

Consumer prices

2018 was significant for its relatively high level of inflation (+1.8% on average) in the wake of high oil prices, but prices overall should slow down considerably in 2019 (+1.1%). In November 2019, inflation bounced back to +1.0% year on year, linked with the rise in tobacco prices. It is expected to rise to +1.1% by June 2020, while inflation excluding tobacco should reach +0.9% in June after +0.8% in November. Core inflation¹ is likely to increase slightly through to mid-2020 reaching +1.0% after +0.9% in November.

Headline inflation is expected to rise slightly through to June 2020

In November 2019, headline inflation bounced back to +1.0% year on year, after +0.8% in October (Graph 1). The prices of food products gathered pace (+2.1%, after +1.8%), as did the prices of services (+1.3% after +1.2%). Tobacco prices rose by +15.3% year on year in November, after +8.8% in October, as a result of the increase in indirect taxation. Meanwhile, energy prices continue to decline (-0.7%, after -1.6%), as do prices of manufactured products (-0.6%, after -0.5% in October).

Inflation should remain at around +1.1% (Table) through to June 2020. There is likely to be a rebound in energy prices (+0.8%, against -0.7% in November) and the drop in the prices of manufactured products is expected to lessen in June (-0.2%, against -0.6%). In addition, prices of food products should slow (+1.4% year on

year in June, against +2.1% in November), as should tobacco prices (+12.2% after +15.3%). Lastly, the rise in the prices of services is expected to be fairly similar to that in December, around +1.3% year on year.

Energy inflation should increase slightly through to June 2020

The price of Brent is currently hovering once again at around \$60, with the rise at the end of the summer having faded with Saudi oil production sites getting back on track quickly. Based on the assumption of the price of Brent at \$60, energy inflation is expected to reach +0.8% year on year in June 2020 after -0.7% in November. Also, regulated electricity tariffs should increase by 4.0% at the most in February 2020. In addition, because of a larger than expected order for electricity from alternative suppliers to EDF, electricity prices are set to rise by 3%. This increase will be spread over H1 2020.

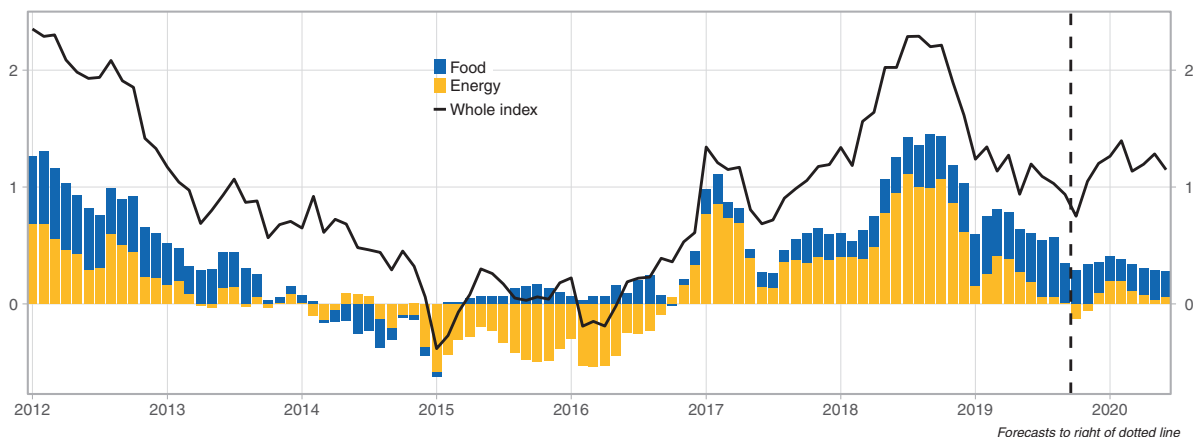
Tobacco prices should slow

In November 2019, the increase in tobacco prices reached 15.3% year on year, as a result of another rise in indirect taxation. The price of a packet of cigarettes will increase again by 50 cents in April 2020. When previous price rises were applied, manufacturers made only slight adjustments to their margins. Tobacco prices will thus remain very buoyant until June 2020, at +12.2% year on year.

1. The core inflation indicator was estimated by removing the prices of energy, fresh produce and public-sector tariffs from the headline index, and then adjusting it for tax measures and seasonal variations.

1 - Consumer prices in France

year-on-year variation in points



Source: INSEE

French developments

Prices of food products are likely to slow

Food inflation should fall by June 2020, to +1.4% against +2.1% in November 2019. Assuming normal production conditions during the winter, prices of fresh food products should slow in June to +1.5%, after +2.2% in November.

Excluding fresh products, food inflation stood at +2.0% year on year in November 2019 and should decrease by June to +1.3% as a result of the base effect, having increased slightly last year because of certain measures of the "Agriculture and Food" Law. In addition, the production deficit resulting from the Chinese pig crisis is likely to continue to drive up pork prices and hence consumer prices.

Prices of manufactured goods should continue to fall

The drop in the prices of manufactured goods should continue through to June 2020, to -0.2%, after a drop of -0.6% year on year in November.

The prices of clothing and footwear decreased slightly in November 2019 (-0.2% year on year, after +0.2% in October). This drop is expected to continue through to June 2020, at a similar pace (-0.1%). The winter sales period will be reduced from 6 to 4 weeks, as a result of the PACTE Law

coming into force. Thus February will include just one week of sales, compared with three weeks previously, which is likely to result in a one-off increase in the prices of clothing and footwear of around 0.8 percentage points over the month and 0.3 points over the quarter.

The drop in the prices of health goods is expected to continue until June 2020 (-2.0% year on year, after -3.0% in November). In January 2020, the "zero left to pay" plan for spectacles and lenses will be introduced: on the one hand in future there will be full reimbursements, and on the other hand, prices will be capped. This latter aspect of the reform is likely to bring down the optical goods price index.

Prices of "other manufactured goods" (excluding clothing and health goods) should increase slightly in June 2020 (+0.2% year on year, after -0.2% in November). In January 2020, the threshold for the application of the "ecological malus" for automobiles will be reduced and the amount of the basic levy will increase. In addition, the scale will be more restrictive than before for the most polluting vehicles. Almost 54% of new vehicles are likely to be concerned by this new malus, against 37% previously. Thus in January 2020, the prices of new motor vehicles are expected to increase by 1.4% over the month.

Consumer prices

changes as %

CPI groups* (2018 weightings)	October 2019		November 2019		December 2019		June 2020		Moyennes annuelles	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy
Food (16.2 %)	1.8	0.3	2.1	0.3	1.6	0.3	1.4	0.2	1.9	2.4
including: fresh food (2.4%)	-0.1	0.0	2.2	0.1	0.5	0.0	1.5	0.0	5.2	4.1
excluding: fresh food (13.8%)	2.1	0.3	2.0	0.3	1.8	0.3	1.3	0.2	1.3	2.1
Tabacco (1.9%)	8.8	0.2	15.3	0.3	15.3	0.3	12.2	0.2	14.2	10.6
Manufactured products (25.6 %)	-0.5	-0.1	-0.6	-0.2	-0.3	-0.1	-0.2	0.0	-0.2	-0.6
including : clothing and footwear (4.0%)	0.2	0.0	-0.2	0.0	-0.2	0.0	-0.1	0.0	0.1	-0.3
medical products (4.2%)	-3.0	-0.1	-3.0	-0.1	-2.2	-0.1	-2.0	-0.1	-2.3	-2.9
other manufactured products (17.4%)	-0.1	0.0	-0.2	0.0	0.1	0.0	0.2	0.0	0.2	-0.1
Energy (8.0%)	-1.6	-0.1	-0.7	-0.1	1.1	0.0	0.8	0.1	9.7	1.7
including : oil products (4.3%)	-4.5	-0.2	-2.0	-0.1	0.5	0.0	-2.1	-0.1	14.7	0.4
Services (48.3%)	1.2	0.6	1.3	0.6	1.3	0.6	1.4	0.7	1.2	1.0
including : rent-water (7.5%)	0.7	0.1	0.8	0.1	0.9	0.1	0.9	0.1	0.1	0.4
health services (6.0%)	-0.2	0.0	-0.2	0.0	0.1	0.0	0.2	0.0	0.9	-0.1
transport (2.9%)	1.6	0.0	2.1	0.1	2.0	0.1	0.9	0.0	0.8	0.7
communications (2.2%)	0.9	0.0	2.3	0.1	1.4	0.0	-1.0	0.0	-1.0	-1.2
other services (29.8%)	1.6	0.5	1.6	0.5	1.6	0.5	1.9	0.6	1.8	1.6
All (100%)	0.8	0.8	1.0	1.0	1.2	1.2	1.1	1.1	1.8	1.1
All excluding energy (92.0%)	1.0	0.9	1.2	1.1	1.2	1.1	1.2	1.1	1.2	1.0
All excluding tabacco (98.1%)	0.6	0.6	0.8	0.8	0.9	0.9	0.9	0.9	1.6	0.9
Core inflation (60.5%)	1.0	0.6	0.9	0.6	0.9	0.6	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

Inflation in services is set to increase slightly

In June 2020, the increase in the prices of services is expected to reach 1.4% year on year, after +1.3% in November.

The prices of transport services should slow to +0.9% in June 2020, after +2.1% in November. This slowdown is mainly related to the prices of air transport services, despite the upward effect in Q1 2020 of the eco-tax on the price of economy-class tickets on flights out of France. This tax will be €1.50 for internal flights and flights within the EU and €3 for international flights outside the EU. The effect on the prices of air transport services is likely to be 0.6 percentage points in January 2020.

The prices of communication services followed a downward trend over the first three quarters of 2019, as a result of strong competition in

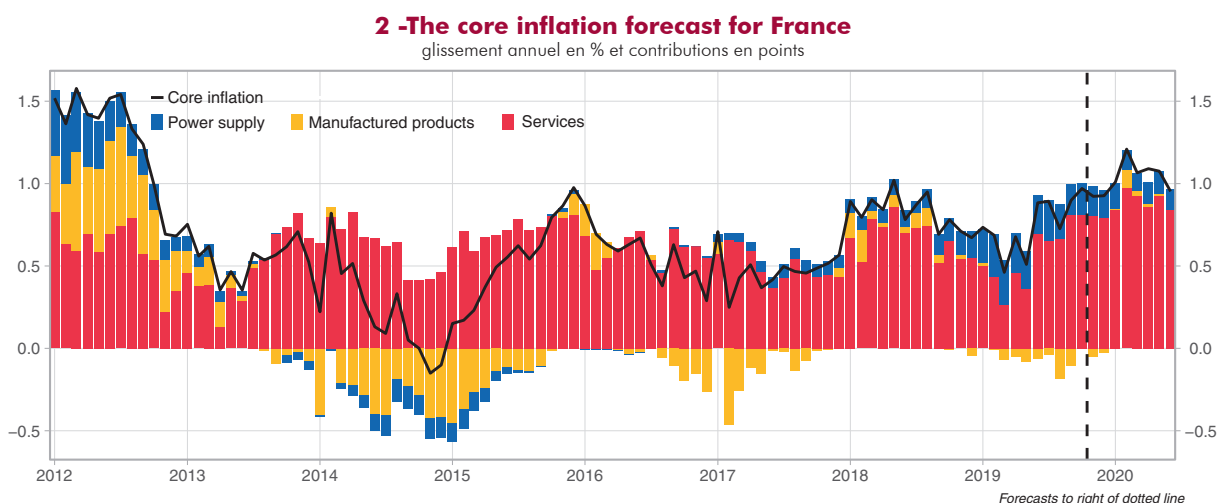
the sector. Prices increased in September and inflation in this sector looks set to remain positive until May. Prices should start to fall again in June 2020. Thus the prices of communication services should fall to -1.0% year on year, after +2.3% in November.

Inflation in health services looks set to rise to +0.2% in June, after -0.2% year on year in November.

Lastly, rents are expected to rise by +0.9% year on year in June 2020, after +0.8% in November.

Core inflation should increase slightly

In June 2020, core inflation is likely to remain higher than its 2019 average (+1.0% against +0.8%). The prices of services are expected to contribute considerably to core inflation in 2020, but manufactured products should also make a positive contribution, for the first time since the beginning of 2019 (*Graph 2*). ■



Source : Insee