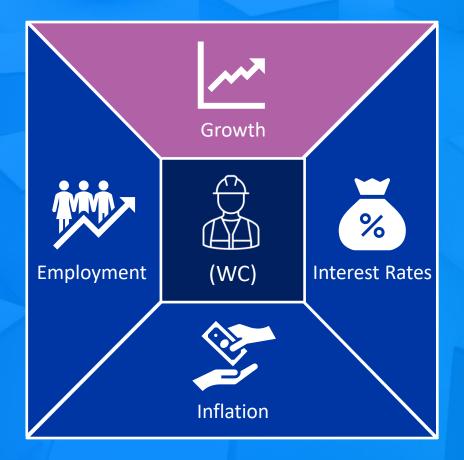
State of the Economy and Impact on Workers Compensation

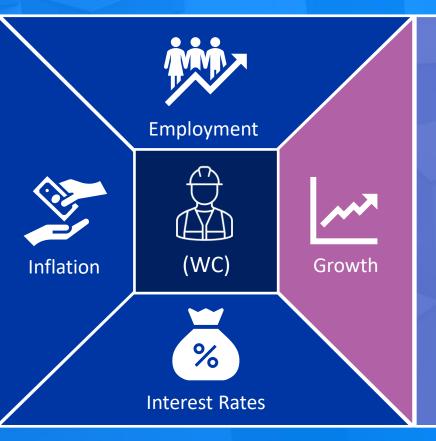
**Stephen Cooper** Executive Director and Senior Economist NCCI









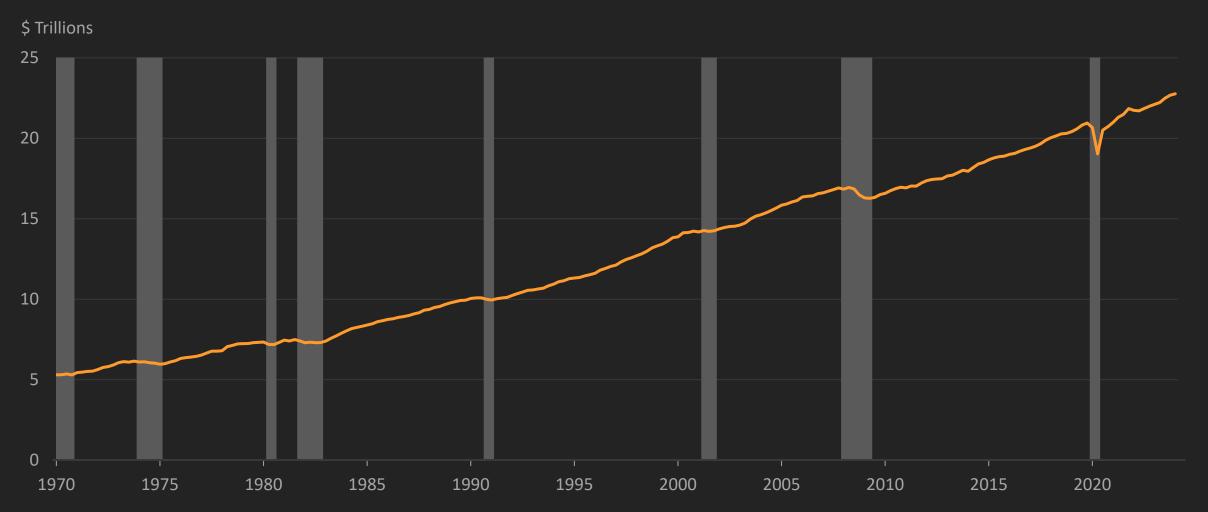


- Is the economy good or bad? Is it growing or shrinking?
- I don't believe you, the economy feels bad.
- If we feel bad enough about the economy, will it turn bad?



# The Economy's Natural State Is to Grow

Real GDP

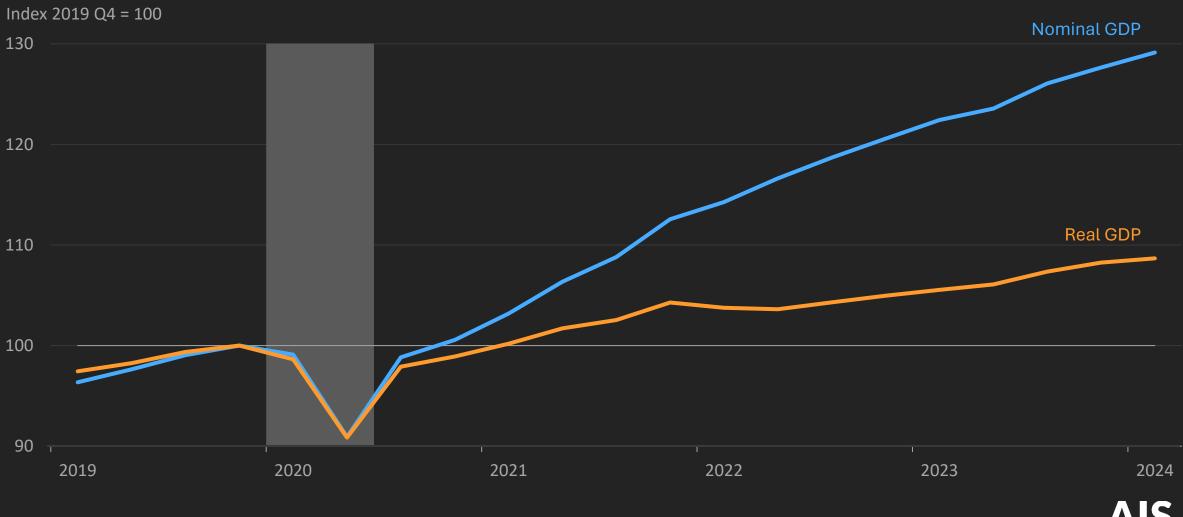


Source: US Bureau of Economic Analysis

**AIS** 2024

### 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

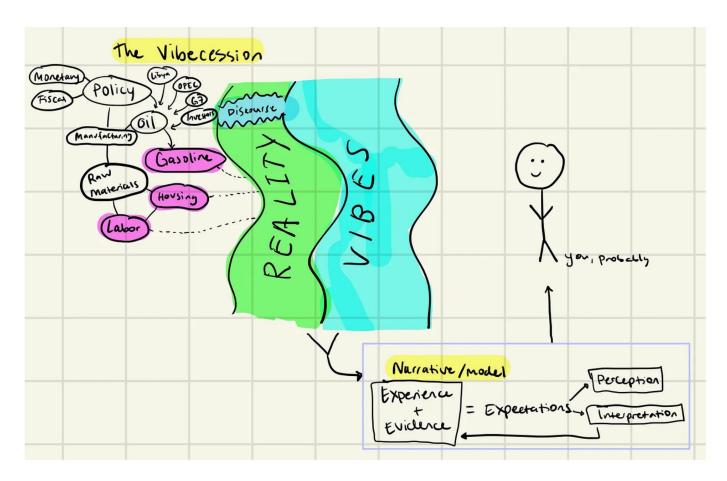
Are we manifesting a recession?



KYLA SCANLON

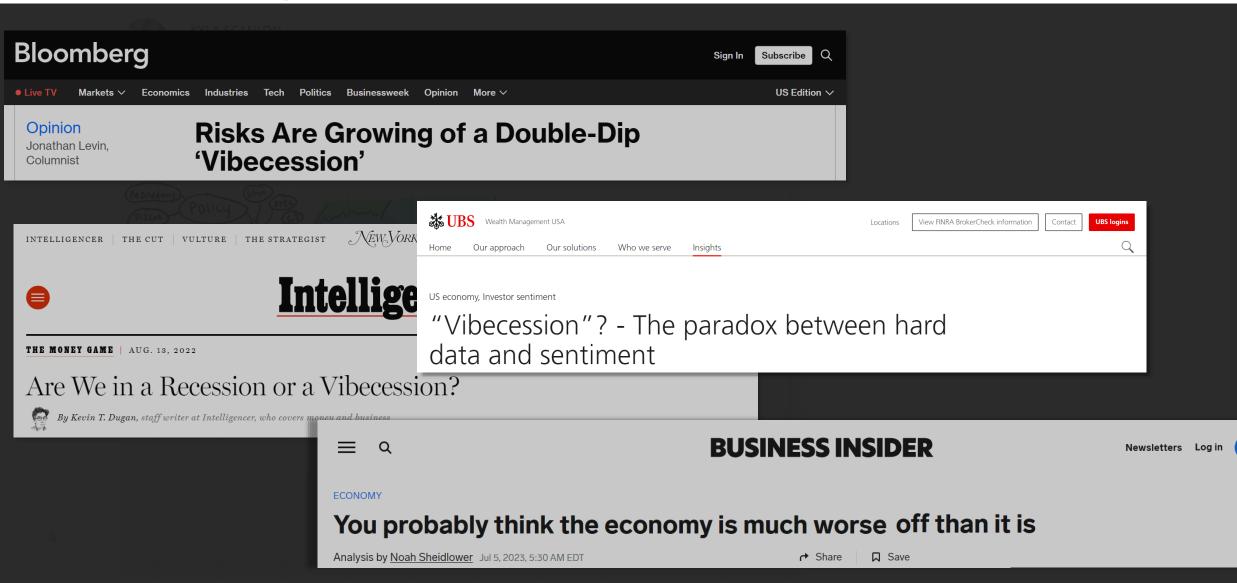
JUN 30, 2022

#### **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

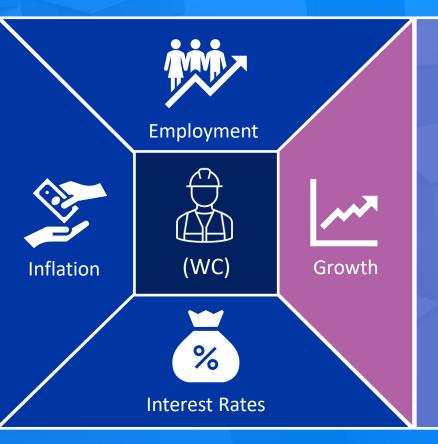
## **Opinion** | The vibecession is over because the economy now slays



### 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

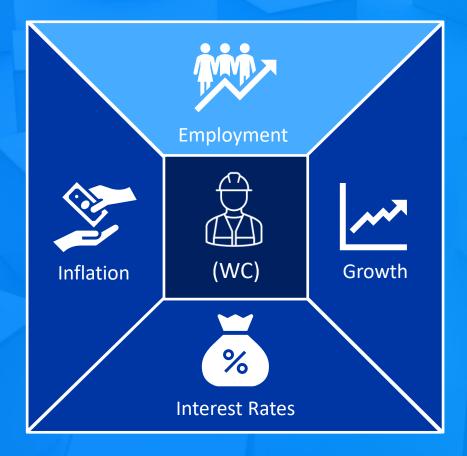


#### • The economy is in good shape

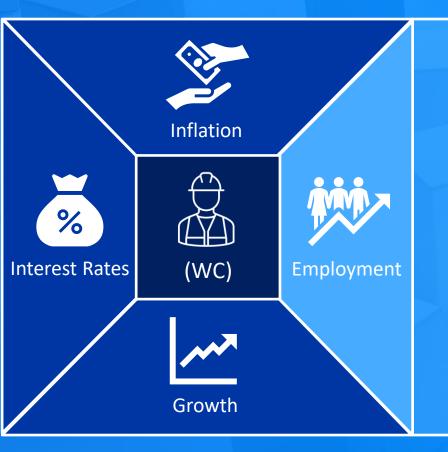
• Sentiment is starting to follow the economy

• Keep an eye out for things going wrong









#### • Is the labor market slowing or deteriorating?

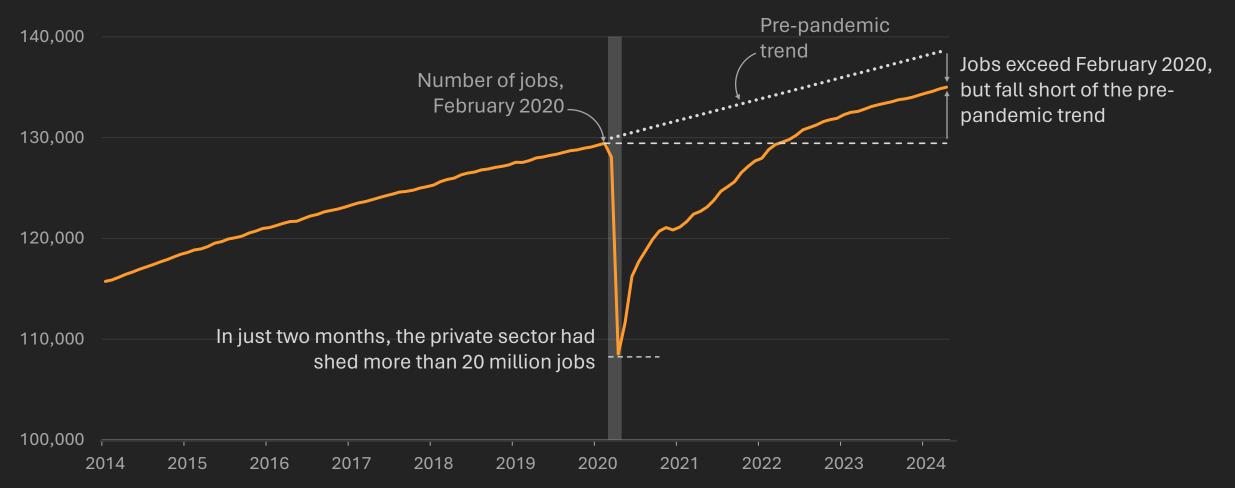
• How do we know?

• 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



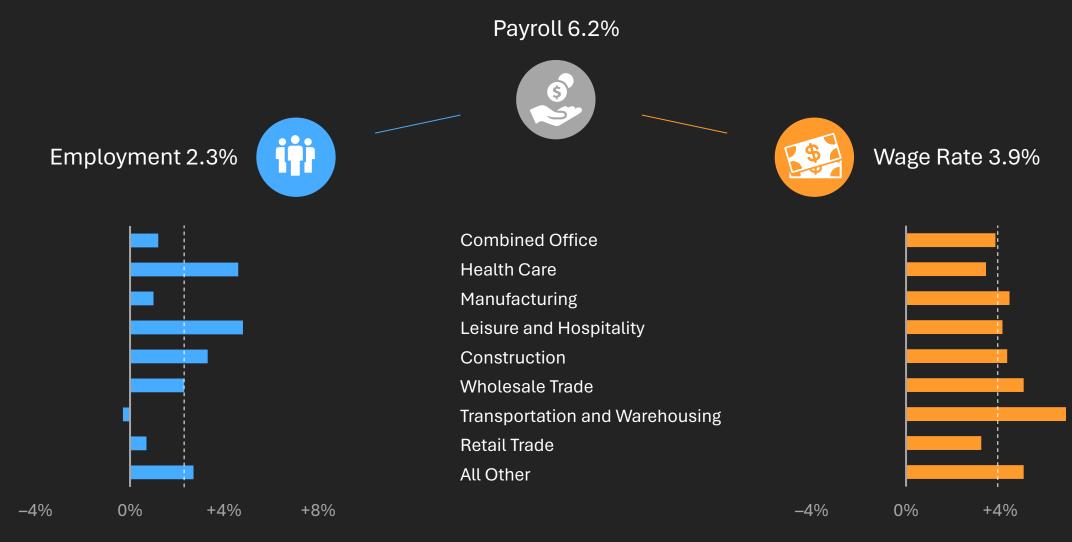
### Workers Compensation Is Not the Economy

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



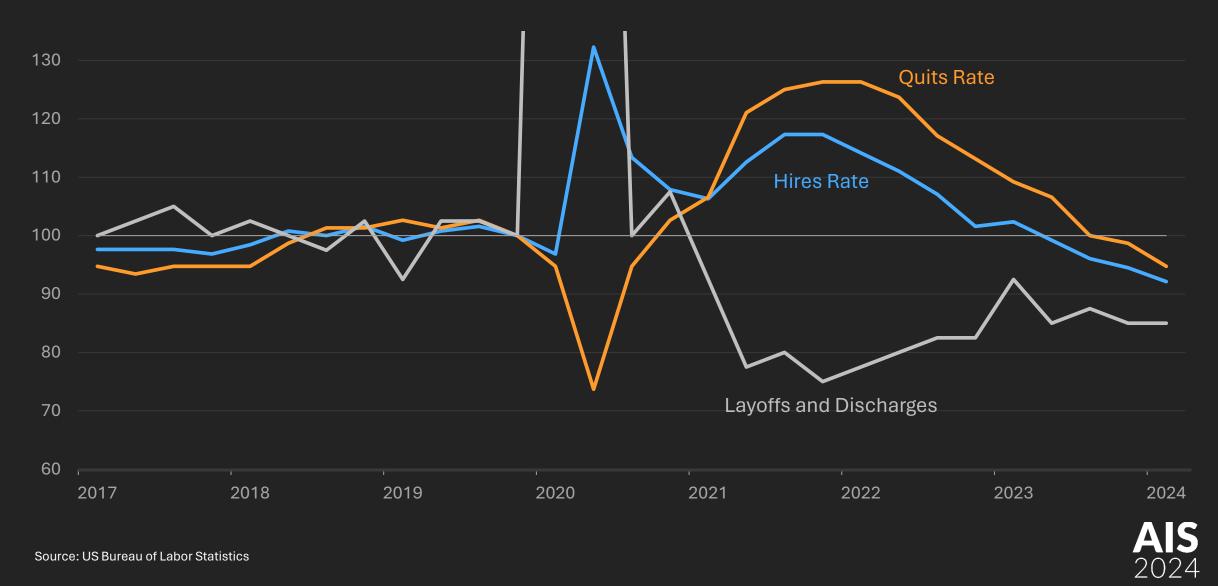


+8%

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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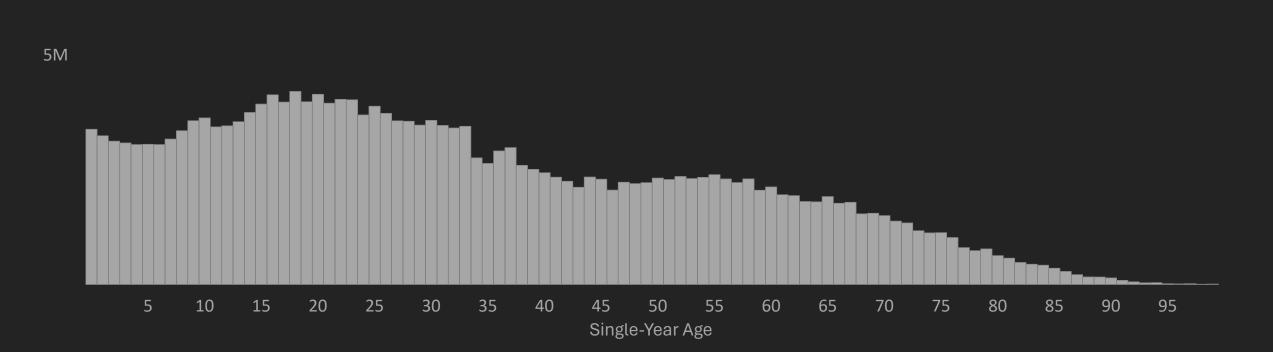


### Who Is Being Insured?

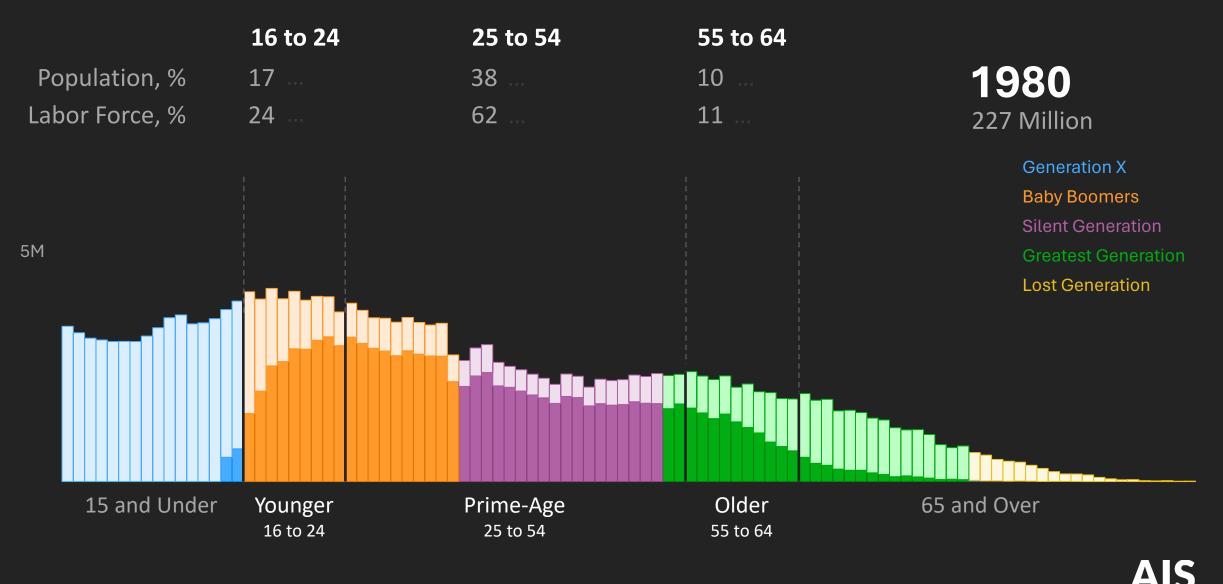
**US** Population



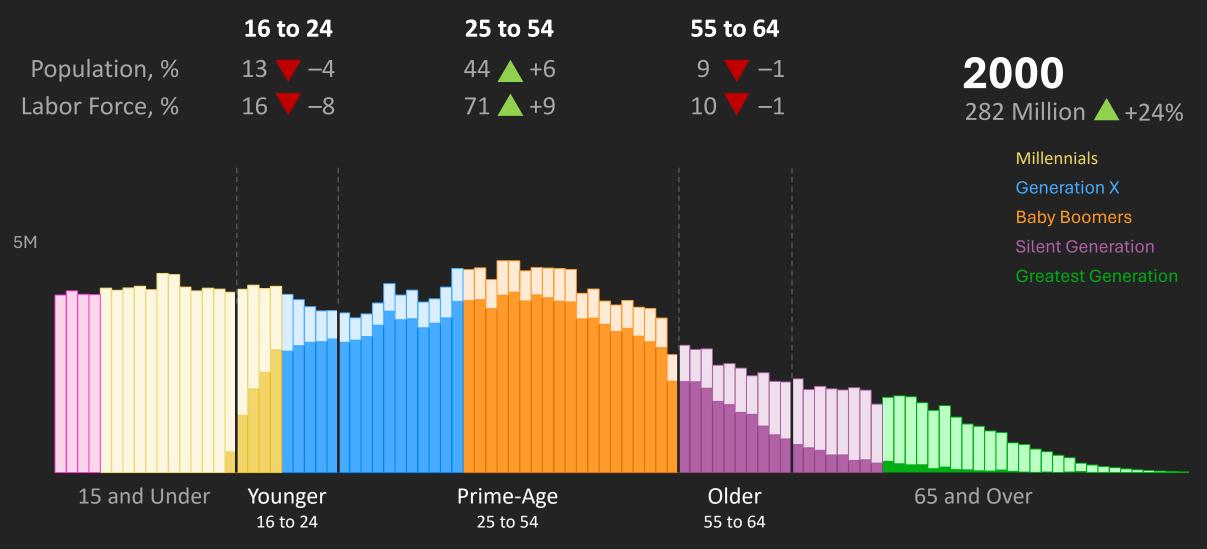
**AIS** 2024



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

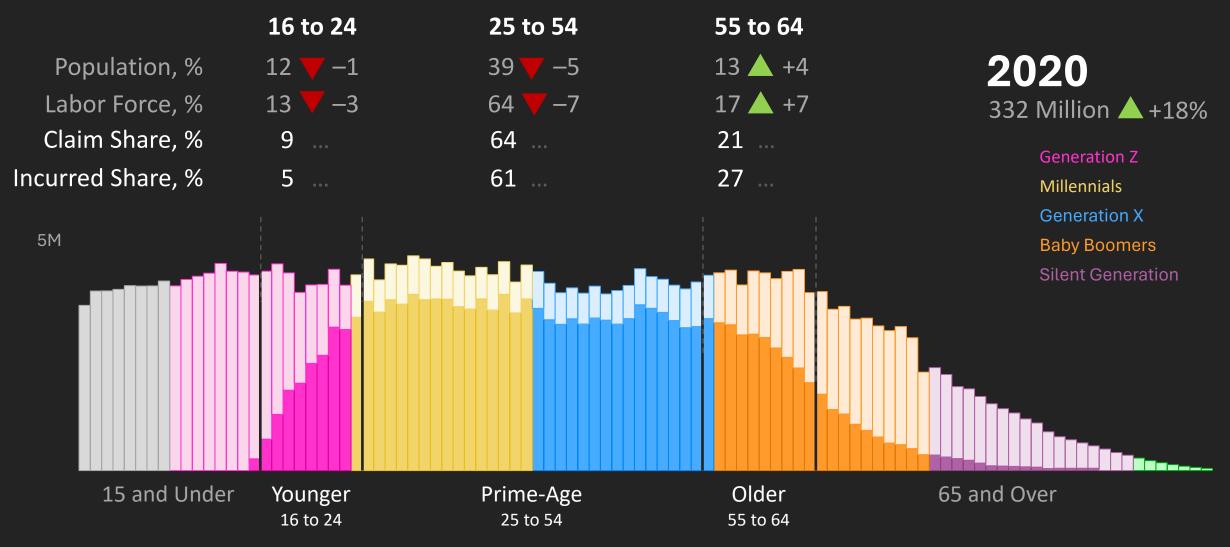


Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI

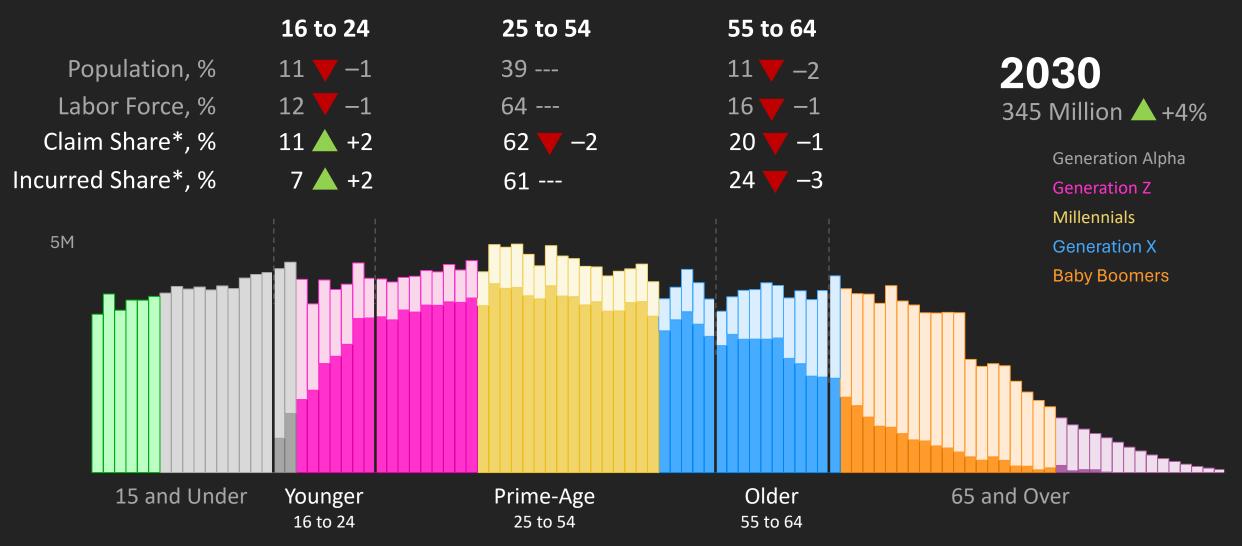




Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI

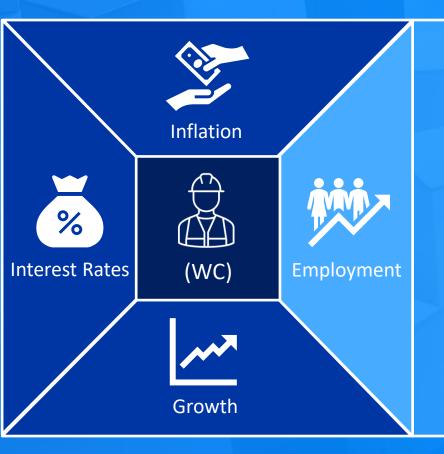


Sources: Integrated Public Use Microdata Series—Current Population Survey, University of Minnesota; NCCI's Claims Data Dashboard



\* 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

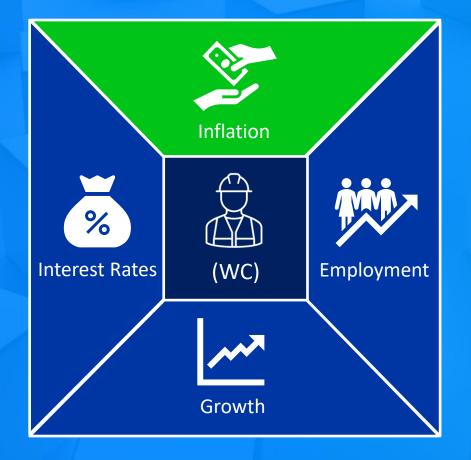


• Employment growth is normalizing not deteriorating

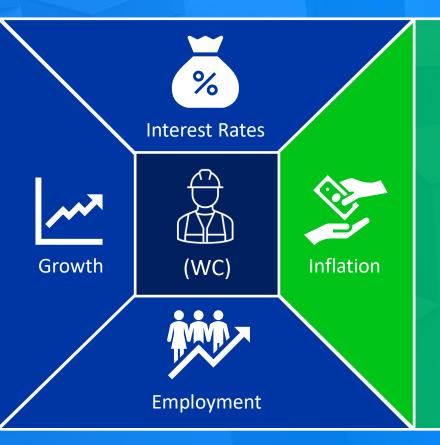
• Labor market churn has slowed materially

• The population continues to trend older







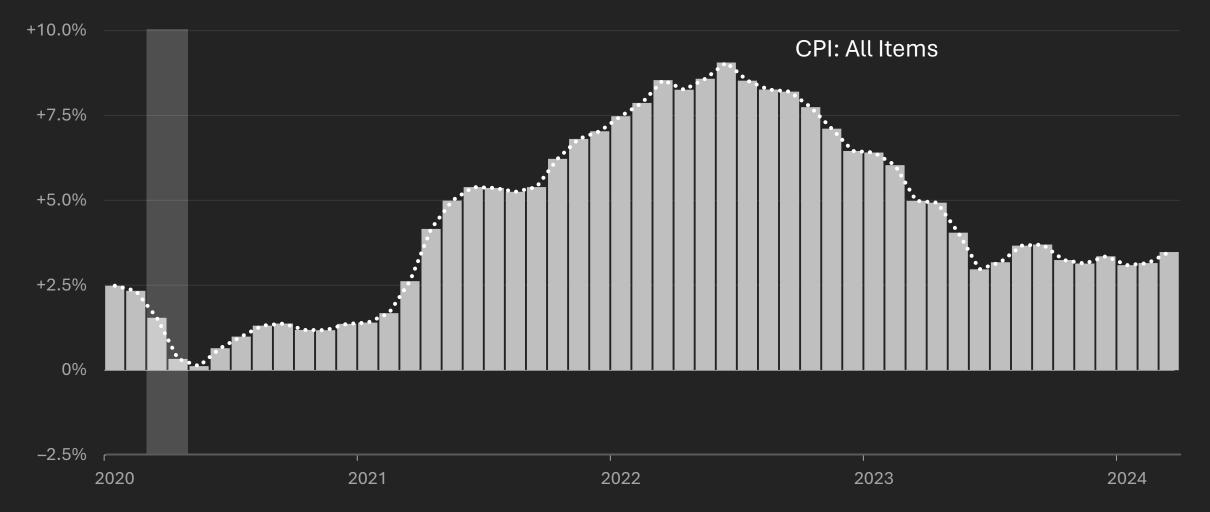


- Why is everything still so expensive?
- Highest inflation in 40 years, surely it must have impacted workers compensation?
- I'm worried about medical inflation. What's the best way to follow it?



### Inflation Slowed in 2023 Following ~40-Year High

#### Year-Over-Year % Change

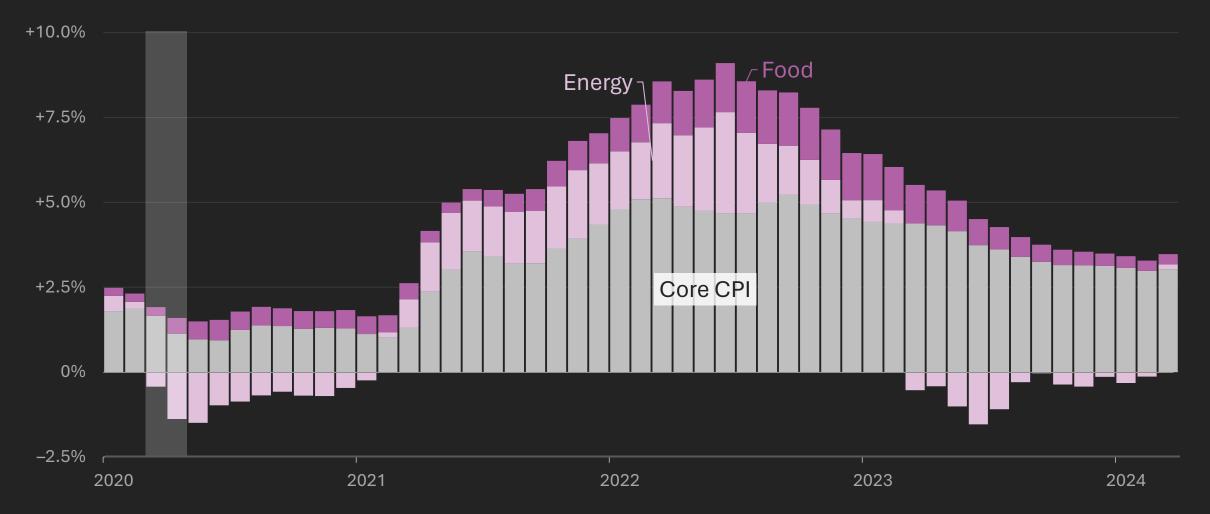




Source: US Bureau of Labor Statistics

### Inflation Slowed in 2023 Following ~40-Year High

#### Year-Over-Year % Change

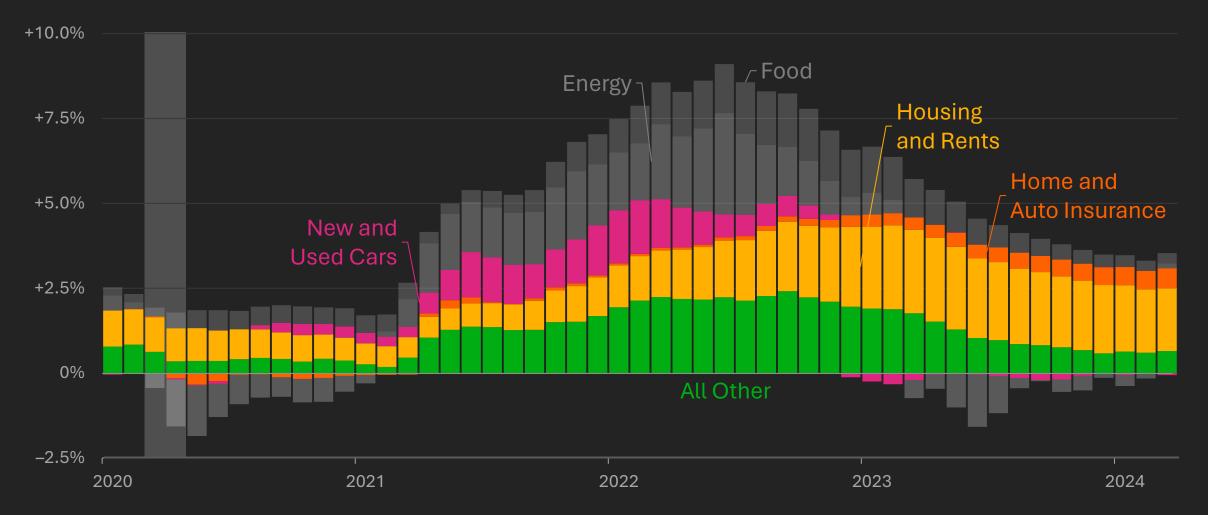




Source: US Bureau of Labor Statistics

### Core Inflation Has Been More Stubborn

#### Contributions to Year-Over-Year % Change

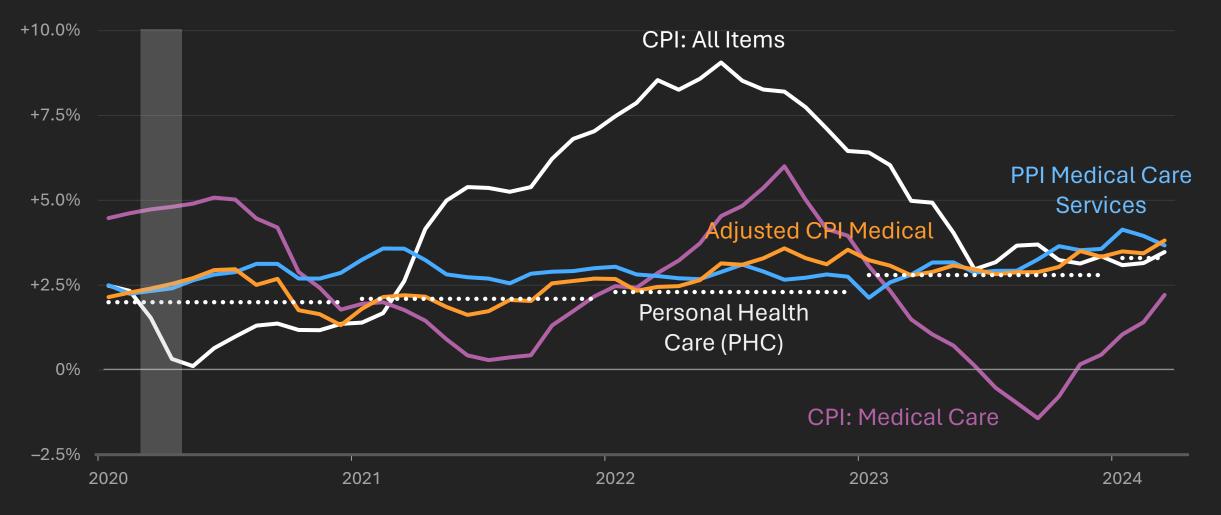




Source: US Bureau of Labor Statistics

### What About Medical Inflation?

#### Year-Over-Year % Change

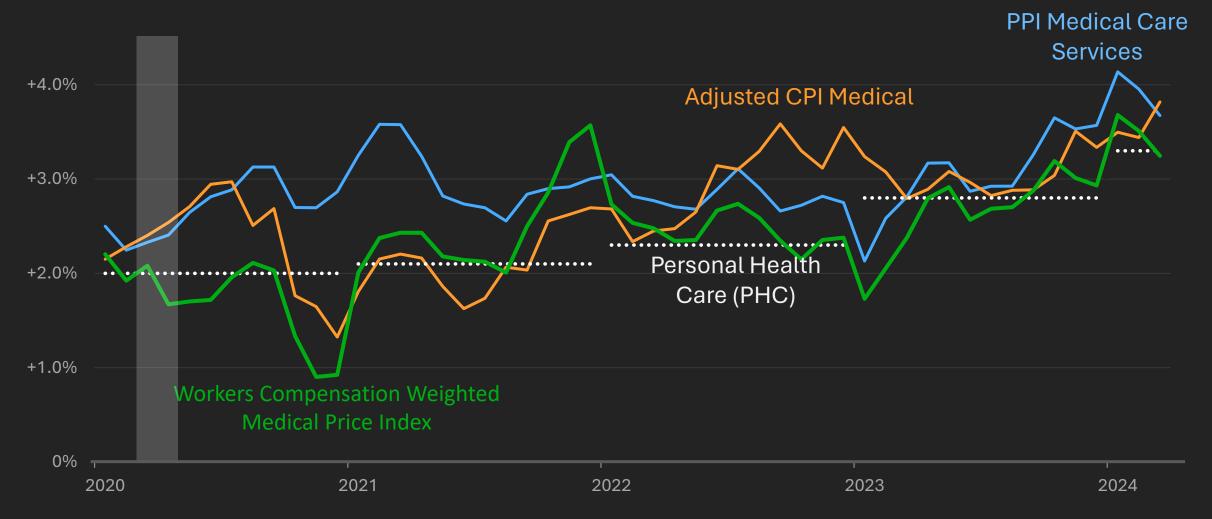


**AIS** 2024

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

### What About Medical Inflation?

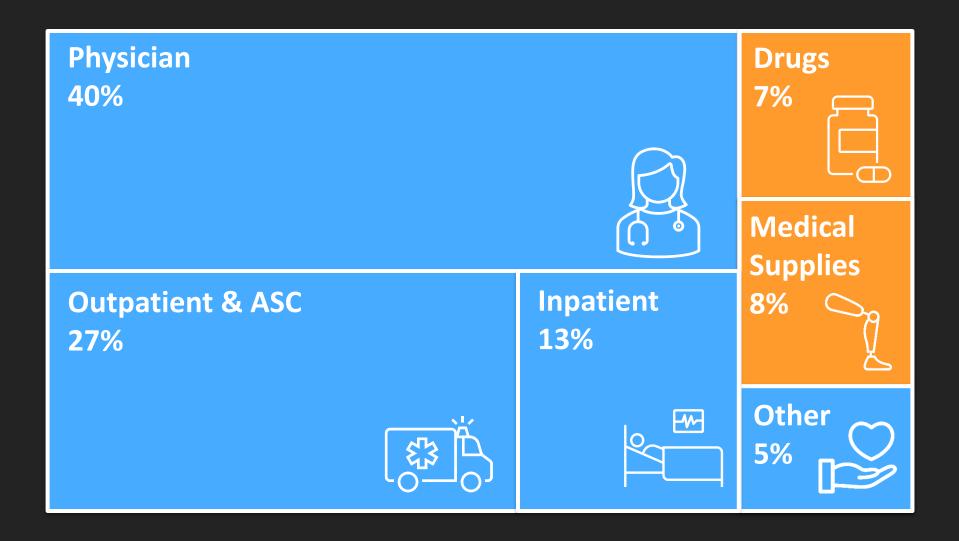
#### Year-Over-Year % Change





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

#### Medical Cost Distribution—Service Year 2022

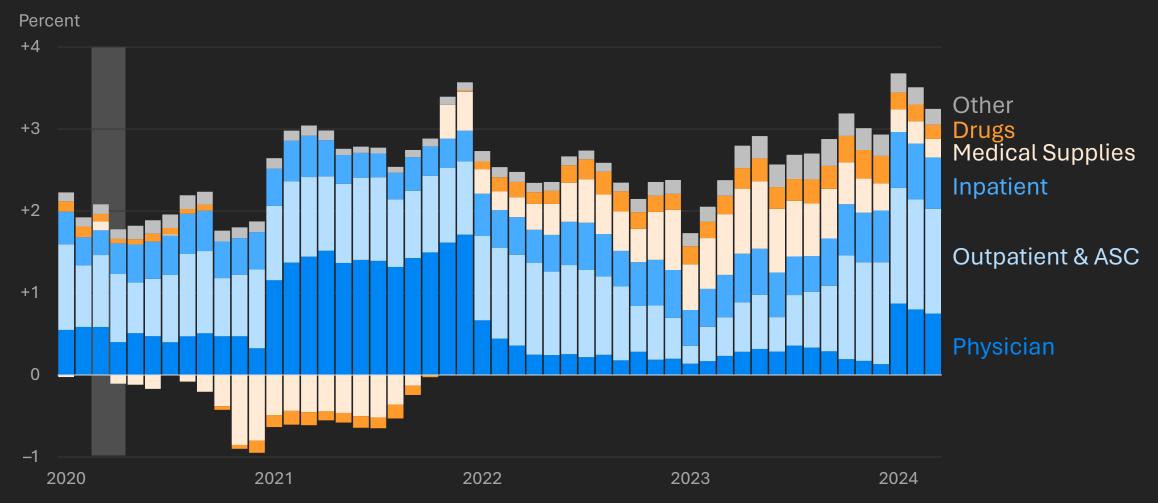


**AIS** 2024

Source: NCCI's Medical Call data

## Composition of Changes to the WCWMI

#### Contributions to Year-Over-Year Change

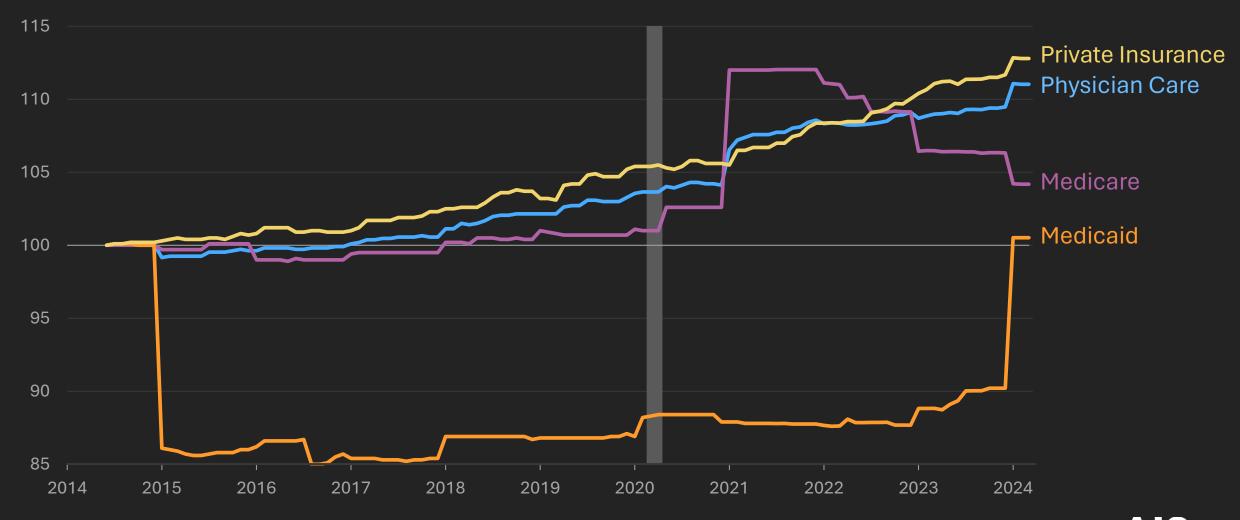


Other is represented by long-term care (PPI Home Health and PPI Nursing Home Care) Sources: US Bureau of Labor Statistics and NCCI's Medical Call data



### Physician Care Detail (PPI) 40% of Spend

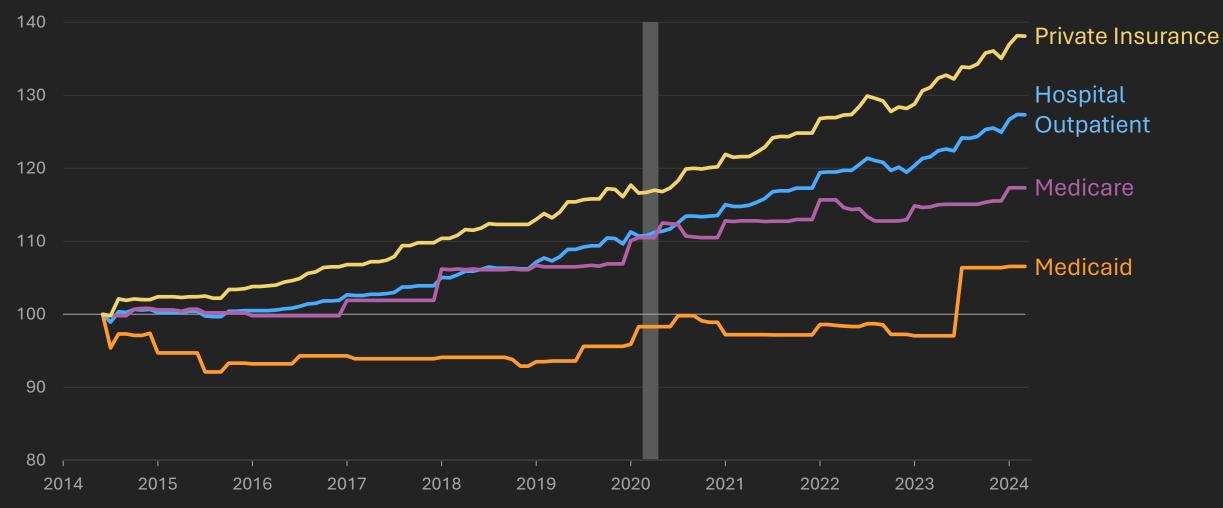
#### 100 = June 2014



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

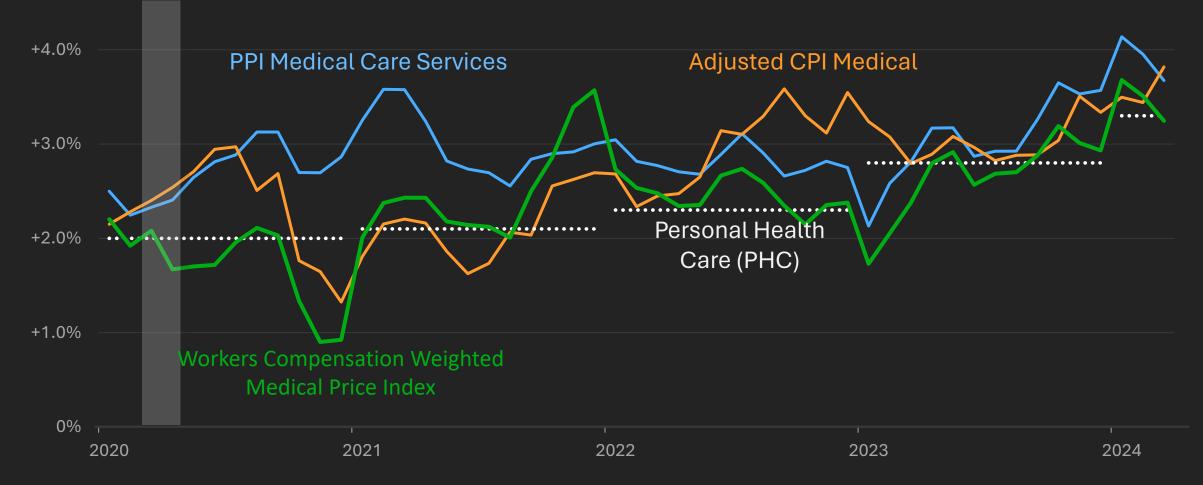
#### 100 = June 2014



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.

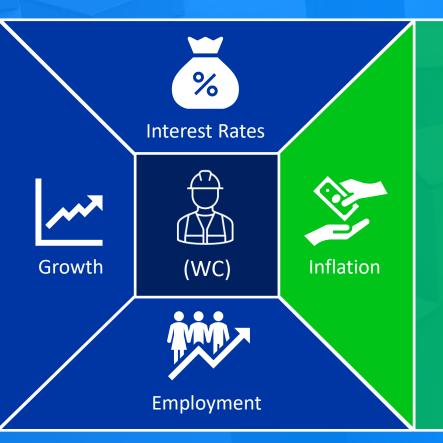
Facilities saw continued firm price growth in Q1 and remain the largest contributor to the WCWMI overall, accounting for roughly60% of price increases over the last 12 months.

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,

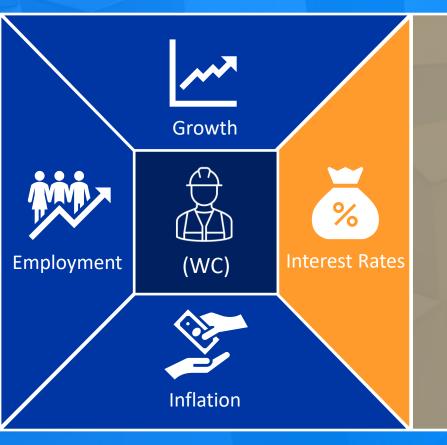


- Inflation has slowed but is still too high
- Medical inflation trends have been different
- Medical Inflation Insights now on ncci.com







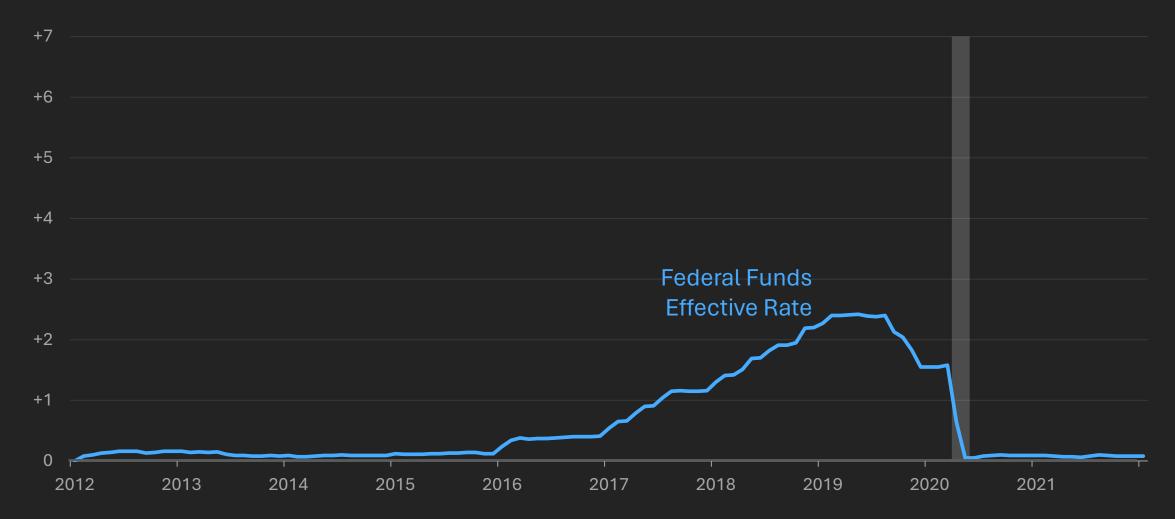


- Interest rates are higher, but will they stay high and for how long?
- But you just told us that the economy is in good shape and that inflation is still above the Fed's target ...
- Despite that, interest rates may still be heading lower.



### The Zero Interest Rate Policy (ZIRP) Era

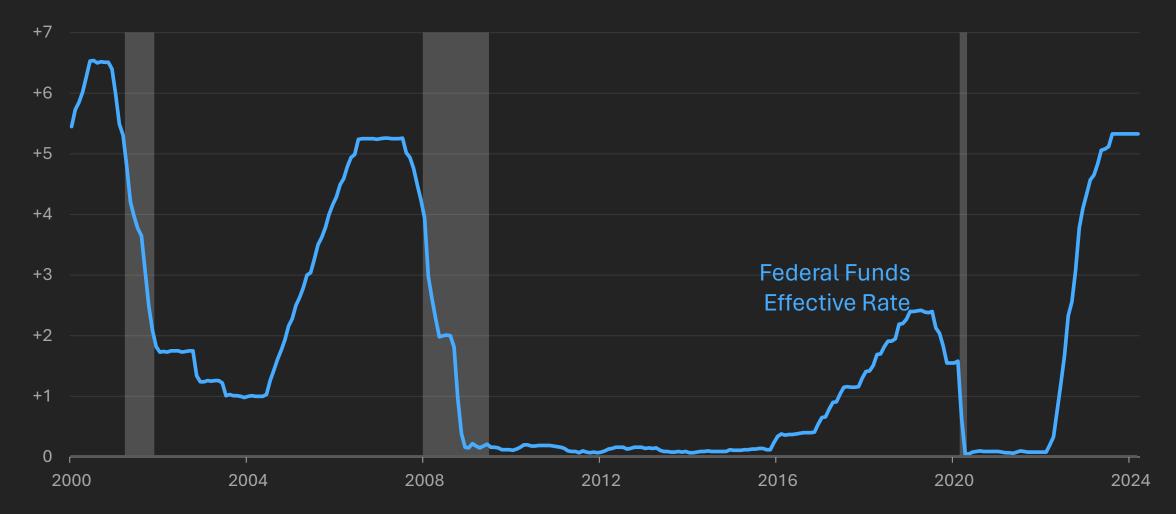
#### Effective Federal Funds Rate, %



Source: Board of Governors of the Federal Reserve System

### ZIRP Is Dead, Long Live ZIRP

#### Effective Federal Funds Rate, %

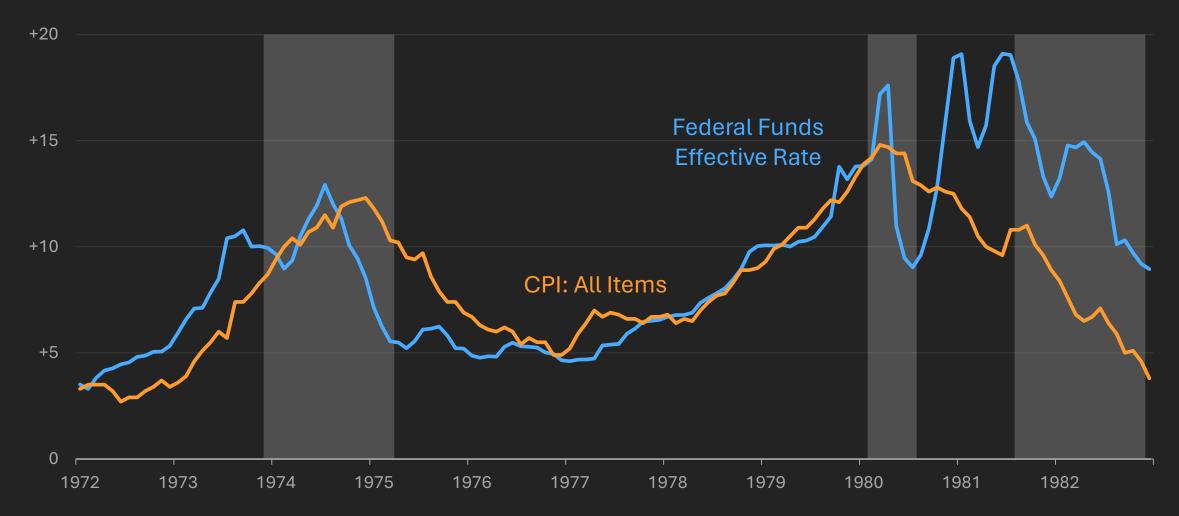




Source: Board of Governors of the Federal Reserve System

#### 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

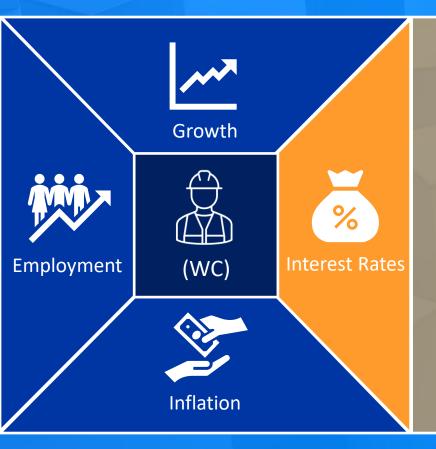
FOMC Participants' Assessments of Appropriate Monetary Policy

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

