

## Inflation eases in France; consumption remains weak

Disinflation continued in France in June and is set to intensify over the coming months, albeit at a slower pace than in neighbouring countries. Household consumption remains very weak



### The trend towards disinflation has begun and will continue

Inflation in France stood at 4.3% in June, compared with 5.1% in May. Harmonized index inflation, which is important for the European Central Bank, is now 5.3%, compared with 6% in May. This fall in inflation is due to the decline in energy prices, which are now down year-on-year (-3%). Food price growth slowed to 13.6% year-on-year (from 14.3% in May), although it remains the main contributor to inflation. Manufacturing inflation rose slightly to 4.3% year-on-year (vs. 4.1% in May) due to a later start to the summer sales. Inflation in services is down very slightly, at 2.9% year-on-year (compared with 3% in May).

Overall, today's figures clearly indicate that inflation is falling in France, as in other European countries. This trend is set to intensify over the coming months. Growth in producer price indices is slowing markedly. In addition, business price intentions are moderating sharply. Both INSEE and European Commission surveys indicate that price intentions in the manufacturing sector are at their lowest since the beginning of 2021, while in the services sector, they are at their lowest since

November 2021. Data on agricultural products also shows that prices are falling sharply, which should lead to a sharp fall in food inflation over the coming months.

The trend towards disinflation is therefore clearly underway and will continue. However, this trend will probably be slower in France than in other countries, due to less favourable base effects for energy. The tariff shield and fuel rebates prevented a sharp rise in energy prices over the summer and autumn of 2022. As a result, energy inflation is likely to return to positive territory in France in the coming months, unlike in other countries. This will probably keep overall inflation higher in France than elsewhere this autumn and at the end of 2023. But this does not change the overall picture: ultimately, although less visible than elsewhere, disinflation is well underway and will continue to be seen in France over the coming months.

While this trend is clearly encouraging and will be greeted with relief by the ECB, it does not mean that the problem of inflation is completely over. There is still a major risk pocket, namely services inflation, which is likely to increase in the coming months and will probably become the main contributor to French inflation by the end of the year. Successive increases in the minimum wage, notably in January and May 2023, will continue to push up service prices. That said, given the fall in price intentions in the sector and the sluggish demand that we expect to see in the coming quarters, it is likely that these inflationary pressures will eventually fade as well. We expect CPI inflation to average 4.6% in 2023 (5.6% for the harmonised index) and 2.1% in 2024 (3.1% for the harmonised index).

## Consumption of goods rebounds slightly, but the outlook remains weak

Household consumption of goods rebounded slightly in May, by 0.5% over the month, without offsetting the 0.8% falls seen in both April and March. The rise was mainly due to a rebound in energy consumption, particularly fuel, and a recovery in spending on clothing. Despite the rebound in May, household consumption of goods remains 3.6% lower than a year ago. INSEE has also published data on the consumption of services for April (down 0.5% on the month) and the volume of trade sales for April (down 1.2% on the month). Taken together, the data indicates that household consumption remains very weak in the second quarter and is likely to make a negative contribution to GDP growth.

Ultimately, it seems that France is facing some moderation in its growth prospects. Growth in the second quarter will be weak, and a fall in GDP remains a risk. Growth in the third quarter should be slightly better, supported by the good health of the tourism sector, which continues to benefit greatly from the post-pandemic recovery. But this is likely to lose momentum in the fourth quarter, and the end of 2023 and 2024 look much weaker, against the backdrop of a global economic slowdown and high interest rates that will have an increasing impact on demand. We are still expecting growth of around 0.5% this year, a forecast close to that of the Banque de France and INSEE, which are predicting 0.6%. For 2024, we are less optimistic than the central banks, forecasting French GDP growth of 0.5% (compared with a forecast of 1% by the Banque de France).

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