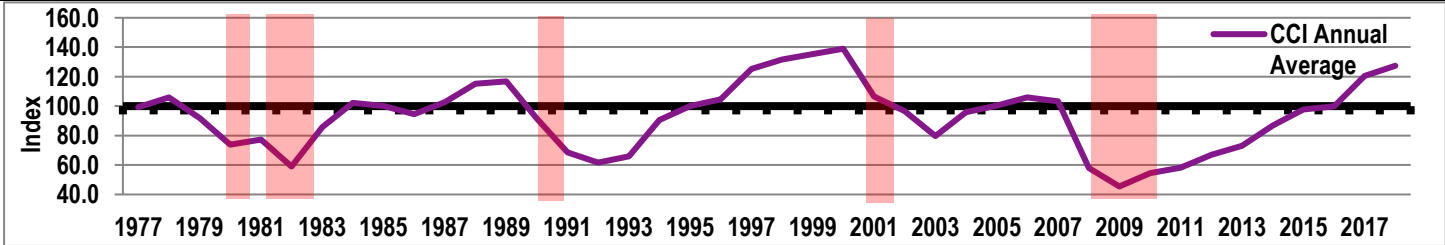


August 2018 Economic Overview

Utility Industry Summary: The first half of 2018 is very positive, stock market performance, tax bill in effect, falling unemployment rate, still low inflation, strong business investment, record construction spending, opportunity with North Korea, and exceptionally high consumer confidence. The start of retaliatory tariffs and Trump's irritation of allies and half the US population are concerning. Utility construction is firing on all cylinders for both overhead and underground contractors. Gas and liquid pipeline, telecom, and electric T&D are performing exceptionally well. While things are good, forward thinking leaders are preparing for the next slowdown as we are 8+ years into an economic expansion. We forecasted a short and shallow recession during 2019 and stick with this forecast, however, we remain optimistic we can get through 2019 before a contraction begins...assuming an all out trade war does not develop.

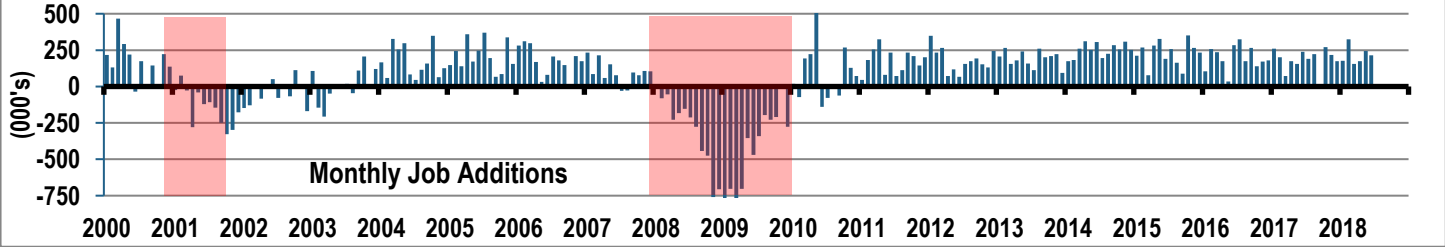
General Economy:

- GDP growth continues improvement over 2015-2016 downward trend with 2nd quarter 2018 approaching 4% - full year 2018 GDP will meet 3% target...assuming no all out trade war.
- Since 2010, 2nd longest expansion in US history with consumer confidence approaching record level not seen since 1999/2000.



Unemployment:

- National and construction unemployment falling; still 3-4% improvement in workforce participation before "full employment" reached.
- May and June monthly jobs additions continue to deliver good news with figures well above 200,000 - July expected to also delight.



Political Environment:

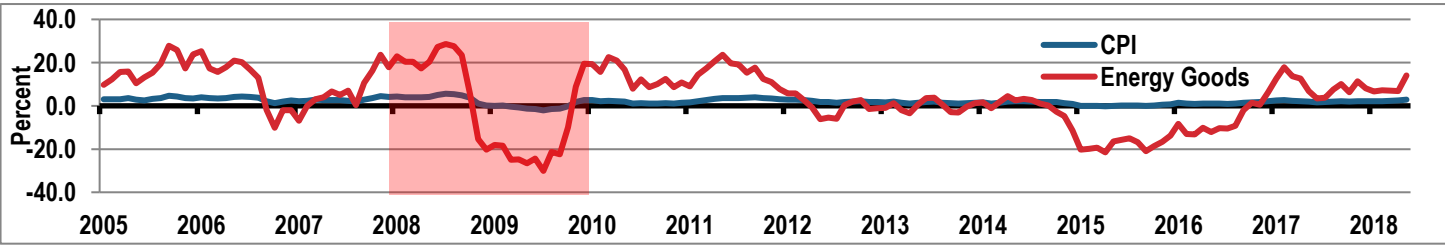
- Trump White House appears chaotic and drama filled...performance continues to delight many who value market performance, job growth, lower taxes...and irritate others for a host of reasons.
- SCOTUS nomination will engender a partisan fight; November elections will set tone for 2019...expect continued division.

Finance & Banking:

- Fed rates to 2.0% in June '18; the second hike this year and expect 2 more increases to control growth and constrain inflation.
- Trump appointed Jerome Powell installed as new Fed Chairman, will continue Yellen's strategy of gradual rate increases.

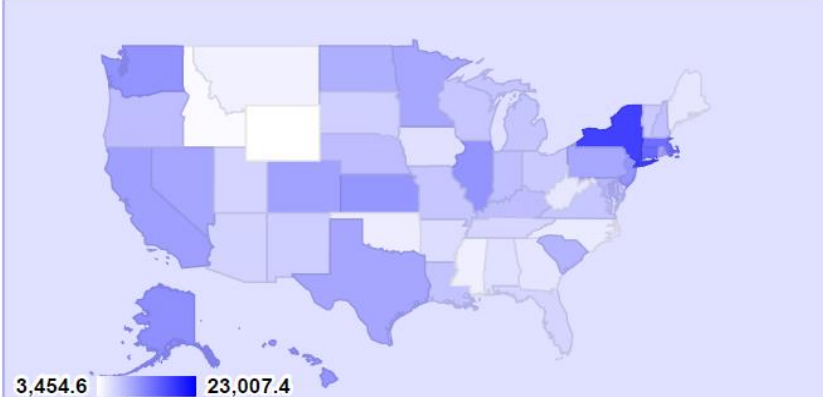
Inflation:

- '18 inflation inching up with interest rates, full employment, Fed unwinding bond portfolio, energy price increases, worries about trade war, and wage pressure...it will remain under control and below 3-4% through 2019.



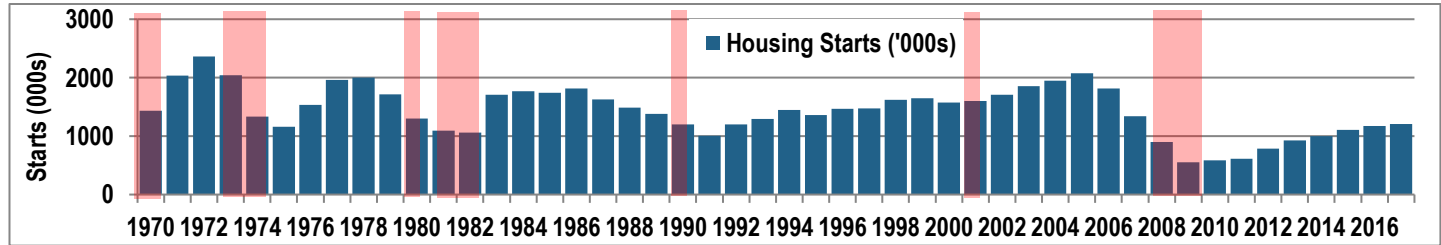
State & Municipal Agencies:

- State/Muni performance improving, slow increase in spending on transportation, water/sewer, education, and other infrastructure.
- State debt per capita problematic over next decade as required pension and other payments constrain infrastructure spending.



Debt
in \$ per capita

Residential Building: • 2018 Housing starts will exceed the 1.3 million for 2017 continuing growth trend...constraints in the three L's (Land, Labor and Lumber) continue to temper growth and squeeze builder margins.



Global Competition: • Brexit continues to be a mess, EU strains showing, retaliatory tariffs hurting everyone, tensions between U.S. and...(make your own list of belligerents)...might qualify for the military slang term SNAFU.
• Situation is unlikely to improve much and the downside of an all out trade war or shooting war would be catastrophic.

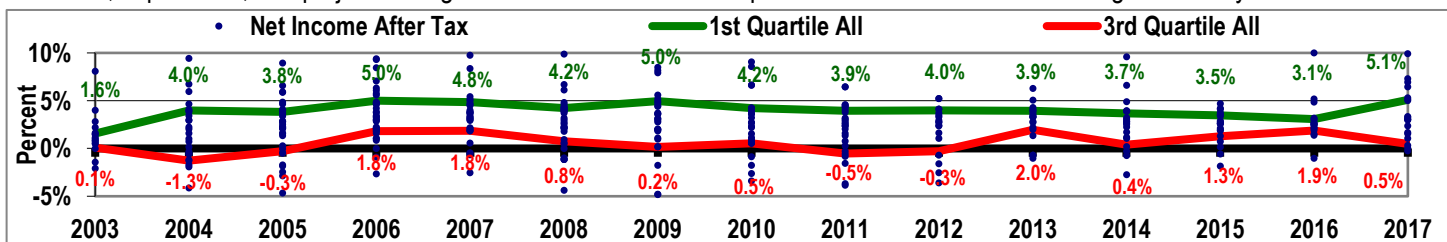
Construction Economy: • 2017 construction spending exceeded \$1.2 trillion and eclipsed the record high 2006/2007 peak.
• 2018 shows continued growth and acceleration across nearly every type of construction...workforce availability is primary short term concern...long-term, a slowdown in construction spending will occur, the only question is when and how bad...now is the best time in a decade to be a competent contractor!

Power Construction: • Oil prices are "goosing" pipeline growth, gas distribution continues its upward climb, electric T&D continues expansion, and power gen related construction remains in slow motion. Even with a decade of expansion, there is still room for growth in this sector.

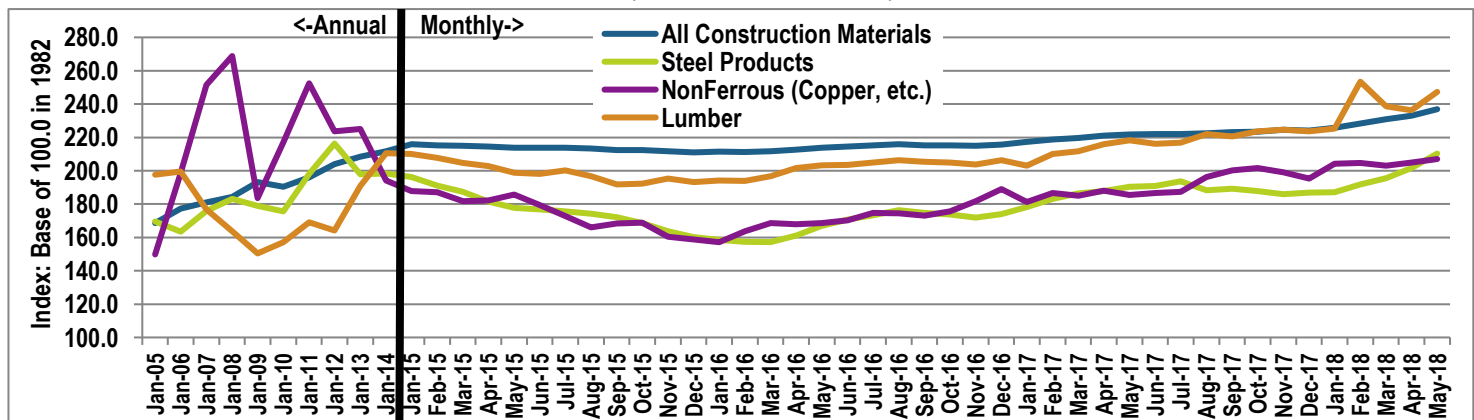
Telecom Construction: • Telecom boom continues since the 2012 trough and now represents the longest expansion of communications related construction...growth will continue throughout 2018/2019...this expansion, like all of them will eventually end in another trough...telecom contractors are encouraged to "make hay while the sun shines."

Water & Sewer Construction: • Water & Sewer capital construction spending continues accelerating its growth and while there are, and will continue to be funding issues, these markets are performing well.
• High profile sewer system performance issues continue to raise demand.
• Trump's infrastructure proposal won't have any impact until 2020 at the earliest...timing might work well given general economic slowdown expected about the same time.

Utility Contractor Financial Performance: • 2017 Utility contractor results peaking: Liquid pipeline peaking; Distribution pipeline thriving; Electric T&D up; Coal/nuclear (down), renewable/gas (up); Telecom mini-boom continues; and Wet utility contractors finally showing improving returns with market growth.
• Labor, supervision, and project management constraints are the top issue for all overhead and underground utility contractors.



Construction Raw Materials: • Material prices are finally rising in 2018 due to high construction activity/demand, catastrophic storms rebuilding, and improving global demand...will retaliatory tariffs drive prices up or down?
• Lumber prices are the most volatile, have exceeded the 2004 housing bubble level, and given the current 20% tariffs are likely to continue upward...in the end, homebuilders and ultimately their customers will pay the price.



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