

## 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).

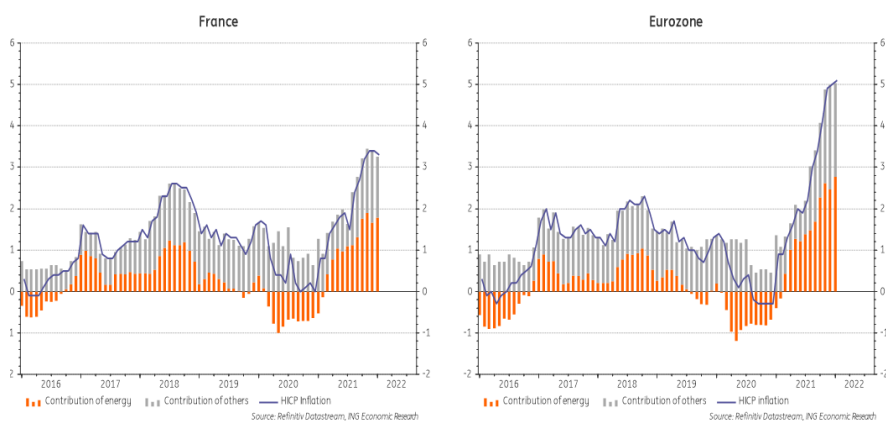
With the exception of energy prices, inflation in France remains reasonable at present and in line with the ECB's target, which is not the case in other European countries.

## 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.

## Author

### Charlotte de Montpellier

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.