

UNDERLYING INFLATION AND WEIGHTED CONSUMER EXCHANGE

November 2017



Ecoanalítica

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Inflation using the Central Bank of Venezuela's methodology¹

In November, inflation measured using the Central Bank of Venezuela's methodology (Nationwide Consumer Price Index – NCPI) was up 58.7% from the previous month, indicating an acceleration of this indicator and the formal entrance in hyperinflation. After a deceleration of the indicator in March, the monthly variation has increased continuously throughout the year. The increase in November brings the annual inflation to 1,511.0%.

BCV Methodology Inflation*				
	Index	m/m (%)	Accum. (%)	v/y (%)
Nov-16	14,762.1	19.2	394.5	441.7
Dec-16	18,659.3	26.4	525.1	525.1
Jan-17	22,803.5	22.2	22.2	588.2
Feb-17	28,413.2	24.6	52.3	685.3
Mar-17	32,251.8	13.5	72.8	673.1
Apr-17	37,605.6	16.6	101.5	706.6
May-17	44,716.9	18.9	139.6	717.7
Jun-17	55,305.8	23.7	196.4	710.6
Jul-17	70,935.2	28.3	280.2	737.8
Aug-17	96,060.5	35.4	414.8	814.8
Sep-17	131,564.4	37.0	605.1	1,080.9
Oct-17	189,400.1	44.0	915.0	1,428.8
Nov.-17	300,597.1	58.7	1,511.0	1,936.3

Sources: BCV and Ecoanalítica

* Estimated using official weights data published by BCV in 2007.

¹ Although it is not public, we learned that, back in June 2014, the Central Bank of Venezuela made changes to the weightings of the categories of products and services making up the NCPI basic basket. Since, had the weightings of the basket published in 2007 been maintained (when the indicator was created), inflation in 2015 would have closed at 240.5%. In view of these changes, at **Ecoanalítica** we created the "Central Bank of Venezuela (NCPI*) methodology," which maintains the weightings.

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A breakdown of how prices behaved into the components making up the NCPI reveals that in November the component that posted the highest monthly inflation was alcoholic beverages and tobacco with an increase of 88.0% followed by home equipment (82.1%), leisure and culture (75.0%) and food and non-alcoholic beverage (74.2%). The components posting the lowest inflation, on the other hand, were residential services except telephone (26.1%), communications (28.3%) and rental housing (31.5%).

BCV Methodology Inflation	
Item	m/m (%)
Alcoholic Beverages and Tobacco	88.0
Home Equipment	82.1
Leisure and culture	75.0
Food and Non-Alcoholic Beverages	74.2
Health	69.5
Restaurants and hotels	65.8
Clothing and Footwear	49.0
Miscellaneous goods and services	41.1
Education	39.7
Transportation	39.2
Rental housing	31.5
Communications	28.3
Residential services, except telephone	26.1
Total	58.7

Sources: BCV and Ecoanalítica

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Underlying Inflation

Underlying inflation registered a strong acceleration, going from 51.3% in October to 69.4% in November, reaching its highest growth in the year. This monthly change brings annual underlying inflation to 2,804.3%.

In this way, the underlying inflation is placed well above the INPC* in two consecutive months, after experiencing lower growth in September.

Underlying Inflation				
	Index	m/m (%)	Accum. (%)	y/y (%)
Oct-16	46,292.4	13.6	793.6	1,007.6
Nov-16	54,578.7	17.9	953.5	1,113.6
Dec-16	75,973.5	39.2	1,366.5	1,366.5
Jan-17	86,549.1	13.9	13.9	1,238.6
Feb-17	114,937.1	32.8	51.3	1,295.4
Mar-17	126,729.7	10.3	66.8	1,092.7
Apr-17	150,846.3	19.0	98.6	979.0
May-17	200,474.8	32.9	163.9	1,008.2
Jun-17	243,376.4	21.4	220.3	882.6
Jul-17	326,611.1	34.2	329.9	861.1
Aug-17	464,473.7	42.2	511.4	1,076.3
Sep-17	618,725.4	33.2	714.4	1,418.3
Oct-17	935,884.0	51.3	1,131.9	1,921.7
Nov-17	1,585,106.8	69.4	1,986.4	2,804.3

Sources: BCV and Ecoanalítica

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Weighted Consumer Exchange Rate

In November, the weighted consumer exchange rate (WCER) was VEF 24,516.2/USD, for a year-on-year increase of 2,263.7%. On a monthly basis, this indicator went up by 96.7%.

All of the categories posted an increase in their WCER: communications (175.5%), transportation (167.9%), health (129.8%), restaurants and hotels (114.3%), alcohol and snuff (98.6%), household equipment (96.9%), clothing and footwear (90.1%), food and non-alcoholic beverages (87.3%), miscellaneous goods and services (62.0%), education services (57.0%), recreation and culture (56.0%), rent (54.8%) and housing services except telephone (46.5%). On the other hand, taking the increases that have occurred over the past 12 months, we find that the categories of goods and services that have gone up most in price are transportation (3,244.8%) and clothing and footwear (2,857.7%).

Weighted Exchange Rate of the Venezuelan Consumer (VEF/USD)

	Nov-16	Oct-17	Nov-17	y/y (%)	m/m (%)
Food and nonalcoholic beverages	845.3	9,926.0	18,587.6	2,098.9	87.3
Alcohol and snuff	2,015.5	28,658.3	56,926.8	2,724.4	98.6
Clothing and footwear	1,861.5	28,963.2	55,057.7	2,857.7	90.1
Rent	1,151.2	10,840.9	16,785.2	1,358.0	54.8
Housing services (except telephone)	766.1	5,861.2	8,585.5	1,020.6	46.5
Household equipment	2,169.6	30,488.1	60,042.0	2,667.4	96.9
Health	733.4	4,908.1	11,277.8	1,437.8	129.8
Transportation	876.4	10,941.0	29,312.8	3,244.8	167.9
Communications	875.7	8,224.7	22,659.4	2,487.7	175.5
Recreation and culture	1,060.5	9,649.5	15,049.4	1,319.1	56.0
Education services	873.0	7,452.8	11,700.8	1,240.3	57.0
Restaurants and hotels	803.5	8,767.9	18,787.7	2,238.4	114.3
Micellaneous goods and services	459.9	6,720.9	10,887.5	2,267.5	62.0
Total	1,037.2	12,461.0	24,516.2	2,263.7	96.7

Sources: BCV and Ecoanalítica

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Official inflation published by BCV

BCV Inflation*				
	Index	m/m (%)	y/y (%)	Var. % Accum.
Jan-15	904.8	7.8	75.8	7.8
Feb-15	949.1	4.9	80.2	13.1
Mar-15	1,000.2	5.4	82.4	19.1
Apr-15	1,063.8	6.4	83.6	26.7
May-15	1,148.8	8.0	87.5	36.8
Jun-15	1,261.6	9.8	97.2	50.3
Jul-15	1,397.5	10.8	109.8	66.5
Aug-15	1,570.8	12.4	126.9	87.1
Sep-15	1,752.1	11.5	141.5	108.7
Oct-15	1,951.3	11.4	156.1	132.4
Nov-15	2,168.5	11.1	172.0	158.3
Dec-15	2,357.9	8.7	180.9	180.9

Sources: BCV and Ecoanalítica

* Official BCV data

Projections for different inflation indicators

With the aim of offering our clients clear and precise information, at **Ecoanalítica** we have decided to include projections for three inflation indicators that we present each month in this report. At **Ecoanalítica** we have reproduced the changes in official inflation as published by the Central Bank using an econometric model that allows us to have a better view of the figures that the Central Bank will publish at some point in time (this is our “official Central Bank inflation” indicator). However, it is important to clarify here that this model uses statistical and mathematical tools and that, at no time, is it calculated based on prices obtained from surveys.

It is important to stress here that, given the volatility of inflation indices (in particular underlying inflation since it acts as a relief valve for economic distortions), these estimates may experience major swings over time and, consequently, are only intended to be used as points of reference.

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It is also important to remember that the Central Bank is the only agency authorized to publish inflation figures and that therefore these official data must be taken as valid for purposes of submitting reports to government agencies. However, at **Ecoanalítica** we consider that, for internal use and as a planning tool, the best indicator for measuring the evolution of prices in Venezuela is our “Central Bank methodology” indicator.

Inflation Rate Forecast

Inflation - y/y (%)	2016E	2017F
Official BCV Inflation Rate	373.1	971.2
BCV Methodology Inflation Rate	525.1	2,399.4
Underlying Inflation Rate	1,366.5	3,321.8

Sources: BCV and Ecoanalítica

For more information on our scenarios read our Perspectives Report.

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