



**CEILING SYSTEMS**

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Sales Bulletin: 2008-62DDC

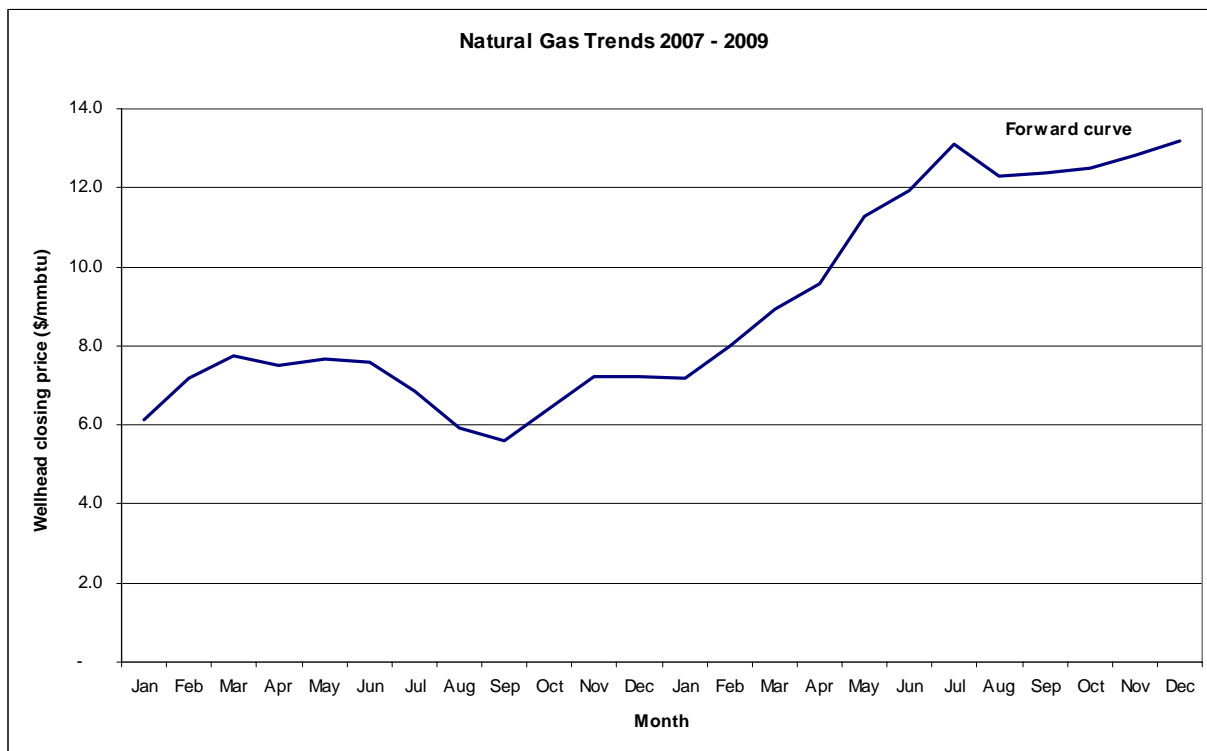
August 6, 2008

## **August 2008**

### **Ceilings Market Price Advisory**

Input prices to the construction industry have risen 6.7% since the beginning of the year and are expected to continue to increase into the next year. The PPI (producer price inputs) for construction industries was up 1.7% for the latest month and 10% over 12 months. Key inputs for suspended ceilings show a similar trajectory. Natural gas, perlite, newsprint, linerboard, paint and transportation are all trending above expectations from earlier this year. Below is background on some of the key inputs.

### **Natural Gas**



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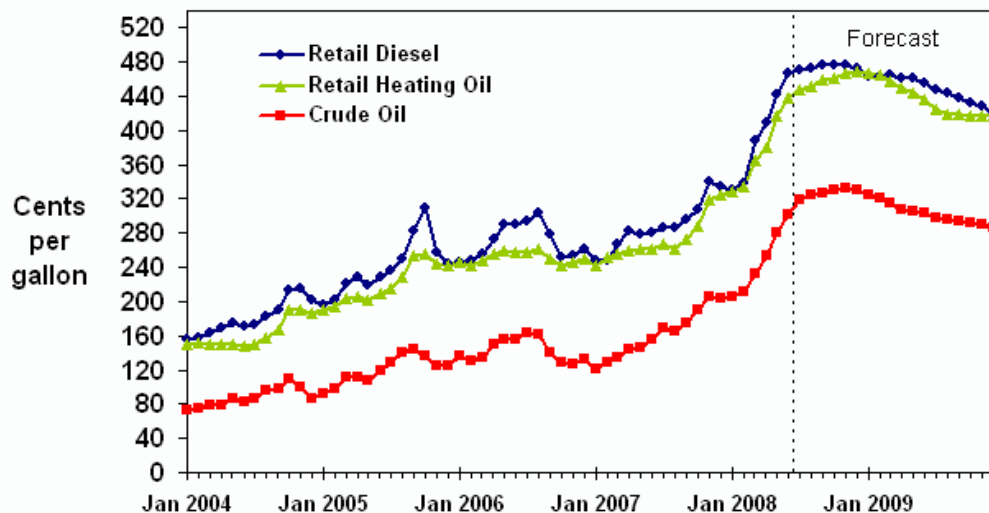


**Industrial use natural gas prices are currently 50% above 2007 levels and are projected to remain elevated through 2009.**

- Although natural gas prices have moderated in the last week, this may be a short term reaction to the dissipation of Hurricane Bertha. With the most active period of the hurricane season to come the risk of supply interruption may increase.
- The recent fallback in crude oil prices appears to be a moderating factor.
- Longer term trends will continue to place pressure on natural gas prices
  - Total natural gas consumption is expected to increase by 2.1% in 2008 and 1.1% in 2009
  - Natural gas consumption for electricity generation is expected to increase by 3.2%
  - Growth in the industrial sector continues its recent upward trend while demand for natural-gas based fertilizers is expected to increase in the near-term as growers begin to replant following floods in the Midwest.
  - Import volumes of liquefied natural gas (LNG) to the United States continue to sag due to increased demand from Asia.
- Despite significant onshore production growth, the natural gas market continues to be pressured by high oil prices, low LNG imports, and a widening year-over-year storage deficit.

**Diesel Fuel**

**U.S. Distillate Fuel Prices**



*Retail prices include State and Federal taxes*

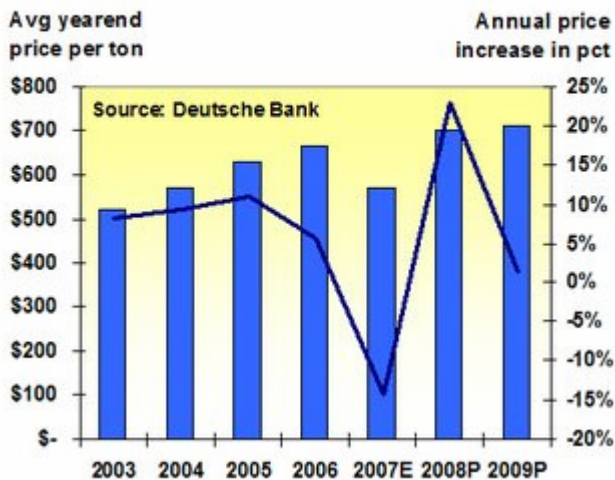
**Diesel fuels prices are currently 51% above 2007 levels and are projected to remain elevated through 2009.**

- The recent pullback in crude oil prices may moderate the current price for diesel but the supply and demand story for crude oil suggested continued elevated prices.

## Newsprint

### **Tons of fun**

#### *Newsprint prices, 2003-2009P*



Increases in newsprint are being driven by industry capacity and consolidation rather than demand. Suppliers have idled assets to stay ahead of declining newspaper circulations. Concentration among producers has increased pricing leverage.

### **Outlook for Armstrong Suspended Ceilings**

There have been significant increases to all categories of suspended ceilings inputs and raw materials. As discussed above many of these trends will continue upward based on current forward curves and information from suppliers.

It is our expectation that the second half pricing action will be moved up by one month to November 1<sup>st</sup>, 2008. Additionally, our guidance for escalators covering that period is now in the 8-10% range.

In this period of inflationary pressures, Armstrong will continue to work diligently to contain costs, but it is clear, based on current information, that additional price will be needed to cover increased costs.