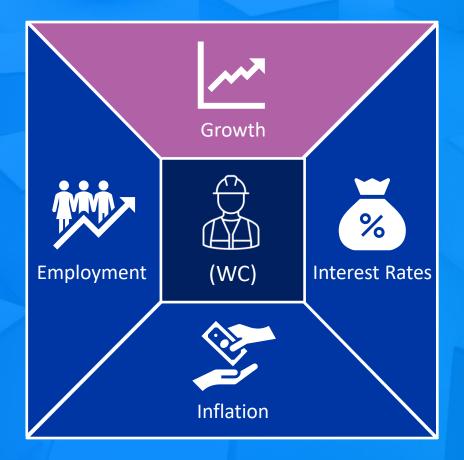
State of the Economy and Impact on Workers Compensation

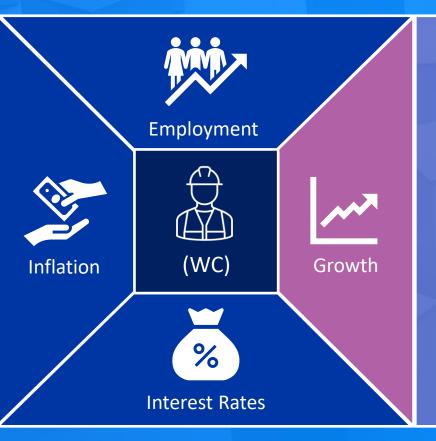
Stephen Cooper Executive Director and Senior Economist NCCI









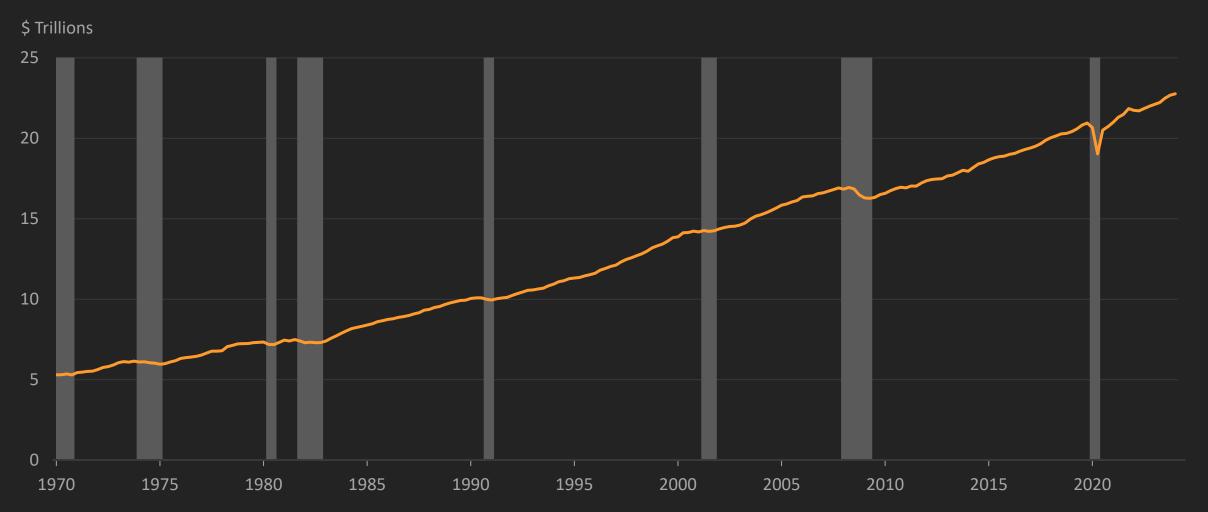


- Is the economy good or bad? Is it growing or shrinking?
- I don't believe you, the economy feels bad.
- If we feel bad enough about the economy, will it turn bad?



The Economy's Natural State Is to Grow

Real GDP

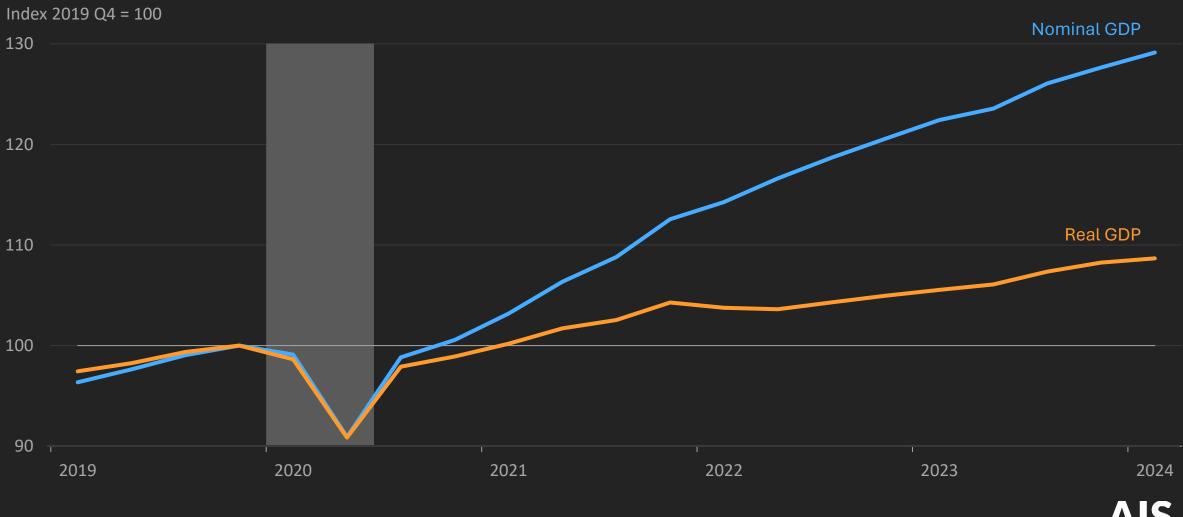


Source: US Bureau of Economic Analysis

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The Economy's Natural State Is to Grow

Real GDP and Nominal GDP



Source: US Bureau of Economic Analysis

AIS 2024

The Vibecession: The Self-Fulfilling Prophecy

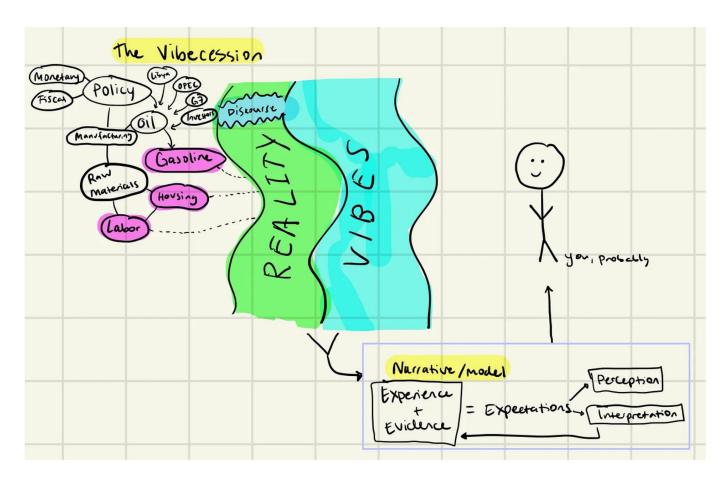
Are we manifesting a recession?



KYLA SCANLON

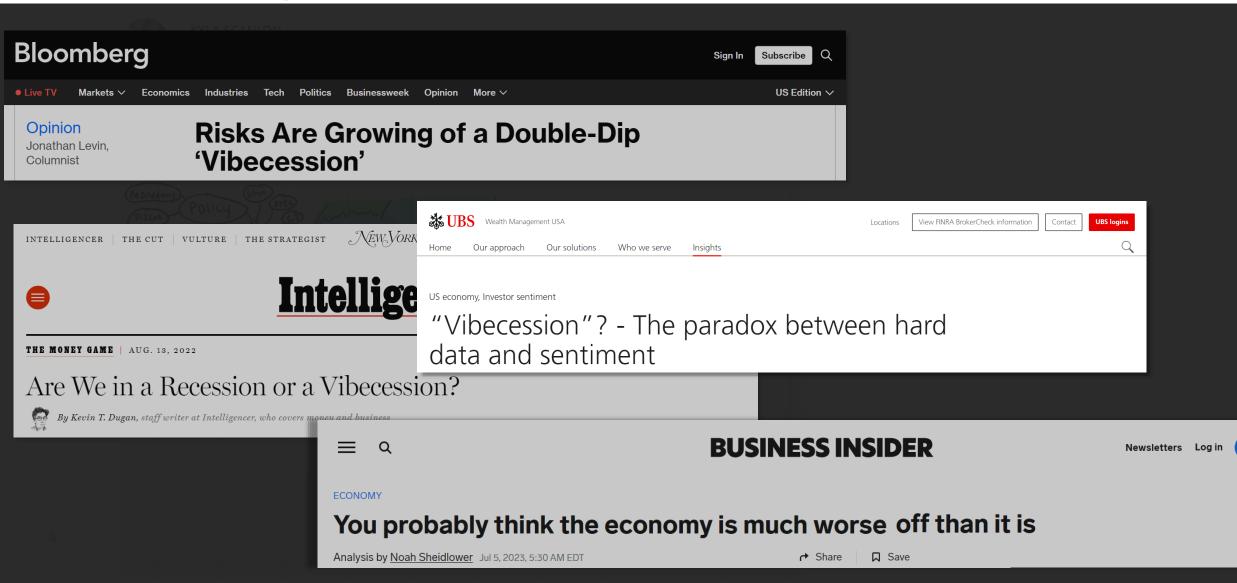
JUN 30, 2022

The Vibecession



The Vibecession: The Self-Fulfilling Prophecy

Are we manifesting a recession?



Perception

Consumer Sentiment

Consumer Sentiment, Index: 100 = 1966

Sources: University of Michigan—Consumer Sentiment Survey; US Bureau of Economic Analysis—Real Personal Consumption

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Reality

Consumer Spending

Real Personal Consumption, Trillions of 2017 \$



Vibecession Over?



JANUARY 25, 2024

AllianceBernstein

The New Hork Times

OPINION PAUL KRUGMAN

Is the Vibecession Finally Coming to

an End?

. New Vork INTELLIGENCER

Bloomberg

Politics Businessw Tech



By Drew Goins

January 23, 2024 at 4:30 p.m. EST

Is the "Vibe-cession" for US **Consumers on Its Way Out?**

The Washington Post Democracy Dies in Darkne

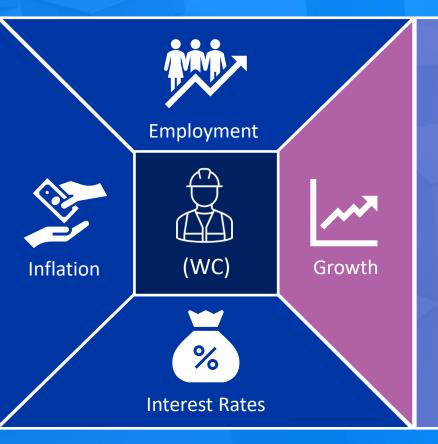
Opinion | The vibecession is over because the economy now slays



We're Finally Shaking Off Those 'Vibecession' Feelings

We can wave goodbye to the gloom that weighed on consumer confidence even when the data pointed to economic strength.

December 27, 2023 at 6:00 AM EST

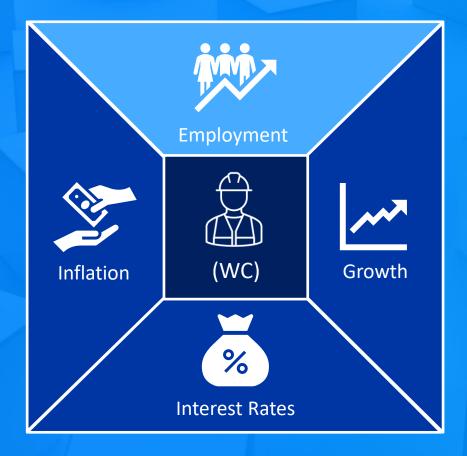


• The economy is in good shape

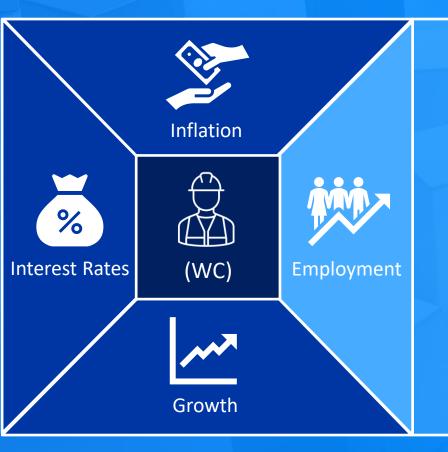
• Sentiment is starting to follow the economy

• Keep an eye out for things going wrong









• Is the labor market slowing or deteriorating?

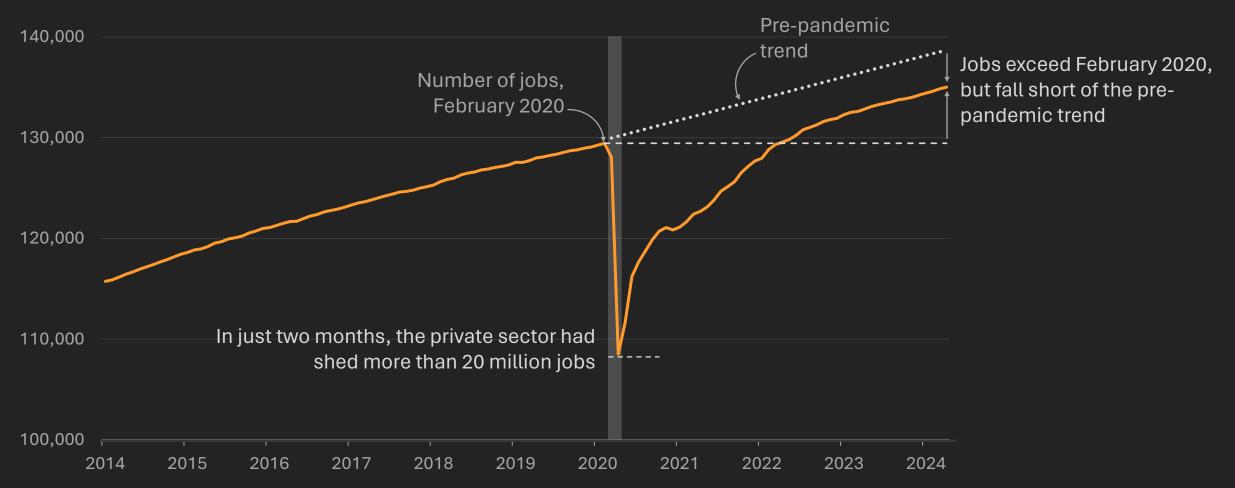
• How do we know?

• What does the future insured worker look like?



Jobs Exceed the Pandemic Start but Not the Pre-Pandemic Trend

Private Industry Employment, Thousands



Pre-pandemic trend is the growth of private industry employment for the years 2015–2019 Source: US Bureau of Labor Statistics



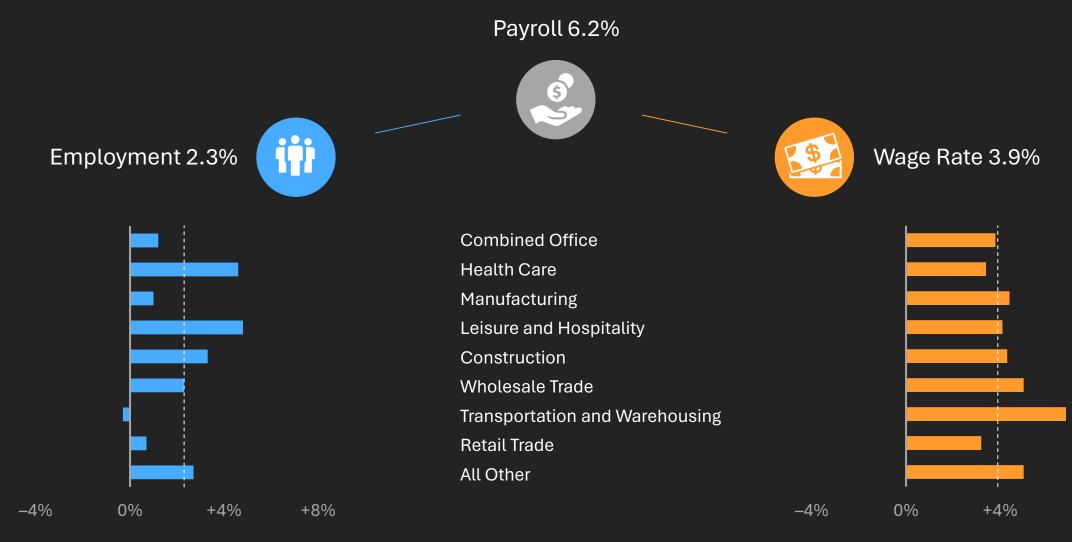
Workers Compensation Is Not the Economy

Sector Distribution—NCCI States, Percent

| | Employment | Payroll | Premium |
|--------------------------------|------------|---------|---------|
| Combined Office | 29.0 | 38.9 | 18.9 |
| Health Care | 16.4 | 10.1 | 6.9 |
| Manufacturing | 9.7 | 16.4 | 16.6 |
| Leisure and Hospitality | 12.5 | 4.7 | 5.4 |
| Construction | 6.0 | 7.5 | 20.1 |
| Wholesale Trade | 4.6 | 4.4 | 5.3 |
| Transportation and Warehousing | 4.9 | 3.5 | 9.3 |
| Retail Trade | 11.6 | 7.7 | 8.5 |
| All Other | 5.3 | 6.7 | 9.0 |

Combined Office is an aggregation of several sectors: Information, Financial Services, Professional and Business Services, and Private Education Market values that may not sum to 100% are due to rounding Sources: NCCI's Statistical Plan data (CY 2022p) and US Bureau of Labor Statistics (US total, CY 2023)

Changes in Payroll by Component—2022 to 2023



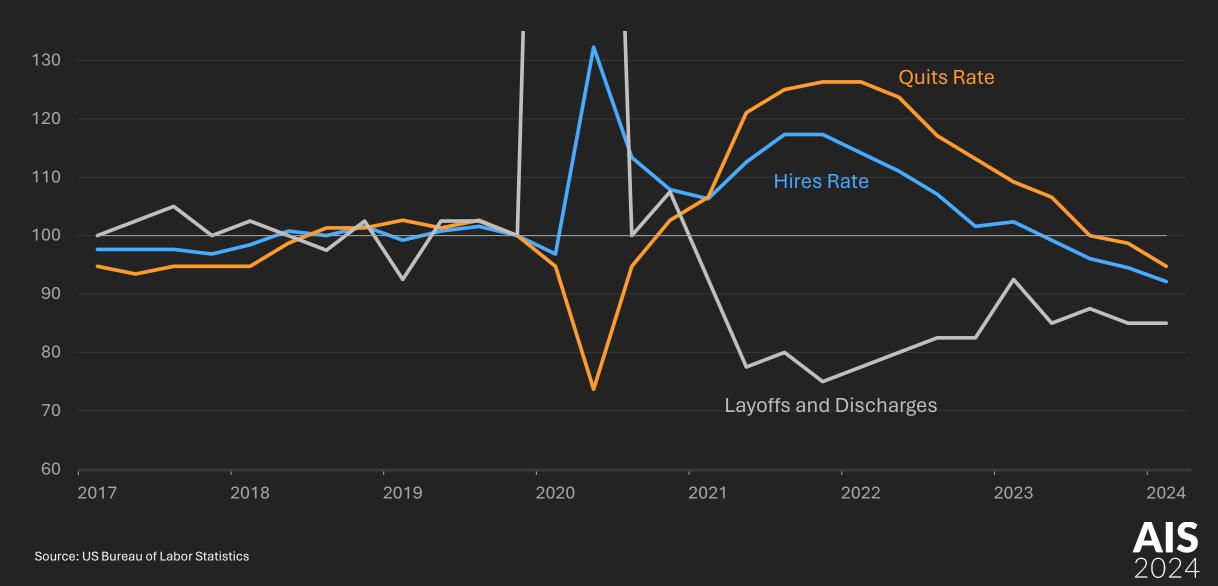


+8%

Sources: US Bureau of Labor Statistics; US Bureau of Economic Analysis; NCCI

From the Great Resignation to Everyone Staying Put

Total Private Industry, Indexed to December 2019



Labor Market Insights now on ncci.com



May 3, 2024

After a string of blockbuster payroll reports, April's net employment growth came in at a solid 175,000 jobs overall, with 167,000 jobs added in the private sector.

As the labor market continues to normalize, we expect to see job numbers come in near this level more frequently as this level is more in line with the pre-pandemic trend.

At the industry level, health care and social assistance was a leader in April, accounting for just over 50% of private sector employment gains. All in all, 10 out of 13 industry groups saw employment gains, with mining and logging, information services, and professional and business services each seeing small declines.

Overall, payroll grew 5.6% over the past 12 months, a solid pace despite some softening in both employment and wage growth.

Wage growth may continue to slow as we have seen hiring and quits rates fully reverse their Great Reshuffle increases, Overall, labor market turnover is now lower than prepandemic levels, and the layoffs rate remains near record lows.

Bottom line: April's employment situation looked normal. While it may be disappointing relative to the strong reports we have seen over the past few years, we expect to see more labor reports that look like this as we go forward.

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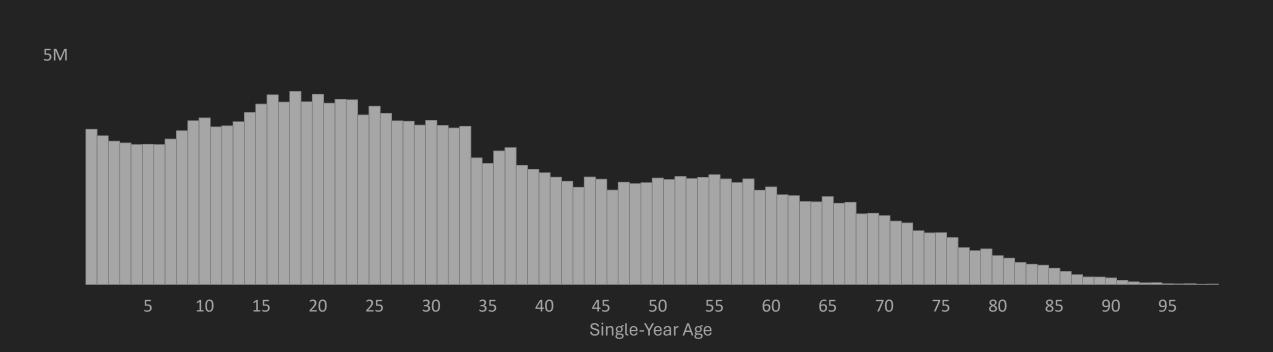


Who Is Being Insured?

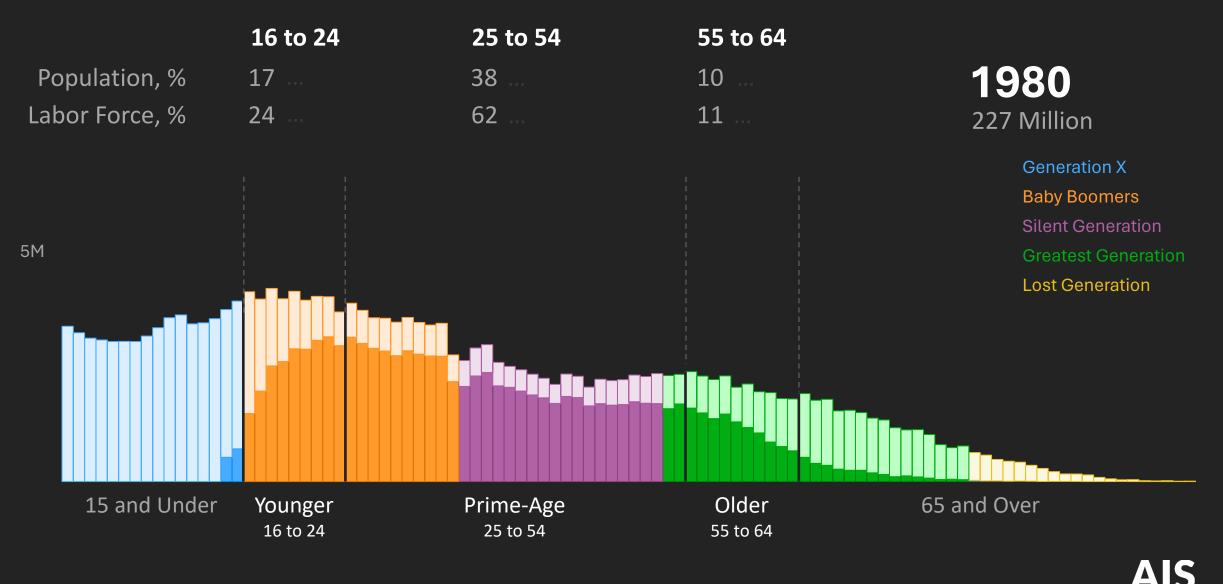
US Population



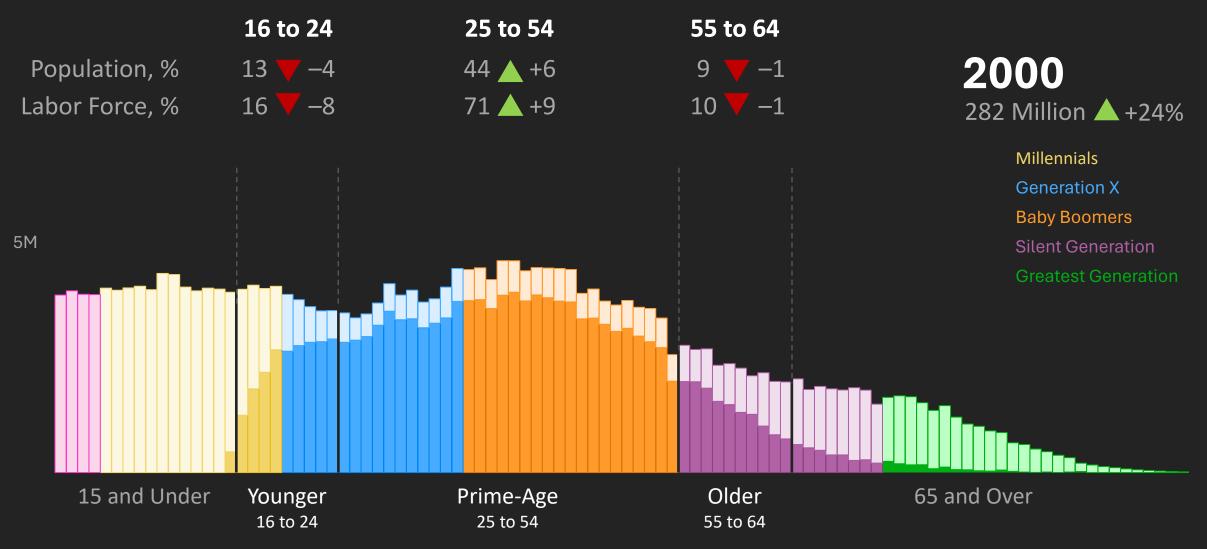
AIS 2024



Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI

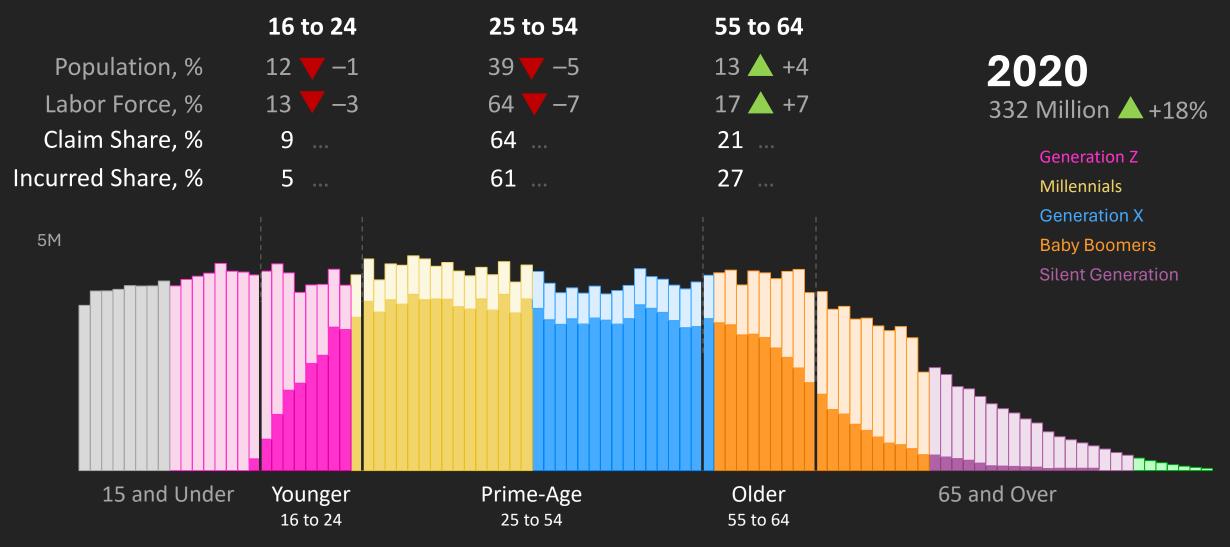


Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI

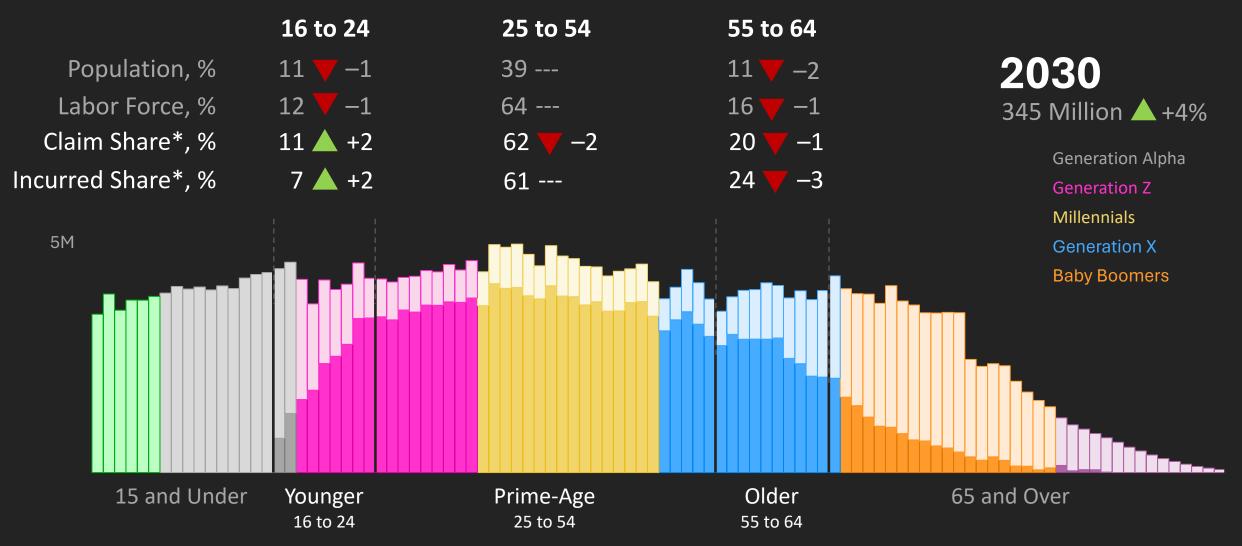




Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI

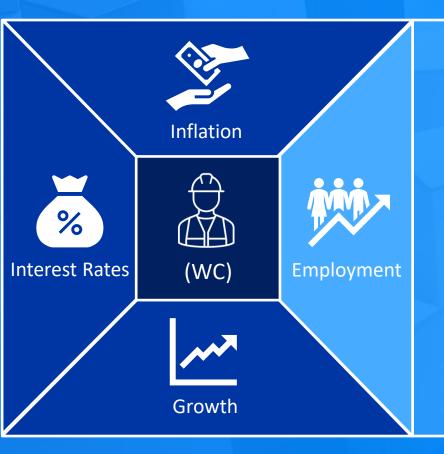


Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI's Claims Data Dashboard



* Claim and incurred shares are preliminary for CY 2023

Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI's Claims Data Dashboard

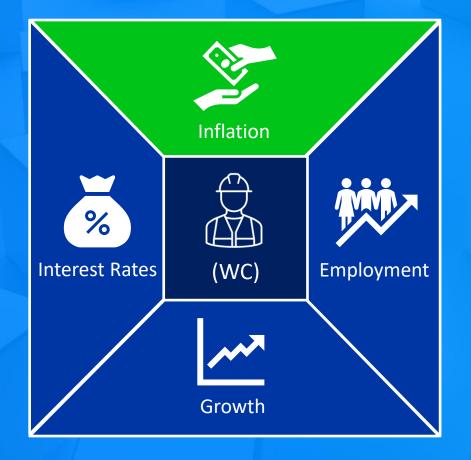


• Employment growth is normalizing not deteriorating

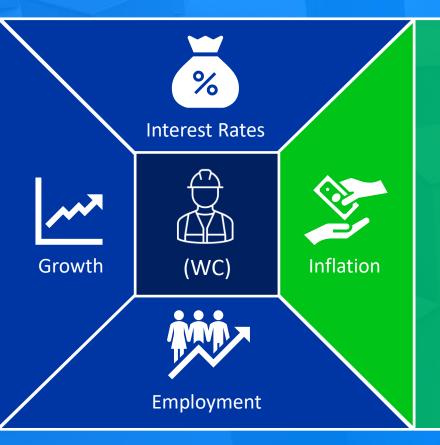
• Labor market churn has slowed materially

• The population continues to trend older







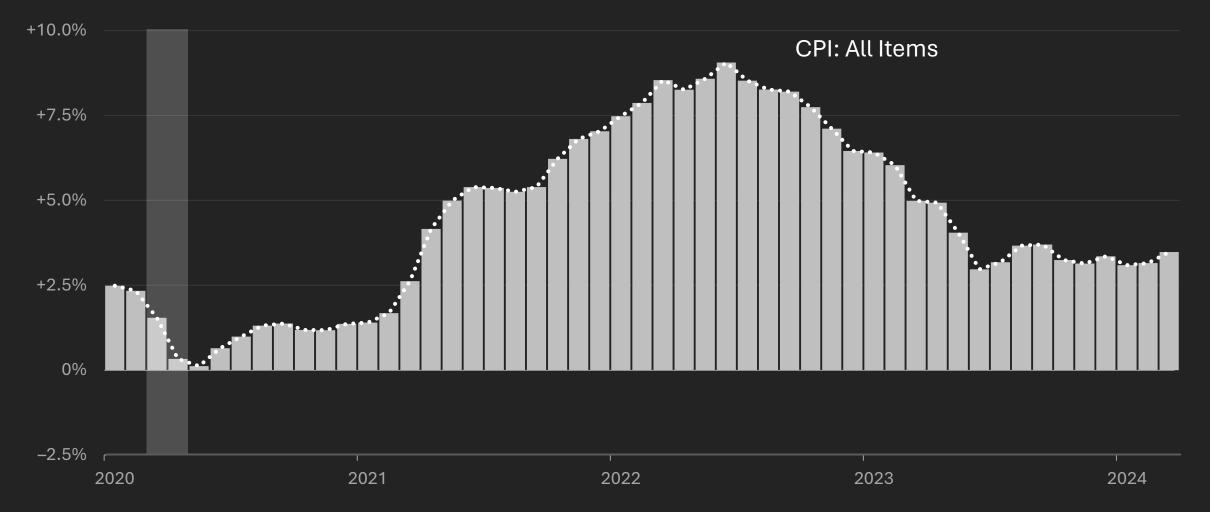


- Why is everything still so expensive?
- Highest inflation in 40 years, surely it must have impacted workers compensation?
- I'm worried about medical inflation. What's the best way to follow it?



Inflation Slowed in 2023 Following ~40-Year High

Year-Over-Year % Change

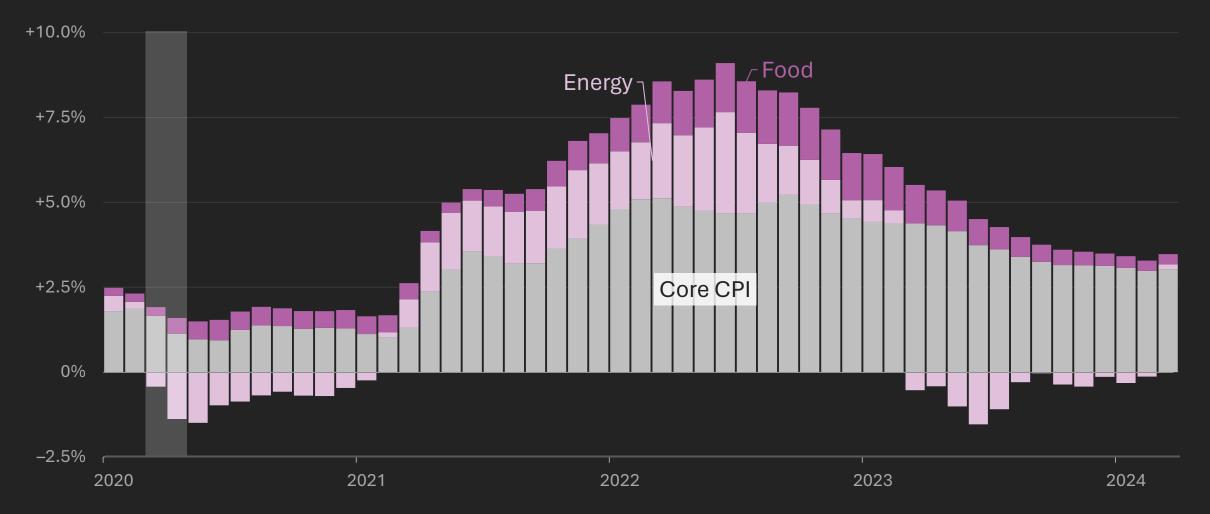




Source: US Bureau of Labor Statistics

Inflation Slowed in 2023 Following ~40-Year High

Year-Over-Year % Change

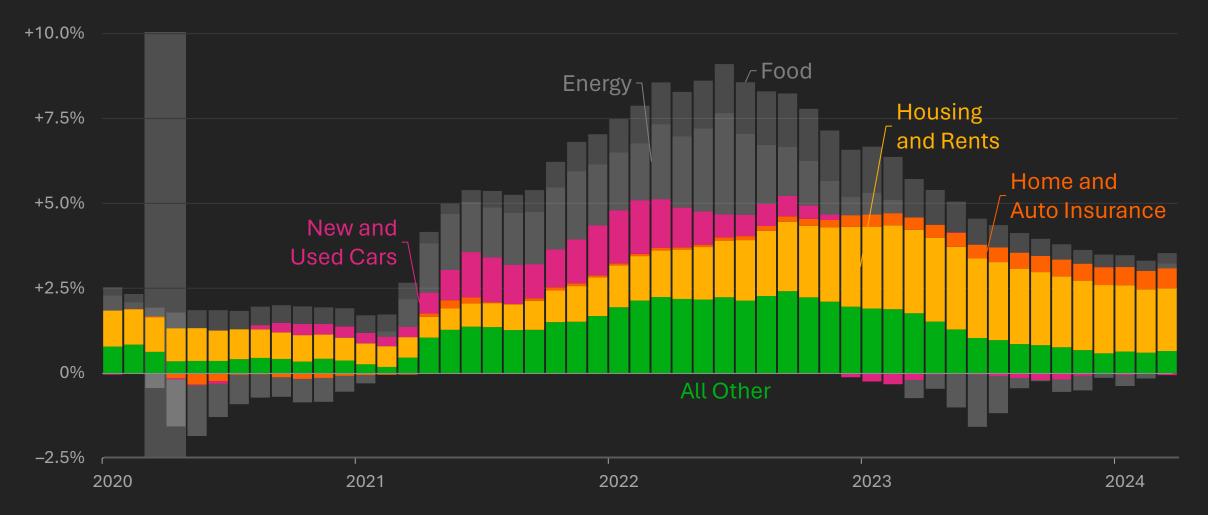




Source: US Bureau of Labor Statistics

Core Inflation Has Been More Stubborn

Contributions to Year-Over-Year % Change

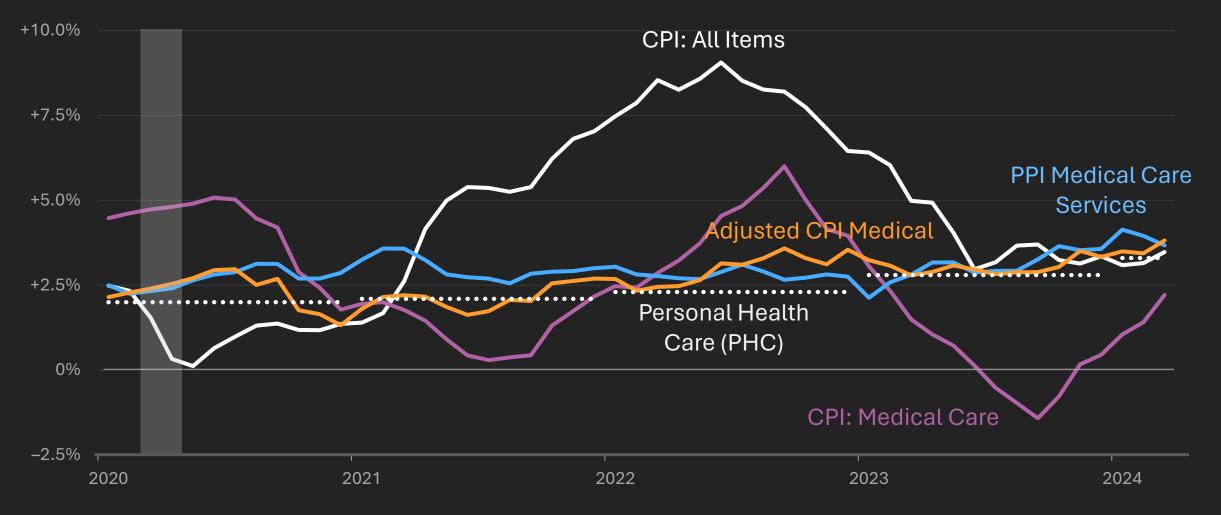




Source: US Bureau of Labor Statistics

What About Medical Inflation?

Year-Over-Year % Change

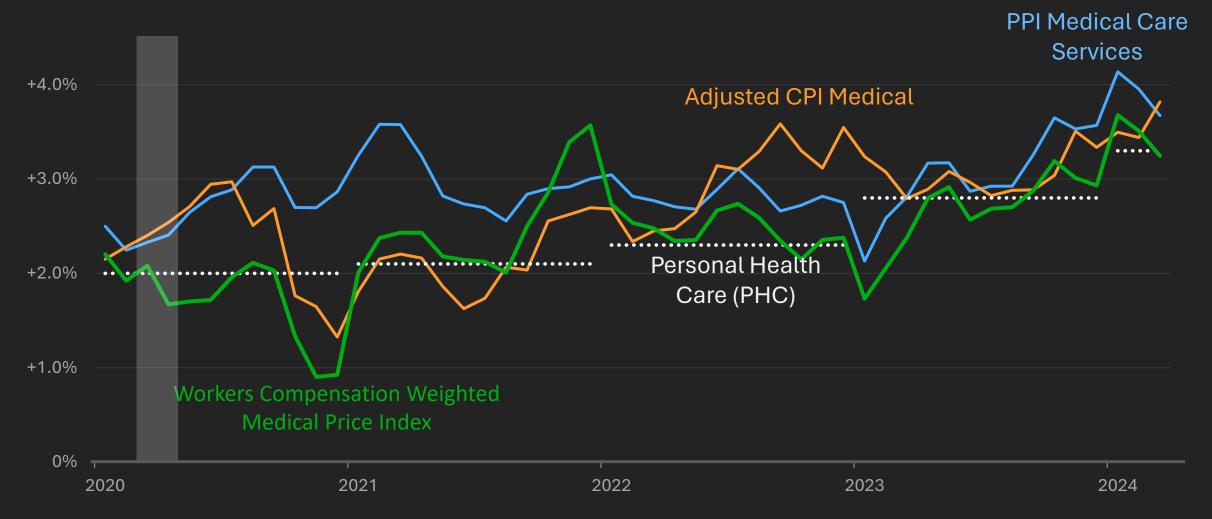


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Sources: US Bureau of Labor Statistics; Centers for Medicare & Medicaid Services

What About Medical Inflation?

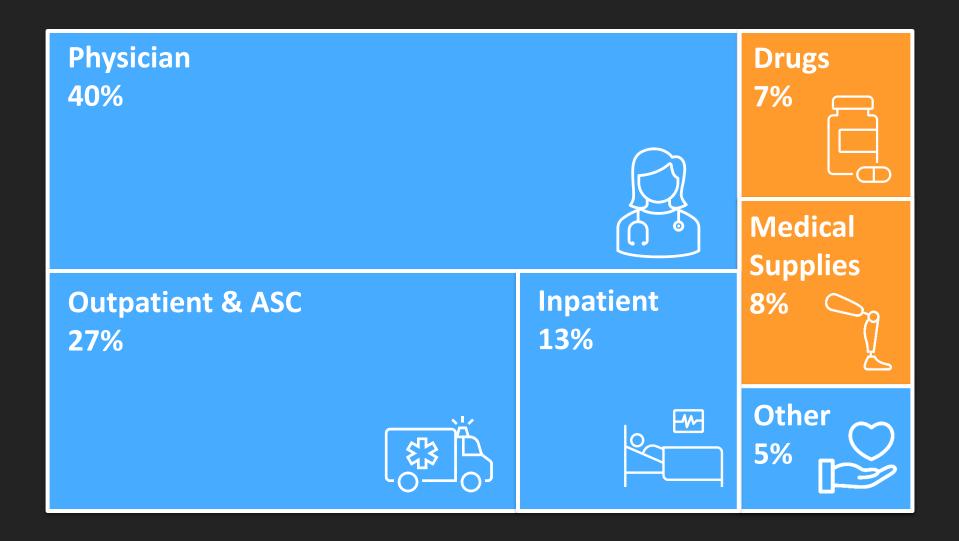
Year-Over-Year % Change





Sources: US Bureau of Labor Statistics; Centers for Medicare & Medicaid Services

Medical Cost Distribution—Service Year 2022

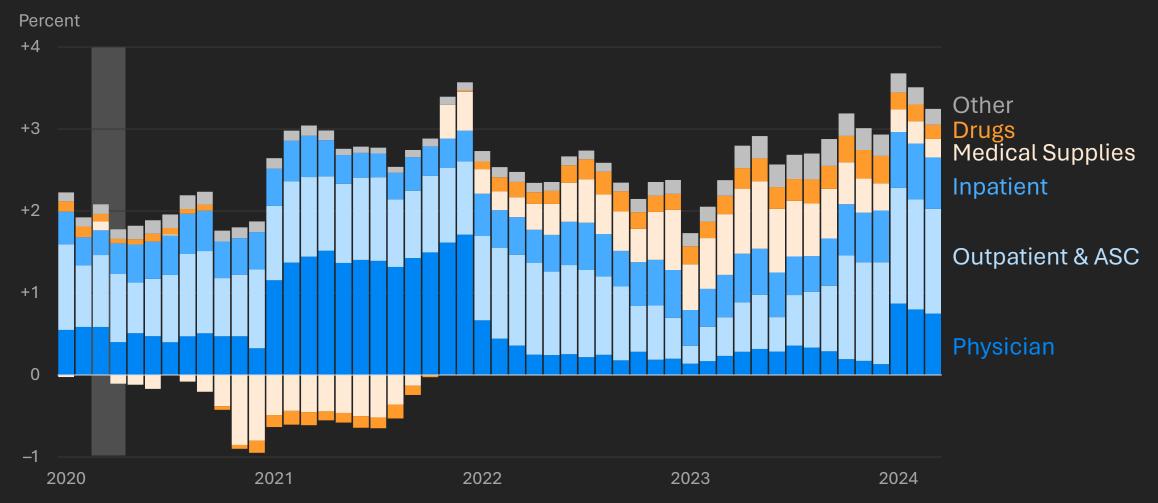


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Source: NCCI's Medical Call data

Composition of Changes to the WCWMI

Contributions to Year-Over-Year Change

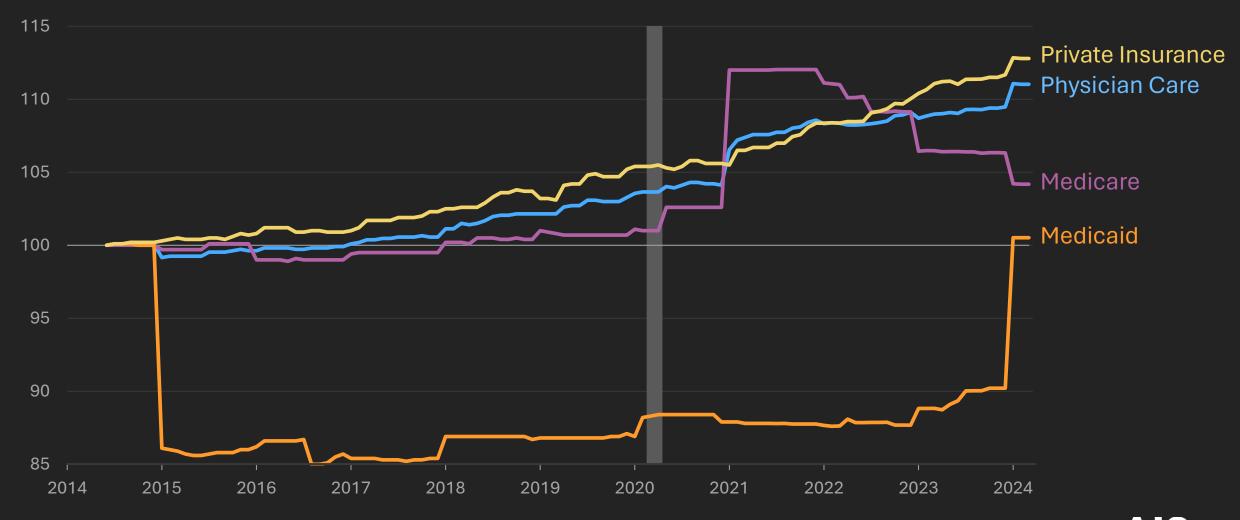


Other is represented by long-term care (PPI Home Health and PPI Nursing Home Care) Sources: US Bureau of Labor Statistics and NCCI's Medical Call data



Physician Care Detail (PPI) 40% of Spend

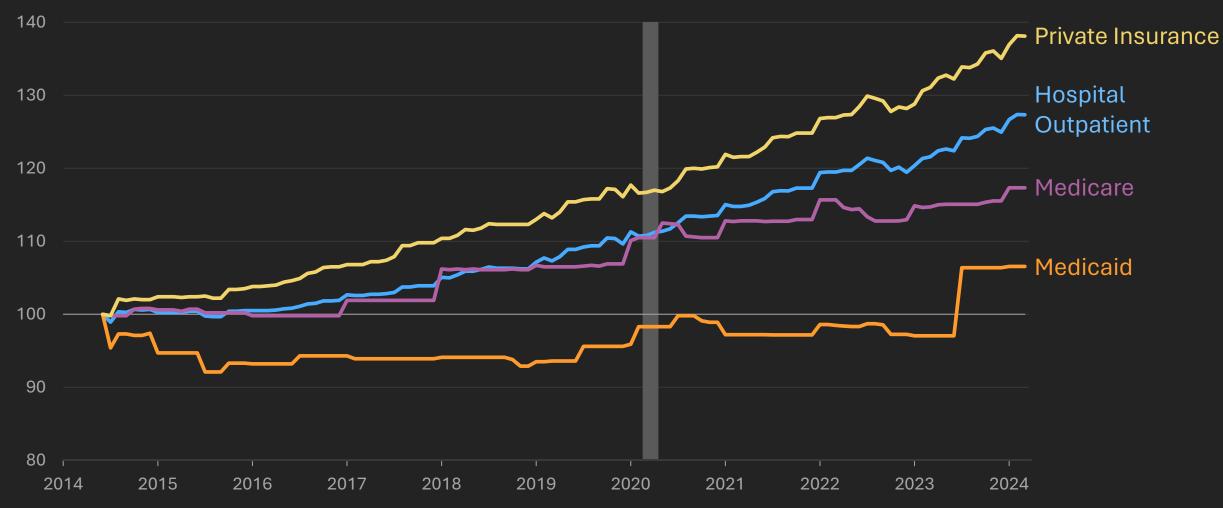
100 = June 2014



Components of Physician Care are indexed to June 2014 = 100 Source: US Bureau of Labor Statistics **AIS** 2024

Hospital Outpatient Care (PPI) 27% of spend

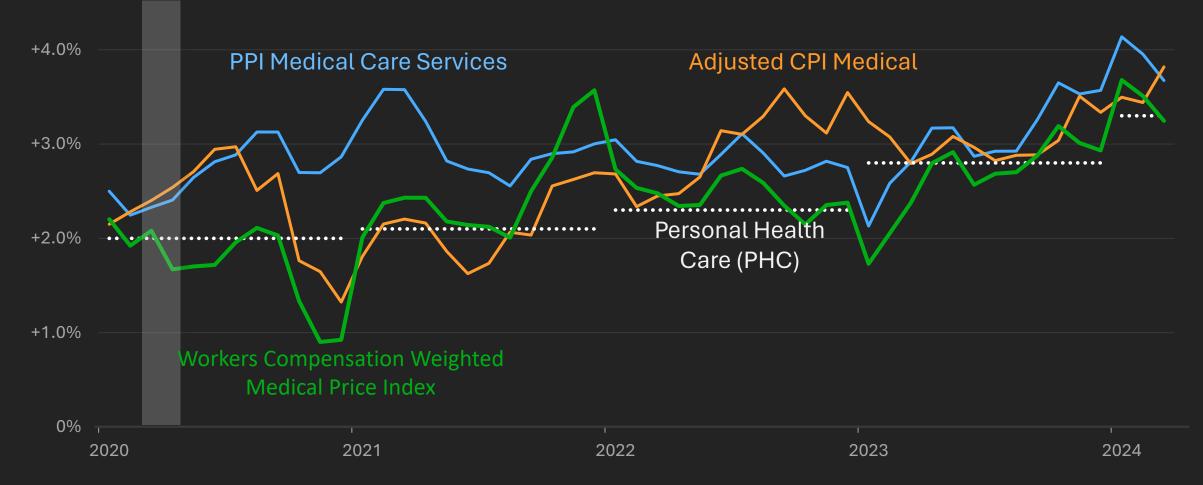
100 = June 2014



Components of Hospital Outpatient Care are indexed to June 2014 = 100 Source: US Bureau of Labor Statistics **AIS** 2024

We Watch Everything

Year-Over-Year % Change





Sources: US Bureau of Labor Statistics; Centers for Medicare & Medicaid Services

Medical Inflation Insights now on ncci.com

NCCI MEDICAL INFLATION INSIGHTS



*Other is represented as long-term care (PPI Home and Hospice Care and PPI Nursing Home Care)

Sources: US Bureau of Labor Statistics and NCCI's Medical Data Call; 1-, 3-, and 5-year averages are rolling 12-, 36-, and 60-month averages from the latest data point

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The WCWMI saw its pace of price growth increase in January due to price increases in physician services and facilities taking effect on the first of the year. Following those increases, price growth cooled in February and March across every subcategory, bringing the overall index back to growing near its recent trend of 3%.

Physician care prices increased by ~1.5% in Q1. These price changes included a 1% increase for private insurance patients, a 2% decline in prices for Medicare patients, and an 11.4% increase in prices for Medicaid patients.

> Fee schedules will likely insulate workers compensation from some of these price increase for physicians led by the change in Medicaid.

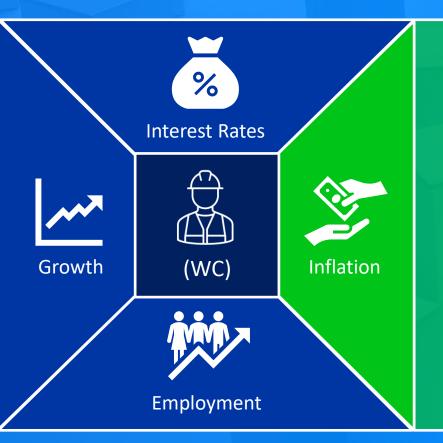
Facilities saw continued firm price growth in Q1 and remain the largest contributor to the WCWMI overall, accounting for roughly60% of price increases over the last 12 months.

Hospital outpatient prices increased by 1.6% in Q1 for Medicare patients and 1.5% for private insurance patients with most of the increases coming in January, before price growth softened in February and March.

Hospital inpatient price growth was more subdued, increasing 1.2% in Q1 for private insurance patients while prices for Medicare patients changed little.

AIS 2024

(NECI,

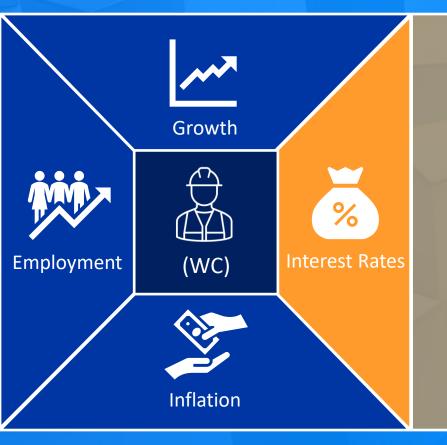


- Inflation has slowed but is still too high
- Medical inflation trends have been different
- Medical Inflation Insights now on ncci.com







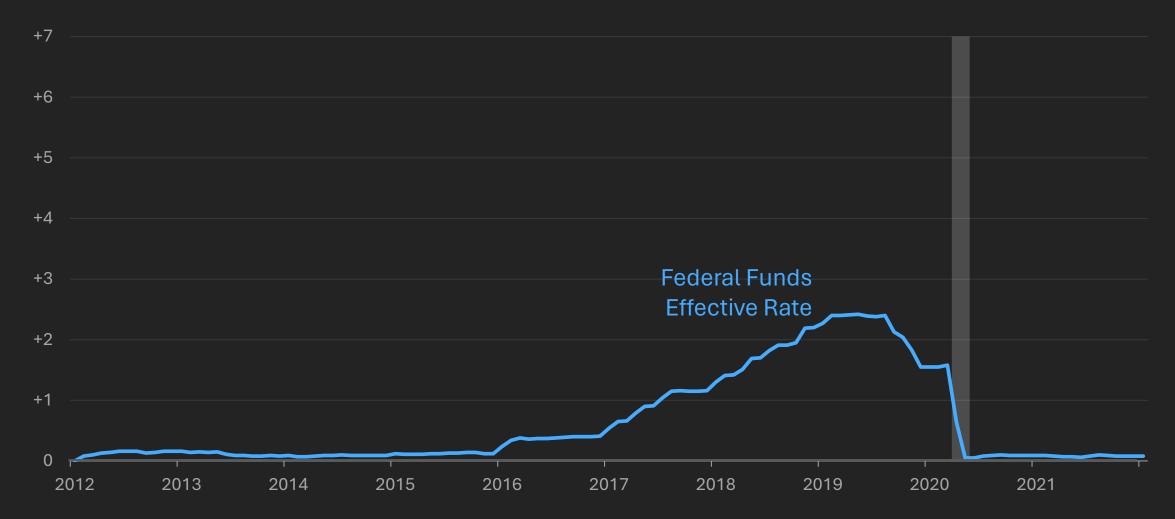


- Interest rates are higher, but will they stay high and for how long?
- But you just told us that the economy is in good shape and that inflation is still above the Fed's target ...
- Despite that, interest rates may still be heading lower.



The Zero Interest Rate Policy (ZIRP) Era

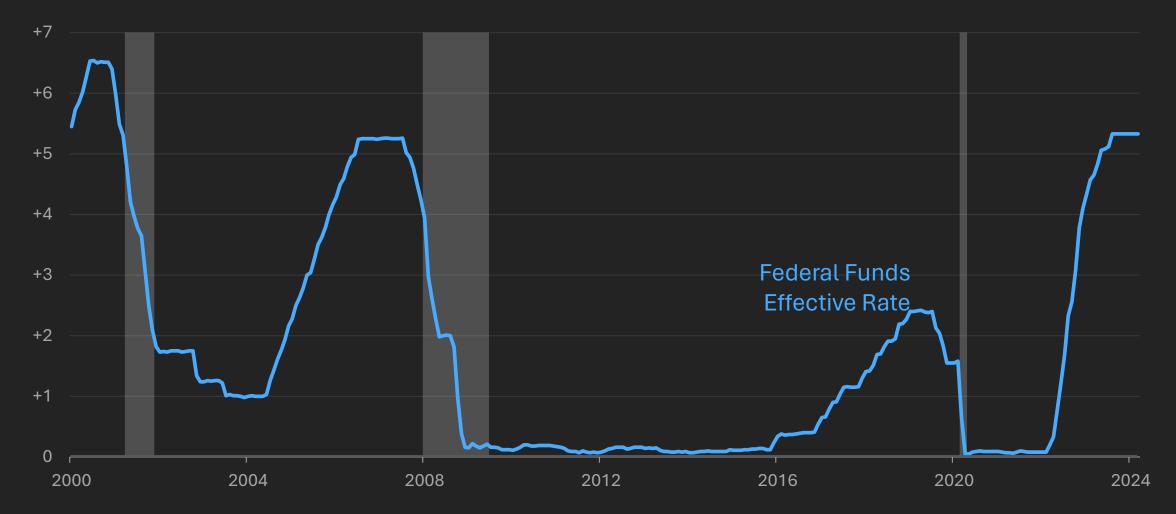
Effective Federal Funds Rate, %



Source: Board of Governors of the Federal Reserve System

ZIRP Is Dead, Long Live ZIRP

Effective Federal Funds Rate, %

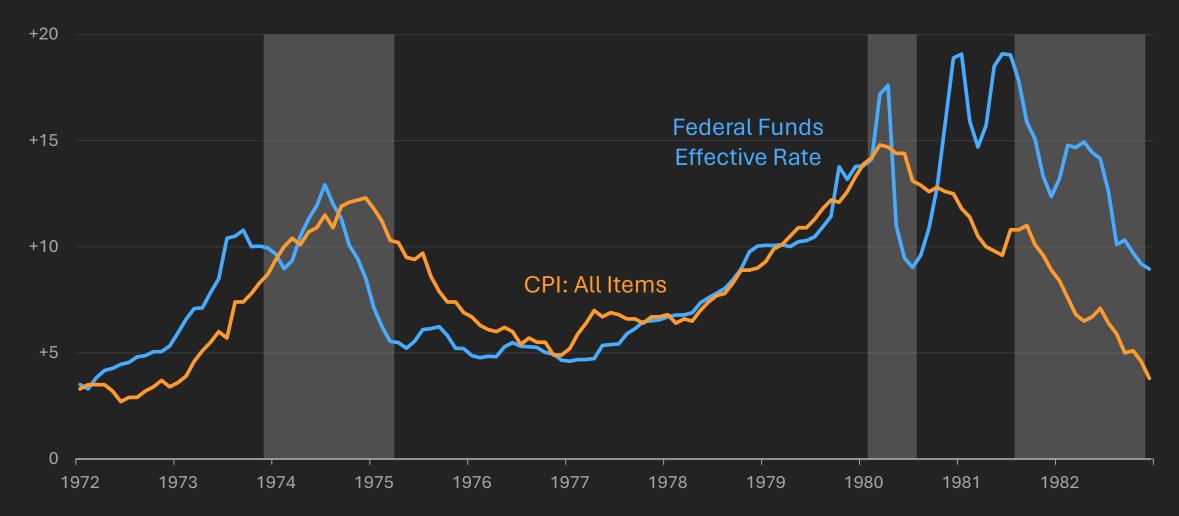




Source: Board of Governors of the Federal Reserve System

Where Do We Go Next? Case for Higher Rates

Year-Over-Year % Change



Sources: Board of Governors of the Federal Reserve System; US Bureau of Labor Statistics



Where Do We Go Next? Case for Lower Rates

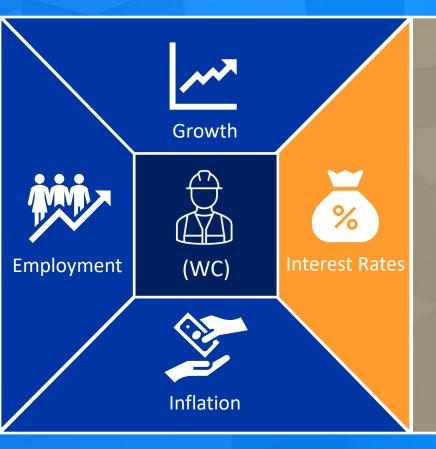
FOMC Participants' Assessments of Appropriate Monetary Policy

6.0 5.5 \bullet \bullet 5.0 $\bullet \bullet \bullet \bullet \bullet$ 4.5 4.0 $\bullet \bullet \bullet \bullet \bullet \bullet$ $\bullet \bullet \bullet \bullet \bullet$ 3.5 \bullet \bullet \bullet 3.0 $\bullet \bullet \bullet \bullet \bullet$ 2.5 Ŏ 2.0 2024 2025 2026 Longer run



Percent

Source: Federal Open Market Committee



• Interest rates are up, investment income is back

- The economy will dictate how quickly they fall
- No, this is not the 1970s all over again







State of the Economy Insights



Growth

The economy is in good shape

3.1% Real GDP Growth in 2023 2024 off to a good start



Employment

The labor market remains healthy

Over 3 million new jobs added in 2023, 2024 on pace for the same



Inflation is down but not out

CPI down from 9% peak but stuck near 3.5% in early 2024



Interest rates are likely staying higher for longer

Fed is still projecting interest rate cuts in 2024 but economy is giving them pause

