

MARKET COMMENTARY

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German households: next year more than €300 more for gasoline, electricity, heating oil and natural gas

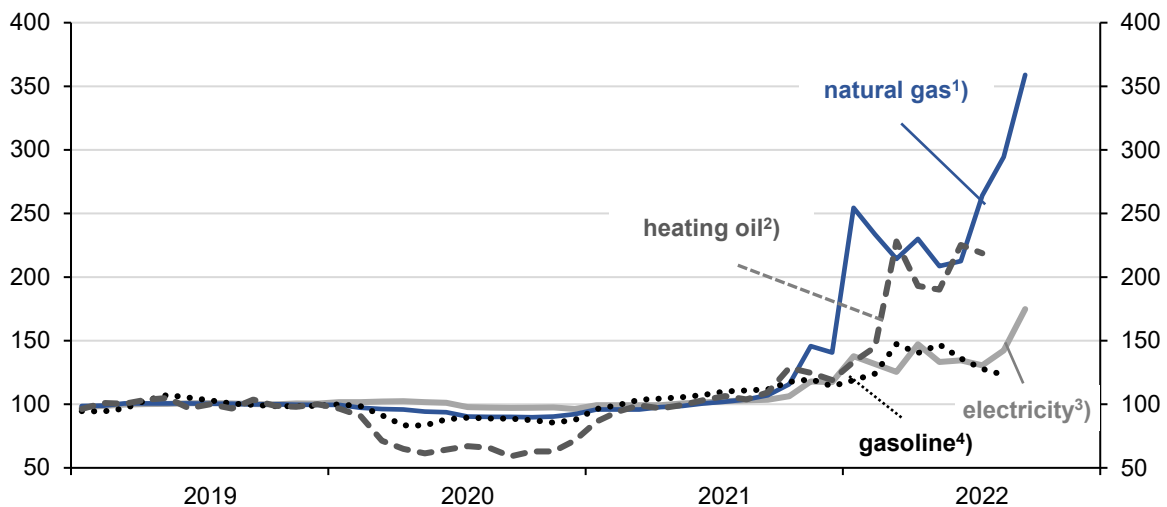
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Here is a back-of-the-envelope calculation of the likely additional cost of household energy in 2023. It is based on a number of more or less heroic assumptions – which may explain why none of the numerous tax and fiscal policy departments at German universities has come forward with proposals about the best way to respond to the recent energy price explosion. Speculation is not their thing. But this is not a good excuse: as a minimum, politicians who have to make decisions which affect our personal finances must at least be aware of the problem's order of magnitude.

For a starter, I assume that today's prices for household energy will also be the average prices in 2023. Secondly, that the structure of income and consumption will not change significantly in response to the strong energy price signals, and, thirdly, that the mean of disposable monthly household incomes will be 4,435 euros.

energy prices for German household

2019 = 100



1) average natural gas prices for new clients with an annual consumption of 20,000 kWh (last value: Sep 2022)

2) average prices excluding VAT, 40 - 50 hl per order (last value: July 2022)

3) average electricity prices for an annual consumption of 4,000 kWh (last value: Sept. 2022)

4) Super E10, average prices at gas stations (last value: August 2022)

sources: Stat. Bundesamt, Verivox; ADAC, own calculations; design & research: Uwe Richter

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If the quantitative structure of spending on energy remains unchanged next year – another courageous assumption – I predict that the 41 million households will have to pay about 130 percent more for energy than in 2019, before COVID and the Ukraine war. This translates into monthly extra expenses of 310 euros and stands for the amount of money which will not be available for other purposes, including savings. It is a recipe for the next recession.

The median household – which is located precisely in the middle between the upper and lower ranges of the income distribution and can expect monthly revenues of 3,220 euros – has to pay 225 euros more per month for energy than in 2019. The impact of this on the social fabric is obvious – and scary.

Poor households which already have problems to make ends meet will experience an income shock. As in Prague the day before yesterday it can be expected that people will stage mass demonstrations against government policies, perhaps even against the European Union. From now on, Czechs will have to pay just as much more for household energy as Germans, but their average monthly income is much lower, perhaps only 2,300 euros. All across Europe politicians are aware that they are faced with an existential challenge which requires major interventions in social policy and changes in the income distribution.

Rarely, if ever, have they adjusted their priorities as determined, as quickly and as generously as at present. In Germany, at least, the fiscal room for maneuver is still there – and quite large. If society is on the brink of disintegrating the state is permitted to run large fiscal deficits. This is comparable to the additional spending on the military in the face of Russia's threat to Western European security. These are investments into the future.

The crisis has a positive side: it will bring about a strong reduction of CO₂ emissions and thus help to achieve increasingly ambitious climate targets. So far, it has been politically very difficult to introduce an effective CO₂ tax. Now it has de facto arrived through the back door, so to speak, and there is no one to blame for those high energy prices except Vladimir Putin. Great. History has its unexpected ways.

To conclude, let me make a prediction, admittedly based on little empirical evidence: if the price of fossil fuels rises by 10 percent, CO₂ emissions will decline by about 2 percent. Economists will say that the demand, and thus the burning of fossil fuels is a function of their price. In terms of hard numbers: if prices for gas, heating oil, electricity and gasoline rise by 130 percent, as assumed in the text above, CO₂ emissions will decline by 26 percent compared to 2019, to 523 million tons per year. In 1999, when the euro was introduced, German emissions were 895 million tons.

Going forward it will be important for the sake of a better climate to resist a decline of fossil fuel prices at the household and business level. The coming (global?) recession will probably lead to lower prices on world markets and almost inevitably to more CO₂ emissions. I hope that the EU will make this a common project. Those who have high incomes and are thus in general responsible for a big part of emissions should continue to pay high prices for fossil fuels. For the others, social policies must mitigate the negative effects.

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About Wermuth Asset Management

Wermuth Asset Management (WAM) is a Family Office which also acts as a BAFIN-regulated investment consultant.

The company specializes in climate impact investments across all asset classes, with a focus on EU “exponential organizations” as defined by Singularity University, i.e., companies which solve a major problem of humanity profitably and can grow exponentially. Through private equity, listed assets, infrastructure and real assets, the company invests through its own funds and third-party funds. WAM adheres to the UN Principles of Responsible

Investing (UNPRI) and UN Compact and is a member of the Institutional Investor Group on Climate Change (IIGCC), the Global Impact Investing Network (GIIN) and the Divest-Invest Movement.

Jochen Wermuth founded WAM in 1999. He is a German climate impact investor who served on the steering committee of "Europeans for Divest Invest". As of June 2017, he is also a member of the investment strategy committee for the EUR 24 billion German Sovereign Wealth Fund (KENFO).

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