1. Recap 2018

2. Outlook for 2019 & 2020
Crushed Stone Sales: Virginia

After 4 years of growth, Crushed Stone sales declined in 2018

Virginia Crushed Stone Sales
2006-2018

-3% Decline
What Happened in 2018?

WEATHER?

ECONOMY?
A Normal Year of Rain...2017

January 01, 2017 Annual Departure Precipitation

Created on: April 07, 2019 - 12:36 UTC
Valid on: January 01, 2018 12:00 UTC
An Abnormal Year of Rain...2018

January 01, 2018 Annual Departure Precipitation

Created on: April 07, 2019 - 12:41 UTC
Valid on: January 01, 2019 12:00 UTC
2019: Still raining...but closer to average
What’s the Economic Outlook?
What’s the Economic Outlook?
Economic Growth (GDP)
Consumer Sentiment
Highway Maintenance
Economic Growth

The national economy continues to grow at a slow pace (<3%). In 2017, Virginia’s economy grew at its fastest rate since the recession, and is on par with the National average.

US & Virginia Real GDP Growth
2004-2017
Economic Growth

In Q2 & Q3 2018, Virginia experienced strong GDP growth. Virginia’s growth is ranked 20th in the nation.
Consumer Sentiment

The current 12-mo average is at its highest level since June 2001. In general, consumers are very optimistic about their current and future spending and savings, and consumer spending is the biggest driver of growth in the economy.

Univ. of Michigan Survey of Consumer Sentiment
Jan 2004- Mar 2019
The approved FY19 VDOT Maintenance budget is expected to be 2% more than FY18. The current budget is projecting flat spending in FY20.
Liquid Asphalt

US Refinery Asphalt production is at a 40-year low and is down 9% year-over-year. The limited supply is contributing to higher prices. Overall, liquid asphalt prices remain lower than historical average.

Virginia Asphalt Index
2010 – April 2019

Largest refinery in US shuts down due to declining demand

+10% YoY Increase
U.S. Construction Spending

Nationally, annual construction spending has been slowing since last Fall. Last time construction spending turned negative was September 2006.

US Construction Spending
Jan 2006- Jan 2019

% Change Construction Spending (Seasonally Adj)
Residential construction starting to decline— for the first time since July 2006. Nonresidential construction has bounced back from declines in 2017.
Single-family permits had been steadily increasing—but only 50% of the peak (2006). Market showing signs of minor weakness/declines.
Nonresidential Construction
Moderate growth expected in 2019, but forecasted to decline significantly in 2020.

Nonresidential Construction: Virginia
2013-2020

Nonresidential Construction (000 sf)

- 2013: 25,000
- 2014: 27,000
- 2015: 24,000
- 2016: 26,000
- 2017: 30,000
- 2018: 35,000
- 2019: 40,000 (Forecast: -20%)
- 2020: 32,000 (Forecast: +7%)
The approved FY19 VDOT Maintenance budget is expected to be 2% more than FY18.

The current budget is projecting flat spending in FY20.
The approved FY19 VDOT Maintenance budget is expected to be 2% more than FY18. The current budget is projecting flat spending in FY20.
Virginia’s employment growth has experienced a significant slow-down since July 2018. Virginia construction employment growth is at its lowest levels since 2014.

US Annual Growth: +3.10%
VA Annual Growth: +0.30%
Recession Probability

Political Uncertainty
Treasury Yield Curve

Based on the current spread between treasuries, there’s an increased likelihood of a recession within the next 18-months.

Historical Treasury Spread: 10yr vs. 3mo
1981 – Mar 2019

Current Spread: 0.12
Recession Probability

There is a 25% chance of a recession within the next 12 months—the highest likelihood since Jan 2006. The chances are continuing to grow, and it’s something to keep an eye on in 2019/2020.
Virginia is one of the top recipients of Federal contracts, and a shutdown/sequestration could be devastating to the state’s economy.

Government could exceed debt limit in the fall and might risk not paying its bills for the first time ever.

Sequestration could return in September, triggering automatic cuts to all government budgets.

If a bipartisan agreement can’t be reached, another government shutdown is increasingly likely.
Virginia: Most federal contracts per capita, #3 by total contract value
Economic Growth

US & Virginia Real GDP Growth
2004-2017

Sequestration

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<th>Year</th>
<th>VA</th>
<th>US</th>
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<td>3.9%</td>
<td>5.3%</td>
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<tr>
<td>2005</td>
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<td>2006</td>
<td>2.7%</td>
<td>1.8%</td>
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<tr>
<td>2007</td>
<td>2.3%</td>
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<tr>
<td>2008</td>
<td>0.0%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>2009</td>
<td>-2.8%</td>
<td>-0.5%</td>
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<tr>
<td>2010</td>
<td>2.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2011</td>
<td>2.3%</td>
<td>1.6%</td>
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<tr>
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<td>2.2%</td>
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Summary

2019: Looks Good

- VA economy is growing steadily, and construction could be stronger after wet 2018
- Starting to see weakening nonresidential and residential construction growth.

2020: Transition?

- Leading indicators are pointing towards a weakening economy
- Political forces could negatively impact VA
Questions?
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