

# Inflationary issues

## June 2024

Since we published our [March Insights](#), we've continued to see prices increase but the Office for Budget Responsibility expects living standards to recover more quickly than previously forecast and real household disposable income per person should recover its pre-pandemic peak by 2025-26.

2024 is set to be the biggest election year in history, with an unprecedented number of general elections taking place across the world. This will generate regulatory and policy uncertainty in the short and medium term.

The annual inflation rate is forecast to fall to the Bank of England's 2% target in the coming months and to 1.9% in 2026. There was economic growth of 0.4% for the first three months of 2024 and 0.2% from April to June.

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.

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### Inflation and price indices

- We expect sluggish economic momentum ahead, with global GDP growing by less than +3% between 2024-25. (Source: [Allianz](#))
- Although UK inflation has slowed significantly (3.2% as of May 2024), it remains higher than the Bank of England's 2% target.
- The Consumer Price Index, which is the most widely used measure of inflation, fell to 3.2% in March 2024. This is down 7.9% from a peak of 11.1% in 2022. (Source: [Carter Jonas](#))

## ECONOMIC INSIGHTS

- There was some good news for retailers as overall footfall increased by 1% in April 2024. However, this was still down 5% when compared to the same period in 2023. (Source: [Office for National Statistics](#))
- Many lenders have raised the interest rates on new fixed-rate mortgage deals, and this has made borrowing more expensive.
- The UK economy is predicted to see the slowest growth of the largest developed nations in 2025.

### Insurance impacts

- High inflation and the cost-of-living crisis continues to have a big impact on the broking market with the personal lines sector being most affected.
- Consumers are now far more motivated by price and less inclined to take out more comprehensive insurance policies.
- 2024 continues to present a challenging year for insurers as they seek to balance competitive pricing, increased expectations from their customers, and higher claims costs.
- Despite concerns about inflation, in the past year only 19% of small business owners increased their sums insured and just 12% increased their insurance indemnity periods. (Source: [Allianz](#))

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### Supply chain disruption

- Most UK businesses exported the same amount or more goods in April 2024 than in the same month in 2023.
- A third of trading businesses with 10 or more employees were able to obtain the goods or services they needed from within the EU.
- As a result of ongoing supply chain issues, UK firms are being pushed to source more locally.
- Economic inflation, the recession, and a lack of skilled workers in the economy are the most frequently cited concerns among supply chain professionals.
- Supplier lead times shortened in the first quarter of 2024.

### Insurance impacts

- Insured losses may rise if shipping delays and higher prices last longer or intensify.
- Some insurance sectors, such as renewable energy, are bearing a higher burden from supply-chain pressure on loss costs.

- Supply chain disruption intensifies demand for businesses to have the correct business interruption insurance cover in place.
  - The most common actions businesses are taking to de-risk their supply chains are: developing alternative suppliers; improving business continuity management; and identifying and re-mediating supply chain bottlenecks. (Source: [Allianz](#))
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### Energy crisis

- In March 2024, energy inflation was positive for the first time since April 2023, at 0.6%. (Source: [OECD](#))
- In April 2024 the Ofgem Price Cap was lowered to £1690 a year.
- An estimated 6 million UK households are in fuel poverty and 2.3 million households are paying more than at the height of the energy crisis because of energy debt. (Source: [National Energy Action](#))
- Europe will have to find solutions for the redesign of national energy markets and the compatibility of different energy infrastructures. (Source: [Allianz](#))
- Scaling up investment in renewable energy infrastructure and viable alternatives to pipeline gas is essential but will require time. (Source: [Allianz](#))

### Insurance impacts

- The insurance industry continues to be hard hit by the escalating frequency and severity of global risks.
  - Proactive risk management will help minimise the impact of extreme climate related events.
  - Physical damage and business interruption are the two direct impacts of climate change businesses fear most. (Source: [Allianz](#))
  - Mitigating the impact of the energy crisis will require a coordinated fiscal policy response. (Source: [Allianz](#))
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### The cost and shortages of food and supplies

- Extreme weather events resulting from climate breakdown will lead to widespread UK food shortages and increased prices in 2024 and 2025.
- Due to record rainfall across the UK, many farmers have not been able to plant potato, wheat and vegetable crops during the spring season. Of the crops that have been planted, many are of poor quality.
- Supermarket shortages will continue in 2024 as a result of climate related disasters.

### Insurance impacts

- A systemic shock to global food supply could trigger significant claims across multiple classes of insurance.
  - Businesses will need to make sure they lessen the financial impacts of claims made as a direct, or indirect, consequence of food shortages, and adjust their insurance cover accordingly.
  - 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.
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### The cost of materials

- The cost of construction materials fell in the 12 months prior to March 2024.
- Although the price of materials has fallen, construction activity has stagnated due to low market confidence and the threat of liquidation.
- However, despite the general fall in costs, 2024 also saw notable increases in the prices of some materials such as flexible pipes and fittings (up by 20.6%), metal doors and windows (up by 17.4%), and ready-mixed concrete (up by 12.4%). (Source: [C-link](#))

### Insurance impacts

- As the cost of some materials falls, insurers may reduce customers' insurance premiums.
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### Construction

- Construction output will fall by 5.3% this year but grow in 2025 (by 3.8%). (Source: [Currie Brown](#))
- Tender price inflation across regions is expected to average at around 3.0% in 2024. (Source: [Currie Brown](#))
- In the light of continuing economic uncertainty and tightening credit conditions, construction activity in Europe will contract by 2%. However, it's expected that there will be growth in Ireland due to a rise in housing completions. (Source: [Building](#))
- The goal of constructing 300,000 homes remains a priority for both major political parties. Numerous trades within the sector, including Civil Contractors, Roofers, and fit-out companies, stand to gain from these initiatives. (Source: [Allianz](#))
- Critical shortages in key building materials like bricks and concrete blocks are causing project delays.

### Insurance impacts

- Construction firms need to have the correct business interruption insurance in place to cover them in the event of stalled or delayed projects.
  - Materials with a higher carbon number may be more expensive than traditional materials and this will need to be considered when setting insurance premiums.
  - Insurance companies need to factor in the costs of replacement materials that are less carbon intensive.
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### Motor

- The UK's used car market had the strongest start to a year since the pre-pandemic levels of 2019.
- Used car transactions have risen in every month of the year to date but this quarter's transactions remain lower than pre-Covid levels.
- Increasing numbers of battery electric vehicles (BEVs) are now entering the used sector.
- 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](#))

### Insurance impacts

- The average price paid for comprehensive motor insurance in the UK was about a third (33%) or £157 higher in the first quarter of this year than a year earlier. (Source: [The Guardian](#))
  - The average price paid for motor insurance continues to rise, driven by record increases in the cost to insurers' pay claims.
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### Commercial property

- First-time buyers are facing the toughest borrowing conditions in 70 years.
- Private rental costs in the UK have risen by 9.2% in the last year. (Source: [BBC News](#))
- Property portfolios have been impacted by climate related catastrophes such as flooding, hail, wind, and freezing temperatures.
- Supply chain challenges and rising inflation continue to impact the commercial property sector.
- Average two- and five-year fixed mortgage rates have risen by 0.11% and 0.09% month-on-month respectively. (Source: [Mortgage Solutions](#))

### Insurance impacts

- In the light of the global challenges faced by the commercial property sector, insurers will have to adopt a stricter risk appetite.
  - Population growth in high-risk locations is contributing significantly to loss trends.
  - Businesses will need to make sure they lessen the financial impact in the case of property damage or loss by having the correct property insurance in place.
  - 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](#))
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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.