

France's relatively low inflation is a short-term shield for the economy

The French economy stands out as having the lowest inflation in the Euro area. October inflation was 7.1%^[1], well below the zone average of 10.6% and massively below the worst offenders such as the Baltic states with over 20% (Chart 1). Several factors may explain this French specificity: the structure of different markets - including energy - tend to structurally dampen sharp price movements, and France's energy mix, assuming no disruption to nuclear, is less reliant on Russian gas. Another key reason is the nature of the fiscal support put in place by the government since the start of the energy crisis. Of course, France is not the only country to give significant assistance. Indeed, measured by volume the help given to French citizens is near the mid-point for European nations at around 3% of GDP. The difference lies in the nature of the aid given in France, which has focused overwhelmingly on containing energy price pressures for the population as a whole. This is true of both the 'tariff shield', which freezes gas prices and caps rises in electricity costs, and the rebates that keep down fuel prices at gas stations. Other countries have leaned more toward targeting aid at hard-hit households or paying out grants.

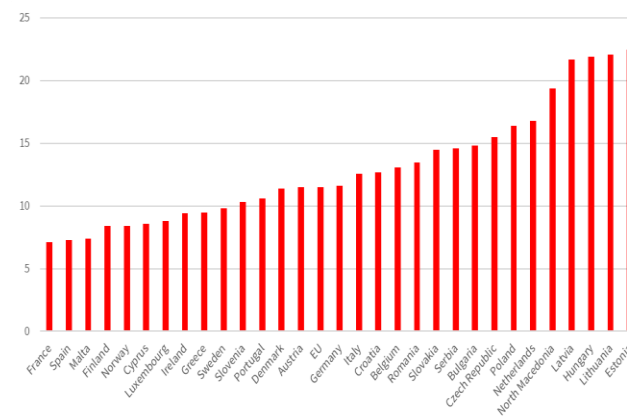
Purchasing power is better protected in France. Labour markets remain reasonably healthy in the Euro area's leading economies, including France. This means salaries can continue to rise, limiting the impact of inflation on purchasing power. France once again differs from other economies in that many salaries are linked to inflation, via minimum wage indexation, which means the national payroll can rise more than in neighbouring countries. Coupled with lower inflation, this relatively strong rise in pay means French households are experiencing much less of a squeeze on buying power than their neighbours (Chart 2).

How long can this bonus last? In the short term, these cases of French exceptionalism are clearly helping French households and the French economy better resist the massive energy shock. And while part-indexation of salaries to inflation may raise fears of a wage-price spiral, the fact that inflation remains relatively contained should ensure France avoids locking in a excessive inflation rate in which today's inflation feeds back into tomorrow's. That said, the French government's support packages are temporary and can only mitigate the energy price shock, a shock that could last for some time yet. If we measure the scale of the shock by its impact on the balance of trade (i.e. the increase in the cost of energy imports), we find the shock in France is similar to that of its neighbours at several points of GDP. This inevitably casts a shadow on the longer-term outlook for the economy.



French inflation is the lowest in the Euro area

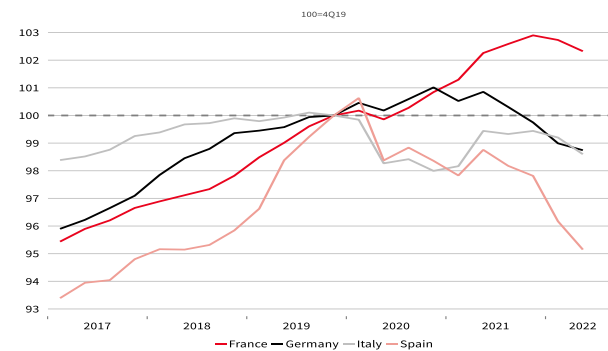
Euro area: Annual inflation rates (%)



Sources : SGPB, Macrobond, Eurostat, 17/11/2022

French households are better protected from inflation than their neighbours

Euro area: Real disposable income



Sources : SGPB, Macrobond, INSEE, DESTATIS, Istat, INE, BUBA, 17/11/2022

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OUR MACRO COMMENTS

Events of the week



This week, the European Central Bank published its biannual report on financial stability. In particular, it warns of the growing risks to the European financial system. These risks are due in particular to the likely current recession of the euro area countries, ever-increasing inflation, the rising cost of credit and the deterioration of the treasuries. Luis de Guindos, Vice-President of the ECB, is calling on banks to increase their provisions.



The near-final results of the mid-term elections were released on Wednesday. Contrary to expectations, the Democrats have finally managed to keep the Senate, which promises a less complicated mandate than expected for Joe Biden. The Republicans have nevertheless regained the majority in the House of Representatives, which has the same power as the Senate on budgetary matters. This configuration increases the likelihood of government shutdown situations.

Figures of the week



- Production Prices Index (MoM, October)
- Retail sales (MoM, October)
- Industrial production (MoM, October)



- ZEW Economic Sentiment index (November)



- Industrial production (YoY, October)



- Unemployment rate (September)
- Inflation (YoY, October)
- Retail sales (MoM, October)



- Gross Domestic Product (QoQ, Q3)
- Inflation (YoY, October)

	Current	Forecast	Previous
Production Prices Index (MoM, October)	0.2%	0.4%	0.2%
Retail sales (MoM, October)	1.3%	1%	0.0%
Industrial production (MoM, October)	-0.1%	0.2%	0.3%
ZEW Economic Sentiment index (November)	-36.7	-50	-59.7
Industrial production (YoY, October)	5%	5.2%	6.3%
Unemployment rate (September)	3.6%	3.5%	3.5%
Inflation (YoY, October)	11.1%	10.7%	10.1%
Retail sales (MoM, October)	0.6%	0,0%	-1.4%
Gross Domestic Product (QoQ, Q3)	-0.3%	0.3%	1.1%
Inflation (YoY, October)	3.7%	2.7%	3%

Sources: Macrobond, 18 November 2022.

The week ahead

Monday



Producer Prices Index (October)

Tuesday



Consumer confidence (November)

Wednesday



PMI manufacturing and services indices (November)



PMI manufacturing and services indices (November)



PMI manufacturing and services indices (November), Durable goods orders (October)

Thursday



Business climate (November)

Friday



Consumer confidence (December)

MARKET PERFORMANCES

Interbank rates

	Last.	-1W	-3M	YTD	-12M
€STER O/N	1,40	1,40	-0,09	-0,59	-0,57
USD SOFR O/N	3,81	3,78	2,29	0,05	0,05
JPY TONAR O/N	-0,07	-0,06	-0,01	-0,02	-0,04
GBP SONIA O/N	2,93	2,93	1,69	0,19	0,05
CHF O/N	0,74	0,68	0,04	-0,71	-0,72

Long term sov. rates

	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,48	2,68	1,65	0,20	0,11
10Y Bund	2,10	2,25	1,07	-0,21	-0,25
10Y BTP	3,92	4,27	3,30	1,17	0,98
10Y JGB	0,24	0,25	0,18	0,07	0,07
10Y Bonos	3,01	3,22	2,22	0,56	0,48
10Y Swiss	1,08	1,10	0,51	-0,13	-0,11
10Y Gilt	3,14	3,44	2,28	1,02	0,97
10Y USNote	3,67	4,12	2,89	1,52	1,60

Credit & EM

	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,95	3,19	1,87	0,33	0,25
EUR Corporate Baa	4,39	4,69	3,01	0,66	0,58
GBP Corporate Baa	4,15	4,52	3,35	1,52	1,38
USD Corporate Aaa	4,52	4,98	3,84	2,13	2,17
USD Corporate Baa	5,69	6,23	4,83	2,60	2,58
USD EM aggregate	7,79	8,37	6,80	4,33	4,40

Commodities

	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	92,58	0,2%	-0,2%	17,1%	15,5%
Or, USD/oz	1 774	3,9%	0,7%	-3,0%	-5,0%
Copper, USD/metric ton	8 340	4,1%	4,8%	-13,9%	-12,1%
Platinum, USD/oz	1 020	1,8%	9,3%	5,5%	-4,4%
Palladium, USD/oz	2 096	8,8%	-2,8%	6,0%	-2,7%
Silver, USD/oz	21,95	3,0%	10,3%	-4,9%	-12,3%

FX rates

	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,04	3,7%	2,4%	-8,1%	-8,0%
EUR/CHF	0,98	-0,6%	1,4%	-5,3%	-6,7%
USD/GBP	0,84	-4,3%	1,7%	13,9%	13,2%
USD/JPY	139,35	-4,7%	3,7%	21,0%	21,7%
USD/BRL	5,34	3,5%	3,8%	-4,1%	-2,9%
USD/CNY	7,09	-2,1%	4,4%	11,5%	11,1%
USD/RUB	60,38	-1,7%	-1,7%	-19,5%	-16,7%

Equity indices

	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 056	3,8%	-1,4%	-9,0%	-7,8%
Eurostoxx 50	3 883	4,2%	3,4%	-9,7%	-11,8%
Dax 40	14 234	4,2%	4,5%	-10,4%	-12,4%
CAC 40	6 607	2,7%	1,2%	-7,6%	-7,7%
FTSE 100	7 351	0,8%	-2,2%	-0,5%	0,8%
SMI	10 937	0,3%	-1,7%	-15,1%	-13,2%
SP500	3 959	5,6%	-7,4%	-16,9%	-15,6%
TOPIX	1 963	0,7%	-2,2%	-1,5%	-3,7%
iBovespa	110 243	-2,9%	-3,0%	5,2%	7,1%
Hang Seng	18 256	11,6%	-8,4%	-22,0%	-28,8%
Sensex 30	61 981	1,6%	2,9%	6,4%	3,3%
CSI 300	3 834	3,2%	-9,1%	-22,4%	-21,5%

Source: Bloomberg, on 18 November 2022.

-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change, Equities; total return in local currency, Government bonds = 10-year returns, Figures are rounded.

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