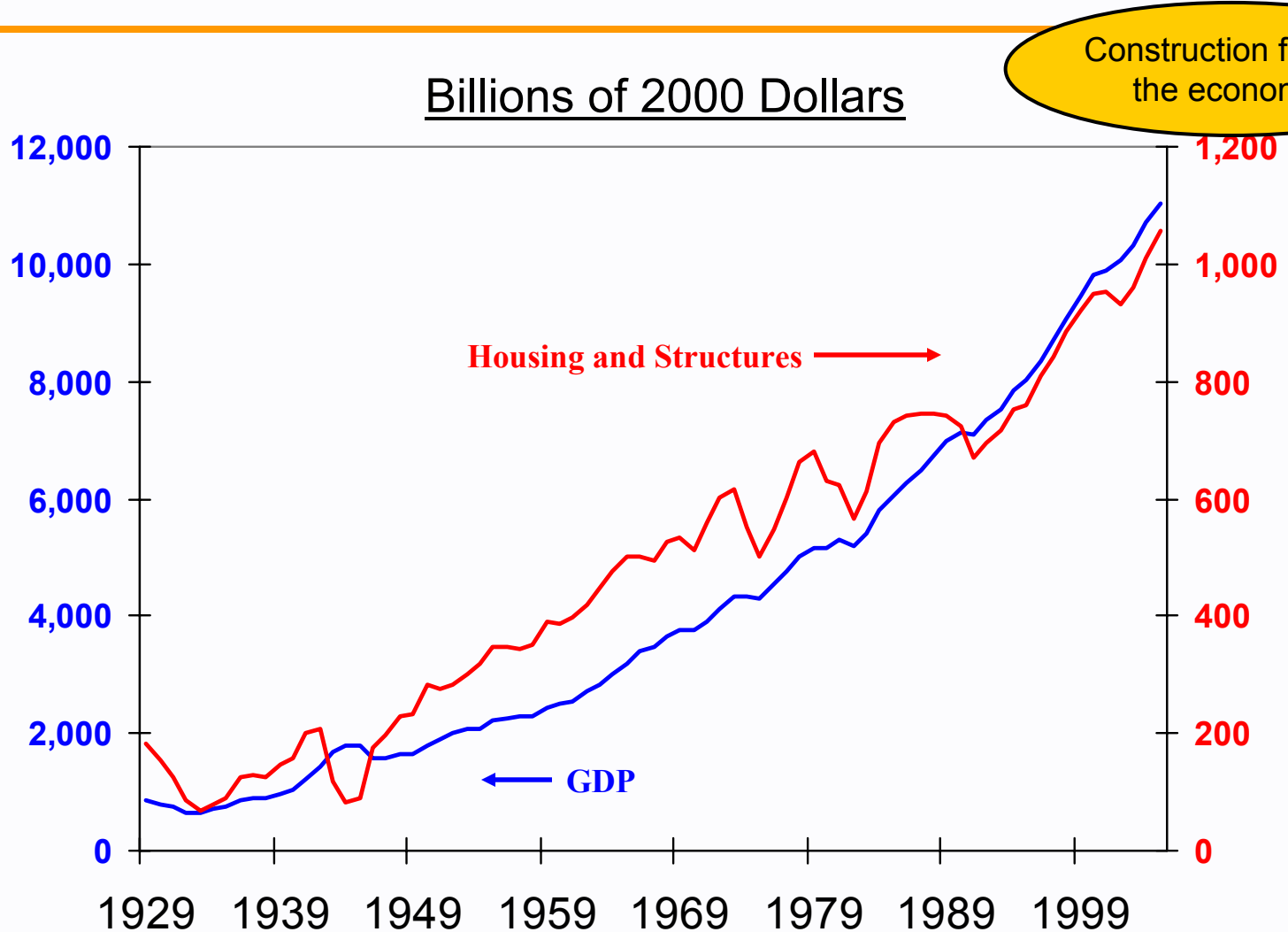
The Case for a U. S. Slowdown

Core PCE inflation above 2% in both periods



Source: Haver Analytics, Macroeconomic Advisers.

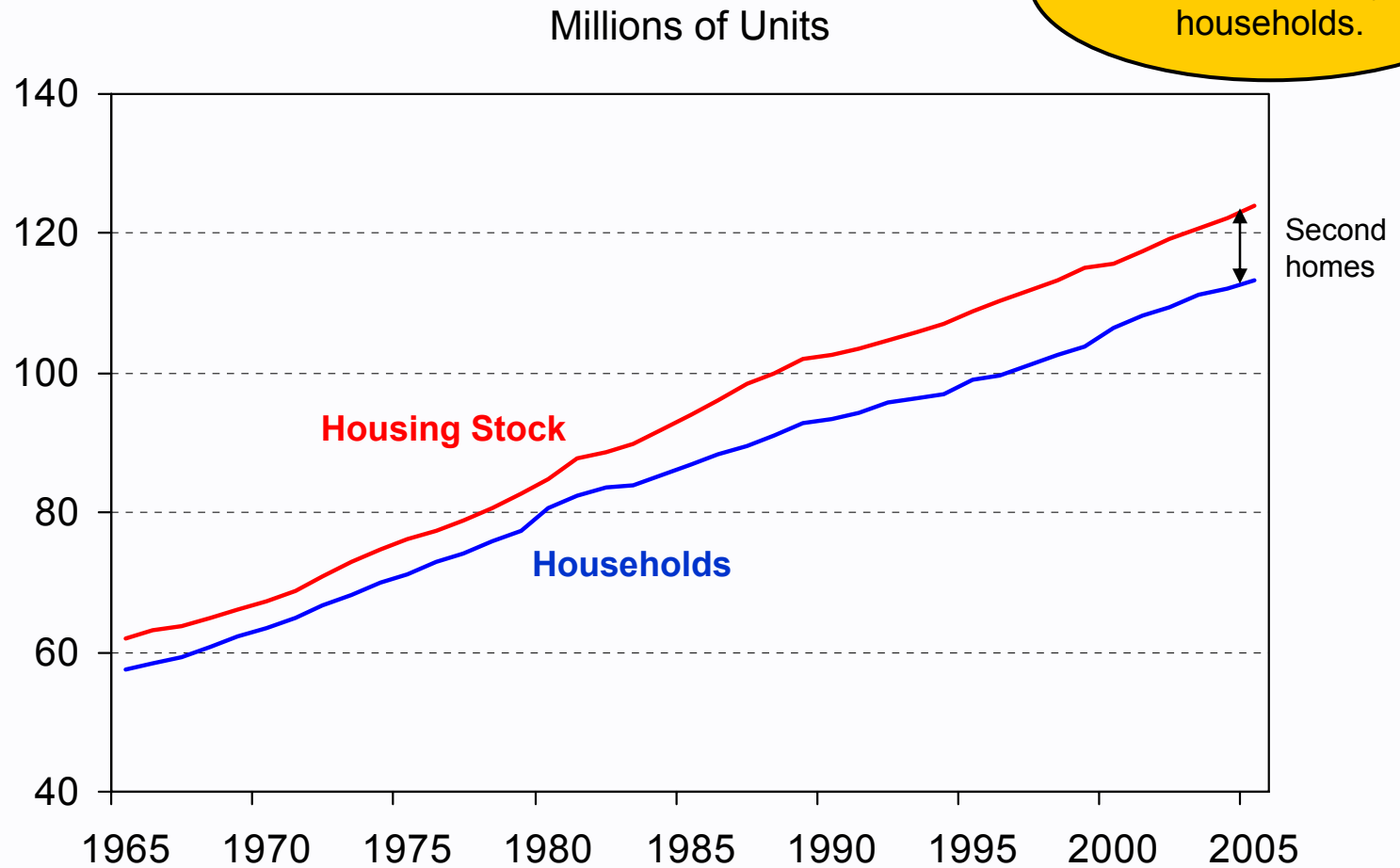
U. S. Growth and Construction since 1929



Source: Haver Analytics.

Drivers of U. S. Housing Demand

Growth in housing stock driven by households.

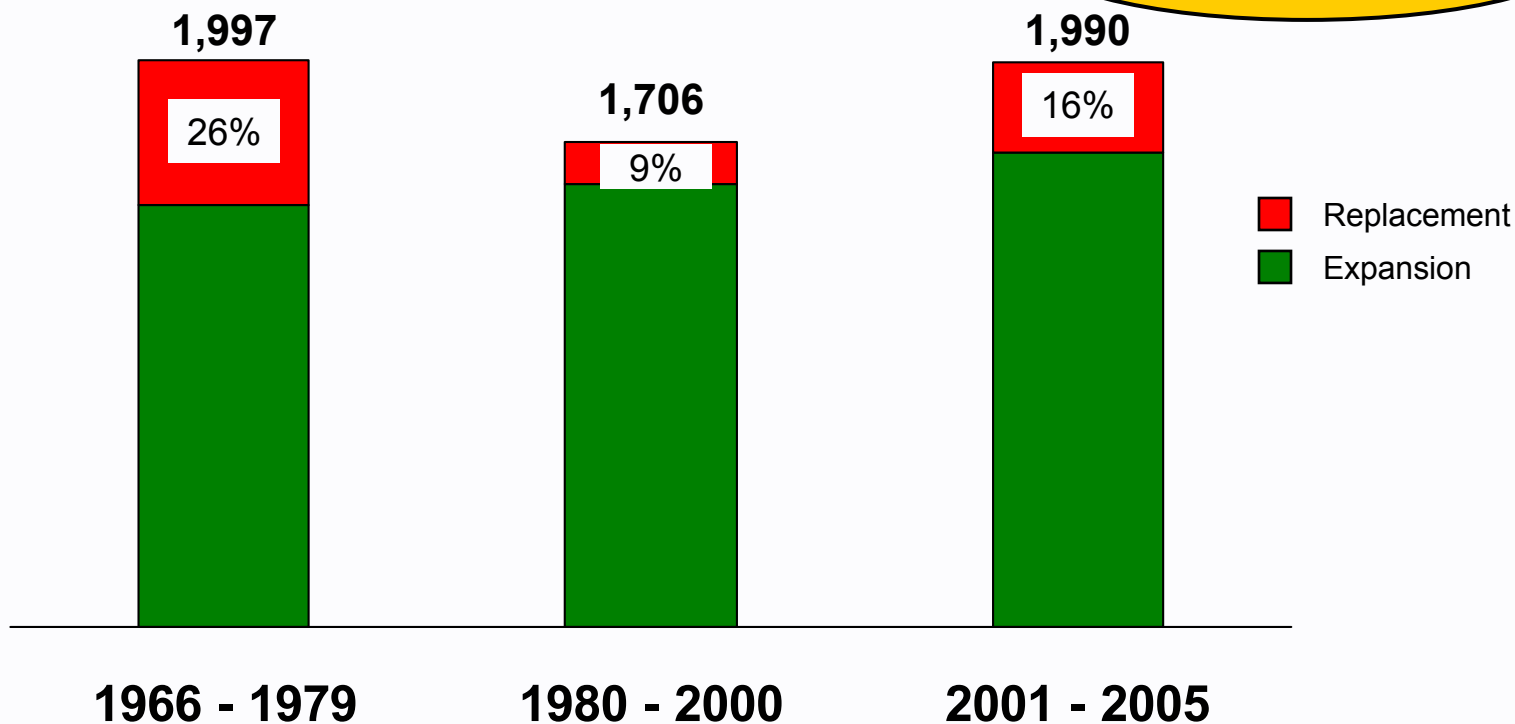


Source: Bureau of the Census, Haver Analytics.

Housing Underinvestment in the Past

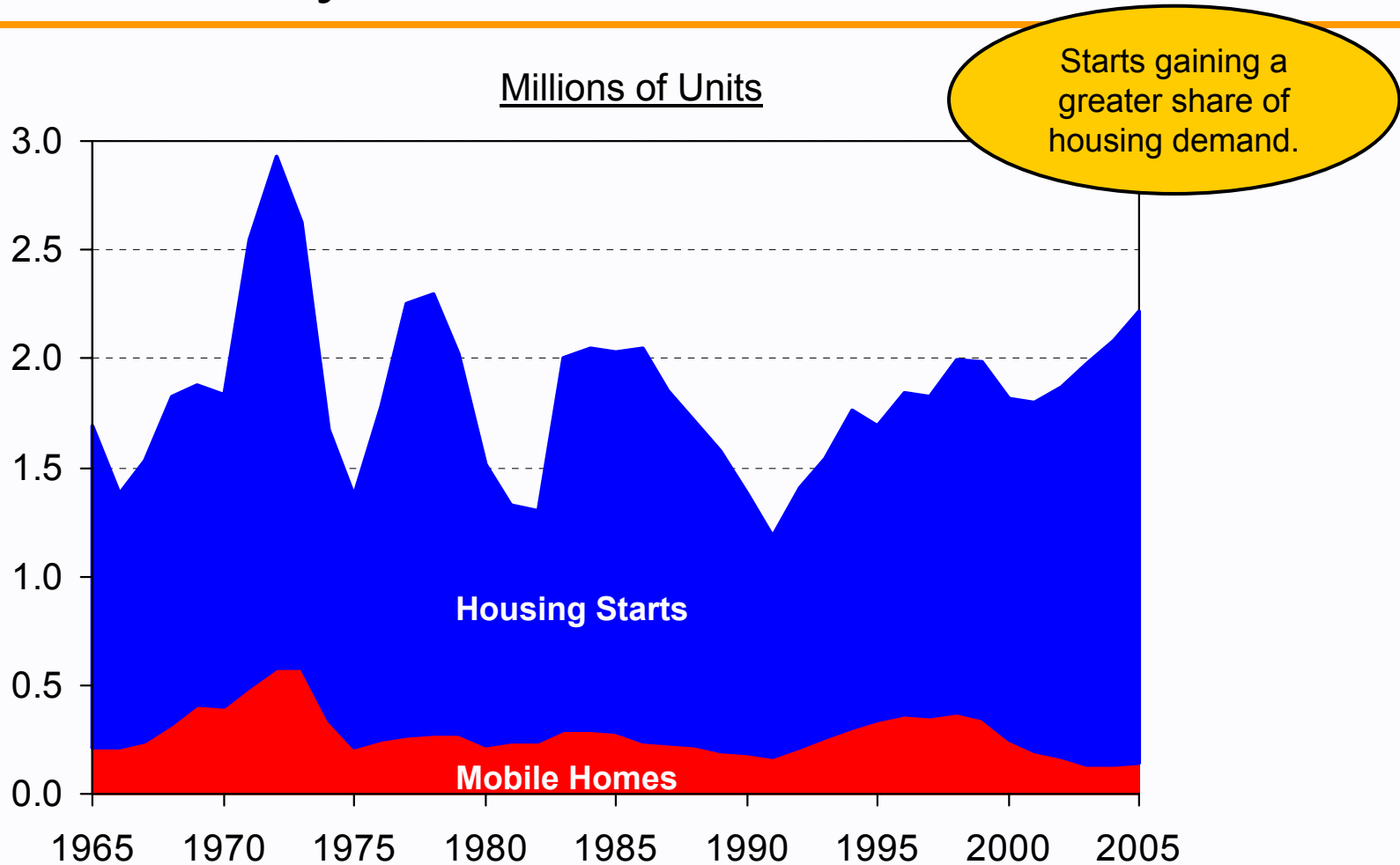
U. S. Housing Starts + Mobile Home Shipments

(Thousand Units per Year)



Source: Haver Analytics; change in housing stock vs. sum of housing starts and mobile home shipments

U. S. Shift away from Mobile Homes



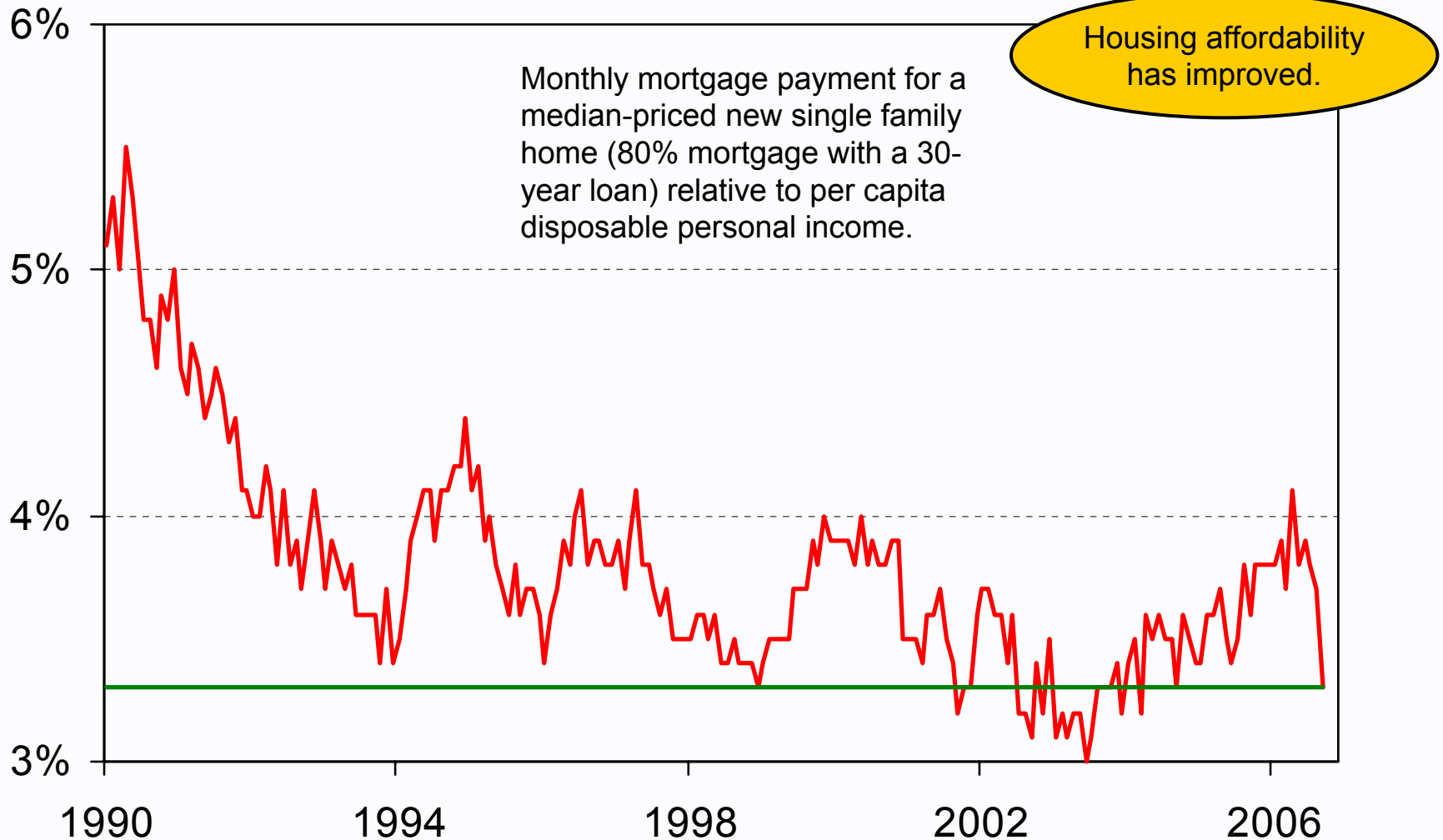
Source: Bureau of the Census, Haver Analytics.

U. S. Housing Fundamentals

	Stock (<u>Mil. Units</u>)	<u>Annual Changes</u> Percent	(<u>Mil. Units</u>)
<u>Demand:</u>			
Primary homes	109.6	1.1	1.2
Vacant/secondary	16.6	2.2	0.3
Replacement	126.2	0.4	<u>0.5</u>
Total			2.0
<u>Supply:</u>			
Mobile homes			0.15
Construction starts			<u>1.85</u>
Total			2.00

Source: Computed from Haver Analytics data

Factors Impacting Single Family Sales



Source: Computed from Haver Analytics data

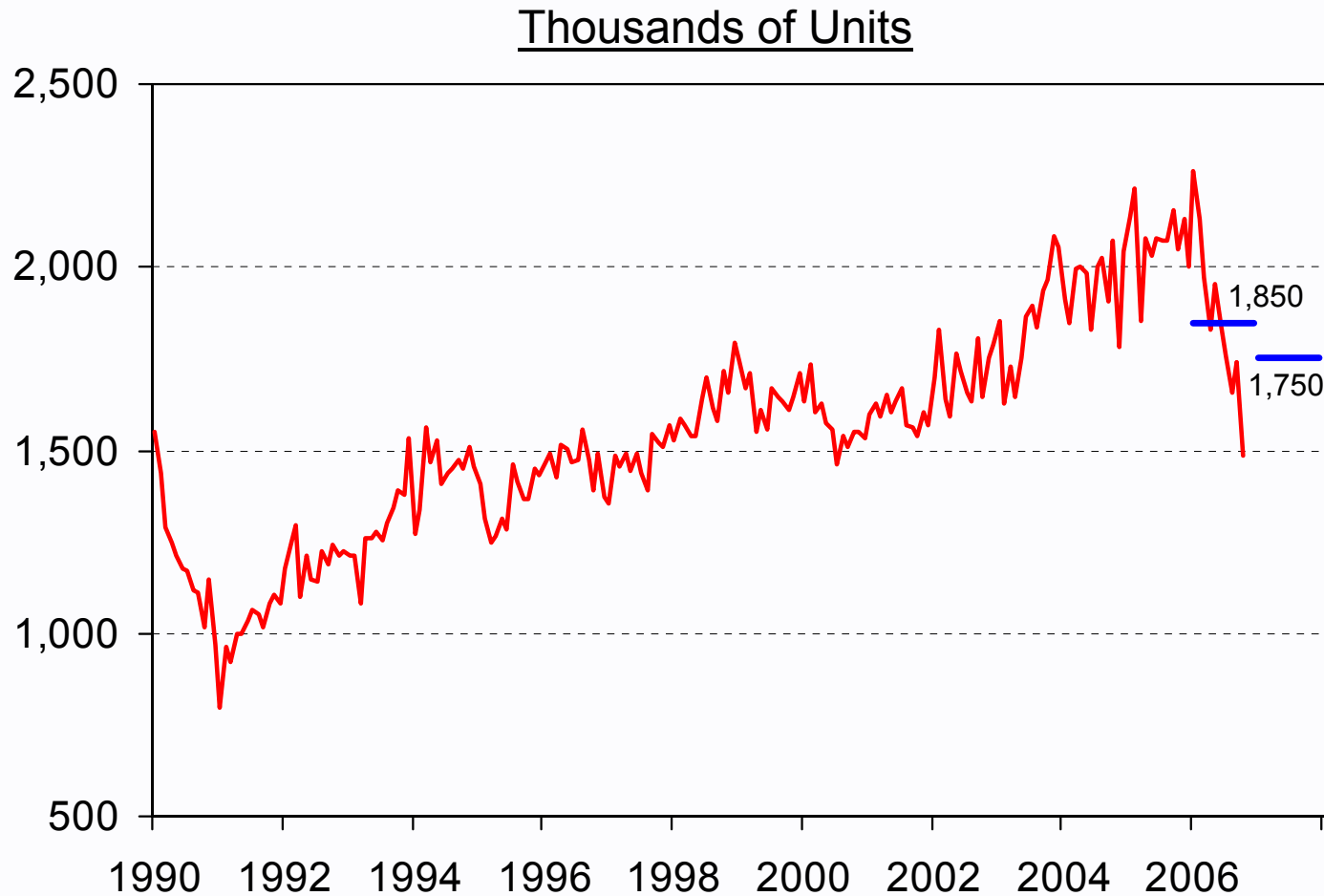
A Closer Look at Some U. S. Housing Drivers

Home sales and starts increasingly out of line with fundamentals.

	<u>Year Ago</u>	<u>Latest</u>
30-year Mortgage rate (%)	6.28	6.18
Median Price of Single-Family New Home	\$240,000	\$217,100
Disposable Per Capita Personal Income	\$30,852	\$32,392
Single-Family New Home Sales (000)	1,253	1,075

Source: Haver Analytics

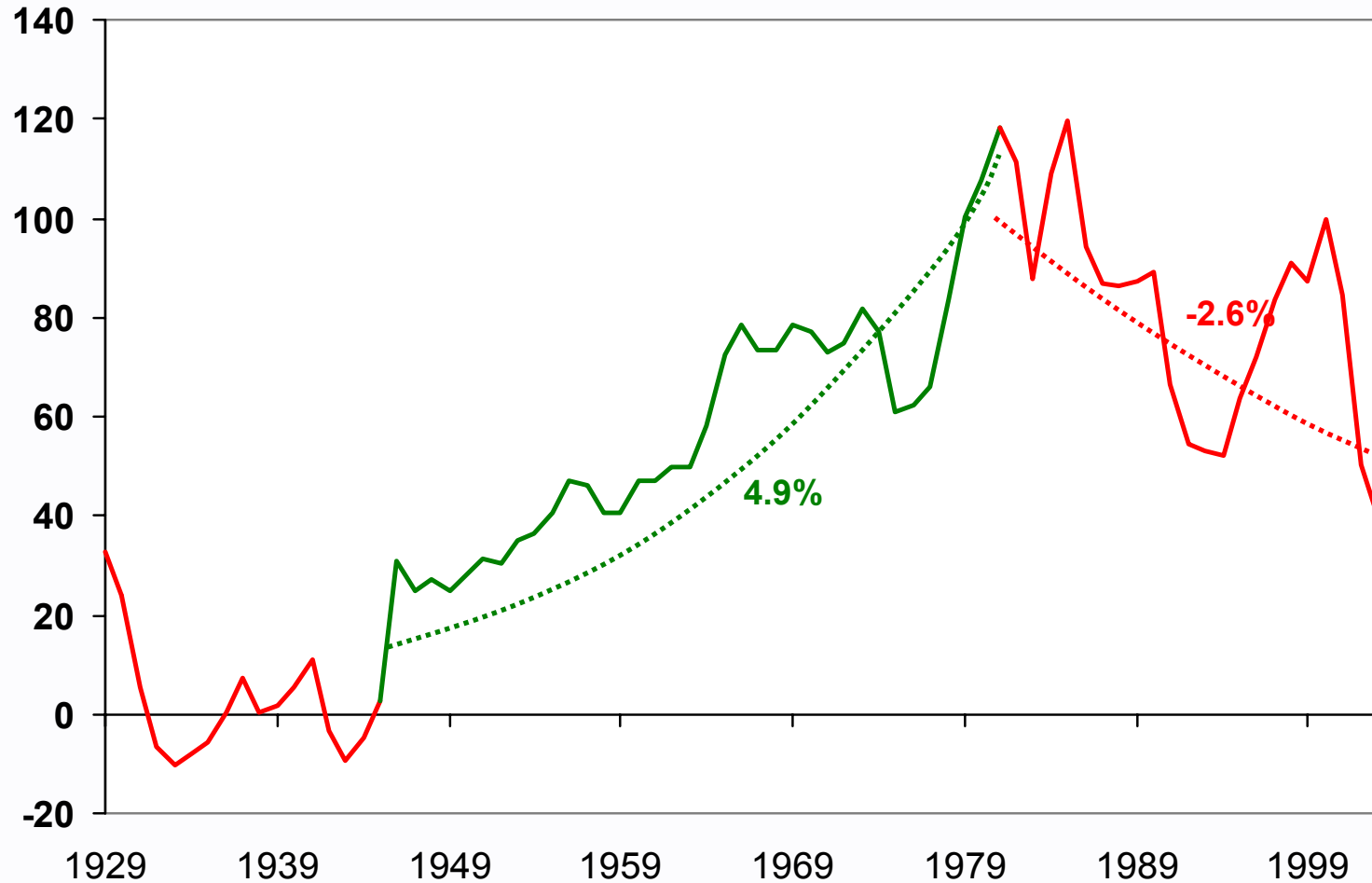
U. S. Housing Start Projections



Source: Haver Analytics, Caterpillar SEC 10-Q, filed 11/2/2006.

No Net Growth in U. S. Business Structures

Real Net Investment in Structures: 2000 = 100



Source: Bureau of Economic Analysis, Haver Analytics

Drivers of Business Investment

(% Changes from a Year Earlier unless Otherwise Noted)

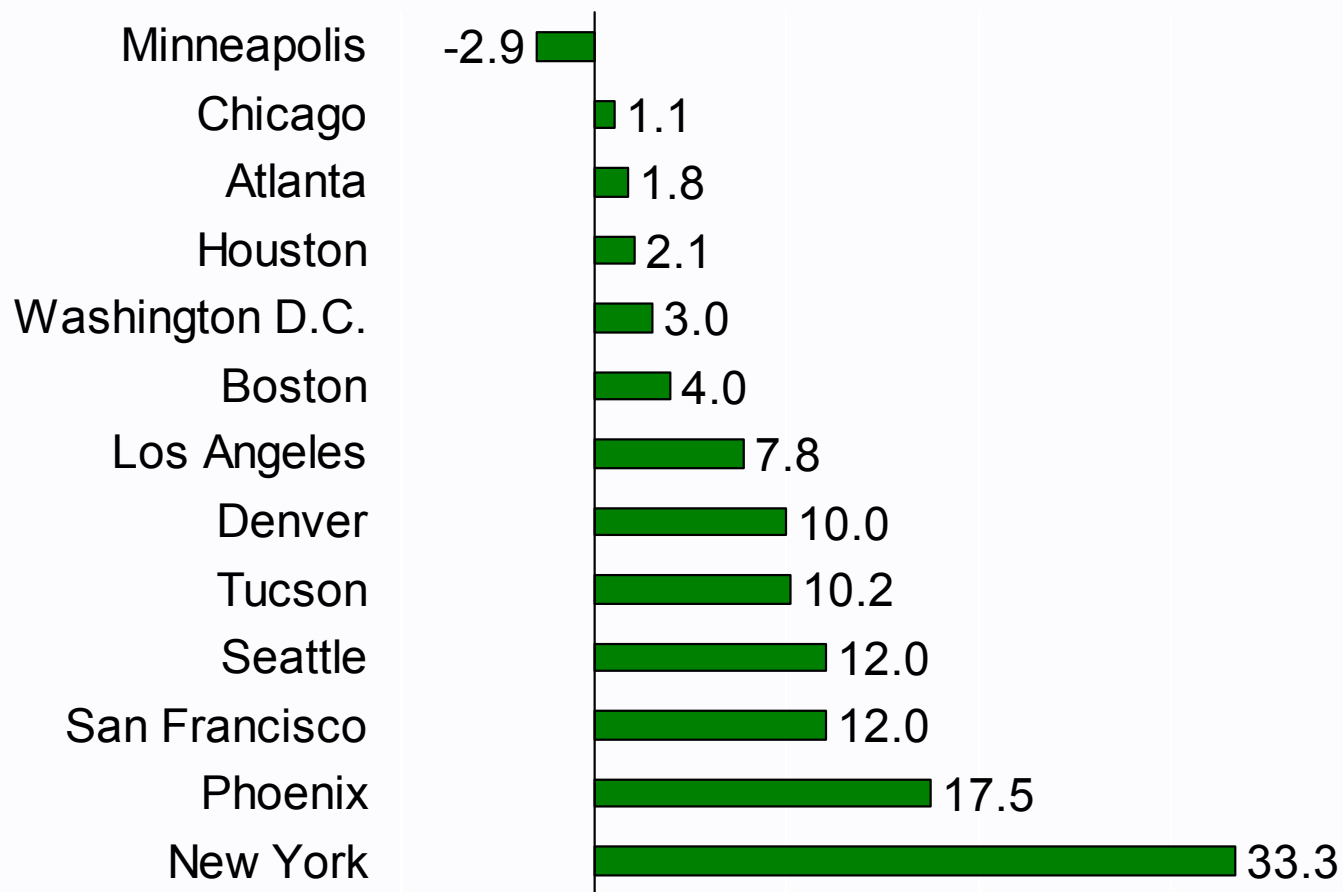
	<u>1995</u>	<u>1999</u>	<u>Now</u>
<u>Interest Rates (%)</u>			
Fed Funds	5.8	5.0	5.3
3-year Treasury	6.3	5.5	4.9
GDP Inflation	2.1	1.4	2.9
<u>Real Rates (%)</u>			
Fed Funds	3.7	3.5	2.3
3-year Treasury	4.1	4.0	1.9
<u>C&I Lending</u>			
Nominal	13	7	15
Real	10	5	11
<u>Placements</u>			
Bonds	32	-5	69
Stocks	42	49	55

Source: Haver Analytics

Office Rents

Vacancy rates
declining nationwide.

Percent Change over a Year Earlier

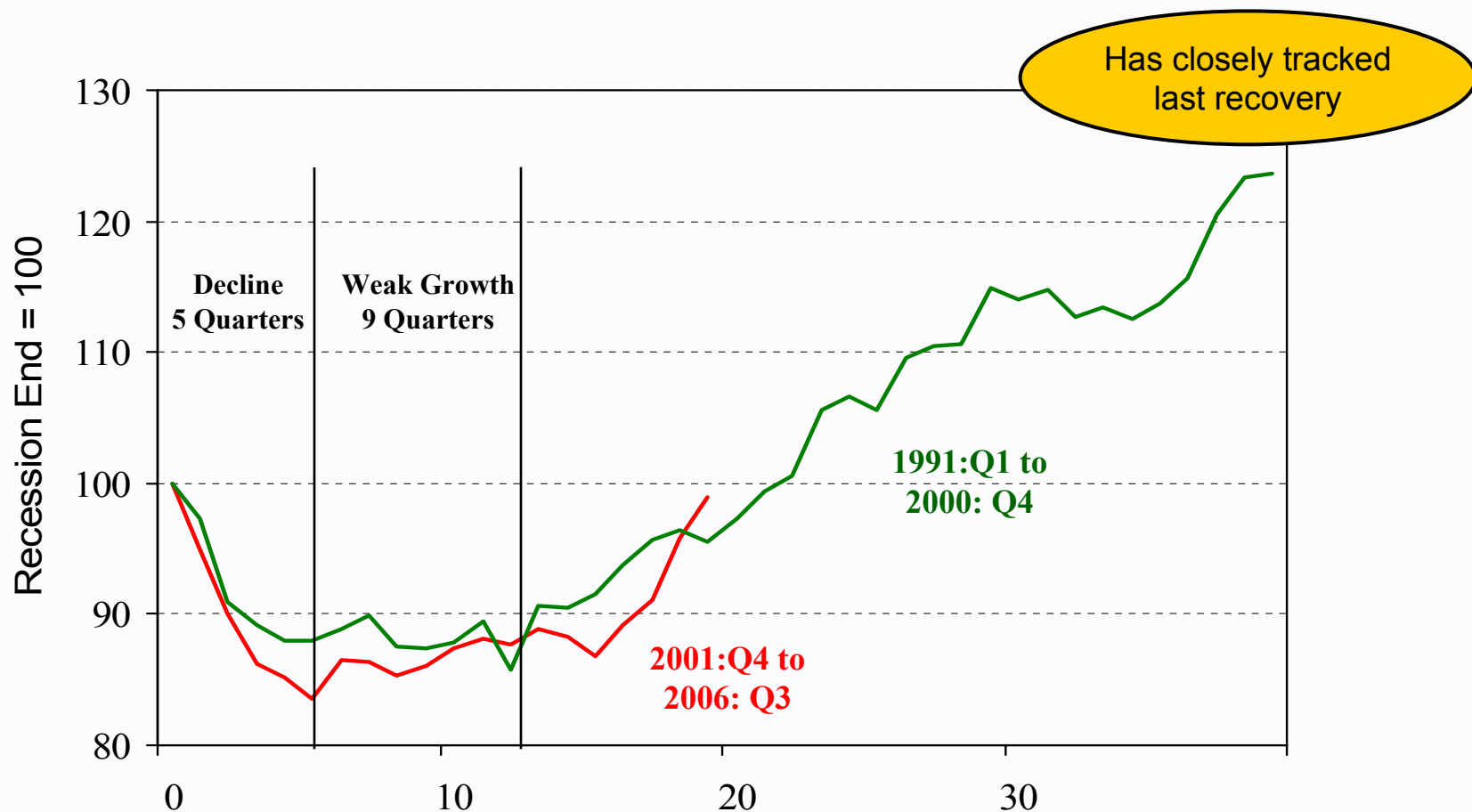


Source: CB Richard Ellis

Other Nonresidential Indicators

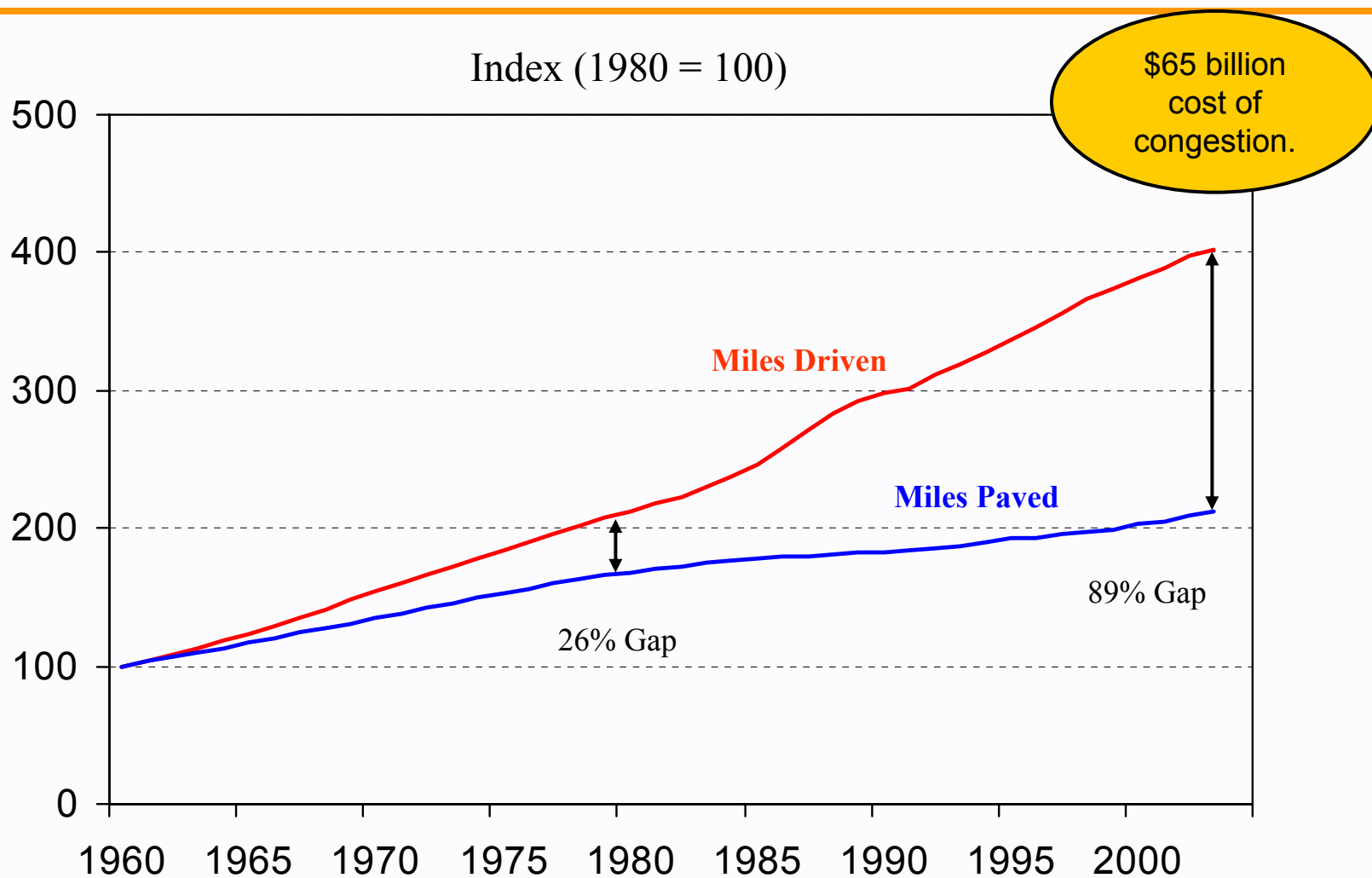
1. National Association of Realtors' Commercial Leading Indicator up In 12 of last 13 quarters
2. Architecture Billings Index for September (6 – 9 month lead): Commercial, 58.3; Institutional, 57.8 (50+ is growth)
3. Smith Travel Research: hotel occupancies up in first half 2006 and revenue per room up 9%
4. McGraw-Hill: 2006 hotel construction to increase 48%
5. U. S. office employment up 2.3% from last year

Recoveries in U. S. Nonresidential Structures



Source: Data from Bureau of Economic Analysis, Haver Analytics

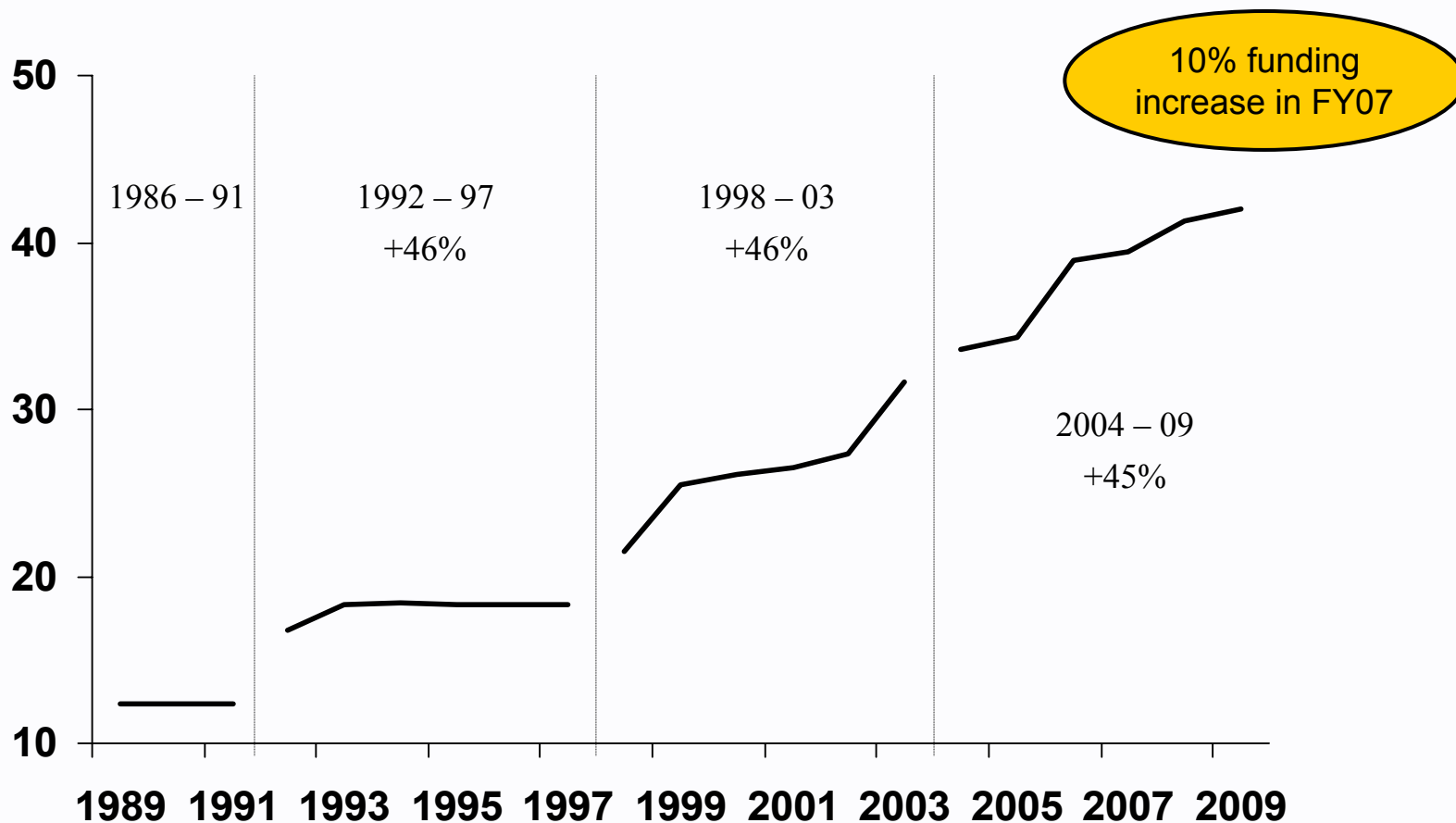
U. S. Highways Are Inadequate



Source: Based on DOT data

Good Outlook for U. S. Highways

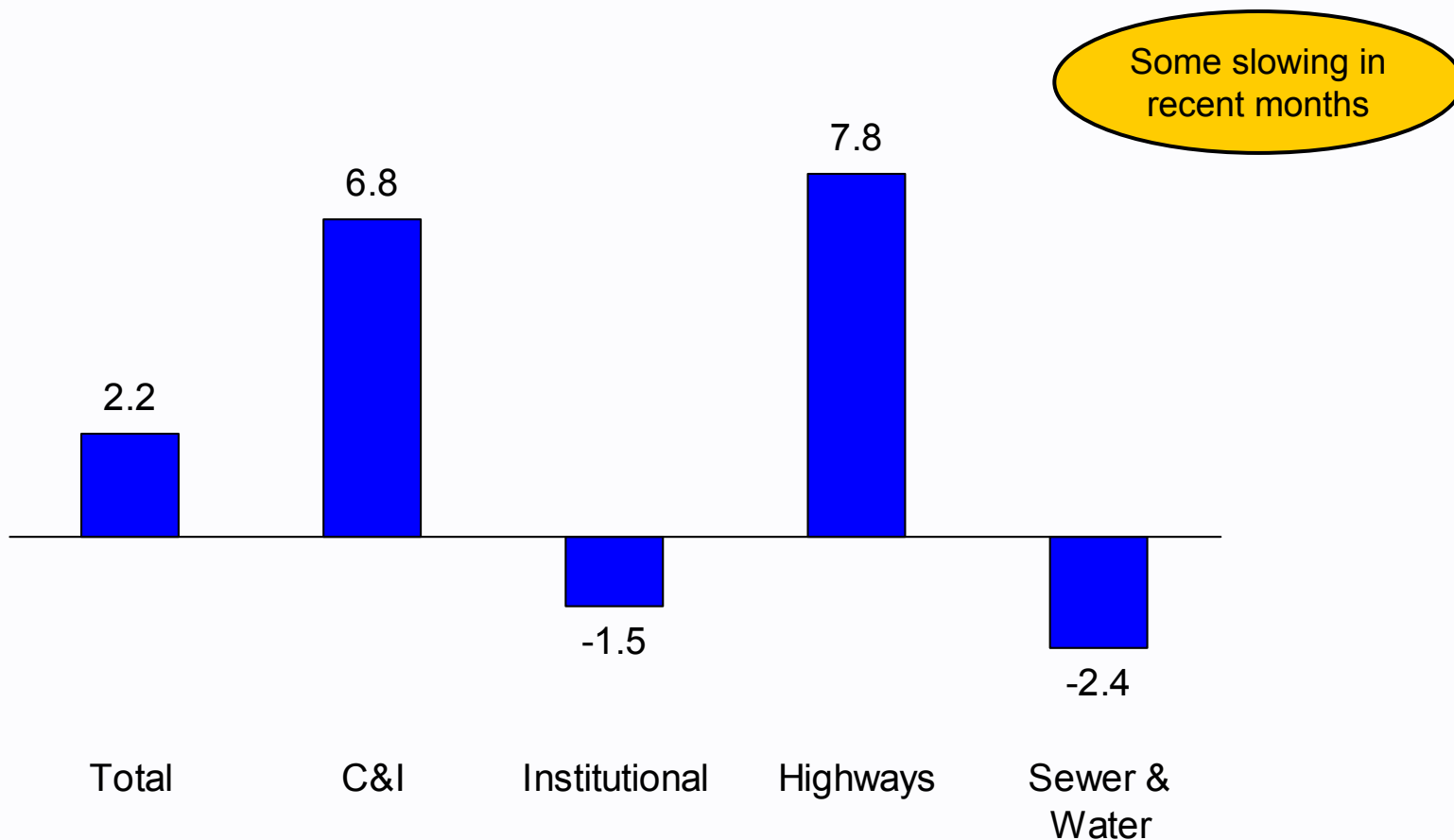
U. S. Federal Highway Obligations – Billion Dollars



Source: Federal Highway Administration

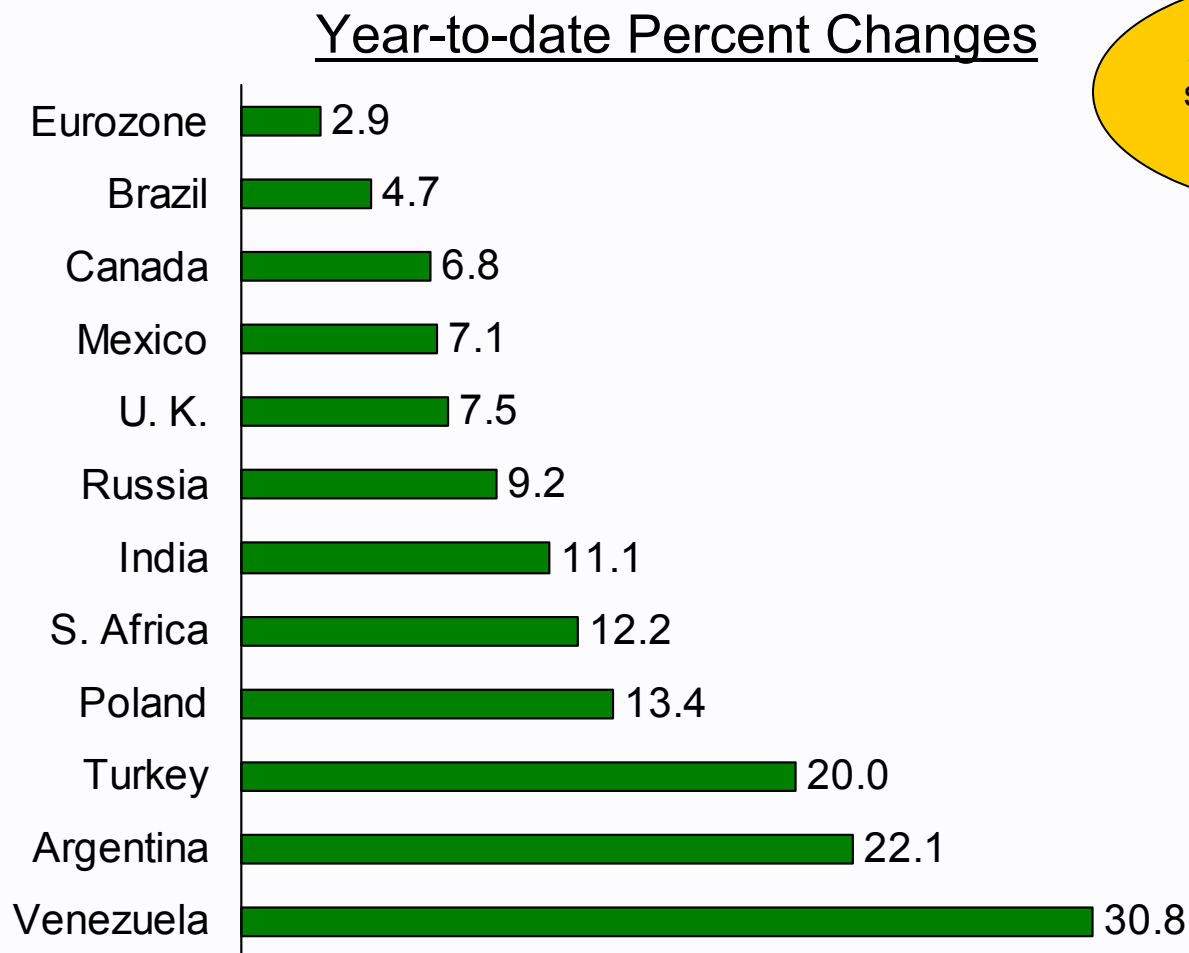
Nonresidential Contracts Awarded

Year-to-date Percent Changes



Source: McGraw-Hill

Construction outside the United States

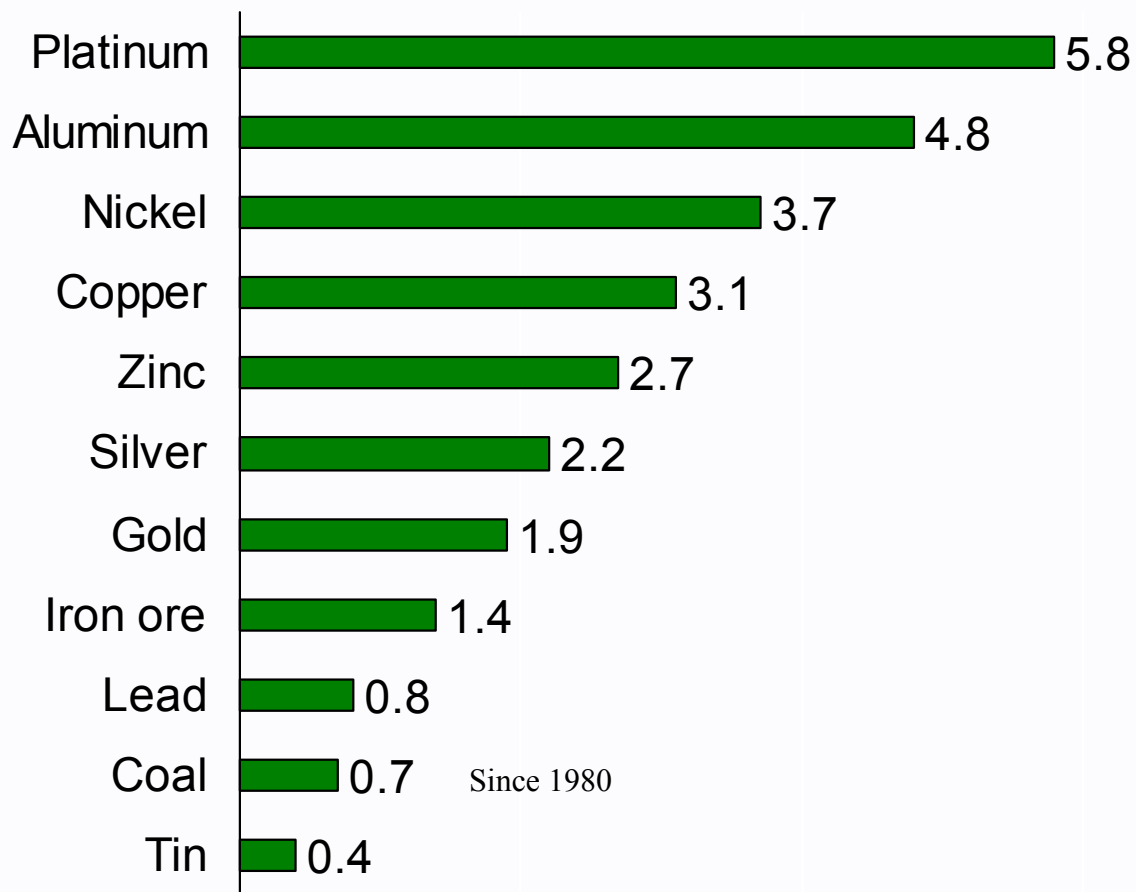


A few examples of strong construction growth

Source: Haver Analytics

Mining Is a Growing Industry

Average Yearly Growth in World Production, 1951 - 2002



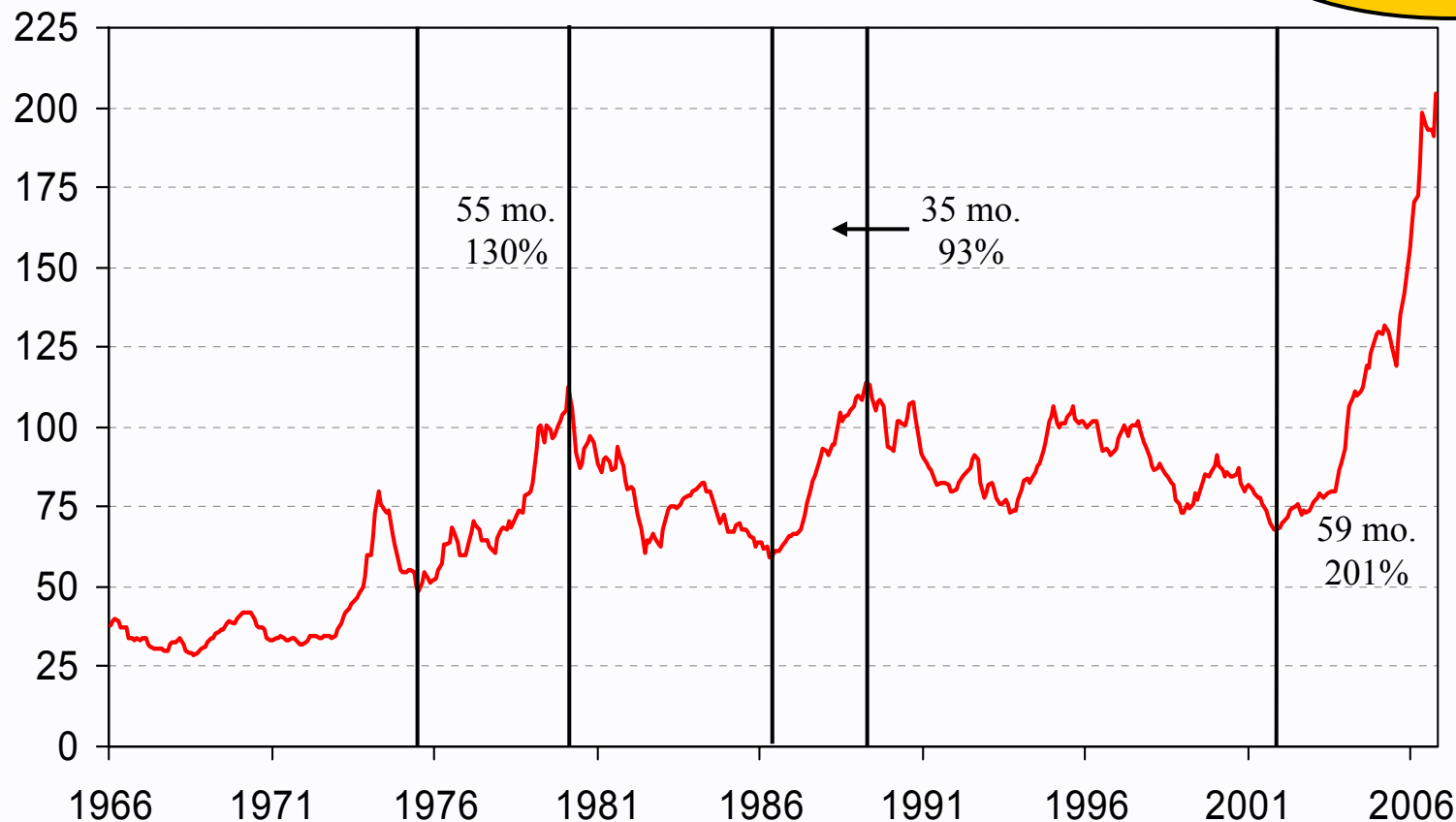
Source: U. S. Geological Survey

Metals Price Trends

FIBER Metals Index *

1990 = 100

Have broken with
past cycles.

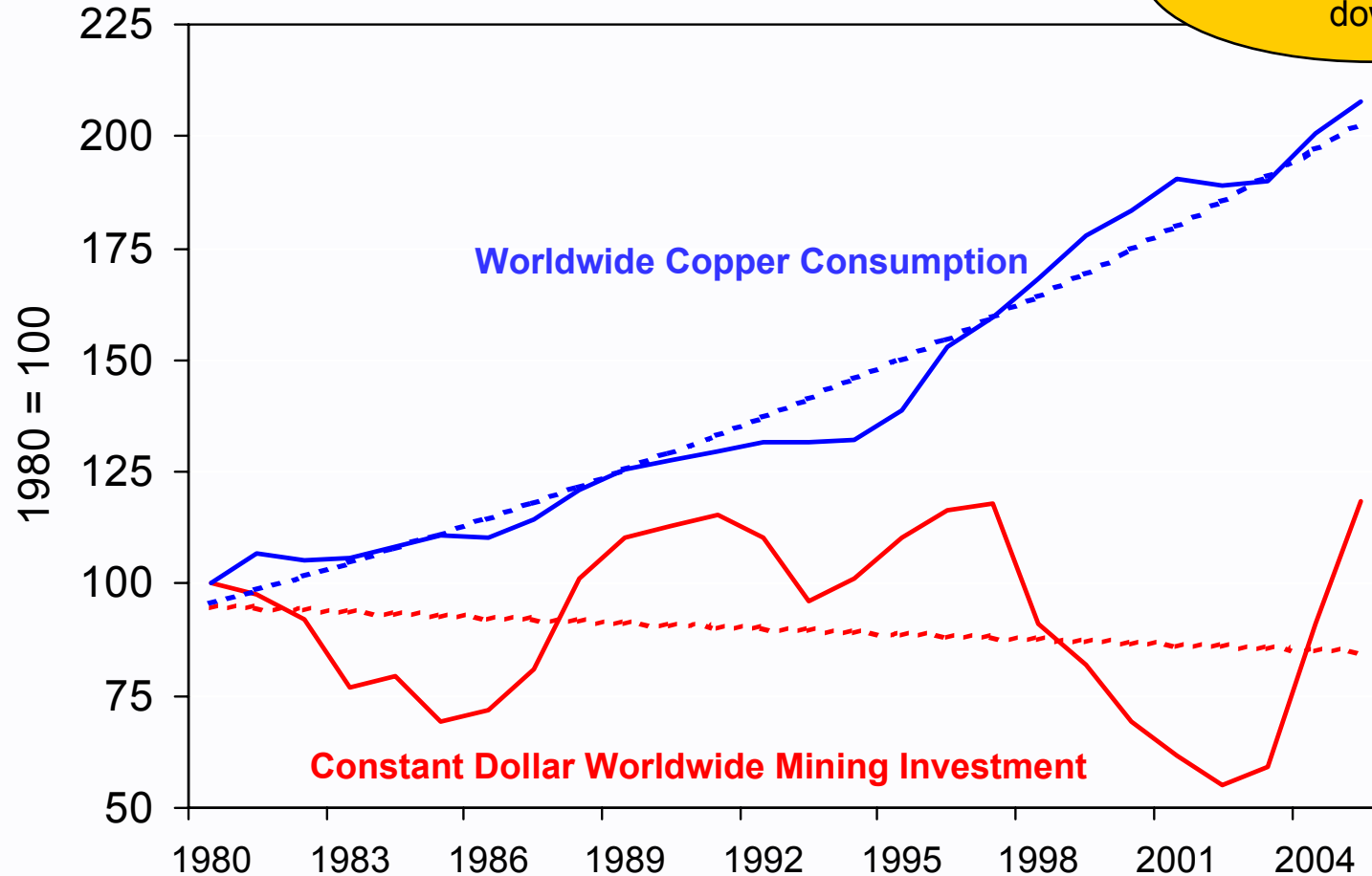


* Aluminum, copper scrap, lead, scrap steel, tin and zinc.

Source: Haver Analytics

Mining Investment Has Been Limited

Consumption up 3%
yearly; investment
down



Source: Metals Economics Group, Haver Analytics

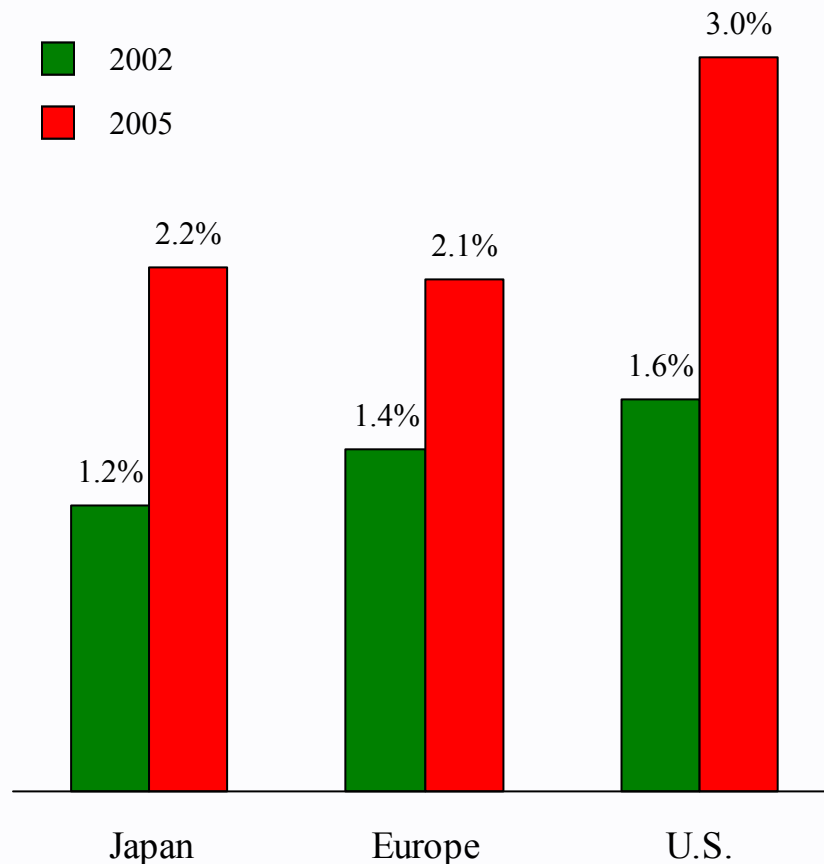
Impact of Commodity Prices

Huge benefit to
developing countries

Revenue Gains (2002 – 2005): \$Bil.

Energy	1,260
Precious metals	15
Industrial metals	150
Agriculture	100
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Total	1,525

Crude Oil Consumption (% of GDP)



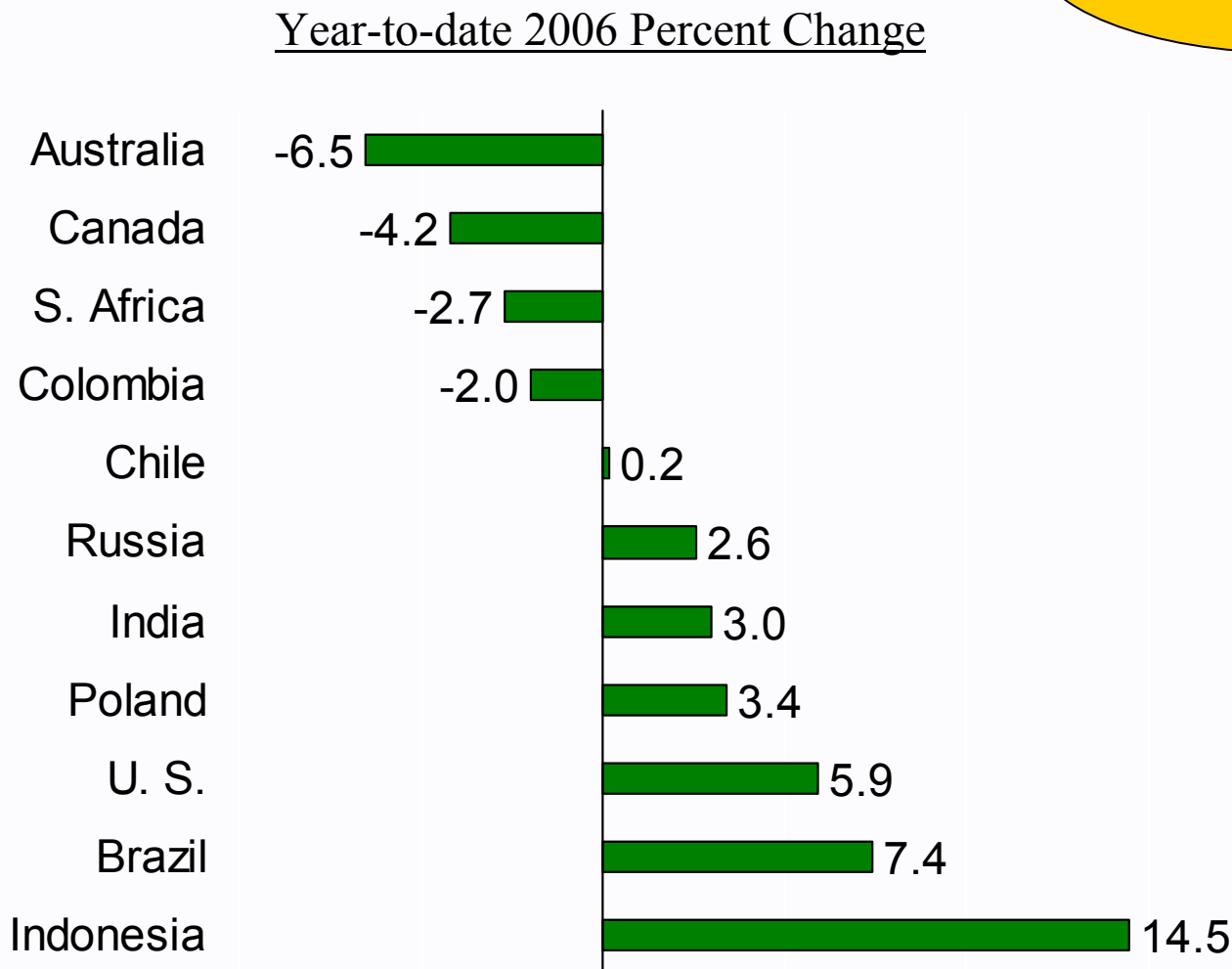
Share of GDP in Basic Industries

Low income	36%
Medium income	29%
High income	10%

Source: Computed from data from Haver Analytics

Worldwide Mining Production

Output declining in key countries



Source: Haver Analytics

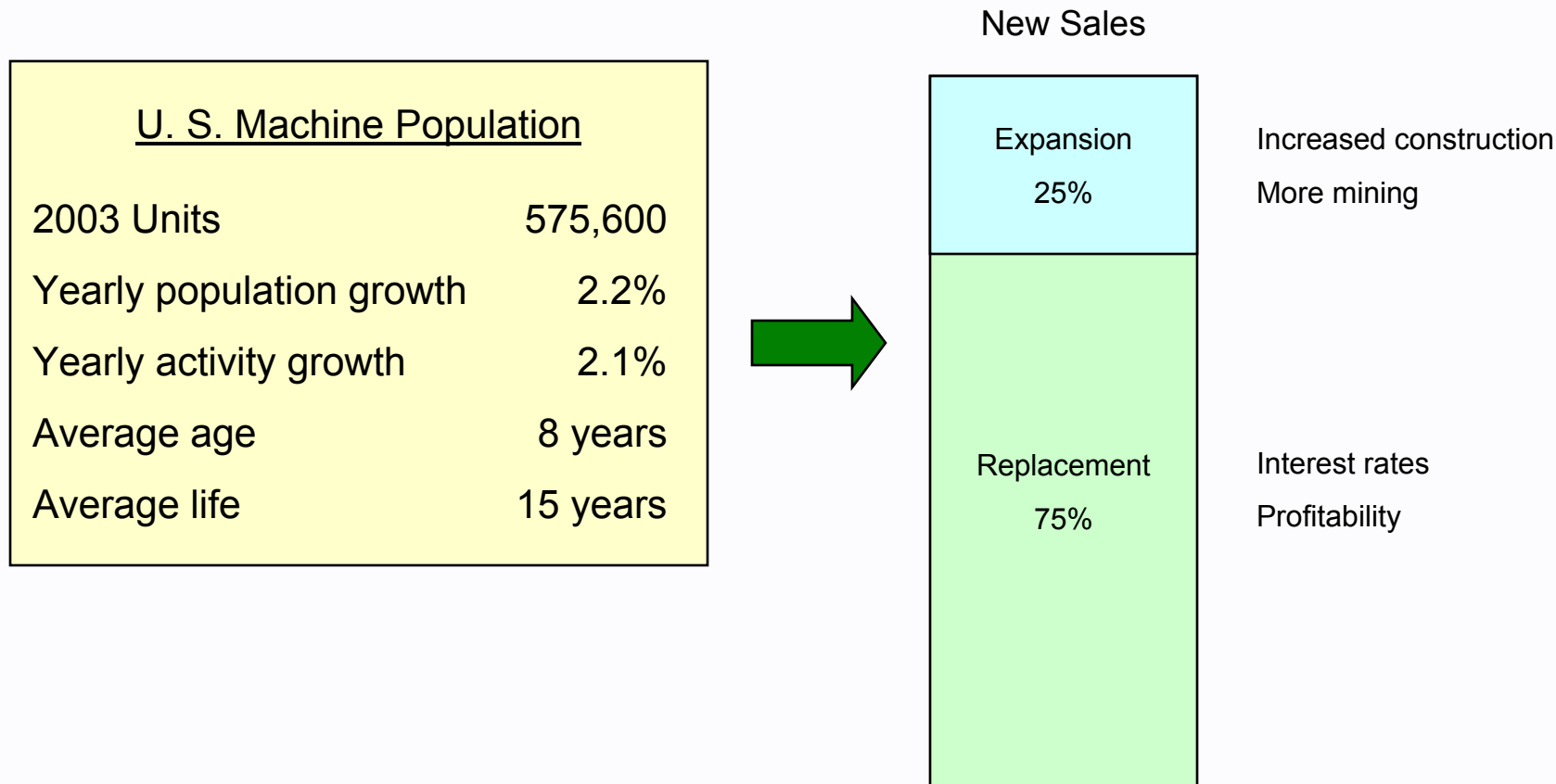
Current Positives for Mining

Many positives
still in place

- Prices currently well above previous lows
- Nonferrous metals mining companies increased worldwide exploration budgets 47% in 2006; 4th year of double-digit percentage increases
- Mines reporting difficulties in increasing production
- Metals inventories near critical lows
- Industrial production increasing rapidly in many countries

Sources: Metals Economics Group, Haver Analytics, Barclays Capital and various newspaper articles.

Dimensions of Replacement Demand



Source: Survey data from Construction Equipment magazine provided estimates of population, population growth and average age. Average life was assumed to be roughly twice the average age. Activity growth was computed using a weighting of economic data provided by Haver Analytics that would be representative of construction machinery usage.

Indicators for Key U. S. Sectors

(Comparing YTD 2006 with YTD 2005)

Commodities

Coal mining

Production	6.8%
PPI for coal	9.3

Metals mining

Production	2.3
CRB metals price index	58.5

Nonmetals mining, quarrying

Production	6.9
PPI for sand and gravel	9.2

Forestry

Logging production	-1.1
PPI for logs and timber	0.6

Crude oil and natural gas

Active drill rigs	20.1
WTI crude oil price	20.0
Henry Hub natural gas price	-19.1

Generally positive in
the U. S.

Construction

Housing

New units started	-10.2%
Median price of a new home	3.6

Construction put in place

Manufacturing	22.9
Highways & streets	15.3
Commercial	12.6
Lodging	48.4

Source: Haver Analytics

Key Points – 2007 Outlook

Economies outside the United States doing well

- **Europe recovering**
- **Developing countries in best recoveries in years**

Significant risks in the U. S. economy

- **Housing, autos and trade weak**
- **Believe interest rates too high to support trend economic growth**

Caterpillar sales and revenues to increase 0 to 5% in 2007

- **Market demand down modestly, largely in the U. S.**
- **Truck engines impacted by new emission standards**
- **Expect dealers to reduce inventories**

Source: Caterpillar SEC 10-Q, filed 11/2/2006, pp. 58-73.