UNDERLYING INFLATION AND WEIGHTED CONSUMER EXCHANGE

April 2019

Inflation under the Venezuelan Central Bank (BCV) methodology[1]

During April, prices under the BCV methodology (NCPI) reported a higher growth rate relative to March, increasing about 57.5%, compared to a rate of 47.0% the month before. In this sense, this month's rate implies an NCPI interannual variation rate of 2,511,163,8%.

BCV Methodology Inflation*

	Index	m/m (%)	Accum. (%)	y/y (%)
Mar-18	628.6	74.4	528.6	10,717.4
Apr-18	1,124.9	79.0	1,024.9	16,501.8
May-18	2,765.3	145.8	2,665.3	34,223.4
Jun-18	6,476.0	134.2	6,376.0	64,886.5
Jul-18	15,912.2	145.7	15,812.2	124,395.8
Aug-18	49,297.5	209.8	49,197.5	284,717.8
Sep-18	112,260.3	127.7	112,160.3	473,459.5
Oct-18	334,502.0	198.0	334,402.0	980,078.8
Nov-18	760,624.1	127.4	760,524.1	1,404,240.3
Dec-18	2,106,700.6	177.0	2,106,600.6	2,106,600.6
Jan-19	7,608,981.3	261.2	261.2	3,991,810.9
Feb-19	12,206,327.8	60.4	479.4	3,386,911.9
Mar-19	17,940,860.6	47.0	751.6	2,853,898.8
Apr-19	28,249,679.1	57.5	1,240.9	2,511,163.8

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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The variation of relative prices continues through. During April, the prices between different sectors of the economy rose at asymmetric rates. The highest one was the transport sector (125.2%), followed by home services except telephone (84.9%), hotels and restaurants (81.3%), health (71.1%), alcoholic beverages and tobacco (63.5%) and communications (51.0%). On the other hand, education services (15.9%) and housing rent (29.1%) reported the smallest inflation levels.

BCV Methodology Monthly Inflation

Item	April
Foodstuff and non-alcoholic beverages	49.6
Alcoholic beverages and tobacco	63.5
Clothing and footwear	38.7
Housing rent	29.1
Home services except telephone	84.9
Home equipment	36.0
Health	71.1
Transport	125.2
Communications	51.0
Entertainment and culture	41.6
Education services	15.9
Restaurants and hotels	81.3
Other goods and services	41.1
Total	**57.5**

Sources: BCV and Ecoanalítica

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Underlying Inflation

Underlying inflation slowed down compared to February, reaching 50,1% in March, being lower than NCPI's inflation. With this month's inflation, year on year inflation reached in 1.968.221,1%.

Just as in the case of "BCV Methodology Inflation", the index has just been re-expressed for the purpose of facilitating its use by our clients.

Underlying Inflation

	Index	m/m (%)	Accum. (%)	y/y (%)
Mar-18	1,175	79.9	1,074.9	28,885.4
Apr-18	1,897	61.4	1,796.5	39,207.9
May-18	3,607	90.2	3,507.2	56,155.6
Jun-18	7,518	108.4	7,418.1	96,479.8
Jul-18	15,556	106.9	15,455.7	148,851.5
Aug-18	44,962	189.0	44,862.3	302,642.0
Sep-18	124,397	176.7	124,297.1	628,678.8
Oct-18	394,973	217.5	394,873.2	1,319,770.2
Nov-18	961,128	143.3	961,027.9	1,896,205.3
Dec-18	2,880,500	199.7	2,880,400.2	2,880,400.2
Jan-19	10,985,940	281.4	281.4	3,977,574.7
Feb-19	17,654,200	60.7	512.9	2,703,698.0
Mar-19	24,876,533	40.9	763.6	2,117,229.0
Apr-19	37,329,725	50.1	1,195.9	1,968,221.1

Sources: BCV and Ecoanalítica

Note: Index was simplified (base100=Dec2017).

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Weighted Consumer's Exchange Rate

After the latest regulatory changes for local FX operations, the weighted consumer's exchange rate (WCER) reached VES 4,895.3/USD in April, boosting up a year-on-year increase of 215,750.4%. Last month, the Dollar's price in terms of Bolivars increased 43.1%. Looking at the other side of the coin, the Bolivar lost 30.1% of its value, relative to this foreign currency.

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

	Apr-19	Mar-19	Apr-18	y/y (%)	Depreciation % (m/m)	m/m (%)
Foodstuff and non-alcoholic beverages	5,101.0	3,518.0	1.87	272,540.4	-31.0	45.0
Alcoholic beverages and tobacco	5,122.8	3,527.4	5.28	96,892.1	-31.1	45.2
Clothing and footwear	5,122.8	3,520.4	5.45	93,873.6	-31.3	45.5
Housing rent	4,872.5	3,447.7	0.44	1,119,759.8	-29.2	41.3
Home services except telephone	4,839.9	3,351.5	0.82	587,501.7	-30.8	44.4
Home equipment	5,101.0	3,518.0	5.96	85,483.9	-31.0	45.0
Health	4,392.4	3,213.0	1.18	371,943.6	-26.9	36.7
Transport	4,687.5	3,304.5	1.86	252,024.4	-29.5	41.9
Communications	4,316.2	3,177.7	1.46	294,851.3	-26.4	35.8
Entertainment and culture	4,524.3	3,248.2	1.31	345,502.5	-28.2	39.3
Education services	3,904.5	3,025.2	0.78	502,644.2	-22.5	29.1
Restaurants and hotels	5,111.9	3,447.7	1.48	346,442.7	-32.6	48.3
Other goods and services	4,801.8	3,437.7	3.69	129,985.5	-28.4	39.7
Total	**4,895.3**	**3,421.3**	**2.27**	**215,750.4**	**-30.1**	**43.1**
Unofficial Exchange Rate	**5,133.7**	**3,536.7**	**2.24**	**229,272.3**	**-31.1**	**45.2**

Sources: BCV and Ecoanalitica

The unoficial exchange rate used as an input is a weighted average between the corporate and conventional rate.

The published exchange rates represent a monthly average, not their values at the end of the month.

In the month of July we made a methodological adjustment that may have altered certain historical values.

During April, the exchange rate associated with all analyzed sectors showed a strong depreciation. The items with the biggest increase in the price of the dollar were restaurants and hotels (48,3%), clothing and footwear (45.5%), alcoholic beverages and tobacco (45.2%) foodstuffs and non-alcoholic beverages (45.0%), home services except telephone (44.4%) and transport (41.9%). The lowest variations belonged to the items of education services (29.1%) and communications (35.8%).

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Official inflation published by BCV

BCV Inflation*				
	Index	m/m (%)	y/y (%)	Var. % Accum.
Jan-16	2,540.8	7.8	180.8	7.8
Feb-16	2,705.9	6.5	185.1	14.8
Mar-16	2,996.8	10.8	199.6	27.1
Apr-16	3,244.9	8.3	205.0	37.6
May-16	3,639.0	12.1	216.8	54.3
Jun-16	4,270.2	17.3	238.5	81.1
Jul-16	4,991.1	16.9	257.1	111.6
Aug-16	5,830.7	16.8	271.2	147.2
Sep-16	6,083.8	4.3	247.2	158.0
Oct-16	6,564.0	7.9	236.4	178.4
Nov-16	7,446.3	13.4	243.4	215.8
Dec-16	8,822.8	18.5	274.2	274.2

Sources: BCV and Ecoanalítica

* Official BCV data

Forecasts of different inflation indicators

With the aim of offering our clients clear and precise information, at **Ecoanalítica** we include forecasts for three inflation indicators each month. For our “Official Central Bank Inflation” indicator, we reproduce the adjustments that the Central Bank (BCV) unofficially made to their methodology, using an econometric model that allows us to have a better estimate of the figures that the BCV might publish in the future.

It is pivotal to stress that, under hyperinflation, low increases in the weekly inflation rate result in higher magnitude increases of monthly inflation, given that mathematically they are changes over previous changes. With this in mind, it should not surprise our readers if, during the following months, inflation is orders of magnitude higher than previous. Hyperinflations are volatile, and apparent stabilizations can be followed up by sudden and exponential price accelerations.

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It should be noted that the BCV is the only organization authorized to publish official inflation figures. Therefore, their official data must be taken at face value for purposes of submitting reports to government agencies. However, at **Ecoanalítica** we consider that for internal estimates, or as a planning tool, the best indicator for measuring the evolution of prices in Venezuela is our "BCV methodology" indicator.

Inflation Rate Forecast

Inflation (%)	2018E (y/y)	2018E (m/m average)	2019F (y/y)	2019F (m/m average)
Official BCV Inflation Rate	220,961	90.0	220,589	90.0
BCV Methodology Inflation Rate	2,106,601	129.2	2,005,876	128.3
Underlying Inflation Rate	2,880,309	135.3	2,542,968	132.9

Sources: BCV and Ecoanalítica
Monthly averages are geometric, not arithmetic, to reflect price variations with greater precision.
For more information on our scenarios read our *Perspectives Report*.

At **Ecoanalítica**, we intend to guide our clients' decisions with the most precise estimates, and so we revise them whenever facts bring new information that change our perspective. Base on this principle we perform adjustments to our year-end projections every month, which in hyperinflation can seem substantial, but are in fact are relatively small in terms of orders of magnitude.

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