French disinflation slows as consumption remains weak

Disinflation continued in France in February, but at a slower pace than before. Consumption remains weak, with stagnation expected in the first quarter before a gradual recovery

Disinflation continues in France, but at a slower pace than before

Consumer prices in France rose by 2.9% year-on-year in February, compared with 3.1% in January, thanks to slower YoY increases in food prices (+3.6% compared with +5.7% the previous month), manufactured goods (+0.3% compared with +0.7%) and services (+3.1% compared with +3.2% in January). Conversely, due to the end of various support mechanisms which led to a 10% rise in household electricity bills in February, energy inflation rose again to 4.4% from 1.9% in January. Inflation, according to the harmonised index which is important for the European Central Bank, stood at 3.1% in February compared with 3.4% in January. This data once again confirms our view that the ECB will only start its rate cutting cycle in June, with a total of 75bp in cuts this year.

The next part of the road to 2% inflation will be more challenging

Looking ahead, inflation should continue to normalise gradually over the next few months, but disinflation will now be very gradual and will still take time. We will probably have to wait until the end of 2024 for the national index to reach 2% inflation, and until spring 2025 for the harmonised index. On the road to 2% inflation, the easiest part of the journey has already been completed and the rest will probably be more complicated.

Inflation in services is likely to remain particularly dynamic over the next few months and will stay close to 3%. Business surveys indicate that more companies are once again planning price increases. Unlike in other European countries, household energy bills will not fall in 2024 due to the end of various government support mechanisms, which will keep energy inflation in positive territory despite the fall in gas prices seen on world markets. The prices of manufactured goods should continue to moderate and could post a negative inflation rate in the coming months against a backdrop of persistently weak global demand.

The economy is still stagnating, despite revised GDP figures

In addition, INSEE today published a new estimate of GDP figures for the fourth quarter of 2023. The data has been revised slightly upwards, with quarter-on-quarter growth of 0.1% compared with the previous estimate of 0%. Investment was even weaker than announced, falling by 0.9% over the quarter, while household consumption was slightly stronger and stagnated over the quarter. The contribution of domestic demand is therefore unchanged, while the contribution of foreign trade is revised downwards and that of inventories is revised upwards by a large margin. All in all, an analysis of the details shows that this revision of the national accounts does not change the diagnosis: France was in stagnation at the end of 2023, just as it was in the third quarter of 2023.

These new figures do not change the outlook for 2024, either. The year has clearly started with a low level of activity. The household consumption data for January also published today confirms this. Despite the upturn in confidence, household consumption of goods fell by 0.3% in volume terms in January, compared with an increase of 0.3% in December. Nevertheless, the details are better than the overall figure. The fall was mainly due to the decline in household purchases of transport equipment (-6.7% over the month, compared with +4.8% in December). Against a backdrop of tighter environmental bonus and penalty schemes, car sales fell sharply. All other categories of goods consumption rose in January, unlike in previous months.

A gradual recovery expected in 2024

Ultimately, while the first quarter is likely to see the French economy stagnate once again, we are a little more optimistic about the rest of the year. Gradual disinflation, wage increases, a still tight labour market and a recovery in consumer confidence should enable household consumption to pick up over the course of the year, supporting French growth. Investment could also pick up in the second half of the year in the wake of interest rate cuts. On the other hand, fiscal policy is becoming much more restrictive, with the announcement of a €10 billion savings plan that will weigh on public spending and investment, despite the Olympic Games scheduled for the third quarter.

After further stagnation in the first quarter, we expect growth to accelerate over the course of the year, enabling GDP to grow by an average of 0.5% over the year. For 2025, GDP growth of 1.3% is expected.

Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com