

7. Temporary speeding up of inflation due to impact from the supply side

Prices rose in March by 1.3% in comparison to the previous month, the biggest monthly rise in the last 19 years. This result was greatly affected by the sharp rise in the prices of several food items (see Figures 7.1 and 7.2), owing to the temporary lack of supply caused by the heavy rains and flooding that devastated the country, damaging transport infrastructure and some crops. The YoY inflation rate rose to 4% (3.2% in February), distancing itself even further from the target range (from 1% to 3). It should be pointed out that the YoY inflation rate has been above that target range since September last year.

Figure 7.1 Inflation: selected items (YoY % variation)

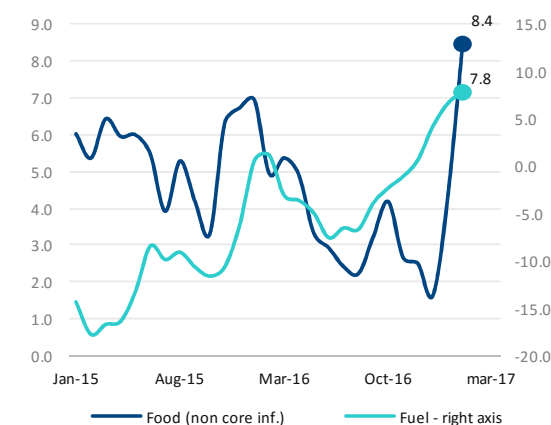
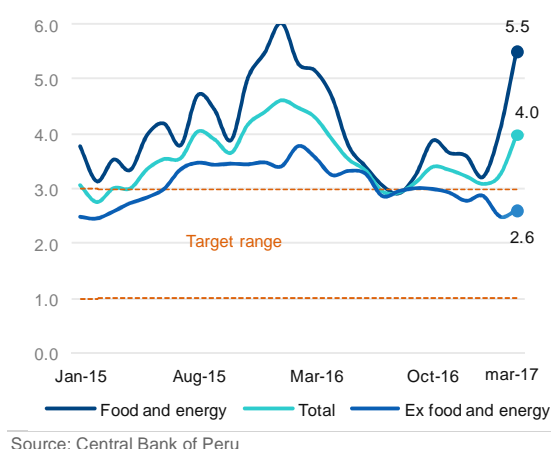


Figure 7.2 Inflation: total, without food or energy, only food and energy (YoY % variation)

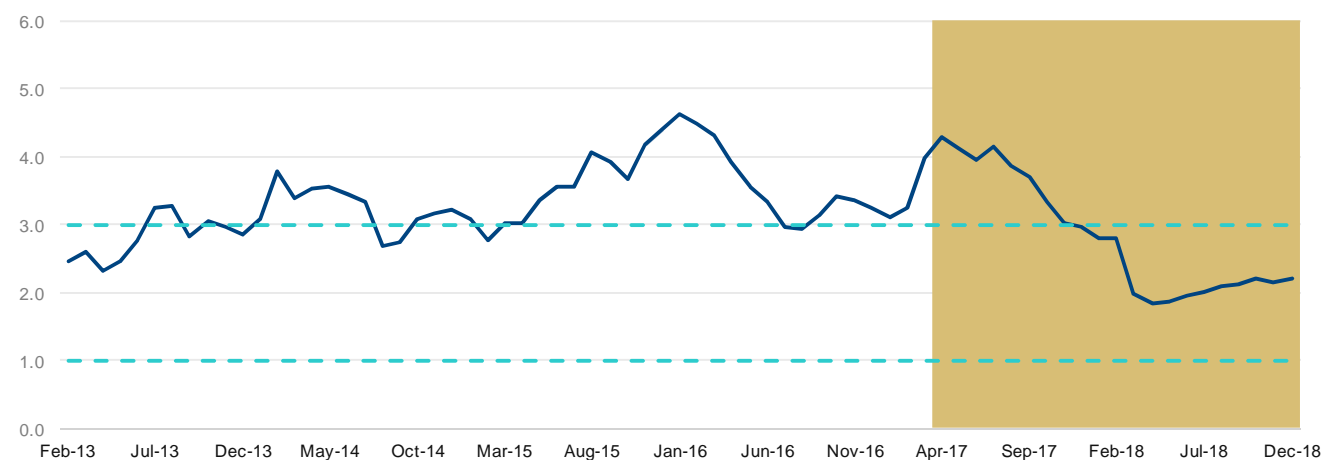


However, this rise in inflation is temporary and is closely linked to a lack of supply of food items. Inflation figures excluding food and energy have remained within the target range (see Figure 7.2). As the supply of food items to the markets returns to normal, this will bring with it downward price adjustment, which will see inflation yield. In fact, since the last week of March a drop in the wholesale price of foodstuffs such as vegetables and citrus fruits has been noted (see Table 7.1), which could later be passed on to the end consumer. Nonetheless, it should be pointed out that in spite of the provisional nature of the rise in inflation, there has been a certain contamination of inflationary forecasts, which has imposed a certain inertia on the price formation process.

Table 7.1 Wholesaler price indicators (Monthly % variation)

		Aggregate indicator	Vegetables and tubers	Fruit	Chicken	Eggs	Fish	Groceries
Weighted in CPI		12.5	2.6	1.6	2.6	0.6	0.5	4.7
January	Week 1	-2.5	3.9	3.5	-19.9	-6.2	12.5	0.3
	Week 2	-2	-3.9	2.9	-4.7	-12.5	-2.3	0.1
	Week 3	-0.5	-5.6	-1.1	3.3	9.4	-11.7	0.4
	Week 4	3.4	13.3	2.9	-5.9	26.4	5.5	0.1
February	Week 1	0.6	-1.1	-1	2.9	6.1	-1.1	0.2
	Week 2	1.9	-0.1	0.6	8.9	-2.2	-0.5	0.4
	Week 3	0.6	1.8	-4.4	3.8	-5.1	6.6	0.1
	Week 4	1.7	-1.9	-3.8	15	-4.2	-8	0.1
March	Week 1	-0.4	0	-5.1	2.4	-1.4	-3.4	-0.2
	Week 2	2.9	11.8	2.5	-0.8	5.1	4.2	0
	Week 3	9.5	30.2	9.4	4	12.7	-4.1	2.1
	Week 4	-1.4	-16.6	4.8	0	16.9	-0.4	1.5
April	Week 1	-2.5	-8	1	-7.6	8.5	6	-0.2

Source: Central Reserve Bank of Peru, Peru Ministry of Agriculture and Produce

Figure 7.3. Projected inflation (YoY % variation)


Source: Central Reserve Bank of Peru and BBVA Research

We expect to see inflation rising slightly in April falling back later, fluctuating around the 4% mark for the rest of Q2. Later on, into the second half of the year, it will begin to fall more clearly in a context in which internal demand – particularly private sector expenditure – will still be weak, oil prices will remain relatively stable and food prices will continue to return to normal. Accordingly, we predict a rate of inflation of around 3% at the close of the year (see Figures 7.3).

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This report has been produced by the Peru Division

Head Economist, Peru

Hugo Perea
hperea@bbva.com
+51 1 2112042

Francisco Grippa
fgrippa@bbva.com

Ismael Mendoza
ismael.mendoza@bbva.com

Yalina Crispin
yalina.crispin@bbva.com

Marlon Broncano
marlon.broncano@bbva.com

Vanessa Belapatiño
vanessa.belapatino@bbva.com

BBVA Research

Chief Economist BBVA Group

Jorge Sicilia Serrano

MACROECONOMIC ANALYSIS

Rafael Doménech
r.domenech@bbva.com

Global Economic Situations

Miguel Jiménez
mjimenezg@bbva.com

GLOBAL FINANCIAL MARKETS

Sonsoles Castillo
s.castillo@bbva.com

Long-Term Global Modelling and Analysis

J. Julián Cubero
juan.cubero@bbva.com

Innovation and Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

FINANCIAL SYSTEMS AND REGULATION

Santiago Fernández de Lis
sfernandezdelis@bbva.com

International Coordination

Olga Cerqueira
olga.gouveia@bbva.com

DIGITAL REGULATION

Álvaro Martín
alvaro.martin@bbva.com

Regulation

María Abascal
maria.abascal@bbva.com

FINANCIAL SYSTEMS

Ana Rubio
arubiog@bbva.com

Financial Inclusion

David Tuesta
david.tuesta@bbva.com

Spain and Portugal

Miguel Cardoso
miguel.cardoso@bbva.com

United States

Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico

Carlos Serrano
carlos.serranoh@bbva.com

Middle East, Asia and Geopolitical

Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey

Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia

Le Xia
le.xia@bbva.com

South America

Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Peru

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
juliocesar.pineda@bbva.com

ENQUIRIES TO: BBVA Research Peru Av. República de Panamá 3055, San Isidro, Lima 27, Peru. Tel: + 51 12112042-bbvaresearch@bbva.com
www.bbvaresearch.com