

# UNDERLYING INFLATION AND WEIGHTED CONSUMER EXCHANGE

July 2017

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## Inflation using the Central Bank of Venezuela's methodology<sup>1</sup>

In July, inflation measured using the Central Bank of Venezuela's methodology (Nationwide Consumer Price Index – NCPI) was up 28.3% from the previous month, indicating an acceleration of this indicator. After a deceleration of the indicator in march, the inter-monthly variation has been increasing again, so the prices are expected to keep growing. The increase in July brings the annual inflation to 737.8%.

BCV Methodology Inflation*				
	Index	m/m (%)	Accum. (%)	y/y (%)
Jun-16	6,822.9	24.8	128.6	369.7
Jul-16	8,467.2	24.1	183.7	413.1
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
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

Sources: BCV and Ecoanalítica

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

<sup>1</sup> 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.

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A breakdown of how prices behaved into the components making up the NCPI reveals that in July the component that posted the highest monthly inflation was followed by food and non-alcoholic beverage with an increase of 39.8% followed by restaurants and hotel (37.7%) and leisure and culture (37.0%). The components posting the lowest inflation, on the other hand, were communications (7.8%), education (10.5%) and rental housing (15.0%).

<b>BCV Methodology Inflation</b>	
<b>Item</b>	<b>m/m (%)</b>
Food and Non-Alcoholic Beverages	39.8
Restaurants and hotels	37.7
Leisure and culture	37.0
Home Equipment	32.7
Health	29.8
Residential services, except telephone	21.3
Alcoholic Beverages and Tobacco	21.0
Miscellaneous goods and services	19.5
Transportation	19.2
Clothing and Footwear	18.0
Rental housing	15.0
Education	10.5
Communications	7.8
<b>Total</b>	<b>28.3</b>

Sources: BCV and Ecoanalítica

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## Underlying Inflation

Underlying inflation accelerated, going from 21.4% in June to 34.2% in July, its biggest monthly increase in the year to date. This monthly variation brings annual underlying inflation to 861.1%.

In July, it was observed an acceleration in both the NCPI and the underlying inflation. The latter grew at a greater rate than the former, disrupting the trend toward a convergence between both indicators observed in the previous month.

Underlying Inflation				
	Index	m/m (%)	Accum. (%)	y/y (%)
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
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

Sources: BCV and Ecoanalítica

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## Weighted Consumer Exchange Rate

In July, the weighted consumer exchange rate (WCER) was VEF 4,368.8/USD, for a year-on-year increase of 570.1%. On a monthly basis, this indicator went up by 2.5%.

Almost all of the categories posted an increase in their WCER: miscellaneous goods and services (14.3%), education services (14.2%), clothing and footwear (10.9%), alcohol and snuff (7.0%), communications (6.3%), household equipment (6.0%), restaurants and hotels (3.6%), transportation (2.9%), housing services except telephone (1.6%), recreation and culture (1.4%), rent (0.2%), health (-0.4%) and food and non-alcoholic beverages (-4.0%). 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 (1,062.7%) and alcohol and snuff (706.6%).

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

	Jul-16	Jun-17	Jul-17	y/y (%)	m/m (%)
Food and nonalcoholic beverages	545.1	4,238.3	4,066.9	646.1	-4.0
Alcohol and snuff	950.4	7,162.6	7,665.8	706.6	7.0
Clothing and footwear	950.4	6,804.9	7,548.9	694.3	10.9
Rent	727.9	3,468.7	3,475.5	377.5	0.2
Housing services (except telephone)	665.1	3,519.8	3,575.5	437.6	1.6
Household equipment	988.1	6,958.2	7,373.6	646.2	6.0
Health	541.2	3,141.2	3,128.4	478.0	-0.4
Transportation	665.1	4,013.0	4,128.9	520.8	2.9
Communications	667.7	3,636.7	3,867.1	479.2	6.3
Recreation and culture	735.5	4,024.6	4,080.4	454.8	1.4
Education services	606.8	2,891.9	3,303.7	444.4	14.2
Restaurants and hotels	656.4	3,234.1	3,351.6	410.6	3.6
Micellaneous goods and services	284.1	2,890.2	3,303.6	1,062.7	14.3
<b>Total</b>	<b>652.0</b>	<b>4,262.0</b>	<b>4,368.8</b>	<b>570.1</b>	<b>2.5</b>

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.

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.

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### Inflation Rate Forecast

Inflation - y/y (%)	2016E	2017F Statu Quo
Official BCV Inflation Rate	373.1	564.9
BCV Methodology Inflation Rate	525.1	1,077.0
Underlying Inflation Rate	1,366.5	1,713.4

Sources: BCV and Ecoanalítica

For more information on our scenarios read our Perspectives Report.

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