

## Consumer prices

Inflation has been on an upward trend since the end of 2020, due mainly to the rebound in energy prices, which were much higher than their level a year earlier. In June, it settled at 1.5% year-on-year according to the provisional estimate, after 0.0% in December 2020. In H2 and assuming that the price of oil remains stable over this period, inflation should continue to rise, with recent increases in the price of agricultural and industrial commodities starting to pass through to consumer prices. It is expected to be more than 2% by the end of the summer and, if the prices of oil and other commodities stop rising, it could fall back to 1.8% by the end of the year.

Core inflation is expected to rise to +1.1% year-on-year in June 2021, after +0.9% in May. This increase is mainly due to the prices of manufactured products. Over the rest of the year, core inflation looks set to remain stable overall, at +1.1% year-on-year in December.

As an annual average, headline inflation is expected to rebound significantly, to +1.5% against +0.5% in 2020 and 1.1% in 2019. Core inflation is also expected to rise to +0.9%, after +0.6% in 2020 and 0.8% in 2019.

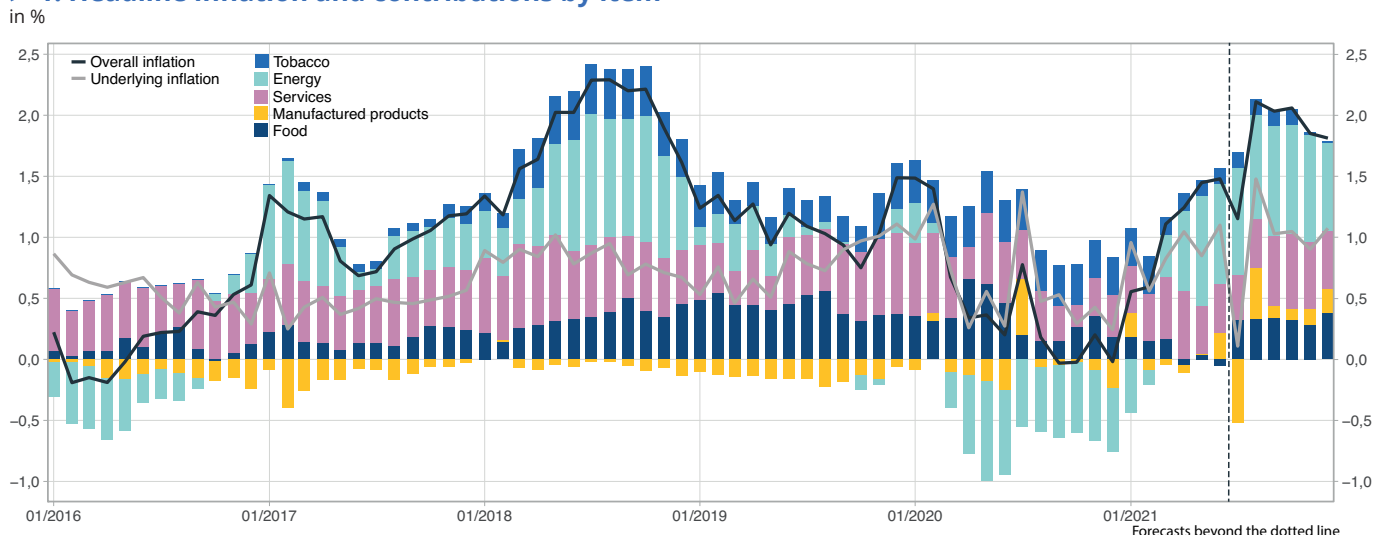
### Headline inflation rose sharply between January and June 2021

In January 2021, headline inflation stood at +0.6% year-on-year. It rose to +1.5% in June 2021, driven by the prices of energy products: in the previous year, these had remained at very low levels, then increased throughout H1 2021, in the wake of the price of Brent (► **Figure 1**).

Concerning food products, year-on-year inflation declined in April and May, following the prices of fresh produce, which had indeed increased significantly during the first lockdown in 2020. In June, inflation in food products continued to decline, by 0.3% year-on-year.

After a first one-off increase in January linked with the postponing of the winter sales, prices of manufactured products returned to a higher level than the year before, rising by 0.9% year-on-year in June, after +0.8% in January. Prices of clothing-footwear rose 3.7% year-on-year in June due to the delay in the start of the summer sales (originally set for 23 June to 20 July 2021, they will now be held from 30 June to 27 July 2021).

### ► 1. Headline inflation and contributions by item



Source: INSEE

Prices of services rose considerably in April (+1.2% after +0.8% in January). However, this is a one-off increase, linked to the sharp drop in the prices of services in April 2020 during the first lockdown. Inflation in services then declined, reaching +0.9% year-on-year in June. Prices of transport services fell by 0.8% year-on-year in June, after +0.2% in January. Meanwhile, the prices of health services declined year-on-year, to -0.4%. However, the prices of communication services accelerated between January and June 2021, from +2.0% to +3.5%, because of a rise in the price of some contracts.

Finally, between January and June, tobacco prices had the effect of bringing inflation down, but only to a limited extent. As a result, after increases in March and November 2020, the price of a packet of cigarettes has not been raised further and tobacco prices should therefore slow from March 2021: inflation fell to +5.3% year-on-year in June 2021, after +12.7% in January.

## In H2 2021, inflation is expected to continue to rise, but more moderately

By December 2021 and assuming that the price of a barrel of Brent is \$70, inflation is expected to rise to +1.8% year-on-year, after dropping to +1.2% in July and

a peak of around 2.0% year-on-year between August and October. Such an increase would be due to the high level of agricultural and industrial commodity prices and the buoyancy of the price of services, especially transport services. Core inflation is expected to hold steady, at +1.1% year-on-year, as in June.

The prices of food products look set to accelerate from July and their increase year-on-year should stand at +2.1% in December. Inflation in fresh produce is expected to increase, mainly due to the effect of exiting from the year-on-year figures because of the particular momentum observed one year earlier. In addition, the frost damage suffered by some crops in the spring could affect fresh fruit and vegetable prices through to the end of the summer. This effect is expected to be marginal, however, compared to that referred to previously. Inflation in produce other than fresh is also likely to rise, as the increase in prices of agricultural commodities in H1 starts to be passed through to consumer prices <sup>1</sup> (► **Focus**).

Inflation in services is expected to be +1.0% year-on-year in December 2021, after +0.9% in June. This is likely to be driven in particular by inflation in transport services (+3.6% year-on-year in December after -0.8% in June), largely due to particularly low prices a year earlier,

<sup>1</sup> The forecast is made under the usual assumption of stability in the prices of agricultural commodities over the forecasting period, the same principle as adopted for the price of oil.

## ► 2. Consumer prices

change in %

Regroupements IPC* (pondérations 2021)	January 2021		April 2021		May 2021		June 2021		December 2021		Annual averages		
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2019	2020	2021
<b>Food (17.9%)</b>	<b>1.0</b>	<b>0.2</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.3</b>	<b>0.0</b>	<b>-0.3</b>	<b>0.1</b>	<b>2.1</b>	<b>0.4</b>	<b>2.5</b>	<b>1.9</b>	<b>1.1</b>
including: fresh food (2.6%)	5.1	0.1	-3.6	-0.1	-2.7	-0.1	-3.4	-0.1	4.5	0.1	4.3	7.3	2.5
excluding: fresh food (15.2%)	0.3	0.0	0.3	0.1	0.2	0.0	0.3	0.1	1.7	0.3	2.1	1.0	0.8
<b>Tabacco (2.4%)</b>	<b>12.7</b>	<b>0.3</b>	<b>5.8</b>	<b>0.1</b>	<b>5.3</b>	<b>0.1</b>	<b>5.3</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>10.6</b>	<b>13.7</b>	<b>5.7</b>
<b>Manufactured products (25.0%)</b>	<b>0.8</b>	<b>0.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.9</b>	<b>0.2</b>	<b>0.8</b>	<b>0.2</b>	<b>-0.6</b>	<b>-0.2</b>	<b>0.3</b>
including: clothing and footwear (3.5%)	3.7	0.1	-2.3	-0.1	-0.2	0.0	3.7	0.1	2.0	0.1	-0.3	-0.5	0.8
medical products (4.4%)	-1.4	-0.1	-1.0	0.0	-1.0	0.0	-0.7	0.0	-1.4	-0.1	-2.8	-2.0	-1.0
other manufactured products (17.1%)	0.7	0.1	0.4	0.1	0.2	0.0	0.7	0.1	1.1	0.2	-0.1	0.3	0.4
<b>Energy (7.5%)</b>	<b>-5.8</b>	<b>-0.4</b>	<b>8.8</b>	<b>0.7</b>	<b>11.7</b>	<b>0.9</b>	<b>11.8</b>	<b>0.9</b>	<b>9.7</b>	<b>0.7</b>	<b>1.9</b>	<b>-6.1</b>	<b>8.0</b>
including: oil products (3.4%)	-11.7	-0.4	13.9	0.5	19.4	0.7	16.3	0.6	12.2	0.4	0.6	-11.8	9.9
<b>Services (47.3%)</b>	<b>0.8</b>	<b>0.4</b>	<b>1.2</b>	<b>0.6</b>	<b>1.1</b>	<b>0.5</b>	<b>0.9</b>	<b>0.4</b>	<b>1.0</b>	<b>0.5</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>
including: rent-water (8.5%)	0.3	0.0	0.9	0.1	1.0	0.1	1.1	0.1	0.8	0.1	0.4	0.3	0.9
health services (6.5%)	0.1	0.0	-0.9	-0.1	-0.4	0.0	-0.4	0.0	-0.4	0.0	-0.1	0.4	-0.3
transport (1.7%)	0.2	0.0	1.7	0.0	4.6	0.1	-0.8	0.0	3.6	0.1	0.7	-1.7	2.9
communications (2.4%)	2.0	0.0	4.2	0.1	3.5	0.1	3.5	0.1	2.9	0.1	-1.1	1.0	2.7
other services (28.1%)	0.9	0.2	1.3	0.4	0.9	0.2	1.1	0.3	1.1	0.3	1.6	1.4	1.0
<b>All (100%)</b>	<b>0.6</b>	<b>0.6</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>	<b>1.8</b>	<b>1.8</b>	<b>1.1</b>	<b>0.5</b>	<b>1.5</b>
All excluding energy (92.5%)	1.2	1.1	0.7	0.6	0.6	0.6	0.8	0.7	1.2	1.1	1.1	1.1	1.0
All excluding tabacco (97.6%)	0.3	0.3	1.1	1.1	1.3	1.3	1.4	1.4	1.8	1.8	0.9	0.2	1.4
<b>Core inflation (60.1%)**</b>	<b>1.0</b>	<b>0.6</b>	<b>1.0</b>	<b>0.6</b>	<b>0.9</b>	<b>0.5</b>	<b>1.1</b>	<b>0.7</b>	<b>1.1</b>	<b>0.7</b>	<b>0.8</b>	<b>0.6</b>	<b>0.9</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

## French economic outlook

especially for air transport. In addition, the prices of rents and communication services look set to slow, whereas prices in other services are expected to increase at the same pace as in June. Lastly, the prices of health services are expected to fall, as in June, to -0.4% year-on-year in December.

Assuming that the price of a barrel of Brent is \$70, energy prices should remain well above their level from a year before. Their inflation is likely to develop at around +11% year-on-year between July and November, then decrease slightly, to +9.7% in December, with the end of 2020 marking the start of their upturn.

Prices of manufactured products are expected to slow down slightly in December to +0.8% year-on-year, after +0.9% in June. In July 2021, they look set for a one-off decline of 1.8% year-on-year, because of the week's delay in the 2021 summer sales, combined with the after-

effects of postponing the summer sales in 2020: prices of clothing-footwear saw a strong increase because there were fewer days of sales in July than usual. The fall in the price of this item would largely explain the drop in headline and core inflation in July 2021. They should then rebound strongly in August. For the same reasons, the prices of other manufactured products are expected to drop by 1.3% in July, as the prices of some products such as personal items and household appliances are also affected by the sales. They should then rebound to +1.1% in December, after +0.7% in June, driven by the recent increases in the prices of industrial commodities (these prices being assumed to be stable over the forecasting period).

With no general increase in the price of a packet of cigarettes, tobacco prices should continue to slow until December. Thus they are unlikely to increase by more than +0.4% year-on-year in December, after +5.3% in June. ●