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Heat waves are eroding our prosperity

The economic costs of climate change become ever more visible

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Not the heat again, some readers may groan. True: I devoted this column to climate change as recently as mid-June. The core of the analysis then was to document the overwhelming scientific evidence for human-induced climate change – and to explain why Europe is particularly exposed to global warming.

Currently, we are seeing the consequences more clearly than ever before. With Europe now enduring its second heat wave of the summer, forests are burning across Southern Europe. Grain and vegetables are withering in the fields – or failing to grow in the first place. Farmers are forecasting crop failures "on an unprecedented scale". Predictably, demands for government support have followed quickly. I have some sympathy, even if the farmers' protests have sometimes gone a little too far for my taste. Many farms may not survive, especially as droughts become more frequent and more intense.

A mounting body count in the battle against the heat

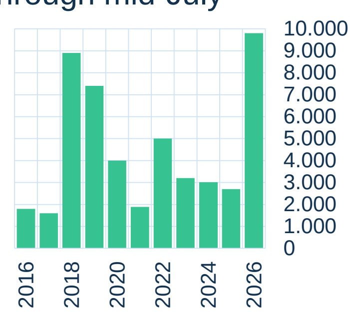
According to estimates by the Robert Koch Institute, Germany's public-health agency, the country had already recorded almost 10,000 heat-related deaths by mid-July. That is an all-time high (see fig. 1). More than 90% of this so-called excess mortality is among people over 65. The number is likely to have risen further after two more weeks of fierce heat.

France, for example, drew up plans after the scorching summer of 2003 to soften the impact on the population. Germany still finds itself unprepared for successive heat waves.

But if avoidable loss of life is not enough to jolt those in power into action, perhaps the economic damage will be. It is most obvious at present in the low water levels of Germany's rivers – and

Climate change is turning up the heat on the economy

Fig. 1: Estimated heat-related deaths in Germany through mid-July



Source: RKI, LBBW Research

not only the Rhine. The Danube, Elbe, Moselle and Spree look much the same. But the Rhine accounts for 80% of traffic on German waterways and is the main transport artery for oil products, chemicals, coal, scrap metal, grain and containers. Water levels at Kaub, a critical bottleneck on the Rhine, are at their lowest since records began in 1880 (see fig. 2). Ships can pass only with light loads. As a consequence, freight costs are rising exponentially. Industrial supply chains are stressed.

It does not help that parts of the railway line along the Rhine's eastern bank will remain out of service until at least December because of track repairs. The Rhine disruption alone could, according to estimates by the German Economic Institute, a Cologne-based think tank, shave as much as 0.4% off growth. That would once again dash hopes of a German economic recovery. A recession may even loom.

What, then, is Berlin saying? A spokesman for the transport ministry is laconic: "If there is no water, we are all at our wits' end." Of course, Berlin has no hotline to the rain gods. But such a casual shrug is not effective crisis management.

Energy and tourism are suffering, too

It is not only transport. France, Hungary and Romania are currently having to throttle back or shut down nuclear power plants because of a lack of cooling water. Coal-fired plants are affected, too, as they also need lots of water for cooling. EDF, France's state-controlled utility, even had to take a gas-fired power plant on the Mediterranean coast offline because of the heat – the first such shutdown.

Tourism is suffering as well. River cruises have all but stopped. Lake Constance, which borders Germany, Switzerland and Austria, has reached its lowest level since measurements began. Even my mother, who has vacationed at Lake Constance for decades, no longer wants to visit her beloved lake.

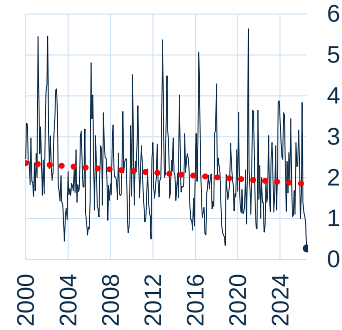
Productivity falls as temperatures rise

Labor productivity collapses when temperatures rise above 30°C, or 86°F. And not only because sick leave increases. In one study, the insurer Allianz estimates that every degree above that threshold reduces productivity by 3%. Spare a thought for especially hard-hit outdoor workers.

I am convinced that the effects of heat – from agriculture and supply chains to energy supply – could yet trigger a burst of inflation, regardless of whether the war in the Middle East continues. And this is only the beginning. Some of the hottest weeks are still ahead of us. So what is Germany's federal government doing? It advises people to drink enough water, points to the responsibility of federal states and municipalities, and shifts financial support away from renewables toward the construction of gas-fired power plants. Wakey, wakey!

Waterways are drying up

Fig. 2: Rhine water level at Kaub (in meters, through August 4, 2026)



Source: Bloomberg, LBBW Research

Nuclear plants are going offline

Productivity falls in the heat

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