

State of the Economy

and Its Impact on Workers Compensation

Stephen Cooper

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NCCI





Growth



The Economy



Employment



Inflation



Interest Rates



Growth



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The Economy

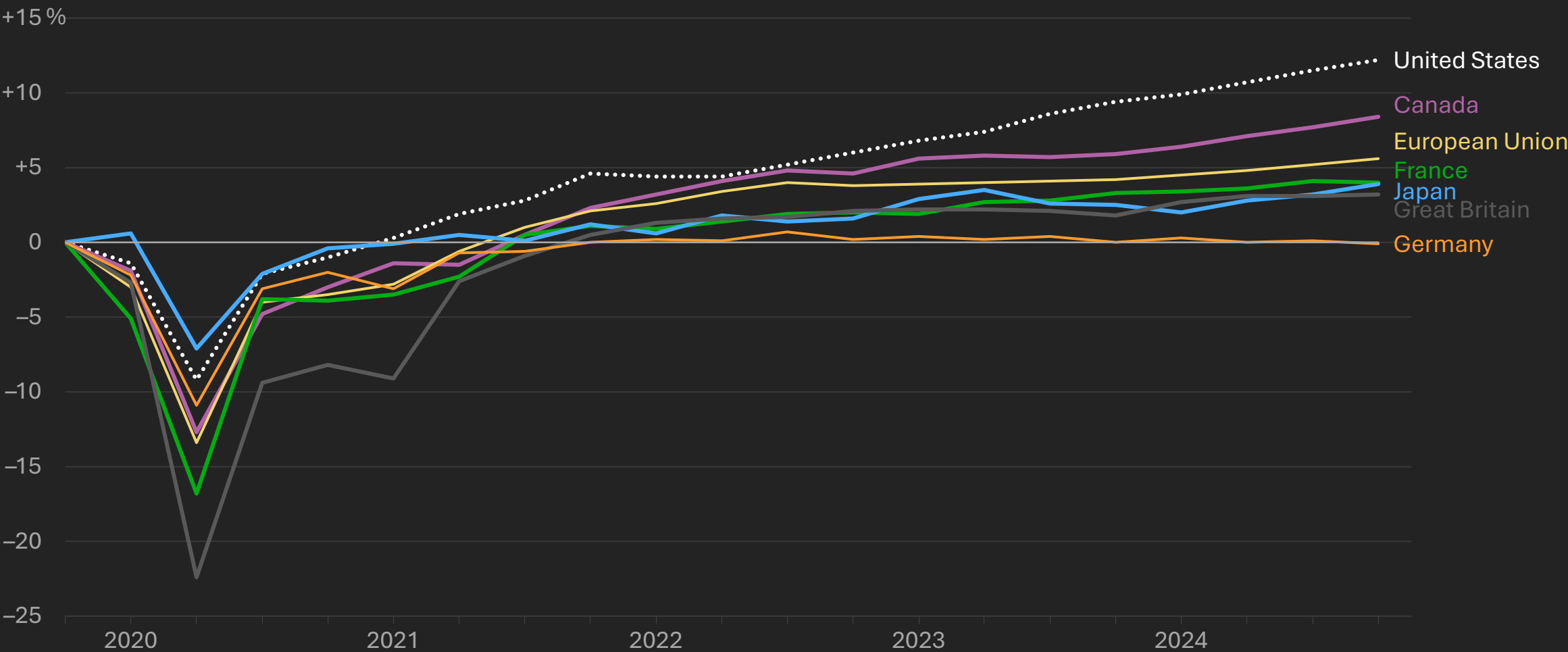


Growth

- Is the economy (once again) heading for a recession?
- How will we know if we are in a recession?
- What happens to workers compensation in recessions?

US Economic Exceptionalism

Cumulative Change in Real GDP Since Q4 2019

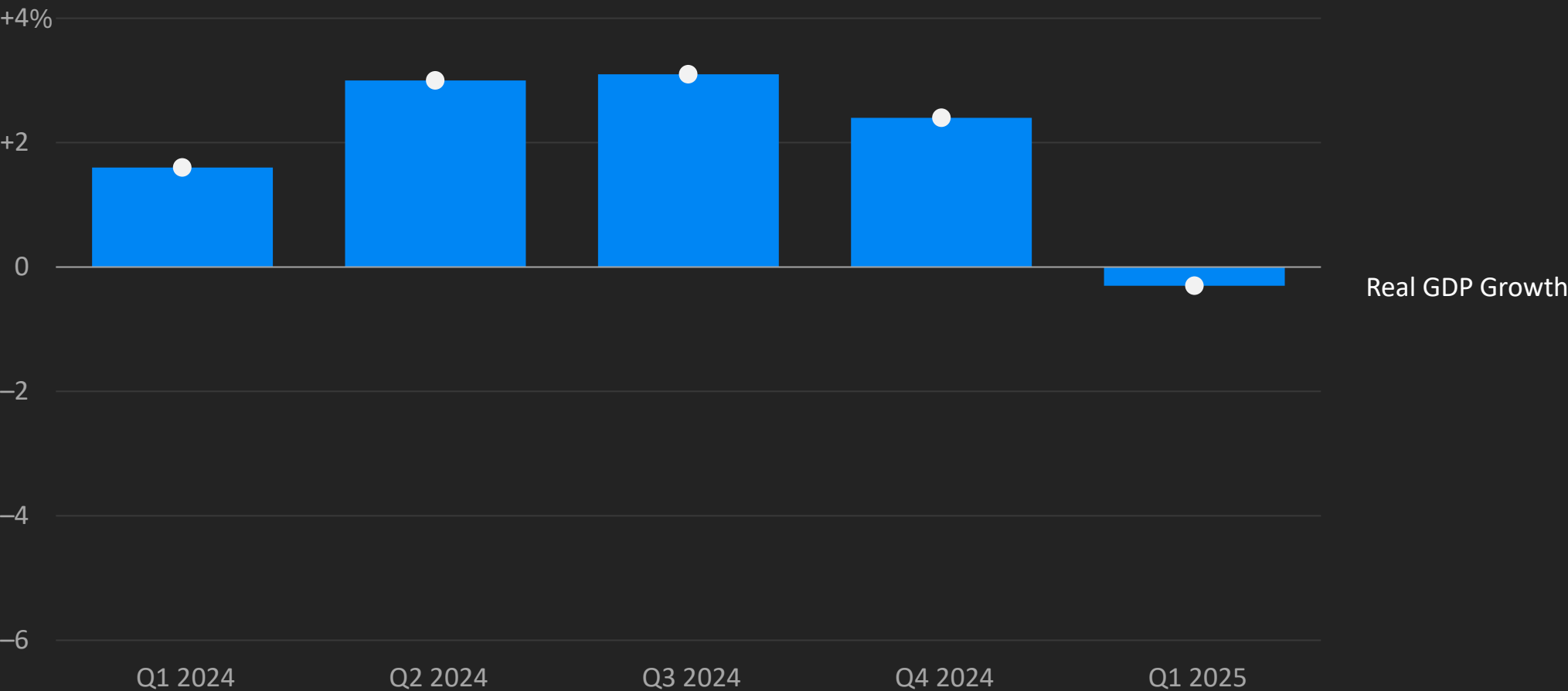


Source: Federal Reserve Bank of St. Louis (FRED)

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The First Quarter Was Actually Not a Signal

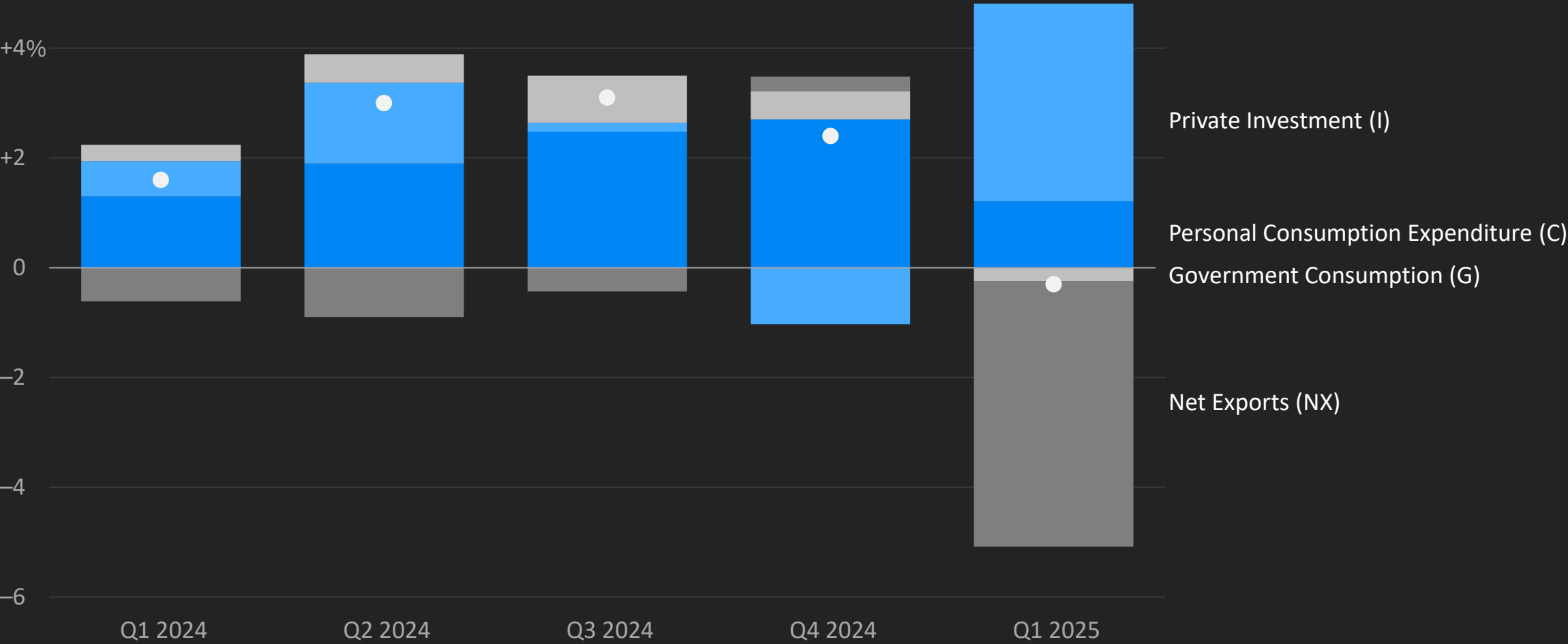
Real GDP, Annualized



Source: US Bureau of Economic Analysis

Tariff Pre-Buying and Bad Weather

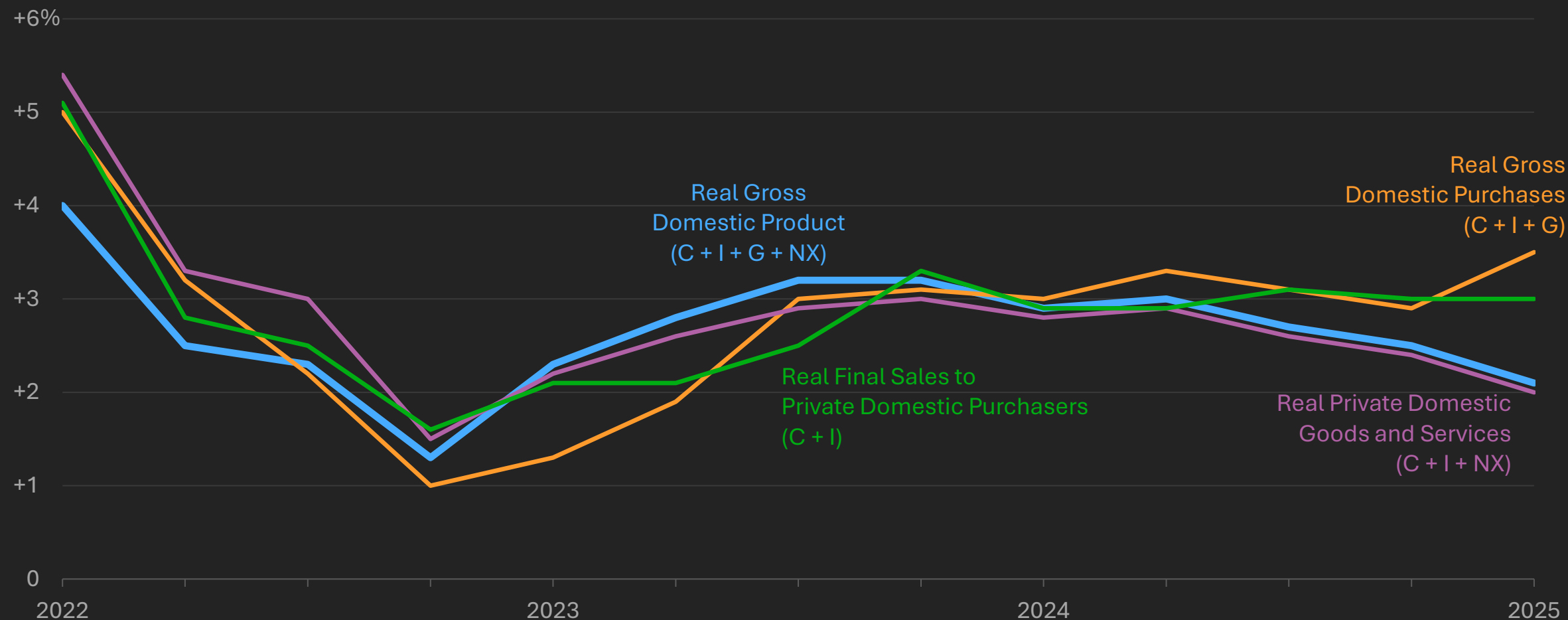
Contribution to Real GDP, Annualized



Source: US Bureau of Economic Analysis

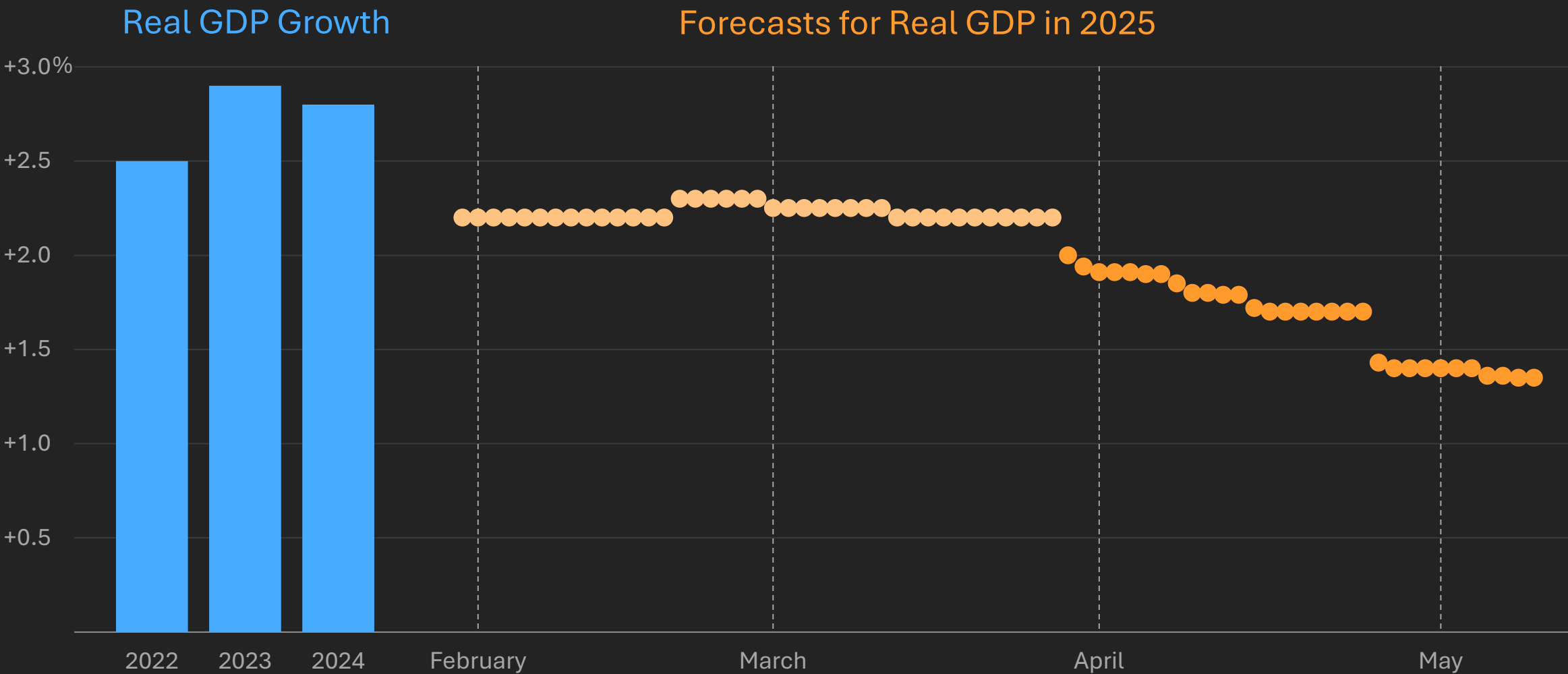
What If We Measured the Economy Differently?

Year-Over-Year Change



Source: US Bureau of Economic Analysis

2025 Forecasts Are Declining



Sources: US Bureau of Economic Analysis; median forecast measures are collected by Bloomberg

One Very Important Forecast: The Fed

Forecasts for 2025 by the Federal Reserve

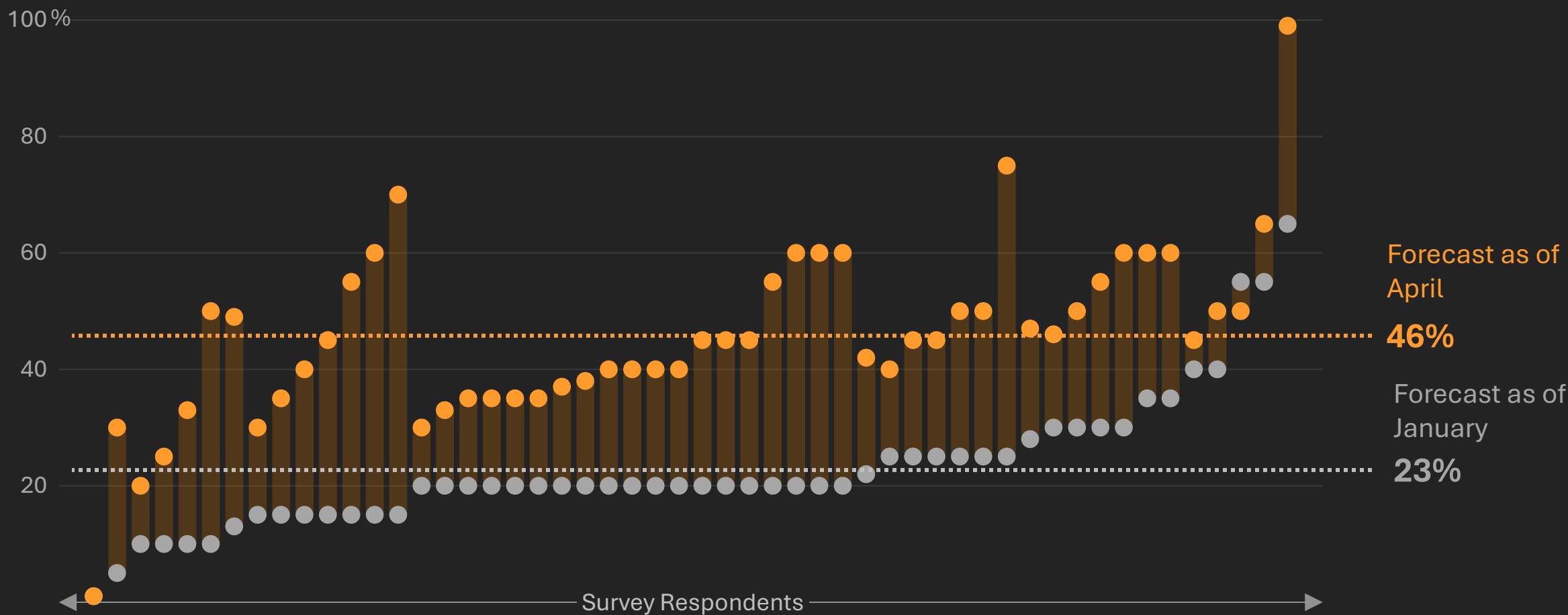
	December 18, 2024	March 19, 2025	June 18, 2025
Real GDP	2.1	1.7	??
Unemployment Rate	4.3	4.4	??
Core Inflation	2.5	2.8	??

Source: Federal Open Market Committee

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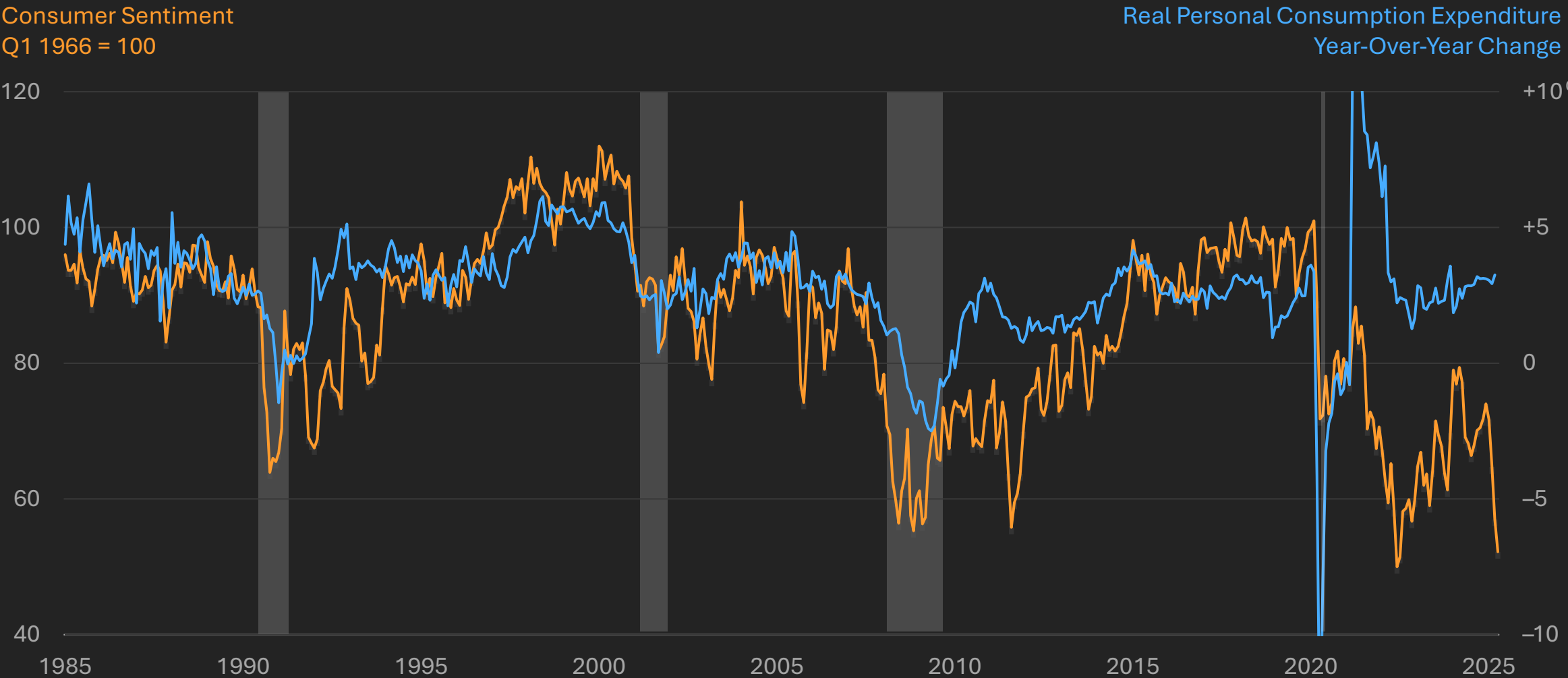
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Survey-Based Probability of Recession



Source: “What Economists See Ahead—and How They Fared Last Year,” *Wall Street Journal*, April 17, 2025

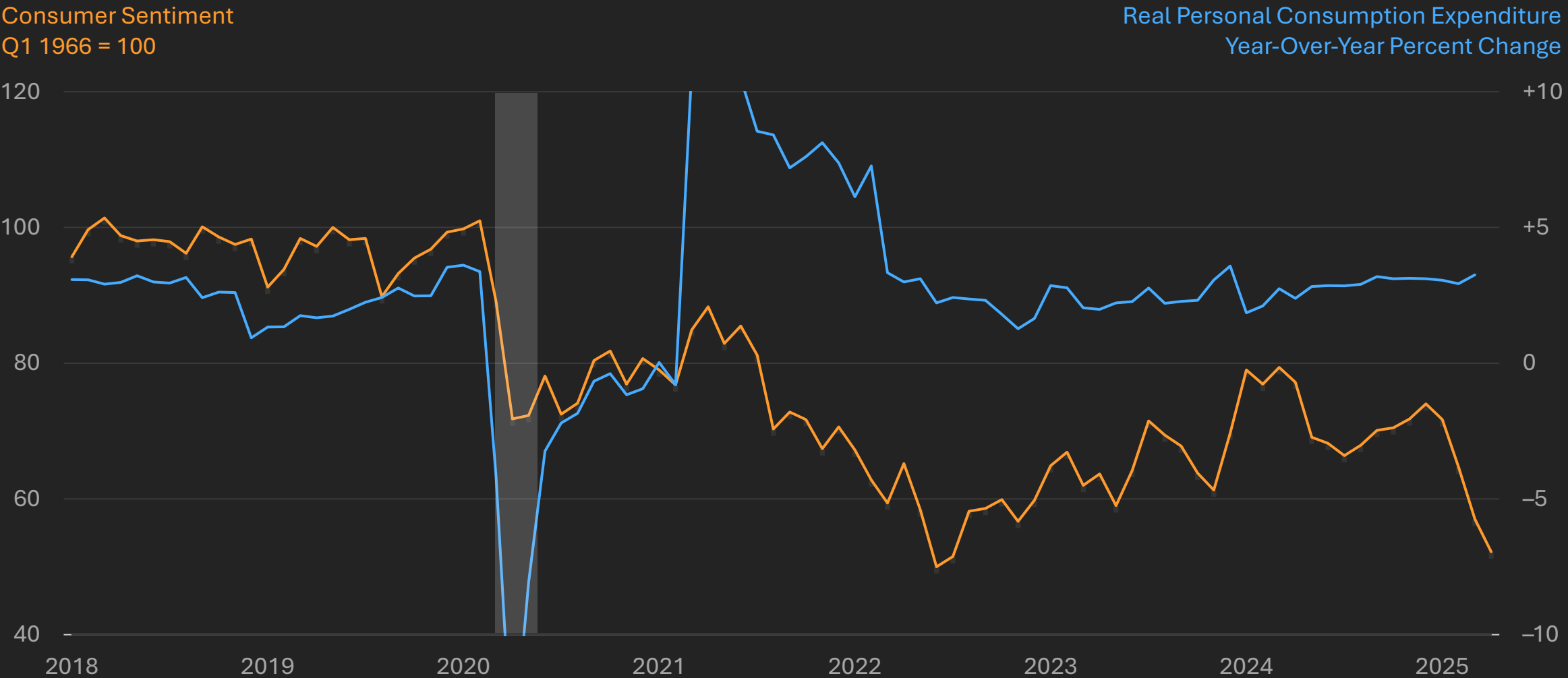
The Most Important Indicator for the Economy



Sources: University of Michigan; US Bureau of Economic Analysis

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The Most Important Indicator for the Economy

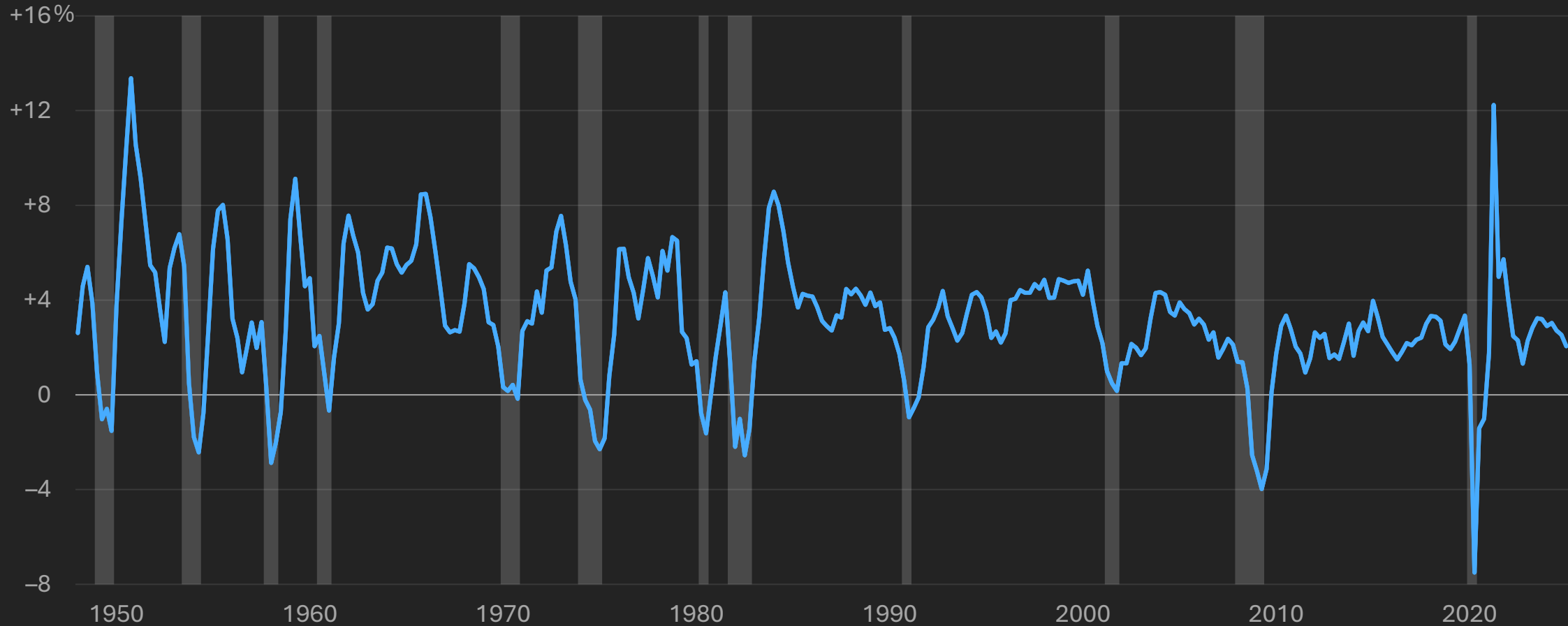


Source: University of Michigan; US Bureau of Economic Analysis

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A Brief History of US Recessions

Year-Over-Year Change in Real GDP



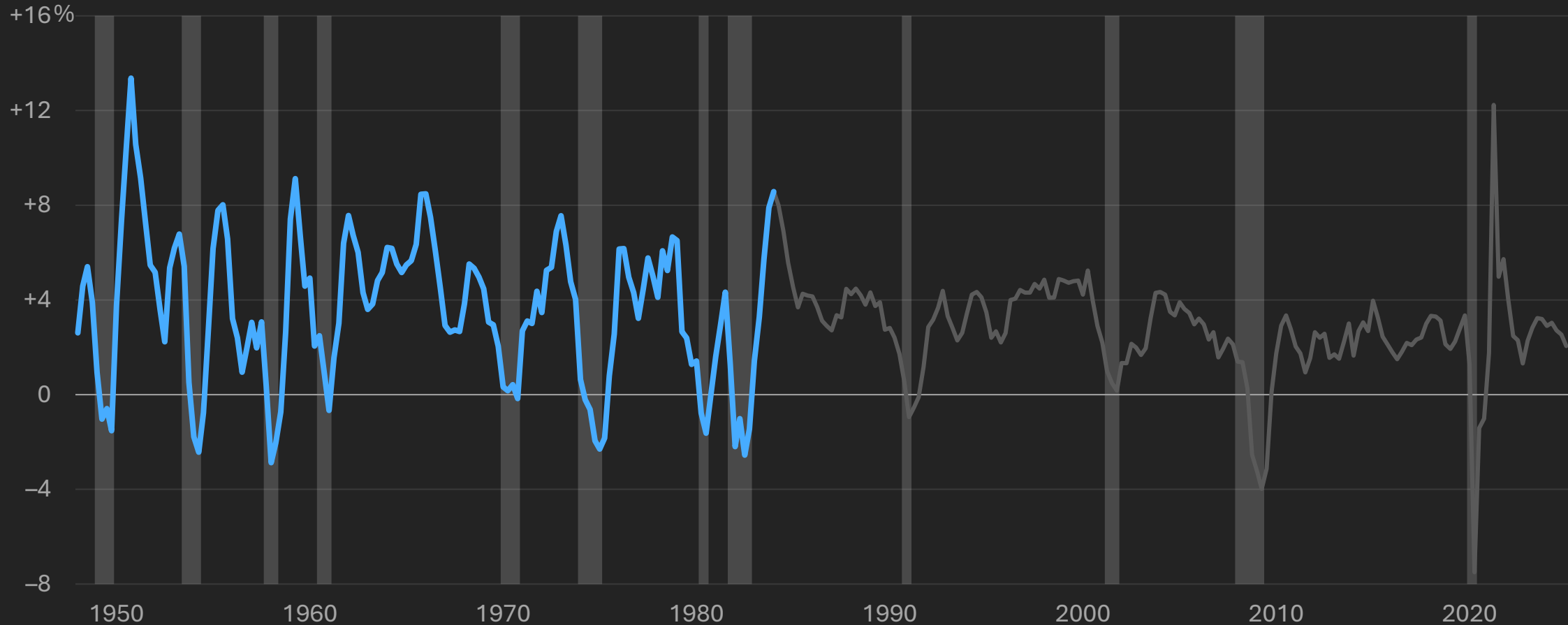
Source: US Bureau of Economic Analysis

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A Brief History of US Recessions—More Frequent Recessions

Year-Over-Year Change in Real GDP



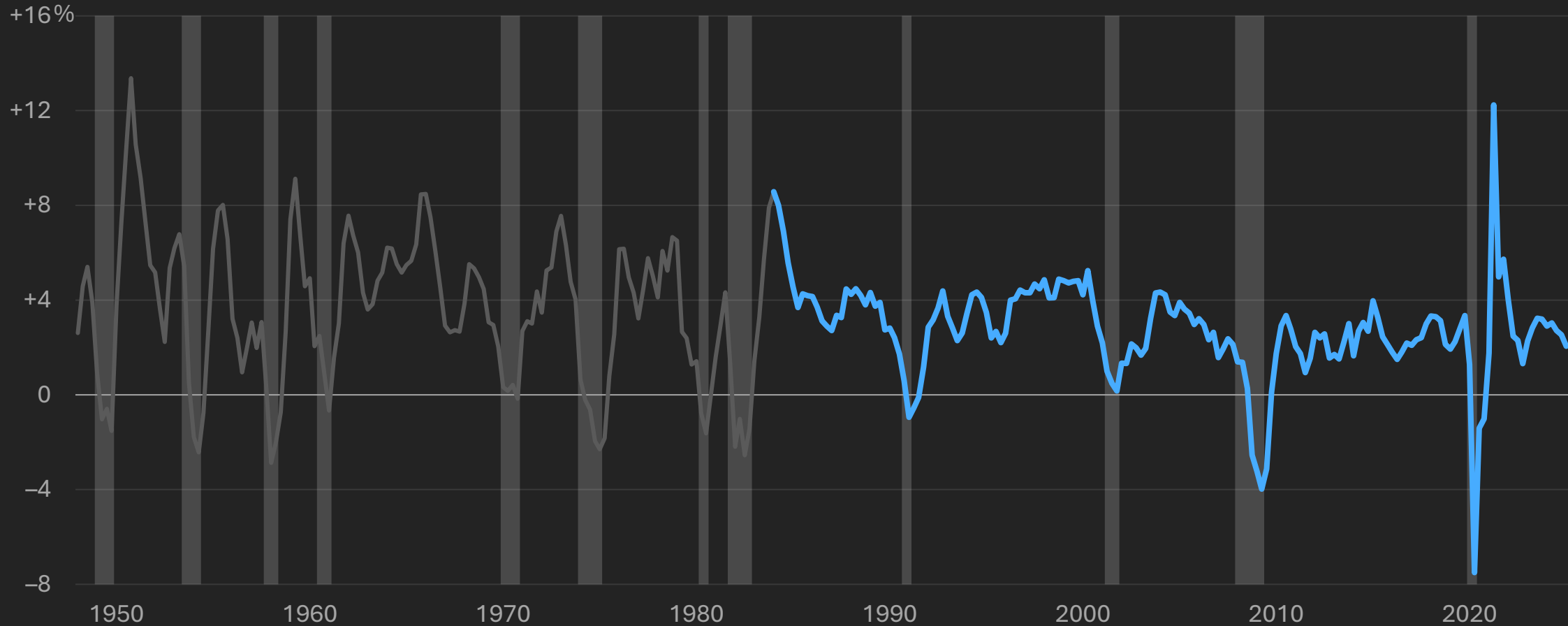
Source: US Bureau of Economic Analysis

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A Brief History of US Recessions—Less Frequent Recessions

Year-Over-Year Change in Real GDP



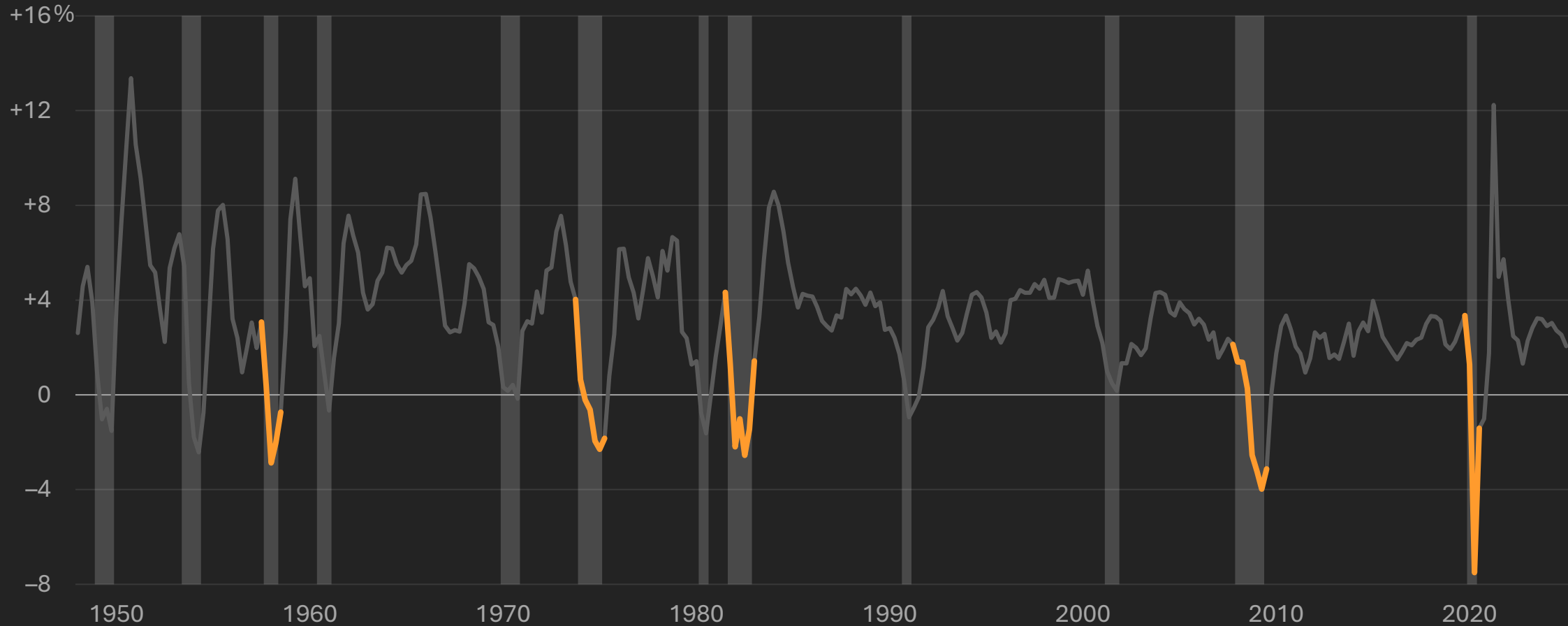
Source: US Bureau of Economic Analysis

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A Brief History of US Recessions—Severe Recessions

Year-Over-Year Change in Real GDP



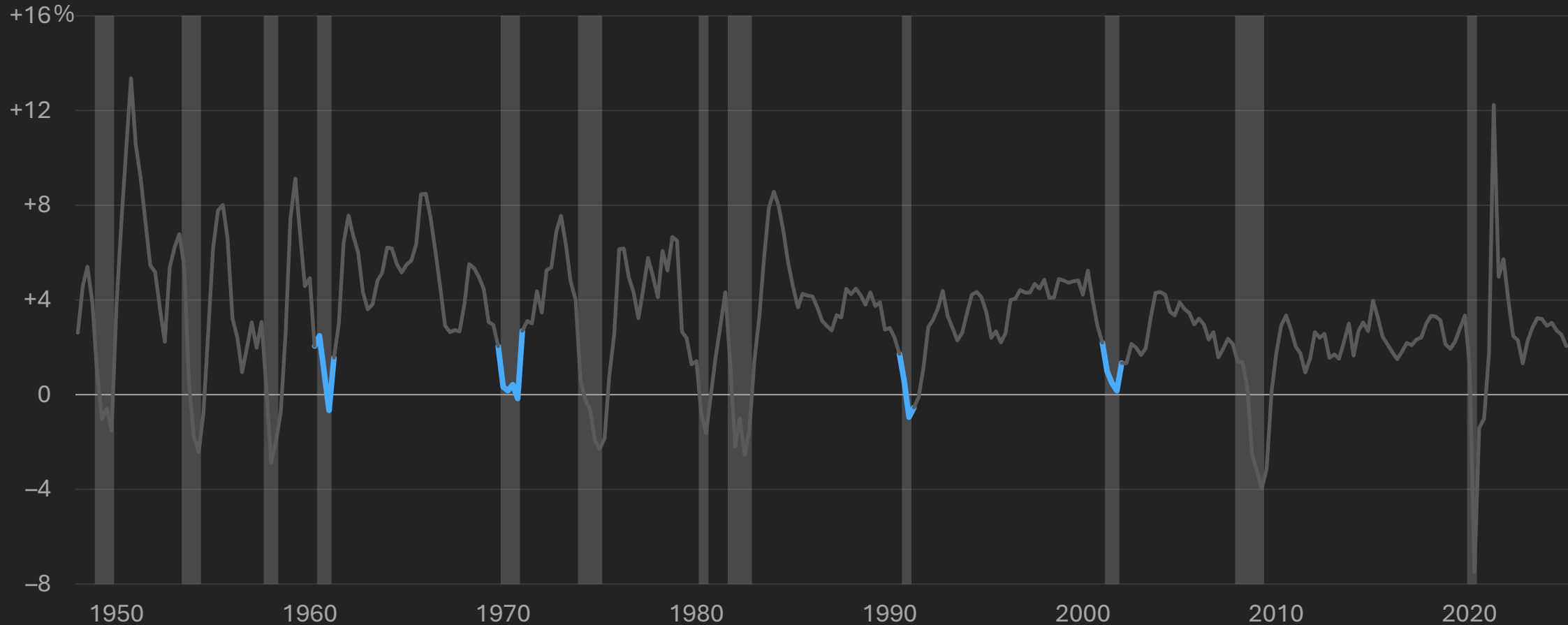
Source: US Bureau of Economic Analysis

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A Brief History of US Recessions—Mild Recessions

Year-Over-Year Change in Real GDP



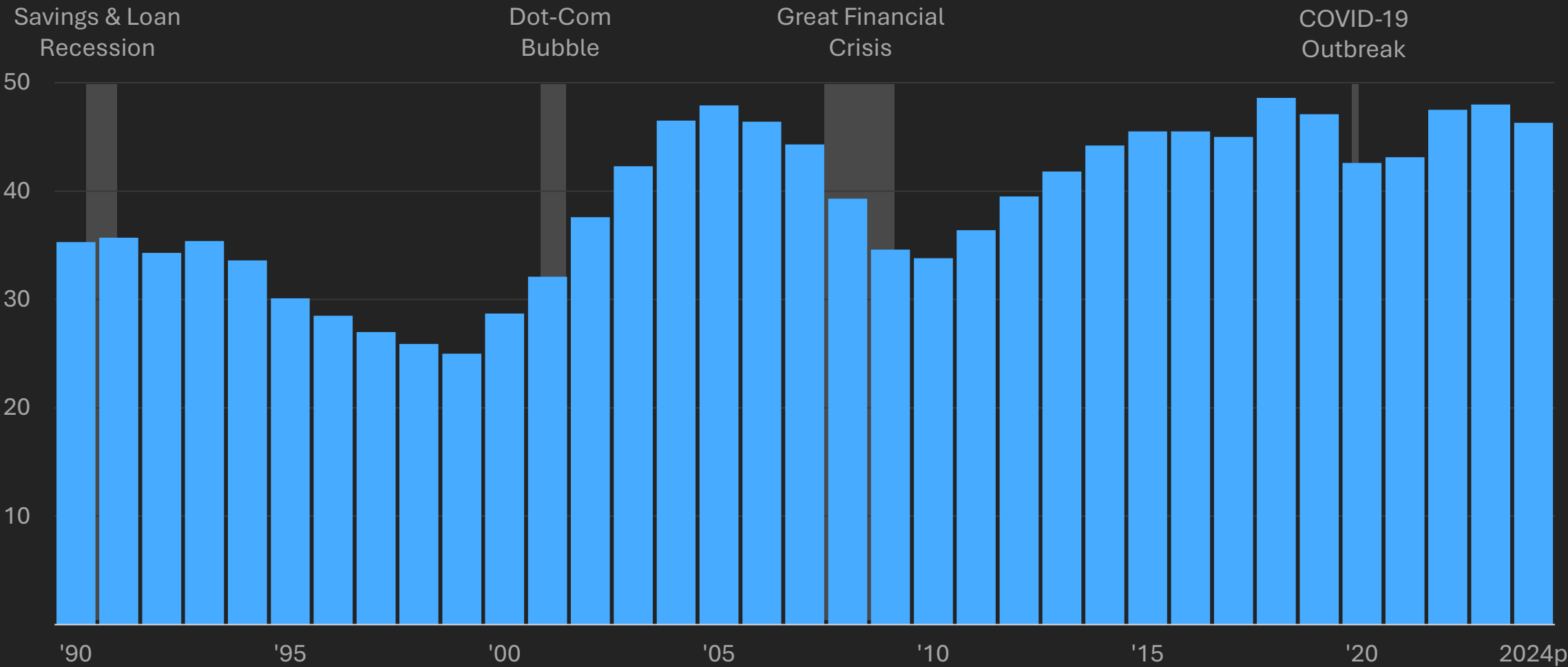
Source: US Bureau of Economic Analysis

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Workers Compensation and Recessions—Premium

Net Written Premium, \$ Billions



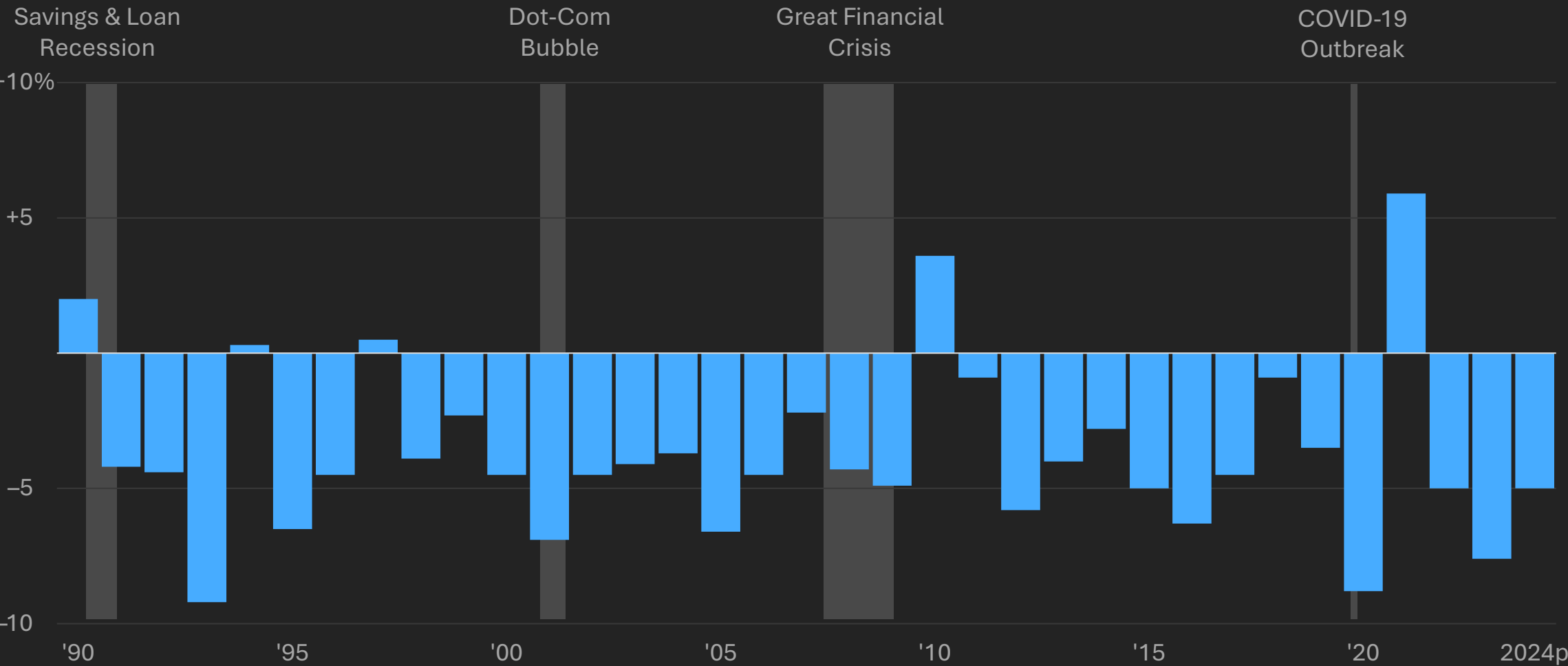
p Preliminary

Source: NAIC's Annual Statement data

The following states are included in the respective calendar years in which they operate as state funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Workers Compensation and Recessions—Frequency

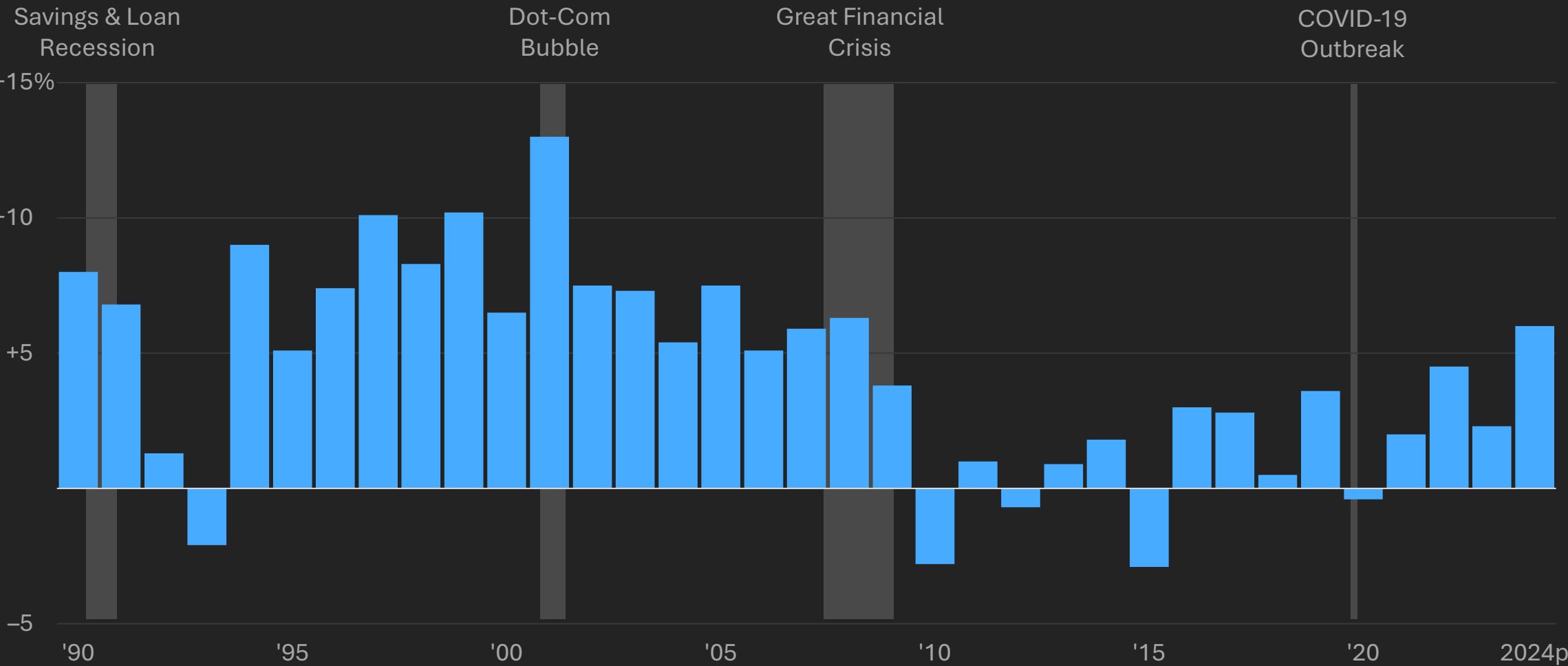
Change in Claims per \$1M Pure Premium



2010–2011 and 2019–2023 are adjusted to reflect the impact of changes in audit activity
p Preliminary, based on data valued as of 12/31/2024
NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2023
Includes all states where NCCI provides ratemaking services; NV is excluded through 2001, TX is excluded through 2006, and WV is excluded through 2011

Workers Compensation and Recessions—Medical Severity

WC Lost-Time Claim Severity



p Preliminary, based on data valued as of 12/31/2024
NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2023
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services; TX is excluded through 2009, and WV is excluded through 2013
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The Economy



Growth

- Economic uncertainty has raised recession probabilities
- Consumer spending is the key indicator
- Workers compensation behaves differently in different recessions



Growth



Inflation



The Economy



Employment



Interest Rates



The Economy

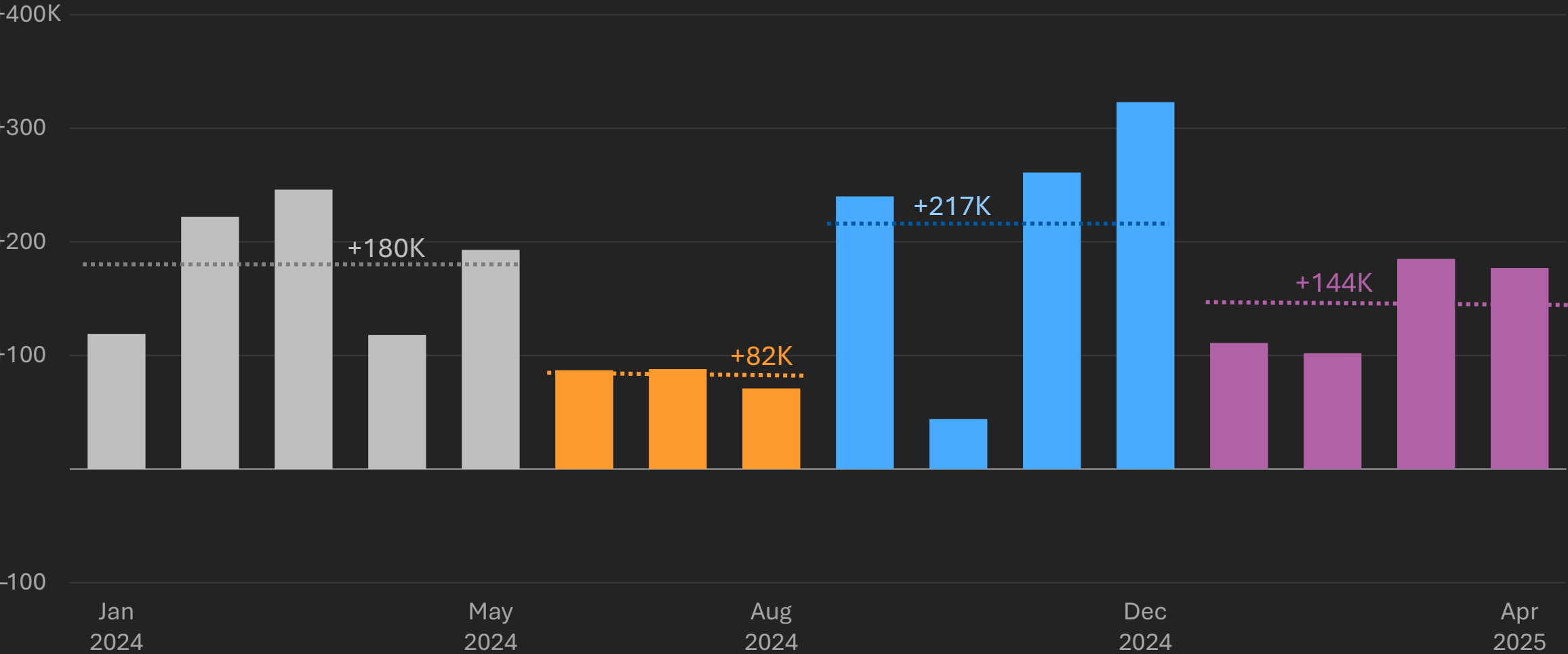


Employment

- Is the labor market flashing warning signs?
- Are there useful labor market indicators to watch?
- Is a recession the only risk to the labor market?

Employment Growth Has Become More Volatile

Monthly Change in Employment



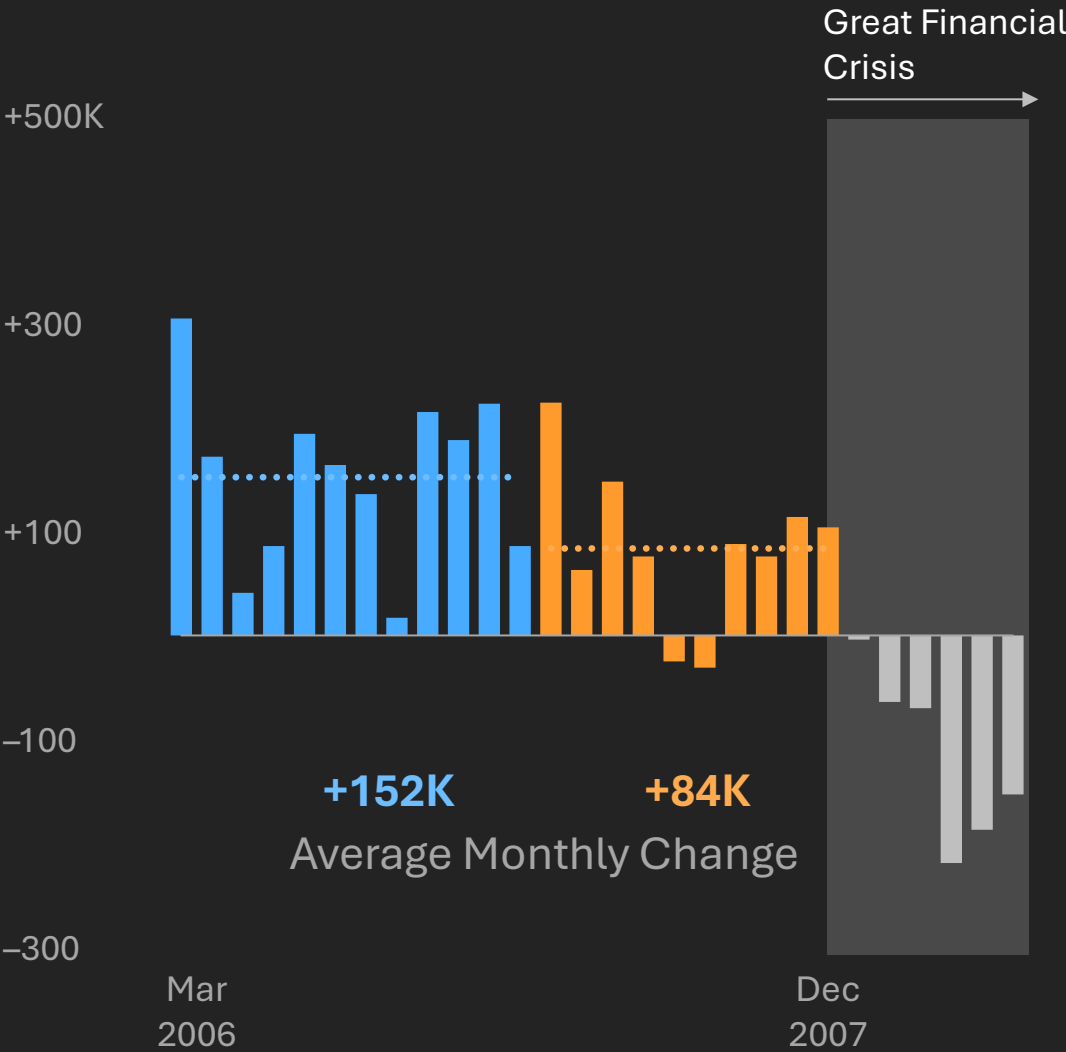
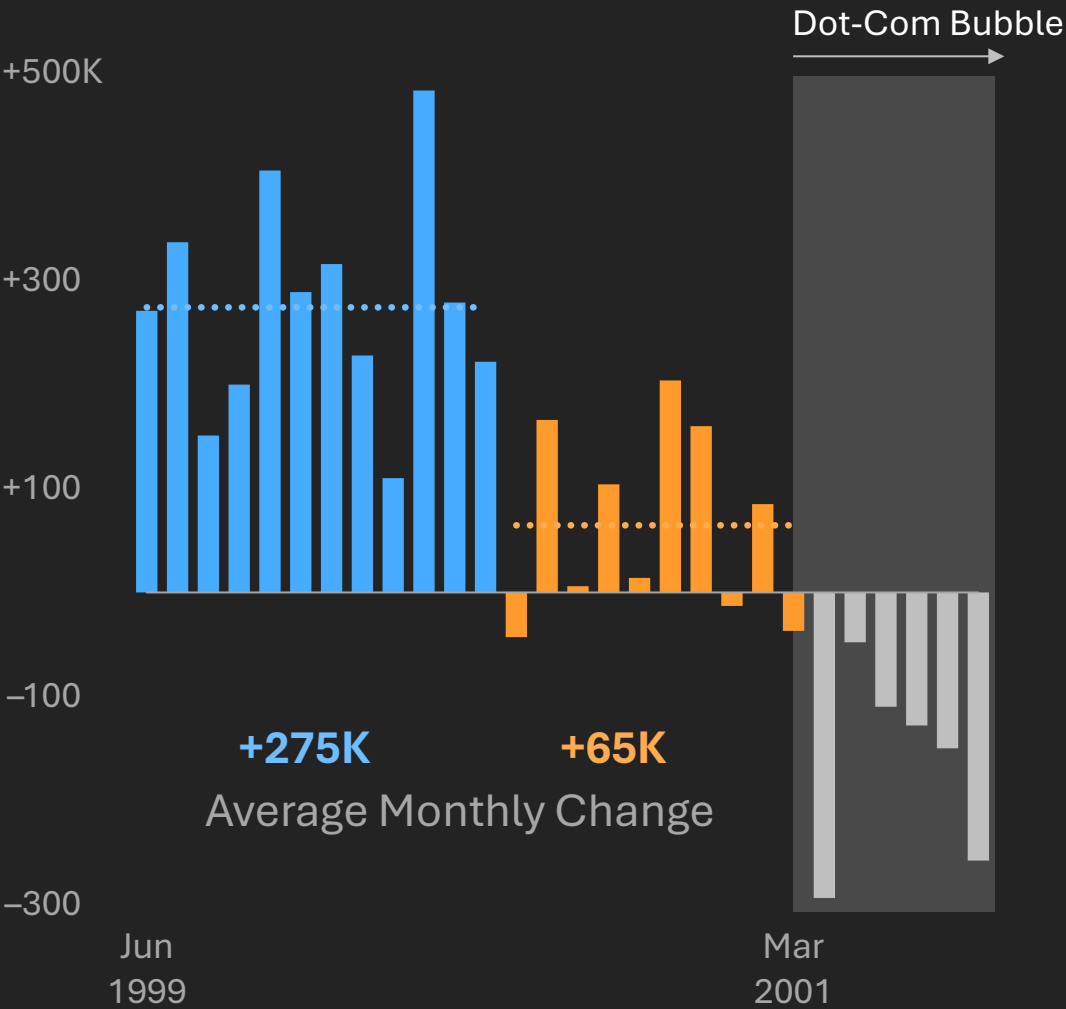
Source: US Bureau of Labor Statistics

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Slowing Employment Growth Has Preceded Recessions

Monthly Change in Employment



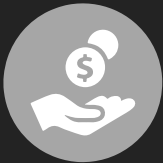
Source: US Bureau of Labor Statistics

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Payroll Growth Remains Solid

Changes in Payroll by Component—2023 to 2024

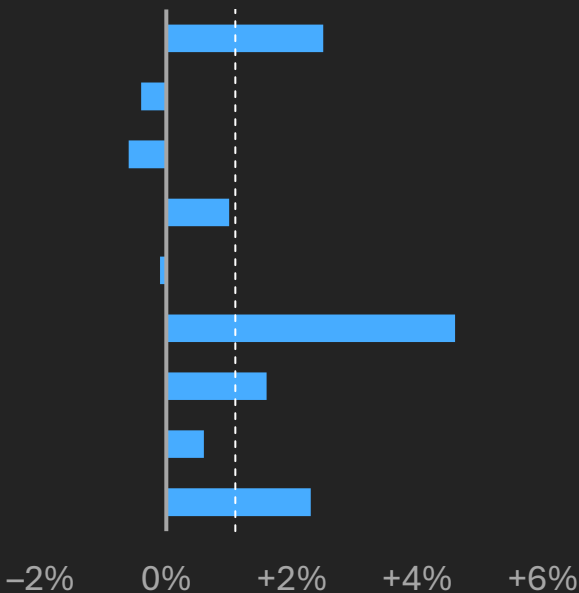
Payroll 5.4%



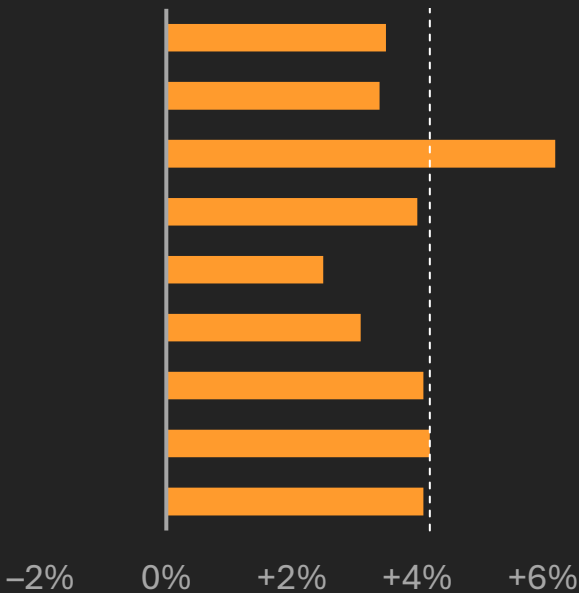
Employment 1.1%



Wage Rate 4.2%



- Construction
- Manufacturing
- Combined Office
- Transportation and Warehousing
- Retail Trade
- Health Care
- Leisure and Hospitality
- Wholesale Trade
- All Other



Sources: US Bureau of Labor Statistics; US Bureau of Economic Analysis (BEA); NCCI

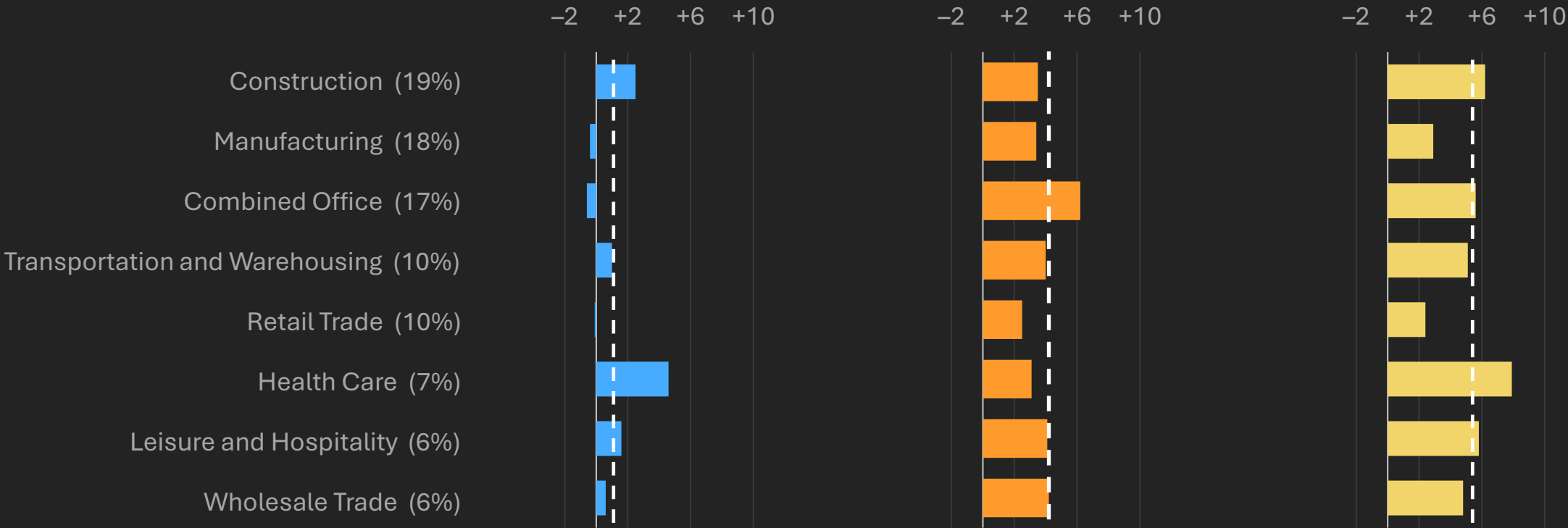
But Has Become More Concentrated

Changes in Payroll by Component—2023 to 2024

Employment
+1.1%

Wage Rate
+4.2%

Payroll
+5.4%



(%) workers compensation share of premium; All Other (7%) not displayed
Sources: US Bureau of Labor Statistics; US Bureau of Economic Analysis (BEA); NCCI

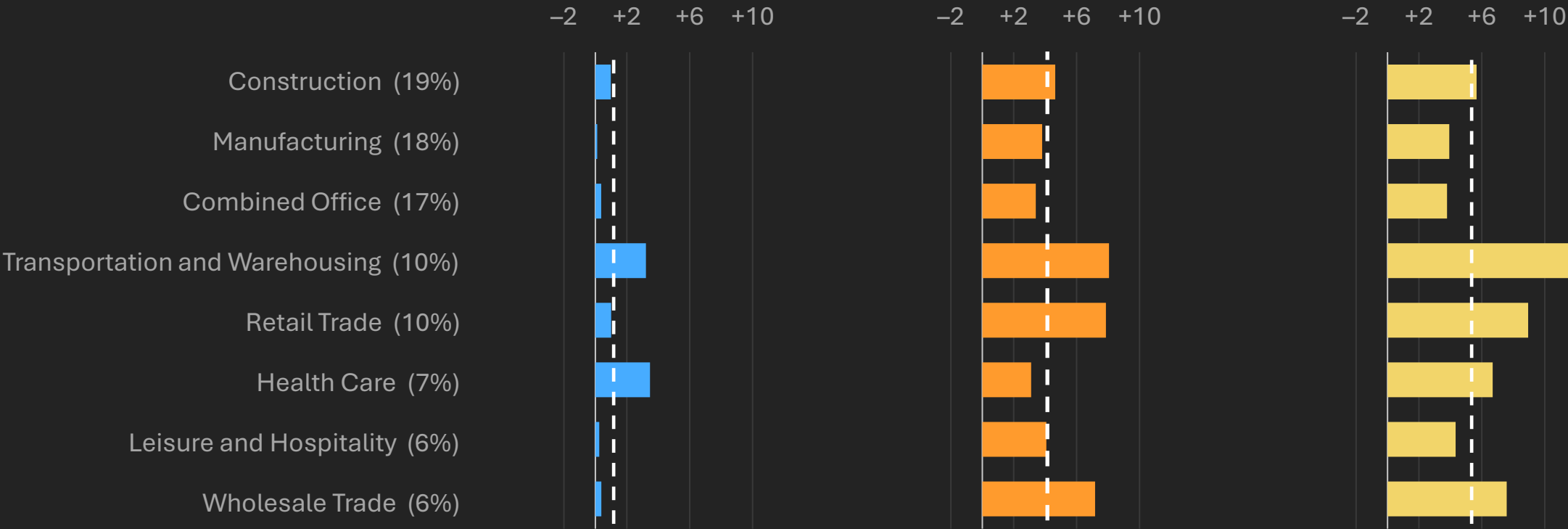
And Even More So in 2025

2025 Year-to-Date Growth, Annualized Rates

Employment
+1.2%

Wage Rate
+4.1%

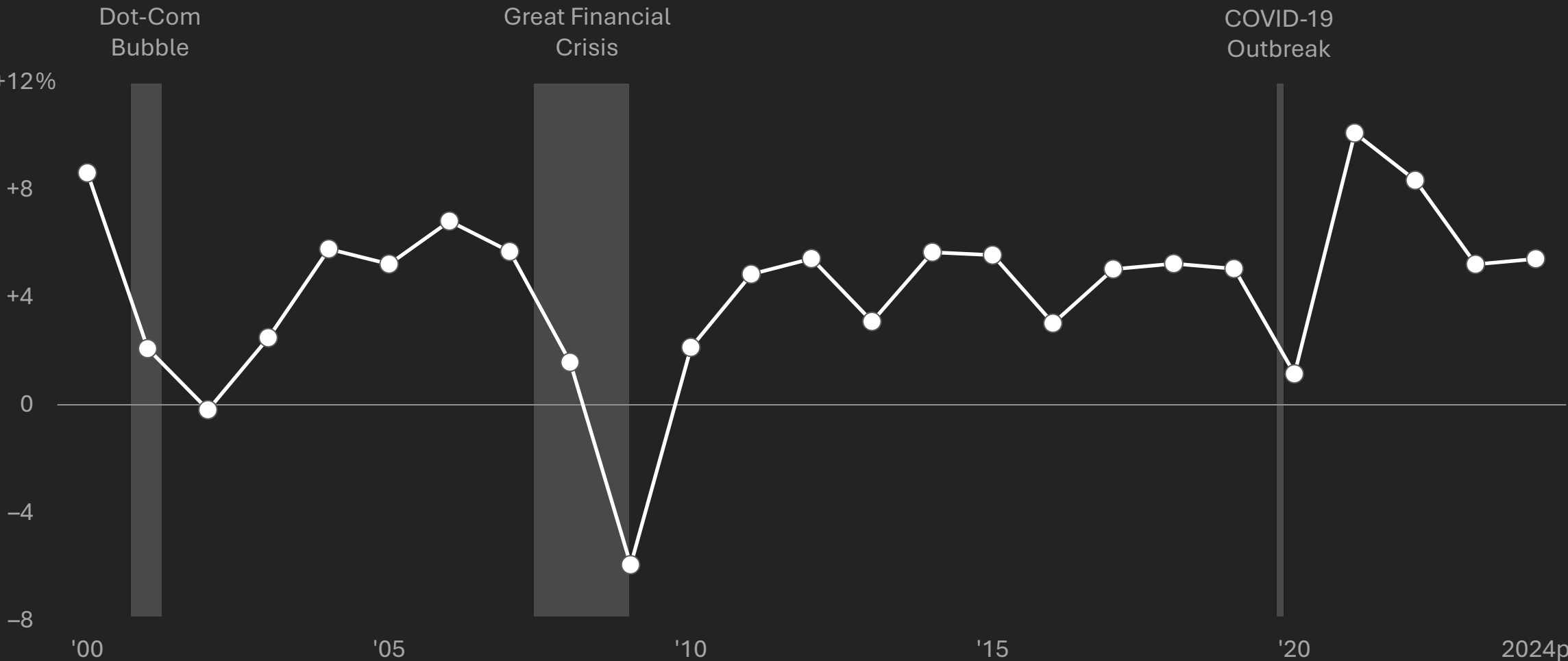
Payroll
+5.3%



(%) workers compensation share of premium; ; All Other (7%) not displayed
Values current through April 2025; Health Care current through March
Sources: US Bureau of Labor Statistics; NCCI

Payroll Growth in Recessions

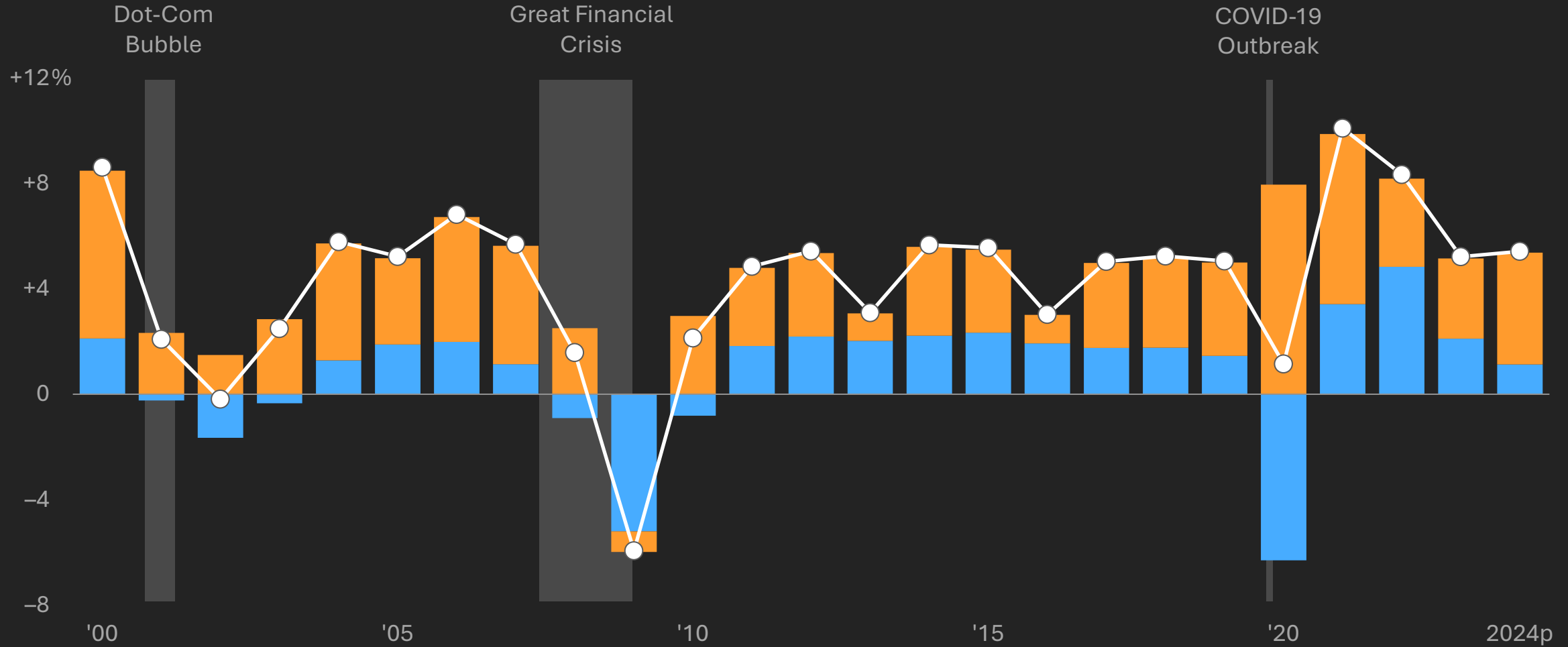
Annual Payroll Growth, Percent



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

Payroll Growth in Recessions—Employment and Wages

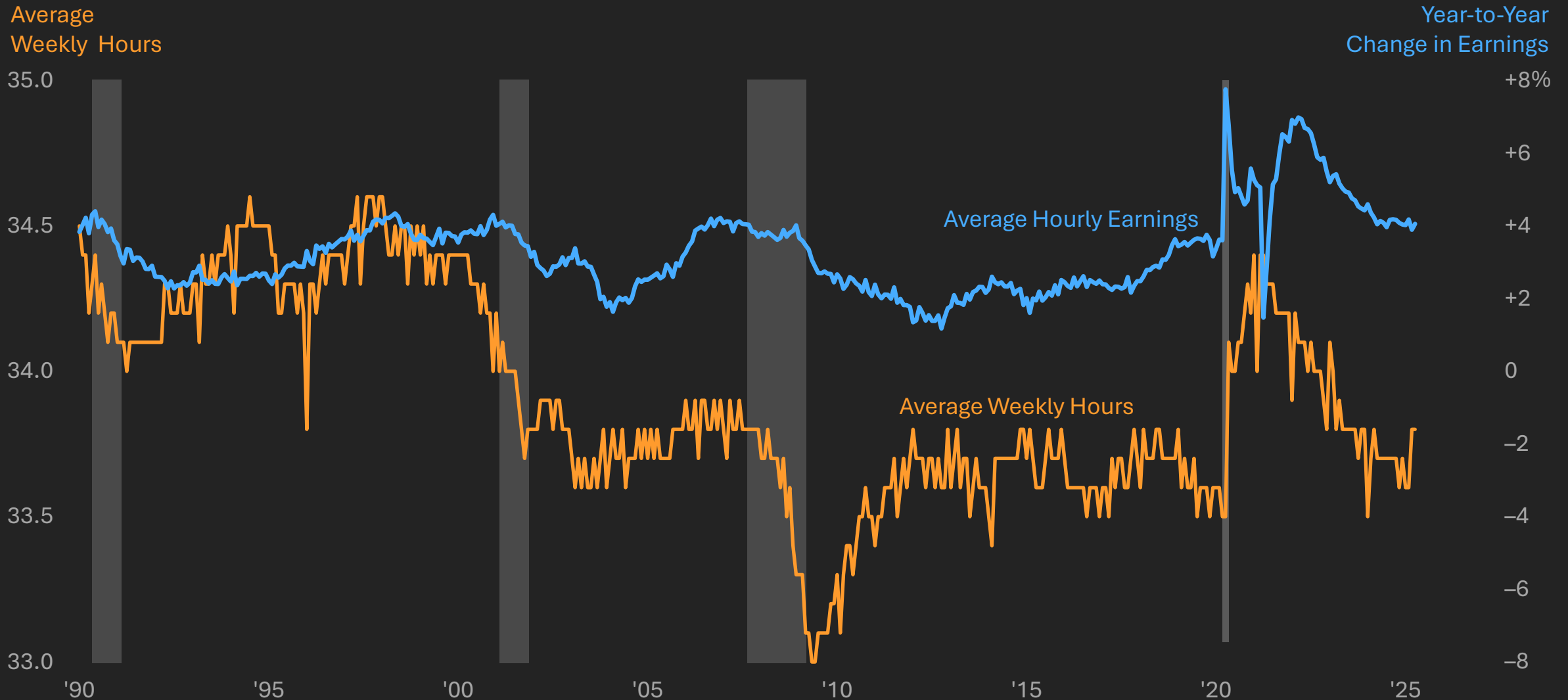
Annual Payroll Growth, Percent



p Preliminary

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

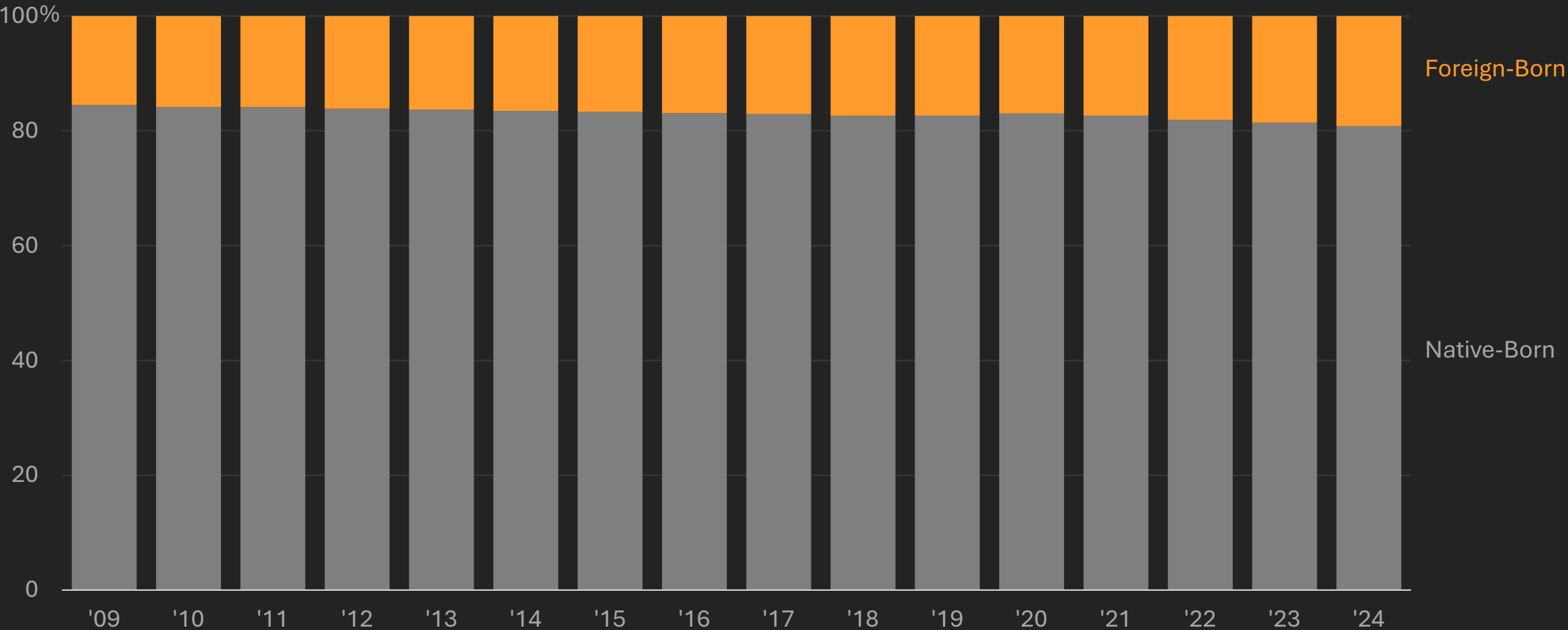
Is the Trend in Wages Sustainable?



Values are displayed for production and nonsupervisory workers
Source: US Bureau of Labor Statistics

Foreign-Born Workers Are a Small Share of the Labor Force

Foreign-Born Share of the Labor Force

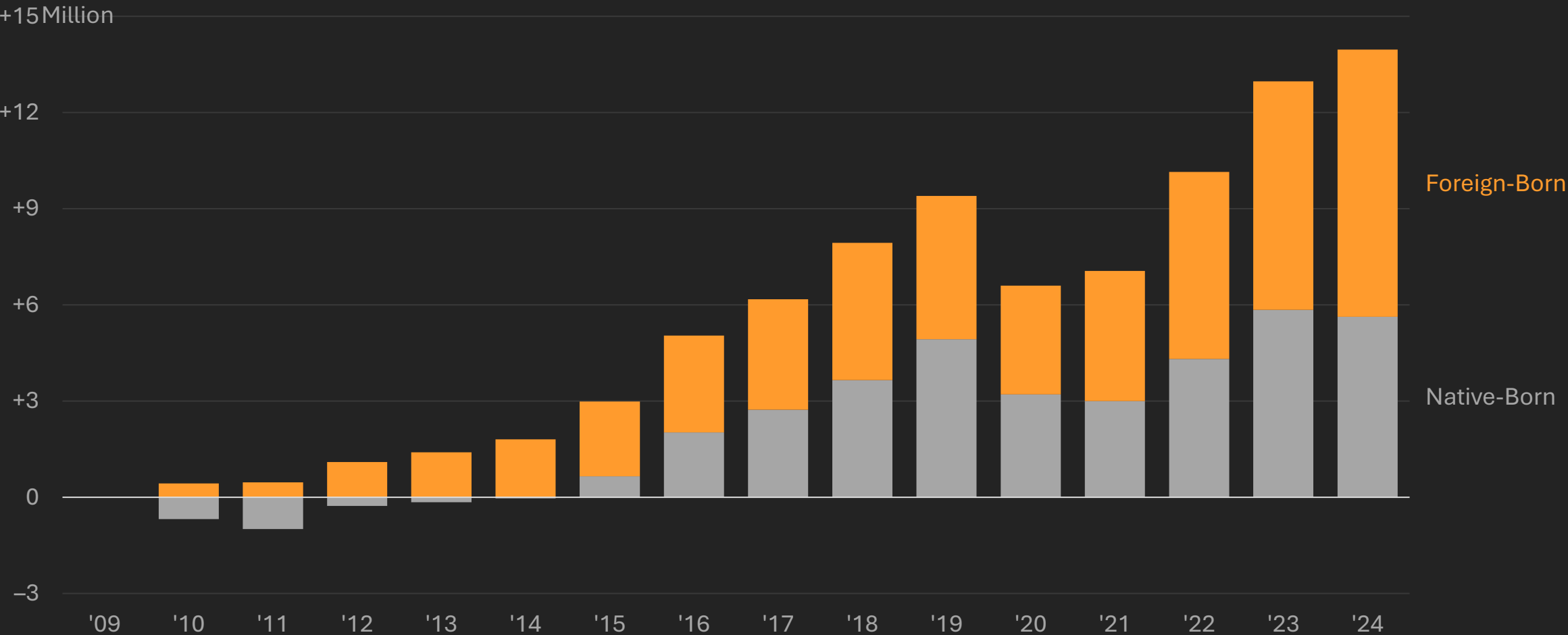


Source: US Bureau of Labor Statistics

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But Are an Outsized Share of Labor Market Growth

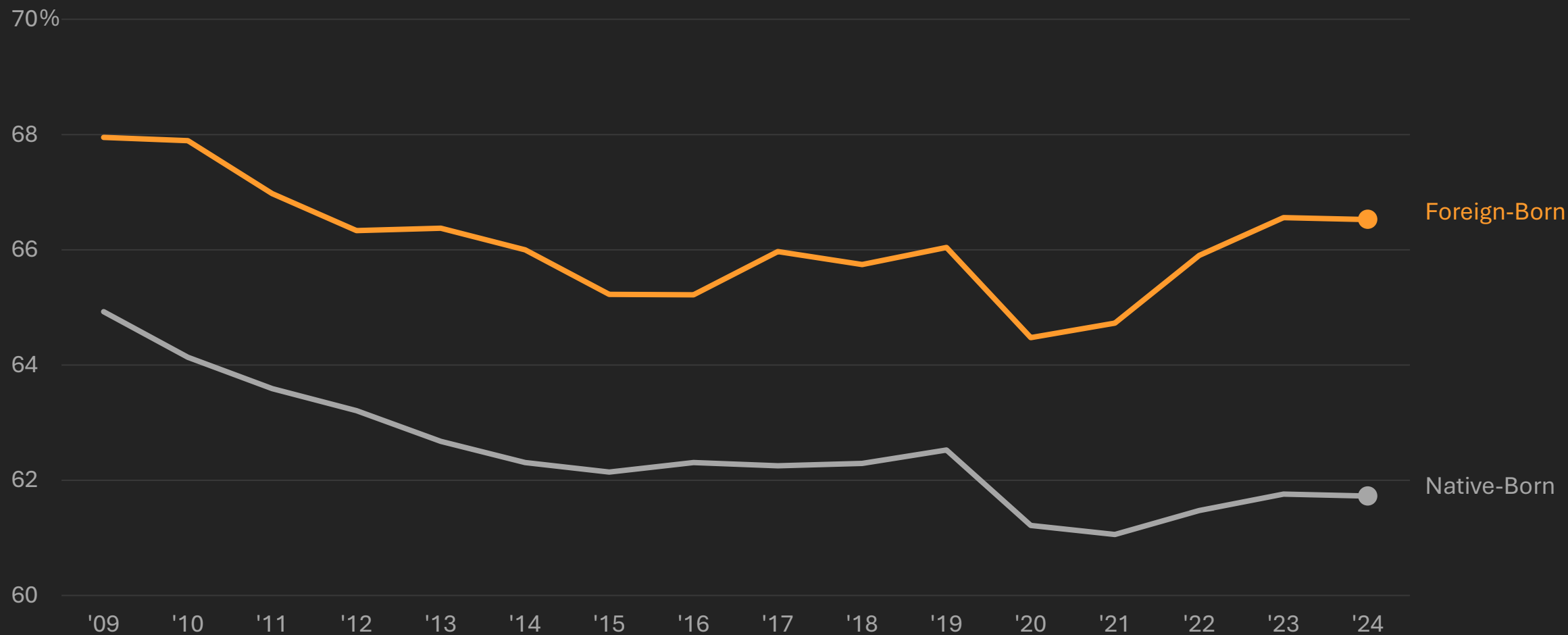
Cumulative Growth in the US Labor Force Since the Great Recession



Source: US Bureau of Labor Statistics

Foreign-Born Workers Are Highly Engaged in the US Labor Market

Labor Force Participation Rates

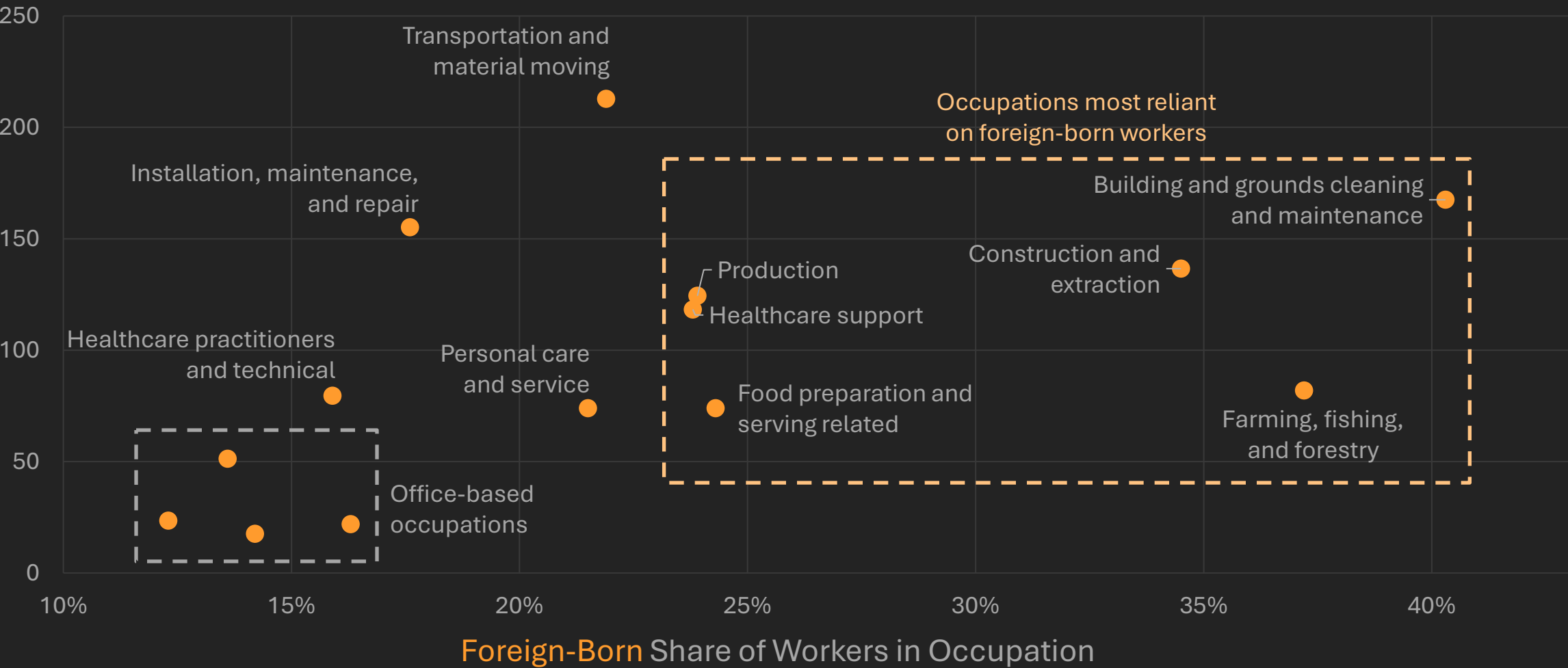


Source: US Bureau of Labor Statistics

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Foreign-Born Workers Are Important for Hazardous Jobs

BLS Frequency



BLS Frequency is number of injury and illness cases per 10,000 full-time equivalent workers; incidence rate is displayed for CY 2021–2022
The employment share of foreign-born within each occupation is displayed for CY 2023
Source: US Bureau of Labor Statistics



The Economy



Employment

- Labor market indicators lag the broader economy
- Though they are still important to watch for premium and frequency trends
- Long-term premium and frequency trends are at risk



Growth



The Economy



Employment



Inflation



Interest Rates



The Economy

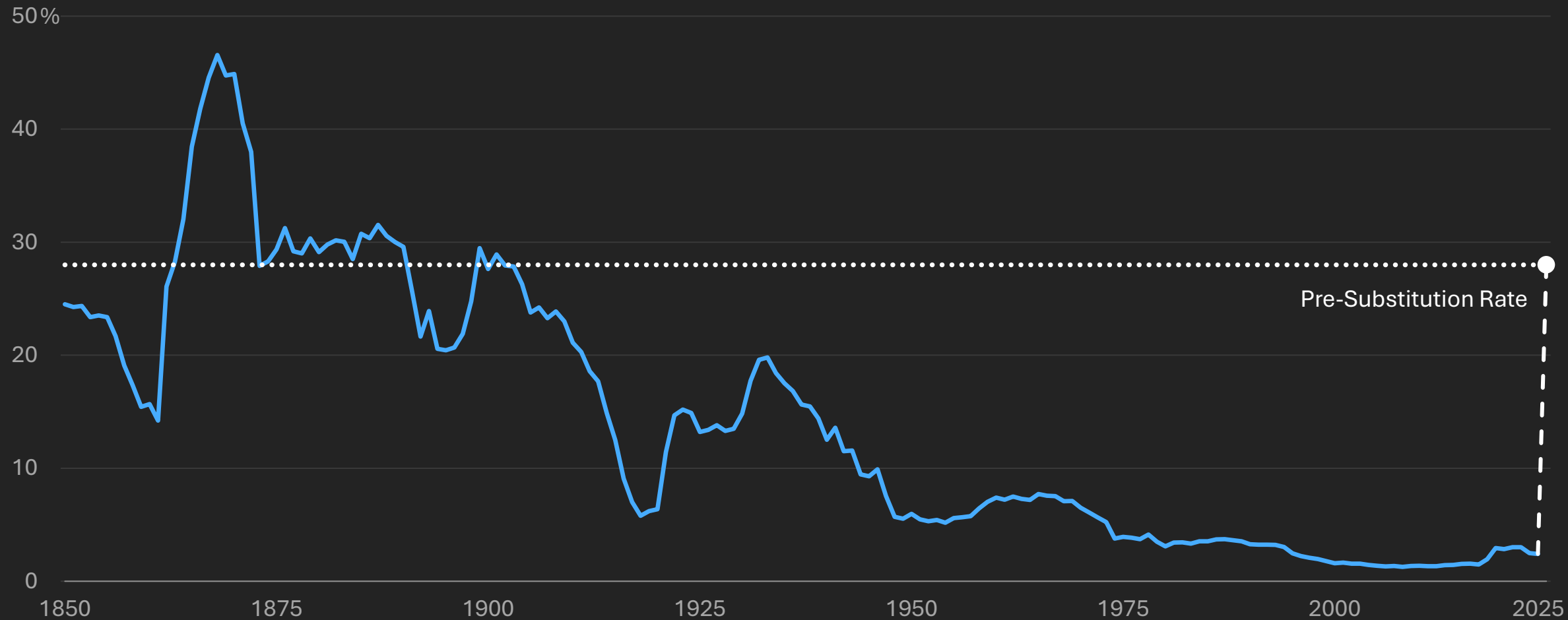


Inflation

- Tariffs

The Largest Tariff Increase in Modern History*

Customs Duty Revenue as a Share of Goods Imports

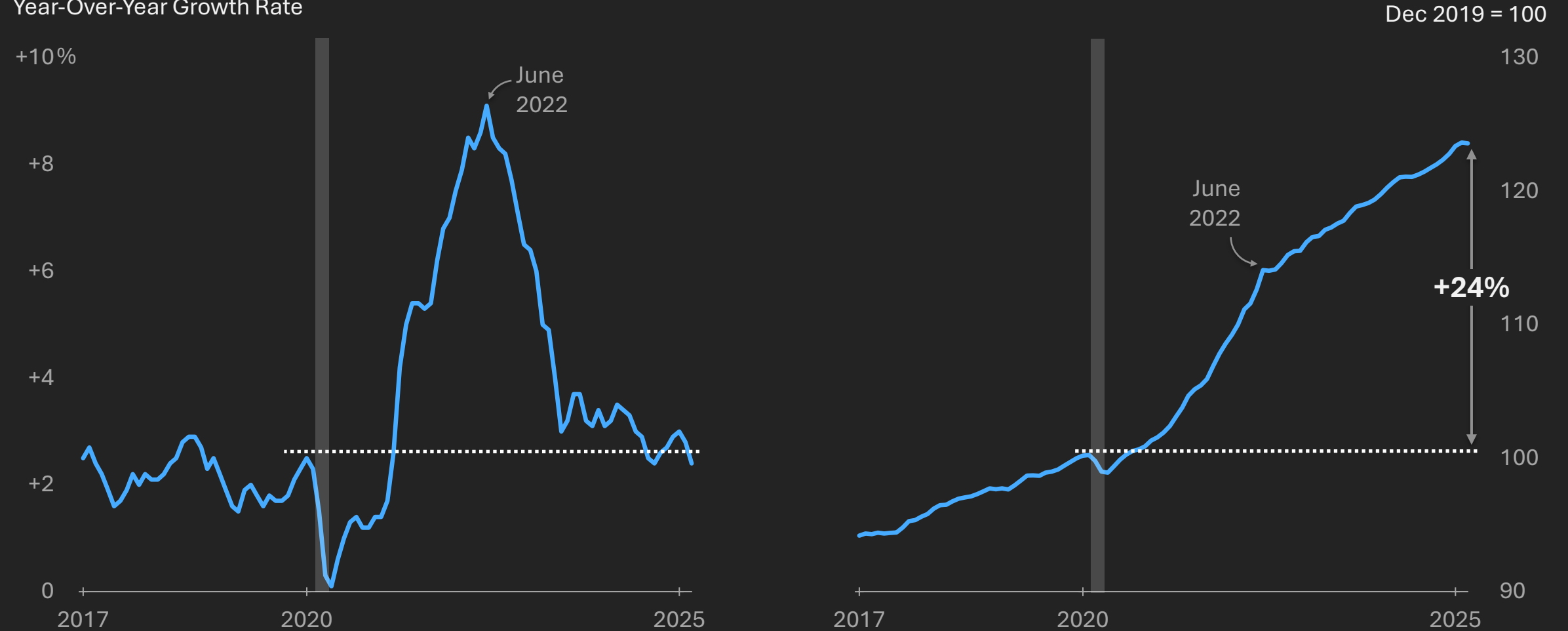


Pre-Substitution Rate shown as of April 15, 2025
Source: The Yale Budget Lab

Consumers Care About Prices—Less So About Inflation

Consumer Price Index (CPI)

Year-Over-Year Growth Rate



Source: US Bureau of Labor Statistics

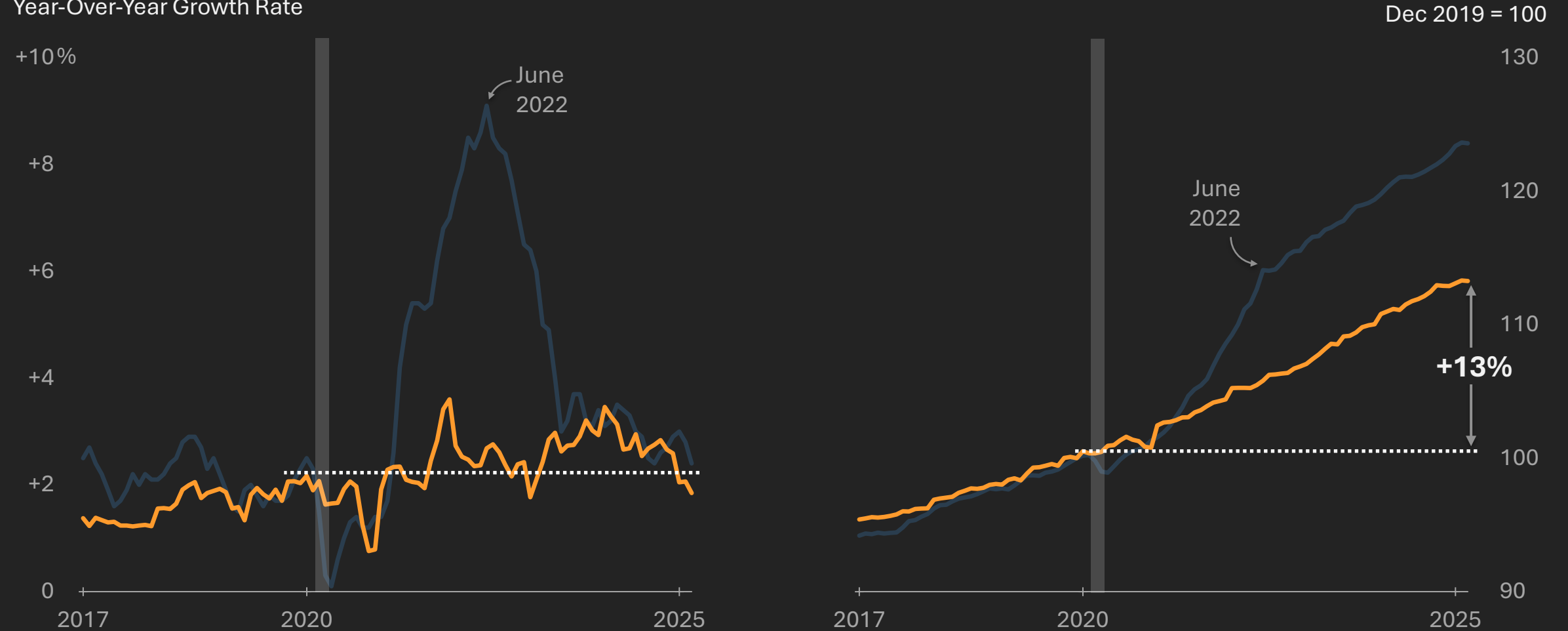
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Medical Prices Are in a Different World

Workers Compensation Weighted Medical Price Index (WCWMI)

Year-Over-Year Growth Rate



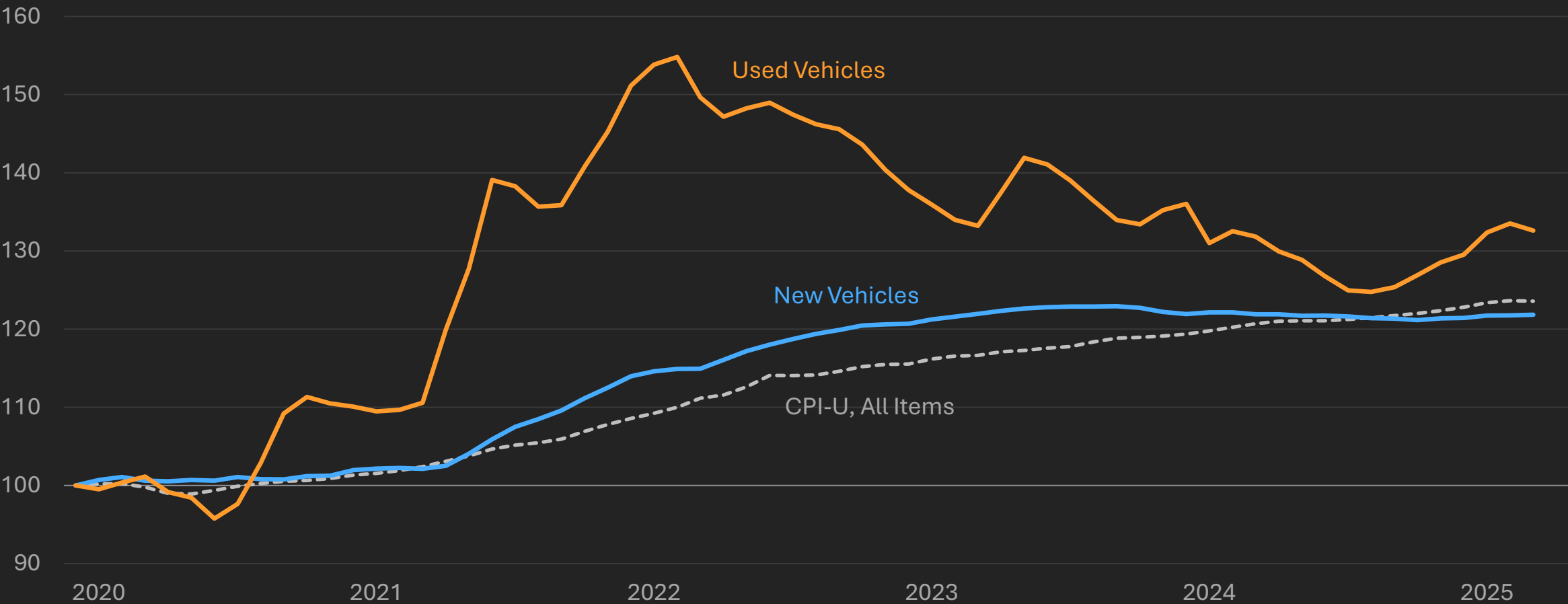
Sources: US Bureau of Labor Statistics; NCCI

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P/C Industry Tariff Impacts—Vehicles, New & Used

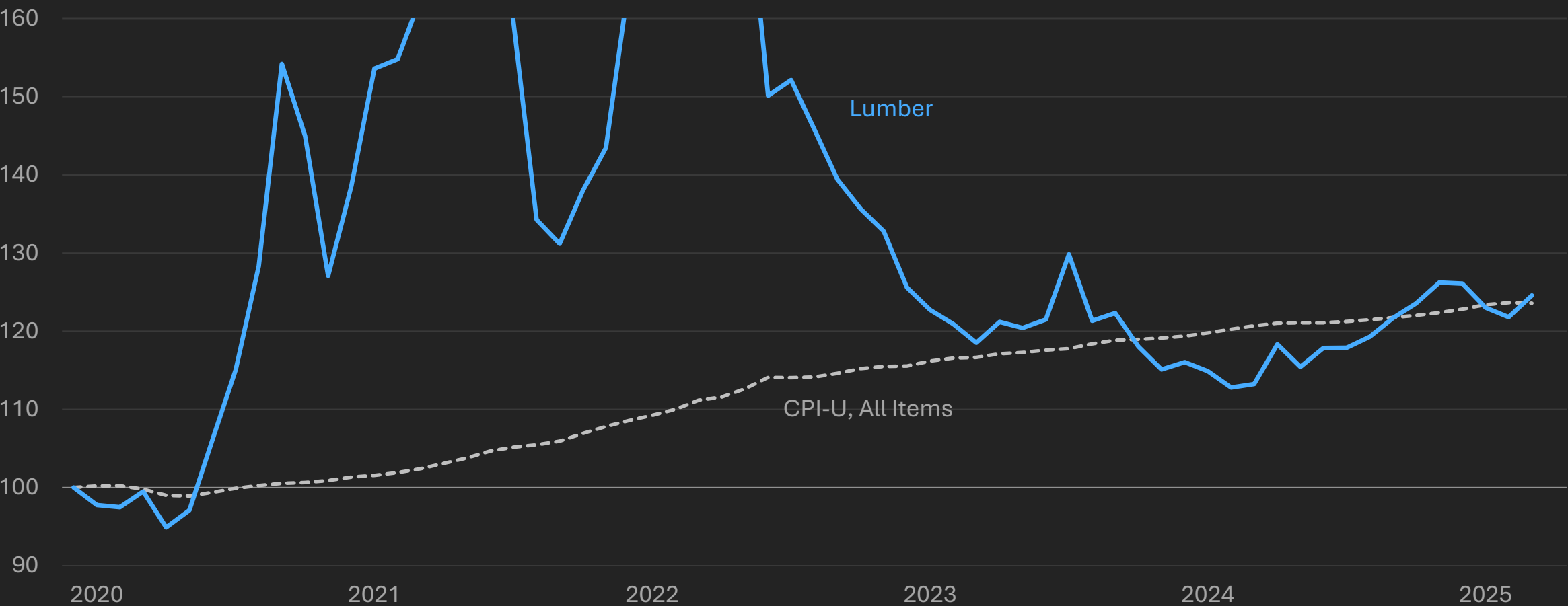
Indexed to Pre-COVID



Values shown are indexed to December 2019; values for New Vehicles and Used Vehicles are sourced from Consumer Price Index (CPI) data
Source: US Bureau of Labor Statistics

P/C Industry Tariff Impacts—Lumber

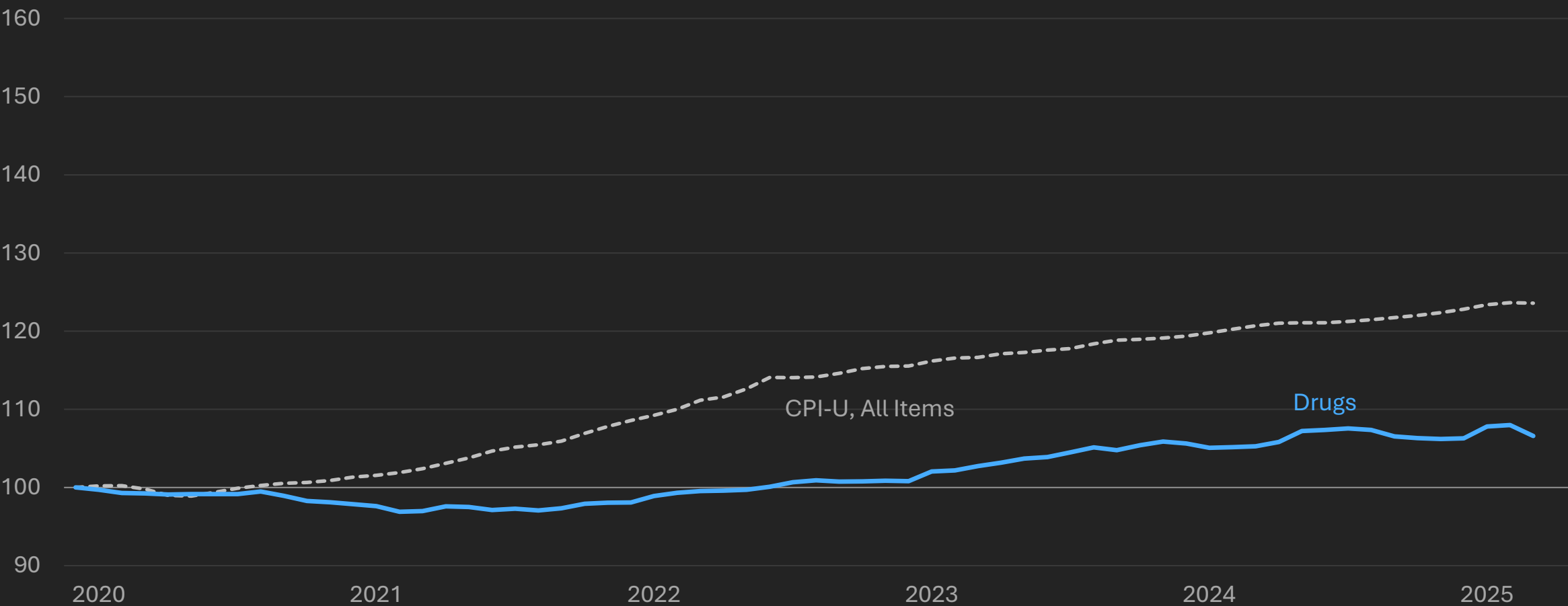
Indexed to Pre-COVID



Values shown are indexed to December 2019; values for Lumber are sourced from Producer Price Index (PPI) data
Source: US Bureau of Labor Statistics

P/C Industry Tariff Impacts—Drugs

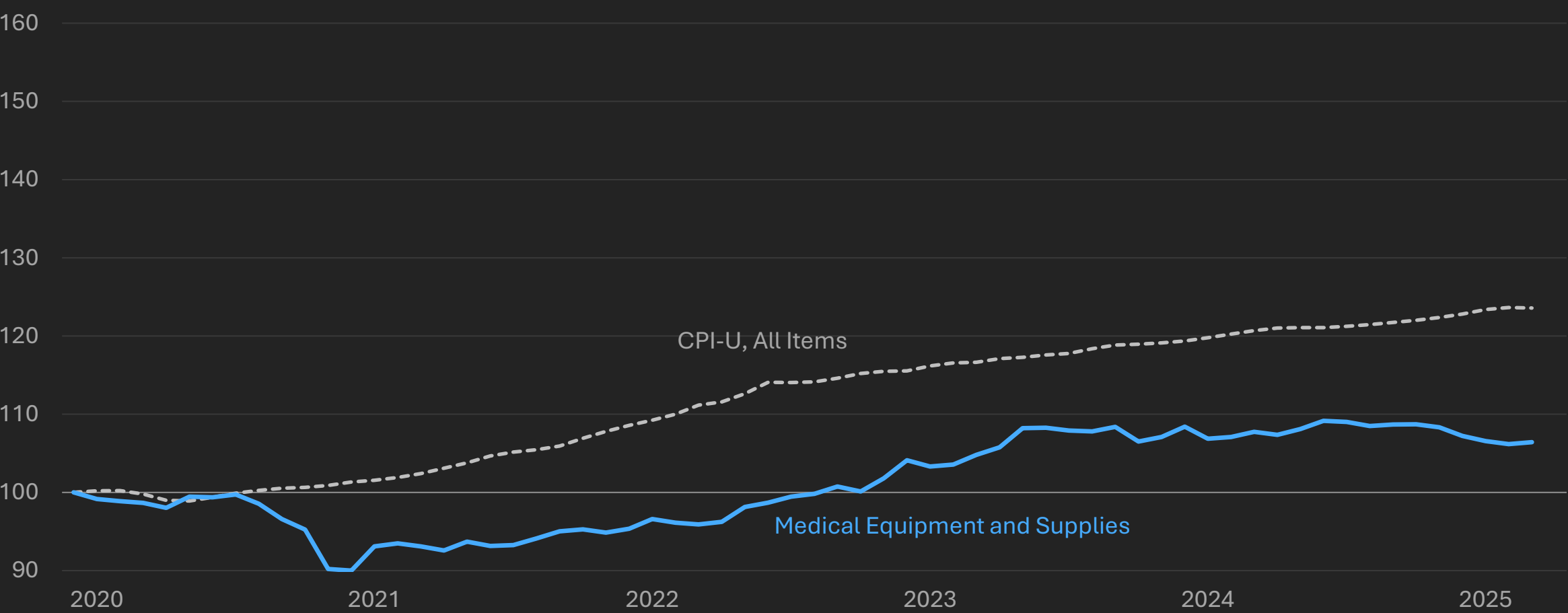
Indexed to Pre-COVID



Values shown are indexed to December 2019; values for Medicinal Drugs are sourced from Consumer Price Index (CPI) data
Source: US Bureau of Labor Statistics

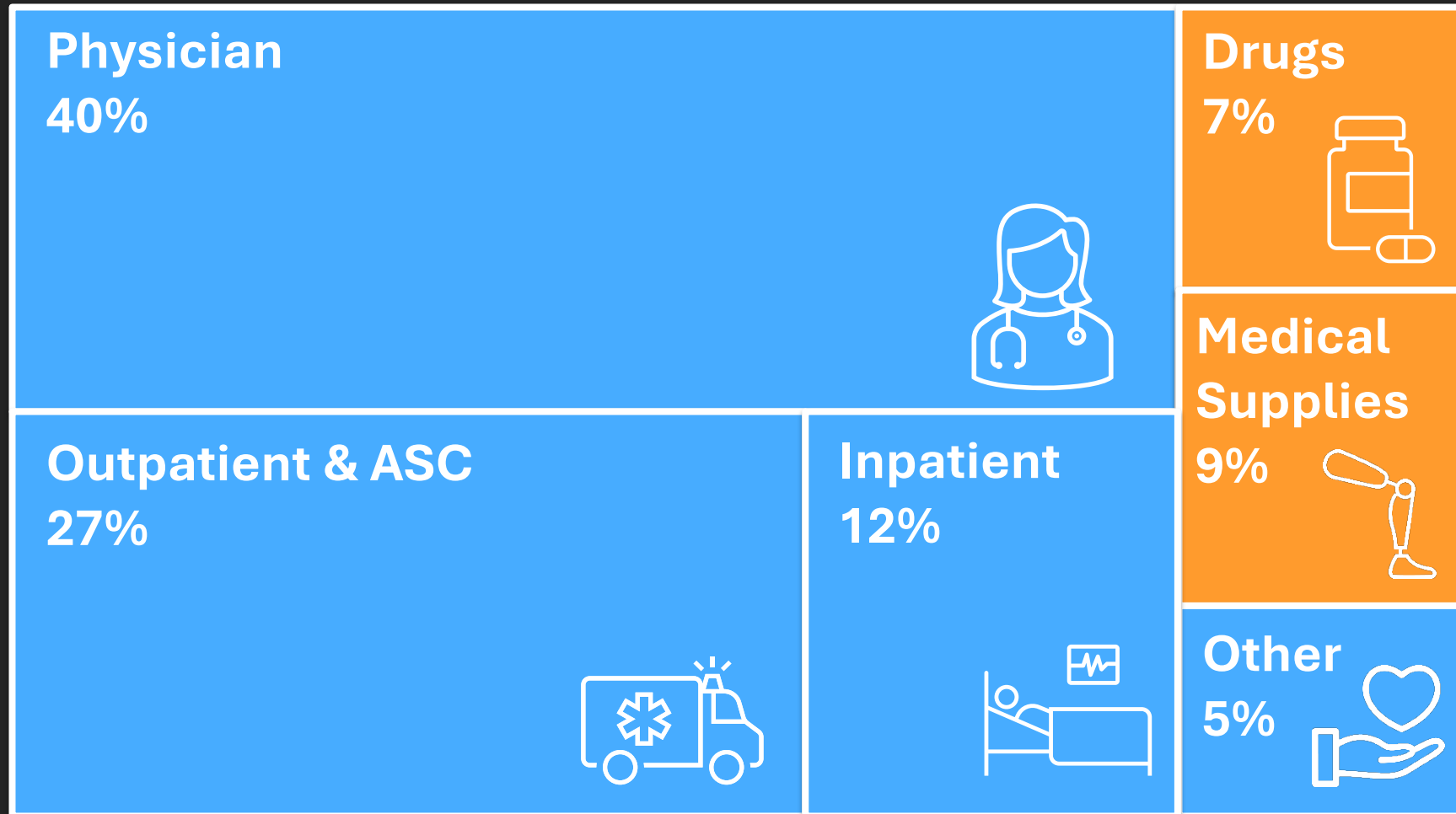
P/C Industry Tariff Impacts—Medical Equipment & Supplies

Indexed to Pre-COVID



Values shown are indexed to December 2019; values for Medical Equipment and Supplies are sourced from Consumer Price Index (CPI) data
Source: US Bureau of Labor Statistics

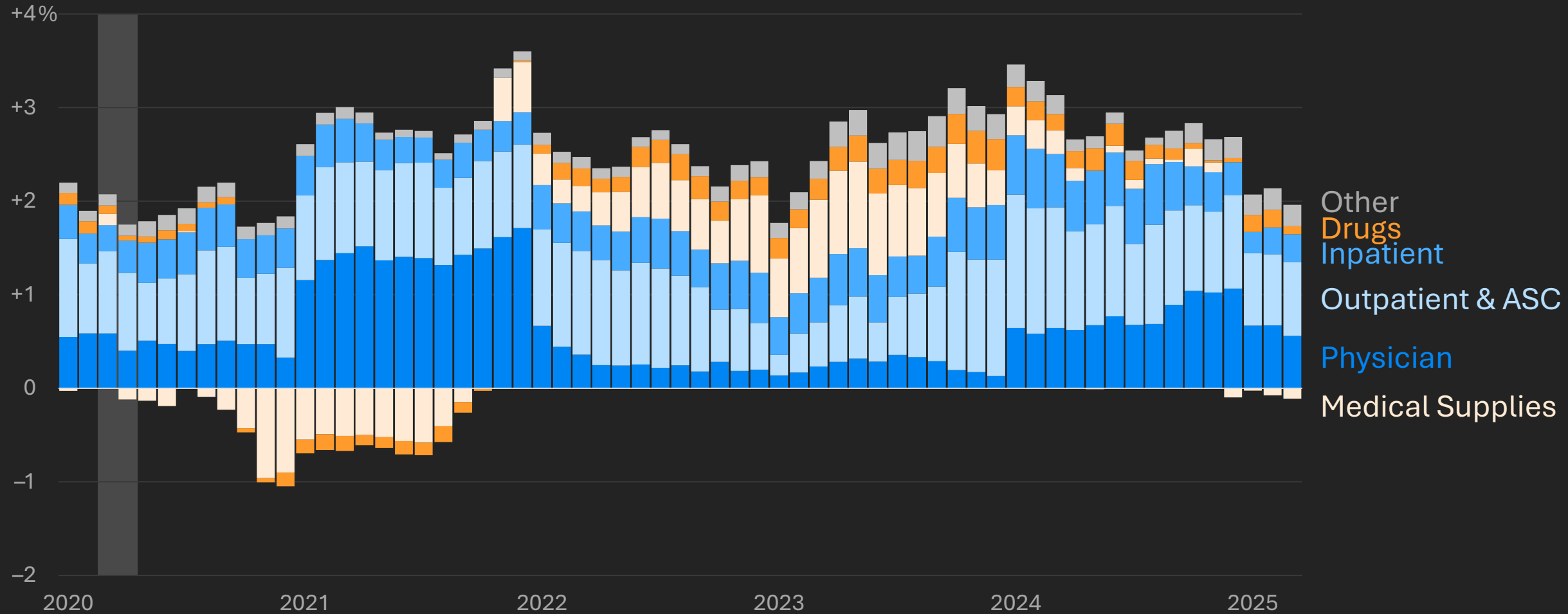
Medical Cost Distribution



Distribution shown for Service Year 2023
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



The Economy



Inflation

- Inflation or not, prices are going up
- Workers compensation to be impacted by tariffs on pharmaceuticals and medical supplies
- Medical price impacts likely to be manageable



Growth



Inflation



The Economy



Employment



Interest Rates



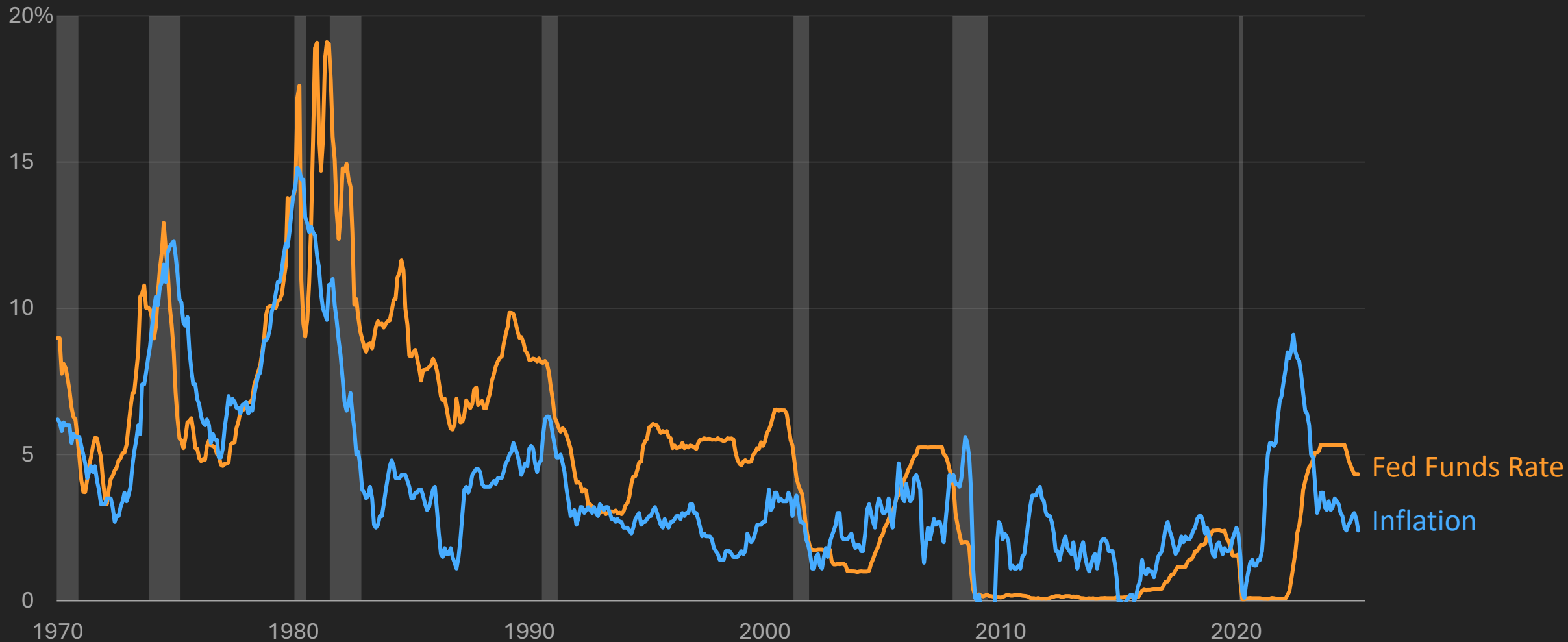
The Economy



Interest Rates

- Does anyone want Jerome Powell's job right now?
- If we are worried about a recession, why are long-term yields rising?
- The \$36,000,000,000,000 question

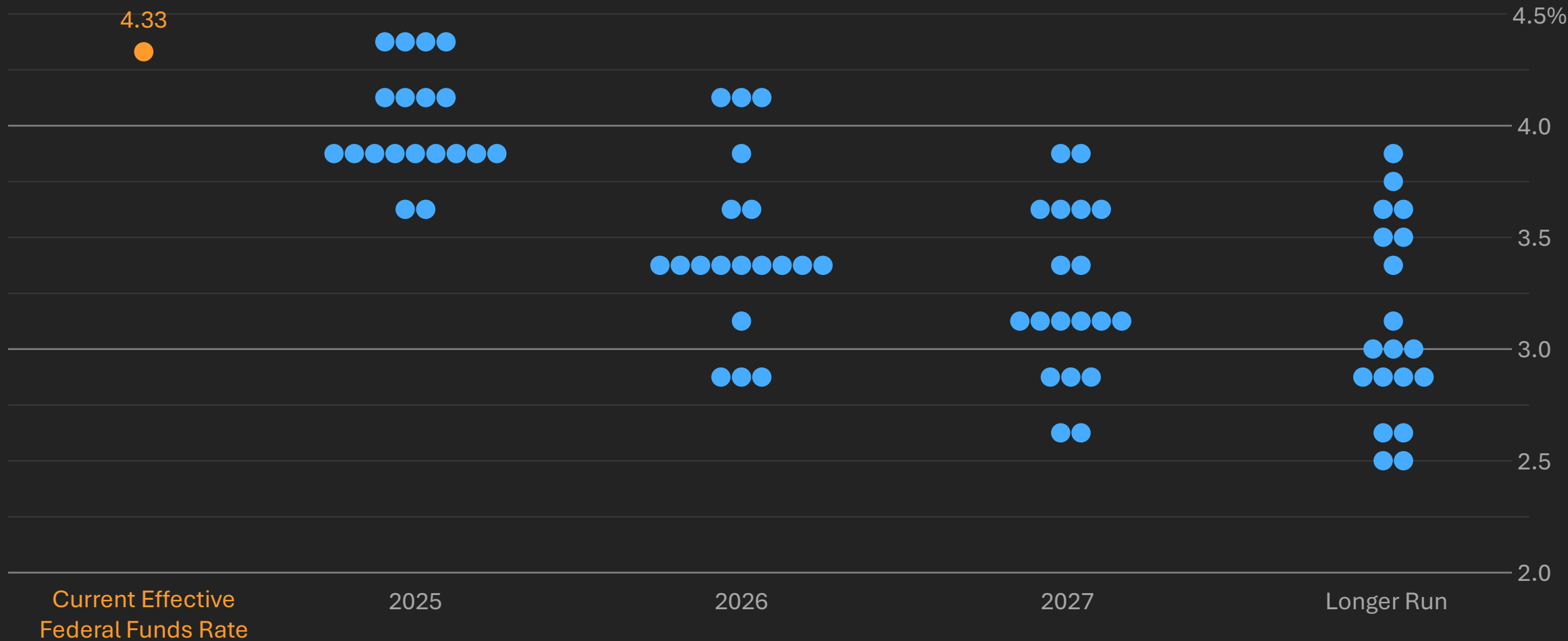
Mid-'90s Soft Landing or Late-'70s Inflation Shock?



Consumer Price Index (CPI) shown as year-over-year percentage change of the monthly index
Sources: Board of Governors of the Federal Reserve System; US Bureau of Labor Statistics

The Fed Is in Wait-and-See Mode

FOMC Participants' Assessments of Appropriate Monetary Policy

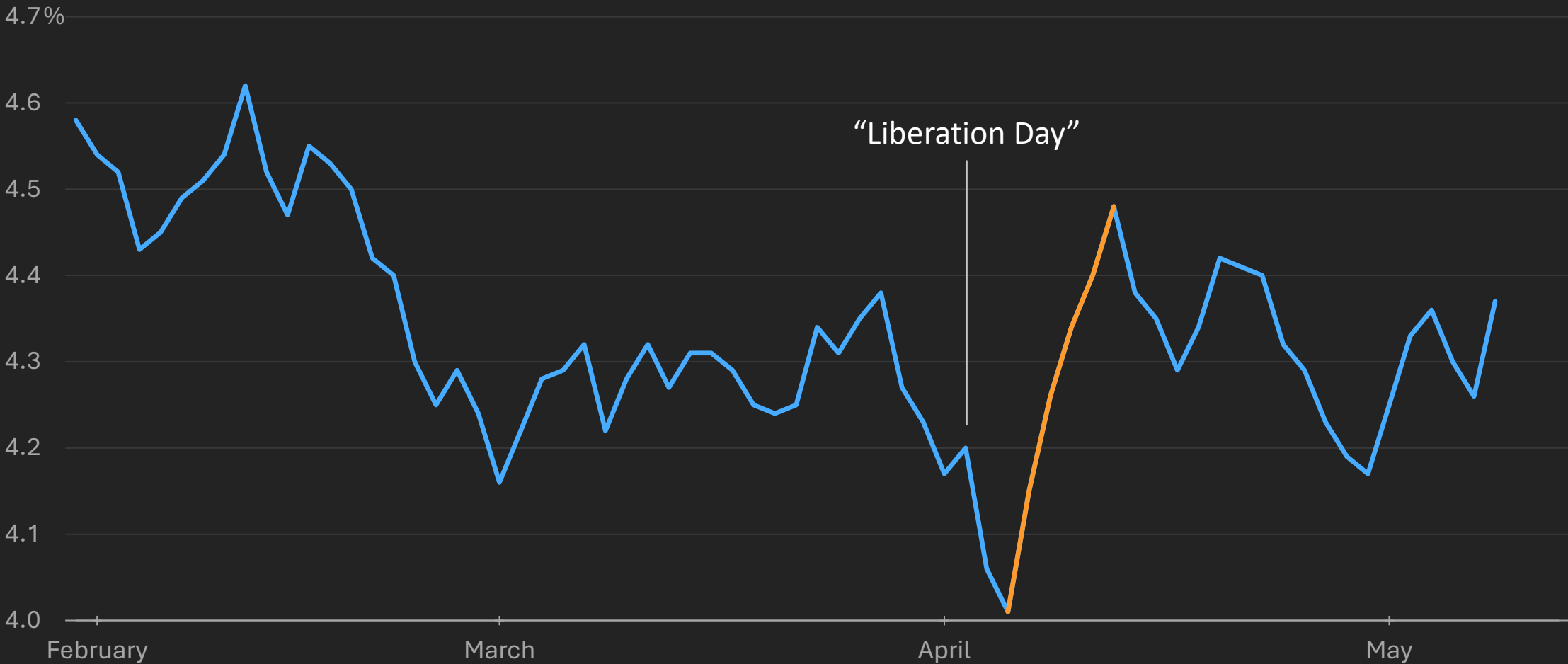


Source: Federal Open Market Committee (FOMC)

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10-Year Treasury Yields Are Moving in Unexpected Ways

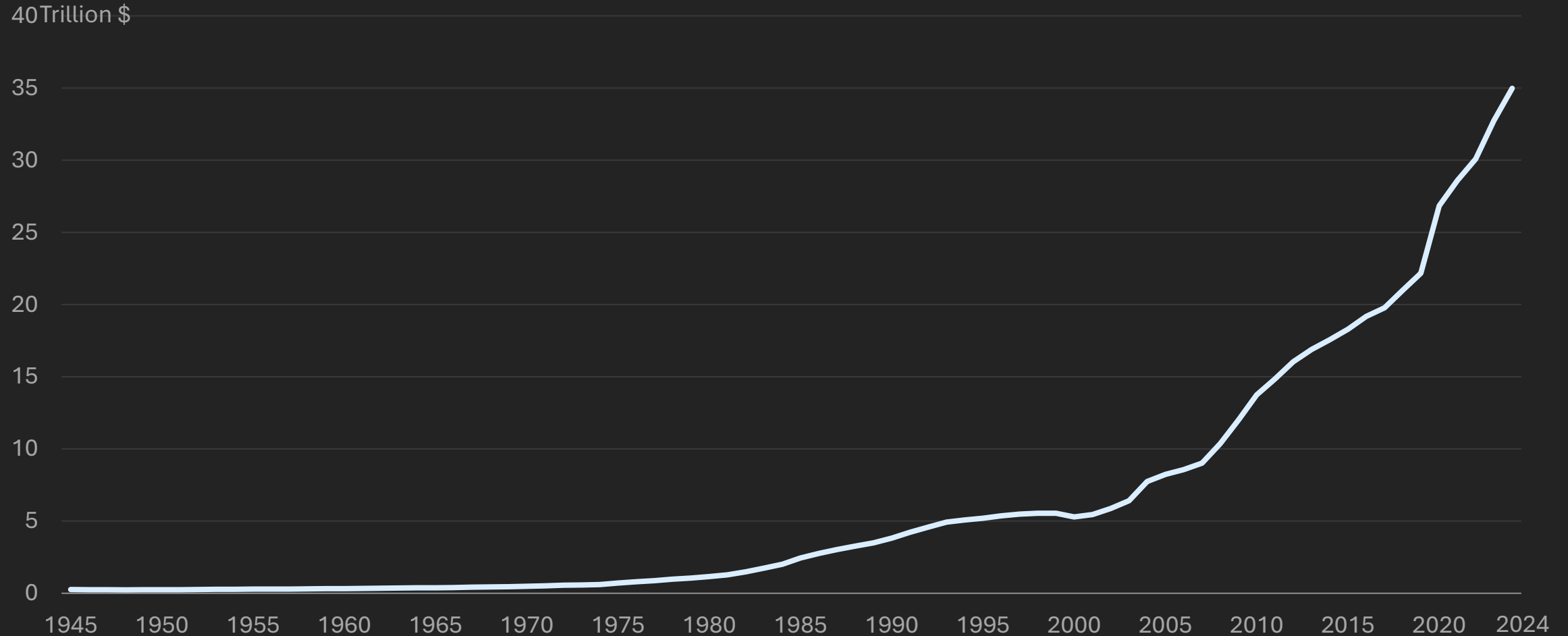
Daily Par Yield Rate of 10-Year Treasury



Source: US Department of the Treasury

The \$36,000,000,000,000 Question

US Government Debt Outstanding



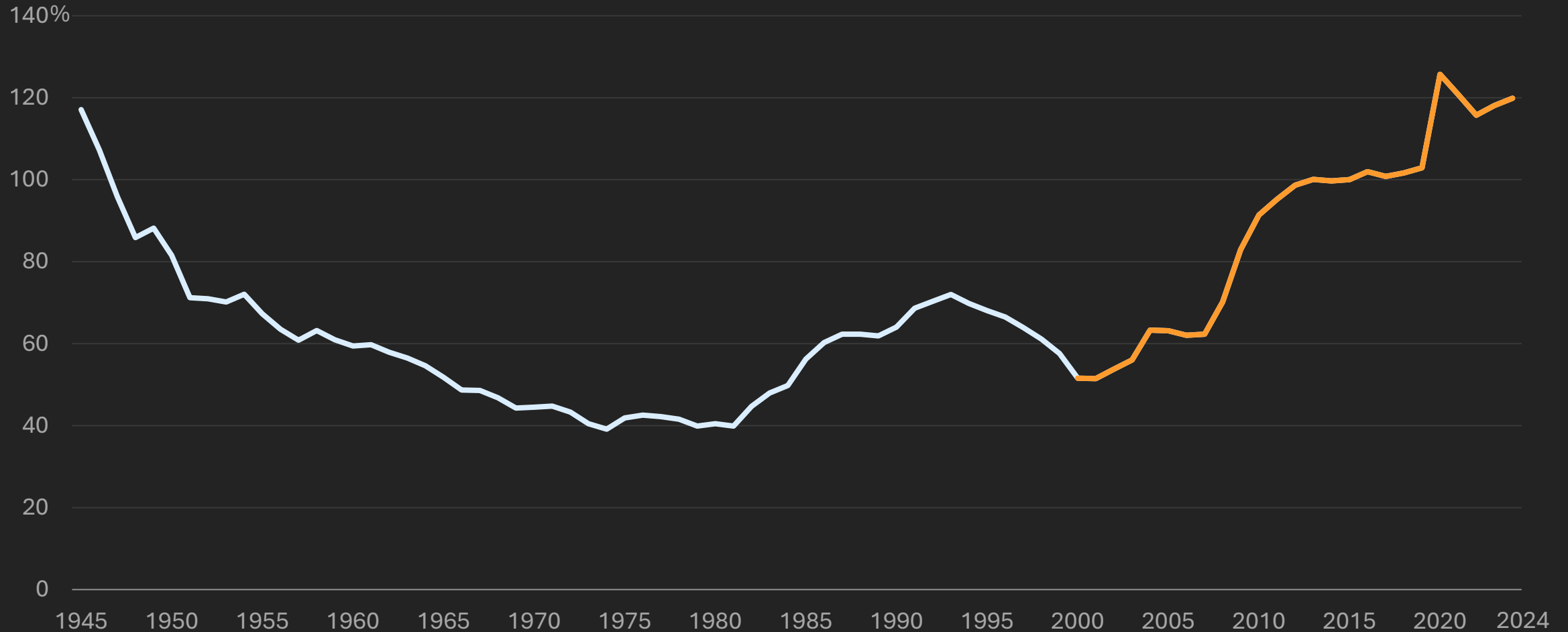
Source: Board of Governors of the Federal Reserve System

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Is It Actually a Big Deal?

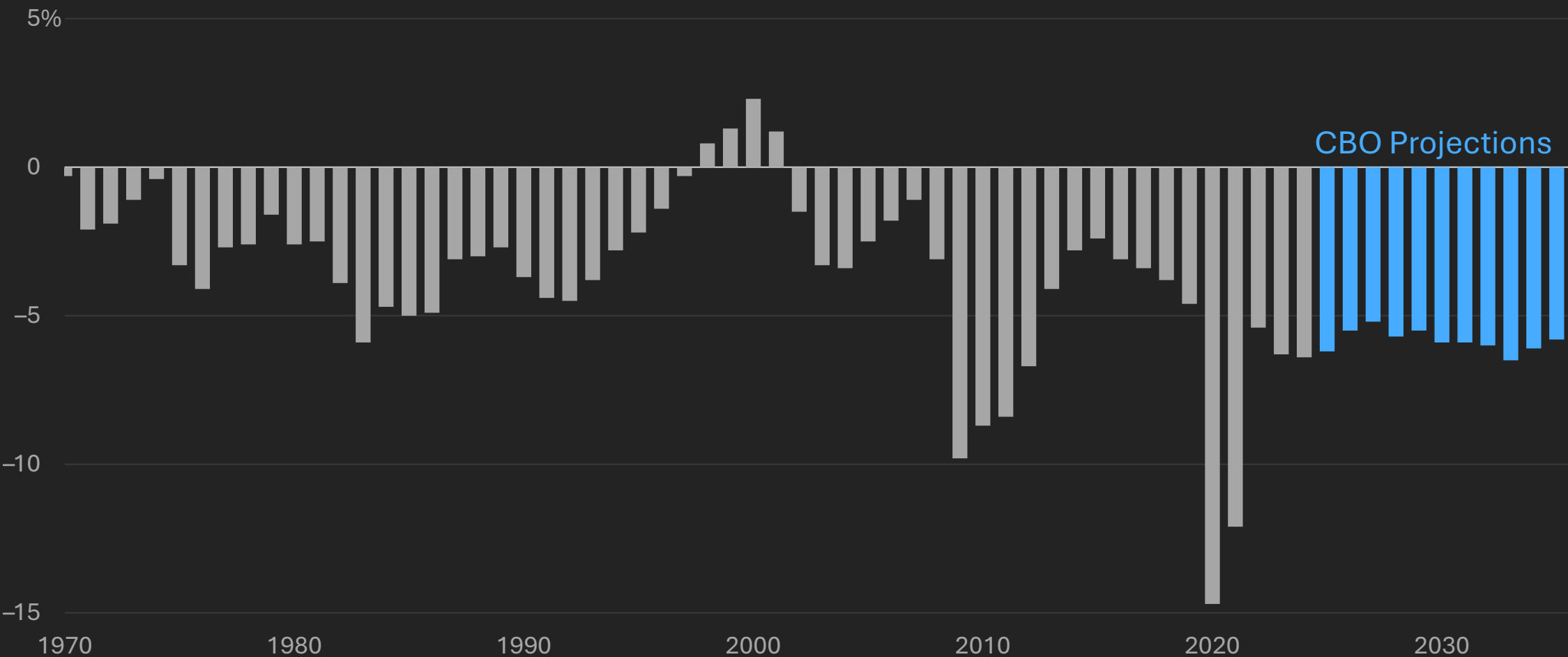
US Government Debt to GDP Ratio



Sources: Board of Governors of the Federal Reserve System; US Bureau of Economic Analysis

The Deficit Is What Actually Matters

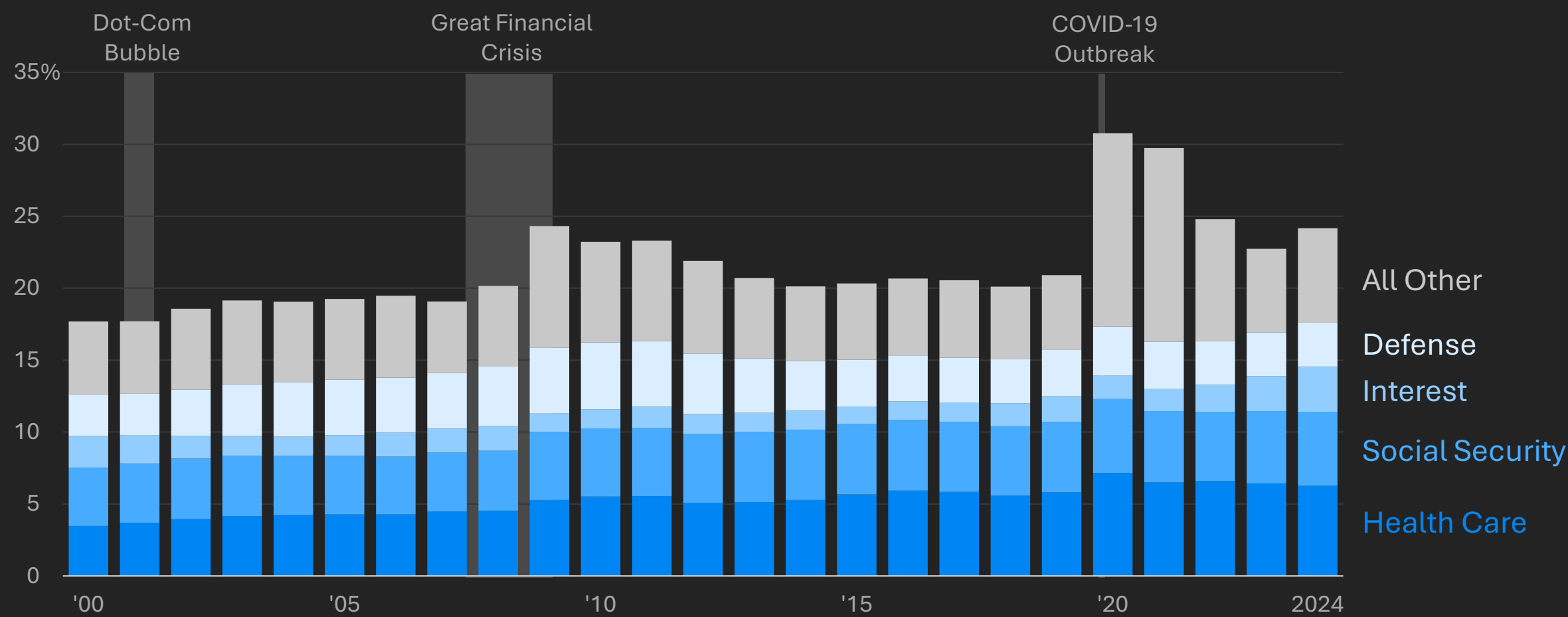
Federal Deficit/Surplus as a Share of GDP



Values are represented on a fiscal year basis
Source: Congressional Budget Office (CBO)

What Does the Federal Government Spend Money On?

Federal Government Spending as a Share of GDP



Values are represented on a fiscal year basis
Source: Office of Management and Budget (OMB)



The Economy



Interest Rates

- The Fed might be caught between its two mandates: inflation and employment
- Despite recession risks, yields are rising over concerns around inflation and debt
- Unsustainable deficits and budget trickery may keep longer-term yields elevated



Growth



The Economy



Employment



Inflation



Interest Rates

2025 State of the Economy Insights



Growth

Economic uncertainty is elevated, recession probabilities up

Consumer spending is the key data point to watch



Employment

The labor market is a lagging indicator for the economy

The labor market is at risk near-term (recession) and long-term (labor supply)



Inflation

Tariffs will directly impact a small portion of workers compensation prices

Direct medical price impact likely to be manageable



Interest Rates

Tariffs present a monetary policy challenge for the Fed's dual mandate

Long-term yields may stay elevated due to inflation and debt concerns