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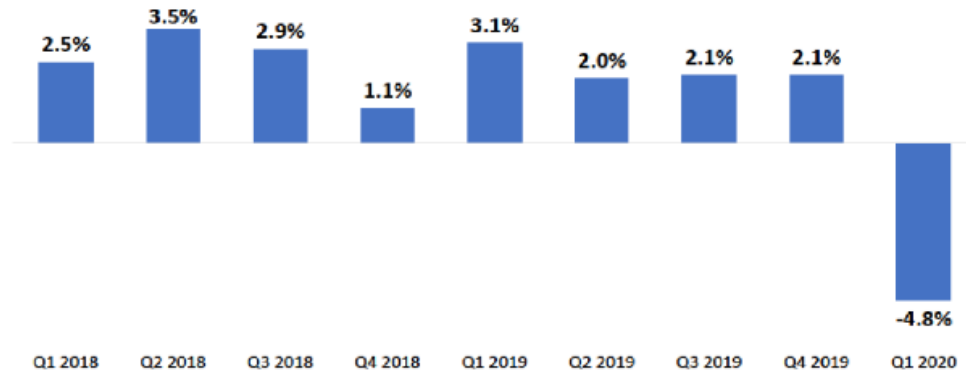
First Quarter Results and a Look Ahead

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To our friends and clients,

According to an “advance” estimate released by the Bureau of Economic Analysis last week, the US economy shrank at an annualized rate of 4.8% in Q1 which translates to an actual decline of 1.2% for the quarter. This estimate, likely to be revised in late-May, represents an end to the consistently positive growth achieved in recent years and the biggest drop in US economic activity since the Great Recession.



Source: U.S. Bureau of Economic Analysis. Data seasonally adjusted at annual rates

Since the pandemic-driven lockdowns were not enacted until March, the impact on Q1 results was limited. Most economists anticipate a much steeper decline in second-quarter activity, especially with many sectors of the economy largely shut down all of April. Early forecasts suggest the annualized Q2 contraction will likely be at least 25% and may be as much as 40% or more. Given the virtual certainty of a Q2 contraction, it can be argued the US economy is effectively already in recession, technically defined as two consecutive quarters of negative growth.

Against this broader economic backdrop, several publicly traded brokers reported Q1 results last week. Following are a few highlights:

- **Brown & Brown** reported Q1 organic growth of 5.6%, up slightly from 5.2% for Q4 2019. According to CEO, Powell Brown, the company is anticipating the biggest pandemic-driven impact to financial performance will be realized in Q3, although Q2 growth could also be negative. Full-year organic growth is expected to fall within a range of slightly positive to down by low-to-mid single digits.
- **Marsh & McLennan** reported Q1 growth in underlying revenue of 5%. However, the outlook for 2020 has changed in light of the current crisis. Revised forecasts anticipate modest declines in underlying revenue for full-year 2020, with deepest declines expected in the second and third quarters. Modestly positive underlying revenue growth for full-year 2020 remains a possibility, depending on the pace of recovery.
- **Arthur J. Gallagher** reported Q1 organic growth in its Brokerage Segment of 3.1%, including a negative 3.2% COVID-related adjustment to estimated revenues. This adjustment anticipates Q1 revenues will be affected by future audits, cancellations, midterm adjustments, decreases

some declines in client exposure units, further premium rate increases may partially offset these declines. Although negative growth is possible for Q2 and Q3, the expectation is for positive growth in Q4 with full-year 2020 growth flat to modestly negative. At this point, management expects 2021 growth to return to 2019 levels.

The economic data and financial results released over the past week provide some clarity into Q1 and indicate some future expectations as outlined below:

- **Strong Start.** The pre-COVID environment yielded strong results for the US economy and for the insurance brokerage industry specifically. Both entered the year in a position of strength. If continued, 2020 may well have been a banner year for organic growth in insurance distribution. And while this course has been severely altered, the strong start and related momentum should provide some cushion to soften the blow from post-COVID results and help support full-year 2020 results for agents and brokers.
- **Potential for Strong Finish.** Q2 may be the economic low point with a sharp contraction virtually assured. But we're also seeing the early stages of the economic reopening in Q2. Assuming the pace of reopening gains momentum through the quarter, recovery may be underway by Q3. Economists will debate the shape of the recovery, but a strong recovery in the second half of the year seems possible. According to Treasury Secretary Steven Mnuchin, "As we begin to reopen the economy in May and June, you're going to see the economy really bounce back in July, August, and September."

We are facing an unprecedented challenge and uncertainty remains high. In the words of the great philosopher, Yogi Berra, "It's tough to make predictions, especially if it's about the future." What appears certain is US economic results for Q2 will be ugly. Many businesses, including agents and brokers, will feel the effects for at least the next two quarters. But this crisis will pass and the economy will reboot. Perhaps soon. And for insurance agents and brokers, there are reasons to expect that a strong, successful, and growing firm entering 2020 will be a strong, successful, and growing firm entering 2021.

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