

# French inflation sees a sharp downward surprise

Inflation in France surprised to the downside in September and should continue to moderate



The Rungis International Market, Paris

## French inflation well below the 2% mark

French inflation came in at 1.2% in September, down from 1.8% in August and much lower than expected. Inflation according to the harmonised index stood at 1.5% in September, compared with 2.2% the previous month.

This sharp fall in inflation is primarily due to a 3.3% year-on-year drop in energy prices, mainly as a result of the fall in oil products. It is also due to a fall in the prices of manufactured goods (-0.3% compared with September 2023). In addition, inflation in services is slowing to 2.5% from 3.0% in August, mainly due to the Olympic Games, with some prices returning to normal after having risen during the Games.

## Inflation moderation set to continue

This moderation in price pressures and the return of inflation to below 2% is very good news for the European Central Bank, which will have a stronger argument to continue cutting rates over the coming months. This is all the more true given that the moderation in inflation is set to continue in

France.

Energy inflation could continue to be negative, as oil prices in euros are likely to remain below their level from a year ago for the next few months. In addition, regulated electricity prices are due to fall by 15% in February 2025. If shipping costs do not rise further as a result of the instability in the Red Sea, manufacturing prices are likely to remain very weak over the next few months, against a backdrop of slowing global demand and Chinese excess capacity. There is also no sign of an imminent acceleration in food inflation.

Finally, services inflation is likely to remain the main contributor to inflation over the coming months, as past wage increases continue to be passed on by companies in prices. Nevertheless, business price intentions are heading in the right direction, and the slowdown in economic activity in France is making demand less dynamic, which is not a favourable environment for price rises. As a result, inflation in services could continue to moderate over the coming months, gradually reaching 2%.

All in all, French inflation should continue to fall, and faster than expected. We expect it to remain below 2% in the final months of 2024 and, in the absence of an adverse geopolitical shock, below 2% in 2025.

## Lower inflation does not mean a rebound in activity

The fall in inflation observed in September and expected thereafter is good news for the purchasing power of French households, as wage increases are now outstripping those in consumer prices. However, it remains to be seen whether this will translate into higher consumption over the coming months. We believe that a small rise is indeed possible, but that it should not be overestimated. Political uncertainty, difficulties in the European industrial sector and a less robust labour market are likely to weigh on consumer confidence and willingness to spend. A further rise in the savings rate is likely. In addition, fiscal policy will become more restrictive, and exports are likely to suffer from the expected global economic slowdown.

All in all, the Olympic Games boosted GDP growth in the third quarter, but the backlash means that GDP is likely to fall in the fourth quarter of 2024. Quarterly growth is expected to be weak in early 2025, bringing average growth over 2025 to 0.7% from the 1.1% expected in 2024.

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