

## France: Inflation falls, but not by much, and consumption drops

Inflation decreased in France in March, thanks to base effects on energy prices. Nevertheless, underlying inflationary pressures remain very high and food inflation will continue to rise. GDP growth will therefore likely remain weak, as confirmed by the falling consumer consumption in February



### Inflation falls, thanks to energy

As expected, headline inflation in France fell in March to 5.6% from 6.3% in February. The harmonised index, which is important for the European Central Bank, stands at 6.6% against 7.3% last month. This fall in inflation is mainly due to the base effects of energy prices, which rose in March last year when the war in Ukraine started. Energy inflation thus stood at 4.9% in March compared to 14.1% in February. Given the tariff 'shield,' which limited the increase in gas and electricity prices in France to 4% in 2022 and 15% in 2023, energy continued to contribute positively to French inflation, unlike in other European countries which saw energy bills fall in 2023 after the very sharp rise in 2022.

In addition, the government's decision to raise tobacco prices pushed these prices up by 7.8% year-on-year in March (compared to +0.2% in February). Food inflation also continues to rise, by

15.8% year-on-year in March, compared to 14.8% in February. Food is now by far the largest contributor to inflation in France. At the same time, inflation in manufactured goods rose from 4.7% to 4.8%.

Despite the fall in headline inflation, underlying inflationary pressures remain very high. Consumer prices rose by 0.8% over one month in March, which is well above historical averages. The only positive element is the slight drop in services inflation, from 3% to 2.9% in March, due in particular to the fall in transport services prices, which indicates that the increases in the minimum wage have not led to a sharp rise in the prices of all services, so far. Transport also benefits from lower fuel prices.

## What is the outlook for inflation?

In the coming months, food inflation is expected to remain the largest contributor to consumer price inflation in France. Despite the fall in world food commodity prices, food inflation will probably continue to rise in the short run. Indeed, the cost increases of recent months will continue to be reflected in food prices, as evidenced by the recent trade negotiations, which will lead to an increase in prices paid by supermarkets to their suppliers of around 10%. However, the impact of these negotiations is not expected to be immediate on prices but gradual during the second quarter of 2023.

Producer prices remain dynamic in industry, rising by 13% year-on-year in February compared to 14.5% in January, but are decelerating. This implies that inflationary pressures for manufactured goods will start to ease in the coming months. In addition, survey data for March indicates that fewer firms are expecting higher prices. Although price expectations remain historically high, they have started to decline in all sectors. Assuming that energy prices remain lower than in 2022, headline inflation is expected to average 5% in 2023 (5.9% for the harmonised index), with a marked decline from the end of the summer. Nevertheless, inflation should end the year above 3%.

## Consumption declines

This expected decline in inflation is taking place against a background of slowing global demand, and growth, expected in France in 2023. The data on household consumption of goods for the month of February, published this morning by INSEE, confirms this once again. Consumer spending fell by 0.8% in volume over the month, following a 1.7% rise in January - a rise that was truncated by statistical effects linked to the disappearance of the energy voucher. Consumption is down in all product categories, and the drop is particularly strong in food (-1.2% over the month). Though services consumption probably held up better, household consumption will probably not be a strong driver of economic growth in the first quarter. We expect quarterly growth to be 0.1%, and the risks are tilted to the downside, particularly in view of the social unrest in March, which may have had a temporary negative impact on activity. Growth is not expected to be much more dynamic for the rest of the year, with activity hampered by rising interest rates, slow global growth, and the inflationary environment. We expect GDP growth to be weak at 0.7% for 2023 as a whole, and 0.7% in 2024 (down from 2.6% in 2022).

## Author

### Charlotte de Montpellier

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

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