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Soaring Car Insurance Premiums

The latest CPI report by the Bureau of Labor Statistics shows that inflation remains more stubborn than the market expected. Price growth for all items (*i.e.*, headline inflation) accelerated to 3.5 percent in March, from 3.2 percent in February.¹ Among categories that posted the fastest price growths, there is an unusual suspect—car insurance, the price of which soared 22 percent on a year-over-year basis.²

As of April, the national average cost of car insurance is \$2,314 per year for full coverage and \$644 per year for the state mandated minimum.³ New York, Louisiana, and Florida lead the nation as the most expensive states to insure your cars.⁴

The runaway inflation of car insurance is, in fact, a relatively recent phenomenon. **Figure 1** compares the month-over-month price growth of car insurance against the headline inflation. Up until February 2022, car insurance premiums had been increasing at a similar pace compared to the overall price levels. That is, American households were paying more each month for car insurance, but in percentage terms, it was not much different from how much more they had to shelve out for other things.

Since then, however, car insurance inflation appears to have taken a runway of its own, outpacing the headline inflation by a wild margin. Experts have pointed to increasingly risky habits on the part of drivers, rising prices of repairs and parts, more frequent natural disasters, and regulation as the main culprits behind the soaring car insurance premiums.⁵ In more recent months, however, car insurance inflation has trended downward, offering some hope that perhaps the runaway car insurance inflation is transitory and coming to an end soon.

¹ "Consumer Price Index Summary." *Bureau of Labor Statistics* (Apr. 10, 2024). <<https://www.bls.gov/news.release/cpi.nr0.htm>> (accessed Apr. 16, 2024).

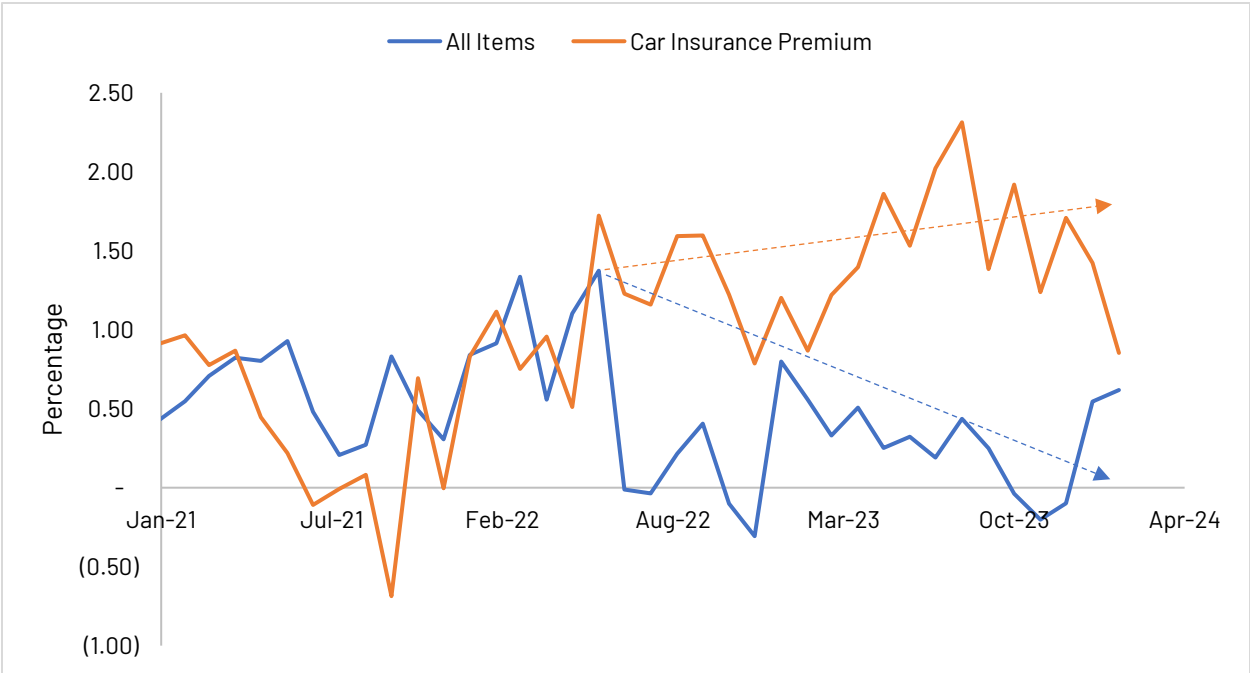
² Wile, Rob. "Consumer Prices Moved Higher in March. Auto Insurance Costs Were a Major Reason." *NBC News* (Apr. 10, 2024). <<https://www.nbcnews.com/business/consumer/auto-insurance-premiums-costs-high-prices-inflation-explainer-rcna147204>> (accessed Apr. 16, 2024).

³ Martin, Shannon. "Average Cost of Car Insurance in April 2024." *Bankrate* (Apr. 10, 2024). <https://www.bankrate.com/insurance/car/average-cost-of-car-insurance/?_byasscdn=35351bae-b48b-4bcb-abf6-4d61d8802a59> (accessed Apr. 16, 2024).

⁴ *Id.*

⁵ Horsley, Scott. "4 Reasons Why Your Car Insurance Premium Is Soaring." *NPR* (Sept. 13, 2023). <<https://www.npr.org/2023/09/13/1199032000/car-auto-insurance-premium-inflation>> (accessed Apr. 16, 2024).

Figure 1: Car Insurance Premium Growth versus Headline Inflation, Jan. 2021 – Feb. 2024



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