

## France: inflation rises, but underlying pressures stabilise

French inflation has risen to 5.8%, but the increase hides a stabilisation of services inflation and a fall in manufactured goods inflation. Inflation is expected to continue to rise in the third quarter, before gradually declining in the fourth quarter and into 2023



### Inflation hits 5.8% in June

In France, consumer price inflation stood at 5.8% in June, up from 5.2% in May. The harmonised index, which is important for the ECB, is now at 6.5%, compared to 5.8% in May. The rise in inflation was again driven by energy prices (+33.1% year-on-year and +5.3% month-on-month) and food prices (+5.7% year-on-year, +1.4% month-on-month). However, underlying inflationary pressures seem to have stabilised somewhat. Indeed, services inflation is stable at 3.2% over one month, while manufactured goods inflation is down compared to May, standing at 2.6% against 3.0% the previous month.

### Peak inflation approaching

This data is probably one of the first indications that we are approaching peak inflation. We believe that the peak will be reached in the third quarter and that inflation will start to fall in the fourth quarter. Indeed, even if energy prices remain high, the contribution of energy to inflation is likely to moderate from October onwards, when price developments will be compared to the period when energy prices had already started to grind higher. This situation is expected to continue throughout the winter and spring of 2023. This decrease in the contribution of energy to inflation

should nevertheless be slower in France than in other European countries because government measures (tariff shield, limitation of the increase in electricity prices, discount at the pump) have allowed the increase in energy prices in 2021-22 to be more muted in France than in other countries. INSEE estimates that inflation would have been between 1.5 and 2.0 points higher each month if these measures had not been in place. This means that inflation will fall more gradually in France than in neighbouring countries. Moreover, the inflation profile for 2023 will depend heavily on whether or not the household support measures are continued. Given the new configuration of the National Assembly, these measures may not be extended, which will lead to higher inflation in France than elsewhere in Europe in 2023.

Energy prices are not the only reason why we believe inflation will gradually decline from the fourth quarter onwards. Overall inflationary pressures should also moderate due to the expected sharp slowdown in the French economy. Indeed, consumer demand is already far from dynamic and seems destined to become less so in the coming months due to the loss of purchasing power linked to inflation and the fall in confidence. Certainly, after the contraction of consumption in the first quarter of 2022, a slight rebound is expected in the second quarter. Indeed, we see that some indicators have recovered slightly, notably the consumption of goods in volume by households, which increased by 0.7% over one month in May after five months of decline, according to data published by INSEE. This increase is mainly due to clothing and textiles (+15.1% over the month) and was caused by the particularly warm weather in May which led to advanced summer purchases. Compared to May 2021, the consumption of goods remains 3.4% lower, which is mainly explained by the shift in consumption towards services in 2022 following the lifting of Covid restrictions. But it is also a sign of a slowdown in overall consumer demand, as goods consumption is now 1.8% below its pre-pandemic level.

Overall, the fourth quarter of 2022 and the first quarter of 2023 are expected to be more challenging for economic activity and will likely see a contraction in GDP. The slowdown in the economy should lead to a moderation in inflation. We expect inflation to be close to 6% at the end of the year and around 3% for the 2023 average.

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