

# Re-Basing & Energy Subsidies Add Uncertainty to German CPI Print

8 February 2023 – By Lucy Hager & Tim Davis

The German January flash inflation data due on Thursday will provide a substantial degree of clarity, following the Eurostat estimate implemented in the eurozone flash HICP print which implied a substantial downside surprise for January ([more on this here](#))

- Bloomberg survey estimates are dispersed and skewed to the downside of the median +10.0% y/y. The mean is 9.71% (so showing a big negative skew), and the standard deviation is 0.67%.
- If we surprise to the upside relative to the 10.0% median estimate, we expect that we'd see a bigger market response than we would to a downside surprise. This is partly because an upside surprise would mean we'd need an even bigger revision to the Eurozone HICP print (which we calculated was using an estimate of between 7.9%Y/Y and 8.6%Y/Y for Germany).

**Uncertainty 1 - New base year:** As of January 2023, Destatis will use new weights to calculate CPI. It's reweighted based on 2022 spending patterns, likely to see energy more heavily weighted. Initial evidence from Spain's reweighting: food, clothing less heavily weighted.

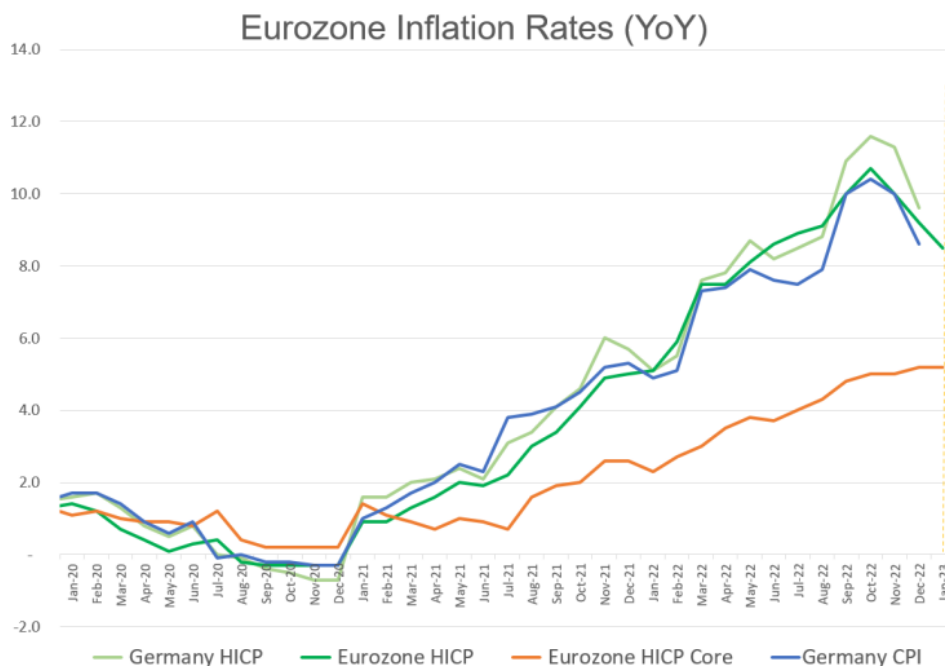
- A more heavily weighted energy component expected due to the 2020-rebasing will ensure that whichever way the effect swings, the repercussions will be greater for the headline inflation print.
- If Germany follows Spain in reducing weights for food and clothing, the former will see headline CPI soften whilst the effect of clothing will be based on whether retailers attempted to salvage profit margins or move merchandise in sales.

**Uncertainty 2 – Energy Subsidies Implications:** How Destatis treats the energy bill rebates remains uncertain, after the government paid December bills, potentially implying a much higher y/y print in January than December. A degree of government support (gas price caps) will be effectively backdated and not paid until March. It is unclear whether Destatis will include this subsidy in the January print.

- If Destatis were to smooth the gas price caps over Jan/Feb, and make an assumption of the delayed December energy bill payment for consumers without direct gas from supplier to be averaged at 1/12 per month, we could see German HICP disappoint this week. If not and the full effect of the rebound from the December energy bill payment would likely see CPI closer to consensus with an upward revision to EZ HICP next week.

According to [Destatis](#):

- **Measures not affecting CPI:** The September 300 euro energy bonus was distributed as a fixed amount with no direct reference to goods/services consumption.
- **Measures affecting CPI:**
  - Temporary fuel tax reduction (Tankrabatt): This dampened CPI from June-August 2022, the exact degree of price reduction for consumers cannot be determined due to the opaque pricing by gas stations.
  - 9-Euro Transport Ticket: This dampened passenger transport services from June-August 2022, and CPI.
  - VAT reduction on gas and heating: from Oct 2022 to March 2024. This will reduce CPI, however, due to late legal implementation has only included from November 2022 CPI.
  - December one-off payment for gas and heating: If customers have a direct contract with supplier – no December payment collected and direct effect on CPI (affecting around half of consumers). If consumers pay yearly utility bill, due with next bill and not taken into account in CPI.
  - As such the December -39.1% m/m fall in gas prices, -12.9% m/m fall in energy and -12.1% m/m fall in heating oil are likely to be reversed in January.
  - Gas, heat and electricity price brake: Price caps have been introduced as of Jan 2023 for electricity, gas and heat as of March 2023. These effectively impact CPI from as early as Jan 2023 for electricity. For gas, costs over the caps will be retroactively reimbursed for January/February in March due delays in legalities.



Source: MNI / Bloomberg

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