# French inflation continues to fall as consumption struggles

Inflation has almost disappeared in France. Still, households remain gloomy, and that's putting the brakes on consumption


French consumers are growing more pessimistic about their financial situations, with expectations for future living standards dropping sharply

## Inflation is almost non-existent and will remain moderate

In May, consumer prices in France rose by just 0.7% year-on-year, up slightly from 0.6% in April. The harmonised index of consumer prices (HICP), closely monitored by the European Central Bank (ECB), surprised on the downside, registering 0.6% year-on-year compared to 0.9% in April.

This continued disinflation is largely driven by falling energy prices, which declined by 8.1% year-on-year in May (after a 7.8% drop in April). Prices of manufactured goods also fell by 0.2% year-on-year. Meanwhile, services inflation continued to normalise, easing to 2.1% from 2.4% the previous month. Food prices rose modestly, increasing by 1.3% compared to May 2024.

These figures are encouraging for the ECB, confirming that inflationary pressures have largely dissipated in the eurozone's second-largest economy. As such, it should give the central bank confidence to cut rates further in June, and again over the summer. We expect the final ECB rate to be 1.75%.

Looking ahead, inflation in France is expected to remain subdued. Lower oil prices, a regulated gas price well below last year's level, and the euro's appreciation in effective terms should keep inflation below 1% in the coming months. In a sluggish economic environment, the normalisation of services inflation suggests that overall consumer price growth will remain well below 2% over the next year.

## Falling inflation unlikely to boost consumption

While falling inflation could, in theory, support household purchasing power and boost consumption, recent data suggests otherwise. According to INSEE, household confidence deteriorated in May. French consumers are increasingly pessimistic about their financial situations – both past and future. Their expectations for future living standards dropped sharply, falling by five points to the lowest level in over two years.

This growing pessimism is reflected in a decline in the number of households that believe it is a good time to make major purchases. Concerns about unemployment also surged in May, reaching their highest level since 2015 (excluding the pandemic period).

As a result, the household savings rate is likely to rise in the coming months, further slowing consumption. The weak economic momentum observed in the first quarter is expected to persist into the second. With industry facing shrinking order books and external headwinds from the global slowdown and trade tensions, declining consumer morale will weigh on the services and retail sectors. The outlook for tourism is also dimming. The business climate in the accommodation and food services sector has deteriorated, and the number of overnight stays in collective tourist accommodations was already 1.5% lower in this year's first quarter compared to the same period in 2024.

Following GDP growth of just 0.1% in the first quarter, indicators suggest that the second quarter will be only marginally better. A quarter-on-quarter growth rate of 0.1% appears to be the most optimistic scenario, with the risk of contraction still present. At this stage, there are no clear signs of a rebound in the second half of the year. Fiscal policy remains restrictive, and trade barriers are unlikely to return to early-2025 levels. In this context, economic growth is expected to remain sluggish. We forecast GDP growth of 0.4% for 2025 and 0.8% for 2026. After outperforming the eurozone average in 2023 and 2024, France is now likely to lag behind.

### Author

**Charlotte de Montpellier**
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com