

International economic outlook

By June 2024, the easing of inflation in the main Eurozone countries is likely to be limited with several measures to assist households coming to an end

At the start of 2024, the year-on-year variation in consumer prices (within the meaning of the Harmonised Index of Consumer Prices, HICP) fell back in the four main Eurozone economies in varying degrees. In all countries, this slowdown was driven by the prices of food and manufactured goods, however the situation was much more varied regarding energy prices: overall in recent months these have made a negative contribution to HICP in Italy and also, to a lesser extent, in Germany and Spain, while in France they are a little higher than a year ago. However, in terms of comparisons with before the health crisis, Italy and Germany have seen a more pronounced increase in energy prices, with Italian consumers hit by electricity price hikes, and Germans by gas price hikes. Conversely, in Spain energy prices have increased least compared to before the crisis, with the situation there more favourable both for gas and electricity, while France is in an intermediate position.

In H1 2024, governments' withdrawal of price moderation measures, particularly energy prices, is likely to check the decline in inflation in all countries. In June 2024, inflation within the meaning of HICP is expected to be around 3.5% in Spain, 3% in Germany and 2% in Italy, with inflation in France a little below that of Germany. Inflation in Germany and Spain is likely to be around the same as at the beginning of the year, with the rise in energy inflation offset by the fall in other components. Inflation is expected to fall back in France, as the slowdown in food prices is more pronounced than elsewhere, while inflation in Italy is expected to rise, and move nearer to the level in other countries. It is still likely to remain below these levels, however, mainly because core inflation is more moderate, reflecting differences in wage dynamics.

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At the start of 2024, inflation continues to decline in the main European economies

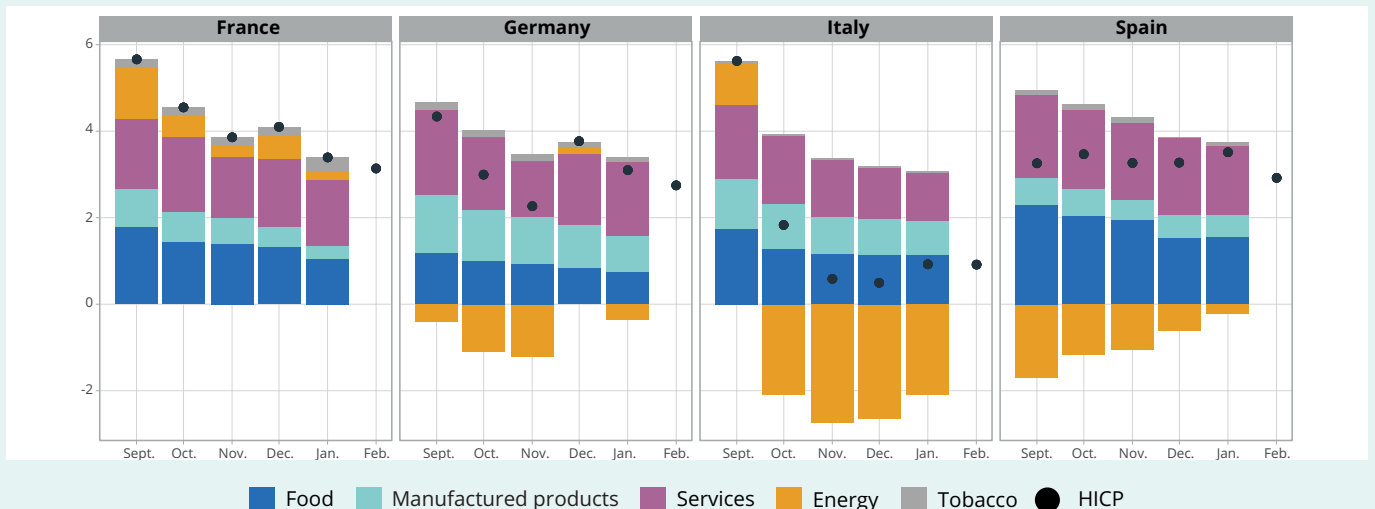
In January 2024 (last month for which detailed indices are available), consumer prices within the meaning of the Harmonised Index of Consumer Prices (HICP, ► **Methodology box** on the difference in year-on-year variation in France between the CPI and the HICP) slowed year-on-year in France (+3.4% after +4.1% in December 2023) and Germany (+3.1% after +3.8%); on the other hand they accelerated in Italy (+0.9% after +0.5%) and Spain (+3.5% after +3.3%). More generally, inflation continued to decline in the main Eurozone economies towards the end of 2023 and the beginning of 2024

(► **Figure 1**) in varying proportions: the drop in inflation was very pronounced in Italy, more gradual in France and Germany, and less in Spain. This observation is confirmed overall by the provisional estimates for February 2024 (for which the different components are not yet known for all countries): the year-on-year variation in the HICP decreased in France (+3.1%), Germany (+2.7%) and Spain (+2.9%), but remained stable in Italy (+0.9%).

In all countries, this trend of slowing prices is driven by the contributions of food and manufactured goods. For energy prices, the situations are more varied. In France, energy prices are a little higher than a year ago and energy inflation has therefore contributed positively to headline

► 1. Inflation (within the meaning of the HICP) and contributions by item

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



Last point: February 2024 (for which contributions were not yet available at the time of going to press).

How to read it: in France, in January 2024, the Harmonised Index of Consumer Prices increased by 3.4% year-on-year, with a contribution of +1.5 points for services.

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

inflation. Conversely, in Germany, Italy and Spain, energy has made a negative contribution to the HICP overall in recent months. This is especially the case in Italy, as a result of the very high prices seen a year ago. This is also the case in Germany, although to a lesser extent, with the exception of December 2023 when energy prices accelerated, due to the low prices seen a year earlier, as a result of a one-off government payout to cover part of household gas bills at the end of 2022. Finally, in Spain, energy prices contributed negatively to headline inflation, but to a lesser and lesser degree, as they are converging towards prices of a year ago.

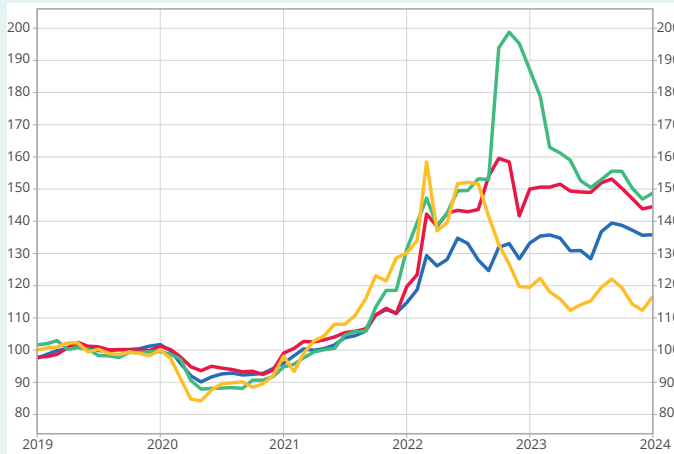
Since the health crisis, gas and electricity prices have risen less in Spain than elsewhere in the Eurozone

Comparing levels before the health crisis, it is in Spain that energy prices have risen least: in January 2024 they were 17% above those seen in 2019 (► **Figure 2a**). Next comes France, which has experienced a 36% increase in energy prices compared to 2019. Finally, prices are generally higher in Germany (+45% compared to 2019) and Italy (+49%). In Italy, prices reached a significant peak between the end of 2022 and the beginning of 2023 because of the combined increase in both gas and electricity prices over this period.

► 2. Harmonised Indices of Consumer Prices in the main Eurozone economies

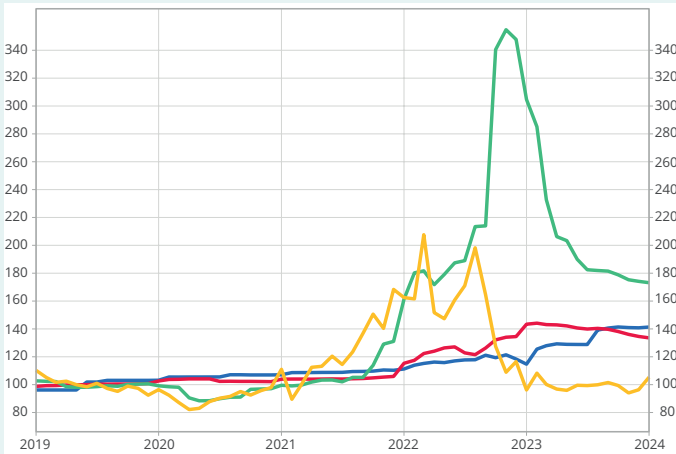
(HICP level, base 100 in 2019)

2a. Energy



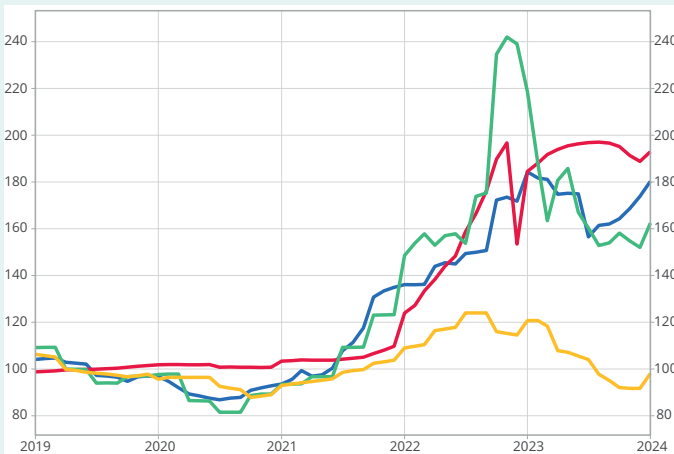
Last point: January 2024.
How to read it: in January 2024, in Spain, energy prices were 16.7% above their 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

2b. Electricity



Last point: January 2024.
How to read it: in January 2024, in Spain, electricity prices were 5.4% above their 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

2c. Gas



Last point: January 2024.
How to read it: in January 2024, in Spain, gas prices were 1.9% below their 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.



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Regarding electricity prices specifically, they started to diverge in the Eurozone from summer 2021 (► [Figure 2b](#)). The post-Covid recovery of the economies boosted demand for energy products even though production capacities were still limited. Until mid-2022, it was in Spain and Italy, where electricity contracts are more often indexed to market prices, that the increase in prices was most pronounced. However, from this time onwards, their trajectory diverged completely: with the activation of the “Iberian Mechanism” (MIBEL), electricity prices fell dramatically in Spain from autumn 2022. Today, they are at the same level as in 2019. In Italy, in contrast, electricity prices initially increased sharply, and were more than three and a half times higher than prices before the crisis. They have come down since, but today they are still 73% above their 2019 level. In France and Germany, the increase was more gradual, especially with the introduction of the tariff shield in France: in these two countries, electricity prices are 34% and 41% respectively above their 2019 level.

Regarding gas prices (► [Figure 2c](#)) the invasion of Ukraine by Russia at the beginning of 2022 led to a divergence between the situation in Spain on the one hand and that in the other three major Eurozone countries on the other. Gas prices increased all at once in Germany, France and Italy throughout the period: in January 2024, prices in these countries were 93%, 80% and 62% respectively above their pre-crisis level, reflecting the persistent tensions surrounding supply chain. Prices in Italy even hit a peak of 142% above their 2019 level in autumn 2022, before dropping back. In Spain, however, prices remained consistently closer to their 2019 level than elsewhere in Europe and in January 2024 they were at the same level as pre-crisis.

In H1 2024, the end of several consumer protection measures is expected to slow the decline in inflation in the main Eurozone economies

To mitigate the effect of prices on household purchasing power, each country put measures in place from mid-2022. With the standardisation of market prices, governments are now expected to gradually bring these protection mechanisms to an end during H1 2024, which is expected to slow the decline in inflation during this period.

In January 2024, VAT on gas was increased again in Italy and Spain. In France, excise duty on natural gas increased and in Germany, the price of a tonne of carbon (which affects consumer prices of gas and also fuel) was also revised upwards by 50%. This resulted everywhere in an increase in the price of gas (► [Figure 2c](#)), and this was despite a drop in gas prices on the European market. Other measures to increase VAT on gas are planned during H1, in Germany (increase from 7% to 19% in March) and in Spain (increase from 10% to 21% in Q2).

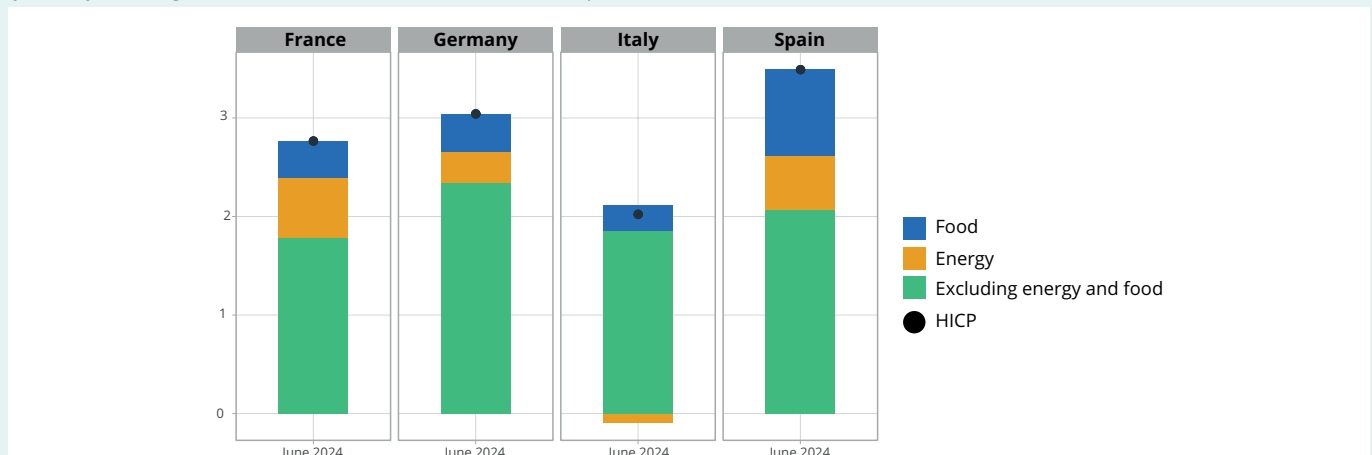
Concerning electricity, VAT in Spain was raised from 5% to 10% in January 2024. Excise duty will also be gradually restored during H1, until it returns to its pre-crisis level in July. In France, as part of the exit from the tariff shield, excise duty on electricity was also partially restored in February. Finally, in Germany, electricity prices are expected to be revised upwards in April by some operators due to the increase in transport costs, with the federal government having put an end to subsidies on the network following the November ruling by the Constitutional Court in Karlsruhe. In its December 2023 forecasts, the European Central Bank estimated that withdrawing energy support measures would result in an increase of around 0.4 percentage points in headline inflation in the Eurozone for 2024.

In June 2024, inflation in Italy is expected to edge closer to that of the other Eurozone economies

Inflation in June 2024 within the meaning of the HICP is expected to be +3.5% in Spain, +3.1% in Germany, +2.8% in France and +2.0% in Italy (► [Figure 3](#)). In Spain and Germany, inflation should therefore be close to its January 2024 level, with the rise in energy inflation offsetting price drops in other components. In France, inflation should fall back a little, as the decline in food prices is expected to be more pronounced than elsewhere. In Italy, on the other hand, inflation is expected to increase to converge with the level of the other Eurozone economies: although Italian inflation is currently still very far from that of other countries (+0.9% year-on-year in January), mainly due to the strong contribution to the fall in energy prices, this effect will probably no longer be seen in June.

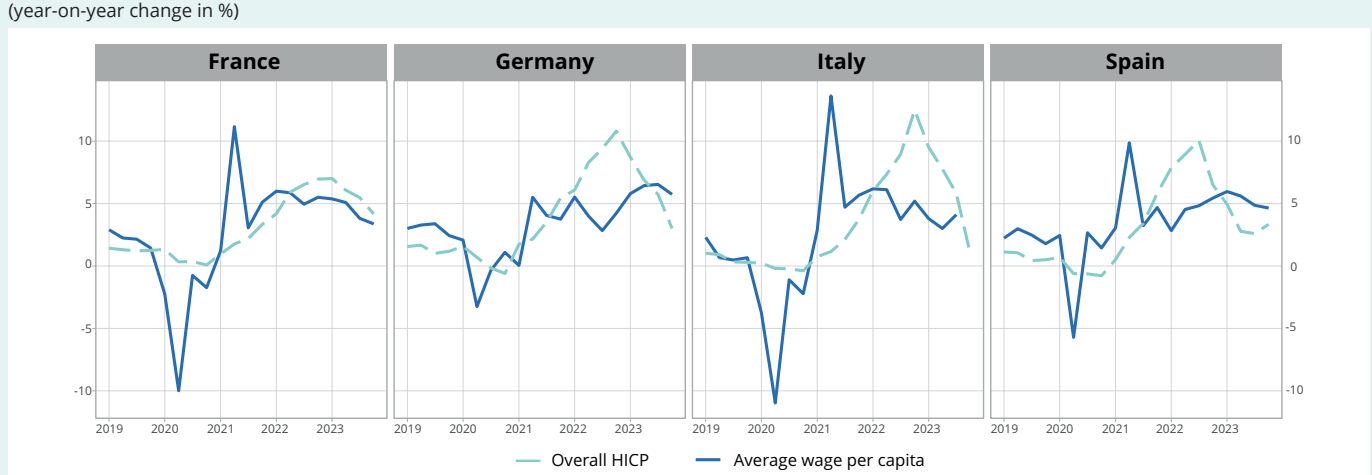
In Italy and France, however, inflation is expected to remain lower than in Germany and Spain, since core inflation is less dynamic, and wages are growing less rapidly in these two countries (► [Figure 4](#)). In Germany, the core index has also been boosted by the increase in VAT in catering from 7% to 19% in January 2024. In France, energy prices are expected to make a more substantial contribution to headline inflation than in Italy, with the result that it is expected to be higher than the variation in prices in Italy. ●

► 3. Headline inflation forecasts (within the meaning of the HICP) and contributions by item for June 2024 (year-on-year change in the HICP in % and contribution of items in points)



How to read it: in June 2024, in France, inflation within the meaning of the HICP is expected to be 2.8%, with food contributing 0.4 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

► 4. Average wage per capita and headline inflation (within the meaning of the HICP) in the main Eurozone economies (year-on-year change in %)



Last point: Q4 2023.

How to read it: in Q4 2023, in Spain, the average wage per capita increased from 4.6% year-on-year, i.e. less quickly than the Harmonised Index of Consumer Prices, which increased by 3.3% year-on-year.

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

Methodology: difference in year-on-year variation in France between the CPI and the HICP

In France, the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP) differ in their construction. For example, in January 2024, prices within the meaning of the HICP were more dynamic year-on-year (+3.4%) than the year-on-year variation in the CPI (+3.1%). It is mainly the processing of health products and services in the two indices that accounts for this difference: the HICP takes into account the outstanding balance paid by households whereas the CPI measures variation in prices, including Social Security reimbursements. This has two consequences: first, the prices of health services and products are more dynamic within the meaning of the HICP (+2.5% and +0.7% year-on-year respectively in January 2024) than in the CPI (+1.1% and -0.9% respectively). Second, the weight of these two categories within the index as a whole is less in the HICP than in the CPI. However, the prices of health services and products are traditionally less dynamic than other prices: thus the year-on-year variation in the HICP is often higher than that in the CPI, all other things being equal.

For France, forecasts for the Harmonised Index of Consumer Prices (HICP) are based on that for the CPI (► [Consumer prices sheet](#)), while taking into account the specific features of the HICP, which results in some slightly different variations. Thus, in June 2024, the year-on-year variation in the HICP is expected to reach +2.8% compared to +2.6% for the CPI. The increase in medical deductibles planned for the spring is likely to contribute 0.1 points to this difference, with the rest linked to differences in weighting. ●