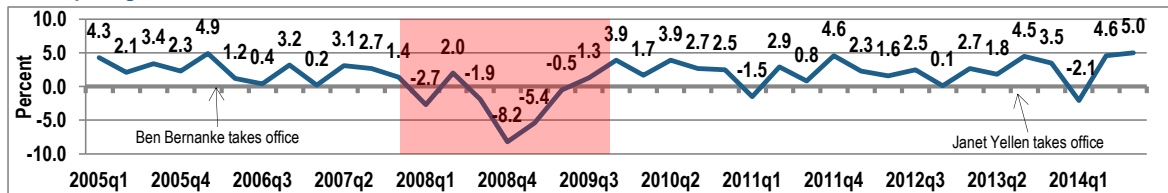


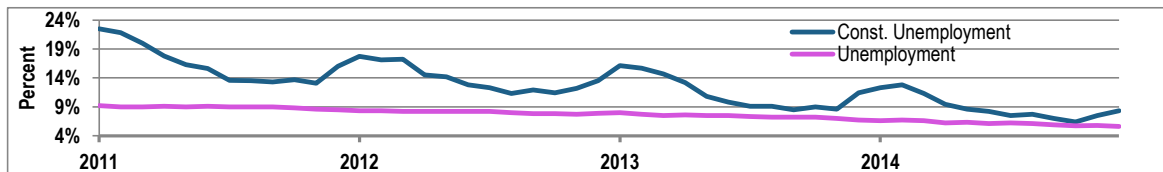
# January 2015 Economic Overview

**Utility Industry Summary:** 2014 closed on a high domestic note with falling oil prices, falling gasoline prices, falling unemployment, and rising consumer confidence. Geopolitical issues are much more problematic and are rising to the point where they are impacting the U.S. Economic performance is still substandard in comparison to previous recoveries. Construction markets are still unbalanced and growth is concentrated in few markets. November '14 elections, while delivering the Senate to the GOP have not resulted in improved legislative prospects. The residential housing market continues to slowly improve. All in all, risks are increasing and with the exception of geopolitical risks are modest and economic progress is positive, slow and steady for 2015.

**General Economy:** • 3Q'14 GDP highest since 2008 recession; rate partially due to dismal growth from hard winter; 4Q forecast slowing to 2.0-2.5%  
• Falling oil prices and unexpected falling mortgage rates spurring growth and consumer confidence which is peaking  
**2015 Forecast:** 2014 full year GDP 2.5%; 2015 3.2% max with volatility from Federal Reserve, geopolitical issues, and slow European growth



**Unemployment:** • Unemployment rate fell in 41 states and 321,000 new jobs were added in the month of November; Unemployment at 5.8%  
• Yellen may allow unemployment below 5% in order to spur inflation; Fed policymakers are predicting a sub 5% rate by 2017  
• June construction unemployment is down to 7.5%, yet only ND, LA, and OK have exceeded their pre-recession employment peaks  
• Total employment in Residential Construction (not including trade contractors) is at 678,000, still 300,000 short of 2007 peak  
**2015 Forecast:** Rate will bottom out at 5% as companies ramp up growth amidst positive economic signs

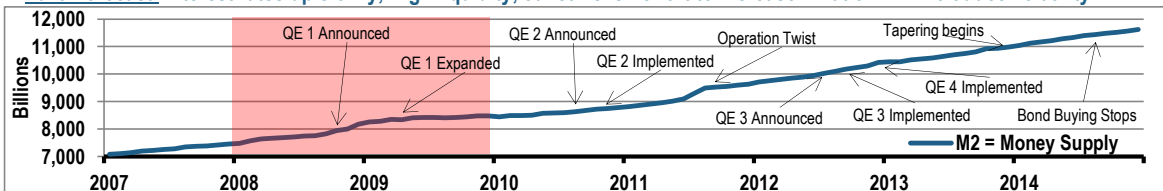


**Political Environment:** • Post election honeymoon is over...not unexpectedly; Parties are positioning for adversarial relationship...look for State of the Union to set the tone in 2015-2016 until Presidential election

**2015 Forecast:** Harsh environment, little compromise, adversarial for remainder of Obama term

**Finance & Banking:** • Fed bond buying over in Oct. '14; When will unwinding of System Open Market Account (SOMA) bond portfolio of \$4.2 trillion begin?  
• Equities will make reasonable annual gains on top of fantastic returns in 2013 and reasonable returns in 2014

**2015 Forecast:** Interest rates up slowly; High liquidity; Janet Yellen effort to increase inflation will introduce volatility?



**Surety:** • 2014 YTD losses flat; Overall, multi-year results are unprecedented and highly positive attracting new surety companies to market  
• Reminiscent of 90's? Hard market & results, attracts entrants, weakens underwriting, causes market share pursuit, yields a loss spike  
**2015 Forecast:** Modest uptick in loss activity but no spike

**Inflation:** • Remarkably low and below Fed's 2.0% target; Falling oil prices creating deflation pressure; Slow but steady economic growth setting the stage for Fed action; Watch February testimony by Janet Yellen for insights on direction and velocity of Fed action  
• European deflation fears and double digit unemployment driving talk of "Quantitative Easing" program to spur growth  
**2015 Forecast:** 1% in 2015; Higher inflation through wage pressure post 2015-2016

**State & Municipal Agencies:** • November elections delivered 31 state legislatures to republican control and 10 additional states where one legislative body is GOP controlled...will tax receipts, expenditures, and legislative priorities yield faster economic growth?  
• Muni bond mkt continues to improve and there is demand and support for both municipal and state debt; high profile problems and big financing gaps in NJ and IL may influence market  
**2015 Forecast:** Continued improvement sees more funding to state & municipal priorities and infrastructure replacement

Transforming the worldwide building and construction industry...  
through revolutionary innovation.

# January 2015 Economic Overview

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**Global Competition:** • Global growth very slow bordering on recession in Europe; Euro crisis, Greece, Spain, Ukraine, Iraq, Syria, ISIS, North Korea, Ebola all present unique challenges and constraints to stability

• All of BRIC slower growth; China – 2014 GDP of 7.4%; Brazil – 2014 GDP of 0.3%; India – 2014 GDP of 5.6%; Russia – A mess

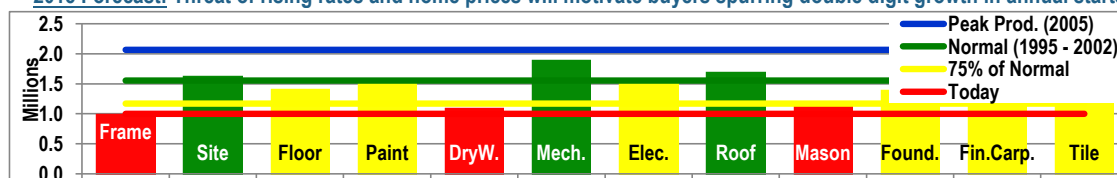
**2015 Forecast: Global growth floundering; US exports slowing; Low oil price serves as a spark for faster growth**

**Residential Building:** • Annual housing starts in 2014 closed above 1 million for the first time since 2007

• Housing prices continue to rise as a result of increased demand and a desire from homebuilders to target wealthy Boomers who have better credit and more savings than Millennial's; signs still point to increased activity from Millennial's in second half of 2015

• Framers, drywallers and masons lack crew capacity to meet demand = longer build cycles, poor quality and less closings

**2015 Forecast: Threat of rising rates and home prices will motivate buyers spurring double digit growth in annual starts**



**Construction Economy:** • +1.1% in construction spending; September-October; first increase 11 months; '14 spending +1% over '13; '13 spending +8% over '12

• Residential, Hotel, and Office construction up; Residential's \$359B in Oct. is highest annual rate and a 1.7% increase YOY

**2015 Forecast: Increased spending and low gasoline prices will increase contractor activity and accelerate job growth**

**Power Construction:** • Power Gen market still disrupted; Solar and Wind fueled through tax or production credits; Natural Gas favored in nearly every instance

• Public Utility Commission (At least 38 states with accelerated recovery mechanism) and state legislatures (IN, IL, MA, etc.) funding massive infrastructure replacement of gas and electric infrastructure over next 10-30 years

**2015 Forecast: Construction spending growth rate slowing in 2014 then accelerating again post 2015**

**Telecom Construction:** • Long-term, data and bandwidth demand for wireless and wired infrastructure will drive infrastructure build out

• Short-term, Google fiber and competitor response will yield spotty hot markets based on selected geographies

**2015 Forecast: Mini-boom in spending for 2015 & 2016 due to Google and competitor reaction; Net neutrality ruling expected in early 2015 is a wild card**

**Water & Sewer Construction:** • Improvement in state and municipal tax receipts along with willingness to take bond funding to voters will create more financial resources for in 2015, 2016, and 2017

• Limited federal help and lack of willingness of agencies to raise rates or increase taxes directly will restrain spending growth

**2015 Forecast: Modest improvement in spending growth (1% over 2014); Demand is present, funding is not**

**Utility Contractor Financial Performance:** • Performance is solid with 2014 generating reasonable margin achievement...as an example, many of our clients in this space are 50-100% larger vs. 2010 and achieving equal or higher margins

**2015 Forecast: 2014 gas/petroleum/electric margins are up; water/sewer/telecom margins are flat or down; 2015 will be flat or increasing with some wage pressure squeezing margins and labor availability hurting field productivity**

**Construction Raw Materials:** • As of November, overall construction material prices are up approximately 2.5% YOY; Slow global demand holding down prices

• US lumber production = 23B board ft. 9 months, +4.9% YOY; Prices up steadily, high point since 2005 (approx. \$367 per '000 board ft.

**2015 Forecast: Material pricing will continue gradual increase, leveling out in the last two quarters of the year**

