

## Eurozone energy inflation to drag on household consumption throughout 2022

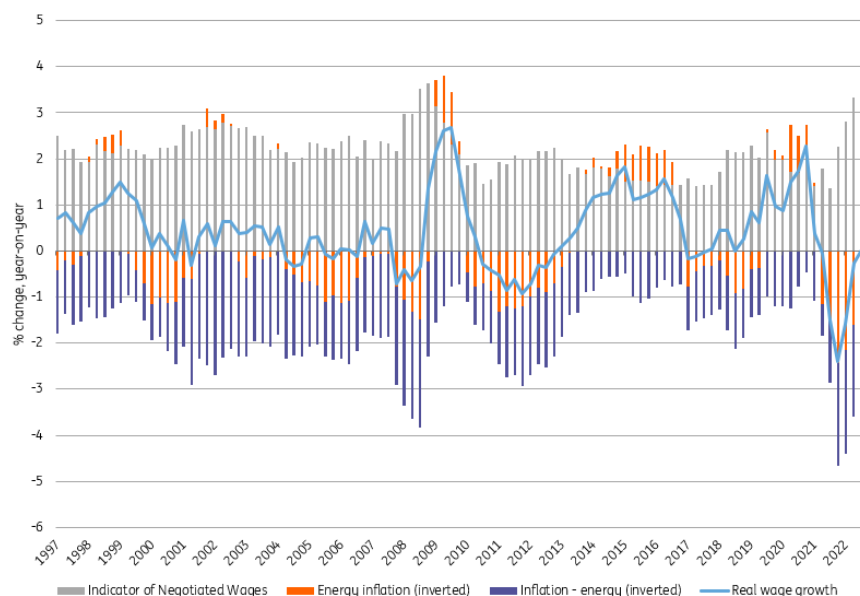
The eurozone energy crisis lingers on as market gas prices remain elevated and Brent oil prices continue to trend higher. For the eurozone economy, this is bad news. The higher consumer and producer prices are resulting in negative real wage growth and squeezed margins, weighing on private consumption



### Energy inflation remains elevated for most of 2022, hurting real wages

From a consumer perspective, the jump in energy prices is a significant dent in purchasing power. Real wage growth in the eurozone has been declining at a pace not seen in decades, at least since the early seventies. Chart 1 shows that energy inflation plays a key role here. Without it, we would have seen real wage growth roughly flat in the third quarter of 2021. While we expect nominal wage growth to pick up from [here](#), we expect real wage growth to remain negative for at least the first half of 2022. This adds to a sizeable squeeze in purchasing power for the consumer and dampens growth prospects.

## Real wage growth has been squeezed substantially in recent months as energy inflation soars



Source: Eurostat, ECB, ING Research

ING Research forecasts from Q4 2021 onwards

Energy inflation is set to remain elevated for quite some time in the eurozone as high natural gas prices have yet to be fully priced through to the consumer. This effect usually lags by about 5 months, which means that early 2022 will be characterised by elevated energy inflation. Still, when you look at futures markets, we expect energy inflation to drop over the course of 2022 after the peak seen in the fourth quarter of last year even though this does not mean a reduction back to normal levels, far from it. Read more on market energy price expectations in our [Energy Outlook 2022](#).







## Government support is ample, but not enough to mitigate impact

Governments have come up with mitigating measures to soften the blow for consumers. They're relatively similar - as you can see in the chart below - focussing mainly on protecting vulnerable groups' incomes and reducing taxes for a period in time. In Germany, the previous government had decided to lower the green transition tax, which is part of energy prices, from the start of this year. Relief for low-income households is currently under discussion but not decided yet.

France has capped consumer gas prices until the end of the year and has provided 100 euros of compensation to a large number of households. It is also working on regulation changes for energy providers.

Italy and Spain have introduced a wide array of measures, including lowered VAT rates on energy. These measures have already been in place for a few months, but as chart 2 shows, have proven only to be partially helpful in reducing costs to consumers.

## Measures taken by different countries fall into roughly similar categories

						
Lowered taxes	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Price regulation (retail or wholesale)		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Transfers to vulnerable groups		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Source: Bruegel, ING Research

While mitigating measures do help, they seem only to put a dent in the inflation rate so far. Of course, income support doesn't show in price measures, but the reduction in taxes on energy has not had a huge impact as of yet and outside of measures shielding vulnerable groups, most consumers remain relatively unshielded from the rising energy costs at this point. That said, the actual impact so far remains broadly moderate when you consider the confidence figures.

## VAT reductions have only mitigated energy inflation to a small degree so far in Italy and Spain



Source: Eurostat, ING Research

## Consumers are not yet feeling the squeeze, but expect downward impact on spending

Consumers still report very favourably on their current financial situation, which indicates that higher energy prices are not yet causing widespread financial problems that derail other consumption significantly. Mind you, much of the impact from higher gas prices will only show in the months ahead. Therefore, it doesn't come as a surprise that consumers expect a deterioration in their financial situation over the next 12 months and we should see private consumption being affected soon.

In the past, consumers tended to offset higher energy prices with less spending on other services or goods. As we found in [this note](#) from late last year, consumers in eurozone countries have different elasticities for higher energy prices. Only consumers in Belgium, Finland and Slovakia see a negative correlation between prices and the share of spending on energy, essentially they'd rather put on an additional sweater.

Right now, the difference with past episodes of high energy prices is excess savings due to the lockdowns. It could very well be that consumers eat into their excess savings to pay for at least one period of higher energy prices. In such a scenario, private consumption in the eurozone could be relatively unharmed through the current period but chipping in excess savings would still mean less post-pandemic consumption later in the year. One way or the other, high energy prices will weigh on private consumption.

## Authors

### **Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.