

Fuel shortages and rising food prices push up French inflation in October

Inflation rose in France in October to 6.2% from 5.6% in September, due to fuel shortages pushing up energy inflation, but also as a result of a very sharp rise in food prices. Inflation could continue to rise towards the end of the year, before falling very slowly in 2023



In a bid to keep energy inflation down, the government introduced a 30 cent per litre discount on the price of fuel at the pump

Fuel shortages and food prices push up inflation

Inflation rose sharply in October, to 6.2% from 5.6% in September. Over a month, consumer prices rose by 1%, after falling by 0.6% in September. The harmonised index, which is important for the ECB, stands at 7.1% compared to 6.2% in September. The strong increase observed in October is caused, on the one hand, by the new rise in energy prices following the rise in oil prices, but also in the context of the fuel shortages which followed the strikes in the sector's companies. Energy inflation was 19.2% in October, compared to 17.9% in September. Although considerable, energy inflation in France remains well below that observed in other European countries, due to the measures taken by the government (a 30 cent per litre discount on the price of fuel at the pump, combined with the maintenance of the tariff shield on gas and electricity prices). Together, these measures have reduced overall inflation by 2.5 points, according to INSEE estimates, which enables France to post a lower inflation rate than the rest of the eurozone.

On the other hand, and more worryingly, the rise in food prices continues to accelerate, rising by 11.8% in October, compared to 9.9% in September. Manufactured goods also saw their prices rise, by 4.2% compared to 3.6% the previous month. By contrast, services inflation was stable at 3.2%.

A new rise in inflation expected at the end of the year

For the end of the year, inflation is likely to rise again in November and December, probably reaching 6.5%. Indeed, the fuel rebate will decrease in mid-November and December, which will reinforce energy inflation. In addition, past sharp increases in producer prices will continue to be passed on to consumer prices for manufactured goods and food. According to statistics published by Insee today, producer prices rose by 28.5% year-on-year in September, still a very high figure, although slightly down compared to August (29.5%), which should continue to be reflected in the consumer price index in the coming months.

Inflation expected to fall in 2023, but more slowly than elsewhere

For 2023, the evolution of inflation will depend on several factors: the public policies put in place to limit the rise in energy prices, the price of energy and raw materials on the international markets, the value of the euro against the dollar, and finally the speed of transmission of cost increases to consumer sales prices. The latter will be a central element of inflation in 2023. In recent months, French companies' expectations of future sales prices have fallen slightly, although they remain at a high level. Given the slowdown in demand and the expected recession (we expect French GDP to contract by -0.3% in 2023), it is likely that companies will be less and less able to pass on cost increases to their sales prices. These cost-related inflationary pressures should therefore diminish this winter, pushing price growth down in 2023.

In addition, the tariff shield will continue to have a significant impact on inflation in 2023. This should be renewed, but with a 15% increase in the price of gas and electricity for households over the year as a whole. This increase will obviously have a significant impact on energy inflation in France, which could rise in 2023 at a time when the contribution of energy to inflation is falling in other countries. As a result, France could see its inflation decrease less rapidly than in neighbouring countries until 2024. We expect inflation to be around 5% for the whole of 2023, after 5.3% in 2022.

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.