

Allianz Insights

December 2025

Since we published our [October Insights](#), the UK economy has stagnated with persistent inflation, high interest rates, weak business investment and global trade uncertainty.

In November's Autumn Budget, Chancellor Rachel Reeves unveiled measures aimed at stabilising public finances, tackling inflation and funding public services. These included freezing Income Tax and National Insurance thresholds and capping Cash ISA allowances.

Here we summarise the key issues, along with the relevant insurance implications, that are likely to be affecting some customers.

Inflation and price indices

- The two-child benefit cap will be scrapped from April 2026 meaning that families with more than two children will be able to claim full Universal Credit and tax credits. (Source: [Gov.UK](#))
- The Autumn Budget provided relief for low-income households as Universal Credit will increase by 6.2% and other benefits by +3.8%. (Source: [BBC](#))
- The Bank of England's base rate is currently 4%, and the inflation rate is 3.6% with a target of 2%. If inflation continues to fall as expected, rates may be cut further. The next bank rate decision will be made on 18 December. (Source: [Bank of England](#))
- Global uncertainty, trade tensions and low productivity are expected to limit GDP growth. (Source: [Allianz](#))
- Information technology services continue to thrive amid the digitalisation and AI waves. Revenues are growing rapidly, driven by substantial corporate investment in cloud computing and automation. (Source: [Allianz](#))

ECONOMIC INSIGHTS

- Inflation perception remains high and continues to influence purchasing behaviour. (Source: [Allianz](#))
- UK mortgage rates have eased slightly but remain elevated, with most two and five-year fixed deals still around 5%. (Source: [The Telegraph](#))
- Growth in household cash flow has slowed as wage inflation eases and food prices edge higher, limiting discretionary spending. (Source: [Investing.com](#))

Insurance impacts

- It was announced in the Autumn Budget that from April 2029 only the first £2000 of salary sacrifice pension contributions remain exempt from National Insurance (Source: [Standard Life](#)). This limits tax-efficient pension saving which may increase demand for alternative financial protection products like annuities or life insurance.
 - Lower financial strain on low-income families decreases the likelihood of households cancelling or downgrading insurance policies due to affordability concerns.
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Supply chain disruption

- US tariffs are reshaping supply chains, prompting retaliation and heightening uncertainty. (Source: [Allianz](#))
- Supply-chain vulnerability is high: beyond climate and geopolitics, the sector is also vulnerable to policy (trade barriers, regulations etc.) and diseases (e.g. bird flu outbreaks). (Source: [Allianz](#))
- Ongoing conflicts and tensions can quickly result in export restrictions on key inputs or metals, threatening supply continuity. Trade tensions also force businesses to rethink sourcing and supply-chain policies. (Source: [Allianz](#))
- High supply-chain reliance on Asia for domestic appliances and consumer electronics could impact UK consumers and businesses. (Source: [Allianz](#))

Insurance impacts

- Supply chain disruption will increase insurers' exposure to business interruption claims, raise repair/replacement costs in property and motor insurance, and force tighter underwriting and higher premiums.
- There is an increasing demand for businesses to have supply chain risk cover.

Energy crisis

- In her Autumn Budget, Rachel Reeves, confirmed that from April 2026 household energy bills would be cut by £150, this will ease pressure on family finances. (Source: [Gov.UK](#))
- Climate disruptions and related extreme weather events are triggering disruptions and price volatility. (Source: [Allianz](#))
- High investments in energy transition are a tailwind for renewables. Solar and wind continue to achieve cost reductions through scale and innovation. (Source: [Allianz](#))
- The oil & gas sector faces high volatility and long-term uncertainty as it is highly exposed to geopolitical risk. (Source: [Allianz](#))
- On 21 November, the energy regulator Ofgem announced a 0.2% rise of the energy price cap for the period covering January to March 2026. For an average household paying by Direct Debit for gas and electricity, the overall bill will be £1,758 per year, up from £1,755. (Source: [Ofgem](#))

Insurance impacts

- Families saving £150 annually on energy bills may redirect some of that relief into essential insurance products (home, motor, health).
- Lower energy bills could encourage households to heat homes adequately, reducing risks of cold related damage and health claims.

The cost and shortages of food and supplies

- In her Autumn Budget, Rachel Reeves announced that tariff-free imports will continue until 31 December 2026. This will maintain relief on key ingredients used by UK food producers and on products used in the manufacturing of food and beverages. (Source: [FoodBev](#))
- Food costs remain high, and supply shortages are still affecting dairy, meat and fresh produce. (Source: [Food & Drink Federation](#))
- UK food inflation is expected to rise further to 5.7% by December 2025, peaking over the Christmas period. It will then slow to 3.1% by the end of 2026. (Source: [Food & Drink Federation](#))

Insurance impacts

- Rising food costs contribute to overall cost-of-living pressures which can increase claims for theft and fraudulent claims. It also increases the likelihood of households cancelling or downgrading insurance, especially in lower-income groups.
- Families facing persistently high grocery bills may cut back on non-essential insurance cover.

- Insurers covering food manufacturers and retailers are seeing increased exposure to business interruption claims due to supply chain volatility and price shocks. (Source: [Allianz](#))
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The cost of materials

- The Autumn Budget introduced new compliance requirements for suppliers. Extended Producer Responsibility (ERP) means that suppliers must absorb higher costs for packaging disposal and recycling. These costs are expected to be reflected in material prices. (Source: [Resource Media](#))
- There is high, long-term demand for metals critical to clean energy and electric vehicles. (Source: [Allianz](#))
- Complex and fragmented supply chains make the machinery and equipment sector vulnerable to disruptions, delays, and bottlenecks. (Source: [Allianz](#))

Insurance impacts

- Insurers are having to adapt to cover the complex risks of mining (Source: [Gov.UK](#)), supply chains and clean energy products, while also seeking new opportunities in specialised products and premium growth.
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Construction

- The Autumn Budget confirmed a rise in the National Living Wage to £12.71 per hour from April 2026. This will have an impact on construction and manufacturing sectors which will see an increase in labour costs as a result. (Source: [BBC](#))
- Capital-intensive sectors such as automotive and construction face mounting pressures from tariffs, costs and weak demand. (Source: [Allianz](#))
- Robust infrastructure investment pipelines in major economies (e.g. US, EU, India) are fuelling construction order books. (Source: [Allianz](#))
- After sharp rises in 2021–2022, construction-material cost inflation has eased sharply. (Source: [Allianz](#))
- Persistent labour shortages and skills gaps are hampering construction globally, while tighter immigration policies in many economies are also weighing on the sector. (Source: [Allianz](#))
- Labour market constraints and inflation continue to impact tender prices.

Insurance impacts

- Innovations in sustainability and new construction methods can introduce unfamiliar liabilities and require updated underwriting models.

Motor

- Capital-intensive sectors such as automotive and construction face mounting pressures from tariffs, costs and weak demand. (Source: [Allianz](#))
- Declining battery prices will result in reduced car retail prices. (Source: [Allianz](#))
- Consumer concerns over the range and charging network for electric vehicles persist. (Source: [Allianz](#))
- Road transportation suffers from relatively higher labour costs that are not proportional to the limited cargo capacity of trucks. On top of this, the truck driver shortage is forecast to get much worse in the coming years. (Source: [Allianz](#))
- Road investment relies on government budgets; poor networks and high tolls limit growth and raise costs. (Source: [Allianz](#))

Insurance impacts

- UK motor insurers paid out £3 billion in claims between July and September 2025, with repair costs making up the majority. (Source: [ABI](#))
 - Motor insurance premiums have dropped each quarter so far in 2025. Between July and September, the average motor insurance premium was £551, £13 lower than the previous quarter. (Source: [ABI](#))
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Commercial property

- Properties to be newly let must achieve an EPC rating of C or higher before the December 2025 deadline.
- Buy-to-Let sector lending is expected to rise due to improved affordability and falling rates. However, more landlords are likely to sell up due to the Renters Rights Bill which will further worsen the supply shortage and push rents up. (Source: [Mortgage Solutions](#))

Insurance impacts

- The EPC mandate will likely increase demand for property insurance policies covering energy efficient renovations.

Further reading

[Allianz Economic Research](#) - Allianz global research analysing economic and industrial developments.

[Underinsurance](#) - Resources, information and guidance to help customers understand the issue of underinsurance.

[Ludonomics](#) - Ludovic Subran, Allianz Group's Chief Economist, publishes a weekly update on Allianz markets, macro, sector and insurance.