JULY 2023

Inflation report

Irish household claims
2023–2024

sedgwick

CONTENTS

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Executive summary

The Irish and world economy is currently in a cycle of high inflation, driven by multiple interdependent factors, which are explored in detail in this report.

From an Irish perspective, inflation as measured by the Consumer Price Index (CPI) peaked in October 2022 at 9.2% and has slowly reduced in the interim to 6.6% for May 2023. This is an encouraging development, and we anticipate inflation will continue to soften for the remainder of 2023 to circa 5% and 3.5% for 2024. These projections are in line with recent data issued by the Economic and Social Research Institute (ESRI).

Insurance household claims inflation must be assessed separately in relation to its two main components, namely buildings and contents.

Buildings

Our current forecast for the main components of building claims inflation, on an annual basis, is as follows:

	2023	2024
Materials (30%)	7.0%	5.5%
Labour (70%)	6.0%	4.5%

Historical analysis has demonstrated an overall mix of 30% materials and 70% labour, which, when applied, results in a weighted average overall annual buildings inflation forecast as follows:

	2023	2024
Building inflation percentage (weighted)	6.3%	4.8%

Contents

Based on market information currently available and our knowledge of the sector, we estimate contents claims inflation of 3.5% for the remainder of 2023 and 3.0% for 2024.

Overall household claims inflation

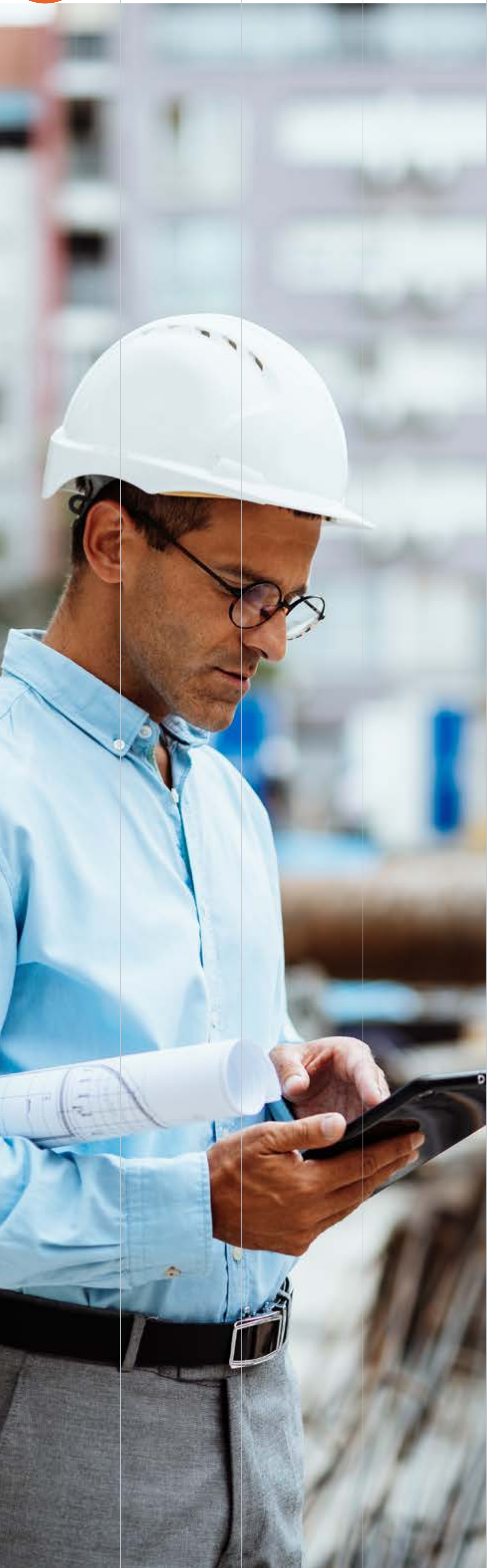
Our historic claims experience has established, as a general benchmark, expenditure in relation to household claims is proportioned on a buildings 3:1 contents basis, resulting in weighted inflation forecasts as follows:

	2023	2024
Materials	7.0%	5.5%
Labour	6.0%	4.5%
Buildings (weighted: materials 30:70 labour)	6.3%	4.8%
Contents	3.5%	3.0%
Forecast inflation (weighted: buildings 3:1 contents)	5.6%	4.35%

Construction sector overview

The factors identified as impacting construction activity levels and costs in 2023 are:

- Shortage of labour for construction projects. Most construction professionals agree that the availability of trades has decreased across all skillsets. To address this issue, the industry is to make concerted efforts to attract new recruits and encourage apprenticeships.
- Project viability concerns impacting projects. Construction inflation is affecting project viability and is a primary factor when raising development finance. Additionally, interest rate increases as announced by the European Central Bank (ECB) are putting additional costs into development budgets.
- Russia's invasion of Ukraine is having an impact on the price and availability of material previously sourced from the region, especially steel, base metals, fuel and energy resources.
- The rate of construction price inflation is now running at 11.5%, according to figures from the Society of Chartered Surveyors Ireland (SCSI). The expectation is that it will ease back.
- The economic outlook for 2023 and the medium-term is largely positive. Real gross domestic product (GDP) is expected to grow by 5.5% in 2023 and 5.0% in 2024. Modified domestic demand, which better reflects underlying domestic economic activity in Ireland, is estimated to have increased by 8.2% in 2022 and is expected to expand by 2.0% in 2023 and 2.3% in 2024.



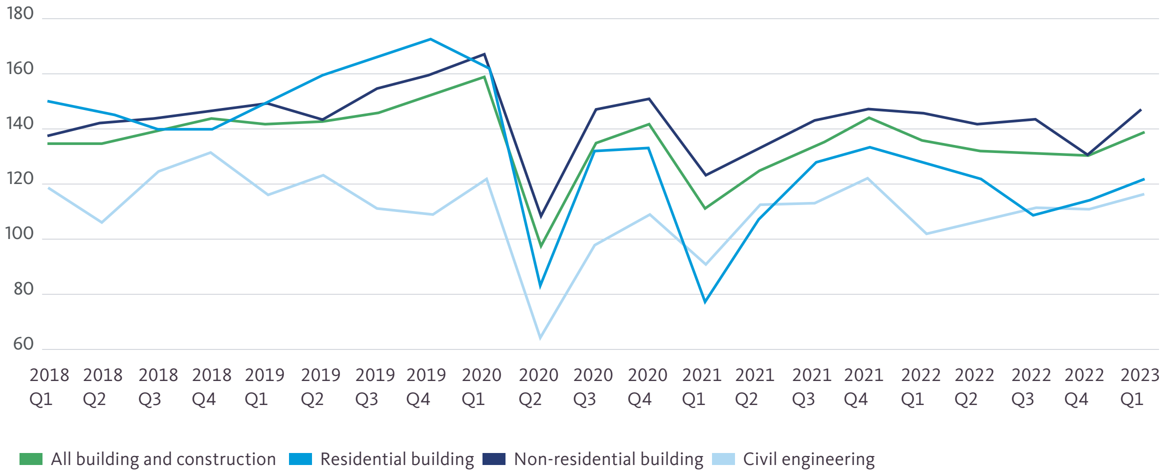
- Last year, despite challenges facing the global economy, Ireland's economy was the fastest growing in Europe, with GDP growth of 12.2% and modified domestic demand (MDD), which is used to measure the domestic economy, growing by 8.2%. The strong end to 2022 was driven by higher levels of investment by multinationals in intellectual property, continued growth in exports, higher private consumption (despite downbeat consumer sentiment) and a largely mild winter.
- CPI inflation since the start of 2023 has been somewhat more persistent than anticipated, standing at 6.6% in May, down from the peak of 9.2% in October 2022 and from 7.8% in January 2023. While there's been a fall in the cost of energy, inflation in other sectors remains high. However, as 2023 evolves, we expect CPI inflation to soften, potentially to circa 5% on the back of falling energy prices.
- The construction industry in Ireland is expected to grow by 7.2% to reach 24,839 million euro in 2023.
- The increase in uncertainty and disruption to supply chains will constrain investment growth this year and next. While planning permissions and commencements indicate a strong pickup in construction this year, higher materials costs and labour shortages are forecast to constrain growth in the sector more so than previously expected.
- The main reasons for current price inflation are high price volatility across a range of building materials — particularly concrete products, plumbing and plaster materials, metals and fuel — labour shortages and the extremely high demand for projects across all tiers of the industry.
- Interest rates tend to move in the same direction as inflation but with lags, because interest rates are the primary tool used by central banks to manage inflation. The expectation is that interest rates will continue to rise in 2023 as the European Central Bank follows the trend in other economies.
- The ESRI expects inflation to moderate to 4.5% in 2023 before easing to 3.5% in 2024. Price levels are going to remain high, which is likely to pose cost of living challenges.

Construction output

- The volume of production in construction rose by 7.5% in the first quarter (Q1) of 2023 when compared with Q4 2022 on a seasonally adjusted basis. On an annual basis, between Q1 2022 and Q1 2023, production volume increased by 2.8%.
- With regards to pre-pandemic levels, there was a reduction of 13.3% in the volume of construction activity from Q1 2020 to Q1 2023. During the same period, the value of construction grew by 4.6%.
- All sectors recorded a quarterly increase in the seasonally adjusted volume index in Q1 2023 when compared with Q4 2022. Non-residential building rose by 12.9%, residential building by 7.1% and civil engineering by 4.6%.
- The seasonally adjusted value index for all building and construction increased by 7.7% on a quarterly basis and by 11.6% on an annual basis.
- The construction industry in Ireland is expected to grow by 7.2% to reach 24,839 million euro in 2023. Despite near-term challenges in certain construction sectors, the medium-to-long term growth story in Ireland remains intact. The construction industry in Ireland is expected to grow steadily over the next four quarters.
- The growth momentum is expected to continue over the forecast period, recording a compound annual growth rate (CAGR) of 5.9% during 2023–2027. The construction output in the country is expected to reach 31,188.4 million euro by 2027.

Seasonally adjusted volume of production in building and construction indices, Q1 2018 – Q1 2023

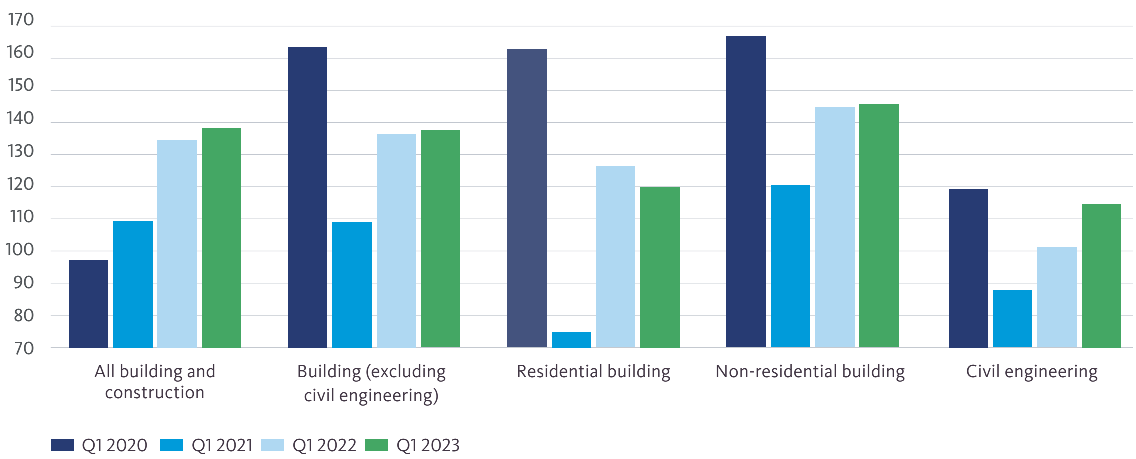
(Base year 2015 = 100)



Source: Central Statistics Office, Ireland

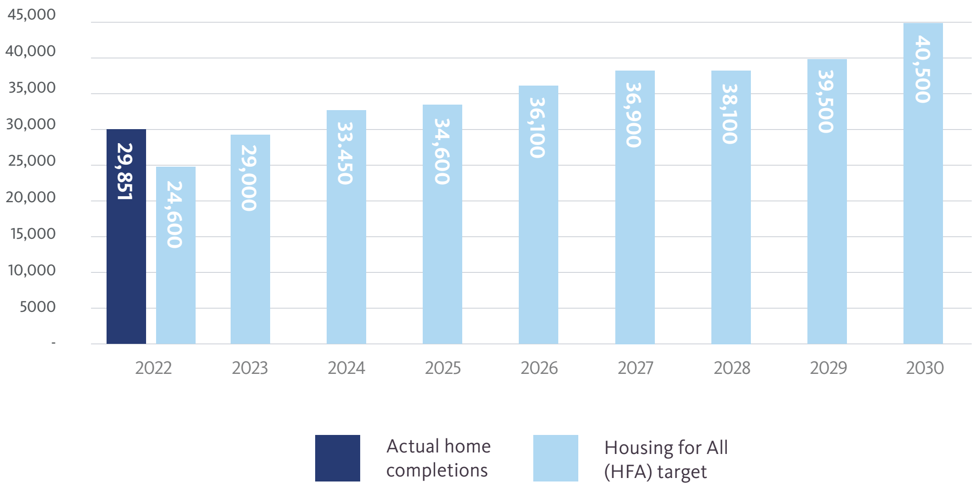
Seasonally adjusted volume of production by quarter and type of activity

(Base year 2015 = 100)



Source: Central Statistics Office, Ireland

Home completions versus housing target completions, 2022-2030



Ireland BNP Paribas Real Estate Construction PMI

Ireland BNP Paribas Real Estate Construction is a seasonally adjusted index designed to track changes in total construction activity in Ireland. Data is collected at mid-month, asking respondents to compare a variety of business conditions with the situation one month ago. A reading of below 50.0 indicates that the economy is generally declining, above 50.0 that it is generally expanding, and exactly 50.0 indicates no change on the level recorded the previous month.

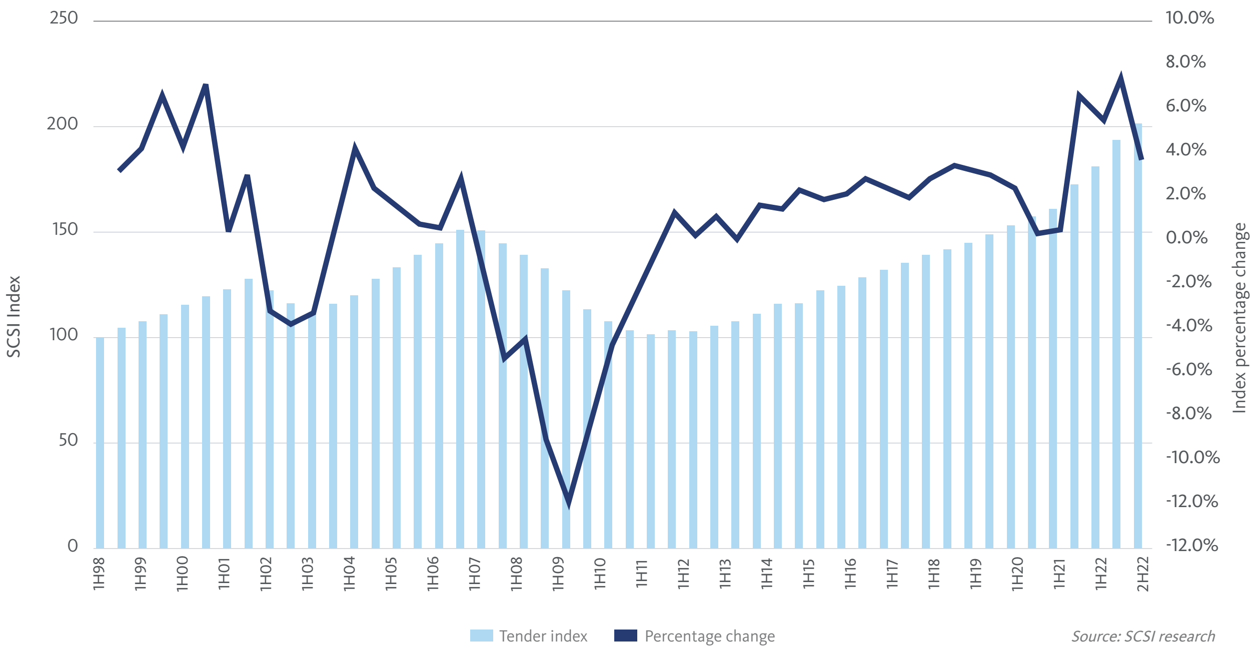
The BNP Paribas Real Estate Construction PMI in Ireland increased to 49.4 in May 2023 from April's three-month low of 48.4, as new orders, employment and purchasing grew faster. The latest reading pointed to a slight fall in construction activity levels, albeit only slight, as the decline in housing activity eased while commercial activity strengthened. The sustained growth in new orders for a fourth month drove firms to uplift their staffing levels for the fifth successive period. Meanwhile, the latest lengthened vendor performance was the least pronounced since November 2017. On prices, input cost inflation dropped to its lowest since August 2020, while output cost inflation slowed the most in 26 months. Finally, sentiment improved to the second-highest since February 2022 amid hopes for a consistent rise in market demand boosted by development activity, higher volumes of renewable energy projects and a payoff from new business strategies.

- BNP Paribas Real Estate Ireland advises that the future expectations index is now approaching its highest level since early 2022, possibly driven by two factors. As confirmed by recent census statistics, Ireland's population continues to grow strongly, generating a natural demand for homes and logistics buildings that serve the supply chain needs of a growing population.
- While still rising, input costs are doing so at their slowest rate since August 2020. The combination of these dynamics is giving rise to greater optimism about construction viability.

Construction costs and tenders

- A report issued by the SCSI in February 2023 shows that while construction costs continue to rise, the rate of increase eased significantly in the last six months of 2022.
- The latest Tender Price Index published by the SCSI shows the rate of commercial construction inflation increased by 4% in the second half of 2022, down from a record high of 7.5% in the first six months of the year, mostly due to a decline in fuel and energy costs.
- According to the SCSI's Tender Price Index, which is the only independent assessment of commercial construction tender prices in Ireland, the annual rate of inflation from January to December 2022 was 11.5%, down from 14% in the preceding year.
- Chartered Surveyors says the national annual rate of construction price inflation is now running at 11.5%.
- Sustained increases in fuel and energy prices, supply chain issues and labour shortages are the main drivers of inflation in 2023.
- Inflation is likely to increase by up to 4% in the first half of this year, while the hope would be that the downward trend will continue this year. The 4% figure is still high, and it's clear the effects of Russia's invasion of Ukraine, particularly with regard to increased fuel and energy costs, continue to dominate the market.

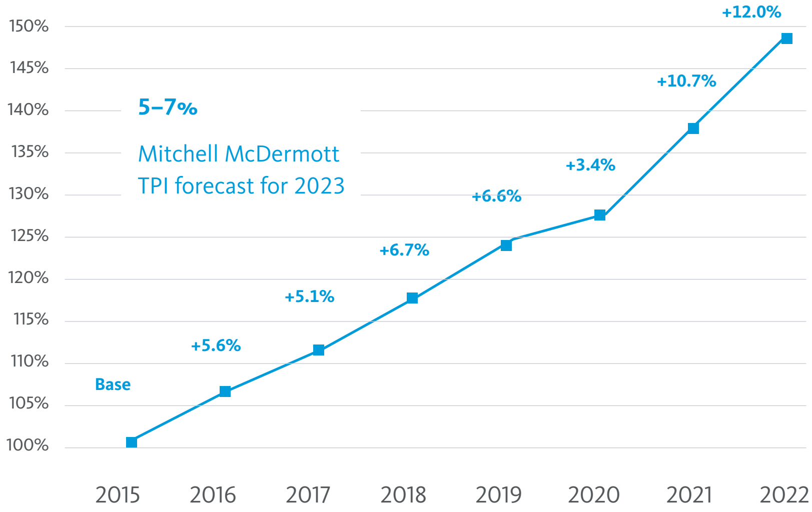
SCSI commercial construction Tender Price Index (base 1998)



Source: SCSI research

Inflation — January 2023

Mitchell McDermott Tender Price Index



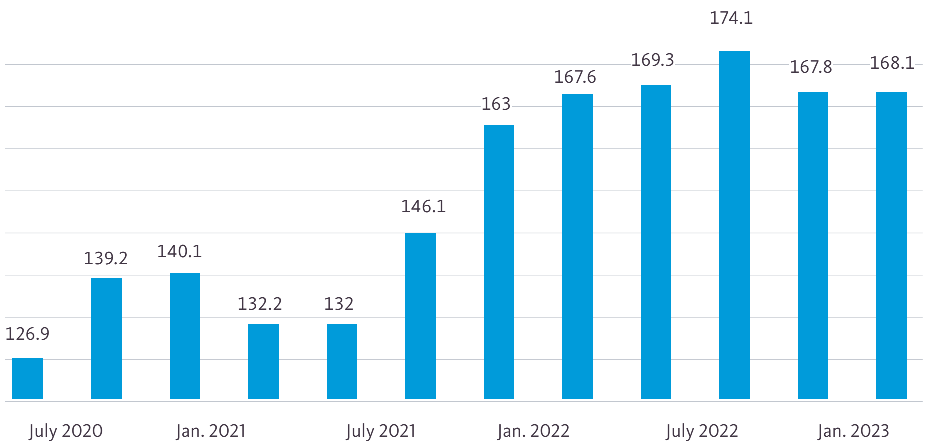
Methodology

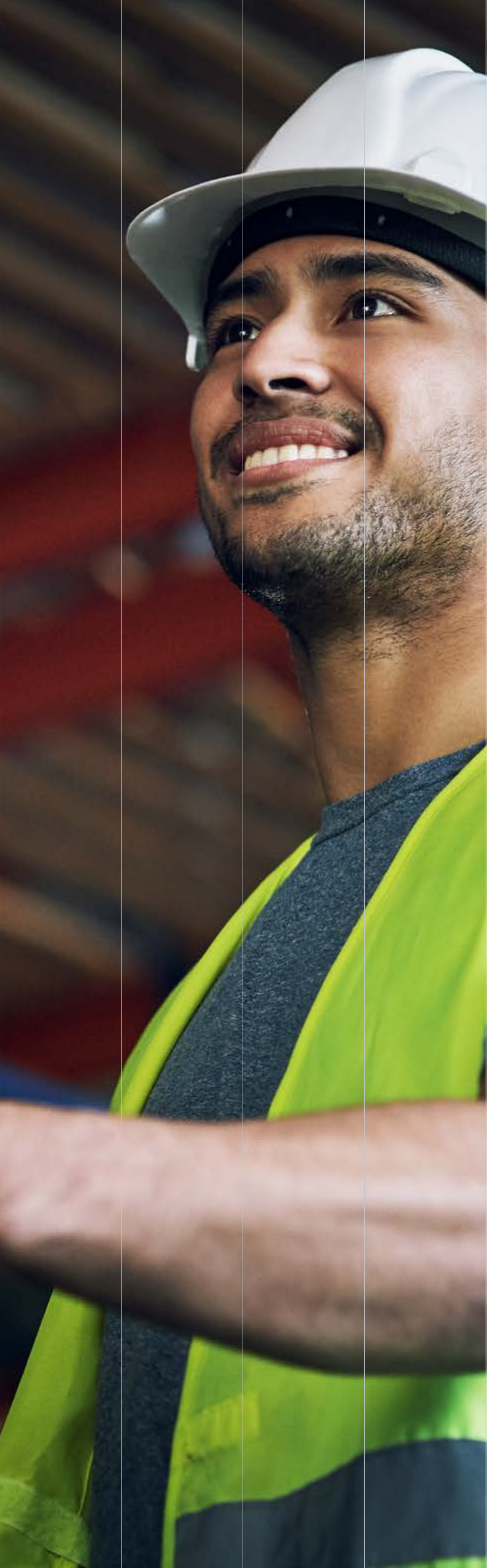
- 2015-2022 rates.
- Building rates "basket of goods" extracted from 3.5 million euros worth of contracted construction work over seven years (120 projects) plus input from tier one general contractors based on schedule of rates.
- Overall M&E % increase derived from market enquiries.
- Overall glazing rates derived from market enquiries.
- The easing of the rate of tender price inflation seen in the last six months of 2022 is due to fuel and energy prices abating toward the back end of the year, coupled with a slight easing of supply chain issues. These changes have contributed to the more moderate fluctuations in material prices that Ireland has been experiencing since 2021.
- Material price increases are expected to continue fluctuating with rises likely until there is a marked decrease in the cost of electricity, gas and other fuels. Materials that are energy intensive to produce, such as aggregates, plasterboard, insulation and plastic ducting, will continue to experience price rises through 2023. On the domestic front, the main elements continuing to drive inflation are high construction activity demand and construction labour shortages.
- The February 2023 wholesale price index from Ireland's Central Statistics Office (CSO) indicates that the annual rate of construction materials price inflation declined from 16.2% in December 2022 to 15.5% in January 2023 as the rate of energy and raw materials price inflation softened. Wholesale electricity prices fell by 41.4%, one of the largest monthly falls on record, according to the CSO. Prices were also 19.5% lower than those recorded in January 2022.
- Mitchell McDermott Consultant Quantity Surveyors advises that general construction inflation increased by 12% in 2022 but is expected to moderate to between 5% and 7% in 2023.

Employment in construction

- The Irish construction industry employs approximately 170,000 people directly. These people work in a range of roles, including design, planning, contract and project management and on-site and off-site roles.
- A further 50,000 people are employed in industries that serve the construction sector, such as architectural practices, engineering consultancies, legal and financial sectors, agencies and building supplies. The AECOM Annual Review estimates the value of construction output across the Republic of Ireland (ROI) at 22 billion euro in 2022, an increase of 18% from 2021. This activity is spread between civil engineering, commercial construction and a rising residential market.
- A recent report from the Irish government notes that while the number of national apprenticeships soared to a 25-year high in 2021, the country is still desperately short of people with the right skills to alleviate the talent shortage. Last month, the government forecast a need for some 50,831 new entrants into the construction sector. The government is looking to source construction workers from technological universities, institutes of technology, the apprenticeship system, the UK's Construction Skills Certification Scheme and a range of vocational courses.
- A CSO labour force survey indicates a 7% increase in construction employment between Q1 2022 and Q1 2023.

Labour input index in construction (number of persons employed)





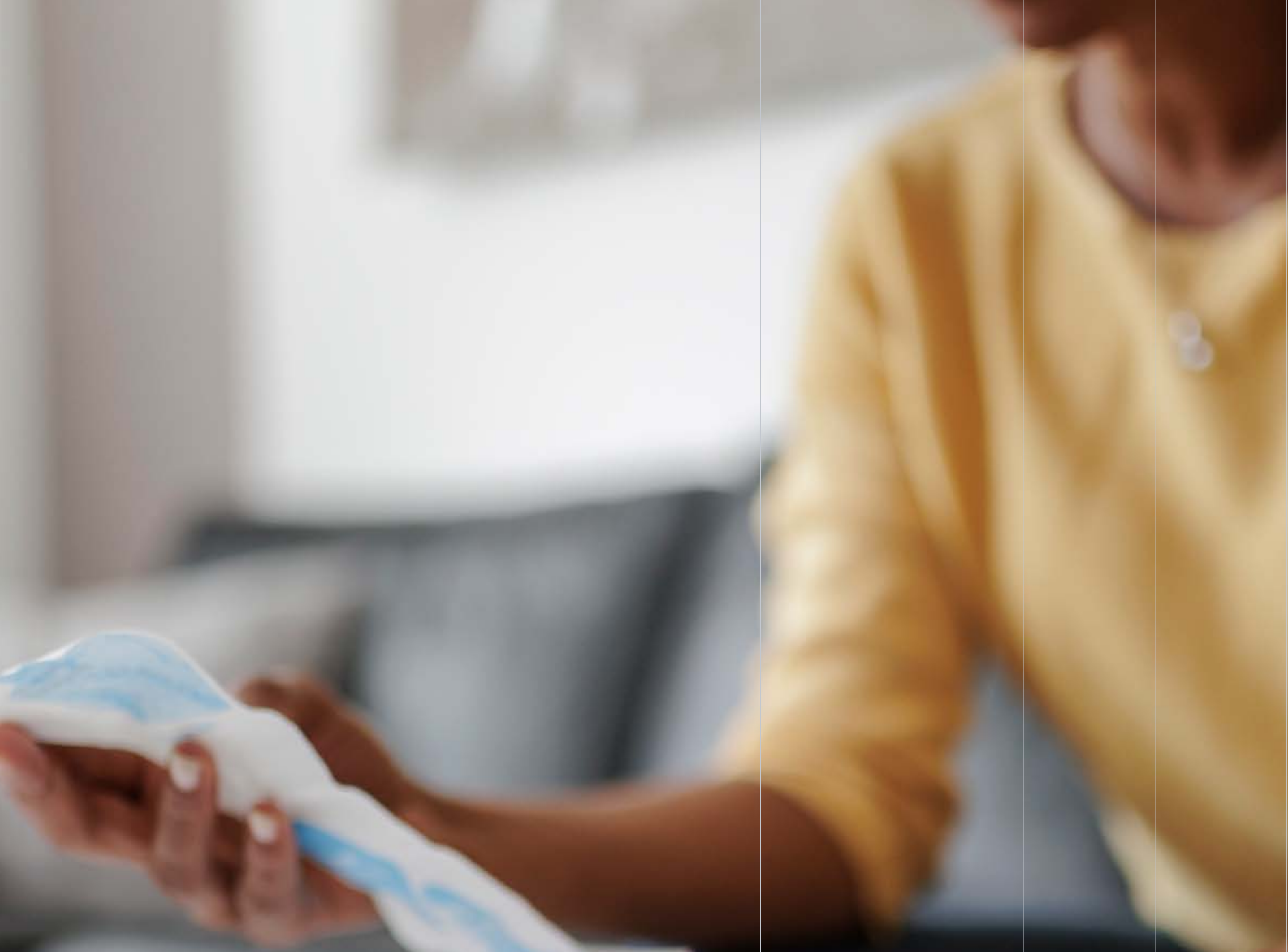
What is the outlook for the economy?

- Inflation remains high but has begun to ease
- Tight labour market to contribute to a pickup in wages growth
- Gradual restoration of households' purchasing power

Forecast growth* in Irish economy

8.2%	3.1%
2022	2023
2.9%	2.6%
2024	2025

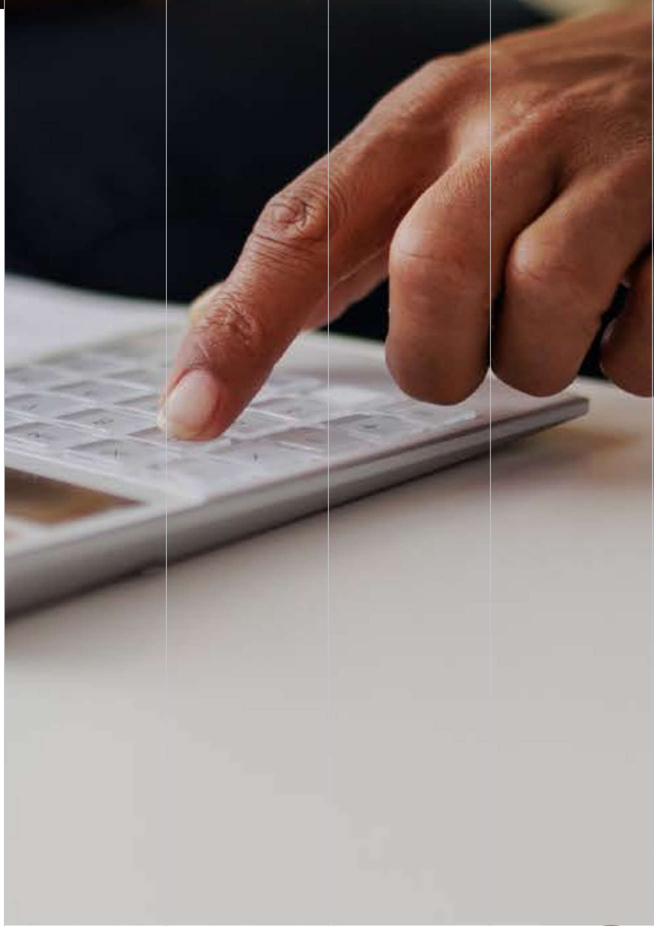
*Modified domestic demand



General economic overview

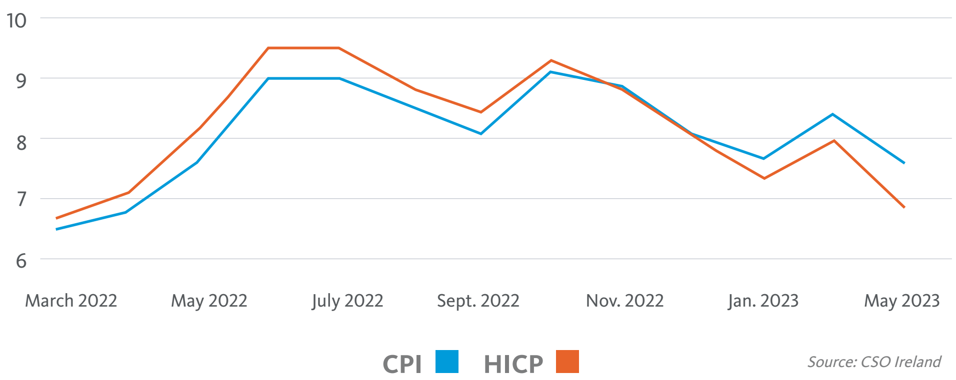
According to the Central Bank's recent quarterly bulletin for 2023:

- Inflation remains high but has begun to ease with both headline and core inflation now expected to be lower than previously forecast in 2023, at 5% and 3.5% respectively.
- The unemployment rate is expected to remain low, averaging 4.4% out to 2025, with tight labour market conditions continuing.
- Modified domestic demand is forecast to grow by 3.1% in 2023, 2.9% in 2024 and 2.6% in 2025.



“Rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission,” the ECB said in a recent statement.

CPI/HICP — all items annual percentage change



Source: CSO Ireland

Consumer price inflation remains high but is showing signs of slowing. Annual headline inflation, as measured by the harmonised index of consumer prices (HICP), has fallen from a high of 9.6% in July 2022 to 8% in February 2023. Core inflation, which excludes more volatile energy and food prices, has also declined, owing mainly to reductions in public transport prices and third-level education fees. Energy price rises are expected to be a much smaller feature of headline inflation developments in 2023, whereas food and more domestically generated services inflation become more prominent. Futures prices for oil and gas in international markets have fallen markedly since last October, reflecting a reduction in uncertainty about supplies that had emerged since the onset of the war in Ukraine. This more positive outlook for energy prices compared to the previous forecast is the main factor underlying the downward revision of the HICP inflation forecast for this year of 1.3 percentage points to 5.0%. However, the effect of the energy price shock is still expected to be seen in the price of other goods and services throughout the year, with HICP excluding energy and food inflation of 4.3% expected for 2023, easing to 2.6% in 2024.

- The consumer price index (CPI) rose by 7.7% between March 2022 and March 2023, down from an annual increase of 8.5% in the 12 months to February 2023.
- The divisions with the largest increases in the 12 months to March 2023 were housing, water, electricity, gas and other fuels (+20.8%) and food and non-alcoholic beverages (+13.1%).
- The European Central Bank raised interest rates by 25 basis points to 3.25% in May 2023 and signalled that more tightening would be needed to tame inflation.

Construction inflation overview

- Wholesale prices for building and construction materials used in manufacturing and construction rose at an annual rate of 11.7% in April 2023, according to the Central Statistics Office. This was down from an annual rate of 20.6% in 2022.
- After the sharp rise in the price of building materials in 2022, prices appear to have stabilised across many categories, including brick, block, timber and roofing products.
- The latest wholesale price index for building and construction materials reveals that material costs fell by 1.3% between November and December, down 5.9% from July, when prices peaked.
- While inflation is cooling, it does remain higher than normal and is expected to fluctuate for the foreseeable future, hampered by high input costs and continued supply chain issues.
- In addition to inflation, the rise in interest rates across all major lenders in recent months is starting to take effect. This will increase the amount of capital needed to fund construction projects, thereby increasing costs.
- While households are far less exposed than before the financial crash, rising borrowing costs are already slowing house-building activity and would likely threaten renovation projects in the foreseeable future.

Examples of fluctuations in building material prices:

- Cost of insulation: Insulation material costs have remained steady. Some fluidity is expected in the short term, driven by raw material prices, production costs and the consequence of increased energy and transportation costs.
- The average price of insulation per m^2 = €18
- Cost of board material: The price has roughly reduced by 15% since last reported in July 2022. It is expected that prices should remain stable, but there is always the risk of price increases due to fluctuations in rising production and transportation costs.
- The average price of board per m^2 = €14.5
- Cost of block: There has been a 10% fluctuation in the price of concrete blocks in the 2022-2023 period. There is a cautious optimism that prices may remain steady in the 2023-2024 period, but rising energy costs may prevent that.
- The average price of block per m^2 = €20
- Cost of timber: Timber prices have fallen by approximately 21% in the 2022-2023 period. There is some optimism that timber prices will remain stable through the rest of 2023, but there is still the possibility of price increases due to energy and transportation costs.
- The average price of timber per m^3 = €625

Building cost apportionment

As a general guideline in building projects, labour is approximately 30-40% of the total project cost, with materials accounting for 60-70%.

Where the works relate to refurbishment of existing buildings, the percentage for labour costs increases to 40-50% as a general guide. In this type of work, tasks generally take longer to complete and the material content tends to be less. This is particularly true in household insurance claims on the lower value scale.

This is a general average guide, as each particular trade has its own characteristics. Items such as painting have a higher labour content (70%:30%), whilst the likes of window replacement have a higher material content (20%:80%).

Statistical data accumulated over time shows that this general industry guideline is not applicable to insurance claim repair works. The labour/materials split is calculated at 70%:30%. The nature of the repairs, given that the existing fabric of the structure exists, reduces the material content, whereas repair work by its nature tends to be more labour intensive.

Labour costs in construction

Minimum wage rates in Ireland are governed by a legal agreement called the SEO Sectoral Employment Order (Construction), which took effect on 19 October 2017 and with the most recent revision being effective from September 2023.

This is the minimum statutory payment allowed, but it does not preclude contractors from paying above this level. The industry is pricing labour at rates higher than the minimum to secure and retain skilled employees in a market where traditionally employees are transient.

Worker categories

Category A: Skilled general operatives, scaffolders who hold an advanced scaffolding card and who have four years' experience, banks operatives, steel fixers, crane drivers and heavy machine operators.

Category B: Skilled general operatives, more than one year experience.

Craft workers: Brick/stone layers, carpenters and joiners, floor layers, glaziers, painters, plasterers, stone cutters, wood machinists, slaters and tilers, together with a pro rata rate of pay applicable to apprentices in these trades.

Wage rates – euro per hour (sectoral employment order, construction)

	Oct. 2017 to Sept. 2019	% INC	Oct. 2019 to Sept. 2020	% INC	Oct. 2020 to Jan. 2022	% INC	Feb. 2022 to Jan. 2022	% INC	Feb. 2023 to Jan. 2023	% INC	Sep. 2023 onwards
Craftsperson	18.93	2.7	19.44	2.7	19.96	2.8	20.52	2.8	21.09	1.02	21.49
Category A worker	18.36	2.7	18.86	2.7	19.37	2.8	19.91	2.8	20.47	1.02	20.86
Category B worker	17.04	2.7	17.5	2.7	17.97	2.8	18.47	2.8	18.99	1.02	19.39
Apprentice year 1	6.25	2.7	6.42	2.7	6.57	2.8	6.77	2.8	6.96	1.02	7.09
Apprentice year 2	9.47	2.7	9.72	2.7	9.98	2.8	10.26	2.8	10.55	1.02	10.75
Apprentice year 3	14.2	2.7	14.58	2.7	14.97	2.8	15.39	2.8	15.82	1.02	16.12
Apprentice year 4	17.04	2.7	17.5	2.7	17.96	2.8	18.47	2.8	19.98	1.02	19.34
New entrant	13.77	2.7	14.14	2.7	14.52	2.8	14.93	2.8	15.35	1.02	15.64

Wage rate inflation is set at approximately 4% per annum based on the SEO agreement. This is the minimum rate, but the real increase is greater. Market forces of supply and demand are driving up this rate. Demand for labour in the construction sector is great. Initiatives such as the government's emphasis on increasing residential construction, the retrofit scheme for home energy upgrades, pent up demand following COVID-19 restrictions, buoyancy in private residential projects and commercial, public and foreign direct investment projects all make demands on a scarce labour pool.

The construction sector has capacity limits and has contracted since the economic crash in 2008. Construction employment in 2007 accounted for 11% of the labour force. As of Q1 2023, there were 170,000 people in the Irish construction sector, comprising 6.78% of the labour force. While the construction sector has a high labour retention rate, the insufficient number of new entrants being trained may be a capacity constraint. Ireland's construction sector is less attractive to foreign EU workers than it was before the 2008 financial crisis.

Labour shortages contribute to project delays, and this ultimately translates to increased costs. Contractors have a choice: incur additional costs by extending the time required to complete the project or inflate wages to attract additional skilled labour resources to complete the project in a timely fashion. This impacts directly on household insurance claims, where alternative accommodation is extended due to slower construction and longer lead-in time to commence work. This is one of the consequential costs of labour/material shortages.

Following the economic crash of 2008, main contractors tended to move away from the traditional payroll employee and they outsourced from labour supply companies at a lower overall cost — the advantage being that labour resources could be adjusted without the traditional employer obligations to employees. Sub-contracted labour tends to be volatile, as the personnel are mobile. Retention can be an issue and a driver of costs.

Conclusion on labour cost inflation in construction for 2023

In conclusion and for the reasons outlined above, we feel it likely that wage inflation in the Irish construction sector will be in the region of 6% as an average across the board in 2023, and 4.5% into 2024.

Construction material overview

Wholesale price index (excluding VAT) for building and construction materials

	2015	2016	2017	2018	2019	2020	% change 2021	2021	% change 21-22	2022	% change 22-23	2023	Uplift factor from 20–23
Stone, sand, gravel	100	103.6	108.7	105.6	106.6	105.1	2.28	107.5	13.21	121.7	5.34	128.2	1.22
Cement	100	100	103.3	108.4	114.6	120.3	4.90	126.2	23.77	156.2	7.94	168.6	1.40
Readymix concrete	100	100.2	101	100.7	105	107	-0.56	106.4	24.15	132.1	14.16	150.8	1.41
Concrete blocks, bricks	100	100.9	101.6	101	102.6	104.2	1.15	105.4	17.27	123.6	10.03	136	1.31
Structural steel	100	106.1	113.6	116.9	121	120.8	6.87	129.1	61.97	209.1	5.79	221.2	1.83
Reinforcing steel	100	97.5	101.1	103.9	105.5	103.5	34.98	139.7	43.52	200.5	-15.71	169	1.63
Rough timber, sawn	100	100.4	102.6	105.5	109.1	107.2	43.10	152.4	25.68	192.8	-21.47	151.4	1.41
Windows and doors	100	100.2	101.3	103.7	106.1	107.2	4.94	112.5	24.27	139.8	0.29	140.2	1.31
Electrical fittings	100	101.3	102.3	103.4	104.1	104	14.04	118.6	12.23	133.1	3.98	138.4	1.33
Plumbing and sanitary ware	100	100.9	100.9	103.6	104.7	105.3	4.27	109.8	22.22	134.2	10.36	148.1	1.41
Insulating materials	100	101	101.4	101.3	101.6	102.5	5.56	109.2	18.76	128.5	1.40	130.3	1.27
Pipes and fittings	100	97.4	101.8	104.4	105.5	106.1	7.73	114.3	29.05	147.5	-0.34	147	1.39
PVC	100	102.1	104.9	108.5	111.1	112.1	9.90	123.2	33.77	164.8	0.73	166	1.48
Copper	100	95.9	100.8	103.1	103.6	104.1	7.01	111.4	27.38	141.9	-0.70	140.9	1.35
Plaster	100	102.5	107.4	112	113.4	115.8	13.90	131.9	29.95	171.4	20.36	206.3	1.78
Glass	100	96.3	111.2	105.8	93.9	91.5	1.86	93.2	5.69	98.5	6.29	104.7	1.14
All materials (average)	100	100.8	103.3	104.2	105.9	106.2	8.57	115.3	22.38	141.1	3.40	145.9	1.37

Source: Central Statistics Office

The rate of price increase across the range of building materials in 2022-2023 was not uniform, the following being examples of materials showing the fluctuations:

	2021/2022
Readymix concrete	+14%
Rough timber	-21%
Reinforcing steel	-16%
Electrical fittings	+4%
Plaster products	+20%
PVC products	+1%
Insulation materials	+1%
All materials (average)	+3.4%

Another major issue is suppliers being unable to commit long term to a commodity's price. Some builder's merchants will not hold their price. Traditionally, the industry had a three-month period for holding a price for larger-scale projects; that has now been reduced down to weeks. Contractors in tendering projects on a "fixed price" (no price variation clause) have to hedge against inflation, and in periods of uncertainty they see it as prudent to err on the high side. Better to lose the job, they say, than to lose money on the job. Forward purchasing of materials is an option, but this affects cashflow and storage costs.

Conclusion on construction material inflation for 2023

In conclusion and for the reasons outlined above, we feel it likely that material inflation in the Irish construction sector will be in the region of 7% as an average across the board in 2023, and to soften into 2024 to a rate of 5.5%.

Insurance building cost inflation

Our forecast for the main components of building claims inflation, on an annual basis, is as follows:

	2023	2024
Materials (30%)	7.0%	5.5%
Labour (70%)	6.0%	4.5%

Historical analysis has demonstrated an overall claims mix of 30% materials and 70% labour, which, when applied, results in a weighted average overall annual buildings inflation forecast as follows:

	2023	2024
Building inflation percentage (weighted)	6.3%	4.8%

Retail sales index (RSI)

The most recent RSI statistics, from April 2023, illustrate an annual percentage increase of 7.5% in volume and 13.9% in value compared to the prior year. This data demonstrates continued strong economic recovery in consumer demand and activity mainly driven by the motor trade. The month itself shows an increase of 2.8% in volume and 6.2% in value.

The key annual percentage movements in both volume and price by business category for both March 2020/2019, March 2021/2020, April 2022/April 2021 and April 2023/2022 are detailed below:

	2023/22		2022/21		2021/20		2020/19	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**
Motor trade	18.1%	23.5%	-7.8%	0.8%	576.4%	607.4%	28.2%	35.9%
Department stores	0.9%	6%	81.1%	80.4%	21.1%	17%	-73.4%	-75.5%
Non-specialised stores	0.9%	9.7%	-8.3%	-3.1%	2.6%	3.1%	19.7%	18.2%
Food, beverage and tobacco	-7.8%	2.2%	13.4%	-10.9%	9.7%	8.8%	26.7%	24.5%
Fuel	5.5%	-3.6%	1.9%	35%	77.9%	88.1%	-11.1%	-10.1%
Pharmaceutical	-0.4%	4.9%	13.6%	10.7%	20.5%	18.3%	3.5%	1.3%
Clothing, footwear and household	-0.4%	-0.5%	270.5%	267%	72.8%	66.3%	-68.2%	-70.6%
Furniture and lighting	-6.4%	-5.5%	29.1%	35.1%	693.9%	686.2%	11.2%	4.4%
Hardware, paint and glass	-2.9%	1.8%	-14.1%	-12.6%	166.3%	155%	34.1%	26.6%
Electrical goods	-1.7%	-0.3%	-8.7%	-6.8%	71.2%	69.3%	15%	3.6%
Books and newspapers	5.8%	10.8%	20.6%	28%	94.3%	94.5%	-50.7%	-50.1%
Others	-2.7%	-2.7%	-12.1%	20.1%	86.8%	88.7%	13.2%	0.2%
Bars	1.9%	7.5%	610.7%	636.4%	37.6%	40.2%	-88.8%	-88.8%
All businesses	**7.5%**	**13.9%**	**2.9%**	**4.8%**	**90.1%**	**97.8%**	**7.1%**	**8.7%**

The April 2023 annual retail sales indices show differential performance in both volume and value across the various business categories. There were particularly strong volume performances from motor trade (18.1%), fuel (5.5%) and books and newspapers (5.8%). Poor volume performers were food, beverage and tobacco (-7.8%), furniture and lighting (-6.4%), hardware (-2.9%) and others (-2.7%). For value, there were strong performers from motor trade (23.5%), books and newspapers (10.8%), non-specialised stores (9.7%), bars (7.5%), department stores (6.0%) and pharmaceutical (4.9%). On the negative side were furniture and lighting (-5.5%), fuel (-3.6%), and others (-2.7%). The annual volume increase of 13.9% and value of 7.5% are strong indicators; however, it should be noted that if motor trades are excluded, the figures reduce to a more conservative -0.4% and 3.9%, respectfully.

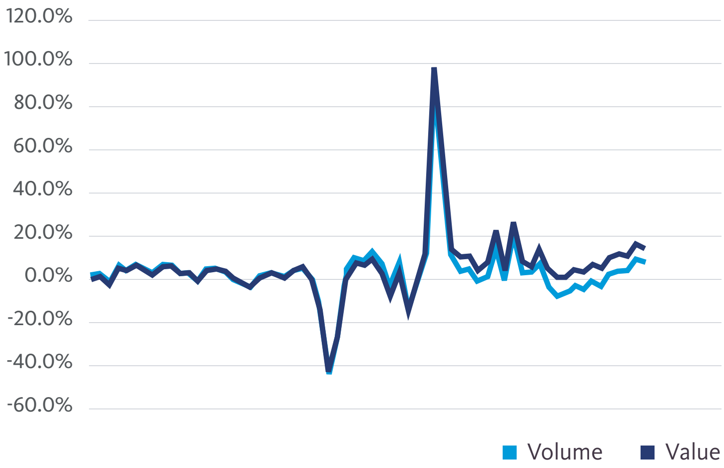
Retail sales index

Historic retail sales indices

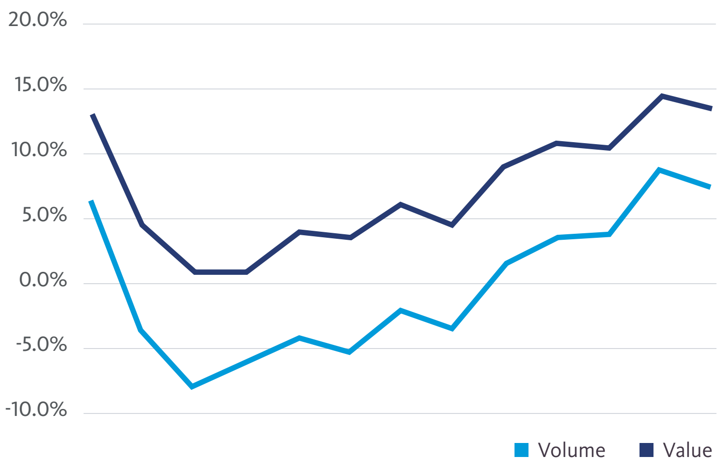
	Month	Volume	Value
2018	January	1.6%	-0.3%
	February	2.3%	0.8%
	March	-1.0%	-2.8%
	April	6.0%	4.3%
	May	4.3%	3.7%
	June	6.5%	5.8%
	July	5.2%	4.5%
	August	2.6%	1.9%
	September	6.3%	5.7%
	October	6.3%	5.9%
	November	3.0%	2.5%
	December	3.4%	2.4%
2019	January	-0.5%	-1.8%
	February	4.4%	3.7%
	March	5.1%	4.6%
	April	4.0%	3.5%
	May	0.8%	0.1%
	June	-0.3%	-1.4%
	July	-3.1%	-4.5%
	August	2.0%	0.9%
	September	2.9%	2.2%
	October	3.4%	1.8%
	November	2.0%	0.7%
	December	5.0%	3.8%
2022	January	21.7%	26.3%
	February	2.9%	7.5%
	March	2.9%	4.8%
	April	6.6%	13.4%
	May	-3.9%	4.5%
	June	-8.5%	0.8%
	July	-6.8%	1.0%
	August	-4.50%	4.1%
	September	-5.50%	3.5%
	October	-2.3%	6.1%
	November	-3.8%	4.5%
	December	1.5%	3.9%

	Month	Volume	Value
2020	January	5.4%	5.3%
	February	0.0%	-0.7%
	March	-11.4%	-12.6%
	April	-43.3%	-44.6%
	May	-24.8%	-27.5%
	June	4.3%	0.8%
	July	8.8%	7.2%
	August	8.5%	6.0%
	September	12.0%	8.9%
	October	7.4%	3.5%
	November	-4.6%	-8.7%
	December	7.0%	2.7%
2021	January	-14.7%	-16.4%
	February	0.4%	-1.9%
	March	11.7%	11.0%
	April	90.1%	97.8%
	May	46.2%	49.5%
	June	9.8%	13.0%
	July	3.6%	10.5%
	August	4.3%	10.3%
	September	-2.1%	3.6%
	October	0.6%	7.3%
	November	14.3%	21.7%
	December	-1.7%	3.3%
2023	January	3.5%	11.0%
	February	3.7%	10.6%
	March	8.9%	14.7%
	April	7.5%	13.9%

January 2018 – April 2023



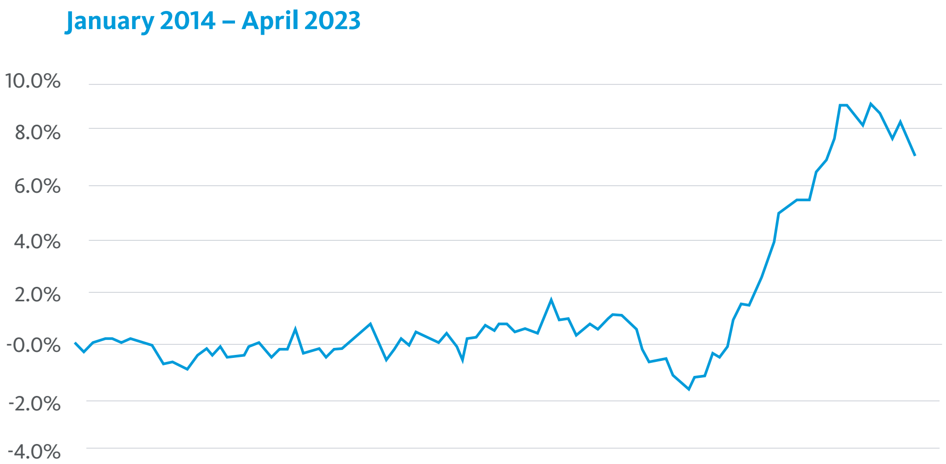
April 2022 – April 2023



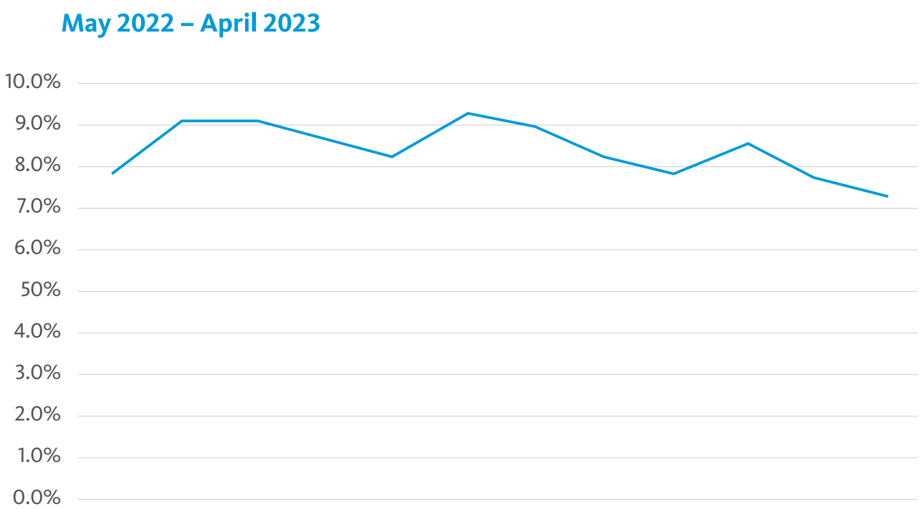
Consumer price index

Historic CPI percentage annual change statistics from January 2014 to April 2023, in both tabular and graphical format, are as follows:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
January	7.8%	5.5%	-0.2%	1.3%	0.7%	0.2%	0.3%	0.1%	-0.6%	0.2%
February	8.5%	5.6%	-0.4%	1.1%	0.6%	0.5%	0.5%	-0.1%	-0.5%	-0.1%
March	7.7%	6.7%	0.0%	0.7%	1.1%	0.2%	0.7%	-0.3%	-0.6%	0.2%
April	7.2%	7.0%	1.1%	-0.1%	1.7%	-0.4%	0.9%	-0.1%	-0.7%	0.3%
May		7.8%	1.7%	-0.5%	1.0%	0.4%	0.2%	0.0%	-0.3%	0.4%
June		9.1%	1.6%	-0.4%	1.1%	0.4%	-0.4%	0.7%	-0.1%	0.4%
July		9.1%	2.2%	-0.4%	0.5%	0.8%	-0.2%	-0.2%	-0.2%	0.3%
August		8.7%	2.8%	-1.0%	0.7%	0.7%	0.4%	-0.1%	0.0%	0.4%
September		8.2%	3.7%	-1.2%	0.9%	0.9%	0.2%	0.0%	-0.3%	0.3%
October		9.2%	5.1%	-1.5%	0.7%	0.9%	0.6%	-0.3%	-0.2%	0.2%
November		8.9%	5.3%	-1.1%	1.1%	0.6%	0.5%	-0.1%	-0.2%	0.1%
December		8.2%	5.5%	-1.0%	1.3%	0.7%	0.4%	0.0%	0.1%	-0.3%



January 2014 – April 2023
10.0%
8.0%
6.0%
4.0%
2.0%
-0.0%
-2.0%
-4.0%



May 2022 – April 2023
10.0%
9.0%
8.0%
7.0%
6.0%
50%
4.0%
3.0%
2.0%
1.0%
0.0%

Prices, on average, as measured by the CPI, increased in April 2023 as compared with April 2022 by 7.0%, and the change for the month of May itself was +0.9%.

The most notable sector changes during the year were:

- Housing, water and utilities increased 20.7%, driven by increases in the price of electricity and gas, together with higher mortgage interest payments as contributing factors.
- Food increased by 13.3% due to shortages, mainly because of the conflict in Ukraine.
- Restaurants and hotels rose 8.1% due to higher prices for alcoholic drinks, food and hotel accommodations.
- Alcoholic beverages and tobacco increased by 6.1% as a result of the introduction of minimum pricing in supermarkets and off-licences.
- Interestingly, transport costs reduced by 2.3% from the prior year increase of 18.9% due to reduced fares on public transport and lower diesel costs.

April 2023 was the 19th consecutive month in which, while starting to slow down, the CPI index has exceeded 5%. This is unprecedented and a clear reflection of a strong inflationary period that while starting to slow down shows little sign of returning to pre-COVID-19 levels.

The current annual rate is being driven by two main sectors: housing and utilities (+20.7%) and food (+13.1%). Both sectors are currently encountering significant supply issues, and until such issues are resolved, we predict continuing inflationary pressures.

Since the research for this report was completed, provisional CPI data for May 2023 has been released, showing an easing of annual CPI inflation to 6.6%, which is an encouraging trend.

Communications	+0.7%
Alcoholic beverages and tobacco	+6.1%
Clothing and footwear	+3.2%
Furniture and household goods	+4.0%
Housing, water and utilities	+20.7%
Restaurants and hotels	+8.1%
Miscellaneous goods and services	+1.5%
Health	+3.3%
Transport	-2.3%
Education	-6.3%
Recreation and Culture	+5.6%
Food	+13.3%

Contents claims inflation

Based on the CPI statistics analysed above, the outlook for household contents price inflation is that it will continue to increase for the remainder of 2023 and into 2024 due to a combination of global supply issues and increased consumer demand.

2023 increases in clothing and footwear and furniture and household goods are summarised below:

Clothing and footwear	+3.2%
Furniture and household goods	+4.0%

As outlined previously, the main drivers in the April 2023 annual CPI inflation of 7% is motor trade and household/utilities, with factors affecting household claims driving inflation at a much lower level.

While we expect household price inflation of 3.5% for 2023 and 3.0% for 2024, a much more significant factor towards actual household claim costs is the increasing quality of the high-end household goods and contents consumers are purchasing.

Contents claim inflation forecast

Based on market information currently available and our knowledge of the sector, we estimate contents claims inflation as follows:

2023	2024
+3.5%	+3.0%

Forecast buildings and contents inflation

Buildings/property

Our forecast for the main components of household building claims inflation, on an annual basis, is as follows:

	2023	2024
Materials (30%)	7.0%	5.5%
Labour (70%)	6.0%	4.5%

Historical analysis has demonstrated an overall claims mix of 30% materials and 70% labour, which, when applied, results in a weighted average overall annual buildings inflation forecast as follows:

	2023	2024
Building inflation percentage (weighted)	7.0%	4.8%

Contents

We expect the cost of household contents claims to continue to rise for the remainder of 2023 and into 2024 with estimated inflation of 3.5% and 3.0%, respectively:

	2023	2024
Contents claims inflation	3.5%	3.0%

Household claims inflation conclusion

Our historic claims experience has established, as a general benchmark, expenditure in relation to household claims is proportioned on a buildings 3:1 contents basis.

Therefore, in order to estimate an overall composite household inflation figure, the building and contents figures, as outlined previously, require to be apportioned on this basis, resulting in a weighted forecast for overall claims inflation as follows:

	2023	2024
Materials	7.0%	5.5%
Labour	6.0%	4.5%
Buildings (weighted: materials 30:70 labour)	6.3%	4.8%
Contents	3.5%	3.0%
Forecast inflation (weighted: buildings 3:1 contents)	5.6%	4.35%

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