

Farmers Insurance Releases 1Q 2008 Update on Gas Prices and Vehicle Miles Traveled

by Business-Wire

LOS ANGELES--(BUSINESS WIRE)--Farmers® Insurance today released the first update of its study of vehicle miles traveled (VMT) and the effect of higher gasoline prices.

“Since our preliminary study, oil prices have surged to over \$130 per barrel,” notes Kevin Mabe, the Chief Economist of Farmers Insurance, who conducted the study and the new update. “We’ve expanded on our preliminary analysis but have yet to fully untangle the effects of unprecedented high gas prices.”

Like the preliminary model, the analysis includes an economic demand model of vehicle miles traveled that controls for effects of income, gasoline prices, and the price of an alternative method of transportation – air travel. The model excludes other factors that affect the quantity of driving, such as car prices and maintenance costs, because of their strong relationship with income and gas prices. This update includes enhancements to the original study such as expanded historical data, an estimate of long-run price elasticity, and an order-of-magnitude impact of the higher gas prices on insurance losses.

Vehicle miles traveled measured 708 billion in the United States during the first quarter of 2008, a decrease of 2.3% compared to the same period last year. Gas prices have affected VMT for several years. “Had gas prices not begun their rally in 2003, we estimate that VMT would have been 6.2% higher (43.9 billion additional or 751.9 billion total miles),” Mabe explained.

By controlling for other factors, Mabe shows that consumers have responded to the higher gas prices especially since the gas price rally began in 2003. “Automobile sales have slipped 2% in the five years ending March, 2008. Truck sales have decreased over 11%,” Mabe said. “The sustained higher gas prices are shifting consumers toward more fuel-efficient vehicles.” Automobiles represented over half the vehicle units sold in the United States in April, 2008 marking the first time in seven years that automobiles outsold trucks. “Many Farmers customers have also responded by purchasing a hybrid vehicle to save money on their car insurance through our Hybrid Discount,” Mabe said.

The VMT reduction associated with higher gas prices has altered not only consumers’ choice of transportation, but also insurance losses. “Though additional analysis must be done, we’re estimating that auto losses from 2003 to 2008 are roughly \$10 billion lower than otherwise would have been under a scenario of lower gas prices,” Mabe explains.

However, the full impact of rising gas prices on the auto insurance industry is not clear. Bill Martin, Senior Vice President of Auto Product Management at Farmers Insurance, explained that the costs of labor and parts for car repairs, litigation and health care costs continue to outpace inflation. “States continue to mandate use of fewer rating variables that predict claims behavior, and continue to allow drivers to mask bad driving behavior with ways to waive accidents and citations. Cars are safer but smaller and many consumers are choosing to not buy insurance as they give up their car or find they can no longer afford it when choosing between long-term financial security and gas or food. We may see insurance prices increase in spite of lower mileage per driver.”

Mabe suspects that higher gas prices will persist, at least through the summer. “Though Saudi Arabia has decided to increase oil production by nearly 8% by July, 2008 world demand will remain high,” Mabe said. “There are discounts on Farmers auto insurance available for customers who drive hybrids. Farmers’ agents can explain how to take advantage of the discounts.”

NOTE: Anyone wishing a copy of the quarterly update can request it from Kevin Mabe at Kevin.Mabe@farmersinsurance.com or writing Farmers Media Relations at 4680 Wilshire Boulevard, Los Angeles, California 90010 (Third Floor).

Farmers Group, Inc. is a wholly owned subsidiary of Zurich Financial Services, an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Farmers® is the nation's third-largest Personal Lines Property & Casualty insurance group. Headquartered in Los Angeles and doing business in 41 states, the insurers comprising the Farmers Insurance Group of Companies® provide Homeowners, Auto, Business, Life insurance and financial services to more than 10 million households. For more information about Farmers, visit our Web site at www.farmers.com.

Â©2008 Business Wire

Farmers Insurance Releases 1Q 2008 Update on Gas Prices and Vehicle Miles Traveled by Business-Wire