



To the point!

Cross-Asset- and Strategy-Research

World champion in energy prices? No!

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

May 10, 2024

Industrial electricity and gas are not overpriced in Germany

Germany's economy is going through an extended period of stagnation. When discussing the underlying reasons with clients one argument keeps coming up: extremely high energy prices in Germany! With such dear gas and electricity prices, we would be pricing our industry, the central pillar of the location, out of the market. Sometimes you almost get the impression that the Morgenthau Plan is implementing itself 80 years later after all. Because of lofty energy prices, so the argument goes, Germany's industrial tradition is facing an existential threat. The plea for subsidized industrial electricity has been rejected by the government, but the topic still agitates people. After all, the energy-intensive sectors in Germany are particularly hit by the industrial recession.

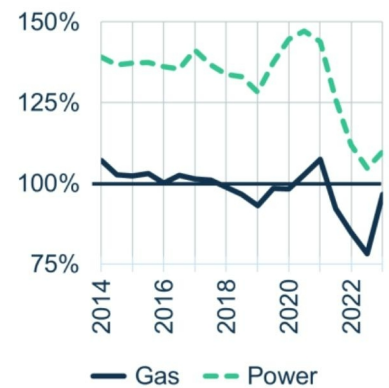
A look at the data brings clarity

Is the lament about uncompetitive energy justified? It's usually a good idea to be inspired by data and facts. Whether energy prices in Germany are high or low compared to other countries is not a matter of opinion. It is a matter of empirical evidence. So, what do the data tell us?

Take a look at the graph on the right. It becomes clear that industrial companies in Germany actually had to spend for many years about 40% more on electricity than their European competitors. But those are yesterday's worries! Since the energy crisis triggered by Russia's invasion of Ukraine, the difference has greatly reduced. In the second half of 2023, the price was still higher, but by only 15%. In 2024, electricity prices for companies have fallen further: in February, they were about 28% (!) below the annual average for 2023. It is difficult for me to understand

Energy-intensive industry in decline

Fig. 1: Germany: Natural gas and power prices (2014-2023, for industrial users, % of EU avg.)



Source: Eurostat, LBBW Research

why the complaint about supposedly ruinous energy prices has become so ubiquitous just as the price disadvantage had started to melt away.

Even for natural gas, procurement prices have returned to the level of 2021, but remain elevated compared to much of the 2010s. In a European comparison, however, German companies were even better off recently (black line in Fig. 1).

Policy choices have made the difference

In the case of natural gas, the main reason for falling prices for industrial customers is lower procurement prices. But power prices have also dropped, despite higher wholesale, network, and distribution costs compared to the pre-war years. For this, entrepreneurs can thank the federal government. Taxes and levies amounted to more than 9 cents per kilowatt-hour in 2021, but today that burden has fallen to below 1.5 cents (see figure 2). The elimination of the renewable energy surcharge (“EEG”) was the most important factor.

Stuttgart, Arkansas, boasts cheaper energy than Stuttgart, Baden-Württemberg

Of course, the world extends beyond Europe. And when we look beyond the old continent, we must acknowledge that, for example, in North America or China, energy prices are significantly below those being charged in Europe. We can't compete with the fracking champion United States in terms of energy costs. That is a fact. And that's not new. For particularly energy-intensive producers, this price differential can indeed constitute an incentive to relocate. But overall, energy costs are no longer an existential threat to German industry.

So, all things considered: Please calm down again. I herewith declare the energy crisis as officially over!

Energy costs have fallen significantly!

Fig. 2: Power price for German Industry (ct/kWh)



Average electricity prices for new contracts in the industry in ct/kWh (excluding electricity tax), annual consumption 160,000 to 20 million kWh. Source: BDEW, LBBW Research

Disclaimer:

This publication is addressed exclusively at recipients in the EU, Switzerland, Liechtenstein and the United Kingdom. This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely information on concrete investment options and for individual investment advice, please contact your investment advisor.

We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.

Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

Additional Disclaimer for recipients in the United Kingdom: Authorised and regulated by the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.