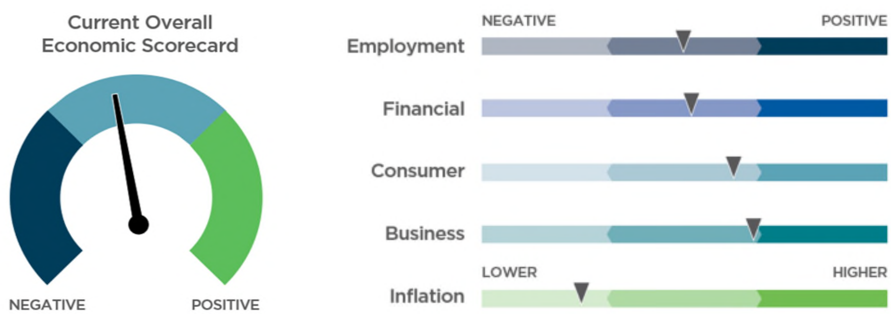
P&C Economic Trends

From Nationwide Economics

August 2020

Current Economic Environment

The economic recovery gathered still more steam in June and July as job gains and retail spending spiked again while the business sector jumped back into expansion. Real GDP dropped at a record pace for the second quarter, but **there is a broad consensus that there will be a sharp rebound in the third quarter** — which could start a period of above-trend growth that extends for a couple of years. There are growing near-term risks to the recovery, however, as renewed virus infections could cause a pullback in consumer activity or renewed/expanded government restrictions, threatening to stall the rebound.



Economic Outlook

Led by a record-shattering drop during the second quarter, real GDP is expected to decline by 5.9 percent for 2020 in response to the COVID-19 recession. Growth is projected to rebound in the second half of this year with above-trend growth continuing through 2022, but virus uncertainty looms over the outlook. Growth could be considerably slower in the near-term if infection rates continue to rise and governments respond with additional rounds of activity mandates.

The record-breaking pace of job gains from May through July is unlikely to be sustained, although we expect solid growth in payrolls for the next couple of years. The unemployment rate should return to single-digits in the second half of the year, and then move lower as long as the economy continues to move ahead. But because of the record rise in unemployment earlier this year, **it is likely to be several years before the job market fully recovers to pre-COVID levels**.

	2019	2020F	2021F	2022F
Real GDP growth	2.2%	-5.9%	3.3%	4.5%
Unemployment rate	3.7%	9.1%	7.2%	5.6%

Consumer activity is expected to improve further, spurred by continued job growth, pent-up demand, and low interest rates. Still, fears of infection or renewed government restrictions could keep spending below pre-COVID trends. **The housing market has roared back from the economic shutdown and is expected to see only a modest decline in sales this year**. Continued low interest rates will be a positive for autos and housing, helping to further the rebound in both sectors.

	2019	2020F	2021F	2022F
Total home sales	6.03 M	5.75 M	6.00 M	6.05 M
Light vehicle sales	16.9 M	13.9 M	15.2 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 (7/2020), **SAAR**	14.5 M	17.0 M	13.3 M
Light Truck Sales, SAAR	11.0 M	12.3 M	10.2 M
Passenger Car Sales, SAAR	3.5 M	4.7 M	3.1 M
Average Expenditure per New Car (2020Q1)	$27,196	$25,746	
Commercial Bank Interest Rates: 48-Mnth New Car Loan (2020Q2)	5.13%	5.35%	
Vehicle Miles of Travel, SA (5/2020)	204.8 B	274.5 B	196.9 B
Average Fuel Price – Unleaded Gasoline (7/2020)	$2.27	$2.82	$2.13
CPI: Motor Vehicle Insurance, Y/Y (7/2020)	-1.9%	0.6%	-8.8%
CPI: Medical Care, Y/Y (7/2020)	5.0%	2.6%	5.0%
CPI: Vehicle Maintenance & Repair Costs, Y/Y (7/2020)	3.4%	3.2%	3.5%
CPI: Used Cars and Trucks, Y/Y (7/2020)	-0.9%	1.4%	-1.3%

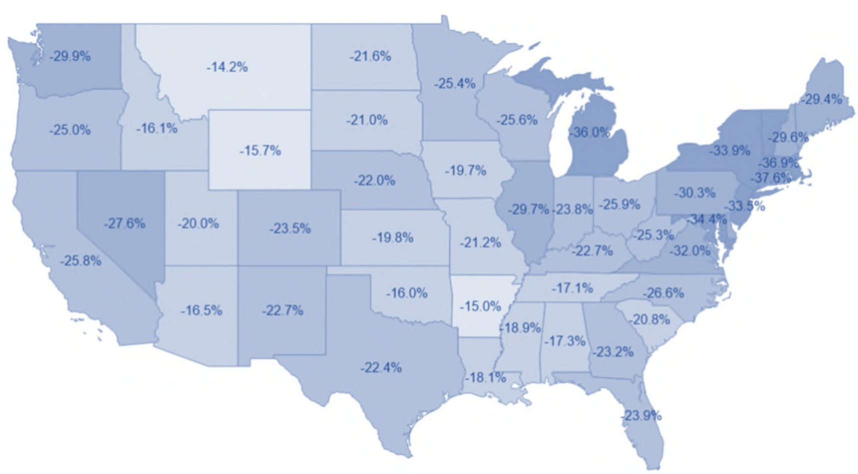
Auto Data Commentary

Recent data: The pace of light vehicle sales rebounded further in July as dealer incentives and extended financing fueled consumer demand. Total vehicle miles traveled increased in May but driving behavior remains well below normal — adding downward pressure to claims frequency trends.

Outlook: Auto sales are expected to improve in the second half of the year, moving closer to the pre-COVID trend by year-end. The frequency of personal auto claims should drop sharply this year with daily commuter traffic still 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 picked up in May but all states were down by at least 14 percent relative to a year ago. Fewer drivers on the road should reduce personal auto frequency sharply this year and likely into 2021.



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

Key Housing Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Household Growth, 4-quarter change (2020Q2)	4.3 M	1.2 M	
CoreLogic House Price Index (HPI), Y/Y (6/2020)	4.9%	3.5%	4.4%
Housing Starts, SA (6/2020)	1.19 M	1.23 M	1.04 M
Housing Permits, SA (6/2020)	1.26 M	1.27 M	1.18 M
New Home Sales, SA (6/2020)	776,000	726,000	676,000
Existing Home Sales, SA (6/2020)	4.72 M	5.32 M	4.32 M
Pending Home Sales Index, SA (6/2020)	116.1	109.2	94.9
Home Builders' Survey, SA (7/2020)	72	66	56
Homeownership Rate, SA (2020Q2)	68.2%	64.3%	
Serious Delinquency Rate, SA (2020Q2)	4.4%	2.0%	
30-year Fixed Rate Mortgage (7/2020)	3.02%	3.77%	3.14%

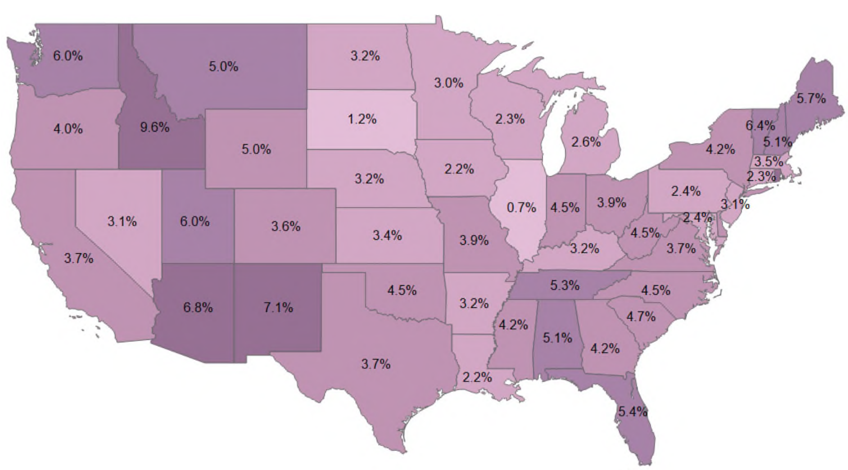
Housing Data Commentary

Recent data: Existing and new home sales likely surged to pre-COVID levels in July, reflective of strong homebuyer demand coming out of the lockdown in response to record low mortgage rates. Home price growth has accelerated again due to the low supply of homes on the market.

Outlook: Home sales should rise further in the second half of 2020, only posting a modest decline from 2019 despite the severe recession. Continued low mortgage rates and positive demographics should lift housing demand, even as the inventory of existing homes for sale should remain historically tight. Low supply conditions should also help to keep home price gains modestly positive.

Home price appreciation by state

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



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

Key Commercial Lines Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
New Heavy Truck Sales (2020Q1)	33,700	43,900	
Unemployment rate, Transportation (7/2020)	15.1%	3.6%	14.9%
ISM Manufacturing Index (7/2020)	54.2	51.3	50.0
ISM Nonmanufacturing Index (7/2020)	58.1	54.8	53.5
Business formations, 4-qtr change (2019Q4)	2.4%	1.9%	
Real GDP Growth, 4-qtr change (2020Q2)	-9.5%	2.0%	
NFIB Small Business Optimism Index (7/2020)	98.8	104.7	97.9
Nonresidential Fixed Investment, 4-qtr change (2020Q2)	-8.8%	2.9%	
Nonfarm Payroll Employment, 12-mo change (7/2020)	-7.5%	1.3%	-9.3%
Average Hourly Earnings, 12-mo change (7/2020)	4.8%	3.5%	5.4%
U-6 Unemployment Rate (includes underemployed) (7/2020)	16.5%	6.9%	18.6%
CPI: Medical Care, Y/Y (7/2020)	5.0%	2.6%	5.0%

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, while business investment has ground to a halt in many industries.

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: Small businesses have been hit especially hard by the downturn and owner optimism remains below pre-COVID levels. There are signs of improvement as the recovery has begun with rehiring of workers and higher sales, although still below normal.

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: Hiring recovered sharply from the downturn with more than 9 million jobs added from May through June. But there are still about 16 million formerly employed workers getting government insurance while the unemployment rate remained in double-digits in July.

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.