ECONOMIC INSIGHTS

Inflationary issues December 2024

Since we published our September Insights, Labour has delivered its first budget in 14 years, Donald Trump was elected as president of the United States, and the United Nations Climate Change Conference, COP29, was held in Azerbaijan.

In October 2024, tensions in the Middle East between Israel and Hamas escalated into an Israeli invasion of Lebanon, and on 17th October, IDF ground forces killed Hamas leader Yahya Sinwar.

Global economic growth remains weak by historical standards but is showing signs of stabilisation. The annual UK inflation rate was 1.7% in November 2024.

We've also seen a rapid acceleration in the use of artificial intelligence (AI) across the globe and 15% of UK businesses are now using some form of AI technology.

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

- Labour's first budget for 14 years was delivered by Chancellor Rachel Reeves on 30th October. Key highlights include an increase to employer National Insurance Rates to 15% from April 2025, an increase to the Carer's Allowance, and an increase to the rates of capital gains tax.

- The state pension is set to rise by 4% in April 2025.

- VAT will be added to private school fees from 1st January 2025. Some private schools will lose business rates relief.
- On 7th November the Bank of England's cut the base from 5% to 4.75%.
- We expect sluggish economic momentum ahead, with global GDP growing by less than +3% between 2024-25. (Source: Allianz)
- The International Monetary Fund (IMF) expects global growth to remain stable.
- The Autumn Budget outlines a £5 billion investment in housing, with a focus on affordable homes and energy-efficient units. The stamp duty surcharge for second homes will increase by 2% starting October 31st, affecting landlords. While first-time buyers won't see an extension to stamp duty relief, the housing market remains active, with sales up 29% from last year. (Source: Rightmove)
- Mortgage rates are expected to end 2024 at 6.20% and trend downwards throughout 2025. (Source: The Business Insider)
- The number of business insolvencies worldwide has increased by +9% and the rise has been broad-based across geographies and sectors. (Source: Allianz)
- Construction, retail, and services have seen the strongest increases in business insolvencies in terms of frequency (the number of companies) and severity (the size of companies going bankrupt). (Source: Allianz)
- Emerging markets stand to benefit from supply chain diversification and resilient domestic demand will support GDP growth across all regions in 2025. (Source: Allianz)

Insurance impacts

- Over the next decade, the global insurance market is expected to grow by an annual rate of 5.5%, i.e., with exactly the same rate as the global GDP; in the previous decades, insurance growth trailed be-hind economic growth. (Source: Allianz)
- The number of UK businesses that are underinsured is increasing and as many as 80% of the UK's SMEs could be underinsured by as much as 45%. (Source: Allianz)
- A disturbing number of business owners may not be covered should they have to make a claim on their insurance. (Source: Allianz)
- It's predicted that in 2025 insurers will continue to pass on higher costs of rising claims expenses to customers.

Supply chain disruption

- 21% of businesses have concerns about their supply chains over the next 12 months. (Source: Office for National Statistics)
- 2025 will likely see many businesses move away from using global suppliers, instead choosing to use national, regional and local suppliers. This is in response to climate events and global political turmoil.
- Many businesses are investing in technology and AI solutions to automate processes, predict supply chain disruptions and optimise inventory management. (Source: Allianz)
- In 2025, consumer preferences and regulatory demands will see businesses facing increased pressure to adopt sustainable practices which will impact decisions regarding supply chains.

Insurance impacts

- As supply chain disruptions continue, there is a heightened need for businesses to have the correct business interruption insurance cover in place.
- Companies are encouraged to reassess their current insurance policies to ensure they adequately cover risks associated with transitioning to localised sourcing and adopting sustainable practices.

Energy crisis

- Nearly 3 in 5 (56%) businesses reported that they are not concerned about the impact climate change may have on their business. (Source: Office for National Statistics)
- Approximately 1 in 6 (15%) businesses reported they had taken action to adapt to supply chain disruption and distribution issues, 9% had adapted to temperature increases , and 6% to increased flooding. (Source: Office for National Statistics)
- In November 2024, as part of the Autumn budget, the government increased the windfall tax on the profits oil and gas firms make in the UK from 35% to 38%. This levy will remain in place until March 2030. This move is part of a broader effort to fund clean energy initiatives and transition the UK towards becoming a 'clean-energy superpower.' (Source: CarbonBrief)
- It's predicted there will be an overall upward trend in UK gas and electricity prices throughout the winter of 2024 and into 2025. The Autumn Budget has committed to significant investments in clean energy technologies, such as carbon capture and storage, nuclear, and green hydrogen, which are expected to play a crucial role in stabilising energy prices in the long term.

Insurance impacts

- The insurance industry continues to be hard hit by the escalating frequency and severity of global climate events.
- Proactive risk management will help businesses minimise the impact of extreme climate related events. With government plans to accelerate grid connections and develop robust energy infrastructure, businesses should consider aligning their risk strategies with these initiatives.
- The continued freeze on fuel duty, which has contributed to higher CO2 emissions (Source: CarbonBrief), highlights the importance for insurers to be aware of environmental impacts when assessing risks.

The cost and shortages of food and supplies

- Brexit challenges, labour shortages, nature loss and extreme weather events means the UK's food self-sufficiency is at a critical low.
- Only one in 10 food industry leaders are optimistic that UK food security will improve by the end of 2025. (Source: City Harvest)
- 60% of farmers believe food shortages could cause civil unrest in the next 10 years. (Source: City University of London)
- Long term risk from climate change will pose significant challenges to some domestic food production in 2025 and beyond.

Insurance impacts

- When food shortages occur, risks relating to terrorism and political violence, political risk, business interruption, marine and aviation, agriculture, product liability and recall, and environmental liability increase, and these will impact insurance premiums.
- The rising cost of food and supplies may result in people being less able to afford insurance premiums.

The cost of materials

- The market for metals and critical minerals has doubled in size over the past five years because they are crucial for the green transition. It is expected to double again by 2040 to reach a value of more than USD64bn. (Source: Allianz)
- Higher energy prices mean the costs of materials will increase.
- The move towards sustainability will drive demand for recyclable materials and renewable products. This could eventually bring the costs of materials down.

Insurance impacts

- As material costs rise, insurers may increase customers' insurance premiums.

Construction

- Over the next five years, building costs are expected to increase by 15%, and tender prices by 20%. (Source: Construction Management)
- By 2025, construction companies will need to adhere to stricter environmental regulations. This may increase costs initially but could offer long-term savings through energy efficiency. (Source: Industrial News)
- When project planning, energy efficient designs, green building practices, and the use of sustainable materials will become more and more important.
- The UK government has allocated £5 billion for housing investment in 2025-2026, plus £3 billion for SMEs and the build-to-rent sector via housing guarantee schemes to offer lower-cost loans. (Source: Construction News)
- To enhance fire safety, the government has pledged over £1 billion for cladding remediation by 2025-2026, though concerns about the pace of progress persist. (Source: Construction News)
- The construction sector is facing a significant skills shortage, with an estimated need for an additional 152,000 workers to meet government housing targets. (Source: Construction News)

Insurance impacts

- As building costs rise, insurers may increase customers' insurance premiums.
- Construction firms will need to update their insurance if materials, timescales or project scopes change, ensuring they are adequately covered for any potential disruptions.
- The increased focus on fire safety and cladding remediation underscores the importance of having comprehensive coverage for construction defects and liabilities, particularly as regulatory scrutiny intensifies.

Motor

- New EU CO2 emission standards will be coming into effect next year and there will be a pressing need for more electric vehicles in Europe. (Source: Allianz)
- The owners of electric cars are currently exempt from Vehicle Excise Duty (VED), but this exemption will end in April 2025, leading to higher car taxes for many drivers.

- By October 2024, there were over 1.25 million fully electric cars in the UK, accounting for 3.75% of all cars on the road. (Source: Zapmap)
- The luxury car market is projected to grow from $738.63 billion in 2024 to $967.65 billion by 2029 driven by demand for better features, comfort and electric options. (Source: Nexus)
- Fuel duty will remain frozen, which the chancellor described as essential for supporting working people amid global uncertainties. However, vehicle excise duty for petrol and hybrid cars will rise, potentially adding £11.2 billion to Treasury receipts by 2029-30. (Source: Financial Times)

Insurance impacts

- Car insurance premiums have risen by an average of 21% since June 2022. (Source: Gov.uk)
- The typical cost of car insurance cover is now £622. (Source: Forbes)
- The cost of paying for car insurance in instalments can add up to 30% to the total cost of a policy and paying in this way has caused 79% of adults to experience financial difficulty. The Financial Conduct Authority (FCA) is investigating. (Source: Forbes)
- The rise in vehicle excise duty for petrol and hybrid cars may accelerate the shift to electric vehicles, prompting insurers to adapt their offerings for different risk profiles and coverage needs. This shift could also reduce the number of policies for traditional vehicles.

Commercial property

On average, 21 people are competing for every rental property. This is more than double pre-pandemic levels. (Source: Landlord Today)

- Despite the increase to rental costs, renting is still more accessible than buying a home.
- In 2025, all leased commercial properties will need a valid EPC. If the existing lease has an expired EPC, the property owner(s) will need to apply for a new one.
- From 2025 onwards, properties to be newly let must achieve an EPC rating of C or higher.
- Applications to convert commercial properties into residential units have surged, driven by high housing demand. This trend presents opportunities for landlords but requires navigating complex regulations and potential costs. (Source: This is Money)

Insurance impacts

- Insurance rates in the property market have consistently increased since 2017 and are likely to continue rising.

- The costs of repairing and maintaining damaged property remain higher than pre-COVID levels and policyholders will need to review their insurance cover to avoid being underinsured.

- 42% of SMEs which own their premises do not know the rebuild value of their buildings. Of those who had calculated the rebuild value of their property, just over half (51%) had a professional valuation, whereas 39% used market value and 10% self-valued their property. (Source: Allianz)

- With the rise in conversions from commercial to residential use, insurers may need to adapt their offerings to cover unique risks associated with these properties, including compliance with new regulations and renovation challenges.

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.