

Rising inflation in France adds to the ECB's reasons to hike

While most European countries are starting to see inflation fall, the inflation peak has not yet been reached in France. In January, inflation rose again, increasing to 6% from 5.9% in December. [While the economy is escaping recession for now](#), peak inflation is yet to come



Demonstration of French bakers against inflation and sharp increase in energy prices. Paris, France

Inflation is on the rise again

Inflation in France rose again in January, increasing to 6% from 5.9% in December. The harmonised index, which is important for the ECB, stands at 7% compared to 6.7% the previous month.

Over one month, consumer prices increased by 0.4% (compared to -0.1% in December) due to the rise in food prices (+13.2% over one year) and the rebound in energy inflation. The end of the fuel rebate at the pump and the revision of the tariff shield, which has led to a 15% increase in household gas bills (compared to a 4% increase in 2022), are pushing up energy inflation, at a time when it is falling in other countries. While government measures on energy prices brought down inflation in France by 3 percentage points in 2022, French households and companies are finally facing higher energy bills, well after their European neighbours. Electricity bills will also increase by 15% in February. On the other hand, inflation in manufactured goods is stable at 4.6% thanks to

the winter sales. The good news is that services price inflation remains surprisingly low, even falling to 2.6% in January from 2.9% in December. For the time being, services prices seem to be little affected by cost increases, including minimum wage indexations.

Inflation in France will soon be above the European average

Headline and core inflation could continue to rise in France in February. Indeed, the 15% rise in electricity bills will push up energy inflation further, and hence overall inflation. At the same time, energy will start contributing negatively to inflation in most other European countries. As a result, French inflation will soon be higher than in neighbouring countries.

Beyond the developments in energy inflation, core inflation should continue to rise as well. January PMI surveys indicate that, while production cost inflation is finally starting to fall, businesses' pricing intentions are still on the rise. This is particularly the case in the services sector – where forecast prices, according to the January INSEE survey, are at their highest level since 1988 – and in retail trade. Many companies are facing the first upward revision of their energy bills, which will continue to push costs upwards. In addition, the four indexations of the minimum wage to inflation in 2022 will continue to lead to increases in all wages. [As the French economy is doing better than expected and escaping recession for the moment](#), it is easier for companies to pass on past cost increases to customers. Add to this the fact that a series of annual price reviews (notably in transport) are due to take place in February, and we can expect core inflation to rise further in the coming months. This should encourage the ECB to continue its tightening cycle. The ECB will probably want to see clear signs of a permanent decline in core inflation before it softens its tone and stops raising rates.

Ultimately, average inflation in 2023 in France will probably be higher than in 2022 (we expect 5.5% for the year, and 6.3% for the harmonised index), but the annual profile will be fundamentally different, with a peak that could reach 6.5% in the first quarter, and then a gradual decline from the summer onwards. At the end of 2023, inflation will probably still be above 4%, a level higher than the European average. The deceleration of price developments should continue in 2024, but will still be slow, averaging 2.6% over the year (3.5% for the harmonised index).

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.