

Berner, Anne; Bruns, Stephan B.; Moneta, Alessio; Stern, David I.

Working Paper

Do energy efficiency improvements reduce energy use? Empirical evidence on the economy-wide rebound effect in Europe and the United States

LEM Working Paper Series, No. 2021/20

Provided in Cooperation with:

Laboratory of Economics and Management (LEM), Sant'Anna School of Advanced Studies

Suggested Citation: Berner, Anne; Bruns, Stephan B.; Moneta, Alessio; Stern, David I. (2021) : Do energy efficiency improvements reduce energy use? Empirical evidence on the economy-wide rebound effect in Europe and the United States, LEM Working Paper Series, No. 2021/20, Scuola Superiore Sant'Anna, Laboratory of Economics and Management (LEM), Pisa

This Version is available at:

<https://hdl.handle.net/10419/243516>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

INSTITUTE
OF ECONOMICS



Scuola Superiore
Sant'Anna

LEM | Laboratory of Economics and Management

Institute of Economics
Scuola Superiore Sant'Anna

Piazza Martiri della Libertà, 33 - 56127 Pisa, Italy
ph. +39 050 88.33.43
institute.economics@sssup.it

LEM

WORKING PAPER SERIES

Do Energy Efficiency Improvements Reduce Energy Use? Empirical Evidence on the Economy-Wide Rebound Effect in Europe and the United States

Anne Berner ^a
Stephan Bruns ^b
Alessio Moneta ^c
David I. Stern ^d

^a Chair of Statistics, University of Göttingen, Germany.

^b Centre for Environmental Sciences, University of Hasselt, Belgium and
Chair of Econometrics, University of Göttingen, Germany.

^c Institute of Economics and EMbeDS, Sant'Anna School of Advanced Studies, Pisa, Italy.

^d Arndt-Corden Department of Economics, Crawford School of Public Policy,
The Australian National University, Australia.

2021/20

May 2021

ISSN(ONLINE) 2284-0400

Do Energy Efficiency Improvements Reduce Energy Use? Empirical Evidence on the Economy-Wide Rebound Effect in Europe and the United States

Anne Berner^a, Stephan Bruns^b, Alessio Moneta^c, David I. Stern^d

^a*Chair of Statistics, University of Göttingen, Germany*

^b*Centre for Environmental Sciences, University of Hasselt, Belgium and Chair of Econometrics, University of Göttingen, Germany*

^c*Institute of Economics and EMbeDS, Sant'Anna School of Advanced Studies, Italy*

^d*Arndt-Corden Department of Economics, Crawford School of Public Policy, The Australian National University, Australia*

Abstract

Improving energy efficiency is often considered to be one of the keys to reducing greenhouse gas emissions. However, efficiency gains also reduce the cost of energy services and may even reduce the price of energy, resulting in energy use rebounding and potential energy use savings being eaten up. There is only limited empirical research quantifying the economy-wide rebound effect that takes the dynamic economic responses to energy efficiency improvements into account. We use a Structural Factor-Augmented Vector Autoregressive model (S-FAVAR) that allows us to track how energy use changes in response to an energy efficiency improvement while accounting for a vast range of potential confounders. Our findings point to economy-wide rebound effects of 78% to 101% after two years in France, Germany, Italy, the U.K., and the U.S. These findings imply that energy efficiency innovations alone may be of limited help in reducing future energy use and emphasize the importance of tackling carbon emissions directly.

Keywords: Energy efficiency, economy-wide rebound effect, climate change, climate policy, Structural FAVAR, Independent Component Analysis

Acknowledgments: The research leading to this article has been funded by the Federal Ministry of Education and Research (BMBF) (Funding code: 01UT170). We thank the members of ReCap project team (<https://www.macro-rebounds.org/>) as well as participants of the IAEE Conference (2019), the ESEE Conference (2019) and seminars at the Chairs of Statistics and Econometrics in Göttingen for helpful comments.

1. Introduction

“Energy efficiency” is one of the key concepts of green new deal strategies to mitigate greenhouse gas emissions (IPCC, 2019; IEA, 2016). In political discussions, energy efficiency is seen as a panacea for reducing energy consumption while simultaneously reducing the costs of production and thereby ensuring green growth (European Commission, 2019; Ocasio Cortez, 2019; OECD, 2012). However, efficiency gains and the associated cost reductions will result in some rebound, whereby energy use savings due to the gains in efficiency are reduced or even completely eaten up.

The *direct* rebound effect describes the behavioral response of consumers and producers that will want to expand the use of energy services as the cost of these services falls (e.g. Sorrell and Dimitropoulos, 2008). There are also many follow-on effects across the economy known as *indirect* rebound effects. For example, a cost-saving energy efficiency gain for consumers will redirect saved income to other goods and services that also require energy to be produced. Furthermore, a cost-saving energy efficiency gain may also lower the price of energy resulting in further incentives to expand the use of energy services and the new energy-saving technology might even require more energy to be produced than the old one (Lange et al., 2020; Sorrell and Dimitropoulos, 2008; Gillingham et al., 2016). The rebound effect measures – as a percentage of the potential savings in energy use – the extent of savings in energy use that have not been realized due to the direct and indirect responses of economic agents to the initial efficiency gain.

While direct rebound effects are comparatively well studied and are on average estimated to range between 10% and 30% in developed countries (Maxwell and McAndrew, 2011), it is challenging to estimate the economy-wide rebound effect, which encompasses both direct and indirect rebound effects. In this study, we empirically estimate the economy-wide rebound effect for a sample of European countries and the United States, finding rebound effects that approach almost 100% after two years.

The quantitative literature on the economy-wide rebound effect can be divided into computational, accounting, and fully empirical approaches (Stern, 2020). Computational approaches are used most frequently, including partial equilibrium approaches (e.g. Saunders, 2008) and computable general equilibrium (CGE) models (e.g. Turner, 2009; Koesler, 2013; Rausch and Schwerin, 2018). These structural models are theoretically comprehensive and can capture a wide range of mechanisms. The estimated rebound effects from CGE models vary between negative effects, indicating that

31 energy use is reduced by more than the efficiency improvement, to the opposite effect where energy
32 efficiency triggers an increase in the use of energy (known as “backfire”) (Turner, 2009; Colmenares
33 et al., 2019). The accounting approach (Lin and Liu, 2012; Shao et al., 2014; Lin and Du, 2015;
34 Zhang and Lin Lawell, 2017) treats changes in energy intensity as changes in energy efficiency
35 and assumes that rebound is proportional to total factor productivity growth, neither of which is
36 appropriate (Stern, 2020).

37 Only a few studies try to quantify the economy-wide rebound effect fully econometrically, using
38 observed data and statistical methods (Adetutu et al., 2016; Orea et al., 2015; Yan et al., 2019). The
39 key challenge that all these studies face when empirically estimating the effect of energy efficiency
40 improvements on energy use is the interdependence and co-evolution of the relevant time series.
41 Existing studies do not allow GDP and the price of energy to change in response to changes in
42 energy efficiency. These changes in GDP and the price of energy (and also other relevant time
43 series), however, may then result in further changes in energy use and ignoring these dependencies
44 will bias estimates of the economy-wide rebound effect.

45 Recently, Bruns et al. (2021) proposed a Structural Vector Autoregressive (SVAR) model for es-
46 timating the economy-wide rebound effect. SVAR models are the workhorse of macroeconomic
47 time series analysis consisting of a small system of regression equations that represent the statis-
48 tical dependence among the relevant time series (Kilian and Lütkepohl, 2017). In this framework,
49 exogenous changes in energy efficiency can be identified and the reaction of energy use to these
50 changes can be measured, taking into account the possibility that this reaction may be mediated
51 by other variables such as prices and GDP. Bruns et al. (2021) use this approach to provide a first
52 estimate of the economy-wide rebound effect for the U.S., indicating that the rebound effect is
53 about 100%.

54 In this study, we extend the work of Bruns et al. (2021) in two directions. First, while the SVAR
55 approach provides powerful tools for estimating the responses of an economic system to exogenous
56 forces, the presence of unobserved confounders may bias these estimates (Bernanke et al., 2005; Bai
57 and Ng, 2013; Favero et al., 2005). Accounting for unobserved confounders in macroeconomic time
58 series analysis is non-trivial as the number of potential confounders is very large, while the number
59 of available observations is small. Therefore, we apply a Structural Factor-Augmented Vector Au-
60 toregressive (S-FAVAR) model. These models not only estimate, like SVAR models, the relationship

61 among several variables over time but also augment the core model with the principal components
62 of a rich set of potential confounders (Bernanke et al., 2005). Specifically, our core model includes
63 three variables: energy use, the real price of energy, and GDP. We obtain the additional factors
64 from a set of 41 to 56 economic time series depending on the country considered. This approach
65 helps to comprehensively mitigate the threat of omitted-variable biases and to reduce the potential
66 bias due to economic agents anticipating energy efficiency improvements (nonfundamental shocks).
67 Second, Bruns et al. (2021) estimate a rebound effect of roughly 100% for the U.S., but it is also
68 important to investigate whether energy efficiency innovation in large polluting countries other than
69 the U.S. is equally unlikely to significantly reduce energy use in the long run. Therefore, we use
70 the improved S-FAVAR approach to estimate economy-wide rebound effects in France, Germany,
71 Italy, the U.K., and the U.S.

72 Our analysis relies on the notion that changes in the economic system can be traced back to in-
73 dependent impulses, commonly referred to as “shocks” in the econometrics literature (Kilian and
74 Lütkepohl, 2017). We identify an energy efficiency shock by applying Independent Component Anal-
75 ysis (ICA) to the residuals of a reduced-form Factor-Augmented Vector Autoregressive (FAVAR)
76 model. ICA finds the least dependent linear combinations of the residuals, which correspond to an
77 estimate of the independent shocks that jointly affect the observed variables. Based on this, we can
78 estimate the response of the economy-wide energy use over time to an energy efficiency shock.

79 We find that the economy-wide rebound effect ranges from 78% to 101% for France, Germany, Italy,
80 the U.K., and the U.S. after two years. This implies that policies to encourage energy efficiency
81 improvements may not be effective in reducing energy use in the long run, which might be at odds
82 with common green growth strategies.

83 The remainder of the paper is organized as follows. Section 2 presents the empirical strategy that
84 is used to estimate economy-wide rebound effects, disentangling the different components of the
85 S-FAVAR model and introducing the dataset. Empirical results are discussed in Section 3. Finally,
86 Section 4 summarizes and concludes.

87 **2. Empirical Approach**

88 *2.1. The Economy-Wide Rebound Effect*

89 The economy-wide rebound effect is defined as the extent of savings in energy use across the economy
90 that have not been realized due to the direct and indirect responses of economic agents to the initial
91 efficiency gain. We estimate the economy-wide rebound effect by identifying an energy efficiency
92 shock, that is, an independent and exogenous shock to economy-wide energy use that cannot be
93 explained by any other variable considered in the S-FAVAR model as outlined in the subsequent
94 sections, and by tracing the dynamic response of energy use to this shock. Using the subscript i to
95 denote the number of periods since the energy efficiency improvement, the economy-wide rebound
96 effect is given by:

$$R_i = 1 - \frac{\text{Actual}}{\text{Potential}} = 1 - \frac{\Delta \hat{e}_i}{\varepsilon_{e_1}} \quad (1)$$

97 where ε_{e_1} is the contemporaneous response of energy use to the energy efficiency shock, which
98 represents the potential “engineering” change in energy use, and $\Delta \hat{e}_i$ is the actual change in energy
99 use (Bruns et al., 2021). Notice that ε_{e_1} is by construction a negative number, while $\Delta \hat{e}_i$ measures
100 the response of energy use to the energy efficiency shock after i periods and can be any real number.

101 *2.2. Structural Factor-Augmented Vector Autoregressive (S-FAVAR) model*

102 It would be desirable to consider all variables that potentially influence economy-wide energy use
103 and, therefore, potentially confound the estimate of the economy-wide rebound effect. However, the
104 analysis of intertemporal dependencies in a “data-rich” environment is problematic using standard
105 multivariate autoregression models, as the number of parameters to be estimated may rapidly
106 exceed the available observations. Augmenting a classical SVAR model with factors obtained from
107 a large set of time series provides a remedy.

108 To characterize the effect of an efficiency shock on energy use, we assume that the state of the
109 economy is represented by a vector C_t , whose entries are both observed and latent variables. As
110 we are interested in estimating the response of energy use to an energy efficiency shock, we include
111 the following three observable series: Energy use (E_t), GDP (Y_t), and the price of energy (P_t).
112 We consider these three variables to be the core variables when analyzing economy-wide rebound
113 effects. Moreover, we incorporate several latent factors (F_t) in the vector C_t that summarize the
114 information in a large set of macroeconomic indicators (see Section 2.3 for the estimation of these

115 factors). The dynamics of the common components are modeled by the following reduced-form
 116 FAVAR model

$$C_t = \Phi(L)C_{t-1} + u_t$$

where

$$C_t = \begin{bmatrix} E_t \\ Y_t \\ P_t \\ F_t \end{bmatrix} \tag{2}$$

117 where $\phi(L)$ is a conformable lag polynomial of finite order and the error term and u_t is assumed to
 118 be i.i.d. with mean zero.

119 In contrast to a traditional VAR model, the system in Equation (2) also includes latent factors, F_t .
 120 These factors can be extracted from a large number of macroeconomic time series. The dynamic
 121 factor model is explained in the following subsection.

122 2.3. Factor augmentation

123 The general idea of the factor model is to reduce a large matrix of time series data into a few latent
 124 factors. The following equation relates the unobserved common factors, collected in the $r \times 1$ vector
 125 F_t , and the vector of m observed core variables W_t (in our case time series data on the price of
 126 energy, energy use and GDP, so that $m = 3$) to an $N \times 1$ vector of (observed) “informational”
 127 variables Z_t (in our case 41 to 56 time series, depending on the country analyzed):

$$Z_t = \Lambda^f F_t + DW_t + \zeta_t, \tag{3}$$

128 where Λ^f is an $N \times r$ matrix of factor loadings, D is a $N \times m$ diagonal matrix, and ζ_t is a $N \times 1$
 129 vector of idiosyncratic residuals. Hence, changes in Z_t are driven by the latent factors (F_t) and
 130 the endogenous observable time series (W_t), plus idiosyncratic noise. In the multi-period setting
 131 $Z = (Z_1, Z_2, \dots, Z_T)'$ is the $T \times N$ data matrix, $W = (W_1, W_2, \dots, W_T)'$ a $T \times m$ matrix of
 132 observables and $F = (F_1, F_2, \dots, F_T)'$ is a $T \times r$ matrix of latent factors. We follow Hwang (2009)
 133 to obtain estimates of D , Λ^f and F by the following steps:

- 134 1. Regress Z_t on W_t , and compute the least squares estimates, \hat{D} , and the residuals $\hat{U}_t =$
135 $Z_t - \hat{D}W_t$, with $\hat{U} = (\hat{U}_1, \dots, \hat{U}_T)'$;
136 2. Estimate the first $K - r$ principal components of \hat{U}_t which represent the estimated latent
137 factors.

138 Hence, the factor estimates can be specified as $\hat{F} = \hat{U}'\Lambda^f$, where the columns of Λ^f are the
139 eigenvectors corresponding to the largest eigenvalues of $\hat{U}'\hat{U}$. This ensures that the loading ma-
140 trix has orthonormal columns and can be identified.¹ The resulting factors, F_t , are included in
141 the reduced-form FAVAR in Eq. (2), which can be estimated using OLS, before identifying the
142 structural representation.

143 2.4. Identification

144 After estimating the factors, the model in Equation 2 can be treated as a standard VAR. As the
145 residuals, u_t , in equation (2), might be correlated across equations, we rewrite these innovations as
146 a linear combination of the underlying orthogonal structural disturbances η_t . Rewriting Equation
147 (2) results in the following structural model

$$\begin{bmatrix} F_t \\ W_t \end{bmatrix} = \phi(L) \begin{bmatrix} F_{t-1} \\ W_{t-1} \end{bmatrix} + B\eta_t \quad (4)$$

148 where η_t , has mean zero with covariance matrix Σ . The non-singular matrix B specifies the contem-
149 poraneous relations between the shocks and the reduced-form innovations $u_t=B\eta_t$, with $E[u_t] = 0$
150 and $\text{Cov}[u_t] = BB' = \Sigma_u$. The mixing matrix, B , contemporaneously transmits the effects of the
151 shocks to the dependent variables.

152 The matrix B is estimated and hence the shocks are identified using two different search methods
153 that use unsupervised statistical learning typical of machine learning research and fall under the
154 class of Independent Component Analysis (Comon, 1994). Both methods rely on two key assump-
155 tions about the statistical properties of the vector of shocks. Namely, the shocks are assumed to be
156 mutually statistically independent and distributed according to a (not necessarily specified) non-

¹See Kilian and Lütkepohl (2017) Table 16.1 or Bai and Ng (2013) for alternative sets of identification conditions for factors and factor loadings.

157 Gaussian distribution, with at most one exception. The latter assumption can be easily checked
158 indirectly by testing whether Gaussianity of the reduced-form innovations, u_t , is rejected. The
159 former assumption cannot be tested, but is in tune with the idea of finding the primitive exogenous
160 forces that drive the dynamics of the system, each of which is denoted by a particular economic
161 characteristic, not shared with the others, and that can be possibly used as policy levers.

162 The two ICA approaches we apply are distance covariance (dcov) (Matteson and Tsay, 2011) and
163 non-Gaussian Maximum Likelihood (ngml) (Lanne et al., 2017), which have been recently studied in
164 the econometric literature in the context of SVAR models (Herwartz, 2018). We further probe the
165 robustness of our results by computing the Choleski decomposition of the residual variance matrix
166 which gives similar results (see Table D.6 for a comparison of the different rebound estimations).

167 ICA does not determine the sign nor the economic meaning of the shocks *a priori*. The columns
168 of the (instantaneous) impact matrix should be reordered and if necessary their sign changed to
169 make them easier to interpret economically (Gouriéroux et al., 2017; Moneta and Pallante, 2020).²

170 We solve this indeterminacy by assuming that of the three empirically identified shocks the energy
171 efficiency improvement should have the largest (in absolute value) contemporaneous effect on energy
172 use. This shock represents exogenous changes to energy use that are not explained by any of the
173 other variables considered in the model and, thus, we attribute this exogenous change to a change
174 in efficiency. The effect of this shock on energy use is by definition negative as we are interested in
175 studying the effect of improvements on energy efficiency.

176 In our analysis, we extensively use the R package `svars`, which implements independence-based
177 identification (Lange et al., 2019).

178 *2.5. Estimating the economy-wide rebound effect*

179 The rebound effect is defined as the ratio between actual and potential energy savings (see equation
180 (1)), which can be approximated by the evolution of the impulse-response functions. Figure 1 shows
181 an illustrative impulse-response function of energy use with respect to an energy-specific shock. Here
182 the initial or potential savings (ε_{e_1}), indicated at time 0, decrease over time and even exceed, in

²In the language of matrix analysis, ICA identifies the impact matrix up to the right multiplication of a signed permutation matrix, i.e. a matrix containing exactly one entry in each row and column equal to +1 or -1 and all other entries equal to 0. ICA leaves undetermined also the scale of the shocks, but these are typically normalized to have unit variance.

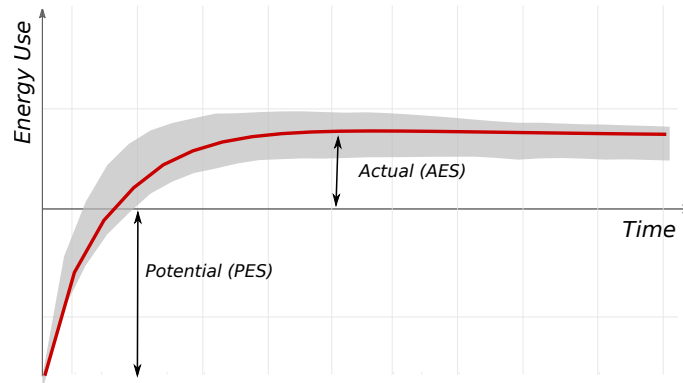


Figure 1: **Illustration of potential energy savings (PES) and actual energy savings (AES)** depicting an exemplary impulse-response function of energy use (red curve) with an exemplary confidence interval (gray area).

183 this particular illustration, the pre-shock level leading to actual savings ($\Delta\hat{\varepsilon}_i$) that are negative
 184 and, therefore, to backfire.

185 The estimation of the rebound effect based on an S-FAVAR model addresses the omitted variables
 186 problem that is common in SVAR analysis by including the information from a large set of variables.
 187 Furthermore, the S-FAVAR model allows us to tackle a related but subtler problem, which is typical
 188 of standard (small scale) SVAR models and may bias the estimation of the rebound effect. In SVAR
 189 analysis, structural shocks are identified from a linear transformation of VAR prediction errors (i.e.
 190 reduced-form residuals). But it is conceivable that these prediction errors do not accurately capture
 191 the true prediction errors of the economic agents, because the latter rely on an information set that
 192 is larger than the one contained in the econometric model. This creates a mismatch between the
 193 shocks of the (true) data generating process and the shocks of the SVAR model, which has been
 194 studied in the literature on so-called *nonfundamental shocks*³ (Kilian and Lütkepohl, 2017; Alessi
 195 et al., 2011). In case of such a mismatch, the shocks identified from a VAR model may in fact be
 196 anticipated by economic agents. This would engender a bias in the estimate of the energy efficiency
 197 shock and of its rebound effect. This problem, and, more generally, the problem of nonfundamental
 198 shocks, can be resolved or at least ameliorated in S-FAVAR analysis because the information set
 199 is enlarged and so it is more likely that it mirrors the information set that economic agents use to

³The name is due to the fact that the moving average representation of the VAR prediction errors is called the fundamental representation. Nonfundamental shocks are shocks that cannot be recovered from this representation.

200 predict or anticipate energy efficiency innovations.

201 However, our estimation still bears two caveats that need to be considered. First, the model does
202 not capture rebound that may happen contemporaneously with the efficiency improvement. This
203 effect is discussed in the literature under the terms “embodied-energy effect” or “redesign effect”
204 (Lange et al., 2021). Bruns et al. (2021), however, explain that this error is smaller the closer
205 the true rebound effect is to 100%. Second, our rebound-measure describes only the response
206 that can be attributed to energy-specific efficiency improvements. The reason is that our energy
207 efficiency shock is assumed to be orthogonal to other shocks. Hence, if labor- or capital-augmenting
208 innovations are captured in the GDP shock (or other shocks) and if these innovations are correlated
209 with improvements in energy efficiency, then these energy efficiency improvements are not captured
210 in the energy efficiency shock.

211 *2.6. Data*

212 The main variables of our model comprise energy use, the price of energy, and economic output,
213 measured by GDP. For the U.S., the data used in this article corresponds to the data described in
214 Bruns et al. (2021). Compared to the U.S., in Europe monthly time series data at the country level
215 are still quite sparse. Therefore, we restrict our analysis to France, Germany, Italy, and the U.K. as
216 the monthly data for these countries and variables are available from January 2008 to September
217 2019, providing 141 observations. All data series were log-transformed and deseasonalized using
218 the `seasonal` package in R with the X-11 adjustment procedure.

219 Additionally, the extraction of the latent factors is based on a large matrix of time series describing
220 the economy. For this purpose, we use the Main Economic Indicator (MEI) database which is
221 developed and maintained by the OECD. This data set presents comparative statistics that provide
222 an overview of recent international economic developments for the European countries we analyzed,
223 covering information on the labor market, national accounts, retail sales, production, construction,
224 prices, finance, international trade, and the balance of payments (OECD, 2018). The latent factors
225 are intended to summarize the main source of variation in the data panel and hence can be inter-
226 preted as common driving forces behind different variables of the economy. Online Appendix A
227 discusses the sources of the data in detail.

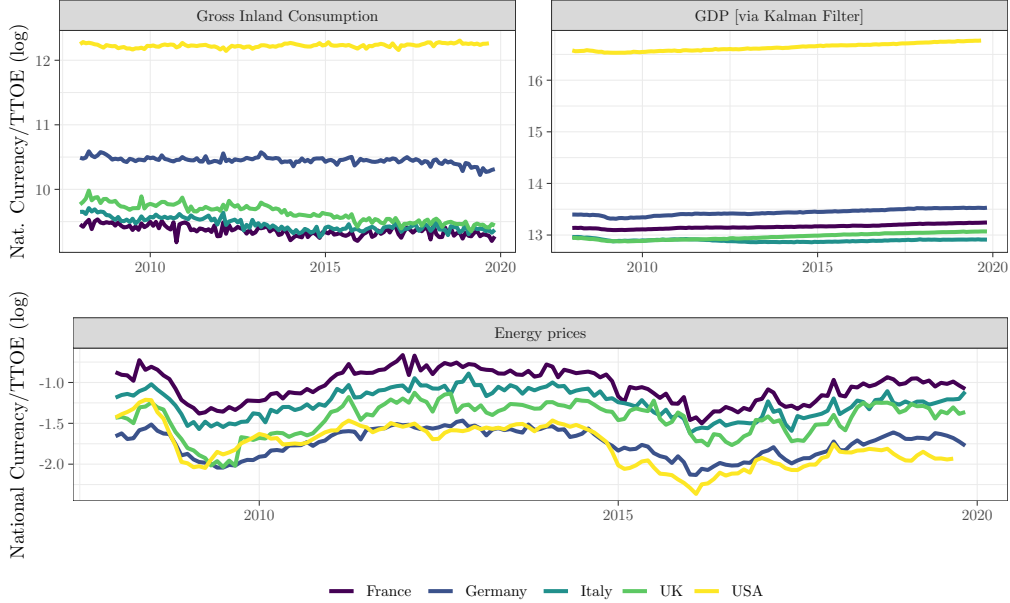


Figure 2: Time series data for the countries included in the analysis.

228 **3. Results**

229 *3.1. Reduced-form FAVAR*

230 Using the Akaike information criterion, we select lag lengths of $p = 2$ for France, the U.K. and the
 231 U.S., $p = 3$ for Italy and $p = 4$ for Germany. Maximum lag lengths of 6 and 12 both result in
 232 selecting the same lag length (see Table D.5 in the Online Appendix for the comparison).

233 We statistically evaluate the number of Gaussian components based on component-wise normality
 234 tests (Shapiro-Wilk, Shapiro-Francia, Jarque-Bera) for the reduced-form residuals of the model.⁴
 235 The test results indicate that the presence of more than one Gaussian component cannot be rejected
 236 (see Table D.7 in the Online Appendix). However, these tests perform poorly in small samples,
 237 which is particularly true if the distributions of the samples are close to normality (Gouriéroux
 238 et al., 2017; Maxand, 2018). Maxand (2018) show that at least the unique identification of the non-
 239 Gaussian shocks can be guaranteed irrespective of the distributions of the remaining system. We are

⁴Additionally, we compared the component-wise tests with a bootstrapping test, based on forth order blind identification (FOBI) explained in the Online appendix

240 especially interested in the energy efficiency shock and at least the normality of the reduced-form
 241 residuals of the energy use equation can be rejected for all countries except France. Furthermore, in
 242 the case of multiple Gaussian reduced-form residuals, the ICA methods in any case deliver orthog-
 243 onal shocks, since they orthogonalize the residuals like a standard principal component analysis.
 244 However, the residuals are identified up to an orthogonal transformation, which may dramatically
 245 increase the variance of the estimates (Hyvärinen and Oja, 2000). Additionally, we tested the ro-
 246 bustness of the identified shocks by comparing the result of the independence-based identification
 247 strategies with the results derived by a Choleski decomposition finding similar results for the energy
 248 efficiency shock (see D.6).

249 *3.2. Factor augmentation to account for potential confounders*

250 The first two factors explain from 45.78% (U.K.) to 62.82% (U.S.) of the variance of the informa-
 251 tional variables in each country panel (see Table 1). We include these two factors in the S-FAVAR
 252 model to ensure a balance between the variance explained and degrees of freedom considerations.
 253 Increasing the number of included factors by one adds roughly 10% to the explained variance (see
 254 Table 1). A robustness check of the estimated rebound effect with three factors included can be
 255 found in the Online Appendix (Figure D.17).

Table 1: Explained variance in the set of country-specific time series

| Factor | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---------|-------|-------|-------|------|------|------|------|------|------|------|
| France | 33.22 | 13.49 | 11.31 | 7.69 | 6.46 | 6.17 | 5.56 | 5.07 | 4.82 | 4.08 |
| Germany | 35.59 | 19.54 | 12.09 | 8.89 | 8.39 | 5.73 | 4.36 | 4.17 | 4.06 | 3.60 |
| Italy | 37.34 | 15.04 | 10.27 | 8.80 | 6.97 | 6.06 | 5.65 | 5.43 | 4.21 | 3.64 |
| UK | 23.78 | 22.00 | 11.70 | 9.88 | 7.23 | 6.11 | 5.81 | 5.32 | 4.55 | 4.11 |
| USA | 43.33 | 19.49 | 12.80 | 9.16 | 8.29 | 6.57 | 5.05 | 4.41 | 3.72 | 3.44 |

Notes: Each row shows the variance in the country-specific set of time series explained by the respective factor (in %).

256 These two estimated latent factors are presented in Figure 3. The identification of the estimated
 257 factors is only possible up to a change of sign.⁵ The factors fluctuate strongly during the financial

⁵This becomes evident as Factor 1 peaks during the financial crisis in 2008/2009 for Germany, Italy and the U.K. and collapses in France and the U.S.

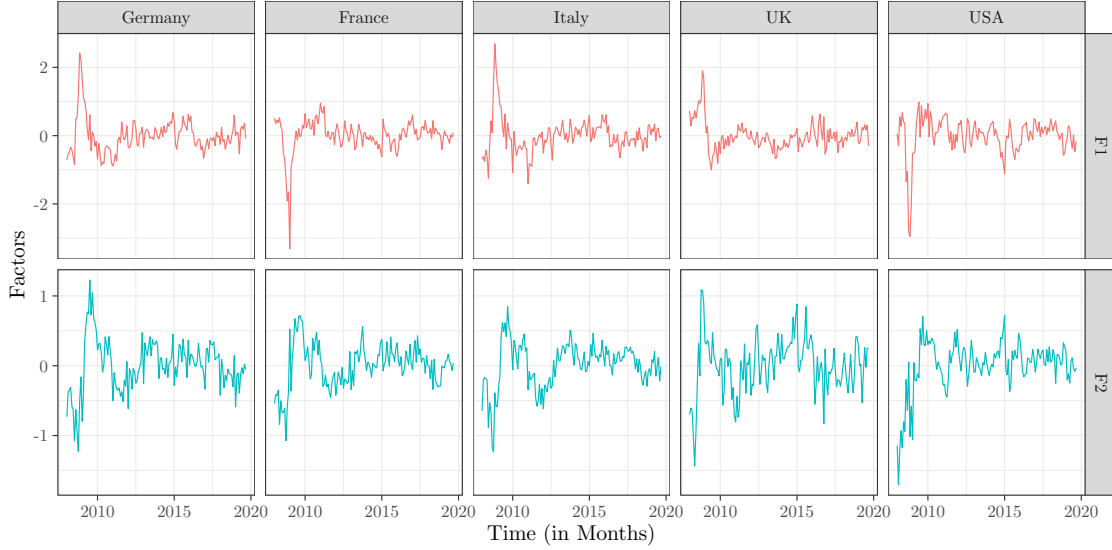


Figure 3: **Estimated latent factors.** The factors with the highest explanatory power, factor 1 (in red) and factor 2 (in blue), are depicted for each country.

258 crisis that started in 2008, which indicates that they enlarge the information set by adding the
 259 impact of the financial crisis.

260 We present the factor loadings for Germany (Panel a) and the U.K. (Panel b) in Figure 4 to show
 261 what the latent factors might represent. The higher the absolute value of the factor loading, the
 262 higher the correlation between the time series and the respective factor. For both countries one
 263 factor seems to load mainly on different producer price indicators and the other on exchange rates,
 264 the unemployment level, exports, industrial production, and expectations. This means that one
 265 factor mostly represents real changes in the economy while the other mostly represents changes in
 266 prices. The factor loadings for the other countries are similar to the German example and can be
 267 found in the Online Appendix (Figure D.16).

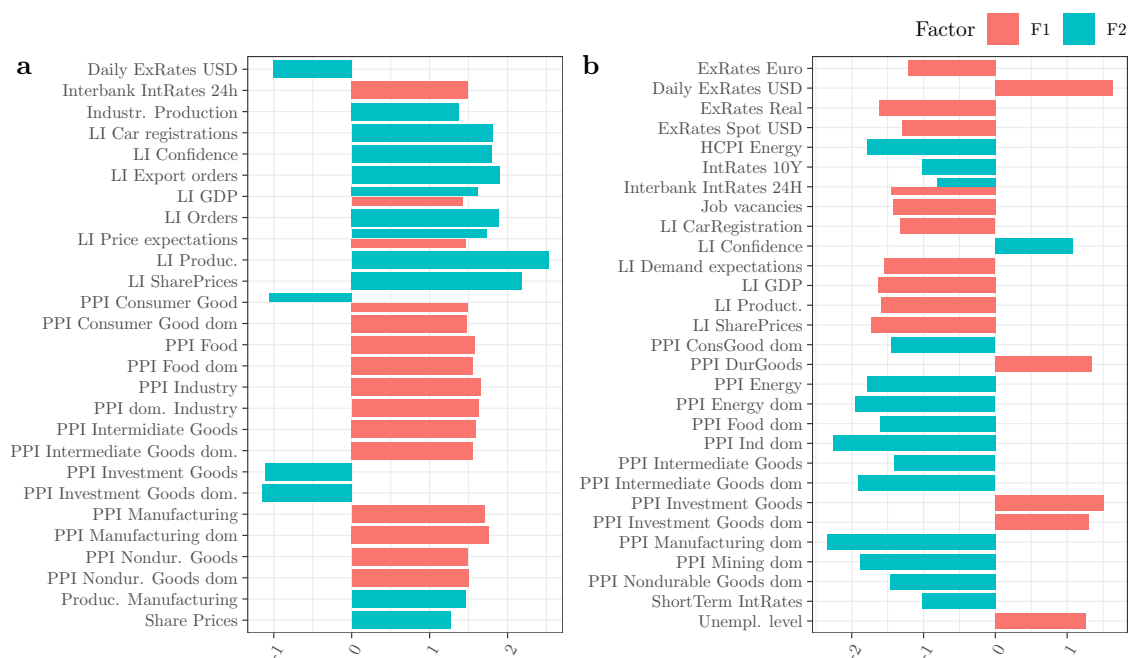


Figure 4: **Example factor loadings.** The 15 highest factor loadings for the first two factors for (a) Germany and the (b) U.K.. “ExRates” stands for exchange rates, “IntRates” for interest rates, “LI” for leading indicator, “PPI” for producer price index and “HCPI” for harmonized consumer price index.

268 3.3. Identifying energy efficiency shocks

269 We estimate a S-FAVAR model with energy use, GDP, the price of energy, and the two factors
 270 estimated in the previous stage. As described in the methods section, we identify the energy
 271 efficiency shock by using the criterion that this shock should have the largest contemporaneous
 272 effect on energy use. As our focus is on estimating the economy-wide rebound effect, identification
 273 of the energy efficiency shock is sufficient. The shocks associated with GDP and the price of energy,
 274 as well as the overall economic plausibility of the estimated S-FAVAR model, are discussed in Online
 275 Appendix C.

276 The identified energy efficiency shocks are presented in Table 2. For all countries, the energy
 277 efficiency shock has a large contemporaneous effect on energy use compared to its effects on GDP
 278 and the price of energy, except for the U.S. where its effect on energy use is similar in magnitude to
 279 its effect on the price of energy. The effect of this shock on energy use is negative by construction and
 280 in all countries the confidence intervals do not overlap zero. By contrast, the confidence intervals of

Table 2: Contemporaneous effects of the energy efficiency shock

| | Germany | France | Italy | U.K. | U.S. |
|-------|------------------------|-------------------------|-------------------------|-------------------------|------------------------|
| e_t | -3.41 (-3.7, -1.32) | -5.25 (-6.05, -1.85) | -4.53 (-4.61, -3.51) | -4.02 (-4.51, -1.46) | -1.8 (-2.01, -0.68) |
| y_t | 0.03 (-0.16, 0.14) | -0.17 (-0.23, -0.02) | -0.03 (-0.13, 0.08) | 0.03 (-0.11, 0.11) | -0.01 (-0.22, 0.17) |
| p_t | 1.47 (-0.92, 3.4) | 3.88 (-0.48, 5.88) | -1.28 (-3.08, 2.04) | -0.23 (-3.43, 3.58) | 1.76 (-0.91, 3.43) |

Notes: Contemporaneous effects of the energy efficiency shock on energy use (e_t), GDP (y_t) and the price of energy (p_t) for the five countries. 95% confidence intervals in parentheses using a wild bootstrap.

281 the contemporaneous effects of the energy efficiency shock on GDP and the price of energy always
 282 overlap zero, except for the effect on GDP in France where zero is marginally excluded.

283 We corroborate the identification of the energy efficiency shock by inspecting the forecast error
 284 variance decompositions (FEVD) shown in Figure 5 (Uhlig, 2005; Netšunajev and Glass, 2017).
 285 FEVDs are a measure of the impacts of the shocks on each of the modeled variables. FEVDs show
 286 how much of the variance of the forecasting error of each variable (the prediction mean squared
 287 error of the model variables) at different time horizons is accounted for by the different shocks. If a
 288 shock accounts for most of the forecast error variance of a specific variable x , at most time horizons,
 289 this provides good evidence that the shock should be labeled as the x -shock.

290 The panels show for each country the percentage of the forecast error variance of energy use ex-
 291 plained by the different shocks in the months following a shock of each type. If the forecast error
 292 variance of energy use can be largely explained by the shock that we identified as the energy ef-
 293 ficiency shock, then this would be a strong sign that the identification is correct. For all forecast
 294 horizons in Germany, for example, about 75% of the forecast error variance of energy use is ex-
 295 plained by the shock that we identified as the energy efficiency shock (top left plot in Figure 5).
 296 For all countries and at all time steps considered, the forecast error variance of energy use is mostly
 297 explained by the identified energy efficiency shocks.

298 The FEVDs for the other variables, shown in Figure B.9 of the Online Appendix, and the discussion
 299 of the economic plausibility of the estimated impulse response functions (provided in Appendix C)

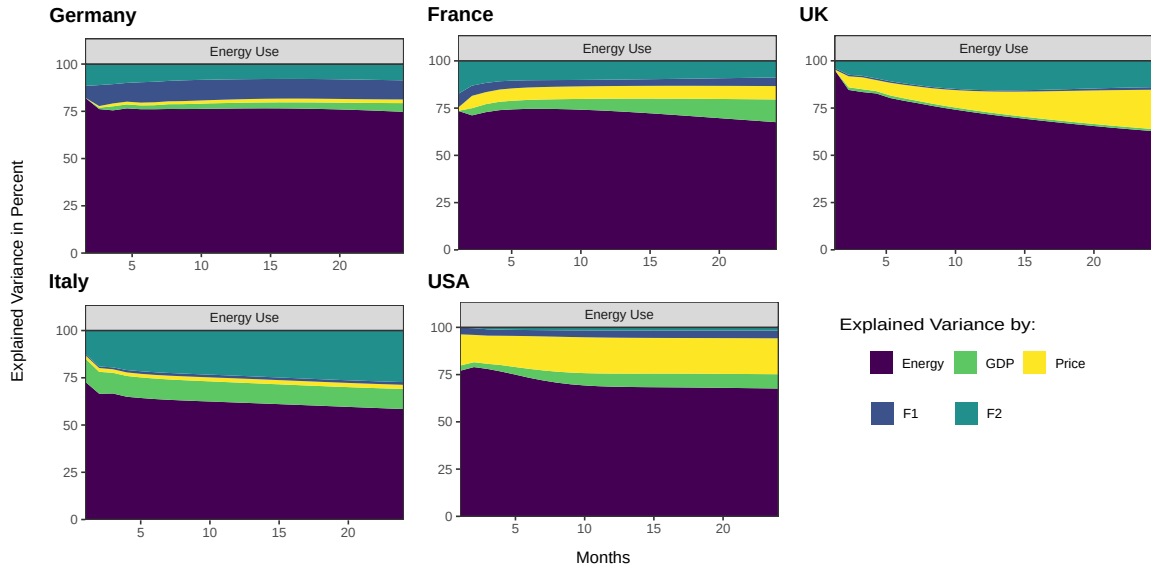


Figure 5: **Forecast error variance decomposition for energy use.** The decomposition shows the percentage (y axis) of the i -months (x axis) ahead forecast error variance which is explained by the five different shocks (indicated by the five different colours).

300 further strengthen our identification of the energy efficiency shock.

301 3.4. Economy-wide rebound effect

302 In Figure 6 (left panel) the impulse response functions of energy use for an energy-efficiency shock
 303 show the same tendency for all countries: after an immediate reduction in energy use due to
 304 increased efficiency, energy use rebounds towards the original level of consumption. The impulse-
 305 response curves of the U.S. and France seem to rebound faster than the other countries. However,
 306 the differences are subtle and the confidence intervals are overlapping. Figure 6 (right panel) shows
 307 that after 24 months the estimated rebound effect ranges between 78% and 101% for all countries
 308 with all confidence intervals overlapping 100%.

309 In general, estimates for the rebound effects tend to be consistent across countries and identification
 310 methods (compare Table D.6 in the Online Appendix).

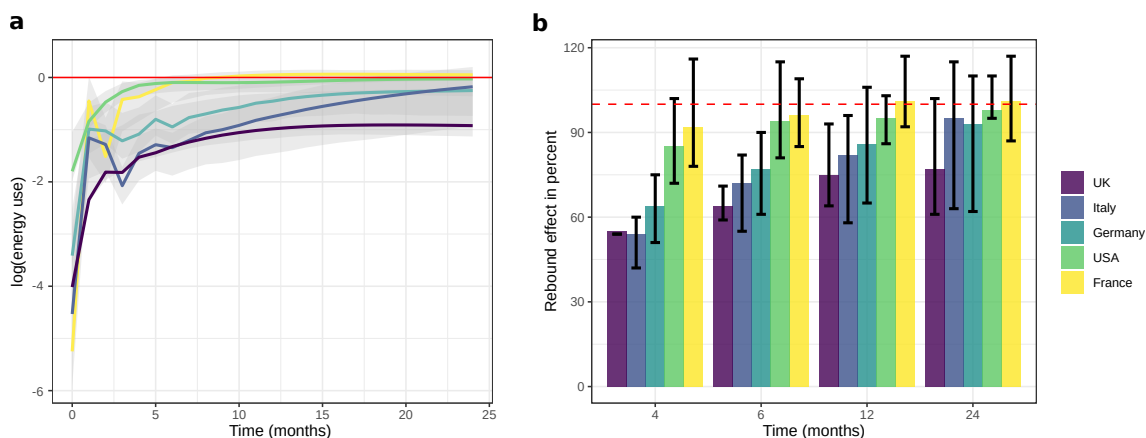


Figure 6: **Impulse response functions of energy use for an energy efficiency shock (a) and estimated rebound effects (b)**. Shaded areas represent 90% confidence intervals in the left panel. Error bars represent 90% confidence intervals in the right panel. Confidence intervals based on wild bootstrapping.

311 4. Discussion and Conclusions

312 We used a Structural Factor Augmented Vector Autoregressive (S-FAVAR) model to quantify the
 313 economy-wide effect of energy efficiency improvements on energy use. Our methodology improves
 314 on past research by being able to separate the effect of energy efficiency improvements on energy
 315 use from other factors that might influence energy use, such as economic growth, changes in the
 316 price of energy, and a multitude of other potentially confounding factors by incorporating a large
 317 number of economic time series into the analysis. Our approach also allows GDP and the price of
 318 energy to evolve in response to the energy efficiency impulse and, in turn, energy use to respond
 319 again to the evolution of GDP and the price of energy.

320 Our analysis extends in two main ways the work of Bruns et al. (2021) who use U.S. data to provide
 321 the first SVAR-based quantification of the economy-wide rebound effect. First, we augment the
 322 SVAR with factors obtained from a rich panel of time series to address the potentially large number
 323 of confounders. Addressing potential omitted-variable biases is crucial to improving and ensuring
 324 the reliability of the estimated economy-wide rebound effect. At the same time, augmenting the
 325 model with factors from a rich macroeconomic data set improves the information contained in the
 326 model and better reflects that available to economic agents in the real world. In this manner, it
 327 is less likely, in comparison with a small scale econometric model (e.g. SVAR), that the identified
 328 energy efficiency shocks are events that can be systematically anticipated by economic agents, which

329 would bias the estimate of the economy-wide rebound effect. Rather, the shocks can be interpreted
330 as genuine innovations, whose rebound effect can be reliably estimated. Second, we apply the
331 improved estimation approach to both the U.S. and a set of European countries (France, Italy,
332 Germany and U.K.) to explore how similar the economy-wide rebound effect is across large, high
333 income countries.

334 We find that the economy-wide rebound effect is close to 100% across our sample of countries,
335 supporting the findings of Bruns et al. (2021). This implies that energy efficiency improvements
336 that save energy due to the adoption of more efficient cost-reducing technology will have limited
337 long-run impact on aggregate energy consumption.

338 Our analysis identifies exogenous changes in energy use as changes in energy efficiency, as they
339 can be neither explained by the core variables nor by the additional factors. We interpret these
340 exogenous changes to largely represent cost-reducing improvements in energy efficiency. It should
341 be emphasized that Fullerton and Ta (2020) show in a theoretical model that energy efficiency
342 mandates that raise the cost of energy services can have a negative rebound effect resulting in more
343 energy being saved than mandated. On the other hand, they find that cost-reducing innovations
344 in the face of binding energy efficiency mandates are expected to have an especially large rebound
345 effect.

346 We conclude by emphasizing that even though cost-reducing energy efficiency innovations might
347 enhance welfare, by providing more energy services to consumers and producers for a given cost,
348 the magnitude of the estimated rebound-effect means that they will not significantly reduce energy
349 use in the long run. However, a tightening cap on carbon emissions or equivalent carbon tax policy
350 would reduce fossil fuel use regardless of the rebound effect. In fact, improving energy efficiency
351 would help reduce the welfare cost of such a policy.

352 **Supplementary material**

353 The supplementary material contains the Online Appendix as well as data and code to reproduce
354 all findings reported in this article.

355 **References**

- 356 Adetutu, M. O., Glass, A. J., and Weyman-Jones, T. G. (2016). Economy-wide estimates of rebound
357 effects: Evidence from panel data. *The Energy Journal*, 37(3).
- 358 Alessi, L., Barigozzi, M., and Capasso, M. (2011). Non-fundamentalness in structural econometric
359 models: A review. *International Statistical Review*, 79(1):16–47.
- 360 Bai, J. and Ng, S. (2013). Principal components estimation and identification of static factors.
361 *Journal of Econometrics*, 176(1):18–29.
- 362 Bernanke, B. S., Boivin, J., and Eliasch, P. (2005). Measuring the effects of monetary policy: A
363 factor-augmented vector autoregressive (FAVAR) approach. *Quarterly Journal of Economics*,
364 120(1):387–422.
- 365 Bernanke, B. S., Gertler, M., Watson, M., Sims, C. A., and Friedman, B. M. (1997). Systematic
366 monetary policy and the effects of oil price shocks. *Brookings papers on economic activity*,
367 1997(1):91–157.
- 368 Bruns, S. B., Moneta, A., and Stern, D. I. (2021). Estimating the economy-wide rebound effect
369 using empirically identified structural vector autoregressions. *Energy Economics*, page 105158.
- 370 Chow, G. C. and Lin, A.-l. (1971). Best linear unbiased interpolation, distribution, and extrapola-
371 tion of time series by related series. *The review of Economics and Statistics*, pages 372–375.
- 372 Colmenares, G., Löschel, A., and Madlener, R. (2019). The Rebound Effect and its Representation
373 in Energy and Climate Models. *SSRN Electronic Journal*, (16).
- 374 Comon, P. (1994). Independent component analysis, a new concept? *Signal processing*, 36(3):287–
375 314.
- 376 European Commission (2019). The European Green Deal. Technical Report 9, Brussels.
- 377 Favero, C. A., Marcellino, M., and Neglia, F. (2005). Principal components at work: The empirical
378 analysis of monetary policy with large data sets. *Journal of Applied Econometrics*, 20(5):603–620.
- 379 Fernandez, R. B. (1981). A methodological note on the estimation of time series. *The Review of*
380 *Economics and Statistics*, 63(3):471–476.

- 381 Fullerton, D. and Ta, C. L. (2020). Costs of energy efficiency mandates can reverse the sign of
382 rebound. *Journal of public economics*, 188:104225.
- 383 Gillingham, K., Rapson, D., and Wagner, G. (2016). The Rebound Effect and Energy Efficiency
384 Policy. *Review of Environmental Economics and Policy*, 10(1):68–88.
- 385 Gouriéroux, C., Monfort, A., and Renne, J.-P. (2017). Statistical inference for independent compo-
386 nent analysis: Application to structural VAR models. *Journal of Econometrics*, 196(1):111–126.
- 387 Herwartz, H. (2018). Hodges–Lehmann detection of structural shocks—an analysis of macroeconomic
388 dynamics in the euro area. *Oxford Bulletin of Economics and Statistics*, 80(4):736–754.
- 389 Hwang, H.-s. (2009). Two-step estimation of a factor model in the presence of observable factors.
390 *Economics Letters*, 105(3):247–249.
- 391 Hyvärinen, A. and Oja, E. (2000). Independent component analysis: algorithms and applications.
392 *Neural Networks*, 13(4-5):411–430.
- 393 IEA (2016). World Energy Outlook 2016. Technical report, IEA, Paris.
- 394 IPCC (2019). Summary for Policymakers. In P.R. Shukla, J. Skea, E. Calvo Buendia, V. Masson-
395 Delmotte, H.- O. Pörtner, D. C. Roberts, P. Zhai, R. Slade, S. Connors, R. van Diemen, M. Ferrat,
396 E. Haughey, S. Luz, S. Neogi, M. Pathak, J. Petzold, J. Portugal Pereira, P. Vyas, E. Huntley,
397 K. Kissick, J. M., editor, *Climate Change and Land: an IPCC special report on climate change,*
398 *desertification, land degradation, sustainable land management, food security, and greenhouse gas*
399 *fluxes in terrestrial ecosystems*.
- 400 Issler, J. V. and Notini, H. H. (2016). Estimating brazilian monthly gdp: A state-space approach.
401 *Revista Brasileira de Economia*, 70(1):41–59.
- 402 Kilian, L. and Lütkepohl, H. (2017). *Structural vector autoregressive analysis*. Cambridge University
403 Press.
- 404 Koesler, S. (2013). Catching the rebound : economy-wide implications of an efficiency shock in the
405 provision of transport services by households. *ZEW discussion papers*.
- 406 Lange, A., Dalheimer, B., Herwartz, H., and Maxand, S. (2019). svars: An r package for data-driven
407 identification in multivariate time series analysis. *Journal of Statistical Software*.

- 408 Lange, S., Kern, F., Peuckert, J., and Santarius, T. (2020). A multi-level typology: Making sense
409 of the diversity of rebound effects. *Energy Research & Social Science (in review)*.
- 410 Lange, S., Kern, F., Peuckert, J., and Santarius, T. (2021). The Jevons paradox unravelled: A
411 multi-level typology of rebound effects and mechanisms. *Energy Research and Social Science*,
412 74:101982.
- 413 Lanne, M., Meitz, M., and Saikkonen, P. (2017). Identification and estimation of non-Gaussian
414 structural vector autoregressions. *Journal of Econometrics*, 196(2):288–304.
- 415 Lin, B. and Du, K. (2015). Measuring energy rebound effect in the Chinese economy: An economic
416 accounting approach. *Energy Economics*, 50:96–104.
- 417 Lin, B. and Liu, X. (2012). Dilemma between economic development and energy conservation:
418 Energy rebound effect in china. *Energy*, 45(1):867–873.
- 419 Matteson, D. S. and Tsay, R. S. (2011). Dynamic orthogonal components for multivariate time
420 series. *Journal of the American Statistical Association*, 106(496):1450–1463.
- 421 Maxand, S. (2018). Identification of independent structural shocks in the presence of multiple
422 gaussian components. *Econometrics and Statistics*.
- 423 Maxwell, D. and McAndrew, L. (2011). Addressing the Rebound Effect (Final Report No.
424 ENV.G.4/FRA/2008/0112). Technical report, European Commission DG ENV, Ivry-Sur-Seine,
425 France.
- 426 Mitchell, T. D. and Jones, P. D. (2005). An improved method of constructing a database of monthly
427 climate observations and associated high-resolution grids. *International Journal of Climatology:
428 A Journal of the Royal Meteorological Society*, 25(6):693–712.
- 429 Mönch, E. and Uhlig, H. (2005). Towards a monthly business cycle chronology for the euro area.
430 *Journal of Business Cycle Measurement and Analysis*, 2005(1):43–69.
- 431 Moneta, A. and Pallante, G. (2020). Identification of structural var models via independent
432 component analysis: A performance evaluation study. Technical report, LEM Working Paper,
433 Sant’Anna School of Advanced Studies.

- 434 Netšunajev, A. and Glass, K. (2017). Uncertainty and employment dynamics in the euro area and
435 the us. *Journal of Macroeconomics*, 51:48–62.
- 436 Nordhausen, K., Oja, H., Tyler, D. E., and Virta, J. (2017). Asymptotic and bootstrap tests for
437 the dimension of the non-gaussian subspace. *IEEE Signal Processing Letters*, 24(6):887–891.
- 438 Ocasio Cortez, A. (2019). H.Res.109 – 116th Congress (2019–2020): Recognizing the duty of the
439 Federal Government to create a Green New Deal.
- 440 OECD (2012). Energy, OECD Green Growth Studies. Technical report, OECD Publishing.
- 441 OECD (2018). *Main Economic Indicators, Volume 2018 Issue 12*.
- 442 Orea, L., Llorca, M., and Filippini, M. (2015). A new approach to measuring the rebound effect as-
443 sociated to energy efficiency improvements: An application to the US residential energy demand.
444 *Energy Economics*, 49:599–609.
- 445 Rausch, S. and Schwerin, H. (2018). Does higher energy efficiency lower economy-wide energy use?
446 *CER-ETH Working Paper*, 18:299.
- 447 Saunders, H. D. (2008). Fuel conserving (and using) production functions. *Energy Economics*,
448 30(5):2184–2235.
- 449 Shao, S., Huang, T., and Yang, L. (2014). Using latent variable approach to estimate China’s
450 economy-wide energy rebound effect over 1954-2010. *Energy Policy*.
- 451 Sorrell, S. and Dimitropoulos, J. (2008). The rebound effect: Microeconomic definitions, limitations
452 and extensions. *Ecological Economics*, 65(3):636–649.
- 453 Stern, D. I. (2020). How large is the economy-wide rebound effect? *Energy Policy*, 147:111870.
- 454 Stock, J. H. and Watson, M. W. (2016). Dynamic factor models: A brief retrospective. In *Dynamic*
455 *Factor Models*, pages xv–xx. Emerald Group Publishing Limited.
- 456 Turner, K. (2009). Negative rebound and disinvestment effects in response to an improvement in
457 energy efficiency in the UK economy. *Energy Economics*, 31(5):648–666.
- 458 Uhlig, H. (2005). What are the effects of monetary policy on output? results from an agnostic
459 identification procedure. *Journal of Monetary Economics*, 52(2):381–419.

- 460 Yan, Z., Ouyang, X., and Du, K. (2019). Economy-wide estimates of energy rebound effect :
461 Evidence from China ' s provinces. *Energy Economics*, 83:389–401.
- 462 Zhang, J. and Lin Lawell, C.-Y. C. (2017). The macroeconomic rebound effect in China. *Energy*
463 *Economics*, 67:202–212.

464 Online Appendix

| | | | |
|-----|-------------------|--|-----------|
| 465 | Appendix A | Data | 25 |
| 466 | Appendix B | Forecast Error Variance Decomposition | 31 |
| 467 | Appendix C | Economic plausibility of the estimated S-FAVAR models | 33 |
| 468 | Appendix D | Additional Figures and Tables | 41 |
| 469 | | Lag length selection and normality tests | 41 |
| 470 | | Comparison of rebound effect estimate for different identification methods | 41 |
| 471 | | Factor loadings for France, Italy and the U.S. | 44 |
| 472 | | Normality Tests | 44 |

473 **Appendix A. Data**

474 **Energy use:** We measure energy use by gross inland consumption (GIC), which covers the amount
475 of energy that is needed to satisfy the total energy demand of a country. Eurostat provides monthly
476 energy data from January 2008 onwards for crude oil (without natural gas liquids), natural gas,
477 and solid fuels⁶. Unfortunately, data on renewable energy sources is only provided as part of the
478 data on total electricity consumption. Including the data on electricity consumption would lead to
479 double counting, as part of total electricity is generated by fossil fuels. Therefore, we decided to
480 only include fossil fuel energy for the European countries. The series are converted from different
481 energy units to Tonne(s) of oil equivalent (toe) and aggregated for each country.⁷

482 **Energy prices:** To estimate how energy prices evolved we use indices on harmonized consumer
483 prices (HICP) which measure the changes over time in the prices of consumer goods and services
484 acquired by households. The indices are available for the three different energy carriers (solid,
485 liquid, and gaseous fuels) via Eurostat. To obtain an energy price series we multiply the index
486 with the quarterly end-use energy prices for the industry. To compute the mean cost of the energy
487 carriers in our data we multiply the price series for the different energy carriers with the respective
488 gross inland consumption. Finally, we divide the cost series by the total gross inland consumption.
489 Figure 2 presents the data series for the three main variables. Note that the data for energy con-
490 sumption in the U.S. also includes energy from renewables, biomass, and nuclear power generation,
491 which are not included in the European data.

⁶Including data on hard, coke oven and brown coal, peat, oil shale, and oil sands, patent fuels and brown coal briquettes.

⁷For the conversion we used the values from the IEA energy unit converter: <https://www.iea.org/classicstats/resources/unitconverter/>

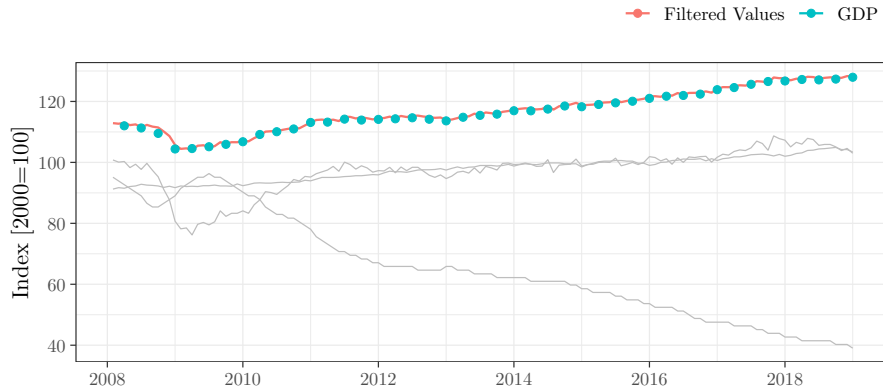


Figure A.7: **Comparison between the interpolated series (red) and the quarterly GDP data (blue) for Germany.** The grey lines in the background depict the evolution of the instrumental series (industrial production, the unemployment rate, and retail trade)

492 **Monthly Economic Indicators:** We assume that the factors can be extracted from a large matrix
 493 of time series describing the economy. For this purpose, we use the Main Economic Indicator (MEI)
 494 database which is developed and maintained by the OECD. This data set presents comparative
 495 statistics that provide an overview of recent international economic developments for the European
 496 countries we analyzed, covering information on the labor market, national accounts, retail sales,
 497 production, construction, prices, finance, international trade, and the balance of payments (OECD,
 498 2018). The latent factors are intended to summarize the main source of variation in the data panel
 499 and hence can be interpreted as common driving forces behind different variables of the economy.

500 Stationarity of the time series in the panel is a precondition for the factor model (Stock and
 501 Watson, 2016). To this end, each series of the panel is tested for non-stationarity with the help
 502 of an Augmented Dickey Fuller (ADF) test and if the p -value of the test was larger than 0.05, the
 503 series is differenced. Then, the time series are tested again and if a time series is still non-stationary,
 504 this time series is again differenced. We end up with data sets of the following dimensions for the
 505 different countries: Germany (141×56), France (141×53), Italy (141×48), U.K. (141×46) and
 506 USA (141×41).

507 **Gross Domestic Production:** GDP data is not available on a monthly basis for European
 508 countries, therefore we construct monthly series of real GDP based on the encompassing methods
 509 proposed by Mönch and Uhlig (2005) and Bernanke et al. (1997). We create a monthly time series

510 for economic activity by combining the available quarterly GDP series and appropriate histori-
 511 cal monthly time series. Our approximated GDP series relies on indices capturing employment
 512 information, retail trade, and industrial production as instrumental variables.

513 Although the construction of the monthly GDP series is described in detail in Mönch and Uhlig
 514 (2005) and Bernanke et al. (1997), we shall briefly outline the main steps here. We assume that
 515 the latent monthly GDP can be explained by correlated high-frequency series using the following
 516 dynamic regression framework:

$$(1 - \phi_1 L - \dots - \phi_p L^p) y_t = x_t \beta + u_t \tag{A.1}$$

$$u_t = \rho u_{t-1} + \varepsilon_t, \quad \varepsilon_t \sim N(0, \sigma^2) \tag{A.2}$$

517 where y_t is the series to be interpolated, i.e. unobserved monthly GDP, and x_t are exogenous co-
 518 variates that exhibit a high correlation with y_t . The monthly GDP series as well as the regression
 519 residuals u_t are assumed to follow an AR-process of lag order p (We use $p = 1$ for simplicity).

520

Furthermore, the mean of three consecutive monthly GDP values shall equal exactly one third of
 the observed quarterly GDP value and y_t equals zero for the months that information on GDP is
 missing. Hence, y_t and y_t^+ are connected by the following measurement equation:

$$y_t^+ = \frac{1}{3} \sum_{i=0}^2 y_{t-i}, \quad t = 3, 6, 9, \dots \tag{A.3}$$

$$y_t^+ = 0 \quad \text{otherwise} \tag{A.4}$$

The relationships between the observable and the latent series can be encompassed in the following

state-space form:

$$y^+ = \mathbf{H}'_t \xi_t \tag{A.5}$$

$$\xi_t = \begin{pmatrix} \phi & 0 & 0 & \rho \\ 1 & 0 & 0 & 0 \\ 0 & 1 & 0 & 0 \\ 0 & 0 & 0 & \rho \end{pmatrix} \begin{pmatrix} y_{t-1} \\ y_{t-2} \\ y_{t-3} \\ u_{t-1} \end{pmatrix} + \begin{pmatrix} x'_t \beta \\ 0 \\ 0 \\ 0 \end{pmatrix} + \begin{pmatrix} \varepsilon_t \\ 0 \\ 0 \\ \varepsilon_t \end{pmatrix} \tag{A.6}$$

521 where the matrix H_t varies as specified:

$$\mathbf{H}'_t = \begin{cases} \begin{bmatrix} 1/3 & 1/3 & 1/3 & 0 \end{bmatrix}, & t = 3, 6, 9, 12, \dots, T \\ \begin{bmatrix} 0 & 0 & 0 & 0 \end{bmatrix}, & \text{otherwise} \end{cases} \tag{A.7}$$

522 According to Issler and Notini (2016) this form of interpolation offers two considerable advantages:
 523 first, the form is especially appealing because it is able to incorporate different model specifications
 524 used for interpolation in a unified framework. More precisely, depending on the restrictions on the
 525 parameters ϕ and ρ several models can be estimated amongst them the specifications of Chow and
 526 Lin (1971), Fernandez (1981), and Mitchell and Jones (2005). Second, we ensure that the aggregate
 527 of each three-months of interpolated GDP data is equal to measured quarterly GDP.

528

529 Following Mönch and Uhlig (2005) we treat the monthly GDP values as latent states which are
 530 estimated using the Kalman filter. We estimate the parameters ϕ , ρ and the variance of u_t via
 531 Maximum Likelihood.

532 The choice of the related series, x_t , is crucial for the results of the interpolation procedure as
 533 they provide the signals extracted for the monthly estimates. The series do not only have to be
 534 available on a monthly frequency but also be highly correlated with the quarterly GDP series.
 535 Monthly data is in general quite scarce for European countries. Natural candidates for this kind of
 536 business cycle analysis, and also the series used by Mönch and Uhlig (2005) and Issler and Notini
 537 (2016) are industrial production, retail sales, income, exports, and employment. We decided on the
 538 combination of instrumental variables conditional on data availability as well as on the measures of
 539 fit in first differences for the filtered and smoothed GDP estimates (see Table A.3). The latter is

| Country | Related Series | $R^2_{filtered}$ | $R^2_{smoothed}$ |
|---------|----------------|------------------|------------------|
| Italy | IP, Emp, Ret | 0.29 | 0.65 |
| UK | IP, Emp, Ret | 0.62 | 0.88 |
| France | IP, Emp, Ret | 0.73 | 0.92 |
| Germany | IP, Emp, Ret | 0.59 | 0.87 |

Table A.3: Related series used for interpolation (IP=Industrial Production, Emp=Employment, Ret=Retail sales, CPI=Consumer Price Index) and the R^2 goodness of fit statistics as measures of interpolation quality

540 calculated using the following R^2 :

$$R^2_{diffs} = \frac{\text{Var}(\Delta y_{iT})}{\text{Var}(\Delta y_{iT}) + \text{Var}(\Delta u_{iT})} \quad (\text{A.8})$$

541 The results in Table A.3 as well as the visual inspection of the plots in A.8 indicate that the
542 interpolation is reasonably accurate. The smoothed estimates of the interpolated GDP serve as our
543 GDP sequence.

544 Additionally, we estimated a GDP series that is approximated by IP only and used it as a robustness
545 check in the analysis. The results did not differ significantly.

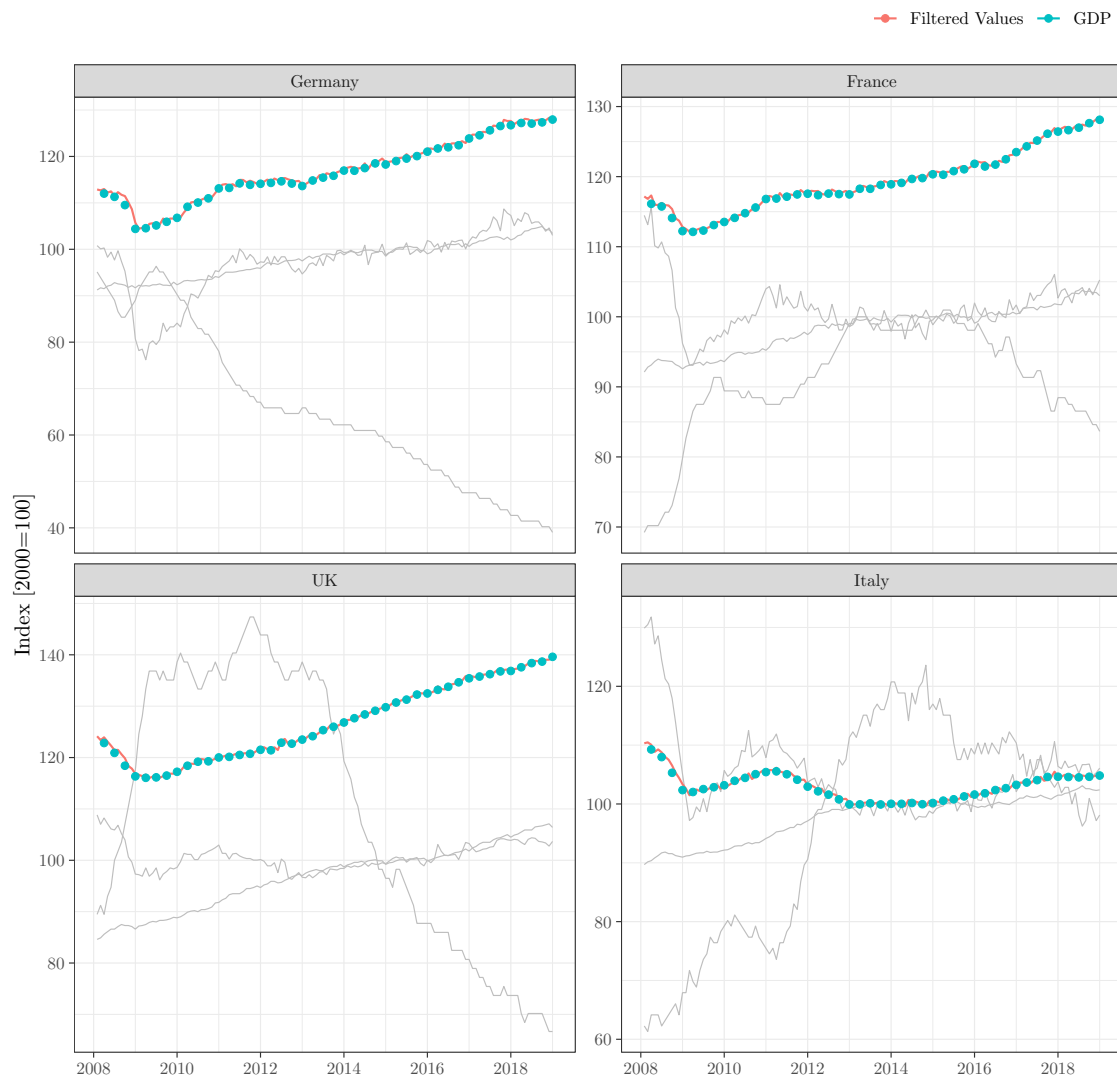


Figure A.8: **Comparison between the interpolated series (red) and the quarterly GDP data (blue) for European countries.** The grey lines in the background depict the evolution of the instrumental series industrial production, unemployment, and retail trade indices.

546 **Appendix B. Forecast Error Variance Decomposition**

547 The FEVD are a measure of the impact of an impulse on the modeled variables, and, specifically,
548 on their predicted values, since it studies how much of the variance of the error one makes in fore-
549 casting a variable x_t (in other words, the prediction mean squared error of x_t) at different time
550 horizons, is accounted for by the different impulse shocks. If an impulse accounts for most of the
551 forecast error variance of a specific variable x_t at most of the time horizons, this is a good evidence
552 that the impulse shock should be labeled as shock for x_t .

553

554 While we focus on identifying the energy efficiency impulse (first column of Figure B.9), col-
555 umn two and three also show the FEVD for what we labelled the energy price impulse and the
556 GDP impulse. This holds even if in some countries, e.g. UK, US and France, energy use receives
557 some impact from what we label the energy price impulse, whose percent of its prediction mean
558 squared error range from about 10% to 20%. For most of the countries, it is obvious that labeling
559 the impulse which has the greatest impact on price (on GDP) as the price (GDP) impulse is also
560 correct. However, this is not obvious for Italy, where two impulses impact almost equally on price
561 and GDP. As mentioned, the identification of these two shocks is not relevant for the estimate of
562 the rebound effect.

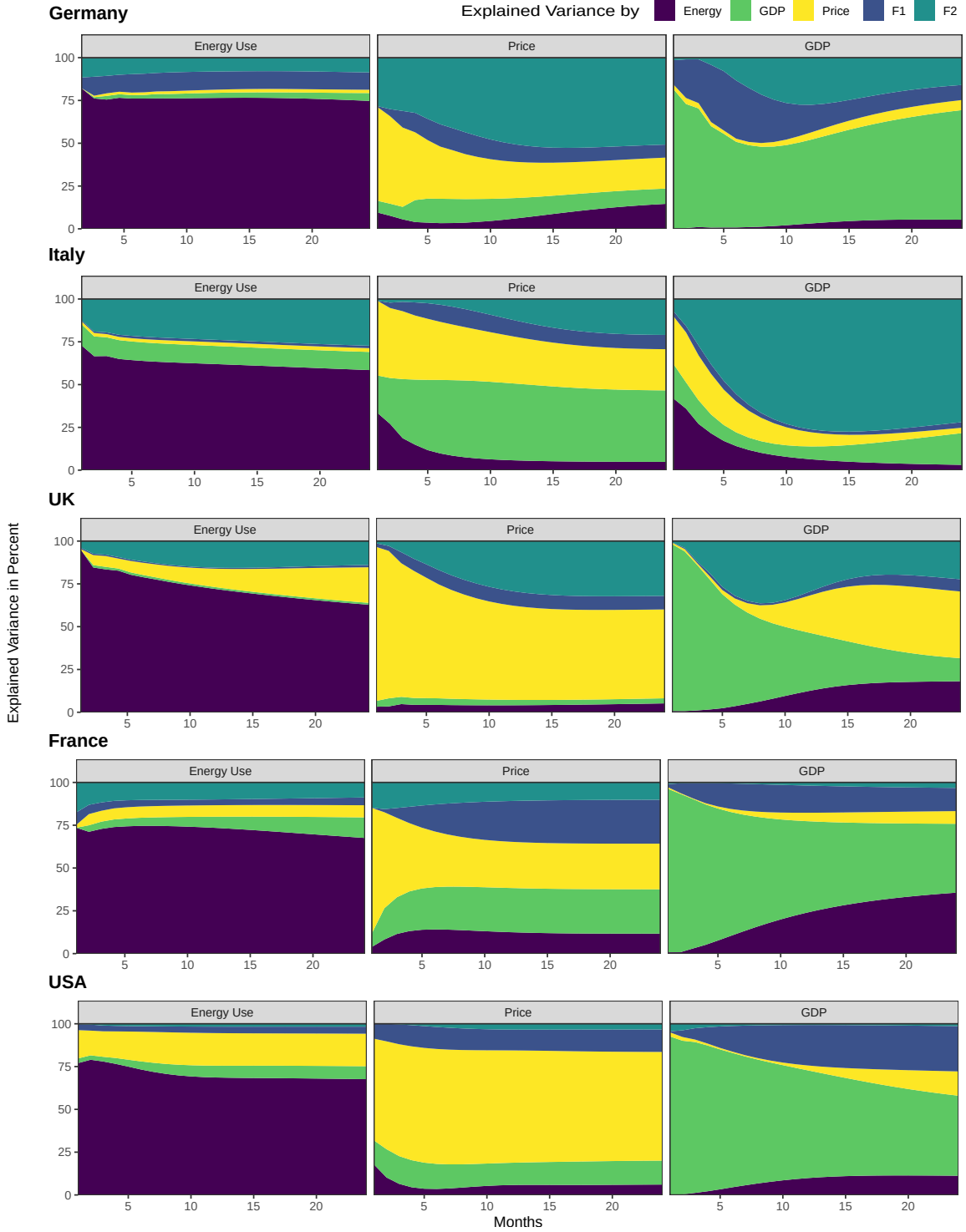


Figure B.9: **Forecast error variance decomposition.** The decomposition, for each variable and country, shows the percent (y axis) of h -months (x axis) ahead forecast error variance (prediction mean squared error) explained by five impulse shocks, which we label as the Energy, GDP, Price, Factor 1, Factor 2 impulses.

563 **Appendix C. Economic plausibility of the estimated S-FAVAR models**

564 We analyse the impulse response functions for the three main variables. We would expect the
565 energy efficiency shock to have a negative contemporaneous effect on energy and a positive or zero
566 effect on GDP in the long run (because TFP increases and consumers have more real income after
567 an efficiency improvement), and a negative effect on the price of energy. Looking at Figure C.10,
568 all countries have the negative effects on energy use, which reduce over time. The UK, Italy, and
569 Germany have a positive impact on GDP and the US the most negative though the confidence
570 interval includes zero. France has a negative mean but a rising trend.⁸

571 We would expect the GDP shock to have a large positive effect on GDP, which we see in all countries.
572 Standard demand theory and cross-country studies suggest that a GDP shock should increase energy
573 use. However, structural change associated with economic growth could lower energy use. This is
574 what we see in all countries apart from the US. If we assume a standard supply and demand setting
575 and assume that growth only moves the demand curve, then if energy use is reduced by the GDP
576 shock it should reduce the price of energy and vice versa. There is a mixed picture with the GDP
577 shock raising the price of energy in the UK (and insignificantly in Italy) despite reducing energy use
578 and increasing the price of energy in the US and lowering it in France and Germany as we would
579 expect.

580 We notice that the GDP shock appears to be permanent in most countries, which is what we would
581 expect for an increase in TFP or population.

582 By contrast, price shocks have temporary positive effects on the price of energy. The price shock
583 mostly has a negative or zero effect on energy use, though in the US the initial effect is large and
584 positive. The expected negative or zero effects on GDP are present except in the UK though the
585 latter is not statistically significant. Speculatively a positive effect could happen in an oil producing
586 country. But we do not see this in the US.

587 In summary, we mostly see the expected theoretical effects though there are notable exceptions.

⁸For the impulse response functions for the individual countries, refer to Figure C.11-C.15

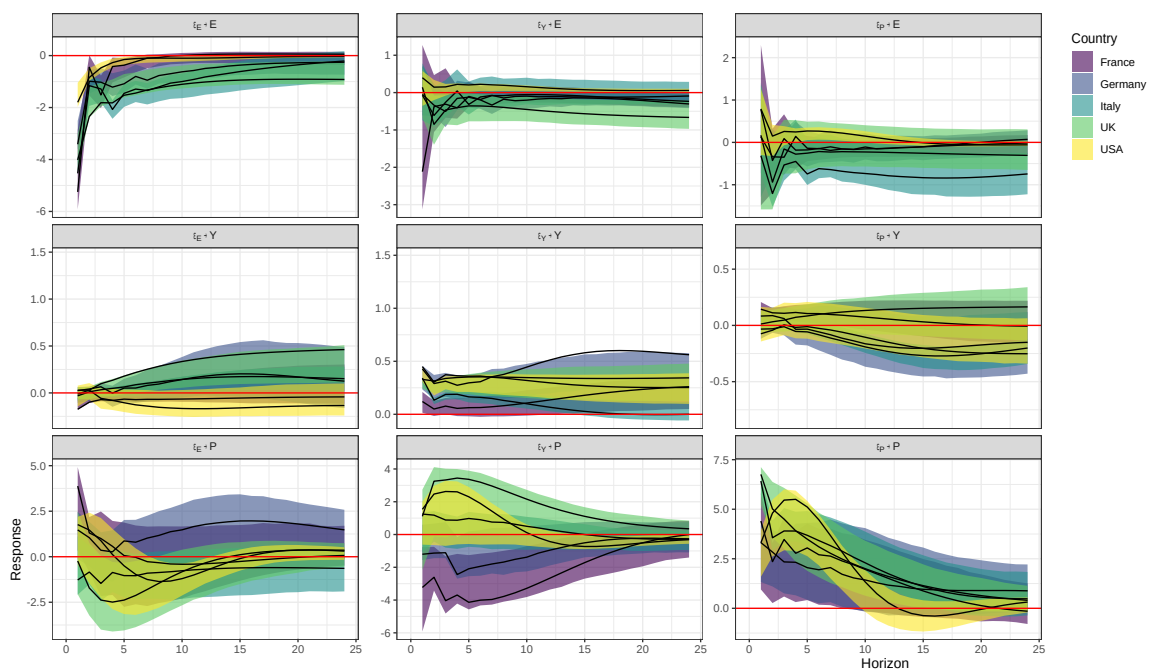


Figure C.10: **Impulse Response Functions based on the distance covariance approach.** The first column shows the effect of the energy efficiency impulse (ε_E) on energy use (E), GDP (Y) and energy price (P). Analogously, the second and third columns show the effects of the GDP (ε_Y) and energy price (ε_P) impulses. The shaded areas indicate 68% confidence intervals.

Table C.4: Contemporaneous reaction of variables to different impulses

| | ϵ_E | ϵ_Y | ϵ_P | ϵ_{F_1} | ϵ_{F_2} |
|-----------------------|-------------------------|------------------------|------------------------|------------------------|------------------------|
| Germany | | | | | |
| e_t | -3.41 (-3.7, -1.32) | -0.05 (-1.04, 1.19) | 0.13 (-1.82, 1.74) | -0.94 (-1.53, 0.96) | -1.27 (-3.12, 0.56) |
| y_t | 0.03 (-0.16, 0.14) | 0.43 (0.14, 0.47) | 0.08 (-0.18, 0.37) | -0.17 (-0.34, 0.09) | -0.06 (-0.3, 0.17) |
| p_t | 1.47 (-0.92, 3.4) | -1.2 (-2.62, 1.08) | 3.32 (0.83, 4.43) | -0.34 (-1.98, 1.23) | 2.46 (-0.67, 4.26) |
| France | | | | | |
| e_t | -5.25 (-6.05, -1.85) | -2.12 (-5.15, 1.91) | 0.78 (-2.43, 4.11) | 0.55 (-1.53, 2.23) | -2.18 (-4.23, 1.29) |
| y_t | -0.17 (-0.23, -0.02) | 0.12 (-0.03, 0.24) | 0.14 (-0.01, 0.23) | 0.04 (-0.09, 0.12) | 0.07 (-0.05, 0.19) |
| p_t | 3.88 (-0.48, 5.88) | -3.23 (-6.43, 0.33) | 4.4 (-0.12, 6.34) | 0.11 (-2.46, 2.85) | 0.66 (-2.21, 2.96) |
| Italy | | | | | |
| e_t | -4.53 (-4.61, -3.51) | -0.07 (-1.37, 1.48) | -0.32 (-1.47, 2.06) | 0.97 (-1.6, 1.87) | -0.41 (-1.52, 1.33) |
| y_t | -0.03 (-0.13, 0.08) | 0.34 (0.27, 0.34) | -0.03 (-0.09, 0.13) | 0.03 (-0.08, 0.13) | 0.01 (-0.08, 0.09) |
| p_t | -1.28 (-3.08, 2.04) | 1.25 (-1.94, 2.27) | 6.42 (4.96, 6.71) | 0.76 (-2.13, 2.37) | -1.04 (-2.16, 1.61) |
| United Kingdom | | | | | |
| e_t | -4.02 (-4.51, -1.46) | 0.14 (-1.3, 1.21) | 0.17 (-2.44, 2.2) | -1.01 (-1.58, 1.22) | 1.91 (-1.19, 3.8) |
| y_t | 0.03 (-0.11, 0.11) | 0.33 (0.21, 0.32) | 0.01 (-0.14, 0.17) | -0.03 (-0.2, 0.08) | 0.03 (-0.13, 0.13) |
| p_t | -0.23 (-3.43, 3.58) | 1.11 (-3.22, 3.63) | 6.76 (3.41, 7.36) | -0.1 (-2.9, 2.06) | -3.19 (-5.46, 1.57) |
| United States | | | | | |
| e_t | -1.8 (-2.01, -0.68) | 0.4 (-0.66, 1.04) | 0.79 (-0.56, 1.76) | -0.38 (-0.86, 0.6) | -0.09 (-0.8, 0.64) |
| y_t | -0.01 (-0.22, 0.17) | 0.45 (0.22, 0.45) | -0.07 (-0.32, 0.22) | 0.04 (-0.15, 0.19) | -0.08 (-0.25, 0.17) |
| p_t | 1.76 (-0.91, 3.43) | 1.54 (-1.09, 3.09) | 3.31 (1.12, 4.1) | 1.27 (-0.96, 3.09) | 0.07 (-2.53, 1.58) |

Notes: Bootstrapped 95% confidence intervals in parentheses.

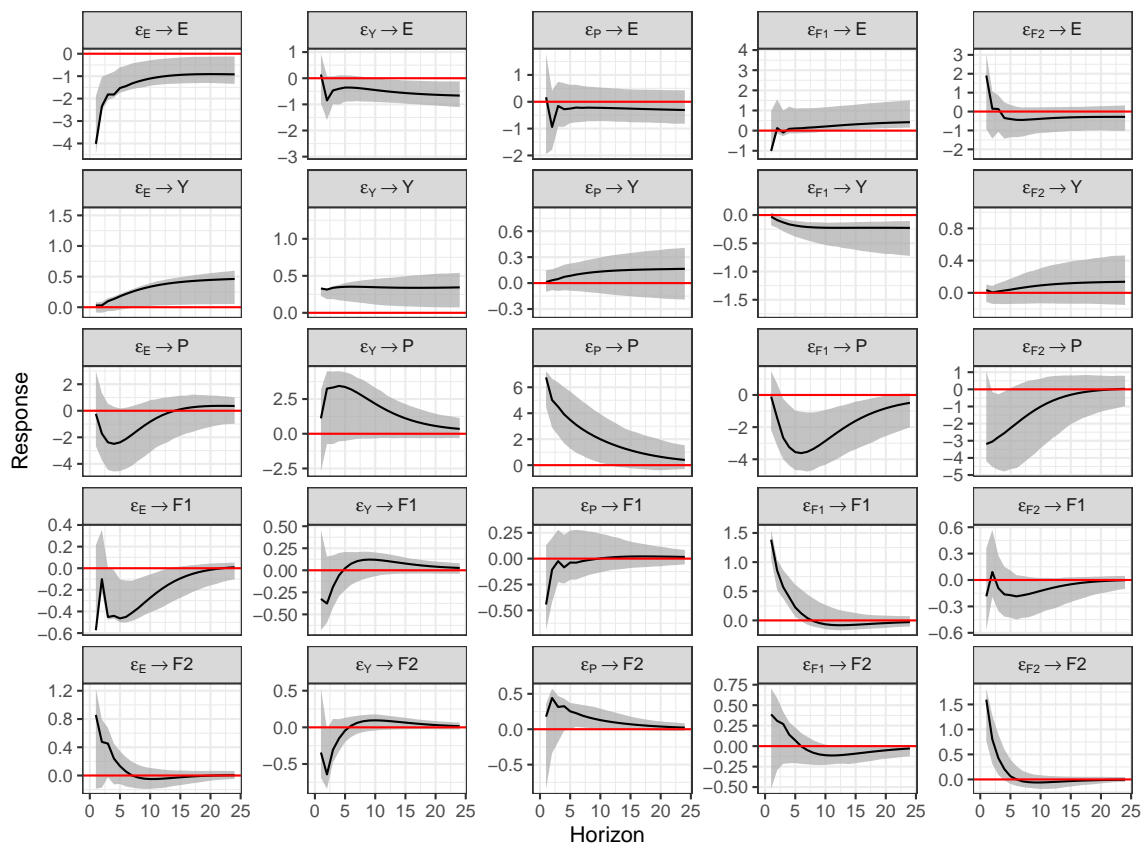


Figure C.11: **Impulse Response Functions for the U.K.**, identified with the distance covariance approach. The grey-shaded areas indicate 68% confidence intervals

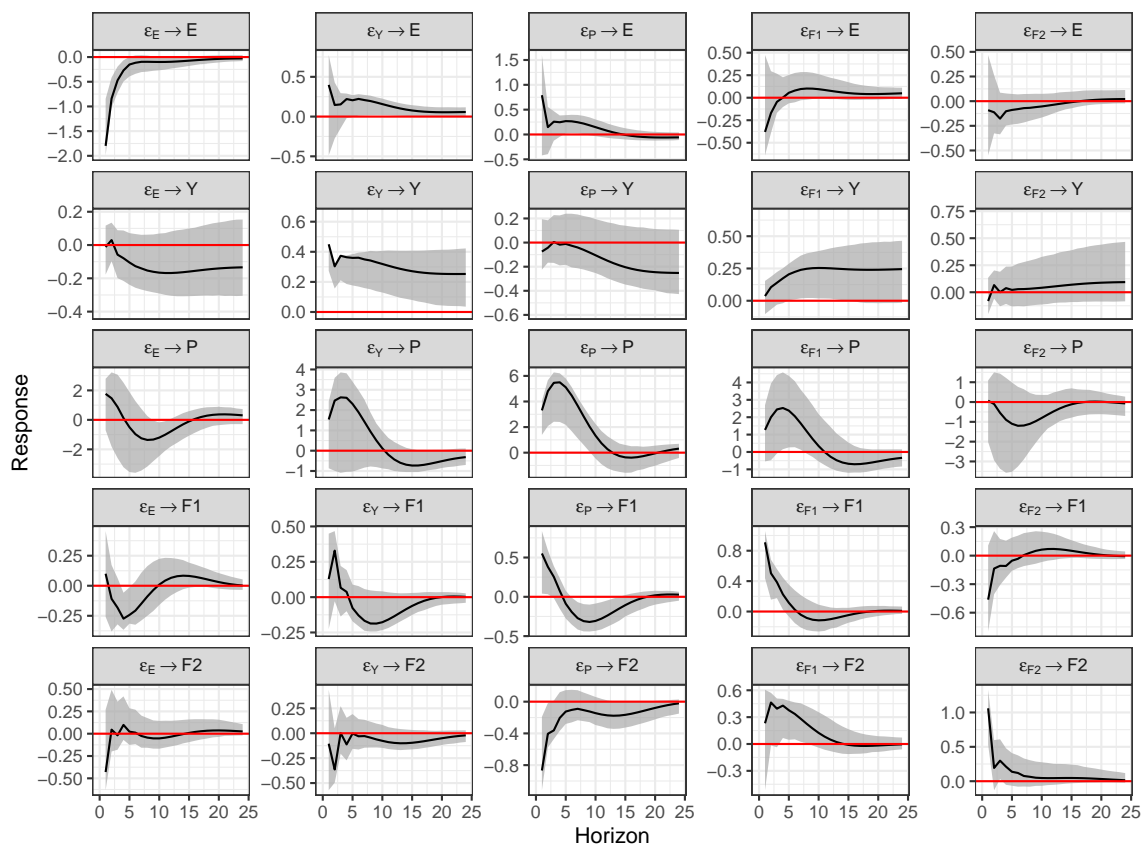


Figure C.12: **Impulse Response Functions for the US**, identified with the distance covariance approach. The grey-shaded areas indicate 68% confidence intervals

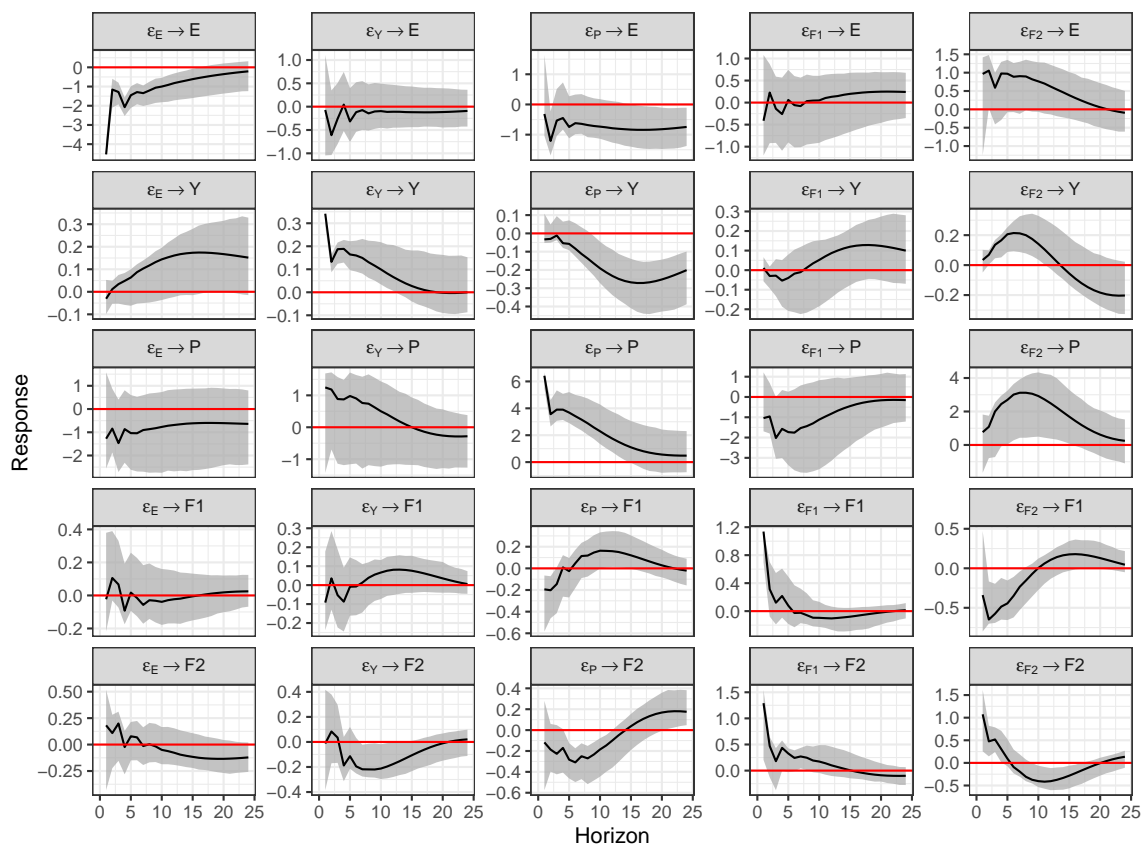


Figure C.13: **Impulse Response Functions for Italy**, identified with the distance covariance approach. The grey-shaded areas indicate 68% confidence intervals

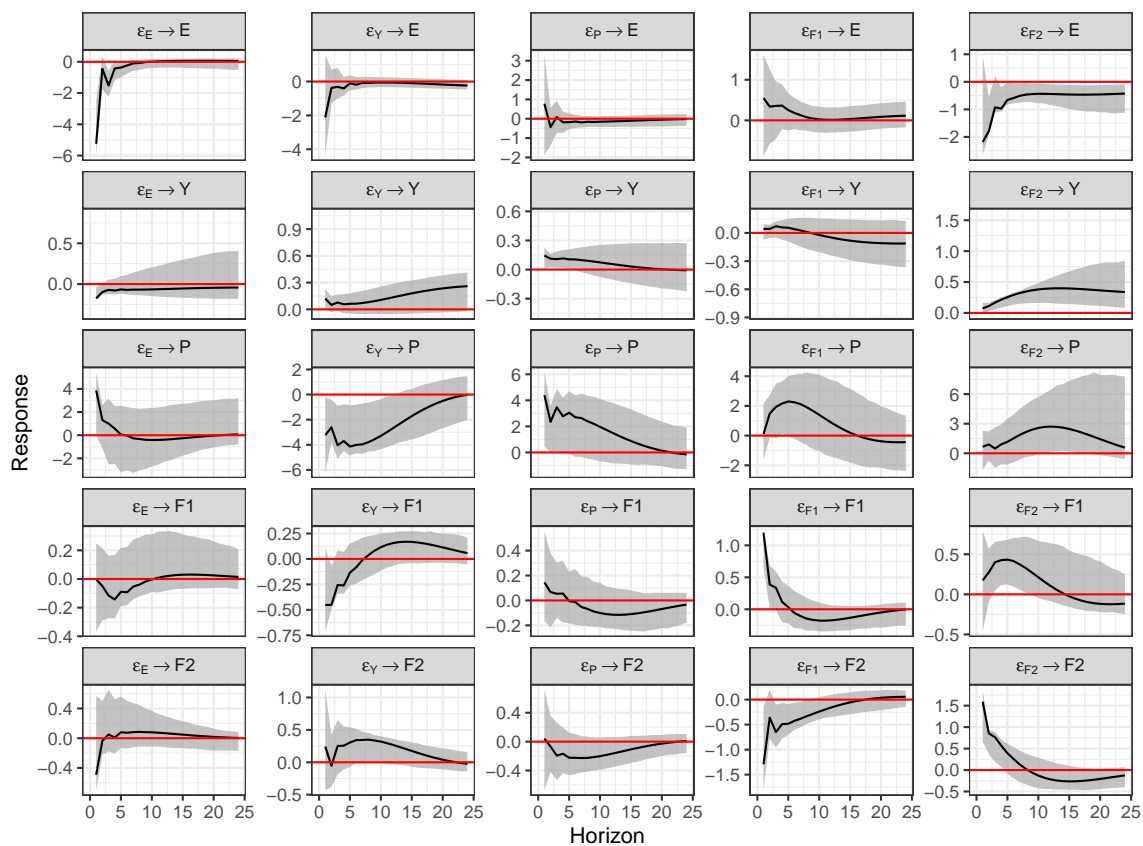


Figure C.14: **Impulse Response Functions for France**, identified with the distance covariance approach. The grey-shaded areas indicate 68% confidence intervals

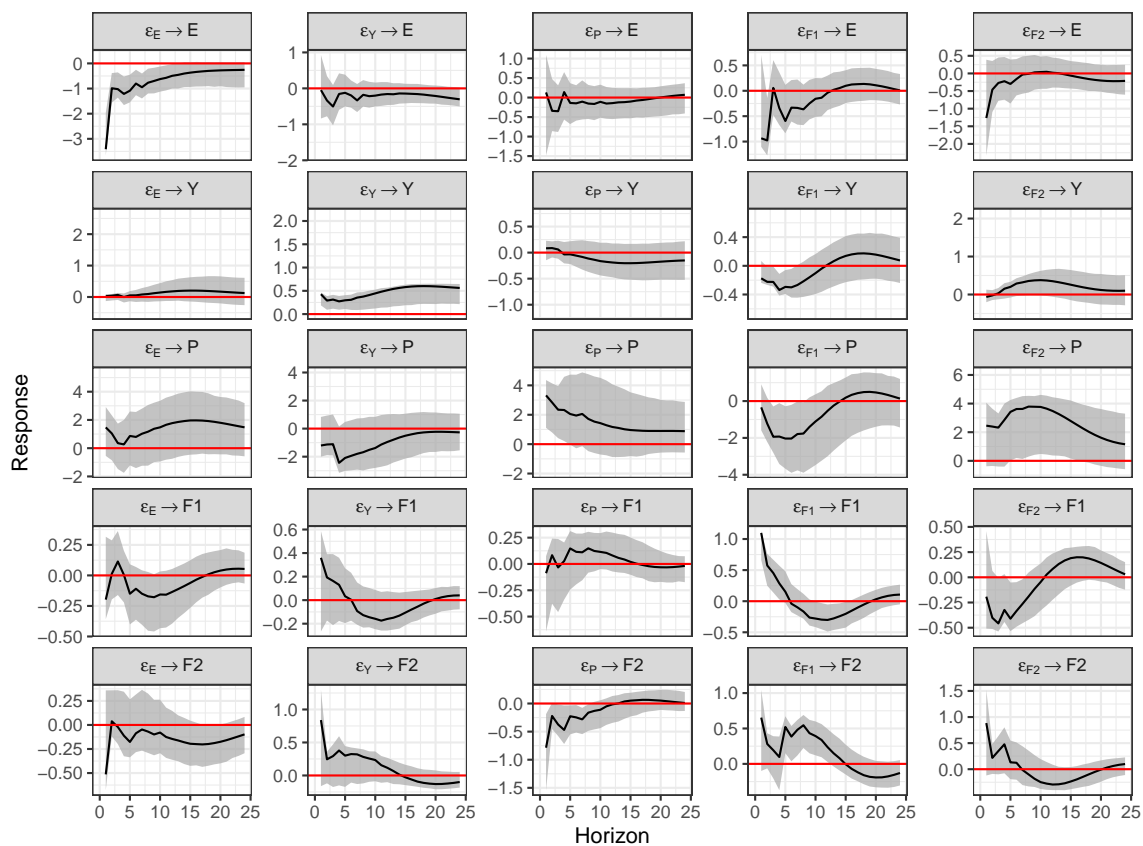


Figure C.15: **Impulse Response Functions for Germany**, identified with the distance covariance approach. The grey-shaded areas indicate 68% confidence intervals

588 **Appendix D. Additional Figures and Tables**

Table D.5: Lag length selection based on the AIC. Comparison of a maximal lag length of 6 and 12.

| | country | lag.max = 6 | lag.max = 12 |
|---|---------|-------------|--------------|
| 1 | Germany | 4 | 4 |
| 2 | France | 2 | 2 |
| 3 | Italy | 3 | 3 |
| 4 | UK | 2 | 2 |
| 5 | USA | 2 | 2 |

Table D.6: Estimated rebound effects for different identification methods

| Country | Months | Distance covariance | Non-gaussian ML | Choleski |
|---------|--------|---------------------|-----------------|----------|
| Germany | 3 | 0.70 | 0.72 | 0.72 |
| | 6 | 0.77 | 0.76 | 0.77 |
| | 12 | 0.86 | 0.87 | 0.88 |
| | 24 | 0.93 | 0.92 | 0.91 |
| France | 3 | 0.71 | 0.69 | 0.71 |
| | 6 | 0.96 | 0.93 | 0.90 |
| | 12 | 1.01 | 0.99 | 0.96 |
| | 24 | 1.01 | 1.00 | 0.94 |
| Italy | 3 | 0.72 | 0.73 | 0.69 |
| | 6 | 0.72 | 0.73 | 0.68 |
| | 12 | 0.82 | 0.86 | 0.79 |
| | 24 | 0.95 | 1.02 | 0.95 |
| UK | 3 | 0.55 | 0.63 | 0.64 |
| | 6 | 0.64 | 0.74 | 0.77 |
| | 12 | 0.75 | 0.84 | 0.85 |
| | 24 | 0.77 | 0.87 | 0.87 |
| USA | 3 | 0.74 | 0.73 | 0.73 |
| | 6 | 0.94 | 0.93 | 0.90 |
| | 12 | 0.95 | 0.95 | 0.95 |
| | 24 | 0.98 | 0.99 | 1.00 |

Notes: Comparison of estimated rebound effects, using the ICA approaches (distance covariance and non-Gaussian Maximum Likelihood) and a classic Choleski decomposition with the causal order: $y \rightarrow e \rightarrow p \rightarrow F_1 \rightarrow F_2$.



Figure D.16: The 15 highest factor loadings considering the first two factors. Notes: “ExRates” stands for exchange rates, “IntRates” for interest rates, “LI” for leading indicator, “PPI” for producer price index and “HCPI” for harmonized consumer price index.

589 We statistically evaluate the number of Gaussian components based on a fourth order blind identifi-
590 cation (FOBI) to the reduced-form model disturbances \hat{u}_t (Nordhausen et al., 2017). This procedure
591 evaluates the residuals under the null hypothesis of $K - k$ non-Gaussian components, where K is
592 the total number of components and k is the number of Gaussian components. Except for Germany,
593 this hypothesis can be rejected for all countries. For all countries, we can not reject the null hy-
594 pothesis, which indicates that all components except for one are non-Gaussian ($k = 4$). For France
595 and the UK the hypothesis of $k = 3$ cannot be rejected, hinting at two Gaussian components and
596 for the US and Italy the hypothesis of $k = 2$ and therefore of three Gaussian components. Last,
597 for Germany all components could be considered Gaussian according to the test results of the IC
598 test. The fact that there is more than one Gaussian component in the model is also reflected by
599 the component-wise tests for the time series (see Table D.7).

Table D.7: Component-wise normality tests for the different time series

| country | Variable | SW | SF | JB | IC Test, k = 1 | k = 2 | k = 3 |
|---------|----------|------|------|------|----------------|-------|--------|
| Germany | E | 0.01 | 0.01 | 0.00 | 0.562 | 0.631 | 0.9165 |
| | Y | 0.69 | 0.56 | 0.91 | - | | |
| | P | 0.26 | 0.32 | 0.50 | - | | |
| | F1 | 0.06 | 0.02 | 0.00 | - | | |
| | F2 | 0.33 | 0.27 | 0.49 | - | | |
| France | E | 0.73 | 0.47 | 0.28 | 0.003 | 0.042 | 0.5642 |
| | Y | 0.33 | 0.24 | 0.19 | - | | |
| | P | 0.80 | 0.77 | 0.93 | - | | |
| | F1 | 0.00 | 0.00 | 0.00 | - | | |
| | F2 | 0.10 | 0.04 | 0.01 | - | | |
| Italy | E | 0.34 | 0.13 | 0.09 | 0.023 | 0.41 | 0.5867 |
| | Y | 0.61 | 0.51 | 0.59 | | | |
| | P | 0.15 | 0.10 | 0.13 | | | |
| | F1 | 0.00 | 0.00 | 0.00 | | | |
| | F2 | 0.27 | 0.17 | 0.46 | | | |
| UK | E | 0.00 | 0.00 | 0.00 | 0.001 | 0.023 | 0.9745 |
| | Y | 0.00 | 0.00 | 0.00 | | | |
| | P | 0.02 | 0.01 | 0.00 | | | |
| | F1 | 0.24 | 0.16 | 0.30 | | | |
| | F2 | 0.09 | 0.06 | 0.26 | | | |
| USA | E | 0.01 | 0.01 | 0.00 | 0.025 | 0.219 | 0.6557 |
| | Y | 0.16 | 0.07 | 0.07 | | | |
| | P | 0.24 | 0.40 | 0.32 | | | |
| | F1 | 0.00 | 0.00 | 0.00 | | | |
| | F2 | 0.21 | 0.10 | 0.10 | | | |

Notes: SW = Shapiro-Wilk, SF = Shapiro-Francia, JB = Jarque-Bera and IC stands for an independence based bootstrapping test, based on fourth-order blind identification tests from the package `ICtest` (Nordhausen et al., 2017).

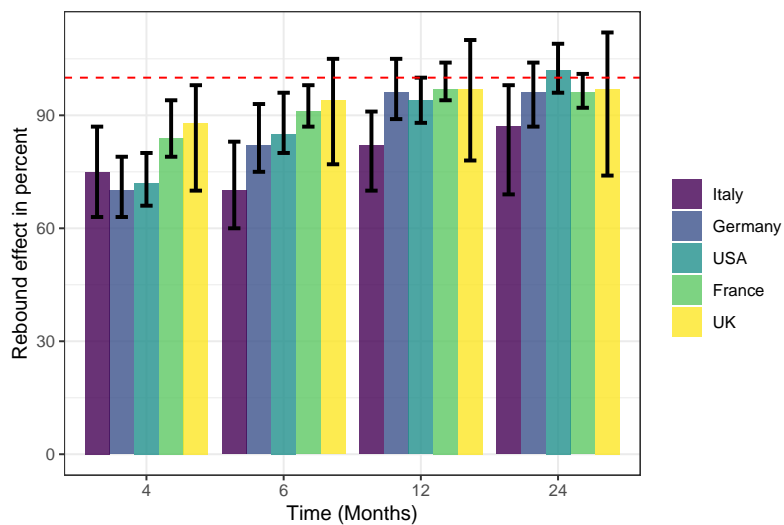


Figure D.17: **Estimated rebound effects for a model including 3 factors.** Error bars represent 90% confidence intervals.

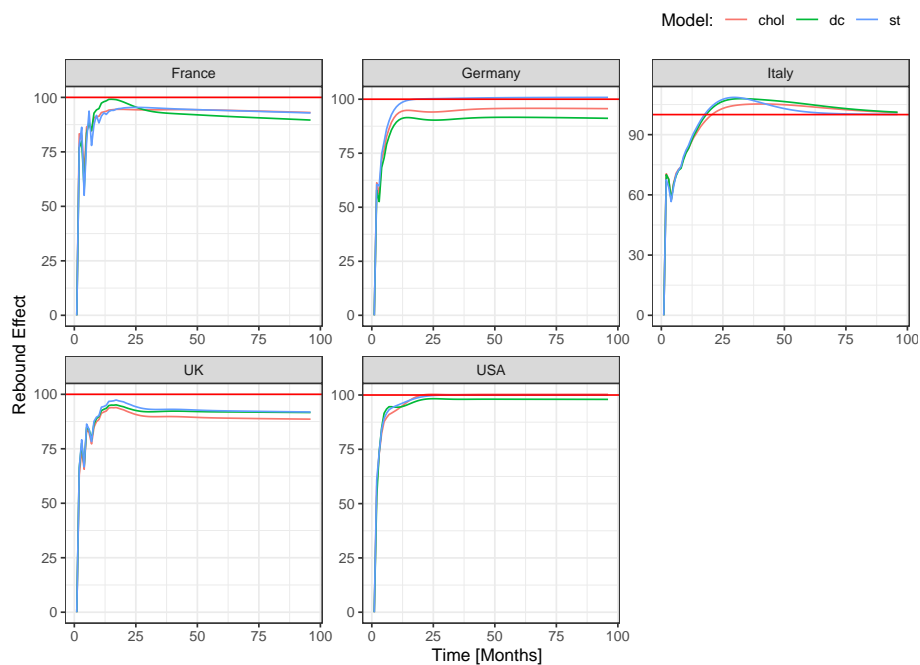


Figure D.18: **Impulse-response functions resulting from various identification strategies.** The identification via smooth transitions of covariances (st), the distance-covariance approach building on ICA and the Choleski decomposition (chol) all show comparable results for the depicted impulse-response to an energy efficiency shock