

P&C Economic Trends

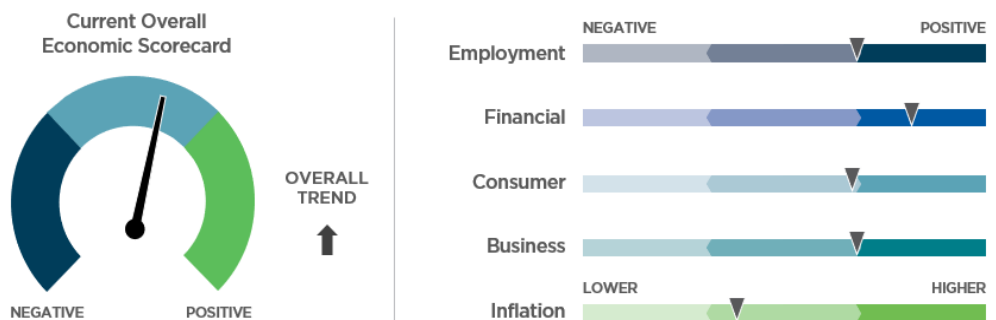
From Nationwide Economics



December 2020

Current Economic Environment

Key economic data remained solid into November as job gains and household spending continue to fuel the recovery. But the sharp climb in new infections is a significant risk to the near-term outlook as consumers could cut spending while increased government restrictions could hit the brakes on the business sector rebound. **Economic data are likely to be more mixed until vaccines allow for a return to the strong rebound from the COVID recession.** Fortunately, there has been positive news on the vaccine front which has boosted confidence in the pace of growth for the second half of 2021 and into 2022.



Economic Outlook

Real GDP growth is expected to slow in the fourth quarter but remain above-trend, resulting in a 3.5 percent decline for 2020. **A strong pace of economic growth is projected for 2021 and likely into 2022** in response to still expansionary fiscal/monetary policy and the full re-opening of the economy as effective vaccines become widely available. Risks to the outlook are centered on vaccine delays and premature withdrawal of expansionary policy.

Solid job gains are expected going forward, although they are likely to slow from the hiring surge seen over the past six months. **The U-3 unemployment rate should remain higher through 2021 while steadily moving lower.** Because of the magnitude of the record job losses from March and April, 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%	-3.5%	4.5%	3.2%
Unemployment rate	3.7%	8.1%	5.9%	4.7%

The strong spending on autos and housing — spurred by low interest rates, the recovering job market, and a further demand for space as firms allow workers more ability to work remotely — **should carry through at least 2021.** Consumers could keep their saving rates more elevated than usual while consumer mobility is being weighed down by the spike in virus infections, but these trends should ease once there is widespread vaccine availability.

	2019	2020F	2021F	2022F
Total home sales	6.03 M	6.40 M	6.55 M	6.35 M
Light vehicle sales	16.9 M	14.6 M	16.0 M	16.2 M



Auto Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Light Vehicle Sales (10/2020), SAAR	16.2 M	16.8 M	15.9 M
Light Truck Sales, SAAR	12.4 M	12.3 M	12.2 M
Passenger Car Sales, SAAR	3.8 M	4.5 M	3.7 M
Average Expenditure per New Car (2020Q2)	\$26,270	\$26,010	
Commercial Bank Interest Rates: 48-Mnth New Car Loan (2020Q3)	4.98%	5.27%	
Vehicle Miles of Travel, SA (8/2020)	236.0 B	277.0 B	238.5 B
Average Fuel Price - Unleaded Gasoline (10/2020)	\$2.25	\$2.72	\$2.26
CPI: Motor Vehicle Insurance, Y/Y (10/2020)	-7.1%	-0.2%	-4.5%
CPI: Medical Care, Y/Y (10/2020)	2.9%	4.3%	3.8%
CPI: Vehicle Maintenance & Repair Costs, Y/Y (10/2020)	3.2%	3.4%	3.2%
CPI: Used Cars and Trucks, Y/Y (10/2020)	11.5%	1.2%	8.6%

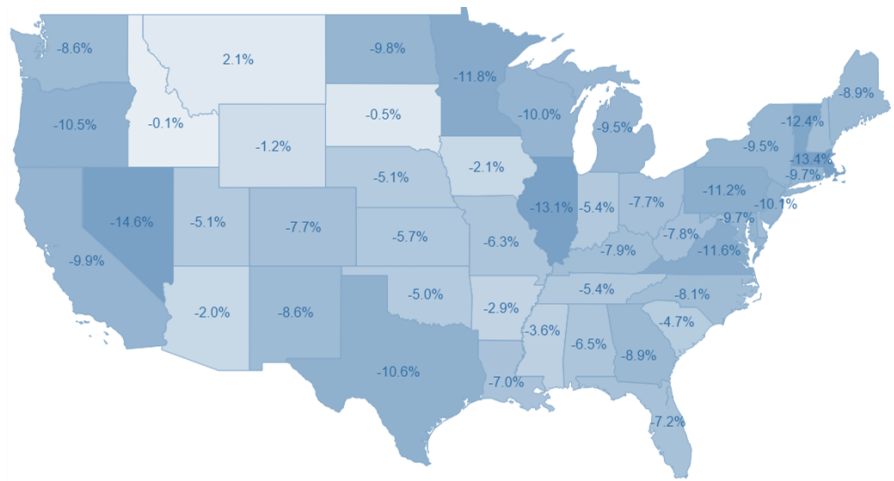
Auto Data Commentary

Recent data: The pace of light vehicle sales has climbed to just below pre-COVID levels, a sharp rebound from the recession lows earlier in 2020. Total vehicle miles traveled remain well below normal this year — adding downward pressure to claims frequency trends.

Outlook: Auto sales are expected to move higher over the next year as labor market conditions continue to improve. The frequency of personal auto claims could slow further with daily commuter traffic still depressed as many workers continue to work from home into 2021. 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 over the summer were still down sharply relative to a year ago in most states. Fewer drivers on the road should further reduce personal claims frequency.



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



Housing Data

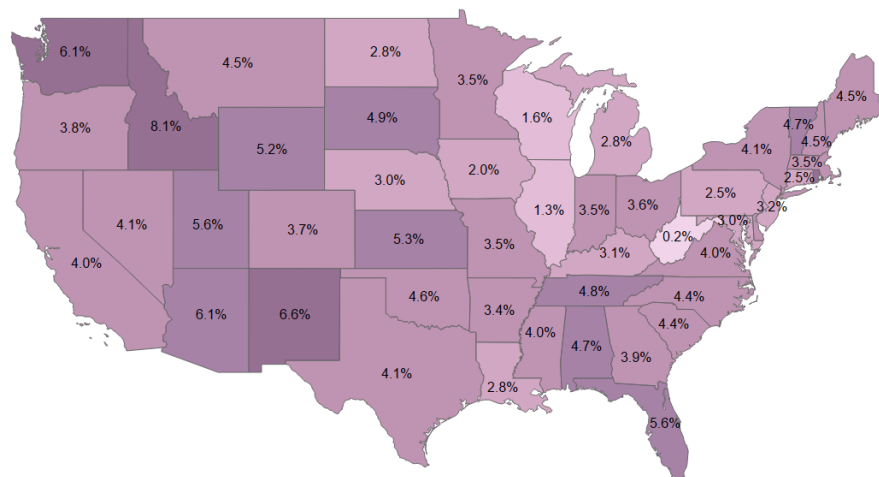
	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Household Growth, 4-quarter change (2020Q3)	4.0 M	1.4 M	
S&P CoreLogic Case-Shiller HPI, Y/Y (9/2020)	7.0%	3.2%	5.8%
Housing Starts, SA (10/2020)	1.53 M	1.34 M	1.45 M
Housing Permits, SA (10/2020)	1.54 M	1.50 M	1.52 M
New Home Sales, SA (10/2020)	999,000	706,000	1.00 M
Existing Home Sales, SA (10/2020)	6.85 M	5.41 M	6.47 M
Pending Home Sales Index, SA (9/2020)	130.0	107.9	128.3
Home Builders' Survey, SA (11/2020)	90	71	86
Homeownership Rate, SA (2020Q3)	67.2%	64.6%	
Serious Delinquency Rate, SA (2020Q3)	5.4%	1.9%	
30-year Fixed Rate Mortgage (11/2020)	2.81%	3.71%	2.85%

Housing Data Commentary

Recent data: Home sales surged to the highest level since 2006 in September and October, reflective of strong homebuyer demand in response to record low mortgage rates, the jobs market recovery, and a desire for space owing to the pandemic. House price growth has accelerated due to the low supply of homes on the market. Household growth is likely overstated by methodological changes.

Outlook: Home sales should rise further into 2021 while home construction should ramp up to meet homebuyer needs for single-family housing. Continued low mortgage rates and positive demographics should lift demand, even as the inventory of homes for sale should remain historically tight. Home price gains could be above-average for several years with low supply conditions.

House price gains are firming in many states in response to strong 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, September 2020

Home price growth by state



Commercial Lines Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
New Heavy Truck Sales (2020Q2)	34,700	45,100	
Unemployment rate, Transportation (10/2020)	9.6%	3.3%	11.3%
ISM Manufacturing Index (10/2020)	59.3	48.5	56.9
ISM Nonmanufacturing Index (10/2020)	56.6	54.4	57.1
Business formations, 4-qtr change (2020Q1)	3.4%	2.1%	
Real GDP Growth, 4-qtr change (2020Q3)	-2.9%	2.1%	
NFIB Small Business Optimism Index (10/2020)	104.0	102.4	102.7
Nonresidential Fixed Investment, 4-qtr chg (2020Q3)	-5.0%	2.7%	
Nonfarm Payroll Employment, 12-mo chg (10/2020)	-6.1%	1.3%	-6.4%
Average Hourly Earnings, 12-mo change (10/2020)	4.5%	3.2%	4.5%
U-6 Unemployment Rate (includes underemployed) (10/2020)	12.1%	6.9%	13.0%
CPI: Medical Care, Y/Y (10/2020)	2.9%	4.3%	3.8%

Commercial Lines Data Commentary

Commercial Auto

Recent data: Business activity and investment remains stressed by COVID impacts — resulting in reduced freight movement and commercial construction. The unemployment rate for transportation workers has improved but remains elevated, while business investment has ground to a halt in many industries.

Outlook: Total commercial activity is expected to be weaker into 2021 given the severity of the economic downturn and the lingering effects from virus infections on consumer demand. A strong rebound in economic growth for 2021 should help to reverse likely exposure base declines over time.

Commercial Multiperil

Recent data: Service sector businesses were hit especially hard by the downturn with an estimated 100,000 business closures since the start of the pandemic. There are recent signs of improvement as many workers have been rehired while sales are rising, although still below normal.

Outlook: The recovery for small and medium-sized enterprises is likely to be tentative until vaccines allow consumer activity to fully return to normal. Business applications are up, a good sign that business creation is starting again. But existing businesses that have survived the downturn are likely to remain hesitant to expand their businesses or fill staffs until the pandemic has passed.

Workers Compensation

Recent data: Hiring recovered sharply from the recession with more than 12 million jobs added from May through October. But millions of formerly employed workers are still getting government insurance while the unemployment rate remains elevated compared to pre-COVID levels.

Outlook: Higher unemployment levels are expected through year-end 2021, although above-trend job gains will steadily decrease the number of unemployed workers. The exposure base could remain constrained by a smaller workforce and only modest expected wage increases over the next year.

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From Nationwide Economics



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