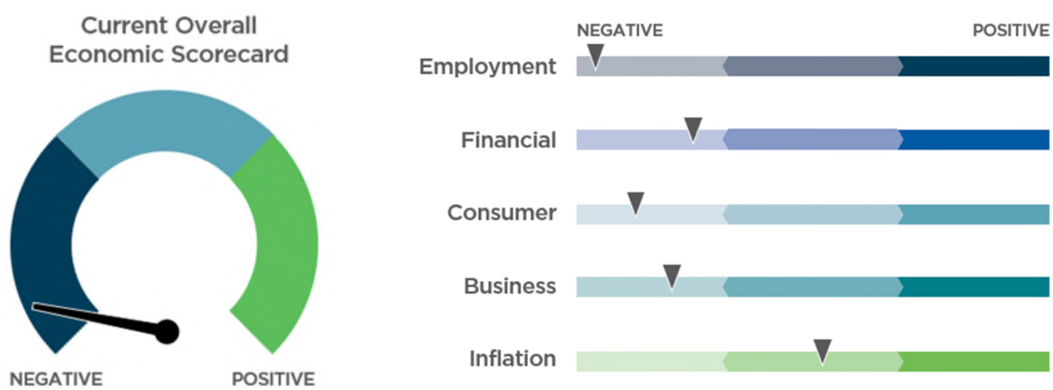
P&C Economic Trends
From Nationwide Economics

May 2020

Current Economic Environment

The COVID-19 economic shutdown has had an immediate and dramatic impact on the U.S. economy. Millions of workers have been laid off in a few weeks while spending and business activity plunged in the second half of March and into April. **Business conditions, especially for small and medium-sized businesses, have worsened considerably due to the unprecedented halt in economic activity.** The way out of the shutdown is clouded by uncertainty over how the virus progresses and when effective antiviral treatments (and eventually vaccines) will be available. Given the sharp tightening of economic and financial market conditions, it is clear that a recession started in March.



Economic Outlook

The shutdown of the U.S. economy to combat COVID-19 is expected to cause a 6.6 percent decline in real GDP in 2020, the worst annual performance since 1946**. If the virus diminishes and anti-viral drugs become plentiful, growth is projected to rebound starting in the fourth quarter of this year with above-trend growth in 2021.** But there is a chance of a larger, extended decline if the virus persists.

Job losses in the near term are expected to be record-breaking, resulting in a significant decline in total nonfarm payroll employment this year. The unemployment rate is projected to spike into double-digits and remain elevated for some time. If the virus diminishes and the economy starts to rebound, hiring should resume by year-end, helping to reduce the unemployment rate into 2021.

	2019	2020F	2021F	2022F
Real GDP growth	2.3%	-6.6%	2.5%	3.5%
Unemployment rate	3.7%	8.6%	7.5%	5.0%

We expect a sharp pullback in consumer activity until mandated social distancing and fears of infection ease. Sales of autos and homes are expected to pull back sharply in the second and third quarters — resulting in much lower sales levels during 2020**. Lower interest rates will be a positive for consumer activity** (especially housing), helping to set the stage for a strong rebound in 2021.

	2019	2020F	2021F	2022F
Total home sales	6.03 M	5.35 M	5.90 M	6.00 M
Light vehicle sales	16.9 M	13.5 M	16.0 M	16.5 M

KEY AUTO DATA (latest date)	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Light Vehicle Sales (3/2020), SAAR	11.4 M	17.3 M	15.0 M
Light Truck Sales, SAAR	8.5 M	11.2 M	12.5 M
Passenger Car Sales, SAAR	2.9 M	4.9 M	3.8 M
Average Expenditure per New Car (2019Q4)	$26,434	$23,362	
Commercial Bank Interest Rates: 48-Month New Car Loans (2020Q1)	5.29%	5.50%	
Vehicle Miles of Travel, SA (1/2020)	277.8 B	272.0 B	274.7 B
Average Fuel Price – Unleaded Gasoline (4/2020)	$1.94	$2.88	$2.27
CPI: Motor Vehicle Insurance, Y/Y (3/2020)	1.1%	1.61%	0.5%
CPI: Medical Care, Y/Y (3/2020)	4.7%	1.7%	4.6%
CPI: Vehicle Maintenance & Repair Costs, Y/Y (3/2020)	3.4%	3.7%	3.4%
CPI: Used Cars and Trucks, Y/Y (3/2020)	0.1%	0.7%	-1.1%

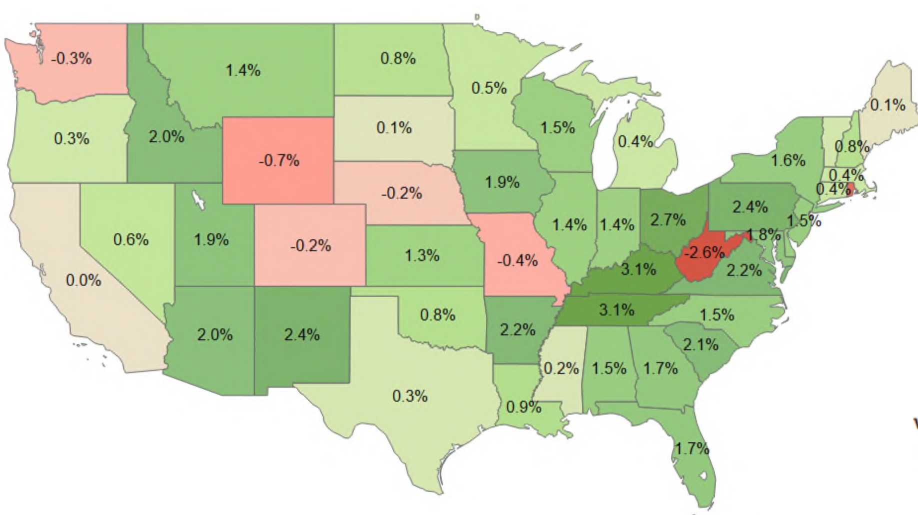
Auto Data Commentary

Recent data: The pace of light vehicle sales plummeted in March in response to the social distancing efforts to combat COVID-19 which kept consumers out of auto showrooms. Total vehicle miles traveled were up prior to the onset of COVID-19, but stay-at-home policies in nearly all states caused the number of cars on the road to plunge in March and April.

Outlook: Auto sales are expected to be very weak in the near term, resulting in about 13 million total sales for the year — a sharp drop off from 2019. The frequency of personal auto claims should remain lower even after the economy reopens as many workers have lost jobs or will continue to work from home. Severity for claims is likely to move higher, though, led by rising medical care and repair costs.

Vehicle miles traveled by state

Total miles driven were already slowing in many states before the impact of COVID-19. We expect miles traveled to decline sharply this year, helping to reduce personal auto frequency.



Sources: Federal Highway Administration; Haver Analytics
Twelve-month growth rate in vehicle miles traveled (three-month moving average), January 2020

KEY HOUSING DATA (latest date)	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 (2/2019)	4.1%	3.9%	3.9%
Housing Starts, SA (3/2020)	1.22 M	1.20 M	1.47 M
Housing Permits, SA (3/2020)	1.35 M	1.29 M	1.45 M
New Home Sales, SA (3/2020)	627,000	693,000	715,000
Existing Home Sales, SA (3/2020)	5.27 M	5.23 M	5.48 M
Pending Home Sales Index, SA (3/2020)	88.2	105.4	102.8
Home Builders' Survey, SA (4/2020)	31	65	59
Homeownership Rate, SA (2020Q1)	65.3%	64.2%	
Serious Delinquency Rate, SA (2019Q4)	1.68%	1.98%	
30-year Fixed Rate Mortgage (4/2020)	3.31%	4.17%	3.46%

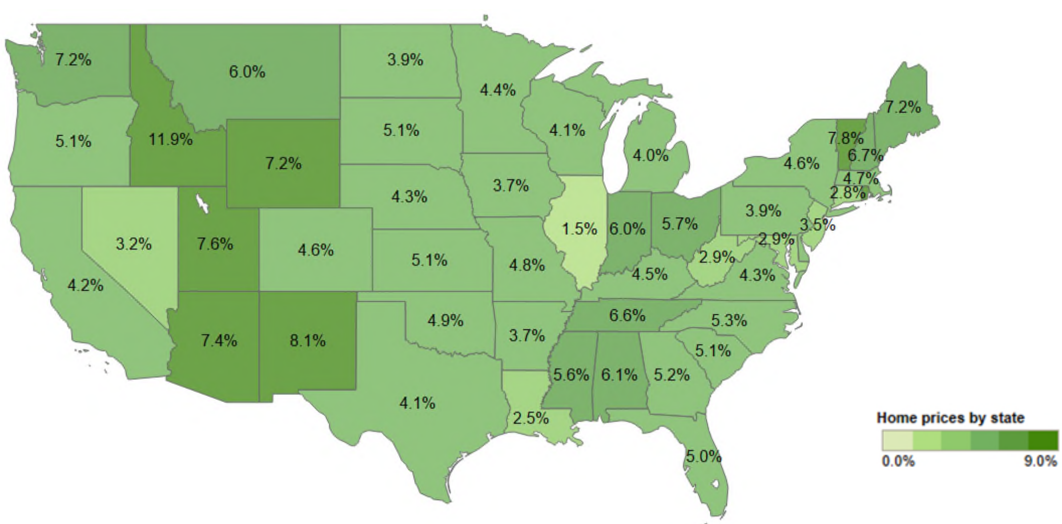
Housing Data Commentary

Recent data: Home sales and building activity effectively stopped in the second half of March as stay-at-home orders spread across the country. Led by low mortgage rates and strong household growth, the housing market had seen strong growth in the few months leading up to the shutdown.

Outlook: Total home sales and housing starts are projected to contract sharply in the second and third quarters of 2020. If the economy rebounds by year-end, continued low mortgage rates and positive demographics should provide a lift for housing demand into 2021 with sales activity up sharply. The inventory of existing homes on the market is likely to remain very tight, shifting some homebuyer demand to new builds — a boost to industry homeowners policy counts.

Home price appreciation by state

Prior to the effects of COVID-19, house price gains were solid in most states in response to stronger homebuyer demand with mortgage rates still low and incomes rising.



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

KEY COMMERCIAL LINES DATA (latest date)	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 (3/2020)	5.3%	3.8%	3.9%
ISM Manufacturing Index (3/2020)	49.1	54.6	50.0
ISM Nonmanufacturing Index (3/2020)	52.5	56.3	55.1
Business formations, 4-qtr change (2019Q3)	2.8%	1.7%	
Real GDP Growth, 4-qtr change (2020Q1)	0.3%	2.7%	
NFIB Small Business Optimism Index (3/2020)	96.4	101.8	101.7
Nonresidential Fixed Investment, 4-qtr change (2020Q1)	-3.6%	4.8%	
Nonfarm Payroll Employment, 12-mo change (3/2020)	1.0%	1.4%	1.3%
Average Hourly Earnings, 12-mo change (3/2020)	3.1%	3.4%	3.1%
U-6 Unemployment Rate (includes underemployed) (3/2020)	8.7%	7.4%	7.5%
CPI: Medical Care, Y/Y (3/2020)	4.7%	1.7%	4.6%

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. While the unemployment rate for transportation workers has climbed, a surge in online retail activity has kept labor demand from falling as far 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 reduce exposure declines over time.

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 saw it’s largest one-month decline in March.

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, while existing businesses are likely to cut operations and workers to remain open. Some enterprises will be forced to close — further reducing the exposure base for commercial insurance.

Workers Compensation

Recent data: The labor market has taken a sharp turn as unemployment measures are expected to spike in April to levels comparable with the Great Depression. More than 30 million workers applied for unemployment insurance from mid-March though April — a tremendous hit to the labor force.

Outlook: Elevated unemployment levels are expected to remain through year-end, although some improvement is expected in the fourth quarter. During this economic downturn, companies will have little incentive or ability to increase worker wages — reducing exposure coverage.