

French inflation eases more than expected

Inflation continues to move in the right direction in France. Although a decline was expected, the slowdown in price growth is faster than anticipated



A faster slowdown than expected

Inflation continues to move in the right direction in France, coming in at 3.1% in January 2024, compared with 3.7% in December, according to INSEE. The downturn is sharper than expected. Growth in the harmonised index, which is important for the European Central Bank, stood at 3.4% compared with 4.1% the previous month.

January's figures are weaker than those forecast by INSEE in mid-December. The fall in inflationary pressure is particularly marked for energy (up by 1.8% year-on-year, compared with 5.7% in December), but also for food (+5.7% year-on-year, compared with +7.2% in December) and manufactured goods, where prices are virtually stable compared with January 2023 (+0.7% year-on-year, compared with +1.4% in December). This is clearly a move in the right direction, which should be greeted with relief by the ECB. On the other hand, the rise in services prices was stronger in January, at 3.2% compared with 3.1% the previous month.

Inflation should continue to fall, but not necessarily continuously

Looking ahead, the leading indicators suggest that inflation in France will continue to fall over the coming months, although not necessarily continuously. In particular, the contribution of energy to inflation is likely to rise again in the coming months, due to a less favourable base effect for petroleum product prices and the end of various government support mechanisms for energy bills. In particular, the 10% rise in household energy bills in February should have an impact of around 0.2 percentage points on French inflation. In addition, business surveys indicate that sales price expectations are no longer falling, and even seem to be rising slightly. This indicates that inflation is set to fall more slowly over the next few months, and that we cannot rule out a temporary surge in inflation in certain months. In particular, inflation in services should remain dynamic in the near term. Also, inflation is likely to fall more slowly in France than in other European countries.

Ultimately, we expect inflation to remain close to 3% for the first part of the year, before gradually easing towards 2% in the second half and remaining close to that level in 2025. On average over the year, CPI inflation could be close to 2.5%.

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