UNDERLYING INFLATION AND WEIGHTED CONSUMER EXCHANGE

August 2018

Ecoanalítica
acompaña las buenas decisiones

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

On August, prices under the BCV methodology (NCPI) reported an upturned average growth rate, by increasing about 209.8% relative to previous levels. This result implied an NCPI interannual variation of 284,717.8%.

BCV Methodology Inflation*

	Index	m/m (%)	Accum. (%)	y/y (%)
Aug-17	96,060.5	35.4	414.8	814.8
Sep-17	131,564.4	37.0	605.1	1080.9
Oct-17	189,400.1	44.0	915.0	1428.8
Nov.-17	300,597.1	58.7	1511.0	1936.3
Dec-17	554,992.4	84.6	2874.3	2874.3
Jan-18	1,057,871.0	90.6	90.6	4539.1
Feb-18	2,000,116.8	89.1	260.4	6939.4
Mar-18	3,488,803.7	74.4	528.6	10,717.4
Apr-18	6,243,214.2	79.0	1,024.9	16,501.8
May-18	15,347,069.2	145.8	2,665.3	34,223.4
Jun-18	35,941,301.4	134.2	6,376.0	64,886.5
Jul-18	88,311,371.6	145.7	15,812.2	124,395.8
Aug-18	273,597,348.5	209.8	49,197.5	284,717.8

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.

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

As inflationary acceleration raised up, distortions on relative local prices scheme remain. In the last month, by considering the diverse items comprised on a typical domestic goods' basket, prices showed a larger monthly increase on restaurants and hotels (351.3%), foodstuff and nonalcoholic beverages (251.2%), home equipment (236.6%), transport (236.1%), entertainment and culture (216.0%), home services except telephone (211.0%), alcoholic beverages and tobacco (208.4%), other goods and services (192.0%), health (186.7%), clothing and footwear (181.0%) and house rent (61.6%). Only communications sector (49.6%) and education services (9.6%) revealed monthly inflation rates below 50%, the usual range applied for hyperinflationary episodes.

BCV Methodology Monthly Inflation

Item	August
Foodstuff and non-alcoholic beverages	251.2
Alcoholic beverages and tobacco	208.4
Clothing and footwear	181.0
Housing rent	61.6
Home services except telephone	211.0
Home equipment	236.6
Health	186.7
Transport	236.1
Communications	49.6
Entertainment and culture	216.0
Education services	9.6
Restaurants and hotels	351.3
Other goods and services	192.0
Total	**209.8**

Sources: BCV and Ecoanalítica

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

Underlying Inflation

After a transitory slowdown, during this month the underlying inflation reported a heightened growing pace, increasing 82.1 percentages points above previous register (189.0%). Given the monthly variation, the year-on-year underlying inflation doubled the reported ratio on last June (302,642.0%).

However, by comparing these results with former NCPI changes, underlying inflation remained lower than the latter, consistent with its recent trend, and after being overwhelmingly higher than NCPI inflation from September 2017 until last March.

Underlying Inflation

	Index	m/m (%)	Accum. (%)	y/y (%)
Aug-17	464,474	42.2	511.4	1,076.3
Sep-17	618,725	33.2	714.4	1,418.3
Oct-17	935,884	51.3	1,131.9	1,921.7
Nov.-17	1,585,107	69.4	1,986.4	2,804.3
Dec-17	3,127,416	97.3	4,016.5	4,016.5
Jan-18	8,637,609	176.2	176.2	9,880.0
Feb-18	20,420,172	136.4	552.9	17,666.4
Mar-18	36,744,058	79.9	1,074.9	28,894.0
Apr-18	59,312,259	61.4	1,796.5	39,219.7
May-18	112,811,916	90.2	3,507.2	56,172.4
Jun-18	235,122,596	108.4	7,418.1	96,508.6
Jul-18	486,492,164	106.9	15,455.7	148,851.5
Aug-17	1,406,156,950	189.0	44,862.3	302,642.0

Sources: BCV and Ecoanalítica

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

Weighted Consumer's Exchange Rate

After the latest regulatory changes for local FX operations, the weighted consumer's exchange rate (WCER) reached VES 64.7/USD in August, boosting up a year-on-year increase of 102,076.8%. Only in the last month, the Dollar's price in terms of Bolivars increased 198.6%. Looking at the other side of the coin, the Bolivar lost 66.5% of its value, relative to this foreign currency.

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

	Aug-18	Jul-18	Aug-17	y/y (%)	Depreciation % (m/m)	m/m (%)
Food and nonalcoholic beverages	69.2	25.8	0.06	121,396.4	-62.67	167.9
Alcohol and tobacco	76.1	30.8	0.13	57,011.5	-59.52	147.0
Clothing and footwear	79.2	32.5	0.13	59,862.9	-58.99	143.9
Rent	58.6	14.1	0.04	145,450.3	-75.86	314.3
Housing services (except telephone)	52.7	10.2	0.05	114,443.8	-80.61	415.8
Household equipment	80.0	33.8	0.13	61,021.0	-57.73	136.6
Health	49.5	10.2	0.03	152,536.3	-79.43	386.0
Transportation	57.1	16.5	0.06	101,327.5	-71.15	246.6
Communications	53.0	12.8	0.05	104,872.2	-75.80	313.1
Recreation and culture	47.1	8.2	0.05	86,117.7	-82.63	475.8
Education services	45.0	8.1	0.04	103,698.9	-81.94	453.7
Restaurants and hotels	69.5	25.5	0.04	162,810.6	-63.35	172.8
Micellaneous goods and services	63.0	19.2	0.05	128,070.0	-69.60	229.0
Total	**64.7**	**21.7**	**0.06**	**102,076.8**	**-66.51**	**198.6**
Unofficial Exchange Rate	**81.9**	**35.4**	**0.2**	**52,402.5**	**-56.70**	**131.0**

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.

In addition, by adjusting to new regulatory framework, the exchange rate of all products registered a depreciation. Entertainment and culture (475.8%), education services (453.7%), home services except telephone (415.8%), health (386.0%), transport (246.6%), and other goods and services (229.0%) led the list of categories that suffered an increase in the price of the dollar.

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

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, on the following months, inflation is orders of magnitude higher than the historical levels.

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

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

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 - y/y (%)	2017E	2018F
Official BCV Inflation Rate	1,129.3	449,658.3
BCV Methodology Inflation Rate	2,874.3	4,821,997.8
Underlying Inflation Rate	4,016.5	3,226,815.4

Sources: BCV and Ecoanalítica
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.

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

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

Luis Arturo Bárcenas / Economista Senior
luisb@ecoanalitica.net / @barcenasluis

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

Guillermo Arcay Finlay / Economist
guillermoa@ecoanalitica.net / @guillermoarcayf

RESEARCH ASSISTANTS:

Jhoan Castellanos
Corina Fung
Diego Santana

EDITION: Argelia Guédez y Zoraida Verkaik

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