

P&C Economic Trends

From Nationwide Economics



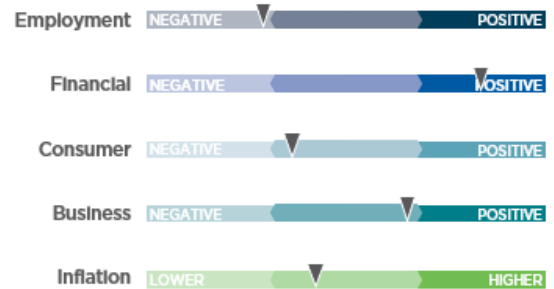
February 2021

Current Economic Environment

The slowdown for the recovery extended into January as consumers and businesses struggle with record COVID cases and increased government restrictions. **The service sector has seen a renewed hit with significant job losses for businesses dependent upon in-person activity.** Consumer activity also cooled in the fourth quarter of 2020, although an additional round of direct stimulus payments and expanded unemployment insurance should lift spending soon. Eventual widespread vaccine distribution drives the strong outlook and should lead to a surge in growth — as soon as the second quarter.



OVERALL TREND
↓



Economic Outlook

Although real GDP growth is likely to be tepid in the first quarter, **the economy should surge in the second half of the year and into 2022** in response to widespread vaccinations and expansionary fiscal/monetary policy. We expect the strongest expansion in nearly 40 years for 2021 at around 5.4 percent. With potential tax hikes and regulatory changes on the horizon, however, the economy could see a slower trend beyond 2022.

Strong job gains are expected in 2021, although hiring is likely to be weaker in the near-term due to government restrictions. **The U-3 unemployment rate should move steadily lower and could fall below 5.0 percent by year-end.** Still, given the magnitude of the record job losses from 2020, it is likely to be a few years before the job market fully recovers to pre-COVID levels.

	2019	2020F	2021F	2022F
Real GDP growth	2.2%	-3.5%	5.4%	3.3%
Unemployment rate	3.7%	8.1%	5.5%	4.4%

Spending on autos and housing should strengthen further in 2021 and remain solid into 2022 — spurred by low interest rates, the recovering job market, and a further demand for “space” as firms allow workers more ability to work remotely. Saving rates for consumers are far more elevated than usual and should contribute to a post-pandemic spending surge even if overall spending behavior takes some time to get back to normal.

	2019	2020	2021F	2022F
Total home sales	6.03 M	6.45 M	6.85 M	6.55 M
Light vehicle sales	16.9 M	14.5 M	16.2 M	16.3 M



Auto Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Light Vehicle Sales, SAAR (12/2020)	16.3 M	16.8 M	16.1 M
Light Truck Sales, SAAR	12.6 M	12.3 M	12.3 M
Passenger Car Sales, SAAR	3.7M	4.5 M	3.8 M
Average Expenditure per New Car (2020Q3)	\$26,530	\$25,640	
Commercial Bank Interest Rates: 48-Mnth New Car Loan (2020Q4)	4.95%	5.45%	
Vehicle Miles of Travel, SA (11/2020)	239.4 B	269.4 B	243.5 B
Average Fuel Price - Unleaded Gasoline (12/2020)	\$2.28	\$2.64	\$2.24
CPI: Motor Vehicle Insurance, Y/Y (12/2020)	-4.8%	0.0%	-6.0%
CPI: Medical Care, Y/Y (12/2020)	1.8%	4.6%	2.4%
CPI: Vehicle Maintenance & Repair Costs, Y/Y (12/2020)	3.4%	3.4%	3.4%
CPI: Used Cars and Trucks, Y/Y (12/2020)	10.0%	-0.7%	10.8%

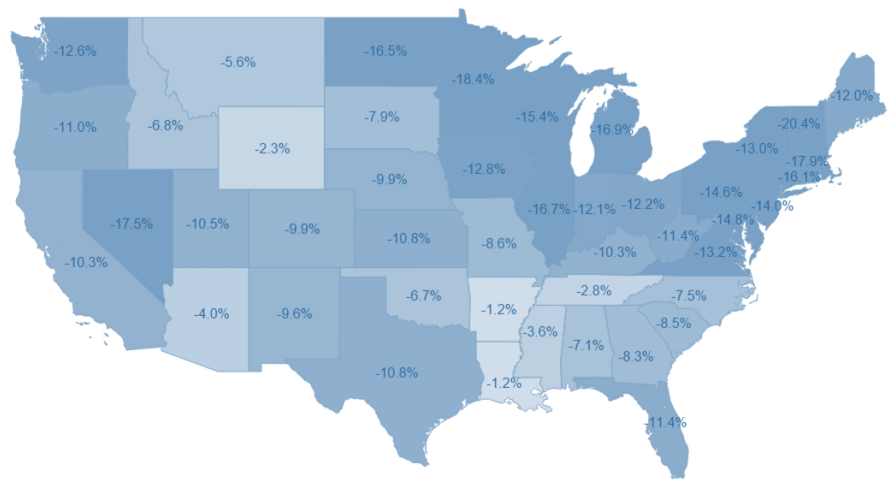
Auto Data Commentary

Recent data: The pace of light vehicle sales ended 2020 only a little below pre-COVID levels as consumer demand picked up during the recovery. Total vehicle miles traveled were still well-below normal through November – adding downward pressure to auto claims frequency.

Outlook: Auto sales are expected to move higher over the next year as labor market conditions continue to improve. The frequency of personal auto claims could be weaker again in 2021 with daily commuter traffic still depressed as work-from-home options remain prevalent. Severity for claims is likely to increase, however, led by rising medical care and auto repair costs.

Vehicle miles traveled by state

Total miles driven remained down sharply relative to a year ago into the fall for most states. Fewer drivers on the road should hold down personal auto claims frequency.



Sources: Federal Highway Administration; Haver Analytics
Twelve-month change in vehicle miles traveled, November 2020



Housing Data

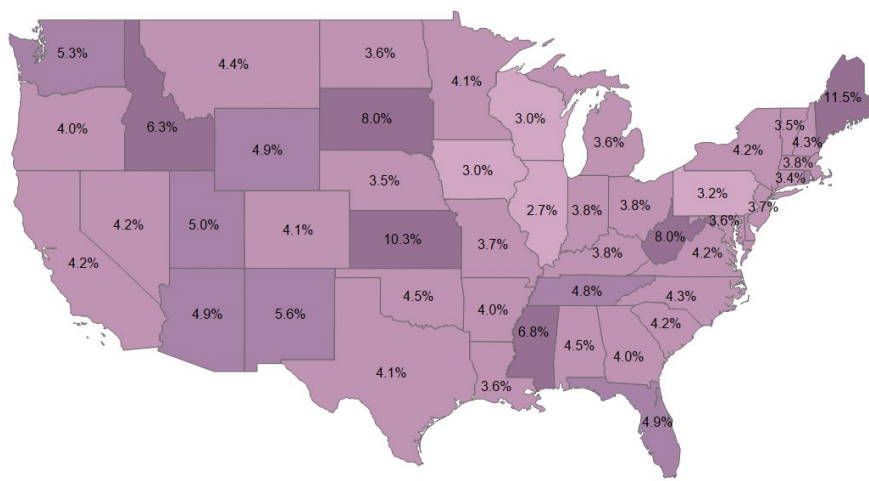
	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Household Growth, 4-quarter change (2020Q3)	4.0 M	1.4 M	
S&P CoreLogic Case-Shiller HPI, Y/Y (11/2020)	9.5%	3.4%	8.3%
Housing Starts, SA (12/2020)	1.67 M	1.59 M	1.59 M
Housing Permits, SA (12/2020)	1.71 M	1.46 M	1.63 M
New Home Sales, SA (12/2020)	842,000	731,000	873,000
Existing Home Sales, SA (12/2020)	6.76 M	5.53 M	6.78 M
Pending Home Sales Index, SA (9/2020)	130.0	107.9	128.3
Home Builders' Survey, SA (1/2021)	83	75	86
Homeownership Rate, SA (2020Q3)	67.2%	64.6%	
Serious Delinquency Rate, SA (2020Q3)	5.4%	1.9%	
30-year Fixed Rate Mortgage (1/2021)	2.70%	3.62%	2.72%

Housing Data Commentary

Recent data: Home sales surged in 2020 to the highest level since 2006, reflective of strong homebuyer demand in response to record low mortgage rates, the jobs market recovery, and a desire for space owing to the pandemic. House price growth accelerated sharply due to the extremely low supply of homes on the market. Household growth was likely overstated by methodological changes.

Outlook: Home sales should rise further into 2021 while home construction should ramp up to meet homebuyer needs for single-family housing. Continued low mortgage rates and positive demographics should keep demand strong, even as the inventory of homes for sale is expected remain very tight. Home price gains could be above-average for several years due to low supply conditions.

House price gains are firming in many states in response to strong homebuyer demand and the low supply of homes on the market.



Sources: Black Knight Financial Services; Haver Analytics
Twelve-month change in house price index, December 2020



Commercial Lines Data

	CURRENT level or % change	YEAR AGO level or % change	3-MONTH AVG level or % change
Transportation Services Index, Freight, Y/Y (11/2020)	-3.8%	-0.9%	-3.9%
Unemployment rate, Transportation (12/2020)	10.3%	3.8%	9.9%
ISM Manufacturing Index (12/2020)	60.7	47.8	59.2
ISM Nonmanufacturing Index (12/2020)	57.2	54.9	56.6
Business formations, 4-qtr change (2020Q2)	2.6%	2.2%	
Real GDP Growth, 4-qtr change (2020Q4)	-2.5%	2.3%	
NFIB Small Business Optimism Index (12/2020)	95.9	102.7	100.4
Nonresidential Fixed Investment, 4-qtr chg (2020Q4)	-1.3%	1.4%	
Nonfarm Payroll Employment, 12-mo chg (12/2020)	-6.2%	1.4%	-6.1%
Average Hourly Earnings, 12-mo change (12/2020)	5.1%	3.0%	4.6%
U-6 Unemployment Rate (includes underemployed) (12/2020)	11.7%	6.8%	11.9%
CPI: Medical Care, Y/Y (12/2020)	1.8%	4.6%	2.4%

Commercial Lines Data Commentary

Commercial Auto

Recent data: Business activity in many sectors remains stressed by COVID impacts — resulting in reduced freight movement and commercial construction. The unemployment rate for transportation workers has improved but remains elevated, while business investment remains grounded in many industries.

Outlook: Total commercial activity is expected to be weaker into 2021 given the severity of the economic downturn and the lingering effects from virus infections on consumer demand. A strong rebound in economic growth later in 2021 and into 2022 should help to reverse exposure base declines over time.

Commercial Multiperil

Recent data: Service sector businesses continue to be hit hard by the pandemic as renewed government restrictions have limited in-person consumer activity. The rehiring of workers has slowed sharply even as owners look ahead to a post-vaccine improvement in consumer demand.

Outlook: The recovery for small and medium-sized enterprises is likely to be tentative until vaccines allow consumer activity to fully return to normal. Business applications are up, a good sign that business creation is starting again. But existing businesses that have survived the downturn are likely to remain hesitant to expand their businesses or to fill staffs until the pandemic ends.

Workers Compensation

Recent data: Hiring for service industries fell off at the end of 2020 while weekly jobless claims have started to climb again. The unemployment rate, while down sharply from the recession peak, remains elevated compared to pre-COVID levels.

Outlook: Unemployment levels are expected to decline further in 2021, boosted by a post-vaccine surge in hiring as economic activity accelerates. The exposure base could remain constrained by a smaller workforce and only modest expected wage increases over the next year.

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