Consumer prices

In February 2018, the year-on-year inflation rate stood at +1.2% according to the provisional estimate. Through to mid-2018, it is expected to rise anew, to +1.6%, its highest level since October 2012. Tobacco prices are expected to accelerate sharply with the tax increase, and energy inflation should rise due to the base effect. Excluding tobacco, inflation is likely to reach a year-on-year rate of +1.3% by June 2018. After slipping back at the end of 2016, core inflation remained weak throughout 2017, before picking up again in January 2018 (+0.9% in January 2018, compared to +0.5% on average over 2017). Between now and June 2018, it should remain relatively stable, at +0.8% year-on-year, in spite of rises in the prices of services driven by vigorous wages: the fall in social housing rents should curb inflation, while prices of manufactured goods are expected to fall slightly.

Headline inflation is expected to rise again

In February 2018, according to the provisional estimate of the consumer price index, headline inflation decreased slightly over the year, to +1.2% after +1.3% in January (*Graph 1*). Prices of food products slowed (+0.8% after +1.2%) as did those of services (+1.1% after +1.3%). Energy prices increased by 5.2%, as in January. However, prices of manufactured goods picked up a little (+0.1% after 0.0%).

Headline inflation is expected to rise again in H1 2018 to reach +1.6% in June 2018 (*Table*), a level that has not been reached since October 2012. It is expected to be driven by a substantial increase in tobacco prices (+17.0% over the year to June 2018, compared to +4.9% in February 2018) and by the acceleration in energy prices (+7.2% against +5.2%).

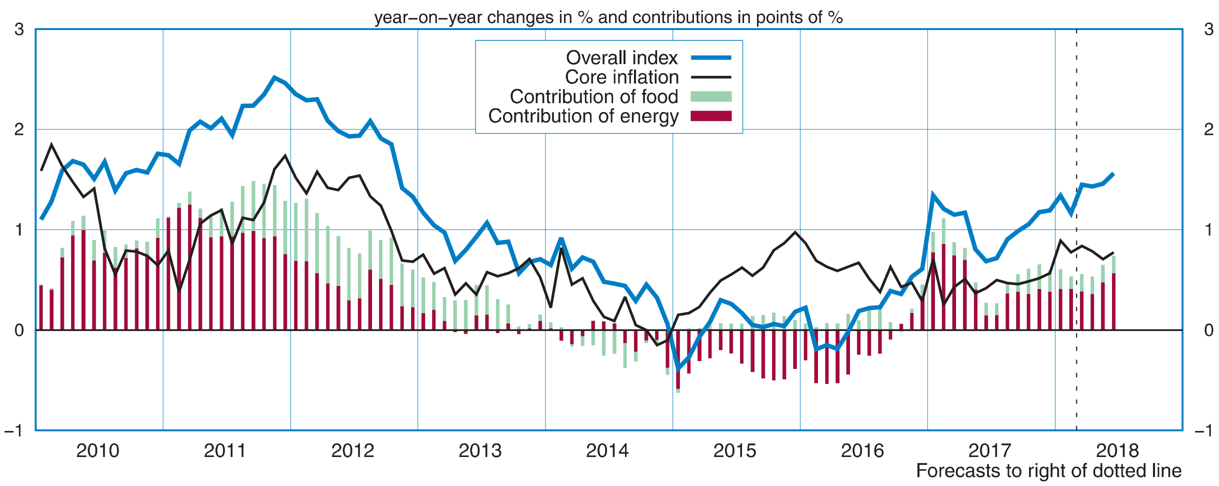
Energy price rises are expected to accelerate due to the base effect

The increase in energy prices became more marked during H2 2017, due to the upturn in crude oil prices. At the beginning of 2018 it remained sustained, at +5.2% in February 2018, due to the increase in energy taxes. Assuming that the price of a barrel of Brent crude remains stable at $63 (€51.2), the rise in energy prices is likely to pick up due to the base effect, 2 to +7.2% over the year to June 2018.

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

2. Prices having fallen over spring 2017, the assumption of a price for a barrel of Brent crude remaining at $63 until June 2018 mechanically leads to an increase in the year-on-year rate.

1 - Consumer prices in France



Source: INSEE

French developments

Tobacco prices are due to surge

Tobacco prices gathered pace at the end of 2017, with the tax increase. In February 2018 they had risen by 4.9% year-on-year. By June, they are expected to have accelerated sharply to +17.0% year-on-year, with the new tax increase on 1st March. This rise is nevertheless expected to be slightly lower than initially envisaged in the Social Security Financing Act for 2018, some manufacturers having opted to rein in their margins to cushion the effect on sales.

Food prices are expected to pick up slightly

Food inflation is likely to increase slightly by June 2018, to +1.1% compared to +0.8% in February. Fresh food prices dipped in February (–1.5%), due to the exit from the year-on-year figures of the sharp increase of early 2017. Based on the assumption that production conditions will be normal over the coming seasons, prices should pick up by June 2018 (+2.3% year-on-year), due to the base effect. Excluding fresh food, food inflation picked up again in 2017, driven by dairy produce and meat prices in particular. It stood at +1.2% in February 2018, its highest level since the beginning of 2013. However, it is expected to dip by June 2018, tempered by the recent appreciation of the euro and the fall in world prices, to stand at +0.9%.

Prices of manufactured goods should fall only slightly

Prices of manufactured goods are barely expected to fall by mid-2018 (–0.2% year-on-year in June 2018, compared to +0.1% in February). Prices of "*other manufactured goods*" (excluding clothing and health products) should continue to increase (+0.2% year-on-year in June 2018 compared to +0.3% in January), under the influence of past increases in commodity prices. However, the recent appreciation of the euro should curb price rises.

After enduring a series of jolts 2017 due to the sales being held later than in previous years, prices of clothing and footwear fell slightly at the end of 2017, before picking up again at the beginning of 2018 (+0.4% year-on-year in January). Between now and June 2018, they are expected to pick up only slightly (+0.5%), in line with past changes in the price of textile fibres.

Consumer prices

changes as %

CPI* groups (2018 weightings)	January 2018		February 2018		March 2018		June 2018		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2016	2017
Food (16.3%)	**1.2**	**0.2**	**0.8**	**0.1**	**1.1**	**0.2**	**1.1**	**0.2**	**0.6**	**1.0**
including: fresh food (2.4%)	*1.8*	*0.0*	*–1.5*	*0.0*	*0.7*	*0.0*	*2.3*	*0.1*	*3.7*	*3.3*
excluding: fresh food (13.8%)	*1.1*	*0.2*	*1.2*	*0.2*	*1.1*	*0.2*	*0.9*	*0.1*	*0.1*	*0.6*
Tobacco (1.9%)	**5.8**	**0.1**	**4.9**	**0.1**	**16.7**	**0.3**	**17.0**	**0.3**	**0.1**	**2.7**
Manufactured products (25.9%)	**0.0**	**0.0**	**0.1**	**0.0**	**–0.1**	**0.0**	**–0.2**	**–0.1**	**–0.5**	**–0.6**
including: clothing and footwear (4.2%)	*0.4*	*0.0*	*1.1*	*0.0*	*0.4*	*0.0*	*0.5*	*0.0*	*0.1*	*0.0*
medical products (4.3%)	*–2.1*	*–0.1*	*–2.4*	*–0.1*	*–2.4*	*–0.1*	*–2.6*	*–0.1*	*–3.0*	*–2.1*
other manufactured products (17.5%)	*0.3*	*0.1*	*0.3*	*0.1*	*0.2*	*0.0*	*0.2*	*0.0*	*–0.1*	*–0.2*
Energy (7.8%)	**5.2**	**0.4**	**5.2**	**0.4**	**4.9**	**0.4**	**7.2**	**0.6**	**–2.8**	**6.2**
including: oil products (4.1%)	*7.9*	*0.3*	*7.0*	*0.3*	*7.9*	*0.3*	*11.2*	*0.5*	*–5.4*	*10.3*
Services (48.1%)	**1.3**	**0.6**	**1.1**	**0.5**	**1.3**	**0.6**	**1.2**	**0.6**	**0.9**	**1.0**
including: rent-water (7.6%)	*0.6*	*0.0*	*0.7*	*0.0*	*0.6*	*0.0*	*–0.4*	*0.0*	*0.6*	*0.4*
health services (6.2%)	*2.0*	*0.1*	*2.0*	*0.1*	*2.0*	*0.1*	*1.0*	*0.1*	*0.2*	*1.3*
transport (2.8%)	*–0.2*	*0.0*	*0.3*	*0.0*	*1.1*	*0.0*	*1.4*	*0.0*	*–1.5*	*2.0*
communications (2.2%)	*–0.2*	*0.0*	*–0.9*	*0.0*	*–0.8*	*0.0*	*1.7*	*0.0*	*2.0*	*–3.5*
other services (29.2%)	*1.6*	*0.5*	*1.3*	*0.4*	*1.5*	*0.4*	*1.6*	*0.5*	*1.3*	*1.4*
All (100%)	**1.3**	**1.3**	**1.2**	**1.2**	**1.5**	**1.5**	**1.6**	**1.6**	**0.2**	**1.0**
All excluding energy (92.2%)	1.0	0.9	0.8	0.8	1.2	1.1	1.1	1.0	0.5	0.6
All excluding tobacco (98.1%)	1.3	1.2	1.1	1.1	1.1	1.1	1.3	1.2	0.2	1.0
Core inflation (60.4%)**	**0.9**	**0.5**	**0.8**	**0.5**	**0.8**	**0.5**	**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

On the other hand, the decrease in the prices of medical products should become more pronounced by mid-2018 (–2.6% year-on-year in June 2018 compared to –2.1% in January), particularly the prices of medicines, in line with the target set in the Social Security Financing Act for 2018. However this should be tempered by the buoyancy of prices of spectacles and contact lenses, which have stopped falling since the effects of the March 2014 "*Consumption Act*" wore off.

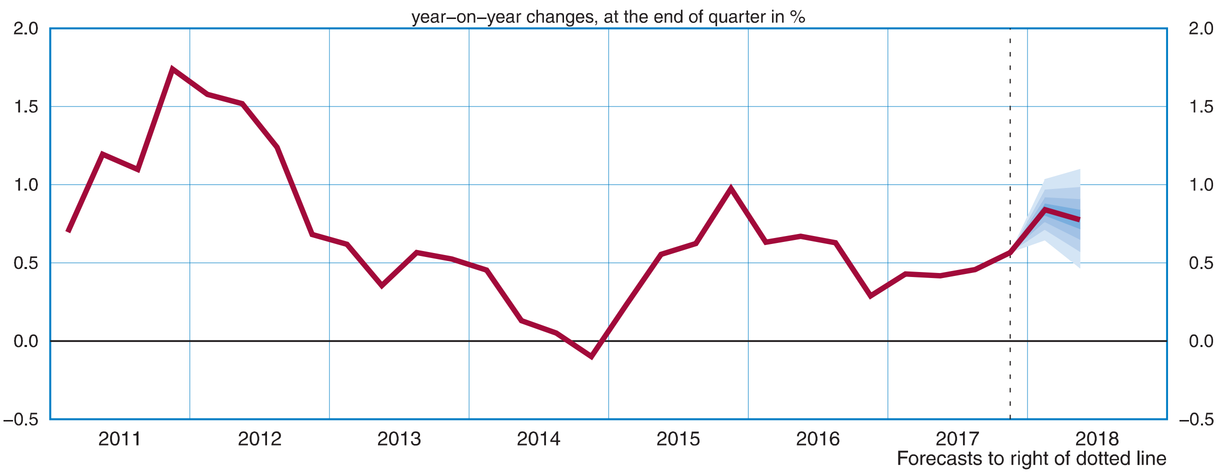
Service prices are expected to pick up slightly

Prices of services should accelerate very slightly between now and mid-2018 (+1.2% year-on-year in June 2018 compared to +1.1% in February), in spite of price rises buoyed by the dynamism of nominal wages. Prices of communication services virtually stopped falling in January (–0.2% compared to –4.0% in December 2017), as the sharp decreases seen early in 2017 are no longer included in the year-on-year figures. Between now and June 2018, they are expected to pick up a little due to the base effect (+1.7%), but price increases are expected to remain limited due to the pressure of competition, which remains high in this sector. Prices of transport services stalled at the beginning of 2018 (–0.2% year-on-year in January 2018 compared to +2.7% six months earlier), due to lower prices in air transport. By June 2018, they should bounce back slightly (+1.4%), in the wake of the rise in oil prices, but the level of dynamism is expected to remain moderate. As for prices of health services, they are expected to slow (+1.0% year-on-year in June 2018 compared to +2.0% in January), due to the exit from the year-on-year figures of the May 2017 increase in the doctor's consultation rate. Finally, rent prices should fall (–0.4% in June 2018, after +0.6% in January), with the decrease in social housing rents voted in the Finance Law, despite the expected upturn in private housing.

Core inflation is expected to be virtually stable

After falling back at the end of 2016, core inflation remained sluggish throughout 2017 (*Graph 2*), before picking up again in January 2018 (+0.9% compared to +0.5% on average over 2017). Between now and June 2018, it should remain relatively stable, at +0.8% year-on-year: vigorous nominal wages should drive increases in service prices, but the decrease in social housing rents should curb inflation, while prices of manufactured goods are expected to fall slightly. ■

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