

Economic outlook

5 May 2023



By mid-2023, the year-on-year variation in consumer prices in France could fall back slightly (+5.4% forecast for June) as a result of base effects on petroleum products. Food prices are expected to continue to increase at a sustained pace, but a slowdown could follow with the trade renegotiations announced for the end of spring. The contribution of the price of services to headline inflation looks set to increase slightly.

It is likely that household consumption will continue to be held back in Q2 2023 in this context of high inflation, with the rise in interest rates weighing more and more heavily on investment. Economic activity is expected to increase in services but slip back in manufacturing industry and continue to decline in construction. All in all, the growth forecast for France in Q2 is still expected to be moderate (+0.2%, as in Q1). The mid-year growth overhang for 2023 is expected to be +0.5%.

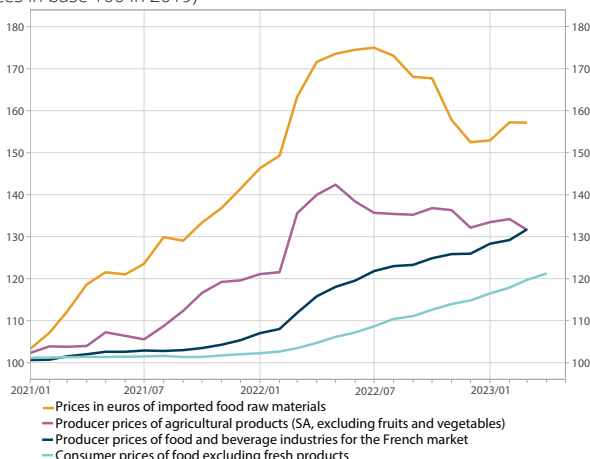
Inflation has plateaued at around 6% for almost a year, although its composition continues to change

In April 2023, the year-on-year variation in the consumer price index stood at 5.9%, after 5.7% in March. For the eleventh consecutive month inflation is therefore on a plateau at around 6%. Since January 2021, the price index has increased by 12% overall, with contrasting trends depending on the different consumption items: energy prices rose by 41% between January 2021 and April 2023, food prices by 20%, the prices of manufactured products by 8% and finally the prices of services by 7%. It was energy that drove inflation first in 2021, before food gradually took over during 2022. In April 2023, food accounted for 40% of inflation, although it represents “only” 16% of the average consumption basket.

Changes month by month in the year-on-year variation in prices reflect both monthly price variations and their situation a year earlier (“base effect”). With regard to petroleum products, for example, the decline in prices year-on-year was less pronounced in April 2023 than in March because it was one year earlier, in April 2022, that the discount at the pump was introduced as a reaction to the sharp rise in fuel prices after the outbreak of war in Ukraine. Regarding food, fresh food prices have been fairly volatile, and decelerated year-on-year in April, but other food prices increased year-on-year by around 16%, as they had also done in March. Finally, the prices of services accelerated a little in April, increasing their contribution to headline inflation.

► 1. From food commodity prices to consumer prices of food products, excluding fresh produce

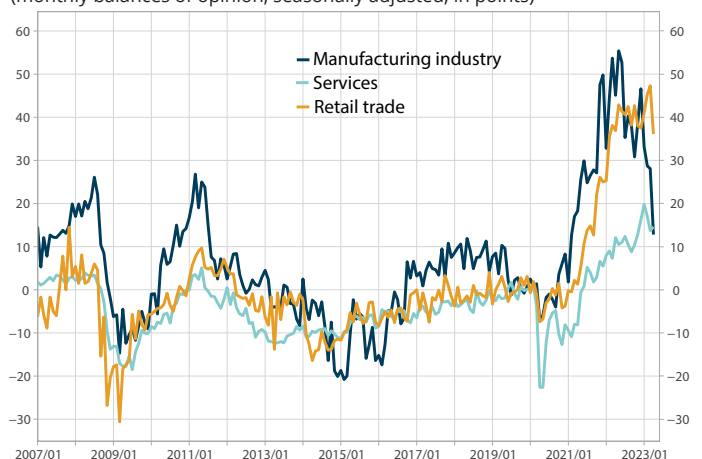
(indices in base 100 in 2019)



Last point: March 2023 (April 2023 for the CPI of food excluding fresh products, provisional estimate).
Source: INSEE.

► 2. Balances of opinion on changes in selling prices over the next 3 months

(monthly balances of opinion, seasonally adjusted, in points)



Last point: April 2023
Source: monthly business surveys, INSEE.

These slight changes in direction in April should not be over-interpreted, although they do outline some key questions for the trend in inflation over the coming months, particularly with regard to food, manufactured products and services: when can we expect the prices of food and manufactured products to begin to slow, in the wake of certain world commodity prices? To what extent could inflation spread further in services?

Early signs of an easing of some prices are borne out, but others have opposite effects and could take over, thus sustaining inflation

While the scale of current developments presents few recent points of comparison, thus making any forecast uncertain, some indicators suggest, if not a decline, then at least a slowdown in the prices of certain manufactured products over the coming months. This shift has been observed in recent months, for example, in the producer prices ("factory gate" or "farm gate" prices) in some industrial and agricultural sectors (► [Figure 1](#)). This is confirmed by the balances of opinion collected in the monthly tendency surveys in industry on probable change in selling prices over the next three months (► [Figure 2](#) and ► [Box](#)). In the tendency survey in services however, it does not appear at this stage.

Regarding food products (excluding fresh produce), agricultural production prices have been falling for several months, although they remain well above their pre-health crisis level. However, producer prices in the agrifood industries have shown no sign yet of a similar trend. Over the forecasting period (June 2023), consumer food prices are expected to maintain a steady rate (between 15 and 16% year-on-year). This does not exclude a possible slowdown subsequently, after the trade renegotiations announced for the end of spring.

Meanwhile, the year-on-year variation in the prices of manufactured goods is expected to remain a little below 5% by mid-2023. Prices of services could pick up slightly, with a year-on-year variation of +3.5% forecast for June, against the backdrop of a further increase in the minimum wage (SMIC) on 1st May. Conversely, and assuming a Brent price of €75, energy is expected to contribute, *via* the "base effect", to slowing down the year-on-year variation in the overall index, forecast at +5.7% in May then +5.4% in June (► [Figures 3](#) and [4](#)). Our assumption for the price of Brent is that it should be similar to that observed at the end of April, but higher than at the beginning of May when volatility was greater.

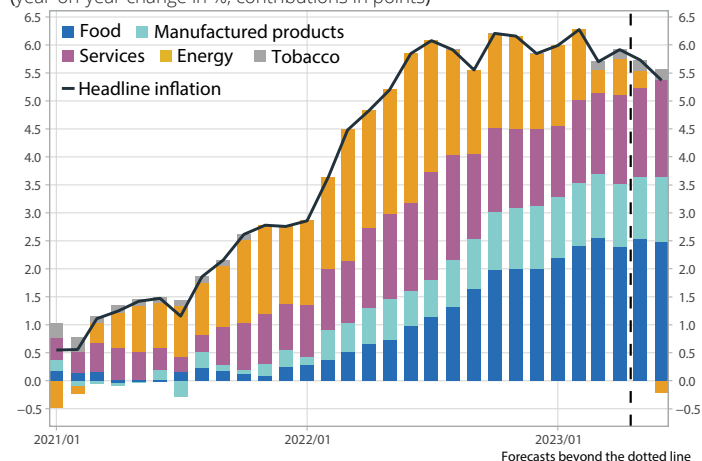
The slight slowdown in headline inflation forecast for mid-2023 is not necessarily an indication of the trend for the second half of the year. Some major uncertainties remain, notably over future changes in food prices and possibly a more significant dissemination of inflation than currently in the services sector.

Household consumption is still held back by inflation, while investment is weakening against a backdrop of monetary tightening

For several quarters, the context of high inflation has weighed heavily on household consumption. In Q1 2023, as in the previous quarter, it was at the same level as just before the crisis (i.e. Q4 2019), despite exceeding this level between mid-2021 and mid-2022. Food consumption in particular fell sharply in volume (around -9% year-on-year in March). This decline may reflect an effective drop in the quantity consumed, but it also indicates changes in the range of products bought (► [Box](#)). The strikes that punctuated Q1 do not seem to have had any significant effect on consumption, however, except probably for rail transport.

► 3. Headline inflation and contributions by item

(year-on-year change in %, contributions in points)



Note : for April 2023, headline inflation is a provisional estimate.
How to read it: in April 2023, the consumer price index rose by 5.9% year-on-year, according to the provisional estimate. Food contributed 2.4 points to this increase.
Source: INSEE.

► 4. Past and projected headline inflation

(year-on-year change in % of the consumer price index)

CPI* groupings (2023 weightings)	January 2023	Februa- ry 2023	March 2023	April 2023	May 2023	June 2023
Food (16.2%)	13.3	14.8	15.9	14.9	15.8	15.5
Tabacco (1.9%)	0.2	0.2	7.8	9.4	10.6	11.1
Manufactured products (23.2%)	4.5	4.7	4.8	4.7	4.7	4.9
Energy (8.6%)	16.3	14.1	4.9	7.0	3.5	-1.6
Services (50.1%)	2.6	3.0	2.9	3.2	3.2	3.5
All (100%)	6.0	6.3	5.7	5.9	5.7	5.4

■ Provisional ■ Forecast.
* Consumer price index (CPI).

How to read it: in April 2023, the consumer price index rose by 5.9% year-on-year, according to the provisional estimate. It is expected to rise by 5.7% year-on-year in May 2023.

Source : INSEE.

Household confidence in the economic situation was still weak in April, despite a slight upturn. In Q2 2023, consumption is therefore likely to remain at a standstill: consumption of goods, especially food consumption, is expected to continue to fall back, while consumption of services is likely to increase again slightly with spending on energy continuing to rebound.

Investment is also unlikely to boost growth: corporate investment could continue to slow in spring, against a background of rising interest rates. Household investment is expected to slow further, in line with the fall in the construction of new housing and real estate transactions. Foreign trade could support growth slightly in the spring, as it did in Q1.

The economic situation is therefore expected to be hesitant overall, with demand difficulties gradually taking over from supply chain difficulties

Business climates, calculated from company responses to surveys, reflect an economic situation that remains hesitant (► Figure 6). Since the summer of 2022, quarterly GDP growth has been relatively modest, at around +0.1% on average. It shows some resistance to the massive rise in

prices, but remains below what could have been expected in the absence of an inflationary shock.

In manufacturing industries, supply chain difficulties are continuing to recede, although they are still greater than before the crisis. Conversely, concerns related to demand are tending to increase (► Figure 7). Inventories of finished products are also considered higher in April than in March. Manufacturing production could dip in Q2, despite the relatively good performance of the manufacture of transport equipment. Industrial activity as a whole could improve, however, as a result of the continuing rebound in electricity production.

In construction, economic activity looks set to continue to decline in the spring, as suggested, for example by the survey of real estate developers, or the slight downturn in payroll employment in this sector in Q1. Activity in trade is expected to be sluggish, whereas in services it is likely to pick up slightly, sustained, among other things, by a rebound in transport services.

All in all, GDP growth in Q2 2023 is expected to settle at +0.2%, the same as in Q1 (► Figure 5). This forecast remains unchanged since the last *Economic Outlook*. Meanwhile, the growth overhang for 2023 is likely to be +0.5% coming out of Q2. ●

► 5. Past and projected economic activity (GDP)

(quarterly and annual variations in %)

	2021				2022				2023		2021	2022	2023 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product (GDP)	0.1	1.0	3.3	0.6	-0.2	0.5	0.1	0.0	0.2	0.2	6.8	2.6	0.5

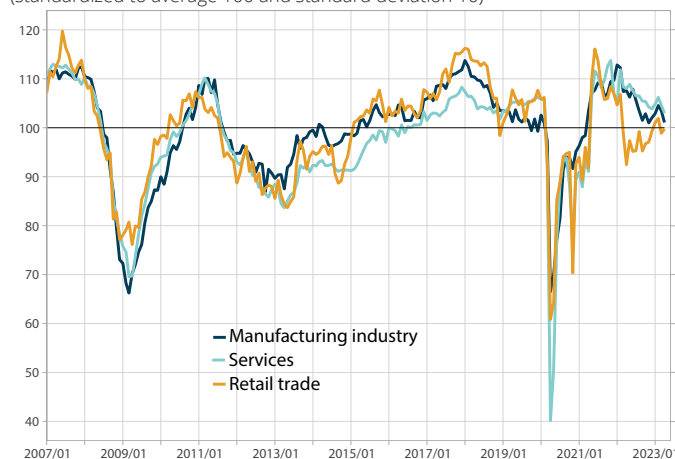
■ Forecast.

How to read it: in Q1 2023, GDP increased by 0.2%. It would increase by 0.2% in Q2 2023.

Source: INSEE.

► 6. Business climate in the main sectors of activity

(standardized to average 100 and standard deviation 10)



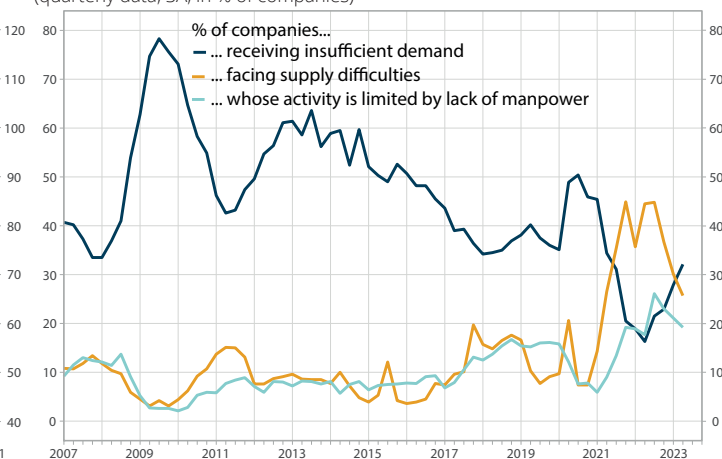
Last point : April 2023.

How to read it: the business climate in services stood at 103 points in April 2023, higher than its long-term average (100).

Source: monthly business surveys, INSEE.

► 7. Supply chain difficulties, insufficient staff and insufficient demand in the manufacturing industry

(quarterly data, SA, in % of companies)



Last point: April 2023.

Note: some companies may report several difficulties at once.

Source: quarterly business survey in industry, INSEE.

Additional results for the business tendency surveys

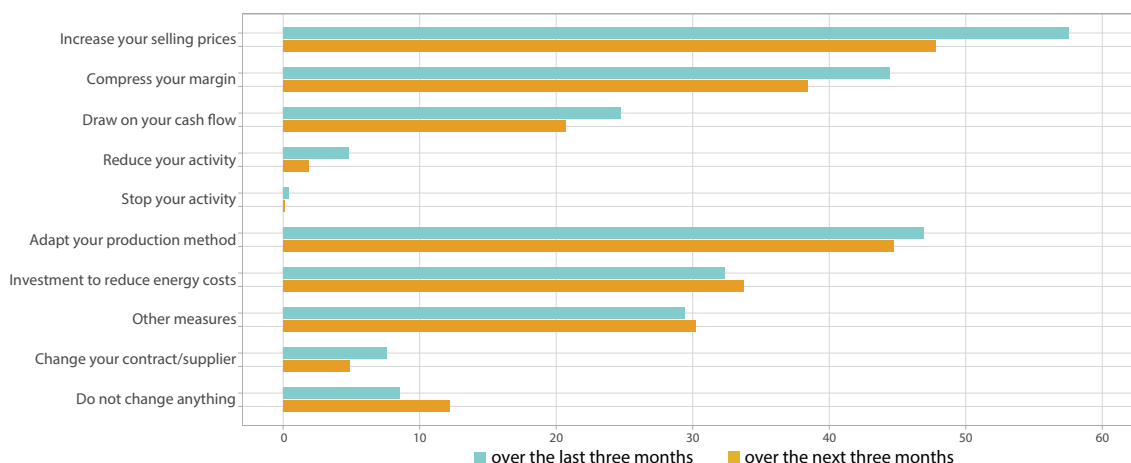
Since the end of 2022, INSEE has adapted some questions in the business tendency surveys, mainly to get a better understanding of changes in the behaviour of households and companies in the context of rising prices. The most recent results were collected in March 2023.

Regarding companies (► **Figure 8**), questions cover reactions to rising energy prices. Industrial companies report that they are reacting mainly by increasing their selling prices, but fewer companies say they intend to increase them in the next three months than reported increases over the past three months.

In March 2023, slightly more households (72%) than in December 2022 (68%) said that they had modified their consumption habits due to inflation (► **Figure 9a**). Concerning food, these adjustments more often reflected changes in the ranges of products consumed compared to December, and less often an actual drop in consumption (► **Figure 9b**). ●

► 8. Reaction of industrial companies in the current energy situation

(in %)



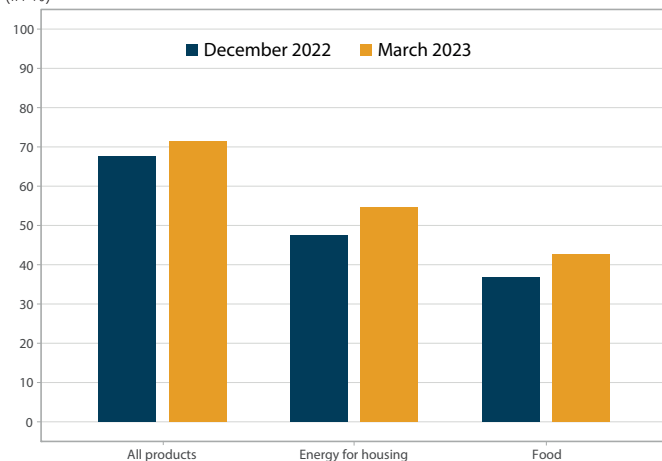
Note: data collected from 24 February 2023 to 31 March 2023.

Scope: industry.

Source: business surveys, INSEE.

► 9a. Share of households reporting that they have changed their consumption habits in the last twelve months due to inflation

(in %)



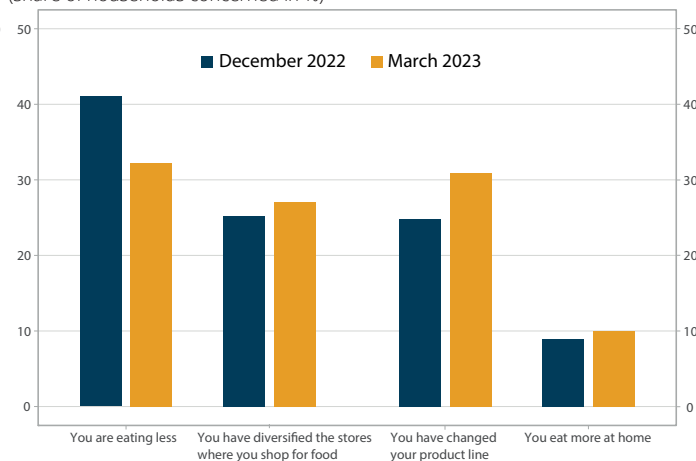
How to read it: in March 2023, 72% of households said they had changed their consumption habits in the last year because of inflation. This figure was 68% in December 2022.

Scope: households living in ordinary housing in Metropolitan France.

Source: Camme survey, INSEE.

► 9b. Nature of behavioural changes reported by households stating that they have changed their food consumption habits

(share of households concerned in %)



Note: for this question, households had to give the main change in their food consumption habits (only one answer allowed).

How to read it: in March 2023, 32% of households reporting that they had changed their food habits over the last year said that they had consumed less. This figure was 41% in December 2022.

Scope: households living in ordinary housing in Metropolitan France.

Source: Camme survey, INSEE.

