

Consumer prices

In May 2017, inflation stood at +0.8% year on year, according to the provisional estimate. Through to the end of 2017, it should increase slightly to +1.1% year on year. Prices of services and food should accelerate moderately, and those of manufactured products fall less than in previous months. These movements should be partly offset by a fall in energy inflation. After slipping at the end of 2016, core inflation¹ remained sluggish in early 2017 (+0.5% year on year in April). Through to December 2017, it is expected to increase a little but remain moderate at +0.8%, as the contained rise in wages limits inflationary pressures.

Headline inflation should climb back over 1%

In May 2017, according to the provisional estimate of the consumer price index, headline inflation fell back to +0.8% after +1.2% in April (Graph 1). This fall was driven by a marked slowdown in the prices of energy products (+5.4% after +9.3%) and a moderate one in food prices (+0.4% after +0.7%). Manufactured product prices fell at the same rate as in the previous month (-0.7%) and inflation in services stabilised at +1.0%.

Headline inflation should increase slightly over H2 2017 to stand at +1.1% year on year in December 2017 (Table). The prices of services should accelerate moderately and the fall in the prices of manufactured products ease little by little, but energy inflation should fall, as the rise in energy prices at the end of 2016 drops out of the calculation of the year-on-year figures.

Energy inflation is set to slip by a base effect

After accelerating strongly in Q1 2017, energy prices started to slow down in May (+5.4% year on year, after +9.3%), as the rise in spring 2016 dropped out of the year-on-year calculation. Based on the assumption that the price per barrel of Brent remains stable at \$53 (€47.3), energy inflation is likely to continue slipping back, driven by a base effect through to the end of the year. It should stand at +2.4% year on year in December 2017.

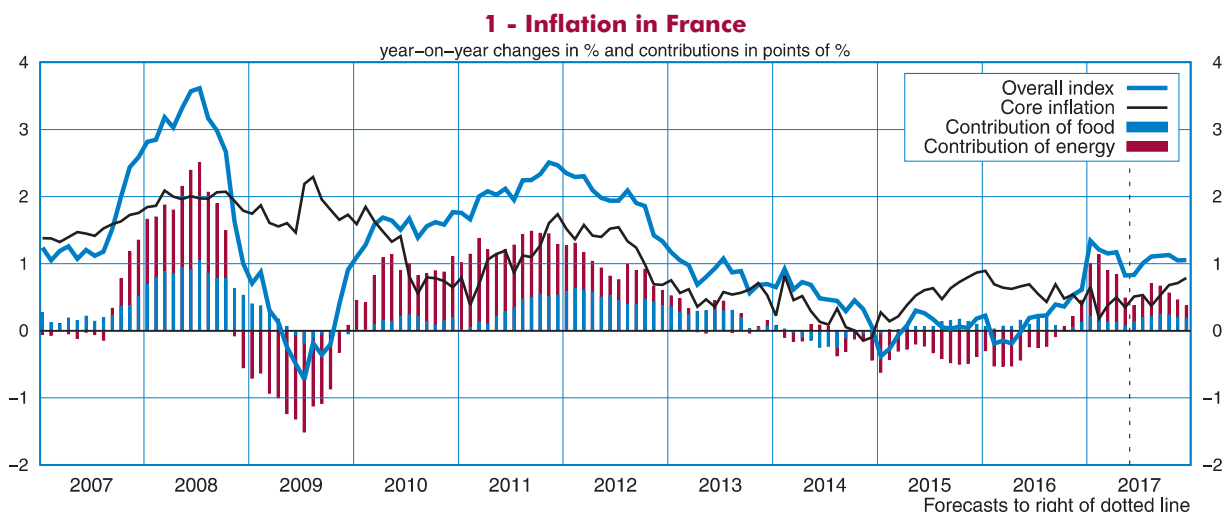
Food product prices should accelerate moderately

The rise in food prices should pick up slightly through to the end of 2017: +1.1% year on year in December 2017, after +0.4% in May 2017.

After increasing sharply over the winter, the prices of fresh food fell back at the beginning of the spring (-0.3% in May against +11.0% in February). These prices should then become more dynamic again over the summer due to the poor weather conditions for production in April. The rise should ease thereafter (+2.6% year on year in December)².

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.

2. Methodological modifications made to the calculation of the index in 2017 have an influence on the profile of the year on year change in these prices, downwards in May and June, and upwards at the end of the year.



Source: INSEE

Excluding fresh food, food prices should continue to accelerate moderately (+0.9% in December 2017, after +0.5% in May). More particularly, the prices of dairy products should rise, driven by the increase in milk prices, and meat prices should accelerate following the recent rise in prices on wholesale markets.

Manufactured product prices should almost stop falling

The prices of manufactured products should continue to fall through to the end of 2017, but less sharply (−0.2% year on year in December 2017, after −0.7% in May). The prices of “other manufactured products” should even start increasing again (+0.3% year on year in December 2017, after −0.3% in April). The past fall in commodity prices should stop weighing down on the prices of manufactured products, although without the recent upturn in commodities working through yet. In addition, the price of new cars should accelerate sharply, after being limited in 2016 by big promotions.

Prices of clothing and footwear are likely to be uneven from one month to the next over the summer, due to the change in the calendar of the sales compared to last year. They should then increase at a regular pace of +0.1% year on year.

Prices of health goods are likely to continue falling significantly (−2.4% year on year in December 2017, after −2.3% in April 2017), notably those of medicinal products, in line with the objective set out in the Social Security Financing Act for 2017. Prices of spectacles and contact lenses should stop falling, however.

Prices of services are set to accelerate moderately

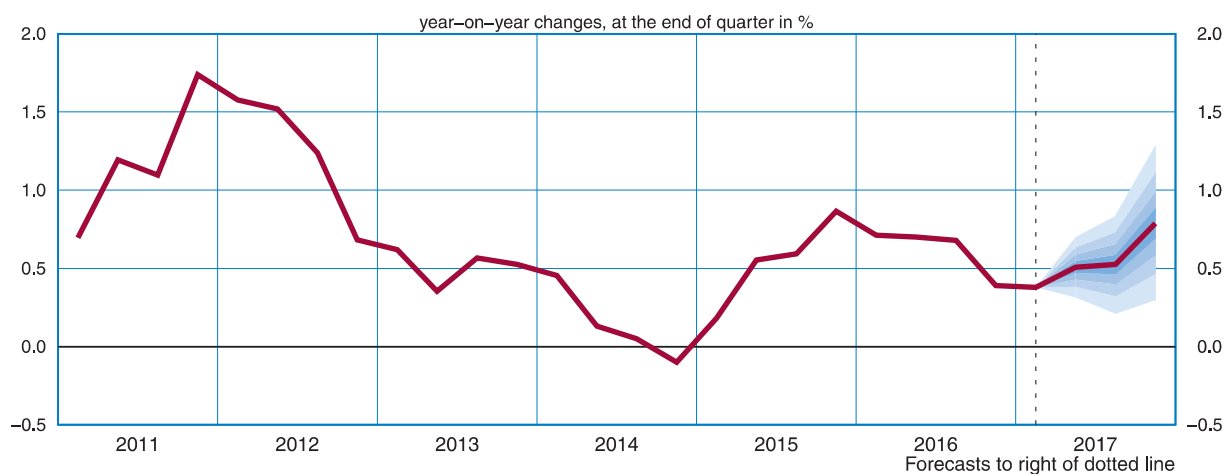
Prices of services should accelerate moderately through to the end of 2017 (+1.4% year on year in December, after +1.0% in May 2017). More particularly, prices of health services should accelerate markedly (+2.4% year on year in December 2017, after +0.3% in April 2017), driven by the increase in the price of GP consultations in May, and the base effect linked to the fall in medical biology prices in mid-November 2016. Prices of transport services should remain dynamic (+1.8% year on year in December 2017, after +4.5% in April), with air transport prices remaining much higher than one year previously, driven by the oil price. The overall rise should be limited, however, by the contained wage increases and small rise in rents (+0.8% in December 2017, after +0.6% in April), which are index-linked to past inflation.

Core inflation is expected to increase a little

After increasing in 2015, core inflation slipped back in 2016, as the past depreciation of the euro no longer buoyed up import prices. It remained sluggish in early 2017 (+0.5% in April 2017, after +0.4% in December 2016) and should increase moderately through to the end of 2017, to +0.8% year on year (*Graph 2*).

On average over the year, it should be almost stable (+0.5% after +0.6%): the acceleration in headline inflation (+1.1% after +0.2% in 2016) is likely to be driven mainly by energy prices (contribution of +0.7 points to headline inflation). ■

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 (2017 weightings)	April 2017		May 2017		June 2017		December 2017		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2016	2017
Food (16.3%)	0.7	0.1	0.4	0.1	0.8	0.1	1.1	0.2	0.6	1.1
including: fresh food (2.4%)	3.5	0.1	-0.3	0.0	1.9	0.0	2.6	0.1	3.7	4.5
excluding: fresh food (13.9%)	0.3	0.0	0.5	0.1	0.6	0.1	0.9	0.1	0.1	0.6
Tobacco (1.9%)	2.8	0.1	2.6	0.1	2.4	0.0	2.3	0.0	0.1	2.2
Manufactured products (26.2%)	-0.7	-0.2	-0.7	-0.2	-0.4	-0.1	-0.2	0.0	-0.5	-0.6
including:										
clothing and footwear (4.3%)	-0.1	0.0	-0.5	0.0	1.2	0.1	0.1	0.0	0.1	-0.1
medical products (4.3%)	-2.3	-0.1	-2.2	-0.1	-2.4	-0.1	-2.4	-0.1	-3.0	-2.4
other manufactured products (17.5%)	-0.3	-0.1	-0.3	-0.1	-0.2	0.0	0.3	0.1	-0.1	-0.2
Energy (7.5%)	9.3	0.7	5.4	0.4	3.1	0.2	2.4	0.2	-2.8	6.2
including: oil products (3.8%)	15.0	0.6	8.2	0.3	4.1	0.2	3.3	0.1	-5.4	10.1
Services (48.2%)	1.0	0.5	1.0	0.5	1.1	0.5	1.4	0.7	0.9	1.1
including:										
rent-water (7.8%)	0.6	0.0	0.5	0.0	0.5	0.0	0.8	0.1	0.6	0.6
health services (6.0%)	0.3	0.0	1.5	0.1	1.6	0.1	2.4	0.1	0.2	1.3
transport (2.8%)	4.5	0.1	1.7	0.0	1.8	0.1	1.8	0.1	-1.5	2.1
communications (2.4%)	-2.2	-0.1	-3.8	-0.1	-4.0	-0.1	-2.2	-0.1	2.0	-2.6
other services (29.2%)	1.2	0.3	1.4	0.4	1.5	0.4	1.7	0.5	1.3	1.5
All (100%)	1.2	1.2	0.8	0.8	0.8	0.8	1.1	1.1	0.2	1.1
All excluding energy (92.5%)	0.5	0.5	0.5	0.4	0.6	0.6	0.9	0.9	0.5	0.7
All excluding tobacco (98.1%)	1.1	1.1	0.8	0.7	0.8	0.7	1.0	0.9	0.2	1.1
Core inflation (61.3%)**	0.5	0.3	0.4	0.2	0.5	0.3	0.8	0.5	0.6	0.5

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