

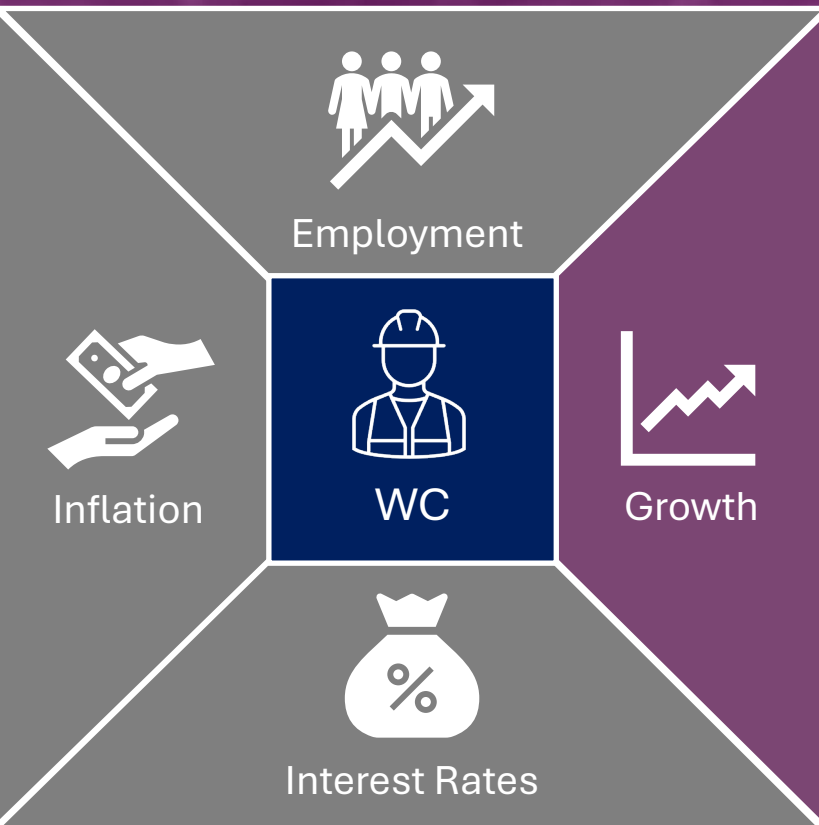
State of the Economy

Stephen Cooper

Executive Director and Senior Economist
NCCI



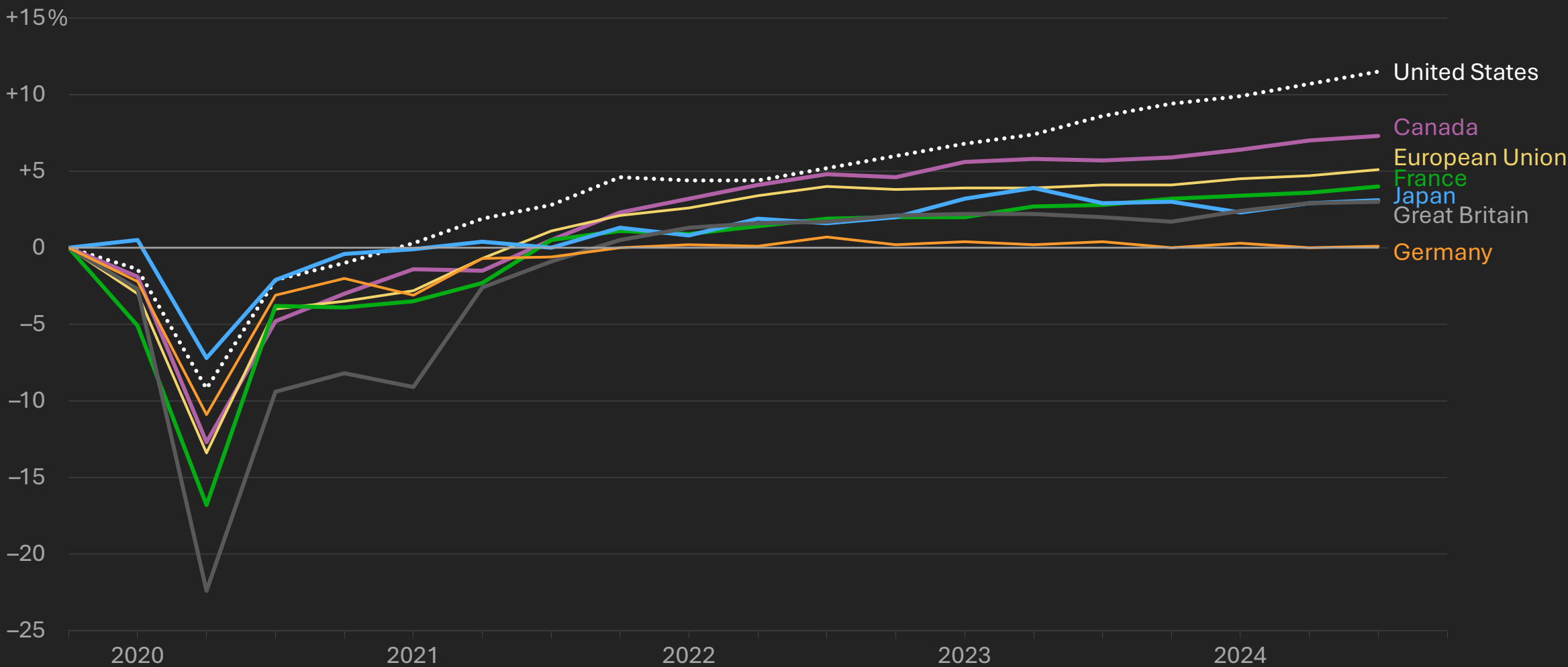




- Is the economy good or bad?
- Does this question still need to be asked?
- What might change in 2025?

US Economic Exceptionalism

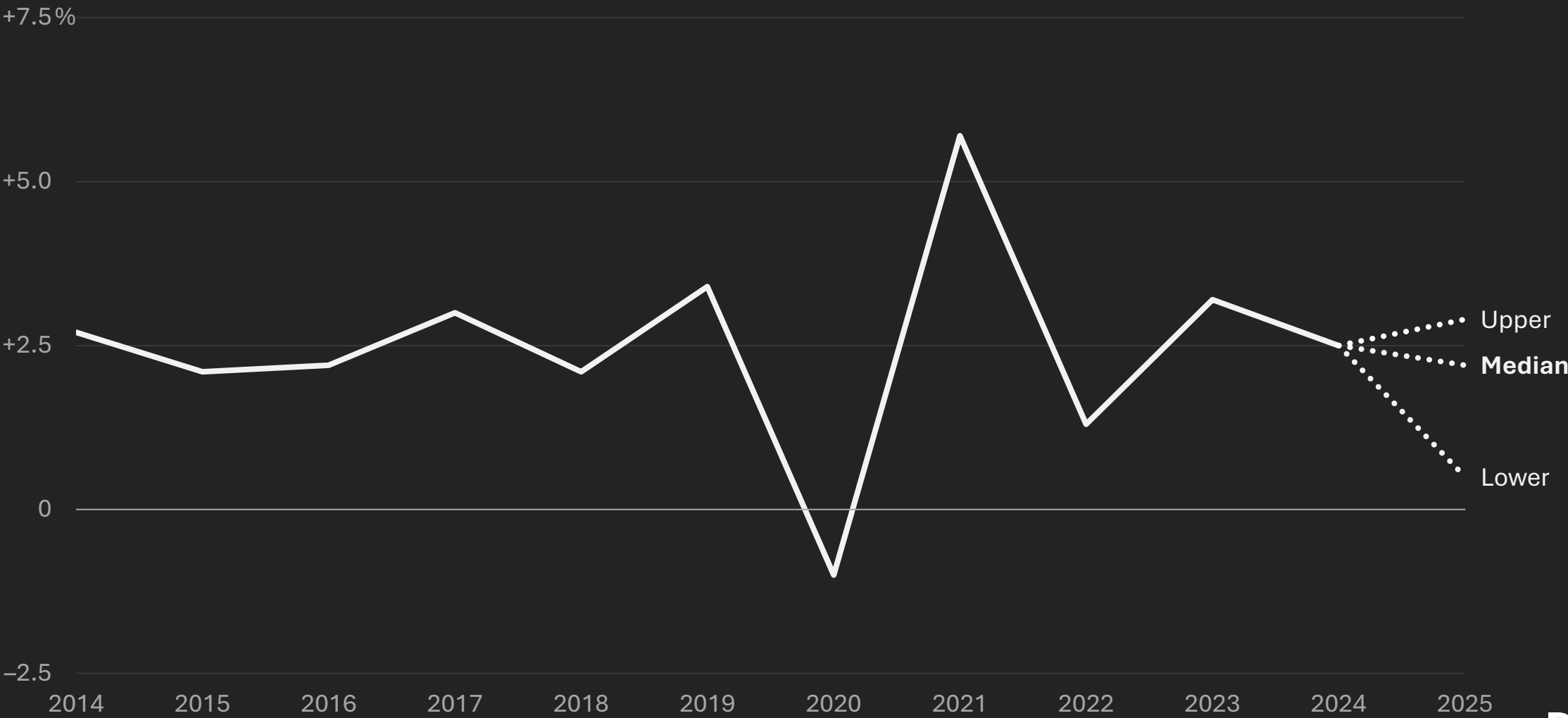
Cumulative Change in Real GDP Since Q4 2019



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

Economists Predictions for 2025

Annual Growth of Real GDP



Sources: US Bureau of Economic Analysis; Bloomberg

What's on the Horizon? Storm Clouds or Sunny Skies?

Upside

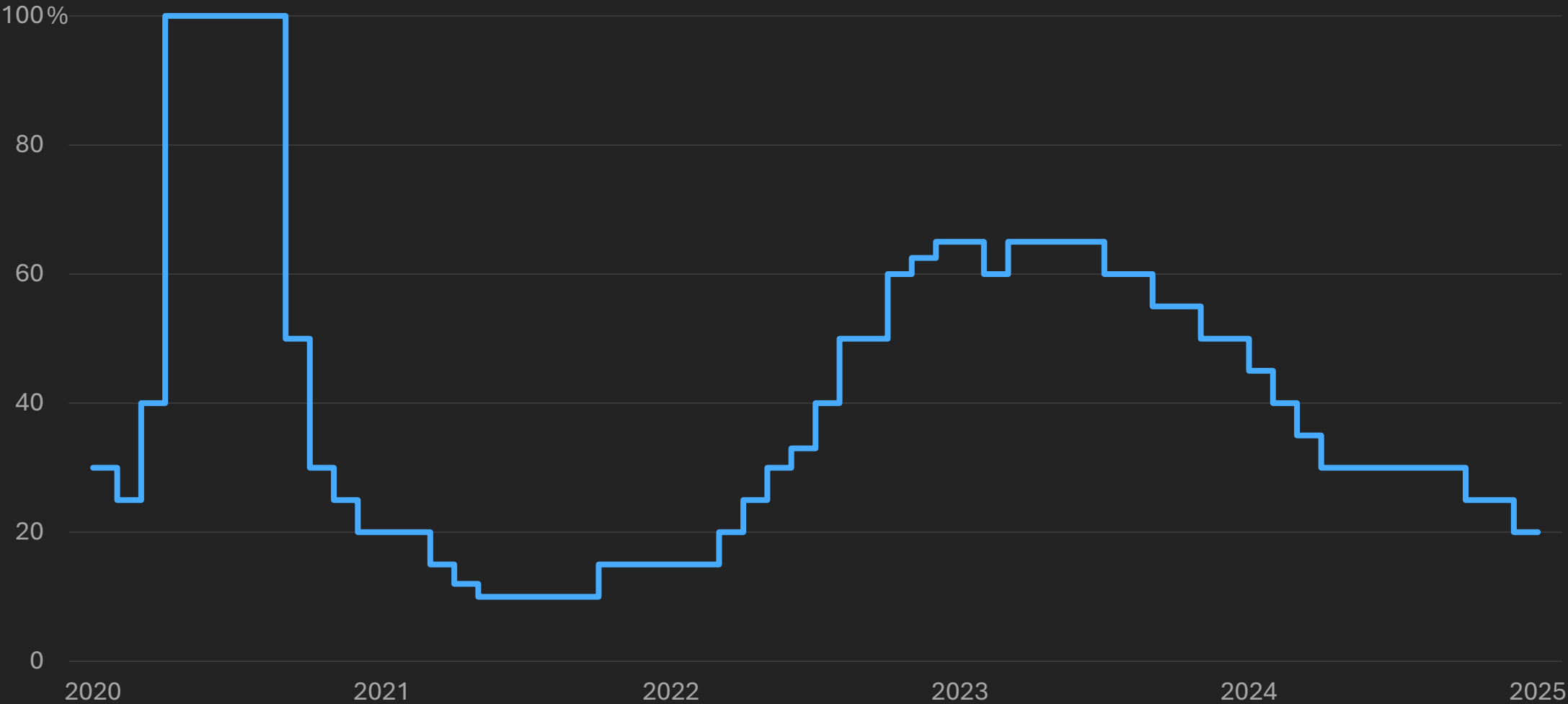
- Economic Momentum
- Tax Cuts/De-regulation
- AI/Automation
- Productivity

Downside

- Global Growth Malaise
- Tariffs/Protectionist Trade
- Immigration Reform
- Debt

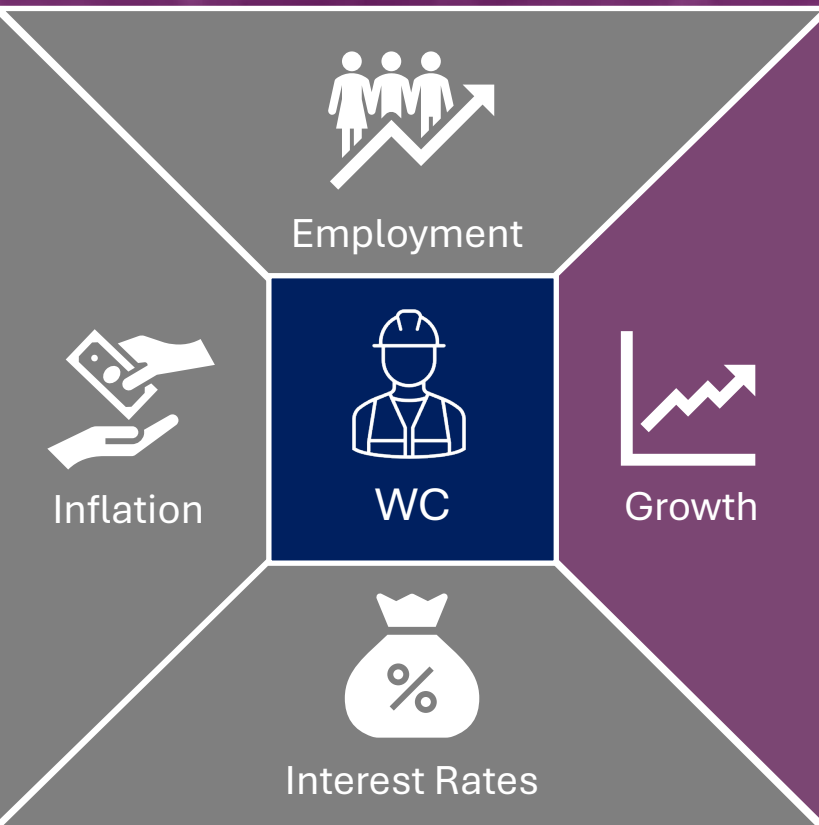
The Probability of Recession Is Remarkably Low

Probability of Recession

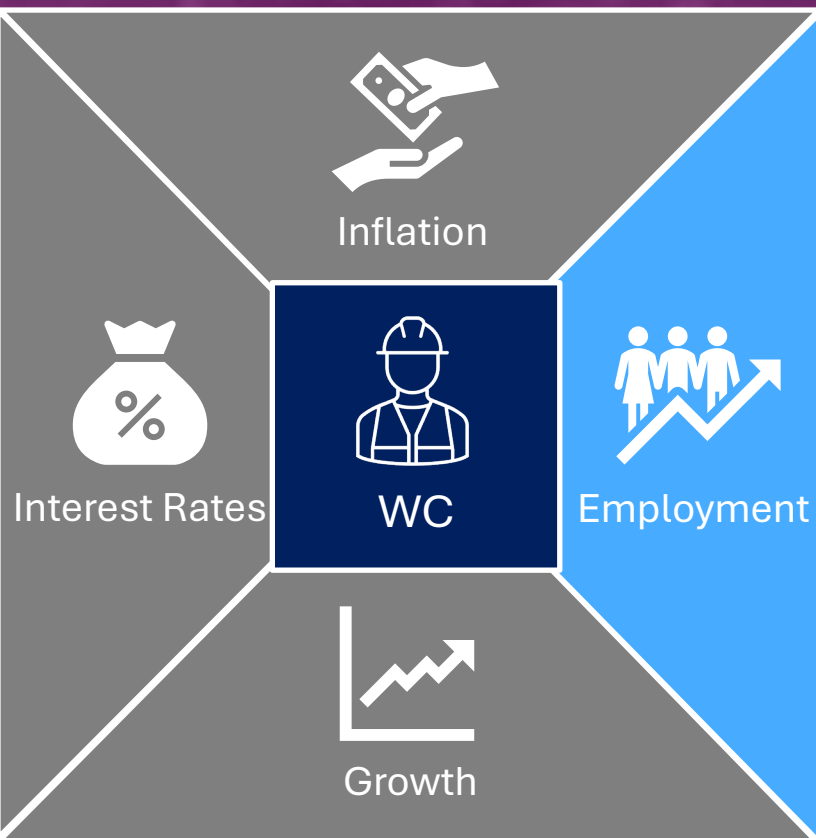


Source: Bloomberg

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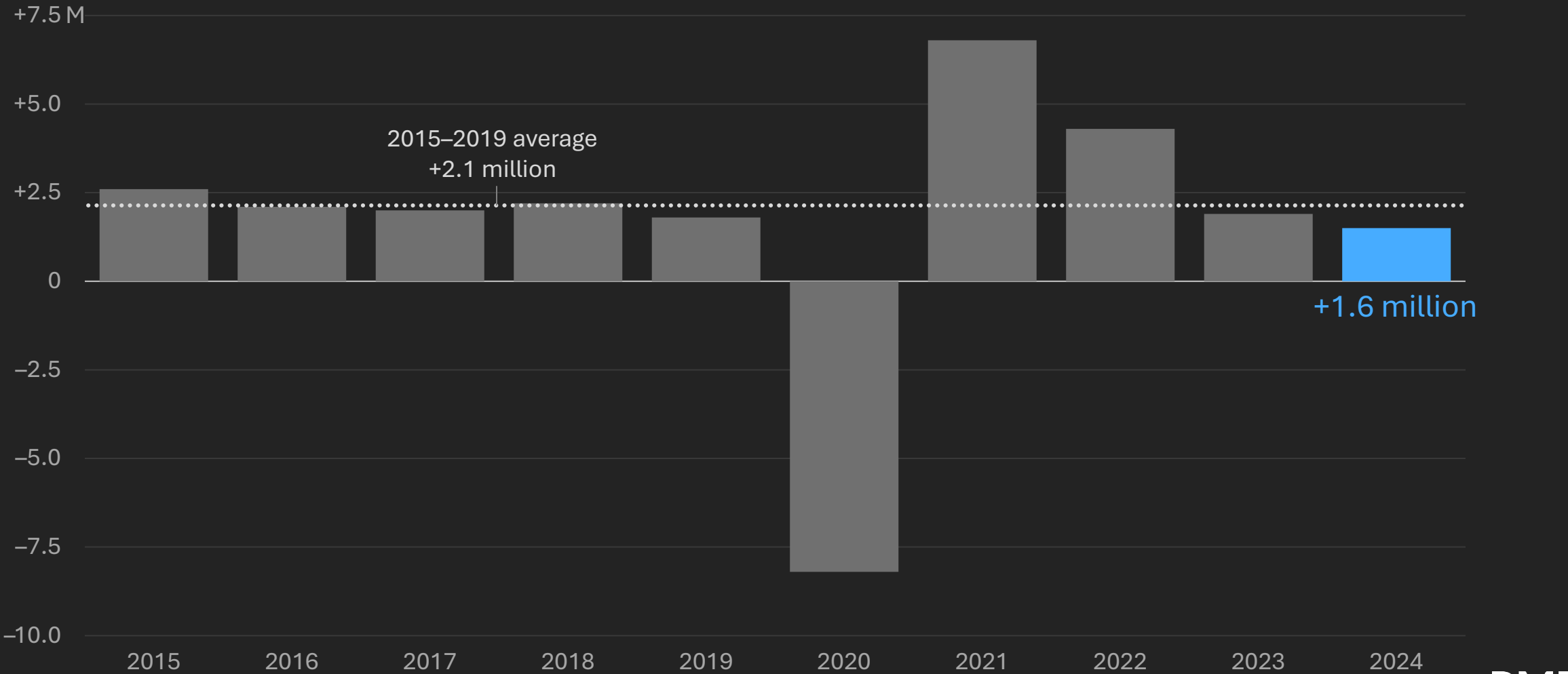
- The US economy is the envy of the world
- Forecasts suggest that it won't get much better than this
- 2025 brings risks in both directions, uncertainty remains high



- Is the labor market slowing or deteriorating?
- How do we know?
- What does that mean for workers compensation?

Employment Growth Has Returned to Normal

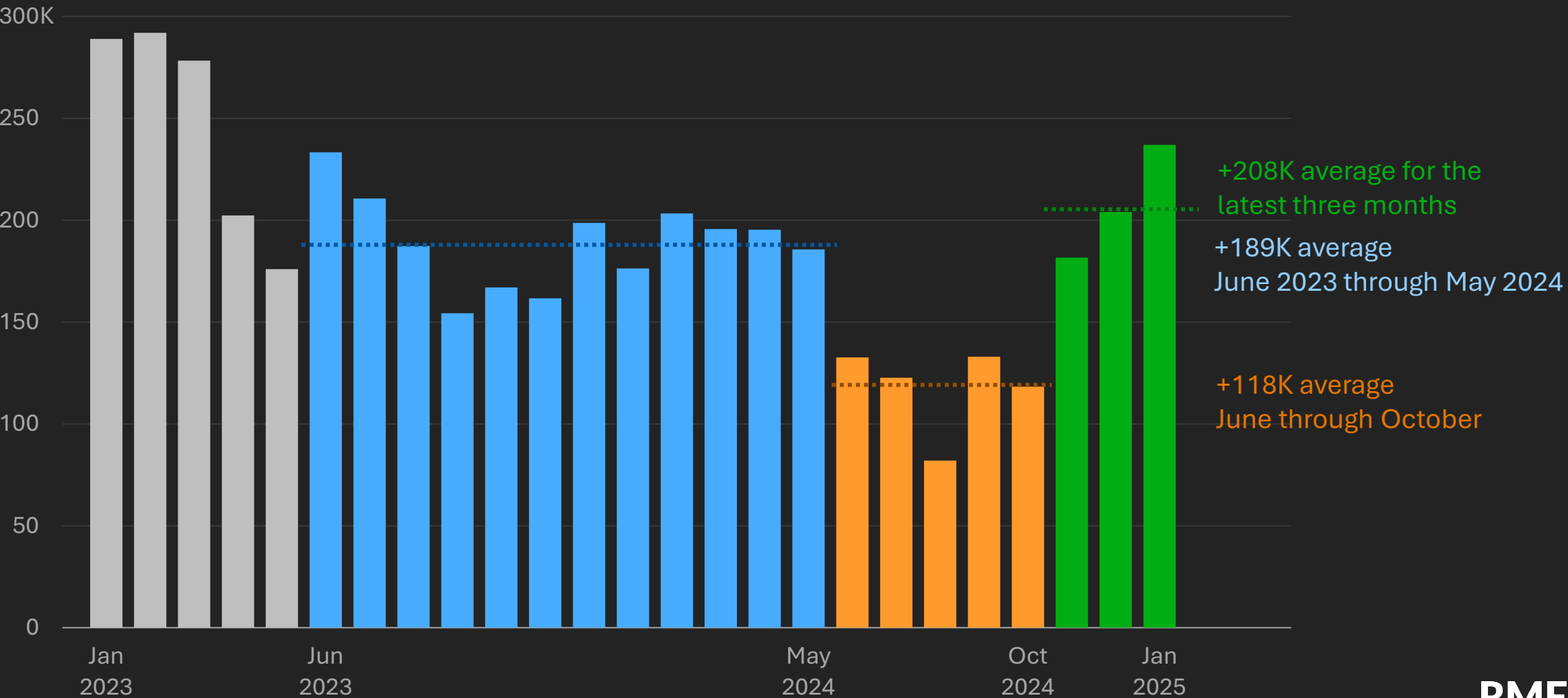
Change in Private Industry Employment



Source: US Bureau of Labor Statistics

The Summer Slowdown Was a Normal Labor Market Head Fake

Change in Employment, 3-Month Moving Average



Source: US Bureau of Labor Statistics

Workers Compensation Is Not the Economy

Sector Distribution—NCCI States, Percent

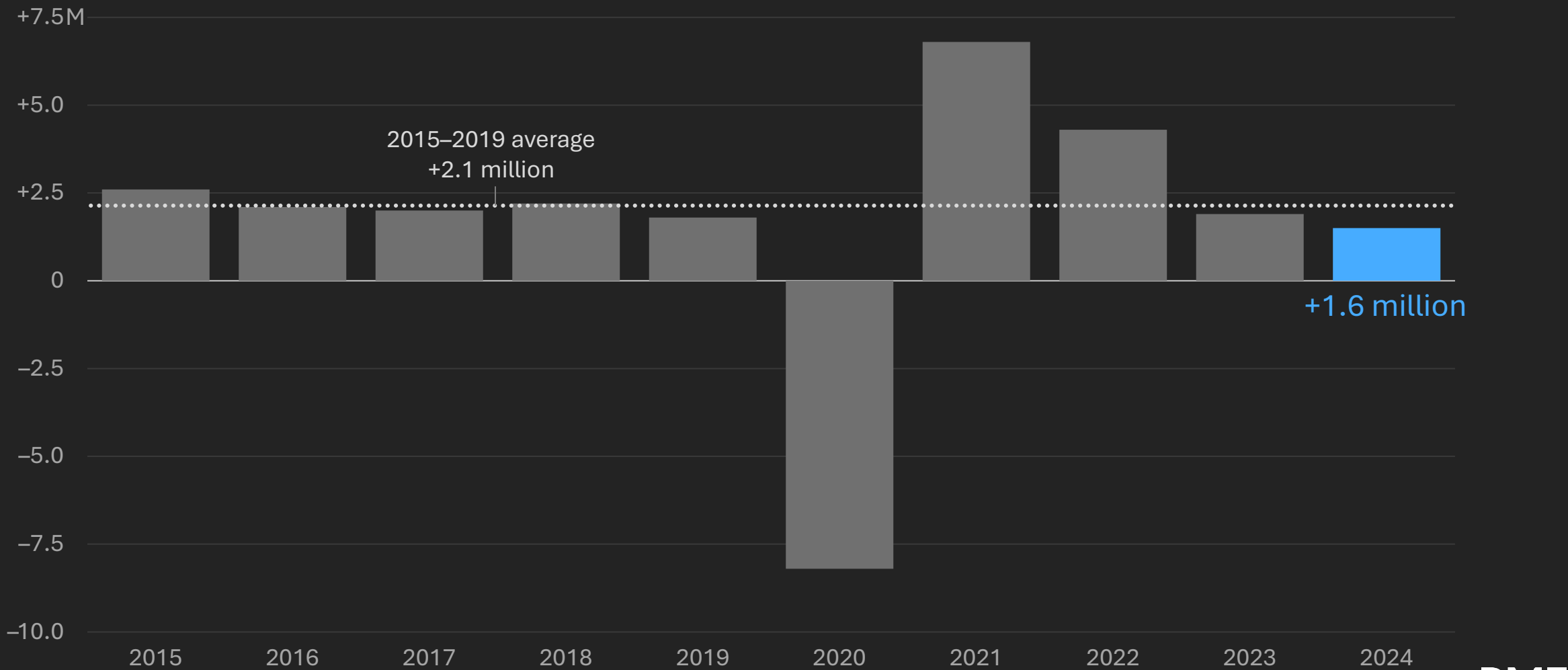
	Employment	Voluntary		Residual	
		Payroll	Premium	Payroll	Premium
Construction	6	8	19	25	43
Combined Office	29	38	18	32	19
Transportation and Warehousing	5	4	10	6	8
Leisure and Hospitality	12	5	6	7	6
Manufacturing	10	17	18	6	5
Health Care	17	10	7	10	4
Retail Trade	12	8	10	3	2
Wholesale Trade	5	4	6	1	1
All Other	5	6	7	11	11

Combined Office is an aggregation of several sectors: Information, Financial Services, Professional and Business Services, and Private Education
Market values are calculated by industry, excluding Public Administration and where sector is unknown; values may not sum to 100% due to rounding
Sources: NCCI's Statistical Plan data (CY 2023p); US Bureau of Labor Statistics (US total, CY 2024)

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What Did 2024's Employment Growth Look Like?

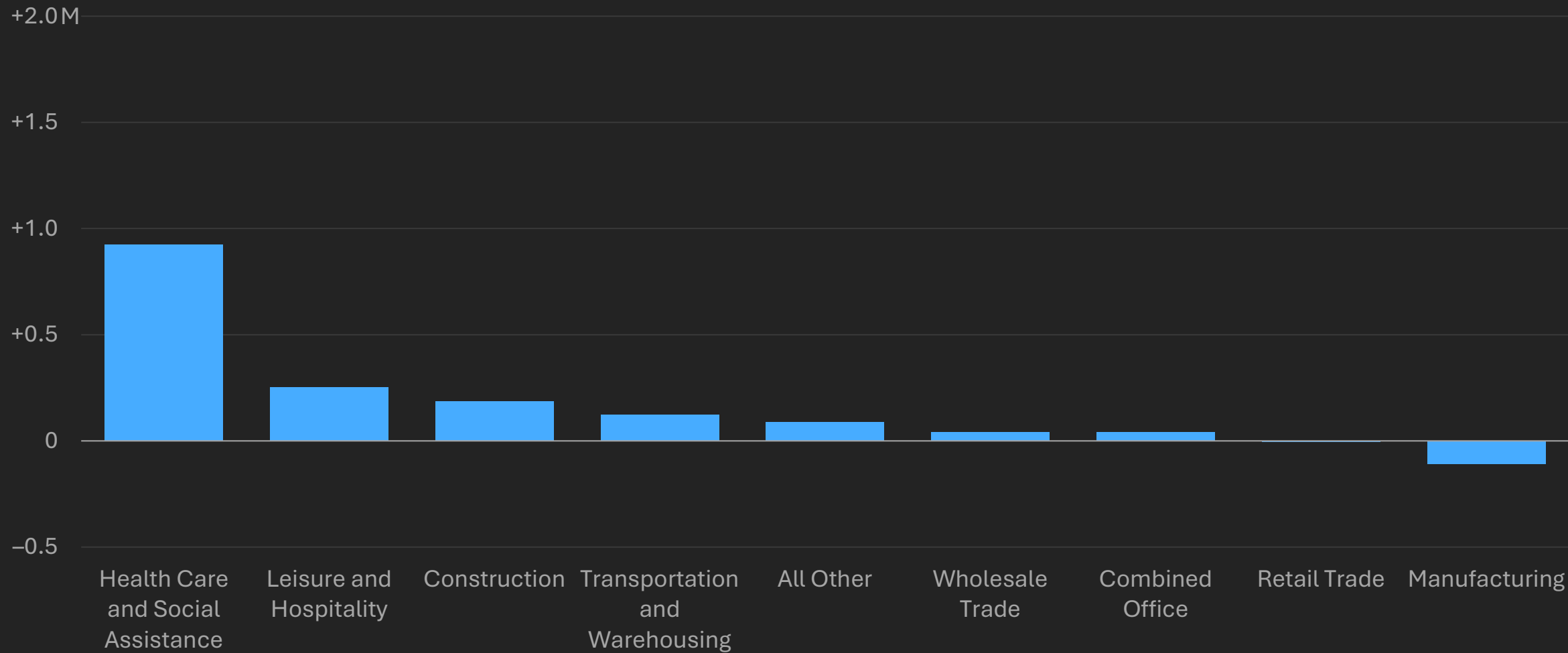
Change in Private Industry Employment



Source: US Bureau of Labor Statistics

Key Residual Market Industries Contributed to Growth

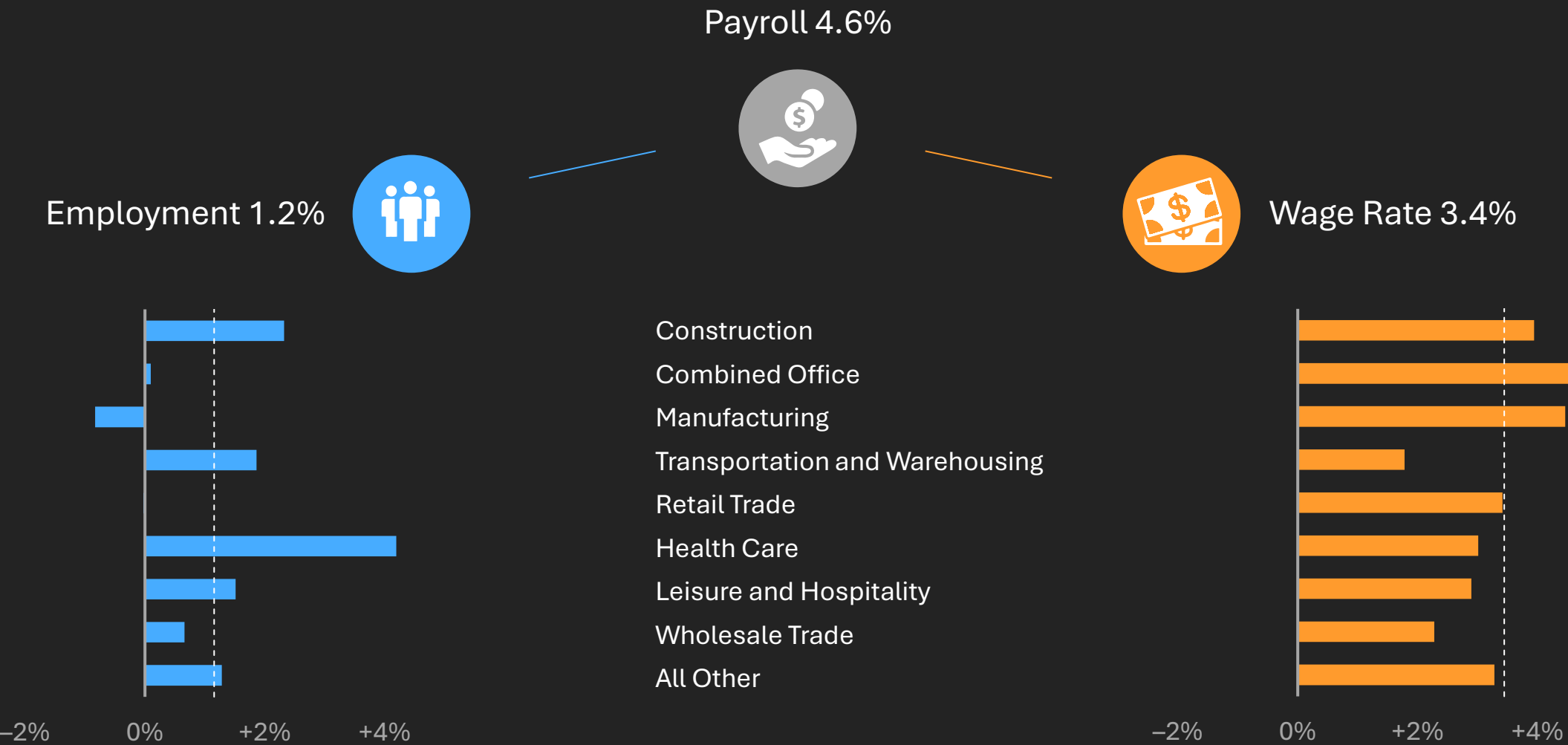
Job Growth by Sector in 2024



Source: US Bureau of Labor Statistics

Wages Are the Force Behind Payroll Growth

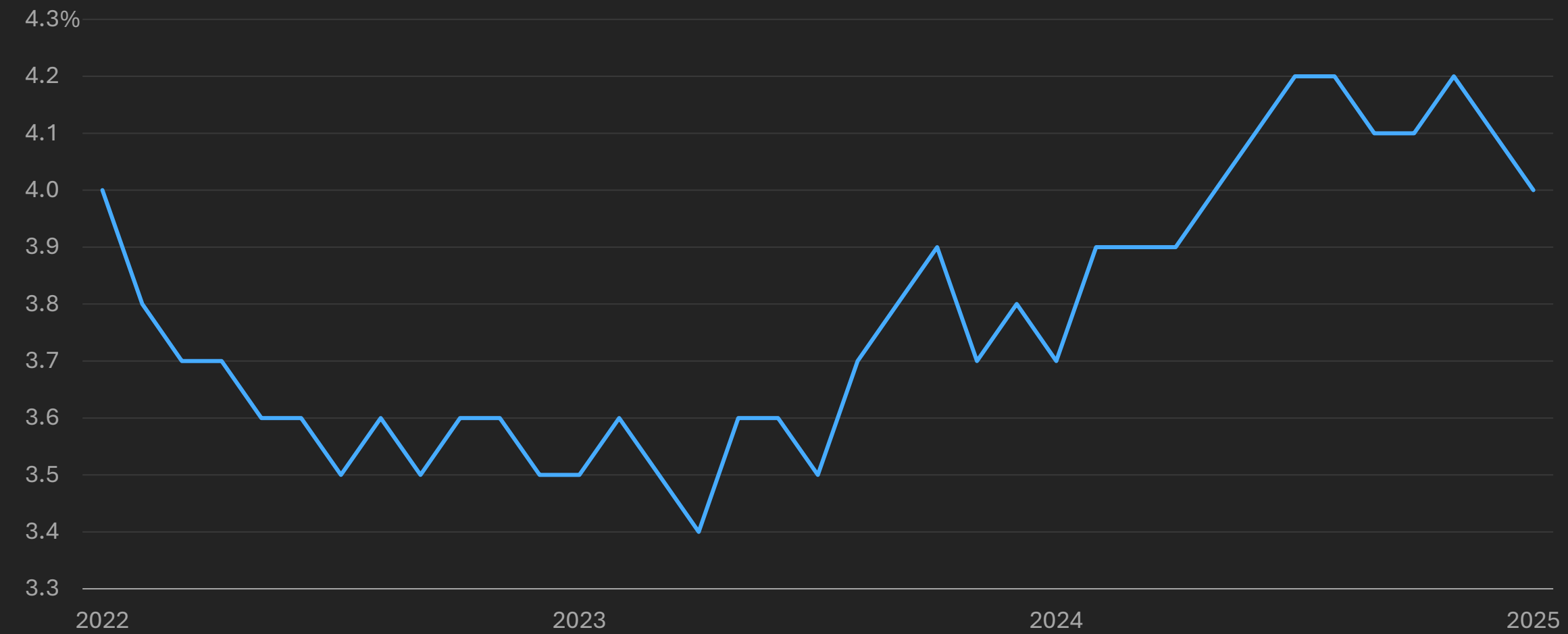
Changes in Payroll by Component—2024 through December (Annualized)



Sources: US Bureau of Labor Statistics; NCCI

The Unemployment Rate Increased in 2024

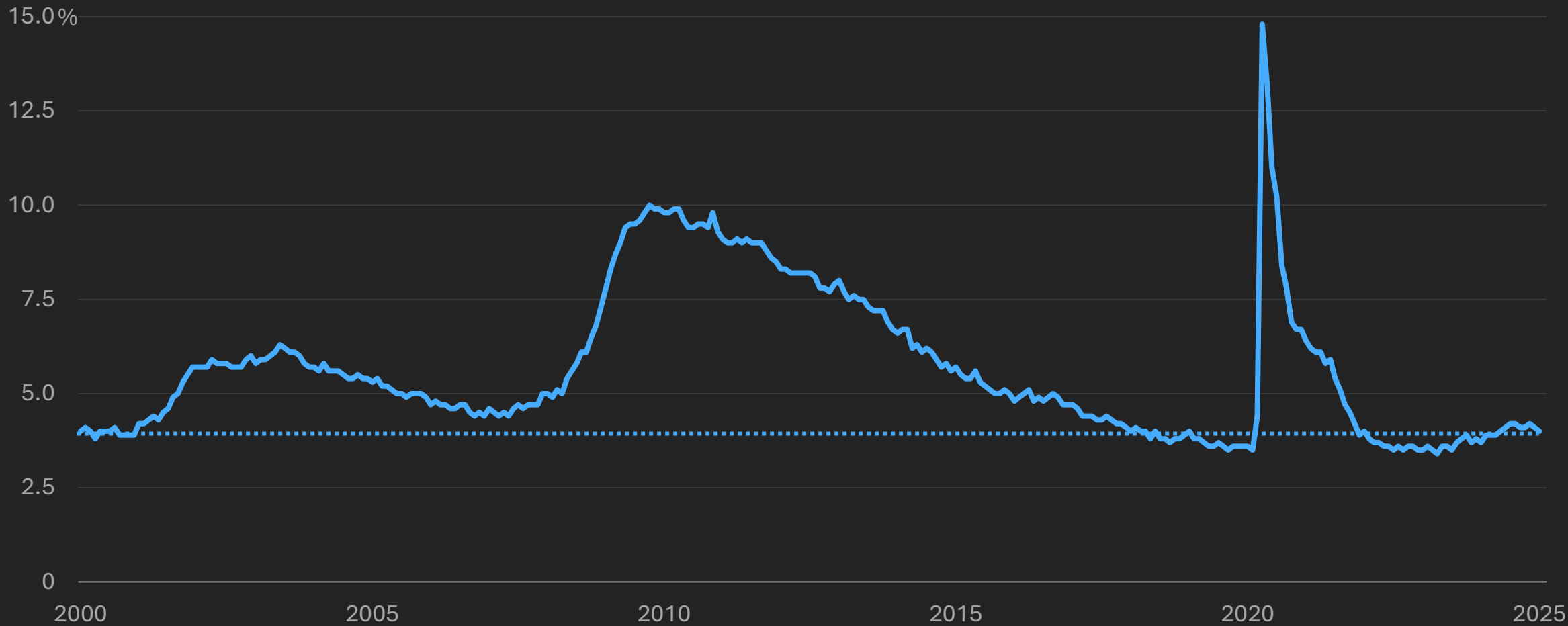
Unemployment Rate



Source: US Bureau of Labor Statistics

But Remains Low Historically

Unemployment Rate

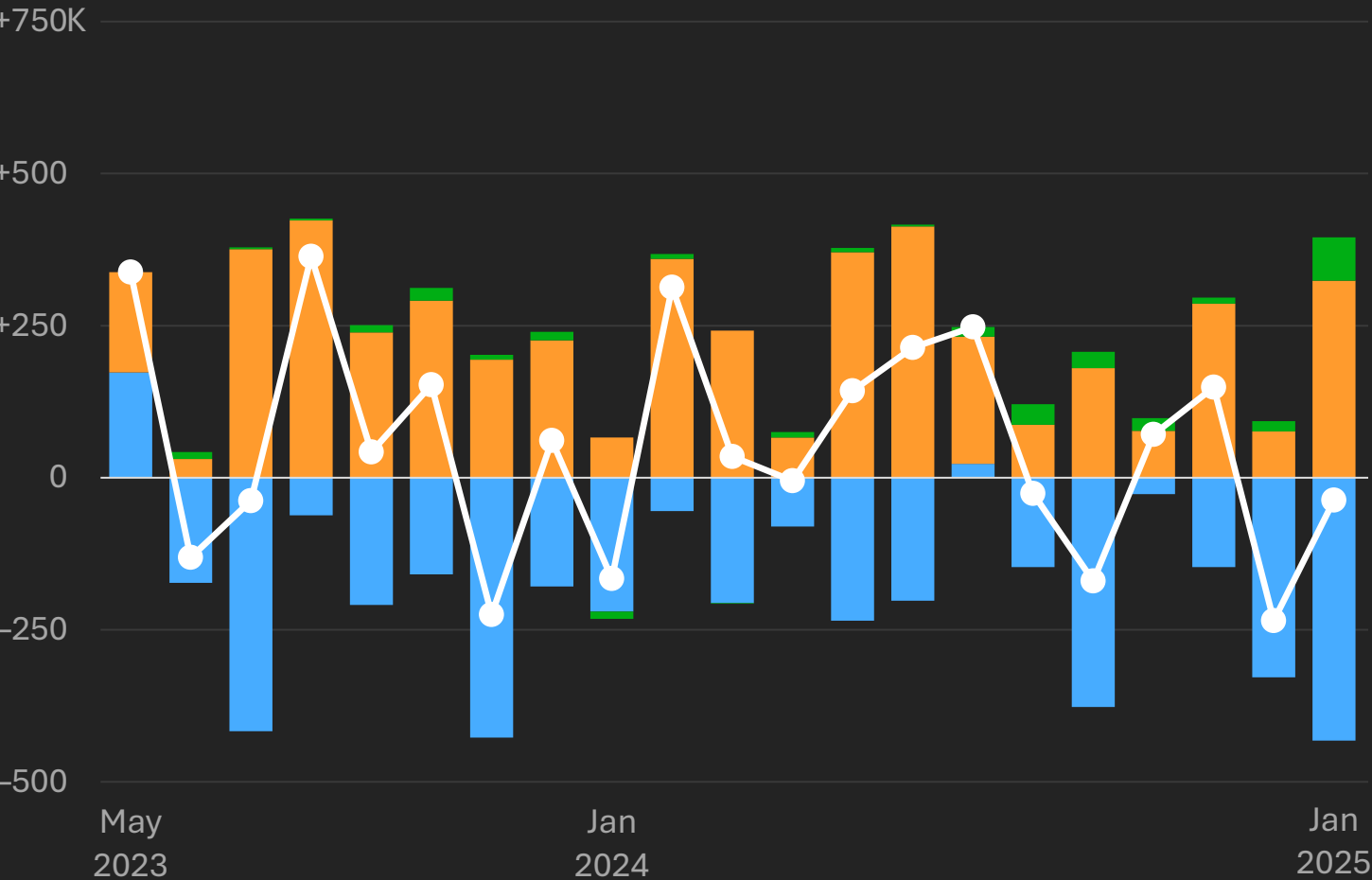


Source: US Bureau of Labor Statistics

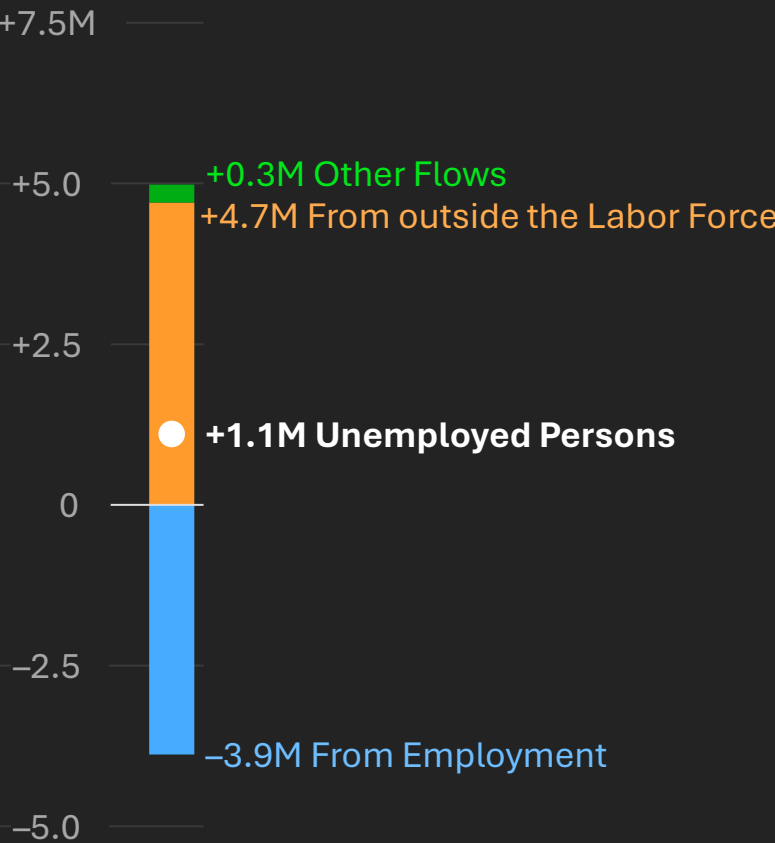
And Has Been Driven by More Workers Entering the Labor Force

Labor Force Flows to Unemployment

Monthly Flows



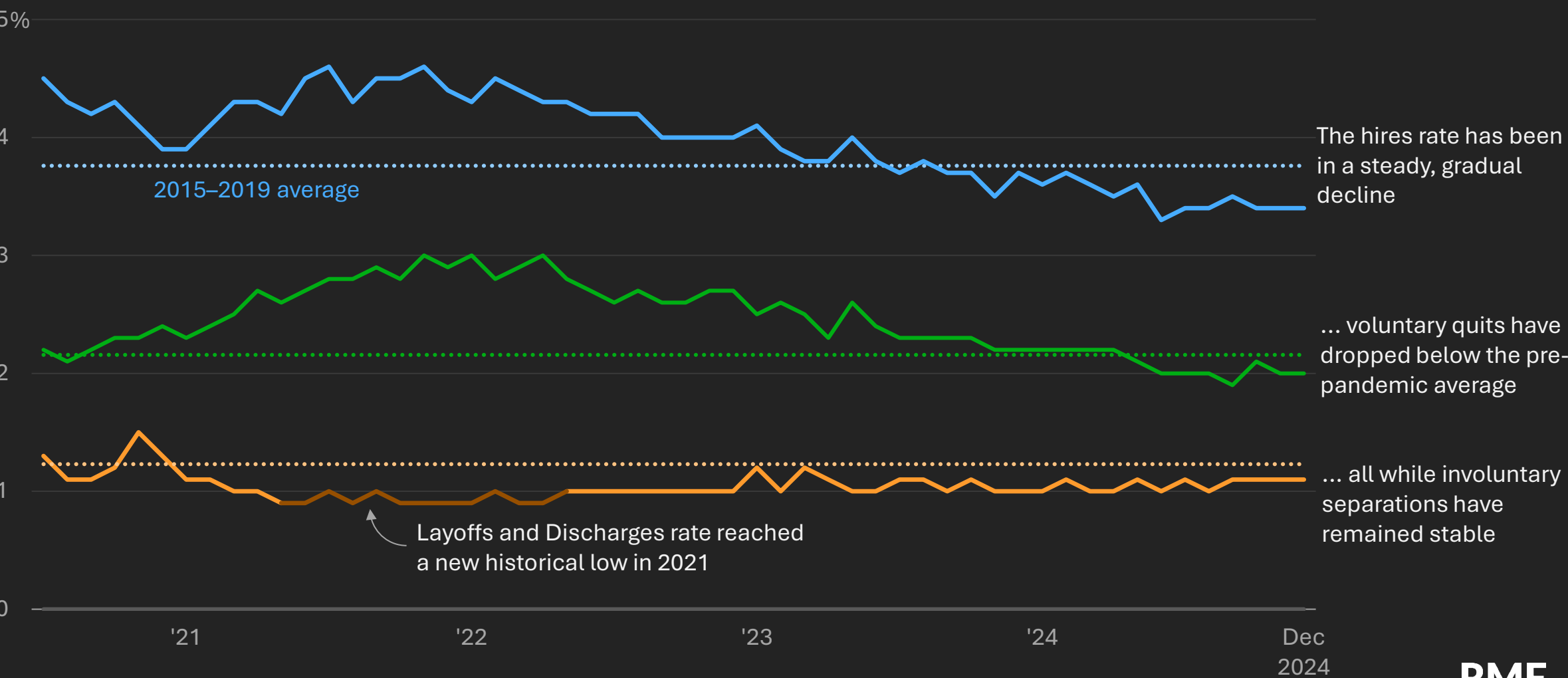
Cumulative Flows



Source: US Bureau of Labor Statistics

Employers Have Slowed Hiring While Holding Onto Workers

Hires, Quits, and Layoffs/Discharges as a Percentage of Employment



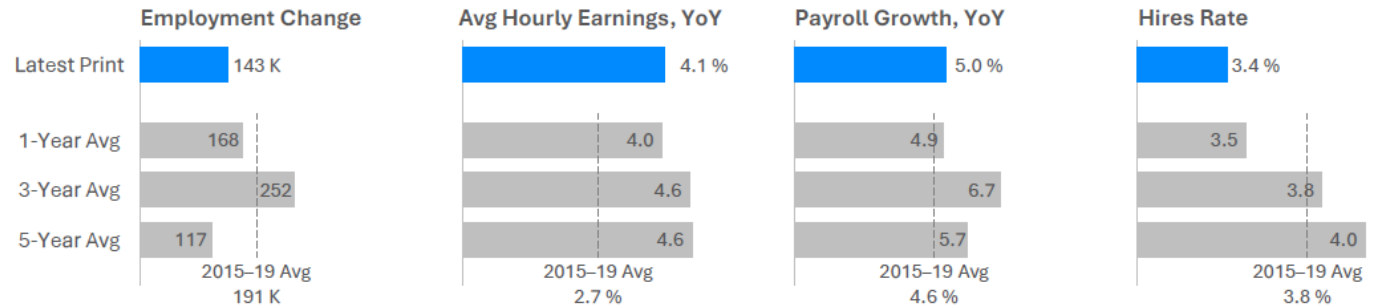
Source: US Bureau of Labor Statistics

Keep Up With NCCI's Labor Market Insights Reports



NCCI LABOR MARKET INSIGHTS

February 7, 2025



Drivers of Premium	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Net Employment Change (Thous.)	88	71	240	44	261	307	143
Net Private Employment Change (Thous.)	40	33	208	-1	244	273	111
Average Hourly Earnings (y/y %)	3.6	4.0	3.9	4.1	4.2	4.1	4.1
Average Hours Worked (Hours)	34.2	34.3	34.2	34.3	34.3	34.2	34.1
Payroll (Calculated)* Growth (y/y %)	4.4	4.7	4.5	5.2	5.0	4.6	5.0

*Calculated Payroll = Total Private Employment * Average Hourly Earnings * Average Hours Worked

1

Averages			
1-Year	3-Year	5-Year	2015-19
168	252	117	191
132	209	104	178
4.0	4.6	4.6	2.7
34.3	34.4	34.5	34.4
4.9	6.7	5.7	4.6

Drivers of Frequency	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Unemployment Rate (%)	4.2	4.2	4.1	4.1	4.2	4.1	4.0
Labor Force Participation Rate (%)	62.7	62.7	62.7	62.5	62.5	62.5	62.6
Prime Age Participation Rate (25-54, %)	83.9	83.9	83.8	83.5	83.5	83.4	83.5
Job Openings (Thous.)	7,711	7,861	7,372	7,839	8,156	7,600	-
Hires Rate (%)	3.4	3.4	3.5	3.4	3.4	3.4	-
Quits Rate (%)	2.0	2.0	1.9	2.1	2.0	2.0	-
Layoffs Rate (%)	1.1	1.0	1.1	1.1	1.1	1.1	-

2

3

Averages			
1-Year	3-Year	5-Year	2015-19
4.1	3.8	5.0	4.4
62.6	62.5	62.2	62.9
83.6	83.1	82.5	81.7
8,043	9,527	8,985	6,360
3.5	3.8	4.0	3.8
2.1	2.4	2.4	2.2
1.1	1.0	1.3	1.2

1 January saw solid employment growth of 143,000 jobs overall and 111,000 in the private sector. Most of January's private employment growth was in the health care and social assistance and retail trade sectors.

While the inclusion of the annual benchmark revisions reduced employment growth in the first half of 2024 from what was previously reported.

November and December each saw upward revisions of about 50,000 jobs. So 2024 ended on an even stronger note than originally thought.

Year-over-year payroll growth remained around 5% as January saw high monthly wage growth partially offset by a slight tick down in average weekly hours.

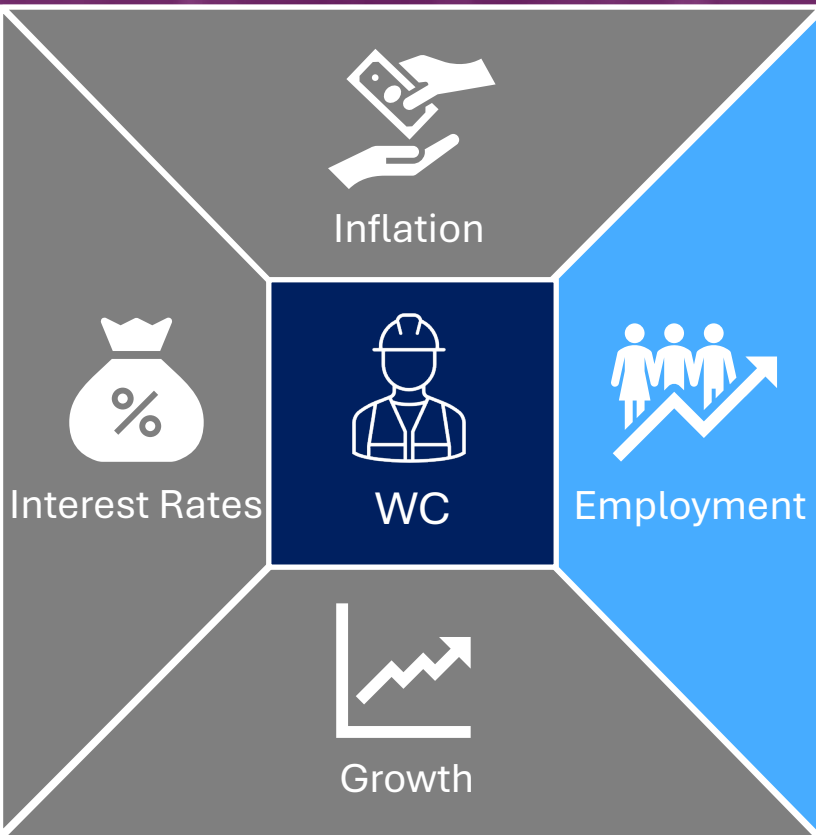
2 The unemployment rate ticked down to 4.0% in January, another sign of continued strength in the labor market. Excluding the annual population control adjustments instituted each January, the unemployment level decreased by 142,000 jobs over the month.

3 Job openings declined in December after the prior months' spike but remain strong. Labor turnover metrics remain low, reflecting a stable labor market with limited movement—a stark contrast to the volatility seen during the pandemic.

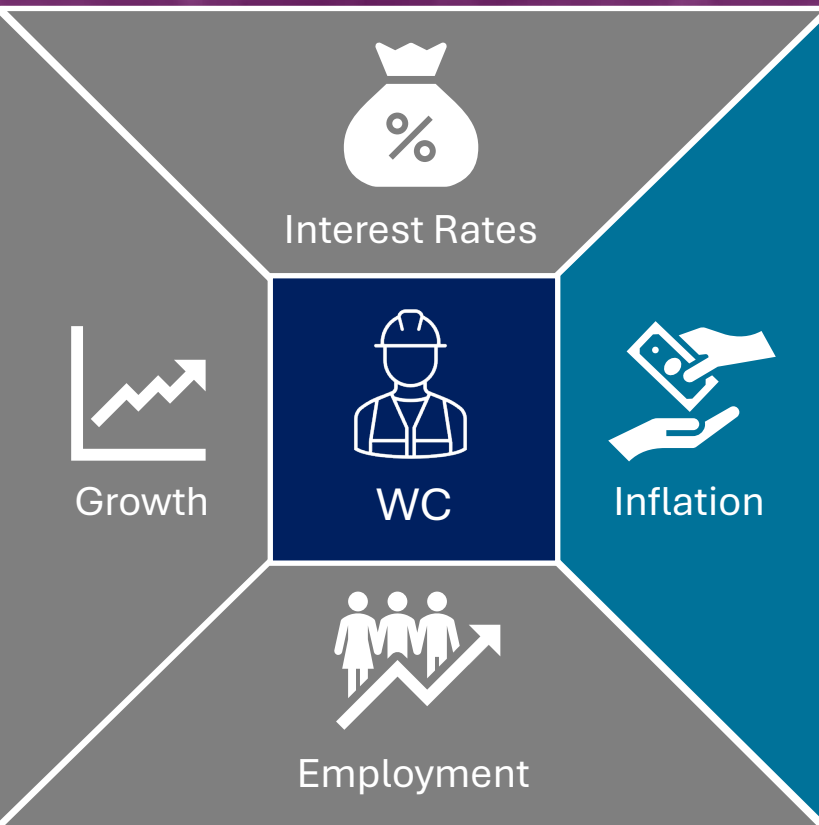
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- Employment growth is normalizing, not deteriorating
- The unemployment rate is also normalizing
- Labor market churn has slowed materially

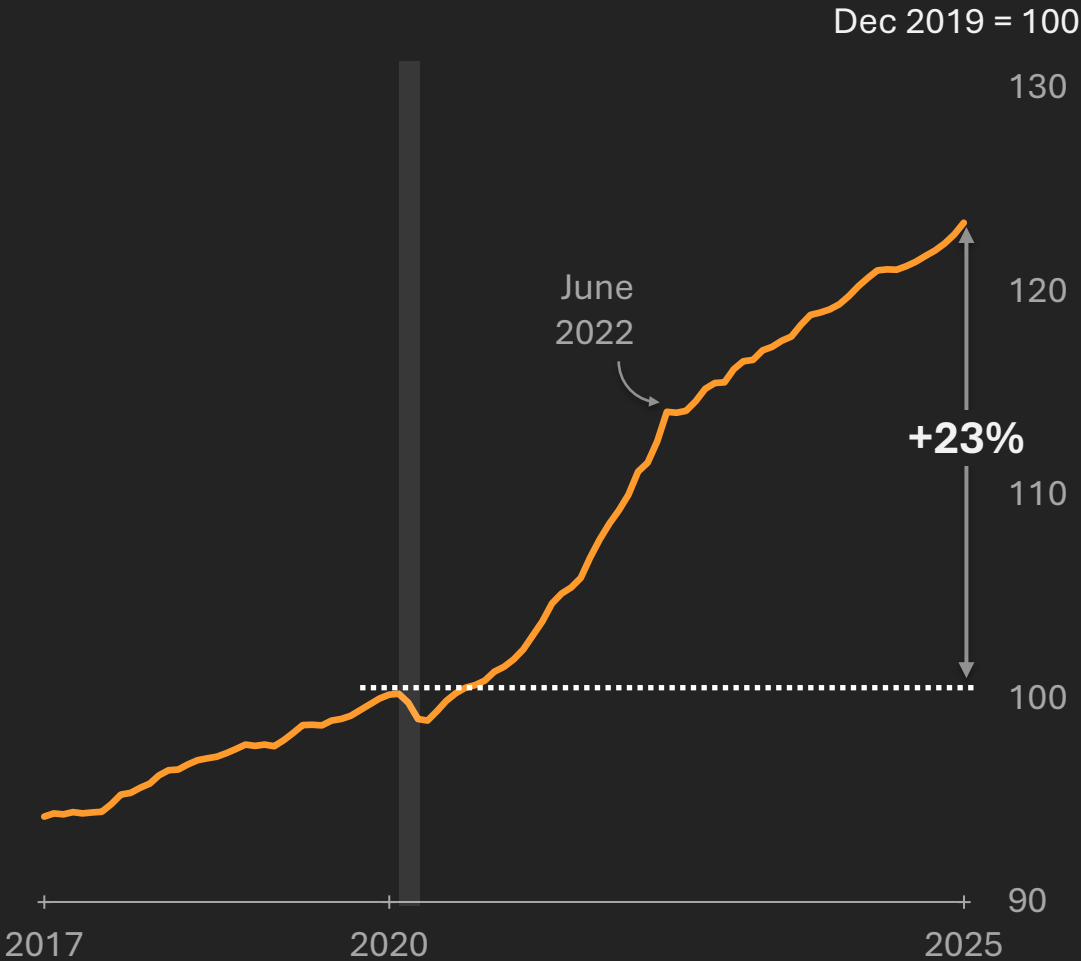


- Why is everything still so expensive?
- Highest inflation in 40 years, surely it must have impacted workers compensation?
- What to expect for medical inflation in 2025?

Inflation Is Down, But Prices Remain High

Consumer Price Index (CPI)

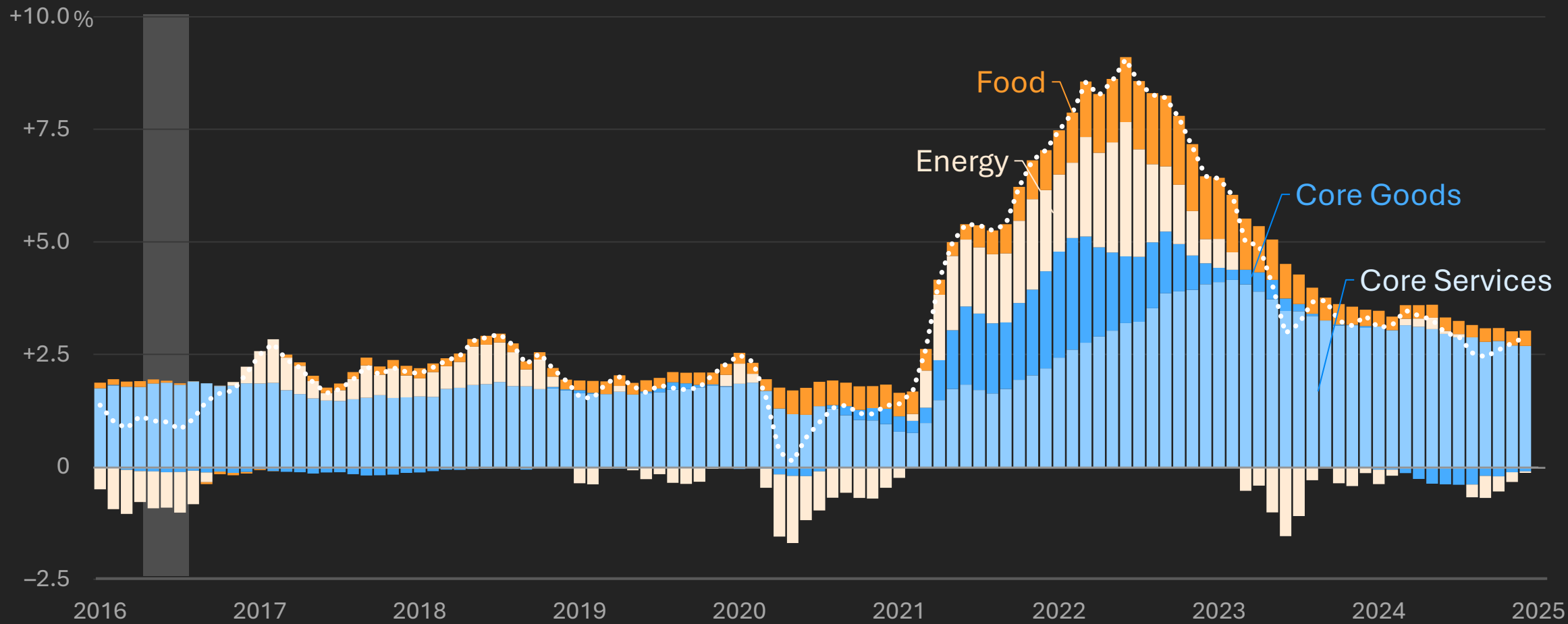
Year-Over-Year Growth Rate



Source: US Bureau of Labor Statistics

How Much Inflation Is Left?

Contributions to Year-Over-Year Percent Change



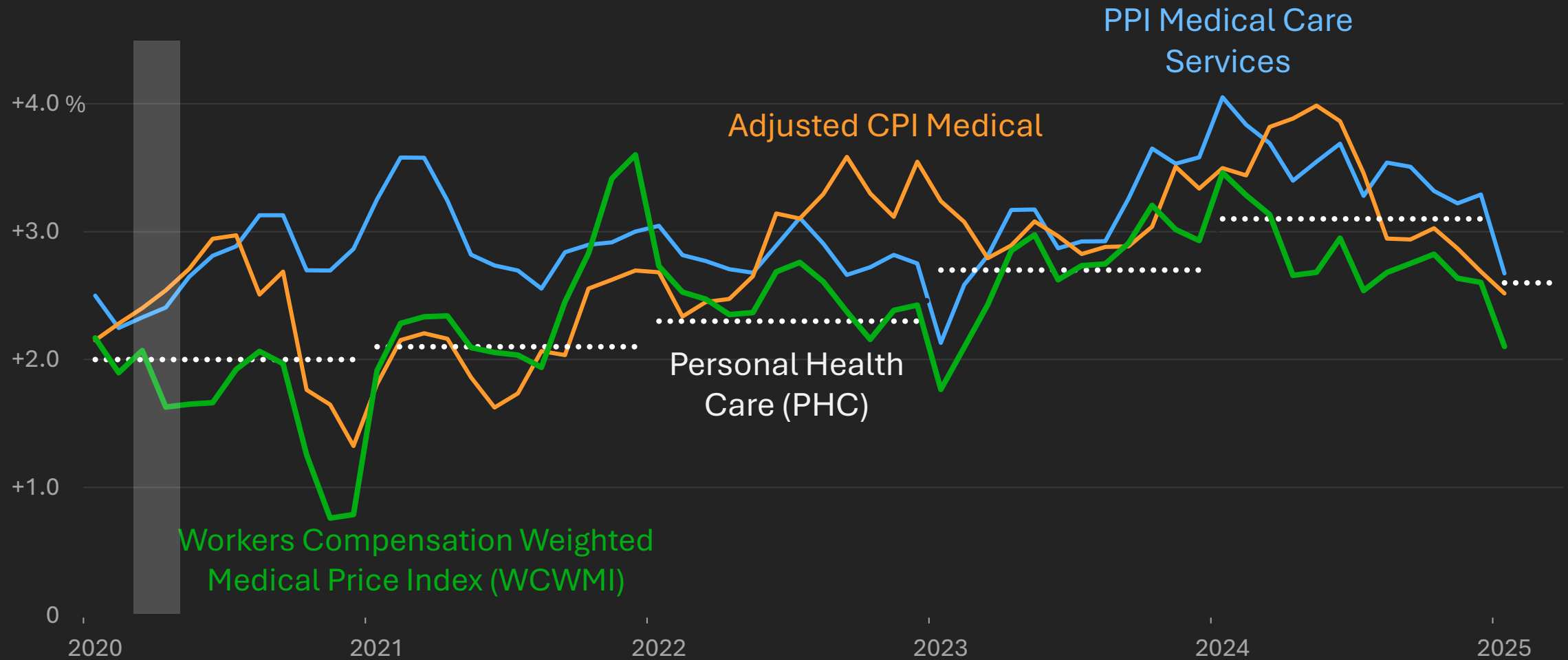
Source: US Bureau of Labor Statistics

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What About Medical Inflation?

Year-Over-Year Percent Change

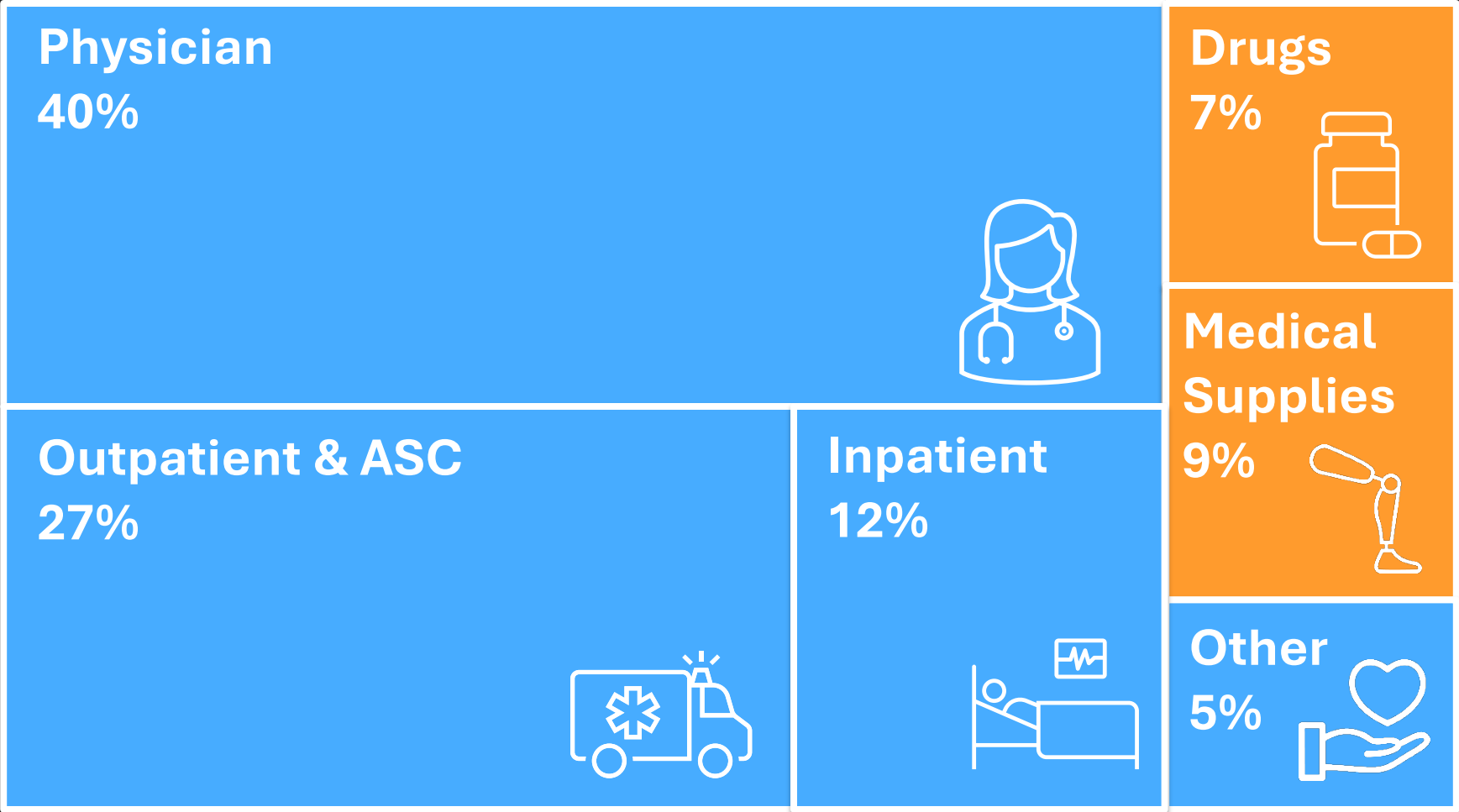


Sources: US Bureau of Labor Statistics; Centers for Medicare & Medicaid Services (CMS)

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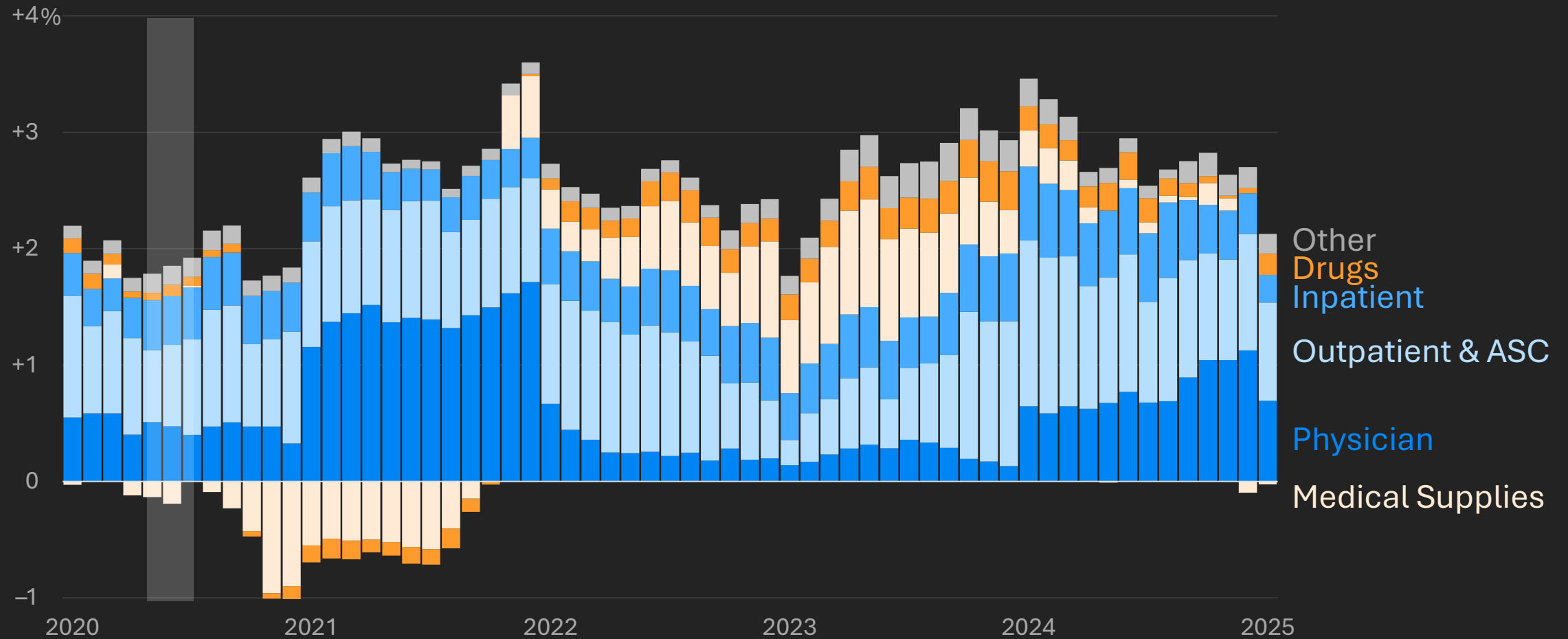
Medical Cost Distribution—Service Year 2023



Source: NCCI's Medical Call data

Workers Compensation Weighted Medical Price Index (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; NCCI's Medical Call data

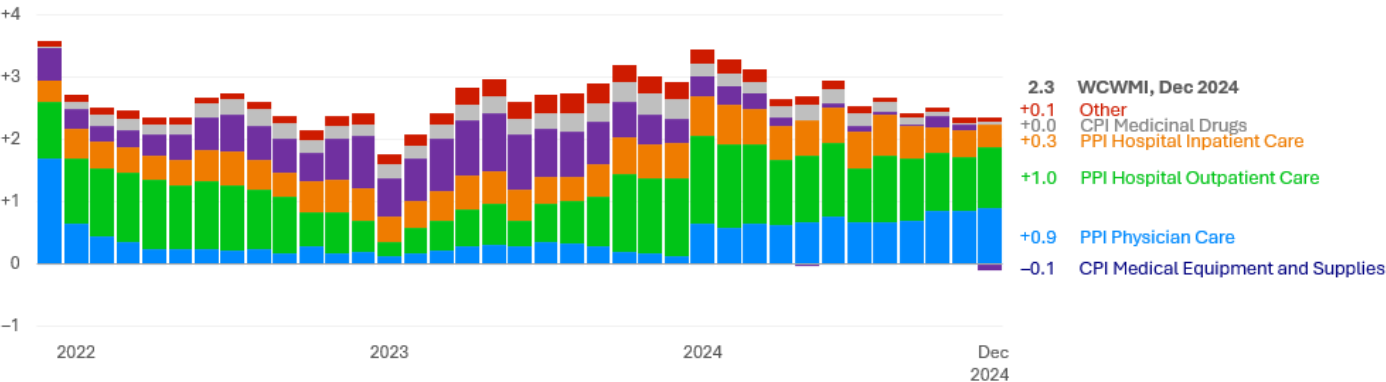
Keep Up With NCCI's Medical Inflation Insights Reports



NCCI MEDICAL INFLATION INSIGHTS

Workers Compensation Weighted Medical Price Index (WCWMI)

Component Contributions to the Year-Over-Year Change, Percent



Medical Care Details (y/y %)		Jun	Jul	Aug	Sep	Oct	Nov	Dec		1-Year	3-Year	5-Year	2015–19
100%	NCCI WC Weighted Medical Index	2.9	2.5	2.7	2.4	2.5	2.4	2.3	1	2.7	2.6	2.4	1.2
40%	PPI Physician Care	1.9	1.7	1.7	1.7	2.2	2.2	2.2	2	1.8	1.0	1.6	0.5
27%	PPI Hospital Outpatient Care	4.4	3.2	3.9	3.8	3.4	3.2	3.7	3	4.0	3.4	3.3	1.7
12%	PPI Hospital Inpatient Care	4.7	4.9	5.4	4.3	3.5	3.5	2.9		4.5	4.2	3.8	2.1
9%	CPI Medical Equipment and Supplies	0.8	1.0	0.6	0.3	2.1	1.2	-1.1		1.3	4.8	1.8	0.3
7%	CPI Medicinal Drugs	3.3	2.9	2.1	1.7	0.9	0.3	0.6		2.2	3.0	1.6	2.2
5%	Other*	2.4	2.2	1.6	1.2	1.5	1.5	1.4		2.5	3.4	3.0	1.9

*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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1 NCCI's Workers Compensation Weighted Medical Price Index (WCWMI) grew by 2.3% in 2024 compared to 2.9% in 2023.

The WCWMI trended similarly to other high-frequency medical price indices, though slightly lower due to different weights. Price growth was firm in the first half of the year before softening in the second half of the year.

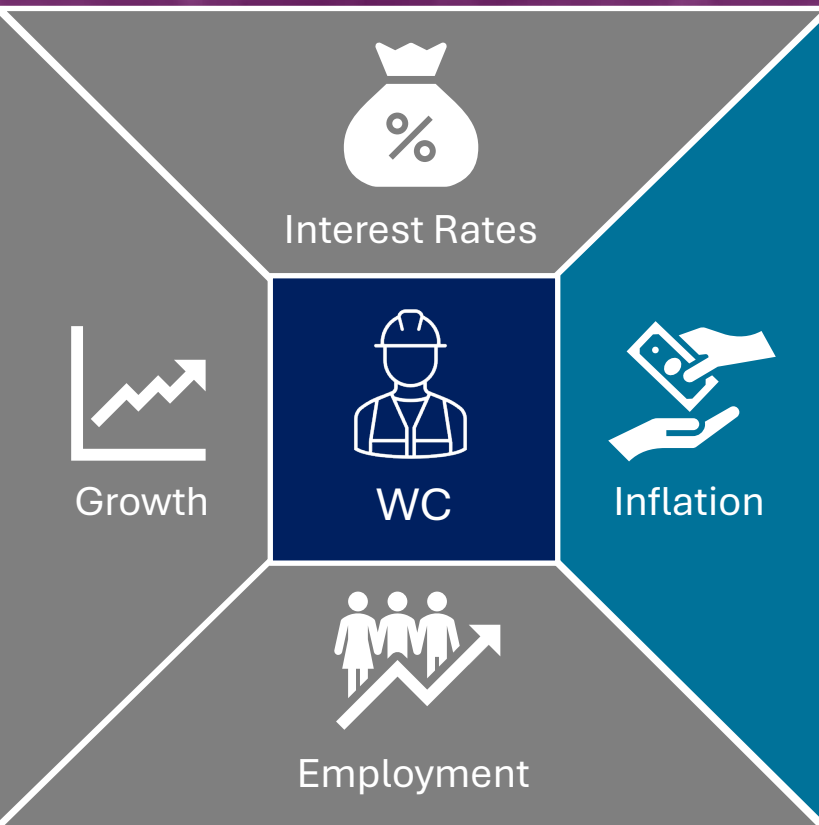
As we think about medical price inflation in 2025, several key trends from 2024 will be worth watching.

2 Physician services, the largest category of spend in workers compensation, saw price growth above longer-term averages in 2024.

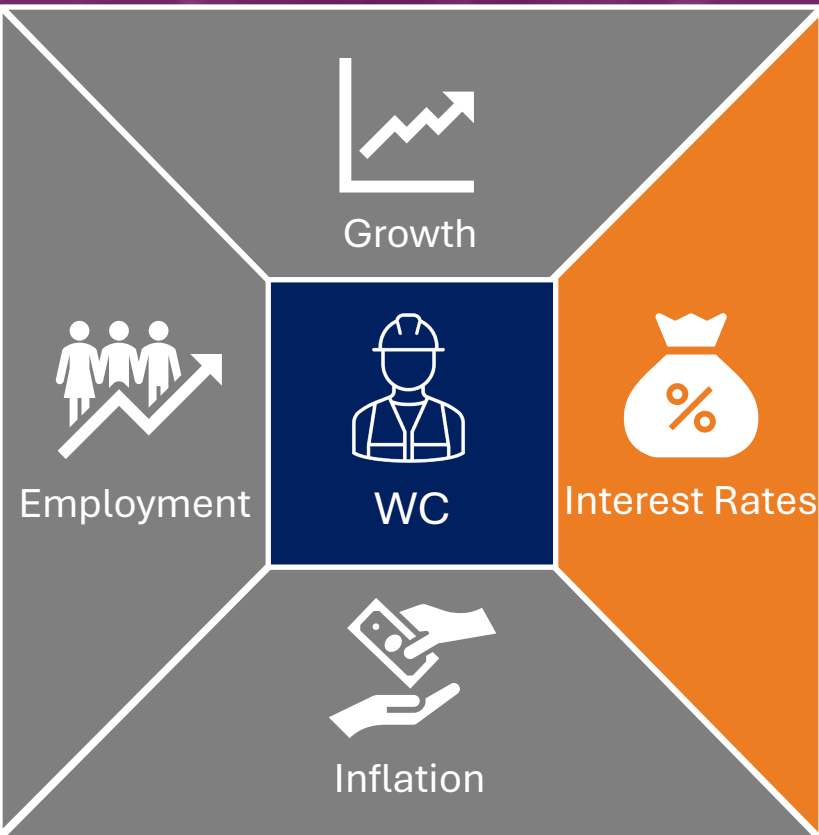
This price growth was driven by increases in non-Medicare prices offsetting a small decline in Medicare prices. This trend will be one we watch in 2025 as it has implications for prices in fee schedule and non-fee schedule states.

3 In the second half of 2024, facilities prices moderated, marking another key we will be watching in 2025.

Longer-term trends in prices for inpatient and outpatient services suggest this softening may be temporary.



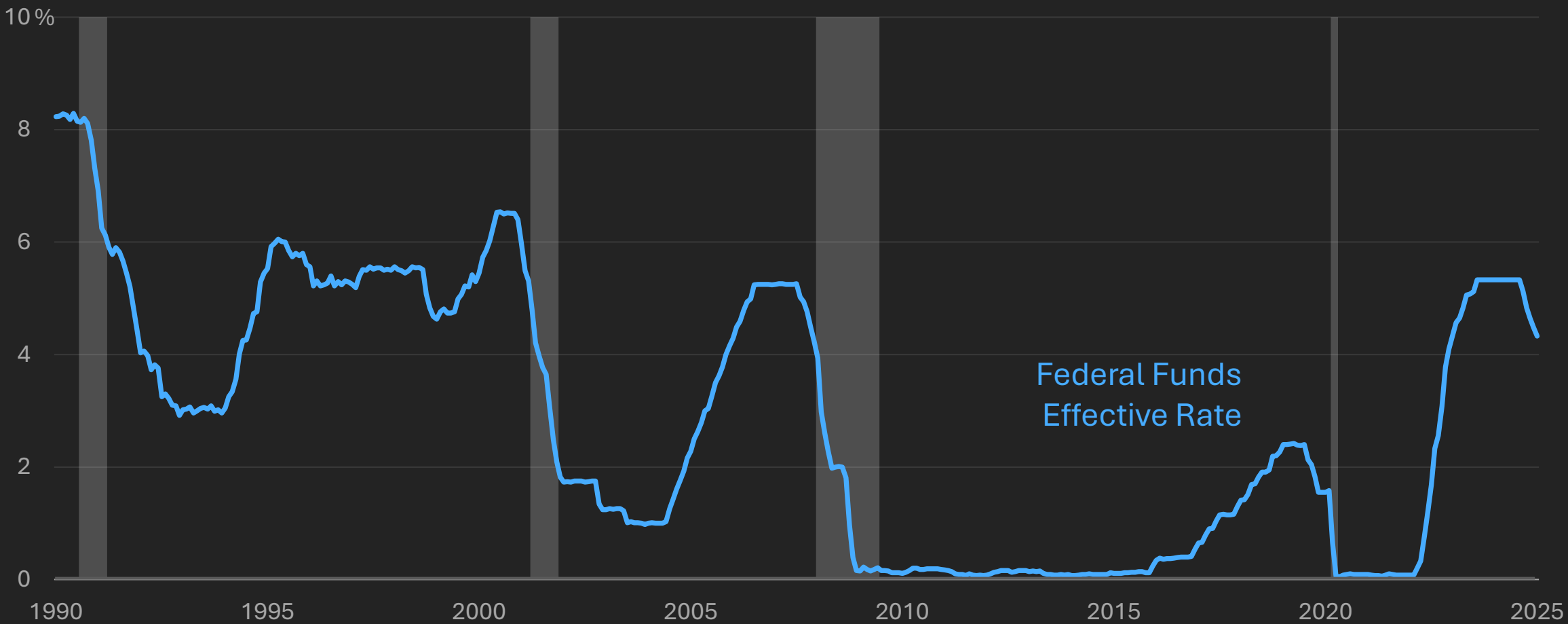
- Inflation has slowed but is still too high
- Medical inflation trends have been different
- Moderating trend in medical inflation is likely to continue into 2025



- Why is the Fed cutting rates if the economy is strong and inflation remains above target?
- How low can they go?
- If the Fed is cutting rates, why are some yields moving higher?

Fed Attempting to Replicate the '90s' Soft Landing

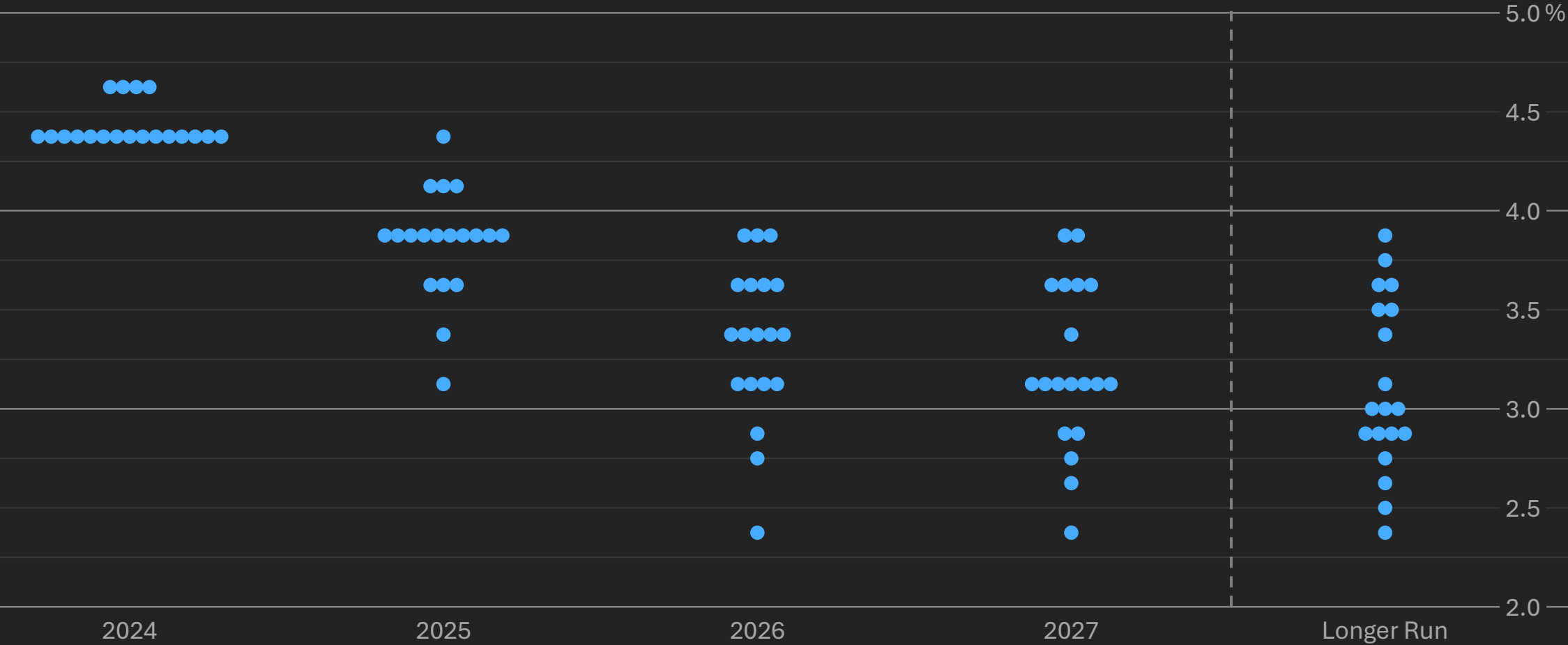
Effective Federal Funds Rate



Source: Board of Governors of the Federal Reserve System

Where Do We Go Next? A Case for Lower Rates

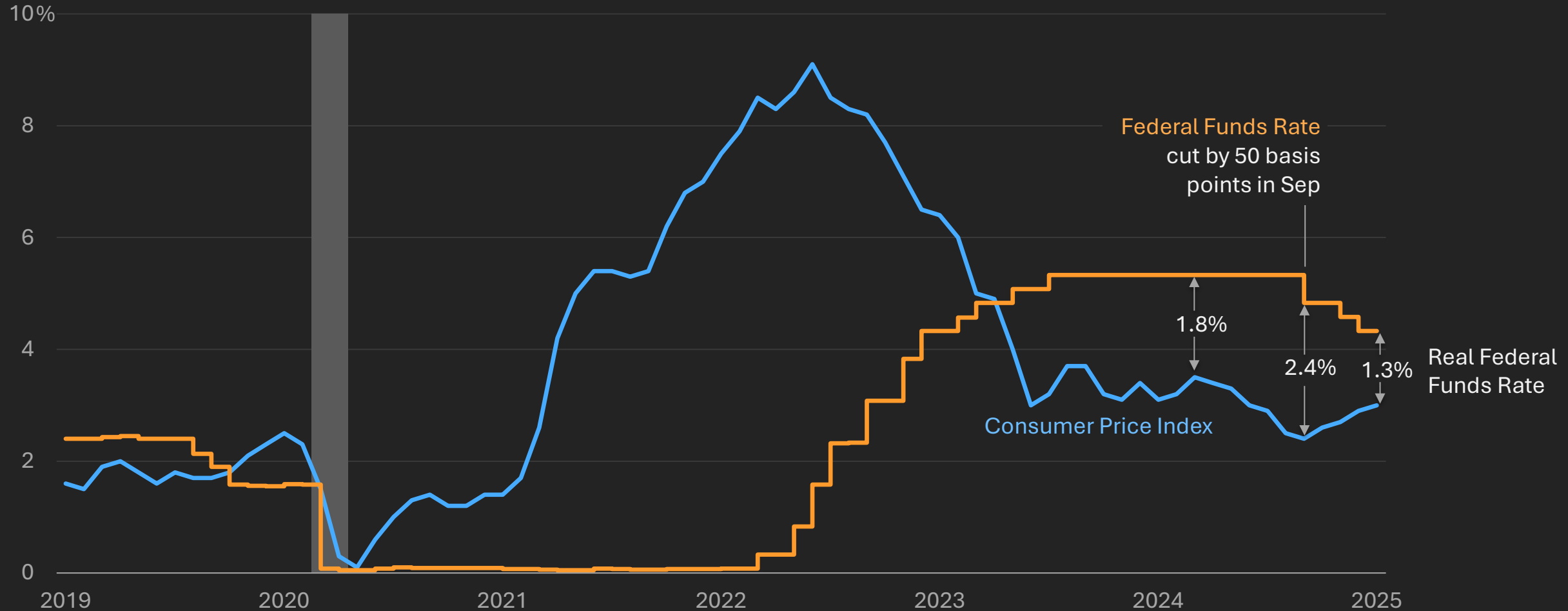
FOMC Participants' Assessments of Appropriate Monetary Policy



Source: Federal Open Market Committee

Fall in Inflation Has Increased Real Interest Rates

Year-Over-Year Percent Change



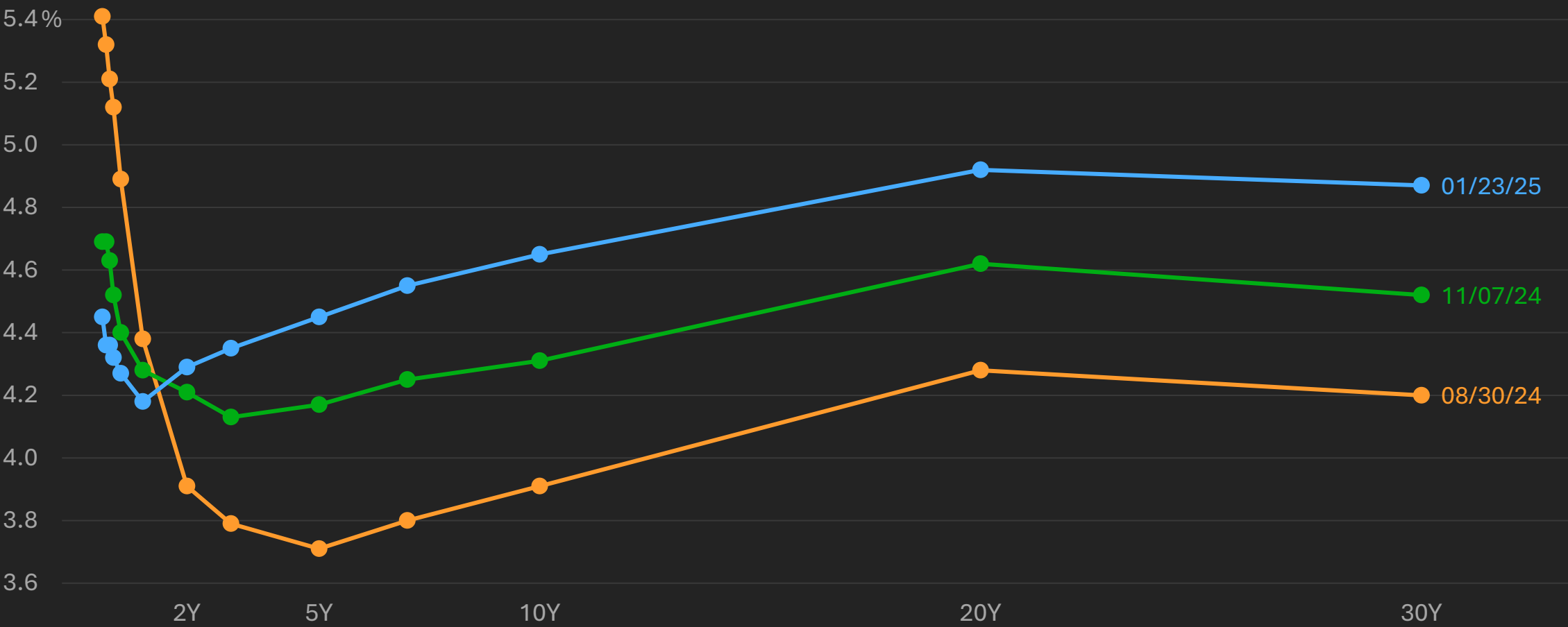
Sources: US Bureau of Labor Statistics; Board of Governors of the Federal Reserve System

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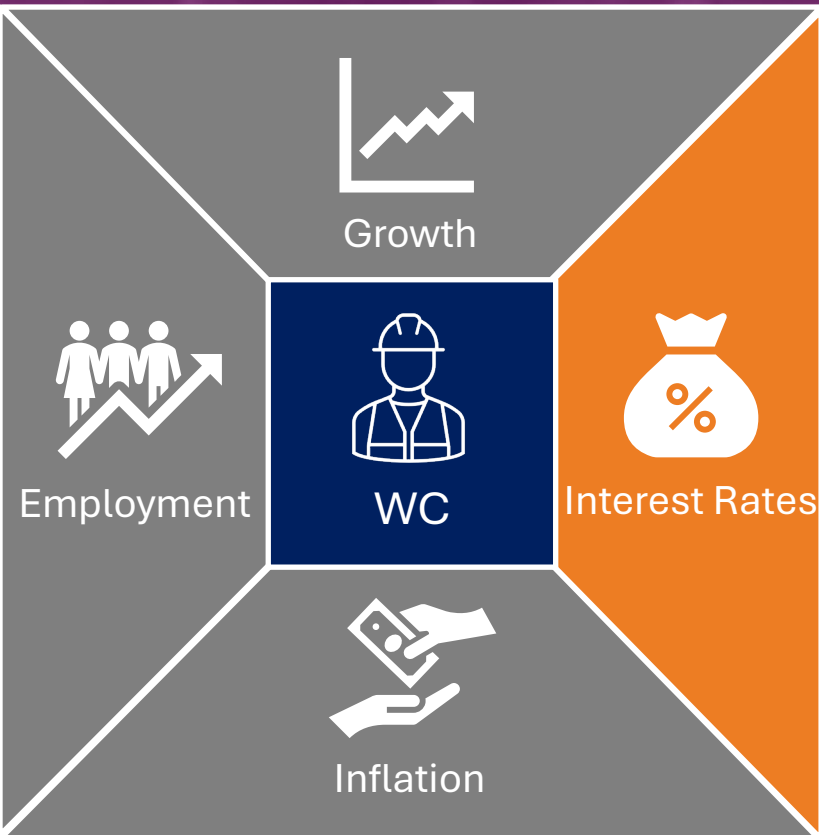
Yield Curve Has Steepened Despite Fed Cuts

Treasury Par Yield Curve Rates



Source: US Department of the Treasury

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- Monetary policy is easing but elevated long rates are still boosting investment income
- The economy has given the Fed pause, and it may be some time before they cut again
- Long-term yields may stay elevated

State of the Economy Insights



Growth

**Economy
already great**

**Many unknowns
ahead**



Employment

**Labor market
back to “normal”**

**Strong end to
2024**



Inflation

**Inflation
down but not out**

**Medical inflation
benign**



Interest Rates

**Fed
on pause**

**Long-term yields
elevated**