

International economic outlook

Inflation in the Eurozone

Since the start of 2021, inflation has risen sharply in the main Eurozone economies, and in January 2022, the harmonised index of consumer prices (HICP) increased by 6.2% year-on-year in Spain, 5.1% in Germany and Italy, and 3.3% in France (► **Figure 1**). In these four countries, the rise in energy prices was the main contributor both to the high level of inflation reached in January and to its upward momentum over the last year (► **Focus** in *Economic Outlook* of 14 December 2021). In addition, energy inflation¹ also accounts to a large extent for the differences in inflation from one country to another, even though the other consumer items may also contribute. The rise in energy prices is much more marked in Italy

and Spain, the two countries with the highest HICP in January 2022. In Germany and Spain, this imported inflation is spreading to the rest of the economy, with core inflation at +3.1% and +2.6% respectively in January 2022. In France and Italy, this transmission phenomenon seems to be less advanced.

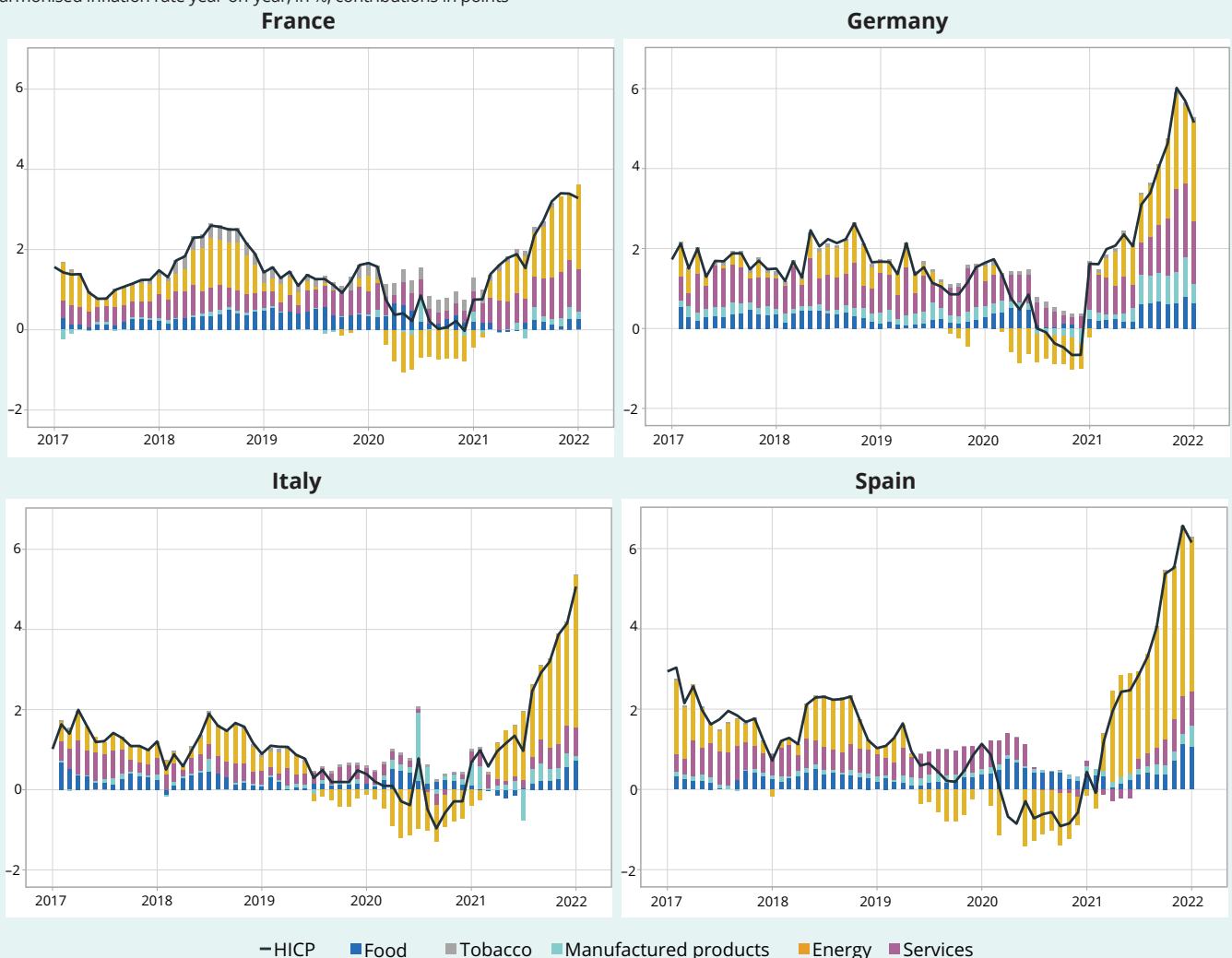
Energy made a strong contribution to inflation in each country, but with marked differences

In Spain and Italy, the contribution of energy to inflation reached +3.8 points in January 2022, whereas it was only +2.5 points in Germany and +2.1 points in France

¹ Total HICP is broken down here into five major consumption items: food, tobacco, manufactured products, energy and services. To make comparison with France easier, these aggregates have been constructed from detailed HICP data to correspond as closely as possible to the consumption items presented in the Consumer Prices Sheet.

► 1. Contribution to the HICP of its major aggregates for the four main Eurozone economies

harmonised inflation rate year-on-year, in %, contributions in points



How to read it: in France in January 2022, harmonised inflation was 3.3% as an annual rate with food contributing 0.3 points.

Source: Eurostat

► **Figure 2**). These differences reflect the differing trends in energy prices between countries. Thus, in January 2022, energy inflation reached 39% year-on-year in Italy and 33% in Spain, compared to about 20% in Germany and France. These differences are mainly related to electricity. Electricity prices rose sharply in Italy and Spain (+62% and +46% respectively year-on-year in January) while increases remained contained in Germany and France (+11% and +4% respectively). In Spain and Italy, regulated electricity tariffs are reviewed at least quarterly and have therefore had time to adjust to the increases in production prices in recent months. Such adjustments are only made twice a year in France (in February and August) and in Germany, the majority tariff system (for both electricity and gas) corresponds to contracts with prices fixed for a year.

The price of gas has also evolved differently, but is less contrasted than that of electricity. It grew strongly in Italy and France (+59% and +45% respectively year-on-year in January) and a little more moderately in Germany and Spain (+20% and +17% respectively). In France, the monthly adjustment of the regulated tariff first drove the year-on-year increase in prices, but since autumn, a “tariff shield” has been in place (► **Box** on the “Tariff shield”). In Germany, the increase in gas prices in January suggests that this month corresponds to the renewal date for several contracts. Year-on-year gas

prices remain low in Germany, compared to France and Italy, but as contracts are renewed, the rise in energy production prices is expected to be more reflected in consumer prices.

Finally, there was a substantial price rise in fuels on a similar scale in all four of the countries studied, with contributions to the total HICP of around one point in January (and up to +1.4 points for Spain, where fuel plays a significant role, ► **Figure 3**).

In France, inflation has at this stage spread slightly less to food and manufactured products than in Germany, Italy or Spain

In Germany, Spain and Italy, food prices were dynamic year-on-year in January 2022 (+4.3%, +4.5% and +3.5% respectively year-on-year). Similarly, prices of manufactured goods increased quite markedly year-on-year in Spain (+3.1%) and Germany (+2.8%). In France, price trends for those two aggregates were more contained in January (+1.5% for food and +1.0% for manufactured goods).

All in all, these two aggregates contributed significantly to the total HICP in Germany and Spain (+1.1 points and +1.6 points respectively). In France and Italy, their contribution was more limited (+0.5 points and +0.8 points respectively).

► 2. Price changes of the different aggregates and some of their components and their contributions to total HICP in the four main Eurozone economies in January 2022

harmonised inflation year-on-year, in %, point contributions

January 2022	France		Germany		Italy		Spain	
	Evolution (%)	Contribution	Evolution (%)	Contribution	Evolution (%)	Contribution	Evolution (%)	Contribution
Food	1.5	0.3	4.3	0.6	3.5	0.7	4.5	1.1
Tobacco	-0.1	0.0	4.8	0.1	0.6	0.0	2.4	0.0
Manufactured goods	1.0	0.2	2.8	0.5	0.6	0.1	3.1	0.5
<i>of which sale of vehicles</i>	2.2	0.1	6.7	0.3	2.7	0.1	3.4	0.1
Energy	20.3	2.1	20.5	2.5	38.7	3.8	32.5	3.8
<i>of which gas</i>	45.4	0.9	19.9	0.6	59.0	1.4	17.3	0.3
<i>of which electricity</i>	3.9	0.1	11.0	0.3	62.0	1.5	46.4	1.9
<i>of which fuels</i>	21.8	0.9	24.7	1.0	19.8	1.0	24.5	1.4
Services	2.0	1.0	2.9	1.6	1.6	0.7	1.8	0.8
<i>of which rent and maintenance of housing</i>	1.3	0.1	2.2	0.4	0.7	0.0	1.0	0.1
<i>of which vehicle maintenance</i>	2.7	0.1	6.9	0.2	3.4	0.1	1.6	0.0
<i>of which transports</i>	4.2	0.1	3.5	0.1	-0.2	0.0	-1.1	0.0
<i>of which recreation and culture</i>	1.6	0.1	4.4	0.4	1.6	0.1	1.6	0.1
<i>of which communications</i>	1.0	0.0	0.0	0.0	-4.0	-0.1	-0.6	0.0
<i>of which restaurants and hotels</i>	2.6	0.2	4.5	0.2	4.4	0.4	3.3	0.5
IPCH	3.3		5.1		5.1		6.2	

How to read it: in France in January 2022, harmonised food inflation was 1.5% as an annual rate and contributed around 0.3 points to total HICP.

Source: Eurostat

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These differences partly reflect those observed in the Industrial Product Price Indices (IPPI) for the domestic market. For example, with regard to processed food (excluding tobacco), the IPPI has risen sharply in the four countries studied, but particularly in Spain and Germany where the year-on-year change in January was 9.4% and 8.6% respectively, against 5.6% for France.²

In services, price rises remain fairly moderate at this stage. Services in Germany nevertheless showed slightly greater buoyancy (+2.9% against about +2% in France, Spain and Italy). ●

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² At the time of writing, the January figure was not available for Italy but it was 6.8% in December 2021;

► 3. Weighting in the HICP of the different aggregates and some of their components in the four main Eurozone economies in 2022

weighting as % of household consumption

Weight (%)	France	Germany	Italy	Spain
Food	19	15	21	23
Tobacco	2	2	2	2
Manufactured goods	16	18	23	18
of which sale of vehicles	4	4	4	3
Energy	10	12	10	12
of which gas	2	3	2	2
of which electricity	3	3	2	4
of which fuels	4	4	5	6
Services	53	53	45	46
of which rent and maintenance of housing	11	17	7	8
of which vehicle maintenance	6	4	4	3
of which transports	2	2	2	1
of which recreation and culture	8	10	6	5
of which communications	3	3	3	3
of which restaurants and hotels	7	4	10	14

How to read it: in France in 2022, the weighting of food in the consumer basket considered for the French HICP was 19%

Source: Eurostat

Measures to limit the rise in energy prices in Germany, Italy and Spain¹

For France, the “tariff shield” measures taken to limit the rise in energy consumption prices have been covered in a specific analysis (► **Focus** attached to the Consumer Prices Sheet). Germany, Italy and Spain have also implemented measures to limit the rise in energy prices for consumers.

In Germany, the main measure is a reduction in taxes on electricity, introduced on 1st January 2021 and strengthened in 2022. This is also the case in Spain, with a reduction in electricity tax from summer 2021, and in Italy with a drop in the tax on gas since September 2021. In addition, from the last quarter of 2021, Spain has capped any increase in gas prices and Italy has reduced network charges for electricity and gas.² Italy has added the possibility of staggering payment of energy bills, with no interest. These measures have mainly targeted consumers, households and businesses whose energy consumption is not too high.

As in France, these price measures can be combined with income transfers to the most vulnerable households (energy vouchers in Spain and Italy, increase in housing allowance in Germany). ●

¹ Source: <https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices/>.

² In Italy, a reduction in the electricity transmission charge was put in place for small consumers, excluding households, from Q2 2021.

Bibliography

INSEE, (2021), “Recent dynamics in inflation in France, Germany, Italy and Spain are linked to the increase in energy prices, but with specific features in each country”, *Economic outlook*, December 2021. ●