

Consumer prices

In 2021, inflation rose sharply: after reaching zero in December 2020 (0.0% over one year), it now stands at +2.8% for November, according to the provisional estimate. This increase was mainly driven by energy prices: after dropping to particularly low levels in 2020, they have recovered significantly since then, in the context of the global economic recovery (► **Focus**).

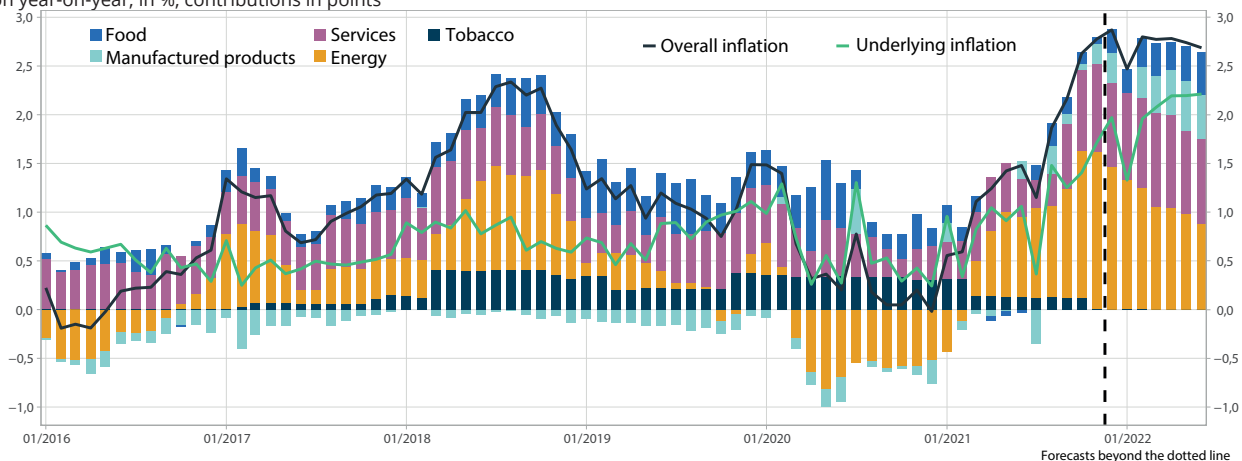
Over the next six months, inflation is expected to remain above 2.6% year-on-year (except in January, an automatic consequence of the postponement of the winter sales in 2021) under the conventional assumption that the price of oil is fixed at \$75 for a barrel of Brent and there is stability in other commodity prices. It is also assumed that the structure of consumption used to weight the consumer price index (CPI) in 2022 will be the same as for 2021, i.e. the structure of consumption in 2020 (► **Box 1**).

The contribution of energy prices to headline inflation is expected to remain significant, but it looks set to decrease under the conventional assumption used, through the automatic effect of their increase one year earlier (“base effect”). In addition, over the forecasting period, the regulated gas tariff is likely to remain stable due to the price shield introduced in October. All in all, the change in energy prices is expected to drop from 21.6% year-on-year in November 2021 to 11.8% in June 2022. At the same time, inflation is expected to increase in manufactured products and food: past increases in the prices of industrial and agricultural commodities (especially cereals) have indeed resulted in recent and significant increases in production prices, which are likely to begin to have repercussions on consumer prices (► **Box 2**). The prices of manufactured goods should therefore move from a year-on-year change of 0.8% in November 2021 to 1.8% in June. Finally, after returning to a more normal seasonality in 2021, the prices of services should make a stable contribution to inflation in the coming months.

Consequently, while headline inflation is likely to remain relatively stable in H1 2022, core inflation is expected to increase over the entire period –apart from January due to the winter sales– and reach +2.2% year-on-year in June, driven by the momentum of the prices of manufactured products and, to a lesser extent, those of food products, excluding fresh food. ●

► 1. Headline inflation and contributions by item

inflation year-on-year, in %, contributions in points



Source: INSEE

French economic outlook

► 2. Consumer prices

change in %, contributions in points

Regroupements IPC* (pondérations 2021)	October 2021		November 2021		December 2021		March 2021		June 2021		Annual averages		
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2020	2021	2022 ovhg
Food (17.9%)	0.7	0.1	0.4	0.1	1.4	0.3	1.9	0.3	2.4	0.4	1.9	0.6	1.8
including: fresh food (2.6%)	1.5	0.0	-1.0	0.0	2.8	0.1	4.3	0.1	4.8	0.1	7.3	1.8	3.2
excluding: fresh food (15.2%)	0.5	0.1	0.7	0.1	1.2	0.2	1.5	0.2	2.0	0.3	1.0	0.4	1.6
Tabacco (2.4%)	4.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.7	5.5	0.0
Manufactured products (25.0%)	0.3	0.1	0.8	0.2	1.2	0.3	1.5	0.4	1.8	0.5	-0.2	0.3	1.4
including: clothing and footwear (3.5%)	0.0	0.0	1.8	0.1	2.3	0.1	3.6	0.1	4.3	0.2	-0.5	0.0	3.0
medical products (4.4%)	-1.6	-0.1	-2.0	-0.1	-2.1	-0.1	-2.8	-0.1	-3.1	-0.1	-2.0	-1.2	-2.9
other manufactured products (17.1%)	0.8	0.1	1.3	0.2	1.8	0.3	2.0	0.3	2.4	0.4	0.2	0.7	2.1
Energy (7.5%)	20.2	1.5	21.6	1.6	19.6	1.5	14.1	1.1	11.8	0.9	-6.1	10.6	14.6
including: oil products (3.4%)	27.0	0.9	29.3	1.0	24.8	0.8	11.8	0.4	9.3	0.3	-11.8	13.7	13.2
Services (47.3%)	1.8	0.8	1.9	0.9	1.8	0.9	2.0	1.0	1.8	0.9	0.9	1.2	1.9
including: rent-water (8.5%)	1.4	0.1	1.6	0.1	1.7	0.1	1.7	0.1	1.8	0.2	0.3	1.1	1.8
health services (6.5%)	-0.8	-0.1	-0.8	0.0	-0.7	0.0	-0.3	0.0	0.3	0.0	0.3	-0.5	0.0
transport (1.7%)	8.8	0.2	12.2	0.2	8.9	0.2	12.8	0.2	8.7	0.2	-1.7	4.1	11.4
communications (2.4%)	5.3	0.1	2.6	0.1	2.8	0.1	2.9	0.1	0.5	0.0	1.0	2.9	1.4
other services (28.1%)	1.5	0.4	1.7	0.5	2.0	0.5	2.0	0.6	1.9	0.5	1.4	1.2	1.9
All (100%)	2.6	2.6	2.8	2.8	2.9	2.9	2.8	2.8	2.7	2.7	0.5	1.7	2.7
All excluding energy (92.5%)	1.3	1.2	1.3	1.2	1.5	1.4	1.8	1.7	1.9	1.7	1.1	1.0	1.7
All excluding tabacco (97.6%)	2.6	2.5	2.9	2.8	2.9	2.8	2.8	2.7	2.7	2.6	0.2	1.6	2.8
Core inflation (60.1%)*	1.4	0.8	1.7	1.0	2.0	1.2	2.1	1.2	2.2	1.3	0.6	1.1	2.0

■ 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

Note: Annual and half-yearly values correspond to year-on-year averages.

Source: INSEE

Bloc 1- Which weights for the 2022 inflation forecast?

The Consumer Price Index (CPI) is based on a basket of goods and services fixed over the course of a year, with prices monitored each month. This basket is updated every year when the CPI is published in January, to reflect the structure of household consumption over the previous year.

In general, updating the weights at the start of the year has only a limited effect on the level of the CPI, since the structure of household consumption only changes slowly from one year to the next. This is not the case for 2020, however, when the structure of consumption was atypical.¹ Thus, in January 2021, the update of the weights (taking into account the structure of consumption for 2020 rather than that for 2019) contributed to headline inflation of about 0.2 percentage points year-on-year.

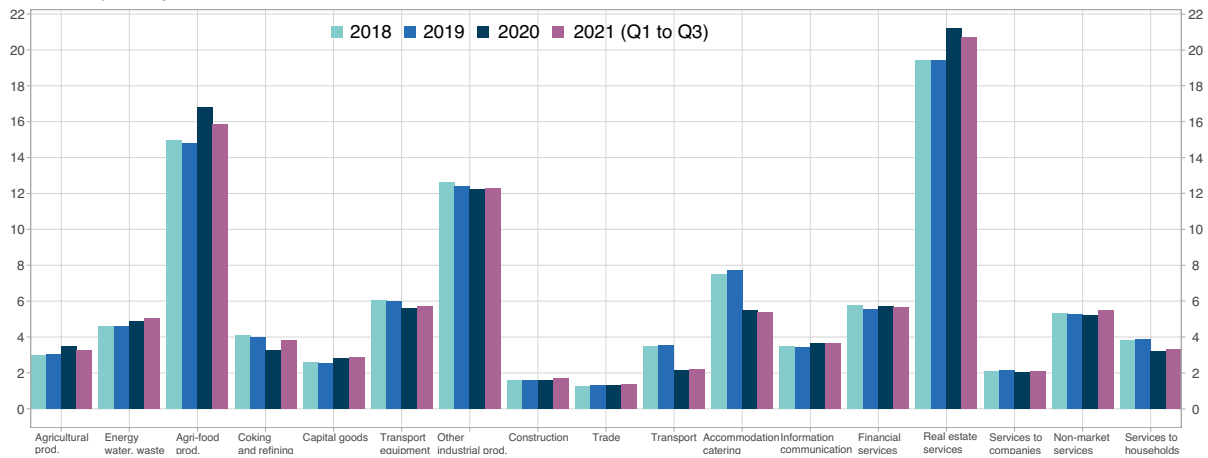
CPI weights will be updated again at the beginning of next year, when the 2022 CPI is prepared. In the inflation forecast presented here, the assumption that has been decided is to keep the same weights for the 2022 CPI as for 2021. This assumption seems justified insofar as, given the health restrictions in force in H1 2021, the structure of consumption for the whole of 2021 is likely to be more similar to that of 2020 than to that of a pre-crisis year. This is shown by data from the national accounts for the first three quarters of 2021: for the 17 items in the national accounts classification the structure of consumption by value appears to be fairly similar between 2021 and 2020 and differs from those of 2019 and 2018 (especially regarding the weight of accommodation-catering, transport services and agri-food products, ► Figure 3). This comparison exercise is flawed since the scope of household consumption within the meaning of the national accounts is different from that of the CPI, being based on data from only the first three quarters of 2021. Despite these limitations, it nevertheless makes the chosen assumption plausible in the context of this forecast. ●

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¹ INSEE, *Abbreviated Methodology*, February 2021 "Consumer price index : changes for the year 2021".

► 3. Structure of consumption since 2018 (in A17 nomenclature)

share in consumption by value, in %



How to read it: in 2020, accommodation-catering represented 5.5% of consumption, but 7.5% in 2018 and 7.7% in 2019.

For the first three quarters of 2021, 5.4% of total consumption derived from accommodation-catering: the volume of this consumer item in 2021 is closer to that of 2020 than to that before the crisis.

Note: the scope of consumption presented here corresponds to our consumption forecasts, and not to the construction of the price index.

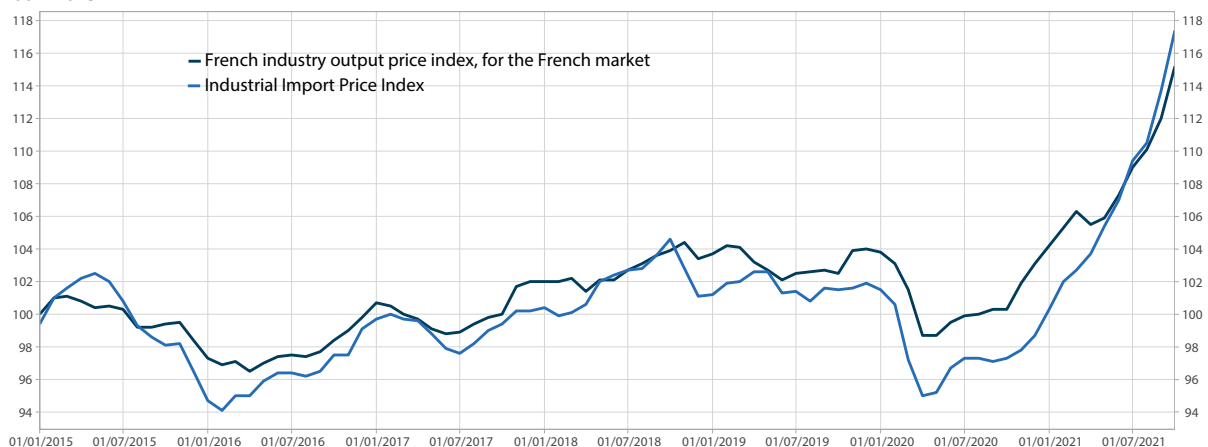
Source: INSEE

Bloc 2- The increase in industrial production prices is likely to have an impact on consumer prices mainly during H1 2022

Since the end of 2020, the Industrial Producer and Import Price Indices (IPPI) have increased sharply, reaching historic highs, in a context of rising industrial commodity prices (► [Figure 4](#)). Since January 2021, the IPPI has increased by an average of +7.5% year-on-year, whereas between January and October 2020, the average change in the IPPI was -2.4% year-on-year. However, these recent price rises do not seem to have had a noticeable effect on the consumer price index: between September and November, consumer prices of manufactured products rose on average by only 0.5% year-on-year.

► 4. Producer and import price indices in industrial production

Base 100 = 2015



How to read it: in October 2021, producer prices in French industry for the French market increased once again: the IPPI –French market- reached 115.2 points, 2.9% more than the previous month. Regarding import prices of industrial products, they accelerated sharply (+3.3%): this index stood at 117.4 points.

Source: INSEE

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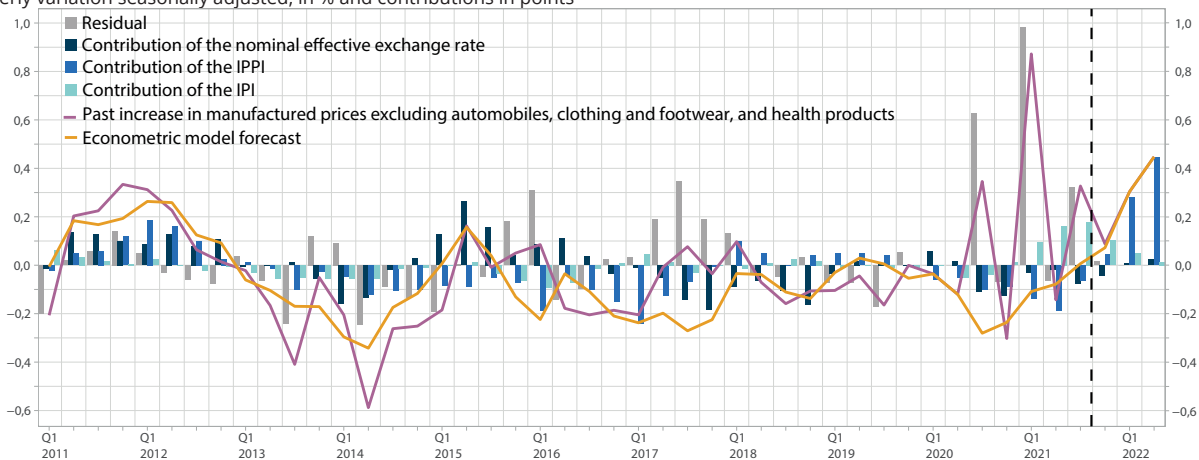
French economic outlook

In fact, the increase in production prices did not impact immediately or fully on consumer prices. It first affected intermediate consumptions by companies, leading to a rise in their production costs. Pass-through to consumer prices depends on the trade-off businesses make between squeezing their margins and putting up their selling prices.

For example, this is illustrated by the following econometric model of the dynamics of consumer prices for the item “other manufactured products” (covering manufactured products, excluding clothing-footwear and health products). According to this model, consumer prices of “other manufactured products” excluding automobiles (as a quarterly variation and seasonally adjusted) depend mainly on the IPPI (as an indicator of production costs), the industrial production index for the branches of activity concerned, and the nominal effective exchange rate. They are expected to accelerate sharply in early 2022, mainly due to the IPPI, whose contribution is likely to increase from Q4 2021 onwards (► **Figure 5**). The model forecasts that the recent rise in production prices is likely to contribute 0.3 percentage points to quarterly growth in consumer prices of “other manufactured products” in Q1 2022, then 0.45 points in Q2. ●

► 5. Econometric model of consumer prices of manufactured products (excluding clothing, health products and automobiles)

quarterly variation seasonally adjusted, in % and contributions in points



How to read it: according to this econometric model, prices of “other manufactured products” excluding automobiles are expected to rise by 0.3% in Q1 2022 compared to the previous quarter, excluding seasonal effects. To forecast this rise, the model relied mainly on past values of the IPPI, which are expected to contribute 0.28 points.

Source: INSEE