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.

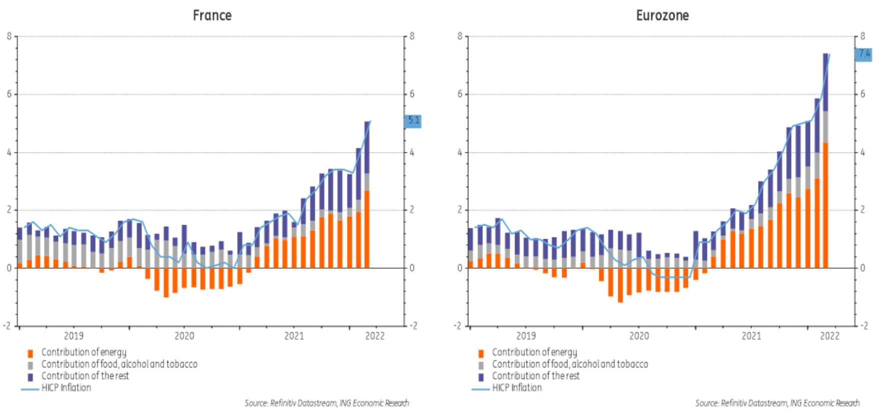
Inflation rates in services, food and manufactured goods, which are all rising and above the ECB's target, illustrate the widening inflationary pressures. As this is also the case in the other countries of the eurozone, one can understand the ECB's current concern about the risk of inflation forecasts 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



Source: Refinitiv Datastream, ING Economic Research

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