French inflation back on the rise

Inflation rose again in August, after falling for three consecutive months, due to higher energy prices. Despite a rebound in household consumption of goods, French domestic demand remains very weak, and a quasi-stagnation of GDP in the second half of 2023 seems the most likely economic scenario

Sharp rise in inflation

After falling for three months in a row, inflation in France rose sharply again in August, to 4.8%, compared with 4.3% in July. The harmonised index, which is important for the European Central Bank, stood at 5.7% compared with 5.1% in July. August's rebound was entirely caused by the rise in energy prices, due to higher oil prices and electricity tariffs.

Over a year, energy prices have increased again (+6.8% in August), whereas they had been falling in previous months. It should be noted that, because of the tariff shield and fuel price rebates, energy prices rose less dramatically in France than in other European countries last year. The starting point is therefore much lower, and energy inflation will be more of a problem in France than elsewhere in the coming months.

Apart from the rebound in energy inflation, the details suggest that inflationary pressures are moderating. Food inflation continues to ease, coming in at 11.1% in August, compared with 12.7%

in July. This trend is likely to continue in the months ahead, albeit slowly. We will probably have to wait until 2024 for food prices to stabilise in terms of annual growth.

The details of underlying inflation have not yet been published, but they should point to a decline. Prices of manufactured goods slowed to 3.1% in August from 3.4% in July. Given that producer prices are continuing to fall and are now down year-on-year (-1.5% in July compared with +1% the previous month), this trend is likely to continue over the coming months, especially as selling price expectations continue to fall across all sectors.

Finally, despite wage increases, services inflation is also continuing to moderate (2.9% compared with 3.1% in July), which is encouraging. Although service inflation is likely to become the main contributor to inflation in the coming months, the risk of an explosion in service prices appears to be limited, in the context of weak economic growth. The trend towards disinflation should therefore resume from September onwards, although it will probably be slower in France than in neighbouring countries. We are expecting inflation, according to the national definition, to reach 4.6% in 2023 on average. We will probably have to wait until the second half of 2024 for inflation to return to 2%.

GDP less robust than it seems

INSEE, the national statistics bureau of France, has also published the second estimate of GDP for the second quarter. Although GDP is still estimated to have risen by 0.5% over the quarter, the details are less favourable than previously announced. The change in inventories made a greater contribution to growth than expected, while exports were less buoyant. Investment (-0.1% quarter-on-quarter) and household consumption (-0.5%) were revised downwards. The contribution of domestic demand is therefore revised downwards, to -0.2 points. There has been no growth in domestic demand for three quarters now, and this is likely to continue in the coming quarters, particularly as consumption of services slows.

Admittedly, according to INSEE, household consumption expenditure on goods rose by 0.3% in July (compared with +1.1% in June). However, this increase was mainly due to the higher consumption of manufactured goods, particularly durable goods, which was probably boosted by the sales period. Manufacturers' well-stocked inventories probably led to higher discounts. At the same time, food consumption fell back again in July and is now down 7.9% year-on-year, a sign that household purchasing power remains largely constrained.

Although the consumption of goods is picking up slightly, the expected more moderate consumption of services suggests that the momentum of total household consumption will remain very weak over the coming months.

Furthermore, investment is likely to continue to suffer from the rise in interest rates, while exports are being impacted by the expected slowdown in the global economy. Ultimately, the near-stagnation of GDP in the second half of 2023 seems the most likely economic scenario at this stage. We expect growth to average 0.8% in 2023 and 0.6% in 2024.

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