

EcoBrief

France: August's inflation figure reminds us that disinflation will remain gradual

August 2023 marks an upturn in inflation in France, which contrasts with the disinflation observed in previous months. Energy is the main cause of this rebound, linked to the rise in regulated electricity tariffs and the increase in fuel prices. In the medium term, the prospect of a positive energy inflation should delay the drop in inflation below the 2% threshold.

In France, inflation reached 4.8% y/y in August 2023 according to the Insee index (5.7% according to the harmonised index), after a figure of 4.3% y/y in July. This upturn follows fairly marked disinflation after the peak in inflation reached in February at 6.3% y/y, highlighting the fall in energy inflation from 14.1% y/y in February 2023 to -3.7% y/y in July 2023.

Food inflation has been the leading contributor to French inflation since autumn 2022. The impact (mainly until April 2023) of the agreed tariffs during the 2023 trade negotiations even initially maintained the inflationary pressures. However, the level of the (seasonally adjusted) consumer price index stabilised overall between April and July 2023, a stability that had not been observed since March-June 2020.

August broke with this stabilisation mainly due to energy prices. These increased by 6.6% m/m and even slightly exceeded their February 2023 level. The rise in fuel prices emphasises their sensitivity to Brent prices, which at the end of July had returned to its level at the start of the year (around USD 85/bbl). The increase in the regulated electricity tariff (+10% m/m on 1 August) is consistent with the government's announcement to gradually withdraw the tariff shield.

The assumption of further increases in this regulated tariff over the next two years – identical to those occurring this year (15% in February and 10% in August) – would make it possible to close the gap with the tariff calculated in July by the Energy Regulation Commission. But this would be at the cost of keeping inflation above the 2% threshold throughout next year, according to our forecasts.

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