

ECONOMIC PULSE

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FRANCE: INFLATION WEIGHING ON HOUSEHOLD CONSUMPTION

French inflation hit 4.5% y/y in March according to the final INSEE estimate, due mainly to another jump in energy costs (up 9% in March alone, a 29.2% increase year-on-year). At the same time, this inflation appears to be starting to bite when it comes to consumer spending on goods: having fallen significantly in January (-2% m/m), this saw only a limited recovery in February (+0.8% m/m). The latest INSEE survey of household confidence was anything but reassuring about the prospects of a short-term rebound. Consumer confidence has fallen sharply, particularly because of fears of further price increases: the balance of opinion on the outlook for prices rose by 50 points, taking it to record levels.

Inflationary pressures are spreading, particularly to food prices, which rose by 2.8% y/y in March and are likely to continue to climb (we are expecting 4.1% y/y in June). Moreover, business surveys from INSEE and the European Commission also point to continued price increases in Q2, notably in the retail and industrial sectors.

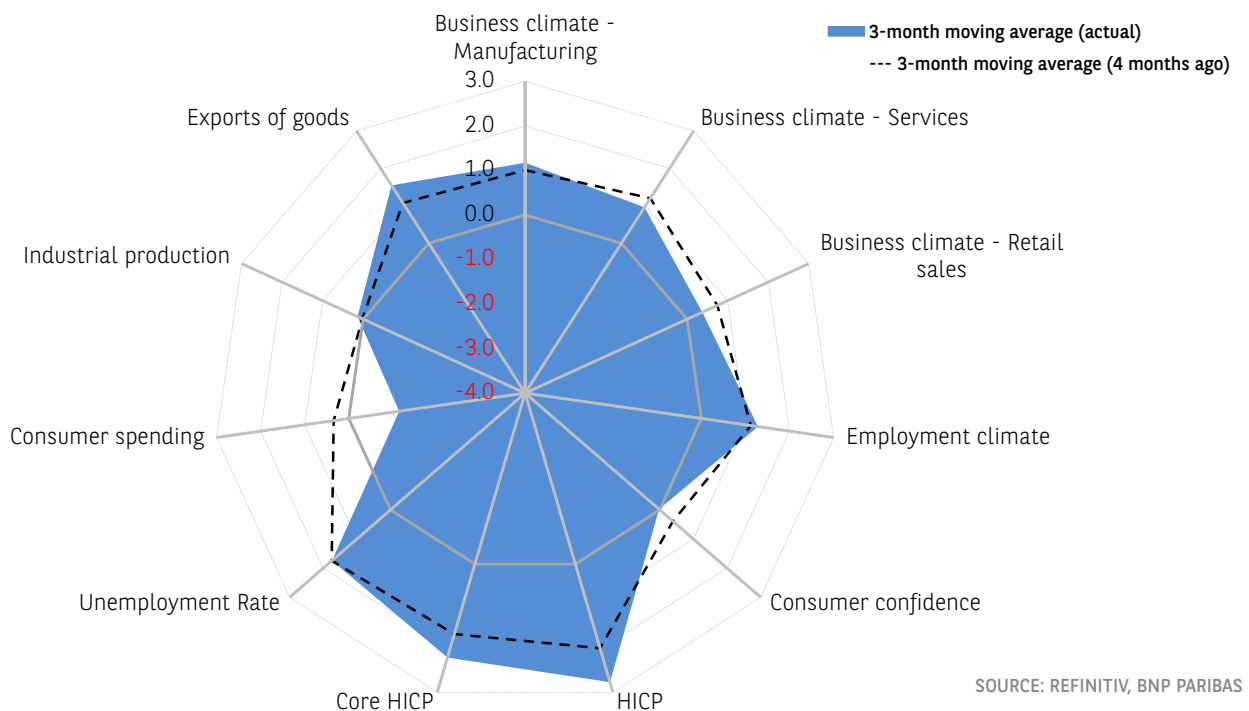
Apart from the effects on inflation, which appear pretty clear, repercussions for businesses of the war in Ukraine are less certain. Survey data show a deterioration in the industry sector in March, under the effect of a worsening of individual production expectations, but with no decline in order books. Besides, the worsening of prospects is concentrated on certain sectors, most particularly the automotive industry, highlighting the continued supply difficulties it faces.

The contribution of net exports to GDP growth is, however, likely to be positive, as the result of a drop in imports, itself reflecting the dip in household consumption and particularly spending on energy (carry-over effect of -2.4% in February). According to the Customs authorities in February the three-month average for import prices increased by 3% while nominal imports rose only 0.1%. Export prices increased by 1%, and nominal exports by 0.9%.

Overall, GDP growth is likely to have weakened significantly in the first quarter, to 0.3% q/q, from 0.7% q/q in the fourth quarter of 2021, and will slow down further in the second quarter, to 0.1% q/q according to our latest forecasts.

Stéphane Colliac

FRANCE: QUARTERLY CHANGES



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 +3. 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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