

Reassessing the Standard Food Basket

- *The Standard Food Basket (CAN) is an instrument for planning social and economic policies in the field of food security in the country, according to the National Statistical Institute.*
- *In our last measurement, the revised CAN stood at around \$228 at the average monthly parallel exchange rate in September.*
- *This revision involves a significant change in levels (cost in bolivars) when compared to the CAN we have been calculating.*
- *Based on the latest available data, just over 100 monthly comprehensive minimum wages are needed to purchase a revised CAN.*



In this report:

The need for an indicator
(pages 1 and 2)

How do we do that?
(page 2)

Presentation of differences
and clarifications
(pages 2 and 3)

The CAN in dollars
(pages 3 and 4)

The CAN and the
minimum wage
(page 4)

Conclusions
(pages 4 y 5)

For some years now, we have monitored the Standard Food Basket (CAN) on a regular basis in our Goods and Services Market Report (IMBS). In this report, we will introduce a new methodology, which involves improvements, a new measurement and adjustments.

The need for an indicator

In a distorted economy, characterized by high inflation, prices and exchange rates and the impoverishment of its population, it is essential to have a statistical reference that allows us to assess the approximate monthly cost of a set of goods, relatively affordable for the population.

In this case, we refer to the CAN, which was created in 1997 at the request of the Social Cabinet of the Central Bureau of Statistics and Informatics (OCEI). A technical team was formed with the purpose of establishing a Food Basket to standardize the technical and methodological guidelines in the development of an official CAN.

The latter has undergone various updates over time, which have been developed by the National Statistical Institute of Venezuela (INE). According to the institute, "it is an instrument for planning social and economic policies in

the field of food security in the country". However, the INE stopped publishing this basket in 2014, and little has been used for the stipulated goal.

Due to these conditions and facts, since September 2015, Econométrica undertook the work of the INE and replicated a concept similar to that of the CAN. The same was the case with the work of the Central Bank of Venezuela (BCV), but concerning national accounts and the calculation of inflation.

Since then, the CAN has been an excellent indicator for measuring the evolution of the cost of a basic basket of goods, and has even been used as a reference for additional compensation plans. However, the Department for Economic Research has decided to modify the CAN methodology, readjusting the quantities in kilograms of each product belonging to it for a family group of 5.2 people. This change will create a basket that covers the entire average daily per capita requirement for energy and nutrients and provides an average of 2,200 calories per person.

This revision involves a significant change in levels (cost in bolivars) when compared to the CAN we have been

calculating. However, this change aims to better reflect an excellent indicator for developing social (minimum wage, poverty measurement, consumer subsidies, etc.) and economic policies, in compliance with nutritional requirements, consumption habits of the Venezuelan population, available domestic production and the lowest possible cost. In addition, it is good reference for measuring the cost of food for an average family and even as a tool in terms of compensation in addition to wages and salaries.

It should be noted that this change in methodology has no impact on inflation or weighting factors.

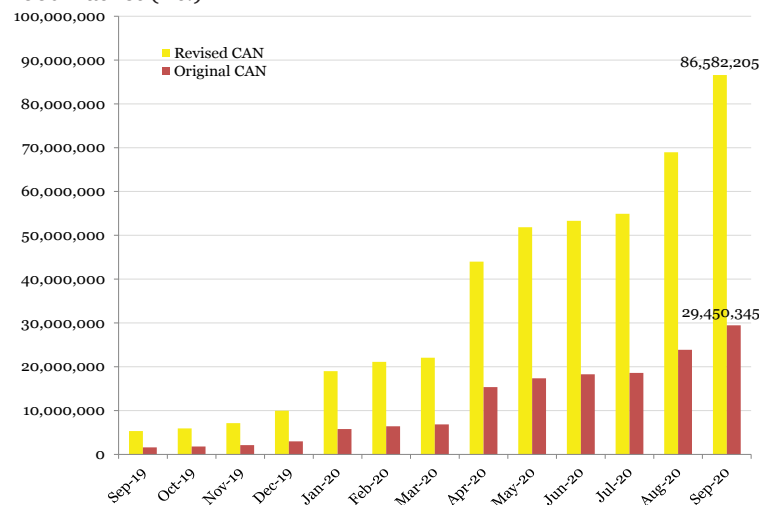
How do we do that?

This methodology for calculating the CAN follows certain criteria to assess the cost of a standard food basket for a Venezuelan family group. First, it consists of 50 products that are representative of the consumption of families based on national consumption patterns and preferences.

In addition, it refers to a typical household with an estimated 5.2 people and 100% coverage of the average daily per capita energy and nutrient requirements of the Venezuelan population. Finally, in collecting prices of the basket, bargain prices are excluded; they should be affordable to most consumers and statistically representative of the entire country.

The information of prices includes the study of the seven (7) cities assessed by Econométrica: Caracas, Maracaibo,

Chart N° 1: Cost of the revised and current Standard Food Basket (Bs.)



Source: Econométrica.

Barquisimeto, Valencia, Ciudad Guayana, Puerto La Cruz and San Cristóbal.

Presentation of differences and clarifications

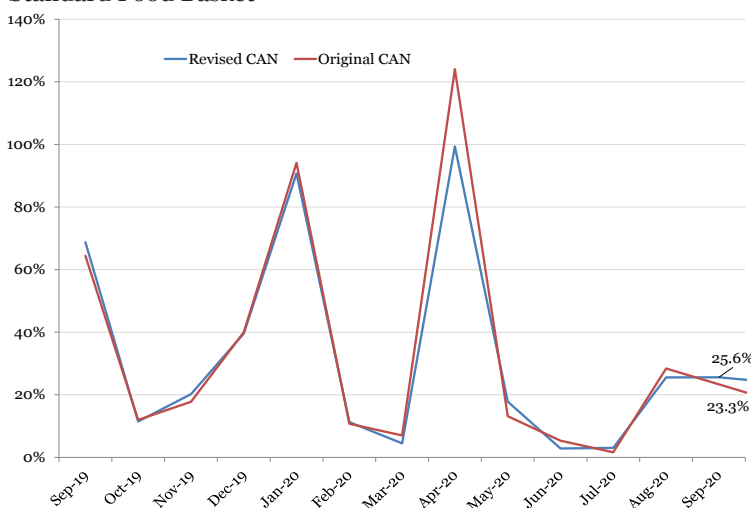
Chart N° 1 shows the value of the Standard Food Basket (CAN), both the current one, which has been presented prior to the change in methodology, and the revised one from September 2019 to September 2020. The significant difference between baskets is evident. However, as mentioned earlier, the revision involves a change in levels (cost in bolivars).

A year ago, in September, the CAN with the original methodology stood at Bs. 1,806,202, while the revised CAN reached Bs. 5,934,599, more than three times the value of our original CAN. As we mentioned before, this difference is due to the readjustment in the amounts of kilograms for each product in a basket of 5.2 people.

In view of the continued hyperinflation, the increase in domestic prices continued and thus the cost of baskets. In September of this year, the original CAN stood at Bs. 29,450,345, with its year-on-year growth being 1,726% compared to the same month of the previous year. In addition, in the same month, the revised CAN cost 2.8 times more than the original basket (Bs. 86,582,205) after increasing 1,526% in year-on-year terms.

On average, during the selected period and in most of the historical period, the revised CAN exceeds the original consumption basket by three times. However, in terms of monthly percentage variations or so-called "first

Chart N° 2: Monthly variation of the current and revised Standard Food Basket



Source: Econométrica.

differences," the individual behavior and corresponding analysis are very similar.

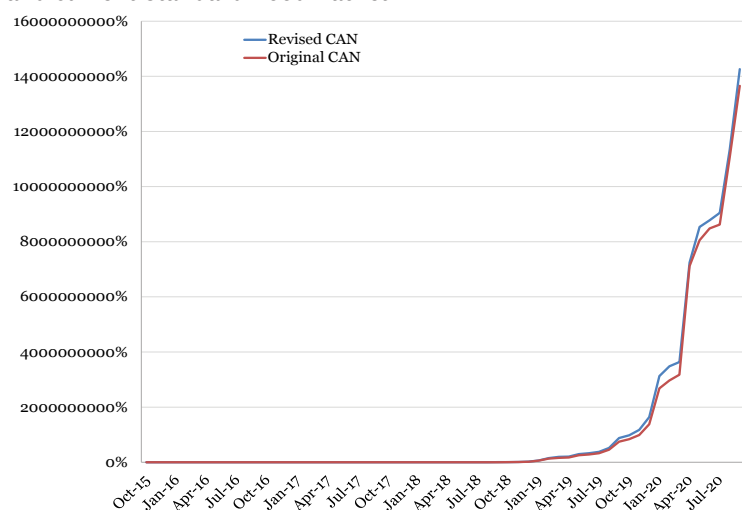
Chart N° 2 shows the monthly percentage variation of both food baskets from September 2019 to September 2020, which demonstrates that monthly variations are very similar, regardless of their costs in bolivars. The average difference in percentage points in the last quarter of 2019 was 1.8 points, being an almost insignificant difference between variations.

This pattern of similarity between percentage variations has continued throughout 2020, with the exception of April, when the increase in certain products and corresponding quantity made a difference. Regardless of the atypical difference we just mentioned, the average difference in the current year has been 2.5 percentage points.

Similarly, we can make a similar analysis based on historical data with the cumulative percentage variation of both standard baskets since September 2015 to verify that, regardless of their cost, increases are similar. Chart N° 3 shows the cumulative percentage variation of each CAN, based on the first measurement we presented in September 2015, for each basket.

Clear exponential behavior is observed in both, but the important thing is that the difference between the two is relatively small. For example, in September 2020 it was 1.7%. A co-movement between both series once again stresses the fact that the change in methodology is significant in levels, but not in variations or "first

Chart N° 3: Cumulative percentage variation of the revised and current Standard Food Basket



Source: Econométrica.

differences."

The CAN in dollars

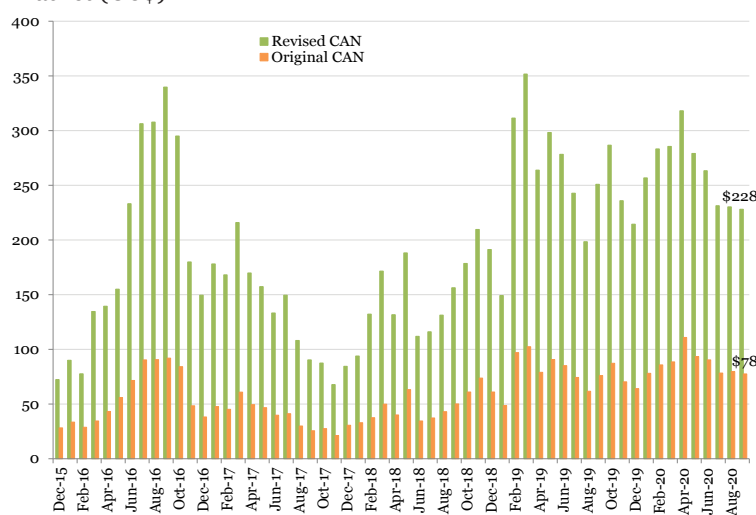
The CAN as an indicator can be expressed in dollars at the average monthly parallel exchange rate and used to evaluate the amount of dollars to be allocated for the purchase of a family consumption basket. A very useful variant of the indicator given the situation that the Venezuelan economy is living with a dollarization that deepens day by day.

Chart N° 4 shows the historical cost of the CAN, taking both the current basket without variations and the revised one with the proposed methodology, in US dollars from December 2015 to September 2020. In this series, we can see three important sections: a first period, in which the cost of the CAN was high in much of 2016; a second "valley" period, in which the cost dropped and was relatively low between the end of 2016 and the last quarter of 2017 before increasing steadily until the end of 2018; and a period of relative "stability" since early 2019.

As for the first period, it should be noted that the parallel exchange rate increase far exceeded the inflation rate in 2015. A period that many Venezuelans remember for the high purchasing power of the dollar, with the phrase "a person can live with \$20 a month" prevailing at the time.

Therefore, inflation lagged behind the exchange rate in 2016, coupled with continued fiscal imbalances and the monetization of the deficit; it was only a matter of time before the inflationary spiral accelerated. This increase

Chart N° 4: Cost of the revised and current Standard Food Basket (US\$)



Source: Econométrica.

in inflation throughout 2016, greater than the variation in the black dollar, led to an increase in the cost of the basket. The original basket had an average cost of \$60 in 2016, while the revised one stood at around \$200.

As regards the second period, the parallel exchange rate was higher than the dollar variation in most of 2017, and this led to a decrease in the cost of the CAN. That year the original basket had an average cost of \$40, while the revised one stood at around \$135. However, when we went into hyperinflation in October 2017 the landscape completely changed. With certain exceptions, the cost of the CAN after that time was rising gradually until March 2019, when it peaked.

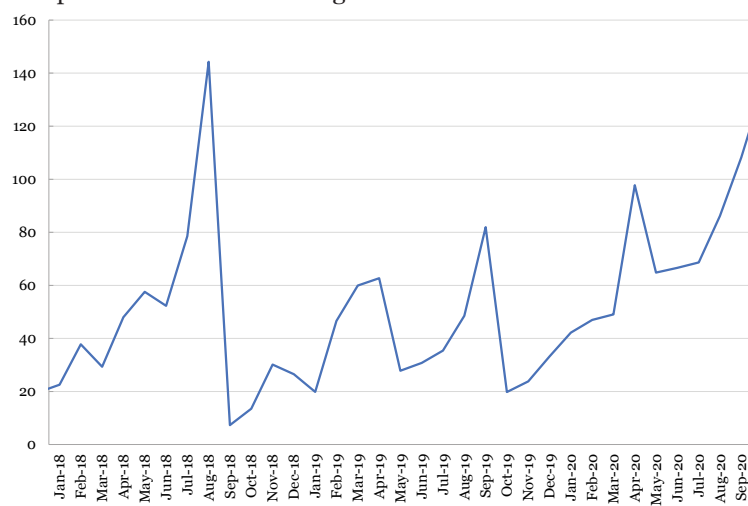
Finally, the last period started in April 2019, when de facto dollarization began to deepen further as a result of the national power outage in March. We emphasized that this period was of relative stability, because the CAN was between bands and dollarization partially stabilized some prices and, thus, the CAN. From April 2019 to September 2020, the original CAN stood at \$82 per month, while the revised CAN stood at \$257.

The CAN and the minimum wage

According to the INE and the OCEI, one of the objectives of the CAN was to be "a benchmark for establishing Venezuela's legal minimum wage", in addition to making poverty measurements, planning the provision of consumer subsidies, ensuring food security, among many other requirements that have not been met.

It is currently debatable whether the comprehensive

Chart N° 5: Ratio of the revised CAN cost to monthly comprehensive minimum wage



Source: Econométrica.

minimum wage is a fully valid benchmark for the high cost of living in Venezuela and the private sector wages that can far exceed that mentioned, but the reality is that the CAN was designed and implemented to develop public policies with an emphasis on the minimum wage.

Chart N° 5 shows the ratio of the revised CAN cost to the monthly comprehensive minimum wage from January 2018 to September 2020. This ratio reflects the number of times the revised CAN exceeded the minimum wage, i.e. the amount of minimum wages needed to acquire the basket.

In this series, a key point should be highlighted: when the ratio decreased, abruptly or smoothly, a minimum wage increase occurred. We can see various maximum points or "peaks" that right away decrease. In the aforementioned period, there were ten (10) wage adjustments, five of which occurred in 2018 and one of them when monetary reconversion was formalized. It should be noted that none was useful and the effect was completely the opposite by generating higher inflation and job destruction.

Just before the monetary reconversion, 140 minimum wages of Bs. 52 (BsF 5,196,000 at the time) were needed to acquire the CAN. In the months following September 2018 and the monetary reconversion, it was only a matter of time before hyperinflation pulverized any wage increases and ephemeral purchasing power it may have generated. In the last two years, from January 2019 to September 2019, five wage adjustments have been reported that have not created any kind of solution to the low purchasing power of the bolivar.

Based on the latest available data (September 2020), just over 100 monthly comprehensive minimum wages (108.2) are needed to acquire a standard food basket for a family group of 5.2 people, meeting the average daily per capita requirement for energy and nutrients.

Conclusions

In a distorted economy, characterized by high inflation, prices and exchange rates and the impoverishment of its population, having the Standard Food Basket is critical. A reference that allows us to evaluate the approximate monthly cost of a set of goods that cover all nutritional requirements, taking into account the consumption habits of the Venezuelan population, and are affordable

from the perspective of prices.

On average, during the selected period, the revised CAN exceeded the original consumption basket by three times. However, in terms of monthly percentage variations or so-called "first differences," individual behavior is very similar. The change in methodology is significant only at levels.

The revised CAN for September 2020 stood at Bs. 86,582,205, which equaled \$228 at the average monthly parallel exchange rate, while the original CAN reached Bs. 29,450,345, which in US dollars equaled approximately \$78.

According to the INE and the OCEI, the CAN was designed and implemented to develop public policies with an emphasis on the minimum wage, despite the discussion about its validity or representativeness in the current economy. Based on the latest available data (September 2020), just over 100 monthly comprehensive minimum wages (108.2) are needed to acquire the CAN.

The change in the CAN methodology, readjusting the amounts in kilograms of each product belonging to it for a family group of 5.2 people, is positive and aims to reflect a basket that covers the entire average daily per capita requirement of energy and nutrients, in addition to providing an average of 2,200 calories per person.

Whether or not the revised CAN is affordable for an average household is another discussion, as we seek to show you an "ideal" basket as a reference that meets all nutritional and caloric requirements for a Venezuelan family.

Contact Information:

mercadeo@econometrica.com.ve

www.econometrica.com.

Twitter: @Econometrica

Phone: +58.212.9912554

+58.212.8140630

This Monthly Report is part of a series of publications of Econométrica IE, C.A., an economic and financial consultant firm that employs statistical data and information from official, public sources, and others, for the preparation of their reports.

Econometrica IE, C.A. draws on sources that are widely recognized and considered reliable and publicly verifiable, but it does not ensure the accuracy of such information. In this sense, neither Econométrica IE, C.A., nor any of its directors, as well as any affiliate, subsidiary, transferee or related, company subsidiaries, affiliates and parent Econométrica IE, C.A., companies as well as nor their respective officers, directors, agents, lawyers, consultants, employees, subsidiaries of any title, agents and workers, employees of its affiliates, its shareholders, partners, participants, operators, successors, divisions, companies, surviving heirs, executors, and assigns them assume responsibility for any damages direct or indirect, specific or unforeseen events, including the loss of capital for revaluations, loss of profits, obstruction of business activity and investment, loss of data and information or any other pecuniary or non-pecuniary damage caused directly or indirectly as a result of the use or omission from the content of the present report.