

# Consumer prices

In February 2017, inflation stood at +1.2% year on year, according to the provisional estimate, or 1.0 point higher than in summer 2016, due mainly to the rebound in energy prices. By mid-2017, it is expected to be stable and have reached +1.1% over one year. Core inflation<sup>1</sup> is expected to be moderate. In January 2017, it recovered to +0.7% over one year, after slipping back at the end of 2016. It is expected to come in at this level in June 2017: the past fall in commodity prices should continue to filter through and the high level of unemployment should limit inflationary pressures.

## Headline inflation has picked up since summer 2016, but should be virtually stable through to mid-2017

In February 2017, according to the provisional estimate of the consumer price index, headline inflation decreased slightly to +1.2% year on year after +1.3% in January (*Graph 1*). This is 1.0 point more than in August 2016 (+0.2%), with this sharp upturn stemming from its energy component. Compared to January, the fall in the price of manufactured goods was more marked in February (-1.6% after -0.3%), due to a later start to the winter sales than the previous year. However, the rise in the prices of all other goods gathered pace: slightly for services and food products, moderately for energy products, more markedly for tobacco (*Table*).

1. The core inflation indicator calculated by INSEE is estimated by excluding the prices of energy, fresh food, public tariffs from the overall index. This indicator is corrected for tax measures and is seasonally-adjusted.

During H1 2017, headline inflation is expected to be virtually stable and to settle at +1.1% in June 2017. It is expected to be held in check by a substantial slowdown in energy prices. As for core inflation, it is expected to remain moderate, at +0.7% in mid-2017.

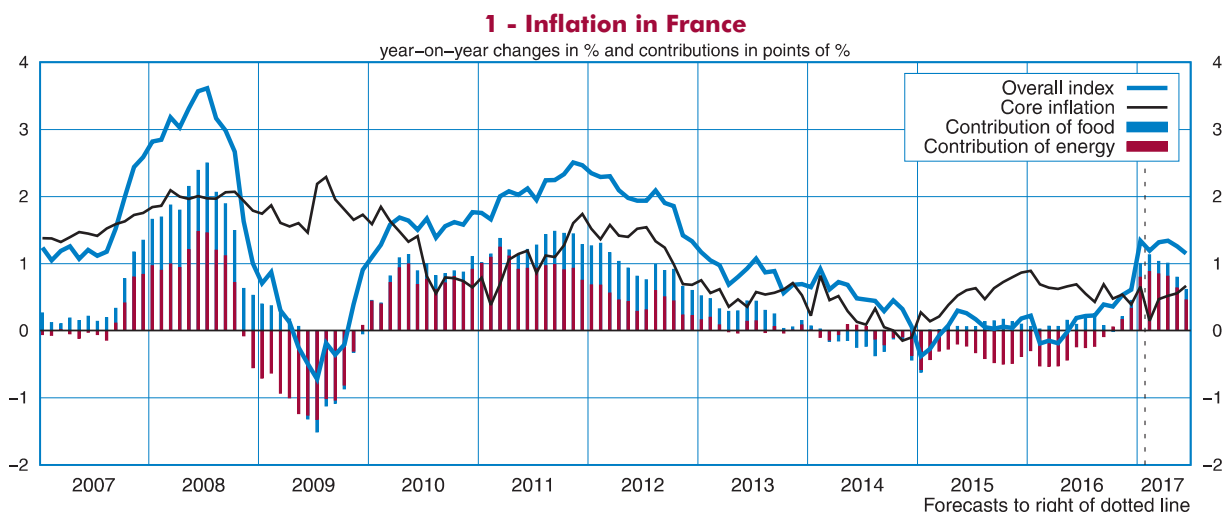
## Energy inflation is expected to fall by half by mid-2017

In February 2017 the year-on-year rise in energy prices stood at 11.4% (compared to -3.0% six months earlier), in the wake of the increase in the price of crude oil in December 2016 and the hike in energy taxes in January 2017. Assuming the price of a barrel of Brent crude stays stable at \$55 (€51.9), energy inflation should fall as the increases in May and June of 2016 come out of the year-on-year figures. The increase in energy prices should settle at +5.9% year-on-year in June 2017.

## Food prices are expected to slow

The increase in food prices is expected to dip moderately during the course of H1 2017, after picking up between October 2016 (-0.1% year-on-year) and February 2017 (+1.5%): it should reach +1.0% year-on-year by June 2017.

Prices of fresh food increased sharply at the beginning of 2017 (+10.8% year-on-year in February 2017), due to supplies being limited by weather conditions unfavourable to production, notably vegetables. Assuming that conditions are normal over the coming seasons, the increase in fresh food prices is expected to ease off by mid-2017 (+4.0% in June).



Source: INSEE

Fresh food aside, the rise in food prices is expected to continue gathering pace (+0.4% in June 2017, after +0.1% in February). In particular, prices of dairy products are expected to rise again due to an upswing in world prices.

### Prices of manufactured goods are expected to decline again

Year-on-year, the fall in the prices of manufactured goods was particularly sharp in February 2017 (-1.6%), as the winter sales started later than in 2016. After this jolt, prices of manufactured goods are expected to continue falling, by 0.3% year-on-year in June 2017, i.e. at virtually the same rate as a year earlier (-0.5% in June 2016). The high level of unemployment and the gradual filtering through of the past fall in commodity prices are expected to continue to adversely affect the final price of manufactured goods. The recent rise in commodity prices is not expected to be passed on yet.

The trend prices of clothing and footwear prices are expected to grow at a rate of +0.3% year-on-year until mid-2017. However, their month-to-month variation is expected to be irregular due to the sales starting later than last year. In June 2017, the increase in prices is expected to come to a one-off rate of +1.8% year-on-year, due to the later start of the summer sales.

Prices of healthcare goods are expected to continue falling sharply (-2.8% year-on-year in June after -2.5% in January 2017), especially drug prices, in line with the objective set out in the Social Security Financing Act for 2017, and those of spectacles and contact lenses under the 2014 Consumer Law.

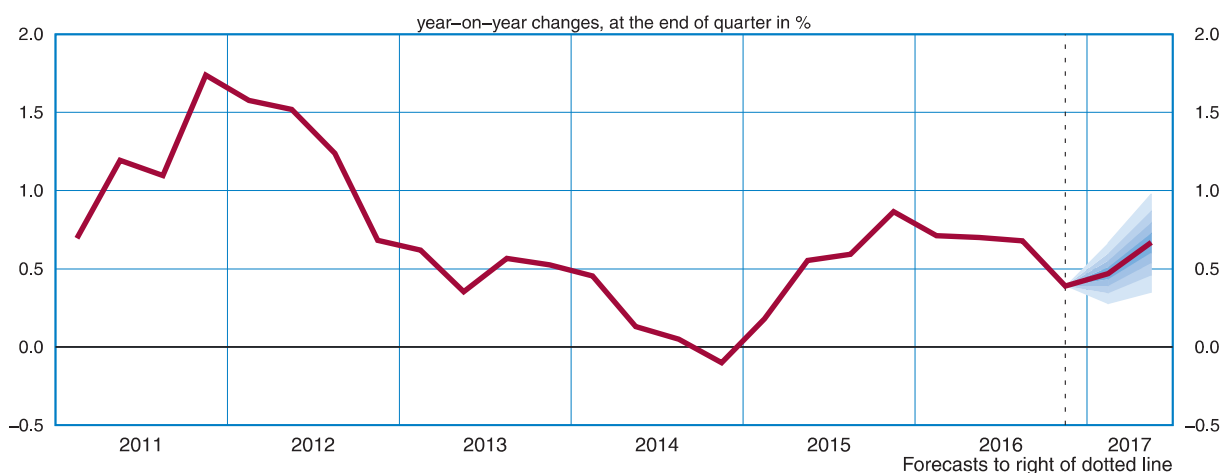
### Prices of services expected to gather pace just slightly

The prices of services are expected to rise only slightly faster through to June 2017 (+1.3% after +1.1% in February 2017 and +1.0% in mid-2016). However, the increase in transport services prices is expected to hold firm (+2.0% year-on-year in June 2017 after +1.2% in January), as the past increase in oil prices no longer impacts air transport prices. Prices of healthcare services are expected to accelerate sharply (+1.4% year-on-year in June after +0.3% in January 2017), driven by the increase in the general practitioners' consultation fee in May 2017 (Box). After some substantial drops in the cost of subscriptions at the beginning of the year, communication service prices are expected to pick up again (-0.2% in June after +1.1% in January). Rises in prices of accommodation and food services are expected to accelerate a little after two years of moderate rises. The overall increase, however, is expected to be limited by sluggish rents (+0.4% in June 2017 as in January), indexed to past inflation.

### Core inflation is expected to remain moderate

After rising again in 2015 (+0.5% on average over the year) under the effect of the past depreciation of the Euro on import prices, core inflation barely rose in 2016 (+0.6%). It picked up again slightly in January 2017 (+0.7% after +0.4% in December). It is expected to come in at this level in June 2017 (Graph 2). ■

2 - The core inflation forecast for France and risks around the forecast



How to read it: the fan chart plots 80% of the likely scenarios around the baseline forecast. The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 20%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 40%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 80% probability.

Source: INSEE

## French developments

### Consumer prices

changes as %

CPI* groups (2016 weightings)	December 2016		January 2017		February 2017		June 2017		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2015	2016
<b>Food (16.3%)</b>	<b>1.3</b>	<b>0.2</b>	<b>1.5</b>	<b>0.2</b>	<b>1.2</b>	<b>0.2</b>	<b>1.0</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>
including:										
fresh food (2.4%)	9.0	0.2	10.8	0.2	7.1	0.2	4.0	0.1	5.3	3.7
excluding:										
fresh food (13.9%)	0.1	0.0	0.1	0.0	0.2	0.0	0.4	0.1	-0.2	0.1
<b>Tobacco (1.9%)</b>	<b>0.1</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>	<b>2.8</b>	<b>0.1</b>	<b>2.7</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>
<b>Manufactured products (26.2%)</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-1.6</b>	<b>-0.4</b>	<b>-0.8</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-0.5</b>
including:										
clothing and footwear (4.3%)	5.1	0.2	-2.9	-0.1	0.3	0.0	1.8	0.1	-0.9	0.1
medical products (4.3%)	-2.5	-0.1	-2.5	-0.1	-2.6	-0.1	-2.8	-0.1	-3.5	-3.0
other manufactured products (17.5%)	-0.7	-0.1	-0.9	-0.2	-0.6	-0.1	-0.3	-0.1	-0.3	-0.1
<b>Energy (7.5%)</b>	<b>10.3</b>	<b>0.8</b>	<b>11.4</b>	<b>0.9</b>	<b>10.9</b>	<b>0.8</b>	<b>5.9</b>	<b>0.5</b>	<b>-4.7</b>	<b>-2.8</b>
including: oil products (3.8%)	19.9	0.8	21.9	0.9	19.2	0.8	8.3	0.3	-10.8	-5.4
<b>Services (48.2%)</b>	<b>0.9</b>	<b>0.4</b>	<b>1.1</b>	<b>0.5</b>	<b>1.0</b>	<b>0.5</b>	<b>1.3</b>	<b>0.6</b>	<b>1.2</b>	<b>0.9</b>
including:										
rent-water (7.8%)	0.3	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.9	0.6
health services (6.0%)	0.3	0.0	0.4	0.0	0.3	0.0	1.4	0.1	0.5	0.2
transport (2.8%)	1.2	0.0	1.9	0.1	1.6	0.0	2.0	0.1	0.9	-1.5
communications (2.4%)	-1.1	0.0	-0.3	0.0	-0.2	0.0	-0.2	0.0	1.2	2.0
other services (29.2%)	1.3	0.4	1.4	0.4	1.4	0.4	1.5	0.4	1.5	1.3
<b>All (100%)</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	<b>0.0</b>	<b>0.2</b>
All excluding energy (92.5%)	0.6	0.6	0.4	0.4	0.6	0.5	0.8	0.8	0.5	0.5
All excluding tobacco (98.1%)	1.4	1.2	1.2	1.1	1.3	1.2	1.1	1.0	0.0	0.2
<b>Core inflation (61.3%)**</b>	<b>0.7</b>	<b>0.4</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>

Provisional

Forecast

yoy : year-on-year

cyoy : contribution to the year-on-year value of the overall index

\*Consumer price index (CPI)

\*\*Index excluding public tariffs and products with volatile prices, corrected for tax measures.

Source: INSEE

### The increase in doctors' fees in May 2017 set to add 0.1 points to headline inflation

The new medical agreement signed on 25 August 2016 for a five-year term makes provision for an increase in the price of a GP consultation: on 1<sup>st</sup> May 2017, this will rise from €23 to €25. On a full-year basis, this increase should represent €600 million in additional expenditure for households, of which €450 million financed by the Health Insurance system.

The last increase (by €1) dates back to 1<sup>st</sup> January 2011. Since then, doctors have benefitted from increases in the form of lump-sum payments that have not had an impact on prices. The new increase in the price of consultations will have twice as big an effect on the price of medical services as that in 2011 (Graph). It should therefore contribute to increasing inflation in services by 0.12 points, representing an effect of +0.06 points on headline inflation. ■

#### Consumer prices of medical services

year-on-year changes in %



Source: INSEE