

# French economic outlook

## The inflationary episode was more of a “bump in the road” for France but a “peak” for its partner countries

In 2023, inflation declined in the main European economies. The contribution of energy products to inflation fell markedly, with the scale of the reduction reflecting prices on the energy markets. Also relevant are the specific features of national pricing methods, the mix of energies in the average consumer basket, and price limitation measures that have now expired or ended but which will affect year-on-year price variations (“base effects”). Consumer prices of food products also continue to slow, following the slowing momentum in agricultural prices and producer prices in the agrifood industries. Inflation excluding energy and food products has also shown signs of moderation in recent months, although it remains more buoyed up than headline inflation. All in all, compared to its main partners, France has experienced a “smoother” change in inflation over the last few years, and the cumulative price increase since 2019 appears to be somewhat lower at this stage, as does growth in average wage per capita. In fact, the tariff shield on electricity and gas prices helped significantly to mitigate the increase in year-on-year variation in France in 2022 and 2023.

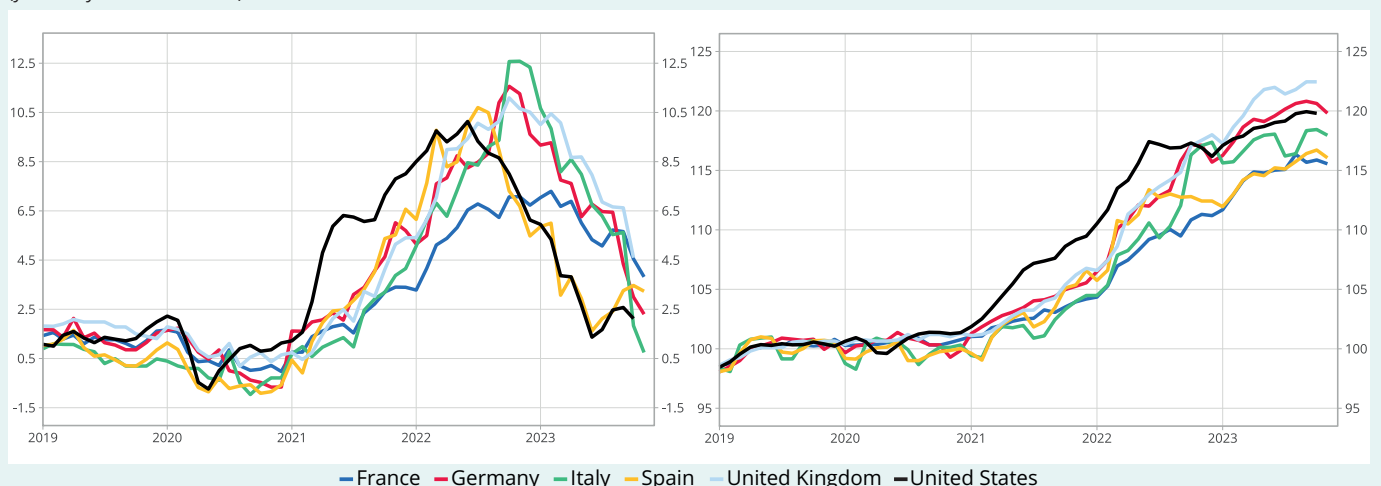
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The contrasts between inflation levels currently measured (within the meaning of the Harmonised Index of Consumer Prices – HICP) in the main European economies can be explained largely by price movements that occurred a year earlier. In the summer of 2022, inflation was high in all countries, mainly because of the rise in energy prices. However, the year-on-year variation in the price index was lower in France, as a result of the tariff shield, which kept gas and electricity prices in check, and the reductions at the pump (► **Figure 1**). At the end of summer 2022, inflation began to fall back significantly in Spain and remained stable in France, but continued to climb in the other main European countries. Then from the end of 2022, year-on-year consumer prices in the United Kingdom, Germany and Italy began to fall back in turn, mainly due to base effects. This slowdown in inflation did not wipe out the cumulative increase

in prices since 2019: in October 2023, the HICP in the United Kingdom was 22.4% above its 2019 average, in Germany this figure was 20.6% and in the United States 19.8%. The cumulative increase in the price index over the same period was less in Italy (18.4%), Spain (16.7%) and France (15.9%). All in all, over the last three years, the inflationary episode appears to have been “smoothest” in France, with the graph taking the shape of a “bump”, whereas it more closely resembles a “peak” of varying steepness in the partner countries.

Excluding energy and food, where prices are most volatile, inflation in the main European economies has increased significantly since mid-2021, only starting to fall back recently (► **Figure 2 left**). The United Kingdom stands out with a cumulative increase since 2019 that is much higher than in other countries (► **Figure 2 right**), due mainly to the prices of services.

### ► 1. Harmonised Index of Consumer Prices in the main European economies and the United States (year-on-year as % of HICP)



Last point: November 2023 for France, Germany, Italy and Spain, October 2023 for the United States and the United Kingdom.

Source: Eurostat, INSEE, Destatis, Istat, INE, ONS, calculs Insee.

In October 2023, the last month for which detailed indices are available for all countries, consumer prices slowed down considerably year-on-year in most of the countries studied (► **Figure 3**). Inflation declined sharply this month in Italy (+1.8% after +5.6% year-on-year) and the United Kingdom (+4.6% after +6.7%, year-on-year) associated with sizeable base effects due to energy. In October 2022, these two countries experienced a vigorous increase in some energy prices: in Italy following the revision of regulated gas and electricity prices, and in the United Kingdom following the increase in the energy regulator's price cap. In October 2023, inflation also fell in Germany, for the second consecutive month (+3.0% in October, after +4.3% in September), due to the base effect: prices rose considerably in September 2022 following the end of measures to limit prices (lower taxes on fuel and temporary reductions on local transport tickets). It also decreased in France, but to a lesser extent (+4.5% after +5.7%), again partly due to energy base effects (in October 2022, fuel prices increased because of strikes in the refineries). Conversely, year-on-year price variations continued to increase in Spain (+3.5% after +3.3%), as they have done since July, given the smaller reductions in electricity prices.

In November 2023, and according to the provisional estimate, inflation continues to fall in most of the main European economies, partly due to base effects linked to energy prices in late 2022, but also to the slowdown

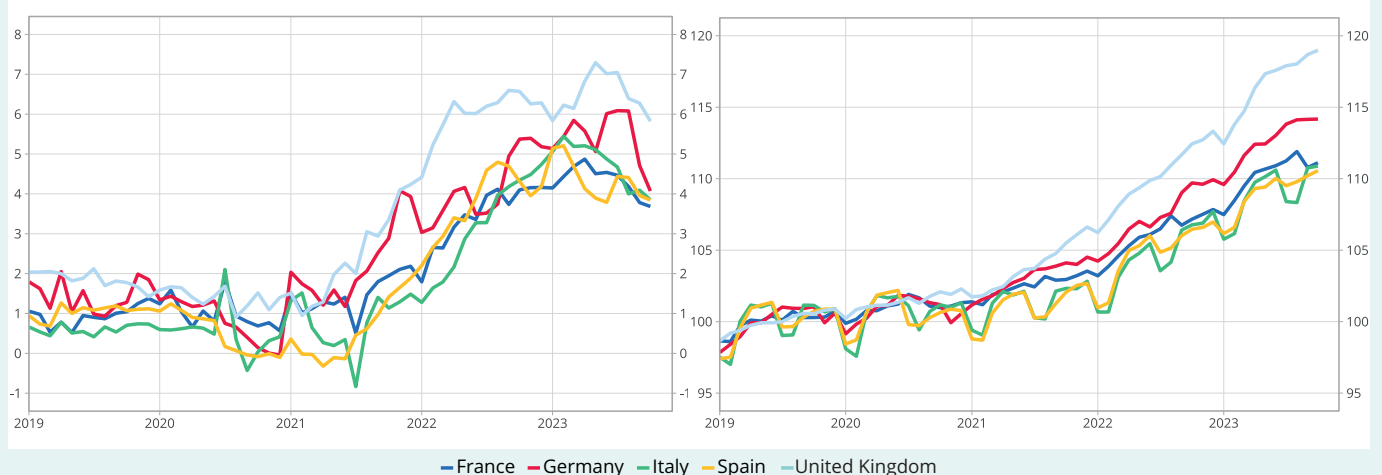
in food prices. This decline is pronounced in Italy (where the year-on-year variation, at +0.7%, is at its lowest since March 2021), France and Germany (+3.8% and +2.3% respectively year-on-year). In Spain, the drop in inflation is less compared to other countries (+3.2% year-on-year), and follows on from an increase since July; measures to limit increases in energy prices (reduction in VAT on energy) had been put in place a year earlier.

At the end of 2023 or the beginning of 2024, headline inflation is expected to trend downwards in all the countries monitored. Price levels look set to slow significantly in Italy and the United Kingdom, again due to the energy base effect and the slight decline in inflation excluding energy and food, and they should slow more moderately in Spain, France, the United States and Germany. Food prices are expected to decelerate, following the slower momentum in producer prices in the agrifood industries. In all these countries, inflation excluding energy and food is expected to fall back slightly. This decline is more tempered because of the momentum in wages, which are likely to stimulate prices, especially in services (► **Box**). In most countries, energy prices are considered to be more or less stable throughout the period. In the United Kingdom, a slight decline is expected in Q4 due to a further reduction in the price cap set by the energy regulator. In France, there is likely to be a rise in regulated electricity prices in February 2024. ●

## ► 2. Consumer price indices excluding energy and food (within the meaning of the HICP) in the main European economies

(year-on-year change in %)

(base 100 in 2019)



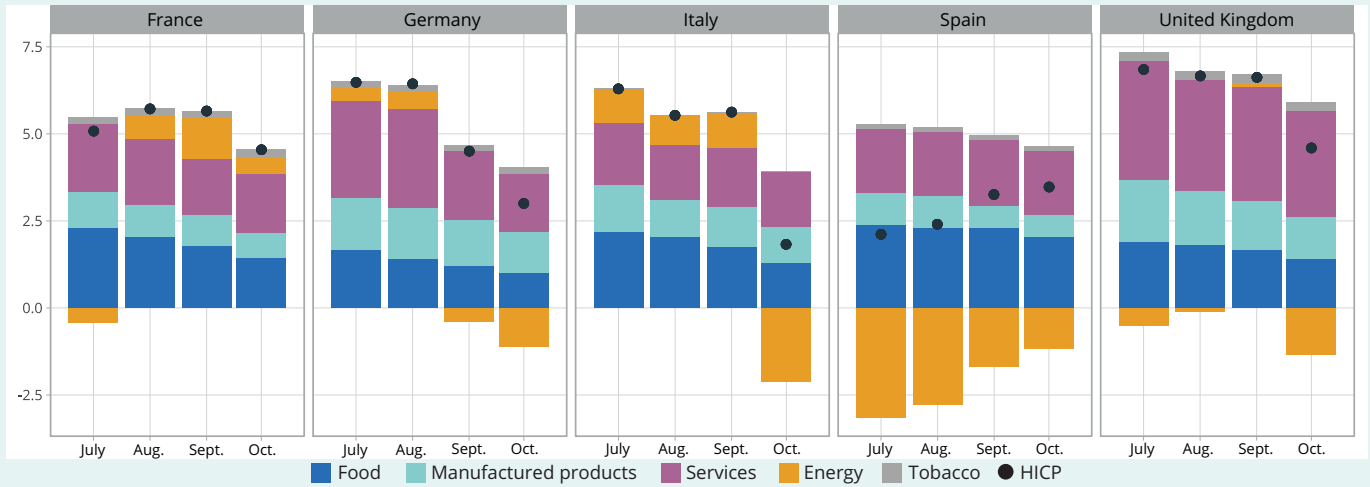
Last point: October 2023.

Source: Eurostat, INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

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## ► 3. Inflation (within the meaning of the HICP) in the European countries and contributions by item

(year-on-year change in the HICP in % and contribution of items in points)



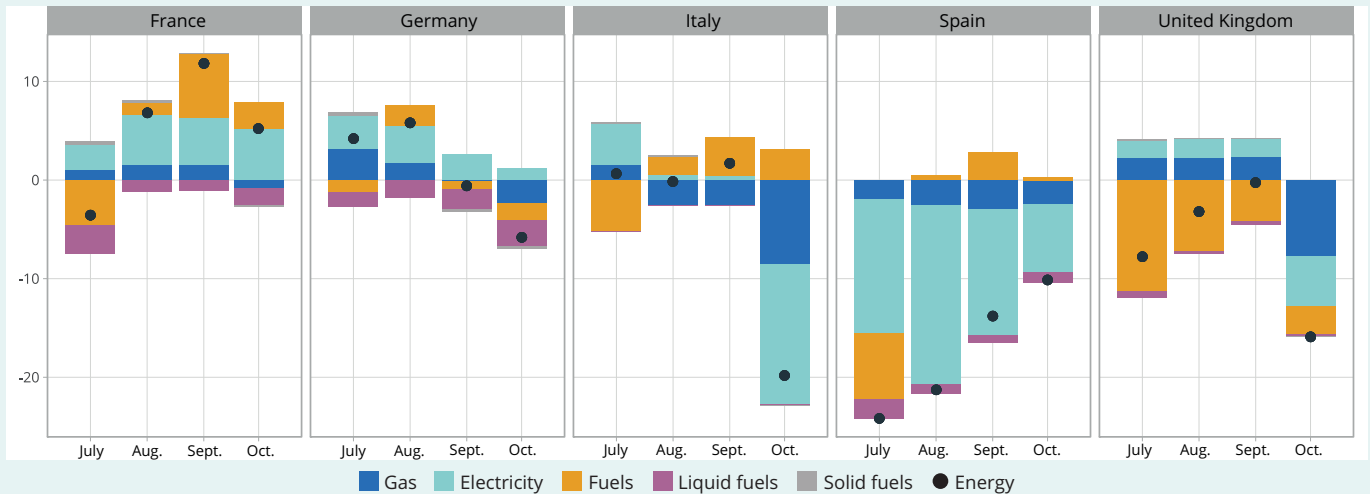
**Last point:** October 2023.

**How to read it:** in France, in October 2023, the Harmonised Index of Consumer Prices increased by 4.5% year-on-year, with a contribution of 0.5 points for energy products.

**Source:** INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

## ► 4. Energy inflation (within the meaning of the HICP) in the European countries and contributions by item

(year-on-year change in the HICP in % and contribution of items in points)



**Last point:** October 2023.

**How to read it:** in France, in October 2023, energy inflation within the meaning of the HICP was 5.2% year-on-year, with fuels contributing 2.7 points.

**Source:** INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

## Wages catch up to prices in the different European countries

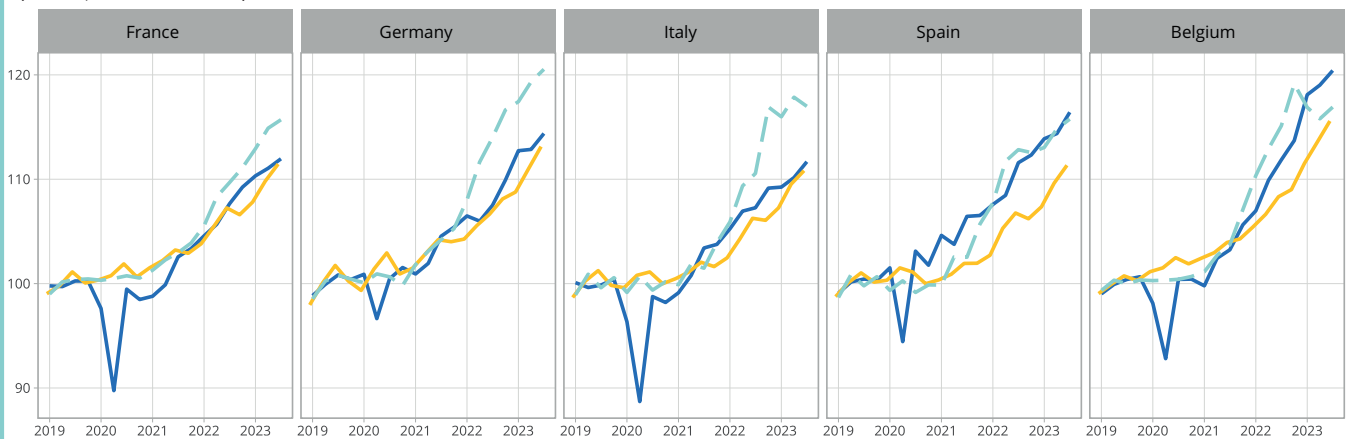
High inflation since the start of 2021 has had an impact on wage levels, with different timeframes and magnitudes in the countries monitored (► [Figure 5](#)). Here we analyse wages within the meaning of average wage per capita (AWPC), which relates payroll to the number of jobs. An analysis of wages within the meaning of the hourly labour cost index gives similar results.

In Belgium, where wages are institutionally indexed to inflation (via a “health index” for the public sector and wage agreements for the private sector), they have increased substantially since mid-2021 and have accelerated since mid-2022, in the wake of inflation. On the other hand, the country is experiencing strong inflation in services, where prices have been stimulated by wage rises. In Spain, wage levels have also increased significantly, with increases being driven by revisions to the minimum wage. In Germany, clear but irregular growth can be seen, following the calendar of wage reviews via wage agreements, but there are also occasional bonuses. In France, nominal wages have also grown, but less rapidly than in Germany. Wage rises are driven by increases in the minimum wage, also by measures specific to the public sector (increase in the index point, category-specific bonuses) and occasional bonuses (in the public and private sectors, such as the value sharing bonus). Finally, in Italy, growth in wage levels seems to be lagging further behind that of inflation.

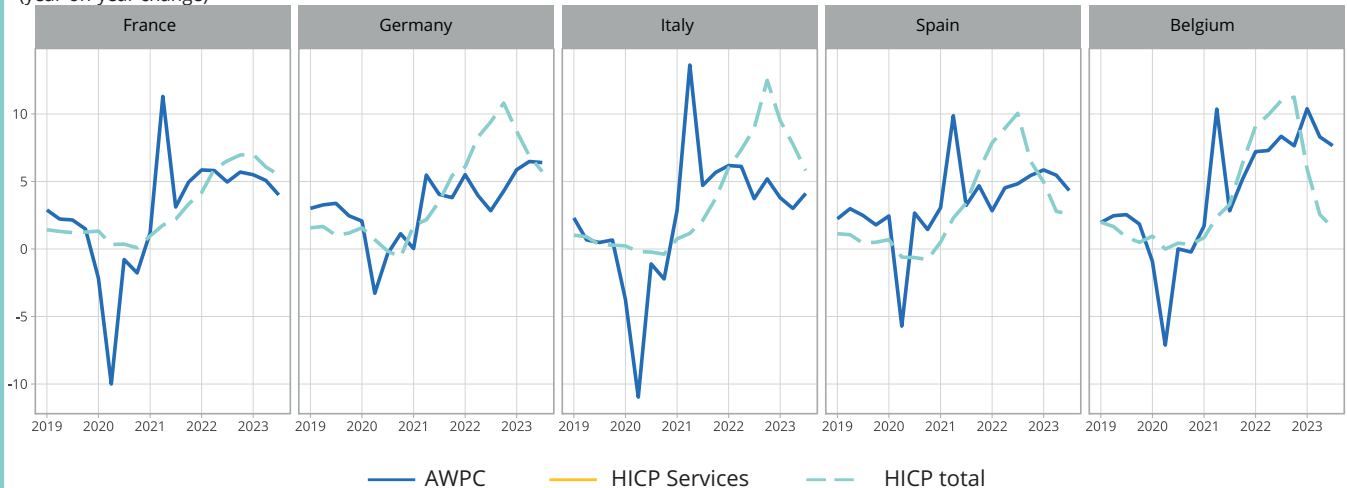
Ultimately, the year-on-year change in AWPC remained below that of prices during the inflationary surge, although in some countries it has come close to this level or has even exceeded: from Q1 2023 in Spain and Belgium, and in Q3 2023 in Germany. For the first two countries, the significant increase in year-on-year change in AWPC has enabled them to catch up with the cumulative price rises, while for the other countries there are still differences in these levels (► [Figure 5](#)). ●

### ► 5. Average wage per capita and inflation in the main European economies

(in level, base 100 in 2019)



(year-on-year change)



**Last point:** Q3 2023.

**Note:** average wage per capita is calculated across the whole economy.

**How to read it:** in France, in Q3 2023, the AWPC was 11.9% higher compared to its 2019 average, the overall HICP was 15.7% higher and the HICP in services was 11.5% higher.

**Source:** national statistical institutes.