Insurance Economics Outlook: Monetary Policy, Trade, and P&C

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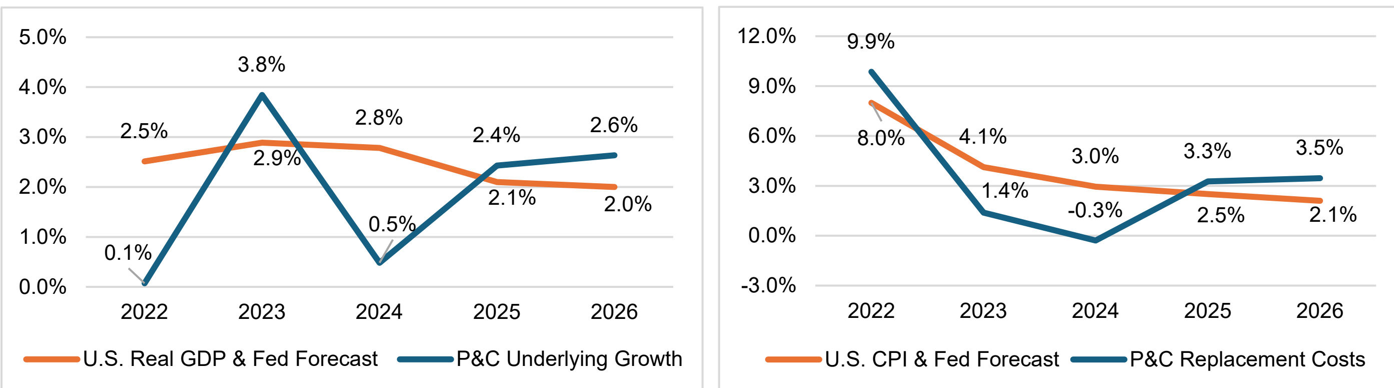
P&C insurance underlying growth remains resilient amidst rising replacement costs and trade uncertainty.

Our baseline scenario for the U.S. economy in 2025 is real GDP growth between 2.75% and 3.25% and inflation between 3.00% and 3.50%. Our GDP forecast is slightly more optimistic than the Fed's, while our inflation forecast is aligned. Continued expectations of monetary easing are critical to maintaining GDP growth in 2025, especially considering weakening consumer confidence, ongoing concerns about headline inflation, and growing macroeconomic and macropolitical uncertainty.

U.S. AND P&C GROWTH AND INFLATION
(2022-2026 YOY%)



Source: P&C Growth and Replacement Costs: Triple-I; U.S. Inflation and GDP: BLS (2023-24) and Fed (2025-26); (as of 02/10/2025).

In our assessment, the expansionary impact of actual and expected monetary rate cuts is critical to maintaining overall GDP growth as the U.S. economy faces short-term dislocation. The threats posed by halting or reversing monetary easing, for example to residential housing and commercial construction, outweigh concerns about resurgent inflation as reported by current economic data. Continued easing would be consistent with the Fed's willingness to accept structural inflation above 2%.

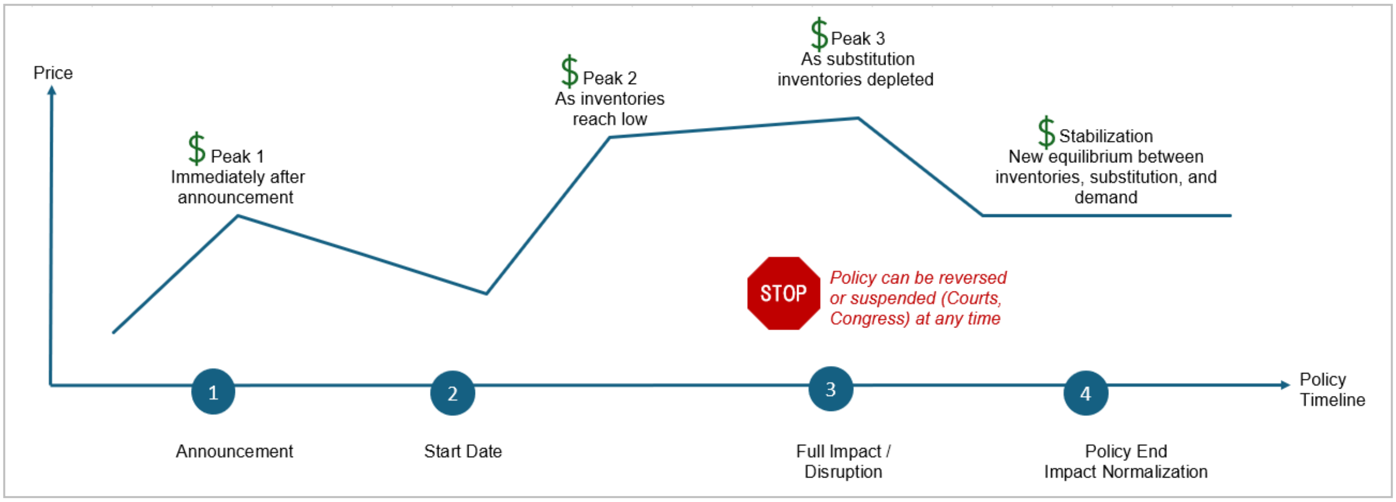
Trade Barriers and P&C Lines

Economic dislocation, especially a shift away from open trade, would have the most significant impact on underlying growth and replacement costs for personal auto and homeowners insurance. It would also contribute to higher losses for commercial surety and specialty lines such as trade credit, business interruption, and political risk. In general, the increase in the price of impacted goods is primarily a function of inventory levels, ease of substitution, and margins along the product's value chain. These three factors are more important in determining the actual cost increase than the size of the tariffs or quotas themselves.

The impact of tariffs and quotas tends to follow a straightforward timeline: announcement, start date and, if applicable, end date. Typically, this leads to three peaks in the price of impacted goods: peak one in the days after the policy announcement, peak two in the weeks after the policy's start date, and peak three in the months after the policy start date. The more precise timing of peaks two and three is a function of the impacted goods' inventory levels and ease of substitution.

TIMELINE OF TARIFF IMPACTS ON COSTS

(Price of Impacted Goods Throughout Policy Timeline)



Source: Triple-I (as of 02/10/2025).

Triple-I's stress tests (see Outlook Q4 2024) quantified the possible impact of trade protectionist measures such as tariffs and quotas on individual P&C lines. Our baseline stress tests scenario used single-digit tariffs (3.0% to 7.0%) on goods likely to be subject to tariffs such as autos, lumber and steel, electronics, and agricultural products. The stress tests' primary impact was to increase P&C replacement costs across all lines by up to 7.7% above overall CPI. Personal and commercial autos were likely to be the most impacted with replacement costs increases of up to 16.5%, followed by commercial property and homeowners replacement cost increases of up to 14.3%.

Our stress tests did not quantify the impact of double-digit tariffs. In most cases, the increase in the cost of goods impacted by double-digit tariffs will be too high for the production and consumption of those goods to remain economically viable. As such, the impact of double-digit tariffs is less about forecasting cost increases, and more about determining how long before the impacted goods are no longer economically viable to produce or purchase.

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