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EcoBrief

Service prices: a pocket of inflation that is set to linger into 2025

In France and in Germany, a further surge in inflation is expected in November, taking it to 1.8 and 2.6% y/y, respectively, according to our forecasts, compared to 1.6 and 2.4% in October and 1.4 and 1.8% in September (Eurostat harmonised index). Headline inflation is still relatively high due to persistent inflation in services.

The publication of preliminary inflation figures in Germany (28 November) and France (29 November) should illustrate the progress of disinflation in energy, food and manufactured goods.

However, prices are still rising by more than 2% on services, which account for nearly half of the consumer price basket. This item is expected to continue to go against the grain for a few more months:

- In France, inflation in services hit 2.9% y/y in October, according to the harmonised index (2.2% according to the CPI), and is expected to stay at this pace in the coming months. We are anticipating a figure of 3.2% y/y in November and another 2.9% y/y in March 2025, as a result of the upcoming hike in prices for medical appointments, additional healthcare insurance, household insurance and car insurance, and the announced fiscal consolidation (hike in the tax on airline tickets). Inflation in services is then expected to remain above 2% over 2025 as a whole;

- In Germany, inflation in services is even higher (4.8% y/y in October, according to the harmonised index), due to the delayed effect of past inflation on negotiated wage rises (+8.8% y/y in Q3). This suggests that headline inflation should remain above 2% in the coming months.

Therefore, even if this does not pose any threats to bringing down inflation to the ECB's target, persistent inflation in services over the next two quarters (and a very sluggish decline thereafter) could encourage households to continue saving more of their money and therefore restrict their consumption.

Stéphane Colliac

Senior Economist - France and Germany

stephane.colliac@bnpparibas.com

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