French inflation stabilises in September

Disinflation is well underway in France, but rising energy prices are limiting the slowdown in inflation. Household consumption of goods is falling again, indicating that the growth outlook for the coming months remains very weak

Disinflation is here but will take time

Inflation in France stood at 4.9% in September, the same as in August, but still higher than in June and July. The rise in petroleum products is causing energy inflation to rise sharply again, reaching 11.5% year-on-year, compared with 6.8% in August. At the same time, food prices are slowing year-on-year (+9.6% vs. 11.2% in August), as are services (+2.8% vs. +3%) and manufactured goods (+2.9% vs. +3.1% the previous month). The harmonised index, which is important for the European Central Bank, rose by 5.6% year-on-year in September, after 5.7%.

Overall, these data confirm the findings of August. The trend towards disinflation is well underway in France, with a slowdown in the growth of prices for food, services, and manufactured goods. Nonetheless, the recent rise in oil prices means that the trend is less clear-cut than expected and more gradual, and further spikes in inflation caused by energy inflation cannot be ruled out in the coming months. The disinflation process is therefore likely to take longer than expected.

In its latest forecasts, published in September, Banque de France predicts that inflation according to the harmonised index will return to 2.2% by the end of 2024 and 1.6% by the end of 2025, but it cannot be ruled out that we will have to wait longer to see inflation return to these levels. Given the trend in energy prices, we are expecting 2.4% at the end of 2024 and 1.9% at the end of 2025.

Household consumption remains depressed

Household consumption of goods fell by 0.5% in volume terms in August, after rising by 0.4% in July. It is therefore back below its June level, down by 1.9% year-on-year and by 4.7% compared with the situation prior to the pandemic. All categories of goods spending fell in August. Data on consumption of services have not yet been published, but they should be slightly better, given the good summer for tourism.

Looking ahead, household consumption is unlikely to rebound strongly in September, as consumer confidence has fallen further in recent weeks. As a result, household consumption may once again fail to make a positive contribution to GDP growth in the third quarter.

The resurgence of energy inflation, which is denting the purchasing power of households, particularly rural households, which are heavily dependent on cars and have lower incomes, is a further dampening element for consumption in the coming months. While this should help to accelerate the slowdown in food and goods prices, it also means that growth is likely to be weak over the coming months. We expect GDP growth to be close to 0% over the next three quarters, which would put average GDP growth in 2023 at 0.8% and in 2024 at 0.6%.

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