

Inflation in the main European economies

During the first months of 2023, the year-on-year variation in consumer prices decreased overall in the main European economies. Inflation trends continue to be determined largely by change in energy prices: the contribution of energy to inflation has declined in all countries since the start of the year, with Spain set apart with a negative contribution since December 2022. The decline in energy inflation can be explained mainly by “base effects”, especially in March 2023, reflecting the effects of the outbreak of war in Ukraine a year earlier. Inflation excluding energy and food products remains dynamic, although in the Eurozone countries, the business tendency surveys suggest a slowdown in production prices in the manufacturing industry for the coming months.

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Inflation is falling back in Europe, due mainly to “base effects” on energy prices, one year after the start of the war in Ukraine

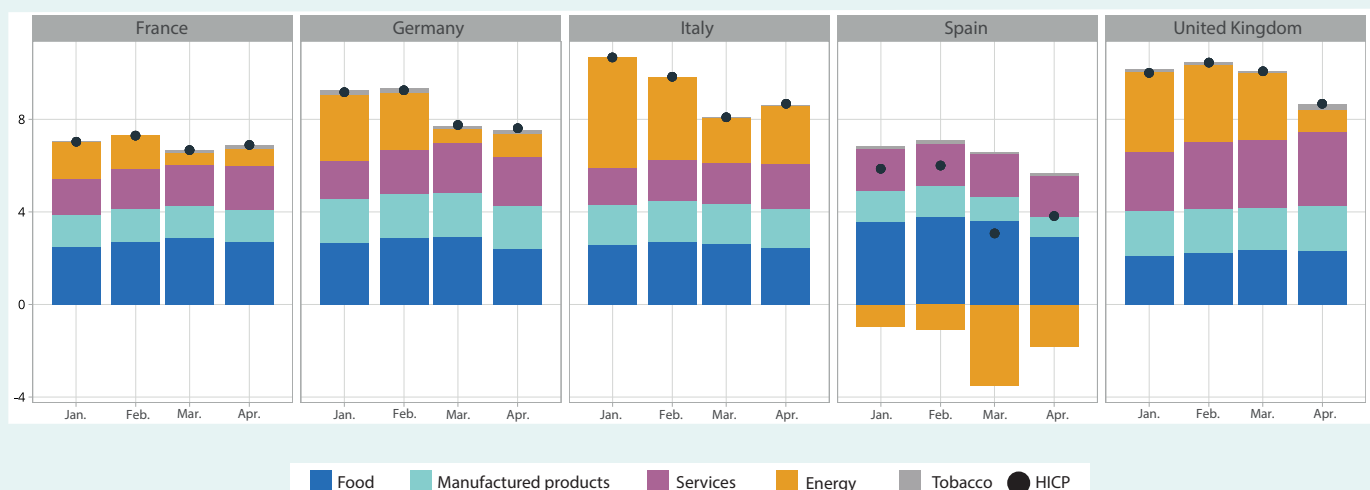
In March 2023, inflation, as measured by the year-on-year variation in the Harmonised Index of Consumer Prices (HICP), fell sharply in Germany, Italy and Spain, and to a lesser extent in France and the United Kingdom (► **Figure 1**). This decline is mainly due to significant “base effects” on energy as a result of the very large monthly increase in the prices of energy products a year earlier, after the outbreak of war in Ukraine (► **Figure 5**). The HICP for fuels, which is strongly correlated to oil prices, had risen sharply in March 2022. Consumer prices of other energy products, which are usually less responsive to market prices, had increased less, with the exception of electricity in Spain, where the consumer price soared in March 2022 resulting in a strong “base effect” in March 2023. In addition, the HICP for energy remained broadly stable in February and March 2023, and even fell in Italy as gas and electricity market prices fell back.

In April 2023, inflation, measured as year-on-year variation, declined substantially in the United Kingdom, and more marginally in Germany, but rebounded in France, Italy and Spain. Once again, “base effects” on energy account for a sizeable proportion of these movements. In the United Kingdom, gas and electricity prices are regulated by Ofgem (Office of Gas and Electricity Markets), which normally reviews price caps twice a year in April and October. The price cap was increased by 54% in April 2022 but was not increased in April 2023 because of the price freeze announced by the UK government. Conversely, the “base effect” contributed to a rise in inflation in France, Italy and Spain in reaction to the introduction in April 2022 of the reductions at the pump.

In May 2023, harmonised inflation fell again in the main Eurozone economies, according to the provisional estimate. This drop in the year-on-year variation in prices was accompanied by a slight monthly decline in prices in France, Germany and Spain. The detailed figures are not yet available, but qualitative analyses based on the national

► 1. Breakdown of the year-on-year variation in the HICP in the main European economies

(year-on-year changes in the HICP in %, contributions in points)



Last point: April 2023.

How to read it: in France, in April 2023, the Harmonised Index of Consumer Prices increased by 6.9% year-on-year, with food contributing 2.7 points.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

International economic outlook

publications are possible. In Germany, the decline in the price index is linked to the introduction in May of a 49-euro monthly subscription ticket for public transport throughout the country. In France and Spain, it is mainly the drop in fuel prices that would seem to account for the monthly decline in the HICP.

Energy price trajectories have been relatively contrasting between countries, mainly as a result of government policies, while food price trajectories have been more similar

The year-on-year variation in energy prices fell in all countries (► **Figure 2 left**), remaining positive or tangential in some, while in others it has already become negative. Thus in Italy and Spain prices fell considerably, while in France, Germany and the United Kingdom they have recently stabilised (► **Figure 2 right**). These recent differences in trends reflect two years of disparities in price variations, linked to the specific features of pricing systems in the different countries, and to government price regulation policies in the exceptional context of a year that saw the war in Ukraine and market volatility.

In Spain and Italy, where household contracts adjust more quickly to energy market prices, the rapid pass-through of market prices to consumer prices caused an earlier increase in consumer prices and today accounts for the decline in energy prices in these two countries. The two price trajectories diverged in mid-2022, however. In Spain, the introduction of the “energy island” plan to the Iberian Peninsula in May enabled the country to reduce the link between gas and electricity prices, thus bringing down energy

consumer prices. In Italy, the gas regulatory tariff, which is revised every quarter, surged in October in line with the doubling of gas prices in Q2.

In the United Kingdom, increases in consumer energy prices were applied in stages, with half-yearly price cap reviews (October 2021, April 2022) before stabilising in October 2022 with the introduction of an exceptional price cap. In Germany, household energy contracts are fixed tariff and are often renegotiated annually, thus delaying the rise in consumer prices. Since the beginning of 2023, households have also benefitted from a cap on gas and electricity prices. Finally, in France, energy prices stabilised in October 2021 then in February 2022 with the implementation of price shields on gas and electricity respectively.

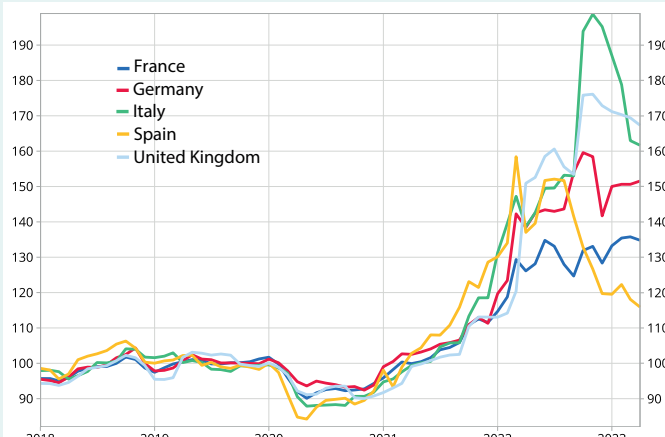
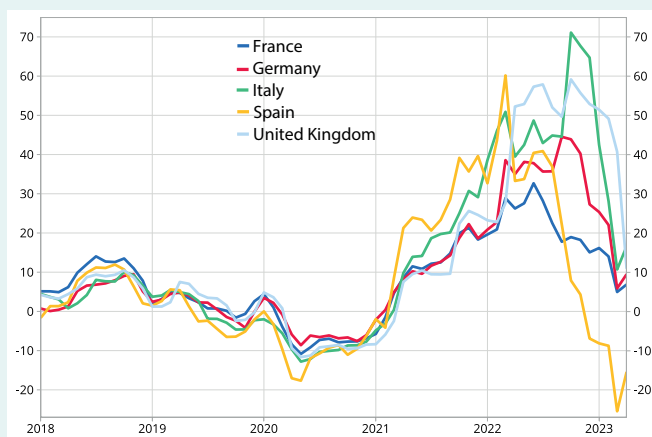
All in all, in April 2023, compared to the situation before the health crisis, Spain's energy price levels were below those of the other main European economies, after their decline started in summer 2022. In Italy, despite a sharp decline since the end of 2022, the cumulative rise since 2019 in the HICP for energy is still higher than that in the other main Eurozone economies. The same is true for the United Kingdom, mainly because of the sharp increase in the HICP for energy in October 2022.

The year-on-year variation in food prices, which are now usually the largest contributor to headline inflation (or the second largest in Italy and the United Kingdom), fell back in April 2023 in the Eurozone countries and especially in Germany and Spain, for the first time in more than a year (► **Figure 3 left**). However, it is still at very positive levels everywhere, above 10%. This decline is due mainly to base effects,

► 2. Harmonised Index of Consumer Prices for energy, in the main European economies

(HICP in year-on-year change in %)

(HICP in level, in base 100 in 2019)



Last point: April 2023.

How to read it: in April 2023, in Spain, energy inflation was -15% (left graph). In the same month in Germany, energy prices were 50% higher than their 2019 average (right graph).

Source: INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

with food prices continuing to increase in recent months, except in Germany where they fell slightly (► **Figure 3 right**). All in all since 2019, however, it is in Germany that consumer prices of products have increased most, followed by Spain, and thus it is in these two countries that price levels started to rise earliest and fastest. In France and Italy, the HICP for food recorded its lowest cumulative increase, although the level was nevertheless more than 20% above that of 2019.

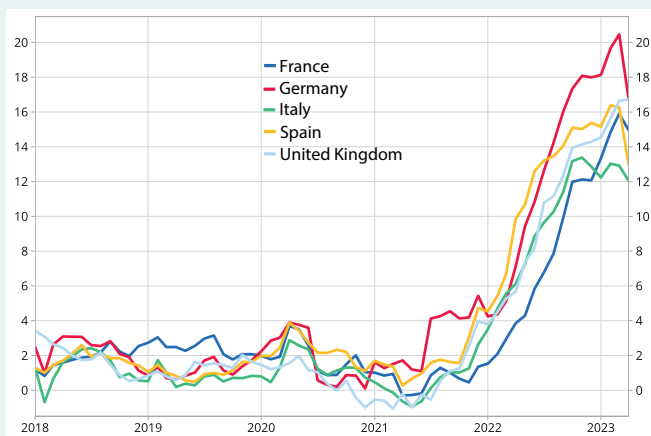
The core HICP, defined as the level of prices excluding energy and food products, has been rising strongly in the main European economies for more than a year and does not yet appear to be slowing. The United Kingdom stands out, with a cumulative increase in the core HICP since 2019 which is significantly higher than in the other countries (► **Figure 4**).

The business tendency surveys suggest a slowdown in production prices for manufactured goods

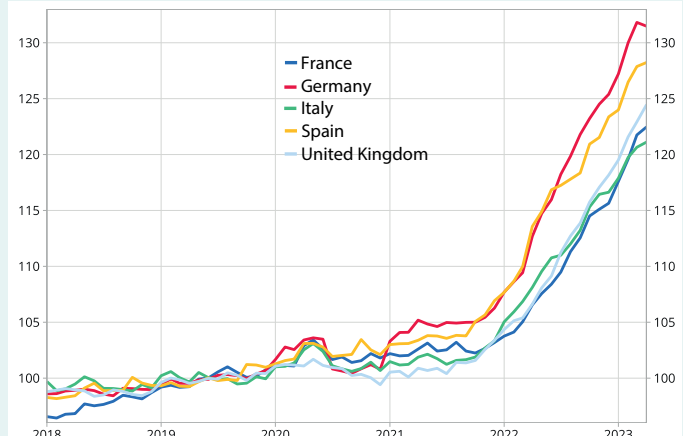
In the main Eurozone economies, the business tendency surveys indicate that fewer and fewer business leaders expect a rise in their selling prices. Balances of opinion have been falling for several months in the manufacturing industry and are now close to their long-term average in France, Germany and Italy (► **Figure 6**). In services, the decline in the balances of opinion is more recent, and for the moment they remain high in all four countries (► **Figure 7**). This suggests that production prices could slow in the Eurozone, especially for manufactured goods. This trend would then be passed through to consumer prices. In services, the slowdown is expected to be less pronounced, and at this stage more uncertain. ●

► 3. Harmonised Index of Consumer Prices for food, in the main European economies

(HICP in year-on-year change in %)



(HICP in level, in base 100 in 2019)



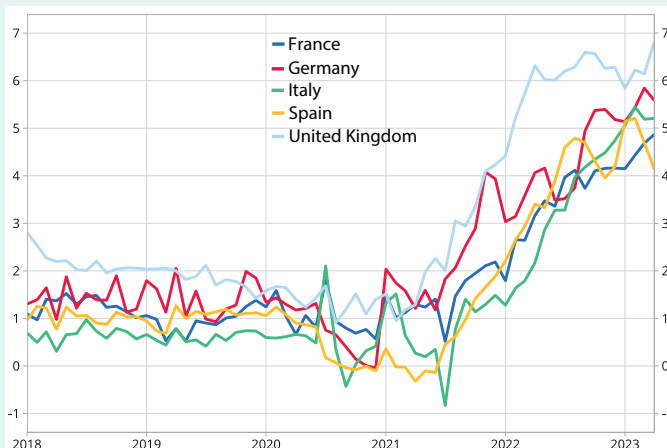
Last point: April 2023.

How to read it: in April 2023, in Italy, food inflation was 12% (left graph). In the same month, in the same country, food prices were 21% higher than their 2019 average (right graph).

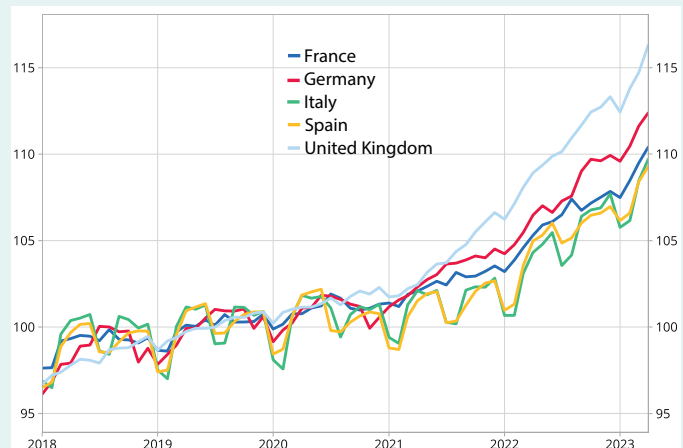
Source: INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

► 4. Harmonised Index of Consumer Prices excluding energy and food, in the main European economies

(HICP in year-on-year change in %)



(HICP in level, in base 100 in 2019)



Last point: April 2023.

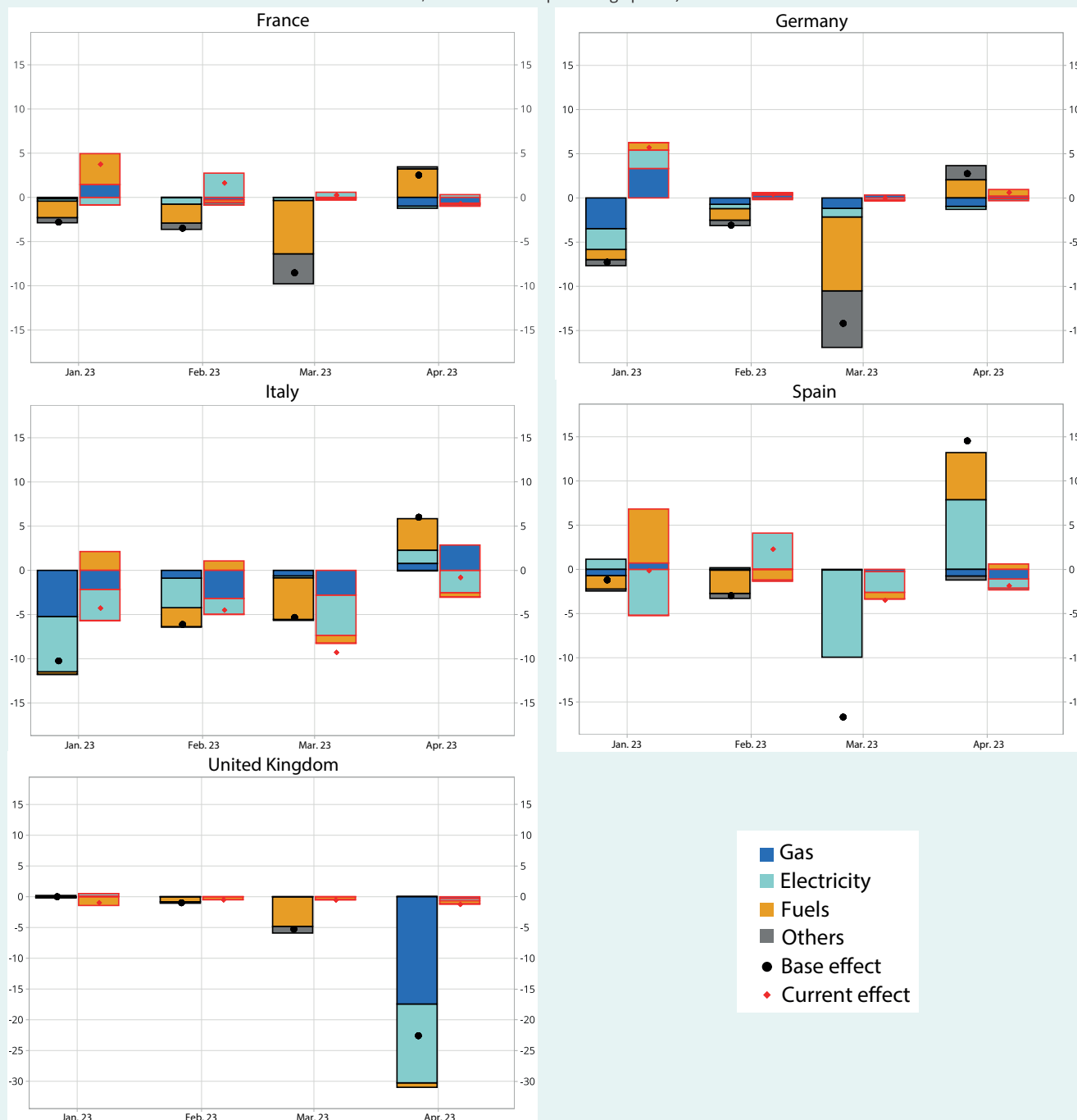
How to read it: in April 2023, in United Kingdom, core inflation, defined as inflation excluding energy and food, was 7.0% (left graph). In the same month, prices, excluding energy and food, were 16% higher than their 2019 average (right graph).

Source: INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

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► Contribution to the year-on-year variation in HICP for energy and its components due to the base effect and the current effect in the main European economies

(current effect of month M, defined as the variation in the HICP between month M and the preceding month; base effect of month M, defined as the variation in the HICP between month M-12 and month M-11; contributions in percentage points)



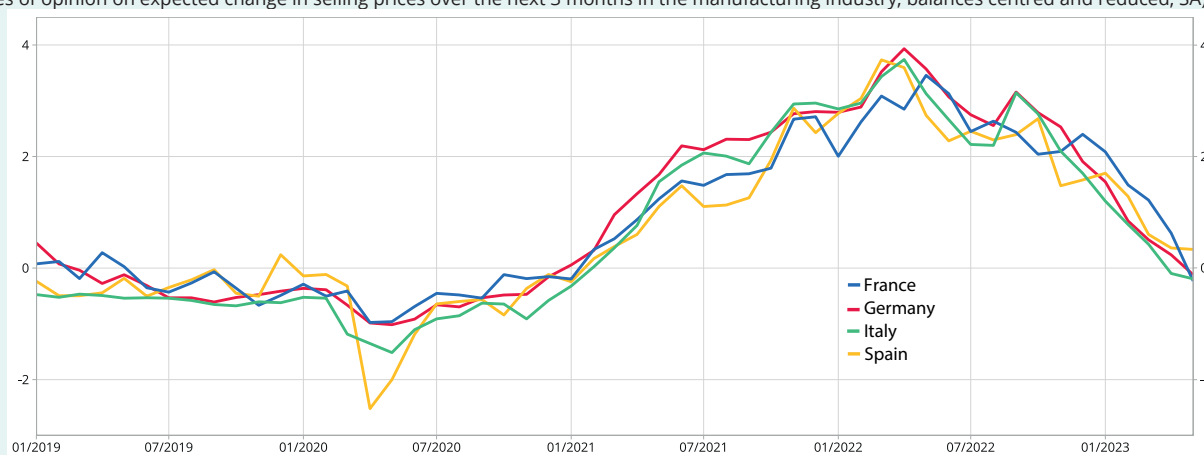
Note: contributions by the different energy types to the base effect and the current effect are calculated based on an approximation valid only for small variations. Given the scale of some monthly price variations, this may explain why the sum of contributions does not correspond exactly to the base effect or the current effect. However, this approximation does not call into question the qualitative messages that come out of the analysis.

How to read it: in France, in April 2023, the base effect linked to the variation in the price of fuel contributed +3.2 points to year-on-year variation in the energy HICP. The contribution of the current effect of the price of fuel was -0.2 points.

Source: INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

► 6. In May 2023, in France, Germany and Italy, expected changes in selling prices were similar to their long-term average in the manufacturing industry

(balances of opinion on expected change in selling prices over the next 3 months in the manufacturing industry, balances centred and reduced, SA)



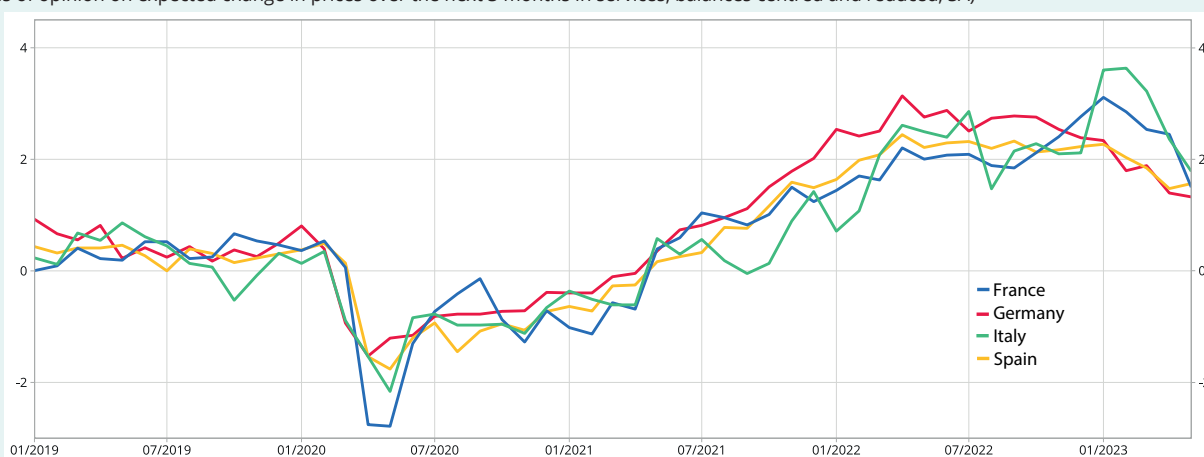
Note: data are from business tendency surveys. These balances are monthly and correspond to European surveys centralised and harmonised by the DG ECFIN, mainly regarding seasonal adjustment. They have been centred (average of balance between January 2005 and May 2023) and reduced in order to facilitate comparisons between countries.

How to read it: in May 2023, in Spain, fewer business leaders in the manufacturing industry expected a rise in their selling prices: the balance of opinion was 0.3 above its long-term average (average of the balance between January 2005 and May 2023).

Source: DG ECFIN, INSEE calculations.

► 7. In May 2023, in the Eurozone, expected changes in prices were still trending upwards in services

(balances of opinion on expected change in prices over the next 3 months in services, balances centred and reduced, SA)



Note: data are from business tendency surveys. These balances are monthly and correspond to European surveys centralised and harmonised by the DG ECFIN, mainly regarding seasonal adjustment. They have been centred (average of balance between January 2005 and May 2023) and reduced in order to facilitate comparisons between countries.

How to read it: in May 2023, in Italy, there were still many business leaders in services who expected a rise in their selling prices: the balance of opinion was 1.7 above its long-term average (average of the balance between January 2005 and May 2023).

Source: DG ECFIN, INSEE calculations.