UNDERLYING INFLATION AND WEIGHTED CONSUMER EXCHANGE

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March 2017

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

Inflation using the Central Bank of Venezuela's methodology[1]

In March, inflation measured using the Central Bank of Venezuela's methodology (Nationwide Consumer Price Index – NCPI) was up 13.5% from the previous month, indicating a deceleration of this indicator. After three consecutive months above 20.0%, the inter-monthly variation went down, however, prices are expected to keep growing. The increase in March brings the annual inflation to 673.1%.

[1] Although it has not been made 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.

@ecoanalitica
www.ecoanalitica.com
Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

BCV Methodology Inflation*

	Index	m/m (%)	Accum. (%)	y/y (%)
Mar-16	4,171.9	15.3	39.8	280.5
Apr-16	4,662.1	11.8	56.2	294.0
May-16	5,468.7	17.3	83.2	321.6
Jun-16	6,822.9	24.8	128.6	195.4
Jul-16	8,467.2	24.1	183.7	185.8
Aug-16	10,500.2	24.0	251.8	452.5
Sep-16	11,140.7	6.1	273.2	420.6
Oct-16	12,388.5	11.2	315.0	412.2
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

Sources: BCV and Ecoanalítica

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

A breakdown of how prices behaved into the components making up the NCPI reveals that in March the component that posted the highest monthly inflation was restaurants and hotels with an increase of 24.7% followed by residential services except telephone (21.5%) and education (19.4%). The components posting the lowest inflation, on the other hand, were leisure and culture (2.8%), clothing and footwear (3.9%) and alcoholic beverages and tobacco (4.3%).

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BCV Methodology Inflation (March)

Item	m/m (%)
Restaurants and hotels	24.7
Residential services, except telephone	21.5
Education	19.4
Health	17.4
Miscellaneus goods and services	17.3
Food and Non-Alcoholic Beverages	16.2
Rental housing	12.6
Communications	9.6
Transportation	8.0
Home Equipment	5.2
Alcoholic Beverages and Tobacco	4.3
Clothing and Footwear	3.9
Leisure and culture	2.8
Total	**13.5**

Sources: BCV and Ecoanalítica

Underlying Inflation

Underlying inflation decelerated, going from 32.8% in February to 10.3% in March. This monthly variation brings annual underlying inflation to 1,092.7%.

In March, both the NCPI and underlying inflation decelerated, influenced by seasonal factors and by the decrease in the parallel exchange rate which affected the behavior of prices.

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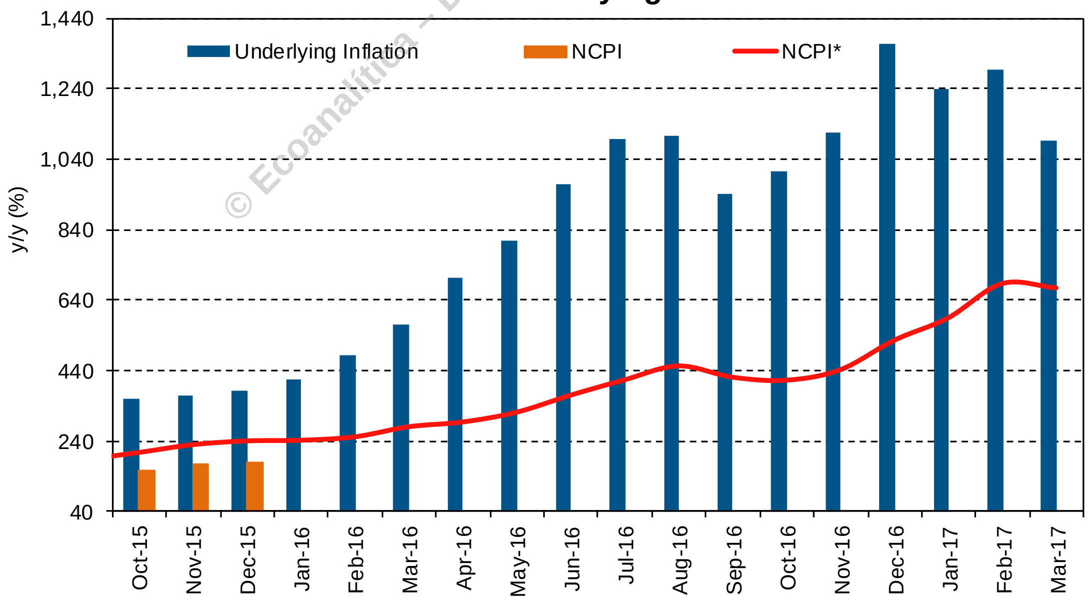
Underlying Inflation

	Index	m/m (%)	Accum. (%)	y/y (%)
Mar-16	10,625.8	29.0	105.1	568.7
Apr-16	13,980.1	31.6	169.8	704.2
May-16	18,090.2	29.4	249.2	807.2
jun.-16	24,768.0	36.9	378.1	969.9
Jul-16	33,981.7	37.2	555.9	1,098.4
Aug-16	39,486.7	16.2	662.2	1,107.8
Sep-16	40,750.3	3.2	686.6	941.3
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

Sources: BCV and Ecoanalítica

NCPI vs. Underlying Inflation



Sources: BCV and Ecoanalítica
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Weighted Consumer Exchange Rate

In March, the weighted consumer exchange rate (WCER) was VEF 1,180.5/USD, for a year-on-year increase of 172.3%. On a monthly basis, this indicator went down by 13.3%.

Just three categories posted an increase in their WCER: education services (27.0%), communication (13.4%), and housing services except telephone (0.6%). While the categories with a reduction were health (28.9%), rent (17.7%), household equipment (17.2%), food and non-alcoholic beverages (15.1%), clothing and footwear (13.6%), alcohol and snuff (13.6%), miscellaneous good and services (12.0%) recreation and culture (11.2%), transportation (10.5%) and restaurants and hotels (3.2%). 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 miscellaneous goods and services food (678.5%) and food and non-alcoholic beverages (428.8%).

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

	Mar-16	Feb-17	Mar-17	y/y (%)	m/m (%)
Food and nonalcoholic beverages	181.1	1,127.5	957.6	428.8	-15.1
Alcohol and snuff	1,000.0	3,464.4	2,994.5	199.4	-13.6
Clothing and footwear	1,018.8	3,045.7	2,630.2	158.2	-13.6
Rent	442.6	1,276.8	1,051.3	137.5	-17.7
Housing services (except telephone)	386.8	917.6	922.9	138.6	0.6
Household equipment	1,037.6	3,238.9	2,682.2	158.5	-17.2
Health	253.2	824.7	586.2	131.6	-28.9
Transportation	538.6	934.2	836.1	55.2	-10.5
Communications	568.4	919.6	1,042.6	83.4	13.4
Recreation and culture	681.0	1,467.3	1,302.9	91.3	-11.2
Education services	347.4	546.5	693.8	99.7	27.0
Restaurants and hotels	371.9	814.2	733.8	97.3	-9.9
Micellaneous goods and services	73.5	650.2	572.4	678.5	-12.0
Total	**433.6**	**1,362.1**	**1,180.5**	**172.3**	**-13.3**

Sources: BCV and Ecoanalitica

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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.

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 Transition	2017F Statu Quo
Official BCV Inflation Rate	373.1	-	564.9
BCV Methodology Inflation Rate	525.1	346.6	887.0
Underlying Inflation Rate	1,366.5	552.1	2,141.4

Sources: BCV and Ecoanalítica

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(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

ECOANALÍTICA'S TEAM

Alejandro Grisanti / Director
alejandrog@ecoanalitica.net / @agrisanti

Asdrúbal Oliveros / Director
asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director
pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director
cristinar@ecoanalitica.net

Jean Paul Leidenz / Senior Economist
jpaull@ecoanalitica.net / @JPLeidenzF

Pilar Navarro / Senior Economist
pilarn@ecoanalitica.net / @isabelpnavarrob

Armando Gagliardi / Senior Economist
armandogo@ecoanalitica.net / @agagliardio

Gorka Lalaguna / Economist
gorkal@ecoanalitica.net / @gorkalg

Mariana Petitjean / Economist
marianap@ecoanalitica.net / @maripetitjean

Ana Heredia / Economist
anah@ecoanalitica.net / @anaih_2112

RESEARCH ASSISTANTS:
Luigi Di Biase Giusti
Brenda Torres

CONTACT US
Venezuela:(+58-212) 266 9080/ Fax: (+58-212) 266 5119
U.S. : +1 (212) 994.1850
ventas@ecoanalitica.net
www.ecoanalitica.net
@ecoanalitica