Consumer prices

Year-on-year, consumer prices have continued to increase substantially in recent months, reaching 5.2% in May 2022 (after 4.8% in April). The main contributor to inflation is still energy (2.2 percentage points in May), a situation that has been relatively stable since March. The momentum of inflation in April and May stems mainly from other goods and services: the prices of food and manufactured goods have continued to accelerate in reaction to earlier increases in production prices, while inflation in services has remained vigorous, notably in the wake of recent increases in the minimum wage. At the same time, the price of oil, having fallen back in April, rebounded in May and so the year-on-year increase in energy prices remained very strong. This was despite being tempered by the "tariff shield" on regulated sales tariffs for gas and electricity and by the "fuel price rebate". These measures do indeed appear to have reduced headline inflation by 2 points in May (▶**Box**).

Over the next six months, inflation is first expected to continue to increase, reaching 5.9% year-on-year in June then slightly below 7% in September, before stabilising overall between 6.5% and 7% by the end of the year. As an annual average, inflation within the meaning of the CPI looks set to reach 5.5% in 2022, after 1.6% in 2021. This forecast is based on the assumption that the price of a barrel of Brent is $120 (and €111.1) across the whole of the forecasting period.[1] Based on these assumptions, there should be a gradual reduction in energy inflation through to the end of the year, due to the "base effect". This is despite the slight increase in fuel prices forecast from September, under the conventional assumption that the "fuel price rebate" will be gradually reduced from September to the end of 2022. Energy prices year-on-year are expected to increase in December, however, again due to the base effect, as oil prices fell at the end of 2021 with the emergence of the Omicron variant.

The rise in inflation through to September is likely to be due mainly to increases in products other than energy. This is expected to be especially the case for food and manufactured products, in line with the substantial increases in agricultural output (+31% year-on-year in April) and industrial output (+13% for industry excluding energy). The profile of inflation in manufactured products is also likely to be affected by the dates of the summer sales, which were postponed by one week in 2021 due to the exceptional health measures in place. Prices of services are also expected to accelerate, in the wake of recent increases in fuel prices (especially air transport) and in line with the successive increases in the minimum wage: our inflation forecast does indeed assume another automatic increase during the summer or in early autumn. From October, inflation excluding energy should stabilise as a result of the "base effect", given the upward momentum that began a year earlier. The repercussions of the increases in production prices on the price of food and manufactured products should ease by the end of the year, provided that commodity prices do not accelerate once again. Core inflation, at 3.7% year-on-year in May, is expected to continue to increase in the coming months then stabilise from September at around 4.5%.

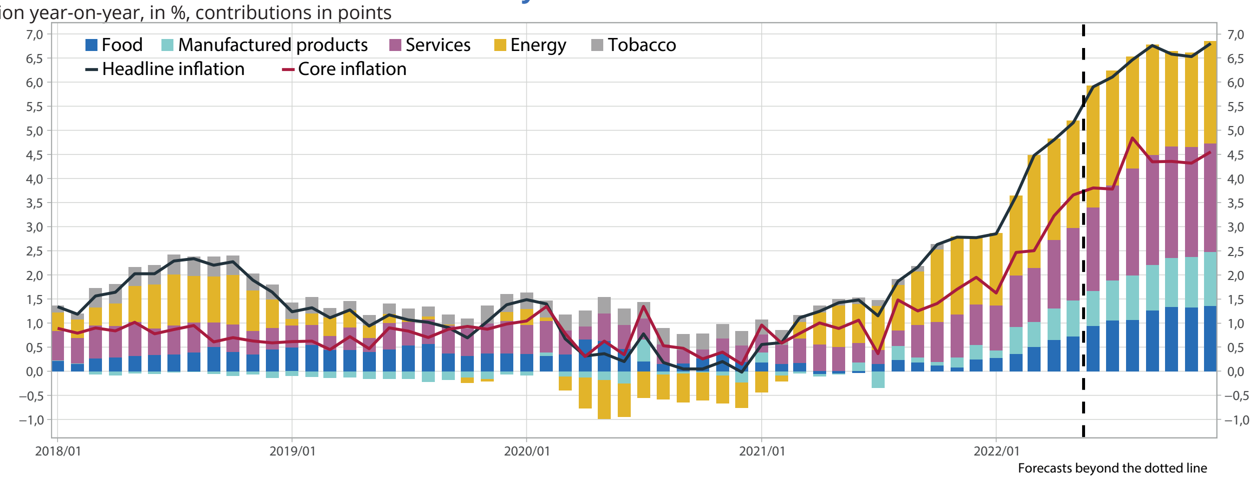
This forecast is obviously still surrounded by uncertainty, mainly over the dynamics of the prices of oil, gas and commodities in the coming months. In addition, not all the details of the economic policy measures intended to contain price rises in the next few months were known at the time this forecast was made. Finally, this forecast relates to average inflation, i.e. for all households: some categories of household may be exposed to higher levels of inflation, mainly due to the weight of energy in their consumption (▶**Focus**). ●

1 It is also assumed that the tariff shield on regulated gas sales tariffs will be extended until the end of 2022. Regarding electricity regulated sales tariffs, which are usually revised twice a year (in February and August), it is assumed that they too will remain stable until the end of the year, after their price rise was capped at +4% in February 2022

French economic outlook

► 1. Headline inflation and contributions by item

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



Source: INSEE

► 2. Consumer prices

change in %, contributions in points

CPI groups* (2021 weightings)	April 2022		May 2022		June 2022		September 2022		December 2022		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2021	2022
Food (16.5%)	**3.8**	**0.6**	**4.3**	**0.7**	**5.6**	**0.9**	**7.6**	**1.3**	**8.2**	**1.4**	**0.6**	**5.4**
including: fresh food (2.5%)	7.1	0.2	1.8	0.0	6.0	0.2	6.5	0.2	5.4	0.1	1.9	5.5
excluding: fresh food (14.0%)	3.3	0.5	4.7	0.7	5.6	0.8	7.7	1.1	8.7	1.2	0.4	5.4
Tabacco (2.2%)	**−0.1**	**0.0**	**−0.1**	**0.0**	**−0.1**	**0.0**	**−0.1**	**0.0**	**−0.1**	**0.0**	**5.5**	**−0.1**
Manufactured products (24.4%)	**2.6**	**0.7**	**3.0**	**0.7**	**2.9**	**0.7**	**3.8**	**0.9**	**4.6**	**1.1**	**0.3**	**3.1**
including : clothing and footwear (3.4%)	4.3	0.1	4.1	0.1	3.6	0.1	4.5	0.2	7.0	0.2	0.1	4.8
medical products (4.0%)	−1.2	−0.1	−1.4	−0.1	−1.4	−0.1	−1.1	0.0	−1.1	0.0	−1.2	−1.3
other manufactured products (17.1%)	3.2	0.6	3.8	0.7	3.8	0.7	4.8	0.8	5.3	0.9	0.6	3.8
Energy (8.9%)	**26.5**	**2.1**	**27.8**	**2.2**	**31.3**	**2.5**	**27.3**	**2.3**	**23.9**	**2.1**	**10.5**	**25.7**
including : oil products (4.3%)	34.0	1.3	36.7	1.4	45.5	1.8	44.5	1.8	43.1	1.9	13.5	38.7
Services (48.1%)	**3.0**	**1.4**	**3.2**	**1.5**	**3.6**	**1.7**	**4.7**	**2.3**	**4.7**	**2.3**	**1.2**	**3.7**
including : rent-water (8.0%)	1.7	0.1	2.3	0.2	2.1	0.2	2.6	0.2	3.4	0.3	1.1	2.3
health services (7.0%)	0.2	0.0	0.0	0.0	−0.1	0.0	0.5	0.0	−0.1	0.0	−0.5	−0.1
transport (2.0%)	15.7	0.3	9.0	0.2	13.0	0.2	19.3	0.3	18.0	0.4	3.8	13.5
communications (2.3%)	2.3	0.1	0.3	0.0	0.6	0.0	1.0	0.0	0.6	0.0	2.9	1.1
other services (28.9%)	3.3	1.0	4.0	1.2	4.5	1.3	5.7	1.7	5.7	1.6	1.1	4.5
All (100%)	**4.8**	**4.8**	**5.2**	**5.2**	**5.9**	**5.9**	**6.8**	**6.8**	**6.8**	**6.8**	**1.6**	**5.5**
All excluding energy (91.1%)	*2.9*	*2.7*	*3.2*	*2.9*	*3.7*	*3.4*	4.9	4.5	*5.2*	*4.7*	*1.0*	*3.7*
All excluding tabacco (97.8%)	*4.9*	*4.8*	*5.3*	*5.2*	*6.1*	*5.9*	6.9	6.8	*7.0*	*6.8*	*1.5*	*5.7*
Core inflation (59.2%)**	**3.2**	**1.5**	**3.7**	**2.2**	**3.8**	**2.3**	**4.3**	**2.6**	**4.6**	**2.7**	**1.1**	**3.6**

■ 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

Estimated effect of the tariff shield and the reduction at the pump on inflation

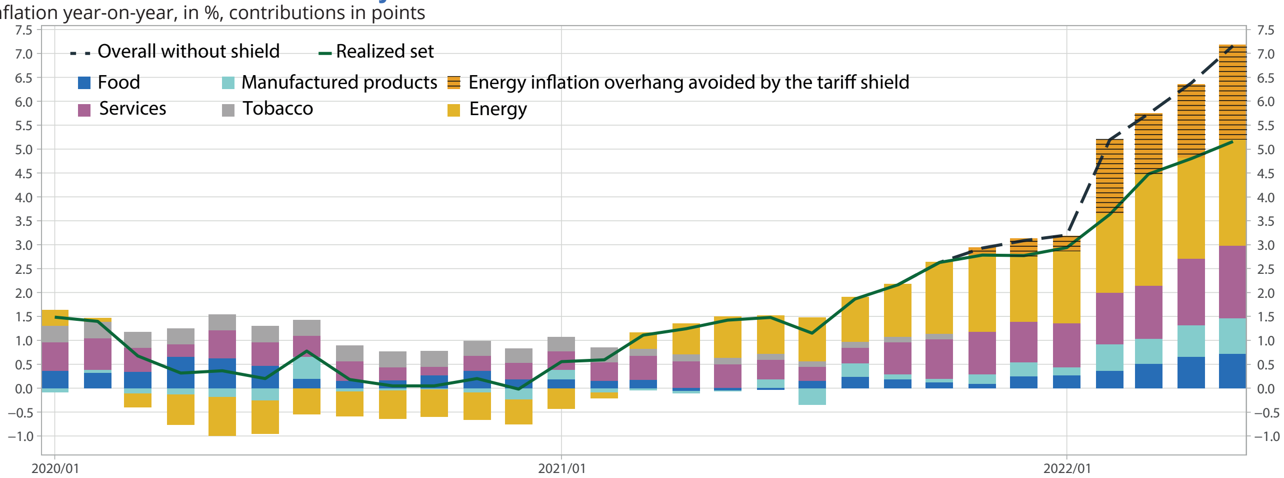
Since October 2021, several measures have been introduced to help offset the rise in energy prices. First, the "tariff shield" froze regulated sales tariffs (TRV) for gas and capped the usual February increase in TRV for electricity at 4%. In addition, a "reduction at the pump" of 15 centimes excluding tax has been applied to fuel purchases since 1st April.

In the *Economic Outlook* of March 2022,[1] the effect of the tariff shield on the TRVs of gas and electricity was estimated at 1.5 points on headline inflation for February, otherwise, without these measures, inflation in February would have been over 5% year-on-year. This estimate was based on changes that there would have been in electricity and gas consumer prices if no measures had been implemented –recommendations of the French Energy Regulation Commission (CRE) regarding change in TRVs and economic modelling of change in market offer prices. Using this method, the effect of the tariff shield would have been similar for May but slightly less in March and April. In fact, for March and April, the CRE recommended a temporary reduction in the gas TRV:[2] in the absence of a tariff shield for gas, the consumer price of gas in March and April would therefore have been closer to the price actually observed than it was in February.

From April, the reduction on the price of fuel at the pump was introduced, in addition to earlier measures limiting increases in the price of energy: its impact on inflation year-on-year is expected to be around 0.4 points and it should remain stable subsequently. Thus the combined effect of the different schemes would appear to have been 1.5 points in April and 2.0 points in May: without these measures, inflation in May would have been over 7% year-on-year (against 5.2% observed). ●

►1. Estimated counterfactual inflation without the tariff shield and without the reduction at the pump, and headline inflation ultimately observed

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



Source: INSEE calculations

►2. Breakdown of the effect of the tariff shield and the reduction at the pump on headline inflation

in points

	Nov-21	Dec-21	Jan-22	Feb-22	March-22	Apr-22	May-22
Effect of the "tariff shield" and the "fuel price rebate" on headline inflation	−0.1	−0.3	−0.3	−1.5	−1.3	−1.5	−2.0
of which:							
Contribution linked to the tariff shield on gas	−0.1	−0.3	−0.3	−0.6	−0.3	−0.2	−0.7
Contribution linked to the tariff shield on electricity	*	*	*	−0.9	−0.9	−0.9	−0.9
Contribution linked to the "fuel price rebate" on fuel prices	-	-	-	-	-	−0.4	−0.4

* the regulated sales tariff for electricity is usually revised twice a year, in February and August. Thus the tariff shield significantly limited the February 2022 revision, but in any event, no revision was planned between the announcement of this shield in autumn 2021 and January 2022.
Source: INSEE calculations

1 The "tariff shield" on electricity and gas prices substantially cushioned the rise in inflation in February, Economic Outlook, March 2022. The methodology used to produce our estimate is described here in a Box.
2 Publication of the scales applicable to regulated natural gas sales by Engie – April 2022, Energy Regulation Commission, 21 March 2022.