

Inflationary issues

December 2023

Since we published our [September Insights](#), post-pandemic imbalances have started to normalise but high interest rates, continued economic uncertainty and low productivity means that although the UK is not currently in recession, growth is expected to slow over the remainder of this year and into 2024.

In his [Autumn Statement](#), Jeremy Hunt outlined the UK's financial policies for 2024 and these included a 2% cut in National Insurance rates, an increase to the National Living Wage, an increase to state pension and a 6.7% increase in benefits. These plans are designed to mitigate the impact of the cost-of-living crisis and offer employment and health support to over a million people.

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. Also see our [Managing claims inflation together summary](#), which shares the efforts we're taking to manage motor claims inflation and what you, our brokers can do to support this.

Inflation and price indices

- It's expected that inflation will continue to slow and will be back to more normal levels, where prices rise by about 2% a year, by the end of 2025. (Source: [Bank of England](#))
- GDP growth in the UK is expected to improve modestly in 2024. (Source: [Goldman Sachs](#))
- On 2 November 2023, the Bank of England's Monetary Policy Committee (MPC) left interest rates unchanged at 5.25%. (Source: [House of Commons Library](#))

ECONOMIC INSIGHTS

- The estimated number of job vacancies in August to October 2023 was 957,000, a decrease of 58,000 from May to July 2023. (Source: [Office for National Statistics](#))
- The UK unemployment rate was 4.2% this quarter. This is largely unchanged from the last quarter. (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](#))
- The number of people living in absolute poverty is projected to rise by 300,000 next year, reaching 12 million in 2024-25. ([The Guardian](#))
- Corporate insolvencies decreased to a total of 1,967 compared to August's total of 2,319. However, when compared to September 2022's figure of 1,688, there was an increase of 16.5%. (Source: [Price Mann](#))
- The rate of National Insurance will be cut by 2%, saving someone on an average salary £450 per year. (Source: [The Guardian](#))
- The "national living wage" will increase by more than a pound an hour from April to £11.44. It will also be extended to 21-year-olds. (Source: [The Guardian](#))
- Benefits will be increased by 6.7%, and there will be tougher requirements for those who claim them to look for work. (Source: [The Guardian](#))
- The state pension will be increased by 8.5%. (Source: [The Guardian](#))
- Jeremy Hunt says he will raise the local housing allowance, which has been frozen since 2020, in a measure worth £800 for some households next year. (Source: [The Guardian](#))

Insurance impacts

- Claims costs will likely go up in line with premiums and many will see their cost base rise faster than their revenues. (Source: [Footman James](#))
- 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](#))
- The cost-of-living crisis has made insurance much less affordable across all aspects of our society, as well as for the businesses that shape our economy. This will be of concern to brokers across all sectors of the market. (Source: [Insurance Times](#))
- The cost of living is at an all-time high and as a result we're seeing evidence of businesses either reducing their cover, or cutting it completely. All businesses are open to risk if they don't have the correct level of insurance for their needs, and may be at risk of financial hardship as a result of being either underinsured or uninsured. (Source: [Allianz article](#))

Supply chain disruption

- According to the supply chain platform Orkestra, the top 6 supply chain risks for 2024 are:
 1. Labour Shortages
 2. Ocean freight bottlenecks
 3. Increasing inflation
 4. Global port congestion and warehouse shortages
 5. Lack of sustainability
 6. Resurgence of COVID-19 (Source: [Orkestra](#))
- Trade embargoes, labour shortages, ESG concerns and a rise in regulations continue to present significant risks to supply chains. (Source: [Orkestra](#))
- 33% of supply chain leaders still list “shortage of critical parts or other goods” as the number one supply chain issue affecting their business. (Source: [Womble Bond Dickinson](#))
- 93% of manufacturing businesses expect “under pressure” supply chains until 2025. (Source: [Dealer Support](#))
- More positively, forty per cent of manufacturers have reported an increase in UK suppliers, and 20% have expanded their supplier base in the EU, despite existing barriers. (Source: [Dealer Support](#))

Insurance impacts

- Supply chain disruption intensifies demand for business interruption insurance coverage and so businesses need to ensure they have the proper insurance coverage to protect against supply chain failure.

Energy crisis

- A treasury task force explained on the 9th October how listed companies and financial firms will have to outline plans to cut carbon emissions in the transition to a 2050 net-zero economy. (Source: [Price Mann](#))
- It's predicted that Britain's wholesale power prices will rise from an average of £96.64 per megawatt-hour this year, to £129/MWh next year. This is due to higher gas prices because of the war in Ukraine. (Source: [The Guardian](#))
- 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](#))
- The Energy Price Guarantee will remain in place as a safety net until the end of March 2024 in case energy prices increase above £3,000 per year. (Source: [Gov.uk](#))

ECONOMIC INSIGHTS

- In the Autumn Statement, Jeremy Hunt announced that there would be about £1m investment in aerospace companies and businesses working on green technologies. (Source: [The Guardian](#))

Insurance impacts

- The insurance of renewable energy investments and their role in creating a more sustainable future will present a key business opportunity for the insurance sector. (Source: [Bloomberg Adria](#))
 - It's likely that in the future, the energy businesses that are not green will not be able to obtain insurance services. (Source: [Bloomberg Adria](#))
 - By providing better terms for sustainable projects, the insurance industry will also play its role in the development of the renewable energy sector. (Source: [Bloomberg Adria](#))
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The cost and shortages of food and supplies

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 4.7% in the 12 months to October 2023, down from 6.3% in September. (Source: [Office for National Statistics](#))
- Food and non-alcoholic beverage prices rose by 0.1% between September and October 2023 following a 0.1% decline the previous month; this compares with a rise of 2.0% between the same two months a year ago. (Source: [Office for National Statistics](#))
- Supermarket shortages will continue in 2024 as a result of climate disasters. (Source: [The Independent](#))

Insurance impacts

- Approximately two-thirds (67%) of adults in Great Britain are spending less on non-essentials in response to the cost-of-living crisis. (Source: [Office for National Statistics](#))
 - 50% of adults are shopping around more before making a purchase. (Source: [Office for National Statistics](#))
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The cost of materials

- The price of building materials fell for the fourth consecutive month despite suffering shortages in key products as output across the sector fell. (Source: [Homebuilding and Renovating](#))
- With supply chain disruptions and increased demand hitting the industry after the pandemic, a steadier supply of raw materials should now start to consistently drive prices down. (Source: [Insight DIY](#))
- Building costs are continuing to rise for subcontractors despite a fall in material prices. (Source: [Construction News](#))

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](#))
 - Shortages in construction materials and labour may mean that insurers face delays when attempting to resolve claims. (Source: [PropertyCasualty360](#))
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Construction

- The overall value of work commencing on site fell by a quarter compared to the previous three months, finishing 35% lower than 2022 levels. (Source: [Specification Online](#))
- High interest rates and a weak economy continue to depress the market. As a result, many projects have stalled, or failed to start. (Source: [Specification Online](#))
- Construction costs are forecast to rise just over 3% in the year to 3Q2024, while tender prices are expected to increase by just over 2% in the same period. (Source: [Building Cost Information Service](#))
- Construction materials experienced the greatest price increases and decreases in the 12 months to September 2023. (Source: [Homebuilding and Renovating](#))
- Construction output volumes fell due to a decline in demand for houses. (Source: [Homebuilding and Renovating](#))
- Construction output is likely to continue to stagnate into 2024. (Source: [RICS](#))
- In 2024 and 2025, construction markets in the north of England look set to outperform London and the south. This is all as a result of the government's Levelling Up Fund, with £2.3 billion being shared amongst schemes in the second round of investment. (Source: [Insight DIY](#))

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.
 - The degraded condition of RAAC and the presence of asbestos in public buildings will result in more insurance claims. (Source: [RPC](#))
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Motor

- The price of used car purchases fell by 3.6% in the year to October, compared with a fall of 1.2% in the year to September. (Source: [Office for National Statistics](#))

ECONOMIC INSIGHTS

- The average price of petrol rose by 1.5 pence per litre between September and October 2023 to stand at 155.1 pence per litre in October 2023. (Source: [Office for National Statistics](#))
- Diesel prices rose by 4.8 pence per litre this year to stand at 162.2 pence per litre in October 2023. (Source: [Office for National Statistics](#))
- 2024 will see a rollout of more public EV chargers. This mirrors further growth in electric car sales. (Source: [What Car?](#))
- The number of new cars sold in the UK grew by 14.3% in October 2023, compared with the same month last year. (Source: [What Car?](#))
- In October 2023, sales of electric vehicles (EVs) grew for the 42nd month in succession. 23,943 joined the roads - that's roughly one in five new car registrations. (Source: [What Car?](#))

Insurance impacts

- Rising car repair costs and an increase in disaster-related claims are significant reasons why car insurance rates are surging for many drivers. (Source: [Footman James](#))
- Motor insurance premium rates are expected to rise this year and next to keep pace with the rate of inflation and the mounting costs of materials. Premiums are expected to rise by 16% over 2023 (£74 per policy on average), with a further 11% rise in 2024 (£59 per policy on average). (Source: [Ernst and Young](#))
- The cost of cover could increase 14% this year, fuelling industry concern over premium cancellations. (Source: [Financial Times](#))
- Rising insurance costs are affecting consumer sentiment and behaviour, with 45% of those surveyed between ages 18 and 34 saying they've thought about going without auto insurance as a result-including 17% of respondents who say they are already driving uninsured. (Source: [Deloitte](#))

Commercial property

- House prices will keep falling during 2024, according to forecasts from Lloyds Bank and property website Zoopla. (Source: [The Times](#))
- However, despite prices falling by between 3% and 5% during the past year, Nationwide reported a small increase in the month to October. (Source: [The Times](#))
- Despite a slow start to the year, momentum within London's £5 million-plus residential market ramped up in the third quarter of 2023, with a total of 145 property sales (new build and second hand), up from 137 in Q2, and 108 in Q1 2023. (Source: [Savills](#))
- Activity in both the residential and commercial property markets remain subdued. (Source: [RICS](#))

ECONOMIC INSIGHTS

- Forecasts suggest a 5% increase in rents across the UK in 2024. (Source: [JLL](#))
- Rent affordability limits have been reached in several regions of the UK. (Source: [Landlord Today](#))
- For annual rent growth, Greater London is now one of the worst-performing regions in the UK at just 1.8 per cent annual growth. This is due to a large increase in supply year-on-year. (Source: [Landlord Today](#))

Insurance impacts

- Commercial property premiums rose by an average of 20.4%, the first time that rates rose greater than 20% since 2001. (Source: [Deloitte](#))
- Interest in property insurance will increase due to the pressure to plan better for unforeseen events and disasters, and to be better prepared to handle the financial consequences of the climate change. (Source: [Bloomberg Adria](#))
- 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.

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.