

## Inflation soars in France

Inflation rose more than expected in France in March, reaching 4.5%. This is a figure that has not been seen since the 1980s, but it is still much lower than in neighbouring countries. Inflation will continue to rise in the coming months, before falling sharply



### Still rising

A rise was expected, but the increase was even greater than anticipated. In France, consumer prices rose by 4.5% year-on-year in March 2022, according to INSEE's estimate, compared with 3.6% in February. The main reason for this is the rise in energy prices, which are up 28.9% year-on-year, but growth in food prices (+2.8% YoY) and services (+2.3%) is also accelerating.

The harmonised price index, which is important for the ECB, rose by 5.1%. A historically high figure, but still much lower than those observed in other European countries in March, notably Germany (7.6%), Spain (9.8%) and Belgium (8.3%[V(1) [CdM2] for the national measure). This difference is explained by the measures put in place by the French government to strongly limit the increase in energy prices, thus limiting the rise in inflation. INSEE estimates that, in February, these measures allowed inflation to be 1.5 percentage points lower than it would have been without them. The effect is likely to be similar for March and beyond.

## Inflation could exceed 5% in the coming months, before falling sharply

For the next few months, we expect inflation to continue to rise, driven by energy and food prices, but also by inflationary pressures that are increasingly spreading to all sectors of the economy. The 5% mark for the national inflation indicator could be exceeded in the second quarter, even without further increases in energy prices. Indeed, all business indicators suggest that companies expect to set higher prices in the coming months.

That said, it is likely that the inflation peak is near and that inflation will start to fall again in a few months, probably as early as the summer. Indeed, the strong rise in inflation currently observed is weighing on household purchasing power and negatively impacting consumption. Combined with the confidence shock induced by the war in Ukraine, this will lead the French economy to slow down sharply. We believe that a quarter of negative GDP growth cannot be ruled out. Demand will therefore lose momentum, which will impact the pricing power of companies, limiting inflationary pressures. We expect inflation to average above 4% for the year 2022, but then to fall rapidly and remain below 2% in 2023.

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