

2-22-1995

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Recommended Citation

LADB Staff. "Inflation Approaches 4 Percent in Mexico During January." (1995). <https://digitalrepository.unm.edu/sourcemex/3393>

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Inflation Approaches 4 Percent in Mexico During January

by LADB Staff

Category/Department: Mexico

Published: 1995-02-22

On Feb. 9, the Banco de Mexico (central bank) reported that the consumer price index (Indice Nacional de Precios al Consumidor, INPC) for January reached a whopping 3.8%, due mostly to the effects of the devaluation of the peso in late December. In releasing the report, the Central Bank offered a long list of items whose price increases contributed to the rise in the INPC. These included automobiles and auto parts, dairy products, fresh meat, heating oil, eggs, airline and bus tickets, gasoline, rents, furniture and domestic appliances, restaurant meals, newspapers and magazines, medicine and medical services, cosmetics, coffee, vegetable oil, soaps and detergents, apples, pears, bananas, bread, liquor, cheese, school supplies, and dry cleaning. The index is based on surveys conducted in 35 cities. The smallest increases in consumer prices in Mexico during January were reported in the cities of Cordoba, Veracruz state; Aguascalientes; and Merida, Yucatan state.

On the other hand, the highest costs during January were reported in the three metropolitan areas bordering the US: Tijuana and Mexicali in Baja California state and Ciudad Juarez in Chihuahua state. According to the report, the INPC in Tijuana increased by an average of 8%. A major factor behind the higher costs in the cities bordering the US was a disproportionate increase in the price of gasoline and other fuel in that region compared with the rest of the country following the devaluation of the peso. According to one estimate provided by the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, Canacintra), gasoline prices during January were almost 30% higher in the border region than they were elsewhere in Mexico.

Following a letter of protest from 15 Canacintra chapters from cities in the six states bordering the US, the federal government agreed to reduce gasoline prices to match those in the rest of the country by the end of January. The price increases were originally intended to discourage US residents from crossing the border into Mexico to fill up their cars with Mexican gasoline, since prices in Mexico became more attractive after the devaluation. However, Canacintra officials questioned this motivation, suggesting that lower prices were not enough to prompt US residents to fill their cars with "lesser-quality fuel."

The sharp increase in the consumer price inflation rate has raised questions whether President Ernesto Zedillo's administration will meet the annual target of 16% for this year, which was projected in January (see SourceMex, 01/04/95). If inflation averages 3.8% for the remaining months of the year, the annual rate would total 45.6%. On the other hand, to achieve the annual rate of 16%, the consumer inflation rate would have to average roughly 1.1% each month from February through December. The rate of 3.8% for January alone represents roughly half of the inflation rate of 7.05% for all of 1994. As a condition for providing an economic rescue package of US\$50 billion in loan guarantees, the US, the International Monetary Fund, and Europe's Bank for International Settlements are demanding that the Zedillo administration place a strong emphasis on anti-inflation measures during the rest of this year.

According to initial projections by economic analysis companies such as Oppenheimer and Company and Cimex-Wefa, the Zedillo administration will not meet its target of 16% inflation, but it may succeed in keeping inflation below 30%. A handful of factors could affect the final inflation figures this year, including the possibility that unions will demand that salary increases match the government's projected rate of 16% inflation. Under an emergency economic agreement reached in January, workers agreed to accept raises of 4%, plus 3% in productivity bonuses. The anti-inflation drive could also be tested by the private sector, which could pass on the increasing costs of production resulting from higher prices for imported parts.

The business sector, which also signed the emergency economic agreement, is growing increasingly disenchanted with the Zedillo administration's economic leadership and may not be as cooperative with the government. Meantime, in early February, the government's consumer protection enforcement agency Profeco reported that more than 6,500 complaints about unwarranted increases in prices had been reported since the devaluation in late December, resulting in the closure of 324 retail establishments. Profeco officials said the majority of the complaints were against companies that sell basic products such as bread, milk, tortillas, sugar, and heating oil. (Sources: Notimex, 01/22/95; Inter Press Service, 02/08/95; La Jornada, 02/07/95, 02/08/95, 02/10/95, 02/11/95; Agence France-Presse, 02/09/95; Spanish news service EFE, 02/09/95)

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