

Paris, 28 August 2024

EcoBrief

France: are we now seeing inflation below 2%?

In August 2024, French inflation is expected to fall back below 2% year-on-year for the first time in three years (August 2021). This disinflation is mainly linked to energy prices and is expected to increase further at the start of 2025 for the same reasons (expected drop in electricity prices). By contrast, inflation in services, which has been impacted by an Olympic effect in particular, is expected to remain high in the short term, but will not prevent further disinflation.

According to our forecasts, inflation should stand at 1.9% y/y in August 2024, compared to 2.3% in July, and fall back below 2% for the first time since August 2021. This would mean that disinflation is resuming, following 4 months of stabilisation (with inflation fluctuating between 2.2% and 2.3% y/y between March and July), mainly due to energy prices. We expect energy prices to fall by 0.3% m/m in August 2024, compared to a rise of 6.6% m/m in August 2023. Electricity prices have remained stable and the price of oil products is expected to have fallen in August 2024, compared to rises of 10% and 7% in August 2023, respectively.

Disinflation is even expected to increase at the start of next year, thanks to the likely drop in electricity prices of between 10% and 15% in February 2025 (compared to a rise of nearly 10% in February 2024), which would help to bring French headline inflation down to 1% y/y in February 2025, according to our estimates.

Beyond the Olympic period, inflation in services should also contribute to this disinflation. In August 2024, inflation in services is expected to rise again, to 3.2% y/y (driven upwards by transport and accommodation prices). However, subsequently, with the Olympic effect easing and the inflationary pressures in the sector gradually declining, inflation in services is expected to fall back to 2.7% y/y at the end of the year and to 2% at the end of the first half of 2025.

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