Workers Comp at the Crossroads: Recession, Inflation, and Economic Uncertainty

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Workers Comp at the Crossroads: Outline

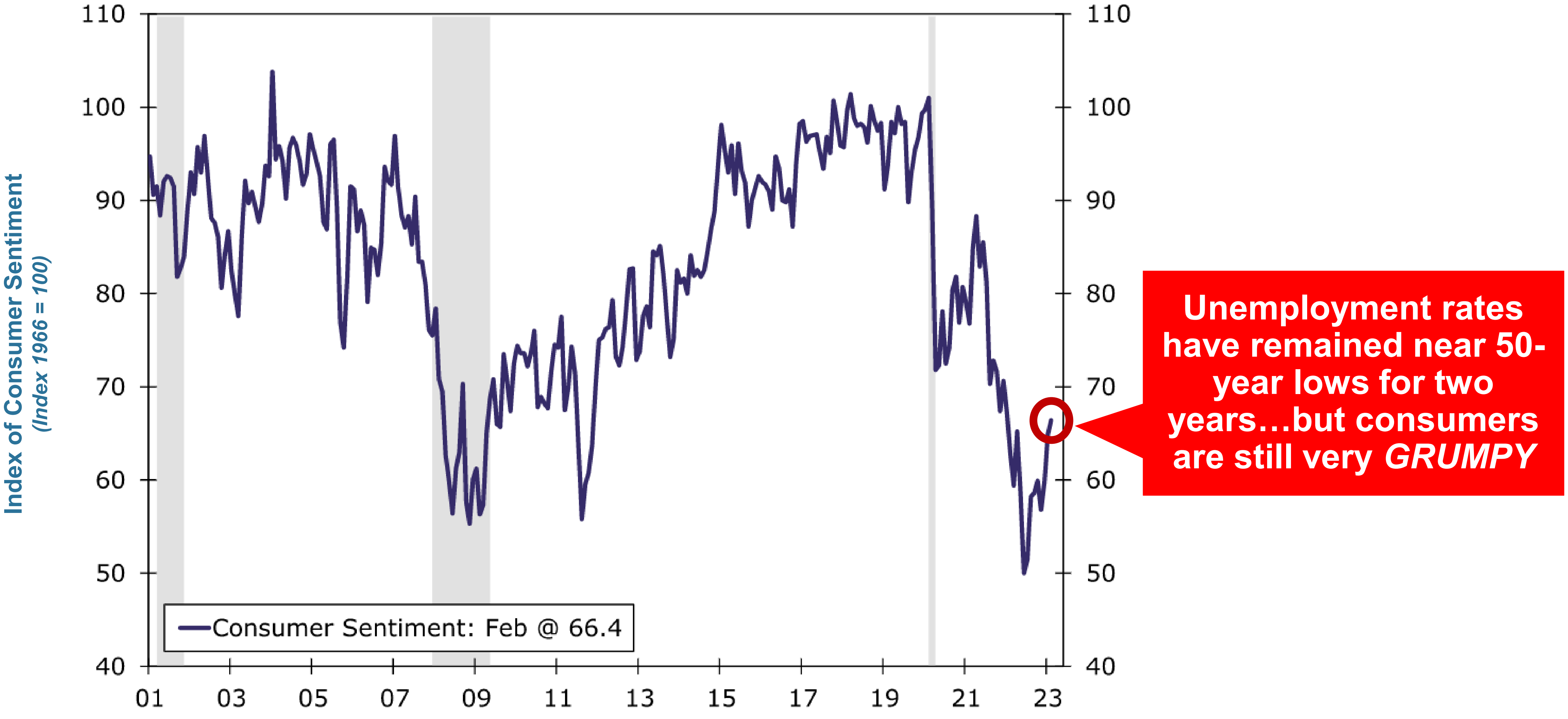
- ***Still* Not That '70s Show**
  - Economic Reality vs. perception
- **The "R" Word**
  - Is a Recession on the horizon?
  - The X-Date
- **Bank Debacle**
  - Economic implications
  - Are insurers next?
- **Wall Street's Wild Ride Continues**
  - Will it ever end?
- **Labor Market Tectonics**
  - Take this job and keep it

…*Still* Not That '70s Show

Are We About to Return to Bad Old Days of the 1970s (and Early 1980s)?

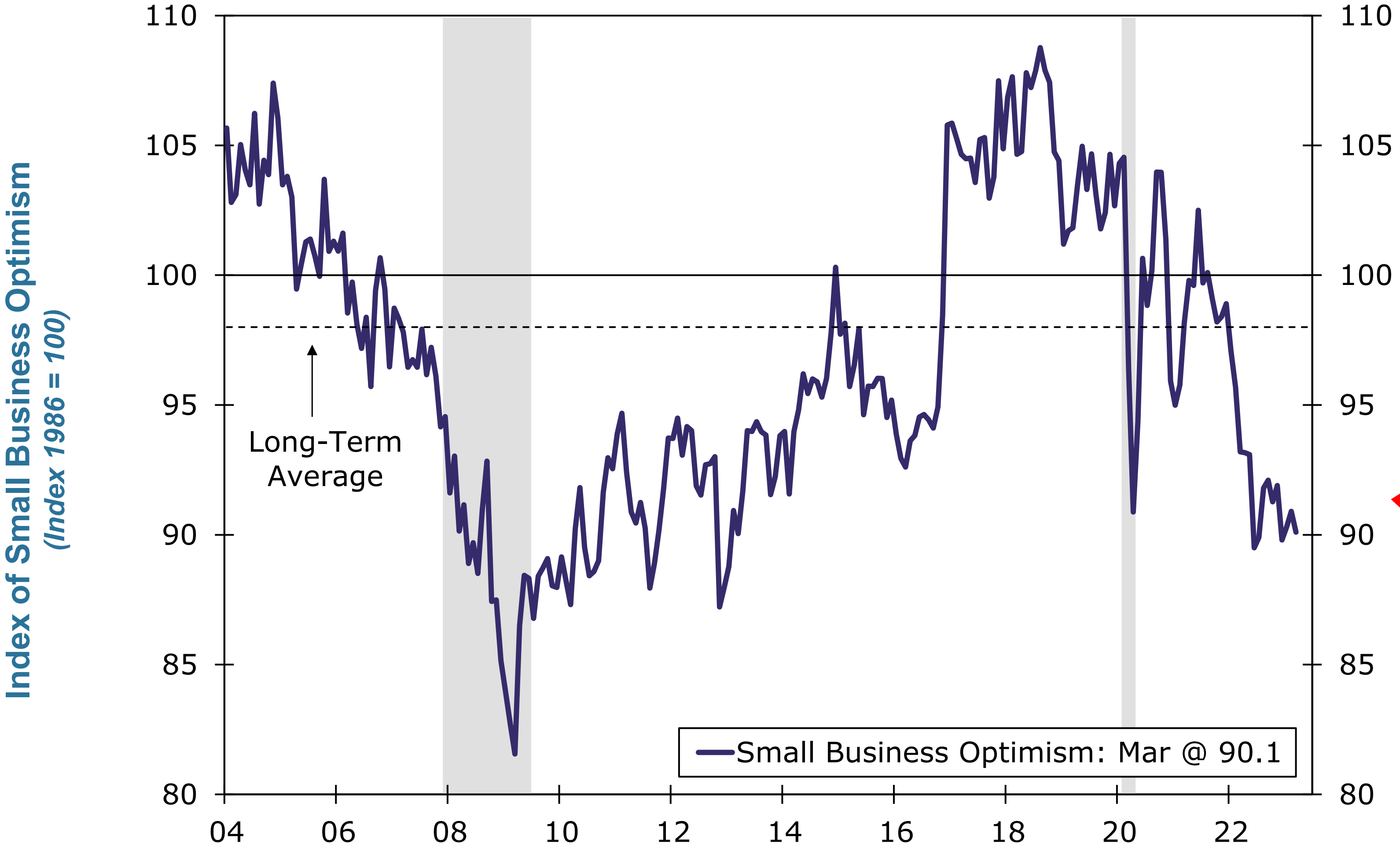
…Still Unlikely!

Consumer Sentiment: Still Near 20-Year Lows Despite Strong Jobs Markets



Source: University of Michigan and Wells Fargo Economics.

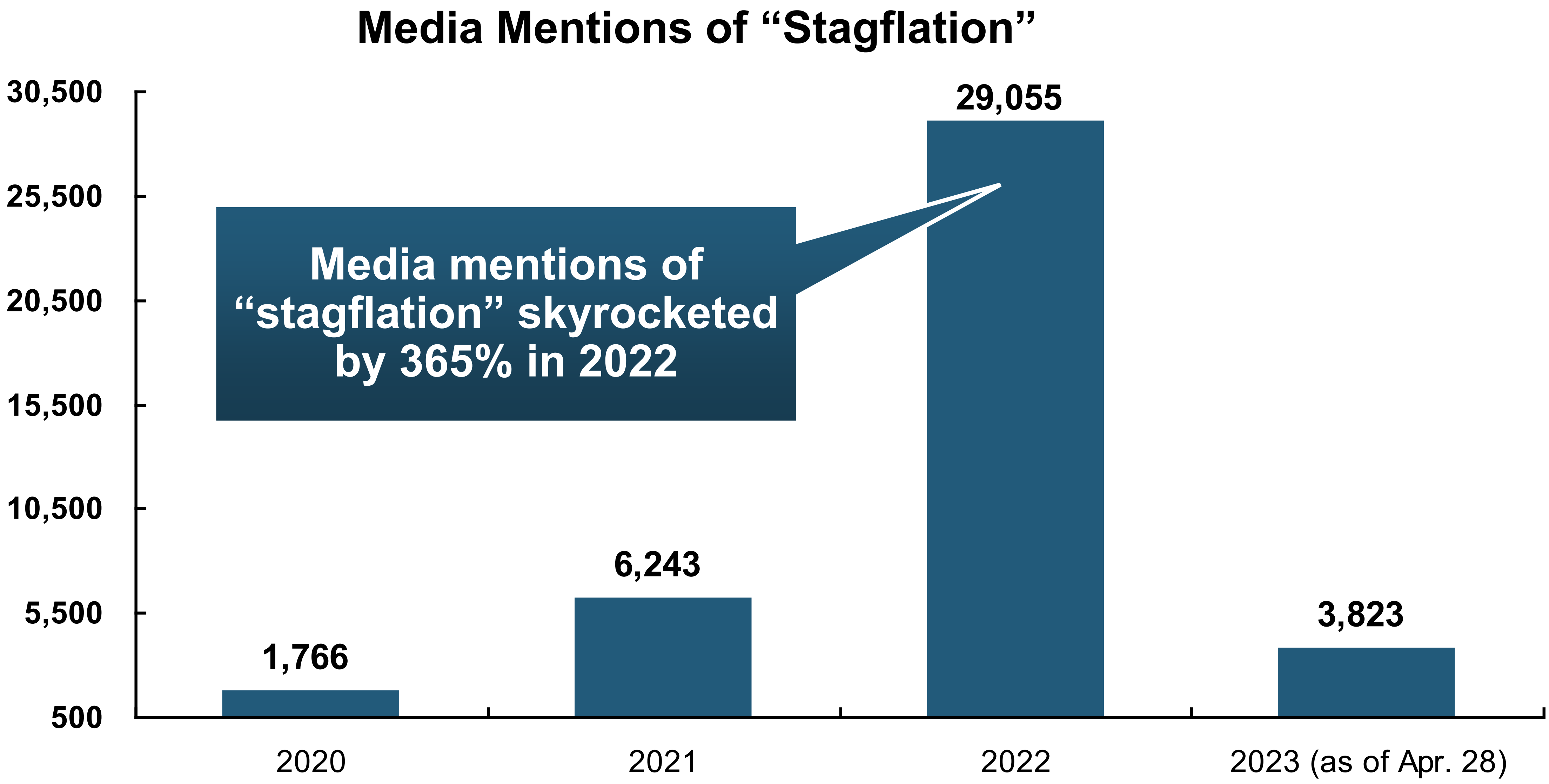
Small Business Sentiment: Optimism Is at 10-Year Low



Small businesses today are even *more* pessimistic than they were during the depths of pandemic, despite strong spending by consumers and easing labor market issues. *Business owner concerns are pivoting from cost concerns to recession worries.*

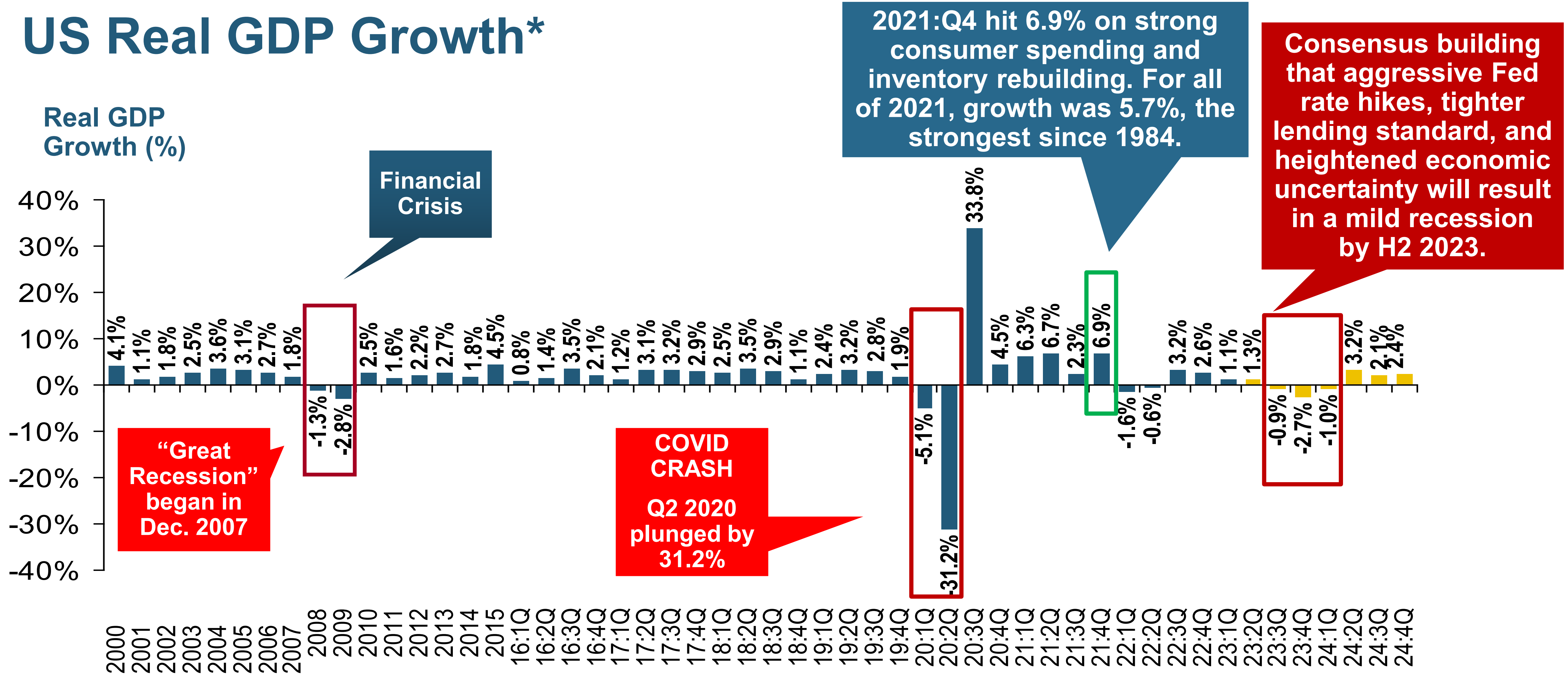
Source: NFIB and Wells Fargo Economics.

Media Pundits Last Year Were Quick to Assert That the Scourge of the 1970s—Stagflation—Was Upon Us



Source: Factiva search as of Apr. 28, 2023.; Risk and Uncertainty Management Center, Univ. of South Carolina.

US Real GDP Growth*



Demand for Insurance Increased Materially in 2021/22 During Recovery From the Pandemic—Particularly in Economically Sensitive Commercial Lines such as WC. Premium growth will likely slow in 2023 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (4/23); Center for Risk and Uncertainty Management, University of South Carolina.

US Inflation Rate: 2009-2024F*

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation should moderate through 2023/24; Forecast is highly dependent of trajectory of energy prices and Fed rate hikes.

There's a great deal of concern that trillions of dollars of stimulus plus the post-COVID recovery, supply chain disruptions, and labor shortages are causing the economy to overheat, resulting in inflation.

Insurer Concerns About Inflation

Rate Inadequacy

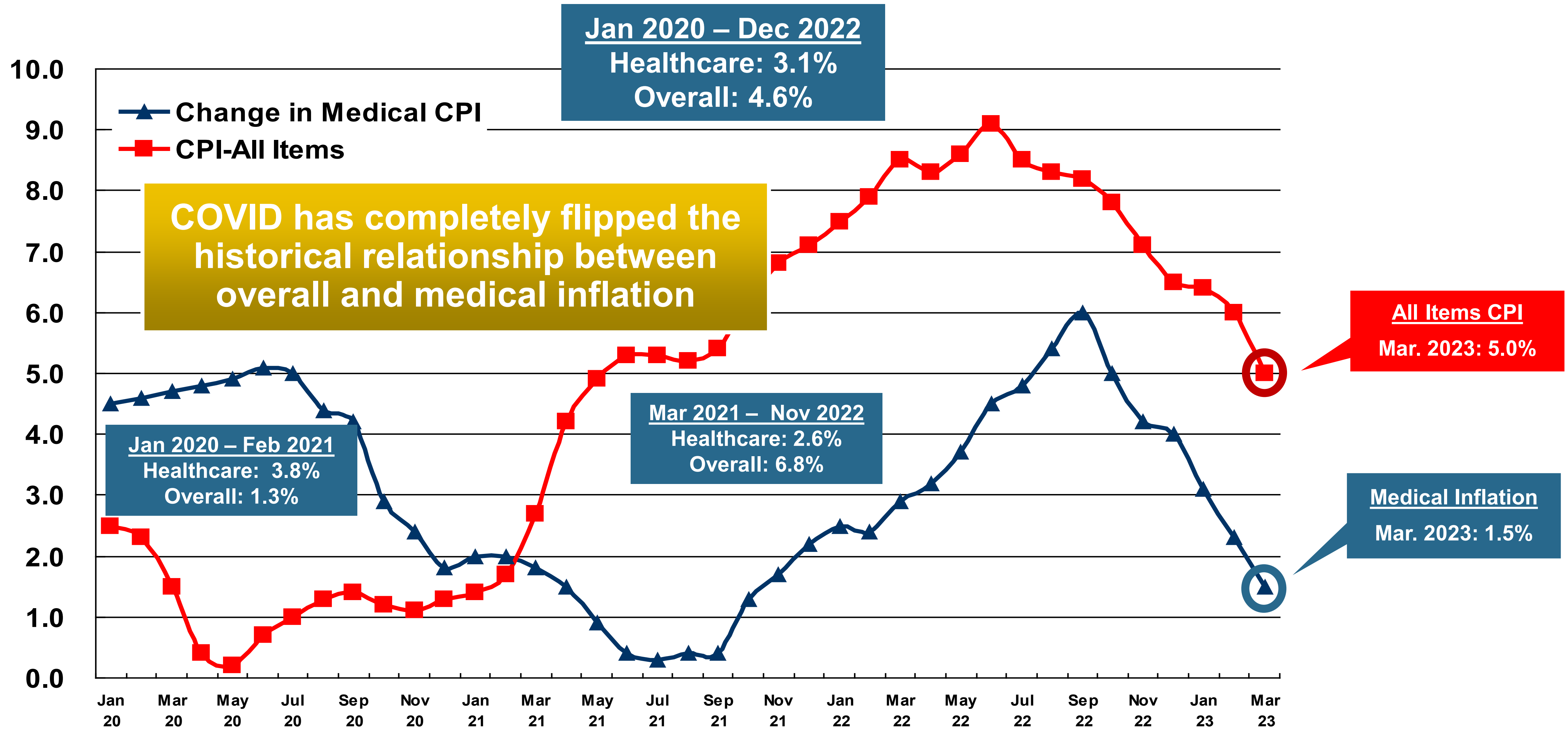
Reserve Inadequacy

Insurance-to-Value

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

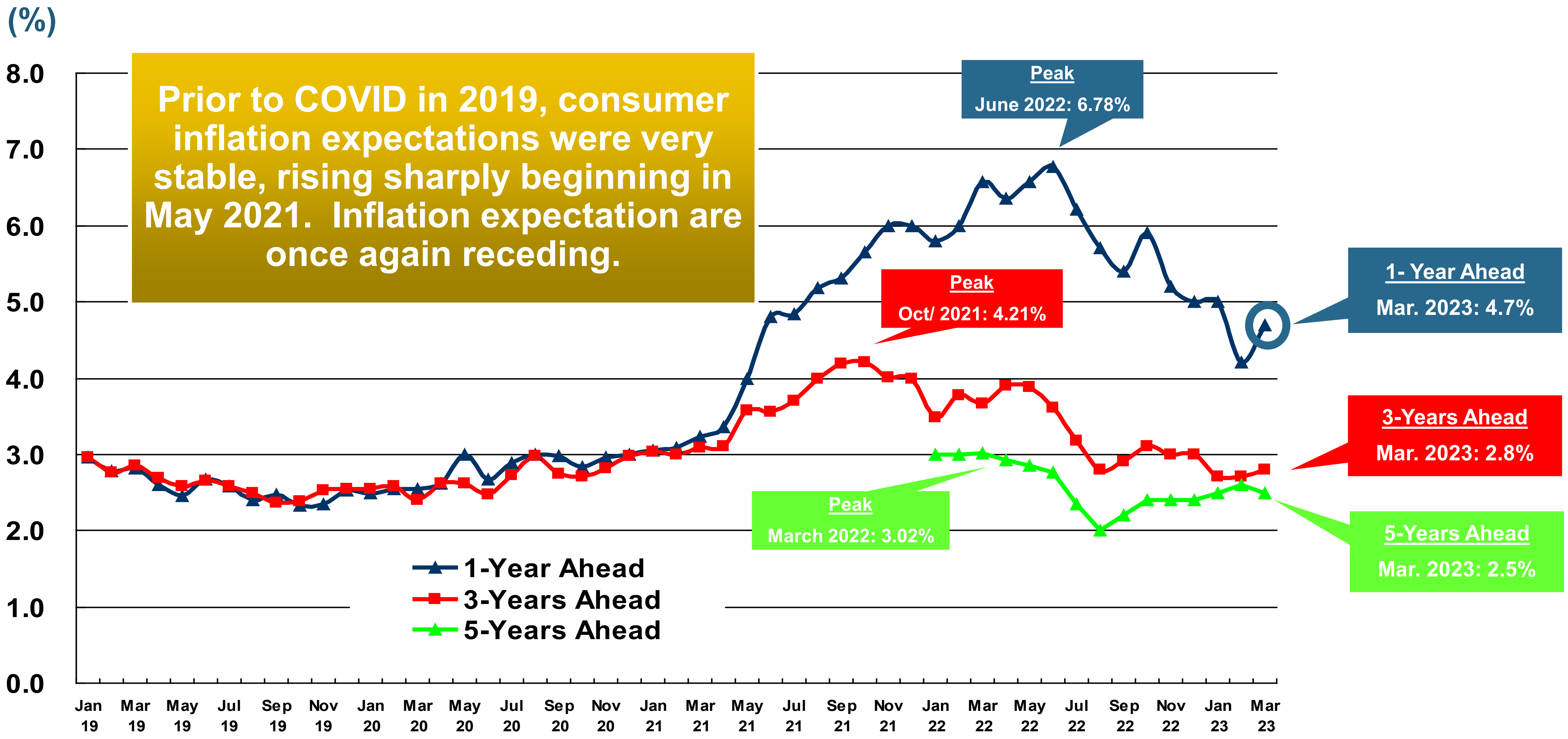
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (4/23); USC Center for Risk and Uncertainty Management.

Medical Cost Inflation vs. Overall CPI During COVID, Jan. 2020 – Mar. 2023 *(Percent Change From Year Ago)*



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

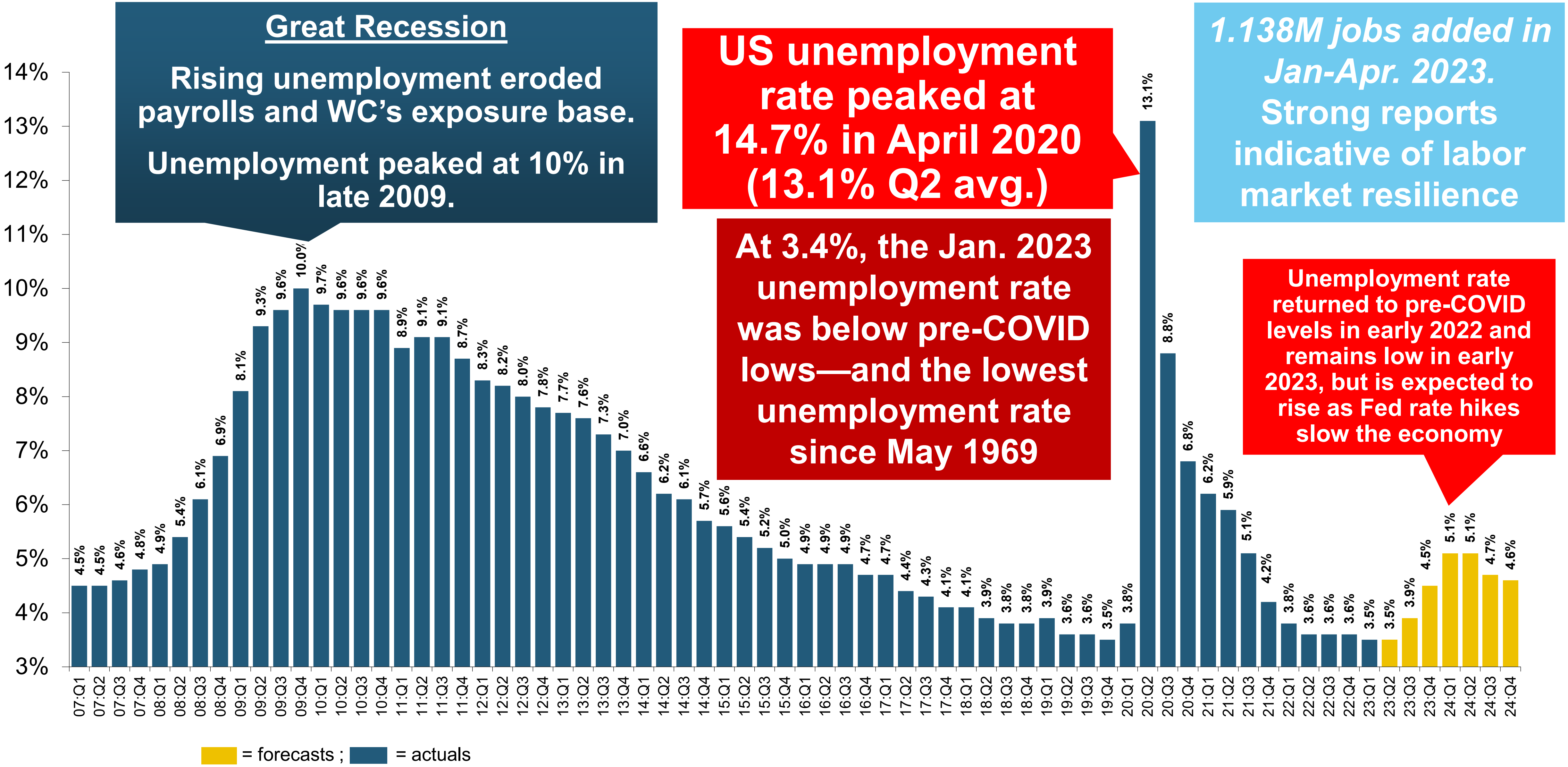
Consumer Inflation Expectations: 1, 3, and 5 Years Ahead*



*Survey data for 5-year ahead series begin in January 2022.

Sources: Federal Reserve Bank of New York, accessed at: https://www.newyorkfed.org/microeconomics/sce#/inflexp-1; Risk and Uncertainty Management Center, University of South Carolina.

US Unemployment Rate Forecast: 2007:Q1–2024:Q4



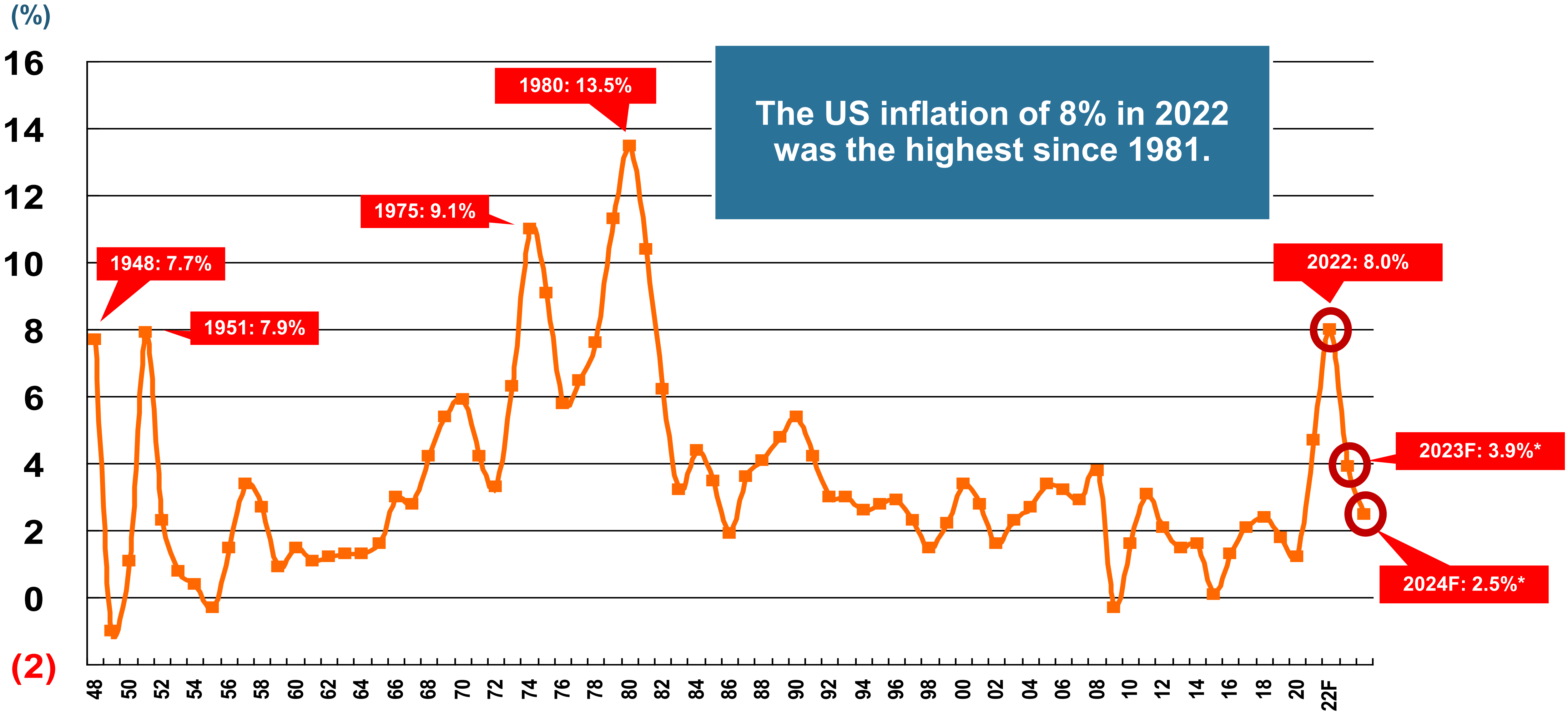
Sources: US Bureau of Labor Statistics; Wells Fargo Securities (4/23 edition); Risk and Uncertainty Management Center, University of South Carolina.

Are Things as Bad as Many *Still* Believe Them to Be?

Many Believed That We Were in a Recession in 2022—*We Weren't*

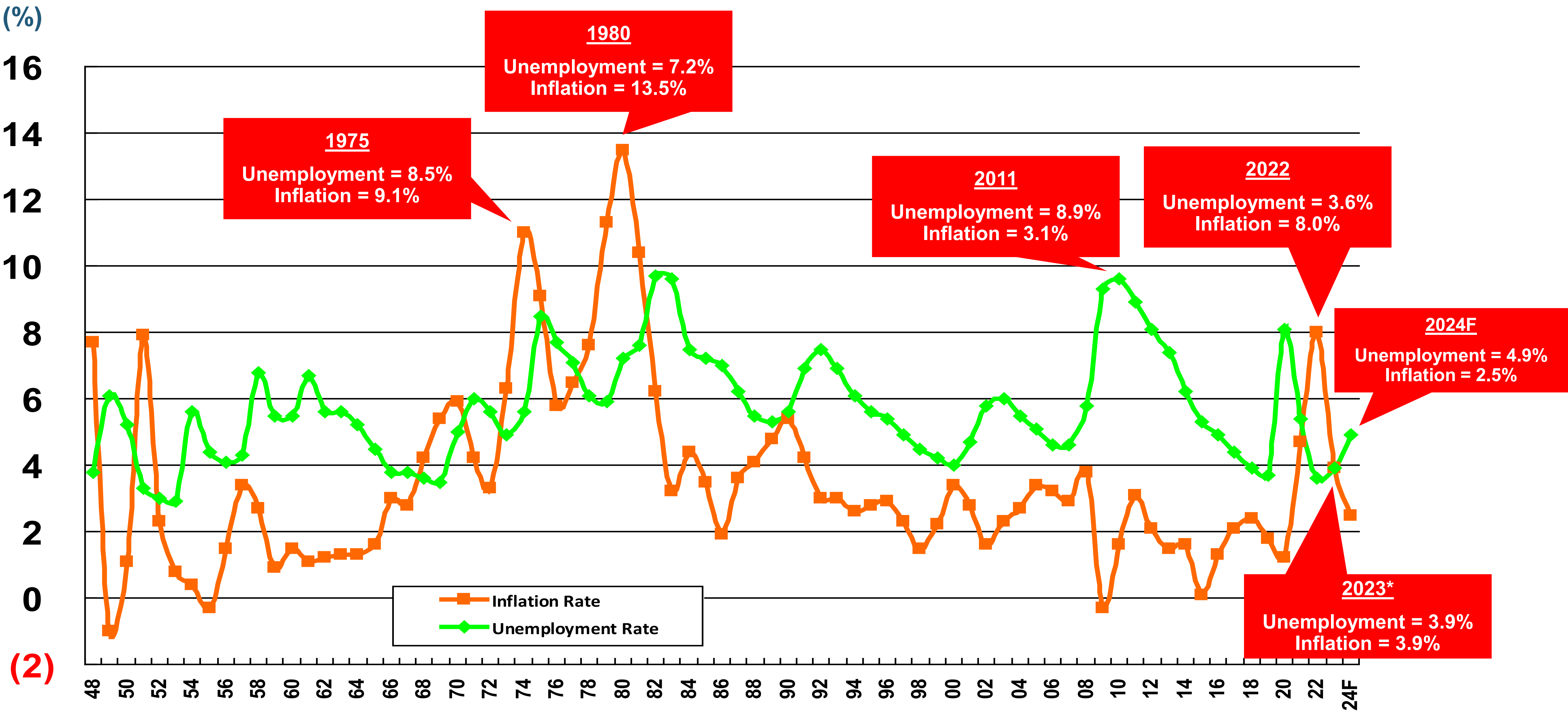
A Quick Review of Economic History Is Helpful

Rate of Inflation (CPI-U), 1948–2024F*



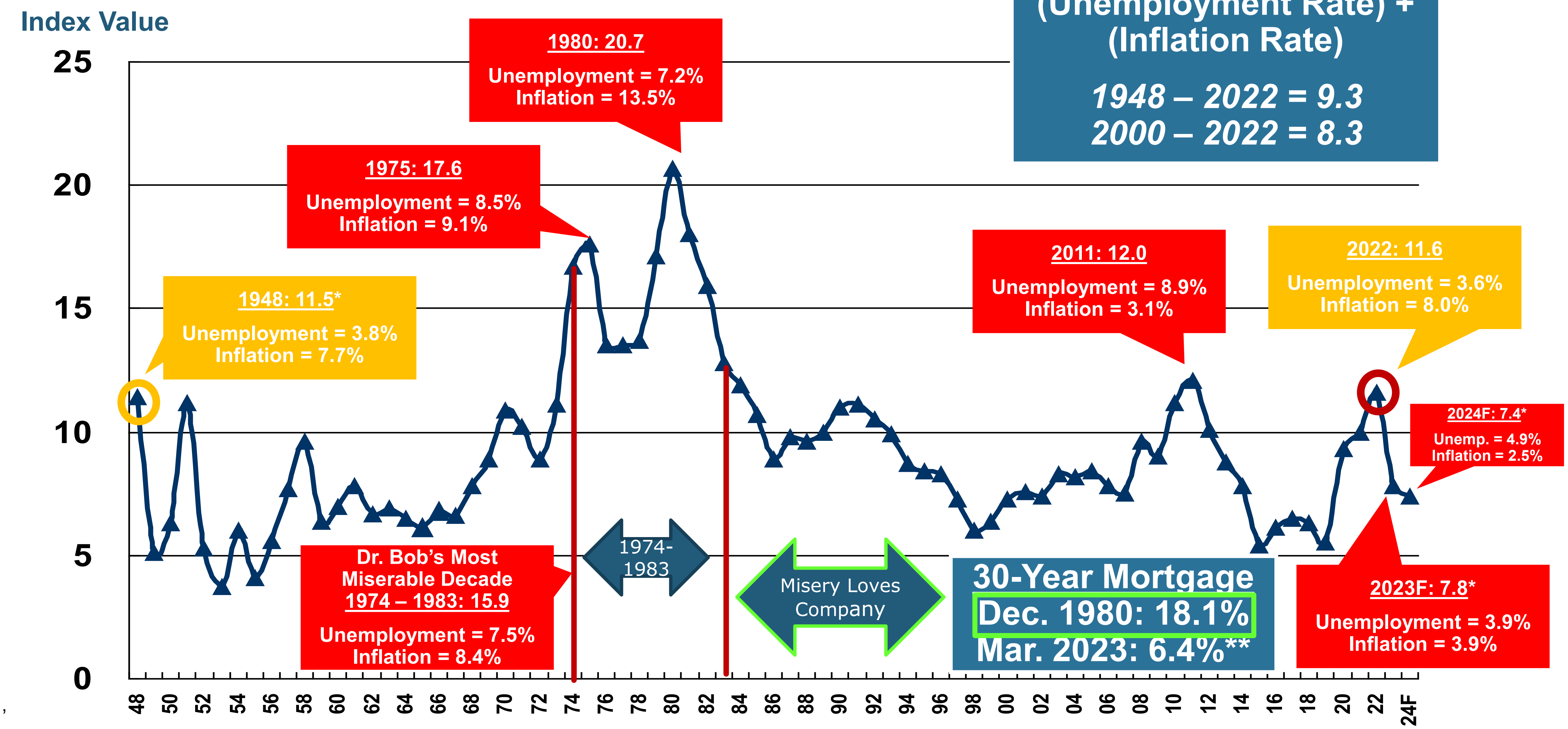
*2023/24 forecasts are from (Wells Fargo Securities, Apr. 2023 forecast).
Source: US Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

Inflation and Unemployment Rate, 1948–2024F*



*2023-24 forecast of unemployment and inflation rates based on Wells Fargo Securities forecasts (4/23).
Source: US Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

“Misery Index”: 1948–2024*



*Estimated based on Wells Fargo Securities forecasts (4/23).

**As of 3/28/23 based on Freddie Mac data.

Source: US Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

The "R" Word

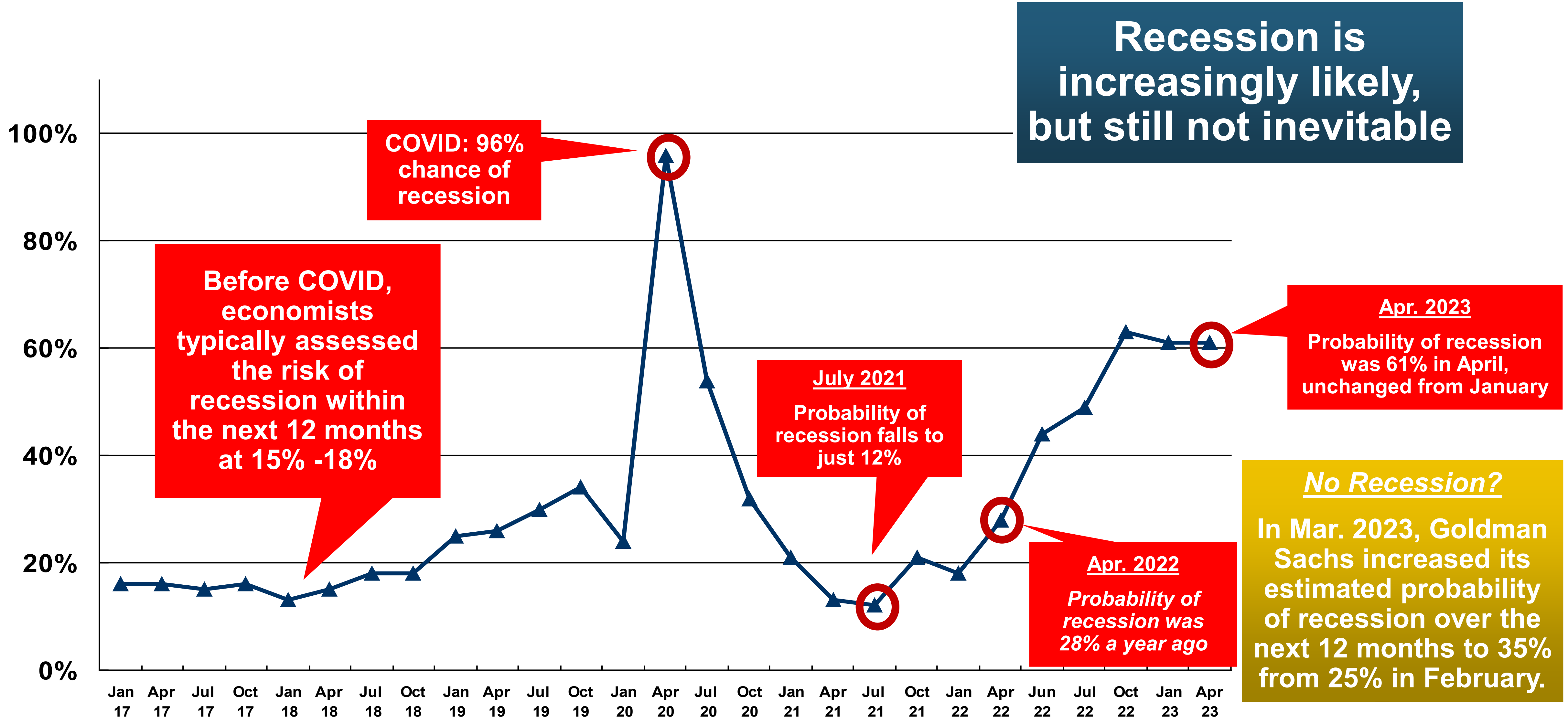
Is a Recession on the Horizon?

If so, What Does It Mean for Workers Comp Insurer and the P/C Insurance Industry?

NCCI Recession Facts: 100th Birthday Edition

- **NCCI is a “Recession Baby”**
  - **While the “Roaring 20s” are generally viewed as a prosperous period for the US economy, a mild recession began in 1923:Q2 ending in 1924:Q3; Oil price spikes played a role**
- **Since NCCI was formed in 1923, the US has experienced 17 recessions**
- **These recessions have spanned all or part of 35 years of NCCI’s first 100 years**
- **NCCI managed through 4 recessions during its first 15 years of existence**
  - **May 1923 – Jul. 1924**
  - **Oct. 1926 – Nov. 1927**
  - **Aug. 1929 – Mar. 1933 (Great Depression)**
  - **May 1937 – Jun. 1938 (Great Depression)**
- **The US economy was in recession for 87 (48%) of NCCI’s first 180 months in operation—*yet our industry and NCCI survived!***

Probability the US Is in a Recession Within Next 12 Months: Jan. 2017 – Apr. 2023*



*Apr. 2023 survey included the responses of 62 economists.

Source: *Wall Street Journal* surveys of economists: https://www.wsj.com/articles/despite-easing-price-pressures-economists-in-wsj-survey-still-see-recession-this-year-11673723571; Risk and Uncertainty Management Center, University of South Carolina.

Not All Recessions Are Created the Same – What Are the Possibilities Over the Next 12 Months?

Soft Landing

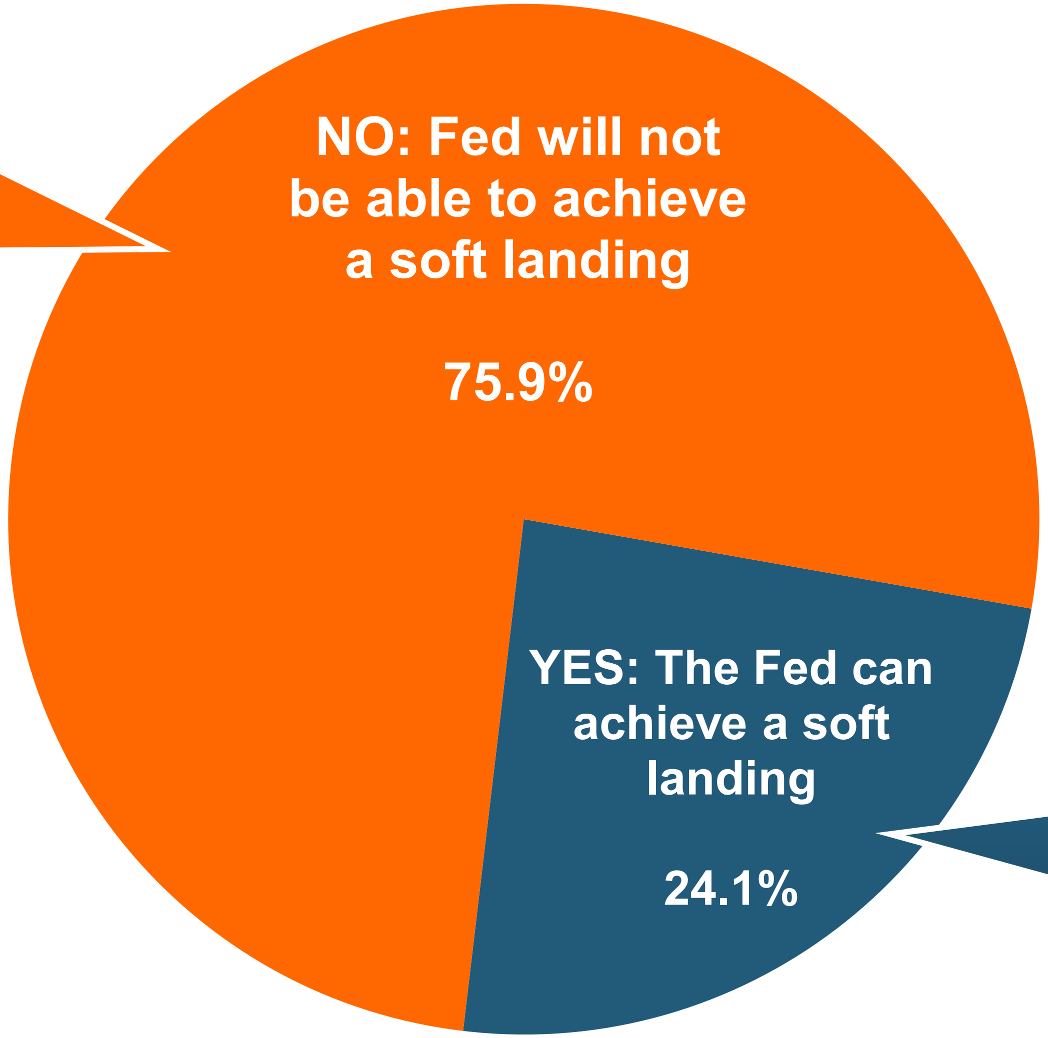
Hard Landing

No Landing

Source: Public Mutual; Univ. of South Carolina, Risk and Uncertainty Management Center.

Can the Fed Achieve a "Soft Landing" for the Economy in 2023?

The consensus view is that a soft landing is unachievable and that the economy will enter recession later in 2023



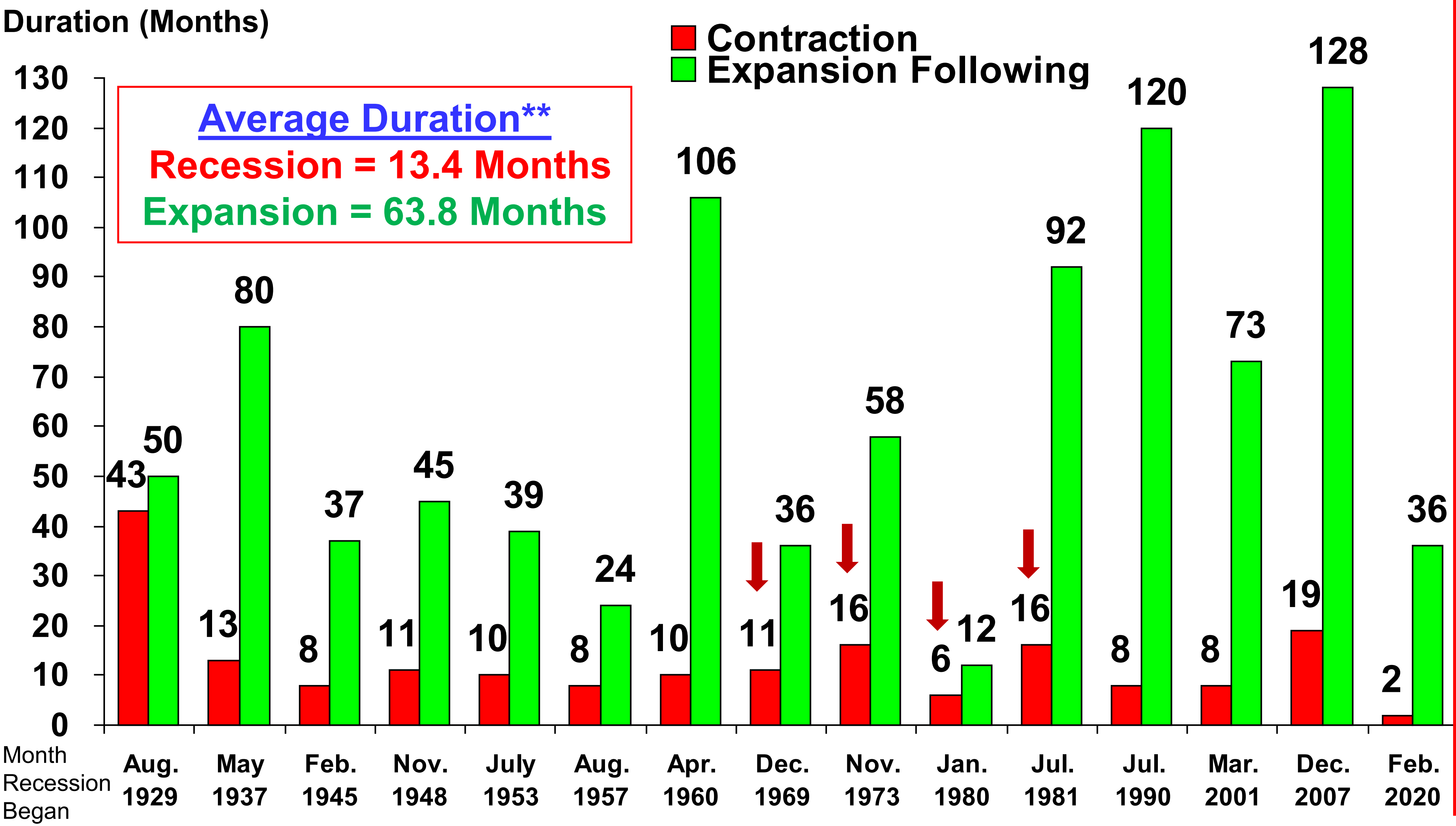
If the economy enters a recession, what does it mean for P/C insurers?

"It's possible that we can continue to have a cooling in the labor market without having the big increases in unemployment that have gone with many prior episodes."
-Fed Chair Jay Powell (May 3, 2023)

The soft land scenario is now viewed as unlikely by most economists

*April 2023 survey included the responses of 62 economists.
Source: *Wall Street Journal* surveys of economists: https://www.wsj.com/articles/despite-easing-price-pressures-economists-in-wsj-survey-still-see-recession-this-year-11673723571; Risk and Uncertainty Management Center, University of South Carolina.

Length of US Business Cycles, 1929-Present*

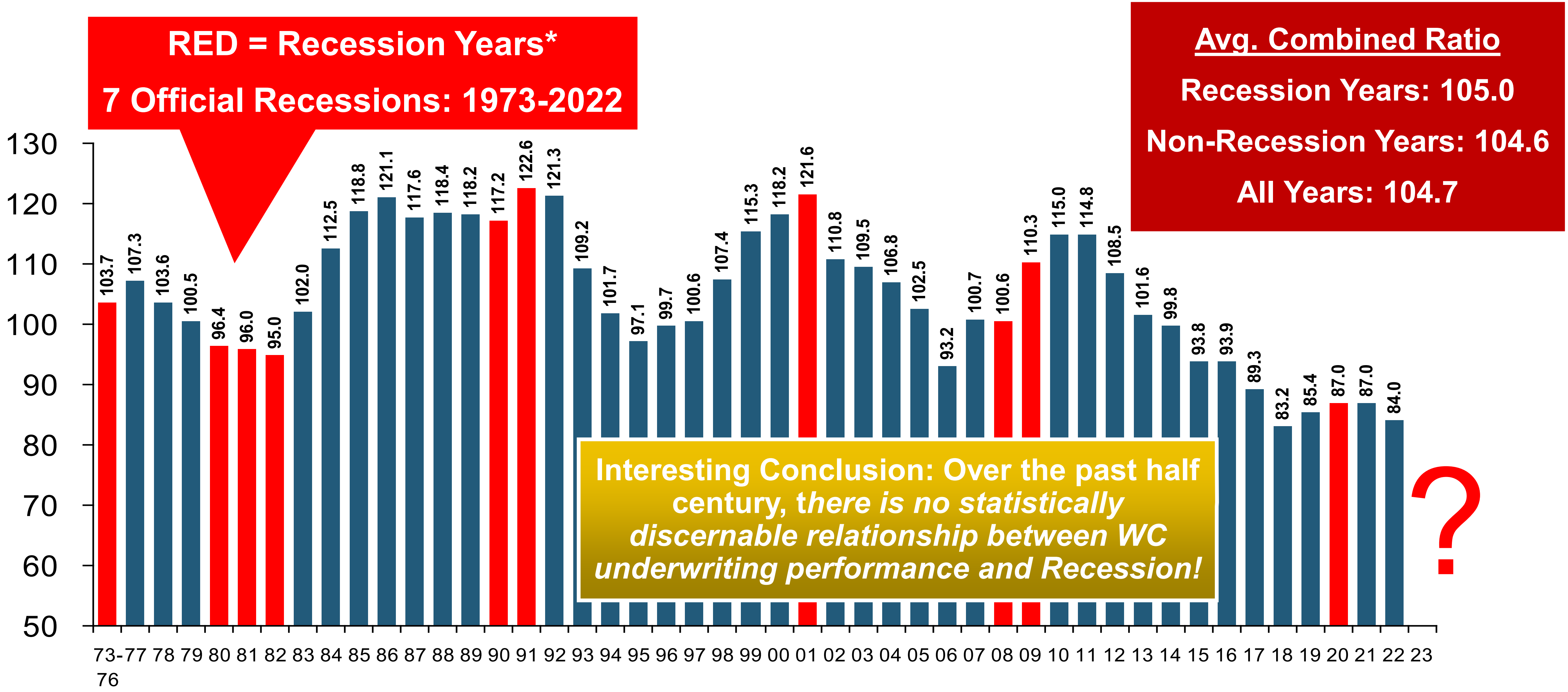


- **The COVID recession lasted just 2 months, ending in April 2020, the shortest on record**
- **COVID abruptly ended the longest economic expansion in US history, which spanned nearly 11 years**
- ***From 1970–1982, the economy was in recession for 48 months through 4 recessions (vs. just 2 months over the past 14 years)***

*Through May 2023. **Excluding COVID-19 recession.

Sources: National Bureau of Economic Research; Risk and Uncertainty Management Center, University of South Carolina.

Workers Comp Combined Ratios: 1973 – 2022p

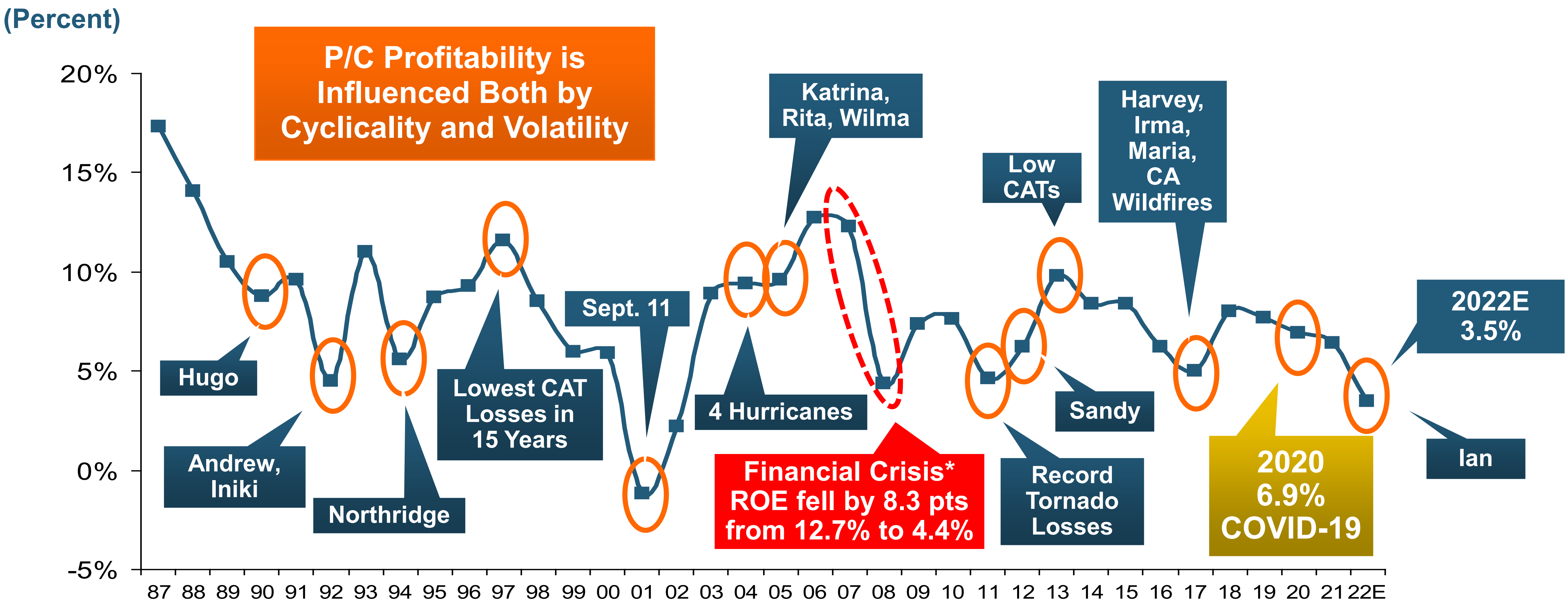


*Years in which 3 or more months of the year were in recession plus 2020 (COVID-related recession) which lasted 2 months. Recession dates from NBER: https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions

Note: Data for 1973-1984 are calculated from incurred loss and expense data, excluding policyholder dividends, as sourced below, and are for stock companies only.

Sources: *Social Security Bulletin*, July 1988 (v. 51, n. 7) accessed at: https://www.ssa.gov/policy/docs/ssb/v51n7/v51n7p4.pdf; NAIC Annual Statement (1985-2021); NCCI (2022p); University of South Carolina, Risk and Uncertainty Management Center.

ROE: Property/Casualty Insurance by Major Event, 1987–2022E*



*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

ROE: Property/Casualty Insurance, 1973 - 1989 vs. Recent

Although underwriting experience was far worse in the mid/late-1970s and most of the 1980s than in recent years, industry profitability was actually materially higher—though after adjusting for inflation the difference is smaller.

Avg. ROE

1973 – 1979: 11.5%

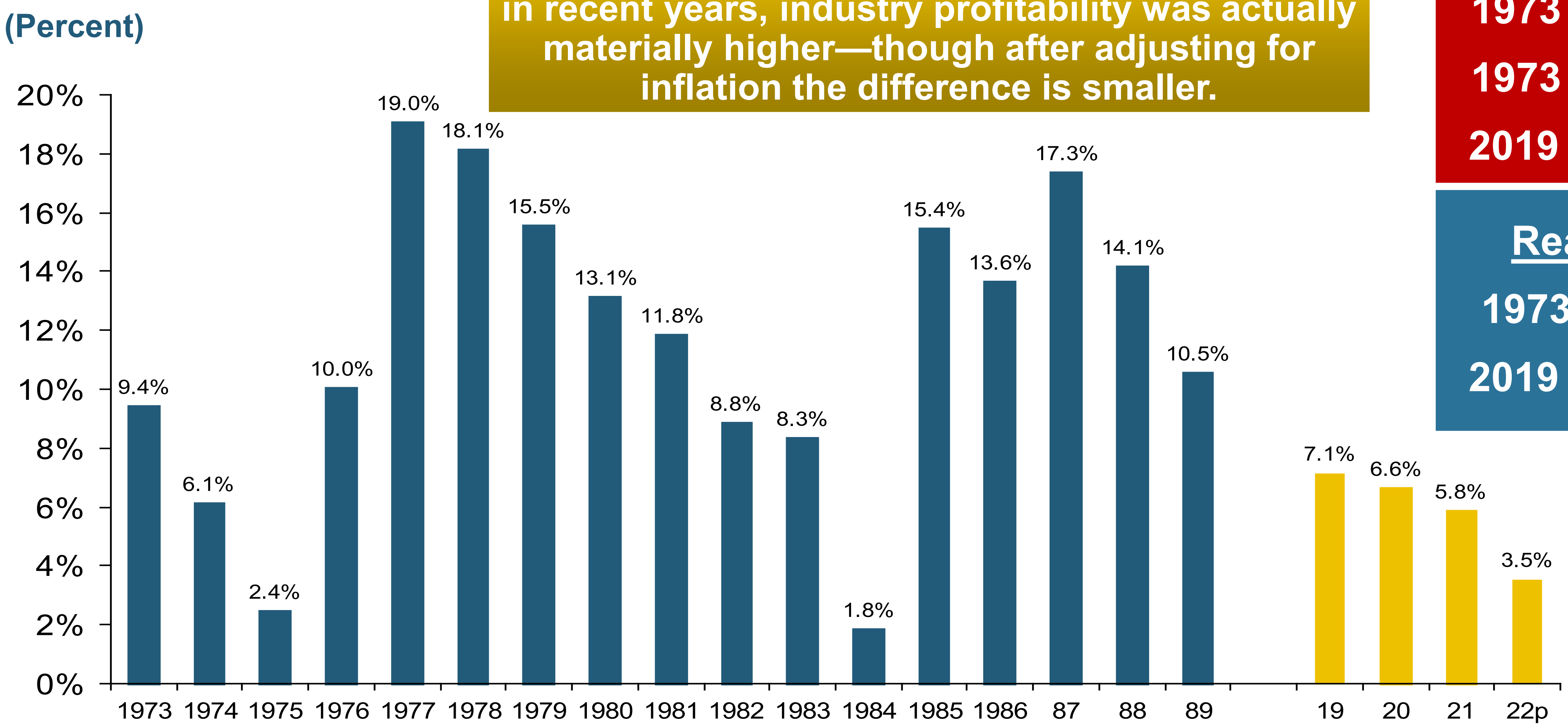
1973 – 1989: 11.5%

2019 – 2022p: 5.8%

Real Avg. ROE

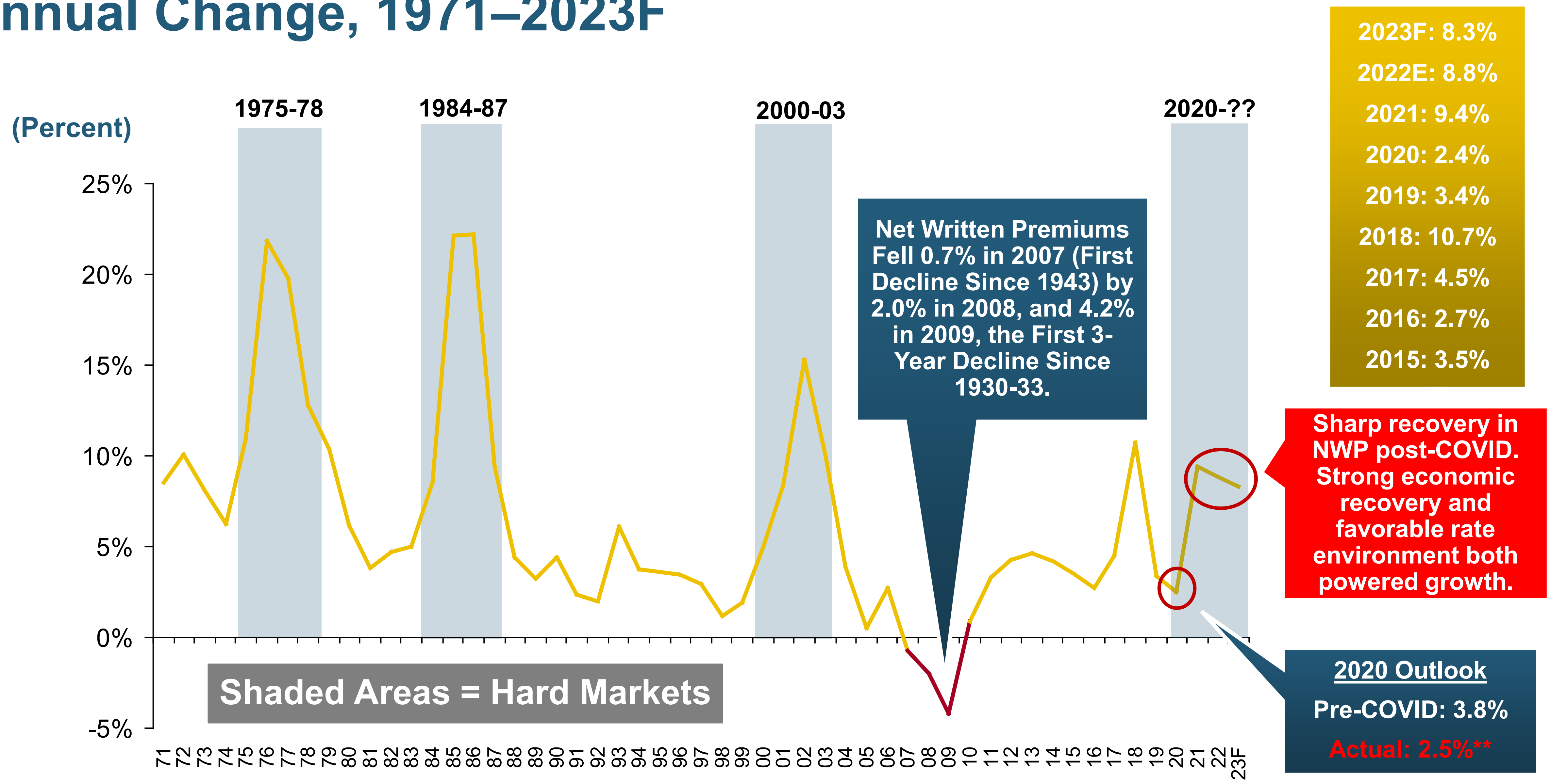
1973 – 1989: 4.8%

2019 – 2022p: 1.6%



Sources: A.M. Best, ISO, APCIA; USC RUM Center.

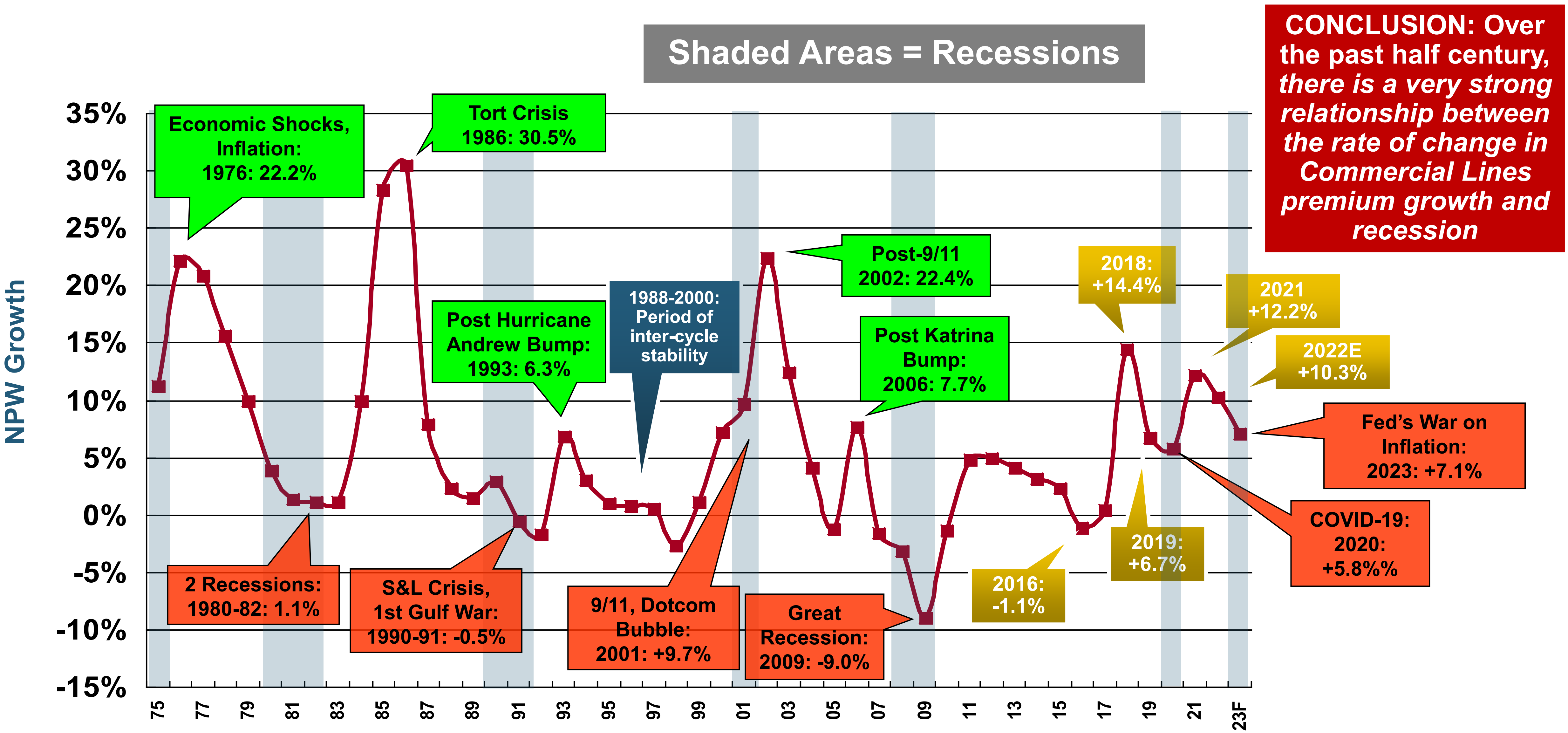
Net Written Premium Growth (All P/C Lines): Annual Change, 1971–2023F



NOTE: Shaded areas denote "hard market" periods.

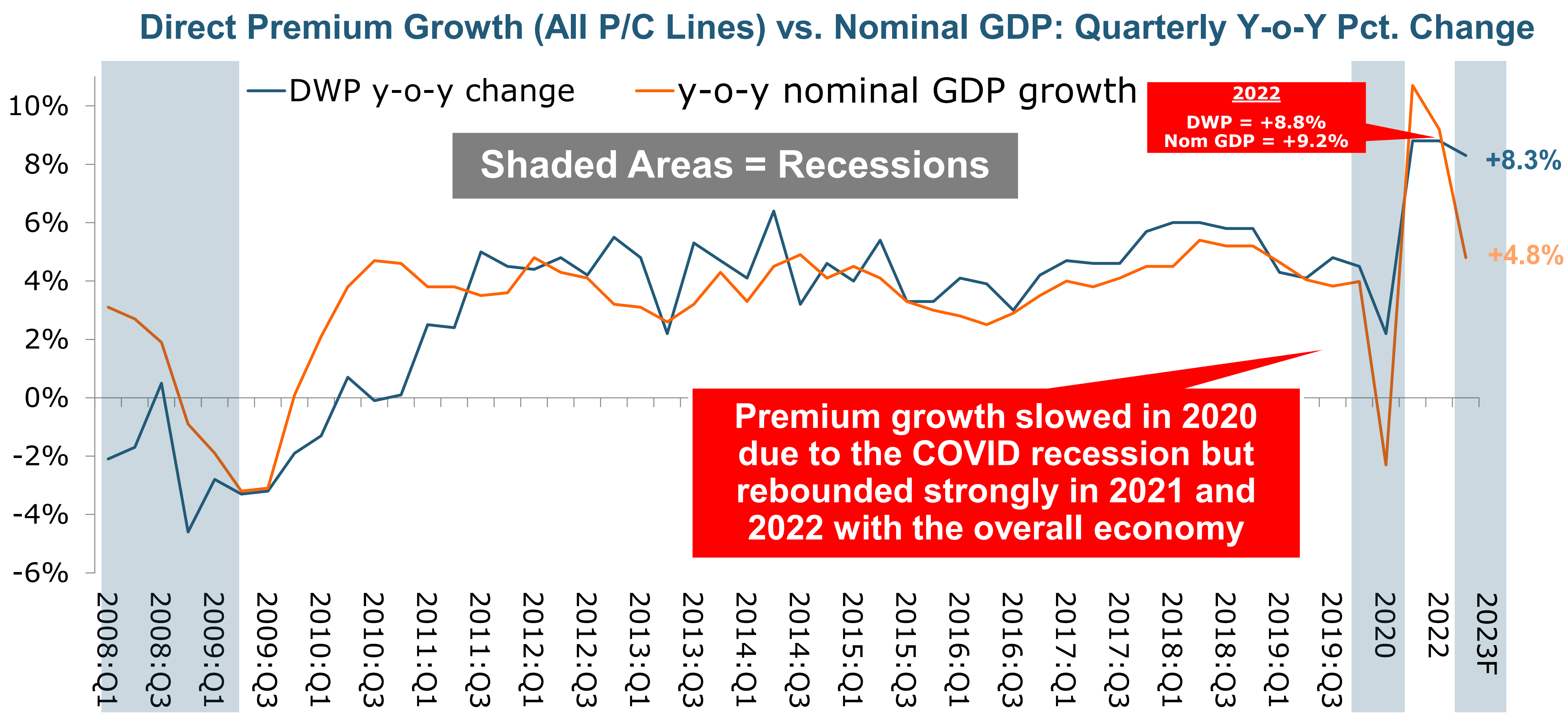
Sources: A.M. Best (1971-2013, 2022E – 2023F), ISO (2014-21); Risk & Uncertainty Management Center, Univ. of South Carolina

Commercial Lines NPW Premium Growth: 1975 – 2023F



Note: Data include state funds beginning in 1998. Recession dates (1975–2022) from NBER: https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions
Source: A.M. Best (2022E-23P); ISO; APCIA; Univ. of South Carolina Center for Risk and Uncertainty Management Center.

The Economy Drives P/C Insurance Industry Premiums: 2008:Q1–2023F*

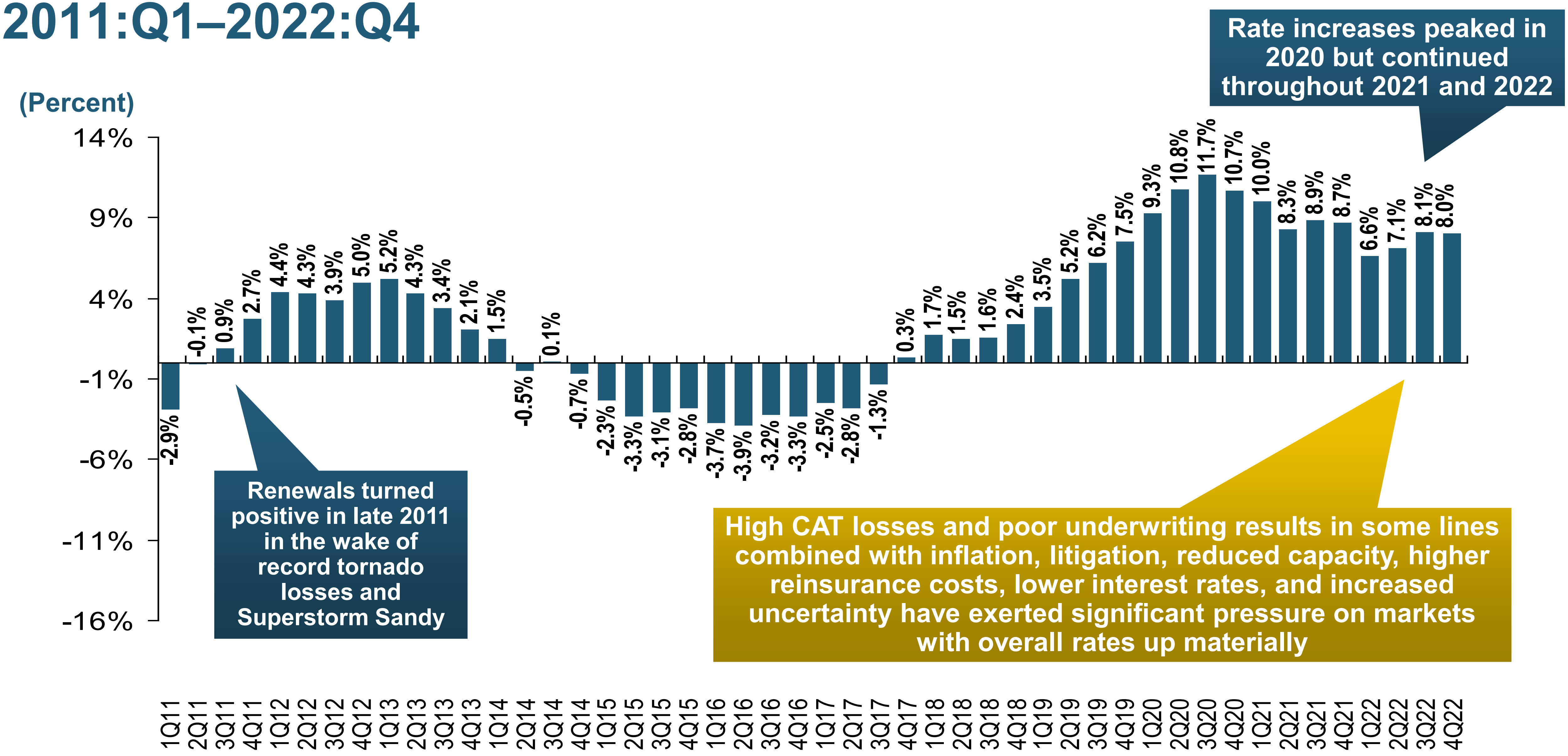


Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects are inextricably linked to economic performance.

*2020-23F figures are annual.

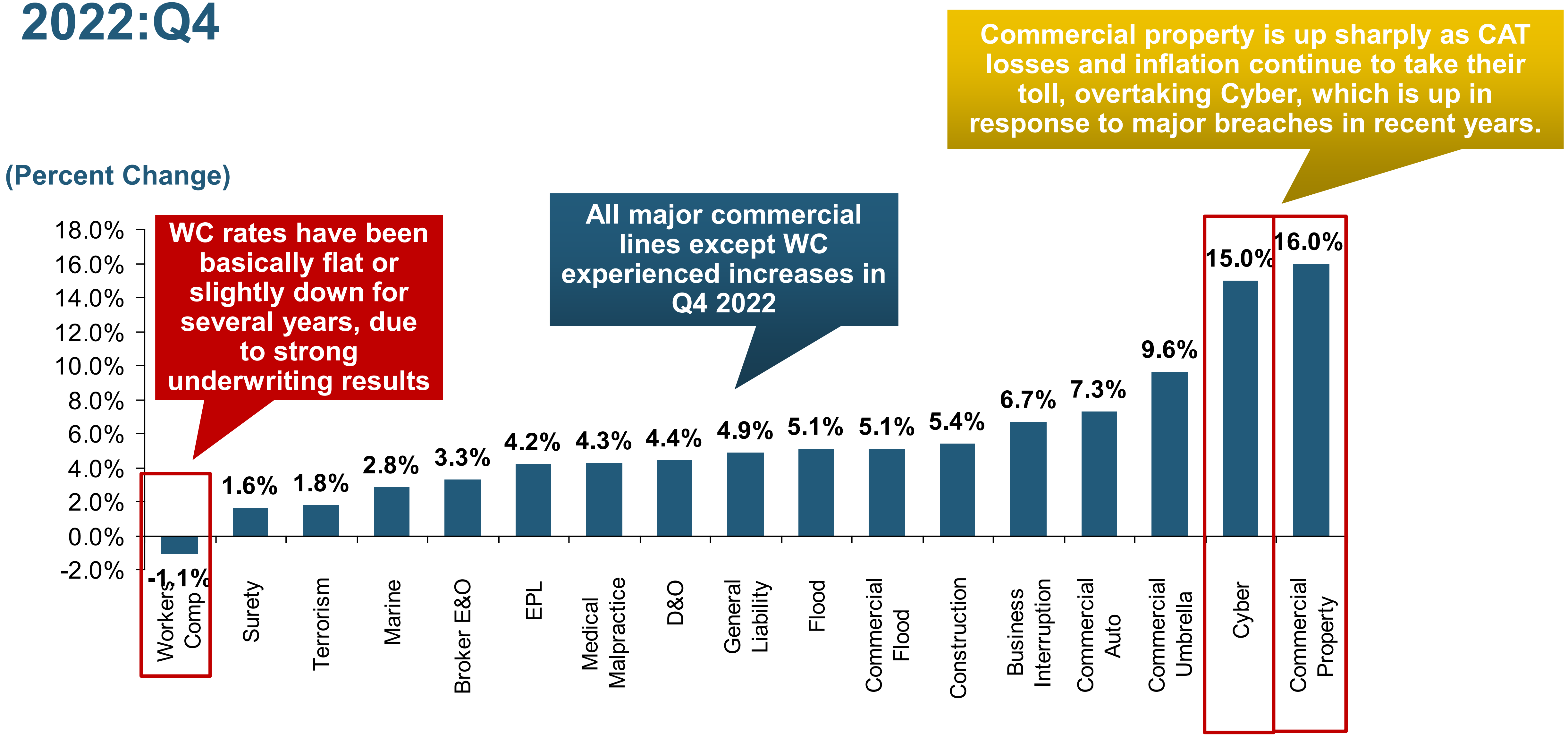
Sources: SNL Financial; US Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2022:Q4



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2022:Q4



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

The Last Word on the "R" Word

- **Recession has no discernable impact on WC or overall P/C underwriting performance, based on data over the past 50 years**

- **Recession has an adverse impact on Commercial Lines NWP growth rates, though magnitude varies w/state of the underwriting cycle (Hard/Soft market)**

- **ROEs are also impacted by recession (often via investment income effects)**

- ***Current banking "crisis" increases likelihood of recession***
  - ***Primarily through a contraction in credit***

- **A recession in 2023 will likely:**
  - **Lead to a deceleration in Commercial Lines NWP growth**
  - **Take some pressure off the current hard market as demand for P/C insurance slows**
  - **ROEs will likely rise (assuming "normal" underwriting performance) due to rising investment income**
  - **No repeat of Financial Crisis, but beware the "X-Date"**

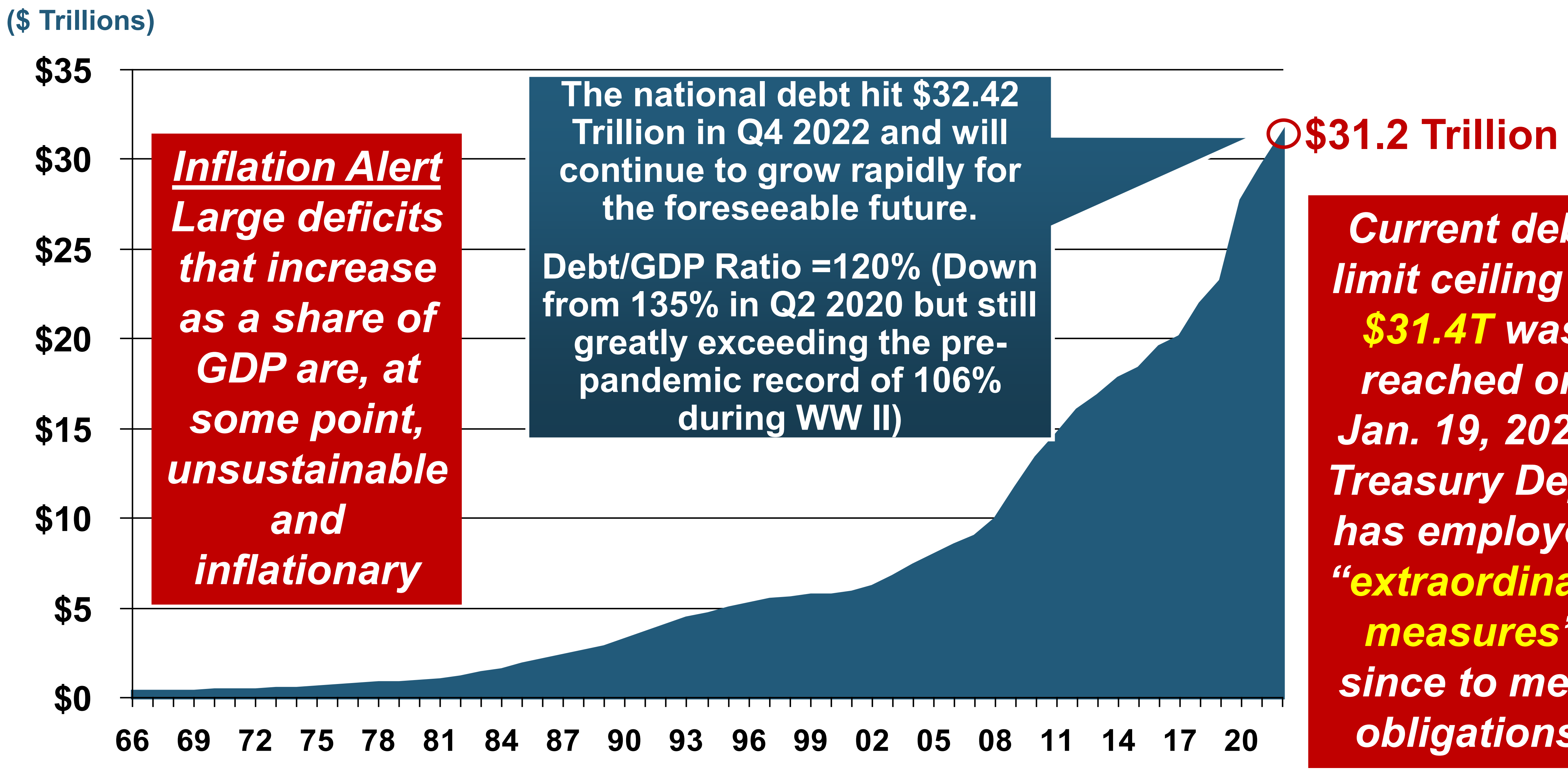
The “X” Date

A Wildcard That Could Affect the Likelihood of Recession, the Trajectory of Interest Rates, and Financial Market Volatility

Playing Russian Roulette With the US Economy

Is the US Careening Toward Its First-Ever Default?

US National Debt, 1966–2022:Q4



Inflation Alert

Large deficits that increase as a share of GDP are, at some point, unsustainable and inflationary

The national debt hit $32.42 Trillion in Q4 2022 and will continue to grow rapidly for the foreseeable future.

Debt/GDP Ratio =120% (Down from 135% in Q2 2020 but still greatly exceeding the pre-pandemic record of 106% during WW II)

Current debt limit ceiling of $31.4T was reached on Jan. 19, 2023. Treasury Dept. has employed "extraordinary measures" since to meet obligations.

Source: Congressional Budget Office; Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/GFDEGDQ188S and https://fred.stlouisfed.org/series/GFDEBTN.

What Would Happen Once "Extraordinary Measures" and Cash Are Exhausted?

- *"If the debt limit was not raised or suspended, the Treasury would not be authorized to issue additional debt other than to replace maturing securities. That restriction would ultimately lead to delayed payments for some government activities, a default on the government's debt obligations, or both."*
  - **Congressional Budget Office (Feb. 2023, https://www.cbo.gov/publication/58945)**
- **X-Date: As soon as June 1**
  - **Treasury Secretary Janet Yellen (May 1, 2023)**

Debt Déjà Vu

- **Last major debt limit impasse was in 2011 (X-Date was Aug. 11). What happened then?**
  - **S&P downgraded US debt to AA+ from AAA**
  - **Interest rates rose**
  - **Major stock indices fell**
  - **Commodity prices plunged**
  - **Consumer confidence plunged**
- **Congress and the White House reached an agreement on July 31, 2011—less than 2 weeks before the X-Date.**

Consequences of Not Reaching an Agreement by the X-Date Could Include Any or All of the Following

- **Immediate cuts to spending already authorized by Congress**
  - **Examples: Late, partial, or missed payments to Social Security and Medicare recipients, government employees, and government contractors**
- **Suspension by US Treasury of interest payments on existing debt**
  - **This option could be pursued in lieu of withholding funds committed to federal programs, but would cause material harm**
  - **Constitutes a technical *default* in existing debt**
- **As X-Date approaches, expect:**
  - **Increasing pressure on interest rates**
  - **Increased financial market volatility**
  - **Political fallout**
  - **Increased consumer and business caution**
  - **Media madness**

X-Date 2023: Exacerbating Factors

- **Fed is well into rate tightening cycle**
- **3 of the 4 largest bank failures in history have just occurred**
- **Increased political polarization**

Bank Debacles

Crisis, Contagion, or Contained?

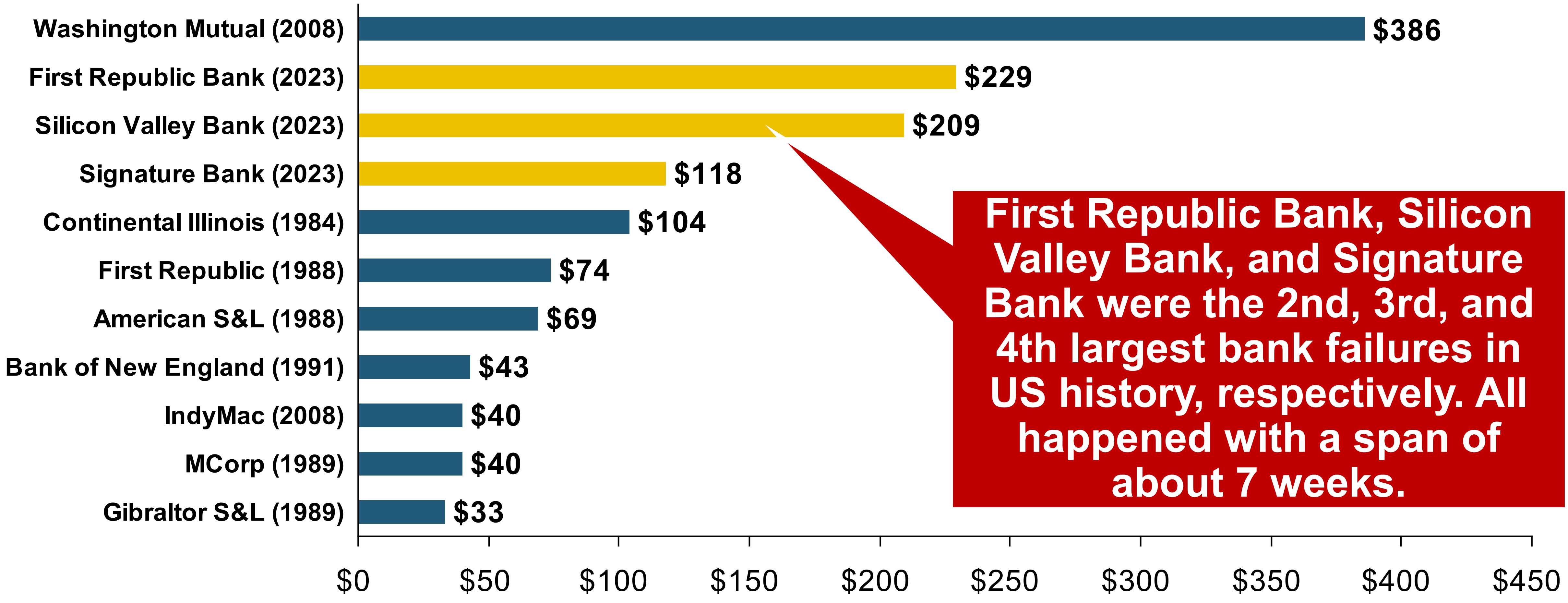
Are Today's Problems Isolated to Banks or Could They Spread to Insurers?

Critical Differences Between Insurers and Banks

Financial System Distress: What's Happened and Why?

- Silicon Valley Bank failed on March 10—2nd Largest Failure in US History
- Signature Bank failed on March 12—3rd Largest US Failure Ever
- Credit Suisse taken over by UBS on March 19—Raising Global Concerns
- First Republic Bank fails on May 1—2nd Largest Failure in US History
  - Displacing SVB
- Several Other Regional Banks Under Pressure (e.g., PacWest)
- What Happened: Focus on Regional Banks at Perceived Risk of Deposit Flight
  - 85% of SVB deposits above FDIC limit of $250K (90% Signature Bank, 68% First Citizens)
  - All 3 experienced a classic "Run on the Bank" which occurred because market value of assets were insufficient to honor withdrawals—hence a major liquidity problem
  - Assets were insufficient to cover withdrawals because market value of assets had dropped sharply as Fed increased interest rates sharply
  - Depositor bases were undiversified—predominantly tech start-ups, crypto firms—that were burning through cash rapidly as funding became scarcer in 2022, or the wealthy

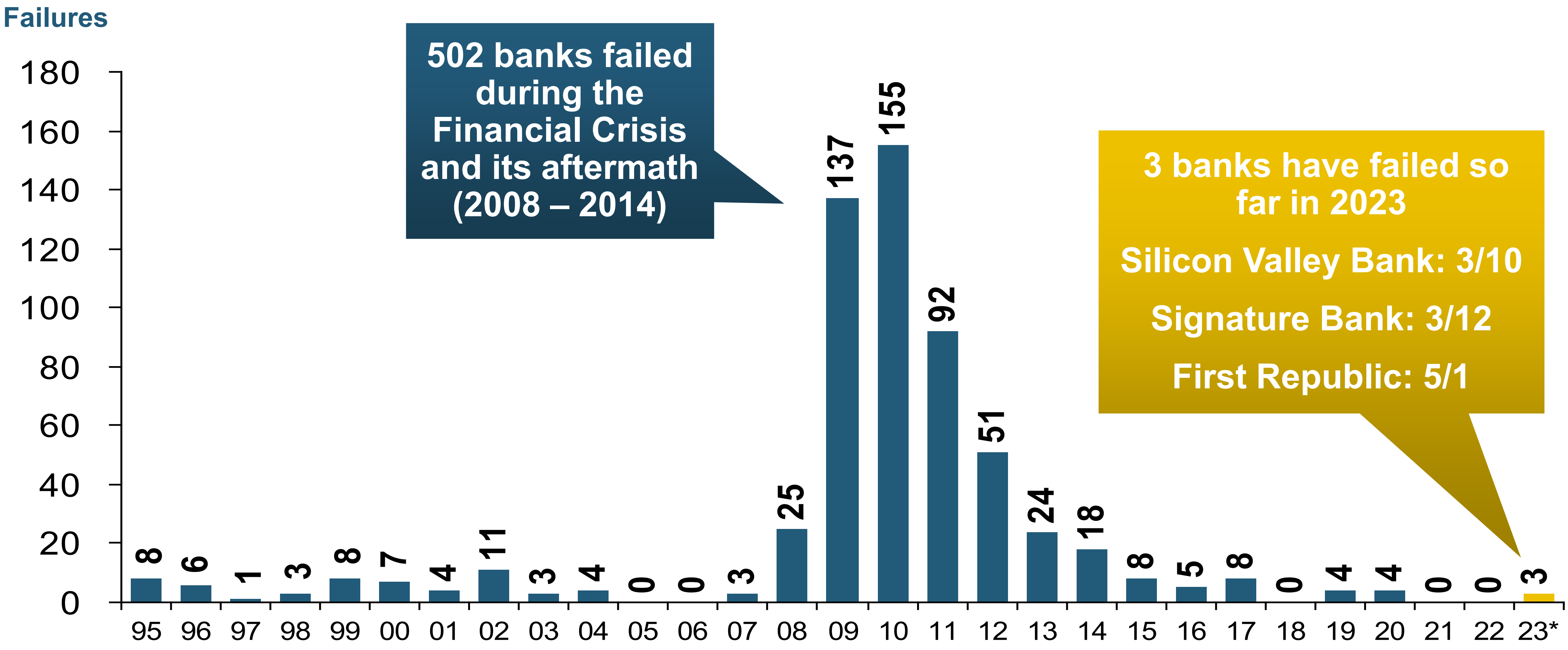
Top 11 Bank Failures in US History
*(Based on Assets at Time of Failure, $Billions)**



*Figures are inflation-adjusted to 2021 dollars, except Silicon Valley and Signature Bank which are as reported at year-end 2022 and First Republic reported as of 2023:Q1.

Source: FDIC; University of South Carolina Risk and Uncertainty Management Center.

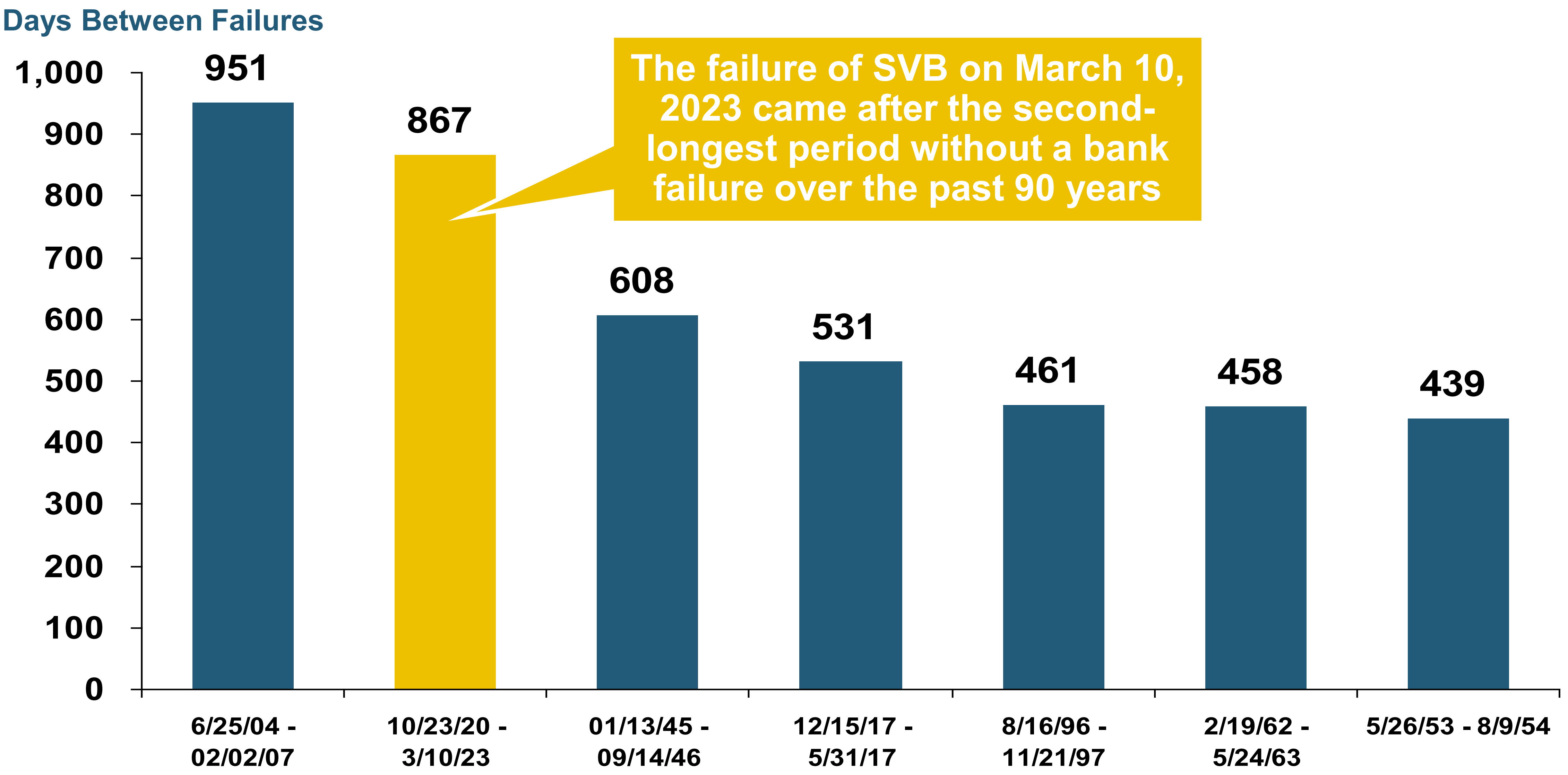
Number of Bank Failures, 1995-2023*



*Through May 1, 2023

Source: FDIC accessed at: https://banks.data.fdic.gov/explore/failures; Univ. of South Carolina, Center for Risk and Uncertainty Management.

Longest Period Between Bank Failures Since 1933*

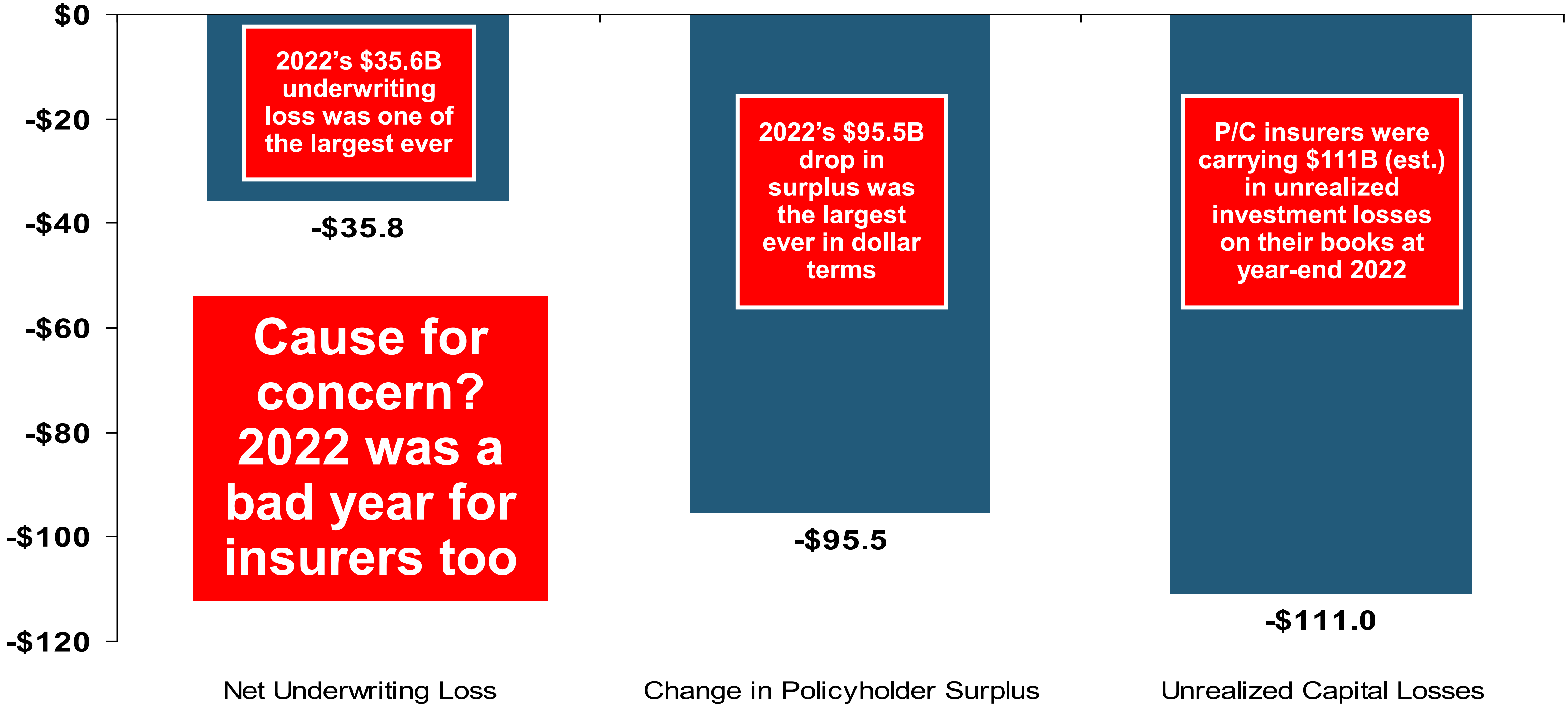


Sources: FDIC from Bankrate.com accessed at: https://www.bankrate.com/banking/list-of-failed-banks/;
Risk and Uncertainty Management Center, University of South Carolina.

Are Insurers Next?

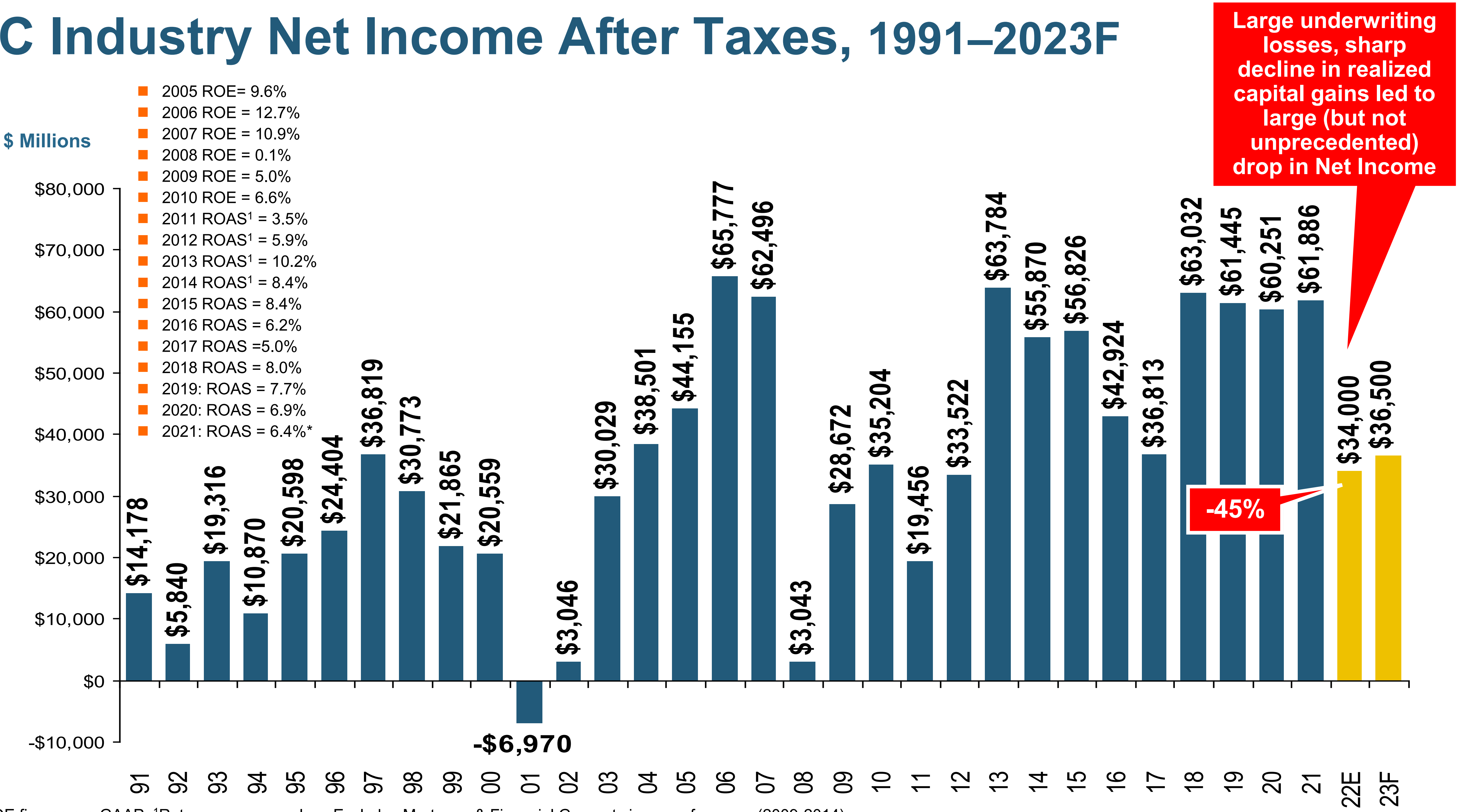
What Do Recent Results, History, and Industry Structure Tell Us?

Change in Key P/C Financial Metrics in 2022
($ Billions)



Source: A.M. Best, *2023 P/C Review & Preview* (March 2023); Risk and Uncertainty Management Center, University of South Carolina.

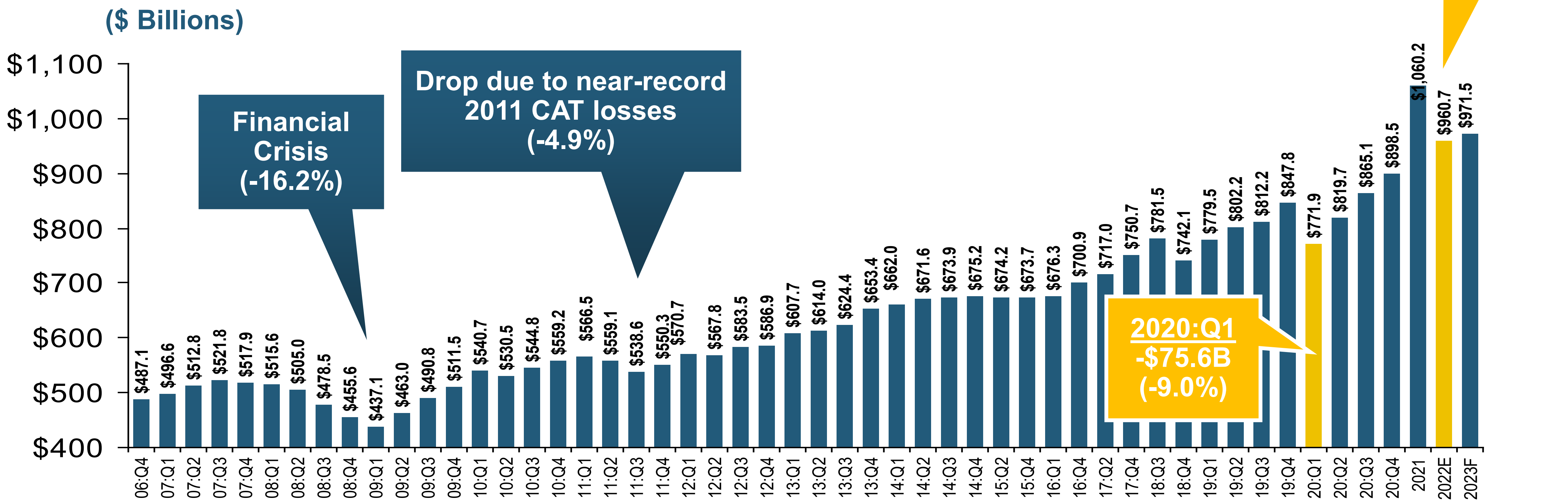
P/C Industry Net Income After Taxes, 1991–2023F



*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

Sources: A.M. Best, ISO, APCIA.

Policyholder Surplus (Capacity), 2006:Q4 – 2023F



Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress, and financial market volatility. It is also a source of capital to underwrite new risks.

Sources: ISO, A.M .Best, NAIC. Risk and Uncertainty Management Center, University of South Carolina.

Insurance Industry Will Remain Stable Despite Bank Instability

Bottom Line: Insurers vs. Banks

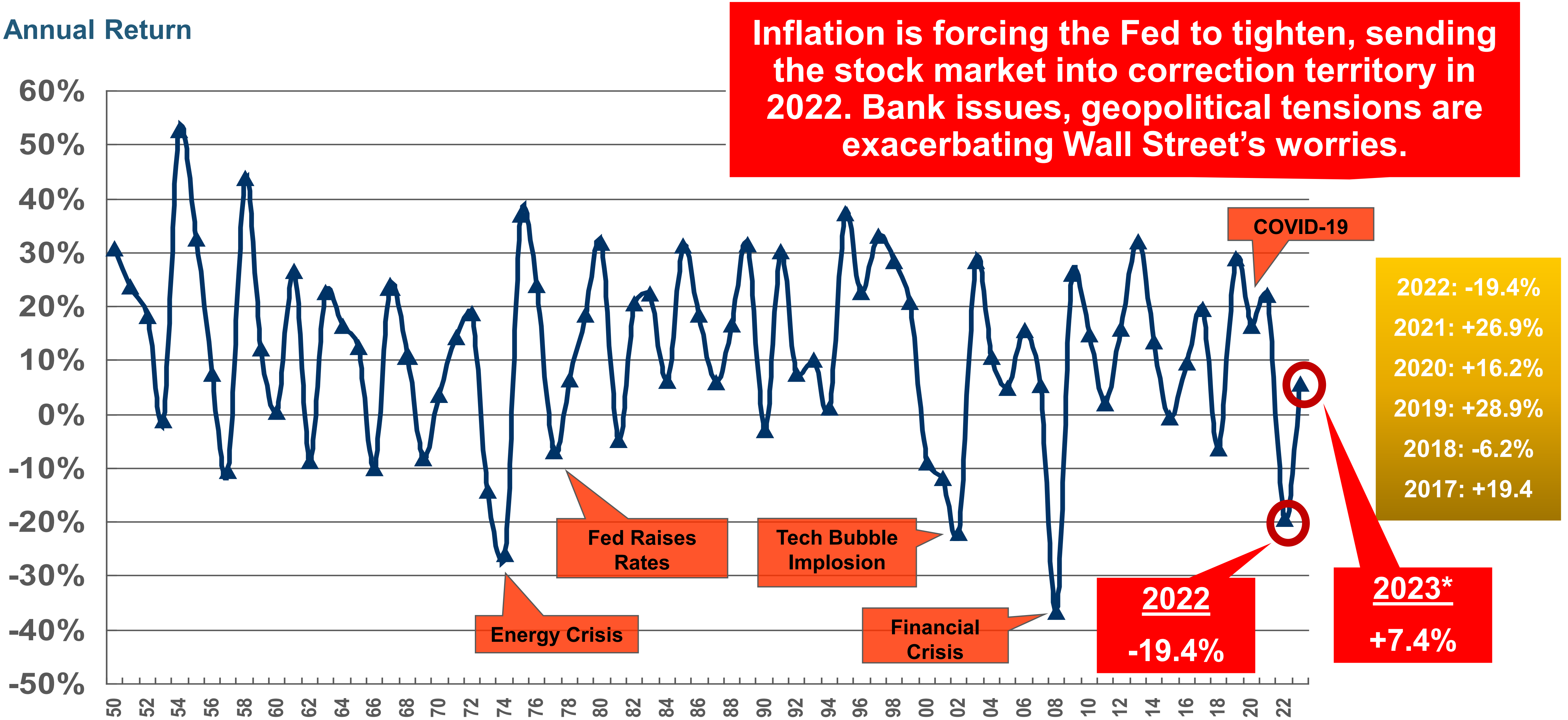
- Can't have a "run" on an insurer—liabilities are satisfied by triggering events (e.g., WC, property, or auto claim), not on a "demand" basis (e.g., deposits)
- Insurers invest and manage assets very conservatively, focusing on quality and liquidity and asset-liability matching (ALM)
- Insurance markets – unlike banking – are operating ***normally***
- The basic function of insurance – the orderly transfer of risk from client to insurer – ***continues uninterrupted***
- This means that insurers continue to:
  - Pay claims (whereas banks need bailouts)
    - ***The promise is being fulfilled***
  - Renew existing policies *(banks are tightening—reducing and eliminating lines of credit)*
  - Write new policies *(banks are turning away people and businesses who want or need to borrow)*
  - Compete intensively *(banks are consolidating, reducing consumer choice)*

Source: Risk and Uncertainty Management Center, University of South Carolina.

Wall Street’s Wild Ride Continues

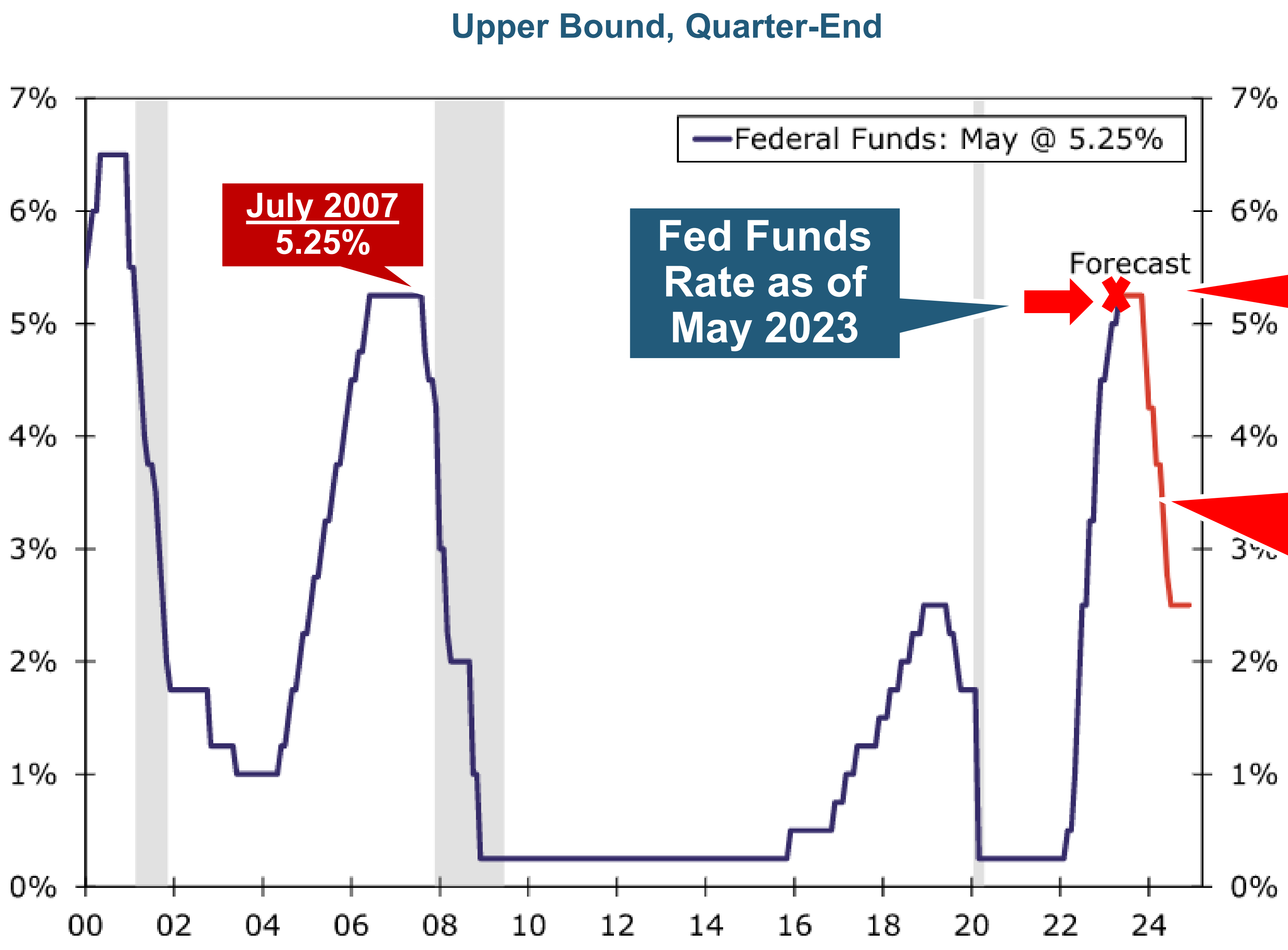
A Never-Ending Financial Market Rollercoaster

S&P 500 Index Returns, 1950–2023*



*Through May 4, 2023.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html; Center for Risk and Uncertainty Management, University of South Carolina.

Federal Funds Target Rate: Up, Up, and Away!

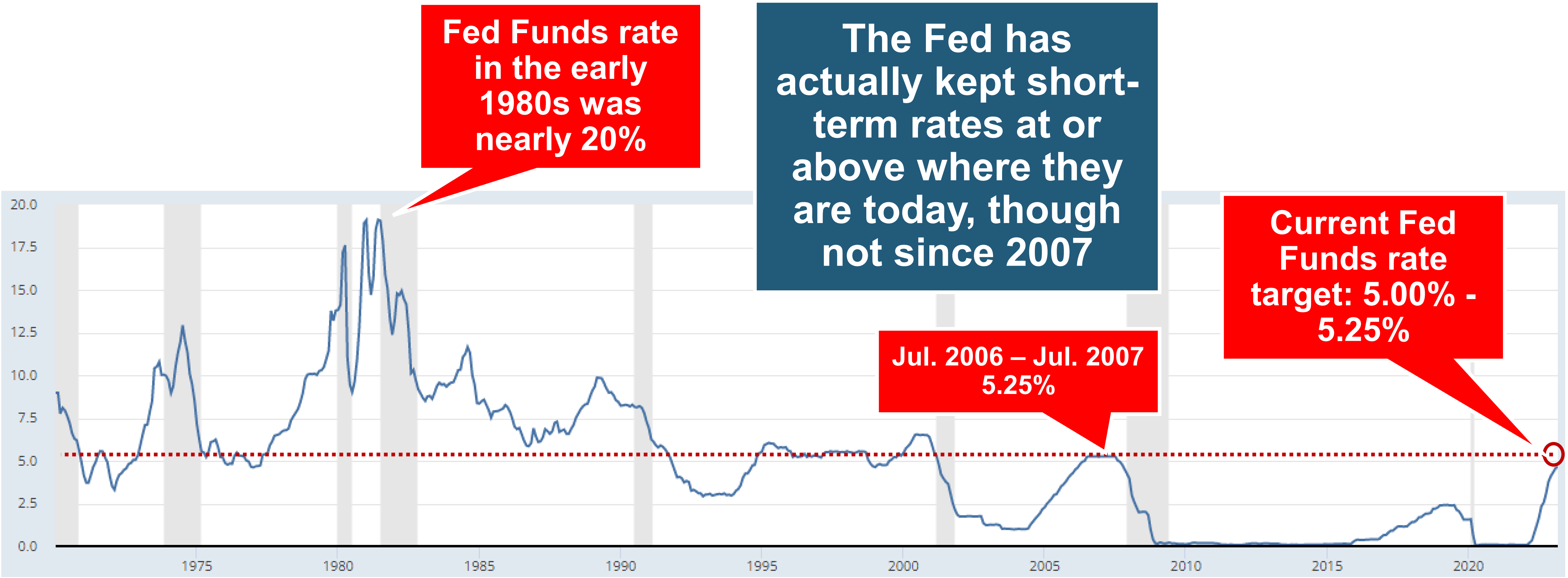


The Fed hiked short-term rates in May 2023 by 25 basis points to a target range of between 5.00% and 5.25%

The cycle of rate increases is likely over. The Fed is now expected to hold rates steady until late 2023 or early 2024, before beginning to ease, assuming inflation slows amid a weakening economy.

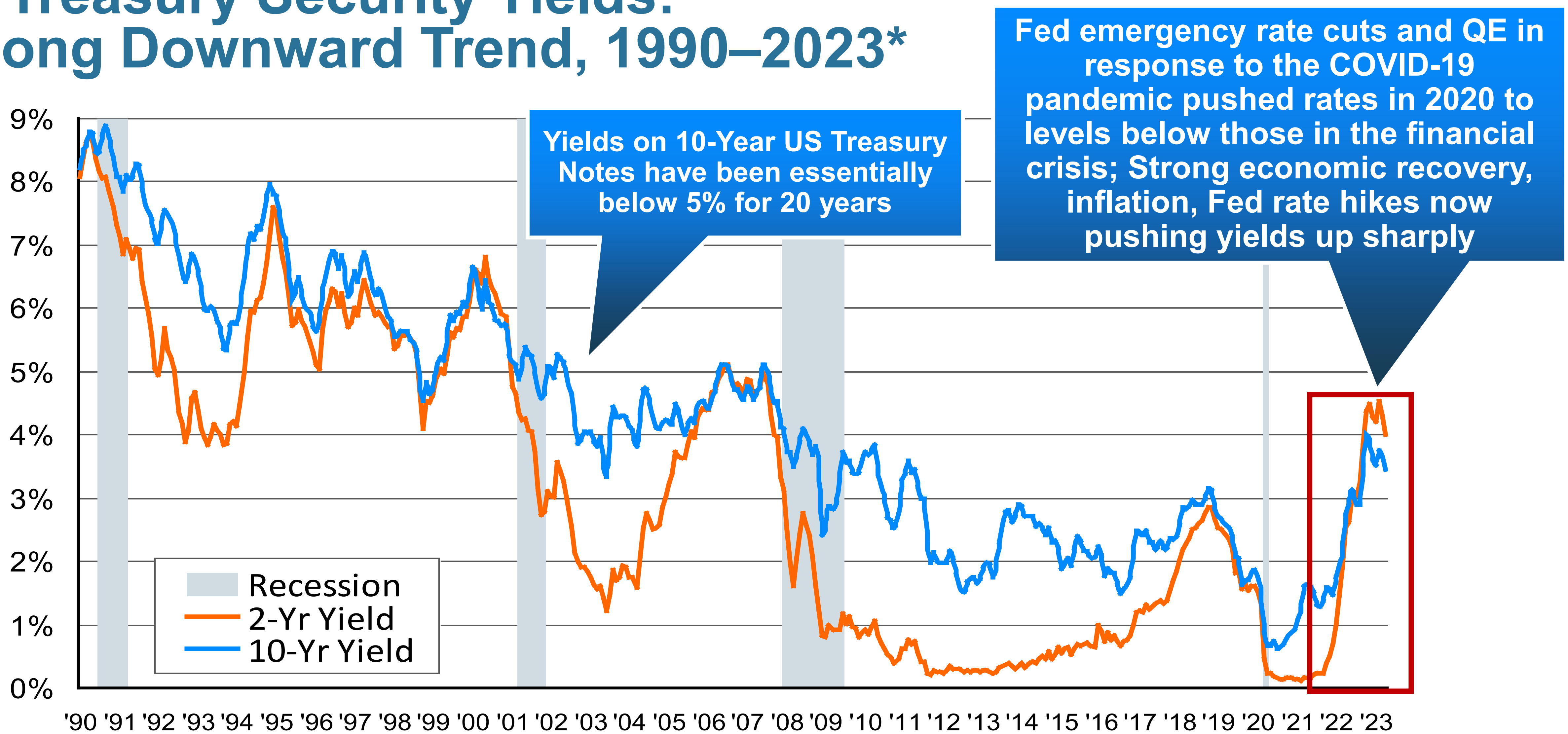
Source: Federal Reserve Board and Wells Fargo Economics (5/23); Risk and Uncertainty Management Center, University of South Carolina.

Federal Funds Target Rate: The End of Cheap Money?



Source: Federal Reserve from the *Wall Street Journal*, May 5, 2022.

US Treasury Security Yields: A Long Downward Trend, 1990–2023*

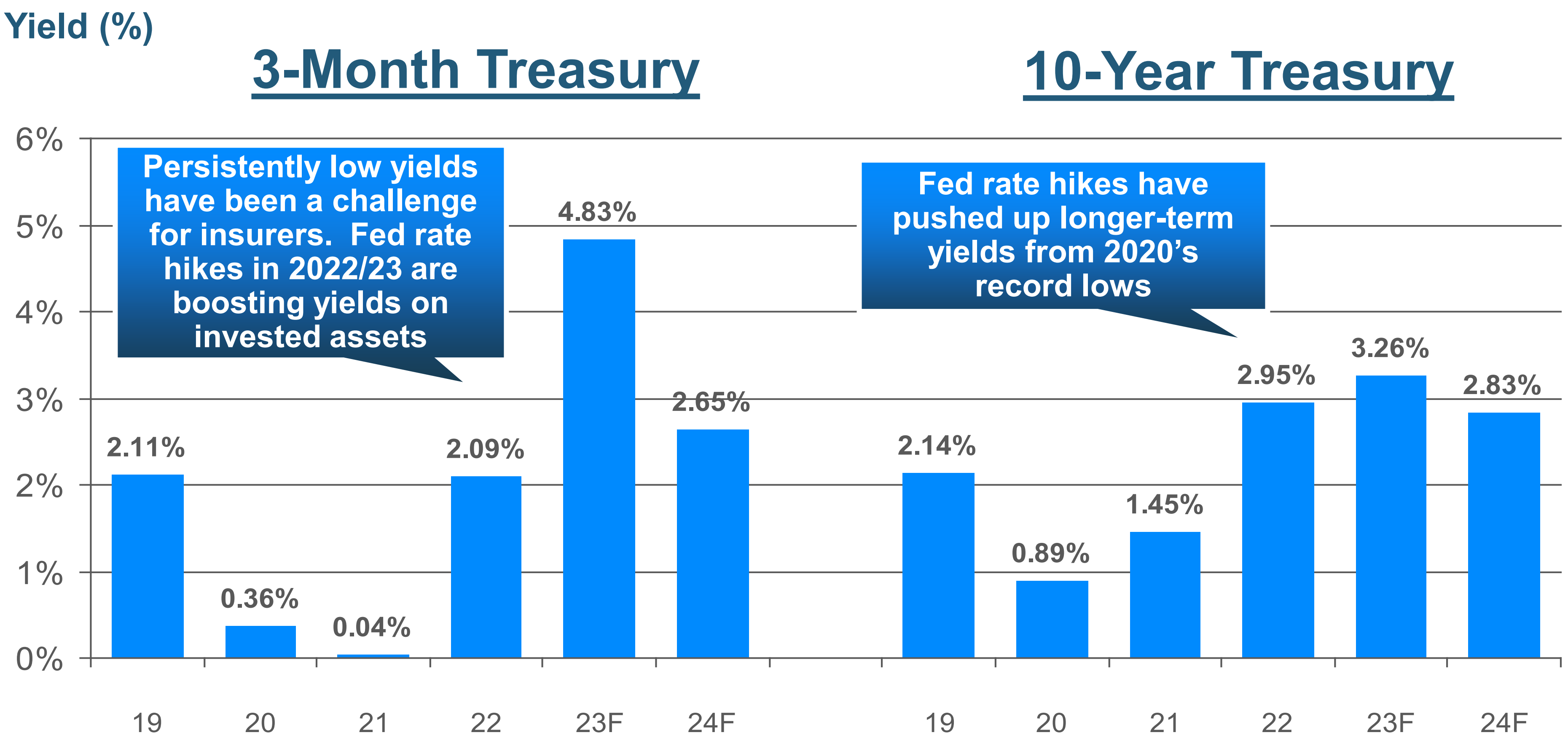


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

*Monthly, constant maturity, nominal rates, through Apr. 2023.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, University of South Carolina.

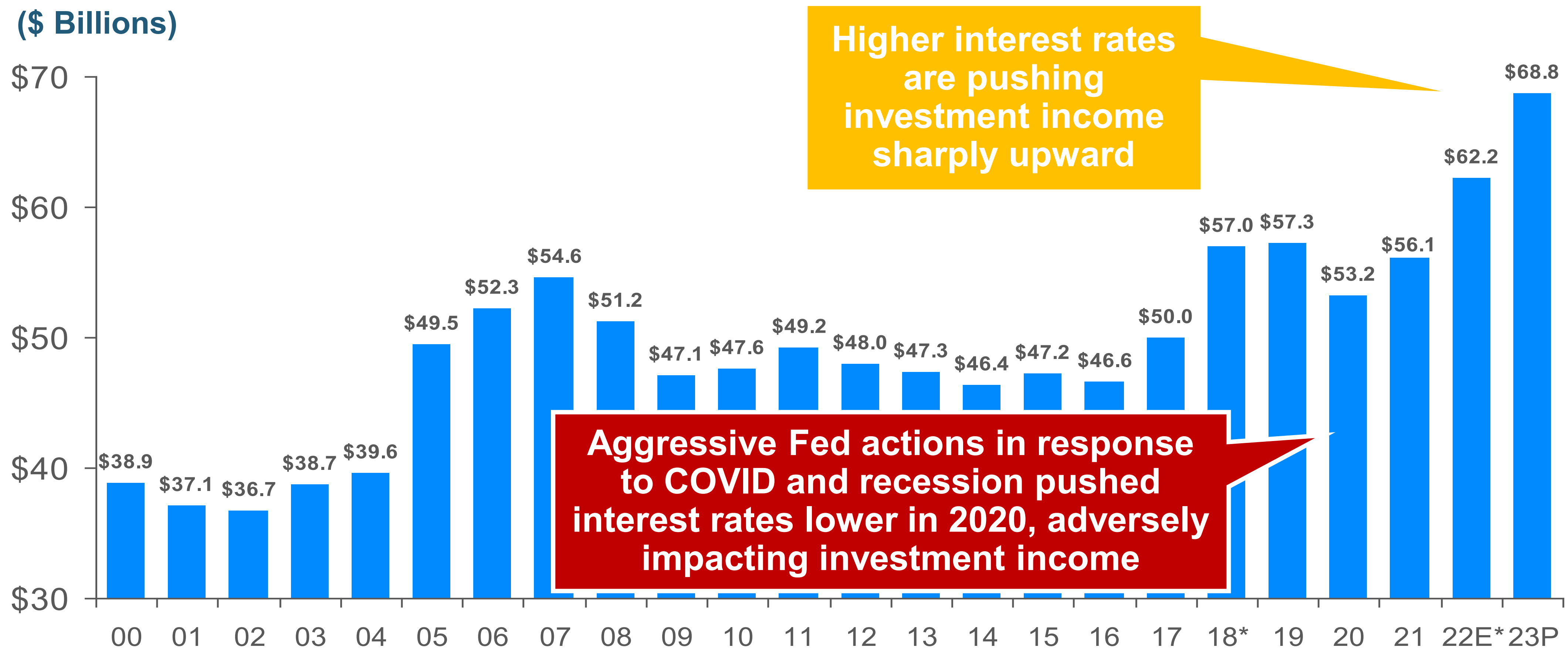
Interest Rate Forecasts: 2019 – 2024F



Rising interest rates will provide a modest tailwind for insurers as the Fed raises interest rates. This will be especially beneficial to longer-tailed lines such as Workers Comp.

Sources: Wells Fargo Securities (4/23); Risk and Uncertainty Management Center, University of South Carolina.

Property/Casualty Insurance Industry Investment Income: 2000–2023P

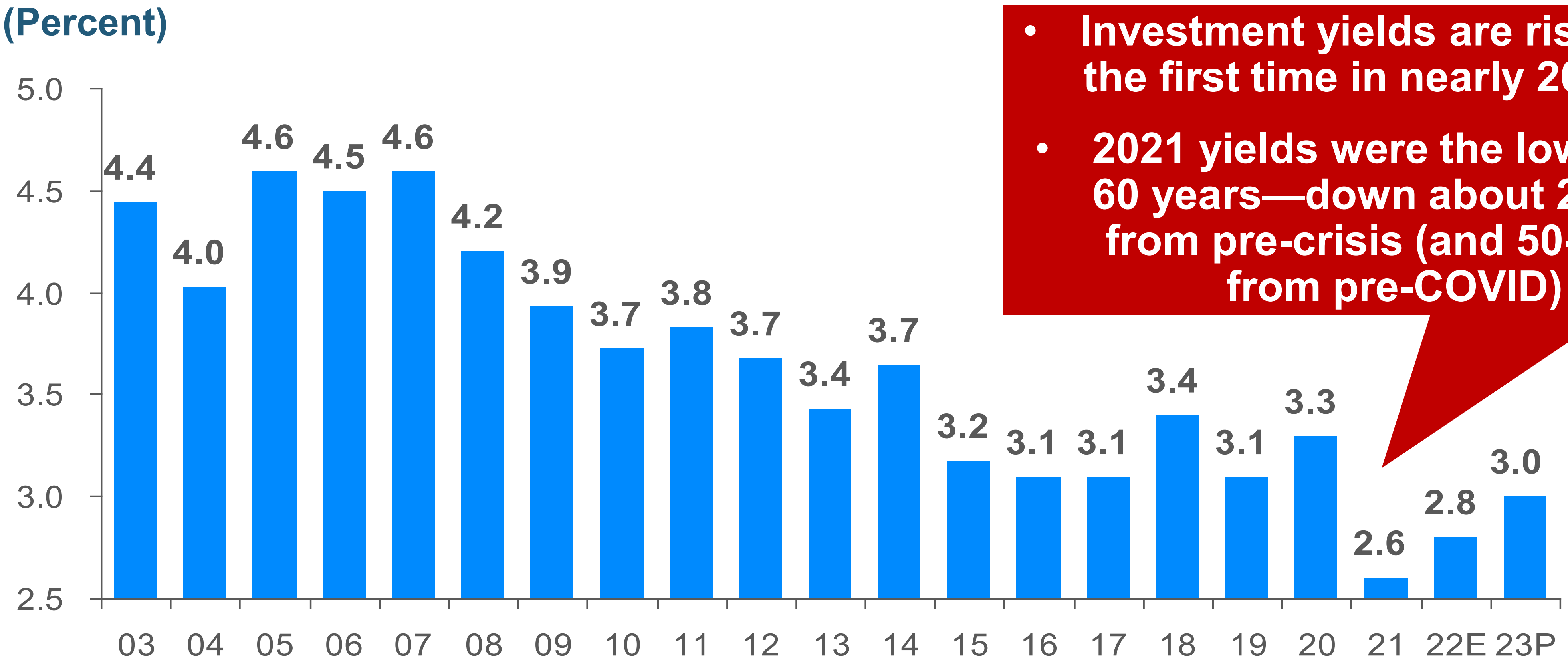


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

*2022 figure excludes $10.8B intercompany distribution at a large reinsurer. 2018-19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.

[1] Investment gains consist primarily of interest and stock dividends. Sources: A.M. Best Review & Preview (March 2023); ISO; University of South Carolina, Center for Risk and Uncertainty Management.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2023P



- Investment yields are rising for the first time in nearly 20 years
- 2021 yields were the lowest in 60 years—down about 200 BP from pre-crisis (and 50-80BP from pre-COVID)

The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022-23 are lifting yields and investment income.

Average: 1960-2019 = 4.9%
Low: 2.8% (1961)
High: 8.2% (1984/85)

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA. 2022E-23P from A.M. Best Review & Preview (March 2023). Risk and Uncertainty Management Center, Univ. of South Carolina.

Reasons Why Higher Interest Rates Benefit Insurers

- P/C yield on invested assets was at a 60-year low in 2021
- Rising yields are having a materially beneficial impact on investment income (2022, 2023, and likely 2024)
- Increased investment returns will partially offset claim severity pressures
- Rising interest rates are occurring during a relatively hard market (though not in WC), increasing cash flow available for investment

Labor Market Tectonics

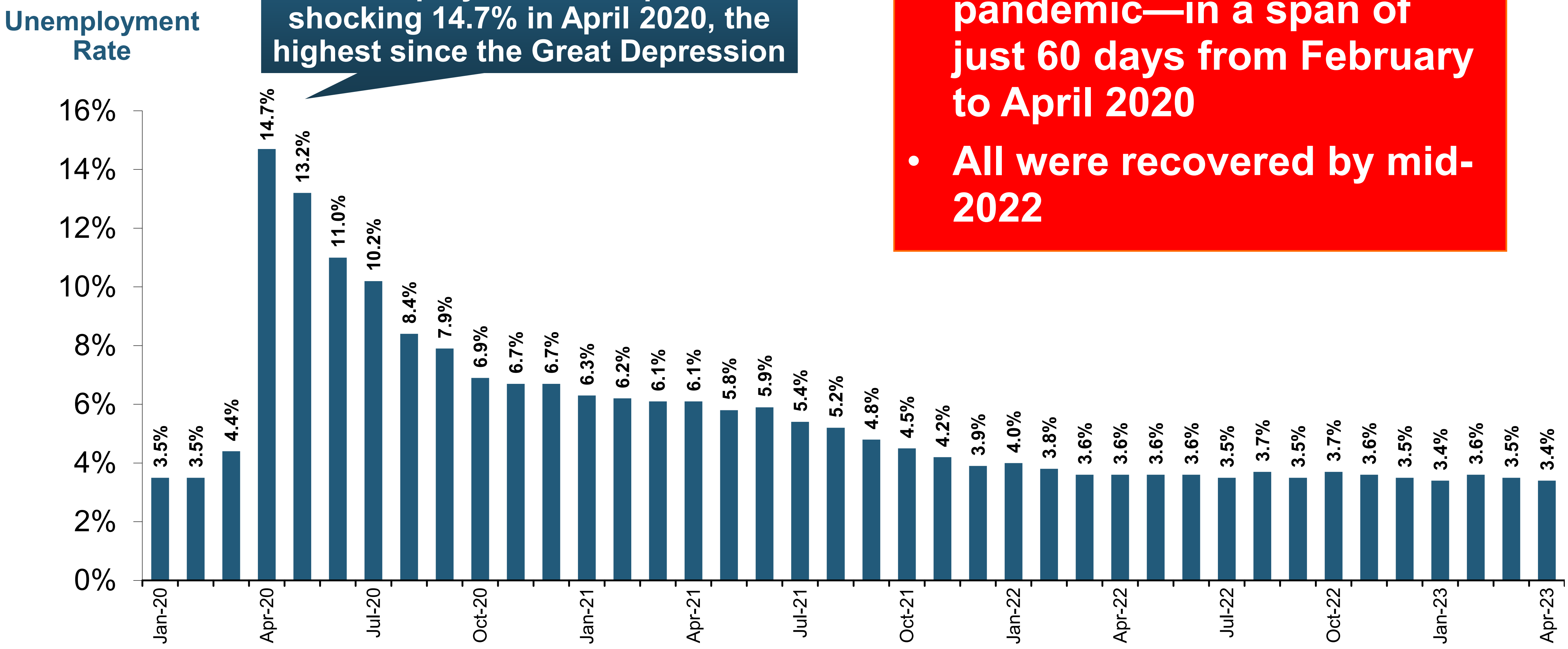
Labor's "*Take This Job and Shove It*" Moment Is Over

…What's in Store for Labor Markets?

Unemployment Rate: Jan. 2020–Apr. 2023

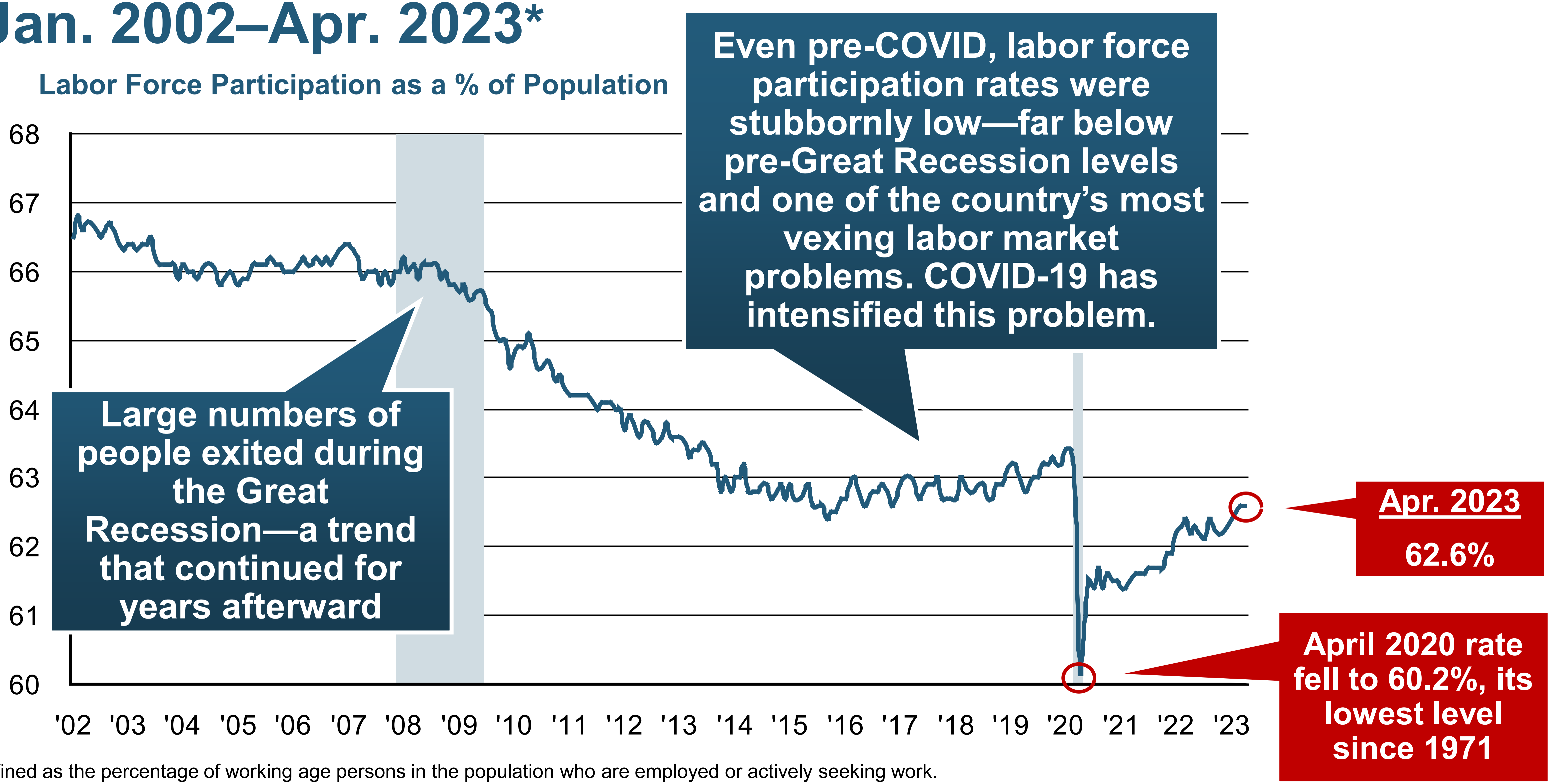
COVID-19 shutdowns pushed the unemployment rate up to a shocking 14.7% in April 2020, the highest since the Great Depression

- **22.2M jobs were lost to the pandemic—in a span of just 60 days from February to April 2020**
- **All were recovered by mid-2022**



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Labor Force Participation Rate, Jan. 2002–Apr. 2023*

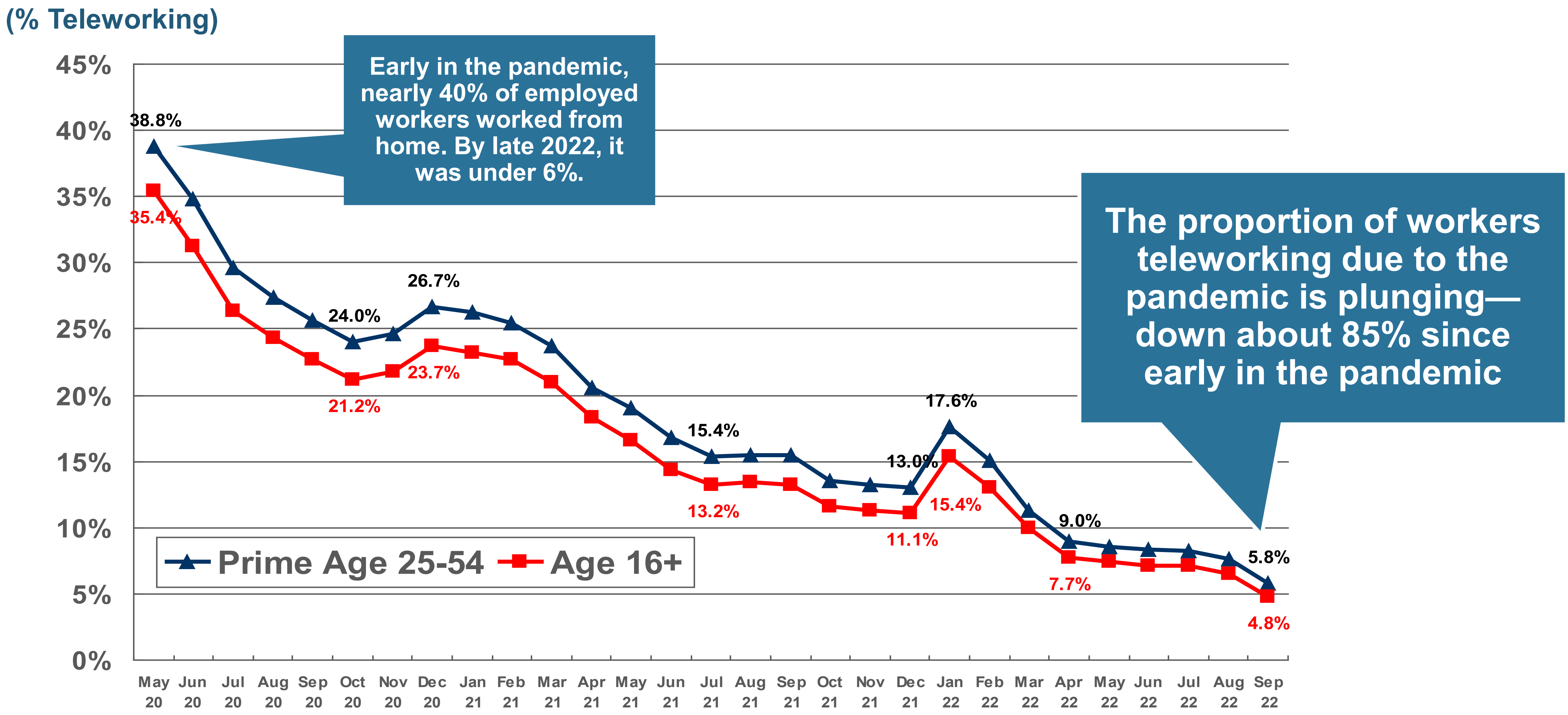


*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

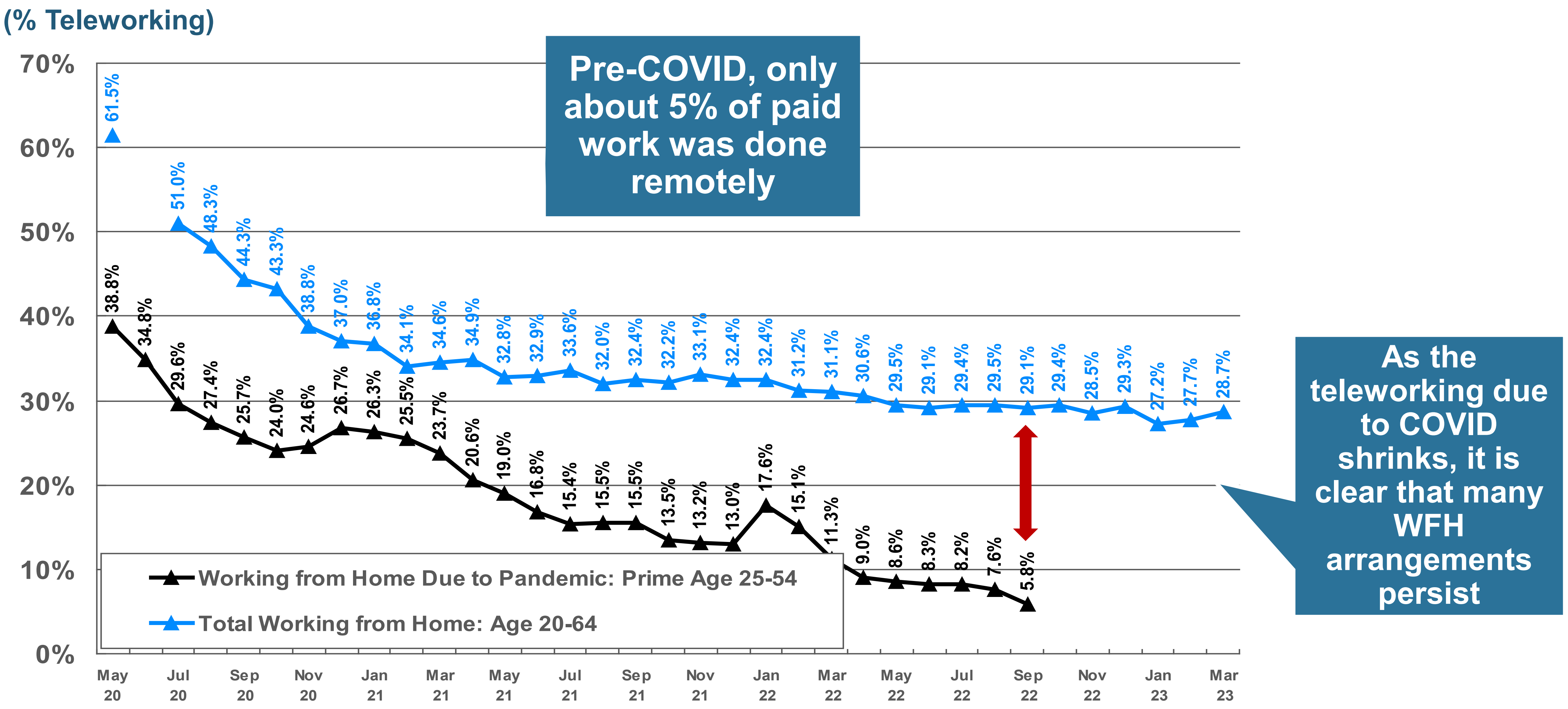
Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Percentage of Employed Persons Teleworking Due to Pandemic, May 2020 – Sept. 2022 (Latest Available)



Sources: US Bureau of Labor Statistics: https://www.bls.gov/cps/effects-of-the-coronavirus-covid-19-pandemic.htm; Risk and Uncertainty Management Center, University of South Carolina.

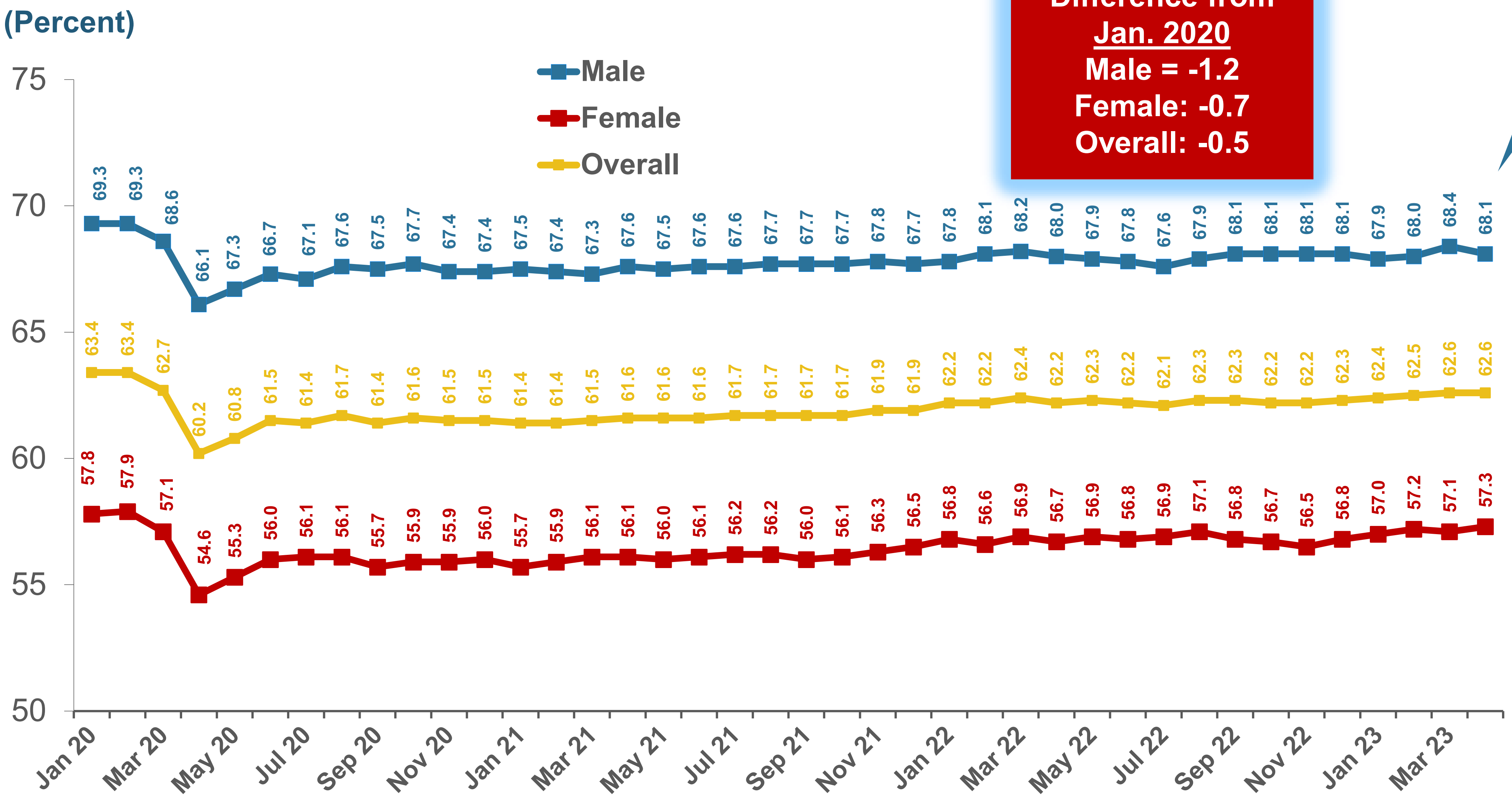
Working From Home Due to Pandemic vs. All Remote Workers*



*All Remote Workers measures proportion of full paid workdays worked remotely.

Sources: US Bureau of Labor Statistics: https://www.bls.gov/cps/effects-of-the-coronavirus-covid-19-pandemic.htm (Prime age workers); Total WFH data from the Working from Home Research Project, accessed at: https://wfhresearch.com/; Risk and Uncertainty Management Center, University of South Carolina.

Labor Force Participation Rates by Sex, Jan. 2020–Apr. 2023



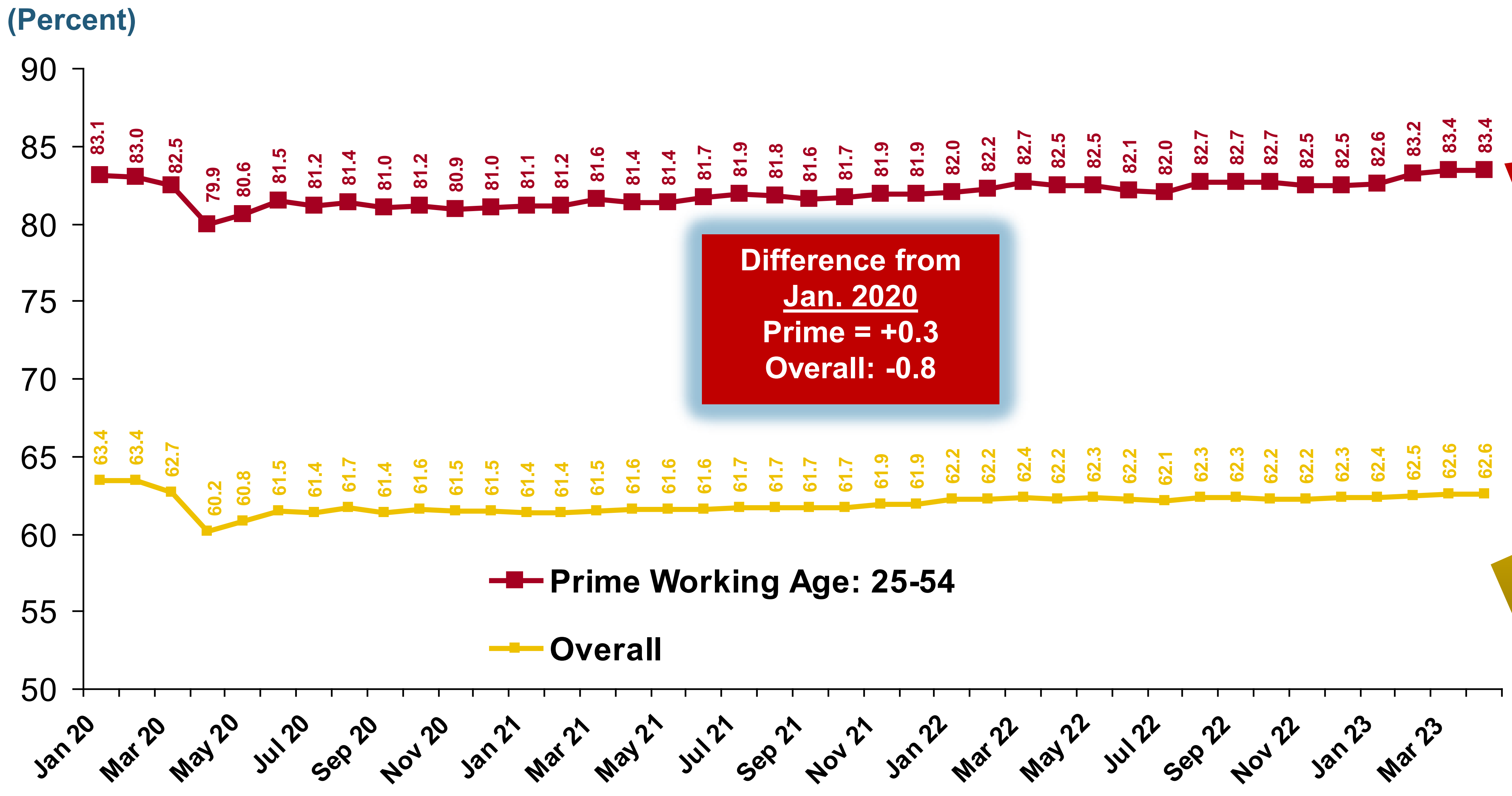
Male labor force participation has improved but remains below pre-COVID levels

Overall labor force participation has improved in recent months but remains below pre-COVID levels

Female labor force participation, despite earlier challenges, is now much closer to pre-Covid levels than for males

Source: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Labor Force Participation: Prime Working Age Adults, 25-54
Jan. 2020–Apr. 2023

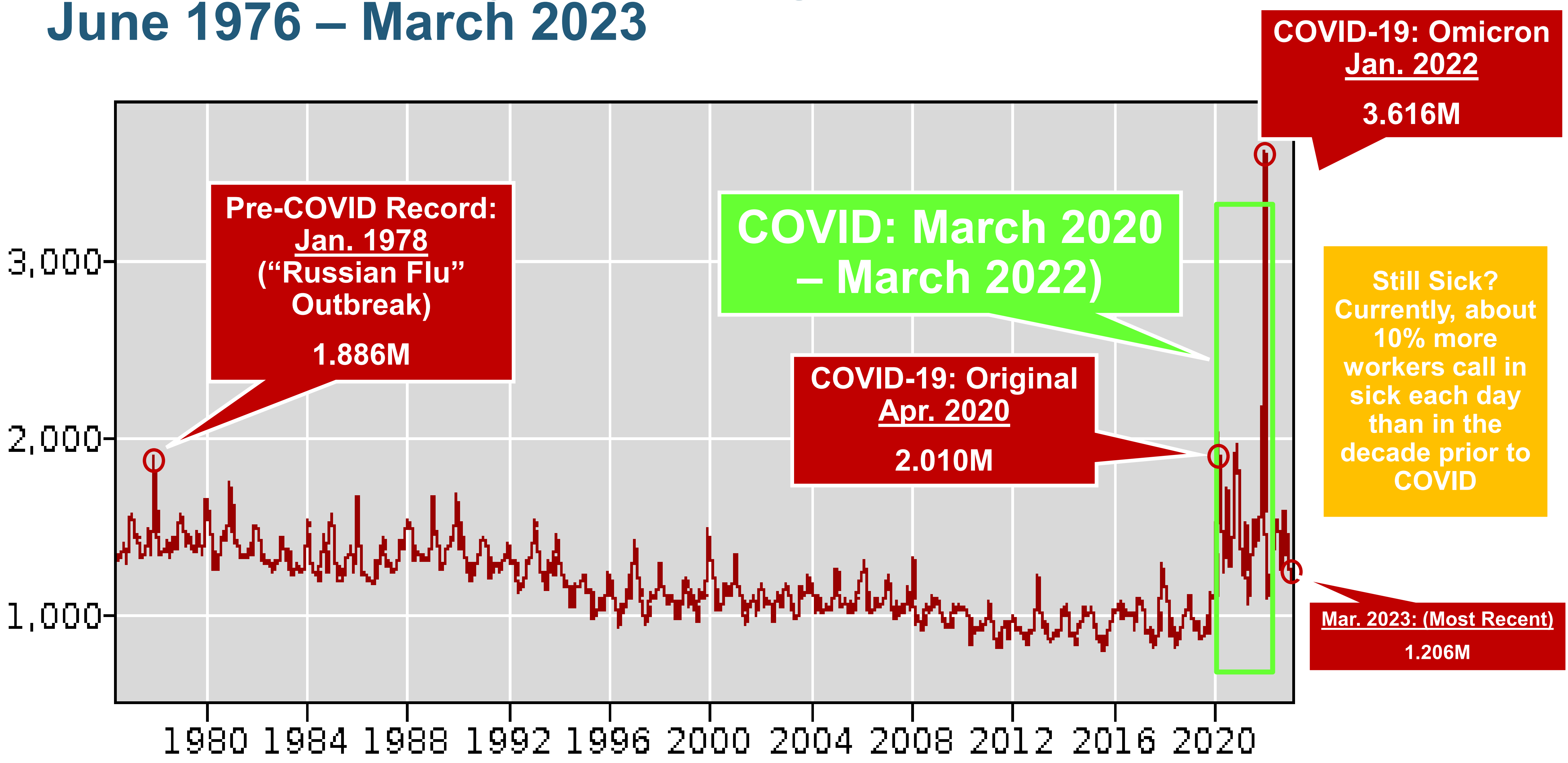


Labor force participation rate among prime working age adults is now *above* pre-COVID levels even though the overall rate remains depressed

Overall labor force participation has improved in recent months but remains below pre-COVID levels

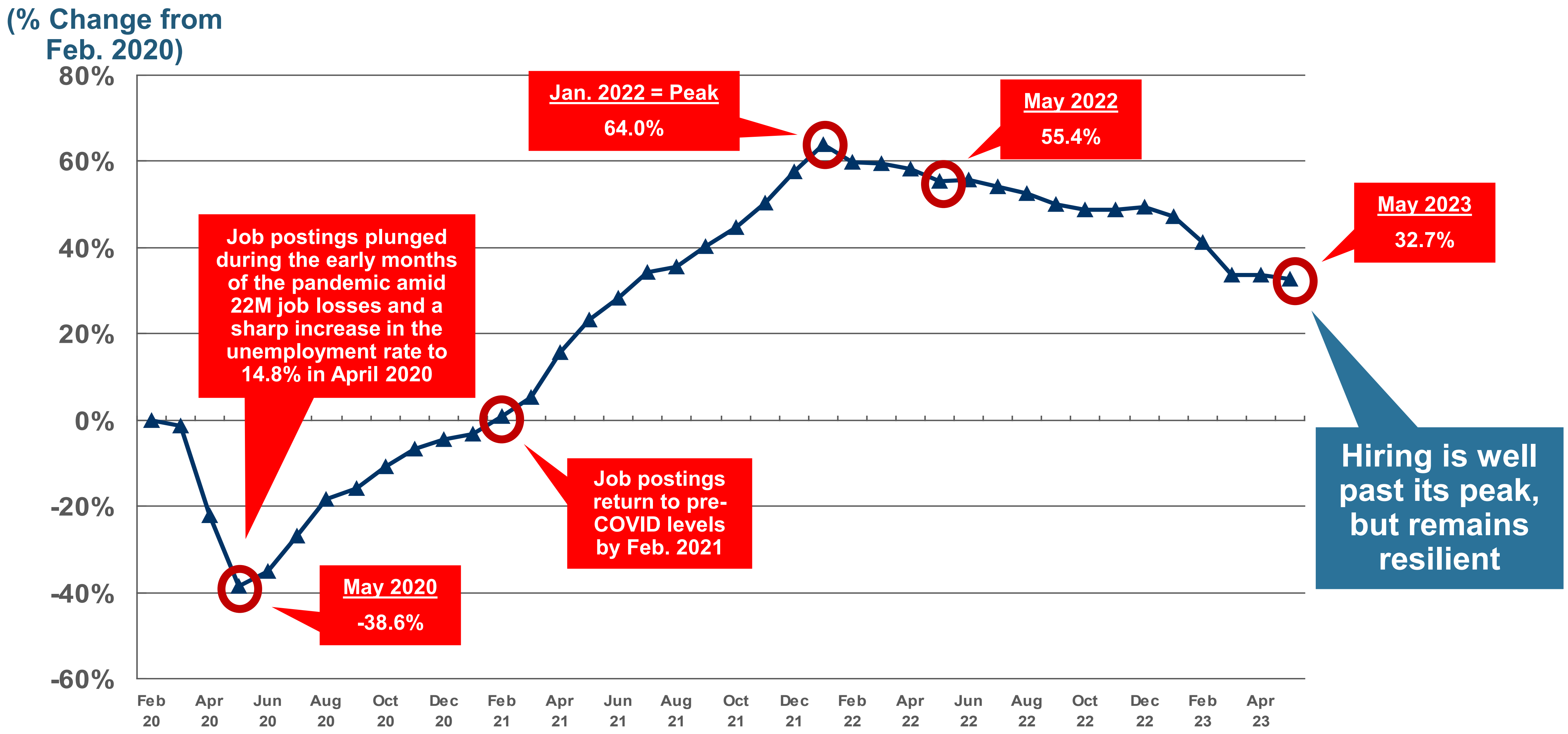
Source: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Number of Employees Missing Work Due to Own Illness, June 1976 – March 2023



Source: US Bureau of Labor Statistics Current Population Survey accessed at: https://www.bls.gov/cps/absences.htm; University of South Carolina Center for Risk and Uncertainty Management.

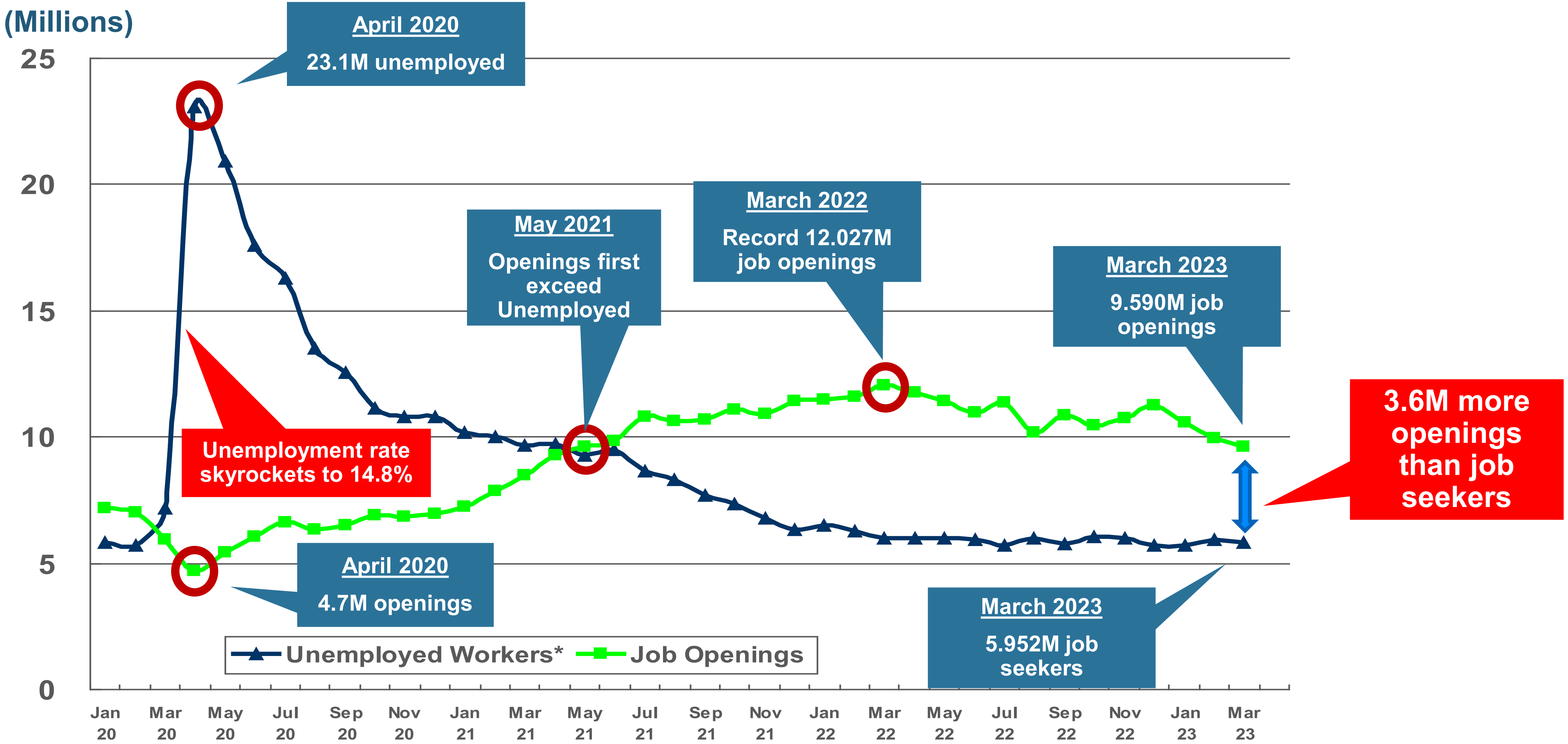
Percentage Change in Job Postings on Indeed: Feb. 2020 – May 2023*



*Data are as of the first data point of each month.

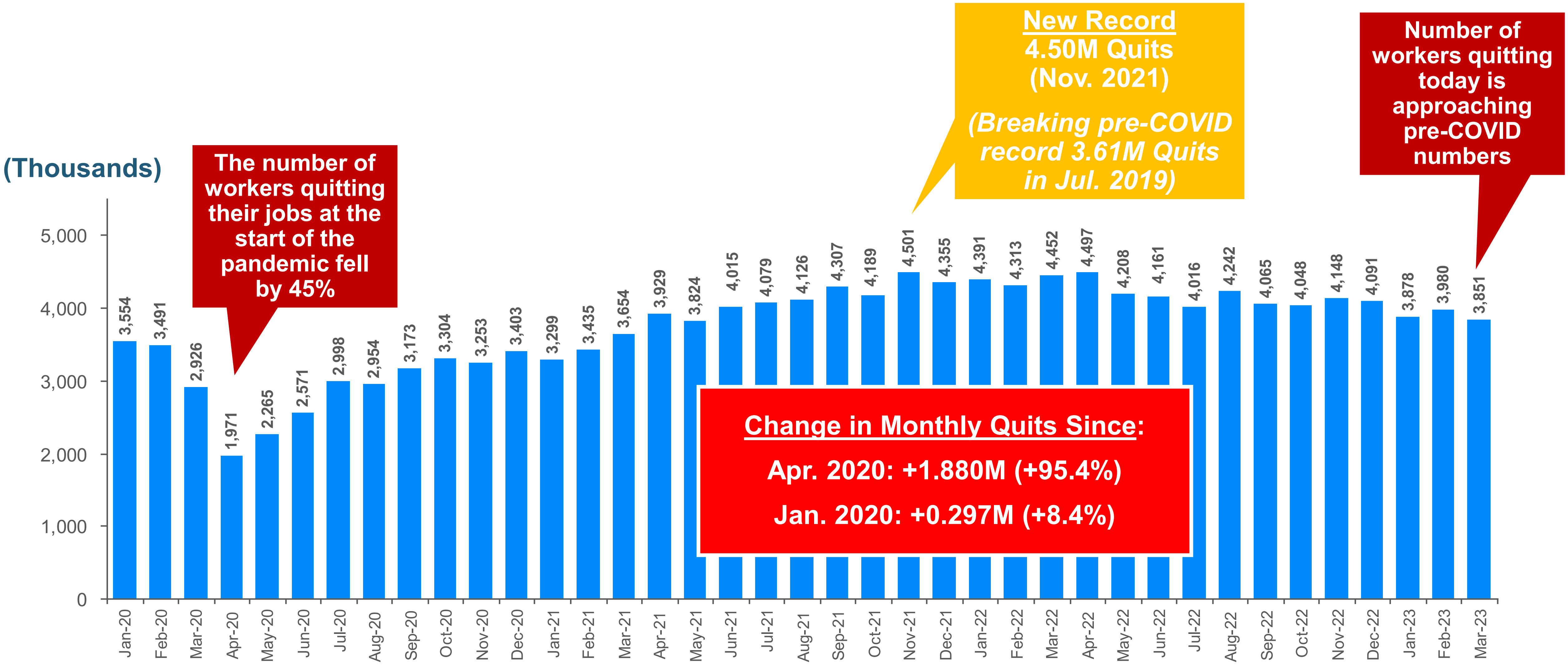
Sources: Indeed Hiring Lab: https://www.hiringlab.org/data/; Risk and Uncertainty Management Center, University of South Carolina.

Job Openings vs. Number of Unemployed Workers: Jan. 2020 – Mar. 2023*



Sources: US Bureau of Labor Statistics via Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/JTSJOL; Risk and Uncertainty Management Center, University of South Carolina.

Number of Quits: Jan. 2020–Mar. 2023*

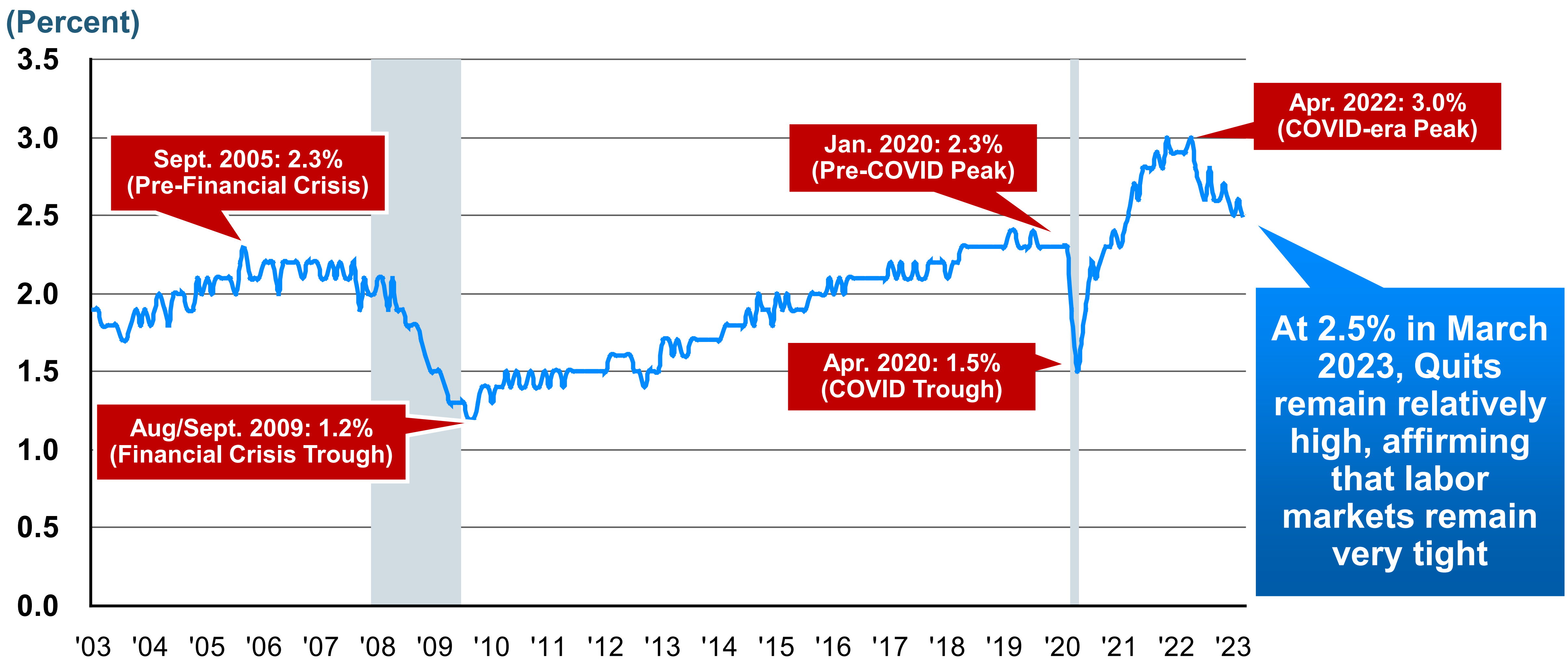


*Seasonally adjusted; Most recent available. Quits are defined as the number of quits during the entire month.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics JOLTS survey: at http://www.bls.gov/jlt/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Quits Rate, Jan. 2003–Mar. 2023*



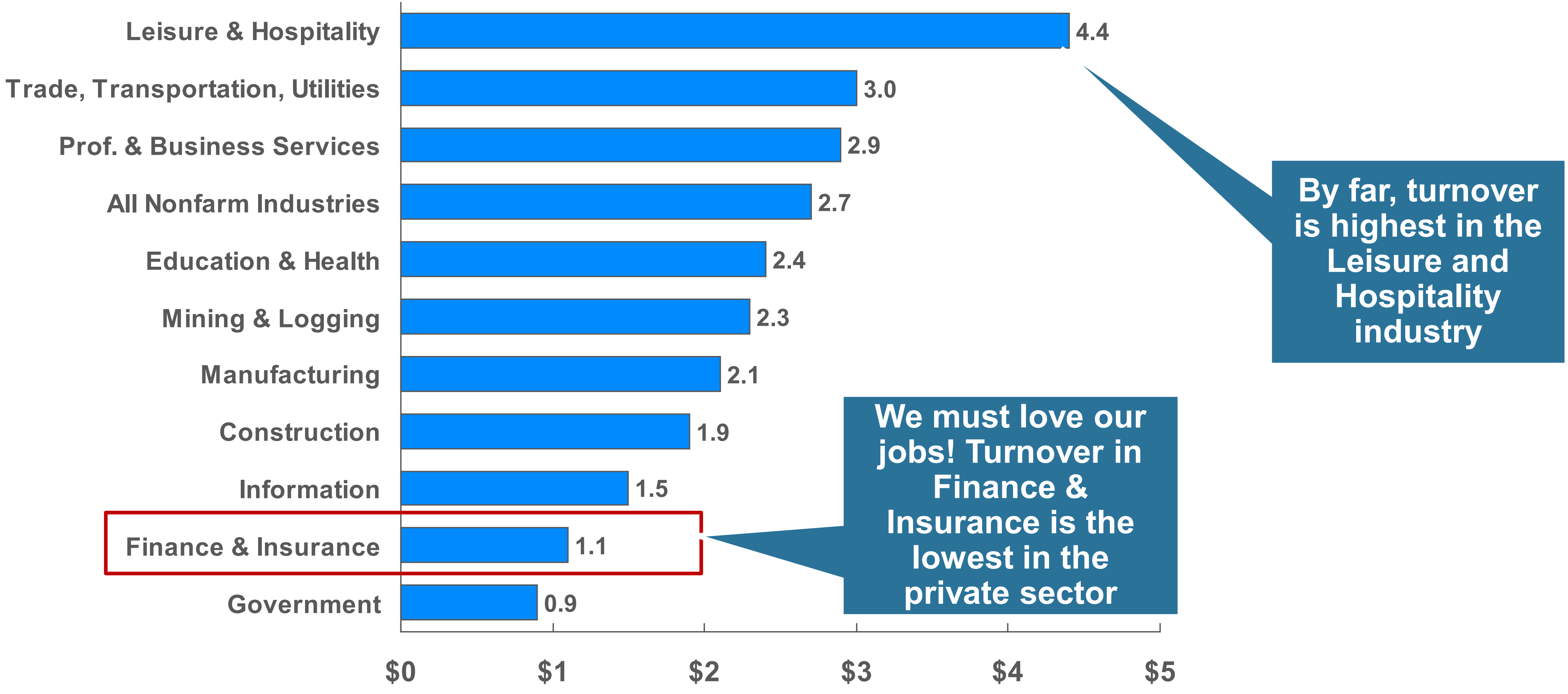
*Seasonally adjusted; Most recent available. Quits Rate is defined as the number of quits during the entire month as a percent of total employment.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics JOLTS survey: at http://www.bls.gov/jlt/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Quits Rate by Industry, March 2023*

(Quits as a Percent of Total Employment in Each Sector)

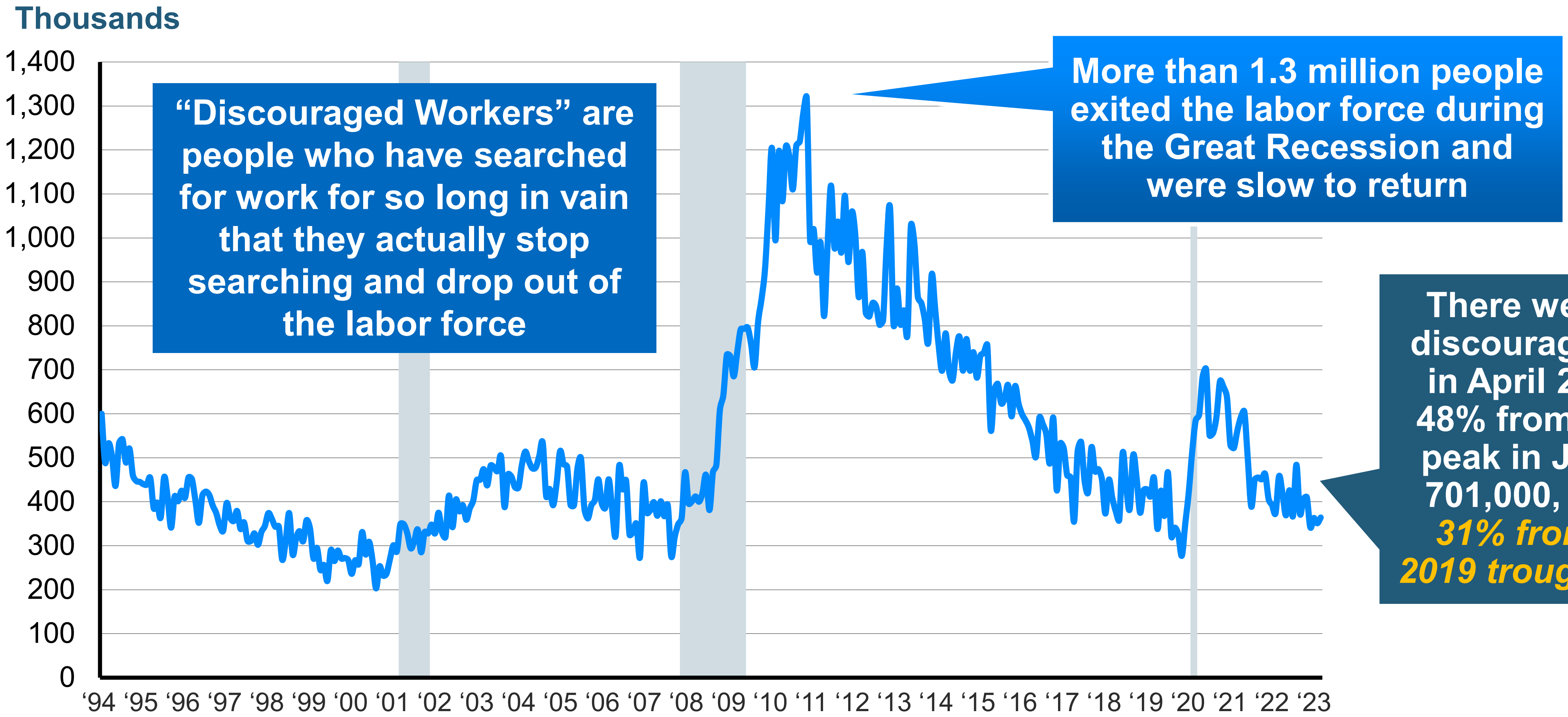


*Seasonally adjusted; Most recent available. Quits Rate is defined as the number of quits during the entire month as a percent of total employment.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics JOLTS survey: at http://www.bls.gov/jlt/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Number of “Discouraged Workers”: Jan. 1994–Apr. 2023



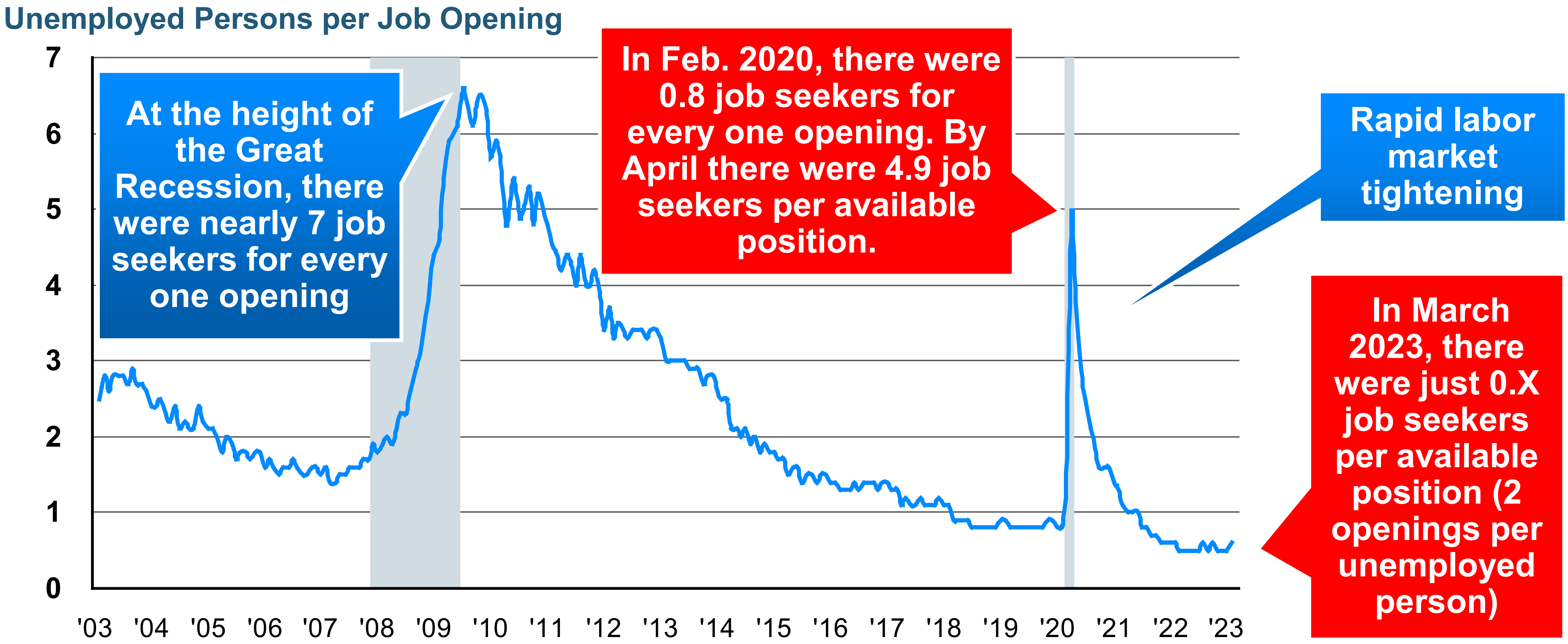
There were 364,000 discouraged workers in April 2023, down 48% from the COVID peak in July 2020 of 701,000, ***but still up 31% from the Dec. 2019 trough of 277,000***

Post-COVID, workers may be categorized as discouraged for reasons apart from lack of job opportunities, including fear of contracting COVID, child care, etc.

Notes: Recessions indicated by gray shaded columns. Data are not seasonally adjusted.

Sources: Bureau of Labor Statistics https://www.bls.gov/charts/employment-situation/persons-not-in-the-labor-force-selected-indicators.htm; NBER (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Number of Unemployed Persons per Job Opening, Feb. 2003–Mar. 2023*

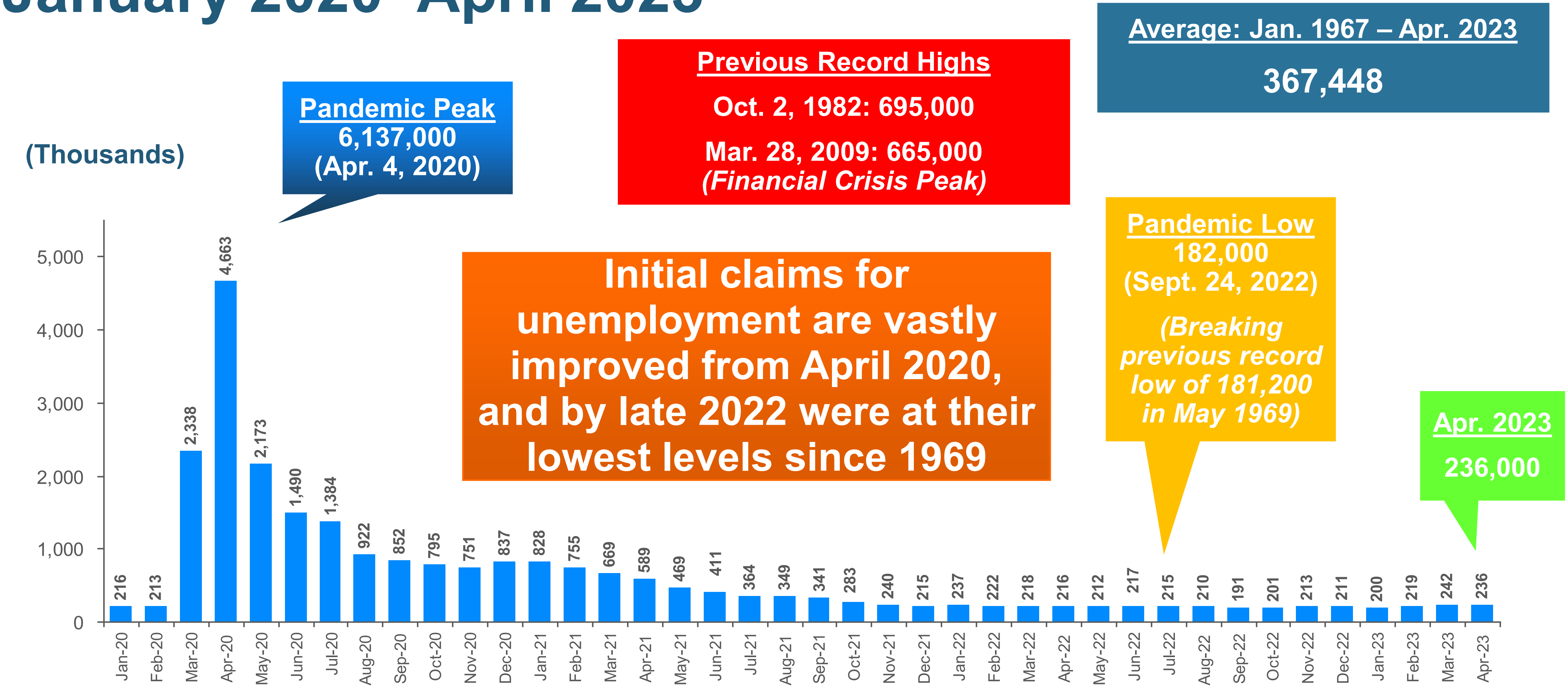


*Seasonally adjusted. Most recent available.

Note: Recessions indicated by gray shaded columns.

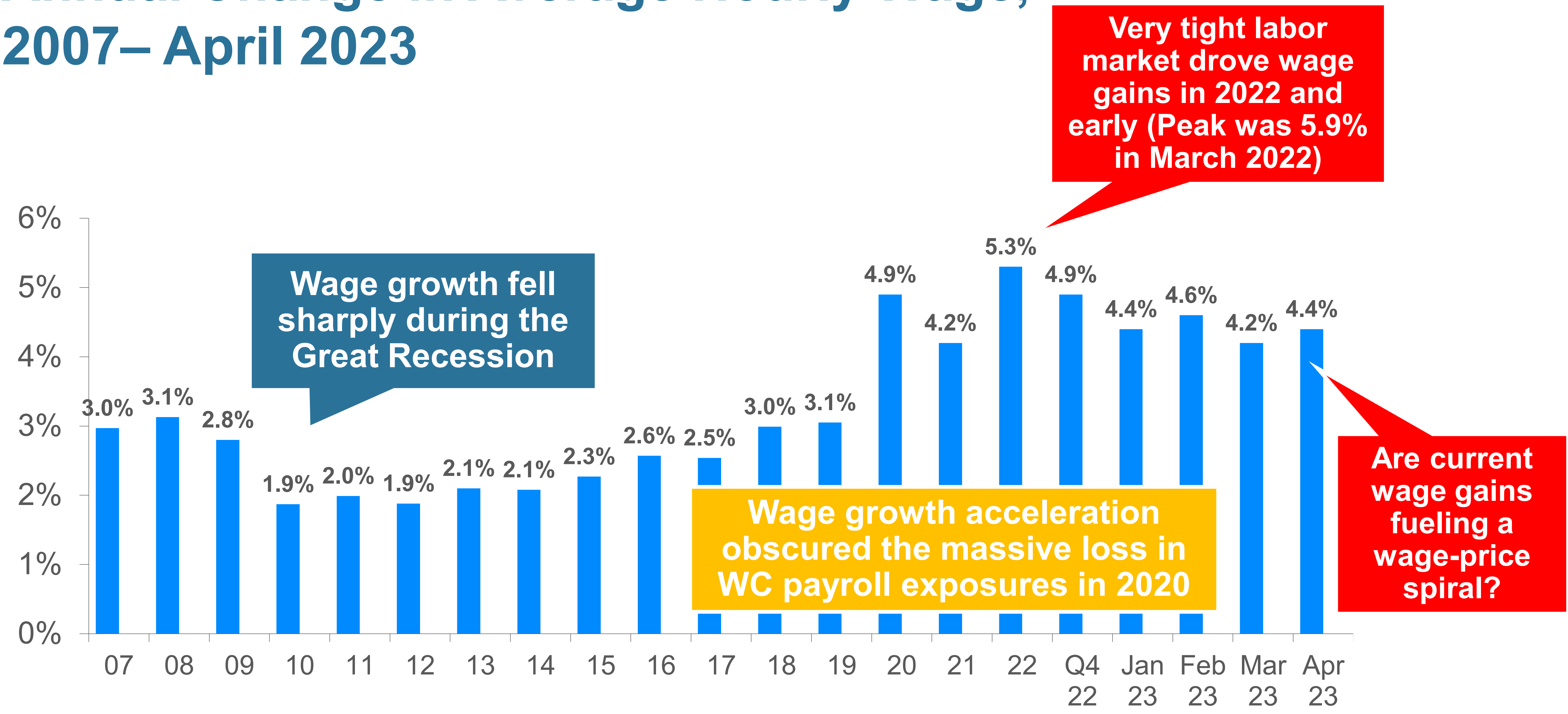
Sources: US Bureau of Labor Statistics JOLTS survey: at http://www.bls.gov/jlt/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Initial Claims for Unemployment, Weekly Average
January 2020–April 2023



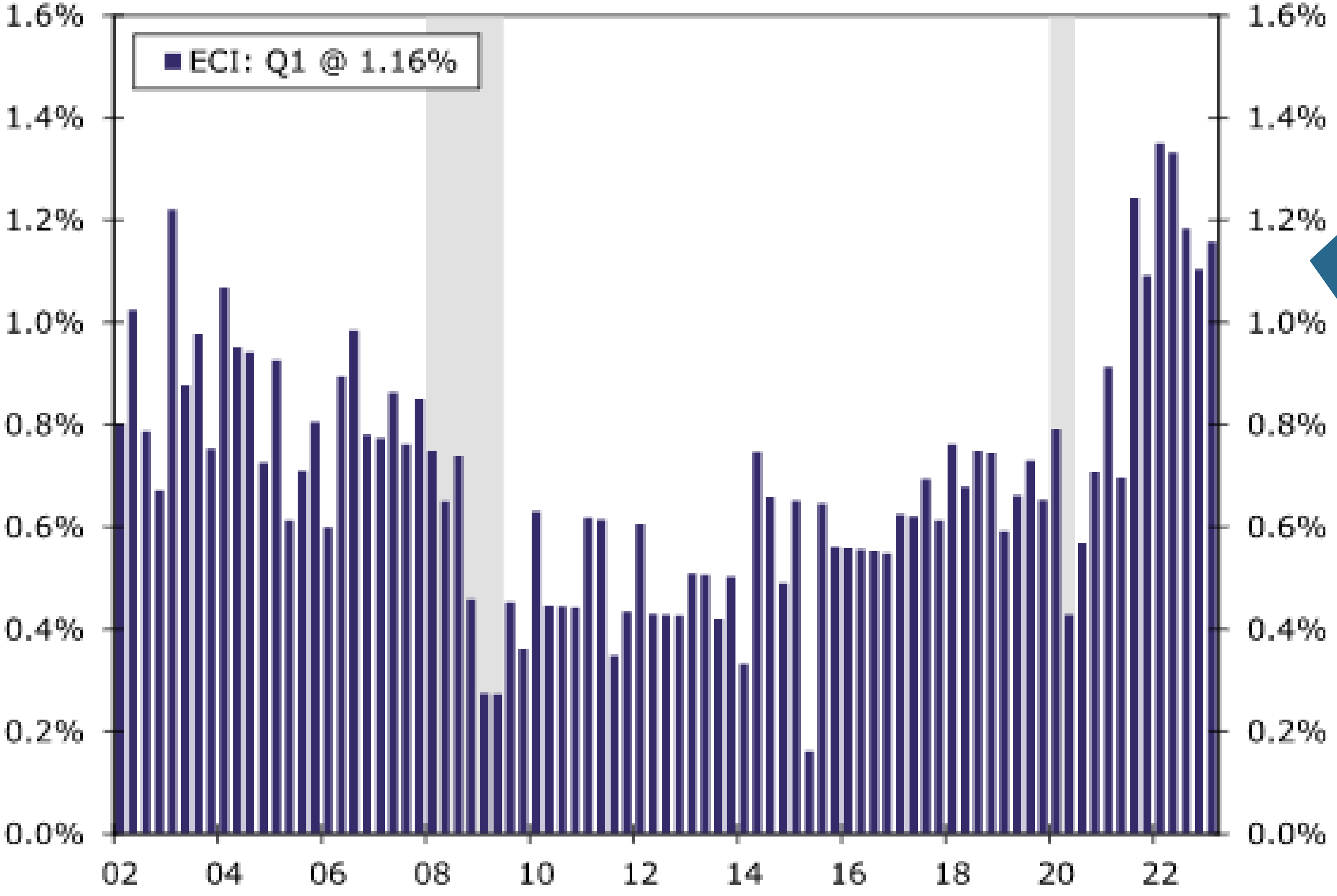
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Annual Change in Average Hourly Wage, 2007– April 2023



Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, Univ. of South Carolina.

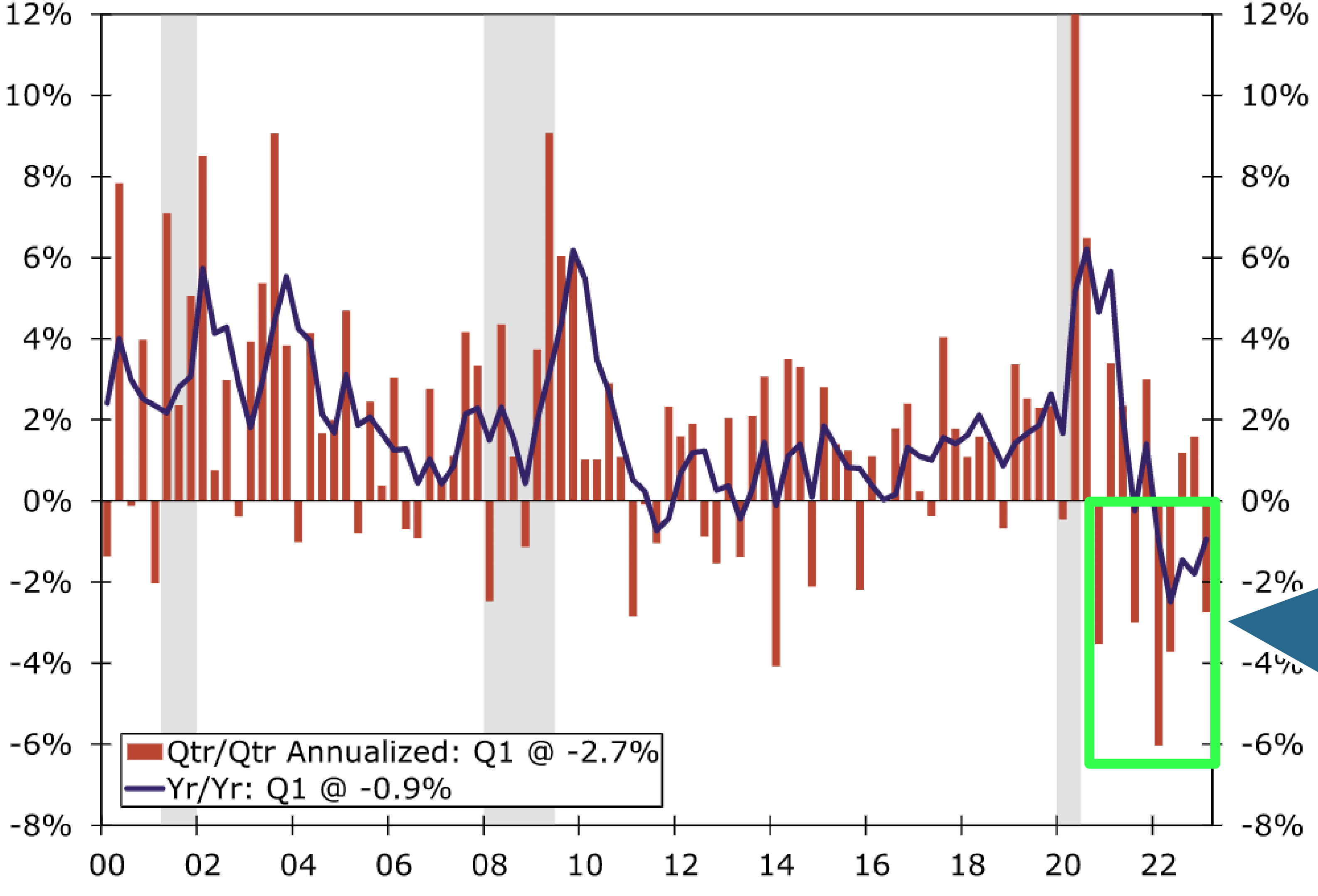
Employment Cost Index—All Workers
2002:Q1– 2023:Q1



- The ECI was up 1.2% in Q1:2023 (4.7% annual pace)
- Data don't yet suggest a "wage-price spiral"
- But given the gain occurred amid increasing availability of workers, it's clear wage inflation will be difficult to subdue
- Slowing wage growth has becoming the Fed's most vexing problem

Sources: US Dept. of Labor; Wells Fargo Economics; Risk and Uncertainty Management Center, University of South Carolina.

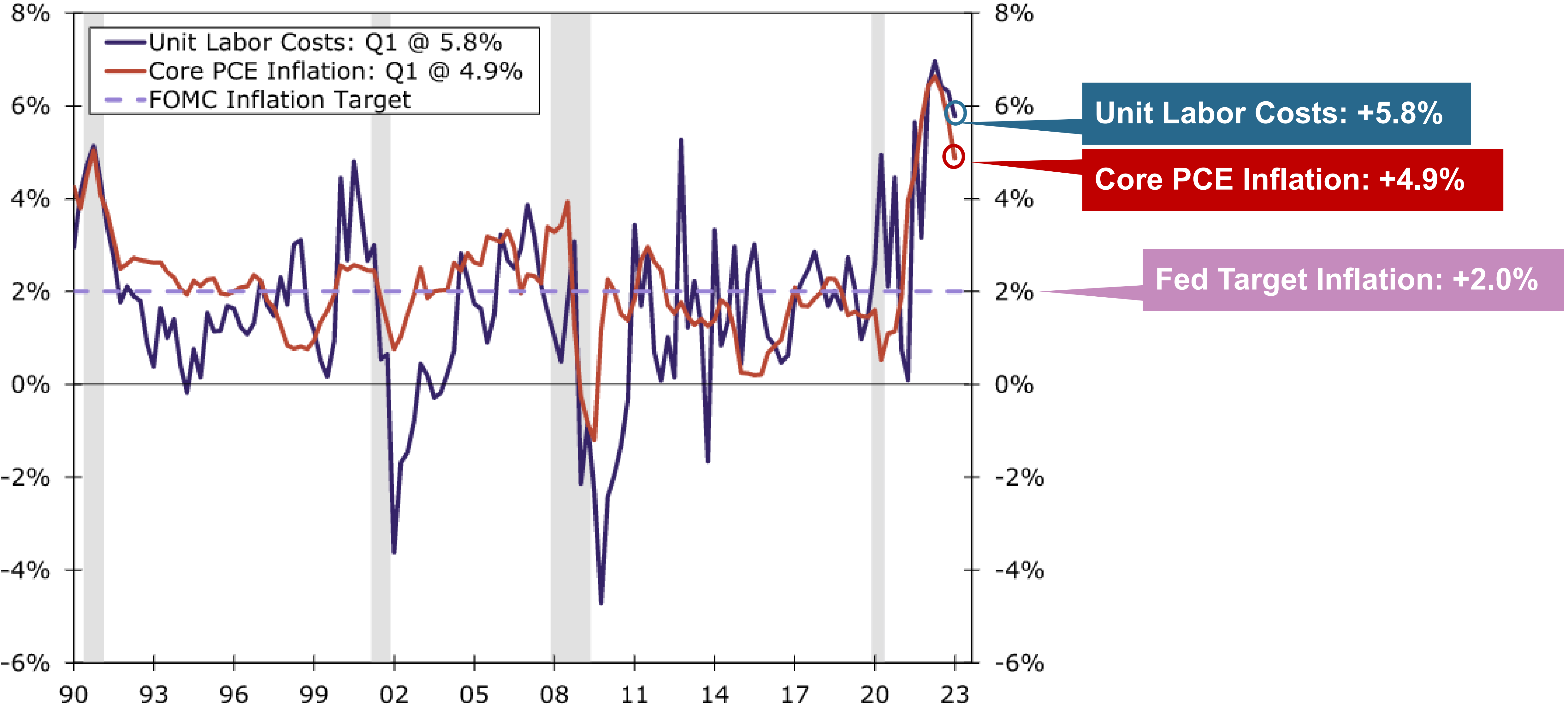
Nonfarm Productivity: Output per Hour
2000:Q1– 2023:Q1



- Labor productivity since the pandemic has been poor
- *Major headwind to containing inflation*
- Labor productivity declined by 2.7% in Q1 2023 and 0.9% over the past year
- 2022 tied with 1974 as the worst year for labor productivity (data go back to 1948)

Sources: US Dept. of Labor; Wells Fargo Economics; Risk and Uncertainty Management Center, University of South Carolina.

Doing Less With More: Nonfarm Unit Labor Costs
1990:Q1– 2023:Q1 (Year-over-Year Percent Change)



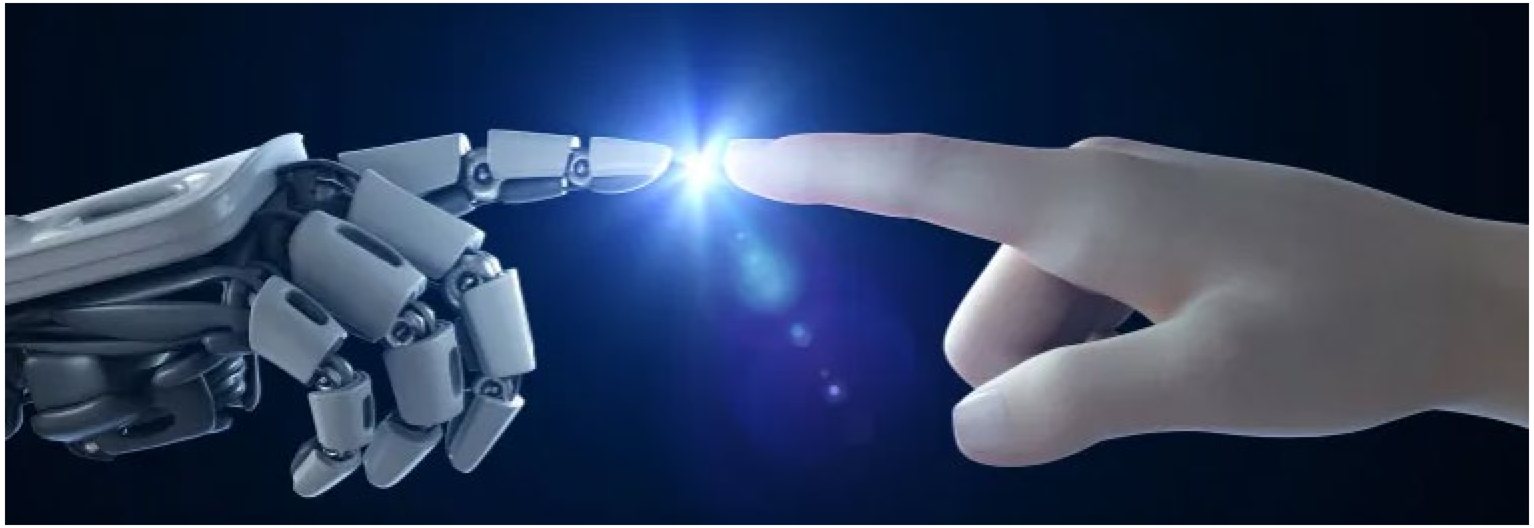
Sources: US Dept. of Labor; Wells Fargo Economics; Risk and Uncertainty Management Center, University of South Carolina.

Will ChatGPT Destroy My Job?

Creative Destruction, AI, and the Insurance Industry

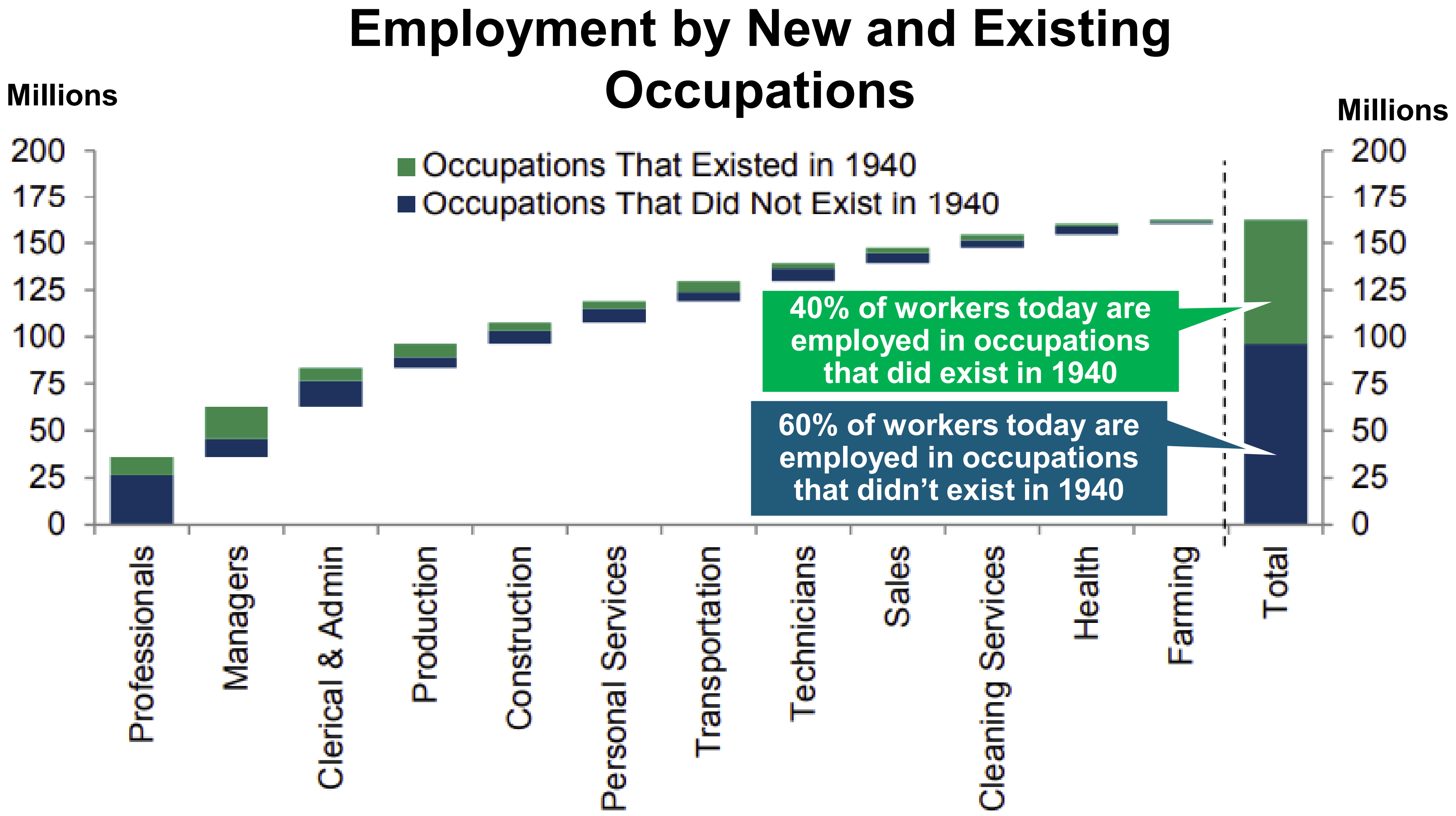
Insurance Occupations With AI Vulnerabilities

- **Several major industry occupations are vulnerable to AI impacts:**
  - **Low-level sales**
  - **Claims**
  - **Legal**
  - **Underwriting**
  - **Actuarial**



- **But general consensus is that AI is more of a tool that can be used to enhance the capabilities of most roles and create entirely new roles—though as with any new technology, some jobs will disappear**
- **Concept of "Creative Destruction"**

Creative Destruction: Impact of Technological Innovation on Creation of New Occupations, 1940 - 2018



History Lesson

More than 85% of employment growth over the past 80 years is explained by technology-driven creation of new positions

Source: Autor, David, Caroline Chin, Anna M. Salomons, and Bryan Seegmiller. *New Frontiers: The Origins and Content of New Work, 1940–2018*. No. w30389. National Bureau of Economic Research, 2022; Goldman Sachs Global Investment Research.

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound, and Secure
- Recession Later in 2023 Is Likely, but Should be Mild
- Banking and Budget Debacles Increase Recession Risk
- Financial Market Volatility Is Here to Stay—But Higher Interest Rates Benefit Insurers
- Labor Market Transformation Continues—But Path Is Uncertain

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