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# Building Better Economic Risk Scenarios 

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- Chronic fiscal imbalances
- Severe income disparity
- Extreme volatility in energy and food prices
- Recurring liquidity crises
- Major financial systemic failure
- Adverse unintended consequences of regulation
- Unmanageable inflation/deflation Chronic labor market imbalances - "Hard landing" of emerging economies

[^0]
## Examples of Economic Risk, Domestic Edition

- Persistently Low Interest Rates
- Severe income disparity
- Pressure to expand government programs
- Mismanagement of population aging
- Persistently high and soaring health care costs
- Major financial systemic failure
- Adverse unintended consequences of regulation
- Unmanageable inflation/deflation
- Chronic labor market imbalances


## Perspective: Past and Present

## It Helps to Remember Where We Are and Where We've Been

## A Continued Weak Recovery is Forecast: Real GDP Growth, Yearly, 1970-2014F


$\square$ Forecasts from Blue Chip Economic Indicators, $5 / 2013$ issue, median of range of 52 forecasts. Sources: (GDP) U.S. Department of Commerce at http://www.bea.gov/national/xls/gdpchg.xls.

## May 2013 Forecasts of Quarterly US Real GDP for 2013-14

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## Real GDP Growth Rate



Virtually all forecasts see the economy improving through 2014, but the drag of the sequester and other threats could undermine that growth

## Length of US Business Cycles, 1929-Present*



Based on recent history, the current "expansion" has 3-6 more years to go.

[^1]Sources: National Bureau of Economic Research; Insurance Information Institute.

## State-by-State Leading Indicators, 2013:Q2-Q3

March 2013 State Leading Indexes: 6-Month Forecast


> Near-term growth forecasts vary widely by state. Strongest growth = dark green; weakest = beige

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm; Insurance Information Institute. Next release is May 28, 2013

## Leading Indicator Indexes Vary Widely by State and Region



Data from March 2013
Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm; Insurance Information Institute.

## Leading Indicator Indexes Vary Widely by State and Region



## Data for March 2013

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm; Insurance Information Institute.

## Households Are Still* Reducing Their Financial Obligations

## Financial Pt. Ggations Ratio



Financial Obligations Ratio: debt
service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as \% of personal disposable income.

Lowest point since the early 1980 s .
15.0\%


Source: Federal Reserve Board, at www.federalreserve.gov/releases/housedebt.

## Consumer Sentiment is Rising But Still Below Usual Post-Recession Level



## Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

January 2000 through April 2013, Seasonally Adjusted (\%)


U-6 went from 8.0\% in March 2007 to $17.5 \%$ in October 2009; Stood at 13.9\% in April 2013

## Stubbornly high unemployment and underemployment constrain overall

 economic growth, but the job market is now clearly improving.[^2]
## Unemployment Rates Vary Widely by State and Region*


*Provisional figures for April 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

## Unemployment Rates Vary Widely by State and Region* (cont'd)


*Provisional figures for April 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

## Monthly Change in Private Employment, 2010-2013

## Thousands

Average Monthly Gain Since Jan 2011: 195,000 jobs


## Private employers added 1.2 million jobs in just the last six months.

## Seasonally adjusted. Mar 2013 and Apr 2013 are preliminary data

Sources: US Bureau of Labor Statistics; Insurance Information Institute

## Growth of Private Employment in February 2013, by BLS report month

Thousands of jobs added


300


There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Sources: US Bureau of Labor Statistics Consumer Expenditure Survey; Insurance Information Institute.

## Nonfarm Payroll (Wages and Salaries): Quarterly, 2005-2013:Q1



Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.
Sources: research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.

## Demographic Components of Economic Risk

## Population Components Matter... A Lot

## Spending on Life and Personal Insurance, 2011, by Age of Consumer Unit



Sources: US Bureau of Labor Statistics Consumer Expenditure Survey; Insurance Information Institute.

## Spending on Pensions and Social Security, 2011, by Age of Consumer Unit



Sources: US Bureau of Labor Statistics Consumer Expenditure Survey; Insurance Information Institute.

## Projection of U.S. Population Age Groups, 2015-2060

| $\square 18-24$ | $\square 25-44$ | $\square 45-64$ | $\square 65-84$ | $\square 85+$ |
| :--- | :--- | :--- | :--- | :--- |



The 18-24 segment won't grow, and the 45-64 segment won't grow until 2040, but the 25-44 segment will grow slowly and the 65-84 segment will double, with significant effects on P/C operations.

Sources: US Census Bureau; Insurance Information Institute.

## Number of "Discouraged Workers": Elevated, but Dropping Jan 1994 - Sept. 2012



[^3]Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

## Effect of Discouraged Workers on Unemployment Rate

■ Civilian Labor Force: 155.238 (000)Unemployed: 11.659 (000)Unemployment Rate: 7.510\%
■ Unemployed + 400,000 Discouraged: 12.059
Adjusted Unemployment Rate: 7.768\%

## Number of "Discouraged Workers,"* Monthly, 2007-2013

it


[^4]
## Number of "Discouraged Workers,"* by Age Group, Annual Averages, 2006-2012



[^5]
## Number of Workers Age 65-69, 70-74, and 75+, Quarterly, 1998-2012



Source: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

## Labor Force Participation Rate, Ages 65-69, Quarterly, 1998:Q1-2013:Q1



The switch from DB pension plans (with early-retirement incentives) to DC plans (with, in effect, later-retirement incentives) might be partly responsible for raising this rate.

Not seasonally adjusted. Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

## Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2013:Q1

## Labor Force

 participation rate

Nearly 1 in 5 in this age group is working. 15 years ago it was 1 in 8.


The labor force participation rate for workers 70-74 grew by about 50\% since 1998. Growth stalled during and after the Great Recession but has since resumed.

Source: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

## Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2013:Q1

## Labor Force participation rate

```
-men women
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The labor force participation rate for men 70-74 grew by about $50 \%$ since 1998, but for women 70-74 it nearly doubled (from about 9\% to about 15.5\%).

Source: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

## Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2013:Q1

Labor Force participation rate 9\%
rate for workers 75 and over will
probably hit $10 \%$ soon. This is
close to what the rate was for
the $70-74$ group a decade ago.

## Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2013:Q1

## Labor Force

 participation rate

In the last 15 years, the labor force participation rate for men 75 and over grew from 6.9\% to 12.6\% and for women doubled (from 2.9\% to 5.8\%).
Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

## Annual Expenditure on Life and Personal Insurance, by Age of Consumer Unit, 19912011



## As the age-composition <br> of the population changes, premium volume will follow.

## Annual Expenditure on Life and Personal Insurance, by Age of Consumer Unit, 19912011



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## Annual Expenditure on Pensions and Social Security, by Age of Consumer Unit, 1991-2011



As the age-composition of the population changes, premium volume will follow.

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## Changes in Households, 2000 to 2010

## Millions



The number of householders living alone rose by nearly 4 million from 2000 to 2010 (+14.6\%). Single-parent households rose by 1.4 million (+14.4\%). Married couples w/own kids fell by $5.0 \%$. Will these trends continue?
Sources: U.S. Census Bureau at http://www.census.gov/construction/chars/pdf/medavgsaft.pdf and "Households and Families: 2010",
Census Brief issued April 2012; Insurance Information Institute

## Investments and Interest Rates

## U.S. Treasury Security Yields*: A Long Downward Trend, 1990-2013



Since roughly $80 \%$ of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

[^6]Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm.
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Distribution of Bond Maturities,


The main shift over these years has been from bonds with intermediate maturities to bonds with longer maturities. The industry added to its holdings of over-20-year bonds (from 16.5\% in 2003 to 20.2\% in 2012) and trimmed bonds in the 1-5-year and the 5-10-year categories (from 59.9\% to 55.2\%).


## Inflation

## Change* in the Consumer Price Index, 2004-2013



Over the last decade, prices generally rose about 2\% per year.
*Monthly, year-over-year, through April 2013. Not seasonally adjusted.
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

## Prices for Hospital Services: 12-Month Change,* 1998-2013



Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s, and possibly the early 2010s)
*Percentage change from same month in prior year; through April 2013; seasonally adjusted
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

## Insurance Information Institute

## www.ili.org

## Thank you for your time and your attention!


[^0]:    Source: World Economic Forum, Global Risks 2013; Insurance Information Institute.

[^1]:    * Through May 2013 ** Post-WW II period through end of most recent expansion.

[^2]:    Source: US Bureau of Labor Statistics; Insurance Information Institute.

[^3]:    Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

[^4]:    *"Discouraged workers are persons marginally attached to the labor force who did not actively look for work in the prior four weeks for reasons such as thinks no work available, could not find work, lacks schooling or training, employer thinks too young or old, and other types of discrimination" BLS; data are not seasonally adjusted
    Note: Recession months in gold
    Source: U.S. Bureau of Labor Statistics: Employment Situation, various months; Insurance Information Institute.

[^5]:    *"Discouraged workers are persons marginally attached to the labor force who did not actively look for work in the prior four weeks for reasons such as thinks no work available, could not find work, lacks schooling or training, employer thinks too young or old, and other types of discrimination" BLS; data are not seasonally adjusted Source: U.S. Bureau of Labor Statistics: Employment Situation, various months; Insurance Information Institute.

[^6]:    *Monthly, constant maturity, nominal rates, through March 2013.

