France: Inflation rises again, but remains reasonable

Inflation in France rose more than expected in February, again driven by rising energy prices. Inflationary pressures are becoming more widespread and present in all sectors of the French economy, but remain, for the time being, in line with the European Central Bank's target

Energy contributes less to inflation in France than in the rest of Europe

Inflation rises more strongly than expected, but remains reasonable

A rise in inflation in February was expected, but not as strong. Inflation in France came in at 3.6%, up from 2.9% in January (the Reuters consensus forecast was 3.2%). The harmonised index of consumer prices (HICP), which is important for the European Central Bank (ECB) and allows European comparisons, was 4.1% compared to 3.3% in January. Energy prices are still by far the biggest contributor to consumer price inflation (+21% year-on-year). But the details show that inflationary pressures are becoming more widespread, with growth in prices for services, manufactured goods and food accelerating in February. For these different product categories, annual price growth nevertheless remains close to 2% (1.9% for food, 2.2% for services and manufactured goods).

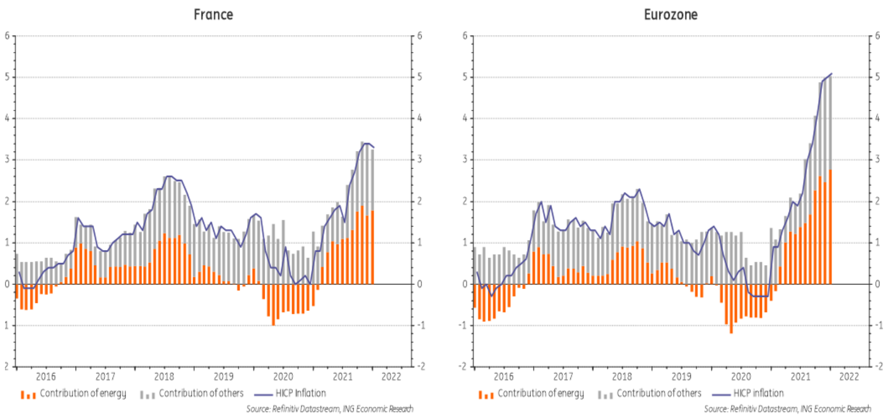
With the exception of energy prices, inflation in France remains reasonable at present and in line with the ECB's target, which is not the case in other European countries.

Inflation in France is lower than in the rest of Europe and should remain so

So although inflation is rising strongly in France, it is still lower than inflation in other European countries. According to the January data (the last to allow comparisons as the February data have not yet been published for the eurozone), the harmonised inflation index was lower in France (3.3%) than in all the other eurozone countries (5.1% on average). This difference between France and its European neighbours is mainly explained by energy prices, which did not increase as much in France as elsewhere (see graph below). This is due to the actions put in place by the French government to limit the impact of rising energy prices on households, including the "tariff shield" which locks the price of gas at its 2021 level.

In addition, the capping of the price of electricity at a maximum increase of 4% in 2022 also plays an important role: the electricity component in the HICP is up by only 4% in France compared to an average of more than 27% in the eurozone. Ultimately, the smaller rise in gas and electricity prices leads to less inflationary pressure on all sectors of the French economy than in the eurozone area, and therefore also to lower non-energy inflation. We expect inflation in France to remain below inflation in the eurozone throughout the year. However, the situation in 2023 could be worse as a result of the reduction in government measures and the lower baseline in France: inflation could then be higher in France than elsewhere in Europe.

Energy contributes less to inflation in France than in the rest of Europe



Source: Refinitiv Datastream, ING Economic Research

Inflation will rise again, while growth will fall

Despite the measures taken by the government, rising energy prices will continue to affect the French economy in the coming months. In particular, higher gas and oil prices – and therefore fuel – is likely to continue to push inflation upwards. Moreover, underlying inflationary pressures will continue to build in the coming months, notably via production lines given the sharp rise in producer prices and business surveys which point to very strong price increases ahead. According to data from INSEE, the national statistics bureau of France, the trend forecast by business leaders for sales prices in the manufacturing sector rebounded very strongly in February, after having fallen slightly in January. In the services sector, the expected price indicator continues to rise and is at its highest level ever. These elements lead us to expect inflation to remain high in 2022, but also in 2023.

In addition, the current situation in Ukraine will probably force us to revise our forecast. As a result of the conflict, energy prices might remain higher for longer, pushing our inflation forecast even higher. On the other hand, our growth forecasts will be revised downwards, especially for the second and third quarters. The energy price shock will weigh on businesses and households, negatively impacting growth. Confidence is also likely to deteriorate, further limiting the growth of economic activity. That said, at this stage, we continue to expect a growth scenario and do not foresee a recession.

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