

CHART OF THE WEEK

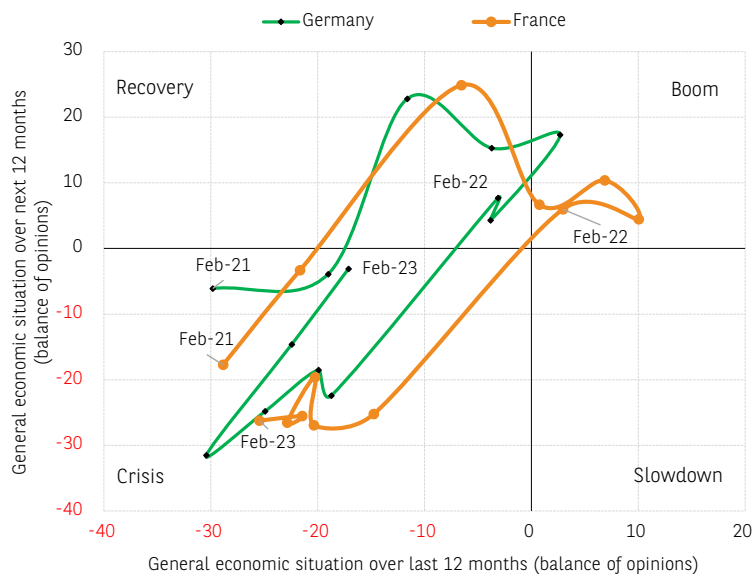
CHART OF THE WEEK

15 March 2023

GERMANY VS. FRANCE: GERMAN CONSUMERS HAVE CONFIDENCE IN THE RECOVERY; THE FRENCH, NOT YET

Stéphane Colliac

German and French households perception of the economic cycle



Source: DG Ecfín, BNP Paribas calculations

The European Commission survey of consumer confidence has shown, over the past four months, a marked improvement amongst German consumers, driven by an upturn in their expectations for the general economic situation. Conversely, French consumer confidence remains depressed and is still not showing any sign of improvement¹. Assessments of the past situation are diverging too, with that in Germany also improving, albeit to a lesser extent.

This divergence of views between France and Germany emerged after the first signs of disinflation in Germany, driven by the freeze of energy prices introduced by the federal government in November 2022. Thus although the inflation peak was significantly higher in Germany (11.6% y/y in October 2022, compared with 7.1% y/y in France at the same date), the country now seems to be over the peak (9.3% y/y in February). In contrast, French inflation reached a new high in February, at 7.3% y/y (Eurostat harmonised measure).

Moreover, the curves are likely to cross, with inflation in Germany falling below that in France. Although inflation is likely to fall in both countries, our scenario suggests this will be a slower process in France: in the 3rd quarter, French inflation is expected to still be around 5.4%, compared to 4.6% in Germany, justifying German households' renewed optimism if their inflation expectations are similar to ours.

¹Note on methodology: our chart draws on the IFO business cycle clock, which links German businesses' views of the current situation and their expectations. It shows European Commission data on the balance of opinions (seasonally adjusted) of households with regard to the economic situation over the past 12 and next 12 months. These figures are standardised (their average value across the whole data set is subtracted). This allows the four phases of the economic cycle as perceived by consumers to be distinguished (for example the "boom" area sees a simultaneous improvement in household sentiment on both the past and future economic situation). Data is shown every two months to improve the readability of the chart.

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Published by BNP PARIBAS Economic Research

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Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre / Chief editor: William De Vijlder



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