

# Pulse on Economic Growth

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# Cautionary Note Regarding Forward-Looking Statements

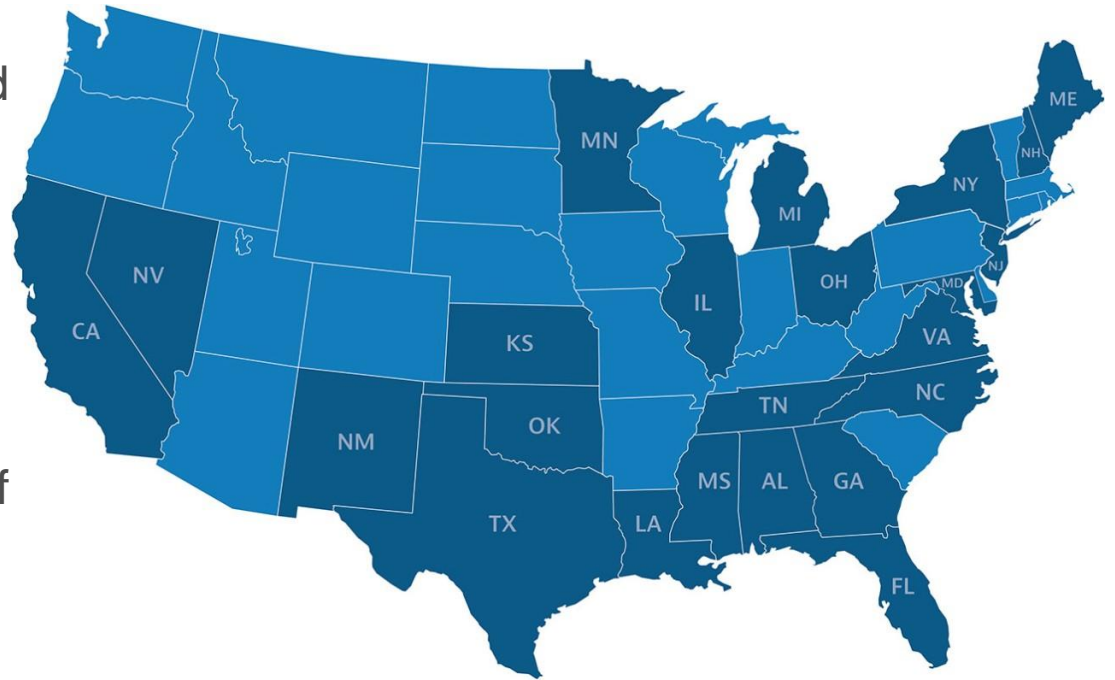
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# Building the Future of Energy



Southern Company (NYSE: SO) is America's premier energy company, with 46,000 MW of generating capacity and 1,500 billion cubic feet of combined natural gas consumption and throughput volume serving 9 million customers through its subsidiaries. Operations include nearly 200,000 miles of electric transmission and distribution lines and more than 80,000 miles of natural gas pipeline.



# The economy flourished in 2018, surpassing expectations

The U.S. economy in 2018 will go down as one of the best in the nine-year economic expansion

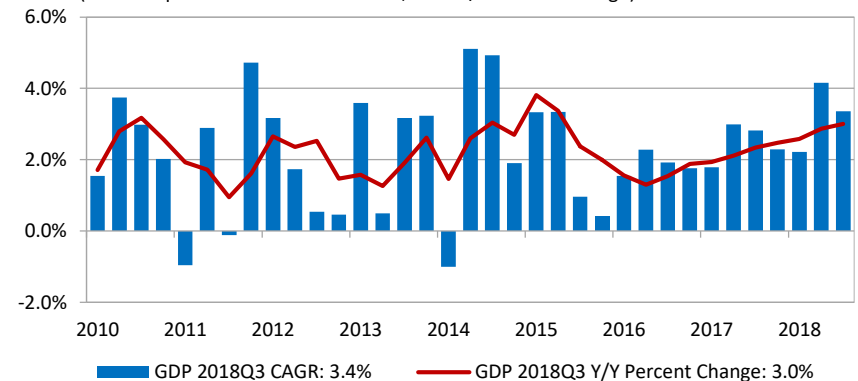
## U.S. Economy Highlights

- 2018 got off to a roaring start as personal income tax cuts, along with low unemployment, boosted household disposable income and powered strong consumer spending growth.
- For the first time in history, there were more open positions than job seekers in the labor force.
- Inflation, after a long run below the Federal Reserve's target of 2%, stayed at or slightly above the target throughout most of the year, leading to four short-term interest rate hikes in 2018.
- The lower corporate tax rate, combined with a continued U.S. boom in oil and gas fracking, supported business investment.
- The congressional budget deal in February 2018 led to strong U.S. military spending, while spending by state and local governments also picked up.
- Several economic indices posted record highs: Consumer confidence hit an 18-year high in October 2018, ISM non-manufacturing saw an index-record high in September 2018, and ISM manufacturing surpassed an index reading of 60 for the first time in seven years during February 2018.

United States, Economic Activity (Actual 2018 vs. January 2018 Vintage)	2018 Actual	2018 Forecast	Change vs. Forecast
Real GDP Growth (% change)*	2.9%	2.7%	↑
Core Consumer Price Index (% change)	2.2%	1.9%	↑
Total Employment Gains (millions)	2.674	2.304	↑
SOCO Territory Employment (% change)	1.8%	1.7%	↑
Manufacturing Employment (% change)	2.1%	2.1%	↔
Unemployment rate (average)	3.9%	3.9%	↔
Labor Force Participation Rate (average)	62.8%	62.9%	↓
Housing Starts (millions)*	1.262	1.289	↓
Personal Income (% change)	4.4%	4.4%	↔
Industrial Production (% change)	4.0%	3.3%	↑

## United States, Real GDP Growth

(Bar: Compound Annual Growth Rate; Line: Y/Y Percent Change)



\*Real GDP actual data through 3Q18; Housing starts actual data through November 2018

Note: 2018 forecast was provided by IHS Markit's January 2018 vintage; SOCO employment growth for electric territory

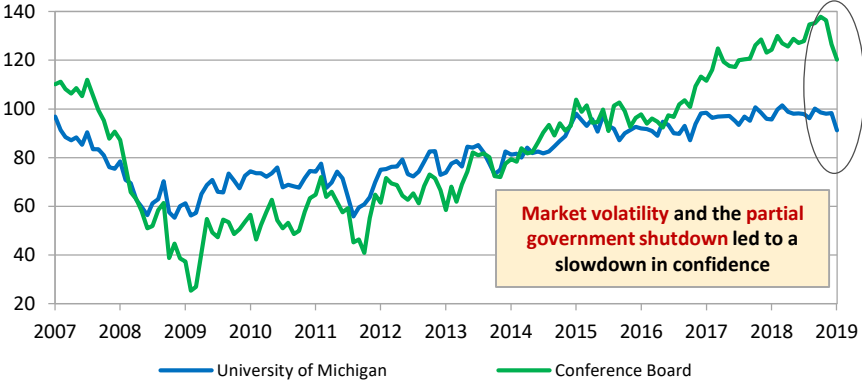
Sources: IHS Markit, Southern Company - Economic Services



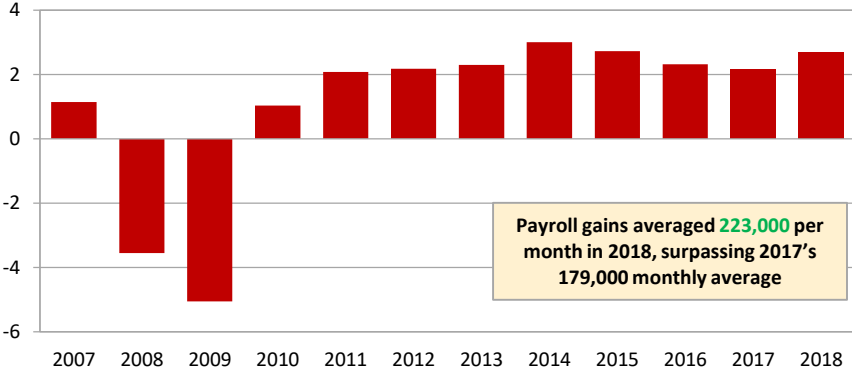
# The fundamentals of the economy remain favorable to the consumer

Elevated consumer confidence, solid job growth and a tight labor market led to modest wage gains

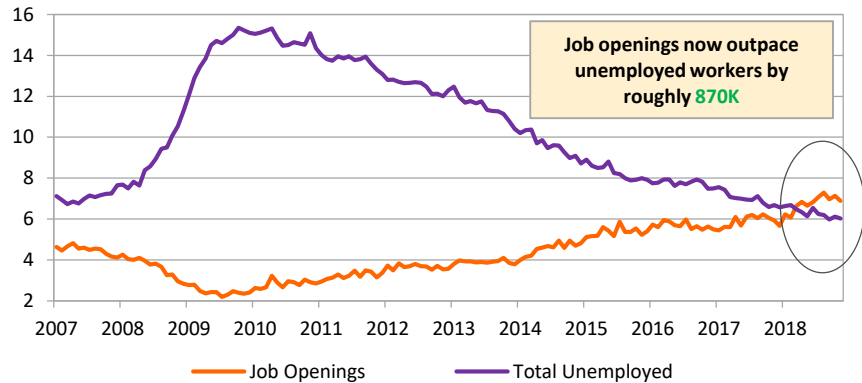
**United States, Consumer Confidence**  
(Market indices)



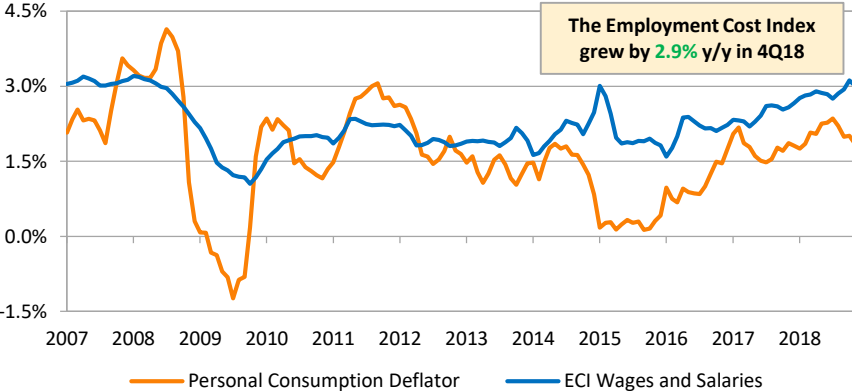
**United States, Annual Employment Growth**  
(Millions of Jobs)



**United States, Labor Market Tightness**  
(Millions)



**United States, Wages\* and Prices**  
(Percent Change Year Ago)

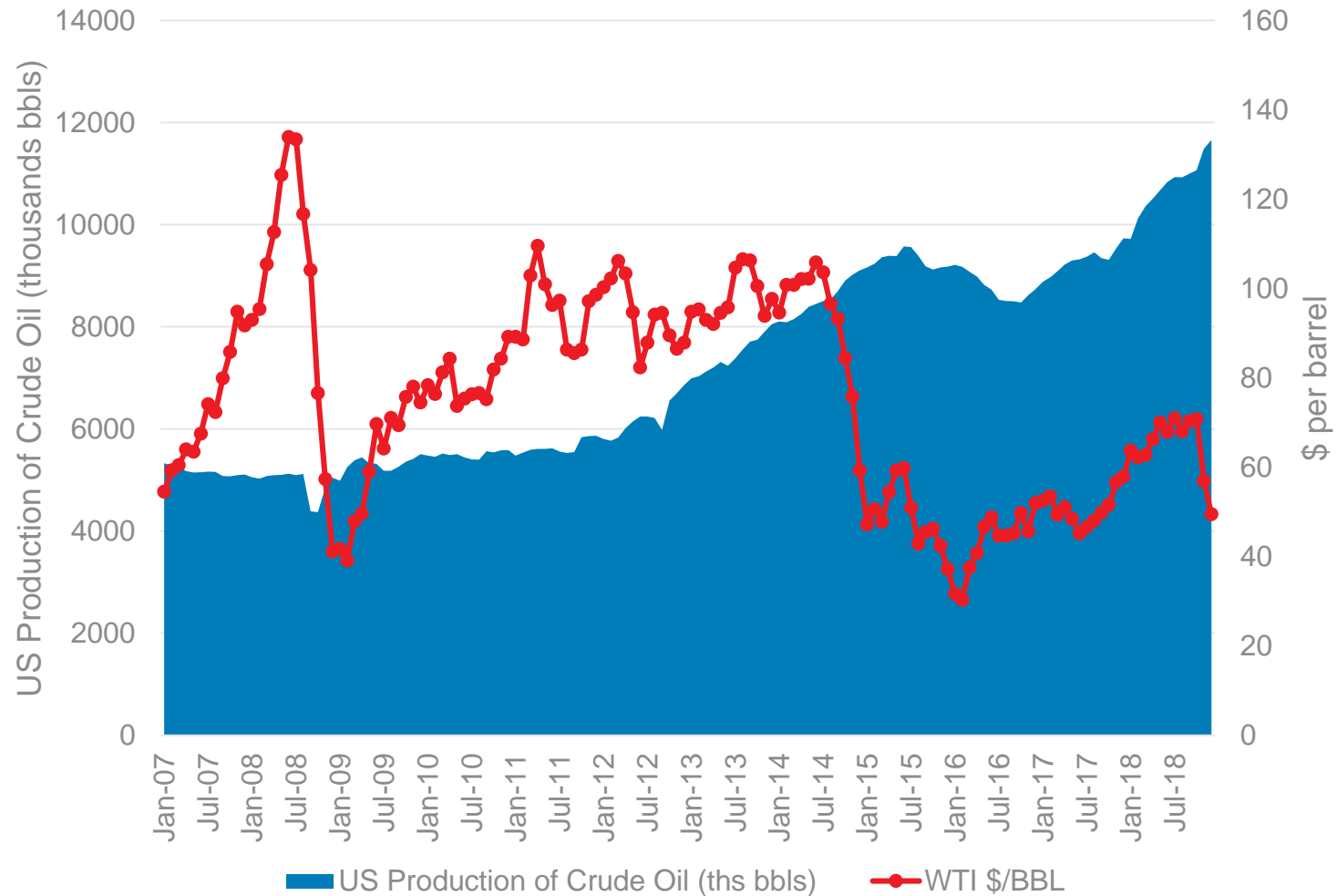


\*ECI: Employment Cost Index  
Note: Year-over-year (y/y)  
Sources: IHS Markit, Southern Company - Economic Services



# The U.S. is now the world's largest crude oil producer

Weaker global demand and lower oil prices may have a drag on industrial output in 2019

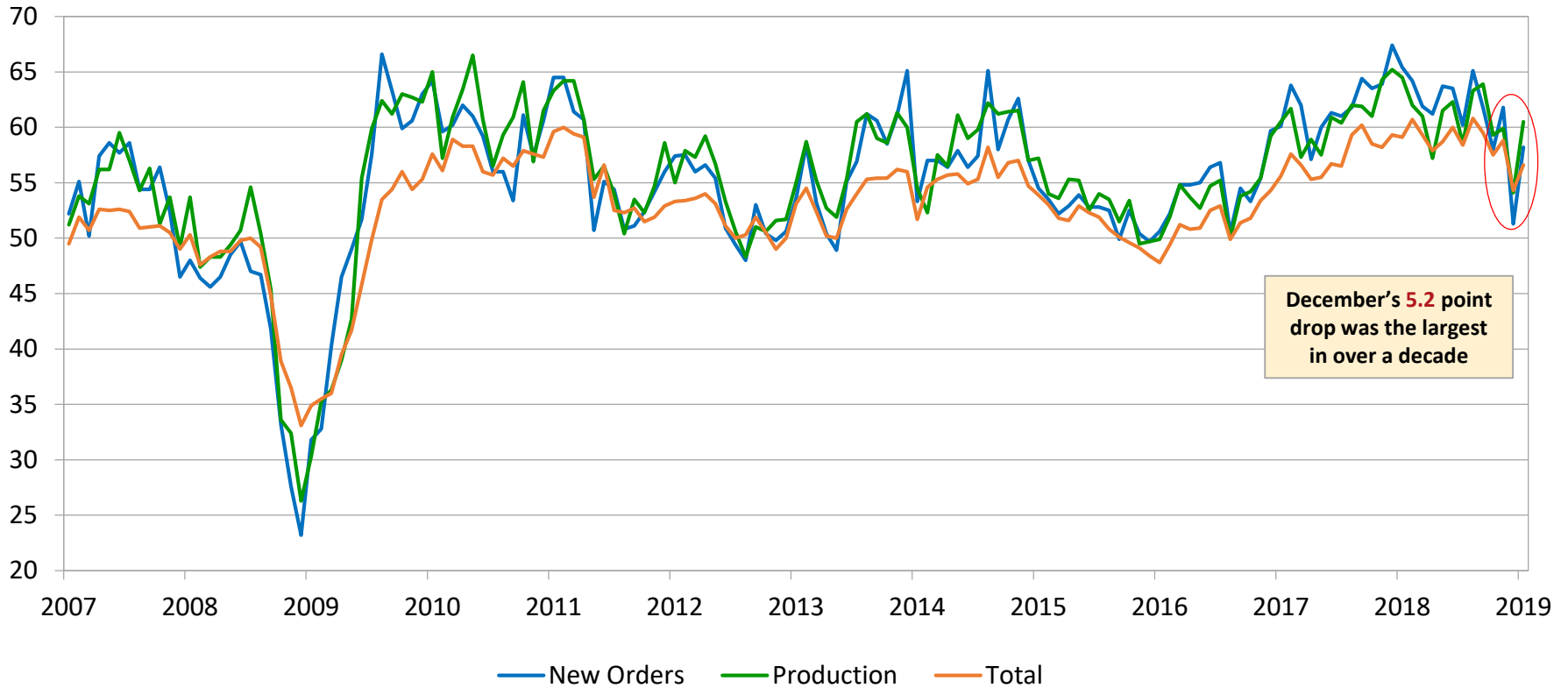


# December's factory activity had largest one month drop since 2008

While the index picked up in January, the near-term outlook calls for a slowdown

## United States, ISM Manufacturing Index

(Diffusion Index, >50 is expansionary)



## Eight of Southern Company's top ten industrial segments posted annual growth in the third quarter

### Southern Company - Top 10 Industrial Segments

(Electricity Sales – Percent Change Year Ago)

Segment	Share	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	1Q18	2Q18	3Q18	2017
Total	100%	1.5	4.2	2.2	-3.1	1.6	3.2	2.9	0.1	4.3	2.6	0.6	2.4	0.0
Chemicals	14%	1.0	7.5	4.8	-11.3	-1.3	5.2	-3.9	-3.7	-6.0	4.3	-2.5	-4.5	0.4
Primary Metals	12%	4.9	4.6	10.6	5.2	12.9	10.9	5.3	1.4	-0.5	6.7	9.7	2.0	7.3
Paper	10%	-10.2	-8.4	-4.4	-5.9	5.4	-2.4	1.7	-3.7	0.4	-7.7	-1.1	-0.6	-4.0
Stone, Clay, Glass	6%	3.3	1.4	-2.5	0.6	5.8	3.2	1.6	0.0	-0.7	0.7	2.9	0.3	-2.3
Transportation	6%	0.8	1.0	1.0	-3.2	0.3	2.3	4.1	2.9	4.4	0.9	-0.1	3.8	-2.5
Petroleum	5%	-2.5	1.7	3.0	1.0	5.3	-9.7	2.5	4.5	8.7	0.6	-1.6	5.3	-3.0
Food	5%	0.2	3.0	1.1	0.2	2.8	0.4	0.0	-0.2	5.2	1.4	1.1	1.6	0.1
Pipeline	5%	13.5	6.1	4.6	-5.5	-13.3	-0.8	5.6	4.4	25.5	8.2	-6.6	11.5	0.6
Utilities	5%	23.5	14.7	15.9	14.1	11.5	6.8	8.4	6.9	2.5	18.1	10.7	6.0	-5.8
Non-Mfg.	5%	5.3	6.0	3.5	1.8	5.6	4.2	6.7	5.7	10.5	5.0	3.9	7.6	-1.1
<b>Weather Impact</b> (Percent Change Year Ago)		HDH 187.3	CDH/HDH 69.8	HDH 12.2	CDH -46.6	CDH 40.4	CDH 35.0	CDH 8.1	CDH 11.5	CDH 59.9	CDH/HDH 63.5	CDH 17.9	CDH 22.1	CDH/HDH -11.0





# Trade war tensions between the U.S. and China persist

The U.S. is expected to raise import taxes from 10% to 25% for \$200 billion in Chinese goods

## Recent Developments:

- In 2018, the Trump administration announced tariffs on about \$250 billion of imports from China on the basis that trade with the country was detrimental to the U.S. economy, as defined in Section 301 of the Trade Act of 1974.
- The situation had since calmed down, and the U.S. administration, after a productive meeting during the G-20 Buenos Aires summit, decided to postpone the increase of the tariff on that tranche to 25% to **March 1<sup>st</sup>**.
- However, President Trump announced last week that it was “unlikely” he would meet with his Chinese counterpart, XI Jinping, before the crucial March deadline.

## Value of 2017 Imports

(Billions of Dollars)

	U.S. Imports From China		Chinese Imports From U.S.	
Round 1	Capital Goods	\$21	Capital Goods	\$1
	Intermediate Goods	\$26.5	Intermediate Goods	\$31.5
	Transport Equipment	\$2	Transport Equipment	\$4
	Consumer Goods	\$0.5	Consumer Goods	\$14.0
	Total	\$50	Total	\$50
Round 2	Capital Goods	\$50.0	Capital Goods	\$15.6
	Intermediate Goods	\$100	Intermediate Goods	\$40
	Consumer Goods	\$48.0	Consumer Goods	\$4.2
	Other	\$2.0	Other	\$0
	Total	\$200	Total	\$60
Without Tariffs	Remaining Chinese Goods	\$255	Remaining U.S. Goods	\$20

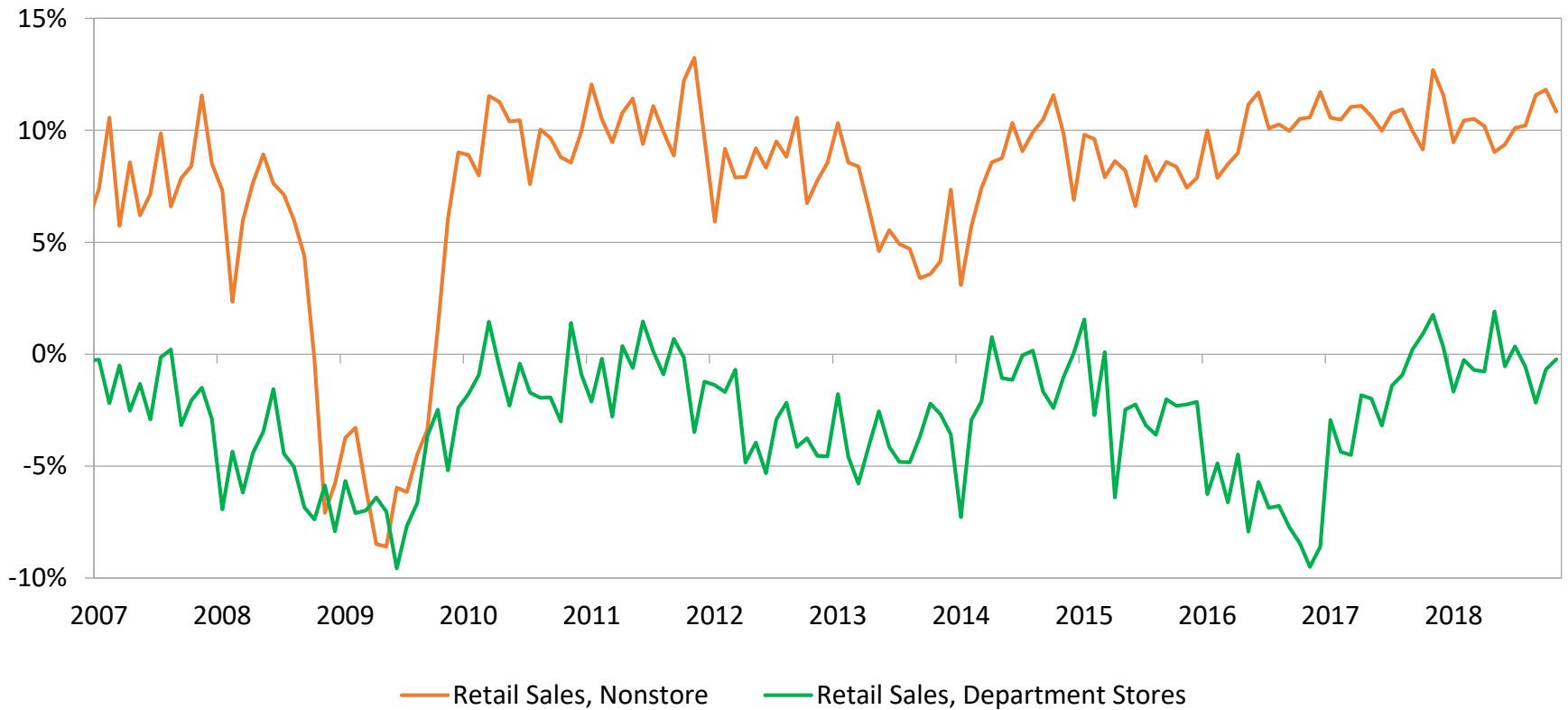


# E-commerce and small high-density stores changing retail landscape

U.S. online sales rose by 10.8% while department stores sales fell by 0.2% y/y in November 2018

## Unites States, Retail Sales

(Percent Change Year Ago)

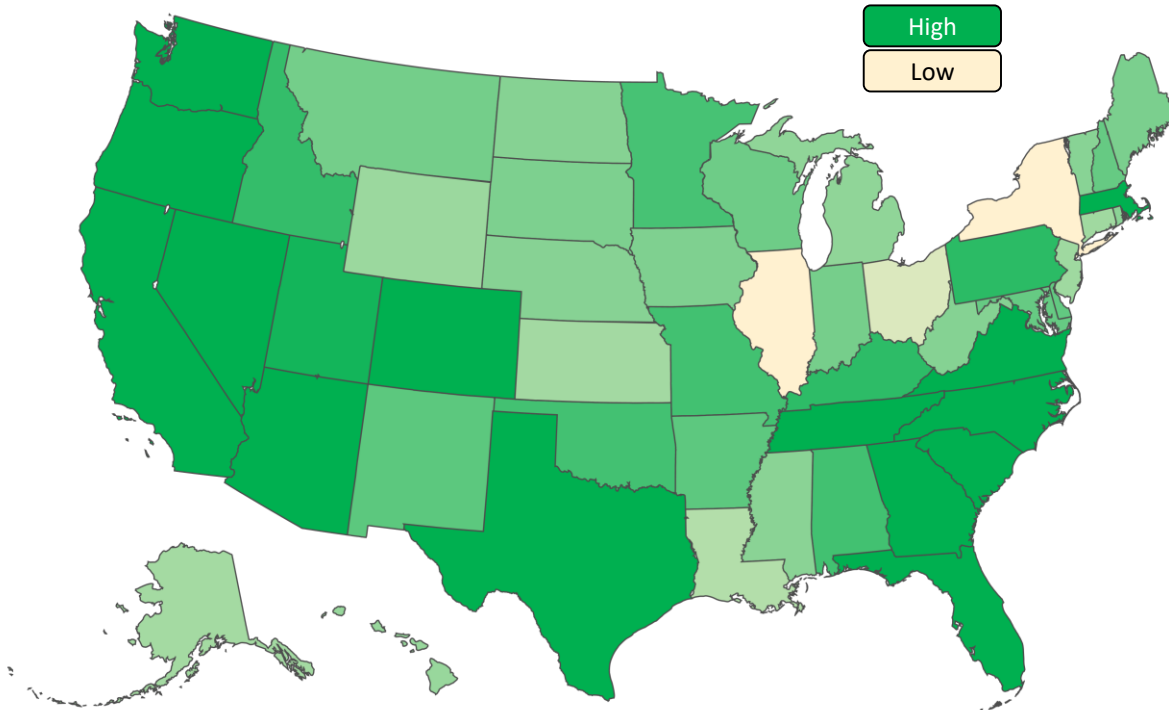


# Net migration patterns: which states are filling up the fastest?

Georgia's total net migration is expected to grow at an average of 63K over the next five years

## United States, Total Net Migration 2019-2023

(Average Annual Growth)



National  
Average:  
20.6K

### Top 10 States:

1. Florida
2. Texas
3. California
4. Arizona
5. North Carolina
6. **Georgia**
7. Washington
8. South Carolina
9. Tennessee
10. Colorado

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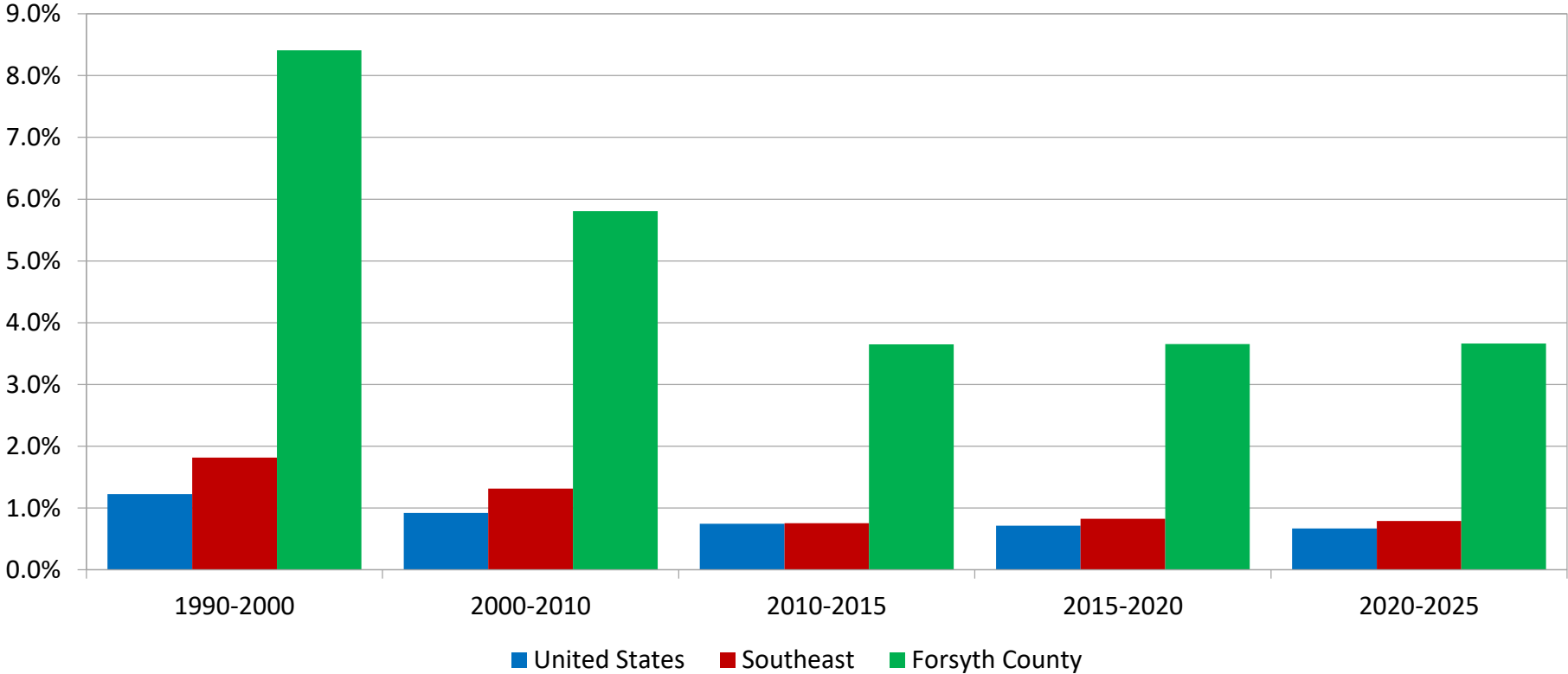


# A fast-growing population supports economic growth in our region

The Southeast continues to outpace the U.S. in population growth, boosted by net migration

## United States, Population Growth

(Compound Annual Growth Rate)



Note: Southeast pertains to Southern Company's electric business territory  
Sources: IHS Markit, Southern Company - Economic Services

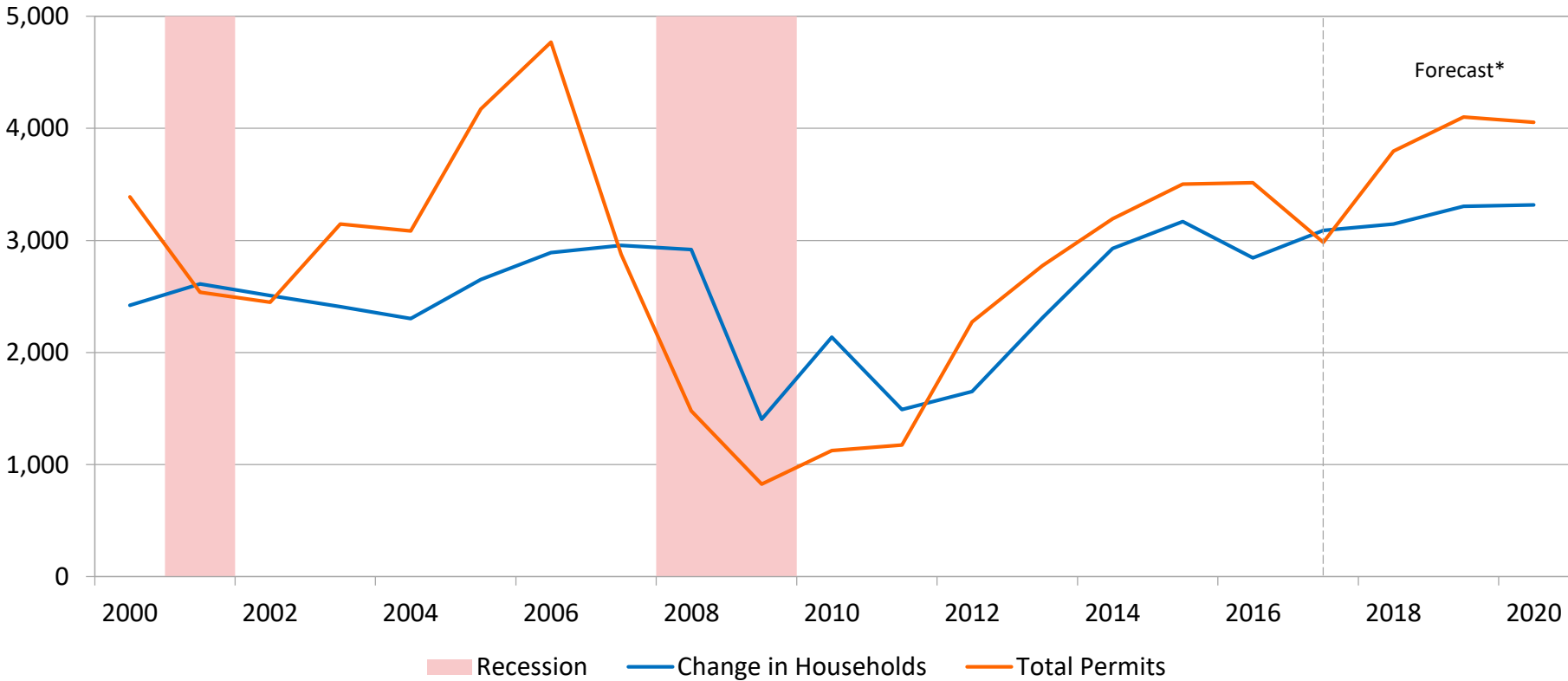


# Household growth and housing demand back to pre-recession levels

The recent pace of new residential construction seems to be more in line with population growth

## Forsyth County, Housing Demand and Supply

(Units/Households)



\*Total permits historical data through 2017; Households historical data through 2010

Note: Shading denotes recession

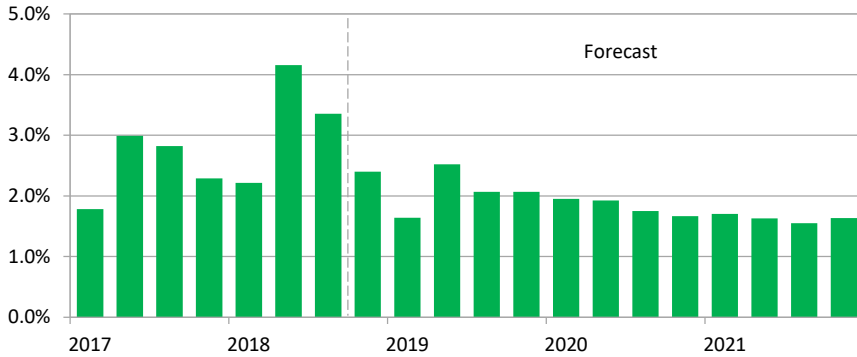
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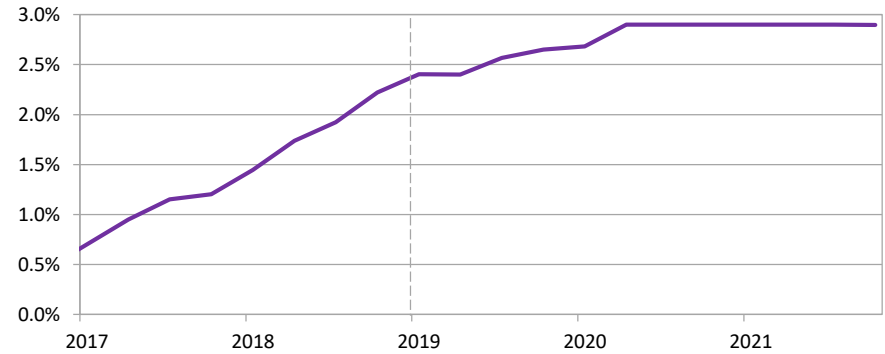
# Are the good times behind us?

## A slowdown seems inevitable as waning fiscal stimulus and rising rates weaken demand

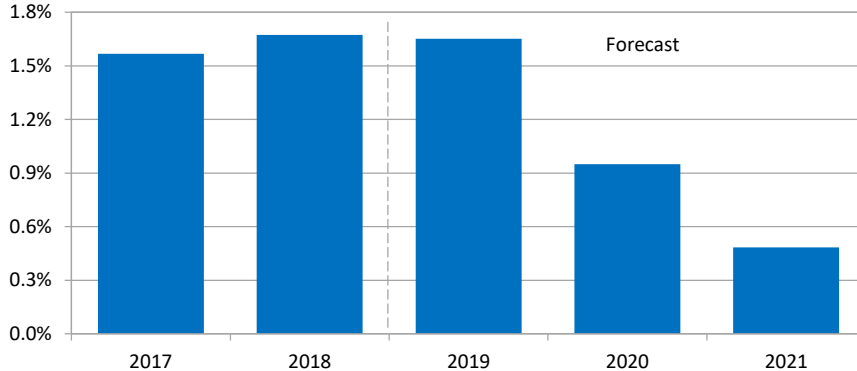
**United States, Real GDP Growth**  
(Compound Annual Growth Rate)



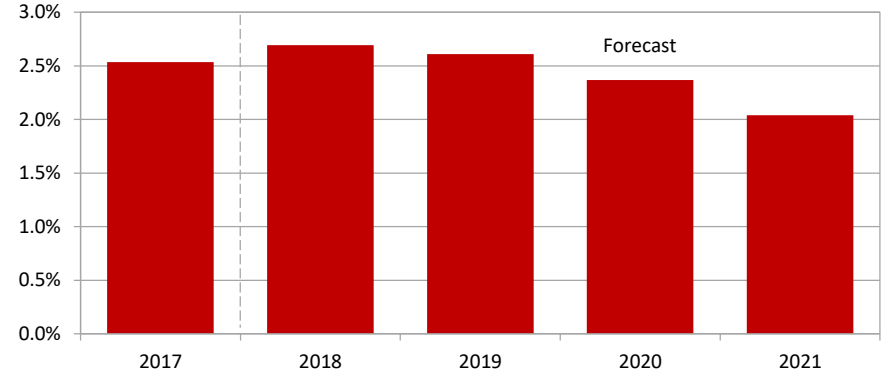
**United States, Effective Federal Funds Rate**  
(Percentage)



**United States, Annual Employment Growth**  
(Percent Change)



**United States, Real Consumer Spending**  
(Percent Change)



# Georgia's economy: competitive advantages & disadvantages

Payrolls are projected to rise 1.6% y/y between 4Q18 and 4Q19, a net gain of more than 70K jobs

## Advantages:

- ✓ Geographic location: well-positioned for transportation and distribution services, home to world's busiest airport and major U.S. seaport
- ✓ Business affordability: right-to-work laws, low tax rates, cheaper real estate in comparison to the West and Northeast
- ✓ Population: forecast to continue growing at a robust pace, younger, favorable domestic and international in-migration
- ✓ Industrial mix: strong presence in food processing and carpet manufacturing

## Disadvantages:

- ❖ Educational attainment: lower-than-average education levels (exception is Atlanta metro) relative to national average
- ❖ Housing availability: decline in housing inventory and above-average increases in housing prices raising concerns of affordability, particularly in the Atlanta metro



# Downside risks to Georgia's economic expansion

Rising interest rates are leading to declines in homebuilding, investment, and consumer spending

## Labor market tightening:

- Anti-immigration policies threaten state's ability to bring in talent from abroad, potentially slowing down business expansions.

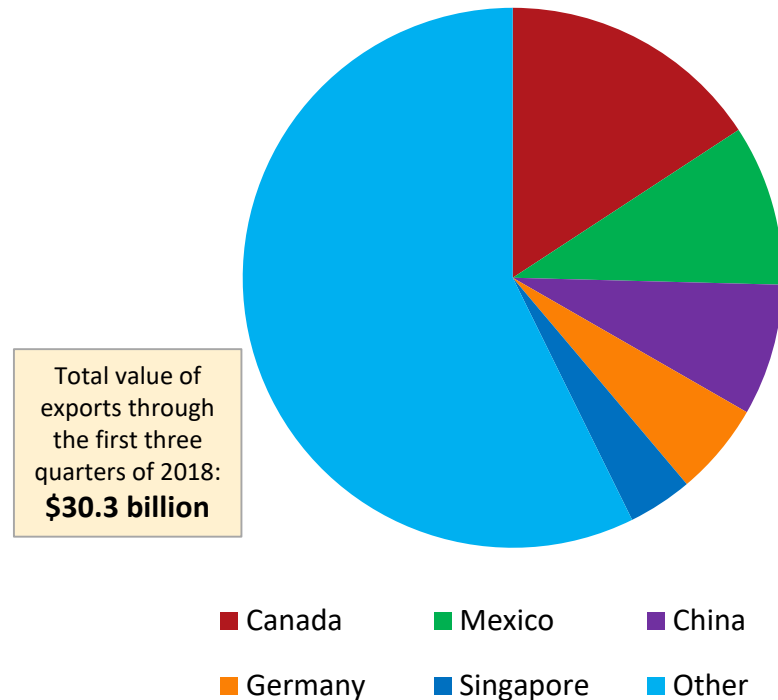
## Demographic shift (long-term):

- The expected increase in retirees from the baby boom generation will place pressure on state and federal government programs and the local work force.

## Trade policy:

- Continued escalation of trade disputes with other countries, particularly China, may lead to heightened, adverse consequences on medium-term U.S. growth because of elevated input costs incurred by businesses.

**Georgia, Top 5 Exported Markets**  
(Year-to-Date through September 2018)



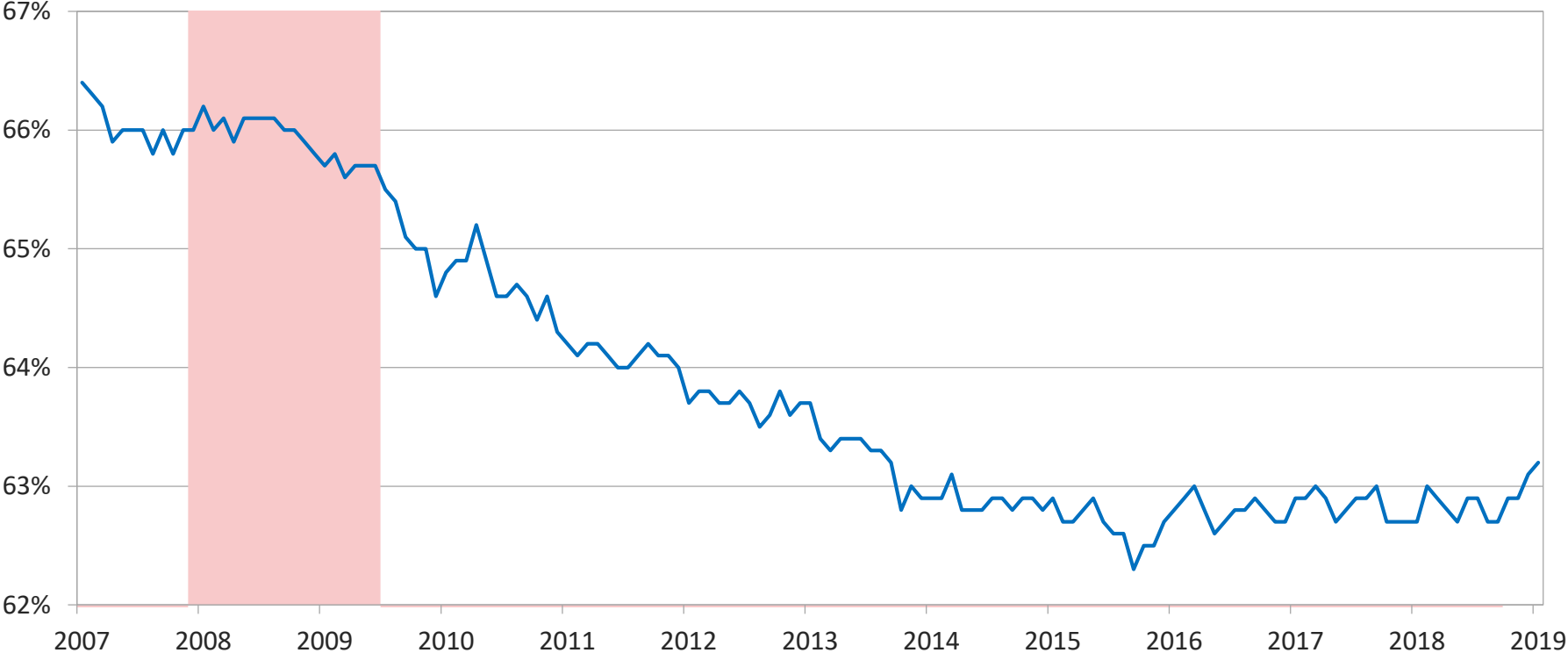


# The U.S. labor force participation rate remains historically low

Trends within demographic groups help account for shifts in the labor force participation rate

## United States, Labor Force Participation Rate

(Percentage, Seasonally Adjusted)



Note: Shading denotes recession  
Sources: IHS Markit, Southern Company - Economic Services

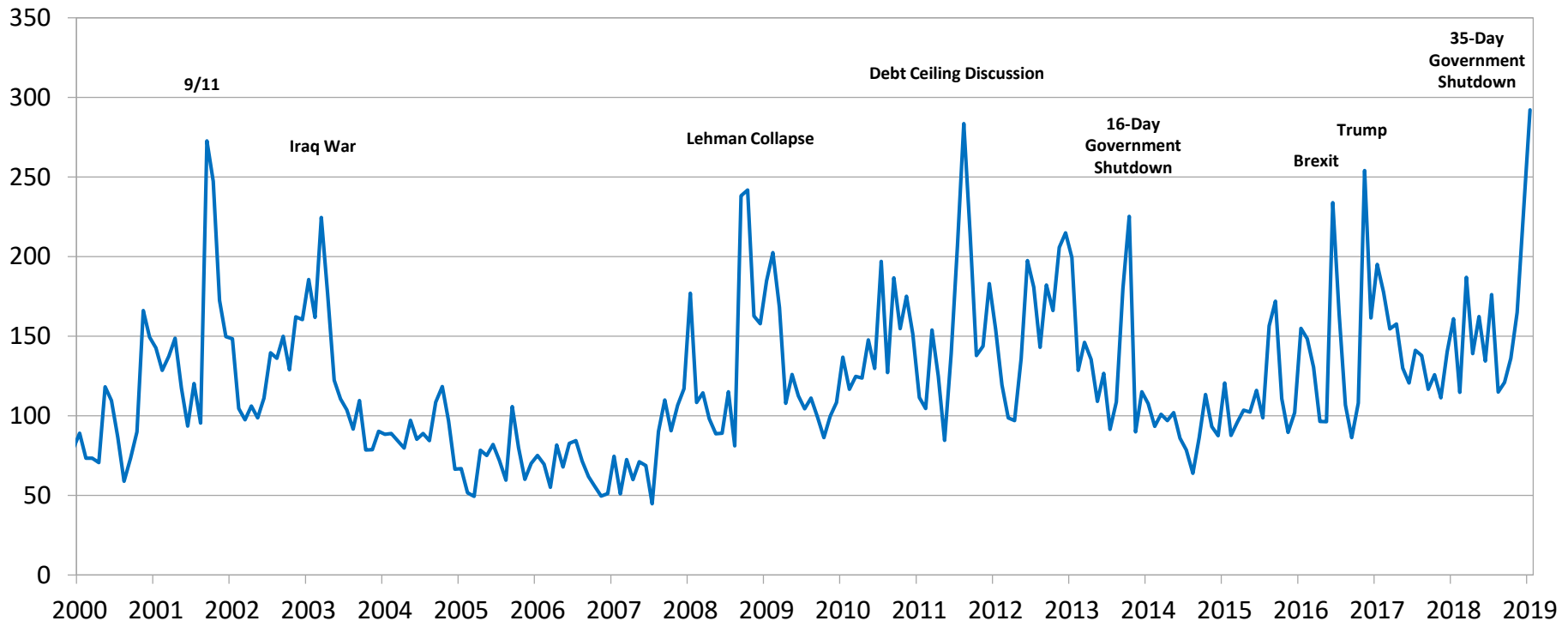


# Economic policy uncertainty in the U.S. remains fairly elevated

EPU index measures the share of U.S. newspaper commentary on economic policy uncertainty

## United States, Economic Policy Uncertainty Index

(7-day moving average of the share of U.S. newspaper stories describing economic policy uncertainty)



# But let's not talk ourselves into a recession... at least not in 2019

In the near term, several factors will drive above-trend growth of aggregate demand and GDP:

## Drivers for economic growth in 2019:

- ✓ The 2017 Tax Cuts and Jobs Act (TCJA) will spur private final demand, while the Bipartisan Budget Act of 2018 (BBA18) will spur government spending;
- ✓ Interest rates, while rising, remain low;
- ✓ Recent gains in wealth, employment, and compensation, along with elevated consumer confidence, support solid growth of consumer spending despite the fourth-quarter drop in stock prices;
- ✓ A further increase in housing starts is necessary to accommodate annual household formations, projected at nearly 1.4 million, without ongoing declines in the housing vacancy rate;
- ✓ Foreign growth, while having peaked, remains supportive of US exports.

## However, the outlook starts to shift in 2020:

- ❖ GDP growth from the third quarter of 2018 through the fourth quarter of 2019 is projected to average a firm 2.3%. However, 2020 sees a transition from above-trend to below-trend growth that persists through 2025.



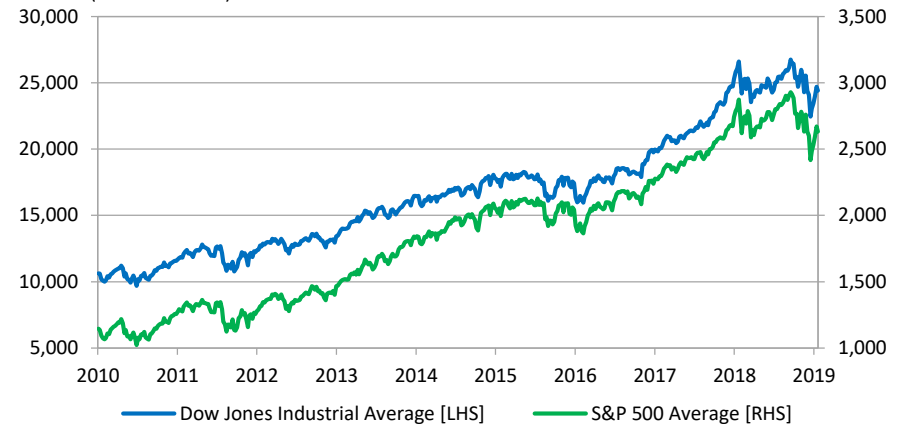
# U.S. growth is projected to slow in 2019, but remain above trend

Recent changes in financial conditions will contribute to somewhat slower growth in the near-term

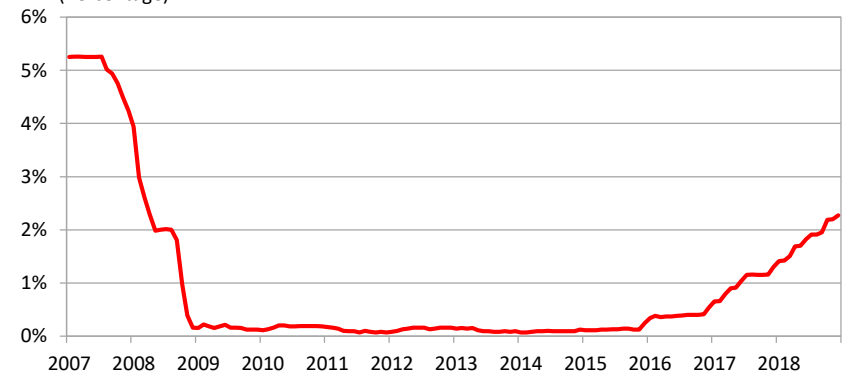
## Potential Risks in 2019

- **Slowing global growth:** Global growth is downshifting, with the advanced economies' GDP growth set to weaken considerably this year.
- **Oil supply volatility:** Given the shale oil producers' tendency to overproduce when prices are high and the Saudis' tendency to reduce output when prices are low, we can expect oil prices to remain volatile for the foreseeable future.
- **U.S.-China tensions:** Unresolved disputes between the U.S and China, over a host of economic and geopolitical issues, could escalate and potentially damage the global economy.
- **Volatility in the stock market:** Equity-market declines seen during the fourth quarter of 2018 will further trim the near-term's GDP-growth outlook.
- **Tightening monetary policy:** The Federal Reserve is expected to continue gradually raising the federal funds rate and slowly shrinking its balance sheet.
- **Partial government shutdown:** Despite the interim reopening of the federal government, the 35-day shutdown will cost the U.S. economy roughly \$3 billion in reduced output during 2019.

United States, Stock Prices  
(Market Indices)



United States, Effective Federal Funds Rate  
(Percentage)





# Southern Company

**Thank you!**

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