

## Disinflation accelerates in France

The slowdown in price growth was marked in March. The data indicate that a return to 2% inflation during 2024 is likely, although a rebound in inflation is expected in the second quarter



### Slower than expected CPI

In March, consumer price inflation in France came in at 2.3%, a lower figure than that expected by the consensus of economists, and slightly lower than the latest INSEE forecast published on 14 March (which expected 2.4% in March). In February, annual inflation stood at 3%, so there was a marked fall over the month. Disinflation is also clear from the harmonised index, which is important for the ECB, coming in at 2.4% in March, compared with 3.2% in February.

This data is very good news and indicates that a return to 2% inflation during 2024 is likely. According to the preliminary details published, inflation in March was lower than in February for all the major components of inflation. Price growth decelerated sharply for food (1.7% in March compared with 3.6% in February), energy (3.4% compared with 4.3% the previous month) and tobacco (10.7% compared with 18.7%). Inflation in manufactured goods was almost zero (0.1% compared with 0.4% in February). Growth in services prices is easing slightly, but remains fairly dynamic, at 3% compared with 3.2% in February.

### Inflation expected to rebound in the second quarter

While data indicates that a return to 2% inflation is likely this year, it does not mean that this return to 2% will take place in the second quarter. Given the current trend in oil prices on the markets, the energy component of inflation should rebound sharply over the coming months. Base effects will be less favourable, as oil prices will now be higher than they were a year ago. As a

result, we can expect inflation to rebound over the next few months. Inflation could temporarily return to well above 2.5%.

Inflation in services should remain close to 3% for the next few months. According to the Banque de France, company agreements for 2024 will lead to average pay rises of 3.4%. This is a lower figure than that seen at the start of 2023 (4%), but sufficient to maintain some price momentum in the services sector, where wages account for a large proportion of production costs.

## **Inflation likely to return to 2% before the end of the year, against a backdrop of a very gradual recovery in growth**

Leading indicators such as producer prices and business surveys suggest that the other components of inflation should continue to fall over the coming months, against a backdrop of lacklustre demand. Household consumption of goods data for February confirms that the French economy is currently weak. Household consumption of goods stagnated in February, following a sharp revised fall of 0.6% in January (compared with a previously estimated fall of 0.3% in January). In detail, this was mainly due to a sharp fall in energy consumption, caused by milder-than-usual temperatures, while consumption of food and manufactured goods rebounded slightly. However, the rebound was not enough to offset the sharp fall seen in January.

Ultimately, the data confirms that the stagnation of the French economy is set to continue in the first quarter of 2024. However, the indicators suggest that a gradual recovery is underway from the second quarter onwards.

Falling inflation, a still-tight labour market, an improved business climate, rising consumer confidence and lower interest rates should enable domestic demand to pick up gradually over the coming months. After an expected 0% in the first quarter, GDP could grow by 0.2% quarter-on-quarter in the second quarter and accelerate further in the second half of the year. Despite this expected acceleration, average GDP growth over the year will be weak due to the very weak start to the year, at around 0.5% for 2024 compared with 0.9% in 2023.

The already very deteriorated state of public finances and growth that is very likely to be weaker than the 1% expected in 2024 by the government indicate that fiscal policy is likely to become much more restrictive at the end of 2024 and in 2025.

Against the backdrop of a very gradual recovery, inflation could reach 2% before the end of 2024 and stabilise at around that level.

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