

## ECONOMIC PULSE

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## FRANCE: FURTHER CONTRACTION IN CONSUMER SPENDING LIKELY IN THE SECOND QUARTER

Inflation is continuing to spread among the various components of the consumer price index (CPI). The energy component fell slightly in April (-2.5% m/m) after the government introduced a fuel rebate, but that decline was more than offset by faster inflation in other components of the CPI. Food prices in particular rose by 1.4% m/m in April, the sharpest increase for 20 years, beating figures seen in previous waves of food price inflation in 2007-08 and 2011. Food was the main contributor (0.2 points) to monthly inflation in April (0.4% m/m). Year-on-year inflation hit 4.8% according to the INSEE index (5.4% according to the harmonised index, an increase of 0.3 points vs. March for both measures). Annual inflation remained mostly driven by the energy component, which contributed 2.3 points to the total.

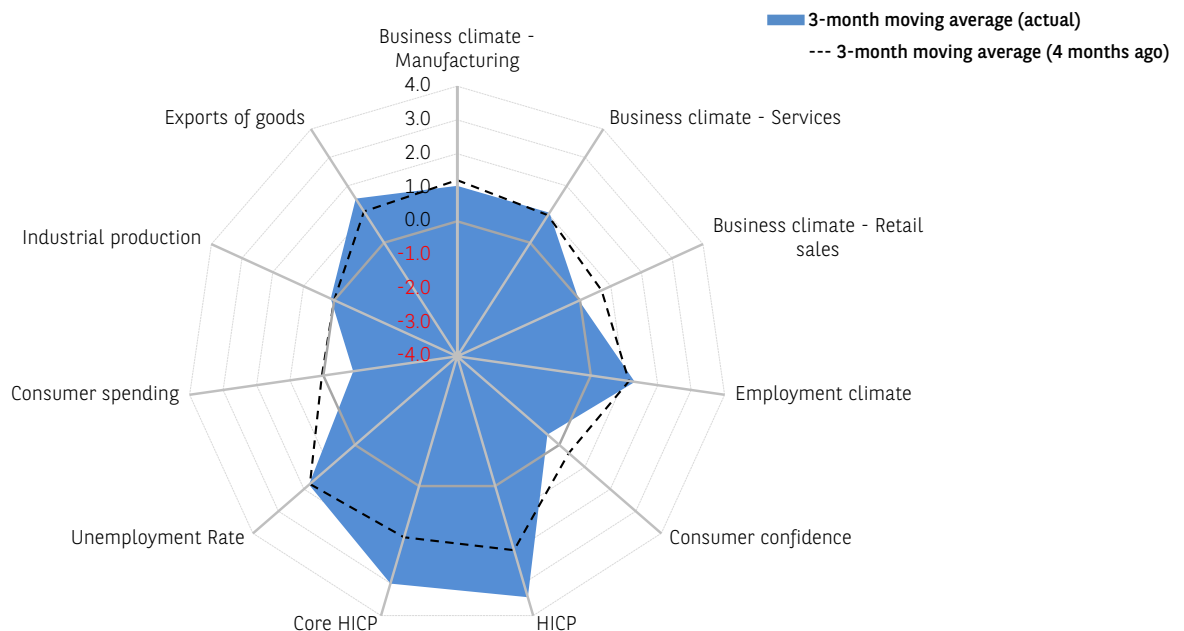
Inflation is likely to continue rising in the coming weeks, with the rate of increase in the INSEE index set to peak at 5.5% y/y in July according to our forecasts. French households are well expecting this judging by the balance of opinion regarding future price movements, which has been very high in the last two months. Rising inflation is significantly eroding purchasing power, a problem which is unlikely to abate soon. The most recently announced policy measures will take effect with a small time lag: the minimum wage has been increased by 2.65% in May, and expected rises in pensions and public-sector wages, along with a food subsidy, should be implemented after France's parliamentary election, i.e., probably in early July.

This means that there is a good chance of household consumption falling again in the second quarter: we expect a 0.7% q/q decline after a 1.3% q/q fall in the first quarter. At the end of March, the carryover for the second quarter was negative for three expenditure components that make up two thirds of consumer spending on goods: -1.7% for food, -1.4% for automobiles and -1.2% for energy. Given high food and energy prices, along with the further drop in car production (-4.5% q/q in Q1, taking it one third below its pre-Covid-19 level), a rebound is unlikely.

With household investment also declining, overall consumer demand is weak. This means that business investment (+0.7% q/q) and inventories (positive contribution of 0.4 points) – which provided strong support for growth in the first quarter – are likely to contribute less in the second. After zero growth in the first quarter, we expect GDP to rise very slightly in the second: we are forecasting growth of 0.1% q/q, slightly less than INSEE (0.25% q/q) and the Banque de France (0.2% q/q).

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## FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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