

# Inflationary issues

## September 2024

Since we published our [June Insights](#), many significant political and economic changes have taken place around the world. In the UK, a Labour government was elected in a landslide general election victory, and in America, President Joe Biden announced he would not seek re-election and Donald Trump survived an assassination attempt.

Additionally, we've seen increased tensions in the Middle East between Israel, Iran and Yemen and a leadership change in Iran following the death of President Ebrahim Raisi in a helicopter crash in May 2024.

The US presidential election takes place in November 2024 and the outcome will affect foreign policy and international trade, which will impact the UK and Europe.

Global economic growth remains weak by historical standards but is showing signs of stabilisation. The annual UK inflation rate was 2.2% in July 2024, its lowest level in nearly three years.

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

- After 14 years of Conservative-led rule, the Labour party won a landslide majority in the UK's general election on 4th July. The new government have pledged to deliver economic stability by keeping taxes, mortgages and inflation as low as possible.

## ECONOMIC INSIGHTS

- The Bank of England's base rate has been cut for the first time in four years and now sits at 5%. Previously it was 5.25%.
- We expect sluggish economic momentum ahead, with global GDP growing by less than +3% between 2024-25. (Source: [Allianz](#))
- Average mortgage rates have fallen this year but are not expected to fall further in 2024. However, it's likely that house prices will stay flat meaning that homes will be more affordable.
- There are now more homes for sale than at any point in the last six years.
- From November 2021 to June 2024, British adults reported month by month increases to their cost of living. (Source: [House of Commons Library](#))
- Food shortages will lead to price increases which means people will have to spend more money on food, leaving less money for other things.
- Business insolvencies are up 10% in 2024. (Source: [Allianz](#))

### Insurance impacts

- Consumers are now far more motivated by price and less inclined to take out more comprehensive insurance policies.
- Almost 20% of UK adults have cancelled their insurance policies in the past 12 months, and nearly 10% of UK adults have reduced, or are thinking about reducing, their level of insurance cover to save money. (Source: [Hymans Robertson](#))
- 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.
- 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 behind economic growth. (Source: [Allianz](#))

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### Supply chain disruption

- As a result of ongoing supply chain issues, UK firms are being pushed to source more locally.
- Of those businesses that had exported, 16% said that their exports had increased in June 2024 compared with the same month last year, while 24% had exported less. (Source: [Office for National Statistics](#))
- The Red Sea crisis is still causing severe congestion in ports, including Singapore. This continues to impact global supply chains.

## ECONOMIC INSIGHTS

- There is a severe shortage of haulage drivers in the UK with a 15% decrease from 2022. This scarcity is driving up salaries and operational costs for haulage companies.
- Many businesses are investing in technology and AI solutions to automate processes, predict supply chain disruptions and optimise inventory management. (Source: [Allianz](#))

### Insurance impacts

- Supply chain disruption intensifies demand for businesses to have the correct business interruption insurance cover in place.
  - It is anticipated that we will see higher shipping costs and more delays in the second half of 2024 due to driver shortages and adverse weather conditions.
  - 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

- There was a 0.1% rise in the price of monthly housing and household services in July 2024. This was mainly due to gas prices, although electricity prices also contributed to this rise. (Source: [Office for National Statistics](#))
- Unprecedented levels of rainfall in the UK during summer 2024 has caused significant delays to solar energy projects across the country.
- Typical household energy bills will rise by £149 per year in October. (Source: [BBC News](#))
- It's predicted there will be an overall upward trend in UK gas and electricity prices throughout the winter of 2024 and into 2025.
- Higher energy prices mean the costs of materials, manufacturing, maintenance and labour will increase.
- High priced energy has contributed to many failures in the sector. A move to electric has already been seen in construction vehicles, but sustainable power is very much needed as the sector looks towards hydrogen as an alternative in the future. (Source: [Allianz](#))

### Insurance impacts

- The additional costs of materials etc. have contributed to record losses for insurers in recent years.
- 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.

- Thanks to AI and digital transformation, insurers are now able to collect datasets from more sources than ever before. Insurers can utilise this information to cover global environmental risks more accurately. (Source: [Allianz](#))
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### The cost and shortages of food and supplies

- Emerging markets stand to benefit from supply chain diversification and resilient domestic demand will support GDP growth across all regions in 2025. (Source: [Allianz](#))
- Extreme weather events resulting from climate breakdown will lead to widespread UK food shortages and increased prices in 2024 and 2025.
- The first release of the new annual UK Food Security Index was published in July 2024. The index shows a broadly stable picture as supply chains remain steady. However, long term risk from climate change will pose significant challenges to some domestic food production in 2024/2025 and beyond.

### Insurance impacts

- 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.
  - The rising cost of food and supplies may result in people being less able to afford insurance premiums.
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### The cost of materials

- The cost of building materials has remained steady, but this could be due to a decline in demand due to the sluggish construction market.
- Currently there are good levels of building materials available.
- The greatest price increase in the twelve months to June 2024 was flexible pipes and fittings which was up by 17%. The greatest decrease was in fabricated structural steel which went down by 16%. (Source: [BCIS](#))
- 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](#))

### Insurance impacts

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

### Construction

- As a result of Brexit, China is now a major supplier of building materials in the UK, overtaking Germany and Spain. This raises questions about sustainability and the UK's reliance on imported goods.
- Overall construction output remains low, and the volume of new builds and commercial developments remains sluggish due to economic uncertainty, labour shortages and regulatory changes.
- Despite labour and material costs remaining high, increased consumer spending and economic stability are expected to trigger investment which will lead to an increased number of construction projects being started in 2025.
- Construction output will fall by 5.3% this year but grow in 2025 (by 3.8%). (Source: [Currie Brown](#))
- The global construction market is predicted to grow by over 70% in 2025. (Source: [Gov.uk](#))
- The goal of constructing 300,000 homes remains a government priority and numerous trades within the sector, including civil contractors, roofers, and fit-out companies, stand to gain from these initiatives. (Source: [Allianz](#))

### 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.

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### Motor

- The owners of electric cars are currently exempt from Vehicle Excise Duty (VED) but in April 2025 this exemption will end meaning many drivers will face increases in their car tax.
- The Society of Motor Manufacturers (SMMT) reported the fifth consecutive quarter of growth for the UK's bus market, with a 60% increase in the number of new buses, coaches and minibuses joining the roads in the second quarter of 2024.
- The price of used cars fell by an average of 13% in 2024 compared to 2023 prices and are expected to continue to fall. (Source: [London Motor Sports](#))
- In August 2024, it was reported that the UK's used car market has grown for the sixth consecutive quarter.
- 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 motor insurance continues to rise, driven by record increases in the cost to insurers' pay claims.
  - This year the average price of car insurance exceeded £600 for only the second time since records began.
  - In the first quarter of 2024 the average premium paid for private motor insurance was £635, a 1% increase from the previous quarter.
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### Commercial property

- Rent costs for people moving home to take on a new tenancy has risen at its slowest rate for nearly three years. (Source: [Zoopla](#))
- Interest rates have led to mortgage payments rising and consequently, landlords have increased rents. Many renters are now paying higher housing costs.
- Supply chain challenges and rising inflation continue to impact the commercial property sector.
- The UK's commercial property market seems to be recovering more quickly than the rest of Europe and both deal volumes and property values have increased in the first half of 2024.
- The office market has shown the weakest performance so far in 2024.

### Insurance impacts

- Insurance rates have increased consistently in the property insurance market since 2017 and it's likely they will continue to do so.
- 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](#))

### 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.