

French inflation still on the rise and spreading to the whole economy

Consumer price inflation increased again in April, reaching 4.8%. Price increases are now spreading to all sectors and will continue to strengthen in the coming months



Inflationary pressures continue to spread

Together with the 1Q GDP figures [released this morning](#), the April inflation figures seem to confirm that the risk of stagflation is becoming more concrete every day. Inflation rose again in France in April, with the national measure showing a rise of 4.8% from 4.5% in March, due to the acceleration in services prices (+2.9% year-on-year, driven by the seasonal rebound in transport services prices), food (+3.8%) and manufactured goods (+2.7%). The increase over the month is nevertheless less significant than the one observed in March. This is due to the reduction in fuel prices implemented by the government since 1 April, which led to a “smaller” rise in the energy component of consumer price inflation in April (26.6% year-on-year), compared with 29.2% in March. The harmonised index, which is important for the European Central Bank, stands at 5.4% compared to 5.1% in March.

Currently, in France, the rise in inflation is still mainly due to energy and commodity prices. However, it is clear from the data that the pass-through to the wider economy is in full swing.

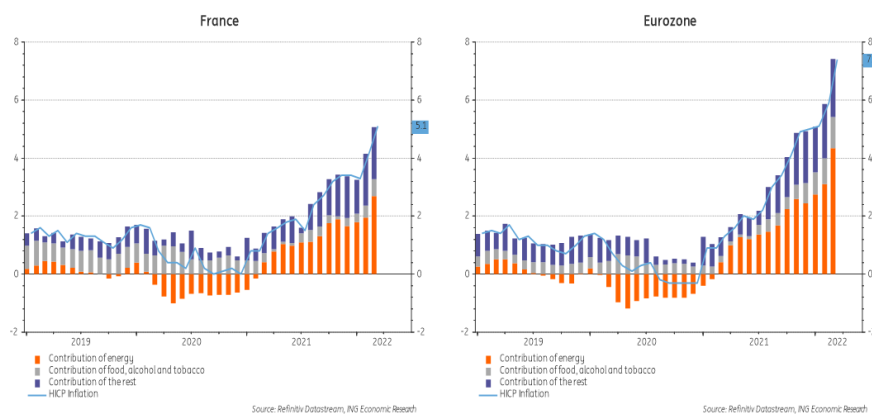
Inflation rates in services, food and manufactured goods, which are all rising and above the ECB's target, illustrate the widening inflationary pressures. As this is also the case in the other countries of the eurozone, one can understand the ECB's current concern about the risk of inflation forecasts becoming unanchored in the medium term. Hence the ECB's willingness to start normalising monetary policy by starting to increase interest rates in the third quarter, despite the much weaker outlook for growth, as illustrated by the stagnation of French GDP in 1Q.

Inflation has not peaked yet

Looking ahead, inflation is likely to continue to rise in the coming months due to the war in Ukraine, tensions in supply chains and continued upward pressure on energy, commodity and food prices. These price increases will continue to put increasing pressure on business costs, which will add to upward pressure on consumer prices across all sectors in the short term. However, the sharp deceleration in growth and weak consumer demand is likely to begin to limit the scope for companies to pass on cost increases in selling prices. This should contribute to a slowdown in inflation from the end of the summer. Inflation should therefore continue to rise in the coming months, exceeding 5% for the national measure, before decreasing in the second half of the year. For the year as a whole, inflation should be above 4.5%.

Although these are high forecast figures, and well above the ECB's target, inflation in France is expected to remain significantly lower than in the rest of the euro area, where we expect inflation to average above 6% for the year. This difference is mainly explained by the measures taken by the government to limit the increase in gas and electricity prices ("bouclier tarifaire"), which allows the energy contribution to French inflation to remain much lower than in other European countries, and ultimately leads to overall inflationary pressures that are more moderate, although still high (see graph).

Energy contribution to inflation much lower in France than in the eurozone



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 <http://www.ing.com>.