

Paris, 28 March 2024

EcoBrief

French inflation: further disinflation expected in March, before 6 months of probable stabilisation

According to our forecast, inflation is expected to have fallen again in March to 2.4% y/y compared to 3% in February, due to the marked easing in food prices. However, French inflation is expected to then remain between 2 and 2.5% y/y until the end of August, due to depletion of the favourable effects linked to the end of inflation on food and manufactured goods and the continuation of inflation on services, before probably falling below 2% in September.

Publication by the INSEE of its preliminary inflation estimate for March, on Friday 29 March, is expected to confirm continued disinflation in France (at 2.4% y/y according to our forecasts compared to 3% in February), in line with the momentum seen in recent months (3.1% in January and 3.7% in December).

This rather marked disinflation can be explained by food prices that were much more reasonable than in the same period in 2023 (m/m inflation not seasonally adjusted of 0.2% in January 2024 compared to 1.7% in January 2023, then of -0.3% in February 2024 compared to 1.7% a year earlier). This momentum is expected to continue in March 2024 (forecast of 0.1% m/m compared to 1.8% in March 2023) before slowing after that. In addition, disinflation on manufactured goods, which also contributed to the drop in overall inflation, is already well advanced, having already fallen to 0.4% y/y in February, compared to 4.8% y/y at the highest point in March 2023.

At the same time, prices of services have not yet experienced this level of disinflation. They rose to 3.1% y/y in February, primarily due to the rise in insurance rates and the price of transport services. And in the coming months, we expect prices of services to continue to rise at roughly the same pace, more so as the Olympic Games approach and mainly due to the expected rise in the cost of air transport. Inflation on services is therefore expected to again reach 3.1% y/y in August.

As a result, disinflation, which was still significant in March, is likely to stall. This would be followed by a 6-month period during which headline inflation would fluctuate between 2 and 2.5% y/y depending on the month, until August. If it does not fall below 2%, this is also due to removal of the energy price cap. This removal pushed inflation up by 0.4 pp compared to a scenario in which there were no tax rises on gas (in January) and electricity (in February).

From September onwards, the effect of the Olympic Games legacy on transport and rental prices should enable headline inflation to fall below 2% for the first time since August 2021.

Stéphane Colliac
Senior Economist - France and Germany
stephane.colliac@bnpparibas.com