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

Santa Fe, NM
September 20, 2023

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Darla Moore School of Business

Workers Comp at the Economic Crossroads: Outline

- **Economic Overview: *Still* Not That '70s Show**
  - Economic Reality vs. perception
- **The "R" Word**
  - Is a Recession on the horizon?
- **P/C Insurance Perspectives**
- **Wall Street's Wild Ride Continues**
  - Will it ever end?
- **Labor Market Tectonics**
  - Take this job and keep it
- **Summary/Q&A**

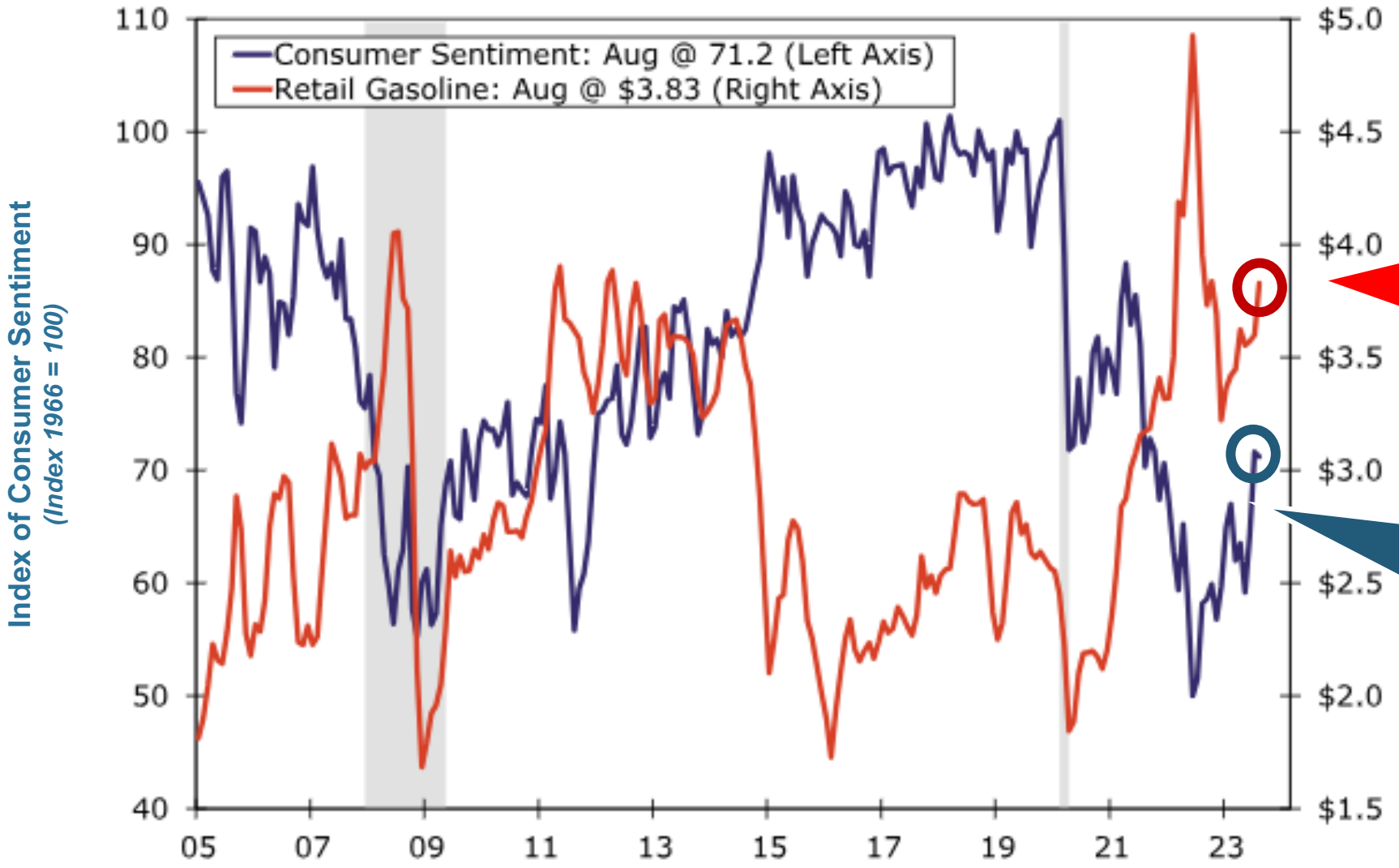
Economic Overview
…*Still* Not That '70s Show

Consumers, Businesses and Politicians Love to Trash Talk the Economy…

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

Reality vs. Perception!

Consumer Sentiment: Still Very Depressed Despite Strong Jobs Markets

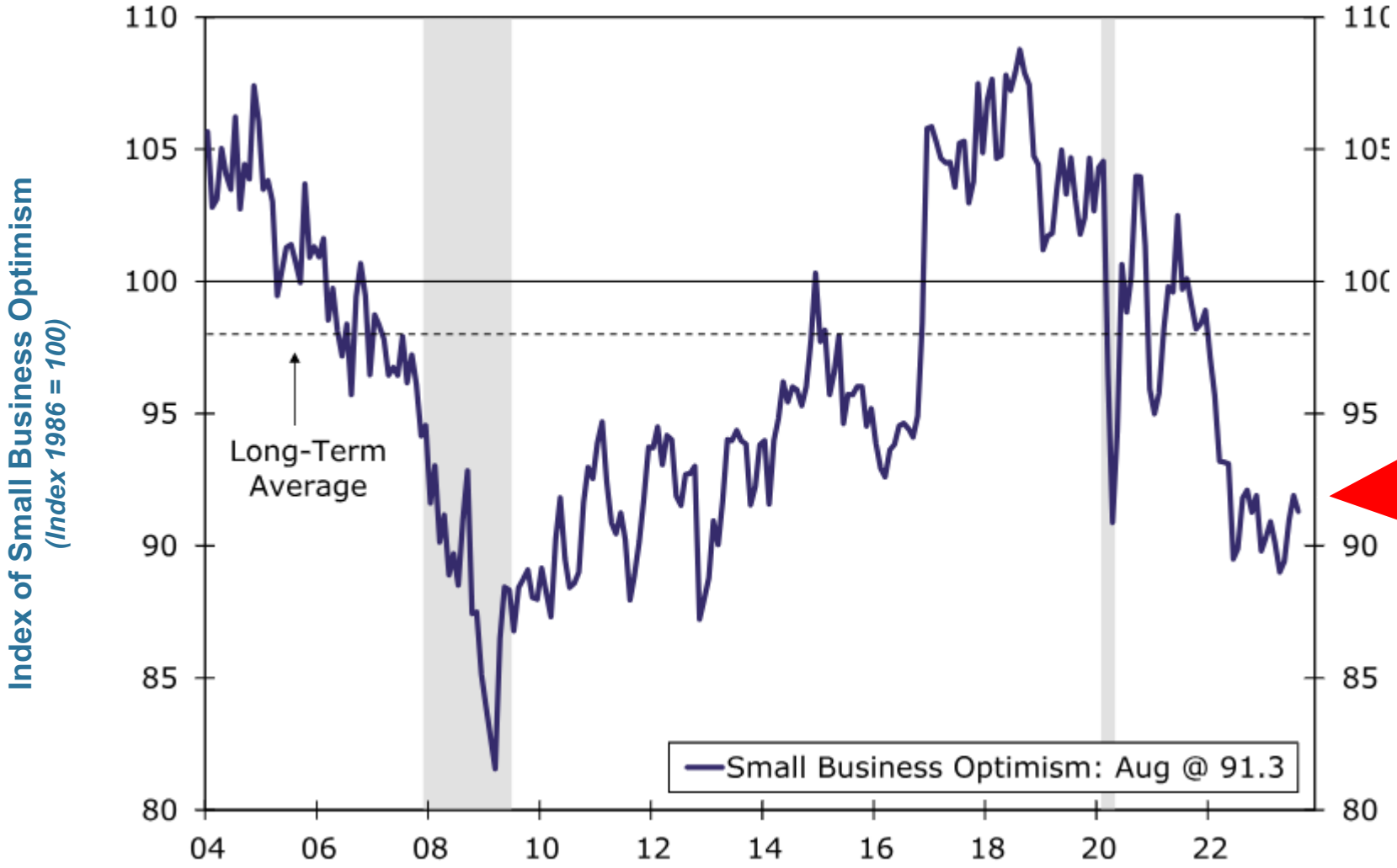


High gasoline prices invariably depress consumer sentiment

Unemployment rates have remained near 50-year lows for two years…but consumers are still very *GRUMPY*

Source: University of Michigan, Bloomberg, and Wells Fargo Economics.

Small Business Sentiment: Optimism is Near 10-Year Low

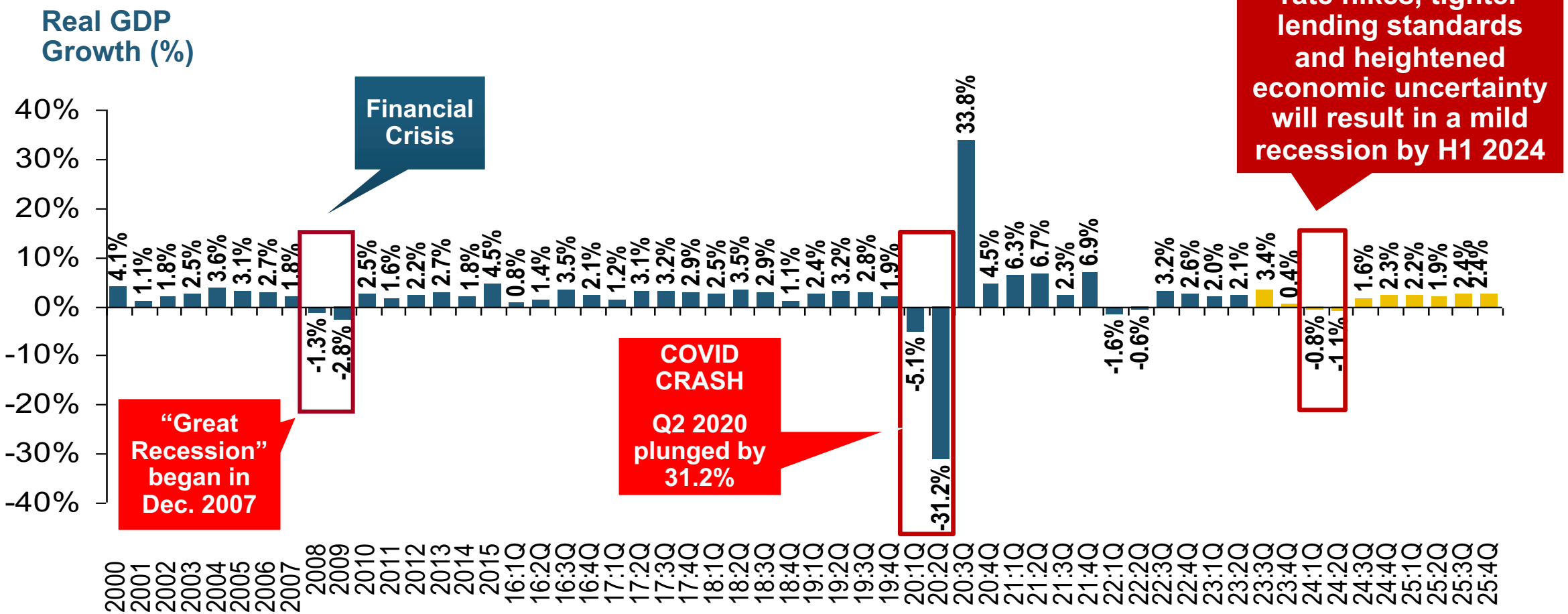


Small businesses today are as pessimistic as they were during the depths of pandemic, despite strong spending by consumers, easing labor market issues and decelerating inflation.

Business owner concerns pivoting from cost concerns to recession worries.

Source: NFIB and Wells Fargo Economics.

US Real GDP Growth*



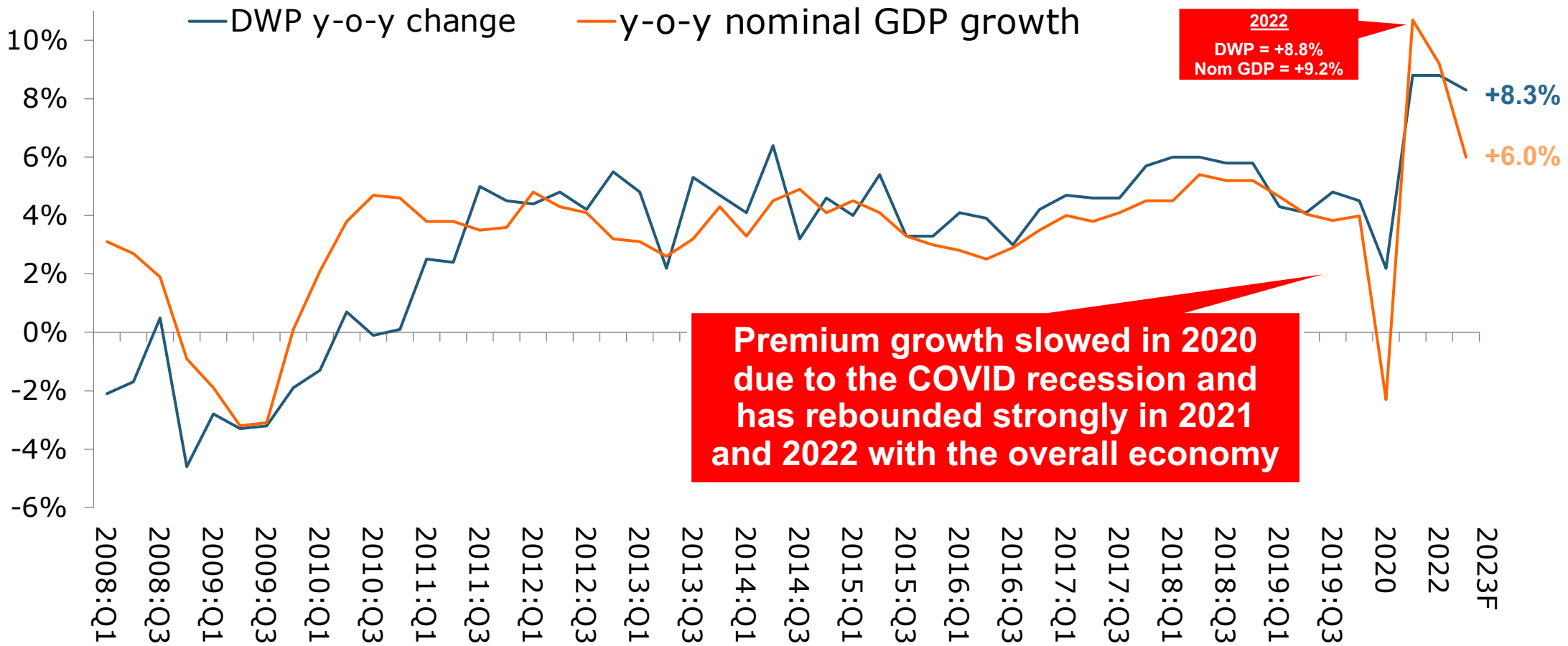
Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023/24 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (9/23); Center for Risk and Uncertainty Management, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2023F*

Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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

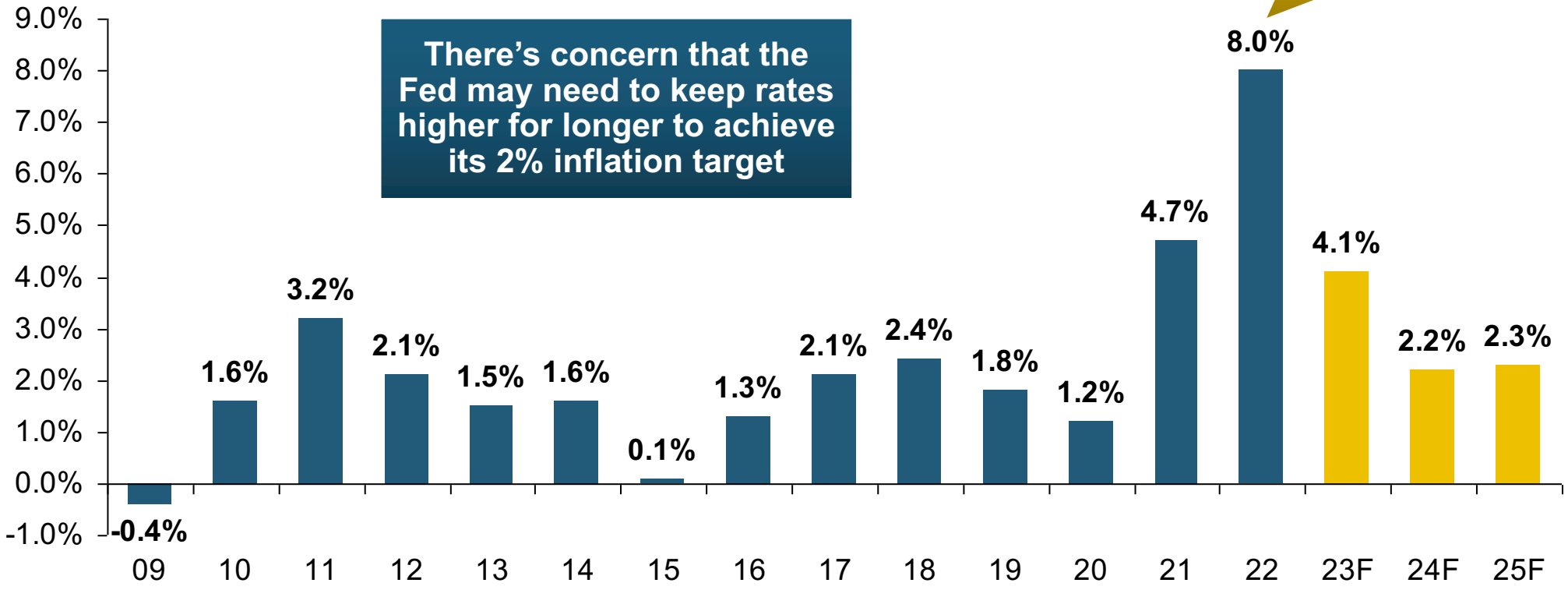
*2020-23F figures are annual.

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

U.S. Inflation Rate: 2009-2025F*

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, Fed rate hikes an dlabor market tightness

Percentage Change (%)



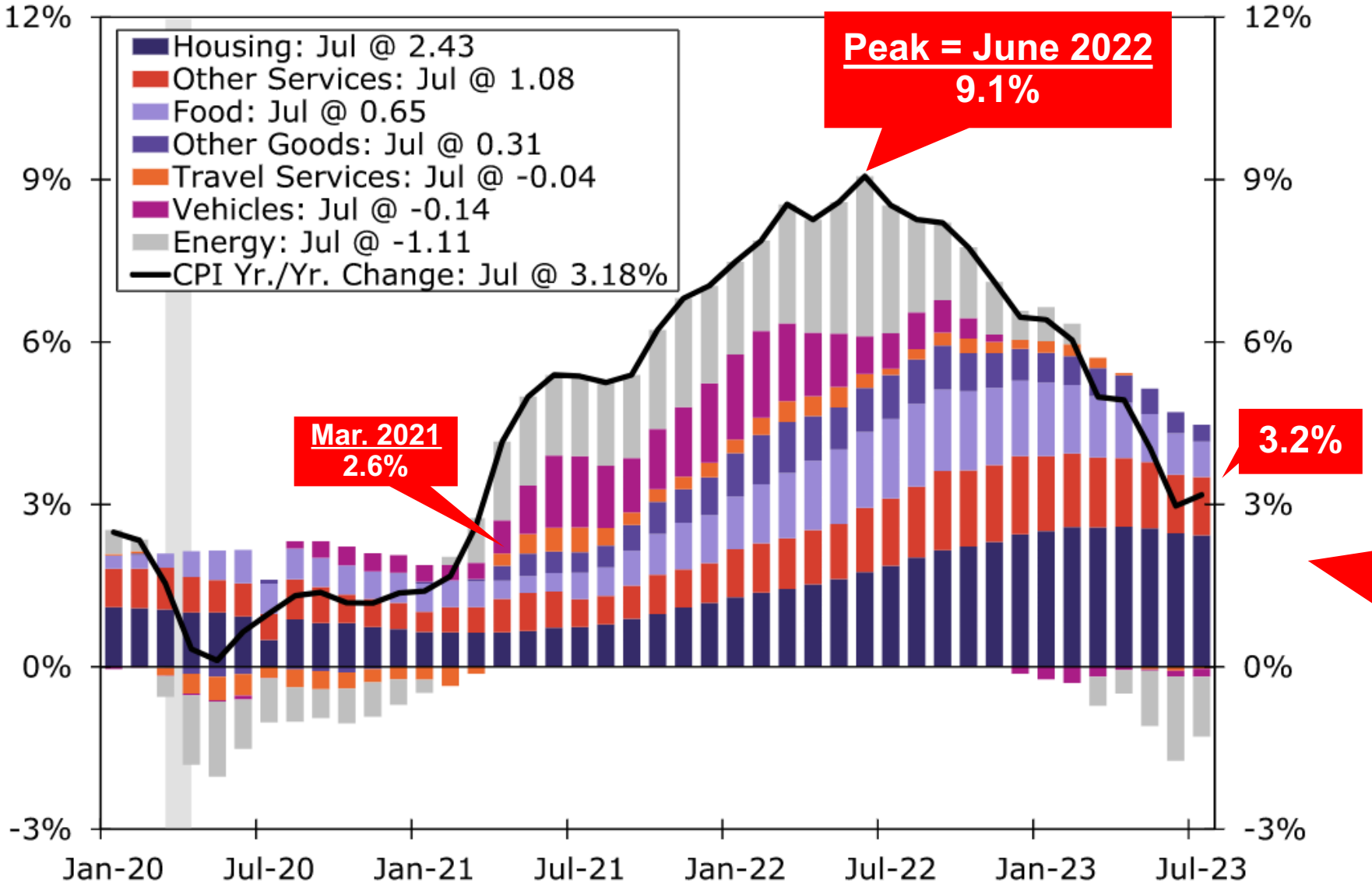
Insurer Concerns About Inflation

- 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 (9/23); USC Center for Risk and Uncertainty Management.

Contribution to CPI by Category: July 2023

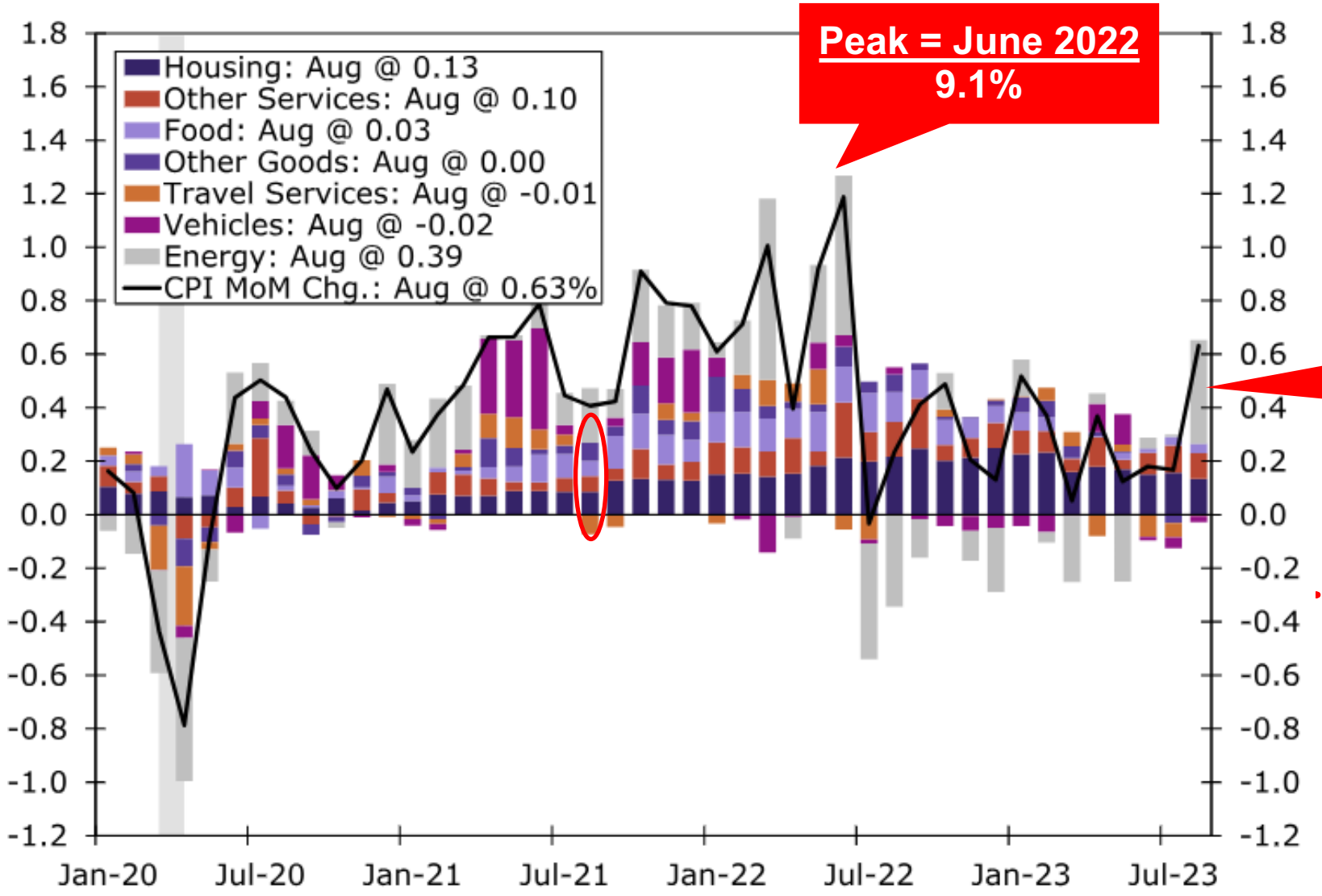


Prices were up 3.2% in July 2023 vs. a year ago—and down from the June 2022 peak of 9.1%. Even as energy prices recede from their 2022 peak, increases in Shelter (Housing), Travel and Food are the major obstacles to bringing inflation down to the Fed's 2% goal

Housing (Shelter) accounted for about 60% of the 3% increase in the CPI in mid-2023. The impact of this CPI component is beginning to diminish.

Source: U.S. Department of Commerce and Wells Fargo Economics.

Contribution to CPI Monthly Change: Aug. 2023



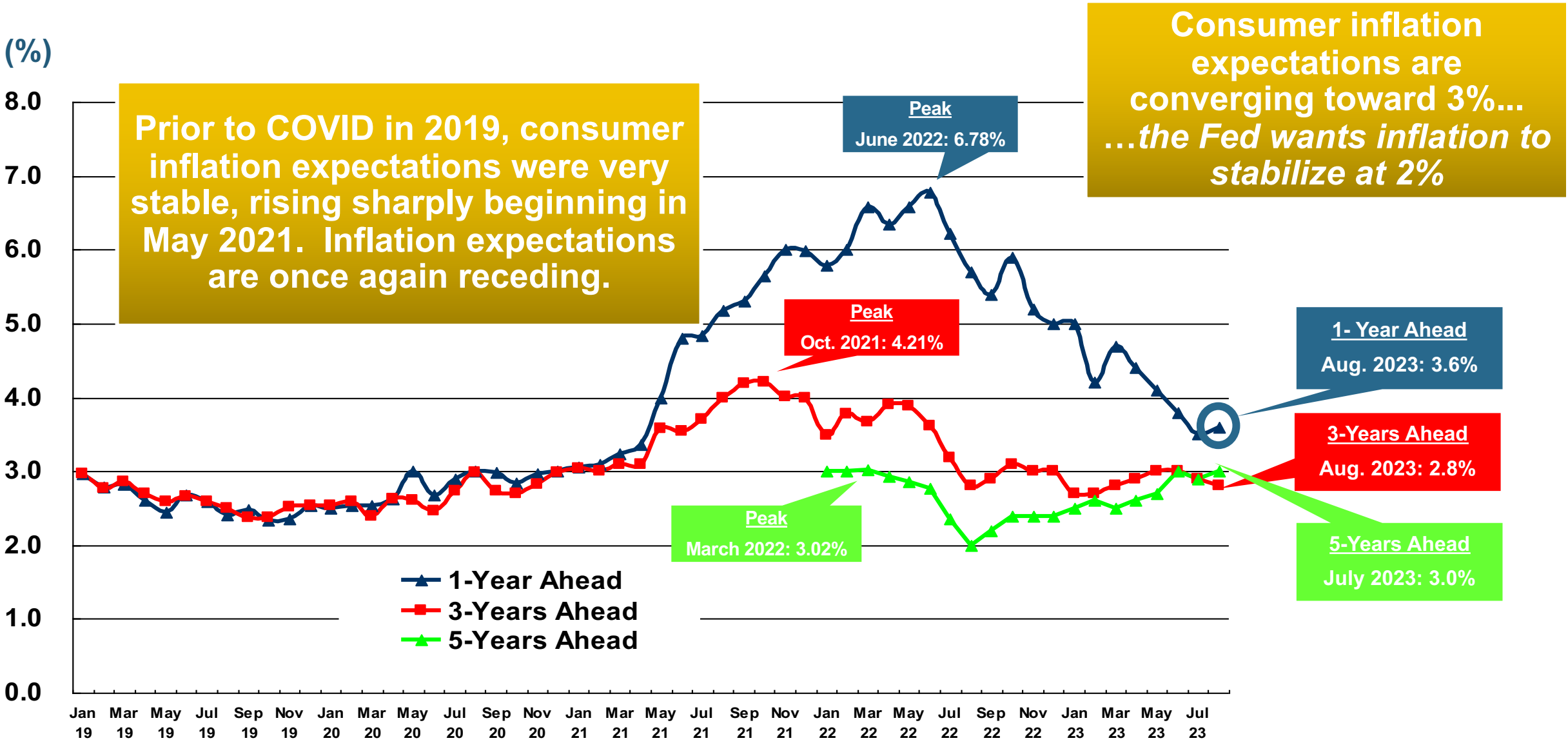
Peak = June 2022
9.1%

Surging gasoline prices sent the CPI back up to 3.7% in August

The path to the Fed's 2% inflation target is *not* a linear one

Source: U.S. Department of Commerce and Wells Fargo Economics.

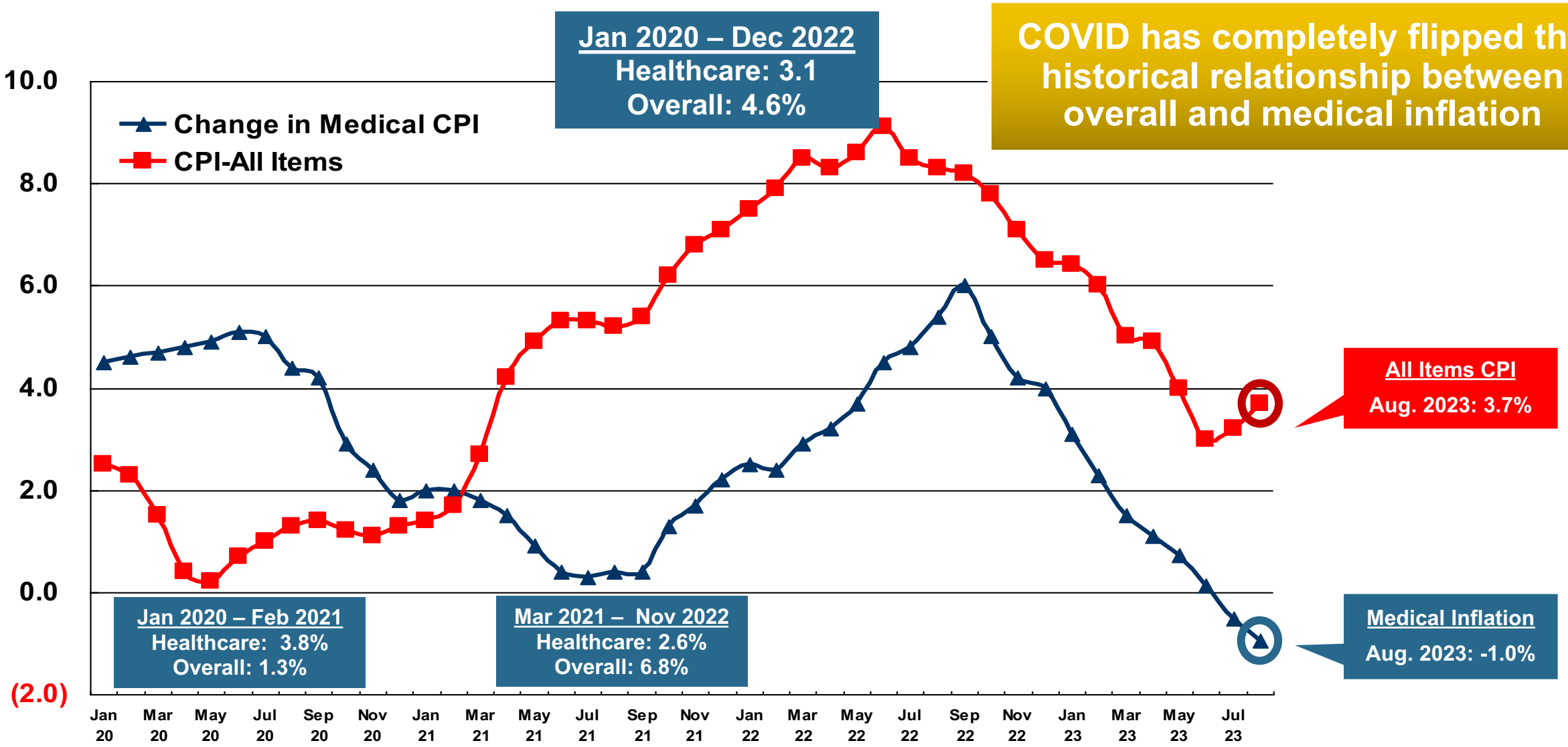
Consumer Inflation Expectations: 1, 3 and 5 Years Ahead*



*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.

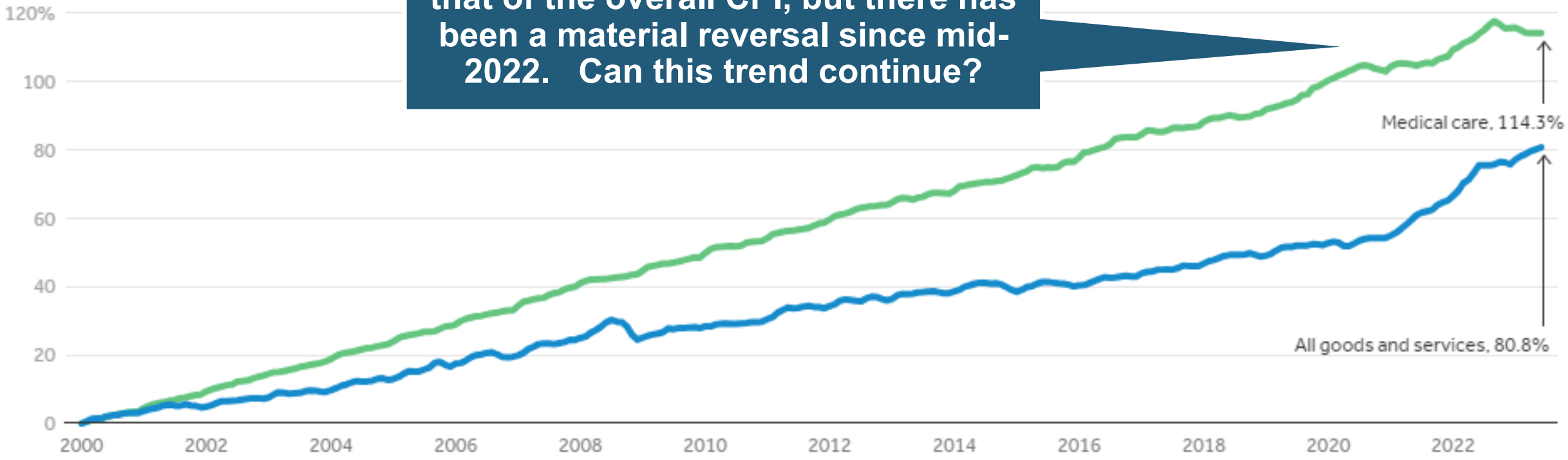
Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – July 2023 *(Percent Change from Year Ago)*



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

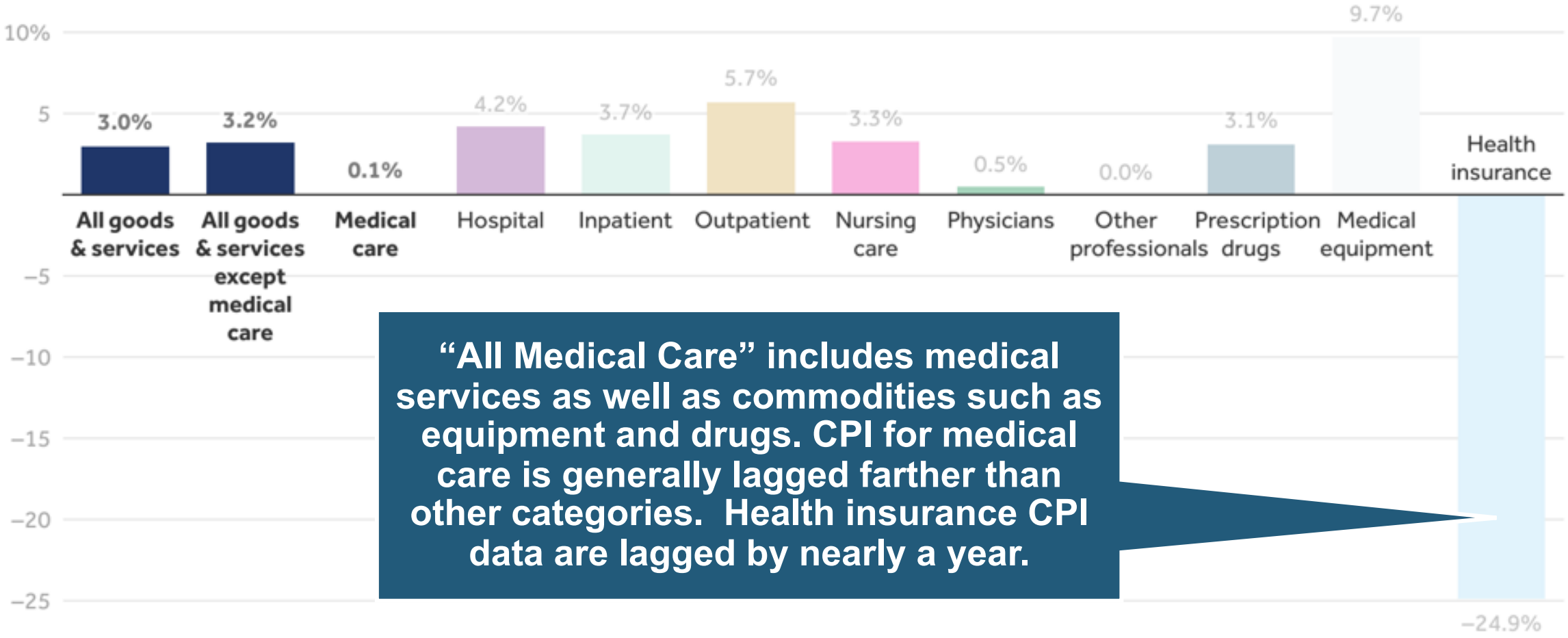
Cumulative Percent Change in Overall CPI vs. Medical Care, Jan. 2020 – June 2023

From Jan. 2000 through June 2023, medical inflation has far exceeded that of the overall CPI, but there has been a material reversal since mid-2022. Can this trend continue?



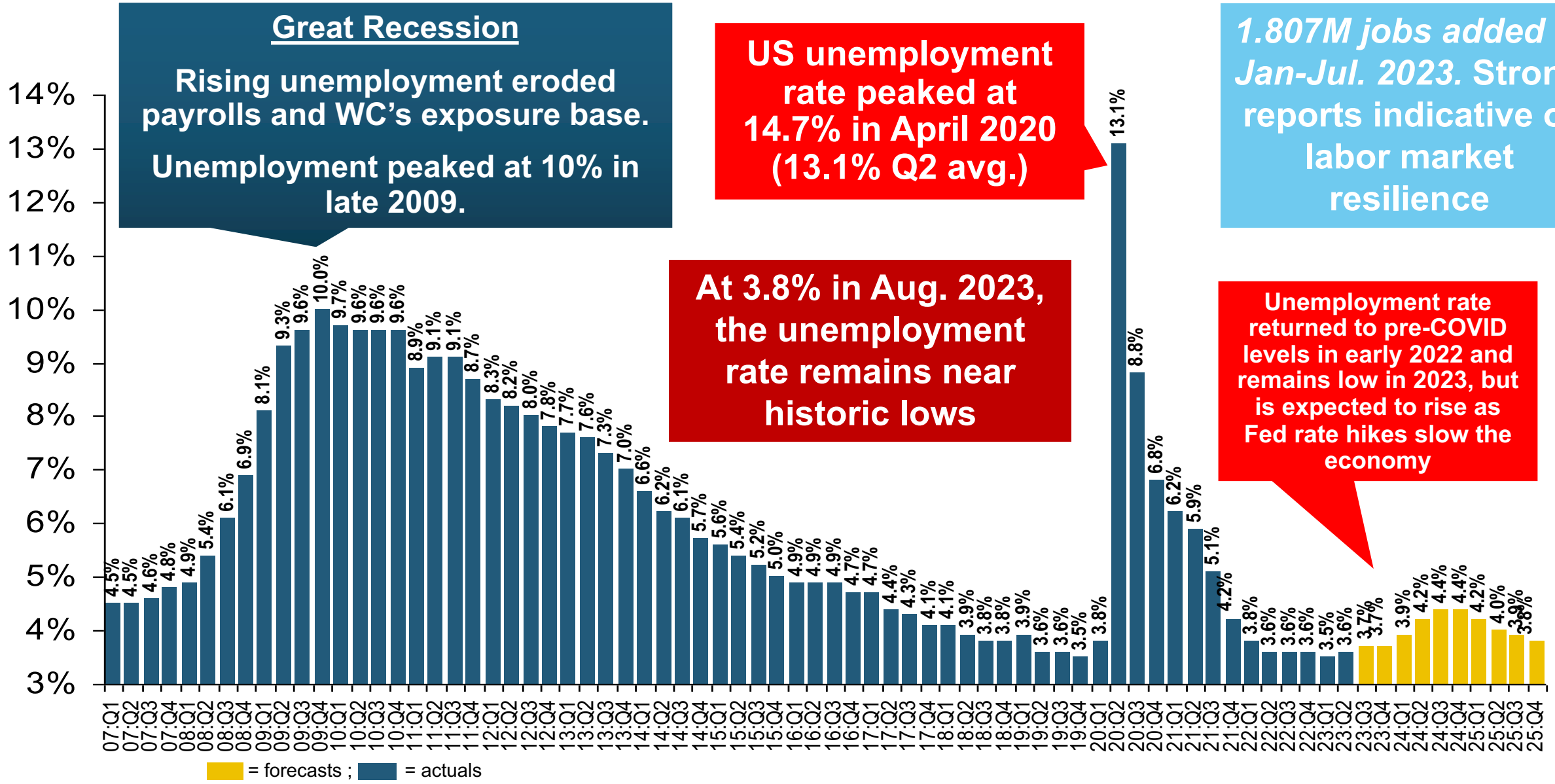
Source: Kaiser Family Foundation analysis of BLS CPI data: https://www.healthsystemtracker.org/brief/how-does-medical-inflation-compare-to-inflation-in-the-rest-of-the-economy/.

Annual Percent Change in CPI for Medical Care, by Category, June 2023



Source: Kaiser Family Foundation analysis of BLS CPI data: https://www.healthsystemtracker.org/brief/how-does-medical-inflation-compare-to-inflation-in-the-rest-of-the-economy/.

US Unemployment Rate Forecast: 2007:Q1–2025:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (9/23 edition); Risk and Uncertainty Management Center, University of South Carolina.

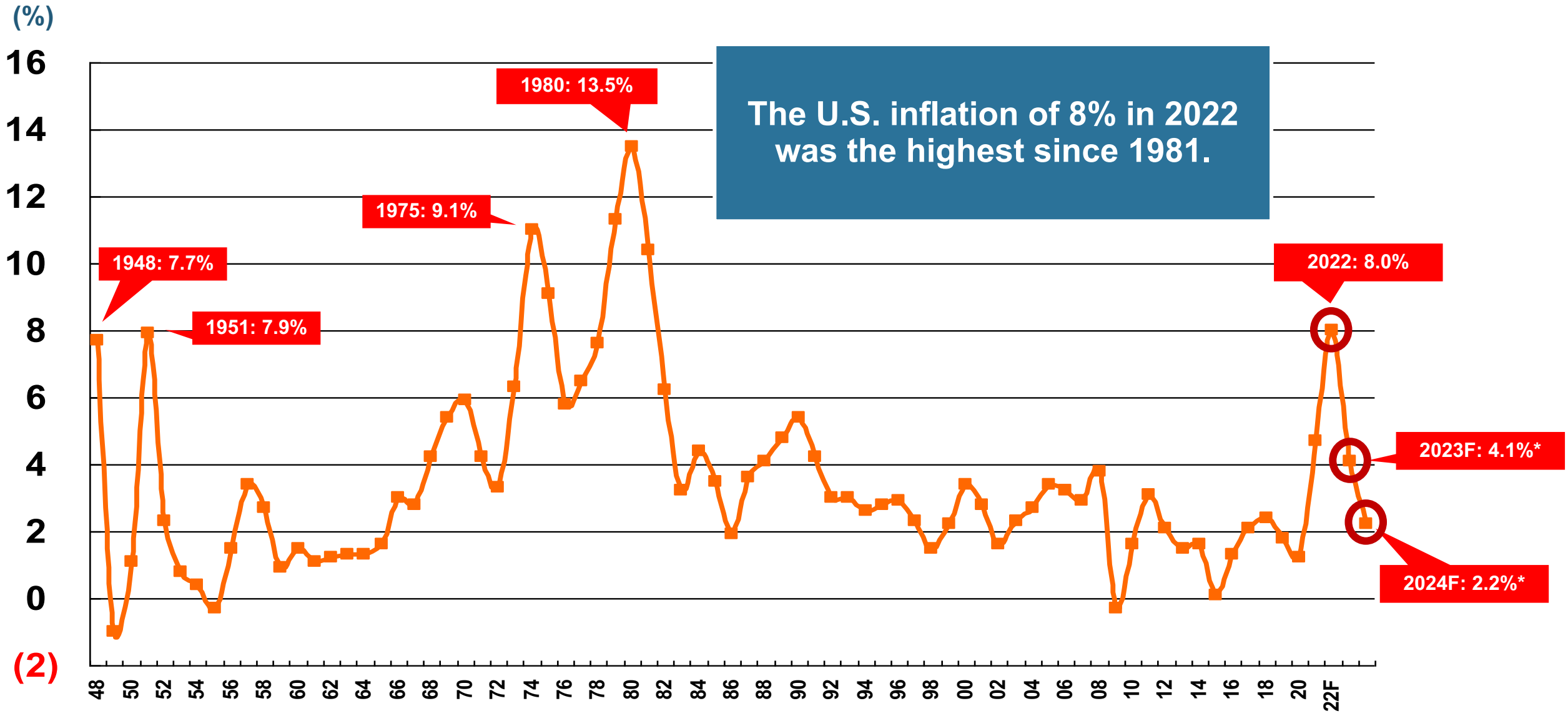
Are Things As Bad as Many *Still* Believe Them to Be?

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

…Or that the Economy Would Sink in 2023—*It Didn't*

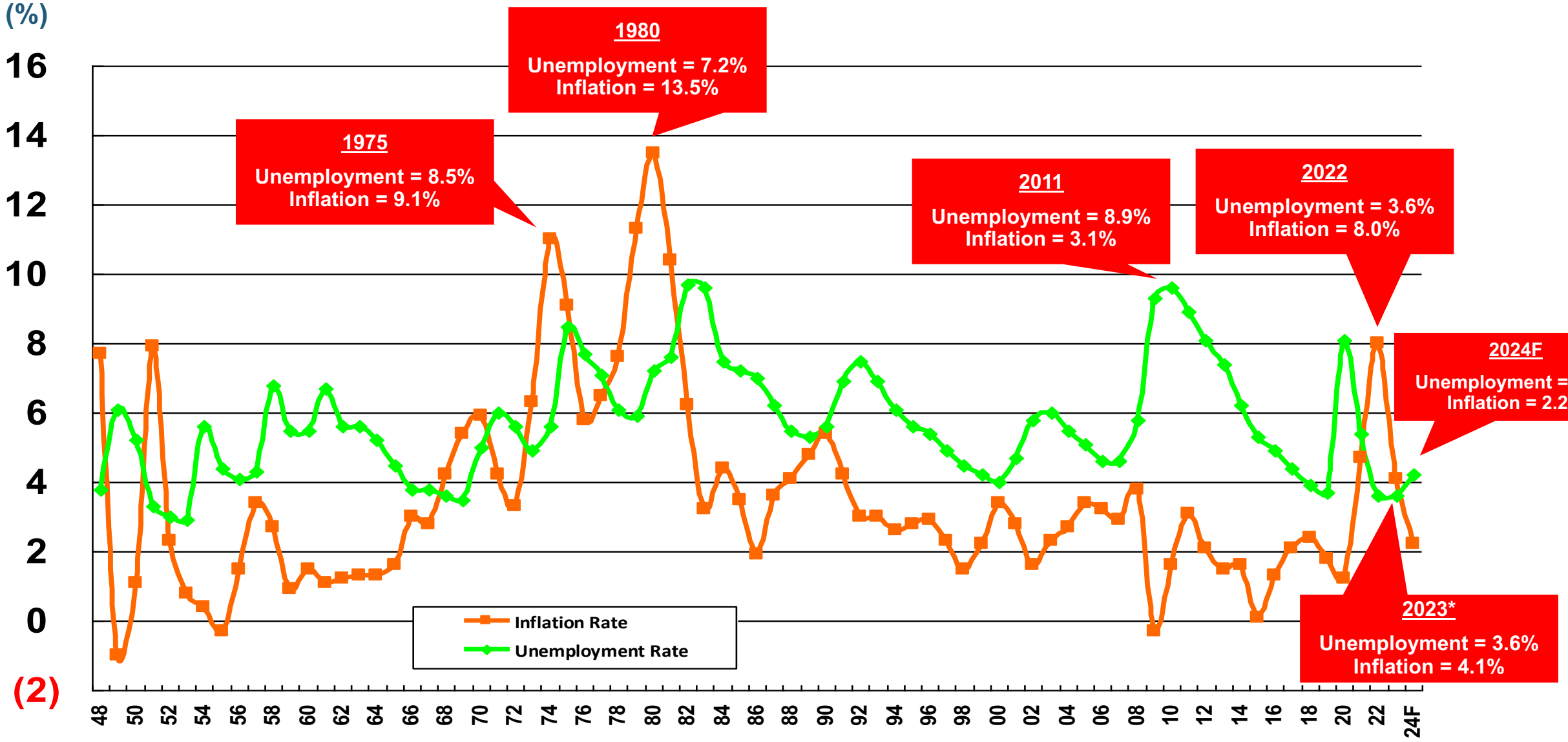
A Quick Review of Economic History Is Helpful

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



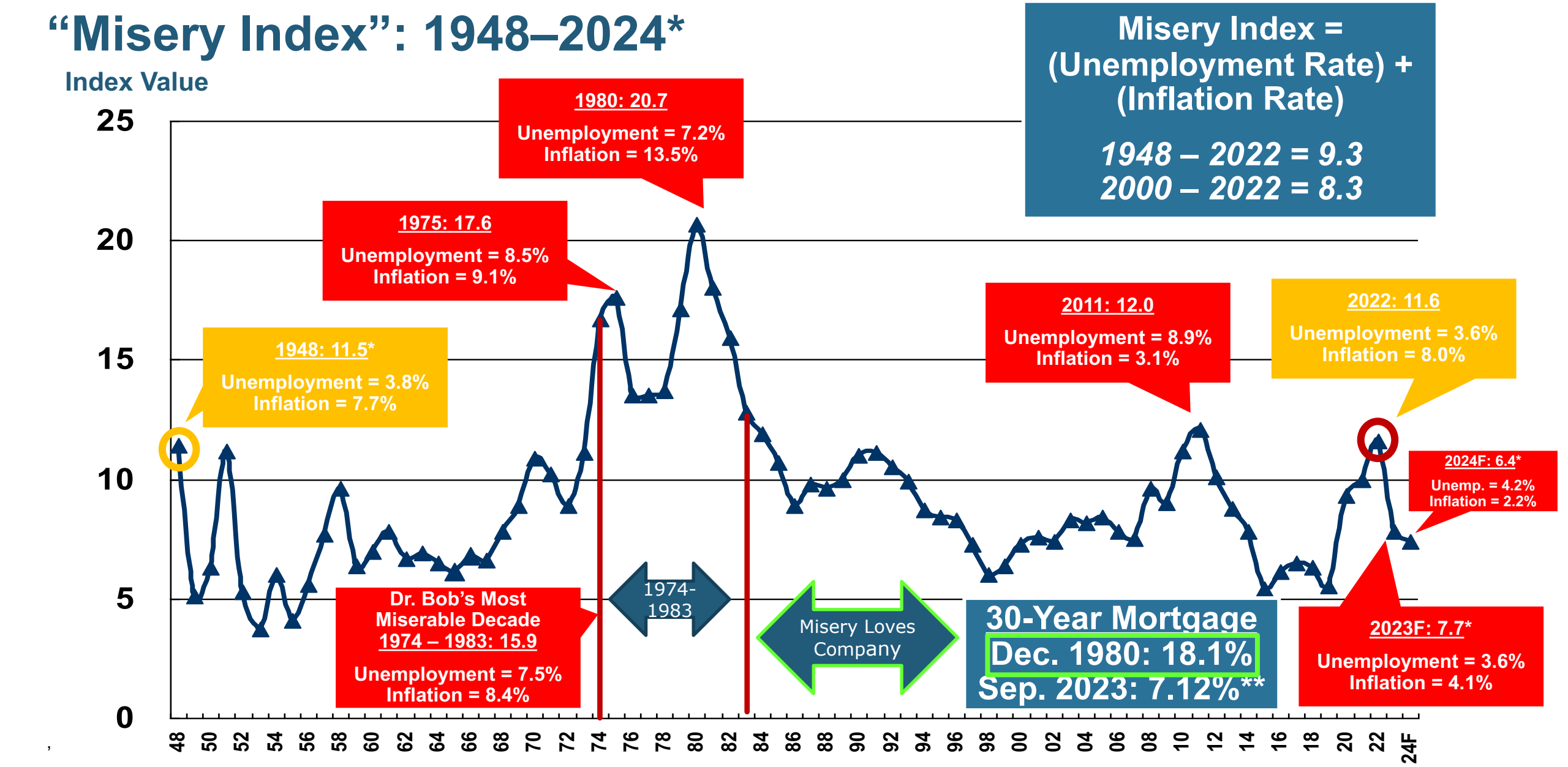
,
*2023/24 forecasts are from (Wells Fargo Securities, Sept. 2023 forecast).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

Inflation and Unemployment Rate, 1948–2024F*



*2023-24 forecast of unemployment and inflation rates based on Wells Fargo Securities forecasts (9/23).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

“Misery Index”: 1948–2024*



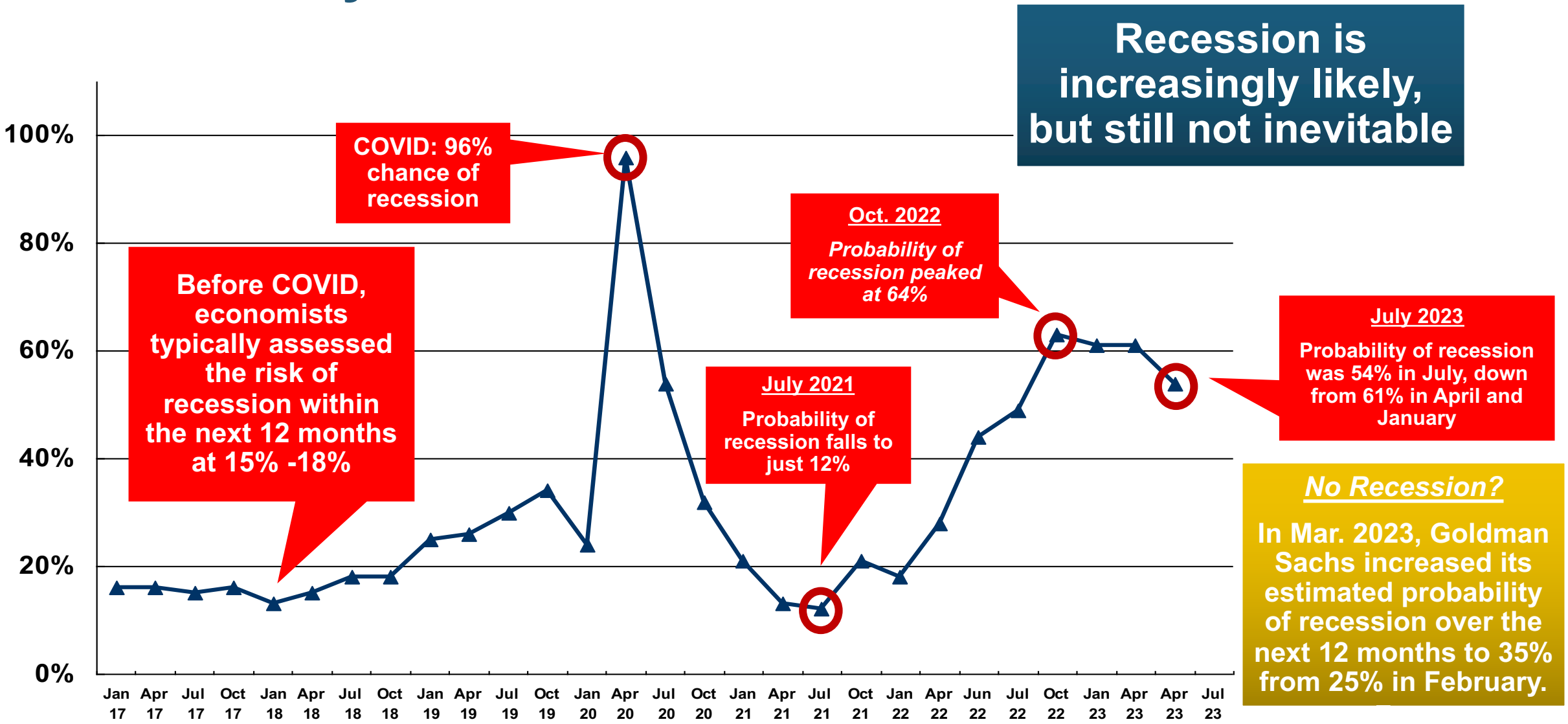
*Estimated based on Wells Fargo Securities forecasts (9/23).
**As of 9/15/23 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

The “R” Word

Is a Recession on the Horizon?

If So, What Does it Mean for Workers Comp Insurers and the P/C Insurance Industry?

Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – July 2023*



*July 2023 survey included the responses of 76 economists. Range was 12% to 96%.

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?

A soft landing occurs when an economy sustains a mild slowdown whereby consumer and investment spending softens, but continues to register positive growth.

Soft Landing

A hard landing describes a recession with a sharp contraction in spending, resulting in many workers losing their jobs and companies significantly reducing their capital investments.

Hard Landing

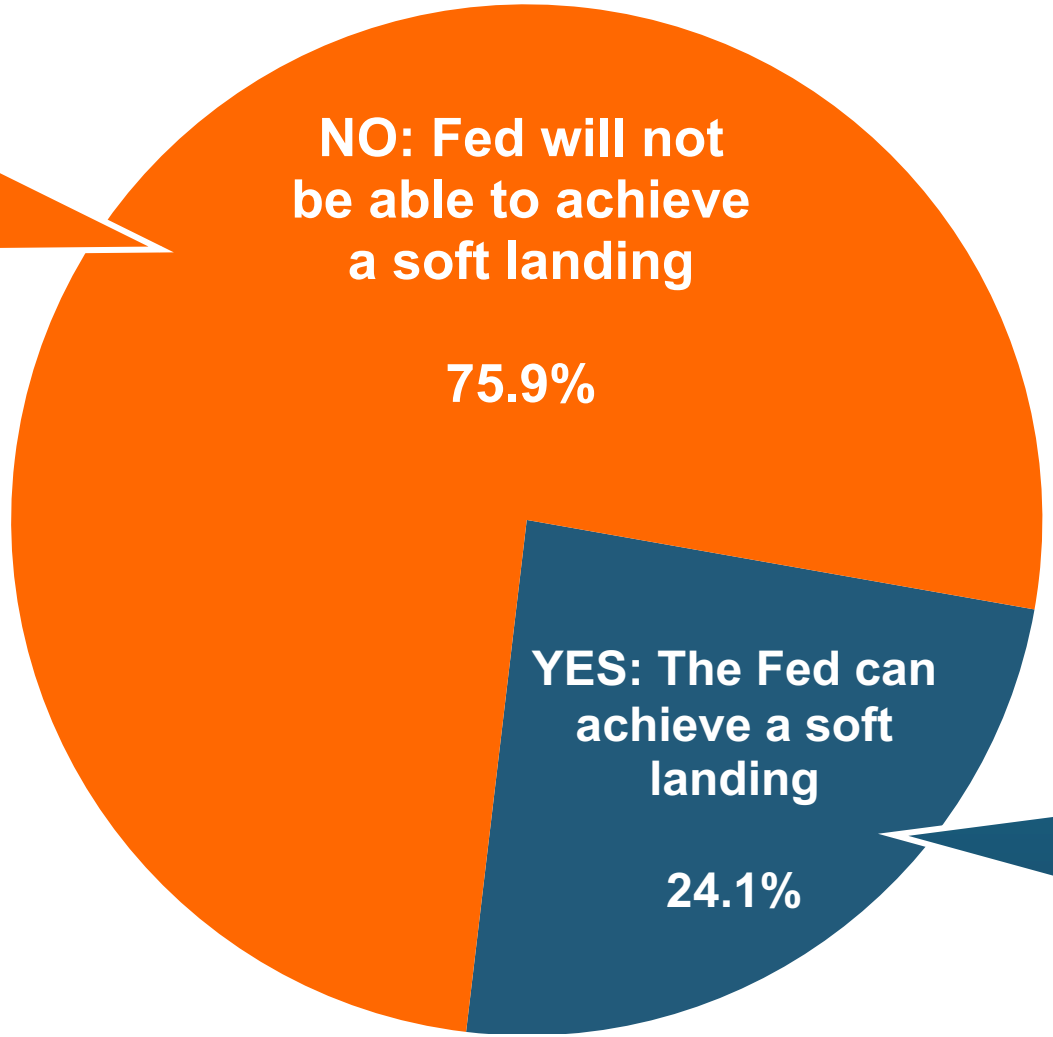
In a "no landing" scenario, the economy averts a recession altogether.

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



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

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

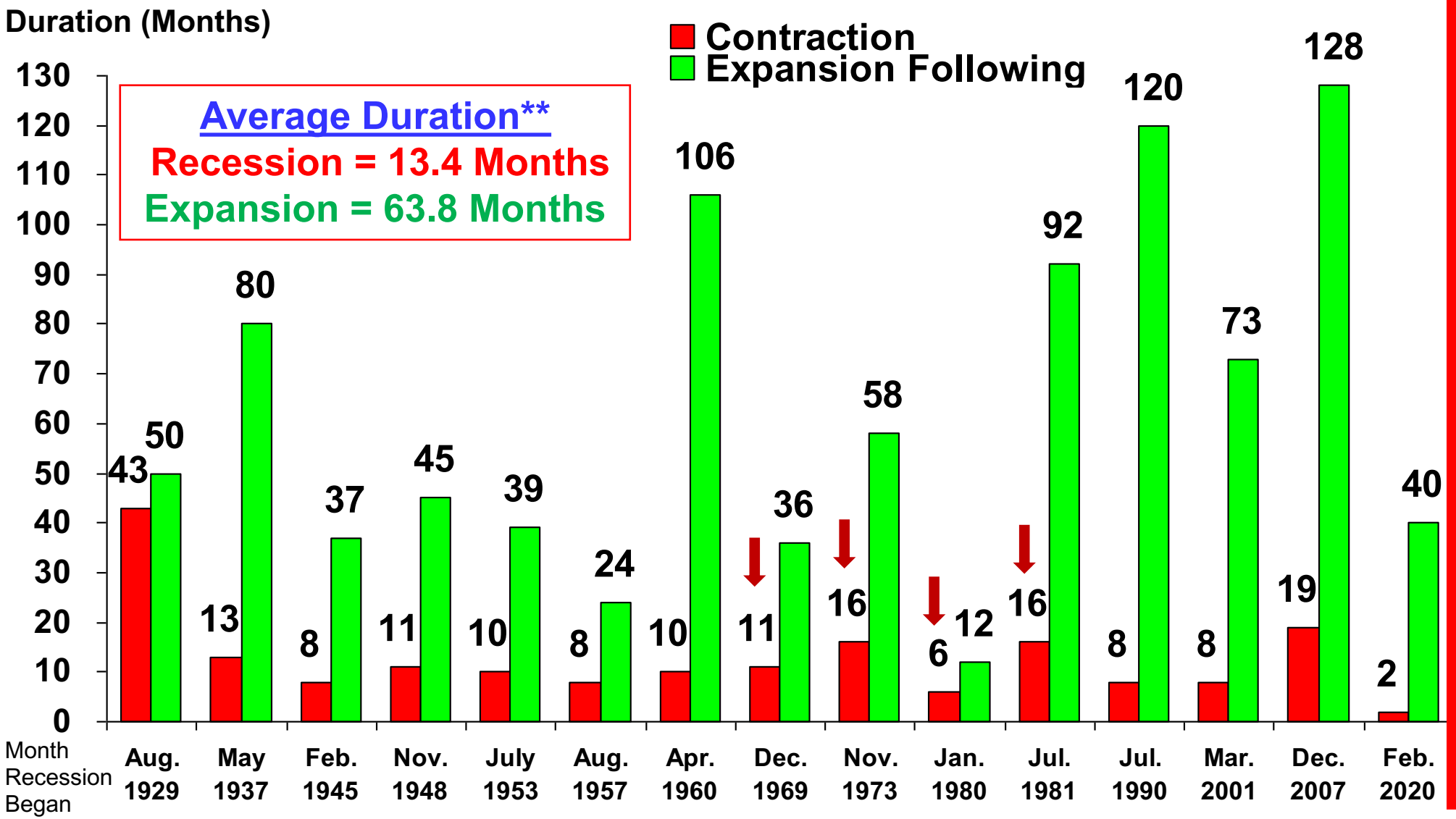
"It's possible that we can continue to have a cooling in the labor market without having the big increases in unemployment that have gone with many prior episodes."

-Fed Chair Jay Powell (May 3, 2023)

*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.

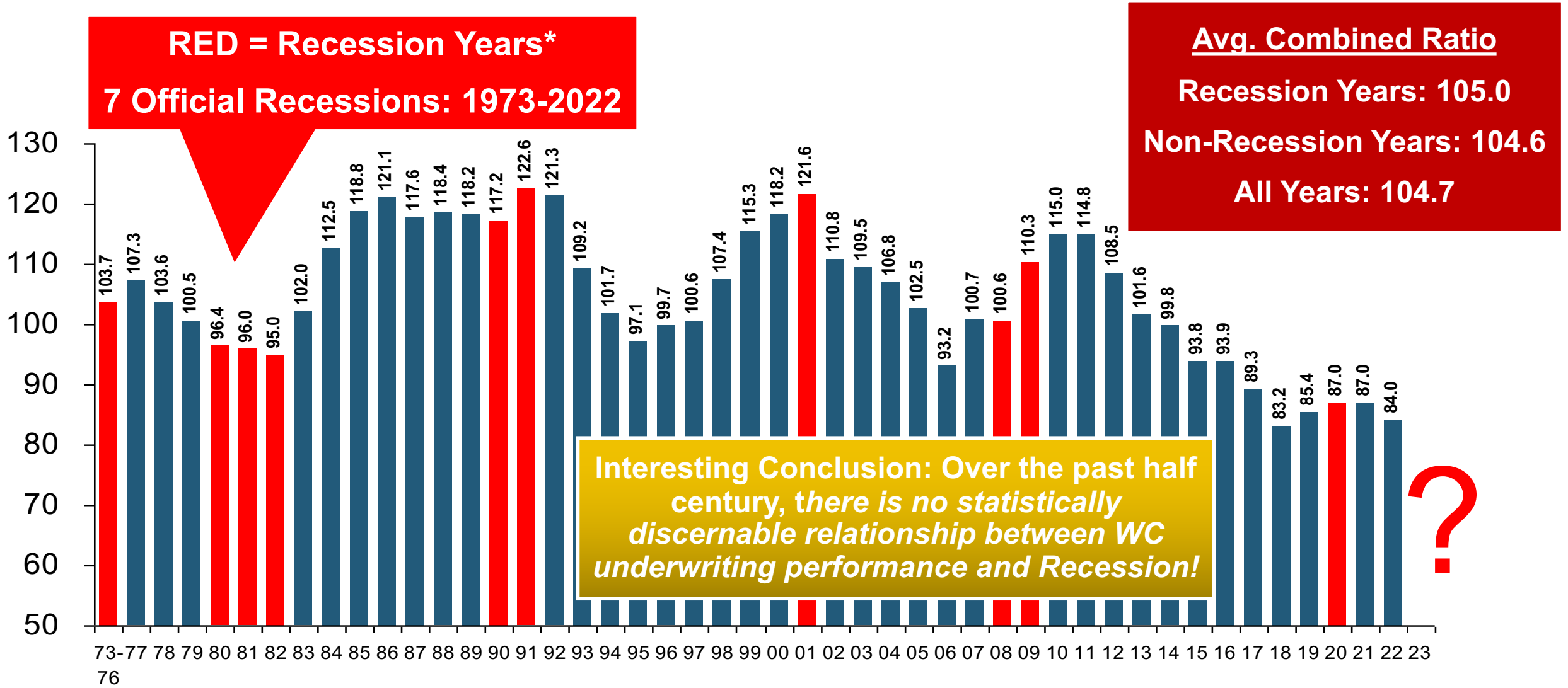
Length of US Business Cycles, 1929-Present*



- 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 Sept. 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

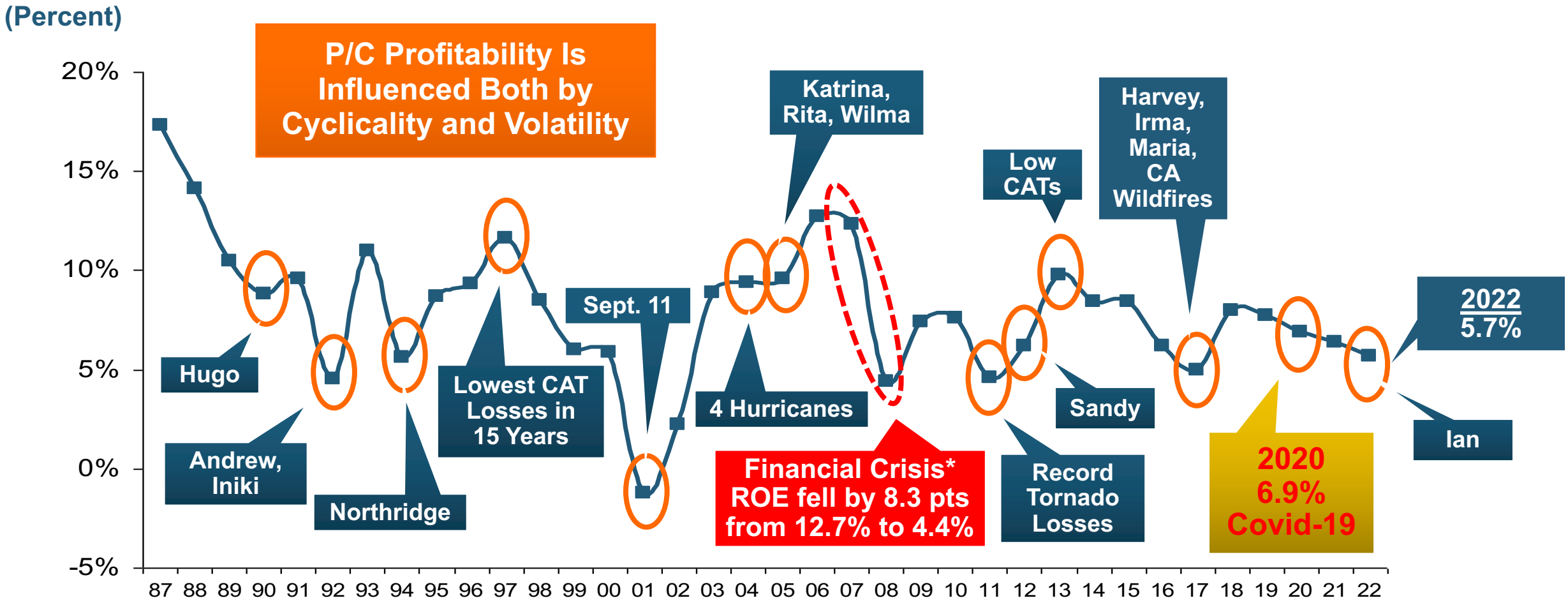


*Years in which 3 or more months of the year were in recession plus 2020 (Covid-related recession) which lasted 2 months. Recession dates from NBER: https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions

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, 1987–2022*



*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%

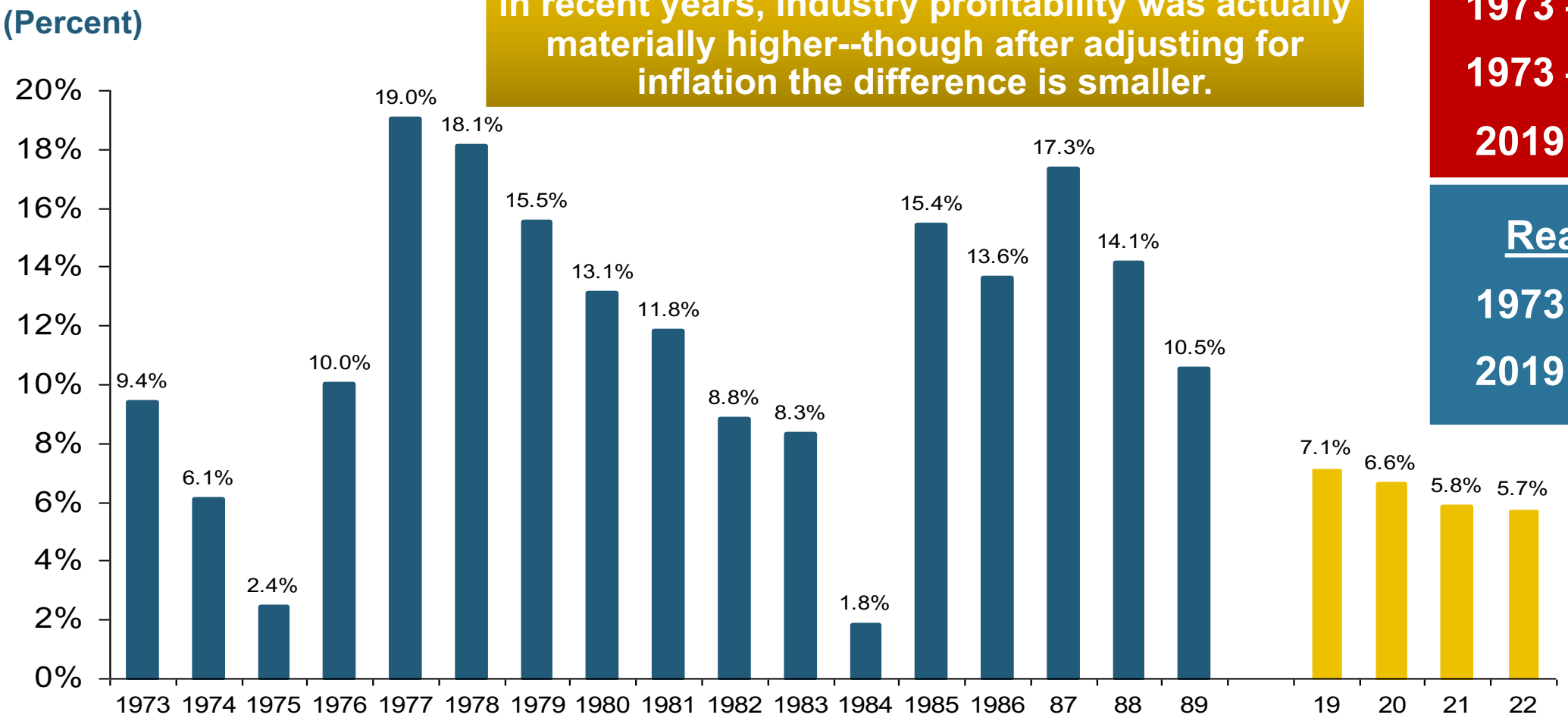
1973 – 1989: 11.5%

2019 – 2022: 6.2%

Real Avg. ROE

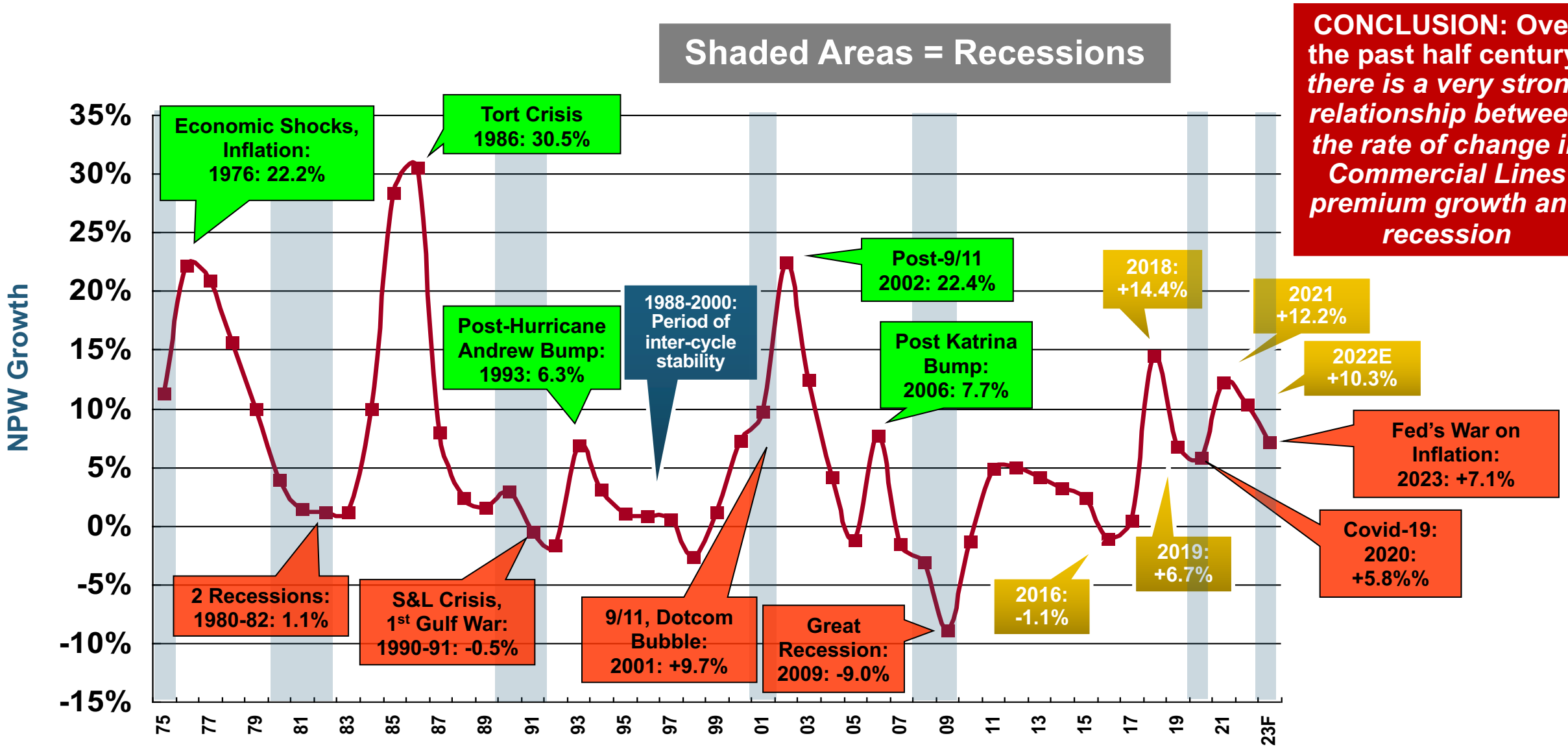
1973 – 1989: 4.8%

2019 – 2022: 2.0%



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

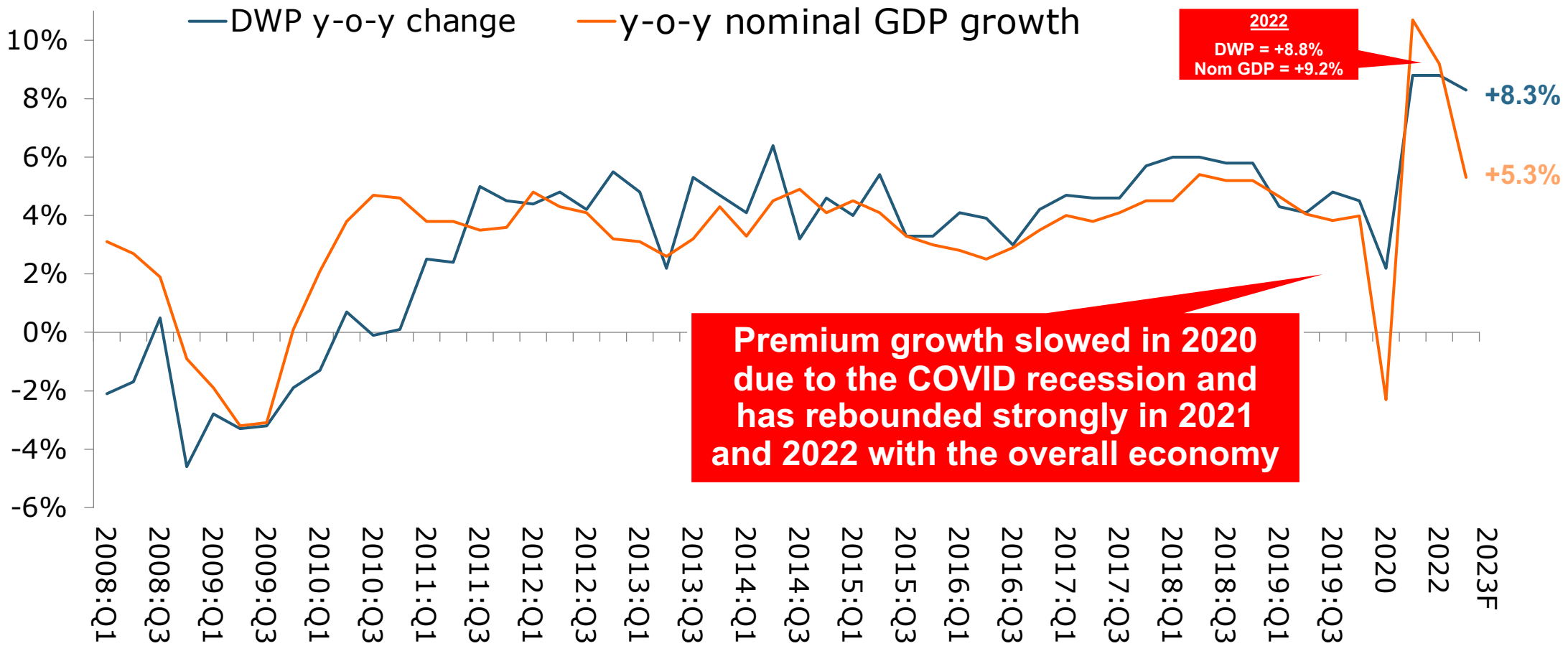
Commercial Lines NPW Premium Growth: 1975 – 2023F



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: 2006:Q1–2023F*

Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



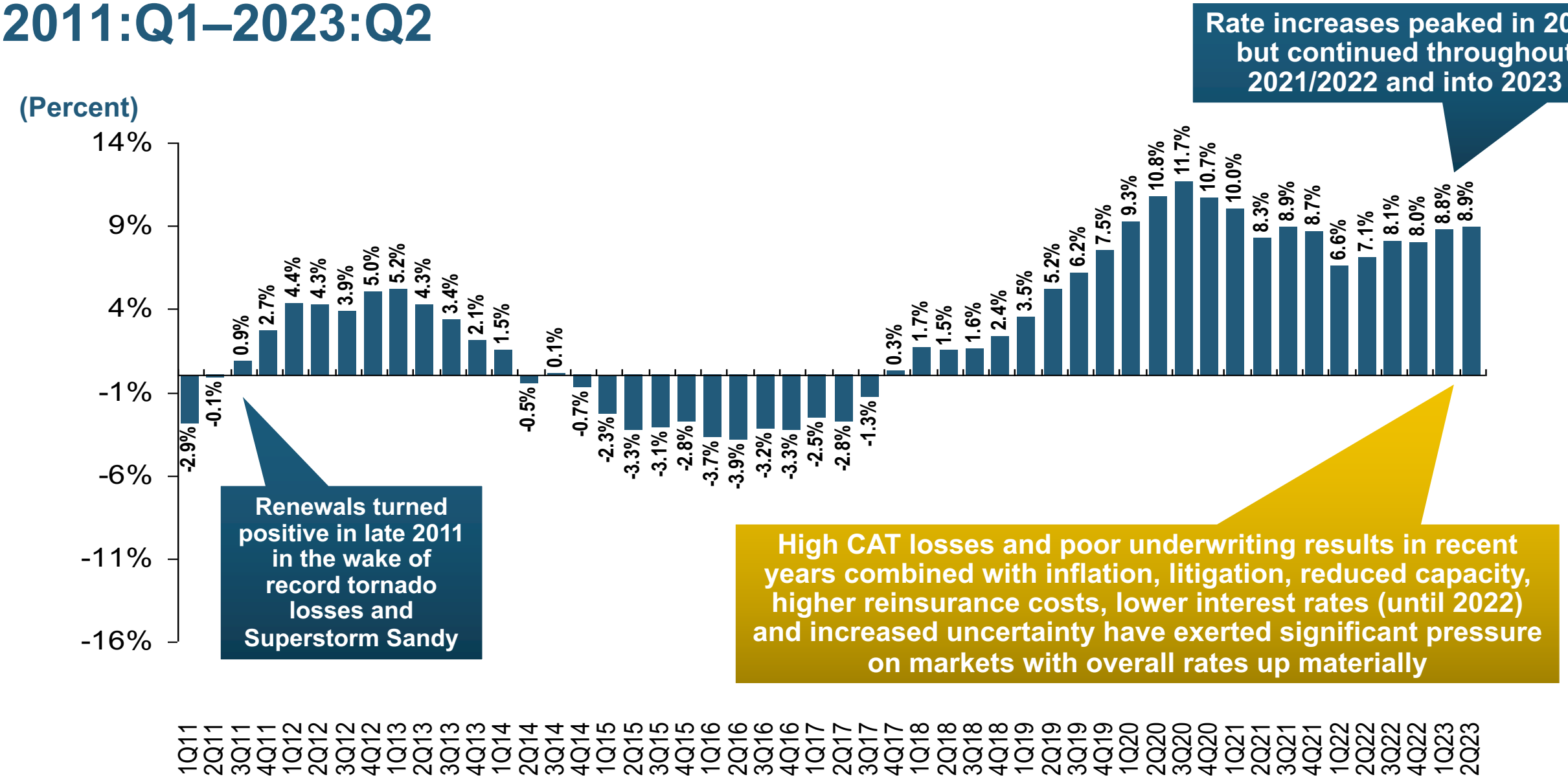
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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

*2020-23F figures are annual.

Sources: SNL Financial; U.S. 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:Q1–2023:Q2

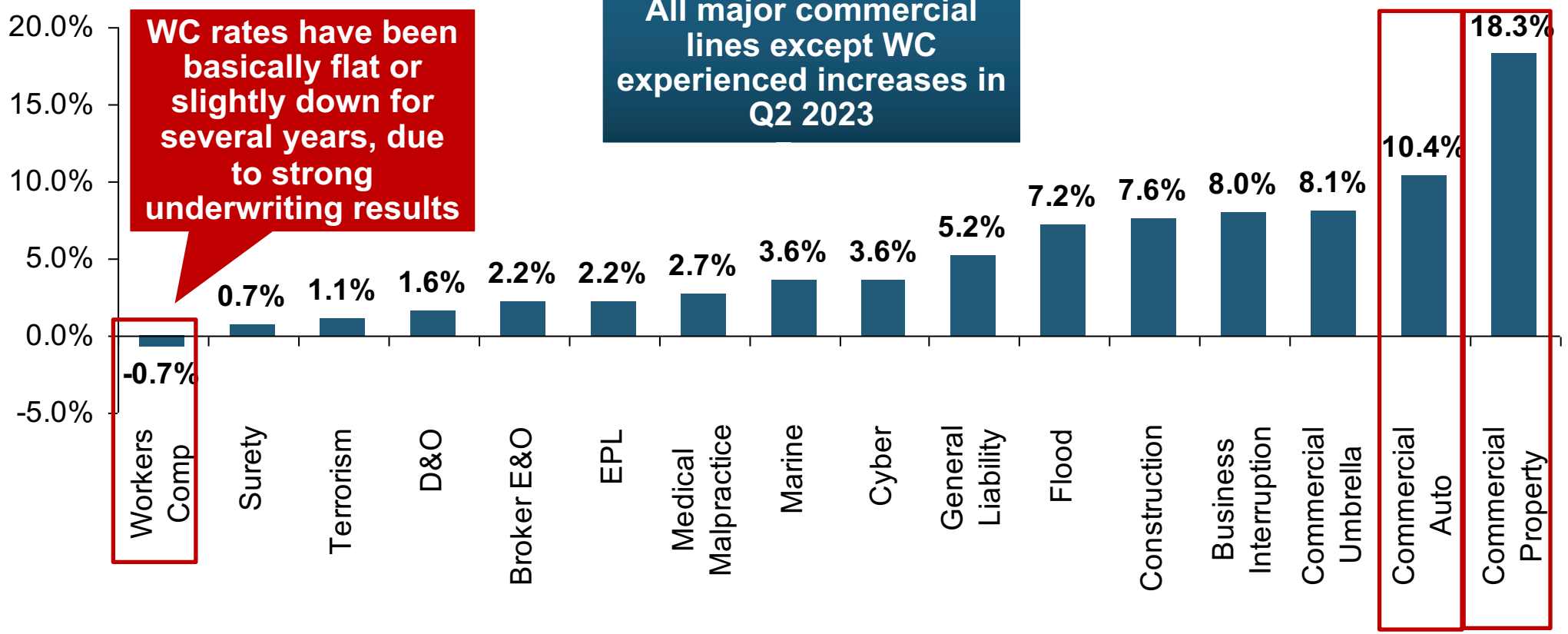


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2023:Q2

Commercial property and Business Interruption are experiencing sharp increases due to high CAT losses, inflation and expensive reinsurance

(Percent Change)



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.

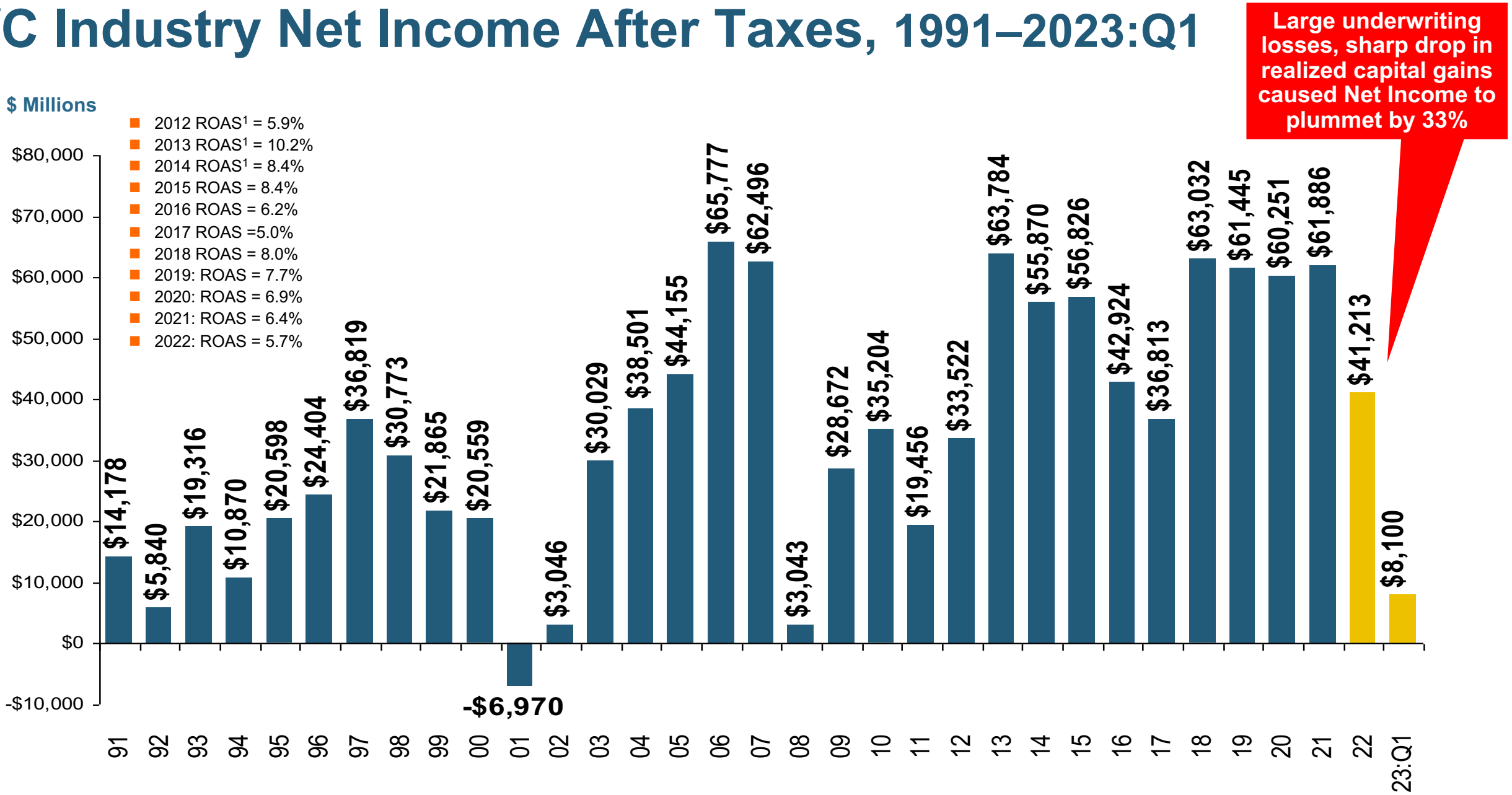
The Last Word on the "R" Word

- 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)
- Banking "crisis" in early was not the systemic economic threat many perceived
- A recession in 2024 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 could rise (assuming "normal" underwriting performance) due to rising investment income
  - No repeat of Financial Crisis, but 2024 Will Include Politically-Driven Volatility

How Are P/C Insurers Doing?

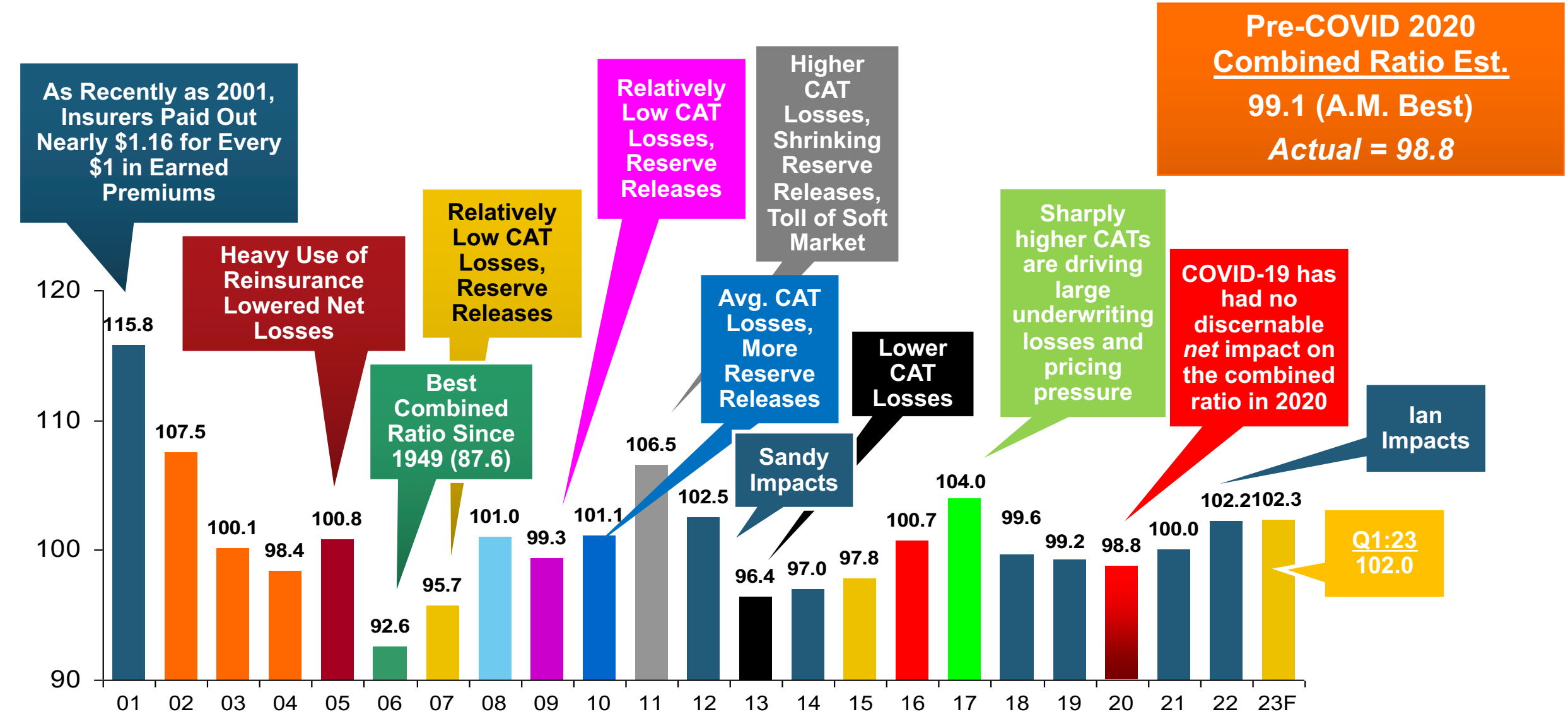
What Do Recent Results, History and Industry Structure Tell Us?

P/C Industry Net Income After Taxes, 1991–2023:Q1



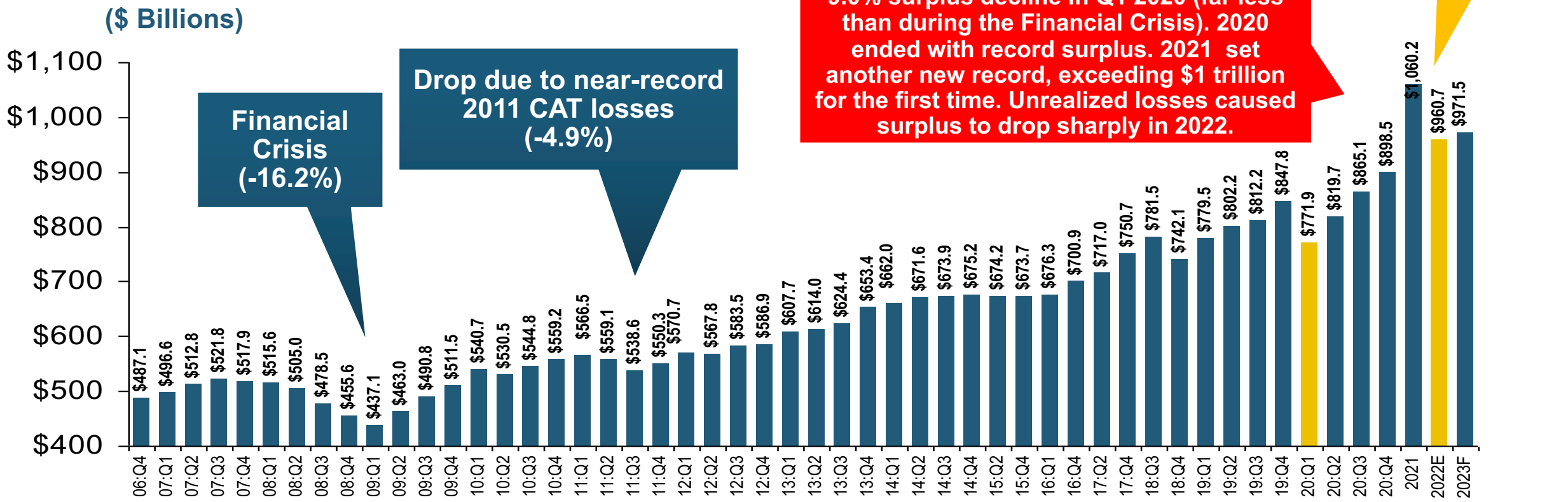
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

P/C Insurance Industry Combined Ratio, 2001–2023F*



*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2024F).

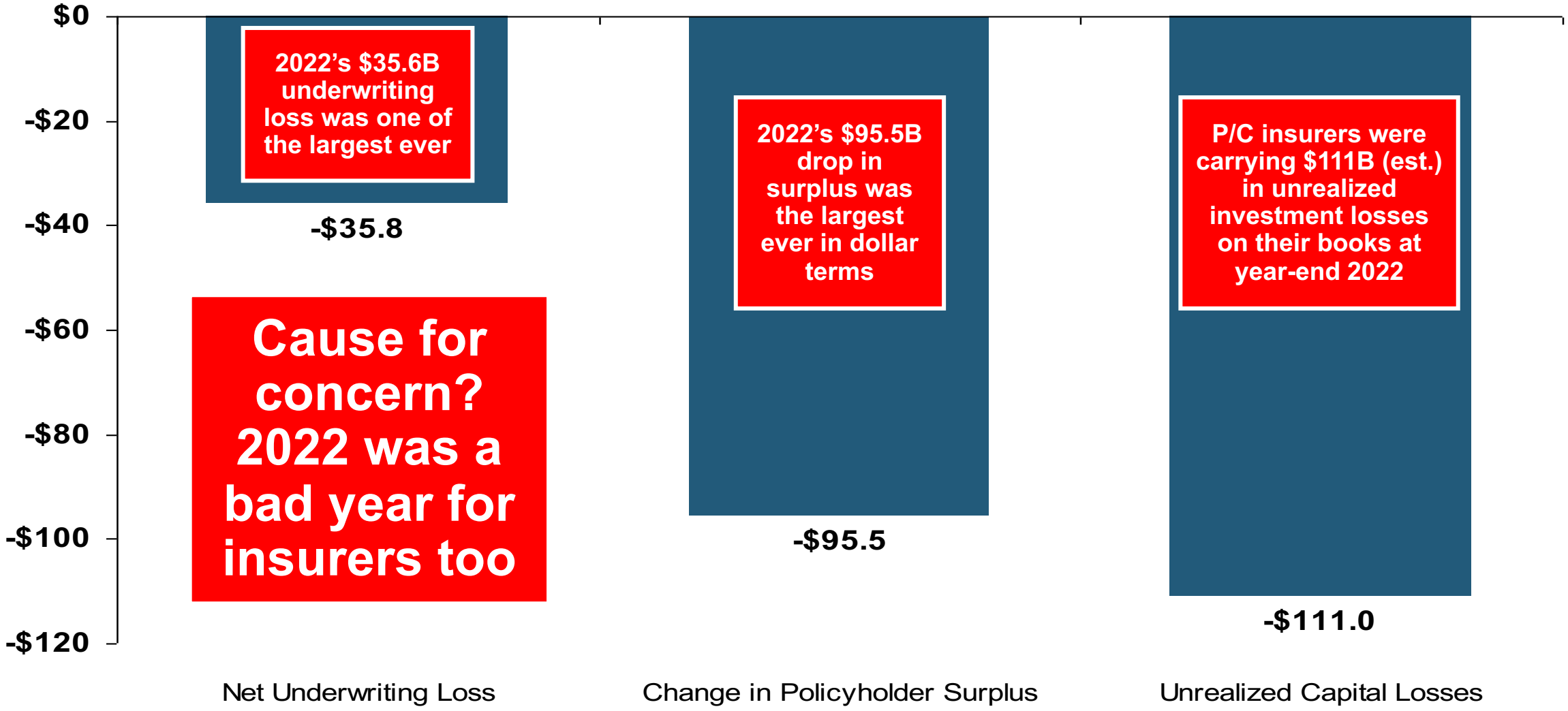
Policyholder Surplus (Capacity), 2006:Q4 – 2023F



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.

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

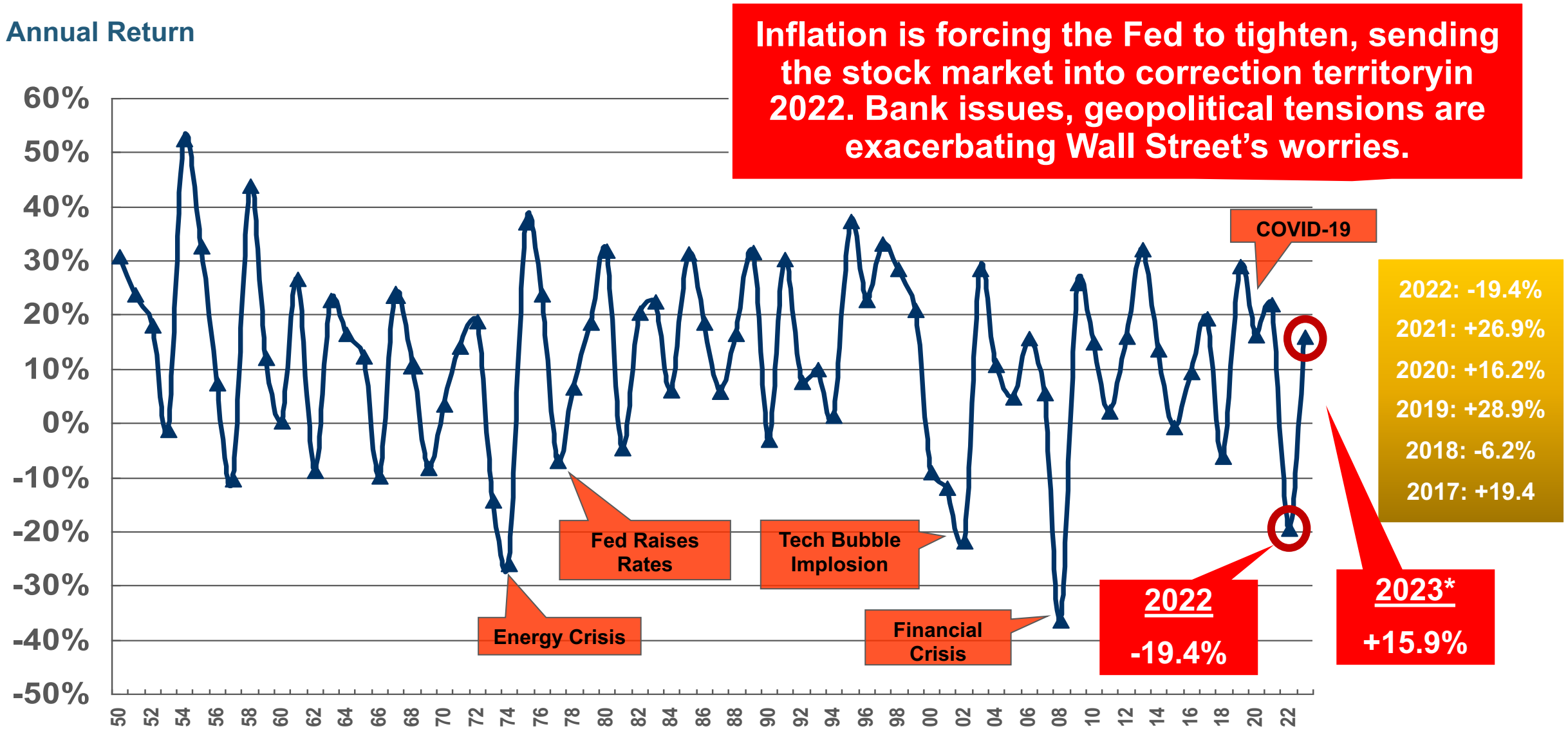


Source: A.M. Best, *2023 P/C Review & Preview* (March 2023); Risk and Uncertainty Management Center, University of South Carolina.

Wall Street's Wild Ride Continues

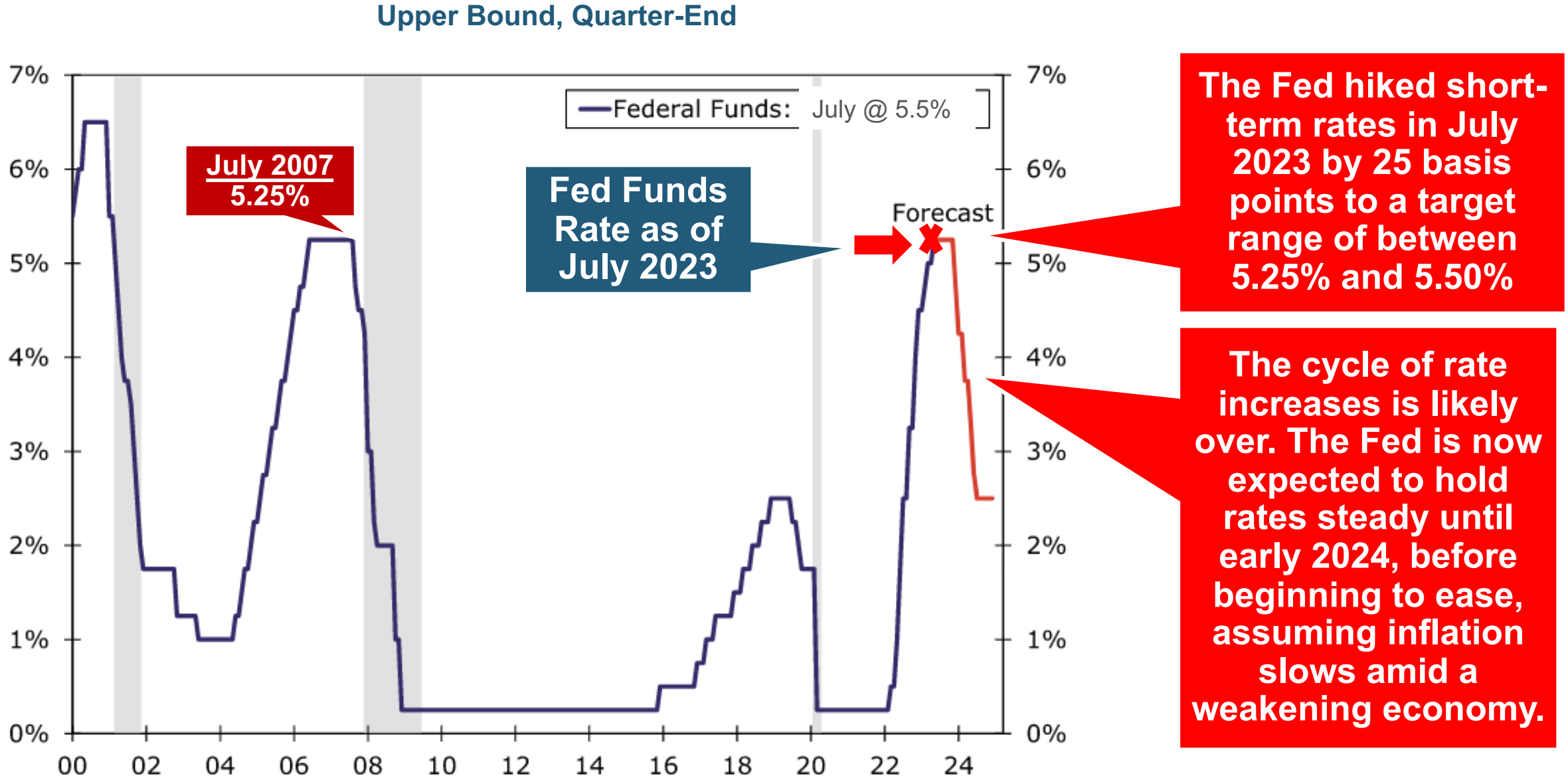
A Never Ending Financial Market Rollercoaster

S&P 500 Index Returns, 1950–2023*



*Through Sept. 15, 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!

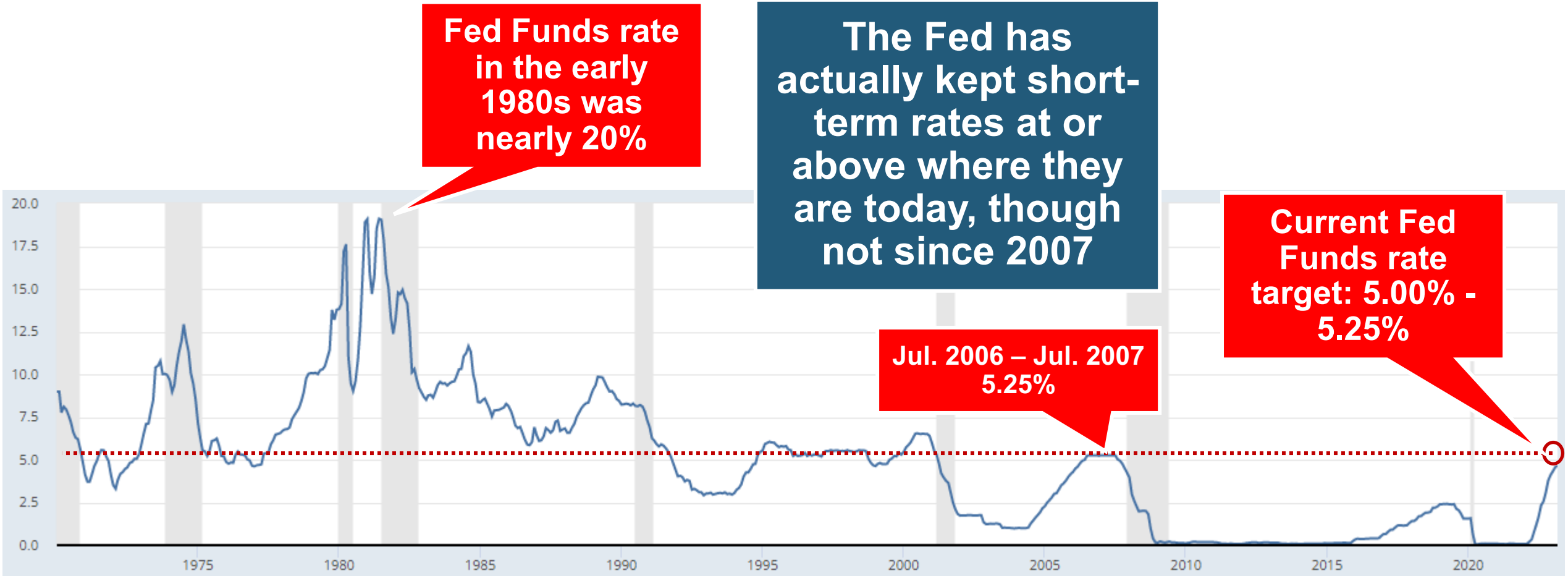


The Fed hiked short-term rates in July 2023 by 25 basis points to a target range of between 5.25% and 5.50%

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

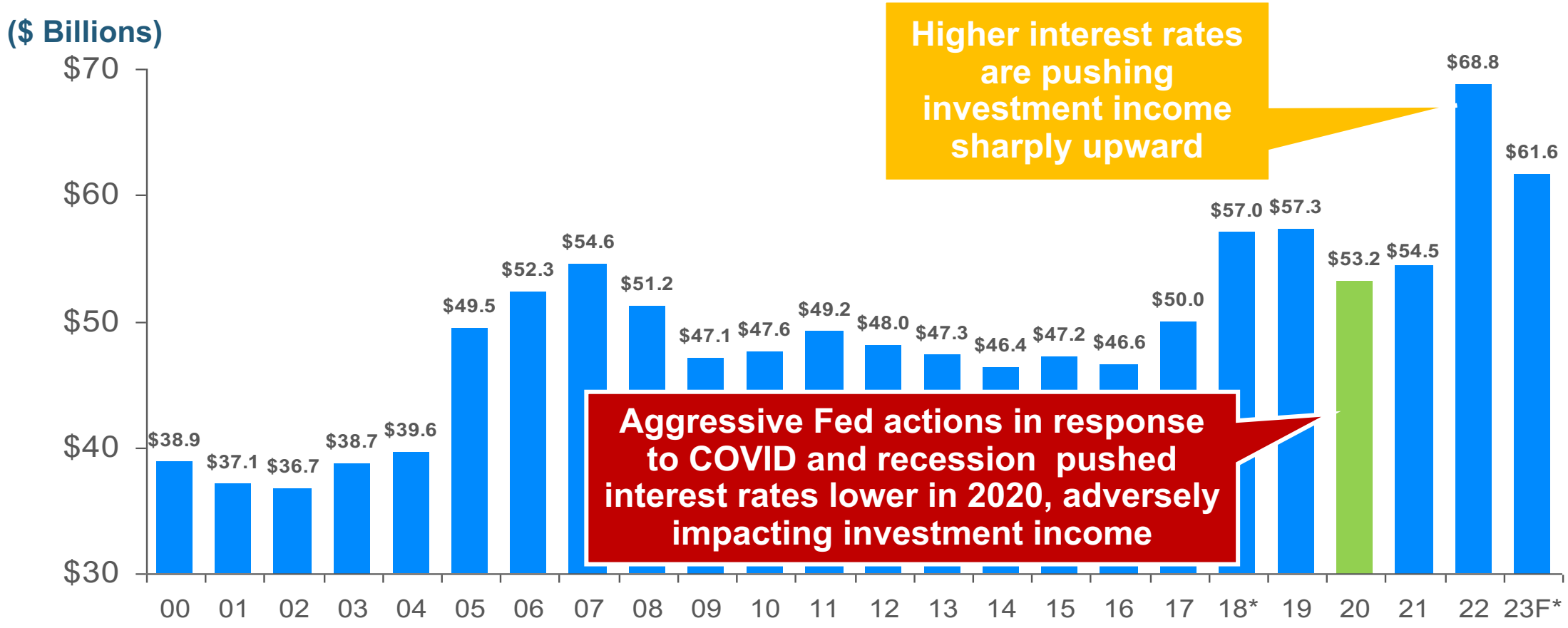
Source: Federal Reserve Board and Wells Fargo Economics (6/23); Risk and Uncertainty Management Center, University of South Carolina.

Federal Funds Target Rate: The End of Cheap Money?



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

Property/Casualty Insurance Industry Investment Income: 2000–2023F*

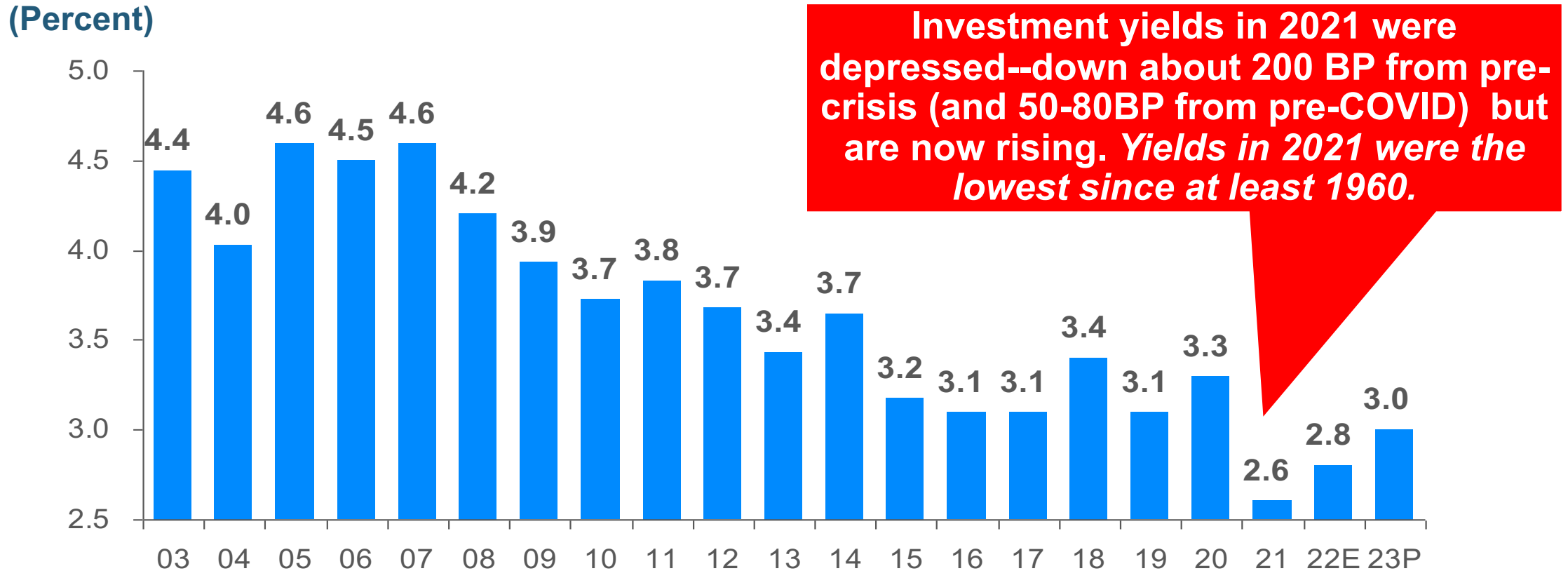


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

*2023 is annualized figure based on Q1 actual of $15.4B. 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



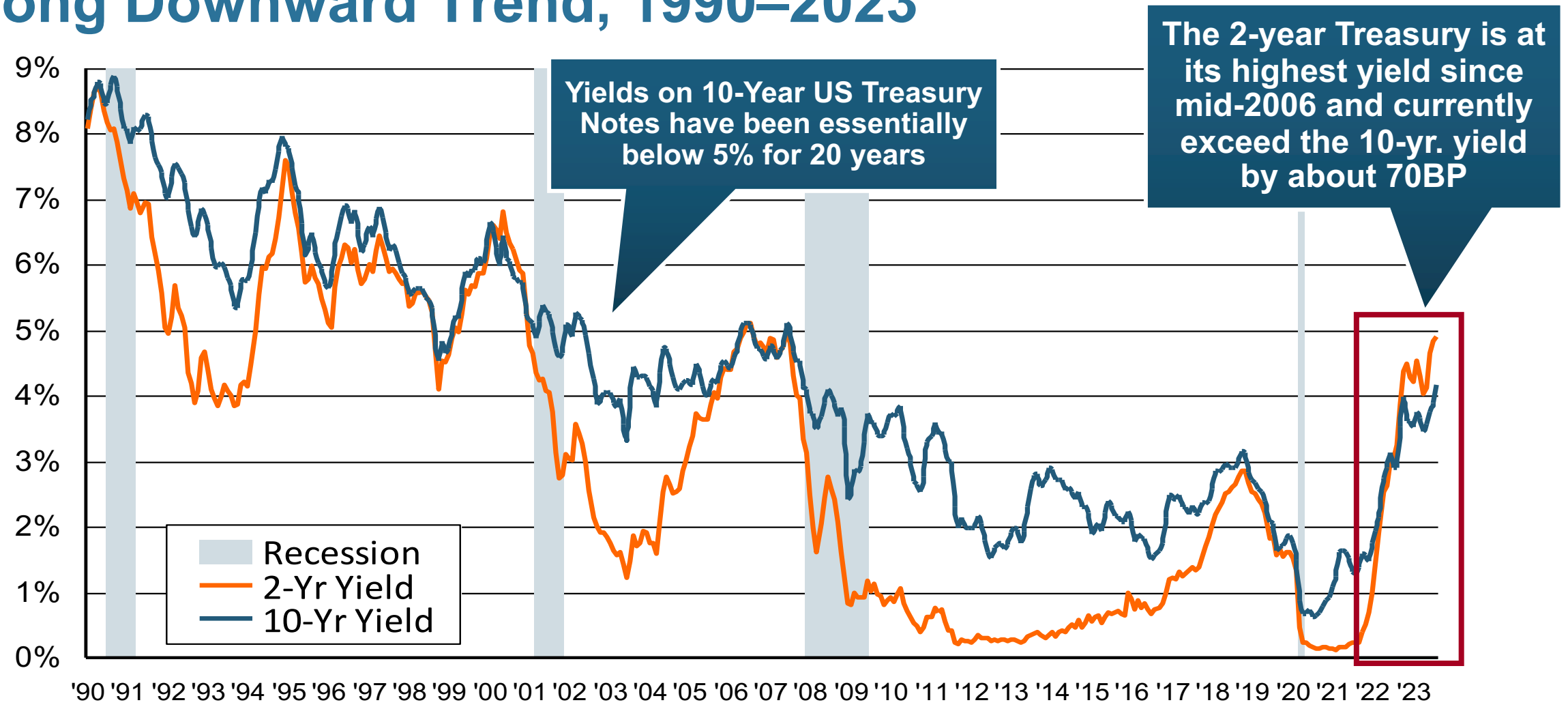
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) but are now rising. *Yields in 2021 were the lowest since at least 1960.*

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.

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

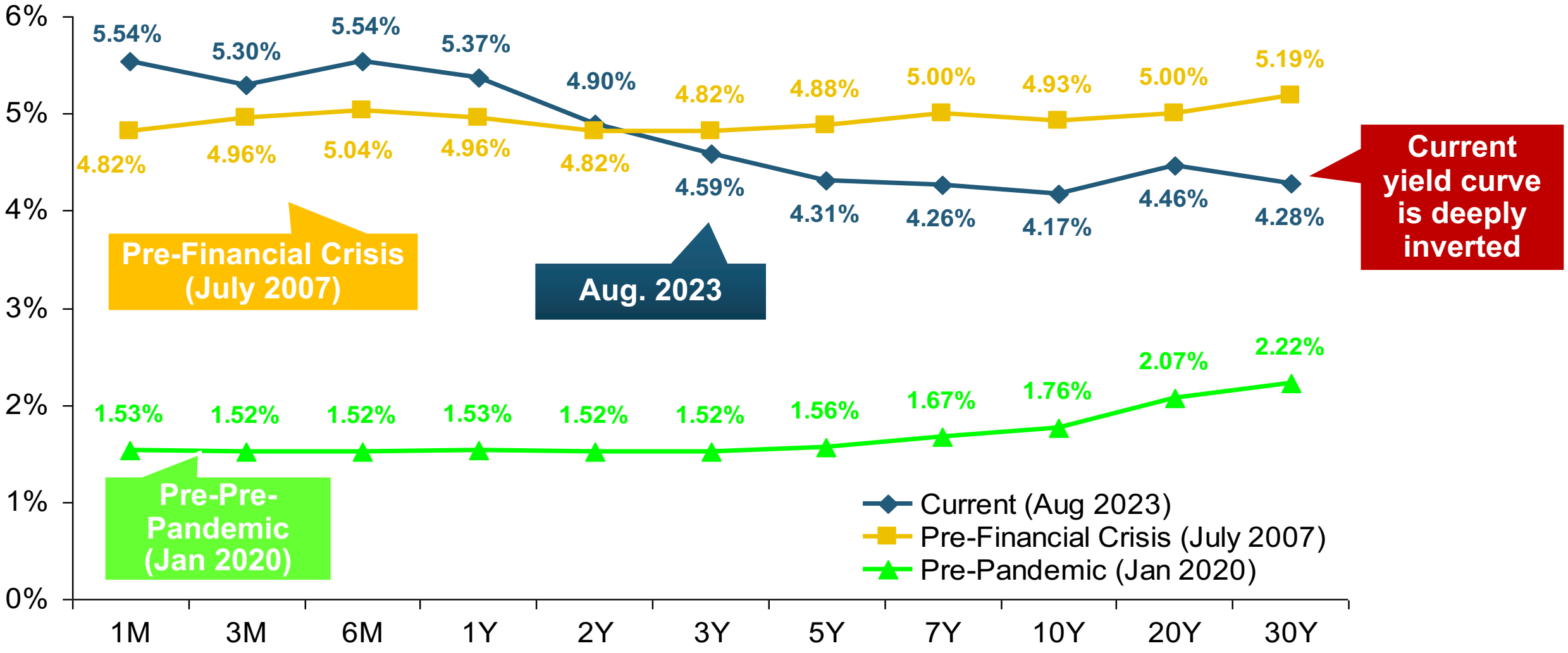


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

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

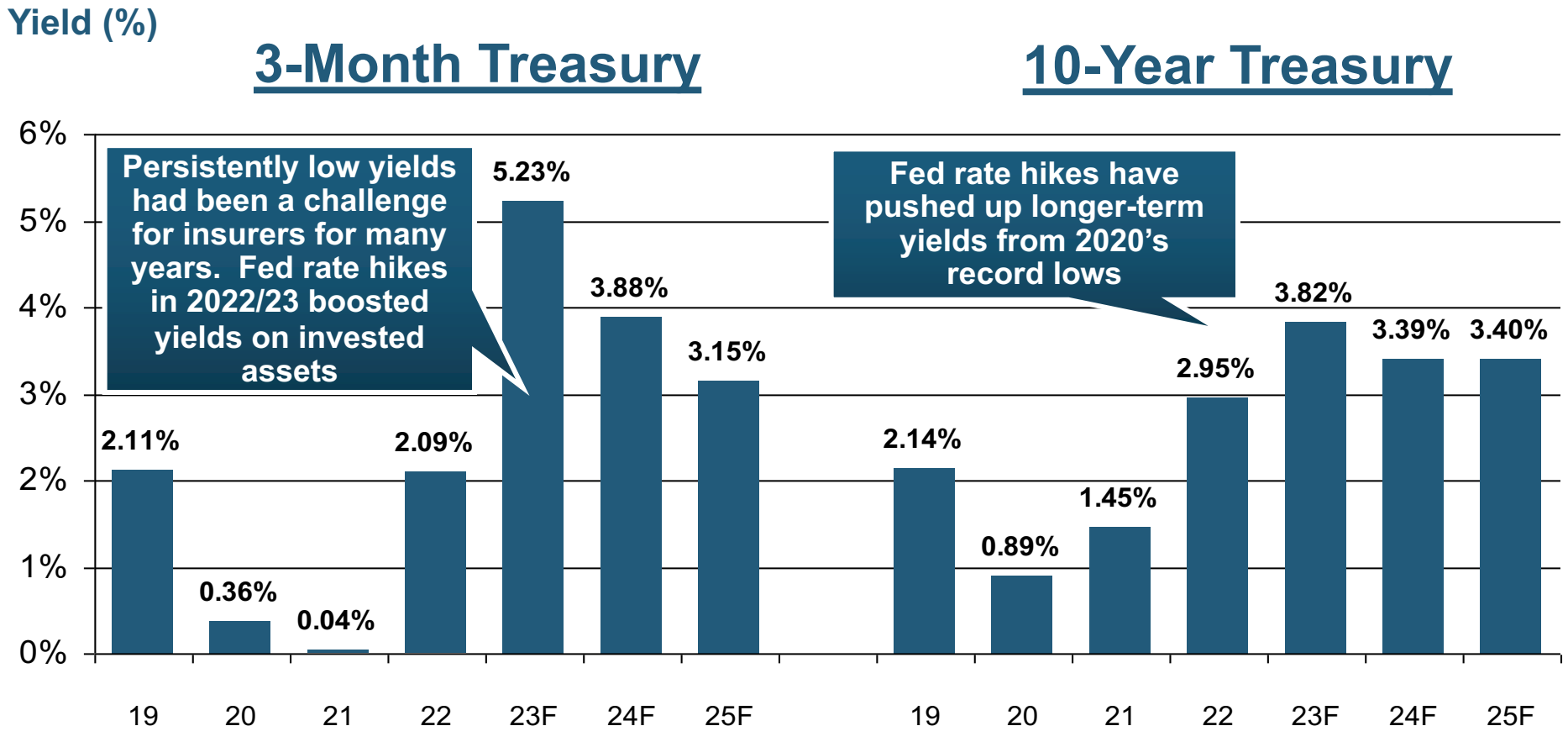
Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, University of South Carolina.

Treasury Yield Curves: August 2023 vs. Pre-Pandemic (Jan. 2020) and Pre-Financial Crisis (July 2007)



Source: Federal Reserve Board of Governors: http://www.federalreserve.gov/releases/h15/data.htm; Univ. of South Carolina..

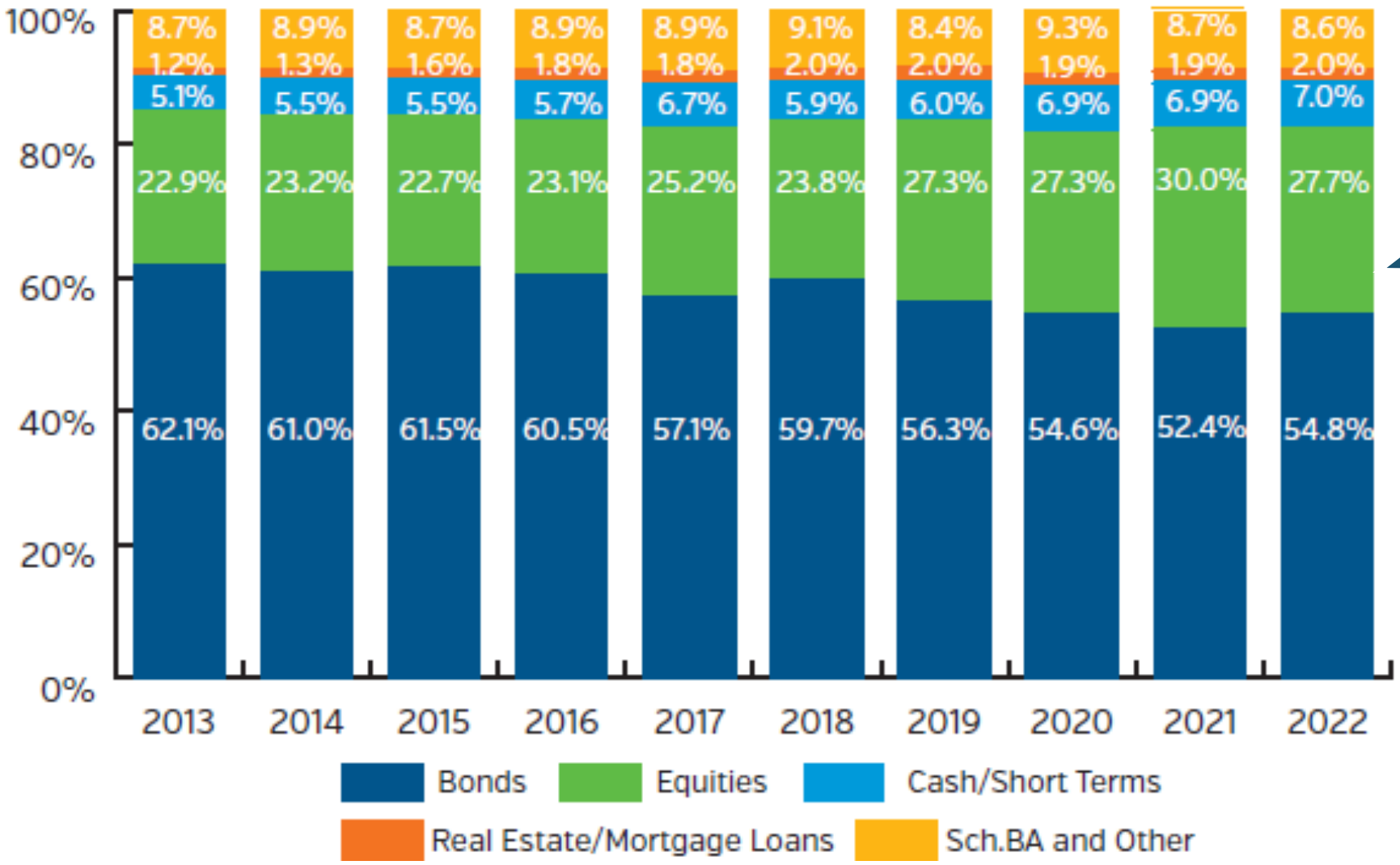
Interest Rate Forecasts: 2019 – 2025F: *Higher for Longer*



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 (9/23); Risk and Uncertainty Management Center, University of South Carolina.

U.S. P/C Insurer Asset Allocation, 2013 – 2022



Over the past decade, P/C insurer investment allocation to bonds has declined materially while the equities share is up substantially

Source: New England Asset Management (NEAM) *Perspectives* (July 2023), S&P IQ Pro.

Reasons Why Higher Interest Rates Benefit Insurers

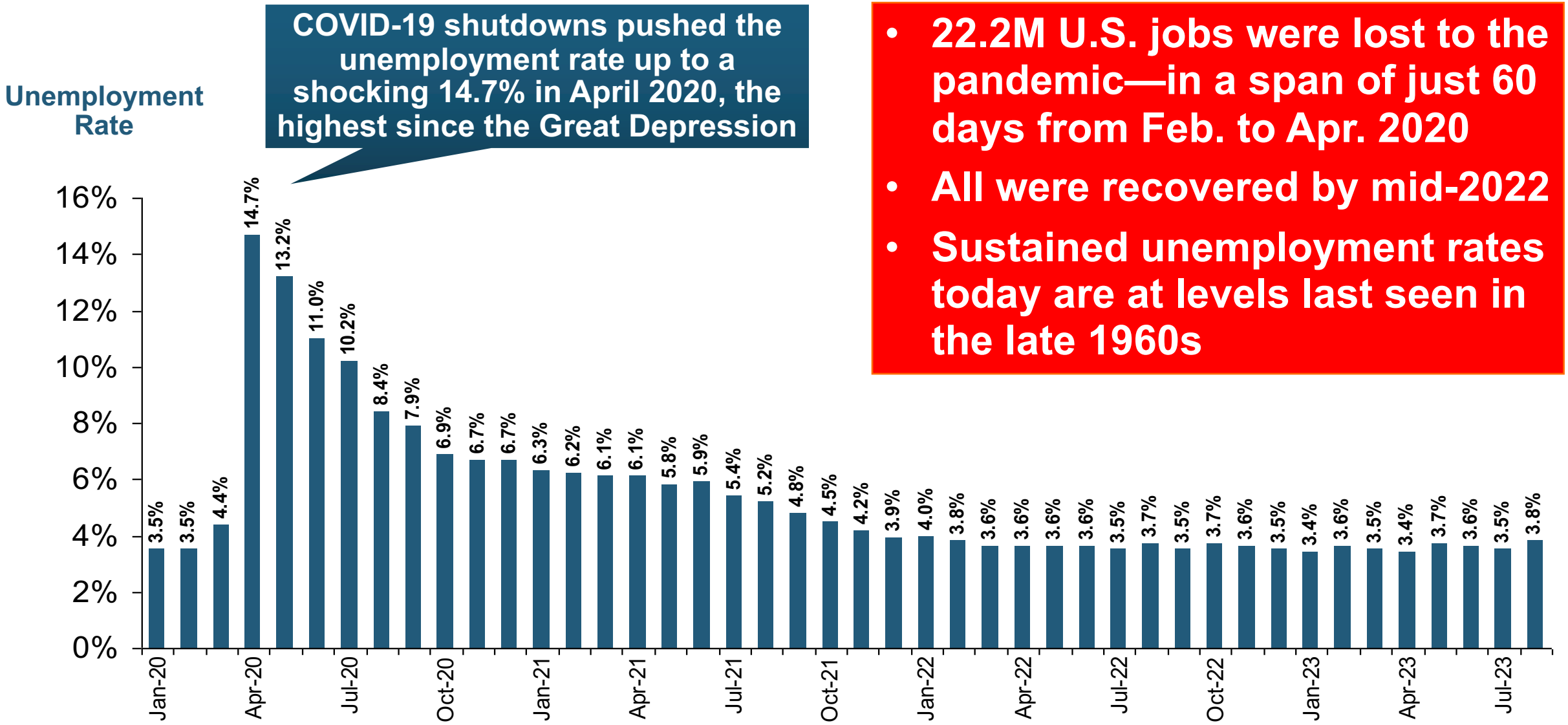
- P/C yield on invested assets was at a 60-year low in 2021
- Rising yields are having a materially beneficial impact on investment income (2022, 2023 and likely 2024/2025)
- Increased investment returns will partially offset claim severity pressures
- Rising interest rates are occurring during a relatively 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?

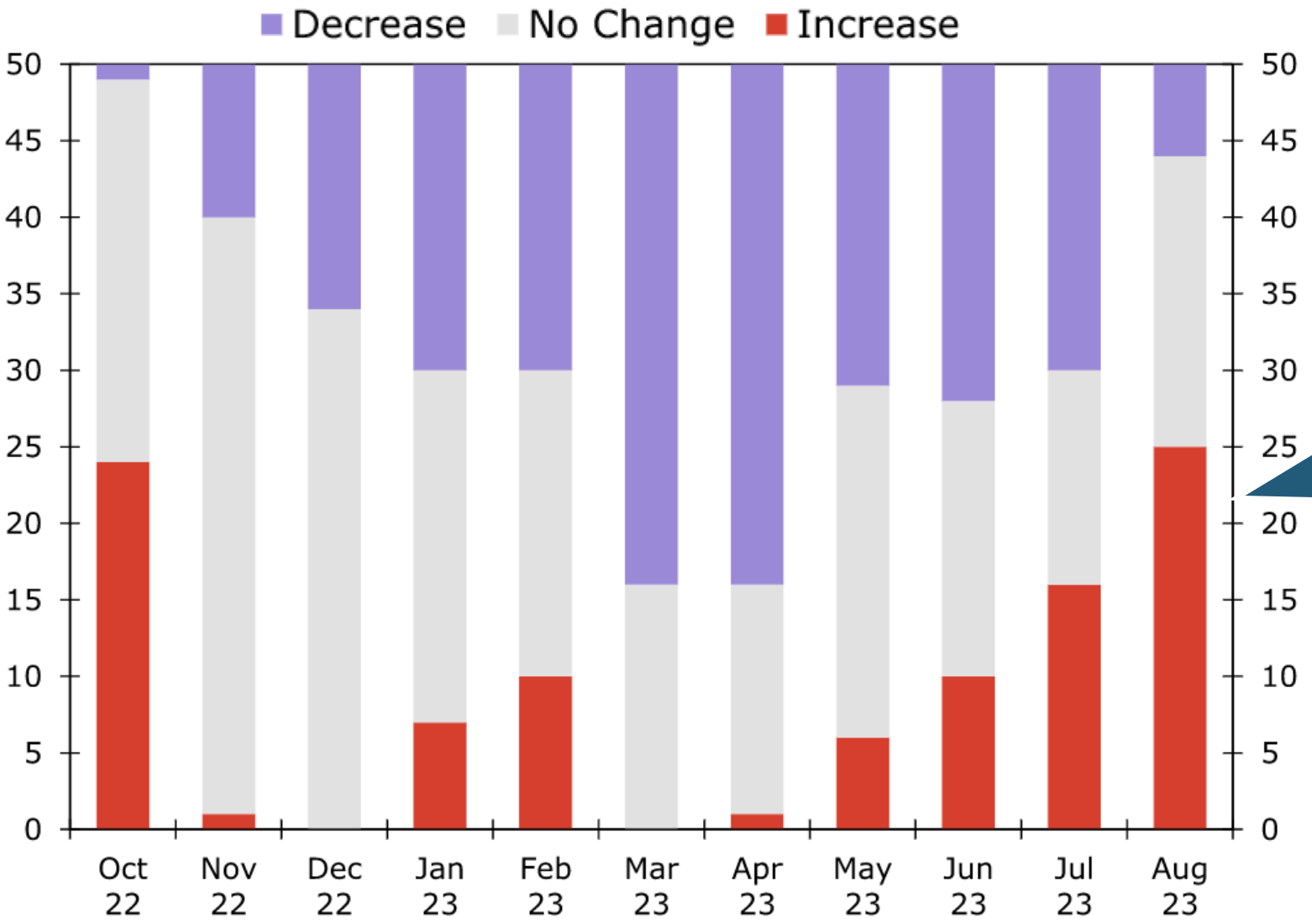
Unemployment Rate: Jan. 2020–Aug. 2023



- 22.2M U.S. jobs were lost to the pandemic—in a span of just 60 days from Feb. to Apr. 2020
- All were recovered by mid-2022
- Sustained unemployment rates today are at levels last seen in the late 1960s

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

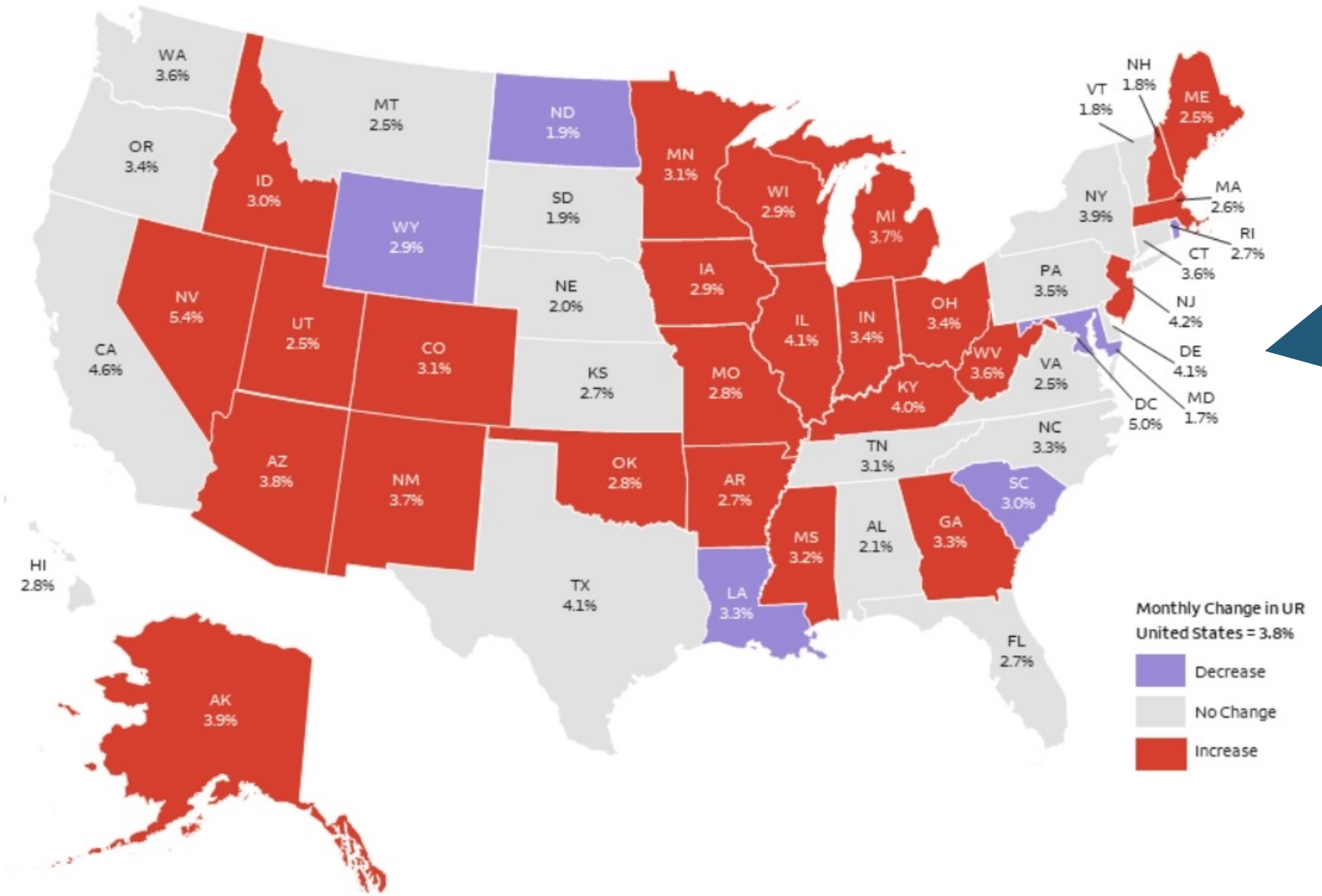
Monthly Movement in State Unemployment Rates, Oct. 2022 – Aug. 2023



Unemployment rates are rising in an increasing number of states, but this reflects an easing of excessively tight labor market conditions, not a collapse in hiring

Source: U.S. Dept. of Labor from Wells Fargo Economics (9/23).

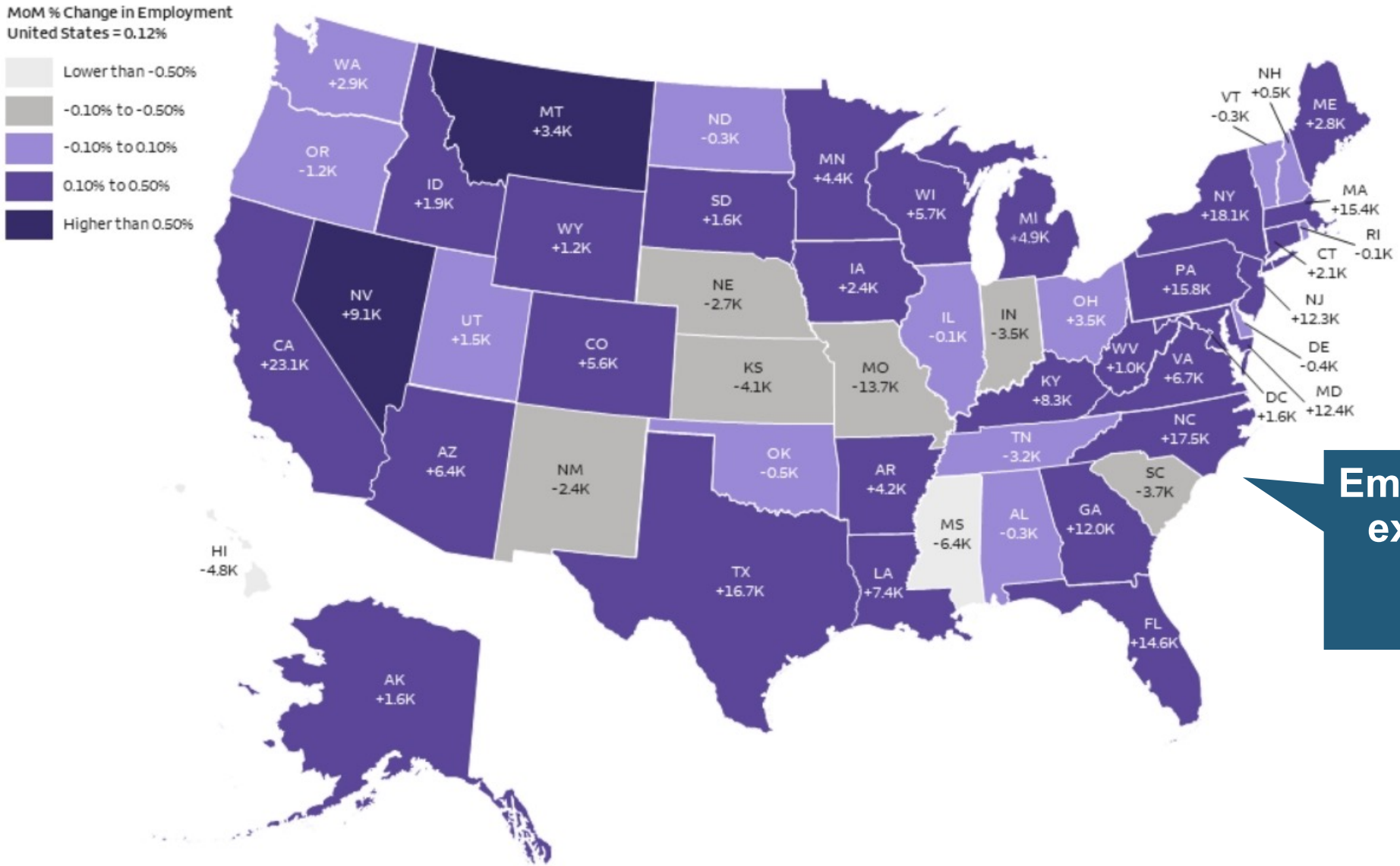
State Unemployment Rates, August 2023



Unemployment rates rose in about half the states in Aug. 2023, reflecting an easing of tight labor market conditions as more people enter the labor force

Source: U.S. Dept. of Labor from Wells Fargo Economics (9/23).

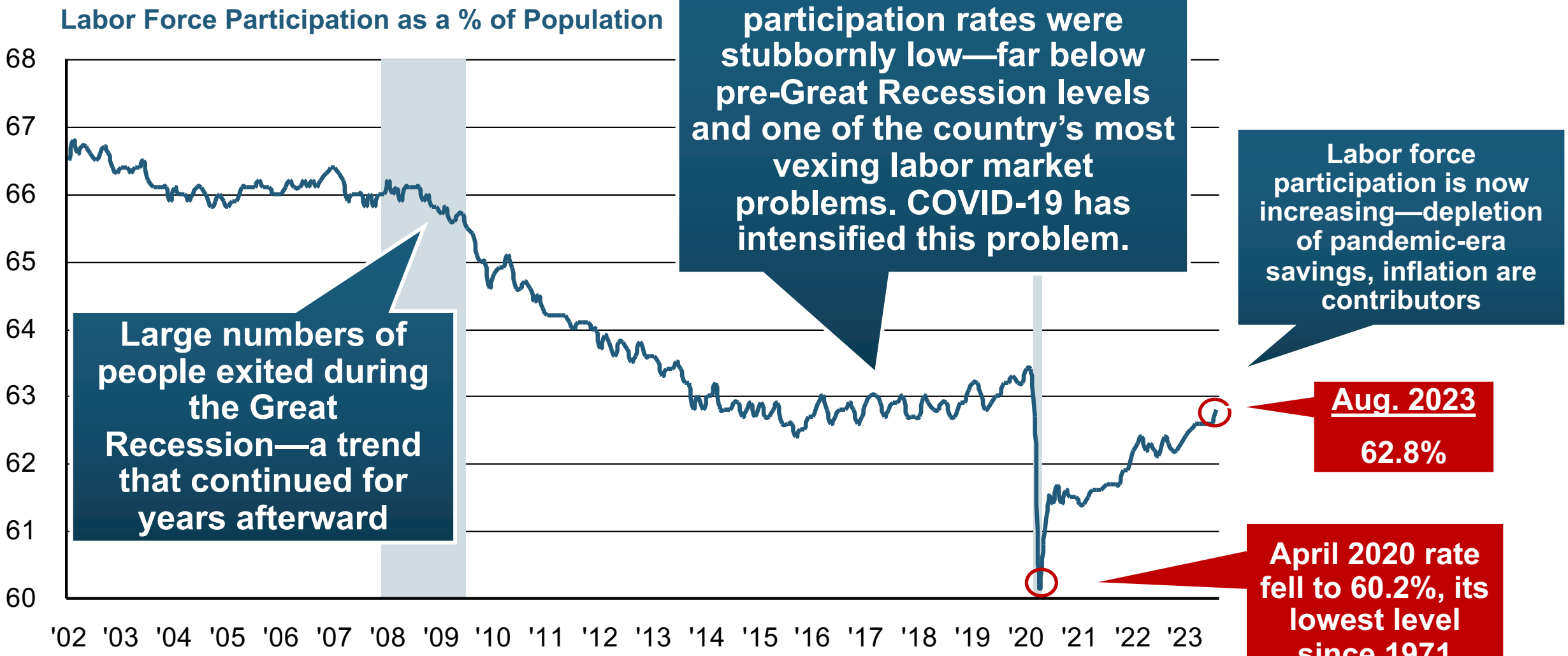
Monthly Absolute & Percent Employment Change, Aug. 2023



Employment continues to expand in most states, though the pace of growth is slowing

Source: U.S. Dept. of Labor from Wells Fargo Economics (9/23).

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

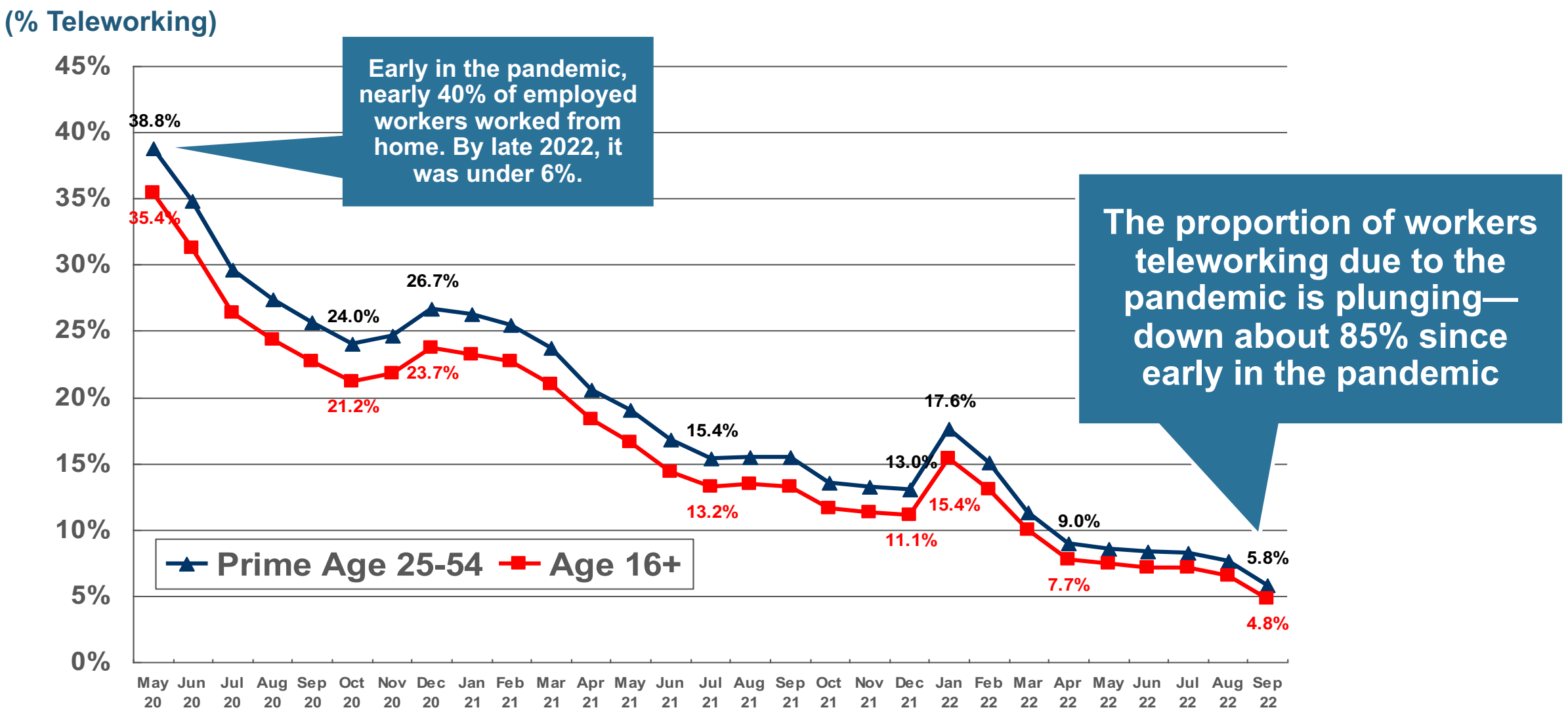


*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

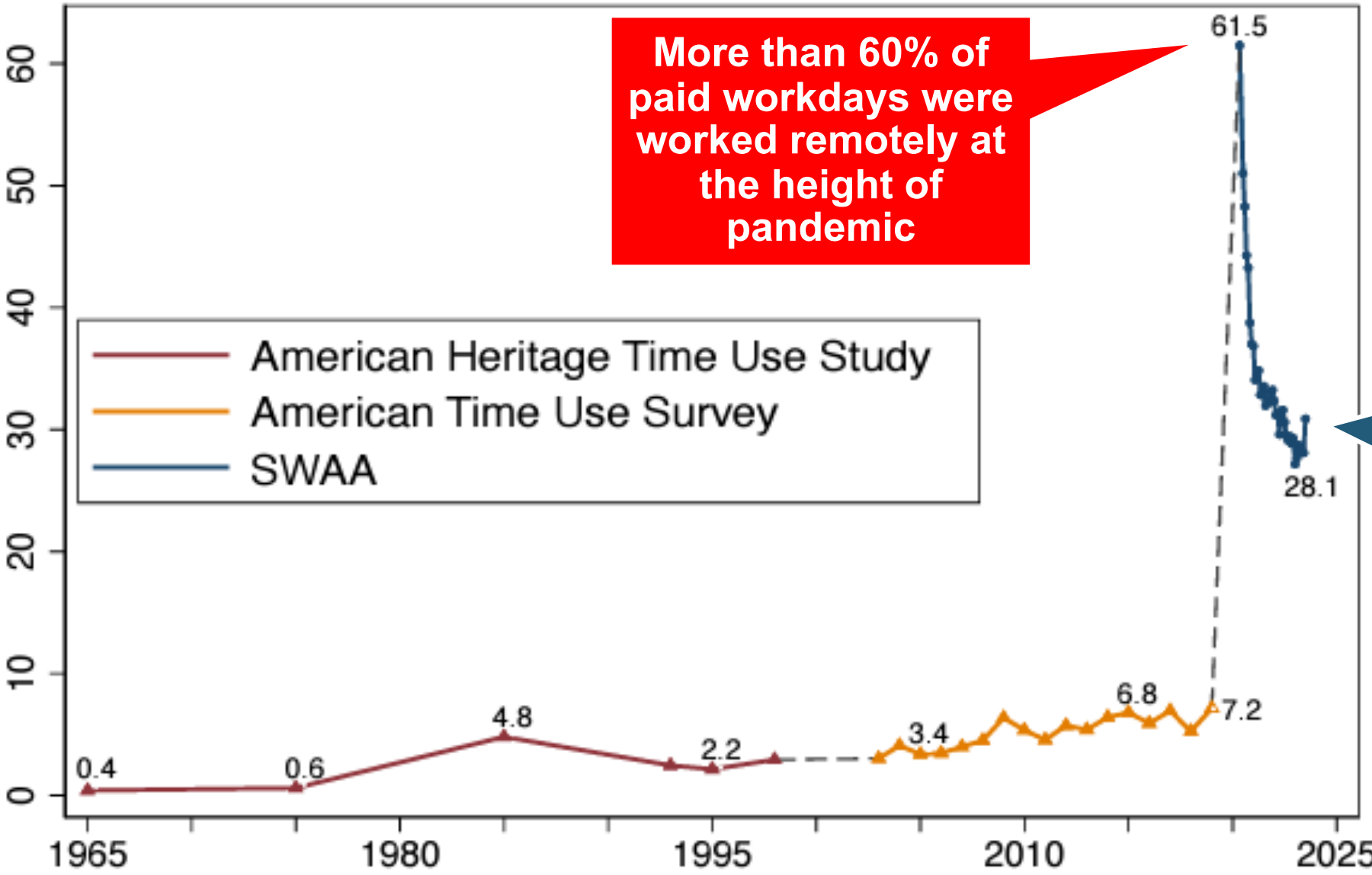
Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

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



Sources: 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.

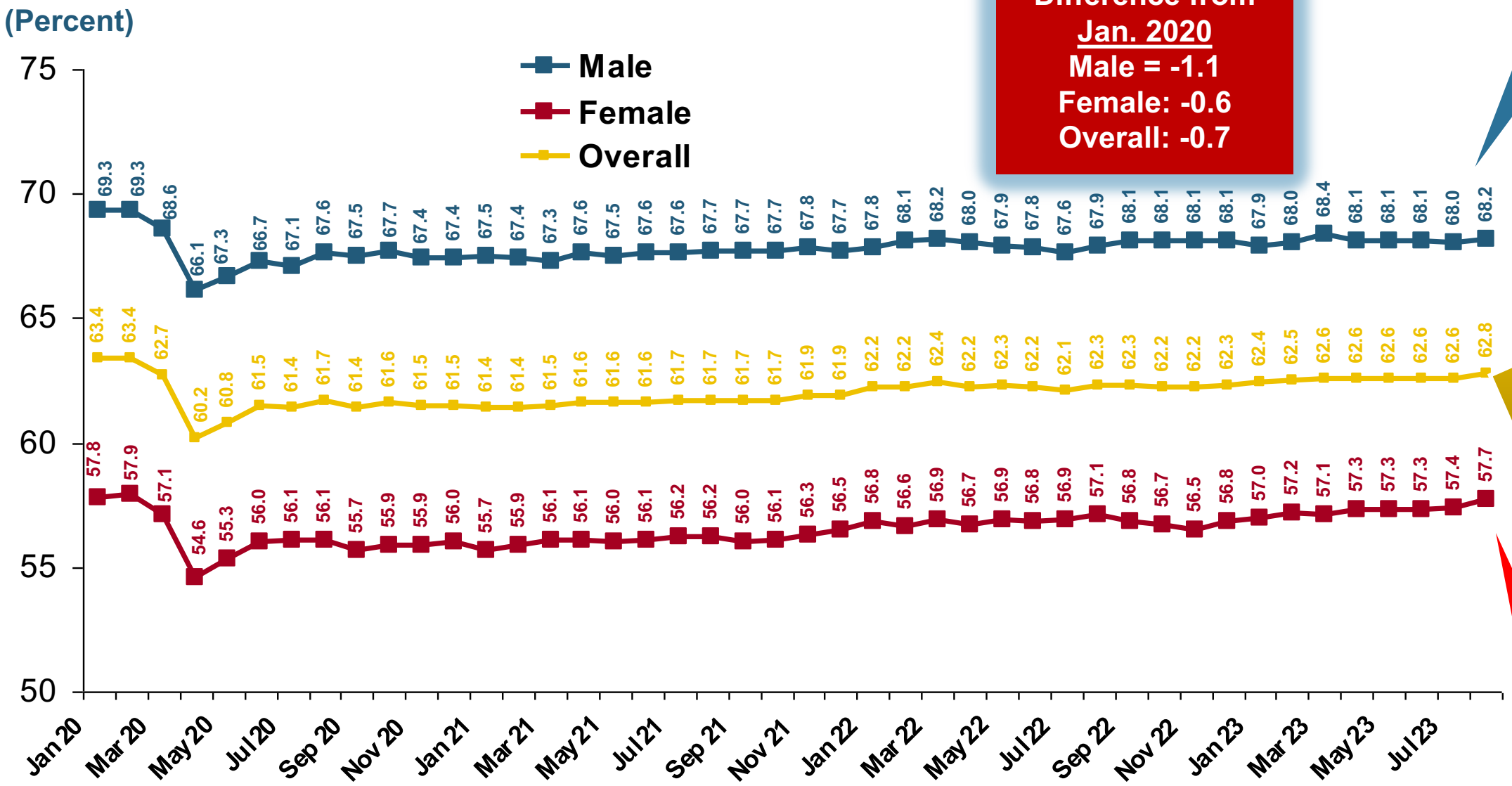
Full Days Worked at Home, as Percent of Paid Workdays



Pandemic likely created a permanent shift in WFH arrangements, though ultimate impacts are not yet clear and will evolve over the next full business cycle

Source: Work from Home Research (9/23): https://wfhresearch.com/data/; AHTUS and ATUS are BLS surveys, Survey of Working Arrangements and Attitudes is conducted by WGH Research.

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



Difference from Jan. 2020
Male = -1.1
Female: -0.6
Overall: -0.7

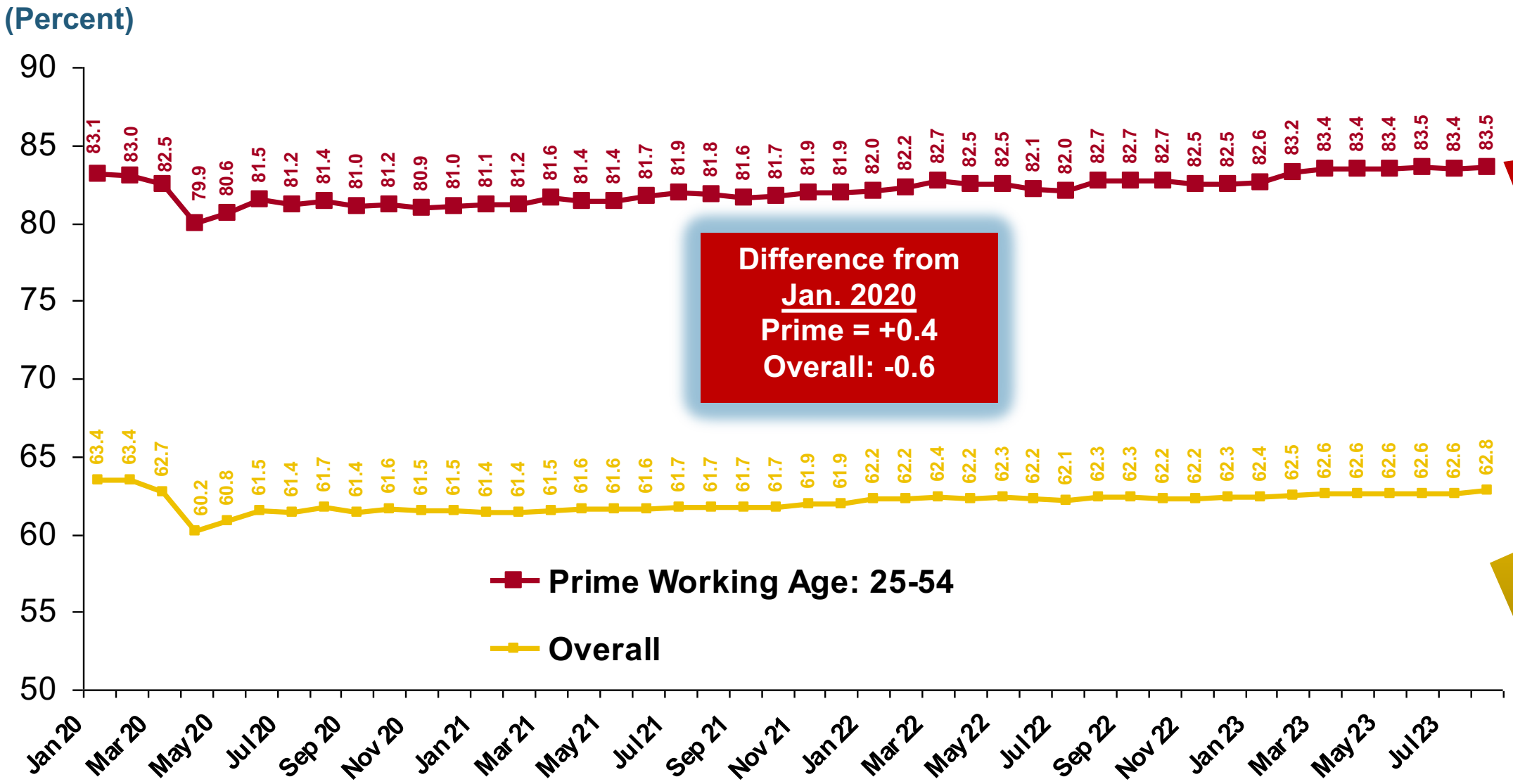
Male labor force participation has improved but remains below pre-COVID levels

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

Female labor force participation, despite earlier challenges, has nearly returned to pre-Covid levels

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–Aug. 2023



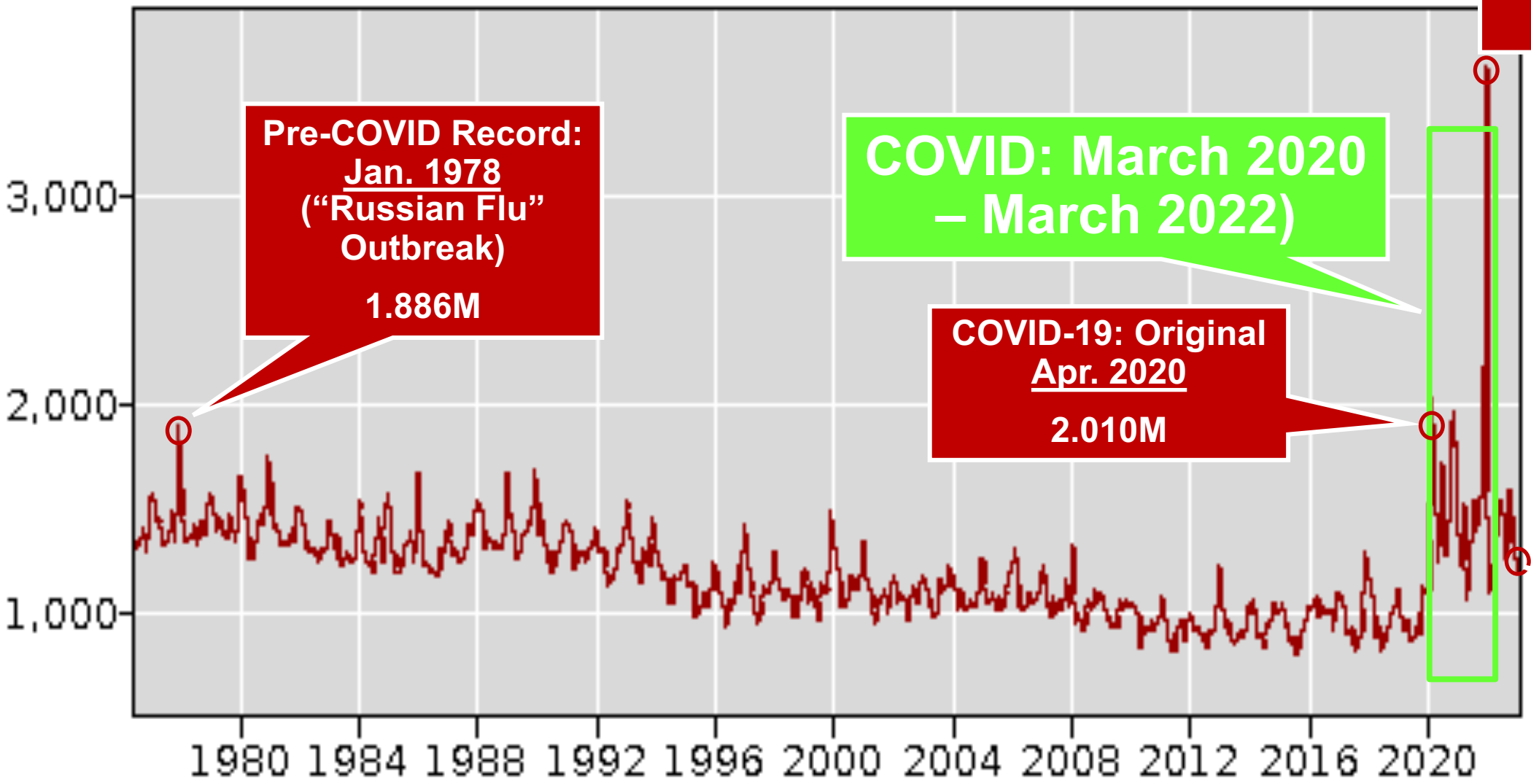
Difference from Jan. 2020
Prime = +0.4
Overall: -0.6

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



COVID-19: Omicron
Jan. 2022
3.616M

Pre-COVID Record:
Jan. 1978
("Russian Flu" Outbreak)
1.886M

COVID: March 2020 – March 2022)

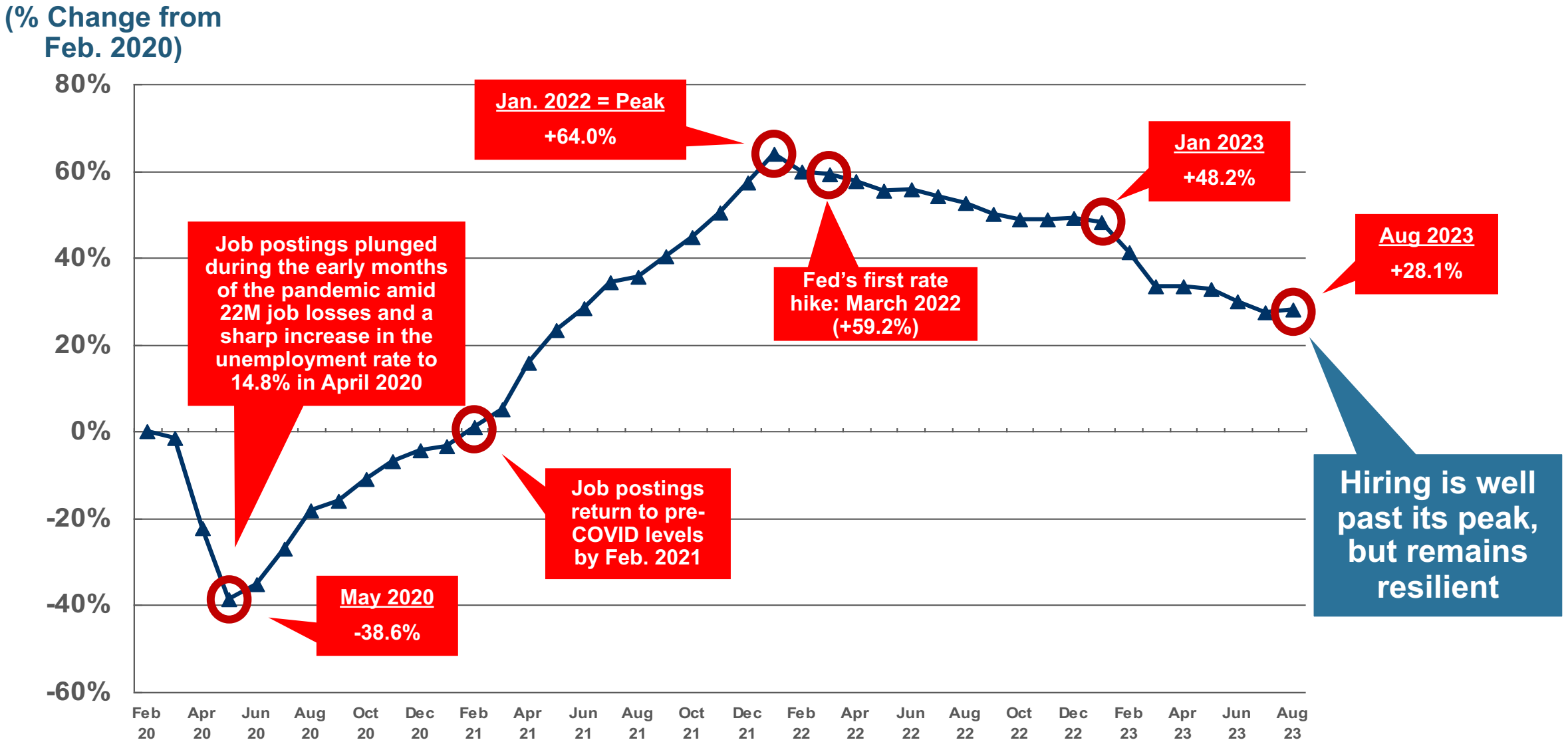
COVID-19: Original
Apr. 2020
2.010M

Still Sick? Currently, about 10% more workers call in sick each day than in the decade prior to Covid

Mar. 2023: (Most Recent)
1.206M

Source: U.S. Bureau of Labor Statistics Current Population Survey accessed at: https://www.bls.gov/cps/absences.htm; USC Center for Risk and Uncertainty Management.

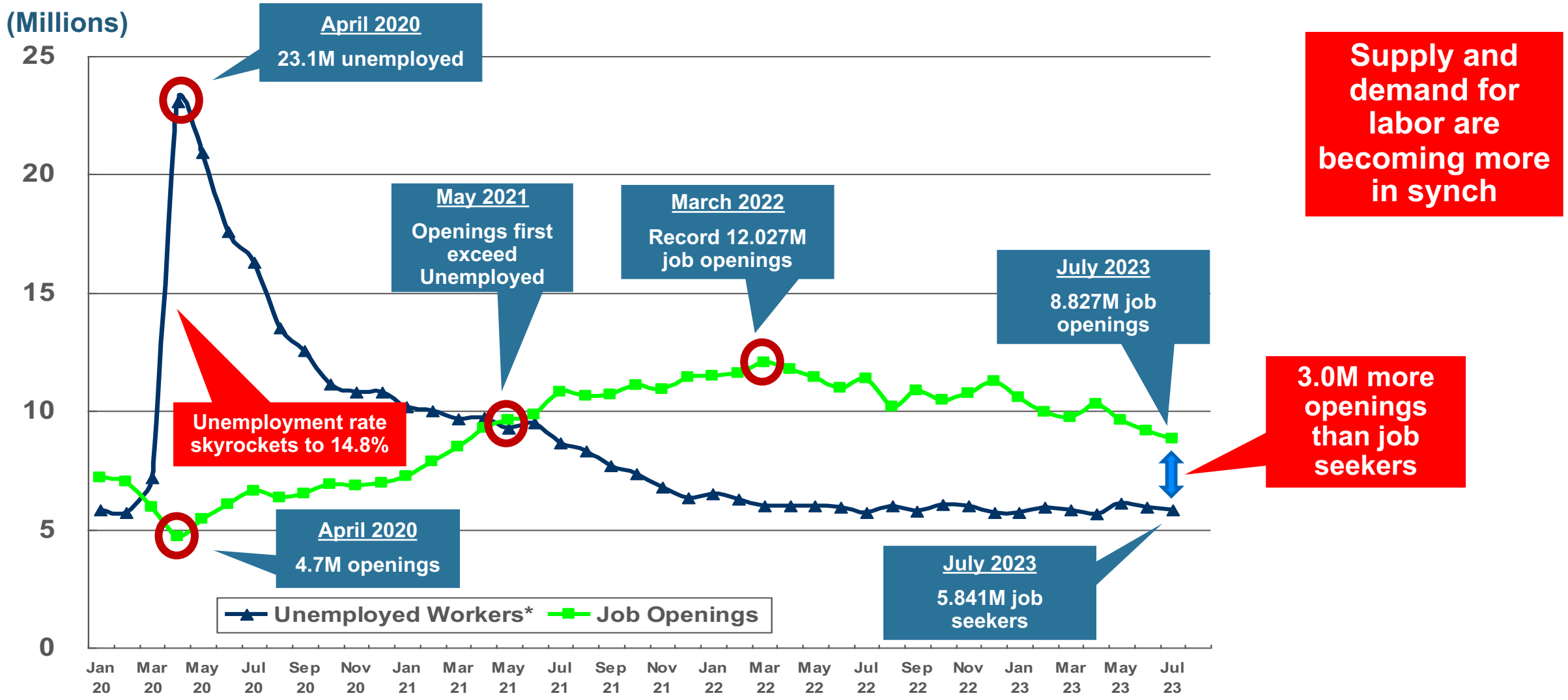
Percentage Change in Job Postings on Indeed: Feb. 2020 – Aug. 2023*



*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 – July 2023*

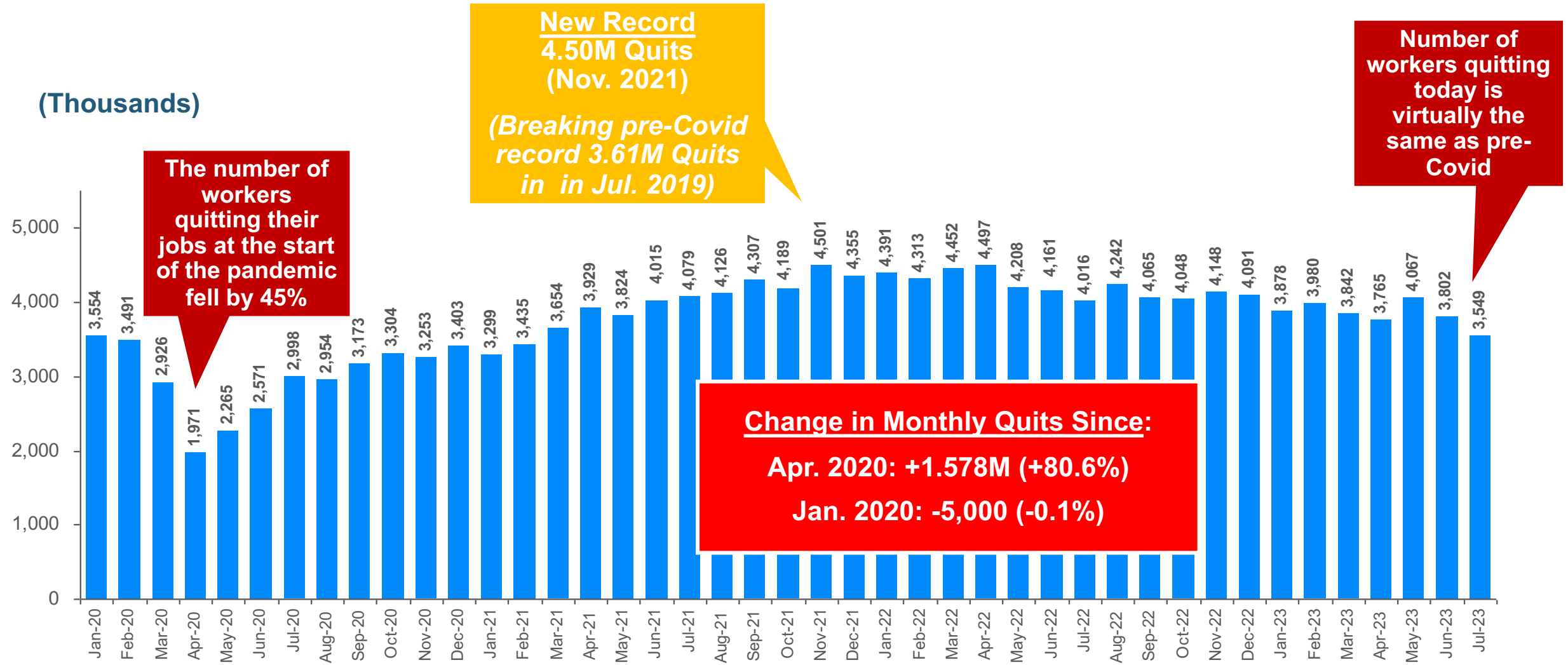


Supply and demand for labor are becoming more in synch

3.0M more openings than job seekers

Sources: U.S 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–Aug. 2023*

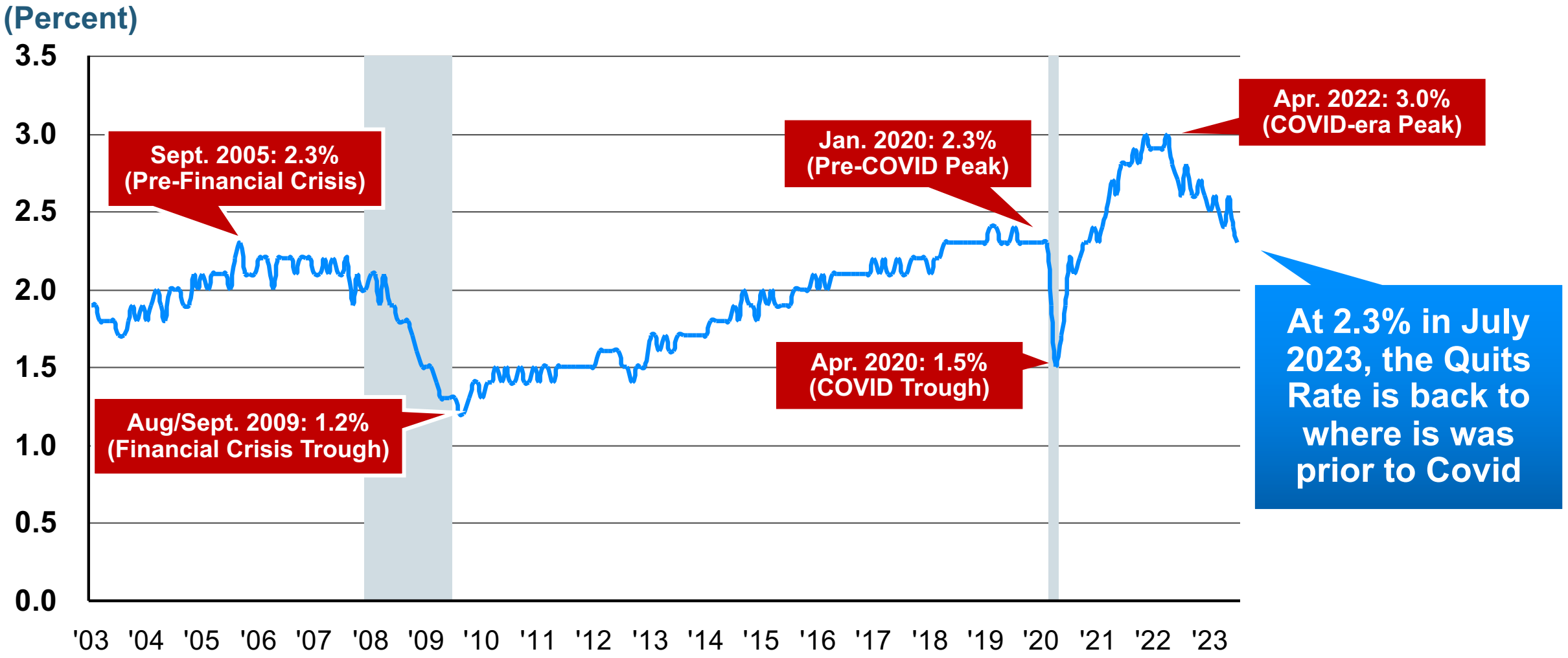


*Seasonally adjusted; Most recent available. Quits are defined as the number of quits during the entire month.

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–Aug. 2023*



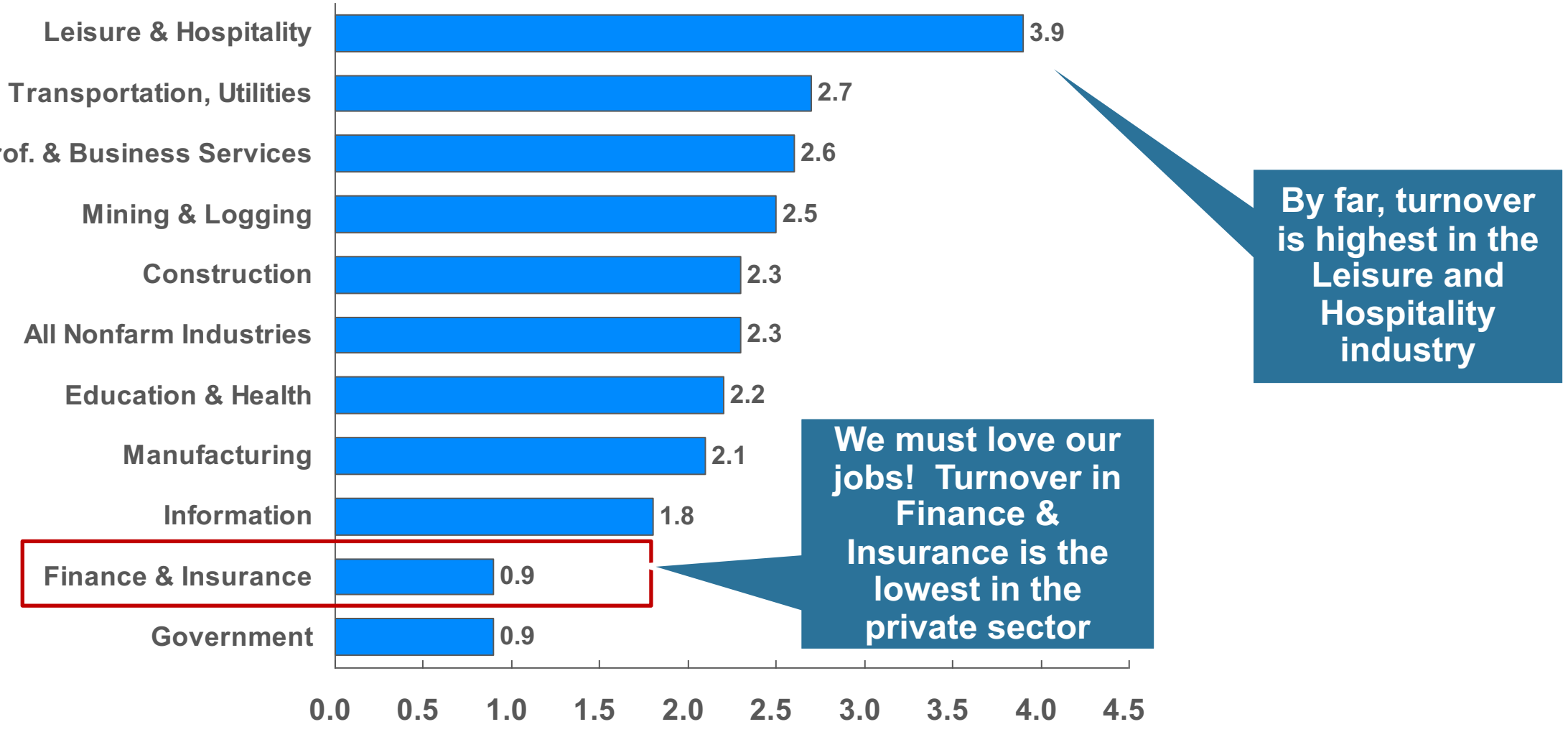
*Seasonally adjusted; Most recent available. Quits Rate is defined as the number of quits during the entire month as a percent of total employment.

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, August 2023*

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

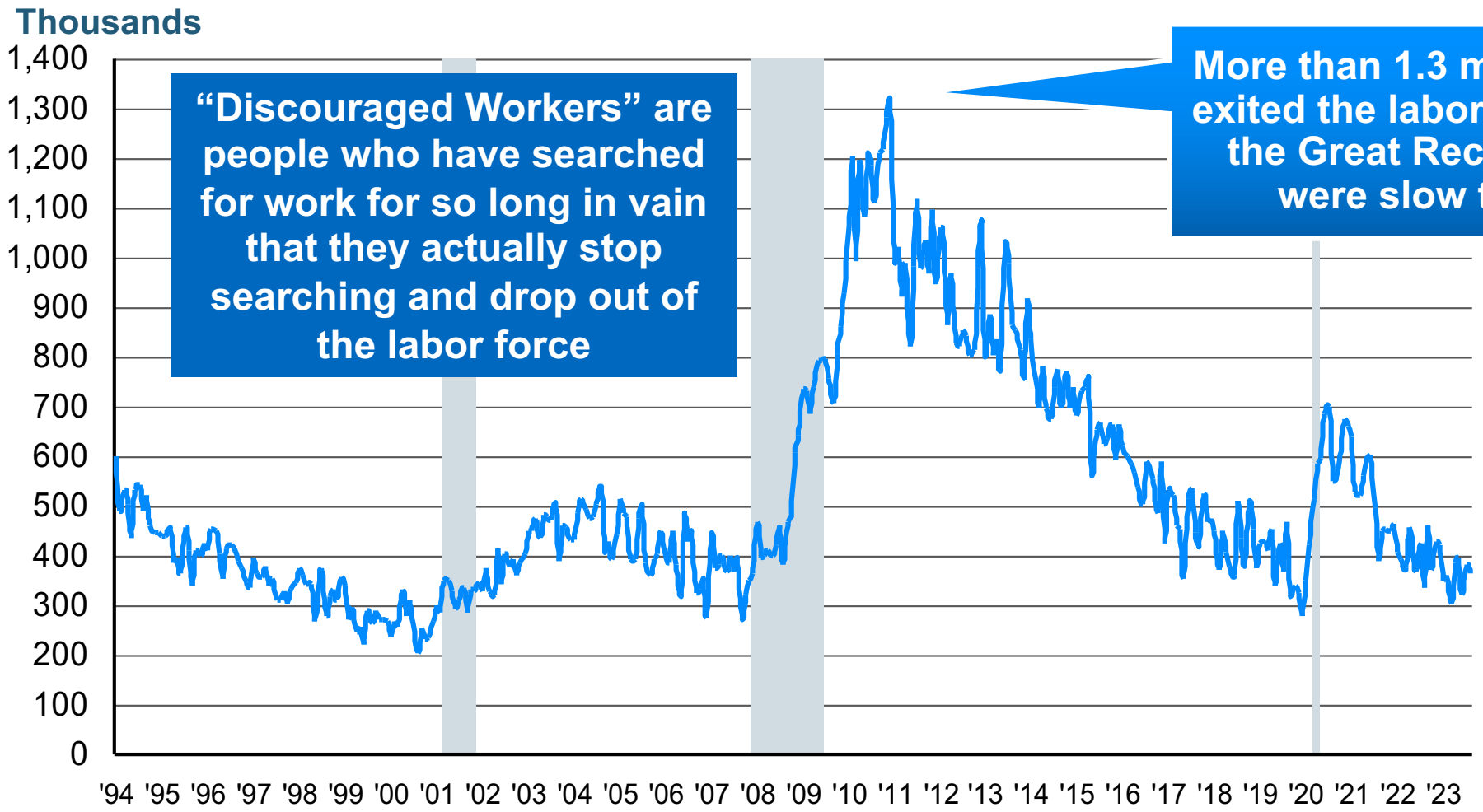


*Seasonally adjusted; Most recent available. Quits Rate is defined as the number of quits during the entire month as a percent of total employment.

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–Aug. 2023



“Discouraged Workers” are people who have searched for work for so long in vain that they actually stop searching and drop out of the labor force

More than 1.3 million people exited the labor force during the Great Recession and were slow to return

There were 364,000 discouraged workers in Aug. 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–July 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–Aug. 2023

Average: Jan. 1967 – Apr. 2023

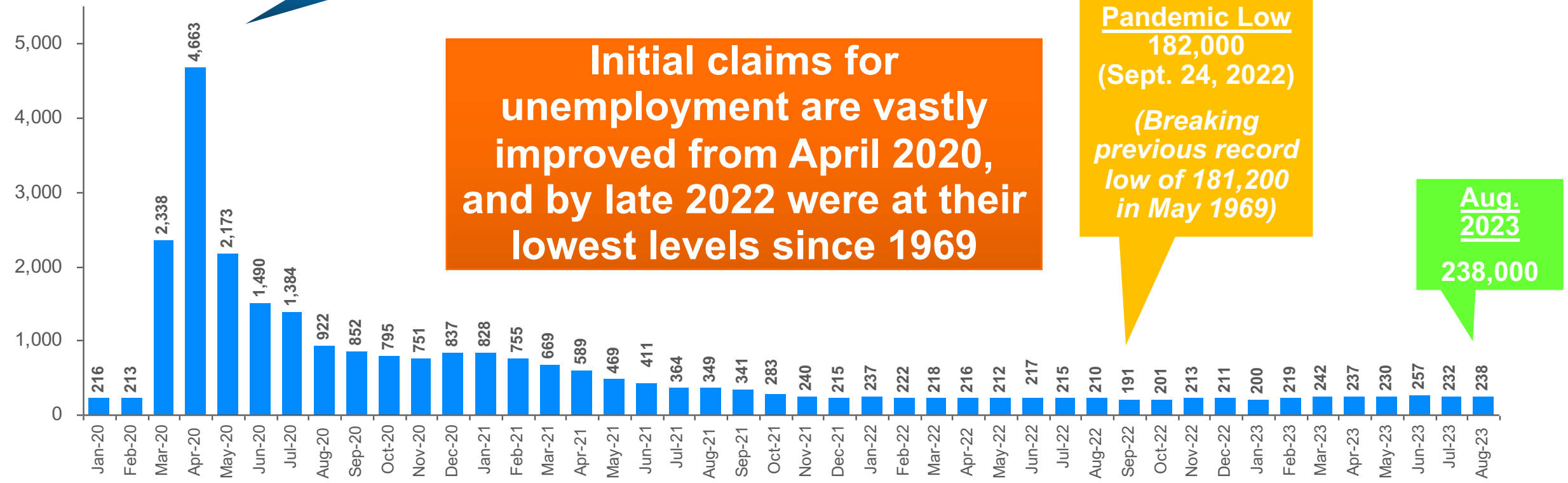
367,448

Previous Record Highs

Oct. 2, 1982: 695,000

Mar. 28, 2009: 665,000
(Financial Crisis Peak)

Pandemic Peak
6,137,000
(Apr. 4, 2020)



Initial claims for unemployment are vastly improved from April 2020, and by late 2022 were at their lowest levels since 1969

Pandemic Low
182,000
(Sept. 24, 2022)

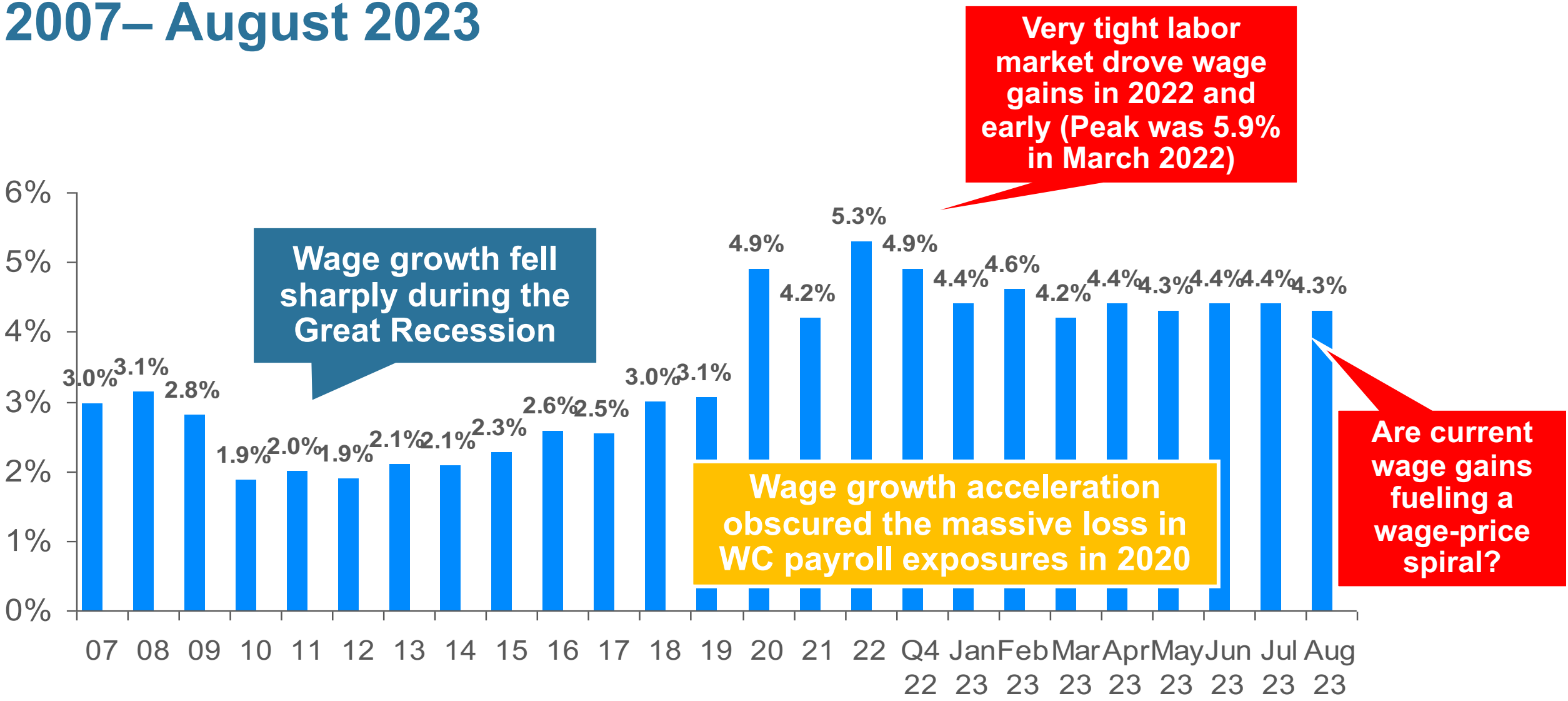
(Breaking previous record low of 181,200 in May 1969)

Aug. 2023

238,000

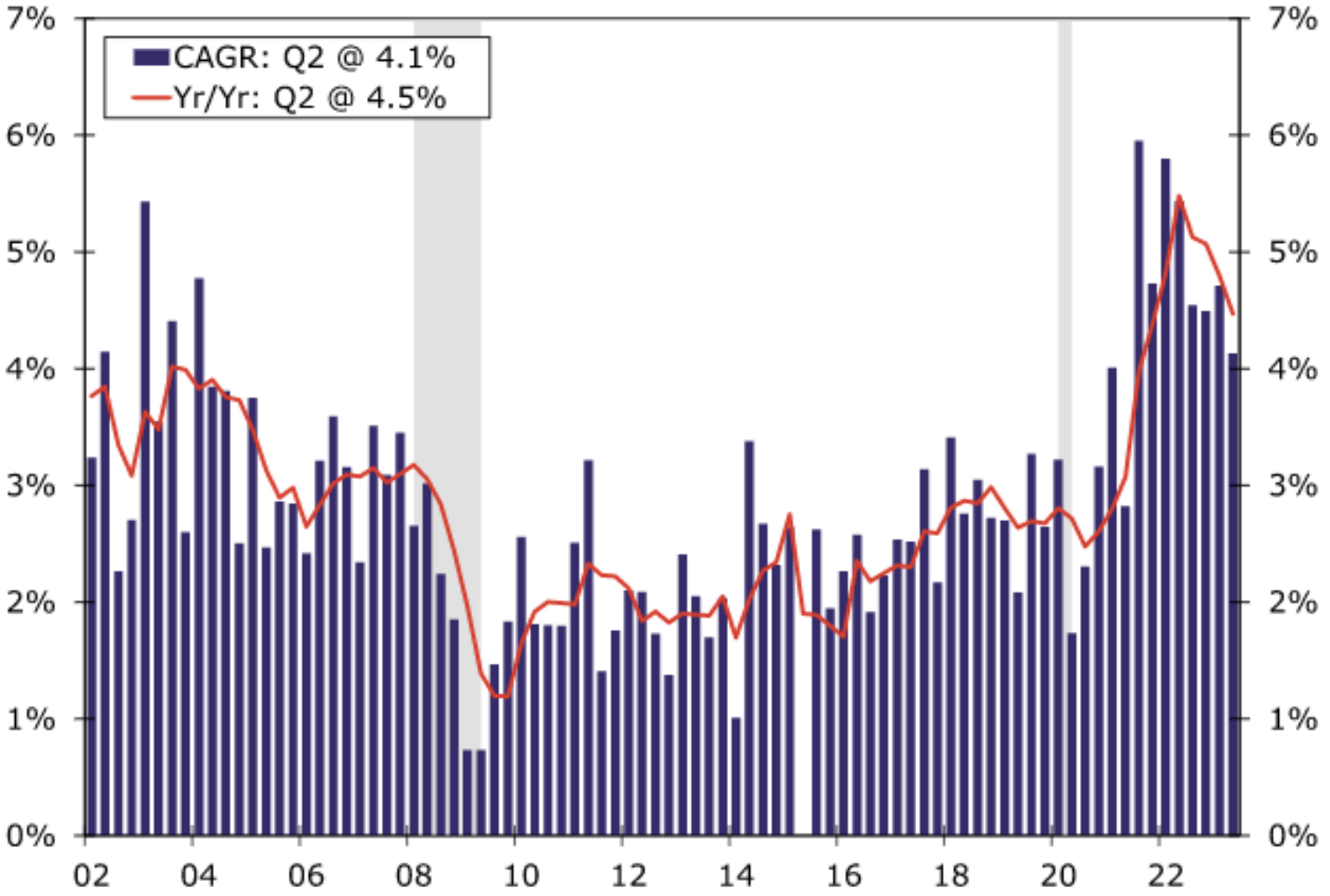
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Annual Change in Average Hourly Wage, 2007– August 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.

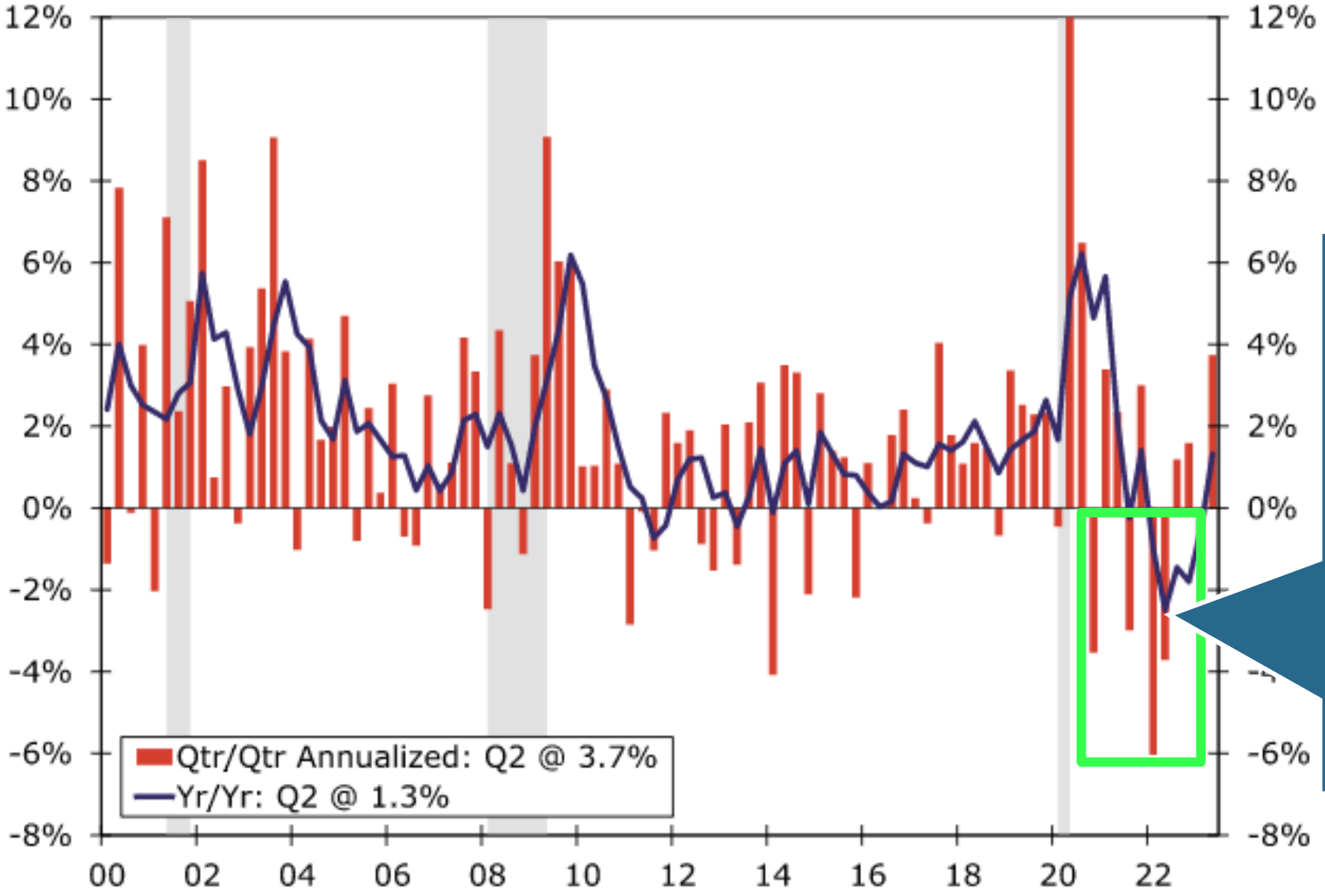
Employment Cost Index—All Workers
2002:Q1– 2023:Q2



- The ECI was up 1.0% in Q2:2023 (4.5% annual pace)
- Employment Costs are now falling
- Data don't suggest a "wage-price spiral"
- Slowing wage growth has become on of the Fed's most vexing problems

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

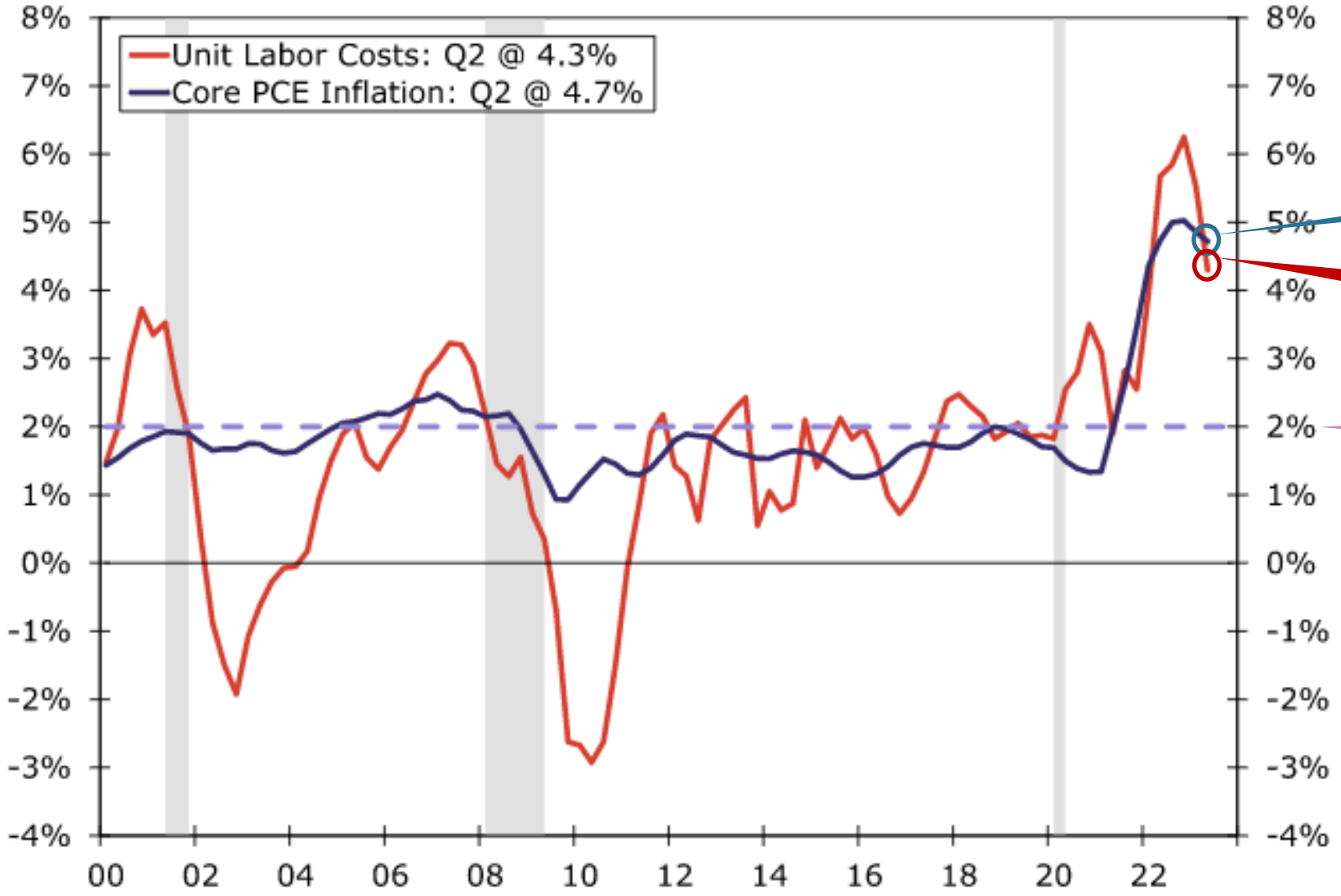
Nonfarm Productivity: Output per Hour
2000:Q1– 2023:Q2



- Labor productivity since the pandemic has been poor but has recently improved
- ***Major headwind to containing inflation***
- Labor productivity increased by 3.7% in Q2 2023 and 1.3% 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:Q2 (Year-over-Year Percent Change)



Core PCE Inflation: +4.7%

Unit Labor Costs: +4.3%

Fed Target Inflation: +2.0%

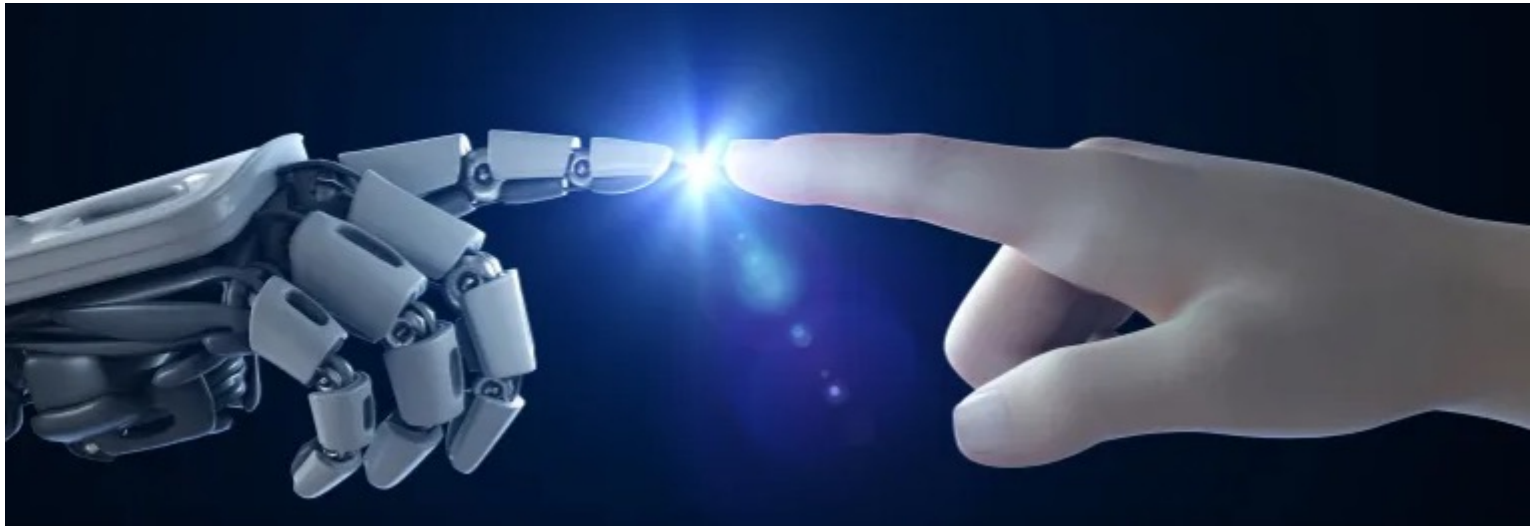
Sources: US Dept. of Labor; Wells Fargo Economics; Risk and Uncertainty Management Center, University of South Carolina.

Will Chat GPT Destroy My Job?

Creative Destruction, AI and the Insurance Industry

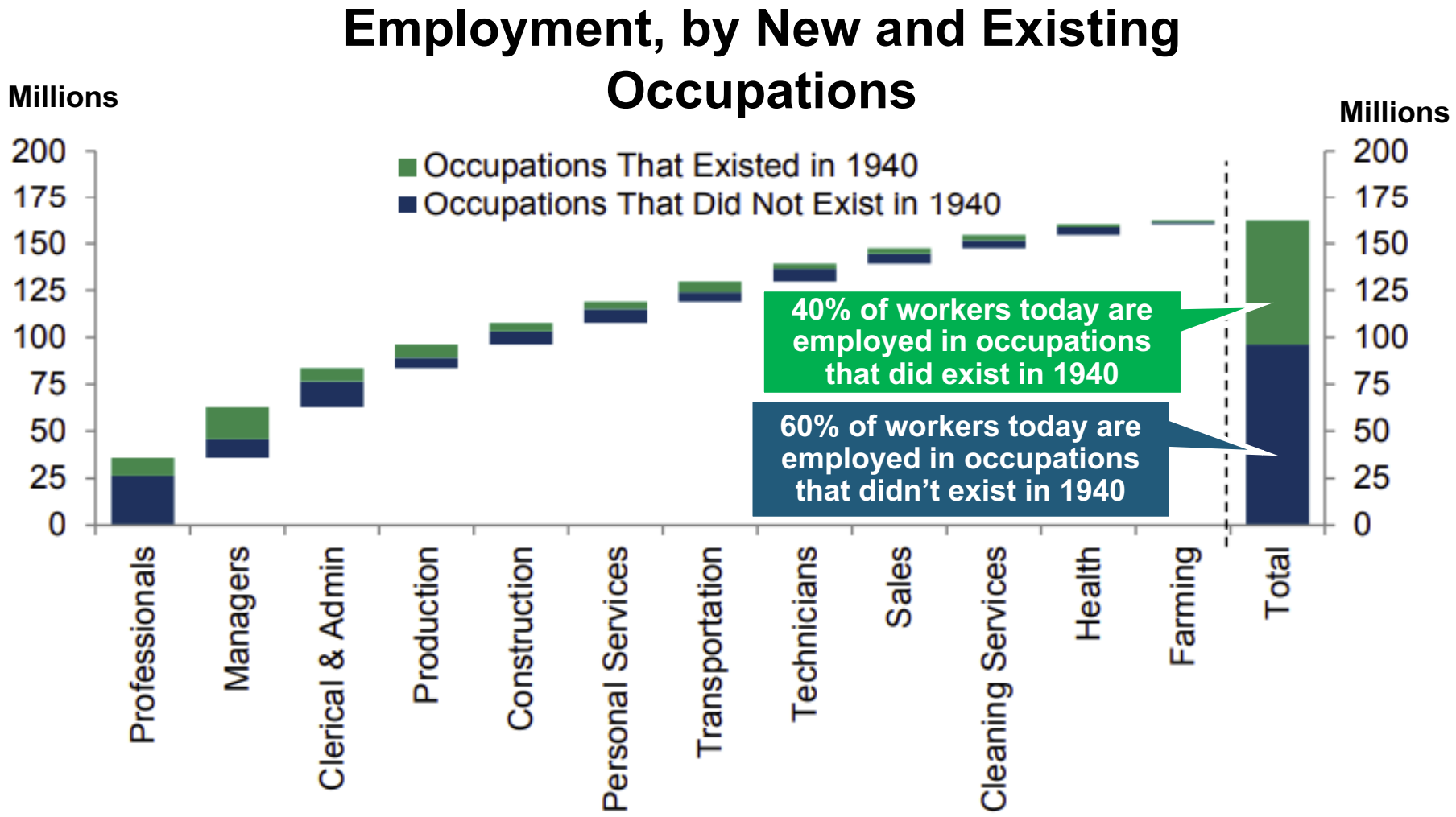
Insurance Occupations with AI Vulnerabilities

- **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
- WC Underwriting Performance Is the Best Among Major P/C lines
- Employment and Payroll Growth Should Continue in 2024 but at a More Modest Pace
- Recession Later in early/mid-2024 Is Likely, but Should be Mild
- 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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Thank you for your time and your attention!

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