

## Inflation falls in France but pressure is not moderating

Inflation decreased in France in September, from 5.9% to 5.6%. This is the consequence of various public policies and not a sign that underlying inflationary pressures are moderating. Inflation is expected to rise again at the end of the year, before falling very slowly in 2023, though less quickly than in other European countries



### A fall in inflation expected, but misleading

As expected, consumer price growth slowed in September in France to 5.6% from 5.9% in August. The harmonised index, which is important for the European Central Bank, stood at 6.2%, also down from the previous month (6.6%). The fall in the inflation figure is almost entirely due to measures taken by the government to combat the erosion of purchasing power. On the one hand, the 30 cent per litre rebate on the price of fuel at the pump, combined with the maintenance of the tariff shield on gas and electricity prices, is pushing down energy inflation. This rose by 17.8% over one year in September compared to 22.7% in August. In addition, the price of services is being pulled down by the abolition of the TV licence fee, a flat-rate tax of €138 affecting 23 million households, which lowers the price of the item "TV licence fees and subscriptions" in the consumer price index. Finally, the price of some tourism-related services seems to be falling more than last year, which

could be a sign of a significant slowdown in demand in September. Inflation in services was 3.2% in September, down from 3.9% in August.

At the same time, price growth for manufactured goods increased from 3.5% to 3.6%, and food price growth rose sharply to 9.9% from 7.9% the previous month.

## **A further rise in inflation expected at the end of the year**

Consequently, the fall in inflation in September cannot be considered as a signal of moderation in global inflationary pressures. On the contrary, it is likely that inflation will rise again in November and December, probably reaching 6.5%. Indeed, the fuel rebate will decrease in 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 29.5% year-on-year in August, up from 27.2% in July, which should be reflected in the consumer price index in the coming months.

Nevertheless, inflation in France will remain significantly lower than in neighbouring countries until the end of the year, as the "tariff shield" which limits the increase in gas and energy prices has the effect of reducing overall inflation by 2.5 points.

## **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 in relation to other currencies and in particular the dollar, and finally the speed of transmission of cost increases to consumer 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 GDP to contract by -0.4% in 2023), it is likely that companies will be less and less able to pass cost increases on to their sales prices. These inflationary pressures should therefore diminish this winter, pushing price growth down in 2023.

Furthermore, given the impact of the "tariff shield" on inflation, the question of whether or not this will be extended is central to the forecast. The government has hinted that it wishes to maintain a tariff shield in 2023 but that it will be adapted and that a 15% increase in gas and electricity prices could take place. However, no decision has actually been taken. This possible 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 in France to be around 5% for the whole of 2023, after 5.4% in 2022.

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