Nationwide Economics

P&C Economic Trends

Quarterly snapshot of exposure and severity trends across personal auto, homeowners, and commercial lines.

2026 | Q3

Elevated costs and interest rates sway P&C growth in 2026

What's in this issue?

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High mortgage rates continue to constrain home sales and construction, supporting rental demand

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Business investment gets a boost from AI, but hiring remains restrained

U.S. Economy | Growth remains solid despite lingering energy price shock

Current Economy

Consumer spending has been resilient as solid income gains and a wealth effect from asset appreciation have offset higher gasoline costs and inflationary pressures.

Inflation has cooled off following a brief reacceleration from the sharp increase in energy prices tied to the Iran conflict; core inflation remains contained.

Housing demand is still soft, constrained by high mortgage rates and home prices; construction of single-family homes has been stifled by low demand and expensive inputs.

The Fed is likely to remain on hold until 2027 as officials evaluate renewed inflation pressures, although dissenting voices suggest rate hikes are possible before year end.

	2025	2026F	2027F	2028F
Real GDP *Y/Y percent change*	2.0%	**2.1%**	**2.3%**	**2.3%**
Unemployment rate *Year average*	4.5%	**4.2%**	**4.2%**	**4.2%**
Inflation (CPI) *Percent change Q4-to-Q4*	2.8%	**3.3%**	**2.0%**	**2.0%**
Light vehicle sales *Million units*	16.2	**16.0**	**16.4**	**16.5**
Total home sales *Million units*	4.74	**4.75**	**5.12**	**5.65**

Economic Outlook

Economic growth should be stronger in 2027 as the energy price shock slowly fades, buoyed by consumer activity and massive AI investment.

Energy remains a wildcard but Inflation should fade over 2027 as global supply chains normalize. Cooler trends should allow inflation to ease back to near 2.0 percent.

Home and auto sales are expected to improve in 2027–28 as stronger job growth and lower financing rates ease affordability concerns for potential buyers.

Business investment should broaden beyond AI-related projects in 2027 as firms use tax incentives to expand operations and hiring.

Personal Auto Trends

Auto sales rebound, service costs elevated

Exposure | Sales have increased from early-year softness

Vehicle sales have picked up in recent months, reflecting both a rebound following the expiration of federal electric vehicle tax credits late in 2025 and a broader resilience in consumer demand heading into mid-2026.

Prices paid for new and used vehicles have increased only mildly from a year ago, contrary to expectations that auto sector tariffs and tight used car inventories would push prices higher.

Vehicle miles traveled have trended higher with little impact from the sharp increase in gasoline prices related to the Iran conflict.

	CURRENT	3-MON. AVG	YEAR AGO
Light Vehicle Sales, SAAR (7/2026)	**16.3 M**	**16.4 M**	**16.6 M**
Light Trucks	13.6 M	13.7 M	14.0 M
Passenger Cars	2.7 M	2.7 M	2.6 M
Average Expenditure per New Car (2026Q1)	**$33,480**	**-**	**$32,908**
Average Expenditure per Used Car (7/2026)	**$19,206**	**$19,374**	**$18,968**
Miles of Travel, SA (6/2026)	**278.5 B**	**277.9 B**	**275.7 B**

Severity | Labor and medical costs continue to pressure auto severity

Inflation for auto parts has slowed in 2026 as tariffs for steel and aluminum have not led to a sharp increase in consumer costs. Auto repair inflation remains elevated as higher input costs related to both parts and labor continue to push up service costs.

Hospital services inflation remains elevated due to staffing shortages and elevated need for care from the aging population — continuing to lift claims severity this year.

Inflation, *y/y % (As of 7/2026)*	CURRENT	3-MON. AVG	YEAR AGO
Auto Parts & Equipment	1.5%	1.8%	2.9%
Body Work	3.6%	5.2%	5.7%
Auto Repair	6.2%	5.5%	11.0%
Used Cars & Trucks	-1.9%	-1.9%	4.8%
Hospital Services	5.2%	5.3%	5.8%

Outlook | Softer auto premium growth expected through 2027

Exposure

Light vehicle sales are projected to remain solid through 2027 even with high loan rates and lingering affordability concerns – supporting modest exposure growth. Falling gasoline prices later in 2026 could provide a boost to miles driven and auto frequency in 2027.

Severity

Severity trends have eased broadly, but there remain pockets of price pressures. Auto repair and medical services inflation should remain elevated even as parts costs may see limited impacts from supply chain stress. Car prices should rise only modestly, limiting increases in costs for damaged and totaled vehicles.

Pricing Dynamics

Heightened competition and weaker pricing power have softened rates for personal auto DWP coverage. Even if severity trends firm, rates should remain flat to slightly positive across the industry over the rest of 2026 and into 2027. Industry pricing is expected to trend back toward longer-run averages by 2028 to support premium growth.

Homeowner Trends

Weak buyer demand limits sales

Exposure | Home sales and construction remain subdued

Home sales remain near post-pandemic lows as elevated mortgage rates and affordability concerns limit demand for single-family homes. Consequently, house price growth has slowed in many local markets as more sellers cut prices.

Home construction activity remains subdued too, with weak housing starts and sluggish builder sentiment. More expensive labor and materials, as well as soft market demand, have shifted more construction to the multifamily space — limiting exposure growth for personal property coverage.

	CURRENT	3-MON. AVG	YEAR AGO
Household growth *4-qtr change* (2026Q2)	0.6 M		1.2 M
S&P Cotality Case-Schiller Home Price Index *% chg* (5/2026)	1.1%	0.9%	2.3%
Housing starts *SA* (7/2026)	1.24 M	1.28 M	1.43 M
New home sales *SA* (6/2026)	628 K	631 K	665 K
Existing home sales *SA* (7/2026)	4.06 M	4.13 M	4.03 M
Homebuilder survey *SA* (7/2026)	34	36	33
30-yr FR mortgage (8/2026)	6.7%	6.4%	6.6%

Severity | Rising costs for construction materials and repairs

Construction inflation has picked up as energy-intensive materials such as steel, concrete, and glass remain vulnerable to supply chain disruptions from the Iran conflict. Prices for floor coverings and major appliances are falling, while framing lumber prices have been steady, offsetting some of the upside for claims severity.

Repair and maintenance inflation remains elevated amid tight labor conditions for skilled trades and more restrictive immigration policies. Persistent labor shortages and limited entry of younger workers into the construction industry are likely to keep pressure on repair costs over the outlook.

Inflation *y/y % (As of 7/2026)*	CURRENT	3-MON. AVG	YEAR AGO
Floor coverings	-1.7%	0.5%	3.7%
Major appliances	-4.1%	-3.3%	-0.1%
Repair & maintenance services	7.5%	7.5%	6.2%
Const. materials & components	4.8%	4.4%	2.7%
Framing lumber composite *per 1,000 bd ft (8/2026)*	$382	$408	$406

Outlook | Industry premium growth expected to remain buoyant

Exposure

High mortgage rates are expected to constrain home sales and single-family construction into 2027, with only modestly lower rates heading into 2028. As households delay home purchases, demand for rental housing should remain solid over the outlook, supporting continued growth in exposure on the renters' side.

Severity

Property claims severity has eased from pandemic-era peaks but remains above historical norms. Higher construction costs could add pressure for claims into 2027 as the Iran conflict extends later in 2026. Persistent labor constraints are likely to keep inflation for repair and maintenance higher than normal in coming years.

Pricing Dynamics

Industry rate increases should stabilize over the rest of 2026 and into 2027 as carriers catch up to loss trends and continue to reduce risk. But lingering cost pressures from the Iran conflict and severe weather should maintain a solid floor for industry pricing. As a result, industry DWP growth is projected to expand at a faster pace than usual over 2027 and into 2028.

Commercial Lines Trends

High costs and interest rates limit growth

Exposure | Mixed business activity limits commercial growth

Freight activity remains soft with transportation volumes below last year's pace. Truckload linehaul costs have risen more rapidly in response to pressure from higher fuel prices. Business applications remain sluggish, pointing to weaker business formation outside of AI-based projects. But small business owners are showing more optimism in the outlook with increased plans to make capital expenditures later in 2026.

Labor conditions remain stable but subdued with modest payroll growth and moderating wage gains. The "low hire, low fire" environment is limiting exposure growth, even as labor costs remain a source of pressure for commercial lines.

	CURRENT	3-MO. AVG	YEAR AGO
Transportation Services Index, Freight *y/y % change* (6/2026)	-1.8%	-0.8%	-0.6%
Cass Truckload Linehaul Index *y/y % change* (7/2026)	8.6%	7.0%	2.4%
Business applications with planned wages (7/2026)	35.0 K	35.4 K	43.8 K
NFIB Small Business Optimism Index (7/2026)	99.8	97.5	100.3
Nonfarm Payroll Employment *12-mo % change* (7/2026)	0.2%	0.2%	0.5%
Average Hourly Earnings *12-mo % change* (7/2026)	3.2%	3.3%	4.0%

Severity | Medical care and construction materials remain a risk for losses

Cooler motor vehicle parts inflation is providing some relief for auto-related claims, although repair costs remain elevated. Inflation for construction materials has accelerated, particularly for metals, glass, and concrete. Energy and supply chain risks remain an upside factor for commercial severity, even as some earlier tariff pressures have eased.

Hospital services inflation also remains elevated as staffing shortages and an aging population continue to strain capacity. Physician services inflation has cooled a bit, although medical costs overall remain a risk to claims severity.

Inflation *y/y % (As of 7/2026)*	CURRENT	3-MO. AVG	YEAR AGO
Motor vehicle parts/equipment	1.5%	1.8%	2.9%
Constr. materials & components	4.8%	4.4%	2.7%
Hospital services	5.2%	5.3%	5.8%
Physicians' services	2.4%	2.6%	3.1%

Outlook | Modest commercial industry growth over the outlook

Exposure

Business investment and start-up activity have been concentrated in AI-related projects, while elevated interest rates continue to cap broader investment demand. As a result, exposure gains for commercial auto and commercial property are likely to be more subdued. Investment could improve in 2027 as businesses utilize tax incentives to expand, supporting commercial exposure growth.

Severity

Lingering price pressures from the Iran war could lift industry severity into 2027. Weather-related losses also remain a headwind for property coverage, likely limiting any cooling in industry rate increases. But the supply chain disruptions from geopolitics should fade going into 2027, easing severity pressures next year.

Pricing Dynamics

Industry rate increases and DWP growth for commercial property are cooling despite lingering severity pressure. Persistent legal abuse challenges should keep commercial auto DWP growth more elevated than other commercial lines. Workers' compensation continues to be soft with strong profitability and the "low fire, low hire" labor backdrop is keeping rates and premium growth subdued.

Sources

1 |	**U.S. Economy**	Real GDP	*Bureau of Economic Analysis*
		Unemployment Rate	*Bureau of Labor Statistics*
		Consumer Price Index (CPI)	*Bureau of Labor Statistics*
		Light vehicle sales	*Bureau of Economic Analysis*
		Total home sales	*Census Bureau; NAR*
2 |	**Personal Auto**	Light vehicle sales	*Bureau of Economic Analysis*
		Average Expenditure per new car	*Bureau of Economic Analysis*
		Average Expenditure per used car	*Manheim*
		Miles of travel	*Federal Highway Administration*
		Inflation	*Bureau of Labor Statistics*
3 |	**Homeowners**	Household growth	*Census Bureau*
		S&P Cotality Case-Schiller HPI	*Standard & Poor's*
		Housing starts	*Census Bureau*
		New home sales	*Census Bureau*
		Existing home sales	*National Association of Realtors (NAR)*
		Homebuilder survey	*National Association of Homebuilders (NAHB)*
		30-year fixed rate mortgage	*Freddie Mac*
		Inflation	*Bureau of Labor Statistics*
4 |	**Commercial Lines**	Transportation services index	*Bureau of Transportation Statistics*
		Cass truckload linehaul index	*Cass Information Systems, Inc.*
		Business applications	*Census Bureau*
		NFIB small business optimism index	*National Federation of Independent Business*
		Nonfarm payroll employment	*Bureau of Labor Statistics*
		Average hourly earnings	*Bureau of Labor Statistics*
		Inflation	*Bureau of Labor Statistics*

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