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FRANCE

Inflation picks up in France as recession risks mount

France's economic outlook is deteriorating rapidly. With inflation edging higher again and domestic demand weakening, a recession now looks increasingly likely



Inflation is up and the French economy is sliding towards recession

French inflation rose to 2.4% in May from 2.2% in April and 1.7% in March, mainly driven by higher energy prices (+16.8% year-on-year). Services inflation also picked up slightly to 2.0% (from 1.8% in April), although it remains below its March level. Despite higher fresh food prices, food inflation is still contained at 1.2% year-on-year. Meanwhile, prices for manufactured goods continue to decline (-0.6% year-on-year). The harmonised index of consumer prices (HICP), closely watched by the European Central Bank, increased to 2.8% in May from 2.5% in April, coming in slightly below expectations.

Overall, the latest figures are in line with our expectations. The inflationary process is not yet over, and price growth could continue to firm in the coming months. That said, the risk of a renewed inflation shock similar to 2022 remains very limited, largely because domestic demand is weak. As a result, French inflation is likely to remain lower than in neighbouring eurozone economies in the near term.

At the same time, incoming data increasingly points to an economy sliding towards recession.

This morning, INSEE revised first-quarter GDP growth down to -0.1% (from an initial estimate of 0%). Over the quarter, households' purchasing power declined, the savings rate increased again, and consumption fell.

More recent data shows further weakness. Goods consumption dropped markedly in April (-0.5% month-on-month, after +0.9% in March). Not only did energy consumption decline, but spending on manufactured goods also slowed sharply. Consumer confidence deteriorated significantly in May, reaching its lowest level since March 2023. Households are becoming more pessimistic about their financial situation, and their willingness to make major purchases has weakened noticeably.

All in all, the economy not only started the year on a weaker footing than expected, but has also deteriorated further in recent weeks. Indicators across the board point to a pronounced loss of momentum. We expect GDP to contract again in the second quarter, which would push France into a technical recession (defined as two consecutive quarters of declining output).

The government's growth target of 0.9% for this year now appears clearly out of reach. Growth of around 0.6% would represent a best-case scenario. In an already highly constrained fiscal environment, where the government is seeking to reduce the deficit to 5% this year, there is virtually no room for additional fiscal support. According to the European Commission, the deficit is expected to reach 5.1% in 2026 and 5.7% in 2027, despite relatively optimistic growth assumptions. Public debt is projected to rise to 118% of GDP in 2026 and 120% in 2027. With presidential elections approaching in 2027 and no clear parliamentary majority, fiscal sustainability is likely to remain a key concern in the months ahead.

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