

## France: Inflation stabilises, but the peak is still to come

Inflation stabilised at 6.2% in France in November, but it has not reached its peak. Inflationary pressures are likely to intensify further in 2023



We expect French inflation to be around 5% for the whole of 2023

Consumer price inflation stood at 6.2% in France in November, unchanged from October. The monthly variation in prices was +0.4% against +1% in October. The less dynamic evolution of the price of petroleum products, after October was marked by fuel shortages, made it possible to compensate for the drop in the fuel rebate, which went from €0.30/litre to €0.15/litre in mid-November. As a result, energy inflation stood at 18.5% compared to 19.1% in October. A considerable level, but still much lower than in other European countries. The various measures taken by the government, including the tariff shield on the price of gas and electricity, have removed 2.5 points from inflation. In addition, food prices continue to accelerate, by 12.2% over one year, against 12% in October, as do those of manufactured goods (4.4% against 4.2% the previous month). Services inflation is stable, and comparatively low, at 3%. The harmonised index, important for the European Central Bank (ECB), remained stable at 7.1%.

Overall, while this stabilisation of inflation can be seen as good news, it does not mean that inflation has peaked. On the contrary, the peak of inflation in France is still to come.

## A further acceleration of prices for December

It is likely that inflation will rise again in December, probably reaching 6.5%. Indeed, the fuel rebate will be less important during the whole month of December than it was on average in November. In addition, past sharp increases in producer prices will continue to be passed on to consumer prices for manufactured goods and food. According to statistics published today by INSEE, the national statistics bureau of France, producer prices rose at a slower pace in October, with an annual increase of 21.4% compared to 26% in September. Although producer prices appear to have peaked, producer price inflation remains historically high, and this should continue to be reflected in the consumer price index in the coming months.

## Inflationary pressures will intensify further in 2023

Inflation in France is expected to rise further in early 2023. Indeed, due to regulations and contracts, many price revisions can only take place once a year, usually at the beginning of the year. This is particularly the case in the transport sector. These price revisions will significantly boost inflation in the first quarter of 2023. Moreover, companies seem confident in their ability to pass on past cost increases to their prices. In November, according to the European Commission's survey, companies' expectations regarding selling prices rose again, both in industry and in the services sector, despite the context of slowing demand. Strong inflationary pressures therefore still seem to be on the cards and core inflation is likely to rise further in early 2023.

Furthermore, the energy inflation faced by households in 2023 will be influenced by the tariff shield, which foresees a 15% increase in the price cap for gas and electricity (compared to a 4% increase in 2022). The revision of the cap and the end of fuel rebates could add up to one percentage point to French inflation from January. As a result, energy inflation in France will continue to rise sharply next year, while it will start to fall in other European countries due to more favourable base effects. The peak of inflation in France should therefore only be reached later in 2023, and French inflation will fall much less rapidly than in neighbouring countries. The "delayed" peak in French inflation is bad news for the ECB, as average inflation in the euro area is likely to fall less quickly than expected. We expect French inflation to be around 5% for the whole of 2023, after 5.3% in 2022.

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