

# Consumer prices

In February 2019, according to the provisional estimate, the year-on-year inflation rate stood at +1.3%. Through to June 2019, it is expected to drop slightly to +1.0%. Tobacco prices are likely to remain buoyant but should slow significantly, due to a smaller increase than last year. Excluding tobacco, inflation is expected to reach +0.9% in June against +1.0% in February. Core inflation<sup>1</sup>, which stood at +0.8% on average over 2018, dropped to 0.6% in February 2019. Through to June 2019, it is expected to rise to +1.1% in line with the price rises in services and, to a lesser extent, in certain manufactured goods, excluding health products. In contrast to 2018 when inflation was relatively firm (+1.9% on average), H1 2019 is likely to be marked by a sharp slowdown in prices, in the wake of energy prices.

### Headline inflation should remain moderate through to June 2019.

In February 2019, according to the provisional consumer price index, headline inflation rose slightly to +1.3% year-on-year after +1.2% in January (Graph 1). Energy prices have accelerated on a one-off basis (+3.1% after +1.9% in January), while the prices of manufactured goods continue to fall (-0.5% after -0.4%). The prices of services have slowed to +0.8%, after +1.0% in January, in contrast to food products (+3.0% after +2.7%).

Headline inflation is expected to increase slightly during H2 2019 and should settle at +1.0% in June 2019 (Table). Energy prices are likely to slow down significantly (+0.9% year-on-year in June 2019), as should tobacco prices (+8.0% in June against +14.0% in February). The prices of food products are expected to be a little less vigorous (+2.1% against +3.0% in February).

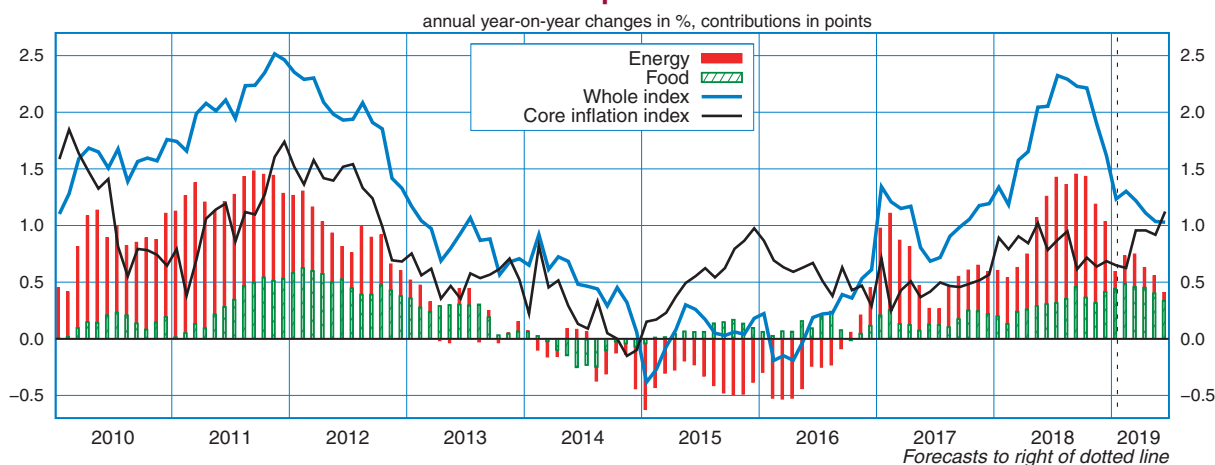
### Energy inflation is set to slip back sharply

Energy prices slackened during Q4 2018 as a result of the fall in crude oil prices. Due to the cancellation of the increases in taxation on fuels and gas, initially scheduled for January 2019, and despite the increase in electricity prices (+5.9% in May 2019), this slowdown is expected to continue. In addition, successive reductions in regulated gas prices are scheduled to take effect in H1 2019, according to the slowdown in oil prices. Based on the assumption of a barrel of Brent priced at \$65, energy inflation should drop to +0.9% in June 2019 after +3.1% in February, which would be its lowest level since 2016.

### Tobacco prices are likely to slow while remaining vigorous

In February 2019, the increase in tobacco prices reached 14.0% year-on-year. As the increase in taxation (+50 cents per packet of cigarettes) scheduled for March 2019 will be smaller than the

1 - Consumer prices in France



Source: INSEE

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

rise in the winter of 2018, and assuming that manufacturers' margins remain unchanged, tobacco prices should slow down due to the base effect through to June 2019 (+8.0%).

### The prices of food products are expected to slow

Food inflation is likely to fall through to June 2019, to +2.1% against +3.0% in February 2019. The year-on-year variation in the prices of fresh products remained high in Q4 2018 (+7.8% in December 2018). After increasing to +8.3% in February 2019, it is expected to drop to +3.8% in June, based on the assumption of normal production conditions over the coming seasons.

Excluding fresh products, food inflation remained dynamic in 2018, driven in particular by the prices of dairy products, cereal products and meat. It stood at +2.1% in February 2019 and is likely to drop to +1.8% through to June 2019. The "Agriculture and Food" Law entered into force in Q1 2019. It provides for a 10% increase in the loss-leader threshold and the regulation of special offers by value and by volume. According to provisional estimates, the increase in the

loss-leader threshold has contributed to a monthly increase of 0.4% in the prices of food products excluding fresh products since February 2019.

### Prices of manufactured goods are likely to drop slightly

The prices of manufactured goods are expected to drop slightly in June 2019, by 0.4% year-on-year. The prices of "other manufactured products" (excluding clothing and health goods) are likely to drop by 0.1% year-on-year in June, after -0.2% in February.

After remaining almost stable in Q4 2018, the prices of clothing and footwear increased slightly in February 2019, to +0.7% year-on-year, in line with special offers being on a smaller scale than the previous year during the sales period. This rise looks set to continue through to June 2019, assuming that the dates of the sales remain unchanged<sup>2</sup>.

The drop in the prices of health goods is likely to continue through to mid-2019 (-2.8% year-on-year in June). The increase in pharmacists'

### Consumer prices

changes as %

CPI* groups (2018 weightings)	January 2019		February 2019		March 2019		June 2019		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2019	2018
<b>Food (16.2%)</b>	<b>2.7</b>	<b>0.4</b>	<b>3.0</b>	<b>0.5</b>	<b>2.8</b>	<b>0.5</b>	<b>2.1</b>	<b>0.3</b>	<b>1.0</b>	<b>1.9</b>
including: fresh food (2.4%)	8.4	0.2	8.3	0.2	8.3	2.0	3.8	0.1	3.3	5.2
excluding: fresh food (13.8%)	1.7	0.2	2.1	0.3	1.9	0.3	1.8	0.2	0.6	1.3
<b>Tobacco (1.9%)</b>	<b>14.0</b>	<b>0.3</b>	<b>14.0</b>	<b>0.3</b>	<b>7.4</b>	<b>0.1</b>	<b>8.0</b>	<b>0.2</b>	<b>2.7</b>	<b>14.2</b>
<b>Manufactured products (25.6%)</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.6</b>	<b>-0.2</b>
including:										
clothing and footwear (4.0%)	0.5	0.0	0.7	0.0	0.7	0.0	0.7	0.0	0.0	0.1
medical products (4.2%)	-2.8	-0.1	-2.9	-0.1	-2.9	-0.1	-2.8	-0.1	-2.1	-2.3
other manufactured products (17.4%)	-0.1	0.0	-0.2	0.0	-0.1	0.0	-0.1	0.0	-0.2	0.2
<b>Energy (8.0%)</b>	<b>1.9</b>	<b>0.2</b>	<b>3.1</b>	<b>0.2</b>	<b>3.6</b>	<b>0.3</b>	<b>0.9</b>	<b>0.1</b>	<b>6.2</b>	<b>9.7</b>
including: oil products (4.3%)	0.2	0.0	3.2	0.1	3.3	0.1	-3.8	-0.2	10.3	14.7
<b>Services (48.3%)</b>	<b>1.0</b>	<b>0.5</b>	<b>0.8</b>	<b>0.4</b>	<b>0.9</b>	<b>0.4</b>	<b>1.2</b>	<b>0.6</b>	<b>1.0</b>	<b>1.2</b>
including:										
rent-water (7.5%)	-0.4	0.0	-0.6	0.0	-0.4	0.0	0.6	0.0	0.4	0.1
health services (6.0%)	0.2	0.0	0.2	0.0	0.0	0.0	0.5	0.0	13.	0.9
transport (2.9%)	-0.1	0.0	-0.5	0.0	-1.0	0.0	-0.7	0.0	2.0	0.8
communications (2.2%)	-3.1	-0.1	-3.1	-0.1	-3.7	-0.1	-3.9	-0.1	-3.5	-1.0
other services (29.8%)	1.9	0.6	1.7	0.5	1.9	0.6	2.1	0.6	1.4	1.8
<b>All (100%)</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.9</b>
All excluding energy (92.0%)	1.2	1.1	1.1	1.0	1.0	0.9	1.0	1.0	0.6	1.2
All excluding tobacco (98.1%)	1.0	1.0	1.0	1.0	1.1	1.1	0.9	0.9	1.0	1.6
<b>Core inflation (60.5%)**</b>	<b>0.7</b>	<b>0.4</b>	<b>0.6</b>	<b>0.4</b>	<b>1.0</b>	<b>0.6</b>	<b>1.1</b>	<b>0.7</b>	<b>0.5</b>	<b>0.8</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

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 summer sales of 2019

## French developments

dispensing fees, introduced at the start of 2019, has only marginally affected the price index for reimbursable medicines<sup>3</sup>.

### Service prices are expected to accelerate

In June 2019, the rise in the prices of services is likely to reach 1.2% year-on-year, against 0.8% in February 2019. The drop in the prices of transport services, which began in January 2019, should become more pronounced, reaching -0.7% year-on-year in June 2019, after -0.5% in February. This fall relates primarily to the prices of air transport services, which reflect the drop in oil prices after a certain time lag. After edging down at the end of 2018 due to numerous special-offer campaigns, the prices of communication services should continue to fall in H1 2019. They are expected to drop by 3.9% year-on-year in June 2019, as the competitive pressures in this sector remain strong.

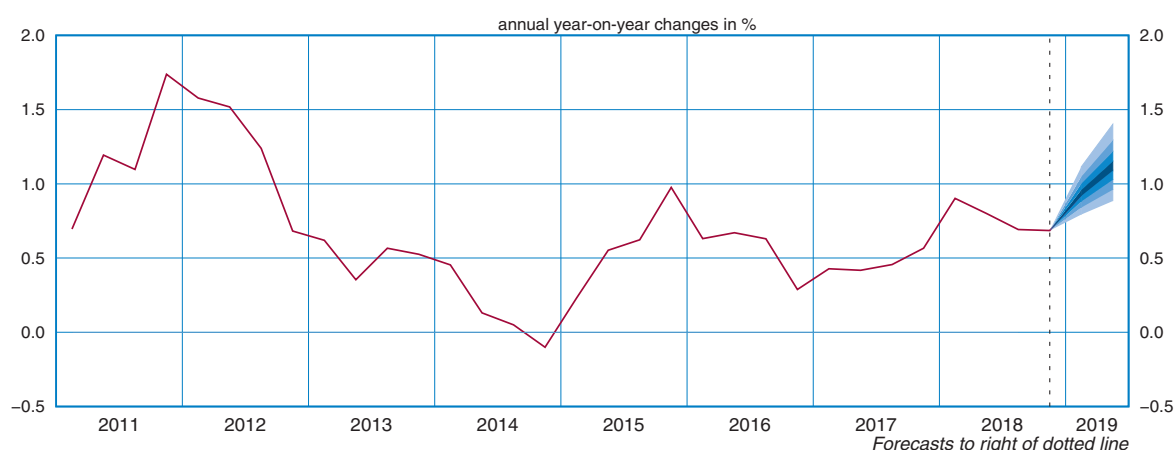
Inflation in health services is set to rise slightly (+0.5% year-on-year in June 2019 after +0.2% in February), due to increases in certain

restorative dental treatments in April 2019. Lastly, rents look set to increase by +0.6% year-on-year in June 2019 (after -0.6% in February) as the social housing rent reductions drop out of the calculation of the year-on-year figures.

### Core inflation is set to increase

Core inflation remained below 1.0% throughout 2018 (*Graph 2*), and stood at (+0.7% in January 2019). Through to June 2019, it should rise to +1.1% year-on-year, thus exceeding headline inflation for the first time since November 2016. The reflection of producer price rises in consumer prices, the acceleration of prices in services and most notably rent prices, are likely partial explanations for the increase in core inflation. Furthermore, the prices of certain manufactured goods excluding health products are expected to rise through to June, making a further contribution to the increase in core 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

3. Several factors can have a negative impact on the price index trend for reimbursable medicines: targeted price reductions, and increase in the number of generic drugs, the effect of replacing originator medicinal products with generics, etc. For several years, these factors responsible for driving prices down have prevailed over factors that drive them up.