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EcoBrief

France-Germany: households are feeling the strain of rising interest rates

While it might have been hoped that the current drop in inflation would provide a stronger boost to household confidence, this, and consequently consumption, remains constrained. This is due to the impact of rising interest rates on purchasing intentions in both France and Germany.

In France, household confidence has not deteriorated for several months. It was even up, at 85 in June 2023 according to INSEE (compared with 83 in May), while in Germany confidence had risen sharply from -42.8 (its lowest point in October 2022) to -24.4 in May according to the GfK survey. However, it deteriorated to -25.4 in June.

On the one hand, indices are being supported by falling inflation expectations. For French households, it is worth noting the far less significant fall in the balance of opinion on past price trends (+67 in June compared with +76 in March and an historical average of -16) compared with the sharp fall in the balance of opinion on future price trends (-55 in June compared with -10 in March and an historical average of -31). In Germany, the disinflation anticipated by households is also significant. Nevertheless, inflation persists at such a level that households feel that wage increases will not compensate for it. Thus, the balance of opinion on income expectations fell by 2.4 points to -10.6 in June.

On the other hand, the most significant result was the further deterioration in the balance of opinion among French households regarding their willingness to make major purchases (-47 in June compared with -40 in March and an historical average of -14). The European Commission's May survey already showed that the proportion of households wishing to make a major purchase in the immediate future was even lower than the previous lows recorded in 2008: 6.8% in France and 6.3% in Germany (compared with 7.7% and 10.1% respectively in 2008).

Thus, while the drop in inflation could support food consumption, purchases of durable goods are likely to be increasingly penalised by rising interest rates.

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