

INFLATION AND IT'S IMPACT ON REINSTATEMENT COST



Inflation see insurers facing increased claims costs at the same time as increasing the returns from their investments. But these increases may not run in parallel and, if there is a disconnect between fixed asset inflation and the returns from investments, insurers can see margins being squeezed. In relation to property damage insurance, inflation is driving a faster rate of disconnect between historic costs or current sums insured and actual values at risk.

It is also increasing the need for more frequent reviews of policy terms and sums insured, and the risk of losses exceeding policy limits so increasing the potential for claims disputes or litigation and in order to understand the global market factors, the following will need to be considered: -

1. Movement in price of tenders or contract awards for construction projects.
2. Movement in price of tenders or contract awards for plant and equipment supply.
3. Measuring the trend of input costs to a contractor in terms of increases in the cost of labour, plant and materials.
4. Monitoring movements in exchange rates.
5. Tracking the trends in transportation, handling and movement of assets.
6. Monitoring import duties and sales taxes.

There is also an impact on policyholders, with inflation on top of the hardening of insurance rates, creating questions about affordability in the face of these increased premium levels.

The John Foord View composite view is derived from many sources including government published data across major industries and equipment types. Inflation indices and taxations movements, equipment based and buildings-based cost data, published tender data, exchange rates, transportation costs alongside proprietary John Foord research and historical data.

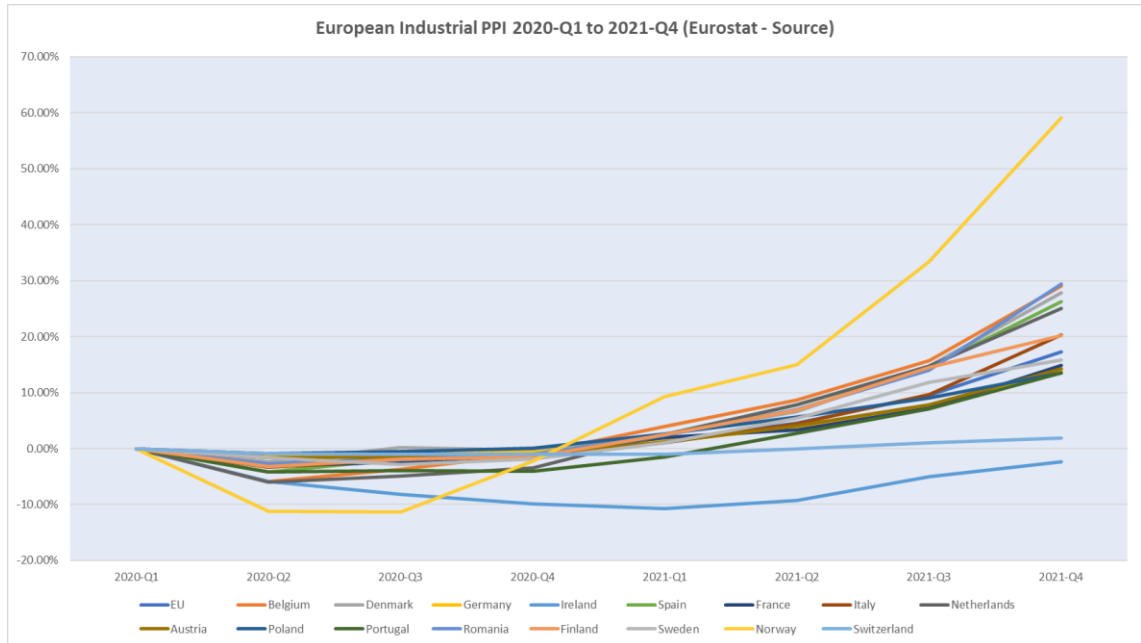
Global View

We have seen unprecedented volatility in material prices and labour costs which determine values in different ways for different sectors and in different geographical locations including: -

- Steel price increases have ranged between 35% to 50%.
- Copper price increase were in the region of 20% but some spikes of over 60%.
- Electrical switchgear manufacturing cost increase in the order of 9%.
- Skilled labour and unskilled labour has been hampered by movement restrictions in different jurisdictions leading to demand/supply issues.
- In the US, over the past 12-month period, price increases include – lumber & plywood >55%, insulation materials >11%, asphalt roofing & sidings >10% and many other material costs.
- Industrial PPI has an EU average increase during the Covid period of 17.3%.
- European Labour Cost has an EU average increase during the Covid period of 14.4%.



Source: John Foord



Source: John Foord, Data from Eurostat

Germany

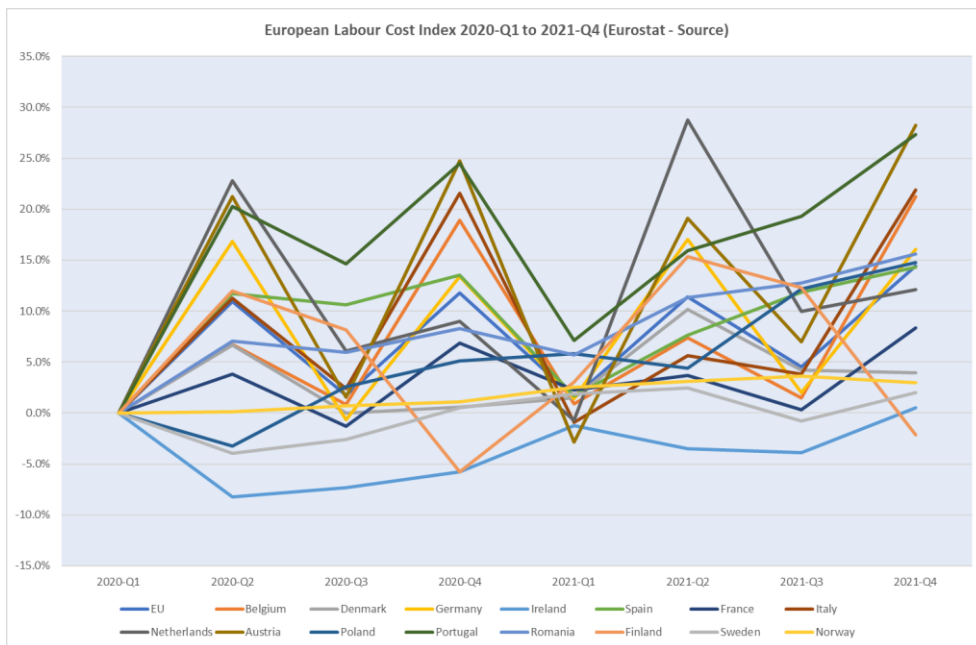
- During 2021 over a 12-month period, construction of conventionally manufactured residential buildings increased by 14.4% and whilst this increase is the largest in construction prices since the 1970s. These increases are for materials used in the construction, e.g. wood >36%, roof waterproofing >17%, concrete works >16%, etc. Excluding energy, producer prices have increased circa 12.4%.
- German manufacturing raw materials have seen price increases of >36% in steel, >49% in ferro-alloys and >50% in aluminium. These higher material costs will translate to overall cost of machinery, equipment across the globe.
- Discounting the price volatility of the events unfolding in Ukraine, Germany saw energy price surge in 2021 in natural gas and electricity. These record-high energy prices have huge impact on consumers and industry with energy intensive production (e.g. glass, chemical, etc) suspending production which has a knock across multiple industries.

Spain

- Industrial production prices increased by over 35% y-on-y in January 2022 with energy cost the biggest contributor.

Other European Countries

- Different building material companies use different energy sources which impact in different ways. For example, The Netherlands construction material sector energy use is primary natural gas (>75%) in the manufacture of cement, bricks and concrete whereas natural gas only accounts for circa 40% for Belgium and Polish concrete, cement and bricks.
- High prices for concrete, cement and bricks are expected to remain across European countries.



Source: John Foord, Data from Eurostat

How can John Foord assist?

John Foord continues to track a large number of data-points as well as market limitations to formulate their views on values. Energy prices hikes, shortage of building materials, shortage of skilled labour and the worsening situation in Ukraine is likely to see these trends continuing.

We can assist in desktop reviews of values to provide a quick and indicative assessment through our team of professional valuers and data analysts. Alternatively, where values are a clear concern and information is limited, we can carry out a comprehensive inspection and evaluation as required.

For all your valuation needs, contact us at [John Foord](#).

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