

# Surging energy prices are hitting everyone, but which households are more exposed?

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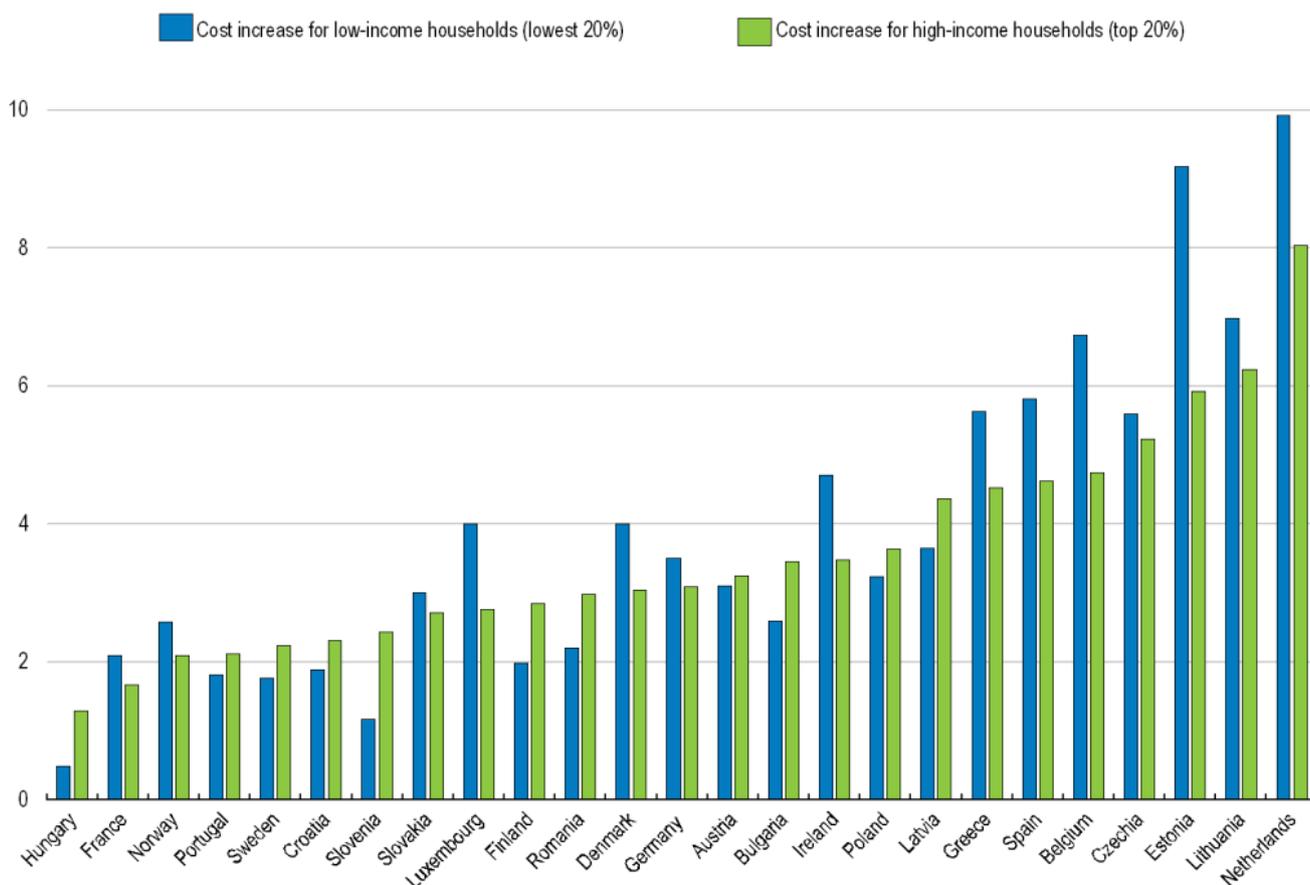
In the 12 months leading to March 2022, average home energy costs jumped by 41% in the European Union, and the price of fuels for private transport by 38%. These rises have strongly contributed to the return of inflation after more than two decades of subdued price growth across EU countries. The cost of the average consumption basket rose by between 4.5% to 15.6% across EU countries in the year to March 2022, and available data for April suggest that stronger price growth has continued.

While everyone is experiencing rising living costs, energy makes up a larger share of some households' budgets than others, so this shock risks amplifying existing inequalities. As governments across the OECD introduce measures to buttress households from this price shock (Boone and Elgouacem, 2021), it is important to understand which households are most exposed.

Analysing household budget surveys across the EU shows marked differences in spending on energy between countries and across households. Interestingly, low-income households are not systematically the hardest hit (Figure 1).

**Figure 1. The impact of the recent energy price surge on household budgets differs between countries and income groups**

Impact of the increase in energy prices on households' budget for rural and urban households (as a % of total spending)



Note: March 2021- March 2022 increase.

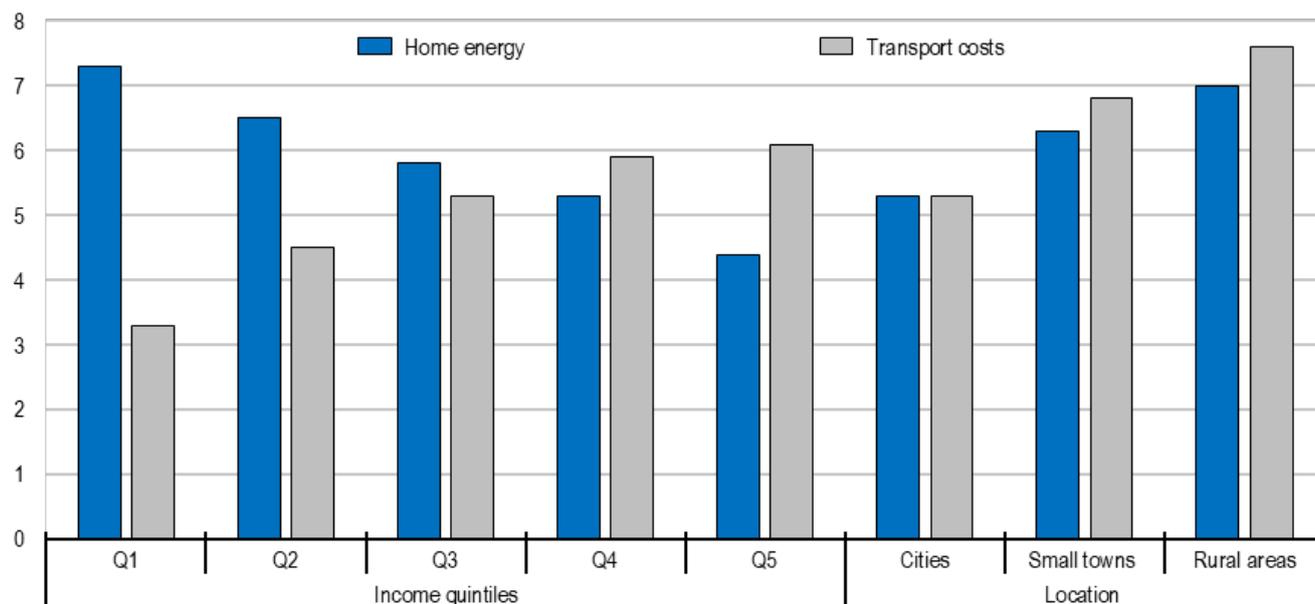
Source: Eurostat; HBS 2015, HICP, author's calculation.

Which households experience the largest losses in real incomes depends on the type of energy consumed, the price increases of different types of energy, and the share of energy in overall consumption. Home energy prices affect the poorest 20% of households more than higher income households in each country across the EU (Figure 2). For transport costs, the picture is less clear-cut, with increasing transport costs affecting high-income more than low-income households in several countries (Figure 3). Indeed, in a third of European countries higher income households spend larger shares of their income on running their car than lower income households, generally reflecting car ownership that is less common and is concentrated among higher-income households in these countries (Figure 3).

**Figure 2. Across the EU, lower income households spend a larger share of their budgets on home energy, higher income**

## households a larger share on transport costs, and remoter households spend larger shares on both

Average share of home energy and transport costs as a % of total spending, across income and geographical groups, EU average (2015)

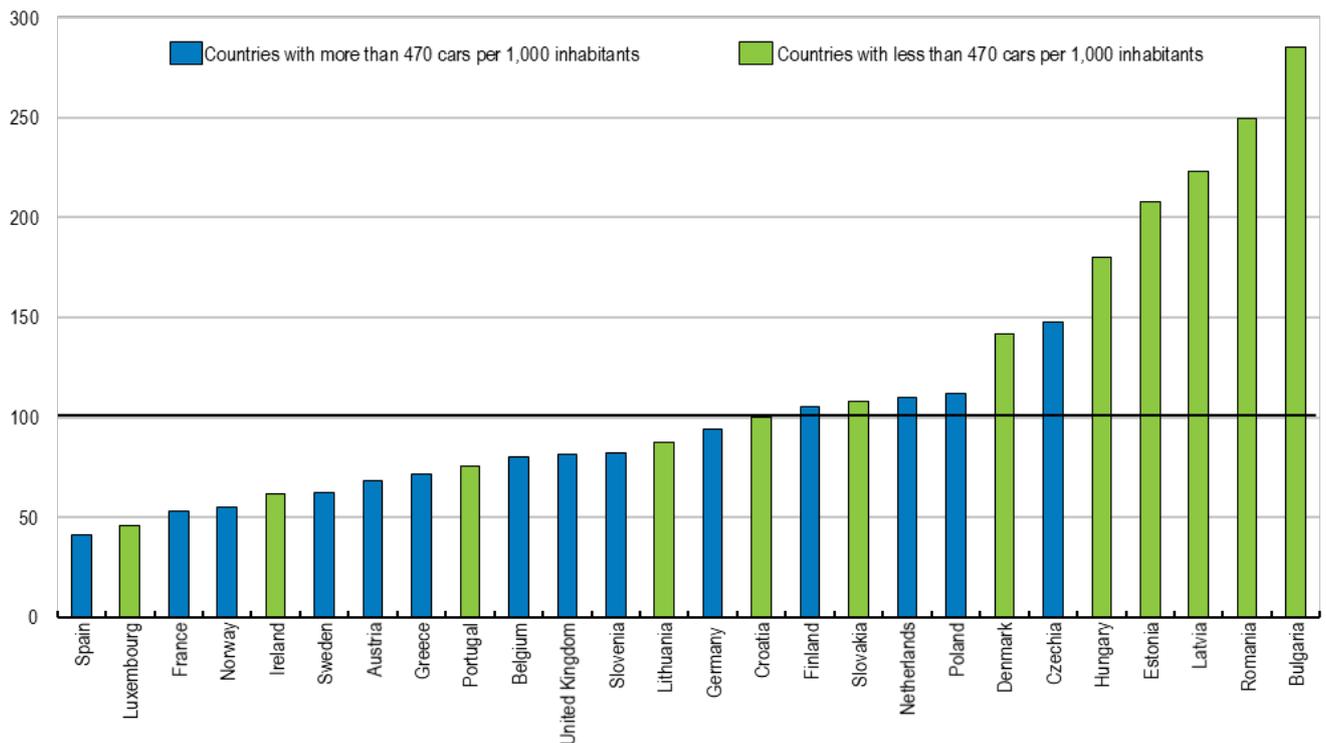


Source: Household Budget Survey (2015).

Higher energy prices also exacerbate inequalities between urban and rural areas. Households in rural areas and small towns spend 10% to 80% larger shares of their overall budget on home energy and transport costs than their urban counterparts (Figure 4). In some EU countries (e.g. Bulgaria, Hungary or Spain), households in rural areas and small towns are more likely to have low incomes than urban households, exacerbating their loss of purchasing power from rising energy prices.

### Figure 3. Higher transport costs have a larger impact on high-income households in countries where car ownership is less common

Share of budget spent on running cars by households with highest 20% of incomes relative to lowest 20% of incomes (2015)



Note: The graphic shows the ratio of income spent on transport of the 20% highest income to the 20% lowest income households. 100 indicates both groups spend equal shares of their budgets. For example, in Bulgaria, the share of income dedicated to transport costs by the 20% richest households is 280% the share of the 20% of households with the lowest incomes.

Source: Household Budget Survey (2015).

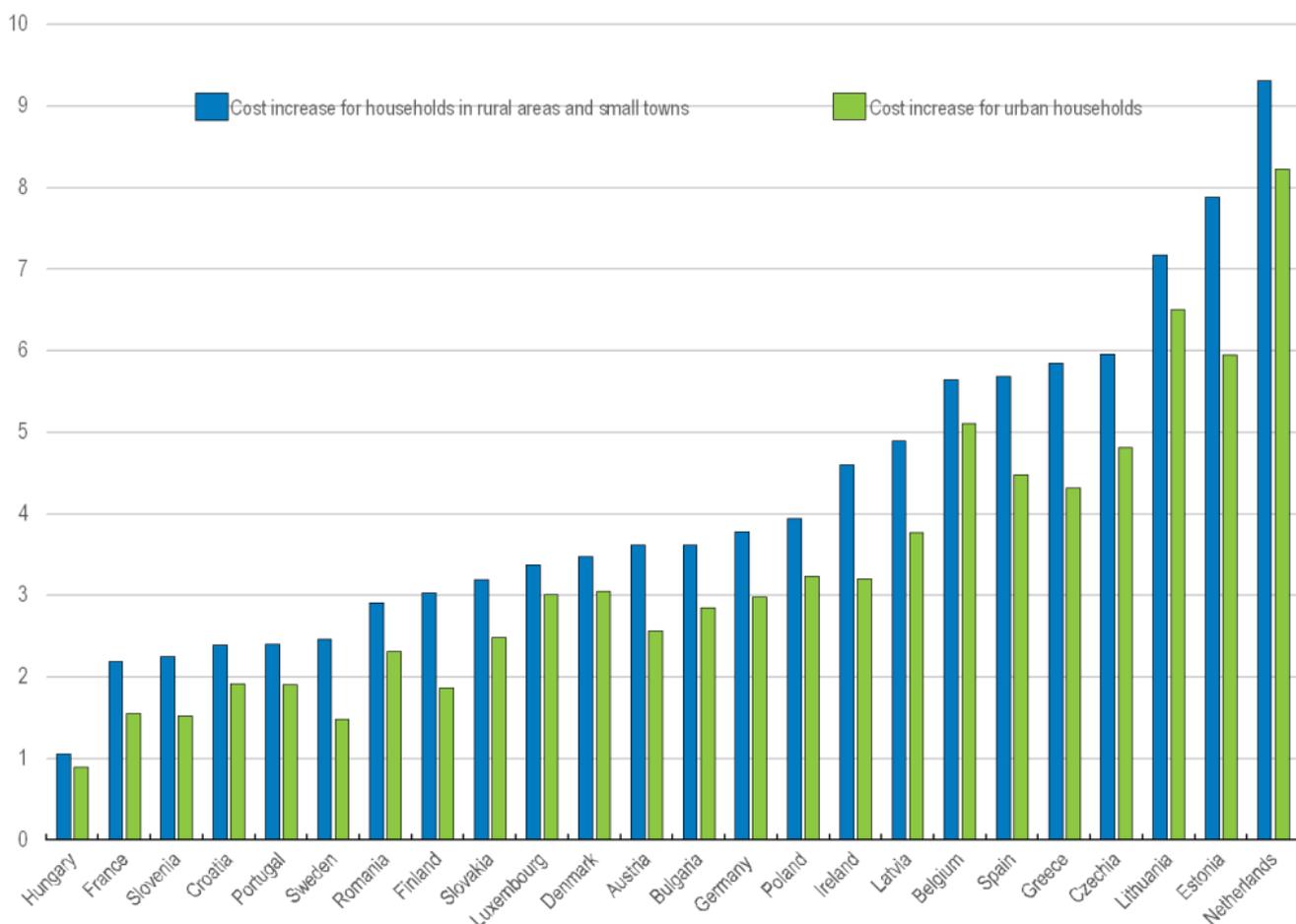
The distributional analysis can help governments respond to the recent price rises with measures that target the most exposed and vulnerable households, while limiting the cost of these measures to public finances and sustainability. Means-tested cash transfers are the most cost-efficient tool to reduce inequalities in the loss of purchasing power between income groups. Austria, for instance, gave a lump-sum support to the beneficiaries of social transfers, while Ireland increased the mean-tested payment helping households on their energy bill. Other countries are providing a mean-tested voucher for energy expenses (for example, France and Italy). By not distorting the price signal, such support measures also have the advantage that they do not discourage households from saving energy. Accelerating support to vulnerable households to improve their energy efficiency and to rely less on fossil fuel could bring the greatest and longest-lasting benefits,

such as Greece’s support for insulating housing and to develop new photovoltaic stations to provide power for vulnerable households (Bruegel, 2022).

By contrast, price subsidies and tax expenditures (such as cuts to excise taxes) reduce households’ incentives to save energy (Pototschnig, A. et al., 2022). Moreover, price support for transport fuels risks supporting the highest income households the most.

**Figure 4. Higher home energy and transport prices disproportionately affect rural households in all countries**

Impact of the increase in energy prices on households’ budget for rural and urban households (as a % of total spending)



Note: Change between March 2021- and March 2022.

Source: Eurostat; HBS 2015, HICP, author’s calculation

**References**

Boone, L. and A. Elgouacem (2021), *At the cross-roads of a low-carbon transition: what can we learn from the current energy crisis?*, ECOSCOPE, <https://oecdecoscope.blog/2021/10/22/at-the-cross-roads-of-a-low-carbon-transition-what-can-we-learn-from-the-current-energy-crisis/> (accessed on 14 April 2022).

Bruegel (2022), *National policies to shield consumers from rising energy prices*, <https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices/> (accessed on 11 April 2022).

Pototschnig, A. et al. (2022), "Consumer protection mechanisms during the current and future periods of high and volatile energy prices | Florence School of Regulation", *EUI Policy Brief*, <https://fsr.eui.eu/publications/?handle=1814/74376> (accessed on 11 April 2022).