



2012 Annual Issues Symposium

State of the Economy

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- 1. The Macro View**
- 2. The Labor Market**
- 3. Job Creation**
- 4. Workplace Injury and
Illness Incidence Rate**
- 5. Implications for Workers
Compensation**

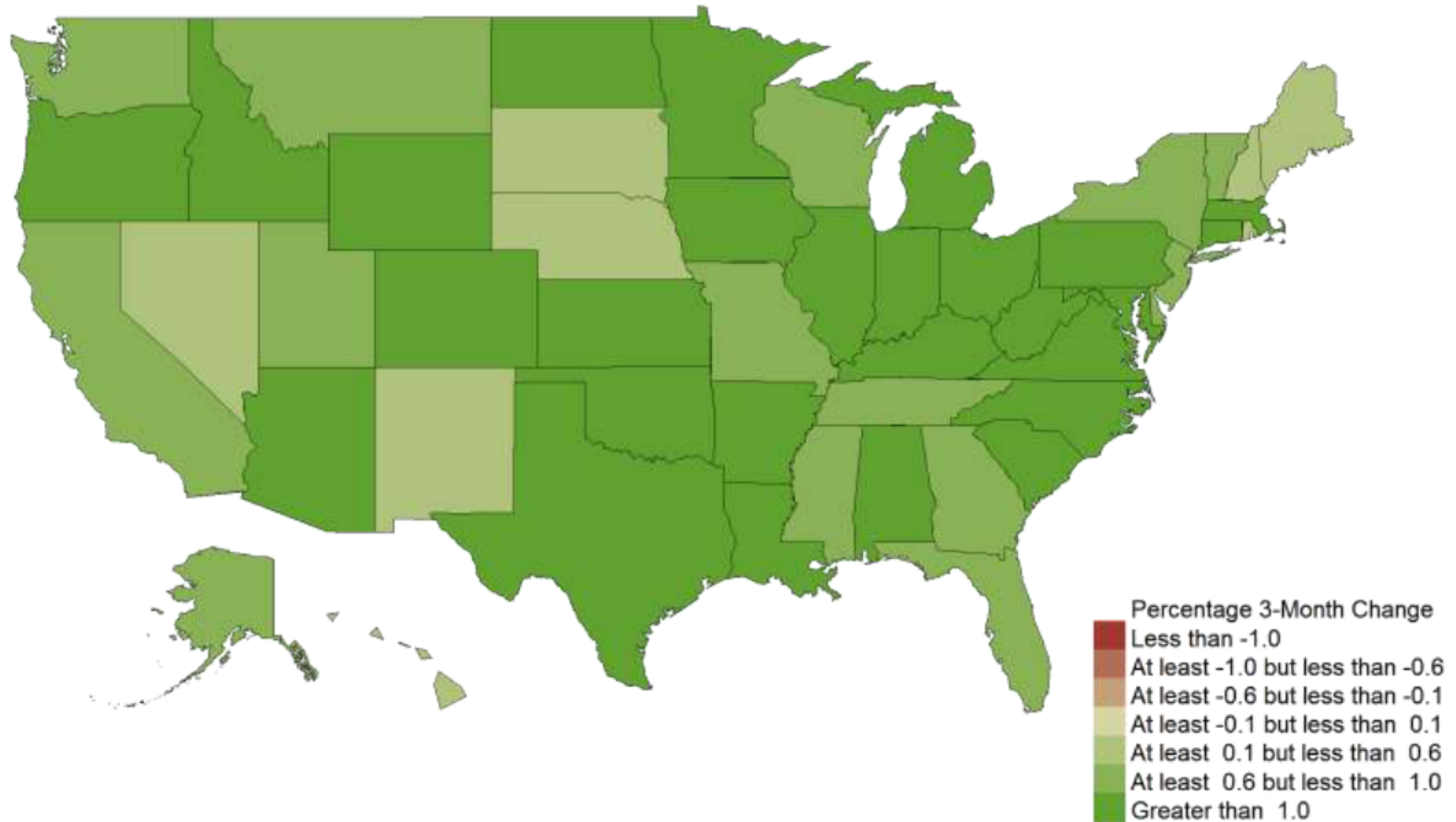


1. The Macro View

Following a Financial Crisis,
It Takes a Country About
10 Years to Return to
Normal Economic Conditions

The Economic Recovery Is Wide-Spread

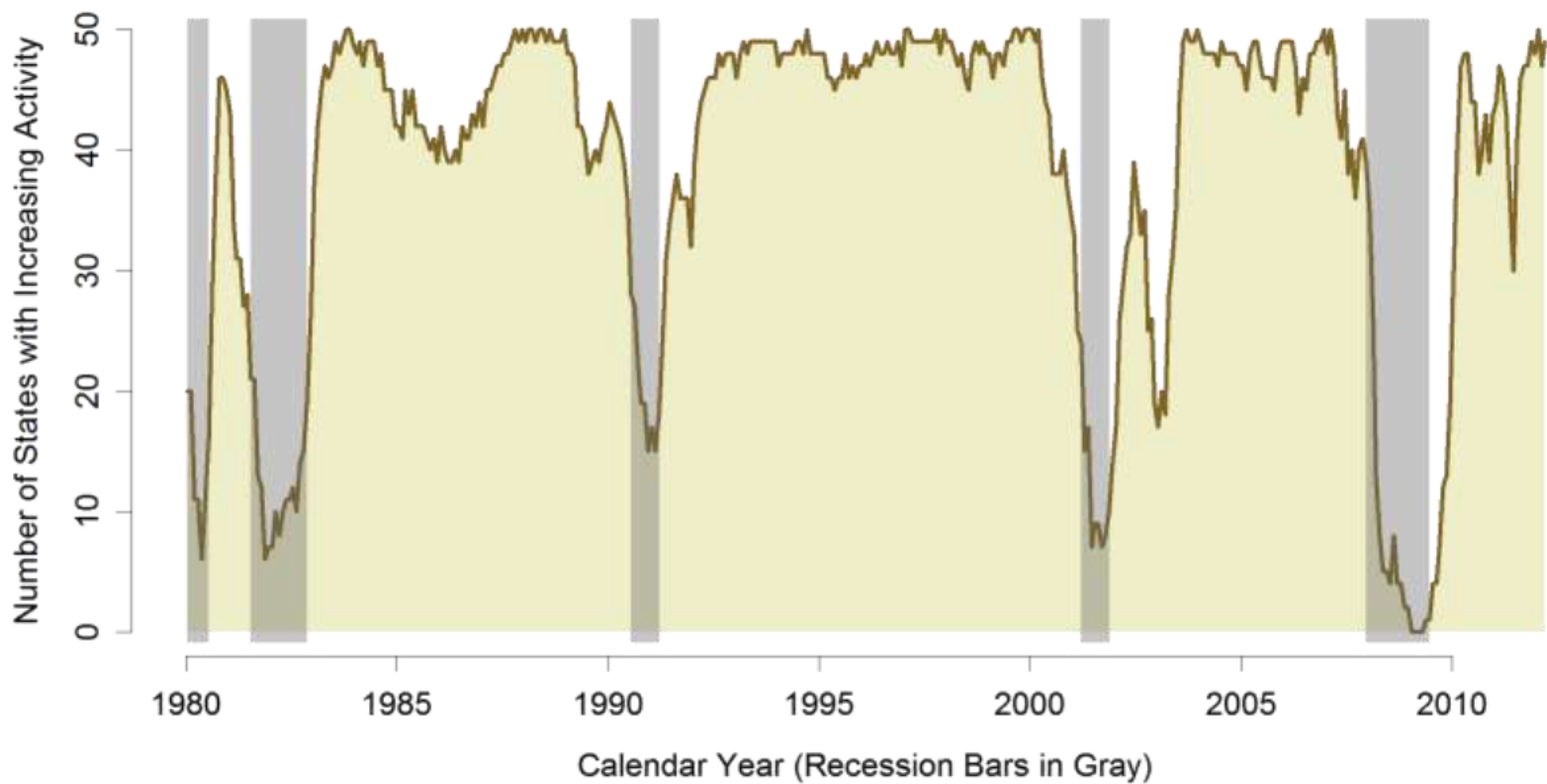
March 2012 Is Compared to December 2011



The map shows state coincidence indexes, which combine four state-level economic measures to summarize current economic conditions in a single statistic. The four data items are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). Frequency of observation: monthly; latest observation: March 2012. District of Columbia is not shown on the map. Source: FRB of Philadelphia, <http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident>

Nearly All States Are in Expansion Mode

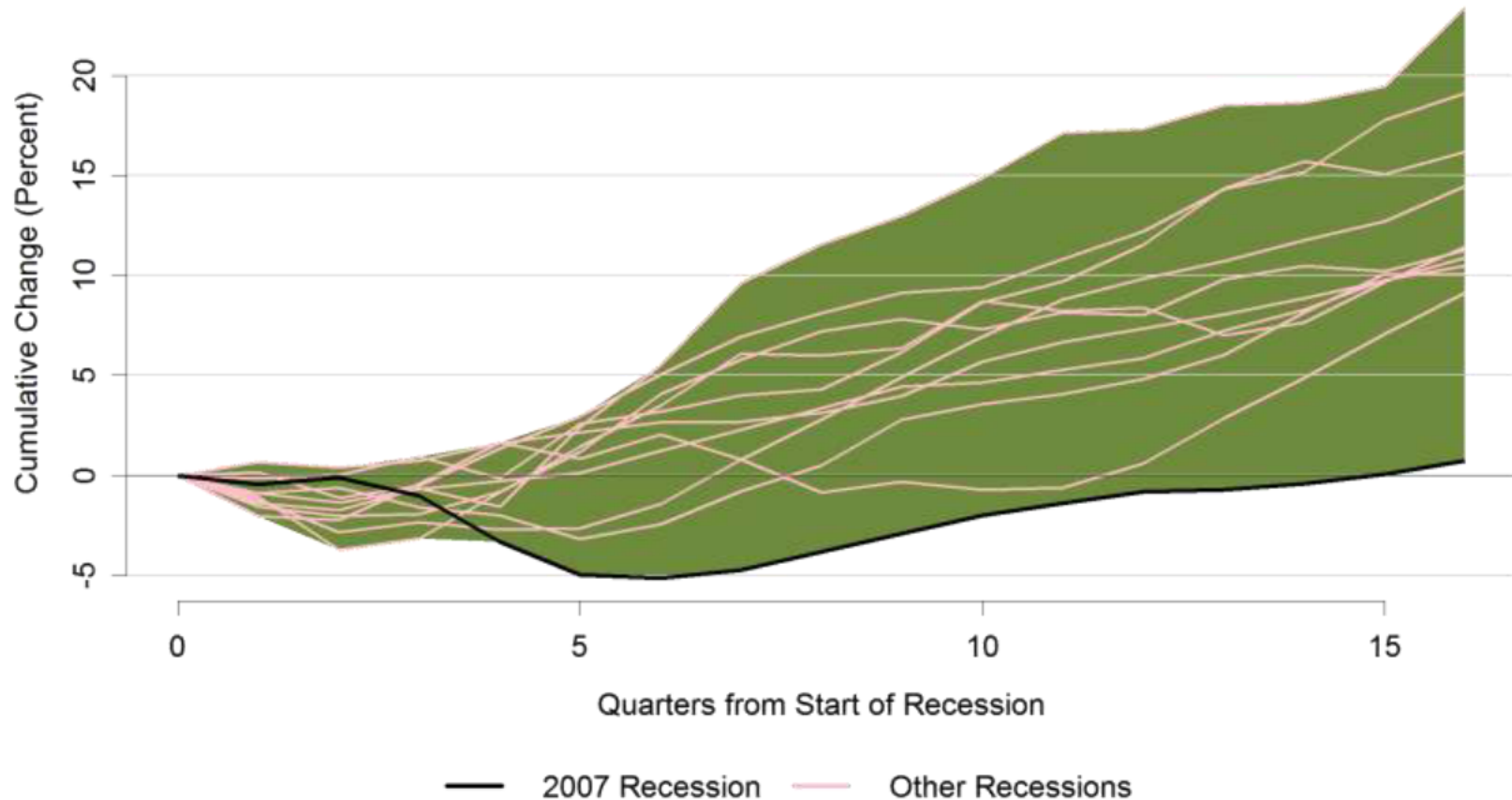
Comparison to Prior Month — Latest: March 2012 Compared to February 2012



The chart shows the number of states for which the one-month change in the coincidence index of economic activity indicates an expansion. This index summarizes the state of the economy in a single statistic, using nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). Frequency of observation: monthly; latest observation: March 2012. Does not include District of Columbia. Source: FRB of Philadelphia, <http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident>

The Pace of the Recovery Is Anemic

Gross Domestic Product Finally Exceeds the Pre-Recession Level



2007 Recession compared with recessions since 1948.

Output is measured as Real GDP, billions of chained 2005 dollars, seasonally adjusted.

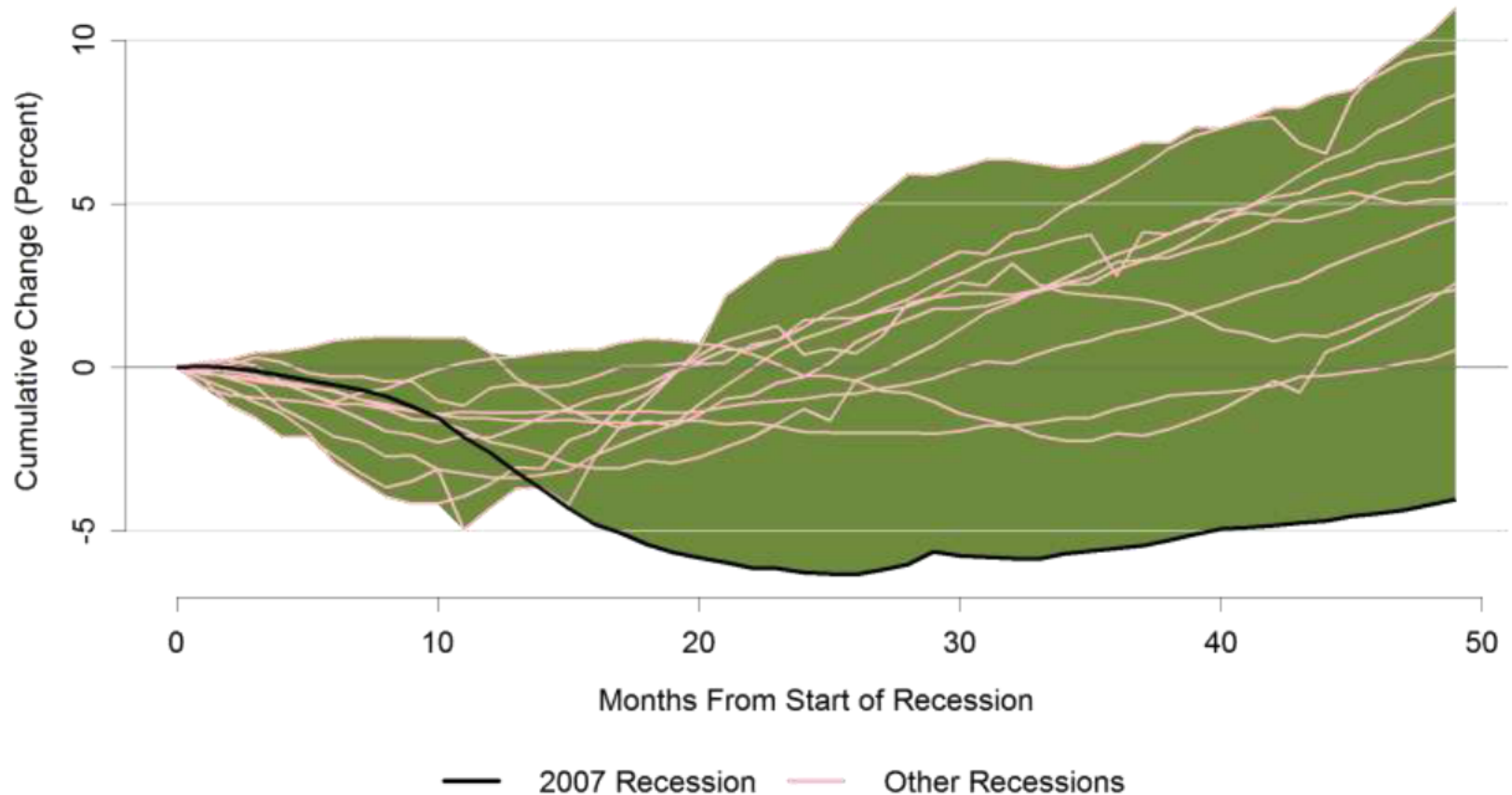
Frequency of observation: quarterly; latest available data point: Q4/2011.

Source: FRED, Federal Reserve Bank of St. Louis, <http://www.stls.org>; Bureau of Economic Analysis (BEA), <http://www.bea.gov>



There Is Plenty of Lost Ground to Recover

Nonfarm Employment Is Still Below the Pre-Recession Level



2007 Recession compared with recessions since 1948.

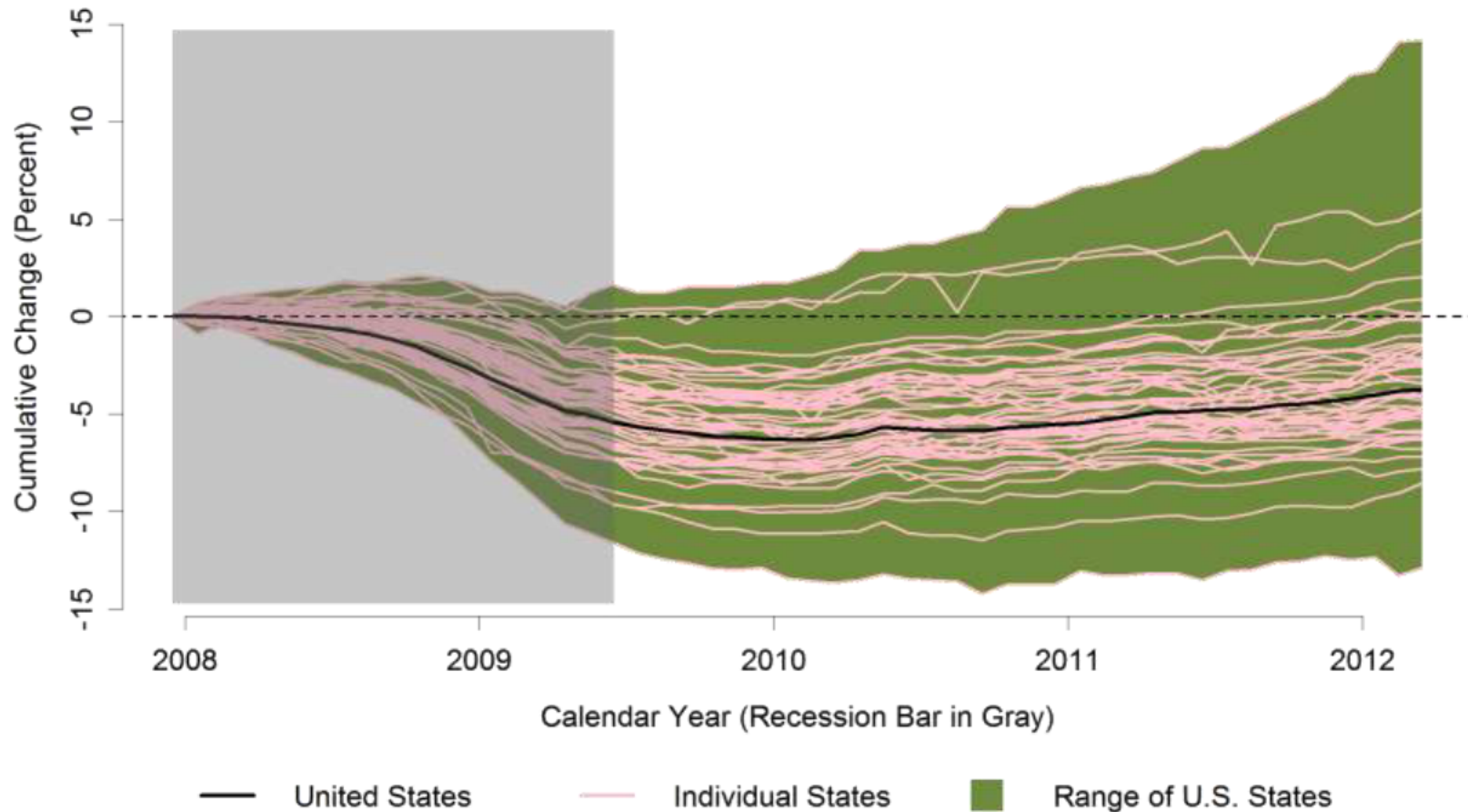
Nonfarm Employment, seasonally adjusted.

Frequency of observation: monthly; latest available data point: March 2012.

Sources: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>; NBER, <http://www.nber.org/cycles.html>

The Employment Picture Varies by State

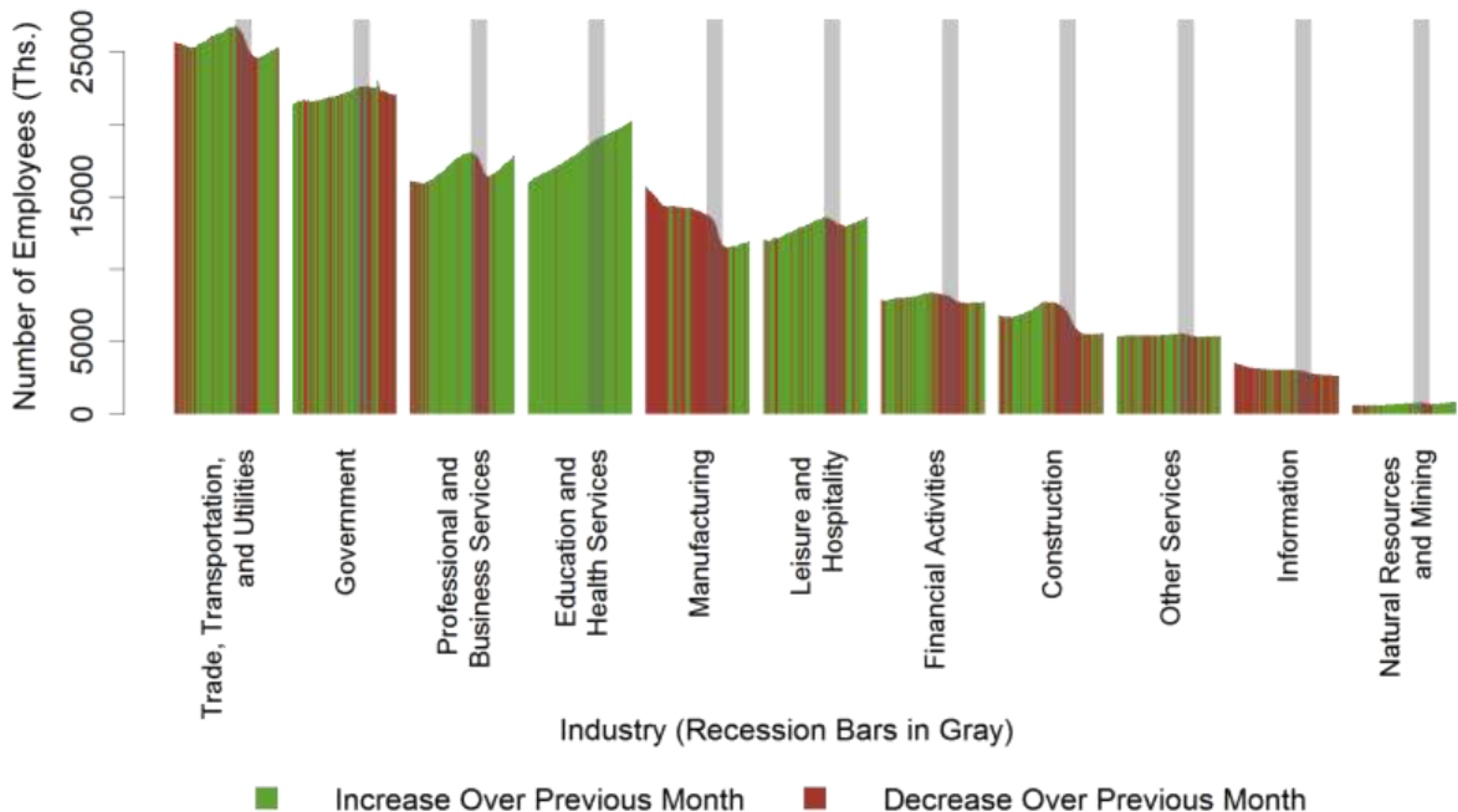
Energy-Rich States Are at the Top, Housing Bubble States on the Bottom



Nonfarm Employment, seasonally adjusted. Range of U.S. States includes District of Columbia.
Frequency of observation: monthly; latest available data point for US: March 2012 (States: March 2012).
Tick marks indicate beginning of year.
Sources: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>; NBER, <http://www.nber.org/cycles.html>

The Industrial Structure Is Changing

Health Care Employment Keeps Expanding Unabated



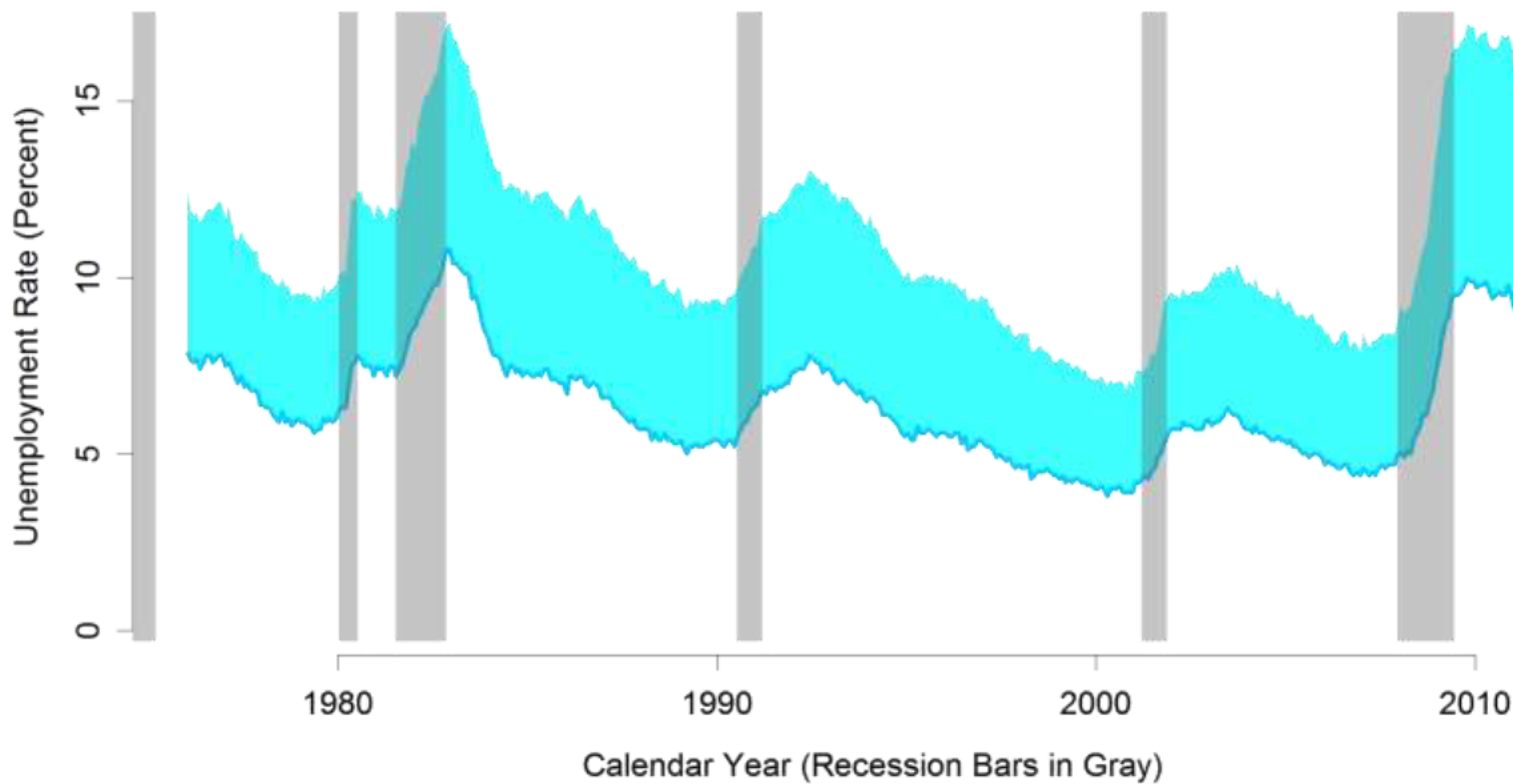
Nonfarm Employment, seasonally adjusted.

Monthly employment shown for the period November 2001 through March 2012

Source: FRED, <https://research.stlouisfed.org/fred2/>; U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>

Unemployment Is High and Persistent

Official Unemployment Rate and U-6



— Official Unemployment Rate (U-3) ■ Gap to U-6 Unemployment Rate

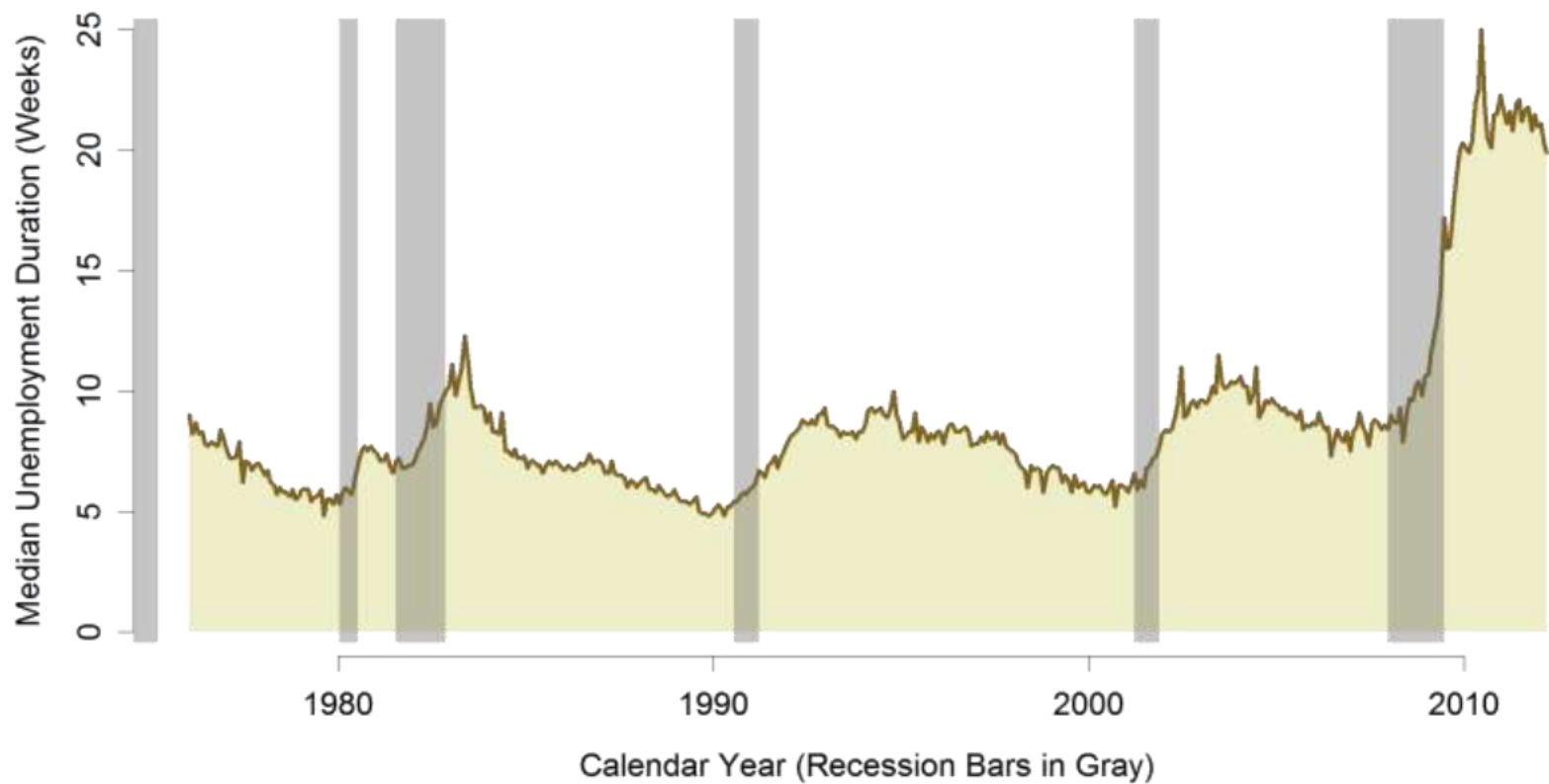
U-6 measures the number of the unemployed and the marginally attached for economic reasons as a percentage of the labor force plus marginally attached. Official unemployment rate and U-6 are seasonally adjusted. Prior to 1994, U-6 unemployment are estimates from Moody's Analytics.

Frequency of observation: monthly; latest available data point: March 2012.

Sources: Moody's Analytics, <http://www.economy.com>; U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>

Unemployment Spells Are Unusually Long

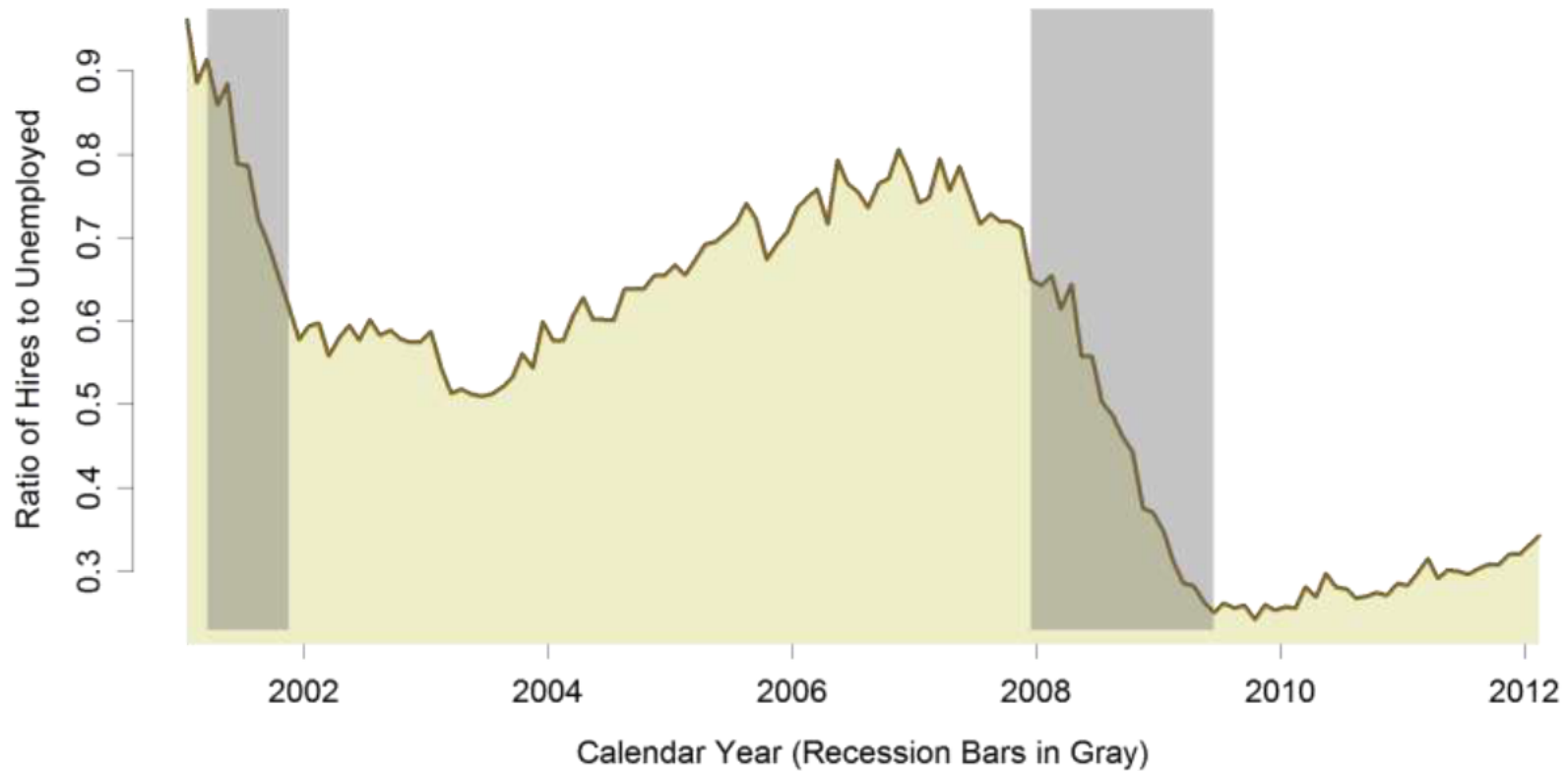
Protracted Unemployment Leads to a Deterioration of Occupation-Specific Skills



The median unemployment duration is based on seasonally adjusted data.
Frequency of observation: monthly; latest available data point: March 2012.
Source: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>

The Odds of Finding Work Are Long

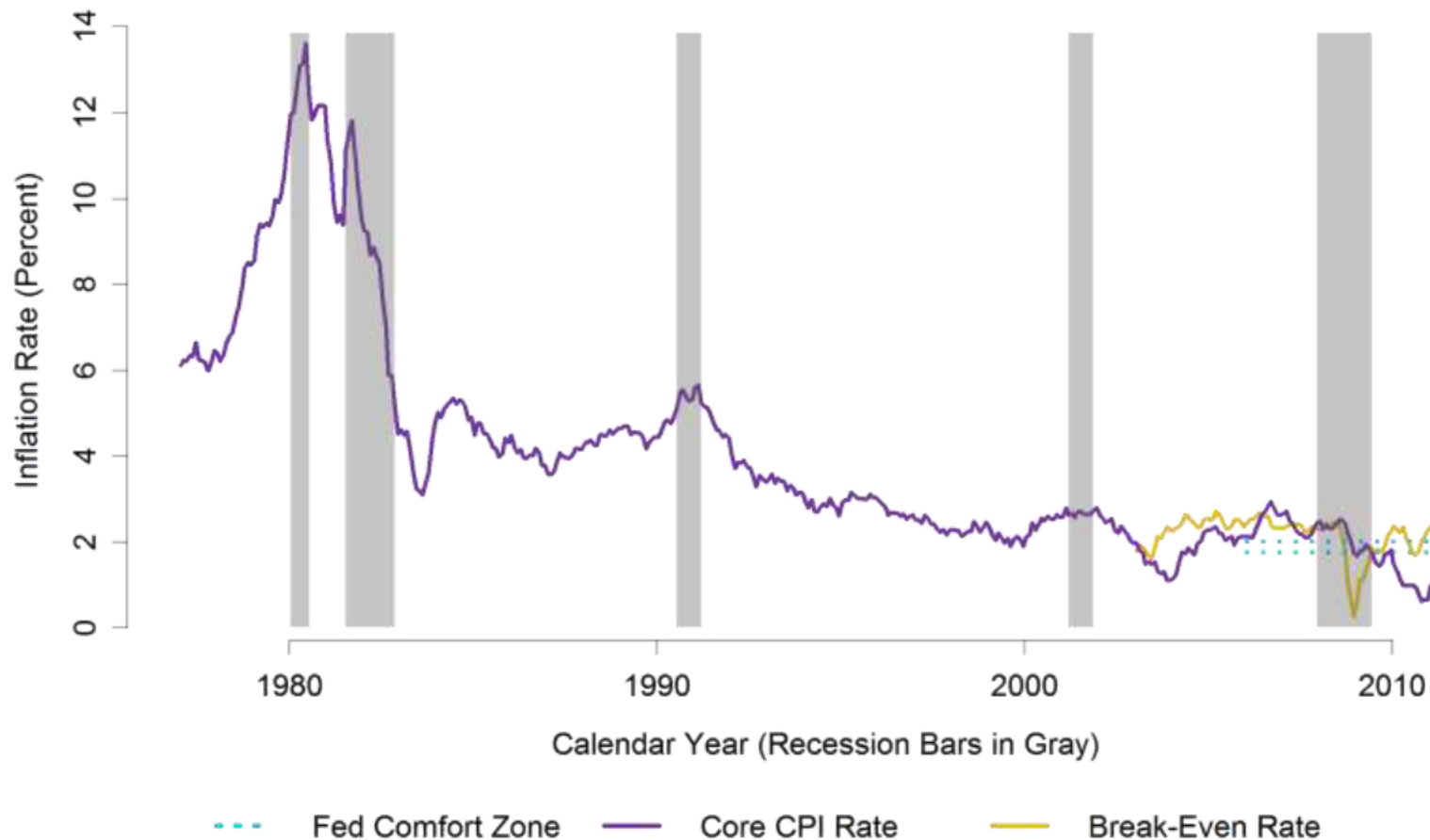
The Lower the Ratio, the Longer the Odds of the Unemployed to Find Work



Job Openings and Labor Turnover Survey (JOLTS), seasonally adjusted.
The unemployed are the officially unemployed, as defined in the unemployment concept U-3.
Frequency of observation: monthly; latest observed data point: February 2012.
Source: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov/jlt>

Inflation Expectations Are Contained

The Treasury Market Indicates Little Inflation Risk

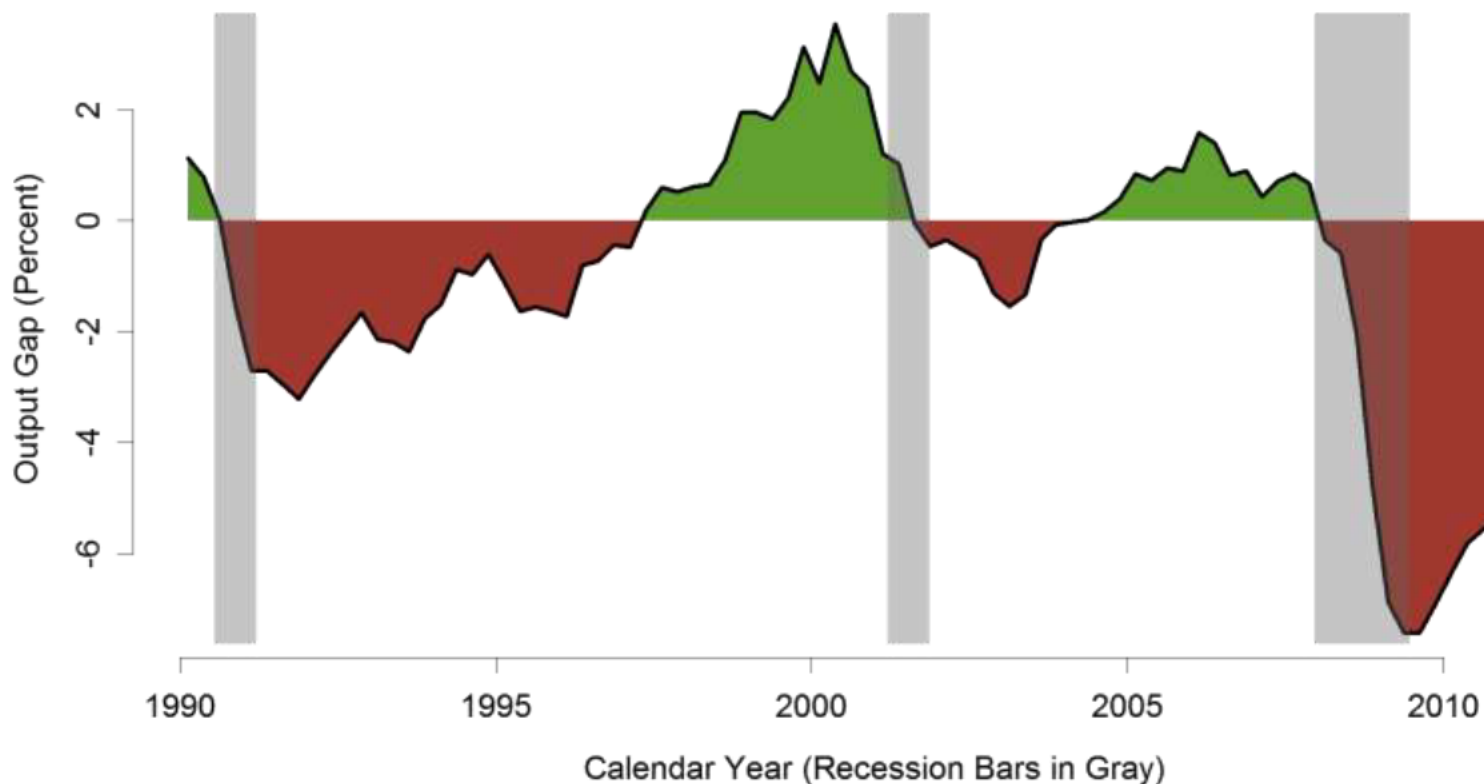


The break-even rate of inflation is defined as the difference between the constant-maturity 10-Year Treasury yield and the constant-maturity 10-Year Treasury Inflation-Indexed Securities yield. Core CPI inflation is defined as relative change in CPI-U (All Urban Consumers), all items less food and energy, year over year. Frequency of observation: monthly; latest available data point: March 2012 (price indexes); March 2012 (inflation expectation). The Federal Reserve comfort zone does not rest on an official inflation targeting concept of the Federal Reserve.

Source: FRED, <https://research.stlouisfed.org/fred2>; U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>

The Economy Has Ample Excess Capacity

Excess Capacity Restrains Inflationary Pressure

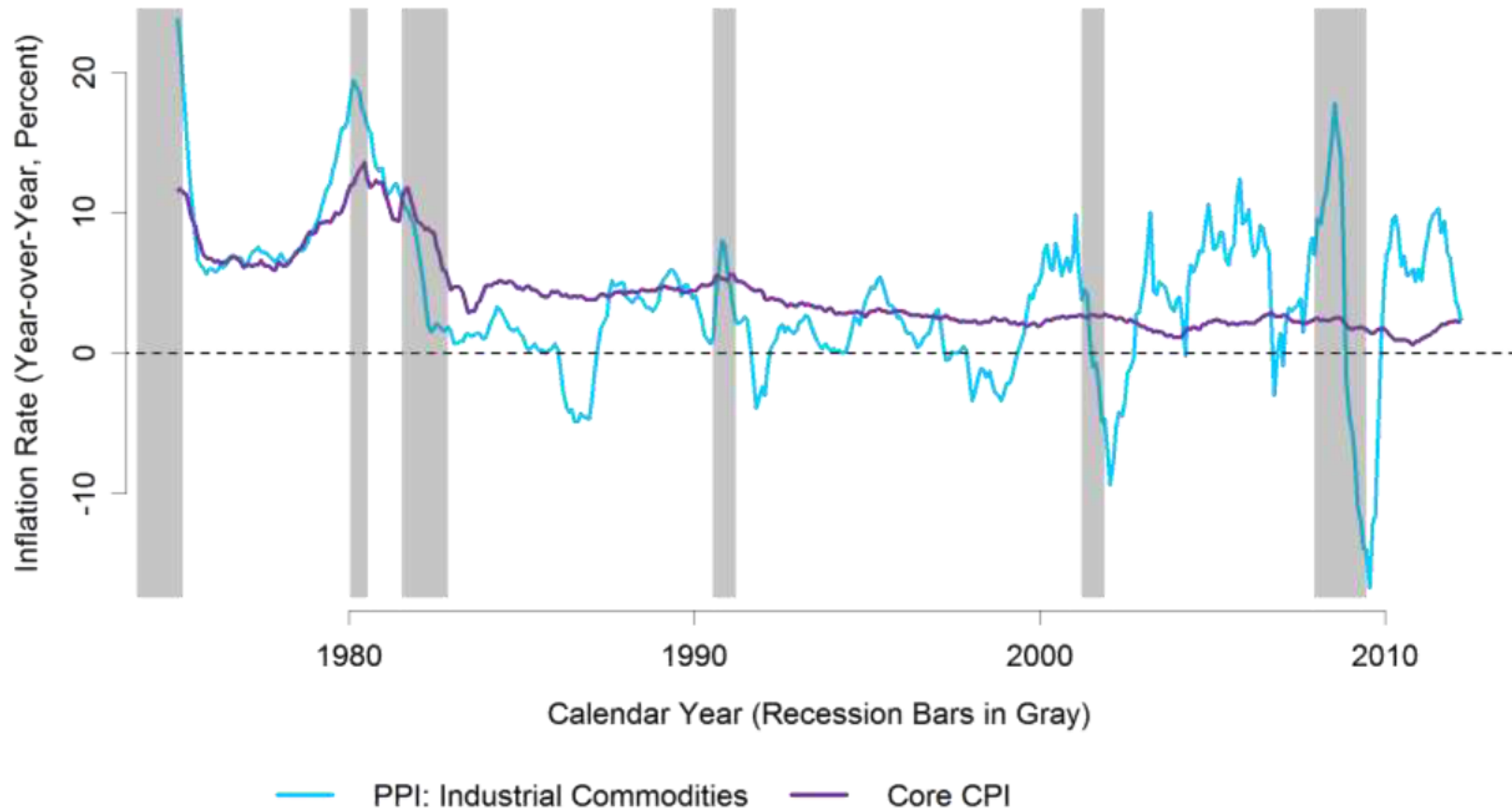


The output gap is defined as the percentage difference between Real GDP (billions of chained 2005 dollars, seasonally adjusted) and Potential Real GDP (billions of chained 2005 dollars).

Frequency of observation: quarterly; latest available data point: Q4/2011.

Source: FRED, <https://research.stlouisfed.org/fred2>; Bureau of Economic Analysis (BEA), <http://www.bea.gov>

There Is Little Pass-Through of Commodities Price Fluctuation to Core Inflation



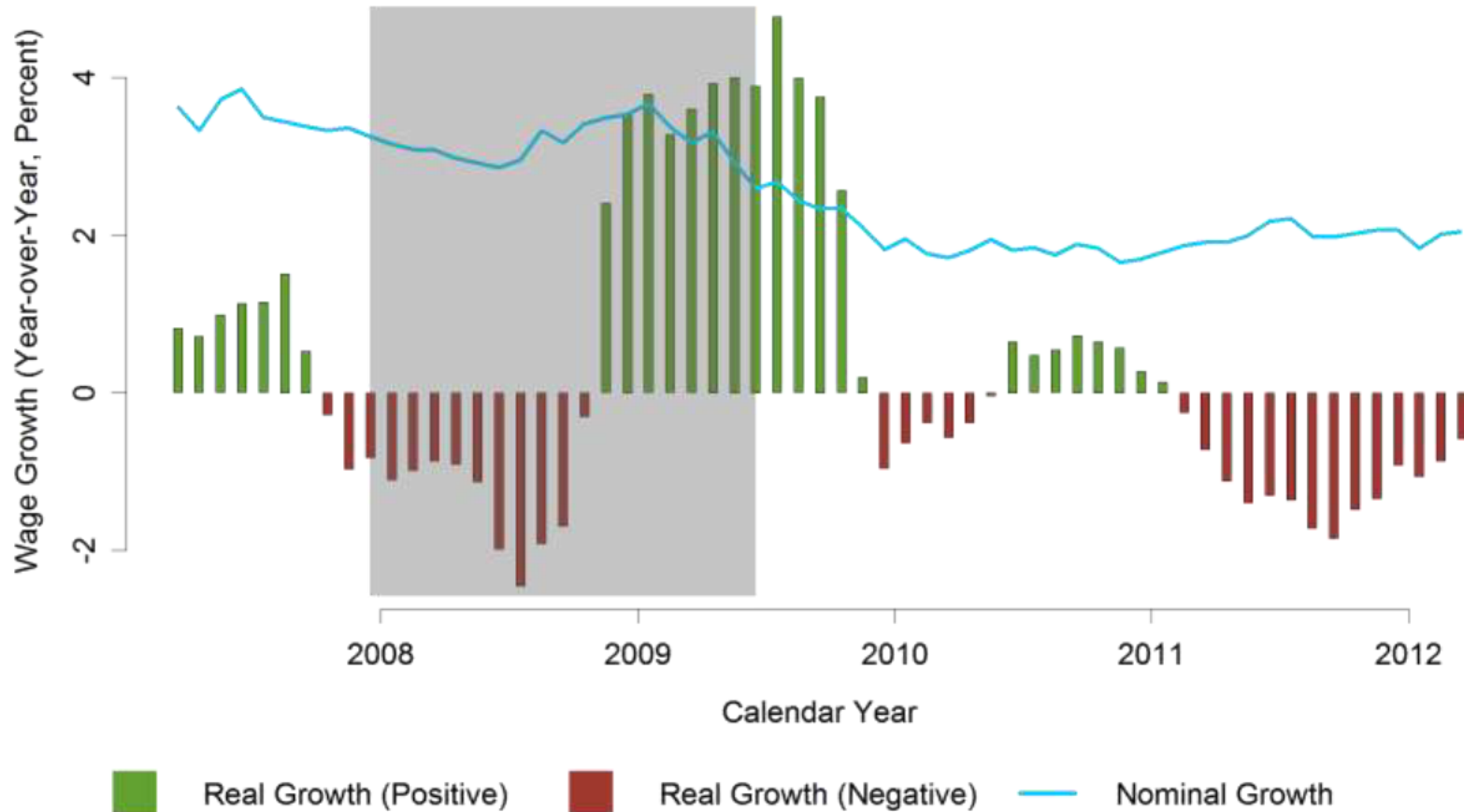
PPI: Producer Price Index. CPI: Consumer Price Index. Core CPI is defined as the CPI-U, all items less food and energy. Inflation rates are year-over-year.

Not seasonally adjusted. Frequency of observation: monthly; latest available data point: March 2012.

Source: FRED, <https://research.stlouisfed.org/fred2>; U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov/ppi>

Wage Growth Poses Little Inflation Risk

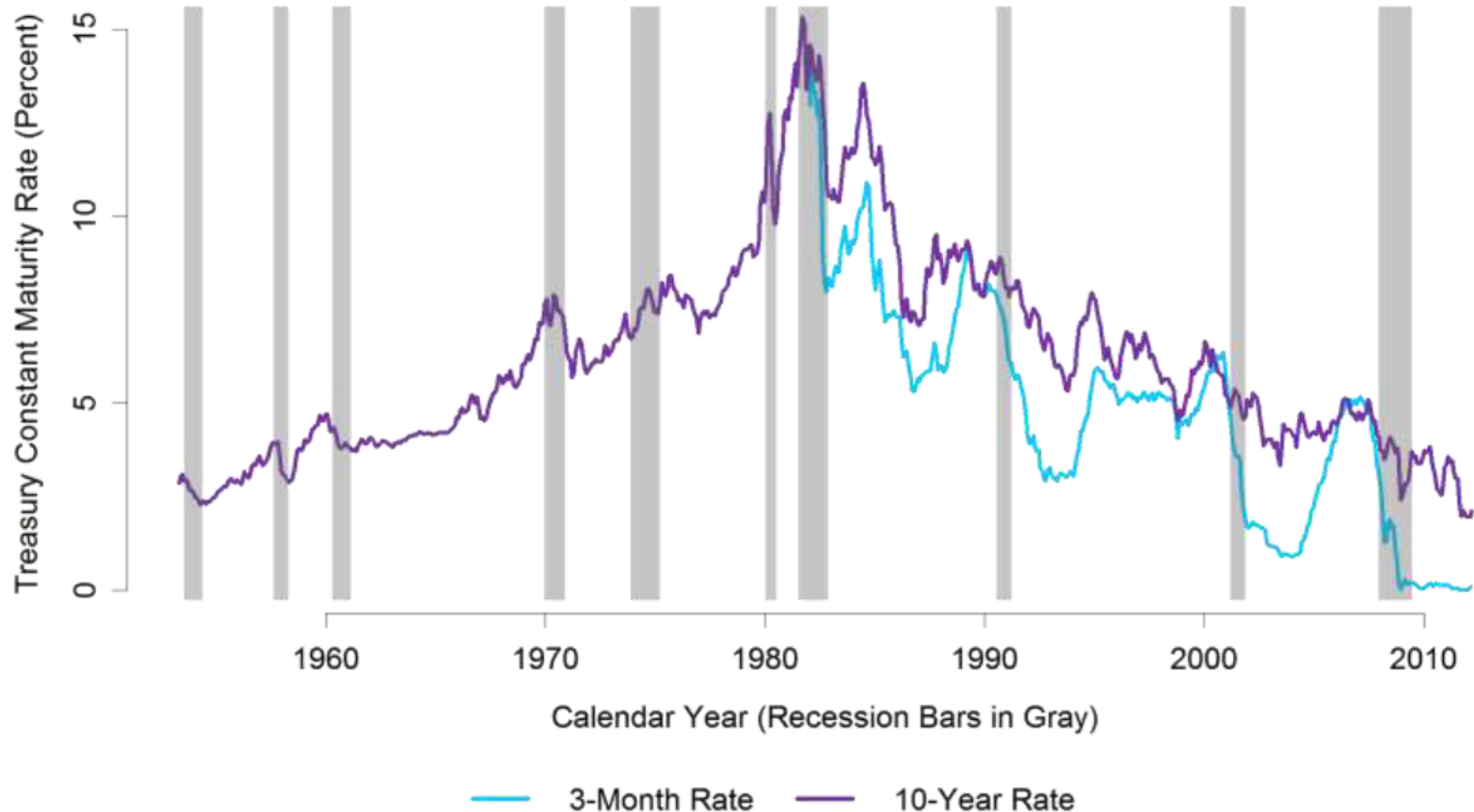
Average Hourly Earnings, After Adjusting for Inflation, Are Lower Than a Year Ago



Average Hourly Earnings for All Employees is the ratio of industry payroll to paid hours. Real growth in Average Hourly Earnings is defined as growth of the ratio of Average Hourly Earnings (seasonally adjusted) and the Consumer Price Index (CPI-U). Nominal growth is Average Hourly Earnings growth without inflation-adjustment. Frequency of observation: monthly; shown through March 2012. Source: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>

Interest Rates Are at Historic Lows

The Fed Has Pledged to Keep Short-Term Interest Rates Low at Least Through Late 2014



Frequency of observation: monthly; latest available data point: March 2012.

Source: Board of Governors of the Federal Reserve System (www.federalreserve.gov/releases/h15/current).

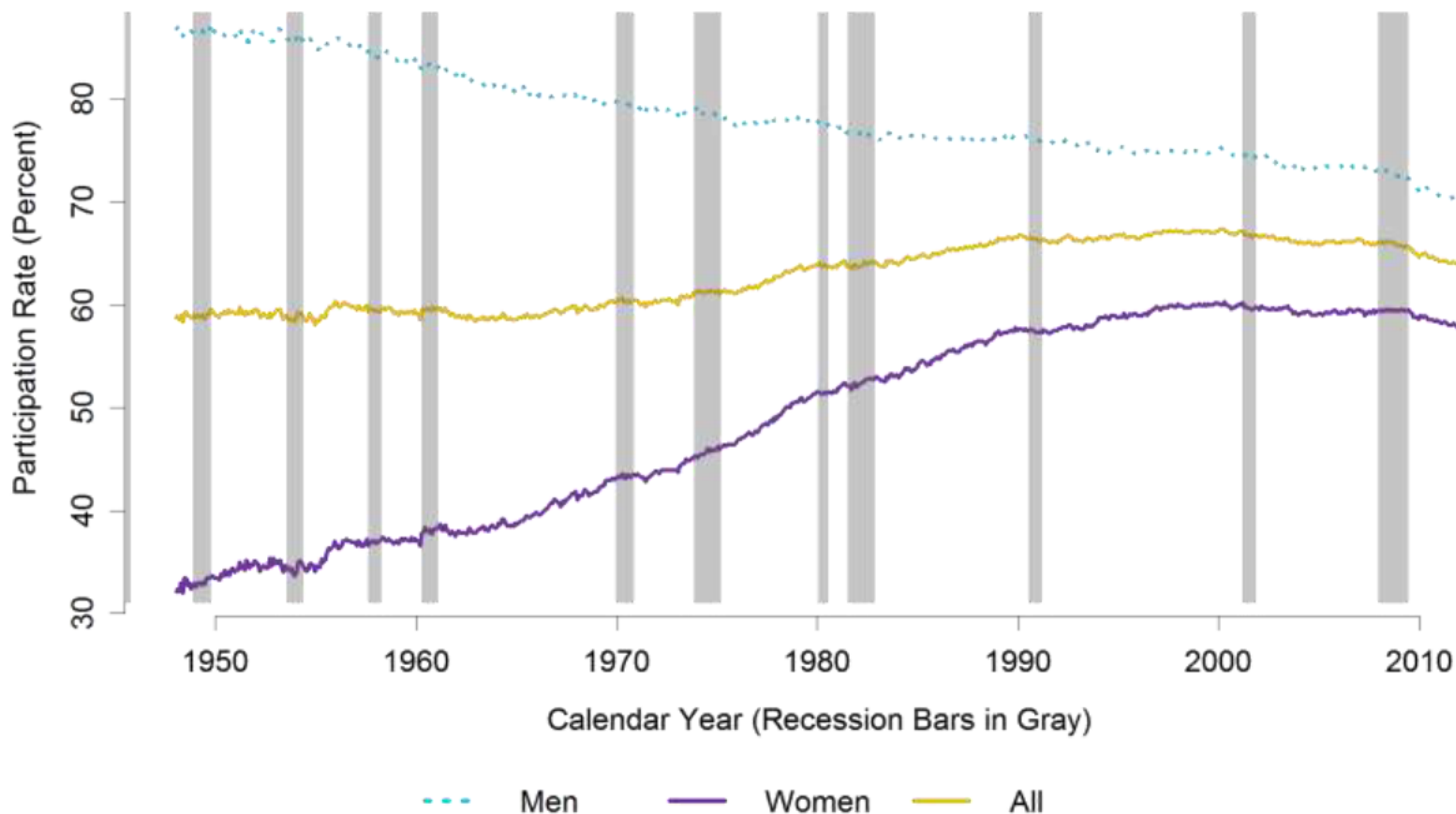
The Federal Reserve announced its commitment to maintain low short-term interest rates "at least through late 2014" on Wednesday, January 25, 2012, <http://www.federalreserve.gov/newsevents/press/monetary/20120125a.htm>



2. The Labor Market Less Dynamic, with Important Shifts in Participation

Labor Force Participation Is in Decline

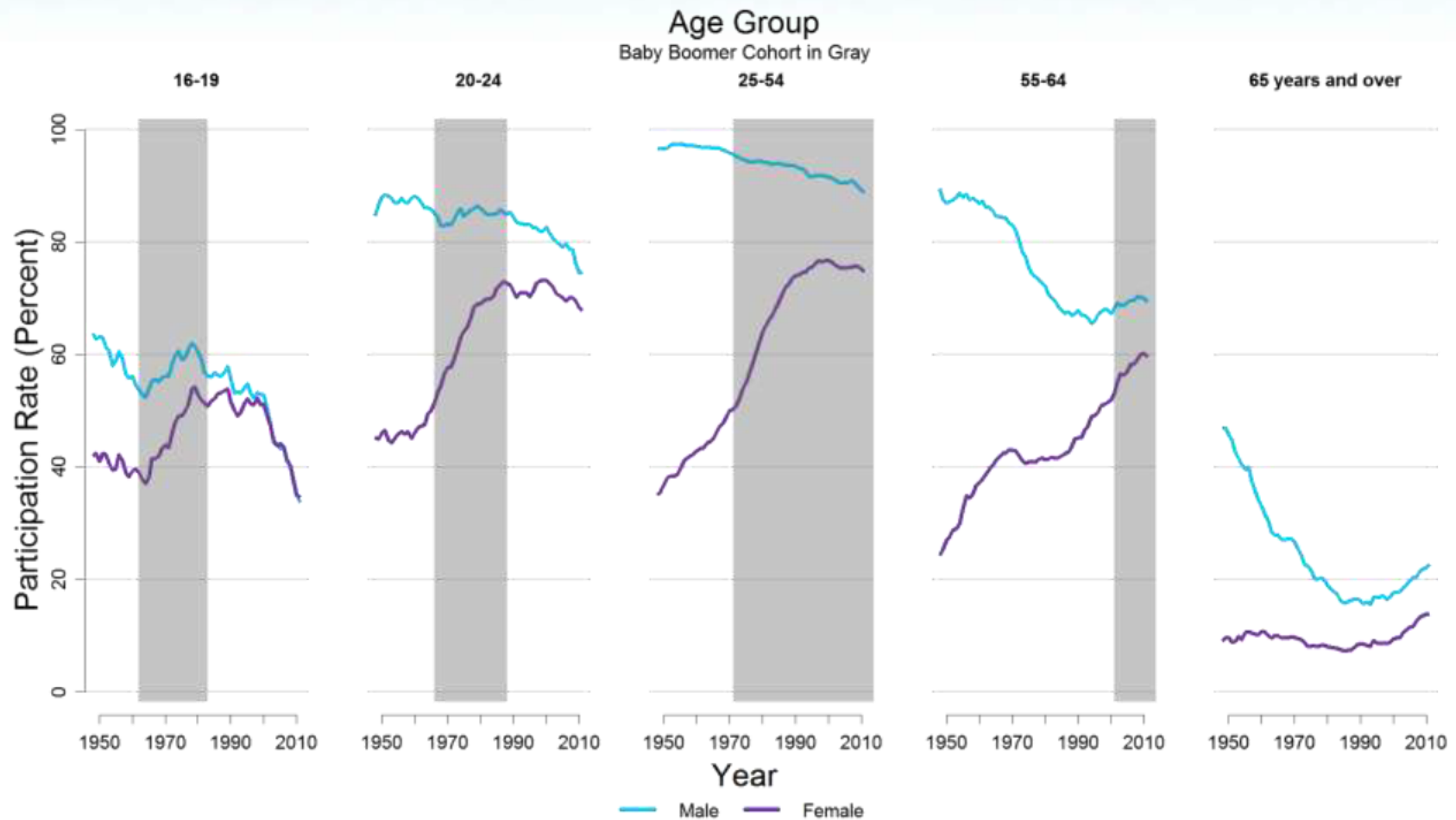
The Participation Rate Continues to Drop Even As the Economy Recovers



Labor Force Participation Rate, seasonally adjusted. The Labor Force Participation Rate is the share of the population 16 years and older working or seeking work; the population is defined as noninstitutionalized civilian; persons seeking work are defined as those who have actively looked for work in the past four weeks. The labor force participation rate has been trending down since 1997, based on the average for the year. Frequency of observation: monthly; latest available data point: March 2012. Sources: U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS), <http://www.bls.gov/cps>

Labor Force Participation by Age Group

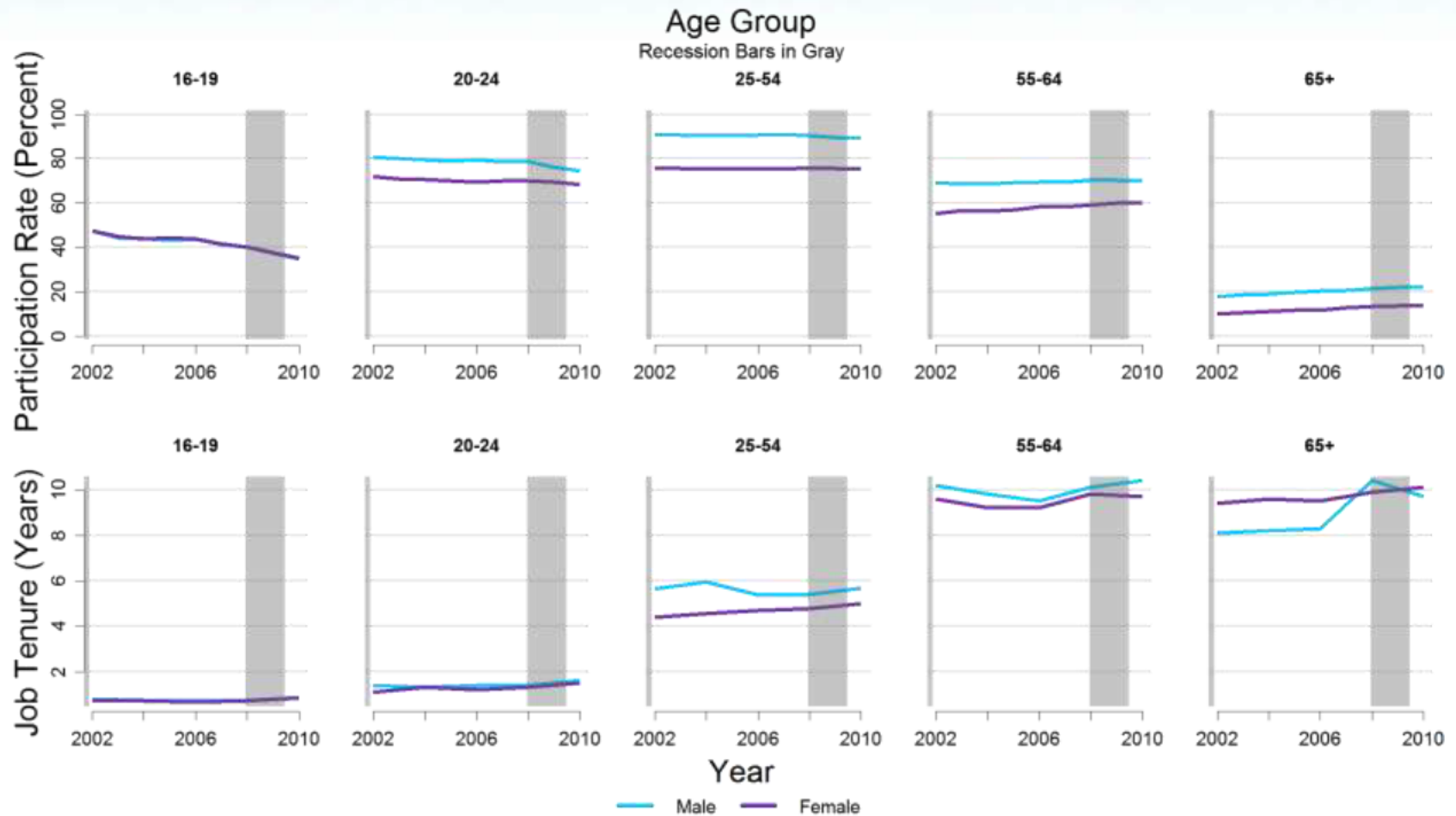
Participation of Young People Falters, Participation of Older Cohorts Soars



The Labor Force Participation Rate is the share of the population 16 years and older working or seeking work; the population is defined as noninstitutionalized civilian; persons seeking work are defined as those who have actively looked for work in the past four weeks. Baby boomers are defined as persons born in the years 1946 through 1964. Frequency of observation: annual; latest available data point: 2011. Source: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>

Labor Force Participation and Job Tenure

Changing Participation Patterns Contribute to a Lengthening of Job Tenure

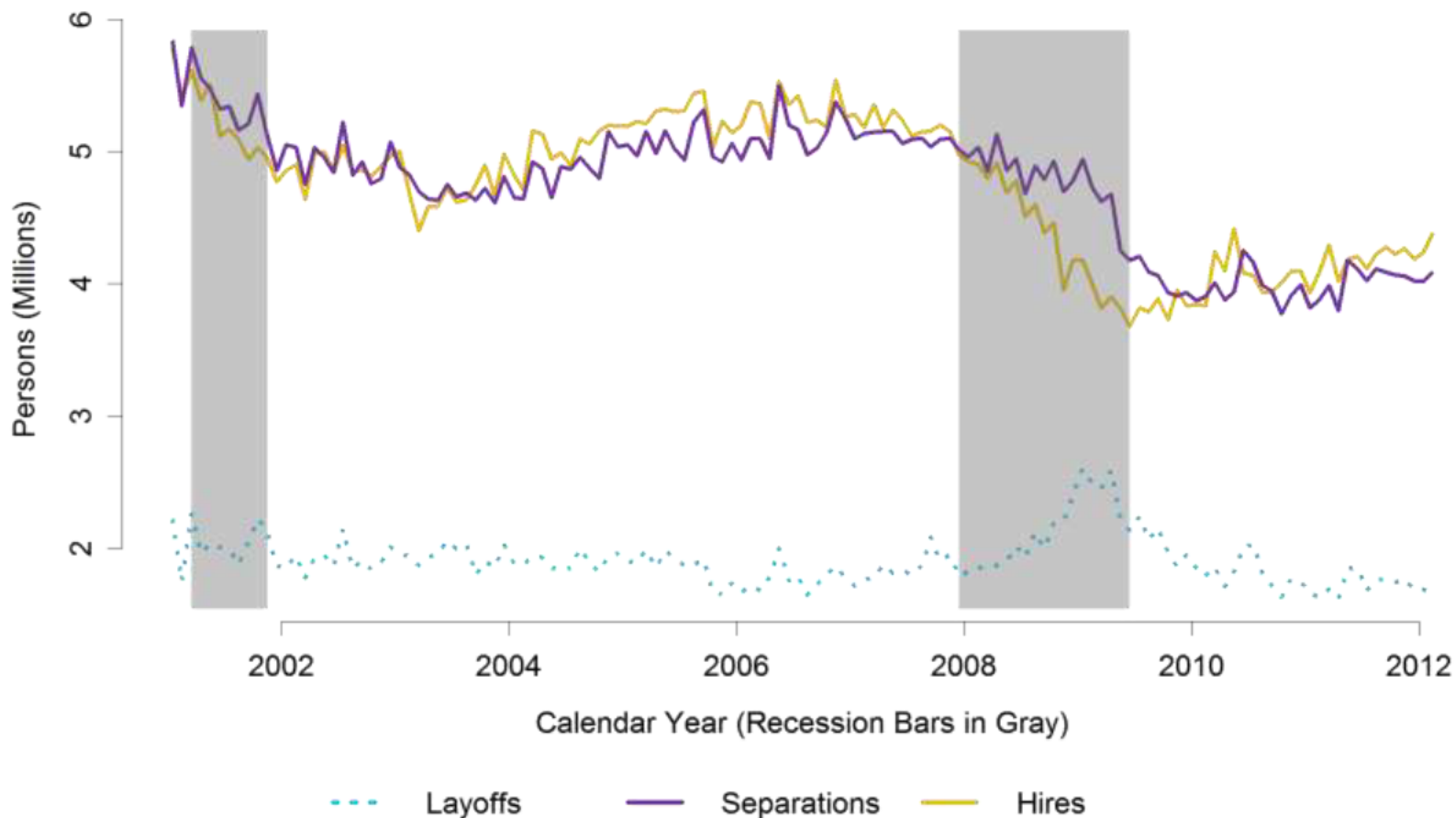


The Labor Force Participation Rate is the share of the population 16 years and older working or seeking work; the population is defined as noninstitutionalized civilian; persons seeking work are defined as those who have actively looked for work in the past four weeks. Median job tenure is available for even calendar years only, and only for January. For some age groups, median job tenure was obtained by taking the mean across two or more age sub-groups. Frequency of observation: annual (participation rate) and bi-annual (job tenure), January; latest available data point: 2010. Source: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov/cps>



Lackluster Hiring and Muted Layoffs

A Decline in Turnover Contributes to a Lengthening of Job Tenure



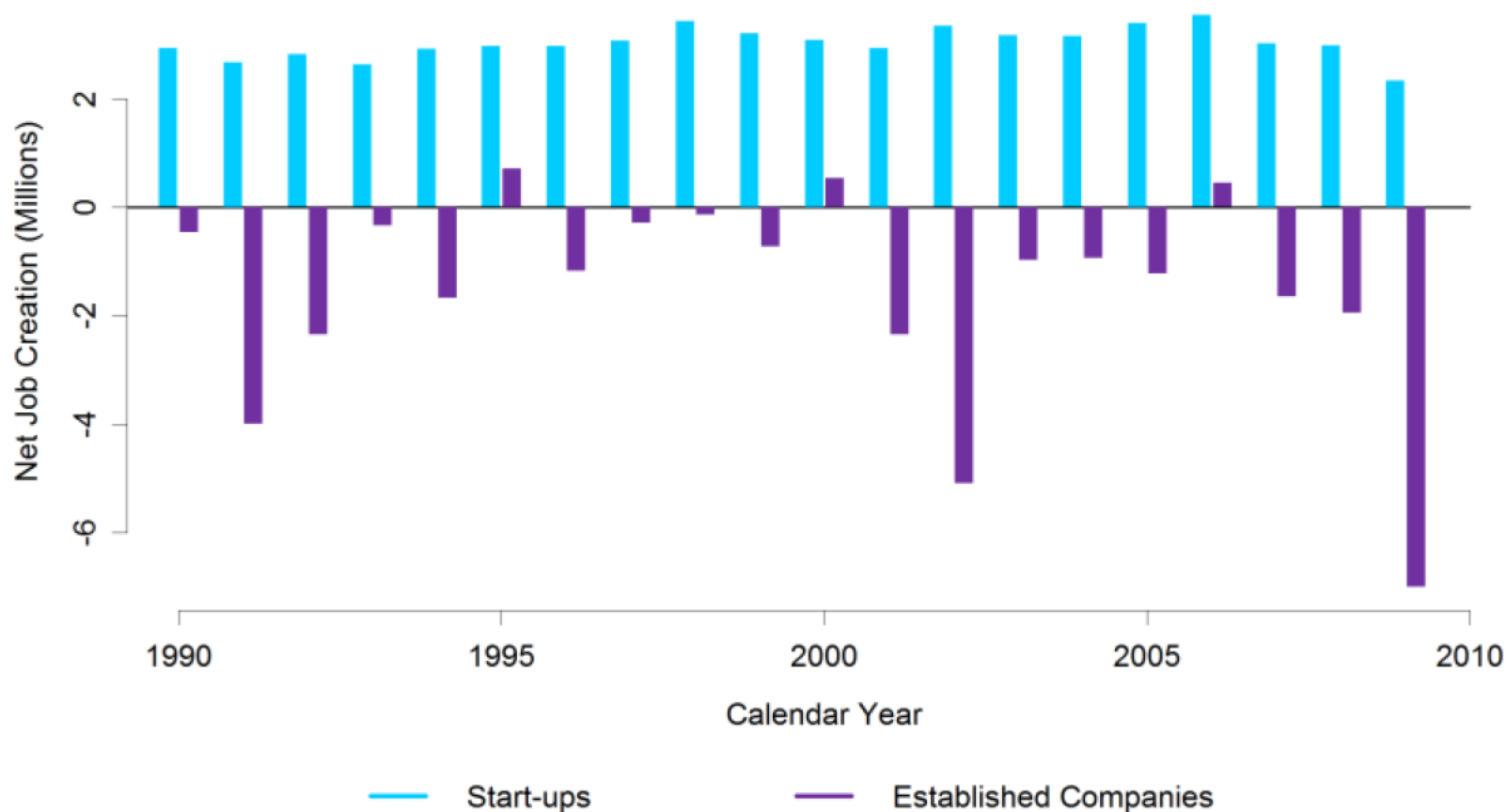
Job Openings and Labor Turnover Survey (JOLTS), seasonally adjusted. Separations comprise layoffs (and discharges), quits (employees leaving voluntarily), and other separations (retirements and transfers). Frequency of observation: monthly; latest observed data point: February 2012. Source: U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov/jlt>



3. Job Creation

Which Companies Create Jobs —the Small or the Young?

Start-ups Create Jobs, Whereas Established Companies Scale Back Jobs, in the Aggregate



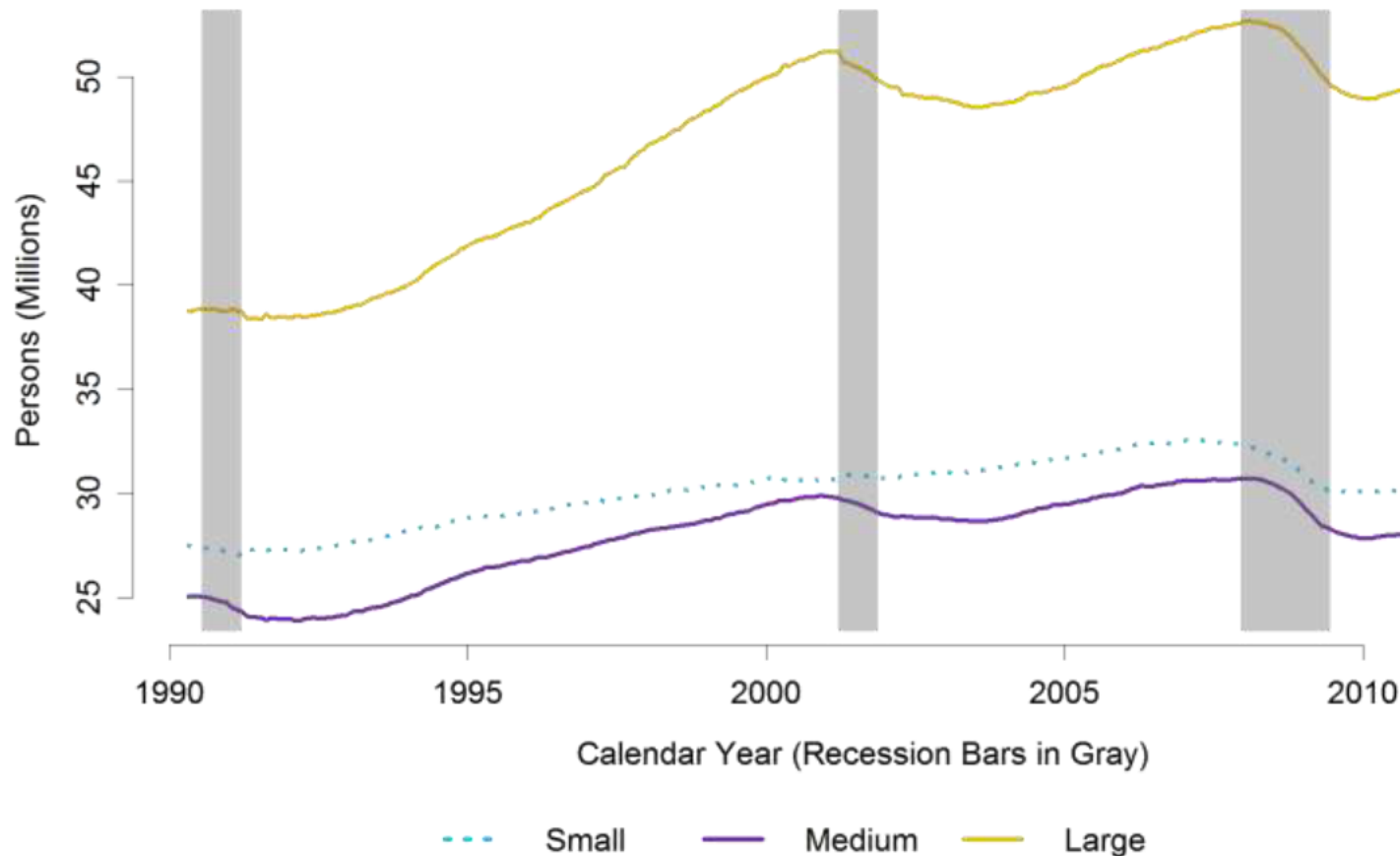
Start-ups are defined as job creation from establishments with a firm age less than a year. A firm may comprise multiple establishments.

Frequency of observation: annual; latest available data point: 2009.

Sources: Business Dynamics Statistics (www.census.gov)

Employment Shares by Firm Size

The Past Recession Has Had a Marked and Lingering Effect on Jobs at Small Companies



Small: 1 through 49 employees; medium: 50 through 499 employees; large: 500 employees or more. The size of a firm is determined based on the 12-month maximum employment level. The firm size is attributed to all establishments in the firm. Nonfarm Private Employment, seasonally adjusted. Frequency of observation: monthly; April 1990 through March 2011. Sources: U.S. Bureau of Labor Statistics (BLS), Current Employment Statistics (www.bls.gov/ces)

Entrepreneurship Is Slowing

Business Births in Thousands



2006



2009

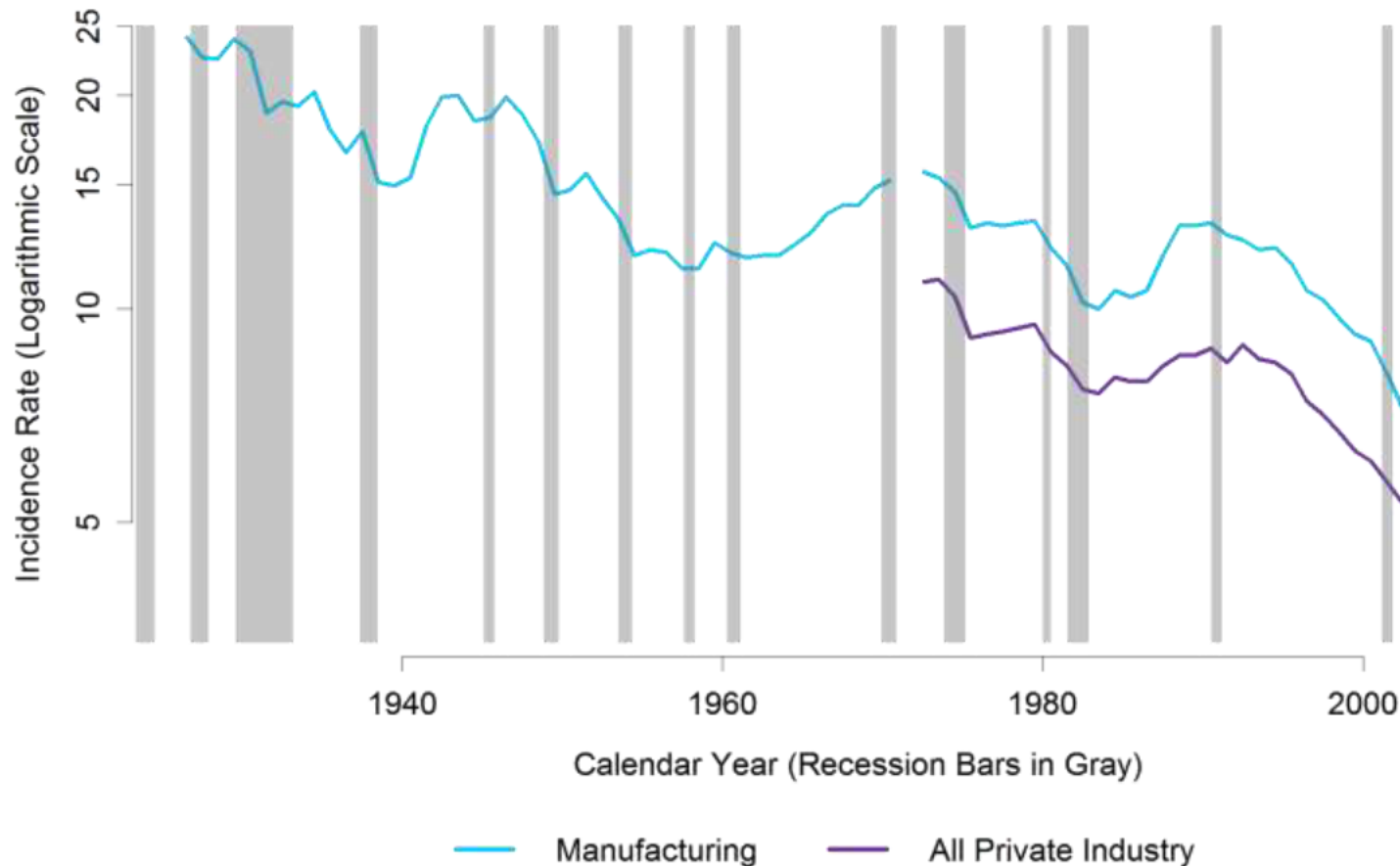
A count of establishments born within the cell during past 12 months. A firm may comprise multiple establishments.
Frequency of observation: annual; latest available data point: 2009.
Sources: Business Dynamics Statistics (www.census.gov)



4. Workplace Injury and Illness Incidence Rate

Long-term Trend and Business Cycle Behavior

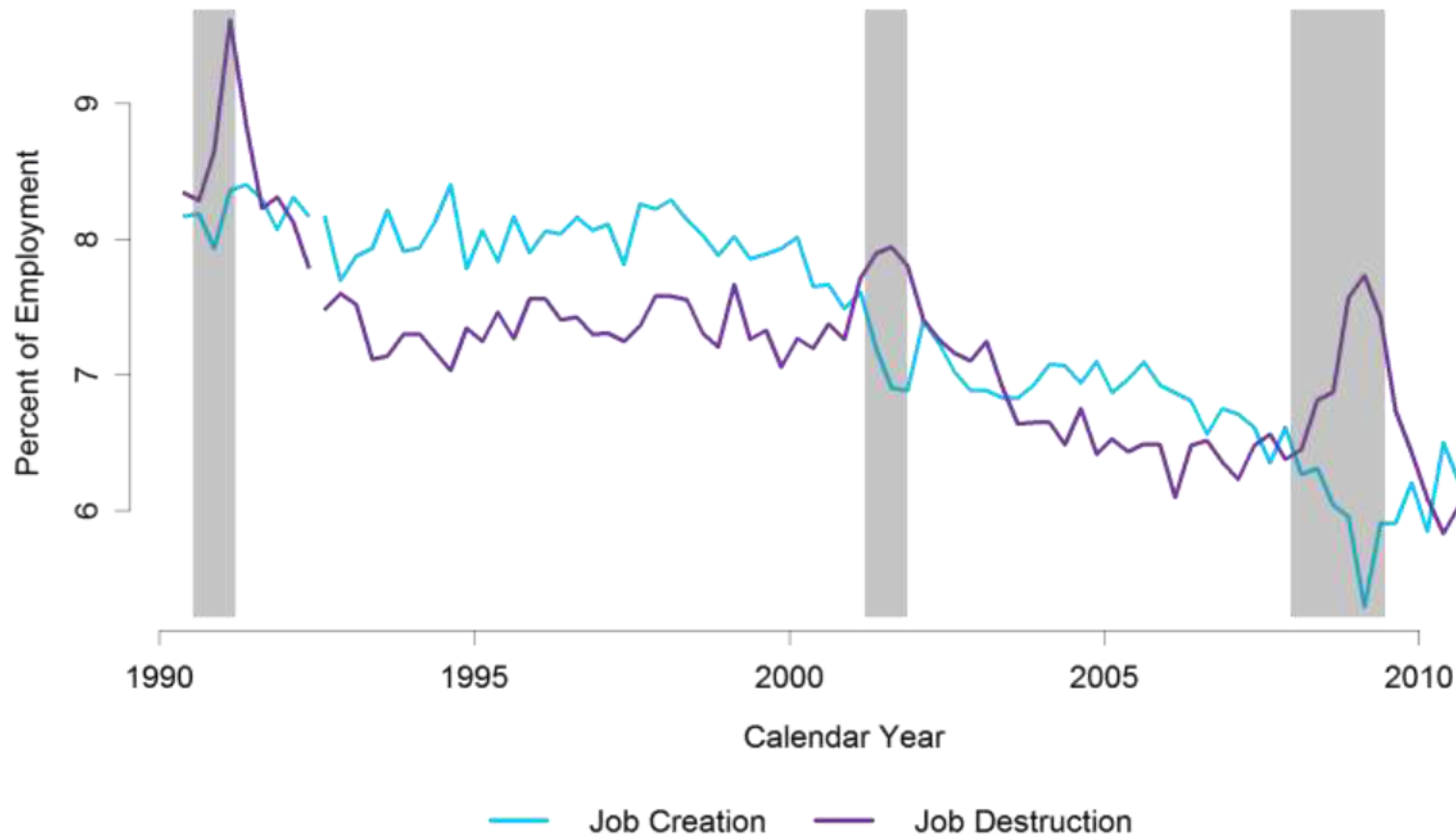
Incidence Rates Are Dropping in Manufacturing and Total Private Sector



1926-1970: Frequency of Disabling Injuries per Million Man-Hours Worked; 1972-2010: Injury and Illnesses Cases per 100 Full-Time Equivalent Workers, Total Recordable Cases. No data point available for 1971. Effective 2003, based on NAICS. Frequency of observation: annual; latest available data point: 2010.

Sources: *Historical Statistics of the United States: Colonial Times to 1970*, Census Bureau, 1975; *Statistical Abstract of the United States*, Census Bureau, various years; Timothy Webster, 1999, <http://www.bls.gov/opub/cwc/archive/fall1999brief3.pdf>; BLS

Job Flows Drive the Business Cycle Behavior of the Incidence Rate

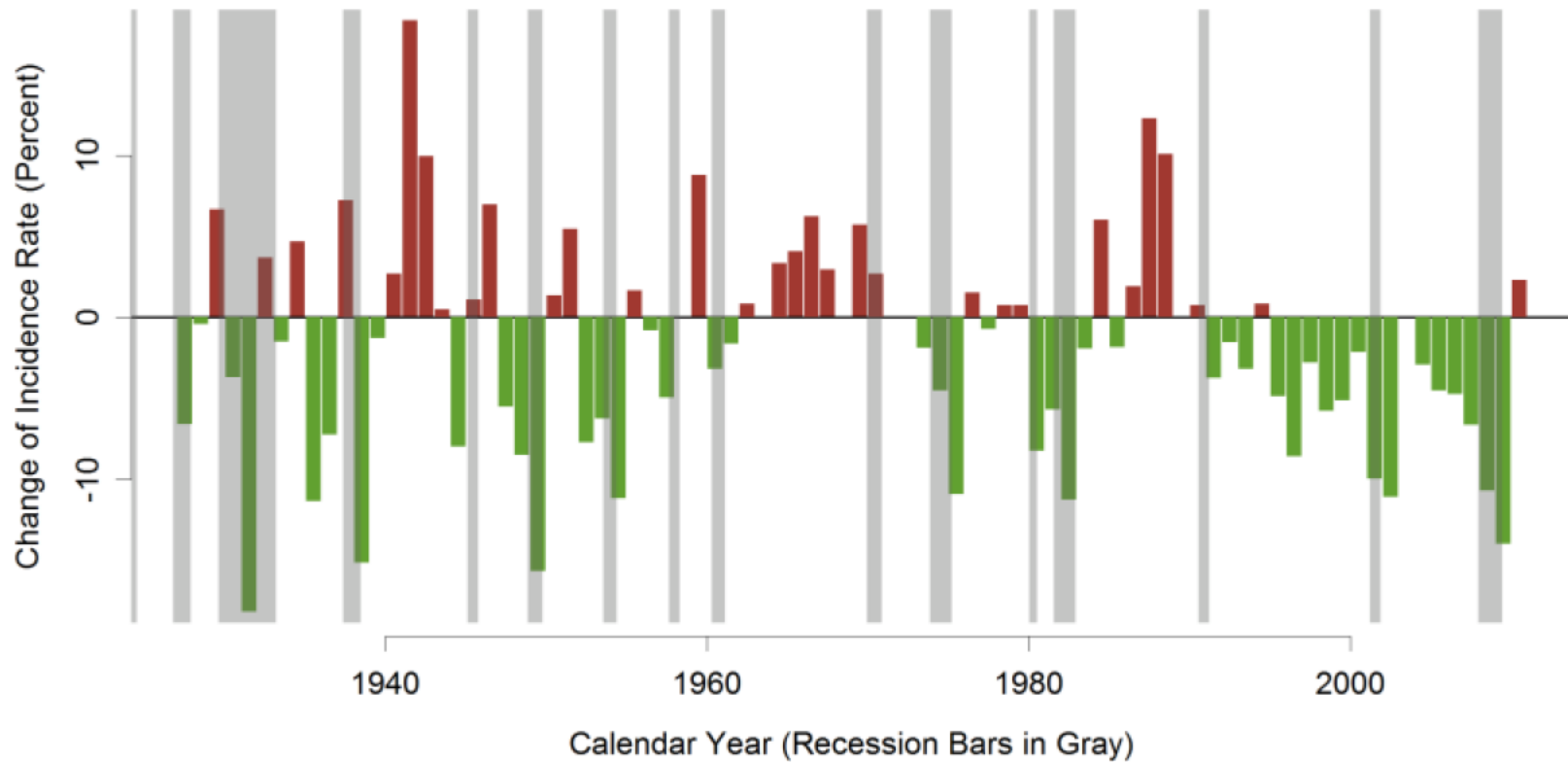


Job creation and job destruction quantify the number of jobs created or destroyed per number of existing jobs. The measures are net at the establishment level but gross at the firm level. The establishment typically refers to the physical location of production. Steven, Faberman, and Haltiwanger: Q2/1990 - Q2/1992; BLS: Q3/1992 - Q2/2011.

Frequency of observation: quarterly; latest available data point: Q2/2011.

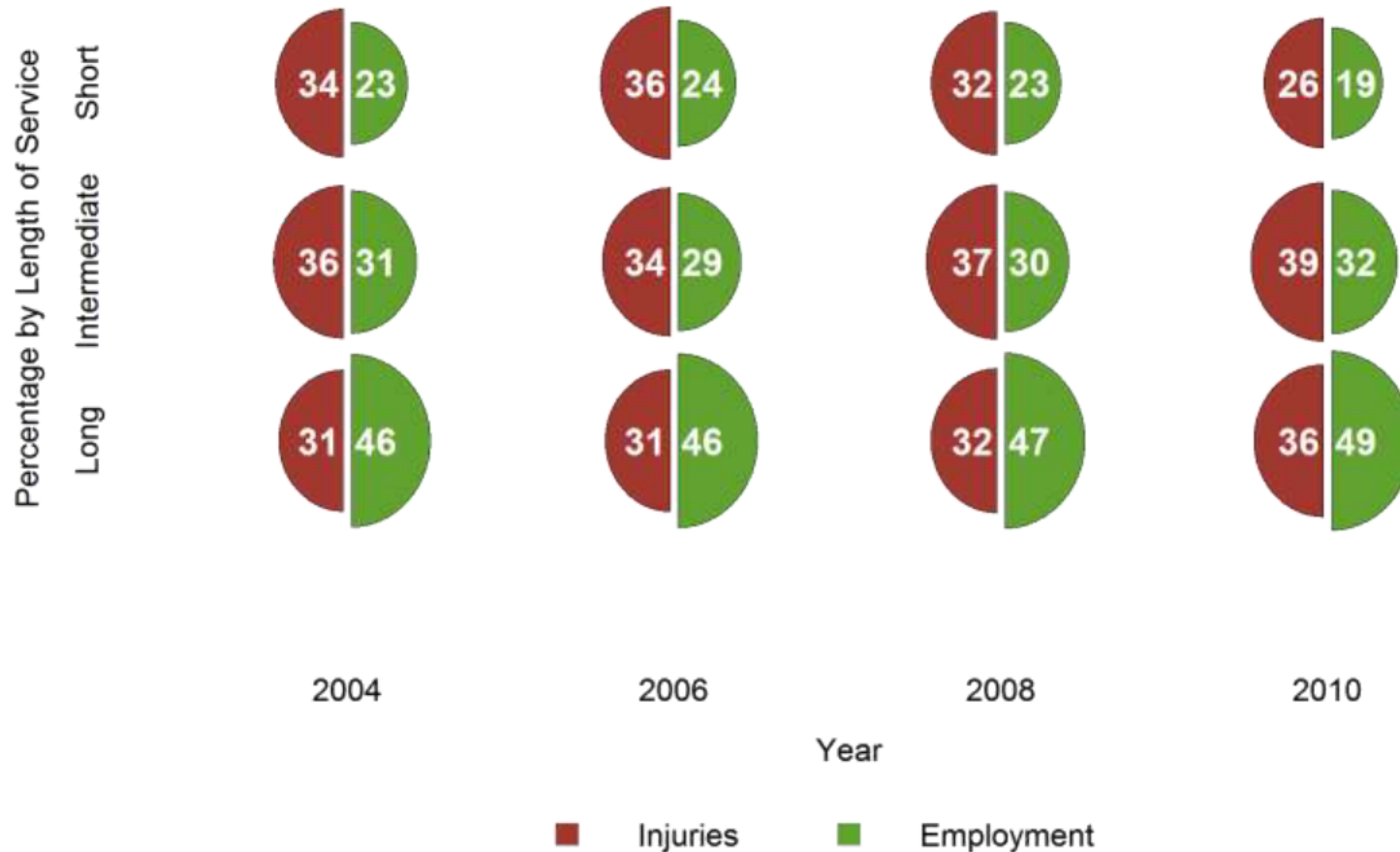
Sources: Business Employment Dynamics (www.bls.gov/bdm); Davis, Steven J., R. Jason Faberman, and John Haltiwanger, 2006. "The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links." *Journal of Economic Perspectives*, 20(3): 3-26

Manufacturing Incidence Rates Drop Sharply During Recessions



1926-1970: Frequency of Disabling Injuries per Million Man-Hours Worked; 1972-2010: Injury and Illnesses Cases per 100 Full-Time Equivalent Workers, Total Recordable Cases. No data available for 1971; no growth rates available for 1971 and 1972. Effective 2003, based on NAICS; no growth rate calculated for 2003. Frequency of observation: annual; latest available data point: 2010. Sources: *Historical Statistics of the United States: Colonial Times to 1970*, Census Bureau, 1975; *Statistical Abstract of the United States*, Census Bureau, various years; Timothy Webster, 1999, <http://www.bls.gov/opub/cwc/archive/fall1999brief3.pdf>; BLS

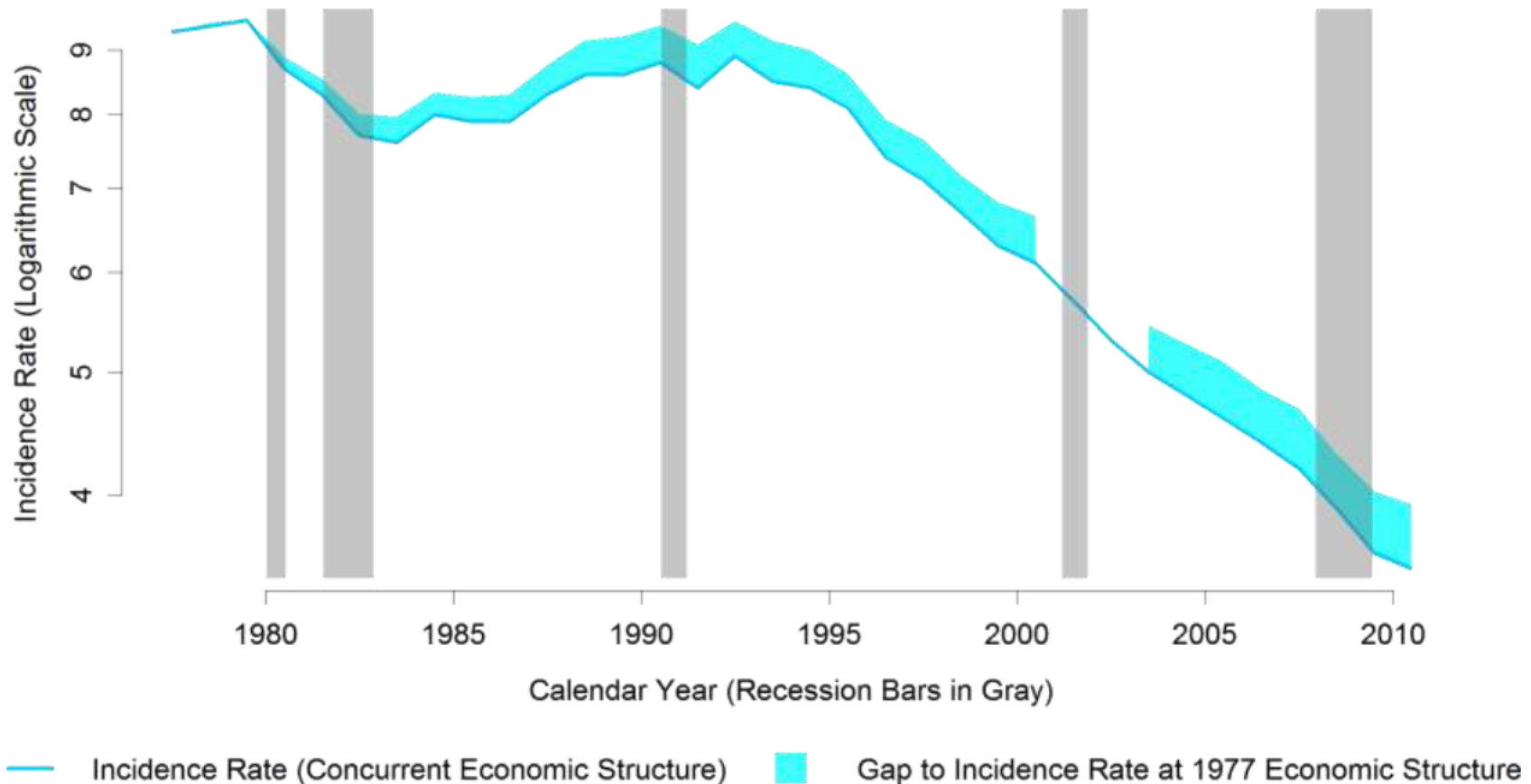
Short-Tenured Employees Are Overrepresented Among the Injured



Workplace injuries represent nonfatal injuries and illnesses involving days away from work. Short job tenure means 11 months or less (workplace injuries) or 12 months or less (employment). Intermediate length of service means 1 to 5 years and 13 months to 4 years, respectively. Long length of service means more than 5 years or 5 years or more, respectively. Percentages for workplace injuries do not account for a small "residual category." Job tenure information for employment is available bi-annually (for January only). Percentages may not add to 100 due to rounding. Source: U.S. Bureau of Labor Statistics, <http://www.bls.gov>



The Decline in the Incidence Rate Is Largely Due to Workplaces Getting Safer by Design



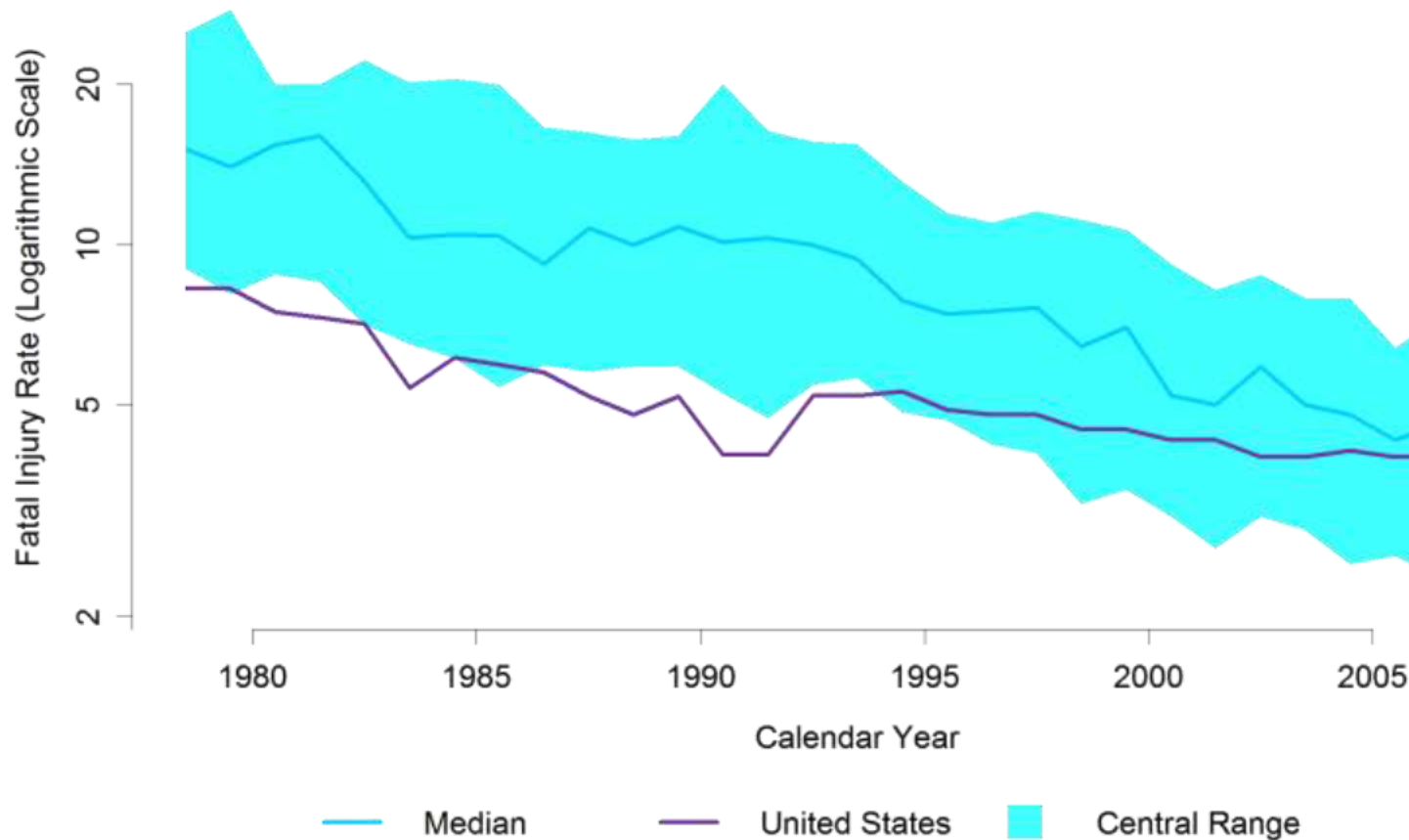
Injury and Illnesses Cases per 100 Full-Time Equivalent Workers, Total Recordable Cases, All Private Industry.

Frequency of observation: annual; latest available data point: 2010.

No data points are available for 2001 and 2002 due to changes in industry classification.

Sources: Bureau of Economic Analysis (BEA), <http://www.bea.gov>; U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov/iif>

The Rate of Fatal Injury Is Falling Around the World



Rate of fatal injury per 100,000 workers (or equivalent, when published based on hours worked).

Frequency of observation: annual; latest available data point: 2008.

Sources: International Labour Organization (ILO), <http://www.ilo.org>; U.S. Bureau of Labor Statistics (BLS), <http://www.bls.gov>



Implications for Workers Compensation

The Macroeconomic Environment
Is Stable, but Is it Favorable?

Implications for Workers Compensation

Low and Stable Rates of Inflation, Interest, and Economic Growth

- Economic growth is slow and is likely to remain sub-par for several years into the future
 - Job creation is tepid (and is likely to remain so)
 - As a consequence, upward pressure on claim frequency is limited
- Inflationary forces are weak, due to significant excess industrial capacity and high unemployment
 - Medical Care price inflation and wage inflation is likely to be muted