

Consumer prices

According to the provisional estimate, inflation stood at +1.0% year-on-year in May 2019. It is expected to rise to +1.4% through to December 2019, impacted by the acceleration in the prices of services (especially rents), the scheduled increase in taxation on tobacco, and energy inflation. According to the provisional estimate, inflation excluding tobacco reached 0.9% in May. Core inflation¹ is likely to rise to +1.0% through to December year on year, after +0.7% in April. As an annual average, prices should slow in 2019 (+1.2% after +1.8% in 2018).

Headline inflation is set to increase through to December 2019.

In May 2019, according to the provisional estimate, headline inflation fell to +1.0% year-on-year, after +1.3% in April (Graph 1). The prices of food products have slowed slightly, to +2.3%, after +2.5% in April. Tobacco prices have gathered pace, to +9.0%, after +8.1% in April. The prices of services have slackened, to +0.7%, after +1.0%. In addition, the prices of manufactured goods have continued to drop (-0.6% after -0.5%). Energy prices have slowed down (+3.4% after +4.8%).

Inflation is set to rise to +1.4% through to December 2019, primarily due to service prices dropping out of the calculation of the year-on-year figures (Table). The prices of food products are likely to slow down sharply (+1.3% year-on-year in December, against +2.3% in May). Tobacco prices should pick up markedly (+14.8%, against +9.0% in May). Energy prices are also expected to

ramp up (+4.3% after +3.4%), as are the prices of services (+1.3% in December after +0.7% in May). The drop in the prices of manufactured goods is likely to slow down (-0.3% after -0.6%).

Energy inflation should increase slightly

After a sharp slowdown at the end of 2018, crude oil prices rebounded during Q1 2019. Gas prices were cut in May and June 2019, after two reductions in the regulated prices in January and April 2019. Conversely, public electricity prices increased by 5.9% in June 2019 following a period in which the regulated prices were frozen. Based on the assumption of a barrel of Brent priced at \$65, energy inflation should rise slightly, to +4.3% in December 2019, after +3.4% in May.

Tobacco prices are expected to accelerate sharply

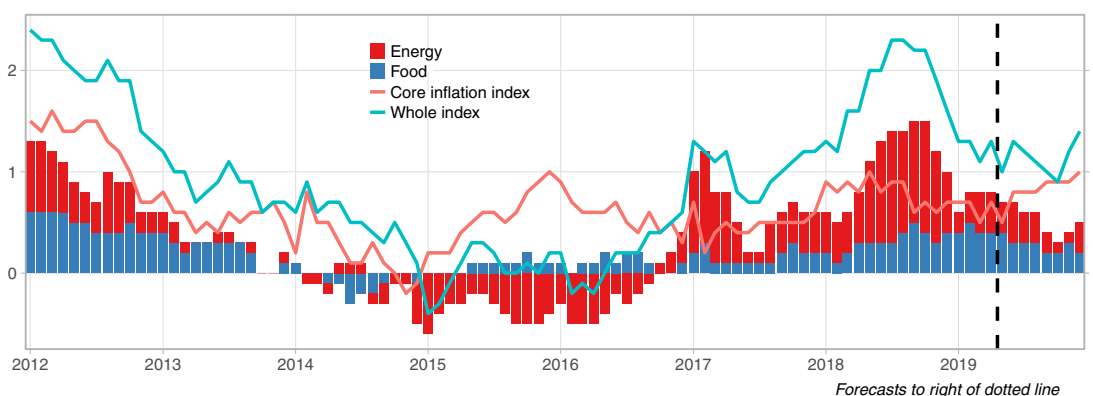
In May 2019, the increase in tobacco prices reached 9.0% year-on-year. After the rise in March 2019, a new increase in taxation is scheduled for November 2019. Assuming that manufacturers' margins remain unchanged, tobacco prices should accelerate through to December 2019, to +14.8% year-on-year.

Prices of food products are likely to slow significantly

Food inflation is expected to fall through to December 2019, to +1.3% against +2.3% in May 2019. The prices of fresh products should

1. The core inflation indicator calculated by INSEE is estimated by removing the prices of energy, fresh products and public-sector prices from the headline index, and then correcting it for tax measures and seasonal variations.

1 - Consumer prices in France



Source: INSEE

edge down considerably through to December, to -2.9%, after +2.3% in May, based on the assumption that production conditions will be normal over the summer. This drop should mainly be due to the sharp rise in prices in September 2018 (triggered by that summer's drought) dropping out of the calculation of the year-on-year figures in September 2019.

Excluding fresh products, food inflation stood at +2.3% in May 2019 and is expected to drop through to December, to +2.1%. Certain measures of the "Agriculture and Food" Law entered into force in February 2019. The loss-leader threshold was raised by 10% and special offers are now regulated. These measures contributed to increasing the prices of food products (excluding fresh food) by 0.4% in February 2019. The highest rise concerned alcoholic beverages (+0.9% over the month, Focus).

Prices of manufactured goods should continue to drop

The prices of manufactured goods should continue to drop, to -0.3% year-on-year in December 2019, after -0.6% in May.

The prices of clothing and footwear fell year-on-year in May 2019 (-0.6%). Through to December 2019, this slowdown is likely to continue and should reach -0.8%. The PACTE Law² provides for a reduction in the sales period from the current 6 weeks to 4 weeks, among other measures. However, given that a period of six months will be required between the enactment of this law and the entry into force of this measure, the 2019 summer sales period is expected to remain unchanged and prices should not be impacted. The drop in the prices of health goods is set to continue through to December 2019 (-1.9% year-on-year, after 2.5% in May). The prices of "other manufactured products" (excluding clothing and health goods) are likely to increase slightly (+0.1% year-on-year in December, after -0.1% in May).

Services prices are expected to accelerate sharply

In June 2019, the rise in the prices of services is likely to reach 1.3% year-on-year, against 0.7% in May 2019.

The prices of transport services should bounce back to stand at +1.9% in December 2019, after -1.4% in May. This acceleration should be mainly

2. Once the PACTE Law has been enacted, the dates of the sales periods will be defined by an Order issued by the Minister for the Economy and Finance.

Consumer prices

changes as %

CPI groups* (2018 weightings)	April 2019		May 2019		June 2019		Décembre 2019		Moyennes annuelles	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy
Food (16.2 %)	2.5	0.4	2.3	0.4	1.9	0.3	1.3	0.2	1.9	2.0
including: fresh food (2.4 %)	3.7	0.1	2.3	0.1	-0.2	0.0	-2.9	-0.1	5.2	1.3
excluding: fresh food (13.8 %)	2.3	0.3	2.3	0.3	2.2	0.3	2.1	0.3	1.3	2.1
Tabacco (1.9 %)	8.1	0.2	9.0	0.2	9.0	0.2	14.8	0.3	14.2	10.4
Manufactured products (25.6 %)	-0.5	-0.1	-0.6	-0.1	-0.4	-0.1	-0.3	-0.1	-0.2	-0.4
including : clothing and footwear (4.0 %)	-0.2	0.0	-0.6	0.0	-0.7	0.0	-0.8	0.0	0.1	-0.5
medical products (4.2 %)	-2.5	-0.1	-2.5	-0.1	-2.5	-0.1	-1.9	-0.1	-2.3	-2.5
other manufactured products (17.4 %)	-0.1	0.0	-0.1	0.0	0.1	0.0	0.1	0.0	0.2	0.0
Energy (8.0 %)	4.8	0.4	3.4	0.3	4.5	0.4	4.3	0.3	9.7	3.4
including : oil products (4.3 %)	5.7	0.2	3.4	0.1	2.4	0.1	5.4	0.2	14.7	2.8
Services (48.3 %)	1.0	0.5	0.7	0.3	1.1	0.5	1.3	0.6	1.2	1.0
including : rent-water (7.5 %)	-0.1	0.0	-0.2	0.0	0.9	0.1	1.2	0.1	0.1	0.5
health services (6.0 %)	0.1	0.0	0.1	0.0	0.1	0.0	0.5	0.0	0.9	0.1
transport (2.9 %)	0.5	0.0	-1.4	0.0	0.0	0.0	1.9	0.1	0.8	0.2
communications (2.2 %)	-3.0	-0.1	-3.4	-0.1	-3.1	-0.1	-0.6	0.0	-1.0	-2.3
other services (29.8 %)	1.8	0.5	1.5	0.4	1.8	0.5	1.6	0.5	1.8	1.6
All (100 %)	1.3	1.3	1.0	1.0	1.3	1.3	1.4	1.4	1.8	1.2
All excluding energy (92.0 %)	1.0	0.9	0.8	0.7	1.0	0.9	1.1	1.0	1.2	1.0
All excluding tabacco (98.1 %)	1.1	1.1	0.9	0.8	1.1	1.1	1.1	1.1	1.6	1.0
Core inflation (60.5 %)	0.7	0.4	0.5	0.3	0.8	0.5	1.0	0.6	0.8	0.8

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

French developments

related to the prices of air transport services, which reflect the rise in Brent prices since the start of the year after a certain time lag.

The prices of communication services have been following a downward trend since 2017 due to the fierce competition between telephone operators. This trend is expected to continue throughout 2019 but should ease slightly at the end of the year. Indeed, telephone companies are likely to propose fewer special offers in the run-up to the acquisition of 5G frequencies from the State in the winter of 2019. Consequently, through to December 2019, the prices of communication services should drop by 0.6% year-on-year, after -3.4% in May.

After remaining almost unchanged through to November 2019, the prices of health services are

expected to rise in December (+0.5% year-on-year, after +0.1% in May).

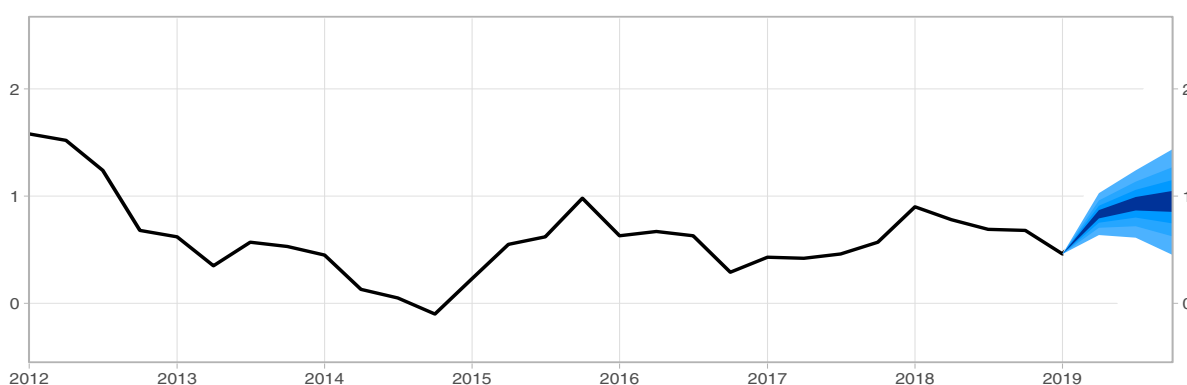
Lastly, rents look set to increase by +1.2% year-on-year in December 2019 (after -0.2% in May) as the social housing rent reductions drop out of the calculation of the year-on-year figures.

Core inflation is likely to rise

Core inflation is likely to rise slightly through to December 2019, after remaining below 1% in 2018 (Graph 2). It stood at +0.5% in May 2019 and is expected to rise to +1.0% in December year-on-year. The reflection of producer price rises in consumer prices and the acceleration of service prices are likely explanations for this increase. ■

2 -The core inflation forecast for France and risks around the forecast

year-on-year change in %



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 contrasts 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. Thus, in December 2019, the underlying inflation forecast is +1.0% with a 60% probability that it will be between 0.8% and +1.2%.

Source: INSEE