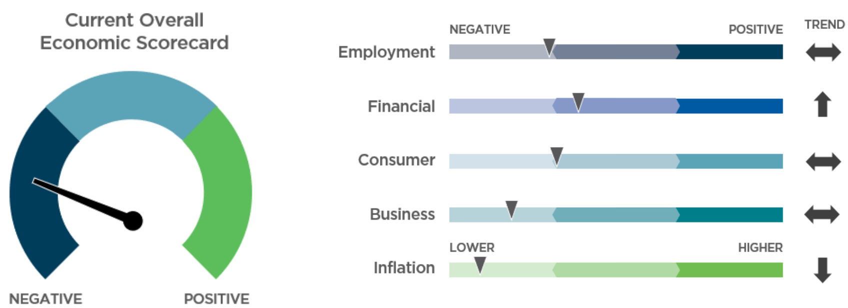
P&C Economic Trends

From Nationwide Economics

July 2020

Current Economic Environment

There is growing optimism that the economy will expand solidly in the second half of 2020 as consumer and business activity reboots. Still, given the depth of the decline, a full recovery to pre-COVID levels for important economic indicators such as real GDP and payroll employment is expected to take several years. Significant risks to economic recovery in the near term remain, however, mainly surrounding the path forward for the virus and the timing of availability of antivirals and vaccines. The base case projects a sharp rebound in growth later this year and into 2021 with the COVID-19 recession perhaps the shortest downturn in U.S. history.



Economic Outlook

The shutdown of the U.S. economy to combat COVID-19 is expected to produce a 7.6 percent decline in real GDP for 2020, centered on an abysmal second quarter. Activity is projected to rebound in the second half of the year, especially if the virus diminishes and antiviral drugs become plentiful, with above-trend growth continuing through 2021. But there is a chance of a deeper, extended decline for the economy if the virus persists and/or therapeutics are ineffective.

The record-breaking job losses from April will result in a significant decline in total nonfarm payroll employment for 2020 even with strong rehiring over the remainder of the year. The unemployment rate could remain in double-digits for much of the year, especially if virus concerns slow the economic reopening and rehiring in coming months. It is likely to be several years before the job market fully recovers to pre-COVID levels.

	2019	2020F	2021F	2022F
Real GDP growth	2.3%	-7.6%	2.4%	4.8%
Unemployment rate	3.7%	9.5%	7.9%	5.8%

Consumer activity is expected to improve in the second half of 2020, although still depressed somewhat by social distancing and fears of infection. Even with the expected economic recovery, consumers may remain more risk averse and keep their savings elevated in response to lingering economic uncertainty. **Continued low interest rates will be a positive for autos and (especially) housing**, helping to set the stage for a solid rebound next year.

	2019	2020F	2021F	2022F
Total home sales	6.03 M	5.25 M	5.90 M	6.00 M
Light vehicle sales	16.9 M	13.2 M	15.0 M	16.0 M

Key Auto Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Light Vehicle Sales (6/2020), SAAR	13.1 M	17.2 M	11.3 M
Light Truck Sales, SAAR	10.1 M	12.3 M	8.7 M
Passenger Car Sales, SAAR	3.0 M	4.9 M	2.6 M
Average Expenditure per New Car (2019Q4)	$26,434	$23,362	
Commercial Bank Interest Rates: 48-Mnth New Car Loans (2020Q1)	5.29%	5.50%	
Vehicle Miles of Travel, SA (4/2020)	167.6 B	278.0 B	221.5 B
Average Fuel Price – Unleaded Gasoline (5/2020)	$1.96	$2.95	$2.08
CPI: Motor Vehicle Insurance, Y/Y (5/2020)	-14.4%	0.7%	-6.5%
CPI: Medical Care, Y/Y (5/2020)	4.9%	2.1%	4.8%
CPI: Vehicle Maintenance & Repair Costs, Y/Y (5/2020)	3.7%	3.4%	3.4%
CPI: Used Cars and Trucks, Y/Y (5/2020)	-0.4%	0.3%	-0.3%

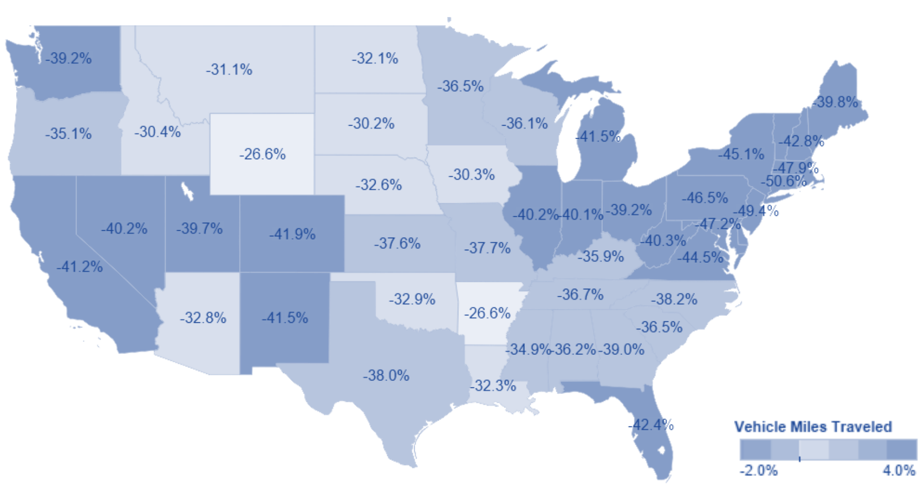
Auto Data Commentary

Recent data: The pace of light vehicle sales rebounded in May and June as dealer incentives and extended financing fueled consumer demand. Total vehicle miles traveled plunged in March and April, but there have signs of increased driving in May and June as economies have reopened.

Outlook: Auto sales are expected to improve in the second half of the year but still show a sharp decrease from 2019. The frequency of personal auto claims should drop sharply this year. Daily commuter traffic could remain depressed as many workers will continue to work from home or have lost jobs. Severity for claims is likely to move higher, however, led by rising medical care and auto repair costs.

Vehicle miles traveled by state

Total miles driven collapsed across the country in March and April with all states down by at least 26 percent relative to April 2019. Fewer drivers on the road should reduce personal auto frequency sharply this year.



Sources: Federal Highway Administration; Haver Analytics
Twelve-month change in vehicle miles traveled, April 2020

Key Housing Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Household Growth, 4-quarter change (2020Q1)	2.0 M	1.6 M	
CoreLogic House Price Index (HPI), Y/Y (4/2019)	5.4%	3.6%	4.7%
Housing Starts, SA (5/2020)	974,000	1.27 M	1.06 M
Housing Permits, SA (5/2020)	1.21 M	1.34 M	1.21 M
New Home Sales, SA (5/2020)	676,000	600,000	623,000
Existing Home Sales, SA (5/2020)	3.91 M	5.33 M	4.50 M
Pending Home Sales Index, SA (5/2020)	99.6	105.0	85.6
Home Builders' Survey, SA (6/2020)	58	64	42
Homeownership Rate, SA (2020Q1)	65.3%	64.2%	
Serious Delinquency Rate, SA (2020Q1)	1.66%	1.95%	
30-year Fixed Rate Mortgage (6/2020)	3.13%	3.84%	3.24%

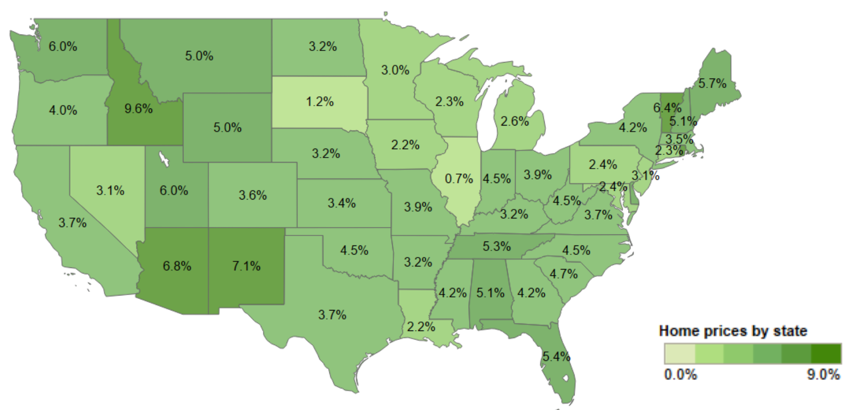
Housing Data Commentary

Recent data: Existing home sales fell off a cliff in April and May as stay-at-home orders curtailed sales activity. New home sales rose for May, however, reflective of strong homebuyer demand coming out of the lockdown, while leading indicators for existing home purchases jumped.

Outlook: Home sales and housing starts are projected to rebound solidly in the second half of 2020, although still be down in aggregate from 2019. Continued low mortgage rates and positive demographics should provide a lift for housing demand, even as the inventory of existing homes for sale should remain very tight. Low supply conditions should help to keep home price gains from slowing significantly, even in the face of a sharp economic downturn.

Home price appreciation by state

House price gains remain solid in most states in response to stronger homebuyer demand with mortgage rates falling further and the low supply of homes on the market.



Sources: Black Knight Financial Services; Haver Analytics
Twelve-month change in house price index, May 2020

Key Commercial Lines Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
New Heavy Truck Sales (2019Q4)	41,400	42,600	
Unemployment rate, Transportation (6/2020)	14.2%	3.7%	14.9%
ISM Manufacturing Index (6/2020)	52.6	51.6	45.7
ISM Nonmanufacturing Index (5/2020)	45.4	56.3	46.6
Business formations, 4-qtr change (2019Q4)	2.4%	1.9%	
Real GDP Growth, 4-qtr change (2020Q1)	0.3%	2.7%	
NFIB Small Business Optimism Index (5/2020)	94.4	105.0	94.9
Nonresidential Fixed Investment, 4-qtr change (2020Q1)	-3.6%	4.8%	
Nonfarm Payroll Employment, 12-mo change (6/2020)	-8.6%	1.3%	-11.2%
Average Hourly Earnings, 12-mo change (6/2020)	5.0%	3.4%	6.5%
U-6 Unemployment Rate (includes underemployed) (6/2020)	18.0%	7.2%	20.7%
CPI: Medical Care, Y/Y (5/2020)	4.9%	2.1%	4.8%

Commercial Lines Data Commentary

Commercial Auto

Recent data: Business activity and investment have plummeted in response to the COVID-19 recession — resulting in reduced freight movement and construction. The unemployment rate for transportation workers has soared, but a surge in online retail activity has kept labor demand from falling as much as in other sectors.

Outlook: Total commercial activity is expected to be down sharply in the near term and could be weaker into 2021 given the severity of the economic downturn. A rebound in economic growth next year should help to reverse likely exposure base declines for commercial insurance.

Commercial Multiperil

Recent data: Real GDP was down sharply in the first quarter, the start of a deep dive in business activity as a result of the economic shutdown. Small businesses (mainly in service industries) have been hit especially hard and business owner optimism is well-below pre-COVID levels.

Outlook: Small and medium-sized enterprises are expected to take a long time to recover from the COVID-19 recession. Business creation should fall off substantially this year and likely into 2021, as well. Existing businesses are likely to cut operations and workers to remain open, while some enterprises will be forced to close.

Workers Compensation

Recent data: The labor market has taken a sharp turn as unemployment measures spiked in April and May to the highest levels since the Great Depression. Tens of millions of workers have applied for unemployment insurance since mid-March — a tremendous hit to the labor force.

Outlook: Elevated unemployment levels are expected to remain through year-end, although some improvement is expected over the second half of the year. During the downturn, companies will have little incentive or ability to raise worker wages — also potentially reducing the exposure base.