# Consumer prices

*In November 2018, inflation stood at +1.9% year-on-year. Through to June 2019, it is expected to drop to +1.0%. The slowdown in energy and tobacco prices should make the biggest contribution to this drop, which is likely to be reinforced by the announced freezing of energy taxation and gas and electricity prices. Excluding tobacco, inflation should drop to +0.9% against +1.9% in October. Core inflation[1], sluggish throughout 2017, picked up in 2018 (+0.8% in October 2018, against +0.5 % on average throughout 2017). Through to June 2019, it should increase to +1.2% year-on-year. Vigorous nominal wages are expected to support the price rises in services, and the prices of manufactured goods are likely to remain relatively sluggish.*

## Headline inflation should fall through to June 2019

In November 2018, headline inflation fell in relation to October, to +1.9% year on year (*Graph 1*). Energy prices slowed down (+11.2% after +13.8%), while the prices of manufactured goods fell back a little less (–0.3% after –0.4%). The prices of services increased by 1.0%, after +1.2% in October, and those of food products slackened (+1.9% after +2.2%).

Headline inflation is likely to fall in H1 2019, to stand at +1.0% in June 2019 (*Table*). Energy inflation is expected to fall sharply, to +0.1% year on year by June 2019, after +11.2% in November 2018, while tobacco prices look likely to slacken due to the base effect (+7.1% after +14.5% in November 2018). The prices of food products should be less buoyant in June 2019 than in November 2018 (+0.8% after +1.9%). On the other hand, the prices of services are expected to accelerate to +1.5%.

## Energy inflation should fall sharply

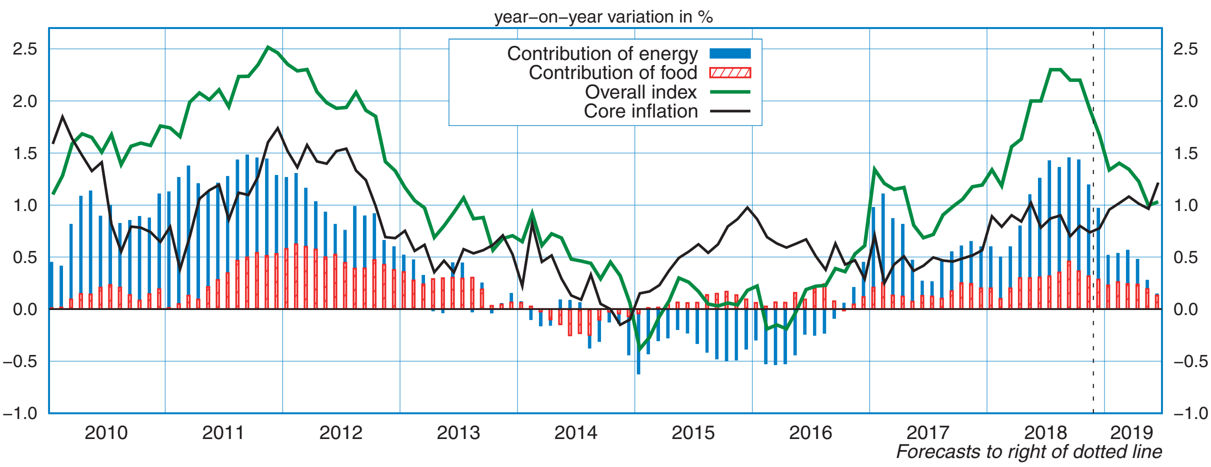
The rise in energy prices accelerated sharply in Q3 2018 and remained high thereafter (+11.2% in November, after +13.8% year on year in October), in line with the increase in crude oil prices, which topped the $80 per barrel mark in September. Assuming that the price of a barrel of Brent remains stable at $60 (€52.60), energy inflation is expected to fall very substantially through to June 2019. The postponement of the increase in taxation on energy products, initially scheduled for January 2019, and the freezing of electricity and gas prices, are likely to contribute to this drop. Energy inflation should then stand at +0.2% year on year by June 2019.

## Tobacco prices are set to slow while remaining vigorous

In November 2018, the increase in tobacco prices reached 14.5% year on year. As the increase in taxation scheduled for March 2019 will be smaller than the rise in the winter of 2018, and assuming

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.

**1 - Consumer prices in France**




*Source: INSEE*

that manufacturers' margins remain unchanged, tobacco prices should slow down due to the base effect through to June 2019 (+7.1%).

## The prices of food products are likely to decelerate

Food inflation should fall by June 2019, to +0.8% against +1.9% in November 2018. The year-on-year variation in the prices of fresh products accelerated significantly after the summer (+11.2% in September), due to the drought, in particular, which adversely affected the supply. It is set to remain high in Q4 2018 (+3.9% in December), but is then expected to fall gradually to stand at –1.5% in June 2019, based on the assumption of normal production conditions over the coming seasons. In addition, the completion of this Conjoncture in France report coincided with the publication of a government Order derived from the "Agriculture and Food" Law on increasing the loss-leader threshold and regulating special offers. These measures could drive the prices of food products upwards.

Excluding fresh products, food inflation remained vigorous in 2018, driven by the prices of dairy products, cereal products and meat, in particular. It stood at +1.4% in November 2018 and is likely to drop to +1.2% through to June 2019.

## Prices of manufactured goods should remain stable

The prices of manufactured goods are likely to be stable in June 2019, after dropping slightly in November 2018 (–0.3% year-on-year). The prices of "other manufactured products" (excluding clothing and health goods) are expected to increase a little (+0.4% year-on-year in June 2019, after +0.2% in November), driven mainly by the lowering of the threshold for the application of the "environmental malus" for automobiles in January 2019. After rising in the summer, prices of clothing and footwear were virtually stable in November (–0.1%). Through to June 2019, they are expected to perk up a little (+0.6%), according to changes in the prices of imported textile fibres and assuming that the dates of the sales remain unchanged[2].

2. A reduction in the sales period to four weeks (instead of six at the present time) is intended but has not been likely to be implemented since the winter sales of 2019.

**Consumer prices**

*changes as %*

| CPI* groups (2018 weightings) | October 2018 | | November 2018 | | December 2018 | | June 2019 | | Annual averages | |
|---|---|---|---|---|---|---|---|---|---|---|
| | yoy | cyoy | yoy | cyoy | yoy | cyoy | yoy | cyoy | yoy | cyoy |
| **Food (16.3%)** | **2.2** | **0.4** | **1.9** | **0.3** | **1.8** | **0.3** | **0.8** | **0.1** | **1.0** | **1.8** |
| *including : fresh food (2.4%)* | *7.0* | *0.2* | *5.0* | *0.1* | *3.9* | *0.1* | *–1.5* | *0.0* | *3.3* | *4.8* |
| *excluding: fresh food (13.8%)* | *1.4* | *0.2* | *1.4* | *0.2* | *1.4* | *0.2* | *1.2* | *0.2* | *0.6* | *1.3* |
| **Tobacco (1.9%)** | **16.8** | **0.3** | **14.5** | **0.3** | **12.8** | **0.2** | **7.1** | **0.1** | **2.7** | **14.2** |
| **Manufactured products (25.9%)** | **–0.4** | **–0.1** | **–0.3** | **–0.1** | **–0.2** | **–0.1** | **0.0** | **0.0** | **–0.6** | **–0.2** |
| *including: clothing and footwear (4.2%)* | *0.0* | *0.0* | *–0.1* | *0.0* | *–0.4* | *0.0* | *0.6* | *0.0* | *0.0* | *0.1* |
| *medical products (4.3%)* | *–2.3* | *–0.1* | *–2.2* | *–0.1* | *–1.9* | *–0.1* | *–2.0* | *–0.1* | *–2.1* | *–2.2* |
| *other manufactured products (17.5%)* | *0.0* | *0.0* | *0.2* | *0.0* | *0.2* | *0.0* | *0.4* | *0.1* | *–0.2* | *0.2* |
| **Energy (7.8%)** | **13.8** | **1.1** | **11.2** | **0.9** | **8.7** | **0.7** | **0.1** | **0.0** | **6.2** | **9.8** |
| *including: oil products (4.1%)* | *20.7* | *0.8* | *14.8* | *0.6* | *10.2* | *0.4* | *–3.7* | *–0.1* | *10.3* | *14.8* |
| **Services (48.1%)** | **1.2** | **0.6** | **1.0** | **0.5** | **1.0** | **0.5** | **1.5** | **0.7** | **1.0** | **1.2** |
| *including: rent-water (7.6%)* | *–0.3* | *0.0* | *–0.3* | *0.0* | *–0.3* | *0.0* | *0.9* | *0.1* | *0.4* | *0.1* |
| *health services (6.2%)* | *0.3* | *0.0* | *0.3* | *0.0* | *–0.1* | *0.0* | *0.3* | *0.0* | *1.3* | *1.0* |
| *transport (2.8%)* | *0.5* | *0.0* | *0.3* | *0.0* | *0.2* | *0.0* | *1.8* | *0.1* | *2.0* | *0.8* |
| *communications (2.2%)* | *–1.9* | *0.0* | *–3.6* | *–0.1* | *–3.7* | *–0.1* | *–3.9* | *–0.1* | *–3.5* | *–0.9* |
| *other services (29.2%)* | *2.1* | *0.6* | *2.0* | *0.6* | *2.1* | *0.6* | *2.3* | *0.7* | *1.4* | *1.8* |
| **All (100%)** | **2.2** | **2.2** | **1.9** | **1.9** | **1.6** | **1.6** | **1.0** | **1.0** | **1.0** | **1.9** |
| *All excluding energy (92.2%)* | *1.3* | *1.2* | *1.1* | *1.0* | *1.0* | *1.0* | *1.1* | *1.0* | *0.6* | *1.2* |
| *All excluding tobacco (98.1%)* | *1.9* | *1.9* | *1.6* | *1.6* | *1.4* | *1.4* | *0.9* | *0.9* | *1.0* | *1.6* |
| **Core inflation (60.4%)**** | **0.8** | **0.5** | **0.7** | **0.4** | **0.8** | **0.5** | **1.2** | **0.7** | **0.5** | **0.8** |

Provisionnal

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 drop in the prices of health goods looks set to continue through to June 2019 (–2.0% year-on-year). The savings on medication set out in the Social Security Financing Bill for 2019 remain substantial and the envisaged limitations of patients' own contributions[3] for hearing aids and dental prostheses could help to maintain this downward trend.

### Service prices are set to accelerate

By June 2019, the rise in the prices of services is likely to reach 1.5% year-on-year, against +1.0% in November 2018. Inflation in transport services is expected to increase to +1.8% June 2019, after +0.3% in November 2018. This acceleration relates primarily to the prices of air transport services. The prices of communication services should edge down in 2018 (–3.6% in November), due to numerous special-offer campaigns. Through to June 2019, they are expected to drop by 3.9% as the competitive pressures in this sector remain strong.

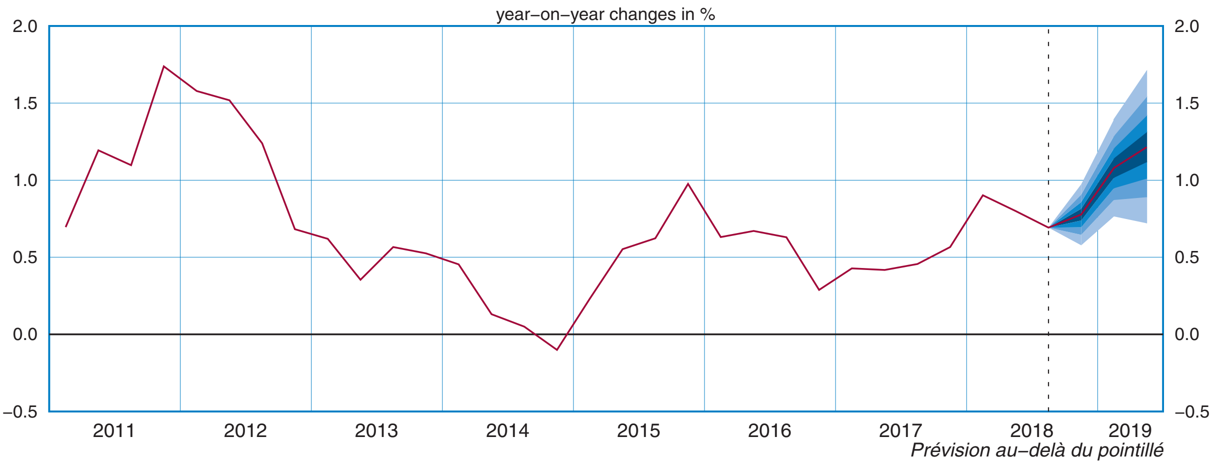
Inflation in health services is likely to remain stable (+0.3% year-on-year in June 2019, as in November 2018), due to increases in the prices of certain conservative dental treatments in April 2019. Lastly, rents look set to increase by 0.9% year-on-year by June 2019 (after –0.3% in November 2018) as the social housing rent reductions drop out of the calculation of the year-on-year figures.

### Core inflation is expected to increase

Core inflation remained below 1% throughout 2018 (*Graph 2*), before picking up again in January 2018 (+0.9% against +0.5 % on average over 2017). Through to June 2019, it should rise to +1.2% year on year. The reflection of producer price rises in consumer prices, the acceleration of prices in services and the end of the effects of the past appreciation of the Euro are likely explanations for the increase in core inflation. ■

3. Capped prices will be initiated with regard to hearing aids in January 2019, to dentures in April 2019 and to optics in January 2020.

**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*