

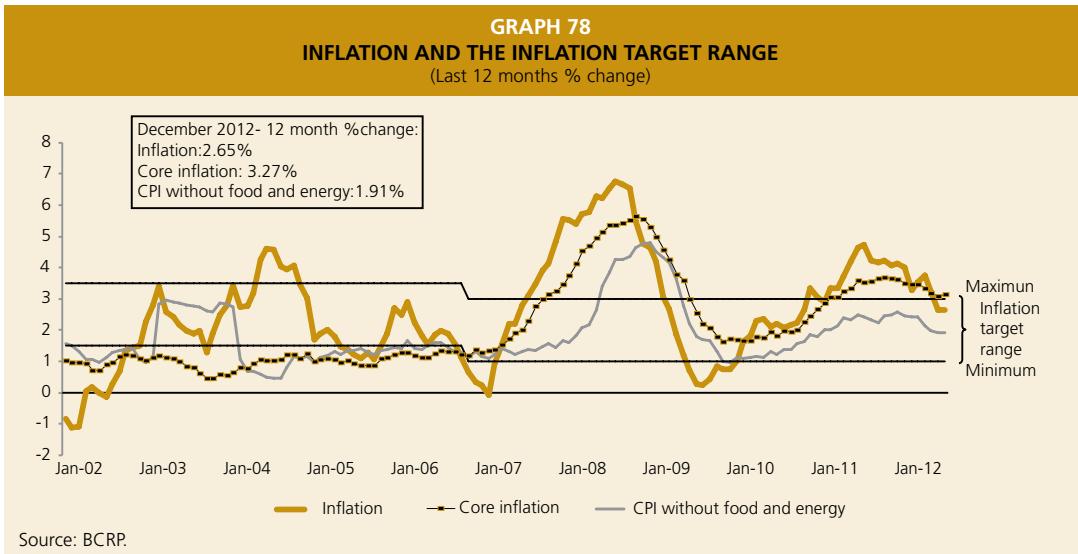
IV.

Inflation

After registering a rate of 4.74 percent at end-2011, the consumer price index (CPI) of Metropolitan Lima showed a rate of 2.65 percent in 2012. This decline reflected the gradual reversal of the supply shocks that had affected farming products in the domestic market during the previous year.

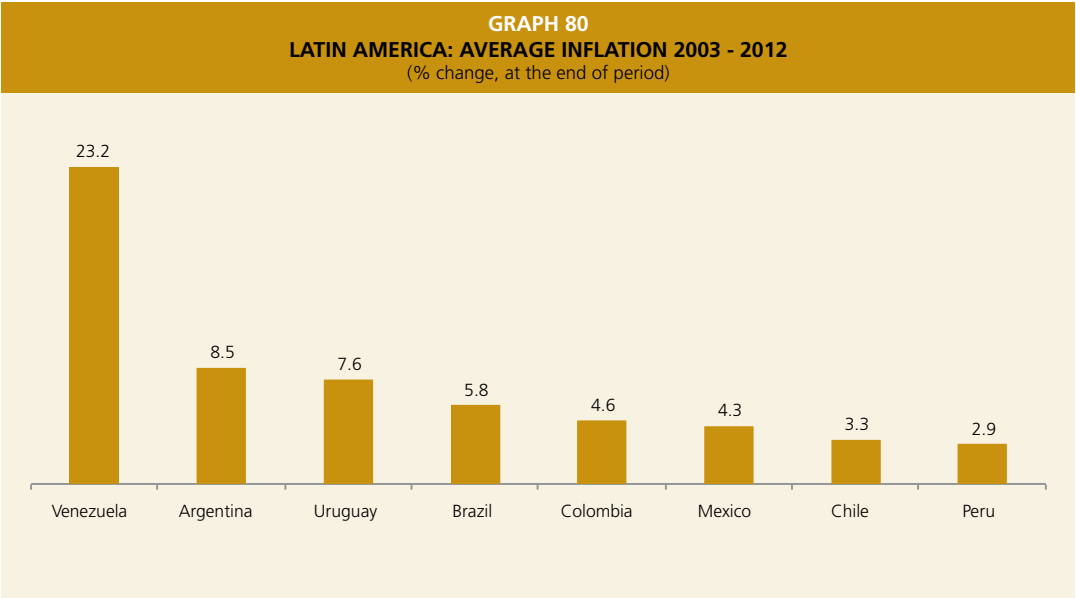
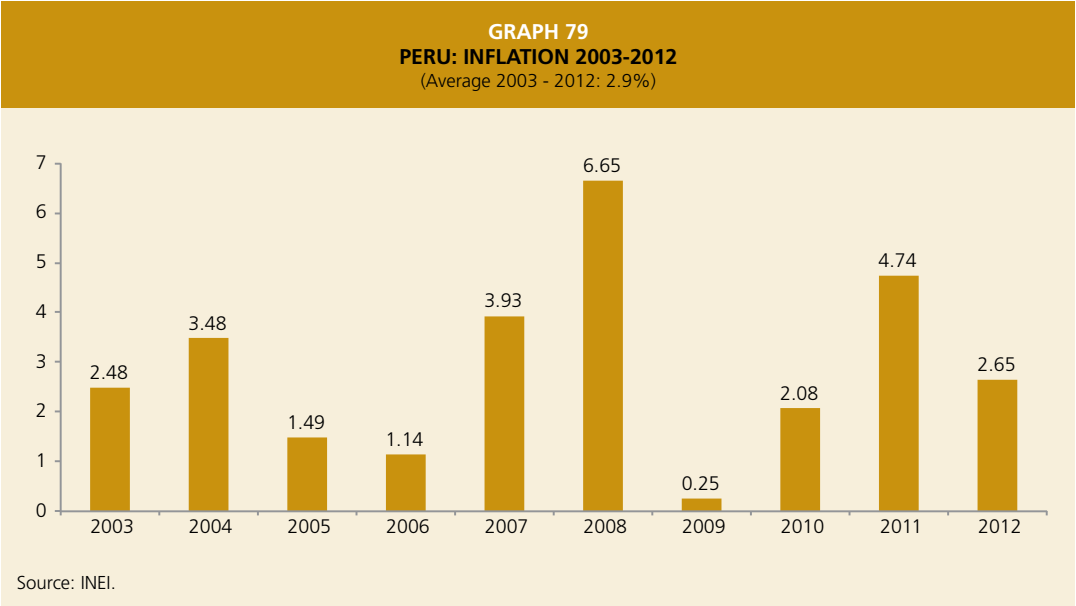
In 2012 the evolution of inflation was associated mainly with the conduct of the prices of perishable food products. In the first months of the year, weather anomalies affected the yields and the supply of various agricultural products, such as citrus fruits and onions, although this situation improved since October.

As regards the indicators of the inflation trend, core inflation fell from 3.65 percent in December 2011 to 3.27 percent in December 2012, while inflation excluding food and energy dropped from 2.42 to 1.91 percent.





In the 2003-2012 period, the average annual inflation rate was 2.9 percent, the lowest in Latin America.



Core Inflation

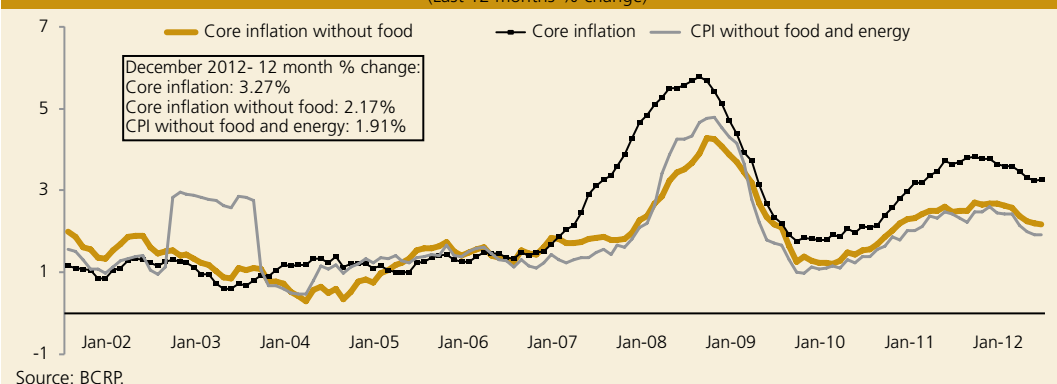
The annual rate of core inflation, which isolates the most volatile items from the calculation of the CPI, declined from 3.65 to 3.27 percent between December 2011 and December 2012. The variation in food prices went from 5.76 percent in 2011 to 5.17 percent in 2012, while the variation in non-food prices went from 2.47 to 2.17 percent in the same period.

TABLE 58
INFLATION
(Annual % change)

	Weight 2009=100	Year			Average 2003-2012
		2010	2011	2012	
I. Core inflation	65,2	2,12	3,65	3,27	2,45
1. Food	23,0	3,20	5,76	5,17	3,44
2. Non food	42,2	1,53	2,47	2,17	1,82
a. Goods	21,7	1,07	2,37	1,60	1,41
b. Services	20,5	2,01	2,57	2,76	2,35
II. Non core	34,8	2,00	6,79	1,52	3,51
1. Food	14,8	1,18	11,50	2,36	4,43
2. Non food	20,0	2,60	3,37	0,86	2,54
a. Fuels	2,8	12,21	7,54	-1,48	4,08
b. Transportation	8,9	1,94	3,61	1,99	3,10
c. Public Services	8,4	0,01	1,50	0,54	0,62
III. Total	100,0	2,08	4,74	2,65	2,87
Memo:					
Food	37,8	2,41	7,97	4,06	3,91
CPI without food	62,2	1,87	2,76	1,74	2,06
CPI without food and energy	56,4	1,38	2,42	1,91	1,97

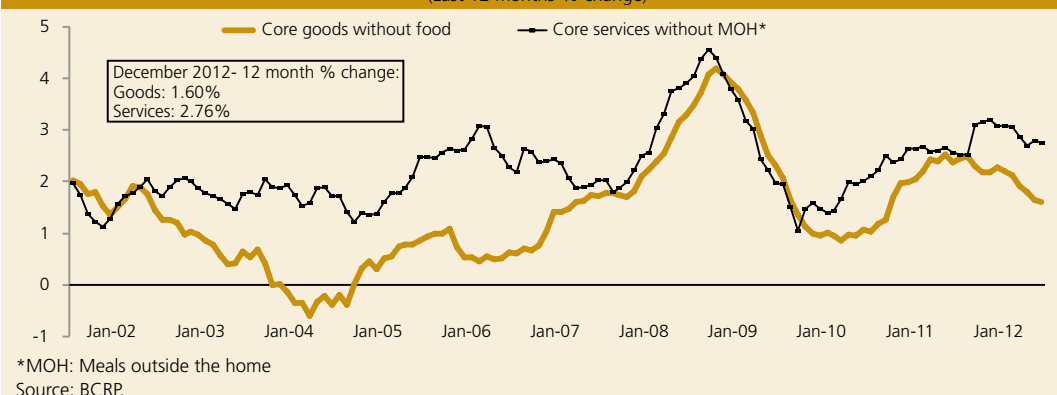
Source: INEI and BCRP.

GRAPH 81
CORE INFLATION, CORE INFLATION WITHOUT FOOD AND CPI WITHOUT FOOD AND ENERGY
(Last 12 months % change)



It is worth mentioning that within the non-food items included in core inflation, it was the prices of goods that showed a slowdown –declining from 2.37 percent in 2011 to 1.60 percent in 2012–, whereas, on the other hand, the prices of services increased from 2.57 to 2.76 percent.

GRAPH 82
CORE GOODS AND SERVICES WITHOUT FOOD
(Last 12 months % change)





Non-Core Inflation

Non-core inflation, indicator that reflects the short-term changes that are beyond the control of monetary policy, showed a decreasing trend throughout the year, declining from 6.8 percent at end-2011 to 1.5 percent at December 2012. This trend was influenced mainly by the lower variation of food prices, which went from 11.5 percent in 2011 to 2.4 percent in 2012, the decline in the prices of sugar and rice standing out.

Another factor which also contributed to this trend was the drop in the prices of fuels (-1.5 percent), domestic transport (-4.9 percent), and telephone rates (-4.2 percent).

TABLE 59 INFLATION					
	Weigh 2009=100	% Change			Weighted contribution
	2010	2011	2012		
I. CORE INFLATION	65.2	2.1	3.6	3.3	2.11
Goods	32.9	1.5	3.2	2.6	0.82
Food and beverages	11.3	2.4	4.7	4.3	0.49
Textiles and footwear	5.5	2.6	4.7	3.0	0.17
Domestic appliances	1.3	-0.6	-1.1	-2.4	-0.03
Other industrial products	14.9	0.7	1.8	1.4	0.19
Services	32.2	2.7	4.1	4.0	1.29
Meals outside the home	11.7	3.9	6.8	6.0	0.73
Education	9.1	3.4	4.2	4.7	0.43
Health	1.1	2.8	1.9	2.6	0.03
Rent	2.4	-0.2	-0.7	-0.3	-0.01
Other services	7.9	1.0	1.7	1.3	0.10
II. NON-CORE INFLATION	34.8	2.0	6.8	1.5	0.54
Food	14.8	1.2	11.5	2.4	0.37
Chicken meat	3.0	-14.2	16.5	9.3	0.27
Bread	1.9	1.1	7.5	2.8	0.05
Rice	1.9	1.7	10.8	-1.8	-0.03
Potato	0.9	11.2	2.4	19.8	0.17
Sugar	0.5	25.1	1.9	-11.8	-0.09
Noodles	0.5	1.6	5.3	2.2	0.01
Oils	0.5	-1.6	22.2	-0.9	0.00
Other foodstuffs	5.6	5.7	13.1	-0.2	-0.01
Fuels	2.8	12.2	7.5	-1.5	-0.05
Oil and lubricants	1.3	16.4	14.3	-5.0	-0.08
Gas	1.4	8.8	1.0	2.2	0.03
Transportation	8.9	1.9	3.6	2.0	0.18
Urban Fares	8.5	1.8	3.5	2.3	0.20
National Transportation	0.3	6.0	5.2	-4.9	-0.02
Public utilities	8.4	0.0	1.5	0.5	0.04
Electricity	2.9	1.4	4.3	2.2	0.06
Telephone	2.9	-3.8	-3.3	-4.2	-0.11
Water	1.6	4.5	5.8	5.2	0.09
III. CPI	100.0	2.1	4.7	2.6	2.65
Memo:					
Food	37.8	2.4	8.0	4.1	1.59
CPI without food	62.2	1.9	2.8	1.7	1.06
CPI without food and energy	56.4	1.4	2.4	1.9	1.05

Source: INEI and BCRP.

Effects of International Prices

After showing more or less constant levels in the first semester of the year, the international prices of grains rose in Q3 due to unfavorable climate conditions in producing countries, especially in the United States, which was affected by the most severe drought observed in the last 50 years.

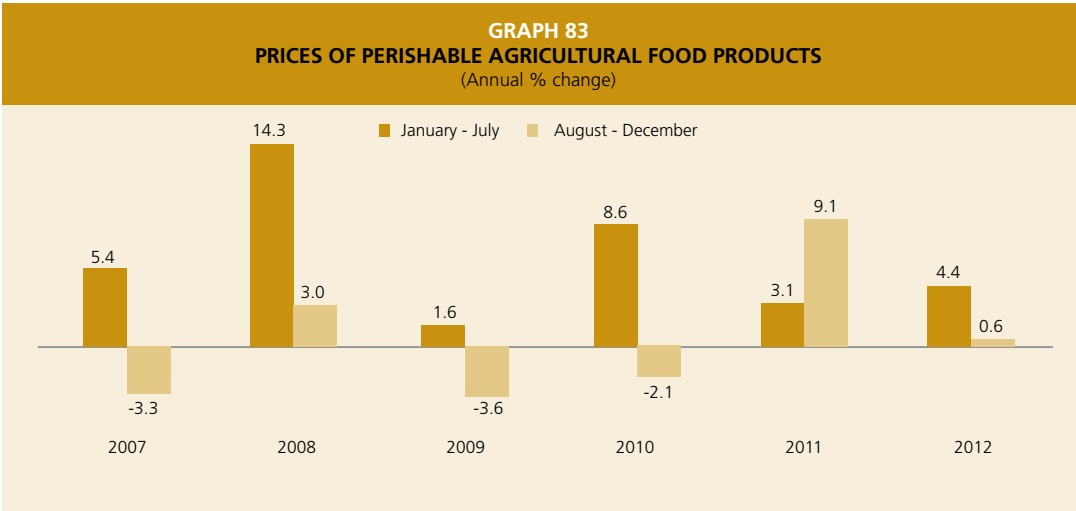
The rise in the prices of maize and wheat brought about a rise in the prices of food products such as chicken, bread, and noodles.

TABLE 60 FOOD: INTERNATIONAL PRICES OF INPUTS AND CONSUMER PRICE (Annual % change)			
	2010	2011	2012
Gutted chicken (S/. per kg)	-13,2	17,2	9,5
Maize (US\$ per ton)	57,3	5,7	20,5
Soybean tart (US\$ per ton)	5,1	-16,4	60,4
Bread (Pan francés) (S/. per kg)	0,9	5,8	2,7
Noodles (S/. per kg)	0,3	7,0	2,1
Wheat (US\$ per ton)	60,6	-14,0	27,8
Bottled vegetable oil (S/. per liter)	-1,3	18,3	-0,9
Soybean oil (US\$ per ton)	40,7	-2,9	-6,2

Source: INEI, Bloomberg, and BCRP.

Items Affected by Climate Anomalies

The prices of perishable food products usually rise in the first semester of the year. In 2012, this rise was stronger than in 2011 because the prices of some products, like onions and other vegetables, were affected by climate anomalies. The production of onions in Arequipa, Lima’s main supplier of onions, was affected by heavy rainfall during the months of February and March, which not only resulted in a lower quality of onions but also generated an irregular supply of this product.





Public Utilities

The electricity rates increased 2.2 percent in 2012. The evolution of these rates during the year was associated with the adjustments approved by Osinerghmin in the prices of the different components of the electricity rate (generation, transmission, and distribution).

The reduction in telephone rates (-4.2 percent) was associated with the application of a productivity factor.

Finally, the water rate rose 5.2 percent, in line with the rises established by the Sunass. This rate includes the rate increase implemented in July (1.7 percent) to cover the costs of La Chira project.

TABLE 61 PUBLIC UTILITIES RATES (Annual % change)				
	2010	2011	2012	Average 2003-2012
Public utilities	0,0	1,5	0,5	0,6
Electricity	1,4	4,3	2,2	0,8
Telephone	-3,8	-3,3	-4,2	-3,9
Water	4,5	5,8	5,2	5,4

Source: INEI.

Imported Inflation

The imported component of the CPI rose 0.4 percent due to the increase in the price of food products (2.0 percent), especially due to the increase in the prices of bread, noodles, and oils, as well as due to the increase in the prices of other imported goods, such as medicines and vehicles. This rise was offset by the lower international price of crude and of electrical appliances, which was reinforced by the appreciation of the exchange rate.

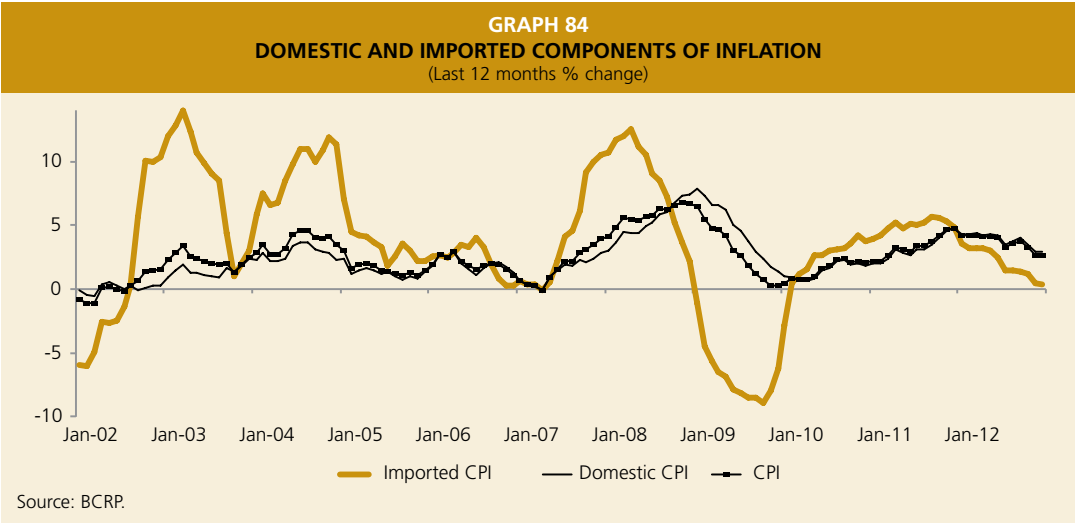


TABLE 62 DOMESTIC AND IMPORTED INFLATION (Annual % change)					
	Peso	2010	2011	2012	Average 2003-2012
I. IMPORTED CPI	10,8	3,78	4,87	0,41	3,12
Food	3,0	0,76	9,59	1,99	4,23
Fuels	2,8	12,21	7,54	-1,48	4,08
Electric appliances	1,3	-0,58	-1,13	-2,44	-1,54
Others	3,7	1,20	0,83	1,73	1,19
II. DOMESTIC CPI	89,2	1,87	4,72	2,92	2,83
III. CPI	100,0	2,08	4,74	2,65	2,87
Exchange rate		-2,15	-4,24	-4,80	-3,09
Source: INEI and BCRP.					

Moreover, as a result of the decline in the international price of crude oil, associated with higher production levels in the United States and OPEC countries, the price of gasoline dropped 5.0 percent, while the price of crude expressed in soles dropped 15 percent. Despite this, urban fares registered a rise of 2.3 percent due to the lagging effect of fuel price increases in 2010 and 2011.

TABLE 63 FUEL PRICES (Annual % change)				
	2010	2011	2012	Average 2003-2012
Fuels	12,2	7,5	-1,5	4,1
Gasoline	16,4	14,3	-5,0	3,9
Gas	8,8	1,0	2,2	1,8
Price of WTI oil, end of period 1/				
US Dollars	89,2	98,5	88,2	
Nuevos soles	251,2	265,6	226,4	
1/ West Texas Intermediate Source: INEI and Bloomberg.				