

## France: The rise in inflation will continue

French inflation reached 2.6% in October, its highest level since 2008, driven by energy prices. But inflationary pressures are now building across the economy. Inflation is expected to remain quite high for the next few months



### Highest since 2008

French consumer price inflation stood at 2.6% in October, its highest level since 2008, up from 2.2% in September. The harmonised index, which is important for the European Central Bank, stood at 3.2% from 2.7% in September.

As in September, the increase was mainly due to higher energy (+20.1%) and tobacco (+4.8%) prices. But inflationary pressures now seem to be spreading to other parts of the economy, as evidenced by services inflation, which stood at 1.8% in October compared to 1.4% in September.

### A "temporary" phase that's likely to last longer

Looking ahead, we expect inflation in France to remain high in the coming months. Energy costs are not about to come down this winter, boosting inflation for several more months. Supply chain difficulties are not abating, and we believe they will continue to push up input prices. As time goes on, companies will increasingly pass on these higher costs to selling prices. This suggests further inflationary pressures for consumers, leading to a second wave of inflation, this time one intrinsic

to the French economy after the wave of imported inflation. Given the current, very tight labour market and the recruitment difficulties faced by companies, which tend to strengthen the bargaining power of workers, it is likely that the rise in inflation will lead to some degree of wage increases, which will keep consumer price inflation somewhat higher than the levels we saw before the pandemic.

Ultimately, we expect inflation to reach 3% by the end of 2021 and to remain above 2% for almost half of 2022. However, we continue to expect these effects to fade in the second half of 2022, bringing inflation below 2% by the end of 2022.

This higher inflation is likely to weigh on French consumer confidence in the coming months, despite the government's measures to protect purchasing power. This is one of the reasons for our [more moderate growth forecast from the fourth quarter of 2021 and for 2022](#).

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