

## France: Inflation falls in August

Consumer price inflation fell to 5.8% in August from 6.1% in July, but prices are still rising over a month. It is far too early to speak of a real slowdown in inflation. Inflation is expected to remain high in the coming months



Inflation in France will likely stay above 5% for the whole of 2022, and close to 3.5% for the whole of 2023

### **Inflation down, but it is too early to talk about a real slowdown**

Consumer price inflation stood at 5.8% in August, down from 6.1% in July, thanks to a slowdown in the rise in energy prices (from 28.5% to 22.2% year-on-year). The harmonised index, which is important for the European Central Bank, stood at 6.5% compared to 6.8% in July.

While this drop in the inflation figure might be seen as good news, it hides an unfavourable evolution of prices over one month: between July and August, consumer prices increased by 0.4%, compared to 0.3% between June and July. This indicates that it is far too early to speak of a real slowdown in inflation. In particular, food prices accelerated sharply in August. Due to the end of the summer sales, prices of manufactured goods have also rebounded.

### **Inflation will remain high in the coming months**

Looking ahead, the question is how the recent high energy prices will affect consumer price inflation. The "tariff shield" put in place by the government on gas and electricity prices means that household energy bills are not impacted by recent price developments in the markets.

However, the current mechanism is supposed to end at the end of 2022. Although the government wants to reintroduce consumer protection in 2023, the mechanism could evolve and lead to price increases in household energy bills, although these would probably be smaller than the increases observed in the markets. This would result in keeping overall inflation high in 2023.

In addition to the direct impact on energy bills, higher market gas prices could push up costs for firms, leading to a further increase in underlying inflation. However, the sharp slowdown in demand leads to a decrease in the pricing power of companies, which will be less able to pass on cost increases to prices. In conclusion, the volatility of energy prices makes it difficult to know whether headline inflation has already peaked, but it is certain that inflation will remain high in the months to come. Given the expected recession (we expect GDP to contract by 0.2% over 2023 as a whole) and the slowdown in demand, inflation should then gradually decline in 2023, but the extent of the decline will depend on the measures taken by the government to protect households.

As inflation in France has risen less than in the rest of the euro area in 2022, the base effect will be less favourable for France than in neighbouring countries in 2023, which will probably lead to French inflation being higher than in the euro area in 2023. Ultimately, inflation should be above 5% for the whole of 2022, and close to 3.5% for the whole of 2023. It should nevertheless return to around 2% at the end of 2023, provided energy prices don't surge further from current levels.

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