

Inflationary issues

March 2024

Since we published our [December insights](#), the war between Israel and Hamas has intensified and the war between Russia and Ukraine shows no sign of resolution. It's anticipated that major 2024 elections around the world may further destabilise the global economy.

The UK's annual inflation rate is expected to continue falling in 2024, though more gradually than in 2023, due to lower energy prices and reduced inflation in consumer goods and food. The annual inflation rate remains at 4%, which is unchanged from December.

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

Take a look at our [underinsurance hub](#), where you can find all of our insight articles, webinars, podcasts and guidance notes that can help address the risks of underinsurance.

Inflation and price indices

- Inflation has slowed significantly but at 4% it remains higher than the Bank of England's 2% target. (Source: [BBC News](#))
- Annual average regular earnings growth for the public sector was 5.8% in October to December 2023, which is not as high as it has been in recent periods but remains relatively strong. (Source: [Office for National Statistics](#))
- The incomes of typical working-age households were on course to be 4% lower in 2024-25 than they were in 2019-20. This is considerably worse than the 1% income fall recorded between 2005-06 and 2010-11. (Source: [The Guardian](#))
- More than 56 per cent of low-income households reported not having enough money for either food or heating last year. (Source: [The Independent](#))

ECONOMIC INSIGHTS

- The largest upward contribution to the monthly change in both Consumer Prices Index including owner occupiers' housing costs (CPIH) and Consumer Prices Index (CPI) annual rates came from housing and household services (principally higher gas and electricity charges), while the largest downward contribution came from furniture and household goods, and food and non-alcoholic beverages. (Source: [Office for National Statistics](#))

Insurance impacts

- High inflation is having a big impact on the broking market, particularly in the personal lines sector which has been hardest hit by the cost-of-living crisis. (Source: [Insurance Times](#))
 - Across the financial services sector, more than half (56%) of executives believe inflationary pressures will pose the "biggest challenge" for their business in the first quarter, while 46% cited interest rates as the "most pressing challenge". (Source: [Insurance Times](#))
 - Consumers are now far more motivated by price than a more comprehensive insurance policy. (Source: [Confused.com](#))
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Supply chain disruption

- Government actions affecting supply chains look to have an increased reach and impact in 2024. (Source: [Moody's Analytics](#))
- Trade embargoes, labour shortages, ESG concerns and a rise in regulations continue to present significant risks to supply chains. (Source: [Orkestra](#))
- Organisations must now fortify themselves against disruptive political and environmental challenges that pose a threat to supply chains. (Source: [BCI](#))
- Organisations will need to adapt their disaster recovery, business continuity, and emergency plans while leveraging state-of-the-art technology and fostering collaboration with integrated logistics partners. (Source: [BCI](#))

Insurance impacts

- Supply chain disruption intensifies demand for businesses to have the correct business interruption insurance cover in place.
- Despite an easing of post-pandemic supply chain disruption in 2023, and risk management actions taken by companies, business interruption (31%) retains its position as the second biggest threat after cyber incidents. (Source: [Allianz](#))

Energy crisis

- Oil prices are likely to remain volatile with upside risk, partly due to the Israel-Hamas conflict and the Red Sea crisis. (Source: [Fidelity International](#))
- By 2030, offshore wind will make up 26% of the UK's installed electricity capacity, up from about 13% today. Meanwhile, the share of gas power plants will fall from 27% of the UK's total power capacity to 13% by 2030. (Source: [The Guardian](#))
- Household energy prices are expected to reduce by 15% (£293) from 1st April 2024. (Source: [MoneyWeek](#))
- Even though total global solar capacity will continue to grow rapidly over the coming decade, the pace of growth in annual installations will start to slow in 2024 compared to the rates seen in recent years. (Source: [Wood Mackenzie](#))
- Growth in global gas demand is set to pick up in 2024 due to colder winter temperatures and easing prices, with emerging economies leading the increase in consumption. However, geopolitical risks and supply-side concerns could trigger renewed price volatility. (Source: [International Energy Agency](#))

Insurance impacts

- Insurers are affected by higher energy prices, as the additional costs of materials, manufacturing, labour and maintenance have all increased. These additional costs have contributed to record losses for insurers in recent years. (Source: [Confused.com](#))
- Catastrophic climate change, the explosion in cybercrime, and concern over vast uninsured and under-insured populations, are driving many insurers to reimagine how to confront disruptions caused by the changing environment. (Source: [Deloitte](#))

The cost and shortages of food and supplies

- Shop sales increased by 3.4% in January 2024 following a record drop in December. (Source: [BBC News](#))
- The value of goods people bought in January went up 3.9%, compared to the 3.4% increase in the volume of products they purchased. (Source: [BBC News](#))
- Supermarket shortages will continue in 2024 as a result of climate disasters. (Source: [The Independent](#))
- The El Niño phenomenon, which has caused drought in large parts of Asia in 2023, is expected to continue into the first half of 2024. The phenomenon endangers supplies of rice, wheat, palm oil, and other agricultural products, which in turn affect food supplies and prices. It affects some of the world's largest agricultural exporters and importers. (Source: [Middle East Economy](#))

Insurance impacts

- Around 6 in 10 adults (62%) said they were spending less on non-essentials because of increases in the cost of living. (Source: [Office for National Statistics](#))
 - 3 in 10 adults (29%) said they would not be able to afford an unexpected expense of £850 or more. This rose to 40% among disabled adults, 53% among renters, and 66% among disabled adults who were renting. (Source: [Office for National Statistics](#))
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The cost of materials

- The prices of materials and fuels imported by UK manufacturing fell by 4.3% in the year to January 2024, down from a revised fall of 2.4% in the year to December 2023. (Source: [Office for National Statistics](#))
- The UK construction forecast for 2024 predicts a 12% recovery due to strong development pipelines and increased building materials costs. (Source: [UK Construction](#))

Insurance impacts

- Because the cost and demand of raw materials, parts and labour has increased significantly, insurers may increase customer's insurance premiums to cover the rise. (Source: [Footman James](#))
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Construction

- As we enter 2024, companies in the UK construction industry can expect a better outlook than last year. It's predicted that in 2024 and 2025 the sector will grow by 12% and 3%, respectively. (Source: [Veriforce Chas](#))
- As the use of timber and other sustainable materials continue to feature more prominently on the government's agenda, structural components, which include more traditional, high-carbon intensive materials, could be phased out. (Source: [BCIS](#))
- The UK construction sector is predicted to witness renewed growth in 2024, fuelled by an upturn in consumer and business confidence. This growth will be supported by innovations like Construction Management Software (CMS), 3D printing, sustainability, and continued adoption of automation. (Source: [ITS Building People](#))

Insurance impacts

- Construction firms will need to make sure they have the correct business interruption insurance in place to cover them in the event of stalled or delayed projects.
- Insurance companies need to start considering materials for replacements that are less carbon intensive, as well as the potential associated costs of materials with a higher carbon number. (Source: [BCIS](#))
- Cost pressures and high damage claims levels are expected to continue into 2024, with insurers likely to face another challenging year. (Source: [Fleet News](#))

Motor

- The UK motor industry continues to show encouraging growth, with 142,876 new car registrations recorded in January 2024, representing an 8.2% year-on-year increase and the 18th consecutive month of growth. (Source: [Ernst and Young](#))
- The one-millionth electric car to be sold in the UK joined the roads in January 2024, helping sales of such vehicles to jump by more than 20% over the same month in 2023. (Source: [What Car?](#))
- Electric vehicles could make up as much as nearly half of global car sales by 2035, and it's predicted that more advanced autonomous or partially autonomous vehicles will make up the same share of sales just five years later. (Source: [Goldman Sachs](#))
- Petrol was the most popular fuel type in January 2024, accounting for 57.3% of the market. Diesel sales made up just 6.5% of the total, while sales of plug-in hybrid and regular hybrid cars grew by 8.4% and 13.1% respectively. (Source: [What Car?](#))
- 2024 will see a roll-out of more public EV chargers. This mirrors further growth in electric car sales. (Source: [What Car?](#))

Insurance impacts

- Motor insurance premium rates are expected to continue to rise in 2024 to keep pace with the rate of inflation and the mounting costs of materials. (Source: [Ernst and Young](#))
- Customers now have universal access to a range of services and no longer wish for a 'one-size-fits-all' solution. Roughly 60% of respondents surveyed by Deloitte favoured products that were materially different from the traditional, static 12-month policy. (Source: [Finance Derivative](#))
- In 2024, the UK motor insurance market is expected to record its worst performing year since 2010. (Source: [Fleet News](#))

Commercial property

- Commercial property premiums rose by an average of 20.4% in 2023 - the first time that rates rose greater than 20% since 2001. (Source: [Deloitte](#))
- Commercial insurance rates have continued to increase, although at moderating levels except for 'outliers' such as property coverage. (Source: [Deloitte](#))
- Average house prices rose 1.3% in January, and grew 2.5% annually - the highest annual growth rate in a year. (Source: [The Times](#))
- Mortgage rates have fallen; the average two-year fixed rate is now 5.57%, significantly lower than July 2023's peak of 6.86%. (Source: [The Times](#))

Insurance impacts

- Properties with loss ratios exceeding 50% or with frequent losses will encounter difficulties securing comprehensive coverage. (Source: [FOA & Son](#))
 - Underwriters will seek to understand the reasons for frequent claims and expect to see new protocols implemented to prevent future occurrences. (Source: [FOA & Son](#))
 - Businesses will need to make sure they lessen the financial impact in case of property damage or loss by having the correct property insurance in place.
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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.