Antitrust Notice

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• It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.
U.S. GDP growth slowed slightly in the second quarter and is expected to continue to grow at a modest pace.

**Real Gross Domestic Product (GDP)**

*Annualized Percent Change from Previous Period*

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1 2011</th>
<th>Q2 2011</th>
<th>Q3 2011</th>
<th>Q4 2011</th>
<th>Q1 2012</th>
<th>Q2 2012</th>
<th>2012 Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>2008</td>
<td>0%</td>
<td>-1%</td>
<td>-2%</td>
<td>-3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2009</td>
<td>-4%</td>
<td>-2%</td>
<td>-1%</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>-2%</td>
</tr>
<tr>
<td>2010</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

*Source: Bureau of Economic Analysis & Federal Open Market Committee (FOMC)*
CONTRIBUTIONS TO PERCENT CHANGE IN GDP

Annualized Percent Change from Previous Period

Consumer spending makes up more than 70% of GDP.

Source: Bureau of Economic Analysis
Unemployment rates have fallen over the past year but remain stubbornly high.

**U.S. Unemployment Rate**

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5.1%</td>
</tr>
<tr>
<td>2006</td>
<td>4.6%</td>
</tr>
<tr>
<td>2007</td>
<td>4.6%</td>
</tr>
<tr>
<td>2008</td>
<td>5.8%</td>
</tr>
<tr>
<td>2009</td>
<td>9.3%</td>
</tr>
<tr>
<td>2010</td>
<td>9.6%</td>
</tr>
<tr>
<td>2011</td>
<td>9.0%</td>
</tr>
<tr>
<td>2012</td>
<td>8.3%</td>
</tr>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
</tbody>
</table>

*June 2012 FOMC Central Tendency Projections*

Source: Bureau of Labor Statistics & Federal Open Market Committee (FOMC)
Inflation increased earlier this year but moderated in the second quarter as oil prices fell.

**U.S. Personal Consumption Expenditure (PCE) Inflation**

*Annualized Percent Change from Previous Period*

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**Source:** Bureau of Economic Analysis & Federal Open Market Committee (FOMC)
“…the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.”

- FOMC August Statement

**Effective Federal Funds Rate**
“The Committee also decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.”

- FOMC August Statement
“The Committee also decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.”

- FOMC August Statement
Employment growth slowed in the second quarter but remains well above year ago levels.

U.S. NONFARM EMPLOYMENT GROWTH

Index 100 = July 2002, Seasonally Adjusted

July 2012
Year-over-Year Change
United States
1.4%
Most states have experienced employment gains over the past year.

**July 2012 Nonfarm Employment**
*Seasonally Adjusted, Year-over-Year Change*

United States
1.4%

Source: Bureau of Labor Statistics
Over the past year, employment gains were widespread across industries.

U.S. NONFARM EMPLOYMENT
OVER THE PAST YEAR, JULY 2012
Seasonally Adjusted

- Natural Resources & Mining: 5.8%
- Professional & Business Services: 3.4%
- Educational Services: 2.8%
- Leisure & Hospitality: 2.2%
- Health Care & Social Assistance: 2.0%
- Wholesale Trade: 2.0%
- Transportation & Warehousing: 1.9%
- Manufacturing: 1.9%
- Financial Activities: 0.8%
- Other Services: 0.7%
- Retail Trade: 0.6%
- Construction: 0.1%
- Utilities: 0.1%

- State Government: 0.0%
- Local Government: -0.5%
- Information: -0.7%
- Federal Government: -1.3%

Source: Bureau of Labor Statistics
However, employment is still down more than 10% in information, manufacturing, and construction.

**U.S. Nonfarm Employment since the Recession Started (Dec. 2007 to July 2012)**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent Change</th>
<th>Share of Total Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>13.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>11.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>9.1%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>0.5%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>-0.6%</td>
<td>13.5%</td>
</tr>
<tr>
<td>State Government</td>
<td>-1.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Other Services</td>
<td>-2.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Local Government</td>
<td>-2.9%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Transportation &amp; Warehousing</td>
<td>-3.8%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-5.2%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-5.9%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-6.6%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Information</td>
<td>-12.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-12.8%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Construction</td>
<td>-26.4%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

*Source: Bureau of Labor Statistics*
Although unemployment rates have fallen, rates remain high across much of the country.

**July 2012 Unemployment Rate**

*Seasonally Adjusted*

![Map showing the unemployment rates across the United States. The United States has a seasonally adjusted unemployment rate of 8.3%.](image)

**United States**
8.3%

*Source: Bureau of Labor Statistics*
Consumer confidence has fallen in recent months.

**Consumer Confidence Index**

*Seasonally Adjusted*

Source: The Conference Board, Inc.
Slower employment growth and lower confidence have contributed to slower consumer spending growth.

**REAL RETAIL & FOOD SERVICE SALES**

*Index 100 = July 2002, Seasonally Adjusted*

*July 2012 Year-over-Year*

United States

2.7%

*Source: Federal Reserve Bank of St. Louis*
Over the last few months personal income gains have outpaced growth in consumer spending leading to a higher savings rate.

**Real Personal Income & Spending**

*Seasonally Adjusted Annual Rate*

Index 100 = July 2002

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**Source:** Bureau of Economic Analysis
The manufacturing sector continues to expand in the Tenth District.

**Manufacturing Activity**

*Diffusion Index, Seasonally Adjusted, Month-over-Month*

<table>
<thead>
<tr>
<th>Month</th>
<th>Index</th>
<th>Month</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug '02</td>
<td></td>
<td>Aug '04</td>
<td></td>
</tr>
<tr>
<td>Aug '06</td>
<td>54.2</td>
<td>Aug '08</td>
<td>50</td>
</tr>
<tr>
<td>Aug '10</td>
<td>50</td>
<td>Aug '12</td>
<td></td>
</tr>
</tbody>
</table>

Note: Federal Reserve Surveys are computed on an ISM Basis (50 = no change)

Source: Institute for Supply Management & Federal Reserve Banks of Kansas City
Manufacturers in the Tenth District expect higher levels of activity over the next six months.

**Tenth District Manufacturing Expectations**

Diffusion Index, Seasonally Adjusted, Six Months Ahead

Source: Institute for Supply Management
Home prices fell sharply over the last few years in many parts of the country.

Change in Home Prices Peak (2007Q2) to Current (2012Q2)

FHFA Purchase-Only Index

United States
-17.6%

Source: Federal Housing Finance Agency
However, home prices have stabilized over the past year.

**CHANGE IN HOME PRICES Year-over-Year, 2012Q2**

*FHFA Purchase-Only Index*

[Map showing change in home prices across the United States.]

- **United States**: 3.0%
- **Source**: Federal Housing Finance Agency
Residential construction activity is picking up but remains well below pre-recession levels.

**Value of Residential Construction Contracts**

*Index 100 = July 2002, Seasonally Adjusted, Three-Month Moving Average*

Source: McGraw Hill/F.W. Dodge
Residential construction activity has increased in almost every state over the past year.

**Value of Residential Construction**

*Percent Change, Cumulative Year-to-Date January through July 2012*

United States 24.6%

Source: McGraw Hill/F.W. Dodge
Non-residential construction activity has struggled to recover from the recent recession.

**Value of Non-residential & Non-building Construction**
*Seasonally Adjusted, Three-Month Moving Average*

*United States, Billions*

Source: McGraw Hill/F.W. Dodge
Improvements in non-residential construction activity have varied across the country.

**Value of Non-Residential & Non-Building Construction**

*Percent Change, Cumulative Year-to-Date  January through July 2012*

![Map showing the percentage change in non-residential and non-building construction across the United States. The map uses different shades to indicate the percentage change range: More than 50%, 25 to 50%, 0 to 25%, -25 to 0%, -50 to -25%, -71.9 to -50%. The United States has a cumulative year-to-date change of -5.4%.]

*Source: McGraw Hill/F.W. Dodge*
Drilling activity is responding to prices with oil drilling up and natural gas drilling down.

U.S. Active Drilling Rig Count

Growth has slowed sharply in Europe this year and is expected to remain slow in 2013.

**World Economic Outlook Projections**

*Percent Change*

Source: International Monetary Fund (IMF)
Exports to Europe make up about 18% of total U.S. exports.

**U.S. EXPORTS BY TRADE PARTNER**

**Billions**

**JUNE 2012**

**YEAR-TO-DATE**

**Percent Change**

<table>
<thead>
<tr>
<th>Total Trade</th>
<th>7.0%</th>
<th>SHARE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>8.2</td>
<td>38.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>7.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>11.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Canada</td>
<td>5.9</td>
<td>19.0</td>
</tr>
<tr>
<td>China</td>
<td>6.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Eurozone</td>
<td>2.9</td>
<td>18.1</td>
</tr>
</tbody>
</table>

*2011 Shares

Note: The Eurozone includes the 27 European Union member countries

Source: International Trade Administration & WiserTrade

YTD through June
Growth has also slowed somewhat among emerging and developing countries, but growth is expected to pick up next year.

World Economic Outlook Projections

Percent Change

Source: International Monetary Fund (IMF)
U.S. Federal government debt levels have increased significantly over the last few years.

**U.S. Debt to GDP Ratio**

Source: Bureau of Economic Analysis & Congressional Budget Office (August 2012 Projections)
Under current law, U.S. deficits are expected to fall sharply over the next several years.

**U.S. Deficit to GDP Ratio**

- **Debt Service Payments**
- **Spending Cuts**
- **Extended Tax Policies**

*Baseline (Current Law)*

**Source:** Congressional Budget Office (August 2012 Projections)
Under current law, several tax increases and spending cuts could lead to a slowdown in economic growth next year.

**GDP & THE “FISCAL CLIFF”**

*Percent Change (Annualized Quarterly Rates)*

- **Baseline (Current Law)**
- **CBO Projections 2012Q2 to 2013Q4**

Source: Bureau of Economic Analysis & Congressional Budget Office (August 2012 Projections)
United States

Economic Update

This presentation will be available at
http://www.kc.frb.org/denver/

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