

It's Not All Social Inflation – Is General Inflation Back for Real?

Worldwide Overview of How Actuaries Should Consider These Two Forms of Inflation

Hurricane Ida



2018 Honda Civic EX-L

- Purchased for \$18,500 in April 2021
- Insurer valued car and paid out based on valuation of \$21,900 – September 2021
- Purchased new 2018 Honda Civic EX-L for \$21,500 in October 2021
- Over 16% increase in value in less than 6 months



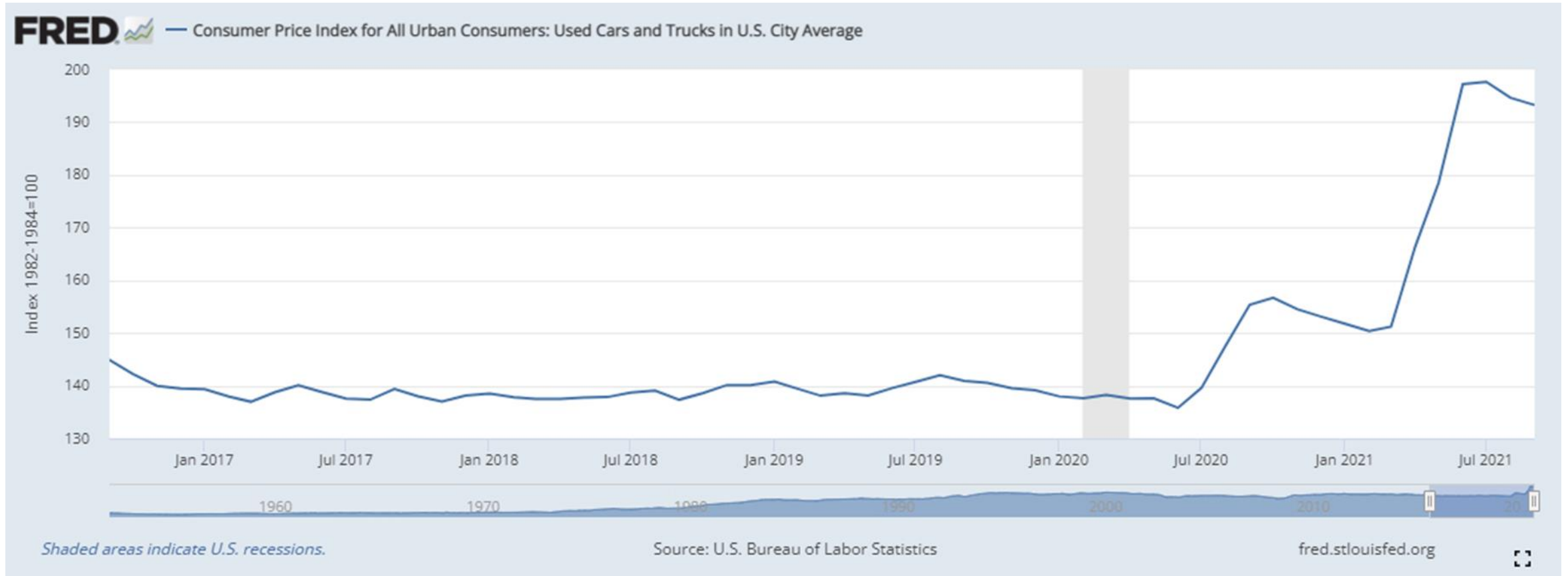
Here's why used car prices are at all-time highs

CNBC's Phil LeBeau joins Shep Smith to explain why the average price for a used car is up 25% over last year at this time.

WED, SEP 22 2021 • 7:42 PM EDT



Consumer Price Index – Used Vehicles



24% increase from September 2020 to September 2021

Increased automobile costs - Inflationary or temporary?

- Semiconductor Chip Shortage



U.S. auto sales forecast to plummet in third quarter as chip shortage plagues industry

PUBLISHED THU, SEP 30 2021:3:25 PM EDT | UPDATED THU, SEP 30 2021:5:18 PM EDT

- Factory closings and slowdowns causing decreased profitability



Chip shortage expected to cost auto industry \$210 billion in revenue in 2021

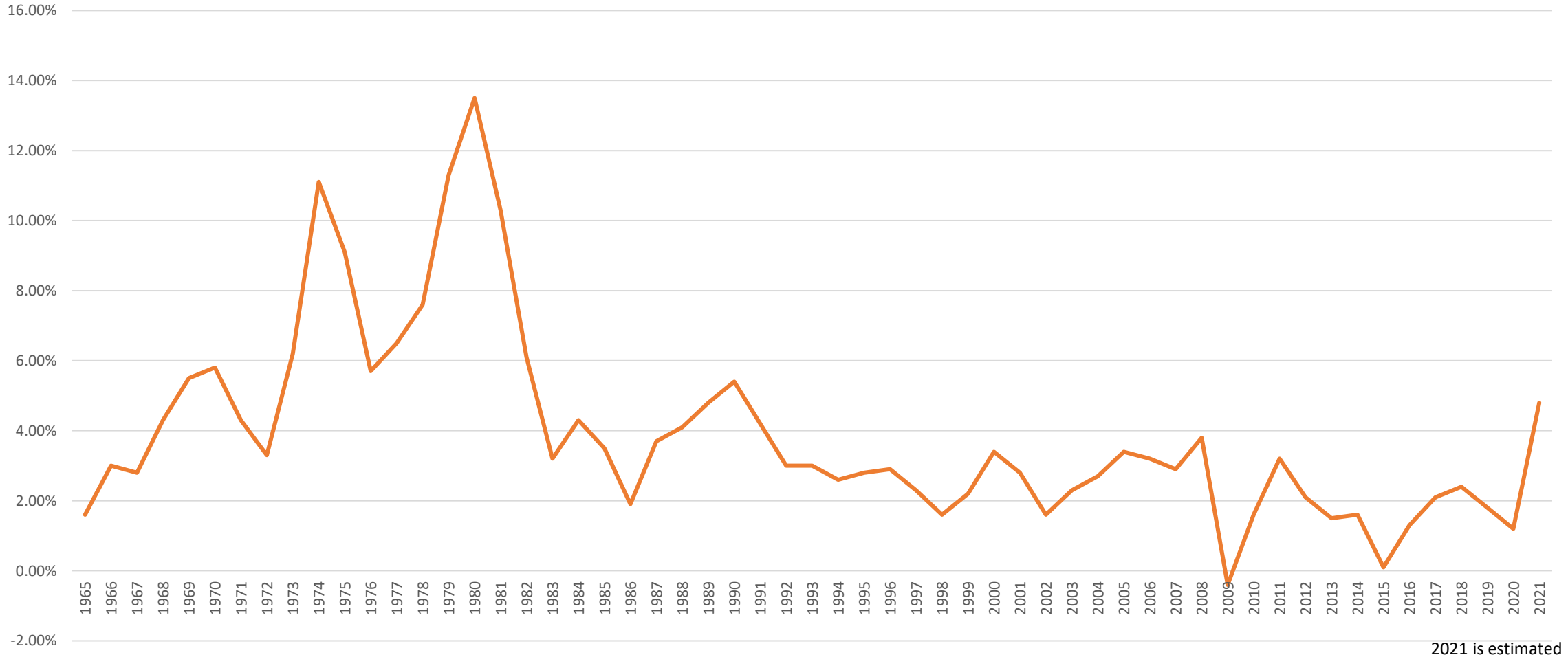
PUBLISHED THU, SEP 23 2021:12:01 AM EDT | UPDATED THU, SEP 23 2021:8:42 AM EDT

Is inflation back?



Historical USA inflation rates

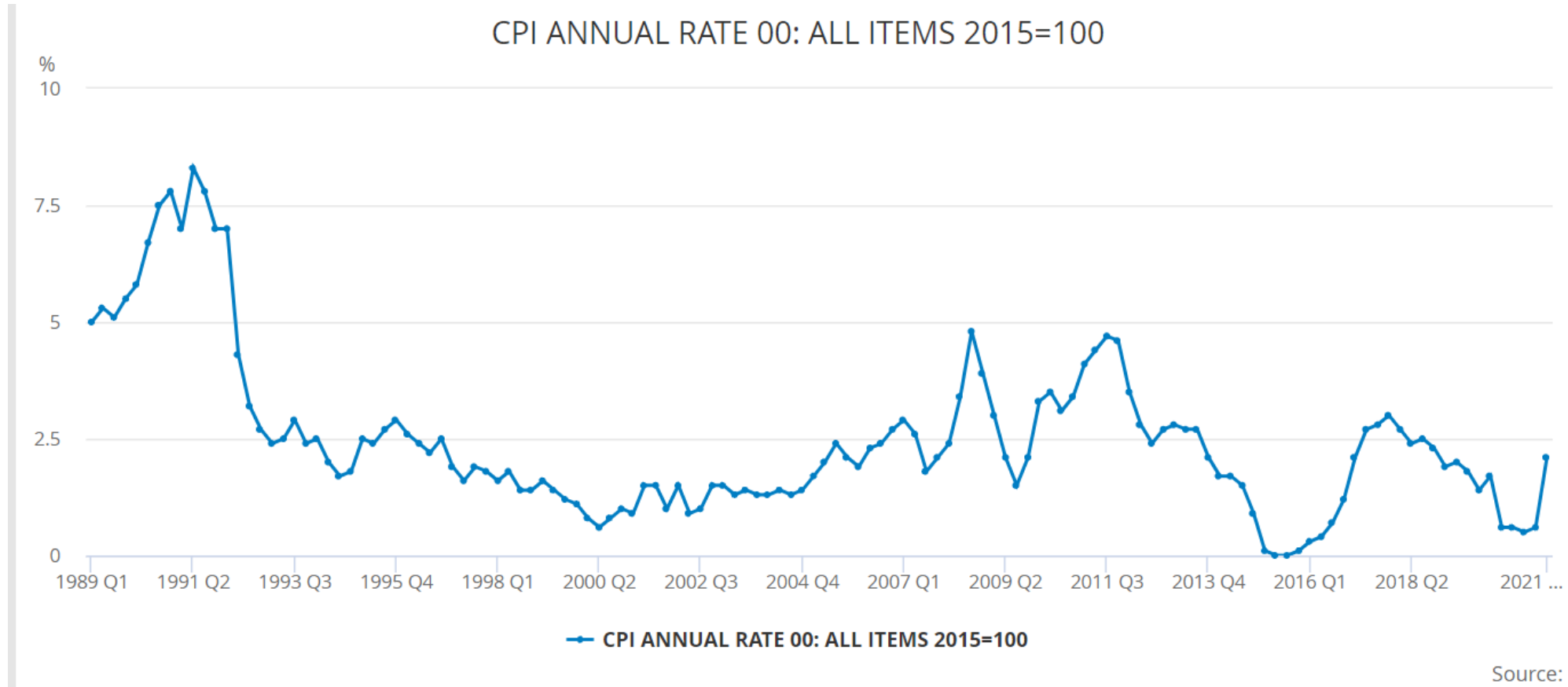
Inflation - CPI
Minneapolis Fed



2021 is estimated



Historical UK inflation rates



Inflation - CPI
UK Office for National Statistics



Have we cried **INFLATION!** too often?

**The
Economist**

September 23, 1999

Hubble, bubble, asset-price trouble

Central banks should pay more attention to rising share and property prices

NEW YORK POST

February 13, 2003

GREENSPAN'S REALLY WORRIED ABOUT INFLATION

By **John Crudele**

February 13, 2003 5:00am

**Federal Reserve Bank
of San Francisco**

April 2011

With the soaring commodity prices, are you worried about higher headline inflation?

Forbes

August 4, 2018

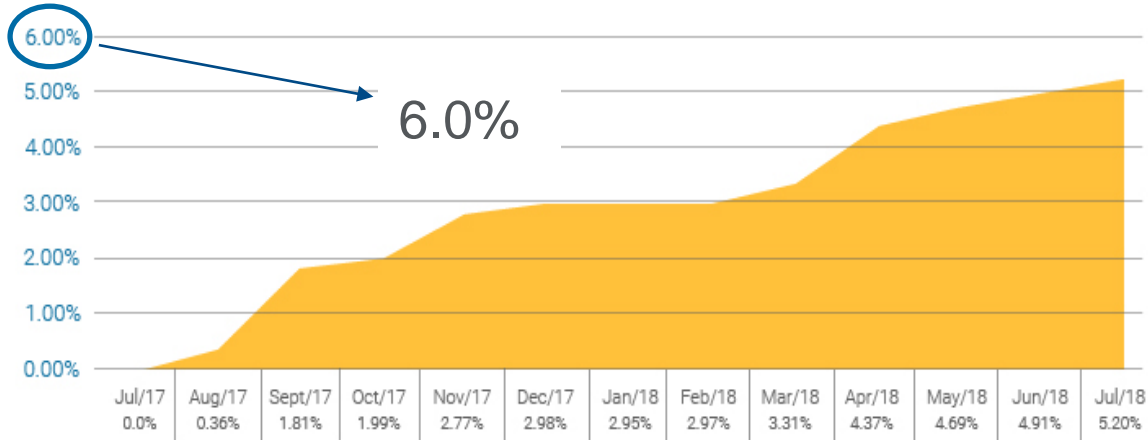
Time To Worry About Inflation -- And The Fed's Effort To Stop It



Construction materials costs – Note the change in scale!

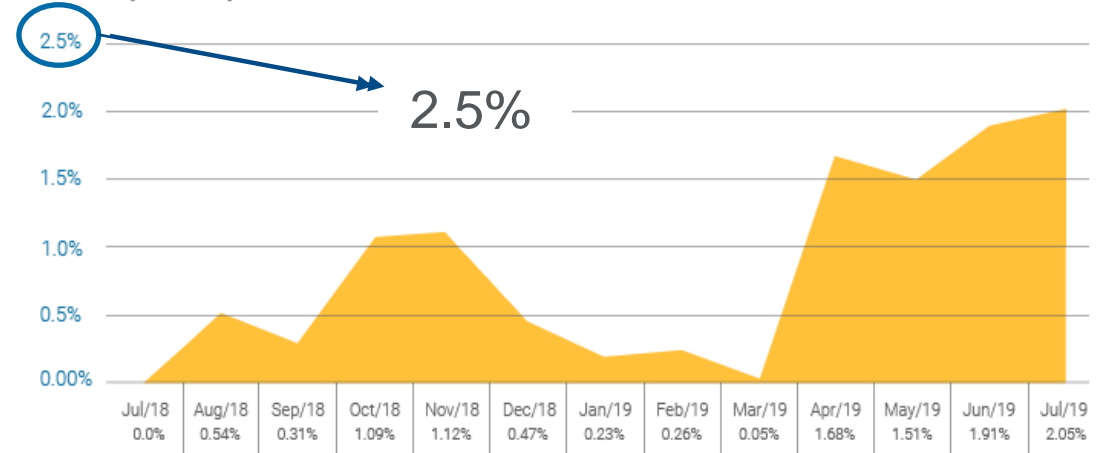
Material Composite Index 2017 - 2018

July 2017- July 2018



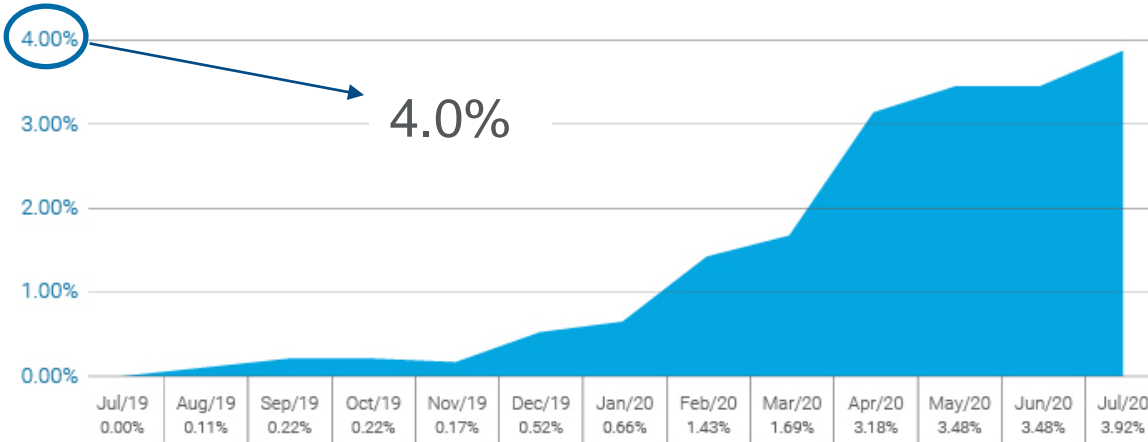
Material Composite Index 2018 - 2019

July 2018 - July 2019



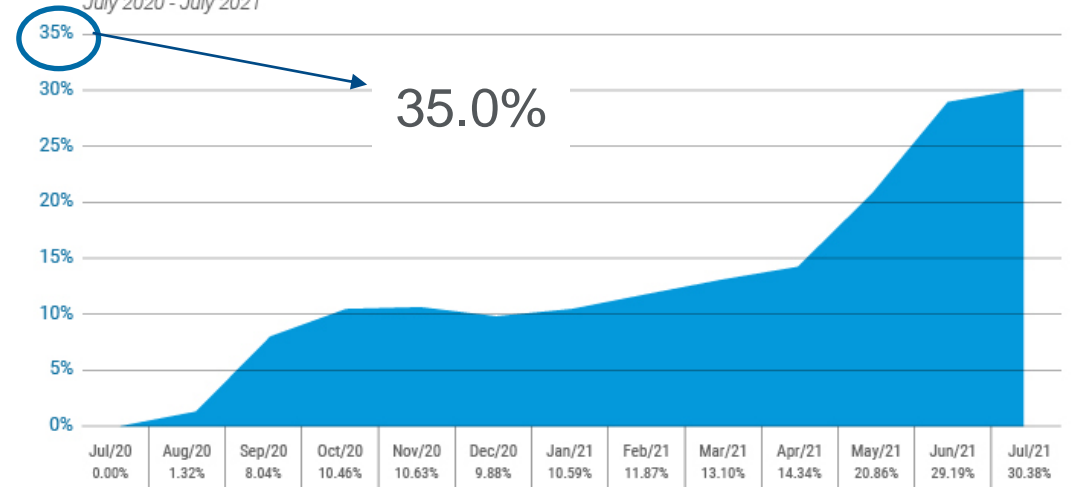
Material Composite Index 2019 - 2020

July 2019 - July 2020



Material Composite Index 2020 - 2021

July 2020 - July 2021



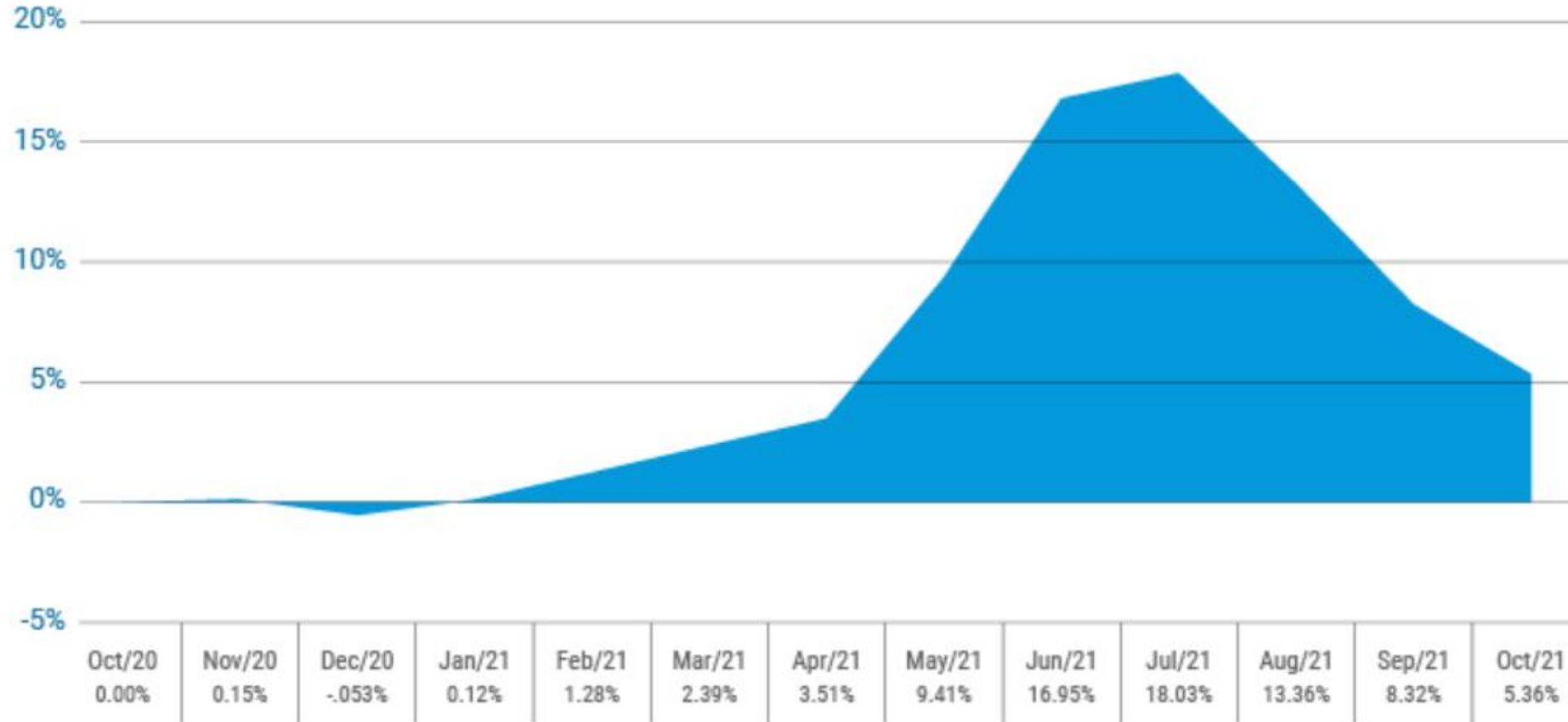
Xactware Material Composite indices, 2018 -2021



October 2021 Index Update

Material Composite Index

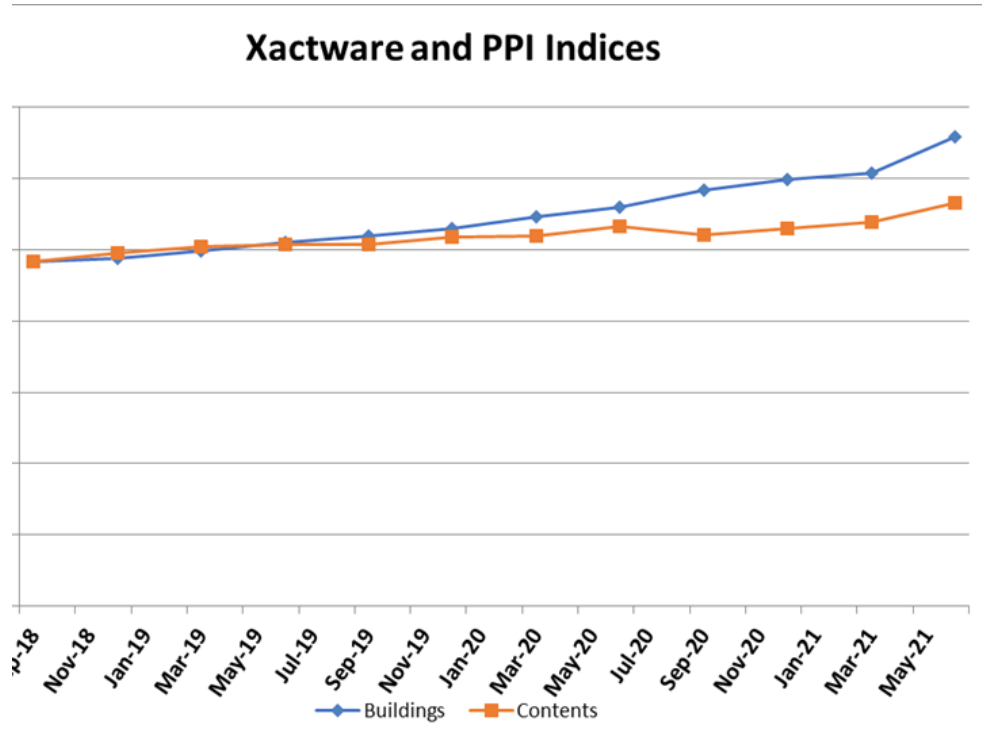
October 2020 - October 2021



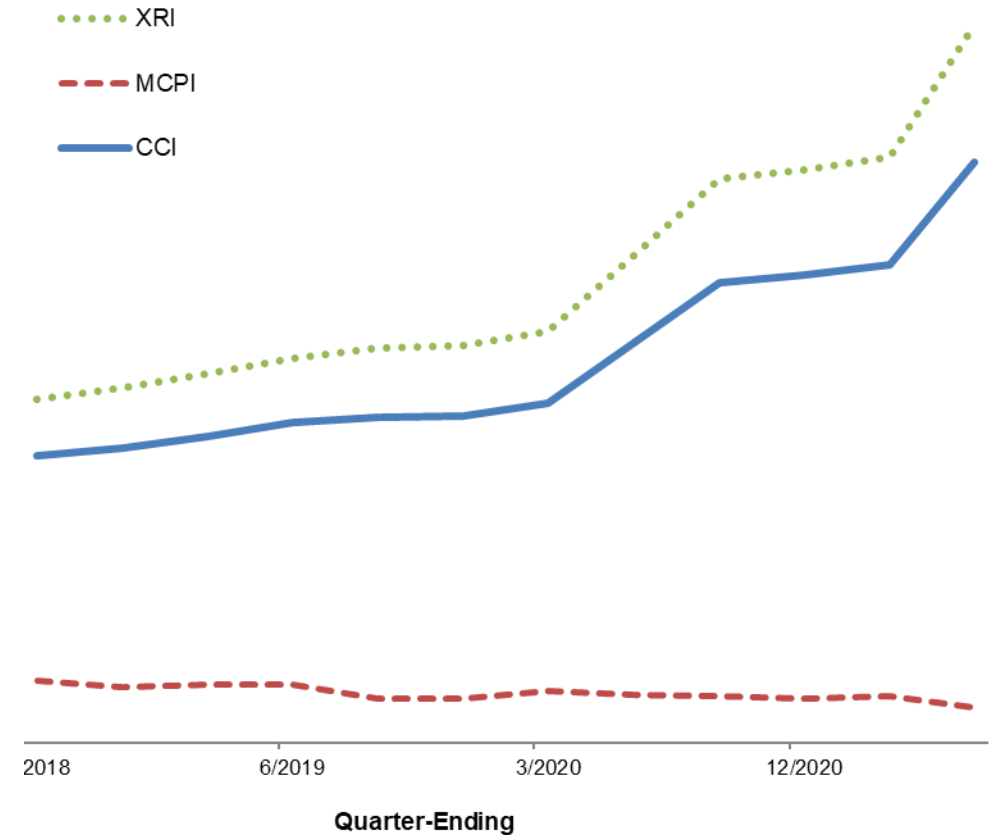


Construction costs

Commercial trend



Residential trend



Why Commercial (2.2% latest Q) less than Residential (8.0%)?

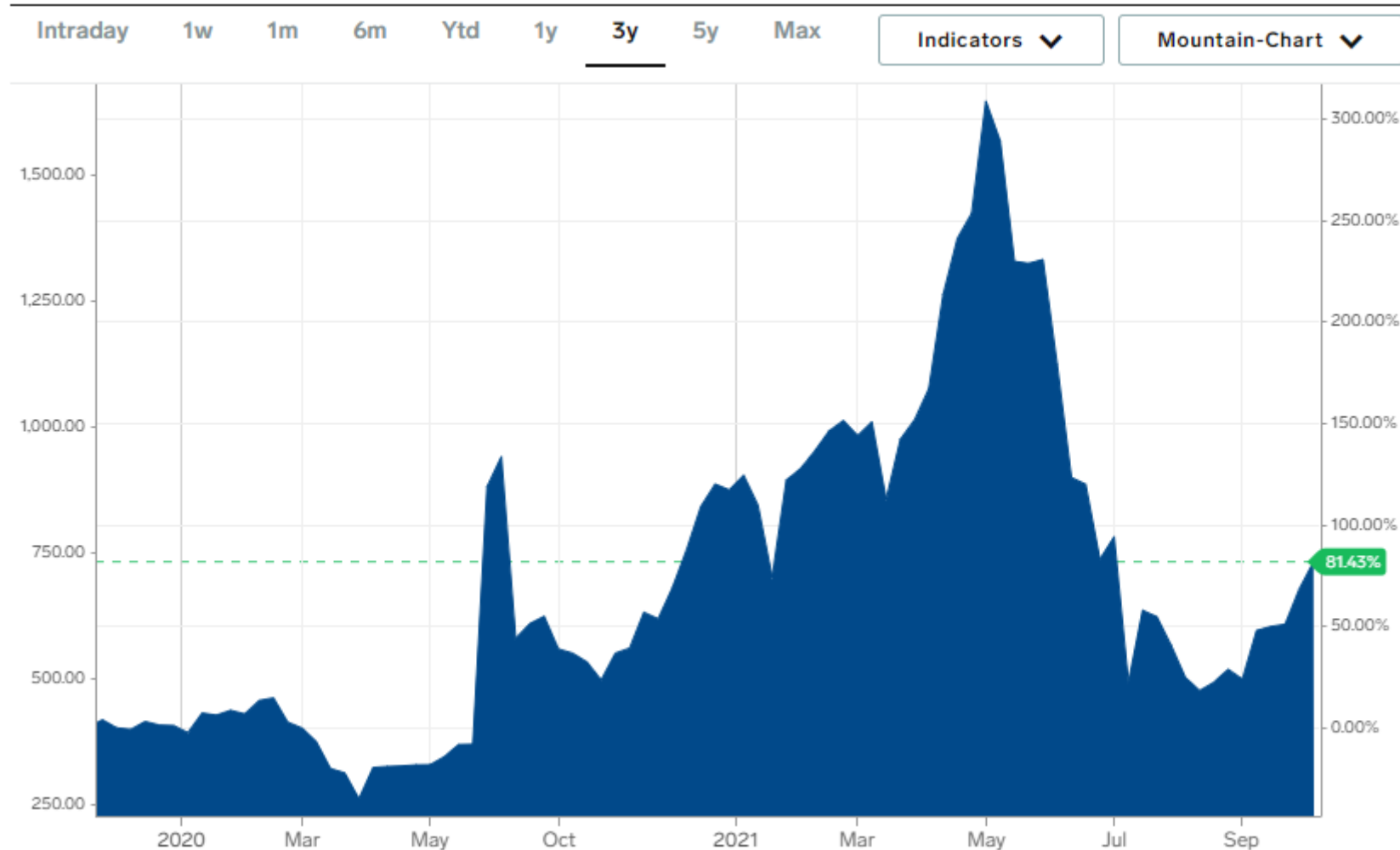
- Lumber vs. Steel & Concrete
- Higher labor weight
- Building finishing (Elevators, Sprinklers, etc.)

ISO Homeowners trend – Actuarial & Strategic Data Insights



But on the other side.... Price spike or inflation?

US Lumber futures (LBS)



MarketWatch, Three years ending October 14, 2021

Wage Inflation

Wages are rising..



Walmart-owned Sam's Club raises minimum wage to \$15, as retailers and restaurants compete for talent

PUBLISHED TUE, SEP 14 2021•1:23 PM EDT | UPDATED TUE, SEP 14 2021•3:03 PM EDT

But is that being offset by inflation?



Wages are rising, but inflation may have given workers a 2% pay cut

PUBLISHED TUE, JUL 27 2021•1:30 PM EDT | UPDATED TUE, JUL 27 2021•6:37 PM EDT

Or even causing inflation?

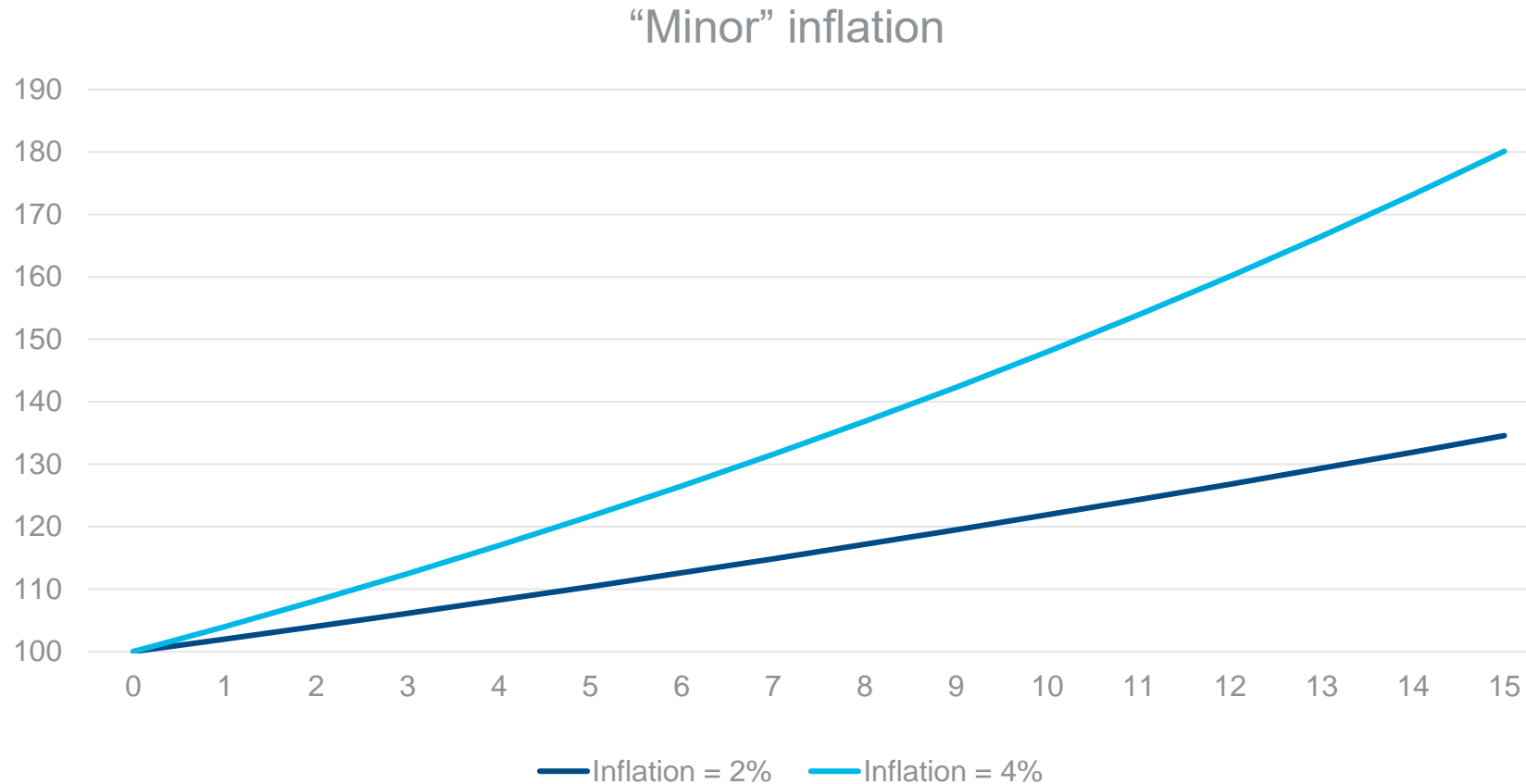


A sharp rise in wages is contributing to worries over inflation

PUBLISHED TUE, SEP 7 2021•2:15 PM EDT | UPDATED TUE, SEP 7 2021•4:09 PM EDT

Effects of “minor” inflation

Consider the difference between 2% inflation and 4% on a long-tailed line, with a 15 year horizon





Effects of “minor” inflation

Consider the hypothetical difference between 2% inflation and 4% on a long-tailed line, with a 15 year horizon
Assume a UK insurer with “fully reserved” claims on a nominal and expected inflation basis

Expected year of payments Year 0	Nominal (today's date) Pound Sterling of expected ultimate loss	Reserved expected ultimate loss with 2% inflation assumption	Actual loss payments given realized 4% inflation	Difference
Year 2	£4M	£4.16M	£4.33M	£0.17M
Year 4	£3M	£3.25M	£3.52M	£0.27M
Year 6	£4M	£4.5M	£5.07M	£0.57M
Year 8	£6M	£7.03M	£8.24M	£1.21M
Year 10	£12M	£14.63M	£17.83M	£3.2M
Year 12	£10M	£12.68M	£16.08M	£3.4M
Year 14	£5M	£6.6M	£8.71M	£2.11M
Totals	£44M	£52.85M	£63.78M	£10.93M

Dealing with Inflation

- Built in Inflation Mitigation
 - Inflation Sensitive Exposure Bases
 - Sales
 - Payroll
 - Amount of Insurance
 - Model Year Rating
 - Audits
- Non-Inflation Sensitive Exposure Bases
 - Square Footage
 - Car Years or Units
 - Number of Rooms
 - Number of Patients



The issue is less if you have consistent inflation expectations, and more when they change
Similar to Social Inflation in that way



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