



Construction Outlook for Georgia

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Baron Worthington, Mgr-Economic Analysis
Vulcan Materials Company

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Outline of Discussion

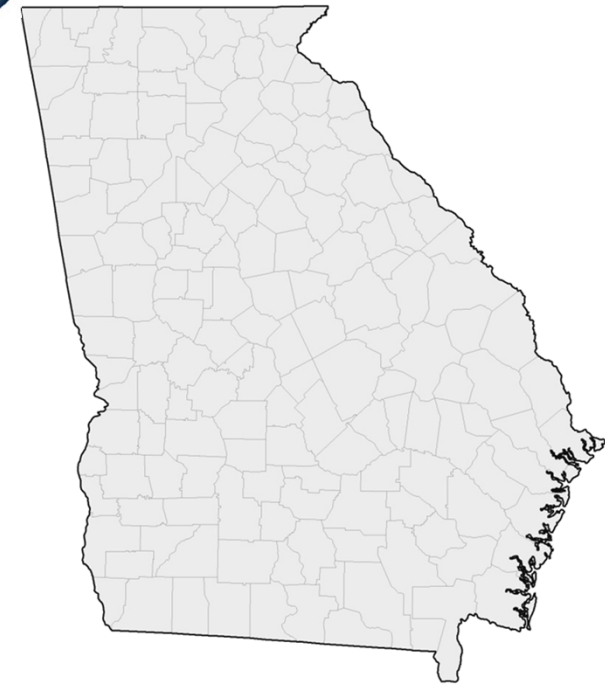


*Revisit
2017*

*Current
Economic
Environment*

*Employment,
Interest Rates,
and Inflation*

*Construction
Outlook*

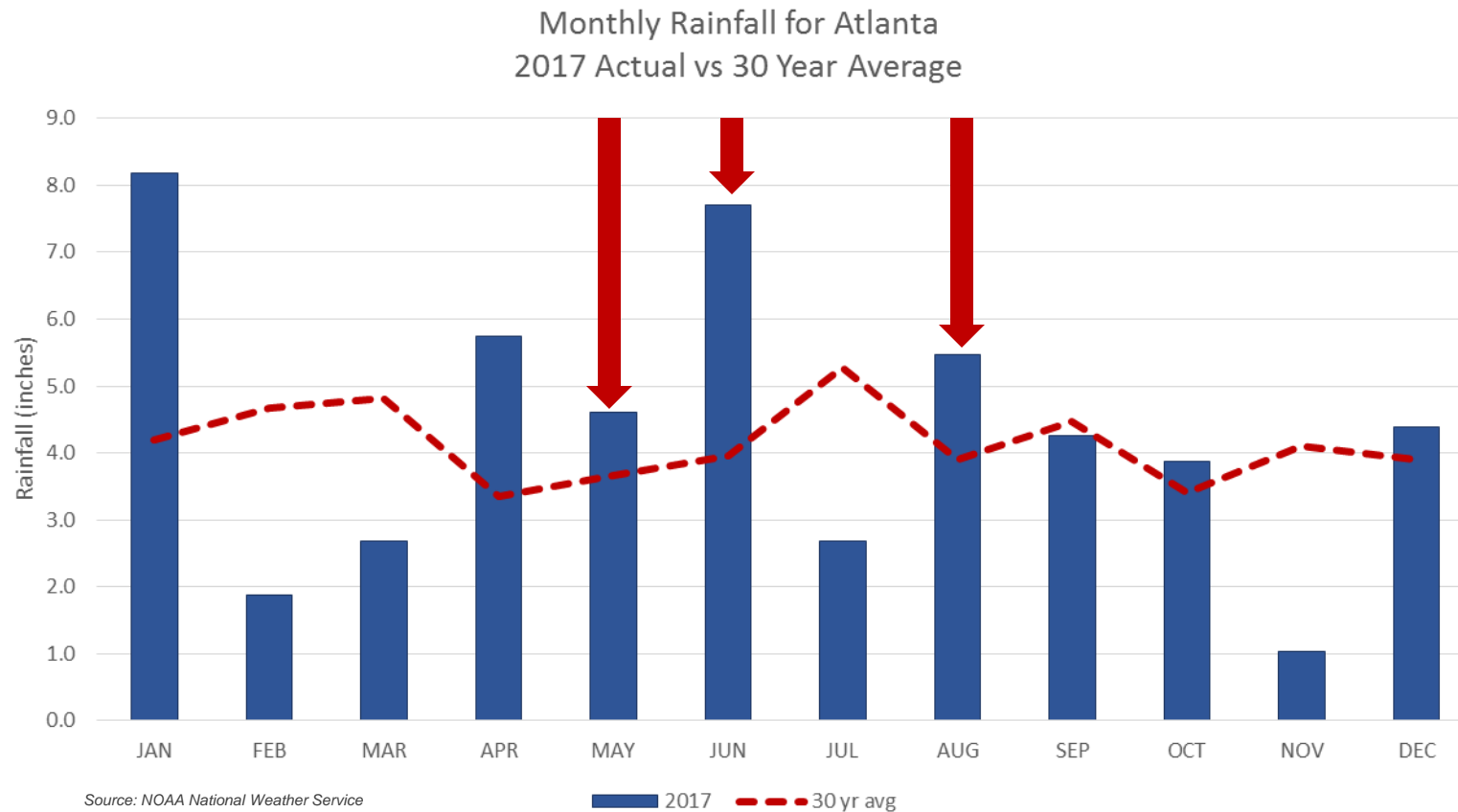


2017 didn't turn out as expected.....

Was it.....

- ...Weather?
- ...Construction worker availability?
- ...Private Investment (Housing & Non Res Buildings)?
- ...Public investment (Highways, Infrastructure, Gov't Buildings)?

Some prime shipping months appear to have been impacted by rainfall...

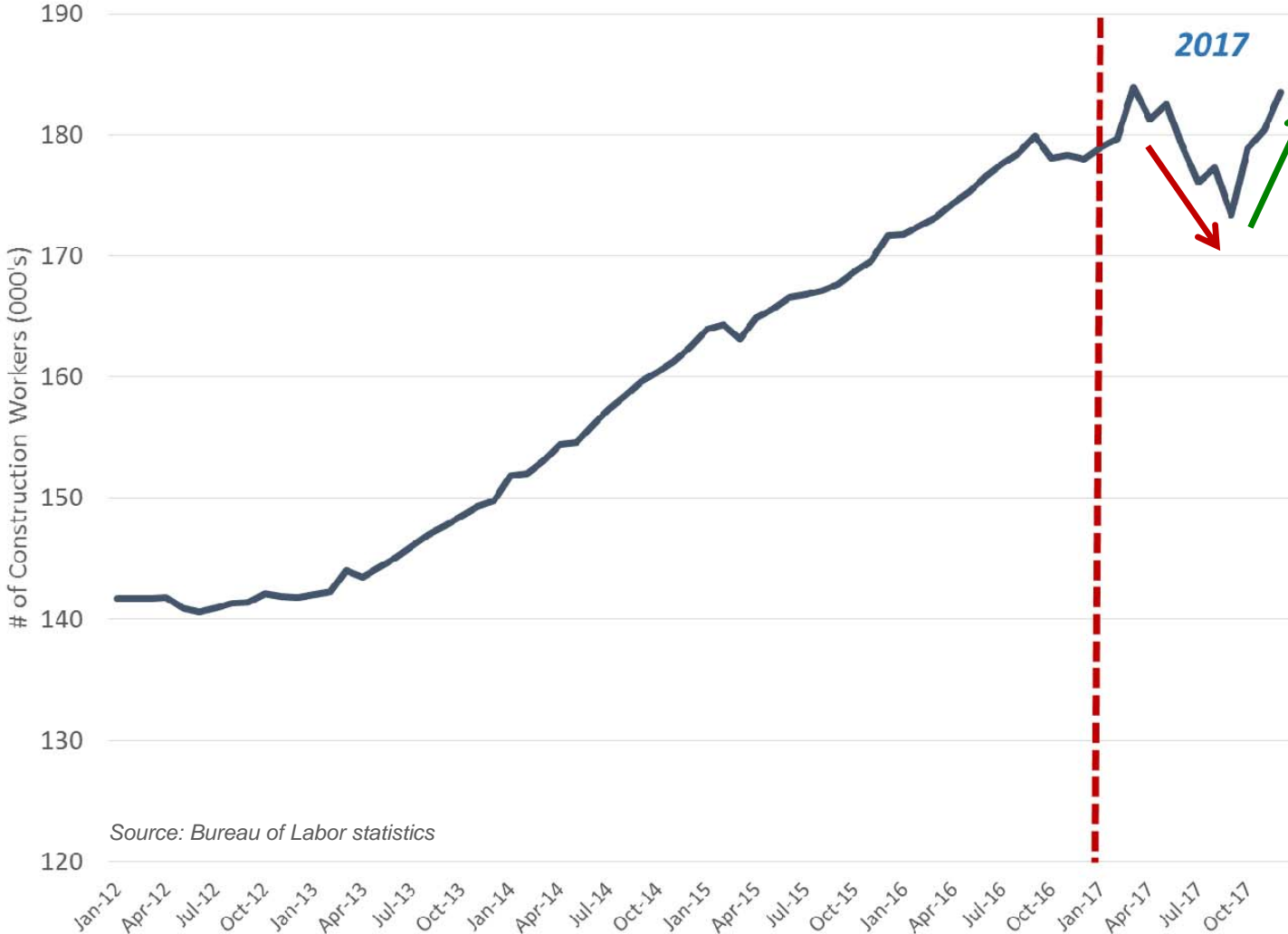


↓ Months where both total rainfall and rain days exceeded long-term average

... and momentum in the drier months (partially) supports this line of thought

Construction employment appears to reflect the softness felt in overall construction in mid 2017

of Construction Workers Employed - Georgia Seasonally Adjusted



Cement Shipments (close relationship to Private Investment) were positive throughout 2017

Monthly Cement Shipment TREND Report

Portland and Blended Cement

Based on data thru NOV 2017

Below: each month's current TTM Total ("Run Rate") compared to the same TTM Total one year earlier:

Data source is USGS Cement

Shipments by Destination, monthly

DEC 2016	JAN 2017	FEB 2017	MAR 2017	APR 2017	MAY 2017	JUN 2017	JUL 2017	AUG 2017	SEP 2017	OCT 2017	NOV 2017	
12%	12%	10%	8%	5%	3%	2%	3%	2%	1%	2%	2%	Alabama
10%	10%	7%	5%	4%	4%	3%	3%	3%	0%	0%	0%	Florida
13%	14%	13%	11%	8%	7%	5%	6%	6%	4%	4%	3%	Georgia
3%	3%	3%	-2%	-4%	-3%	-3%	-2%	-2%	-3%	-2%	-4%	Kentucky
5%	5%	4%	1%	2%	1%	-1%	3%	2%	-2%	-5%	-7%	Mississippi
23%	23%	22%	16%	12%	11%	9%	8%	5%	4%	4%	3%	North Carolina
22%	21%	18%	12%	8%	6%	2%	2%	0%	-1%	0%	-2%	South Carolina
8%	10%	9%	7%	5%	6%	6%	8%	6%	5%	3%	1%	Tennessee
-1%	-2%	-3%	-3%	-2%	-1%	0%	2%	3%	3%	4%	5%	Texas
10%	11%	11%	8%	7%	8%	7%	8%	6%	6%	6%	4%	Virginia
2%	2%	1%	0%	-1%	0%	-1%	1%	1%	1%	2%	2%	United States

0

DIRECTION OF MOMENTUM

RECESSION

EROSION

STABILIZED

GROWTH

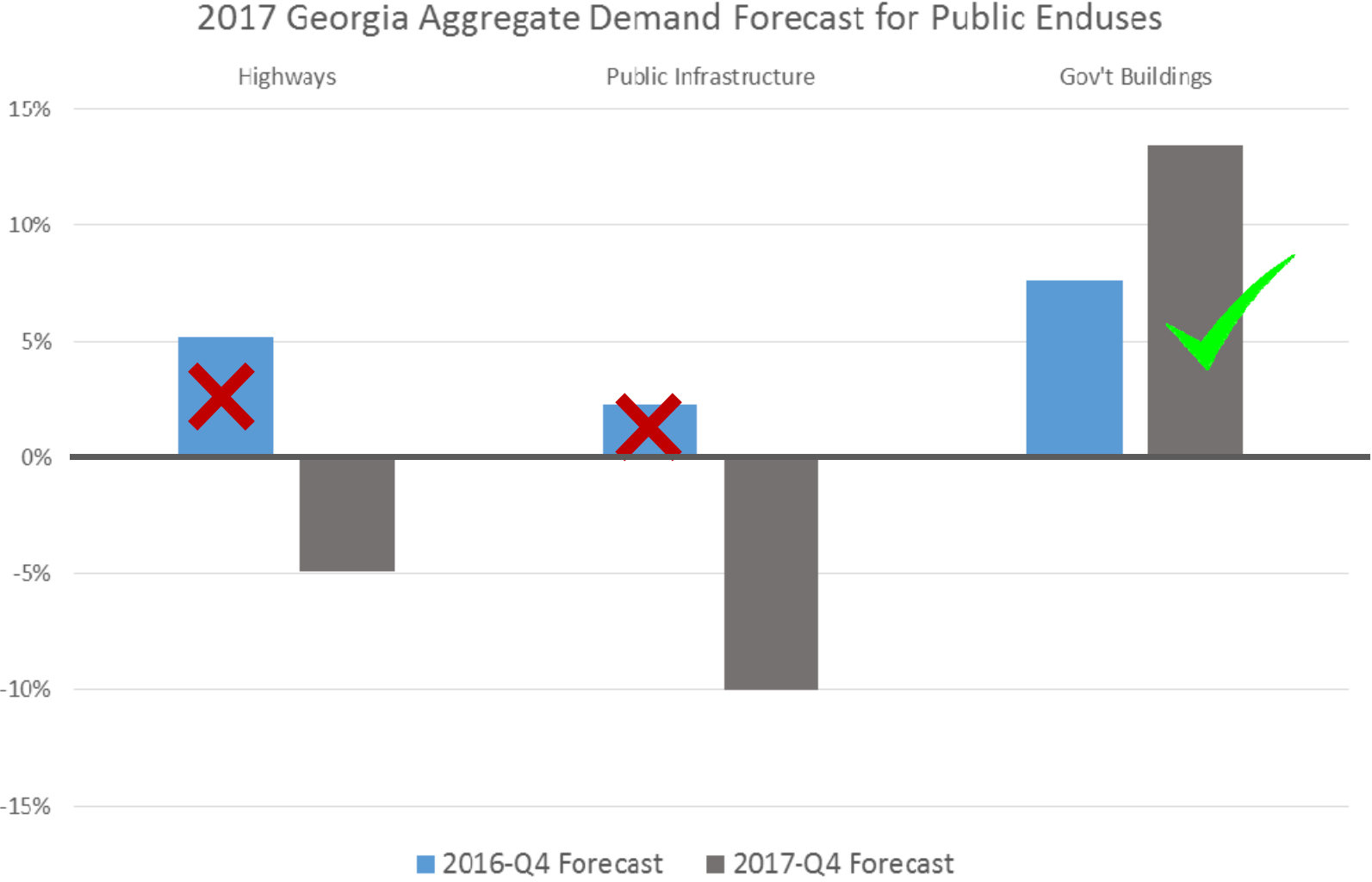
EXPANSION

For Georgia in 2017:

- *Single Family Housing starts up 12%*
- *Multi-family Housing starts up 32%*
- *Private Nonresidential (sq ft) starts up 61%*

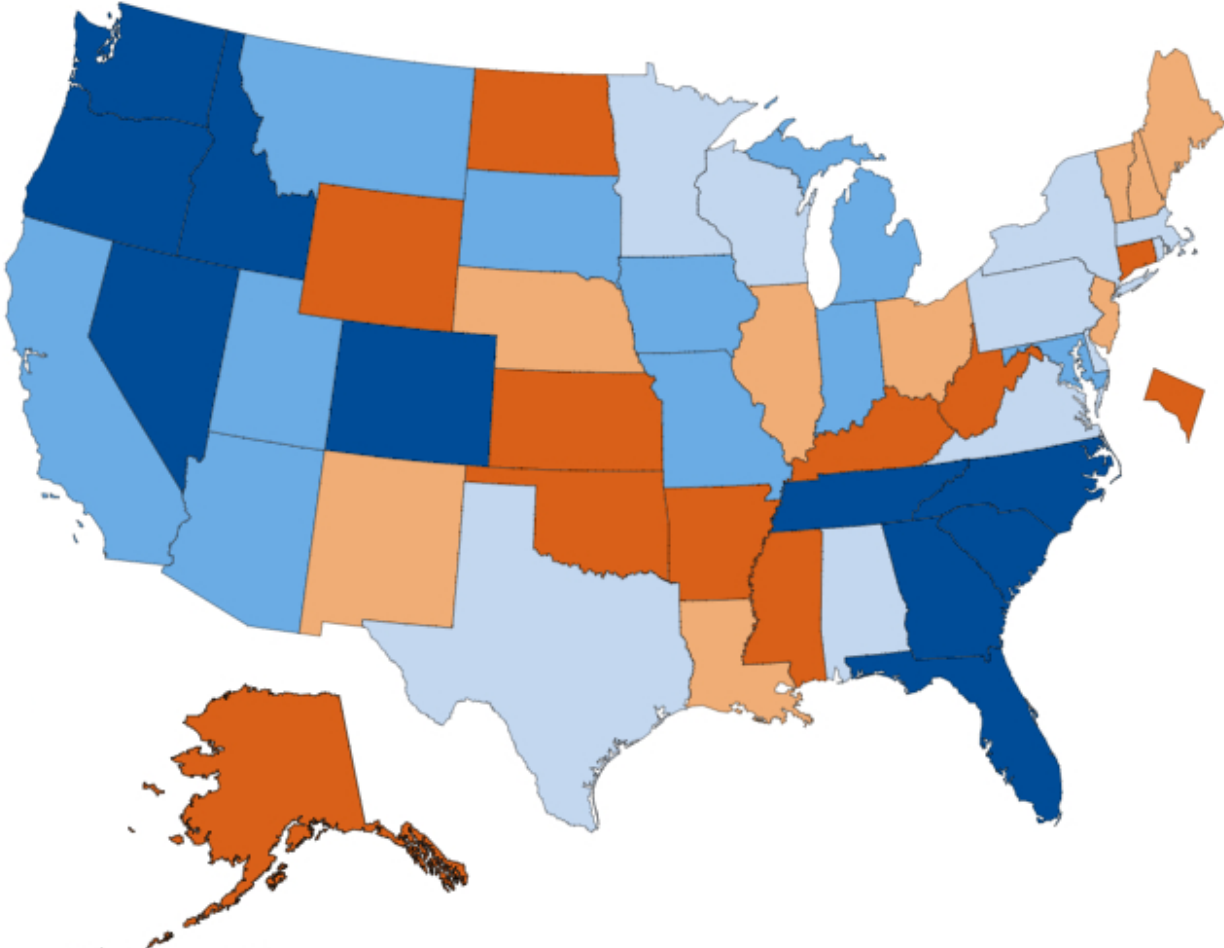
← *Did hit a "soft-patch" in mid-to-late 2016*

Certain Public sectors underperformed expectations for 2017



Georgia was not the only state impacted by the slowing momentum in the construction industry

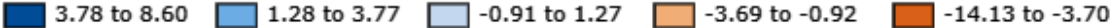
Real GDP in chained dollars - Construction, 2015:Q4 - 2016:Q4 Compound annual growth rate between any two periods



Annual Growth Rate
'15Q4-'16Q4

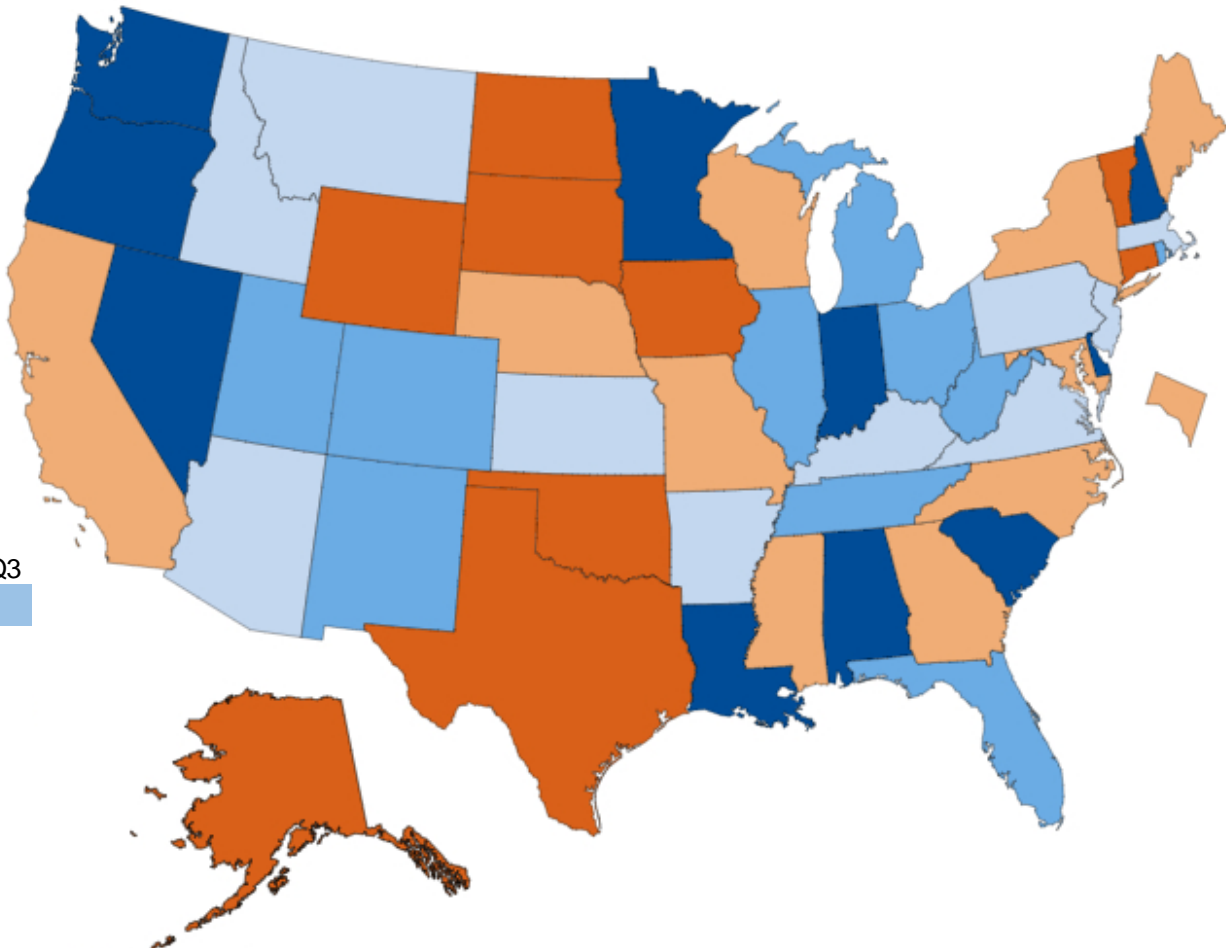
Georgia	8.6%
Florida	6.5%
South Carolina	6.0%
North Carolina	4.6%
Tennessee	4.1%
United States	1.2%
Alabama	0.5%

Source: *BEA | U.S. = 1.2 %



Georgia was not the only state impacted by the slowing momentum in the construction industry

Real GDP in chained dollars - Construction, 2016:Q3 - 2017:Q3 Compound annual growth rate between any two periods



Annual Growth Rate
'15Q4-'16Q4 16Q3-'17Q3

	'15Q4-'16Q4	16Q3-'17Q3
Georgia	8.6%	0.0%
Florida	6.5%	3.0%
South Carolina	6.0%	4.8%
North Carolina	4.6%	0.0%
Tennessee	4.1%	3.2%
United States	1.2%	0.0%
Alabama	0.5%	5.6%

Source: BEA | U.S. = 0.0 %

■ 3.26 to 7.84
 ■ 1.32 to 3.25
 ■ 0.05 to 1.31
 ■ -2.54 to 0.04
 ■ -17.14 to -2.55

Election Results Impact on Construction (so far.....)

February 2017

February 2018

Infrastructure



- ▶ *VERY POSITIVE but questions remain: Timing? How much? How to pay for it?*

- ▶ *\$200 Billion federal to leverage \$800+ billion state/local/private; Legislation timing unknown; Real impact not felt until 2019 or later; "How to pay for it?" is still the biggest question*

Tax Reform



- ▶ *Corporate/Personal; when does it go into effect: retroactive?*
- ▶ *Would be a boost to GDP*

- ▶ *Signed into Law on 12/22/17*
- ▶ *Employee bonuses, wage increases, and CAPEX announced*

Interest Rates



- ▶ *Faster growth in the economy would result in higher inflation/higher interest rates/lower private investment yields*

- ▶ *Fed raised rates three times in 2017; Overall inflation remains low but showing signs of strengthening; rates remain historically low*

Trade



- ▶ *Saber rattling versus trade war?*

- ▶ *TPP withdrawal/ NAFTA renegotiations*
- ▶ *Canadian soft-wood prices*
- ▶ *Recommended steel and aluminum tariffs recently announced*

Afford Care Act



- ▶ *Phased-in changes versus complete repeal and replacement?*
- ▶ *Uncertainty could slow healthcare investments*

- ▶ *Mandate removed (2019) in Tax Bill*
- ▶ *Healthcare investments have been remained positive through 2017, up 6% versus 2016*

Immigration



- ▶ *Building the "Wall" and what will reform look like?*

- ▶ *Test segments of wall are being built but no funding for full project so far*
- ▶ *January 2018 construction unemployment rate was lowest January level in last 18 years (6 of 12 months in 2017 lowest on record)*

GDP



Employment



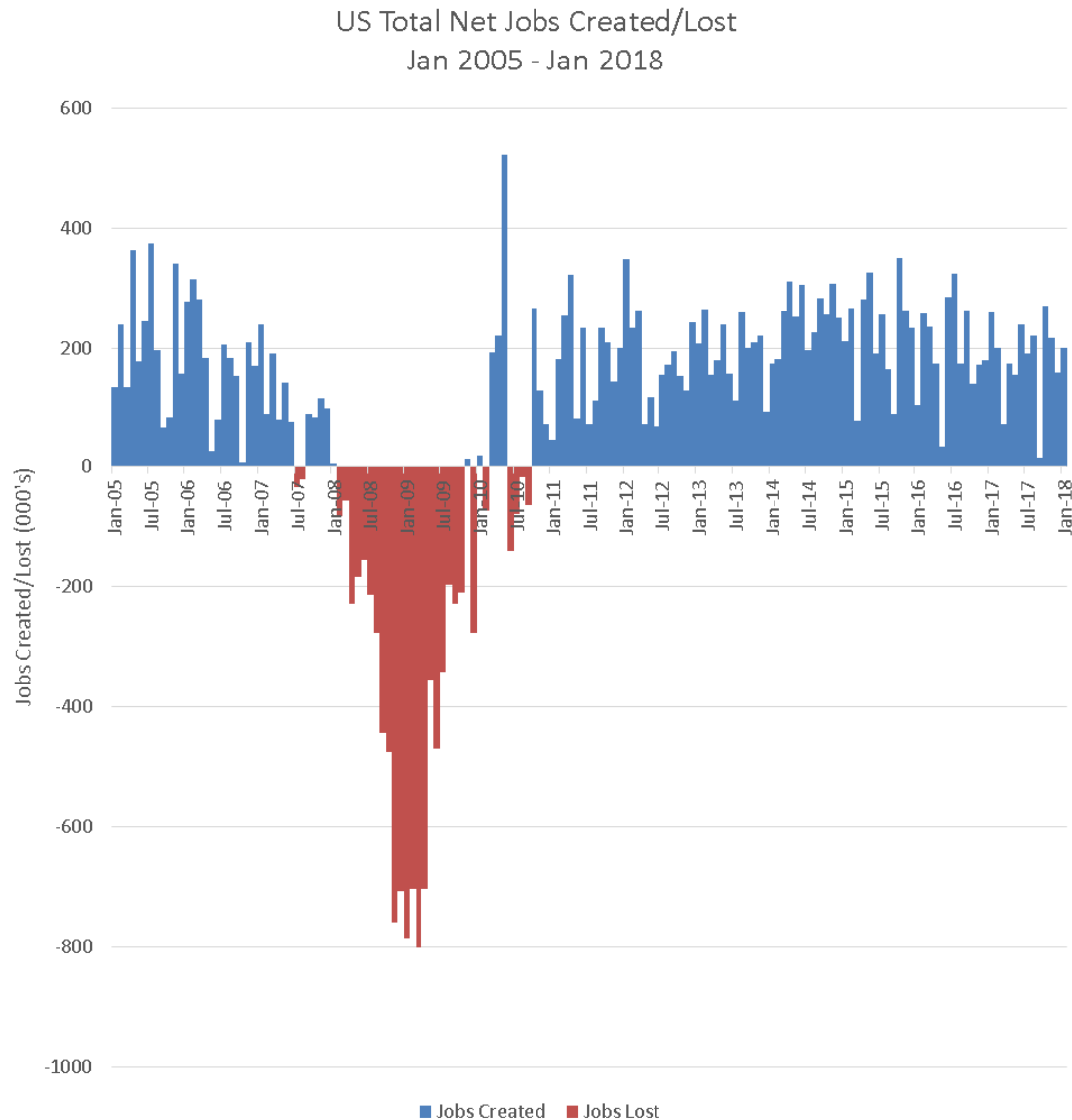
***Consumer
Confidence***



Housing



Employment has been one of the most consistent parts of the economic recovery and expansion

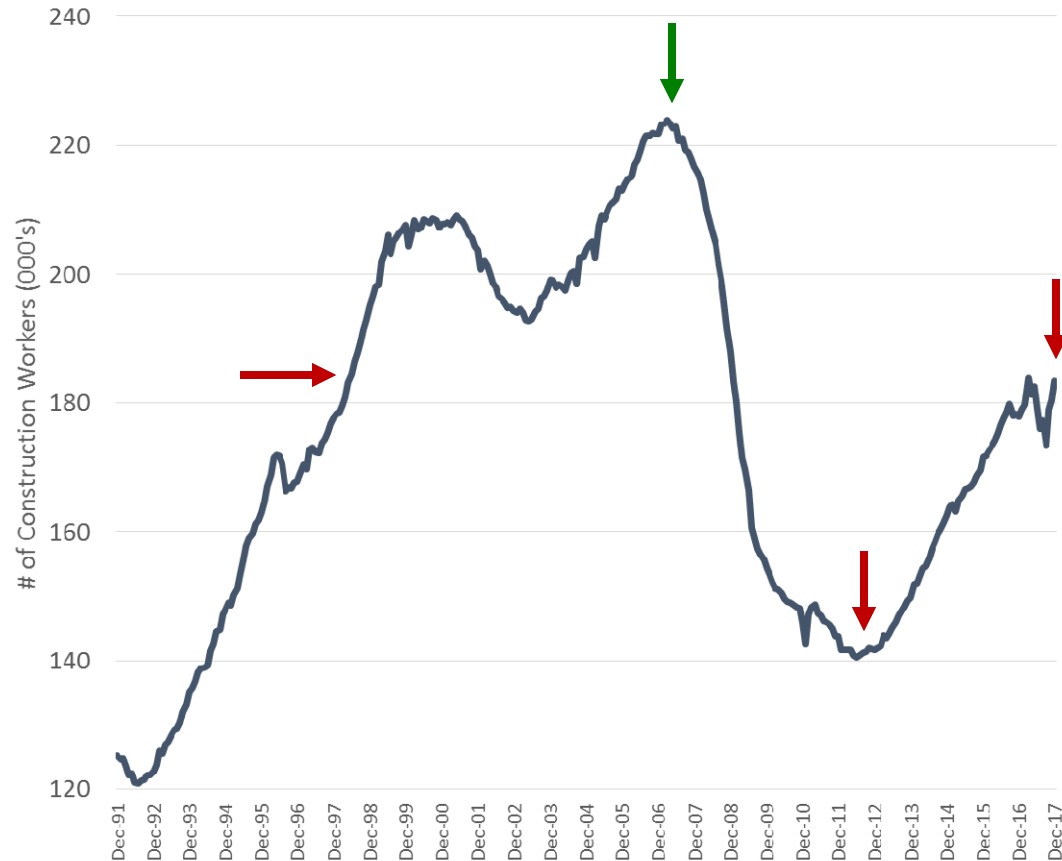


Source: Bureau of Labor Statistics

- The January employment report marked the 88th consecutive month of positive job gains for the U.S.
- The current streak is the longest on record (based on data back to 1939)

Construction employment: Where are all the workers?

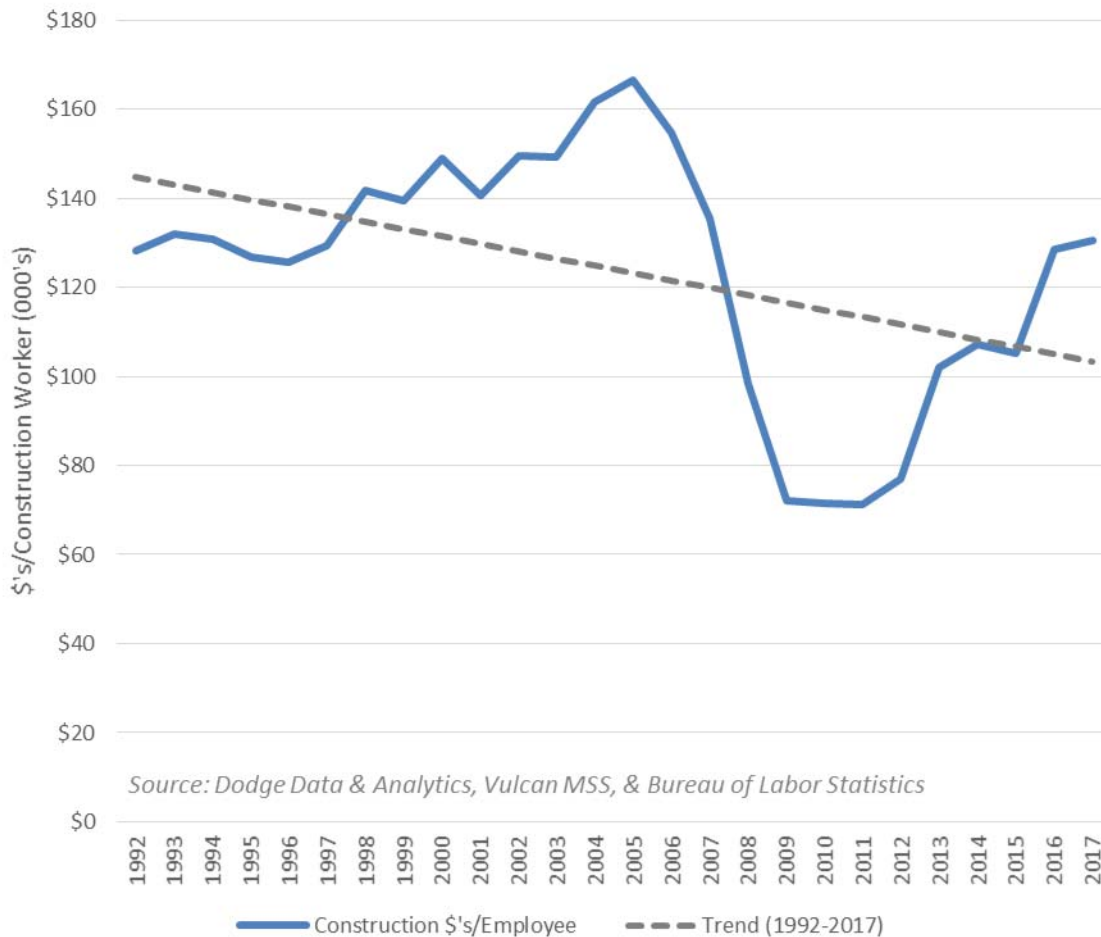
of Construction Workers Employed - Georgia
Seasonally Adjusted



- Georgia's Construction employment peaked in March 2007 (224k)
- Construction employment bottomed in Jan 2011 (143k)
- Dec 2017 level came in at 184k (40k fewer workers below the prior peak)
- Prior to the "Great Recession", you have to go back to 1998 to match the current level

Is there room for efficiency improvements to make up for the “missing” construction workers?

Georgia Construction Start \$'s
per Georgia Construction Worker
(2017 Constant \$'s)



What does this mean?

- (1) Our current productivity is now above the historical trend (but is the trend right?)
- (2) How much more headroom is there for efficiency improvements?

Are rising interest rates a problem for Housing and Nonres investment?

Current Recovery



Multiple Cycles



Maybe, but how soon?

Overall construction inflation is finally picking while inflation for certain materials has remained steady throughout the recovery

Producer Price Index Data as reported by

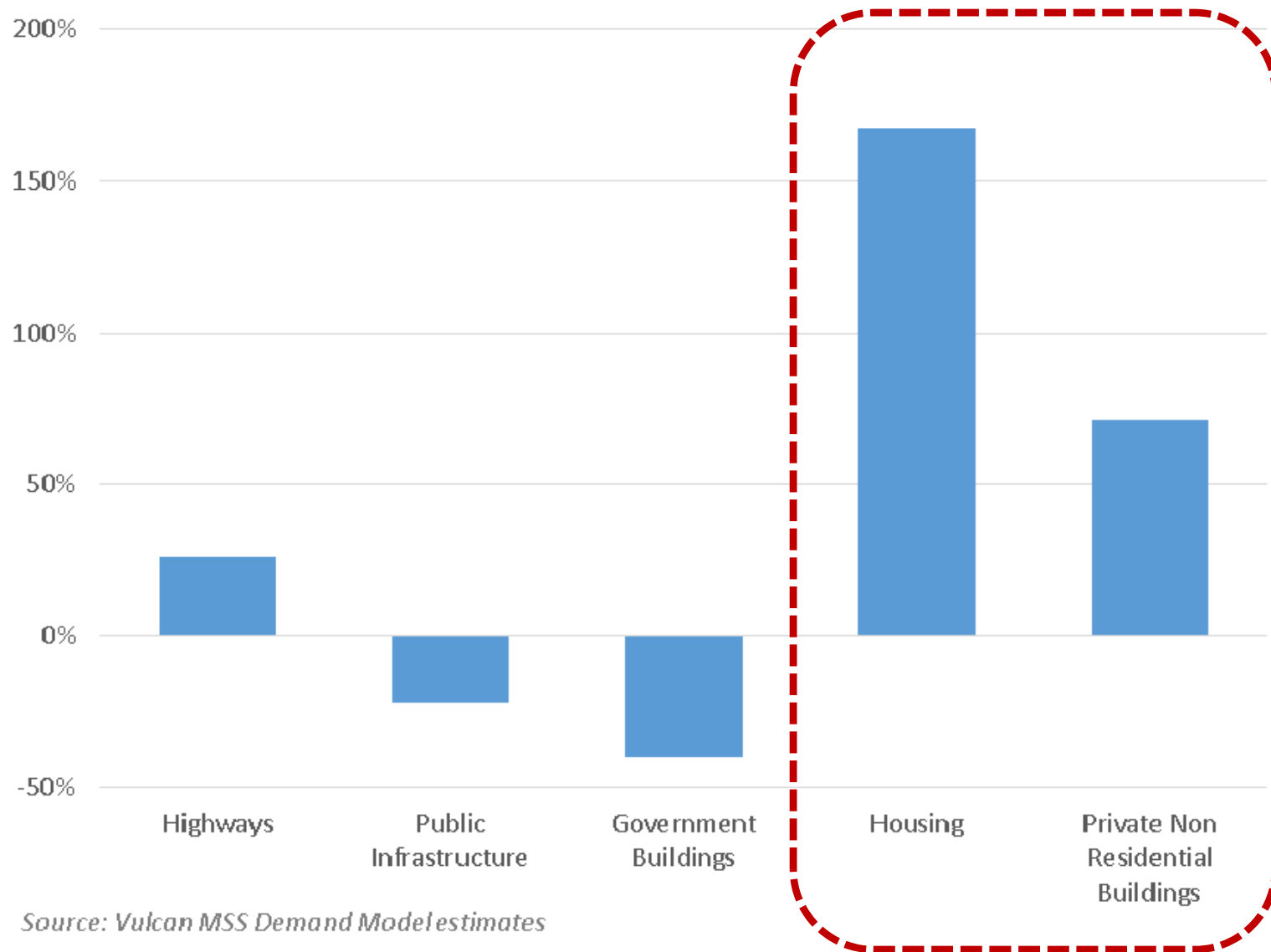


Compounded Annual Growth Rate for Select Construction Related PPI's								
	Inputs to Construction	Diesel	Cement	RMC	Concrete Block	Asphalt Mix	Liquid Asphalt	Lumber
Last 5 Years	0.2%	-10.6%	5.3%	3.8%	2.1%	-1.5%	-10.6%	4.7%
Last 3 Years	-0.5%	-14.7%	5.8%	3.8%	2.1%	-3.2%	-15.7%	0.4%
Last 12 Months	4.0%	29.7%	4.7%	3.3%	1.7%	-0.4%	27.1%	7.7%

What can we expect in 2018?

The Recovery so far: Private driven

% Change in Georgia Aggregate Demand
2011 vs 2017



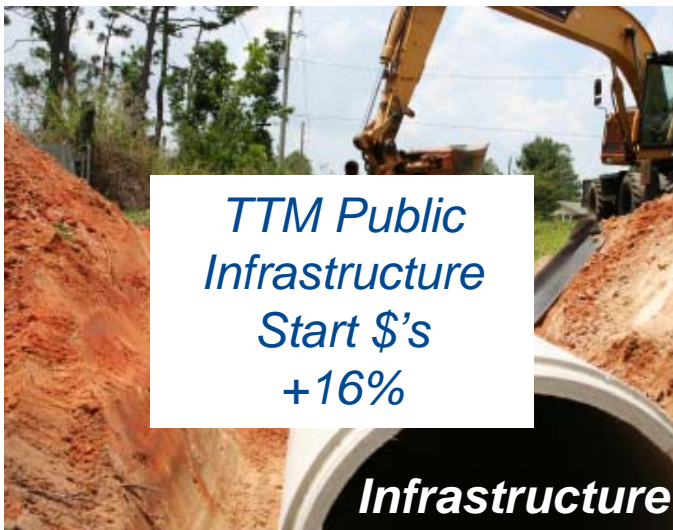
Source: Vulcan MSS Demand Model estimates

Construction Demand Environment & Starts Momentum for Georgia

PUBLIC



PRIVATE



Summary of Outlook for Georgia and MSA's

<u>Geography/MSA</u>	<u>Unempl Rate⁽¹⁾</u>	<u>Put-in-Place Momentum</u>	<u>Recent Starts Momentum Jan 2018</u>	<u>2018 Demand Outlook</u>
US	4.1%			Expanding
Georgia	4.3%			Expanding
1 Atlanta-Sandy Springs-Roswell, GA	4.1%			Expanding
2 Augusta-Richmond County, GA-SC	4.6%			Expanding
3 Savannah, GA	4.0%			Expanding
4 Columbus, GA-AL	5.1%			Expanding
5 Macon, GA	4.9%			Expanding
6 Athens-Clarke County, GA	4.1%			Declining
7 Warner Robins, GA	4.7%			Expanding
8 Gainesville, GA	3.6%			Expanding
9 Albany, GA	5.1%			Declining
10 Valdosta, GA	4.2%			Expanding

(1) Source BLS Not Seasonally Adjusted; Three month average (Oct 2017- Dec 2017)

Questions/Comments

For more information:

Baron Worthington

Marketing Support Services

205.298.3413

worthingtonb@vmcmail.com