

## French inflation falls in October, but should soon stabilise

Inflation in France fell to 4%, compared with 4.9% in September. The trend towards disinflation is well underway in France, but it will take time. The fall in inflation is likely to be much smaller in the coming months



Disinflation isn't set to be a smooth ride for France and will take time. Inflation is likely to remain close to 4% for the next few months

### Inflation falls to 4% in October

Consumer price inflation stood at 4% in October, compared with 4.9% in September. This fall in inflation can be attributed to a slowdown in the prices of food (7.7% in October, compared with 9.7% in September), manufactured goods (2.3%, compared with 2.8%) and energy (5.2%, compared with 11.9% in September). Unlike in other European countries, energy inflation continued to make a positive contribution to French inflation in October, due to last year's tariff shield and the reduction in fuel prices, which had kept energy prices lower in France than elsewhere.

On the other hand, service prices accelerated again, rising by 3.2% year-on-year in October, compared with 2.9% in September, a sign that the repeated increases in the minimum wage are continuing to drive up prices in the service sector. Inflation according to the harmonised index, which is important for the ECB, stood at 4.5%, down from 5.7% in October.

## Disinflation will take time

Overall, this data confirms the findings of previous months. The trend towards disinflation is well underway in France. Nevertheless, disinflation will not be a smooth ride and will take time. Inflation is likely to remain close to 4% for the next few months.

Given the various government interventions on energy prices over the past year, the base effects of energy inflation are less favourable in France than elsewhere. What's more, is that the recent rise in oil prices means that the trend will be less clear-cut than expected and that further spikes in inflation caused by energy inflation cannot be ruled out in the coming months.

Despite weakening demand, the indexation of minimum wages to inflation is likely to maintain strong momentum in services prices, which could become the main contributor to inflation over the months ahead. On the other hand, inflation in food and manufactured goods should continue to fall as a result of falling global demand, high inventories and lower production costs.

Given the latest geopolitical developments and their impact on energy prices, inflation should continue to fall over the coming months – albeit more slowly than previously forecast. In its latest forecasts published in September, the Banque de France expects inflation according to the harmonised index to return to 2.2% at the end of 2024 and 1.6% at the end of 2025. However, we will probably have to wait longer to see inflation return to these levels. We are expecting inflation according to the harmonised index to be 2.5% at the end of 2024 and 1.9% at the end of 2025.

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