

Inflationary issues

September 2023

Since we published our [June insights](#) the cost of living has continued to rise, both in the UK and across the world, and the government's independent forecaster said that household incomes - once rising prices are taken into account - would drop by 6% this year and next.

It's not all bad news though, according to the Office of National Statistics, the UK economy grew by 0.2% in the second quarter of 2023 and business investment in the UK increased by 3.5% over the same period. As a result, the UK will avoid going into a recession.

Here we summarise the key economic issues, along with the relevant insurance implications.

Also 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 started to fall, it slowed to 6.7% in the 12 months to August 2023 -down slightly from 6.8% in July. It means prices are still rising, but at a slower rate. (Source: [BBC News](#))
- Higher interest rates will help to bring inflation down further because they will reduce the amount of overall spending in the economy. (Source: [Bank of England](#))
- Inflation is expected to keep on falling in 2024 and reach the government's 2% target by early 2025. (Source: [Bank of England](#))
- UK interest rates have been left unchanged after the Bank of England said price rises were slowing faster than expected. Interest rates were held at 5.25%, already their highest for 15 years. (Source: [BBC News](#))

- The average cost of a two-year fixed rate mortgage deal now stands at 6.15%. The average cost of a three-year fix has dipped below 6% at 5.99%, while the average five-year fixed rate is at 5.59%. (Source: [Forbes](#))
- Average house prices in August were down by 4.6% year-on-year, which is the biggest drop since 2009. The cost of an average UK home in August was £279,569, down from £285,044 in July. (Source: [Forbes](#))
- The UK employment rate was estimated at 75.5% in May to July 2023, 0.5 percentage points lower than February to April 2023. The quarterly decrease in employment was mainly driven by full-time self-employed workers. (Source: [FE News](#))
- Approximately 1 in 10 (11%) businesses were experiencing worker shortages in late August 2023, this is down 2 percentage points from mid-July 2023; 45% of those businesses reported they were unable to meet demands because of the shortages. (Source: [Office for National Statistics](#))

Insurance Impacts

- 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](#))
 - While there are signs that prices are expected to ease in 2023, additional factors will mean that the impact of claims inflation will continue to be felt across all insurance lines. (Source: [Kennedy's Law](#))
 - Despite economic challenges, the insurance industry has shown resilience in the face of shocks, acting as a buffer and providing stability during times of high inflation and low growth. (Source: [Allianz News](#))
 - Reductions in real income could see deferment of non-essential insurance purchases. (Source: [Reinsurance News](#))
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Supply chain disruption

- The number of supply chain disruptions increased by 3% in the first half of 2023 compared to the same period in 2022. However, the rate of increase is slowing, indicating that the supply chain is stabilising. (Source: [Astute](#))
- Labour disruptions were one of the biggest drivers of supply chain disruptions in the first half of 2023, increasing by 136% compared to the same period in 2022. This includes strikes, layoffs, and labour protests. (Source: [Astute](#))
- 20.5% of importers have altered their supply chains because of tensions abroad, while a further 14.5% were considering doing the same. Just 42.4% of importers said their supply chain had been unaffected by the geopolitical tensions. (Source: [Pricemann](#))

- However, there is some good news, in July 2023, 67% of trading businesses with 10 or more employees reported that they were able to get the materials, goods or services they needed from within the UK without experiencing supply issues; this rose to 78% when including businesses that had to change suppliers or find alternative solutions to do so. (Source: [Office for National Statistics](#))

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

- Wholesale energy prices have fallen from their summer 2022 peaks but there was a substantial lag before these fed through to consumers. (Source: [UK Parliament](#))
- The fall in the energy price cap in July 2023 took it to below the EPG level, so customers on standard variable tariffs saw a fall in their bills. Unit prices fell by 27% for gas and 9% for electricity. (Source: [UK Parliament](#))
- For the period of October to December 2023, the costs of mains gas and electricity will fall further, with the Ofgem price cap set at £1,923 for a typical household per year. The Energy Price Guarantee will remain in place as a safety net until the end of March 2024 should energy prices increase above £3,000 per year. (Source: [Gov.uk](#))
- Energy bills should come down more as gas prices have fallen. (Source: [Bank of England](#))
- The conflict in Ukraine has accelerated demand for renewable energy. (Source: [BKS Partners](#))

Insurance Impacts

- Prolonged economic weakness resulting from the energy crisis will impact overall demand for insurance and drive claims costs higher, according to analysts at the Swiss Re Institute. (Source: [Reinsurance News](#))
- With the pricing of insurance growing and carrier capacity diminishing, managing the cost of insurance has proven to be challenging for renewable energy companies. (Source: [BKS Partners](#))

The cost and shortages of food and supplies

- This summer's unprecedented high temperatures have threatened UK food imports from the Mediterranean. (Source: [The Grocer](#))
- Just over a quarter of Britain's food imports, worth over £16bn, came from the Mediterranean region in 2022. Spain alone, which is experiencing some of the worst climate impacts in the Mediterranean, accounted for 7% of our food imports last year. (Source: [The Grocer](#))

- In more positive news, from April 2023 the National Living Wage (NLW) increased by 9.7% from £9.50 to £10.42. (Source: [Loughborough University](#))
- In addition, a boost in average pay in May to July 2023, coupled with a recent reduction in the rate of inflation, means that real wages are beginning to improve when compared with recent months. (Source: [Office for National Statistics](#))
- Average regular pay (excluding bonuses) for employees rose by 7.8% in May to July 2023 compared with the same period the previous year. This maintains the highest growth rate seen since 2001. (Source: [Office for National Statistics](#))

Insurance Impacts

- As the cost of living continues to rise, around two-thirds (67%) of adults in Great Britain are spending less on non-essentials in response. The survey also revealed that half (50%) were shopping around more. (Source: [Office for National Statistics](#))
- Home insurance premiums have reached an all-time high as prices shot up by more than 20% over the last 12 months. (Source: [Insurance Times](#))

The cost of materials

- Building materials prices fell by 1.1% in July, and continue to fall, despite shortages in key products. This has led to a rise in construction output of 1.6%. (Source: [Homebuilding and Renovating](#))
- The highest annual price increases were for insulating materials (29%), ready-mixed concrete (19%) and screws (33%). (Source: [Construction News](#))
- Prices for imported sawn or planed wood, concrete reinforcing bars and fabricated structural steel all fell by about a quarter in the past year. (Source: [Construction News](#))
- There is a continuing weakening of demand for homebuilding, which is explained by relatively high material costs as well as planning constraints that are restricting construction. (Source: [Homebuilding and Renovating](#))

Insurance Impacts

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

Construction

- The material price index for 'All Work' decreased by 4.0% in July 2023 compared to the same month the previous year. (Source: [Gov.uk](#))
- Imports of construction materials increased by £155 million in Quarter 2 2023 compared to the previous quarter, an increase of 2.8%. (Source: [Gov.uk](#))

- Exports of construction materials increased by £16 million in Quarter 2 2023 compared to the previous quarter, an increase of 0.8%. (Source: [Gov.uk](#))
- More than 100 schools across England and Wales are affected by RAAC and this has highlighted the continued presence of asbestos in schools and public buildings. (Source: [RPC](#))

Insurance Impacts

- As the prices of basic materials have increased, so have the costs of replacing damaged property. These increased costs have translated into increased losses, particularly in areas exposed to catastrophic losses like coastal areas and areas prone to wildfires. (Source: [Gallagher](#))
 - 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

- Thousands of drivers in Greater London are now at risk of paying a £12.50 daily charge every time they enter their car under the new Ultra Low Emission Zone (ULEZ) law. (Source: [GB News](#))
- The House of Lords launched an inquiry to investigate how the Government will successfully ban the sale of new petrol and diesel vehicles from 2030. The consultation closed on 15 September 2023. (Source: [GB News](#))
- UK new car sales grew by almost a quarter in August, up by 24.4% compared with the same month in 2022. Sales of electric and plug-in hybrid vehicles propelled this growth. (Source: [What Car?](#))
- Petrol prices rose nearly 7p per litre in August, pushing up the cost of filling a tank by £3.74. Diesel went up 8p, making the cost of filling a tank £4.41 more than in previous months. (Source: [BBC News](#))

Insurance Impacts

- 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](#))
- Motorists with a vehicle valued under £10,000 saw their insurance premiums soar during August as the average price of cover reached an all-time high. (Source: [Insurance Times](#))
- Motor insurers paid out £2.5 billion in motor claims in the second quarter of 2023, this was up 29% on the £2 billion paid in the same quarter last year. This was the highest quarterly figure since 2013. (Source: [ABI](#))

- Payouts for vehicle theft, at £196 million increased by 53% on the £128 million paid in the same period last year. This in part reflects increases in the average price of second-hand cars, which rose by 28% between April 2021 and June 2023. (Source: [ABI](#))
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Commercial Property

- House prices were down -0.8% in August, resulting in an annual fall of -5.3%. This bigger annual fall was to be expected, as we are exactly one year on from the house price peak in August 2022. (Source: [Savills](#))
- The fall in house prices in August was substantial, the third largest of the last 12 months. But it took the average price back only to December 2021 levels. (Source: [Savills](#))
- Many lenders cut their rates in August, indicating more confidence over the extent of future Bank of England base rate rises. Economic forecasters still expect this to peak at 5.5% in September, after only one more rise. (Source: [Savills](#))
- Annual rental growth across the UK continued to accelerate to 10.5% in July, up 0.2% compared to June. Rental growth accelerated across all regions except Scotland on a quarterly basis, as competition for limited stock remains high. (Source: [Savills](#))

Insurance Impacts

- Global property insurance pricing was up 10% on average in the second quarter of 2023, the same as in the previous quarter. (Source: [Marsh](#))
 - Concerns about the impact of inflation on asset values and claims costs remained a key focus for insurers at renewal in most regions. (Source: [Marsh](#))
 - Insurance claim costs will put pressure on insurance companies because they will be taking a lot of costs and expenses out of the industry, which will reduce the ability to have as much capacity. (Source: [Silverline](#))
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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.