Consumer prices

In November 2017, the year-on-year rate of inflation stood at +1.2% according to the provisional estimate. Through to mid-2018 it is expected to increase further to +1.6% year-on-year, its highest level since October 2012. Tobacco prices should increase sharply, and energy inflation should be bolstered by tax increases. After slipping back in late 2016, core inflation[1] has remained sluggish throughout 2017 (+0.5% year on year in October). By June 2018 it should have picked up sharply to reach +1.0%: the prices of services are expected to pick up, driven by the renewed dynamism of nominal wages. Meanwhile, prices of manufactured goods should remain virtually stable: the upward trend driven by previous increases in commodity prices is still being counterbalanced by the recent appreciation of the euro.

Headline inflation should rise again

In November 2017, according to the provisional estimate of the consumer price index, headline inflation increased slightly to +1.2% after +1.1% in October (*Graph 1*). Prices of services accelerated slightly (+1.1% after +1.0%), as did energy prices (+5.5% after +4.8%). The decline in the prices of manufactured goods has eased slightly (–0.2% after –0.3%). Inflation of food prices remains stable at +1.5%.

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

Headline inflation should increase again in H1 2017 to stand at +1.6% in June 2018 (*Table*), a level not seen since October 2012. This increase will be driven by the strong increase in tobacco prices (+19.7% year on year in June 2018, after +4.4% in November 2017), and by the increase in green taxes. Prices of services should also accelerate, driven by the dynamism of nominal wages.

Energy inflation should remain robust

Energy prices has gathered pace since the end of the summer, standing at +5.5% in November, as a result of the rise in crude oil prices. Energy taxation is set to increase in January 2018, more substantially than in recent years (*Focus*). Assuming that the price of a barrel of Brent crude remains stable at $60 (€51.30), energy inflation should remain vigorous at +6.4% year-on-year in June 2018.

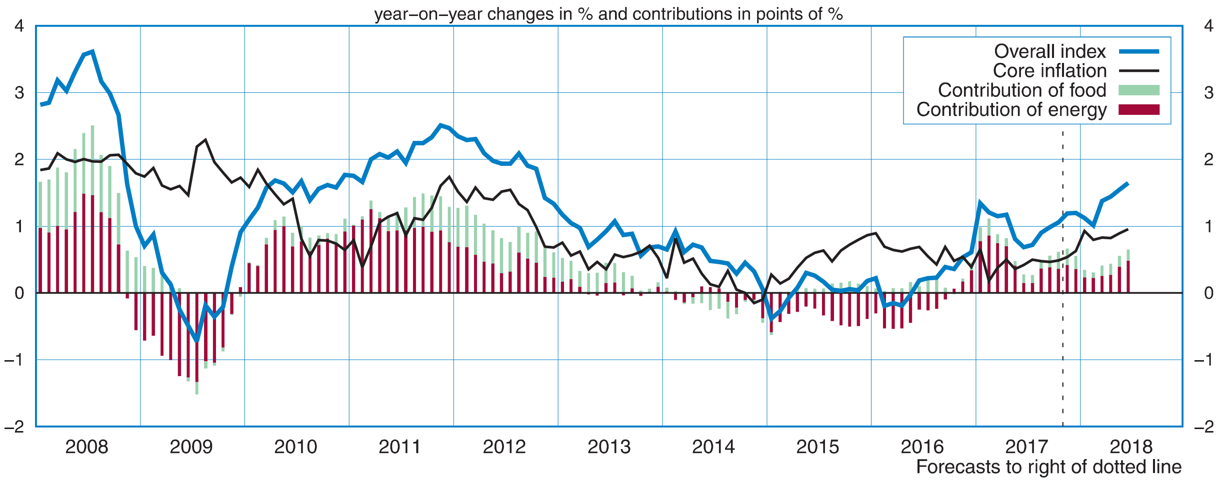
Food product prices should slow slightly

Food prices should slow slightly by June 2018, at +1.0% after +1.5% in November.

Sluggish during the summer, fresh food prices picked up in the autumn (+3.6% in November). Based on the assumption that production conditions remain normal over the coming seasons, prices should slow by June 2018 (+1.6% year-on-year).

Inflation of food products other than fresh food picked up in 2017, reaching its highest level since mid-2013 (+1.1% in November), bolstered in particular by the prices of dairy products and meat.

1 - Inflation in France



Source: INSEE

Prices should nonetheless slow by June 2018, tempered by the recent appreciation of the euro and the fall in grain prices to reach +0.9%.

Prices of manufactured goods should remain virtually stable

Prices of manufactured goods should remain virtually stable through mid-2018 (–0.2% year-on-year in June 2018, as in November 2017). Prices for "other manufactured goods" (excluding clothing and medical products) should continue to increase (+0.2% year-on-year in June 2018 after +0.1% in October 2017) under the influence of past increases in commodity prices. Nevertheless, the recent appreciation of the euro should curb price rises.

Prices of clothing and footwear fell by 0.4% in October 2017, after enduring a series of jolts over the summer as a result of the sales being later than the previous year. Through to June 2018 their trajectory should be less volatile, and prices should stop falling (+0.2% year-on-year) due to the increase in fabric prices.

However, the decrease in medical product prices should become more pronounced through to mid-2018 (–2.1% year-on-year in June 2018 after –1.7% in October 2017), particularly the prices of medicines, in accordance with the target set in the Social Security Financing Act for 2018. However, this fall will continue to be offset by the dynamism of prices for glasses and contact lenses, which have stopped falling since the effects of the "Consumption" act of March 2014 have stopped being felt.

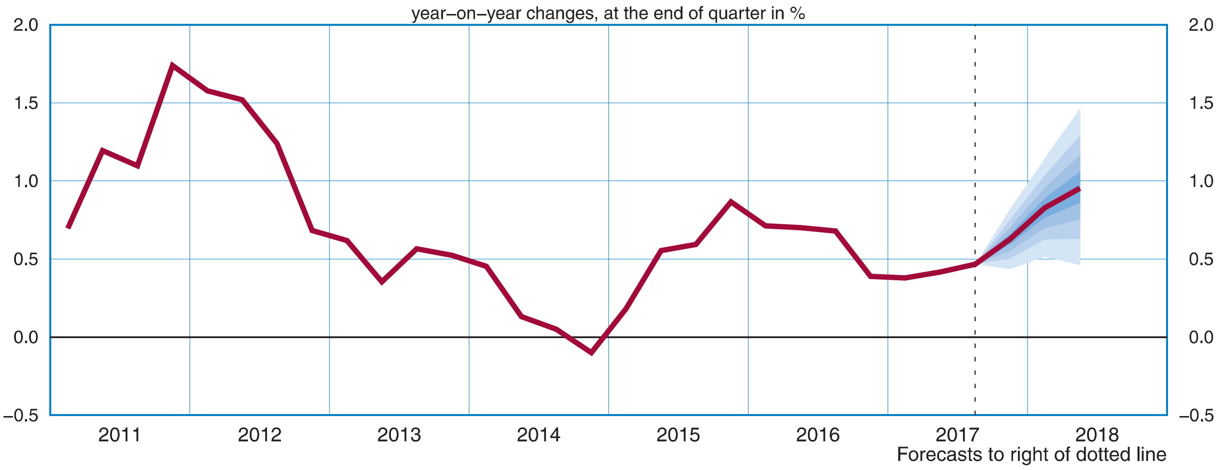
Service prices should pick up pace

Prices of services should accelerate through to mid-2018 (+1.4% year-on-year in June 2018 after +1.1% in November 2017), buoyed by the dynamism of nominal wages. Prices of communication services should see a sharp increase (+2.1% year-on-year in June 2018 after –5.1% in October 2017), as the year-on-year figures are no longer affected by the sharp decreases seen in early 2017. Prices of transport services should accelerate (+2.7% after +1.5% in October 2017), driven by the rebound in oil prices. Prices of health services should remain dynamic (+1.1% year-on-year in June 2018 after +1.8% in October 2017), thanks to further increases in certain consultation rates. Conversely, rent prices should fall (–0.3% in June 2018, after +0.5% in October 2017) as a result of rent reductions in social housing contained in the Finance Law, despite the expected upturn in the private sector.

Core inflation is expected to pick up sharply

After slipping back in 2016, core inflation has remained sluggish throughout 2017 (+0.5% in October 2017 after +0.4% in December 2016). Through to June 2018 core inflation should pick up more substantially +1.0% year-on-year (*Graph 2*). Service prices should gather pace while the prices of manufactured goods remain virtually stable. More specifically, previous decreases in communication service rates should no longer hold back prices. ■

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

Consumer prices

changes as %

CPI* groups (2017 weightings)	October 2017		November 2017		December 2017		June 2018		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2016	2017
Food (16.3%)	**1.5**	**0.2**	**1.5**	**0.2**	**1.2**	**0.2**	**1.0**	**0.2**	**0.6**	**1.0**
including: fresh food (2.4%)	*4.5*	*0.1*	*3.6*	*0.1*	*1.3*	*0.0*	*1.6*	*0.0*	*3.7*	*3.2*
excluding: fresh food (13.9%)	*1.1*	*0.1*	*1.1*	*0.2*	*1.2*	*0.2*	*0.9*	*0.1*	*0.1*	*0.7*
Tobacco (1.9%)	**2.4**	**0.0**	**4.4**	**0.1**	**6.0**	**0.1**	**19.7**	**0.4**	**0.1**	**2.6**
Manufactured products (26.2%)	**–0.3**	**–0.1**	**–0.2**	**–0.1**	**–0.2**	**–0.1**	**–0.2**	**0.0**	**–0.5**	**–0.6**
including: clothing and footwear (4.3%)	*–0.4*	*0.0*	*–0.3*	*0.0*	*–0.3*	*0.0*	*0.2*	*0.0*	*0.1*	*0.0*
medical products (4.3%)	*–1.7*	*–0.1*	*–1.6*	*–0.1*	*–1.5*	*–0.1*	*–2.1*	*–0.1*	*–3.0*	*–2.1*
other manufactured products (17.5%)	*0.1*	*0.0*	*0.1*	*0.0*	*0.1*	*0.0*	*0.2*	*0.0*	*–0.1*	*–0.3*
Energy (7.5%)	**4.8**	**0.4**	**5.5**	**0.4**	**4.7**	**0.4**	**6.4**	**0.5**	**–2.8**	**6.2**
including: oil products (3.8%)	*7.4*	*0.3*	*8.8*	*0.4*	*7.6*	*0.3*	*10.4*	*0.4*	*–5.4*	*10.2*
Services (48.2%)	**1.0**	**0.5**	**1.1**	**0.5**	**1.2**	**0.6**	**1.4**	**0.7**	**0.9**	**1.0**
including: rent-water (7.8%)	*0.5*	*0.0*	*0.5*	*0.0*	*0.5*	*0.0*	*–0.3*	*0.0*	*0.6*	*0.5*
health services (6.0%)	*1.8*	*0.1*	*2.1*	*0.1*	*2.4*	*0.1*	*1.1*	*0.1*	*0.2*	*1.3*
transport (2.8%)	*1.5*	*0.0*	*1.1*	*0.0*	*1.6*	*0.0*	*2.7*	*0.1*	*–1.5*	*2.1*
communications (2.4%)	*–5.1*	*–0.1*	*–4.5*	*–0.1*	*–3.8*	*–0.1*	*2.1*	*0.1*	*2.0*	*–3.5*
other services (29.2%)	*1.4*	*0.4*	*1.5*	*0.4*	*1.6*	*0.4*	*1.8*	*0.5*	*1.3*	*1.4*
All (100%)	**1.1**	**1.1**	**1.2**	**1.2**	**1.2**	**1.2**	**1.6**	**1.6**	**0.2**	**1.0**
All excluding energy (92.5%)	0.8	0.7	0.8	0.8	0.9	0.9	1.3	1.2	0.5	0.6
All excluding tobacco (98.1%)	1.0	0.9	1.1	1.0	1.1	1.0	1.3	1.2	0.2	1.0
Core inflation (61.3%)**	**0.5**	**0.3**	**0.5**	**0.3**	**0.6**	**0.4**	**1.0**	**0.6**	**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