

## France: consumption plunges while inflation moderates

The second quarter got off to a poor start in France, with household consumption falling for the third consecutive month in April, and the outlook has been revised downwards. Against a backdrop of falling demand, inflationary pressures are moderating more quickly than expected



Food consumption in France is now 11% below its pandemic level

### Consumption continues to plummet

In April, for the third consecutive month, consumer spending on goods fell. This time, the fall was 1% over the month, following a 0.8% fall in March. Household consumption of goods is now 4.3% lower than a year ago and 6.3% below its pre-pandemic level. The fall is due to lower energy consumption (-1.9% over one month) and a further fall in food consumption. Food consumption is now 11% below its pandemic level. The magnitude of the fall shows the significant impact of the inflationary context and the fall in purchasing power, which has led households to significantly alter their consumption habits.

These figures were eagerly awaited, as they are the first real activity data available for the second quarter. And we can now say that the second quarter got off to a poor start. It is clear that the French economy is slowing sharply. It is unlikely that consumption will make a positive

contribution to GDP growth in the second quarter, especially as the slowdown is beginning to have an impact on the labour market, as suggested by the employment climate data published by INSEE last week.

The prospect of a recovery later in the year seems to be fading. This has led us to revise our growth outlook slightly downwards. We are now expecting GDP growth of 0.6% in 2023 and 0.7% in 2024, with the risks still tilted to the downside. Although France escaped recession last winter, today's indicators are a reminder that a recession in the coming months cannot be ruled out.

## Strong moderation in inflationary pressures

Against this backdrop of falling demand, inflationary pressures are moderating. As expected, the pace of consumer price inflation eased in France in May. Inflation stood at 5.1%, down from 5.9% in April, while the harmonised index, which is important for the ECB, reached 6% in May, compared to 6.9% in April. The good news is that the fall in inflation is now visible in all consumer categories. Energy inflation fell sharply to 2% year-on-year in May. Unlike in other European countries, it remains positive, however, as the rise in household energy bills did only take place at the start of 2023, rather than in 2022, as a result of the "tariff shield" introduced by the government last year. Food inflation remains very high but is starting to fall, to 14.1% in May from 15% in April.

At 4.1% year-on-year, compared with 4.6% in April, growth in the prices of manufactured goods is also moderating, as is that of services, which stood at 3% compared with 3.2% in April. These last two developments are very good news, as they signal that the inflation peak is behind us, but also that inflation is likely to fall rapidly over the coming months. Indeed, the signs of moderation in inflationary pressures are mounting. For example, tensions in supply chains have disappeared and the growth in industrial producer prices, which gives an indication of changes in production costs for the manufacturing sector, slowed sharply to 5% year-on-year in April (compared with 9.5% in March). Over one month, producer prices fell sharply, by 4.1%, after +1.2% in the previous month. This indicates that growth in the prices of manufactured goods is set to slow markedly over the coming months.

Furthermore, business forecasts for selling prices fell sharply in May, particularly in the industrial and construction sectors, but also in services. Inflation in services should therefore continue to weaken over the coming months. Finally, given the fall in agricultural commodity prices on international markets and the weakness of demand, food inflation should continue to fall gradually, and more rapidly once the impact of the price agreement between food producers and big retailers has been absorbed, i.e. during the summer. Ultimately, inflation is likely to fall over the coming months, helped by weak demand. We are expecting inflation to average 4.7% over the year (5.7% for harmonised inflation).

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