UNDERLYING INFLATION AND WEIGHTED CONSUMER EXCHANGE

July 2021

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

During July[2], prices under the BCV methodology (NCPI) reported a larger growth rate relative to the previous month. In this period, local inflation reached 28.3%, This leads to a year-on-year inflation rate of 1,925.6% compared to the same month in 2020.

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Ecoanalítica Inflation (BCV Methodology*)

	Index	m/m (%)	Accum. (%)	y/y (%)
Jun-20	195,464,400.4	19.9	387.7	2,511.8
Jul-20	236,277,367.2	20.9	489.5	2,266.7
Aug-20	304,183,482.6	28.7	659.0	2,053.6
Sep-20	401,704,707.1	32.1	902.3	1,917.2
Oct-20	475,015,816.1	18.3	1,085.2	1,885.1
Nov-20	850,420,815.6	79.0	2,021.8	2,636.3
Dec-20	1,046,017,603.1	23.0	2,509.9	2,509.9
Jan-21	1,619,444,453.2	54.8	54.8	2,543.7
Feb-21	1,904,142,788.0	17.6	82.0	2,627.9
Mar-21	2,220,230,490.8	16.6	112.3	2,544.0
Apr-21	2,879,860,969.7	29.7	175.3	2,070.2
May-21	3,311,552,129.0	15.0	216.6	1,930.5
Jun-21	3,731,456,939.0	12.7	256.7	1,809.0
Jul-21	4,785,966,670.0	28.3	357.5	1,925.6

Sources: BCV and Ecoanalítica.

Note: Index was simplified (base 100= Dec 2017).

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

[1] This report is based on **Ecoanalitica**'s own estimation. Official data (recently released) is presented on the corresponding section, available until May 2021. As usual, we created the "Central Bank of Venezuela (NCPI*) methodology," keeping the original weights over basic basket components considered on its definition. We learned that, back in June 2014, the Central Bank of Venezuela made changes to such weightings.

[2] Due to the quarantine and consequent suspension of part of the economic activity together along with the shortage of some products, it is expected that the inflation indicators may present imperfections. In view of this, it is suggested that a cautious approach be taken towards these.

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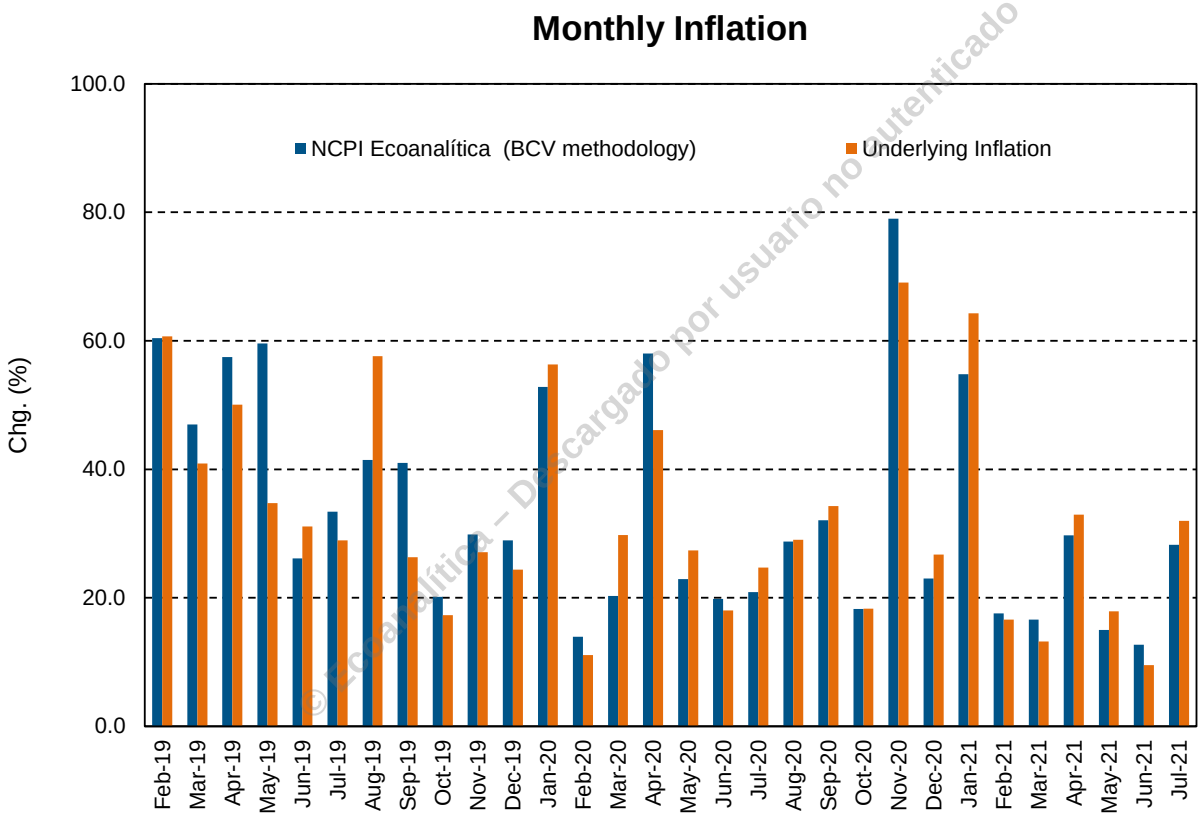
Underlying Inflation

The underlying inflation also increased, if it is compared to the previous month, reaching 32.0% in July. The underlying inflation had a positive gap of 3.7 percentage points (pp) from the NCPI inflation. Given July's underlying inflation, prices have now risen by 2,057.9% year-on-year.



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A detailed overview

The asymmetry of inflation persists. In July, the items that registered the highest inflation were “Home services except telephone”, “Restaurants and hotels” and “Alcoholic beverages and tobacco”. On the other hand, “Communications”, “Education services” and “Entertainment and Culture”, prices experimented the lowest variations.

Monthly Inflation (%)

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Cumulative Inflation[1]	Interannual Inflation[2]
Foodstuff and non-alcoholic beverages	17.2	16.5	34.2	20.1	14.0	31.6	429.0	2,735.9
Alcoholic beverages and tobacco	11.0	10.2	33.5	9.8	7.0	34.0	338.0	1,613.4
Clothing and footwear	6.6	4.2	28.0	6.2	6.4	24.1	212.6	891.5
Housing rent	14.1	12.0	25.0	12.0	8.5	23.4	218.6	786.4
Home services except telephone	21.4	21.1	36.0	14.3	18.5	39.8	487.3	3,527.8
Home equipment	10.3	11.5	30.6	11.0	9.1	24.7	326.4	1,397.0
Health	20.9	19.9	39.9	14.4	13.3	28.1	388.7	2,060.9
Transport	28.1	28.1	20.3	13.0	23.0	30.1	445.8	2,774.5
Communications	31.6	26.8	16.4	25.9	18.2	13.0	325.6	2,007.9
Entertainment and culture	8.0	7.5	16.5	5.0	4.6	21.5	134.6	623.3
Education services	19.7	17.0	18.4	11.0	6.4	17.4	190.7	834.4
Restaurants and hotels	18.0	19.0	40.5	14.0	12.0	35.4	510.3	2,809.3
Other goods and services	21.5	18.6	27.0	16.0	10.1	24.8	338.9	1,657.2
Exhange rate[3]	11.1	8.0	28.6	16.1	4.2	21.2	263.7	1,392.7
Underlying Inflation	**16.6**	**13.2**	**32.9**	**17.9**	**9.5**	**32.0**	**391.4**	**2,057.9**
NCPI Ecoanalítica (BCV methodology)	**17.6**	**16.6**	**29.7**	**15.0**	**12.7**	**28.3**	**357.5**	**1,925.6**

Source: Ecoanalítica.

[1]Cumulative inflation since the start of the year.

[2]Last twelve months' inflation.

[3]Non official exchange rate.

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Relative prices' deformation

Different price variations among items affect the relation between them. The following matrix shows the prices' changes of all the items (seen at the rows on the left) in relation to the prices' changes of their counterparts (seen at the columns above). An item with a positive value means it has been made more expensive, while one with a negative value means it has cheapened.

Relative price change during July 2021 (%)

Item	Foodstuff and non-alcoholic beverages	Alcoholic beverages and tobacco	Clothing and footwear	Housing rent	Home services except telephone	Home equipment	Health	Transport	Communications	Entertainment and culture	Education services	Restaurants and hotels	Other goods and services	Exchange rate
Foodstuff and non-alcoholic beverages	0.0	-1.8	6.0	6.6	-5.9	5.5	2.7	1.1	16.4	8.3	12.1	-2.8	5.5	8.6
Alcoholic beverages and tobacco	1.8	0.0	8.0	8.6	-4.2	7.5	4.6	3.0	18.6	10.3	14.2	-1.0	7.4	10.6
Clothing and footwear	-5.7	-7.4	0.0	0.6	-11.2	-0.4	-3.1	-4.6	9.8	2.2	5.8	-8.3	-0.5	2.4
Housing rent	-6.2	-7.9	-0.6	0.0	-11.7	-1.0	-3.7	-5.2	9.2	1.6	5.2	-8.8	-1.1	1.8
Home services except telephone	6.3	4.3	12.6	13.3	0.0	12.1	9.1	7.4	23.7	15.1	19.1	3.3	12.1	15.4
Home equipment	-5.2	-7.0	0.4	1.0	-10.8	0.0	-2.7	-4.2	10.3	2.6	6.2	-7.9	-0.1	2.9
Health	-2.6	-4.4	3.2	3.8	-8.4	2.8	0.0	-1.6	13.4	5.5	9.2	-5.3	2.7	5.7
Transport	-1.1	-2.9	4.8	5.5	-6.9	4.4	1.6	0.0	15.2	7.1	10.9	-3.8	4.3	7.4
Communications	-14.1	-15.7	-9.0	-8.4	-19.2	-9.4	-11.8	-13.2	0.0	-7.0	-3.7	-16.5	-9.4	-6.8
Entertainment and culture	-7.7	-9.4	-2.1	-1.6	-13.1	-2.6	-5.2	-6.7	7.5	0.0	3.5	-10.3	-2.6	0.2
Education services	-10.8	-12.4	-5.5	-4.9	-16.1	-5.9	-8.4	-9.8	3.8	-3.4	0.0	-13.3	-5.9	-3.2
Restaurants and hotels	2.9	1.0	9.0	9.7	-3.2	8.6	5.7	4.0	19.8	11.4	15.3	0.0	8.5	11.7
Other goods and services	-5.2	-6.9	0.5	1.1	-10.8	0.1	-2.6	-4.1	10.4	2.7	6.3	-7.8	0.0	2.9
Exchange rate	-7.9	-9.6	-2.4	-1.8	-13.3	-2.8	-5.4	-6.9	7.2	-0.2	3.3	-10.5	-2.9	0.0

Source: Ecoanalítica.

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Official inflation published by BCV

The BCV made a new publication of official data until May of 2021. The official figures show an accumulated inflation of 264.7% in 2021, where the month of May is 1.4 pp below the year average.

BCV Inflation

	Index	m/m (%)	Accum. (%)	y/y (%)
May-20	49,857,117.2	38.6	295.6	2,294.0
Jun-20	62,371,253.6	25.1	394.8	2,352.9
Jul-20	74,596,019.3	19.6	491.8	2,357.0
Aug-20	93,021,236.1	24.7	638.0	2,176.3
Sep-20	118,974,161.0	27.9	843.9	1,812.8
Oct-20	155,232,726.2	30.5	1,131.6	1,935.7
Nov-20	217,277,694.6	40.0	1,623.8	2,166.8
Dec-20	385,615,761.3	77.5	2,959.3	2,959.3
Jan-21	565,366,692.2	46.6	46.6	2,665.4
Feb-21	756,460,634.2	33.8	96.2	2,937.8
Mar-21	878,250,796.3	16.1	127.8	3,012.9
Apr-21	1,094,300,492.2	24.6	183.8	2,942.1
May-21	1,406,176,132.5	28.5	264.7	2,720.4

Sources: BCV and Ecoanalítica

Note: Index was simplified (base 100= Dec 2017).

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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 updated 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 (or even a reduced growth path of) price accelerations.

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.

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Inflation Rate Forecast

Inflation (%)	2020E (y/y)	2020E (m/m average)	2021F (y/y)	2021F (m/m average)
Official BCV Inflation Rate	2,961	33.0	1,200	23.8
BCV Methodology Inflation Rate 1/	2,510	31.2	1,132	23.3
Underlying Inflation Rate	2,611	31.7	1,270	24.4

Sources: BCV and Ecoanalítica.

1/ Ecoanalítica's own estimation, since 2015.

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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Weighted Consumer's Exchange Rate

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

	Jul-21	Jun-21	Jul-20	y/y (%)	Depreciation % (m/m)	m/m (%)
Foodstuff and non-alcoholic beverages	3,717,151.5	3,228,237.0	254,397.5	1,361.2	-13.2	15.1
Alcoholic beverages and tobacco	3,723,758.2	3,238,172.6	255,476.9	1,357.6	-13.0	15.0
Clothing and footwear	3,725,697.5	3,241,089.1	255,793.7	1,356.5	-13.0	15.0
Housing rent	3,683,245.5	3,177,246.5	248,858.1	1,380.1	-13.7	15.9
Home services except telephone	3,673,910.8	3,163,208.3	247,333.0	1,385.4	-13.9	16.1
Home equipment	3,723,758.2	3,238,172.6	255,476.9	1,357.6	-13.0	15.0
Health	3,520,625.5	3,003,542.9	232,877.0	1,411.8	-14.7	17.2
Transport	3,672,398.1	3,160,933.4	247,085.9	1,386.3	-13.9	16.2
Communications	3,482,840.8	2,946,719.4	226,703.8	1,436.3	-15.4	18.2
Entertainment and culture	3,612,065.5	3,070,200.4	237,228.9	1,422.6	-15.0	17.6
Education services	3,345,070.2	2,810,386.2	214,782.5	1,457.4	-16.0	19.0
Restaurants and hotels	3,719,090.8	3,231,153.5	254,714.3	1,360.1	-13.1	15.1
Other goods and services	3,668,163.9	3,154,565.7	246,394.1	1,388.7	-14.0	16.3
Total	**3,671,612.8**	**3,171,679.9**	**248,739.7**	**1,376.1**	**-13.6**	**15.8**
Unofficial Exchange Rate	**3,725,697.5**	**3,241,089.1**	**213,904.5**	**1,641.8**	**-13.0**	**15.0**

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.

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Detailed Underlying Inflation

Underlying Inflation

	Index	m/m (%)	Accum. (%)	y/y (%)
Jul-20	1,937,055,693	24.7	517.3	2,178.2
Aug-20	2,499,382,961	29.0	696.5	1,765.4
Sep-20	3,355,671,563	34.3	969.4	1,882.8
Oct-20	3,970,095,026	18.3	1,165.2	1,900.0
Nov-20	6,711,445,642	69.1	2,038.9	2,560.1
Dec-20	8,506,086,207	26.7	2,610.8	2,610.8
Jan-21	13,975,499,638	64.3	64.3	2,749.4
Feb-21	16,295,432,578	16.6	91.6	2,891.3
Mar-21	18,448,059,221	13.2	116.9	2,509.7
Apr-21	24,523,005,123	32.9	188.3	2,274.5
May-21	28,917,527,641	17.9	240.0	2,098.1
Jun-21	31,673,368,025	9.5	272.4	1,939.5
Jul-21	41,799,343,782	32.0	391.4	2,057.9

Sources: BCV and Ecoanalítica.

Note: Index was simplified (base100=Dec2017).

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